



ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

AUGUST 31, 2016

TEXAS  STATE[®]
UNIVERSITY

The rising STAR of Texas

MEMBER THE TEXAS STATE UNIVERSITY SYSTEM

Texas State University, to the extent not in conflict with federal or state law, prohibits discrimination or harassment on the basis of race, color, national origin, age, sex, religion, disability, veterans' status, sexual orientation, gender identity or expression.

Annual Financial Report

for the fiscal year ended August 31, 2016

for

Texas State University



Dr. Denise M. Trauth

Message from the President

I am pleased to offer you our Annual Financial Report, which demonstrates the financial strength and fiscal responsibility of Texas State University.

There were several milestones that Texas State achieved over the past fiscal year, and we expect the momentum from them to

carry over in this academic year. These achievements reflect an institution rich in diversity with strong academic programs, world-class research, and a culture of excellence.

Our distinguished faculty and dedicated staff make Texas State one of the top public universities in Texas, and our 33,849 students make us one of the largest in the nation. We are proud of what we have to offer. Our faculty take the responsibility of nurturing individuals and cultivating character seriously. We value honesty, integrity, diligence, courage, compassion, fairness, and respect. Our extensive list of distinguished alumni, such as President Lyndon B. Johnson, stands as testimony to the university's proud legacy, and the list of over 170,000 living alumni continues to grow with each passing year.

In fact, we produced roughly 7,500 graduates in FY 2016, and those graduates have gone into the world

with the added good fortune of having been a part of a university with a rising research profile. One of the most important things that happened in 2016 was the university's reclassification as an "R2: Doctoral University – Higher Research Activity" under the Carnegie Classification of Institutions of Higher Education, the gold standard for describing and categorizing higher education in the United States. This new designation not only reflects growth in our Ph.D. programs, but in our funded research, which grew from \$9.8 million in 2005 to nearly \$48 million in 10 years.

It isn't a coincidence that our research activities have increased substantially, that philanthropic giving is up significantly, that enrollment continues to climb, that we are adding degree programs in high-demand disciplines, and that Texas State continues to be recognized for our accomplishments. Rather, we are reaping what we have sown through a very deliberative planning process and a lot of hard work from every corner of the university.

I am proud of our resources and world-class academic community, and I am certain you will be, too.

Sincerely,
Denise M. Trauth
President



Mr. Eric Alçoe

From the Vice President for Finance and Support Services

Financial Strength

Texas State University continues to flourish on many fronts. Even a cursory review of this Annual Financial Report demonstrates as much: the University's Net Position improved by more than \$34 million for the fiscal year,

closing at \$1.22 billion; the University placed more than \$40 million of new capital assets into service; and the University's endowment surpassed \$150 million. However, the true measure of a university's strength comes from the measure of the knowledge we create and impart, the stature of our academic programs, and our people.

Growth in Diversity, Enrollment, Research, and Quality

Students want to be at Texas State. This is evidenced by the impressive trend of student enrollment growth now spanning 19 consecutive years, with 38,849 students for the fall 2016 semester, ranking us as among the largest universities in the country. Applications and student visits are up once again looking into 2017.

Texas State's student body mirrors that of the state of Texas itself: with an incredibly wide variety of backgrounds, they come from across the state, every state in the country, and dozens of countries around the world. Speaking of diversity, Texas State University crossed an historic milestone this year by becoming a minority-majority institution. Students who identify their race or ethnicity as other than Caucasian now make up more than 50 percent of our student body. While the size and diversity of our student body soars, the measure of our academic strength also continues to improve with very strong retention and graduation rates and some of the best and brightest students in the country applying to be Bobcats each year.

The Facilities of Yesterday, Today and Tomorrow

From the first building at Texas State, our beloved Old Main, to the cutting-edge laboratories, collaboration spaces, and innovation zones that we are designing and building today, our facilities make a statement about who we are as a university and who we intend to be in the future. We continue to invest heavily in our classroom and research facilities. STAR Park, our center for fostering and commercializing innovation, recently completed an expansion that made it over two and one-half times its original size when it opened in November of 2012.

We are excited to be under construction with Bruce and Gloria Ingram Hall, our new engineering and science building on the San Marcos campus and a new health professions building at our Round Rock Campus. These buildings will launch high-priority academic programs, such as civil and environmental engineering, and will allow the physical therapy, respiratory care, and communication disorders programs to relocate from San Marcos to our Round Rock Campus, where they can expand enrollment by 35 percent. Additionally, we are under construction with a new Archives and Research Center at STAR Park, and will break ground on significant expansions to our student center and library in the coming fiscal year.

The renewal and rebuilding of our housing facilities also continues with beautiful new residential complexes opening over the past six years with plans to continue an aggressive renovation and new construction schedule in the coming years.

In short, Texas State University is financially sound, growing in size and quality, and continues to move toward National Research University status through tangible and meaningful strategic planning.

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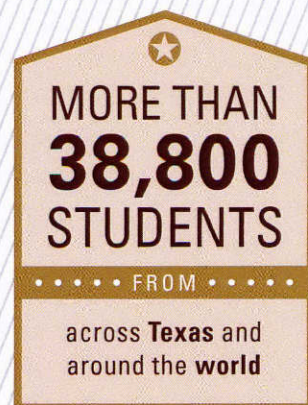
About Texas State University

Texas State University is an Emerging Research and Hispanic-Serving University located in the burgeoning Austin-San Antonio corridor. Serving student needs in both San Marcos and Round Rock, it is the largest university in The Texas State University System and among the largest in the state. Texas State's more than 38,800 students choose from 98 undergraduate, 90 master's, and 12 doctoral programs offered by 10 colleges (Applied Arts, The Emmett and Miriam McCoy College of Business Administration, Education, Fine Arts and Communication, Health Professions, Honors, Liberal Arts, Science and Engineering, The Graduate College, and the University College). With a diverse campus community, Texas State is one of the top 14 producers of Hispanic baccalaureate graduates in the nation. Research and creative activities have led to growing success in attracting external support.

Texas State University is accredited by the Commission on Colleges (COC) of the Southern Association of Colleges and Schools (SACS), the regional accrediting organization for 11 states in the southeastern United States, including Texas.



| | |
|----|-------------------|
| 98 | undergraduate |
| 90 | master's |
| 12 | doctoral programs |



16 MEN'S AND WOMEN'S TEAMS
COMPETE AT THE
NCAA DIVISION I LEVEL

174,352 ALUMNI

24 CAMPUS RESIDENCE HALLS
AND APARTMENTS



Our Mission

Texas State University is a public, student-centered Emerging Research University dedicated to excellence in serving the educational needs of the diverse population of Texas and the world beyond.

Our Shared Values

In pursuing our mission, the faculty, staff, and students of Texas State University are guided by a shared collection of values:

- an exceptional undergraduate experience as the heart of what we do
- graduate education as a means of intellectual growth and professional development
- a diversity of people and ideas, a spirit of inclusiveness, a global perspective, and a sense of community as essential conditions for campus life
- the cultivation of character and the modeling of honesty, integrity, compassion, fairness, respect, and ethical behavior, both in the classroom and beyond
- engaged teaching and learning based in dialogue, student involvement, and the free exchange of ideas
- research, scholarship, and creative activity as fundamental sources of new knowledge and as expressions of the human spirit
- a commitment to public service as a resource for personal, educational, cultural, and economic development
- thoughtful reflection, collaboration, planning, and evaluation as essential for meeting the changing needs of those we serve

exceptional
undergraduate
experience

Organizational Data

The Texas State University System Board of Regents

| <u>Name</u> | <u>Member's City (Texas)</u> |
|---------------------------------|------------------------------|
| Dr. Jaime R. Garza, Chairman | San Antonio |
| Rossanna Salazar, Vice Chairman | Austin |
| Charlie Amato | San Antonio |
| Veronica Muzquiz Edwards | San Antonio |
| David Montagne | Beaumont |
| Vernon Reaser III | Bellaire |
| William F. Scott | Nederland |
| Alan L. Tinsley | Madisonville |
| Donna N. Williams | Arlington |
| Dylan McFarland, Student Regent | Huntsville |
| Dr. Brian McCall, Chancellor | |

The Texas State University System - Senior Administrative Official

Dr. Roland Smith Vice Chancellor for Finance

University Administration - Key Officers

| | |
|-------------------------|---|
| Dr. Denise M. Trauth | President |
| Dr. Eugene J. Bourgeois | Provost and Vice President for Academic Affairs |
| Mr. Eric Algoe | Vice President for Finance and Support Services |
| Dr. Barbara Breier | Vice President for University Advancement |
| Mr. Ken Pierce | Vice President for Information Technology |
| Dr. Joanne Smith | Vice President for Student Affairs |
| Dr. Larry Teis | Director, Department of Athletics |
| Dr. Vicki Brittain | Special Assistant to the President |
| Dr. Lisa Kay Lloyd | Presidential Fellow |
| Mr. Darryl J. Borgonah | Associate Vice President for Financial Services |

Enrollment Data

Number of Students by Semester

| Type of Student | Fall 2015 | Spring 2016 | Summer 2016 |
|--|---------------|---------------|---------------|
| Texas Residents | 36,409 | 33,858 | 12,700 |
| Out of State (Classified as Residents) | 670 | 527 | 151 |
| Out of State | 363 | 332 | 135 |
| Foreign | 537 | 517 | 191 |
| Totals | 37,979 | 35,234 | 13,177 |

Exemptions and Waivers by Semester

| Program | Fall 2015 | Spring 2016 | Summer 2016 |
|--|-----------|-------------|-------------|
| Children of Disabled Firemen or Peace Officers | 9 | 9 | 1 |
| Children of Deceased Public Servants | 2 | 1 | 0 |
| Peace Officer | 2 | 5 | 1 |
| Foster Children of the State | 31 | 37 | 17 |
| Good Neighbor | 5 | 4 | 2 |
| Hazlewood | 449 | 457 | 257 |
| Hazlewood Legacy | 1,572 | 1,419 | 591 |
| Senior Citizens | 2 | 1 | 3 |
| Commission for the Blind/Deaf | 76 | 66 | 25 |
| Fireman Exempt | 2 | 1 | 0 |
| Thesis Only | 3 | 3 | 6 |
| Faculty/Staff | 269 | 247 | 42 |
| Teaching Assistants | 831 | 461 | 0 |
| Competitive Scholarships | 280 | 279 | 94 |
| Military Personnel and Dependents | 44 | 46 | 27 |
| Louisiana Adjacent County | 1 | 1 | 1 |
| Mexico Pilot | 3 | 4 | 3 |
| National Student Exchange Program | 19 | 10 | 0 |
| Reciprocal Exchange International | 14 | 16 | 0 |
| New Mexico Adjacent County | 4 | 3 | 1 |
| Texas Tomorrow Waiver | 9 | 7 | 2 |
| Adopted Students | 75 | 68 | 20 |
| Family & Consumer Science Alliance Agreement | 2 | 0 | 0 |
| Clinical Preceptor Exempt | 3 | 4 | 0 |
| Economic Development | 3 | 3 | 0 |
| Valedictorian | 5 | 4 | 0 |
| Academic Common Market | 2 | 2 | 1 |

Enrollment Data (Fall Semester)

| Fiscal Year | Students | Semester Hours |
|-------------|----------|----------------|
| 2016 | 37,979 | 456,771 |
| 2015 | 36,739 | 440,711 |
| 2014 | 35,546 | 429,091 |
| 2013 | 34,225 | 409,072 |
| 2012 | 34,087 | 403,195 |

Texas State Campus Continues to Transform

New Residence Hall Complex Opens

Our newest residence hall complex, Angelina Hall and San Gabriel Hall, opened in fall 2016. Renovated from the former Moore Street residence halls, the two new halls are connected by a common building, which includes a conference/multipurpose room, study lounge, courtyards, and classrooms.

Renovated Jones Dining Center Offers New Options

The Jones Dining Center reopened in fall 2016 with new dining options, an outdoor terrace, a faculty and staff room, and reserved space for special events. Originally built in the 1960s, Jones has been thoroughly reinvented as a more accessible and inviting dining experience.

Bobcat Trail Adds Outdoor Space to Campus

Bobcat Trail opened after an extensive redevelopment. This project converted a street into a landscaped pedestrian mall featuring native trees, shrubbery, paving stone pathways, and a fountain. The redesigned space is part of an effort to make the Texas State campus more pedestrian-friendly and gives students an outdoor space to mingle and study.



Angelina Hall and San Gabriel Hall



Jones Dining Center



Bobcat Trail

Statement of Net Position

Assets and Deferred Outflows

2016

2015

Current Assets:

Unrestricted Cash and Cash Equivalents:

| | | |
|---|----------------|----------------|
| Cash on Hand | \$ 90,416.71 | \$ 98,042.72 |
| Cash in Bank (Note 3) | 20,977,882.08 | 22,444,394.40 |
| Cash in Transit/Reimbursement from Treasury | (543,965.92) | (712,961.79) |
| Cash in State Treasury | 24,489,262.92 | 28,682,065.75 |
| Cash Equivalents (Note 3) | 223,535,240.66 | 181,481,184.52 |

Restricted Cash and Cash Equivalents:

| | | |
|---------------------------|---------------|---------------|
| Cash in Bank (Note 3) | 10,129.98 | 51,621,889.75 |
| Cash Equivalents (Note 3) | 21,288,432.44 | 10,478,004.93 |

| | | |
|----------------------------|---------------|---------------|
| Legislative Appropriations | 34,848,692.87 | 32,821,240.27 |
|----------------------------|---------------|---------------|

Net Receivables:

| | | |
|-----------------------------|---------------|---------------|
| Federal Receivables | 6,081,792.46 | 3,913,306.17 |
| Interest and Dividends | 110,340.59 | 50,113.14 |
| Accounts Receivable | 43,883,263.95 | 38,712,432.42 |
| Gifts Receivables - Pledges | 5,058,533.26 | 4,300,935.25 |
| Investment Trades | 2,909,916.77 | 1,648,038.57 |
| Other | 7,548,367.78 | 9,024,392.04 |

| | | |
|----------------------------------|--------------|--------------|
| Due From Other Agencies (Note 7) | 2,564,709.79 | 3,926,561.10 |
|----------------------------------|--------------|--------------|

| | | |
|------------------------|------------|------------|
| Consumable Inventories | 816,829.23 | 671,891.96 |
|------------------------|------------|------------|

| | | |
|-------------------------|--------------|--------------|
| Merchandise Inventories | 3,507,500.48 | 2,139,336.40 |
|-------------------------|--------------|--------------|

| | | |
|---------------|---------------|---------------|
| Prepaid Items | 34,742,036.95 | 34,534,769.92 |
|---------------|---------------|---------------|

| | | |
|---------------------|--------------|--------------|
| Loans and Contracts | 2,785,553.26 | 4,422,038.47 |
|---------------------|--------------|--------------|

| | | |
|----------------------|--------------------------|--------------------------|
| Total Current Assets | <u>\$ 434,704,936.26</u> | <u>\$ 430,257,675.99</u> |
|----------------------|--------------------------|--------------------------|

Non-Current Assets:

Restricted:

| | | |
|-----------------------------|---------------|-----------------|
| Gifts Receivables - Pledges | \$ 831,559.97 | \$ 4,156,977.62 |
|-----------------------------|---------------|-----------------|

| | | |
|----------------------|---------------|---------------|
| Investments (Note 3) | 33,230,885.26 | 33,475,108.09 |
|----------------------|---------------|---------------|

| | | |
|---------------------|------------|---|
| Loans and Contracts | 536,515.32 | - |
|---------------------|------------|---|

| | | |
|----------------------|----------------|----------------|
| Investments (Note 3) | 152,707,660.34 | 150,506,173.19 |
|----------------------|----------------|----------------|

| | | |
|-------------|--------------|---|
| Receivables | 1,251,000.00 | - |
|-------------|--------------|---|

| | | |
|--|---------------|----------------|
| Capital Assets, Non-Depreciable (Note 2) | 94,227,232.65 | 104,650,094.12 |
|--|---------------|----------------|

| | | |
|--|----------------|----------------|
| Capital Assets, Net of Accumulated Depreciation (Note 2) | 769,242,393.21 | 715,987,785.94 |
|--|----------------|----------------|

| | | |
|---|--------------|--------------|
| Intangible Assets, Net of Accumulated Amortization (Note 2) | 3,135,665.37 | 6,200,422.18 |
|---|--------------|--------------|

| | | |
|--------------------------|----------------------------|----------------------------|
| Total Non-Current Assets | <u>\$ 1,055,162,912.12</u> | <u>\$ 1,014,976,561.14</u> |
|--------------------------|----------------------------|----------------------------|

| | | |
|--------------|----------------------------|----------------------------|
| Total Assets | <u>\$ 1,489,867,848.38</u> | <u>\$ 1,445,234,237.13</u> |
|--------------|----------------------------|----------------------------|

Deferred Outflows:

| | | |
|-------------------------|------|------|
| Total Deferred Outflows | \$ - | \$ - |
|-------------------------|------|------|

| | | |
|------------------------------------|----------------------------|----------------------------|
| Total Assets and Deferred Outflows | <u>\$ 1,489,867,848.38</u> | <u>\$ 1,445,234,237.13</u> |
|------------------------------------|----------------------------|----------------------------|

| Liabilities and Deferred Inflows | 2016 | 2015 |
|---|----------------------------|----------------------------|
| Current Liabilities: | | |
| Accounts Payable | \$ 34,153,095.79 | \$ 31,821,348.08 |
| Investment Trades | 1,307,609.90 | 1,463,632.77 |
| Accrued Payroll | 14,621,343.98 | 13,606,791.49 |
| Unearned Revenues | 200,352,326.80 | 193,615,627.97 |
| Due to Other Agencies (Note 7) | 911,444.42 | 773,205.97 |
| Employees' Compensable Leave (Note 4) | 7,268,659.31 | 6,967,560.49 |
| Funds Held for Others | 3,100,957.80 | 3,444,496.54 |
| Other Current Liabilities | <u>25,536.27</u> | <u>21,336.09</u> |
| Total Current Liabilities | <u>\$ 261,740,974.27</u> | <u>\$ 251,713,999.40</u> |
| Non-Current Liabilities: | | |
| Employees' Compensable Leave (Note 4) | <u>\$ 4,848,779.77</u> | <u>\$ 4,730,007.71</u> |
| Total Non-Current Liabilities | <u>\$ 4,848,779.77</u> | <u>\$ 4,730,007.71</u> |
| Total Liabilities | <u>\$ 266,589,754.04</u> | <u>\$ 256,444,007.11</u> |
| Deferred Inflows: | | |
| Total Deferred Inflows | <u>\$ -</u> | <u>\$ -</u> |
| Total Liabilities and Deferred Inflows | <u>\$ 266,589,754.04</u> | <u>\$ 256,444,007.11</u> |
| Net Position | | |
| Invested in Capital Assets, Net of Related Debt | \$ 866,605,291.23 | \$ 826,838,302.24 |
| Restricted for: | | |
| Capital Projects | 19,422,132.92 | 61,108,630.30 |
| Funds Held as Permanent Investments: | | |
| Non-Expendable | 18,281,587.05 | 17,635,358.90 |
| Expendable | 16,813,429.71 | 16,643,341.95 |
| Other | 18,918,898.93 | 22,054,478.91 |
| Unrestricted | <u>283,236,754.50</u> | <u>244,510,117.72</u> |
| Total Net Position | <u>\$ 1,223,278,094.34</u> | <u>\$ 1,188,790,230.02</u> |

See accompanying notes to the Financial Statements.

Statement of Revenues, Expenses, and Changes in Net Position

| Operating Revenues | 2016 | 2015 |
|-----------------------------------|--------------------------|--------------------------|
| Tuition and Fees | \$ 348,603,959.94 | \$ 321,494,952.07 |
| Discounts and Allowances (Note 1) | (86,911,080.20) | (76,897,741.66) |
| Auxiliary Enterprises | 86,589,369.53 | 81,627,641.18 |
| Other Sales of Goods and Services | 16,681,014.92 | 15,052,640.71 |
| Federal Revenue-Operating | 23,997,535.81 | 21,093,270.31 |
| Federal Pass Through Revenue | 4,121,939.10 | 3,082,344.42 |
| State Grant Revenue | 5,218,225.26 | 3,931,214.60 |
| State Grant Pass Through Revenue | 31,348,667.52 | 26,743,331.14 |
| Other Grants & Contracts | 6,286,592.09 | 7,825,426.67 |
| Other Operating Revenue | <u>784,373.80</u> | <u>824,302.70</u> |
| Total Operating Revenues | <u>\$ 436,720,597.77</u> | <u>\$ 404,777,382.14</u> |

| Operating Expenses | | |
|------------------------------------|----------------------------|----------------------------|
| Instruction | \$ 189,207,164.28 | \$ 180,890,143.38 |
| Research | 46,433,065.70 | 40,942,684.22 |
| Public Service | 3,656,709.48 | 3,852,279.64 |
| Academic Support | 47,588,938.23 | 41,818,872.73 |
| Student Services | 33,670,593.67 | 31,682,522.05 |
| Institutional Support | 36,803,583.87 | 33,132,385.36 |
| Operation and Maintenance of Plant | 43,880,330.72 | 41,059,923.92 |
| Scholarship and Fellowships | 58,417,578.65 | 57,716,524.05 |
| Auxiliary Enterprises | 78,049,588.89 | 76,223,265.62 |
| Depreciation and Amortization | <u>52,433,358.23</u> | <u>49,846,766.96</u> |
| Total Operating Expenses | <u>\$ 590,140,911.72</u> | <u>\$ 557,165,367.93</u> |
| Operating Income (Loss) | <u>\$ (153,420,313.95)</u> | <u>\$ (152,387,985.79)</u> |

| Nonoperating Revenues (Expenses) | | |
|---|--------------------------|--------------------------|
| Legislative Revenue (GR) | \$ 101,500,959.00 | \$ 91,730,292.00 |
| Additional Appropriations (GR) | 26,803,207.41 | 22,600,425.38 |
| Federal Grant - Non Exchange | 52,197,740.24 | 52,151,850.44 |
| State Pass Through - Non Exchange | 2,044,148.76 | 225,848.18 |
| Gifts | 16,327,628.50 | 7,154,291.18 |
| Pledged Revenues | 2,136,086.81 | 6,046,041.76 |
| Investment Income | 3,134,692.18 | 5,712,666.32 |
| Gain (Loss) on Sales of Capital Assets | 405,190.75 | (788,180.69) |
| Net Increase (Decrease) in Fair Value of Investments | 1,348,624.92 | (7,664,485.85) |
| Other Nonoperating Revenues (Expenses) | <u>14,753.31</u> | <u>169,299.09</u> |
| Total Nonoperating Revenues (Expenses) | <u>\$ 205,913,031.88</u> | <u>\$ 177,338,047.81</u> |
| Income (Loss) before Other Revenues, Expenses, Gains, Losses and Transfers | \$ 52,492,717.93 | \$ 24,950,062.02 |

Other Revenues, Expenses, Gains, Losses, and Transfers

| | 2016 | 2015 |
|--|--------------------------------|--------------------------------|
| HEAF Appropriation Revenue (GR) | \$ 24,775,170.00 | \$ 21,863,258.00 |
| Additions to Permanent and Term Endowments | 593,798.65 | 236,339.85 |
| Interagency Transfer Capital Assets | 3,058.34 | - |
| Transfers From Other Governmental Agencies (Note 7) | 1,067,390.00 | 27,117,678.00 |
| Transfers To Other Governmental Agencies (Note 7) | (34,456,405.60) | (37,625,870.95) |
| Legislative Transfers-In (Note 7) | 1,405,426.00 | - |
| Legislative Transfers-Out (Note 7) | (11,389,306.32) | (10,961,309.30) |
| Legislative Appropriations Lapsed | (3,984.68) | (315,508.95) |
| Total Other Revenue, Expenses, Gain/Losses and Transfers | <u>\$ (18,004,853.61)</u> | <u>\$ 314,586.65</u> |
| Change in Net Position | <u>\$ 34,487,864.32</u> | <u>\$ 25,264,648.67</u> |
| Net Position, September 1 | <u>\$ 1,188,790,230.02</u> | <u>\$ 1,163,525,581.35</u> |
| Net Position, August 31 | <u>\$ 1,223,278,094.34</u> | <u>\$ 1,188,790,230.02</u> |

See accompanying Notes to the Financial Statements.

Matrix of Operating Expenses Reported by Functions for the fiscal year ended August 31, 2016

| Operating Expenses | Instruction | Research | Public Service | Academic Support |
|------------------------------------|---------------------------------|--------------------------------|-------------------------------|--------------------------------|
| Cost of Goods Sold | \$ - | \$ - | \$ - | \$ - |
| Salaries and Wages | 137,312,529.51 | 22,615,245.13 | 1,814,570.20 | 27,900,421.74 |
| Payroll Related Costs | 33,966,164.91 | 4,782,642.29 | 553,541.24 | 7,496,888.59 |
| Professional Fees and Services | 3,500,549.11 | 10,180,368.93 | 589,822.45 | 2,540,464.18 |
| Federal Grant Pass-Through Expense | - | 63,397.86 | - | - |
| Travel | 3,174,317.88 | 2,567,425.15 | 109,627.05 | 898,507.06 |
| Materials and Supplies | 9,035,482.84 | 4,766,146.70 | 322,311.24 | 5,324,818.80 |
| Communication and Utilities | 72,947.57 | 54,044.83 | 21,029.16 | 130,609.78 |
| Repairs and Maintenance | 1,180,060.28 | 66,921.19 | 45,183.16 | 2,411,680.41 |
| Rentals and Leases | 233,138.37 | 355,993.39 | 146,791.77 | 475,510.85 |
| Printing and Reproduction | 653,816.08 | 507,352.62 | 51,406.14 | 341,424.57 |
| Depreciation and Amortization | - | - | - | - |
| Interest | 53.11 | 215.13 | 1.07 | 15.26 |
| Scholarships | - | - | - | - |
| Claims and Judgments | - | - | - | - |
| Other Operating Expenses | <u>78,104.62</u> | <u>473,312.48</u> | <u>2,426.00</u> | <u>68,596.99</u> |
| Total Operating Expenses | <u>\$ 189,207,164.28</u> | <u>\$ 46,433,065.70</u> | <u>\$ 3,656,709.48</u> | <u>\$ 47,588,938.23</u> |

See accompanying notes to the Financial Statements.

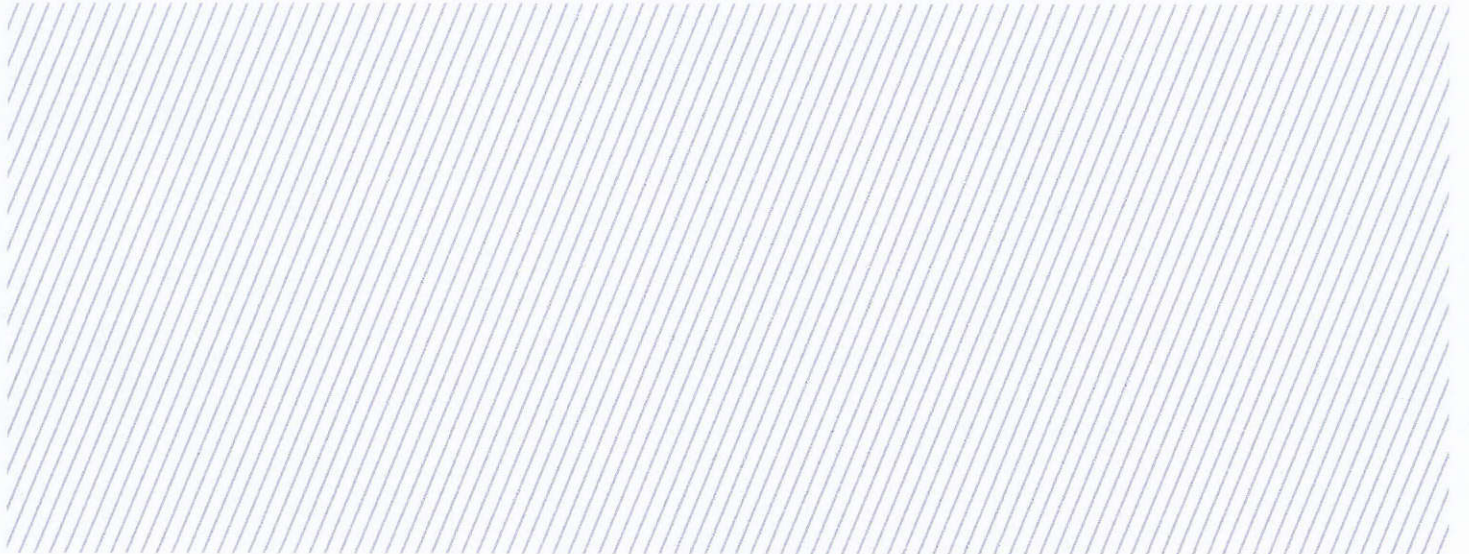
| Student Services | Institutional Support | Operation and Maintenance of Plant | Scholarships and Fellowships | Auxiliary Enterprise Expenditures | Depreciation and Amortization | Total Expenses |
|-------------------------|-------------------------|------------------------------------|------------------------------|-----------------------------------|-------------------------------|--------------------------|
| \$ - | \$ - | \$ - | \$ - | \$ 6,657,981.08 | \$ - | \$ 6,657,981.08 |
| 19,256,125.41 | 21,118,547.00 | 14,521,989.06 | - | 17,589,039.00 | - | 262,128,467.05 |
| 4,943,835.24 | 8,642,212.46 | 4,846,732.01 | - | 5,241,239.03 | - | 70,473,255.77 |
| 3,994,417.17 | 2,052,192.60 | 4,267,167.66 | - | 12,506,766.02 | - | 39,631,748.12 |
| - | - | - | - | - | - | 63,397.86 |
| 862,174.61 | 447,646.15 | 48,969.95 | - | 3,088,973.34 | - | 11,197,641.19 |
| 3,149,300.56 | 1,890,645.71 | 3,654,866.36 | - | 20,801,355.89 | - | 48,944,928.10 |
| 118,203.24 | 442,870.55 | 12,267,476.76 | - | 8,917,815.98 | - | 22,024,997.87 |
| 225,452.51 | 1,348,029.32 | 4,138,222.19 | - | 2,126,178.76 | - | 11,541,727.82 |
| 222,494.15 | 339,862.94 | 89,143.55 | - | 799,081.68 | - | 2,662,016.70 |
| 888,143.70 | 400,637.94 | 45,749.25 | - | 309,877.34 | - | 3,198,407.64 |
| - | - | - | - | - | 52,433,358.23 | 52,433,358.23 |
| 9.59 | 9,692.19 | 13.93 | - | 22.51 | - | 10,022.79 |
| - | - | - | 58,417,578.65 | - | - | 58,417,578.65 |
| - | 72,953.78 | - | - | - | - | 72,953.78 |
| <u>10,437.49</u> | <u>38,293.23</u> | <u>-</u> | <u>-</u> | <u>11,258.26</u> | <u>-</u> | <u>682,429.07</u> |
| <u>\$ 33,670,593.67</u> | <u>\$ 36,803,583.87</u> | <u>\$ 43,880,330.72</u> | <u>\$ 58,417,578.65</u> | <u>\$ 78,049,588.89</u> | <u>\$ 52,433,358.23</u> | <u>\$ 590,140,911.72</u> |

Matrix of Operating Expenses Reported by Functions for the fiscal year ended August 31, 2015

| Operating Expenses | Instruction | Research | Public Service | Academic Support |
|------------------------------------|--------------------------|-------------------------|------------------------|-------------------------|
| Cost of Goods Sold | \$ - | \$ - | \$ - | \$ - |
| Salaries and Wages | 129,266,666.78 | 20,144,849.64 | 1,796,035.35 | 25,735,011.28 |
| Payroll Related Costs | 34,202,706.75 | 4,066,724.44 | 597,306.19 | 6,743,599.46 |
| Professional Fees and Services | 2,628,097.88 | 8,540,249.23 | 635,142.15 | 1,910,784.24 |
| Federal Grant Pass-Through Expense | - | 70,741.76 | - | - |
| Travel | 2,649,044.68 | 2,397,022.28 | 93,810.88 | 690,400.87 |
| Materials and Supplies | 10,672,464.52 | 4,262,075.03 | 535,277.85 | 3,762,567.11 |
| Communication and Utilities | 59,809.80 | 45,405.76 | 23,615.39 | 130,775.92 |
| Repairs and Maintenance | 606,096.85 | 271,605.28 | 81,182.22 | 2,255,387.23 |
| Rentals and Leases | 134,999.90 | 320,859.53 | 23,109.49 | 236,616.93 |
| Printing and Reproduction | 625,247.55 | 335,499.97 | 58,114.59 | 341,677.72 |
| Depreciation and Amortization | - | - | - | - |
| Interest | 246.94 | 231.48 | 5.53 | 185.59 |
| Scholarships | - | - | - | - |
| Claims and Judgments | - | - | - | - |
| Other Operating Expenses | <u>44,761.73</u> | <u>487,419.82</u> | <u>8,680.00</u> | <u>11,866.38</u> |
| Total Operating Expenses | <u>\$ 180,890,143.38</u> | <u>\$ 40,942,684.22</u> | <u>\$ 3,852,279.64</u> | <u>\$ 41,818,872.73</u> |

See accompanying notes to the Financial Statements.

| Student Services | Institutional Support | Operation and Maintenance of Plant | Scholarships and Fellowships | Auxiliary Enterprise Expenditures | Depreciation and Amortization | Total Expenses |
|-------------------------|------------------------------|---|-------------------------------------|--|--------------------------------------|--------------------------|
| \$ - | \$ - | \$ - | \$ - | \$ 4,810,079.69 | \$ - | \$ 4,810,079.69 |
| 17,591,642.43 | 19,782,960.48 | 14,032,129.56 | 1,666,340.84 | 16,511,836.61 | - | 246,527,472.97 |
| 4,574,198.43 | 7,436,061.00 | 4,814,487.47 | 8,675.91 | 4,650,190.44 | - | 67,093,950.09 |
| 4,272,493.96 | 1,988,264.51 | 3,115,311.43 | - | 12,373,102.43 | - | 35,463,445.83 |
| - | - | - | - | - | - | 70,741.76 |
| 987,787.89 | 392,005.05 | 51,389.01 | - | 2,829,009.02 | - | 10,090,469.68 |
| 3,004,772.01 | 1,525,994.56 | 2,839,405.42 | - | 22,947,217.84 | - | 49,549,774.34 |
| 106,418.56 | 369,434.35 | 13,455,818.14 | - | 9,463,226.83 | - | 23,654,504.75 |
| 243,819.81 | 1,109,676.30 | 2,558,876.04 | - | 1,668,153.73 | - | 8,794,797.46 |
| 192,675.15 | 140,241.57 | 140,359.27 | - | 652,430.98 | - | 1,841,292.82 |
| 694,754.31 | 340,370.18 | 51,375.43 | - | 307,640.50 | - | 2,754,680.25 |
| - | - | - | - | - | 49,846,766.96 | 49,846,766.96 |
| 45.73 | 5,866.02 | 72.15 | - | 113.89 | - | 6,767.33 |
| - | - | - | 56,041,507.30 | - | - | 56,041,507.30 |
| - | 10,650.04 | 700.00 | - | 10,013.55 | - | 21,363.59 |
| 13,913.77 | 30,861.30 | - | - | 250.11 | - | 597,753.11 |
| <u>\$ 31,682,522.05</u> | <u>\$ 33,132,385.36</u> | <u>\$ 41,059,923.92</u> | <u>\$ 57,716,524.05</u> | <u>\$ 76,223,265.62</u> | <u>\$ 49,846,766.96</u> | <u>\$ 557,165,367.93</u> |



Statement of Cash Flows

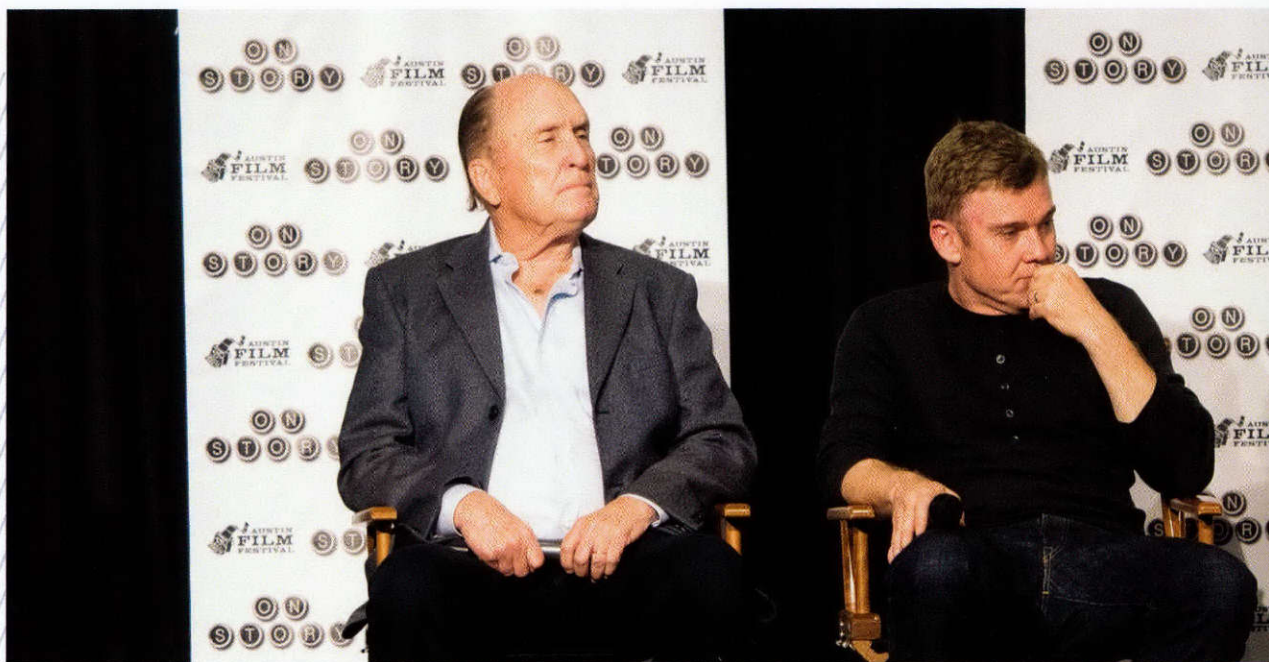
| | 2016 | 2015 |
|--|----------------------------|---------------------------|
| Cash Flows from Operating Activities | | |
| Receipts from Customers | \$ 14,078,093.48 | \$ 16,569,284.99 |
| Proceeds from Tuition and Fees | 265,192,241.51 | 256,272,313.14 |
| Proceeds from Research Grants and Contracts | 71,087,952.03 | 61,091,450.15 |
| Proceeds from Loan Programs | 9,677,808.13 | 8,527,700.21 |
| Proceeds from Auxiliaries | 86,702,024.67 | 84,626,029.46 |
| Proceeds from Other Operating Revenues | 438,900.47 | 1,305,314.11 |
| Payments to Suppliers for Goods and Services | (147,728,207.59) | (140,157,423.76) |
| Payments to Employees for Salaries | (261,003,052.85) | (245,855,504.47) |
| Payments to Employees for Benefits | (52,054,528.60) | (53,166,143.22) |
| Payments for Loans Provided | (8,946,674.36) | (9,194,878.65) |
| Payments for Other Expenses | <u>(58,679,097.37)</u> | <u>(60,613,185.00)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ (81,234,540.48)</u> | <u>\$ (80,595,043.04)</u> |
| Cash Flows from Noncapital Financing Activities | | |
| Proceeds from State Appropriations | \$ 111,452,582.63 | \$ 107,547,864.60 |
| Proceeds from Gifts | 19,912,049.05 | 9,233,555.04 |
| Proceeds of Transfers from Other Funds | 1,405,426.00 | - |
| Proceeds from Grant Receipts | 54,388,760.37 | 52,374,675.98 |
| Proceeds from Other Noncapital Financing Activities | 614,000.00 | - |
| Payments for Other Noncapital Financing Uses | <u>(7,248,904.84)</u> | <u>(8,083,870.78)</u> |
| Net Cash Provided (Used) by Noncapital Financing Activities | <u>\$ 180,523,913.21</u> | <u>\$ 161,072,224.84</u> |
| Cash Flows from Capital and Related Financing Activities | | |
| Proceeds from Sale of Capital Assets | \$ 1,061,561.01 | \$ 187,541.99 |
| Proceeds from Debt Issuance | - | 26,000,000.00 |
| Proceeds from Other Financing Activities | 24,775,170.00 | 21,863,258.00 |
| Payments for Additions to Capital Assets | (88,967,261.49) | (75,861,003.46) |
| Payments of Principal on Debt Issuance | (22,470,032.29) | (21,370,786.89) |
| Payments of Interest on Debt Issuance | <u>(18,981,955.63)</u> | <u>(19,473,033.10)</u> |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>\$ (104,582,518.40)</u> | <u>\$ (68,654,023.46)</u> |
| Cash Flows From Investing Activities | | |
| Proceeds from Sales of Investments | \$ 142,118,435.16 | \$ 148,846,421.60 |
| Proceeds from Investment Income | 4,366,758.91 | 5,679,536.31 |
| Payments to Acquire Investments | <u>(145,437,269.81)</u> | <u>(204,275,787.00)</u> |
| Net Cash Provided (Used) by Investing Activities | <u>\$ 1,047,924.26</u> | <u>\$ (49,749,829.09)</u> |
| Increase (Decrease) in Cash and Cash Equivalents | \$ (4,245,221.41) | \$ (37,926,670.75) |
| Cash and Cash Equivalents, September 1 | <u>\$ 294,092,620.28</u> | <u>\$ 332,019,291.03</u> |
| Cash and Cash Equivalents, August 31 | <u>\$ 289,847,398.87</u> | <u>\$ 294,092,620.28</u> |

| | 2016 | 2015 |
|--|---------------------------|---------------------------|
| Reconciliation of Operating Income (loss) to Net Cash Provided (used) by Operating Activities | | |
| Operating Income (Loss) | \$ (153,420,313.95) | \$ (152,387,985.79) |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | | |
| Amortization and Depreciation | \$ 52,433,358.23 | \$ 49,846,766.96 |
| Operating Income and Cash Flow Categories: | | |
| Changes in Assets and Liabilities: | | |
| (Increase) Decrease in Receivables | \$ (5,277,763.51) | \$ (3,987,405.58) |
| (Increase) Decrease in Due from Other Agencies | 244,173.31 | (339,234.17) |
| (Increase) Decrease in Inventories | (1,513,101.35) | 1,140,119.10 |
| (Increase) Decrease in Prepaid Expenses | (893,712.43) | (5,584,614.75) |
| (Increase) Decrease in Loans & Contracts | 1,099,969.89 | 1,442,054.44 |
| (Increase) Decrease in State Appropriations | 17,005,214.50 | 15,283,771.87 |
| Increase (Decrease) in Payables | 778,274.18 | (2,365,538.01) |
| Increase (Decrease) in Due to Other Funds | 138,238.45 | 10,713.09 |
| Increase (Decrease) in Unearned Revenue | 6,736,698.83 | 15,217,197.12 |
| Increase (Decrease) in Compensated Absence Liability | 301,098.82 | 247,064.66 |
| Increase (Decrease) in Benefits Payable | 1,133,324.55 | 876,849.68 |
| Increase (Decrease) in Other Liabilities | - | 5,198.34 |
| Total Adjustments | <u>\$ 72,185,773.47</u> | <u>\$ 71,792,942.75</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ (81,234,540.48)</u> | <u>\$ (80,595,043.04)</u> |
| Non-cash Transactions | | |
| Net Change in the Fair Value of Investments | \$ 1,348,624.92 | \$ (7,664,485.85) |
| Donation of Capital Assets | \$ 1,697,805.00 | \$ 48,640.50 |
| Gain (Loss) on Sale of Capital Assets | \$ (700,804.00) | \$ (975,722.68) |

See accompanying notes to the Financial Statements.

Cast, Crew of *Lonesome Dove* Reunite for Gala

The cast and crew of the popular western miniseries *Lonesome Dove* gathered in Fort Worth in March for the Reunion Gala. The event featured readings by cast members Diane Lane, Danny Glover and Robert Duvall; a memorial honoring deceased cast and crew; and a toast to *Lonesome Dove* author Larry McMurtry. The gala raised more than \$1 million to benefit Texas State's Wittliff Collections.





Notes to the Financial Statements

Note 1: Summary of Significant Accounting Policies

Basis of Presentation

Texas State University (Texas State) prepares annual financial statements and accompanying notes to the financial statements, which are consolidated with the remaining seven components of the Texas State University System (TSUS) into a system-wide financial report. The system-wide report is further consolidated into the Comprehensive Annual Financial Report (CAFR) for the State of Texas. CAFRs for the State of Texas may be obtained from the Texas Comptroller of Public Accounts website: www.comptroller.texas.gov/transparency/reports/comprehensive-annual-financial. The State Auditor expresses an opinion on the CAFR, but not on the financial statements of individual component units of the State.

Accordingly, the financial statements do not contain all required information to comply with the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements, but have been prepared substantially in accordance with GASB pronouncements, as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Auditing Practices Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989 are not followed.

Supporting schedules for the financial statements that are fully compliant with the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements are available on the university's website: www.txstate.edu/gao/reporting/AFR.

Nature of Operations

Texas State is a public, student-centered, Emerging Research University dedicated to excellence in serving the educational needs of the diverse population of the State of Texas and the world beyond. Through research, instruction, and other activities that advance essential knowledge and dissemination of that knowledge, the university strives to fulfill its mission.

Reporting Entity

The financial reporting entity consists of the primary government organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. The Texas State University Research Foundation and the Harold M. Freeman Educational Foundation are included in the financial statements of Texas State as blended component units.

Texas State is governed by the Board of Regents for TSUS and is included in their financial statements as a component unit. TSUS is a component of the State of Texas and reported as a component of the proprietary fund in the State of Texas CAFR.

Measurement Focus and Basis of Accounting

The basis of accounting determines when revenues and expenses are recognized and reported in the financial statements. Three primary financial statements are presented with supporting schedules: The Statement of Net Position; the Statement of Revenue, Expenses and Changes in Net Position; and the Statement of Cash Flows. The accompanying statements have been prepared using the economic resources measurement focus and accrual basis of accounting as prescribed in GASB Statements 34/35. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when an obligation has been incurred.

As a component of the State of Texas, Texas State is reflected as a special-purpose government engaged in only 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 and focus on determining operating income, changes in net position, financial position, and cash flows. Operating items are distinguished from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the principle of ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All significant inter-agency transactions have been eliminated.

Restricted Net Position

When both restricted and unrestricted sources are available for use, restricted resources are generally used first, then unrestricted resources are used as needed.

Use of Estimates in the Preparation of Basic Financial Statements

The preparation of financial statements and the related notes to the financial statements require management to make estimates and assumptions that affect the reported amounts of 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.

A significant estimate for scholarship discounts and allowances is made by the university. Allowances are determined by using the Alternate Method as issued by National Association of College and University Business Officers in the Advisory Report 2000-05. As of August 31, 2016 and 2015, this method resulted in estimates of \$86,911,080.20 and \$76,897,741.66 respectively, for the university's discounts and allowances related to tuition and fees.

Current and Non-current Assets

Current assets are those considered available for appropriation and expenditure within one fiscal year. Examples of expendable financial resources include cash, various receivables, and short-term investments. All other assets are considered non-current.

Cash and Cash Equivalent

Cash includes cash on hand, cash in local banks, cash in transit, and cash in the treasury. Cash equivalents are defined as short-term, highly liquid investments that are both: (a) readily convertible to known amounts of cash and (b) so near maturity they present insignificant risk of changes in value due to changes in interest rates. Only investments with an original maturity of three months or less are considered cash equivalents.

Accounts Receivable

Accounts receivable represent amounts for student tuition and fees, grant and contract expense reimbursements, various sales and services provided to students and third parties, loans receivable, investment related transactions and gifts receivable. Federal accounts include amounts from sponsored program activity as well as financial aid. Gifts receivable represent amounts pledged to the university by donors. Other accounts receivable include year-end revenue accruals or accounts not included in the other categories. Certain accounts are recorded net of allowances. The allowances for student accounts were \$1,334,542.82 and \$1,663,247.54 for the fiscal years ended August 31, 2016 and 2015, respectively. Noncurrent gift and loans receivables were reported net of allowances of \$334,219.86 and \$409,986.50 for the fiscal year ended August 31, 2016 and \$388,731.80 and \$400,123.58 for the fiscal year ended August 31, 2015.

During fiscal year 2016, an adjustment of certain accounts receivable occurred to separately state student accounts from activities related to sales and services of other educational activities. For comparative purposes, the fiscal year 2015 comparative balances on the Statement of Net Position have been adjusted from the balances originally reported in the fiscal year 2015 annual financial report. The fiscal year 2015 balances affected by those adjustments are shown below:

| | <u>Originally Reported</u> | <u>Adjustment</u> | <u>Adjusted</u> |
|------------------------------|----------------------------|---------------------|----------------------|
| Accounts Receivable, Student | 47,736,824.46 | (9,024,392.04) | 38,712,432.42 |
| Other Receivables | <u>-</u> | <u>9,024,392.04</u> | <u>9,024,392.04</u> |
| | <u>47,736,824.46</u> | <u>-</u> | <u>47,736,824.46</u> |

Investments

Investments are reported at fair value in the Statement of Net Position in accordance with GASB Statement Number 72, *Fair Value Measurement and Application*. Fair value is defined by GASB 72 as the "price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

Inventories and Prepaid Items

Inventories, including both merchandise and consumable inventories, are valued at cost and expensed when consumed.

Payments made for services benefiting periods beyond the current accounting period are recorded as prepaid items. Prepaid scholarships represent funds paid in the current fiscal year relating to the subsequent year.

Capital Assets and Related Debt Activity

Purchases of assets with an estimated useful life in excess of one year exceeding the university's capitalization thresholds are recorded as capital assets at their acquisition cost on the date of acquisition. Donated assets with an estimated useful life in excess of one year exceeding the university's capitalization thresholds are recorded as capital assets at their fair market value on the date of acquisition. Intangible capital assets are defined as assets that lack physical substance, are nonfinancial in nature and have an initial useful life extending beyond a single reporting period. Routine repairs and maintenance that do not increase the value of buildings are charged to operating expense in the year in which the expense was incurred.

The university's capitalization thresholds are:

| Asset Category | Capitalization Threshold |
|--|----------------------------------|
| Land, land improvements, and land use rights | All acquisitions are capitalized |
| Books and materials for the university's academic and research library | All acquisitions are capitalized |
| Works of art and historical treasures not held for financial gain | All acquisitions are capitalized |
| Furniture, equipment, and vehicles | \$5,000 |
| Buildings, building improvements, facilities and other improvements | \$100,000 |
| Purchased computer software and land use rights (A) | \$100,000 |
| Infrastructure | \$500,000 |
| Internally generated computer software | \$1,000,000 |

(A) Applies only to land use rights considered to have a limited useful life (TERM.)

Assets are depreciated or amortized over the estimated useful life of the asset using the straight-line method as follows:

| | |
|---|-------------|
| Furniture and Equipment | 4-15 years |
| Purchased and Internally Developed Software | 5 years |
| Vehicles | 5-10 years |
| Other Tangible Assets | 10 years |
| TERM Land Use Rights | 10 years |
| Buildings, Infrastructure and Facilities | 10-30 years |
| Other Assets | 15 years |

All land, land improvements, land use rights, and works of art and historical treasures not held for financial gain are considered to have an indefinite useful life. Because these assets are inexhaustible, they are not depreciated.

Bonded indebtedness is issued by the Texas State University System Revenue Financing System. The System Administration Office and each component institution within the system comprise the Revenue Financing System. Although the university must repay the debt that was issued on its behalf, the associated bond liability is reported in total by the System Administration Office and is not included in the liabilities of the university in the university's financial statements. Debt service requirements reported by the System Administration Office and attributable to Texas State are disclosed in Note 5, Bonded Indebtedness.

Accounts Payable

Accounts payable represent the liability for the value of assets or services received at the Statement of Net Position date for which payment is pending.

Other Payables

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

Unearned Revenues

Unearned revenues represent payments received in advance of providing goods or services.

Funds Held for Others

Funds held for others are composed of agency funds. Agency funds are assets not owned by the university, but held in custodianship to be used or withdrawn by the depositors at will. Agency funds resources are reflected in the university's financial records as cash and cash equivalents with a corresponding liability to the depositing organizations.

Long-Term Liabilities

General long-term liabilities are not limited to liabilities arising from debt issuances, but may also include non-current liabilities on lease-purchase agreements and other commitments that are not recorded as current liabilities.

Employee' Compensable Leave Balances

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. Compensable leave liabilities are reported as either short-term (current) or long-term (non-current) in the Statement of Net Position. Long-term is the portion of vacation balance which was not earned in the given fiscal year. Short-term is the portion earned during the fiscal year. If the amount earned during a fiscal year is greater than the balance, then the entire balance is considered short-term. 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.

Net Position

The difference between assets and liabilities is "Net Position."

Invested in Capital Assets, Net of Related Debt

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

Restricted Net Position

Restricted net position consists of restricted assets less liabilities and deferred inflows of resources related to those assets. This represents resources that are constrained to a particular purpose and either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position

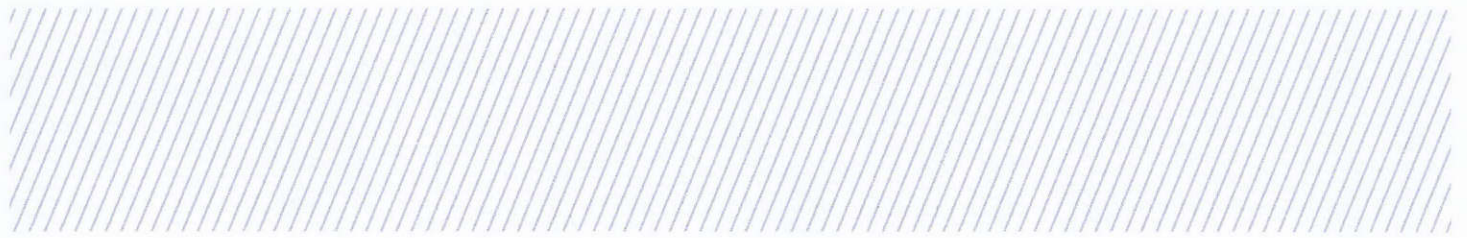
Unrestricted net position is the residual amount of total net position less investment in capital assets and restricted net position. Unrestricted net assets often have constraints on resources, which are imposed by management, but can be removed or modified. Substantially all unrestricted net assets are designated for capital projects, as well as academic and research programs and initiatives.

Note 2: Capital Assets

Changes in capital assets for the fiscal year ended August 31, 2016 are summarized as follows:

| | <u>Balance 9/1/2015</u> | <u>Adjustments</u> | <u>Completed CIP</u> |
|--|----------------------------|--------------------|---------------------------|
| Non-Depreciable Assets: | | | |
| Land and Land Improvements | \$ 41,159,344.52 | \$ - | \$ - |
| Construction in Progress | 57,915,808.36 | - | (86,160,699.18) |
| Other Assets | <u>5,574,941.24</u> | <u>-</u> | <u>-</u> |
| Total Non-Depreciable Assets | <u>\$ 104,650,094.12</u> | <u>\$ -</u> | <u>\$ (86,160,699.18)</u> |
| Depreciable Assets: | | | |
| Buildings and Building Improvements | \$ 856,369,715.44 | \$ - | \$ 82,020,416.50 |
| Infrastructure | 77,568,169.12 | - | 2,972,535.16 |
| Facilities & Other Improvements | 156,940,972.72 | - | 1,167,747.52 |
| Furniture and Equipment | 67,550,976.18 | - | - |
| Vehicle, Boats & Aircraft | 7,055,829.88 | - | - |
| Other Assets | <u>95,131,143.79</u> | <u>-</u> | <u>-</u> |
| Total Depreciable Assets at Historical Costs | <u>\$ 1,260,616,807.13</u> | <u>\$ -</u> | <u>\$ 86,160,699.18</u> |
| Less Accumulated Depreciation for: | | | |
| Buildings and Improvements | \$ (378,795,997.83) | \$ - | \$ - |
| Infrastructure | (28,803,611.64) | - | - |
| Facilities & Other Improvements | (39,460,163.23) | - | - |
| Furniture and Equipment | (45,196,663.61) | - | - |
| Vehicles, Boats & Aircraft | (4,372,771.51) | - | - |
| Other Assets | <u>(47,999,813.37)</u> | <u>-</u> | <u>-</u> |
| Total Accumulated Depreciation | <u>\$ (544,629,021.19)</u> | <u>\$ -</u> | <u>\$ -</u> |
| Depreciable Assets, Net | <u>\$ 715,987,785.94</u> | <u>\$ -</u> | <u>\$ 86,160,699.18</u> |
| Amortizable Assets - Intangible: | | | |
| Computer Software | <u>\$ 28,892,056.84</u> | <u>\$ -</u> | <u>\$ -</u> |
| Total Amortizable Assets - Intangible | <u>\$ 28,892,056.84</u> | <u>\$ -</u> | <u>\$ -</u> |
| Less Accumulated Amortization for: | | | |
| Computer Software | <u>\$ (22,691,634.66)</u> | <u>\$ -</u> | <u>\$ -</u> |
| Total Accumulated Amortization | <u>\$ (22,691,634.66)</u> | <u>\$ -</u> | <u>\$ -</u> |
| Amortizable Assets - Intangible, Net | <u>\$ 6,200,422.18</u> | <u>\$ -</u> | <u>\$ -</u> |
| Capital Assets, Net | <u>\$ 826,838,302.24</u> | <u>\$ -</u> | <u>\$ -</u> |

| <u>Interagency Transfers In</u> | <u>Interagency Transfers Out</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 8/31/2016</u> |
|-------------------------------------|--------------------------------------|---------------------------|--------------------------|----------------------------|
| \$ - | \$ - | \$ 2,995,445.20 | \$ (164,128.69) | \$ 43,990,661.03 |
| - | - | 71,211,559.63 | - | 42,966,668.81 |
| - | - | 1,694,961.57 | - | 7,269,902.81 |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 75,901,966.40</u> | <u>\$ (164,128.69)</u> | <u>\$ 94,227,232.65</u> |
| \$ - | \$ - | \$ 654,000.00 | \$ (117,067.00) | \$ 938,927,064.94 |
| - | - | - | - | 80,540,704.28 |
| - | - | - | - | 158,108,720.24 |
| 23,510.00 | - | 7,008,543.54 | (3,051,375.67) | 71,531,654.05 |
| - | - | 1,770,047.00 | (502,661.58) | 8,323,215.30 |
| - | - | 7,563,555.94 | (6,247,890.83) | 96,446,808.90 |
| <u>\$ 23,510.00</u> | <u>\$ -</u> | <u>\$ 16,996,146.48</u> | <u>\$ (9,918,995.08)</u> | <u>\$ 1,353,878,167.71</u> |
| \$ - | \$ - | \$ (27,113,537.69) | \$ 111,213.65 | \$ (405,798,321.87) |
| - | - | (2,870,187.26) | - | (31,673,798.90) |
| - | - | (6,778,889.92) | - | (46,239,053.15) |
| (20,451.66) | - | (6,766,125.01) | 2,523,879.43 | (49,459,360.85) |
| - | - | (573,219.10) | 499,315.86 | (4,446,674.75) |
| - | - | (5,266,642.44) | 6,247,890.83 | (47,018,564.98) |
| <u>\$ (20,451.66)</u> | <u>\$ -</u> | <u>\$ (49,368,601.42)</u> | <u>\$ 9,382,299.77</u> | <u>\$ (584,635,774.50)</u> |
| <u>\$ 3,058.34</u> | <u>\$ -</u> | <u>\$ (32,372,454.94)</u> | <u>\$ (536,695.31)</u> | <u>\$ 769,242,393.21</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (5,750.00)</u> | <u>\$ 28,886,306.84</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (5,750.00)</u> | <u>\$ 28,886,306.84</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ (3,064,756.81)</u> | <u>\$ 5,750.00</u> | <u>\$ (25,750,641.47)</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ (3,064,756.81)</u> | <u>\$ 5,750.00</u> | <u>\$ (25,750,641.47)</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ (3,064,756.81)</u> | <u>\$ -</u> | <u>\$ 3,135,665.37</u> |
| <u>\$ 3,058.34</u> | <u>\$ -</u> | <u>\$ 40,464,754.65</u> | <u>\$ (700,824.00)</u> | <u>\$ 866,605,291.23</u> |

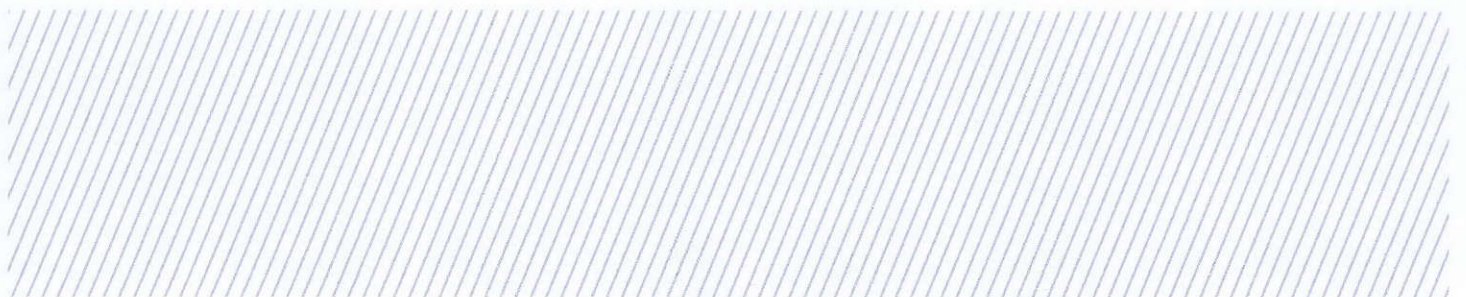


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Changes in capital assets for the fiscal year ended August 31, 2015 are summarized as follows:

| | <u>Balance 9/1/2014</u> | <u>Adjustments</u> | <u>Completed CIP</u> |
|--|----------------------------|--------------------|---------------------------|
| Non-Depreciable Assets: | | | |
| Land and Land Improvements | \$ 39,116,838.68 | \$ - | \$ - |
| Construction in Progress | 21,770,529.47 | - | (26,250,577.18) |
| Other Assets | 4,870,135.23 | - | - |
| Total Non-Depreciable Assets | <u>\$ 65,757,503.38</u> | <u>\$ -</u> | <u>\$ (26,250,577.18)</u> |
| Depreciable Assets: | | | |
| Buildings and Building Improvements | \$ 847,168,083.29 | \$ - | \$ 13,470,025.15 |
| Infrastructure | 72,404,328.71 | - | 5,163,840.41 |
| Facilities & Other Improvements | 149,324,261.10 | - | 7,616,711.62 |
| Furniture and Equipment | 65,046,166.55 | - | - |
| Vehicle, Boats & Aircraft | 6,882,689.63 | - | - |
| Other Assets | 93,074,757.30 | - | - |
| Total Depreciable Assets at Historical Costs | <u>\$ 1,233,900,286.58</u> | <u>\$ -</u> | <u>\$ 26,250,577.18</u> |
| Less Accumulated Depreciation for: | | | |
| Buildings and Improvements | \$ (357,280,081.64) | \$ - | \$ - |
| Infrastructure | (26,025,529.26) | - | - |
| Facilities & Other Improvements | (32,865,077.93) | - | - |
| Furniture and Equipment | (41,115,770.08) | - | - |
| Vehicles, Boats & Aircraft | (4,157,507.16) | - | - |
| Other Assets | (48,005,161.13) | - | - |
| Total Accumulated Depreciation | <u>\$ (509,449,127.20)</u> | <u>\$ -</u> | <u>\$ -</u> |
| Depreciable Assets, Net | <u>\$ 724,451,159.38</u> | <u>\$ -</u> | <u>\$ 26,250,577.18</u> |
| Amortizable Assets - Intangible: | | | |
| Computer Software | \$ 28,898,273.45 | \$ - | \$ - |
| Total Amortizable Assets - Intangible | <u>\$ 28,898,273.45</u> | <u>\$ -</u> | <u>\$ -</u> |
| Less Accumulated Amortization for: | | | |
| Computer Software | \$ (19,711,092.23) | \$ - | \$ - |
| Total Accumulated Amortization | <u>\$ (19,711,092.23)</u> | <u>\$ -</u> | <u>\$ -</u> |
| Amortizable Assets - Intangible, Net | <u>\$ 9,187,181.22</u> | <u>\$ -</u> | <u>\$ -</u> |
| Capital Assets, Net | <u>\$ 799,395,843.98</u> | <u>\$ -</u> | <u>\$ -</u> |

| Interagency Transfers In | Interagency Transfers Out | Additions | Deletions | Balance 8/31/2015 |
|-------------------------------------|--------------------------------------|---------------------------|---------------------------|----------------------------|
| \$ - | \$ - | \$ 2,042,505.84 | \$ - | \$ 41,159,344.52 |
| - | - | 62,395,856.07 | - | 57,915,808.36 |
| - | - | <u>704,806.01</u> | - | <u>5,574,941.24</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 65,143,167.92</u> | <u>\$ -</u> | <u>\$ 104,650,094.12</u> |
| \$ - | \$ - | \$ 314,539.19 | \$ (4,582,932.19) | \$ 856,369,715.44 |
| - | - | - | - | 77,568,169.12 |
| - | - | - | - | 156,940,972.72 |
| 8,141.25 | - | 5,044,701.09 | (2,548,032.71) | 67,550,976.18 |
| - | - | 445,543.16 | (272,402.91) | 7,055,829.88 |
| - | - | <u>7,053,856.26</u> | <u>(4,997,469.77)</u> | <u>95,131,143.79</u> |
| <u>\$ 8,141.25</u> | <u>\$ -</u> | <u>\$ 12,858,639.70</u> | <u>\$ (12,400,837.58)</u> | <u>\$ 1,260,616,807.13</u> |
| \$ - | \$ - | \$ (25,371,721.88) | \$ 3,855,805.69 | \$ (378,795,997.83) |
| - | - | (2,778,082.38) | - | (28,803,611.64) |
| - | - | (6,595,085.30) | - | (39,460,163.23) |
| (8,141.25) | - | (6,401,679.11) | 2,328,926.83 | (45,196,663.61) |
| - | - | (481,851.16) | 266,586.81 | (4,372,771.51) |
| - | - | <u>(4,992,122.01)</u> | <u>4,997,469.77</u> | <u>(47,999,813.37)</u> |
| <u>\$ (8,141.25)</u> | <u>\$ -</u> | <u>\$ (46,620,541.84)</u> | <u>\$ 11,448,789.10</u> | <u>\$ (544,629,021.19)</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ (33,761,902.14)</u> | <u>\$ (952,048.48)</u> | <u>\$ 715,987,785.94</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 265,150.28</u> | <u>\$ (271,366.89)</u> | <u>\$ 28,892,056.84</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 265,150.28</u> | <u>\$ (271,366.89)</u> | <u>\$ 28,892,056.84</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ (3,226,225.12)</u> | <u>\$ 245,682.69</u> | <u>\$ (22,691,634.66)</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ (3,226,225.12)</u> | <u>\$ 245,682.69</u> | <u>\$ (22,691,634.66)</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ (2,961,074.84)</u> | <u>\$ (25,684.20)</u> | <u>\$ 6,200,422.18</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 28,420,190.94</u> | <u>\$ (977,732.68)</u> | <u>\$ 826,838,302.24</u> |



Note 3: Deposits, Investments and Repurchase Agreement

Deposits

As of August 31, 2016 and 2015, the carrying amount of deposits was \$20,988,012.26 and \$74,066,284.15, respectively, as presented below:

| | <u>2016</u> | <u>2015</u> |
|--|-------------------------|-------------------------|
| Cash in Bank - Carrying Value | \$ 20,988,012.06 | \$ 74,066,284.15 |
| Less: Certificates of Deposit included in carrying value and reported as Cash Equivalent | - | - |
| Less: Uninvested Securities Lending Cash Collateral included in carrying value and reported as Securities Lending Collateral | - | - |
| Less: Securities Lending CD Collateral included in carrying value and reported as Securities Lending Collateral | - | - |
| Cash in Bank per AFR | <u>\$ 20,988,012.06</u> | <u>\$ 74,066,284.15</u> |
| | | |
| Current Assets Cash in Bank | \$ 20,977,882.08 | \$ 22,444,394.40 |
| Current Assets Restricted Cash in Bank | <u>10,129.98</u> | <u>51,621,889.75</u> |
| Cash in Bank per AFR | <u>\$ 20,988,012.06</u> | <u>\$ 74,066,284.15</u> |

As of August 31, 2016 and 2015, the total bank balances were \$25,329,130.50 and \$81,238,575.82, respectively.

Investments

Texas State is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Texas Government Code Sec. 2256.001) and for the Endowment Fund as defined in the Uniform Prudent Management of Institutional Funds Act (Property Code Chapter 163.001). Such investments include: (1) obligations of the United States or its agencies (2) direct obligations of the State of Texas or its agencies, (3) obligations of political subdivisions rated not less than "A" by a national investment rating firm, (4) certificates of deposit and (5) other instruments and obligations authorized by statute.

Fair Value of Investments

Texas State measures and records investments using fair value measurement guidelines in accordance with GASB Statement 72, *Fair Value Measurement and Application*. GASB 72 recognizes a three level fair value hierarchy:

- Level 1:** Quoted prices for identical investments in active markets;
- Level 2:** Observable inputs other than quoted market prices; or,
- Level 3:** Unobservable inputs.

As of August 31, 2016, the fair value of investments were:

| | Fair Value Hierarchy | | | | |
|---|--------------------------|-------------------|-------------------|-----------------------|--------------------------|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Net Asset Value | 2016 Fair Value |
| U.S. Government: | | | | | |
| U.S. Treasury Securities | \$ 16,338,388.73 | \$ - | \$ - | \$ - | \$ 16,338,388.73 |
| U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, etc.) | 15,098,314.50 | - | - | - | 15,098,314.50 |
| Corporate Obligations | 29,199,965.74 | - | - | - | 29,199,965.74 |
| Corporate Asset and Mortgage Backed Securities | 25,239,872.90 | - | - | - | 25,239,872.90 |
| Equity | 38,299,180.76 | - | - | - | 38,299,180.76 |
| International Equity | 6,628,754.10 | - | - | - | 6,628,754.10 |
| Fixed Income Money Market and Bond Mutual Fund | 54,735,606.47 | - | - | - | 54,735,606.47 |
| Other Commingled Funds | 398,462.40 | - | - | - | 398,462.40 |
| Long-Term Investments | \$ 185,938,545.60 | - | - | - | \$ 185,938,545.60 |
| Other Commingled Funds (Texpool) | \$ 244,823,673.10 | | | | |
| Cash Equivalents | \$ 244,823,673.10 | | | | |

As of August 31, 2015, the fair value of investments were:

| | Fair Value Hierarchy | | | | |
|---|--------------------------|-------------------|-------------------|-----------------------|--------------------------|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Net Asset Value | 2015 Fair Value |
| U.S. Government: | | | | | |
| U.S. Treasury Securities | \$ 33,803,370.93 | \$ - | \$ - | \$ - | \$ 33,803,370.93 |
| U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, etc.) | 14,325,024.65 | - | - | - | 14,325,024.65 |
| Corporate Obligations | 26,427,335.08 | - | - | - | 26,427,335.08 |
| Corporate Asset and Mortgage Backed Securities | 10,408,181.21 | - | - | - | 10,408,181.21 |
| Equity | 36,310,423.01 | - | - | - | 36,310,423.01 |
| International Equity | 6,731,534.41 | - | - | - | 6,731,534.41 |
| Fixed Income Money Market and Bond Mutual Fund | 55,646,807.69 | - | - | - | 55,646,807.69 |
| Other Commingled Funds | 328,604.30 | - | - | - | 328,604.30 |
| Long-Term Investments | \$ 183,981,281.28 | - | - | - | \$ 183,981,281.28 |
| Other Commingled Funds (Texpool) | \$ 191,959,189.45 | | | | |
| Cash Equivalents | \$ 191,959,189.45 | | | | |

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Credit Risk for Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The TSUS investment policy requires that investments in debt securities have credit ratings recognized by the agencies of Standard and Poor's, Fitch, and/or Moody's. For operating short-intermediate term funds, average credit quality of the entire portfolio is to be greater than or equal to A-, as defined by S&P (A- by Fitch, A3 for Moody's). The minimum credit quality of any investment must be investment grade at the time of purchase. Operating Long-Term funds are intended to be invested in a similar manner to Endowment funds, but no more than 20% of the income portfolio to be rated below investment grade, and no more than 10% of the total portfolio may be invested in emerging/frontier markets. Operating Long Term funds may only invest up to 35% of the market value of its total operating funds portfolio, exclusive of bond proceeds, in this type of investment strategy. In order to invest in appreciation/dividend type investments, Texas State must retain an investment consultant. For the endowment portfolio, a maximum of 25% of the fixed income portfolio may be invested below investment grade. Risk is further defined by prohibited investments and activities, and limited by maximum single purchase and maximum aggregate position percentages.

As of August 31, 2016 and 2015, the credit quality distributions for securities with credit risk exposures were as follows:

| Fund Type | GAAP Fund | Investment Type | Rating | Current Standard & Poor's Rating | |
|--------------|-----------|--|--------|----------------------------------|-------------------------|
| | | | | 2016 | 2015 |
| 05 | 9999 | U.S. Government Agency Obligations | AAA | \$ 16,338,388.73 | \$ 33,803,388.93 |
| | | | AA | 15,019,027.45 | 14,248,526.70 |
| 05 | 9999 | Corporate Obligations | AAA | - | 250,207.50 |
| | | | AA | 2,150,705.50 | 4,563,038.60 |
| | | | A | 11,878,724.49 | 13,567,390.23 |
| | | | BBB | 9,720,977.60 | 1,737,411.35 |
| | | | BB | 250,312.90 | 322,633.60 |
| | | | B | 201,925.60 | 125,438.10 |
| | | | NR | 500,232.80 | 379,244.25 |
| 05 | 9999 | Corporate Asset and Mortgage Backed Securities | AAA | 6,960,858.43 | 369,156.54 |
| | | | AA | 179,684.55 | 242,560.04 |
| | | | BBB | 66,328.74 | - |
| | | | NR | 18,033,001.18 | 9,796,464.63 |
| 05 | 9999 | Municipal Bonds | AA | 79,287.05 | 76,479.95 |
| 05 | 9999 | Misc - Preferred Securities | A | - | 70,740.00 |
| | | | BBB | - | 83,442.00 |
| | | | BB | 40,120.00 | - |
| | | | NR | 170,849.00 | 166,159.50 |
| 05 | 9999 | International Obligations | AAA | 2,408,700.65 | - |
| | | | AA | 580,661.20 | 1,341,393.60 |
| | | | A | 1,296,756.00 | 3,757,123.55 |
| | | | NR | - | 63,112.80 |
| Total | | | | \$ 85,876,541.87 | \$ 84,963,911.87 |

Note 4: Long-Term Liabilities

The following changes occurred in long-term liabilities during the fiscal years ended August 31, 2016 and 2015:

| Employees' Compensable Leave | 2016 | 2015 |
|-------------------------------------|-------------------------|-------------------------|
| Balance, September 1 | \$ 11,697,568.20 | \$ 11,313,884.75 |
| Additions | 1,829,797.29 | 1,419,840.46 |
| Reductions | (1,409,926.41) | (1,036,157.01) |
| Balance, August 31 | \$ 12,117,439.08 | \$ 11,697,568.20 |
| Amounts Due Within One Year | \$ 7,268,659.31 | \$ 6,967,560.49 |
| Amounts Due Thereafter | 4,848,779.77 | 4,730,007.71 |
| Total Due | \$ 12,117,439.08 | \$ 11,697,568.20 |

Employees' Compensable Leave

Accrued compensable leave is the institution's liability for unpaid overtime accrued by classified employees and unused vacation time for all employees. Any obligation to university personnel is paid at the time an employee is dismissed, resigns, or separates from the university, provided the employee has had six months of continuous employment with the State. An expense and liability are recorded annually as the benefits accrue to employees. For the fiscal years ended August 31, 2016 and 2015, the accrued liability for vacation and overtime totaled \$12,117,439.08 and \$11,697,568.20, respectively. During the same periods, the university made lump sum payments totaling \$1,409,926.41 and \$1,036,157.01 for accrued vacation and overtime to employees who separated from State service. Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is only paid when an employee is off due to illness or to the estate of an employee in the event of his/her death. The maximum leave that may be paid to an employees' estate is one-half of the employees' accumulated entitlement or 336 hours, whichever is less.

Note 5: Bonded Indebtedness

All bonded indebtedness for Texas State University is issued by System Administration through the Texas State University System Revenue Financing System. System Administration and each component institution within the system are members of the Revenue Financing System. The Board of Regents pledged all of the funds (revenues) and balances derived or attributable to any member of the Revenue Financing System that is lawfully available to the board for payments on Parity Debt.

System Administration issued the debt; therefore, the bonds payable attributable to the institution are included with the Bonds Payable reported by System Administration. The institution must repay the debt that was issued on its behalf; consequently, the following debt amortization schedule is presented for informational purposes only.

Debt Service Requirements Attributable to Texas State University

| Year | Principal | Interest | Total |
|---------------|--------------------------|--------------------------|--------------------------|
| 2017 | \$ 24,027,609.24 | \$ 20,772,487.24 | \$ 44,800,096.48 |
| 2018 | 24,779,286.73 | 19,794,966.18 | 44,574,252.91 |
| 2019 | 24,390,579.68 | 18,753,760.50 | 43,144,340.18 |
| 2020-2024 | 123,980,871.72 | 76,855,078.44 | 200,835,950.16 |
| 2025-2029 | 119,120,000.00 | 48,485,304.20 | 167,605,304.20 |
| 2030-2034 | 64,245,000.00 | 27,141,216.66 | 91,386,216.66 |
| 2035-2039 | 48,005,000.00 | 14,986,374.10 | 62,991,374.10 |
| 2040-2044 | 35,545,000.00 | 4,077,894.36 | 39,622,894.36 |
| 2045 | 560,000.00 | 23,928.80 | 583,928.80 |
| Totals | \$ 464,653,347.37 | \$ 230,891,010.48 | \$ 695,544,357.85 |

A portion of the debt represents Tuition Revenue Bonds historically funded by the Texas Legislature through General Revenue Appropriations. For the fiscal years ended August 31, 2016 and 2015, the institution was appropriated \$10,343,291.00 and \$10,339,630.00, respectively, for Tuition Revenue Bond debt service.

The institution expects future Legislative appropriations to meet debt service requirements for Tuition Revenue Bonds.

Note 6: Leases

Operating Leases

Texas State has entered into various operating leases for buildings and land. Rental expenses for operating leases were \$347,702.25 for the fiscal year ended August 31, 2016 and \$283,542.01 for the fiscal year ended August 31, 2015.

Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year, as of August 31, 2016 and 2015, were as follows:

| Fiscal Year | 2016 | 2015 |
|---|------------------------|------------------------|
| 2016 | \$ - | \$ 290,011.80 |
| 2017 | \$310,134.19 | 280,012.47 |
| 2018 | 308,490.60 | 279,077.94 |
| 2019 | 314,511.88 | 253,206.10 |
| 2020 | 317,720.75 | 255,494.46 |
| 2021 | 208,627.51 | - |
| 2022 - 2026, 2021 - 2025 | 540,967.74 | 832,452.27 |
| 2027 - 2031, 2026 - 2030 | 130,593.70 | 675,803.04 |
| 2032 - 2036, 2031 - 2035 | 27,706.55 | 54,869.82 |
| Total Minimum Future Lease Rental Payments | \$ 2,158,752.92 | \$ 2,920,927.90 |

Note 7: Interfund Activity and Transactions

Texas State experienced routine transfers with other state agencies, consistent with the activities of the fund making the transfer and as a result of various grants and contract activities. In addition to transfers, Texas State recorded assets and liabilities for future amounts due to/from other state agencies. Repayment of interagency balances will occur within one year from the date of the financial statements.

The university also experiences other interagency activity, which is classified as transfers in/out or legislative transfers in/out. In accordance with tuition set-aside requirements in the Texas Education Code, Section 56.465, tuition revenues were transferred to the Texas Higher Education Coordinating Board. Remaining transfers pertained to receipt of bond proceeds and debt service payments from/to TSUS. Legislative transfer activity is directly attributable to bonds authorized by the Legislature and historically funded by means of special line items in the university's General Revenue Appropriations.

| Agency Name | Agency Number | D23 Fund | 2016 | | 2015 | | Source |
|--|---------------|----------|-------------------------------|-----------------------------|-------------------------------|-----------------------------|----------------|
| | | | Due From Other State Agencies | Due To Other State Agencies | Due From Other State Agencies | Due To Other State Agencies | |
| Texas Department of Motor Vehicles | 608 | 5140 | \$ - | \$ - | \$ 11,833.20 | \$ - | State - Shared |
| Texas Department of Motor Vehicles | 608 | 0802 | 37,952.71 | - | 13,674.20 | - | State - Shared |
| Governor – Fiscal | 300 | 7999 | 84,018.93 | - | 194,025.83 | - | Federal |
| Governor – Fiscal | 300 | 7999 | 394,097.64 | 87,902.11 | 376,688.15 | 285,435.99 | State |
| Texas State Library and Archives Commission | 306 | 7999 | 6,378.50 | - | 1,180.00 | 12,364.34 | Federal |
| Texas Workforce Commission | 320 | 7999 | 71,490.52 | - | - | - | Federal |
| Department of Public Safety | 405 | 7999 | 430,991.00 | - | - | - | Federal |
| Department of Family and Protective Services | 530 | 7999 | 192,753.93 | - | 210,469.63 | - | Federal |
| Department of State Health Services | 537 | 7999 | 563,563.90 | - | 876,166.43 | - | State |
| Department of Aging and Disability Services | 539 | 7999 | - | - | 47,407.39 | - | Federal |
| Department of Agriculture | 551 | 7999 | 3,154.28 | - | 2,928.45 | - | Federal |
| Texas A&M AgriLife Research | 556 | 7999 | 31,112.77 | 19,940.54 | 16,455.34 | 9,614.15 | Federal |
| Texas Water Development Board | 580 | 7999 | 1,100.00 | - | 28,142.57 | - | State |
| Texas Commission on Environmental Quality | 582 | 7999 | 60,290.70 | - | - | - | Federal |
| Texas Commission on Environmental Quality | 582 | 7999 | - | - | 465,486.69 | - | Federal |
| Texas Department of Transportation | 601 | 7999 | 13,132.07 | - | 34,324.95 | - | Federal |
| Texas A&M University System | | | | | | | |
| Health Science Center | 709 | 7999 | - | - | 969.68 | - | State |
| Texas A&M University (Main University) | 711 | 7999 | - | - | - | 5,751.85 | Federal |
| Texas A&M Engineering Extension Service | 716 | 7999 | 119,451.67 | - | - | - | Federal |
| Texas Southern University | 717 | 7999 | 21,909.95 | - | 50,636.95 | - | Federal |

| | | | | | | | |
|---|-----|------|------------------------|----------------------|------------------------|----------------------|---------|
| University of Texas System | 720 | 7999 | - | 49.36 | - | - | State |
| University of Texas at El Paso | 724 | 7999 | 12,538.88 | - | 48,907.93 | - | Federal |
| University of Texas at San Antonio | 743 | 7999 | 113,486.04 | 16,403.14 | 145,925.22 | 9,538.42 | Federal |
| University of Texas Health Science Center at San Antonio | 745 | 7999 | 17,796.50 | - | 15,877.67 | - | Federal |
| University of North Texas | 752 | 7999 | 25,466.93 | - | 6,728.20 | - | Federal |
| Sam Houston State University | 753 | 7999 | - | - | 6,182.51 | - | Federal |
| Texas A&M University – Corpus Christi | 760 | 7999 | 16,412.97 | - | 9,465.46 | - | Federal |
| Texas Higher Education Coordinating Board | 781 | 7999 | 145,041.99 | - | 86,055.13 | - | Federal |
| Texas Higher Education Coordinating Board | 781 | 7999 | 0.13 | 787,149.27 | 75,426.85 | 450,501.22 | State |
| Parks and Wildlife Department | 802 | 7999 | 148,142.22 | - | 61,738.88 | - | Federal |
| Parks and Wildlife Department | 802 | 7999 | 54,425.56 | - | 22,185.79 | - | State |
| Comptroller of Public Accounts | 902 | 0210 | - | - | 1,117,678.00 | - | State |
| Total Due From / Due To | | | \$ 2,564,709.79 | \$ 911,444.42 | \$ 3,926,561.10 | \$ 773,205.97 | |

| Agency Name | Agency Number | D23 Fund | 2016 | | 2015 | | Purpose |
|---|---------------|----------|------------------------|-------------------------|-------------------------|-------------------------|---------------------------|
| | | | Transfers In | Transfers Out | Transfers In | Transfers Out | |
| Comptroller – State Fiscal | 902 | 0210 | \$ 1,067,390.00 | \$ - | \$ 1,117,678.00 | \$ - | Hazlewood |
| Texas Higher Education Coordinating Board | 781 | 0260 | - | - | - | 17,313.34 | Fin Aid Doctoral Transfer |
| Texas Higher Education Coordinating Board | 781 | 5103 | - | - | - | 5,594,563.92 | Fin Aid BOT Transfer |
| Texas State University System | 758 | 7999 | - | - | 26,000,000.00 | - | Bond Proceeds |
| Texas State University System | 758 | 7999 | - | 34,456,405.60 | - | 32,013,993.69 | Debt Service & Billings |
| Total Transfers | | | \$ 1,067,390.00 | \$ 34,456,405.60 | \$ 27,117,678.00 | \$ 37,625,870.95 | |

| Agency Name | Agency Number | D23 Fund | 2016 | | 2015 | | Purpose |
|------------------------------------|---------------|----------|--------------------------|---------------------------|--------------------------|---------------------------|---------------|
| | | | Legislative Transfers In | Legislative Transfers Out | Legislative Transfers In | Legislative Transfers Out | |
| Texas Veterans Commission | 403 | 0001 | \$ 1,405,426.00 | \$ - | \$ - | \$ - | Hazlewood TVC |
| Texas State University System | 758 | 0001 | - | 11,389,306.32 | - | 10,961,309.30 | Debt Service |
| Total Legislative Transfers | | | \$ 1,405,426.00 | \$ 11,389,306.32 | \$ - | \$ 10,961,309.30 | |

Note 8: Contingencies and Commitments

As of August 31, 2016 and 2015, various lawsuits and claims involving Texas State were pending. While the ultimate liability with respect to litigation and other claims asserted against the university cannot be reasonably estimated at this time, such liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the university.

Note 9: Risk Management

Workers' Compensation

The State's Workers' Compensation program is administered by the State Office of Risk Management (SORM). As a participating agency Texas State is assessed an annual charge for Workers' Compensation coverage for employees according to a set formula. The assessment for all fund sources was \$603,537.89 for the fiscal year ended August 31, 2016 and \$561,998.44 for the fiscal year ended August 31, 2015.

Unemployment Compensation

The State provides an Unemployment Compensation program; actual claims are paid from several funding sources as determined by the Comptroller of Public Accounts. The Unemployment Compensation program is on a pay-as-you-go basis, in which no assets are set aside to be accumulated for the payment of claims. There were no material unemployment claims pending for the fiscal years ended August 31, 2016 and 2015.

Property and Other Insurance Coverage

Property insurance is obtained through Alliant Insurance Services (Alliant) to include fire and flood coverage for all university buildings that are valued in excess of \$100,000.00. Texas State's other property and vehicle insurance policies are also obtained through Alliant Insurance Services, a participant in the SORM's statewide insurance program.

After historic flooding in the spring of 2015, a second round of severe storms and flooding occurred in late October causing damage to the main campus and surrounding properties. Approximately twenty-two buildings experienced some form of water damage as did two land properties. While the property insurance partly covered damages to the buildings and their content for both of the incidents, the university also filed claims with the National Flood Insurance Program (NFIP) and the Federal Emergency Management Agency (FEMA) for reimbursement of property and recovery efforts not covered by insurance. The university's initial NFIP claim was settled in November 2015. The university received FEMA approval in FY 2016 but did not receive funding and continues to work with FEMA to identify additional costs that qualify for reimbursement.

Vehicle Insurance

The Texas Motor Vehicle Safety Responsibility Act (Texas Transportation Code, Chapter 601) requires that every non-governmental vehicle operated on a State highway be insured for minimum limits of liability in the amount of \$30,000/\$60,000 bodily injury and \$25,000 property damage. There is coverage of \$1,000,000.00 combined single liability. The coverage exceeds the extent of the waivers of State immunity in the Tort Claims Act.

Auto insurance is obtained through Alliant Insurance Services (Alliant) to include liability coverage for all university owned vehicles as well as hired and non-owned vehicles. Liability coverage is subject to a \$5,000 deductible. Vehicles rented or leased have additional comprehensive and collision coverage subject to a \$1,000 deductible.

Foreign Travel Insurance

Foreign travel accident & sickness as well as liability coverage is obtained through Alliant Insurance Services (Alliant.) This policy covers all students, faculty and staff of the university that travel abroad for approved university business or instruction. The coverage offers out of country medical benefits of \$200,000, emergency medical of \$10,000, accidental death & dismemberment, emergency medical evacuation, emergency reunion, security evacuation, chaperone replacement and war risk. The policy provides general liability coverage of \$1,000,000/\$2,000,000 and auto liability of \$1,000,000 single limit BI/PD and one accident.

Other

The university is exposed to a variety of civil claims resulting from the performance of its duties. It is the university's policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed. Liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated. There were no liabilities outstanding as of August 31, 2016 and 2015.

| Claims and Judgments | 2016 | 2015 |
|-----------------------------|-------------|-------------|
| Balance, September 1 | \$ - | \$ - |
| Increases | 72,953.78 | 21,363.59 |
| Decreases | (72,953.78) | (21,363.59) |
| Balance, August 31 | <u>\$ -</u> | <u>\$ -</u> |

Note 10: The Financial Reporting Entity

Component Units (CUs) are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, CUs can be other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would create misleading or incomplete financial statements.

Component Units

The Texas State University Research Foundation (Research Foundation) was formed as an independent 501(c)(3) organization on July, 22, 2010. The Research Foundation was formed to support the university's mission and objectives of promoting higher education, conducting research, providing public service, and assisting in economic development in Texas. The Research Foundation's fiscal year end concludes on the final day of February. The Research Foundation is exclusively associated with the university.

The Research Foundation is included in the financial statements of Texas State University (University) as a blended component unit in accordance with GASB Statement 14 as amended by GASB Statement 39. The key business officers of the University comprise the entirety of the Research Foundation's officers and directors, thereby giving the University the ability to impose its will on the Research Foundation.

During the fiscal years ended February 29, 2016 and February 28, 2015, the Research Foundation incurred expenses in the amount of \$57,482.38 and \$150,000.00 respectively.

The Harold M. Freeman Education Foundation (Freeman Foundation) is a legally separate entity formed through a trust to make use of the Freeman Ranch available exclusively to Texas State University. The Freeman Center is used and operated solely for farm, ranch and game management, education, and research purposes in connection with the educational activities of Texas State University. There is no formal governing board for the Freeman Foundation. Texas State University acts as an active co-trustee to operate the Center. Frost Bank operates as an inactive trustee to ensure the provisions of the trust are followed. Based on the Freeman Foundation being closely related to Texas State University, the Freeman Foundation is included as a blended component unit. Separate financial statements are not issued by the Freeman Foundation.

Related Organizations

The following affiliated foundations, while not component units, are disclosed due to their close relationship with the university. Affiliated foundations are controlled by separate boards of directors, pay their own expenses and are not included in the basic financial statements of the university.

Texas State University Development Foundation

The Texas State University Development Foundation was formed in 1977 to support the educational, scientific and research mission of Texas State. The Development Foundation raises and manages endowment funds designated for scholarships and other support for the university. Financial activity of the Development Foundation as of and for the years ended August 31, 2016 and August 31, 2015 was as follows:

| | <u>2016</u> | <u>2015</u> |
|------------------------------|-----------------|-----------------|
| University Support | \$ 6,270,394.62 | \$ 1,491,764.83 |
| Student Scholarships | \$ 1,462,976.57 | \$ 1,508,013.68 |
| Restricted Gifts | \$ 4,385,936.77 | \$ 4,966,647.95 |
| Temporarily Restricted Gifts | \$ 451,497.51 | \$ 6,839,558.82 |

The McCoy College of Business Administration Development Foundation

The McCoy College of Business Foundation (Foundation) is a 501(c)(3), founded in 2004, dedicated exclusively to the support of The McCoy College of Business at the university. The Foundation Board of Directors manages the Foundation's investments and determines annual funding for the McCoy College of Business to support chairs, professorships, undergraduate scholarships, graduate fellowships, faculty development, program development, and student development. Based upon estimated, unaudited figures for the fiscal years ended August 31, 2016 and August 31, 2015, financial activity of the Foundation was as follows:

| | <u>2016</u> | <u>2015</u> |
|---------------------------------|------------------|------------------|
| Distributions to the University | \$ 895,787.20 | \$ 839,500.00 |
| New Contributions to Endowments | \$ 545,738.30 | \$ 498,302.70 |
| Assets | \$ 34,660,578.00 | \$ 33,848,792.53 |
| Liabilities | \$ 19,286.00 | \$ 18,153.31 |

The Foundation pays its own operating expenses (including staff salaries, accounting, supplies, and auditing), which were estimated at approximately 0.3% of the assets of the Foundation for each year. Fees for investment management were approximately 1% of the assets each year.

Texas State University Support Foundation

The Texas State University Support Foundation was formed exclusively for charitable, educational, and scientific purposes to assist in the development of the university. During the year ended August 31, 2016, the Foundation began the process of dissolving its operations, donating \$200,000.00 in cash and land valued at \$93,605.00 to the university. Remaining funds were deposited as agency funds with the university to manage residual obligations.

Financial activity of the Support Foundation as of and for the years ended August 31, 2016 and August 31, 2015 was as follows:

| | <u>2016</u> | <u>2015</u> |
|--|---------------|---------------|
| Assets | \$ - | \$ 331,936.35 |
| Income | \$ - | \$ 6,604.31 |
| Expenses | \$ - | \$ 6,851.50 |
| Direct Support to University | \$ 293,604.67 | \$ 3,600.00 |
| Deposits Held in Trust at the University | \$ 38,539.33 | \$ - |

Texas State Alumni Association

The efforts and funds of the Texas State Alumni Association (Association) are dedicated to the university, and are used to provide student scholarships, campus support, and alumni outreach or engagement activities. Financial activity as of and for the years ended August 31, 2016 and August 31, 2015 was as follows:

| | <u>2016</u> | <u>2015</u> |
|--|---------------|---------------|
| Student Scholarships | \$ 18,250.00 | \$ 11,250.00 |
| Deposits Held in Trust at the University | \$ 451,383.06 | \$ 426,970.85 |

Deposits held in trust at the university are considered as Agency Funds in the university's financial statements.

Note 11: Stewardship, Compliance and Accountability

Texas State's administration is not aware of any non-compliance items or material violations of finance related legal and contract provisions. Per the laws of the State of Texas, Texas State cannot spend amounts in excess of appropriations granted by the Texas Legislature and there are no deficits reported in net position.

Note 12: Donor Restricted Endowments

Net appreciation, classified as restricted, expendable on the Statement of Net Position is as follows:

| | <u>2016</u> | <u>2015</u> |
|---------------|--------------------------------|--------------------------------|
| | \$ 16,813,429.71 | \$ 16,643,341.95 |
| Totals | <u>\$ 16,813,429.71</u> | <u>\$ 16,643,341.95</u> |

There was a positive fair value adjustment totaling \$168,636.60 for fiscal 2016 and a negative fair value adjustment of (\$4,463,977.99) fiscal 2015 respectively. The amount reported as net appreciation represents net appreciation on investments of donor restricted endowments that are available for authorization for expenditure. Pursuant to the Uniform Prudent Management of Institutional Funds Act (Property Code Chapter 163.001), net appreciation, realized and unrealized, in the fair market value of the endowment assets in excess of historical dollar value of the gifts may be distributed to the extent prudent.

Distributions are calculated using a hybrid Yale model. The calculation takes 70% of the prior year spend, increased by the Higher Education Price Index (HEPI), plus 30% of the average 36 month fair market value multiplied times a 3.5% percentage distribution. The individual endowments own units in a restricted investment pool and the annual distribution is allocated on a per unit basis.

Changes from prior year balances for expendable and non-expendable balances were as follows:

| <u>True Endowment Funds</u> | <u>2016</u> | <u>2015</u> | <u>Reason for Change</u> |
|-----------------------------|---------------|-------------------|--|
| Expendable Balances | \$ 170,087.76 | \$ (2,098,135.81) | Fair value fluctuations, earnings, fees and distributions. |
| Non-Expendable Balances | \$ 646,228.15 | \$ 495,920.58 | New gifts |

Texas State Celebrates 50th Anniversary of the Higher Education Act

In fall 2015, Texas State celebrated the 50th anniversary of the signing of the Higher Education Act. The act, signed by President Lyndon Baines Johnson on Texas State's campus, made college education attainable for thousands of lower- and middle-income students who might never have considered it possible. Dignitaries from across the nation gathered on campus for a program and symposium to honor the act and discuss its lasting impact on the nation.



STAR Park Expansion Adds Opportunities for Faculty, Students

The Science, Technology and Advanced Research (STAR) Park's recent expansion added 16,000 square feet to the facility. The new area adds flexible wet lab, office, and creative space to STAR Park. The addition expands opportunities for Texas State students and faculty and new high-tech jobs in the San Marcos area.



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