



John Keel, CPA
State Auditor

Accreditation Reviews

Fiscal Year 2014

February 2015
Report No. 15-020

Introduction

The State Auditor's Office completed reviews of the following three higher education institutions' fiscal year 2014 financial statements:

- Texas A&M International University.
- Texas A&M University - Kingsville.
- Texas Tech University.

Those 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.

Texas A&M International University

Financial Statements

For the Fiscal Year Ended August 31, 2014

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Independent Accountant's Review Report

Dr. Ray M. Keck, III, President
Texas A&M International University
5201 University Blvd.
Laredo, TX 78041-1900

We have reviewed the accompanying Statement of Net Position of Texas A&M International University (University) as of August 31, 2014, and the related Statement of Revenues, Expenses, and Changes in Net Position 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.

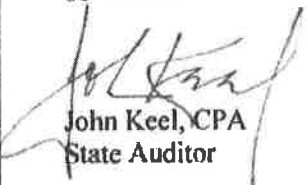
University management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair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

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.

This report is intended for use by the board of regents of the Texas A&M University System, management of the University, and the Southern Association of Colleges and Schools' Commission on Colleges. This report is a matter of public record and its distribution should not be limited.


John Keel, CPA
State Auditor

February 3, 2015

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SAO Report No. 15-318

Texas A&M International University
Statement of Net Position

August 31, 2014

(See Independent Accountant's Report on Page 1)

ASSETS

Current Assets

Cash and Cash Equivalents (Note 3)	\$	9,958,865
Restricted:		
Cash and Cash Equivalents (Note 3)		978,799
Legislative Appropriations		5,504,699
Receivables, Net of Allowances (Note 15):		
Federal		1,732,018
Gifts		779,856
Student		1,994,366
Other		269,680
Due from Other State Entities (Note 10)		353,130
Consumable Inventories		21,029
Loans and Contracts		1,547,385
Other Current Assets		157,050
Total Current Assets	\$	<u>23,296,877</u>

Non-Current Assets

Restricted:		
Assets Held by System Office - Long Term (Note 3)	\$	53,214,563
Gifts Receivable		1,001,770
Assets Held by System Offices - Long Term (Note 3)		42,040,837
Capital Assets (Note 2):		
Non-Depreciable and Non-Amortizable		11,265,690
Depreciable and Amortizable		233,039,441
Less: Accumulated Depreciation and Amortization		<u>(124,017,465)</u>
Total Non-Current Assets	\$	<u>216,544,836</u>

Total Assets \$ 239,841,713

LIABILITIES

Current Liabilities

Payables:		
Accounts	\$	1,056,889
Payroll		1,760,763
Other (Note 15)		2,463,315
Unearned Revenue		4,351,131
Employees' Compensable Leave (Note 4)		253,033

Funds Held for Others	357,760
Other Current Liabilities	<u>603,594</u>
Total Current Liabilities	\$ <u>10,846,485</u>
Non-Current Liabilities	
Employees' Compensable Leave (Note 4)	\$ 1,659,267
Other Non-Current Liabilities	<u>3,305</u>
Total Non-Current Liabilities	\$ <u>1,662,572</u>
Total Liabilities	\$ <u>12,509,057</u>
NET POSITION	
Invested in Capital Assets, Net of Related Debt	\$ 120,287,667
Restricted for:	
Non-Expendable	
Permanent Funds, True Endowments, Annuities	36,580,379
Expendable	
Capital Projects	1,093,101
Education	14,124,529
Endowments	8,006,479
Unrestricted	<u>47,240,501</u>
Total Net Position	\$ <u>227,332,656</u>

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

Texas A&M International University
Statement of Revenues, Expenses and Change in Net Position
For the Fiscal Year Ended August 31, 2014
(See Independent Accountant's Report on Page 1)

OPERATING REVENUES

Tuition and Fees	\$ 1,538,176
Tuition and Fees - Pledged	39,617,791
Discounts and Allowances	(20,600,230)
Professional Fees	350
Professional Fees - Pledged	31,335
Auxiliary Enterprises - Pledged	3,920,989
Discounts and Allowances	(1,399,512)
Other Sales of Goods and Services	375,899
Other Sales of Goods and Services - Pledged	755,564
Interest Revenue	5,670
Federal Revenue	12,187,292
State Grant Revenue	7,671,180
Other Operating Grant Revenue	560,543
Other Operating Grant Revenue - Pledged	80
Other Operating Revenues	108,259
Other Operating Revenues - Pledged	<u>105,442</u>
Total Operating Revenues	<u>\$ 44,878,828</u>

OPERATING EXPENSES

Cost of Goods Sold	\$ 12,292
Salaries and Wages	40,901,591
Payroll Related Costs	10,213,794
Professional Fees and Services	7,124,164
Travel	2,348,821
Materials and Supplies	7,012,972
Communications and Utilities	2,215,874
Repairs and Maintenance	1,851,594
Rentals and Leases	564,446
Printing and Reproduction	42,215
Depreciation and Amortization	8,902,397
Bad Debt Expense	28,072
Interest Expense	1,191
Scholarships	10,786,682
Other Operating Expenses	<u>4,321,660</u>
Total Operating Expenses	<u>\$ 96,327,765</u>
Operating Income (Loss)	<u>\$ (51,448,937)</u>

NONOPERATING REVENUES (EXPENSES)	
Legislative Appropriations	\$ 34,504,342
Federal Revenue	16,592,075
Gifts	2,269,413
Interest and Investment Income (Loss)	2,359,442
Investing Activities Expense	(115,192)
Net Increase (Decrease) in Fair Value of Investments	10,955,969
Land Income	8,141
Other Nonoperating Revenues - Pledged	401,177
Other Nonoperating Expenses	<u>(857)</u>
Total Nonoperating Revenues (Expenses)	\$ <u>66,974,510</u>
Income(Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers	\$ <u>15,525,573</u>
OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS	
Capital Appropriations (HEAF)	\$ 3,796,436
Additions to Permanent and Term Endowments	1,371,241
Transfers In from Other State Entities (Note 10)	1,515,425
Transfers Out to Other State Entities (Note 10)	(4,079,546)
Legislative Transfers Out (Note 10)	(8,677,600)
Legislative Appropriations Lapsed	<u>(152,972)</u>
Total Other Revenues, Expenses, Gains (Losses), and Transfers	\$ <u>(6,227,016)</u>
CHANGE IN NET POSITION	\$ <u>9,298,557</u>
Net Position, September 1, 2013	\$ <u>218,034,099</u>
NET POSITION, August 31, 2014	\$ <u>227,332,656</u>

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

Texas A&M International University
Statement of Cash Flows

For the Fiscal Year Ended August 31, 2014
(See Independent Accountant's Report on Page 1)

CASH FLOWS FROM OPERATING ACTIVITIES

Proceeds from Tuition and Fees	\$ 20,249,886
Receipts from Customers	1,064,188
Proceeds from Research Grants and Contracts	21,114,785
Proceeds from Loan Programs	9,827
Proceeds from Auxiliaries	2,512,463
Proceeds from Other Revenues	169,338
Payments to Suppliers for Goods and Services	(25,167,818)
Payments to Employees for Salaries & Benefits	(40,886,193)
Payments to Employees for Benefits	(10,257,078)
Payments for Loans Provided	(240,364)
Payments for Other Expenses	<u>(10,786,682)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (42,217,648)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Proceeds from Legislative Appropriations	\$ 32,862,974
Proceeds from Gifts	4,463,715
Proceeds from Endowments	1,371,241
Proceeds of Transfers from Other Entities	16,724,962
Proceeds from Other Sources	808,523
Payments for Transfers to Other Entities	(332,381)
Payments for Other Uses	(101,829)
Other Noncapital Transfers From/To System	<u>(801,887)</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>\$ 54,995,318</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from State Grants and Contracts	\$ 3,796,436
Payments for Additions to Capital Assets	(4,184,478)
Transfer of Capital Debt Proceeds From System	2,645,306
Intrasystem Transfers for Capital Debt	<u>(10,245,339)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (7,988,075)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Sales and Purchases of Investments Held By System	\$ (9,029,816)
Proceeds from Interest and Investment Income	<u>2,244,250</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ (6,785,566)</u>

Net Increase (Decrease) in Cash and Cash Equivalents \$ (1,995,971)

Cash and Cash Equivalents, September 1, 2013 \$ 12,933,635

Cash and Cash Equivalents, August 31, 2014 \$ 10,937,664

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

Operating Income (Loss)	\$ (51,448,937)
Adjustments:	
Depreciation and Amortization	\$ 8,902,397
Bad Debt Expense	46,328
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	45,534
(Increase) Decrease in Due from Other State Entities	67,567
(Increase) Decrease in Inventories	9,500
(Increase) Decrease in Prepaid Expenses	(121,802)
(Increase) Decrease in Loans and Contracts	(240,218)
(Increase) Decrease in Other Assets	114,204
Increase (Decrease) in Payables	(46,415)
Increase (Decrease) in Unearned Revenue	310,737
Increase (Decrease) in Employees' Compensable Leave	183,664
Increase (Decrease) in Other Liabilities	<u>(40,207)</u>
Total Adjustments	\$ <u>9,231,289</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>(42,217,648)</u>
Non-Cash Transactions	
Net Increase (Decrease) in Fair Value of Investments	\$ 10,955,969

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

Texas A&M International University
Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2014

General Introduction

These financial statements include a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; a Statement of Cash Flows; and the related Notes to the Financial Statements.

Reporting Entity

Texas A&M International 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 International 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, revenues are recognized when earned, and expenses are recorded when an obligation is incurred. Operating items are distinguished from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with ongoing operations.

The accompanying financial statements were prepared in conformance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The University applies all GASB pronouncements, including GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

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. 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

Investments are reported at fair value on the Statement of Net Position. 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. The A&M System notes to the financial statements disclose deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Current Assets

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

Receivables

Receivable balances are grouped into several receivable categories. Accounts receivable reflects amounts owed for goods and services provided. Other receivables include items such as travel advances, returned checks, and various items accrued and not yet invoiced.

Receivable balances are presented net of an allowance for uncollectible accounts. The allowance is based on management's judgment of potential uncollectible amounts, which includes such factors as historical experience and type of receivable. Refer to Note 15, Disaggregation of Receivable and Payable Balances, for additional details.

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 and building improvements, facilities and other improvements, purchased software, 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.

Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets; generally, 10 to 30 years for buildings and building improvements, 10 to 45 years for infrastructure, 4 to 15 years for equipment, and 15 years for library books.

Payables

Payable balances are grouped into various payable categories on the Statement of Net Position. Accounts payable represents the liability for the value of assets or services received, as of the date of the financial statements, for which payment is pending. Payroll payable includes accrued salary, wages, and benefits. Other payables include a variety of items, including payables for purchasing card activity, manager fees, sales taxes, and student liabilities. Refer to Note 15, Disaggregation of Receivable and Payable Balances, for additional details.

Revenues and Expenses

Operating revenues include activities such as student tuition and fees; net sales and services of auxiliary enterprises; most federal, state and local grants and contracts. Operating expenses include salaries and wages, payroll related costs, professional fees and services, materials and supplies, and scholarships.

Nonoperating revenues include activities such as State appropriations, gifts and contributions, investment income and other revenue sources that are defined as nonoperating revenues by Governmental Accounting Standards Board (GASB). Nonoperating expenses include activities such as interest expense on capital asset financings, and other expenses that are defined as nonoperating expenses by GASB.

Unearned Revenue

Receivables are recorded when revenue is earned but not collected. Unearned revenue is recognized when cash is received prior to revenue recognition, and is considered a liability.

Other Postemployment Benefits (OPEB)

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. The OPEB liability is classified as noncurrent. Additionally, the net change in OPEB obligation is recorded as a natural classification of expense.

Net Position

Net Position is the difference between assets and liabilities.

Net Investment in Capital Assets

Net investment in capital assets, 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 Position

Restricted net position results when constraints placed on net resources 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 assets are available for use, restricted resources are used first, then unrestricted resources are used as needed.

Unrestricted Net Position

Unrestricted net position consists of net resources that do not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management but can be removed or modified.

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 Position to avoid inflating revenues and expenses.

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. All realized gains and losses are deposited to or funded from the

Appreciation Reserve, and distributions from the reserve are used to supplement current income when the income received is insufficient to meet the required distribution 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, 2014, is presented below.

	Balance	Adjustments	Completed			Balance
	9/1/2013		Construction in Progress	Additions	Deductions	8/31/2014
Non-Depreciable and Non-Amortizable Assets:						
Land and Land Improvements	\$ 7,500,047	\$ -	\$ -	\$ -	\$ -	\$ 7,500,047
Construction in Progress	1,701,746	-	-	2,063,897	-	3,765,643
Total Non-Depreciable Assets	\$ 9,201,793	\$ -	\$ -	\$ 2,063,897	\$ -	\$ 11,265,690
Depreciable and Amortizable Assets:						
Buildings and Building Improvements	\$ 174,105,546	\$ -	\$ -	\$ -	\$ -	\$ 174,105,546
Infrastructure	19,620,831	-	-	-	-	19,620,831
Facilities and Other Improvements	15,309,777	-	-	-	-	15,309,777
Furniture and Equipment	13,411,526	-	-	1,797,022	(342,838)	14,865,710
Vehicles, Boats, and Aircraft	112,718	-	-	-	(22,523)	90,195
Computer Software	1,291,864	-	-	-	-	1,291,864
Other Capital Assets	7,431,959	-	-	323,559	-	7,755,518
Total Depreciable and Amortizable Assets at Historical Cost	\$ 231,284,221	\$ -	\$ -	\$ 2,120,581	\$ (365,361)	\$ 233,039,441
Less Accumulated Depreciation and Amortization for:						
Buildings and Building Improvements	\$ (86,076,568)	\$ -	\$ -	\$ (5,501,968)	\$ -	\$ (91,578,536)
Infrastructure	(8,507,888)	-	-	(835,973)	-	(9,343,861)
Facilities and Other Improvements	(6,116,832)	-	-	(862,490)	-	(6,979,322)
Furniture and Equipment	(8,865,791)	-	-	(1,269,493)	342,838	(9,792,446)
Vehicles, Boats, and Aircraft	(65,678)	-	-	(10,725)	22,523	(53,880)
Computer Software	(1,227,128)	-	-	(29,527)	-	(1,256,655)
Other Capital Assets	(4,620,544)	-	-	(392,221)	-	(5,012,765)
Total Accumulated Depreciation and Amortization	\$ (115,480,429)	\$ -	\$ -	\$ (8,902,397)	\$ 365,361	\$ (124,017,465)
Depreciable and Amortizable Assets, Net	\$ 115,803,792	\$ -	\$ -	\$ (6,781,816)	\$ -	\$ 109,021,976
Capital Assets, Net	\$ 125,005,585	\$ -	\$ -	\$ (4,717,919)	\$ -	\$ 120,287,666

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, 2014, the carrying amount of deposits was \$3,615,745 as presented in the table on the following page.

DEPOSITS, INVESTMENTS AND REPURCHASE AGREEMENTS	
<u>Bank Deposits</u>	<u>Carrying Amount</u>
Cash in Bank (other than Certificates of Deposit (CDs))	\$ 3,615,745
Total Bank Deposits	\$ 3,615,745
<u>Composition of Cash and Cash Equivalents</u>	<u>Carrying Amount</u>
Cash on Hand	\$ 3,750
Cash in State Treasury	7,317,824
Reimbursement Due from Treasury	345
Total Bank Deposits (per above)	3,615,745
Total Cash and Cash Equivalents	\$ 10,937,664
<u>Cash and Cash Equivalents per Statement of Net Position</u>	<u>Carrying Amount</u>
Cash and Cash Equivalents - Current Assets	\$ 9,958,865
Cash and Cash Equivalents - Current Assets, Restricted	978,799
Total Cash and Cash Equivalents per Statement of Net Position	\$ 10,937,664

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

At the direction of the A&M System Board of Regents, Texas A&M International University cash and cash equivalents are held at the A&M System level. All deposits are managed centrally at the A&M System and participation is mandatory. The A&M System's annual financial statements provide required disclosures about the specific types of risk to which the deposits are exposed and the System's policies to address each of those risks.

Investments

At the direction of the A&M System Board of Regents, Texas A&M International University investments and cash equivalents are pooled at the A&M System level. This fund pool is managed centrally at the A&M System and participation is mandatory. The A&M System's annual financial statements provide required disclosures about the composition of the investment portfolios, the specific types of risk to which those investments are exposed and the System's policies to address each of those risks.

As of August 31, 2014, the value of non-current assets held by the A&M System on behalf of Texas A&M International University totaled \$95,255,400, of that amount \$53,214,563 is restricted. Texas A&M International University's investments held by the A&M System, by Pool and by Statement of Net Position Classification, are presented in the table on the following page.

University Share of Pooled Investments Held by the System, by Pool and by Statement of Net Position Classification	
Investments Held by System in:	
Cash Concentration Pool	\$ 50,668,542
System Endowment Fund	44,586,858
Total University Share of Pooled Investments Held by System	<u>\$ 95,255,400</u>
Non-Current Assets	
Cash Concentration Pool	\$ 42,040,837
Non-Current Assets, Restricted	
Cash Concentration Pool	8,627,705
System Endowment Fund	44,586,858
Total University Share of Pooled Investments Held by System	<u>\$ 95,255,400</u>

Note 4: Summary of Long-Term Liabilities

Long-term liabilities are defined as liabilities whose average maturity is greater than one year. The table below presents a summary of changes in these liabilities during the year ended August 31, 2014.

	Balance			Balance 8/31/2014	Amounts
	9/1/2013	Additions	Deductions		Due Within One Year
Employees' Compensable Leave	\$ 1,728,636	\$ 183,664	\$ -	\$ 1,912,300	\$ 253,033
Total	<u>\$ 1,728,636</u>	<u>\$ 183,664</u>	<u>\$ -</u>	<u>\$ 1,912,300</u>	<u>\$ 253,033</u>

Employees' Compensable Leave

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 532 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 accrues the dollar value of annual leave benefits which are payable upon retirement, termination, or death of its employees. This liability (current and noncurrent) for Texas A&M International University is projected to be \$1,912,300 as of August 31, 2014. 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. Texas A&M International University made lump sum payments of \$131,566 for accrued vacation to employees who separated from State service during the fiscal year ended August 31, 2014.

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.

Note 5: 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 expenses 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 Position in the Capital Assets category. The associated bond liability is reported in total by the A&M System Offices.

Texas A&M International 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 A&M System. Texas A&M International 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, 2014, the A&M System had outstanding bonds payable of \$2,695,780,000. All bonds issued by the A&M System are defined as revenue bonds. As such, the revenues of the A&M System, including those of Texas A&M International University, are pledged for repayment of the bonds. Segment information requirements are not applicable, due to the bond indentures' lack of specifically identifiable activities and separate accounting requirements imposed by an external party.

No amount of indebtedness related to these bonds has been recorded in the Texas A&M International University's financial statements as the A&M System is the party directly liable for these bonds. At August 31, 2014, however, outstanding debt issued on behalf of Texas A&M International University is \$63,714,836.

Note 6: Leases

A summary of future lease payments under non-cancelable operating leases for the year ended August 31, 2014, is presented below.

Year Ended August 31, 2014	Total
2015	\$ 111,071
Total Minimum Future Lease Payments	\$ 111,071

Note 7: 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 of its employees.

Teacher Retirement System Pension Plan

One of the plans in which the A&M System participates is a cost-sharing multiple-employer defined benefit pension plan administered by the Teacher Retirement System of Texas (TRS Plan). Participating

employers in the TRS Plan include public schools, service centers, charter schools, and community colleges as well as the State of Texas, which covers employees of colleges, universities, medical schools, and certain other state agencies. Employees of the A&M System are members of the TRS Plan if they are employed on a half-time or greater basis unless they participate in the Optional Retirement Program, described below. However students employed in a position that requires student status as a condition of employment do not participate.

Benefits under the TRS Plan are established or amended by the Texas Legislature in state law, as provided by Texas Government Code, Chapter 824. Benefits include service and disability retirement and death and survivor benefits. In combination, age, years of service credit, along with the date of membership to TRS determine when a member is eligible for an unreduced, normal service retirement. For members who established membership prior to September 1, 2007, normal service retirement is age 65 with at least 5 years of credited service or the sum of the member's age and years of credited service equals or exceeds 80 with at least five years of credited service (Rule of 80). For members who established membership on or after September 1, 2007 but prior to September 1, 2014 and have at least 5 years of service credit as of August 31, 2014, the member must be at least the age 60 for the rule of 80 to apply. For members who did not have at least 5 years of service credit as of August 31, 2014, who established membership on or after September 1, 2014, or who had at least five years of service credit as of August 31, 2014, but terminated membership by withdrawal of accumulated contributions and later resumed membership must be at least the age of 62 for the Rule of 80 to apply. Additionally, reduced benefits are available.

The standard life annuity benefit formula is 2.3% of the average of the five highest annual salaries multiplied by the years of service credit. For certain "grandfathered" members, the three highest annual salaries are used.

Contribution requirements for employees and employers are not actuarially determined but are established in the Texas Constitution and pursuant to state law passed by the Texas Legislature each biennium. The state constitution requires the legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation of all members of the system during the fiscal year. For the year ended August 31, 2014, the statutorily required contribution rate was 6.4% of annual compensation from active plan members and 6.8% of annual compensation from the A&M System.

The retirement expense to the State for the A&M System TRS retirement program was \$22,886,768 for the year ended August 31, 2014. 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. That report may be obtained by writing to TRS at the Teacher Retirement System of Texas, 1000 Red River Street, Austin, Texas 78701-2698, or from the TRS website at www.trs.state.tx.us.

For the years ended August 31, 2014, 2013, and 2012, Texas A&M International University, inclusive of state legislature appropriations, contributed 100% of the following statutorily required contributions below.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Required Contribution Rate	6.80%	6.40%	6.00%
Contributions Required & Made	\$1,645,728	\$1,527,353	\$1,351,556

Optional Retirement Program

The State has also established the Optional Retirement Program (ORP), a defined contribution plan for certain employees at public higher education institutions. The ORP is authorized by Texas Government Code, Chapter 830, and is administered by the A&M System, subject to policies, practices, and procedures developed by the Texas Higher Education Coordinating Board to provide greater uniformity in the administration of the program. Participation in the ORP is in lieu of participation in the TRS Plan. The ORP provides for the purchase of annuity contracts and mutual funds through companies that provide optional retirement programs for higher education institutions. Because these are individual investment contracts with investment or insurance companies, and future participant benefits are based on the performance of the selected investment instruments, neither the State nor the A&M System has any liability for investment performance or for retirement commitments beyond the required contributions. Benefits in the ORP vest in a participant after one year of participation.

State law provides for participant contributions of 6.65% of annual compensation and for a maximum employer contribution of 8.5% of a participant's annual compensation. Each biennium, the Texas Legislature establishes the State's share of the employer contribution and permits higher education institutions to contribute an additional amount so that total employer contributions do not exceed 8.5%. For the year ended August 31, 2014, the contributory percentages of participant salaries 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 6.6% contributed by the State and an additional 1.90% contributed by the A&M System. For participants who enrolled on or after September 1, 1995, the State and participant contributions were 6.6% and 6.65%, respectively.

For the year ended August 31, 2014, contributions for the A&M System ORP are presented below.

Optional Retirement Program	
	Amount
Employer Contributions	\$ 42,347,770
Employee Contributions	38,234,005
Total	\$ 80,581,775

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.

For the year ended August 31, 2014, contributions for Texas A&M International University ORP are presented in the table on the following page.

Optional Retirement Program	
	Amount
Employer Contributions	\$ 777,747
Employee Contributions	720,966
Total	\$ 1,498,713

Note 8: Deferred Compensation

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 TexaSaver 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 can include 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.

Note 9: Postemployment Health Care and Life Insurance Benefits

Information included in this note is presented from the A&M System perspective. The A&M System Financial Statements may be obtained at <http://www.tamus.edu/offices/budget-acct/reports/statutory/aftr/>.

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. As of August 31, 2014, the A&M System had 7,916 retirees and 21,244 active employees. For the year ending August 31, 2014, the employer and retiree contribution rates are presented below.

Required Contribution Rates		
Retiree Health and Basic Life Premium		
<u>Level of Coverage</u>	<u>Employer</u>	<u>Retiree*</u>
Retiree Only	\$ 457	\$ 20
Retiree/Spouse	694	256
Retiree/Children	623	185
Retiree/Family	788	351
*Health premium only		

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 4 of GASB No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB No. 43 accounting is not applicable to the A&M System.

For the year ended August 31, 2014, the contributions for the self-funded plan by the state per full-time retired employee for the A&M System are shown in the following table. The retiree contributes any premium over and above state contributions.

Three-Year Schedule of Employer Contributions				
Fiscal Year	Employer	Annual	Percentage of Annual	Net OPEB Obligation
Ending	Contribution	OPEB Cost	OPEB Cost Contributed	At End of Fiscal Year
8/31/2014	\$ 50,098,629	\$ 190,640,222	27%	\$ 859,766,188
8/31/2013	\$ 61,529,733	\$ 176,876,299	35%	\$ 719,224,595
8/31/2012	\$ 63,131,287	\$ 190,199,827	33%	\$ 603,878,029

The OPEB expense reflected in the A&M System's Statement of Revenues, Expenses and Changes in Net Position is net of the Employer Contributions, as these costs are included as a portion of Payroll Related Costs expense.

Annual OPEB Cost and Net OPEB Obligation

The annual OPEB cost of the plan is calculated and based on the annual required contribution (ARC). The ARC is the amount actuarially determined. 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 A&M System's annual OPEB cost for the year for the plan:

Annual OPEB Cost and Net OPEB Obligation	
Annual Required Contribution (ARC)	\$ 176,671,951
Interest on Net OPEB Obligation	52,503,395
Adjustment to ARC	(38,535,124)
Annual OPEB Cost	190,640,222
Employer Contributions Made	(50,098,629)
Increase Net OPEB Obligation	140,541,593
Net OPEB Obligation 9/1/2013	719,224,595
Net OPEB Obligation 8/31/2014	\$ 859,766,188

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 below 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)
9/1/2013	\$ -	\$ 2,056,248,723	\$ (2,056,248,723)	0.0%	\$ 1,176,080,116	174.8%
9/1/2012	\$ -	\$ 1,924,980,271	\$ (1,924,980,271)	0.0%	\$ 1,149,300,305	167.5%
9/1/2011	\$ -	\$ 1,996,798,639	\$ (1,996,798,639)	0.0%	\$ 1,359,512,304	146.9%

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 table below.

Summary of Actuarial Methods and Assumptions	
Actuarial Valuation Date	September 1, 2013
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market
Amortization Method	Open
Amortization Period	30 years
Actuarial Assumptions	
Projected Salary Increases	3.5%
Investment Rate of Return	7.3%
Inflation	3.0%
Health Care Trend Rates	9.5% in 2014
(Grading down by .5% annually until ultimate trend rate of 5.0% is reached in 2023)	

Medicare Part D

In fiscal year 2014, the plan received payments from the federal government pursuant to the retiree drug subsidy provisions of Medicare Part D. These on-behalf payments were recorded as revenues and expenses of each plan. In fiscal year 2014 the system received \$3,961,226 of Medicare Part D payments from the federal government.

Note 10: Interfund Activity and Transactions

As of August 31, 2014, amounts to be received or paid between funds and agencies are to be reported as:

- Due from/to other state entities
- Transfers in from/out to other state entities
- Legislative transfers in/out

Texas A&M International University made transfers with other state agencies, which were consistent with the activities of the fund making the transfer. Individual balances and activity at August 31, 2014, are presented in the table on the following page.

DUE FROM/TO OTHER STATE ENTITIES			
<u>Entity</u>	Due from Other State Entities	Due to Other State Entities	<u>Purpose</u>
Texas A&M University System	\$ 262,051	\$ -	Construction Proceeds
Texas A&M Research Foundation	5,000	-	Federal Pass through funds related to contracts and grants
University of Texas at Austin	38,343	-	Federal Pass through funds related to contracts and grants
University of Texas - Pan American	18,476	-	Federal Pass through funds related to contracts and grants
University of Texas at San Antonio	27,836	-	Federal Pass through funds related to contracts and grants
Texas Parks & Wildlife	1,424	-	Federal Pass through funds related to contracts and grants
	<u>\$ 353,130</u>	<u>\$ -</u>	
TRANSFERS IN FROM/OUT TO OTHER STATE ENTITIES			
<u>Entity</u>	Transfers In from Other State Entities	Transfers Out to Other State Entities	<u>Purpose</u>
Texas A&M University System	\$ -	\$ 2,179,425	System Endowment Fund Appreciation Reserve
Texas A&M University System	-	1,567,739	Debt Service for Residential Learning Center and Student Center
University of Texas at El Paso	137,887	-	Interagency Contract
Texas A&M University System	1,350,067	-	System Endowment Fund Appreciation Reserve Allocation
Texas A&M University System	20,171	-	Resource Allocation Plan Funding
Texas A&M University System	6,500	-	Employee Wellness Program
Texas A&M University System	800	-	Reimbursement from System Office for 2014 Recognition Conference pertaining to the Police Department
Texas Higher Education Coordinating Board	-	332,382	Designated Tuition Set-Aside
	<u>\$ 1,515,425</u>	<u>\$ 4,079,546</u>	
LEGISLATIVE TRANSFERS IN/OUT			
<u>Entity</u>	Legislative Transfers In	Legislative Transfers Out	<u>Purpose</u>
Texas A&M University System	\$ -	\$ 8,677,600	Mandatory Debt Service
	<u>\$ -</u>	<u>\$ 8,677,600</u>	

Note 11: Risk Management

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 International 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. On-going analysis of the risks facing the A&M System results in the continual evaluation of insurance policies purchased.

The A&M System has self-insured arrangements for coverage in the areas of workers' compensation (WCI), group health and dental insurance and certain areas of medical malpractice. 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 (IBNR) 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 \$56,517,090 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 table presents the change in IBNR liability balance.

Changes in IBNR Liability Balances		
Plan	WCI	Health & Dental
IBNR Liability 9/1/13	\$ 8,264,000	\$ 16,112,000
CY Claims	2,380,000	228,523,957
Claims Payments	(2,614,000)	(229,001,957)
Other Items (changes in estimates)	1,005,000	-
IBNR Liability 8/31/14	\$ 9,035,000	\$ 15,634,000

Note 12: The Financial Reporting Entity

The A&M System is composed of a series of distinct members, each of which was created to render a specific service for the State within the limits of the A&M System's objectives, and all of which are under the control and direction of the Board of Regents of the A&M System. Texas A&M International University is a distinct member of the A&M System.

Note 13: Stewardship, Compliance, and Accountability

Texas A&M International University has no material violations of finance related legal and contract provisions. Per the laws of the State of Texas, Texas A&M International 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 14: 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 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 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 in how endowments should be maintained.

Net Appreciation of Donor-Restricted Endowments		
Donor-Restricted Endowments	Amount of Net Appreciation*	Reported in Net Position
True Endowments	\$ 103,631,442	Restricted for Expendable

* The total fiscal year 2014 fair value adjustment to the Fund was \$67,438,323.

The amount of net appreciation for donor restricted endowments specific to Texas A&M International University is \$4,069,693.

Note 15: Disaggregation of Receivable and Payable Balances

A summary of accounts receivable, associated allowances for doubtful accounts balances and other payables for Texas A&M International University for the year ended August 31, 2014, is presented below.

Accounts Receivable			
Current Receivables	Gross Amount	Allowance for Doubtful Accounts	Amount on SNP
Federal	\$ 1,732,018	\$ -	\$ 1,732,018
Gifts	779,856	-	779,856
Student	2,282,455	(288,089)	1,994,366
Other			
A/R Returned Checks	60,979	(20,981)	39,998
Other Receivables	275,579	(45,897)	229,682
Total	<u>\$ 5,130,887</u>	<u>\$ (354,967)</u>	<u>\$ 4,775,920</u>

Other Payables are detailed by type of activity in the table on the following page.

Other Payables	Amount
Student Liabilities	\$ 1,888,725
Other Payables	574,591
Total	\$ 2,463,315

Note 16: 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 International University has no obligation to pay the A&M System for any termination benefits specifically incurred by the University.

As of August 31, 2014, the A&M System has not incurred obligations to pay voluntary or involuntary termination benefits in fiscal year 2015.

For the fully-insured 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.

COBRA benefits for the Texas A&M University System for the year ended August 31, 2014 are presented below.

Termination Benefits - COBRA				
Enrollment				
	Self-Insured Medical Plan	Self-Insured Dental Plan	Fully-Insured Dental Plan	Fully-Insured Vision Plan
Number of Participants	199	77	30	172
Self-Insured Activity				
Premium Revenue	\$ 780,183	\$ 71,378		
2 Percent Administrative Fee Revenue	15,604	1,428		
Total COBRA Revenue	<u>795,787</u>	<u>72,806</u>		
Claims Paid	1,755,121	67,704		
Administrative Expenses	22,714	6,152		
Total COBRA Expenses	<u>1,777,835</u>	<u>73,856</u>		
Total Cost to State	<u>\$ 982,048</u>	<u>\$ 1,050</u>		



February 3, 2015

Dr. Ray M. Keck, III, President
Texas A&M International University
5201 University Blvd.
Laredo, TX 78041-1900

Subject: Management Letter Resulting from a
Review of Texas A&M International
University's Fiscal Year 2014
Financial Statements

Dear Dr. Keck:

We offer this management letter in conjunction with our review of the financial statements of Texas A&M International University (University) as of and for the fiscal year ended August 31, 2014, on which we have issued our report dated February 3, 2015. We reviewed the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; 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,

Lisa R. Collier, CPA, CIDA
First Assistant State Auditor

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SAO Report No. 15-319

Texas A&M University - Kingsville

Financial Statements

For the Fiscal Year Ended August 31, 2014

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Independent Accountant's Review Report

Dr. Steven H. Tallant, President
Texas A&M University – Kingsville
700 University Blvd. MSC 101
Kingsville, TX 78363-8202

We have reviewed the accompanying Statement of Net Position of Texas A&M University – Kingsville (University) as of August 31, 2014, and the related Statement of Revenues, Expenses, and Changes in Net Position 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.

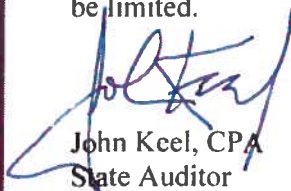
University management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair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

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.

This report is intended for use by the board of regents of the Texas A&M University System, management of the University, and the Southern Association of Colleges and Schools' Commission on Colleges. This report is a matter of public record and its distribution should not be limited.



John Keel, CPA
State Auditor

January 26, 2015

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SAO Report No. 15-314

Texas A&M University - Kingsville
Statement of Net Position

August 31, 2014

(See Independent Accountant's Report on Page 1)

ASSETS

Current Assets

Cash and Cash Equivalents (Note 3)	\$	24,846,870
Restricted:		
Cash and Cash Equivalents (Note 3)		3,869,942
Legislative Appropriations		7,484,245
Receivables, Net of Allowances: (Note 16)		
Federal		1,245,363
Student		2,965,600
Other		703,259
Due from Other State Entities (Note 10)		2,834,592
Loans and Contracts		2,439,644
Other Current Assets		<u>4,516,099</u>
Total Current Assets	\$	<u>50,905,614</u>

Non-Current Assets

Restricted:		
Assets held by System Office (Note 3)	\$	30,832,924
Assets held by System Office (Note 3)		43,492,616
Loans and Contracts		531,541
Capital Assets (Note 2):		
Non-Depreciable and Non-Amortizable		15,548,068
Depreciable and Amortizable		249,238,309
Less: Accumulated Depreciation and Amortization		<u>(121,060,598)</u>
Total Non-Current Assets	\$	<u>218,582,860</u>

Total Assets	\$	<u>269,488,474</u>
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LIABILITIES

Current Liabilities

Payables:		
Accounts	\$	1,290,924
Payroll		3,727,127
Student Payables		1,992,574
Other		212,881
Due to Other State Entities (Note 10)		73,792
Unearned Revenue		21,898,101
Employees' Compensable Leave (Note 4)		462,524

Liabilities Payable from Restricted Assets	832,442
Funds Held for Others	586,740
Other Current Liabilities	<u>160,558</u>
Total Current Liabilities	\$ <u>31,237,663</u>
Non-Current Liabilities	
Employees' Compensable Leave (Note 4)	\$ 1,705,596
Other Non-Current Liabilities	<u>280,871</u>
Total Non-Current Liabilities	\$ <u>1,986,467</u>
Total Liabilities	\$ <u>33,224,130</u>
NET POSITION	
Invested in Capital Assets, Net of Related Debt	\$ 143,725,779
Restricted for:	
Non-Expendable	
Permanent Funds, True Endowments, Annuities	15,682,685
Expendable	
Capital Projects	1,299,879
Endowments	5,605,566
Other	18,915,314
Unrestricted	<u>51,035,121</u>
Total Net Position	\$ <u>236,264,344</u>

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

Texas A&M University - Kingsville
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended August 31, 2014
(See Independent Accountant's Report on Page 1)

OPERATING REVENUES

Tuition and Fees	\$ 2,628,581
Tuition and Fees - Pledged	54,441,995
Discounts and Allowances	(15,253,751)
Auxiliary Enterprises - Pledged	20,258,040
Discounts and Allowances	(3,965,841)
Other Sales of Goods and Services	735,943
Other Sales of Goods and Services - Pledged	3,998,756
Interest Revenue	46,268
Federal Revenue	12,011,757
State Grant Revenue	7,271,588
Other Operating Grant Revenue	3,265,537
Other Operating Grant Revenue - Pledged	104,754
Other Operating Revenues	58,624
Other Operating Revenues - Pledged	829,017
Total Operating Revenues	<u>\$ 86,431,268</u>

OPERATING EXPENSES

Cost of Goods Sold	\$ 1,659
Salaries and Wages	58,040,007
Payroll Related Costs	15,253,733
Professional Fees and Services	14,270,044
Travel	3,012,855
Materials and Supplies	8,946,512
Communications and Utilities	4,882,642
Repairs and Maintenance	2,575,576
Rentals and Leases	1,061,189
Printing and Reproduction	378,852
Depreciation and Amortization	10,112,352
Bad Debt Expense	(78,395)
Interest Expense	8,373
Scholarships	11,804,304
Other Operating Expenses	14,229,786
Total Operating Expenses	<u>\$ 144,499,489</u>
Operating Income (Loss)	<u>\$ (58,068,221)</u>

NONOPERATING REVENUES (EXPENSES)

Legislative Appropriations	\$	39,764,564
Federal Revenue-Non Operating		20,697,581
Gifts		5,516,836
Interest and Investment Income (Loss)		3,368,638
Investing Activities Expense		(133,505)
Net Increase (Decrease) in Fair Value of Investments		6,284,385
Land Income		13,500
Gain (Loss) on Sale of Capital Assets		(459)
Claims and Judgments		(67,400)
Other Nonoperating Revenues - Pledged		(4,244)
Other Nonoperating Expenses		<u>(1,009,031)</u>
Total Nonoperating Revenues (Expenses)	\$	<u>74,430,865</u>

Income(Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers \$ 16,362,644

OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS

Capital Contributions	\$	1,123,065
Capital Appropriations (HEAF)		5,046,885
Additions to Permanent and Term Endowments		326,755
Transfers In from Other State Entities (Note 10)		976,797
Transfers Out to Other State Entities (Note 10)		(5,650,437)
Legislative Transfers Out (Note 10)		(4,198,827)
Legislative Appropriations Lapsed		<u>(111,414)</u>
Total Other Revenues, Expenses, Gains (Losses), and Transfers	\$	<u>(2,487,176)</u>

CHANGE IN NET POSITION \$ 13,875,468

Net Position, September 1, 2013 \$ 222,388,876

NET POSITION, August 31, 2014 \$ 236,264,344

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

Texas A&M University - Kingsville
Statement of Cash Flows

For the Fiscal Year Ended August 31, 2014
(See Independent Accountant's Report on Page 1)

CASH FLOWS FROM OPERATING ACTIVITIES

Proceeds from Tuition and Fees	\$ 35,575,855
Receipts from Customers	4,686,419
Proceeds from Research Grants and Contracts	21,843,161
Proceeds from Loan Programs	5,480,885
Proceeds from Auxiliaries	15,392,617
Proceeds from Other Revenues	789,665
Payments to Suppliers for Goods and Services	(40,984,053)
Payments to Employees for Salaries	(57,858,419)
Payments to Employees for Benefits	(14,879,846)
Payments for Other Expenses	<u>(19,289,778)</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>(49,243,494)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Proceeds from Legislative Appropriations	\$ 39,911,100
Proceeds from Gifts	5,516,836
Proceeds from Endowments	326,755
Proceeds from other Grant Receipts	20,697,581
Proceeds from Other Sources	117,246
Payments for Transfers to Other Entities	(389,061)
Payments for Other Uses	(96,704)
Other Noncapital Transfers From/To System	<u>357,655</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	\$ <u>66,441,408</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from State Grants and Contracts	\$ 4,817,344
Payments for Additions to Capital Assets	(8,742,782)
Transfer of Capital Debt Proceeds From System	2,726,856
Intrasystem Transfers for Capital Debt	<u>(9,129,790)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ <u>(10,328,372)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales of Investments	\$ (1,455,894)
Proceeds from Interest and Investment Income	<u>1,013,246</u>
Net Cash Provided (Used) by Investing Activities	\$ <u>(442,648)</u>

Net Increase (Decrease) in Cash and Cash Equivalents	\$ <u>6,426,894</u>
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Cash and Cash Equivalents, September 1, 2013	\$ 22,289,918
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Cash and Cash Equivalents, August 31, 2014	\$ <u>28,716,812</u>
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**Reconciliation of Operating Income (Loss) to
Net Cash Provided (Used) by Operating Activities**

Operating Income (Loss)	\$ (58,068,221)
-------------------------	-----------------

Adjustments:

Depreciation and Amortization	\$ 10,112,352
-------------------------------	---------------

Bad Debt Expense	102,257
------------------	---------

Changes in Assets and Liabilities:

(Increase) Decrease in Receivables	(954,079)
------------------------------------	-----------

(Increase) Decrease in Due from Other State Entities	(596,869)
--	-----------

(Increase) Decrease in Inventories	64,463
------------------------------------	--------

(Increase) Decrease in Prepaid Expenses	(333,116)
---	-----------

(Increase) Decrease in Loans and Contracts	5,491,701
--	-----------

(Increase) Decrease in Other Assets	(50,739)
-------------------------------------	----------

Increase (Decrease) in Payables	1,739,571
---------------------------------	-----------

Increase (Decrease) in Due to Other State Entities	(328,790)
--	-----------

Increase (Decrease) in Unearned Revenue	(6,477,376)
---	-------------

Increase (Decrease) in Deposits	(46,520)
---------------------------------	----------

Increase (Decrease) in Employees' Compensable Leave	182,230
---	---------

Increase (Decrease) in Other Liabilities	<u>(80,358)</u>
--	-----------------

Total Adjustments	\$ <u>8,824,727</u>
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Net Cash Provided (Used) by Operating Activities	\$ <u>(49,243,494)</u>
--	------------------------

Non-Cash Transactions

Net Increase (Decrease) in Fair Value of Investments	\$ 6,284,385
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Donated Capital Assets	1,123,065
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Other Deductions to Capital Assets	288,270
------------------------------------	---------

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

Texas A&M University - Kingsville

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2014

General Introduction

These financial statements include a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; a Statement of Cash Flows; and the related Notes to the Financial Statements.

Reporting Entity

Texas A&M University - Kingsville is a component of 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 – Kingsville is considered a special-purpose government engaged in business-type activities. Accordingly, the Texas A&M University-Kingsville's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation is incurred. Operating items are distinguished from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with ongoing operations.

The accompanying financial statements were prepared in conformance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The University applies all GASB pronouncements, including GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

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. 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

Investments are reported at fair value on the Statement of Net Position. 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. The A&M System notes to the financial statements disclose deposit and

investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Current Assets

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

Receivables

Receivable balances are grouped into several receivable categories. Accounts receivable reflects amounts owed for goods and services provided. Other receivables include items such as travel advances, returned checks, and various items accrued.

Receivable balances are presented net of an allowance for uncollectible accounts. The allowance is based on management's judgment of potential uncollectible amounts, which includes such factors as historical experience and type of receivable. Refer to Note 16, Disaggregation of Receivable Balances, for additional details.

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 and building improvements, facilities and other improvements, purchased software, 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.

Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets; generally, 10 to 30 years for buildings and building improvements, 10 to 45 years for infrastructure, 4 to 15 years for equipment, and 15 years for library books.

Payables

Payable balances are grouped into various payable categories on the Statement of Net Position. Accounts payable represents the liability for the value of assets or services received, as of the date of the financial statements, for which payment is pending. Payroll payable includes accrued salary, wages, and benefits. Other payables include a variety of items, including payables for purchasing card activity, manager fees, sales taxes, and student liabilities.

Revenues and Expenses

Operating revenues include activities such as student tuition and fees; net sales and services of auxiliary enterprises; most federal, state and local grants and contracts. Operating expenses include salaries and wages, payroll related costs, professional fees and services, materials and supplies, and scholarships.

Nonoperating revenues include activities such as State appropriations, gifts and contributions, investment income and other revenue sources that are defined as nonoperating revenues by Governmental

Accounting Standards Board (GASB). Nonoperating expenses include activities such as interest expense on capital asset financings, and other expenses.

Unearned Revenue

Receivables are recorded when revenue is earned but not collected. Unearned revenue is recognized when cash is received prior to revenue recognition, and is considered a liability.

Other Postemployment Benefits (OPEB)

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. The OPEB liability is classified as noncurrent. Additionally, the net change in OPEB obligation is recorded as a natural classification of expense.

Net Position

Net Position is the difference between assets and liabilities.

Net Investment in Capital Assets

Net investment in capital assets, 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 Position

Restricted net position results when constraints placed on net resources 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 assets are available for use, restricted resources are used first, then unrestricted resources are used as needed.

Unrestricted Net Position

Unrestricted net position consists of net resources that do not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management but can be removed or modified.

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 Position to avoid inflating revenues and expenses.

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. All realized gains and losses are deposited to or funded from the Appreciation Reserve, and distributions from the reserve are used to supplement current income when the

income received is insufficient to meet the required distribution 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, 2014, is presented below.

	Balance 9/1/2013	Adjustments	Completed Construction in Progress	Additions	Deductions	Balance 8/31/2014
Non-Depreciable and Non-Amortizable Assets:						
Land and Land Improvements	\$ 1,576,219	\$ -	\$ -	\$ 1,067,468	\$ -	\$ 2,643,687
Construction in Progress	7,403,355	-	(2,097,661)	7,512,594	-	12,818,288
Other Capital Assets	86,093	-	-	-	-	86,093
Total Non-Depreciable Assets	\$ 9,065,667	\$ -	\$ (2,097,661)	\$ 8,580,062	\$ -	\$ 15,548,068
Depreciable and Amortizable Assets:						
Buildings and Building Improvements	\$ 195,681,214	\$ -	\$ 2,097,661	\$ -	\$ (951,576)	\$ 196,827,299
Infrastructure	12,318,323	-	-	-	-	12,318,323
Facilities and Other Improvements	11,854,312	-	-	-	-	11,854,312
Furniture and Equipment	16,285,986	-	-	1,226,238	(521,866)	16,990,358
Vehicles, Boats, and Aircraft	2,411,229	-	-	278,384	(43,840)	2,645,773
Other Capital Assets	8,555,681	-	-	69,893	(23,330)	8,602,244
Total Depreciable and Amortizable Assets at Historical Cost	\$ 247,106,745	\$ -	\$ 2,097,661	\$ 1,574,515	\$ (1,540,612)	\$ 249,238,309
Less Accumulated Depreciation and Amortization for:						
Buildings and Building Improvements	\$ (78,493,913)	\$ -	\$ -	\$ (7,026,345)	\$ -	\$ (85,520,258)
Infrastructure	(6,447,869)	-	-	(598,345)	-	(7,046,214)
Facilities and Other Improvements	(5,016,446)	-	-	(518,774)	-	(5,535,220)
Furniture and Equipment	(13,044,745)	-	-	(1,044,817)	516,893	(13,572,669)
Vehicles, Boats, and Aircraft	(1,992,447)	-	-	(151,453)	43,534	(2,100,366)
Other Capital Assets	(6,513,253)	-	-	(772,618)	-	(7,285,871)
Total Accumulated Depreciation and Amortization	\$ (111,508,673)	\$ -	\$ -	\$ (10,112,352)	\$ 560,427	\$ (121,060,598)
Depreciable and Amortizable Assets, Net	\$ 135,598,072	\$ -	\$ 2,097,661	\$ (8,537,837)	\$ (980,185)	\$ 128,177,711
Capital Assets, Net	\$ 144,663,739	\$ -	\$ -	\$ 42,225	\$ (980,185)	\$ 143,725,779

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, 2014, the carrying amount of deposits was \$21,404,076 as presented in the table on the following page:

DEPOSITS, INVESTMENTS AND REPURCHASE AGREEMENTS	
Bank Deposits	Carrying Amount
Cash in Bank (other than Certificates of Deposit (CDs))	\$ 21,404,076
Total Bank Deposits	\$ 21,404,076
Composition of Cash and Cash Equivalents	Carrying Amount
Cash on Hand	\$ 31,583
Cash in State Treasury	6,866,053
Reimbursement Due from Treasury	415,100
Total Bank Deposits (per above)	21,404,076
Total Cash and Cash Equivalents	\$ 28,716,812
Cash and Cash Equivalents per Statement of Net Position	Carrying Amount
Cash and Cash Equivalents - Current Assets	\$ 24,846,870
Cash and Cash Equivalents - Current Assets, Restricted	3,869,942
Total Cash and Cash Equivalents per Statement of Net Position	\$ 28,716,812

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

At the direction of the A&M System Board of Regents, Texas A&M University – Kingsville cash and cash equivalents are held at the A&M System level. All deposits are managed centrally at the A&M System and participation is mandatory. The A&M System’s annual financial statements provide required disclosures about the specific types of risk to which the deposits are exposed and the System’s policies to address each of those risks.

Investments

At the direction of the A&M System Board of Regents, Texas A&M University - Kingsville investments and cash equivalents are pooled at the A&M System level. This fund pool is managed centrally at the A&M System and participation is mandatory. The A&M System’s annual financial statements provide required disclosures about the composition of the investment portfolios, the specific types of risk to which those investments are exposed and the System’s policies to address each of those risks.

As of August 31, 2014, the value of non-current assets held by the A&M System on behalf of Texas A&M University - Kingsville totaled \$74,325,540. Of that amount \$30,832,924 is restricted. Texas A&M University - Kingsville’s investments held by the A&M System, by Pool and by Statement of Net Position Classification are presented in the table on the following page:

University Share of Pooled Investments Held by the System, by Pool and by Statement of Net Position Classification	
Investments Held by System in:	
Cash Concentration Pool	\$ 53,037,289
Separate Investment Accounts	254,369
Endowment Pool	21,033,882
Total University Share of Pooled Investments Held by System	\$ 74,325,540
Non-Current Assets	
Cash Concentration Pool	\$ 43,447,936
Endowment Pool	44,680
Non-Current Assets, Restricted	
Cash Concentration Pool	9,589,353
Endowment Pool	20,989,202
Separated Investment Accounts	254,369
Total University Share of Pooled Investments Held by System	\$ 74,325,540

Note 4: Summary of Long-Term Liabilities

Long-term liabilities are defined as liabilities whose average maturity is greater than one year. The table below presents a summary of changes in these liabilities during the year ended August 31, 2014.

	Balance			Amounts	
	9/1/2013	Additions	Deductions	8/31/2014	Due Within One Year
Employees' Compensable Leave	1,985,890	182,230	-	2,168,120	462,524
Total	\$ 1,985,890	\$ 182,230	\$ -	\$ 2,168,120	\$ 462,524

Employees' Compensable Leave

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 532 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 accrues the dollar value of annual leave benefits which are payable upon retirement, termination, or death of its employees. This liability (current and noncurrent) for Texas A&M University–Kingsville is projected to be \$2,168,120 as of August 31, 2014. 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. Texas A&M University – Kingsville made lump sum payments of \$245,978 for accrued vacation to employees who separated from State service during the fiscal year ended August 31, 2014.

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.

Note 5: 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 expenses 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 Position in the Capital Assets category. The associated bond liability is reported in total by the A&M System Offices.

Texas A&M University – Kingsville 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 A&M System. Texas A&M University – Kingsville 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, 2014, the A&M System had outstanding bonds payable of \$2,695,780,000. All bonds issued by the A&M System are defined as revenue bonds. As such, the revenues of the A&M System, including the Texas A&M University – Kingsville, 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 Texas A&M University – Kingsville financial statements as the A&M System is the party directly liable for these bonds. At August 31, 2014, however, outstanding debt issued on behalf of Texas A&M University – Kingsville is \$100,752,420.

Note 6: Operating Leases

A summary of future lease payments under non-cancelable operating leases for the year ended August 31, 2014, is presented below.

Year Ended August 31, 2014	Total
2015	\$ 270,029
2016	211,659
2017	156,929
2018	97,474
2019	52,462
2020-2024	584
Total Minimum Future Lease Payments	\$ <u>789,137</u>

Note 7: 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 of its employees.

Teacher Retirement System Pension Plan

One of the plans in which the A&M System participates is a cost-sharing multiple-employer defined benefit pension plan administered by the Teacher Retirement System of Texas (TRS Plan). Participating employers in the TRS Plan include public schools, service centers, charter schools, and community colleges as well as the State of Texas, which covers employees of colleges, universities, medical schools, and certain other state agencies. Employees of the A&M System are members of the TRS Plan if they are employed on a half-time or greater basis unless they participate in the Optional Retirement Program, described below. However students employed in a position that requires student status as a condition of employment do not participate.

Benefits under the TRS Plan are established or amended by the Texas Legislature in state law, as provided by Texas Government Code, Chapter 824. Benefits include service and disability retirement and death and survivor benefits. In combination, age, years of service credit, along with the date of membership to TRS determine when a member is eligible for an unreduced, normal service retirement. For members who established membership prior to September 1, 2007, normal service retirement is age 65 with at least 5 years of credited service or the sum of the member's age and years of credited service equals or exceeds 80 with at least five years of credited service (Rule of 80). For members who established membership on or after September 1, 2007 but prior to September 1, 2014 and have at least 5 years of service credit as of August 31, 2014, the member must be at least the age 60 for the rule of 80 to apply. For members who did not have at least 5 years of service credit as of August 31, 2014, who established membership on or after September 1, 2014, or who had at least five years of service credit as of August 31, 2014, but terminated membership by withdrawal of accumulated contributions and later resumed membership must be at least the age of 62 for the Rule of 80 to apply. Additionally, reduced benefits are available.

The standard life annuity benefit formula is 2.3 percent of the average of the five highest annual salaries multiplied by the years of service credit. For certain "grandfathered" members, the three highest annual salaries are used.

Contribution requirements for employees and employers are not actuarially determined but are established in the Texas Constitution and pursuant to state law passed by the Texas Legislature each biennium. The state constitution requires the legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation of all members of the system during the fiscal year. For the year ended August 31, 2014, the statutorily required contribution rate was 6.4% of annual compensation from active plan members and 6.8% of annual compensation from the A&M System.

The retirement expense to the State for the A&M System TRS retirement program was \$22,886,768 for the year ended August 31, 2014. 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. That report may be obtained by writing to TRS at the Teacher Retirement System of Texas, 1000 Red River Street, Austin, Texas 78701-2698, or from the TRS website at www.trs.state.tx.us.

For the years ended August 31, 2014, 2013, and 2012, Texas A&M University – Kingsville, inclusive of state legislature appropriations, contributed 100% of the following statutorily required contributions.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Required Contribution Rate	6.80%	6.40%	6.00%
Contributions Required & Made	\$ 1,962,411	\$ 1,824,602	\$ 1,660,655

Optional Retirement Program

The State has also established the Optional Retirement Program (ORP), a defined contribution plan for certain employees at public higher education institutions. The ORP is authorized by Texas Government Code, Chapter 830, and is administered by the A&M System, subject to policies, practices, and procedures developed by the Texas Higher Education Coordinating Board to provide greater uniformity in the administration of the program. Participation in the ORP is in lieu of participation in the TRS Plan. The ORP provides for the purchase of annuity contracts and mutual funds through companies that provide optional retirement programs for higher education institutions. Because these are individual investment contracts with investment or insurance companies, and future participant benefits are based on the performance of the selected investment instruments, neither the State nor the A&M System has any liability for investment performance or for retirement commitments beyond the required contributions. Benefits in the ORP vest in a participant after one year of participation.

State law provides for participant contributions of 6.65% of annual compensation and for a maximum employer contribution of 8.5% of a participant's annual compensation. Each biennium, the Texas Legislature establishes the State's share of the employer contribution and permits higher education institutions to contribute an additional amount so that total employer contributions do not exceed 8.5%. For the year ended August 31, 2014, the contributory percentages of participant salaries 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 6.6% contributed by the State and an additional 1.90% contributed by the A&M System. For participants who enrolled on or after September 1, 1995, the State and participant contributions were 6.6% and 6.65%, respectively.

For the year ended August 31, 2014, contributions for the A&M System ORP are presented below.

Optional Retirement Program	
	<u>Amount</u>
Employer Contributions	\$ 42,347,770
Employee Contributions	38,234,005
Total	\$ 80,581,775

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.

For the year ended August 31, 2014, contributions for Texas A&M University - Kingsville ORP are presented in the table on the following page.

Optional Retirement Program	
	Amount
Employer Contributions	\$ 1,385,937
Employee Contributions	1,268,459
Total	\$ 2,654,396

Note 8: Deferred Compensation

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 can include 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.

Note 9: Postemployment Health Care and Life Insurance Benefits

Information included in this note is presented from the A&M System perspective. The System financial statements may be obtained from the A&M System website at <http://www.tamus.edu/offices/budget-acct/reports/statutory/afr/>.

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. As of August 31, 2014, the A&M System had 7,916 retirees and 21,244 active employees. For the year ended August 31, 2014, the employer and retiree contribution rates are presented below.

Required Contribution Rates		
Retiree Health and Basic Life Premium		
<u>Level of Coverage</u>	<u>Employer</u>	<u>Retiree*</u>
Retiree Only	\$ 457	\$ 20
Retiree/Spouse	\$ 694	\$ 256
Retiree/Children	\$ 623	\$ 185
Retiree/Family	\$ 788	\$ 351
*Health premium only		

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 benefit 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 4 of GASB No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB No. 43 accounting is not applicable to the A&M System.

For the year ended August 31, 2014, the contributions for the self-funded plan by the state per full-time retired employee for the A&M System are shown in the following table. The retiree contributes any premium over and above state contributions.

Three-Year Schedule of Employer Contributions				
<u>Fiscal Year Ending</u>	<u>Employer Contribution</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation At End of Fiscal Year</u>
8/31/2014	\$ 50,098,629	\$ 190,640,222	27%	\$ 859,766,188
8/31/2013	\$ 61,529,733	\$ 176,876,299	35%	\$ 719,224,595
8/31/2012	\$ 63,131,287	\$ 190,199,827	33%	\$ 603,878,029

The OPEB expense reflected in the A&M System's Statement of Revenues, Expenses and Changes in Net Position is net of the Employer Contributions, as these costs are included as a portion of Payroll Related Costs expense.

Annual OPEB Cost and Net OPEB Obligation

The annual OPEB cost of the plan is calculated and based on the annual required contribution (ARC). The ARC is the amount actuarially determined. 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)	\$ 176,671,951
Interest on Net OPEB Obligation	52,503,395
Adjustment to ARC	<u>(38,535,124)</u>
Annual OPEB Cost	190,640,222
Employer Contributions Made	<u>(50,098,629)</u>
Increase Net OPEB Obligation	140,541,593
Net OPEB Obligation 9/1/2013	<u>719,224,595</u>
Net OPEB Obligation 8/31/2014	<u><u>\$ 859,766,188</u></u>

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 below.

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)
9/1/2013	\$ -	\$ 2,056,248,723	\$ (2,056,248,723)	0.0%	\$ 1,176,080,116	174.8%
9/1/2012	\$ -	\$ 1,924,980,271	\$ (1,924,980,271)	0.0%	\$ 1,149,300,305	167.5%
9/1/2011	\$ -	\$ 1,996,798,639	\$ (1,996,798,639)	0.0%	\$ 1,359,512,304	146.9%

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 table below.

Summary of Actuarial Methods and Assumptions	
Actuarial Valuation Date	September 1, 2013
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market
Amortization Method	Open
Amortization Period	30 years
Actuarial Assumptions	
Projected Salary Increases	3.5%
Investment Rate of Return	7.3%
Inflation	3.0%
Health Care Trend Rates	9.5% in 2014
(Grading down by .5% annually until ultimate trend rate of 5.0% is reached in 2023)	

Medicare Part D

In fiscal year 2014 the plan received payments from the federal government pursuant to the retiree drug subsidy provisions of Medicare Part D. These on-behalf payments were recorded as revenues and expenses of each plan. In fiscal year 2014 the system received \$3,961,226 of Medicare Part D payments from the federal government.

Note 10: Interagency Activity and Transactions:

As of August 31, 2014, amounts to be received or paid between funds and agencies are to be reported as:

- Due from/to other state entities
- Transfers in from/out to other state entities
- Legislative transfers in/out

Texas A&M University – Kingsville made transfers with other state agencies, which were consistent with the activities of the fund making the transfer. Individual balances and activity at August 31, 2014, is presented in the table on the following page.

DUE FROM/TO OTHER STATE ENTITIES			
Entity	Due from Other State Entities	Due to Other State Entities	Purpose
Texas Department of Motor Vehicles	\$ 3,785	\$ -	License plate shared cash revenue used for student scholarships
University of Texas at El Paso	36,326	-	Federal pass through funds related to contracts and grants
Parks and Wildlife Department	45,477	-	Federal pass through funds related to contracts and grants
Texas Commission on Environmental Quality/UTEP	686,101	-	Federal pass through funds related to contracts and grants
Texas Department of Family and Protective Services	61,425	-	Federal pass through funds related to contracts and grants
Texas Higher Education Coordinating Board	51,854	-	State pass through funds related to contracts and grants
Parks and Wildlife Department	4,461	-	State pass through funds related to contracts and grants
UNT/Texas Commission on Environmental Quality	20,755	-	State pass through funds related to contracts and grants
Texas Water Development Board	17,162	-	State pass through funds related to contracts and grants
Texas A&M University System	1,322,434	-	Revenue financing system
Texas A&M Agrilife Research	25,944	-	Pass through funds related to contracts and grants
Texas Agrilife Extension	19,200	-	Federal pass through funds related to contracts and grants
Texas A&M Corpus Christi	16,825	-	Federal pass through funds related to contracts and grants
Texas A&M San Antonio	521,750	-	Student information system services
Texas A&M Research Foundation	1,093	-	Federal pass through funds related to contracts and grants
Unveristy of Texas Pan American	-	36,872	State pass through funds related to contracts and grants
Texas State Technical College	-	2,425	State pass through funds related to contracts and grants
Texas Higher Education Coordinating Board	-	788	THECB Engineering Summer Program unused funds to be returned
Tarleton State University	-	6,135	Intrasystem Pass Through related to grants and contracts
Texas A&M Agrilife Research	-	26,587	State and Intrasystem Pass Through related to grants and contracts
Texas A&M Corpus Christi	-	985	Federal pass through related to grants and contracts
	<u>\$ 2,834,592</u>	<u>\$ 73,792</u>	
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	\$ 12,000	\$ -	Wellness grant initiative
Texas A&M University System	27,788	-	Resource allocation program
Texas A&M University System	648,280	-	Endowment appreciation reserve
Texas A&M University System	288,729	-	Construction in process
Texas A&M University System	-	330,413	Endowment appreciation reserve
Texas Higher Education Coordinating Board	-	389,061	Be on time & doctoral set asides
Texas A&M University System	-	4,930,963	Mandatory debt service
	<u>\$ 976,797</u>	<u>\$ 5,650,437</u>	
LEGISLATIVE TRANSFERS IN/OUT			
Entity	Legislative Transfers In	Legislative Transfers Out	Purpose
Texas A&M University System	\$ -	\$ 4,198,827	Mandatory debt service to THECB for HEF, TRB
	<u>\$ -</u>	<u>\$ 4,198,827</u>	

Note 11: Contingencies and Commitments

At August 31, 2014, various lawsuits and claims involving Texas A&M University – Kingsville had arisen in the course of conducting Texas A&M University - Kingsville 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 Texas A&M University – Kingsville’s financial position.

Note 12: Risk Management

Risk financing and related insurance is managed centrally at the A&M System. Information included on the following page 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 – Kingsville.

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. On-going analysis of the risks facing the A&M System results in the continual evaluation of insurance policies purchased.

The A&M System has self-insured arrangements for coverage in the areas of workers’ compensation (WCI), group health and dental insurance and certain areas of medical malpractice. 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 (IBNR) 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 \$56,517,090 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 table presents the changes in IBNR liability balances.

Changes in IBNR Liability Balances		
Plan	WCI	Health & Dental
IBNR Liability 9/1/13	\$ 8,264,000	\$ 16,112,000
CY Claims	2,380,000	228,523,957
Claims Payments	(2,614,000)	(229,001,957)
Other Items (changes in estimates)	1,005,000	-
IBNR Liability 8/31/14	\$ 9,035,000	\$ 15,634,000

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 – Kingsville is a distinct member of the A&M System

Note 14: Stewardship, Compliance and Accountability

Texas A&M University - Kingsville has no material violations of finance related legal and contract provisions. Per the laws of the State of Texas, Texas A&M University - Kingsville 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 15: 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 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 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 or 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 expense 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 Position
True Endowments	\$ 103,631,442	Restricted for Expendable

* The total fiscal year 2014 fair value adjustment to the Fund was \$67,438,323.

The amount of net appreciation for donor restricted endowments specific to Texas A&M University – Kingsville is \$ 2,700,514.

Note 16: Disaggregation of Receivable Balances

A summary of accounts receivable and associated allowances for doubtful accounts balances for Texas A&M University – Kingsville for the year ended August 31, 2014, is presented in the table on the following page.

<u>Accounts Receivables</u>			
Current Receivables	Gross Amount	Allowance for Doubtful Accounts	Amount on SNP
Federal Receivables	\$ 1,245,363	\$ -	\$ 1,245,363
Student Receivables	3,711,836	(746,236)	2,965,600
Other Receivables			
- Accounts	634,973	(62,330)	572,643
- A/R Returned Checks	68,063	-	68,063
- Other	76,770	(14,217)	62,553
Total	\$ 5,737,006	\$ (822,783)	\$ 4,914,222

Note 17: 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 – Kingsville has no obligation to pay the A&M System for any termination benefits specifically incurred by the University.

As of August 31, 2014, the A&M System has not incurred obligations to pay voluntary or involuntary termination benefits in fiscal year 2015.

For the fully-insured 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 in the table on the following page; 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 in the table on the following page.

COBRA benefits for the Texas A&M University System for the year ended August 31, 2014 are presented in the table on the following page.

Termination Benefits - COBRA**Enrollment**

	<u>Self-Insured Medical Plan</u>	<u>Self-Insured Dental Plan</u>	<u>Fully-Insured Dental Plan</u>	<u>Fully-Insured Vision Plan</u>
Number of Participants	199	77	30	172

Self-Insured Activity

Premium Revenue	\$ 780,183	\$ 71,378		
2 Percent Administrative Fee Revenue	<u>15,604</u>	<u>1,428</u>		
Total COBRA Revenue	795,787	72,806		
Claims Paid	1,755,121	67,704		
Administrative Expenses	<u>22,714</u>	<u>6,152</u>		
Total COBRA Expenses	<u>1,777,835</u>	<u>73,856</u>		
Total Cost to State	<u>\$ 982,048</u>	<u>\$ 1,050</u>		



January 26, 2015

Dr. Steven H. Tallant, President
Texas A&M University - Kingsville
700 University Blvd. MSC 101
Kingsville, TX 78363-8202

Subject: Management Letter Resulting from a
Review of Texas A&M University -
Kingsville's Fiscal Year 2014
Financial Statements

Dear Dr. Tallant:

We offer this management letter in conjunction with our review of the financial statements of Texas A&M University - Kingsville (University) as of and for the fiscal year ended August 31, 2014, on which we have issued our report dated January 26, 2015. We reviewed the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; 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,

Lisa R. Collier, CPA, CIDA
First Assistant State Auditor

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Office of Audit Services

Texas Tech University
**Financial Statements and
Independent Accountant's Review Report as of
August 31, 2014 and for the Year Then Ended**

January 29, 2015

TTUS Project #2015013

SAO Report No. 15-316 and 15-317

Texas Tech University

Financial Statements

For the Fiscal Year Ended August 31, 2014

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Independent Accountant's Review Report

Dr. M. Duane Nellis, President
Texas Tech University
150 Administration Building, Box 42005
Lubbock, TX 79409-2005

We have reviewed the accompanying Statement of Net Position of Texas Tech University (University) as of August 31, 2014, and the related Statement of Revenues, Expenses, and Changes in Net Position 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.

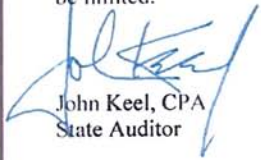
University management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair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

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.

This report is intended for use by the board of regents of the Texas Tech University System, management of the University, and the Southern Association of Colleges and Schools' Commission on Colleges. This report is a matter of public record and its distribution should not be limited.



John Keel, CPA
State Auditor

January 29, 2015

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SAO Report No. 15-316

Texas Tech University
Statement of Net Position

August 31, 2014

(See Independent Accountant's Report on Page 1)

ASSETS

Current Assets

Cash and Cash Equivalents (Note 3)	\$	95,853,574
Restricted:		
Cash and Cash Equivalents (Note 3)		33,148,402
Legislative Appropriations		59,227,449
Receivables, Net of Allowances:		
Federal		9,348,411
Student		6,383,883
Interest and Dividends		322,437
Gifts		10,535,921
Accounts Receivable		5,113,036
Other		2,526,223
Due from Other State Entities (Note 12)		22,978,455
Consumable Inventories		521,959
Merchandise Inventories		2,197,905
Prepaid Items		31,251,121
Loans and Notes Receivable, net		573,753
Other Current Assets		450,000
Total Current Assets	\$	<u>280,432,529</u>

Non-Current Assets

Restricted:		
Cash and Cash Equivalents (Note 3)	\$	39,612,792
Investments (Note 3)		264,940,948
Gifts Receivable		21,590,829
Investments (Note 3)		346,218,605
Loans and Notes Receivable, net		1,136,295
Capital Assets (Note 2):		
Non-Depreciable and Non-Amortizable		88,724,935
Depreciable and Amortizable		1,800,751,429
Less: Accumulated Depreciation and Amortization		<u>(910,382,096)</u>
Total Non-Current Assets	\$	<u>1,652,593,737</u>

Total Assets \$ 1,933,026,266

LIABILITIES

Current Liabilities

Payables:		
Accounts	\$	19,986,338
Payroll		27,849,531
Other		645,520

Due to Other State Entities (Note 12)	1,431,497
Unearned Revenue	140,792,646
Employees' Compensable Leave (Note 5)	1,444,035
Notes and Loans Payable (Note 4)	102,176,331
Revenue Bonds Payable (Notes 5,6)	20,276,708
Funds Held for Others	18,929,346
Other Current Liabilities	3,842,336
Total Current Liabilities	\$ <u>337,374,288</u>
Non-Current Liabilities	
Employees' Compensable Leave (Note 5)	10,589,590
Revenue Bonds Payable (Notes 5,6)	298,551,900
Total Non-Current Liabilities	\$ <u>309,141,490</u>
Total Liabilities	\$ <u>646,515,778</u>
NET POSITION	
Invested in Capital Assets, Net of Related Debt	\$ 593,930,150
Restricted for:	
Non-Expendable	
Permanent Funds, True Endowments, Annuities	72,474,134
Expendable	
Debt Retirement	31,210,373
Capital Projects	321,078
Endowment, Net Appreciation	24,279,657
Term Endowments	412,434
Higher Education Assistance Fund	37,122,052
Other	120,348,213
Unrestricted	406,412,397
Total Net Position	\$ <u><u>1,286,510,488</u></u>

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

Texas Tech University
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended August 31, 2014
(See Independent Accountant's Report on Page 1)

OPERATING REVENUES

Tuition and Fees	\$ 9,926,012
Tuition and Fees - Pledged	336,351,982
Discounts and Allowances	(78,234,416)
Auxiliary Enterprises - Pledged	130,992,607
Other Sales of Goods and Services	1,997,568
Other Sales of Goods and Services - Pledged	7,532,838
Federal Revenue	39,285,112
State Grant Revenue	31,617,707
Other Operating Grant Revenue	10,048,735
Total Operating Revenues	\$ <u>489,518,145</u>

OPERATING EXPENSES

Cost of Goods Sold	\$ 13,859,501
Salaries and Wages	328,455,164
Payroll Related Costs	81,003,669
Professional Fees and Services	6,262,685
Travel	22,361,753
Materials and Supplies	31,291,912
Communications and Utilities	29,588,223
Repairs and Maintenance	20,585,778
Rentals and Leases	7,238,572
Printing and Reproduction	2,752,495
Depreciation and Amortization	87,233,280
Bad Debt Expense	92,908
Interest Expense	16,055
Scholarships	50,127,580
Other Operating Expenses	50,452,696
Total Operating Expenses	\$ <u>731,322,271</u>

Operating Income (Loss) \$ (241,804,126)

NONOPERATING REVENUES (EXPENSES)

Legislative Appropriations	\$ 177,369,312
Federal Grants and Contracts	34,041,243
Gifts	30,965,385
Gifts - Pledged	4,020,089
Investment Income (Expense)	12,248,597
Investment Income (Expense) - Pledged	16,696,339
Net Increase (Decrease) in Fair Value of Investments	19,091,199
Interest Expense on Capital Asset Financing	(13,471,620)
Gain (Loss) on Sale of Capital Assets	(649,027)
Other Nonoperating Revenues	4,201,423

Other Nonoperating Revenues - Pledged	1,023,136
Total Nonoperating Revenues (Expenses)	\$ <u>285,536,076</u>
Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers	\$ <u>43,731,950</u>
OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS	
Capital Contributions	\$ 3,432,342
Capital Appropriations (HEAF)	23,936,088
Additions to Permanent and Term Endowments	3,295,383
Transfers In from Other State Entities (Note 12)	30,808,505
Transfers Out to Other State Entities (Note 12)	(9,477,881)
Legislative Transfers Out (Note 12)	(1,710,587)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	\$ <u>50,283,850</u>
CHANGE IN NET POSITION	\$ <u>94,015,800</u>
Net Position, September 1, 2013	\$ 1,194,319,354
Restatements (Note 13)	(1,824,666)
Net Position, September 1, 2013, as Restated	\$ <u>1,192,494,688</u>
NET POSITION, August 31, 2014	\$ <u><u>1,286,510,488</u></u>

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

Texas Tech University
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2014
(See Independent Accountant's Report on Page 1)

CASH FLOWS FROM OPERATING ACTIVITIES

Proceeds from Tuition and Fees	\$ 279,439,249
Receipts from Customers	8,460,191
Proceeds from Research Grants and Contracts	81,252,438
Proceeds from Loan Programs	2,169,366
Proceeds from Auxiliaries	134,643,893
Payments to Suppliers for Goods and Services	(55,170,587)
Payments to Employees for Salaries	(327,401,802)
Payments to Employees for Benefits	(78,586,461)
Payments for Loans Provided	(2,868,137)
Payments for Other Expenses	<u>(181,889,015)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (139,950,865)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Proceeds from Legislative Appropriations	\$ 161,817,971
Proceeds from Gifts	40,744,179
Proceeds of Transfers from Other Entities	24,639,726
Proceeds from Nonoperating Grants and Contracts	34,041,243
Proceeds from Agency Transactions	176,185,727
Proceeds from Other Sources	3,731,533
Payments for Transfers to Other Entities	(11,095,943)
Payments for Other Uses	<u>(174,057,014)</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>\$ 256,007,422</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from State Appropriations (HEAF)	\$ 28,552,632
Proceeds from Disposal of Capital Assets	8,451
Proceeds from Issuance of Capital-Related Debt	70,200,000
Payments for Additions to Capital Assets	(131,063,244)
Payments of Principal on Capital-Related Debt	(36,773,876)
Payments of Interest on Capital-Related Debt	<u>(14,661,947)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (83,737,984)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales of Investments	\$ 81,506,282
Proceeds from Interest and Investment Income	15,637,726
Payments to Acquire Investments	<u>(203,017,398)</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ (105,873,390)</u>

Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (73,554,817)</u>
--	------------------------

Cash and Cash Equivalents, September 1, 2013	\$ 242,169,585
Cash and Cash Equivalents, August 31, 2014	\$ <u>168,614,768</u>
 Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ (241,804,126)
Adjustments:	
Depreciation and Amortization	\$ 87,233,280
Bad Debt Expense	92,908
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	(700,768)
(Increase) Decrease in Due from Other State Entities	(188,214)
(Increase) Decrease in Inventories	(205,748)
(Increase) Decrease in Prepaid Items	(2,842,127)
(Increase) Decrease in Loans and Contracts	(698,771)
Increase (Decrease) in Payables	3,742,485
Increase (Decrease) in Due to Other State Entities	266,810
Increase (Decrease) in Unearned Revenue	14,899,799
Increase (Decrease) in Employees' Compensable Leave	14,538
Increase (Decrease) in Other Liabilities	239,069
Total Adjustments	\$ <u>101,853,261</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>(139,950,865)</u>
Non-Cash Transactions	
Net Increase (Decrease) in Fair Value of Investments	\$ 19,091,199
Donated Capital Assets	3,432,342
Other	736,129

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

Texas Tech University
Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2014

General Introduction

These financial statements include a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; a Statement of Cash Flows; and the related Notes to the Financial Statements.

Reporting Entity

Texas Tech University (University) is considered an Institution of Higher Education of the State of Texas, and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts *Reporting Requirements for State Institutions of Higher Education*.

The University is one of five components of the Texas Tech University System (System) and an agency of the State of Texas. The System prepares the combined annual financial report that is included in the State's *Comprehensive Annual Financial Report*, which is audited by the Texas State Auditor's Office.

The National Wind Resource Center (NWRC) is a not-for-profit 501(c)(3) organization and is considered to be a blended component unit of the University for financial reporting purposes. See Note 17 for additional information.

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 University's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation or amortization on capital assets.

The accompanying financial statements were prepared in conformance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The University applies all GASB pronouncements, including GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Cash and Cash Equivalents

All cash on hand, cash in banks, reimbursements due from the State Treasury, local balances of legislative appropriations (held in the State Treasury), and temporary investments with original maturities of 90 days or less. The University utilizes bank deposits and eligible investment pools as cash equivalents in its Short/Intermediate Term Investment Fund. The University records and reports its deposits in the general deposit account at cost. It records and reports its special deposit accounts at fair value. Note 3 includes additional information about Cash and Cash Equivalents in the Deposits of Cash in Bank section.

Investments

Most investments are reported at fair value on the Statement of Net Position, as determined by quoted market prices, or in the case of limited partnerships, values as reported by the partnership managers and/or their third party administrators, in accordance with GASB Statement No. 31 - *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Money market and TexPool investments are reported at amortized cost provided the investment has a remaining maturity of one year or less at date of purchase. Changes in unrealized gain (loss) on the carrying value of the investments are reported as a component of net increase (decrease) in fair value of investments in the Statement of Revenues, Expenses, and Changes in Net Position. Investments are addressed in more detail in Note 3.

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.

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.

Receivables

Student Receivables include tuition and fee charges to students and are recorded net of estimated uncollectible amounts. Accounts Receivable include auxiliary enterprise services provided to students, faculty, and staff and are recorded net of estimated uncollectible amounts.

Federal Receivables includes amounts due from the federal, state, and local governments 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 an allowance for uncollectible pledges. Pledges vary from one to ten years and are used to support specifically identified University programs and initiatives.

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

Other Receivables include year-end revenue accruals not included in any other receivable category.

Prepaid Items

Disbursements for insurance, subscriptions, prepaid postage, prepaid 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. Also included are scholarships paid in the current period for future terms. Disbursements for capital equipment that are paid, but deemed not yet received by year end, are also included in prepaid items.

Loans and Notes Receivable

These receivables are student loans that consist of amounts due from the Federal Perkins Loan Program, and from other loans administered by the University.

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. The capitalization threshold for buildings, building improvements, facilities and other improvements is \$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 charges to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets; generally 10 to 30 years for buildings and building improvements, 10 to 45 years for facilities and other improvements, 15 to 45 years for infrastructure, 3 to 15 years for furniture and equipment, 5 to 10 years for vehicles, 5 to 7 years for software and 15 years for library books.

Intangible capital assets are defined as assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. These assets are required to be reported if they are identifiable. Land use rights are capitalized if the cost meets or exceeds \$100,000. Purchased computer software is capitalized if the aggregate cost of the purchase meets or exceeds \$100,000. Internally generated computer software has a capitalization threshold of \$1,000,000, and other intangible capital assets must be capitalized if the cost meets or exceeds \$100,000. Intangible assets are amortized based on the estimated useful life of the asset using the straight-line method. Capital Asset activity for the fiscal year is shown in Note 2.

Payables

Accounts Payable and Payroll Payable represent the liability for the value of assets or services received, and wages/salaries owed at year end for which payment is pending. Other Payables include accrued interest expense for Notes and Loans Payable and Revenue Bonds Payable.

Unearned Revenues

Unearned 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. Unearned Revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Employees' Compensable Leave Balances

Employees' Compensable Leave Payable balances represent the liability that becomes "due" upon the occurrence of relevant events such as resignations, retirements, and the use of leave balances by covered employees. Liabilities are reported separately as either current or noncurrent in the Statement of Net Position. Employees' compensable leave balances are further explained in Note 5.

Notes and Loans Payable

Notes and Loans Payable represents amounts owed for commercial paper that was issued during the current accounting period. Notes and Loans Payable are further explained in Note 4.

Revenue Bonds Payable

The University has a number of bond issues outstanding, most of which are supported either directly or indirectly by tuition revenue. Revenue Bonds Payable is addressed in more detail in Notes 5 and 6.

Funds Held for Others

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

Net Position

Net Position is the difference between assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources.

Invested in Capital Assets, Net of Related Debt

This category represents capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted Net Position

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

Unrestricted Net Position

Unrestricted Net Position consists of net resources, which does not meet the definition of restricted net position. Unrestricted Net Position often has constraints on resources, which are imposed by management, but can be moved or modified.

Interfund Activity and Transactions

The University is regularly involved in both interfund activity and interfund transactions. Interfund activity is defined as financial interaction between internal funds, including blended component units. Interfund transactions are defined as financial transactions between legally separate entities. Interfund activity and interfund transactions are both clearly identifiable and are eliminated where appropriate. Note 12 includes interfund activity and transactions by agency for the fiscal year.

Revenues and Expenses

Operating revenues include activities such as student tuition and fees; net sales and services of auxiliary enterprises; most federal, state and local grants and contracts. Operating expenses include salaries and wages, payroll related costs, costs of goods sold, professional fees and services, travel, materials and supplies, communications and utilities, rental and leases, printing and reproduction, bad debt, interest, depreciation and amortization and scholarships.

Nonoperating revenues include activities such as State Appropriations, gifts, investment income and other revenue sources that are defined as nonoperating revenues by GASB (Governmental Accounting Standards Board). Nonoperating expenses include activities such as interest expense on capital asset financings and other expenses that are defined as nonoperating expenses by GASB.

Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2014, is presented below:

	Balance 9/1/2013	Adjustments	Completed Construction in Progress	Additions	Deductions	Balance 8/31/2014
Non-Depreciable and Non-Amortizable Assets:						
Land and Land Improvements	\$ 3,739,852	\$	\$	\$	\$	\$ 3,739,852
Construction in Progress	23,112,932		(78,387,532)	63,547,490		8,272,890
Other Capital Assets	71,211,902	(142,000)		5,642,291		76,712,193
Total Non-Depreciable Assets	\$ 98,064,686	\$ (142,000)	\$ (78,387,532)	\$ 69,189,781	\$ 0	\$ 88,724,935
Depreciable and Amortizable Assets:						
Buildings and Building Improvements	\$ 1,049,688,683	\$	\$ 78,387,532	\$ 37,252,384	\$ (831,583)	\$ 1,164,497,016
Infrastructure	30,419,534			1,006,728		31,426,262
Facilities and Other Improvements	155,937,167			3,894,599		159,831,766
Furniture and Equipment	157,935,675			15,668,015	(6,858,597)	166,745,093
Vehicles, Boats, and Aircraft	13,331,770			762,754	(340,793)	13,753,731
Other Capital Assets	133,095,550			10,502,040	(265,682)	143,331,908
Computer Software - Intangible	121,664,830			662,552	(1,161,729)	121,165,653
Total Depreciable and Amortizable Assets at Historical Cost	\$ 1,662,073,209	\$ 0	\$ 78,387,532	\$ 69,749,072	\$ (9,458,384)	\$ 1,800,751,429
Less Accumulated Depreciation and Amortization for:						
Buildings and Building Improvements	\$ (505,655,537)	\$ 254,412	\$	\$ (34,927,392)	\$ 790,003	\$ (539,538,514)
Infrastructure	(11,285,211)			(1,029,834)		(12,315,045)
Facilities and Other Improvements	(65,575,162)			(5,215,382)		(70,790,544)
Furniture and Equipment	(102,839,553)			(13,914,107)	6,167,467	(110,586,193)
Vehicles, Boats, and Aircraft	(9,900,604)	(54,519)		(927,916)	313,925	(10,569,114)
Other Capital Assets	(58,131,283)			(8,954,069)	186,842	(66,898,510)
Computer Software - Intangible	(78,581,325)			(22,264,580)	1,161,729	(99,684,176)
Total Accumulated Depreciation and Amortization	\$ (831,968,675)	\$ 199,893	\$ 0	\$ (87,233,280)	\$ 8,619,966	\$ (910,382,096)
Depreciable and Amortizable Assets, Net	\$ 830,104,534	\$ 199,893	\$ 78,387,532	\$ (17,484,208)	\$ (838,418)	\$ 890,369,333
Capital Assets, Net	\$ 928,169,220	\$ 57,893	\$ 0	\$ 51,705,573	\$ (838,418)	\$ 979,094,268

Note 3: Deposits, Investments, and Repurchase Agreements

The University's investment portfolio is invested pursuant to the parameters of applicable Texas law and the governing board's Investment Policies. Under Texas law, University investments may be "any kind of investment that persons of ordinary prudence, discretion, and intelligence, exercising the judgment and care under the circumstances then prevailing, acquire or retain for their own account in the management of their affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital." Under Texas law, the University is required to invest its institutional funds according to written investment policies adopted by the Board of Regents. No person may invest University funds without express written authority from the governing board.

The governing investment policy is Regents' Rules Chapter 09, "Investment and Endowments." The majority of University assets are invested in two investment pools; the Long Term Investment Fund (LTIF) and the Short/Intermediate Term Investment Fund (SITIF), both having their own stand-alone investment policies. Endowment funds and certain eligible long-term institutional funds are invested in the LTIF, which invests in equity and fixed income securities, as well as alternative investments such as hedge funds and private equity, and is operated using a total return philosophy. Other institutional funds not in the LTIF are invested in the SITIF. Other assets include securities gifted to the University with donor instructions to maintain in their original form and bond proceeds invested in external investment pools.

Deposits of Cash in Bank

As of August 31, 2014, the carrying amount of deposits was \$56,282,887. These amounts consist of all cash in local banks and are included on the Statement of Net Position as part of "Cash and Cash Equivalents" line items as shown below. As of August 31, 2014, the total bank balance was \$53,057,460.

Composition of Cash and Cash Equivalents	Carrying Amount
Cash on Hand	\$ 221,825
Cash in State Treasury	5,671,151
Cash in Bank	56,282,887
Cash Equivalents	106,438,905
Total Cash and Cash Equivalents	\$ 168,614,768
Cash and Cash Equivalents per Statement of Net Position	Carrying Amount
Cash and Cash Equivalents - Current Assets	\$ 95,853,574
Cash and Cash Equivalents - Current Assets, Restricted	33,148,402
Cash and Cash Equivalents - Non-Current Assets, Restricted	39,612,792
Total Cash and Cash Equivalents per Statement of Net Position	\$ 168,614,768

Investments

As of August 31, 2014, the fair value of investments is \$717,598,458. The University participates in the System's Short/Intermediate Term Investment Fund (consisting of both cash equivalents and long-term investments) and the Long-Term Investment Fund. The System issues a separate annual financial report for the year ended August 31, 2014. The custodial, foreign currency and credit risks for investments and the gross counterparty exposure for derivatives are disclosed separately in the System's annual financial report. The fair value of the University's portion of the Short/Intermediate Term Investment Fund and Long Term Investment Fund is \$490,664,372 and \$225,637,428, respectively.

University Share of Pooled Investments at the System, by Pool and by Statement of Net Position Classification	
Investments Pooled at the System in:	
Short/Intermediate Term Investment Fund (cash equivalents and long-term investments)	\$ 490,664,372
Long-Term Investment Fund	225,637,428
Other Investments	1,296,658
Total University Share of Pooled Investments at the System	\$ 717,598,458
Current Assets	
Short/Intermediate Term Investment Fund	\$ 67,854,965
Current Assets, Restricted	
Short/Intermediate Term Investment Fund	25,095,276
Non-Current Assets	
Short/Intermediate Term Investment Fund	335,533,796
Long-Term Investment Fund	9,621,827
Other Investments	1,062,982
Non-Current Assets, Restricted	
Short/Intermediate Term Investment Fund	62,180,335
Long-Term Investment Fund	216,015,601
Other Investments	233,676
Total University Share of Pooled Investments at the System	\$ 717,598,458

Reconciliation of Investments per Note Disclosure to Investment Accounts on the Statement of Net Position	
Total Investments, per above disclosure	\$ 717,598,458
Less Investments included on the Statement of Net Position in Cash Equivalents line items	(106,438,905)
Total Investment Accounts on the Statement of Net Position	\$ 611,159,553

Note 4: Short-Term Debt

Texas Tech University had the following short-term debt outstanding as of August 31, 2014:

	Balance 9/1/2013	Additions	Deductions	Balance 8/31/2014
Notes and Loans Payable	\$ 50,389,565	\$ 70,200,000	\$ 18,413,234	\$ 102,176,331
Total	\$ 50,389,565	\$ 70,200,000	\$ 18,413,234	\$ 102,176,331

Notes Payable represents commercial paper payable, which is issued to provide interim funding for long-term construction and equipment projects in advance of the issuance of authorized bonds. The System intends to issue Revenue Financing System bonds in February of 2015 which will include a refunding of the University's outstanding commercial paper debt. Note 15 has additional information regarding the bond issue in fiscal year 2015 and the amount of commercial paper expected to be issued by February 2015. Debt service for the obligation is provided in general appropriation for tuition revenue bonds and revenue from various projects. All commercial paper outstanding at August 31, 2014 will mature in fiscal year 2015. Commercial paper has short maturities up to 270 days with interest rates for tax-exempt and taxable paper ranging from .04%

to .14% and .10% to .15%, respectively. The debt service requirements in 2015 for notes payable outstanding as of August 31, 2014 are \$102,176,331 for principal and \$505,428 for interest.

Note 5: Summary of Long-Term Liabilities

During the year ended August 31, 2014, the following changes occurred in long-term liabilities:

	Balance 9/1/2013	Additions	Deductions	Balance 8/31/2014	Amounts Due Within One Year
Employees' Compensable Leave	\$ 12,019,087	\$ 14,538	\$	\$ 12,033,625	\$ 1,444,035
Revenue Bonds Payable	338,360,911		19,532,303	318,828,608	20,276,708
Total	\$ 350,379,998	\$ 14,538	\$ 19,532,303	\$ 330,862,233	\$ 21,720,743

Employees' Compensable Leave

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

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

Pollution Remediation Obligations

The University is waiting for further review by the Texas Commission on Environmental Quality to determine the responsible party and the cost for pollution remediation activities on land that the University owns in Carson County, Texas.

Revenue Bonds Payable

See Note 6 for detailed information on revenue bonds payable outstanding.

Note 6: Bonded Indebtedness

The University receives proceeds from revenue bonds issued by the System to support capital projects of the System and its institutions. These proceeds are recorded as proceeds on the University's books. The University disburses funds for payments of principal and interest for the University's debt service requirements. These disbursements are recorded as principal and interest

payments, with the principal payments decreasing the liability on the University's books. At August 31, 2014, the University had outstanding bonds payable of \$303,634,374 and the unamortized bond premium of \$15,194,234. All bonds issued by the System are defined as revenue bonds. As such, the revenues of the System, including the University, are pledged for repayment of the bonds. Segment information requirements are not applicable, due to the bond indentures' lack of specifically identifiable activities and separate accounting requirements imposed by an external party.

Several bond issues were outstanding as of August 31, 2014. These are summarized in the paragraphs that follow.

Revenue Financing System Refunding and Improvement Bonds, 9th Series 2003

Purpose: For current refunding of Series A Notes and Series 1993 bonds; for construction of the Experimental Sciences Building and renovations of Horn/Knapp dormitory and other University construction of capital improvements projects.

Issue Date September 23, 2003

Interest Rates 2.00% to 5.25%

Maturity Date Range 2004 through 2023

Original Issue Amount \$32,995,000; all authorized bonds have been issued

Revenue Financing System Refunding and Improvement Bonds, 10th Series 2006

Purpose: For advanced refunding of Series A Notes and Series 1999 and 2001 bonds, for construction of Murray Hall and renovation of the Student Union Building and various dormitories and other University construction of capital improvement projects.

Issue Date February 2, 2006

Interest Rates 4.00% to 5.00%

Maturity Date Range 2007 through 2031

Original Issue Amount \$161,220,476; all authorized bonds have been issued

Revenue Financing System Refunding and Improvement Bonds, 12th Series 2009

Purpose: For current refunding of Series A Notes in the aggregate principal amount of \$14,486,000 and Series 1999 bonds in the aggregate principal amount of \$32,377,742 and to pay for construction of the new College of Business Administration Building, renovation of the existing College of Business Administration Building, construction of the Lanier Professional Development Center, construction of the Student Leisure Pool, and other University construction of capital improvement projects.

Issue Date March 3, 2009

Interest Rates 3.00% to 5.25%

Maturity Date Range 2009 through 2038

Original Issue Amount \$104,352,181; all authorized bonds have been issued

Revenue Financing System Refunding and Improvement Bonds, 14th Series 2012A

Purpose: For refunding of \$55,089,500 of Revenue Financing System Commercial Paper Notes Series A and a partial current refunding of \$3,240,000 of Revenue Financing System Bonds Series 2001. For partial advanced refunding of \$13,460,000 of Revenue Financing System Bonds Series 2003. To provide new funding for the new College of Business Administration Building, the new TTU Boston & 18th Street Residence Hall and Dining Facility, Jones Stadium East Side Expansion and other University capital improvement projects.

Issue Date February 1, 2012
 Interest Rates 2.00% to 5.00%
 Maturity Date Range 2012 through 2036
 Original Issue Amount \$86,230,000; all authorized bonds have been issued

Revenue Financing System Refunding Bonds, 15th Series 2012B (Taxable)

Purpose: For current refunding of \$27,710,000 of Revenue Financing System Bonds Taxable Series 2001.

Issue Date February 1, 2012
 Interest Rates .40% to 4.44%
 Maturity Date Range 2012 through 2031
 Original Issue Amount \$27,585,000; all authorized bonds have been issued

Revenue Bonds Payable - Debt Service Requirements				
Description	Year		Total	Total
			Principal	Interest
Texas Tech System Issues	2015	\$	19,136,813	\$ 13,879,586
	2016		18,695,694	13,046,478
	2017		19,256,454	12,211,787
	2018		19,522,619	11,328,641
	2019		20,403,291	10,456,606
	2020-2024		94,833,649	38,550,265
	2025-2029		77,230,854	17,450,986
	2030-2034		26,060,000	5,195,876
	2035-2038		8,495,000	688,525
	Total	\$	<u>303,634,374</u>	<u>\$ 122,808,750</u>
Unamortized Bond Premium		\$	15,194,234	
Total Bonds Payable per Statement of Net Position		\$	<u>318,828,608</u>	

Sources of Debt-Service Revenue

On October 21, 1993, the governing board of the System established a Revenue Financing System for the purpose of providing a financing structure for all revenue supported indebtedness of the System components. The source of revenues for debt service issued under the Revenue Financing System includes pledged general tuition, pledged tuition fee, pledged general fee and any other revenues, income, receipts, rentals, rates, charges, fees, including interest or other income, and balances lawfully available to the System components. Excluded from the revenues described above are amounts received under Article 7, Section 17 of the Constitution of the State of Texas, general revenue funds appropriated by the Legislature except to the extent so specifically appropriated, encumbered housing revenues, and practice plan funds.

Pledged Future Revenues

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers 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 University's revenue bonds:

Pledged Revenue Required for Future Principal and Interest on Existing Revenue Bonds	\$426,443,124
Term of Commitment for Year Ending 8/31/14	2038
Percentage of Revenue Pledged	100%
Current Year Pledged Revenue	\$568,583,760
Current Year Principal and Interest Paid	\$32,996,592

Pledged revenue sources include income from tuition/fees, investments, other sales and services, tuition revenue bond state appropriations, auxiliary activities, and plant gifts.

Note 7: Derivative Instruments

The System Investment Policy Statement for the LTIF allows investment in certain derivative securities. Derivatives are financial instruments whose values are derived in whole or in part from the value of any one or more underlying assets or index of asset values. Investment derivatives are entered into with the intention of managing transaction or currency exchange risk in purchasing, selling or holding investments. These include futures contracts, options, and swaps.

The following disclosures summarize the University's share of the System's derivative activity as reported in the financial statements.

Investment Derivatives	Changes in Fair Value		Fair Value at 8/31/2014		Notional
	Classification	Amount	Classification	Amount	
Futures	Investment Revenue	\$237,336	Investments	\$237,336	\$32,997,418
Options	Investment Revenue	148,197	Investments	148,197	7,966,552
Total Return Swaps	Investment Revenue	(6,432)	Investments	(6,432)	3,277,124

These instruments involve market and/or credit risk in excess of the amount recognized in the Statement of Net Position. Risks arise from the possibility that counterparties will be unable to meet the terms of their contracts and from movement in index values. Futures contracts have reduced counterparty credit risk since they are exchange-traded and the exchange's clearinghouse, as counterparty to all exchange-traded futures, guarantees them against default. Counterparty risk for swaps and options is mitigated by master netting agreements between the University and its counterparties, and by the posting of collateral on a daily basis.

The University's gross counterparty exposure, as of August 31, 2014, is presented below.

Investment Derivatives	Assets Notional	Liabilities Notional	Assets Fair Value as of August 31, 2014	Liabilities Fair Value as of August 31, 2014	Counterparty Rating
Futures	\$35,177,926	\$2,180,508	\$298,494	\$61,159	A
Options	20,165,963	12,199,412	774,214	626,018	A
Total Return Swaps	3,277,124			6,432	A

Fair value

Derivative instruments are recorded at fair value. Futures contracts are marked-to-market daily and valued at closing market prices on valuation date. A daily variation margin between the daily value of the contracts and the value on the previous day is recorded and settled in cash with the broker the following morning. Options and swaps are valued using broker quotes, proprietary pricing agents or appropriate pricing models with primarily externally verifiable model inputs.

Note 8: Leases

The University had no outstanding capital leases as of August 31, 2014.

The University has entered into various operating leases for buildings and equipment. Expenses for operating lease obligations included in the financial statements were \$1,166,410 for the fiscal year ended August 31, 2014.

Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2014 are as follows:

Fiscal Year Ended August 31,	
2015	\$1,287,522
2016	1,087,840
2017	789,484
2018	677,548
2019	517,824
2020-2024	2,589,119
2025-2029	2,589,119
2030-2034	2,172,459
2035-2038	65,383
Total Minimum Future Lease Rental Payments	\$11,776,298

The University also leases building space to outside parties under various operating leases. Rental income from these leases of \$269,300 is included in the financial statements for the fiscal year ended August 31, 2014.

Leased space comprises approximately 14.7% of the total building space. The carrying value of the building is \$1,935,666 as of August 31, 2014, with a historical cost of \$5,182,795, and related accumulated depreciation of \$3,247,129 as of August 31, 2014. There were no reported contingent rental revenues.

Minimum future lease rental income under non-cancelable operating leases as of August 31, 2014 was as follows:

Fiscal Year Ended August 31,	
2015	\$269,664
2016	269,962
2017	274,444
2018	274,792
2019	31,740
Total Minimum Future Lease Rental Income	\$1,120,602

Note 9: Employee Retirement Plans

The State of Texas has joint contributory retirement plans for substantially all of its employees.

Teacher Retirement System pension plan

One of the plans in which the University participates is a cost-sharing multiple-employer defined benefit pension plan administered by the Teacher Retirement System of Texas (TRS Plan). Participating employers in the TRS Plan include public schools, service centers, charter schools, and community colleges as well as the State of Texas, which covers employees of colleges, universities, medical schools, and certain other state agencies. Employees of the University are members of the TRS Plan if they are employed on a half-time or greater basis, unless they participate in the Optional Retirement Program, described below, or are students employed in a position that requires student status as a condition of employment.

Benefits under the TRS Plan are established or amended by the Texas Legislature in state law, as provided by Texas Government Code, Chapter 824. Benefits include retirement and disability annuities and death and survivor benefits. A member is vested after earning five years of creditable service. The normal service retirement is at age 65 with 5 years of credited service or, for members who established and maintained membership before September 1, 2007, when the sum of the member's age and years of credited service equals or exceeds 80 years (Rule of 80). For members who established membership on or after September 1, 2007, members must be at least age 60 with at least 5 years of credited service to retire under the Rule of 80. Reduced service retirement is at age 55 with 5 years of credited service and at any age below 50 with 30 years of credited service. The standard life annuity benefit formula is 2.3 percent of the average of the five highest annual salaries multiplied by the years of service credit. For certain "grandfathered" members, the three highest annual salaries are used. The Teacher Retirement System issues a comprehensive annual financial report that includes the TRS Plan. That report may be obtained by writing to TRS at the Teacher Retirement System of Texas, 1000 Red River Street, Austin, Texas 78701-2698, or from the TRS Web site at www.trs.state.tx.us.

Contribution requirements for employees and employers are not actuarially determined but are established in the Texas Constitution and pursuant to state law passed by the Texas Legislature each biennium. The state constitution requires the legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent of the aggregate annual compensation of all members of the system during the fiscal year. For the year ended August 31, 2014, the statutorily required contribution rate was 6.4% of annual compensation from active plan members and 6.8% of annual compensation from the University.

For the years ended August 31, 2014, 2013, and 2012, the University contributed 100% of the following statutorily required employer contributions:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Required Contribution Rate	6.8%	6.4%	6.00%
Contributions Required & Made	\$11,447,574	\$10,019,511	\$8,757,069

Optional Retirement Program

The State has also established the Optional Retirement Program (ORP), a defined contribution plan for certain employees at public higher education institutions. The ORP is authorized by Texas Government Code, Chapter 830, and is administered by the University, subject to policies, practices, and procedures developed by the Texas Higher Education Coordinating Board to provide greater uniformity in the administration of the program. Participation in the ORP is in lieu of participation in the TRS Plan. The ORP provides for the purchase of annuity contracts and mutual funds through companies that provide optional retirement programs for higher education institutions. Because these are individual investment contracts with investment or insurance companies, and future participant benefits are based on the performance of the selected investment instruments, neither the State nor the University has any liability for investment performance or for retirement commitments beyond the required contributions. Benefits in the ORP vest in a participant after one year of participation.

State law provides for participant contributions of 6.65 percent of annual compensation and for a maximum employer contribution of 8.5 percent of a participant's annual compensation. Each biennium, the Texas Legislature establishes the State's share of the employer contribution and permits the higher education institutions to contribute an additional amount so that total employer contributions do not exceed 8.5 percent. Depending on the source of funding for the employee's compensation, the University may be required to make the employer contribution in lieu of the State. During the year ended August 31, 2014, the required State contribution rate was 6.60 percent and the University's contribution rate was 6.80 percent of participants' annual compensation. For participants who enrolled in the plan on or before August 31, 1995, the University's contribution was 8.5 percent.

For the year ended August 31, 2014, contributions to the ORP were as follows:

Participant contributions	\$7,527,930
Employer contributions	<u>8,239,834</u>
Total	\$15,767,764

Note 10: Deferred Compensation

The following deferred compensation plans are available to University employees:

University employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Texas Government Code, Section 609.001. The state of Texas offers a deferred compensation plan to all state employees, referred to as the TexaSaver 457 Plan and administered by the Employees Retirement System of Texas. This plan is in accordance with Internal Revenue Code Section 457 and permits employees to defer a portion of their salary until future years. Deferred amounts are invested in approved investment products offered by qualified vendors as directed by participating employees. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries and may not be used for, or diverted to, any other expense, except to defray the reasonable expenses of administering the plan. Neither the State nor the University is liable to a participating employee for the diminution in value or loss of all or part of the participating employee's deferred amounts or investment income because of market conditions or the failure, insolvency, or bankruptcy of a qualified vendor.

The University also administers a Tax Deferred Account Program which is a Tax-Sheltered Annuity Program and was 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, or the State. Therefore, none of these entities has a liability related to this plan.

Note 11: Postemployment Health Care and Life Insurance Benefits

Plan Description: The University contributes to the State Retiree Health Plan (SRHP), a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan administered by the Employees Retirement System of Texas (ERS). The SRHP provides healthcare, life, and dental insurance benefits to eligible retired employees of the State, including retirees of participating universities, as well as to eligible retirees of other entities as specified in statute. Eligible

participants generally are retirees who retired with at least 10 years of service to eligible entities. The Texas Insurance Code, Chapter 1551, assigns the authority to establish and amend benefit provisions to the ERS board of trustees. The ERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for SRHP. That report may be obtained by writing to ERS at Employees Retirement System of Texas, P.O. Box 13207, Austin, Texas 78711-3207, or from the ERS Web site at www.ers.state.tx.us.

Funding Policy: The Legislature determines the amount to be appropriated each biennium for the employer's contribution toward retiree benefit costs. Currently, for retirees who were state employees, the State pays 100 percent of eligible retiree health and basic life insurance premiums and 50 percent of dependents' premiums. The retiree contributes any premium in excess of the employer contribution amount. Employer contributions do not include the cost of any optional life or dental insurance benefits. The table below summarizes the maximum monthly employer contribution toward eligible retirees' health and basic life premium for fiscal year 2014.

Maximum Monthly Employer Contribution for Retiree OPEB For the fiscal year ended August 31, 2014	
Level of Coverage	Amount (\$)
Retiree Only	\$503.14
Retiree and Spouse	\$791.16
Retiree and Children	\$696.00
Retiree and Family	\$984.02

Contractually required employer contributions to the plan are currently based on the annual pay-as-you-go expenses of the SRHP. The University's contributions to SRHP for the years ended August 31, 2014, 2013, and 2012, included in amounts reported as Payroll Related Costs, were \$10,127,935, \$9,166,567, and \$8,333,807 respectively, which equaled the required contributions each year.

Note 12: Interfund Activity and Transactions

As of August 31, 2014, amounts to be received or paid between funds and agencies are reported as:

Interfund Receivables or Interfund Payables
 Due from Other State Entities or Due to Other State Entities
 Transfers In From or Transfers Out to Other State Entities
 Legislative Transfers In or Legislative Transfers Out

The University made transfers with other state agencies, which were consistent with the activities of the fund making the transfer. Repayment of interfund balances will occur within one year from the date of the financial statement. Individual balances and activity at August 31, 2014 were as follows:

DUE FROM/TO OTHER STATE ENTITIES				
	Entity	Due from Other State Entities	Due to Other State Entities	Purpose
	Office of the Governor	\$	\$ 1,010,459	Grant deferral
	Department of State Health Services	43,794		Grant accrual
	Cancer Prevention and Research Institute of Texas	166,796		Grant accrual
	Texas Department of Agriculture	5,786		Grant accrual
	Texas AgriLife Extension Service	89,518	99	Grant accrual/deferral
	Texas AgriLife Research	20,872	533	Grant accrual/deferral
	Texas Water Development Board	439,002		Grant accrual
	Texas Commission on Environmental Quality	29,471		Grant accrual
	Soil and Water Conservation Board	55,740		Grant accrual
	Texas Department of Motor Vehicles	12,923		Grant accrual
	Texas Education Agency	181,102		Grant accrual
	Texas A&M Engineering Experiment Station	21,794	12,791	Grant accrual/deferral
	Tarleton State University		43,057	Grant deferral
	The University of Texas at Arlington	73,913		Grant accrual
	The University of Texas System		2,038	Grant deferral
	The University of Texas at Austin	18,091	11,452	Grant accrual/deferral
	The University of Texas Medical Branch	12,954		Grant accrual
	Midwestern State University		29,956	Grant deferral
	Angelo State University		682	Grant deferral
	Texas Tech University Health Sciences Center	209,224	123,515	Grant accrual/deferral
	University of Texas Health Sciences Center at Houston	9,727		Grant accrual
	Stephen F. Austin State University	398,222		Grant accrual
	West Texas A&M University		122,897	Grant deferral
	Texas School for the Blind and Visually Impaired	75,223		Grant accrual
	Texas Higher Education Coordinating Board		74,018	Grant deferral
	Texas Parks and Wildlife	289,869		Grant accrual
	Comptroller of Public Accounts	20,824,434		State accrual
		\$ 22,978,455	\$ 1,431,497	
TRANSFERS IN FROM/OUT TO OTHER STATE ENTITIES				
	Entity	Transfers In from Other State Entities	Transfers Out to Other State Entities	Purpose
	Texas Higher Education Coordinating Board	\$	\$ 3,877,834	Tuition setasides
	Comptroller of Public Accounts	8,815,807		NRUF disbursement
	Texas Health Department	2,367		Capital asset transfer
	Texas A&M University		92,525	Capital asset transfer
	University of Texas	32,405		Capital asset transfer
	Texas Parks and Wildlife	9,550		Capital asset transfer
	Texas Tech Foundation, Inc.	20,919,375	1,296,597	TTFI funding
	Texas Tech University Health Sciences Center	589,705	1,359,699	Bond payment, services, capital asset transfer
	TTU Health Sciences Center El Paso	86,295		Services for Communication System Install
	Texas Tech University System Administration	353,001	2,851,226	System office operations
		\$ 30,808,505	\$ 9,477,881	
LEGISLATIVE TRANSFERS IN/OUT				
	Entity	Legislative Transfers In	Legislative Transfers Out	Purpose
	Texas Tech University System Administration	\$	\$ 1,710,587	System office operations
		\$ 0	\$ 1,710,587	

Note 13: Adjustments to Fund Balances and Net Position

The University had a restatement to beginning Net Position due to the correction of an Accounts Receivable Other Allowance:

Net Position, September 1, 2013	\$1,194,319,354
A/R Other Allowance and Tuition/Fee Pledged Revenues	<u>(1,824,666)</u>
Net Position, September 1, 2013, as Restated	\$1,192,494,688

Note 14: Contingencies and Commitments

At August 31, 2014, various lawsuits and claims involving the University were pending. While the ultimate liability with respect to litigation and other claims asserted against the University cannot be precisely estimated at this time, such liability, to the extent not provided for by insurance or otherwise, is in legal counsel's opinion, not likely to have a material effect on the University.

Investment Funds

The University entered into capital commitments with investment managers for future funding of investment funds. Investment funds include hedge fund pools, private investment pools, public market funds and other alternative investments managed by external investment managers. The remaining commitments as of August 31, 2014 are \$28,793,692.

Note 15: Subsequent Events

The System intends to issue Revenue Financing System Bonds totaling \$111 million in February of 2015. The University's portion of that issuance will total \$102 million, \$60 million of which has already been issued as commercial paper as of August 31, 2014.

The System also intends to issue Revenue Financing System Commercial Paper Notes that are Tax-Exempt and Taxable totaling \$36 million by February of 2015. The University's portion of that issuance will total \$30 million to finance various construction projects.

Note 16: Risk Management

The University by state law is required to be a participant in the Worker's Compensation Program and Pool managed by the State Office of Risk Management (SORM). The University is assessed fees by SORM based upon claims cost, claim count, payroll and FTE. Total payments to SORM for fiscal year 2014 totaled \$749,478. The State Office of Risk Management pays all workers compensation insurance claims. The Worker's Compensation pool for the fiscal year was funded by a .5 percent charge on non-educational and general gross payroll for paying its proportionate share of the SORM assessment.

The University has self-insured arrangements for Unemployment Compensation Fund coverage. The State of Texas pays 50 percent of claims for employees paid from state funds. The University pays the remainder for employees paid from state funds and 100 percent of the claims paid for employees from non-state funds. Total payments for unemployment compensation for fiscal year 2014 amounted to \$135,763. The claims for employees paid from non-state funds are funded by

interest earnings on the Unemployment Compensation Fund balance and utilization of fund balance.

Insurance for University vehicles owned or leased is purchased through commercial carriers. Liability limits are \$250,000 per person/\$500,000 per collision bodily injury, and \$100,000 per collision property damage for collisions occurring within Texas. Out of state limits are \$1,000,000 combined single limit per occurrence.

Note 17: The Financial Reporting Entity

The University is an agency of the State of Texas, and is one of five components of the System.

The National Wind Resource Center (NWRC) is a not-for-profit 501(c)(3) organization, exempt from income taxes, and is reported as a blended component unit of the University. The NWRC was founded to support research at the University. Based on the application of GASB Statement No. 14 *The Financial Reporting Entity* and GASB Statement No. 61 *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34* criteria, the NWRC's financial data has been blended into the financial data of the University due to the significance of its financial relationship with the University. Effective September 1, 2014, NWRC will be absorbed by the University. The condensed financial statements for NWRC as of August 31, 2014 may be obtained from the administrative offices at Texas Tech University, P.O. Box 41102, Lubbock, Texas 79409.

Note 18: Donor Restricted Endowments

Expenditure of endowed funds is not allowed without the express consent of the donor. Most of the University's endowments are held in perpetuity. In many cases, endowment earnings are expendable for student financial assistance or other purposes as designated by the donor. In other cases, endowment earnings are reinvested.

Endowment assets are invested predominantly in the Long Term Investment Fund (LTIF). The LTIF has experienced varying performance since its inception. The cumulative effect of valuation changes assignable to endowment fund assets by the University are presented in the table below. *The Uniform Prudent Management of Institutional Funds Act, Texas Property Code, Chapter 163*, provides general guidelines on how endowments should be maintained.

	Amount Net Appreciation*	Reported in Statement of Net Position
	FY 2014	
True Endowments	\$ 24,162,552	Restricted Expendable
Term Endowments	\$ 117,105	Restricted Expendable

*There was a positive fair value adjustment totaling \$7,651,915 for fiscal year 2014.

The System's spending policy reflects an objective to distribute as much total return as is consistent with overall investment objectives while protecting the inflation-adjusted value of the principal. The following factors are considered in the spending policy: the duration and preservation of the LTIF, the purposes of the System and the LTIF, general economic conditions,

the possible effect of inflation or deflation, the expected total return from income and the appreciation of investments, other resources of the System and the overall investment policy. The distribution of spendable earnings shall not exceed 6% nor be less than 4% of the average NAV of the LTIF for the 12 quarters just ended.



January 29, 2015

Dr. M. Duane Nellis, President
Texas Tech University
150 Administration Building
Box 42005
Lubbock, TX 79409-2005

Subject: Management Letter Resulting from a
Review of Texas Tech University's
Fiscal Year 2014 Financial
Statements

Dear Dr. Nellis:

We offer this management letter in conjunction with our review of the financial statements of Texas Tech University (University) as of and for the fiscal year ended August 31, 2014, on which we have issued our report dated January 29, 2015. We reviewed the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; 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,

Lisa R. Collier, CPA, CIDA
First Assistant State Auditor

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