

2012

TEXAS SOUTHERN UNIVERSITY

Financial Statements for the Fiscal Year Ending August 31, 2012



envision

TEXAS SOUTHERN UNIVERSITY

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Envision, that is to imagine as a future possibility; visualize, TSU's impact on students and the community. It is the vision of each of our students, each of our professors, each of our administrators, and each of our board members, that creates an ever-evolving institution that we are proud to call Texas Southern University.

This document is an homage to graduates that have made our University home. Those who have created their own vision and transformed it into reality; those who have gone forth to better the community with the knowledge and skills gained from their education; those who see the potential in every situation and thrive from opportunities gained from attending Texas Southern University.

Here's to continuing more than 85 years of education, remembering where we started, and envisioning a more promising, more prosperous, more rewarding future.

en Promising Futures

WALIPP-TSU Preparatory Academy is a unique HISD Charter School founded by the William A. Lawson Institute for Peace and Prosperity, WALIPP. It was conceived by Mrs. Audrey Lawson, and was founded to meet the critical academic and social development needs of inner-city youth. Targeting middle school male and female students, the Academy is hosted on Texas Southern University grounds and is set up as a real-world learning community. It uses a creative academic and experiential curriculum to build student success and to develop the total person.



TRANSMITTAL SECTION

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A Renaissance of Excellence

January 22, 2013

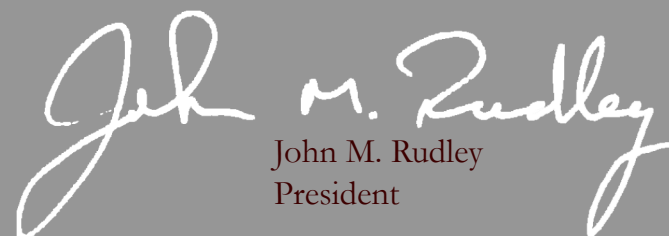
Texas Southern University's Annual Financial Report for Fiscal Year 2012 provides a detailed overview of the University's financial position and operations as of August 31, 2012. As a public institution, Texas Southern University is mandated by law to account fully for the dollars we receive as investments in the educational future of the students who have made our university home to the pursuit of their academic and professional goals.

This Financial Report is one vehicle for providing the taxpayers and elected officials of the State of Texas with such accountability. In fact, we are excited about the opportunity to share the encouraging news about the financial health of Texas Southern University.

For nearly nine decades Texas Southern University has taken great pride in our continued growth and improvement as a graduate-degree granting institution serving the urban center of Houston, and an increasingly diverse student population. Particularly over the last five years, the University has experienced a Renaissance of Excellence highlighted by the number of cutting-edge programs attracting students from across the state, nation and world who are increasingly making Texas Southern their school of first choice.

Over the course of the University's existence, Texas Southern has served as a vital educational resource and contributor to the well-being of both local and global communities. We take great pride in our impact as a university, and celebrate our graduates who have left and continue to leave their indelible imprint upon the global stage. The same pride which has guided Texas Southern University to produce Legends and Leaders in all fields has been invested in the Financial Report.

We are certain the Annual Financial Report of Texas Southern University for Fiscal Year 2012 provides an accurate picture of our growing global impact, and underscores the University's potential to become one of the nation's leading urban-serving universities.


John M. Rudley
President





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Financial Viability

January 22, 2013

Greetings,

We are pleased to submit this independently audited Annual Financial Report (AFR) for the fiscal year ended August 31, 2012 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.

We have again received a clean, unqualified opinion from the independent certified public accounting firm of Belt Harris & Pechacek, LLLP. This serves as a critical measure in TSU’s Board of Regents’ and Management’s goal to ensure excellence in stewardship, accountability, and financial viability. The University’s financial position remained stable during FY 2012, with our total net assets increasing by 6% to \$ 148 million, while our unrestricted net assets had no significant change at \$43 million. TSU’s administration is responsible for establishing and maintaining internal controls designed to ensure that the assets of the university are protected from loss, theft, or misuse. Management also ensures that adequate accounting processes are in place to allow for the preparation of financial statements, in conformity with governmental accounting standards. TSU’s fiscal stability and outstanding operating results contributed to all reporting requirements being removed, and a commendation from the accrediting agency Southern Association of Colleges and Schools for the financial accomplishments.

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

Board of Regents



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, 2013



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



Secretary Richard C. Holland

Mr. Holland is founder and President of Holland Advisors, a management consulting firm offering assistance to major corporations in the areas of supply chain management, supplier diversity and business transformation. He has over twenty-five years of management and consulting experience in a variety of areas such as human resource management, operations management, technology strategy, business transformation and organizational change.

Term: May 11, 2007 – February 1, 2013



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



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 law, 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



2012 Board of Regents



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 Samuel Bryant

Mr. Bryant is President of Bryant Wealth Investment Group, LLC, is a registered investment representative serving high net worth individuals interested in developing long-term strategic 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. He has also held positions in human resources with Tandem Computers and Johnson & Johnson.

Term: October 26, 2007 – February 1, 2017



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 on a church staff to teaching in 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 Hewlett Packard and Microsoft as primary clients.

Term: July 16, 2012 – February 1, 2013



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



Student Regent Juan Antonio Sorto

Mr. Sorto is currently working on his PhD studying Urban Planning at Texas Southern University. He currently works at Harris County Community Supervision and Corrections Department, where in 2009 he received the Service Above & Beyond Requirements Award for his excellent team and leadership skills and became an active member of the Texas Probation Association.

Term: June 1, 2012 – May 31, 2013



John M. Rudley, Ed.D
President



James M. Douglas, Ph.D
Vice President for Government Relations



Janis J. Newman
Chief of Staff



Sunny E. Ohia, Ph.D
Provost
VP for Academic Affairs & Research



Andrew C. Hughey
General Counsel



Wendy H. Adair
VP for University Advancement



Jim McShan, CPA
CFO
VP for Admin & Finance



William T. Saunders, Ph.D
VP for Student Services &
Dean of Students



Charles F. McClelland, Ph.D
Athletics Director



Dr. Rasoul Saneifard, Ph.D
Chair, Faculty Assembly/Senate

University Administration

Community Partnerships

FINANCIAL SECTION



Texas Southern President Dr. John M. Rudely and Athletic Director Dr. Charles McClelland were joined by City officials and a multitude of VIPs from the Dynamos and Houston Sports Authority for a ribbon-cutting ceremony for the new downtown stadium to be used for Dynamo soccer and TSU football games. "It is probably one of the most exhilarating days as an athletics director to be able to take part of a project this monumental, not only for the City of Houston but Texas Southern University... it is overwhelming," said McClelland.



To the Board of Regents of
Texas Southern University:

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, 2012, which collectively comprise TSU's basic financial statements as listed in the table of contents. These financial statements are the responsibility of TSU's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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. They do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2012, the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2012, 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.

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2012 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, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

The Management's Discussion and Analysis and Schedule of Operating Expenses are not required parts of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. 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.

Belt Harris Pechacek, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
November 12, 2012

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Robert Belt, CPA
Stephanie E. Harris, CPA
Nathan Krupke, CPA

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GOVERNMENT AUDITS SEALED WITH EXCELLENCE



Independent Auditors' Report

Advanced Facilities

In 2008, Texas Southern University embarked on a historic transformation to move the institution into the foreground of major urban-serving universities. This transformation is referred to as the *Renaissance of Excellence*, and has included major renovation to the campus landscaping. This year, ground was broken on a new technology center (rendering pictured) and new on-campus housing (rendering pictured on pg. 22).



The statement of net assets presents information on all of TSU's assets and liabilities. The difference between the two is reported as net assets. Over time, increases or decreases in net assets 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 assets presents information showing how TSU's net assets changed during the most recent year. All changes in net assets 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.

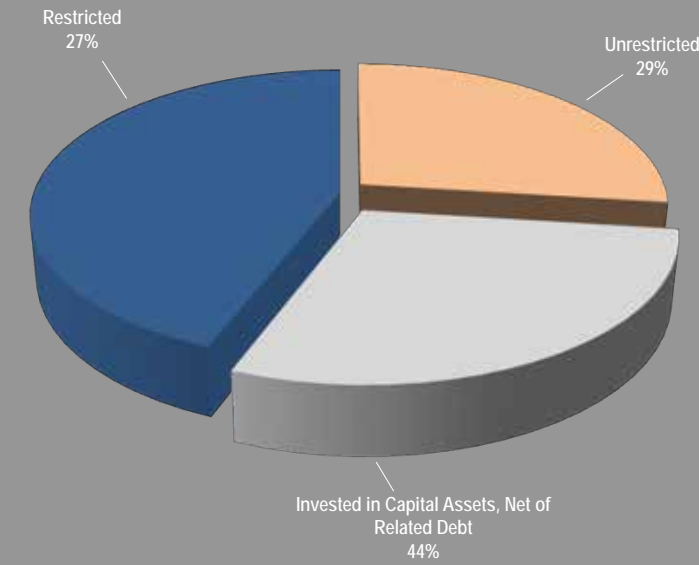
Financial Analysis of TSU

As noted earlier, net assets may serve over time as a useful indicator of TSU's financial position. Assets exceed liabilities by \$148,106,943 as of August 31, 2012. As required by GASB Statement No. 34, a comparative analysis has been presented as a component of the MD&A. The largest portion of TSU's net assets (44 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 Assets

Unrestricted net assets decreased by \$5,505 from \$43,391,658 to \$43,386,153 at year end. Unrestricted net assets are assets 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 activities.

Net Assets as of August 31, 2012



**Table 1
Condensed Statement of Net Assets**

	2012	2011
Current and other assets	\$ 83,608,154	\$ 99,706,057
Restricted assets	83,696,651	77,918,312
Capital assets, net	244,004,781	179,697,085
Total Assets	411,309,586	357,321,454
Current liabilities	96,362,406	97,577,051
Noncurrent liabilities	166,840,236	119,789,533
Total Liabilities	263,202,642	217,366,584
Invested in capital assets, net of related debt	65,279,253	50,524,453
Restricted for:		
Capital projects	-	9,827,018
Debt service	2,817,866	2,212,772
Other	36,623,671	33,998,968
Unrestricted	43,386,153	43,391,658
Total Net Assets	\$ 148,106,943	\$ 139,954,870

**Table 2
Revenues, Expenses, and Changes in Net Assets**

For the year ended August 31, 2012, total revenue was \$220,359,192. Total revenue increased by \$14,721,413 (7 percent). TSU's total net assets increased by \$8,152,074 (6 percent). This primary increase was due to revenue from auxiliary enterprise housing units purchased in fiscal year 2012 and the close-out of existing bonds for these properties and the parking garage.

Expenses totaled \$212,207,118 for the year ended August 31, 2012. This represents a decrease of \$349,649 from last year. The majority of this decrease can be attributed to decreases in scholarships related to Pell awards, as well as a decrease in professional fees and services.

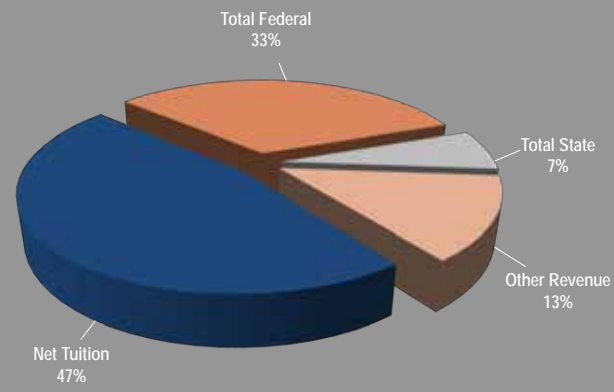
Key elements to these changes are as follows:

- Operating revenues increased by \$1,065,359 (1 percent) due to auxiliary enterprise housing unit revenue in fiscal year 2012
- Non-operating revenues increased by \$12,980,041 (17 percent) due to an increase auxiliary enterprise housing unit revenue in fiscal year 2012
- Operating expenses decreased by \$6,730,032 (3 percent) as a result of a decrease in the amount of scholarships awarded to students and external professional services fee in fiscal year 2012
- Non-operating expenses increased by \$1,879,209 (28 percent) due to an increase in the fair value of investments in fiscal year 2012
- Depreciation expense increased \$3,826,161 (28 percent) due to housing units, parking garage and Gift-In-Kind capital asset additions

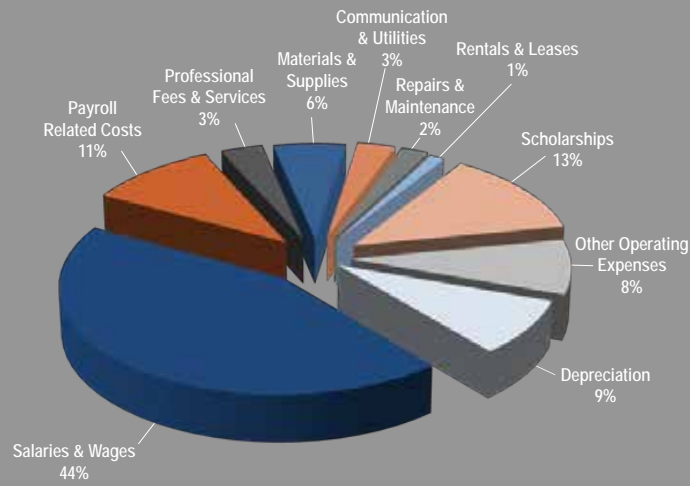
Graphic presentations of selected data from the summary tables can be found on page 22 of this document in order to assist in the analysis of TSU's activities.

	2012	2011
Operating Revenues		
Tuition and fees, pledged	\$ 82,526,345	\$ 82,995,833
Discount on tuition and fees	(20,716,408)	(25,028,288)
Auxiliary enterprises, pledged	11,919,227	8,996,963
Other sales of goods and services, pledged	226,208	18,956
Federal revenue	40,089,681	44,945,212
Federal pass through revenue	3,363,800	2,472,983
State revenue	1,233,370	4,246,178
State pass through revenue	7,705,766	6,566,174
Other operating contract and grants, pledged	894,336	909,196
Other operating revenue	4,783,423	4,837,181
Total Operating Revenues	132,025,748	130,960,389
Operating Expenses		
Salaries and wages	89,577,893	89,549,622
Payroll related costs	21,188,259	20,689,214
Professional fees and services	6,818,234	9,204,598
Travel	3,438,617	2,977,531
Materials and supplies	11,768,529	11,149,178
Communication and utilities	6,213,945	6,861,485
Repairs and maintenance	4,488,255	5,258,097
Rentals and leases	2,457,482	2,543,898
Printing and reproductions	716,404	554,257
Federal pass through expenditures	125,864	31,473
Bad debt expense	2,175,211	2,175,971
Scholarships	26,616,255	28,029,175
Other operating expenses	10,682,430	13,972,910
Depreciation	17,327,229	13,501,068
Total Operating Expenses	203,594,607	206,498,478
Operating (Loss)	\$ (71,568,859)	\$ (75,538,089)
Nonoperating Revenues (Expenses)		
State appropriations	\$ 52,541,654	\$ 54,863,698
Additional appropriations	9,512,275	10,302,617
Gifts received	2,112,120	666,559
Interest income	1,681,054	1,633,697
Investing expenses	(277,319)	(242,810)
Interest expense	(7,630,160)	(5,815,479)
Net increase (decrease) in fair value of investments	3,283,766	3,146,802
Other non-operating	10,208,611	(4,218,168)
Total Nonoperating Revenues	71,432,001	60,336,917
Income Before Other Rev, Gains, & Trans	(136,859)	(15,201,172)
Other Revenues, Expenses, Gains, & Transfers		
Capital appropriations, HEAF	8,894,700	8,894,700
Additions to endowments	151,337	64,058
Lapsed appropriations	(52,072)	(558)
Transfer to state	(705,031)	(676,015)
Total Other Rev, Exp, Gains, & Trans	8,288,933	8,282,184
Change in Net Assets	8,152,074	(6,918,988)
Beginning net assets	139,954,870	146,873,857
Ending Net Assets	\$ 148,106,943	\$ 139,954,870

Operating Revenues



Operating Expenses



Capital Assets

At year end, TSU had invested \$244,004,781 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of \$64,307,696.

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

- Building improvements completed at a cost of \$1,384,959 and building purchase of a residential housing complex and parking garage at a cost of \$64,567,502
- Various building renovations and equipment were added as construction in progress at a total cost of \$11,453,335
- Construction is about to commence on the new residential housing unit estimated to cost \$55 million in fiscal year 2013.

More detailed information about TSU's capital assets is presented in the notes 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 \$101,709,725.46 in revenue bonds outstanding versus \$109,360,523 last year. TSU had \$14,261,190 in general obligation bonds outstanding compared to \$19,091,785 last year. A new loan from Department of Education for \$64 million to purchase Housing Units and a Parking garage was taken out during fiscal year 2012. More detailed information about TSU's long-term liabilities is presented in the notes to the financial statements.

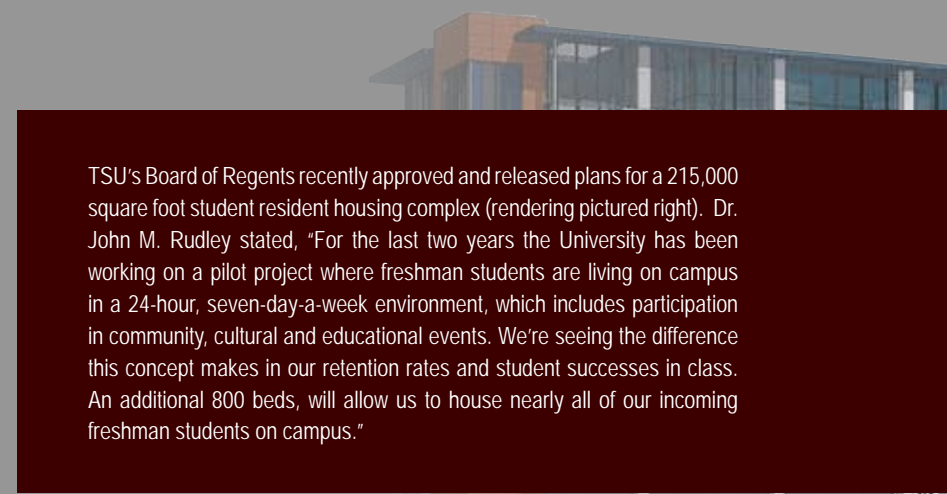
Economic Factors

TSU's revenue declined in fiscal year 2012 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



TSU's Board of Regents recently approved and released plans for a 215,000 square foot student resident housing complex (rendering pictured right). Dr. John M. Rudley stated, "For the last two years the University has been working on a pilot project where freshman students are living on campus in a 24-hour, seven-day-a-week environment, which includes participation in community, cultural and educational events. We're seeing the difference this concept makes in our retention rates and student successes in class. An additional 800 beds, will allow us to house nearly all of our incoming freshman students on campus."

Statement of Net Assets
August 31, 2012

<u>Assets</u>	<u>2012</u>	<u>Liabilities</u>	<u>2012</u>
Current Assets		Current Liabilities	
Current Unrestricted Assets		Accounts payable	\$ 8,557,903
Cash on hand	\$ 2,226	Salaries payable	7,116,075
Cash in bank	15,581,752	Due to other agencies	35,504
Cash in state treasury	6,650,933	Interest payable	1,990,462
Balance in state appropriations	6,680,597	Escheat payable	406,913
Accounts receivable, net	20,329,946	Deferred revenue	46,994,963
Due from federal government	7,751,000	Student refunds payable	2,393,413
Due from state government	5,806,347	Other payables	8,101,174
Other receivables	122,294	Due to Perkins Loan Program	2,723,048
Gifts receivable, net	600,000	Notes payable due in one year	2,461,726
Due from other agencies	11,836	Revenue bonds due in one year	
Inventories	200,775	(net of premiums and discounts)	7,986,738
Prepaid items	17,065,148	General obligation bonds due in one year	
Total Current Unrestricted Assets	80,802,853	(net of premiums and discounts)	5,020,595
Current Restricted Assets		Compensated absences payable due in one year	2,573,893
Current restricted cash	442,804	Total Current Liabilities	96,362,406
Current restricted cash equivalents	25,687,071	Non-Current Liabilities	
Investments	18,504,240	Notes payable due in more than one year	61,043,716
Total Current Restricted Assets	44,634,115	Revenue bonds due in more than one year	
Total Current Assets	125,436,967	(net of premiums and discounts)	93,722,987
		General obligation bonds due in more than one year	
Non-Current Assets		(net of premiums and discounts)	9,240,595
Non-Current Restricted Assets		Compensated absences payable due in more than one year	2,765,762
Non-current investments	39,062,536	Arbitrage payable	67,175
Total Non-Current Restricted Assets	39,062,536	Total Non-Current Liabilities	166,840,236
Non-Current Unrestricted Assets		Total Liabilities	263,202,642
Notes receivable, net	1,850,246		
Deferred charges	955,056	Net Assets	
Non-depreciable capital assets:		Invested in capital assets, net of related debt	65,279,253
Land	16,948,834	Restricted for:	
Construction in progress	11,453,355	Debt service	2,817,866
Historical treasures and works of art	2,868,943	Other purposes	65,392
Total Non-Depreciable Capital Assets	31,271,132	Endowments	36,558,279
Depreciable Capital Assets		Unrestricted	43,386,153
Buildings and building improvements	377,413,076	Total Net Assets	\$ 148,106,943
Infrastructure	6,528,361		
Equipment	24,297,747		
Library books	29,528,181		
Less accumulated depreciation	(225,033,717)		
Total Depreciable Capital Assets, Net	212,733,648		
Total Non-Current Unrestricted Assets	246,810,082		
Total Non-Current Assets	285,872,618		
Total Assets	\$ 411,309,586		

See Notes to Financial Statements.



Unique Opportunities

Top graduate of Texas Southern University's Aviation & Science program, Larry Frost. The Aviation Science & Technology Aviation Science Management degree program combines laboratory simulation training and rigorous academic curriculum in a unique manner that provides a strong foundation for a career in the field of aviation.

BASIC FINANCIAL STATEMENTS • AUGUST 31, 2012

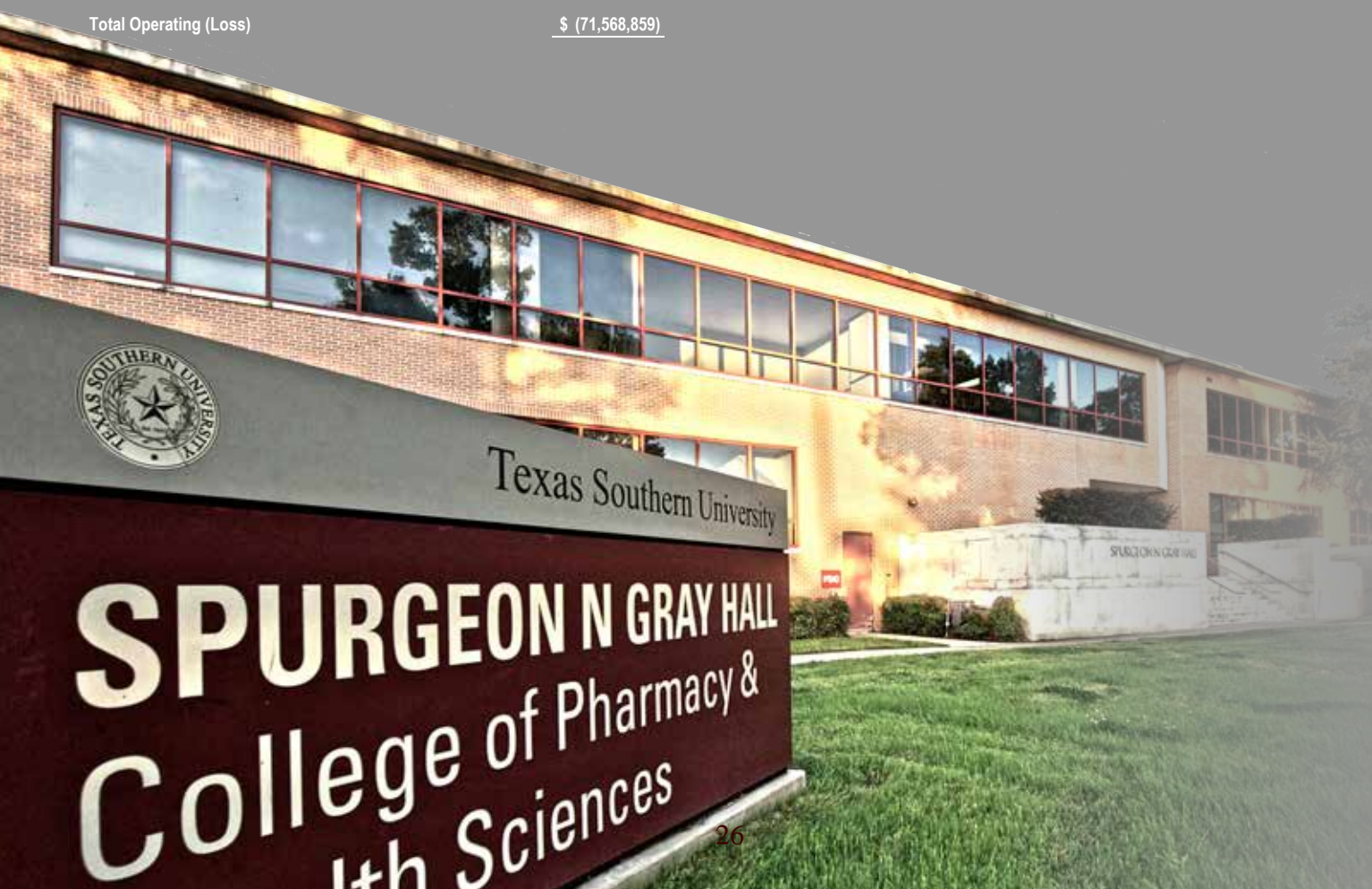
Statement of Revenues, Expenses, & Changes in Net Assets
Year ended August 31, 2012

Operating Revenues	2012	Non-Operating Revenues (Expenses)	2012
Tuition and fees, pledged	\$ 82,526,345	State appropriations	\$ 52,541,654
Discount on tuition and fees	(20,716,408)	Additional appropriations	9,512,275
Auxiliary enterprises, pledged	11,919,227	Gifts received	2,112,120
Other sales of goods and services, pledged	226,208	Interest income	1,681,054
Federal revenue	40,089,681	Investing expenses	(277,319)
Federal pass through revenue	3,363,800	Interest expense	(7,630,160)
State revenue	1,233,370	Net increase in fair value of investments	3,283,766
State pass through revenue	7,705,766	Other non-operating	10,208,611
Other operating contract and grants, pledged	894,336	Total Non-Operating Revenues	71,432,000
Other operating revenue	4,783,423		
Total Operating Revenues	132,025,748	(Loss) Before Other Revenues, Expenses, Gains & Transfers	(136,859)
Operating Expenses		Other Revenues, Expenses, & Transfers	
Salaries and wages	89,577,893	Capital appropriations, HEAF	8,894,700
Payroll related costs	21,188,259	Additions to endowments	151,337
Professional fees and services	6,818,234	Returned lapsed appropriations	(52,072)
Travel	3,438,617	Transfer to state	(705,031)
Materials and supplies	11,768,529	Total Other Revenues, Expenses, & Transfers	8,288,933
Communication and utilities	6,213,945		
Repairs and maintenance	4,488,255	Change in Net Assets	8,152,074
Rentals and leases	2,457,482		
Printing and reproductions	716,404	Beginning Net Assets	139,954,870
Federal pass through expenditures	125,864		
Bad debt expense	2,175,211	Ending Net Assets	\$ 148,106,943
Scholarships	26,616,255		
Other operating expenses	10,682,430	See Notes to Financial Statements.	
Depreciation and amortization	17,327,229		
Total Operating Expenses	203,594,607		
Total Operating (Loss)	\$ (71,568,859)		

BASIC FINANCIAL STATEMENTS • AUGUST 31, 2012

Statement of Cash Flows
Year ended August 31, 2012

Cash Flows from Operating Activities	2012	Reconciliation of Operating (Loss) to Net Cash (Used) by Operating Activities	2012
Proceeds from tuition and fees	\$ 58,596,617	Operating (Loss)	\$(71,568,859)
Proceeds from auxiliary enterprises	11,919,227	Adjustments to reconcile operating (loss) to net cash (used) by operating activities:	
Proceeds from federal grants and contracts	55,860,922	Depreciation	17,327,229
Proceeds from state grants and contracts	3,147,817		
Proceeds from other revenues	1,073,934	Changes in Operating Assets and Liabilities:	
Payments to employees for salaries and wages	(88,831,745)	(Increase) Decrease in:	
Payments for employee related costs	(21,155,623)	Accounts receivable, net	(9,012,468)
Payments for other expenses	(75,655,627)	Due from federal government	12,407,441
Net Cash (Used) by Operating Activities	(55,044,478)	Other receivables	7,399
		Inventories	(6,000)
Cash Flows from Noncapital Financing Activities		Prepaid items	1,253,891
Receipts from state appropriations	80,771,998	Increase (Decrease) in:	
Receipts from gifts and endowments	3,053,456	Accounts payable	3,838,368
Net Cash Provided by Noncapital Financing Activities	83,825,454	Salaries payable	230,315
		Due to state	32,636
Cash Flows from Capital and Related Financing Activities		Escheat payable	(34,874)
Acquisition and construction of capital assets	(80,758,909)	Deferred revenue	(4,837,433)
Principal paid on capital debt	(14,035,550)	Student refunds payable	7,829
Interest and fiscal agent fees paid	(7,699,489)	Other current liabilities	(5,205,788)
Loan receipts	64,180,000	Compensated absences	515,833
Net Cash (Used) by Capital & Related Financing Activities	(38,313,949)	Net Cash (Used) by Operating Activities	\$(55,044,478)
Cash Flows from Investing Activities		See Notes to Financial Statements.	
Sale of investments	447,828		
Purchase of investments	(11,096,718)		
Payments received on notes receivable	453,388		
Interest received	1,403,734		
Net Cash (Used) by Investing Activities	(8,791,767)		
Net (Decrease) in Cash and Cash Equivalents	(18,324,740)		
Beginning cash and cash equivalents	66,689,524		
Ending Cash & Cash Equivalents	\$ 48,364,785		
Unrestricted cash and cash equivalents	22,234,910		
Restricted cash and cash equivalents	26,129,875		
Ending Cash & Cash Equivalents	\$ 48,364,785		



When Texas Southern University opened its doors in September 1947, it had 2,300 students, two schools, one division and one college - the Law School, the Pharmacy School, the Vocational Division, and the College of Arts and Sciences. The newly adapted College of Pharmacy and Health Sciences (COPHS) produces quality health care professionals who are competent in health care delivery, including the provision of patient-centered care and other health care services and programs. The College prepares students to be leaders in their fields and to be good citizens who utilize their knowledge, skills and abilities to improve the health and well-being of local, state, national and global communities.

Cultural Enrichment

1. Summary of Significant Accounting Principles

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. 35, *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. 35 established standards for external financial reporting for all public colleges and universities, which includes a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- **Invested in capital assets, net of related debt** - This component of net assets 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 assets consists of constraints placed on net asset 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 assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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. TSU applies all GASB pronouncements and applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989. Subsequent to this date, TSU accounts for its activities as presented by GASB.

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 Assets

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, 2012 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 assets.

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 Items

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 items.

7. Capital Assets

Capital assets are defined by the State as shown on the top of the following page.

<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 assets. 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 assets. The bonds are reported at par, net of unamortized premiums, discounts, issuance costs, and gains (losses) on bond refunding activities, if applicable.



The Ocean of Soul, also known as The Ocean, is the marching band for Texas Southern University. The band was founded in 1969 and has gained a reputation for its sound, heavy beat, precision drills, and intricate dance routines. With more than 200 members, The Ocean is the largest student organization on campus and a centerpiece of the University.

BASIC FINANCIAL STATEMENTS • AUGUST 31, 2012

Notes to Financial Statements

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 assets). The bonds are reported at par, net of unamortized premiums, discounts, issuance costs and gains (losses) on bond refunding activities, if applicable.

12. Net Assets

The difference between fund assets and liabilities is net assets.

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 appropriation, 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.

2. Capital Assets

Total construction commitments outstanding at year end were \$87,228,842.

A summary of changes in capital assets for the year ended August 31, 2012 is shown in Exhibit 1 on page 41.

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, 2012, TSU's deposits were fully collateralized.

	Amount
Cash and cash equivalents per statement of cash flows	\$ 48,364,785
Less:	
Cash on hand	2,226
Cash in treasury	6,650,933
Total Cash in Bank	<u>\$ 41,711,627</u>
Unrestricted cash in bank:	\$ 15,581,752
Restricted cash in bank:	26,129,875
Total Cash in Bank	<u>\$ 41,711,627</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

The University Museum at Texas Southern University was founded in the year 2000. Its mission is to exhibit both past and present art and artifacts, the vast collections of Texas Southern University and to provide programming and events to support the arts in the City of Houston and surrounding areas. The University Museum has established itself as an authority on art from the African American legacies such as Dr. John Biggers and others of the vast African Diaspora.

BASIC FINANCIAL STATEMENTS • AUGUST 31, 2012

Notes to Financial Statements

- 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, 2012, TSU had the following investments:

Investment Type	Fair Value
U.S. Government Agency Obligations	\$ 20,899,882
U.S. Treasury Securities	1,893,720
Equity	22,338,484
Corporate Obligations	5,213,177
Commercial Paper	2,498,025
International Obligations	985,863
Fixed Income Money Market Funds	29,424,696
Total Fair Value	<u>\$ 83,253,847</u>

Credit risk. Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. TSU's investment policy limits investments in obligations of states, agencies, counties, cities, and other political subdivisions of any investments rated greater than A or its equivalent. Corporate

bonds, debentures, or similar debt instruments must be rated by a nationally recognized investment rating firm in one of the two highest long-term rating categories, without regard to gradation within those categories.

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, 2012.



BASIC FINANCIAL STATEMENTS • AUGUST 31, 2012

Notes to Financial Statements

4. Summary of Long-Term Liabilities

The changes reported in the long-term liabilities during the year ended August 31, 2012 are illustrated in Exhibit 3 on page 42.

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

Year Ending Aug. 31	Revenue Bonds	
	Principal	Interest
2013	\$ 7,820,000	\$ 5,222,844
2014	8,195,000	4,842,976
2015	8,170,000	4,421,621
2016	8,595,000	3,993,931
2017	8,640,000	3,555,581
2018-2022	38,585,000	11,735,263
2023-2027	13,050,000	4,458,300
2028-2032	7,055,000	973,013
Total	\$ 100,110,000	\$ 39,203,529

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

Year Ending Aug. 31	General Obligation Bonds	
	Principal	Interest
2013	\$ 4,960,000	\$ 491,400
2014	5,165,000	290,000
2015	4,015,000	80,300
Total	\$ 14,140,000	\$ 861,700

A. Notes and Loans Payable

1. Leasehold

A noninterest bearing note payable consists of agreed installment payments on Leasehold improvements at Lone Star College of \$360,162 due on October 15, 2013.

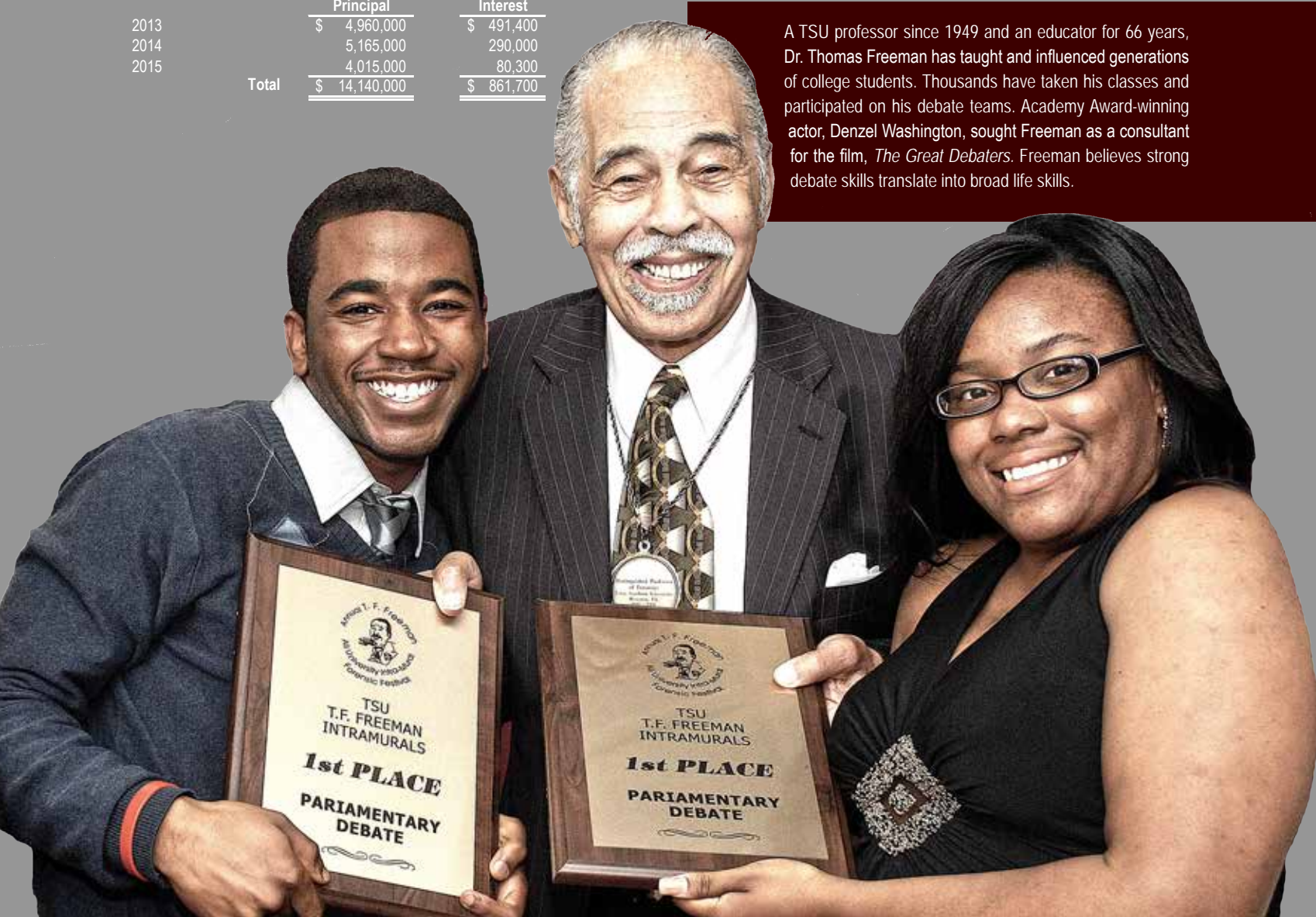
The annual payment schedule by year is tabulated below:

Year Ending Aug. 31	Note Payable	
	Principal	Interest
2013	\$ 360,162	\$ -
2014	-	-
Total	\$ 360,162	\$ -

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

A TSU professor since 1949 and an educator for 66 years, Dr. Thomas Freeman has taught and influenced generations of college students. Thousands have taken his classes and participated on his debate teams. Academy Award-winning actor, Denzel Washington, sought Freeman as a consultant for the film, *The Great Debaters*. Freeman believes strong debate skills translate into broad life skills.



BASIC FINANCIAL STATEMENTS • AUGUST 31, 2012

Notes to Financial Statements

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, Texas Southern University 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, Texas Southern University 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 listed at the top of the following column.

Year Ending Aug. 31	Principal	Interest	Total Estimated Annual Amount
2013	\$ 2,101,564	\$ 1,464,294	\$ 3,565,858
2014	2,150,986	1,414,872	3,565,858
2015	2,201,344	1,364,514	3,565,858
2016	2,246,104	1,319,754	3,565,858
2017	2,309,687	1,256,171	3,565,858
2018-2022	12,364,612	5,464,678	17,829,290
2023-2027	13,891,087	3,938,203	17,829,290
2028-2032	15,606,021	2,223,268	17,829,290
2033-2037	10,273,876	423,698	10,697,574
	\$ 63,145,280	\$ 18,869,453	\$ 82,014,733

B. Accrued Claims and Judgments

1. Student Rights

During the year a lawsuit against TSU, for which a \$750,000 provision was made, was settled.

C. 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.

D. 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.

BASIC FINANCIAL STATEMENTS • AUGUST 31, 2012

Notes to Financial Statements

5. Bonded Indebtedness

Refunding Revenue Bonds, Series 1998A-1

Purpose	To defease and advance refund all of the outstanding bonds of TSU
Amount of Issue	\$20,305,000; all authorized have been issued
Issue Date	01-14-1999
Type of Bond	Revenue Bond - Self Supporting
Reporting	Business-Type Activities
Source of Revenue	Pledged Revenues
Change in Debt	None

Improvement Revenue Bonds, Series 1998A-2

Purpose	To acquire, purchase, improve, renovate, enlarge, or equip property, buildings, structures, roads, or related infrastructure improvements for TSU, including certain deferred maintenance projects of TSU.
Amount of Issue	\$18,000,000; all authorized have been issued
Issue Date	01-14-1999
Type of Bond	Revenue Bond – Self Supporting
Reporting	Business-Type Activities
Source of Revenue	Pledged Revenues
Change in Debt	Defeased \$3,090,000

Improvement Revenue Bonds, Series 1998B

Purpose	To construct and equip a recreational facility at TSU.
Amount of Issue	\$12,920,000; all authorized have been issued
Issue Date	01-14-1999
Type of Bond	Revenue Bond – Self Supporting
Reporting	Business-Type Activities
Source of Revenue	Pledged Revenues
Change in Debt	None

Revenue Bonds, Series 2002

Purpose	To construct and equip a new science building; to renovate TSU's student center; to renovate TSU's law school building; and to renovate other campus facilities including electrical and mechanical systems.
Amount of Issue	\$48,065,000; all authorized have been issued
Issue Date	04-25-2002
Type of Bond	Revenue Bond – Self Supporting
Reporting	Business-Type Activities
Source of Revenue	Pledged Revenues
Change in Debt	None

Revenue Bonds, Series 2003

Purpose	To renovate TSU's Ernest S. Sterling Student Life Center, Thurgood Marshall School of Law, and School of Technology; and to repair and renovate other campus infrastructure.
Amount of Issue	\$27,240,000; all authorized have been issued
Issue Date	06-26-2003
Type of Bond	Revenue Bond – Self Supporting
Reporting	Business-Type Activities
Source of Revenue	Pledged Revenues
Change in Debt	None

BASIC FINANCIAL STATEMENTS • AUGUST 31, 2012

Notes to Financial Statements

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

**General Obligation Bonds
Constitutional Appropriation Bonds, Series 2004**

Purpose	To finance the construction and equipping of buildings, including 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

**General Obligation Bonds
Constitutional Appropriation Bonds, Series 2005**

Purpose	To finance the construction and equipping of buildings or other permanent 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

6. 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, 2012, TSU had not entered into any contractual agreements that could be deemed capital lease obligations.

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

	Year Ending Aug. 31	Minimum Lease Payments
2013		\$ 1,162,370
2014		1,266,863
2015		1,266,863
2016		495,763
2017		470,213
2018		78,943
Total		<u>\$ 4,741,016</u>

Earlie Hudnall, Jr. is the photographer for Texas Southern University in Houston, Texas. He majored in art at TSU, where he received encouragement to draw on his personal experience from the artist John Biggers, who had founded the university's art department and urged his students to explore their African-American heritage. The intimacy that he found among neighborhood residents in the predominantly African-American Third Ward area reminded Hudnall of the sense of community he had known as a boy in Hattiesburg, Mississippi and the captured images of his subjects has been said to capture the emotion in a seemingly mundane moment. Hudnall has been nationally praised for his works and was honored as a featured artist in an important exhibition of African American Artists at the American Art Museum in Washington D.C. in April, 2012.



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, 2012 were \$1,788,768, 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.

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, 2012
Employee Contributions	\$ 2,383,645
Employer Contributions	2,663,924
Total	\$ 5,047,570

8. Interfund Activity and Transactions

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

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

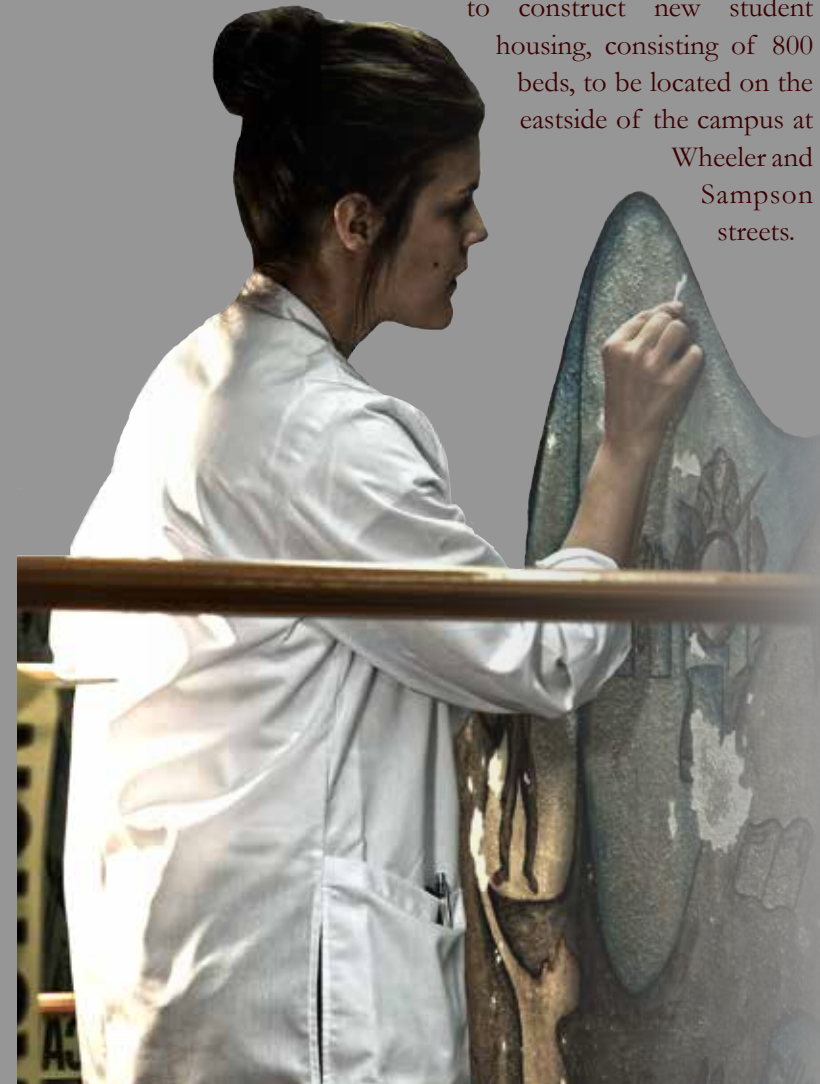
TSU is a defendant in numerous lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of TSU's management that resolution of these matters will not have a materially adverse effect on the financial condition of TSU.

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 final number will be known when Perkins Loan close out process is complete and final numbers are provided by Department of Education.

10. Subsequent Events

In September 2012 TSU, through the Historically Black College/University (HBCU) capital financing program under the auspices of the US. Department of Education, secured \$55 million in bonds proceeds to construct new student housing, consisting of 800 beds, to be located on the eastside of the campus at Wheeler and Sampson streets.



The Hannah Hall building at Texas Southern University is home to a legacy of art, created by students and faculty from the Fine Arts Department. President John M. Rudley initiated a restoration campaign, which is fully underway to preserve all the murals. "I am committed to preserving the great history of Texas Southern University and its mural and art program, as well as its African Art Collection, significant letters and papers and major archives, including the papers of Barbara Jordan and Mickey Leland," Rudley said. The University conducts a tour of the murals on the first Saturday of each month.

11. 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, 2012.

BASIC FINANCIAL STATEMENTS • AUGUST 31, 2012

Notes to Financial Statements

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.

12. 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.

13. Donor-Restricted Endowments

	Amount of Net Appreciation (Depreciation)	Reported in Net Assets
Donor-Restricted Endowments		
True Endowments	\$ 2,532,614	Restricted for expendable
Term Endowments	751,152	Restricted for expendable
Total	<u>\$ 3,283,766</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.

14. Disaggregation of Receivable Balances

Aggregate receivables as reported on the Statement of Net Assets as of August 31, 2012, are detailed as follows:

Receivables	Balance
Student Accounts	\$ 28,945,459
Third Party Accounts	40,897
Less Allowance	(8,656,409)
Total	<u>\$ 20,329,946</u>

BASIC FINANCIAL STATEMENTS • AUGUST 31, 2012

Notes to Financial Statements

Exhibit 1: Capital Assets

	Balance 9/1/2011	Adjusted	Reclassify Completed CIP	Reclassify Int' agy Trf	Additions	Deletions	Balance 8/31/2012
Non-depreciable or Non-amortizable Assets							
Land and Land Improvements	\$ 16,000,028	\$ -	\$ -	\$ -	\$ 948,806	\$ -	\$ 16,948,834
Construction in Progress	2,635,585	-	(2,054,431)	-	11,011,838	(139,637)	11,453,355
Other Tangible Capital Assets	2,868,943	-	-	-	-	-	2,868,943
Total Non-depreciable/amortizable	<u>21,504,557</u>	<u>-</u>	<u>(2,054,431)</u>	<u>-</u>	<u>11,960,643</u>	<u>(139,637)</u>	<u>31,271,132</u>
Depreciable Assets							
Buildings and Building Improvements	298,793,655	-	1,384,959	-	64,567,502	(3,822,511)	360,923,606
Infrastructure	6,528,361	-	-	-	-	-	6,528,361
Facilities and Other Improvements	15,269,065	-	-	-	205,831	-	15,474,896
Furniture and Equipment	21,885,473	-	669,472	41,454	1,273,759	(1,839,139)	22,031,018
Vehicle, Boats and Aircraft	1,634,384	-	-	-	175,068	(22,628)	1,786,825
Other Capital Assets	30,206,272	-	-	-	3,555,701	(3,219,218)	30,542,755
Total Depreciable Assets	<u>374,317,211</u>	<u>-</u>	<u>2,054,431</u>	<u>41,454</u>	<u>69,777,862</u>	<u>(8,903,496)</u>	<u>437,287,461</u>
Less Accumulated Depreciation for:							
Buildings and Building Improvements	(173,568,536)	-	-	-	(9,879,629)	948,885	(182,499,280)
Infrastructure	(1,165,968)	-	-	-	(312,192)	-	(1,478,160)
Facilities and Other Improvements	(10,383,664)	-	-	-	(270,690)	-	(10,654,354)
Furniture and Equipment	(13,099,622)	88	-	(3,931)	(2,050,963)	1,654,198	(13,500,229)
Vehicle, Boats, and Aircraft	(1,068,387)	-	-	-	(133,310)	22,628	(1,179,069)
Other Capital Assets	(17,139,302)	-	-	-	(1,535,908)	3,227,673	(15,447,536)
Total Accumulated Depreciation	<u>(216,425,479)</u>	<u>88</u>	<u>-</u>	<u>(3,931)</u>	<u>(14,182,691)</u>	<u>5,853,385</u>	<u>(224,758,628)</u>
Depreciable Assets, Net	<u>157,891,732</u>	<u>88</u>	<u>2,054,431</u>	<u>37,522</u>	<u>55,595,171</u>	<u>(3,050,111)</u>	<u>212,528,833</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>-</u>	<u>479,904</u>
Less Accumulated Amortization for:							
Computer Software - Intangible	(179,109)	-	-	-	(95,980)	-	(275,089)
Total Accumulated Amortization	<u>(179,109)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(95,980)</u>	<u>-</u>	<u>(275,089)</u>
Intangible Capital Assets	<u>300,796</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(95,980)</u>	<u>-</u>	<u>204,815</u>
Activities Capital Assets - Net.	<u>\$ 179,697,085</u>	<u>\$ 88</u>	<u>\$ -</u>	<u>\$ 37,522</u>	<u>\$ 67,459,834</u>	<u>\$ (3,189,748)</u>	<u>\$ 244,004,781</u>

The majorette/dance squad named *Motion of The Ocean* consists of feature twirlers, a captain, and squad members. Twirlers perform at halftimes, parades, and one of the feature twirlers performed at the halftime Superbowl XXXVIII show. The *Motion of the Ocean* is an all female dance squad that performs to the music provided by *The Ocean of Soul* band. TSU feature twirlers also participate in parades and exhibition performances.

BASIC FINANCIAL STATEMENTS • AUGUST 31, 2012

Notes to Financial Statements

Exhibit 2: Interest Rate Risk

Investment Type	Fair Value	Investment Maturities (in Years)				
		Stocks	Less Than 1	1 to 5	6 to 10	More than 10
Agency Discount Securities	\$ 16,881,978	\$ -	\$ 16,881,978	\$ -	\$ -	\$ -
Agencies	4,017,904	-	849,897	-	38,822	3,129,186
Treasuries	1,893,720	-	-	-	-	1,893,720
Common Stock	22,338,484	22,338,484	-	-	-	-
Corporate Obligations	5,213,177	-	26,078	1,809,634	1,708,570	1,668,895
Commercial Paper Securities	2,498,025	-	2,498,025	-	-	-
Foreign Obligations	985,863	859,438	-	126,425	-	-
Money Market Funds	29,424,696	-	29,424,696	-	-	-
Total	\$ 83,253,847	\$ 23,197,923	\$ 49,680,674	\$ 1,936,058	\$ 1,747,392	\$ 6,691,801

Exhibit 3: Summary of Long-Term Liabilities

Long-Term Liabilities	Balance 9/1/2011	Additions	Reductions	Balance 8/31/2012	Amounts Due within One Year
General Obligation Bonds Payable					
Series 2004 Const. Approp.	\$ 3,755,000	\$ -	\$ 1,200,000	\$ 2,555,000	\$ 1,250,000
Series 2005 Const. Approp.	15,155,000	-	3,570,000	11,585,000	3,710,000
Premiums	181,785	-	60,595	121,190	60,595
Total general obligation bonds	19,091,785	-	4,830,595	14,261,190	5,020,595
Revenue Bonds Payable					
Series 1998 A-1	9,430,000	-	1,170,000	8,260,000	1,220,000
Series 1998 A-2 Improvement	6,205,000	-	970,000	5,235,000	1,015,000
Series 1998 B Improvement	8,915,000	-	500,000	8,415,000	530,000
Series 2002	32,180,000	-	2,225,000	29,955,000	2,325,000
Series 2003	20,345,000	-	1,290,000	19,055,000	1,345,000
Series 2004	1,275,000	-	410,000	865,000	425,000
Series 2011	29,240,000	-	915,000	28,325,000	960,000
Premiums & discounts	1,770,523	-	170,797	1,599,725	166,738
Total revenue bonds	109,360,523	-	7,650,797	101,709,725	7,986,738
Note Payable	720,324	-	360,162	360,162	360,162
HBCU Loan	-	64,180,000	1,034,720	63,145,280	2,101,564
	720,324	64,180,000	1,394,882	63,505,442	2,461,726
Other Liabilities:					
Accrued Claims and Judgements	810,000	-	810,000	-	-
Compensated Absences	4,823,822	515,833	-	5,339,655	2,573,893
Total Other Liabilities	5,633,822	515,833	810,000	5,339,655	2,573,893
Total	\$ 134,806,454	\$ 64,695,833	\$ 14,686,274	\$ 184,816,012	\$ 18,042,952
Long-term Debt Due in More Than One Year				\$ 166,773,060	
* Debt associated with capital assets				\$ 179,476,357	

Fiscal Administration

Back Row (Left to Right): Brian Dickens, Ashlee Williams, Louis Edwards

Front Row: Beverly Ruffin, Greg Williams, Jim McShan

Jim McShan Vice President for Administration & Finance

Ashlee Williams Director of Administration & Finance Business Services

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



Financial Reporting Team

Back Row (Left to Right): Rena Robinson, Shirley Harper, Ryan Mason, Juanita Morgan, Altaf Rajan

Front Row (Left to Right): Valentina Pitre, Lavonda Horn, Michael Onwuemene, Glenda Wright, Jeffrey Thomas, Jerelyn Lemmie



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