



# TEXAS SOUTHERN UNIVERSITY TAKING FLIGHT

Financial Statements for Fiscal Year Ending August 31, 2013





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The Aviation Science and Technology Department of Texas Southern University (TSU) offers academic and professional degree programs that focus on skills in aviation management, communications, and flight operations for private and airline transport pilots. As a part of our continued commitment to excellence, TSU provides fine-tuned training and high-tech resources that give our students hands-on exposure to many aspects of careers in aviation. From airport management to mission or humanitarian services, the aviation program prepares graduates to continue their lives working in a highly rewarding field.

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# TRANSMITTAL SECTION





# MESSAGE FROM THE PRESIDENT

March 4, 2014

Texas Southern University's Annual Financial Report for Fiscal Year 2013 provides a detailed overview of the University's financial position and operations as of August 31, 2013. As a public university, Texas Southern University is committed to a transparent financial process and to ensuring that there is a full accounting for the funds we receive from the state, the federal government, and individuals and corporations. We consider your support to be a significant investment in the educational success and economic future of our students as they complete their academic journey at Texas Southern University.

We are pleased to bring this 2013 Annual Financial Report to our constituents, our elected officials, and our donors and to provide you with information on some of the truly exciting and unique programs and successes that we have experienced over this past year.

Our future at Texas Southern University is taking flight as we launch new programs, expand our existing offerings and institute additional support services to further the success of our students. Our business enterprises are thriving. Our incoming students are among the best and the brightest with an average entering GPA of 3.0. We are launching a new flight training program as part of our Aviation Sciences degree, and we have added an undergraduate degree in Emergency Management and Homeland Security. We have online master's degrees in business, public administration, administration of justice and education, with more to come. Our alumni are making an impact across the world, from the general manager of Hobby Airport to the President of Walgreens Pharmacies, Health and Wellness Division, from the U.S. Ambassador to Barbados to the Nigerian Secretary of Health and Welfare, and we must not forget one of our favorite sons, Michael Strahan, who will be inducted into the Pro Football Hall of Fame this summer. We honored Mr. Strahan with an honorary doctorate last May, an honor we also bestowed on President Nelson Mandela in 1991.

Texas Southern University is a vital force in Houston, in Texas and in the nation. You will find our pharmacists in every city, our lawyers in firms and courthouses across the country, our business graduates in boardrooms and in their own small businesses, and our scientists at the National Aeronautics and Space Administration (NASA), the National Institutes of Health (NIH), and research labs throughout America. The future of our students is also the future of Houston. We are building the 21st century workforce, and your partnership is critical to our success. With your help, Texas Southern is becoming one of the nation's leading urban-serving universities.

  
John M. Rudley  
President



# MESSAGE FROM THE CHIEF FINANCIAL OFFICER

March 4, 2014

Greetings,

We are pleased to submit this independently audited Annual Financial Report (AFR) for the fiscal year ended August 31, 2013 for Texas Southern University (TSU). We continue to have the AFR independently audited, although not required by the state, to demonstrate to our community, supporters and stakeholders that TSU is fulfilling its fiduciary responsibilities for the finances of the institution.

Please refer to the Auditors' Report, on page 16-17.

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

  
Jim C. McShan  
CFO  
Vice President for Administration & Finance





# UNIVERSITY ADMINISTRATION

John M. Rudley, Ed.D	President
Sunny E. Ohia, Ph.D	Provost/ VP for Academic Affairs and Research
Jim C. McShan, CPA	VP for Administration and Finance/CFO
William T. Saunders, J.D.	VP for Student Services and Dean of Students
Andrew C. Hughey, J.D.	General Counsel
Wendy H. Adair, MBA, MLS	VP for University Advancement
Charla Parker-Thompson, MBA, CIA, CISA	Director of Internal Audit
Charles F. McClelland, Ph.D	Director of Athletics
Janis J. Newman	Chief of Staff



## MISSION

Texas Southern University is a comprehensive, metropolitan university. Building on its legacy as a Historically Black University, the University provides academic and research programs that address critical urban issues and prepare an ethnically diverse student population to become a force for positive change in a global society. In order to achieve this mission, Texas Southern University provides:

- Quality instruction in a culture of innovative teaching and learning;
- Basic and applied research and scholarship that is responsive to community issues;
- Opportunities for public service that benefit the community and the world

## VISION

Texas Southern University will become one of the nation’s preeminent comprehensive, metropolitan universities. We will be recognized by the excellence of our programs, the quality of our instruction, our innovative research, and our desire to be a contributing partner to our community, state, nation, and world.

# MISSION AND VISION





### Chairman Glenn O. Lewis

Mr. Lewis comes to the University with a stellar career in public service and law. His appointment to the Board of Regents follows his leadership as Chairman of the Blue Ribbon Advisory Committee for Texas Southern University established by Texas Governor Rick Perry. His colleagues named him Chair of the Texas Southern University Board of Regents on May 22, 2007.

*Term: May 11, 2007 – February 1, 2019*



### Vice Chairman Dionicio (Don) Flores

Mr. Flores is a vintage journalist and newspaper executive who presently serves as a media consultant. Until August 2008, he served as vice president and editor of the El Paso Times in El Paso, Texas, which is owned by the Texas New Mexico Partnership, which is in turn owned by MediaNews, Gannett and Hearst and managed by MediaNews.

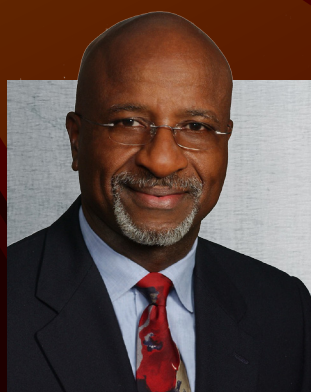
*Term: March 13, 2009 – February 1, 2015*



### Second Vice Chairman Curtistene McCowan

Ms. McCowan is a former Senior Investigator at the Federal Trade Commission. After more than 32 years of meritorious service, McCowan retired from the federal government in 2005. Combining her professional and civic duties, McCowan has served as President of the Dallas Area Chapter of Federally Employed Women and as the General Chair of the National Training Program for Federally Employed Women.

*Term: October 26, 2007 – February 1, 2015*



### Secretary Samuel Bryant

Mr. Bryant is President of Bryant Wealth Investment Group, LLC, and is a registered investment representative serving high net worth individuals interested in developing long-term wealth management plans. Bryant served in executive roles with Applied Materials as Austin Site Director, Director of Global Community Affairs-North America and Director of HR, and has also held positions in HR with Tandem Computers and Johnson & Johnson.

*Term: October 26, 2007 – February 1, 2017*

*Term: October 26, 2007 – February 1, 2017*



### Regent Gary Bledsoe

Mr. Bledsoe is President of the Texas NAACP and has held that position since being elected in 1991. The Austin lawyer, who specializes in public interest, employment and civil rights law, has a long-standing relationship with the NAACP as a member of its National Board since 2003, and is currently the Chair of the National Criminal Justice Committee of the NAACP.

*Term: May 11, 2007 – February 1, 2017*



### Regent Richard Knight, Jr.

Mr. Knight is the owner and managing partner of Pegasus Texas Holdings LLC, which provides support services to the construction industry. He has held management positions for Caltex Petroleum in the US and Singapore. He has provided oversight and management of major projects such as the Dallas ISD 2002 bond program, the DFW Airport \$700 million Capital Development Program, and the Children's Medical Center \$36 million tower project.

*Term: December 6, 2007 – February 1, 2017*



### Regent Sarah Monty-Arnoni

Ms. Monty-Arnoni is a partner and leader of the immigration practice group for Monty & Ramirez. She is a founding member of the Immigration Section of the Texas State Bar, and an active member in the American Immigration Lawyers Association (AILA), from which she was awarded the Pro Bono Guardian Award from 2012-2013. She serves as a volunteer attorney for Neighborhood Centers, Inc. and Associated Catholic Charities of the Diocese.

*Term: April 26, 2013 – February 1, 2019*



### Regent Marilyn A. Rose, CPA

Ms. Rose is a Registered Texas Assessor Collector. She has over five years of audit experience in Public Accounting with two of the "Big 4" accounting firms and is currently employed at the Harris County Tax Assessor-Collector Office as an Internal Auditor. Rose is a member of the Institute of Internal Auditors and a Board Member of the Texas Organization of Youth Sports.

*Term: March 7, 2011 – February 1, 2015*



### Regent Erik D. Salwen

Mr. Salwen exercises leadership in the area of counseling across business, educational and church contexts. His background spans from executive management in the technology industry to pastoral leadership for graduate-level theological education. Prior to his focus on theological education, Salwen was Founder and President of Oak Research, LLC, a Houston-based technology marketing research consultancy, with HP and Microsoft as primary clients.

*Term: July 16, 2012 – February 1, 2019*



### Student Regent Faran Foy

Ms. Foy is a third-year law student at Texas Southern University Thurgood Marshall School of Law. She received her Bachelor of Arts degree in English from Florida State University in the newly-formed Editing, Writing, and Media program, and studied journalism and magazine production at Florida A&M University through the cooperative educational program. Ms. Foy gives her time serving the community and mentoring young women.

*Term: June 1, 2013 – May 31, 2014*





# FINANCIAL SECTION





# INDEPENDENT AUDITORS' REPORT

## INDEPENDENT AUDITORS' REPORT

To the Board of Regents of  
Texas Southern University:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Texas Southern University (TSU), an Agency of the State of Texas, as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise TSU's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Basis for Adverse Opinion***

As discussed in Note 1, the financial statements of TSU are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the State of Texas that is attributable to the transactions of TSU. Accounting principles generally accepted in the United States of America require that State of Texas's financial statements present the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Texas.

### ***Adverse Opinion***

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion" paragraph, the financial statements referred to above do not present fairly the financial position of the State of Texas as of August 31, 2013, or the changes in its financial position or cash flows thereof for the year then ended.

### ***Unmodified Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of TSU as of August 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### ***Required Supplementary Information***

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

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise TSU's basic financial statements. The introductory section, schedule of operating expenses, and the schedules identified as 1A, 1B, 2A, 2B, 2C, and 2D in the table of contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The schedule of operating expenses and schedules 1A, 1B, 2A, 2B, 2C, and 2D are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of operating expenses and schedules 1A, 1B, 2A, 2B, 2C, and 2D are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2013 on our consideration of TSU's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TSU's internal control over financial reporting and compliance.

Belt Harris Pechacek, LLLP  
Certified Public Accountants  
Houston, Texas  
November 11, 2013  
Except for Note 8, as to which the date is February 13, 2014.



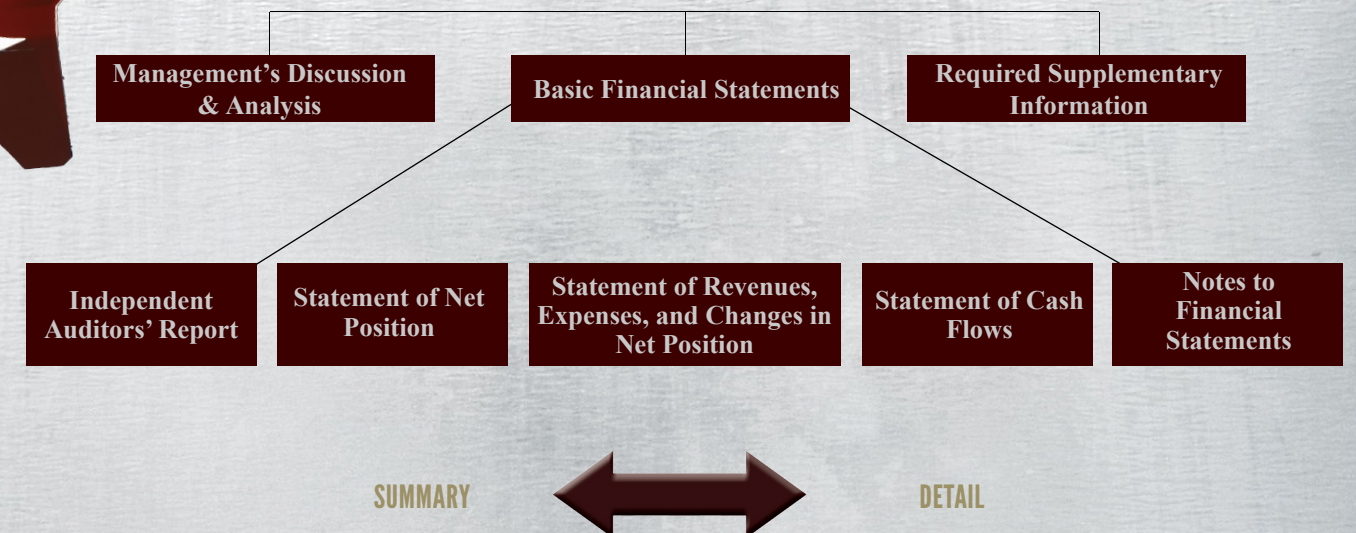
# MANAGEMENT'S DISCUSSION & ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS • AUGUST 31, 2013

## Introduction

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

## COMPONENTS OF THE FINANCIAL SECTION



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

## Basic Financial Statements

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



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

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

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

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

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

Financial Analysis of TSU

As noted earlier, net position may serve over time as a useful indicator of TSU's financial position. Assets exceed liabilities by \$149,194,340 of August 31, 2013. The largest portion of TSU's net position (71 percent) reflects its investments in capital assets (e.g., land, buildings and improvements, equipment, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. TSU uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although TSU's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Condensed Statement of Net Position

Unrestricted net position decreased by \$8,566,189 from \$7,959,581 to \$(606,607) at year end. Unrestricted net position represents amounts that can be used to finance day-to-day operations without constraints established by debt covenants and enabling legislation. The majority of this decrease can be attributed to normal business operational and capital asset activities.

Net Position as of August 31, 2013

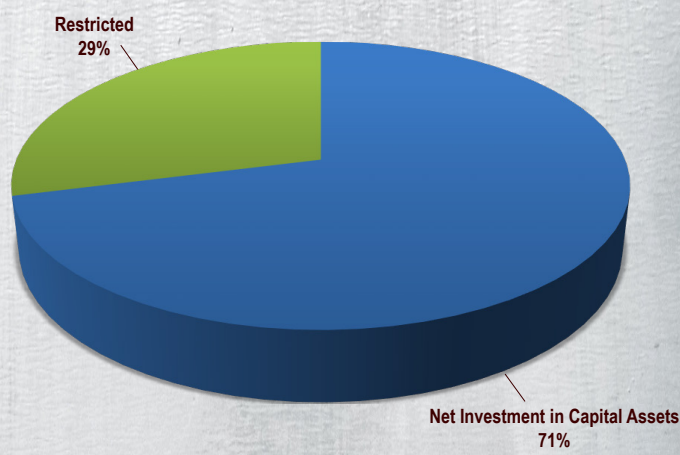


Table 1  
Condensed Statement of Net Position

	2013	2012
Current and other assets	\$ 71,252,098	\$ 83,608,154
Restricted assets	55,347,084	83,696,651
Capital assets, net	264,233,943	244,004,781
Total Assets	390,833,125	411,309,586
Current liabilities	85,919,332	96,362,406
Noncurrent liabilities	155,719,453	166,840,236
Total Liabilities	241,638,785	263,202,642
Net investment in capital assets	105,944,398	100,705,825
Debt service	-	2,817,866
Other	43,856,549	36,623,671
Unrestricted	(606,607)	7,959,581
Total Net Position	\$ 149,194,340	\$ 148,106,943

For the year ended August 31, 2013, total revenue was \$213,012,630. Total revenue decreased by \$7,346,562 (or 3 percent). TSU's total net position increased by \$1,087,397 (or 1 percent). This primary increase in net position was due to additional awards received for Other Contracts and Grants in fiscal year 2013.

Expenses totaled \$211,925,233 for the year ended August 31, 2013. This represents a decrease of \$281,885 from last year. The majority of this decrease can be attributed to a reduction in the amount of interest expense and fiscal charges.

Key elements to these changes are as follows:

- Operating revenues increased by \$4,964,746 (5 percent) primarily due to federal revenue and other grants and contracts.
- Non-operating revenues decreased by \$12,311,307 (11 percent) primarily due to the close-out of existing bonds to purchase auxiliary properties in FY12.
- Operating expenses less depreciation increased by \$2,926,844 (2 percent) as a result of an increase in salaries and wages.
- Depreciation expense decreased \$2,893,244 (17 percent) due to significant amount of library book deletions.

Graphic representation of selected data from the summary tables can be found on the following page of this document in order to assist in the analysis of TSU's activities.

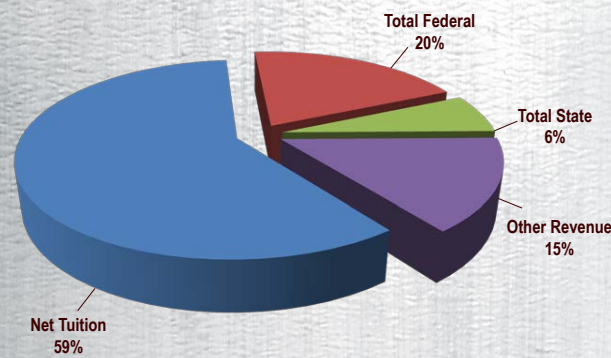
Table 2  
Revenues, Expenses, and Changes in Net Position

	2013	2012
OPERATING REVENUES		
Tuition and Fees - Pledged	\$ 81,397,021	\$ 82,526,345
Discount on Tuition and Fees	(15,273,937)	(20,716,408)
Auxiliary Enterprises -Pledged	10,815,680	11,919,227
Other Sales of Goods and Services - Pledged	151,694	226,208
Federal Revenue	18,157,394	15,223,607
Federal Pass-Through Revenue	3,797,871	3,363,800
State Revenue	1,454,594	1,233,370
State Pass-Through Revenue	5,824,187	7,705,766
Other Contracts and Grants - Pledged	1,768,517	894,336
Other Operating Revenue	4,031,399	4,783,423
Total Operating Revenues	112,124,420	107,159,674
OPERATING EXPENSES		
Salaries and Wages	93,242,587	89,577,893
Payroll Related Costs	21,489,829	21,188,259
Professional Fees and Services	6,460,586	6,818,234
Travel	3,543,706	3,438,617
Materials and Supplies	10,001,207	11,768,529
Communication and Utilities	6,762,928	6,213,945
Repairs and Maintenance	3,819,340	4,488,255
Rentals and Leases	2,232,170	2,457,482
Printing and Reproductions	727,692	716,404
Federal Pass-Through Expense	4,185	125,864
Bad Debt Expense	2,217,028	2,175,211
Scholarships	27,433,811	26,616,255
Other Operating Expenses	11,259,152	10,682,430
Depreciation and Amortization	14,433,986	17,327,229
Total Operating Expenses	203,628,207	203,594,607
Operating (Loss)	\$ (91,503,787)	\$ (96,434,933)
NONOPERATING REVENUES (EXPENSES)		
Legislative Revenue	\$ 52,143,547	\$ 52,541,654
Additional Appropriations	9,442,809	9,512,275
Gifts	532,336	2,112,120
Federal Revenue Nonoperating	21,355,398	24,866,074
Interest Income	1,384,173	1,681,054
Investing Activities Expenses	(214,000)	(277,320)
Interest Expense and Fiscal Charges	(7,317,522)	(7,630,160)
Net Increase (Decrease) Fair Value	4,482,330	3,283,766
Other Nonoperating Revenue/Expense	2,325,890	10,208,611
Total Nonoperating Revenues (Expenses)	84,134,961	96,298,073
Loss Before Other Revenues, Expenses, Gains/Losses and Transfers	(7,368,826)	(136,859)
OTHER REVENUES, EXPENSES, AND TRANSFERS		
Capital appropriations (HEAF)	8,894,700	8,894,700
Contributions to Permanent and Term Endowments	344,893	151,337
Transfer Out	(765,504)	(705,031)
Lapses	(17,866)	(52,073)
Total Other Revenues, Expenses, and Transfers	8,456,223	8,288,933
Change in Net Position	1,087,397	8,152,074
Beginning Net Position	148,106,943	139,954,870
Ending Net Position	\$ 149,194,340	\$ 148,106,943

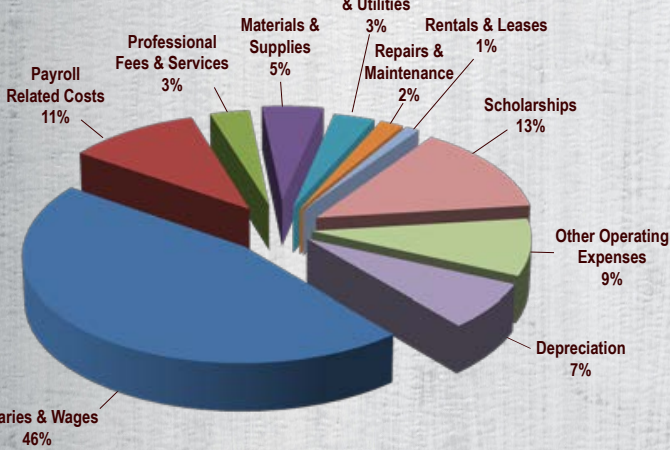
Texas Southern University is proud to introduce Captain Roscoe S. Edwards to the aviation team. Edwards currently serves as Flight Training Program Coordinator. He has taught inner city youth to fly airplanes through the “Raiders-Tigers Flying Club” for more than 24 years and through the “In the Hood” program for more than 24 years. Edwards served as a Captain for Continental/United Airlines for 26 years.



Operating Revenues



Operating Expenses



Capital Assets

At year end, TSU had invested \$264,233,943 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of \$20,229,162.

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

- Building improvements completed at a cost of \$12,567,559.
- Various building renovations and equipment were added as construction in progress at a total cost of \$34,663,148.
- Construction has commenced on the new residential housing unit estimated to cost \$55 million.

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

Long-Term Debt

TSU’s revenue bonds carry the rating of “Baa1” with Moody’s Investors Service. At year end, TSU had \$94,281,388 in revenue bonds outstanding versus \$101,709,725 last year. TSU had \$9,240,595 in general obligation bonds outstanding compared to \$14,261,190 last year. Also, at year end, TSU had \$61,818,153 in notes payable to the Department of Education. This includes \$774,437 in advances drawn on \$55 million dollars in financing obtained to build an 800 bed Housing Unit.

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

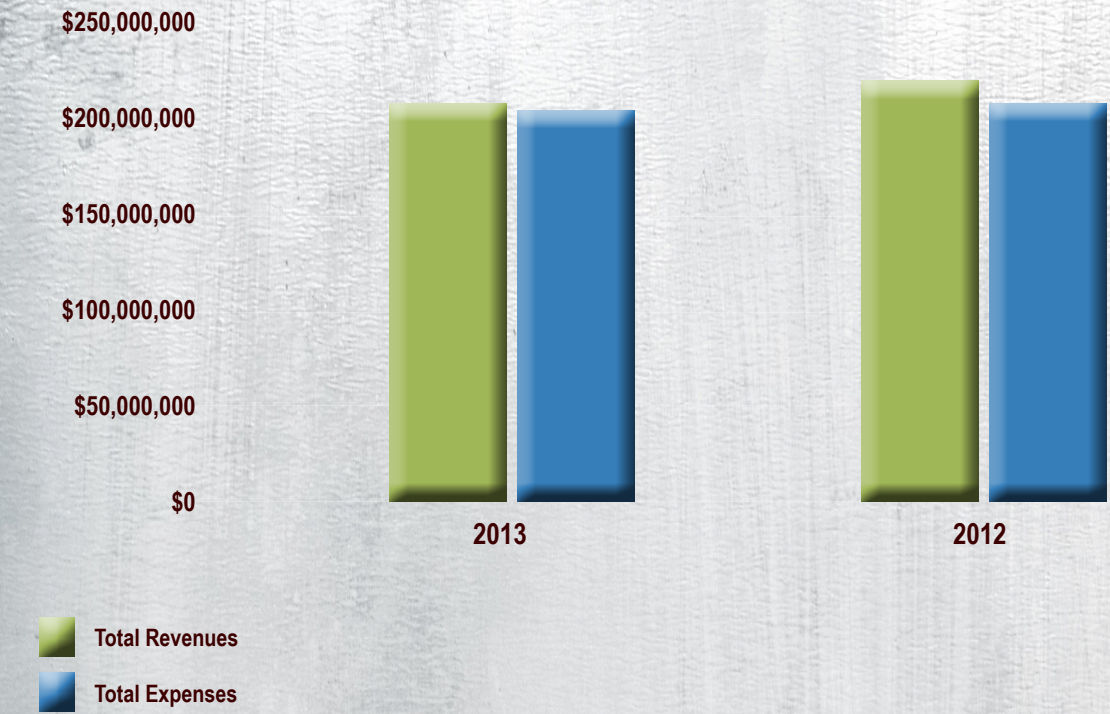
Economic Factors

TSU’s revenue declined in fiscal year 2013 due to reductions in State funding across the board including decreases in State and additional appropriations. In addition to State funding, TSU received less Federal grant awards for scholarships to students.

Contacting TSU’s Financial Management

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

Revenues & Expenses



Texas Southern University has one of only two flight simulators in the nation to support its airway sciences program.

Pictured right: President Dr. John Rudley and a TSU aviation student navigate from the full motion simulator. This machine gives students a hands-on airplane cockpit experience and enhances the students’ knowledge of aircraft and operating procedures.





# BASIC FINANCIAL STATEMENTS





Statement of Net Position  
Year Ended August 31, 2013

ASSETS	2013
<b>Current Assets</b>	
Cash and Cash Equivalents	
Cash on Hand	\$ 2,160
Cash in Bank	17,545,795
Cash in Transit/Reimburse from Treasury	15,927
Cash in State Treasury	1,940,729
Restricted:	
Cash in Bank-Restricted	443,544
Cash Equivalent	9,027,284
Short-Term Investments	3,869,271
Legislative Appropriations	4,966,123
Receivables:	
Federal	7,761,002
Other Intergovernmental	4,926,626
Accounts, Net	19,542,230
Other	680,613
Due From Other Agencies	43,767
Consumable Inventories	487,027
<b>Total Current Assets</b>	<b>71,252,098</b>
<b>Non-Current Assets</b>	
Restricted:	
Investments	43,516,022
Loans and Contracts	1,672,978
Prepaid Cost	8,683,105
Deferred Charges	1,474,979
<b>Total Non-Current Restricted Assets</b>	<b>55,347,084</b>
Capital Assets:	
Land	17,132,193
Construction in Progress	27,904,450
Historical Treasures and Works of Art	2,829,313
<b>Total Non-Depreciable or Non-Amortizable</b>	<b>47,865,956</b>
Capital Assets Depreciable:	
Buildings and Building Improvements	390,315,079
Infrastructure	6,528,361
Equipment	26,626,782
Library Books	29,999,875
Less: Accumulated Depreciation	(237,102,110)
<b>Total Depreciable or Amortizable, Net</b>	<b>216,367,987</b>
<b>Total Non-Current Assets</b>	<b>319,581,027</b>
<b>TOTAL ASSETS</b>	<b>390,833,125</b>

LIABILITIES	2013
<b>Current Liabilities</b>	
Accounts Payable	\$ 6,907,337
Payroll Payable	6,654,375
Interest Payable	1,824,631
Escheat Payable	343,690
Unearned Revenues	45,804,381
Student Refunds Payable	31,505
Other Payables	6,505,724
Notes and Loans Current Payable	2,150,986
Revenue Bonds Current Payable, Net	8,991,577
General Obligation Bonds Current Payable, Net	5,225,595
Employees' Compensable Leave	1,479,531
<b>Total Current Liabilities</b>	<b>85,919,332</b>
<b>Non-Current Liabilities</b>	
Notes and Loans Payable	59,667,167
Revenue Bonds Payable, Net	85,289,810
General Obligation Bonds Payable, Net	4,015,000
Employees' Compensable Leave	3,953,996
Arbitrage Payable	69,611
Due to Perkins Loan Program	2,723,869
<b>Total Non-Current Liabilities</b>	<b>155,719,453</b>
<b>TOTAL LIABILITIES</b>	<b>241,638,785</b>
<b>NET POSITION</b>	
Net investment in capital assets	105,944,398
Restricted For:	
Other Restricted	2,152,045
Funds Held as Permanent Investments:	
Endowments	41,704,504
Unrestricted	(606,607)
<b>TOTAL NET POSITION</b>	<b>\$ 149,194,340</b>

See Notes to Financial Statements.

The Flight Simulator Lab that is pictured at right, is equipped with eight flight desktop simulators and can be adapted for use in any aspect of the air traffic management curriculum, including ground/tower training, terminal radar simulation, and enroute radar instruction. The system is also capable of generating any type of pseudo-pilot traffic, as well as integrate with flight simulators piloted by students or instructor staff.

Statement of Revenues, Expenses, & Changes in Net Position  
Year Ended August 31, 2013

OPERATING REVENUES	2013	NONOPERATING REVENUES (EXPENSES)	2013
Tuition and Fees - Pledged	\$ 81,397,021	Legislative Revenue	\$ 52,143,547
Discount on Tuition and Fees	(15,273,937)	Additional Appropriations	9,442,809
Auxiliary Enterprises -Pledged	10,815,680	Gifts	532,336
Other Sales of Goods and Services - Pledged	151,694	Federal Revenue Nonoperating	21,355,398
Federal Revenue	18,157,394	Interest Income	1,384,173
Federal Pass-Through Revenue	3,797,871	Investing Activities Expenses	(214,000)
State Revenue	1,454,594	Interest Expense and Fiscal Charges	(7,317,522)
State Pass-Through Revenue	5,824,187	Net Increase (Decrease) Fair Value	4,482,330
Other Contracts and Grants - Pledged	1,768,517	Other Nonoperating Revenue/Expense	2,325,890
Other Operating Revenue	4,031,399	<b>Total Nonoperating Revenues</b>	<b>84,134,961</b>
<b>Total Operating Revenues</b>	<b>112,124,420</b>	<b>(Loss) Before Other Revenues, Expenses, Gains/Losses and Transfers</b>	<b>(7,368,827)</b>
<b>OPERATING EXPENSES</b>		<b>OTHER REVENUES, EXPENSES, GAINS/LOSSES AND TRANSFERS</b>	
Salaries and Wages	93,242,587	Capital Appropriations (HEAF)	8,894,700
Payroll Related Costs	21,489,829	Contributions to Permanent and Term Endowments	344,894
Professional Fees and Services	6,460,586	Transfer Out	(765,504)
Travel	3,543,706	Lapses in Appropriations	(17,866)
Materials and Supplies	10,001,207	<b>Total Other Revenues, Expenses, Gains/Losses and Transfers</b>	<b>8,456,224</b>
Communication and Utilities	6,762,928	<b>Change in Net Position</b>	<b>1,087,397</b>
Repairs and Maintenance	3,819,340	<b>Beginning Net Position</b>	<b>148,106,943</b>
Rentals and Leases	2,232,170	<b>Ending Net Position</b>	<b>\$149,194,340</b>
Printing and Reproductions	727,692	See Notes to Financial Statements.	
Federal Pass-Through Expense	4,186		
Bad Debt Expense	2,217,028		
Scholarships	27,433,811		
Other Operating Expenses	11,259,152		
Depreciation and Amortization	14,433,986		
<b>Total Operating Expenses</b>	<b>203,628,208</b>		
<b>Operating (Loss)</b>	<b>\$ (91,503,788)</b>		





Statement of Cash Flows  
Year Ended August 31, 2013

<b>Cash Flows from Operating Activities</b>	<b>2013</b>
Proceeds from tuition and fees	\$ 64,548,892
Proceeds from auxiliary enterprises	10,815,680
Proceeds from federal grants and contracts	21,945,264
Proceeds from state grants and contracts	8,158,503
Proceeds from other revenues	4,170,777
Payments to employees for salaries and wages	(93,610,414)
Payments for employee related costs	(21,525,333)
Payments for other expenses	(69,675,255)
<b>Net Cash (Used) by Operating Activities</b>	<b>(75,171,886)</b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Receipts from state appropriations	73,738,049
Proceeds from federal grants and contracts	21,355,398
Receipts from gifts and endowments	1,477,230
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>96,570,677</b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Acquisition and construction of capital assets	(34,663,148)
Principal paid on capital debt	(77,262,402)
Interest and fiscal agent fees paid	(8,003,276)
Loan receipts	63,129,437
<b>Net Cash (Used) by Capital and Related Financing Activities</b>	<b>(56,799,389)</b>
<b>Cash Flows from Investing Activities</b>	
Sale of investments	14,663,813
Payments received on notes receivable	177,269
Interest received	1,170,173
<b>Net Cash Provided by Investing Activities</b>	<b>16,011,255</b>
<b>Net (Decrease) in Cash and Cash Equivalents</b>	<b>(19,389,343)</b>
Beginning cash and cash equivalents	48,364,782
<b>Ending Cash and Cash Equivalents</b>	<b>28,975,439</b>
Unrestricted cash and cash equivalents	19,504,611
Restricted cash and cash equivalents	9,470,828
<b>Ending Cash and Cash Equivalents</b>	<b>\$ 28,975,439</b>

<b>Reconciliation of Operating (Loss) to Net Cash (Used) by Operating Activities</b>	<b>2013</b>
Operating (loss)	\$(91,503,788)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:	
Depreciation	14,433,986
<b>Changes in Operating Assets and Liabilities:</b>	
<b>(Increase) Decrease in:</b>	
Accounts receivable, net	1,667,437
Due from federal government	(10,001)
Other receivables	(590,251)
Inventories	(286,252)
Prepaid items	8,382,043
<b>Increase (Decrease) in:</b>	
Accounts payable	(1,650,565)
Salaries payable	(461,700)
Due to state	(35,504)
Escheat payable	(63,224)
Deferred revenue	(1,190,582)
Student refunds payable	(2,361,907)
Other current liabilities	(1,595,450)
Compensated absences	93,872
<b>Net Cash (Used) by Operating Activities</b>	<b>\$(75,171,886)</b>

See Notes to Financial Statements.



TSU alum, Perry J. Miller, A.A.E., serves as the general manager for William P. Hobby Airport (HOU). Miller oversees the daily operations of the facility and the development and implementation of policies and procedures, and coordinates the preparation and monitoring of the Hobby Airport budget and expenditures.

Miller obtained his Bachelor of Science degree in Airway Science-Management from Texas Southern University in 1990. He also holds a Master of Science degree in Transportation Planning and Management.

Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

A. Reporting Entity

TSU is an agency of the State of Texas (the "State"). TSU serves the State by providing education, research, and extension work in the fields of the arts, business, education, law, pharmacy, public affairs, science, and technology. No component units have been identified which should be presented within TSU's report.

B. Financial Statement Presentation

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

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

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

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



C. Measurement Focus and Basis of Accounting

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

D. Budgets and Budgetary Accounting

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

E. Assets, Liabilities, and Net Position

1. Cash and Cash Equivalents

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

2. Balance in State Appropriations

This item represents the balance of general revenue funds at August 31, 2013 as calculated in the Texas Comptroller's General Revenue Reconciliation.

3. Current Receivables – Other

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

4. Investments

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

5. Restricted Assets

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

6. Inventories and Prepaid Costs

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

7. Capital Assets

Capital assets are defined by the State as follows:

<u>Class of Asset</u>	<u>Threshold</u>
Land and Land Improvements	Capitalize all
Buildings and Building Improvements	\$100,000
Facilities and Other Improvements	\$100,000
Infrastructure-Depreciable	\$500,000
Infrastructure-Non-Depreciable	Capitalize all
Furniture and Equipment/Vehicles	\$5,000
Library Books (collections)	Capitalize all
Works of Art/Historical Treasures	Capitalize all
Leasehold Improvements	\$100,000
Internally Generated Computer Software	\$1,000,000
Other Computer Software	\$100,000
Land Use Rights – Permanent	Capitalize all
Land Use Right – Term	\$100,000
Other Intangible Capital Assets	\$100,000
Construction in Progress	Capitalize all

These assets are capitalized at cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Depreciation is reported on all exhaustible assets. Inexhaustible assets such as works of art and historical treasures are not depreciated. Assets are depreciated or amortized over the estimated useful life of the asset using the straight-line method over the following estimated useful years:

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

8. Accounts Payable

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

9. Compensated Absences

Employees' compensable leave balances represent the liability that becomes "due" upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Liabilities are reported separately as either current or noncurrent in the statement of net position. These obligations are normally paid from the same funding source from which each employee's salary or wage compensation was paid.

10. Bonds Payable – General Obligation Bonds

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

The Spearman Technology Building was severely damaged and rendered unusable by the impact of Hurricane Ike on September 13, 2008. It was demolished to make room for a new technology building, which would maintain the history of the building by carrying over the Spearman name, honoring late TSU President, Leonard H. O. Spearman.



11. Bonds Payable – Revenue Bonds

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

12. Net Position

The difference between fund assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is net position.

F. Estimates

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

G. Operating versus Non-operating Revenues

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

H. Restricted versus Unrestricted Resources

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

I. Economic Dependency

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

NOTE 2: CAPITAL ASSETS

A summary of changes in capital assets for the year ended August 31, 2013 is shown in Exhibit 1 on page 41.

Total construction commitments outstanding at year end were \$59,686,562.

NOTE 3: DEPOSITS AND INVESTMENTS

A. Deposits of Cash in Bank

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, TSU's deposits may not be returned to it. As of August 31, 2013, TSU's deposits were fully collateralized.

	Amount
Cash and cash equivalents per statement of cash flows	\$ 28,975,439
Less:	
Cash on hand	2,160
Cash in transit	15,927
Cash in treasury	1,940,729
Total Cash in Bank	<u>\$ 27,016,623</u>
Unrestricted cash in bank:	\$ 17,545,795
Restricted cash in bank:	9,470,828
Total Cash in Bank	<u>\$ 27,016,623</u>

B. Investments

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

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

As of August 31, 2013, TSU had the following investments:

Investment Type	Fair Value
U.S. Government Agency Obligations	\$ 6,553,452
U.S. Treasury Securities	2,962,733
Equity	26,406,739
Corportate Obligations	5,433,908
International Obligations	2,132,161
Fixed Income Money Market Funds	12,923,584
Total Fair Value	<u>\$ 56,412,577</u>

The new technology building boasts 780,000 square feet of space and the latest technology for instruction and research. The new and redesigned building houses six academic departments: Aviation Science and Technology, Computer Science, Engineering Technology, Industrial Technology, Physics, and Transportation Studies.



Notes to Financial Statements

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

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

**Custodial credit risk – investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, TSU will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. TSU's investment policy requires safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in TSU's safekeeping account prior to the release of funds.

**Interest rate risk-investments.** For an investment, this is the risk that changes in interest rates will adversely affect the fair value of an investment. Please view Exhibit 2 on page 42 for an illustration of TSU's interest rate risk as of August 31, 2013.

NOTE 4: SUMMARY OF LONG-TERM LIABILITIES

The changes reported in the long-term liabilities during the year ended August 31, 2013 are illustrated in Exhibit 3 on page 42.

Annual debt service requirements to maturity for revenue bonds are depicted in the following column.

Year Ending Aug. 31	Revenue Bonds	
	Principal	Interest
2014	\$ 8,990,000	\$ 2,160,354
2015	7,940,000	4,181,438
2016	8,270,000	3,853,238
2017	8,245,000	3,511,338
2018	7,845,000	3,093,263
2019-2023	33,450,000	9,891,306
2024-2028	10,565,000	3,711,269
2029-2030	4,855,000	496,800
Total	<u>\$ 90,160,000</u>	<u>\$ 30,899,006</u>

Annual debt service requirements to maturity for general obligation bonds are listed on the follows:

Year Ending Aug. 31	General Obligation Bonds	
	Principal	Interest
2014	\$ 5,165,000	\$ 290,000
2015	4,015,000	80,300
Total	<u>\$ 9,180,000</u>	<u>\$ 370,300</u>

A. Notes and Loans Payable

1. Student Housing - Wheeler and Sampson Streets

On September 27, 2012, pursuant to the Board resolution made on July 6, 2012, TSU secured financing to construct new student housing, consisting of 800 beds, to be located on the eastside of the campus at Wheeler and Sampson streets. The financing of this project is through the U.S. Department of Education's Historically Black Colleges and Universities loan program initiative. The amount of the loan is not to exceed \$55,000,000. As of August 31, 2013, the total amount of proceeds advanced under this loan is \$774,437. Pursuant to the terms of the loan agreement, the last day to advance funds is March 1, 2015. Interest will be capitalized through March 1, 2015. The interest rate will be fixed for each advance equal to U.S. Treasury yields prevailing at the dates at each advance plus 22.5 basis points (.225%). Scheduled payment dates are May 1st and November 1st of each year. The first principal payment date is November 1, 2016 and the maturity date is May 1, 2034. The debt service is secured by Housing rental revenues.

Estimated loan debt requirements are depicted at the top of the following page.

Notes to Financial Statements

Year Ending Aug. 31	Principal	Interest	Total Estimated
			Annual Amount
2014	\$ -	\$ -	\$ -
2015	-	-	-
2016	-	51,970	51,970
2017	30,374	21,596	51,970
2018	37,072	14,897	51,969
2019-2023	196,958	62,889	259,847
2024-2028	217,846	42,003	259,849
2029-2033	240,996	18,852	259,848
2034	51,191	779	51,970
	<u>\$ 774,437</u>	<u>\$ 212,986</u>	<u>\$ 987,423</u>

2. Parking Garage

On September 26, 2011, pursuant to the Board resolution made in June 2011, TSU acquired the East and West parking garages from the Central Houston Parking, L.L.C. The acquisition was financed through U.S Department of Education's Historical Black Colleges and Universities loan program initiative. The loan amount was \$64,180,000. Existing debt service funds and reserves held by the trustees in Bank of New York Trust Company, NA., were also applied in the satisfaction of the purchase agreement and terms. Consequently, Central Houston Parking has since relinquished all beneficial interests, rights and title of the properties. The cost of the purchase was \$33,307,027. The debt service is secured by parking revenues.

3. Student Housing - Tierwester Oaks and Richfield Manor Apartments

On September 26, 2011, pursuant to the Board resolution made in June 2011, TSU acquired the Tierwester Oaks and Richfield Manor Apartments from the Houston Student Housing II, L.L.C. The acquisition was financed through U.S. Department of Education's Historical Black Colleges and Universities loan program initiative. The loan amount was \$64,180,000. Existing debt service funds and reserves held by the trustees in Bank of New York Trust Company, NA., were also applied in the satisfaction of the purchase agreement and terms. Consequently, Houston Student Housing II has since relinquished all beneficial interests, rights and title of the properties. The cost of the purchase was \$21,442,970. The debt service is be secured by housing rental revenues.

4. Student Housing - The University Courtyard Apartments

On September 26, 2011, pursuant to the Board resolution made in June 2011, TSU acquired the University Courtyard apartments from the Houston Student Housing, L.L.C. The acquisition was financed through U.S Department of Education's Historical Black Colleges and Universities loan program initiative. The loan amount was \$64,180,000. Existing debt service funds and reserves held by the Trustees in Bank of New York Trust Company, NA., were also applied in the satisfaction of the purchase agreement and terms. Consequently, Houston Student Housing has since relinquished all beneficial interests, rights and title of the properties. The cost of the purchase was \$9,817,506. The debt service is be secured by Housing rental revenues.

Estimated loan debt requirements are as follows:

Year Ending Aug. 31	Principal	Interest	Total Estimated
			Annual Amount
2014	\$ 2,150,986	\$ 1,414,872	\$ 3,565,858
2015	2,201,343	1,364,514	3,565,857
2016	2,246,104	1,319,754	3,565,858
2017	2,309,686	1,256,172	3,565,858
2018	2,360,475	1,205,383	3,565,858
2019-2023	12,657,963	5,171,327	17,829,290
2024-2028	14,216,973	3,612,317	17,829,290
2029-2033	15,972,012	1,857,278	17,829,290
2034-2035	6,928,174	203,542	7,131,716
	<u>\$ 61,043,716</u>	<u>\$ 17,405,159</u>	<u>\$ 78,448,875</u>

B. Compensated Absences

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



Notes to Financial Statements

C. Arbitrage Liability

The Tax Reform Act of 1986 instituted certain arbitrage consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed or are not performed correctly a substantial liability to TSU could result. TSU periodically engages an arbitrage consultant to perform the calculations in accordance with the IRS rules and regulations and the arbitrage liability is adjusted accordingly.

NOTE 5: BONDED INDEBTEDNESS

Revenue Bonds, Series 2004

Purpose	To restore TSU facilities and related infrastructure damaged by Tropical Storm Allison
Amount of Issue	\$3,500,000; all authorized have been issued
Issue Date	04-14-2004
Type of Bond	Revenue Bond - Self Supporting
Reporting	Business-type Activities
Source of Revenue	Pledged Revenues
Change in Debt	None

Revenue Bonds, Series 2011

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

Revenue Bonds, Series 2013

Purpose	On August 28, 2013 TSU defeased \$64,485,000 of outstanding revenue bonds. The transaction refunded bonds 1998A-1, 1998A-2, 1998B, 2002 and 2003 series. The new issue reduced the average long-term fixed interest rate from 5.0% to 3.26% resulting in net present value savings of \$4,280,754
Amount of Issue	\$62,355,000; all authorized have been issued
Issue Date	08-28-2013
Type of Bond	Revenue Bond - Self Supporting
Reporting	Business-type Activities
Source of Revenue	Pledged Revenues
Change in Debt	None

General Obligation Bonds  
Constitutional Appropriation Bonds, Series 2004

Purpose	To finance the construction and equipping of buildings, including the School of Public Affairs, Science Building, and a campus radio station
Amount of Issue	\$11,100,000; all authorized have been issued
Issue Date	07-27-2004
Type of Bond	General Obligation Bond - Non Self Supporting
Reporting	Business-type Activities
Source of Revenue	Constitutional Appropriations
Change in Debt	None

The newly completed Leonard H.O. Spearman Technology Building facility hosts 35 state-of-the-art labs such as a full-motion flight simulator lab, a vehicle emission testing lab, an air traffic control lab, a high performance computing lab, a Mini-TranStar lab, a driving simulation lab, a construction lab, two design labs, health and nuclear physics labs, a geotechnical/material testing lab, an environmental engineering lab, a wireless sensor networks lab, and various other engineering, physics, and computer science labs.

Notes to Financial Statements

General Obligation Bonds  
Constitutional Appropriation Bonds, Series 2005

Purpose	To finance the construction and equipping of buildings or other improvements, including a School of Public Affairs; to finance the performance of major repair or rehabilitation of buildings; to finance the purchase of capital equipment and other equipment authorized to be purchased with Higher Education Assistance Funds; and to finance the payment of certain costs related to the issuance of the bonds
Amount of Issue	\$30,935,000; all authorized have been issued
Issue Date	08-01-2005
Type of Bond	General Obligation Bond - Non Self Supporting
Reporting	Business-type Activities
Source of Revenue	Constitutional Appropriations
Change in Debt	None

NOTE 6: LEASES

Operating Leases

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

Fund Type	Amount
Proprietary Fund	\$ 891,578

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

Year Ending Aug. 31	Minimum Lease Payments
2014	\$ 1,266,863
2015	1,266,863
2016	495,763
2017	470,213
2018	78,943
Total	\$ 3,578,645

Capital Leases

Capital leases are used to finance the purchase of property and are capitalized at the present value of future minimum lease payments. As of August 31, 2013, TSU had not entered into any material contractual agreements that could be deemed capital lease obligations.





NOTE 7: RETIREMENT PLANS

A. Teacher Retirement System

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

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

TRS contribution rates for both employers and employees are not actuarially determined but are legally established by the State Legislature. Contributions by employees are 6.4 percent of gross earnings. Depending upon the source of funding for the employee's compensation, the State or TSU contributes a percentage of participant salaries totaling six percent of annual compensation. TSU's contributions to TRS for the year ended August 31, 2013 were \$1,982,778, which equaled the amount of the required contributions for the year.

TRS does not separately account for each of its component government agencies since the retirement system itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. Further information regarding actuarial assumptions and conclusions, together with audited financial statements are included in the retirement system's annual financial report, which may be found on the TRS website at [www.trs.state.tx.us](http://www.trs.state.tx.us).

B. Optional Retirement Program

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

	Year Ended Aug. 31, 2013
Employee Contributions	\$ 2,209,312
Employer Contributions	2,423,088
Total	<u>\$ 4,632,400</u>

NOTE 8: RESTATEMENT OF NET POSITION

Net investment in capital assets has been increased to \$105,944,398 and unrestricted net position has been decreased to \$(606,607) as a result of a reclassification of unspent bond proceeds in the amount of \$7,050,591.

NOTE 9: CONTINGENCIES AND COMMITMENTS

A. Grants

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

B. Lawsuits

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

C. Perkins Loan

TSU is recording maximum liability – Due to Perkins Loan Program for \$2.7 million. The actual liability could be significantly less than this amount and the final number will be known when the Perkins Loan close out process is complete and final numbers are provided by Department of Education.

NOTE 10: RISK FINANCING AND RELATED INSURANCE

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

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

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

The State provides coverage for workers' compensation and unemployment benefits from appropriations made to other State agencies for TSU employees. The current General Appropriations Act provides that TSU must reimburse the general revenue fund, consolidated from TSU appropriations, one-half of the unemployment benefits and 25 percent of the workers' compensation benefits paid for former and current employees. The Comptroller determines the proportionate amount to be reimbursed from each appropriated fund type. TSU must reimburse the general revenue fund 100 percent of the cost for workers' compensation and unemployment compensation for any employees paid from funds held in local bank accounts and local funds held in the State treasury. Workers' compensation and unemployment plans are on a pay-as-you-go basis, in which no assets are set aside to be accumulated for the payment of claims. No material outstanding claims are pending at August 31, 2013.

The Texas Motor Vehicle Safety Responsibility Act requires that every non-governmental vehicle operated on a State highway be insured for minimum limits of liability in the amount of \$20,000 / \$40,000 bodily injury and \$15,000 property damage. However, TSU has chosen to carry liability insurance on its licensed vehicles in the amount of \$250,000 / \$500,000 bodily injury and \$100,000 property damage, the extent of the waivers of State sovereign immunity specified in the tort claims act.

Another noteworthy TSU aviation graduate, Donald Turner, was featured in Hemispheres Magazine (pictured left) for his stand out character on his job as a pilot for United Airlines. Turner and his wife, Tacanesha, worked their way through Texas Southern University, where Donald pursued a degree in aviation management. In his second year, he met Continental Captain Roscoe Edwards, who volunteered to teach him how to fly. Captain Edwards is featured on page 21 of this document.



Notes to Financial Statements

NOTE 11: THE FINANCIAL REPORTING ENTITY

A. Related Parties

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

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

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

NOTE 12: DONOR-RESTRICTED ENDOWMENTS

Donor-Restricted Endowments	Amount of Net Appreciation (Depreciation)	Reported in Net Position
True Endowments	\$ 6,306,495	Restricted for expendable
Term Endowments	3,601,223	Restricted for expendable
Total	<u>\$ 9,907,718 *</u>	

In the table above, amounts reported as "Net Appreciation" represent net appreciation on investments of donor or constitutionally restricted endowments that are available for authorization for expenditure by the TSU Board of Regents. For donor restricted endowments, pursuant to the Uniform Management of Institutional Funds Act, as

adopted by Texas, the TSU Board of Regents may distribute net appreciation, realized and unrealized, in the fair market value of the assets of endowment holdings over the historic dollar value of the gifts, to the extent prudent.

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

\*There was a fair market value increase of \$ 4,482,330 for fiscal year 2013.

NOTE 13: DISAGGREGATION OF RECEIVABLE AND PAYABLE BALANCES

Aggregate receivables and other payables as reported on the statement of net position as of August 31, 2013, are detailed as follows:

Receivables	Balance
Student Accounts	\$ 27,214,942
Third Party Accounts	1,903,491
Less Allowance	(9,576,203)
Total	<u>\$ 19,542,230</u>

Other Payables	Balance
Escheat payable	\$ 343,690
Student refund payable	31,505
Other payables	6,505,724
Due to Perkins loan	2,723,869
Total	<u>\$ 9,604,788</u>

Notes to Financial Statements

EXHIBIT 1 - CAPITAL ASSETS

	Balance 9/1/2012	Adjusted	Reclassify Completed CIP	Additions	Deletions	Balance 8/31/2013
Non-depreciable or Non-amortizable Assets						
Land and Land Improvements	\$ 16,948,834	\$ -	\$ -	\$ 183,359	\$ -	\$ 17,132,193
Construction in Progress	11,453,355	-	(12,576,559)	29,493,783	(466,129)	27,904,450
Other Tangible Capital Assets	2,868,943	-	-	-	(39,631)	2,829,312
Total Non-depreciable/amortizable	<u>31,271,132</u>	<u>-</u>	<u>(12,576,559)</u>	<u>29,677,142</u>	<u>(505,760)</u>	<u>47,865,955</u>
Depreciable Assets						
Buildings and Building Improvements	360,923,606	-	12,576,559	325,444		373,825,609
Infrastructure	6,528,361	-	-	-	-	6,528,361
Facilities and Other Improvements	15,474,896	-	-		-	15,474,896
Furniture and Equipment	22,031,018	(16,180)		2,683,603	(359,427)	24,339,014
Vehicle, Boats and Aircraft	1,786,825	-	-	176,721	(155,682)	1,807,864
Other Capital Assets	30,542,755	-	-	3,148,139	(2,676,445)	31,014,449
Total Depreciable Assets	<u>437,287,461</u>	<u>(16,180)</u>	<u>12,576,559</u>	<u>6,333,907</u>	<u>(3,191,554)</u>	<u>452,990,193</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(182,499,280)	-	-	(9,870,461)	-	(192,369,741)
Infrastructure	(1,478,160)	-	-	(312,192)	-	(1,790,352)
Facilities and Other Improvements	(10,654,354)	-	-	(278,893)	-	(10,933,247)
Furniture and Equipment	(13,500,229)	(803)	-	(2,028,952)	358,353	(15,171,631)
Vehicle, Boats, and Aircraft	(1,179,069)	-	-	(161,859)	140,467	(1,200,461)
Other Capital Assets	(15,447,536)	(39,631)	-	(1,757,474)	1,979,033	(15,265,608)
Total Accumulated Depreciation	<u>(224,758,628)</u>	<u>(40,434)</u>	<u>-</u>	<u>(14,409,831)</u>	<u>2,477,853</u>	<u>(236,731,040)</u>
Depreciable Assets, Net	<u>212,528,833</u>	<u>(56,614)</u>	<u>12,576,559</u>	<u>(8,075,924)</u>	<u>(713,701)</u>	<u>216,259,153</u>
Intangible Capital Assets- Amortizable						
Computer Software - Intangible	479,904	-	-	-	-	479,904
Total Intangible Capital Assets	<u>479,904</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>479,904</u>
Less Accumulated Amortization for:						
Computer Software - Intangible	(275,089)	-	-	(95,980)	-	(371,069)
Total Accumulated Amortization	<u>(275,089)</u>	<u>-</u>	<u>-</u>	<u>(95,980)</u>	<u>-</u>	<u>(371,069)</u>
Intangible Capital Assets	<u>204,815</u>	<u>-</u>	<u>-</u>	<u>(95,980)</u>	<u>-</u>	<u>108,835</u>
Activities Capital Assets - Net	<u>\$ 244,004,781</u>	<u>\$ (56,614)</u>	<u>\$ -</u>	<u>\$ 21,505,237</u>	<u>\$ (1,219,461)</u>	<u>\$ 264,233,943</u>



EXHIBIT 2 - INTEREST RISK RATE

Investment Type	Fair Value	Investment Maturities (in Years)				
		Stocks	Less Than 1	1 to 5	6 to 10	More than 10
Agency Discount Securities	\$ 3,869,271	\$ -	\$ 3,869,271	\$ -	\$ -	\$ -
Agencies	2,684,181	-	439,982	-	26,928	2,217,271
Treasuries	2,962,734	-	-	2,430,298	18,825	513,611
Common Stock	26,406,739	26,406,739	-	-	-	-
Corporate Obligations	5,433,907	-	-	1,855,743	1,557,678	2,020,486
Commercial Paper Securities	-	-	-	-	-	-
Foreign Obligations	2,132,161	2,008,579	-	123,582	-	-
Money Market Funds	12,923,584	-	12,923,584	-	-	-
Total	\$ 56,412,577	\$ 28,415,318	\$ 17,232,837	\$ 4,409,623	\$ 1,603,431	\$ 4,751,368

EXHIBIT 3 - SUMMARY OF LONG-TERM LIABILITIES

Long-Term Liabilities	Balance 9/1/2012	Additions	Reductions	Balance 8/31/2013	Amounts Due Within One Year	Amounts Due Thereafter
General Obligation Bonds Payable						
Series 2004 Const. Approp.	\$ 2,555,000	\$ -	\$ 1,250,000	\$ 1,305,000	\$ 1,305,000	\$ -
Series 2005 Const. Approp.	11,585,000	-	3,710,000	7,875,000	3,860,000	4,015,000
Premiums	121,190	-	60,595	60,595	60,595	-
Total general obligation bonds	14,261,190	-	5,020,595	9,240,595	* 5,225,595	4,015,000
Revenue Bonds Payable						
Series 1998 A-1	8,260,000	-	8,260,000	-	-	-
Series 1998 A-2 Improvement	5,235,000	-	5,235,000	-	-	-
Series 1998 B Improvement	8,415,000	-	8,415,000	-	-	-
Series 2002	29,955,000	-	29,955,000	-	-	-
Series 2003	19,055,000	-	19,055,000	-	-	-
Series 2004	865,000	-	425,000	440,000	440,000	-
Series 2011	28,325,000	-	960,000	27,365,000	1,005,000	26,360,000
Series 2013	-	62,355,000	-	62,355,000	7,545,000	54,810,000
Premiums & discounts	1,599,725	4,373,381	1,851,719	4,121,388	1,577	4,119,811
Total revenue bonds	101,709,725	66,728,381	74,156,719	94,281,388	* 8,991,577	85,289,811
Note Payable	360,162	-	360,162	-	-	-
HBCU Loan 2011-4	63,145,280	-	2,101,564	61,043,716	2,150,986	58,892,730
HBCU Loan 2012-10	-	774,437	-	774,437	-	774,437
Total notes payable	63,505,442	774,437	2,461,726	61,818,153	* 2,150,986	59,667,167
Other Liabilities:						
Compensated Absences	5,339,655	131,097	37,225	5,433,527	1,479,531	3,953,956
Total other liabilities	5,339,655	131,097	37,225	5,433,527	1,479,531	3,953,956
Total	\$ 184,816,012	\$ 67,633,915	\$ 81,676,264	\$ 170,773,663	\$ 17,847,689	\$ 152,925,934

Long-term Debt Due in More Than One Year

\$ 152,925,934

\*Debt associated with capital assets

\$ 165,340,136

# FISCAL ADMINISTRATION

Jim McShan .....Vice President for Administration & Finance  
Ashlee Williams ..... Director of Administration & Finance Business Services  
Altaf Rajan ..... Executive Director of Business Affairs  
Beverly Ruffin ..... Executive Director of Special Projects  
Brian Dickens ..... Associate Vice President for Human Resources & Payroll Services  
Greg Williams ..... Executive Director of Procurement Services  
Louis Edwards ..... Associate Vice President of Treasury & Budget

Pictured Bottom (L to R): Altaf Rajan, Greg Williams, Beverly Ruffin, Jim McShan  
Pictured Top (L to R): Brian Dickens, Ashlee Williams, Louis Edwards





# FINANCIAL REPORTING TEAM

Pictured Back (L to R): Rena Robinson, Jeffrey Thomas, Juanita Morgan, Lynne Curtis

Pictured Front (L to R): Shirley Harper, Lavonda Horn, Valentina Pitre, Glenda Wright, Jerelyn  
Lemmie, Ryan Mason





HONORARY TEXAS SOUTHERN GRADUATE  
NELSON ROLIHLEHLA MANDELA 1918-2013  
*In Remembrance*

Texas Southern University

has conferred on

Nelson Rolihlahla Mandela

the degree of

Doctor of Humane Letters

with all the rights and privileges thereof

In Witness Whereof, this diploma

has been issued and the seal of the University

Authorized by the Board of Regents upon recommendation of the

Faculty at Houston, Texas, on this eighth day of December, 2013

  
Chairman, Board of Regents

