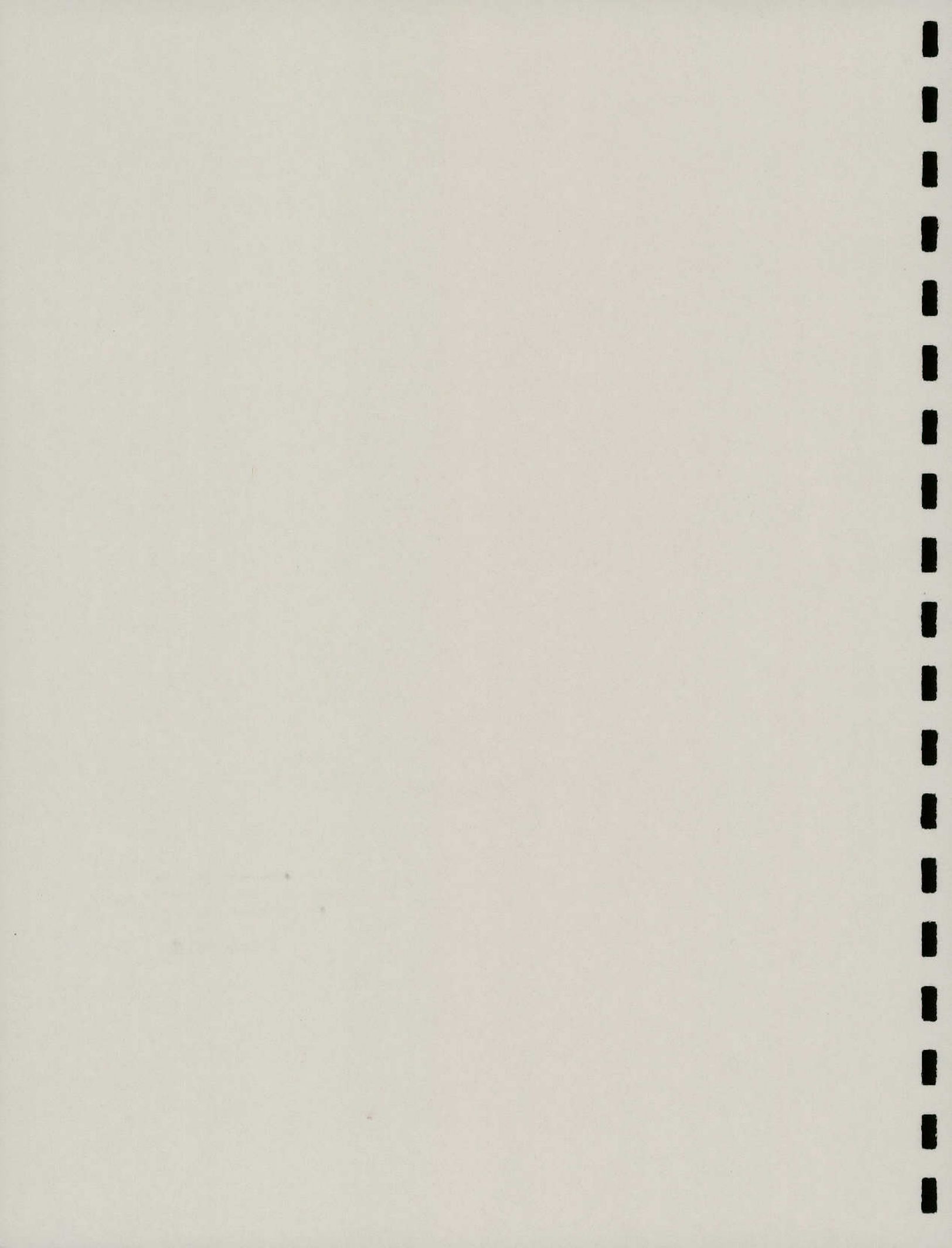


2018 Annual Financial Report



For Fiscal Year Ended August 31, 2018





ANNUAL FINANCIAL REPORT

of

TEXAS SOUTHERN UNIVERSITY
(An Agency of State of Texas)

For the Year Ended
August 31, 2018

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TEXAS SOUTHERN UNIVERSITY

(An Agency of the State of Texas)

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For the Year Ended August 31, 2018

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INTRODUCTORY SECTION

TEXAS SOUTHERN UNIVERSITY

3100 CLEBURNE | HOUSTON, TEXAS 77004 | 713-313.1179



Dr. Austin A. Lane
President

November 12, 2018

Texas Southern University is proud to share positive news about the fiscal health of our institution. The Annual Financial Report (AFR) for Fiscal Year 2018 delivers a complete overview of the University's financial status and operations as of August 31, 2018. Texas Southern University is mandated by law to provide a full accounting of the income received in order to invest in the educational future of our students.

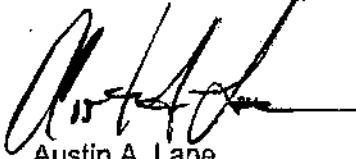
The University has maintained a transparent financial process to ensure that there is a full and open accounting of all funds from the state and federal government, public and private corporations and foundations, and individual donors. The 2018 Financial Report is the primary publication to provide such accountability to elected officials and taxpayers.

Texas Southern, now in its 91st year of existence, has experienced strong growth as a special-purpose, metropolitan institution of higher education. TSU serves a diverse student population, welcoming students from across the United States and close to 50 countries around the globe, positioning itself as a destination university for young scholars eager to obtain an affordable education. Our 'Communiversities' model provides a holistic approach that leads to a stronger on-time graduation rate, providing career-ready graduates at the bachelor, master, doctoral and professional levels in a variety of disciplines, including aviation, civil and electrical engineering, maritime transportation, pharmacy, communication, law, and arts and sciences.

Our educational partnerships with Houston Community College and the San Jacinto and Lone Star College systems have created a seamless transition for students from two-year colleges onto a direct path of obtaining a four-year degree. Texas Southern's Summer of Success program has registered a third year of providing conditional-admittance high school graduates with a specialized curriculum to meet university admission requirements. The 2018 cohort welcomed 197 students for the five-week program that featured a rigorous course load and intrusive advising to introduce them to a collegiate environment and increase their academic confidence. This has led to better prepared and more engaged first-time freshmen entering the University. This fall, TSU is ahead of the previous base year in semester credit hours and is expected to fare well with the formula funding model in the next legislative session.

This institution is a critical educational resource, producing pilots, engineers, pharmacists, doctors, artists, researchers, corporate executives, lawyers, judges, and educators in every conceivable arena. Our graduates are vibrant contributors to an ever-changing society, with many becoming recognized agents of change in their respective fields.

Texas Southern University stands tall in the pride of its history and faces the future with resolve. The 2018 Annual Financial Report will reflect the success of our mission in the preceding year. We are, and will remain, the strength of our great state and revered nation.



Austin A. Lane
President

TEXAS SOUTHERN UNIVERSITY
3100 CLEBURNE STREET • HOUSTON, TEXAS 77004
713-313-7011



VICE PRESIDENT
DIVISION OF ADMINISTRATION & FINANCE
OFFICE: 713-313-7302; FAX: 713-313-7070

November 12, 2018

We are pleased to submit the Annual Financial Report for Texas Southern University (TSU) for the fiscal year ended August 31, 2018. Although TSU, as an agency of the State of Texas, is not required to have this report independently audited, we continue to do so as a demonstration that TSU is fulfilling its fiduciary responsibilities for the finances of the institution.

We have received a clean, unmodified opinion from the independent certified public accounting firm of Whitley Penn, L.L.P. serving as a critical measure in the goal of the Board of Regents and administration to ensure excellence in stewardship, accountability, and financial stability. The administration of TSU is responsible for establishing and maintaining internal controls designed to ensure that the assets of the university are protected from loss, theft, or misuse. Management also ensures that adequate accounting processes are in place to provide for the preparation of financial statements in conformity with governmental accounting standards.

The preparation of this report was accomplished with the dedicated services of the staff of the accounting department and the cooperation of other departments within Business Affairs. We would like to express our appreciation to all those within the Division of Administration and Finance, Internal Audit, and others who contributed to and assisted in the preparation of this report. Recognition must also be given to the Board of Regents of Texas Southern University for their assistance and support in planning and conducting the financial operations of TSU in a responsible and professional manner, and to the State of Texas for the continued support of the University.

Kenneth R. Huewitt, CPA, CIA
Vice President for Administration & Finance
and Chief Financial Officer

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TEXAS SOUTHERN UNIVERSITY

(An Agency of the State of Texas)

BOARD OF REGENTS

August 31, 2018

Officers

Honorable Glenn O. Lewis, Chairman
Honorable Wesley G. Terrell, Vice Chair
Honorable Marilyn A. Rose, 2nd Vice Chair
Honorable Erik D. Salwen, Secretary

Members

| | |
|-------------------------------------|-----------------|
| Honorable Glenn O. Lewis, Chairman | Fort Worth |
| Honorable Sarah D. Monty-Aroni | Houston |
| Honorable Erik D. Salwen, Secretary | College Station |
| Terms Expire February 1, 2019 | |

| | |
|---|---------|
| Honorable Derrick M. Mitchell | Houston |
| Honorable Wesley G. Terrell, Vice Chair | Dallas |
| Honorable Marilyn A. Rose, 2 nd Vice Chair | Houston |
| Terms Expire February 1, 2021 | |

| | |
|-------------------------------|-------------|
| Honorable Kenneth R. Koncaba | Friendswood |
| Honorable Hasan K. Mack | Austin |
| Honorable Oliver J. Bell | Cleveland |
| Terms Expire February 1, 2023 | |

| | |
|--|---------|
| Honorable Kernard D. Jones, Student Regent | Houston |
| Term Expires May 31, 2019 | |

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TEXAS SOUTHERN UNIVERSITY
(An Agency of the State of Texas)
UNIVERSITY ADMINISTRATION
August 31, 2018

University Administration

| | |
|------------------------|--|
| Dr. Austin A. Lane | President |
| Heidi Smith | Chief of Staff |
| Wendell Williams | Special Assistant to the President |
| Kenneth R. Huewitt | Chief Financial Officer/VP of Administration and Finance |
| Dr. Kendall Harris | Provost/VP for Academic Affairs and Research |
| Kevin Granger | Interim VP of Intercollegiate Athletics |
| Hao Le | General Counsel |
| Dr. Raphael X. Moffett | VP for Student Services |
| Melinda Spaulding | VP of University Advancement |

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TEXAS SOUTHERN UNIVERSITY

(An Agency of the State of Texas)

FISCAL ADMINISTRATION

August 31, 2018

Fiscal Administration

Christina Ordonez-Campos, CPA

Controller

Charla Parker-Thompson, CIA, CISA

Chief Audit Executive

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, 2018, 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, 2018, 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 Texas Southern University. They do not purport to, and do not present fairly the financial position of the State of Texas as of August 31, 2018, 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.

As discussed in Note 1 and Note 14 to the financial statements, the University adopted the provisions of Government Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of August 31, 2018. 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 23 through 30, required pension system information on pages 81 through 82, and other post-employment benefit information on pages 83 through 84 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 14, 2018 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 14, 2018

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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, Continued
For the Year Ended August 31, 2018

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 \$206,804,324.23 as of August 31, 2018. The largest portion of TSU's net position (58 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, 2018

Condensed Statement of Net Position

The following table reflects the condensed Statement of Net Position:

CONDENSED STATEMENT OF NET POSITION

| | 2018 | 2017 |
|---------------------------------------|--------------------------|--------------------------|
| Current and other assets | \$ 183,992,265.97 | \$ 171,409,396.17 |
| Restricted assets | 73,618,951.06 | 66,017,981.08 |
| Capital assets, net | 274,376,053.00 | 269,455,381.22 |
| Total Assets | 531,987,270.03 | 506,882,758.47 |
| Deferred Outflows of Resources | 10,117,921.72 | 4,029,322.00 |
| Current liabilities | 118,035,821.30 | 112,483,478.19 |
| Noncurrent liabilities | 212,216,726.22 | 229,383,055.06 |
| Total Liabilities | 330,252,547.52 | 341,866,533.25 |
| Deferred Inflows of Resources | 5,048,320.00 | 3,886,201.00 |
| Net investment in capital assets | 119,126,075.74 | 113,341,624.95 |
| Restricted for: | | |
| Debt service | 833,898.93 | 811,346.30 |
| Other | 63,149,336.50 | 57,226,488.66 |
| Unrestricted | 23,695,013.06 | (6,220,113.69) |
| Total Net Position | \$ 206,804,324.23 | \$ 165,159,346.22 |

Unrestricted net surplus increased by \$29,915,126.75 from \$(6,220,113.69) to \$23,695,013.06 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 surplus can be attributed to increase in student enrollment.

TEXAS SOUTHERN UNIVERSITY
 (An Agency of the State of Texas)
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
 For the Year Ended August 31, 2018

Statement of Revenues, Expenses, and Changes in Net Position

| | <u>2018</u> | <u>2017</u> |
|---|---------------------------|---------------------------|
| OPERATING REVENUES | | |
| Tuition and Fees - Pledged | \$ 113,330,977.06 | \$ 103,501,428.79 |
| Discount on Tuition and Fees | (33,242,663.46) | (31,660,765.70) |
| Auxiliary Enterprises -Pledged | 17,075,215.39 | 17,204,530.87 |
| Other Sales of Goods and Services - Pledged | 135,111.72 | 172,351.25 |
| Federal Revenue | 20,005,822.35 | 15,983,659.88 |
| Federal Pass-Through Revenue | 364,410.19 | 395,158.13 |
| State Revenue | 758,076.08 | 1,376,006.55 |
| State Pass-Through Revenue | 8,217,385.01 | 8,403,595.42 |
| Other Contracts and Grants - Pledged | 1,292,020.09 | 668,901.95 |
| Other Operating Revenue | 6,370,004.21 | 5,372,303.34 |
| Total Operating Revenues | <u>134,306,358.64</u> | <u>121,417,170.48</u> |
| OPERATING EXPENSES | | |
| Salaries and Wages | 92,983,608.92 | 91,295,185.01 |
| Payroll Related Costs | 18,159,524.80 | 25,325,645.15 |
| Professional Fees and Services | 9,036,088.46 | 8,116,507.91 |
| Travel | 3,122,437.49 | 3,156,278.90 |
| Materials and Supplies | 9,295,787.83 | 7,811,508.10 |
| Communication and Utilities | 7,107,617.64 | 6,820,302.56 |
| Repairs and Maintenance | 8,806,472.69 | 6,400,904.94 |
| Rentals and Leases | 1,818,688.58 | 1,427,949.76 |
| Printing and Reproductions | 502,595.25 | 444,098.65 |
| Bad Debt Expense | 3,046,217.66 | 2,830,869.87 |
| Scholarships | 20,785,451.88 | 19,583,972.66 |
| Other Operating Expenses | 9,650,745.41 | 8,606,723.09 |
| Depreciation and Amortization | 19,267,981.98 | 19,008,424.98 |
| Total Operating Expenses | <u>203,583,218.59</u> | <u>200,828,371.58</u> |
| Operating (Loss) | <u>\$ (69,276,859.95)</u> | <u>\$ (79,411,201.10)</u> |

TEXAS SOUTHERN UNIVERSITY
 (An Agency of the State of Texas)
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
 For the Year Ended August 31, 2018

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

| | <u>2018</u> | <u>2017</u> |
|---|--------------------------|--------------------------|
| NONOPERATING REVENUES (EXPENSES) | | |
| Legislative Revenue | \$ 55,516,210.00 | \$ 51,603,046.00 |
| Additional Appropriations | 11,373,752.46 | 10,726,890.05 |
| Gifts | 3,496,454.10 | 513,289.06 |
| Federal Revenue Nonoperating | 25,348,224.39 | 21,284,770.63 |
| Interest Income | 4,714,990.73 | 4,145,306.43 |
| Investing Activities Expenses | (341,616.96) | (468,368.51) |
| Interest Expense and Fiscal Charges | (6,735,487.03) | (8,185,561.53) |
| Net Increase (Decrease) Fair Value | 6,560,182.97 | 5,537,824.57 |
| Other Nonoperating Revenue/Expense | 619,531.90 | (646,908.70) |
| Total Nonoperating Revenues (Expenses) | <u>100,552,242.56</u> | <u>84,510,288.00</u> |
| | | |
| Income (Loss) Before Other Revenues, Expenses, and Transfers | <u>31,275,382.61</u> | <u>5,099,086.90</u> |
| | | |
| OTHER REVENUES, EXPENSES, AND TRANSFERS | | |
| Capital Appropriations (HEAF) | 11,659,843.00 | 11,659,843.00 |
| Contributions to Permanent and Term Endowments | 126,459.10 | 340,257.76 |
| Lapses | (1,467,110.74) | (6,597.80) |
| Legislative Transfer In | 150,131.00 | 4,834,213.00 |
| Transfer In | 94,483.36 | 111,703.00 |
| Transfer Out | (88,882.32) | (55,678.37) |
| Total Other Revenues, Expenses, and Transfers | <u>10,474,923.40</u> | <u>16,883,740.59</u> |
| | | |
| Change in Net Position | <u>41,750,306.01</u> | <u>21,982,827.49</u> |
| | | |
| Restatement, Note 14 | (105,328.00) | - |
| | | |
| Beginning Net Position | <u>165,159,346.22</u> | <u>143,176,518.73</u> |
| | | |
| Ending Net Position | <u>\$ 206,804,324.23</u> | <u>\$ 165,159,346.22</u> |

For the year ended August 31, 2018, total revenues was \$253,966,621.65. This represents an increase in total revenues \$21,792,307.67 or (9 percent). The total net position increased by \$41,644,978.01 (25 percent). The primary increase in net position can be attributed to an increased student enrollment, state appropriations and federal revenue.

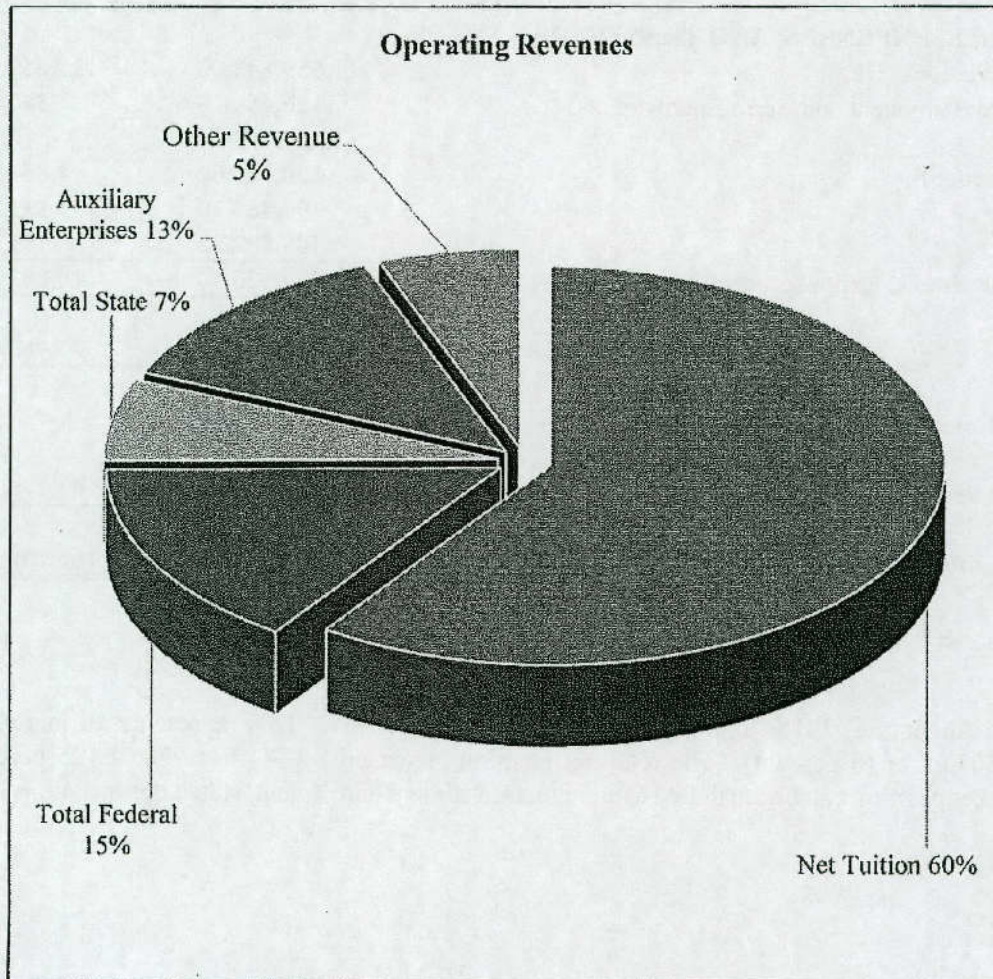
TEXAS SOUTHERN UNIVERSITY
(An Agency of the State of Texas)
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended August 31, 2018

Expenses totaled \$212,216,315.64 for the year ended August 31, 2018. This represents an increase of \$2,024,829.15 (1 percent) from last year. The majority of this increase can be attributed to salary and wages.

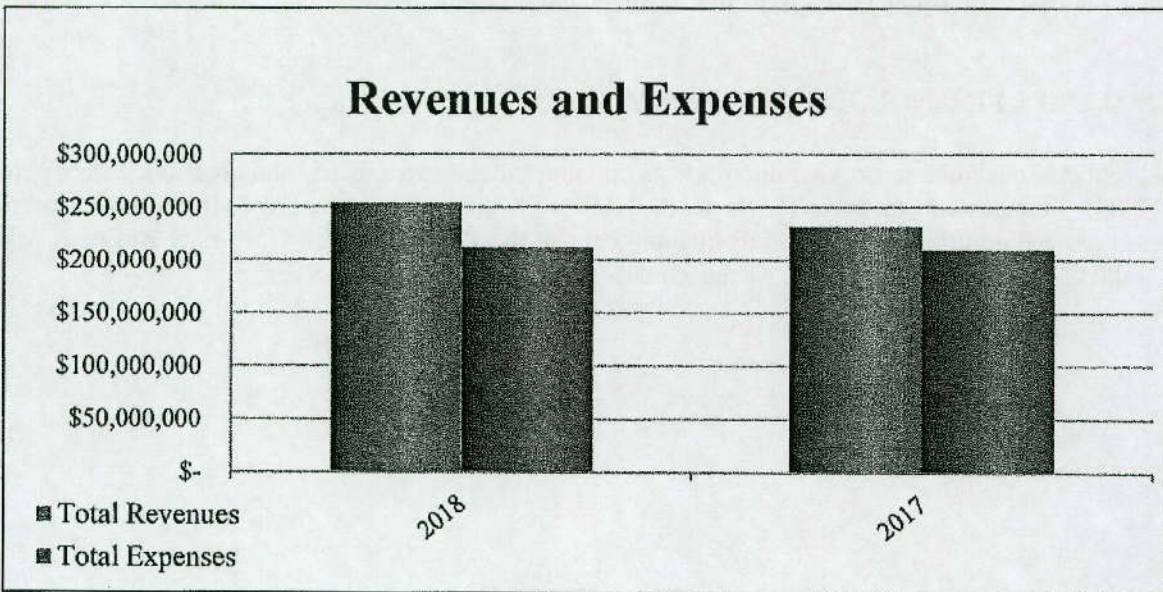
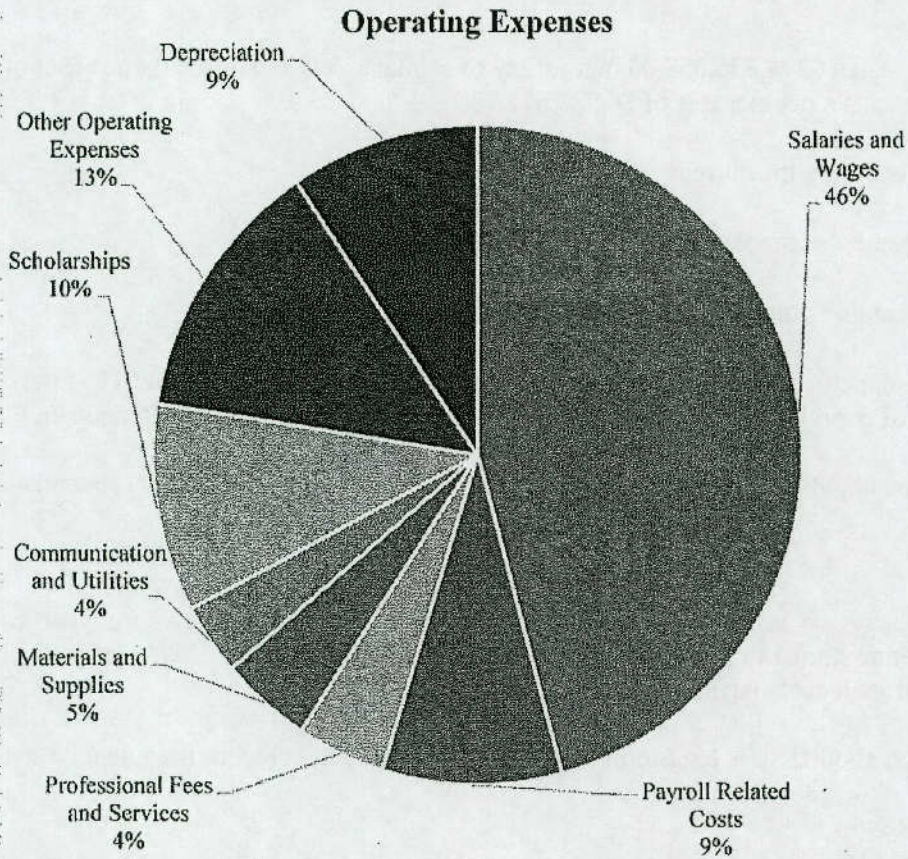
Key elements to these changes are as follows:

- Operating revenues increased by \$12,889,188.16 (11 percent) primarily due to increase in tuition and fees and federal revenue.
- Non-operating revenues increased by \$8,903,119.51 (8 percent) primarily due to the fair market value of investments, and increases in gifts, legislative revenue, and federal non-operating grants.
- Operating expenses less depreciation increased by \$2,495,290.01 (1 percent) as a result of an increase in salaries and wages and capital expenditure plan and a decrease in payroll related costs.
- Non-operating expenses decreased by \$730,017.86 (8 percent) due to a decrease in the interest expense and fiscal charges.
- Depreciation expense increased by \$259,557.00 (1 percent) due to the equipment purchases and building improvements.

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, 2018



TEXAS SOUTHERN UNIVERSITY
(An Agency of the State of Texas)
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended August 31, 2018

CAPITAL ASSETS

At year end, TSU had invested \$274,376,053.00 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of \$4,920,671.78.

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

- Building improvements completed at a cost of \$2,915,894.10
- Various equipment and other capital assets at a total of \$4,712,179.75.
- Construction of a new library/learning center is on-going as of August 31, 2018, total spent to date \$18,131,516.61 of overall project budget \$60 million approved by the Board of Regents in 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 \$107,441,446.57 in revenue bonds outstanding versus \$118,143,821.19 last year. Also, at year end, TSU had \$96,739,357.44 in capital loan notes payable to the Department of Education.

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 2018 due to an increased student enrollment and state appropriations 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, 2018

| ASSETS | <u>Total</u> |
|---|--------------------------------|
| Current Assets | |
| Cash and Cash Equivalents | |
| Cash on Hand | \$ 3,980.00 |
| Cash in Bank | 40,979,405.30 |
| Cash in Transit/Reimburse from Treasury | 17,806.01 |
| Cash in State Treasury | 19,469,211.53 |
| Restricted: | |
| Cash in Bank-Restricted | 79.88 |
| Cash Equivalent | 30,563,875.24 |
| Short-Term Investments | 33,217,652.44 |
| Legislative Appropriations | 17,568,559.65 |
| Receivables: | |
| Federal | 5,720,344.90 |
| Other Intergovernmental | 4,611,634.09 |
| Accounts, Net | 30,715,605.17 |
| Other | 591,031.08 |
| Due From Other Agencies | 74,986.26 |
| Consumable Inventories | 458,094.42 |
| Total Current Assets | <u>183,992,265.97</u> |
| Non-Current Assets | |
| Restricted: | |
| Investments | 59,386,721.54 |
| Loans and Contracts | 521,031.47 |
| Prepaid Cost | 13,711,198.05 |
| Total Non-Current Restricted Assets | <u>73,618,951.06</u> |
| Capital Assets: | |
| Land | 17,355,199.60 |
| Construction in Progress | 18,753,196.61 |
| Historical Treasures and Works of Art | 2,829,312.50 |
| Total Non-Depreciable or Non-Amortizable | <u>38,937,708.71</u> |
| Capital Assets Depreciable: | |
| Buildings and Building Improvements | 473,589,687.17 |
| Infrastructure | 7,096,483.95 |
| Equipment | 35,234,756.58 |
| Library Books | 30,789,021.21 |
| Less: Accumulated Depreciation | (311,271,604.62) |
| Total Depreciable or Amortizable, Net | <u>235,438,344.29</u> |
| Total Non-Current Assets | <u>347,995,004.06</u> |
| TOTAL ASSETS | <u>531,987,270.03</u> |
| Deferred Outflows | |
| Deferred Outflows of Resources-Pension | 4,077,868.72 |
| Deferred Outflows of Resources-OPEB | 6,040,053.00 |
| Total Deferred Outflows | <u>\$ 10,117,921.72</u> |

See Notes to Financial Statements.

TEXAS SOUTHERN UNIVERSITY

(An Agency of the State of Texas)

STATEMENT OF NET POSITION

August 31, 2018

| LIABILITIES | <u>Total</u> |
|---------------------------------------|---------------------------------|
| Current Liabilities | |
| Accounts Payable | \$ 16,410,993.72 |
| Payroll Payable | 4,944,159.45 |
| Due to Other Agencies | 41,543.08 |
| Interest Payable | 1,606,487.52 |
| Escheat Payable | 817,991.36 |
| Unearned Revenues | 63,996,797.00 |
| Student Refunds Payable | 79,945.63 |
| Other Payables | 12,785,529.38 |
| Net OPEB Liability Current | 458.00 |
| Capital Lease Obligation Current | 113,707.67 |
| Notes and Loans Current Payable | 4,879,609.59 |
| Revenue Bonds Current Payable, Net | 9,482,188.52 |
| Employees' Compensable Leave | 2,876,410.38 |
| Total Current Liabilities | <u>118,035,821.30</u> |
| Non-Current Liabilities | |
| Net Pension Liability | 18,886,127.00 |
| Net OPEB Liability | 89,774.00 |
| Capital Lease Obligation | 217,587.96 |
| Notes and Loans Payable | 91,859,747.85 |
| Revenue Bonds Payable, Net | 97,959,258.05 |
| Employees' Compensable Leave | 3,204,231.36 |
| Total Non-Current Liabilities | <u>212,216,726.22</u> |
| TOTAL LIABILITIES | <u>330,252,547.52</u> |
| Deferred Inflows | |
| Deferred Inflows of Resources-Pension | 5,028,368.00 |
| Deferred Inflows of Resources-OPEB | 19,952.00 |
| Total Deferred Inflows | <u>5,048,320.00</u> |
| NET POSITION | |
| Net Investment in Capital Assets | 119,126,075.74 |
| Restricted For: | |
| Debt Retirement | 833,898.93 |
| Other Restricted | 2,890,169.91 |
| Funds Held as Permanent Investments: | |
| Endowments | 60,259,166.59 |
| Unrestricted | 23,695,013.06 |
| TOTAL NET POSITION | <u>\$ 206,804,324.23</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

For the Year Ended August 31, 2018

| | <u>2018</u> |
|---|---------------------------|
| OPERATING REVENUES | |
| Tuition and Fees-Pledged | \$ 113,330,977.06 |
| Discount on Tuition and Fees | (33,242,663.46) |
| Auxiliary Enterprises-Pledged | 17,075,215.39 |
| Other Sales of Goods and Services-Pledged | 135,111.72 |
| Federal Revenue | 20,005,822.35 |
| Federal Pass-Through Revenue | 364,410.19 |
| State Revenue | 758,076.08 |
| State Pass-Through Revenue | 8,217,385.01 |
| Other Contracts and Grants-Pledged | 1,292,020.09 |
| Other Operating Revenue | 6,370,004.21 |
| Total Operating Revenues | <u>134,306,358.64</u> |
| OPERATING EXPENSES | |
| Salaries and Wages | 92,983,608.92 |
| Payroll Related Costs | 18,159,524.80 |
| Professional Fees and Services | 9,036,088.46 |
| Travel | 3,122,437.49 |
| Materials and Supplies | 9,295,787.83 |
| Communication and Utilities | 7,107,617.64 |
| Repairs and Maintenance | 8,806,472.69 |
| Rental and Leases | 1,818,688.58 |
| Printing and Reproduction | 502,595.25 |
| Bad Debt Expense | 3,046,217.66 |
| Scholarships | 20,785,451.88 |
| Other Operating Expenses | 9,650,745.41 |
| Depreciation and Amortization | 19,267,981.98 |
| Total Operating Expenses | <u>203,583,218.59</u> |
| Operating Income (Loss) | <u>\$ (69,276,859.95)</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

For the Year Ended August 31, 2018

| | <u>2018</u> |
|--|--|
| NON-OPERATING REVENUES (EXPENSES) | |
| Legislative Revenue | \$ 55,516,210.00 |
| Additional Appropriation | 11,373,752.46 |
| Gifts | 3,496,454.10 |
| Federal Revenue Nonoperating | 25,348,224.39 |
| Interest Income | 4,714,990.73 |
| Investing Activities Expenses | (341,616.96) |
| Interest Expense and Fiscal Charges | (6,735,487.03) |
| Net Increase (Decrease) Fair Value | 6,560,182.97 |
| Other Nonoperating Revenue/Expense | 619,531.90 |
| Total Non-Operating Revenues(Expenses) | <u>100,552,242.56</u> |
| | |
| Income (Loss) Before other Revenues, Expenses, Gains/Losses and Transfers | <u>31,275,382.61</u> |
| | |
| OTHER REVENUES, EXPENSES, GAINS, AND TRANSFERS | |
| Capital Appropriations (HEAF) | 11,659,843.00 |
| Additions to Permanent and Term Endowments | 126,459.10 |
| Lapses | (1,467,110.74) |
| Legislative Transfer-In | 150,131.00 |
| Transfer-In | 94,483.36 |
| Transfer-Out | (88,882.32) |
| Total Other Revenues, Expenses, Gain/Losses and Transfers | <u>10,474,923.40</u> |
| | |
| Change in Net Position | <u>41,750,306.01</u> |
| | |
| Beginning Net Position | <u>165,159,346.22</u> |
| | |
| Restatement, Note 14 | <u>(105,328.00)</u> |
| | |
| Ending Net Position | <u><u>\$ 206,804,324.23</u></u> |

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, 2018

| | <u>2018</u> |
|---|-------------------------|
| <u>Cash Flows from Operating Activities</u> | |
| Proceeds from tuition and fees | \$ 75,616,979.74 |
| Proceeds from research grants and contracts | 32,009,426.50 |
| Proceeds from state grants and contracts | 4,363,827.00 |
| Proceeds from auxiliary enterprises | 17,075,215.39 |
| Proceeds from other revenues | 7,784,343.49 |
| Payments to suppliers for goods and services | (54,242,542.41) |
| Payments to employees for salaries and wages | (93,387,233.38) |
| Payments for employee related costs | (23,107,556.96) |
| Payments for pension benefits to plan members | (2,345,567.00) |
| Payments for OPEB benefits to plan members | (15,096.00) |
| Payments for other expenses | (11,206,719.02) |
| Net Cash Provided (Used) by Operating Activities | <u>(47,454,922.65)</u> |
| <u>Cash Flows from Noncapital Financing Activities</u> | |
| Proceeds from state appropriations | 76,417,758.06 |
| Proceeds from gifts | 3,622,913.20 |
| Proceeds from grants receipts | 25,348,224.39 |
| Payments of principal on debt issuance | (526,316.70) |
| Net Cash Provided (Used) by Noncapital Financing Activities | <u>104,862,578.95</u> |
| <u>Cash Flows from Capital and Related Financing Activities</u> | |
| Proceeds from debt issuance | 341,523.15 |
| Payments for additions to capital assets | (24,188,653.76) |
| Payments of principal on debt issuance | (15,481,607.14) |
| Payments of interest on debt issuance | (6,892,487.00) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(46,221,224.75)</u> |
| <u>Cash Flows from Investing Activities</u> | |
| (Purchase) Sale of investments, net | 197,107.31 |
| Proceeds from interest and investment income | 4,373,373.77 |
| Proceeds from principal payments on loans | (5,748.00) |
| Net Cash Provided (Used) by Investing Activities | <u>4,564,733.08</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 15,751,164.63 |
| Beginning cash and cash equivalents | <u>75,283,193.33</u> |
| Ending Cash and Cash Equivalents | <u>\$ 91,034,357.96</u> |
| Unrestricted cash and cash equivalents | 60,470,402.84 |
| Restricted cash and cash equivalents | 30,563,955.12 |
| Ending Cash and Cash Equivalents | <u>\$ 91,034,357.96</u> |

See Notes to Financial Statements.

TEXAS SOUTHERN UNIVERSITY

(An Agency of the State of Texas)

STATEMENT OF CASH FLOWS (Continued)

For the Year Ended August 31, 2018

| | 2018 |
|---|---------------------------|
| Reconciliation of Operating (Loss) to Net Cash | |
| (Used) by Operating Activities | |
| Operating gain (loss) | \$ (69,276,859.95) |
| Adjustments to reconcile operating (loss) | |
| to net cash (used) by operating activities: | |
| Depreciation and amortization | 19,267,981.98 |
| Bad Debt Expense | 3,046,217.66 |
| Pension Expense | 1,518,322.00 |
| OPEB Expense | 4,830.00 |
| Operating (Loss) and Cash Flow Categories | |
| Classification Differences | (45,439,508.31) |
| | |
| Changes in Operating Assets and Liabilities: | |
| (Increase) Decrease in: | |
| Accounts receivable, net | (9,698,140.10) |
| Due from other funds | 11,506,418.41 |
| Inventories | 113,524.27 |
| Prepaid expenses | (1,711,654.15) |
| Other assets | 119,983.02 |
| Deferred outflows of resources | (6,088,599.72) |
| Accounts payable | 5,890,972.64 |
| Salaries payable | (81,524.96) |
| Unearned revenue | 635,085.00 |
| Compensated absences liability | (322,099.50) |
| Define benefit pensions | (3,863,889.00) |
| Defined benefit OPEB | (19,926.00) |
| Deferred inflows of resources | 1,162,119.00 |
| Due to state | (21,551.44) |
| Escheat payable | 228,100.50 |
| Student refunds payable | (19,912.85) |
| Other current liabilities | 155,680.54 |
| | |
| Net Cash (Used) by Operating Activities | \$ (47,454,922.65) |

See Notes to Financial Statements.

| | |
|---|-----------------|
| Non-Cash Transactions Net Change in Fair Value of Investments | \$ 6,560,182.97 |
|---|-----------------|

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(An Agency of the State of Texas)
NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2018

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 students with more than 80 undergraduate, graduate and professional degree programs.

C. Financial Statement Presentation

In fiscal year 2018, TSU implemented accounting standard GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB) that replaces Statement No. 45*. The primary objective of this statement is to improve information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

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

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(An Agency of the State of Texas)

NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended August 31, 2018

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.

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, 2018 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.

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(An Agency of the State of Texas)

NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended August 31, 2018

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 |
| 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 at the date of donation (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:

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(An Agency of the State of Texas)

NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended August 31, 2018

| <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.

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 outflow of resources is a consumption of an entity's net assets (a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the entity that is applicable to a future reporting period. The University has two items that qualify for reporting in this category:

- 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

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(An Agency of the State of Texas)

NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended August 31, 2018

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 outflows of resources for post-employment benefits – Reported in the government wide financial statement of net position, this deferred outflow results from OPEB plan contribution made after the measurement date of the net OPEB liability and the results of 1) differences between projected and actual earnings on OPEB plan investments and 2) changes in the University's proportional share of OPEB liabilities. The deferred outflows of resources related to post-employment benefits resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction of the net post-employment benefit liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on OPEB plan investments will be amortized over a closed five year period. The remaining deferred outflows will be amortized over the expected remaining service lives of the employees (active and inactive employees) that are provided with post-employment benefits through the post-employment benefit plan.

A deferred inflow of resources is an acquisition of an entity's net position (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the entity that is applicable to a future reporting period. The University has two items that qualify for reporting in this category:

- 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.

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

13. Other Post-Employment Benefits (OPEB)

The fiduciary net position of the Employees Retirement System of Texas (ERS) State Retiree Health Plan (SRHP) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits; OPEB expense; and information about assets, liabilities and additions to/deductions from SRHP's fiduciary net position. Benefit payments are recognized when due and are payable in accordance with the benefit terms.

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(An Agency of the State of Texas)

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended August 31, 2018

14. Pensions

The University participates in the Teacher Retirement System of Texas (TRS) pension plan, a multiple employer cost-sharing-defined benefit pension plan with a special funding situation. The fiduciary net position of TRS has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

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, 2018

NOTE 2: CAPITAL ASSETS

During fiscal year 2018, TSU collected \$2,927,075.88 in insurance recoveries that are reported in the financial statements as settlements and claims. A summary of changes in capital assets for the year ended August 31, 2018 is as follows:

| | Balance 9/1/2017 | Reclassify Completed CIP | Additions | Deletions | Balance 8/31/2018 |
|--|--------------------------|-----------------------------|------------------------|-----------------------|--------------------------|
| Non-depreciable or Non-amortizable Assets | | | | | |
| Land and Land Improvements | \$ 17,340,999.60 | \$ - | \$ 14,200.00 | \$ - | \$ 17,355,199.60 |
| Construction in Progress | 2,206,816.70 | (31,110.00) | 16,577,489.91 | - | 18,753,196.61 |
| Other Tangible Capital Assets | 2,829,312.50 | - | - | - | 2,829,312.50 |
| Total Non-depreciable/amortizable | 22,377,128.80 | (31,110.00) | 16,591,689.91 | - | 38,937,708.71 |
| Depreciable Assets | | | | | |
| Buildings and Building Improvements | 454,022,899.43 | 31,110.00 | 2,884,784.10 | - | 456,938,793.53 |
| Infrastructure | 7,096,483.95 | - | - | - | 7,096,483.95 |
| Facilities and Other Improvements | 16,650,893.64 | - | - | - | 16,650,893.64 |
| Furniture and Equipment | 30,338,672.98 | - | 1,719,252.93 | (91,644.57) | 31,966,281.34 |
| Vehicle, Boats and Aircraft | 1,996,542.91 | - | 578,679.25 | (31,294.00) | 2,543,928.16 |
| Other Capital Assets | 33,836,646.89 | - | 2,414,247.57 | (5,461,873.25) | 30,789,021.21 |
| Total Depreciable Assets | 543,942,139.80 | 31,110.00 | 7,596,963.85 | (5,584,811.82) | 545,985,401.83 |
| Less Accumulated Depreciation for: | | | | | |
| Buildings and Building Improvements | (240,899,947.25) | - | (14,006,663.62) | - | (254,906,610.87) |
| Infrastructure | (3,083,192.40) | - | (417,970.20) | - | (3,501,162.60) |
| Facilities and Other Improvements | (12,119,214.12) | - | (332,159.64) | - | (12,451,373.76) |
| Furniture and Equipment | (22,815,426.18) | - | (2,246,958.72) | 91,644.57 | (24,970,740.33) |
| Vehicle, Boats, and Aircraft | (1,529,905.94) | - | (134,192.87) | 31,294.00 | (1,632,804.81) |
| Other Capital Assets | (16,652,689.43) | - | (2,081,108.37) | 5,461,873.25 | (13,271,924.55) |
| Total Accumulated Depreciation | (297,100,375.32) | - | (19,219,053.42) | 5,584,811.82 | (310,734,616.92) |
| Depreciable Assets, Net | 246,841,764.48 | - | (11,622,089.57) | - | 235,250,784.91 |
| Intangible Capital Assets- Amortizable | | | | | |
| Computer Software - Intangible | 724,547.08 | - | - | - | 724,547.08 |
| Total Intangible Capital Assets | 724,547.08 | - | - | - | 724,547.08 |
| Less Accumulated Amortization for: | | | | | |
| Computer Software - Intangible | (488,059.14) | - | (48,928.56) | - | (536,987.70) |
| Total Accumulated Amortization | (488,059.14) | - | (48,928.56) | - | (536,987.70) |
| Intangible Capital Assets | 236,487.94 | - | (48,928.56) | - | 187,559.38 |
| Activities Capital Assets - Net. | \$ 269,455,381.22 | \$ - | \$ 4,920,671.78 | \$ - | \$ 274,376,053.00 |

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For the Year Ended August 31, 2018

Construction commitments outstanding at year end were as follows:

| Bldg No. | Project Description/ Project Manager | Overall Project Budget | Total Spent To Date | Remaining Balance |
|----------|--------------------------------------|-------------------------|-------------------------|-------------------------|
| 193 | University Towers | \$ 628,900.00 | \$ 621,680.00 | \$ 7,220.00 |
| 201 | Library/Learning Center | 60,000,000.00 | 18,131,516.61 | 41,868,483.39 |
| | | <u>\$ 60,628,900.00</u> | <u>\$ 18,753,196.61</u> | <u>\$ 41,875,703.39</u> |

NOTE 3: DEPOSITS AND INVESTMENTS

A. Cash in Bank-Carrying Amount

As of August 31, 2018, 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 | \$ 40,979,405.30 |
| Less: Nonnegotiable CD's included in Carrying Amount | - |
| Less: Uninvested Collateral Included in Carrying Amount | - |
| Total Cash In Bank | <u>\$ 40,979,405.30</u> |
| Current Assets Restricted Cash in Bank | <u>79.88</u> |
| Cash in Bank Per AFR | <u>\$ 40,979,485.18</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 | \$40,479,485.18 | \$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

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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

As of August 31, 2018, TSU had the following investments:

| <u>Investment Type</u> | <u>Fair Value</u> |
|------------------------------------|--------------------------|
| U.S. Government Agency Obligations | \$ 4,591,945.60 |
| U.S. Treasury Securities | 3,061,867.54 |
| Equity | 38,695,359.95 |
| Taxable Municipal Issues | 191,526.60 |
| Corporate Obligations | 6,658,789.53 |
| International Equity | 6,816,370.73 |
| Fixed Income Money Market Funds | 63,152,389.27 |
| Total Fair Value | <u>\$ 123,168,249.22</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, 2018:

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 | \$ 3,061,867.54 | \$ - | \$ - | \$ - | \$ - |
| Corporate Obligations | \$ 1,286,703.89 | \$ 58,742.60 | \$ 303,565.41 | \$ 126,977.64 | \$ 698,341.71 |

Investment Ratings

| <u>Investment Type</u> | <u>A+</u> | <u>A-</u> | <u>BBB</u> | <u>BBB+</u> | <u>BBB-</u> |
|------------------------|---------------|-----------------|-----------------|-----------------|---------------|
| Corporate Obligations | \$ 181,971.52 | \$ 1,183,608.49 | \$ 1,445,811.67 | \$ 1,071,806.47 | \$ 301,260.13 |

Unrated

| <u>Investment Type</u> | |
|------------------------------------|------------------|
| U.S. Government Agency Obligations | \$ 4,591,945.60 |
| Equity | \$ 38,695,359.95 |
| International Equity | \$ 6,816,370.73 |
| Fixed Income Money Market Funds | \$ 63,152,389.27 |
| Taxable Municipal Issues | \$ 191,526.60 |

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For the Year Ended August 31, 2018

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 \$123,168,249.22 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 | Investment Maturities (in Years) | | | | |
|----------------------------|--------------------------|----------------------------------|-------------------------|------------------------|------------------------|------------------------|
| | | Stocks | Less Than 1 | 1 to 5 | 6 to 10 | More than 10 |
| Agency Discount Securities | \$ 2,598,667.73 | \$ - | \$ 2,598,667.73 | \$ - | \$ - | \$ - |
| Agencies | 1,993,277.87 | - | - | - | 105,426.55 | 1,887,851.32 |
| Treasuries | 3,061,867.54 | - | 110,188.52 | 899,901.02 | 941,956.31 | 1,109,821.69 |
| Common Stock | 38,695,359.95 | 38,695,359.95 | - | - | - | - |
| Taxable Municipal Issues | 191,526.60 | - | - | - | 73,971.80 | 117,554.80 |
| Corporate Obligations | 6,658,789.53 | - | - | 2,208,212.02 | 2,166,031.97 | 2,284,545.54 |
| International Equity | 6,816,370.73 | 6,816,370.73 | - | - | - | - |
| Money Market Funds | 63,152,389.27 | - | 63,152,389.27 | - | - | - |
| Total | \$ 123,168,249.22 | \$ 45,511,730.68 | \$ 65,861,245.52 | \$ 3,108,113.04 | \$ 3,287,386.63 | \$ 5,399,773.35 |

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, 2018

Fair Value Hierarchy for TSU's investments as of August 31, 2018 is as follows:

| Investments | Fair Value Hierarchy | | | | |
|---------------------------------|--------------------------|-------------------------|----------------|-----------------|--------------------------|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Net Asset Value | Fair Value |
| U. S. Government | | | | | |
| US Government Agency Obligation | \$ - | \$ 4,591,945.60 | \$ - | \$ - | \$ 4,591,945.60 |
| US Treasury Securities | 3,061,867.54 | - | - | - | 3,061,867.54 |
| Equity | 38,695,359.95 | - | - | - | 38,695,359.95 |
| Corporate Obligations | - | 6,658,789.53 | - | - | 6,658,789.53 |
| Taxable Municipal Issues | - | 191,526.60 | - | - | 191,526.60 |
| International Equity | - | 6,816,370.73 | - | - | 6,816,370.73 |
| Fixed Income Money Market Funds | 63,152,389.27 | - | - | - | 63,152,389.27 |
| Total Investments | \$ 104,909,616.76 | \$ 18,258,632.46 | \$ - | \$ - | \$ 123,168,249.22 |

NOTE 5: SUMMARY OF LONG-TERM LIABILITIES

During the year ended August 31, 2018, the following changes occurred in the long-term liabilities:

| Long-Term Liabilities | Balance 9/1/2017 | Additions | Reductions | Balance 8/31/2018 | Amounts Due Within One Year | Amounts Due Thereafter |
|--------------------------------|--------------------------|----------------------|-------------------------|--------------------------|--------------------------------|---------------------------|
| Revenue Bonds Payable: | | | | | | |
| Series 2011 | \$ 23,025,000.00 | \$ - | \$ 1,230,000.00 | \$ 21,795,000.00 | \$ 1,300,000.00 | \$ 20,495,000.00 |
| Series 2013 | 33,690,000.00 | - | 6,615,000.00 | 27,075,000.00 | 5,395,000.00 | 21,680,000.00 |
| Series 2016 | 52,890,000.00 | - | 1,815,000.00 | 51,075,000.00 | 1,890,000.00 | 49,185,000.00 |
| Premiums & discounts | 8,538,821.19 | - | 1,042,374.62 | 7,496,446.57 | 897,188.52 | 6,599,258.05 |
| Total revenue bonds | 118,143,821.19 | - | 10,702,374.62 | 107,441,446.57 | 9,482,188.52 | 97,959,258.05 |
| Notes Payable: | | | | | | |
| Capital Lease Obligations | - | 341,523.15 | 10,227.52 | 331,295.63 | 113,707.67 | 217,587.96 |
| HBCU Loan 2011-4 | 52,135,596.05 | - | 2,360,474.69 | 49,775,121.36 | 2,415,985.14 | 47,359,136.22 |
| HBCU Loan 2012-10 | 49,372,766.39 | - | 2,408,530.31 | 46,964,236.08 | 2,463,624.45 | 44,500,611.63 |
| Total notes payable | 101,508,362.44 | 341,523.15 | 4,779,232.52 | 97,070,653.07 | 4,993,317.26 | 92,077,335.81 |
| Other Liabilities: | | | | | | |
| Compensated Absences | 6,402,741.24 | 151,731.10 | 473,830.60 | 6,080,641.74 | 2,876,410.38 | 3,204,231.36 |
| Total other liabilities | 6,402,741.24 | 151,731.10 | 473,830.60 | 6,080,641.74 | 2,876,410.38 | 3,204,231.36 |
| Total | \$ 226,054,924.87 | \$ 493,254.25 | \$ 15,955,437.74 | \$ 210,592,741.38 | \$ 17,351,916.16 | \$ 193,240,825.22 |

Long-term Debt Due in More Than One Year \$ 193,240,825.22

*Debt associated with capital assets \$ 204,512,099.64

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For the Year Ended August 31, 2018

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

| Ending Aug. 31 | Revenue Bonds | |
|-------------------|-------------------------|-------------------------|
| | Principal | Interest |
| 2019 | \$ 8,585,000.00 | \$ 4,684,587.50 |
| 2020 | 9,005,000.00 | 4,263,987.50 |
| 2021 | 9,450,000.00 | 3,821,018.76 |
| 2022 | 9,940,000.00 | 3,331,768.76 |
| 2023 | 6,770,000.00 | 2,922,143.76 |
| 2024-2028 | 23,635,000.00 | 10,691,568.76 |
| 2029-2033 | 21,205,000.00 | 4,213,050.00 |
| 2034-2038 | 11,355,000.00 | 687,900.00 |
| Total | \$ 99,945,000.00 | \$ 34,616,025.04 |

Interest expense incurred on revenue bonds for the year ended August 31, 2018 totaled \$4,968,087.54.

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, 2018, 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. Estimated loan debt requirements are as follows:

| Year Ending August 31, | Principal | Interest | Total Estimated Annual Amounts |
|---------------------------|-------------------------|------------------------|-----------------------------------|
| 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 |
| 2021 | 2,572,414.63 | 948,569.39 | 3,520,984.02 |
| 2022 | 2,639,111.42 | 881,872.60 | 3,520,984.02 |
| 2023 | 2,699,279.67 | 821,704.35 | 3,520,984.02 |
| 2024-2028 | 14,436,965.71 | 3,167,954.39 | 17,604,920.10 |
| 2029-2033 | 16,173,967.03 | 1,430,953.07 | 17,604,920.10 |
| 2034-2038 | 3,461,579.92 | 59,403.51 | 3,520,983.43 |
| | \$ 46,964,236.08 | \$ 9,371,507.65 | \$ 56,335,743.73 |

Interest incurred for the year ended August 31, 2018 totaled \$1,082,903.34.

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NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended August 31, 2018

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.

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 be secured by Housing rental revenues. Estimated loan debt requirements are as follows:

| Year Ending August 31, | Principal | Interest | Total Estimated Annual amount |
|---------------------------|-------------------------|-------------------------|----------------------------------|
| 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 | 2,593,126.38 | 972,731.58 | 3,565,857.96 |
| 2023 | 2,653,825.95 | 912,032.01 | 3,565,857.96 |
| 2024-2028 | 14,216,972.70 | 3,612,317.10 | 17,829,289.80 |
| 2029-2033 | 15,972,011.57 | 1,857,278.23 | 17,829,289.80 |
| 2034-2038 | 6,928,174.19 | 203,541.48 | 7,131,715.67 |
| | <u>\$ 49,775,121.36</u> | <u>\$ 10,844,463.71</u> | <u>\$ 60,619,585.07</u> |

Interest expense incurred for the year ended August 31, 2018 totaled \$1,178,773.26.

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For the Year Ended August 31, 2018

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.

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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For the Year Ended August 31, 2018

Revenue Bonds, Series 2016

| | |
|--------------------------|--|
| Purpose | On June 23, 2016, 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; all authorized have been 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>970,252.33</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> |
|-----------------------------------|-----------------------------------|
| 2019 | \$ 621,181.56 |
| 2020 | 313,833.52 |
| 2021 | 313,833.52 |
| 2022 | - |
| 2023 | - |
| Total | <u>\$ 1,248,848.60</u> |

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.

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For the Year Ended August 31, 2018

TSU entered into long-term lease for financing the purchase of capital vehicles. Such leases are classified as capital leases for accounting purposes and are recorded at present value of the future minimum lease payment at the inception of the lease.

A summary of original capitalized costs of all such property under lease in addition to the accumulated depreciation as of August 31, 2018, is presented below.

Assets Under Capital Leases

August 31, 2018

| Type | <u>Primary Government-Business-Type Activities</u> | | |
|--------------|--|-------------------------------------|----------------------|
| | <u>Assets under Capital Lease</u> | <u>Accumulated Depreciation</u> | <u>Total</u> |
| Vehicles | \$341,523.15 | \$ (4,774.21) | \$ 336,748.94 |
| Total | \$341,523.15 | \$ (4,774.21) | \$ 336,748.94 |

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

Future Capital Lease Payments

August 31, 2018

| Year | <u>Primary Government-Business-Type Activities</u> | | |
|--------------|--|---------------------|---|
| | <u>Principal</u> | <u>Interest</u> | <u>Total Future Minimum Lease</u> |
| 2019 | \$ 113,707.67 | \$ 5,738.99 | \$ 119,446.66 |
| 2020 | 113,283.72 | 3,408.59 | 116,692.31 |
| 2021 | 104,304.24 | 1,082.86 | 105,387.10 |
| 2022 | - | - | - |
| 2023 | - | - | - |
| Total | \$331,295.63 | \$ 10,230.44 | \$ 341,526.07 |

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.

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For the Year Ended August 31, 2018

TRS contribution rates for both employers and employees are not actuarially determined but are legally established by the State Legislature. Contributions by employees are 7.7 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, 2018 were \$2,089,618.72, 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.

| <u>Employee Retirement Plans</u> | <u>Aug. 31, 2018</u> |
|----------------------------------|------------------------|
| Employee Contribution | \$ 2,052,003.13 |
| Employee Contribution | 2,289,453.29 |
| | <u>\$ 4,341,456.42</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.

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For the Year Ended August 31, 2018

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:

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

During the measurement period of 2017 for fiscal 2018 reporting, the amount of TSU's contributions recognized by the plan was \$1,935,839.00. 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 | 7.7% |

The total pension liability is determined by an annual actuarial valuation. The table below presents the actuarial methods and assumptions used to measure the total pension liability as of the August 31, 2017 measurement date.

Actuarial Methods and Assumptions

| | <u>TRS Plan</u> |
|--|--|
| Actuarial Valuation Date | August 31, 2017 |
| Actuarial Cost Method | Individual Entry Age Normal |
| Amortization Method | Level Percentage of Payroll, Floating |
| 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 Tables |
| Ad Hoc Post-Employment Benefit Changes | None |

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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. The mortality rates were based on 90% of the RP 2014 employee Mortality Tables for the active members. The Post-retirement mortality rates were based on 2015 TRS Health Pensioner Mortality Tables.

There have been no changes to the benefit 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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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%) |
|---------------------|-------------------------------|---------------------|
| \$ 31,838,278 | \$ 18,886,127 | \$ 8,101,359 |

The pension plan's fiduciary net position is determined using economic resources measurement focus and the accrual basis of accounting, which is the same basis used by Teacher Retirement System. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. Fair value is a market-based measurement, not an entity-specific measurement. TRS utilizes one or more of the following valuation techniques in order to measure fair value: the market approach, the cost approach, and the income approach. More detailed information on the plan's investment policy, assets, and fiduciary net position, may be obtained from TRS' fiscal 2017 Comprehensive Annual Financial Report.

At August 31, 2018, TSU reported a liability of \$18,886,127 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of August 31, 2017, 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, 2017 was .0590660066 percent which was an increase from the .0561855761 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, 2016 through August 31, 2017.

For the year ending August 31, 2018, TSU recognized pension expense of \$1,518,322. At August 31, 2017, 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 | \$ 276,313.00 | \$ 1,018,504.00 |
| Change of assumptions | 860,293.00 | 492,498.00 |
| Net difference between projected and actual investment return | | 1,376,380.00 |
| Change in proportion and contribution difference | 851,644.00 | 2,140,986.00 |
| Contribution subsequent to the measurement date | 2,089,618.72 | - |
| Total | <u>\$ 4,077,868.72</u> | <u>\$ 5,028,368.00</u> |

The \$ 2,089,618.72 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, 2019.

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, 2018

| Year Ending August 31, | Amortization of deferred outflows/inflows |
|---------------------------|---|
| 2019 | \$ (991,687.00) |
| 2020 | 213,863.00 |
| 2021 | (1,084,294.00) |
| 2022 | (1,330,912.00) |
| 2023 | 59,526.00 |
| Thereafter | 93,386.00 |
| Total | <u>\$ (3,040,118.00)</u> |

NOTE 9B: ERS OPEB Plan – TSU’s PROPORTIONATE SHARE

ERS plan

Employees Retirement System is the administrator of the State Retiree Health Plan (SRHP), a cost-sharing, multiple-employer defined benefit OPEB plan with a special funding situation.

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

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

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

Employees Retirement System of Texas
200 E. 18th Street
Austin, Texas 78701

During the measurement period of 2017 for fiscal 2018 reporting, the amount of TSU’s contributions recognized by the plan was \$24,386.43. The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive any employer contribution.

The contribution requirements for the state and the members in the measurement period are presented in the table below:

Employer Contribution Rates Retiree Health and Basic Life Premium

| | | |
|--------------------|----------|---|
| Retiree Only | \$617.30 | The total OPEB liability is determined by an annual actuarial valuation. The table below presents the |
| Retiree & Spouse | 970.98 | |
| Retiree & Children | 854.10 | |
| Retiree & Family | 1207.78 | |

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For the Year Ended August 31, 2018

The total OPEB liability is determined by an annual actuarial valuation. The table below actuarial methods and assumptions used to measure the total OPEB liability as of the August 31, 2017 measurement date.

Actuarial Methods and Assumptions

| | SRHP |
|---|---|
| Actuarial Valuation Date | August 31, 2017 |
| Actuarial Cost Method | Entry Age |
| Amortization Method | Level Percent of Payroll, Open |
| Remaining Amortization Period | 30 Years |
| Actuarial Assumptions: | |
| Discount Rate | 3.51% |
| Inflation | 2.50% |
| Salary Increase | 2.50% to 9.50%, including inflation 8.50% for FY 2019, decreasing 0.50% per year to 4.50% for FY 2027 and later years |
| Healthcare Cost and Trend Rate | |
| Aggregate Payroll Growth | 3.00% |
| Retirement Age | Experience-based tables of rates that are specific to the class of employee |
| Mortality | |
| State Agency Members | 2017 State Retirees of Texas Mortality table with a 1 year set forward for male CPO/CO members and Ultimate MP Projection Scale projected from the year 2017 |
| Service Retirees, Survivors and Other Inactive Members | RP-2014 Disabled Retiree Mortality with Ultimate MP Projection Scale projected from the year 2014 |
| Disabled Retirees | RP-2014 Active Member Mortality tables with Ultimate MP Projection Scale from the year 2014 |
| Active Members | |
| Higher Education Members | Tables based on TRS experience with full generational projection using Scale BB from Base Year 2014 |
| Service Retirees, Survivors and Other Inactive Members | Tables based on TRS experience with full generational projection using Scale BB from Base Year 2014 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members |
| Disabled Retirees | Sex Distinct RP-2014 Employee Mortality multiplied by 90% with full generational projection using Scale BB |
| Active Members | |

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For the Year Ended August 31, 2018

Ad Hoc Post-Employment Benefit Changes

None

The many actuarial assumptions used in the valuation were primarily based on the result of actuarial experience studies performed by the ERS and TRS retirement plan actuaries for the period Sept. 1, 2011 to Aug. 31, 2016 for state agency members and for the period Sept. 1, 2010 to Aug. 31, 2014 for higher education members. The mortality rates were based on the tables identified in the table above titled *Actuarial Methods and Assumptions*.

The following benefit revisions have been adopted since the prior valuation for retirees and dependents for whom Medicare is not primary:

- a. increase in the out-of-pocket cost applicable to services obtained at a free standing emergency facility,
- b. elimination of the copayment for virtual visits,
- c. copay reduction for Airosti and for out of state participants and
- d. elimination of the deductible for in-network services and application of a copayment rather than coinsurance to certain services like primary care and specialist visits.

The discount rate that was used to measure the total OPEB liability is the municipal bond rate of 3.51% as of the end of the measurement year; as of the beginning of the measurement year, the discount rate was 2.84%. Projected cash flows into the plan are equal to projected benefit payments out of the plan. As the plan operates on a pay as you go basis and is not intended to accumulate assets, there is no long-term expected rate of return. ERS' board of trustees adopted an amendment to the investment policy in August 2017 to require that all funds in this plan be invested in short-term fixed income securities and specify that the expected rate of return on these investments be at least 2.4%.

The investment rate of return used to calculate the projected earnings on OPEB plan investments was 2.84%. Sensitivity analysis was performed on the impact of changes in the discount rate on the proportionate share of TSU's net OPEB liability. The result of the analysis is presented in the table below:

Sensitivity of TSU's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate (\$ thousands)

| 1% Decrease (2.51%) | Current Discount Rate (3.51%) | 1% Increase (4.51%) |
|------------------------|----------------------------------|------------------------|
| \$ 107,710 | \$ 90,232 | \$ 76,693 |

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

Sensitivity of TSU's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate (\$ thousands)

| 1% Decrease (7.50 % decreasing to 3.50%) | Current Healthcare Cost Trend Rates (8.50 % decreasing to 4.50%) | 1% Increase (9.50 % decreasing to 5.50%) |
|--|---|--|
| \$ 75,855 | \$ 90,232 | \$ 108,886 |

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The OPEB plan's fiduciary net position is determined using economic resources measurement focus and accrual basis of accounting, which is the same basis used by ERS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments of the Other Employee Benefit Trust Fund are reported at fair value in accordance with GASB Statement No. 72. The fair value of investments is based on published market prices and quotations from major investment brokers at available current exchange rates. However, corporate bonds in general are valued based on currently available yields of comparable securities by issuers with similar credit ratings. More detailed information on the plan's investment valuation, investment policy, assets, and fiduciary net position may be obtained from ERS' fiscal 2017 CAFR.

At August 31, 2018, TSU reported a liability of \$90,232.00 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of August 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. TSU's proportion at August 31, 2017 was 0.00026482 percent. TSU's proportion of the collective net OPEB liability was based on its contributions to the OPEB plan relative to the contributions of all the employers and non-employer contributing entity to the plan for the period September 1, 2016 through August 31, 2017.

For the year ending August 31, 2018, TSU recognized OPEB expense of \$4,830.00. At August 31, 2018, TSU reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Difference between expected and actual experience | \$ - | \$ 1,085.00 |
| Change of assumptions | - | 18,867.00 |
| Net difference between projected and actual investment return | 26.00 | - |
| Contribution subsequent to the measurement date | 6,040,027.00 | - |
| | <u>\$ 6,040,053.00</u> | <u>\$ 19,952.00</u> |

The \$6,040,027 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net OPEB liability for the year ending August 31, 2019.

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

Year Ending August 31:

| | |
|------------|----------------------|
| 2019 | \$ (4,487.00) |
| 2020 | (4,487.00) |
| 2021 | (4,487.00) |
| 2022 | (4,487.00) |
| 2023 | (1,978.00) |
| Thereafter | <u>\$(19,926.00)</u> |

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For the Year Ended August 31, 2018

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, 2017 to properly reflect GASB Statement No. 75 implementation.

| | <u>Total</u> |
|-------------------------------------|--------------------------|
| Net Position, 09/01/17 | \$ 165,159,346.22 |
| Restatements: | |
| GASB Statement No.75 Implementation | <u>(105,328.00)</u> |
| Net Position, 09/01/17, Restated | <u>\$ 165,054,018.22</u> |

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.

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.

NOTE 16: SUBSEQUENT EVENT

TSU evaluated subsequent events through November 14, 2018, the date the financial statements were available to be issued, and is not aware of any subsequent events that would require recognition or disclosure.

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.

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NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended August 31, 2018

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, 2018.

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.

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.

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NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended August 31, 2018

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

| <u>Donor-Restricted Endowments</u> | <u>Amount of Net Appreciation (Depreciation)</u> | <u>Reported in Net Position</u> |
|--|--|---------------------------------|
| True Endowments | \$ 25,810,525.15 | Restricted for expendable |
| Term Endowments | 6,253,403.53 | Restricted for expendable |
| Total | <u>\$ 32,063,928.68</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.

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.

| <u>Increase/Decrease</u> | <u>Reason For Change</u> |
|--------------------------|----------------------------------|
| \$ 6,068,716.62 | Fair value increase in portfolio |
| \$ 491,466.35 | 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, 2018.

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For the Year Ended August 31, 2018

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, 2018, are detailed as follows:

| Receivables | Balance |
|----------------------|-------------------------|
| Student Accounts | \$ 39,516,208.42 |
| Non-Federal Grants | (58,694.47) |
| Third Party Accounts | 3,154,733.47 |
| Less Allowance | (11,896,642.25) |
| Total | \$ 30,715,605.17 |

| Other Payables | Balance |
|-----------------------------------|-------------------------|
| Escheat payable | \$ 817,991.36 |
| Student refund payable | 79,945.63 |
| Other payables | 1,270,911.50 |
| HBCU Loans Other payables | 7,393,739.97 |
| Bookstore Clearing Other payables | 1,469,630.00 |
| Retainage Other payables | 2,651,247.91 |
| Total | \$ 13,683,466.37 |

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

In fiscal year 2018, TSU reported deferred outflows of resources and deferred inflows of resources in connection with the implementation of GASB 68 related to pension plan and implementation of GASB 75 related to OPEB plan.

| As of August 31, 2017 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Difference between expected and actual | \$ 276,313.00 | \$ 1,019,589.00 |
| Changes of assumptions | 860,293.00 | 511,365.00 |
| Net difference in projected and actual | - | 1,376,380.00 |
| Change in proportion | 851,644.00 | 2,140,986.00 |
| Contributions to measurement date | 8,129,671.72 | - |
| Total | \$ 10,117,921.72 | \$ 5,048,320.00 |

Deferred outflows of resources of \$10,117,921.72 were related to differences and changes in assumptions for pension plan of \$4,077,868.72 and OPEB plan of \$6,040,053.00. Deferred inflows of resources of \$5,048,320.00 were related to differences and changes in assumptions for pension plan of \$5,028,368.00 and OPEB plan \$19,952.00.

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SUPPLEMENTARY INFORMATION

TEXAS SOUTHERN UNIVERSITY

(An Agency of the State of Texas)

SCHEDULE OF OPERATING EXPENSES

For the Month Ended August 31, 2018

| <u>Expenses by Natural Classification</u> | | <u>2018</u> |
|--|-----------|-----------------------|
| Salaries and Wages | \$ | 92,983,608.92 |
| Payroll Related Costs | | 18,159,524.80 |
| Professional Fees and Services | | 9,036,088.46 |
| Travel | | 3,122,437.49 |
| Materials and Supplies | | 9,295,787.83 |
| Communication and Utilities | | 7,107,617.64 |
| Repairs and Maintenance | | 8,806,472.69 |
| Rentals and Leases | | 1,818,688.58 |
| Printing and Reproductions | | 502,595.25 |
| Bad Debt Expense | | 3,046,217.66 |
| Scholarships | | 20,785,451.88 |
| Other Operating Expenses | | 9,650,745.41 |
| Depreciation | | 19,267,981.98 |
| Total Operating Expenses by Natural Class | \$ | 203,583,218.59 |

| <u>Expenses by NACUBO Classification</u> | | <u>2018</u> |
|---|-----------|-----------------------|
| Instruction | \$ | 81,262,156.84 |
| Research | | 3,740,280.32 |
| Public Service | | 1,416,641.43 |
| Academic Support | | 11,592,507.80 |
| Student Services | | 14,384,977.59 |
| Institutional Support | | 24,803,171.50 |
| Operation and Maintenance of Plant | | 15,841,319.31 |
| Scholarships and Fellowships | | 13,201,147.25 |
| Auxiliary | | 18,073,034.57 |
| Depreciation | | 19,267,981.98 |
| Total Operating Expenses by NACUBO Class | \$ | 203,583,218.59 |

TEXAS SOUTHERN UNIVERSITY

(An Agency of the State of Texas)

SCHEDULE 1A - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

August 31, 2018

| Federal Grantor/ Pass-through Grantor/ Program Title | CFDA Number | NSE Name/ Identify | Agy/ Univ No | Pass-through From | | Direct Program Amount | Total PT From and Direct Program Amount |
|---|----------------|--------------------------|--------------------|---|---|-----------------------------|--|
| | | | | Pass-Through From Agencies or Universities Amount | Pass- Through From Non- Entities Amount | | |
| National Aeronautics and Space Administration | | | | | | | |
| <u>Direct Programs:</u> | | | | | | | |
| Science | 43.001 | | | \$ | \$ | \$ | 10,792.74 |
| Education | 43.008 | | | | | | 39,778.09 |
| Totals - National Aeronautics and Space Administration | | | | | | | 50,570.83 |
| National Science Foundation | | | | | | | |
| <u>Direct Programs:</u> | | | | | | | |
| Engineering Grants | 47.041 | | | | | | 2,749.06 |
| Social, Behavioral, and Economic Sciences | 47.075 | | | | | | 6,885.00 |
| Education and Human Resources | 47.076 | | | | | | 1,258,772.18 |
| Education and Human Resources | 47.076 | | | | | | 158,500.00 |
| <i>Pass-Through To:</i> | | | | | | | |
| <i>University of Houston</i> | | | | | | | |
| Education and Human Resources | 47.076 | | | | | | 134,231.77 |
| <i>Pass-Through To:</i> | | | | | | | |
| <i>Texas State University</i> | | | | | | | |
| Education and Human Resources | 47.076 | | | | | | 65,953.00 |
| <i>Pass-Through To:</i> | | | | | | | |
| <i>University of Houston - Clear Lake</i> | | | | | | | |
| Education and Human Resources | 47.076 | | | | | | 58,647.32 |
| <i>Pass-Through To:</i> | | | | | | | |
| <i>University of Houston - Downtown</i> | | | | | | | |
| Totals - National Science Foundation | | | | | | | 1,685,738.33 |
| Nuclear Regulatory Commission | | | | | | | |
| <u>Direct Programs:</u> | | | | | | | |
| U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program | 77.008 | | | | | | 75,901.99 |
| Totals - Nuclear Regulatory Commission | | | | | | | 75,901.99 |
| U.S. Department of Defense | | | | | | | |
| <u>Direct Programs:</u> | | | | | | | |
| Basic Scientific Research | 12.431 | | | | | | 9,235.62 |
| Basic, Applied, and Advanced Research in Science and Engineering | 12.630 | | | | | | 25,358.41 |
| Air Force Defense Research Sciences Program | 12.800 | | | | | | 29,079.74 |
| <u>Pass-Through From:</u> | | | | | | | |
| Basic and Applied Scientific Research | 12.300 | | | | | | 6,000.00 |
| <i>Pass-Through From:</i> | | | | | | | |
| <i>University of Texas at Austin</i> | | | | | | | |
| | | | 721 | 6,000.00 | | | |
| Totals - U.S. Department of Defense | | | | 6,000.00 | | | 69,673.77 |
| U.S. Department of Education | | | | | | | |
| <u>Direct Programs:</u> | | | | | | | |
| Higher Education Institutional Aid | 84.031 | | | | | | 12,995,838.96 |
| Totals - U.S. Department of Education | | | | | | | 12,995,838.96 |

| Agy/ Univ No. | Pass-through To | | Expenditures Amount | Total PT To and Expenditures Amount |
|---------------------|--|---|------------------------|--|
| | Pass-Through To Agencies or Universities Amount | Pass- Through To Non- Entities Amount | | |
| | \$ - | \$ - | \$ 10,792.74 | \$ 10,792.74 |
| | | | 39,778.09 | 39,778.09 |
| | | | 50,570.83 | 50,570.83 |
| | | | 2,749.06 | 2,749.06 |
| | | | 6,885.00 | 6,885.00 |
| | | | 1,258,772.18 | 1,258,772.18 |
| | | | | 158,500.00 |
| 730 | 158,500.00 | | | |
| | | | | 134,231.77 |
| 754 | 134,231.77 | | | |
| | | | | 65,953.00 |
| 759 | 65,953.00 | | | |
| | | | | 58,647.32 |
| 784 | 58,647.32 | | | |
| | 417,332.09 | | 1,268,406.24 | 1,685,738.33 |
| | | | 25,901.99 | 75,901.99 |
| | | | 75,901.99 | 75,901.99 |
| | | | 9,235.62 | 9,235.62 |
| | | | 25,358.41 | 25,358.41 |
| | | | 29,079.74 | 29,079.74 |
| | | | 6,000.00 | 6,000.00 |
| | | | 69,673.77 | 69,673.77 |
| | | | 12,995,838.96 | 12,995,838.96 |
| | | | 12,995,838.96 | 12,995,838.96 |

TEXAS SOUTHERN UNIVERSITY

(An Agency of the State of Texas)

SCHEDULE 1A - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

August 31, 2018

| Federal Grantor/ Pass-through Grantor/ Program Title | CFDA Number | NSE Name/ Identify | Agy/ Univ No | Pass-through From | | Direct Program Amount | Total PT From and Direct Program Amount |
|---|----------------|--------------------------|--------------------|---|---|-----------------------------|--|
| | | | | Pass-Through From Agencies or Universities Amount | Pass- Through From Non- Entities Amount | | |
| U.S. Department of Energy | | | | | | | |
| <u>Direct Programs:</u> | | | | | | | |
| Minority Economic Impact | 81.137 | | | \$ - | \$ - | \$ 65,963.47 | \$ 65,963.47 |
| Totals - U.S. Department of Energy | | | | | | 65,963.47 | 65,963.47 |
| U.S. Department of Health and Human Services | | | | | | | |
| <u>Direct Programs:</u> | | | | | | | |
| Maternal and Child Health Federal Consolidated Programs | 93.110 | | | | | 58,318.75 | 58,318.75 |
| NIHHS Hazardous Waste Worker Health and Safety Training | 93.142 | | | | | 834,249.63 | 834,249.63 |
| Substance Abuse and Mental Health Services Projects of Regional and National Significance | 93.243 | | | | | 50,583.27 | 50,583.27 |
| Minority Health and Health Disparities Research | 93.307 | | | | | 1,098,019.40 | 1,098,019.40 |
| Cancer Biology Research | 93.396 | | | | | 211,869.59 | 211,869.59 |
| Cancer Biology Research | 93.396 | | | | | 6,546.51 | 6,546.51 |
| <i>Pass-Through To:</i> | | | | | | | |
| <i>University of Texas M.D. Anderson Cancer Center</i> | | | | | | | |
| Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations | 93.779 | | | | | 10,955.83 | 10,955.83 |
| Biomedical Research and Research Training | 93.859 | | | | | 131,537.97 | 131,537.97 |
| Totals - U.S. Department of Health and Human Services | | | | | | 2,402,080.95 | 2,402,080.95 |
| U.S. Department of Homeland Security | | | | | | | |
| <u>Direct Programs:</u> | | | | | | | |
| Scientific Leadership Awards | 97.062 | | | | | 138,899.18 | 138,899.18 |
| Totals - U.S. Department of Homeland Security | | | | | | 138,899.18 | 138,899.18 |
| U.S. Department of Transportation | | | | | | | |
| <u>Direct Programs:</u> | | | | | | | |
| Highway Research and Development Program | 20.280 | | | | | 13,554.83 | 13,554.83 |
| Highway Training and Education | 20.215 | | | | | 30,500.00 | 30,500.00 |
| University Transportation Centers Program | 20.701 | | | | | 106,750.61 | 106,750.61 |
| <u>Pass-Through From:</u> | | | | | | | |
| University Transportation Centers Program | 20.701 | | | | | | 292,948.72 |
| <i>Pass-Through From:</i> | | | | | | | |
| <i>University of Texas at Austin</i> | | | | | | | |
| | | | 721 | 292,948.72 | | | |
| Totals - U.S. Department of Transportation | | | | 292,948.72 | | 150,805.44 | 443,754.16 |
| Highway Planning and Construction Cluster | | | | | | | |
| U.S. Department of Transportation | | | | | | | |
| <u>Pass-Through From:</u> | | | | | | | |
| Highway Planning and Construction | 20.205 | | | | | | 65,461.47 |
| <i>Pass-Through From:</i> | | | | | | | |
| <i>Texas Department of Transportation</i> | | | | | | | |
| | | | 601 | 65,461.47 | | | |
| Totals - U.S. Department of Transportation | | | | 65,461.47 | | | 65,461.47 |
| Student Financial Assistance Cluster | | | | | | | |

| Agy/ Unit No. | Pass-through To | | Expenditures Amount | Total PT To and Expenditures Amount |
|---------------------|--|---|------------------------|--|
| | Pass-Through To Agencies or Universities Amount | Pass- Through To Non- Entities Amount | | |
| | \$ | \$ | \$ 65,963.47 | \$ 65,963.47 |
| | | | 65,963.47 | 65,963.47 |
| | | | 58,318.75 | 58,318.75 |
| | | | 834,249.63 | 834,249.63 |
| | | | 50,583.27 | 50,583.27 |
| | | | 1,098,019.40 | 1,098,019.40 |
| | | | 211,869.59 | 211,869.59 |
| | | | | 6,546.51 |
| 506 | 6,546.51 | | | |
| | | | 10,955.83 | 10,955.83 |
| | | | 131,537.97 | 131,537.97 |
| | 6,546.51 | | 2,395,534.44 | 2,402,080.95 |
| | | | 138,899.18 | 138,899.18 |
| | | | 138,899.18 | 138,899.18 |
| | | | 13,554.83 | 13,554.83 |
| | | | 30,500.00 | 30,500.00 |
| | | | 106,750.61 | 106,750.61 |
| | | | 292,948.72 | 292,948.72 |
| | | | 443,754.16 | 443,754.16 |
| | | | 65,461.47 | 65,461.47 |
| | | | 65,461.47 | 65,461.47 |

TEXAS SOUTHERN UNIVERSITY

(An Agency of the State of Texas)

SCHEDULE IA - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

August 31, 2018

| Federal Grantor/ Pass-through Grantor/ Program Title | CFDA Number | NSE Name/ Identify | Agy/ Univ No | Pass-through From | | Direct Program Amount | Total PT From and Direct Program Amount |
|---|----------------|--------------------------|--------------------|---|---|-----------------------------|--|
| | | | | Pass-Through From Agencies or Universities Amount | Pass- Through From Non- Entities Amount | | |
| U.S. Department of Education | | | | | | | |
| <u>Direct Programs:</u> | | | | | | | |
| Federal Supplemental Educational Opportunity Grants | 84.007 | | | \$ - | \$ - | \$ 722,145.72 | \$ 722,145.72 |
| Federal Work-Study Program | 84.033 | | | | | 687,090.79 | 687,090.79 |
| Federal Pell Grant Program | 84.063 | | | | | 24,529,315.67 | 24,529,315.67 |
| Federal Direct Student Loans | 84.268 | | | | | 108,291,030.00 | 108,291,030.00 |
| Teacher Education Assistance for College and Higher Education Grants (TEACH Grants) | 84.379 | | | | | 96,763.00 | 96,763.00 |
| Totals - U.S. Department of Education | | | | | | 134,326,345.18 | 134,326,345.18 |
| <u>TANF Cluster</u> | | | | | | | |
| U.S. Department of Health and Human Services | | | | | | | |
| <u>Direct Programs:</u> | | | | | | | |
| Temporary Assistance for Needy Families | 93.558 | | | | | -56,185.69 | -56,185.69 |
| Totals - U.S. Department of Health and Human Services | | | | | | -56,185.69 | -56,185.69 |
| <u>TRIO Cluster</u> | | | | | | | |
| U.S. Department of Education | | | | | | | |
| <u>Direct Programs:</u> | | | | | | | |
| TRIO Student Support Services | 84.042 | | | | | 263,434.25 | 263,434.25 |
| TRIO Talent Search | 84.044 | | | | | 457,845.17 | 457,845.17 |
| TRIO Upward Bound | 84.047 | | | | | 665,902.06 | 665,902.06 |
| TRIO Educational Opportunity Centers | 84.066 | | | | | 358,262.85 | 358,262.85 |
| Totals - U.S. Department of Education | | | | | | 1,745,444.33 | 1,745,444.33 |
| Total Expenditures of Federal Awards | | | | \$ 364,410.19 | \$ - | \$ 153,645,076.74 | \$ 154,009,486.93 |

| Agy/ Univ No. | Pass-through To | | Expenditures Amount | Total PT To and Expenditures Amount |
|---------------------|--|---|------------------------|--|
| | Pass-Through To Agencies or Universities Amount | Pass- Through To Non- Entities Amount | | |
| | \$ - | \$ - | \$ 722,145.72 | \$ 722,145.72 |
| | | | 687,090.79 | 687,090.79 |
| | | | 24,529,315.67 | 24,529,315.67 |
| | | | 108,291,030.00 | 108,291,030.00 |
| | | | 96,763.00 | 96,763.00 |
| | | | 134,326,345.18 | 134,326,345.18 |
| | | | -56,185.69 | -56,185.69 |
| | | | -56,185.69 | -56,185.69 |
| | | | 263,434.25 | 263,434.25 |
| | | | 457,845.17 | 457,845.17 |
| | | | 665,902.06 | 665,902.06 |
| | | | 358,262.85 | 358,262.85 |
| | | | 1,745,444.33 | 1,745,444.33 |
| \$ | 423,878.60 | \$ - | \$ 153,583,608.33 | \$ 154,009,486.93 |

SEFA Note 2 Reconciliation

Note 2 Amount

| | |
|---|--------------------------|
| Federal revenue-Operating | \$ 20,005,822.35 |
| Federal revenue-Non-operating | 25,348,224.39 |
| Federal pass-through revenue | 364,410.19 |
| Federal direct student loans | 108,291,030.00 |
| Total Pass-Through and Expenditures per Federal Schedule | \$ 154,009,486.93 |

TEXAS SOUTHERN UNIVERSITY

(An Agency of the State of Texas)

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

For the Year Ended August 31, 2018

Pass Through From:

| | <u>2018</u> |
|--|-------------------------------|
| University of Texas System (Agency# 720.0002) | \$ 11,810.17 |
| Texas Higher Education Coordinating Board (Agency# 781.0008) | 8,078,053.00 |
| Texas Higher Education Coordinating Board (Agency# 781.0020) | (1,647.14) |
| Texas Higher Education Coordinating Board (Agency# 781.0023) | 65,570.52 |
| Texas Higher Education Coordinating Board (Agency# 781.0029) | 61,472.00 |
| Texas Higher Education Coordinating Board (Agency# 781.0075) | 2,126.46 |
| Total Pass Through From Other Agencies | <u>\$ 8,217,385.01</u> |

TEXAS SOUTHERN UNIVERSITY
 (An Agency of the State of Texas)
SCHEDULE 2A - MISCELLANEOUS BOND INFORMATION
 For the Year Ended August 31, 2018

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 |
| Series 2016 | 2.00-3.00% | 2016 | 2036 | 5/1/2026 | 55,490,000.00 |
| Total Revenue Bonded Debt | | | | | <u>\$ 149,345,000.00</u> |

TEXAS SOUTHERN UNIVERSITY

(An Agency of the State of Texas)

SCHEDULE 2B - CHANGES IN BOND INDEBTEDNESS

For the Year Ended August 31, 2018

| Description | Bonds Outstanding 09/01/2017 | Bonds Issued | Bonds Matured or Retired | Bonds Refunded or Extinguished | Par Value Adjustments | Bonds Outstanding 8/31/2018 | Unamortized Premium | Unamortized Discount | Adjustments | Net Bonds Outstanding 8/31/2018 | Amounts Due Within One Year | Bonds Outstanding 8/31/2018 |
|---|---------------------------------|--------------|-----------------------------|-----------------------------------|--------------------------|--------------------------------|------------------------|-------------------------|-------------|---------------------------------------|--------------------------------|--------------------------------|
| Revenue Bonds- Self Supporting | | | | | | | | | | | | |
| Series 2011 | \$ 23,025,000.00 | \$ - | \$ 1,230,000.00 | \$ - | \$ - | \$ 21,795,000.00 | \$ - | \$ (140,032.83) | \$ - | \$ 21,654,967.17 | \$ 1,287,823.22 | \$ 21,795,000.00 |
| Series 2013 | 33,690,000.00 | - | 6,615,000.00 | - | - | 27,075,000.00 | 2,182,096.90 | - | - | 29,257,096.90 | 6,001,344.05 | 27,075,000.00 |
| Series 2016 | 52,890,000.00 | - | 1,815,000.00 | - | - | 51,075,000.00 | 5,454,382.50 | - | - | 56,529,382.50 | 2,193,021.25 | 51,075,000.00 |
| Total General Bonded Debt | \$ 109,605,000.00 | \$ - | \$ 9,660,000.00 | \$ - | \$ - | \$ 99,945,000.00 | \$ 7,636,479.40 | \$ (140,032.83) | \$ - | \$ 107,441,446.57 | \$ 9,482,188.52 | \$ 99,945,000.00 |

TEXAS SOUTHERN UNIVERSITY

(An Agency of the State of Texas)

SCHEDULE 2C - DEBT SERVICE REQUIREMENTS

For the Year Ended August 31, 2018

| Year Ending Aug. 31 | Series 2011 Revenue Bonds | | | Series 2013 Revenue Bonds Refunding | | |
|------------------------|---------------------------|-------------------------|-------------------------|-------------------------------------|------------------------|-------------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2019 | \$ 1,300,000.00 | \$ 1,378,762.50 | \$ 2,678,762.50 | \$ 5,395,000.00 | \$ 1,181,225.00 | \$ 6,576,225.00 |
| 2020 | 1,365,000.00 | 1,310,512.50 | 2,675,512.50 | 5,675,000.00 | 904,475.00 | 6,579,475.00 |
| 2021 | 1,440,000.00 | 1,237,143.76 | 2,677,143.76 | 5,965,000.00 | 613,475.00 | 6,578,475.00 |
| 2022 | 1,520,000.00 | 1,156,143.76 | 2,676,143.76 | 6,275,000.00 | 307,475.00 | 6,582,475.00 |
| 2023 | 1,610,000.00 | 1,068,743.76 | 2,678,743.76 | 2,905,000.00 | 92,500.00 | 2,997,500.00 |
| 2024-2028 | 9,705,000.00 | 3,676,868.76 | 13,381,868.76 | 860,000.00 | 17,200.00 | 877,200.00 |
| 2029-2033 | 4,855,000.00 | 496,800.00 | 5,351,800.00 | - | - | - |
| 2034-2038 | - | - | - | - | - | - |
| Total | \$ 21,795,000.00 | \$ 10,324,975.04 | \$ 32,119,975.04 | \$ 27,075,000.00 | \$ 3,116,350.00 | \$ 30,191,350.00 |

| Year Ending Aug. 31 | Series 2016 Revenue Bonds | | |
|------------------------|---------------------------|-------------------------|-------------------------|
| | Principal | Interest | Total |
| 2019 | \$ 1,890,000.00 | \$ 2,124,600.00 | \$ 4,014,600.00 |
| 2020 | 1,965,000.00 | 2,049,000.00 | 4,014,000.00 |
| 2021 | 2,045,000.00 | 1,970,400.00 | 4,015,400.00 |
| 2022 | 2,145,000.00 | 1,868,150.00 | 4,013,150.00 |
| 2023 | 2,255,000.00 | 1,760,900.00 | 4,015,900.00 |
| 2024-2028 | 13,070,000.00 | 6,997,500.00 | 20,067,500.00 |
| 2029-2033 | 16,350,000.00 | 3,716,250.00 | 20,066,250.00 |
| 2034-2038 | 11,355,000.00 | 687,900.00 | 12,042,900.00 |
| Total | \$ 51,075,000.00 | \$ 21,174,700.00 | \$ 72,249,700.00 |

| Year Ending Aug. 31 | Financing Note Series 2011-4 | | | Financing Note Series 2012-10 | | |
|------------------------|------------------------------|-------------------------|-------------------------|-------------------------------|------------------------|-------------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 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 | 2,593,126.38 | 972,731.58 | 3,565,857.96 | 2,639,111.42 | 881,872.60 | 3,520,984.02 |
| 2023 | 2,653,825.95 | 912,032.01 | 3,565,857.96 | 2,699,279.67 | 821,704.35 | 3,520,984.02 |
| 2024-2028 | 14,216,972.70 | 3,612,317.10 | 17,829,289.80 | 14,436,965.71 | 3,167,954.39 | 17,604,920.10 |
| 2029-2033 | 15,972,011.57 | 1,857,278.23 | 17,829,289.80 | 16,173,967.03 | 1,430,953.07 | 17,604,920.10 |
| 2034-2038 | 6,928,174.19 | 203,541.48 | 7,131,715.67 | 3,461,579.92 | 59,403.51 | 3,520,983.43 |
| Total | \$ 49,775,121.36 | \$ 10,844,463.71 | \$ 60,619,585.07 | \$ 46,964,236.08 | \$ 9,371,507.65 | \$ 56,335,743.73 |

TEXAS SOUTHERN UNIVERSITY

(An Agency of the State of Texas)

SCHEDULE 2D - ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE

For the Year Ended August 31, 2018

| <u>Business-Type Activities</u> | Pledged and Other Sources and Related Expenditures for FY 2018 | | | |
|---------------------------------|--|---|-----------------|-----------------|
| | Net Available for Debt Service | | Debt Service | |
| | Total Pledged and Other Sources | Operating Expenses/ Expenditures and Capital Outlay | Principal | Interest |
| Revenue Bonds | | | | |
| BOND SERIES | | | | |
| TRB 2011, 2013, 2016 | \$ 109,239,832.55 | \$ 41,590,807.91 | \$ 9,660,000.00 | \$ 5,125,087.50 |
| Total | \$ 109,239,832.55 | \$ 41,590,807.91 | \$ 9,660,000.00 | \$ 5,125,087.50 |

TEXAS SOUTHERN UNIVERSITY

(An Agency of the State of Texas)

Required Supplementary Information

For the Last Four Measurement Years Ended August 31 *

Schedule of Proportionate Share of Net Pension Liability* Teacher Retirement System of Texas

| | 2017 | 2016 | 2015 | 2014 |
|---|---------------|---------------|---------------|---------------|
| TSU's proportion of the net pension liability (asset) | 0.0591% | 0.0562% | 0.0572% | 0.0677% |
| TSU's proportionate share of the net pension liability (asset) | \$ 18,886,127 | \$ 21,231,694 | \$ 20,380,538 | \$ 18,085,720 |
| TSU's covered payroll | \$ 21,229,587 | \$ 21,992,327 | \$ 22,004,400 | \$ 24,812,792 |
| TSU's proportionate share of the net pension liability (asset) as a percentage of its covered payroll | 88.96% | 100.01% | 91.94% | 72.89% |
| Plan fiduciary net position as a percentage of the total pension liability | 82.17% | 78.00% | 78.43% | 83.25% |

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

TEXAS SOUTHERN UNIVERSITY

(An Agency of the State of Texas)

Required Supplementary Information

For the Last Five Fiscal Years Ended August 31 *

Schedule of Employer Contributions*
Teacher Retirement System of Texas

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|---------------|---------------|---------------|---------------|---------------|
| Statutorily required contributions | \$ 2,089,619 | \$ 1,251,453 | \$ 1,174,302 | \$ 1,694,645 | \$ 2,151,269 |
| Contributions in relation to the statutorily required contributions | 2,089,619 | 1,251,453 | 1,174,302 | 1,694,645 | 1,702,626 |
| Contribution deficiency (excess) | - | - | - | - | 448,643 |
| Covered payroll | \$ 48,780,116 | \$ 21,229,587 | \$ 21,992,327 | \$ 22,004,400 | \$ 24,812,792 |
| Contribution as a percentage of covered-employee payroll | 4.28% | 5.89% | 5.34% | 7.70% | 6.86% |

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

TEXAS SOUTHERN UNIVERSITY

(An Agency of the State of Texas)

Required Supplementary Information

For the Last Measurement Year Ended August 31, 2018

Schedule of Proportionate Share of Net OPEB Liability* Employees Retirement System of Texas Plan

| | <u>2017</u> |
|---|--------------|
| TSU's proportion of the net OPEB liability (asset) | 0.00026482% |
| TSU's proportionate share of the net OPEB liability (asset) | \$ 90,232 |
| TSU's covered-employee payroll | \$ 6,040,027 |
| TSU's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll | 1.49% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 2.04% |

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

TEXAS SOUTHERN UNIVERSITY

(An Agency of the State of Texas)

Required Supplementary Information

For the Last Fiscal Year Ended August 31, 2018

Schedule of Employer Contributions*
Employees Retirement System of Texas

| | <u>2018</u> |
|--|--------------|
| Statutorily required contributions | \$ 6,040,027 |
| Contributions in relation to the statutorily required contributions | 6,040,027 |
| Contribution deficiency (excess) | - |
| Covered payroll | \$ 6,040,027 |
| Contribution as a percentage of covered-employee payroll | 100.00% |

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

