State Auditor's Office

John Keel, CPA
State Auditor

Accreditation Reviews Fiscal Year 2011

March 2012

Report No. 12-023

Introduction

The State Auditor's Office completed accreditation reviews of five higher education institutions' fiscal year 2011 financial statements:

- Lamar State College - Port Arthur.
- Texas A&M University, including Texas A&M University at Galveston.
- Texas A&M University System Health Science Center.
- Texas State Technical College - Waco.
- University of Houston - Clear Lake.

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

- *Independent Accountant's Review Report.*
- A management letter.

A review includes primarily applying analytical procedures to an institution's financial data and making inquiries of institution personnel. A review is substantially less in scope than an audit, the objective of which is to express an opinion regarding the financial statements as a whole. Accordingly, the State Auditor's Office did not express such opinions.

Lamar State College
Port Arthur

A Member of The Texas State University System

Southern Association of Colleges and Schools Review

Financial Statements and Independent Accountant's Review Report

For the Year Ended

August 31, 2011

Lamar State College
Port Arthur

SACS Review

Financial Statements and Independent Accountant's Review Report
For the Year Ended August 31, 2011

LAMAR STATE COLLEGE PORT ARTHUR

TABLE OF CONTENTS

	Page
Independent Accountant's Review Report	1
Lamar State College Port Arthur Financial Report (prepared in accordance with SACS Criteria for Accreditation)	
Statement of Net Assets at August 31, 2011	2
Statement of Revenues, Expenses, and Changes in Net Assets for the Fiscal Year Ended August 31, 2011	4
Statement of Cash Flows for the Fiscal Year Ended August 31, 2011	6
Notes to the Financial Statements for the Fiscal Year Ended August 31, 2011	8
Schedule of Changes in Unrestricted Net Assets	20
Management Letter	21

State Auditor's Office
John Keel, CPA
State Auditor

Independent Accountant's Review Report

Dr. W. Sam Monroe, President
Lamar State College – Port Arthur
Port Arthur, TX

We have reviewed the accompanying Statement of Net Assets of Lamar State College – Port Arthur (College) as of August 31, 2011, and the related Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows for the year then ended. A review includes primarily applying analytical procedures to the College's financial data and making inquiries of College personnel. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

College management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

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 accounting principles generally accepted in the United States of America.

Our review was made for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The Schedule of Changes in Unrestricted Net Assets is presented only for the purpose of additional analysis at the request of the Southern Association of Colleges and Schools' Commission on Colleges as part of its core requirements for accreditation and has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements. This schedule is the representation of management, without audit or review, and we do not express an opinion or provide any assurance on it.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Although not a part of the basic financial statements, this information is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. The results of our review of the basic financial statements are not affected by this missing information.

John Keel, CPA
State Auditor

March 5, 2012

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Lamar State College Port Arthur

Statement of Net Assets

At August 31, 2011
(See Independent Accountant's Review Report on page 1)

ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 3)	$	5,283,343
Restricted:		
Cash and Cash Equivalents (Note 3)		679,882
Legislative Appropriations		2,296,121
Receivables, Net of Allowances:		
Federal (Note 14)		785,510
Student Receivables		1,292,305
Due from Other State Entities (Note 7)		1,000
Prepaid Expenses		365,028
Total Current Assets	$	10,703,189
Non-Current Assets		
Restricted:		
Cash and Cash Equivalents (Note 3)	$	970,684
Loans and Contracts		253,040
Capital Assets (Note 2):		
Non-Depreciable		1,781,923
Depreciable		39,578,594
Less: Accumulated Depreciation		(21,743,145)
Total Non-Current Assets	$	20,841,096
Total Assets	$	31,544,285

Lamar State College Port Arthur

Statement of Net Assets

At August 31, 2011
(See Independent Accountant's Review Report on page 1)

LIABILITIES		
Current Liabilities		
Payables:		
Accounts	$	649,121
Payroll		927,543
Due to Other State Entities (Note 7)		161,662
Deferred Revenue		3,674,165
Employees' Compensable Leave (Note 4)		335,224
Other Current Liabilities (Note 14)		17,135
Total Current Liabilities	$	5,764,850
Non-Current Liabilities		
Employees' Compensable Leave (Note 4)	$	223,483
Other Non-Current Liabilities (Note 14)		34,789
Total Non-Current Liabilities	$	258,272
Total Liabilities	$	6,023,122
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$	19,617,372
Restricted for:		
Expendable		
Capital Projects		705,100
Funds Functioning as Endowments		1,062,815
Other		1,651,793
Unrestricted		2,484,083
Total Net Assets	$	25,521,163

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

Lamar State College Port Arthur

Statement of Revenues, Expenses, and Changes in Net Assets

For the Fiscal Year Ended August 31, 2011
(See Independent Accountant's Review Report on page 1)

OPERATING REVENUES		
Tuition and Fees - Pledged	$	8,153,111
Discounts and Allowances		(3,208,555)
Auxiliary Enterprises - Pledged		76,689
Other Sales of Goods and Services - Pledged		203,385
Federal Revenue		487,229
State Grant Revenue		1,550,229
Other Operating Grant Revenue		7,682
Other Operating Revenues		135,756
Total Operating Revenues	$	7,405,526
OPERATING EXPENSES		
Salaries and Wages	$	10,971,747
Payroll Related Costs		3,239,884
Professional Fees and Services		671,279
Travel		307,510
Materials and Supplies		842,955
Communications and Utilities		877,088
Repairs and Maintenance		595,651
Rentals and Leases		103,972
Printing and Reproduction		53,893
Depreciation and Amortization		1,342,370
Bad Debt Expense		13,982
Interest Expense		2
Scholarships		3,624,612
Other Operating Expenses		1,300,020
Total Operating Expenses	$	23,944,965
Operating Income (Loss)	$	(16,539,439)

Lamar State College Port Arthur

Statement of Revenues, Expenses, and Changes in Net Assets

For the Fiscal Year Ended August 31, 2011
(See Independent Accountant's Review Report on page 1)

NONOPERATING REVENUES (EXPENSES)		
Legislative Appropriations	$	11,008,345
Gifts		487,566
Interest and Investment Income (Loss)		25,235
Other Nonoperating Revenues - Non-Pledged		4,821,947
Total Nonoperating Revenues (Expenses)	$	16,343,093
Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers	$	(196,346)
OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS		
Capital Appropriations (HEAF)	$	1,244,694
Transfers Out to Other State Entities (Note 7)		(101,059)
Legislative Transfers Out (Note 7)		(904,310)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	$	239,325
CHANGE IN NET ASSETS	$	42,979
Net Assets, September 1, 2010	$	25,519,300
Restatements (Note 10)		(41,116)
Net Assets, September 1, 2010, as Restated	$	25,478,184
NET ASSETS, August 31, 2011	$	25,521,163

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

Lamar State College Port Arthur

Statement of Cash Flows

For the Fiscal Year Ended August 31, 2011
(See Independent Accountant's Review Report on page 1)

CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Tuition and Fees	$	5,245,151
Receipts from Customers		203,385
Proceeds from Auxiliaries		76,689
Proceeds from Other Revenues		1,863,213
Payments to Suppliers for Goods and Services		(8,351,384)
Payments to Employees for Salaries		(10,916,069)
Payments to Employees for Benefits		(3,263,873)
Net Cash Provided (Used) by Operating Activities	$	(15,142,888)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Legislative Appropriations	$	12,253,039
Proceeds from Gifts		487,566
Proceeds from Other Sources		4,821,947
Payments for Transfers to Other Entities		(94,399)
Net Cash Provided (Used) by Non-Capital Financing Activities	$	17,468,153
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments for Additions to Capital Assets	$	(2,412,565)
Payments of Principal on Capital-Related Debt		(648,623)
Payments of Interest on Capital-Related Debt		(262,347)
Net Cash Provided (Used) by Capital and Related Financing Activities	$	(3,323,535)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Interest and Investment Income	$	25,235
Net Cash Provided (Used) by Investing Activities	$	25,235
Net Increase (Decrease) in Cash and Cash Equivalents	$	(973,035)
Cash and Cash Equivalents, September 1, 2010	$	7,906,944
Cash and Cash Equivalents, August 31, 2011	$	6,933,909

Lamar State College Port Arthur

Statement of Cash Flows

For the Fiscal Year Ended August 31, 2011
(See Independent Accountant's Review Report on page 1)

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

Operating Income (Loss)	$	(16,539,439)
Adjustments:		
Depreciation and Amortization	$	1,342,370
Bad Debt Expense		13,982
Operating Income and Cash Flow Categories:		
Classification Differences		2,715
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		(192,154)
(Increase) Decrease in Due from Other Entities		12,000
(Increase) Decrease in Prepaid Expenses		(365,028)
(Increase) Decrease in Loans and Contracts		(110,882)
Increase (Decrease) in Payables		402,124
Increase (Decrease) in Due to Other Entities		(12,777)
Increase (Decrease) in Deferred Revenue		273,945
Increase (Decrease) in Employees' Compensable Leave		(23,988)
Increase (Decrease) in Other Liabilities		54,244
Total Adjustments	$	1,396,551
Net Cash Provided (Used) by Operating Activities	$	(15,142,888)
Non-Cash Transactions	$	-

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

General Introduction
This report has been prepared in connection with the review of Lamar State College Port Arthur (the College). This report includes a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; a Statement of Cash Flows; and these related Notes to the Financial Statements.

Reporting Entity
The College is a component of the Texas State University System (System) and an agency of the State of Texas. The College 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 College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College'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.

Assets, Liabilities, and Fund Balances/Net Assets
Assets
Cash and Cash Equivalents
Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents.

Investments
Investments are stated in accordance with GASB Statement 31-*Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Receivables

Receivables consist of tuition and fees charged to students and auxiliary enterprise services provided to students, faculty and staff. Receivables also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts.

Restricted Assets

Restricted assets include cash and investments that are externally restricted to make debt services payments, maintain sinking or reserve funds, or to purchase or construct capital or other non-current assets, imposed by donor restrictions or by law through constitutional provisions or enabling legislation.

Prepaid Items

The consumption method of accounting is used to account for prepaid items. The cost of these items is expensed when the items are consumed.

Capital Assets

Equipment with an initial, individual cost of $5,000 or more and an estimated useful life in excess of one year is capitalized. Capitalization thresholds for buildings, building improvements, facilities and other improvements are $100,000. The capitalization threshold for infrastructure is $500,000. These assets are capitalized at cost or, if not purchased, at appraised fair value on the date of acquisition. Routine repairs and maintenance and capital assets acquired for less than the threshold amounts are charged to operating expense in the year in which the expense was incurred. All land, land improvements, library books and materials, and works of art are capitalized. Depreciation is reported on all "exhaustible" assets. "Inexhaustible" assets such as works of art and historical treasures are not depreciated. Assets are depreciated over the estimated useful life of the asset using the straight-line method of depreciation.

Deprecation of capital assets is recorded as a periodic expense and accumulated as an offset to the asset book values. Depreciation of capital assets is based on allocation methods and estimated lives prescribed by the Statewide Property Accounting (SPA) system as summarized below:

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Capital Assets Category	Useful Life
Buildings and Building Improvements	22-30 years
Infrastructure	20 years
Facilities and other Improvements	10-23 years
Furniture and Equipment	3-15 years
Vehicles	5-7 years
Software	5 years

Liabilities

Accounts Payable

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

Deferred Revenue

Deferred revenues include amounts received from students and grant contract sponsors that have not yet been earned.

Employees' Compensable Leave Balances

Employees' Compensable Leave Balances represent the liability that becomes "due" upon the occurrence of relevant events such as resignation, retirements, and uses of leave balances by covered employees. Liabilities are reported separately as either current or noncurrent in the statement of net assets.

Net Assets

Invested in Capital Assets, Net of Related Debt

Invested in capital assets, net of related debt, if any, consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances, if any, for bond, 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.

Revenue and Expense

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 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.* 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, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments,* and GASB Statement No. 42. 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, 34, and 42.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the College addresses each situation on a case-by-case basis prior to determining the resources to be used to satisfy the obligation. Generally, the College's policy is to first apply the expense towards restricted resources and then towards unrestricted resources.

Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2011 is presented below:

Capital Assets	Beginning Balance	Adjustments/ Reclass	Additions	Deletions	Ending Balance
Non Depreciable Assets					
Land	$ 1,781,923	$ -	$ -	$ -	$ 1,781,923
Construction In Progress	142,086	(2,118,827)	1,976,741	-	-
Total Non-Depreciable Assets	$ 1,924,009	$ (2,118,827)	$ 1,976,741	$ -	$ 1,781,923
Depreciable Assets					
Buildings	$ 29,963,427	$ 2,118,827	$ -	$ -	$ 32,082,254
Furniture and Equipment	2,668,573	-	360,905	(160,189)	2,869,289
Fleet Vehicles	261,973	-	-	(43,763)	218,210
Other Assets	2,507,283	-	74,918	-	2,582,201
Facilities and Other Improvements	1,826,640	-	-	-	1,826,640
Total Depreciable Assets at Historical Costs	$ 37,227,896	$ 2,118,827	$ 435,823	$ (203,952)	$ 39,578,594
Less: Accumumulated Depreciation for:					
Buildings	$ (16,172,510)	$ -	$ (930,313)	$ -	$ (17,102,823)
Furniture and Equipment	(2,043,326)	-	(179,441)	157,474	(2,065,293)
Fleet Vehicles	(180,592)	-	(13,024)	43,763	(149,853)
Other Assets	(1,680,532)	-	(160,113)	-	(1,840,645)
Facilities and Other Improvements	(525,052)	-	(59,479)	-	(584,531)
Total Accumulated Depreciation	$ (20,602,012)	$ -	$ (1,342,370)	$ 201,237	$ (21,743,145)
Depreciable Assets, Net	16,625,884	2,118,827	(906,547)	(2,715)	17,835,449
Total Capital Assets	$ 18,549,893	$ -	$ 1,070,194	$ (2,715)	$ 19,617,372

Note 3: Deposits, Investments, and Repurchase Agreements

The College is authorized by the Texas Education Code, Title III, Chapter 51.003 and 51.0031, to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec. 2256.001 Texas Government Code). 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 of Cash in Bank

	Carrying Amount	Bank Balance		
The carrying amount of Cash in Bank				
(Including restricted assets) is	$ 1,585,466			
At August 31, 2011, the actual balances on				
deposit with local banks were		$ 2,419,847		
Cash on Hand			$	620
Cash in Bank				1,585,466
Reimbursement Due from Treasury				
Cash in State Treasury				1,125,940
Cash Equivalents-TexPool				4,221,883
Total Cash and Cash Equivalents			$	6,933,909
Current Assets Cash and Cash Equivalents			$	5,283,343
Current Assets Restricted Cash and Cash Equivalents				679,882
Non-Current Assets Restricted Cash and Cash Equivalents				970,684
Total Cash and Cash Equivalents			$	6,933,909

These amounts consist of all cash in local banks and short-term investments at Texpool. These amounts are included on the Statement of Net Assets as part of the "cash and cash equivalents" accounts.

Custodial credit risk for deposits is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its deposits that are in the possession of an outside party. The College's policy is that all deposits are governed by a bank depository agreement between the College and the respective banking institution. This agreement provides that the College'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 equivalent by a nationally recognized rating organization or a combination thereof. As of August 31, 2011, there was $2,456,025 in securities pledged to collateralize $2,169,847 in deposits over the $250,000 FDIC limit. The College has no risk of exposure since the collateral is held by the bank's trust department in the College's name.

Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not be able to fulfill its obligations. The College follows the investment policy approved by the Texas State University System which is in compliance with the Public Funds Investment Act. The College's board adopted investment policy limits short term operating funds investments to public funds government pools continuously rated AAA by at least one nationally recognized rating service. As of August 31, 2011, short term operating fund investments were with an eligible AAAm rated local government investment pool.

Note 4: Long-Term Liabilities

Employee Compensable Leave
Substantially all full-time College 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 College'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.

	9/1/2010	Additions	Reductions	8/31/2011	Within One Year
Employee Compensable Leave	$ 582,696	$ 364,488	$ 388,477	$ 558,707	$ 335,224

Note 5: Bonded Indebtedness

The College 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 College disburses funds to the System for payments of principal and interest related to the College's share of bond proceeds. These disbursements are recorded as transfers to the System. At August 31, 2011, the System had outstanding bonds payable of $776,885,000. All bonds issued by the System are defined as revenue bonds. As such, the revenues of the System, including the College, 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 College's financial statements as the System is the party directly liable for these bonds. At August 31, 2011, however, the College's remaining unpaid share of the bond proceeds was $7,159,982.

Note 6: Operating Lease Obligations

Included in operating expenses is $52,496 rent paid or due under operating leases.

There are no future minimum lease rental payments under non-cancellable operating leases having an initial term in excess of one year.

Note 7: Interagency Balances and Transactions

The College experienced routine transfers with other state agencies, which were consistent with the activities of the fund making the transfer. Repayment of interagency balances will occur within one year from the date of the financial statement.

Individual balances and activity at August 31, 2011 follows:

DUE FROM/TO OTHER STATE ENTITIES

Entity	Due from Other State Entities	Due to Other State Entities	Purpose
Lamar University	$ 1,000	$ 161,662	Eber Ephlin Loan Fund
	$ 1,000	$ 161,662	

TRANSFERS IN FROM/OUT TO OTHER STATE ENTITIES

Entity	Transfers In from Other State Entities	Transfers Out to Other State Entities	Purpose
TX State University System	$ -	$ 6,660	Local Funds Debt Service
TX State University System	-	94,399	Payments to Systems Office-Component Charges
	$ -	$ 101,059	

LEGISLATIVE TRANSFERS IN/OUT

Entity	Legislative Transfers In	Legislative Transfers Out	Purpose
TX State University System	$ -	$ 904,310	TRB Debt Service Payment
	$ -	$ 904,310	

Note 8: Risk Financing and Related Insurance

The State provides coverage for workers' compensation and unemployment compensation benefits from appropriations made to other State agencies for College employees. The current General Appropriations Act provides that the College must reimburse General Revenue Fund-Consolidated, from the College’s appropriations, one-half of the unemployment benefits paid and twenty-five percent of the worker's compensation benefits paid for current and former employees. The Comptroller of Public Accounts determines the proportionate amount to be reimbursed from each fund type. The College must reimburse the General Revenue Fund one hundred percent of the cost for worker's compensation and employment compensation for any employees paid from funds held in local bank accounts. Workers' compensation and unemployment plans are on a pay-as-you-go basis, in which no assets are set aside to be accumulated for the payment of claims. No material outstanding claims are pending at August 31, 2011.

The College is required by certain bond covenants and FEMA to carry Fire and Extended Coverage and Boiler insurance on buildings financed through the issuance of bonds using pledged Auxiliary Enterprise or other non-Educational and General Funds. 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 insurance claims were made during the fiscal year ended August 31, 2011.

The Texas Motor Vehicle Safety Responsibility Act requires that every non-governmental vehicle operated on a state highway be insured for minimum limits of liability in the amount of $20,000/$40,000 bodily injury and $15,000 property damage. However, the institution has chosen to carry liability insurance on their licensed vehicles in the amount of $1,000,000 combined single amount, the extent of the waivers of state immunity in the tort claims act.

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

The College assumes substantially all risks associated with tort and liability claims due to the performance of its duties. Currently there is no purchase of commercial insurance, nor is the College involved in any risk pool with other government entities for these risks.

Note 9: Stewardship, Compliance, and Accountability

The College has no material violations of finance related and contract provisions and no new component units are included in the financial report. Per the laws of the State of Texas, the College cannot spend amounts in excess of appropriations granted by the Texas Legislature and there are no deficits reported in net assets.

Note 10: Restatement of Net Assets

Net assets were restated in error by the State Comptroller in the amount of $41,116 as of August 31, 2010. The beginning balance was adjusted for a receivable from the Texas Higher Education Coordinating Board that had already been received by the College at the end of Fiscal Year 2010. The restatement corrects this adjustment made by the State Comptroller.

Restatement:

Net Assets, September 1, 2010	$	25,519,300
Restatements:		
(a) Incorrect Comptroller Adjustment to FY2010 Financial Statements		(41,116)
Total Restatements		(41,116)
Net Assets, September 1, 2010, as Restated	$	25,478,184

Note 11: 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 College participates is a defined benefit pension plan administered by the Teacher Retirement System of Texas (Retirement System). The contributory percentages currently provided by the State and by each participant are 6.644 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. 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. (www.trs.state.tx.us)

The State has also established an Optional Retirement Program for institutions of higher education. Participation in the Optional Retirement Program, a defined contribution plan, 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 6.4 percent contributed by the State and an additional 2.1 percent contributed by the College. For participants who enrolled after September 1, 1995, State and participant contributions are 6.4 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 College bears no responsibility for retirement commitments beyond contributions.

The retirement expense to the College was $812,384 for the year ended August 31, 2011. Of this amount, $541,858 represents the portion of appropriations made by the State Legislature expended on behalf of the College and $270,526 represents the portion paid from the College's funds.

Note 12: Deferred Compensation Program

College 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 State's 457 Plan complies with the Internal Revenue Code (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 an employer-sponsored plan administered by the Employees Retirement System of Texas (ERS). The College's employees are permitted to participate in the plan as an agency of the State. The deductions, purchased investments and earnings contributed to the 457 Plan are held in trust and belong to the participants. The State has no liability under the 457 Plan beyond the administrative requirements outlined in the corresponding provisions of the IRC.

The College 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 College, and thus it does not have a liability related to this plan.

Note 13: 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 57 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 pays 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, 2011, the cost of providing those benefits for the retirees was $239,546 for the State and $55,453 for the College.

Note 14: Disaggregation of Receivable and Other Current/Non-Current Liability Balances

Current Federal Receivables and Other Current and Non-Current Liabilities as of August 31, 2011 are comprised of the following:

A.	Federal Receivable		
	Scholarship	$	731,653
	Instruction	$	53,857
		$	785,510
B.	Other Current Liabilities		
	Refundable Student Deposit	$	17,135
C.	Other Non-Current Liabilities		
	Refundable Student Deposit	$	34,789

Lamar State College Port Arthur

Schedule of Changes in Unrestricted Net Assets

For the Fiscal Year Ended August 31, 2011

	8/31/2011	8/31/2010	Difference
Reserved			
Higher Education Assistance Funds	$ 1,491,858	$ 1,085,917	$ 405,941
Fees with Use Restricted by Statute:			
Student Service Fees (54.503)	228,599	-	228,599
Petty Cash	620	620	-
Texas Public Education Grants	363,465	175,014	188,451
Unreserved			
Unallocated	399,541	279,387	120,154
Total Unrestricted Net Assets	$ 2,484,083	$ 1,540,938	$ 943,145

State Auditor's Office
John Keel, CPA
State Auditor

March 5, 2012

Dr. W. Sam Monroe, President
Lamar State College – Port Arthur
P.O. Box 310
Port Arthur TX, 77641-0310

Subject: Management Letter Resulting from a Review of Lamar State College – Port Arthur's Fiscal Year 2011 Financial Statements

Dear Dr. Monroe:

We offer this management letter in conjunction with our review of the financial statements of Lamar State College – Port Arthur (College) as of and for the fiscal year ended August 31, 2011, on which we have issued our report dated March 5, 2012. We reviewed the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. 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 accounting principles generally accepted in the United States of America.

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

Sincerely,

Sandra Vice

Sandra Vice, CIA, CGAP, CISA
Assistant State Auditor

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Texas A&M University,
including Texas A&M University at Galveston

Contents

Independent Accountant's Review Report 1

Texas A&M University, including Texas A&M University at Galveston, Financial Report (prepared in accordance with SACS Criteria for Accreditation)

Statement of Net Assets at August 31, 2011 2

Statement of Revenues, Expenses and Changes in Net Assets for the Fiscal Year Ended August 31, 2011 4

Statement of Cash Flows for the Fiscal Year Ended August 31, 2011 6

Notes to the Financial Statements for the Fiscal Year Ended August 31, 2011 8

Schedule of Changes in Unrestricted Net Assets for the Fiscal Year Ended August 31, 2011 29

Management Letter ***30***

State Auditor's Office
John Keel, CPA
State Auditor

Independent Accountant's Review Report

Dr. R. Bowen Loftin, President
Texas A&M University
College Station, TX

We have reviewed the accompanying Statement of Net Assets of Texas A&M University (University), including Texas A&M University at Galveston, as of August 31, 2011, and the related Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows for the year then ended. A review includes primarily applying analytical procedures to the University's financial data and making inquiries of University personnel. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

University management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

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 accounting principles generally accepted in the United States of America.

Our review was made for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The Schedule of Changes in Unrestricted Net Assets is presented only for the purpose of additional analysis at the request of the Southern Association of Colleges and Schools' Commission on Colleges as part of its core requirements for accreditation and has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements. This schedule is the representation of management, without audit or review, and we do not express an opinion or provide any assurance on it.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Although not a part of the basic financial statements, this information is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. The results of our review of the basic financial statements are not affected by this missing information.

John Keel, CPA
State Auditor

February 13, 2012

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SAO Report No. 12-323

Texas A&M University, including Texas A&M University at Galveston

Statement of Net Assets

At August 31, 2011

(See Independent Accountant's Review Report on page 1.)

ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 3)	$	158,126,348
Restricted:		
Cash and Cash Equivalents (Note 3)		17,928,246
Legislative Appropriations		5,206,466
Receivables, Net of Allowances: (Note 19)		
Federal		11,028,713
Accounts		33,120,221
Student Accounts		16,306,475
Gifts		26,744,206
Other		200,000
Due from Other State Entities (Note 8)		96,209,917
Consumable Inventories		13,374,581
Merchandise Inventories		3,504,565
Loans and Contracts		13,354,671
Other Current Assets		46,264,719
Total Current Assets	$	441,369,128
Non-Current Assets		
Restricted:		
Investments (Note 3)	$	382,730,278
Gifts Receivable		72,967,093
Investments (Note 3)		790,270,686
Loans and Contracts		18,002,405
Capital Assets: (Note 2)		
Non-Depreciable		126,562,098
Depreciable		2,626,625,655
Less: Accumulated Depreciation		(1,523,493,444)
Intangible		39,909,684
Less: Accumulated Amortization		(26,869,788)
Total Non-Current Assets	$	2,506,704,667
Total Assets	$	2,948,073,795
LIABILITIES		
Current Liabilities		
Payables: (Note 19)		
Accounts	$	25,069,639
Payroll		48,687,571
Other		10,974,068
Due to Other State Entities (Note 8)		34,539,112
Deferred Revenue		236,908,315
Capital Lease Obligations (Note 5)		361,134

Employees' Compensable Leave (Note 5)		2,989,375
Funds Held for Others (Note 5)		8,220,496
Other Current Liabilities		9,471,913
Total Current Liabilities	$	377,221,623
Non-Current Liabilities		
Capital Lease Obligations (Note 5)	$	2,062,393
Employees' Compensable Leave (Note 5)		43,864,685
Other Non-Current Liabilities (Note 5)		19,932,625
Total Non-Current Liabilities	$	65,859,703
Total Liabilities	$	443,081,326
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$	1,223,544,705
Restricted for:		
Non-Expendable		
Permanent Funds, True Endowments, Annuities		219,019,190
Expendable		
Capital Projects		72,115,308
Education		146,732,712
Term Endowments		64,733,248
Unrestricted		778,847,306
Total Net Assets	$	2,504,992,469

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

Texas A&M University, including Texas A&M University at Galveston

Statement of Revenues, Expenses, and Changes in Net Assets

For the Fiscal Year Ended August 31, 2011

(See Independent Accountant's Review Report on page 1.)

OPERATING REVENUES		
Tuition and Fees - Non-Pledged	$	14,564,891
Tuition and Fees - Pledged		460,688,633
Discounts and Allowances		(117,370,888)
Auxiliary Enterprises - Pledged		184,761,941
Discounts and Allowances		(15,802,385)
Other Sales of Goods and Services - Non-Pledged		4,372,143
Other Sales of Goods and Services - Pledged		109,837,223
Interest Revenue		1,491,076
Federal Revenue		86,411,526
State Grant Revenue		30,080,743
Other Operating Grant Revenue		103,702,735
Other Operating Revenues		18,904,987
Total Operating Revenues	$	881,642,625
OPERATING EXPENSES		
Cost of Goods Sold	$	12,050,004
Salaries and Wages		657,422,107
Payroll Related Costs		138,987,483
Professional Fees and Services		79,319,106
Travel		27,141,848
Materials and Supplies		75,741,007
Communications and Utilities		76,069,278
Repairs and Maintenance		37,126,337
Rentals and Leases		14,902,737
Printing and Reproduction		4,073,265
Depreciation and Amortization		96,592,302
Bad Debt Expense		16,864
Interest Expense		11,080
Scholarships		52,868,988
Other Operating Expenses		40,745,562
Total Operating Expenses	$	1,313,067,968
Operating Loss	$	(431,425,343)
NONOPERATING REVENUES (EXPENSES)		
Legislative Appropriations	$	320,755,279
Federal Revenue		42,847,295
Gifts		120,754,618
Interest and Investment Income		20,285,242
Investing Activities Expense		(2,676,287)
Net Increase in Fair Value of Investments		75,276,015
Land Income		2,832,150

Interest Expense and Fiscal Charges		(278,834)
Loss on Sale of Capital Assets		(487,969)
Claims and Judgments		(50,292)
Other Nonoperating Revenues - Pledged		1,788,794
Other Nonoperating Expenses		(11,065,276)
Total Nonoperating Revenues (Expenses)	$	569,980,735
Income Before Other Revenues, Expenses, Gains (Losses), and Transfers	$	138,555,392
OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS		
Capital Contributions	$	6,004,039
Additions to Permanent and Term Endowments		302,656
Transfers In from Other State Entities (Note 8)		255,848,470
Transfers Out to Other State Entities (Note 8)		(116,384,997)
Legislative Transfers Out (Note 8)		(11,091,552)
Legislative Appropriations Lapsed		(184,223)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	$	134,494,393
CHANGE IN NET ASSETS	$	273,049,785
Net Assets, September 1, 2010	$	2,093,862,420
Restatements (Note 14)		138,080,264
Net Assets, September 1, 2010, as Restated	$	2,231,942,684
NET ASSETS, August 31, 2011	$	2,504,992,469

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

Texas A&M University, including Texas A&M University at Galveston

Statement of Cash Flows

For the Fiscal Year Ended August 31, 2011
(See Independent Accountant's Review Report on page 1.)

CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Tuition and Fees	$	384,530,796
Receipts from Customers		121,094,530
Proceeds from Research Grants and Contracts		266,505,090
Proceeds from Loan Programs		1,689,002
Proceeds from Auxiliaries		171,300,099
Proceeds from Other Revenues		19,991,378
Payments to Suppliers for Goods and Services		(374,103,685)
Payments to Employees for Salaries		(654,112,358)
Payments to Employees for Benefits		(136,559,917)
Payments for Loans Provided		(1,067,706)
Payments for Other Expenses		(70,692,020)
Net Cash Used by Operating Activities	$	(271,424,791)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Legislative Appropriations	$	336,374,466
Proceeds from Gifts		77,512,326
Proceeds from Endowments		302,656
Proceeds of Transfers from Other Entities		84,739,170
Proceeds from Other Grant Revenues		60,504,731
Proceeds from Other Sources		6,001,714
Payments for Transfers to Other Entities		(4,821,828)
Payments for Other Uses		(476,939)
Net Cash Provided by Non-Capital Financing Activities	$	560,136,296
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Disposal of Capital Assets	$	576,328
Proceeds of Transfers from Other Entities		6,530,664
Payments for Additions to Capital Assets		(51,231,326)
Payments of Principal on Capital-Related Debt		(529,962)
Payments of Interest on Capital-Related Debt		(278,834)
Payments for Transfers to Other Entities		(93,552,214)
Net Cash Used by Capital and Related Financing Activities	$	(138,485,344)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Interest and Investment Income	$	17,608,955
Payments to Acquire Investments		(68,260,268)
Net Cash Used by Investing Activities	$	(50,651,313)
Net Increase in Cash and Cash Equivalents	$	99,574,848
Cash and Cash Equivalents, September 1, 2010	$	76,479,746

Cash and Cash Equivalents, August 31, 2011	$	176,054,594

Reconciliation of Operating Loss to Net Cash Used by Operating Activities

Operating Loss	$	(431,425,343)
Adjustments:		
Depreciation and Amortization	$	96,592,302
Bad Debt Expense		(733,984)
Changes in Assets and Liabilities:		
Decrease in Receivables		52,230,943
Decrease in Due from Other Entities		1,693,970
Increase in Inventories		(491,343)
Increase in Prepaid Expenses		(4,665,186)
Increase in Loans and Contracts		(378,611)
Increase in Other Assets		(57,878)
Increase in Payables		5,509,420
Decrease in Due to Other Entities		(43,265)
Increase in Deferred Revenue		11,403,387
Decrease in Employees' Compensable Leave		(2,220,771)
Increase in Other Liabilities		1,161,568
Total Adjustments	$	160,000,552
Net Cash Used by Operating Activities	$	(271,424,791)
Non-Cash Transactions		
Net Increase in Fair Value of Investments	$	75,276,015
Other Additions to Capital Assets		108,694,644
Disposal of Capital Assets		(1,064,297)

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

Notes to the Financial Statements for the Fiscal Year Ended August 31, 2011

(See Independent Accountant'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, including Texas A&M University at Galveston, (Texas A&M University) for accreditation purposes.

Reporting Entity

Texas A&M University is a component of the Texas A&M University System (A&M 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, Texas A&M 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

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 Statement 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 disbursement requirements.

Investments

In accordance with GASB Statement No. 31, the A&M System reports investments at fair value on the Statement of Net Assets. Fair 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 Statement 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 Statement No. 40, disclosure of carrying value of investments is no longer required.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* is effective for periods beginning in fiscal year 2010. This statement addresses the recognition, measurement and disclosure of information pertaining to derivative instruments. Most derivative instruments are required to be measured at fair value on the Statement of Net Assets. The statement also makes consideration of hedge accounting necessary. The disclosures required by GASB Statement No. 40 have been incorporated into GASB Statement No. 53.

Self-Insured Receivable

Self insured receivables represent premiums due for the A&M System self insured health and dental plans.

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. Livestock held for educational purposes is recorded at estimated fair 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 purchased, land use rights with terms, and leasehold improvements. Infrastructure has a capitalization threshold of $500,000. Internally developed software has a capitalization threshold of $1,000,000. All land, land improvements, permanent land use rights, library books/materials, museums/collections, and works of art/historical treasures are capitalized.

According to GASB Statements No. 34, No. 35, and No. 51, the A&M System is required to depreciate and amortize capital assets. 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.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* is effective for periods beginning in fiscal year 2010. This statement requires all intangible assets not specifically excluded by scope provisions to be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable.

Current Assets

On the Statement of Net Assets, items classified as current are defined as resources expected to be realized or consumed within one year.

Deferred Revenue

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.

Other Postemployment Benefits (OPEB)

Beginning with the fiscal year ended August 31, 2011, the liability and associated expenses for the A&M System's single-employer postemployment health care and life insurance benefit plan is recorded by the A&M System Offices. In accordance with GASB Statement No. 45, the OPEB liability is classified as noncurrent. Additionally, the net change in OPEB obligation has been added as a natural classification of expense, which was formerly included in the payroll related costs classification.

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 Statement No. 33, adopted by the A&M System on September 1, 2000.

Other Significant Accounting Policies

Certain operations provide goods and services to internal customers. These operations include activities such as self insured programs, repairs & maintenance, utilities, computer services, and other services with interdepartmental activities. The revenues were eliminated to the extent of expenses for these internal transactions in the Statement of Revenues, Expenses, and Changes in Net Assets to avoid inflating revenues and expenses. Receivables and payables between A&M System members were eliminated except those arising from service department operations and auxiliary enterprises, which are considered to be exchange in nature.

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.

Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2011, is presented below:

	Balance 9/1/2010	Adjustments	Completed Construction in Progress	Additions	Deductions	Balance 8/31/2011
Non-Depreciable Assets:						
Land and Land Improvements	$ 31,500,778	$ (1,938,330)	$ -	$ 3,832,479	$ (4,345)	$ 33,390,582
Construction in Progress	43,265,259	(31,852,112)	(95,423,452)	139,391,108	-	55,380,803
Library Books	10,372,639	129,490	-	943,440	-	11,445,569
Other Capital Assets	26,263,935	-	-	84,709	(3,500)	26,345,144
Total Non-Depreciable Assets	$ 111,402,611	$ (33,660,952)	$ (95,423,452)	$ 144,251,736	$ (7,845)	$ 126,562,098
Depreciable Assets:						
Buildings and Building Improvements	$ 1,714,381,959	$ 19,210,805	$ 84,706,699	$ 142,580	$ (8,717,667)	$ 1,809,724,376
Infrastructure	267,468,310	6,107,659	8,577,679	671,335	(1,992,345)	280,832,638
Facilities and Other Improvements	158,945,512	9,815,744	2,139,074	794,517	(8,458,899)	163,235,948
Furniture and Equipment	239,837,242	2,077,002	-	21,273,347	(10,605,085)	252,582,506
Vehicles, Boats, and Aircraft	41,634,717	-	-	2,823,413	(2,556,655)	41,901,475
Other Capital Assets	74,838,461	935,898	-	2,999,384	(425,031)	78,348,712
Total Depreciable Assets at Historical Cost	$ 2,497,106,201	$ 38,147,108	$ 95,423,452	$ 28,704,576	$ (32,755,682)	$ 2,626,625,655
Less Accumulated Depreciation for:						
Buildings and Building Improvements	$ (898,208,530)	$ (858,813)	$ -	$ (55,475,779)	$ 2,801,499	$ (951,741,623)
Infrastructure	(176,703,693)	(141,051)	-	(7,500,116)	26,079	(184,318,781)
Facilities and Other Improvements	(123,488,373)	(77,621)	-	(3,518,125)	281,176	(126,802,943)
Furniture and Equipment	(170,057,891)	(47,931)	-	(17,328,298)	9,885,484	(177,548,636)
Vehicles, Boats, and Aircraft	(29,048,412)	-	-	(3,780,851)	2,419,142	(30,410,121)
Other Capital Assets	(49,162,702)	(95,712)	-	(3,477,926)	65,000	(52,671,340)
Total Accumulated Depreciation	$ (1,446,669,601)	$ (1,221,128)	$ -	$ (91,081,095)	$ 15,478,380	$ (1,523,493,444)
Depreciable Assets, Net	$ 1,050,436,600	$ 36,925,980	$ 95,423,452	$ (62,376,519)	$ (17,277,302)	$ 1,103,132,211
Amortizable Assets - Intangible						
Computer Software	38,900,947	-	-	1,008,737	-	39,909,684
Total Amortizable Assets at Historical Cost	38,900,947	-	-	1,008,737	-	39,909,684
Less Accumulated Amortization for:						
Computer Software	(21,358,581)	-	-	(5,511,207)	-	(26,869,788)
Total Accumulated Amortization	(21,358,581)	-	-	(5,511,207)	-	(26,869,788)
Amortizable Assets, Net	17,542,366	-	-	(4,502,470)	-	13,039,896
Capital Assets, Net	$ 1,179,381,577	$ 3,265,028	$ -	$ 77,372,747	$ (17,285,147)	$ 1,242,734,205

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, 2011, the carrying amount of deposits was $3,823,483. This amount consists of all cash in local banks and is included on the Statement of Net Assets as part of the "Cash and Cash Equivalents" line items. As of August 31, 2011, the total bank balances were $3,825,799.

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. To accommodate operational needs for educational programs in foreign countries, Texas A&M University has accounts with two foreign banks and neither governmental insurance nor collateral is available for deposits held at these institutions. As of August 31, 2011, Texas A&M University had working fund bank accounts held at Commercial Bank in Qatar for the operation of Texas A&M University at Qatar. The daily average exposure during fiscal year 2011 was $1,323,337. As of August 31, 2011, Texas A&M University also had a working fund bank account in Italy to facilitate Texas A&M University's Santa Chiara Study Center in Arezzo, Italy. The daily average exposure during fiscal year 2011 was $3,085. No appropriated or tuition funds other than those collected from students enrolled in the affected programs are deposited with the foreign banks. The working funds held in Qatar and Italy are not insured or collateralized.

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.

Texas A&M University's exposure to foreign currency and custodial credit risks for deposits as of August 31, 2011 is as follows:

Bank Balances Exposed to Foreign Currency and Custodial Credit Risks

Primary Government

Currency		**Balance**
Qatar Riyals	$	278,742
Euros		232

Investments

At the direction of the A&M System Board of Regents, Texas A&M University investments and cash equivalents are pooled at the System level. This fund pool is managed centrally at the A&M System and participation is mandatory. The A&M System is responsible for disclosure of all information on the pooled investments and has included these disclosures in its annual financial reports. The fair value of investments held by the A&M System at August 31, 2011 total $2,928,150,363. The fair value of the University's share of investments is presented below:

Investments Held by System in:				
	Cash Concentration Pool		$	854,776,438
	System Endowment Fund			317,608,158
	Separate Investment Accounts			616,368
		Total Investments	$	1,173,000,964
Noncurrent Assets Investments			$	790,270,686
Noncurrent Assets Restricted Investments				
	Cash Concentration Pool			73,961,341
	System Endowment Fund			308,767,406
	Separate Investment Accounts			1,531
		Total Investments	$	1,173,000,964

As of August 31, 2011 the value of assets held long-term by the A&M System on behalf of Texas A&M University totaled $1,173,000,964. Of that amount $382,730,278 is restricted.

Note 4: Summary of Short-Term Debt

During the year ended August 31, 2011, there was no reportable activity for short-term debt.

Note 5: Summary of Long-Term Liabilities

During the year ended August 31, 2011, the following changes occurred in liabilities:

		Balance 9/1/2010		Additions		Deductions		Balance 8/31/2011		Amounts Due Within One Year
Capital Lease Obligations	$	2,301,870	$	169,100	$	47,443	$	2,423,527	$	361,134
Due to Other State Entities		812,224		-		529,962		282,262		282,262
Employees' Compensable Leave		49,074,831		272,077		2,492,848		46,854,060		2,989,375
Other Post Employment Benefits		134,815,235		-		134,815,235		-		-
Funds Held for Others		6,733,836		1,486,660		-		8,220,496		8,220,496
Other Liabilities										
Deferred Compensation Liability		1,416,598		213,268		219,187		1,410,679		667,554
Deposits		7,642,791		1,161,568		-		8,804,359		8,804,359
Assets Held in Trust		19,189,500		-		-		19,189,500		-
Termination Benefits		26,644		-		26,644		-		-
Total	$	222,013,529	$	3,302,673	$	138,131,319	$	87,184,883	$	21,325,180

Notes and Loans Payable-Debt Service Requirements

Notes payable consists of amounts used to make permanent improvements at various institutions of the A&M System, to refund and retire the Board's Permanent University Fund Commercial Paper Notes and Flexible Rate Notes, 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.

Texas A&M University did not have any notes and loans payable outstanding as of August 31, 2011.

Compensated Absences

Full-time State employees earn eight to twenty-one hours per month annual leave depending on years of State employment. Under the State's policy, an employee with 35 or more years of State service may carry up to 520 hours accrued leave forward from one fiscal year to another.

Employees with at least six months of State service who terminate employment are entitled to payment for all accumulated annual leave up to the maximum allowed. The A&M System has accrued the dollar value of annual leave benefits which are payable upon retirement, termination, or death of its employees. This liability (current and noncurrent) for the University is projected to be $46,854,060 as of August 31, 2011. This liability is based on calculations from the A&M System centralized leave tracking system and employer estimates. The accrued liability for the unpaid annual leave has been recognized as a current and non-current liability. The University made lump sum payments of $4,510,369 for accrued vacation to employees who separated from State service during the fiscal year ended August 31, 2011.

Sick leave accumulation is not limited. Sick leave is earned at the rate of eight hours per month and is paid only when an employee is absent due to illness or to the estate of an employee in the event of his/her death. The maximum sick leave payment to an employee's estate is the lesser of one-half of the employee's accumulated entitlement or 336 hours. The A&M System policy is to recognize the cost of sick leave when paid. The liability is not shown in the financial statements since historical use of sick leave has been minimal.

Liabilities Payable from Restricted Assets

Liabilities payable from restricted assets represent payables at year-end from assets with external restrictions such as federal and state grants, and bond proceeds.

Pollution Remediation Obligations

Texas A&M University has no pollution remediation obligations for fiscal year 2011.

Note 6: Bonded Indebtedness

The A&M System has established a financing program known as the Revenue Financing System. Members of the A&M System may use the Revenue Financing System as a long-term debt program to finance new facilities or as a short-term debt program to finance equipment or to interim finance construction projects. Members' financing requests are evaluated for adequate revenue streams and bonding capacity.

Assets created as a result of the expenditures of Permanent University Fund and Revenue Financing System Bonds and Notes proceeds, which are subsequently capitalized, are reported on the applicable members' Statement of Net Assets in the Capital Assets category. The associated bond liability is reported in total by the A&M System Offices.

Texas A&M University receives proceeds from revenue bonds issued and held by the A&M System to support capital projects of the A&M System and its institutions. These proceeds are recorded as transfers from the System. The University disburses funds to the A&M System for payments of principal and interest related to the University's share of bond proceeds. These disbursements are recorded as transfers to the A&M System. At August 31, 2011, the A&M System had outstanding bonds payable of $2,137,305,000. All bonds issued by the A&M System are defined as revenue bonds. As such, the revenues of the A&M System, including Texas A&M 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 Texas A&M University's financial statements as the A&M System Office is the party directly liable for these bonds.

Note 7: Leases

Capital Leases

Certain leases to finance the purchase of property are capitalized at the present value of future minimum lease payments. At August 31, 2011, Texas A&M University had various capital lease obligations relating to the acquisition of capital assets. The original capitalized cost of the capital assets under capital lease as of August 31, 2011 is $3,916,515. The following is a schedule of the future minimum lease payments for leased property and the present value of the net minimum lease payments:

DEBT SERVICE REQUIREMENTS TO MATURITY

Year Ended August 31		Total
2012	$	520,137
2013		434,976
2014		429,457
2015		386,347
2016		350,586
2017-2021		491,542
2022-2026		491,384
2027-2031		163,793
Total Minimum Lease Payments	$	3,268,222
Less: Amount Representing Interest at Various Rates		(844,695)
Present Value of Net Minimum Lease Payments	$	2,423,527

ORIGINAL CAPITALIZED COSTS OF ASSETS UNDER CAPITAL LEASE OBLIGATIONS

		Assets under Capital Lease		Accumulated Depreciation
Buildings and Building Improvements	$	2,372,049	$	550,842
Furniture and Equipment		1,175,396		349,820
Vehicles, Boats, and Aircraft		135,000		1,406
Other Capital Assets		234,070		23,407
Total	$	3,916,515	$	925,475

Operating Leases

A summary of operating leases for the year ended August 31, 2011, is presented below:

Year Ended August 31		Total
2012	$	1,421,114
2013		1,085,882
2014		625,692
2015		266,193
2016		76,600
2017-2021		47,508
Total Minimum Future Lease Payments	$	3,522,989

Note 8: Interagency Balances / Activity

As of August 31, 2011, amounts to be received or paid between funds and agencies are to be reported as:

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

Texas A&M 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, 2011, were as follows:

DUE FROM/TO OTHER STATE ENTITIES

Entity	Due from Other State Entities	Due to Other State Entities	Purpose
Comptroller - State Energy Conservation Office	$ -	$ 282,263	Loan Star Loan Program - Energy Conservation renovations
Texas A&M University System Administrative & General Offices	33,440,100	-	RFS/PUF Debt Proceeds for minor construction projects
Texas A&M University System Administrative & General Offices	47,847,980	-	Shared Cash - AUF required to be reported on System Offices financial report
Texas A&M University System Administrative & General Offices	581,924	72,433	Contracts & Grants reimbursements due
Texas A&M University System Administrative & General Offices	-	34,098,693	Locally funded construction project funds due to System for System managed construction projects
Tarleton State University	-	3,923	Contracts & Grants reimbursements due
Texas Agrilife Research	20,981	-	Contracts & Grants reimbursements due
Texas Agrilife Extension Service	114,561	-	Contracts & Grants reimbursements due
Texas Engineering Experiment Station	-	31,836	Contracts & Grants reimbursements due
Texas A&M University - Corpus Christi	12,942	26,429	Contracts & Grants reimbursements due
Texas A&M Research Foundation	11,438,096	-	Contracts & Grants reimbursements due
Texas Department of Transportation	197,882	-	Shared Cash - funds required to be reported on Tx DOT AFR
Texas General Land Office	124,081	-	Contracts & Grants reimbursements due
Texas Workforce Commission	29,000	-	Contracts & Grants reimbursements due
Texas Department of State Health Services	277,348	-	Contracts & Grants reimbursements due
Texas Department of Transportation	17,594	-	Contracts & Grants reimbursements due
Texas Education Agency	491,261	-	Contracts & Grants reimbursements due
Texas Higher Education Coordinating Board	116,509	17,000	Contracts & Grants reimbursements due
Texas Parks & Wildlife Department	15,431	919	Contracts & Grants reimbursements due
University of Texas at Austin	362,863	-	Contracts & Grants reimbursements due
Cancer Prevention and Research Institute of Texas	108,310	-	Contracts & Grants reimbursements due
Texas Water Development Board	10,321	-	Contracts & Grants reimbursements due
Texas Commission on Environmental Quality	161,733	-	Contracts & Grants reimbursements due
Texas Real Estate Commission	841,000	-	Real Estate license fee revenue due at year-end
University of Houston - Clear Lake	-	5,616	Contracts & Grants reimbursements due
	$ 96,209,917	$ 34,539,112	

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 Administrative & General Offices	$ 23,042,789	$ 9,542	RFS/PUF Debt Proceeds for minor construction projects
Texas A&M University System Administrative & General Offices	14,023,806	-	System Endowment Fund Appreciation Reserve distribution
Texas A&M University System Administrative & General Offices	113,294,528	-	Fixed Assets and Construction in Progress upon semi-final/final completion
Texas A&M University System Administrative & General Offices	12,348,062	-	Reversion of Local funds originally set aside for major construction projects
Texas A&M University System Administrative & General Offices	89,000,000	-	Available University Fund Allocation for the year
Texas A&M University System Administrative & General Offices	355,369	-	Resource Allocation Program funding for the year
Texas A&M University System Administrative & General Offices	-	64,124,436	Debt Service funding requirements
Texas A&M University System Administrative & General Offices	-	41,959,701	Local funds set aside for major construction projects
Prairie View A&M University	-	23,714	Fixed Assets
Texas Agrilife Research	451,065	1,009,190	Fixed Assets
Texas Engineering Experiment Station	399,948	33,351	Fixed Assets
Texas Engineering Extension Service	-	4,345	Fixed Assets
Texas Transportation Institute	3,593	4,344,610	Fixed Assets
Texas A&M University - Corpus Christi	-	1,879	Fixed Assets
Texas A&M University - Kingsville	6,250	-	Third-party scholarship funding
Texas A&M University System Health Science Center	-	21,151	Fixed Assets
Texas A&M University System Health Science Center	-	15,000	Funding for distinguished professorship
Texas Real Estate Commission	2,923,060	-	Real Estate license fee revenue
Texas Comptroller of Public Accounts	-	177,702	Doctoral set asides
Texas Comptroller of Public Accounts	-	4,644,126	B-On Time set asides
Texas Department of Information Resources	-	16,250	Fixed Assets
	$ 255,848,470	$ 116,384,997	

LEGISLATIVE TRANSFERS IN/OUT

Entity	Legislative Transfers In	Legislative Transfers Out	Purpose
Texas A&M University System Administrative & General Offices	$ -	$ 11,091,552	RFS Debt Service
	$ -	$ 11,091,552	

Note 9: Contingent Liabilities

On August 25, 2011, Texas A&M University notified the Big 12 Conference of its intention to explore other conference affiliation possibilities. On September, 25, 2011, The Southeastern Conferences Presidents and Chancellors, acting unanimously, accepted Texas A&M University's application for membership effective July 1, 2012, with competition to begin in all sports for the 2012-13 academic year. As a result of new conference affiliation, the university may forego certain Big 12 revenue distributions during the upcoming fiscal year. Financial implications of this move are yet to be determined.

Note 10: Risk Financing and Related Insurance

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

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 Statement 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 $47,397,976.68 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.

The following schedule represents IBNR Liability of the A&M System:

IBNR Liability

Plan		WCI		Health & Dental
IBNR Liability 9/1/10	$	8,432,000	$	13,823,891
CY Claims Plus Change in Estimates		2,446,235		162,413,266
Claims Payments		(2,425,235)		(166,019,157)
Other Items (changes in estimates)		(1,104,000)		-
IBNR Liability 8/31/11	$	7,349,000	$	10,218,000

Note 11: Related Parties

As of August 31, 2011, Texas A&M University did not have any related parties.

Note 12: Stewardship, Compliance, and Accountability

For the year ended August 31, 2011, Texas A&M University is reporting financial information in accordance with requirements set forth by GASB Statements 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 13: 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 is a distinct member of the A&M System.

One private entity is included in the A&M System combined annual financial report. Although the following entity is legally separate, due to its close relationship it is reported as if it were part of the A&M System:

The Texas A&M Research Foundation (Research Foundation) has been included as a blended component unit in the combined financial statements of the A&M System since fiscal year 1990. This determination is based on the close relationship and joint agreements in effect between the Research Foundation and the A&M System in regard to research grant/contract administration, as well as the fact that various officials of the A&M System serve as ex-officio voting and non-voting trustees, and members of the executive committee of the Research Foundation. The Research Foundation has a fiscal year end of August 31, 2011 and is Fund Type 05, Appd Fund 9999. Complete financial statements of the Research Foundation may be obtained from their administrative offices at 400 Harvey Mitchell Parkway South, Suite 100, College Station, Texas, 77845. As of August 31, 2011, the Research Foundation had total Research and Development Expenditures for Texas A&M University of $115,185,947.

The **Mexico City Center (Representacion de Texas A&M University en la Republica Mexicana, A.C.)** and the **Casa Verde Research Center, Sociedad Anonimo,** are component units of Texas A&M University. The University can appoint a voting majority of the boards of each component unit. Financial information for these component units is not presented because they are considered immaterial in relation to the University's net assets and financial activities. Complete financial statements for the Mexico City Center and the Casa Verde Research Center may be obtained from Texas A&M University, External Reporting at 750 Agronomy Road, Suite 3101 GSC, 6000 TAMU, College Station, Texas, 77843-6000.

The Texas A&M Foundation does not meet the State Comptroller's criteria for inclusion in the financial statements as a component unit of Texas A&M University, and are therefore not included in the Texas A&M University annual financial report. The foundation holds a significant amount of economic resources for the direct benefit of Texas A&M University. The financial statements for the foundation's fiscal year ended June 30, 2011 are prepared in accordance with financial accounting standards for not-for-profit organizations. Net assets as of June 30, 2011 totaled $1.1 billion. Total revenues, gains and other support totaled $243 million.

Note 14: Restatement of Net Assets

Net assets have been restated as of August 31, 2011 due to the change in presentation of the liability for other postemployment benefits. The amount of prior year liability has been removed from Texas A&M University Statement of Net Assets and recorded on the A&M System Offices' Balance Sheet.

A summary of restatements of net assets for the year ended August 31, 2011, is presented below:

Net Assets, September 1, 2010		$	2,093,862,420
Restatements:			
	(a) OPEB restatement - liability moved to Texas A&M University System Administrative and General Offices financial report to be consistent with reporting method used by other university system's within the State of Texas.	$	134,815,235
	(b) Construction in progress close outs processed during FY2011 that had prior year in-service dates.		2,562,922
	(c) Equipment purchased in prior year not originally capitalized.		466,476
	(d) Fixed Asset gift received in prior fiscal year not identified until current fiscal year.		235,631
Total Restatements		$	138,080,264
Net Assets, September 1, 2010, as Restated		$	2,231,942,684

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. Texas A&M University's benefit liability is included in that of the A&M System. As a result, this liability will be reported in the A&M System combined financial statements.

Note 15: Employee Retirement Plans

Information included in this note is presented from the A&M 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 (TRS). The contributory percentages of participant salaries provided by the State and by each participant during the fiscal year were 6.644% and 6.4%, respectively, of annual compensation.
The Teacher Retirement System of Texas does not separately account for each of its component government 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 $20,709,741 for the year ended August 31, 2011. 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 (ORP) 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 6.4% contributed by the State and an additional 2.10% contributed by the A&M System. For participants who enrolled on or after September 1, 1995, the State and participant contributions were 6.4% 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	$ 42,338,732
Employee Contributions	38,177,888
Total	$ 80,516,620

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 Statement 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 retirement expense to Texas A&M University was $21,335,297 for the year ended August 31, 2011. Of this amount, $9,155,021 represents the portion of appropriations made by the State Legislature expended on behalf of Texas A&M University and $12,180,276 represents the portion paid from the University's funds.

Note 16: Deferred Compensation Program

Information included in this note is presented from the A&M 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.

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 an employer-sponsored plan administered by the Employees Retirement System of Texas (ERS). A&M System employees are permitted to participate in the plan as an agency of the State. The deductions, purchased investments and earnings attributed to the 457 Plan are held in trust and belong to the participants. The State has no liability under the 457 Plan beyond the administrative requirements outlined in the corresponding provisions of the IRC.

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 an employer-sponsored plan. The deductions, purchased investments, and earnings attributed to each employee's 403(b) plan are held by vendors chosen by the employee from an approved vendor list provided by the A&M System. The funds held in the accounts belong to the individual participants. 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 beyond the administrative requirements outlined in the corresponding provisions of the IRC.

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 17: Donor-Restricted Endowments

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

The purpose of The Texas A&M 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.

The amount of net appreciation for donor restricted true endowments presented in the table below is available for authorization and expenditure by the A&M System. *The Uniform Prudent Management of Institutional Funds Act, Texas Property Code, Chapter 163*, provides general guidelines on how endowments should be maintained.

Net Appreciation of Donor-Restricted Endowments

Donor-Restricted Endowments	Amount of Net Appreciation*	Reported in Net Assets
True Endowments	$ 68,010,849	Restricted for Expendable

* The total fiscal year 2011 fair value adjustment to the Fund was $37,662,901

The amount of net appreciation for donor restricted endowments specific to Texas A&M University is $33,861,490.

Note 18: Post-Employment Health Care and Life Insurance Benefits

Post-employment health care and life insurance benefits are managed centrally by the A&M System for all system components. Information included in this note is presented from the A&M 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, 2011, the employer contributions are presented below.

Employer Contribution Rates

Level of Coverage	Amount
Full-Time Employee/Retiree Only	$ 391
Full-Time Employee/Retiree and Spouse	$ 576
Full-Time Employee/Retiree and Children	$ 507
Full-Time Employee/Retiree and Family	$ 668

For the year ended August 31, 2011, A&M System benefit plan expenses totaled $169,220,364. The cost of providing benefits for 7,136 retirees was $40,489,312; and for 23,335 active employees the cost was $128,731,052.

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*. Retiree eligibility for insurance continuation is determined by the Legislature and is subject to change.

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, 2011, 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 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
8/31/2011	$ 40,489,312	$ 174,919,214	23%	$ 476,809,489
8/31/2010	$ 40,173,687	$ 162,680,000	25%	$ 342,379,587
8/31/2009	$ 37,325,544	$ 116,890,000	32%	$ 219,873,275

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.

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, 2011, the cost of providing those benefits for the retirees of Texas A&M University was $13,557,598 for the State and $1,356,638 for the University.

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 benefit liability is included in that of the A&M System. As a result, this liability will be reported in the A&M System financial statements.

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)	$	168,269,760
Interest on Net OPEB Obligation		24,993,710
Adjustment to ARC		(18,344,256)
Annual OPEB Cost		174,919,214
Employer Contributions Made		(40,489,312)
Increase Net OPEB Obligation		134,429,902
Net OPEB Obligation 9/1/2010		342,379,587
Net OPEB Obligation 8/31/2011	$	476,809,489

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)
9/1/2010	$ -	$ 1,854,690,001	$ (1,854,690,001)	0.0%	$ 1,313,538,458	141.2%
9/1/2009	$ -	$ 1,864,320,000	$ (1,864,320,000)	0.0%	$ 1,315,291,687	141.7%
9/1/2008	$ -	$ 1,258,563,000	$ (1,258,563,000)	0.0%	$ 1,260,683,042	99.8%

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, 2010
Actuarial Cost Method	Entry Age Normal
Amortization Method	Open
Remaining Amortization Period of Unfunded Liability	30 years
Actuarial Assumptions:	
Investment Rate of Return	7.3%
Inflation	3.0%
Health Care Trend Rates	10.0% in 2011
	Decreasing to 5.0% in 2021

Medicare Part D

In fiscal year 2011 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 year 2011 the A&M System received $4,179,512 of Medicare Part D payments from the federal government.

Note 19: Disaggregation of Receivable and Payable Balances

A summary of accounts receivable and accounts payable balances for Texas A&M University for the year ended August 31, 2011, is presented below:

Accounts Receivable:			
Current Accounts Receivable			Amount on SNA
Federal Receivables		$	11,028,713
Gift, Pledges & Donations			26,744,206
Student Receivables			16,306,475
Other			33,320,221
	Total	$	87,399,615
Other Receivables			Amount on SNA
Vet Hospital Receivables		$	1,397,633
Departmental Receivable-Manual			200,000
Travel Advance Receivable			209,282
Petty Cash Receivable			543,896
Unbilled Receivables-Private/Local			10,546,896
Service Department Receivable			17,570
Customer Receivable			20,936,864
Allowance for Doubtful Accounts			(531,920)
	Total	$	33,320,221
Accounts Payable:			
Current Accounts Payable			Amount on SNA
Accounts Payable		$	25,069,639
Payroll Payable			48,687,571
Other			10,974,068
	Total	$	84,731,278
Other Payables			Amount on SNA
Sales Tax Payable		$	1,285,842
Student Liabilities			5,087,720
Payable to A&M Foundation			125,045
Purchase Card Payable			2,503,036
Aggie Bucks Payable			1,628,426
Other			343,999
	Total	$	10,974,068

Note 20: Termination Benefits

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

As of August 31, 2011, the A&M System has not incurred obligations to pay voluntary or involuntary termination benefits in fiscal year 2012.

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 terminated employees were eligible for a 65% subsidy for COBRA coverage. The Federal Department of Labor agreed to reimburse employers the 65% COBRA reimbursement up to 15 months. This applies to employees who were involuntarily terminated between September 1, 2008 and May 31, 2010. The maximum end of the 15 month payment period was August 31, 2011.

For fiscal year 2011, the total 65% COBRA funding that the A&M System received from the federal grant was $151,280.

COBRA benefits for the A&M System for the year ended August 31, 2011 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	222	88	34	25	103
Premium Revenue	$ 977,619	$ 65,856			
2 Percent Administrative Fee Revenue	17,560	1,345			
Total COBRA Revenue	995,179	67,201			
Claims Paid	2,366,450	72,962			
Administrative Expenses	26,720	5,695			
Total COBRA Expenses	2,393,170	78,657			
Total Cost to State	$ 1,397,991	$ 11,456			

Texas A&M University, including Texas A&M University at Galveston

Schedule of Changes in Unrestricted Net Assets

For the Fiscal Year Ended August 31, 2011

	8/31/2011	8/31/2010	Difference
Reserved			
Encumbrances	$ 36,083,744	$ 27,389,037	$ 8,694,707
Legislative Appropriations to be Lapsed	-	21	(21)
Accounts Receivable	77,565,365	89,023,942	(11,458,577)
Inventories	16,637,682	16,095,770	541,912
Self-Insurance Plans	948,320	1,183,723	(235,403)
Capital Projects	70,802,654	74,792,894	(3,990,240)
Retirement of Indebtedness	65,388,616	62,753,387	2,635,229
Advanced Research / Advanced Technology Programs	1,312,024	1,920,846	(608,822)
Prepaid Expenses	18,750,404	20,035,865	(1,285,461)
Texas Public Education Grants	783,532	707,031	76,501
Designated Tuition Set Aside Reserve	2,917,931	3,392,318	(474,387)
Available University Fund	47,847,980	26,299,703	21,548,277
State Funds and Special Projects	1,175,500	2,038,211	(862,711)
Unreserved			
Allocated			
Future Operating Budgets	93,737,189	71,505,611	22,231,578
Capital Projects	2,258,051	1,646,345	611,706
Funds Functioning as Endowment - Unrestricted	33,890,607	29,061,413	4,829,194
Start-Up / Matching	11,552,906	11,033,799	519,107
Other	2,960,187	581,126	2,379,061
Unallocated	294,234,614	82,371,170	211,863,444
Total Unrestricted Net Assets	$ 778,847,306	$ 521,832,212	$ 257,015,094

State Auditor's Office
John Keel, CPA
State Auditor

February 13, 2012

Dr. R. Bowen Loftin, President
Texas A&M University
Office of the President
1246 TAMU
College Station, TX 77840-7896

Subject: Management Letter Resulting from a Review of Texas A&M University's, including Texas A&M University at Galveston's, Fiscal Year 2011 Financial Statements

Dear Dr. Loftin:

We offer this management letter in conjunction with our review of the financial statements of Texas A&M University (University), including Texas A&M University at Galveston, as of and for the fiscal year ended August 31, 2011, on which we have issued our report dated February 13, 2012. We reviewed the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. 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 accounting principles generally accepted in the United States of America.

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, CIA, CGAP, CISA
Assistant State Auditor

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

P.O. Box 12067
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Texas A&M University System Health Science Center

Contents

Accountant's Review Report 1

Texas A&M Health Science Center Financial Report (prepared in accordance with SACS Criteria for Accreditation)

Statement of Net Assets at August 31, 2011 2

Statement of Revenues, Expenses and Changes in Net Assets for the Fiscal Year Ended August 31, 2011 4

Statement of Cash Flows for the Fiscal Year Ended August 31, 2011 6

Notes to the Financial Statements for the Fiscal Year Ended August 31, 2011 8

Management Letter 29

State Auditor's Office
John Keel, CPA
State Auditor

Independent Accountant's Report

January 17, 2012

Dr. Nancy W. Dickey, President
Texas A&M University System Health Science Center
John B. Connally Building
301 Tarrow, 7th Floor
College Station, TX 77840-7896

Dear Dr. Dickey:

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 Texas A&M University System Health Science Center (Health Science Center) as of and for the fiscal year ended August 31, 2011, 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 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 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. 12-320

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Texas A&M Health Science Center

Statement of Net Assets

At August 31, 2011

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

ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 3)	$	15,254,188
Restricted:		
Cash and Cash Equivalents (Note 3)		12,301,245
Legislative Appropriations		16,342,165
Receivables, Net of Allowances:		
Federal		241,940
Accounts		23,352
Gifts		80,500
Other		3,360,725
Due from Other State Entities (Note 9)		13,392,491
Consumable Inventories		350,322
Loans and Contracts		284,457
Other Current Assets		1,109,816
Total Current Assets	$	62,741,201
Non-Current Assets		
Restricted:		
Loans and Contracts		3,378,598
Assets Held by System Offices-Long Term		65,493,323
Assets Held by System Office-Long Term		67,934,579
Capital Assets (Note 2):		
Non-Depreciable		142,251,346
Depreciable		215,739,959
Less: Accumulated Depreciation		(92,798,048)
Intangible		67,314
Less: Accumulated Amortization		(53,483)
Total Non-Current Assets	$	402,013,588
Total Assets	$	464,754,789
LIABILITIES		
Current Liabilities		
Payables:		
Accounts	$	4,454,941
Payroll		8,396,379
Other		2
Due to Other State Entities (Note 9)		41
Deferred Revenue		11,333,433

Employees' Compensable Leave (Note 5)		463,199
Funds Held for Others		713,707
Other Current Liabilities		237,456
Total Current Liabilities	$	25,599,158
Non-Current Liabilities		
Employees' Compensable Leave (Note 5)		7,079,910
Assets Held for Others		14,897,801
Total Non-Current Liabilities	$	21,977,711
Total Liabilities	$	47,576,869
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$	265,207,089
Restricted for:		
Non-Expendable		
Permanent Funds, True Endowments, Annuities		42,536,029
Expendable		
Capital Projects		1,840,254
Education		16,269,744
Funds Functioning as Endowments		8,059,493
Unrestricted		83,265,311
Total Net Assets	$	417,177,920

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

Texas A&M Health Science Center

Statement of Revenues, Expenses, and Changes in Net Assets

For the Fiscal Year Ended August 31, 2011

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

OPERATING REVENUES		
Tuition and Fees - Non-Pledged		
Tuition and Fees - Pledged	$	25,409,423
Discounts and Allowances		(1,732,242)
Professional Fees - Pledged		424,950
Auxiliary Enterprises - Pledged		699,622
Other Sales of Goods and Services - Pledged		24,932,762
Interest Revenue		96,713
Federal Revenue		23,916,634
State Grant Revenue		2,033,719
Other Operating Grant Revenue		5,800,490
Other Operating Revenues		88,914
Total Operating Revenues	$	81,670,985
OPERATING EXPENSES		
Cost of Goods Sold	$	277,052
Salaries and Wages		102,514,773
Payroll Related Costs		22,000,425
Professional Fees and Services		10,347,088
Travel		1,515,525
Materials and Supplies		13,550,677
Communications and Utilities		9,184,988
Repairs and Maintenance		4,732,222
Rentals and Leases		2,936,234
Printing and Reproduction		451,061
Federal Pass-Through		140
Depreciation and Amortization		10,360,557
Bad Debt Expense		(367)
Interest Expense		4,232
Scholarships		2,384,397
Other Operating Expenses		17,934,320
Total Operating Expenses	$	198,193,324
Operating Income (Loss)	$	(116,522,339)
NONOPERATING REVENUES (EXPENSES)		
Legislative Appropriations	$	115,415,743
Federal Revenue and Federal Pass-Through		5,894,863
Gifts		3,019,384
Interest and Investment Income (Loss)		3,319,853

Investing Activities Expense		(209,850)
Net Increase (Decrease) in Fair Value of Investments		8,668,533
Land Income		2,127,318
Gain (Loss) on Sale of Capital Assets		10,745
Other Nonoperating Revenues - Pledged		225,205
Other Nonoperating Expenses		(669,176)
Total Nonoperating Revenues (Expenses)	$	137,802,618
Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers	$	21,280,279
OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS		
Capital Contributions	$	2,468,358
Additions to Permanent and Term Endowments		1,555
Transfers In from Other State Entities (Note 9)		16,620,473
Transfers Out to Other State Entities (Note 9)		(35,952,882)
Legislative Transfers Out (Note 9)		(9,095,135)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	$	(25,957,631)
CHANGE IN NET ASSETS	$	(4,677,352)
Net Assets, September 1, 2010	$	402,862,146
Restatements (Note 16)		18,993,126
Net Assets, September 1, 2010, as Restated	$	421,855,272
NET ASSETS, August 31, 2011	$	417,177,920

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

Texas A&M Health Science Center

Statement of Cash Flows

For the Fiscal Year Ended August 31, 2011

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

CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Tuition and Fees	$	24,359,161
Receipts from Customers		26,341,600
Proceeds from Research Grants and Contracts		30,736,868
Proceeds from Loan Programs		695,871
Proceeds from Auxiliaries		699,622
Proceeds from Other Revenues		60,490
Payments to Suppliers for Goods and Services		(60,307,189)
Payments to Employees for Salaries		(102,554,338)
Payments to Employees for Benefits		(22,438,077)
Payments for Loans Provided		(489,549)
Payments for Other Expenses		(1,857,668)
Net Cash Provided (Used) by Operating Activities	$	(104,753,209)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Legislative Appropriations	$	113,258,343
Proceeds from Gifts		3,194,616
Proceeds from Endowments		1,555
Proceeds from Other Grant Revenue		7,465,011
Proceeds from Other Sources		45,349,594
Payments for Transfers to Other Entities		(148,182)
Payments for Other Uses		(43,081,747)
Other NonCapital Transfers From/To System		1,060,932
Net Cash Provided (Used) by Non-Capital Financing Activities	$	127,100,122
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Sale of Capital Assets	$	22,010
Payments for Additions to Capital Assets		(5,981,269)
Transfer of Capital Debt Proceeds from System (Nonmandatory)		7,294,162
Transfer to System for Capital Related Debt (Mandatory)		(10,322,672)
Net Cash Provided (Used) by Capital and Related Financing Activities	$	(8,987,769)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Interest and Investment Income	$	3,110,003
Sales and Purchases of Investments Held by System		(14,733,912)
Net Cash Provided (Used) by Investing Activities	$	(11,623,909)
Net Increase (Decrease) in Cash and Cash Equivalents	$	1,735,235
Cash and Cash Equivalents, September 1, 2010	$	25,820,198

Restatements		
Cash and Cash Equivalents, September 1, 2010, as restated	$	25,820,198
Cash and Cash Equivalents, August 31, 2011	$	27,555,433

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

Operating Income (Loss)	$	(116,522,339)
Adjustments:		
Depreciation and Amortization	$	10,360,557
Bad Debt Expense		496,841
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		57,423
(Increase) Decrease in Due from Other Entities		1,322,797
(Increase) Decrease in Inventories		173,067
(Increase) Decrease in Prepaid Expenses		(181,171)
(Increase) Decrease in Loans and Contracts		108,924
Increase (Decrease) in Payables		(2,098,360)
Increase (Decrease) in Due to Other Entities		(9,741)
Increase (Decrease) in Deferred Revenue		1,431,443
Increase (Decrease) in Deposits		45,061
Increase (Decrease) in Employees' Compensable Leave		62,289
Total Adjustments	$	11,769,130
Net Cash Provided (Used) by Operating Activities	$	(104,753,209)
Non-Cash Transactions		
Nonmonetary Gifts, including Capital Assets	$	108,340
Net Increase (Decrease) in Fair Value of Investments		5,973,613
Disposal of Capital Assets		10,745
Other Deductions to Capital Assets		(25,625,857)

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

Notes to the Financial Statements for the Fiscal Year Ended August 31, 2011

(See Accountant'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 Texas A&M Health Science Center 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 management letter describing issues noted in the review.

Reporting Entity

The Health Science Center is a component of the Texas A&M University System and an agency of the State of Texas. The Health Science Center 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 Health Science Center is considered a special-purpose government engaged only in business-type activities. Accordingly, the Health Science Center'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

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 disbursement requirements.

Investments

In accordance with GASB No. 31, the A&M System reports investments at fair market value on the Statement of Net Assets. 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.

GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments,* is effective for periods beginning in fiscal year 2010. This statement addresses the recognition, measurement and disclosure of information pertaining to derivative instruments. Most derivative instruments are required to be measured at fair value on the Statement of Net Assets. The statement also makes consideration of hedge accounting necessary. The disclosures required by GASB No. 40 have been incorporated into GASB No. 53.

Self-Insured Receivable

Self insured receivables represent premiums due for the A&M System self insured health and dental plans.

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 purchased, land use rights with terms, and leasehold improvements. Infrastructure has a capitalization threshold of $500,000. Internally developed software has a capitalization threshold of $1,000,000. All land, land improvements, permanent land use rights, library books/materials, museums/collections, and works of art/historical treasures are capitalized.

According to GASB No. 34, No. 35, and No. 51, the A&M System is required to depreciate and amortize capital assets. 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.

GASB No. 51, *Accounting and Financial Reporting for Intangible Assets,* is effective for periods beginning in fiscal year 2010. This statement requires all intangible assets not specifically excluded by scope provisions to be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable.

Current Assets

On the Statement of Net Assets, items classified as current are defined as resources expected to be realized or consumed within one year.

Deferred Revenue

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.

Other Postemployment Benefits (OPEB)

Beginning with the fiscal year ended August 31, 2011, the liability and associated expenses for the A&M System's single-employer postemployment health care and life insurance benefit plan is recorded by the A&M System Offices. In accordance with GASB 45, the OPEB liability is classified as noncurrent. Additionally, the net change in OPEB obligation has been added as a natural classification of expense, which was formerly included in the payroll related costs classification.

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

Certain operations provide goods and services to internal customers. These operations include activities such as self insured programs, repairs & maintenance, utilities, computer services, and other services with interdepartmental activities. The revenues were eliminated to the extent of expenses for these internal transactions in the Statement of Revenues, Expenses, and Changes in Net Assets to avoid inflating revenues and expenses. Receivables and payables between A&M System members were eliminated except those arising from service department operations and auxiliary enterprises, which are considered to be exchange in nature.

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.

Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2011, is presented below:

	Balance 9/1/2010	Adjustments	Completed Construction in Progress	Additions	Deductions	Balance 8/31/2011
Non-Depreciable Assets:						
Land and Land Improvements	$ 30,436,317	$	$	$	$	$ 30,436,317
Construction in Progress	102,676,228			8,895,784		111,572,012
Library Books						0
Other Capital Assets	243,017					243,017
Total Non-Depreciable Assets	$ 133,355,562	$ 0	$ 0	$ 8,895,784	$ 0	$ 142,251,346
Depreciable Assets:						
Buildings and Building Improvements	$ 152,685,278	$	$	$ 2,634,211	$ (12,850,459)	$ 142,469,030
Infrastructure	3,224,314					3,224,314
Facilities and Other Improvements	1,831,305					1,831,305
Furniture and Equipment	40,728,226			4,621,258	(2,873,112)	42,476,372
Vehicles, Boats, and Aircraft	811,811			102,518		914,329
Other Capital Assets	53,630,378			1,195,397	(30,001,166)	24,824,609
Total Depreciable Assets at Historical Cost	$ 252,911,312	$ 0	$ 0	$ 8,553,384	$ (45,724,737)	$ 215,739,959
Less Accumulated Depreciation for:						
Buildings and Building Improvements	$ (39,347,287)	$	$	$ (6,337,994)	$ 1,818,254	$ (43,867,027)
Infrastructure	(740,212)			(179,061)		(919,273)
Facilities and Other Improvements	(377,939)			(93,691)		(471,630)
Furniture and Equipment	(23,064,581)			(3,504,800)	1,960,950	(24,608,431)
Vehicles, Boats, and Aircraft	(618,517)			(65,230)		(683,747)
Other Capital Assets	(28,820,410)			(172,922)	6,745,392	(22,247,940)
Total Accumulated Depreciation	$ (92,968,946)	$ 0	$ 0	$ (10,353,698)	$ 10,524,596	$ (92,798,048)
Depreciable Assets, Net	$ 159,942,366	$ 0	$ 0	$ (1,800,314)	$ (35,200,141)	$ 122,941,911
Amortizable Assets - Intangible						
Computer Software	$ 67,314	$	$	$	$	$ 67,314
Total Amortizable Assets at Historical Cost	$ 67,314	$ 0	$ 0	$ 0	$ 0	$ 67,314
Less Accumulated Amortization for:						
Computer Software	$ (46,624)	$	$	$ (6,859)	$	$ (53,483)
Total Accumulated Amortization	$ (46,624)	$ 0	$ 0	$ (6,859)	$ 0	$ (53,483)
Amortizable Assets, Net	$ 20,690	$ 0	$ 0	$ (6,859)	$ 0	$ 13,831
Capital Assets, Net	$ 293,318,618	$ 0	$ 0	$ 7,088,611	$ (35,200,141)	$ 265,207,088

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, 2011, the carrying amount of deposits was $27,555,433 as presented below:

Cash on Hand	$	12,640
Cash in Bank		
Reimbursement Due from Treasury		48,639
Cash in State Treasury		12,038,531
Cash Equivalents		3,154,378
Restricted Assets Held for Investment by System Office		12,301,245
Total Cash and Cash Equivalents	$	27,555,433
Current Assets Cash and Cash Equivalents	$	15,254,188
Current Assets Restricted Cash and Cash Equivalents		12,301,245
Non-Current Assets Restricted Cash and Cash Equivalents		0
Total Cash and Cash Equivalents	$	27,555,433

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.

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. The average exposure to these deposits for the Texas A&M System during fiscal year 2011 was $14,968.07.

The Texas A&M System bank balances exposed to custodial credit risk as of August 31, 2011 are as follows:

Bank Balances Exposed to Custodial Credit Risk		
Primary Government		
Uninsured and uncollateralized	$	290,818.55
Uninsured and collateralized with securities held by the pledging financial institution	$	-
Uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the state's name	$	-
Discrete Component Units		
Mexico City Center (December 31, 2010)		
Uninsured and uncollateralized	$	88,264.40
Casa Verde Center (September 30, 2011)		
Uninsured and uncollateralized	$	14,863.07

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.

The Texas A&M System exposure to foreign currency risk for deposits as of August 31, 2011 is as follows:

Bank Balances Exposed to Foreign Currency Risk		
Primary Government		
Currency		**Balance**
Qatar Riyals	$	278,742.23
Euros		243.36
Great Britain Pounds		1,733.89
Japanese Yen		0.06
Canadian Dollars		0.01
Discrete Component Units		
Mexico City Center		
Currency		**Balance**
Mexican Pesos (12/31/10)	$	88,264.40
Casa Verde Center		
Currency		**Balance**
Costa Rica Colones (9/30/11)	$	14,863.07

Investments

At the direction of the Texas A&M System Board of Regents, Health Science Center investments and cash equivalents are pooled at the System level. This fund pool is managed centrally at the Texas A&M System and participation is mandatory.

As of August 31, 2011 the value of assets held long-term by the Texas A&M System on behalf of the Health Science Center totaled $133,427,902. Of that amount $65,493,323 is restricted.

Note 4: Summary of Short-Term Debt

During the year ended August 31, 2011, there was no reportable activity for short-term debt.

Note 5: Summary of Long-Term Liabilities

During the year ended August 31, 2011, the following changes occurred in liabilities:

	Balance 9/1/2010	Additions	Deductions	Balance 8/31/2011	Amounts Due Within One Year	*Non-Current Amounts*
Claims and Judgments	$	$	$	$ 0	$	*0*
Capital Lease Obligations				0		*0*
Employees' Compensable Leave	7,480,820	$ 180,496	$ 118,207	$ 7,543,109	463,199	*7,079,910*
Other Post Employment Benefits	18,993,126		18,993,126	0		*0*
Notes and Loans Payable				0		*0*
General Obligation Bonds Payable				0		*0*
Revenue Bonds Payable				0		*0*
Funds Held for Others	14,621,875	56,896,194	55,906,559	15,611,510	713,707	*14,897,803*
Other Liabilities	192,396	313,791	268,731	237,456	237,456	*0*
Liabilities Payable from Restricted Assets				0		*0*
Total	$ 41,288,217	$ 57,390,481	$ 75,286,623	$ 23,392,075	$ 1,414,362	

Notes and Loans Payable-Debt Service Requirements

Notes payable consists of amounts used to make permanent improvements at various institutions of the Health Science Center, to refund and retire the Board's Permanent University Fund Commercial Paper Notes and Flexible Rate Notes, 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 Health Science Center did not have any notes and loans payable outstanding as of August 31, 2011.

Compensated Absences

Full-time State employees earn eight to twenty-one hours per month annual leave depending on years of State employment. Under the State's policy, an employee with 35 or more years of State service may carry up to 520 hours accrued leave forward from one fiscal year to another.

Employees with at least six months of State service who terminate employment are entitled to payment for all accumulated annual leave up to the maximum allowed. The A&M System has accrued the dollar value of annual leave benefits which are payable upon retirement, termination, or death of its employees. This liability (current and noncurrent) for the Health Science Center is projected to be $7,543,109 as of August 31, 2011. This liability is based on calculations from the A&M System centralized leave tracking system and employer estimates. The accrued liability for the unpaid annual leave has been recognized as a current and non-current liability. The Health Science Center made lump sum payments of $578,787 for accrued vacation to employees who separated from State service during the fiscal year ended August 31, 2011.

Sick leave accumulation is not limited. Sick leave is earned at the rate of eight hours per month and is paid only when an employee is absent due to illness or to the estate of an employee in the event of his/her death. The maximum sick leave payment to an employee's estate is the lesser of one-half of the employee's accumulated entitlement or 336 hours. The A&M System policy is to recognize the cost of sick leave when paid. The liability is not shown in the financial statements since historical use of sick leave has been minimal.

Liabilities Payable from Restricted Assets

Liabilities payable from restricted assets represent payables at year-end from assets with external restrictions such as federal and state grants, and bond proceeds.

Pollution Remediation Obligations

The Texas A&M Health Science Center has no pollution remediation obligations for fiscal year 2011.

Note 6: Bonded Indebtedness

The A&M System has established a financing program known as the Revenue Financing System. Members of the A&M System may use the Revenue Financing System as a long-term debt program to finance new facilities or as a short-term debt program to finance equipment or to interim finance construction projects. Members' financing requests are evaluated for adequate revenue streams and bonding capacity.

Assets created as a result of the expenditures of Permanent University Fund and Revenue Financing System Bonds and Notes proceeds, which are subsequently capitalized, are reported on the applicable members' Statement of Net Assets in the Capital Assets category. The associated bond liability is reported in total by the A&M System Offices.

The Health Science Center 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 Health Science Center disburses funds to the System for payments of principal and interest related to the Health Science Center's share of bond proceeds. These disbursements are recorded as transfers to the System. At August 31, 2011, the System had outstanding bonds payable of $2,137,305,000.00. All bonds issued by the System are defined as revenue bonds. As such, the revenues of the System, including the Health Science Center, 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 Health Science Center's financial statements as the System Office is the party directly liable for these bonds.

Note 7: Operating Leases

A summary of future operating lease payments for the year ended August 31, 2011, is presented below:

Year Ended August 31, 2011		Total
2012	$	2,999,944
2013		2,966,515
2014		1,668,485
2015		1,635,801
2016		1,484,652
2017-2021		5,555,772
Total Minimum Future Lease Payments	$	16,311,169

A summary of future operating lease revenues for the year ended August 31, 2011, is presented below:

Year Ended August 31, 2011		Total
2012	$	1,930,630
2013		1,927,109
2014		1,077,244
2015		98,480
2016		39,928
2017-2021		319,138
2022-2026		298,575
2027-2031		298,575
2032-2036		298,575
2037-2041		298,575
2042-2046		298,575
2047-2051		238,860
Total Minimum Future Lease Revenue	$	7,124,264

Note 8: Interagency Balances / Activity

As of August 31, 2011, amounts to be received or paid between funds and agencies are to be reported as:

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

The Health Science Center made routing transfers with other state agencies, which were consistent with the activities of the fund making the transfer. Individual balances and activity at August 31, 2011, were as follows:

DUE FROM/TO OTHER STATE ENTITIES

Entity		Due from Other State Entities		Due to Other State Entities	Purpose
Agency 720, University of Texas System	$	3,274,499	$		Balance of tobacco shared cash
Agency 781, Texas Higher Education Coordinating Board		57,594			Federal pass through funds related to contracts & grants
Agency 537, Department of State Health Services		307,464			State pass through funds related to contracts & grants
Agency 537, Department of State Health Services		6,681			Federal pass through funds related to contracts & grants
Agency 710, Texas A&M University System		5,589,861			RFS/PUF Debt Proceeds
Texas A&M Research Foundation		4,156,392			Payroll and IDC (June through August)
Agency 710, Texas A&M University System				41	65% COBRA Insurance
	$	13,392,491	$	41	

TRANSFERS IN FROM/OUT TO OTHER STATE ENTITIES

Entity		Transfers In from Other State Entities		Transfers Out to Other State Entities	Purpose
Agency 781, Texas Higher Education Coordinating Board	$		$	139,948	Tuition set asides
Agency 710, Texas A&M University System		6,600,000			RFS/PUF Debt Proceeds
Agency 710, Texas A&M University System		1,015,197			SEF Appreciation Reserve
Agency 710, Texas A&M University System		8,884,223			Fixed Assets
Agency 710, Texas A&M University System		25,980			Resource Allocation Program
Agency 711, Texas A&M University		21,150			Fixed Assets
Agency 711, Texas A&M University		15,000			Funds received for bursary
Agency 556, Texas AgriLife Research		49,167			Fixed Assets
Agency 712, Texas Engineering Experiment Station		5,000			Fixed Assets
Agency 732, Texas A&M University - Kingsville		4,756			Donations received for scholarship
Agency 710, Texas A&M University System				1,227,538	Mandatory Debt Service
Agency 556, Texas AgriLife Research				34,585,396	Texas Institute for Genomic Medicine building,
					equipment, and library.
	$	16,620,473	$	35,952,882	

LEGISLATIVE TRANSFERS IN/OUT

Entity		Legislative Transfers In		Legislative Transfers Out	Purpose
Agency 710, Texas A&M University System	$		$	9,095,135	Mandatory Debt Service
	$	0	$	9,095,135	

Note 9: Contingent Liabilities

At August 31, 2011, various lawsuits and claims involving the Health Science Center had arisen in the course of conducting Health Science Center 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 10: 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 Health Science Center.

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 $47,397,976.68 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.

The Texas A&M University System Health Science Center College of Medicine has established a medical student liability self-insurance plan (the Plan) to provide eligible medical students of the Texas A&M University System Health Science Center College of Medicine with medical malpractice liability indemnity from and against medical malpractice claims. Limits of liability are $25,000 per claim, $75,000 aggregate per participant, and $100,000 annual aggregate. The Plan is funded through a student participation fee. At August 31, 2011, the Plan had a balance of $264,190.75 with no accrued liabilities.

IBNR Liability		
Plan	**WCI**	**Health & Dental**
IBNR Liability 9/1/10	$ 8,432,000.00	$ 13,823,891.00
CY Claims Plus Change in Estimates	2,446,235.00	162,413,266.00
Claims Payments	(2,425,235.00)	(166,019,157.00)
Other Items (changes in estimates)	(1,104,000.00)	-
IBNR Liability 8/31/11	$ 7,349,000.00	$ 10,218,000.00

Note 11: Related Parties

As of August 31, 2011, the Health Science Center did not have any related parties.

Note 12: Stewardship, Compliance, and Accountability

For the year ended August 31, 2011, the Health Science Center is reporting financial information in accordance with requirements set forth by GASB No. 34 and No. 35. Changes to the financial reports of the Health Science Center are discussed in Note 1. The Health Science Center has no material violations of finance related legal and contract provisions. Per the laws of the State of Texas, the Health Science Center cannot spend amounts in excess of appropriations granted by the Texas Legislature and there are no deficits reported in net assets or retained earnings.

The Texas A&M Health Science Center Foundation is organized exclusively for the charitable, educational or scientific purposes of the Health Science Center and is operated exclusively to receive, hold, invest and administer property, real and personal, tangible and intangible, and to make expenditures to or for the benefit of the Health Science Center. The Health Science Center carried the Texas A&M Health Science Center Foundation in Agency Funds. As of August 31, 2011, the Health Science Center held funds for the Foundation in Agency Funds totaling $15,581,374.39.

Note 13: 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. The Texas A&M Health Science Center is a distinct member of the Texas A&M System. The Texas A&M Health Science Center has no component units.

One private entity is included in the A&M System combined annual financial report. Although the following entity is legally separate, due to its close relationship it is reported as if it were part of the A&M System:

The Texas A&M Research Foundation (Research Foundation) has been included as a blended component unit in the combined financial statements of the A&M System since fiscal year 1990, at the direction of the State Auditor's Office. This determination is based on the close relationship and joint agreements in effect between the Research Foundation and the A&M System in regard to research grant/contract administration, as well as the fact that various officials of the A&M System serve as ex-officio voting and non-voting trustees, and members of the executive committee of the Research Foundation. The Research Foundation has a fiscal year end of August 31, 2011 and is Fund Type 05, Appd Fund 9999. Complete financial statements of the Research Foundation may be obtained from their administrative offices at 400 Harvey Mitchell Parkway South, Suite 100, College Station, Texas, 77845. As of August 31, 2011, the Research Foundation had total Research and Development Expenditures for the Health Science Center of $38,255,096.

Note 14: Restatement of Net Assets

Net assets have been restated as of August 31, 2011 due to the change in presentation of the liability for other postemployment benefits. The amount of prior year liability has been removed from Health Science Center Statement of Net Assets and recorded on the A&M System Offices' Balance Sheet.

A summary of restatements of net assets for the year ended August 31, 2011, is presented below:

Net Assets, September 1, 2010	$	402,862,146
Restatements:		
(a) Other Post Employment Benefit Liability	$	18,993,126
Total Restatements	$	18,993,126
Net Assets, September 1, 2010, as Restated	$	421,855,272

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 Texas A&M Health Science Center's benefit liability is included in that of the Texas A&M System. As a result, this liability will be reported in the Texas A&M System financial statements.

Note 15: 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 (TRS). The contributory percentages of participant salaries provided by the State and by each participant during the fiscal year were 6.644% and 6.4%, respectively, of annual compensation.

The Teacher Retirement System of Texas does not separately account for each of its component government 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 $20,709,740.92 for the year ended August 31, 2011. 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 (ORP) 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 6.4% contributed by the State and an additional 2.10% contributed by the A&M System. For participants who enrolled on or after September 1, 1995, the State and participant contributions were 6.4% 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	$ 42,338,732.00
Employee Contributions	38,177,888.00
Total	$ 80,516,620.00

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 retirement expense to the Health Science Center was $3,015,642 for the year ended August 31, 2011. Of this amount, $1,837,214 represents the portion of appropriations made by the State Legislature expended on behalf of the Health Science Center and $1,178,428 represents the portion paid from the Health Science Center's funds.

Note 16: 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.

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 an employer-sponsored plan administered by the Employees Retirement System of Texas (ERS). A&M System employees are permitted to participate in the plan as an agency of the State. The deductions, purchased investments and earnings attributed to the 457 Plan are held in trust and belong to the participants. The State has no liability under the 457 Plan beyond the administrative requirements outlined in the corresponding provisions of the IRC.

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 an employer-sponsored plan. The deductions, purchased investments, and earnings attributed to each employee's 403(b) plan are held by vendors chosen by the employee from an approved vendor list provided by the A&M System. The funds held in the accounts belong to the individual participants. 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 beyond the administrative requirements outlined in the corresponding provisions of the IRC.

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 17: 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.

The amount of net appreciation for donor restricted true endowments presented in the table below is available for authorization and expenditure by the A&M System.

Net Appreciation of Donor-Restricted Endowments

Donor-Restricted Endowments	Amount of Net Appreciation*	Reported in Net Assets
True Endowments	$ 68,010,848.71	Restricted for Expendable

* The total fiscal year 2011 fair value adjustment to the Fund was $37,662,901.39

The amount of net appreciation for donor restricted endowments specific to the Health Science Center is $8,132,479.55.

Note 18: 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, 2011, the employer contributions are presented below.

Employer Contribution Rates

Level of Coverage	Amount
Full-Time Employee/Retiree Only	$ 391.45
Full-Time Employee/Retiree and Spouse	$ 576.10
Full-Time Employee/Retiree and Children	$ 506.86
Full-Time Employee/Retiree and Family	$ 668.43

For the year ended August 31, 2011, benefit plan expenses totaled $169,220,364.03. The cost of providing benefits for 7,136 retirees was $40,489,312.17; and for 23,335 active employees the cost was $128,731,051.86.

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*. Retiree eligibility for insurance continuation is determined by the Legislature and is subject to change.

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, 2011, 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 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**
8/31/2011	$ 40,489,312	$ 174,919,214	23%	$ 476,809,489
8/31/2010	$ 40,173,687	$ 162,680,000	25%	$ 342,379,587
8/31/2009	$ 37,325,544	$ 116,890,000	32%	$ 219,873,275

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.

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, 2011, the cost of providing those benefits for the retirees was $833,098 for the State and $0 for the Health Science Center.

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 Texas A&M Health Science Center benefit liability is included in that of the Texas A&M System As a result, this liability will be reported in the Texas A&M System financial statements.

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)	$ 168,269,760
Interest on Net OPEB Obligation	24,993,710
Adjustment to ARC	(18,344,256)
Annual OPEB Cost	174,919,214
Employer Contributions Made	(40,489,312)
Increase Net OPEB Obligation	134,429,902
Net OPEB Obligation 9/1/2010	342,379,587
Net OPEB Obligation 8/31/2011	$ 476,809,489

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)
9/1/2010	$ -	$ 1,854,690,001	$ (1,854,690,001)	0.0%	$ 1,313,538,458	141.2%
9/1/2009	$ -	$ 1,864,320,000	$ (1,864,320,000)	0.0%	$ 1,315,291,687	141.7%
9/1/2008	$ -	$ 1,258,563,000	$ (1,258,563,000)	0.0%	$ 1,260,683,042	99.8%

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, 2010
Actuarial Cost Method	Entry Age Normal
Amortization Method	Open
Remaining Amortization Period of Unfunded Liability	30 years
Actuarial Assumptions:	
Investment Rate of Return	7.3%
Inflation	3.0%
Health Care Trend Rates	10.0% in 2011
	Decreasing to 5.0% in 2021

Medicare Part D

In fiscal year 2011 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 year 2011 the system received $4,179,511.68 of Medicare Part D payments from the federal government.

Note 19: Disaggregation of Receivable and Payable Balances

A summary of accounts receivable and accounts payable balances for the Health Science Center for the year ended August 31, 2011, is presented below:

Accounts Receivable		
Current Accounts Receivable		Amount on III-FUND
Federal Receivables		241,939.51
Other Intergovernmental		-
Interest and Dividends		-
Gift, Pledges & Donations		80,500.05
Student Receivables		23,352.32
Investment Trade Receivables		-
Other		3,360,724.80
	Total	3,706,516.68
Other Receivables		Amount on III-FUND
Departmental Receivable-Manual		
Travel Advance Receivable		8,822.67
Petty Cash Receivable		
Cashier Collection Items		194.00
A/R Returned Checks		
Unbilled Receivables-Private/Local		
Service Department Receivable		3,936.03
Grants/Contracts		1,039,285.92
Clinics/MSRDP		1,959,170.47
Customer Receivable		955,411.87
Allowance for Doubtful Accounts		(603,054.52)
Enter other line items if necessary		
Other		(3,041.64)
	Total	3,360,724.80
Accounts Payable		
Current Accounts Payable		Amount on III-FUND
Accounts Payable		4,454,941.35
Payroll Payable		8,396,378.92
Other		2.33
	Total	12,851,322.60

Note 20: 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. The Texas A&M Health Science Center has no obligation to pay the A&M System for any termination benefits specifically incurred by the Health Science Center.

As of August 31, 2011, the A&M System has not incurred obligations to pay voluntary or involuntary termination benefits in fiscal year 2012.

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 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 15 months. This applies to employees who were involuntarily terminated between September 1, 2008 and May 31, 2010. The maximum end of the 15 month payment period was August 31, 2011.

For fiscal year 2011, the total 65% COBRA funding that TAMU System members received from the federal grant was $151,279.29.

COBRA benefits for the Texas A&M University System for the year ended August 31, 2011 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	222	88	34	25	103
Premium Revenue	$ 977,619	$ 65,856			
2 Percent Administrative Fee Revenue	17,560	1,345			
Total COBRA Revenue	995,179	67,201			
Claims Paid	2,366,450	72,962			
Administrative Expenses	26,720	5,695			
Total COBRA Expenses	2,393,170	78,657			
Total Cost to State	$ 1,397,991	$ 11,456			

State Auditor's Office
John Keel, CPA
State Auditor

January 17, 2012

Dr. Nancy W. Dickey, President
Texas A&M University System Health Science Center
John B. Connally Building
301 Tarrow, 7th Floor
College Station, TX 77840-7896

Subject: Management Letter Resulting from a Review of the Texas A&M University System Health Science Center's Fiscal Year 2011 Financial Statements

Dear Dr. Dickey:

We offer this management letter in conjunction with our review of the financial statements of the Texas A&M University System Health Science Center (Health Science Center) for the fiscal year ended August 31, 2011. 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, CIA, CGAP, CISA
Assistant State Auditor

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A Review of

Texas State Technical College Waco

Financial Statements and Independent Accountant's Review Report for the Southern Association of Colleges and Schools

Fiscal Year Ending August 31, 2011

Contents

Independent Accountant's Review Report 1

Management's Discussion and Analysis 2
Texas State Technical College Waco Financial Report
(prepared in accordance with SACS Criteria for Accreditation)

Statement of Net Assets at August 31, 2011 9

Statement of Revenues, Expenses, and Changes in Net Assets for
The Fiscal Year Ended August 31, 2011 11

Statement of Cash Flows for the Fiscal Year Ended
August 31, 2011 13

Notes to the Financial Statements for the Fiscal Year Ended
August 31, 2011 15

Schedule of Changes in Unrestricted Net Assets for the Fiscal
Year Ended August 31, 2011 31

Management Letter 32

State Auditor's Office
John Keel, CPA
State Auditor

Independent Accountant's Review Report

Dr. Elton E. Stuckly, Jr., President
Texas State Technical College - Waco
Waco, TX

We have reviewed the accompanying Statement of Net Assets of Texas State Technical College - Waco (College) as of August 31, 2011, and the related Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows for the year then ended. A review includes primarily applying analytical procedures to the College's financial data and making inquiries of College personnel. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

College management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

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 accounting principles generally accepted in the United States of America.

Our review was made for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The Schedule of Changes in Unrestricted Net Assets is presented only for the purpose of additional analysis at the request of the Southern Association of Colleges and Schools' Commission on Colleges as part of its core requirements for accreditation and has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements. This schedule is the representation of management, without audit or review, and we do not express an opinion or provide any assurance on it.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information was not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or provide any assurance on it.

John Keel, CPA
State Auditor

March 9, 2012

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SAO Report No. 12-331

Texas State Technical College Waco Texas
Management's Discussion and Analysis
Fiscal Year Ending August 31, 2011

INTRODUCTION

This section of Texas State Technical College Waco's Annual Financial Report presents Management's Discussion and Analysis of the College's financial position and activities for the year ended August 31, 2011, and comparative information for the year ended August 31, 2010. Since this Management's Discussion and Analysis is designed to focus on current activities, resulting change, and currently known facts, it must be read in conjunction with the College's Financial Statements and footnotes. Responsibility for the fairness and completeness of this information rests with the College.

FINANCIAL HIGHLIGHTS

- The College's total assets, net of depreciation, increased 8.7% from fiscal year 2010, to a total of $91,399,200 at August 31, 2011.
- During fiscal year 2011, the College's balance of current and restricted cash, cash equivalents, and investments decreased by $5,591,733. This change is a result of a modification in investment type for construction bond projects as well as the use of those funds for construction projects.
- State appropriations of $31,285,935, a key non-operating revenue source for the College, declined by $394,430 (1.2%) due to reductions made by the Texas Legislature to help keep the state's budget balanced with declining state-wide tax revenues.
- Revenues from student tuition and fees increased by $1,695,597 from a tuition rate increase for both technical and academic courses. Record student enrollment numbers for FY2010 returned to normal and expected levels for FY2011 resulting in a decrease in auxiliary revenues.
- Net receivables increased $854,656 due to increases in tuition rates and timing differences in financial aid transmittals.

FINANCIAL STATEMENTS

The financial statements of this annual report, prepared as a proprietary fund type, consist of two parts – Management's Discussion and Analysis (this section), and the Basic Financial Statements. The financial statements consist of the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; the Statement of Cash Flows; and Notes to the Financial Statements, are prepared in accordance with the Governmental Accounting Standards Board Statements No. 34 (GASB 34), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and No. 35 (GASB 35), *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities,* as well as the related Statements 37 and 38.

These three statements will assist the reader in determining whether the College, as a whole, is performing better this year as compared to last year. These statements are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Net Assets includes all assets and liabilities. The College's net assets (which are the difference between the assets and liabilities) are one indicator of the College's financial health. Over time, increases and decreases in net assets indicate the improvement or erosion of the College's financial health when considered with the non-financial facts, such as enrollment levels (both credit and non-credit) and the condition of the facilities.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the fiscal year. Activities are reported as either operating or non-operating. The College's dependency on state appropriations results in operating deficits because GASB 35 classifies state appropriations as non-operating revenue.

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, non-capital financing, capital and related financing, and investing activities. This statement presents the College's ability to meet financial obligations as they mature.

This discussion and analysis of the College's financial statements provides an overview of its financial activities for the year.

ANALYSIS OF OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS AND CONDENSED FINANCIAL INFORMATION

Statement of Net Assets

The Statement of Net Assets presents end of year data concerning assets (current and non-current), liabilities (current and non-current), and net assets (assets minus liabilities). From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue operations of the College. They are also able to determine how much the College owes vendors, investors, and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the College.

Net assets are divided into three categories. The first category, *invested in capital assets, net of related debt*, reflects the College's equity in property, plant and equipment owned by the College. The second category is *restricted net assets*, which can be either expendable or non-expendable. The corpus of non-expendable restricted assets is available for investment purposes. Expendable restricted net assets are available for expenditure by the College but must be spent for purposes as specified by donors and/or entities. The third category, *unrestricted net assets*, is available for use by the College for any lawful purpose.

A comparative presentation of financial information from the Statement of Net Assets for fiscal years 2011 and 2010 is as follows:

Statement of Net Assets

	2011	2010
Assets:		
Current assets	$39,988,225	$44,894,716
Other non-current assets	1,388,909	276,800
Capital assets, net	50,022,065	38,889,409
Total Assets	91,399,199	84,060,925
Liabilities		
Current liabilities	18,458,195	16,824,281
Non-current liabilities	30,039,112	28,707,909
Total Liabilities	48,497,307	45,532,190
Net Assets		
Invested in capital assets, net of related debt	31,261,638	27,907,274
Restricted, non-expendable and other	1,494,993	403,936
Restricted, expendable		

Unrestricted	10,145,261	10,217,525
Total Net Assets	42,901,892	38,528,735

The total assets of the College increased by $7,338,274 from fiscal year 2010 to 2011. This increase was due primarily to an increase in capital assets, net of depreciation due to building construction and building improvements on campus.

Total liabilities increased by $2,965,117 from 2010 to 2011 primarily due to increases in deferred revenue, accounts payable and bonds payable.

The combination from the increase in assets of $7,338,274 and the increase in liabilities of $2,965,117 yields an increase in net assets of $4,373,157.

Statement of Revenues, Expenses, and Changes in Net Assets

The changes in total net assets presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present the revenues earned by the College, both operating and non-operating, and the expenses incurred by the College, operating and non-operating, and any other revenues, expenses, and gains/losses received or spent by the College.

Operating revenues are received for providing goods and services to the various customers and constituencies of the College. Operating expenses are those expenses paid to acquire or produce goods and services provided in return for operating revenues, and to carry out the mission of the College. Non-operating revenues are revenues received for which goods and services are not normally or usually provided.

A comparative presentation of financial information from the Statement of Revenues, Expenses, and Changes in Net Assets for fiscal years 2011 and 2010 is as follows:

Statement of Revenues, Expenses, and Changes in Net Assets

	2011	**2010**
Operating revenues	$31,902,792	$28,744,507
Operating expenses	74,676,598	77,533,359
Operating loss	(42,773,806)	(48,788,852)
Non-operating revenues and expenses	45,488,361	50,128,645
Other revenues, expenses, gains (losses), and transfers	1,672,613	1,537,224
Change in net assets	4,387,168	2,877,017
Net assets at beginning of year	38,528,735	35,651,718
Accounting principle/prior period adjustment	(14,011)	0
Net assets at beginning of year, restated	38,514,724	35,651,718
Net assets at end of year	42,901,892	38,528,735

An operating loss of $42,773,806 resulted in fiscal year 2011. In accordance with GASB 35, state appropriations are considered non-operating revenues. State appropriations provide funding for much of the College's instructional and support operations, so the presence of an operating loss will be standard for the College.

The operating loss for fiscal year 2011 declined by $6,015,046 due mainly to an increase in federal and state sponsored program pass-through from other state agencies as well as other grants and contracts. The College made a concerted effort to reduce the normal growth in operating expenses due to an expected reduction in state appropriations during fiscal year 2011 and beyond. State appropriations were reduced by $394,430 in fiscal year 2011 when compared to fiscal year 2010.

A comparison of certain revenues (operating, non-operating, and other) shows that, by and large, the College's revenue sources remained steady despite the difficult economic climate.

	2011	2010
State appropriations	$31,285,935	$31,680,365
Tuition and fees, net	12,204,002	10,508,405
Sales and services of educational activities	1,365,884	1,947,577
Auxiliary enterprises, net	6,105,576	6,537,325
Federal sponsored programs	24,224,518	27,013,687
State sponsored programs	3,219,011	2,610,078
Other sponsored programs	2,419,030	314,171
Interest and investment income	94,296	141,166
Gifts	0	1,550
Capital appropriations	2,516,910	2,495,692
Capital contributions	29,492	80,784
Gifts for capital acquisitions	204,908	0
Disposal of Plant Facilities	(172,203)	(421,301)
Settlement of Claims	1,096,341	(25,000)
Interest Expense and Fiscal Charges	(1,194,335)	(1,022,364)
Transfers from (to) Other TSTC Colleges	(644,921)	(564,907)
Transfers from (to) Other State Agencies	(433,776)	(474,345)
Other Non-Operating Revenues	(3,256,902)	(412,507)
Total Net Revenues	79,063,766	80,410,376

Significant changes:

- Other Non-Operating Revenues net of expenses were decreased by $2,844,395 which is representative of expenses incurred for the on-campus housing remodeling project. This project did not meet the capitalization threshold for plant funds.
- Settlement of Claims includes $1,002,205 received for foundation repairs to one building on the Waco campus.
- Auxiliary enterprise revenues decreased by $431,749 due to record enrollment numbers (from previous year) returning to normal and expected levels. Additionally, due to the housing renovation project, many units were undergoing remodeling and unavailable for use.

Operating expenses, including depreciation, are presented below by functional classification, and indicate relatively static levels of expenditure and distribution of resources:

	2011		2010	
		Percent		Percent
	Amount	Of total	Amount	of total
Instruction	$27,563,627	36.91%	$27,402,797	35.34%
Public service	1,160	0.00%	0	0.00%
Research	0	0.00%	0	0.00%
Academic support	6,728,657	9.01%	7,894,260	10.18%
Student services	5,645,728	7.56%	6,022,081	7.77%
Institutional support	4,735,083	6.34%	4,549,660	5.87%
Operation and maintenance of plant	5,729,954	7.67%	6,399,022	8.25%
Scholarship and fellowship	12,858,883	17.22%	13,558,056	17.49%
Auxiliary enterprises	7,771,467	10.41%	8,714,799	11.24%

Depreciation expense	3,642,039	4.88%	2,992,683	3.86%
Total expense	74,676,598		77,533,358	

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with an increase in net assets of $1,510,151 at the end of the fiscal year.

Some highlights of the information presented in the Statement of Revenues, Expenses, and Changes in Net Assets include:

- Tuition and fee discounts for fiscal year 2011 were $7,220,390, or 37% of gross tuition and fee revenues. These reflect the amounts of federal and state grants provided as financial aid to students which are recognized as revenue elsewhere in the Statement.

- During fiscal year 2011 the State of Texas required a 7.5% general revenue funding reduction for state agencies to keep the state budget balanced in accordance with the Texas Constitution. TSTC Waco returned $2,416,071 in appropriations to the state, resulting in a reduction in the state appropriation revenue reported in the statement. The college absorbed these reductions in the area of Operation and Maintenance of plant, Academic Support and Student Services. Please note that the variance in levels between fiscal years 2010 and 2011 do not equal this reduction amount because the actual amounts received vary slightly from year to year in areas such as staff benefits.

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activity of the College during the year, and is divided into five sections. The first section presents operating cash flows and net cash used in the operating activities of the College. The second section reflects cash flows (received and spent) for non-operating, non-investing, and non-capital financing purposes. The third reflects cash flows from investing activities, including purchases, proceeds, and interest received. The fourth section presents cash flows from capital and related financing activities. The fifth section reconciles net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

The Statement of Cash Flows is summarized as follows:

Statement of Cash Flows

	2011	**2010**
Cash provided (used) by:		
Operating activities	(38,695,448)	(49,895,754)
Non-capital financing activities	47,751,048	54,098,652
Investing activities	15,539,136	(13,537,039)
Capital and related financing activities	(13,628,535)	8,036,054
Net Change in Cash	10,966,201	(1,298,087)
Cash, beginning of year	7,525,586	8,823,673
Cash, ending of year	18,491,787	7,525,586

Major cash sources of funds for operating activities include student tuition and fees, $11,196,035; grants and contracts, $13,414,600; and other customers (Contract Training/Continuing Ed), $1,677,977. The largest operating payments include employee payroll costs, $38,863,048; payment to suppliers for goods and services, $18,601,830; and other payments, including student scholarships, $22,785,900.

The largest inflow of cash derived from non-capital financing activities is from state appropriations, totaling $34,058,484.

The College's balance of revenue bonds at the end of FY2011totaled $17,468,059 for the construction of new instructional facilities, housing renovations and chiller system expansion, which provided a positive cash flow from capital financing activities when offset against capital payments of $1,842,081. Cash flows from investing activities were $15,539,136 due to the investment of the bond proceeds which provided a positive cash flow from capital financing. Progress is being made to complete the projects related to bond debt.

The cash and cash equivalents balance for the College as of August 31, 2011 increased $10,966,201 from the same period in fiscal year 2010. Much of this increase comes from the College's deliberate intent of increasing available reserves.

Significant changes:

- While student tuition and fees were greater in total (primarily due to tuition increases), actual proceeds received from student tuition and fees decreased by $1,462,509 (-13.06%) due to an increase in accounts receivable. In Fall 2011, the tuition rate increased $25 per technical credit hour and $10 per credit hour for academic courses.
- The college received $13,414,600 in federal and state grant contracts. This represents an increase of $11,556,816 (86.15%) from 2010. This significant increase is attributable to federal ARRA Program funds as well as state Loan Star funding.
- The college experienced a record enrollment for the Fall 2009 semester and subsequent Spring 2010 semester. In 2011, enrollment returned to normal and expected levels for Fall 2010 and Spring 2011. Federal financial aid funding decreased commensurate with enrollment decrease.
- The investment of bond proceeds for construction projects was changed from Tex Pool to money market funds in order to improve investment yield. This reclassification resulted in increased cash flows in Investing Activities and decreased cash flows in Capital and Related Financing activities.

<u>Capital Asset and Debt Administration</u>

The College had $108,167,914 in capital assets, and $58,145,849 in accumulated depreciation at August 31, 2011.

	2011	2010
Land	1,003,109	1,003,109
Construction in Progress	11,256,404	5,481,606
Buildings	23,854,795	23,821,072
Infrastructure	4,872,568	1,806,263
Other facilities	764,891	481,634
Furniture and equipment	5,829,886	3,986,110
Vehicles, boats, and aircraft	1,835,610	1,938,065
Computer Software	362,211	143,027
Other capital assets	242,591	228,523
Net capital assets	50,022,065	38,889,409

Construction in progress increased by $5,774,798 in fiscal year 2011. While two major projects (Golf /Landscape Facility and TRB Chiller) were completed in 2011, progress toward the completion of several other capital projects continues at the Waco campus. These major projects include three parking lots, Culinary Arts Center, Aerospace Technology Center and ARRA-SECO Chiller project.

Significant changes:

- Infrastructure increased with the completion of the TRB Chiller project.
- Building and building improvements increased due to the new roof on the Student Services Center.

- Furniture and equipment increased due to software and hardware purchased for the East Williamson County Higher Education Center, a propane fueling system platform, and solar panels on various buildings on Waco campus. Accumulated depreciation has also increased accordingly.

Bond indebtedness by TSTC Waco Texas includes four bond issues:

Issue	Original Bond Amount	Remaining Principal, 8/31/2011
Revenue Financing System Bonds Sold and Reissued, Series 2002	$3,400,000	$2,143,750
Revenue Financing System Bonds HEAF, Series 2005	6,702,785	2,957,425
Revenue Financing System Bonds TRB Phase 1 Chiller, Series 2008	3,125,000	2,555,000
Revenue Financing System Local Bonds, Series 2009	18,079,377	17,503,564

These bond liabilities are discussed in greater detail in Note 5 to the Financial Statements.

Economic Outlook

Legislative appropriations for FY 2012/2013 for state colleges and universities were generally reduced when compared with appropriations for FY2010/2011. TSTC Waco in effect has fared well in the funding reduction. The College realized in FY 2012 an increase of $1,096,004 in state appropriations, inclusive of a $2,000,000 special appropriation for foundation repairs to one building at the Waco campus. The College has initiated an integrated marketing plan, targeting new programs such as Fundamental Certificates as well as expanding our markets to include the new East Williamson County Higher Education Center at Hutto.

The Texas State Comptroller's Office recent outlook states that increases in job growth, sales tax collections (both from business and consumer purchases), and automobile sales signal that the Texas economy has emerged from the recent recession.

The College's overall financial position remains strong and the College expects to be able to maintain growth and increases in net assets.

TEXAS STATE TECHNICAL COLLEGE WACO
Statement of Net Assets
August 31, 2011
See Independent Accountant's Review Report on page 1

		TOTAL
ASSETS		
Current Assets:		
Cash and Cash Equivalents		
Cash on Hand	$	17,400.00
Cash in Bank (Note 3)		4,598,025.92
Cash in State Treasury		6,073,301.71
Short-term Investments (Note 3)		2,063,998.09
Restricted		
Cash and Cash Equivalents		
Cash in Bank (Note 3)		7,782,361.20
Short-term Investments (Note 3)		2,936,096.29
Balance in State Appropriations		3,121,149.98
Accounts Receivable		5,830,814.32
Federal Receivables		4,424,572.54
Accrued Interest Receivable		3,810.54
Due from Other State Entities (Note 10)		1,458,391.28
Consumable Inventories		761,051.96
Merchandise Inventories		916,251.42
Other Current Assets		1,000.00
Total Current Assets	$	39,988,225.25
Non-Current Assets:		
Restricted		
Cash in Bank (Note 3)	$	20,697.98
Short-term Investments (Note 3)		256,809.12
Investments (Note 3)		1,100,000.00
Accrued Interest Receivable		1,402.30
Investments (Note 3)		10,000.00
Capital Assets, Non-Depreciable (Note 2)		
Land and Land Improvements		1,003,108.86
Other Capital Assets		9,500.00
Construction in Progress		11,256,403.57
Capital Assets, Depreciable and Amortizable (Note 2)		
Buildings and Building Improvements		60,217,990.03
Less Accumulated Depreciation		(36,363,194.94)
Infrastructure		9,758,239.98
Less Accumulated Depreciation		(4,885,671.95)
Facilities and Other Improvements		2,002,603.39
Less Accumulated Depreciation		(1,237,712.44)
Furniture and Equipment		16,380,797.79
Less Accumulated Depreciation		(10,550,912.14)
Vehicles, Boats, and Aircraft		5,582,663.72
Less Accumulated Depreciation		(3,747,053.15)
Other Capital Assets		1,167,083.37
Less Accumulated Depreciation		(933,991.89)
Computer Software		789,523.31
Less Accumulated Amortization		(427,312.67)
Total Non-Current Assets	$	51,410,974.24
TOTAL ASSETS	$	91,399,199.49

TEXAS STATE TECHNICAL COLLEGE WACO
Statement of Net Assets
August 31, 2011
See Independent Accountant's Review Report on page 1

		TOTAL
LIABILITIES		
Current Liabilities:		
Accounts Payable	$	3,117,756.34
Payroll Payables		2,693,183.27
Federal Payables		27,772.22
Due to Other State Entities (Note 10)		5,107.29
Deferred Revenue		8,530,411.76
Employees' Compensable Leave (Note 4)		288,941.29
Capital Lease Obligations (Notes 4, 6)		302,119.78
Deposits Payable		786,794.74
Revenue Bonds Payable (Notes 4, 5)		919,407.98
General Obligation Bonds Payable (Notes 4, 5)		696,115.95
Accrued Interest Payable-Bonds		90,249.00
Funds Held for Others		984,419.40
Other Current Liabilities		15,916.30
Total Current Liabilities	$	18,458,195.32
Non-Current Liabilities:		
Employees' Compensable Leave (Note 4)	$	2,210,550.92
Interagency Loan Payable (Notes 4, 10)		3,376,479.64
Capital Lease Obligations (Notes 4, 6)		907,866.64
Revenue Bonds Payable (Notes 4, 5)		21,282,905.70
General Obligation Bonds Payable (Notes 4, 5)		2,261,309.17
Total Non-Current Liabilities	$	30,039,112.07
TOTAL LIABILITIES	$	48,497,307.39
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$	31,261,637.64
Restricted for:		
Debt Retirement		7,175.27
Capital Projects		259,288.25
Other		951,004.15
True and Other Endowments, and Annuities		
Non- Expendable		277,525.53
Unrestricted		10,145,261.26
TOTAL NET ASSETS	$	42,901,892.10

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

TEXAS STATE TECHNICAL COLLEGE WACO
Statement of Revenues, Expenses, and Changes in Net Assets
For The Fiscal Year Ended August 31, 2011
See Independent Accountant's Review Report on page 1

		TOTAL
OPERATING REVENUES:		
Sales of Goods and Services:		
Student Tuition and Fees - Pledged	$	16,849,803.24
Student Tuition and Fees		2,574,588.55
Discounts and Allowances		(7,220,390.29)
Auxiliary Enterprises - Pledged		7,754,372.31
Auxiliary Enterprises		748,173.20
Discounts and Allowances		(2,396,969.11)
Net Sales and Services of Educational Activities - Pledged		1,365,883.86
Interest and Investment Income from Operating Activities - Pledged		53,759.70
Federal Revenue		6,535,525.10
State Grant Revenue		3,219,011.12
Other Grants and Contracts		2,419,030.46
Other Operating Revenues - Pledged		4.00
Total Operating Revenues	$	31,902,792.14
OPERATING EXPENSES:		
Costs of Goods Sold	$	2,278,949.51
Salaries and Wages		28,134,606.48
Payroll Related Costs		10,657,238.85
Professional Fees and Services		180,699.77
Travel		298,694.77
Materials and Supplies		5,853,588.22
Communications and Utilities		3,719,100.46
Repairs and Maintenance		921,393.07
Rentals and Leases		495,440.78
Printing and Reproduction		48,855.44
Depreciation and Amortization		3,642,038.77
Interest		584.60
Scholarships		13,168,541.06
Claims and Judgments		1,602.30
Other Operating Expenses		5,275,264.24
Total Operating Expenses	$	74,676,598.32
Operating Income (Loss)	$	(42,773,806.18)

TEXAS STATE TECHNICAL COLLEGE WACO
Statement of Revenues, Expenses, and Changes in Net Assets
For The Fiscal Year Ended August 31, 2011
See Independent Accountant's Review Report on page 1

		TOTAL
NONOPERATING REVENUES (EXPENSES):		
State Appropriations	$	31,285,934.78
Investment Income		40,536.52
Federal Sponsored Programs		17,688,993.00
Disposal of Plant Facilities		(172,203.17)
Settlement of Claims		1,096,340.35
Interest Expense and Fiscal Charges		(1,194,334.48)
Other Nonoperating Revenues		10.00
Other Nonoperating (Expenses)		(3,256,915.74)
Net Nonoperating Revenues (Expenses)	$	45,488,361.26
Income (Loss) Before Other Revenues, Expenses, Gains/(Losses), and Transfers	$	2,714,555.08
OTHER REVENUES, EXPENSES, GAINS (LOSSES) AND TRANSFERS:		
Capital Contributions	$	29,492.28
Capital Appropriations (HEAF)		2,516,910.00
Gifts and Sponsored Programs for Capital Acquisitions		204,907.65
Transfers from Other State Entities (Note 10)		111,760.18
Transfers to Other State Entities (Note 10)		(1,190,457.42)
Net Other Revenues, Expenses, Gains/(Losses) and Transfers	$	1,672,612.69
CHANGE IN NET ASSETS	$	4,387,167.77
Net Assets - September 1, 2010	$	38,528,734.93
Restatements (Note 11)		(14,010.60)
Net Assets - September 1, 2010 - As Restated	$	38,514,724.33
NET ASSETS - August 31, 2011	$	42,901,892.10

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

TEXAS STATE TECHNICAL COLLEGE WACO

Statement of Cash Flows

For the Fiscal Year Ended August 31, 2011

See Independent Accountant's Review Report on page 1

		TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds Received from Tuition and Fees	$	11,196,035.12
Proceeds Received from Customers (Other Sales and Services)		1,677,977.31
Proceeds from Grants and Contracts		13,414,600.33
Proceeds from Auxiliaries		6,055,822.46
Proceeds from Other Revenues		4.00
Payments to Suppliers for Goods and Services		(18,601,830.12)
Payments to Employees for Salaries and Wages		(28,373,206.47)
Payments to Employees for Benefits		(10,489,841.48)
Payments for Other Expenses		(13,575,009.04)
Net Cash Provided (Used) by Operating Activities	$	(38,695,447.89)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from State Appropriations	$	34,058,484.00
Proceeds from Grants and Contracts		17,688,993.00
Proceeds from Other Revenues		10.00
Payments of Transfers to Other State Entities		(740,330.35)
Payments for Other Uses		(3,256,108.32)
Net Cash Provided (Used) by Noncapital Financing Activities	$	47,751,048.33
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Capital Grants and Gifts	$	204,907.65
Proceeds from Other Financing Activities		1,096,340.35
Proceeds from Interagency Payables		3,376,479.64
Payments for Additions to Capital Assets		(14,814,938.15)
Payments of Principal on Debt Issuance		(1,842,080.94)
Payments of Interest on Debt Issuance		(1,199,116.43)
Payments of Transfers to Other State Entities for Debt Retirement		(450,127.07)
Net Cash Provided (Used) by Capital and Related Financing Activities	$	(13,628,534.95)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales of Investments	$	17,468,059.48
Proceeds from Interest and Investment Income		91,938.38
Payments to Acquire Investments		(2,020,862.35)
Net Cash Provided (Used) by Investing Activities	$	15,539,135.51

TEXAS STATE TECHNICAL COLLEGE WACO
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2011
See Independent Accountant's Review Report on page 1

		TOTAL
Increase (Decrease) in Cash and Cash Equivalents	$	10,966,201.00
Cash and Cash Equivalents, September 1, 2010		7,525,585.81
Cash and Cash Equivalents, August 31, 2011	$	18,491,786.81

RECONCILIATION OF OPERATING INCOME (LOSS) TO
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating Income (Loss)	$	(42,773,806.18)
Adjustments to Reconcile Operating Income		
to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization		3,642,038.77
Operating Income and Cash Flow Categories		
Classification Differences		
Interest and Investment Income from Operating Activities		(53,759.70)
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		(602,682.70)
(Increase) Decrease in Inventories		(87,195.41)
(Increase) Decrease in Due from Other Agencies		(251,018.08)
(Increase) Decrease in Other Assets		1,000.00
Increase (Decrease) in Payables		282,798.19
Increase (Decrease) in Deposits Payable		332,575.55
Increase (Decrease) in Due to Other State Entities		1,442.45
Increase (Decrease) in Deferred Income		1,001,052.52
Increase (Decrease) in Funds Held for Others		(108,613.36)
Increase (Decrease) in Compensated Absence Liability		(94,759.43)
Increase (Decrease) in Other Liabilities		15,479.49
Total Adjustments	$	4,078,358.29
Net Cash Provided (Used) by Operating Activities	$	(38,695,447.89)
NON CASH TRANSACTIONS		
Donations of Capital Assets	$	29,492.28
Transfers of Capital Assets from Other State Entities		111,760.18
Borrowing Under Capital Lease Purchases		4,717.82
Disposal of Plant Facilities		(172,203.17)
Restatement to Beginning Capital Assets Balance		(14,010.60)
Total Non Cash Transactions	$	(40,243.49)

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

TEXAS STATE TECHNICAL COLLEGE WACO
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended August 31, 2011

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 Technical College Waco (College) 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 Governmental Accounting Standards Board (GASB) requirements, the report also includes a Management's Discussion and Analysis section.

Reporting Entity

The College is a component of the Texas State Technical College System (System) and an agency of the State of Texas. The System 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 College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College'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 and amortization on capital assets.

Assets

<u>Cash and Cash Equivalents</u>
Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents.

<u>Short-term Investments and Investments</u>
Short-term investments consist of certificates of deposits purchased from banks whose maturities do not exceed one year from date of purchase and investments in TexPool, an authorized AAAm rated government investment pool. Investments consist of certificates of deposits purchased from banks whose maturities exceed one year from date of purchase.
The certificates of deposit are valued at cost. The fair value of the funds invested in TexPool is measured at the net asset value per share provided by the pool. The College may withdraw the funds from TexPool on demand.

<u>Accounts Receivable</u>
Accounts receivable represent amounts owed to the College from private persons or organizations for goods and services furnished. These consist primarily of amounts owed by students for tuition and fees and by private organizations for grants and contracts.

<u>Restricted Assets</u>
Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include proceeds of general obligation and revenue bonds and revenues set aside for statutory or contractual requirements. Endowment assets and assets held in reserve for guaranteed student loan defaults are also included.

Inventories

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost, generally utilizing the last-in, first-out method. The consumption method of accounting is used to account for inventories. The costs of these items are expensed when the items are consumed.

Capital Assets

Equipment, vehicles and aircraft with an initial, individual cost of more than $5,000.00 and an estimated useful life in excess of one year is capitalized. Buildings, infrastructure, facilities and other assets are capitalized when they meet the following thresholds set by the State:

Capital Asset Category	Threshold	
Buildings and Building Improvements	$	100,000.00
Infrastructure	$	500,000.00
Facilities and Other Improvements	$	100,000.00
Software (Purchased)	$	100,000.00
Software (Internally Developed	$	1,000,000.00

These assets are capitalized at cost or, if any donated, at appraised fair value as of the date of acquisition. Depreciation or amortization is reported on all "exhaustible" assets. "Inexhaustible" assets such as works of art and historical treasures are not depreciated or amortized. Assets are depreciated or amortized over the estimated useful life of the asset using the straight-line method. Depreciation or amortization of capital assets is recorded as a periodic expense and accumulated as an offset to the asset book values. Depreciation or amortization of capital assets is based on allocation methods and estimated lives as summarized below:

Capital Asset Category	Useful Life
Buildings and Building Improvements	15-30 years
Infrastructure	15-30 years
Facilities and Other Improvements	10-23 years
Furniture and Equipment	3-15 years
Vehicles/Airplanes	5-10 years
Software	5 years

Liabilities

Accounts Payable

Accounts Payable represents the liability for the value of assets or services rendered at the balance sheet date for which payment is pending. These primarily consist of amounts owed to suppliers for goods and services.

Deferred Revenues

Deferred revenues represent tuition and fees inflows as of the end of a fiscal year which will not be earned until the subsequent fiscal year.

Employees' Compensable Leave

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

Capital Lease Obligations
Capital Lease Obligations represent the liability for future lease payments under capital lease contracts contingent upon the appropriation of funding by the Legislature. Liabilities are reported separately as either current or non-current in the statement of net assets.

Bonds Payable
Bonds payable are reported at par less unamortized discount or plus unamortized premium. Interest expense is reported on the accrual basis, with amortization of discount or premium. Payables are reported separately as either current or non-current in the statement of net assets.

Funds Held for Others
Funds held for others represent assets held by the College on behalf of others in a purely custodial capacity, including funds owned by various student organizations and temporary holdings of student loan funds prior to disbursing to the students.

Net Assets

Net Assets is the difference between assets and liabilities.

Invested in Capital Assets, Net of Related Debt
Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bond, 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.

Revenues and Expenses

Operating revenues include activities such as tuition and fees, net of discounts and allowances; sales and services of auxiliary enterprises; most federal, state, and local grants and contracts; and interest income earned from operating activities. Operating revenues are classified as pledged to the extent that they are pledged as security for the College's bonded debt service. Non-pledged revenues consist of revenues that are not lawfully available to the College to be used for payments on bonded debt service. Operating expenses include salaries and wages, payroll related costs, materials and supplies, depreciation and amortization and scholarships. Non-operating revenues include activities such as State appropriations, federal student financial aid, insurance recoveries on property claims, and investment income. Non-operating expenses include activities such as interest expense on capital asset financing and expenses on capital assets not meeting the capitalization thresholds set by the State.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the college addresses each situation on a case-by-case basis prior to determining the resources to be used to satisfy the obligation. Generally, the College's policy is to first apply the expense towards restricted resources and then towards unrestricted resources.

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 scholarships 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.

TEXAS STATE TECHNICAL COLLEGE WACO
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended August 31, 2011

Note 2: Capital Assets

A summary of changes in capital assets for the year ended August 31, 2011 is presented below:

	Balance 9/1/10	Adjustments	Completed Construction In Progress	Additions	Deletions	Balance 8/31/11
Non-Depreciable or Non-amortizable Assets						
Land and Land Improvements	$ 1,003,108.86	$	$	$	$	$ 1,003,108.86
Construction in Progress	5,481,606.30	(10,565.00)	(5,022,103.12)	10,807,465.39		11,256,403.57
Other Tangible Capital Assets	9,500.00					9,500.00
Total Non-Depreciable or Non-amortizable Assets	$ 6,494,215.16	$ (10,565.00)	$(5,022,103.12)	$ 10,807,465.39	$ 0.00	$ 12,269,012.43
Depreciable Assets						
Buildings & Bldg. Improvements	$ 58,697,755.16	$ (3,445.60)	$ 1,486,942.37	$ 204,400.00	$ (167,661.90)	$ 60,217,990.03
Infrastructure	6,544,295.00		3,213,944.98			9,758,239.98
Facilities & Other Improvements	1,681,387.62		321,215.77			2,002,603.39
Furniture and Equipment	13,195,173.38	7,545.00		3,630,973.44	(452,894.03)	16,380,797.79
Vehicle, Boats & Aircraft	5,468,863.62	15,425.37		295,490.13	(197,115.40)	5,582,663.72
Other Capital Assets	1,135,578.08			34,291.81	(2,786.52)	1,167,083.37
Total Depreciable Assets at Historical Costs	$ 86,723,052.86	$ 19,524.77	$ 5,022,103.12	$ 4,165,155.38	$ (820,457.85)	$ 95,109,378.28
Less Accumulated Depreciation for:						
Buildings & Bldg. Improvements	$ (34,876,683.46)	$	$	$ (1,534,777.08)	$ 48,265.60	$(36,363,194.94)
Infrastructure	(4,738,031.63)			(147,640.32)		(4,885,671.95)
Facilities & Other Improvements	(1,199,754.19)			(37,958.25)		(1,237,712.44)
Furniture and Equipment	(9,209,063.07)	(7,545.00)		(1,739,676.71)	405,372.64	(10,550,912.14)
Vehicle, Boats & Aircraft	(3,530,798.52)	(15,425.37)		(397,529.15)	196,699.89	(3,747,053.15)
Other Capital Assets	(916,555.33)			(17,436.56)		(933,991.89)
Total Accumulated Depreciation	$ (54,470,886.20)	$ (22,970.37)	$ 0.00	$ (3,875,018.07)	$ 650,338.13	$(57,718,536.51)
Depreciable Assets, Net	$ 32,252,166.66	$ (3,445.60)	$ 5,022,103.12	$ 290,137.31	$ (170,119.72)	$ 37,390,841.77

TEXAS STATE TECHNICAL COLLEGE WACO
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended August 31, 2011

	Balance 9/1/10	Adjustments	Completed Construction In Progress	Additions	Deletions	Balance 8/31/11
Amortizable Assets-Intangible						
Computer Software	$ 521,945.31	$ (5,500.00)	$ 0.00	$ 294,000.00	$ (20,922.00)	$ 789,523.31
Total Amortizable Assets - Intangible	$ 521,945.31	$ (5,500.00)	$ 0.00	$ 294,000.00	$ (20,922.00)	$ 789,523.31
Less Accumulated Amortization for:						
Computer Software	$ (378,918.18)	$ 5,500.00	$ 0.00	$ (72,733.04)	$ 18,838.55	$ (427,312.67)
Total Accumulated Amortization	$ (378,918.18)	$ 5,500.00	$ 0.00	$ (72,733.04)	$ 18,838.55	$ (427,312.67)
Amortizable Assets – Intangible, Net	$ 143,027.13	$ 0.00	$ 0.00	$ 221,266.96	$ (2,083.45)	$ 362,210.64
Capital Assets, Net	$ 38,889,408.95	$ (14,010.60)	$ 0.00	$ 11,318,869.66	$ (172,203.17)	$ 50,022,064.84

Note 3: Deposits, Investments, & Repurchase Agreements

Texas State Technical College System is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Tex. Gov't Code Ann. Sec 2256.001) and the Uniform Prudent Management of Institutional Funds Act (Tex. Property Code Sec. 163.001) following the "prudent person rule". 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 deposits, and (5) other instruments and obligations authorized by statute. There were no significant violations of legal provisions during the period.

Deposits of Cash in Bank

As of August 31, 2011, the carrying amount of deposits was $18,227,792.31 as presented below.

CASH IN BANK – CARRYING AMOUNT	$	18,227,792.31
Less: Certificates of Deposit included in carrying amount and reported as Current Short-term Investments		2,063,998.09
Less: Certificates of Deposit included in carrying amount and reported as Current Restricted Short-term Investments		2,395,900.00
Less: Certificates of Deposit included in carrying amount and reported as Non-Current Restricted Short-term Investments		256,809.12
Less: Certificates of Deposit included in carrying amount and reported as Non-Current Investments		10,000.00
Less: Certificates of Deposit included in carrying amount and reported as Non-Current Restricted Investments		1,100,000.00
Total Cash in Bank per Statement of Net Assets	$	12,401,085.10
Current Assets Cash in Bank	$	4,598,025.92
Current Assets Restricted Cash in Bank		7,782,361.20
Non-Current Assets Restricted Cash in Bank		20,697.98
Total Cash in Bank per Statement of Net Assets	$	12,401,085.10

These amounts consist of all cash in local banks, a portion of short-term investments, and investments. These amounts are included on the Statement of Net Assets as part of the "Cash and Cash Equivalents", "Short-term Investments", and "Investments" accounts.

As of August 31, 2011, the total bank balance was $20,157,414.08.

Investments

As of August 31, 2011, the fair value of investments was $540,196.29 which was totally invested in TexPool. This excludes $5,826,707.21 of certificates of deposits which are disclosed in the Deposits of Cash in Bank section of this note.

Credit Risk for Investments

Credit risk for investments is the risk an issuer or other counterparty to an investment will not fulfill its obligations. The Texas State Technical College System's policy on investments, System Operating Standard No. FA.2.3, limits investments in the following:

a. Obligations of the United States of its agencies and instrumentalities;
b. Direct obligations of the State of Texas or its agencies and instrumentalities;
c. Other obligations which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities;
d. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent and,
e. TexPool, an authorized AAA rated local government investment pool.

At August 31, 2011, TexPool had an AAAm rating.

Note 4: Long Term Liabilities

Changes in Long-Term Liabilities

During the year ended August 31, 2011, the following changes occurred in liabilities.

	Balance 09-01-10	Additions	Reductions	Balance 08-31-11	Amounts Due Within One Year	Amounts Due Thereafter
Capital Lease Obligations	$ 1,505,055.00	$ 4,717.82	$ 299,786.40	$ 1,209,986.42	$ 302,119.78	$ 907,866.64
Interagency Loan Payable	0.00	3,376,479.64	0.00	3,376,479.64	0.00	3,376,479.64
Employees' Compensable Leave	2,594,251.64	1,003,184.78	1,097,944.21	2,499,492.21	288,941.29	2,210,550.92
General Obligation Bonds Payable	3,625,781.85	0.00	668,356.73	2,957,425.12	696,115.95	2,261,309.17
Revenue Bonds Payable	23,076,251.49	0.00	873,937.81	22,202,313.68	919,407.98	21,282,905.70
Total	$ 30,801,339.98	$ 4,384,382.24	$ 2,940,025.15	$ 32,245,697.07	$ 2,206,585.00	$ 30,039,112.07

Employees' Compensable Leave

Full-time State employees earn annual leave from eight to twenty one hours per month depending on the respective employee's years of State employment. The State's policy is that an employee may carry his accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours up to 532 for those employees with 35 or more years of State service. Employees with at least six months of State service who terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed. The College recognizes the accrued liability for the unpaid annual leave in the Statement of Net Assets. This obligation is usually paid from the same funding source(s) from which the employee's salary or wage compensation was paid. For the year ended August 31, 2011, the accrued liability totaled $2,499,492.21.

The College made lump sum payments totaling $277,743.46 for accrued vacation and/or compensatory time to employees who separated from state service during fiscal year ending August 31, 2011.

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/her death. The maximum sick leave that may be paid an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The College'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 expenditure for sick leave to be minimal.

Bonds Payable

Bonds Payable obligations are described in Note 5.

Capital Lease Obligations

Capital Lease obligations are described in Note 6.

Interagency Loan Payable

The Interagency Loan Payable is the principal amount owed to the State Comptroller's State Energy Conservation Office at August 31, 2011, for energy retrofit projects financed through the LoanStar Loan Program. Per the terms of the loan agreement, the principal is to be repaid, together with interest on the unpaid principal computed from the date of each disbursement to the College, until the date repaid at the rate of two percent (2.00%) per annum. Repayment of the loan does not begin until after the construction phase is completed. The repayment period shall not exceed 11.75 years and there is no penalty for early repayment.

Note 5: Bonded Indebtedness

General information related to bonds payable is summarized below:

General Obligation Bonds

Constitutional Appropriation Bonds, Series 2005

- To construct buildings or other permanent improvements, and for major repair and rehabilitation of buildings or other permanent improvements at the College and the other System institutions, and to pay costs of issuance of the bonds.
- Issued 11-16-2005
- $15,695,000.00, all authorized bonds have been issued, of which $6,702,785.19 pertains to the College.
- Source of revenues for debt service-General Revenue Funds (HEAF) Appropriations

Bonds payable pertaining to the College are due in annual installments and vary from $696,115.95 to $785,799.60 with interest rates from 4.0 percent to 4.5 percent with the final installment due August 1, 2015. The principal and interest expense for the next four years are summarized below for bonds issued.

Fiscal Year	Principal	Interest	Total
2012	$ 696,115.95	$ 125,984.18	$ 822,100.13
2013	723,875.17	98,139.54	822,014.71
2014	751,634.40	69,184.52	820,818.92
2015	785,799.60	35,360.98	821,160.58
Total	$ 2,957,425.12	$ 328,669.22	$ 3,286,094.34

Revenue Bonds

Revenue Financing System Bonds, Series 2002

- To renovate the Industrial Technology Center at the College, to construct and renovate buildings at other System institutions, to pay costs of issuing the bonds, and to renovate existing structures and facilities for any portion of the proceeds not required for the specified projects at the institution.
- Issued 11-14-2002; First Call Date 8/1/2012
- $10,880,000.00, all authorized bonds have been issued, of which $3,400,000.00 pertain to the College
- Source of revenues for debt service – General Revenue Funds specifically appropriated for debt service and all other available non-General Revenue Funds.

Bonds payable pertaining to the College are due in annual installments and vary from $157,812.50 to $240,625.00 with interest rates from 4.0 percent to 5.0 percent with the final installment due August 1, 2022. The principal and interest requirements for the next five years and subsequent five-year increments are summarized below for bonds issued.

Fiscal Year	Principal	Interest	Total
2012	$ 157,812.50	$ 97,521.09	$ 255,333.59
2013	164,062.50	91,208.59	255,271.09
2014	170,312.50	84,646.09	254,958.59
2015	176,562.50	77,663.28	254,225.78
2016	184,375.00	70,159.38	254,534.38
2017-2021	1,050,000.00	217,812.51	1,267,812.51
2022	240,625.00	12,031.25	252,656.25
Total	$ 2,143,750.00	$ 651,042.19	$ 2,794,792.19

Revenue Financing System Bonds, Series 2008

- To acquire, purchase, construct, renovate, enlarge or equip property, buildings, structures, facilities, road or related infrastructure for HVAC system replacements at the College; and to pay certain costs of issuing the bonds.
- Issued 07-08-08; First Call Date 8/1/2018
- $3,125,000.00, all authorized bonds have been issued, of which the entire $3,125,000.00 pertain to the College
- Source of revenues for debt service – General Revenue Funds specifically appropriated for debt service and all other available non-General Revenue Funds.

Bonds payable pertaining to the College are due in annual installments and vary from $160,000.00 to $275,000.00 with interest rates from 4.25 percent to 5.00 percent with the final installment due August 1, 2023. The principal and interest requirements for the next five years and subsequent five-year increments are summarized below for bonds issued.

Fiscal Year	Principal	Interest	Total
2012	$ 160,000.00	$ 120,637.50	$ 280,637.50
2013	165,000.00	112,637.50	277,637.50
2014	175,000.00	104,387.50	279,387.50
2015	185,000.00	95,637.50	280,637.50
2016	195,000.00	86,387.50	281,387.50
2017-2021	1,140,000.00	279,562.50	1,419,562.50
2022-2023	535,000.00	36,450.00	571,450.00
Total	$ 2,555,000.00	$ 835,700.00	$ 3,390,700.00

Revenue Financing System Bonds, Series 2009

- To acquire, purchase, construct, improve, renovate, enlarge or equip property, buildings, structures, facilities, road or related infrastructure at the College and the other System institutions, and paying the costs of issuance associated with the issuance of the bonds.
- Issued 12-17-2009; First Call Date 8/1/2019
- $31,555,000.00, all authorized bonds have been issued, of which $18,079,376.49 pertain to the College
- Source of revenues for debt service – all legally available non-General Revenue Funds of the System.

Bonds payable pertaining to the College are due in annual installments and vary from $601,595.48 to $1,329,239.54 with interest rates from 3.0 percent to 5.00 percent with the final installment due August 1, 2030. The principal and interest expense for the next five years and subsequent five-year increments are summarized below for bonds issued.

Fiscal Year	Principal	Interest	Total
2012	$ 601,595.48	$ 738,845.18	$ 1,340,440.66
2013	630,242.88	720,797.34	1,351,040.22
2014	658,890.29	701,890.04	1,360,780.33
2015	687,537.69	682,123.32	1,369,661.01
2016	719,049.84	654,621.84	1,373,671.68
2017-2021	4,105,172.95	2,798,822.70	6,903,995.65
2022-2026	5,116,426.29	1,872,197.34	6,988,623.63
2027-2030	4,984,648.26	630,858.78	5,615,507.04
Total	$ 17,503,563.68	$ 8,800,156.54	$ 26,303,720.22

Pledged Future Revenues

GASB Statement No. 48 *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues,* makes a basic distinction between sales of receivables and future revenues, on the one hand, and the pledging of receivables or future revenues to repay a borrowing (a collateralized borrowing), on the other. The following table provides the pledged future revenue information for the College's revenue bonds:

Pledged Revenue Required for Future Principal and Interest on Existing Revenue Bonds	$ 32,489,212.41
Term of Commitment Year Ending 08/31	2030
Percentage of Revenue Pledged	100.0%
Current Year Pledged Revenue	$ 26,551,257.11
Current Year Principal and Interest Paid	$ 1,861,590.39

Pledged revenue sources: tuition and fees, auxiliary enterprises, sales and services of educational activities, interest and investment income, and appropriations for tuition revenue bonds.

Note 6: Leases

Operating Leases

Included in the expenditures is $509,259.98 of rents paid or due under operating lease obligations. The College has no non-cancelable operating leases having an initial term in excess of one year.

Capital Leases

The College 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 are recorded at the present value of the future minimum lease payments at the inception of the lease. A summary of original capitalized costs of all such property under lease in addition to the accumulated depreciation as of August 31, 2011 is as follows:

Class of Property		Assets under Capital Lease		Accumulated Depreciation		Total
Buildings	$	1,914,750.70	$	(260,831.73)	$	1,653,918.97
Furniture and Equipment		241,454.56		(79,855.76)		161,598.80
Totals	$	2,156,205.26	$	(340,687.49)	$	1,815,517.77

Future minimum lease payments under these capital leases, together with the present value of the net minimum lease payments at fiscal year-end, are as follows:

Fiscal Year		Principal		Interest		Total
2012	$	302,119.78	$	44,196.71	$	346,316.49
2013		265,102.83		31,636.65		296,739.48
2014		246,955.65		21,454.11		268,409.76
2015		263,200.23		11,162.12		274,362.35
2016		132,607.93		1,596.95		134,204.88
Total Minimum Lease Payments	$	1,209,986.42	$	110,046.54	$	1,320,032.96

TEXAS STATE TECHNICAL COLLEGE WACO
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended August 31, 2011

Note 7: Pension Plans

The state of Texas has joint contributory retirement plans for substantially all of its employees. One of the primary plans in which the College participates is administered by the Teacher Retirement System of Texas (Retirement System). The contributory percentages provided by the State and by each participant were 6.644 percent and 6.4 percent, respectively, of annual compensation, as of August 31, 2011. Beginning September 1, 2011, the contributory percentage provided by the State decreased to 6.0 percent and will then increase to 6.4 percent beginning September 1, 2012. The contributory percentage provided by each participant remains at 6.4 percent.

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, 2011, 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 System assets. Further information regarding actuarial assumptions and conclusions, together with audited financial statements, are included in the Retirement System's annual financial report which can be obtained from the Teacher Retirement System.

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 was composed of 6.4 percent contributed by the State and additional 2.1 percent contributed by the College as of August 31, 2011. Beginning September 1, 2011, the 8.5 percent will be composed of 6.0 percent contributed by the State and an additional 2.5 percent contributed by the College. For participants who enrolled after September 1, 1995, State and participant contributions were 6.4 percent and 6.65 percent, respectively, as of August 31, 2011. Beginning September 1, 2011, State and participant contributions will be 6.0 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 College bears no responsibility for retirement commitments beyond contributions.

The retirement expense to the College was $1,888,158.81 for the year ended August 31, 2011. Of this amount, $1,133,894.48 represents the portion of appropriations made by the State Legislature expended on behalf of the College and $754,264.33 represents the portion paid from the College's funds. The contributions made by plan members (participants) was $1,751,916.98 for the fiscal year ended August 31, 2011.

Note 8: Deferred Compensation

College employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Texas Government Code, Sec 609.001. There are two types of deferred plans available to all college employees; the State's 457 Plan, which is administered by the Employees Retirement System and the Tax-Deferred Account Program, which is administered by the College.

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 employer-sponsored. College employees are permitted to participate in the plan as an agency of the State. The deductions, purchased investments, and earnings attributable to the 457 Plan are held in trust and belong to the participants. The State has no liability under the 457 Plan beyond the administrative requirements outlined in the corresponding provisions of the Internal Revenue Code.

The Tax-Deferred Account Program was created in accordance with Internal Revenue Code, Section 403(b). 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 College, and thus it does not have a liability related to this plan.

TEXAS STATE TECHNICAL COLLEGE WACO
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended August 31, 2011

Note 9: 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 384 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 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, 2011, the cost of providing those benefits for the retirees was $1,717,507.40 for the State and $608,769.86 for the College.

Note 10: Interagency Balances and Transactions

The College experienced routine transfers with other State agencies, consistent with the activities of the agency making the transfer and as a result of various grants and contract activities. Repayment of interagency balances will normally occur within one year from the date of the financial statements except for the loan from the State Energy Conservation Office for which repayment of the principal and interest will begin after the construction phase of the energy retrofit project is completed over a period not to exceed 11.75 years. The grant and contract activities are recognized as revenues or expenses on the financial statements.

Individual balances and activity at August 31, 2011:

Interagency Receivable/Payable	Non-Current Interagency Receivable	Non-Current Interagency Payable	Purpose
State Energy Conservation Office	$ 0.00	$ 3,376,479.64	LoanStar Loan Program
Total Interagency Receivable/Payable	$ 0.00	$ 3,376,479.64	

Due From/To Other State Entities Entity	Due From Other State Entities	Due To Other Entities	Source
Texas Workforce Commission	$ 90,168.40	$	State Pass Through
Texas Workforce Commission	22,108.00		Federal Pass Through
Texas Higher Ed. Coordinating Brd.	483,487.00		Federal Pass Through
State Energy Conservation Office	857,897.79		Federal Pass Through
Other TSTC Colleges	4,730.09	5,107.29	Inter College Payroll
Total Due From/To Other State Entities	$ 1,458,391.28	$ 5,107.29	

Tranfers From/To Other State Entities **Entity**	**Transfers From Other State Entities**	**Transfers To Other State Entities**	**Purpose**
Texas Public Finance Authority	$	$ 433,776.16	Master Equipment Lease Program Payment (MELP)
Other TSTC Colleges		740,330.35	General and Admin. Expense
Other TSTC Colleges		16,350.91	Capital Lease Payment
Other TSTC Colleges	111,760.18	0.00	Equipment Transfers
Total Transfers From/To Other State Entities	$ 111,760.18	$ 1,190,457.42	

Note 11: Restatements

During fiscal year 2011, the correction of errors in the financial statements of a prior period required the restatement of the amounts in net assets as shown.

Net Assets August 31, 2010	$ 38,528,734.93
Restatements:	
Correction of prior year capital asset balances	$ (14,010.60)
Net Assets September 1, 2010 As Restated	$ 38,514,724.33

Note 12: Donor Restricted Endowments

The College is subject to the Uniform Prudent Management of Institutional Funds Act, Chapter 163 of the Texas Property Code. This act provides guidance and authority for the management and investment of charitable funds and for endowment spending by institutions organized for a charitable purpose, including educational purposes. The legal authority for the College to accept gifts, including endowments, is found in Chapter 135 of the Texas Education Code. The College's policy for authorizing and spending endowment earnings is addressed in System Operating Standard No. FA.3.1, Acceptance of Gifts and Bequests.

At August 31, 2011, the College had $277,525.53 of donor restricted endowments which were classified as Non-Expendable True Endowments. These endowment funds are invested in cash accounts or certificates of deposit. Per donor restrictions, the investment income earned on these endowments is to be used for scholarship purposes.

Note 13: Subsequent Events

The System issued $26,015,000.00 of Revenue Financing System Refunding and Improvement Bonds, Series 2011, on September 14, 2011; with interest rates ranging from 3.75 percent to 5.00 percent. The proceeds from the sale of the bonds will be used to refund $6,355,000.00 of outstanding Revenue Financing System Bonds, Series 2002, of which $1,985,937.50 pertain to the College, to construct a multi-institution teaching facility for the College; and to pay the costs of issuing the bonds. The portion pertaining to the College is $21,896,875.00.

Note 14: Risk Management

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

The College assumes substantially all risks associated with tort and liability claims due to the performance of its duties. Currently, the College has purchased worker's compensation, auto, property, boiler & machinery, crime, and director's & officer's liability insurance. The College is not involved in any risk pools with other government entities.

Liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Liabilities are reevaluated periodically to consider current settlements, frequency of claims, past experience and economic factors. There were no significant reductions in insurance coverage in the past year and losses did not exceed funding arrangements during the past three years. During the fiscal year ended August 31, 2011, there were no changes to the balance of claims and liabilities and the balance is still $0.00 as of August 31, 2011.

Note 15: Related Parties

The TSTC Regents Circle is a non-profit organization with the sole purpose of supporting the educational and other activities of Texas State Technical College. The TSTC Regents Circle remitted gifts of $143,428.00 to the components of the System during the year ended August 31, 2011, of which $82,762.20 pertained to the College. The TSTC Regents Circle is controlled by a separate board of directors and is not considered a component unit of the College or the System. Neither the balance nor the transactions of this organization's fund are reflected in the financial statements during the year ended August 31, 2011.

TEXAS STATE TECHNICAL COLLEGE WACO
Schedule of Changes in Unrestricted Net Assets
For the Fiscal Year Ended August 31, 2011

	8/31/2011	8/31/2010	Difference
Reserved			
Encumbrances	$ 1,865,631.32	$ 1,216,167.02	$ 649,464.30
Accounts Receivable	7,905,218.27	7,038,559.75	866,658.52
Inventories	1,677,303.38	1,590,107.97	87,195.41
Higher Education Assistance Funds (HEAF)	277,538.13	374,426.02	(96,887.89)
Imprest Funds	17,400.00	25,600.00	(8,200.00)
Unreserved			
Allocated			
Provision for Designated Operating Funds	1,251,778.68	1,363,301.95	(111,523.27)
Student Loan Funds		2,686.37	(2,686.37)
Funds Functioning as Endowmwnts - Unrestricted	53,416.37	52,649.39	766.98
Capital Projects		545,007.48	(545,007.48)
Retirement of Indebtedness		0.52	(0.52)
Unallocated	(2,903,024.89)	(1,990,981.69)	(912,043.20)
Total Unrestricted Net Assets	$ 10,145,261.26	$ 10,217,524.78	$ (72,263.52)

State Auditor's Office
John Keel, CPA
State Auditor

March 9, 2012

Dr. Elton E. Stuckly, Jr., President
Texas State Technical College - Waco
Office of the President
3801 Campus Drive
Waco, TX 76705

Subject: Management Letter Resulting from a Review of Texas State Technical College - Waco's Fiscal Year 2011 Financial Statements

Dear Dr. Stuckly:

We offer this management letter in conjunction with our review of the financial statements of Texas State Technical College – Waco (College) as of and for the fiscal year ended August 31, 2011, on which we have issued our report dated March 9, 2012. We reviewed the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. 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 accounting principles generally accepted in the United States of America.

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

Sincerely,

Sandra Vice

Sandra Vice, CIA, CGAP, CISA
Assistant State Auditor

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SAO Report No. 12-332

University of Houston Clear Lake

Financial Statements and Independent Accountant's Review Report

As of August 31, 2011 and for the year then ended

Contents

Independent Accountant's Review Report..1

The University of Houston – Clear Lake Financial Report (prepared in accordance with SACS Criteria for Accreditation)

Statement of Net Assets at August 31, 2011 2

Statement of Revenues, Expenses and Changes in Net Assets for the Fiscal Year Ended August 31, 2011..4

Statement of Cash Flows for the Fiscal Year Ended August 31, 2011 6

Notes to the Financial Statements for the Fiscal Year Ended August 31, 2011...8

Supplemental Information

Schedule of Changes in Unrestricted Net Assets for the Fiscal Year Ended August 31, 2011...26

Management Letter ……………………………………………………........................ 27

State Auditor's Office
John Keel, CPA
State Auditor

Independent Accountant's Review Report

Dr. William A. Staples, President
The University of Houston – Clear Lake
Houston, TX

We have reviewed the accompanying Statement of Net Assets of the University of Houston – Clear Lake (University) as of August 31, 2011, and the related Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows for the year then ended. A review includes primarily applying analytical procedures to the University's financial data and making inquiries of University personnel. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

University management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

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 accounting principles generally accepted in the United States of America.

Our review was made for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The Schedule of Changes in Unrestricted Net Assets is presented only for the purpose of additional analysis at the request of the Southern Association of Colleges and Schools' Commission on Colleges as part of its core requirements for accreditation and has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements. This schedule is the representation of management, without audit or review, and we do not express an opinion or provide any assurance on it.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Although not a part of the basic financial statements, this information is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. The results of our review of the basic financial statements are not affected by this missing information.

John Keel, CPA
State Auditor

February 13, 2012

SAO Report No. 12-326

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The University of Houston – Clear Lake
Statement of Net Assets
At August 31, 2011
(See Independent Accountant's Review Report on Page 1)

ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 3)	$	27,311,253
Restricted:		
Cash and Cash Equivalents (Note 3)		(2,655,213)
Legislative Appropriations		5,757,418
Receivables, Net of Allowances:		
Federal		4,239,700
UHS Intercampus Receivables		16,160,961
Accounts		3,777,929
Gifts		140,390
Other		7,385
Due from Other State Entities (Note 8)		231,615
Consumable Inventories		15,454
Loans and Contracts		2,384,151
Other Current Assets		2,508,931
Total Current Assets	$	59,879,974
Non-Current Assets		
Restricted:		
Cash and Cash Equivalents (Note 3)	$	850,122
Receivables		109,959
Investments (Note 3)		14,786,892
Loans and Contracts		604,282
Investments (Note 3)		8,807,635
Capital Assets (Note 2)		
Non-Depreciable		23,230,236
Depreciable/Amortizable		134,885,217
Less: Accumulated Depreciation/Amortization		(85,884,020)
Total Non-Current Assets	$	97,390,323
Total Assets	$	157,270,297
LIABILITIES		
Current Liabilities		
Payables:		
Accounts	$	1,979,040
Payroll		3,148,764
Federal		1,184
Other		429,916
Due to Other State Entities (Note 8)		7,344
Deferred Revenue		22,247,438
Claims and Judgments (Note 4)		20,331
Capital Lease Obligations (Notes 4, 6)		366,160
Employees' Compensable Leave (Note 4)		1,000,192

Revenue Bonds Payable (Notes 4, 5)		2,059,858
Funds Held for Others		365,866
Total Current Liabilities	$	31,626,093
Non-Current Liabilities		
Claims and Judgments (Note 4)	$	1,604
Capital Lease Obligations (Notes 4, 6)		7,006,818
Employees' Compensable Leave (Note 4)		1,086,584
Revenue Bonds Payable (Notes 4, 5)		30,356,901
Total Non-Current Liabilities	$	38,451,907
Total Liabilities	$	70,078,000
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$	34,927,094
Restricted for:		
Non-Expendable		
Permanent Funds, True Endowments, Annuities		7,339,673
Expendable		
Debt Retirement		526,759
Funds Functioning as Endowments		4,392,566
Other		2,544,321
Unrestricted		37,461,884
Total Net Assets	$	87,192,297

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

The University of Houston – Clear Lake

Statement of Revenues, Expenses, and Changes in Net Assets

For the Fiscal Year Ended August 31, 2011

(See Independent Accountant's Review Report on Page 1)

OPERATING REVENUES		
Tuition and Fees - Pledged	$	50,520,961
Discounts and Allowances		(9,561,997)
Auxiliary Enterprises - Pledged		1,520,104
Other Sales of Goods and Services - Pledged		1,220,176
Federal Revenue		2,641,761
State Grant Revenue		1,923,960
Other Operating Grant Revenue		287,181
Total Operating Revenues	$	48,552,146
OPERATING EXPENSES		
Cost of Goods Sold	$	8,429
Salaries and Wages		50,134,796
Payroll Related Costs		12,397,312
Professional Fees and Services		5,350,966
Travel		610,834
Materials and Supplies		4,628,078
Communications and Utilities		3,090,618
Repairs and Maintenance		1,371,479
Rentals and Leases		548,904
Printing and Reproduction		362,453
Depreciation and Amortization		4,640,140
Interest Expense		313,465
Scholarships		8,610,207
Claims and Judgments		158,714
Other Operating Expenses		2,031,605
Total Operating Expenses	$	94,258,000
Operating Income (Loss)	$	(45,705,854)
NONOPERATING REVENUES (EXPENSES)		
Legislative Appropriations	$	35,212,454
Gifts		1,169,644
Interest and Investment Income (Loss)		1,707,498
Net Increase (Decrease) in Fair Value of Investments		301,258
Interest Expense and Fiscal Charges		(1,388,439)
Other Non-operating Revenues - Non-Pledged		31,042,261
Other Non-operating Expenses		(16,269,139)
Total Non-operating Revenues (Expenses)	$	51,775,537
Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers	$	6,069,683

OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS		
Capital Appropriations (HEAF)	$	5,214,167
Additions to Permanent and Term Endowments		238,355
UHS Intercampus Transfers-In (Note 8)		97,182
UHS Intercampus Transfers-Out (Note 8)		(95,622)
Transfers – Out		(172,292)
Legislative Transfers In (Note 8)		73,146
Legislative Transfers Out (Note 8)		(102,029)
Legislative Appropriations Lapsed		(7,083)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	$	5,245,824
CHANGE IN NET ASSETS	$	11,315,507
Net Assets, September 1, 2010	$	75,876,790
NET ASSETS, August 31, 2011	$	87,192,297

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

The University of Houston – Clear Lake
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2011
(See Independent Accountant's Review Report on Page 1)

CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Tuition and Fees	$	41,179,721
Receipts from Customers		1,225,508
Proceeds from Research Grants and Contracts		231,733
Proceeds from Loan Programs		3,639,110
Proceeds from Auxiliaries		1,526,747
Proceeds from Other Revenues		4,737,637
Payments to Suppliers for Goods and Services		(15,534,843)
Payments to Employees for Salaries		(49,879,342)
Payments to Employees for Benefits		(12,334,144)
Payments for Loans Provided		(3,776,420)
Payments for Other Expenses		(10,472,836)
Net Cash Provided (Used) by Operating Activities	$	(39,457,129)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Legislative Appropriations	$	35,097,082
Proceeds from Gifts		1,047,917
Proceeds from Endowments		238,355
Proceeds of Transfers from Other Entities		10,404,859
Proceeds from Other Sources		10,873,169
Payments for Other Uses		(523,992)
Net Cash Provided (Used) by Non-Capital Financing Activities	$	57,137,390
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Capital Contributions	$	5,214,167
Payments for Additions to Capital Assets		(13,573,474)
Payments of Principal on Capital-Related Debt		(1,984,858)
Payments of Interest on Capital-Related Debt		(1,473,023)
Payments of Other Costs of Capital-Related Debt		(396,892)
Net Cash Provided (Used) by Capital and Related Financing Activities	$	(12,214,080)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Interest and Investment Income	$	2,008,756
Net Cash Provided (Used) by Investing Activities	$	2,008,756
Net Increase (Decrease) in Cash and Cash Equivalents	$	7,474,937
Cash and Cash Equivalents, September 1, 2010	$	18,031,225
Cash and Cash Equivalents, August 31, 2011	$	25,506,162

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

Operating Income (Loss)	$	(45,705,854)
Adjustments:		
Depreciation and Amortization	$	4,640,140
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		(878,904)
(Increase) Decrease in Inventories		(2,545)
(Increase) Decrease in Prepaid Expenses		142,093
(Increase) Decrease in Loans and Contracts		(137,310)
(Increase) Decrease in Other Assets		406,822
Increase (Decrease) in Payables		1,191,260
Increase (Decrease) in Deferred Revenue		879,448
Increase (Decrease) in Employees' Compensable Leave		145,168
Increase (Decrease) in Other Liabilities		(137,447)
Total Adjustments	$	6,248,725
Net Cash Provided (Used) by Operating Activities	$	(39,457,129)
Non-Cash Transactions		
Net Increase (Decrease) in Fair Value of Investments	$	301,258

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

(See Independent Accountant'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 Houston – Clear Lake 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.

Reporting Entity

The University is a component of The University of Houston 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

Included in this category are demand deposits in banks, local funds held by the state, state reimbursements in transit. For the purpose of financial statement reporting, cash equivalents are short-term, highly liquid investments with an original maturity of three months or less.

Investments
The University accounts for its investments at fair value, as determined by quoted market prices, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of the investments are reported as a component of net change in fair value of investments in the Statement of Revenues, Expenses, and Changes in Net Assets.

Restricted Assets
Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include proceeds of revenue bonds and revenues set aside for statutory or contractual requirements.

Receivables
Accounts receivable and student receivables consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable are recorded net of estimated uncollectible amounts.

Federal receivables include amounts due from the federal government or private sources, in connection with reimbursement of allowable expenditures disbursed by the University's grants and contracts department.

Gift receivables are accounted for at their estimated net realizable value. The estimated net realizable value consists of the present value of long-term pledges and a reduction for any allowance for uncollectible pledges. Pledges vary from one to ten years and are used to support specifically identified University programs and initiatives.

Interest and income receivable consists of amounts due from investment holdings, cash management pools, and cash invested in various short-term investment items.

Inventories
Inventories include both merchandise inventories on hand for sale and consumable inventories such as maintenance supplies, housing supplies, janitorial supplies, office supplies, and telecommunications supplies. Inventories are valued at cost, generally utilizing the last-in, first-out method.

Prepaid Expenses
Disbursements for insurance, subscriptions, postage, travel costs, and similar services paid in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods.

Capital Assets
Furniture, equipment, and vehicles with a cost of more than $ 5,000 and an estimated useful life in excess of one year are capitalized. Capitalization thresholds for buildings, building improvements, facilities, and other improvements are $100,000. The capitalization threshold for infrastructure is $500,000. These assets are capitalized at cost. Donated assets are reported at fair value as of the acquisition date. Routine repairs and maintenance and capital assets acquired for less than the threshold amounts are charged to operating expenses in the

year in which the expense was incurred. All land, land improvements, library books and materials, and works of art are capitalized. Assets are depreciated over their estimated useful lives using the straight-line method of depreciation.

Depreciation of capital assets is recorded as a periodic expense and accumulated as an offset to the asset book values. Depreciation of capital assets is based on allocation methods and estimated lives prescribed by the Statewide Property Accounting (SPA) system as summarized below:

Capital Asset Category	Useful Life
Buildings and Building Improvements	10 – 30 years
Infrastructure, Depreciable	10 - 50 years
Facilities and Other Improvements	10 – 60 years
Furniture and Equipment	3 – 15 years
Vehicles & Boats	5 – 10 years
Computer Software	5 – 6 years

Accounts Payable
Accounts payable represent the liability for the value of assets or services received at the Statement of Net Assets date for which payment is pending.

Deferred Revenues
Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Employees' Compensable Leave
The employees' compensable leave 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 non-current in the Statement of Net Assets.

Revenue Bonds Payable
Revenue bonds are reported at par, less unamortized discount or plus unamortized premium. Interest expense is reported on the accrual basis, with amortization of discount or premium. Payables are reported separately as either current or noncurrent in the Statement of Net Assets.

Funds Held for Others
Current balances in funds held for others result from the University acting as an agent or fiduciary for students and student organizations.

Net Assets

Net assets are the difference between assets and liabilities. The University has classified resources into the following three net asset categories:

Invested in Capital Assets, Net of Related Debt

This category 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

Net assets that are not subject to externally imposed stipulations are reported as Unrestricted Net Assets. These balances may be designated for special purposes by action of University management or the UH System Board of Regents, or may otherwise be limited by contractual agreements with outside parties. 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 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*. In addition, all changes to incurred but not reported liabilities related to insurance programs are reflected as operating. 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.

Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2011, is presented in Table 2.

Table 2
Capital Assets

	Balance 9-1-2010	Adjustments	Completed CIP	Additions	Deletions	Balance 8-31-11
Non-Depreciable						
Land & land improvements	$ 9,437,722	$	$	$	$	$ 9,437,722
Construction in progress	1,277,791			10,706,954		11,984,745
Other capital assets	1,789,121			18,648		1,807,769
Total Non-Depreciable	12,504,634			10,725,602		23,230,236
Depreciable						
Buildings & bldg improvement	83,642,102			8,084,607		91,726,709
Infrastructure	8,722,089					8,722,089
Facilities & other improvement	793,275					793,275
Furniture & equipment	8,624,878			976,375	(214,355)	9,386,898
Vehicles, boats, aircraft	666,241			204,556	(15,679)	855,118
Other capital assets	22,008,224			1,377,996	(243,043)	23,143,177
Total Depreciable	124,456,809			10,643,534	(473,077)	134,627,266
Less Accumulated Depreciation For						
Buildings & bldg improvement	(53,755,638)			(2,482,376)		(56,238,014)
Infrastructure	(8,058,382)			(80,295)		(8,138,677)
Facilities & other improvement	(237,982)			(39,664)		(277,646)
Furniture & equipment	(5,727,639)			(910,554)	188,562	(6,449,630)
Vehicles, boats, aircraft	(357,736)			(102,981)	15,679	(445,038)
Other capital assets	(13,316,021)			(1,017,021)	243,043	(14,090,000)
Total Accumulated Depreciation	(81,453,398)			(4,632,891)	447,284	(85,639,005)
Depreciable Assets, Net	43,003,411			6,010,643	(25,793)	48,988,261
Amortizable Assets- Intangible - Software	265,911				(7,960)	257,951
Total Amortizable Assets	265,911				(7,960)	257,951
Less Accumulated Amortization Software	(245,727)			(7,248)	7,960	(245,015)
Total Accumulated Amortization	(245,727)			(7,248)	7,960	(245,015)
Amortizable Assets-Intangible, Net	20,184			(7,248)		12,936
Capital Assets, Net	$ 55,528,229	$	$	$ 16,728,997	$ (25,793)	$ 72,231,433

Note 3: Deposits, Investments, and Repurchase Agreements
Deposits of Cash in Bank

As of August 31, 2011, the carrying amount of deposits was $ 4,643,005 as presented below.

Table 3.1
Cash In Bank Deposits

Cash in bank – Carrying value	$ 4,643,005
Cash in bank – Carrying value	$ 4,643,005

Table 3.2
Cash In Bank By Classification

Current assets	6,448,096
Current assets, restricted	(2,655,213)
Non-current assets restricted	850,122
Carrying Value of Cash in bank per Table 3.4	$ 4,643,005

This balance consists of the carrying amount of all cash on deposit in local banks. The amount is included on the Statement of Net Assets as part of the "Cash and Cash Equivalents" accounts.

As of August 31, 2011, the total bank balance was as follows.

Table 3.3

Business-Type Activities	$ 4,361,302

As of August 31, 2011, the total Cash and Cash Equivalents balance was as follows.

Table 3.4
Cash & Cash Equivalents Balances

Cash on hand	25,500
Cash in bank	4,643,005
Reimbursement due from Treasury	211,332
Cash in State Treasury	8,375,037
Cash equivalents	12,251,288
Total cash & cash equivalents	$ 25,506,162

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 has no deposits that are at risk of recovery with the failure of a depository financial institution.

Investments

As of August 31, 2011, the fair value of investments is as presented below.

Business-Type Activities	Fair Value
Money Market Funds	$ 12,251,288
Total Investments	$ 12,251,288

Reconciliation of Investments per Financial Statements

Proprietary Fund, Current Assets, Short Term Investments	$ 12,251,288

At the direction of the University of Houston System, Board of Regents, the University of Houston – Clear Lake investments and cash equivalents are pooled at the UH system level. The UH System is responsible for the disclosure of all information on the pooled investments and has included these disclosures in its annual financial report. The University of Houston System is authorized by statute to make investments following the "prudent person rule". Credit risk is the risk that an issuer or other counterparty to an investment will not be able to fulfill its obligations. The University of Houston System's investment policy limits investments in debt securities that are not in the top three investment grade ratings issued by nationally recognized statistical rating organizations to 5% of total investments. The value of investments held by System office is as follows:

Non-Current Assets – Restricted Investments	$ 14,786,892
Non-Current Assets – Investments	8,807,635
Total Investments held at System	$ 23,594,527

A schedule of investments as rated by the national rating agency Standard & Poor's follows:

Investments as Rated by Standard & Poor's

Fund Type	GAAP Fund	Investment Type	AAAm
05	9999	Money Market Funds	$ 12,251,288

Note 4: Summary of Long-Term Liabilities

During the year ended August 31, 2011, the following changes, presented in Table 4.1, occurred in liabilities.

Table 4.1
Long-Term Liabilities

	Balance 9-1-2010	Additions	Reductions	Balance 8-31-11	Amounts Due Within 1 Yr	Amounts Due Thereafter
Claims & judgments	$	$ 207,513	$ 185,578	$ 21,935	$ 20,331	$ 1,604
Employees' compensable leave	1,941,608	1,292,658	1,147,490	2,086,776	1,000,192	1,086,584
Capital Lease Obligations		7,769,870	396,892	7,372,978	366,160	7,006,818
Revenue bonds payable	34,401,617		1,984,858	32,416,759	2,059,858	30,356,901
Total Long-Term Liabilities	$ 36,343,225	$ 9,270,041	$ 3,714,818	$ 41,898,448	$ 3,446,541	$ 38,451,907

Claims and Judgments

At August 31, 2011, various claims and judgments involving the university were pending. While the ultimate liability, if any, 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 expected to have a material effect on university accounts.

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.

Note 5: Bonded Indebtedness

The university receives proceeds from revenue bonds issued to support capital projects of the institution.

Revenue Bonds

- Consolidated Revenue Bonds, Series 2002-A
  - To finance the acquisition, purchase, construction, improvement, renovation, enlargement, and equipping of any property, building, structure, activity, service, operation, or facility of the University of Houston System.
  - $35,918,000; all bonds authorized have been issued.
  - Issued 09-01-2002.
  - Source of revenue for debt service – Tuition and various other fees, and revenues and balances that may be legally available for payment of debt obligations. (Funding for fiscal year 2011, partially from Legislative appropriation.)

General Obligation Bonds

At August 31, 2011 the University had no bonds payable classified as General Obligation Bonds.

Refunding Bonds

- Consolidated Revenue and Refunding Bonds, Series 2010
  - To (a) defease certain outstanding commercial paper notes of the System and (b) finance the acquisition, purchase, construction, improvement, enlargement, and equipping of property, buildings, structures, activities, services, operation and other facilities, roads, or infrastructure related for or on behalf of the System, including individual campuses of the System.
  - $108,395,000; all bonds authorized have been issued ($98,230,000 (UH) and $10,165,000 (UHCL).
  - Issued 02-04-2009
  - Source of revenue for debt service – Designated tuition and various other fees, revenues and balances that may be legally available for payment of debt obligations. (Funding for fiscal year 2011 partially from Legislative appropriation.)

Debt Service Requirements

The future debt service requirements, as of August 31, 2011, for the University's outstanding bonds are as follows:

Table 5.1
Revenue Bonds Payable
Debt Service Requirements

Year/s	Total Principal	Total Interest	Total
2012	$ 2,025,000	$ 1,363,738	$ 3,388,738
2013	2,105,000	1,282,012	3,387,012
2014	2,200,000	1,195,912	3,395,912
2015	2,285,000	1,106,212	3,391,212
2016	2,390,000	1,012,712	3,402,712
2017 - 2021	13,760,000	3,371,681	17,131,681
2022 - 2026	5,680,000	819,962	6,499,962
2027 - 2031	1,445,000	73,127	1,518,127
Total Debt Service	$ 31,890,000	$ 10,225,356	$ 42,115,356

Note 6: Capital Leases

The University has entered into a long-term lease for financing the purchase of certain capital assets. Such leases are classified as capital leases for accounting purposes and are recorded at the present value of the future minimum lease payments at the inception of the lease. A summary of the original capitalized costs of all such property under lease in addition to the accumulated depreciation as of August 31, 2011 is as follows:

Assets under Capital Leases
Year ending August 31, 2011

Business Type Activities

Class of Property	Assets Under Capital Lease	Accumulated Depreciation	Total
Buildings	$ 7,372,978	$ (335,517)	$ 7,037,461
Totals	$ 7,372,978	$ (335,517)	$ 7,037,461

Future Capital Lease payments
Year Ended August 31, 2011

Business Type Activities

Year	Principal	Interest	Total Future Minimum Lease Payments
2012	$ 366,160	$ 315,818	$ 681,978
2013	374,631	298,817	673,448
2014	382,929	281,456	664,385
2015	390,700	263,555	654,255
2016	397,876	245,184	643,060
2017-2021	2,047,015	929,322	2,976,337
2022-2026	2,130,833	465,074	2,595,907
2027-2031	1,282,834	72,672	1,355,506

Note 7: Operating Lease Obligations

Included in the expenditures reported in the financial statements are the following amounts of rent paid or due under operating leases:

Table 7.1
Operating Leases

Lease & rental payments	$ 230,656
Total lease & rental payments	$ 230,656

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

Year Ending August 31,	Amount
2012	$ 184,524
2013	138,393
2014	92,262
2015	46,131
2016	23,065
2017-2021	11,532
2022-2026	5,769
Total Minimum Future Lease Payments	$ 501,676

Note 8: Interagency Balances/Activities

During the fiscal year there are numerous transactions between state agencies and entities. At year end, amounts to be received or paid are reported as:

1. Due - From Other Agencies or Due - To Other Agencies
2. Transfers In From Other Agencies or Transfers Out To Other Agencies
3. Legislative Transfers In and Legislative Transfers Out
4. UHS Transfers In and Out

The university experienced routine transfers with other State agencies, which were consistent with the activities of the fund making the transfer. Repayment of any state agencies balances occurs within one year from the date of the financial statement.

Individual balances and activity at August 31, 2011, are shown in the following tables.

Table 8.1 - Due From/To Other Agencies

Enterprise (05)	Due From Other Agencies	Due To Other Agencies	Purpose
Appd Fund 9999, D23 Fund 7999 TAMU AgriLife,Agency 555, D23 Fund 7999 UH-Clear Lake	$ 17,952	$	Highland Bayou Watershed Project from Texas A&M AgriLife
Appd Fund 0015,D23 Fund 0015, Texas Commission Environmental Quality, Agency 582,D23 Fund 0015 UH-Clear Lake	181,787		Recreational Use Attainability Analysis & Wetland Condition Assessments
Appd Fund 5015, D23 fund 5015, Texas Motor Vehicle, Agency 608, D23 Fund 5015 UH-Clear Lake	57		Scholarship with License Plate Insignia Revenue
Appd Fund 9999, D23 Fund 7999, TAMU, Agency 711, D23 Fund 7999 UH-Clear Lake	5,615		Sea Grant on population and demographics of the Texas Diamondback Terrapin.
Appd Fund 9999, D23 Fund 7999, University of Texas at Austin, Agency 721, D23 Fund 7999 UH-Clear Lake	8,824		Math and Science Partnership
Appd Fund 9999, D23 Fund 7999, University of Houston Main Campus, Agency 730, D23 Fund 7999 UH-Clear Lake	8,945		Ecological Momentary Assessment Teacher Stress Study
Appd Fund 0001, D23 Fund 0001, Texas Higher Education Coordinating Board, Agency 781, D23 Fund 0001 UH-Clear Lake	4,341	5,844	Teacher Quality Grant Program. College Connection Grant & State wide Data System Grant.
Appd Fund 0002, D23 Fund 0002, Texas Higher Education Coordinating Board, Agency 781, D23 Fund 0002 UH-Clear Lake		1,500	College Access Challenge Grant
Appd Fund 0951, D23 Fund 0951, Texas Parks and Wildlife Department, Agency 802, D23 Fund 0951 UH-Clear Lake	4,094		Study of blue crab population using ecopath with ecoism
Total Due From and To Other Agencies	$ 231,615	$ 7,344	

Table 8.2 - Transfers In and Out

Enterprise (05)	Transfers In	Transfers Out	Purpose
Appd Fund 5103, D23 Fund 510, Texas Higher Education Coordinating Board, Agency 781, D23 Fund 5103 UH-Clear Lake	$	$ 172,292	§56.465 TEX. Educ.Code Annot.Sub Ch Q (B-on-Time
Total Transfers	$ 0	$ 172,292	

Table 8.3 - Legislative Transfers In and Out

General Revenue (01)	Legislative Transfers In	Legislative Transfers Out	Purpose
Appd Fund 001, D23 Fund 001, University of Houston Main, Agency 730, D23 Fund 001 UH Clear Lake	$ 73,146	$ 102,029	Shared Appropriation approved by the UH Board of Regents
Total Legislative Transfers	$ 73,146	$ 102,029	

Table 8.4 – UHS Transfers In and Out

Inter-Campus	UHS Transfers In	UHS Transfers Out	Purpose
University of Houston Main, Agency 730, UH Clear Lake	$ 97,182	$ 95,622	Matching fund transfer, advancement assessment fee and fundraising support
Total Legislative Transfers	$ 97,182	$ 95,622	

Note 9: Contingent Liabilities

As mentioned in Note 4, various claims and judgments involving the university were pending. While the ultimate liability, if any, remains uncertain, management does not expect any possible adverse ruling to have a material effect on university accounts.

The university 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.

The university has several contractual agreements with various external housing management entities to construct, maintain, and manage off-campus student housing complexes. Under certain circumstances, the university may have contingent liabilities to these entities. Based on prior experience, previous years' liabilities have been immaterial, and management believes no such liabilities currently exist.

Note 10: Risk Financing and Related Insurance

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

The University assumes substantially all risks associated with tort and liability claims due to the performance of its duties. Currently there is the purchase of some commercial insurance, and the University is not involved in any risk pools with other government entities.

The University's liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Liabilities are reevaluated periodically to consider current settlements, frequency of claims, past experience and economic factors. There were no significant reductions in insurance coverage in the past year and losses did not exceed funding arrangements during the past three years. Changes in the balances of the university's claims liabilities during fiscal 2010 and 2011 were:

Table 10.1 - Balances of Claims Activity

	Beginning Balance	Increases	Decreases	Ending Balance
2010	$ 0	$ 185,509	$ 185,509	$ 0
2011	$ 0	$ 207,512	$ 185,577	$ 21,935

Liabilities include an amount for estimated future workers' compensation and unemployment claims that have been incurred as of the fiscal year end, but that have not been reported.

Note 11: Subsequent Events

The Board of Regents authorized additional Consolidated Revenue and Refunding Bonds to be issued during the 2012 fiscal year in a par amount not to exceed $315,000,000. The Series 2011-A bonds are for the purpose of financing various construction and renovation projects within the UH System including projects for the University of Houston, as well as projects for UH – Victoria. The Series 2011-B bonds are for the purpose of refunding certain outstanding Series 2002-A Consolidated Revenue and Refunding Bonds.

As of the date this report was issued, there have been no additional events since August 31, 2011 that had a significant financial impact and require disclosure.

Note 12: Related Parties

The University of Houston System is affiliated with several foundations and organizations that have been created to benefit certain operations of the University. Those which have a significant relationship with the University are described below. The assets, liabilities, and equities of the various foundations and organizations are not contained in the financial statements of the University.

University of Houston Foundation

The stated purpose of the University of Houston Foundation is for the advancement of the general welfare of the University of Houston, Houston, Texas, as a whole, including, without limitation, all of the colleges and branches or divisions, thereof, wheresoever located, as well as all of the facilities and activities thereof now or hereafter existing or created, not inconsistent with the objectives, operation and management of the University of Houston. The Foundation's Board of Trustees consists of nine members. The Foundation remitted $6,000 of direct support and $1,550 of indirect support to the University of Houston – Clear Lake during the year ended August 31, 2011.

Privatized Student Housing Facilities

Several student housing facility projects have been constructed by private external entities in order to enhance the residential life experience of students at various System campuses. The participating entities have financed and constructed housing complexes on System owned property adjacent to the university campus. These facilities are operated under grounded leases and management agreements with the System for extended time periods. Under the terms of the agreements, cash revenues from rental income, net of operating expenses, are shared with the University. Repayment of project financing is serviced from revenues generated by the housing projects, and is the sole responsibility of the external entity. The related loans and bonds are not liabilities of the System or component universities. Century Development operates the University Forest project at the University of Houston-Clear Lake.

NOTE 13: The Financial Reporting Entity

The University is an agency of the State of Texas. While it is affiliated with several separate legal entities these organizations are not considered component units as defined by generally accepted accounting principles. The University has no affiliations classified as related organizations, joint ventures or jointly governed organizations.

NOTE 14: 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, for the 2011 fiscal year are 6.644 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, 2011, 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 System assets. However, the actuary projected that such assets augmented by projected future contributions and earnings, would be sufficient to amortize the unfunded difference over a period of 30 years. 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 6.0 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 contributory percentages of participant salaries provided by the State and by each participant enrolled in the plan on or before August 31, 1995, will continue to be 8.5 percent and 6.65 percent, respectively. The 8.5 percent will be composed of 6.58 percent contributed by the State and an additional 1.92 percent contributed by the University. For participants who enrolled after September 1, 1995, State and participant contributions will be 6.58 percent and 6.65 percent, respectively.

The retirement expense to the University was $2,938,913 for the year ended August 31, 2011. Of this amount, $1,590,562 represents the portion of appropriations made by the State Legislature expended on behalf of the University and $1,348,351 represents the portion paid from the University's funds.

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The contributions made by plan members and employers for the fiscal year ended August 31, 2011 are:

	TRS Participants	ORP Participants	Total Contributions
Member Contributions	$ 1,277,092	$ 1,404,168	$ 2,681,260
Employer Contributions	$ 1,308,975	$ 1,629,938	$ 2,938,913
Total	$ 2,586,067	$ 3,034,106	$ 5,620,173

NOTE 15: Deferred Compensation Program

State 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 Annotated, Section 609.001. Multiple plans are available for employees' deferred compensation plan. Both plans are administered by the Employees Retirement System.

The State's 457 plan complies with the Internal Revenue Code Section 457. The State also administers another plan; "TexaSaver" created in accordance with Internal Revenue Code Sec. 401(k). The assets of these plans do not belong to the state. The state has no liability related to these plans.

The tax deferred investment program permits benefits-eligible employees of the University to purchase qualified tax deferred investments with a portion of their salaries. Participation in the program is voluntary and is a supplement to the Teacher Retirement System or the Optional Retirement Program. It is however, separate and apart from either.

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

Expenditure of endowed funds is not permitted without the express consent of the donor. The majority of the University's Endowments are held in perpetuity. In many cases, endowment earnings are expendable for student financial assistance or other purposes as specified by the donor. In other cases endowment earnings are reinvested. 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 appreciation.

The Regents of the University of Houston System have established an endowment policy which attempts to balance the long term objective of maintaining the purchasing power of the endowment with the goal of providing a reasonable, predictable, stable and sustainable level of income to support current needs. Payout is derived from interest, dividends and realized gains net of portfolio management fees. The historical rate of payout has been 4 to 5 percent, with any change to this range to be approved by the Board.

The net appreciation (cumulative and unexpended) on donor restricted endowments presented below in Table 16 is available for authorization and expenditure by the System.

Table 16 - Net Appreciation of Endowments

Donor-Restricted Endowments	Amount of Net Appreciation/(Depreciation)	Reported in Net Assets
True Endowments	$ 166,185	Restricted Expendable
Total	$ 166,185	

(A fair value increase of $547,418 was recognized for endowments at or above historical cost. A fair value increase of $743,544 was recognized for endowments below historical cost.)

Note 17: Post-Employment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provided 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 177 University 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 University 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, 2011, the cost of providing those benefits for the retirees was $993,377 for the State.

Note 18: Disaggregation of Receivable Balances

Balances of receivables reported on the Statement of Net Assets may be aggregations of different components. GASB Statement 38, Certain Financial Statement Note Disclosures, requires that the University provide details in the notes to the financial statements when significant components have been obscured by aggregation.

Federal Receivable

Balances by category type for Federal Receivable are shown in Table 18.1.

Table 18.1 - Federal Receivables

Federal Receivable Program	Net Receivable
Department of Agriculture	$ 8,749
Department of Commerce	5,615
Department of Education	3,758,802
Department of Health and Human Services	23,456
Department of Housing and Urban Development	31,558
Department of the Interior	5,051
Environmental Protection Agency	194,733
National Aeronautics and Space Administration	127,255
National Foundation of the Arts and Humanities	62,949
National Science Foundation	21,532
Total Net Federal Receivable	$ 4,239,700
As Reported on the Financial Statements:	
Current Federal Receivable	$ 4,239,700
Total Net Federal Receivable	$ 4,239,700

Supplemental Information

The University of Houston – Clear Lake

Schedule of Changes in Unrestricted Net Assets

For the Fiscal Year Ended August 31, 2011

	8/31/2011	8/31/2010	Difference
Reserved			
Encumbrances	$ 655,479	$ 2,258,780	$(1,603,301)
Accounts Receivable	6,222,540	6,339,069	(116,529)
Inventories	15,454	12,909	2,545
Self-Insurance Plans	635,663	684,461	(48,798)
Higher Education Assistance Funds	3,731,574	3,929,013	(197,439)
Fees with Use Restricted by Statute:			
Student Service Fees (54.503)	742,238	428,730	313,508
University Center Fee (54.527)	109,079	66,244	42,835
Prepaid Expenses	1,883,390	1,975,185	(91,795)
Deferred Charges	526,759	561,617	(34,858)
Petty Cash	25,500	25,400	100
Texas Public Education Grants	46,992	54,088	(7,096)
Unreserved			
Allocated			
Future Operating Budgets	2,022,468	931,918	1,090,550
Service Department Operating Funds	175,401	213,266	(37,865)
Auxiliary Enterprises Operating Funds	1,797,425	1,833,610	(36,185)
Funds Functioning as Endowment - Unrestricted	1,729,269	1,328,705	400,564
Funds Functioning as Loans	61,870	24,297	37,573
Student Fees	4,402,887	4,013,856	389,031
Unallocated	12,677,896	5,228,495	7,449,401
Total Unrestricted Net Assets	$ 37,461,884	$ 29,909,643	$ 7,552,241

State Auditor's Office
John Keel, CPA
State Auditor

February 13, 2012

Dr. William A. Staples, President
The University of Houston – Clear Lake
Office of the President
2700 Bay Area Blvd,
Office: B2521, Box 43
Houston, TX 77058

Subject: Management Letter Resulting from a Review of the University of Houston - Clear Lake's Fiscal Year 2011 Financial Statements

Dear Dr. Staples:

We offer this management letter in conjunction with our review of the financial statements of the University of Houston – Clear Lake (University) for the fiscal year ended August 31, 2011, on which we have issued our report dated February 13, 2012. We reviewed the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. 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 accounting principles generally accepted in the United States of America.

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, CIA, CGAP, CISA
Assistant State Auditor

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SAO Report No. 12-327

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 Harvey Hilderbran, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor