



TEXAS SOUTHERN UNIVERSITY

TSU Now.

2009 ANNUAL FINANCIAL REPORT

We are a historical community.
We are academic pioneers.
We are a team of leaders.
We are  Now.

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tsu
texas southern university

“Injustice anywhere is a threat to justice everywhere”

Dr. Martin Luther King, Jr.





Transmittal Section





December 8, 2009

We are pleased to present the Annual Financial Report of Texas Southern University for Fiscal Year 2009. The report provides an overview of the University's financial position and operations as of August 31, 2009. As a public institution, Texas Southern University 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. This Financial Report is one means of providing assurance to all State of Texas taxpayers and elected officials of such accountability.

OUR SUCCESS HAS BEEN A PRODUCT OF OUR PROUD HERITAGE AS A HISTORICALLY BLACK UNIVERSITY AND OUR BOLD STRIVINGS TO EXPAND OUR INFLUENCE UPON A MORE DIVERSE CAMPUS COMMUNITY.

Texas Southern University is a graduate-degree granting institution serving the urban center of Houston, with a number of programs drawing students from across the state and nation. For over six decades, the University has served as an important educational resource and contributor to the well-being of local, state, national and international communities. We take great pride in the fact that the University's graduates, many of whom are still the first in their families to attend college, have left the indelible imprint upon the fabric of societies and communities across the globe. Our success has been a product of our proud heritage as a Historically Black University and our bold strivings to expand our influence upon a more diverse campus community. 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.

More than anything, the Annual Financial Report of Texas Southern University for FY 2009 seeks to paint a picture of our relevant present and promising future. It is our goal to soon be counted as one of the nation's leading urban serving universities; and 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
President



MESSAGE FROM THE PRESIDENT



December 8, 2009

We are pleased to submit this independently audited Annual Financial Report (AFR) for the fiscal year ended August 31, 2009 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.

Once again we received a clean, unqualified opinion from the independent certified public accounting firm of Belt Harris & Associates, 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 improved significantly during FY 2009, with our total net assets increasing by 14% to \$141 million, while our unrestricted net assets increased by 32% to \$38.5 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.

THIS SERVES AS AN IMPORTANT MILESTONE IN TSU'S BOARD OF REGENTS' AND MANAGEMENT'S PLAN TO PROVIDE EXCELLENCE IN STEWARDSHIP, ACCOUNTABILITY, AND FINANCIAL VIABILITY.

The preparation of this report was accomplished with 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 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 McShan
Vice President for Finance/CFO

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

History



Born out of the struggle for equality, Texas Southern University was formally established by the 50th Texas Legislature on March 3, 1947. Founded as the Texas State University for Negroes and given its current moniker in 1951, the University's primary mission was to establish a creditable college for African-American students.

After its inception, Texas Southern University was the first Historically Black College and University to house a law school—the Thurgood Marshall School of Law—and was also the first state-supported institution in the city of Houston. Moreover, during its founding years, the University's original admissions standards rivaled those of other state-supported schools such as the University of Texas. Its pioneering spirit and high standards of excellence continue today.

Prior to its celebrated inauguration, Texas Southern University was owned by the Houston Independent School District and known as the Houston College for Negroes in 1935. In a racially segregated society, the college offered African-Americans in Texas an opportunity for higher education. In a bold move for its time, the Texas Legislature bought the campus from HISD for \$2 million and transplanted an established state-supported law school for blacks to the University.

The University acquired the law school, which was originally located in Austin, Texas, and also created in 1947, following mail carrier Heman Marion Sweatt's court battle to be accepted into an all-white Texas school of law. The Law School awarded its first Doctor of Jurisprudence degree in 1950 and was later named the Thurgood Marshall School of Law in 1976.

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.

Texas Southern University's academic curriculum is organized into nine schools, and the University has awarded more than 38,000 degrees during its 61-year history. Some of TSU's well-known graduates include the late U.S. Congresswoman Barbara Jordan and Congressman George "Mickey" Leland.

In 1973, the Legislature designated Texas Southern University as a "special purpose institution for urban programming," after concluding that its educational programs and services particularly suited the needs of urban residents. Upholding this distinction, TSU's academic programs continue to provide training to professionals in the most critical areas of urban concern: environmental, health, education, public works, law enforcement, justice, city planning, and business.

Though its beginnings were humble, Texas Southern University is heralded as a pioneer, and distinguishes itself as one of the leading producers of African-American scholars that obtain collegiate, professional, and graduate degrees in the state, as well as the nation. 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.



Houston Colored Jr. College
Class of 1935
Courtesy of Vivian Hubbard Seals



RGOOD MARSHALL
SCHOOL OF LAW



UNIVERSITY ADMINISTRATION

John M. Rudley, Ed.D.....	President
Janis J. Newman.....	Chief of Staff
Sunny E. Ohia, Ph.D.....	Provost/Sr. VP for Academic Affairs
Dr. Edieth Y. Wu.....	Faculty Assembly/Senate
James M. Douglas, Esq.....	Exec. VP/Interim General Counsel
Jim C. McShan, CPA.....	VP for Finance/CFO
Gloria J. Walker, CPA.....	VP for Administration/COO
William T. Saunders, Ph.D.....	VP for Student Services and Dean of Students
Wendy H. Adair.....	VP for University Advancement
Yolanda Nimmer-Williams.....	Interim Director of Internal Audit
Charles F. McClelland.....	Athletics Director

TSU Now.

Texas Southern University is a comprehensive, historically Black institution of higher education dedicated to providing quality instruction, scholarly research, and socially responsible public service. Consistent with its statutory designations as both a statewide general purpose and a special purpose institution for urban programming, the University offers bachelor's, master's, doctoral, and professional degrees. Committed to providing access and opportunity, it enrolls an academically and ethnically diverse student body. Through their teaching and research, the distinguished faculty members produce competent graduates who are poised to make positive contributions to humanity.

MISSION AND VISION



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



Regent Rick 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 Tracey McDaniel currently serves as Executive Vice President and Chief Operating Officer of the Greater Houston Partnership, a post that she began in June 2006. In this capacity, McDaniel has oversight of the daily operations at the Partnership, which was formed in 1989 from a merger with the Houston Chamber of Commerce, Houston Economic Development Council and Houston World Trade Association.

Term: October 26, 2007 – February 1, 2009; March 13, 2009 – February 1, 2015



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, 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, 2011



Regent 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



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 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 the position of City Manager for Dallas, Texas; Gainesville, Florida; Carrboro, North Carolina; Durham, North Carolina, and with Calteex Petroleum in the US and Singapore. Moreover, he had provided oversight and management of major projects such as the Dallas Independent School District 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, 2011



Regent 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



Student Regent Patrice Andrea McKenzie of Houston, Texas received her Bachelor of Science in Health Care Administration with a minor in Public Affairs from Texas Southern University in May 2009. She is continuing her post-baccalaureate studies at Texas Southern University in Health Care Administration and Business Administration. Ms. McKenzie was appointed to the Texas Southern University Board of Regents as Student Regent by the Honorable Rick Perry, Governor of the State of Texas.

Term: May 29, 2009 – May 31, 2010



Financial Section



Independent Auditors' Report



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, 2009, 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 are 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, 2009, 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, 2009, 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 19, 2009 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.

The Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements. The introductory section and supplementary schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary schedules include a schedule of expenditure of federal awards that is subjected to a single audit as a part of a state-wide single audit. An individual agency is not subject to a separate single audit, and we did not perform a single audit. The introductory section and supplementary schedules have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

Subsequent to the original release of the financial statements on November 20, 2009 as discussed in Note 30 to the financial statements, certain errors resulting in an overstatement of previously reported notes payable as of August 31, 2009 were discovered during the current year. Accordingly, the 2009 financial statements have been restated to correct the error.

Belt Harris & Associates, L.L.P.

Belt Harris & Associates, L.L.P.
Certified Public Accountants
Houston, Texas
November 20, 2009

(except for Note 30, as to which the date is December 17, 2009)

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TEXAS SOUTHERN UNIVERSITY
EXCELLENCE IN ACHIEVEMENT



MANAGEMENT'S DISCUSSION
AND ANALYSIS



INTRODUCTION

The purpose of the Management's Discussion and Analysis (the "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 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.

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 \$140,992,783 as of August 31, 2009. 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 (46%) 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. Table 1 reflects the condensed Statement of Net Assets.

CONDENSED STATEMENT OF NET ASSETS

Unrestricted net assets increased by \$9,323,986 from \$29,200,123 to \$38,524,109 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 from the release of liability by the Department of Education.

NET ASSETS AS OF AUGUST 31, 2009

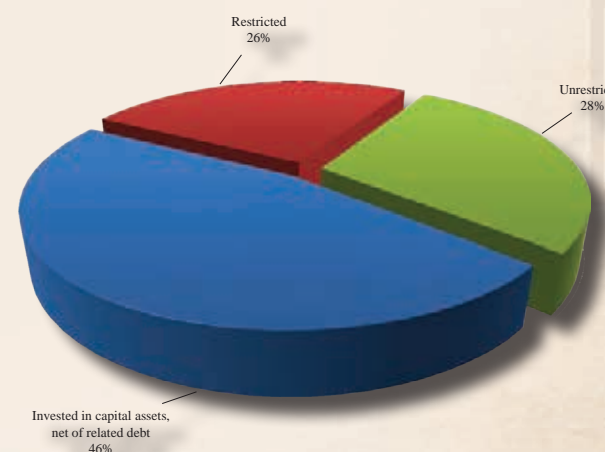


Table 1
Condensed Statement
of Net Assets

Assets	2009	2008
Current and other assets	\$107,823,168	\$101,243,436
Restricted assets	35,251,944	46,907,489
Capital assets, net	185,594,495	192,266,241
Total Assets	\$328,669,607	\$340,417,166
Liabilities		
Current liabilities	73,610,977	81,180,738
Noncurrent liabilities	114,065,847	135,090,704
Total Liabilities	\$187,676,824	\$216,271,442
Net Assets		
Invested in capital assets, net of related debt	64,348,007	55,913,422
Restricted for:		
Capital projects	5,748,033	5,938,868
Debt service	362,919	143,159
Other	32,009,715	32,950,153
Unrestricted	38,524,109	29,200,123
Total Net Assets	\$140,992,783	\$124,145,724

Table 2
Statement of Revenues,
Expenses, and Changes in Net Assets

Operating Revenues	2009	2008
Tuition and fees, pledged	\$59,420,132	\$54,007,726
Discount on tuition and fees	(18,769,655)	(15,465,404)
Auxiliary enterprises, pledged	7,782,381	6,383,743
Other sales of goods and services, pledged	94,409	40,341
Federal revenue	41,063,513	37,805,947
Federal pass through revenue	4,212,004	263,056
State revenue	1,461,145	548,697
State pass through revenue	1,833,134	3,325,052
Other operating contract and grants, pledged	1,828,192	2,356,305
Other operating revenue	4,481,213	5,513,042
Total Operating Revenues	\$103,406,468	\$94,778,505

Operating Expenses	2009	2008
Salaries and wages	\$80,048,211	\$69,817,411
Payroll related costs	19,180,344	20,915,995
Professional fees and services	15,099,643	13,944,342
Travel	2,129,694	1,825,163
Materials and supplies	11,411,396	8,082,970
Communication and utilities	5,802,966	5,708,275
Repairs and maintenance	16,747,215	4,205,771
Rentals and leases	2,618,563	1,292,138
Printing and reproductions	399,244	572,316
Bad debt expense	1,980,043	1,996,571
Scholarships	13,155,559	16,541,425
Other operation expenses	4,913,067	5,641,933
Depreciation	13,175,232	12,466,286
Total Operating Expenses	\$186,661,177	\$163,010,596
Operating (Loss)	(\$83,254,709)	(\$68,232,091)

Nonoperating Revenues (Expenses)	2009	2008
State appropriations	\$73,569,970	\$54,692,131
Additional appropriations	9,498,333	21,798,278
Other non-operating revenue	14,979	-
Gifts received	4,542,730	495,001
Interest income	1,304,201	2,618,123
Extinguishment of debt	11,264,101	-
Investing expenses	(200,195)	(208,157)
Interest expense	(5,819,242)	(6,633,250)
Net increase (decrease) in fair value of investments	(2,840,666)	(3,078,470)
Total Nonoperating Revenues	\$91,334,211	\$69,683,656
Income Before Other Revenues, Expenses, Gains, and Transfers	\$ 8,079,502	\$ 1,451,565

Other Revenues, Expenses, Gains, and Transfers	2009	2008
Capital appropriations, HEAF	\$ 11,283,387	\$ 11,156,464
Additions to endowments	124,808	659,528
Lapsed appropriations	(2,017,500)	-
Returned lapsed appropriations	-	12,295,120
Transfer to State	(623,138)	(574,890)
Total Other Revenues, Expenses, Gains, and Transfers	\$ 8,767,557	\$23,536,222
Change in Net Assets	\$ 16,847,059	\$ 24,987,787
Beginning net assets	\$124,145,724	\$ 99,157,937
Ending Net Assets	\$140,992,783	\$124,145,724

For the year ended August 31, 2009, revenues totaled \$212,368,339. Total revenues increased \$13,875,190 or seven percent. TSU's total net assets increased \$16,847,059 or fourteen percent. The primary increase is related to the release of TSU's liability to the Department of Education.

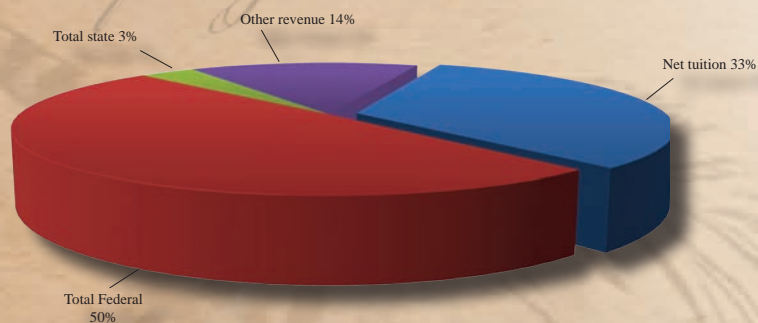
Expenses totaled \$195,521,280 for the year ended August 31, 2009. This represents an increase of \$22,015,918 from last year. The majority of this increase can be attributed to Hurricane Ike repairs.

Key elements to these changes are as follows:

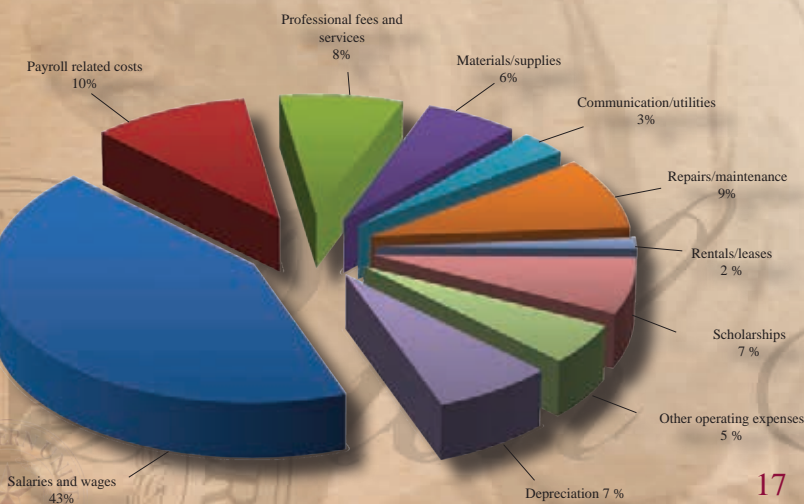
- Operating revenues decreased \$8,627,963 due to decreased tuition and federal pass through revenue.
- Nonoperating revenues increased \$5,247,227 (5%) due to increased appropriations received from the State, the release of Department of Education debt, and gifts contributed to TSU.
- Operating expenses increased by \$22,941,635 (15%) as a result of increased spending on building maintenance and repair.
- Nonoperating expenses decreased \$1,634,664 (16%) due to a reduction in interest expense and smaller investment losses.
- Depreciation expense increased \$708,946 (6%) due to the addition of capital assets.

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 \$185,594,495 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net decrease of \$3,049,642. Depreciation is included with the capital assets as required by GASB Statement No. 34.

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

- Building improvements to the School of Public Affairs were completed at a cost of \$1,176,340.
- Various building renovations were added as construction in progress at a total cost of \$1,051,662.

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 "Ba1" with Moody's Investors Service. At year end, TSU had \$93,001,741 in revenue bonds outstanding versus \$99,185,656 last year. TSU had \$28,212,975 in general obligation bonds outstanding compared to \$32,543,570 last year. More detailed information about TSU's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS

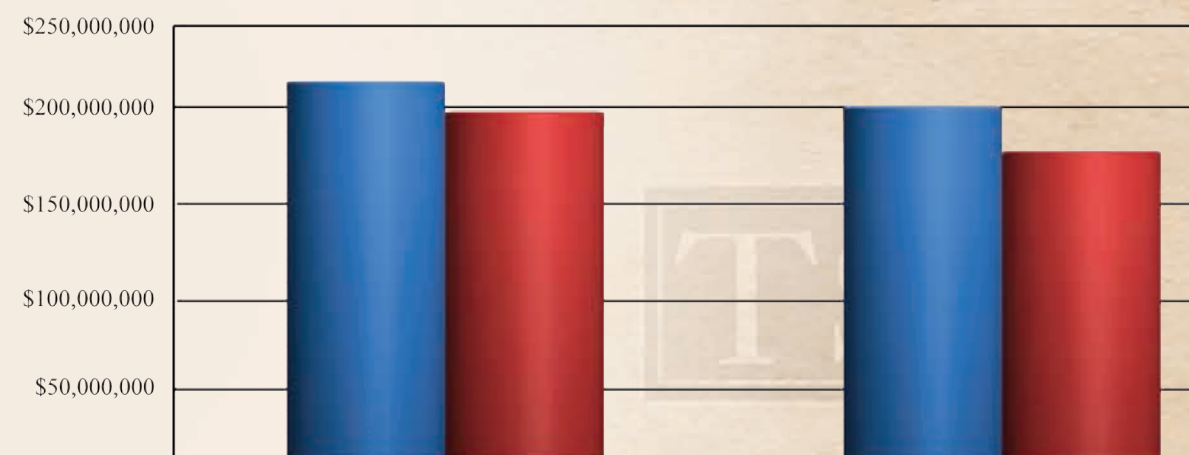
Like other entities along the Texas Gulf Coast, TSU suffered damages from Hurricane Ike. However, the institution expects all repair and replacement costs to be covered by FEMA, insurance coverage, or a special appropriation from the State for \$11.4 million.

CONTACTING TSU'S FINANCIAL MANAGEMENT

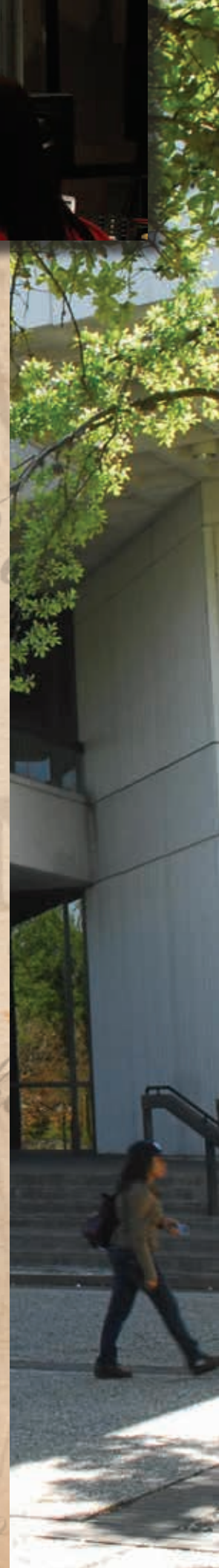
This financial report is designed to provide our students, alumni, citizens, taxpayers, and creditors with a general overview of TSU's finances and to show TSU's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Texas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



TOTAL REVENUES AND EXPENSES



■ Total Revenues
 ■ Total Expenses





TEXAS SOUTHERN
TIGERS
TIGERS



BASIC FINANCIAL
STATEMENTS



<u>Assets</u>	2009
Current Unrestricted Assets	
Cash and cash equivalents	
Cash on hand	\$ 3,135
Cash in bank	26,282,357
Cash in transit	98,666
Cash in state treasury	6,691,428
Total Unrestricted Cash and Cash Equivalents	33,075,586
Balance in state appropriations	29,269,747
Accounts receivable, net	18,810,028
Due from federal government	6,790,501
Due from state government	15,028
Other receivables	18,504
Gifts receivable, net	2,500,000
Due from other agencies	11,077
Inventories	314,673
Prepaid items	13,800,128
Total Current Unrestricted Assets	104,605,272
Current Restricted Assets	
Cash and cash equivalents	
Cash in bank	358,343
Investments	5,776,224
Total Current Restricted Assets	6,134,567
Total Current Assets	110,739,839
Noncurrent Restricted Assets	
Noncurrent investments	29,117,378
Total Noncurrent Restricted Assets	29,117,378
Noncurrent Unrestricted Assets	
Notes receivable, net	2,039,695
Deferred charges	1,178,200
Nondepreciable capital assets:	
Land	15,877,301
Construction in progress	815,066
Historical treasures and works of art	1,727,043
Total Nondepreciable Capital Assets	18,419,410
Depreciable capital assets:	
Buildings and building improvements	310,327,456
Infrastructure	6,528,361
Equipment	22,015,307
Library books	29,384,130
Less accumulated depreciation	(201,080,169)
Total Net Depreciable Capital Assets	167,175,085
Total Noncurrent Assets	217,929,768
Total Assets	\$ 328,669,607

<u>Liabilities</u>	2009
Current Liabilities	
Accounts payable	\$ 5,152,115
Salaries payable	6,085,209
Due to state	2,887
Interest payable	1,887,531
Escheat payable	179,249
Deferred revenue	45,444,279
Student refunds payable	462,745
Other payables	1,227,663
Notes payable due in one year	338,170
Revenue bonds due in one year	6,010,000
General obligation bonds due in one year	4,420,000
Compensated absences payable due in one year	2,401,129
Total Current Liabilities	73,610,977
Noncurrent Liabilities	
Notes payable due in more than one year	240,900
Revenue bonds due in more than one year (net of premiums and discounts)	86,991,741
General obligation bonds due in more than one year (net of premiums and discounts)	23,792,975
Compensated absences payable due in more than one year	1,617,413
Arbitrage payable	612,818
Accrued claims and judgments	810,000
Total Noncurrent Liabilities	114,065,847
Total Liabilities	187,676,824
Net Assets	
Invested in capital assets, net of related debt	64,348,007
Restricted for:	
Capital projects	5,748,033
Debt service	362,919
Loans	108,429
Other purposes	2,783,908
Endowments - nonexpendable	29,117,378
Unrestricted	38,524,109
Total Net Assets	\$ 140,992,783
See Notes to Financial Statements.	

Operating Revenues		2009
Tuition and fees, pledged	\$	59,420,132
Discount on tuition and fees		(18,769,655)
Auxiliary enterprises, pledged		7,782,381
Other sales of goods and services, pledged		94,409
Federal revenue		41,063,513
Federal pass through revenue		4,212,004
State revenue		1,461,145
State pass through revenue		1,833,134
Other operating contract and grants, pledged		1,828,192
Other operating revenue		4,481,213
Total Operating Revenues		103,406,468
Operating Expenses		
Salaries and wages		80,048,212
Payroll related costs		19,180,344
Professional fees and services		15,099,642
Travel		2,129,694
Materials and supplies		11,411,396
Communication and utilities		5,802,966
Repairs and maintenance		16,747,215
Rentals and leases		2,618,563
Printing and reproductions		399,244
Bad debt expense		1,980,043
Scholarships		13,155,559
Other operating expenses		4,913,067
Depreciation		13,175,232
Total Operating Expenses		186,661,177
Operating (Loss)		(83,254,709)

Nonoperating Revenues (Expenses)		2009
State appropriations	\$	73,569,970
Additional appropriations		9,498,333
Gifts received		4,542,730
Interest income		1,304,201
Extinguishment of debt		11,264,101
Other non-operating revenue		14,979
Investing expenses		(200,195)
Interest expense		(5,819,242)
Net increase (decrease) in fair value of investments		(2,840,666)
Total Nonoperating Revenues		91,334,211
Income Before Other Revenues, Gains, and Transfers		8,079,502
Other Revenues, Expenses, Gains, and Transfers		
Capital appropriations, HEAF		11,283,387
Additions to endowments		124,808
Lapsed appropriations		(2,017,500)
Transfer to state		(623,138)
Total Other Revenues, Expenses Gains, and Transfers		8,767,557
Change in Net Assets		16,847,059
Beginning net assets		124,145,724
Ending Net Assets	\$	140,992,783

See Notes to Financial Statements.



Cash Flows from Operating Activities		2009
Proceeds from tuition and fees	\$	31,109,890
Proceeds from auxiliary enterprises		7,782,381
Proceeds from federal grants and contracts		47,194,596
Proceeds from state grants and contracts		3,294,029
Proceeds from other revenues		13,648,563
Payments to employees for salaries and wages		(79,781,218)
Payments for employee related costs		(19,725,683)
Payments for other expenses		(81,856,069)
Net Cash (Used) by Operating Activities		(78,333,511)
Cash Flows from Noncapital Financing Activities		
Receipts from state appropriations		90,278,856
Receipts from gifts and endowments		1,267,538
Net Cash Provided by Noncapital Financing Activities		91,546,394
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets		(8,962,260)
Principal paid on capital debt		(10,826,763)
Interest and fiscal agent fees paid		(5,861,826)
Net Cash (Used) by Capital and Related Financing Activities		(25,650,849)
Cash Flows from Investing Activities		
Sale of investments		10,138,097
Purchase of investments		(1,224,043)
Payments received on notes receivable		9,847
Interest received		1,104,006
Net Cash Provided by Investment Activities		10,027,907
Net (Decrease) in Cash and Cash Equivalents		(2,410,059)
Beginning cash and cash equivalents		35,843,988
Ending Cash and Cash Equivalents	\$	33,433,929
Unrestricted cash and cash equivalents		33,075,586
Restricted cash and cash equivalents		358,343
Ending Cash and Cash Equivalents	\$	33,433,929

Reconciliation of Operating (Loss) to Net Cash (Used) by Operating Activities		2009
Operating (Loss)	\$	(83,254,709)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		13,175,232
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Accounts receivable, net		(363,374)
Due from federal government		1,919,079
Other receivables		110,079
Inventories		58,239
Prepaid items		(3,668,082)
Increase (Decrease) in:		
Accounts payable		2,350,040
Salaries payable		(84,318)
Due to state		(545,338)
Escheat payable		(374,862)
Deferred revenue		7,134,670
Student refunds payable		(9,177,463)
Other current liabilities		(5,964,015)
Compensated absences		351,311
Net Cash (Used) by Operating Activities	\$	(78,333,511)

See Notes to Financial Statements.





NOTES TO
FINANCIAL STATEMENTS



1 Summary of Significant Accounting Principles

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

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

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

A. REPORTING ENTITY

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

B. FINANCIAL STATEMENT PRESENTATION

These financial statements include implementation of Governmental Accounting Standards Board (“GASB”) Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*. Requirements of the statement include the following:

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

Statement No. 35 established standards for external financial reporting for all public colleges and universities, which includes a Statement of Net Assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

For financial reporting purposes, TSU is considered a special-purpose government engaged only in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, TSU’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. TSU applies all GASB pronouncements and applicable Financial Accounting Standards Board (“FASB”) statements and interpretations issued on or before November 30, 1989. Subsequent to this date, TSU accounts for its activities as presented by GASB.

D. BUDGETS AND BUDGETARY ACCOUNTING

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

E. ASSETS, LIABILITIES, AND NET ASSETS

1. Cash and Cash Equivalents

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



2. Balance in State Appropriations

This item represents the balance of general revenue funds at August 31, 2009 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, 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
Infrastructure	\$500,000
Personal property (equipment)	\$5,000
Library books (collections)	Capitalize all
Historical treasures and works of art	Capitalize all
Leasehold improvements	\$100,000

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 over the estimated useful life of the asset using the straight-line method over the following estimated useful years, noted on the top of the following column.

Asset Description	Estimated Useful Life
Buildings and improvements	15 to 50 years
Machinery and equipment	3 to 10 years
Infrastructure	30 to 50 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 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 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.

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Capital Assets

A summary of changes in capital assets for the year ended August 31, 2009 is shown below:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Not Being Depreciated:				
Land and land improvements	\$ 15,877,301	\$ -	\$ -	\$ 15,877,301
Construction in progress	3,100,142	1,061,187	(3,346,263)	815,066
Historical treasures and works of art	807,043	920,000	-	1,727,043
Total Capital Assets Not Being Depreciated	19,784,486	1,981,187	(3,346,263)	18,419,410
Capital Assets Being Depreciated:				
Buildings and building improvements	294,680,852	4,095,516	(3,482,300)	295,294,068
Infrastructure	6,528,361	-	-	6,528,361
Facilities and improvements	14,071,628	961,761	-	15,033,389
Furniture and equipment	16,771,396	4,336,899	(370,411)	20,737,884
Vehicles	1,199,870	77,553	-	1,277,423
Library books	27,297,965	2,114,231	(28,067)	29,384,129
Total Capital Assets Being Depreciated	360,550,072	11,585,960	(3,880,778)	368,255,254
Less Accumulated Depreciation for:				
Buildings and building improvements	(156,075,347)	(8,909,113)	3,482,300	(161,502,160)
Infrastructure	(229,394)	(312,192)	-	(541,586)
Facilities and improvements	(6,968,253)	(1,151,155)	-	(8,119,408)
Furniture and equipment	(10,721,679)	(1,586,208)	294,701	(12,013,186)
Vehicles	(920,085)	(87,224)	-	(1,007,309)
Library books	(16,775,663)	(1,129,340)	8,483	(17,896,520)
Total Accumulated Depreciation	(191,690,421)	(13,175,232)	3,785,484	(201,080,169)
Depreciable Capital Assets, Net	168,859,651	(1,589,272)	(95,294)	167,175,085
Totals	\$ 188,644,137	\$ 391,915	\$ (3,441,557)	\$ 185,594,495
			Less associated debt	(121,246,489)
			Invested in Capital Assets, Net of Related Debt	\$ 64,348,006

*Restated beginning balances, see note 14.

Total construction commitments outstanding at year end were \$3,298,190.

TSU's capital assets not in use had a net value of \$45,283,932 at year end. Buildings not used at year end are as follows:

Building	Net Book Value
Lanier House	\$ 659,213
Richfield Manor	3,490,735
Durley Field Observation	1,921,259
Tennis Facility	-
Radio Transmitter Facility	-
Cuney Lab School	-
Leonard H. O. Spearman Tech	39,162,725
YMCA Building	50,000
Total	\$ 45,283,932

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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, 2009, TSU was fully collateralized.

2009	
Cash and cash equivalents per statement of cash flows	\$ 33,433,929
Less:	
Cash on hand	3,135
Cash in transit	98,666
Cash in treasury	6,691,428
Total Cash in Bank	\$ 26,640,700
Unrestricted cash in bank:	26,282,357
Restricted cash in bank:	358,343
Total Cash in Bank	\$ 26,640,700

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, 2009, TSU had the following investments:

Investment Type	Fair Value
U.S. Government Agency Obligations	\$ 7,320,586
U.S. Treasury Securities	465,049
Equity	15,009,780
Corporate Obligations	4,169,025
Commercial Paper	759,968
International Obligations	1,211,641
Fixed Income Money Market Funds	5,957,553
Total Fair Value	\$ 34,893,602

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. Each applicable investment type grouped by rating as of August 31, 2009 is illustrated in the chart below.

Investment Type	Standard & Poor's				
	AAA	AA	AA+	AA-	A
U.S. Treasury Securities	\$ 377,541	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Strips	87,508	-	-	-	-
U.S. Government Agency Obligations	6,964,241	-	-	-	-
Corporate Obligations	1,302,777	-	146,821	64,868	1,046,814
International Obligations	-	70,186	-	-	-
Investment Type	Standard & Poor's				
	A+	A-	BBB	BBB+	BBB-
U.S. Treasury Securities	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Strips	-	-	-	-	-
U.S. Government Agency Obligations	-	-	-	-	-
Corporate Obligations	260,475	231,355	371,817	374,122	96,230
International Obligations	-	162,551	-	170,669	-
Unrated					
Investment Type					
Corporate Obligations	\$ 273,746				
Fixed Income Money Market Funds	5,957,553				
Commercial Paper	759,968				
Equity	15,009,780				
International Equity	808,235				
U.S. Government Agency Obligations	356,345				

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.

The following chart demonstrates TSU's interest rate risk.

Investment Type	Fair Value	Investment Maturities (in Years)				
		Stocks	Less Than 1	1 to 5	6 to 10	More Than 10
Agency Discount Securities	\$ 5,721,032	\$ -	\$ 5,721,032	\$ -	\$ -	\$ -
Agencies	1,599,554	-	-	802,591	427,728	369,235
Treasuries	465,049	-	-	-	284,532	180,517
Common Stock	15,009,780	15,009,780	-	-	-	-
Corporate Obligations	4,169,025	-	-	1,831,491	1,139,930	1,197,603
Commercial Paper Securities	759,968	-	759,968	-	-	-
Foreign Obligations	1,211,641	-	-	304,203	-	99,203
Money Market Funds	5,957,553	-	5,957,553	-	-	-
Total	\$ 34,893,602	\$ 15,009,780	\$ 12,438,553	\$ 2,938,285	\$ 1,852,190	\$ 1,846,559

4 Short-Term Debt

TSU does not have any short-term debt.

5 Summary of Long-Term Liabilities

The changes during the year that occurred in liabilities reported in the long-term liabilities is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Bonds, Notes and Other Liabilities:					
General Obligation Bonds:					
Series 2004 Constit. Approp.	\$ 7,090,000	\$ -	\$ 1,075,000	\$ 6,015,000 *	\$ 1,110,000
Series 2005 Constit. Approp.	25,090,000	-	3,195,000	21,895,000 *	3,310,000
Premiums	363,570	-	600,595	(237,025) *	-
Total general obligation bonds	32,543,570	-	4,870,595	27,672,975	4,420,000
Revenue Bonds:					
Series 1998 A-1	12,640,000	-	1,025,000	11,615,000 *	1,070,000
Series 1998 A-2 Improvement	8,875,000	-	850,000	8,025,000 *	890,000
Series 1998 B Improvement	10,290,000	-	435,000	9,855,000 *	460,000
Series 1998 C Improvement	245,000	-	245,000	-	-
Series 2002	38,240,000	-	1,920,000	36,320,000 *	2,020,000
Series 2003	23,920,000	-	1,155,000	22,765,000 *	1,185,000
Series 2004	2,435,000	-	375,000	2,060,000 *	385,000
Premiums and discounts	2,540,656	-	186,212	2,354,444 *	-
Total revenue bonds	99,185,656	-	6,191,212	92,994,444	6,010,000
Note Payable	891,323	-	312,253	579,070 *	338,170
	891,323	-	312,253	579,070	338,170
Other Liabilities:					
Accrued claims and judgments	12,074,101	-	11,324,101	750,000	-
Arbitrage	616,585	-	3,766	612,819	-
Compensated absences	3,667,230	89,212	-	3,756,442	-
Total other liabilities	16,357,916	89,212	11,327,867	5,119,260	-
Total Activity	\$ 148,978,465	\$ 89,212	\$ 22,701,927	\$ 126,365,750	\$ 10,768,170
				Long-term Debt Due in More Than One Year	\$ 115,597,580
				*Debt associated with capital assets	\$ 121,246,489

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

Year Ending Aug. 31	Revenue Bonds	
	Principal	Interest
2010	\$ 6,010,000	\$ 4,358,939
2011	6,280,000	4,088,579
2012	6,565,000	3,804,352
2013	6,860,000	3,505,607
2014-2018	36,240,000	12,125,753
2019-2023	27,790,000	3,698,706
2024	895,000	20,138
Total	\$ 90,640,000	\$ 31,602,074

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

Year Ending Aug. 31	General Obligation Bonds	
	Principal	Interest
2010	\$ 4,420,000	\$ 1,037,638
2011	4,580,000	868,125
2012	4,770,000	685,000
2013-2017	14,140,000	861,700
Total	\$ 27,910,000	\$ 3,452,463



A. NOTES AND LOANS PAYABLE

Note payable consists of amounts used to finance the acquisition of land and property. The note payable has a fixed interest rate of eight percent.

Annual debt service requirements to maturity for the YMCA note payable:

Year Ending Aug. 31	Note Payable	
	Principal	Interest
2010	\$ 338,170	\$ 34,105
2011	240,900	7,283
Total	\$ 579,070	\$ 41,388

B. CLAIMS AND JUDGMENTS

Student Rights

The lawsuit against TSU involves one current and two former students alleging violations of their first amendment rights and for malicious prosecution and false arrest under State law. A jury awarded compensatory and punitive damages of \$600,000, not including the claimed attorney fees in excess of \$150,000. 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.

C. COMPENSATED ABSENCES

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

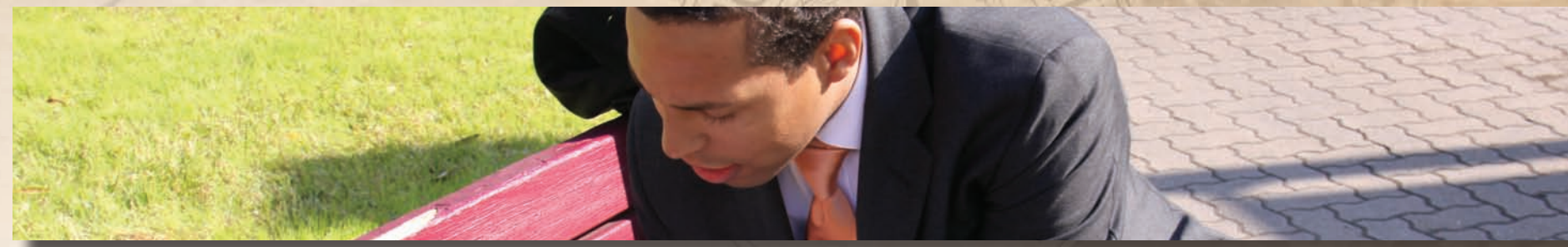
D. ARBITRAGE LIABILITY

The Tax Reform Act of 1986 instituted certain arbitrage consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service 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.

6 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

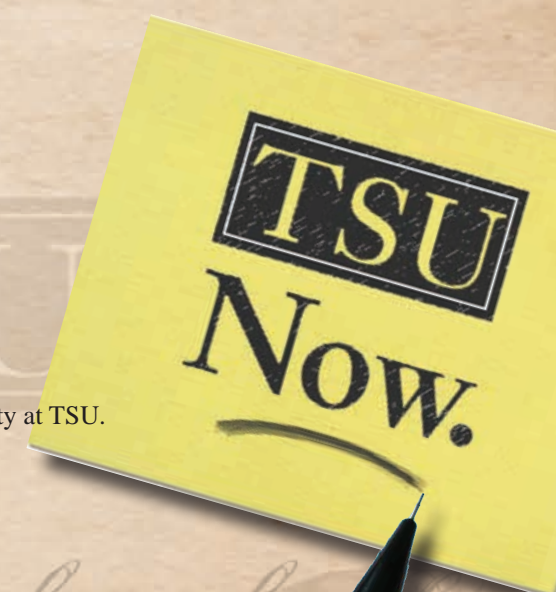
Purpose	To construct and equip a recreational facility at TSU.
Amount of Issue	\$12,920,000; all authorized have been issued
Issue Date	01-14-1999
Type of Bond	Revenue Bond – Self Supporting
Reporting	Business-Type Activities
Source of Revenue	Pledged Revenues
Change in Debt	None

Improvement Revenue Bonds, Series 1998C

Purpose	To construct improvements to and equip a medical facility at TSU.
Amount of Issue	\$1,705,000; 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

General Obligation Bond

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 Bond

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

7 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, 2009, TSU had not entered into any contractual agreements that could be deemed a capital lease obligation.

8 Operating Leases

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

Year Ending Aug. 31	Minimum Lease Payments
2010	\$ 700,938
2011	700,938
2012	700,938
Total	\$ 2,102,814

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

9-11 Retirement Plans

These notes are not applicable to TSU.

12 Interfund Balances & 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.

13 Continuance Subject to Review

TSU's continuance is not subject to review.

14 Restatement of Net Assets

Beginning net assets have been restated to correct for various items as shown in the following chart:

	2008 Unaudited AFR Submitted to State	2008 Audited AFR
Prior year ending net assets as reported	\$ 128,933,816	
Record adjustment for allowance for doubtful accounts	(1,339,696)	
Correction for accrued compensated absences	133,750	
Adjustment to deferred revenue	1,349,208	
Record deferred charges	1,483,017	
Record bond premiums and discounts	(3,143,735)	
Correction of payable	(2,372,537)	
Correction of escheat payable	2,312,811	
Correction for student receivables	182,768	
Correction for various entries posted by TSU to 2007	(1,450,000)	
Difference in reported in change in net assets	371,956	
	126,461,358	\$ 126,461,358
"Be On Time" unrecorded liability to Texas Higher Education Board	(545,338)	(545,338)
Addition of construction in progress	9,525	9,525
Change in depreciation policy	343,972	343,972
Correction for escheat payable	(94,048)	(94,048)
Correction for cash advances or "athletics receivable"	(198,511)	(198,511)
Correction for items recorded twice in A/P ledger	242,376	242,376
Correction for deferred revenue	(4,796,658)	(4,796,658)
Correction for Perkins Loan Program	2,723,048	2,723,048
Restated beginning net assets	\$ 124,145,724	\$ 124,145,724

Additional schedules have been provided to demonstrate the changes between the unaudited 2008 AFR that was submitted to the State, the 2008 audited AFR, and the 2009 beginning balances.

CHANGE IN CAPITAL ASSET BALANCES

	Ending Balance Per Unaudited 2008 Report	2008 Audit Adjustments	Ending Balance Per Audited 2008 Report	2009 Restatements	Beginning Balance Per 2009 Report
Capital Assets Not Being Depreciated:					
Land and land improvements	\$ 15,877,301	\$ -	\$ 15,877,301	\$ -	\$ 15,877,301
Construction in progress	2,964,665	125,952	3,090,617	9,525	3,100,142
Historical treasures and works of art	807,043	-	807,043	-	807,043
Total Capital Assets Not Being Depreciated	19,649,009	125,952	19,774,961	9,525	19,784,486
Capital Assets Being Depreciated:					
Buildings and building improvements	308,752,479	(14,071,628)	294,680,851	-	294,680,851
Infrastructure	6,528,361	-	6,528,361	-	6,528,361
Facilities and improvements	-	14,071,628	14,071,628	-	14,071,628
Furniture and equipment	17,971,267	(1,199,870)	16,771,397	-	16,771,397
Vehicles	-	1,199,870	1,199,870	-	1,199,870
Library books	27,297,965	-	27,297,965	-	27,297,965
Total Capital Assets Being Depreciated	360,550,072	-	360,550,072	-	360,550,072
Less Accumulated Depreciation for:					
Buildings and building improvements	(163,399,766)	7,340,782	(156,058,984)	(16,363)	(156,075,347)
Infrastructure	(315,218)	-	(315,218)	85,824	(229,394)
Facilities and improvements	-	(7,340,782)	(7,340,782)	372,529	(6,968,253)
Furniture and equipment	(11,461,689)	913,648	(10,548,041)	(173,638)	(10,721,679)
Vehicles	-	(913,648)	(913,648)	(6,437)	(920,085)
Library books	(16,614,389)	-	(16,614,389)	(161,274)	(16,775,663)
Total Accumulated Depreciation	191,791,062	-	(191,791,062)	100,641	191,690,421
Depreciable Capital Assets, Net	168,759,010	-	168,759,010	100,641	168,859,651
Totals	\$ 188,408,019	\$ 125,952	\$ 188,533,971	\$ 110,166	\$ 188,644,137

CHANGES IN CASH BALANCES

	2008 Unaudited AFR Submitted to State	2008 Audited AFR
Ending Cash and Cash Equivalents	\$ 37,598,816	\$ 35,843,988
	-	-
Account reclassified from cash to state receivable	(1,691,228)	-
Audit adjustment to cash	(63,600)	-
Ending Amount	\$ 35,843,988	\$ 35,843,988

CHANGES IN DEBT SCHEDULE

	Ending Balance Per Unaudited 2008 Report	Audit Adjustments	Ending Balance Per Audited 2008 Report	Beginning Balance Per 2009 Report
Bonds, Notes and Other				
Liabilities:				
General Obligation Bonds:				
Series 2004 Constit. Approp.	\$ 7,090,000	\$ -	\$ 7,090,000	\$ 7,090,000
Series 2005 Constit. Approp.	25,090,000	-	25,090,000	25,090,000
Premiums	-	363,570	363,570	363,570
Total general obligation bonds	32,180,000	363,570	32,543,570	32,543,570
Revenue Bonds:				
Series 1998 A-1	12,640,000	-	12,640,000	12,640,000
Series 1998 A-2 Improvement	8,875,000	-	8,875,000	8,875,000
Series 1998 B Improvement	10,290,000	-	10,290,000	10,290,000
Series 1998 C Improvement	245,000	-	245,000	245,000
Series 2002	38,240,000	-	38,240,000	38,240,000
Series 2003	23,920,000	-	23,920,000	23,920,000
Series 2004	2,435,000	-	2,435,000	2,435,000
Premiums and discounts	-	2,540,656	2,540,656	2,540,656
Total revenue bonds	96,645,000	2,540,656	99,185,656	99,185,656
Note Payable	891,323	-	891,323	891,323
	891,323	-	891,323	891,323
Other Liabilities:				
Accrued claims and judgments	11,264,101	810,000	12,074,101	12,074,101
Arbitrage	616,585	-	616,585	616,585
Perkins Student Loans Refundable	2,723,048	(2,723,048)	-	-
Compensated absences	3,383,134	284,096	3,667,230	3,667,230
Total other liabilities	17,986,868	(1,628,952)	16,357,916	16,357,916
Total Activity	\$ 147,703,191	\$ 1,275,274	\$ 148,978,465	\$ 148,978,465

15

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.

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.

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 (the "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 (the "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 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.

C. LAWSUITS

In addition to the case identified in note 5.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

TSU entered into a lease agreement ("Agreement"), as lessor, on November 1, 2004 with Central Houston Parking, LLC ("CHP"). In the agreement, TSU is leasing various tracts of land to CHP for the purpose of developing, constructing, operating, and leasing parking facilities, including related shuttle services (the "Facilities") as a result of a shortage of parking for students of TSU.

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) (the "2004A Bonds") and Variable Rate Demand Parking System Revenue and Refunding Bonds, Series 2004B (University System Parking Project) (Taxable) (the "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

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 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 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 five percent rate is used for the purpose of estimating debt service requirements. Actual requirements could vary significantly.

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.

Estimated debt service requirements are as follows:

Year Ending Aug. 31	Principal	Variable Interest Estimated at 5%	Total Estimated Annual Amount
2010	\$ 855,000	\$ 1,705,250	\$ 2,560,250
2011	885,000	1,662,500	2,547,500
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	\$ 34,105,000	\$ 26,048,500	\$ 60,153,500

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 (the "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, (the "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 (the "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 (the "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 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 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 five percent rate is used for the purpose of estimating debt service requirements. Actual requirements could vary significantly.

Estimated debt service requirements are as follows:

Year Ending Aug. 31	Principal	Variable Interest Estimated at 5%	Total Estimated Annual Amount
2010	\$ 650,000	\$ 963,500	\$ 1,613,500
2011	670,000	931,000	1,601,000
2012	690,000	897,500	1,587,500
2013	710,000	863,000	1,573,000
2014	735,000	827,500	1,562,500
2015	755,000	790,750	1,545,750
2016	775,000	753,000	1,528,000
2017	800,000	714,250	1,514,250
2018	820,000	674,250	1,494,250
2019	845,000	633,250	1,478,250
2020	870,000	591,000	1,461,000
2021	895,000	547,500	1,442,500
2022	920,000	502,750	1,422,750
2023	950,000	456,750	1,406,750
2024	975,000	409,250	1,384,250
2025	1,005,000	360,500	1,365,500
2026	1,035,000	310,250	1,345,250
2027	1,065,000	258,500	1,323,500
2028	1,095,000	205,250	1,300,250
2029	1,130,000	150,500	1,280,500
2030	1,160,000	94,000	1,254,000
2031	1,195,000	36,000	1,231,000
2032	1,230,000	(23,750)	1,206,250
2033	1,265,000	(85,250)	1,179,750
Total	\$ 22,240,000	\$ 15,425,250	\$ 37,665,250

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.

16 Subsequent Events

No subsequent events have occurred.

17 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 16, 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, 2009.

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.

18 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. There were no financial transactions between the foundation and TSU during the year.

TSU is also affiliated with the Texas Southern University Alumni Association. The alumni association is a non-profit organization created for the purpose of promoting, fostering, and advancing the educational goals of TSU and the interests and welfare of its students; to provide the means for continuing relationships between TSU, former students and the community; and to enable them to contribute to and share in the progress of TSU.

All former students are eligible for membership in the alumni association. The Board of Directors of the alumni association is elected by the membership. TSU administration has no controlling interest in the alumni association. There were no financial transactions between the alumni association and TSU during the year.

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.

19 Stewardship, Compliance, & Accountability

TSU has no material violations of finance related legal and contract provisions. Per the laws of the State of Texas, TSU cannot spend amounts in excess of appropriations granted by the Texas Legislature and there are no deficits reported in net assets.

20 N/A

Note 20 is not applicable to the Texas State Comptroller's AFR report requirements process.

21 Employee Retirement Plans

A. TEACHER RETIREMENT SYSTEM (TRS)

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

All TSU personnel employed in a position on a half time or greater basis for at least 4 1/2 months or more are eligible for membership in the TRS retirement plan. Members with at least five years of service at age 65 or any combination of age plus years of service which equals 80, have a vested right to retirement benefits. Additionally, reduced benefits are available at age 55 with at least five years of service or at any age below 50 with 30 years of service. Members are fully vested after five years of service and are entitled to any benefits for which the eligibility requirements have been met.

TRS contribution rates for both employers and employees are not actuarially determined but are legally established by the State Legislature. Contributions by employees are 6.4 percent of gross earnings. Depending upon the source of funding for the employee’s compensation, the State or TSU contributes a percentage of participant salaries totaling 6 percent of annual compensation. TSU’s contributions to TRS for the year ended August 31, 2009 were \$1,840,953 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.

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 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 6 percent depending upon the employee’s date of hire. Since these are individual annuity contracts, the State and TSU have no additional or unfunded liability for this program.

Year Ended Aug. 31, 2009	
Employee Contributions	\$ 2,025,872
Employer Contributions	2,358,470
Total	\$ 4,384,342

22 Deferred Compensation

The State of Texas offers, to all state employees, a deferred compensation plan, which is created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The deferred compensation funds are not available to employees until distribution due to termination, retirement, death or unforeseeable emergency. All

23 Donor-Restricted Endowments

exclusive benefit of participants and their beneficiaries and may not be used for, or diverted to, any other expense, except to defray the reasonable expenses of administering the plan.

The Board of Trustees is not liable to participating employees for the diminution in value or loss of all or part of the participating employees’ deferred amounts or investment income because of market conditions or the failure, insolvency, or bankruptcy of a qualified vendor.

The State also administers the TexaSaver 403(b) plan. The assets of this plan do not belong to the State and the State has no liability related to this plan.

Donor-Restricted Endowments	Amount of Net Appreciation (Depreciation)	Reported in Net Assets
True Endowments	\$ (2,161,313)	Restricted for expendable
Term Endowments	840,359	Restricted for expendable
	\$ (1,320,954)	

In the table above, amounts reported as “net appreciation” represent net appreciation on investments of donor or constitutionally restricted endowments that are available for authorization for expenditure by the TSU Board of Regents. For donor restricted endowments, pursuant to the Uniform Management of Institutional Funds Act, as adopted by Texas, the TSU Board of Regents may distribute net appreciation, realized and unrealized, in the fair market value of the assets of endowment holdings over the historic dollar value of the gifts, to the extent prudent.

24 Management’s Discussion & Analysis

Although normally included as Note 24 following the Comptroller’s requirements, Management’s Discussion and Analysis is included as a separate section in the front of this report.

25 Post Employment Health Care & Life Insurance Benefits

In addition to providing pension benefits, the State, through Employee Retirement System (“ERS”) Agency, provides certain health and life insurance benefits for retired employees, in accordance with State statutes. Many employees may become eligible for the health and life insurance benefits as a retired employee if they meet certain age and service requirements as defined by the State. Similar benefits for active employees are provided through the same plan. For the year ended August 31, 2009, the contributions for the plan made by ERS per full-time retired employee are shown in the following table. The retiree contributes any premium over and above the State contributions.

Level of Coverage	2009
Retiree only	\$ 361
Retiree/spouse	567
Retiree/children	498
Retiree/family	705

Taking

ERS recognizes the cost of providing these benefits to eligible retired employees. The cost of retired employee benefits is recognized when the benefit is paid. The number of retired employees who were eligible for these benefits from TSU, as well as the cost of providing the benefits for the year ended August 31, 2009, is provided in the following table.

2009	
Number of Retirees	255
Cost	\$ 1,175,999

The related liability and schedule of funding progress for these benefits are recorded and prepared by ERS for all participating entities. This information can be found in the ERS 2008 Comprehensive Annual Financial Report at: <http://www.ers.state.tx.us/htdocs/news/reports/default.aspx> or by writing to: ERS Retirement System of Texas, P.O. Box 13207, Austin, TX 78711-3207.

26 Segment Information

TSU does not have any segments requiring segment reporting.

27 Special & Extraordinary Items

During the year ended August 31, 2009, the Department of Education released TSU of an \$11,264,101 liability related to a dispute regarding TSU's management of student financial aid programs, namely Pell grants.

28 Disaggregation of Receivable Balances

Aggregate receivables as reported on the Statement of Net Assets as of August 31, 2009, are detailed as follows:

Receivables	
Student Accounts	\$ 35,426,729
Third Party Accounts	3,765,231
Less Allowance	(19,971,550)
Total Receivables	\$ 19,220,410

29 Termination of Benefits

There were no nonroutine, widespread voluntary or involuntary termination arrangements that involved a substantial number of individual employees or group of employees meeting the criteria for liability recognition.

30 Perkins Loan Program

Subsequent to the release of the financial statements, additional information was discovered relating to the recording of notes payable related to the Perkins Loan Program. The cumulative effect of recording this payable resulted in a decrease in liabilities and an increase in net assets of \$2,723,048. The Perkins Loan Program, established by the Higher Education Act of 1965, requires that TSU return the federal share of TSU's Federal Perkins Loan to the Department of Education when TSU terminates its participation in the program. If TSU decided to cease participation in the Perkins Loan Program at year end, the amount that TSU would have to return to the Department of Education was \$2,723,048.

Annual Financial Reporting Team 2009



Beverly W. Ruffin
Executive Director of
Business Affairs



Gregory L. Williams
Executive Director of
Purchasing and Procurement



Ashlee Williams
Special Projects
Manager



Darrell Dortch
Executive Director, Budget &
Treasury Services



From the left, standing: Willie Thomas, Juanita Morgan, Yolanda Hudson, Ryan Mason, Marcus Ford, Shirley Harper, Shauntele Horace, Val Pitre, Stacie Hawkins
From the left, sitting: Jeff Thomas, Michael Onwuemene, Lavonda Horn, Joyce Deyon, Donna Hypolite



TSU

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