State Auditor's Office

John Keel, CPA
State Auditor

Accreditation Reviews Fiscal Year 2009

March 2010

Report No. 10-343

Introduction

The State Auditor’s Office completed accreditation reviews of 10 higher education institutions’ fiscal year 2009 financial statements:

- Prairie View A&M University.
- Tarleton State University.
- Texas A&M University – Corpus Christi.
- Texas A&M University – Texarkana.
- Texas State University – San Marcos.
- The University of Texas at San Antonio.
- The University of Texas at Tyler.
- The University of Texas Health Science Center at Houston.
- The University of Texas of the Permian Basin.
- University of North Texas Health Science Center.

These reviews are performed to comply with the accreditation reaffirmation requirements of the Southern Association of Colleges and Schools. <u>The reports included in this document were prepared by the higher education institutions</u>, but they include the following documents issued by the State Auditor’s Office:

- *Auditor’s Review Report.*
- A management letter.

A review consists principally of inquiries of personnel and analytical procedures applied to financial data. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, the State Auditor’s Office did not express such opinions.

Financial Statements

For

Prairie View A&M University

For Fiscal Year Ended

August 31, 2009

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State Auditor's Office
John Keel, CPA
State Auditor

Auditor's Review Report

January 22, 2010

Dr. George C. Wright, President
Prairie View A&M University
5th Street Ave. A
L.W. Minor Street
Prairie View, TX 77446

Dear Dr. Wright:

We have reviewed the accompanying Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; Statement of Cash Flows; and Notes to the Financial Statements of Prairie View A&M University (University) as of and for the fiscal year ended August 31, 2009, in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The review was performed in accordance with the Southern Association of Colleges and Schools' (Southern Association) *Criteria for Accreditation*. All information included in these financial statements is the representation of management of the University.

A review consists principally of inquiries of University personnel and analytical procedures applied to financial data. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

The accompanying statements were prepared to present the financial position, the changes in financial position and the cash flows of the University. These statements are prepared pursuant to criteria of the Southern Association for supplementary special reports by institutions in states that conduct statewide audits.

Based on our review, with the exception of the matter described in the following paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The University has not presented a management's discussion and analysis section that the Governmental Accounting Standards Board has identified as required supplementary information that is not part of the basic financial statements. However, such required supplementary information for the Texas A&M University System (System) is presented in the System's consolidated annual financial report.

This report is intended for use by the Board of Regents of the System, management of the University, and the Southern Association. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,

John Keel, CPA
State Auditor

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Prairie View A&M University
Statement of Net Assets
At August 31, 2009
(See Auditor's Review Report on Page 1)

ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 3)	$	58,581,178
Restricted:		
Cash and Cash Equivalents (Note 3)		13,403,620
Legislative Appropriations		7,111,722
Receivables, Net of Allowances:		
Federal		14,366,169
Accounts		997,336
Other		725,478
Due from Other State Entities (Note 7)		28,344,621
Consumable Inventories		175,634
Loans and Contracts		404,776
Other Current Assets		6,792,260
Total Current Assets	$	130,902,794
Non-Current Assets		
Restricted:		
Investments (Note 3)		38,610,333
Investments (Note 3)		45,249,807
Loans and Contracts		461,217
Capital Assets (Note 2):		
Non-Depreciable		19,358,497
Depreciable		364,551,708
Less: Accumulated Depreciation		(151,143,847)
Total Non-Current Assets	$	317,087,715
Total Assets	$	447,990,509
LIABILITIES		
Current Liabilities		
Payables:		
Accounts	$	3,411,230
Payroll		5,151,329
Other		360,709
Interfund Payable(Note 4)		565,342
Due to Other State Entities (Note 7)		1,064,748
Deferred Revenue		23,873,979
Employees' Compensable Leave (Note 4)		362,238

Other Post Employment Benefits (Note 4)		1,670,713
Funds Held for Others (Note 4)		16,838,204
Other Current Liabilities		168,359
Total Current Liabilities	$	53,466,851
Non-Current Liabilities		
Interfund Payable (Note 4)		3,617,104
Employees' Compensable Leave (Note 4)		3,225,983
Other Post Employment Benefits (Note 4)		8,957,369
Other Non-Current Liabilities		20,000
Total Non-Current Liabilities	$	15,820,456
Total Liabilities	$	69,287,307
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$	232,766,358
Restricted for:		
Non-Expendable		
Permanent Funds, True Endowments, Annuities		37,428,901
Expendable		
Capital Projects		951,409
Funds Functioning as Endowments		8,089,952
Other		12,729,681
Unrestricted		86,736,901
Total Net Assets	$	378,703,202

The accompanying Notes to the Financial Statements are an integral part of this statement.

Prairie View A&M University
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended August 31, 2009
(See Auditor's Review Report on page 1)

OPERATING REVENUES		
Tuition and Fees - Pledged	$	51,660,642
Discounts and Allowances		(18,999,687)
Professional Fees - Pledged		5,768
Auxiliary Enterprises - Pledged		13,349,733
Other Sales of Goods and Services - Pledged		1,091,978
Discounts and Allowances		(2,529,700)
Federal Revenue		14,266,866
State Grant Revenue		6,975,069
Other Operating Grant Revenue		594,808
Other Operating Revenues		3,291,503
Total Operating Revenues	$	69,706,980
OPERATING EXPENSES		
Salaries and Wages	$	66,724,719
Payroll Related Costs		20,082,979
Professional Fees and Services		15,069,068
Travel		2,386,161
Materials and Supplies		8,559,887
Communications and Utilities		6,075,336
Repairs and Maintenance		9,053,444
Rentals and Leases		1,545,508
Printing and Reproduction		520,310
Federal Pass Thru		15,147
Depreciation and Amortization		12,366,648
Bad Debt Expense		263,089
Interest Expense		2,499
Scholarships		16,281,475
Other Operating Expenses		5,303,635
Total Operating Expenses	$	164,249,905
Operating Income (Loss)	$	(94,542,925)
NONOPERATING REVENUES (EXPENSES)		
Legislative Appropriations	$	61,125,216
Gifts		720,138
Interest and Investment Income (Loss)		2,276,367
Investing Activities Expense		(123,594)

Net Increase (Decrease) in Fair Value of Investments		(7,383,127)
Land Income		2,100
Interest Expense and Fiscal Charges		(134,492)
Claims and Judgments		(30,000)
Other Nonoperating Revenues - Pledged		23,431,046
Other Nonoperating Expenses		(125,122)
Total Nonoperating Revenues (Expenses)	$	79,758,532
Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers	$	(14,784,393)
OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS		
Additions to Permanent and Term Endowments	$	728,988
Transfers In from Other State Entities (Note 7)		14,203,054
Transfers Out to Other State Entities (Note 7)		(9,367,158)
Legislative Transfers Out (Note 7)		(6,387,794)
Legislative Appropriations Lapsed		(10,188)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	$	(833,098)
CHANGE IN NET ASSETS	$	(15,617,491)
Net Assets, September 1, 2008	$	394,542,233
Restatements (Note 16)		(221,540)
Net Assets, September 1, 2008, as Restated	$	394,320,693
NET ASSETS, August 31, 2009	$	378,703,202

The accompanying Notes to the Financial Statements are an integral part of this statement.

Prairie View A&M University
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2009
(See Auditor's Review Report on page 1)

CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Tuition and Fees	$	39,043,384
Receipts from Customers		1,103,623
Proceeds from Research Grants and Contracts		17,641,598
Proceeds from Loan Programs		4,887
Proceeds from Auxiliaries		10,848,995
Proceeds from Other Revenues		3,227,267
Payments to Suppliers for Goods and Services		(47,896,417)
Payments to Employees for Salaries		(66,769,641)
Payments to Employees for Benefits		(17,846,795)
Payments for Loans Provided		(61,111)
Payments for Other Expenses		(19,800,784)
Net Cash Provided (Used) by Operating Activities	$	(80,504,994)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Legislative Appropriations	$	65,601,187
Proceeds from Gifts		720,138
Proceeds from Endowments		728,988
Proceeds of Transfers from Other Entities		12,346,561
Proceeds from Other Sources		23,433,146
Payments for Transfers to Other Entities		(466,620)
Payments for Other Uses		13,660,225
Net Cash Provided (Used) by Non-Capital Financing Activities	$	116,023,625
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments for Additions to Capital Assets	$	(5,533,610)
Payments of Interest on Capital-Related Debt		(134,492)
Payments for Transfers to Other Entities		(11,958,833)
Net Cash Provided (Used) by Capital and Related Financing Activities	$	(17,626,935)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Interest and Investment Income		2,152,773
Payments to Acquire Investments		(1,280,270)
Net Cash Provided (Used) by Investing Activities	$	872,503
Net Increase (Decrease) in Cash and Cash Equivalents	$	18,764,199

Cash and Cash Equivalents, September 1, 2008	$	53,220,599
Restatements		0
Cash and Cash Equivalents, September 1, 2008, as restated	$	53,220,599
Cash and Cash Equivalents, August 31, 2009	$	71,984,798

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

Operating Income (Loss)	$	(94,542,925)
Adjustments:		
Depreciation and Amortization	$	12,366,648
Bad Debt Expense		781,461
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		(4,661,779)
(Increase) Decrease in Due from Other Entities		336,921
(Increase) Decrease in Inventories		(86,816)
(Increase) Decrease in Prepaid Expenses		(2,954,826)
(Increase) Decrease in Loans and Contracts		(59,659)
(Increase) Decrease in Other Assets		(243,926)
Increase (Decrease) in Payables		(1,973,809)
Increase (Decrease) in Due to Other Entities		624,702
Increase (Decrease) in Deferred Revenue		5,896,324
Increase (Decrease) in Employees' Compensable Leave		76,644
Increase (Decrease) Other Post Employment Benefits Liability		3,936,046
Total Adjustments	$	14,037,931
Net Cash Provided (Used) by Operating Activities	$	(80,504,994)
Non-Cash Transactions		
Net Increase (Decrease) in Fair Value of Investments	$	(7,383,127)

The accompanying Notes to the Financial Statements are an integral part of this statement.

Prairie View A&M University
Statement of Changes in Unrestricted Net Assets
For the Fiscal Year Ended August 31, 2009

Reserved		
Encumbrances	$	4,680,648
Accounts Receivable		1,524,174
Inventories		175,634
Advanced Research / Advanced Technology Programs		334,450
Designated Tuition Set Aside Reserves		452,013
Available University Funds (AUF)		25,358,945
Prairie View A&M University OCR & CICP		5,862,845
Prepaid Expenses		3,814,833
Texas Public Education Grants		1,943,329
Unreserved		
Allocated		
Future Operating Budgets		728,844
Funds Functioning as Endowment - Unrestricted		330,474
Unallocated		41,530,712
Total Unrestricted Net Assets	$	86,736,901

(See Auditor's Review Report on page 1.)

General Introduction

This report has been prepared for the use of the Southern Association of Colleges and Schools (Southern Association) in connection with the review of Prairie View A&M University (University) for accreditation purposes. This report includes a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; a Statement of Cash Flows; and the related Notes to the Financial Statements. In accordance with Southern Association criteria or Governmental Accounting Standards Board requirements, the report also includes a Statement of Changes in Unrestricted Net Assets and a management letter describing issues noted in the review.

Reporting Entity

The University is a component of the Texas A&M University System and an agency of the State of Texas. The University prepares financial statements that are included in the State's *Comprehensive Annual Financial Report,* which is audited by the Texas State Auditor's Office.

Note 1: Summary of Significant Accounting Policies

Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements are 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 is incurred. Operating items are distinguished from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash and cash equivalents according to GASB No. 9. With the exception of residual cash which results from the management of investment portfolios, the University maintains cash and cash equivalents for the purpose of meeting short-term expenditure requirements. Additionally, cash and cash equivalents includes a money market fund (proprietary fund) owned by the Texas A&M University System. Members participate in this money market account. The fund balance for the University is classified as cash and cash equivalents in the University's financial statement and as an investment on the Texas A&M University System's combined financial statement.

Investments

In accordance with GASB No. 31, the University reports investments at fair market value in the Balance Sheet. Fair market value is defined as the amount at which an investment could be exchanged in a current transaction between parties, other than in a forced or liquidation sale.

GASB No. 40, implemented in fiscal year 2005, requires the disclosure of common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Under GASB 40, disclosure of carrying value of investments is no longer required.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Livestock held for educational purposes is recorded at estimated fair market value. The capitalization threshold for personal property is $5,000. The capitalization threshold is $100,000 for buildings/building improvements, facilities and other improvements, software developed for internal use, and leasehold improvements. Infrastructure has a capitalization threshold of $500,000. All land, land improvements, library books/materials, museums/collections, and works of art/historical treasures are capitalized.

According to GASB No. 34 and No. 35, the University is required to depreciate capital assets. Effective fiscal year 2005, the State Comptroller's Office reclassified Professional, Academic and Research Library books and materials from non-depreciable to depreciable. Depreciation is computed using the straight-line method over the estimated useful lives of the assets; generally, 40 to 50 years for buildings, 20 to 25 years for infrastructure, 5 to 7 years for equipment, and 15 years for library books.

Current Assets

In the Balance Sheet, items classified as current are defined as resources expected to be realized or consumed within one year.

Restricted Net Assets

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted net assets are available for use, restricted resources are used first, then unrestricted resources are used as needed.

Voluntary Nonexchange Transaction

Voluntary nonexchange transactions (primarily private donations and pledges) are recognized in accordance with GASB No. 33, adopted by the A&M System on September 1, 2000.

Other Significant Accounting Policies

An Appreciation Reserve was created in fiscal year 1997 for the purpose of providing a consistent and predictable income stream for the System Endowment Fund. The Appreciation Reserve is administered by the A&M System Offices and distributions occur when current income is insufficient to meet the distribution of income in accordance with the System Endowment Fund spending policy.

The financial statements of the University are prepared and presented materially in accordance with the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements. The A&M System members record receivables when revenue is earned but not collected. Deferred revenue is recognized when cash is received prior to revenue recognition.

Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2009, is presented below:

	Balance 9/1/2008	Adjustments	Completed Construction In Progress	Additions	Deductions	Balance 8/31/2009
Non-Depreciable Assets:						
Land and Land Improvements	$ 6,323,332	$	$	$	$	$ 6,323,332
Construction in Progress	17,782,808	(140,729)	(6,665,254)	1,584,268		12,561,093
Library Books						0
Other Capital Assets	474,072					474,072
Total Non-Depreciable Assets	$ 24,580,212	$ (140,729)	$ (6,665,254)	$ 1,584,268	$ 0	$ 19,358,497
Depreciable Assets:						
Buildings and Building Improvements	$ 288,003,410	$	$ 5,682,905	$	$	$ 293,686,315
Infrastructure	3,530,668		432,245			3,962,913
Facilities and Other Improvements	31,770,000		550,104	482,279		32,802,383
Furniture and Equipment	21,732,095	45,636		2,516,455	(194,831)	24,099,355
Vehicles, Boats, and Aircraft	2,229,675			293,543		2,523,218
Other Capital Assets	6,820,459			657,065		7,477,524
Total Depreciable Assets at Historical Cost	$ 354,086,307	$ 45,636	$ 6,665,254	$ 3,949,342	$ (194,831)	$ 364,551,708
Less Accumulated Depreciation for:						
Buildings and Building Improvements	$ (90,236,778)	$ (50,466)	$	$ (8,672,032)	$	$ (98,959,277)
Infrastructure	(1,951,545)			(150,980)		(2,102,525)
Facilities and Other Improvements	(27,058,328)			(822,615)		(27,880,943)
Furniture and Equipment	(14,731,946)	(15,615)		(2,158,854)	192,831	(16,713,584)
Vehicles, Boats, and Aircraft	(1,685,842)			(161,773)		(1,847,615)
Other Capital Assets	(3,179,143)	(60,366)		(400,394)		(3,639,903)
Total Accumulated Depreciation	$ (138,843,582)	$ (126,447)	$ 0	$ (12,366,649)	$ 192,831	$ (151,143,847)
Depreciable Assets, Net	$ 215,242,725	$ (80,811)	$ 6,665,254	$ (8,417,307)	$ (2,000)	$ 213,407,861
Capital Assets, Net	$ 239,822,937	$ (221,540)	$ 0	$ (6,833,039)	$ (2,000)	$ 232,766,358

Note 3: Deposits, Investments, and Repurchase Agreements

The Texas Education Code, Title III, Chapter 51.0031 grants authority for a governing board to invest funds under prudent person standards "if a governing board has under its control at least $25 million in book value of endowment funds."

The A&M System's investment policy authorizes the following types of investments: U.S. Government obligations, U.S. Government Agency obligations, other government obligations, corporate obligations, corporate asset and mortgage backed securities, equity, international obligations, international equity, certificates of deposit, banker's acceptances, negotiable certificates of deposit, money market mutual funds, mutual funds, repurchase agreements, venture capital, private equity, hedge funds, Real Estate Investment Trusts (REITs), securities lending, derivatives, timber, bank loans, energy and real estate.

Deposits of Cash in Bank

As of August 31, 2009, the carrying amount of deposits was $71,984,798 as follows:

Cash on Hand	$	32,050
Cash in Bank		(21,339)
Reimbursement Due from Treasury		2,816,636
Cash in State Treasury		45,781,934
Cash Equivalents		23,375,517
Total Cash and Cash Equivalents	$	71,984,798

Current Assets Cash and Cash Equivalents	$	58,581,178
Current Assets Restricted Cash and Cash Equivalents		13,403,620
Non-Current Assets Restricted Cash and Cash Equivalents		0
Total Cash and Cash Equivalents	$	71,984,798

These amounts consist of all cash in local banks. These amounts are included on the Statement of Net Assets as part of the "Cash and Cash Equivalents" line items.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The A&M System's policy requires collateral of 102% pledged against all deposits and limits the amounts of funds which may be deposited with any bank to the lesser of $100,000,000 or 10% of total deposits. The policy also requires that deposits in federally insured savings and loan associations, building and loan associations, and state and national banks not exceed the amount insured by the Federal Savings and Loan Insurance Corporation, Federal Deposits Insurance Corporation (FDIC), or their successors. The A&M System regulation applicable to working fund bank accounts requires the Chancellor, or designee, to approve a working fund in any bank in which the A&M System member does not have a proper allocation of securities. The bank balance of a working fund may not, at any time, exceed the FDIC coverage limit.

Incidental amounts of various foreign currencies are held through Bank of New York Mellon, their foreign branches and/or foreign sub-custodian banks. These amounts represent interest and/or dividend payments received in foreign currencies that are not yet converted to U.S. dollars. Such deposits of foreign currency are not insured or collateralized and are subject to custodial risk and the risk of fluctuations in exchange rates.

Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the deposits. The A&M System does not have a deposit policy for foreign currency risk.

Investments

At the direction of the System Board of Regents, University investments and cash equivalents are pooled at the System level. The System is responsible for disclosure of all information on the pooled investments and has included these disclosures in its annual financial report. The University does not have an investment risk policy. As of August 31, 2009, the fair value of the University's share of investments is presented below:

U.S. Government		
U.S. Treasury Securities	$	3,079,057
U.S. Treasury Strips		
U.S. Treasury TIPS		
U. S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, etc.)		5,804,023
Corporate Obligations		7,978,333
Corporate Asset and Mortgage Backed Securities		1,842,309
Equity		6,572,259
International Obligations (Govt and Corp)		4,865,711
International Equity		1,298,088
International Other Commingled Funds		15,403,008
Repurchase Agreement		8,783,994
Fixed Income Money Market and Bond Mutual Fund		0
Other Commingled Funds		31,896,174
Commercial Paper		11,693,405
Securities Lending Collateral Investment Pool		3,117,233
Real Estate		
Alternative Investments (including limited partnerships and hedge funds)		4,477,945
Misc (e.g., guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)		424,117
Total Investments	$	107,235,656

Current Assets – Short-Term Investments	$	0
Current Assets – Restricted Short-Term Investments		0
Non-Current Assets – Restricted Investments		38,610,333
Non-Current Assets – Investments		45,249,807
Total Investments	$	83,860,140

The variance between the two schedules represents a money market fund (proprietary fund) owned by the Texas A&M University System. Members participate in this money market account. The fund balance for the University is classified as cash and cash equivalents in the University's financial statement and as an investment on the Texas A&M University System's combined financial statement. Investments included in the first table reflect the true value of University investments, including the University's portion of the money market fund while the second table represents investments as classified on the University's Statement of Net Assets where the money market account is classified as cash and cash equivalents.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The A&M System's policy requires that direct repurchase agreements and security lending transactions be fully collateralized by obligations authorized under the A&M System investment policy and such collateral be held by a third party. As of August 31, 2009, the A&M System's securities lending transactions were not exposed to custodial credit risks because the collateral was held by the A&M System's custodian.

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investments. The A&M System's policy authorizes the utilization of derivatives for the purpose of hedging currency risk, but does not otherwise address foreign currency risk. The exposure to foreign currency risk as of August 31, 2009 is as follows:

Fund Type	GAAP Fund	Foreign Currency	International Obligation (Govt. and Corp.)	International Equity	International Other Commingled Funds	International Alternative Investments
05	9999	U.S. Dollar Denominated Foreign Securities	$ 78,147,591	$ 30,768,532	$ 365,091,857	$ 1,308,192
05	9999	Australian Dollar	$ 7,245,692	$ -	$ -	$ -
05	9999	Canadian Dollar	$ 3,428,158	$ -	$ -	$ -
05	9999	Euro Currency Unit	$ 18,702,798	$ -	$ -	$ 2,150,210
05	9999	New Zealand Dollar	$ 7,807,373	$ -	$ -	$ -
		Total	$ 115,331,612	$ 30,768,532	$ 365,091,857	$ 3,458,402

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The A&M System's investment policy requires that securities have a long-term rating of BB or better and the fixed income portfolio have an overall credit rating of AA or better by a nationally recognized statistical rating organization (NRSRO). Securities using short-term credit ratings must be rated at least A-2, P-2, F-2 or equivalent. As of August 31, 2009, the A&M System's credit quality distribution for securities with credit risk exposure is as follows:

Standard & Poor's
(in thousands)

Fund Type	GAAP Fund	Investment Type	AAA	AA	A	BBB	BB	B	CCC	A-1	Unrated
05	9999	U.S. Govt Agency Obligations	114,620								
05	9999	Corporate Obligations	7,335	9,974	81,383	62,028	25,523	2,866			
05	9999	Corporate Asset and Mortgage Backed Securities	30,433	4,588		4,856			716		3,075
05	9999	International Obligations	49,423	12,855	23,317	17,008	4,266	562			7,901
05	9999	Repurchase Agreements (Texas Treasury Safekeeping Trust Co.)	400								
05	9999	Commercial Paper								277,166	
05	9999	Repurchase Agreements	208,204								
05	9999	Fixed Income Money Market and Bond Mutual Fund									5,994
05	9999	Miscellaneous (municipals and CDs)			2,648						7,400

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2009, no more than 5% of the A&M System's total investments are represented by a single issuer. The A&M System's investment policy states that not more than 4.9% of the voting stock of any one corporation shall be owned by the A&M System at any given time, but does not otherwise address concentration of credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the A&M System manages its exposure to fair value losses arising from changing interest rates by requiring fixed income managers to maintain duration of +/- 20% of the effective duration of the appropriate index. In addition, the A&M System's policy limits the duration of its short term investment portfolio to a maximum of one year. The A&M System's exposure to interest rate risk is presented using the effective duration method as follows:

Investment Type	**Effective Duration**		**Market Value**
U.S. Treasury Securities	1.892	$	72,981,207
U.S. Government Agency Obligations			
Agencies and Other U.S. Government Obligations	0.295	$	21,718,204
CMO Government Agencies	1.440	$	1,586,394
U.S. Government Mortgages	2.356	$	114,266,490
Corporate Obligations			
Corporates and Other Credit	3.881	$	158,076,189
U.S. Private Placements	4.451	$	31,032,394
Corporate Asset and Mortgage Backed Securities			
CMBS	5.613	$	18,608,250
CMO Corporate	1.118	$	13,047,963
Asset Backed Securities	0.422	$	12,011,909
International Obligations	3.994	$	115,331,612
Repurchase Agreements	0.000	$	208,204,429
Repurchase Agreements TTSTC	0.003	$	400,155
Fixed Income Money Market and Bond Mutual Funds	0.147	$	5,994,323
Commercial Paper	0.050	$	277,166,135
Miscellaneous			
Political subdivisions	2.711	$	2,647,668
CDs	0.225	$	7,400,000
Total Fair Value		$	1,060,473,322
Portfolio Effective Duration	1.675		

Securities Lending

The A&M System engages in securities lending transactions for investments included in its two internal investment pools: the Cash Concentration Pool and the System Endowment Fund. Authority to engage in these transactions is granted to the Board of Regents in Texas Education Code, Section 51.0031, and is allowed under the A&M System investment policy. No violations of applicable law, Board policy or contract provisions occurred during fiscal year 2009.

GASB No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, provides guidance for entities reporting and disclosing securities lending transactions. This guidance includes reporting certain securities lending collateral on the Balance Sheet as an asset with a corresponding liability to repay the collateral, and disclosure of related custodial credit risk for any collateral reported on the Balance Sheet.

Securities lending transactions may include both fixed income and equity securities lent by the A&M System and cash, fixed income securities, repurchase agreements, and letters of credit received as collateral from borrowers by the A&M System. The A&M System cannot pledge or sell securities received as collateral without default of the borrower. Market value of the received cash must be at least 102% of the market value of the lent securities at the inception of the transaction. Market values are monitored throughout the transaction, and additional cash or securities are required from the borrower if the market value of the collateral falls below 100%.

Cash collateral received from the borrower is invested in a collective investment portfolio that includes investments with next day liquidity. The portfolio has a liquidity target of 20%, but does not generally match the maturities of investments with the term maturities of the loan agreements. There are no restrictions on loan amounts. The lending agent is not liable with respect to any losses incurred by the A&M System in connection with the securities lending transactions, except to the extent that such losses result from the lending agent's negligence or willful misconduct in its administration of the securities lending contract.

The A&M System had no credit risk related to twenty-two securities lending relationships because the amount the A&M System held as collateral exceeded the amounts the borrowers owed the A&M System. No losses were incurred during the fiscal year as a result of default by a securities lending borrower or agent and no losses were reported in the previous period.

The total market value of securities on loan as of August 31, 2009 was $74,723,984. Cash collateral holdings consisted of $74,801,644 invested in the securities lending collateral investment pool. The corresponding market value of these investments was $73,887,888 as of August 31, 2009 representing a net decrease in fair value of $913,756.

The cash collateral pool experienced a significant decline in market value on holdings of Sigma Finance and subsequently transferred to each pool participant their share of the total Sigma Finance assets and a corresponding payable to the security lending cash collateral pool. The net effect was to transfer the unrealized loss from the securities lending cash collateral pool to each of the participants. The amount transferred to the A&M System was $1,829,553 and as of August 31, 2009 had a market value of $183. The amount of the loss that may be realized is unknown due to pending litigation. As of August 31, 2009, the A&M System's maximum potential loss was $1,829,370.

Derivative Investing

The A&M System investment policy allows investment in certain derivative securities. A derivative security is a financial instrument which derives its value from another security, currency, commodity, or index.

The A&M System entered into forward currency contracts for the purpose of hedging international currency risk on its non-U.S. dollar denominated investment securities and to facilitate trading strategies primarily as a tool to increase or decrease market exposure to various foreign currencies. When entering into a forward currency contract, the A&M System agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are valued daily and the A&M System's net equity in the contracts, representing unrealized gain or loss on the contracts as measured by the differences between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in other receivables or payables. Realized and unrealized gains and losses are included in the consolidated Statement of Revenues, Expenses and Changes in Net Assets. These instruments involve market and/or credit risk in excess of the amount recognized in the consolidated balance sheet. Risks arise from the possibility counterparties will be unable to meet the terms of their contracts and from movement in currency, securities values and interest rates. The table below summarizes the pending foreign exchange contracts as of August 31, 2009. The "Net Sell" amounts represent the U.S. dollar equivalent of commitments to sell foreign currencies less the commitments to buy foreign currencies.

Currency	Net Sell	Unrealized Gain on Foreign Exchange Contracts	Unrealized Loss on Foreign Exchange Contracts
Euro	$ 12,894,520	$ 25,564	$ 128,591
New Zealand Dollar	$ 3,610,478	$ 149,608	$ 511,981
Total	$ 16,504,998	$ 175,172	$ 640,572

The A&M System has invested in U.S. Treasury futures contracts for the purpose of managing the duration of its liquidity portfolio. These instruments are subject to market, credit risk and counterparty risk. The portfolio manager includes derivatives in the portfolio that would not create additional risk as compared to cash instruments. Futures contracts are used as a way to gain the same risk exposure in a more efficient manner. The manager ensures that counterparty risk is well diversified and meets the credit quality criteria established in the account. Futures contracts are marked to market daily and the daily gain or loss difference is settled in cash with the broker. The combined nominal value of open contracts was $1,508,094 as of August 31, 2009, and the associated net liability was $5,250.

The System has invested in mortgage derivatives such as Collateralized Mortgage Obligations (CMOs) and Commercial Mortgage Backed Securities (CMBSs) to enhance fixed income portfolio yields and manage duration. These investments are subject to interest rate risk, as well as economic and geographic risks. The A&M System's investments as of August 31, 2009 included non-government guaranteed CMOs and CMBSs with a fair value of $31,656,213.

Several limited partnerships and a comingled international equity fund in which the A&M System invests may employ the use of forward currency exchange contracts as a hedge in connection with portfolio purchases and sales of securities denominated in foreign currencies. Risks are consistent with those described in the above paragraph regarding direct currency hedging. The contracts are valued at the prevailing forward exchange rate of the underlying currencies and the unrealized gain (loss) is recorded daily. Unrealized gains and losses that represent the difference between the value of the forward contract to buy and the forward contract to sell are included in the net unrealized gain (loss) from the forward contracts. As of August 31, 2009, the A&M System's investment in international funds that may employ forward currency exchange contracts was $163,564,405.

Hedge fund pools are invested in private placements with external managers who invest in equity and fixed income securities of both domestic and international issuers. These investment managers may invest both long and short in securities and may utilize leverage in their portfolios. They may also utilize credit default swaps and total return swaps as part of their investment strategies. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios. When credit default swaps or total return swaps are used, there is additional risk of counterparty non-performance and unanticipated movements in the fair value of the underlying securities. As of August 31, 2009, the A&M System's investment in hedge funds was $365,077,935 including $17,242,059 in a REIT hedge fund and $11,051,591 in a fund that focuses on companies structured as master limited partnerships.

Private investment pools are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments, both domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk and investment manager risk. Certain funds may utilize credit default swaps which have additional risk, including the risk of counterparty nonperformance. Collateral in the form of cash or securities may be required to be held in segregated accounts with the fund's custodian. Bi-lateral agreements and daily settlement with counterparties reduce the risk of counterparty nonperformance. As of August 31, 2009, the A&M System has committed $274,850,264 to various private investments, of which $141,929,239 has been funded. The fair value of the investments as of August 31, 2009 was $105,930,654. In addition, the A&M System has invested directly in companies and partnerships to promote research technology. As of August 31, 2009, the fair value of the investments in research technology was $205,495. Associated risks include those applicable to other private investments as well as the risk of enterprise failure.

Hedge funds, private investment and public market funds include investments in private placement vehicles are subject to risks, which could include the loss of invested capital. The risks include the following:

- Non-regulation risk - Some of the A&M System's general partners and investment managers are not registered with the Securities and Exchange Commission or other domestic or international regulators, and therefore are not subjected to regulatory controls.
- Key personnel risk - The success of certain funds is substantially dependent upon key investment managers and the loss of those individuals may adversely impact the fund's performance.

- Liquidity risk - Many of the A&M System's investment funds may impose lock-up periods, which would cause the A&M System to incur penalties to redeem its investment or prevent the System from redeeming its shares until a certain period of time has elapsed.
- Limited transparency - As private placement vehicles, these funds may not fully disclose the holdings of their portfolios.
- Investment strategy risk - These funds often employ sophisticated investment strategies and the use of leverage, which could result in the loss of invested capital.

Permanent University Fund

The Permanent University Fund (PUF) is administered by the University of Texas System and is not reflected in the financial statements of the A&M System. Prior to changes in the arbitrage laws, plant funds were appropriated from bond proceeds only after the bonds had been sold and cash was on hand. Currently, receipt of cash may or may not precede appropriations of bond or note proceeds.

The total carrying value of the PUF assets at August 31, 2009, was $9,512,868,601 excluding PUF land grants. By acts of the Legislature and provisions of the State Constitution, the net income of the PUF is divided one-third to the A&M System and two-thirds to the University of Texas System. The A&M System's one-third share of the net revenues was $182,334,973 for the fiscal year ended August 31, 2009, and was credited to the A&M System Available University Fund as reported in Unrestricted Funds.

Note 4: Summary of Long-Term Liabilities

During the year ended August 31, 2009, the following changes occurred in liabilities:

	Balance 9/1/2008	Additions	Deductions	Balance 8/31/2009	Amounts Due Within One Year
Employees' Compensable Leave	3,511,577	88,002	11,358	3,588,221	362,238
Other Post Employment Benefits	6,692,036	4,002,975	66,929	10,628,082	1,670,713
Interfund Payable	4,676,173	14,984	508,711	4,182,446	565,342
Funds Held For Others	3,023,146	13,815,058		16,838,204	16,838,204
Other Miscellaneous Liabilities	229,418	20,000	61,059	188,359	168,359
Total	$ 18,132,350	$ 17,941,019	$ 648,057	$ 35,425,312	$ 19,604,856

Employees' Compensable Leave

Substantially all full-time University employees earn annual leave in the amount of 8 to 21 hours per month depending upon the respective employee's years of state employment. State law permits employees to carry accrued leave forward from one fiscal year to another fiscal year with a maximum of 532 hours for those employees with 35 or more years of state service. Eligible part-time employees' annual leave accrual rate and maximum carryover are proportional to the number of hours appointed to work. Employees with at least six months of state service who terminate their employment are entitled to payment for all accumulated annual leave.

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is off due to illness or to the estate of an employee in the event of his or her death. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The University's policy is to recognize the cost of sick leave when paid, and the liability is not shown in the financial statements because experience indicates that the expense for sick leave will be minimal. Eligible part-time employees' sick leave accrual rate is proportional to the number of hours appointed to work.

Notes and Loans Payable

Notes payable consists of amounts used to make permanent improvements at the University to provide interim financing for capital improvements and acquisition of equipment and land, to pay interest on the notes, to refund outstanding notes as they mature and to pay the costs of issuing the notes.

The University did not have any notes and loans payable outstanding as of August 31, 2009.

Pollution Remediation Obligation

Prairie View A&M University has no pollution remediation obligations for fiscal year 2009.

Note 5: Bonded Indebtedness

The University may receive proceeds from revenue bonds issued and held by the System to support capital projects of the System and its institutions. These proceeds are recorded as transfers from the System. The University disburses funds to the System for payments of principal and interest related to the University's share of bond proceeds. These disbursements are recorded as transfers to the System. All bonds issued by the System are defined as revenue bonds. As such, the revenues of the System, including the University, are pledged for repayment of the bonds. Segment information requirements are not applicable, due to the bond indentures' lack of specifically identifiable activities and separate accounting requirements imposed by an external party.

No amount of indebtedness related to these bonds has been recorded in the University's financial statements as the System is the party directly liable for these bonds. At August 31, 2009, the University did not have any remaining unpaid share of the bond proceeds.

Note 6: Operating Leases

A summary of operating leases for the year ended August 31, 2009, is presented below:

Year Ended August 31, 2009	Total
2009	0
2010	183,160
2011	0
2012	0
2013	0
2014 - 2018	0
2019 - 2023	0
2024 - 2028	0
2029 - 2033	0
2034 - 2038	0
Total Minimum Future Lease Payments	$ 183,160

Note 7: Interagency Balances / Activity

As of August 31, 2009, amounts to be received or paid between funds and agencies are to be reported as:

- Interfund Receivable or Interfund Payable
- Legislative Transfer In or Legislative Transfer Out

The University made routine transfers with other state agencies, which were consistent with the activities of the fund making the transfer. Individual balances and activity at August 31, 2009, were as follows:

DUE FROM/TO OTHER STATE ENTITIES

	Entity	Due from Other State Entities	Due to Other State Entities	Purpose
1801	TAMUS	$ 27,690,825	$	$27,360,325.19-FUND 047 AUF; $330,499.83-Revenue Financing System for construction projects
1800	TXDot	77,038		$44,138.03-Fund 5015 - License Plate Funding; $32,899.78-Due from TXDot-sponsored projects
1800	Texas Workforce Commission	42,728		Due from TWC - sponsored projects
1800	Dept. of State Health Services	7,836		Due From DSHS - sponsored projects
1800	University of Houston	15,640		Due from UofH- sponsored projects
1800	Texas Parks & Wildlife	4,886		Due from TPWD - sponsosred projects
1806-1807	Agrilife Research & Agrilife Extension	62,237		1806-$54,270.57-Due from Agrilife Research-sponsored projects; 1807-$7,966.78-Due from Agrilife Extension-sponsored projects
1899	Texas A&M Research Foundation	443,431		Due from TAMRF - sponsored projects
2801	TAMUS		69	Due to SAGO - sponsored projects
2801	TAMUS		227,000	Due to SAGO - Construction project
2899	Texas A&M Research Foundation		48,990	Due to TAMRF-sponsored project
2800	THECB		788,689	$735,168.66-Due to THECB, Performance Incentive Initiative; $53,520.04-Due to the CB - sponsored projects
		$ 28,344,621	$ 1,064,748	

TRANSFERS IN FROM/OUT TO OTHER STATE ENTITIES

	Entity	Transfers In from Other State Entities	Transfers Out to Other State Entities	Purpose
4701	TAMUS	$ 12,150,000	$	FY2009 AUF Allocation from TAMUS
4701	TAMUS	44,218		FY2009 Resource Allocation Program from TAMUS
4710	TAMUS	2,008,836		System Endowment Fund Appreciation Reserve Transfer From TAMUS
5301	TAMUS		(1,867,823)	Transfer to SAGO - for auxiliaries
5301	TAMUS		(3,392,297)	Transfer to SAGO - Debt Service
5615	THECB		(3,820)	Doctoral Set-Asides to THECB
5615	THECB		(462,800)	B on Time Set-asides to THECB
5701	TAMUS		(227,000)	Transfer to SAGO - construction projects
5701	TAMUS		(3,413,418)	Transfer to SAGO - true endowments
		$ 14,203,054	$ (9,367,158)	

LEGISLATIVE TRANSFERS IN/OUT

	Entity	Legislative Transfers In	Legislative Transfers Out	Purpose
5301	TAMUS	$	$ (6,387,794)	Debt service payment
		$ 0	$ (6,387,794)	

Note 8: Contingent Liabilities

At August 31, 2009, various lawsuits and claims involving the University had arisen in the course of conducting University business including a probable loss that may occur from a Department of Education investigation into financial aid awarded to students who attended certain Prairie View A&M University's Dallas area classes. While the ultimate liability with respect to litigation and other claims cannot be reasonably estimated at this time, management is of the opinion that the liability not provided for by insurance or otherwise, if any, for these legal actions will not have a material adverse effect on the University's financial position.

Note 9: Risk Financing and Related Insurance

Risk financing and related insurance is managed centrally at the Texas A&M University System. Information included below is presented from the Texas A&M University System perspective. All unpaid claim liabilities are held on the Texas A&M System books, and are not applicable specifically to Prairie View A&M.

The A&M System is exposed to various risks of loss related to property - fire, windstorm or other loss of capital assets; general and employer liability - resulting from alleged wrongdoings by employees and others; net income - due to fraud, theft, administrative errors or omissions, and business interruptions; and personnel - unexpected expense associated with employee health, termination or death. As an agency of the State of Texas, the A&M System and its employees are covered by various immunities and defenses which limit some of these risks of loss, particularly in liability actions brought against the A&M System or its employees. Remaining exposures are managed by self-insurance arrangements, contractual risk transfers, the purchase of commercial insurance, or a combination of these risk financing techniques.

All commercial insurance policies include retention amounts (deductibles) for which the A&M System is responsible and for which A&M System members maintain funding reserve pools. Ongoing analysis of the risks facing the A&M System results in the continual evaluation of insurance policies purchased. During the past year, insurance coverage has changed. However, these changes do not represent a material increase in risk to the A&M System and losses have not exceeded funding arrangements during the past three years.

The A&M System has self-insured arrangements for coverage in the areas of workers' compensation, group health and dental insurance and certain areas of medical malpractice. Based on the requirements of GASB No. 10, liabilities for claims have been reported where information prior to issuance of the financial statements indicated that it was probable that a liability had been incurred and the amount of the loss could be reasonably estimated.

The workers' compensation plan is considered a funded employer liability pool. The workers' compensation incurred but not reported liability is based on actuarial analysis of all historical claims data. The plan provides claims servicing and claims payments by charging a "cost allocation" assessment to each A&M System member based on a percentage of payroll.

The A&M System implemented a self-insured health and dental plan on September 1, 1994, which is also considered a funded pool. Premiums are determined through an actuarial pricing process that takes place each spring. The A&M System maintains an experience stabilization fund of $24,654,080 that is comprised of excess premiums from previous years and is used to offset losses in a given year. Dental benefits under the plan are limited to $1,500 per individual per year, so the potential for catastrophic loss is not a significant risk.

Self-Insured Health Plan - System member is responsible for performing payroll deductions and retiree billing in order to collect the employee's portion of the premium on a monthly or biweekly basis. In addition, the System member is responsible for funding the applicable employer contribution for eligible employees and retirees. Employee and employer premiums collected by all System members are transferred to the A&M System Office by equity transfer. These premiums are pooled at the System level to pay for claims and administrative expenses associated with the plan. The A&M System maintains a reserve fund for the self-insured health and dental plans with a current balance of $24,654,080 that is comprised of excess premiums from previous years that is used to offset losses in a given year. The plan currently maintains an individual stop-loss policy with an attachment point of $500,000. The A&M System Office is responsible for contracting, compliance, and plan design.

Self-Insured Dental Plan - System member is responsible for performing payroll deductions and retiree billing in order to collect the employee's portion of the premium on a monthly or biweekly basis. The majority of dental premiums are paid by the employee. Individuals who elect not to enroll in an A&M System health plan may certify that they are enrolled in other health coverage and thereby have access to a portion of the employer contribution to pay for dental coverage. Otherwise, there is no employer contribution for the dental program. For those who qualify as described above, the System member is responsible for funding the applicable employer contribution. Employee and employer premiums collected by all System members are transferred to the A&M System Office by equity transfer. These premiums are pooled at the System level to pay for claims and administrative expenses associated with the plan. The A&M System maintains a reserve fund for the self-insured health and dental plans with a current balance of $24,654,080 that is comprised of excess premiums from previous years that is used to offset losses in a given year. Dental benefits under the plan are limited to $1,500 per individual per year, so the potential for catastrophic loss is not a significant risk. The A&M System Office is responsible for contracting, compliance, and plan design.

Note 10: Stewardship, Compliance, and Accountability

For the year ended August 31, 2009, the University is reporting financial information in accordance with requirements set forth by GASB No. 34 and No. 35. Changes to the financial reports of the University are discussed in Note 1. The University has no material violations of finance related legal and contract provisions. Per the laws of the State of Texas, the University cannot spend amounts in excess of appropriations granted by the Texas Legislature and there are no deficits reported in net assets or retained earnings.

Note 11: The Financial Reporting Entity

The A&M System is composed of a series of distinct members, each of which was created to render a specific service for the State within the limits of the A&M System's objectives, and all of which are under the control and direction of the Board of Regents of the A&M System. Prairie View A&M University is a distinct member of the A&M System. Prairie View A&M University has no component units.

Note 12: Restatement of Net Assets

The University had one restatement of net assets as of August 31, 2009:

Net Assets, September 1, 2008	$	394,542,233
Restatements:		
(a) Investment in Plant	$	(221,540)
Total Restatements	$	(221,540)
Net Assets, September 1, 2009, as Restated	$	394,320,693

This restatement was due to assets originally recorded as controlled later reclassified to capitalized.

Note 13: Employee Retirement Plans

Information included in this note is presented from a Texas A&M University System perspective.

The State of Texas has joint contributory retirement plans for substantially all its employees. The contribution amounts for both the employee and the A&M System are set by the Texas Legislature and can change over time. One of the primary plans in which the A&M System participates is administered by the Teacher Retirement System of Texas. The contributory percentages of participant salaries provided by the State and by each participant during the fiscal year were 6.58% and 6.4%, respectively, of annual compensation.

The Teacher Retirement System of Texas does not separately account for each of its component governmental agencies, since the Retirement System bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature.

The retirement expense to the State for the A&M System TRS retirement program was $21,048,104 for the year ended August 31, 2009. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the A&M System. Further information regarding actuarial assumptions and conclusions, together with audited financial statements, is included in the Teacher Retirement System's annual financial report.

The State has also established an Optional Retirement Program for institutions of higher education. Participation in the Optional Retirement Program is in lieu of participation in the Teacher Retirement System. The Optional Retirement Program provides for the purchase of annuity contracts and mutual funds. The contributory percentages of participant salaries during the fiscal year provided by the State and by each participant who was enrolled in the plan on or before August 31, 1995 were 8.5% and 6.65%, respectively. The 8.5% is composed of 6.58% contributed by the State and an additional 1.92% contributed by the A&M System. For participants who enrolled on or after September 1, 1995, the State and participant contributions were 6.58% and 6.65%, respectively. Since these are individual annuity contracts or custodial agreements, the State has no additional or unfunded liability for this program.

The contributions for the A&M System ORP retirement program were as follows:

Optional Retirement Program

		Amount
Employer Contributions	$	42,163,151
Employee Contributions	$	37,183,626
Total	$	79,346,777

Effective January 1, 1999, the A&M System implemented an excess benefit arrangement under Section 415(m) of the Internal Revenue Code (IRC).

Since the A&M System bears no responsibility for retirement commitments beyond contributions, GASB No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*, do not apply to these financial statements or disclosures.

The ORP expense to the University was $1,807,657 for the year ended August 31, 2009. Of this amount, $891,478 represents the portion of appropriations made by the State Legislature expended on behalf of the University and $916,179 represents the portion paid from the University's funds.

Note 14: Deferred Compensation Program

Information included in this note is presented from a Texas A&M University System perspective.

State employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Texas Government Code, Section 609.001. All payroll deductions have been invested in approved plans during the fiscal year. Two deferred compensation plans are available for A&M System employees and are managed at the A&M System level.

The State's 457 Plan complies with IRC Section 457. This plan is referred to as the Texa$aver Deferred Compensation Plan (DCP) and is available to all employees. The DCP is a State plan, and the deductions, purchased investments and earnings attributed to the 457 Plan are the property of the State subject only to the claims of the State's general creditors. Participant's rights under the plan are equal to those of the general creditors of the State in an amount equal to the fair market value of the 457 account for each participant. The State has no liability under the 457 Plan and it is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.

The A&M System also administers a Tax-Deferred Account (TDA) Program, created in accordance with IRC Section 403(b). All employees are eligible to participate. The TDA is a private plan, and the deductions, purchased investments, and earnings attributed to each employee's 403(b) plan are held by vendors chosen by the employee. The vendors may be insurance companies, banks, or approved non-bank trustees such as mutual fund companies. The assets of this plan do not belong to the A&M System or the State and thus do not have a liability related to this plan.

The 457(f) Deferred Compensation Plan allows the A&M System to defer income for eligible participants without regard to the amount deferred or an adverse impact on other retirement plans in which the participant is enrolled. The plan is structured under Section 457(f) of the Internal Revenue Code of 1986, as amended. It is authorized for use by Texas institutions of higher education in Title 109, Article 6228a-5, Section 3 of Vernon's Texas Civil Statutes. All employees of the A&M System are eligible to participate in this plan subject to the approval of the Board of Regents, the Chancellor, or any Chancellor-designated A&M System member Chief Executive Officer.

The Nonqualified Share Option Plan is designed to allow the transfer of shares of specific mutual funds to designated employees of the A&M System. The plan is structured under Section 83 of the Internal Revenue Code of 1986, as amended. All employees of the A&M System are eligible to participate in this plan subject to the approval of the Board of Regents, the Chancellor, or any Chancellor-designated A&M System member Chief Executive Officer.

Note 15: Donor-Restricted Endowments

Donor-restricted endowments are managed centrally at the Texas A&M University System. Information included in this note is presented from a Texas A&M University System perspective.

The purpose of The Texas A&M University System Endowment Fund (the Fund) is to provide for the collective investment of all endowment and trust funds held by the A&M System or by the Board of Regents of the A&M System in a fiduciary capacity. The Fund is used to provide funding for scholarships, fellowships, professorships, academic chairs and other uses as specified by donors.

Distribution is made quarterly as soon as practicable after the last calendar day of November, February, May, and August of each fiscal year to the endowment and trust funds participating in the Fund during the respective quarter. Income consists of interest earnings, dividends and realized capital gains. The income distribution per unit for each fiscal year will be to distribute, excluding fees, 5% of the 20-quarter average market value per unit as of the end of the previous February.

Chapter 163 of the Texas Property Code (also cited as the Uniform Prudent Management of Institutional Funds Act) grants the University the authority to spend net appropriations.

The amount of net appreciation for donor restricted true endowments is shown in the table below:

Net Appreciation of Donor-Restricted Endowments

Donor-Restricted Endowments	Amounts of Net Appreciation	Reported in Net Assets
True Endowments	$ 78,624,235	Restricted for Expendable

The amount of net appreciation for donor restricted endowments specific to the University is $7,876,995, and is reported as Restricted on the Statement of Net Assets.

Note 16: Post-Employment Health Care and Life Insurance Benefits

Post-employment health care and life insurance benefits are managed centrally by the Texas A&M University System for all system components. Information included in this note is presented from a Texas A&M University System perspective.

Plan Description and Funding Policy

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired employees in accordance with State statutes. Substantially all of the employees may become eligible for those benefits if they reach normal retirement age while working for the State. Those and similar benefits for active employees are provided through the group insurance program, and premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expensing the annual premiums. For the year ending August 31, 2009, the employer contributions are presented below.

Employer Contribution Rates

Level of Coverage	Amount
Full-Time Employee/Retiree Only	$ 375.94
Full-Time Employee/Retiree and Spouse	$ 551.53
Full-Time Employee/Retiree and Children	$ 485.69
Full-Time Employee/Retiree and Family	$ 639.33

For the year ended August 31, 2009, benefit plan expenditures totaled $160,035,264. The cost of providing benefits for 6,801 retirees was $37,325,544; and for 22,860 active employees the cost was $122,709,719.

Other Postemployment Benefits (OPEB) are benefits provided to the A&M System's retirees under the A&M System group insurance program. The authority under which the obligations of the plan members and the A&M System are established, and may be amended, is Chapter 1601, *Texas Insurance Code*.

The A&M System and member contribution rates are determined annually by the A&M System based on the recommendations of the A&M System Office of Benefits Administration. The plan rates are based on the plan costs that are expected to be incurred, the funds appropriated for the plans, and the funding policy established by the Texas Legislature in connection with benefits provided through the plan. The A&M System revises benefits plans and rates as necessary to match expected costs with available revenue. The plan is operated on a pay-as-you-go basis and is unfunded.

Because the OPEB plan described herein is not administered through a trust as defined under Paragraph No. 4 of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 43 accounting is not applicable to the A&M System.

For the year ended August 31, 2009, the contributions for the self-funded plan by the state per full-time retired employee are shown in the following table. Because this is year 2 of the calculation, a three-year history does not exist. The retiree contributes any premium over and above state contributions.

Three-Year Schedule of Employer Contributions				
Fiscal Year Ending	**Employer Contribution**	**Annual OPEB Cost**	**Percentage of Annual OPEB Cost Contributed**	**Net OPEB Obligation At End of Fiscal Year**
8/31/2009	$ 37,325,544	$116,890,000	32%	$ 219,873,275
8/31/2008	$ 36,284,181	$176,593,000	21%	$ 140,308,819

The OPEB expense reflected in the Statement of Revenues, Expenses and Changes in Net Assets is net of the Employer Contributions, as these costs are included as a portion of Payroll Related Costs expense.

Annual OPEB Cost and Net OPEB Obligation

The annual OPEB cost of the plan is calculated and based on the annual required contribution (ARC). The ARC is the amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period of years, not to exceed 30 years. The following table shows the components of the annual OPEB cost for the year for the plan:

Annual OPEB Cost and Net OPEB Obligation	
Annual Required Contribution (ARC)	$ 112,570,000
Interest on Net OPEB Obligation	13,189,000
Adjustment to ARC	(8,869,000)
Annual OPEB Cost	116,890,000
Employer Contributions Made	(37,325,544)
Increase Net OPEB Obligation	79,564,456
Net OPEB Obligation 9/1/2008	140,308,819
Net OPEB Obligation 8/31/2009	$ 219,873,275

Schedule of Funding Progress of the Plan

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The amounts determined for the funded status of the plan and the Annual Required Contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The multiyear schedule of funding progress is presented in the following table:

Schedule of Funding Progress						
Actuarial Valuation Date	**Actuarial Value of Assets (a)**	**Actuarial Accrued Liability (AAL) (b)**	**Excess of Assets Over AAL (Unfunded AAL) (a)-(b)**	**Funded Ratio (a)/(b)**	**Annual Covered Payroll (c)**	**Ratio of UAAL to Covered Payroll ((a-b)/c)**
9/1/2008	$ -	$ 1,258,563,000	$ (1,258,563,000)	0.0%	$ 1,260,683,042	99.8%
9/1/2007	$ -	$ 1,993,236,000	$ (1,993,236,000)	0.0%	$ 1,140,125,643	174.8%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used in the plan valuation include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional detail about the actuarial assumptions used in the plan valuation is outlined in the following table:

Summary of Actuarial Methods and Assumptions	
Actuarial Valuation Date	September 1, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay
Remaining Amortization Period of Unfunded Liability	30 years
Actuarial Assumptions:	
Investment Rate of Return	9.4%
Inflation	4.0%
Health Care Trend Rates	8.0% in 2010
	Decreasing to 6.0% in 2014

Medicare Part D

In fiscal 2009 the plan received payments from the federal government pursuant to the retiree drug subsidy provisions of Medicare Part D. GASB Statement No. 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance, requires that these on-behalf payments be recorded as revenues and expenses of each plan. In fiscal 2009 the system received $3.8 million of Medicare Part D payments from the federal government.

Note 17: Disaggregation of Receivable and Payable Balances

A summary of accounts receivable and accounts payable balances for the University for the year ended August 31, 2009, is presented below. Receivables/payables defined as 'Other' were further detailed if the balance was 5% or greater of total receivables/payables.

Accounts Receivable:

Current Accounts Receivable		Amount on III-FUND
Federal Receivables		14,366,169
Student Receivables		997,336
Other		725,478
	Total	16,088,983

Other Receivables		Amount
Departmental Receivable-Manual		418,646
Travel Advance Receivable		1,623
Service Department Receivable		456,692
Allowance for Doubtful Accounts		-177,631
Other		26,148
	Total	725,478

Accounts Payable:

Current Accounts Payable		Amount on III-FUND
Accounts Payable		3,411,230
Payroll Payable		5,151,329
Other		360,709
	Total	8,923,268

Note 18: Termination Benefits

Termination benefits are managed centrally at the Texas A&M University System. Information included in this note is presented from a Texas A&M University System perspective. Prairie View A&M has no obligation to pay the A&M System for any termination benefits specifically incurred by Prairie View A&M.

As of August 31, 2009, the A&M System had incurred obligations to pay termination benefits of $78,072.52 in fiscal year 2010. Included in these current liabilities are commitments for severance pay and payroll related costs pertaining to these terminations. Prairie View A&M has no obligation to pay the Texas A&M System for any termination benefits specifically incurred by Prairie View A&M.

For the fully-insured HMO health plans, dental plan, and vision plan, the carrier is responsible for the billing and collection from all COBRA participants. The carrier retains all premiums and is liable for all claims and expenses. Enrollment information for these plans is included below; however, the A&M System does not have premium and expense information related to these plans.

For the self-insured health and dental plans, the carrier performs the billing and collections process for COBRA participants. The carrier then forwards the premium to the A&M System, net of the 2% administrative fee, which is intended to cover costs related to the billing and collection functions. However, since the plan is self-insured, the A&M System is responsible for any claims or administrative costs associated with COBRA participants, and these amounts are included below.

As part of the stimulus funding from the federal government, some of the terminated employees were eligible for the 65% subsidy for COBRA coverage. The Federal Department of Labor agreed to reimburse employers the 65% COBRA reimbursement up to 9 months. This applies to employees who were involuntarily terminated between September 1, 2008 and December 31, 2009. The maximum end of the 9 month payment period will be September 30, 2010.

For fiscal year 2009, the total 65% COBRA funding that TAMU System members received from the Federal Grant was $52,868.51 for fiscal year 2009.

COBRA benefits for the Texas A&M University System for the ended August 31, 2009 are as follows:

Termination Benefits - COBRA

	Self-Insured Medical Plan	Self-Insured Dental Plan	Fully-Insured Medical HMO Plans	Fully-Insured Dental Plan	Fully-Insured Vision Plan
Number of Participants	197	124	47	32	75
Premium Revenue	$ 785,974	$ 53,094			
2 Percent Administrative Fee Revenue	14,781	1,079			
Total COBRA Revenue	800,755	54,173			
Claims Paid	1,678,402	64,682			
Administrative Expenses	22,541	4,576			
Total COBRA Expenses	1,700,943	69,258			
Total Cost to State	$ 900,188	$ 15,085			

State Auditor's Office
John Keel, CPA
State Auditor

January 22, 2010

Dr. George C. Wright, President
Prairie View A&M University
5th Street Ave. A
L.W. Minor Street
Prairie View, TX 77446

Subject: Management Letter Resulting from a Review of Prairie View A&M University's Fiscal Year 2009 Financial Statements

Dear Dr. Wright:

We offer this management letter in conjunction with our review of the financial statements of Prairie View A&M University (University) for the fiscal year ended August 31, 2009. We reviewed the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; the Statement of Cash Flows; and the Notes to the Financial Statements. In the course of our review, which was substantially less in scope than an audit, we did not find that material modifications needed to be made to the financial statements in order for them to be in conformity with generally accepted accounting principles.

We appreciate the assistance provided during this review by the management of the University and Internal Audit. If you have any questions, please call me at (512) 936-9500.

Sincerely,

Sandra Vice

Sandra Vice, CGAP, CIA, CISA
Assistant State Auditor

Robert E. Johnson Building
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Tarleton State University

Financial Report

Prepared for the Southern Association of Colleges and Schools

Commission on Colleges

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State Auditor's Office
John Keel, CPA
State Auditor

Auditor's Review Report

February 8, 2010

Dr. F. Dominic Dottavio, President
Tarleton State University
Box T-0001
Stephenville, TX 76402

Dear Dr. Dottavio:

We have reviewed the accompanying Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; Statement of Cash Flows; and Notes to the Financial Statements of Tarleton State University (University) as of and for the fiscal year ended August 31, 2009, in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The review was performed in accordance with the Southern Association of Colleges and Schools' (Southern Association) *Criteria for Accreditation*. All information included in these financial statements is the representation of management of the University.

A review consists principally of inquiries of University personnel and analytical procedures applied to financial data. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

The accompanying statements were prepared to present the financial position, the changes in financial position and the cash flows of the University. These statements are prepared pursuant to criteria of the Southern Association for supplementary special reports by institutions in states that conduct statewide audits.

Based on our review, with the exception of the matter described in the following paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The University has not presented a management's discussion and analysis section that the Governmental Accounting Standards Board has identified as required supplementary information that is not part of the basic financial statements. However, such required supplementary information for the Texas A&M University System (System) is presented in the System's consolidated annual financial report.

This report is intended for use by the Board of Regents of the System, management of the University, and the Southern Association. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,

John Keel, CPA
State Auditor

Robert E. Johnson Building
1501 N. Congress Avenue
Austin, Texas 78701

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SAO Report No. 10-329

Tarleton State University
Statement of Net Assets
At August 31, 2009
See Auditor’s Review Report on page 1

ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 3)	$	21,580,395
Restricted:		
Cash and Cash Equivalents (Note 3)		1,602,853
Legislative Appropriations		2,100,209
Receivables, Net of Allowances:		
Federal		797,772
Accounts		549,572
Other		404,507
Due from Other State Entities (Note 7)		4,513,723
Consumable Inventories		766,460
Merchandise Inventories		109,905
Loans and Contracts		1,211,928
Other Current Assets		2,559,509
Total Current Assets	$	36,196,833
Non-Current Assets		
Restricted:		
Investments (Note 3)		22,067,170
Loans and Contracts		33,055
Investments (Note 3)		49,353,089
Capital Assets (Note 2):		
Non-Depreciable		7,988,421
Depreciable		184,927,096
Less: Accumulated Depreciation		(87,631,523)
Other Non-Current Assets		1,186,461
Total Non-Current Assets	$	177,923,769
Total Assets	$	214,120,602
LIABILITIES		
Current Liabilities		
Payables:		
Accounts	$	2,422,488
Payroll		4,284,454
Other		119,478
Due to Other State Entities (Note 7)		261,258
Deferred Revenue		24,242,863

Employees' Compensable Leave (Note 4)		344,343
Other Post Employment Benefits (Note 4)		1,855,014
Liabilities Payable from Restricted Assets (Note 4)		1,129,229
Funds Held for Others		354,398
Other Current Liabilities		670,687
Total Current Liabilities	$	35,684,212
Non-Current Liabilities		
Employees' Compensable Leave (Note 4)		2,327,671
Other Post Employment Benefits		7,499,209
Total Non-Current Liabilities	$	9,826,880
Total Liabilities	$	45,511,092
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$	105,283,994
Restricted for:		
Non-Expendable		
Permanent Funds, True Endowments, Annuities		12,212,690
Expendable		
Capital Projects		127,727
Funds Functioning as Endowments		5,528,876
Other		6,347,784
Unrestricted		39,108,439
Total Net Assets	$	168,609,510

The accompanying Notes to the Financial Statements are an integral part of this statement.

Tarleton State University
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended August 31, 2009

OPERATING REVENUES		
Tuition and Fees - Pledged		48,903,002
Discounts and Allowances		(9,247,728)
Professional Fees - Pledged		285
Auxiliary Enterprises - Pledged		11,978,378
Other Sales of Goods and Services - Pledged		3,534,597
Discounts and Allowances		(1,813,034)
Federal Revenue		10,557,337
State Grant Revenue		4,049,285
Other Operating Grant Revenue		703,355
Other Operating Revenues		699,267
Total Operating Revenues	$	69,364,744
OPERATING EXPENSES		
Cost of Goods Sold	$	139,303
Salaries and Wages		56,639,957
Payroll Related Costs		18,609,851
Professional Fees and Services		9,531,874
Travel		1,529,853
Materials and Supplies		9,332,575
Communications and Utilities		5,850,981
Repairs and Maintenance		2,665,469
Rentals and Leases		2,395,971
Printing and Reproduction		548,307
Depreciation and Amortization		7,544,934
Bad Debt Expense		118,642
Interest Expense		746
Scholarships		10,995,345
Other Operating Expenses		2,990,883
Total Operating Expenses	$	128,894,691
Operating Income (Loss)	$	(59,529,947)
NONOPERATING REVENUES (EXPENSES)		
Legislative Appropriations	$	48,450,019
Gifts		1,683,154
Interest and Investment Income (Loss)		2,068,709
Investing Activities Expense		(163,976)
Net Increase (Decrease) in Fair Value of Investments		(5,820,568)

Gain (Loss) on Sale of Capital Assets		(450,980)
Other Nonoperating Revenues - Pledged		10,178,750
Other Nonoperating Expenses		(600,426)
Total Nonoperating Revenues (Expenses)	$	55,344,682
Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers	$	(4,185,265)
OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS		
Capital Contributions	$	43,262
Additions to Permanent and Term Endowments		471,891
Transfers In from Other State Entities (Note 7)		10,624,198
Transfers Out to Other State Entities (Note 7)		(8,024,970)
Legislative Transfers Out (Note 7)		(5,694,317)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	$	(2,579,936)
CHANGE IN NET ASSETS	$	(6,765,201)
Net Assets, September 1, 2009 and 2008	$	175,961,361
Restatements (Note 12)		(586,650)
Net Assets, September 1, 2009, as Restated	$	175,374,711
NET ASSETS, August 31, 2009	$	168,609,510

The accompanying Notes to the Financial Statements are an integral part of this statement.

Tarleton State University
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Tuition and Fees	$	42,400,723
Receipts from Customers		3,296,139
Proceeds from Research Grants and Contracts		16,077,565
Proceeds from Loan Programs		3,520,926
Proceeds from Auxiliaries		10,164,950
Proceeds from Other Revenues		418,116
Payments to Suppliers for Goods and Services		(34,618,786)
Payments to Employees for Salaries		(56,269,261)
Payments to Employees for Benefits		(14,815,886)
Payments for Loans Provided		(3,701,927)
Payments for Other Expenses		(11,730,750)
Net Cash Provided (Used) by Operating Activities	$	(45,258,191)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Legislative Appropriations	$	50,008,177
Proceeds from Gifts		954,045
Proceeds from Endowments		471,891
Proceeds from Other Sources		13,942,480
Payments for Transfers to Other Entities		(1,006,593)
Payments for Other Uses		(186,726)
Net Cash Provided (Used) by Non-Capital Financing Activities	$	64,183,274
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Disposal of Capital Assets		4,008
Payments for Additions to Capital Assets		(4,838,882)
Payments for Transfers to Other Entities		(7,348,298)
Net Cash Provided (Used) by Capital and Related Financing Activities	$	(12,183,172)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Interest and Investment Income		1,904,733
Payments to Acquire Investments		(4,249,920)
Net Cash Provided (Used) by Investing Activities	$	(2,345,187)
Net Increase (Decrease) in Cash and Cash Equivalents	$	4,396,724
Cash and Cash Equivalents, September 1, 2008	$	18,786,524
Cash and Cash Equivalents, August 31, 2009	$	23,183,248

Reconciliation of Operating Income (Loss) to
Net Cash Provided (Used) by Operating Activities

Operating Income (Loss)	$	(59,529,947)
Adjustments:		
Depreciation and Amortization	$	7,544,934
Bad Debt Expense		314,701
Operating Income and Cash Flow Categories:		
Classification Differences		755,072
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		(452,006)
(Increase) Decrease in Due from Other Entities		(3,259)
(Increase) Decrease in Inventories		(8,945)
(Increase) Decrease in Prepaid Expenses		(19,443)
(Increase) Decrease in Loans and Contracts		(149,787)
(Increase) Decrease in Other Assets		(252,258)
Increase (Decrease) in Payables		(339,683)
Increase (Decrease) in Deferred Revenue		3,025,532
Increase (Decrease) in Employees' Compensable Leave		335,504
Increase (Decrease) in Other Liabilities		3,521,394
Total Adjustments	$	14,271,756
Net Cash Provided (Used) by Operating Activities	$	(45,258,191)
Non-Cash Transactions		
Net Increase (Decrease) in Fair Value of Investments	$	(5,820,569)
Donated Capital Assets		772,372
Disposal of Capital Assets		(454,987)
Other Deductions to Capital Assets		1,206,931

The accompanying Notes to the Financial Statements are an integral part of this statement.

Tarleton State University
Statement of Changes in Unrestricted Net Assets
For the Fiscal Year Ended August 31, 2009

Reserved		
Encumbrances	$	3,800,499
Accounts Receivable		545,039
Inventories		876,366
Self-Insurance Plans		
Capital Projects		1,889,480
Retirement of Indebtedness		5,232,850
Designated Tuition Set Aside Reserves		871,301
Deposits		65,000
Prepaid Expenses		2,494,509
Texas Public Education Grants		1,190,289
Unreserved		
Allocated		
Future Operating Budgets		21,000,454
Capital Projects		1,720,662
Funds Functioning as Endowment - Unrestricted		4,934,984
Unallocated		(5,512,994)
Total Unrestricted Net Assets	$	39,108,439

(See Auditor's Review Report on page 1.)

General Introduction

This report has been prepared for the use of the Southern Association of Colleges and Schools (Southern Association) in connection with the review of Tarleton State University (University) for accreditation purposes. This report includes a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; a Statement of Cash Flows; and the related Notes to the Financial Statements. In accordance with Southern Association criteria or Governmental Accounting Standards Board requirements, Statement of Changes in Unrestricted Net Assets and a management letter describing issues noted in the review.

Reporting Entity

The University is a component of the Texas A&M University System and an agency of the State of Texas. The University prepares financial statements that are included in the State's *Comprehensive Annual Financial Report,* which is audited by the Texas State Auditor's Office.

Note 1: Summary of Significant Accounting Policies

Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements are 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 is incurred. Operating items are distinguished from non-operating items Operating revenues and expenses result from providing services or producing and delivering goods in connection with ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash and cash equivalents according to GASB No. 9. With the exception of residual cash which results from the management of investment portfolios, the A&M System maintains cash and cash equivalents for the purpose of meeting short-term expenditure requirements. Additionally, cash and cash equivalents includes a money market fund (proprietary fund) owned by the Texas A&M University System. Members participate in this money market account. The fund balance for the University is classified as cash and cash equivalents in the University's financial statement and as an investment on the Texas A&M University System's combined financial statement.

Investments

In accordance with GASB No. 31, the A&M System reports investments at fair market value in the Balance Sheet. Fair market value is defined as the amount at which an investment could be exchanged in a current transaction between parties, other than in a forced or liquidation sale.

GASB No. 40, implemented in fiscal year 2005, requires the disclosure of common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Under GASB 40, disclosure of carrying value of investments is no longer required.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Livestock held for educational purposes is recorded at estimated fair market value. The capitalization threshold for personal property is $5,000. The capitalization threshold is $100,000 for buildings/building improvements, facilities and other improvements, software developed for internal use, and leasehold improvements. Infrastructure has a capitalization threshold of $500,000. All land, land improvements, library books/materials, museums/collections, and works of art/historical treasures are capitalized.

According to GASB No. 34 and No. 35, the University is required to depreciate capital assets. Effective fiscal year 2005, the State Comptroller's Office reclassified Professional, Academic and Research Library books and materials from non-depreciable to depreciable. Depreciation is computed using the straight-line method over the estimated useful lives of the assets; generally, 40 to 50 years for buildings, 20 to 25 years for infrastructure, 5 to 7 years for equipment, and 15 years for library books.

Current Assets

In the Balance Sheet, items classified as current are defined as resources expected to be realized or consumed within one year.

Restricted Net Assets

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted net assets are available for use, restricted resources are used first, then unrestricted resources are used as needed.

Voluntary Nonexchange Transaction

Voluntary nonexchange transactions (primarily private donations and pledges) are recognized in accordance with GASB No. 33, adopted by the A&M System on September 1, 2000.

Other Significant Accounting Policies

An Appreciation Reserve was created in fiscal year 1997 for the purpose of providing a consistent and predictable income stream for the System Endowment Fund. The Appreciation Reserve is administered by the A&M System Offices and distributions occur when current income is insufficient to meet the distribution of income in accordance with the System Endowment Fund spending policy.

The financial statements of the University are prepared and presented materially in accordance with the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements. The A&M System members record receivables when revenue is earned but not collected. Deferred revenue is recognized when cash is received prior to revenue recognition.

Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2009, is presented below:

	Balance 9/1/2008	Adjustments	Completed Construction in Progress	Additions	Deductions	Balance 8/31/2009
Non-Depreciable Assets:						
Land and Land Improvements	$ 2,826,330	$ (266)	$	$	$	$ 2,826,064
Construction in Progress	1,318,774	(1,283,257)	(1,187,080)	5,193,379		4,041,816
Library Books						0
Other Capital Assets	1,110,541			10,000		1,120,541
Total Non-Depreciable Assets	$ 5,255,645	$ (1,283,523)	$ (1,187,080)	$ 5,203,379	$ 0	$ 7,988,421
Depreciable Assets:						
Buildings and Building Improvements	$ 145,719,935	$	$ 1,187,080	$	$ (3,988,562)	$ 142,918,453
Infrastructure	6,404,626					6,404,626
Facilities and Other Improvements	8,020,231					8,020,231
Furniture and Equipment	15,035,953			2,796,437	(364,690)	17,467,700
Vehicles, Boats, and Aircraft	1,422,819			211,075	(116,380)	1,517,514
Other Capital Assets	8,351,228			262,128	(14,784)	8,598,572
Total Depreciable Assets at Historical Cost	$ 184,954,792	$ 0	$ 1,187,080	$ 3,269,640	$ (4,484,416)	$ 184,927,096
Less Accumulated Depreciation for:						
Buildings and Building Improvements	$ (58,497,293)	$	$	$ (5,212,115)	$ 1,149,630	$ (62,559,778)
Infrastructure	(1,406,013)			(245,883)		(1,651,896)
Facilities and Other Improvements	(3,728,041)			(308,026)		(4,036,067)
Furniture and Equipment	(11,475,301)			(1,312,186)	338,489	(12,448,998)
Vehicles, Boats, and Aircraft	(1,145,795)			(130,479)	116,380	(1,159,894)
Other Capital Assets	(5,438,645)			(336,245)		(5,774,890)
Total Accumulated Depreciation	$ (81,691,088)	$ 0	$ 0	$ (7,544,934)	$ 1,604,499	$ (87,631,523)
Depreciable Assets, Net	$ 103,263,704	$ 0	$ 1,187,080	$ (4,275,294)	$ (2,879,917)	$ 97,295,573
Capital Assets, Net	$ 108,519,349	$ (1,283,523)	$ 0	$ 928,085	$ (2,879,917)	$ 105,283,994

Note 3: Deposits, Investments, and Repurchase Agreements

The Texas Education Code, Title III, Chapter 51.0031 grants authority for a governing board to invest funds under prudent person standards "if a governing board has under its control at least $25 million in book value of endowment funds."

The A&M System's investment policy authorizes the following types of investments: U.S. Government obligations, U.S. Government Agency obligations, other government obligations, corporate obligations, corporate asset and mortgage backed securities, equity, international obligations, international equity, certificates of deposit, banker's acceptances, negotiable certificates of deposit, money market mutual funds, mutual funds, repurchase agreements, venture capital, private equity, hedge funds, Real Estate Investment Trusts (REITs), securities lending, derivatives, timber, bank loans, energy and real estate.

Deposits of Cash in Bank

As of August 31, 2009, the carrying amount of deposits was $23,183,248 as follows:

Cash on Hand:	$	
Cashiers Account		27,000
Petty Cashh Departmtnet Working Fund		2,230
Total Cash on Hand		29,230
Cash in Bank		143,476
Reimbursement Due from Treasury		97,203
Cash in State Treasury		9,076,450
Cash Equivalents		13,836,889
Total Cash and Cash Equivalents	$	23,183,248
Current Assets Cash and Cash Equivalents	$	21,580,395
Current Assets Restricted Cash and Cash Equivalents		1,602,853
Non-Current Assets Restricted Cash and Cash Equivalents		0
Total Cash and Cash Equivalents	$	23,183,248

These amounts consist of all cash in local banks. These amounts are included on the Combined Statement of Net Assets as part of the "Cash and Cash Equivalents" line items.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The A&M System's policy requires collateral of 102% pledged against all deposits and limits the amounts of funds which may be deposited with any bank to the lesser of $100,000,000 or 10% of total deposits. The policy also requires that deposits in federally insured savings and loan associations, building and loan associations, and state and national banks not exceed the amount insured by the Federal Savings and Loan Insurance Corporation, Federal Deposits Insurance Corporation (FDIC), or their successors. The A&M System regulation applicable to working fund bank accounts requires the Chancellor, or designee, to approve a working fund in any bank in which the A&M System member does not have a proper allocation of securities. The bank balance of a working fund may not, at any time, exceed the FDIC coverage limit

Incidental amounts of various foreign currencies are held through Bank of New York Mellon, their foreign branches and/or foreign sub-custodian banks. These amounts represent interest and/or dividend payments received in foreign currencies that are not yet converted to U.S. dollars. Such deposits of foreign currency are not insured or collateralized and are subject to custodial risk and the risk of fluctuations in exchange rates.

Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the deposits. The A&M System does not have a deposit policy for foreign currency risk.

Investments

At the direction of the A&M System Board of Regents, University investments and cash equivalents are pooled at the System level. The System is responsible for disclosure of all information on the pooled investments and has included these disclosures in its annual financial report. The University does not have an investment risk policy. As of August 31, 2009, the fair value of the University's share of investments is presented below:

U.S. Government		
U.S. Treasury Securities	$	2,447,988
U.S. Treasury Strips		
U.S. Treasury TIPS		
U. S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, etc.)		4,614,458
Corporate Obligations		6,343,132
Corporate Asset and Mortgage Backed Securities		1,464,718
Equity		5,225,240
International Obligations (Govt and Corp)		3,868,458
International Equity		1,032,038
International Other Commingled Funds		0
Repurchase Agreement		6,983,669
Fixed Income Money Market and Bond Mutual Fund		0
Other Commingled Funds		37,604,967
Commercial Paper		9,296,780
Securities Lending Collateral Investment Pool		2,478,340
Real Estate		
Alternative Investments (including limited partnerships and hedge funds)		3,560,168
Misc (e.g., guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)		337,192
Total Investments	$	85,257,148
Current Assets – Short-Term Investments	$	0
Current Assets – Restricted Short-Term Investments		0
Non-Current Assets – Restricted Investments		22,067,170
Non-Current Assets – Investments		49,353,089
Total Investments	$	71,420,259

The variance between the two schedules represents a money market fund (proprietary fund) owned by the Texas A&M University System. Members participate in this money market account. The fund balance for the University is classified as cash and cash equivalents in the University's financial statement and as an investment on the Texas A&M University System's combined financial statement. Investments included in the first table reflect the true value of University investments, including the University's portion of the money market fund while the second table represents investments as classified on the University's Statement of Net Assets where the money market account is classified as cash and cash equivalents.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The A&M System's policy requires that direct repurchase agreements and security lending transactions be fully collateralized by obligations authorized under the A&M System investment policy and such collateral be held by a third party. As of August 31, 2009, the A&M System's securities lending transactions were not exposed to custodial credit risks because the collateral was held by the A&M System's custodian.

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investments. The A&M System's policy authorizes the utilization of derivatives for the purpose of hedging currency risk, but does not otherwise address foreign currency risk. The exposure to foreign currency risk as of August 31, 2009 is as follows:

Fund Type	GAAP Fund	Foreign Currency	International Obligation (Govt. and Corp.)	International Equity	International Other Commingled Funds	International Alternative Investments
05	9999	U.S. Dollar Denominated Foreign Securities	$ 78,147,591	$ 30,768,532	$ 365,091,857	$ 1,308,192
05	9999	Australian Dollar	$ 7,245,692	$ -	$ -	$ -
05	9999	Canadian Dollar	$ 3,428,158	$ -	$ -	$ -
05	9999	Euro Currency Unit	$ 18,702,798	$ -	$ -	$ 2,150,210
05	9999	New Zealand Dollar	$ 7,807,373	$ -	$ -	$ -
		Total	$ 115,331,612	$ 30,768,532	$ 365,091,857	$ 3,458,402

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The A&M System's investment policy requires that securities have a long-term rating of BB or better and the fixed income portfolio have an overall credit rating of AA or better by a nationally recognized statistical rating organization (NRSRO) at time of purchase. Securities using short-term credit ratings must be rated at least A-2, P-2, F-2 or equivalent. As of August 31, 2009, the A&M System's credit quality distribution for securities with credit risk exposure is as follows:

Standard & Poor's
(in thousands)

Fund Type	GAAP Fund	Investment Type	AAA	AA	A	BBB	BB	B	CCC	A-1	Unrated
05	9999	U.S. Govt Agency Obligations	114,620								
05	9999	Corporate Obligations	7,335	9,974	81,383	62,028	25,523	2,866			
05	9999	Corporate Asset and Mortgage Backed Securities	30,433	4,588		4,856			716		3,075
05	9999	International Obligations	49,423	12,855	23,317	17,008	4,266	562			7,901
05	9999	Repurchase Agreements (Texas Treasury Safekeeping Trust Co.)	400								
05	9999	Commercial Paper								277,166	
05	9999	Repurchase Agreements	208,204								
05	9999	Fixed Income Money Market and Bond Mutual Fund									5,994
05	9999	Miscellaneous (municipals and CDs)			2,648						7,400

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2009, no more than 5% of the A&M System's total investments are represented by a single issuer. The

A&M System's investment policy states that not more than 4.9% of the voting stock of any one corporation shall be owned by the A&M System at any given time, but does not otherwise address concentration of credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the A&M System manages its exposure to fair value losses arising from changing interest rates by requiring fixed income managers to maintain duration of +/- 20% of the effective duration of the appropriate index. In addition, the A&M System's policy limits the duration of its short term investment portfolio to a maximum of one year. The A&M System's exposure to interest rate risk is presented using the effective duration method as follows:

Investment Type	**Effective Duration**	**Market Value**
U.S. Treasury Securities	1.892	72,981,207
U.S. Government Agency Obligations		
Agencies and Other U.S. Government Obligations	0.295	21,718,204
CMO Government Agencies	1.440	1,586,394
U.S. Government Mortgages	2.356	114,266,490
Corporate Obligations		
Corporates and Other Credit	3.881	158,076,189
U.S. Private Placements	4.451	31,032,394
Corporate Asset and Mortgage Backed Securities		
CMBS	5.613	18,608,250
CMO Corporate	1.118	13,047,963
Asset Backed Securities	0.422	12,011,909
International Obligations	3.994	115,331,612
Repurchase Agreements	0.000	208,204,429
Repurchase Agreements TTSTC	0.003	400,155
Fixed Income Money Market and Bond Mutual Funds	0.147	5,994,323
Commercial Paper	0.050	277,166,135
Miscellaneous		
Political subdivisions	2.711	2,647,668
CDs	0.225	7,400,000
Total Fair Value		1,060,473,322
Portfolio Effective Duration	1.675	

Securities Lending

The A&M System engages in securities lending transactions for investments included in its two internal investment pools: the Cash Concentration Pool and the System Endowment Fund. Authority to engage in these transactions is granted to the Board of Regents in Texas Education Code, Section 51.0031, and is allowed under the A&M System investment policy. No violations of applicable law, Board policy or contract provisions occurred during fiscal year 2009.

GASB No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, provides guidance for entities reporting and disclosing securities lending transactions. This guidance includes reporting certain securities lending collateral on the Balance Sheet as an asset with a corresponding liability to repay the collateral, and disclosure of related custodial credit risk for any collateral reported on the Balance Sheet.

Securities lending transactions may include both fixed income and equity securities lent by the A&M System and cash, fixed income securities, repurchase agreements, and letters of credit received as collateral from borrowers by the A&M System. The A&M System cannot pledge or sell securities received as collateral without default of the borrower. Market value of the received cash must be at least 102% of the market value of the lent securities at the inception of the transaction. Market values are monitored throughout the transaction, and additional cash or securities are required from the borrower if the market value of the collateral falls below 100%.

Cash collateral received from the borrower is invested in a collective investment portfolio that includes investments with next day liquidity. The portfolio has a liquidity target of 20%, but does not generally match the maturities of investments with the term maturities of the loan agreements. There are no restrictions on loan amounts. The lending agent is not liable with respect to any losses incurred by the A&M System in connection with the securities lending transactions, except to the extent that such losses result from the lending agent's negligence or willful misconduct in its administration of the securities lending contract.

The A&M System had no credit risk related to twenty-two securities lending relationships because the amount the A&M System held as collateral exceeded the amounts the borrowers owed the A&M System. No losses were incurred during the fiscal year as a result of default by a securities lending borrower or agent and no losses were reported in the previous period.

The total market value of securities on loan as of August 31, 2009 was $74,723,984. Cash collateral holdings consisted of $74,801,644 invested in the securities lending collateral investment pool. The corresponding market value of these investments was $73,887,888 as of August 31, 2009 representing a net decrease in fair value of $913,756.

The cash collateral pool experienced a significant decline in market value on holdings of Sigma Finance and subsequently transferred to each pool participant their share of the total Sigma Finance assets and a corresponding payable to the security lending cash collateral pool. The net effect was to transfer the unrealized loss from the securities lending cash collateral pool to each of the participants. The amount transferred to the A&M System was $1,829,553 and as of August 31, 2009 had a market value of $183. The amount of the loss that may be realized is unknown due to pending litigation. As of August 31, 2009, the A&M System's maximum potential loss was $1,829,370.

Derivative Investing

The A&M System investment policy allows investment in certain derivative securities. A derivative security is a financial instrument which derives its value from another security, currency, commodity, or index.

The A&M System entered into forward currency contracts for the purpose of hedging international currency risk on its non-U.S. dollar denominated investment securities and to facilitate trading strategies primarily as a tool to increase or decrease market exposure to various foreign currencies. When entering into a forward currency contract, the A&M System agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are valued daily and the A&M System's net equity in the contracts, representing unrealized gain or loss on the contracts as measured by the differences between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in other receivables or payables. Realized and unrealized gains and losses are included in the consolidated Statement of Revenues, Expenses and Changes in Net Assets. These instruments involve market and/or credit risk in excess of the amount recognized in the consolidated balance sheet. Risks arise from the possibility counterparties will be unable to meet the terms of their contracts and from movement in currency, securities values and interest rates. The table below summarizes the pending foreign exchange contracts as of August 31, 2009. The "Net Sell" amounts represent the U.S. dollar equivalent of commitments to sell foreign currencies less the commitments to buy foreign currencies.

Currency	Net Sell		Unrealized Gain on Foreign Exchange Contracts		Unrealized Loss on Foreign Exchange Contracts	
Euro	$	12,894,520	$	25,564	$	128,591
New Zealand Dollar	$	3,610,478	$	149,608	$	511,981
Total	$	16,504,998	$	175,172	$	640,572

The A&M System has invested in U.S. Treasury futures contracts for the purpose of managing the duration of its liquidity portfolio. These instruments are subject to market, credit risk and counterparty risk. The portfolio manager includes derivatives in the portfolio that would not create additional risk as compared to cash instruments. Futures contracts are used as a way to gain the same risk exposure in a more efficient manner. The manager ensures that counterparty risk is well diversified and meets the credit quality criteria established in the account. Futures contracts are marked to market daily and the daily gain or loss difference is settled in cash with the broker. The combined nominal value of open contracts was $1,508,094 as of August 31, 2009, and the associated net liability was $5,250.

The System has invested in mortgage derivatives such as Collateralized Mortgage Obligations (CMOs) and Commercial Mortgage Backed Securities (CMBSs) to enhance fixed income portfolio yields and manage duration. These investments are subject to interest rate risk, as well as economic and geographic risks. The A&M System's investments as of August 31, 2009 included non-government guaranteed CMOs and CMBSs with a fair value of $31,656,213.

Several limited partnerships and a comingled international equity fund in which the A&M System invests may employ the use of forward currency exchange contracts as a hedge in connection with portfolio purchases and sales of securities denominated in foreign currencies. Risks are consistent with those described in the above paragraph regarding direct currency hedging. The contracts are valued at the prevailing forward exchange rate of the underlying currencies and the unrealized gain (loss) is recorded daily. Unrealized gains and losses that represent the difference between the value of the forward contract to buy and the forward contract to sell are included in the net unrealized gain (loss) from the forward contracts. As of August 31, 2009, the A&M System's investment in international funds that may employ forward currency exchange contracts was $163,564,405.

Hedge fund pools are invested in private placements with external managers who invest in equity and fixed income securities of both domestic and international issuers. These investment managers may invest both long and short in securities and may utilize leverage in their portfolios. They may also utilize credit default swaps and total return swaps as part of their investment strategies. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios. When credit default swaps or total return swaps are used, there is additional risk of counterparty non-performance and unanticipated movements in the fair value of the underlying securities. As of August 31, 2009, the A&M System's investment in hedge funds was $365,077,935 including $17,242,059 in a REIT hedge fund and $11,051,591 in a fund that focuses on companies structured as master limited partnerships.

Private investment pools are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments, both domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk and investment manager risk. Certain funds may utilize credit default swaps which have additional risk, including the risk of counterparty nonperformance. Collateral in the form of cash or securities may be required to be held in segregated accounts with the fund's custodian. Bi-lateral agreements and daily settlement with counterparties reduce the risk of counterparty nonperformance. As of August 31, 2009, the A&M System has committed $274,850,264 to various private investments, of which $141,929,239 has been funded. The fair value of the investments as of August 31, 2009 was $105,930,654. In addition, the A&M System has invested directly in companies and partnerships to promote research technology. As of August 31, 2009, the fair value of the investments in research technology was $205,495. Associated risks include those applicable to other private investments as well as the risk of enterprise failure.

Hedge funds, private investment and public market funds include investments in private placement vehicles are subject to risks, which could include the loss of invested capital. The risks include the following:

- Non-regulation risk – Some of the A&M System's general partners and investment managers are not registered with the Securities and Exchange Commission or other domestic or international regulators, and therefore are not subjected to regulatory controls.
- Key personnel risk – The success of certain funds is substantially dependent upon key investment managers and the loss of those individuals may adversely impact the fund's performance.
- Liquidity risk – Many of the A&M System's investment funds may impose lock-up periods, which would cause the A&M System to incur penalties to redeem its investment or prevent the System from redeeming its shares until a certain period of time has elapsed.
- Limited transparency – As private placement vehicles, these funds may not fully disclose the holdings of their portfolios.
- Investment strategy risk – These funds often employ sophisticated investment strategies and the use of leverage, which could result in the loss of invested capital.

Permanent University Fund

The Permanent University Fund (PUF) is administered by the University of Texas System and is not reflected in the financial statements of the A&M System. Prior to changes in the arbitrage laws, plant funds were appropriated from bond proceeds only after the bonds had been sold and cash was on hand. Currently, receipt of cash may or may not precede appropriations of bond or note proceeds.

The total carrying value of the PUF assets at August 31, 2009, was $9,512,868,601 excluding PUF land grants. By acts of the Legislature and provisions of the State Constitution, the net income of the PUF is divided one-third to the A&M System and two-thirds to the University of Texas System. The A&M System's one-third share of the net revenues was $182,334,973 for the fiscal year ended August 31, 2009, and was credited to the A&M System Available University Fund as reported in Unrestricted Funds.

Note 4: Summary of Long-Term Liabilities

During the year ended August 31, 2009, the following changes occurred in liabilities:

		Balance 9/1/2008		Additions		Deductions		Balance 8/31/2009		Amounts Due Within One Year
Claims and Judgments	$		$		$		$	0	$	
Capital Lease Obligations								0		
Employees' Compensable Leave		2,336,510		952,730		617,226		2,672,014		344,343
Other Post Employment Benefits		5,832,829		3,521,394				9,354,223		1,855,014
Notes and Loans Payable								0		
General Obligation Bonds Payable								0		
Revenue Bonds Payable								0		
Liabilities Payable from Restricted Assets								0		1,129,229
Total	$	8,169,339	$	4,474,124	$	617,226	$	12,026,237	$	3,328,586

Employees' Compensable Leave

Substantially all full-time University employees earn annual leave in the amount of 8 to 21 hours per month depending upon the respective employee's years of state employment. State law permits employees to carry accrued leave forward from one fiscal year to another fiscal year with a maximum of 532 hours for those employees with 35 or more years of state service. Eligible part-time employees' annual leave accrual rate and maximum carryover are proportional to the number of hours appointed to work. Employees with at least six months of state service who terminate their employment are entitled to payment for all accumulated annual leave.

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is off due to illness or to the estate of an employee in the event of his or her death. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The University's policy is to recognize the cost of sick leave when paid, and the liability is not shown in the financial statements because experience indicates that the expense for sick leave will be minimal. Eligible part-time employees' sick leave accrual rate is proportional to the number of hours appointed to work.

Pollution Remediation Obligations

The Texas A&M System is responsible for the cleanup related to closure of an underground storage tank at Tarleton State University which previously contained heating oil. Expected outlays related to this pollution remediation were calculated utilizing engineer estimation of cleanup activity cost for the specific location. There are no estimated recoveries from insurance policies or third parties which would reduce the liability. It is projected that this storage site will be cleaned up in fiscal year 2010. As such, the A&M System has established a $10,000 current liability for this pollution remediation obligation.

Notes and Loans Payable

Notes payable consists of amounts used to make permanent improvements at the University to provide interim financing for capital improvements and acquisition of equipment and land, to pay interest on the notes, to refund outstanding notes as they mature and to pay the costs of issuing the notes.

The University did not have any notes and loans payable outstanding as of August 31, 2009.

Note 5: Bonded Indebtedness

The University may receive proceeds from revenue bonds issued and held by the System to support capital projects of the System and its institutions. These proceeds are recorded as transfers from the System. The University disburses funds to the System for payments of principal and interest related to the University's share of bond proceeds. These disbursements are recorded as transfers to the System. All bonds issued by the System are defined as revenue bonds. As such, the revenues of the System, including the University, are pledged for repayment of the bonds. Segment information requirements are not applicable, due to the bond indentures' lack of specifically identifiable activities and separate accounting requirements imposed by an external party.

No amount of indebtedness related to these bonds has been recorded in the University's financial statements as the System is the party directly liable for these bonds. At August 31, 2009, the University did not have any remaining unpaid share of the bond proceeds.

Note 6: Operating Leases

A summary of operating leases as of the year ended August 31, 2009, is presented below:

Year Ended August 31,		**Total**
2009		121,104
2010		121,104
2011		10,092
2012		0
2013		0
2014-2018		0
2019-2023		0
2024-2028		0
2029-2033		0
2034-2038		0
Total Minimum Future Lease Payments	$	252,300

Note 7: Interagency Balances / Activity

As of August 31, 2009, amounts to be received or paid between funds and agencies are to be reported as:

- Interfund Receivable or Interfund Payable
- Legislative Transfer In or Legislative Transfer Out

The University made routine transfers with other state agencies, which were consistent with the activities of the fund making the transfer. Individual balances and activity at August 31, 2009, were as follows:

DUE FROM/TO OTHER STATE ENTITIES					
Entity		Due from Other State Entities		Due to Other State Entities	Purpose
Due From State Comptroller		286			License Plate Scholarship Fund, Appropriation 20037-5015
Due from TCEQ		40,464			$23,206-North Bosque River Activities, $17,438-EMRS
Due From TSSWCB		33,971			$25,578-Bosque/Hog Creek, $10,393-water quality-Bosque
Due From State- Title IV		7,526			$6703 Title IV E Grant (09-10) $823-Title IV E Grant (08-09)
Due From Other Parts		4,431,476			Due From SAGO, $4,323,266. Balances held for PUF and RFS debt.
					Due From Agrilife Research, $76,207. Balances due on grants.
					Due From Agrilife Extension, $13,231. Balances due on grants.
					Due From A&M Research Foundation, $18,772. Balances due on grants.
Due to System				261,258	Due to System for Construction; $143,479-Master Plan; $117,779-Dining Hall
	$	4,513,723	$	261,258	
TRANSFERS IN FROM/OUT TO OTHER STATE ENTITIES					
Entity		Transfers In from Other State Entities		Transfers Out to Other State Entities	Purpose
Nonmandtatory transfers from SAGO	$	9,417,267	$		Transfers from SAGO for multiple purposes:
					PUF equipment and construction allocation, System Endowment Fund
					quarterly distributions, RFS (Revenue Financing System) transfers
					to provide funding for local construction projects, returns of funds held
					by SAGO for major construction projects.
Transfer from SAGO		1,206,931			Transfer from SAGO-Construction in Progress
Transfers to The Coordinating Board (THECB)				(546,395)	B-On-Time set-aside transferred to THECB, $544,721
					Doctoral tuition set-aside transferred to THECB, $1,674
Tranfers to SAGO				(4,671,707)	$1,469,346-Transfer to SAGO-Designated Tuition
					$3,202,630-Transfer to SAGO-Auxiliaries-Debt Service
Transfer to SAGO				(2,806,868)	$973,912-Transfer to SAGO - True Endowments
					$452,956-Transfer to SAGO - Quasi Endowments
					$1,380,000-Transfer to SAGO - construction, new housing
	$	10,624,198	$	(8,024,970)	
LEGISLATIVE TRANSFERS IN/OUT					
Entity		Legislative Transfers In		Legislative Transfers Out	Purpose
Transfer to SAGO	$		$	(5,694,317)	Transfers to SAGO for state TRB debt service.
	$	0	$	(5,694,317)	

Note 8: Contingent Liabilities

At August 31, 2009, various lawsuits and claims involving the University had arisen in the course of conducting University business. While the ultimate liability with respect to litigation and other claims cannot be reasonably estimated at this time, management is of the opinion that the liability not provided for by insurance or otherwise, if any, for these legal actions will not have a material adverse effect on the A&M System's financial position.

Note 9: Risk Financing and Related Insurance

Risk financing and related insurance is managed centrally at the Texas A&M University System. Information included below is presented from the Texas A&M University System perspective. All unpaid claim liabilities are held on Texas A&M System books and are not applicable to Tarleton State University.

The A&M System is exposed to various risks of loss related to property – fire, windstorm or other loss of capital assets; general and employer liability – resulting from alleged wrongdoings by employees and others; net income – due to fraud, theft, administrative errors or omissions, and business interruptions; and personnel – unexpected expense associated with employee health, termination or death. As an agency of the State of Texas, the A&M System and its employees are covered by various immunities and defenses which limit some of these risks of loss, particularly in liability actions brought against the A&M System or its employees. Remaining exposures are managed by self-insurance arrangements, contractual risk transfers, the purchase of commercial insurance, or a combination of these risk financing techniques.

All commercial insurance policies include retention amounts (deductibles) for which the A&M System is responsible and for which A&M System members maintain funding reserve pools. Ongoing analysis of the risks facing the A&M System results in the continual evaluation of insurance policies purchased. During the past year, insurance coverage has changed. However, these changes do not represent a material increase in risk to the A&M System and losses have not exceeded funding arrangements during the past three years.

Tarleton State University participates in The Texas A&M University System Facilities Insurance Program. This self-insured program provides property damage coverage for named facilities and property of the Member to a limit of $2.5 million. The Member is responsible for payment of premiums when charged as well as deductible payment of up to $300,000 in the event of a loss.

The A&M System has self-insured arrangements for coverage in the areas of workers' compensation, group health and dental insurance and certain areas of medical malpractice. Based on the requirements of GASB No. 10, liabilities for claims have been reported where information prior to issuance of the financial statements indicated that it was probable that a liability had been incurred and the amount of the loss could be reasonably estimated.

The workers' compensation plan is considered a funded employer liability pool. The workers' compensation incurred but not reported liability is based on actuarial analysis of all historical claims data. The plan provides claims servicing and claims payments by charging a "cost allocation" assessment to each A&M System member based on a percentage of payroll.

Tarleton State University participates in The Texas A&M University System Workers' Compensation Insurance Program. That program provides statutory coverage for all employees of the System. Financial requirements of the members are for payment of the annual insurance premium. For TSU, the fiscal year 09 rate was $0.15 per $100 of payroll.

The A&M System implemented a self-insured health and dental plan on September 1, 1994, which is also considered a funded pool. Premiums are determined through an actuarial pricing process that takes place each spring. The A&M System maintains an experience stabilization fund of $24,654,080 that is comprised of excess premiums from previous years and is used to offset losses in a given year. Dental benefits under the plan are limited to $1,500 per individual per year, so the potential for catastrophic loss is not a significant risk.

Self-Insured Health Plan - System member is responsible for performing payroll deductions and retiree billing in order to collect the employee's portion of the premium on a monthly or biweekly basis. In addition, the System member is responsible for funding the applicable employer contribution for eligible employees and retirees. Employee and employer premiums collected by all System members are transferred to the A&M System Office by equity transfer. These premiums are pooled at the System level to pay for claims and administrative expenses associated with the plan. The A&M System maintains a reserve fund for the self-insured health and dental plans with a current balance of $24,654,080 that is comprised of excess premiums from previous years that is used to offset losses in a given year. The plan currently maintains an individual stop-loss policy with an attachment point of $500,000. The A&M System Office is responsible for contracting, compliance, and plan design.

Self-Insured Dental Plan - System member is responsible for performing payroll deductions and retiree billing in order to collect the employee's portion of the premium on a monthly or biweekly basis. The majority of dental premiums are paid by the employee. Individuals who elect not to enroll in an A&M System health plan may certify that they are enrolled in other health coverage and thereby have access to a portion of the employer contribution to pay for dental coverage. Otherwise, there is no employer contribution for the dental program. For those who qualify as described above, the System member is responsible for funding the applicable employer contribution. Employee and employer premiums collected by all System members are transferred to the A&M System Office by equity transfer. These premiums are pooled at the System level to pay for claims and administrative expenses associated with the plan. The A&M System maintains a reserve fund for the self-insured health and dental plans with a current balance of $24,654,080 that is comprised of excess premiums from previous years that is used to offset losses in a given year. Dental benefits under the plan are limited to $1,500 per individual per year, so the potential for catastrophic loss is not a significant risk. The A&M System Office is responsible for contracting, compliance, and plan design.

Note 10: Stewardship, Compliance, and Accountability

For the year ended August 31, 2009, the University is reporting financial information in accordance with requirements set forth by GASB No. 34 and No. 35. Changes to the financial reports of the University are discussed in Note 1. The University has no material violations of finance related legal and contract provisions. Per the laws of the State of Texas, the University cannot spend amounts in excess of appropriations granted by the Texas Legislature and there are no deficits reported in net assets or retained earnings.

Note 11: The Financial Reporting Entity

The A&M System is composed of a series of distinct members, each of which was created to render a specific service for the State within the limits of the A&M System's objectives, and all of which are under the control and direction of the Board of Regents of the A&M System. Tarleton State University is a distinct member of the Texas A&M System. Tarleton State University has no component units. Texas A&M University – Central Texas was considered part of Tarleton State University during fiscal year 09. As of 9/1/2009, Texas A&M University – Central Texas will be considered a stand-alone member of the Texas A&M System.

Note 12: Restatement of Net Assets

The University had restatement of net assets of $586,650 as of August 31, 2009.

Net Assets, September 1, 2009	$		
Restatements:			
(a) Unepended plant	$	10,000	GASB 52 Pollution Remediation Liability
(b) Investment in plant	$	576,650	Reclassified CIP expense from prior years transferred from SAGO
Total Restatements	$	586,650	
Net Assets, September 1, 2009, as Restated	$	586,650	

Note 13: Employee Retirement Plans

Information included in this note is presented from a Texas A&M University System perspective.

The State of Texas has joint contributory retirement plans for substantially all its employees. The contribution amounts for both the employee and the A&M System are set by the Texas Legislature and can change over time. One of the primary plans in which the A&M System participates is administered by the Teacher Retirement System of Texas. The contributory percentages of participant salaries provided by the State and by each participant during the fiscal year were 6.58% and 6.4%, respectively, of annual compensation.

The Teacher Retirement System of Texas does not separately account for each of its component governmental agencies, since the Retirement System bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature.

The retirement expense to the State for the A&M System TRS retirement program was $21,048,103.82 for the year ended August 31, 2009. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the A&M System. Further information regarding actuarial assumptions and conclusions, together with audited financial statements, is included in the Teacher Retirement System's annual financial report.

The State has also established an Optional Retirement Program for institutions of higher education. Participation in the Optional Retirement Program is in lieu of participation in the Teacher Retirement System. The Optional Retirement Program provides for the purchase of annuity contracts and mutual funds. The contributory percentages of participant salaries during the fiscal year provided by the State and by each participant who was enrolled in the plan on or before August 31, 1995 were 8.5% and 6.65%, respectively. The 8.5% is composed of 6.58% contributed by the State and an additional 1.92% contributed by the A&M System. For participants who enrolled on or after September 1, 1995, the State and participant contributions were 6.58% and 6.65%, respectively. Since these are individual annuity contracts or custodial agreements, the State has no additional or unfunded liability for this program.

The contributions for the A&M System ORP retirement program were as follows:

Optional Retirement Program

		Amount
Employer Contributions	$	42,163,151
Employee Contributions	$	37,183,626
Total	$	79,346,777

Effective January 1, 1999, the A&M System implemented an excess benefit arrangement under Section 415(m) of the Internal Revenue Code (IRC).

Since the A&M System bears no responsibility for retirement commitments beyond contributions, GASB No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*, do not apply to these financial statements or disclosures.

The ORP expense to the University was $1,590,883 for the year ended August 31, 2009. Of this amount, $958,995 represents the portion of appropriations made by the State Legislature expended on behalf of the University and $631,888 represents the portion paid from the University's funds.

Note 14: Deferred Compensation Program

University employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Texas Government Code, Section 609.001. Deferred compensation plans are administered by the Employees Retirement System.

The State's 457 Plan complies with Internal Revenue Code, Section 457. This plan is referred to as the Texa$aver Deferred Compensation Plan (DCP) and is available to all employees. The DCP is a State plan, and the deductions, purchased investments, and earnings attributed to the 457 Plan are the property of the State and subject only to the claims of the State's general creditors. Participant rights under the plan are equal to those of the general creditors of the State in an amount equal to the fair market value of the 457 account for each participant. The State has no liability under the 457 Plan, and it is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.

The A&M System also administers a Tax-Deferred Account (TDA) Program, created in accordance with IRC Section 403(b). All employees are eligible to participate. The TDA is a private plan, and the deductions, purchased investments, and earnings attributed to each employee's 403(b) plan are held by vendors chosen by the employee. The vendors may be insurance companies, banks, or approved non-bank trustees such as mutual fund companies. The assets of this plan do not belong to the A&M System or the State and thus it do not have a liability related to this plan.

The 457(f) Deferred Compensation Plan allows the A&M System to defer income for eligible participants without regard to the amount deferred or an adverse impact on other retirement plans in which the participant is enrolled. The plan is structured under Section 457(f) of the Internal Revenue Code of 1986, as amended. It is authorized for use by Texas institutions of higher education in Title 109, Article 6228a-5, Section 3 of Vernon's Texas Civil Statutes. All employees of the A&M System are eligible to participate in this plan subject to the approval of the Board of Regents, the Chancellor, or any Chancellor-designated A&M System member Chief Executive Officer.

The Nonqualified Share Option Plan is designed to allow the transfer of shares of specific mutual funds to designated employees of the A&M System. The plan is structured under Section 83 of the Internal Revenue Code of 1986, as amended. All employees of the A&M System are eligible to participate in this plan subject to the approval of the Board of Regents, the Chancellor, or any Chancellor-designated A&M System member Chief Executive Officer.

Note 15: Donor-Restricted Endowments

Donor-restricted endowments are managed centrally at the Texas A&M University System. Information included in this note is presented from a Texas A&M University System perspective.

The purpose of The Texas A&M University System Endowment Fund (the Fund) is to provide for the collective investment of all endowment and trust funds held by the A&M System or by the Board of Regents of the A&M System in a fiduciary capacity. The Fund is used to provide funding for scholarships, fellowships, professorships, academic chairs and other uses as specified by donors.

Distribution is made quarterly as soon as practicable after the last calendar day of November, February, May, and August of each fiscal year to the endowment and trust funds participating in the Fund during the respective quarter. Income consists of interest earnings, dividends and realized capital gains. The income distribution per unit for each fiscal year will be to distribute, excluding fees, 5% of the 20-quarter average market value per unit as of the end of the previous February.

Chapter 163 of the Texas Property Code (also cited as the Uniform Prudent Management of Institutional Funds Act) grants the University the authority to spend net appropriations.

The amount of net appreciation for donor restricted true endowments is shown in the table below:

Net Appreciation of Donor-Restricted Endowments

Donor-Restricted Endowments	Amounts of Net Appreciation	Reported in Net Assets
True Endowments	$ 78,624,235	Restricted for Expendable

The amount of net appreciation for donor restricted endowments specific to the University is $2,346,159, and is reported as Restricted on the Statement of Net Assets.

Note 16: Post-Employment Health Care and Life Insurance Benefits

Post-employment health care and life insurance benefits are managed centrally by the Texas A&M University System for all system components. Information included in this note is presented from a Texas A&M University System perspective.

Plan Description and Funding Policy

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired employees in accordance with State statutes. Substantially all of the employees may become eligible for those benefits if they reach normal retirement age while working for the State. Those and similar benefits for active employees are provided through the group insurance program, and premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expensing the annual premiums. For the year ending August 31, 2009, the employer contributions are presented below.

Employer Contribution Rates

Level of Coverage	Amount
Full-Time Employee/Retiree Only	$ 375.94
Full-Time Employee/Retiree and Spouse	$ 551.53
Full-Time Employee/Retiree and Children	$ 485.69
Full-Time Employee/Retiree and Family	$ 639.33

For the year ended August 31, 2009, benefit plan expenditures totaled $160,035,264. The cost of providing benefits for 6,801 retirees was $37,325,544; and for 22,860 active employees the cost was $122,709,719.

Other Postemployment Benefits (OPEB) are benefits provided to the A&M System's retirees under the A&M System group insurance program. The authority under which the obligations of the plan members and the A&M System are established, and may be amended, is Chapter 1601, *Texas Insurance Code*.

The A&M System and member contribution rates are determined annually by the A&M System based on the recommendations of the A&M System Office of Benefits Administration. The plan rates are based on the plan costs that are expected to be incurred, the funds appropriated for the plans, and the funding policy established by the Texas Legislature in connection with benefits provided through the plan. The A&M System revises benefits plans and rates as necessary to match expected costs with available revenue. The plan is operated on a pay-as-you-go basis and is unfunded.

Because the OPEB plan described herein is not administered through a trust as defined under Paragraph No. 4 of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 43 accounting is not applicable to the A&M System.

For the year ended August 31, 2009, the contributions for the self-funded plan by the state per full-time retired employee are shown in the following table. Because this is year 2 of the calculation, a three-year history does not exist. The retiree contributes any premium over and above state contributions.

Three-Year Schedule of Employer Contributions

Fiscal Year Ending	Employer Contribution	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation At End of Fiscal Year
8/31/2009	$ 37,325,544	$116,890,000	32%	$ 219,873,275
8/31/2008	$ 36,284,181	$176,593,000	21%	$ 140,308,819

The OPEB expense reflected in the Statement of Revenues, Expenses and Changes in Net Assets is net of the Employer Contributions, as these costs are included as a portion of Payroll Related Costs expense.

Annual OPEB Cost and Net OPEB Obligation

The annual OPEB cost of the plan is calculated and based on the annual required contribution (ARC). The ARC is the amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period of years, not to exceed 30 years. The following table shows the components of the annual OPEB cost for the year for the plan:

Annual OPEB Cost and Net OPEB Obligation

Annual Required Contribution (ARC)	$ 112,570,000
Interest on Net OPEB Obligation	13,189,000
Adjustment to ARC	(8,869,000)
Annual OPEB Cost	116,890,000
Employer Contributions Made	(37,325,544)
Increase Net OPEB Obligation	79,564,456
Net OPEB Obligation 9/1/2008	140,308,819
Net OPEB Obligation 8/31/2009	$ 219,873,275

Schedule of Funding Progress of the Plan

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The amounts determined for the funded status of the plan and the Annual Required Contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The multiyear schedule of funding progress is presented in the following table:

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over AAL (Unfunded AAL) (a)-(b)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	Ratio of UAAL to Covered Payroll ((a-b)/c)
9/1/2008	$ -	$ 1,258,563,000	$ (1,258,563,000)	0.0%	$ 1,260,683,042	99.8%
9/1/2007	$ -	$ 1,993,236,000	$ (1,993,236,000)	0.0%	$ 1,140,125,643	174.8%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used in the plan valuation include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional detail about the actuarial assumptions used in the plan valuation is outlined in the following table:

Summary of Actuarial Methods and Assumptions

Actuarial Valuation Date	September 1, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay
Remaining Amortization Period of Unfunded Liability	30 years
Actuarial Assumptions:	
Investment Rate of Return	9.4%
Inflation	4.0%
Health Care Trend Rates	8.0% in 2010
	Decreasing to 6.0% in 2014

Medicare Part D

In fiscal 2009 the plan received payments from the federal government pursuant to the retiree drug subsidy provisions of Medicare Part D. GASB Statement No. 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance, requires that these on-behalf payments be recorded as revenues and expenses of each plan. In fiscal 2009 the system received $3.8 million of Medicare Part D payments from the federal government.

Note 17: Disaggregation of Receivable and Payable Balances

A summary of accounts receivable and accounts payable balances for the University for the year ended August 31, 2009, is presented below. Receivables/payables defined as 'Other' were further detailed if the balance was 5% or greater of total receivables/payables.

Accounts Receivable:				
Current Accounts Receivable				Amount on III-FUND
Federal Receivables				797,772
Student Receivables				549,573
Other				404,507
		Total		1,751,852
Other Receivables				Amount
Departmental Receivable-Manual				7,783
Travel Advance Receivable				2,474
A/R Returned Checks				44,729
Unbilled Receivables-Private/Local				349,521
		Total		404,507
Accounts Payable:				
Current Accounts Payable				Amount on III-FUND
Accounts Payable				2,422,488
Payroll Payable				4,284,454
Other				119,478
		Total		6,826,420
Other Payables				
Sales Tax Payable				14,706
Student Liabilities				104,772
		Total		119,478

Note 18: Termination Benefits

Termination benefits are managed centrally at the Texas A&M University System. Information included in this note is presented from a Texas A&M University System perspective. Tarleton State University has no obligation to pay for any termination benefits specifically incurred by the University.

As of August 31, 2009, the A&M System had incurred obligations to pay termination benefits of $78,073 in fiscal year 2010. Included in these current liabilities are commitments for severance pay and payroll related costs pertaining to these terminations.

For the fully-insured HMO health plans, dental plan, and vision plan, the carrier is responsible for the billing and collection from all COBRA participants. The carrier retains all premiums and is liable for all claims and expenses. Enrollment information for these plans is included below; however, the A&M System does not have premium and expense information related to these plans.

For the self-insured health and dental plans, the carrier performs the billing and collections process for COBRA participants. The carrier then forwards the premium to the A&M System, net of the 2% administrative fee, which is intended to cover costs related to the billing and collection functions. However, since the plan is self-insured, the A&M System is responsible for any claims or administrative costs associated with COBRA participants, and these amounts are included below.

As part of the stimulus funding from the federal government, some of the terminated employees were eligible for the 65% subsidy for COBRA coverage. The Federal Department of Labor agreed to reimburse employers the 65% COBRA reimbursement up to 9 months. This applies to employees who were involuntarily terminated between September 1, 2008 and December 31, 2009. The maximum end of the 9 month payment period will be September 30, 2010.

For fiscal year 2009, the total 65% COBRA funding that TAMU System members received from the Federal Grant was $52,869 for fiscal year 2009.

COBRA benefits for the Texas A&M University System for the ended August 31, 2009 are as follows:

Termination Benefits - COBRA

	Self-Insured Medical Plan	Self-Insured Dental Plan	Fully-Insured Medical HMO Plans	Fully-Insured Dental Plan	Fully-Insured Vision Plan
Number of Participants	197	124	47	32	75
Premium Revenue	$ 785,974	$ 53,094			
2 Percent Administrative Fee Revenue	14,781	1,079			
Total COBRA Revenue	800,755	54,173			
Claims Paid	1,678,402	64,682			
Administrative Expenses	22,541	4,576			
Total COBRA Expenses	1,700,943	69,258			
Total Cost to State	$ 900,188	$ 15,085			

State Auditor's Office
John Keel, CPA
State Auditor

February 8, 2010

Dr. F. Dominic Dottavio, President
Tarleton State University
Box T-0001
Stephenville, TX 76402

Subject: Management Letter Resulting from a Review of Tarleton State University's Fiscal Year 2009 Financial Statements

Dear Dr. Dottavio:

We offer this management letter in conjunction with our review of the financial statements of Tarleton State University (University) for the fiscal year ended August 31, 2009. We reviewed the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; the Statement of Cash Flows; and the Notes to the Financial Statements. In the course of our review, which was substantially less in scope than an audit, we did not find that material modifications needed to be made to the financial statements in order for them to be in conformity with generally accepted accounting principles.

We appreciate the assistance provided during this review by the management of the University and Internal Audit. If you have any questions, please call me at (512) 936-9500.

Sincerely,

Sandra Vice

Sandra Vice, CGAP, CIA, CISA
Assistant State Auditor

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FINANCIAL REPORT

OF

TEXAS A&M UNIVERSITY-CORPUS CHRISTI

FOR THE YEAR ENDED AUGUST 31, 2009

IN

ACCORDANCE WITH THE SOUTHERN ASSOCIATION OF COLLEGES AND SCHOOLS' (SOUTHERN ASSOCIATION) CRITERIA FOR ACCREDITATION

TEXAS A&M UNIVERSITY CORPUS CHRISTI

FLAVIUS KILLIBREW, PH.D., PRESIDENT

JODY NELSEN, EXECUTIVE VICE PRESIDENT FOR FINANCE AND ADMINISTRATION

KATHRYN FUNK-BAXTER, SENOR ASSOCIATE VICE PRESIDENT FOR FINANCE AND ADMINISTRATION

CORPUS CHRISTI, TEXAS

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State Auditor's Office
John Keel, CPA
State Auditor

Auditor's Review Report

January 14, 2010

Dr. Flavius Killebrew, President
Texas A&M University - Corpus Christi
6300 Ocean Drive
Corpus Christi, TX 78412

Dear Dr. Killebrew:

We have reviewed the accompanying Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; Statement of Cash Flows; and Notes to the Financial Statements of Texas A&M University - Corpus Christi (University) as of and for the fiscal year ended August 31, 2009, in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The review was performed in accordance with the Southern Association of Colleges and Schools' (Southern Association) *Criteria for Accreditation*. All information included in these financial statements is the representation of management of the University.

A review consists principally of inquiries of University personnel and analytical procedures applied to financial data. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

The accompanying statements were prepared to present the financial position, the changes in financial position and the cash flows of the University. These statements are prepared pursuant to criteria of the Southern Association for supplementary special reports by institutions in states that conduct statewide audits.

Based on our review, with the exception of the matter described in the following paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The University has not presented a management's discussion and analysis section that the Governmental Accounting Standards Board has identified as required supplementary information that is not part of the basic financial statements. However, such required supplementary information for the University is presented in the Texas A&M University System's (System) consolidated annual financial report.

This report is intended for use by the Board of Regents of the System, management of the University, and the Southern Association. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,

John Keel, CPA
State Auditor

SAO Report No. 10-317

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Texas A&M University - Corpus Christi
Statement of Net Assets
At August 31, 2009
(See Auditors Review Report on page 1)

ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 3)	$	22,949,031
Restricted:		
Cash and Cash Equivalents (Note 3)		1,989,823
Legislative Appropriations		13,723,677
Receivables, Net of Allowances:		
Federal		1,261,500
Other Intergovernmental		1,113,271
Interest and Dividends		12,322
Accounts		423,248
Gifts		7,553,223
Other		1,976,757
Due from Other State Entities (Note 9)		606,576
Consumable Inventories		167,618
Merchandise Inventories		90,654
Loans and Contracts		246,557
Other Current Assets		1,002,199
Total Current Assets	$	53,116,456
Non-Current Assets		
Restricted:		
Investments (Note 3)		10,322,551
Gifts Receivable		1,301,117
Investments (Note 3)		28,254,281
Loans and Contracts		727,976
Capital Assets (Note 2):		
Non-Depreciable		12,901,809
Depreciable		189,235,832
Less: Accumulated Depreciation		(81,495,676)
Total Non-Current Assets	$	161,247,890
Total Assets	$	214,364,346

(See Auditor's Review Report on page 1)

LIABILITIES		
Current Liabilities		
Payables:		
Accounts	$	4,750,510
Payroll		5,455,719
Other		155,855
Due to Other State Entities (Note 9)		6,294,057
Deferred Revenue		16,915,767
Employees' Compensable Leave (Note 5)		275,109
Other Post Employment Benefits		1,114,880
Funds Held for Others		140,320
Other Current Liabilities		731,017
Total Current Liabilities	$	35,833,234
Non-Current Liabilities		
Employees' Compensable Leave (Note 5)		2,227,703
Other Post Employment Benefits		9,544,156
Total Non-Current Liabilities	$	11,771,859
Total Liabilities	$	47,605,093
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$	120,641,965
Restricted for:		
Non-Expendable		
Permanent Funds, True Endowments, Annuities		4,024,312
Expendable		
Capital Projects		27,185
Funds Functioning as Endowments		80,121
Other		8,893,899
Unrestricted		33,091,771
Total Net Assets	$	166,759,253

The accompanying Notes to the Financial Statements are an integral part of this statement.

Texas A&M University - Corpus Christi
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended August 31, 2009

(See Auditor's Review Report on Page 1)

OPERATING REVENUES		
Tuition and Fees - Pledged		49,352,562
Discounts and Allowances		(10,900,089)
Professional Fees - Pledged		1,463,032
Auxiliary Enterprises - Pledged		3,733,915
Other Sales of Goods and Services - Pledged		2,748,474
Federal Revenue		11,631,032
State Grant Revenue		4,005,892
Other Operating Grant Revenue		5,916,864
Other Operating Revenues		489,899
Total Operating Revenues	$	68,441,581
OPERATING EXPENSES		
Cost of Goods Sold	$	185,617
Salaries and Wages		64,135,768
Payroll Related Costs		18,742,472
Professional Fees and Services		5,301,813
Travel		2,679,091
Materials and Supplies		9,054,496
Communications and Utilities		5,876,928
Repairs and Maintenance		1,388,083
Rentals and Leases		958,437
Printing and Reproduction		822,592
Depreciation and Amortization		8,429,320
Bad Debt Expense		148,572
Interest Expense		2,437
Scholarships		10,514,187
Other Operating Expenses		4,965,827
Total Operating Expenses	$	133,205,640
Operating Income (Loss)	$	(64,764,059)

(See Auditor's Review Report on page 1)

NONOPERATING REVENUES (EXPENSES)		
Legislative Appropriations	$	54,884,522
Gifts		12,763,218
Interest and Investment Income (Loss)		1,153,189
Investing Activities Expense		(111,318)
Net Increase (Decrease) in Fair Value of Investments		(2,843,404)
Other Nonoperating Revenues - Pledged		9,124,241
Other Nonoperating Expenses		(592,670)
Total Nonoperating Revenues (Expenses)	$	74,377,778
Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers	$	9,613,719
OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS		
Capital Contributions	$	6,719
Capital Appropriations (HEAF)		8,471,116
Additions to Permanent and Term Endowments		100,267
Transfers In from Other State Entities (Note 9)		262,599
Transfers Out to Other State Entities (Note 9)		(6,203,237)
Legislative Transfers Out (Note 9)		(12,375,616)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	$	(9,738,152)
CHANGE IN NET ASSETS	$	(124,433)
Net Assets, September 1, 2008	$	166,883,686
Net Assets, September 1, 2008, as Restated	$	166,883,686
NET ASSETS, August 31, 2009	$	166,759,253

The accompanying Notes to the Financial Statements are an integral part of this statement.

Texas A&M University - Corpus Christi
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2009
See Auditor's Review Report on Page 1)

CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Tuition and Fees	$	39,682,849
Receipts from Customers		4,538,097
Proceeds from Research Grants and Contracts		19,145,271
Proceeds from Loan Programs		18,814
Proceeds from Auxiliaries		3,789,366
Proceeds from Other Revenues		351,520
Payments to Suppliers for Goods and Services		(29,239,822)
Payments to Employees for Salaries		(63,711,031)
Payments to Employees for Benefits		(14,232,573)
Payments for Loans Provided		(57,584)
Payments for Other Expenses		(12,000,198)
Net Cash Provided (Used) by Operating Activities	$	(51,715,291)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Legislative Appropriations	$	54,200,927
Proceeds from Gifts		6,716,867
Proceeds from Endowments		100,267
Proceeds from Other Sources		9,124,241
Payments for Transfers to Other Entities		(485,791)
Payments for Other Uses		(172,462)
Net Cash Provided (Used) by Non-Capital Financing Activities	$	69,484,049
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from State Grants and Contracts		6,601,680
Payments for Additions to Capital Assets		(6,414,692)
Payments for Transfers to Other Entities		(15,277,923)
Net Cash Provided (Used) by Capital and Related Financing Activities	$	(15,090,935)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Interest and Investment Income		1,053,915
Payments to Acquire Investments		(3,615,619)
Net Cash Provided (Used) by Investing Activities	$	(2,561,704)
Net Increase (Decrease) in Cash and Cash Equivalents	$	116,119
Cash and Cash Equivalents, September 1, 2008	$	24,822,735
Cash and Cash Equivalents, September 1, 2008, as restated	$	24,822,735
Cash and Cash Equivalents, August 31, 2009	$	24,938,854

(See Auditor's Review Report on page 1)

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

Operating Income (Loss)	$	(64,764,059)
Adjustments:		
Depreciation and Amortization	$	8,429,320
Bad Debt Expense		795,322
Operating Income and Cash Flow Categories:		
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		(993,329)
(Increase) Decrease in Due from Other Entities		(268,796)
(Increase) Decrease in Inventories		42,179
(Increase) Decrease in Prepaid Expenses		(120,014)
(Increase) Decrease in Loans and Contracts		(31,897)
(Increase) Decrease in Other Assets		(588,588)
Increase (Decrease) in Payables		1,362,729
Increase (Decrease) in Due to Other Entities		1,199,515
Increase (Decrease) in Deferred Revenue		(1,010,082)
Increase (Decrease) in Employees' Compensable Leave		226,353
Increase (Decrease) in Other Liabilities		4,006,056
Total Adjustments	$	13,048,768
Net Cash Provided (Used) by Operating Activities	$	(51,715,291)
Non-Cash Transactions		
Net Increase (Decrease) in Fair Value of Investments	$	(2,843,404)
Donated Capital Assets		119,112

The accompanying Notes to the Financial Statements are an integral part of this statement.

Texas A&M University - Corpus Christi
Statement of Changes in Unrestricted Net Assets
For the Fiscal Year Ended August 31, 2009
(See Auditor's Review Report on page 1)

Reserved	
Encumbrances	$ 3,390,515
Accounts Receivable	1,410,497
Inventories	258,273
Capital Projects	1,974,223
Retirement of Indebtedness	1,606,004
Higher Education Assistance Funds	7,250,004
Advanced Research / Advanced Technology Programs	62,139
Deposits	500
Prepaid Expenses	500,740
Texas Public Education Grants	75,950
Designated Tuition Set Aside Reserves	122,820
Unreserved	
Allocated	
Future Operating Budgets	17,943,147
Funds Functioning as Endowment - Unrestricted	429,736
Unallocated	(1,932,777)
Total Unrestricted Net Assets	$ 33,091,771

(See Auditor's Review Report on page 1.)

General Introduction

This report has been prepared for the use of the Southern Association of Colleges and Schools (Southern Association) in connection with the review of Texas A&M University - Corpus Christi (University) for accreditation purposes. This report includes a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; a Statement of Cash Flows; and the related Notes to the Financial Statements. In accordance with Southern Association criteria or Governmental Accounting Standards Board requirements, the report also includes a Statement of Changes in Unrestricted Net Assets and a management letter describing issues noted in the review.

Reporting Entity

The University is a component of the Texas A&M University System and an agency of the State of Texas. The University prepares financial statements that are included in the State's *Comprehensive Annual Financial Report*, which is audited by the Texas State Auditor's Office.

Note 1: Summary of Significant Accounting Policies

Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements are 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 is incurred. Operating items are distinguished from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash and cash equivalents according to GASB No. 9. With the exception of residual cash which results from the management of investment portfolios, the University maintains cash and cash equivalents for the purpose of meeting short-term expenditure requirements. Additionally, cash and cash equivalents includes a money market fund (proprietary fund) owned by the Texas A&M University System. Members participate in this money market account. The fund balance for the University is classified as cash and cash equivalents in the University's financial statement and as an investment on the Texas A&M University System's combined financial statement.

Investments

In accordance with GASB No. 31, the University reports investments at fair market value in the Balance Sheet. Fair market value is defined as the amount at which an investment could be exchanged in a current transaction between parties, other than in a forced or liquidation sale.

GASB No. 40, implemented in fiscal year 2005, requires the disclosure of common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Under GASB 40, disclosure of carrying value of investments is no longer required.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Livestock held for educational purposes is recorded at estimated fair market value. The capitalization threshold for personal property is $5,000. The capitalization threshold is $100,000 for buildings/building improvements, facilities and other improvements, software developed for internal use, and leasehold improvements. Infrastructure has a capitalization threshold of $500,000. All land, land improvements, library books/materials, museums/collections, and works of art/historical treasures are capitalized.

According to GASB No. 34 and No. 35, the University is required to depreciate capital assets. Effective fiscal year 2005, the State Comptroller's Office reclassified Professional, Academic and Research Library books and materials from non-depreciable to depreciable. Depreciation is computed using the straight-line method over the estimated useful lives of the assets; generally, 40 to 50 years for buildings, 20 to 25 years for infrastructure, 5 to 7 years for equipment, and 15 years for library books.

Current Assets

In the Balance Sheet, items classified as current are defined as resources expected to be realized or consumed within one year.

Restricted Net Assets

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted net assets are available for use, restricted resources are used first, then unrestricted resources are used as needed.

Voluntary Nonexchange Transaction

Voluntary nonexchange transactions (primarily private donations and pledges) are recognized in accordance with GASB No. 33, adopted by the A&M System on September 1, 2000.

Other Significant Accounting Policies

An Appreciation Reserve was created in fiscal year 1997 for the purpose of providing a consistent and predictable income stream for the System Endowment Fund. The Appreciation Reserve is administered by the A&M System Offices and distributions occur when current income is insufficient to meet the distribution of income in accordance with the System Endowment Fund spending policy.

The financial statements of the University are prepared and presented materially in accordance with the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements. The A&M System members record receivables when revenue is earned but not collected. Deferred revenue is recognized when cash is received prior to revenue recognition.

Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2009, is presented below:

	Balance 9/1/2008	Adjustments	Completed Construction in Progress	Additions	Deductions	Balance 8/31/2009
Non-Depreciable Assets:						
Land and Land Improvements	$ 6,021,625	$ 0	$ 0	$ 0	$ 0	$ 6,021,625
Construction in Progress	5,236,689	(225,120)	(2,974,100)	0	3,970,736	6,008,205
Library Books	0	0	0	0	0	0
Other Capital Assets	869,496	0	0	0	2,483	871,979
Total Non-Depreciable Assets	$ 12,127,810	$ (225,120)	$ (2,974,100)	$ 0	$ 3,973,219	$ 12,901,809
Depreciable Assets:						
Buildings and Building Improvements	$ 135,180,936	$ 0	$ 972,815	$ 0	$ 0	$ 136,153,751
Infrastructure	10,545,202	0	869,860	0	0	11,415,062
Facilities and Other Improvements	9,487,995	0	981,462	0	0	10,469,457
Furniture and Equipment	18,449,769	0	149,963	1,337,157	(214,282)	19,722,607
Vehicles, Boats, and Aircraft	1,672,184	0	0	615,540	(53,153)	2,234,571
Other Capital Assets	9,047,167	0	0	398,929	(205,712)	9,240,384
Total Depreciable Assets at Historical Cost	$ 184,383,253	$ 0	$ 2,974,100	$ 2,351,626	$ (473,147)	$ 189,235,832
Less Accumulated Depreciation for:						
Buildings and Building Improvements	$ (41,843,874)	$ 0	$ 0	$ (5,500,309)	$ 0	$ (47,344,183)
Infrastructure	(6,844,421)	0	0	(482,475)	0	(7,326,896)
Facilities and Other Improvements	(6,621,094)	0	0	(318,005)	0	(6,939,099)
Furniture and Equipment	(11,827,138)	0	0	(1,629,208)	189,794	(13,266,552)
Vehicles, Boats, and Aircraft	(796,082)	0	0	(294,757)	50,932	(1,039,907)
Other Capital Assets	(5,374,473)	0	0	(204,566)	0	(5,579,039)
Total Accumulated Depreciation	$ (73,307,082)	$ 0	$ 0	$ (8,429,320)	$ 240,726	$ (81,495,676)
Depreciable Assets, Net	$ 111,076,171	$ 0	$ 2,974,100	$ (6,077,694)	$ (232,421)	$ 107,740,156
Capital Assets, Net	$ 123,203,981	$ (225,120)	$ 0	$ (6,077,694)	$ 3,740,798	$ 120,641,965

Note 3: Deposits, Investments, and Repurchase Agreements

The Texas Education Code, Title III, Chapter 51.0031 grants authority for a governing board to invest funds under prudent person standards "if a governing board has under its control at least $25 million in book value of endowment funds."

The A&M System's investment policy authorizes the following types of investments: U.S. Government obligations, U.S. Government Agency obligations, other government obligations, corporate obligations, corporate asset and mortgage backed securities, equity, international obligations, international equity, certificates of deposit, banker's acceptances, negotiable certificates of deposit, money market mutual funds, mutual funds, repurchase agreements, venture capital, private equity, hedge funds, Real Estate Investment Trusts (REITs), securities lending, derivatives, timber, bank loans, energy and real estate.

Deposits of Cash in Bank

As of August 31, 2009, the carrying amount of deposits was $24,938,854 as follows:

Cash on Hand	$	50,018
Cash in Bank		12,901,663
Reimbursement Due from Treasury		506,178
Cash in State Treasury		1,989,823
Cash Equivalents		9,491,172
Total Cash and Cash Equivalents	$	24,938,854
Current Assets Cash and Cash Equivalents	$	22,949,031
Current Assets Restricted Cash and Cash Equivalents		1,989,823
Non-Current Assets Restricted Cash and Cash Equivalents		0
Total Cash and Cash Equivalents	$	24,938,854

These amounts consist of all cash in local banks. These amounts are included on the Statement of Net Assets as part of the "Cash and Cash Equivalents" line items.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The A&M System's policy requires collateral of 102% pledged against all deposits and limits the amounts of funds which may be deposited with any bank to the lesser of $100,000,000 or 10% of total deposits. The policy also requires that deposits in federally insured savings and loan associations, building and loan associations, and state and national banks not exceed the amount insured by the Federal Savings and Loan Insurance Corporation, Federal Deposits Insurance Corporation (FDIC), or their successors. The A&M System regulation applicable to working fund bank accounts requires the Chancellor, or designee, to approve a working fund in any bank in which the A&M System member does not have a proper allocation of securities. The bank balance of a working fund may not, at any time, exceed the FDIC coverage limit.

Incidental amounts of various foreign currencies are held through Bank of New York Mellon, their foreign branches and/or foreign sub-custodian banks. These amounts represent interest and/or dividend payments received in foreign currencies that are not yet converted to U.S. dollars. Such deposits of foreign currency are not insured or collateralized and are subject to custodial risk and the risk of fluctuations in exchange rates.

Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the deposits. The A&M System does not have a deposit policy for foreign currency risk.

Investments

At the direction of the System Board of Regents, University investments and cash equivalents are pooled at the System level. The System is responsible for disclosure of all information on the pooled investments and has included these disclosures in its annual financial report. The University does not have an investment risk policy. As of August 31, 2009, the fair value of the University's share of investments is presented below:

U.S. Government		
U.S. Treasury Securities	$	1,437,310
U.S. Treasury Strips		
U.S. Treasury TIPS		
U. S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, etc.)		2,709,330
Corporate Obligations		3,724,302
Corporate Asset and Mortgage Backed Securities		859,994
Equity		3,067,944
International Obligations (Govt and Corp)		2,271,324
International Equity		605,950
International Other Commingled Funds		7,190,156
Repurchase Agreement		4,100,387
Fixed Income Money Market and Bond Mutual Fund		0
Other Commingled Funds		14,889,200
Commercial Paper		5,458,506
Securities Lending Collateral Investment Pool		1,455,131
Real Estate		0
Alternative Investments (including limited partnerships and hedge funds)		2,090,315
Misc (e.g., guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)		197,979
Total Investments	$	50,057,828

Current Assets – Short-Term Investments	$	0
Current Assets – Restricted Short-Term Investments		0
Non-Current Assets – Restricted Investments		10,322,551
Non-Current Assets – Investments		28,254,281
Total Investments	$	38,576,832

The variance between the two schedules represents a money market fund (proprietary fund) owned by the Texas A&M University System. Members participate in this money market account. The fund balance for the University is classified as cash and cash equivalents in the University's financial statement and as an investment on the Texas A&M University System's combined financial statement. Investments included in the first table reflect the true value of University investments, including the University's portion of the money market fund while the second table represents investments as classified on the University's Statement of Net Assets where the money market account is classified as cash and cash equivalents.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The A&M System's policy requires that direct repurchase agreements and security lending transactions be fully collateralized by obligations authorized under the A&M System investment policy and such collateral be held by a third party. As of August 31, 2009, the A&M System's securities lending transactions were not exposed to custodial credit risks because the collateral was held by the A&M System's custodian.

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investments. The A&M System's policy authorizes the utilization of derivatives for the purpose of hedging currency risk, but does not otherwise address foreign currency risk. The exposure to foreign currency risk as of August 31, 2009 is as follows:

Fund Type	GAAP Fund	Foreign Currency	International Obligation (Govt. and Corp.)	International Equity	International Other Commingled Funds	International Alternative Investments
05	9999	U.S. Dollar Denominated Foreign Securities	$ 78,147,591	$ 30,768,532	$ 365,091,857	$ 1,308,192
05	9999	Australian Dollar	$ 7,245,692	$ -	$ -	$ -
05	9999	Canadian Dollar	$ 3,428,158	$ -	$ -	$ -
05	9999	Euro Currency Unit	$ 18,702,798	$ -	$ -	$ 2,150,210
05	9999	New Zealand Dollar	$ 7,807,373	$ -	$ -	$ -
		Total	$ 115,331,612	$ 30,768,532	$ 365,091,857	$ 3,458,402

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The A&M System's investment policy requires that securities have a long-term rating of BB or better and the fixed income portfolio have an overall credit rating of AA or better by a nationally recognized statistical rating organization (NRSRO). Securities using short-term credit ratings must be rated at least A-2, P-2, F-2 or equivalent. As of August 31, 2009, the A&M System's credit quality distribution for securities with credit risk exposure is as follows:

Standard & Poor's
(in thousands)

Fund Type	GAAP Fund	Investment Type	AAA	AA	A	BBB	BB	B	CCC	A-1	Unrated
05	9999	U.S. Govt Agency Obligations	114,620								
05	9999	Corporate Obligations	7,335	9,974	81,383	62,028	25,523	2,866			
05	9999	Corporate Asset and Mortgage Backed Securities	30,433	4,588		4,856			716		3,075
05	9999	International Obligations	49,423	12,855	23,317	17,008	4,266	562			7,901
05	9999	Repurchase Agreements (Texas Treasury Safekeeping Trust Co.)	400								
05	9999	Commercial Paper								277,166	
05	9999	Repurchase Agreements	208,204								
05	9999	Fixed Income Money Market and Bond Mutual Fund									5,994
05	9999	Miscellaneous (municipals and CDs)			2,648						7,400

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2009, no more than 5% of the A&M System's total investments are represented by a single issuer. The A&M System's investment policy states that not more than 4.9% of the voting stock of any one corporation shall be owned by the A&M System at any given time, but does not otherwise address concentration of credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the A&M System manages its exposure to fair value losses arising from changing interest rates by requiring fixed income managers to maintain duration of +/- 20% of the effective duration of the appropriate index. In addition, the A&M System's policy limits the duration of its short term investment portfolio to a maximum of one year. The A&M System's exposure to interest rate risk is presented using the effective duration method as follows:

Investment Type	**Effective Duration**	**Market Value**
U.S. Treasury Securities	1.892	72,981,207
U.S. Government Agency Obligations		
Agencies and Other U.S. Government Obligations	0.295	21,718,204
CMO Government Agencies	1.440	1,586,394
U.S. Government Mortgages	2.356	114,266,490
Corporate Obligations		
Corporates and Other Credit	3.881	158,076,189
U.S. Private Placements	4.451	31,032,394
Corporate Asset and Mortgage Backed Securities		
CMBS	5.613	18,608,250
CMO Corporate	1.118	13,047,963
Asset Backed Securities	0.422	12,011,909
International Obligations	3.994	115,331,612
Repurchase Agreements	0.000	208,204,429
Repurchase Agreements TTSTC	0.003	400,155
Fixed Income Money Market and Bond Mutual Funds	0.147	5,994,323
Commercial Paper	0.050	277,166,135
Miscellaneous		
Political subdivisions	2.711	2,647,668
CDs	0.225	7,400,000
Total Fair Value		1,060,473,322
Portfolio Effective Duration	1.675	

Securities Lending

The A&M System engages in securities lending transactions for investments included in its two internal investment pools: the Cash Concentration Pool and the System Endowment Fund. Authority to engage in these transactions is granted to the Board of Regents in Texas Education Code, Section 51.0031, and is allowed under the A&M System investment policy. No violations of applicable law, Board policy or contract provisions occurred during fiscal year 2009.

GASB No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, provides guidance for entities reporting and disclosing securities lending transactions. This guidance includes reporting certain securities lending collateral on the Balance Sheet as an asset with a corresponding liability to repay the collateral, and disclosure of related custodial credit risk for any collateral reported on the Balance Sheet.

Securities lending transactions may include both fixed income and equity securities lent by the A&M System and cash, fixed income securities, repurchase agreements, and letters of credit received as collateral from borrowers by the A&M System. The A&M System cannot pledge or sell securities received as collateral without default of the borrower. Market value of the received cash must be at least 102% of the market value of the lent securities at the inception of the transaction. Market values are monitored throughout the transaction, and additional cash or securities are required from the borrower if the market value of the collateral falls below 100%.

Cash collateral received from the borrower is invested in a collective investment portfolio that includes investments with next day liquidity. The portfolio has a liquidity target of 20%, but does not generally match the maturities of investments with the term maturities of the loan agreements. There are no restrictions on loan amounts. The lending agent is not liable with respect to any losses incurred by the A&M System in connection with the securities lending transactions, except to the extent that such losses result from the lending agent's negligence or willful misconduct in its administration of the securities lending contract.

The A&M System had no credit risk related to twenty-two securities lending relationships because the amount the A&M System held as collateral exceeded the amounts the borrowers owed the A&M System. No losses were incurred during the fiscal year as a result of default by a securities lending borrower or agent and no losses were reported in the previous period.

The total market value of securities on loan as of August 31, 2009 was $74,723,984. Cash collateral holdings consisted of $74,801,644 invested in the securities lending collateral investment pool. The corresponding market value of these investments was $73,887,888 as of August 31, 2009 representing a net decrease in fair value of $913,756.

The cash collateral pool experienced a significant decline in market value on holdings of Sigma Finance and subsequently transferred to each pool participant their share of the total Sigma Finance assets and a corresponding payable to the security lending cash collateral pool. The net effect was to transfer the unrealized loss from the securities lending cash collateral pool to each of the participants. The amount transferred to the A&M System was $1,829,553 and as of August 31, 2009 had a market value of $183. The amount of the loss that may be realized is unknown due to pending litigation. As of August 31, 2009, the A&M System's maximum potential loss was $1,829,370.

Derivative Investing

The A&M System investment policy allows investment in certain derivative securities. A derivative security is a financial instrument which derives its value from another security, currency, commodity, or index.

The A&M System entered into forward currency contracts for the purpose of hedging international currency risk on its non-U.S. dollar denominated investment securities and to facilitate trading strategies primarily as a tool to increase or decrease market exposure to various foreign currencies. When entering into a forward currency contract, the A&M System agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are valued daily and the A&M System's net equity in the contracts, representing unrealized gain or loss on the contracts as measured by the differences between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in other receivables or payables. Realized and unrealized gains and losses are included in the consolidated Statement of Revenues, Expenses and Changes in Net Assets. These instruments involve market and/or credit risk in excess of the amount recognized in the consolidated balance sheet. Risks arise from the possibility counterparties will be unable to meet the terms of their contracts and from movement in currency, securities values and interest rates. The table below summarizes the pending foreign exchange contracts as of August 31, 2009. The "Net Sell" amounts represent the U.S. dollar equivalent of commitments to sell foreign currencies less the commitments to buy foreign currencies.

Currency	Net Sell	Unrealized Gain on Foreign Exchange Contracts	Unrealized Loss on Foreign Exchange Contracts
Euro	$ 12,894,520	$ 25,564	$ 128,591
New Zealand Dollar	$ 3,610,478	$ 149,608	$ 511,981
Total	$ 16,504,998	$ 175,172	$ 640,572

The A&M System has invested in U.S. Treasury futures contracts for the purpose of managing the duration of its liquidity portfolio. These instruments are subject to market, credit risk and counterparty risk. The portfolio manager includes derivatives in the portfolio that would not create additional risk as compared to cash instruments. Futures contracts are used as a way to gain the same risk exposure in a more efficient manner. The manager ensures that counterparty risk is well diversified and meets the credit quality criteria established in the account. Futures contracts are marked to market daily and the daily gain or loss difference is settled in cash with the broker. The combined nominal value of open contracts was $1,508,094 as of August 31, 2009, and the associated net liability was $5,250.

The System has invested in mortgage derivatives such as Collateralized Mortgage Obligations (CMOs) and Commercial Mortgage Backed Securities (CMBSs) to enhance fixed income portfolio yields and manage duration. These investments are subject to interest rate risk, as well as economic and geographic risks. The A&M System's investments as of August 31, 2009 included non-government guaranteed CMOs and CMBSs with a fair value of $31,656,213.

Several limited partnerships and a comingled international equity fund in which the A&M System invests may employ the use of forward currency exchange contracts as a hedge in connection with portfolio purchases and sales of securities denominated in foreign currencies. Risks are consistent with those described in the above paragraph regarding direct currency hedging. The contracts are valued at the prevailing forward exchange rate of the underlying currencies and the unrealized gain (loss) is recorded daily. Unrealized gains and losses that represent the difference between the value of the forward contract to buy and the forward contract to sell are included in the net unrealized gain (loss) from the forward contracts. As of August 31, 2009, the A&M System's investment in international funds that may employ forward currency exchange contracts was $163,564,405.

Hedge fund pools are invested in private placements with external managers who invest in equity and fixed income securities of both domestic and international issuers. These investment managers may invest both long and short in securities and may utilize leverage in their portfolios. They may also utilize credit default swaps and total return swaps as part of their investment strategies. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios. When credit default swaps or total return swaps are used, there is additional risk of counterparty non-performance and unanticipated movements in the fair value of the underlying securities. As of August 31, 2009, the A&M System's investment in hedge funds was

$365,077,935 including $17,242,059 in a REIT hedge fund and $11,051,591 in a fund that focuses on companies structured as master limited partnerships.

Private investment pools are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments, both domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk and investment manager risk. Certain funds may utilize credit default swaps which have additional risk, including the risk of counterparty nonperformance. Collateral in the form of cash or securities may be required to be held in segregated accounts with the fund's custodian. Bi-lateral agreements and daily settlement with counterparties reduce the risk of counterparty nonperformance. As of August 31, 2009, the A&M System has committed $274,850,264 to various private investments, of which $141,929,239 has been funded. The fair value of the investments as of August 31, 2009 was $105,930,654. In addition, the A&M System has invested directly in companies and partnerships to promote research technology. As of August 31, 2009, the fair value of the investments in research technology was $205,495. Associated risks include those applicable to other private investments as well as the risk of enterprise failure.

Hedge funds, private investment and public market funds include investments in private placement vehicles are subject to risks, which could include the loss of invested capital. The risks include the following:

- Non-regulation risk - Some of the A&M System's general partners and investment managers are not registered with the Securities and Exchange Commission or other domestic or international regulators, and therefore are not subjected to regulatory controls.
- Key personnel risk - The success of certain funds is substantially dependent upon key investment managers and the loss of those individuals may adversely impact the fund's performance.
- Liquidity risk - Many of the A&M System's investment funds may impose lock-up periods, which would cause the A&M System to incur penalties to redeem its investment or prevent the System from redeeming its shares until a certain period of time has elapsed.
- Limited transparency - As private placement vehicles, these funds may not fully disclose the holdings of their portfolios.
- Investment strategy risk - These funds often employ sophisticated investment strategies and the use of leverage, which could result in the loss of invested capital.

Permanent University Fund

The Permanent University Fund (PUF) is administered by the University of Texas System and is not reflected in the financial statements of the A&M System. Prior to changes in the arbitrage laws, plant funds were appropriated from bond proceeds only after the bonds had been sold and cash was on hand. Currently, receipt of cash may or may not precede appropriations of bond or note proceeds.

The total carrying value of the PUF assets at August 31, 2009, was $9,512,868,601 excluding PUF land grants. By acts of the Legislature and provisions of the State Constitution, the net income of the PUF is divided one-third to the A&M System and two-thirds to the University of Texas System. The A&M System's one-third share of the net revenues was $182,334,973 for the fiscal year ended August 31, 2009, and was credited to the A&M System Available University Fund as reported in Unrestricted Funds.

Note 4: Summary of Long-Term Liabilities

During the year ended August 31, 2009, the following changes occurred in liabilities:

	Balance 9/1/2008	Additions	Deductions	Balance 8/31/2009	Amounts Due Within One Year
Claims and Judgments	$ 0	$ 0	$ 0	$ 0	$ 0
Capital Lease Obligations	0	0	0	0	0
Employees' Compensable Leave	2,276,459	226,353	0	2,502,812	275,109
Other Post Employment Benefits	6,652,980	4,009,899	3,843	10,659,036	1,114,880
Notes and Loans Payable	0	0	0	0	0
General Obligation Bonds Payable	0	0	0	0	0
Revenue Bonds Payable	0	0	0	0	0
Funds Held for Others	177,653	0	37,333	140,320	140,320
Other Liabilities	850,581	0	119,564	731,017	731,017
Liabilities Payable from Restricted Assets	0	0	0	0	0
Total	$ 9,957,673	$ 4,236,252	$ 160,740	$ 14,033,185	$ 2,261,326

Employees' Compensable Leave

Substantially all full-time University employees earn annual leave in the amount of 8 to 21 hours per month depending upon the respective employee's years of state employment. State law permits employees to carry accrued leave forward from one fiscal year to another fiscal year with a maximum of 532 hours for those employees with 35 or more years of state service. Eligible part-time employees' annual leave accrual rate and maximum carryover are proportional to the number of hours appointed to work. Employees with at least six months of state service who terminate their employment are entitled to payment for all accumulated annual leave.

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is off due to illness or to the estate of an employee in the event of his or her death. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The University's policy is to recognize the cost of sick leave when paid, and the liability is not shown in the financial statements because experience indicates that the expense for sick leave will be minimal. Eligible part-time employees' sick leave accrual rate is proportional to the number of hours appointed to work.

Notes and Loans Payable

Notes payable consists of amounts used to make permanent improvements at the University to provide interim financing for capital improvements and acquisition of equipment and land, to pay interest on the notes, to refund outstanding notes as they mature and to pay the costs of issuing the notes.

The University did not have any notes and loans payable outstanding as of August 31, 2009.

Pollution Remediation Obligations

Texas A&M Corpus Christi has no pollution remediation obligations for fiscal year 2009.

Note 5: Bonded Indebtedness

The University may receive proceeds from revenue bonds issued and held by the System to support capital projects of the System and its institutions. These proceeds are recorded as transfers from the System. The University disburses funds to the System for payments of principal and interest related to the University's share of bond proceeds. These disbursements are recorded as transfers to the System. All bonds issued by the System are defined as revenue bonds. As such, the revenues of the System, including the University, are pledged for repayment of the bonds. Segment information requirements are not applicable, due to the bond indentures' lack of specifically identifiable activities and separate accounting requirements imposed by an external party.

No amount of indebtedness related to these bonds has been recorded in the University's financial statements as the System is the party directly liable for these bonds. At August 31, 2009, the University did not have any remaining unpaid share of the bond proceeds.

Note 6: Operating Leases

A summary of operating leases for the year ended August 31, 2009, is presented below:

Year Ended August 31, 2009	Total
2009	204,492
2010	203,831
2011	204,724
2012	204,724
2013	154,551
2014 - 2018	22,205
2019 - 2023	0
2024 - 2028	0
2029 - 2033	0
2034 - 2038	0
Total Minimum Future Lease Payments	$ 994,527

Note 7: Interagency Balances / Activity

As of August 31, 2009, amounts to be received or paid between funds and agencies are to be reported as:

- Interfund Receivable or Interfund Payable
- Legislative Transfer In or Legislative Transfer Out

The University made routine transfers with other state agencies, which were consistent with the activities of the fund making the transfer. Individual balances and activity at August 31, 2009, were as follows:

DUE FROM/TO OTHER STATE ENTITIES

Entity	Due from Other State Entities	Due to Other State Entities	Purpose
TXDOT	$ 15,172	$	Due from TXDOT - sponsored projects
University of Houston	12,661		Due from UH - sponsored projects
Department of Education	152,370		Due from DOE - sponsored projects
National Oceanic and Atmospheric Administration	44,368		Due from NOAA - sponsored projects
National Institutes of Health	2,714		Due from NIH - sponsored projects
US Corps of Engineers	50,565		Due from US Corps - sponsored projects
Texas Water Development Board	22,887		Due from TWDB - sponsored projects
Texas General Land Office	19,699		Due from GLO - sponsored projects
Texas A&M University System Offices	27,295		Revenue Financing System for construction projects
Texas A&M University	151,705		Due from TAMU - sponsored projects
Texas Engineering Experiment Station	89,304		Due from TEES - sponsored projects
Texas A&M University - Galveston	5,179		Due from TAMUG - sponsored projects
Texas A&M University System Helth Science Center	2,018		Due from TAMUSHSC - sponsored projects
Texas A&M University Research Foundation	10,639		Due from TAMURF - sponsored projects
The Higher Education Coordinating Board		729,253	Due to THECB - sponsored projects
The Higher Education Coordinating Board		461,027	Due to THECB - Performance Incentive Initiative
Environmental Protection Agency		13,031	Due to EPA - sponsored projects
Texas A&M University System Offices		2,654	Due to SAGO - sponsored projects
Texas A&M University System Offices		5,048,876	Due to SAGO - construction proceeds
Texas A&M University		25,417	Due to TAMU - sponsored projects
Texas AgriLife Research		11,562	Due to AL-RSCH - sponsored projects
Texas A&M University Kingsville		2,237	Due to TAMUK - sponsored projects
	$ 606,576	$ 6,294,057	

TRANSFERS IN FROM/OUT TO OTHER STATE ENTITIES

Entity	Transfers In from Other State Entities	Transfers Out to Other State Entities	Purpose
Texas A&M University System Offices	60,543		Transfer from SAGO - System Initiative - Environmental Health and Safety
Texas A&M University System Offices	202,056		System Endowment Fund Appreciation Reserve Transferred from AGO
The Higher Education Coordinating Board		(424,947)	Doctoral Set-asides to THECB
Texas A&M University System Offices		(3,655,030)	Transfer to SAGO - construction proceeds
Texas A&M University System Offices		(1,609,669)	Transfer to SAGO - for auxiliaries
Texas A&M University System Offices		(323,443)	Transfer to SAGO - true endowments
Texas A&M University System Offices		(190,148)	Transfer to SAGO
	$ 262,599	$ (6,203,237)	

LEGISLATIVE TRANSFERS IN/OUT

Entity	Legislative Transfers In	Legislative Transfers Out	Purpose
Legislative Transfers In	$ 0	$	
Texas A&M Unviersity System Offices		(11,497,428)	Legislative Transfer Out for Debt Service Payment
Texas A&M Unviersity System Offices		(878,188)	Legislative Transfer Out for Higher Education Assistance Fund
	$ 0	$ (12,375,616)	

Note 8: Contingent Liabilities

At August 31, 2009, various lawsuits and claims involving the University had arisen in the course of conducting University business. While the ultimate liability with respect to litigation and other claims cannot be reasonably estimated at this time, management is of the opinion that the liability not provided for by insurance or otherwise, if any, for these legal actions will not have a material adverse effect on the A&M System's financial position.

Note 9: Risk Financing and Related Insurance

Risk financing and related insurance is managed centrally at the Texas A&M University System. Information included below is presented from the Texas A&M University System perspective. All unpaid claim liabilities are held on Texas A&M System books and are not applicable to Texas A&M University - Corpus Christi.

The A&M System is exposed to various risks of loss related to property - fire, windstorm, hurricane or other loss of capital assets; general and employer liability - resulting from alleged wrongdoings by employees and others; net income - due to fraud, theft, administrative errors or omissions, and business interruptions; and personnel - unexpected expense associated with employee health, termination or death. As an agency of the State of Texas, the A&M System and its employees are covered by various immunities and defenses which limit some of these risks of loss, particularly in liability actions brought against the A&M System or its employees. Remaining exposures are managed by self-insurance arrangements, contractual risk transfers, the purchase of commercial insurance, or a combination of these risk financing techniques.

All commercial insurance policies include retention amounts (deductibles) for which the A&M System is responsible and for which A&M System members maintain funding reserve pools. Ongoing analysis of the risks facing the A&M System results in the continual evaluation of insurance policies purchased. During the past year, insurance coverage has changed. However, these changes do not represent a material increase in risk to the A&M System and losses have not exceeded funding arrangements during the past three years.

Texas A&M Corpus Christi participates in The Texas A&M University System Facilities Insurance Program. This self-insured program provides property damage coverage for named facilities and property of the Member to a limit of $2.5 million. The Member is responsible for payment of premiums when charged as well as deductible payment of up to $300k in the event of a loss.

The A&M System has self-insured arrangements for coverage in the areas of workers' compensation, group health and dental insurance and certain areas of medical malpractice. Based on the requirements of GASB No. 10, liabilities for claims have been reported where information prior to issuance of the financial statements indicated that it was probable that a liability had been incurred and the amount of the loss could be reasonably estimated.

The workers' compensation plan is considered a funded employer liability pool. The workers' compensation incurred but not reported liability is based on actuarial analysis of all historical claims data. The plan provides claims servicing and claims payments by charging a "cost allocation" assessment to each A&M System member based on a percentage of payroll.

Texas A&M Corpus Christi participates in The Texas A&M University System Workers' Compensation Insurance Program. That program provides statutory coverage for all employees of the System. Financial requirements of the members are for payment of the annual insurance premium. For TAMUCC the fiscal year 09 rate was $0.30 per $100 of payroll.

The A&M System implemented a self-insured health and dental plan on September 1, 1994, which is also considered a funded pool. Premiums are determined through an actuarial pricing process that takes place each spring. The A&M System maintains an experience stabilization fund of $24,654,080 that is comprised of excess premiums from previous years and is used to offset losses in a given year. Dental benefits under the plan are limited to $1,500 per individual per year, so the potential for catastrophic loss is not a significant risk.

Self-Insured Health Plan - System member is responsible for performing payroll deductions and retiree billing in order to collect the employee's portion of the premium on a monthly or biweekly basis. In addition, the System member is responsible for funding the applicable employer contribution for eligible employees and retirees. Employee and employer premiums collected by all System members are transferred to the A&M System Office by equity transfer. These premiums are pooled at the System level to pay for claims and administrative expenses associated with the plan. The A&M System maintains a reserve fund for the self-insured health and dental plans with a current balance of $24,654,080 that is comprised of excess premiums from previous years that is used to offset losses in a given year. The plan currently maintains an individual stop-loss policy with an attachment point of $500,000. The A&M System Office is responsible for contracting, compliance, and plan design.

Self-Insured Dental Plan - System member is responsible for performing payroll deductions and retiree billing in order to collect the employee's portion of the premium on a monthly or biweekly basis. The majority of dental premiums are paid by the employee. Individuals who elect not to enroll in an A&M System health plan may certify that they are enrolled in other health coverage and thereby have access to a portion of the employer contribution to pay for dental coverage. Otherwise, there is no employer contribution for the dental program. For those who qualify as described above, the System member is responsible for funding the applicable employer contribution. Employee and employer premiums collected by all System members are transferred to the A&M System Office by equity transfer. These premiums are pooled at the System level to pay for claims and administrative expenses associated with the plan. The A&M System maintains a reserve fund for the self-insured health and dental plans with a current balance of $24,654,080 that is comprised of excess premiums from previous years that is used to offset losses in a given year. Dental benefits under the plan are limited to $1,500 per individual per year, so the potential for catastrophic loss is not a significant risk. The A&M System Office is responsible for contracting, compliance, and plan design.

Note 10: Related Parties

The Texas A&M University - Corpus Christi Foundation is a nonprofit organization with the sole purpose of soliciting, accepting, holding, investing, and administering support to promote the quality, growth, and effectiveness of Texas A&M University - Corpus Christi.

The Harte Research Support Foundation is a nonprofit organization which conducts activities to enable a research institute at Texas A&M University - Corpus Christi.

Note 11: Stewardship, Compliance, and Accountability

For the year ended August 31, 2009, the University is reporting financial information in accordance with requirements set forth by GASB No. 34 and No. 35. Changes to the financial reports of the University are discussed in Note 1. The University has no material violations of finance related legal and contract provisions. Per the laws of the State of Texas, the University cannot spend amounts in excess of appropriations granted by the Texas Legislature and there are no deficits reported in net assets or retained earnings.

Note 12: The Financial Reporting Entity

The A&M System is composed of a series of distinct members, each of which was created to render a specific service for the State within the limits of the A&M System's objectives, and all of which are under the control and direction of the Board of Regents of the A&M System. Texas A&M University - Corpus Christi is a distinct member of the Texas A&M System. Texas A&M University - Corpus Christi has no component units.

Note 13: Employee Retirement Plans

Information included in this note is presented from a Texas A&M University System perspective.

The State of Texas has joint contributory retirement plans for substantially all its employees. The contribution amounts for both the employee and the A&M System are set by the Texas Legislature and can change over time. One of the primary plans in which the A&M System participates is administered by the Teacher Retirement System of Texas. The contributory percentages of participant salaries provided by the State and by each participant during the fiscal year were 6.58% and 6.4%, respectively, of annual compensation.

The Teacher Retirement System of Texas does not separately account for each of its component governmental agencies, since the Retirement System bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature.

The retirement expense to the State for the A&M System TRS retirement program was $21,048,104 for the year ended August 31, 2009. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the A&M System. Further information regarding actuarial assumptions and conclusions, together with audited financial statements, is included in the Teacher Retirement System's annual financial report.

The State has also established an Optional Retirement Program for institutions of higher education. Participation in the Optional Retirement Program is in lieu of participation in the Teacher Retirement System. The Optional Retirement Program provides for the purchase of annuity contracts and mutual funds. The contributory percentages of participant salaries during the fiscal year provided by the State and by each participant who was enrolled in the plan on or before August 31, 1995 were 8.5% and 6.65%, respectively. The 8.5% is composed of 6.58% contributed by the State and an additional 1.92% contributed by the A&M System. For participants who enrolled on or after September 1, 1995, the State and participant contributions were 6.58% and 6.65%, respectively. Since these are individual annuity contracts or custodial agreements, the State has no additional or unfunded liability for this program.

The contributions for the A&M System ORP retirement program were as follows:

Optional Retirement Program

		Amount
Employer Contributions	$	42,163,151
Employee Contributions	$	37,183,626
Total	$	79,346,777

Effective January 1, 1999, the A&M System implemented an excess benefit arrangement under Section 415(m) of the Internal Revenue Code (IRC).

Since the A&M System bears no responsibility for retirement commitments beyond contributions, GASB No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*, do not apply to these financial statements or disclosures.

The ORP expense to the University was $1,774,399 for the year ended August 31, 2009. Of this amount, $957,494 represents the portion of appropriations made by the State Legislature expended on behalf of the University and $816,905 represents the portion paid from the University's funds.

Note 14: Deferred Compensation Program

Information included in this note is presented from a Texas A&M University System perspective.

State employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Texas Government Code, Section 609.001. All payroll deductions have been invested in approved plans during the fiscal year. Two deferred compensation plans are available for A&M System employees and are managed at the A&M System level.

The State's 457 Plan complies with IRC Section 457. This plan is referred to as the Texa$aver Deferred Compensation Plan (DCP) and is available to all employees. The DCP is a State plan, and the deductions, purchased investments and earnings attributed to the 457 Plan are the property of the State subject only to the claims of the State's general creditors. Participant's rights under the plan are equal to those of the general creditors of the State in an amount equal to the fair market value of the 457 account for each participant. The State has no liability under the 457 Plan and it is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.

The A&M System also administers a Tax-Deferred Account (TDA) Program, created in accordance with IRC Section 403(b). All employees are eligible to participate. The TDA is a private plan, and the deductions, purchased investments, and earnings attributed to each employee's 403(b) plan are held by vendors chosen by the employee. The vendors may be insurance companies, banks, or approved non-bank trustees such as mutual fund companies. The assets of this plan do not belong to the A&M System or the State and thus do not have a liability related to this plan.

The 457(f) Deferred Compensation Plan allows the A&M System to defer income for eligible participants without regard to the amount deferred or an adverse impact on other retirement plans in which the participant is enrolled. The plan is structured under Section 457(f) of the Internal Revenue Code of 1986, as amended. It is authorized for use by Texas institutions of higher education in Title 109, Article 6228a-5, Section 3 of Vernon's Texas Civil Statutes. All employees of the A&M System are eligible to participate in this plan subject to the approval of the Board of Regents, the Chancellor, or any Chancellor-designated A&M System member Chief Executive Officer.

The Nonqualified Share Option Plan is designed to allow the transfer of shares of specific mutual funds to designated employees of the A&M System. The plan is structured under Section 83 of the Internal Revenue Code of 1986, as amended. All employees of the A&M System are eligible to participate in this plan subject to the approval of the Board of Regents, the Chancellor, or any Chancellor-designated A&M System member Chief Executive Officer.

Note 15: Donor-Restricted Endowments

Donor-restricted endowments are managed centrally at the Texas A&M University System. Information included in this note is presented from a Texas A&M University System perspective.

The purpose of The Texas A&M University System Endowment Fund (the Fund) is to provide for the collective investment of all endowment and trust funds held by the A&M System or by the Board of Regents of the A&M

System in a fiduciary capacity. The Fund is used to provide funding for scholarships, fellowships, professorships, academic chairs and other uses as specified by donors.

Distribution is made quarterly as soon as practicable after the last calendar day of November, February, May, and August of each fiscal year to the endowment and trust funds participating in the Fund during the respective quarter. Income consists of interest earnings, dividends and realized capital gains. The income distribution per unit for each fiscal year will be to distribute, excluding fees, 5% of the 20-quarter average market value per unit as of the end of the previous February.

Chapter 163 of the Texas Property Code (also cited as the Uniform Prudent Management of Institutional Funds Act) grants the University the authority to spend net appropriations.

The amount of net appreciation for donor restricted true endowments is shown in the table below:

Net Appreciation of Donor-Restricted Endowments

Donor-Restricted Endowments	Amounts of Net Appreciation	Reported in Net Assets
True Endowments	$ 78,624,235	Restricted for Expendable

The amount of net appreciation for donor restricted endowments specific to the University is $710,891, and is reported as Restricted on the Statement of Net Assets.

Note 16: Post-Employment Health Care and Life Insurance Benefits

Post-employment health care and life insurance benefits are managed centrally by the Texas A&M University System for all system components. Information included in this note is presented from a Texas A&M University System perspective.

Plan Description and Funding Policy

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired employees in accordance with State statutes. Substantially all of the employees may become eligible for those benefits if they reach normal retirement age while working for the State. Those and similar benefits for active employees are provided through the group insurance program, and premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expensing the annual premiums. For the year ending August 31, 2009, the employer contributions are presented below.

Employer Contribution Rates

Level of Coverage	Amount
Full-Time Employee/Retiree Only	$ 375.94
Full-Time Employee/Retiree and Spouse	$ 551.53
Full-Time Employee/Retiree and Children	$ 485.69
Full-Time Employee/Retiree and Family	$ 639.33

For the year ended August 31, 2009, benefit plan expenditures totaled $160,035,264. The cost of providing benefits for 6,801 retirees was $37,325,544; and for 22,860 active employees the cost was $122,709,719.

Other Postemployment Benefits (OPEB) are benefits provided to the A&M System's retirees under the A&M System group insurance program. The authority under which the obligations of the plan members and the A&M System are established, and may be amended, is Chapter 1601, *Texas Insurance Code.*

The A&M System and member contribution rates are determined annually by the A&M System based on the recommendations of the A&M System Office of Benefits Administration. The plan rates are based on the plan costs that are expected to be incurred, the funds appropriated for the plans, and the funding policy established by the Texas Legislature in connection with benefits provided through the plan. The A&M System revises benefits plans and rates as necessary to match expected costs with available revenue. The plan is operated on a pay-as-you-go basis and is unfunded.

Because the OPEB plan described herein is not administered through a trust as defined under Paragraph No. 4 of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* GASB Statement No. 43 accounting is not applicable to the A&M System.

For the year ended August 31, 2009, the contributions for the self-funded plan by the state per full-time retired employee are shown in the following table. Because this is year 2 of the calculation, a three-year history does not exist. The retiree contributes any premium over and above state contributions.

Three-Year Schedule of Employer Contributions

Fiscal Year Ending	Employer Contribution	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation At End of Fiscal Year
8/31/2009	$ 37,325,544	$116,890,000	32%	$ 219,873,275
8/31/2008	$ 36,284,181	$176,593,000	21%	$ 140,308,819

The OPEB expense reflected in the Statement of Revenues, Expenses and Changes in Net Assets is net of the Employer Contributions, as these costs are included as a portion of Payroll Related Costs expense.

Annual OPEB Cost and Net OPEB Obligation

The annual OPEB cost of the plan is calculated and based on the annual required contribution (ARC). The ARC is the amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period of years, not to exceed 30 years. The following table shows the components of the annual OPEB cost for the year for the plan:

Annual OPEB Cost and Net OPEB Obligation

Annual Required Contribution (ARC)	$ 112,570,000
Interest on Net OPEB Obligation	13,189,000
Adjustment to ARC	(8,869,000)
Annual OPEB Cost	116,890,000
Employer Contributions Made	(37,325,544)
Increase Net OPEB Obligation	79,564,456
Net OPEB Obligation 9/1/2008	140,308,819
Net OPEB Obligation 8/31/2009	$ 219,873,275

Schedule of Funding Progress of the Plan

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The amounts determined for the funded status of the plan and the Annual Required Contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The multiyear schedule of funding progress is presented in the following table:

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over AAL (Unfunded AAL) (a)-(b)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	Ratio of UAAL to Covered Payroll ((a-b)/c)
9/1/2008	$ -	$ 1,258,563,000	$ (1,258,563,000)	0.0%	$ 1,260,683,042	99.8%
9/1/2007	$ -	$ 1,993,236,000	$ (1,993,236,000)	0.0%	$ 1,140,125,643	174.8%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used in the plan valuation include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional detail about the actuarial assumptions used in the plan valuation is outlined in the following table:

Summary of Actuarial Methods and Assumptions

Actuarial Valuation Date	September 1, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay
Remaining Amortization Period of Unfunded Liability	30 years
Actuarial Assumptions:	
Investment Rate of Return	9.4%
Inflation	4.0%
Health Care Trend Rates	8.0% in 2010
	Decreasing to 6.0% in 2014

Medicare Part D

In fiscal 2009 the plan received payments from the federal government pursuant to the retiree drug subsidy provisions of Medicare Part D. GASB Statement No. 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance, requires that these on-behalf payments be recorded as revenues and expenses of each plan. In fiscal 2009 the system received $3.8 million of Medicare Part D payments from the federal government.

Note 17: Disaggregation of Receivable and Payable Balances

A summary of accounts receivable and accounts payable balances for the University for the year ended August 31, 2009, is presented below:

Accounts Receivable:

Current Accounts Receivable		Amount on III-FUND
Federal Receivables		1,261,500
Other Intergovernmental		1,113,271
Interest and Dividends		12,321
Gift, Pledges & Donations		7,553,223
Student Receivables		423,248
Other		1,976,757
	Total	12,340,320

Other Receivables		Amount
Departmental Receivable-Manual		107,557
Travel Advance Receivable		14,974
A/R Returned Checks		10,794
Unbilled Receivables-Private/Local		87,279
Service Department Receivable		77,327
Customer Receivable		1,043,965
Allowance for Doubtful Accounts		(159,099)
Other		
Grants Receivable Private/Local		793,960
	Total	1,976,757

Accounts Payable:

Current Accounts Payable		Amount on III-FUND
Accounts Payable		4,750,510
Payroll Payable		5,455,719
Other		155,855
	Total	10,362,084

Note 18: Termination Benefits

Termination benefits are managed centrally at the Texas A&M University System. Information included in this note is presented from a Texas A&M University System perspective. Texas A&M-Corpus Christi has no obligation to pay the A&M System for any termination benefits specifically incurred by A&M -Corpus Christi.

As of August 31, 2009, the A&M System had incurred obligations to pay termination benefits of $78,073 in fiscal year 2010. Included in these current liabilities are commitments for severance pay and payroll related costs pertaining to these terminations.

For the fully-insured HMO health plans, dental plan, and vision plan, the carrier is responsible for the billing and collection from all COBRA participants. The carrier retains all premiums and is liable for all claims and expenses. Enrollment information for these plans is included below; however, the A&M System does not have premium and expense information related to these plans.

For the self-insured health and dental plans, the carrier performs the billing and collections process for COBRA participants. The carrier then forwards the premium to the A&M System, net of the 2% administrative fee, which is intended to cover costs related to the billing and collection functions. However, since the plan is self-insured, the A&M System is responsible for any claims or administrative costs associated with COBRA participants, and these amounts are included below.

As part of the stimulus funding from the federal government, some of the terminated employees were eligible for the 65% subsidy for COBRA coverage. The Federal Department of Labor agreed to reimburse employers the 65% COBRA reimbursement up to 9 months. This applies to employees who were involuntarily terminated between September 1, 2008 and December 31, 2009. The maximum end of the 9 month payment period will be September 30, 2010.

For fiscal year 2009, the total 65% COBRA funding that TAMU System members received from the Federal Grant was $52,868.51 for fiscal year 2009.

COBRA benefits for the Texas A&M University System for the ended August 31, 2009 are as follows:

Termination Benefits - COBRA

	Self-Insured Medical Plan	Self-Insured Dental Plan	Fully-Insured Medical HMO Plans	Fully-Insured Dental Plan	Fully-Insured Vision Plan
Number of Participants	197	124	47	32	75
Premium Revenue	$ 785,974	$ 53,094			
2 Percent Administrative Fee Revenue	14,781	1,079			
Total COBRA Revenue	800,755	54,173			
Claims Paid	1,678,402	64,682			
Administrative Expenses	22,541	4,576			
Total COBRA Expenses	1,700,943	69,258			
Total Cost to State	$ 900,188	$ 15,085			

State Auditor's Office
John Keel, CPA
State Auditor

January 14, 2010

Dr. Flavius Killebrew, President
Texas A&M University - Corpus Christi
6300 Ocean Drive
Corpus Christi, TX 78412

Subject: Management Letter Resulting from a Review of Texas A&M University - Corpus Christi's Fiscal Year 2009 Financial Statements

Dear Dr. Killebrew:

We offer this management letter in conjunction with our review of the financial statements of Texas A&M University - Corpus Christi (University) for the fiscal year ended August 31, 2009. We reviewed the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; the Statement of Cash Flows; and the Notes to the Financial Statements. In the course of our review, which was substantially less in scope than an audit, we did not find that material modifications needed to be made to the financial statements in order for them to be in conformity with generally accepted accounting principles.

We appreciate the assistance provided during this review by the management of the University and Internal Audit. If you have any questions, please call me at (512) 936-9500.

Sincerely,

Sandra Vice

Sandra Vice, CGAP, CIA, CISA
Assistant State Auditor

Robert E. Johnson Building
1501 N. Congress Avenue
Austin, Texas 78701

P.O. Box 12067
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SAO Report No. 10-318

Texas A&M University - Texarkana

Financial Report

(prepared in accordance with SACS Criteria for Accreditation)

Fiscal Year Ending August 31, 2009

Contents

State Auditor's Office
John Keel, CPA
State Auditor

Auditor's Review Report

March 9, 2010

Dr. Carlisle B. Rathburn III, President
Texas A&M University - Texarkana
2600 North Robison Road
P.O. Box 5518
Texarkana, TX 75505

Dear Dr. Rathburn:

We have reviewed the accompanying Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; Statement of Cash Flows; and Notes to the Financial Statements of Texas A&M University - Texarkana (University) as of and for the fiscal year ended August 31, 2009, in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The review was performed in accordance with the Southern Association of Colleges and Schools' (Southern Association) *Criteria for Accreditation*. All information included in these financial statements is the representation of management of the University.

A review consists principally of inquiries of University personnel and analytical procedures applied to financial data. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

The accompanying statements were prepared to present the financial position, the changes in financial position and the cash flows of the University. These statements are prepared pursuant to criteria of the Southern Association for supplementary special reports by institutions in states that conduct statewide audits.

Based on our review, with the exception of the matter described in the following paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The University has not presented a management's discussion and analysis section that the Governmental Accounting Standards Board has identified as required supplementary information that is not part of the basic financial statements. However, such required supplementary information for the University is presented in the Texas A&M University System's (System) consolidated annual financial report.

This report is intended for use by the Board of Regents of the System, management of the University, and the Southern Association. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,

John Keel, CPA
State Auditor

SAO Report No. 10-340

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Texas A&M University - Texarkana
Statement of Net Assets
At August 31, 2009
(See Auditor's Review Report on page 1)

ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 3)	$	5,336,311
Restricted:		
Cash and Cash Equivalents (Note 3)		356,744
Legislative Appropriations		2,039,279
Receivables, Net of Allowances:		
Federal		31,151
Accounts		469,460
Other		8,388
Due from Other State Entities (Note 7)		81,475
Consumable Inventories		60,572
Loans and Contracts		1,502
Other Current Assets		502,402
Total Current Assets	$	8,887,284
Non-Current Assets		
Restricted:		
Investments (Note 3)		4,403,802
Investments (Note 3)		7,182,574
Loans and Contracts		23,182
Capital Assets (Note 2):		
Non-Depreciable		4,859,821
Depreciable		33,270,269
Less: Accumulated Depreciation		(10,826,734)
Total Non-Current Assets	$	38,912,914
Total Assets	$	47,800,198
LIABILITIES		
Current Liabilities		
Payables:		
Accounts	$	195,422
Payroll		1,118,173
Other		94,033
Due to Other State Entities (Note 7)		30,000
Deferred Revenue		1,500,002
Employees' Compensable Leave (Note 4)		33,613

Other Post Employment Benefits		263,262
Other Current Liabilities		183,270
Total Current Liabilities	$	3,417,775
Non-Current Liabilities		
Employees' Compensable Leave (Note 4)		305,182
Other Post Employment Benefits		1,348,676
Total Non-Current Liabilities	$	1,653,858
Total Liabilities	$	5,071,633
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$	27,303,357
Restricted for:		
Non-Expendable		
Permanent Funds, True Endowments, Annuities		2,681,140
Expendable		
Funds Functioning as Endowments		143,542
Other		1,316,566
Unrestricted		11,283,960
Total Net Assets	$	42,728,565

The accompanying Notes to the Financial Statements are an integral part of this statement.

Texas A&M University - Texarkana
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended August 31, 2009
(See Auditor's Review Report on page 1)

OPERATING REVENUES		
Tuition and Fees - Pledged	$	4,948,418
Discounts and Allowances		(1,007,243)
Auxiliary Enterprises - Pledged		6,117
Other Sales of Goods & Services – Pledged		210,939
Federal Revenue		1,074,580
State Grant Revenue		610,381
Other Operating Grant Revenue		46,422
Other Operating Revenues		4,689
Total Operating Revenues	$	5,894,303
OPERATING EXPENSES		
Salaries and Wages	$	10,310,732
Payroll Related Costs		2,937,002
Professional Fees and Services		778,447
Travel		258,737
Materials and Supplies		1,125,769
Communications and Utilities		760,980
Repairs and Maintenance		197,607
Rentals and Leases		134,702
Printing and Reproduction		67,678
Depreciation and Amortization		1,366,753
Bad Debt Expense		53,161
Interest Expense		63
Scholarships		1,634,826
Other Operating Expenses		801,043
Total Operating Expenses	$	20,427,500
Operating Income (Loss)	$	(14,533,197)
NONOPERATING REVENUES (EXPENSES)		
Legislative Appropriations	$	17,948,706
Gifts		1,182,917
Interest and Investment Income (Loss)		303,058
Investing Activities Expense		(27,056)
Net Increase (Decrease) in Fair Value of Investments		(957,872)
Gain (Loss) on Sale of Capital Assets		(5)
Other Nonoperating Revenues - Pledged		1,324,407

Total Nonoperating Revenues (Expenses)	$	19,774,155
Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers	$	5,240,958
OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS		
Capital Contributions	$	
Capital Appropriations (HEAF)		1,684,587
Additions to Permanent and Term Endowments		286,743
Transfers In from Other State Entities (Note 7)		138,216
Transfers Out to Other State Entities (Note 7)		(180,623)
Legislative Transfers Out (Note 7)		(8,181,594)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	$	(6,252,671)
CHANGE IN NET ASSETS	$	(1,011,713)
Net Assets, September 1, 2008	$	43,387,102
Restatements (Note 12)		353,176
Net Assets, September 1, 2008, as Restated	$	43,740,278
NET ASSETS, August 31, 2009	$	42,728,565

The accompanying Notes to the Financial Statements are an integral part of this statement.

Texas A&M University - Texarkana
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2009
(See Auditor's Review Report on page 1)

CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Tuition and Fees	$	3,599,353
Receipts from Customers		188,596
Proceeds from Research Grants and Contracts		1,831,158
Proceeds from Loan Programs		381
Proceeds from Auxiliaries		7,147
Proceeds from Other Revenues		18,694
Payments to Suppliers for Goods and Services		(3,992,116)
Payments to Employees for Salaries		(11,013,147)
Payments to Employees for Benefits		(1,615,496)
Payments for Loans Provided		158,310
Payments for Other Expenses		(2,085,794)
Net Cash Provided (Used) by Operating Activities	$	(12,902,914)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Legislative Appropriations	$	17,935,391
Proceeds from Gifts		1,182,917
Proceeds from Endowments		286,743
Proceeds from Other Sources		1,324,407
Payments for Transfers to Other Entities		(12,407)
Payments for Other Uses		(5)
Net Cash Provided (Used) by Non-Capital Financing Activities	$	20,717,046
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from State Grants and Contracts	$	1,843,023
Payments for Additions to Capital Assets		(446,602)
Payments for Transfers to Other Entities		(8,181,594)
Net Cash Provided (Used) by Capital and Related Financing Activities	$	(6,785,173)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Interest and Investment Income	$	276,002
Payments to Acquire Investments		(518,332)
Net Cash Provided (Used) by Investing Activities	$	(242,330)
Net Increase (Decrease) in Cash and Cash Equivalents	$	786,629

Cash and Cash Equivalents, September 1, 2008	$	4,603,250
Restatements		303,176
Cash and Cash Equivalents, September 1, 2008, as restated		4,906,426
Cash and Cash Equivalents, August 31, 2009	$	5,693,055

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

Operating Income (Loss)	$	(14,533,197)
Adjustments:		
Depreciation and Amortization	$	1,366,753
Bad Debt Expense		134,658
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		(393,252)
(Increase) Decrease in Due from Other Entities		77,746
(Increase) Decrease in Inventories		(7,355)
(Increase) Decrease in Prepaid Expenses		(94)
(Increase) Decrease in Loans and Contracts		158,311
(Increase) Decrease in Other Assets		(127,696)
Increase (Decrease) in Payables		(357,637)
Increase (Decrease) in Employees' Compensable Leave		877
Increase (Decrease) in Other Liabilities		777,972
Total Adjustments	$	1,630,283
Net Cash Provided (Used) by Operating Activities	$	(12,902,914)
Non-Cash Transactions		
Net Increase (Decrease) in Fair Value of Investments	$	(957,872)

The accompanying Notes to the Financial Statements are an integral part of this statement.

Texas A&M University - Texarkana
Statement of Changes in Unrestricted Net Assets
For the Fiscal Year Ended August 31, 2009
(See Auditor's Review Report on page 1)

Reserved		
Encumbrances	$	566,571
Accounts Receivable		479,129
Inventories		60,572
Self-Insurance Plans		9,768
Capital Projects		80,000
Higher Education Assistance Funds		1,178,370
Prepaid Expenses		7,777
Texas Public Education Grants		166,495
Unreserved		
Allocated		
Future Operating Budgets		645,077
Capital Projects		1,200,000
Funds Functioning as Endowment - Unrestricted		536,643
Unallocated		6,353,558
Total Unrestricted Net Assets	$	11,283,960

The accompanying Notes to the Financial Statements are an integral part of this statement.

(See Auditor's Review Report on page 1.)

General Introduction

This report has been prepared for the use of the Southern Association of Colleges and Schools (Southern Association) in connection with the review of Texas A&M University - Texarkana (University) for accreditation purposes. This report includes a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; a Statement of Cash Flows; and the related Notes to the Financial Statements. In accordance with Southern Association criteria or Governmental Accounting Standards Board requirements, the report also includes a Statement of Changes in Unrestricted Net Assets and a management letter describing issues noted in the review.

Reporting Entity

The University is a component of the Texas A&M University System and an agency of the State of Texas. The University prepares financial statements that are included in the State's *Comprehensive Annual Financial Report,* which is audited by the Texas State Auditor's Office.

Note 1: Summary of Significant Accounting Policies

Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements are 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 is incurred. Operating items are distinguished from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash and cash equivalents according to GASB No. 9. With the exception of residual cash which results from the management of investment portfolios, the A&M System maintains cash and cash equivalents for the purpose of meeting short-term expenditure requirements. Additionally, cash and cash equivalents includes a money market fund owned by the Texas A&M University System. Members participate in this money market account. The fund balance for the University is classified as cash and cash equivalents in the University's financial statement and as an investment on the Texas A&M University System's combined financial statement.

Investments

In accordance with GASB No. 31, the A&M System reports investments at fair market value in the Balance Sheet. Fair market value is defined as the amount at which an investment could be exchanged in a current transaction between parties, other than in a forced or liquidation sale.

GASB No. 40, implemented in fiscal year 2005, requires the disclosure of common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Under GASB 40, disclosure of carrying value of investments is no longer required.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Livestock held for educational purposes is recorded at estimated fair market value. The capitalization threshold for personal property is $5,000. The capitalization threshold is $100,000 for buildings/building improvements, facilities and other improvements, software developed for internal use, and leasehold improvements. Infrastructure has a capitalization threshold of $500,000. All land, land improvements, library books/materials, museums/collections, and works of art/historical treasures are capitalized.

According to GASB No. 34 and No. 35, the University is required to depreciate capital assets. Effective fiscal year 2005, the State Comptroller's Office reclassified Professional, Academic and Research Library books and materials from non-depreciable to depreciable. Depreciation is computed using the straight-line method over the estimated useful lives of the assets; generally, 40 to 50 years for buildings, 20 to 25 years for infrastructure, 5 to 7 years for equipment, and 15 years for library books.

Current Assets

In the Balance Sheet, items classified as current are defined as resources expected to be realized or consumed within one year.

Restricted Net Assets

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted net assets are available for use, restricted resources are used first, then unrestricted resources are used as needed.

Voluntary Nonexchange Transaction

Voluntary nonexchange transactions (primarily private donations and pledges) are recognized in accordance with GASB No. 33, adopted by the A&M System on September 1, 2000.

Other Significant Accounting Policies

An Appreciation Reserve was created in fiscal year 1997 for the purpose of providing a consistent and predictable income stream for the System Endowment Fund. The Appreciation Reserve is administered by the A&M System Offices and distributions occur when current income is insufficient to meet the distribution of income in accordance with the System Endowment Fund spending policy.

The financial statements of the University are prepared and presented materially in accordance with the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements. The A&M System members record receivables when revenue is earned but not collected. Deferred revenue is recognized when cash is received prior to revenue recognition.

Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2009, is presented below:

	Balance 9/1/2008	Adjustments	Completed Construction in Progress	Additions	Deductions	Balance 8/31/2009
Non-Depreciable Assets:						
Land and Land Improvements	$ 4,575,858	$ 0	$ 0	$ 0	$ 0	$ 4,575,858
Construction in Progress	125,527	0	0	158,436	0	283,963
Total Non-Depreciable Assets	$ 4,701,385	$ 0	$ 0	$ 158,436	$ 0	$ 4,859,821
Depreciable Assets:						
Buildings and Building Improvements	$ 23,169,715	$ 0	$ 0	$ 0	$ 0	$ 23,169,715
Infrastructure	2,340,796	0	0	0	0	2,340,796
Facilities and Other Improvements	1,313,276	0	0	0	0	1,313,276
Furniture and Equipment	1,824,210	0	0	82,555	(5,828)	1,900,937
Vehicles, Boats, and Aircraft	101,094	0	0	37,249	0	138,343
Other Capital Assets	4,216,920	0	0	218,362	(28,080)	4,407,202
Total Depreciable Assets at Historical Cost	$ 32,966,011	$ 0	$ 0	$ 338,166	$ (33,908)	$ 33,270,269
Less Accumulated Depreciation for:						
Buildings and Building Improvements	$ (4,591,208)	$ 0	$ 0	$ (924,730)	$ 0	$ (5,515,938)
Infrastructure	(35,843)	0	0	(143,373)	0	(179,216)
Facilities and Other Improvements	(146,906)	0	0	(79,441)	0	(226,347)
Furniture and Equipment	(1,515,705)	0	0	(84,536)	5,828	(1,594,413)
Vehicles, Boats, and Aircraft	(49,634)	0	0	(20,686)	0	(70,320)
Other Capital Assets	(3,154,592)	0	0	(113,987)	28,079	(3,240,500)
Total Accumulated Depreciation	$ (9,493,888)	$ 0	$ 0	$ (1,366,753)	$ 33,907	$ (10,826,734)
Depreciable Assets, Net	$ 23,472,123	$ 0	$ 0	$ (1,028,587)	$ (1)	$ 22,443,535
Capital Assets, Net	$ 28,173,508	$ 0	$ 0	$ (870,151)	$ (1)	$ 27,303,356

Note 3: Deposits, Investments, and Repurchase Agreements

The Texas Education Code, Title III, Chapter 51.0031 grants authority for a governing board to invest funds under prudent person standards “if a governing board has under its control at least $25 million in book value of endowment funds.”

The A&M System’s investment policy authorizes the following types of investments: U.S. Government obligations, U.S. Government Agency obligations, other government obligations, corporate obligations, corporate asset and mortgage backed securities, equity, international obligations, international equity, certificates of deposit, banker’s acceptances, negotiable certificates of deposit, money market mutual funds, mutual funds, repurchase agreements, venture capital, private equity, hedge funds, Real Estate Investment Trusts (REITs), securities lending, derivatives, timber, bank loans, energy and real estate.

Deposits of Cash in Bank

As of August 31, 2009, the carrying amount of deposits was $5,693,055 as follows:

Cash on Hand:		
Cashiers Account	$	500
Petty Cash Department Working Fund		500
Cash in Bank		85,975
Cash in State Treasury		2,696,468
Cash Equivalents		2,909,612
Total Cash and Cash Equivalents	$	5,693,055
Current Assets Cash and Cash Equivalents	$	5,336,311
Current Assets Restricted Cash and Cash Equivalents		356,744
Total Cash and Cash Equivalents	$	5,693,055

These amounts consist of all cash in local banks. These amounts are included on the Combined Statement of Net Assets as part of the "Cash and Cash Equivalents" line items.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The A&M System's policy requires collateral of 102% pledged against all deposits and limits the amounts of funds which may be deposited with any bank to the lesser of $100,000,000 or 10% of total deposits. The policy also requires that deposits in federally insured savings and loan associations, building and loan associations, and state and national banks not exceed the amount insured by the Federal Savings and Loan Insurance Corporation, Federal Deposits Insurance Corporation (FDIC), or their successors. The A&M System regulation applicable to working fund bank accounts requires the Chancellor, or designee, to approve a working fund in any bank in which the A&M System member does not have a proper allocation of securities. The bank balance of a working fund may not, at any time, exceed the FDIC coverage limit.

Incidental amounts of various foreign currencies are held through Bank of New York Mellon, their foreign branches and/or foreign sub-custodian banks. These amounts represent interest and/or dividend payments received in foreign currencies that are not yet converted to U.S. dollars. Such deposits of foreign currency are not insured or collateralized and are subject to custodial risk and the risk of fluctuations in exchange rates.

Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the deposits. The A&M System does not have a deposit policy for foreign currency risk.

Investments

At the direction of the A&M System Board of Regents, University investments and cash equivalents are pooled at the System level. The System is responsible for disclosure of all information on the pooled investments and has included these disclosures in its annual financial report. The University does not have an investment risk policy. As of August 31, 2009, the fair value of the University's share of investments is presented below:

U.S. Government			
	U.S. Treasury Securities	$	416,223
U. S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, etc.)			784,581
Corporate Obligations			1,078,501
Corporate Asset and Mortgage Backed Securities			249,041
Equity			888,430
International Obligations (Govt and Corp)			657,741
International Equity			175,474
International Other Commingled Funds			2,082,160
Repurchase Agreement			1,187,410
Other Commingled Funds			4,311,686
Commercial Paper			1,580,700
Securities Lending Collateral Investment Pool			421,384
Alternative Investments (including limited partnerships and hedge funds)			605,323
Misc (e.g., guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)			57,332
	Total Investments	$	14,495,986
Non-Current Assets – Restricted Investments		$	4,403,802
Non-Current Assets – Investments			7,182,574
	Total Investments	$	11,586,376

The variance between the two schedules represents a money market fund owned by the Texas A&M University System. Members participate in this money market account. The fund balance for the University is classified as cash and cash equivalents in the University's financial statement and as an investment on the Texas A&M University System's combined financial statement. Investments included in the first table reflect the true value of University investments, including the University's portion of the money market fund while the second table represents investments as classified on the University's Statement of Net Assets where the money market account is classified as cash and cash equivalents.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The A&M System's policy requires that direct repurchase agreements and security lending transactions be fully collateralized by obligations authorized under the A&M System investment policy and such collateral be held by a third party. As of August 31, 2009, the A&M System's securities lending transactions were not exposed to custodial credit risks because the collateral was held by the A&M System's custodian.

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investments. The A&M System's policy authorizes the utilization of derivatives for the purpose of hedging currency risk, but does not otherwise address foreign currency risk. The exposure to foreign currency risk as of August 31, 2009 is as follows:

Fund Type	GAAP Fund	Foreign Currency	International Obligation (Govt. and Corp.)	International Equity	International Other Commingled Funds	International Alternative Investments
05	9999	U.S. Dollar Denominated Foreign Securities	$ 78,147,591	$ 30,768,532	$ 365,091,857	$ 1,308,192
05	9999	Australian Dollar	$ 7,245,692	$ -	$ -	$ -
05	9999	Canadian Dollar	$ 3,428,158	$ -	$ -	$ -
05	9999	Euro Currency Unit	$ 18,702,798	$ -	$ -	$ 2,150,210
05	9999	New Zealand Dollar	$ 7,807,373	$ -	$ -	$ -
		Total	$ 115,331,612	$ 30,768,532	$ 365,091,857	$ 3,458,402

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The A&M System's investment policy requires that securities have a long-term rating of BB or better and the fixed income portfolio have an overall credit rating of AA or better by a nationally recognized statistical rating organization (NRSRO) at time of purchase. Securities using short-term credit ratings must be rated at least A-2, P-2, F-2 or equivalent. As of August 31, 2009, the A&M System's credit quality distribution for securities with credit risk exposure is as follows:

Standard & Poor's
(in thousands)

Fund Type	GAAP Fund	Investment Type	AAA	AA	A	BBB	BB	B	CCC	A-1	Unrated
05	9999	U.S. Govt Agency Obligations	114,620								
05	9999	Corporate Obligations	7,335	9,974	81,383	62,028	25,523	2,866			
05	9999	Corporate Asset and Mortgage Backed Securities	30,433	4,588		4,856			716		3,075
05	9999	International Obligations	49,423	12,855	23,317	17,008	4,266	562			7,901
05	9999	Repurchase Agreements (Texas Treasury Safekeeping Trust Co.)	400								
05	9999	Commercial Paper								277,166	
05	9999	Repurchase Agreements	208,204								
05	9999	Fixed Income Money Market and Bond Mutual Fund									5,994
05	9999	Miscellaneous (municipals and CDs)			2,648						7,400

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2009, no more than 5% of the A&M System's total investments are represented by a single issuer. The

A&M System's investment policy states that not more than 4.9% of the voting stock of any one corporation shall be owned by the A&M System at any given time, but does not otherwise address concentration of credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the A&M System manages its exposure to fair value losses arising from changing interest rates by requiring fixed income managers to maintain duration of +/- 20% of the effective duration of the appropriate index. In addition, the A&M System's policy limits the duration of its short term investment portfolio to a maximum of one year. The A&M System's exposure to interest rate risk is presented using the effective duration method as follows:

Investment Type	**Effective Duration**	**Market Value**
U.S. Treasury Securities	1.892	72,981,207
U.S. Government Agency Obligations		
Agencies and Other U.S. Government Obligations	0.295	21,718,204
CMO Government Agencies	1.440	1,586,394
U.S. Government Mortgages	2.356	114,266,490
Corporate Obligations		
Corporates and Other Credit	3.881	158,076,189
U.S. Private Placements	4.451	31,032,394
Corporate Asset and Mortgage Backed Securities		
CMBS	5.613	18,608,250
CMO Corporate	1.118	13,047,963
Asset Backed Securities	0.422	12,011,909
International Obligations	3.994	115,331,612
Repurchase Agreements	0.000	208,204,429
Repurchase Agreements TTSTC	0.003	400,155
Fixed Income Money Market and Bond Mutual Funds	0.147	5,994,323
Commercial Paper	0.050	277,166,135
Miscellaneous		
Political subdivisions	2.711	2,647,668
CDs	0.225	7,400,000
Total Fair Value		1,060,473,322
Portfolio Effective Duration	1.675	

Securities Lending

The A&M System engages in securities lending transactions for investments included in its two internal investment pools: the Cash Concentration Pool and the System Endowment Fund. Authority to engage in these transactions is granted to the Board of Regents in Texas Education Code, Section 51.0031, and is allowed under the A&M System investment policy. No violations of applicable law, Board policy or contract provisions occurred during fiscal year 2009.

GASB No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, provides guidance for entities reporting and disclosing securities lending transactions. This guidance includes reporting certain securities lending collateral on the Balance Sheet as an asset with a corresponding liability to repay the collateral, and disclosure of related custodial credit risk for any collateral reported on the Balance Sheet.

Securities lending transactions may include both fixed income and equity securities lent by the A&M System and cash, fixed income securities, repurchase agreements, and letters of credit received as collateral from borrowers by the A&M System. The A&M System cannot pledge or sell securities received as collateral without default of the borrower. Market value of the received cash must be at least 102% of the market value of the lent securities at the inception of the transaction. Market values are monitored throughout the transaction, and additional cash or securities are required from the borrower if the market value of the collateral falls below 100%.

Cash collateral received from the borrower is invested in a collective investment portfolio that includes investments with next day liquidity. The portfolio has a liquidity target of 20%, but does not generally match the maturities of investments with the term maturities of the loan agreements. There are no restrictions on loan amounts. The lending agent is not liable with respect to any losses incurred by the A&M System in connection with the securities lending transactions, except to the extent that such losses result from the lending agent's negligence or willful misconduct in its administration of the securities lending contract.

The A&M System had no credit risk related to twenty-two securities lending relationships because the amount the A&M System held as collateral exceeded the amounts the borrowers owed the A&M System. No losses were incurred during the fiscal year as a result of default by a securities lending borrower or agent and no losses were reported in the previous period.

The total market value of securities on loan as of August 31, 2009 was $74,723,984. Cash collateral holdings consisted of $74,801,644 invested in the securities lending collateral investment pool. The corresponding market value of these investments was $73,887,888 as of August 31, 2009 representing a net decrease in fair value of $913,756.

The cash collateral pool experienced a significant decline in market value on holdings of Sigma Finance and subsequently transferred to each pool participant their share of the total Sigma Finance assets and a corresponding payable to the security lending cash collateral pool. The net effect was to transfer the unrealized loss from the securities lending cash collateral pool to each of the participants. The amount transferred to the A&M System was $1,829,553 and as of August 31, 2009 had a market value of $183. The amount of the loss that may be realized is unknown due to pending litigation. As of August 31, 2009, the A&M System’s maximum potential loss was $1,829,370.

Derivative Investing

The A&M System investment policy allows investment in certain derivative securities. A derivative security is a financial instrument which derives its value from another security, currency, commodity, or index.

The A&M System entered into forward currency contracts for the purpose of hedging international currency risk on its non-U.S. dollar denominated investment securities and to facilitate trading strategies primarily as a tool to increase or decrease market exposure to various foreign currencies. When entering into a forward currency contract, the A&M System agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are valued daily and the A&M System’s net equity in the contracts, representing unrealized gain or loss on the contracts as measured by the differences between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in other receivables or payables. Realized and unrealized gains and losses are included in the consolidated Statement of Revenues, Expenses and Changes in Net Assets. These instruments involve market and/or credit risk in excess of the amount recognized in the consolidated balance sheet. Risks arise from the possibility counterparties will be unable to meet the terms of their contracts and from movement in currency, securities values and interest rates. The table below summarizes the pending foreign exchange contracts as of August 31, 2009. The “Net Sell” amounts represent the U.S. dollar equivalent of commitments to sell foreign currencies less the commitments to buy foreign currencies.

Currency	Net Sell	Unrealized Gain on Foreign Exchange Contracts	Unrealized Loss on Foreign Exchange Contracts
Euro	$ 12,894,520	$ 25,564	$ 128,591
New Zealand Dollar	$ 3,610,478	$ 149,608	$ 511,981
Total	$ 16,504,998	$ 175,172	$ 640,572

The A&M System has invested in U.S. Treasury futures contracts for the purpose of managing the duration of its liquidity portfolio. These instruments are subject to market, credit risk and counterparty risk. The portfolio manager includes derivatives in the portfolio that would not create additional risk as compared to cash instruments. Futures contracts are used as a way to gain the same risk exposure in a more efficient manner. The manager ensures that counterparty risk is well diversified and meets the credit quality criteria established in the account. Futures contracts are marked to market daily and the daily gain or loss difference is settled in cash with the broker. The combined nominal value of open contracts was $1,508,094 as of August 31, 2009, and the associated net liability was $5,250.

The System has invested in mortgage derivatives such as Collateralized Mortgage Obligations (CMOs) and Commercial Mortgage Backed Securities (CMBSs) to enhance fixed income portfolio yields and manage duration. These investments are subject to interest rate risk, as well as economic and geographic risks. The A&M System's investments as of August 31, 2009 included non-government guaranteed CMOs and CMBSs with a fair value of $31,656,213.

Several limited partnerships and a comingled international equity fund in which the A&M System invests may employ the use of forward currency exchange contracts as a hedge in connection with portfolio purchases and sales of securities denominated in foreign currencies. Risks are consistent with those described in the above paragraph regarding direct currency hedging. The contracts are valued at the prevailing forward exchange rate of the underlying currencies and the unrealized gain (loss) is recorded daily. Unrealized gains and losses that represent the difference between the value of the forward contract to buy and the forward contract to sell are included in the net unrealized gain (loss) from the forward contracts. As of August 31, 2009, the A&M System's investment in international funds that may employ forward currency exchange contracts was $163,564,405.

Hedge fund pools are invested in private placements with external managers who invest in equity and fixed income securities of both domestic and international issuers. These investment managers may invest both long and short in securities and may utilize leverage in their portfolios. They may also utilize credit default swaps and total return swaps as part of their investment strategies. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios. When credit default swaps or total return swaps are used, there is additional risk of counterparty non-performance and unanticipated movements in the fair value of the underlying securities. As of August 31, 2009, the A&M System's investment in hedge funds was $365,077,935 including $17,242,059 in a REIT hedge fund and $11,051,591 in a fund that focuses on companies structured as master limited partnerships.

Private investment pools are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments, both domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk and investment manager risk. Certain funds may utilize credit default swaps which have additional risk, including the risk of counterparty nonperformance. Collateral in the form of cash or securities may be required to be held in segregated accounts with the fund's custodian. Bi-lateral agreements and daily settlement with counterparties reduce the risk of counterparty nonperformance. As of August 31, 2009, the A&M System has committed $274,850,264 to various private investments, of which $141,929,239 has been funded. The fair value of the investments as of August 31, 2009 was $105,930,654. In addition, the A&M System has invested directly in companies and partnerships to promote research technology. As of August 31, 2009, the fair value of the investments in research technology was $205,495. Associated risks include those applicable to other private investments as well as the risk of enterprise failure.

Hedge funds, private investment and public market funds include investments in private placement vehicles are subject to risks, which could include the loss of invested capital. The risks include the following:

- Non-regulation risk – Some of the A&M System's general partners and investment managers are not registered with the Securities and Exchange Commission or other domestic or international regulators, and therefore are not subjected to regulatory controls.
- Key personnel risk – The success of certain funds is substantially dependent upon key investment managers and the loss of those individuals may adversely impact the fund's performance.
- Liquidity risk – Many of the A&M System's investment funds may impose lock-up periods, which would cause the A&M System to incur penalties to redeem its investment or prevent the System from redeeming its shares until a certain period of time has elapsed.
- Limited transparency – As private placement vehicles, these funds may not fully disclose the holdings of their portfolios.
- Investment strategy risk – These funds often employ sophisticated investment strategies and the use of leverage, which could result in the loss of invested capital.

Permanent University Fund

The Permanent University Fund (PUF) is administered by the University of Texas System and is not reflected in the financial statements of the A&M System. Prior to changes in the arbitrage laws, plant funds were appropriated from bond proceeds only after the bonds had been sold and cash was on hand. Currently, receipt of cash may or may not precede appropriations of bond or note proceeds.

The total carrying value of the PUF assets at August 31, 2009, was $9,512,868,601 excluding PUF land grants. By acts of the Legislature and provisions of the State Constitution, the net income of the PUF is divided one-third to the A&M System and two-thirds to the University of Texas System. The A&M System's one-third share of the net revenues was $182,334,973 for the fiscal year ended August 31, 2009, and was credited to the A&M System Available University Fund as reported in Unrestricted Funds.

Note 4: Summary of Long-Term Liabilities

During the year ended August 31, 2009, the following changes occurred in liabilities:

		Balance 9/1/2008		Additions		Deductions		Balance 8/31/2009		Amounts Due Within One Year
Employees' Compensable Leave		337,918		16,920		16,043		338,795		33,613
Other Post Employment Benefits		984,948		626,990		0		1,611,938		263,262
Total	$	1,322,866	$	643,910	$	16,043	$	1,950,733	$	296,875

Employees' Compensable Leave

Substantially all full-time University employees earn annual leave in the amount of 8 to 21 hours per month depending upon the respective employee's years of state employment. State law permits employees to carry accrued leave forward from one fiscal year to another fiscal year with a maximum of 532 hours for those employees with 35 or more years of state service. Eligible part-time employees' annual leave accrual rate and maximum carryover are proportional to the number of hours appointed to work. Employees with at least six months of state service who terminate their employment are entitled to payment for all accumulated annual leave.

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is off due to illness or to the estate of an employee in the event of his or her death. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The University's policy is to recognize the cost of sick leave when paid, and the liability is not shown in the financial statements because experience indicates that the expense for sick leave will be minimal. Eligible part-time employees' sick leave accrual rate is proportional to the number of hours appointed to work.

Pollution Remediation Obligations

Texas A&M University – Texarkana has no outstanding pollution remediation obligations for fiscal year 2009.

Notes and Loans Payable

Notes payable consists of amounts used to make permanent improvements at the University to provide interim financing for capital improvements and acquisition of equipment and land, to pay interest on the notes, to refund outstanding notes as they mature and to pay the costs of issuing the notes.

The University did not have any notes and loans payable outstanding as of August 31, 2009.

Note 5: Bonded Indebtedness

The University may receive proceeds from revenue bonds issued and held by the System to support capital projects of the System and its institutions. These proceeds are recorded as transfers from the System. The University disburses funds to the System for payments of principal and interest related to the University's share of bond proceeds. These disbursements are recorded as transfers to the System. All bonds issued by the System are defined as revenue bonds. As such, the revenues of the System, including the University, are pledged for repayment of the bonds. Segment information requirements are not applicable, due to the bond indentures' lack of specifically identifiable activities and separate accounting requirements imposed by an external party.

No amount of indebtedness related to these bonds has been recorded in the University's financial statements as the System is the party directly liable for these bonds. At August 31, 2009, the University did not have any remaining unpaid share of the bond proceeds.

Note 6: Operating Leases

A summary of operating leases as of the year ended August 31, 2009, is presented below:

Year Ended August 31, 2009		Total
2009		46,682
2010		42,110
2011		42,110
2012		0
2013		0
2014-2018		0
2019-2023		0
2024-2028		0
2029-2033		0
2034-2038		0
Total Minimum Future Lease Payments	$	130,902

Note 7: Interagency Balances / Activity

As of August 31, 2009, amounts to be received or paid between agencies are to be reported as:

- Due From or Due To Other State Entities
- Transfers In From or Transfers Out To Other State Entities
- Legislative Transfer In or Legislative Transfer Out

The University made routine transfers with other state agencies, which were consistent with the activities of the fund making the transfer. Individual balances and activity at August 31, 2009, were as follows:

DUE FROM/TO OTHER STATE ENTITIES					
Entity		Due from Other State Entities		Due to Other State Entities	Purpose
Texas A&M System Offices	$		$	30,000	Due to SAGO - construction proceeds
The Higher Education Coordinating Board		1,282			Due from THCB - Designated Tuition set-asides
Texas Education Agency		62,097			Due from TEA - sponsored projects
City of Texarkana, Arkansas		4,727			Due from City of Texarkana, AR - sponsored projects
Texas A&M Research Foundation		13,369			Due from TAMURF - Federal Flow-through Grants
	$	81,475	$	30,000	

TRANSFERS IN FROM/OUT TO OTHER STATE ENTITIES					
Entity		Transfers In from Other State Entities		Transfers Out to Other State Entities	Purpose
Texas A&M System Offices	$	138,216	$		Transfer from SAGO - System Endowment Fund Appreciation Reserve
Texas A&M System Offices				143,543	Transfer to SAGO - System Endowment Fund Appreciation Reserve
Texas A&M System Offices				30,000	Transfer to SAGO - construction proceeds
The Higher Education Coordinating Board				7,080	Transfer to THCB - Designated Tuition set-asides
	$	138,216	$	180,623	

LEGISLATIVE TRANSFERS IN/OUT					
Entity		Legislative Transfers In		Legislative Transfers Out	Purpose
Legislative Transfer Out	$		$	8,181,594	Legislative Transfer out for Debt Service Payment
	$	0	$	8,181,594	

Note 8: Contingent Liabilities

At August 31, 2009, various lawsuits and claims involving the University had arisen in the course of conducting University business. While the ultimate liability with respect to litigation and other claims cannot be reasonably estimated at this time, management is of the opinion that the liability not provided for by insurance or otherwise, if any, for these legal actions will not have a material adverse effect on the A&M System's financial position.

Note 9: Risk Financing and Related Insurance

Risk financing and related insurance is managed centrally at the Texas A&M University System. Information included below is presented from the Texas A&M University System perspective. All unpaid claim liabilities are held on Texas A&M System books and are not applicable to Texas A&M University - Texarkana.

The A&M System is exposed to various risks of loss related to property – fire, windstorm or other loss of capital assets; general and employer liability – resulting from alleged wrongdoings by employees and others; net income – due to fraud, theft, administrative errors or omissions, and business interruptions; and personnel – unexpected expense associated with employee health, termination or death. As an agency of the State of Texas, the A&M System and its employees are covered by various immunities and defenses which limit some of these risks of loss, particularly in liability actions brought against the A&M System or its employees. Remaining exposures are managed by self-insurance arrangements, contractual risk transfers, the purchase of commercial insurance, or a combination of these risk financing techniques.

All commercial insurance policies include retention amounts (deductibles) for which the A&M System is responsible and for which A&M System members maintain funding reserve pools. Ongoing analysis of the risks facing the A&M System results in the continual evaluation of insurance policies purchased. During the past year, insurance coverage has changed. However, these changes do not represent a material increase in risk to the A&M System and losses have not exceeded funding arrangements during the past three years.

Texas A&M University - Texarkana participates in The Texas A&M University System Facilities Insurance Program. This self-insured program provides property damage coverage for named facilities and property of the Member to a limit of $2.5 million. The Member is responsible for payment of premiums when charged as well as deductible payment of up to $300,000 in the event of a loss.

The A&M System has self-insured arrangements for coverage in the areas of workers' compensation, group health and dental insurance and certain areas of medical malpractice. Based on the requirements of GASB No. 10, liabilities for claims have been reported where information prior to issuance of the financial statements indicated that it was probable that a liability had been incurred and the amount of the loss could be reasonably estimated.

The workers' compensation plan is considered a funded employer liability pool. The workers' compensation incurred but not reported liability is based on actuarial analysis of all historical claims data. The plan provides claims servicing and claims payments by charging a "cost allocation" assessment to each A&M System member based on a percentage of payroll.

Texas A&M University - Texarkana participates in The Texas A&M University System Workers' Compensation Insurance Program. That program provides statutory coverage for all employees of the System. Financial requirements of the members are for payment of the annual insurance premium. For TAMUT, the fiscal year 09 rate was $0.05 per $100 of payroll.

The A&M System implemented a self-insured health and dental plan on September 1, 1994, which is also considered a funded pool. Premiums are determined through an actuarial pricing process that takes place each spring. The A&M System maintains an experience stabilization fund of $24,654,080 that is comprised of excess premiums from previous years and is used to offset losses in a given year. Dental benefits under the plan are limited to $1,500 per individual per year, so the potential for catastrophic loss is not a significant risk.

Self-Insured Health Plan - System member is responsible for performing payroll deductions and retiree billing in order to collect the employee's portion of the premium on a monthly or biweekly basis. In addition, the System member is responsible for funding the applicable employer contribution for eligible employees and retirees. Employee and employer premiums collected by all System members are transferred to the A&M System Office by equity transfer. These premiums are pooled at the System level to pay for claims and administrative expenses associated with the plan. The A&M System maintains a reserve fund for the self-insured health and dental plans with a current balance of $24,654,080 that is comprised of excess premiums from previous years that is used to offset losses in a given year. The plan currently maintains an individual stop-loss policy with an attachment point of $500,000. The A&M System Office is responsible for contracting, compliance, and plan design.

Self-Insured Dental Plan - System member is responsible for performing payroll deductions and retiree billing in order to collect the employee's portion of the premium on a monthly or biweekly basis. The majority of dental premiums are paid by the employee. Individuals who elect not to enroll in an A&M System health plan may certify that they are enrolled in other health coverage and thereby have access to a portion of the employer contribution to pay for dental coverage. Otherwise, there is no employer contribution for the dental program. For those who qualify as described above, the System member is responsible for funding the applicable employer contribution. Employee and employer premiums collected by all System members are transferred to the A&M System Office by equity transfer. These premiums are pooled at the System level to pay for claims and administrative expenses associated with the plan. The A&M System maintains a reserve fund for the self-insured health and dental plans with a current balance of $24,654,080 that is comprised of excess premiums from previous years that is used to offset losses in a given year. Dental benefits under the plan are limited to $1,500 per individual per year, so the potential for catastrophic loss is not a significant risk. The A&M System Office is responsible for contracting, compliance, and plan design.

Note 10: Stewardship, Compliance, and Accountability

For the year ended August 31, 2009, the University is reporting financial information in accordance with requirements set forth by GASB No. 34 and No. 35. Changes to the financial reports of the University are discussed in Note 1. The University has no material violations of finance related legal and contract provisions. Per the laws of the State of Texas, the University cannot spend amounts in excess of appropriations granted by the Texas Legislature and there are no deficits reported in net assets or retained earnings.

Note 11: The Financial Reporting Entity

The A&M System is composed of a series of distinct members, each of which was created to render a specific service for the State within the limits of the A&M System's objectives, and all of which are under the control and direction of the Board of Regents of the A&M System. Texas A&M University - Texarkana is a distinct member of the Texas A&M System. Texas A&M University - Texarkana has no component units.

Note 12: Restatement of Net Assets

The University had restatement of net assets of $353,176 as of August 31, 2009.

Net Assets, September 1, 2008, as Restated		$	43,387,102	
Restatements:				
	(a) Construction in Progress	$	50,000	In FY 2006, payment for fiber optics on the Science and Technology Building was properly recorded as Construction in Progress. In FY 2008, this payment was expensed, in error, because of confusion over the purpose of the fiber optics and because the payment did not meet the capitalization threshold. In FY 2009, a restatement to Net Assets was booked to correct the FY 2008 error.
	(b) Adjustment to Cash		303,176	Due to cumulative accounting errors, this adjustment was necessary in order for TAMUT banks to fully reconcile to actual cash balances held in local and state banks.
Total Restatements		$	353,176	
Net Assets, September 1, 2008, as Restated		$	43,740,278	

Note 13: Employee Retirement Plans

Information included in this note is presented from a Texas A&M University System perspective.

The State of Texas has joint contributory retirement plans for substantially all its employees. The contribution amounts for both the employee and the A&M System are set by the Texas Legislature and can change over time. One of the primary plans in which the A&M System participates is administered by the Teacher Retirement System of Texas. The contributory percentages of participant salaries provided by the State and by each participant during the fiscal year were 6.58% and 6.4%, respectively, of annual compensation.

The Teacher Retirement System of Texas does not separately account for each of its component governmental agencies, since the Retirement System bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature.

The retirement expense to the State for the A&M System TRS retirement program was $21,048,103.82 for the year ended August 31, 2009. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the A&M System. Further information regarding actuarial assumptions and conclusions, together with audited financial statements, is included in the Teacher Retirement System's annual financial report.

The State has also established an Optional Retirement Program for institutions of higher education. Participation in the Optional Retirement Program is in lieu of participation in the Teacher Retirement System. The Optional Retirement Program provides for the purchase of annuity contracts and mutual funds. The contributory percentages of participant salaries during the fiscal year provided by the State and by each participant who was enrolled in the plan on or before August 31, 1995 were 8.5% and 6.65%, respectively. The 8.5% is composed of 6.58% contributed by the State and an additional 1.92% contributed by the A&M System. For participants who enrolled on or after September 1, 1995, the State and participant contributions were 6.58% and 6.65%, respectively. Since these are individual annuity contracts or custodial agreements, the State has no additional or unfunded liability for this program.

The contributions for the A&M System ORP retirement program were as follows:

Optional Retirement Program

		Amount
Employer Contributions	$	42,163,151
Employee Contributions	$	37,183,626
Total	$	79,346,777

Effective January 1, 1999, the A&M System implemented an excess benefit arrangement under Section 415(m) of the Internal Revenue Code (IRC).

Since the A&M System bears no responsibility for retirement commitments beyond contributions, GASB No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*, do not apply to these financial statements or disclosures.

The ORP expense to the University was $348,353 for the year ended August 31, 2009. Of this amount, $205,730 represents the portion of appropriations made by the State Legislature expended on behalf of the University and $142,623 represents the portion paid from the University's funds.

Note 14: Deferred Compensation Program

University employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Texas Government Code, Section 609.001. Deferred compensation plans are administered by the Employees Retirement System.

The State's 457 Plan complies with Internal Revenue Code, Section 457. This plan is referred to as the Texa$aver Deferred Compensation Plan (DCP) and is available to all employees. The DCP is a State plan, and the deductions, purchased investments, and earnings attributed to the 457 Plan are the property of the State and subject only to the claims of the State's general creditors. Participant rights under the plan are equal to those of the general creditors of the State in an amount equal to the fair market value of the 457 account for each participant. The State has no liability under the 457 Plan, and it is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.

The A&M System also administers a Tax-Deferred Account (TDA) Program, created in accordance with IRC Section 403(b). All employees are eligible to participate. The TDA is a private plan, and the deductions, purchased investments, and earnings attributed to each employee's 403(b) plan are held by vendors chosen by the employee. The vendors may be insurance companies, banks, or approved non-bank trustees such as mutual fund companies. The assets of this plan do not belong to the A&M System or the State and thus it does not have a liability related to this plan.

The 457(f) Deferred Compensation Plan allows the A&M System to defer income for eligible participants without regard to the amount deferred or an adverse impact on other retirement plans in which the participant is enrolled. The plan is structured under Section 457(f) of the Internal Revenue Code of 1986, as amended. It is authorized for use by Texas institutions of higher education in Title 109, Article 6228a-5, Section 3 of Vernon's Texas Civil

Statutes. All employees of the A&M System are eligible to participate in this plan subject to the approval of the Board of Regents, the Chancellor, or any Chancellor-designated A&M System member Chief Executive Officer.

The Nonqualified Share Option Plan is designed to allow the transfer of shares of specific mutual funds to designated employees of the A&M System. The plan is structured under Section 83 of the Internal Revenue Code of 1986, as amended. All employees of the A&M System are eligible to participate in this plan subject to the approval of the Board of Regents, the Chancellor, or any Chancellor-designated A&M System member Chief Executive Officer.

Note 15: Donor-Restricted Endowments

Donor-restricted endowments are managed centrally at the Texas A&M University System. Information included in this note is presented from a Texas A&M University System perspective.

The purpose of The Texas A&M University System Endowment Fund (the Fund) is to provide for the collective investment of all endowment and trust funds held by the A&M System or by the Board of Regents of the A&M System in a fiduciary capacity. The Fund is used to provide funding for scholarships, fellowships, professorships, academic chairs and other uses as specified by donors.

Distribution is made quarterly as soon as practicable after the last calendar day of November, February, May, and August of each fiscal year to the endowment and trust funds participating in the Fund during the respective quarter. Income consists of interest earnings, dividends and realized capital gains. The income distribution per unit for each fiscal year will be to distribute, excluding fees, 5% of the 20-quarter average market value per unit as of the end of the previous February.

Chapter 163 of the Texas Property Code (also cited as the Uniform Prudent Management of Institutional Funds Act) grants the University the authority to spend net appropriations.

The amount of net appreciation for donor restricted true endowments is shown in the table below:

Net Appreciation of Donor-Restricted Endowments

Donor-Restricted Endowments	Amounts of Net Appreciation	Reported in Net Assets
True Endowments	$ 78,624,235	Restricted for Expendable

The amount of net appreciation for donor restricted endowments specific to the University is $558,941, and is reported as Restricted on the Statement of Net Assets.

Note 16: Post-Employment Health Care and Life Insurance Benefits

Post-employment health care and life insurance benefits are managed centrally by the Texas A&M University System for all system components. Information included in this note is presented from a Texas A&M University System perspective.

Plan Description and Funding Policy

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired employees in accordance with State statutes. Substantially all of the employees may become eligible for those benefits if they reach normal retirement age while working for the State. Those and similar benefits for active employees are provided through the group insurance program, and premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expensing the annual premiums. For the year ending August 31, 2009, the employer contributions are presented below.

Employer Contribution Rates

Level of Coverage	Amount
Full-Time Employee/Retiree Only	$ 375.94
Full-Time Employee/Retiree and Spouse	$ 551.53
Full-Time Employee/Retiree and Children	$ 485.69
Full-Time Employee/Retiree and Family	$ 639.33

For the year ended August 31, 2009, benefit plan expenditures totaled $160,035,264. The cost of providing benefits for 6,801 retirees was $37,325,544; and for 22,860 active employees the cost was $122,709,719.

Other Postemployment Benefits (OPEB) are benefits provided to the A&M System's retirees under the A&M System group insurance program. The authority under which the obligations of the plan members and the A&M System are established, and may be amended, is Chapter 1601, *Texas Insurance Code*.

The A&M System and member contribution rates are determined annually by the A&M System based on the recommendations of the A&M System Office of Benefits Administration. The plan rates are based on the plan costs that are expected to be incurred, the funds appropriated for the plans, and the funding policy established by the Texas Legislature in connection with benefits provided through the plan. The A&M System revises benefits plans and rates as necessary to match expected costs with available revenue. The plan is operated on a pay-as-you-go basis and is unfunded.

Because the OPEB plan described herein is not administered through a trust as defined under Paragraph No. 4 of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 43 accounting is not applicable to the A&M System.

For the year ended August 31, 2009, the contributions for the self-funded plan by the state per full-time retired employee are shown in the following table. Because this is year 2 of the calculation, a three-year history does not exist. The retiree contributes any premium over and above state contributions.

Three-Year Schedule of Employer Contributions

Fiscal Year Ending	Employer Contribution	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation At End of Fiscal Year
8/31/2009	$ 37,325,544	$116,890,000	32%	$ 219,873,275
8/31/2008	$ 36,284,181	$176,593,000	21%	$ 140,308,819

The OPEB expense reflected in the Statement of Revenues, Expenses and Changes in Net Assets is net of the Employer Contributions, as these costs are included as a portion of Payroll Related Costs expense.

Annual OPEB Cost and Net OPEB Obligation

The annual OPEB cost of the plan is calculated and based on the annual required contribution (ARC). The ARC is the amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period of years, not to exceed 30 years. The following table shows the components of the annual OPEB cost for the year for the plan:

Annual OPEB Cost and Net OPEB Obligation

Annual Required Contribution (ARC)	$ 112,570,000
Interest on Net OPEB Obligation	13,189,000
Adjustment to ARC	(8,869,000)
Annual OPEB Cost	116,890,000
Employer Contributions Made	(37,325,544)
Increase Net OPEB Obligation	79,564,456
Net OPEB Obligation 9/1/2008	140,308,819
Net OPEB Obligation 8/31/2009	$ 219,873,275

Schedule of Funding Progress of the Plan

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The amounts determined for the funded status of the plan and the Annual Required Contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The multiyear schedule of funding progress is presented in the following table:

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over AAL (Unfunded AAL) (a)-(b)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	Ratio of UAAL to Covered Payroll ((a-b)/c)
9/1/2008	$ -	$ 1,258,563,000	$ (1,258,563,000)	0.0%	$ 1,260,683,042	99.8%
9/1/2007	$ -	$ 1,993,236,000	$ (1,993,236,000)	0.0%	$ 1,140,125,643	174.8%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used in the plan valuation include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional detail about the actuarial assumptions used in the plan valuation is outlined in the following table:

Summary of Actuarial Methods and Assumptions

Actuarial Valuation Date	September 1, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay
Remaining Amortization Period of Unfunded Liability	30 years
Actuarial Assumptions:	
Investment Rate of Return	9.4%
Inflation	4.0%
Health Care Trend Rates	8.0% in 2010
	Decreasing to 6.0% in 2014

Medicare Part D

In fiscal 2009 the plan received payments from the federal government pursuant to the retiree drug subsidy provisions of Medicare Part D. GASB Statement No. 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance, requires that these on-behalf payments be recorded as revenues and expenses of each plan. In fiscal 2009 the system received $3.8 million of Medicare Part D payments from the federal government.

Note 17: Disaggregation of Receivable and Payable Balances

A summary of accounts receivable and accounts payable balances for the University for the year ended August 31, 2009, is presented below. Receivables/payables defined as 'Other' were further detailed if the balance was 5% or greater of total receivables/payables.

Accounts Receivable:				
Current Accounts Receivable				Amount on III-FUND
Federal Receivables				31,151
Student Receivables				469,460
Other				8,388
		Total		508,999
Accounts Payable:				
Current Accounts Payable				Amount on III-FUND
Accounts Payable				195,422
Payroll Payable				1,118,173
Other				94,033
		Total		1,407,628
Other Payables				
Sales Tax Payable				42
Student Liabilities				45,981
Other				48,010
		Total		94,033

Note 18: Termination Benefits

Termination benefits are managed centrally at the Texas A&M University System. Information included in this note is presented from a Texas A&M University System perspective. Texas A&M University - Texarkana has no obligation to pay for any termination benefits specifically incurred by the University.

As of August 31, 2009, the A&M System had incurred obligations to pay termination benefits of $78,073 in fiscal year 2010. Included in these current liabilities are commitments for severance pay and payroll related costs pertaining to these terminations.

For the fully-insured HMO health plans, dental plan, and vision plan, the carrier is responsible for the billing and collection from all COBRA participants. The carrier retains all premiums and is liable for all claims and expenses. Enrollment information for these plans is included below; however, the A&M System does not have premium and expense information related to these plans.

For the self-insured health and dental plans, the carrier performs the billing and collections process for COBRA participants. The carrier then forwards the premium to the A&M System, net of the 2% administrative fee, which is intended to cover costs related to the billing and collection functions. However, since the plan is self-insured, the A&M System is responsible for any claims or administrative costs associated with COBRA participants, and these amounts are included below.

As part of the stimulus funding from the federal government, some of the terminated employees were eligible for the 65% subsidy for COBRA coverage. The Federal Department of Labor agreed to reimburse employers the 65% COBRA reimbursement up to 9 months. This applies to employees who were involuntarily terminated between September 1, 2008 and December 31, 2009. The maximum end of the 9 month payment period will be September 30, 2010.

For fiscal year 2009, the total 65% COBRA funding that TAMU System members received from the Federal Grant was $52,869 for fiscal year 2009.

COBRA benefits for the Texas A&M University System for the ended August 31, 2009 are as follows:

Termination Benefits - COBRA

	Self-Insured Medical Plan	Self-Insured Dental Plan	Fully-Insured Medical HMO Plans	Fully-Insured Dental Plan	Fully-Insured Vision Plan
Number of Participants	197	124	47	32	75
Premium Revenue	$ 785,974	$ 53,094			
2 Percent Administrative Fee Revenue	14,781	1,079			
Total COBRA Revenue	800,755	54,173			
Claims Paid	1,678,402	64,682			
Administrative Expenses	22,541	4,576			
Total COBRA Expenses	1,700,943	69,258			
Total Cost to State	$ 900,188	$ 15,085			

State Auditor's Office
John Keel, CPA
State Auditor

March 9, 2010

Dr. Carlisle B. Rathburn III, President
Texas A&M University - Texarkana
2600 North Robison Road
P.O. Box 5518
Texarkana, TX 75505

Subject: Management Letter Resulting from a Review of Texas A&M University – Texarkana's Fiscal Year 2009 Financial Statements

Dear Dr. Rathburn:

We offer this management letter in conjunction with our review of the financial statements of Texas A&M University - Texarkana (University) for the fiscal year ended August 31, 2009. We reviewed the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; the Statement of Cash Flows; and the Notes to the Financial Statements. In the course of our review, which was substantially less in scope than an audit, we did not find that material modifications needed to be made to the financial statements in order for them to be in conformity with generally accepted accounting principles.

We appreciate the assistance provided during this review by the management of the University and Internal Audit. If you have any questions, please call me at (512) 936-9500.

Sincerely,

Sandra Vice

Sandra Vice, CGAP, CIA, CISA
Assistant State Auditor

Robert E. Johnson Building
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SAO Report No. 10-341

TEXAS STATE UNIVERSITY
SAN MARCOS
The rising STAR *of Texas*

A member of The Texas State University System

Annual Financial Report

for the fiscal year ended August 31, 2009

Contents

State Auditor's Office
John Keel, CPA
State Auditor

Auditor's Review Report

February 4, 2010

Dr. Denise M. Trauth, President
Texas State University – San Marcos
601 University Drive
San Marcos, TX 78666

Dear Dr. Trauth:

We have reviewed the accompanying Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; Statement of Cash Flows; and Notes to the Financial Statements of Texas State University – San Marcos (University) as of and for the fiscal year ended August 31, 2009, in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The review was performed in accordance with the Southern Association of Colleges and Schools' (Southern Association) *Criteria for Accreditation*. All information included in these financial statements is the representation of management of the University.

A review consists principally of inquiries of University personnel and analytical procedures applied to financial data. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

The accompanying statements were prepared to present the financial position, the changes in financial position and the cash flows of the University. These statements are prepared pursuant to criteria of the Southern Association for supplementary special reports by institutions in states that conduct statewide audits.

Based on our review, with the exception of the matter described in the following paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The University has not presented a management's discussion and analysis section that the Governmental Accounting Standards Board has identified as required supplementary information that is not part of the basic financial statements. However, such required supplementary information for the University is presented in the Texas State University System's (System) consolidated annual financial report.

This report is intended for use by the Board of Regents of the System, management of the University, and the Southern Association. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,

John Keel, CPA
State Auditor

SAO Report No. 10-323

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Texas State University-San Marcos
Statement of Net Assets
At August 31, 2009
(See Auditor's Review Report on page 1.)

ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 3)	$	323,877,618
Restricted:		
Legislative Appropriations		39,878,943
Receivables, Net of Allowances:		
Federal		8,064,975
Interest and Dividends		665,961
Accounts		33,775,054
Gifts		2,862,609
Due from Other State Entities (Note 8)		1,608,997
Consumable Inventories		497,029
Merchandise Inventories		3,123,913
Loans and Contracts		2,101,977
Other Current Assets		17,394,317
Total Current Assets	$	433,851,393
Non-Current Assets		
Gifts Receivable	$	581,762
Investments (Note 3)		103,872,677
Loans and Contracts		321,997
Capital Assets (Note 2):		
Non-Depreciable		163,516,606
Depreciable		709,029,594
Less: Accumulated Depreciation		(381,328,924)
Other Non-Current Assets		5,254,829
Total Non-Current Assets	$	601,248,541
Total Assets	$	1,035,099,934
LIABILITIES		
Current Liabilities		
Payables:		
Accounts	$	24,716,864
Payroll		10,535,621
Due to Other State Entities (Note 8)		82,560
Deferred Revenue		123,319,509
Capital Lease Obligations (Notes 4, 6)		16,415
Employees' Compensable Leave (Note 4)		7,756,519
Revenue Bonds Payable (Notes 4,5)		540,000
Funds Held for Others		3,473,174

Other Current Liabilities	$	3,108,052
Total Current Liabilities	$	173,548,714
Non-Current Liabilities		
Capital Lease Obligations (Notes 4, 6)	$	62,183
Employees' Compensable Leave (Note 4)		3,625,599
Revenue Bonds Payable (Notes 4,5)		1,410,000
Total Non-Current Liabilities	$	5,097,782
Total Liabilities	$	178,646,496
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$	489,267,276
Restricted for:		
Non-Expendable		
Permanent Funds, True Endowments, Annuities		29,506,321
Expendable		
Debt Retirement		3,399,929
Capital Projects		109,351,801
Term Endowments		3,106,131
Other		34,182,212
Unrestricted		187,639,768
Total Net Assets	$	856,453,438

The accompanying Notes to the Financial Statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Assets

For the Fiscal Year Ended August 31, 2009
(See Auditor's Review Report on page 1.)

OPERATING REVENUES		
Tuition and Fees – Pledged	$	189,209,299
Discounts and Allowances		(25,772,205)
Auxiliary Enterprises – Pledged		62,737,572
Discounts and Allowances		(4,688,786)
Other Sales of Goods and Services – Pledged		10,707,052
Federal Revenue		19,972,378
State Grant Revenue		22,181,020
Other Operating Grant Revenue		5,183,983
Other Operating Revenues		363,841
Total Operating Revenues	$	279,894,154
OPERATING EXPENSES		
Cost of Goods Sold	$	7,408,052
Salaries and Wages		183,163,406
Payroll Related Costs		43,283,386
Professional Fees and Services		20,713,861
Travel		5,899,353
Materials and Supplies		36,121,280
Communications and Utilities		25,195,097
Repairs and Maintenance		7,852,875
Rentals and Leases		1,473,339
Printing and Reproduction		2,545,024
Depreciation and Amortization		26,287,944
Interest Expense		23,000
Scholarships		29,990,750
Other Operating Expenses		654,504
Total Operating Expenses	$	390,611,871
Operating Income (Loss)	$	(110,717,717)
NONOPERATING REVENUES (EXPENSES)		
Legislative Appropriations	$	103,261,690
Gifts		17,779,560
Interest and Investment Income (Loss)		4,882,236
Net Increase (Decrease) in Fair Value of Investments		(2,886,132)
Interest Expense and Fiscal Charges		(93,333)
Gain (Loss) on Sale of Capital Assets		(241,176)
Other Nonoperating Revenues – Pledged		1,797,234
Other Nonoperating Revenues/(Expenses)		27,542,842
Total Nonoperating Revenues (Expenses)	$	152,042,921
Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers	$	41,325,204
OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS		
Capital Contributions	$	86,611
Capital Appropriations (HEAF)		20,258,248
Additions to Permanent and Term Endowments		82,630
Transfers In from Other State Entities (Note 8)		41,342,900

Transfers Out to Other State Entities (Note 8)	$	(22,498,942)
Legislative Transfers In (Note 8)		1,466
Legislative Transfers Out (Note 8)		(11,725,825)
Legislative Appropriations Lapsed		(1,568)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	$	27,545,520
CHANGE IN NET ASSETS	$	68,870,724
Net Assets, September 1, 2008	$	790,130,642
Restatement of Net Assets (Note 14)		(2,547,928)
Net Assets, September 1, 2008, as Restated	$	787,582,714
NET ASSETS, August 31, 2009	$	856,453,438

The accompanying Notes to the Financial Statements are an integral part of this statement.

Statement of Cash Flows

For the Fiscal Year Ended August 31, 2009
(See Auditor's Review Report on page 1.)

CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Tuition and Fees	$	169,223,268
Receipts from Customers		10,707,052
Proceeds from Research Grants and Contracts		17,156,028
Proceeds from Loan Programs		5,296,709
Proceeds from Auxiliaries		58,048,786
Proceeds from Other Revenues		40,495,527
Payments to Suppliers for Goods and Services		(89,743,979)
Payments to Employees for Salaries		(185,783,507)
Payments to Employees for Benefits		(42,477,241)
Payments for Loans Provided		(5,263,683)
Payments for Other Expenses		(36,558,411)
Net Cash Provided (Used) by Operating Activities	$	(58,899,451)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Legislative Appropriations	$	119,505,641
Proceeds from Gifts		18,637,639
Proceeds from Endowments		82,631
Proceeds of Transfers from Other Entities		1,424,551
Proceeds from Other Sources		27,542,842
Net Cash Provided (Used) by Non-Capital Financing Activities	$	167,193,304
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Issuance of Capital-Related Debt	$	41,342,900
Payments for Additions to Capital Assets		(80,086,380)
Payments of Principal on Capital-Related Debt		(22,469,561)
Payments of Interest on Capital-Related Debt		(12,415,774)
Net Cash Provided (Used) by Capital and Related Financing Activities	$	(73,628,815)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Interest and Investment Income	$	1,511,100
Payments to Acquire Investments		(72,557,391)
Net Cash Provided (Used) by Investing Activities	$	(71,046,291)
Net Increase (Decrease) in Cash and Cash Equivalents	$	(36,381,253)
Cash and Cash Equivalents, September 1, 2008	$	362,806,799
Restatements (See Note 14)		(2,547,928)
Cash and Cash Equivalents, September 1, 2008, as restated	$	360,258,871
Cash and Cash Equivalents, August 31, 2009	$	323,877,618

**Reconciliation of Operating Income (Loss) to
Net Cash Provided (Used) by Operating Activities**

Operating Income (Loss)	$	(110,717,717)
Adjustments:		
Depreciation and Amortization	$	26,287,944

Operating Income and Cash Flow Categories:		
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	$	8,639,051
(Increase) Decrease in Due from Other Entities		(1,203,892)
(Increase) Decrease in Inventories		226,809
(Increase) Decrease in Prepaid Expenses		(5,282,164)
(Increase) Decrease in Loans and Contracts		37,191
Increase (Decrease) in Payables		12,777,456
Increase (Decrease) in Deferred Revenue		13,109,719
Increase (Decrease) in Employees' Compensable Leave		808,213
Increase (Decrease) in Other Liabilities		(3,582,061)
Total Adjustments	$	51,818,266
Net Cash Provided (Used) by Operating Activities	$	(58,899,451)
Non-Cash Transactions		
Net Increase (Decrease) in Fair Value of Investments	$	(2,886,132)
Donated Capital Assets	$	5,983,629

Statement of Changes in Unrestricted Net Assets

For the Fiscal Year Ended August 31, 2009

Reserved		
Encumbrances	$	5,848,034
Accounts Receivable		10,537,805
Inventories		3,123,913
Higher Education Assistance Funds		21,895,532
Fees with Use Restricted by Statute:		
Student Service Fee (54.503)		2,189,151
University Center Fee (54.527)		1,435,536
Medical Service Fee		1,032,508
Student Bus Fee		2,167,664
Recreational Sports Fee		1,233,555
International Education Fee (54.5132)		254,375
Environmental Services Fee		81,838
Student Publication Fee		536,847
Petty Cash		227,740
Unreserved		
Allocated		
Future Operating Budgets		41,748,295
Capital Projects		11,416,646
Service Department Operating Funds		2,953,696
Auxiliary Enterprises Operating Funds		11,409,095
Designated Operations		3,566,114
Funds Functioning as Endowment - Unrestricted		13,806,492
Funds Functioning as Loans		4,746,834
Start-Up / Matching		6,959,000
Utilities Reserve		2,500,000
Student Fees		8,192,551
Renewals & Replacements		6,712,498
Debt Service		22,043,700
Other		1,020,349
Total Unrestricted Net Assets	$	187,639,768

(See Auditor's Review Report on page 1.)

General Introduction

This report has been prepared for the use of the Southern Association of Colleges and Schools (Southern Association) in connection with the review of Texas State University-San Marcos (University) for accreditation purposes. This report includes a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; a Statement of Cash Flows; and the related Notes to the Financial Statements. In accordance with Southern Association criteria or Governmental Accounting Standards Board requirements, the report also includes a Statement of Changes in Unrestricted Net Assets, and a management letter describing issues noted in the review.

Reporting Entity

The university is a component of the Texas State University System and an agency of the State of Texas. The university prepares financial statements that are included in the State's *Comprehensive Annual Financial Report,* which is audited by the Texas State Auditor's Office.

Note 1: Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The accompanying financial statements of Texas State University–San Marcos (Texas State University) have been prepared in compliance with Texas Government Code Annotated, Section 2101.011, in accordance with the applicable requirements established by the Comptroller of Public Accounts and Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

Financial reporting for the university is based on all GASB pronouncements, as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Auditing Practices Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

NATURE OF OPERATIONS

Texas State University is a progressive university that serves the local, state, national and international communities by providing its approximately 29,000 students with academic instruction. The university offers degrees in 101 undergraduate programs, 88 graduate programs, 8 doctoral fields and 1 professional field. Through research, instruction, and other activities that advance essential knowledge and dissemination of that knowledge, the university serves the people of Texas and others throughout the world.

REPORTING ENTITY

The financial reporting entity, as defined by GASB Statement No. 14, *The Financial Reporting Entity*, consists of the primary government organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete.

Texas State University is governed by the Board of Regents for The Texas State University System as a component unit. The Texas State University System is a component of the State of Texas and is reported by the State of Texas in the proprietary fund.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

As an agency of the State of Texas, Texas State University is reflected as a special-purpose government engaged in only business type activities. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services and focus on determining operating income, changes in net assets, financial position, and cash flows. Operating items are distinguished from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the principle of ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All significant inter-agency transactions have been eliminated.

RESTRICTED NET ASSETS

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

USE OF ESTIMATES IN THE PREPARATION OF BASIC FINANCIAL STATEMENTS

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 and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

A significant estimate for scholarship discounts and allowances is made by the university. Allowances are determined by using the Alternate Method as issued by National Association of College and University Business Officers in the *Advisory Report 2000-05*. This method resulted in a total estimate of $30,460,991 for the university's discounts and allowances related to tuition and auxiliary enterprises.

CURRENT AND NON-CURRENT ASSETS

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

CASH AND CASH EQUIVALENTS

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

ACCOUNTS RECEIVABLE

The university's accounts receivable primarily relate to tuition and fee charges to students and to auxiliary enterprise services provided to students, faculty, and staff. Restricted receivable amounts, related to reimbursement of expenditures from various federal, state, and private sources, are amounts pledged to the university by donors, net of allowances.

CONTRACTS AND GRANT AWARDS

Contract and grant awards are accounted for in accordance with the requirements of GASB Statements 34/35. Federal contract and grant awards not collected as of fiscal year-end are reported as Federal Accounts Receivable on the Statement of Net Assets.

INVESTMENTS

In accordance with GASB Statement No. 31, investments are reported at fair market value in the Statement of Net Assets. Fair value is defined as the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

INVENTORIES AND PREPAID ITEMS

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost.

Payments made for services that will benefit periods beyond the current accounting period are recorded as prepaid items. Prepaid scholarships represent funds paid in the current period relating to the following period.

The consumption method of accounting is used to account for inventories and prepaid items that appear in the Proprietary Fund types. The cost of these items is expensed when the items are consumed.

CAPITAL ASSETS AND RELATED DEBT ACTIVITY

Capital assets include property, plant, equipment, infrastructure, and other assets. These assets are recorded at cost or, if not purchased, at appraised fair value as of the date of acquisition. Capital additions, replacements, and major renovations that increase the estimated useful life and the value of assets are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the State of Texas' capitalization policy, only fixed assets with a unit cost of $5,000 or greater are capitalized.

The university continues to advance its campus Master Plan which represents close to $700 Million in current and future investments scheduled through fiscal year 2015. Related bonded indebtedness is issued by the Texas State University System Revenue Financing System. System Administration and each component institution within the system are members of the Revenue Financing System. Receipt of cash may or may not precede appropriation of bond proceeds. Subject to approval from the university's President, System Administration's Chancellor and the Board of Regents through a board authorized reimbursement resolution, the university may from time to time provide short-term financing for capital projects in advance of bond proceeds. Assets created as a result of expenditures from bond proceeds, which are subsequently capitalized, are reported on the applicable component institutions' Statement of Net Assets and further detailed in Note 2, Capital Assets. The associated bond liability is reported in total by System Administration. The university must repay the debt that was issued on its behalf and debt service requirements attributable to Texas State University are disclosed in Note 6, Bonded Indebtedness.

Based on the requirements of GASB Statements 34/35, depreciation is reported on all "exhaustible" assets. "Inexhaustible assets" such as works of art are not depreciated. Assets are depreciated over the estimated useful life of the asset using the straight-line method. Capital assets are depreciated using the following useful lives:

Buildings	22-30
Furniture and Equipment	7-15
Vehicles	5-10
Other Assets	15

ACCOUNTS PAYABLE

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

OTHER PAYABLES

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

DEFERRED REVENUES

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

LONG-TERM LIABILITIES

General long-term liabilities are not limited to liabilities arising from debt issuances, but may also include non-current liabilities on lease-purchase agreements and other commitments that are not recorded as current liabilities. In Proprietary Fund types, long-term debt, and other long-term obligations are reported as liabilities in the applicable Business-Type Activities or as a Proprietary Fund type in the Statement of Net Assets. Bonds Payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges and amortized over the term of the debt.

EMPLOYEES' COMPENSABLE LEAVE BALANCES

A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from State employment, provided the employee has had continuous employment with the State for six months. Expenditures for accumulated annual leave balances are recognized in the period paid or taken. Compensated absence liabilities are reported as either short-term (current) or long-term (non-current) in the Statement of Net Assets. Long term is the portion of vacation balance which was not earned in the given fiscal year. Short term is the portion earned during the fiscal year. If the amount earned during a fiscal year is greater than the balance, then the entire balance is considered short-term. An expense and liability for proprietary fund types are recorded as the benefits accrue to employees.

OVERTIME AND COMPENSATORY LEAVE FOR FLSA NON-EXEMPT AND EXEMPT EMPLOYEES

Under the Federal Fair Labor Standards Act (FLSA) and State laws, overtime can be accumulated in lieu of immediate payment as compensatory leave (at 1.5 hours times overtime hours worked) for non-exempt employees to a maximum of 100 hours. All overtime exceeding 100 hours must be paid with the next regular payroll. At termination or death all overtime balances must be paid in full.

Compensatory leave is allowed by the State for non-exempt and FLSA-exempt employees who are not eligible for overtime pay. This leave is accumulated on an hour-for-hour basis and must be taken within one year from date earned or it lapses. There is no death or termination benefit for compensatory leave and it is non-transferable. Compensatory leave is reported as a current liability.

Employees accrue vacation at a rate of 8-21 hours per month depending on years of employment. The maximum number of hours that can be carried forward to the next fiscal year ranges from 180 hours to 532 hours based on years of service.

EMPLOYEE SICK LEAVE

Sick leave is accrued at a rate of 8 hours per month with no limit on the amount that can be carried forward to the next fiscal year. Accumulated sick leave is not paid at employee termination, although an employee's estate may be paid one-half of the accumulated sick leave up to a maximum of 336 hours.

NET ASSETS

The difference between assets and liabilities is 'Net Assets' on the proprietary fund statements.

INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

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

RESTRICTED NET ASSETS

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

UNRESTRICTED NET ASSETS

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources, which are imposed by management, but can be removed or modified. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital projects.

Note 2: Capital Assets

A summary of changes in capital assets for the fiscal year is presented below:

	PRIMARY GOVERNMENT					
	Balance 9/1/2008	Adjustments	Reclassifications Completed CIP	Additions	Deletions	Balance 8/31/2009
BUSINESS-TYPE ACTIVITIES						
Non-Depreciable Assets						
Land and Land Improvements	$33,422,610			$68,957		$33,491,567
Construction in Progress	$62,475,022		-$4,234,094	$67,733,589	$435,853	$126,410,370
Other Assets	$3,485,179			$129,490		$3,614,669
Total Non-Depreciable Assets	$99,382,811	$0	-$4,234,094	$67,932,036	$435,853	$163,516,606
Depreciable Assets						
Buildings and Building Improvements	$513,603,568		$3,975,860	-$177,618		$517,401,810
Infrastructure	$39,960,707	-$11,648,740	$258,234		-$258,234	$28,311,967
Facilities & Other Improvements	$30,204,220					$30,204,220
Furniture and Equipment	$38,517,782	$11,648,740		$12,051,620	-$1,861,369	$60,356,773
Vehicle, Boats & Aircraft	$4,997,344			$556,499	-$382,936	$5,170,907
Other Assets	$62,250,478			$5,752,357	-$418,918	$67,583,917
Total Depreciable Assets at Historical Costs	$689,534,098	$0	$4,234,094	$18,182,858	-$2,921,457	$709,029,593
Less Accumulated Depreciation for:						
Buildings and Improvements	-$270,195,739			-$13,035,204		-$283,230,943
Infrastructure	-$19,059,515			-$1,164,012	$1,262,038	-$18,961,489
Facilities & Other Improvements	-$11,883,361			-$1,117,791		-$13,001,153
Furniture and Equipment	-$22,528,605			-$6,076,416	$365,312	-$28,239,709
Vehicles, Boats & Aircraft	-$3,358,786			-$355,131	$314,463	-$3,399,454
Other Assets	-$30,307,755			-$4,539,390	$350,968	-$34,496,177
Total Accumulated Depreciation	-$357,333,761	$0	$0	-$26,287,944	$2,292,781	-$381,328,924
Depreciable Assets, Net	$332,200,338	$0	$4,234,094	-$8,105,086	-$628,676	$327,700,670
Business Type-Activities Capital Assets, Net	$431,583,149	$0	$0	$59,826,950	-$192,823	$491,217,276

Note 3: Deposits, Investments, and Repurchase Agreements

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

Deposits

As of August 31, 2009, the actual bank balance was $23,787,343. The carrying value was $18,431,441. Deposits on hand consisted of the following:

Cash on Hand	$ 227,577
Cash in Bank	18,431,441
Reimbursement Due from Treasury	6,838,940
Cash in State Treasury	20,243,980
Cash Equivalents	278,135,680
Total Cash and Cash Equivalents	$ 323,877,618
Current Assets Cash and Cash Equivalents	$ 323,877,618
Total Cash and Cash Equivalents	$ 323,877,618

Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the university will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The university addresses this risk by contractually obligating the depository bank to provide at least 102% collateralization for deposits held with that institution. As of August 31, 2009, Texas State University was not subject to custodial credit risk due to uninsured or uncollateralized deposits.

Foreign Currency Risk for Deposits

Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the deposit. Texas State University does not have any foreign bank accounts, and held no exposure to foreign currency risk for deposits as of August 31, 2009.

Investments

As of August 31, 2009, investments consisted of the following:

Corporate Obligations	$ 2,033,272
Fixed Income Money Market and Bond Mutual Fund	81,398,093
Other Commingled Funds	20,441,312
Total Investments	$ 103,872,677
Non-Current Assets – Investments	$ 103,872,677
Total Investments	$ 103,872,677

Endowment Investments

Texas State University invests its endowment funds to provide funding for scholarships, fellowships, professorships, academic chairs, and other uses as specified by donors. It is the policy of Texas State University to invest endowment funds in compliance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), Texas Property Code Chapter 163.

The long term objective of the endowment is to preserve the intergenerational equity of the endowment while providing an appropriate current spending policy. All endowment funds are managed by the "prudent person standard".

Investments of University funds for endowments shall be accomplished in accordance with the following principles:

1. There are two primary investment objectives. One is to provide a continual and dependable cash payout, stable, and preferably growing in real terms, after giving effect to inflation. The second is to cause the total value of the funds to appreciate, over time, exclusive of growth derived from donations.
2. The cash payout requirement for endowment funds is consistent and continuous. Income must be sufficient to provide an adequate cash stream to support the programs for which the endowments were created. In addition, the corpus of the endowment accounts should appreciate to insure preservation of purchasing power, and also to satisfy the need for future growth in payouts.
3. The endowment funds will be invested to meet these objectives, by maximizing total return consistent with an appropriate level of risk and subject to generation of adequate current income. Additionally, the investments shall be diversified at all times to provide reasonable assurance that investment in a single security, a class of securities, or market sector will not have an excessive impact on the funds.

Custodial Credit Risk for Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the university will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The university's investment policy limits holding of securities by counterparties to those involved with securities lending. As of August 31, 2009, Texas State University had no investments subject to custodial credit risk.

Foreign Currency Risk for Investments

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. At August 31, 2009, Texas State University's investments in foreign currency were limited to ownership of shares of the Commonfund Multi-Strategy Equity Fund. The Commonfund's books and records are maintained in U.S. dollars, with foreign currency amounts translated into U.S. dollars at prevailing foreign exchange rates in effect at each transaction, accrual, or valuation date. Although, the denominations of the university's foreign currency investments in the Commonfund are not readily available to the university, the university had limited exposure to foreign currency risk. Investments subject to foreign currency risk at August 31, 2009, were:

Investment Type	Market Value
Commonfund Multi-Strategy Equity Fund:	
International Equity	$ 1,287,803
International Private Equity	20,441
Total	$ 1,308,244

Credit Risk for Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The university's investment policy requires that investments in debt securities be rated in the top three investment grade ratings (Standard & Poor's AAA to A or comparable ratings with other agencies) at the time of purchase. Two nationally recognized statistical rating organizations must rate the security. Risk is further limited through the Investment Policy by term limitations, and maximum single purchase and maximum aggregate position percentages. Through this policy, as of August 31, 2009, Texas State University had limited exposure to credit risk. Investment grade ratings of debt securities at August 31, 2009, were as follows:

	Current Standard & Poor's Rating				
Investment Type	**AAA**	**AA**	**A**	**BBB**	**Total**
Corporate Obligations		$ 414,520	$ 1,215,636	$ 403,116	$ 2,033,272
Fixed Money Market and Bond Mutual Fund					
U.S. Government Agency Obligations (Exclude obligations explicitly guaranteed by U.S. Government such as Ginnie Mae, GSEs such as Fannie Mae have implicit U.S. Government guarantees and therefore are considered to have credit risk and require disclosure of credit quality)	$ 69,497,630				$ 69,497,630
Corporate Obligations	4,669,055	5,342,746	967,514	708,733	$ 11,688,048
Corporate Asset and Mortgage Backed Securities	212,415				$ 212,415
Total	**$ 74,379,100**	**$ 5,757,266**	**$ 2,183,150**	**$ 1,111,849**	**$ 83,431,365**

Interest Rate Risk for Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Usually, a longer maturity results in a greater degree of price volatility. The university minimizes interest rate risk on investments by managing maturities to cash flow.

The bond portfolio is actively managed by Sage Advisors, under the university's review. Interest rate risk is reduced by investing in fixed –income securities with varying maturities. The maximum duration of the portfolio for Fixed Income Operating Investments is less than 2 years, thus greatly reducing the interest rate risk. The long term objective of the Endowment Fixed Income portfolio is to preserve the intergenerational equity of the endowment while providing resources to meet an appropriate current spending policy. All endowment funds are managed by the "prudent person standard". Although all long-term investments are subject to some interest rate risk due to various economic forces, as of August 31, 2009, Texas State University had limited the exposure to interest rate risk by keeping the duration reasonably short. Market values and durations of the university's investments at August 31, 2009, were:

Investment Type	Market Value	Duration
CORPORATE BACKED OBLIGATION	$ 212,415	0.68
CORPORATE BONDS	13,721,320	2.49
GOVERNMENT AGENCIES	17,627,040	2.07
MORTGAGE BACKED OBLIGATION	12,105,436	2.00
US GOVERNMENT MORTGAGE POOL	4,283,884	1.87
US TREASURY NOTES AND BONDS	35,481,270	1.63
Total	$ 83,431,365	

Concentration of Credit Risk for Investments

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this disclosure requirement. Texas State University, by following the TSUS Investment Policy, limits the concentration of investment in a single issuer by term, purchase percentage and maximum aggregate percentage of the single issuer. As of August 31, 2009, Texas State University was not subject to concentration of credit risk.

Reverse Repurchase, Securities Lending and Derivative Investing

Texas State University did not participate in Reverse Repurchase Agreements, Securities Lending, or Derivative Investing during fiscal year 2009.

FDIC Insurance

Texas State University's public funds are deposited in Wells Fargo, an FDIC insured bank. In accordance with Texas Public Funds Collateral Act, Chapter 2257, all funds on deposit with Wells Fargo, with the exception of those funds insured by the FDIC, are collateralized, with collateral held by an independent, third party bank outside of Wells Fargo holding company. The current FDIC insurance coverage is $250,000, and the remaining amount is collateralized. The collateral is verified by the bank to determine if adequate on a daily basis, and adjusted by the bank when needed.

Note 4: Summary of Long-Term Liabilities

During the fiscal year ended August 31, 2009, the following changes occurred in liabilities.

Business - Type Activities	Balance 9/1/2008	Additions	Deductions	Balance 8/31/2009	Amounts Due Within One Year	Non-Current Amounts
Claims and Judgments						
Capital Lease Obligations	$35,707	$93,239	$50,347	$78,598	$16,415	$62,183
Employees' Compensable Leave	$10,573,905	$1,122,076	$313,864	$11,382,118	$7,756,519	$3,625,599
Notes and Loans Payable						
General Obligation Bonds Payable						
Revenue Bonds Payable	$2,465,000		$515,000	$1,950,000	$540,000	$1,410,000
Liabilities Payable from Restricted Assets						
Total	**$13,074,612**	**$1,215,315**	**$879,211**	**$13,410,716**	**$8,312,935**	**$5,097,782**

Employees' Compensable Leave

Accrued compensated absence is the institution's liability for unpaid overtime accrued by classified employees and unused vacation time for all employees. Any obligation to university personnel is paid at the time an employee is dismissed, resigns, or separates from the university, provided the employee has had six months of continuous employment with the State. An expense and liability are recorded annually as the benefits accrue to employees. A maximum accrual of 532 hours of vacation is allowed for employees with 35 or more years of service. For the fiscal year ended August 31, 2009, the accrued liability totaled $11,382,118 for vacation and/or compensator time. The university made lump sum payments totaling $313,864 for accrued vacation and/or compensatory time to employees who separated from State service during the fiscal year ending August 31, 2009. Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is only paid when an employee is off due to illness or to the estate of an employee in the event of his/her death. The maximum leave that may be paid an employees' estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The university's policy is to recognize the cost of sick leave when paid, and the liability is not shown in the financial statements because experience indicates that the expense for sick leave will be minimal. Eligible part-time employees' sick leave accrual rate is proportional to the number of hours appointed to work.

Note 5: Bonded Indebtedness

Description of Bond Issues

Texas State University has two bond-issues outstanding as of August 31, 2009:

Housing System Revenue Bonds, Series 1986

- To acquire an apartment complex known as Comanche Hills
- Issued April 1, 1986
- $3,500,000; all authorized bonds have been issued
- Interest Rates – 3.0%
- First/last year of scheduled maturities – 1988/2016
- First call date – 10/1/1996
- Revenue Bond
- Source of revenue for debt service – Auxiliary Enterprises net operating revenues

Utility System Revenue Bonds, Series 1996

- To improve and enlarge the utility system of the university, and to pay for issuance of bonds
- Issued February 15, 1996
- $4,415,000; all authorized bonds have been issued
- Interest Rates – 3.6% – 5.45%
- First/last year of scheduled maturities –1997/2011
- First call date – 8/1/2006
- Revenue Bond
- Source of revenue for debt service – Utility System net operating revenues

The principal and interest expense of these bond-issues for the next five years and beyond are projected below.

	Housing System Revenue Bonds, Series '86		Utility System Revenue Bonds, Series '96		Total Requirements	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	150,000	32,250	390,000	41,513	540,000	73,763
2011	155,000	27,675	410,000	21,525	565,000	49,200
2012	160,000	22,950	-	-	160,000	22,950
2013	165,000	18,075	-	-	165,000	18,075
2014	165,000	13,125	-	-	165,000	13,125
2015 - 2016	355,000	10,725	-	-	355,000	10,725
Total	1,150,000	124,800	800,000	63,038	1,950,000	187,838

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

System Administration issued the debt; therefore, the bonds payable attributable to the institution are included with the Bonds Payable reported by System Administration. No amount of indebtedness related to these bond-issues has been recorded in Texas State University's financial statements; however, Texas State University must repay the debt that was issued on its behalf. Consequently, the following debt amortization schedule is presented for informational purposes only.

DEBT SERVICE REQUIREMENTS ATTRIBUTABLE TO TEXAS STATE UNIVERSITY - SAN MARCOS

Description	Year	Principal	Interest	Total
All Series	2010	16,942,698	16,062,622	33,005,319
	2011	17,286,309	15,867,542	33,153,851
	2012	15,991,342	15,080,630	31,071,972
	2013	16,072,494	14,301,256	30,373,750
	2014	16,827,564	13,588,386	30,415,950
	2015-2019	84,877,126	55,685,388	140,562,515
	2020-2024	82,992,361	34,249,110	117,241,471
	2025-2029	73,025,000	13,802,675	86,827,675
	2030-2034	13,565,000	1,477,250	15,042,250
	TOTALS	337,579,894	180,114,859	517,694,753

A portion of the debt represents Tuition Revenue Bonds historically funded by the Texas Legislature through General Revenue Appropriations. The university was appropriated $11,725,927 during the current fiscal year for Tuition Revenue Bond debt service. The university expects future Legislative appropriations to meet debt service requirements for Tuition Revenue Bonds.

Defeased Bonds

The following bond-issue is fully defeased at August 31, 2009:

Description of Issue	Year Refunded	Par Value Outstanding
Housing System		
Revenue Bonds, Series '70	1987	$ 205,000
Total Defeased Bonds		$ 205,000

Note 6: Capital Leases

Texas State University has entered into long-term leases for financing the purchase of certain capital assets. Such leases are classified as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments at the inception of the lease. The following is a summary of original capitalized costs of all such property under lease as well as the accumulated depreciation as of August 31, 2009.

Assets Under Capital Leases	Original Capitalized Cost	Depreciation
Furniture & Equipment	$ 166,804	$ 27,926
Total	**$ 166,804**	**$ 27,926**

Future minimum lease payments under these capital leases, together with the present value (discounted at various rates) of the net minimum lease payments at August 31, 2009, are as follows.

Year Ended August 31,		Total
2010	$	25,946
2011		25,946
2012		25,946
2013		25,946
2014		-
Total Minimum Lease Payments	$	103,784
Less: Amount Representing Interest		(25,185)
Present Value of Net Minimum Lease Payments	$	78,599

Note 7: Operating Leases

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

Fiscal Year Ended August 31, 2009	
2008	$0
2009	$0
2010	$21,450
2011	$0
2012	$0
2013 - 2017	$0
2018 - 2022	$0
2023 - 2027	$0
2028 - 2032	$0
2033 - 2037	$0
Total Minimum Future Lease Rental Payments	**$21,450**

Note 8: Interagency Balances / Activity

Texas State University experienced routine transfers with other state agencies, consistent with the activities of the fund making the transfer and as a result of various grants and contract activities. In addition to transfers reflected on Schedule 1B – *Schedule of State Grant Pass-Throughs From/To State Agencies*, Texas State University recorded assets and liabilities for future amounts due to/from other state agencies. Repayment of interagency balances will occur within one year from the date of the financial statements.

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

Individual balances and activity at August 31, 2009:

DUE FROM/TO OTHER STATE ENTITIES

Entity		Due from Other State Entities		Due to Other State Entities	Purpose
Agy 300 Office of the Governor	$	283,649	$		Federal Pass Through
Agy 303 Texas State Library and Archives		3,856			Federal Pass Through
Agy 320 Texas Workforce Commission				14,122	State Pass Through
Agy 530 Texas Department of Family and Protective Services		198,319			Federal Pass Through
Agy 537 Texas Department of State Health Services		62,166			State Pass Through
Agy 555 Texas AgriLife Extension Service		6,912			Federal Pass Through
Agy 582 Texas Commission on Environmental Quality		10,202			State Pass Through
Agy 582 Texas Commission on Environmental Quality		288,414			Federal Pass Through
Agy 601 Texas Department of Transportation		49,659			Federal Pass Through
Agy 701 Texas Department of Transportation		19,693			State Pass Through
Agy 601 Texas Education Agency		109,736		4,315	Federal Pass Through
Agy 601 Texas Education Agency		311,163			State Pass Through
Agy 716 Texas Engineering Extension Service				11,078	Federal Pass Through
Agy 721 The University of Texas at Austin		2,515			Federal Pass Through
Agy 752 University of North Texas				8,601	Federal Pass Through
Agy 755 Stephen F. Austin State University		3,018			Federal Pass Through
Agy 756 Sul Ross University		136,606		44,444	Federal Pass Through
Agy 781 Texas Higher Education Coordinating Board		75,370			Federal Pass Through
Agy 802 Texas Parks and Wildlife Department		47,719			Federal Pass Through
	$	1,608,997	$	82,560	

TRANSFERS IN FROM/OUT TO OTHER STATE ENTITIES

Entity		Transfers In from Other State Entities		Transfers Out to Other State Entities	Purpose
Agy 758 Texas State University System	$	41,342,900	$		Bond Proceeds
Agy 758 Texas State University System				18,728,840	TSUS Debt Service
Agy 758 Texas State University System				875,378	General System Billings
Agy 781 Texas Higher Education Coordinating Board				2,894,724	Be On Time Transfers
	$	41,342,900	$	22,498,942	

LEGISLATIVE TRANSFERS IN/OUT

Entity		Legislative Transfers In		Legislative Transfers Out	Purpose
Agy 758 Texas State University System	$			11,725,825	TRB Debt Service
Agy 758 Texas State University System		1,466			Lapse
	$	1,466	$	11,725,825	

Schedule 1B - Schedule of State Grant Pass-Throughs From/To State Agencies
Texas State University-San Marcos (754)
For the Fiscal Year Ended August 31, 2009

PASS-THROUGH FROM:		
Office of the Governor (Agy. 300)		
Texas Emergency Technology Fund	2,000,000	
Total Office of the Governor		2,000,000
Texas Department Health & Human Services (Agy. 537)		
GIS-Augmented Environmental Health Research in Texas: Residential Proximity	71,677	
Total Texas Department Health & Human Services		71,677
Texas Commission on Environmental Quality (Agy. 582)		
Galveston Bay Watershed Project	38,358	
Total Texas Commission on Environmental Quality		38,358
Texas Education Agency (Agy. 701)		
Science for Mell	197,258	
TSUS Mell	297,031	
TSUS-Texas Math Initiative	654,046	
Stellar Grant	331,679	
Total Texas Education Agency		1,480,014
Texas Higher Education Coordinating Board (Agy. 781)		
5th Year Accounting Student Grants	22,656	
Advanced Research Program	6,733	
Advanced Tech Program	(534)	
Higher Education Performance Inc- Incentive	4,286,063	
MST Teacher Prep- HB2237 Grant	734,173	
College Work Study Program	158,277	
CRU-Prof Svs & Grants	149,434	
Technology Work Force Development	(4,431)	
Engineering Recruitment Program	5,000	
Intensive Summer Program Grant	(49,919)	
Texas Grant Program	8,874,687	
Work Study Mentorship Program	40,000	
Total Texas Higher Education Coordinating Board		14,222,139
Texas Water Development Board (Agy. 580)		
San Antonio River Project 1: GIS Mapping	2,394	
Total Texas Water Development Board		2,394
Texas State University System (Agy. 758)		
College Readiness	85,000	
College and Career Readiness Initiative Faculty Collaboratives Program	15,606	
Total Texas State University System		100,606
Total Due From Other State Agencies (Statement of Revenues, Expenses, and Changes in Net Assets)		17,915,188
PASS-THROUGH TO:		
Sam Houston State University (Agy. 795-753)		
TSUS Mell	47,527	
TSUS-Texas Math Initiative	41,574	
Total Sam Houston State University		89,100
Sul Ross State University (Agy. 795-756)		
TSUS MELL	10,205	
Total Sul Ross State University		10,205
Lamar University (Agy. 795-734)		
TSUS Mell	46,655	
TSUS-Texas Math Initiative	16,806	
Total Lamar University		63,461
Total Pass Through to Other Agencies (Matrix of Operating Expenses Reported by Function)		162,767

Note 9: Contingent Liabilities

At August 31, 2009, various lawsuits and claims involving Texas State University were pending. While the ultimate liability with respect to litigation and other claims asserted against the university cannot be reasonably estimated at this time, such liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the university.

Note 10: Risk Financing and Related Insurance

WORKERS' COMPENSATION

The State's Workers' Compensation program is administered by the State Office of Risk Management (SORM). Historically, expenditures were based on actual claims which were paid initially by SORM and reimbursed as follows: twenty-five percent from university appropriations for university employees paid from general revenue funds and one hundred percent from Fund 260 and local funds. Workers' Compensation was on a pay-as-you-go basis, under which no assets were set aside to be accumulated for the payment of claims.

House Bill 2600, enacted by the 77th Legislature in 2001, produced significant changes in the Workers' Compensation program. One goal was to make it comparable to funded insurance programs in the private sector. Effective September 1, 2001, each agency (other than University of Texas and Texas A&M components, and the Texas Department of Transportation) was assessed a charge for Workers' Compensation coverage for their employees according to a formula, based on weighted criteria. The original factors were: agency's payroll expenditures (20%), injury frequency rate (40%), and prior losses (40%).

The factors and weights were revised again for FY2004, with the assessment based on: agency's payroll expenditures (12.5%), FTE (12.5%), number of claims (15%), and cost/pay-outs (60%). The factors and percentages remained the same for FY2009.

Agencies are also being assessed charges for employees funded from sources other than General Revenue. For Texas State University, the FY2009 assessment for all fund sources was $490,690.

UNEMPLOYMENT COMPENSATION

The State provides an Unemployment Compensation program; actual claims are paid from several funding sources as determined by the Comptroller of Public Accounts. The university must reimburse the General Revenue Fund-Consolidated, from university appropriations, fifty percent of the unemployment benefits paid for general revenue-funded employees and one hundred percent of the unemployment claims for employees paid from Fund 260 and other institutional funds. The Unemployment Compensation program is on a pay-as-you-go basis, in which no assets are set aside to be accumulated for the payment of claims. No material unemployment claims are pending at the fiscal year ended August 31, 2009.

PROPERTY AND OTHER INSURANCE COVERAGE

The university is required by certain bond covenants to carry Fire and Extended Coverage (including boiler and flood insurance) on buildings. This coverage is limited to buildings constructed with bond proceeds financed from auxiliary and other non-educational and general revenue sources. The insurance protects the bondholders from a disruption to the revenue stream that is being utilized to make the bond interest and principal payments. No material property insurance claims were made during the fiscal year ended August 31, 2009.

VEHICLE INSURANCE

The Texas Motor Vehicle Safety Responsibility Act (Texas Transportation Code, Chapter 601) requires that every nongovernmental 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. All vehicles owned and/or leased by Texas State University are insured by coverage obtained through the State Office of Risk Management (SORM). This is a change from previous years in which the vehicle insurance was covered by commercial insurance contracted by The Texas State University System. This change occurred at mid-year during FY2005. There is coverage of $1,000,000 combined single liability. The coverage exceeds the extent of the waivers of State immunity in the Tort Claims Act.

OTHER

The university is exposed to a variety of civil claims resulting from the performance of its duties. It is the university's policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed.

Note 11: Related Parties

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

TEXAS STATE UNIVERSITY-SAN MARCOS DEVELOPMENT FOUNDATION

The Texas State University-San Marcos Development Foundation was formed in 1977 to support the educational, scientific and research mission of Texas State University. The Development Foundation raises and manages endowment funds designated for scholarships and other support for the university.

THE MCCOY COLLEGE OF BUSINESS ADMINISTRATION DEVELOPMENT FOUNDATION

The McCoy Foundation, founded in 2004, is dedicated exclusively to the support of Texas State University-San Marcos College of Business Administration. The McCoy Foundation administers its investments and transfers designated funds to the McCoy College of Business Administration in support of chairs or professorships, undergraduate scholarships, graduate fellowships, faculty development, and student development.

TEXAS STATE UNIVERSITY-SAN MARCOS SUPPORT FOUNDATION

The Texas State University-San Marcos Support Foundation was formed exclusively for charitable, educational and scientific purposes to assist in the development of the university.

TEXAS STATE ALUMNI ASSOCIATION

The efforts and funds of the Texas State Alumni Association are dedicated to Texas State University-San Marcos for student scholarships, campus support, and alumni outreach activities. The accounts of the Alumni Association are considered Held in Trust for Others – Agency Funds. Agency funds are assets not owned by the university but held in custodianship, to be used or withdrawn by the depositors at will. The Agency funds resources, including those of the Alumni Association, are reflected in the university's financial records as cash and cash equivalents with a corresponding liability to the depositing organizations.

Note 12: Stewardship, Compliance, and Accountability

Texas State University has no material violations of finance related legal and contract provisions and no new component units are included in the financial report. Per the laws of the State of Texas, Texas State University cannot spend amounts in excess of appropriations granted by the Texas Legislature and there are no deficits reported in net assets or retained earnings.

Note 13: The Financial Reporting Entity

Component Units (CUs) are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, CUs can be other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would create misleading or incomplete financial statements. Texas State University has determined that it does not have legally separate organizations that should be considered CUs.

Note 14: Restatement of Net Assets:

Retiree insurance of $5,217,367 was paid in FY09 to record retiree insurance expense for both FY08 and FY09. The FY08 amount of $2,547,928 was deducted from the FY09 Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows to restate those financial statements so they reflect only FY09 expenses.

Note 15: Employee Retirement Plans

The State of Texas has joint contributory retirement plans for substantially all of its employees. One of the primary plans in which the university participates is administered by the Teacher Retirement System of Texas (Retirement System). The contributory percentages currently provided by the State and by each participant are 6.58 percent and 6.4 percent, respectively, of annual compensation.

The Retirement System does not separately account for each of its component government agencies because the Retirement System itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. According to an independent actuarial valuation as of August 31, 2009, the present value of the Retirement System's actual and projected liabilities, including projected benefits payable to its retirees and active members and their beneficiaries was more than the actuarial valuation of Retirement Net Assets. Further information regarding actuarial assumptions and conclusions, together with audited financial statements, are included in the Retirement System's annual financial report.

The State has also established an Optional Retirement Program for institutions of higher education. Participation in the Optional Retirement Program is in lieu of participation in the Retirement System. The Optional Retirement Program provides for the purchase of annuity contracts and mutual funds. The contributory percentages of participant salaries provided by the State and by each participant enrolled in the plan on or before August 31, 1995, are 8.5 percent and 6.65 percent, respectively. The 8.5 percent is composed of 6.0 percent contributed by the State and an additional 2.5 percent contributed by the university. For participants who enrolled after September 1, 1995, State and participant contributions are 6.58 percent and 6.65 percent, respectively. Because these are individual annuity contracts, the State has no additional or unfunded liability for this program, and the university bears no responsibility for retirement commitments beyond contributions.

The retirement expense to the university was $6,025,433 for the year ended August 31, 2009. Of this amount, $1,749,696 represents the portion of appropriations made by the State Legislature expended on behalf of the university and $4,275,737 represents the portion paid from the university's funds.

Note 16: Deferred Compensation Program

University employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Texas Government Code, Section 609.001. Deferred compensation plans are administered by the Employees Retirement System.

The State's 457 Plan complies with Internal Revenue Code, Section 457. This plan is referred to as the TexaSaver Deferred Compensation Plan and is available to all employees. Deductions, purchased investments, and earnings attributed to the 457 Plan are the property of the State and subject only to the claims of the State's general creditors. Participant rights under the plan are equal to those of the general creditors of the State in an amount equal to the fair market value of the 457 account for each participant. The State has no liability under the 457 Plan, and it is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.

The university also administers a Tax-Deferred Account Program, created in accordance with Internal Revenue Code, Section 403(b). All employees are eligible to participate. The Tax-Deferred Account Program is a private plan, and the deductions, purchased investments, and earnings attributed to each employee's 403(b) plan are held by vendors chosen by the employee. The vendors may be insurance companies, banks, or approved non-bank trustees such as mutual fund companies. The assets of this plan do not belong to the university, and thus it does not have a liability related to this plan.

Note 17: Donor-Restricted Endowments

The restricted, expendable, net asset classification on the Statement of Net Assets related to endowments is as follows:

Donor Restricted Endowment	Amounts of Net Appreciation (In Thousands)	Reported in Net Assets
True Endowment	$3,106	Restricted for Expendable
Total	$3,106	

The amount reported as Net Appreciation represents net appreciation on investments of donor restricted endowments that are available for authorization for expenditure. Pursuant to the Uniform Prudent Management of Institutional Funds Act (Property Code Chapter 163.001), net appreciation, realized and unrealized, in the fair market value of the endowment assets in excess of historical dollar value of the gifts may be distributed to the extent prudent.

The Texas State University System Investment Policy provides for a spending policy of no more than 5% of a 12-quarter rolling average market value. For FY2009, Texas State University allocated 4% of the 12-quarter market value calculated as of August 31, 2007.

Note 18: Post-Employment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health and life insurance benefits for retired employees, in accordance with state statutes. Substantially all of the employees may become eligible for the health and life insurance benefits if they reach normal retirement age while working for the State. Currently, there are 669 retirees who are eligible for these benefits. Similar benefits for active employees are provided through a self-funded plan and fully insured plans.

Depending upon the status of the employee at the time of retirement, the State or the System recognizes the cost of providing these benefits. The cost of retiree post-employment benefits is recognized when paid. This contribution paid all of the "employee/retiree only" premiums and a portion of the premiums for those employees/retirees selecting dependent coverage. The employee/retiree was required to pay a portion of the cost of dependent coverage. For the fiscal year ended August 31, 2009, the cost of providing those benefits for the retirees was $2,669,439 for the State and $679,796 for the university.

Note 19: Disaggregation of Receivable and Payable Balances

Federal Receivables - Current **Federal Receivable Program**	**Amounts**
Education	$76,287
Instruction	43,637
Public Service	525,220
Research	1,307,495
Scholarships	6,112,337
Total Federal Receivables	**$8,064,975**
As Reported on the Financial Statements	**$8,064,975**

State Auditor's Office
John Keel, CPA
State Auditor

February 4, 2010

Dr. Denise M. Trauth, President
Texas State University – San Marcos
601 University Drive
San Marcos, TX 78666

Subject: Management Letter Resulting from a Review of Texas State University – San Marcos's Fiscal Year 2009 Financial Statements

Dear Dr. Trauth:

We offer this management letter in conjunction with our review of the financial statements of Texas State University – San Marcos (University) for the fiscal year ended August 31, 2009. We reviewed the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; the Statement of Cash Flows; and the Notes to the Financial Statements. In the course of our review, which was substantially less in scope than an audit, we did not find that material modifications needed to be made to the financial statements in order for them to be in conformity with generally accepted accounting principles.

We appreciate the assistance provided during this review by the management of the University and Internal Audit. If you have any questions, please call me at (512) 936-9500.

Sincerely,

Sandra Vice

Sandra Vice, CGAP, CIA, CISA
Assistant State Auditor

Robert E. Johnson Building
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A Financial Review of

The University of Texas at San Antonio

A Report and Management Letter for the Southern Association of Colleges and Schools

February 2010

Contents

State Auditor's Office
John Keel, CPA
State Auditor

Auditor's Review Report

February 4, 2010

Dr. Ricardo Romo, President
The University of Texas at San Antonio
One UTSA Circle
San Antonio, TX 78249

Dear Dr. Romo:

We have reviewed the accompanying Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; Statement of Cash Flows; and Notes to the Financial Statements of the University of Texas at San Antonio (University) as of and for the fiscal year ended August 31, 2009, in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The review was performed in accordance with the Southern Association of Colleges and Schools' (Southern Association) *Criteria for Accreditation*. All information included in these financial statements is the representation of management of the University.

A review consists principally of inquiries of University personnel and analytical procedures applied to financial data. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

The accompanying statements were prepared to present the financial position, the changes in financial position and the cash flows of the University. These statements are prepared pursuant to criteria of the Southern Association for supplementary special reports by institutions in states that conduct statewide audits.

Based on our review, with the exception of the matter described in the following paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The University has not presented a management's discussion and analysis section that the Governmental Accounting Standards Board has identified as required supplementary information that is not part of the basic financial statements. However, such required supplementary information for the University is presented in the University of Texas System's (System) consolidated annual financial report.

This report is intended for use by the Board of Regents of System, management of the University, and the Southern Association. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,

John Keel, CPA
State Auditor

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SAO Report No. 10-325

The University of Texas at San Antonio

Statement of Net Assets

At August 31, 2009
(See Auditor's Review Report on page 1.)

ASSETS

Current Assets		
Cash and Cash Equivalents (Note 3)	$	69,977,019
Restricted:		
Cash and Cash Equivalents (Note 3)		5,787,309
Legislative Appropriations		8,406,661
Receivables, Net of Allowances:		
Federal		6,213,026
Other Intergovernmental		257,157
Interest and Dividends		539,010
Accounts		21,563,033
Gifts		1,153,946
Other (Note 16)		3,635,966
Due from Other State Entities (Note 7)		30,658,607
Consumable Inventories		512,003
Merchandise Inventories		298,327
Prepaid Expenses		1,392,242
Loans and Contracts		6,267,123
Other Current Assets		24,596
Total Current Assets	$	156,686,025
Non-Current Assets		
Restricted:		
Investments (Note 3)		54,665,104
Loans and Contracts		3,604,490
Gifts Receivable		2,257,707
Investments (Note 3)		163,854,771
Capital Assets (Note 2):		
Non-Depreciable		42,800,764
Depreciable		859,865,391
Less: Accumulated Depreciation		(248,502,208)
Total Non-Current Assets	$	878,546,019
Total Assets	$	1,035,232,044

The University of Texas at San Antonio

Statement of Net Assets

At August 31, 2009

(See Auditor's Review Report on page 1.)

LIABILITIES

Current Liabilities		
Payables:		
Accounts	$	20,625,322
Accrued Liabilities		885,226
Payroll		15,950,908
Federal		697,897
Other		1,277,994
Due to Other State Entities (Note 7)		2,240,648
Deferred Revenue		98,719,017
Employees' Compensable Leave (Note 4)		5,016,978
Liabilities Payable from Restricted Assets		952,725
Funds Held for Others		1,419,664
Other Current Liabilities		1,201,660
Total Current Liabilities	$	148,988,039
Non-Current Liabilities		
Employees' Compensable Leave (Note 4)	$	2,575,903
Other Non-Current Liabilities		24
Total Non-Current Liabilities	$	2,575,927
Total Liabilities	$	151,563,966
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$	654,163,947
Restricted for:		
Non-Expendable		
Permanent Funds, True Endowments, Annuities		32,051,316
Expendable		
Capital Projects		20,578,291
Term Endowments		1,600,529
Funds Functioning as Endowments		606,374
Other		34,125,551
Unrestricted		140,542,070
Total Net Assets	$	883,668,078

The University of Texas at San Antonio

Statement of Revenues, Expenses, and Changes in Net Assets

For the Fiscal Year Ended August 31, 2009

(See Auditor's Review Report on page 1.)

OPERATING REVENUES		
Tuition and Fees - Pledged	$	200,035,617
Discounts and Allowances		(38,534,725)
Auxiliary Enterprises - Pledged		21,648,500
Other Sales of Goods and Services - Pledged		9,620,836
Federal Revenue		45,341,112
State Grant Revenue		15,587,366
Other Operating Grant Revenue		3,966,631
Other Operating Revenues		2,021,455
Total Operating Revenues	$	259,686,792
OPERATING EXPENSES		
Cost of Goods Sold	$	939,802
Salaries and Wages		189,802,796
Payroll Related Costs		46,384,614
Professional Fees and Services		13,204,292
Travel		7,031,143
Materials and Supplies		26,765,657
Communications and Utilities		12,820,638
Repairs and Maintenance		7,836,852
Rentals and Leases		2,819,580
Printing and Reproduction		1,220,894
Depreciation and Amortization		32,551,415
Bad Debt Expense		737,407
Scholarships		33,187,410
Other Operating Expenses		13,490,019
Total Operating Expenses	$	388,792,519
Operating Loss	$	(129,105,727)

The University of Texas at San Antonio

Statement of Revenues, Expenses, and Changes in Net Assets

For the Fiscal Year Ended August 31, 2009

(See Auditor's Review Report on page 1.)

NONOPERATING REVENUES (EXPENSES)		
Legislative Appropriations	$	115,473,223
Gifts		6,473,511
Interest and Investment Income		4,727,833
Net Decrease in Fair Value of Investments		(28,166,464)
Loss on Sale of Capital Assets		(238,527)
Other Nonoperating Revenues - Non-Pledged		28,714,333
Other Nonoperating Expenses		(66,346)
Total Nonoperating Revenues (Expenses)	$	126,917,563
Loss Before Other Revenues, Expenses, Gains (Losses), and Transfers	$	(2,188,164)
OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS		
Capital Contributions	$	331,232
Additions to Permanent and Term Endowments		1,508,144
Transfers In from Other State Entities (Note 7)		47,347,381
Transfers Out to Other State Entities (Note 7)		(34,043,118)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	$	15,143,639
CHANGE IN NET ASSETS	$	12,955,475
Net Assets, September 1, 2008	$	870,712,603
NET ASSETS, August 31, 2009	$	883,668,078

The accompanying Notes to the Financial Statements are an integral part of this statement.

The University of Texas at San Antonio
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2009
(See Auditor's Review Report on page 1.)

CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Tuition and Fees	$	166,647,718
Proceeds from Research Grants and Contracts		64,589,488
Proceeds from Loan Programs		16,529,951
Proceeds from Auxiliaries		22,806,286
Proceeds from Other Revenues		10,552,505
Payments to Suppliers for Goods and Services		(118,214,691)
Payments to Employees for Salaries		(187,700,651)
Payments to Employees for Benefits		(45,573,530)
Payments for Loans Provided		(15,182,843)
Net Cash Used by Operating Activities	$	(85,545,767)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Legislative Appropriations	$	120,704,773
Proceeds from Gifts		4,734,278
Proceeds from Endowments		1,508,144
Proceeds of Transfers from Other Entities		3,182,055
Proceeds from Other Sources		28,757,710
Payments for Transfers to Other Entities		(2,098,454)
Net Cash Provided by Non-Capital Financing Activities	$	156,788,506
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Disposal of Capital Assets		40,522
Proceeds of Transfers from Other Entities		48,845,306
Payments for Additions to Capital Assets		(66,433,104)
Payments for Transfers to Other Entities		(31,797,061)
Net Cash Used by Capital and Related Financing Activities	$	(49,344,337)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Interest and Investment Income		4,752,974
Payments to Acquire Investments		(15,506,498)
Net Cash Used by Investing Activities	$	(10,753,524)
Net Increase in Cash and Cash Equivalents	$	11,144,878
Cash and Cash Equivalents, September 1, 2008	$	64,619,450
Cash and Cash Equivalents, August 31, 2009	$	75,764,328

The University of Texas at San Antonio

Statement of Cash Flows

For the Fiscal Year Ended August 31, 2009

(See Auditor's Review Report on page 1.)

Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating Loss	$	(129,105,727)
Adjustments:		
Depreciation and Amortization	$	32,551,415
Bad Debt Expense		737,407
Changes in Assets and Liabilities:		
Decrease in Receivables		1,236,709
Decrease in Due from Other Entities		411,818
Increase in Inventories		(41,477)
Increase in Prepaid Expenses		(379,001)
Decrease in Loans and Contracts		1,347,109
Decrease in Other Assets		110,632
Increase in Payables		2,167,484
Increase in Due to Other Entities		105,632
Increase in Deferred Revenue		4,400,434
Increase in Employees' Compensable Leave		811,083
Increase in Funds Held for Others		109,108
Decrease in Other Liabilities		(8,393)
Total Adjustments	$	43,559,960
Net Cash Used by Operating Activities	$	(85,545,767)
Non-Cash Transactions		
Net Decrease in Fair Value of Investments	$	(28,166,464)
Donated Capital Assets		331,232
Disposal of Capital Assets		(386,130)
Other Deductions to Capital Assets		(66,346)

The accompanying Notes to the Financial Statements are an integral part of this statement.

The University of Texas at San Antonio

Statement of Changes in Unrestricted Net Assets

For the Fiscal Year Ended August 31, 2009

(See Auditor's Review Report on page 1.)

	8/31/2009	8/31/2008	Difference
Reserved			
Encumbrances	$ 9,633,719	$ 9,987,977	$ (354,258)
Accounts Receivable	9,567,402	10,008,856	(441,454)
Inventories	810,330	768,853	41,477
Fees with Use Restricted by Statute:			
International Education Fees (54.5132)	5,415	3,761	1,654
Student Service Fees (54.503)	4,414,185	4,364,164	50,021
University Center Fee (54.527)	1,483,433	1,456,584	26,849
Advanced Research / Advanced Technology Programs	359,010	507,593	(148,583)
Deposits	300	61,885	(61,585)
Prepaid Expenses	1,347,147	960,289	386,858
Deferred Charges	24,296	73,343	(49,047)
Travel Advances	123,841	139,022	(15,181)
Petty Cash	257,087	213,055	44,032
Texas Public Education Grants	210,510	1,396,719	(1,186,209)
Unreserved			
Allocated			
Future Operating Budgets	5,232,617	2,974,559	2,258,058
Capital Projects	38,051,310	36,289,242	1,762,068
Service Department Operating Funds	1,400,801	1,339,382	61,419
Auxiliary Enterprises Operating Funds		4,785,698	(4,785,698)
Funds Functioning as Endowment - Unrestricted	10,006,882	12,229,938	(2,223,056)
Start-Up / Matching	1,656	608,453	(606,797)
Utilities Reserve	1,732,080	1,311,605	420,475
Student Fees	15,691,117	10,275,123	5,415,994
Other	33,156,136	32,553,112	603,024
Unallocated	7,032,796	19,410,376	(12,377,580)
Total Unrestricted Net Assets	$ 140,542,070	$ 151,719,589	$ (11,177,519)

Notes to the Financial Statements for the Fiscal Year Ended August 31, 2009

(See Auditor's Review Report on page 1.)

General Introduction

This report has been prepared for the use of the Southern Association of Colleges and Schools (Southern Association) in connection with the review of The University of Texas at San Antonio (University) for accreditation purposes. This report includes a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; a Statement of Cash Flows; and the related Notes to the Financial Statements. In accordance with Southern Association criteria, the report also includes a Statement of Changes in Unrestricted Net Assets, and a management letter describing issues noted in the review.

Reporting Entity

The University is an institution within The University of Texas System (System). The System is reported as a business-type activity in the State of Texas' *Comprehensive Annual Financial Report* and reflects compliance with applicable State statutes and Governmental Accounting Standards Board (GASB) pronouncements. The System is governed by a board of regents, composed of nine members who are appointed by the Governor and confirmed by the Senate. Terms are scheduled for six years each and staggered so that three members' terms usually expire on February 1 of odd-numbered years.

The University of Texas at San Antonio was created by the Texas Legislature in 1969 and serves the San Antonio metropolitan area and the broader region of South Texas through its three campuses: Main Campus, Downtown Campus and the Hemisfair Park Campus, which houses the Institute of Texan Cultures. The University enrolls more than 28,413 students (fall 2008 headcount) in 131 undergraduate and graduate degree programs and is the second-largest institution in the University of Texas System and one of the state's fastest-growing public universities for much of the last decade. The Main Campus encompasses two tracts totaling 725 acres amid one of San Antonio's fastest growing economic corridors while the Downtown Campus serves students on 18 acres in the historic heart of San Antonio.

Note 1: Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the University have been prepared 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. The University reports as a business type activity, as defined by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

The financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The University applies all GASB pronouncements and applicable Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, except FASB statements that conflict with a GASB pronouncement.

Cash and Cash Equivalents

Cash and cash equivalents are maintained for the purpose of meeting short-term expense requirements. Short-term, highly liquid investments with maturities of three months or less when purchased are generally considered cash and cash equivalents. It is the System's policy to exclude items that meet this definition if they are part of an investment pool, which has an investment horizon of one year or greater. Therefore, highly liquid investments that are part of the Intermediate Term Fund and the Long Term Fund are not considered cash and cash equivalents. Additionally, Funds Functioning as Endowments invested in money market accounts are also excluded from Cash and Cash Equivalents as it is management's intent to invest these funds for more than one year.

Legislative Appropriations

This item represents the balance of General Revenue fund at August 31, as calculated in Texas State Comptroller's General Revenue Reconciliation.

Due from Other Agencies

Due from Other Agencies is mainly accounts receivable from proceeds of System debt issuances and the University's share of deposits in funds managed by the System, with investment horizons of less than one year.

Investments

Investments of the University are managed by The University of Texas Investment Management Company (UTIMCO), a private investment corporation that provides services exclusively to the System. All investments are reported as noncurrent, as these funds have an investment horizon extending beyond one year. The investments are primarily valued on the basis of market valuations provided by independent pricing services.

Fixed income securities held directly by the System are valued based upon prices supplied by Merrill Lynch Securities Pricing Service and other major fixed income pricing services, external broker quotes, and internal pricing matrices.

Equity security market values are based on the New York Stock Exchange composite closing prices, if available. If not available, the market value is based on the closing price on the primary exchange on which the security is traded. If a closing price is not available, the average of the last reported bid and ask price is used.

Private market investments and certain other equity securities are fair valued by management. The fair values of these investments are estimated by management using the investment's capital account balance at the closest available reporting date, as communicated by the investment manager, adjusted for contributions and withdrawals subsequent to the latest available reporting date as well as consideration of any other information, which has been provided by the investment manager or other source. In rare cases the private market funds are valued at cost, but only when management feels this is the best approximation of value.

Securities held by the System in index and exchange traded funds are generally valued as follows:

- Long and short stock positions traded on security exchanges are valued at closing market prices on the valuation date.
- Long and short stock positions traded on the over-the-counter (OTC) market are valued at the last reported bid price, except for National Market System OTC stocks, which are valued at their closing market prices.

- Fixed income securities are valued based upon bid quotations obtained from major market makers or security exchanges.
- Investments in registered U.S. mutual funds are being valued at their respective net asset value per share amounts.

Hedge funds, developed country equity, emerging markets equity and fixed income investment funds and certain other investment funds are fair valued by management based on net asset value information provided by the investment manager, as well as other relevant factors as indicated above.

The audited financial statements of the funds managed by UTIMCO may be found on UTIMCO's web site, and inquiries may be directed to UTIMCO via www.utimco.org.

Endowments

The University's endowments are used to support operations, which require the simultaneous achievement of two seemingly contradictory objectives of generating a predictable stream of annual revenue at a rate at least equal to the average rate of inflation for current needs and of increasing the purchasing power of the funds (after annual distributions) at a rate at least equal to the average rate of inflation for future periods.

Funds are subject to restrictions of endowment and trust instruments, requiring that principal be maintained and that only the income be utilized. Funds may include endowments, term endowments, and funds functioning as endowments. Funds functioning as endowments consist of amounts that have been internally dedicated by the System for long-term investment purposes.

Gifts Receivable

Current and noncurrent contributions receivable are amounts pledged to the University by donors, net of allowances.

Inventories

Consumable Inventories, consisting primarily of supplies for resale, are valued at cost based on the specific identification method. Merchandise inventory consist primarily of merchandise held for resale to faculty, staff, students and external customers.

Restricted Assets

Restricted assets include funds restricted by legal or contractual requirements, including those related to sponsored programs, donors, constitutional restrictions, bond covenants, and loan agreements.

Loans and Contracts

Current and noncurrent loans and contracts are receivables, net of allowances, related to student loans.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or at fair value at the date of donation in the case of gifts. The University follows the State's Capitalization Policy with a cost equal to or greater than $5,000 for equipment items; $100,000 for buildings, building improvements, and improvements other than buildings; and $500,000 for infrastructure items with an estimated useful life of greater than one year. Purchases of library books are capitalized. Renovations to buildings, infrastructure, and land improvements follow the State's Capitalization Policy. Routine repairs and maintenance are charged to operating expenses in the year in which the expenses are incurred.

Outlays for construction in progress are capitalized as incurred. Interest expense related to construction is capitalized net of interest income earned on the resources reserved for this purpose.

The University capitalizes, but does not depreciate, works of art and historical treasures that are held for exhibition, education, research, and public service. These collections are protected and preserved.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally three to fifteen years for equipment items, fifteen years for library books, ten to fifty years for buildings and their components, and fifteen to forty years for infrastructure elements.

Other Current Assets

Other current assets consist of Deferred Compensation Charge of $24,296 and Deposits Held by Others of $300.

Payables

Payables is broken out by Accounts Payable for amounts owed to vendors for goods and services; Accrued Liabilities which represent benefits owed to employees; Payroll which represents salaries and wages paid to employees on September 1, 2009; Federal which represents payments to vendors from federal sponsored programs; and other payables which represent refunds due to students for overpayments.

Deferred Revenue

Deferred revenue represents revenues such as tuition recorded in August for the fall semester that begins in the next fiscal year, and payments received in advance for sponsored programs.

Net Assets

The University has classified resources into the following three net asset categories:

1. Invested in Capital Assets, Net of Related Debt

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

2. Restricted:

- *Nonexpendable*

  Net assets subject to externally imposed stipulations that require the amounts to be maintained in perpetuity by the University or the System. Such assets include the University's permanent endowment funds.

- *Expendable*

  Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire with the passage of time.

3. Unrestricted:

Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for special purposes by action of management or the System Board of Regents. Substantially all unrestricted net assets are designated for academic and research programs and initiatives for capital programs.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University addresses each situation on a case-by-case basis prior to determining the resources to be used to satisfy the obligation. Generally, the University's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

Revenues and Expenses

Operating revenues include activities such as student tuition and fees, net of discounts and allowances; sales and services of educational activities; sales and services of auxiliary enterprises; most federal, state and local grants and contracts and federal appropriations; and interest on student loans. Operating expenses include salaries and wages, payroll related costs, materials and supplies, depreciation, scholarships and fellowships, and impairment losses and insurance recoveries received in the same year as the associated loss in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* As of August 31, 2009 the University did not receive any impairment losses and insurance recoveries received in the same year.

Nonoperating revenues include activities such as gifts and contributions, insurance recoveries received in years subsequent to the associated loss, State Appropriations, investment income and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, GASB Statement No. 34, and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. As of August 31, 2009, the University did not receive insurance recoveries received in years subsequent to the associated loss. Nonoperating expenses include other expenses that are defined as nonoperating expenses by GASB Statement Nos. 9, 34 and 42.

Scholarship Allowances and Student Aid

Financial aid to students is reported in the financial statements as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid (student loans, funds provided to students as awarded by third parties, and Federal Direct Lending) is accounted for as third-party payments (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expense or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on an entity-wide basis by allocating cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

Due to Other Agencies

Due to Other Agencies is mainly accounts payable to System for the University's share of Benefit premiums.

Use of Estimates

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

Note 2: Capital Assets

A summary of changes in capital assets is shown below:

	Balance 9/1/2008	Completed Construction in Progress	Additions	Deductions	Balance 8/31/2009
Nondepreciable Assets:					
Land and Land Improvements	$ 24,347,768				$ 24,347,768
Construction in Progress	53,257,334	$ (82,651,092)	$ 42,891,505	$ (60,615)	13,437,132
Other Capital Assets	4,452,923		563,742	(801)	5,015,864
Total Nondepreciable Assets	82,058,025	(82,651,092)	43,455,247	(61,416)	42,800,764
Depreciable Assets:					
Buildings and Building Improvements	621,681,651	78,055,710	1,614,169		701,351,530
Infrastructure	17,056,382	2,229,547	36,300		19,322,229
Facilities and Other Improvements	27,890,159	2,365,835	418,570		30,674,564
Furniture and Equipment	62,833,936		9,516,386	(4,066,162)	68,284,160
Vehicles	3,885,367		576,207	(359,224)	4,102,350
Other Capital Assets	34,160,835		2,206,699	(236,976)	36,130,558
Total Depreciable Assets at Historical Cost	767,508,330	82,651,092	14,368,331	(4,662,362)	859,865,391
Less accumulated depreciation for:					
Buildings and Building Improvements	(138,920,552)		(23,202,463)		(162,123,015)
Infrastructure	(10,749,034)		(443,398)		(11,192,432)
Facilities and Other Improvements	(9,207,011)		(1,613,778)		(10,820,789)
Furniture and Equipment	(39,176,173)		(5,372,323)	3,639,031	(40,909,465)
Vehicles	(1,857,974)		(396,525)	354,773	(1,899,726)
Other Capital Assets	(20,270,829)		(1,522,928)	236,976	(21,556,781)
Total Accumulated Depreciation	(220,181,573)		(32,551,415)	4,230,780	(248,502,208)
Depreciable Assets, Net	547,326,757	82,651,092	(18,183,084)	(431,582)	611,363,183
Capital Assets, Net	$ 629,384,782		$ 25,272,163	$ (492,998)	$ 654,163,947

Note 3: Deposits, Investments and Repurchase Agreements

Deposits

University bank information as of August 31, 2009, is presented below:

Cash on Hand	$	257,087
Cash in Bank		1,191,171
Cash in State Treasury		128,676
Cash Equivalents		74,187,394
Total Cash and Cash Equivalents	$	75,764,328
Current Assets Cash and Cash Equivalents	$	69,977,019
Current Assets Restricted Cash and Cash Equivalents		5,787,309
Total Cash and Cash Equivalents	$	75,764,328

As of August 31, 2009, the carrying amount of deposits was $1,191,171 and the total bank balance was $30,568.

Deposit Risk

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the University will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The University maintains depository relationships with various banking institutions. The University's policy is that all deposits are governed by a bank depository agreement between the University and the respective banking institution. This agreement provides that the University's deposits, to the extent such deposits exceed the maximum insured limit under deposit insurance provided by the Federal Deposit Insurance Corporation, shall at all times be collateralized with either government securities or a surety bond issued by an insurer rated "AAA" or its equivalent by a nationally recognized rating organization or a combination thereof.

Investments

At the direction of the System Board of Regents, University investments and cash equivalents are pooled at the System level with UTIMCO. The System is responsible for disclosure of all information on the pooled investments and has included these disclosures in its annual financial report.

The University does not have an investment risk policy. As of August 31, 2009, the fair value of the University's share of investments is presented below:

Investments Held by System in :		
Intermediate Term Fund	$	163,854,771
General Endowment Fund		54,665,104
Total Investments	$	218,519,875
Non-Current Assets – Restricted Investments	$	54,665,104
Non-Current Assets – Investments		163,854,771
Total Investments	$	218,519,875

Investment Risk

The investment risk disclosure that follows relates to the System's investments.

(A) *Credit Risk* – Article VII, Section 11b, of the Texas Constitution authorizes the System Board of Regents, subject to procedures and restrictions it establishes, to invest System funds in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all of the assets of the fund rather than a single investment.

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). The System's investment policies limit investments in U.S. domestic bonds and non-dollar denominated bond investments to those that are rated investment grade, Baa3 or better by Moody's Investor Services; BBB- or better, by Standard & Poor's Corporation, or BBB- or better by Fitch Investors Service at the time of acquisition. This requirement does not apply to investment managers that are authorized by the terms of an investment advisory agreement to invest in below-investment-grade bonds. Per GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk.

(B) *Concentrations of Credit Risk* – The System's investment policy statements contain the limitation that no more than 5 percent of the market value of domestic fixed income securities may be invested in corporate or municipal bonds of a single issuer. At August 31, 2009, the System did not hold any direct investments in any one issuer of corporate or municipal bonds that were five percent or more of the market value of the System's domestic fixed income investments.

(C) *Custodial Credit Risk* – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas statutes and the System's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. At August 31, 2009, the System did not have any deposits or investments that were exposed to custodial credit risk.

(D) *Interest Rate Risk* – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater is the sensitivity of its fair value to changes in market interest rates.

Interest rate risk inherent in the System investments is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the System's investments to changes in interest rates. The System has no specific policy statement limitations with respect to its overall modified duration.

(E) *Investments with Fair Values that Are Highly Sensitive to Interest Rate Changes* – In accordance with the System's investment policy statements, the System may invest in various mortgage-backed securities, such as collateralized mortgage-backed obligations. The System also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds, and stripped Treasury and Agency securities created from coupon securities. As of August 31, 2009, the System's investments include the following investments that are highly sensitive to interest rate changes:

- Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities.
- Mortgage-backed securities that are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities.
- Asset-backed securities that are backed by home equity loans, auto loans, equipment loans, and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received.
- Step-up notes that grant the issuer the option to call the note on certain specified dates. At each call date, should the issuer not call the note, the coupon rate of the note increases (steps up) by an amount specified at the inception of the note. The call feature embedded within a step-up note causes the fair value of the instrument to be considered highly sensitive to interest rate changes.

(F) *Foreign Currency Risk* – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the System's non-U.S. dollar investments. As of August 31, 2009, there are no limitations on investments in non-U.S. denominated bonds or common stocks in relation to the System's total fixed income and developed country equity exposures in the System's investment policy statements. The System's investment policy statements were amended during the year ended August 31, 2008, to remove limitations on investments in non-U.S. denominated bonds. The amendments became effective March 1, 2008. Prior to the amendments, the policy statements limited investments in non-U.S. denominated bonds to 50% of the System's total fixed income exposure.

Classification between domestic common stock and foreign common stock is based on the country of domicile of the issuer, not the currency in which the security is traded.

Securities Lending

In accordance with the prudent investor investment standards, the System participates in a securities lending program. The System began the program, under a contract with the System's lending agent, on September 1, 1995. The lending agent is authorized to lend any securities held by the System's custodian except those securities which the policy guidelines prohibit lending. Investments received as collateral for securities lending activities are not recorded as assets because the investments remain under the control of the transferor, except in the event of default.

In securities lending transactions, the System transfers its securities to brokers/dealers for collateral, which may be cash, securities issued or guaranteed by the U.S. government or its agencies, and irrevocable bank letters of credit, and simultaneously agrees to return the collateral for the same securities in the future.

Cash collateral received by the lending agent on behalf of the System is invested and reinvested in a non-commingled pool exclusively for the benefit of the System. The pool is managed in accordance with investment guidelines established by the System and as stated in the securities lending contract. Pool investments are valued at amortized cost which is indicative of fair value. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar weighted average maturity of 60 days and an overnight liquidity of 20 percent. On August 31, 2009, the System was collateralized 103 percent for securities on loan collateralized by cash.

Collateral pool investments are uninsured and are held by the securities lending agent, in its name, on behalf of the System, except for the investments in repurchase agreements, which are held in the securities lending agent's name by a third party custodian not affiliated with the System or the borrower of the associated loaned securities. Therefore, the collateral pool is not exposed to custodial credit risk because the pool investments are not held by counterparties to the lending transactions or a counterparties's trust department or agent.

Lending income is earned if the returns on those investments exceed the "rebate" paid to borrowers of the securities. The income is then shared with the lending agent based on a contractually negotiated rate split. However, if the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss of principal, part of the payment to the borrower would come from the System's resources and the lending agent based on the rate split.

Loans that are collateralized with securities generate income when the borrower pays a "loan premium or fee" for the securities loan. This income is split with the same ratio as the earnings for cash collateral. The collateral pledged to the System by the borrower is custodied by the lending agent or through a third-party arrangement. These securities held as collateral are not available to the System for selling or pledging unless the borrower is in default of the loan. On August 31, 2009, the System was collateralized 103 percent for securities on loan which were collateralized by securities.

The collateral received will have a fair value of 102 percent of the loaned securities of U.S. issuers. If the fair value of the collateral held in connection with loans of securities of U.S. issuers is less than 100 percent at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102 percent of the fair value.

For non-U.S. issuers, the collateral should remain at 105 percent of the fair value of the loaned securities at the close of any business day. If it falls below 105 percent, the borrower must deliver additional collateral by the close of the following business day. On August 31, 2009, the System was collateralized 106 percent for international loans.

In the event of default, where the borrower is unable to return the securities loaned, the System has authorized the lending agent to seize the collateral held. The collateral is then used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities cannot be replaced. If the collateral is insufficient to replace the securities, the lending agent has indemnified the System from any loss due to borrower default.

At August 31, 2009, the System had no credit risk exposure to borrowers because the amounts the System owed to borrowers exceeded the amounts the borrowers owed the System.

There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior period losses during the year.

Derivative Financial Instruments

Derivatives securities are financial instruments whose value is derived, in whole or in part, from the value of any one or more underlying securities or assets, or index of securities or assets, such as stocks, bonds, commodities, or currencies. Derivatives cover a broad range of financial instruments, such as forwards, futures, options, swaps and mortgage derivatives.

(A) *Mortgage Derivatives* – Mortgage derivatives are used to manage portfolio duration and to enhance portfolio yield, and are influenced by changes in interest rates, the current economic climate, and the geographic make-up of underlying mortgage loans. There are varying degrees of risk associated with mortgage derivatives. For example, certain Collateralized Mortgage Obligations (CMOs) such as Planned Amortization Class (PACs) are considered a more conservative lower risk investment. In contrast, principal only and interest only strips are considered higher risk investments. The System's investment in CMOs at August 31, 2009, was composed almost exclusively of the lower risk investment class.

(B) *Futures Contracts* – Futures contracts are used to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes. The net liability is included in payables from restricted assets. Futures contracts are marked to market daily; that is, they are valued at the close of business each day, and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss difference is referred to as the daily variation margin, which is settled in cash with the broker each morning for the amount of the previous day's mark to market. The amount that is settled in cash with the broker each morning is the carrying and fair value of the futures contracts. The System executes such contracts either on major exchanges or with major international financial institutions and minimizes market and credit risk associated with these contracts through the manager's various trading and credit monitoring techniques.

(C) *Foreign Currency Exchange Contracts* – The System enters into forward foreign currency exchange contracts to hedge against foreign currency exchange rate risks on its non-U.S. dollar denominated investment securities and to facilitate trading strategies primarily as a tool to increase or decrease market exposure to various foreign currencies. When entering into a forward currency contract, the System agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are valued daily and the System's net equity therein, representing unrealized gain or loss on the contracts, as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in other receivables. Realized and unrealized gains and losses are included in the statement of revenues, expenses, and changes in net assets. These instruments involve market and/or credit risk in excess of the amount recognized in the statement of net assets. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

(D) *Written Options* – Written options are used to alter the market (systematic) exposure without trading the underlying cash market securities and to hedge and control risks so that the actual risk/return profile is more closely aligned with the target risk/return profile. They are included in payables from restricted assets. During the year, call options were written on Treasury Notes, commodity, domestic and international equity indexes, and exchange traded funds.

(E) *Swaps* – Swaps are used to adjust interest rate and yield curve exposures. During the year, the System entered into interest rate, inflation, credit default, total return, and commodity swap contracts. They are included in other receivables and payables from restricted assets.

(F) *Investment Funds* – The System's investment funds include exchange-traded funds, index funds, Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships and corporate structures, which are generally unrated and may be unregulated.

Hedge fund pools are invested in private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios.

Certain of the hedge fund pools' investments were held through limited liability companies (LLCs), of which UTIMCO was the sole managing member. These investments were managed by an external investment manager under management agreements between the LLCs and the external manager. These management agreements were terminated during the year ended August 31, 2009. The external manager employed an investment strategy utilizing leveraged commodity futures and options.

Private investment pools are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments, domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk and investment manager risk. Certain of these investments are held through LLCs, of which UTIMCO is the sole managing member.

Public market funds are invested in exchange traded funds, index funds and private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the funds. Some of these investment managers may invest in both long and short securities and may utilize modest leverage in their portfolios. There are certain risks associated with these investments, some of which are investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios.

Hedge funds, private investment and public market funds include investments in private placement vehicles that are subject to risk, which could result in the loss of invested capital. The risks include the following:

- *Non-regulation risk* – Some of System's general partners and investment managers are not registered with the Securities and Exchange Commission or other domestic or international regulators, and therefore are not subject to regulatory controls.
- *Key personnel risk – The success of certain funds is substantially dependent upon key investment managers and the loss of those individuals may adversely impact the fund's performance.*
- *Liquidity risk – Many of the System's investment funds may impose lock-up periods, which would cause the System to incur penalties to redeem its units or prevent the System from redeeming its shares until a certain period of time has elapsed.*
- *Limited transparency – As private placement investment vehicles, these funds may not disclose the holdings of their portfolios.*

- *Investment strategy risk – These funds often employs sophisticated investment strategies and may use leverage, which could result in the loss of invested capital.*
- Investments in hedge funds, private investments, and public market funds are also subject to the investment risks previously discussed under the heading of Investment Risks, including custodial credit risk and foreign currency risk. Fixed income investments held by these funds would also be subject to credit risk and interest rate risk; moreover, they may invest in securities whose fair values would be sensitive to changes in interest rates.

(G) *Securities Sold Short* – The System may sell securities it does not own in anticipation of a decline in the fair value of that security or as a means to adjust the duration of certain fixed income portfolios. When the System sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale and provide collateral for its obligation to deliver the security upon conclusion of the sale. As of August 31, 2009 the Fund had no securities sold short. The System must pay dividends or interest on the securities sold short. Until the System covers its short sales, it is exposed to market risk to the extent that subsequent market fluctuations may require purchasing securities sold short at prices, which may be significantly higher than the market value reflected in the statements of fiduciary net assets.

Note 4: Summary of Long-Term Liabilities

	Balance 9/1/2008	Additions	Reductions	Balance 8/31/2009	Amounts Due Within One Year	Non-Current Amount
Employees' Compensable Leave	$6,781,797	$811,084		$7,592,881	$5,016,978	$2,575,903
Total	$6,781,797	$811,084		$7,592,881	$5,016,978	$2,575,903

Employees' Compensable Leave

Substantially, all full-time University employees earn annual leave in the amount of eight to twenty-one hours per month depending upon the respective employee's years of state employment. State law permits employees to carry accrued leave forward from one fiscal year to another fiscal year with a maximum of 532 hours for those employees with 35 or more years of state service. An eligible part-time employee's annual leave accrual rate and maximum carryover is proportional to the number of hours appointed to work. Employees with at least six months of state service who terminate their employment are entitled to payment for all accumulated annual leave.

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is off due to illness or to the estate of an employee in the event of his or her death. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The University's policy is to recognize the cost of sick leave when paid, and the liability is not shown in the financial statements because experience indicates that the actual expense for sick leave will be minimal. An eligible part-time employee's sick leave accrual rate is proportional to the number of hours appointed to work. This obligation is usually paid from the same funding source(s) as the employee's salary or wage compensation.

Note 5: Bonded Indebtedness

The University receives proceeds from revenue bonds issued and held by the System to support capital projects of the System and its institutions. These proceeds are recorded as transfers from the System. The University disburses funds to the System for payments of principal and interest related to the University's share of bond proceeds. These disbursements are recorded as transfers to the System. At August 31, 2009, the System had outstanding bonds payable of $5,332,825,000. All bonds issued by the System are defined as revenue bonds. As such, the revenues of the System, including the University, are pledged for repayment of the bonds. Segment information requirements are not applicable, due to the bond indentures' lack of specifically identifiable activities and separate accounting requirements imposed by an external party.

No amount of indebtedness related to these bonds has been recorded in the University's financial statements as the System is the party directly liable for these bonds. At August 31, 2009, however, the University's remaining unpaid share of the bond payable was $340,058,000.

Note 6: Operating Leases

The University has entered into various operating leases for office space and a gallery. Rental expenses for operating leases were $885,924 in 2009. Future minimum lease rental payments under noncancelable operating leases having an initial term in excess of one year as of August 31, 2009, were as follows:

Fiscal Year		**Total**
2010	$	861,988
2011		841,188
2012		841,188
2013		841,188
2014		841,188
2015 - 2019		140,198
Total Minimum Future Lease Payments	$	4,366,938

The University has also leased buildings to outside parties under various operating leases. The cost, carrying value, and accumulated depreciation of these leased assets as of August 31, 2009, were as follows:

Assets Leased		August 31, 2009
Buildings:		
Cost	$	975,584
Less Accumulated Depreciation		(87,428)
Total Carrying Value	$	888,156

Minimum future lease income under noncancelable operating leases as of August 31, 2009, was as follows:

Fiscal Year		Lease Income
2010	$	176,855
2011		176,855
2012		95,797
2013		0
2014		0
Total	$	449,507

Note 7: Interagency Balances / Activity

The University has numerous transactions with Other Agencies. At year-end, amounts to be received or paid are reported as Due from Other Agencies or Due to Other Agencies.

Agency	Due from:	Due to:	Purpose
The University of Texas System Administration	$30,629,499		Equipment and construction in progress financing
The University of Texas System Administration	28,976		Payroll related, endowment distributions
The University of Texas System Administration		$2,240,648	Payroll-related insurance premiums
Texas Department of Transportation	132		College License Plate Scholarship
Totals	$30,658,607	$2,240,648	

Interagency transfers made during the fiscal year are presented below:

Agency	Transfers From:	Transfers To:	Purpose
The University of Texas System Administration	$38,865,034		Anticipated proceeds from debt
The University of Texas System Administration	5,353,963		Bond proceeds
The University of Texas System Administration	1,107,328		Unrestricted Grants
The University of Texas System Administration	2,021,056		Endowment Distribution
The University of Texas System Administration		$31,822,061	Debt Service, reporting system
Texas Higher Education Coordinating Board		2,073,454	Tuition set-asides
Texas State University		31,429	Lab Equipment
UT San Antonio Health Science Center		116,174	Equipment
Totals	$47,347,381	$34,043,118	

Note 8: Risk Financing and Related Insurance

All risk financing and related insurance for the University is part of coverage provided by the System. The System has seven funded self-insurance plans providing coverage in the following areas: employee health and dental, unemployment compensation, workers' compensation, medical professional liability, property protection, directors and officers/employment practices liability, and construction contractor insurance.

Employee and Retiree Insurance Benefits

The UT System Employee Benefits program provides health insurance, dental insurance, vision insurance, life insurance, accidental death and dismemberment (AD&D), long-term disability, short-term disability, long-term care and flexible spending account coverage to all benefits-eligible employees and retirees of the System and its fifteen institutions. These insurance benefits are provided through both self-funded and fully-insured arrangements. A portion of the System's cost of providing group health and basic life insurance coverage is paid by the State as specified in the General Appropriations Act. The System's Office of Employee Benefits (OEB) is responsible for the overall administration of the insurance plans. OEB was established by Chapter 1601 of the *Texas Insurance Code* and complies with State laws and statues pertinent to employee benefits for the System.

Effective January 1, 2006, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries under Medicare Part D. Medicare Part D provides sponsors of postemployment healthcare plans up to 28 percent of the amount of eligible prescription drug benefit costs of retirees who are eligible for, but not enrolled in, Medicare Part D, if the sponsor's plan provides a prescription drug benefit that is actuarially equivalent to the Medicare Part D benefit.

Unemployment Compensation Insurance

The General Appropriations Act requires the System to reimburse the Texas Workforce Commission (TWC) for 50% of the unemployment benefits paid to former employees that were paid from general revenue funds. The System reimburses the TWC 100% of the unemployment benefits paid to former employees that were paid from local funds.

Workers' Compensation Insurance

The University of Texas System Workers' Compensation Insurance (WCI) program provides coverage to all employees of the System and its fifteen institutions. Under the oversight of the System's Office of Risk Management (ORM), the System self-insures and administers the program. The WCI staff is responsible for administering all aspects of the system-wide program, which provides income and medical benefits to all employees who have sustained job-related injuries or occupational diseases. The program's statutory authority is embodied in Chapter 503 of the *Texas Labor Code.*

Professional MediCal Liability Benefit Plan

The coverage provided under the Professional Medical Liability Benefit Plan (Plan) is on an occurrence basis; thus, a participant is covered by the Plan for claims and lawsuits relating to events that occurred while enrolled in the Plan, including those filed after the participant has left the System's employment or training. The Plan covers all of the System staff physicians, dentists, residents, fellows, and medical students who have been enrolled. The limits of liability of the Plan include an annual policy aggregate of $30,000,000, an annual aggregate of $1,500,000 for each staff physician ($500,000 per claim), an annual aggregate of $300,000 for each resident or fellow ($100,000 per claim) and a $75,000 annual aggregate for each medical student ($25,000 per claim). Other coverage is available for medical student externships outside of Texas and for approved international activities.

Liability is limited to $2,000,000 per incident, regardless of the number of claimants or physicians involved in an incident. As of September 1, 2003, the limits of liability are prescribed by law as $100,000 per claim per physician. Also effective September 1, 2003, UT institutions are covered under the Plan for actions that could have been brought against an individual plan participant. The liability of a UT institution is limited by law to $250,000 per claimant and $500,000 per occurrence for bodily injury or death.

Comprehensive Property Protection Program

The Comprehensive Property Protection Plan (CPPP) was renewed in April of 2009 and is a combination of interim financing and commercial coverage and provides Fire and All Other Perils (Fire and AOP), as well as coverage for Named Windstorm and Flood (Wind and Flood). All coverage is subject to the terms, exclusions, limits and conditions of the Insurance Policy. The Fire and AOP program provides a $1,000,000,000 per occurrence limit for most perils, with sub-limits that do apply. Deductibles for Fire and AOP are $5,000,000 per occurrence with a $15,000,000 annual aggregate limit. Coverage for Named Windstorm and resulting perils is included with a $50,000,000 per occurrence deductible.

In addition, underlying policies are purchased on certain flood and wind exposed properties. These policies provide relatively low limits ($1-4 million per building/contents for wind and $500,000 maximum building/contents for flood) and are purchased through the Texas Windstorm Insurance Association (TWIA) and the National Flood Insurance Program (NFIP) for facilities in Tier 1 seacoast territories and for properties located in various flood zones. The interim financing component of the program participates in losses resulting from physical damage that exceeds the coverage available under these primary policies and the institution's deductible up to $50,000,000. The interim financing for the Wind and Flood program is funded by annual contributions made by each institution in addition to paying insurance premiums.

Directors and Officers/Employment Practices Liability Self-Insurance Plan

The Directors and Officers Liability (D&O) and Employment Practices Liability (EPL) Self-insurance Plan (the "Plan") provides coverage for claims arising from actual or alleged wrongful acts performed by the plan beneficiaries. The plan also provides coverage for EPL claims, such as wrongful termination, failure to promote and wrongful discipline. In 2003, the UT System Board of Regents allocated $3.7 million from the Available University Fund to establish the D&O/EPL loss reserve fund. Institutions make annual premium contributions to this fund.

Coverage applies to individual board members, employees, faculty, etc., as well as to the System itself. The limit of liability is a $10 million annual aggregate (Coverages A, B and C combined), except for $5 million annual aggregate sublimit for Coverage C. Coverage A applies to non-indemnifiable claims made against individuals and it has no deductible. Coverage B applies to a UT institution that is required to indemnify a covered individual with deductibles of $100,000 per individual and $300,000 per occurrence. Coverage C applies to a UT institution and related entities with a $300,000 deductible. An excess coverage commercial insurance policy provides $10 million limit of liability in excess of a $5,000,000 aggregate retention which is satisfied by payment of losses under the Plan.

Rolling Owner Controlled Insurance Program

The Rolling Owner Controlled Insurance Program (ROCIP) was established for the centralized purchase of construction contractor insurance on various capital projects. This program provides workers' compensation and general liability insurance for all contractors enrolled on projects participating in the program. The insurance carries a $250,000 per claim and a $375,000 per occurrence cash deductible, which is paid through the program's self-insurance fund.

Incurred But Not Reported Self-Insurance Claims

Insurance claims that were Incurred But Not Reported (IBNR) were actuarially determined for the employee's health and dental, workers' compensation, professional medical liability, directors and officers/employment practices liability, and rolling owner controlled self-insurance plans. IBNR figures for the workers' compensation, professional medical liability, directors and officers/employment practices liability, and rolling owner controlled self-insurance plans include liabilities for unpaid reported claims and are reported on an undiscounted basis. The IBNR liability for the property protection self-insurance plan is not actuarially determined but rather estimated based on unpaid reported claims. Since an annual accrual is recorded for the third quarter TWC billing, no IBNR liability is recorded for Unemployment Compensation Insurance. In the past three fiscal years only the System losses from Hurricane *Ike* in fiscal year 2009 exceeded insurance coverage.

Since the responsibility for processing all claims for employee health and dental benefits has been fully delegated to third parties, the IBNR claims liability for those benefits does not include a provision for unallocated loss adjustment expenses (ULAE). However, it does include a provision of 5% of the projected incurred but unpaid claims for the administrative expenses associated with processing those claims. The IBNR claims liability for the workers' compensation, professional medical liability, directors and officers/employment practices liability, and rolling owner controlled self-insurance plans includes a related accrual for allocated loss adjustment expenses (ALAE), which are the administrative expenses associated with the ultimate settlement of those claims. They do not include a provision for ULAE.

Note 9: Related Parties

Through the normal course of operations, the University both receives funds from and provides funds to other State agencies in support of sponsored research programs. Funds received and provided during the year ended August 31, 2009, related to pass-through grants were $392,856 and $1,261,818 respectively.

Other related-party transactions identified in the financial statements include Due From/To Other State Agencies, and Transfers From/To Other State Agencies.

Note 10: The Financial Reporting Entity

The University is meeting the region's growing demand for access and excellence in higher education through programs and services offered on its three campuses: the Main Campus, the Downtown Campus and Hemisfair Park Campus which houses the Institute of Texan Cultures.

The University does not have any blended component units that are included in the financial statements.

Note 11: Restatement of Net Assets

GASB Statement No. 49, *Accounting for Pollution Remediation Obligations*, was adopted by the University during the year ended August 31, 2009. In accordance with GASB Statement No. 49 there are no restatements to net assets as of August 31, 2008.

Note 12: Employee Retirement Plans

Teacher Retirement System

The State of Texas has joint contributory retirement plans for substantially all its employees. One of the primary plans in which the System participates is a cost-sharing multi-employer defined benefit pension plan 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, the System may be required to make contributions in lieu of the State.

All System personnel employed in a position on a half time or greater basis for at least 4½ months or more are eligible for membership in the TRS retirement plan. However, students employed in positions that require student status as a condition of employment do not participate. Members with at least five years of service at age 65 or any combination of age plus years of service, which equals 80 (members who began TRS participation on or after September 1, 2007 must be age 60), have a vested right to unreduced retirement benefits. Members are fully vested after five years of service and are entitled to any reduced benefits for which the eligibility requirements have been met prior to meeting the eligibility requirements for unreduced benefits.

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 the System contributes a percentage of participant salaries totaling 6.58 percent of annual compensation. The University's contribution to TRS for the year ended August 31, 2009 was $2,617,382 which equaled the amount of the required contribution 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

The State has also established an optional retirement program for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS and is available to certain eligible employees. 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. Depending upon the source of funding for the employee's compensation, the System may be required to make the employer contributions in lieu of the State. Since these are individual annuity contracts, the State and the System have no additional or unfunded liability for this program.

The University's contributions for the year ended August 31, 2009, were $2,027,424 for 756 participating employees.

The University of Texas System Governmental Retirement Arrangement (UTGRA)

The University of Texas System Governmental Retirement Arrangement (UTGRA) is a defined contribution pension plan established by the System to provide certain participants in the ORP that portion of their benefits that would otherwise be payable under the ORP except for the $49,000 limit on contributions imposed by Section 415 of the Internal Revenue Code (IRC). At August 31, 2009 there were 2 plan members. Persons employed by the System prior to September 1, 1996, whose compensation exceeds the limit set by IRC Section 401(a)(17) and whose ORP contribution is limited by the $49,000 cap under IRC Section 415(c), defer 6.65 percent of their excess compensation while the System contributes between 6.58 percent and 8.5 percent depending upon the institution and the date of employment. The University contributed $9,314 for the year ended August 31, 2009. Plan provisions are established and may be amended at any time by the UT System Board of Regents.

Plan assets are valued at fair value and are invested in contracts and accounts in a similar manner to the ORP. Participants are immediately vested in the plan, both for the employee deferrals and the employer contributions. However, deferrals, contributions, purchased investments and earnings attributable to the plan are the property of the System and subject only to the claims of the System's general creditors. Participant's rights under the plan are equal to those of the general creditors of the System in an amount equal to the fair value of the participant's account balance. The System has no liability under the UTGRA that would exceed the aggregate value of the investments, and it is unlikely that any of UTGRA's assets will be used to satisfy the claims of general creditors in the future.

Note 13: Voluntary Retirement Plans

Deferred Compensation-457 (b)

The System employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in the TEX. GOV'T. CODE ANN., Sec. 609.001. The System offers its own deferred compensation plan, created in accordance with Internal Revenue Code Section 457(b). All System employees are eligible to participate in the System's plan, and do not participate in the plan offered by the state of Texas. All investments, amounts, property, and rights held under the Deferred Compensation Trust Fund are held for the exclusive benefit of participants and beneficiaries at the fair market value of the plan account for each participant. The System has no liability under the plan.

Tax-Sheltered Annuity-403 (b)

The System also administers the UTSaver Tax-Sheltered Annuity Program (TSA), created in accordance with IRC Section 403(b). All employees are eligible to participate. The UTSaver TSA is a private plan, and the deductions, purchased investments and earnings attributed to each employee's 403(b) plan are held by vendors chosen by the employee. The vendors may be insurance companies, banks or approved non-bank trustees such as mutual fund companies. The assets of this plan do not belong to the System or the State. Therefore, neither the System nor the State has a liability related to this plan.

Note 14: Donor-Restricted Endowments

Donor-restricted endowments are invested by System's UTIMCO. Net appreciation on investments of donor-restricted endowments is available for authorization for expenditure by the UT System Board of Regents. Pursuant to the Uniform Management of Institutional Funds Act, as adopted by Texas, the UT System 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. Net appreciation of $2,399,979 is reported as Restricted, Expendable, Other Expendable net assets. The System's policy is to retain all undistributed net realized and unrealized appreciation within the endowment funds.

Note 15: Post-Employment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State 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 self-funded plan and fully-insured plans. For the year ended August 31, 2009, the contributions for the self-funded plan by the State per full-time retired employee are shown in the following table. The retiree contributes any premium over and above the State contributions.

Retiree Only	$ 369.12
Retiree/Spouse	$ 562.54
Retiree/Children	$ 492.87
Retiree/Family	$ 687.44

The State recognizes the cost of providing these benefits to eligible retired employees. The cost of retired employee benefits is recognized when paid. The number of retired University employees who were eligible for these benefits, as well as the cost of providing the benefits for the year ended August 31, 2009, were 551 and $2,380,374 (cost to State $1,480,767 and cost to University $899,607), respectively.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires accrual-based measurement, recognition and disclosure of other post-employment benefits (OPEB) expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. The University's benefit liability is included in that of the University of Texas System. As a result, this liability will be reported in the System's financial statements.

Note 16: Disaggregation of Receivables

Other receivables as reported on the Statement of Net Assets are detailed by type as follows:

Net Other Receivables

Receivables related to Gifts, Grants, and Sponsored Programs	$	1,182,003
Receivables related to external parties/other companies		1,296,276
Receivables related to Auxiliary Enterprises		693,408
Receivables related to travel		224,801
Receivables related to Loan Funds and Financial Aid		41,149
Receivables related to Other Activities		198,329
Total	$	3,635,966

Note 17: Termination Benefits

During the fiscal year ended August 31, 2009, the University had no voluntary or involuntary termination arrangements that involved a substantial number of individual employees or group of employees and met the criteria for liability recognition.

State Auditor's Office
John Keel, CPA
State Auditor

February 4, 2010

Dr. Ricardo Romo, President
The University of Texas at San Antonio
One UTSA Circle
San Antonio, TX 78249

Subject: Management Letter Resulting from a Review of the University of Texas at San Antonio's Fiscal Year 2009 Financial Statements

Dear Dr. Romo:

We offer this management letter in conjunction with our review of the financial statements of the University of Texas at San Antonio (University) for the fiscal year ended August 31, 2009. We reviewed the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; the Statement of Cash Flows; and the Notes to the Financial Statements. In the course of our review, which was substantially less in scope than an audit, we did not find that material modifications needed to be made to the financial statements in order for them to be in conformity with generally accepted accounting principles.

We appreciate the assistance provided during this review by the management of the University and Internal Audit. If you have any questions, please call me at (512) 936-9500.

Sincerely,

Sandra Vice

Sandra Vice, CGAP, CIA, CISA
Assistant State Auditor

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SAO Report No. 10-326

The University of Texas at Tyler

Financial Statements and Auditor's Review Report as of August 31, 2009
and for the Year Then Ended

Contents

State Auditor's Office
John Keel, CPA
State Auditor

Auditor's Review Report

February 17, 2010

Dr. Rodney H. Mabry, President
The University of Texas at Tyler
3900 University Boulevard
Tyler, TX 75799

Dear Dr. Mabry:

We have reviewed the accompanying Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; Statement of Cash Flows; and Notes to the Financial Statements of the University of Texas at Tyler (University) as of and for the fiscal year ended August 31, 2009, in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The review was performed in accordance with the Southern Association of Colleges and Schools' (Southern Association) *Criteria for Accreditation*. All information included in these financial statements is the representation of management of the University.

A review consists principally of inquiries of University personnel and analytical procedures applied to financial data. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

The accompanying statements were prepared to present the financial position, the changes in financial position and the cash flows of the University. These statements are prepared pursuant to criteria of the Southern Association for supplementary special reports by institutions in states that conduct statewide audits.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The University has not presented a management's discussion and analysis section that the Governmental Accounting Standards Board has identified as required supplementary information that is not part of the basic financial statements. However, such required supplementary information for the University of Texas System (System) is presented in the System's consolidated annual financial report.

This report is intended for use by the Board of Regents of the System, management of the University, and the Southern Association. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,

John Keel, CPA
State Auditor

SAO Report No. 10-335

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The University of Texas at Tyler
Statement of Net Assets

At August 31, 2009
(See Auditor's Review Report on page 1.)

ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 3)	$	10,099,418
Restricted Cash and Cash Equivalents (Note 3)		5,008,036
Balance in State Appropriations		1,338,123
Receivables, Net of Allowances:		
Federal		1,404,813
Interest and Dividends		75,622
Student (net of allowance of $831,719)		1,444,649
Contributions Receivable (net of allowance of $275)		5,222
Other (Note 18)		555,551
Due from Other State Entities (Note 7)		10,525,960
Loans and Contracts (net of allowance of $742,908)		1,518,924
Other Current Assets		382,318
Total Current Assets	$	32,358,636
Non-Current Assets		
Restricted:		
Investments (Note 3)		55,460,253
Contributions Receivable (net of allowance of $18,125)		345,851
Investments (Note 3)		27,686,200
Capital Assets (Note 2):		
Non-Depreciable		29,454,459
Depreciable		197,260,305
Less: Accumulated Depreciation		(69,680,378)
Total Non-Current Assets	$	240,526,690
Total Assets	$	272,885,326

The accompanying Notes to the Financial Statements are an integral part of this statement.

The University of Texas at Tyler
Statement of Net Assets
At August 31, 2009
(See Auditor's Review Report on page 1.)

LIABILITIES		
Current Liabilities		
Payables:		
Accounts and Accrued Liabilities	$	6,647,826
Payroll		3,346,767
Due to Other State Entities (Note 7)		486,199
Deferred Revenue		14,289,925
Employees' Compensable Leave (Note 4)		705,537
Liabilities Payable from Restricted Assets (Note 4)		140,109
Assets Held for Others		11,273
Other Current Liabilities		39,610
Total Current Liabilities	$	25,667,246
Non-Current Liabilities		
Employees' Compensable Leave (Note 4)	$	407,384
Other Non-Current Liabilities - (Deposits)		366,940
Total Non-Current Liabilities	$	774,324
Total Liabilities	$	26,441,570
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$	157,034,385
Restricted for:		
Non-Expendable		
Permanent Funds, True Endowments, Annuities		32,030,622
Expendable		
Capital Projects		5,206,106
Funds Functioning as Endowments		541,797
Other		27,096,139
Unrestricted		24,534,707
Total Net Assets	$	246,443,756

The accompanying Notes to the Financial Statements are an integral part of this statement.

The University of Texas at Tyler
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended August 31, 2009
(See Auditor's Review Report on page 1.)

OPERATING REVENUES		
Tuition and Fees	$	33,677,486
Discounts and Allowances		(6,723,340)
Auxiliary Enterprises		3,222,409
Discounts and Allowances		
Other Sales of Goods and Services		2,725,086
Federal Revenue		4,844,282
State Grant Revenue		2,999,227
Private Sponsored Programs		796,498
Other Operating Revenues		257,253
Total Operating Revenues	$	41,798,901
OPERATING EXPENSES		
Salaries and Wages	$	37,389,444
Payroll Related Costs		9,380,769
Professional Fees and Services		829,783
Travel		1,419,095
Materials and Supplies		4,415,486
Communications and Utilities		2,681,819
Repairs and Maintenance		1,679,671
Rentals and Leases		210,261
Printing and Reproduction		603,985
Depreciation and Amortization		9,016,525
Bad Debt Expense		397,038
Scholarships		7,051,860
Other Operating Expenses		7,406,421
Total Operating Expenses	$	82,482,157
Operating Income (Loss)	**$**	**(40,683,256)**

The accompanying Notes to the Financial Statements are an integral part of this statement.

The University of Texas at Tyler
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended August 31, 2009
(See Auditor's Review Report on page 1.)

NONOPERATING REVENUES (EXPENSES)		
Legislative Appropriations	$	36,371,006
Gifts		1,239,822
Interest and Investment Income (Loss)		1,663,587
Net Increase (Decrease) in Fair Value of Investments		(15,023,591)
Gain (Loss) on Sale of Capital Assets		(6,554)
Other Nonoperating Revenues		5,136,618
Other Nonoperating Expenses		(112,367)
Total Nonoperating Revenues (Expenses)	$	29,268,521
Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfei	$	(11,414,735)
OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS		
Capital Contributions	$	49,291
Additions to Permanent and Term Endowments		1,845,490
Transfers In from Other State Entities (Note 7)		20,051,808
Transfers Out to Other State Entities (Note 7)		(9,119,375)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	$	12,827,214
CHANGE IN NET ASSETS	**$**	**1,412,479**
Net Assets, September 1, 2008	$	245,031,277
NET ASSETS, August 31, 2009	**$**	**246,443,756**

The accompanying Notes to the Financial Statements are an integral part of this statement.

The University of Texas at Tyler
Statement of Cash Flows

For the Fiscal Year Ended August 31, 2009
(See Auditor's Review Report on page 1.)

CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Tuition and Fees	$	25,984,077
Proceeds from Research Grants and Contracts		7,424,358
Proceeds from Loan Programs		202,048
Proceeds from Auxiliaries		3,157,444
Proceeds from Other Revenues		1,837,233
Payments to Suppliers for Goods and Services		(26,057,138)
Payments to Employees for Salaries		(46,338,721)
Payments for Loans Provided		(1,730,720)
Payments for Other Expenses		(57,497)
Net Cash Provided (Used) by Operating Activities	$	(35,578,916)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Legislative Appropriations	$	35,864,752
Proceeds from Gifts		1,286,645
Proceeds from Endowments		1,845,490
Proceeds of Transfers from Other Entities		2,362,403
Proceeds from Other Sources		5,153,663
Payments for Other Uses		(112,367)
Net Cash Provided (Used) by Non-Capital Financing Activities	$	46,400,586
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Capital Contributions		305,000
Proceeds from Disposal of Capital Assets		5,966
Proceeds of Transfers from Other Entities		21,153,033
Payments for Additions to Capital Assets		(22,675,022)
Payments for Transfers to Other Entities		(8,816,701)
Net Cash Provided (Used) by Capital and Related Financing Activities	$	(10,027,724)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Interest and Investment Income	$	1,669,459
Payments to Acquire Investments		(2,526,337)
Net Cash Provided (Used) by Investing Activities	$	(856,878)
Net Increase (Decrease) in Cash and Cash Equivalents	$	(62,932)
Cash and Cash Equivalents, September 1, 2008	$	15,170,387
Cash and Cash Equivalents, August 31, 2009	$	15,107,455

The accompanying Notes to the Financial Statements are an integral part of this statement.

Reconciliation of Operating Income (Loss) to
Net Cash Provided (Used) by Operating Activities

Operating Income (Loss)	$	(40,683,256)
Adjustments:		
Depreciation and Amortization	$	9,016,525
Bad Debt Expense		397,038
Operating Income and Cash Flow Categories:		
Classification Differences		
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		(2,202,146)
(Increase) Decrease in Loans and Contracts		(1,528,673)
(Increase) Decrease in Other Assets		(44,504)
Increase (Decrease) in Payables		570,538
Increase (Decrease) in Due to Other Entities		24,557
Increase (Decrease) in Deferred Revenue		(278,742)
Increase (Decrease) in Employees' Compensable Leave		63,351
Increase (Decrease) in Funds Held for Others		(938,870)
Increase (Decrease) in Other Liabilities		25,266
Total Adjustments	$	5,104,340
Net Cash Provided (Used) by Operating Activities	$	(35,578,916)
Non-Cash Transactions		
Net Increase (Decrease) in Fair Value of Investments	$	(15,023,591)
Miscellaneous Non-Cash Transactions		(19,817)

The accompanying Notes to the Financial Statements are an integral part of this statement.

The University of Texas at Tyler
Statement of Changes in Unrestricted Net Assets
For the Fiscal Year Ended August 31, 2009

	8/31/2009	8/31/2008	Difference
Reserved			
Encumbrances	$ 871,511	$ 1,520,828	$ (649,317)
Accounts Receivable	130,857	317,597	(186,740)
Deposits	366,939	196,574	170,365
Prepaid Expenses	75,835	49,123	26,712
Travel Advances		1,296	(1,296)
Unreserved			
Allocated			
Future Operating Budgets	177,148		177,148
Capital Projects	2,892,585	6,156,123	(3,263,538)
Funds Functioning as Endowment - Unrestricted	815,139	826,810	(11,671)
Retirement of Indebtedness	2,931,785	2,390,966	540,819
Utilities Reserve	1,200,000	1,200,000	0
Student Fees	4,586,354	6,651,460	(2,065,106)
Other	2,904	344,210	(341,306)
Unallocated	10,483,650	4,866,715	5,616,935
Total Unrestricted Net Assets	$ 24,534,707	$ 24,521,702	$ 13,005

The accompanying Notes to the Financial Statements are an integral part of this statement.

(See Auditor's Review Report on page 1.)

General Introduction

This report has been prepared for the use of the Southern Association of Colleges and Schools (Southern Association) in connection with the review of The University of Texas at Tyler (University) for accreditation purposes. This report includes a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; a Statement of Cash Flows; and the related Notes to the Financial Statements. In accordance with Southern Association criteria or Governmental Accounting Standards Board requirements, a Statement of Changes in Unrestricted Net Assets, and a management letter describing issues noted in the review.

Reporting Entity

The University is a component of the University of Texas System (System) and an agency of the State of Texas. The University prepares financial statements that are included in the State's *Comprehensive Annual Financial Report,* which is audited by the Texas State Auditor's Office.

Note 1: Summary of Significant Accounting Policies

Basis of Accounting

The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Operating items are distinguished from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the principle of ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Cash and Cash Equivalents

Short-term, highly liquid investments with maturities of three months or less when purchased are generally considered cash and cash equivalents. It is the University's policy to exclude items that meet this definition if they are part of an investment pool, which has an investment horizon of one year or greater. Therefore, highly liquid investments that are part of the Intermediate Term Fund and the Long Term Fund are not considered cash and cash equivalents.

Balance in State Appropriation

This item represents the balance of General Revenue funds at August 31, 2009 as calculated in the Texas State Comptroller's General Revenue Reconciliation.

Investments

Investments of the University are managed by the University of Texas Investment Management Company (UTIMCO), a private investment corporation that provides services entirely to the System. All investments are reported as noncurrent as these funds have an investment horizon extending beyond one year. The System's investments are primarily valued on the basis of market valuations provided by independent pricing services.

Fixed income securities held directly by the System are valued based upon prices supplied by FT Interactive Data and other major fixed income pricing services, external broker quotes and internal pricing matrices. Equity security market values are based on the New York Stock Exchange composite closing prices, if available. If not available, the market value is based on the closing price on the primary exchange on which the security is traded (if a closing price is not available, the average of the last reported bid and ask price is used).

The audited financial statements of the funds managed by UTIMCO may be found on UTIMCO's website and inquiries may be directed to UTIMCO via www.utimco.org.

Endowments

The University's endowments are used to support operations, which require the simultaneous achievement of two seemingly contradictory objectives of generating a predictable stream of annual revenue at a rate at least equal to the average rate of inflation for current needs and increasing the purchasing power of the funds (after annual distribution) at a rate at least equal to the average rate of inflation for future periods.

Funds are subject to restrictions of endowment and trust instruments, requiring that principal be maintained and that only the income be utilized. Funds may include endowments, term endowments, and funds functioning as endowments. Funds functioning as endowments consist of amounts that have been internally dedicated by the System for long-term investment purposes.

Contributions Receivable

Current and noncurrent contributions receivable are amounts pledged to the university by donors, net of allowances.

Restricted Assets

Restricted assets include funds restricted by legal or contractual requirements, including those related to sponsored programs, donors, constitutional restrictions, bond covenants, and loan agreements.

Loans and Contracts

Current and noncurrent loans and contracts are receivables, net of allowances, related to student loans.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation in the case of gifts. The University follows the State's capitalization policy with a cost equal to or greater than $5,000 for equipment items, $100,000 for buildings, building improvements and improvements other than buildings, and $500,000 for infrastructure items, and an estimated useful life of greater than one year. Purchases of library books are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Outlays for construction in progress are capitalized as incurred. Interest expense related to construction is capitalized net of interest income earned on the resources reserved for this purpose.

The University capitalizes, but does not depreciate works of art and historical treasures that are held for exhibition, education, research and public service. These collections are protected and preserved.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally two to fifteen years for equipment items, fifteen years for library books, ten to fifty years for buildings and their components and fifteen to forty years for infrastructure elements.

Other Assets

Included in other current assets are prepaid expenses due within one year.

Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities represent amounts owed to vendors for goods and services, and salaries and wages paid to employees on September 1, 2009.

Deferred Revenue

Deferred revenue represents revenues such as tuition recorded in August for the fall semester and payments received in advance for sponsored programs.

Assets Held For Others

Assets held for others represent funds held by the System as custodial or fiscal agent for students, faculty members, foundations, and others.

Net Assets

The University has classified resources into the following three net asset categories:

Invested in Capital Assets, Net of Related Debt

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted:

Nonexpendable

Net assets subject to externally imposed stipulations that require the amounts be maintained in perpetuity by the University or the System. Such assets include the System's permanent endowment funds.

Expendable

Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire with the passage of time.

Unrestricted

Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for special purposes by action of management or the UT System Board of Regents.

Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital programs.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University addresses each situation on a case-by-case basis prior to determining the resources to be used to satisfy the obligation. Generally, the University's policy is to first apply the expense towards restricted resources and then towards unrestricted resources.

Revenues and Expenses

Operating revenues include activities such as student tuition and fees, net of scholarship allowances; sales and services of auxiliary enterprises; most federal, state and local grants and contracts and federal appropriations; and interest on student loans. Operating expenses include salaries and wages, payroll related costs, materials and supplies, depreciation, scholarships and fellowships, and impairment losses and insurance recoveries received in the same year as the associated loss in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

Non-operating revenues include activities such as gifts and contributions, insurance recoveries received in years subsequent to the associated loss, State appropriations, investment income and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, GASB Statement No. 34, and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Non-operating expenses include activities such as interest expense on capital asset financings, and other expenses that are defined as non-operating expenses by GASB Statement Nos. 9, 34 and 42.

Scholarship Allowances and Student Aid

Financial aid to students is reported in the financial statements as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid (student loans, funds provided to students as awarded by third parties and Federal Direct Lending) is accounted for as third party payments (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expense or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on an entity-wide basis by allocating cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

Use of Estimates

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

Component Units

The statements do not include any component units because the net assets of the related entities do not meet the UT System established threshold for inclusion in the financial statements.

Note 2: Capital Assets

A summary of changes in capital assets is shown below:

	Balance 9/1/2008	Completed Construction in Progress	Additions	Deductions	Balance 8/31/2009
Non-Depreciable Assets:					
Land and Land Improvements	$ 4,103,134	$ 5,133	$	$	$ 4,108,267
Construction in Progress	19,317,087	(18,471,654)	23,864,358		24,709,792
Other Capital Assets	636,400				636,400
Total Non-Depreciable Assets	$ 24,056,621	$ (18,466,520)	$ 23,864,358	$ 0	$ 29,454,459
Depreciable Assets:					
Buildings and Building Improvements	$ 146,869,692	$ 17,988,066	$	$	$ 164,857,759
Infrastructure	2,389,660				2,389,660
Facilities and Other Improvements	12,973,217	478,454			13,451,671
Furniture and Equipment	10,152,402		992,122	(251,842)	10,892,682
Vehicles, Boats, and Aircraft	329,143			(35,072)	294,071
Other Capital Assets (including Library Books)	5,335,493		205,345	(166,376)	5,374,462
Total Depreciable Assets at Historical Cost	$ 178,049,607	$ 18,466,520	$ 1,197,467	$ (453,289)	$ 197,260,305
Less Accumulated Depreciation for:					
Buildings and Building Improvements	$ (45,780,783)	$	$ (7,049,038)	$	$ (52,829,820)
Infrastructure	(2,389,660)				(2,389,660)
Facilities and Other Improvements	(3,316,784)		(886,242)		(4,203,026)
Furniture and Equipment	(6,368,649)		(767,806)	231,389	(6,905,066)
Vehicles, Boats, and Aircraft	(115,116)		(43,432)	29,742	(128,806)
Other Capital Assets (including Library Books)	(3,120,369)		(270,008)	166,376	(3,224,001)
Total Accumulated Depreciation	$ (61,091,360)	$ 0	$ (9,016,525)	$ 427,506	$ (69,680,378)
Depreciable Assets, Net	$ 116,958,247	$ 18,466,520	$ (7,819,058)	$ (25,783)	$ 127,579,927
Capital Assets, Net	$ 141,014,868	$ 0	$ 16,045,300	$ (25,783)	$ 157,034,385

Note 3: Deposits, Investments, and Repurchase Agreements

Deposits

University bank information as of August 31, 2009 is presented below:

Carrying Amount	Bank Balance
$ 1,118,946	$ 1,730,443

Cash on Hand	$ 3,597
Cash in Bank	1,118,946
Cash in State Treasury	6,381,140
Cash Equivalents	7,603,771
Total Cash and Cash Equivalents	$ 15,107,454
Current Assets Cash and Cash Equivalents	$ 10,099,418
Current Assets Restricted Cash and Cash Equivalents	5,008,036
Total Cash and Cash Equivalents	$ 15,107,454

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The System maintains depository relationships with various banking institutions. The System's policy is that all deposits are governed by a bank depository agreement between the System and the respective banking institution. This agreement provides that the System's deposits, to the extent such deposits exceed the maximum insured limit under deposit insurance provided by the Federal Deposit Insurance Corporation, shall at all times be collateralized with government securities.

Investments

At the direction of the System Board of Regents, University investments and cash equivalents are pooled at the System level in internal investment pools. The System is responsible for disclosure of all information on the pooled investments and has included these disclosures in its annual financial report. As of August 31, 2009, this fair value of the University's share of investments is presented below:

Investments Held by System in:	
General Endowment Fund	55,460,253
Intermediate Term Fund	27,686,200
Total Investments	$ 83,146,453

(A) *Credit Risk* - Article VII, Section 11b of the Texas Constitution authorizes the UT System Board of Regents, subject to procedures and restrictions it establishes, to invest System funds in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the UT System Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all of the assets of the fund rather than a single investment.

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). During the year ended August 31, 2008, the System's investment policies were amended to remove requirements and limitations regarding investment ratings. The amendments became effective March 1, 2008. Prior to the amendments, the policies limited investments in U.S. Domestic bonds and non-dollar denominated bond investments to those that were rated investment grade, Baa3 or better by Moody's Investor Services, BBB- or better by Standard & Poor's Corporation, or BBB- or better by Fitch Investors Service at the time of acquisition. These requirements did not apply to investment managers that were authorized by the terms of an investment advisory agreement to invest in below investment grade bonds. Per GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3* (GASB 40), unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U. S. government are not considered to have credit risk and do not require disclosure of credit quality.

(B) *Concentrations of Credit Risk* – The System's investment policy statements contain the limitation that no more than five percent of the market value of domestic fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2009, the System did not hold any direct investments in any one issuer of corporate or municipal bonds that were five percent or more of the market value of the System's domestic fixed income investments.

(C) *Custodial Credit Risk* – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the System's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2009, the System did not have any deposits or investments that are exposed to custodial credit risk.

(D) *Interest Rate Risk* – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the System's investments is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the System's investments to changes in interest rates. The System has no specific policy statement limitations with respect to its overall modified duration.

(E) *Investments with Fair Values That Are Highly Sensitive to Interest Rate Changes* – The System may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The System also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped treasury and agency securities created from coupon securities. No percentage of holdings limitations are specified in the investment policy statements regarding these types of securities. As of August 31, 2009 the System's investments included the following investments that are highly sensitive to interest rate changes:

- Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities.

- Mortgage backed securities which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities.

- Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received.

- Step-up notes that grant the issuer the option to call the note on certain specified dates. At each call date, should the issuer not call the note, the coupon rate of the note increases (steps up) by an amount specified at the inception of the note. The call feature embedded within a step-up note causes the fair value of the instrument to be considered highly sensitive to interest rate changes. The System did not hold any of these securities as of August 31, 2009.

(F) *Foreign Currency Risk* – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the System's non-U.S. dollar investments. As of August 31, 2009, there are no limitations on investments in non-U.S. denominated bonds or common stocks in relation to the System's total fixed income and developed country equity exposures in the System's investment policy statements.

Securities Lending

In accordance with the prudent investor investment standards, the System participates in a securities lending program. The System began the program, under a contract with the System's lending agent, on September 1, 1995. The lending agent is authorized to lend any securities held by the System's custodian except those securities, which the policy guidelines prohibit lending. Investments received as collateral for securities lending activities are not recorded as assets because the investments remain under the control of the transferor, except in the event of default.

In security lending transactions, the System transfers its securities to brokers/dealers for collateral, which may be cash, securities issued or guaranteed by the United States government or its agencies, and irrevocable bank letters of credit, and simultaneously agree to return the collateral for the same securities in the future.

Cash collateral received by the lending agent on behalf of the System is invested and reinvested in a non-commingled pool exclusively for the benefit of the System. The pool is managed in accordance with investment guidelines established by the System and is stated in the security lending contract. Pool investments are valued at amortized cost which is indicative of fair value. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar weighted average maturity of 60 days and an overnight liquidity of 20 percent. The System was collateralized 103 percent on August 31, 2009.

Collateral pool investments are uninsured and are held by the securities lending agent, in its name, on behalf of the System, except for the investments in repurchase agreements, which are held in the securities lending agent's name by a third party custodian not affiliated with the System or the borrower of the associated loaned securities. Therefore, the collateral pool is not exposed to custodial credit risk, because the pool investments are not held by counterparties to the lending transactions or a counterparties' trust department or agent.

Lending income is earned if the returns on those investments exceed the "rebate" paid to borrowers of the securities. The income is then shared with the lending agent based on a contractually negotiated rate split. If the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss of principal, part of the payment to the borrower would come from the System's resources and the lending agent based on the rate split.

Loans that are collateralized with securities generate income when the borrower pays a loan premium or fee for the securities loan. This income is split with the same ratio as the earnings for cash collateral. The collateral pledged to the System by the borrower is in custody of the lending agent or through a third party arrangement. These securities held as collateral are not available to the System for selling or pledging unless the borrower is in default of the loan. On August 31, 2009, the System was collateralized 103 percent for securities on loan which were collateralized by securities.

The collateral received must have a fair value of 102 percent of the loaned securities of United States issuers. If the fair value of the collateral held in connection with loans of securities of United States issuers is less than 100 percent at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102 percent of the fair value.

For non-United States issuers, the collateral should remain at 105 percent of the fair value of the loaned securities at the close of any business day. If it falls below 105 percent, the borrower must deliver additional collateral by the close of the following business day. The System was collateralized 106 percent for international loans on August 31, 2009.

In the event of default, where the borrower is unable to return the securities loaned, the System has authorized the lending agent to seize the collateral held. The collateral is then used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities cannot be replaced. If the collateral is insufficient to replace the securities, the lending agent has indemnified the System from any loss due to borrower default.

At August 31, 2009, the System had no credit risk exposure to borrowers because the amounts the System owed to borrowers exceeded the amounts the borrowers owed the System.

There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses and no recoveries of prior period losses during the year ended August 31, 2009.

Derivative Financial Instruments

Derivatives securities are financial instruments whose value is derived, in whole or in part, from the value of any one or more underlying securities or assets, or index of securities or assets, such as stocks, bonds, commodities, or currencies. Derivatives cover a broad range of financial instruments, such as forwards, futures, options, swaps and mortgage derivatives.

(A) Mortgage Derivatives – Mortgage derivatives are used to manage portfolio duration and to enhance portfolio yield and are influenced by changes in interest rates, the current economic climate and the geographic make-up of underlying mortgage loans. There are varying degrees of risk associated with mortgage derivatives. For example, certain Collateralized Mortgage Obligations (CMOs) such as Planned Amortization Class (PACs) are considered a more conservative lower risk investment. In contrast, principal only and interest only strips are considered higher risk investments. The System's investment in CMOs was comprised almost exclusively of the lower risk investment class.

(B) *Futures Contracts* – Futures contracts are used to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes. The net liability is included in payables from restricted assets. Futures contracts are marked to market daily; that is, they are valued at the close of business each day and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss difference is referred to as the daily variation margin, which is settled in cash with the broker each morning for the amount of the previous day's mark to market. The amount that is settled in cash with the broker each morning is the carrying and fair value of the futures contracts. The System executes such contracts either on major exchanges or with major international financial institutions and minimizes market and credit risk associated with these contracts through the manager's various trading and credit monitoring techniques.

(C) *Foreign Currency Exchange Contracts* – The System enters into forward foreign currency exchange contracts to hedge against foreign currency exchange rate risks on its non-U. S. dollar denominated investment securities and to facilitate trading strategies primarily as a tool to increase or decrease market exposure to various foreign currencies. When entering into a forward currency contract, the System agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are valued daily and the System's net equity therein, representing unrealized gain or loss on the contracts, as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in other receivables. Realized and unrealized gains and losses are included in the consolidated statement of revenues, expenses and changes in net assets. These instruments involve market and/or credit risk in excess of the amount recognized in the consolidated balance sheet. Risks arise from the possible inability of counter-parties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

(D) *Written Options* – Written options are used to alter the market (systematic) exposure without trading the underlying cash market securities, and to hedge and control risks, so that the actual risk/return profile is more closely aligned with the target risk/return profile. They are included in payables from restricted assets. During the year, call options were written on Treasury Notes, commodity, domestic and international equity indexes, and exchange traded funds.

(E) *Swaps* – Swaps are used to adjust interest rate and yield curve exposures. During the year, the System entered into interest rate, equity, inflation, credit default, and commodity swap contracts. They are included in other receivables and payables from restricted assets.

F) *Investment Funds* – The System's investment funds include exchange traded funds, index funds, Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships and corporate structures, which are generally unrated and may be unregulated.

Hedge fund pools are invested in private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios.

Certain of the hedge fund pools' investments were held through limited liability companies (LLCs), of which UTIMCO was the sole managing member. These investments were managed by an external investment manager under management agreements between the LLCs and the external manager. These management agreements were terminated during the year ended August 31, 2009.

Private investment pools are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments, domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk and investment manager risk. Certain of these investments are held through LLCs, of which UTIMCO is the sole managing member.

Public market funds are invested in exchange traded funds, index funds and private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the funds. Some of these investment managers may invest in both long and short securities and may utilize modest leverage in their portfolios. There are certain risks associated with these investments, some of which are investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios.

Hedge funds, private investment and public market funds include investments in private placement vehicles that are subject to risk, which could result in the loss of invested capital. The risks include the following:

- *Non-regulation risk* – Some of System's general partners and investment managers are not registered with the Securities and Exchange Commission or other domestic or international regulators, and therefore are not subject to regulatory controls.
- *Key personnel risk* – The success of certain funds is substantially dependent upon key investment managers and the loss of those individuals may adversely impact the fund's performance.
- *Liquidity risk* – Many of the System's investment funds may impose lock-up periods, which would cause the System to incur penalties to redeem its units or prevent the System from redeeming its shares until a certain period of time has elapsed.
- *Limited transparency* – As private placement investment vehicles, these funds may not disclose the holdings of their portfolios.
- *Investment strategy risk* – These funds often employs sophisticated investment strategies and may use leverage, which could result in the loss of invested capital.

Investments in hedge funds, private investments, and public market funds are also subject to the investment risks previously discussed under the heading of Investment Risks, including custodial credit risk and foreign currency risk. Fixed income investments held by these funds would also be subject to credit risk and interest rate risk; moreover, they may invest in securities whose fair values would be sensitive to changes in interest rates.

(G) *Securities Sold Short* – The System may sell securities it does not own in anticipation of a decline in the fair value of that security or as a means to adjust the duration of certain fixed income portfolios. When the System sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale and provide collateral for its obligation to deliver the security upon conclusion of the sale. As of August 31, 2009, the Fund had no securities sold short. The System must pay dividends or interest on the securities sold short. Until the System covers its short sales, it is exposed to market risk to the extent that subsequent market fluctuations may require purchasing securities sold short at prices, which may be significantly higher than the market value reflected in the statements of fiduciary net assets.

Note 4: Summary of Long-Term Liabilities

Employees' Compensable Leave

	Balance 9/1/2008	Additions	Balance 8/31/2009	Current Portion	Non-current Portion
Employees' Compensable Leave	$ 1,049,570	$ 63,351	$ 1,112,921	$ 705,537	$ 407,384

Substantially all full-time University employees earn annual leave in the amount of 8 to 21 hours per month depending upon the respective employee's years of state employment. State law permits employees to carry accrued leave forward from one fiscal year to another fiscal year with a maximum of 532 hours for those employees with 35 or more years of state service. Eligible part-time employees' annual leave accrual rate and maximum carryover are proportional to the number of hours appointed to work. Employees with at least six months of state service who terminate their employment are entitled to payment for all accumulated annual leave.

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is off due to illness or to the estate of an employee in the event of his or her death. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The University's policy is to recognize the cost of sick leave when paid, and the liability is not shown in the financial statements because experience indicates that the expense for sick leave will be minimal. Eligible part-time employees' sick leave accrual rate is proportional to the number of hours appointed to work.

Note 5: Bonded Indebtedness

The University receives proceeds from revenue bonds issued and held by the System to support capital projects of the System and its institutions. These proceeds are recorded as transfers from the System. The University disburses funds to the System for payments of principal and interest related to the University's share of bond proceeds. These disbursements are recorded as transfers to the System. At August 31, 2009, the System had outstanding bonds payable of $5,332,825,000. All bonds issued by the System are defined as revenue bonds. As such, the revenues of the System, including the University, are pledged for repayment of the bonds. Segment information requirements are not applicable, due to the bond indentures' lack of specifically identifiable activities and separate accounting requirements imposed by an external party.

No amount of indebtedness related to these bonds has been recorded in the University's financial statements as the System is the party directly liable for these bonds. At August 31, 2009, however, the University's remaining unpaid share of the bond payable was $77,136,000.

Note 6: Operating Leases

The University has entered into various operating leases for buildings and equipment. Rental expenses for operating leases were $209,142 in 2009. Future minimum lease rental payments under non-cancellable operating leases having an initial term in excess of one year as of August 31, 2009, were as follows:

Fiscal Year		**Total**
2010		156,199
2011		79,098
2012		77,483
2013		52,216
Total Minimum Future Lease Payments	**$**	**364,996**

Note 7: Interagency Balances / Activity

The University has numerous transactions with other components of the System and with other agencies of the State of Texas. At year-end, amounts to be received or paid are reported as Due from Other Entities or Due to Other Entities.

Entity		Due from Other Entities		Due to Other Entities	Purpose
The University of Texas System	$	10,245,383			Capital project funding
The University of Texas System				486,199	Payroll related costs for August 2009 payroll
Texas Education Agency		247,775			Pass-through grant revenues
Texas Parks and Wildlife		32,802			Pass-through grant revenues
Totals	$	10,525,960	$	486,199	

Interagency transfers made during the fiscal year are presented below:

Entity		Transfers In from Other Entities		Transfers Out to Other Entities	Purpose
The University of Texas System	$	20,051,808	$	8,816,701	Capital Project Funding/ Debt Service
Texas Higher Education Coordinating Board				302,674	B-On Time and Doctoral Set-Aside
Totals	$	20,051,808	$	9,119,375	

Note 8: Contingent Liabilities

As of August 31, 2009, the University was not aware of any significant contingent liabilities.

Note 9: Risk Financing and Related Insurance

All risk financing and related insurance for the University is part of the coverage provided by the System. The System has seven funded self-insurance plans providing coverage in the following areas: employee health and dental, unemployment compensation, workers' compensation, medical professional liability, property protection, directors and officers/employment practices liability, and construction contractor insurance.

Employee and Retiree Insurance Benefits

The UT System Employee Benefits program provides health insurance, dental insurance, vision insurance, life insurance, accidental death and dismemberment (AD&D), long-term disability, short-term disability, long-term care and flexible spending account coverage to all benefits-eligible employees and retirees of the System and its fifteen institutions. These insurance benefits are provided through both self funded and fully insured arrangements. A portion of the System's cost of providing group health and basic life insurance coverage is paid by the State as specified in the General Appropriations Act. The System's Office of Employee Benefits (OEB) is responsible for the overall administration of the insurance plans. OEB was established by Chapter 1601 of the *Texas Insurance Code* and complies with State laws and statues pertinent to employee benefits for the System.

Effective January 1, 2006, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries under Medicare Part D. Medicare Part D provides sponsors of postemployment healthcare plans with a subsidy of up to 28 percent of the amount of eligible prescription drug benefit costs of retirees who are eligible for, but not enrolled in, Medicare Part D, if the sponsor's plan provides a prescription drug benefit that is actuarially equivalent to the Medicare Part D benefit.

Unemployment Compensation Insurance

The General Appropriations Act requires the System to reimburse the Texas Workforce Commission (TWC) for 50% of the unemployment benefits paid to former employees that were paid from general revenue funds. The System reimburses the TWC 100% of the unemployment benefits paid to former employees that were paid from local funds.

Workers' Compensation Insurance

The University of Texas System Workers' Compensation Insurance (WCI) program provides coverage to all employees of the System and its fifteen institutions. Under the oversight of the System's Office of Risk Management (ORM), the System self-insures and administers the program. The WCI staff is responsible for administering all aspects of the system-wide program, which provides income and medical benefits to all employees who have sustained job-related injuries or occupational diseases. The program's statutory authority is embodied in Chapter 503 of the *Texas Labor Code.*

Comprehensive Property Protection Program

The Comprehensive Property Protection Plan (CPPP) was renewed in April of 2009 and is a combination of interim financing and commercial coverage and provides Fire and All Other Perils (Fire and AOP), as well as coverage for Named Windstorm and Flood (Wind and Flood). All coverage is subject to the terms, exclusions, limits and conditions of the Insurance Policy. The Fire and AOP program provides a $1,000,000,000 per occurrence limit for most perils, with sub-limits that do apply. Deductibles for Fire and AOP are $5,000,000 per occurrence with a $15,000,000 annual aggregate limit. Coverage for Named Windstorm and resulting perils is included with a $50,000,000 per occurrence deductible.

In addition, underlying policies are purchased on certain flood and wind exposed properties. These policies provide relatively low limits ($1-4 million per building/contents for wind and $500,000 maximum building/contents for flood) and are purchased through the Texas Windstorm Insurance Association (TWIA) and the National Flood Insurance Program (NFIP) for facilities in Tier 1 seacoast territories and for properties located in various flood zones. The interim financing component of the program participates in losses resulting from physical damage that exceeds the coverage available under these primary policies and the institution's deductible up to $50,000,000. The interim financing for the Wind and Flood program is funded by annual contributions made by each institution in addition to paying insurance premiums.

Directors and Officers/Employment Practices Liability Self-Insurance Plan

The Directors and Officers Liability (D&O) and Employment Practices Liability (EPL) Self-insurance Plan (the "Plan") provides coverage for claims arising from actual or alleged wrongful acts performed by the plan beneficiaries. The plan also provides coverage for EPL claims, such as wrongful termination, failure to promote and wrongful discipline. In 2003, the UT System Board of Regents allocated $3.7 million from the Available University Fund to establish the D&O/EPL loss reserve fund. Institutions make annual premium contributions to this fund.

Coverage applies to individual board members, employees, faculty, etc., as well as to the System itself. The limit of liability is a $10 million annual aggregate (Coverages A, B and C combined), except for $5 million annual aggregate sublimit for Coverage C. Coverage A applies to non-indemnifiable claims made against individuals and it has no deductible. Coverage B applies to a UT institution that is required to indemnify a covered individual with deductibles of $100,000 per individual and $300,000 per occurrence. Coverage C applies to a UT institution and related entities with a $300,000 deductible. An excess coverage commercial insurance policy provides $10 million limit of liability in excess of a $5,000,000 aggregate retention which is satisfied by payment of losses under the Plan.

Rolling Owner Controlled Insurance Program

The Rolling Owner Controlled Insurance Program (ROCIP) was established for the centralized purchase of construction contractor insurance on various capital projects. This program provides workers' compensation and general liability insurance for all contractors enrolled on projects participating in the program. The insurance carries a $250,000 per claim and a $375,000 per occurrence cash deductible, which is paid through the program's self-insurance fund.

Incurred but Not Reported Self-Insurance Claims

Insurance claims that were Incurred but Not Reported (IBNR) were actuarially determined for the employee's health and dental, workers' compensation, professional medical liability, directors and officers/employment practices liability, and rolling owner controlled self-insurance plans. IBNR figures for the workers' compensation, professional medical liability, directors and officers/employment practices liability, and rolling owner controlled self-insurance plans include liabilities for unpaid reported claims and are reported on an undiscounted basis. The IBNR liability for the property protection self-insurance plan is not actuarially determined but rather estimated based on unpaid reported claims. Since an annual accrual is recorded for the third quarter TWC billing, no IBNR liability is recorded for Unemployment Compensation Insurance.

Since the responsibility for processing all claims for employee health and dental benefits has been fully delegated to third parties, the IBNR claims liability for those benefits does not include a provision for unallocated loss adjustment expenses (ULAE). However, it does include a provision of 5% of the projected incurred but unpaid claims for the administrative expenses associated with processing those claims. The IBNR claims liability for the workers' compensation, professional medical liability, directors and officers/employment practices liability, and rolling owner controlled self-insurance plans includes a related accrual for allocated loss adjustment expenses (ALAE), which are the administrative expenses associated with the ultimate settlement of those claims. They do not include a provision for ULAE.

Note 10: Subsequent Events

Prior to fiscal year 2009, a donor pledged a gift of $450,000 for a Library Garden project. Wanting to use vendors of her own choosing (and to avoid the University's required solicitation process), the donor subsequently paid for the project out of her own pocket. Therefore, the $450,000 gift previously donated was refunded to the donor in November 2009.

Note 11: Related Parties

Through the normal course of operations, the University both receives funds from and provides funds to other State agencies in support of sponsored research programs. Funds received and provided during the year ended August 31, 2009, related to pass-through grants were $1,603,201 and $726,355 respectively.

Other related-party transactions identified in the financial statements include Due From/To Other State Agencies, State Appropriations, Capital Appropriations and Transfers From/To Other State Agencies.

Note 12: Stewardship, Compliance, and Accountability

The University had no significant violations of bond or note covenants. Per State law, the University cannot spend amounts in excess of appropriations granted by the Texas Legislature. There are no deficits reported in net assets. There were no changes in accounting principles or reporting of loans.

Note 13: The Financial Reporting Entity

In addition to the main campus in Tyler, the University has campuses in Longview and Palestine. These financial statements are inclusive of all three campuses.

Note 14: Employee Retirement Plans

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 the System participates is a cost-sharing multi-employer defined benefit pension plan administered by the Teacher Retirement System of Texas. TRS is primarily funded through State and employee contributions. Depending upon the source of funding for a participant's salary, the System may be required to make contributions in lieu of the State.

All System personnel employed in a position on a half time or greater basis for at least 4½ months or more are eligible for membership in the TRS retirement plan. However, students employed in positions that require student status as a condition of employment do not participate. Members with at least five years of service at age 65 or any combination of age plus years of service, which equals 80 (members who began TRS participation on or after September 1, 2007 must be age 60), have a vested right to unreduced retirement benefits. Members are fully vested after five years of service and are entitled to any reduced benefits for which the eligibility requirements have been met prior to meeting the eligibility requirements for unreduced benefits.

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 the University contributes a percentage of participant salaries totaling 6.58 percent of annual compensation. The University's contributions to TRS for the year ended August 31, 2009 were $1,037,843 which equaled the amounts of the required contributions.

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 has also established an optional retirement program for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS and is available to certain eligible employees. 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. Depending upon the source of funding for the employee's compensation, the System may be required to make the employer contributions in lieu of the State. Since these are individual annuity contracts, the State and the System have no additional or unfunded liability for this program. The contributions made by participants and the University for the fiscal year ended August 31, 2009 were $2,624,799.

Note 15: Deferred Compensation Program

University employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Texas Government Code, Section 609.001. Deferred compensation plans are administered by the Employees Retirement System.

The State's 457 Plan complies with Internal Revenue Code, Section 457. This plan is referred to as the TexaSaver Deferred Compensation Plan and is available to all employees. Deductions, purchased investments, and earnings attributed to the 457 Plan are the property of the State and subject only to the claims of the State's general creditors. Participant rights under the plan are equal to those of the general creditors of the State in an amount equal to the fair market value of the 457 account for each participant. The State has no liability under the 457 Plan, and it is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.

The University also administers a Tax-Deferred Account Program, created in accordance with Internal Revenue Code, Section 403(b). All employees are eligible to participate. The Tax-Deferred Account Program is a private plan, and the deductions, purchased investments, and earnings attributed to each employee's 403(b) plan are held by vendors chosen by the employee. The vendors may be insurance companies, banks, or approved non-bank trustees such as mutual fund companies. The assets of this plan do not belong to the University, and thus it does not have a liability related to this plan.

Note 16: Donor-Restricted Endowments

Donor-restricted endowments are invested by System's UTIMCO. Net appreciation on investments of donor-restricted endowments is available for authorization for expenditure by the UT System Board of Regents. Pursuant to the Uniform Management of Institutional Funds Act, as adopted by Texas, the UT System Board of Regents may distribute net appreciation, realized and unrealized, in the fair market value of the assets of endowment holdings over the historic dollar value of the gifts, to the extent prudent. The System's policy is to retain all undistributed net realized and unrealized appreciation within the endowment funds.

Note 17: Post-Employment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health and life insurance benefits for retired employees (OPEB), 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 self-funded plan. For the year ended August 31, 2009, the contributions for the self-funded plan by the State 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	$	369.12
Retiree/Spouse		562.54
Retiree/Children		492.87
Retiree/Family		687.44

The number of University retired employees who were eligible for these benefits, as well as the cost of providing the benefits for the years ended August 31, 2009 are provided in the following table.

		2009
Number of Retirees		167
Cost - State	$	848,462
Cost - University	$	0

Note 18: Disaggregation of Receivable Balances

Other receivables as reported on the Statement of Net Assets are detailed by type as follows:

Net Other Receivables	
Related to Gifts, Grants, and Sponsored Programs	$195,862
Related to Financial Aid/Third Party Scholarships	190,167
Related to Auxiliary Enterprises	61,613
Related to Other Activities	107,909
Total	$555,551

State Auditor's Office
John Keel, CPA
State Auditor

February 17, 2010

Dr. Rodney H. Mabry, President
The University of Texas at Tyler
3900 University Boulevard
Tyler, TX 75799

Subject: Management Letter Resulting from a Review of the University of Texas at Tyler's Fiscal Year 2009 Financial Statements

Dear Dr. Mabry:

We offer this management letter in conjunction with our review of the financial statements of the University of Texas at Tyler (University) for the fiscal year ended August 31, 2009. We reviewed the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; the Statement of Cash Flows; and the Notes to the Financial Statements. In the course of our review, which was substantially less in scope than an audit, we did not find that material modifications needed to be made to the financial statements in order for them to be in conformity with generally accepted accounting principles.

We appreciate the assistance provided during this review by the management of the University and Internal Audit. If you have any questions, please call me at (512) 936-9500.

Sincerely,

Sandra Vice

Sandra Vice, CGAP, CIA, CISA
Assistant State Auditor

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SAO Report No. 10-336

THE UNIVERSITY of TEXAS
HEALTH SCIENCE CENTER AT HOUSTON

Review Of FY2009 Financial Statements And Notes

For The

Southern Association Of Colleges And Schools

7000 Fannin Street
Houston, Texas 77030

Contents

State Auditor's Office
John Keel, CPA
State Auditor

Auditor's Review Report

February 18, 2010

Dr. Larry R. Kaiser, President
The University of Texas Health Science Center at Houston
7000 Fannin Street
Houston, TX 77030

Dear Dr. Kaiser:

We have reviewed the accompanying Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; Statement of Cash Flows; and Notes to the Financial Statements of the University of Texas Health Science Center at Houston (Health Science Center) as of and for the fiscal year ended August 31, 2009, in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The review was performed in accordance with the Southern Association of Colleges and Schools' (Southern Association) *Criteria for Accreditation*. All information included in these financial statements is the representation of management of the Health Science Center.

A review consists principally of inquiries of Health Science Center personnel and analytical procedures applied to financial data. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

The accompanying statements were prepared to present the financial position, the changes in financial position and the cash flows of the Health Science Center. These statements are prepared pursuant to criteria of the Southern Association for supplementary special reports by institutions in states that conduct statewide audits.

Based on our review, with the exception of the matter described in the following paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The Health Science Center has not presented a management's discussion and analysis section that the Governmental Accounting Standards Board has identified as required supplementary information that is not part of the basic financial statements. However, such required supplementary information for the University of Texas System (System) is presented in the System's consolidated annual financial report.

This report is intended for use by the Board of Regents of the System, management of the Health Science Center, and the Southern Association. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,

John Keel, CPA
State Auditor

SAO Report No. 10-337

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The University of Texas Health Science Center at Houston

Statement of Net Assets

At August 31, 2009

(See Auditor's Review Report on page 1)

ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 3)	$	48,461,820
Restricted:		
Cash and Cash Equivalents (Note 3)		8,795,121
Legislative Appropriations		3,264,925
Receivables, Net of Allowances:		
Federal		9,676,361
Other Intergovernmental		6,942,538
Interest and Dividends		651,096
Accounts		43,902,164
Gifts		12,805,715
Other		13,769,729
Due from Other State Entities (Note 7)		37,024,584
Merchandise Inventories		487,098
Loans and Contracts		5,160,230
Other Current Assets		322,276
Total Current Assets	$	191,263,657
Non-Current Assets		
Restricted:		
Investments (Note 3)	$	72,881,803
Loans and Contracts		7,137,744
Gifts Receivable		20,658,853
Investments (Note 3)		198,701,400
Capital Assets (Note 2):		
Non-Depreciable		102,469,652
Depreciable		754,019,854
Less: Accumulated Depreciation		(306,058,620)
Other Non-Current Assets		725,131
Funds Held by System		154,758,037
Total Non-Current Assets	$	1,005,293,854
Total Assets	$	1,196,557,511

The University of Texas Health Science Center at Houston

Statement of Net Assets

At August 31, 2009

(See Auditor's Review Report on page 1)

LIABILITIES		
Current Liabilities		
Payables:		
Accounts	$	41,369,943
Payroll		11,568,416
Due to Other State Entities (Note 7)		3,714,318
Deferred Revenue		37,825,719
Employees' Compensable Leave (Note 4)		18,330,908
Notes and Loans Payable (Note 4)		875,000
Liabilities Payable from Restricted Assets		1,573,838
Funds Held for Others (Note 4)		957,520
Other Current Liabilities		11,872,509
Total Current Liabilities	$	128,088,171
Non-Current Liabilities		
Employees' Compensable Leave (Note 4)	$	15,483,391
Notes and Loans Payable (Note 4)		1,934,822
Assets Held for Others		2,005,306
Other Payable		3,647,384
Other Non-Current Liabilities		238,782
Total Non-Current Liabilities	$	23,309,685
Total Liabilities	$	151,397,856
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$	545,972,354
Restricted for:		
Non-Expendable		
Permanent Funds, True Endowments, Annuities		119,191,227
Expendable		
Capital Projects		24,120,262
Funds Functioning as Endowments		8,192,408
Other		130,888,475
Unrestricted		216,794,930
Total Net Assets	$	1,045,159,656

The accompanying Notes to the Financial Statements are an integral part of this statement.

The University of Texas Health Science Center at Houston

Statement of Revenues, Expenses, and Changes in Net Assets

For the Fiscal Year Ended August 31, 2009

(See Auditor's Review Report on page 1)

OPERATING REVENUES		
Tuition and Fees	$	26,121,178
Discounts and Allowances		(911,585)
Professional Fees		633,145,946
Discounts and Allowances		(469,402,569)
Auxiliary Enterprises		22,955,545
Other Sales of Goods and Services		43,679,732
Federal Revenue		148,526,988
State Grant Revenue		25,659,575
Other Operating Grant Revenue		156,268,089
Other Operating Revenues		10,306,225
Total Operating Revenues	$	596,349,124
OPERATING EXPENSES		
Cost of Goods Sold	$	19,386,206
Salaries and Wages		412,769,630
Payroll Related Costs		89,088,802
Professional Fees and Services		50,444,959
Travel		6,789,268
Materials and Supplies		36,883,650
Communications and Utilities		21,013,739
Repairs and Maintenance		8,253,388
Rentals and Leases		12,860,353
Printing and Reproduction		4,347,899
Depreciation and Amortization		40,000,361
Bad Debt Expense		2,473
Scholarships		3,840,736
Other Operating Expenses		87,410,206
Total Operating Expenses	$	793,091,670
Operating Income (Loss)	$	(196,742,546)

The University of Texas Health Science Center at Houston

Statement of Revenues, Expenses, and Changes in Net Assets

For the Fiscal Year Ended August 31, 2009

(See Auditor's Review Report on page 1)

NONOPERATING REVENUES (EXPENSES)		
Legislative Appropriations	$	170,657,641
Gifts		15,080,458
Interest and Investment Income (Loss)		13,911,370
Net Increase (Decrease) in Fair Value of Investments		(57,938,245)
Gain (Loss) on Sale of Capital Assets		(247,184)
Other Nonoperating Revenues		635,416
Total Nonoperating Revenues (Expenses)	$	142,099,456
Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers	$	(54,643,090)
OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS		
Capital Contributions	$	26,885,969
Additions to Permanent and Term Endowments		3,603,233
Transfers In from Other State Entities (Note 7)		47,352,955
Transfers Out to Other State Entities (Note 7)		(23,225,516)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	$	54,616,641
CHANGE IN NET ASSETS	$	(26,449)
Net Assets, September 1, 2008	$	1,045,186,105
Restatements		-
Net Assets, September 1, 2008, as Restated	$	1,045,186,105
NET ASSETS, August 31, 2009	$	1,045,159,656

The accompanying Notes to the Financial Statements are an integral part of this statement.

The University of Texas Health Science Center at Houston

Statement of Cash Flows

For the Fiscal Year Ended August 31, 2009

(See Auditor's Review Report on page 1)

CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Tuition and Fees	$	23,975,201
Receipts from Customers		153,555,909
Proceeds from Research Grants and Contracts		326,402,384
Proceeds from Auxiliaries		22,912,435
Proceeds from Other Revenues		57,599,270
Payments to Suppliers for Goods and Services		(241,453,413)
Payments to Employees for Salaries		(496,917,939)
Payments for Loans Provided		(1,735,978)
Proceeds from Loan Programs		1,879,810
Net Cash Provided (Used) by Operating Activities	$	(153,782,321)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Legislative Appropriations	$	175,018,257
Proceeds from Gifts		19,630,373
Proceeds from Endowments		3,603,233
Proceeds of Transfers from Other Entities		9,509,699
Proceeds from Other Sources		939,768
Payments for Other Uses		15,125
Net Cash Provided (Used) by Non-Capital Financing Activities	$	208,716,455
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Capital Debt Transferred from System (non-mandatory)	$	57,018,219
Proceeds from Capital Appropriations, Grants and Gifts		3,550,339
Proceeds from Disposal of Capital Assets		71,397
Payments for Additions to Capital Assets		(88,776,814)
Payments of Principal on Capital-Related Debt		(635,417)
Payments of Other Costs of Capital-Related Debt		(22,624,041)
Net Cash Provided (Used) by Capital and Related Financing Activities	$	(51,396,317)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales of Investments	$	32,740
Proceeds from Interest and Investment Income		14,161,743
Payments to Acquire Investments		(24,502,879)
Net Cash Provided (Used) by Investing Activities	$	(10,308,396)
Net Increase (Decrease) in Cash and Cash Equivalents	$	(6,770,579)

The University of Texas Health Science Center at Houston

Statement of Cash Flows

For the Fiscal Year Ended August 31, 2009

(See Auditor's Review Report on page 1)

Cash and Cash Equivalents, September 1, 2008	$	64,027,519
Restatements		
Cash and Cash Equivalents, September 1, 2008, as restated	$	64,027,519
Cash and Cash Equivalents, August 31, 2009	$	57,256,940

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

Operating Income (Loss)	$	(196,742,546)
Adjustments:		
Depreciation and Amortization	$	40,000,361
Bad Debt Expense		2,473
Operating Income and Cash Flow Categories:		
Classification Differences		
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		(17,458,116)
(Increase) Decrease in Inventories		192,796
(Increase) Decrease in Loans and Contracts		143,831
(Increase) Decrease in Other Assets		(118,500)
Increase (Decrease) in Payables		12,426,875
Increase (Decrease) in Due to Other Entities		285,150
Increase (Decrease) in Deferred Revenue		1,005,675
Increase (Decrease) in Employees' Compensable Leave		3,811,769
Increase (Decrease) in Funds Held for Others		(36,878)
Increase (Decrease) in Other Liabilities		2,704,789
Total Adjustments	$	42,960,225
Net Cash Provided (Used) by Operating Activities	$	(153,782,321)
Non-Cash Transactions		
Net Increase (Decrease) in Fair Value of Investments	$	(57,938,245)
Miscellaneous Noncash Transactions		(603,919)

The accompanying Notes to the Financial Statements are an integral part of this statement.

The University of Texas Health Science Center at Houston

Statement of Changes in Unrestricted Net Assets

For the Fiscal Year Ended August 31, 2009

(See Auditor's Review Report on page 1)

	8/31/2009	8/31/2008	Difference
Reserved			
Encumbrances	$ 27,249,715	$ 23,796,779	$ 3,452,936
Accounts Receivable	54,750,314	46,209,425	8,540,889
Inventories	487,098	679,894	(192,796)
Permanent Health Fund Endowments	13,198,011	15,163,595	(1,965,584)
Deposits	932,492	818,227	114,265
Future Operating Budgets	0	3,491,193	(3,491,193)
Prepaid Expenses	322,276	314,658	7,618
Deferred Charges	11,485,183	12,497,569	(1,012,386)
Unreserved			
Allocated			
Future Operating Budgets	0	27,204,132	(27,204,132)
Capital Projects	38,321,114	45,479,659	(7,158,545)
Auxiliary Enterprises Operating Funds	24,291,644	21,022,911	3,268,733
Retirement of Indebtedness	24,959,959	19,901,411	5,058,548
Utilities Reserve	2,258,098	1,845,652	412,446
Other	14,684,486	25,601,636	(10,917,150)
Unallocated	3,854,540	0	3,854,540
Total Unrestricted Net Assets	$ 216,794,930	$ 244,026,741	$ (27,231,811)

The accompanying Notes to the Financial Statements are an integral part of this statement.

(See Auditor's Review Report on page 1.)

General Introduction

This report has been prepared for the use of the Southern Association of Colleges and Schools (Southern Association) in connection with the review of The University of Texas Health Science Center at Houston for accreditation purposes. The report includes a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; A Statement of Cash Flows; and the related Notes to the Financial Statements. In accordance with Southern Association criteria or Governmental Accounting Standards Board requirements, the report also includes a Statement of Changes in Unrestricted Net Assets.

Reporting Entity

The University of Texas Health Science Center at Houston (University) is a component of The University of Texas System (System) and is an agency of the State of Texas. The University prepares financial statements that are included in the State's *Comprehensive Annual Financial Report*, which is audited by the Texas State Auditor's Office. The financial statements reflect compliance with applicable state statues and GASB pronouncements.

The University was created by The University of Texas System Board of Regents in 1972 with the support of the Texas Legislature. Its creation consolidated the existing Dental School, (established in 1905), the Graduate School of Biomedical Sciences (1963), the Medical School (1969), the School of Public Health (1969) and the School of Nursing (1972) into an academic health center. Subsequently, a Psychiatric Hospital (established in 1986), Institute of Molecular Medicine (1995) and School of Health Information Sciences (1997) have been added. The University is the most comprehensive health center in Texas and educates and trains approximately 3,900 students annually. Located in the world renowned Texas Medical Center, the University employs over 1,390 faculty and 3,650 staff to carry out its educational, research and clinical endeavors.

Note 1: Summary of Significant Accounting Policies

Basis of Accounting

The University reports as a business-type activity because it is financed in part by fees charged to external parties for goods or services. The accompanying financial statements present the financial position and operations of The University 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. Operating items are distinguished from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with ongoing operations. Operating expenses include the cost of goods and services, administrative expenses, and depreciation on capital assets.

Components of the UT Health Science Center's financial statements include:

Cash and Cash Equivalents

Short-term, highly liquid investments with maturities of three months or less when purchased are generally considered cash and cash equivalents. It is the System and University policy to exclude items that meet this definition if they are part of an investment pool, which has an investment horizon of one year or greater. Therefore, highly liquid investments that are part of the Intermediate Term Fund and the Long Term Fund are not considered cash and cash equivalents.

Additionally, Funds Functioning as Endowments invested in money market accounts are also excluded from Cash and Cash Equivalents as it is management's intent to invest these funds for more than one year. Cash held in the State Treasury for the Permanent University Fund (PUF), the Permanent Health Fund (PHF) are considered cash and cash equivalents. Other highly liquid investments of these major funds invested with custodians are not considered cash and cash equivalents according to the investment policies of the System.

Balance in State Appropriations

This item represents the balance of General Revenue funds at fiscal year end, August 31, as calculated in the Texas State Comptroller's General Revenue Reconciliation.

Investments

Investments of The University are managed by the University of Texas Investment Management Company (UTIMCO), a private investment corporation that provides services entirely to the System and its component institutions. All investments are reported as noncurrent as these funds have an investment horizon extending beyond one year. The System's investments are primarily valued on the basis of market valuations provided by independent pricing services.

Fixed income securities held directly by the System are valued based upon prices supplied by Merrill Lynch Securities Pricing Service and other major fixed income pricing services, external broker quotes, and internal pricing matrices.

Equity security market values are based on the New York Stock Exchange composite closing prices, if available. If not available, the market value is based on the closing price on the primary exchange on which the security is traded (if a closing price is not available, the average of the last reported bid and ask price is used).

Private market investments and certain other equity securities are fair valued by management. The fair values of these investments are estimated by management using the partnership's capital account balance at the closest available reporting period, as communicated by the general partner, adjusted for contributions and withdrawals subsequent to the latest available reporting period as well as consideration of any other information, which has been provided by the partnership or other source. In rare cases the private market funds are valued at cost, but only when management feels this is the best approximation of value. The audited financial statements of the funds managed by UTIMCO may be found on UTIMCO's web site, and inquiries may be directed to UTIMCO via www.utimco.org.

The System is authorized to invest funds, as provided in Section 51.0031 of the Texas Education Code and the Constitution of the State of Texas, under prudent investor investment standards. Such investments include various fixed income and equity type securities. The investments of the System are governed by various investment policies approved by the University of Texas System Board of Regents.

Endowments

The University's endowments are used to support operations, which require the simultaneous achievement of two contradictory objectives of generating a predictable stream of annual revenue at a rate at least equal to the average rate of inflation for current needs and of increasing the purchasing power of the funds (after annual distributions) at a rate at least equal to the average rate of inflation for future periods.

Funds are subject to restrictions of endowment and trust instruments, requiring that principal be maintained and that only the income be utilized. Funds may include endowments, term endowments, and funds functioning as endowments. Funds functioning as endowments consist of amounts that have been internally dedicated by the System for long-term investment purposes.

The Permanent Health Fund (PHF) is an internal UT System mutual fund for the pooled investment of state endowment funds for health-related institutions of higher education. The University of Texas System Board of Regents established the PHF in August 1999 with proceeds from state tobacco litigation. Distributions to component institutions fund programs that benefit medical research, health education, or treatment programs. The PHF provides for greater diversification of investments than would be possible if each account were managed separately.

Contributions Receivable

Current and noncurrent contributions receivable are amounts pledged to the UT Health Science Center at Houston by donors, net of allowances.

Inventories

Inventories, consisting primarily of supplies and merchandise for resale, are valued at cost, typically based on the specific identification, weighted average or first-in, first-out methods, which are not in excess of net realizable value.

Restricted Assets

Restricted assets include funds restricted by legal or contractual requirements, including those related to sponsored programs, donors, constitutional restrictions, and loan agreements.

Loans and Contracts

Current and noncurrent loans and contracts are receivables, net of allowances, related to student loans.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation in the case of gifts. The University follows the Centers for Medicare and Medicaid Provider Reimbursement Manual (PRM), Section 108.1, which establishes the capital threshold for all capital assets at $5,000. The University capitalizes all real property assets in compliance with PRM Section 108.1. Following PRM Section 108.1 versus the Texas Comptroller of Public Accounts' (Comptroller) capitalization policy was approved by the Comptroller's Executive Director of Cost Reimbursements on December 2, 2004.

Purchases of library books are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Outlays for construction in progress are capitalized as incurred. Interest expense related to construction is capitalized net of interest income earned on the resources reserved for this purpose.

The University follows the American Hospital Association guidelines for depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally two to fifteen years for equipment items, fifteen years for library books, ten to fifty years for buildings and their components and fifteen to forty years for infrastructure elements.

Other Assets

Included in other current assets are prepaid expenses due within one year. Included in the other noncurrent assets are prepaid expenses that will be realized beyond one year.

Deferred Revenue

Deferred revenue represents revenues collected but not earned as of fiscal year end, August 31st, such as tuition recorded in August for the fall semester and payments received in advance for sponsored programs.

Assets Held for Others

Assets held for others represent funds held by the University as custodial or fiscal agent for students, faculty members, foundations, and others. University funds held for others as of August 31, 2009 totaled $2,005,306.

Net Assets

The University has classified resources into the following three net asset categories:

Invested in Capital Assets, Net of Related Debt

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted:

Nonexpendable

Net assets which are subject to externally imposed stipulations that require the amounts to be maintained perpetuity by the University. Such assets include the University's permanent endowment funds.

Expendable

Net assets whose use by The University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire with the passage of time.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University addresses each situation on a case-by-case basis prior to determining the resources to be used to satisfy the obligation. Generally, the University's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

Unrestricted

Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for special purposes by action of University management or the System Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic, research programs, patient care initiatives, and for capital programs.

Revenues and Expenses

Operating revenues include activities such as student tuition and fees, net of scholarship allowances; sales and services of auxiliary enterprises; sales and services of hospitals; professional fees; most federal, state and local grants and contracts and federal appropriations; and interest on student loans. As defined by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, all operating revenues are considered program revenues since they are charges for services provided and program-specific operating grants and contributions. Operating expenses include salaries and wages, payroll related costs, materials and supplies, depreciation, scholarships and fellowships, and impairment losses and insurance recoveries received in the same year as the associated loss in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

Nonoperating revenues include activities such as gifts and contributions, insurance recoveries received in years subsequent to the associated loss, State appropriations, investment income and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, GASB Statement No. 34, and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Nonoperating expenses include other expenses that are defined as nonoperating expenses by GASB Statement Nos. 9, 34 and 42.

Scholarship Allowances and Student Aid

Financial aid to students is reported in the financial statements as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid (student loans, funds provided to students as awarded by third parties and Federal Direct Lending) is accounted for as third party payments (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expense or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the University's specific student identification method, amounts are computed on an individual basis by allocating cash payments to each student.

Charity Care

The University provides charity care to patients who meet certain criteria under charity care policies without charge or at amounts less than its established rates. Because the University does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The University's total unsponsored charity care amounted to approximately $249,526,321 for 2009.

Medicare

The University's inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are reimbursed under a prospective reimbursement methodology. Also, additional reimbursement is received for graduate medical education, disproportionate share, bad debts and other reimbursable costs, as defined, under a variety of payment methodologies.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective reimbursement methodology. Certain outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement cost methodology. The University is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the University and audits thereof by the Medicaid fiscal intermediary.

The University has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to The University under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Blended Component Units

The following component unit is included in the consolidated financial statements because the University appoints a voting majority of the component unit's board and the University is able to impose its will on the component unit.

UT Physicians, P.O. Box 20627, Houston, Texas 77225, is governed by a three-member board appointed by the University. The corporation is blended rather than discretely presented because it provides services entirely or almost entirely to the University. The corporation's fiscal year ends on August 31.

Use of Estimates

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

Policy regarding application of restricted and unrestricted resources to expenses

It is the University's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Note 2: Capital Assets

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

	Beginning Balance	Reclassifications Completed CIP	Additions	Deletions	Ending Balance
Nondepreciable Assets:					
Land & Land Improvements	$ 14,092,147	$ -	$ -	$ -	$ 14,092,147
Construction in Progress	31,179,460	(483,836)	57,681,881		88,377,505
Total Nondepreciable Assets	$ 45,271,607	$ (483,836)	$ 57,681,881	$ -	$ 102,469,652
Depreciable Assets:					
Buildings & Building Improvements	$ 579,219,734	$ 483,836	$ 5,908,009	$ -	$ 585,611,578
Infrastructure					-
Facilities and Other Improvements	7,224,150				7,224,150
Furniture and Equipment	134,976,224		21,675,256	(10,144,052)	146,507,428
Vehicles, Boats and Aircraft	1,908,481		19,945	(361,061)	1,567,364
Other Capital Assets (Including Library Books)	12,676,385		435,811	(2,861)	13,109,335
Total Depreciable Assets at Historical Cost	$ 736,004,973	$ 483,836	$ 28,039,021	$(10,507,975)	$ 754,019,855
Less accumulated depreciation for:					
Buildings and Building Improvements	$ (179,615,245)	$ -	$(26,860,183)	$ -	$(206,475,428)
Facilities and Other Improvements	(2,365,222)		(401,248)		(2,766,470)
Furniture and Equipment	(87,873,619)		(12,093,157)	9,495,919	(90,470,857)
Vehicles, Boats and Aircraft	(1,243,728)		(186,265)	276,284	(1,153,709)
Other Capital Assets (Including Library Books)	(4,606,598)		(588,420)	2,861	(5,192,156)
Total accumulated depreciation	$ (275,704,412)	$ -	$ (40,129,273)	$ 9,775,065	$ (306,058,620)
Depreciable Assets, net	$ 460,300,561	$ 483,836	$ (12,090,252)	$ (732,910)	$ 447,961,235
Capital Assets, net	$ 505,572,168	$ -	$ 45,591,629	$ (732,910)	$ 550,430,886

The difference between additions to total accumulated depreciation listed above and the amount reported on the SRECNA ($40,000,361) is equipment transferred in from UTMB that had already been depreciated in the amount of $128,911.42 as listed below.

TRANSFERRED IN FROM	DESCRIPTION	HISTORICAL COST DR/(CR)	ACCUMULATED DEPRECIATION DR/(CR)	NET BOOK VALUE DR/(CR)
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		TRANSFERS - IN		
From UTMB with Dr. Rosenblat	Equipment	$8,575.00	($857.40)	$7,717.60
From UTMB with Dr. Walters	Equipment	$18,504.50	($14,098.56)	$4,405.94
From UTMB with Dr. Soto	Equipment	$48,964.14	($7,284.69)	$41,679.45
From UTMB with Dr. Gorenstein	Equipment	$110,461.75	($106,670.77)	$3,790.98
		--------------------	--------------------	--------------------
		$186,505.39	($128,911.42)	$57,593.97

Note 3: Deposits, Investments, and Repurchase Agreements

DEPOSITS OF CASH IN BANK

As of August 31, 2009 the carrying amount of deposits is presented below.

Carrying Amount	Bank Balance
$ 57,256,941	$ 56,860,338

Cash on hand	$ 135,605
Cash in bank	472,377
Cash in State Treasury	12,394,528
Cash Equivalents	44,254,432
Total Cash and Cash Equivalents	$ 57,256,941
Current Assets Cash and Cash Equivalents	$ 48,461,820
Current Assets Restricted Cash and Cash Equivalents	8,795,122
	$ 57,256,941

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, The University will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The University maintains depository relationships with various banking institutions. The University's policy is that all deposits are governed by a bank depository agreement between the University and the respective banking institution. This agreement provides that the University's deposits, to the extent such deposits exceed the maximum insured limit under deposit insurance provided by the Federal Deposit Insurance Corporation, shall at all times be collateralized with government securities. As of August 31, 2009, the University had no bank balances that were exposed to custodial credit risk.

Investments

At the direction of the UT System Board of Regents, the University investments and cash equivalents are pooled at the System level in internal investment pools. The System is responsible for disclosure of all information on the pooled investments and has included these disclosures in its annual financial report.

As of August 31, 2009 the fair value of the University's investments is presented below:

Pooled Operating Funds ITF	$ 261,949,679
Limited partnership-TECO (Private Market)	8,600,471
Limited partnerships (Private Market)	1,033,054
Total Investments	$ 271,583,204
Non-Current Assets - Restricted Investments	$ 72,881,804
Non-Current Assets - Investments	198,701,400
Total Investments	$ 271,583,204

(A) Credit Risk - Article VII, Section 11b of the Texas Constitution authorizes the UT System Board of Regents, subject to procedures and restrictions it establishes, to invest System funds in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the UT System Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all of the assets of the fund rather than a single investment.

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). The System's investment policies limit investments in U.S. Domestic bonds and non-dollar denominated bond investments to those that are rated investment grade, Baa3 or better by Moody's Investor Services, BBB- or better by Standard & Poor's Corporation, or BBB- or better by Fitch Investors Service at the time of acquisition. This requirement does not apply to investment managers that are authorized by the term of an investment advisor agreement to invest in below investment grade bonds. Per GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3* (GASB 40), unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U. S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split raging, or a different rating assignment between NRSRO's are disclosed using the rating indicative of the greatest degree of risk.

(B) *Concentrations of Credit Risk* - The System's investment policy statements contain the limitation that no more than five percent of the market value of domestic fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2009 and 2008, the System did not hold any direct investments in any one issuer of corporate or municipal bonds that were five percent or more of the market value of the System's domestic fixed income investments.

(C) *Custodial Credit Risk* – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the System's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2009 and 2008, the System did not have any deposits or investments that are exposed to custodial credit risk.

(D) *Interest Rate Risk* – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the System's investments is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the System's investments to changes in interest rates. The System has no specific policy statement limitations with respect to its overall modified duration.

(E) *Investments with Fair Values That Are Highly Sensitive to Interest Rate Changes* – In accordance with the System's investment policy statements, the System may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The System also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped Treasury and Agency securities created from coupon securities. No percentage of holdings limitations are specified in the investment policy statements regarding these types of securities.

(F) *Foreign Currency Risk* – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the System's non-U.S. dollar investments. The System's investment policy statement limits investments in non-U.S. denominated bonds to 50 percent of the System's total fixed income exposure.

Repurchase Agreements

The System, by statute, is authorized to enter into repurchase agreements. A repurchase agreement is when a holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the buyer for this.

Securities Lending

In accordance with the prudent investor investment standards, the System participates in a securities lending program. The System began the program, under a contract with the System's lending agent, on September 1, 1995. The lending agent is authorized to lend any securities held by the System's custodian except those securities, which the policy guidelines prohibit lending. Investments received as collateral for securities lending activities are not recorded as assets because the investments remain under the control of the transferor, except in the event of default.

In security lending transactions, the System transfers its securities to brokers/dealers for collateral, which may be cash; securities issued or guaranteed by the United States government or its agencies, and irrevocable bank letters of credit, and simultaneously agrees to return the collateral for the same securities in the future.

Cash collateral received by the lending agent on behalf of the System is invested and reinvested in a non-commingled pool exclusively for the benefit of the System. The pool is managed in accordance with investment guidelines established by the System and is stated in the security lending contract. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar weighted average maturity of 60 days and an overnight liquidity of 20 percent.

Collateral pool investments are uninsured and are held by the securities lending agent, in its name, on behalf of the System, except for the investments in repurchase agreements, which are held in the securities lending agent's name by a third party custodian not affiliated with the System or the borrower of the associated loaned securities. Therefore, the collateral pool is not exposed to custodial credit risk, because the pool investments are not held by counterparties to the lending transactions or a counterparties' trust department or agent.

Lending income is earned if the returns on those investments exceed the "rebate" paid to borrowers of the securities. The income is then shared with the lending agent based on a contractually negotiated rate split. If the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss of principal, part of the payment to the borrower would come from the System's resources and the lending agent based on the rate split.

Loans that are collateralized with securities generate income when the borrower pays a loan premium or fee for the securities loan. This income is split with the same ratio as the earnings for cash collateral. The collateral pledged to the System by the borrower is custodied by the lending agent or through a third party arrangement. These securities held as collateral are not available to the System for selling or pledging unless the borrower is in default of the loan.

The collateral received must have a fair value of 102 percent of the loaned securities of United States issuers. If the fair value of the collateral held in connection with loans of securities of United States issuers is less than 100 percent at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102 percent of the fair value.

For non-United States issuers, the collateral should remain at 105 percent of the fair value of the loaned securities at the close of any business day. If it falls below 105 percent, the borrower must deliver additional collateral by the close of the following business day

In the event of default, where the borrower is unable to return the securities loaned, the System has authorized the lending agent to seize the collateral held. The collateral is then used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities cannot be replaced. If the collateral is insufficient to replace the securities, the lending agent has indemnified the System from any loss due to borrower default.

At August 31, 2009 and 2008, the System had no credit risk exposure to borrowers because the amounts the System owed to borrowers exceeded the amounts the borrowers owed the System.

There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses and no recoveries of prior period losses during the years ended August 31, 2009 and 2008.

Derivative Financial Instruments

(A) Mortgage Derivatives – Mortgage derivatives are used to manage portfolio duration and to enhance portfolio yield and are influenced by changes in interest rates, the current economic climate and the geographic make-up of underlying mortgage loans. There are varying degrees of risk associated with mortgage derivatives. For example, certain Collateralized Mortgage Obligations (CMOs) such as Planned Amortization Class (PACs) are considered a more conservative lower risk investment. In contrast, principal only and interest only strips are considered higher risk investments. The System's investment in CMOs, which was comprised almost exclusively of the lower risk investment class, was 2.9 percent of total investments with a fair value of $607,164,579 at August 31, 2009 and 1.7 percent of total investments with a fair value of $423,215,911 at August 31, 2008.

(B) Futures Contracts – Futures contracts are used to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes. The net liability is included in payables from restricted assets. Futures contracts are marked to market daily; that is, they are valued at the close of business each day and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss difference is referred to as the daily variation margin, which is settled in cash with the broker each morning for the amount of the previous day's mark to market. The amount that is settled in cash with the broker each morning is the carrying and fair value of the futures contracts. The amount of the net realized loss on the futures contracts was $259,640,921 for the year ended August 31, 2009. The amount of the net realized gain on the futures contracts was $3,963,663 for the year ended August 31, 2008. The System executes such contracts either on major exchanges or with major international financial institutions and minimizes market and credit risk associated with these contracts through the manager's various trading and credit monitoring techniques.

(C) *Foreign Currency Exchange Contracts* – The System enters into forward foreign currency exchange contracts to hedge against foreign currency exchange rate risks on its non-U. S. dollar denominated investment securities and to facilitate trading strategies primarily as a tool to increase or decrease market exposure to various foreign currencies. When entering into a forward currency contract, the System agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are valued daily and the System's net equity therein, representing unrealized gain or loss on the contracts, as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in other receivables. Realized and unrealized gains and losses are included in the consolidated statement of revenues, expenses and changes in net assets. These instruments involve market and/or credit risk in excess of the amount recognized in the consolidated balance sheet. Risks arise from the possible inability of counter-parties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

(D) *Written Options* – Written options are used to alter the market (systematic) exposure without trading the underlying cash market securities, and to hedge and control risks, so that the actual risk/return profile is more closely aligned with the target risk/return profile. They are included in payables from restricted assets. During the year, call options were written on Treasury Notes, commodity, domestic and international equity indexes, and exchange traded funds.

(E) *Swaps* – Swaps are used to adjust interest rate and yield curve exposures. During the year, the System entered into interest rate, equity, inflation, credit default, and commodity swap contracts. They are included in other receivables and payables from restricted assets.

(F) *Investment Funds* – The System's investment funds include exchange traded funds, index funds, Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships and corporate structures, which are generally unrated and may be unregulated.

Hedge fund pools are invested in private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios. The hedge fund pools have committed $98,077,673 and $303,188,933 of future funding to various hedge fund investments as of August 31, 2009 and 2008, respectively.

Certain of the hedge fund pools' investments were held through limited liability companies (LLCs), of which UTIMCO was the sole managing member. These investments were managed by an external investment manager under management agreements between the

LLCs and the external manager. These management agreements were terminated during the year ended August 31, 2009. The external manager employed an investment strategy utilizing leveraged commodity futures and options. As of August 31, 2008, the fair value of these investments included $49,988,235 of cash and cash equivalents, options on commodity futures with a fair value of $21,917, net of liabilities for margin in the amount of $1,232,497 related to the outstanding futures contracts.

Private investment pools are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments, domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk and investment manager risk The System had committed $2,536,892,509 and $2,909,146,371 of future funding to various private investments as of August 31, 2009 and 2008, respectively.

Public market funds are invested in exchange traded funds, index funds and private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the funds. Some of these investment managers may invest in both long and short securities and may utilize modest leverage in their portfolios. There are certain risks associated with these investments, some of which are investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios.

Hedge funds, private investment and public market funds include investments in private placement vehicles that are subject to risk, which could result in the loss of invested capital. The risks include the following:

- *Non-regulation risk* – Some of System's general partners and investment managers are not registered with the Securities and Exchange Commission or other domestic or international regulators, and therefore are not subject to regulatory controls.
- *Key personnel risk* – The success of certain funds is substantially dependent upon key investment managers and the loss of those individuals may adversely impact the fund's performance.
- *Liquidity risk* – Many of System's investment funds may impose lock-up periods, which would cause the System to incur penalties to redeem its units or prevent the System from redeeming its shares until a certain period of time has elapsed.
- *Limited transparency* – As private placement investment vehicles, these funds may not disclose the holdings of their portfolios.
- *Investment strategy risk* – These funds often employ sophisticated investment strategies and may use leverage, which could result in the loss of invested capital.

Investments in hedge funds, private investments, and public market funds are also subject to the investment risks previously discussed under the heading of Investment Risks, including custodial risk and foreign currency risk. Fixed income investments held by these funds would also be subject to credit risk interest rate risk; moreover, they may invest in securities whose fair values would be sensitive to changes in interest rates.

The fair value of the Universities limited partnerships private investments as of August 31, 2009 was $9,633,525.

(G) *Securities Sold Short* – The System may sell securities it does not own in anticipation of a decline in the fair value of that security or as a means to adjust the duration of certain fixed income portfolios. When the System sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale and provide collateral for its obligation to deliver the security upon conclusion of the sale. As of August 31, 2009 and 2008 the Fund had no securities sold short. The System must pay dividends or interest on the securities sold short. Until the System covers its short sales, it is exposed to market risk to the extent that subsequent market fluctuations may require purchasing securities sold short at prices, which may be significantly higher than the market value reflected in the statements of fiduciary net assets.

Note 4: Summary of Long-Term Liabilities

Long-term liabilities are presented below:

	Bal 09/01/08	Additions	Deductions	Bal 08/31/09	Amounts Due Within One Year
Employees' Compensable Leave	$ 30,002,531	$ 22,413,910	$ (18,602,141)	$ 33,814,300	$ 18,330,908
Interfund payable	5,387,957		(929,425)	4,458,532	957,520
Notes and Loans Payable	3,445,239		(635,417)	2,809,822	875,000
	$ 38,835,727	$ 22,413,910	$ (20,166,983)	$ 41,082,654	$ 20,163,429

Interfund payable of $3,501,012 is included as a component of Non-Current Liabilities – Other Payable on the Statement of Net Assets. Also included in this line item is Liability to Beneficiary-Held by System of $146,372.

Interfund Payable

Interfund payable represents the noncurrent portion of amounts owed for a LoanStar loan. This obligation is due in annual installments through 2014.

Fiscal Year	Principal	Interest	Total
2010	$ 954,429	$ 126,062	$ 1,080,491
2011	986,682	93,809	1,080,491
2012	1,016,428	64,063	1,080,491
2013	1,047,454	33,037	1,080,491
2014	453,538	4,597	458,135
Total Requirements	$ 4,458,532	$ 321,568	$ 4,780,100

Notes and Loans Payable

Notes and loans payable represent amounts owed to Memorial Hermann Hospital System for equipment purchased and operating funds advanced in association with the transfer of clinics from Memorial Hermann Hospital System to UT Physicians. Interest expense is forgiven each year.

Fiscal Year	Principal	Interest	Total
2010	$ 875,000	$ -	$ 875,000
2011	644,941		644,941
2012	644,941		644,941
2013	644,941		644,941
Total Requirements	$2,809,822	$ -	$2,809,822

Employees' Compensable Leave

Substantially all full-time University employees earn annual leave from eight to twenty-one hours per month depending upon the respective employee's years of State employment. State law permits employees to carry accrued leave forward from one fiscal year to another fiscal year with a maximum of 532 hours for those employees with 35 or more years of State service. Eligible part-time employees' annual leave accrual rate and maximum carryover are proportional to the number of hours appointed to work. Employees with at least six months of continuous State service who terminate their employment are entitled to payment for all accumulated annual leave. Both an expense and a liability are recorded as the benefits accrue to employees.

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is off due to illness or to the estate of an employee in the event of his or her death. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The University's policy is to recognize the cost of sick leave when paid, and the liability is not shown in the consolidated financial statements since experience indicates the expense for sick leave will be minimal. Eligible part-time employees' sick leave accrual rate is proportional to the number of hours appointed to work.

Note 5: Bonded Indebtedness

The University receives proceeds from revenue bonds issued and held by the System to support capital projects of the System and its institutions. These proceeds are recorded as transfers from the System. The University disburses funds to the System for payments of principal and interest related to the University's share of the bond proceeds. The disbursements are recorded as transfers to the System. At August 31, 2009, the System has outstanding bonds payable of $5,332,825,000. All bonds issued by the System are defined as revenue bonds. As such, the revenues of the System, including the University, are pledged for repayment of the bonds. Segment information requirements are not applicable, due to the bond indentures' lack of specifically identifiable activities and separate accounting requirements imposed by an external party.

No amount of indebtedness related to these bonds has been recorded in the University's financial statements as the System is the party directly liable for the bonds. At August 31, 2009, however, the University's remaining unpaid share of the bond proceeds was $172,202,807.

Note 6: Operating Leases

The University has entered into various operating leases for buildings, land and equipment. Future minimum lease rental payments under noncancelable operating leases having an initial term in excess of one year as of August 31, 2009, were as follows:

Fiscal Year		Lease Payments
2010	$	4,259,811
2011		3,796,076
2012		2,973,550
2013		2,082,339
2014		546,239
2015 – 2019		1,045,510
Total Minimum Future Payments	$	14,703,525

The University has also leased buildings to outside parties under various operating leases. The cost, carrying value and accumulated depreciation of these leased assets as of August 31, 2009 were as follows:

Assets Leased		2009
Buildings:		
Cost	$	13,149,576
Less: Accumulated Depreciation		4,306,453
Total Carrying Value	$	8,843,123

Minimum future lease rental income under noncancelable operating leases as of August 31, 2009, was as follows:

Fiscal Year		Lease Income
2010	$	2,165,001
2011		2,021,479
2012		1,670,186
2013		1,427,237
2014		863,307
	$	8,147,210

Note 7: Interagency Balances / Activity

At year-end, amounts to be received or paid are reported as Due from Other Entities or Due to Other Entities.

Entity		Due from Other State Entities		Due to Other State Entities		Purpose
UT System Administration	$	30,096,485	$	3,714,318		Due from UT System Administration for Deferred Compensation, Tobacco Settlement proceeds, miscellaneous income, and Permanent Univ. Funds and bond proceeds for ongoing capital projects. Due to UT System Administration for August Premium Sharing and COBRA ARRA funds.
Texas Education Agency		757,292				Research Project Funding
Texas Higher Education		357,108				Research Project Funding
Funding Board		5,813,698				Trauma Funding
	$	37,024,584		3,714,318	$	

Interagency transfers made during the fiscal year are presented below.

Entity		Transfers In from Other State Entities		Transfers Out to Other State Entities	Purpose
UT System Administration	$	47,295,361		22,624,041	Transfer In for Capital Project Funding, Investment Income distribution, Revenue Financing System Equipment, Commercial Paper Proceeds and Graduate Program Initiative Award. Transfers Out for Mandatory debt service payments
Texas State Treasury				187,146	Tuition Set aside payments
UT Medical Branch at Galveston		57,594		414,329	Transfer In and Transfer Out of capital equipment
	$	47,352,955	$	23,225,516	

Note 8: Risk Financing and Related Insurance

All risk financing and related insurance for the University is part of coverage provided by the System. The System has self-insurance plans providing coverage in the following areas: employee health and dental, unemployment compensation, workers' compensation, property protection, directors' and officers'/employment practices liability, and construction contractor insurance.

Employee and Retiree Insurance Benefits

The System Employee Benefits program provides health insurance, dental insurance, vision insurance, life insurance, accidental death and dismemberment (AD&D), long-term disability, short-term disability, long-term care and flexible spending account coverage to all benefits-eligible employees and retirees of the System and its fifteen institutions. These insurance benefits are provided through both self-funded and fully-insured arrangements. A portion of the System's cost of providing group health and basic life insurance coverage is paid by the State as specified in the General Appropriations Act. The System's Office of Employee Benefits (OEB) is responsible for the overall administration of the insurance plans. OEB was established by Chapter 1601 of the *Texas Insurance Code* and complies with State laws and statues pertinent to employee benefits for the System.

Unemployment Compensation Insurance

The General Appropriations Act requires the System to reimburse the Texas Workforce Commission (TWC) for 50% of the unemployment benefits paid to former employees that were paid from general revenue funds. The System reimburses the TWC 100% of the unemployment benefits paid to former employees that were paid from local funds.

Workers' Compensation Insurance

The System's Workers' Compensation Insurance (WCI) program provides coverage to all employees of the System and its fifteen institutions. Under the oversight of the System's Office of Risk Management (ORM), the System self-insures and administers the program. The WCI staff is responsible for administering all aspects of the system-wide program, which provides income and medical benefits to all employees who have sustained job-related injuries or occupational diseases. The program's statutory authority is embodied in Chapter 503 of the *Texas Labor Code.*

Professional Medical Liability Benefit Plan

The coverage provided under the Professional Medical Liability Benefit Plan (Plan) is on an occurrence basis; thus, a participant is covered by the Plan for claims and lawsuits relating to events that occurred while enrolled in the Plan, including those filed after the participant has left the System's employment or training. The Plan covers all of the System staff physicians, dentists, residents, fellows, and medical students who have been enrolled. The limits of liability of the Plan include an annual policy aggregate of $30,000,000, an annual aggregate of $1,500,000 for each staff physician ($500,000 per claim), an annual aggregate of $300,000 for each resident or fellow ($100,000 per claim) and a $75,000 annual aggregate for each medical student ($25,000 per claim). Other coverage is available for medical student externships outside of Texas and for approved international activities.

Liability is limited to $2,000,000 per incident, regardless of the number of claimants or physicians involved in an incident. As of September 1, 2003, the limits of liability are prescribed by law as $100,000 per claim per physician. Also effective September 1, 2003, UT institutions are covered under the Plan for actions that could have been brought against an individual plan participant. The liability of a UT institution is limited by law to $250,000 per claimant and $500,000 per occurrence for bodily injury or death.

Comprehensive Property Protection Program

The Comprehensive Property Protection Plan (CPPP) was renewed in April of 2009 and is a combination of interim financing and commercial coverage and provides Fire and All Other Perils (Fire and AOP), as well as coverage for Named Windstorm and Flood (Wind and Flood). All coverage is subject to the terms, exclusions, limits and conditions of the Insurance Policy. The Fire and AOP program provides a $1,000,000,000 per occurrence limit for most perils, with sub-limits that do apply. Deductibles for Fire and AOP are $5,000,000 per occurrence with a

$15,000,000 annual aggregate limit. Coverage for Named Windstorm and resulting perils is included with a $50,000,000 per occurrence deductible.

In addition, underlying policies are purchased on certain flood and wind exposed properties. These policies provide relatively low limits ($1-4 million per building/contents for wind and $500,000 maximum building/contents for flood) and are purchased through the Texas Windstorm Insurance Association (TWIA) and the National Flood Insurance Program (NFIP) for facilities in Tier 1 seacoast territories and for properties located in various flood zones. The interim financing component of the program participates in losses resulting from physical damage that exceeds the coverage available under these primary policies and the institution's deductible up to $50,000,000. The interim financing for the Wind and Flood program is funded by annual contributions made by each institution in addition to paying insurance premiums.

Directors and Officers/Employment Practices Liability Self-Insurance Plan

The Directors and Officers Liability (D&O) and Employment Practices Liability (EPL) Self-insurance Plan (the "Plan") provides coverage for claims arising from actual or alleged wrongful acts performed by the plan beneficiaries. The plan also provides coverage for EPL claims, such as wrongful termination, failure to promote and wrongful discipline. In 2003, the UT System Board of Regents allocated $3.7 million from the Available University Fund to establish the D&O/EPL loss reserve fund. Institutions make annual premium contributions to this fund.

Coverage applies to individual board members, employees, faculty, etc., as well as to the System itself. The limit of liability is a $10 million annual aggregate (Coverage's A, B and C combined), except for $5 million annual aggregate sublimit for Coverage C. Coverage A applies to non-indemnifiable claims made against individuals and it has no deductible. Coverage B applies to a UT institution that is required to indemnify a covered individual with deductibles of $100,000 per individual and $300,000 per occurrence. Coverage C applies to a UT institution and related entities with a $300,000 deductible. An excess coverage commercial insurance policy provides $10 million limit of liability in excess of a $5,000,000 aggregate retention which is satisfied by payment of losses under the Plan.

Rolling Owner Controlled Insurance Program

The Rolling Owner Controlled Insurance Program (ROCIP) was established for the centralized purchase of construction contractor insurance on various capital projects. This program provides workers' compensation and general liability insurance for all contractors enrolled on projects participating in the program. The insurance carries a $250,000 per claim and a $375,000 per occurrence clash deductible, which is paid through the program's self-insurance fund.

Note 9: Related Parties

Through the normal course of operations, the University both receives and provides funds to other State agencies in support of sponsored research programs. Funds received and provided during the year ended August 31, 2009, related to pass-through grants were $17,240,372 and $592,245 respectively. Funds received and provided during the year ended August 31, 2008, related to pass-through grants were $6,254,689 and $0.

Other related-party transactions identified in the financial statements include Due From/To Other State Agencies, State Appropriations, and Transfers From/To Other State Agencies.

Note 10: The Financial Reporting Entity

Blended Component Unit

UT Physicians, a component unit, is included in the University's consolidated financial statements. UT Physicians is governed by a three member board appointed by the University. The corporation is blended rather than discretely presented because it provides services entirely or almost entirely to the University. The corporation's fiscal year end is August 31. Upon request, University administration can obtain and provide UTP financials.

Note 11: Employee Retirement Plans

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 the System participates is a cost-sharing multi-employer defined benefit pension plan 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, the University may be required to make contributions in lieu of the State.

All University personnel employed in a position on a half time or greater basis for at least 4½ months or more are eligible for membership in the TRS retirement plan. However, students employed in positions that require student status as a condition of employment do not participate. Members with at least five years of service at age 65 or any combination of age plus years of service, which equals 80 (members who began TRS participation on or after September 1, 2007 must be age 60), have a vested right to unreduced retirement benefits. Members are fully vested after five years of service and are entitled to any reduced benefits for which the eligibility requirements have been met prior to meeting the eligibility requirements for unreduced benefits.

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 the System contributes a percentage of participant salaries totaling 6.58 percent of annual compensation. The University's contribution to TRS for the year ended August 31, 2009, was $11,539,329, which equaled the amount of the required contributions for that 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 Optional Retirement Program may be chosen by certain employees in lieu of TRS based on the job they perform. This program is a defined contribution plan governed by Internal Revenue Code Section 403(b). The ORP provides for the purchase of annuity contracts and mutual funds. The contributory percentages of participant salaries provided by the State and by each participant enrolled in the plan on or before August 31, 1995, are 8.5 percent and 6.65 percent, respectively. Or participants who enrolled on September 1, 1995 or after, State and participant contributions are 7.5 percent and 6.65 percent, respectively. Benefits are based on the performance of the investments selected and are controlled by the employee. Employees are vested after one year and one day of participation with a right to both employee and employer contributions. Since these are individual annuity contracts, the State and the University have no additional or unfunded liability for this program.

Note 12: Deferred Compensation Program

University employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Texas Government code, Section 609.001. Deferred compensation plans are administered by the Employees Retirement System.

The State's 457 Plan complies with Internal Revenue Code 457. This plan is referred to as the TexaSaver Deferred Compensation Plan and is available to all employees. Deductions, purchased investments, and earnings attributed to the 457 Plan are the property of the State and subject only to the claims of the State's general creditors. Participant rights under the plan are equal to those of the general creditors of the State in an amount equal to the fair market value of the 457 account for each participant. The State has no liability under the 457 Plan, and it is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.

The University also administers a Tax-Deferred Account Program, created in accordance with Internal Revenue Code, Section 403(b). All employees are eligible to participate. The Tax-Deferred Account Program is a private plan, and the deductions, purchased investments, and earnings attributed to each employee's 403(b) plan are held by vendors chosen by the employee. The vendors may be insurance companies, banks, or approved non-bank trustees such as mutual fund companies. The assets of the plan do not belong to the University, and thus it does not have a liability related to this plan.

Note 13: Donor-Restricted Endowments

The net asset classifications on the balance sheet related to endowment funds as of August 31, 2009 are as follows:

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 UT System Board of Regents. For donor restricted endowments, pursuant to the Uniform Prudent Management of Institutional Funds Act, as adopted by Texas, the UT System Board of Regents may distribute net appreciation, realized and unrealized, in the fair market value of the assets of endowment holdings over the historic dollar value of the gifts, to the extent prudent. The System's policy is to retain all undistributed net realized and unrealized appreciation within the endowment funds. The System's endowment distribution policy is further discussed below.

Net Asset Classification of Endowments		2009
Restricted, nonexpendable	$	119,163,777
Restricted, expendable:		
Net appreciation		(30,968,490)
Funds functioning as endowments		8,192,408
Other expendable		45,025,960
Unrestricted:		13,198,010
Total	$	154,611,665

The UT System Board of Regents manages certain permanent funds for health-related institutions of higher education as more fully described in Chapter 63 of the Texas Education Code. Certain funds created by this statute were transferred to the UT System Board of Regents on August 30, 1999, to be managed and invested in the same manner as the UT System Board of Regents manages and invests other endowment funds. The PHF as defined in the statute is classified as Endowment and Similar Funds – State. These endowments provide support for programs that benefit medical research, health education or treatment at health-related institutions. The UT System Board of Regents determines the amount of distributions to support the programs based on the PHF's investment policy.

The investment policy provides that the annual payout will be adjusted by the average consumer price index of the previous twelve quarters. However, if this inflationary increase results in a distribution rate below 3.5%, the UTIMCO Board may recommend an increase in the distribution amount as long as such increase does not result in a distribution rate of more than 5.5%. If the distribution rate exceeds 5.5%, the board may recommend a reduction in the per unit distribution amount. Notwithstanding any of the forgoing provisions, the UT System Board of Regents may approve a per unit distribution amount that, in their judgment, would be more appropriate than the rate calculated by the policy provisions.

The General Endowment Fund (GEF), created March 1, 2001, is a pooled fund established for the collective investment of long-term funds under the control and management of the UT System Board of Regents. The GEF is organized as a pooled investment and has two participants, the PHF and the Long Term Fund (LTF). The PHF and LTF initially purchased units of the GEF on March 1, 2001, in exchange for the contribution of their investment assets. The GEF provides for greater diversification of investments than would be possible if each account were managed separately. As provided in the LTF investment policy, distributions from the LTF are determined in the same manner as the PHF described above.

Endowment and Similar Funds – Other Than State

Funds subject to restrictions of endowment and trust instruments, requiring that the principal be maintained and that only the income be utilized. Funds may include Endowments, Term Endowments and Funds Functioning as Endowments. Funds Functioning as Endowments consist of amounts that have been internally dedicated by the System for long-term investment purposes. Funds with external donor restrictions are classified as Funds Functioning as Endowments – Restricted. If no external restriction exists, the funds are classified as Funds Functioning as Endowments – Unrestricted. Endowment and Term Endowment holdings may be invested in the LTF, or may be separately invested based upon the following three factors: (i) there are investment restrictions incorporated into the trust or endowment document; (ii) the inability to sell the gifted investment asset; or (iii) they are holdings being migrated upon liquidation into the LTF. Distributions are based upon the actual income received from the separately invested holdings.

Annuity and Life Income Funds

The Annuity Funds consist of funds donated to an institution on the condition that the institution pay a stipulated amount of the funds to the donor or designated individual for a specified time or until the time of death of the annuitant. The Life Income Funds consist of funds contributed to an institution subject to the requirement that the institution periodically pay the income earned on the assets, less management expenses, to designated beneficiaries.

Note 14: Post-Employment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health and life insurance benefits for retired employees (OPEB), 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 self-funded plan. For the years ended August 31, 2009 and 2008, the contributions for the self-funded plan by the State 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**		**2008**
Retiree Only	$	369.12	$	369.12
Retiree/Spouse		562.54		562.54
Retiree/Children		492.87		492.87
Retiree/Family		687.44		687.44

The number of the University's retired employees who were eligible for these benefits, as well as the cost of providing the benefits for the years ended August 31, 2009 and 2008 are provided in the following table.

Institution	**FY 09 # of Eligible Retirees**	**FY 08 # of Eligible Retirees**	**FY 09 Cost for State**	**FY 08 Cost for State**	**FY 09 Cost for Institution**	**FY 08 Cost for Institution**
HSC-Houston	1,275	1,183	4,965,050	1,802,934	994,678	3,835,032

Variance explanations for all amounts of 10% or more follow below:

- *Variance explanation for # of Eligible Retirees*: N/A

- *Variance explanation for Cost for State*: Changed methodology of calculating State versus Institutional cost. Cost represents allocations based on proportionality calculation on FY 2009 Benefits Proportional Schedule.

- *Variance explanation for Cost for Institution*: See above.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires accrual-based measurement, recognition and disclosure of other post-employment benefits (OPEB) expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. The University of Texas Health Science Center at Houston's benefit liability is included in that of the University of Texas System. As a result, this liability will be reported in the University of Texas System financial statements.

Note 15: Disaggregation of Receivable and Payable Balances

Net other receivables at August 31, 2009 are detailed by type as follows:

Net Other Receivables

Net Other Receivables	**2009**
Receivables related to healthcare	**11,742,447**
Receivables related to gifts, grants and sponsored programs	**1,360,640**
Receivables related to auxiliary enterprises	**105,330**
Receivables related to facilities/construction projects	**291,902**
Receivables related to travel	**1,315**
Receivables related to loan funds and financial aid	**19,936**
Receivables related to other various activities	**248,158**
Total	**13,769,729**

State Auditor's Office
John Keel, CPA
State Auditor

February 18, 2010

Dr. Larry R. Kaiser, President
The University of Texas Health Science Center at Houston
7000 Fannin Street
Houston, TX 77030

Subject: Management Letter Resulting from a Review of the University of Texas Health Science Center at Houston's Fiscal Year 2009 Financial Statements

Dear Dr. Kaiser:

We offer this management letter in conjunction with our review of the financial statements of the University of Texas Health Science Center at Houston (Health Science Center) for the fiscal year ended August 31, 2009. We reviewed the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; the Statement of Cash Flows; and the Notes to the Financial Statements. In the course of our review, which was substantially less in scope than an audit, we did not find that material modifications needed to be made to the financial statements in order for them to be in conformity with generally accepted accounting principles.

We appreciate the assistance provided during this review by the management of the Health Science Center and Internal Audit. If you have any questions, please call me at (512) 936-9500.

Sincerely,

Sandra Vice

Sandra Vice, CGAP, CIA, CISA
Assistant State Auditor

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SAO Report No. 10-338

THE UNIVERSITY OF TEXAS OF THE PERMIAN BASIN

A Review of

The University of Texas of the Permian Basin

A Report and Management Letter for the Southern Association of Colleges and Schools

February 2010

Contents

State Auditor's Office
John Keel, CPA
State Auditor

Auditor's Review Report

February 18, 2010

Dr. W. David Watts, President
The University of Texas of the Permian Basin
4901 E. University
Odessa, TX 79762

Dear Dr. Watts:

We have reviewed the accompanying Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; Statement of Cash Flows; and Notes to the Financial Statements of the University of Texas of the Permian Basin (University) as of and for the fiscal year ended August 31, 2009, in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The review was performed in accordance with the Southern Association of Colleges and Schools' (Southern Association) *Criteria for Accreditation*. All information included in these financial statements is the representation of management of the University.

A review consists principally of inquiries of University personnel and analytical procedures applied to financial data. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

The accompanying statements were prepared to present the financial position, the changes in financial position and the cash flows of the University. These statements are prepared pursuant to criteria of the Southern Association for supplementary special reports by institutions in states that conduct statewide audits.

Based on our review, with the exception of the matter described in the following paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The University has not presented a management's discussion and analysis section that the Governmental Accounting Standards Board has identified as required supplementary information that is not part of the basic financial statements. However, such required supplementary information for the University is presented in the University of Texas System's (System) consolidated annual financial report.

This report is intended for use by the Board of Regents of the System, management of the University, and the Southern Association. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,

John Keel, CPA
State Auditor

SAO Report No. 10-333

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The University of Texas of the Permian Basin

Statement of Net Assets

At August 31, 2009

(See Auditor's Review Report on page 1.)

ASSETS

Current Assets:			
Cash & Cash Equivalents (Note 3)		$	(1,882,860)
Restricted:			
Cash and Cash Equivalents (Note 3)			13,919,888
Legislative Appropriations			73,853
Receivables, Net of Allowances:			
Federal			674,932
Student			563,839
Gifts			38,816
Other (Note 13)			1,623,698
Due From Other State Entities (Note 6)			52,175,874
Merchandise Inventories			99,319
Loans and Contracts			144,007
Other Current Assets			270,936
	Total Current Assets		67,702,303
Non-Current Assets:			
Restricted:			
Investments (Note 3)			33,982,530
Gifts Receivable			98,351
Investments			6,605,970
Capital Assets (Note 2)			
Non-Depreciable			38,172,445
Depreciable			103,126,941
Less Accumulated Depreciation			(50,063,642)
	Total Non-Current Assets		131,922,596
	TOTAL ASSETS	**$**	**199,624,899**

The University of Texas of the Permian Basin
Statement of Net Assets
At August 31, 2009
(See Auditor's Review Report on page 1.)

LIABILITIES

Current Liabilities		
Payables		
Accounts	$	4,577,720
Payroll		2,378,118
Due to Other State Entities (Note 6)		246,934
Deferred Revenue		15,137,109
Employees' Compensable Leave (Note 4)		383,719
Liabilities Payable From Restricted Assets		146,158
Funds Held for Others		269,146
Other Current Liabilities		197,662
Total Current Liabilities		23,336,566
Non-Current Liabilities:		
Employees' Compensable Leave (Note 4)		205,228
Other Non-Current Liabilities		38,356
Total Non-Current Liabilities		243,584
TOTAL LIABILITIES		23,580,150

NET ASSETS

Invested in Capital Assets, Net of Related Debt	91,235,745
Restricted for:	
Nonexpendable	
Permanent Funds, True Endowments, Annuities	11,574,122
Expendable	
Capital Projects	51,824,433
Other	10,423,712
Unrestricted	10,986,737
TOTAL NET ASSETS	**176,044,749**

The accompanying Notes to the Financial Statements are an integral part of this statement.

The University of Texas of the Permian Basin

Statement of Revenues, Expenses, and Changes in Net Assets

For the Year Ended August 31, 2009

(See Auditor's Review Report on page 1.)

OPERATING REVENUES:		
Tuition and Fees-Non Pledged	$	14,277,083
Discounts and Allowances		(4,577,080)
Auxiliary Enterprises		3,134,252
Other Sales of Good and Services-Non-Pledged		617,743
Federal Revenue		3,144,172
State Grant Revenue		1,159,607
Other Operating Revenues		456,705
	Total Operating Revenues	**18,212,481**
OPERATING EXPENSES:		
Salaries and Wages		20,230,374
Payroll Related Costs		4,801,860
Professional Fees and Services		2,685,369
Travel		900,900
Materials and Supplies		3,185,641
Communications and Utilities		2,737,312
Repairs and Maintenance		2,088,106
Rentals and Leases		427,773
Printing and Production		150,184
Depreciation and Amortization		3,769,989
Bad Debt Expense		120,282
Scholarships		4,366,379
Other Operating Expenses		663,204
	Total Operating Expenses	**46,127,374**
	Operating Income (Loss)	**(27,914,892)**

The University of Texas of the Permian Basin

Statement of Revenues, Expenses, and Changes in Net Assets

For the Year Ended August 31, 2009

(See Auditor's Review Report on page 1.)

NONOPERATING REVENUES (EXPENSES):		
Legislative Appropriations	$	32,412,548
Gifts		1,111,550
Interest and Investment Income (Loss)		917,688
Net Increase (Decrease) in Fair Value of Investments		(2,296,524)
Gain/(Loss) on Sale of Capital Assets		(4,394)
Other Nonoperating Expenses		2,954,436
Net Nonoperating Revenues (Expenses)		**35,095,305**
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers		7,180,413
Capital Contributions		7,500,000
Additions to Permanent and Term Endowments		399,252
Transfers In from Other State Entities		73,277,687
Transfers to Other State Entities		(21,565,360)
Legistative Appropriations Lapsed		121,538
Change in Net Assets		**66,913,530**
Net Assets, September 1, 2008		109,131,219
Net Assets, August 31, 2009	$	**176,044,749**

The accompanying Notes to the Financial Statements are an integral part of this statement.

The University of Texas of the Permian Basin

Statement of Cash Flows

For the Year Ended August 31, 2009

(See Auditor's Review Report on page 1.)

Cash Flows from Operating Activities:		
Proceeds from Tuition and Fees	$	10,679,600
Proceeds from Loan Programs		543,843
Proceeds from Auxiliaries		3,226,593
Proceeds from Other Revenues		9,470,714
Payments to Suppliers for Goods and Services		(18,281,460)
Payments to Employees for Salaries		(24,876,610)
Payments for Loans Provided		(345,474)
Net Cash Used by Operating Activities		(19,582,794)
Cash Flows from Noncapital Financing Activities:		
Proceeds from Legislative Appropriations		33,644,974
Proceeds from Gifts		1,108,667
Proceeds Endowments		399,252
Proceeds of Transfers from Other Entities		513,255
Proceeds from Other Sources		2,954,436
Net Cash Provided by Noncapital Financing Activities		38,620,583
Cash Flows from Capital and Related Financing Activities:		
Proceeds from Capital Contributions		7,500,000
Proceeds of Transfers from Other Entities		23,718,292
Payments for Additions to Capital Assets		(22,448,392)
Payments for Transfers to Other Entities		(11,716,840)
Net Cash Used by Capital & Related Financing Activities		(2,946,939)
Cash Flows from Investing Activities:		
Proceeds from Interest and Investment Income		904,999
Payments to Acquire Investments		(13,610,855)
Net Cash Provided (Used) by Investing Activities		(12,705,856)
Net Increase (Decrease) in Cash		3,384,994
Cash and Cash Equivalents, September 1, 2008		8,652,033
Cash and Cash Equivalents, August 31, 2009	$	**12,037,028**

The University of Texas of the Permian Basin
Statement of Cash Flows
For the Year Ended August 31, 2009
(See Auditor's Review Report on page 1.)

Reconciliation of Net Operating Revenues (Expenses) to		
Net Cash Used by Operating Activities:		
Operating Income (Loss)	$	(27,914,892)
Adjustments:		
Depreciation and Amortization		3,769,989
Bad Debt Expense		120,282
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		(339,056)
(Increase) Decrease in Inventories		(3,936)
(Increase) Decrease in Loans and Contracts		198,369
(Increase) Decrease in Other Assets		7,029,589
Increase (Decrease) in Payables		(7,994,358)
Increase (Decrease) in Due to Other Entities		11,061
Increase (Decrease) in Deferred Revenue		5,301,473
Increase (Decrease) in Employees' Compensable Leave		36,675
Increase (Decrease) in Funds Held for Others		356,842
Increase (Decrease) in Other Liabilities		(154,832)
Total Adjustments		8,332,099
Net Cash Provided (Used) by Operating Activities	**$**	**(19,582,794)**
Non Cash Transactions		
Net Increase (Decrease) in Fair Value of Investments		(2,296,524)
Other Deductions to Capital Assets		(4,394)

The University of Texas of the Permian Basin

Statement of Changes in Unrestricted Net Assets

For the Year Ended August 31, 2009

(See Auditor's Review Report on page 1.)

		August 31, 2009	August 31, 2008	Difference
Unrestricted Net Assets:				
Unrestricted				
Reserved				
Encumbrances	$	1,249,928	199,369	1,050,559
Accounts Receivable		313,385	147,342	166,043
Inventories		99,319	95,383	3,936
Other Specific Purposes:				
Notes Receivable		67,900	82,585	(14,686)
Prepaid Expenses		1,665	1,665	0
Unreserved				
Allocated				
Capital Projects		1,047,600	83,733	963,867
Utilities Reserve		8,124,626	2,328,081	5,796,545
Student Fees		20,137	393,399	(373,261)
Other		9,050	12,750	(3,700)
Unallocated		53,128	56,101	(2,973)
Total Unrestricted Net Assets	**$**	**10,986,737**	**3,400,408**	**7,586,329**

Notes to the Financial Statements for the Fiscal Year Ended August 31, 2009

(See Auditor's Review Report on page 1.)

General Information

This report is prepared for the use of the Southern Association of Colleges and Schools (Southern Association) in connection with the review of The University of Texas of the Permian Basin (University) for accreditation purposes. This report includes a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; a Statement of Cash Flows; and the related Notes to the Financial Statements. In accordance with Southern Association criteria, the report also includes a Statement of Changes in Unrestricted Net Assets and a Management Letter describing issues noted in the review.

Reporting Entity

The University is an institution within The University of Texas System (System). The System is reported as a business-type activity in the State of Texas' *Comprehensive Annual Financial Report* and reflects compliance with applicable state statutes and GASB pronouncements. The System is governed by a board of regents, composed of nine members who are appointed by the Governor and confirmed by the Senate. Terms are scheduled for six years each and staggered so that three members' terms usually expire on February 1 of odd-numbered years.

The University of Texas of the Permian Basin was founded in 1973. The University is a comprehensive, regional, general academic institution. Since the first classes were offered at the upper-level University in 1973, the University has evolved from a largely commuter campus to one that was granted four-year status in 1991. The four-year status and the expansion of the athletic program continue to attract a younger population. The University offers 32 baccalaureate degrees and 17 master degrees serving average enrollments of approximately 3,400 students. Ninety-five percent of the students are residents of the oil-rich 17-county region of Texas known as the Permian Basin – a territory of 23,674 square miles with a population of 410,000.

Note 1: Summary of Significant Accounting Policies

Basis of Accounting

The basis of accounting determines when revenues and expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements are 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 recognized at the time liabilities are incurred. Operating items are distinguished from nonoperating items.

Operating revenues and expenses result from providing services or producing and delivering goods in connection with the principle of ongoing operations. Operating expenses include the cost of goods and services, administrative expenses, and depreciation on capital assets.

The financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The University applies all GASB pronouncements and applicable Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, except FASB statements that conflict with a GASB pronouncement.

Cash and Cash Equivalents

Cash and cash equivalents are maintained for the purpose of meeting short-term expense requirements. Highly liquid investments with maturities of three months or less at the time of purchase are included as cash and cash equivalents.

Due from Other Agencies

Due from Other Agencies is mainly accounts receivable from proceeds of System debt issuances and the University's share of deposits in funds managed by the System, with investment horizons of less than one year.

Investments

Investments of the University are managed by The University of Texas Investment Management Company (UTIMCO), a private investment corporation that provides services exclusively to the System. All investments are reported as noncurrent, as these funds have an investment horizon extending beyond one year. The investments are primarily valued on the basis of market valuations provided by independent pricing services.

Fixed income securities held directly by the System are valued based upon prices supplied by Merrill Lynch Securities Pricing Service and other major fixed income pricing services, external broker quotes, and internal pricing matrices.

Equity security market values are based on the New York Stock Exchange composite closing prices, if available. If not available, the market value is based on the closing price on the primary exchange on which the security is traded. If a closing price is not available, the average of the last reported bid and ask price is used.

The audited financial statements of the funds managed by UTIMCO may be found on UTIMCO's web site, and inquiries may be directed to UTIMCO via www.utimco.org.

Endowments

The University's endowments are used to support operations, which require the simultaneous achievement of two seemingly contradictory objectives of generating a predictable stream of annual revenue at a rate at least equal to the average rate of inflation for current needs and of increasing the purchasing power of the funds (after annual distributions) at a rate at least equal to the average rate of inflation for future periods.

Funds are subject to restrictions of endowment and trust instruments, requiring that principal be maintained and that only the income be utilized. Funds may include endowments, term endowments, and funds functioning as endowments. Funds functioning as endowments consist of amounts that have been internally dedicated by the System for long-term investment purposes.

Contributions Receivable

Current and noncurrent contributions receivable are amounts pledged to the University by donors, net of allowances.

Inventories

Inventories, consisting primarily of supplies and merchandise for resale, are valued at cost based on the specific identification method.

Restricted Assets

Restricted assets include funds restricted by legal or contractual requirements, including those related to sponsored programs, donors, constitutional restrictions, bond covenants, and loan agreements.

Loans and Contracts

Current and noncurrent loans and contracts are receivables, net of allowances, related to student loans.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or at fair value at the date of donation in the case of gifts. The University follows the State's capitalization policy with a cost equal to or greater than $5,000 for equipment items; $100,000 for buildings, building improvements, and improvements other than buildings; and $500,000 for infrastructure items with an estimated useful life of greater than one year. Purchases of library books are capitalized. Renovations to buildings, infrastructure, and land improvements that increase the value by at least 25 percent or extend the useful life by at least 25 percent are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expenses are incurred. Outlays for construction in progress are capitalized as incurred. Interest expense related to construction is capitalized net of interest income earned on the resources reserved for this purpose.

The University capitalizes, but does not depreciate, works of art and historical treasures that are held for exhibition, education, research, and public service. These collections are protected and preserved.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 2 to 15 years for equipment items, 15 years for library books, 10 to 50 years for buildings and their components, and 15 to 40 years for infrastructure elements.

Other Current Assets

Other current assets consist of miscellaneous prepaid expenses.

Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities represent amounts owed to vendors for goods and services, and salaries and wages paid to employees on September 1, 2009.

Deferred Revenue

Deferred revenue represents revenues collected but not earned as of August 31, 2009 such as tuition received in August for the fall semester and payments received in advance for sponsored programs.

Liability to Beneficiaries - Held by System

The System holds numerous irrevocable charitable remainder trusts for the University and a pooled income fund. Together, these assets are reflected in the accompanying financial statements within restricted investments.

The charitable remainder trusts designate the System Board of Regents as both trustee and remainder beneficiary. Donors (or other donor-designated income beneficiaries) are paid either a fixed amount or the lesser of a fixed percentage of the fair value of the trusts' assets or the trusts' income during the beneficiaries' lives. Trust assets are measured at fair value when received and monthly thereafter. A corresponding liability to beneficiaries is measured at the present value of expected future cash flows to be paid to the beneficiaries based upon the applicable federal rate on the gift date. Upon the deaths of the income beneficiaries, substantially all of the principal balance passes to the University to be used in accordance with the donors' wishes.

The pooled income fund was formed with contributions from several donors. The contributed assets are invested and managed by UTIMCO. Donors (or designated beneficiaries) periodically receive, during their lives, a share of the income earned on the fund proportionate to the value of their contributions to the fund. Upon the deaths of the income beneficiaries, substantially all of the principal balance passes to the University to be used in accordance with the donors' wishes. Contribution revenue is measured at the fair value of the assets received, discounted for a term equal to the life expectancies of the beneficiaries.

Net Assets

The University has classified resources into the following three net asset categories:

Invested in Capital Assets, Net of Related Debt
Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted:

Nonexpendable
Net assets subject to externally imposed stipulations that require the amounts to be maintained in perpetuity by the University or the System. Such assets include the University's permanent endowment funds.

Expendable
Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire with the passage of time.

Unrestricted
Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for special purposes by action of management or the System Board of Regents. Substantially all unrestricted net assets are designated for academic and research programs and initiatives and for capital programs.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University addresses each situation on a case-by-case basis prior to determining the resources to be used to satisfy the obligation. Generally, the University's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

Revenues and Expenses

Operating revenues include student tuition and fees, net of scholarship allowances; sales and services of auxiliary enterprises; most federal, state, and local grants and contracts and federal appropriations; and interest on student loans. Operating expenses include salaries and wages, payroll related costs, materials and supplies, depreciation, and scholarships and fellowships.

Nonoperating revenues include activities such as gifts, contributions, State appropriations, investment income, increases in the fair market value of investments, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. Nonoperating expenses include activities such as interest expense on capital asset financings and other expenses that are defined as nonoperating expenses by GASB Statement Nos. 9 and 34.

Scholarship Allowances and Student Aid

Financial aid to students is reported in the financial statements as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid (student loans, funds provided to students as awarded by third parties, and Federal Direct Lending) is accounted for as third-party payments (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expense or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on an entity-wide basis by allocating cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

Use of Estimates

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

Note 2: Capital Assets

A summary of changes in capital assets is shown below:

	Balance 9/1/2008	Additions	Deductions	Balance 8/31/2009
Nondepreciable Assets:				
Land	1,260,000			1,260,000
Construction in Progress	11,850,446	24,194,700		36,045,145
Other Capital Assets	872,550		(5,250)	867,300
Total Nondepreciable Assets	$13,982,996	$24,194,700	($5,250)	38,172,445
Depreciable Assets:				
Buildings	82,457,255			82,457,255
Infrastructure	1,027,942			1,027,942
Facilities and Other Improvements	5,646,043			5,646,043
Equipment	7,475,997	446,279	(119,852)	7,802,424
Vehicles and Aircraft	586,144	54,244		640,389
Other Capital Assets	5,203,898	348,991		5,552,889
Total Depreciable Assets at Historical Cost	$102,397,280	$849,514	($119,852)	103,126,941
Less accumulated depreciation for:				
Buildings	(32,516,715)	(2,532,606)		(35,049,321)
Infrastructure	(1,027,942)			(1,027,942)
Facilities and Other Improvements	(4,069,064)	(160,033)		(4,229,097)
Equipment	(5,570,148)	(558,390)	120,708	(6,007,830)
Vehicles and Aircraft	(385,282)	(77,614)		(462,896)
Other Capital Assets	(2,845,210)	(441,346)		(3,286,556)
Total Accumulated Depreciation	($46,414,361)	($3,769,989)	$120,708	(50,063,642)
Depreciable Assets, Net	$55,982,919	($2,920,475)	$856	53,063,299
Capital Assets, Net	$69,965,914	$21,274,224	($4,394)	91,235,745

Note 3: Deposits and Investments

Deposits

University bank information as of August 31, 2009, is presented below:

Carrying Amount	Bank Balance
($865,114)	($868,859)

Cash Deposits	(865,114)
Cash in State Treasury	8,336,331
Cash Equivalents	4,565,811
Other	0
Total Cash and Cash Equivalents	12,037,028
Current Assets Cash and Cash Equivalents	(1,882,860)
Current Assets Restricted Cash and Cash Equivalents	13,919,888
Total Cash and Cash Equivalents	12,037,028

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the University will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The University maintains depository relationships with various banking institutions. The University's policy is that all deposits are governed by a bank depository agreement between the University and the respective banking institution. This agreement provides that the University's deposits, to the extent such deposits exceed the maximum insured limit under deposit insurance provided by the Federal Deposit Insurance Corporation, shall at all times be collateralized with either government securities or a surety bond issued by an insurer rated "AAA" or its equivalent by a nationally recognized rating organization or a combination thereof.

Investments

At the direction of the System Board of Regents, University investments and cash equivalents are pooled at the System level with UTIMCO. The System is responsible for disclosure of all information on the pooled investments and has included these disclosures in its annual financial report. Because investments are managed at the system level specific risks to the university are not determinable.

The University does not have an investment risk policy. As of August 31, 2009, the fair value of the University's share of investments is presented below:

Investments Held by System in:	
Intermediate Term Fund	$24,704,124
General Endowment Fund	15,254,934
Other Investments	629,442

Total Investments	$40,588,500

Noncurrent Assets Restricted Investments	$33,982,530
Noncurrent Assets Investments	6,605,970
Total Investments	$40,588,500

(A) *Credit Risk* – Article VII, Section 11b, of the Texas Constitution authorizes the System Board of Regents, subject to procedures and restrictions it establishes, to invest System funds in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all of the assets of the fund rather than a single investment.

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). The System's investment policies limit investments in U.S. domestic bonds and non-dollar denominated bond investments to those that are rated investment grade, Baa3 or better by Moody's Investor Services; BBB- or better, by Standard & Poor's Corporation, or BBB- or better by Fitch Investors Service at the time of acquisition. This requirement does not apply to investment managers that are authorized by the terms of an investment advisory agreement to invest in below-investment-grade bonds. Per GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk.

(B) *Concentrations of Credit Risk* – The System's investment policy statements contain the limitation that no more than 5 percent of the market value of domestic fixed income securities may be invested in corporate or municipal bonds of a single issuer. At August 31, 2009, the System did not hold any direct investments in any one issuer of corporate or municipal bonds that were five percent or more of the market value of the System's domestic fixed income investments.

(C) *Custodial Credit Risk* – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas statutes and the System's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. At August 31, 2009, the System did not have any deposits or investments that were exposed to custodial credit risk.

(D) *Interest Rate Risk* – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the System investments is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the System's investments to changes in interest rates. The System has no specific policy statement limitations with respect to its overall modified duration.

(E) *Investments with Fair Values that Are Highly Sensitive to Interest Rate Changes* – In accordance with the System's investment policy statements, the System may invest in various mortgage-backed securities, such as collateralized mortgage-backed obligations. The System also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds, and stripped Treasury and Agency securities created from coupon securities. As of August 31, 2009, the System's investments include the following investments that are highly sensitive to interest rate changes:

- Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities.

- Mortgage-backed securities that are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities.

- Asset-backed securities that are backed by home equity loans, auto loans, equipment loans, and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received.

- Step-up notes that grant the issuer the option to call the note on certain specified dates. At each call date, should the issuer not call the note, the coupon rate of the note increases (steps up) by an amount specified at the inception of the note. The call feature embedded within a step-up note causes the fair value of the instrument to be considered highly sensitive to interest rate changes.

(F) *Foreign Currency Risk* – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the System's non-U.S. dollar investments. As of August 31, 2009, there are no limitations on investments in non-U.S. denominated bonds or common stocks in relation to the System's total fixed income and developed country equity exposures in the System's investment policy statements. The System's investment policy statements were amended during the year ended August 31, 2008, to remove limitations on investments in non-U.S. denominated bonds. The amendments became effective March 1,

2008. Prior to the amendments, the policy statements limited investments in non-U.S. denominated bonds to 50% of the System's total fixed income exposure.

Securities Lending

In accordance with the prudent investor investment standards, the System participates in a securities lending program. The System began the program, under a contract with the System's lending agent, on September 1, 1995. The lending agent is authorized to lend any securities held by the System's custodian except those securities which the policy guidelines prohibit lending. Investments received as collateral for securities lending activities are not recorded as assets because the investments remain under the control of the transferor, except in the event of default.

In securities lending transactions, the System transfers its securities to brokers/dealers for collateral, which may be cash, securities issued or guaranteed by the U.S. government or its agencies, and irrevocable bank letters of credit, and simultaneously agrees to return the collateral for the same securities in the future.

Cash collateral received by the lending agent on behalf of the System is invested and reinvested in a non-commingled pool exclusively for the benefit of the System. The pool is managed in accordance with investment guidelines established by the System and as stated in the securities lending contract. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar weighted average maturity of 60 days and an overnight liquidity of 20 percent. On August 31, 2009, the System was collateralized 103 percent for securities on loan collateralized by cash.

Collateral pool investments are uninsured and are held by the securities lending agent, in its name, on behalf of the System, except for the investments in repurchase agreements, which are held in the securities lending agent's name by a third party custodian not affiliated with the System or the borrower of the associated loaned securities. Therefore, the collateral pool is not exposed to custodial credit risk because the pool investments are not held by counterparties to the lending transactions or a counterparties's trust department or agent.

Lending income is earned if the returns on those investments exceed the "rebate" paid to borrowers of the securities. The income is then shared with the lending agent based on a contractually negotiated rate split. However, if the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss of principal, part of the payment to the borrower would come from the System's resources and the lending agent based on the rate split.

Loans that are collateralized with securities generate income when the borrower pays a "loan premium or fee" for the securities loan. This income is split with the same ratio as the earnings for cash collateral. The collateral pledged to the System by the borrower is custodied by the lending agent or through a third-party arrangement. These securities held as collateral are not available to the System for selling or pledging unless the borrower is in default of the loan. On August 31, 2009, the System was collateralized 103 percent for securities on loan which were collateralized by securities.

The collateral received will have a fair value of 102 percent of the loaned securities of U.S. issuers. If the fair value of the collateral held in connection with loans of securities of U.S. issuers is less than 100 percent at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102 percent of the fair value.

For non-U.S. issuers, the collateral should remain at 105 percent of the fair value of the loaned securities at the close of any business day. If it falls below 105 percent, the borrower must deliver additional collateral by the close of the following business day. On August 31, 2009, the System was collateralized 106 percent for international loans.

In the event of default, where the borrower is unable to return the securities loaned, the System has authorized the lending agent to seize the collateral held. The collateral is then used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities cannot be replaced. If the collateral is insufficient to replace the securities, the lending agent has indemnified the System from any loss due to borrower default.

At August 31, 2009, the System had no credit risk exposure to borrowers because the amounts the System owed to borrowers exceeded the amounts the borrowers owed the System.

There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior period losses during the year.

Derivative Financial Instruments

Derivatives are financial instruments (securities or contracts) with values linked to, or "derived" from, changes in interest rates, currency rates, and stock and commodity prices. Derivatives cover a broad range of financial instruments, such as forwards, futures, options, swaps, and mortgage derivatives.

(A) *Mortgage Derivatives* – Mortgage derivatives are used to manage portfolio duration and to enhance portfolio yield, and are influenced by changes in interest rates, the current economic climate, and the geographic make-up of underlying mortgage loans. There are varying degrees of risk associated with mortgage derivatives. For example, certain Collateralized Mortgage Obligations (CMOs) such as Planned Amortization Class (PACs) are considered a more conservative lower risk investment. In contrast, principal only and interest only strips are considered higher risk investments. The System's investment in CMOs at August 31, 2009, was composed almost exclusively of the lower risk investment class.

(B) *Futures Contracts* – Futures contracts are used to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes. The net liability is included in payables from restricted assets. Futures contracts are marked to market daily; that is, they are valued at the close of business each day, and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss difference is referred to as the daily variation margin, which is settled in cash with the broker each morning for the amount of the previous day's mark to market. The amount that is settled in cash with the broker each morning is the carrying and fair value of the futures contracts. The System executes such contracts either on major exchanges or with major international financial institutions and minimizes market and credit risk associated with these contracts through the manager's various trading and credit monitoring techniques.

(C) *Foreign Currency Exchange Contracts* – The System enters into forward foreign currency exchange contracts to hedge against foreign currency exchange rate risks on its non-U.S. dollar denominated investment securities and to facilitate trading strategies primarily as a tool to increase or decrease market exposure to various foreign currencies. When entering into a forward currency contract, the System agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are valued daily and the System's net equity therein, representing unrealized gain or loss on the contracts, as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in other receivables. Realized and unrealized gains and losses are included in the statement of revenues, expenses, and changes in net assets. These instruments involve market and/or credit risk in excess of the amount recognized in the statement of net assets. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

(D) *Written Options* – Written options are used to alter the market (systematic) exposure without trading the underlying cash market securities and to hedge and control risks so that the actual risk/return profile is more closely aligned with the target risk/return profile.

(E) *Swaps* – Swaps are used to adjust interest rate and yield curve exposures. During the year, the System entered into interest rate, inflation, credit default, total return, and commodity swap contracts. They are included in other receivables and payables from restricted assets.

(F) *Investment Funds* – The System's investment funds include exchange-traded funds, index funds, Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships and corporate structures, which are generally unrated and may be unregulated.

Marketable alternatives investment pools are invested in private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios.

Private market funds are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments, domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk and investment manager risk.

Public market funds are invested in exchange traded funds, index funds and private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the funds. Some of these investment managers may invest in both long and short securities and may utilize modest leverage in their portfolios. There are certain risks associated with these investments, some of which are investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios.

Marketable alternative, private market and public market funds include investments in private placement vehicles that are subject to risk, which could result in the loss of invested capital. The risks include the following:

- *Non-regulation risk* – Some of these funds are not registered with the Securities and Exchange Commission, and therefore are not subject to regulatory controls.
- *Key personnel risk* – The success of certain funds is substantially dependent upon key investment managers and the loss of those individuals may adversely impact the fund's performance.
- *Liquidity risk* – Many of the System's investment funds may impose lock-up periods, which would cause the System to incur penalties to redeem its units or prevent the System from redeeming its shares until a certain period of time has elapsed.
- *Limited transparency* – As private placement investment vehicles, these funds may not disclose the holdings of their portfolios.
- *Investment strategy risk* – These funds often employ sophisticated investment strategies and may use leverage, which could result in the loss of invested capital.

(G) Securities Sold Short – The System may sell securities it does not own in anticipation of a decline in the fair value of that security or as means to adjust the duration of certain fixed income portfolios. When the System sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale as collateral for its obligation to deliver the security upon conclusion of the sale. The securities sold short as of August 31, 2009, are commitments to sell U.S. Treasury securities that do not require cash deposit. As of August 31, 2009 there was no Deposit with Broker for Securities Sold Short. The System must pay dividends or interest on the securities sold short. Until the System covers it shorts sales, it is exposed to market risk to the extent that subsequent market fluctuations may require purchasing securities sold short at prices, which may be significantly higher than the market value reflected in the statements of fiduciary net assets.

Repurchase Agreements

The System, by statute, is authorized to enter into repurchase agreements. A repurchase agreement is made when a holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the buyer for this. During the year ended August 31, 2009, the System participated in repurchase agreements.

Note 4: Summary of Long-Term Liabilities

	Balance 9/1/2008	Additions	Reductions	Balance 8/31/2009	Current Portion	Non-Current Portion
Employees' Compensable Leave	552,272	36,675	0	588,947	383,719	205,228
Total	$552,272	$36,675	$0	$588,947	$383,719	$205,228

Employees' Compensable Leave

Substantially all full-time University employees earn annual leave in the amount of 8 to twenty-one hours per month depending upon the respective employee's years of state employment. State law permits employees to carry accrued leave forward from one fiscal year to another fiscal year with a maximum of 532 hours for those employees with 35 or more years of state service. Eligible part-time employees' annual leave accrual rate and maximum carryover are proportional to the number of hours appointed to work. Employees with at least six months of state service who terminate their employment are entitled to payment for all accumulated annual leave.

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is off due to illness or to the estate of an employee in the event of his or her death. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The University's policy is to recognize the cost of sick leave when paid, and the liability is not shown in the financial statements since experience indicates the expense for sick leave to be minimal. Eligible part-time employees' sick leave accrual rate is proportional to the number of hours appointed to work.

Note 5: Bonded Indebtedness

The University receives proceeds from revenue bonds issued and held by the System to support capital projects of the System and its institutions. These proceeds are recorded as transfers from the System. The University disburses funds to the System for payments of principal and interest related to the University's share of bond proceeds. These disbursements are recorded as transfers to the System. All bonds issued by the System are defined as revenue bonds. As such, the revenues of the System, including the University, are pledged for repayment of the bonds. Segment information requirements are not applicable, due to the bond indentures' lack of specifically identifiable activities and separate accounting requirements.

No amount of indebtedness related to bonds has been recorded in the University's financial statements as the System is the party directly liable for these bonds. At August 31, 2009, however, the University's remaining unpaid share of the bonds payable was $86,549,000.

Note 6: Interagency Balances/Activity

The University has numerous transactions with Other Agencies. At year-end, amounts to be received or paid are reported as Due from Other Agencies or Due to Other Agencies.

	Due from Other Agencies	Due to Other Agencies	Purpose
The University of Texas System Administration	$38,356		University president's deferred compensation
The University of Texas System Administration	1,063,870		Endowment funds
The University of Texas System Administration	51,073,648		Construction in progress financing
The University of Texas System Administration		246,934	Payroll related insurance premiums
Totals	$52,175,874	$246,934	

Interagency transfers made during the fiscal year are presented below:

	Transfers from Other Agencies	Transfers to Other Agencies	Purpose
The University of Texas System Administration		$9,723,540	Anticipated proceeds from debt
The University of Texas System Administration	73,277,687		Bond proceeds
The University of Texas System Administration		11,716,840	Debt service
Texas Higher Education Coordinating Board		124,980	Tuition set-asides
Totals	$73,277,687	$21,565,360	

Note 7: Risk Financing and Related Insurance

All risk financing and related insurance for the University is part of coverage provided by the System. The System has seven funded self-insurance plans providing coverage in the following areas: employee health and dental, unemployment compensation, workers' compensation, property protection, directors and officers/employment practices liability, and construction contractor insurance.

Employee and Retiree Insurance Benefits

The System Employee Benefits program provides health, dental, vision, life, long-term disability, short-term disability, long-term care, and flexible spending account coverage to all benefits-eligible employees and retirees of the System and its fifteen institutions. These insurance benefits are provided through both self-funded and fully insured arrangements. A portion of the System's cost of providing group health and basic life insurance is paid by the State as specified in the General Appropriations Act. The System's Office of Employee Benefits (OEB) is responsible for the overall administration of the insurance plans. OEB was established by Chapter 1601 of the *Texas Insurance Code* and complies with state laws and statutes pertinent to employee benefits for the System.

Effective January 1, 2006, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries under Medicare Part D. Medicare Part D provides sponsors of postemployment healthcare plans up to 28 percent of the amount of eligible prescription drug benefit costs of retirees who are eligible for, but not enrolled in, Medicare Part D, if the sponsor's plan provides a prescription drug benefit that is actuarially equivalent to the Medicare Part D benefit.

Unemployment Compensation Insurance

The General Appropriations Act requires the System to reimburse the Texas Workforce Commission (TWC) for 50% of the unemployment benefits paid to former employees that were paid from general revenue funds. The System reimburses the TWC 100% of the unemployment benefits paid to former employees that were paid from local funds.

Workers' Compensation Insurance

The University of Texas System Workers' Compensation Insurance (WCI) program provides coverage to all employees of the System and its fifteen institutions. Under the oversight of the System's Office of Risk Management (ORM), the System self-insures and administers the program. The WCI staff is responsible for administering all aspects of the system-wide program, which provides income and medical benefits to all employees who have sustained job-related injuries or occupational diseases. The program's statutory authority is embodied in Chapter 503 of the *Texas Labor Code*.

Comprehensive Property Protection Program

The property protection plan consists of two programs. The first covers fire and other perils and includes commercial coverage for claims exceeding a per occurrence deductible of $7.5 million or an annual aggregate deductible of $20 million. The policy covers all UT System buildings, personal property and business income reported by the institutions. The maximum reimbursement under this policy is $1 billion per occurrence.

The second program provides coverage for physical damage resulting from Named Windstorms and catastrophic flood losses up to $50 million. Insurance policies providing underlying limits ($1-2 million per building and contents) are purchased through the Texas Windstorm Insurance Association and the National Flood Insurance Program on several facilities in the Tier 1 wind zone and other flood prone areas to provide a primary layer of insurance. The self-insurance component of the program participates in losses that exceed the coverage available under these primary policies or in cases where there is no underlying insurance.

To fund the self-insurance portion of both property programs, the institutions make annual contributions to the loss reserve funds in addition to paying insurance premiums.

Directors and Officers/Employment Practices Liability Self-Insurance Plan

The Directors and Officers Liability (D&O) and Employment Practices Liability (EPL) Self-Insurance Plan (the "Plan") provides coverage for claims arising from actual or alleged wrongful acts performed by the plan beneficiaries. The plan also provides coverage for EPL claims, such as wrongful termination, failure to promote and wrongful discipline. In 2003, the UT System Board of Regents allocated $3.7 million from the Available University Fund to establish the D&O/EPL loss reserve fund. Institutions make annual premium contributions to this fund.

Coverage applies to individual board members, employees, faculty, etc., as well as to the System itself. The limit of liability is a $10 million annual aggregate (Coverages A, B and C combined), except for $5 million annual aggregate sublimit for Coverage C. Coverage A applies to individuals and it has no deductible. Coverage B applies to a UT institution that is required to indemnify a covered individual with deductibles of $100,000 per individual and $300,000 per occurrence. Coverage C applies to a UT institution and related entities with a $300,000 deductible. An excess coverage commercial insurance policy provides $10 million of excess coverage after the Plan's liability limits have been exhausted.

Rolling Owner Controlled Insurance Program

The Rolling Owner Controlled Insurance Program (ROCIP) was established for the centralized purchase of construction contractor insurance on various capital projects. This program provides workers' compensation and general liability insurance for all contractors enrolled on projects participating in the program. The insurance carries a $250,000 per occurrence basket deductible, which is paid through the program's self-insurance fund.

Note 8: Employees' Retirement Plans

Teacher Retirement System

The State of Texas has joint contributory retirement plans for substantially all of its employees. One of the primary plans in which the System 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, the System may be required to make contributions in lieu of the State.

All System personnel employed in a position on a half-time or greater basis for at least 4 ½ months 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 5 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 the University contributes a percentage of participant salaries totaling 6 percent of annual compensation. The University's contributions to TRS for the year ended August 31, 2009, were \$613,765, which equaled the amount of the required contributions for the year.

TRS does not separately account for each of its component government agencies since TRS 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 TRS's annual financial report, which may be found on the TRS Web site at www.trs.state.tx.us.

Optional Retirement Program

The State has also established an optional retirement program for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS and is available to certain eligible employees. 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 and each participant are 6 percent and 6.65 percent, respectively. Depending upon the source of funding for the employee's compensation, the System may be required to make the employer contributions in lieu of the State. Additionally, the State or the System must make additional contributions above 6 percent depending upon the employee's date of hire. Since these are individual annuity contracts, the State and the System have no additional or unfunded liability for this program.

The University's contributions for the year ended August 31, 2009, were \$505,271 for 101 participating employees.

The University of Texas System Governmental Retirement Arrangement (UTGRA)

The University of Texas System Governmental Retirement Arrangement (UTGRA) is a defined contribution pension plan established by the System to provide certain participants in the ORP that portion of their benefits that would otherwise be payable under the ORP except for the \$45,000 limit on contributions imposed by Section 415 of the Internal Revenue Code (IRC). At August 31, 2009, there were no plan members. Persons employed by the University prior to September 1, 1996, whose compensation exceeds the limit set by IRC Section 401(a)(17) and whose ORP contribution is limited by the \$45,000 cap under IRC Section 415(c), defer 6.65 percent of their excess compensation while the University contributes between 6 percent and 8.5 percent depending upon the institution and the date of employment. The University did not contribute funds for the year ended August 31, 2009. Plan provisions are established and may be amended at any time by the UT System Board of Regents.

Plan assets are valued at fair value and are invested in contracts and accounts in a similar manner to the ORP. Participants are immediately vested in the plan, both for the employee deferrals and the employer contributions. However, deferrals, contributions, purchased investments and earnings attributable to the plan are the property of the System and subject only to the claims of the System's general creditors. Participant's rights under the plan are equal to those of the general creditors of the System in an amount equal to the fair value of the participant's account balance. The System has no liability under the UTGRA that would exceed the aggregate value of the investments, and it is unlikely that any of UTGRA's assets will be used to satisfy the claims of general creditors in the future.

Note 9: Deferred Compensation

University employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Texas Government Code, Section 609.001. The deferred compensation plan is administered by the System.

The System administers the UTSaver Deferred Compensation Program (DCP), created in accordance with IRC Section 457(b). All employees are eligible to participate. Deductions, purchased investments and earnings attributed to the UTSaver DCP are the property of the System subject only to the claims of the System's general creditors. Participants' rights under the plan are equal to those of the general creditors of the System in an amount equal to the fair market value of the UTSaver DCP account for each participant. The System has no liability under the UTSaver DCP and it is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.

In addition, some employees contribute to a deferred compensation plan administered by the State, through the Employees' Retirement System (ERS). The State's 457 plan complied with the IRC Section 457. This State plan was referred to as the Texa$aver Deferred Compensation Plan and was only available to employees who were contributing prior to the establishment of the UTSaver DCP. Deductions, purchased investments and earnings attributed to the 457 plan are the property of the State subject only to the claims of the State's general creditors. Participants' rights under the plan are equal to those of the general creditors of the State in an amount equal to the fair value of the 457 account for each participant. The State has no liability under the 457 plan and it is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.

The System also administers the UTSaver Tax-Sheltered Annuity Program (TSA), created in accordance with Internal Revenue Code, Section 403(b). All employees are eligible to participate. The UTSaver TSA is a private plan, and the deductions, purchased investments, and earnings attributed to each employee's 403(b) plan are held by vendors chosen by the employee. The vendors may be insurance companies, banks, or approved non-bank trustees such as mutual fund companies. The assets of this plan do not belong to the System or the State. Therefore, neither the System nor the State has a liability related to this plan.

Note 10: Donor-Restricted Endowments

Donor-restricted endowments are invested by System's UTIMCO. Net appreciation on investments of donor-restricted endowments are available for authorization for expenditure by the UT System Board of Regents. Pursuant to the Uniform Management of Institutional Funds Act, as adopted by Texas, the UT System 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. Net appreciation of $5,388,267 is reported as Restricted, Expendable, Other Expendable net assets. The System's policy is to retain all undistributed net realized and unrealized appreciation within the endowment funds.

Note 11: Post-Employment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State 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 self-funded plan and fully-insured plans. For the year ended August 31, 2009, the contributions for the self-funded plan by the State per full-time retired employee are shown in the following table. The retiree contributes any premium over and above the State contributions.

Retiree Only $ 15,503 (42 retiree only)
Retiree/Spouse $ 198,689 (35 retiree/spouse)
Retiree/Children $ 986 (2 retiree/children)
Retiree/Family $ 1,375 (2 retiree/family)

The State recognizes the cost of providing these benefits to eligible retired employees. The cost of retired employee benefits is recognized when paid. The number of retired University employees who were eligible for these benefits, as well as the cost of providing the benefits for the year ended August 31, 2009, were 81 and $37,552, respectively. The University's benefit liability is included in that of the University of Texas System. As a result, this liability will be reported in the System financial statements.

Note 12: Disaggregation of Receivable Balances

Other receivables as reported on the Statement of Net Assets are detailed by type as follows:

Net Other Receivables	
Receivables related to Auxiliary Enterprises	1,056,147
Receivables related to Loan Funds and Financial Aid	382,804
Receivables related to Other Activities	184,746
Total	$1,623,698

State Auditor's Office
John Keel, CPA
State Auditor

February 18, 2010

Dr. W. David Watts, President
The University of Texas of the Permian Basin
4901 E. University
Odessa, TX 79762

Subject: Management Letter Resulting from a Review of the University of Texas of the Permian Basin's Fiscal Year 2009 Financial Statements

Dear Dr. Watts:

We offer this management letter in conjunction with our review of the financial statements of the University of Texas of the Permian Basin (University) for the fiscal year ended August 31, 2009. We reviewed the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; the Statement of Cash Flows; and the Notes to the Financial Statements. In the course of our review, which was substantially less in scope than an audit, we found that material modifications needed to be made to the financial statements in order for them to be in conformity with generally accepted accounting principles.

The University may not have adequate processes to ensure that it correctly reports financial information. By including interfund receivables and payables on the Statement of Net Assets and inappropriately classifying funds, the University misstated several line items. Below are the initial and revised balances for those line items:

The University of Texas of the Permian Basin Financial Report Revisions Fiscal Year 2009		
Line Item	Initial Balance	Revised Balance
Cash and Cash Equivalents	$ 8,541,929	$ (1,882,860)
Restricted Cash and Cash Equivalents	$ 3,495,099	$ 13,919,888
Other Current Assets	$ 21,120,514	$ 270,936
Accounts Payable and Accrued Liabilities	$ 25,427,298	$ 4,577,720
Restricted Investments	$ 15,884,377	$ 33,982,530
Investments	$ 24,704,124	$ 6,605,970

The University corrected all of the errors noted above prior to the completion of this review. While the net effect of the misstatements was not material, the number of misstatements indicates a lack of attention to detail and inadequate review, which could lead to errors in other financial reports.

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SAO Report No. 10-334

Recommendations

The University should do the following when preparing financial reports:

- Properly classify all funds and retain the proper classification throughout subsequent transactions.
- Follow relevant accounting and reporting standards.

Management's Response

Management concurs with the recommendations. Differences among types of investment accounts will be reviewed to ensure correct representation of restricted and non-restricted accounts and related cash entries. Detailed notes will be added to journal entries for documentation of the entries and the accounts affected.

The Vice President for Business Affairs will review all journal entries over a pre-determined amount, agreed upon in advance with Internal Audit, and the Office of Accounting will work with the UT System Controller's Office to assure that entries are recorded and reported in accordance with generally accepted accounting principles. The Director of Accounting will provide the Internal Audit staff comprehensive documentation as described above for their reviews.

We appreciate the assistance provided during this review by the management of the University and Internal Audit. If you have any questions, please call me at (512) 936-9500.

Sincerely,

Sandra Vice

Sandra Vice, CGAP, CIA, CISA
Assistant State Auditor

University of North Texas Health Science Center

State Auditor's Office Review of 2009 Financial Statements

1/22/2010

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State Auditor's Office
John Keel, CPA
State Auditor

Auditor's Review Report

January 22, 2010

Dr. Scott B. Ransom, President
The University of North Texas Health Science Center at Fort Worth
3500 Camp Bowie Blvd
Fort Worth, TX 76107

Dear Dr. Ransom:

We have reviewed the accompanying Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; Statement of Cash Flows; and Notes to the Financial Statements of the University of North Texas Health Science Center at Fort Worth (Health Science Center) as of and for the fiscal year ended August 31, 2009, in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The review was performed in accordance with the Southern Association of Colleges and Schools' (Southern Association) *Criteria for Accreditation*. All information included in these financial statements is the representation of management of the Health Science Center.

A review consists principally of inquiries of the Health Science Center personnel and analytical procedures applied to financial data. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

The accompanying statements were prepared to present the financial position, the changes in financial position and the cash flows of the Health Science Center. These statements are prepared pursuant to criteria of the Southern Association for supplementary special reports by institutions in states that conduct statewide audits.

Based on our review, with the exception of the matter described in the following paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The University has not presented a management's discussion and analysis section that the Governmental Accounting Standards Board has identified as required supplementary information that is not part of the basic financial statements. However, such required supplementary information for the Health Science Center is presented in the University of North Texas System's (System) consolidated annual financial report.

This report is intended for use by the Board of Regents of the System, management of the Health Science Center, and the Southern Association. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,

John Keel, CPA
State Auditor

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SAO Report No. 10-321

University of North Texas Health Science Center
Statement of Net Assets
At August 31, 2009
(See Auditor's Review Report on page 1.)

ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 3)	$	57,258,873
Restricted:		
Cash and Cash Equivalents (Note 3)		23,719,234
Legislative Appropriations		15,631,035
Receivables, Net of Allowances:		
Federal		1,957,460
Other Intergovernmental		99,000
Accounts		2,675,599
Gifts		1,460,000
Patient Receivables		11,689,865
Due from Other State Entities (Note 8)		4,964,423
Consumable Inventories		322,118
Merchandise Inventories		21,804
Loans and Contracts		243,813
Other Current Assets		9,018
Total Current Assets	$	120,052,242
Non-Current Assets		
Restricted:		
Investments (Note 3)		26,993,926
Loans and Contracts		4,102,643
Gifts Receivable		
Capital Assets (Note 2):		
Non-Depreciable		38,230,113
Depreciable		164,269,674
Less: Accumulated Depreciation		(85,335,072)
Other Non-Current Assets		
Total Non-Current Assets	$	148,261,284
Total Assets	$	268,313,526

LIABILITIES		
Current Liabilities		
Payables:		
Accounts	$	8,472,662
Payroll		9,405,413
Other		1,296,680
Due to Other State Entities (Note 8)		76,573
Deferred Revenue		6,644,578
Employees' Compensable Leave (Note 5)		682,991
Revenue Bonds Payable (Notes 5,6)		3,990,000
Funds Held for Others		14,088,632
Total Current Liabilities	$	44,657,529
Non-Current Liabilities		
Employees' Compensable Leave (Note 5)		6,456,045
Notes and Loans Payable (Note 5)		0
Revenue Bonds Payable (Notes 5, 6)		68,725,000
Other Non-Current Liabilities		5,817
Total Non-Current Liabilities	$	75,186,862
Total Liabilities	$	119,844,391
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$	53,396,911
Restricted for:		
Non-Expendable		24,318,278
Permanent Funds, True Endowments, Annuities		
Expendable		
Debt Retirement		19,091
Other		14,282,598
Unrestricted		56,452,257
Total Net Assets	$	148,469,135

The accompanying Notes to the Financial Statements are an integral part of this statement.

University of North Texas Health Science Center
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended August 31, 2009
(See Auditor's Review Report on page 1.)

OPERATING REVENUES		
Tuition and Fees - Non-Pledged	$	11,910,347
Discounts and Allowances		(131,085)
Professional Fees - Non-Pledged		84,963,889
Other Sales of Goods and Services - Non-Pledged		3,218,684
Federal Revenue		22,003,404
State Grant Revenue		2,003,603
Other Operating Grant Revenue		4,414,407
Other Operating Revenues		75,957
Total Operating Revenues	$	128,459,206
OPERATING EXPENSES		
Cost of Goods Sold	$	
Salaries and Wages		101,064,197
Payroll Related Costs		19,235,842
Professional Fees and Services		19,271,003
Travel		1,409,938
Materials and Supplies		10,838,798
Communications and Utilities		4,262,970
Repairs and Maintenance		2,283,302
Rentals and Leases		1,444,773
Printing and Reproduction		265,370
Depreciation and Amortization		7,194,549
Bad Debt Expense		2,487,013
Interest Expense		66
Scholarships		1,954,389
Other Operating Expenses		15,510,287
Total Operating Expenses	$	187,222,497
Operating Income (Loss)	$	(58,763,291)

NONOPERATING REVENUES (EXPENSES)		
Legislative Appropriations	$	67,349,030
Gifts		129,925
Interest and Investment Income (Loss)		3,237,864
Net Increase (Decrease) in Fair Value of Investments		(4,280,707)
Land Income		
Interest Expense and Fiscal Charges		(1,898,914)
Borrower Rebates and Agent Fees		
Gain (Loss) on Sale of Capital Assets		(141,880)
Claims and Judgments		(210,399)
Other Nonoperating Revenues - Non-Pledged		563,682
Other Nonoperating Expenses		0
Total Nonoperating Revenues (Expenses)	$	64,748,601
Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers	$	5,985,310
OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS		
Capital Contributions	$	584,856
Capital Appropriations (HEAF)		7,994,676
Transfers In from Other State Entities (Note 8)		160,555
Transfers Out to Other State Entities (Note 8)		(780,332)
Legislative Transfers Out (Note 8)		(1,269,698)
Legislative Appropriations Lapsed		0
Total Other Revenues, Expenses, Gains (Losses), and Transfers	$	6,690,057
CHANGE IN NET ASSETS	$	12,675,367
Net Assets, September 1, 2008	$	135,793,768
Restatements		
Net Assets, September 1, 2008, as Restated	$	135,793,768
NET ASSETS, August 31, 2009	$	148,469,135

The accompanying Notes to the Financial Statements are an integral part of this statement.

University of North Texas Health Science Center
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2009
(See Auditor's Review Report on page 1.)

CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Tuition and Fees	$	12,641,620
Receipts from Customers		82,798,122
Proceeds from Research Grants and Contracts		30,019,606
Proceeds from Loan Programs		230,587
Proceeds from Other Revenues		75,957
Payments to Suppliers for Goods and Services		(35,526,903)
Payments to Employees for Salaries		(101,034,816)
Payments to Employees for Benefits		(19,192,132)
Payments for Loans Provided		
Payments for Other Expenses		(21,233,812)
Net Cash Provided (Used) by Operating Activities	$	(51,221,771)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Legislative Appropriations	$	67,349,030
Proceeds from Gifts		129,925
Proceeds from Other Sources		1,930,572
Payments of Principal on Debt Issuance		(229,054)
Payments of Interest		(18,377)
Payments of Other Costs of Debt Issuance		(8,420)
Payments for Transfers to Other Entities		(1,372,322)
Payments for Other Uses		(1,180,376)
Net Cash Provided (Used) by Non-Capital Financing Activities	$	66,600,978
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from State Appropriations (HEAF)	$	7,994,676
Proceeds from Issuance of Capital-Related Debt		40,025,762
Proceeds of Transfers from Other Entities		2,100,000
Payments for Additions to Capital Assets		(18,476,406)
Payments of Principal on Capital-Related Debt		(5,845,000)
Payments of Interest on Capital-Related Debt		(2,768,964)
Payments of Other Costs of Capital-Related Debt		(505,711)
Payments for Transfers to Other Entities		(18,175,000)
Payments for Disposal of Capital Assets		
Net Cash Provided (Used) by Capital and Related Financing Activities	$	4,349,357

CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales of Investments	$	352,613
Proceeds from Interest and Investment Income		3,599,607
Proceeds from Principal Payments on Loans		
Payments to Acquire Investments		(76,299)
Net Cash Provided (Used) by Investing Activities	$	3,875,921
Net Increase (Decrease) in Cash and Cash Equivalents	$	23,604,485
Cash and Cash Equivalents, September 1, 2008 and 2007	$	57,373,622
Restatements		
Cash and Cash Equivalents, September 1, 2009 and 2008 as restated	$	57,373,622
Cash and Cash Equivalents, August 31, 2009 and 2008	$	80,978,107

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

Operating Income (Loss)	$	(58,763,291)
Adjustments:		
Depreciation and Amortization	$	7,194,549
Bad Debt Expense		2,487,013
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		(4,642,938)
(Increase) Decrease in Due from Other Entities		871,985
(Increase) Decrease in Inventories		(7,257)
(Increase) Decrease in Other Assets		(3,599,556)
Increase (Decrease) in Payables		5,310,493
Increase (Decrease) in Due to Other Entities		(86,638)
Increase (Decrease) in Deferred Revenue		282,953
Increase (Decrease) in Employees' Compensable Leave		13,869
Increase (Decrease) in Other Liabilities		(282,953)
Total Adjustments	$	7,541,520
Net Cash Provided (Used) by Operating Activities	$	(51,221,771)
Non-Cash Transactions		
Net Increase (Decrease) in Fair Value of Investments	$	(4,280,707)

The accompanying Notes to the Financial Statements are an integral part of this statement.

University of North Texas Health Science Center
Statement of Changes in Unrestricted Net Assets

For the Fiscal Year Ended August 31, 2009
(See Auditor's Review Report on page 1)

		2009	2008	Changes
Reserved				
Encumbrances	$	1,117,576	4,658,161	(3,540,585)
Accounts Receivable		11,149,006	8,775,109	2,373,897
Inventories		338,403	331,146	7,257
Self-Insurance Plans		8,222,065	6,122,402	2,099,663
Higher Education Assistance Funds		8,860,965	6,773,471	2,087,494
Fees with Use Restricted by Statute		817,504	1,058,133	(240,629)
Prepaid Expenses		9,018	11,721	(2,703)
Petty Cash		6,687	8,387	(1,700)
Texas Public Education Grants		786,415	887,430	(101,015)
Student Loans		417,695	414,343	3,352
Plant		2,859,207	576,677	2,282,530
Unreserved		0	0	0
Unallocated		21,867,716	13,971,275	7,896,441
Total Unrestricted Net Assets	$	56,452,257	43,588,255	12,864,002

(See Auditor's Review Report on page 1.)

General Introduction

This report has been prepared for the use of the Southern Association of Colleges and Schools (SACS) in connection with the review of The University of North Texas Health Science Center (UNTHSC) for accreditation purposes. This report includes a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, a Statement of Cash Flows, a Statement of Changes in Unrestricted Net Assets and the related Notes to the Financial Statements.

Reporting Entity

UNTHSC is a component of The University of North Texas System (UNT System) and an agency of the State of Texas (State). UNTHSC prepares financial statements that are included in the State's Comprehensive Annual Financial Report, which is audited by the Texas State Auditor's Office.

UNTHSC's mission is to improve the health and quality of life for the people of Texas and beyond through excellence in education, research, clinical care, community engagement and to provide national leadership in primary care.

UNTHSC has a clinical enterprise, UNTHealth, whose mission is to serve the people of Texas, advance the health of communities and support the mission of UNTHSC. UNTHealth has approximately 210 healthcare providers, including over 150 clinical faculty physicians representing 29 different medical specialties. UNTHealth doctors and other specialists had over 575,000 patient encounters last year, many in the 15 UNTHSC campus-based clinics or the 14 community-based primary care centers. UNTHealth has affiliations with most of the hospitals in Tarrant County of Texas and UNTHealth physicians maintain privileges at most of these hospitals.

Note 1: Summary of Significant Accounting Policies

Basis of Accounting

The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

UNTHSC's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the principle of ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Restricted Net Assets

When both restricted and unrestricted net assets are available for use, restricted resources are used first, and then unrestricted resources are used as they are needed.

Cash and Cash Equivalents

Cash and cash equivalents are defined as all cash on hand, cash in banks, reimbursements due from the State Treasury, local balances of legislative appropriations (held in State Treasury), and temporary investments with original maturities of 90 days or less. UNTHSC utilizes bank deposits and eligible investment pools (TexPool) as cash equivalents.

Employees' Compensable Leave Balances

Employees' Compensable Leave Balances represents 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.

Bonds Payable – Revenue Bonds

Revenue bonds are generally accounted for in the proprietary funds. The bonds payable are reported at par. Bond discounts and premiums are not amortized over the life of the bonds in proprietary funds if they are not individually greater than 10 percent of the par value of the bond issue. Revenue Bonds Payables are reported separately as either current or non-current in the statement of net assets.

Capitalizing Assets

An asset (excluding construction in progress) is capitalized when the cost exceeds a certain threshold:

Asset	Threshold
Furniture and Equipment	5,000
Vehicles	5,000
Facilities and Other Improvements	100,000
Buildings and Building Improvements	100,000
Infrastructure	500,000

If the asset is not purchased, an appraised fair value, as of the date of acquisition, is utilized.

Depreciation of capital assets is recorded as a periodic expense and accumulated as an offset to asset book values. Depreciation is based on allocation methods and estimated lives (summarized below) prescribed by the State's Statewide Property Accounting (SPA) system. The straight-line method is used for calculating depreciation.

Capital Asset Category	Useful Life
Furniture and Equipment	3 - 15 years
Vehicles	5 - 7 years
Facilities and Other Improvements	10 - 23 yrs
Buildings and Building Improvements	10 - 30 yrs

For construction-in-progress assets financed by debt, construction period interest is capitalized as part of the capital asset cost. The capitalized interest is combined with the other costs associated with constructing the asset and depreciated over the appropriate useful life beginning when the asset is placed in service.

Operating Revenues and Nonoperating Revenues

Operating revenues are generally those that are classified as operating cash inflows in the statement of cash flows.

Nonoperating revenues are those derived from nonexchange transactions or those that are not reported as operating activities in the statement of cash flows, such as investment income.

Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2009, is presented below:

NOTE 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2009CY, is presented below:

	Balance 09/01/08	Reclassifications Adjustments*	Completed CIP	Additions	Deletions	Balance 08/31/09
BUSINESS-TYPE ACTIVITIES:						
Non-Depreciable Assets						
Land and Land Improvements	23,728,391	(938,204)	-	196,781	-	22,986,968
Construction in Progress	1,732,994	-	-	13,332,675	-	15,065,669
Other Assets	170,077	-	-	7,399		177,476
Total Non-Depreciable Assets	25,631,462	(938,204)	-	13,536,855	-	38,230,113
Depreciable Assets						
Buildings and Building Improvements	112,992,322	-	-	2,450,780	-	115,443,102
Infrastructure	-	-	-	-	-	-
Facilities & Other Improvements	1,322,256	-	-	-	-	1,322,256
Furniture and Equipment	29,900,133	(19,380)	-	2,947,851	(1,005,366)	31,823,238
Vehicles, Boats & Aircraft	525,684	-	-	63,410	(19,774)	569,320
Other Assets	16,960,428	-	-	1,022,918	(2,871,588)	15,111,758
Total Depreciable Assets at Historical Costs	161,700,823	(19,380)	-	6,484,959	(3,896,728)	164,269,674
Less Accumulated Depreciation for:						
Buildings and Improvements	(51,295,410)	-	-	(3,981,115)	-	(55,276,525)
Infrastructure	-	-	-	-	-	-
Facilities & Other Improvements	(793,550)	-	-	(67,013)	-	(860,563)
Furniture and Equipment	(17,415,715)	-	-	(2,757,152)	442,198	(19,730,669)
Vehicles, Boats & Aircraft	(389,000)	-	-	(43,251)	19,774	(412,477)
Other Capital Assets	(11,223,248)	-	-	(703,178)	2,871,588	(9,054,838)
Total Accumulated Depreciation	(81,116,923)	-	-	(7,551,709)	3,333,560	(85,335,072)
Depreciable Assets, Net	80,583,900	(19,380)	-	(1,066,750)	(563,168)	78,934,602
Business-Type Activities Capital Assets, Net	106,215,362	(957,584)	-	12,470,105	(563,168)	117,164,715

During the fiscal year 2009, hardcopies of certain library materials were discarded and replaced with online services. These discards and the related accumulated depreciation, $2,871,588, are presented above as “Deletions”. The materials were fully-depreciated; therefore, no loss was incurred.

The approximately $13M in additions to Construction in Progress relates to the construction of a 112,000 square foot building which, among other functions, will contain additional classrooms. The expected in-service date for the building is Spring 2010.

Reconciliation of SRECNA Depreciation Expense with Note 2

Accumulated Depreciation Additions - Note 2	$	7,551,709
Accumulated Depreciation Additions (Expense) - SRECNA	$	7,194,549
Difference is accumulated depreciation additions in Note 2 associated with numerous equipment transfers from another educational agency for property control purposes	$	357,160

Note 3: Deposits, Investments and Repurchase Agreements

Deposits

Cash and Cash Equivalents			
	Unrestricted	Restricted	Total
Cash on Hand	$ 19,535	700	$ 20,235
Cash in Banks	(976,003)	(185,444)	(1,161,447)
Reimbursements Due from Treasury	49,893	-	49,893
Cash in State Treasury	4,350,698	-	4,350,698
Cash Equivalents (Tex Pool)	53,814,750	23,903,978	77,718,728
	$ 57,258,873	23,719,234	$ 80,978,107

Custodial credit risk for deposits of cash in banks is the risk that, in the event of the failure of a depository financial institution, the agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. At August 31, 2009, UNTHSC's deposits of cash in banks were subject to FDIC protection.

Investments

UNTHSC's investment portfolio is invested pursuant to Section 51.0032, Education Code and Chapter 2256, Government Code, the Public Funds Investment Act (PFIA) and UMIFA Chapter 163, Property Code. Under the PFIA, UNTHSC's governing board is required to adopt a written investment policy and strategy, review the policy and strategy not less than annually, appoint an investment office and adopt internal controls to safeguard UNTHSC's funds. Chapter 2257, Government Code, The Public Funds Collateral Act set the standard for collateralization of public funds in Texas.

Investments at Fair Value	
Corporate Obligations	$ 903,016
Equity	6,056,029
International Obligations	106,713
International Equity	2,728,975
Fixed Income Money Market and Bond Mutual Fund	6,629,386
Other Commingled Funds	1,491,556
Other Commingled Funds (TexPool)	77,718,728
Miscellaneous	9,078,251
	$ 104,712,654

Included in the $104,712,654 is $22,664,118 held by Texas Treasury Safekeeping Trust Company.

Reconciliation of SNA Cash and Investments to Note 3 Investments	
From SNA:	
Cash and Cash Equivalents	$ 57,258,873
Restricted Cash and Cash Equivalents	23,719,234
Restricted Investments	26,993,926
	107,972,033
Less	
Cash on Hand	(20,235)
Cash in Bank	1,161,447
Reimbursements Due from Treasury	(49,893)
Cash in State Treasury	(4,350,698)
-	104,712,654

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. The exposure to foreign risk at August 31, 2009, was $447,868 in Euro currency and is part of the Texas Treasury Safekeeping Trust Company amount.

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. As of August 31, 2009, Standard & Poor's ratings of UNTHSC's non-equity investments were as follows:

Standard & Poor's Ratings

Fund Type	GAAP Fund	Investment Type	AAA	BBB	BB	B	CCC	C	Unrated	Total
05	0001	Corporate Obligations	$ -	44,145	315,856	433,908	66,847	12,122	30,138	$ 903,016
05	0001	International Corporate Obligations	-	-	42,570	46,362	-	-	17,781	106,713
05	0001	Mutual Funds - Fixed Income	-	-	-	-	-	-	4,649,686	4,649,686
05	0001	Investments in STIF	1,491,556	-	-	-	-	-	-	1,491,556
			$ 1,491,556	44,145	358,426	480,270	66,847	12,122	4,697,605	$7,150,971

UNTHSC has no separate policy regarding foreign currency risk or credit risk. Investments made by the Texas Treasury Safekeeping Trust Company are to be consistent with UNTHSC's overall investment policy.

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a debt investment to changes arising from movements in interest rates. Duration is the weighted average maturity of an instrument's cash flows, where the present value of the cash flows serves as the weights. The duration of an instrument can be calculated by first multiplying the time until receipt of cash flow by the ratio of the present value of that cash flow to the instrument's total present value. The sum of these weighted time periods is the duration of the instrument. Modified duration estimates the sensitivity of the institution's investments to changes in interest rates. UNTHSC does not have a formal investment policy with regards to interest rate risk.

UNTHSC's investments by investment type, fair value, modified duration and weighted average maturity are as follows:

	Fair Value	Modified Duration (Years)
International Corporate Obligations	106,713	4.50
Corporate Obligations	903,016	4.32
Mutual Funds - Fixed Income	4,649,686	4.01
	5,659,415	
		Weighted Average Maturity (Days)
Investments in STIF	1,491,556	43

Reverse Repurchase Agreements

UNTHSC, by statute, is authorized to enter into reverse repurchase agreements. UNTHSC did not enter into any reverse repurchase agreements during fiscal year 2009.

Note 4: Short-Term Debt

Recently, UNTHSC has utilized short-term debt as an interim financing source for a long-term construction project. This short-term debt was in the form of commercial paper issued by UNT System, the proceeds of which were transferred to UNTHSC. UNTHSC had recorded this debt as a Due to Other Component.

In fiscal year 2009, UNT System issued Revenue Bonds Payable, for which UNTHSC assumed the long-term debt. A portion of the proceeds were used to retire the commercial paper. The following is a summary of the short-term debt activity for UNTHSC for the fiscal year 2009.

	Balance 09/01/08	Additions	Payments	Balance 08/31/09
Due to Other Component	$ 16,075,000	$ 2,100,000	$ 18,175,000	$ 0

Note 5: Summary of Long Term Liabilities

Changes in Long-Term Liabilities

During the year ended August 31, 2009 the following changes occurred in long-term liabilities:

Business-Type Activities	Balance 09-01-08	Additions	Reductions	Balance 08-31-09	Amounts Due Within One Year
Notes & Loans Payable	$ 0	$ 0	$ 0	$ 0	$ 0
Revenue Bonds Payable	39,910,000	38,650,000	(5,845,000)	72,715,000	3,990,000
Claims & Judgments	0	0	0	0	0
Capital Lease Obligations	0	0	0	0	0
Commercial Paper	0	0	0	0	0
Compensable Leave	7,152,905	623,202	(637,071)	7,139,036	682,991
Total Business-Type Activities	**$47,062,905**	**$ 39,273,202**	**$(6,482,071)**	**$79,854,036**	**$4,672,991**

Notes and Loans Payable

UNTHSC did not have any long-term notes or loans payable during fiscal year 2009.

Claims & Judgments

As of August 31, 2009, UNTHSC did not have any material claims or judgments that were settled and unpaid.

Employees' Compensable Leave

Substantially all full-time UNTHSC employees earn annual leave in the amount of 8 to 21 hours per month depending upon the respective employee's years of state employment. State law permits employees to carry accrued leave forward from one fiscal year to another fiscal year with a maximum of 532 hours for those employees with 35 or more years of state service. Eligible part-time employees' annual leave accrual rate and maximum carryover are proportional to the number of hours appointed to work. Employees with at least six months of state service who terminate their employment are entitled to payment for all accumulated annual leave.

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is off due to illness or to the estate of an employee in the event of his or her death. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. UNTHSC's policy is to recognize the cost of sick leave when paid, and the liability is not shown in the financial statements because experience indicates that the expense for sick leave will be minimal. Eligible part-time employees' sick leave accrual rate is proportional to the number of hours appointed to work.

Note 6: Bonded Indebtedness

Periodically, UNTHSC receives net proceeds for various needs from bonds issued by the System. The bond issues by the System may be only for UNTHSC or may be for the System as a whole, of which UNTHSC may receive a portion of the net bond proceeds. UNTHSC recognizes the associated liabilities for its portion as Revenue Bonds Payable in its financial statements.

Funding for the servicing of UNTHSC's portion of this debt is provided to UNTHSC by State appropriations. UNTHSC wires payments for this debt service directly to the bondholders.

General information related to bonds is summarized below:

Revenue Financing System Bonds, Series 1999

- To acquire, purchase, construct, improve, renovate, enlarge, or equip property, buildings, structures, facilities, roads, or related infrastructure for UNTHSC, pay the municipal bond insurance premium for the bonds, and to pay costs of issuing the bonds
- Issued 06-15-1999
- $9,500,000; all authorized bonds have been issued.
- Source of revenue for debt service – Pledged UNTHSC revenue and all funds and balances lawfully available to the Board

Revenue Financing System Refunding and Improvement bond Series 1999A

- Proceeds from the sale of the bonds will be used for the purposes of (i) constructing a parking garage at UNTHSC, (ii) refunding certain of the currently outstanding UNTHSC General Tuition Revenue Bonds, Series 1994 and (iii) paying the municipal bond insurance premium for the bonds, and (iv) paying certain costs of issuing the Bonds.
- Issued 09-01-1999 $15,535,000; all authorized bonds have been issued
- Source of revenue for debt service – legislative appropriation and all pledged revenues of the participants of the University of North Texas System Revenue Financing System.

Revenue Financing System Bonds, Series 2002

- To acquire, purchase, construct, improve renovate, enlarge, or equip property, buildings, structures, facilities, roads, or related infrastructure for UNTHSC, pay the municipal bond insurance premium for the bonds, and to pay costs of issuing the bonds.
- Issued 08-01-02
- $27,130,000: all authorized bonds have been issued.
- Source of revenue for debt service – legislative appropriation and all pledged revenues of the participants of the University of North Texas System Revenue Financing System.

UNT Revenue Financing System Refunding Bonds, Series 2003A

- To advance refund a portion of the Board's outstanding bonds in order to reduce debt service requirements of the Board in certain years.
- Issued 09-01-03
- $2,915,000: all authorized bonds have been issued.
- Source of revenue for debt service – Pledged UNTHSC revenue including all funds and balances lawfully available to the Board.

Revenue Financing System Refunding and Improvement Bonds, Series 2005

- To provide funds for the purposes of (1) advance refunding a portion ($11.43 million par value) of the Board's outstanding bonds, (2) paying a portion of the accrued interest, and (3) paying certain costs of issuing the bonds.
- Issued 10-01-05
- $11,250,000; all authorized bonds have been issued
- Source of revenue for debt service – legislative appropriation and all pledged revenues of the participants of the University of North Texas System Revenue Financing System.

Revenue Financing System Refunding and Improvement Bonds, Series 2009

- To provide funds for the purposes of refunding a portion ($18.175 million par value) of the Board's outstanding commercial paper notes; constructing and equipping a Public Health Education Building; paying a portion of the interest accruing on the bonds; and paying certain costs of issuing the bonds.
- Issued 02-19-09
- $38,650,000; all authorized bonds have been issued
- Source of revenue for debt service – legislative appropriation and all pledged revenues of the participants of the University of North Texas System Revenue Financing System.

Additional information concerning the bond issues is as follows:

Description of Issue	Bonds Issued to Date	Range of Interest Rates		Scheduled Maturities First Year	Last Year	First Call Date
Revenue Financing System Bonds, Series 1999	$ 9,500,000	4.250%	5.400%	1999	2019	04/15/09
Revenue Financing Refunding & Improvement Bonds, Series 1999A	15,535,000	5.000%	5.500%	2000	2019	04/15/09
Revenue Financing System Bonds, Series 2002	27,130,000	2.000%	5.000%	2003	2022	04/15/12
Revenue Financing System Refunding Bonds, Series 2003A	2,915,000	5.375%	5.500%	2015	2017	04/15/13
Revenue Financing System Refunding Bonds, Series 2005	11,250,000	3.250%	5.250%	2006	2019	04/15/15
Revenue Financing System Refunding Bonds, Series 2009	38,650,000	3.000%	5.250%	2009	2028	04/15/18
Total	$ 104,980,000					

UNTHSC's Debt Service Requirements on Revenue Bonds Payable

Year	Principal	Interest
2010	$ 3,990,000	$ 3,432,388
2011	4,140,000	3,280,094
2012	4,310,000	3,109,431
2013	4,500,000	2,925,569
2014	4,695,000	2,733,381
2015-2019	24,990,000	10,243,981
2020-2024	15,855,000	4,822,219
2025-2028	10,235,000	1,316,925
Totals	$ 72,715,000	$ 31,863,988

Note 7: Operating Leases

UNTHSC leases various buildings under operating lease rental agreements. Operating leases do not give rise to property rights and, therefore, the related assets and liabilities are not reported in UNTHSC's financial statements. Total rental expense under these agreements was $701,062 for the fiscal year 2009.

UNTHSC structures all leases to allow for cancellation, usually based on a 30-day notice. At August 31, 2009, UNTHSC had no operating leases having initial or remaining noncancellable lease terms in excess of one year.

Note 8: Interagency Balances/Activity

UNTHSC is involved in transactions with other State agencies such as:

- Due From Other Agencies or Due To Other Agencies
- Transfers in or Transfers Out
- Legislative Transfers In or Legislative Transfers Out

Due From / To Other State Entities

Entity	Due from Other State Entities	Due to Other State Entities	Purpose
The University of Texas System	$ 4,887,125	-	Tobacco endowment
University of North Texas	$ 77,298	-	Administration support by UNTHSC
Texas A&M University - Corpus Christi	$ -	2,714	Federal pass-through expense
The University of Texas Health Science Center at San Antonio	$ -	73,859	Federal pass-through expense
	$ 4,964,423	76,573	

Transfers In / Out With Other State Entities

Entity	Transfers In	Transfers Out	
University of Texas Health Science Center	$ 160,555	-	Propery transfer
University of North Texas	$ -	426,891	Propery transfer
Texas Public Finance Authority	$ -	255,851	Master lease purchase program
Texas Higher Education Coordinating Board	$ -	97,590	Medical set-aside
	$ 160,555	780,332	

Legislative Transfers In / Out

Entity	Transfers In	Transfers Out	
University of North Texas System	$ -	1,269,698	System support
	$ -	1,269,698	

Note 9: Contingent Liabilities

UNTHSC has received several federal grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to a request for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. Based on prior experience, management believes such disallowances, if any, will be immaterial.

As of August 31, 2009, there are no known contingent liabilities that are likely to have a material effect on UNTHSC.

Note 10: Risk Financing and Related Insurance

UNTHSC is exposed to a variety of civil claims resulting from the performance of its duties. It is UNTHSC's policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed.

UNTHSC's liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated.

The State provides coverage for unemployment benefits from appropriations made to other state agencies for UNTHSC employees. The current General Appropriations Act provides that UNTHSC must reimburse the General Revenue Fund from UNTHSC appropriations, one-half of the unemployment benefits for former and current employees. The Texas Comptroller of Public Accounts determines the proportionate amount to be reimbursed from each appropriated fund type. UNTHSC must also reimburse the General Revenue Fund for all of the cost for unemployment compensation for employees paid from funds held in local bank accounts and local funds held in the state treasury.

It is the policy of the State to allow agencies to insure buildings and contents. This policy applies to higher educational institutions supported and maintained by State appropriations. Beginning fiscal year 2007, UNTHSC purchased insurance to cover real and personal property for Educational and General buildings, business income and extra expense losses.

It is stated policy of the State and the Board not to acquire commercial general liability insurance for torts committed by employees of the State who are acting within the course and scope of their employment. The Board is authorized to acquire certain types of liability insurance. UNTHSC has purchased commercial automobile insurance for the use and benefit of its employees who operate state-owned motorized vehicles. UNTHSC continued to operate a professional liability self-insurance program for coverage of health care professionals and UNTHSC purchases tail coverage as needed for physicians. At August 31, 2009, UNTHSC has sufficient self-insurance reserve for known claims against its health care professionals. At August 31, 2009, there were no unpaid, fully adjudicated claims. Directors' and officers' liability coverage is purchased for UNTHSC employees and volunteers. Commercial crime insurance is purchased for UNTHSC employees.

For workers compensation, UNTHSC remits assessed amounts to the State Office of Risk Management (SORM). Total payments to SORM for the fiscal year 2009 were $206,399. SORM assumes the responsibility for paying all workers compensation claims for current and former employees of UNTHSC.

Note 11: Stewardship, Compliance and Accountability

There was no existence of the following items:

- Significant violations of finance-related legal or contractual provisions and actions taken to address such violations.
- Deficit net assets.
- Expenditures exceeding appropriations.
- Changes in accounting principles.
- Changes in reporting of loans.
- Inclusion of a component as part of the entity.

Note 12: The Financial Reporting Entity

The University of North Texas Health Science Center at Fort Worth, Texas College of Osteopathic Medicine Foundation, Incorporated (Foundation) is a non-profit organization with the sole purpose of supporting the educational and other activities of UNTHSC. The Foundation solicits donations and acts as coordinator of gifts made by other parties. The financial operations of the Foundation are overseen by a 25 member board of community business leaders, elected for a three year term, which includes the four Alumni Association/Society presidents during their respective terms of office. The Executive Director, who is appointed by the Board and approved by the President of UNTHSC, is also the Vice President of Development. The financial records of the Foundation are maintained by UNTHSC. The activity for the Foundation is reported in UNTHSC's agency funds.

Note 13: Employees Retirement Plans

The State of Texas has joint contributory retirement plans for substantially all its employees. One of the primary plans in which UNTHSC participates is administered by the Teacher Retirement System of Texas (TRS). TRS does not separately account for each of its component government agencies since it bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. Annual financial reports prepared by TRS include audited financial statements and actuarial assumptions and conclusions. The contributory percentages currently provided by the State and by each participant are 6.58 percent and 6.40 percent, respectively, of annual compensation.

For the fiscal year 2009, the State's contributions on behalf of UNTHSC were $1,291,198. UNTHSC's contributions were $1,409,385.

The State has also established an optional retirement program for institutions of higher education. Participation in the optional retirement program (ORP) is in lieu of participation in TRS. The ORP provides for the purchase of annuity contracts. The contributory percentages on salaries for participants entering the ORP prior to September 1995 are 8.5% and 6.65% by the State and each participant, respectively. The State's contribution is comprised of 6.40% from the ORP appropriation and 2.10% from other funding sources. The 6.40% contribution is mandatory with the 2.10% contribution being at the discretion of the Board of Regents (Board). The Board has approved the additional contribution for the employees of UNTHSC. The contributory percentages on salaries for participants entering the program after August 31, 1995 are 6.58% and 6.65% by the State and each participant, respectively. The State's contribution is comprised of 6.40% from the ORP appropriation and the .18% from other funding sources. Since these are individual annuity contracts, the State has no additional or unfunded liability for this program.

For the fiscal year 2009, UNTHSC's matching contributions for the ORP were $3,159,298.

Note 14: Deferred Compensation

UNTHSC employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in the Texas Government Code, Section 609.001. Two plans are available for UNTHSC employees' elective deferred compensation. The 457 plan is administered by the Employees Retirement System of Texas (ERS), and the 403(b) Tax Deferred Annuity (TDA) plan is administered by the UNT System.

All employees eligible for the Group Benefits Plan (GBP) administered by ERS are eligible to participate in the 457 plan. Any employee who is not employed in a student status is eligible to participate in a TDA. The individual deductions, purchased investments and earnings attributed to each employee's TDA account are held by vendors chosen by the employee from a group of approved vendors certified by the plan administrator. The TDA vendors offer annuity and mutual fund investment options approved by the plan administrator. The assets of these elective deferral plans do not belong to UNTHSC nor the State and are considered the employee's personal assets subject to applicable IRS codes.

Note 15: Donor Restricted Endowments

Expenditure of an endowment is not permitted without express consent of the donor.

Investment earnings on endowments that were available for spending were as follows:

Unrestricted			Restricted		
09/01/08	08/31/09		09/01/08	08/31/09	
$ 210,941	$ 218,470	*	$ 416,148	$ 431,262	**

* The unexpended portion resides in the SNA as Unrestricted Net Assets

** The unexpended portion resides in the SNA as Restricted, Unexpendable, Other Net Assets

UNTHSC does not have a specific policy for authorizing and spending investment income; the accounts must meet the authorities for spending as with all accounts.

UNTHSC's endowments are invested with TexPool; no fair market gains or losses were realized in fiscal year 2009.

Investment authority is granted to UNTHSC by Texas Property Code 163.005. The code section states as follows:

"163.005. INVESTMENT AUTHORITY. In addition to an investment authorized by other law or by the applicable gift instrument, and without restriction to investments a fiduciary may make, the governing board, subject to any specific limitations in the applicable gift instrument or the applicable law other than law relating to investments by a fiduciary, may:

(1) invest an institutional fund in any real or personal property, including mortgages, stocks, bonds, debentures, and other securities of profit or nonprofit corporations, shares in or obligations of associations, partnerships, or individuals, and obligations of any governmental entity, whether or not the property produces a current return;
(2) retain property contributed by a donor to an institutional fund;
(3) include all or any portion of an institutional fund in a pooled or common fund maintained by the institution; and
(4) invest all or any portion of an institutional fund in a pooled or common fund, including shares or interests in regulated investment companies, mutual funds, common trust funds, investment partnerships, real estate investments trusts, or similar organizations in which funds are commingled and investment determinations are made by persons other that the governing board. Added by Acts 1989, 71st Leg., ch. 213, 1, eff. May 26, 1989."

Note 16: Post-Employment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health and life insurance benefits for retired employees, in accordance with state statutes. Substantially all of the employees may become eligible for the health and life insurance benefits if they reach normal retirement age while working for the State. Currently, there are 947 retirees who are eligible for these benefits. Similar benefits for active employees are provided through a self-funded plan and fully insured plans.

Depending upon the status of the employee at the time of retirement, the State or the System recognizes the cost of providing these benefits. The cost of retiree post-employment benefits is recognized when paid. This contribution paid all of the "employee/retiree only" premiums and a portion of the premiums for those employees/retirees selecting dependent coverage. The employee/retiree was required to pay a portion of the cost of dependent coverage. For the fiscal year ended August 31, 2009, the cost of providing those benefits for the retirees was $1,101,703 for the State and $236,834 for UNTHSC.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires accrual-based measurement, recognition and disclosure of other post-employment benefits (OPEB) expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of plan assets. UNTHSC's benefit liability is included in that of the ERS. As a result, this liability will be reported in the ERS financial statements.

State Auditor's Office
John Keel, CPA
State Auditor

January 22, 2010

Dr. Scott B. Ransom, President
The University of North Texas Health Science Center at Fort Worth
3500 Camp Bowie Blvd
Fort Worth, TX 76107

Subject: Management Letter Resulting from a Review of the University of North Texas Health Science Center at Fort Worth's Fiscal Year 2009 Financial Statements

Dear Dr. Ransom:

We offer this management letter in conjunction with our review of the financial statements of the University of North Texas Health Science Center at Fort Worth (Health Science Center) for the fiscal year ended August 31, 2009. We reviewed the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; the Statement of Cash Flows; and the Notes to the Financial Statements. In the course of our review, which was substantially less in scope than an audit, we did not find that material modifications needed to be made to the financial statements in order for them to be in conformity with generally accepted accounting principles.

We appreciate the assistance provided during this review by the management of the Health Science Center and Internal Audit. If you have any questions, please call me at (512) 936-9500.

Sincerely,

Sandra Vice, CGAP, CIA, CISA
Assistant State Auditor

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Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Joe Straus III, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas "Tommy" Williams, Member, Texas Senate
The Honorable Jim Pitts, House Appropriations Committee
The Honorable Rene Oliveira, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor