TSU

TEXAS SOUTHERN UNIVERSITY

Financial Statements for the Fiscal Year Ending August 31, 2011

Creating Legends & Leaders

Contents

Texas Southern University would like to recognize the 85th Anniversary of our University and dedicate this year's annual financial report to the thousands of graduates who have made strides toward equality, broken barriers of injustice, and created success stories for themselves and our ever-growing history. Cheers to 85 years of creating legends and leaders.

TRANSMITTAL SECTION

FINANCIAL SECTION

PROUD OF OUR LEGACY.

Barbara Jordan, TSU Magna Cum Laude Graduate, Class of 1956
First African American Woman Elected to The Texas Senate

MESSAGE FROM THE PRESIDENT

December 2, 2011

The Annual Financial Report of Texas Southern University for Fiscal Year 2011 provides an overview of the University's financial position and operations as of August 31, 2011. Texas Southern University, as a public institution, must account fully for the dollars we receive as investments in the educational future of the students who choose our university to pursue their academic and professional goals. We are pleased to present this Financial Report, for it is one means of providing assurance to all State of Texas taxpayers and elected officials of such accountability.

As we prepare for 2012—the 85th anniversary of our institution—we take great pride in the fact that Texas Southern University continues to grow and improve as a graduate-degree granting institution serving the urban center of Houston, with a number of programs drawing students from across the state, nation and world. Over the course of Texas Southern's existence, the University has served as an important educational resource and contributor to the well-being of local, state, national and international communities. The University's graduates have left the indelible imprint upon the fabric of communities around the world—a fact we take great pride in sharing. Building upon our proud heritage as a Historically Black University, we have boldly and successfully expanded the University's sphere of influence and service, creating one of the most diverse campus communities in the nation. The same commitment and professionalism that has allowed Texas Southern University to produce leaders in every field has been invested in substantiating the University as a worthy steward of the taxpayers' trust, as is reflected in this Financial Report.

We believe the Annual Financial Report of Texas Southern University for FY 2011 provides an accurate picture of our ever-expanding relevance and our potential to attain the status as one of the nation's leading urban serving universities. Moreover, the accuracy and professionalism of this Financial Report is a tangible sign of our success in moving Texas Southern University closer to this goal.

John M. Rudley

John M. Rudley
President

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

December 2, 2011

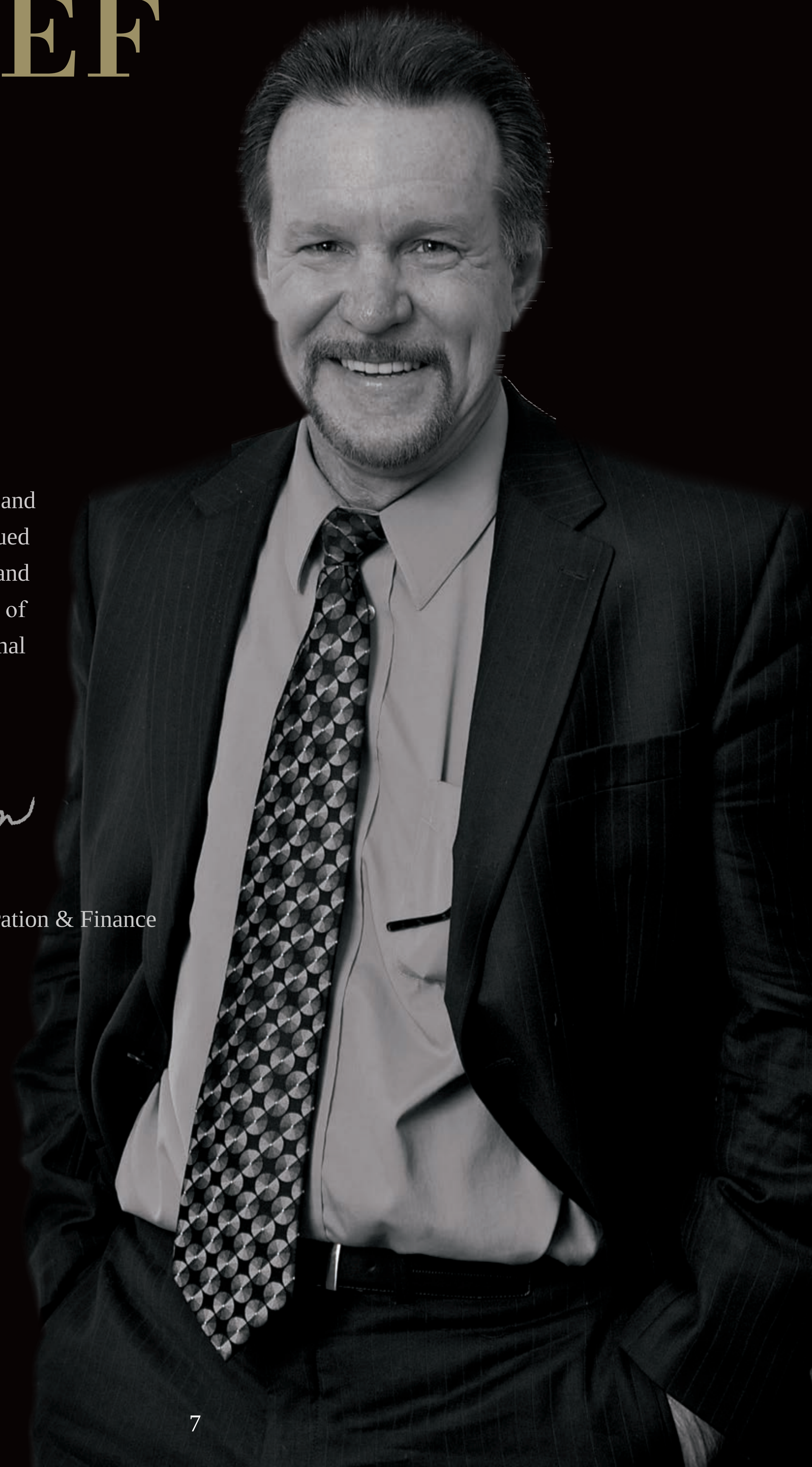
Greetings,

We are pleased to submit this independently audited Annual Financial Report (AFR) for the fiscal year ended August 31, 2011 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 2011, with our total net assets decreasing by 5% to $140 million, while our unrestricted net assets increased by 9% to $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



History

SUMMARY

TSU was established in 1927 by the Houston Independent School District under the moniker, "Houston Colored Junior College" in an effort to establish segregated junior colleges for each race. On March 3, 1947, the Texas Legislature bought the campus from HISD for $2 million and formally established the school as the first state university in Houston: "Texas State University for Negroes."

BACKGROUND

In February 1946, Heman Marion Sweatt, an African American man, applied to the University of Texas School of Law. He was denied admission because of race, and subsequently filed suit. The state had no law school for African Americans. Instead of granting Sweatt a writ of mandamus, the Texas trial court continued the case for six months to allow the state time to create a law school for blacks.

As a result, the state founded Texas Southern University under Senate Bill 140 by the Fiftieth Texas Legislature on March 3, 1947 as a state university to be located in Houston. The school was established to serve African Americans in Texas and offer them fields of study comparable to those available to white Texans. The new university was charged with teaching "pharmacy, dentistry, arts and sciences, journalism education, literature, law, medicine and other professional courses." The legislature stipulated that "these courses shall be equivalent to those offered at other institutions of this type supported by the State of Texas." In 1951, the establishment was given its current moniker, "Texas Southern University."

As the reputation of Texas Southern University grew, so did awareness about its community influence and significance. Over the years, the University's educational facilities and programs expanded, and many of its graduates began to achieve local, regional, and national recognition for their influence in politics, education, business, technology, medicine, and the arts. The University grew from one permanent building and several temporary structures to the 40-plus building, 150-acre campus that exists today.

The University's enrollment has grown from 2,303 students to more than 9,000 undergraduate and graduate students from across the world. Although the University was initially established to educate African-Americans, it has become one of the most ethnically diverse institutions in Texas.

TODAY'S 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

TODAY'S 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.

BOARD OF REGENTS

Chairman Glenn O. 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 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 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, 2009; March 13, 2009 – February 1, 2015

Secretary Richard Salwen is the retired former Vice President, General Counsel, and Corporate Secretary of Dell Computer Corporation. He joined Dell in 1989 when it was a company with $250 million in annual revenues, and retired in 2000, when Dell had reached $30 billion – revenue growth of approximately twelve thousand percent in twelve years.

Term: May 11, 2007 – February 1, 2013

Regent Samuel Bryant, 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.

Term: October 26, 2007 – February 1, 2017

Regent Richard Knight, Jr. is the owner and managing partner of Pegasus Texas Holdings LLC, a company with three entities that provide support services to the construction industry. He has held mangement positions for Caltex Petroleum in the US and Singapore and for the cities of Dallas, TX; Gainesville, FL; Carrboro, NC and Durham, NC. He has provided oversight and management of major projects such as the Dallas ISD 2002 bond program, which included over $500 million in construction of school facilities; 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 Gary 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

Regent Richard C. 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

Regent Marilyn A. Rose, CPA 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: October 26, 2007 – February 1, 2009; March 13, 2009 – February 1, 2015

Student Regent Steven R. Champion is in his senior year, and is currently serving as Student Government Association President. Champion ensured that student voices were heard, and that their concerns were effectively addressed, all while making the honor roll and Dean's List. He is currently pursuing a master's degree in public administration and plans to enroll in the dual MPA/Law program. He hopes to use his skills as a criminal defense attorney, and eventually as a mayor or governor of a major city or state.

Term:June 1, 2011 – May 31, 2012

UNIVERSITY ADMINISTRATION

John M. Rudley, Ed.D
President

Janis J. Newman
Chief of Staff

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

James M. Douglas, Ph.D
Executive Vice President

Andrew C. Hughey
General Counsel

Jim McShan, CPA
CFO
VP for Administration & Finance

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

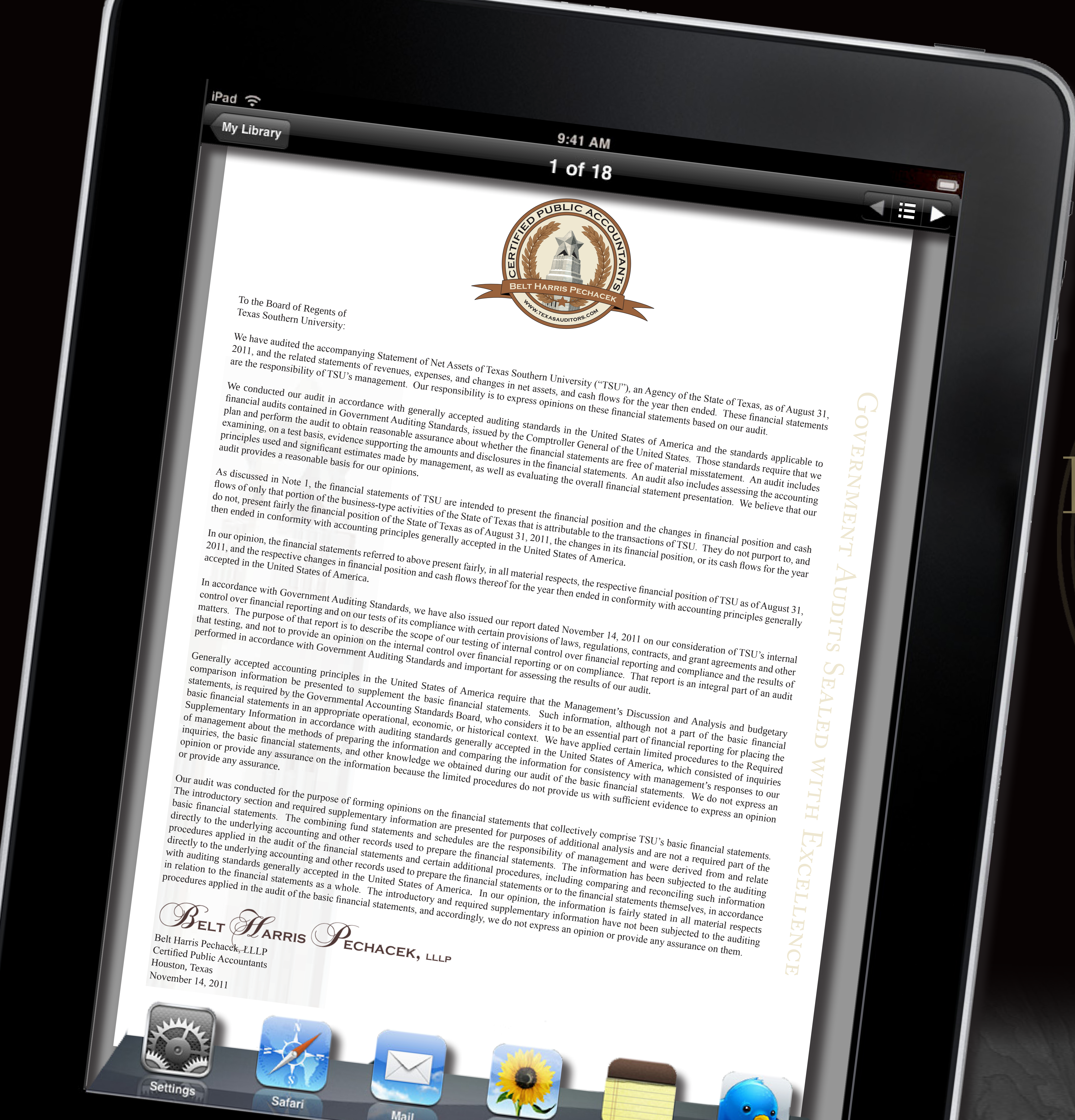
Wendy H. Adair
VP for University Advancement

Charles F. McClelland, Ph.D
Athletics Director

Byron E. Price, Ph.D
Chair, Faculty Assembly/Senate

PROUD OF OUR LEADERSHIP.

Mickey Leland, TSU Graduate, Class of 1970
Anti-Poverty Activist & Congressman from the Texas 18th District



To the Board of Regents of
Texas Southern University:

We have audited the accompanying Statement of Net Assets of Texas Southern University ("TSU"), an Agency of the State of Texas, as of August 31, 2011, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. 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 generally accepted auditing standards 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, 2011, 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, 2011, and the respective changes in financial position and 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 14, 2011 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 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.

Generally accepted accounting principles in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information 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.

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 and required supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and required supplementary information have 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 them.

Belt Harris Pechacek, LLLP

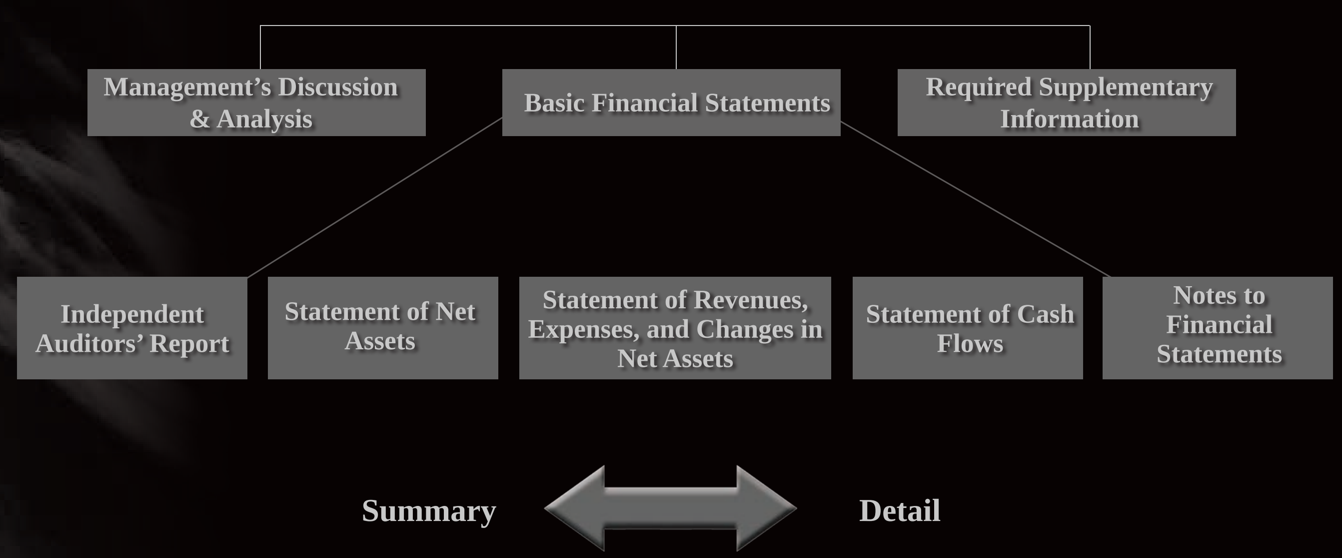
Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
November 14, 2011

INDEPENDENT AUDITORS' REPORT

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. GASB Statement No. 34 establishes the content of the minimum requirements for the MD&A. Please read the MD&A in conjunction with TSU's financial statements, which follow this document.

Components of the Financial Section



The annual financial report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. The financial reporting model requires certain basic financial statements as well as a Management's Discussion and Analysis (MD&A) and certain other Required Supplementary Information (RSI). The basic financial statements include statement of net assets; statement of revenues, expenses, and changes in net assets; statement of cash flows; and notes to the financial statements.

PROUD OF OUR VOICE.

Yolanda Adams, TSU Graduate, Class of 1983
American Grammy-Award-Winning Gospel Artist, Record Producer, Actress, & Radio Host

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 assets and the statement of revenues, expenses, and changes in net assets, 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 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 the 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 balance 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 $139,954,869 as of August 31, 2011. 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 (36 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 increased by $3,676,534 from $39,715,124 to $43,391,658 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 increase can be attributed to an increase in tuition and fees and new online courses.

NET ASSETS AS OF AUGUST 31, 2011

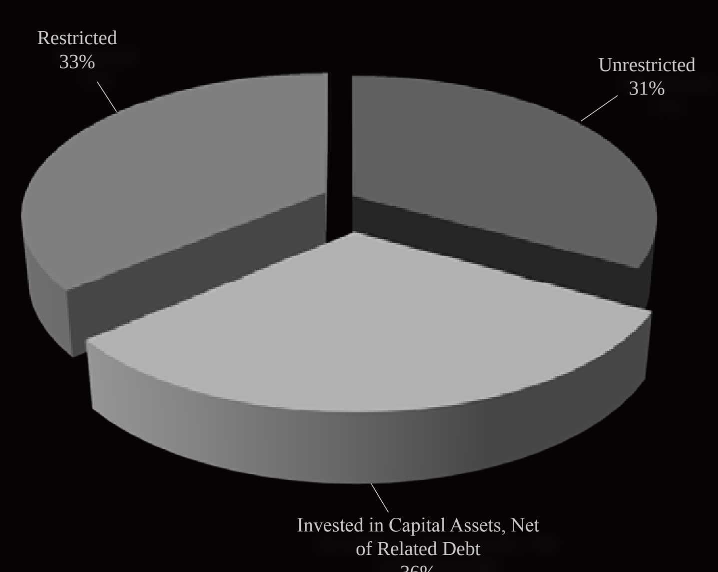


TABLE 1
CONDENSED STATEMENT OF NET ASSETS

Assets	2011	2010
Current and other assets	$ 99,706,057	$ 107,249,675
Restricted assets	77,918,312	37,176,942
Capital assets, net	179,697,085	184,244,542
Total Assets	**357,321,454**	**328,671,159**
Liabilities		
Current liabilities	97,577,051	78,808,654
Noncurrent liabilities	119,789,533	102,988,648
Total Liabilities	**217,366,584**	**181,797,302**
Net Assets		
Invested in capital assets, net of related debt	50,524,453	73,458,437
Restricted for:		
Capital projects	9,827,018	1,756,420
Debt service	2,212,772	449,338
Other	33,998,968	31,494,539
Unrestricted	43,391,658	39,715,124
Total Net Assets	**$ 139,954,869**	**$ 146,873,857**

For the year ended August 31, 2011, total revenue was $205,637,779. Total revenue decreased by $12,315,704 or (six percent). TSU’s total net assets decreased by $6,918,988 or (five percent). This primary decrease was due to revenue auxiliary enterprise housing units and a decrease in capital appropriations.

Expenses totaled $212,556,767 for the year ended August 31, 2011. This represents an increase of $4,906,568 from last year. The majority of this increase can be attributed to increases in scholarships related to Pell awards, as well as, a reclassification of expenditures from professional fees per state classification.

Key elements to these changes are as follows:

- Operating revenues decreased by $8,061,843 due to decreased Auxiliary Enterprise Housing unit revenue and Federal Awards expiring in FY10.
- Non-operating revenues (expenses) decreased by $4,253,860 due to a decrease in appropriations funding received from the State.
- Operating expenses increased by $3,507,689 (two percent) as a result of an increased amount scholarship awarded to students.
- Non-operating expenses increased by $395,134 (seven percent) due to an increase in interest expense from additional bonds received in fiscal year 2011.
- Depreciation expense increased $1,003,745 (eight percent) due to capital asset deletion.

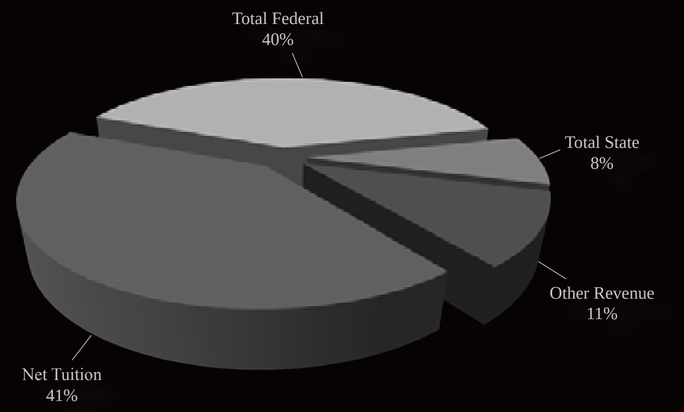
TABLE 2
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Operating Revenues	2011	2010
Tuition and fees, pledged	$ 82,995,833	$ 76,139,146
Discount on tuition and fees	(25,028,288)	(22,068,813)
Auxiliary enterprises, pledged	8,996,963	12,118,191
Other sales of goods and services, pledged	18,956	82,350
Federal revenue	44,945,212	50,586,842
Federal pass through revenue	2,472,983	10,553,849
State revenue	4,246,178	1,498,412
State pass through revenue	6,566,174	5,587,697
Other operating contract and grants, pledged	909,196	1,866,265
Other operating revenue	4,837,182	2,658,293
Total Operating Revenues	**130,960,389**	**139,022,232**
Operating Expenses		
Salaries and wages	89,549,622	86,118,451
Payroll related costs	20,689,214	21,536,320
Professional fees and services	9,204,598	9,031,176
Travel	2,977,531	3,124,377
Materials and supplies	11,149,178	14,854,427
Communication and utilities	6,861,486	5,553,340
Repairs and maintenance	5,258,097	6,624,311
Rentals and leases	2,543,898	2,078,025
Printing and reproductions	554,257	578,284
Federal pass through expenditures	31,473	-
Bad debt expense	2,175,971	3,261,994
Scholarships	28,029,175	25,157,275
Other operating expenses	13,972,910	11,571,739
Depreciation	13,501,068	12,497,323
Total Operating Expenses	**206,498,478**	**201,987,044**
Operating (Loss)	**$ (75,538,089)**	**$ (62,964,812)**
Nonoperating Revenues (Expenses)		
State appropriations	$ 54,863,698	$ 57,082,216
Additional appropriations	10,302,617	10,987,734
Gifts received	666,559	1,305,397
Interest income	1,633,697	1,136,362
Investing expenses	(242,810)	(208,543)
Interest expense	(5,815,479)	(5,454,612)
Net increase (decrease) in fair value of investments	3,146,802	1,265,227
Other non-operating	(4,218,167)	(3,317,849)
Total Nonoperating Revenues	**60,336,917**	**62,795,932**
Income Before Other Rev, Gains, and Transf	**(15,201,172)**	**(168,879)**
Other Revenues, Expenses, Gains, and Transfers		
Capital appropriations, HEAF	8,894,700	11,283,387
Additions to endowments	64,057	30,631
Lapsed appropriations	(558)	(154,501)
Transfer to state	(676,015)	(687,353)
Total Other Rev, Exp, Gains, and Transf	**8,282,183**	**10,472,164**
Change in Net Assets	(6,918,988)	10,303,285
Beginning Net Assets	146,873,857	136,570,573
Ending Net Assets	$ 139,954,869	$ 146,873,857

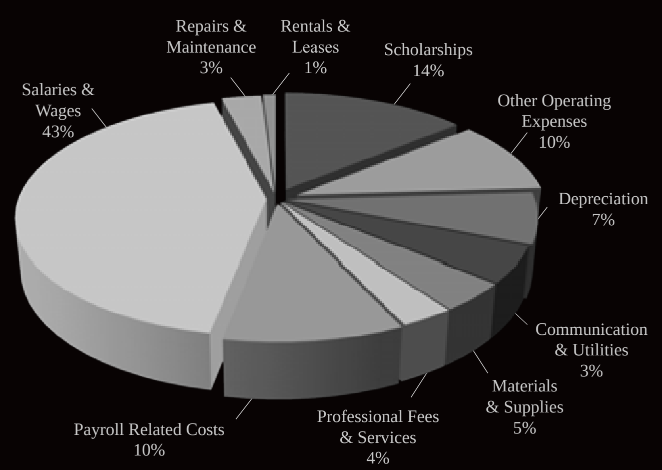
See Notes to Financial Statements.

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

OPERATING REVENUES



OPERATING EXPENSES



CAPITAL ASSETS

At year end, TSU had invested $179,697,085 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net decrease of $4,547,457.

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

- Building improvements completed at a cost of $1,939,573.
- Various building renovations and equipment were added as construction in progress at a total cost of $2,635,585.
- Construction is about to commence on the New Leonard Spearman Technology building estimated to cost $31.5 million as the architectural services have almost been concluded.

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 "Baa3" with Moody's Investors Service. At year end, TSU had $109,360,523 in revenue bonds outstanding versus $86,812,825 last year. TSU had $19,091,785 general obligation bonds outstanding compared to $23,732,380 last year. More detailed information about TSU's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS

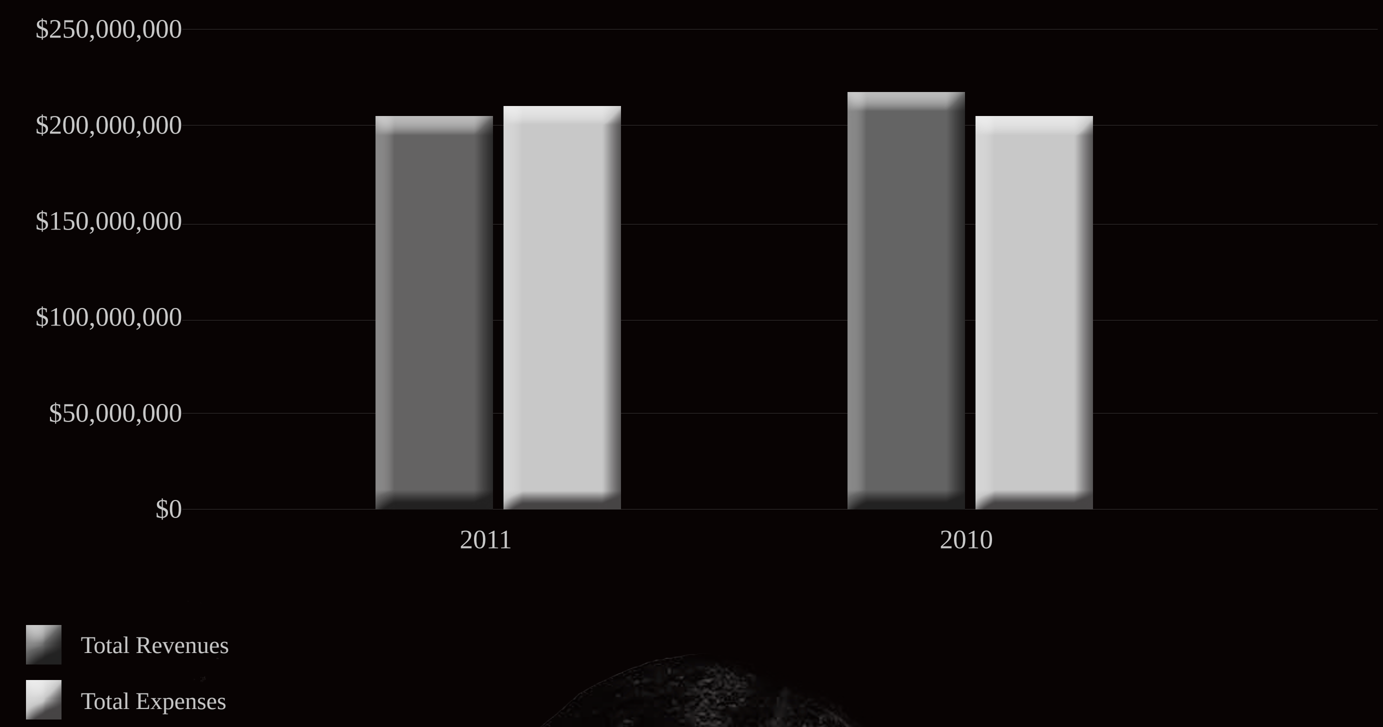
TSU suffered budget reductions in FY11 due to a five percent reduction of State funding across the board and a decrease in State and Capital Appropriations which caused a significant reduction in force at year end. In addition to State funding, the University received less Federal grant awards due to the recession in the economy.

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.

This Houston-native and one-time school teacher continues to spread the message of God through her internationally acclaimed, Grammy-award-winning music and syndicated radio morning show, "The Yolanda Adams Morning Show." As a TSU graduate with a degree in Radio/Television Broadcasting, she is a huge supporter of the University - most recently sharing her time with students as the guest speaker at the 2011 winter commencement.

REVENUES AND EXPENSES



STATEMENT OF NET ASSETS

Assets		2011
Current Unrestricted Assets		
Cash on hand	$	3,225
Cash in transit		445
Cash in bank		21,492,766
Cash in state treasury		10,461,069
Balance in state appropriations		7,052,458
Accounts receivable, net		17,108,798
Due from federal government		20,158,442
Due from state government		15,028
Other receivables		139,081
Gifts receivable, net		1,390,000
Due from other agencies		2,447
Inventories		194,775
Prepaid items		18,319,039
Total Current Unrestricted Assets		**96,337,574**
Current Restricted Assets		
Cash and cash equivalents		34,732,020
Investments		7,770,572
Total Current Restricted Assets		**42,502,592**
Total Current Assets		**138,840,166**
Noncurrent Restricted Assets		
Noncurrent investments		35,415,720
Total Noncurrent Restricted Assets		**35,415,720**
Noncurrent Unrestricted Assets		
Notes receivable, net		2,303,634
Deferred charges		1,064,850
Nondepreciable capital assets:		
Land		16,000,028
Construction in progress		2,635,585
Historical treasures and works of art		2,868,943
Total Nondepreciable Capital Assets		**21,504,556**
Depreciable capital assets:		
Buildings and building improvements		315,077,295
Infrastructure		6,528,361
Equipment		23,999,762
Library books		29,191,698
Less accumulated depreciation		(216,604,588)
Total Net Depreciable Capital Assets		**158,192,528**
Total Noncurrent Assets		**218,481,288**
Total Assets	$	**357,321,454**

Liabilities		2011
Current Liabilities		
Accounts payable	$	4,688,061
Salaries payable		6,885,760
Due to state		2,868
Due to other agencies		31,473
Interest payable		2,169,585
Escheat payable		441,787
Deferred revenue		51,832,396
Student refunds payable		2,385,584
Other payables		14,057,792
Notes payable due in one year		360,162
Revenue bonds due in one year		7,480,000
General obligation bonds due in one year		4,770,000
Compensated absences payable due in one year		2,471,584
Total Current Liabilities		**97,577,051**
Noncurrent Liabilities		
Notes payable due in more than one year		360,162
Revenue bonds due in more than one year		
(net of premiums and discounts)		101,880,522
General obligation bonds due in more than one year		
(net of premiums and discounts)		14,321,785
Compensated absences payable due in more than one year		2,352,239
Arbitrage payable		64,825
Due to Perkins Loan Program		-
Accrued claims and judgments		810,000
Total Noncurrent Liabilities		**119,789,533**
Total Liabilities		**217,366,584**
Net Assets		
Invested in capital assets, net of related debt		50,524,453
Restricted for:		
Capital projects		9,827,018
Debt service		2,212,772
Loans		164,378
Other purposes		573,165
Endowments		33,261,425
Unrestricted		43,391,658
Total Net Assets	$	**139,954,869**

See Notes to Financial Statements.

PROUD OF OUR HERITAGE.

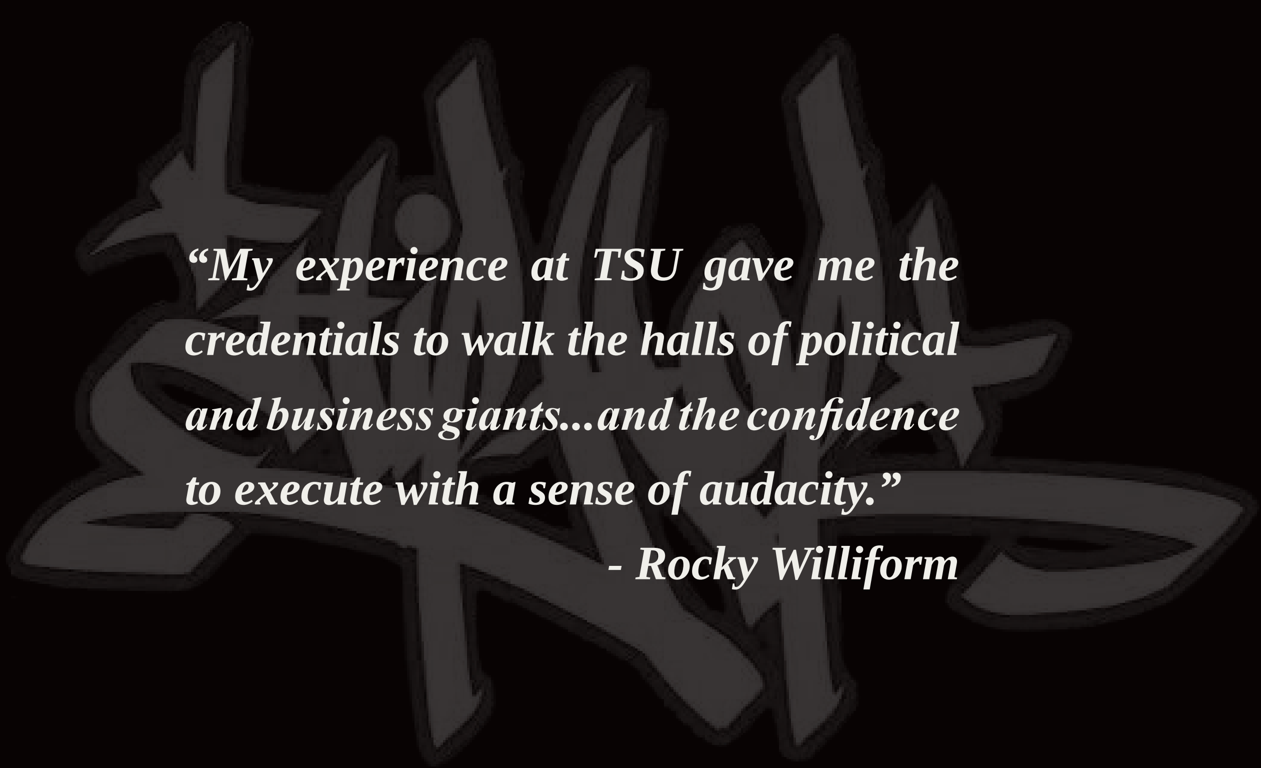
Rocky De Aire Williform, TSU Graduate, Class of 1994; American Entrepreneur & Founder of Hiphopblog.com

STATEMENT OF REVENUES, EXPENSES, & CHANGES IN NET ASSETS

Operating Revenues	2011
Tuition and fees, pledged	$ 82,995,833
Discount on tuition and fees	(25,028,288)
Auxiliary enterprises, pledged	8,996,963
Other sales of goods and services, pledged	18,956
Federal revenue	44,977,359
Federal pass through revenue	2,472,983
State revenue	4,246,178
State pass through revenue	6,566,174
Other operating contract and grants, pledged	877,049
Other operating revenue	4,837,182
Total Operating Revenues	**130,960,389**
Operating Expenses	
Salaries and wages	89,549,622
Payroll related costs	20,689,214
Professional fees and services	9,204,598
Travel	2,977,531
Materials and supplies	11,149,178
Communication and utilities	6,861,486
Repairs and maintenance	5,258,097
Rentals and leases	2,543,898
Printing and reproductions	554,257
Federal pass through expenditures	31,473
Bad debt expense	2,175,971
Scholarships	28,029,175
Other operating expenses	13,972,910
Depreciation and amortization	13,501,068
Total Operating Expenses	**206,498,478**
Operating (Loss)	**$ (75,538,089)**

Nonoperating Revenues (Expenses)	2011
State appropriations	$ 54,863,698
Additional appropriations	10,302,617
Gifts received	666,559
Interest income	1,633,697
Investing expenses	(242,810)
Interest expense	(5,815,479)
Net increase in fair value of investments	3,146,802
Other non-operating	(4,218,167)
Total Nonoperating Revenues	60,336,917
Income Before Other Revenues, Expenses, Gains, and Transfers	(15,201,172)
Other Revenues, Expenses, Gains, and Transfers	
Capital appropriations, HEAF	8,894,700
Additions to endowments	64,057
Returned lapsed appropriations	(558)
Transfer to state	(676,015)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	8,282,184
Change in Net Assets	(6,918,988)
Beginning net assets	146,873,857
Ending Net Assets	$ 139,954,869

See Notes to Financial Statements.



"My experience at TSU gave me the credentials to walk the halls of political and business giants...and the confidence to execute with a sense of audacity."

- Rocky Williform

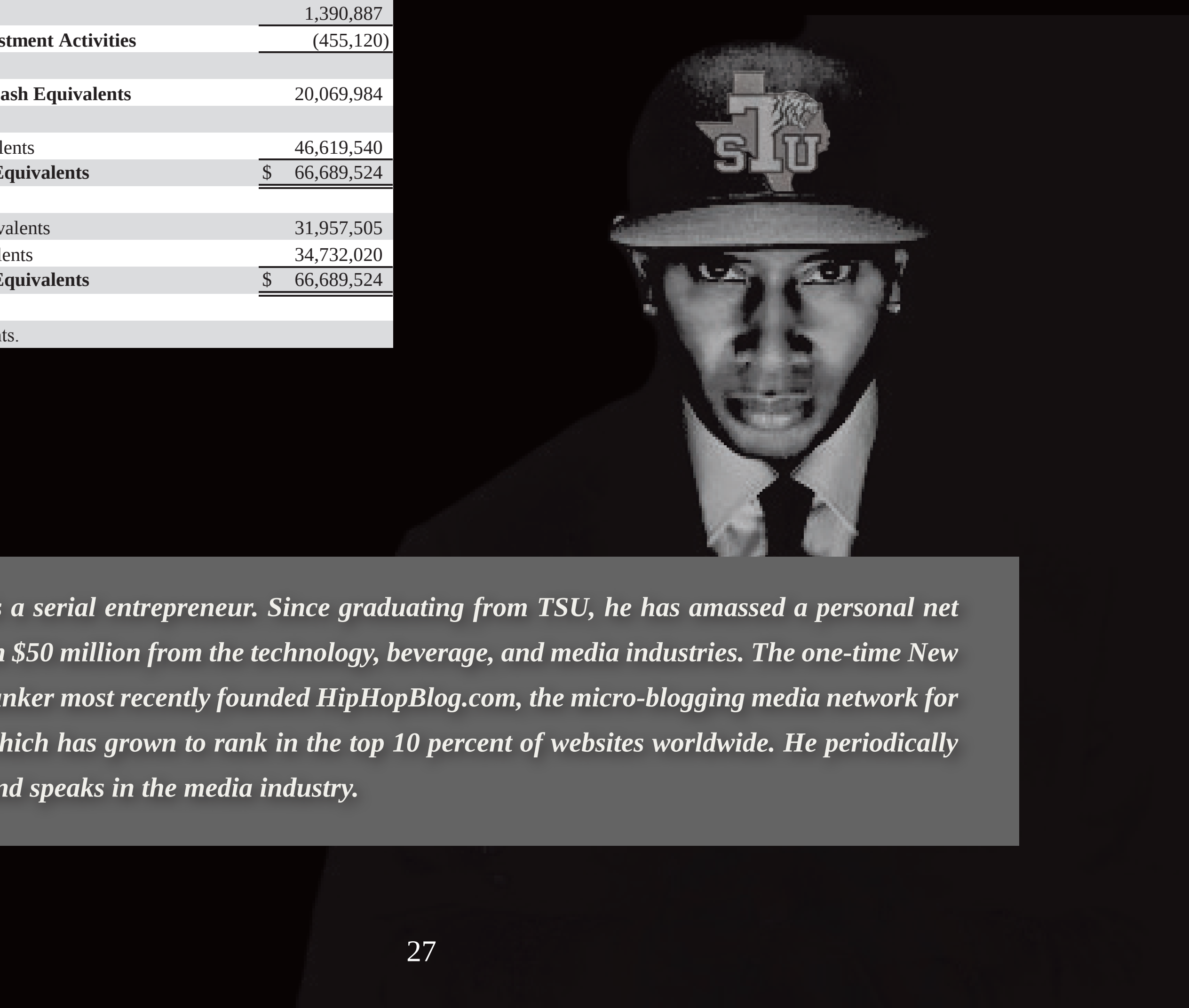
STATEMENT OF CASH FLOWS

Cash Flows from Operating Activities	2011
Proceeds from tuition and fees	$ 58,177,015
Proceeds from auxiliary enterprises	8,996,963
Proceeds from federal grants and contracts	39,179,316
Proceeds from state grants and contracts	10,813,725
Proceeds from other revenues	6,446,963
Payments to employees for salaries and wages	(89,253,247)
Payments for employee related costs	(20,616,451)
Payments for other expenses	(71,699,433)
Net Cash (Used) by Operating Activities	(57,955,149)
Cash Flows from Noncapital Financing Activities	
Receipts from state appropriations	77,968,025
Receipts from gifts and endowments	273,454
Net Cash Prov. by Noncapital Financing Activities	78,241,479
Cash Flows from Capital and Related Financing Activities	
Acquisition and construction of capital assets	(6,930,344)
Principal paid on capital debt	(18,386,526)
Interest and fiscal agent fees paid	(5,944,356)
Bond issue receipts	31,500,000
Net Cash Prov. by Capital and Related Financing Activities	238,774
Cash Flows from Investing Activities	
Sale of investments	252,601
Purchase of investments	(2,019,907)
Payments received on notes receivable	(78,701)
Interest received	1,390,887
Net Cash (Used) by Investment Activities	(455,120)
Net Increase in Cash and Cash Equivalents	20,069,984
Beginning cash and cash equivalents	46,619,540
Ending Cash and Cash Equivalents	$ 66,689,524
Unrestricted cash and cash equivalents	31,957,505
Restricted cash and cash equivalents	34,732,020
Ending Cash and Cash Equivalents	$ 66,689,524

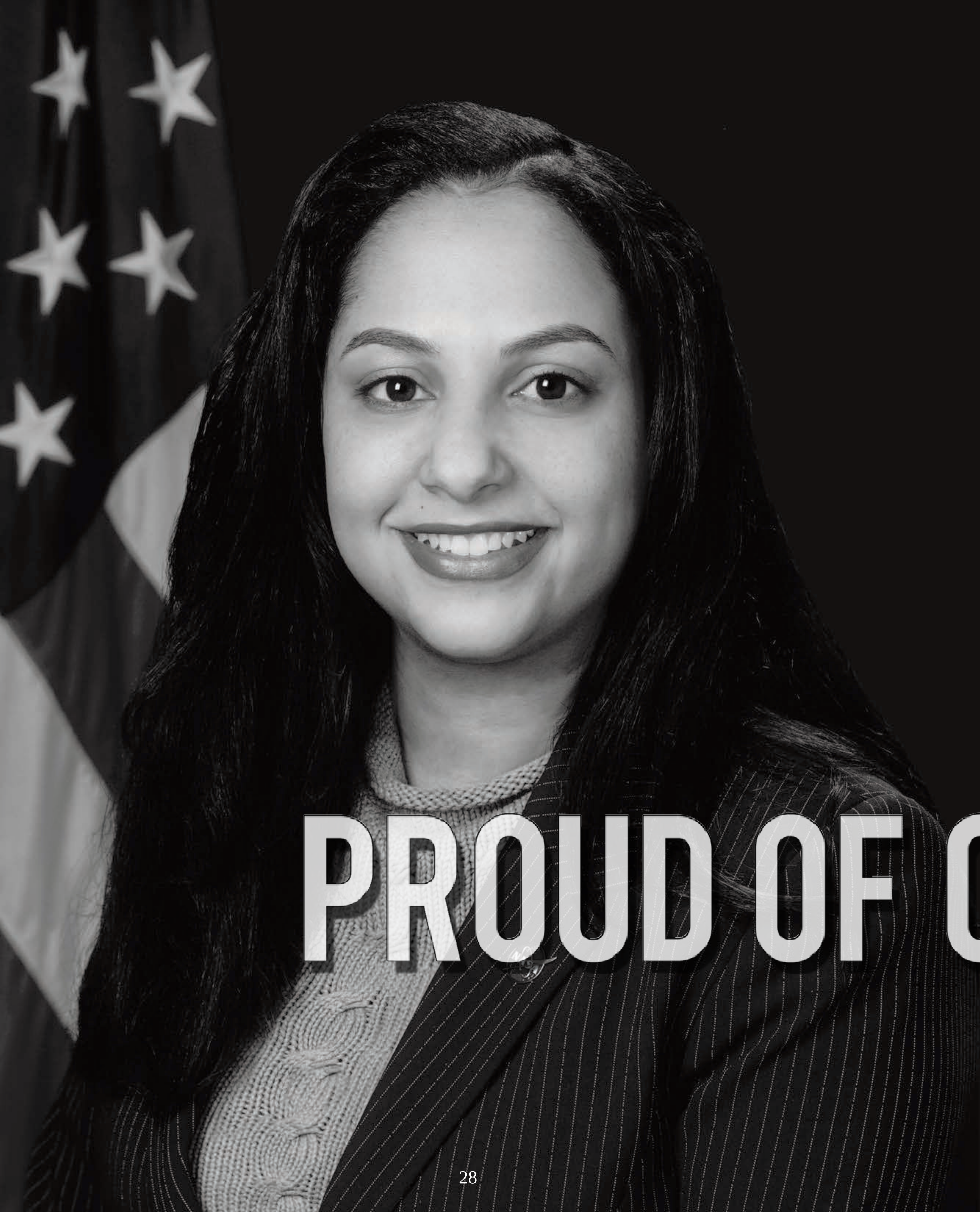
See Notes to Financial Statements.

Reconciliation of Operating (Loss) to Net Cash (Used) by Operating Activities	2011
Operating (Loss)	$ (75,538,089)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	13,501,068
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable, net	(2,084,222)
Due from federal government	(8,238,879)
Other receivables	701,958
Inventories	23,056
Prepaid items	(4,659,446)
Increase (Decrease) in:	
Accounts payable	(1,594,515)
Salaries payable	296,375
Due to state	(20)
Escheat payable	354,278
Deferred revenue	9,573,039
Student refunds payable	(81,842)
Other current liabilities	9,719,328
Compensated absences	72,763
Net Cash (Used) by Operating Activities	$ (57,955,149)

See Notes to Financial Statements.



Rocky Williform is a serial entrepreneur. Since graduating from TSU, he has amassed a personal net worth of more than $50 million from the technology, beverage, and media industries. The one-time New York investment banker most recently founded HipHopBlog.com, the micro-blogging media network for hip-hop culture, which has grown to rank in the top 10 percent of websites worldwide. He periodically serves on panels and speaks in the media industry.



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' (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 (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 are listed on the following page.

PROUD OF OUR IMPACT.

Dr. Noreen Khan-Mayberry, TSU Master Program Graduate, Class of 1998; PhD Graduate Class of 2003
Space Toxicologist for the National Aeronautics & Space Administration

- 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 & 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, 2011 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 follows:

Class of Asset	Threshold
Land and Land Improvements	Capitalize all
Buildings and Building Improvements	$100,000
Facilities & Other Improvements	$100,000
Infrastructure-Depreciable	$500,000
Infrastructure-Non-Depreciable	Capitalize all
Furniture & 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:

Asset Description	Useful Life
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 long-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.

11. Bonds Payable – Revenue Bonds

Revenue bonds are reported as long-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 State Comptroller of Public Accounts' 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.

2. CAPITAL ASSETS

Total construction commitments outstanding at year end were $1,598,593.

TSU's capital assets not in use had a net value of $3,311,969 at year end. Buildings not used at year end are as follows:

Building		Net Book Value
Richfield Manor	$	1,825,320
YMCA Building		1,486,649
Total	$	3,311,969

A summary of changes in capital assetsfor the year ended August 31, 2011 is shown in Exhibit 1 on page 42.

3. DEPOSITS & 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, 2011, TSU's deposits were fully collateralized.

		2011
Cash & cash equivalents/ statement of cash flows	$	66,689,524
Less:		
Cash on hand		3,225
Cash in treasury		10,461,069
Total Cash in Bank	$	56,225,230
Unrestricted cash in bank:	$	21,493,211
Restricted cash in bank:		34,732,019
Total Cash in Bank	$	56,225,230

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
- Banker's 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

As of August 31, 2011, TSU had the following investments:

Investment Type		Fair Value
U.S. Government Agency Obligations	$	7,459,103
U.S. Treasury Securities		784,804
Equity		18,951,080
Corportate Obligations		5,122,944
Commerical Paper		779,969
International Obligations		1,331,516
Fixed Income Money Market Funds		43,055,531
Total Fair Value	$	77,484,947

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 (NRSRO). 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.

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 risk rate.

NOTES TO FINANCIAL STATEMENTS • YEAR ENDED AUGUST 31, 2011

4. SUMMARY OF LONG-TERM LIABILITIES

The changes reported in the long-term liabilities during the year ended August 31, 2011 are illustrated in Exhibit 3 on page 43.

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

Year Ending Aug. 31	Revenue Bonds			
		Principal		Interest
2012	$	7,480,000	$	5,567,339
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
2017-2021		39,040,000		13,727,756
2022-2026		19,175,000		5,406,125
2027-2031		9,115,000		1,588,275
Total	$	107,590,000	$	44,770,868

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

Year Ending Aug. 31	General Obligations Bonds			
		Principal		Interest
2012	$	4,770,000	$	685,000
2013		4,960,000		491,400
2014		5,165,000		290,000
2015		4,015,000		80,300
Total	$	18,910,000	$	1,546,700

A. NOTES AND LOANS PAYABLE

A non-interest bearing note payable consists of agreed installment payments on leasehold improvements at Lone Star College of $360,162 due on October 15, 2011.

The annual payment schedule by year is tabulated in the following column.

Year Ending Aug. 31	Note Payable			
		Principal		Interest
2012	$	360,162	$	-
2013		360,162		-
Total	$	720,324	$	-

B. ACCRUED CLAIMS AND JUDGMENTS

1. Student Rights

The lawsuit against TSU involved a jury awarding compensatory and punitive damages of $600,000, not including the claimed attorney fees in excess of $150,000 alleged violations of first amendment rights and for malicious prosecution and false arrest under State law. TSU has filed motions for judgment or new trial; however, the courts have not ruled on TSU's motion. Although TSU is continuing to vigorously defend its position, because of the ongoing nature of the dispute, an accrued liability for claims and judgment of $750,000 has been recorded.

2. Cape Conroe

TSU reached a tentative settlement of $60,000 for an ongoing dispute with a property owners association for their fees on lots owned by TSU in Montgomery County. An accrued liability for claims and judgments has been recorded.

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.

"Dr. Noreen" has spoken at events internationally and as a guest expert on radio talk shows on topics relating to space toxicology, environmental toxicology, food toxicology, and leadership. She has been honored as a "Technology Rising Star" and internationally as one of the "Women as Global Leaders."

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 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 Internal Revenue Service's rules and regulations and the arbitrage liability is adjusted accordingly

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

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

NOTES TO FINANCIAL STATEMENTS • YEAR ENDED AUGUST 31, 2011

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. 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, 2011, TSU had not entered into any contractual agreements that could be deemed a capital lease obligation

7. OPERATING LEASES

Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year are $700,938 for 2012.

Current payments under non-cancelable operating leases were $700,938.

"The scientific training, opportunities and research partnerships, which are offered by Texas Southern University, give students the opportunity to make a significant impact for the betterment of society, and sets them on the path to leadership in their respective fields."

- Dr. Noreen

8. RETIREMENT PLANS

A. TEACHER RETIREMENT SYSTEM (TRS)

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

All TSU personnel employed in a position on a half time or greater basis for 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 6.64 percent of gross earnings. Depending upon the source of funding for the employee's compensation, the State or TSU contributes a percentage of participant salaries totaling 6 percent of annual compensation. TSU's contributions to TRS for the year ended August 31, 2011 were $2,028,435, 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 (ORP)

The State of Texas has also established an Optional Retirement Program (ORP) for institutions of higher education. Participation in the ORP is in lieu of participation in TRS. The ORP provides for the purchase of annuity contracts and mutual funds. Participants are vested in the employer contributions after one year and one day of service. The contributory percentages of participant salaries currently provided by the State of Texas and each participant are 6.4 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 Ending Aug. 31, 2011
Employee Contributions	$ 2,195,159
Employer Contributions	2,503,871
Total	$ 4,699,030

9. INTERFUND BALANCE AND ACTIVITIES

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.

10. CONTINGENT LIABILITIES

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.

James "Jim" Ray Hines was a United States Olympic track and field athelete who spent several of his peak years training as a member of the TSU Tigers track team. He held the 100 meter world record for 15 years, and was the first sprinter to officially break the 10-second barrier in the 100 meters, running an electronically timed 9.95 to win the 1968 Olympics in Mexico City.

B. PERFORMANCE BASED ENERGY CONSERVATION AGREEMENT

The lawsuit against TSU concerns a contractual dispute involving approximately $11.1 million in equipment and services for alleged breach of a performance-based energy conservation agreement. Part of the case has been dismissed by the Court of Appeals.

C. LAWSUITS

In addition to the case identified in note 4.b, 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 material adverse effect of the financial condition of TSU.

D. PARKING GARAGE

Effective September, 2009 Central Houston Parking, L.L.C. (CHP) terminated the management agreement with Integrity Parking Systems, L.L.C., an Ohio limited liability company, who since closing of bond transaction in 2004 acted as manager of the parking facility and Texas Southern University (TSU) assumed the role as manager. Terms of the new agreement allow for all parking receipts to be retained by TSU and all other terms and conditions remain unchanged. As a result, revenue allocations are not made to the debt service reserve fund through the trustee and TSU is obligated for any budget shortfalls related to annual debt service payments. Accordingly, TSU prepaid annual debt service payments of $1.8 million and $1.6 million in fiscal year 2010 and 2011, respectively.

Additionally, Letter of Credit renewal risk exists through BNP Paribas as the issuing bank and volatile credit markets which allow only for annual renewals. This is mitigated by the recent upgrade by Fitch and Moody's Investor Services to investment grade rating for the University's debt of BBB and Baa3, respectively. As such, options for refinancing this debt through more traditional credit products become viable.

In conjunction with this agreement, CHP received funding in the form of a loan from bonds issued by the Crawford Education Facilities Corporation (the "Corporation") for the purposes stated above. The Corporation was created by the City of Crawford, Texas, for the purposes of aiding a borrower (one or more) as that term is defined in Sections 53.02(11) and 53A.02(11) of the Texas Education Code in providing educational facilities and housing facilities and facilities incidental, subordinate or related thereto or appropriate in connection therewith in accordance with and subject to the provisions of Chapters 53 and 53A of the Texas Education Code, as amended, all to be done on behalf of the City and as its duly constituted authority and instrumentality. The Corporation is governed by a seven member Board of Directors appointed by the City Council of the City of Crawford, Texas.

The Corporation issued Variable Rate Demand Parking System Revenue Bonds, Series 2004A (University Parking System Project) (2004A Bonds) and Variable Rate Demand Parking System Revenue and Refunding Bonds, Series 2004B (University System Parking Project) (Taxable) (2004B Bonds), collectively referred to as the 2004 Bonds, pursuant to a Trust Indenture between CHP and The Bank of New York Trust Company, N.A., as Bond Trustee. The 2004 Bonds are payable from funds drawn on an irrevocable letter of credit issued by BNP Paribas pursuant to an Amended and Restated Letter of Credit and Reimbursement Agreement between BNP Paribas and CHP.

The 2004 Bonds are secured in part by (i) a Leasehold Deed of Trust, Security Agreement, and Assignment of Leases and Rents dated as of November 1, 2004 (Leasehold Deed of Trust), pursuant to which CHP will grant for the benefit of BNP Paribas a first mortgage lien on its leasehold interest in the premises obtained under this lease and a security interest in certain personal property, and will assign and pledge to BNP Paribas, CHP's interest in the leases, rents, issues, profits, revenues, income, receipts, moneys, royalties, rights, and benefits of and derived from the premises and (ii) an Assignment of Contract Documents dated as of November 1, 2004 (Assignment of Contracts), pursuant to which CHP will assign certain contract documents to BNP Paribas.

The 2004 Bonds are also secured by (i) the Second Lien Leasehold Deed of Trust and Assignment of Rents and Leases, Security Agreement, and Fixture Filing dated as of November 1, 2004 (Subordinate Deed of Trust), pursuant to which CHP will grant for the benefit of The Bank of New York Trust Company, N.A. a second mortgage lien on its leasehold interest in the premises and a security interest in the facility equipment and will assign and pledge to The Bank of New York Trust Company, N.A., CHP's interest in the leases, rents, issues, profits, revenues, income, receipts, monies, royalties, rights, and benefits of and derived from the premises and (ii) an Assignment of Contracts Document dated as of November 1, 2004 ("Assignment of Contracts") pursuant to which CHP will assign certain contract documents to the BNP Paribas (the Loan Agreement, the Leasehold Deed of Trust, the Subordinate Leasehold Deed of Trust, the Assignment of Contracts, the Development Agreement, the Construction Contract, the Indenture, the Letter of Credit Agreement, the Parking Management Agreement and other instruments executed by CHP in connection with the issuance of the bonds collectively referred to herein as the Bond Documents.

In connection with the issuance of the bonds and in accordance with the trust indenture, the bond trustee will establish various

NOTES TO FINANCIAL STATEMENTS • YEAR ENDED AUGUST 31, 2011

accounts for the payment of project costs and debt service as well as operation and maintenance of the facilities upon completion of the project. These accounts include a replacement reserve and operation and maintenance fund.

Title to the land shall at all times be vested completely with TSU. Title to any improvements on the land, including the facilities and facilities equipment, shall at all times be vested completely in CHP.

The term of the lease is through March 1, 2033, the stated maturity date of the 2004 bonds or upon earlier or later satisfaction of all reimbursement obligations by CHP. During the term, CHP shall pay TSU base rent in the amount of $1,000 per academic year, adjusted each academic year by an amount equal to the prior Consumer Price Index for the preceding calendar year.

In addition to the base rent, CHP shall pay directly to TSU $400,000 in a manner to be agreed upon by CHP and TSU as the initial payment for additional security provided by TSU in connection with CHP's operation of the facilities and the shuttle system. Such additional payments shall be paid each September 1 and may be adjusted annually in an amount to be mutually agreed upon by both parties.

CHP shall be responsible for the leasing, management, operation, and maintenance of the land and project (parking facilities), including, but not limited to the retail space (Retail Space) located on the ground level of each parking garage facility, in accordance with this lease, all applicable laws and TSU regulations without cost or expense to TSU. In connection with the retail space, TSU reserves the right to approve all potential tenants before CHP may lease such premises. CHP shall have the right to delegate some or all of such responsibilities to a manager approved by TSU by entering into a management agreement.

The lease agreement also establishes a committee (committee) to assist with communication between TSU and CHP. The committee is composed of three representatives appointed by TSU and three representatives appointed by CHP. TSU and CHP may also each appoint an alternate. The committee is responsible for approval of an annual budget, appointment of any successors as manager, and approval of the policies and operating procedures governing the project.

During the term, TSU shall pay all parking revenues received from the sale of parking permits (on behalf of CHP) by wire transfer to the bond trustee to deposit in the pledged revenue fund, no later than 20 days after received. CHP shall deliver all revenues collected by CHP or on its behalf, in connection with the operation of the facilities, to bond trustee, on or before the 12th day of each month beginning September 12, 2004 and continuing thereafter during the term. CHP shall direct the payments as outlined in the annual budget and bond indenture through the bond trustee.

In the Transportation Agreement between TSU and CHP, it obligates TSU to pay a shuttle fee that, when combined with the revenues derived from the imposition of parking fees, will result in a combined debt service coverage ratio of at least 1.25:1.00. The debt service coverage ratio is defined as the amount required to be on deposit in the debt service fund divided by the maximum annual debt service requirement of any year in which the bonds remain outstanding. Accordingly, TSU is essentially obligated for any budget shortfalls related to debt service payments on the 2004 bonds. Interest on the debt is calculated under the terms of the agreement using a variable weekly rate, variable monthly rate, term rate and bank bond rate. A simple 5 percent rate is used for the purpose of estimating debt service requirements. Actual requirements could vary significantly.

Estimated debt service requirements are illustrated in Exhibit 4 on page 45.

CHP shall be responsible for charging parking rates for the Facilities during each academic year at the rates jointly determined by the annual budget for such academic year; provided that the parking rates shall be established as shall be necessary to assure maximum occupancy and use of the facilities and the services related thereto, together with the shuttle payment, satisfy the applicable covenants contained in any permitted mortgage, including together with the other amounts available for such purpose, the payment of the debt service on any debt secured by the permitted mortgage or the bond documents.

Unless a foreclosure has occurred, and subject to the terms and conditions of the Permitted Mortgage, TSU may, at any time after the tenth anniversary of this lease, purchase CHP's leasehold estate in the premises and the facility equipment, including CHP's capital equipment which has been purchased or leased on terms exceeding ten years. The purchase price will be the fair market value of CHP's leasehold interest in the premises and facility equipment, but in no event shall the purchase price be less than the unpaid principal of the debt secured by the permitted mortgage, together with accrued interest to the date of repayment of the indebtedness and the satisfaction of any obligation related thereto.

E. STUDENT HOUSING - TIERWESTER OAKS AND RICHFIELD MANOR APARTMENTS

On February 1, 2003, TSU entered into a lease agreement (Agreement) with Houston Student Housing II, LLC (HSH) for the purpose of leasing land to HSH to develop, construct, operate, and lease facilities on the land for eligible residents to provide student housing.

In conjunction with this agreement, HSH received funding in the form of a loan from bonds issued by the City of Houston Higher Education Finance Corporation (the "Corporation") for the purposes stated above. The Corporation was created by the City of Houston, Texas, for the purposes of exercising powers granted under Chapter 53 Texas Education Code, as amended, including Sections 53.35(b), 53A.35 and 53B.47(e) thereof, (Act) including (i) aiding educational institutions specified in the act in providing educational facilities and housing facilities and facilities incidental, subordinate, or related thereto or appropriate in connection therewith and (ii) issuing securities to obtain funds to purchase or to make student or parent loans in accordance with and subject to the provisions of the act generally, all to be done on behalf of the City and as its duly constituted authority and instrumentality. The corporation is governed by a Board of Directors consisting of not less than seven, nor more than eleven directors, appointed by the Mayor and confirmed by the City Council of the City of Houston, Texas.

The Corporation issued Variable Rate Demand Housing Revenue Bonds (Tierwester Oaks and Richfield Manor Projects), Series 2003A, and Variable Rate Demand Housing Revenue Bonds (Tierwester Oaks and Richfield Manor Projects), Series 2003B, pursuant to a trust indenture between the Corporation and The Bank of New York Trust Company of Florida, N.A., as bond trustee.

The bonds will be payable from funds drawn on an irrevocable letter of credit issued by The Bank of New York pursuant to a Letter of Credit and Reimbursement Agreement between The Bank of New York and HSH.

The irrevocable letter of credit will be secured by (i) a Leasehold Deed of Trust and Assignment of Rents and Leases and Fixture Filing dated as of February 1, 2003 (Leasehold Deed of Trust), pursuant to which HSH will grant for the benefit of the Bank of New York a first mortgage lien on its leasehold interest in the premises and a security interest in the facility equipment and will assign and pledge to the Bank of New York HSH's interest in the leases, rents, issues, profits, revenues, income, receipts, monies, royalties, rights, and benefits of and derived from the premises and (ii) an Assignment of Contracts Document dated as of February 1, 2003 (Assignment of Contracts) pursuant to which HSH will assign certain contract documents to the Bank of New York (the Loan Agreement, this Lease, the Leasehold Deed of Trust, the Subordinate Leasehold Deed of Trust, the Assignment of Contracts, the Development Agreement, the Construction Contract, the Indenture, the Letter of Credit Agreement, the Management Agreement and other instruments executed by HSH in connection with the issuance of the bonds collectively referred to herein as the "Bond Documents").

The bonds will be secured by (i) the Subordinated Leasehold Deed of Trust and Assignment of Rents and Leases and Fixture dated as of February 1, 2003 (Subordinate Deed of Trust), pursuant to which HSH will grant for the benefit of The Bank of New York Trust Company of Florida, N.A., a second mortgage lien on its leasehold interest in the premises and a security interest in the facility equipment and will assign and pledge to The Bank of New York Trust Company of Florida, N.A. HSH's interest in the leases, rents, issues, profits, revenues, income, receipts, moneys, royalties, rights and benefits of and derived from the premises and (ii) an Assignment of Contracts Documents dated as of February 1 2003 (Assignment of Contracts) pursuant to which HSH will assign certain contract documents to the Bank of New York (the Loan Agreement, the Leasehold Deed of Trust, the Subordinate Leasehold Deed of Trust, the Assignment of Contracts, the Development Agreement, the Construction Contract, the Indenture, the Letter of Credit Agreement, the Management Agreement and other instruments executed by HSH in connection with the issuance of the bonds collectively referred to herein as the Bond Documents.

In connection with the issuance of the bonds and in accordance with the trust indenture, the bond trustee will establish various accounts for the payment of project costs and debt service as well as operation and maintenance of the facilities upon completion of the project.

The term of the lease is through March 1, 2033, the stated maturity date of the 2003 bonds or upon earlier or later satisfaction of all reimbursement obligations by HSH. During the term, HSH shall pay the TSU base rent in monthly installments not to exceed $1,000 per month, adjusted each academic year by an amount equal to the prior Consumer Price Index for the preceding calendar year.

Ownership of the land shall at all times during the term be vested completely with TSU. Ownership of any improvements

NOTES TO FINANCIAL STATEMENTS • YEAR ENDED AUGUST 31, 2011

on the land, including the facilities (but excluding existing improvements at Richfield Manor owned by TSU), and the facility equipment shall at all times during the term be vested completely with HSH.

Upon issuance of the bonds, HSH paid $5,150,849 to Fannie Mae to retire a loan made to TSU that was used to acquire the sites for the development of the project in October 2002.

HSH shall be responsible for the leasing, management, operation, and maintenance of the land and project in accordance with this lease, all applicable laws and TSU regulations without cost or expense to TSU. HSH shall have the right to delegate some or all of such responsibilities to a manager approved by TSU by entering into a management agreement.

The lease agreement also establishes a committee (committee) to assist with communication between TSU and HSH. The committee is composed of three representatives appointed by TSU and three representatives appointed by HSH. TSU and HSH may also each appoint an alternate. The committee is responsible for approval of an annual budget, appointment of any successors as manager, and approval of the policies and operating procedures governing the project.

Unless a foreclosure has occurred, and subject to the terms and conditions of the permitted mortgages, TSU may at any time after the tenth anniversary of this lease purchase HSH's leasehold estate in the premises and the facility equipment. The purchase price will be the fair market value of HSH's leasehold interest in the premises and facility equipment, but in no event shall the purchase price be less than the unpaid principal of the debt secured by the permitted mortgages, together with accrued interest to the date of repayment of the indebtedness and the satisfaction of any obligation related thereto.

Each semester, TSU shall assign First Priority Occupants to the facilities prior to assigning such first priority occupants to any other TSU sponsored housing facility until (based on signed housing contracts) the Facilities have achieved minimum occupancy. TSU shall notify the first priority occupants of their assignment to the facilities by written notice.

With respect to any semester for which the facilities have not achieved the minimum occupancy by the date that is fifteen (15) days prior to the commencement of such semester, and subject to TSU's right to terminate this obligation without it being a default under this lease agreement, if it does not annually appropriate permitted funds of TSU to meet the obligations, TSU shall execute and deliver housing contracts for the number of additional units in the facilities necessary for the project, when taking into account signed housing contracts, to achieve break-even occupancy. Such housing contracts will name the Director of Housing for TSU or its designated assigned occupant as the occupant under such housing contract(s). TSU shall be liable for payment of all occupancy rentals and deposits required under each such housing contract; provided, however, that upon assignment by TSU to its designated assigned occupant, such assigned occupant and not TSU shall be responsible for such charges. Upon receipt of such housing contracts, the units covered by such housing contracts shall be deemed for all purposes to have been leased to an assigned occupant and shall be included in the calculation of minimum occupancy for the project for such semester. TSU shall pay, in accordance with the terms of the housing contracts, to HSH the occupancy rental for housing contracts executed by TSU pursuant to this section which have not been assigned to an assigned occupant. TSU may, at its option, direct HSH to apply any operating reserve in excess of $25,000 to offset TSU's obligations. Notwithstanding TSU's direction for HSH to apply the operating reserve to offset TSU's obligations, any such payment by TSU shall only be made from annually appropriated funds of TSU as permitted by law.

HSH shall charge occupancy rentals to assigned occupants of the facilities during each academic year at the rates jointly determined by the annual budget for such academic year. The occupancy rentals shall be established as shall be necessary to (i) assure maximum occupancy and use of the facilities and the services related thereto; (ii) satisfy the applicable covenants contained in any permitted mortgages, including the payment of the debt service on any debt secured by the permitted mortgages or the bond documents, the reserve amounts and all other payments and charges required under the permitted mortgages and the bond documents; and (iii) generate sufficient revenues for the payment of all other annual expenses. Accordingly, TSU is essentially obligated for any budget shortfalls related to debt service payments on the bonds. Interest on the debt is calculated under the terms of the agreement using a variable rate. A simple 5 percent rate is used for the purpose of estimating debt service requirements. Actual requirements could vary significantly.

Estimated debt services are illustrated in Exhibit 5 on page 45.

HSH shall arrange for each assigned occupant to execute and deliver to HSH a housing contract. TSU will have no obligation to HSH if any assigned occupant fails to pay the occupancy rentals in accordance with the terms of its housing contract.

11. SUBSEQUENT EVENTS

Texas Southern University through the Historically Black College/University (HBCU) capital financing program under the auspices of the U.S. Department of Education secured $64,180,000 in bonds proceeds on September 22, 2011 to purchase Tiewester Oaks and the University Courtyard apartment complexes, as well as the Parking Garage in execution of the board resolution made in June 2011.

12. RISK FINANCING & 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. As disclosed in Note 11, there were no subsequent events at year end. 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 of Public Accounts 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, 2011.

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.

13. 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, 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.

14. DONOR-RESTRICTED ENDOWMENTS

Donor-Restricted Endowments	Amount of Net Appreciation	Reported in Net Assets
True Endowments	$ 2,424,541	Restricted for expendable
Term Endowments	722,261	Restricted for expendable
Total	$ 3,146,802	

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 Reents. 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.

15. DISAGGREGATION OF RECEIVABLE BALANCES

Aggregate receivables as reported on the Statement of Net Assets as of August 31, 2011, are detailed as follows:

Receivables	Balance
Student Accounts	$ 24,809,639
Third Party Accounts	108,263
Less Allowance	(7,809,104)
Total	$ 17,108,798

The Barbara Jordan-Mickey Leland School of Public Affairs has a reputation as a comprehensive center for sound academic research. Scholars focus on a broad range of topics, including voting behavior, American foreign policy and international relations, political communication, police violence, race and governance, leadership, homeland security, urban transportation, environmental planning, economic development and the fiscal responsibility of urban governments.

NOTES TO FINANCIAL STATEMENTS • YEAR ENDED AUGUST 31, 2011

EXHIBIT 1: CAPITAL ASSETS

ACTIVITIES	Balance 9/1/2010	Adjustments	Reclassifications Completed CIP	Additions	Deletions	Balance 8/31/2011
Non-depreciable or Non-amortizable Assets						
Land and Land Improvements	$ 15,877,301	$ -	$ -	$ 122,727	$ -	$ 16,000,028
Infrastructure	-	-	-	-	-	-
Construction in Progress	657,204	-	(1,911,476)	3,973,492	(83,635)	2,635,585
Other Tangible Capital Assets	2,868,943	-	-	-	-	2,868,943
Land Use Rights - Permanent	-	-	-	-	-	-
Other Tangible Capital Assets- Perm	-	-	-	-	-	-
Total Non-depreciable Non-amortizable	19,403,448		(1,911,476)	4,096,219	(83,635)	21,504,556
Depreciable Assets						-
Buildings and Building Improvements	296,854,082	-	1,691,390	248,183	-	298,793,655
Infrastructure	6,528,361	-	-	-	-	6,528,361
Facilities and Other Improvements	15,144,002	-	125,064	-	-	15,269,066
Furniture and Equipment	22,217,918	(29,802)	95,023	1,717,516	(2,115,182)	21,885,473
Vehicle, Boats and Aircraft	1,620,499	-	-	139,731	(125,846)	1,634,384
Other Capital Assets	28,147,088	-	-	2,852,612	(793,427)	30,206,273
Total Depreciable Assets at Historical	370,511,950	(29,802)	1,911,477	4,958,042	(3,034,456)	374,317,212
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(165,989,689)	-	-	(7,578,847)	-	(173,568,536)
Infrastructure	(853,777)	-	-	(312,192)	-	(1,165,969)
Facilities and Other Improvements	(9,288,173)	-	-	(1,095,492)	-	(10,383,665)
Furniture and Equipment	(13,261,570)	3,229	-	(1,956,461)	2,115,182	(13,099,620)
Vehicle, Boats and Aircraft	(1,048,812)	-	-	(145,421)	125,846	(1,068,387)
Other Capital Assets	(15,625,613)	-	-	(1,513,689)	-	(17,139,302)
Total Accumulated Depreciation	(206,067,634)	3,229	-	(12,602,102)	2,241,028	(216,425,479)
Depreciable Assets, Net	164,444,316	(26,573)	1,911,477	(7,644,060)	(793,428)	157,891,733
Intangible Capital Assets- Amortizable						-
Land Use Rights - Term	-	-	-	-	-	-
Computer Software - Intangible	479,904	-	-	-	-	479,904
Other Intangible Capital Assets	-	-	-	-	-	-
Total Intangible Capital Assets	479,904	-	-	-	-	479,904
Less Accumulated Amortization for:						
Land Use Rights - Term	-	-	-	-	-	-
Computer Software - Intangible	(83,128)	-	-	(95,980)	-	(179,108)
Other Intangible Capital Assets	-	-	-	-	-	-
Total Accumulated Amortization	(83,128)	-	-	(95,980)	-	(179,108)
Intangible Capital Assets - Amortizable	396,776	-	-	(95,980)	-	300,796
Activities Capital Assets - Net.	$ 184,244,540	$ (26,573)	$ -	$ (3,643,821)	$ (877,063)	$ 179,697,085

EXHIBIT 2: INTEREST RISK RATE

		Investment Maturities (in Years)				
Investment Type	**Fair Value**	**Stocks**	**Less Than 1**	**1 to 5**	**6 to 10**	**More than 10**
Agency Discount Securities	$ 5,423,800	$ -	$ 5,423,800	$ -	$ -	$ -
Agencies	2,035,303	-	269,987	888,562	177,563	699,191
Treasuries	784,804	-	-	-	-	784,804
Common Stock	18,951,080	18,951,080	-	-	-	-
Corporate Obligations	5,122,944	-	-	643,330	1,729,332	2,750,282
Commercial Paper Securities	779,969	-	779,969	-	-	-
Foreign Obligations	1,331,516	941,409	-	316,306	-	73,801
Money Market Funds	43,055,531	-	43,055,531	-	-	-
Total	**$ 77,484,947**	**$ 19,892,489**	**$ 49,529,287**	**$ 1,848,198**	**$ 1,906,895**	**$ 4,308,078**

EXHIBIT 3: SUMMARY OF LONG-TERM LIABILITIES

Long-Term Liabilities	Balance 9/1/2010	Additions	Reductions	Balance 8/31/2011		Due within One Year
General Obligation Bonds Payable						
Series 2004 Const. Approp.	$ 4,905,000	$ -	$ 1,150,000	$ 3,755,000		$ 1,200,000
Series 2005 Const. Approp.	18,585,000	-	3,430,000	15,155,000		3,570,000
Premiums	242,380	-	60,595	181,785		-
Total general obligation bonds	23,732,380		4,640,595	19,091,785		4,770,000
Revenue Bonds Payable						
Series 1998 A-1	10,545,000	-	1,115,000	9,430,000		1,170,000
Series 1998 A-2 Improvement	7,135,000	-	930,000	6,205,000		970,000
Series 1998 B Improvement	9,395,000	-	480,000	8,915,000		500,000
Series 2002	34,300,000	-	2,120,000	32,180,000		2,225,000
Series 2003	21,580,000	-	1,235,000	20,345,000		1,290,000
Series 2004	1,675,000	-	400,000	1,275,000		410,000
Series 2011	-	31,500,000	2,260,000	29,240,000		915,000
Premiums & discounts	2,182,825	243,535	168,767	1,770,523		-
Total revenue bonds	86,812,825	31,743,535	8,708,767	109,360,523	*	7,480,000
				-		
Note Payable	240,900	720,324	240,900	720,324		360,162
	240,900	720,324	240,900	720,324	*	360,162
Other Liabilities:						
Accrued Claims and Judgements	810,000	-	-	810,000		-
Compensated Absences	4,509,080	379,080	64,338	4,823,822		2,471,584
Total Other Liabilities	5,319,080	379,080	-	5,633,822		2,471,584
Total	$ 116,105,185	$ 32,842,939	$ 13,590,262	$ 134,806,454		$ 15,081,746
Long-term Debt Due in More Than One Year				$ 119,724,708		
*Debt associated with capital assets				$ 129,172,631		

EXHIBIT 4: ESTIMATED DEBT SERVICES (PARKING GARAGE)

Year Ending Aug. 31	Principal	Variable Interest Estimated at 5%	Total Estimated Annual Amount
2012	$ 910,000	$ 1,618,250	$ 2,528,250
2013	945,000	1,572,750	2,517,750
2014	970,000	1,525,500	2,495,500
2015	1,005,000	1,477,000	2,482,000
2016	1,035,000	1,426,750	2,461,750
2017	1,070,000	1,375,000	2,445,000
2018	1,105,000	1,321,500	2,426,500
2019	1,140,000	1,266,250	2,406,250
2020	1,175,000	1,209,250	2,384,250
2021	1,215,000	1,150,500	2,365,500
2022	1,255,000	1,089,750	2,344,750
2023	1,295,000	1,027,000	2,322,000
2024	1,335,000	962,250	2,297,250
2025	1,380,000	895,500	2,275,500
2026	1,425,000	826,500	2,251,500
2027	1,470,000	755,250	2,225,250
2028	1,520,000	681,750	2,201,750
2029	1,570,000	605,750	2,175,750
2030	1,620,000	527,250	2,147,250
2031	1,675,000	446,250	2,121,250
2032	1,725,000	362,500	2,087,500
2033	1,785,000	276,250	2,061,250
2034	1,840,000	187,000	2,027,000
2035	1,900,000	95,000	1,995,000
Total	$ 32,365,000	$ 22,680,750	$ 55,045,750

EXHIBIT 5: ESTIMATED DEBT SERVICES (STUDENT HOUSING)

Year Ending Aug.31	Principal	Variable Interest Estimated at 5%	Total Estimated Annual Amount
2012	$ 690,000	$ 1,046,000	$ 1,736,000
2013	710,000	1,011,500	1,721,500
2014	735,000	976,000	1,711,000
2015	755,000	939,250	1,694,250
2016	775,000	901,500	1,676,500
2017	800,000	862,750	1,662,750
2018	820,000	822,750	1,642,750
2019	845,000	781,750	1,626,750
2020	870,000	739,500	1,609,500
2021	895,000	696,000	1,591,000
2022	920,000	651,250	1,571,250
2023	950,000	605,250	1,555,250
2024	975,000	557,750	1,532,750
2025	1,005,000	509,000	1,514,000
2026	1,035,000	458,750	1,493,750
2027	1,065,000	407,000	1,472,000
2028	1,095,000	353,750	1,448,750
2029	1,130,000	299,000	1,429,000
2030	1,160,000	242,500	1,402,500
2031	1,195,000	184,500	1,379,500
2032	1,230,000	124,750	1,354,750
2033	1,265,000	63,250	1,328,250
Total	$ 20,920,000	$ 13,233,750	$ 34,153,750

Annual Financial Reporting Team

Back Row (Left to Right): Glenda Wright, Ryan Mason, Shirley Harper, Val Pitre, Beverly Ruffin
Front Row (Left to Right): Lavonda Horn, Rena Robinson, Juanita Morgan, Michael Onwuemene

Fiscal Administration

Jim McShan	Vice President for Administration and Finance
Ashlee Williams	Division Business Administrator
Beverly Ruffin	Executive Director of Business Affairs
Brian Dickens	Executive Director of Human Resources & Payroll Services
Greg Williams	Executive Director of Procurement Services
Louis Edwards	Treasurer
Elias Hailu	Executive Director of Budget

Back Row (Left to Right): Jim McShan (standing), Ashlee Williams, Elias Hailu, Louis Edwards
Front Row: Greg Williams, Brian Dickens, Beverly Ruffin

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