State Auditor's Office

John Keel, CPA
State Auditor

Accreditation Reviews Fiscal Year 2012

April 2013

Report No. 13-031

Introduction

The State Auditor's Office completed accreditation reviews of five higher education institutions' fiscal year 2012 financial statements:

- Angelo State University.
- Midwestern State University.
- Texas A&M University, including Texas A&M University at Galveston.
- Texas A&M Health Science Center.
- Texas Woman's 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 TECH UNIVERSITY SYSTEM™

Office of Audit Services

Angelo State University

Financial Statements and Independent Accountant's Review Report as of August 31, 2012 and for the Year Then Ended

January 28, 2013

TTUS Project #2013027a

SAO Report No. 13-320

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Contents

State Auditor's Office
John Keel, CPA
State Auditor

Independent Accountant's Review Report

January 28, 2013

Dr. Brian May, President
Angelo State University
2601 West Avenue N
ASU Station #11007
San Angelo, TX 76909

We have reviewed the accompanying Statement of Net Assets of Angelo State University (University) as of August 31, 2012, and the related Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows for the year then ended. A review includes primarily applying analytical procedures to the University's financial data and making inquiries of University personnel. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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

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

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

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

SAO Report No. 13-320

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Angelo State University
Statement of Net Assets

For the Fiscal Year Ended August 31, 2012
(See Independent Accountant's Report on Page 1)

ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 3)	$	38,752,068
Restricted:		
Cash and Cash Equivalents (Note 3)		(706,923)
Legislative Appropriations		4,690,735
Receivables, Net of Allowances:		
Federal (Note 14)		20,929,780
Accounts Receivable		1,053,823
Gifts		436,190
Student Receivables		9,333,243
Due from Other State Entities (Note 6)		143,185
Consumable Inventories		257,226
Merchandise Inventories		3,660
Prepaid Expenses		5,933,817
Loans and Contracts		770,445
Total Current Assets	$	81,597,249
Non-Current Assets		
Restricted:		
Investments (Note 3)		118,281,830
Capital Assets (Note 2):		
Non-Depreciable		43,545,121
Depreciable and Amortizable		185,075,807
Less: Accumulated Depreciation and Amortization		(102,074,561)
Total Non-Current Assets	$	244,828,197
Total Assets	$	326,425,446

LIABILITIES		
Current Liabilities		
Payables:		
Accounts	$	2,110,635
Payroll		3,066,084
Deferred Revenue		32,487,897
Employees' Compensable Leave (Note 4)		281,525
Revenue Bonds Payable (Notes 4, 5)		2,595,006
Notes and Loans Payable (Note 4)		811,475
Funds Held for Others		16,542,532
Other Current Liabilities (Note 14)		4,810
Total Current Liabilities	$	57,899,964
Non-Current Liabilities		
Employees' Compensable Leave (Note 4)		1,776,345
Revenue Bonds Payable (Notes 4, 5)		70,790,940
Notes and Loans Payable (Note 4)		3,134,958
Other Non-Current Liabilities (Note 14)		466,875
Total Non-Current Liabilities	$	76,169,118
Total Liabilities	$	134,069,082
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$	52,267,432
Restricted for:		
Non-Expendable		
Permanent Funds, True Endowments, Annuities		119,076,428
Expendable		
Capital Projects (HEAF)		2,796,257
Other		8,894,499
Unrestricted		9,321,748
Total Net Assets	$	192,356,364

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

Angelo State University
Statement of Revenues, Expenses and Changes in Net Assets

For the Fiscal Year Ended August 31, 2012
(See Independent Accountant's Report on Page 1)

OPERATING REVENUES		
Tuition and Fees - Pledged	$	49,741,129
Discounts and Allowances		(9,154,551)
Auxiliary Enterprises - Pledged		15,603,265
Discounts and Allowances		(2,871,410)
Other Sales of Goods and Services - Pledged		1,052,868
Federal Revenue		3,966,562
State Grant Revenue		4,999,470
Other Operating Grant Revenue		680,625
Total Operating Revenues	$	64,017,958
OPERATING EXPENSES		
Salaries and Wages		46,375,601
Payroll Related Costs		12,220,772
Professional Fees and Services		578,193
Travel		1,529,681
Materials and Supplies		7,323,059
Communications and Utilities		4,766,870
Repairs and Maintenance		2,829,896
Rentals and Leases		606,473
Printing and Reproduction		365,837
Depreciation and Amortization		6,564,714
Bad Debt Expense		249,717
Scholarships		5,836,892
Other Operating Expenses		18,645,204
Total Operating Expenses	$	107,892,909
Operating Income (Loss)	$	(43,874,951)

NONOPERATING REVENUES (EXPENSES)		
Legislative Appropriations	$	28,438,916
Federal		10,485,568
Gifts		1,923,700
Interest and Investment Income (Loss)		10,723,926
Net Increase (Decrease) in Fair Value of Investments		(2,013,674)
Interest Expense and Fiscal Charges		(2,736,483)
Gain (Loss) on Sale of Capital Assets		(53,139)
Other Nonoperating Revenues - Pledged		12,283,152
Other Nonoperating Expenses		(11,691,324)
Total Nonoperating Revenues (Expenses)	$	47,360,642
Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers	$	3,485,691
OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS		
Capital Contributions	$	13,000
Capital Appropriations (HEAF)		3,743,027
Transfers In from Other State Entities (Note 6)		20,625
Transfers Out to Other State Entities (Note 6)		(3,483,242)
Legislative Transfers Out (Note 6)		(3,040,311)
Legislative Appropriations Lapsed		(1,281)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	$	(2,748,182)
CHANGE IN NET ASSETS	$	737,509
Net Assets, September 1, 2011	$	191,618,855
NET ASSETS, August 31, 2012	$	192,356,364

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

Angelo State University
Statement of Cash Flows

For the Fiscal Year Ended August 31, 2012
(See Independent Accountant's Report on Page 1)

CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Tuition and Fees	$	41,511,729
Proceeds from Research Grants and Contracts		10,739,684
Proceeds from Loan Programs		370,992
Proceeds from Auxiliaries (net)		12,227,495
Proceeds from Other Revenues (net)		673,276
Payments to Suppliers for Goods and Services		(18,000,008)
Payments to Employees for Salaries		(46,932,296)
Payments to Employees for Benefits		(12,207,765)
Payments for Loans Provided		(387,003)
Payments for Other Expenses		(23,987,607)
Net Cash Provided (Used) by Operating Activities	$	(35,991,503)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Legislative Appropriations	$	28,651,067
Proceeds from Gifts		1,726,725
Proceeds of Transfers from Other Entities		20,625
Proceeds from Other Sources (Grants)		10,493,799
Payments for Transfers to Other Entities		(1,419,137)
Payments for Other Uses		(11,152,559)
Net Cash Provided (Used) by Non-Capital Financing Activities	$	28,320,520
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from State Appropriations (HEAF)	$	3,743,027
Proceeds from Issuance of Capital-Related Debt		57,258,178
Payments for Additions to Capital Assets		(10,714,933)
Payments of Principal on Capital-Related Debt		(44,331,539)
Payments of Interest on Capital-Related Debt		(2,463,902)
Payments of Other Costs of Capital-Related Debt		(272,582)
Net Cash Provided (Used) by Capital and Related Financing Activities	$	3,218,249
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales of Investments	$	7,385,382
Proceeds from Interest and Investment Income		10,723,926
Payments to Acquire Investments		(7,428,999)
Net Cash Provided (Used) by Investing Activities	$	10,680,309

Net Increase (Decrease) in Cash and Cash Equivalents	$	6,227,575
Cash and Cash Equivalents, September 1, 2011	$	31,817,570
Cash and Cash Equivalents, August 31, 2012	$	38,045,145

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

Operating Income (Loss)	$	(43,874,951)
Adjustments:		
Depreciation and Amortization	$	6,564,714
Bad Debt Expense		249,717
Operating Income and Cash Flow Categories:		
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		(614,203)
(Increase) Decrease in Due from Other Entities		296,362
(Increase) Decrease in Inventories		42,197
(Increase) Decrease in Prepaid Expenses		453,336
(Increase) Decrease in Loans and Contracts		17,173
Increase (Decrease) in Payables		(630,816)
Increase (Decrease) in Due to Other Entities		(2,000)
Increase (Decrease) in Deferred Revenue		1,551,454
Increase (Decrease) in Employees' Compensable Leave		13,008
Increase (Decrease) in Other Liabilities		(57,494)
Total Adjustments	$	7,883,448
Net Cash Provided (Used) by Operating Activities	$	(35,991,503)
Non-Cash Transactions		
Net Increase (Decrease) in Fair Value of Investments	$	(2,013,674)
Donated Capital Assets		13,000
Disposal of Capital Assets		(205,807)

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

General Introduction

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

Reporting Entity

Angelo State 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*. Angelo State University serves the state by offering a wide range of academic programs leading to baccalaureates and master's degrees. Angelo State University is committed to providing educational excellence for Texas.

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

Note 1: Summary of Significant Accounting Policies

Basis of Accounting

The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Operating items are distinguished from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the University's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation or amortization on capital assets. The budget is prepared biennially and represents appropriations authorized by the legislature and approved by the Governor (the General Appropriations Act). Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

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 as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The University does not apply FASB pronouncements issued after November 30, 1989 in the preparation of the accompanying financial statements.

The accompanying financial statements are presented on the basis of funds. A fund is considered a separate accounting entity. The fund designation for institutions of higher education is a Business Type Activity within the Proprietary Fund Type.

Proprietary Funds, Business Type Activity

Business type funds are used for activities that are financed through the charging of fees and sales for goods or services to the ultimate user. Institutions of higher education are required to report their financial activities as business type because the predominance of their funding comes through charges to students, sales of goods and services, and grant revenues.

Cash and Cash Equivalents

Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents. For reporting purposes, this account includes cash on hand, cash in local banks, cash in transit, and cash in the Treasury.

Capital Assets

Capital assets are categorized as either (1) land and land improvements, (2) facilities and other improvements, (3) buildings and building improvements, (4) infrastructure and infrastructure improvements, (5) construction in progress, (6) furniture and equipment, (6) vehicles, (7) books, and (8) other capital assets. Non-depreciable capital assets include land and land improvements, construction in progress, and other capital assets (artwork). All other capital asset categories are depreciated over the estimated useful life using straight line depreciation.

Capital Asset Category	Useful Life	Capitalization Threshold
Buildings and Building Improvements	11 to 30 years	$100,000
Infrastructure and Infrastructure Improvements	10 to 45 years	$500,000
Furniture and Equipment	3 to 15 years	$5,000
Vehicles	5 to 7 years	$5,000
Books	15 years	$0

Capital assets are recorded at cost at the date of acquisition, or, in the case of gifts, at fair value as of the date of the gift. Depreciation of capital assets is charged to operations and accumulated depreciation is an offset to the asset book value.

Restricted Net Assets

Restricted net assets result when constraints placed on net assets uses either are externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. Once the stated purpose of the restricted net asset has been fulfilled, any remaining funds are unrestricted.

Unrestricted Net Assets

Unrestricted net assets consist of net assets, which do not meet the definition of the two *preceding* categories. Unrestricted net assets often have constraints on resources, which are imposed by management, but can be removed or modified. Restricted net assets become unrestricted when the stated purpose has been fulfilled. Financial managers are encouraged to utilize unrestricted net assets prior to restricted net assets, when appropriate.

Note 2: Capital Assets

	Balance 9/1/2011	Adjustments	Completed Construction in Progress	Additions	Deductions	Balance 8/31/2012
Non-Depreciable and Non-Amortizable Assets:						
Land and Land Improvements	$ 2,554,756	$	$	$	$	$ 2,554,756
Construction in Progress	31,661,488	(26,140)	(417,151)	9,362,086		40,580,283
Other Capital Assets *(includes Museum and Art)*	356,392			53,690		410,082
Total Non-Depreciable Assets	$ 34,572,636	$ (26,140)	$ (417,151)	$ 9,415,776	$ 0	$ 43,545,121
Depreciable and Amortizable Assets:						
Buildings and Building Improvements	$ 152,124,695	$	$ 417,151	$	$	$ 152,541,846
Infrastructure	5,286,500					5,286,500
Facilities and Other Improvements	6,993,141					6,993,141
Furniture and Equipment	9,410,561			1,141,996	(161,849)	10,390,708
Vehicles, Boats, and Aircraft	1,498,233			65,661	(44,796)	1,519,098
Other Capital Assets *(includes software)*	8,287,489			109,325	(52,300)	8,344,514
Total Depreciable and Amortizable Assets at Historical Cost	$ 183,600,619	$ 0	$ 417,151	$ 1,316,982	$ (258,945)	$ 185,075,807
Less Accumulated Depreciation and Amortization for:						
Buildings and Building Improvements	$ (75,325,359)	$	$	$ (4,945,819)	$	$ (80,271,178)
Infrastructure	(1,953,535)			(179,618)		(2,133,153)
Facilities and Other Improvements	(4,622,534)			(310,436)		(4,932,970)
Furniture and Equipment	(5,766,711)			(852,384)	161,011	(6,458,084)
Vehicles, Boats, and Aircraft	(1,194,571)			(79,981)	44,796	(1,229,756)
Other Capital Assets *(includes software)*	(6,852,944)			(196,476)		(7,049,420)
Total Accumulated Depreciation and Amortization	$ (95,715,654)	$ 0	$ 0	$ (6,564,714)	$ 205,807	$ (102,074,560)
Depreciable and Amortizable Assets, Net	$ 87,884,965	$ 0	$ 417,151	$ (5,247,732)	$ (53,138)	$ 83,001,246
Capital Assets, Net	**$ 122,457,601**	**$ (26,140)**	**$ 0**	**$ 4,168,044**	**$ (53,138)**	**$ 126,546,367**

Note 3: Deposits, Investments, and Repurchase Agreements

The University is authorized by statute to make investments following "prudent person rule." There were no significant violations of legal provisions during the period.

Deposits of Cash in Bank

As of August 31, 2012, the carrying amount of deposits was $3,776,084 (including Restricted Assets) as presented below. These amounts consist of all cash in local banks and a portion of short-term investments. These amounts are included on the Combined Statement of Net Assets as part of the "Cash and Cash Equivalents" and "Securities Lending Collateral" accounts. As of August 31, 2012, the total bank balance for Governmental and Business-Type Activities was $6,410,924.

Bank Deposits	Carrying Amount	Bank Balance
Cash in Bank	$ 3,776,084	$ 6,410,924
Total Bank Deposits	$ 3,776,084	$ 6,410,924

Cash and Cash Equivalents

As of August 31, 2012, the carrying amount of cash and cash equivalents was $38,045,145 as presented below.

Composition of Cash and Cash Equivalents		Carrying Amount
Cash on Hand	$	14,173
Cash in State Treasury		879,131
Reimbursement Due from Treasury		3,286,737
Total Bank Deposits (per above)		3,776,084
Other Cash Equivalents		30,089,020
Total Cash and Cash Equivalents	$	38,045,145

The University's TexPool investment of $30,089,020 is valued using the net asset value per share methodology and is exposed to minimal credit risk. TexPool and TexPool Prime are rated at AAAm by *Standard & Poor's*. TexPool investments consist exclusively of U.S. Government securities, repurchase agreements collateralized by U.S. Government securities, and AAA-rated no load money market mutual funds.

Investments

As of August 31, 2012, the value of long-term investments is $118,281,830. The University participates in the Texas Tech University System (System) long-term investment fund. The System issues separate annual financial reports for the year ended August 31, 2012. The foreign currency and credit risks for investments in the System's Long-term Investment Fund are disclosed separately in the System's annual financial report. The fair value of the University's portion of the Long-Term Investment Fund is $111,431,677. Additionally, the Carr Trust's mineral interests of $6,837,837 are reported at historical cost, a value determined during estate settlement negotiations with the Internal Revenue Service, when the mineral interests were transferred to the University in 1980 and 1989. Additional disclosures are included in Note 9. Non-current restricted investments are also held and presented below.

Non-Current Assets, Restricted Investments	
Mineral Interest	$ 6,837,834
Collaterilized Mortgage Obligations	1,124
Long Term Investment Fund	111,431,677
Fiduciary Cash and Equivalents	11,196
Total Investments per Statement of Net Assets	$ 118,281,830

Note 4: Summary of Long-Term Liabilities

	Balance 9/1/2011	Additions	Deductions	Balance 8/31/2012	Amounts Due Within One Year
Employees' Compensable Leave	2,044,862	281,525	268,517	2,057,870	281,525
Revenue Bonds Payable	32,160,000	43,513,878	2,287,933	73,385,945	2,595,006
Notes and Loans Payable	32,363,673	13,744,299	42,161,539	3,946,433	811,475
Total	$ 66,568,535	$ 57,539,702	$ 44,717,989	$ 79,390,248	$ 3,688,005

Employees' Compensable Leave

Employees' Compensable Leave Balances represent the liability that becomes 'due' upon the occurrence of relevant events such as resignation, retirements, and uses of leave balances by covered employees. Liabilities are reported separately as either current or noncurrent in the Statement of Net Assets. GASB Statement No. 16, Accounting for Compensated Absences, establishes the standards of accounting and reporting for compensated absences (i.e., vacation, unpaid overtime, and sick leave) by State entities.

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. Expenditures for accumulated annual leave balances are recognized in the period paid or taken in governmental fund types. For these fund types, the liability for unpaid benefits is recorded in the Statement of Net Assets. An expense and liability for proprietary fund types are recorded in the proprietary fund as the benefits accrue to employees.

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is off due to illness or to the estate of an employee in the event of his or her death. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The University's policy is to recognize the cost of sick leave when paid, and the liability is not shown in the 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.

Bonds Payable

Revenue Bonds

Revenue bonds are generally accounted for in the proprietary funds. The bonds payable are reported at par less unamortized discount or plus unamortized premiums. Interest expense is reported on the accrual basis, with amortization of discount or premium. Payables are reported separately as either current or noncurrent in the statement of net assets.

See Note 5 for detailed information on bond liability balances and transactions.

Notes and Loan Payable

On October 21, 1993, the governing board of the Texas Tech University System established a Revenue Financing System for the purpose of providing a financing structure for all revenue supported indebtedness of Texas Tech University 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 Texas Tech University 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.

The University participates in the Revenue Financing System commercial paper program, which is comprised of variable rate demand notes with a maximum maturity of 270 days. The issuance of commercial paper notes may not exceed, in aggregate, the principal amount of $150,000,000. In practice, the System rolls, pays off, and/or issues new commercial paper at each maturity. Commercial paper assists as interim funding until long term bonds are approved and issued or revenues and gifts are received to retire the debt.

Additional System Revenue Financing System Commercial Paper Notes, Series A in the amount $13,744,299 were issued during the fiscal year to finance various University capital projects and notes in the amount of $42,161,539 matured. The outstanding balance at August 31, 2012, is $3,946,433 with an average interest rate of .13% for the outstanding issues; however, the current amount due is $811,475. The System will provide liquidity support for $150,000,000 in commercial paper notes by utilizing available funds of the System in lieu of or in addition to bank liquidity support.

Note 5: Bonded Indebtedness

The University receives proceeds from revenue bonds issued and held by the System to support capital projects of the System and its institutions. These proceeds are recorded as proceeds from the System on the University's books. The University disburses funds to the System for payments of principal and interest related to the University's share of bond proceeds. These disbursements are recorded as principle payments and interest to the System, decreasing the liability on the University's books. At August 31, 2012, the University had outstanding bonds payable of $73,385,945. 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.

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

Purpose:	For refunding of $41,380,000 of Revenue Financing System Commercial Paper Notes Series A and a partial current refunding of $355,000 of Texas State University System Revenue Financing System Bonds Series 2002 representing ASU's portion. To provide new funding for the construction of ASU Plaza Verde Phase I Residence Hall and other University capital improvement projects.
Original Issue Amount:	$39,370,000
Issue Date:	February 1, 2012
Interest Rates:	2.0% to 5.0%
Date Range:	2012 through 2041
Type of Bond:	Revenue
Changes in Debt:	$39,370,000 issued, $765,000 retired

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

Purpose:	For advanced refunding of ASU portion of Texas State University System TRB bonds and construction of Centennial Village.
Original Issue Amount:	$35,630,000
Issue Date:	March 3, 2009
Interest Rates:	3.00% to 5.25% Maturity
Date Range:	2009 through 2038
Type of Bond:	Revenue
Changes in Debt:	$0 issued, $4,785,000 retired

	Debt Service Requirements			
Description	**Year**	**Principal**	**Interest**	**Total**
Texas Tech System Issues	2013	$ 2,365,000	$ 3,248,631	5,613,631
	2014	2,370,000	3,177,406	5,547,406
	2015	1,645,000	3,109,231	4,754,231
	2016	2,020,000	3,034,456	5,054,456
	2017	2,095,000	2,948,781	5,043,781
	2018-2022	9,170,000	13,331,331	22,501,331
	2023-2027	10,600,000	11,037,094	21,637,094
	2028-2032	13,310,000	8,061,191	21,371,191
	2033-2037	15,925,000	4,410,413	20,335,413
	2038-2041	9,860,000	869,319	10,729,319
Total		$ 69,360,000	$ 53,227,853	122,587,853
Unamortized premium			4,025,945	

Prior to September 1, 2007, all bonded indebtedness for Angelo State University was issued through the Texas State University System (TSUS) Revenue Financing System, of which the Texas State University System Administration and each of their components were members. The TSUS Board of Regents cross-pledged all lawfully available funds (revenues) and balances attributable to any TSUS RFS member against the bonded indebtedness of all other TSUS RFS members for payment on the

Parity Debt. Effective September 1, 2007, House Bill 3564 (80th Legislature, Regular Session) transferred governance of Angelo State University to the Texas Tech University System. For the debt issued by the TSUS, the bonds payable are reported by TSUS. ASU will repay the debt that was issued on its behalf; consequently, the following debt amortization schedule is presented below for informational purposes only.

Debt Service Requirements Attributable
To Angelo State University

Description	Year	Principal	Interest	Total
Texas State System Issues	2013	$ 2,861,199	$ 1,662,354	$ 4,523,553
	2014	3,059,602	1,519,294	4,578,896
	2015	2,746,440	1,366,314	4,112,754
	2016-2020	11,374,833	4,841,034	16,215,867
	2021-2025	5,570,000	2,606,500	8,176,500
	2026-2030	4,425,000	1,488,000	5,913,000
	2031-2035	3,210,000	326,500	3,536,500
Totals		$ 33,247,074	$ 13,809,995	$ 47,057,070

In fiscal year 2012, $353,141 of Texas State University System debt on behalf of Angelo State University was refunded and new debt was financed by the Texas Tech University System on behalf of Angelo State University. The refunded bonds were Angelo State University's portion of the Texas State University system 2002 series of bonds. This refunding resulted in a cash flow increase of $38,141 and an economic gain of $64,671.

A portion of the debt represents Tuition Revenue Bonds historically funded by the Texas Legislature through General Revenue Appropriations. The institution was appropriated $4,003,574 during the current fiscal year for Tuition Revenue Bond debt service. The institution expects future Legislative appropriations to meet debt service requirements for Tuition Revenue Bonds.

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 receivable and future revenues, on the one hand, and the pledging of receivables of future revenues to repay a borrowing (a collateralized borrowing), on the other. The following table provides the pledged future revenue information for Angelo State University's revenue bonds:

	Business-Type Activities
Pledged Revenue Required for Future Principal and Interest on Existing Revenue Bonds	$122,587,853
Term of Commitment Year Ending 08/31	2041
Percentage of Revenue Pledged	100.0%
Current year Pledged Revenue	$72,356,831
Current year Principal and Interest Paid	$4,609,964
Pledged revenue sources:	
Business-type activities - Operating income from current unrestricted funds	

Note 6: Interagency Balances / Activity

The University experienced routine transfers with other state agencies, which were consistent with the activities of the state entity making the transfer. Repayment of inter-entity balances will occur within one year from the date of the financial statement. As of August 31, 2012, the University has the following types of transactions among state entities:

- Transfers: Legally required transfers that are reported when incurred as ‘Transfers In’ by the receiving state entity and as ‘Transfers Out’ by the disbursing state entity.
- Reimbursements: Reimbursements are repayments from state entities responsible for expenditures or expenses to the state entity that made the actual payment. Reimbursements of expenditures, made by one entity for another, are recorded as expenditures by the reimbursing entity and as a reduction of expenditures by the reimbursed entity. Reimbursements are not displayed in the financial statements.
- Inter-entity receivables and payables: Inter-entity loans are reported as inter-entity receivables and payables. If repayment is due during the current year or soon thereafter, it is classified as ‘Current, repayment for two (or more) years is classified as ‘Non-Current’.
- Inter-entity Sales and Purchases: Charges or collections for services rendered by one state entity to another are recorded as revenues of the receiving entity and expenditures or expenses of the disbursing entity.

The composition of the University’s Inter-entity receivables and payables as of August 31, 2012 is presented as follows:

DUE FROM/TO OTHER STATE ENTITIES

Entity	Due from Other State Entities	Due to Other State Entities	Purpose
CPRIT	$ 52,193	$	Accruals
Texas Tech University	7,083		Accruals
Texas Higher Education Coordinating Board	83,909		Accruals
	$ 143,185	$ 0	

TRANSFERS IN FROM/OUT TO OTHER STATE ENTITIES

Entity	Transfers In from Other State Entities	Transfers Out to Other State Entities	Purpose
Texas State University System	$	$ (2,186,401)	Bond payments
Texas Tech University System		(255,931)	System Office operations
Texas Tech Foundation, Inc	20,625		Presidential Awards
Texas Higher Education Coordinating Board		(525,091)	B-On-Time Loans
Texas Pub Fin Auth		(515,819)	TPFA
	$ 20,625	$ (3,483,242)	

LEGISLATIVE TRANSFERS IN/OUT

Entity	Legislative Transfers In	Legislative Transfers Out	Purpose
Texas State University System	$	$ (2,919,683)	Bond payments
Texas Tech University System		(120,628)	System Office operations
	$ 0	$ (3,040,311)	

Note 7: Contingent Liabilities

Unpaid Claims and Lawsuits

At August 31, 2012, certain lawsuits and claims were pending against the University. The liability with respect to litigation and other claims asserted against the University are not likely to have a material effect on the University.

Note 8: Risk Financing and Related Insurance

The State provides coverage for unemployment compensation benefits from appropriations made to other State agencies for University employees. The current General Appropriations Act provides that University must reimburse General Revenue Fund-Consolidated, from University appropriations, one-half of the unemployment benefits paid for former and current employees. The Comptroller of Public Accounts determines the proportionate amount to be reimbursed from each appropriated fund type. The University must reimburse the General Revenue Fund one hundred percent of the cost for workers' compensation and for any employees paid from funds held in local bank accounts. The unemployment plan is on a pay-as-you-go basis, in which no assets are set aside to be accumulated for the payment of claims. No material outstanding claims are pending at August 31, 2012.

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 2012 totaled $88,038. The State Office of Risk Management pays all workers' compensation claims. The Worker's Compensation pool for the fiscal year was funded by a .25 percent charge on non-educational and general gross payroll for paying its proportionate share of the SORM assessment.

Due to the diverse risk exposure of the University, the insurance portfolio contains a comprehensive variety of coverage. Texas statutes require participation of all state agencies in directors and officers liability, employee blanket bond, and property and casualty programs. In addition to these basic policies, the University's Department of Risk Management establishes guidelines in risk assessment, risk avoidance, risk acceptance, and risk transfer.

- The auxiliary buildings and contents are insured for replacement value. Each loss incident is subject to a $100,000 deductible.
- University automobiles and leased vehicles new to 5 years old are insured for general liability and physical damage. Any automobiles or leased vehicles six years old or older are insured for general liability only.
- Each loss incident is subject to a $1,000 deductible.

Note 9: The Financial Reporting Entity

Houston Harte Foundation Available

The Houston Harte Foundation is a non-profit organization with the sole purpose of supporting educational and other activities of the University. The assets of the foundation were managed under a Fiduciary Agreement by the Wells Fargo Bank, San Angelo, Texas. The Foundation remitted unrestricted gifts of $35,000 to the University during the year ended August 31, 2012. Since the assets were managed externally, the Foundation does not have any employees. The only services provided by the University are the keeping of the minutes.

In September 2011, the Foundation began the process of dissolving its assets and distributing those assets to the ASU Foundation, Inc. for the use and benefit of Angelo State University. The dissolution was completed in June of 2012 and $ 2,389,157 in assets was distributed to the ASU Foundation, Inc.

Robert A Carr and Nona K. Carr Scholarship Foundation

On September 1, 1980 the Robert G. Carr Estate transferred certain assets totaling $6,815,644.46 to the Board of Regents, Texas State University System, trustees of the Robert G. Carr and Nona K. Carr Scholarship Foundation that was established for the benefit of Angelo State University under provisions of the Last Will and Testament of Robert G. Carr whose death occurred on March 17, 1978. This principal fund included $2,986,880 in cash, and $3,828,765 in oil, gas, and mineral properties.

On September 1, 1989 the Nona K. Carr Estate transferred certain assets totaling $5,098,288 to the Board of Regents, Texas State University System, trustees of the Robert G. Carr and Nona K. Carr Scholarship Fund that was established for the benefit of Angelo State University under provision of the last will and testament of Robert G. Carr. Nona K. Carr died on June 17, 1987. This principal fund included $2,089,219 in cash and $3,009,069 in oil, gas, and mineral properties.

Prior to the 2012 fiscal year, the Foundation received payments for oil and gas royalties, oil and gas lease rental and bonuses, and oil and gas payment commissions totaling $95,177,583 and realized an appreciation on investments of $1,879,050. During the 2012 fiscal year, the Foundation received payments for oil and gas royalties, oil and gas lease rentals and bonuses, and oil and gas payment commissions, and refunds totaling $7,385,382.

All principal fund cash that is received by the Foundation is transferred to Wells Fargo Bank, San Angelo as master custodian. All principal is invested in the Long Term Investment Fund (LTIF), which is managed by the Texas Tech University System.

The value at which oil, gas, and other mineral properties is carried on the financial statements is the value that was agreed to in the settlement with the Internal Revenue Service of the Federal Estate Tax Liability of the Estate of Robert G. Carr. No provision has been made for depletion of these properties.

The LTIF spending distribution is transferred to the Angelo State University Robert G. Carr and Nona K. Carr Scholarship and expense funds. During the 2012 fiscal year, the spending distribution received from the investment agent totaled $4,751,877. Of this amount, $325,000 was transferred by the trustees to the Foundation Trust Estate Expense Account for the payment of salaries and wages and other operating expenses of the foundation. Disbursements from the expense account for the 2012 fiscal year totaled $342,809. $4,424,667 was transferred to the Angelo State University Robert G. Carr and Nona K. Carr Scholarship Foundation Account. Depository interest of $2,210 was transferred. During the 2012 fiscal year, the scholarship account earned interest totaling $14.

Total scholarships awarded prior to the 2012 fiscal year amounted to $69,709,265. During the 2012 fiscal year, scholarship awards amounted to $5,971,139. It is estimated that the amount of annual scholarship awards from the scholarship fund will total $4,500,000 in fiscal year 2013.

The records of the Foundation are audited annually by the firm of Oliver, Rainey & Wojtek, LLP, San Angelo, Texas.

<u>Other Organizations</u>

The ASU Alumni Association contributed $0 to the University during the 2012 fiscal year for operation of the Alumni office. The University paid $55,459 above the contributed amount for maintaining the records on the students who have graduated from the University.

The ASU Foundation is a non-profit organization with the sole purpose of supporting educational and other activities of the University. The Foundation solicits donations and acts as Coordinator of Gifts made by other parties. The association expended $119,335 on behalf of the University during the year ended August 31, 2012. During the year, the University furnished limited staff assistance to the association.

Note 10: Employee Retirement Plans

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

<u>Teacher Retirement System pension plan</u>

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% 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, 2012, the statutorily required contribution rate was 6.40% of annual compensation from active plan members and 6.00% of annual compensation from the University.

For the years ended August 31, 2010, 2011, and 2012, the University contributed 100% of the following statutorily required employer contributions:

	2010	**2011**	**2012**
Required Contribution Rate	6.64%	6.64%	6.00%
Contributions Required & Made	$858,485	$1,034,227	$948,791

Optional Retirement Program

The State 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, 2012, the required State contribution rate was 6.0 percent and the University's contribution rate was 2.50 percent of participants' annual compensation for each participant whose first date to participate in ORP in lieu of the TRS Plan is prior to September 1, 1995, regardless of any break in service (grandfathered) or was .4 percent of participants' annual compensation for each participant whose first date to participate in ORP in lieu of the TRS Plan is on or after September 1, 1995 (non-grandfathered).

For the year ended August 31, 2012, contributions to the ORP were as follows:

Participant contributions	$1,184,204
Employer contributions	1,272,449
Total	$2,456,653

Note 11: 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-Sheltered Annuity Program, created in accordance with Internal Revenue Code, Section 403(b). All employees are eligible to participate. The Tax-Sheltered Annuity 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 12: Donor-Restricted Endowments

Pursuant to Texas Property Code Chapter 163, 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 summarized in the following table:

Donor-Restricted Endowments	Amount of Net Appreciation	Reported in Net Assets
True Endowments	($1,583,595)	Restricted Nonexpendable
Total	($1,583,595)	

Note 13: Post-Employment 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 2012.

Maximum Monthly Employer Contribution for Retiree OPEB
For the fiscal year ended August 31, 2012

Level of Coverage	**Amount**
Retiree Only	$ 458.62
Retiree and Spouse	721.06
Retiree and Children	634.34
Retiree and Family	896.78

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, 2010, 2011, and 2012, included in amounts reported as Payroll Related Costs, were $1,349,306, $1,472,522, and $1,567,472 respectively, which equaled the required contributions each year.

Note 14: Disaggregation of Receivable and Payable Balances

Federal Receivable

Federal Receivable Program	Amount
Other Instructional & Departmental	$ 5,422,337
Research	23,861
Public Services	10,233
Other Agencies' Funds	15,473,349
Total Net Federal Receivable	$ 20,929,780

Other Liabilities - Current

Type	
Deposits from Students	$ 4,810
	$ 4,810

Other Liabilities - Non-Current

Type	
U.S. Government Grants Refundable	$ 466,875
	$ 466,875

State Auditor's Office
John Keel, CPA
State Auditor

January 28, 2013

Dr. Brian May, President
Angelo State University
2601 West Avenue N
ASU Station #11007
San Angelo, TX 76909

Subject: Management Letter Resulting from a Review of Angelo State University's Fiscal Year 2012 Financial Statements

Dear Dr. May:

We offer this management letter in conjunction with our review of the financial statements of Angelo State University (University) as of and for the fiscal year ended August 31, 2012, on which we have issued our report dated January 28, 2013. We reviewed the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. In the course of our review, which was substantially less in scope than an audit, we did not find that material modifications needed to be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

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

Sincerely,

Nicole Guerrero

Nicole M. Guerrero, MBA, CIA, CGAP, CICA
Audit Manager

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P.O. Box 12067
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SAO Report No. 13-321

Midwestern State University

Financial Statements and
Independent Accountant's Review Report
For The Year Ended
August 31, 2012

Prepared for the Southern Association of Colleges and Schools
Commission on Colleges

Midwestern State University
Financial Report
For The Year Ended August 31, 2012
Prepared for the Southern Association of Colleges and Schools Commission on Colleges

Table of Contents

Midwestern State University

ORGANIZATIONAL DATA
August 31, 2012

THE BOARD OF REGENTS

PRESIDENT

Dr. Jesse W. Rogers

UNIVERSITY FISCAL OFFICERS

Dr. Marilyn Fowlé	Vice President for Business Affairs & Finance
Ms. Gail Ferguson	Controller

State Auditor's Office
John Keel, CPA
State Auditor

Independent Accountant's Review Report

Dr. Jesse Rogers, President
Midwestern State University
3410 Taft Boulevard
Wichita Falls, TX 76308-2099

We have reviewed the accompanying Statement of Net Assets of Midwestern State University (University) as of August 31, 2012, and the related Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows for the year then ended. A review includes primarily applying analytical procedures to the University's financial data and making inquiries of University personnel. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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

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

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

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

This report is intended for use by the board of regents of the University, 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 19, 2013

SAO Report No. 13-325

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Midwestern State University
Financial Report
For The Year Ended August 31, 2012
Prepared for the Southern Association of Colleges and Schools
Commission on Colleges

Management's Discussion and Analysis

The objective of Management's Discussion and Analysis is to help readers of Midwestern State University's financial statements better understand the financial position and operating activities of the university for the fiscal years ended August 31, 2012 and 2011.

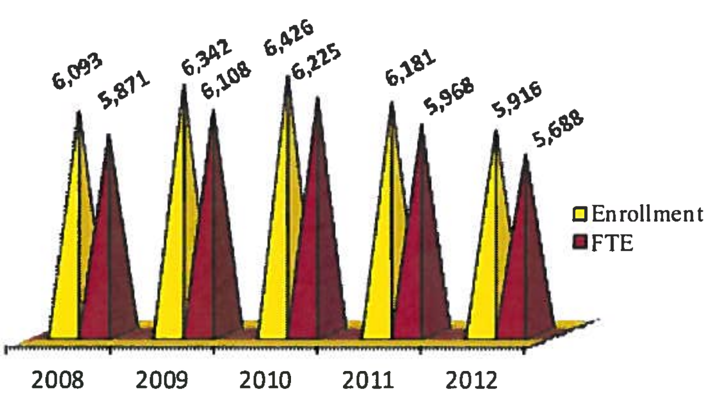
Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the university administration.

The following discussion should be read in conjunction with the accompanying transmittal letter, financial statements, and note disclosures.

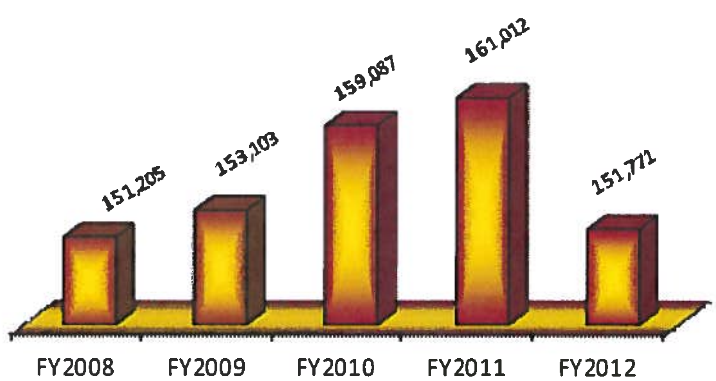
The following graph illustrates the comparison and movement of total student enrollment and full time equivalent (FTE) student growth since 2008. Increased academic standards and a statewide consistent pattern of very flat student enrollment explain the variance.

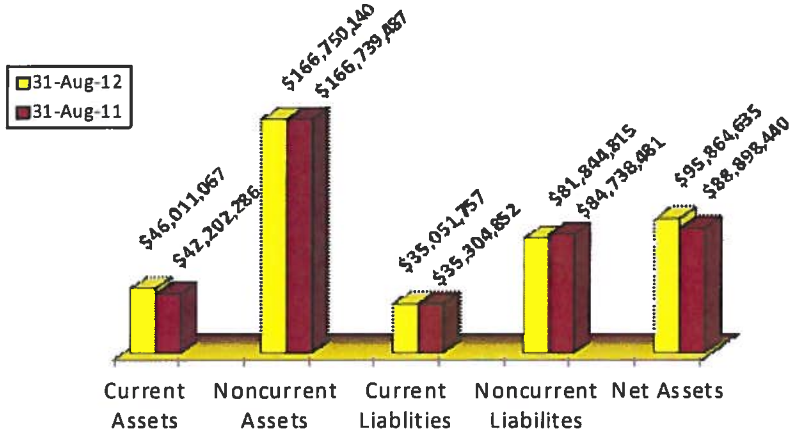
Beginning in 2006, and again in 2011, the university changed its academic standards to ensure students were prepared to pursue higher education. The increase in standards has created growth in student retention as more of our freshmen are better prepared for college which also improves graduation rates. Graduation rates may become financially important to the university as future state appropriations are contingent on such successful outcomes. In addition, the university is one of the few institutions in Texas capable of offering in-state tuition rates plus a $65/semester credit hour assessment to all US citizens, which is a great positive impact on future enrollment.

Fall Headcount vs FTE



Total Enrolled Semester Credit Hours





The Statement of Net Assets

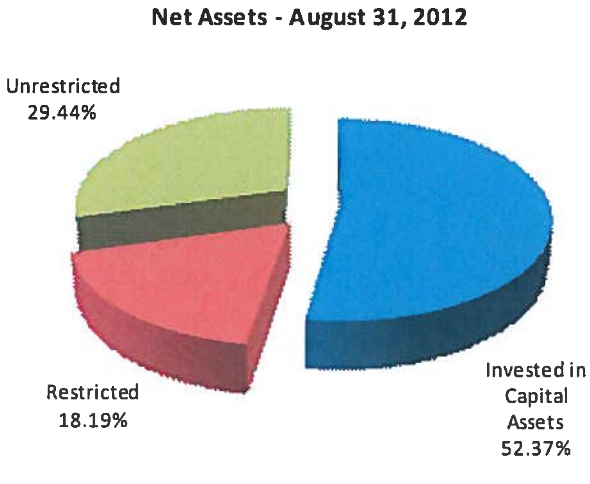
By reporting information on the university as a whole, these comparative statements highlight for the reader whether or not the year's activities strengthened or weakened the university's financial position. When revenues and other support exceed expenses, the result is an increase in net assets. The relationship between revenues and expenses may be thought of as the university's operating results.

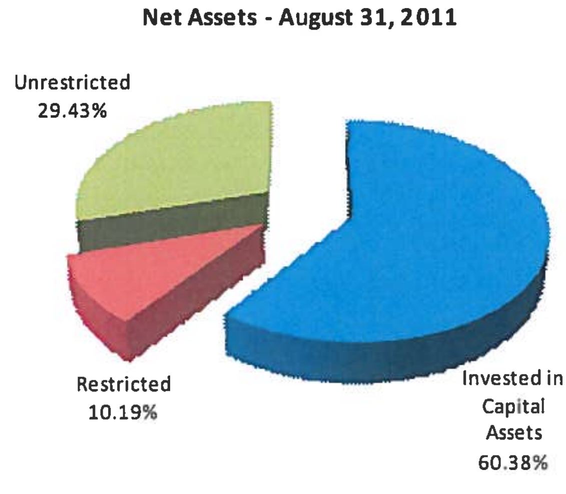
These comparative statements report the current status and changes to the university's net assets. Net assets, the difference between assets and liabilities, is one way to measure the university's financial position. Increases in net assets show an improvement in financial health while decreases often indicate declining financial stability. However, many other non-financial factors, such as the trend in admission applicants, enrollment, student retention, and condition of the buildings must be considered to accurately assess the overall health of the university.

As the statement shows below, the university's net assets increased a total of $6,966,196 from $88,898,439 in 2011 to $95,864,635 in 2012.

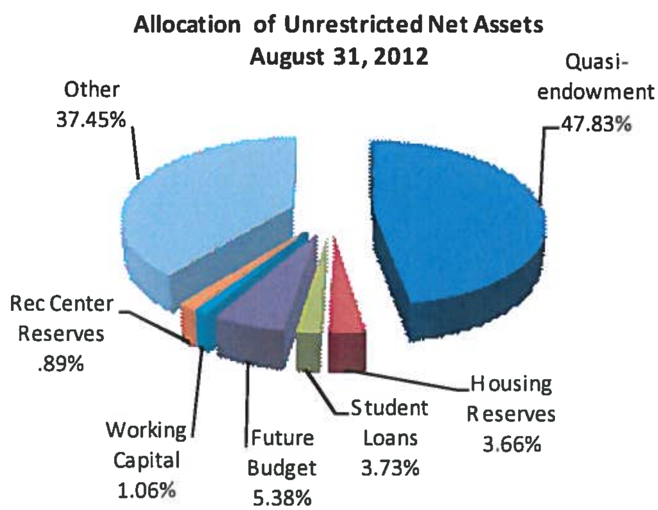
	2012	2011
Current Assets	$ 46,011,067	$ 42,202,286
Noncurrent Assets:		
Capital Assets	134,327,458	136,678,381
Other	32,422,682	30,061,106
Total Assets	$212,761,207	$208,941,773
Current Liabilities	$ 35,051,757	$ 35,304,852
Noncurrent Liabilities	81,844,815	84,738,481
Total Liabilities	116,896,572	120,043,333
Net Assets:		
Invested in Capital Assets	50,204,678	53,679,004
Restricted for:		
Nonexpendable	4,129,598	3,900,222
Expendable:		
Capital Projects	6,408,519	1,211,967
Restricted by Contributor	6,902,644	3,949,667
Unrestricted	28,219,196	26,157,580
Total Net Assets	95,864,635	88,898,440
Total Liabilities and Net Assets	$212,761,207	$208,941,773

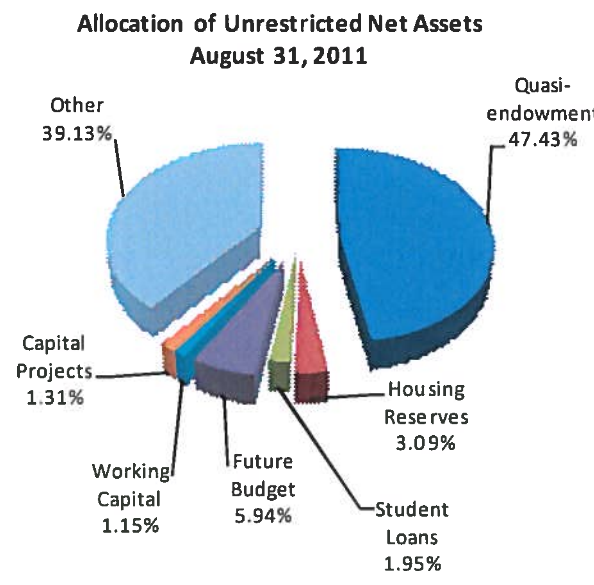
The following charts indicate the changes in net assets for the year ended August 31, 2012 as compared to the previous year.





The university reports unrestricted net assets of 29.44% of total net assets for the year ended August 31, 2012 and 29.43% for the prior year. Although unrestricted, most of these funds have been designated for specific purposes. The category of other unrestricted net assets includes encumbrances, inventories, and unallocated unrestricted net assets. The following charts show how funds have been allocated:





The University's Results of Operations

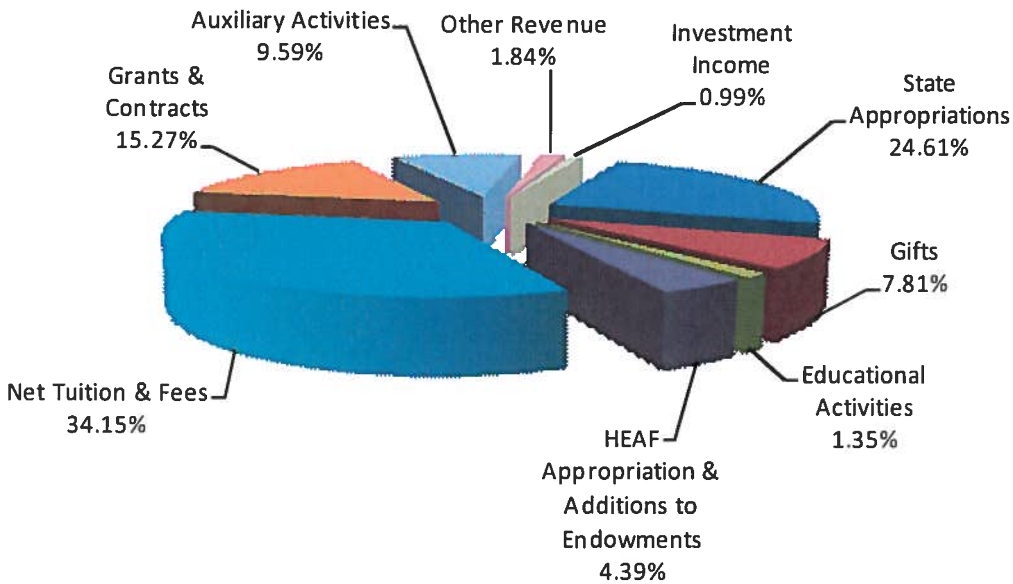
The statement of revenues, expenses, and changes in net assets reflects the university's operating results for the fiscal years ended August 31, 2012 and 2011. The comprehensive statements indicate the financial condition of the university, and comparatively analyze in what direction the university is moving. The following statements reveal the operating results of the university, as well as the non-operating revenues and expenditures. Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees, housing, and food services. Certain federal, state, and private grants are considered operating revenues if they are not for capital purposes and are considered a contract for services. Annual state appropriations, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles.

The statement below compares the operating results of the university for the years ended August 31, 2012 and 2011.

	2012	2011
Operating Revenue:		
Net tuition and fees	$ 29,393,905	$ 30,074,871
Grants and contracts	4,327,184	5,659,189
Sales and Service of Educational Activities	1,166,329	1,165,346
Sales and Services of Auxiliary Enterprises	8,257,663	8,383,510
Other	1,586,110	1,517,980
Total Operating Revenue	44,731,191	46,800,896
Total Operating Expenses	(81,183,165)	(83,918,910)
Operating Loss	(36,451,974)	(37,118,014)
Nonoperating Revenues (Expenses):		
State Appropriations	16,762,807	18,252,263
Additional State Appropriations	4,423,896	4,676,181
Federal Grants	8,814,310	10,258,814
Gifts	6,722,053	3,030,962
Other Nonoperating Revenues (Expenses)	(2,490)	6,106
Investment Income	853,372	766,675
Net Increase (Decrease) in Fair Value of Investments	1,284,638	218,119
Net Book Value of Capital Asset Disposals	(45,501)	(105,042)
Interest Expense on Capital Asset Financing	(3,575,660)	(3,813,140)
Total Nonoperating Revenue (Expense)	35,237,425	33,290,938
Income (Loss) Before Capital Contributions, Additions to Endowments, and Special Items	(1,214,549)	(3,827,076)
Capital Contributions, Additions to Endowments, & Special Items		
Capital Contributions	4,999,209	325,000
HEAF Appropriation	3,559,433	3,559,433
Additions to Endowments	221,926	567,655
Transfers In	333,347	38,787
Transfers Out	(933,170)	(903,480)
Increase (Decrease) in Net Assets	6,966,196	(239,681)
Net Assets, Beginning of Year	88,898,439	89,138,120
Assets, End of Year	$ 95,864,635	$ 88,898,439

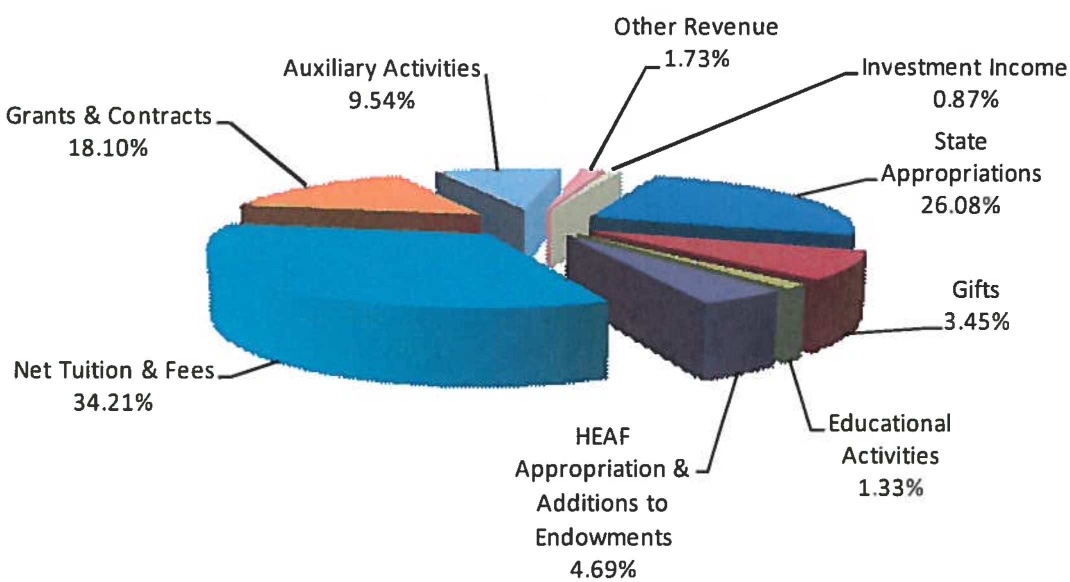
This chart identifies the components of total revenue for the year ended August 31, 2012.

Total Revenue - August 31, 2012



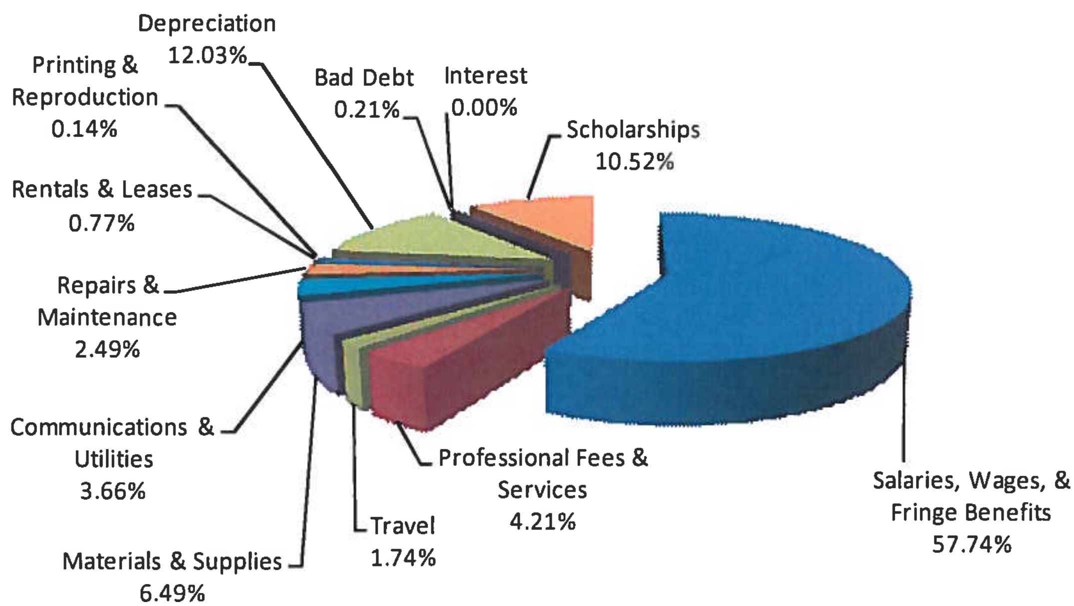
This chart reflects the same information for the year ended August 31, 2011.

Total Revenue - August 31, 2011

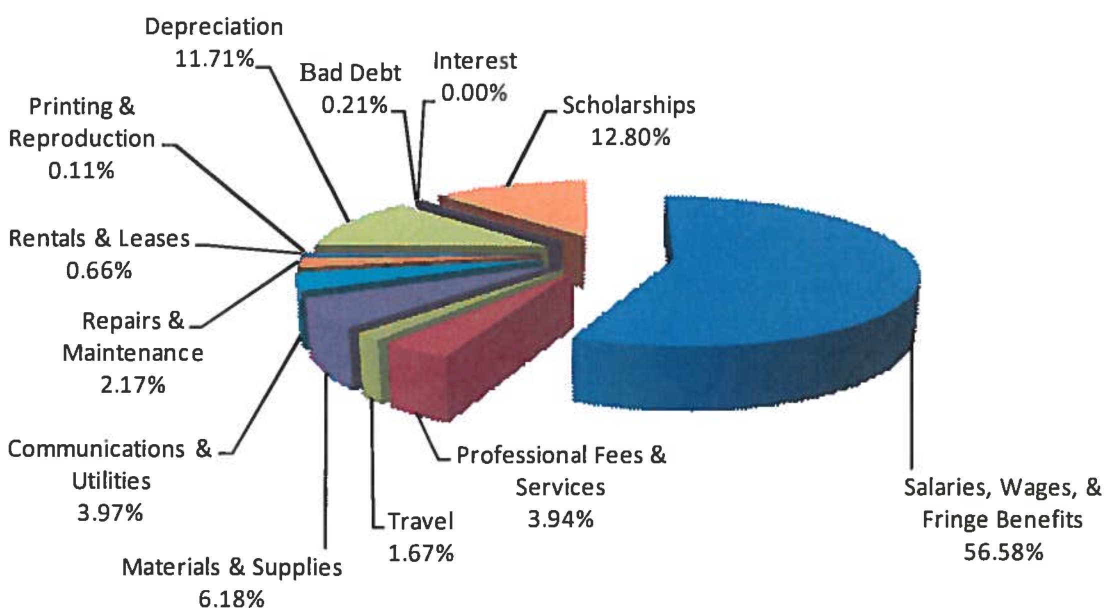


Total operating expenses for the year ended August 31, 2012 were $81,183,165 as compared to $83,918,910 for the previous year. The following charts compare the distribution of operating expenses between fiscal year 2012 and fiscal year 2011.

Total Operating Expenses - August 31, 2012



Total Operating Expenses - August 31, 2011



The University's Cash Flows

The Statement of Cash Flows represents the university's significant sources and uses of cash. It is designed to help users assess the university's ability to generate future cash flows, its ability to meet obligations as they come due, and its need for external financing.

Cash Flows

	2012	2011
Cash provided (used) by:		
Operating activities	$(27,386,904)	$(27,728,042)
Noncapital financing activities	33,830,365	35,644,381
Capital and related financing activities	(5,633,487)	(9,257,800)
Investing activities	338,775	1,970,862
Net increase (decrease) in cash	1,148,749	629,401
Cash – Beginning of year	5,687,853	5,058,452
Cash – End of year	$ 6,836,602	$ 5,687,853

There was a net increase in cash of $1,148,749.

Exhibit III, the Statement of Cash Flows, shows that the major sources of funds for operating activities are from student tuition and fees, grants and auxiliary enterprises. Tuition and fees accounted for $29.6 million, grants accounted for $4.4 million and auxiliary enterprises, including housing and dining, accounted for $8.3 million.

State appropriations in the amount of $20.9 million were the primary sources of non-capital financing. Although the university is dependent on these appropriations to continue the current level of operations, accounting standards require that this source of funding be reflected as non-operating. Other non-capital financing activities include gifts in the amount of $4.7 million, additions to endowments in the amount of $221 thousand, and $8.8 million in Federal non-operating grants.

The main uses of capital and related financing activities came from the financing of renovations to D.L. Ligon Coliseum. Cash was used to purchase capital assets in the amount of $4.6 million and for the payment of principal and interest on capital debt in the amount of $8.4 million.

Capital Assets and Debt Administration

Capital Assets

As of August 31, 2012, the university had $134.3 million invested in capital assets. This figure is net of accumulated depreciation and amortization of $107.6 million. Depreciation charges totaled $9.8 million for the current fiscal year. The category of other capital assets includes library holdings, artwork, and collections. Assets by classification are shown below:

Capital Assets Before Accumulated Depreciation

	2012	2011
Land and Land Improvements	$ 4,693,326	$ 4,693,326
Construction in Progress	3,437,691	4,054,395
Buildings and Building Improvements	183,895,384	179,063,725
Infrastructure	12,823,875	10,463,927
Facilities Improvements	6,572,510	6,353,046
Furniture and Equipment	11,543,686	11,916,954
Vehicles	1,543,521	1,471,851
Computer Software	2,165,669	2,165,669
Other Capital Assets	15,255,814	15,137,634
Total	$241,931,476	$235,320,527

Additions to assets of $12.28 million during fiscal year 2012 included: renovations to D.L. Ligon locker rooms, the Clark Student Center electrical renovation, the addition of green space between Killingsworth Hall and the Clark Student Center, renovations to Akin Auditorium, and completion of several energy conservation measures.

The construction in progress at the end of the year is the continued renovation of D.L. Ligon Coliseum, expansion of the McCoy Engineering building, and the replacement of soccer field lighting.

Further financial information about the university's capital assets is presented in Note 2 of the notes to the financial statements.

Debt

At year-end, the university had $123 million in outstanding debt. Outstanding debt for the year ended August 31, 2011 was $133 million. The table below summarizes the amount of outstanding debt by type of instrument for the year ended August 31, 2012 compared with August 31, 2011.

	2012	2011
Revenue Bonds	$ 80,365,670	$ 84,520,000
General Obligation Bonds (HEAF)	2,860,000	4,210,000
Accrued long term interest payable on bonds	40,696,829	44,506,797
Total	$ 123,922,499	$ 133,236,797

Debt repayments made during the year included principal in the amount of $4,915,000 and interest in the amount of $3,809,971.

Moody's Investor Services has assigned an A1 bond rating to the university's bonds, and Fitch has assigned an AA- rating. More detailed bond information is disclosed in Schedule 2A, 2B, 2C, 2D, and 2E.

Factors Affecting the Future of Midwestern State University

The underlying strength of Midwestern State University (MSU) continues to be the acceptance of its mission as the only designated public liberal arts university in the State of Texas. Midwestern's focused mission has been defined over a number of years but was formally accepted when the 81st Legislature designated MSU's mission clearly. The weakness of many institutions of higher education is the continuous changing of philosophy and mission as boards and administrators change. Such has not been true of MSU. This stability gives direction that allows an understanding of its past and its future.

A public liberal arts college is known by its characteristics as much as its basic philosophy that every student majoring in majors ranging from fine arts to engineering has an underlying background based on the liberal arts defined for the 21st century. These characteristics include:

- Faculty are dedicated to teaching undergraduates.
- Classes are small and students receive personal attention and mentoring.
- Students work with professors, not graduate assistants.
- Leadership and co-curricular opportunities abound.
- Emphasis is on civic engagement and service learning.
- Students participate in summer-long exchanges at member campuses and study abroad.
- Students publish their research in the online Council of Public Liberal Arts Colleges (COPLAC) undergraduate research journal.
- Students present their work at regional undergraduate research conferences.
- Students enroll in summer "study-away" seminars at member campuses.

Recent University Progress

MSU's physical plant continues to be expanded and improved in order to maintain a beautiful campus and to keep laboratories and classrooms up-to-date with current teaching methodologies and equipment. During fiscal year 2012, the university was the recipient of over $12.4 million in private gifts for new programming and campus upgrades. The planned upgrades include:

- Clearing the campus of old buildings.
- Constructing beautiful new commuter parking lots.

- Adding classroom and laboratory space to McCoy Engineering Hall
- Renovating the former Christ Academy building.
- Renovating Akin Auditorium.
- Renovating the Wichita Falls Museum of Art at Midwestern State University.
- Building a research center at the Dalquest Desert Research Site.
- Adding three laboratories to Bolin Science Hall.
- Closing streets to add walkways and landscape to various areas on campus.
- Constructing a football field house near the football practice field.
- Adding campus lighting and lighting to softball and soccer fields.

Philanthropists of this community will also make possible the expansion of programming in the sciences and engineering. The McCoy School of Engineering will add two Ph.D. qualified engineers and a new option in petroleum production engineering. The option will include courses in petroleum production and the growing field of artificial lift, which has become a major portion of petroleum engineering with the development of new petroleum recovery techniques. The College of Science and Mathematics will add a baccalaureate program in biochemistry that has been needed for some time. Midwestern State is also in the process of establishing a petroleum geology program. The fields of biology and chemistry have been moving toward the study of life processes based on the expanding knowledge of DNA and its role in living systems. Few universities of the size of MSU offer programs of this sophistication.

The university is in the process of adding faculty and equipment to expand the number of graduates in nursing, respiratory care, and radiologic sciences. The university will no longer be in the position of having to reject student applicants who are qualified to major in these fields that offer secure employment opportunities and life-long careers. A major private gift of $5 million will facilitate this expansion.

The university will expand its role as a member of the Lone Star Conference by expanding the intercollegiate athletic programs in women's track and baseball, as soon as private funds are available to construct a new baseball complex on campus.

The most important factor facing MSU continues to be national and state enrollment patterns.

<u>Enrollment</u>
The university reached a record enrollment in 2010. However, in 2011 the university experienced a dramatic decrease in enrollment but a record graduating class. This trend continued in 2012. The tightening of admission standards in 2006 resulted in fewer students requiring remedial work, increased student retention, and rapidly increasing graduation numbers. A small but more qualified entering class and increased graduation numbers have come together at an unexpected time with clear results.

In the last decade the university's support from the State of Texas has dropped from 40 percent to the current 22 percent in FY 2013. Even though state funding is critical, student tuition and fees now provide for nearly 43 percent of the university's educational budget. The declining funding through state revenues is a challenge that can only be met by increasing the total size and reach of Midwestern State. The university must increase its enrollment to 7,000 or more students within the next three or four years. This will be accomplished with a stable mission, maintaining admission standards, teaching all students rigorously, and providing students with extracurricular activities that contribute to their maturity and total educational experience. The university is fortunate to have the faculty, physical plant, equipment, and programming to attract highly qualified students in greater numbers.

The university's recruiting activities must be expanded in order to attract students from across Texas and Oklahoma. The declining student population in the traditional drawing area and the increasing graduation rate has triggered the university's implementation of a new enrollment management plan. The university plans to increase its prospect pool from 9,000 to 75,000 individuals from which to recruit qualified students to MSU.

In regard to academic programming, the university can potentially be affected by the increase in attention to low-producing programs in universities throughout Texas by the Texas Higher Education Coordinating Board. The loss of the university's physics program did, to some degree, diminish all programs of College of Science and Mathematics. However, the university will resurrect the program through a consortium effort with universities similar in size and mission through the State of Texas.

The deregulation of tuition in 2003 has been a financial boon to institutions throughout Texas. However, the state and nation now recognize the increasing number of college students coming from poverty line families. In effect, universities can expect a financially poorer student body. A premium must be placed upon competitive scholarship programs and financial aid in order for these students to receive their education in a timely manner.

MSU's Board of Regents established the Mustangs Guarantee Program. The program guarantees all students, both beginning freshmen and transfer students, a virtually free education if they come from families with an adjusted gross income of $50,000 or less. The changes in Pell grants, particularly the deletion of Pell grants from the summer semester, will make it critical for students to plan their college careers carefully. It is essential that students understand that Pell will be available for only eight long semesters. Advising of students concerning available grants and loans puts pressure on universities to provide enough personnel to work with students on an almost one-to-one basis. MSU is doing this through its Academic Success Center.

It is clear that the nation's economy will rebuild but that it will be rebuilt around high-technology manufacturing, health sciences, computer technology, and numerous other areas that will require certificates and associate and baccalaureate degrees of nearly all in the work force. Only the growing areas of low paid service positions in the hospitality and health science fields will be exempt. The nation, at this point, is made up of a population that is as much unemployable as it is unemployed. All factors must be considered in planning the match between university education and the work force now demanded and that will be demanded in the future.

Midwestern State University will continue to seek private funding to supplement tuition and fees and state funding in order to provide the rigorous education that will allow students to compete in an ever increasingly competitive job environment. It is clear that the most important funding matter before the Texas Legislature is the development of a dependable, systematic, non-politicized funding system that will allow universities to plan and prepare for expanding its enrollment and decreasing its cost through the use of modern technology.

Midwestern State University
Exhibit I
Statement of Net Assets
At August 31, 2012
See Independent Accountant's Review Report on page 4

ASSETS

Current Assets:	
Cash and Cash Equivalents (Note 3)	$ 9,390,987
Short-Term Investments (Note 3)	20,334,118
Restricted:	
Cash and Cash Equivalents (Note 3)	(2,554,385)
Legislative Appropriations	1,230,859
Loans and Contracts	17,044
Receivables, Net of Allowances:	
Federal	289,301
Other Intergovernmental (Note 8)	58,329
Interest and Dividends	58,039
Gifts	2,360,468
Student Receivables	5,297,785
Other (Note 16)	1,416,864
Consumable Inventories	257,008
Prepaid Expenses	7,854,650
Total Current Assets	46,011,067
Noncurrent Assets:	
Restricted:	
Investments (Note 3)	5,098,890
Loans and Contracts	55,812
Gifts Receivable	1,110,516
Investments (Note 3)	25,002,147
Loans and Contracts (Deferred Financing Costs)	1,155,317
Capital Assets (Note 2):	
Non-Depreciable	11,633,732
Depreciable and Amortizable	230,297,744
Less Accumulated Depreciation	(107,604,018)
Total Noncurrent Assets	166,750,140
Total Assets	$ 212,761,207

LIABILITIES

Current Liabilities	
Payables:	
Accounts	$ 1,241,142
Accrued Liabilities	159,824
Payroll	3,835,508
Due to Other State Entities (Notes 4, 8)	251,570
Deferred Revenue	23,001,118
Capital Lease Obligations (Notes 4,6)	19,202
Employees' Compensable Leave (Note 4)	179,852
Accrued Bond Interest Payable	950,878
General Obligation Bonds Payable (Notes 4,5)	1,405,000
Revenue Bonds Payable (Notes 4,5)	3,748,493
Funds Held for Others	94,645

Other Current Liabilities	164,525
Total Current Liabilities	35,051,757
Non-Current Liabilities:	
Capital Lease Obligations (Notes 4,6)	95,038
Employees' Compensable Leave (Note 4)	1,325,200
Due to Other State Entities (Note 4, 8)	2,041,489
General Obligation Bonds Payable (Notes 4,5)	1,455,000
Revenue Bonds Payable (Notes 4,5)	76,749,985
Other Non-Current Liabilities	178,103
Total Non-Current Liabilities	81,844,815
Total Liabilities	116,896,572

NET ASSETS

Invested in Capital Assets, Net of Related Debt	50,204,678
Restricted for:	
Non-Expendable	
Permanent Funds, True Endowments, Annuities	4,129,598
Expendable	
Capital Projects	6,408,519
Other	6,902,644
Unrestricted	28,219,196
Total Net Assets	95,864,635
Total Liabilities and Net Assets	$ 212,761,207

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

Midwestern State University

Exhibit II

Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended August 31, 2012
See Independent Accountant's Review Report on page 4

Operating Revenues:	
Tuition and Fees – Non-Pledged	$ 2,328,937
Tuition and Fees – Pledged	38,315,217
Discounts and Allowances	(11,250,249)
Auxiliary Enterprises - Pledged	8,257,663
Other Sales of Goods and Services – Pledged	1,166,329
Federal Revenue	1,562,468
State Grants Pass-Through from Other State Agencies	2,554,470
Other Grants and Contracts	210,246
Other Operating Revenues – Pledged	1,586,110
Total Operating Revenues	44,731,191
Operating Expenses:	
Salaries and Wages	36,795,598
Payroll Related Costs	10,076,375
Professional Fees and Services	3,391,242
Travel	1,413,283
Materials and Supplies	5,272,536
Communications and Utilities	2,974,207
Repairs and Maintenance	2,021,045
Rentals and Leases	629,113
Printing and Reproduction	110,968
Depreciation and Amortization	9,811,864
Bad Debt Expense	120,605
Interest Expense	278
Scholarships	8,537,610
Other Operating Expenses	28,441
Total Operating Expenses	81,183,165
Operating Income (Loss)	(36,451,974)
Nonoperating Revenues (Expenses):	
Legislative Appropriations	21,186,703
Gifts	6,722,053
Interest and Investment Income (Loss)	853,372
Net Increase (Decrease) in Fair Value of Investments	1,284,638
Interest Expense and Fiscal Charges	(3,575,660)
Gain (Loss) on Sale of Capital Assets	(45,501)
Other Nonoperating Revenues – Non-Pledged – Federal Grants	8,814,310
Other Nonoperating Expenses	(2,490)
Total Nonoperating Revenues (Expenses)	35,237,425

Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers	(1,214,549)
Other Revenues, Expenses, Gains (Losses), and Transfers	
Capital Contributions	$ 4,999,209
Capital Appropriations (HEAF)	3,559,433
Additions to Permanent and Term Endowments	221,926
Transfers In from Other State Entities (Note 8)	333,347
Transfers Out to Other State Entities (Note 8)	(933,170)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	8,180,745
Change in Net Assets	6,966,196
Net Assets, September 1, 2011	88,898,439
Net Assets, August 31, 2012	$ 95,864,635

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

Midwestern State University
Exhibit III
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2012
See Independent Accountant's Review Report on page 4

Cash Flows from Operating Activities:	
Proceeds from Tuition and Fees	$ 29,687,808
Proceeds From Loan Programs	29,200
Proceeds from Auxiliaries	8,320,137
Proceeds From Other Revenues	7,163,296
Payments to Suppliers for Good and Services	(17,679,140)
Payments to Employees for Salaries	(46,265,317)
Payments for Loans Provided	(278)
Payments for Other Expenses	(8,642,610)
Net Cash Provided (Used) by Operating Activities	(27,386,904)
Cash Flows from Non-Capital Financing Activities:	
Proceeds from Legislative Appropriations	20,963,446
Proceeds from Gifts	4,766,343
Proceeds from Endowments	221,926
Proceeds from Other Sources	8,811,820
Payments for Transfers to Other Entities	(933,170)
Net Cash Provided (Used) by Non-Capital Financing Activities	33,830,365
Cash Flows from Capital and Related Financing Activities:	
Proceeds from State Appropriations (HEAF)	3,559,433
Proceeds from Gifts	3,888,693
Proceeds From Capital Contributions	43,109
Payments for Additions to Capital Assets	(4,616,735)
Payments of Principal on Capital-Related Debt	(4,932,551)
Payments of Interest on Capital-Related Debt	(3,575,436)
Net Cash Provided (Used) by Capital and Related Financing Activities	(5,633,487)
Cash Flows from Investing Activities:	
Proceeds from Sales of Investments	14,072,164
Proceeds from Interest and Investment Income	719,914
Payments to Acquire Investments	(14,453,303)
Net Cash Provided (Used) by Investing Activities	338,775
Increase (Decrease) in Cash and Cash Equivalents	1,148,749
Cash and Cash Equivalents, September 1, 2011	5,687,853
Cash and Cash Equivalents, August 31, 2012	$ 6,836,602

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

Operating Income (Loss)	$ (36,451,974)
Adjustments:	
Depreciation and Amortization	9,811,864
Bad Debt Expense	120,605
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	(136,497)
(Increase) Decrease in Inventories	977
(Increase) Decrease in Prepaid Expenses	(88,650)
(Increase) Decrease in Loans and Contracts	(5,177)
Increase (Decrease) in Payables	(1,362,394)
Increase (Decrease) in Deferred Revenue	639,365
Increase (Decrease) in Other Liabilities	84,977
Total Adjustments	9,065,070
Net Cash Provided (Used) by Operating Activities	$ (27,386,904)
Non-Cash Transactions	
Net Increase (Decrease) in Fair Value of Investments	$ 1,284,638
Donated Capital Assets	30,500
Transfer In on Master Lease Purchase	333,347
Borrowing Under Capital Lease Purchase	126,387
Disposal of Capital Assets	(45,501)

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

Midwestern State University
Notes to the Financial Statements

Note 1: Summary of Significant Accounting Policies

Introduction

This report has been prepared for the use of the Southern Association of College and Schools in connection with the review of Midwestern State University for accreditation purposes. This report includes a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; a Statement of Cash Flows; and the related Notes to the Financial Statements.

Midwestern State University is a public institution of higher education and is an agency of the State of Texas. The university's Board of Regents is appointed by the Governor of the State. Accordingly, the university's financial position is in the State of Texas' Consolidated Annual Financial Report. Transactions with the State relate primarily to appropriations for operations and capital improvements and grants from various state agencies.

Basis of Presentation

The financial statements of Midwestern State University have been prepared in accordance with accounting principles generally accepted in the United States of America and follow accounting principles prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34 and No. 35, Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities, issued in June and November, 1999. The financial statements also incorporate the requirements set forth in GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which was issued by the GASB on December 30, 2010 and significantly reduces the need to rely on sources outside of the GASB's literature to locate the necessary accounting guidance for the governmental environment. The University does not apply FASB pronouncements issued after November 30, 1989 in the preparation of the accompanying financial statements.

The university follows the "business-type activities" reporting requirement of GASB Statement No. 34 that provides a comprehensive one-line look at the university's financial activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting.

Basis of Accounting--Proprietary Fund Accounting

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial positions, and cash flows. The financial statements of the university have been prepared on the accrual basis. Accrual accounting attempts to record a transaction's financial effects in the period in which the transaction occurred, rather than when cash is received or paid. Revenues are recorded when they are earned or when the university has a right to receive the revenues. Expenses are recognized when they are incurred.

There are four essential elements of accrual accounting. They are:

- Deferral of expenditures and the subsequent amortization of the deferred costs.
- Deferral of revenues until they are earned.
- Capitalization of certain expenses and the subsequent depreciation of the capitalized costs.
- The accruals of revenues that have been earned and expenses that have been incurred.

Proprietary funds use the flow of economic resources measurement focus, which is similar to the focus used by commercial entities. Proprietary funds focus on whether the enterprise is economically better off as a result of the events and transactions that occurred during the fiscal period reported. Transactions and events that improved an enterprise's financial position are reported as revenues or gains. Transactions or events that diminished the economic position of the enterprise are reported as expenses or losses. Both current and long-term assets and liabilities are shown on the statement of net assets.

The proprietary statement of revenues, expenses, and changes in net assets is segregated into operating and non-operating sections.

Generally, operating activities are those that directly result from the provision of goods and services to customers or are directly related to the principal and usual activity of an enterprise. GASB 34 indicates that a consideration for defining a proprietary fund's operating revenues and expenditures is how individual transactions would be classified for purposes of preparing a statement of cash flows according to GASB statement No. 9.

Since certain grants are actually contracts for services, they are classified as operating activities. Although loan activity would normally be classified as an investing activity, lending activities in a university are directly related to the principal and usual activity of the university, and are classified as operating activities.

Net Assets
GASB Statement No. 34 reports equity as "Net Assets" rather than "fund balance." Net assets are classified according to external donor restrictions or availability of assets for satisfaction of university obligations.

Restricted Net Assets represent amounts over which third parties have imposed restrictions that cannot be changed by the Board, including amounts that the Board has agreed to set aside under contractual agreements with third parties. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represent funds that have been gifted for specific purposes. Restricted Net Assets include the university's permanent endowments and donor restricted funds.

Unrestricted Net Assets are available for university use, and have been internally designated or reserved for specific purposes such as renewals and replacements, quasi-endowments, capital projects, student loans, budget commitments, and reserves for working capital.

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

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. Cash in the investment portfolio is not included in cash and cash equivalents as it is held for investing purposes.

Investments
The university reports investments at fair value in the Statement of Net Assets.

Restricted Assets
Restricted assets are those assets that have third party restrictions or are restricted for specific uses by a contractual obligation. Restricted assets include donor restricted funds and proceeds from bond issuances that can only be used for capital projects.

Inventories
Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost and utilize the last-in, first-out method.

Capital Assets
Property, plant and equipment are recorded at cost, or, if acquired by gift, at the fair market value as of the date of the acquisition. Depreciation is provided on physical properties on a straight-line basis over the estimated useful life of the asset.

Type of Capital Asset	Capitalization Threshold	Range of Useful Life (in months)
Land and Land Improvements	$0	0
Construction in Progress	$0	0
Buildings and Building Improvements	$100,000	120-360
Infrastructure, Depreciable	$500,000	120-540
Infrastructure, Non-Depreciable	$0	0
Facilities and Other Improvements	$100,000	120-720
Furniture and Equipment	$5,000	36-180
Vehicles, Boats, and Aircraft	$5,000	60-120
Other Capital Assets	$100,000	0-180

Other Significant Accounting Policies
Other significant accounting policies are set forth in the financial statements and the notes thereto.

Note 2: Capital Assets

	Balance 9/1/2011	Completed Construction in Progress	Additions	Deductions	Balance 8/31/2012
Non-Depreciable and Non-Amortizable Assets:					
Land and Land Improvements	$ 4,693,326				$ 4,693,326
Construction in Progress	4,054,395	$ (7,136,078)	$ 6,519,374		3,437,691
Other Capital Assets	3,480,715		22,000		3,502,715
Total Non-Depreciable Assets	12,228,436	(7,136,078)	6,541,374	0	11,633,732
Depreciable and Amortizable Assets:					
Buildings and Building Improvements	179,063,725	4,776,131	55,528		183,895,384
Infrastructure	10,463,927	2,359,947			12,823,874
Facilities and Other Improvements	6,353,046		219,464		6,572,510
Furniture and Equipment	11,916,954		323,044	$ (696,311)	11,543,687
Vehicles, Boats, and Aircraft	1,471,851		224,936	(153,267)	1,543,520
Other Capital Assets	13,822,588		158,893	(62,713)	13,918,768
Total Depreciable and Amortizable Assets at Historical Cost	223,092,091	7,136,078	981,865	(912,291)	230,297,743
Less Accumulated Depreciation and Amortization for:					
Buildings and Building Improvements	(70,773,319)		(7,546,534)		(78,319,853)
Infrastructure	(4,554,384)		(426,516)		(4,980,900)
Facilities and Other Improvements	(3,335,774)		(308,048)		(3,643,822)
Furniture and Equipment	(8,342,510)		(853,813)	635,777	(8,560,546)
Vehicles, Boats, and Aircraft	(1,047,733)		(144,344)	151,502	(1,040,575)
Other Capital Assets	(10,588,426)		(469,895)		(11,058,321)
Total Accumulated Depreciation and Amortization	(98,642,146)	0	(9,749,150)	787,279	(107,604,017)
Depreciable and Amortizable Assets, Net	124,449,945	7,136,078	(8,767,285)	(125,012)	122,693,726
Capital Assets, Net	$ 136,678,381	$ 0	$ (2,225,911)	$ (125,012)	$ 134,327,458

Midwestern State University
Notes to the Financial Statements

Note 3: Deposits, Investments, and Repurchase Agreements

Authorized Investments

Midwestern State University is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec. 2256.001 Texas Governmental Code). Such investments include:

1. Obligations to the United States or its agencies,
2. Direct obligations to the State of Texas or its agencies,
3. Obligations of political subdivisions rated not less than A by a national investment rating firm,
4. Certificates of deposit, and
5. Other instruments and obligations authorized by statute.

Bank Deposits		Carrying Amount		Bank Balance
Cash in Bank (other than Certificates of Deposit (CDs))	$	2,238,740	$	3,255,975
Add CDs included on the Statement of Net Assets in:				
Short-Term Investments (Current Assets)		7,701,342		
Investments (Non-Current Assets)		1,000,000		
Total Bank Deposits	$	10,940,082	$	3,255,975

Composition of Cash and Cash Equivalents		Carrying Amount
Cash on Hand	$	16,300
Cash in State Treasury		4,581,563
Total Bank Deposits (per above)		10,940,082
Less CDs included on the Statement of Net Assets in:		
Short-Term Investments - Current Assets (per above)		-7,701,342
Investments - Non-Current Assets (per above)		-1,000,000
Total Cash and Cash Equivalents	$	6,836,603

Cash and Cash Equivalents per Statement of Net Assets		Carrying Amount
Cash and Cash Equivalents - Current Assets	$	9,390,987
Cash and Cash Equivalents - Current Assets, Restricted		-2,554,385
Total Cash and Cash Equivalents per Statement of Net Assets	$	6,836,602

Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that, in the events of the failure of a depository financial institution, the university will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The university's policies and State Statute require the university's deposits be deposited into authorized commercial banks and savings and loan associations. The University's investment policy states that credit and interest rate risk will be monitored and measured on a quarterly basis (Policy 4.182). State statutes also require that these financial institutions pledge securities as collateral to secure university deposits if they are not fully insured by FDIC.

Midwestern State University
Notes to the Financial Statements

The university's bank balance at August 31, 2012 was $3,255,974.70. The entire amount was covered under the Dodd-Frank Deposit Insurance provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act which provides that all funds in a non-interest bearing transaction account are insured in full by the FDIC from December 31, 2010, through December 31, 2012. This temporarily unlimited coverage is in addition to, and separate from, the coverage of at least $250,000 available to depositors under the FDIC's general deposit insurance rules.

INVESTMENTS - At August 31, the fair value of the university's investments is presented below:

Investments at Quoted Market Values:		
U. S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, etc.)	$	10,149,222
Corporate Obligations		2,190,505
Domestic Equity		8,714,597
Alternative Investments		401,478
Investments at Amortized Cost:		
Fixed Income Money Market and Bond Mutual Fund		6,436,964
Investments Valued at Net Asset Value (NAV) per Share:		
Other Commingled Funds (includes TexPool and similar gov't investment pools)		13,841,047
Total Investments, per Investments note disclosure	$	41,733,813

Reconciliation of Investments per Note Disclosure to Investment Accounts on the Statement of Net Assets

Total Investments, per above disclosure	$	41,733,813
Add CDs included on the Statement of Net Assets in:		
Short-Term Investments - Current Assets (per the Deposits note disclosure)		7,701,342
Investments - Non-Current Assets (per the Deposits note disclosure)		1,000,000
Total Investment Accounts on the Statement of Net Assets	$	50,435,155

Investment Accounts on the Statement of Net Assets		
Current Assets – Short-Term Investments	$	20,334,118
Current Assets – Restricted Short-Term Investments		
Non-Current Assets – Restricted Investments		5,098,890
Non-Current Assets – Investments		25,002,147
Total Investments per Statement of Net Assets	$	50,435,155

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of August 31, 2012, the university's credit quality distribution for securities with credit risk exposure was as follows:

Investment Type	**AAA**	**AAAm**	**A**	**BBB**
U.S. Government Agency Obligations (FNMA, FHLB, FFCB, FHLMC)	$10,149,222			
Corporate Bonds			$ 1,083,406	$1,107,099
Comingled Funds—Texpool & LOGIC		$11,558,883		

Investment Type	**BB**	**B**	**Collateralized**	**Not Rated**
Other Comingled Funds—Goldman Sachs				$201,326
Other Money Market				5,431,990

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2012, the university's concentration of credit risk is immaterial to any single issuer.

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a debt investment to changes arising from movements in interest rates. Duration is the weighted average maturity of an instrument's cash flows, where the present value of the cash flows serves as the weight. The duration of an instrument can be calculated by first multiplying the time until receipt of cash flow by the ratio of the present value of that cash flow to the instrument's total present value. The sum of these weighted time periods is the duration of the instrument. Modified duration estimates the sensitivity of the university's investments to changes in interest rates.

The university's investments exposed to interest rate risk as of August 31, 2012, were as follows:

Investment Type	Fair Value	Modified Duration
U.S. Government Agency Obligations	$ 10,149,222	3.52
Corporate Bonds	$ 2,190,505	3.21

Note 4: Summary of Long-Term Liabilities

Changes in Long-Term Liabilities
During the year ended August, 31, 2012, the following changes occurred in liabilities:

	Balance 9/1/2011	Additions	Reductions	Balance 8/31/2012	Amounts Due Within 1 Yr	Non-Current Amounts
Revenue Bonds Payable	$ 83,845,321	$ 85,348	$ 3,565,000	$ 80,365,669	$ 3,705,000	$ 76,660,669
Unamortized Premium on Revenue Bonds	423,277		43,904	379,373	55,837	323,537
Unamortized Discount on Revenue Bonds	-258,910		-12,344	-246,566	-12,344	-234,222
Subtotal	84,009,688	85,348	3,596,560	80,498,476	3,748,493	76,749,984
General Obligation Bonds Payable	4,210,000		1,350,000	2,860,000	1,405,000	1,455,000
Capital Lease Obligations		126,387	12,147	114,240	19,202	95,038
Employees' Compensable Leave	1,433,356	193,544	121,847	1,505,053	179,852	1,325,201
Notes and Loans Payable		2,352,252	59,192	2,293,060	251,570	2,041,490
Liabilities Payable from Restricted Assets				0		0
Total	$ 89,653,044	$ 2,757,531	$ 5,139,746	$ 87,270,829	$ 5,604,117	$ 81,666,713

Employees' Compensable Leave

Benefit eligible staff and 12-month faculty members can earn annual leave from eight to twenty-one hours per month depending on the respective employee's years of state employment. The State's policy is that an employee may carry his accrued leave forward from one fiscal year to another fiscal year with a maximum of hours up to 532 for those employees with thirty-five or more years of state service. A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, separation from State employment, or transfer to a position that no longer accrues vacation, provided the employee has had continuous employment with the State for six months. For proprietary fund types an expense and liability are recorded as the benefits accrue to the employee. The liability is determined through the summarization of each employee's annual leave balance multiplied by their respective salary rate. The estimated cumulative amount of this liability is $1,505,053. The University made lump sum payments totaling $121,847 for accrued vacation to employees who separated from state service during the fiscal year ended August 31, 2012, and payments of $119,997 for August 31, 2011.

The University has an undetermined and unrecorded liability for employee's earned sick leave. Sick leave accumulation of which is unlimited, 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 that may be paid 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. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

NOTES AND LOANS PAYABLE - Debt Service Requirements to Maturity

SECO Loan

Year		Total Principal		Total Interest
2013	$	251,570	$	44,220
2014		256,384		39,157
2015		261,551		33,990
2016		266,821		28,719
2017		272,197		23,343
2018-2022		984,536		57,776
Total	$	2,293,059	$	227,205

The SECO note payable is due to the State Energy Conservation Office for federal funds provided by the American Recovery and Reinvestment Act. These funds were used to complete numerous energy conservation projects to both campus infrastructure and buildings.

Note 5: Bonded Indebtedness

GENERAL OBLIGATION BONDS PAYABLE

Constitutional Approp. Bonds Series 2004 Year		Total Principal		Total Interest
2013	$	1,405,000	$	79,150
2014		1,455,000		27,281
Total	$	2,860,000	$	106,431

REVENUE BONDS PAYABLE

Year		Total Principal		Total Interest
2013	$	3,705,000	$	3,540,751
2014		3,860,000		3,391,764
2015		4,025,000		3,228,815
2016		3,920,000		3,058,974
2017		4,080,000		3,778,425
2018-2022		19,635,000		11,285,369
2023-2027		17,865,000		7,867,460
2028-2032		16,625,000		3,912,363
2033-2037		7,240,000		526,475
Total	$	80,955,000	$	40,590,396

Revenue Bond Series	Total Principal	Total Interest
2002	$5,510,000	$1,422,963
2003	$7,925,000	$2,408,744
2007	$24,605,000	$10,188,741
2008	$36,365,000	$22,348,096
2010	$6,550,000	$4,221,852
Total	**$80,955,000**	**$40,590,396**

Total Bonds Outstanding at 08/31/12	83,815,000
Less Unamortized Accretion	(589,330)
Bonds Outstanding, Net of Unamortized Accretion on Capital Appreciation Bond	83,225,670
Unamortized Discount on 2007 Revenue Bonds	(246,566)
Unamortized Premium on 2008 Revenue Bonds	379,373
Net Bonds Outstanding at 08/31/12	**83,358,477**

Revenue Bonds Payable
General information related to Revenue Financing System bonds is summarized as follows:

Revenue Financing System Revenue Bonds, Series 2002
· Issued by the Texas Public Finance Authority (TPFA) on behalf of the University. To pay for campus improvements in heating, ventilating and air conditioning systems; chilled water distribution; street drainage and paving; and other projects including Americans with Disabilities Act (ADA) accessibility, elevator improvements, safety, and security lighting
· Issued June 15, 2002
· $8,965,000; all bonds authorized have been issued
· Revenue Bond
· Business-Type Activities
· Source of revenue for debt service – Pledged Revenues, consisting of unrestricted current funds revenues and unappropriated fund balances available, but not including remissions, governmental appropriations and gifts, grants and contracts, Higher Education Assistance Funds, and student service fees and private gifts

Revenue and Refunding Bonds, Series 2003
· Issued by the Texas Public Finance Authority (TPFA) on behalf of the University. To pay for improving, enlarging and/or equipping university residence halls, including fire safety improvements and other general modernization improvements, and advance refunding Building Revenue and Refunding Bonds, Series 1996
· Issued August 1, 2003
· $13,180,000; all bonds authorized have been issued
· Revenue Bond
· Business-Type Activities
· Source of Revenue for Debt Service – Pledged Revenues, consisting of unrestricted current funds revenues and unappropriated fund balances available, but not including remissions, governmental appropriations and gifts, grants and contracts, Higher Education Assistance Funds, student service fees and private gifts

Midwestern State University
Notes to the Financial Statements

Revenue and Refunding Bonds, Series 2007

· Issued by the Texas Public Finance Authority (TPFA) on behalf of the University.
· To pay for constructing, equipping and furnishing a student recreation and health facility; improving, renovating, enlarging and/or equipping Fowler Hall; improving, renovating, enlarging and/or equipping D.L. Ligon Coliseum; and refunding a portion of the outstanding Revenue Refunding and Improvement Bonds, Series 1998
· Issued August 1, 2007
· $28,855,000; all bonds authorized have been issued
· Revenue Bond
· Business-Type Activities
· The discount on the bonds is being amortized on a straight-line basis over the life of the debt.
· Source of Revenue for Debt Service – Pledged Revenues, consisting of revenues, incomes, receipts, rentals, rates, charges, fees, and tuition levied or collected from any public or private source, including interest or other income from those funds and unrestricted fund and reserve balances available, but not including remissions, governmental appropriations and gifts, grants and contracts, Higher Education Assistance Funds, student service fees and private gifts.
· The discount on the bonds is being amortized on a straight line basis over the life of the debt.

Revenue Financing System Revenue Bonds, Series 2008

· Issued by the Texas public Finance Authority (TPFA) on behalf of the University. To pay for constructing, equipping and furnishing an additional student housing facility; purchasing an existing student housing facility; improving, renovating, enlarging and/or equipping D.L. Ligon Coliseum; constructing, equipping and furnishing an instrumental music facility
· Issued July 1, 2009
· $38,300,136; all bonds authorized have been issued
· Revenue Bond
· Business-Type Activities
· Source of Revenue for Debt Service – Pledged Revenues consisting of Unrestricted Current Funds Revenues but do not include: remissions, governmental appropriations and gifts, grants and contracts within the Educational and General Fund Group; Higher Education Assistance Funds; and, student service fees and private gifts in the Auxiliary Fund Group
· The Bonds are issued in part as current interest bonds, $37,955,000, and in part as premium capital appreciation bonds, $345,136

Midwestern State University
Notes to the Financial Statements

Premium Capital Appreciation Bonds			Unamortized Premium on CAB			Combined Totals
Beginning Principal Amount		(530,322)	Beginning Premium		(423,277)	(953,598)
Amortization Entries FY12		(85,348)	Amortization Entries	FY12	43,904	(41,445)
Balance at Year End		(615,670)	Balance at Year End		(379,373)	(995,043)
Future Entries:	FY13	(99,084)	Future Entries:	FY13	55,837	(43,247)
	FY14	(115,031)		FY14	69,903	(45,127)
	FY15	(133,543)		FY15	86,457	(47,087)
	FY16	(155,035)		FY16	105,902	(49,133)
	FY17	(86,637)		FY17	61,274	(25,363)
		(589,330)			379,373	(209,957)
Maturity Value		(1,205,000)			0	(1,205,000)

Revenue Financing System Revenue Bonds, Series 2010

· Issued by the Texas public Finance Authority (TPFA) on behalf of the University. To pay for improving, renovating, enlarging and/or equipping the University's existing D.L. Ligon Coliseum
· Issued April 1, 2010
· $6,700,000; all bonds authorized have been issued
· Revenue Bond
· Business-Type Activities
· Source of Revenue for Debt Service – Pledged Revenues consisting of Unrestricted Current Funds Revenues but do not include: remissions, governmental appropriations and gifts, grants and contracts within the Educational and General Fund Group; Higher Education Assistance Funds; and, student service fees and private gifts in the Auxiliary Fund Group

General information related to the Constitutional Appropriation bonds is summarized below:

Constitutional Appropriation Bonds, Series 2004

· Issued by the Board of Regents of Midwestern State University. The proceeds of the Bonds are to be used to construct a Business Administration classroom building for use by students of the University
· Issued August 1, 2004
· $11,185,000; all bonds authorized have been issued
· General Obligation Bonds
· Business-Type Activities
· Source of Revenue for Debt Service – Payable and secured solely from a first lien on and pledge of up to one-half of the annual appropriation for and on behalf of the University, from the State Treasury pursuant to the Constitutional Provision and "The Excellence in Higher Education Act."

Note 6: Capital Leases

The University has entered into long-term leases for financing the purchase of certain capital assets. Such leases are classified as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments at the inception of the lease. Future minimum lease payments, together with the present value of the net minimum lease payments at the fiscal year-end, are as follows:

DEBT SERVICE REQUIREMENTS TO MATURITY

Year Ended August 31,		Total	Principal	Interest
2013	$	26,519	19,202	7,317
2014		26,520	20,577	5,943
2015		76,540	74,461	2,079
Total Minimum Lease Payments	$	129,579	114,240	15,339
Less: Amount Representing Interest at Various Rates		-15,339		
Present Value of Net Minimum Lease Payments	$	114,240		

The following is a summary of original capitalized costs of all such property under lease as well as the accumulated depreciation as of August 31, 2012:

ORIGINAL CAPITALIZED COSTS OF ASSETS UNDER CAPITAL LEASE OBLIGATIONS

		Assets under Capital Lease		Accumulated Depreciation	Total
Vehicles	$	132,036	$	(16,289)	$115,747
Total	$	132,036	$	(16,289)	$115,747

Note 7: Operating Leases

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

Year Ended August 31,		Total
2013	$	120,285
2014		86,272
2015		64,718
2016		37,927
2017		21,222
Total Minimum Future Lease Payments	$	330,424

Note 8: Interagency Balances/Activity

DUE FROM/TO OTHER STATE ENTITIES

Entity		Due from Other State Entities		Due to Other State Entities	Purpose
Texas Department of Motor Vehicles D23 Fund 5015	$	236	$		Texas Collegiate License Plate Fund
Texas Tech University D233 Fund 7999		55,664			Small Business Development Center
Stephen F. Austin University D23 Fund 7999		2,429			Stateview Program Development
State Energy Conservation Office D23 Fund 7999				251,570	SECO Federal Revolving Loan
State Energy Conservation Office D23 Fund 7999 (Non-Current)				2,041,489	
	$	58,329	$	2,293,059	

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 D23 Fund 5103	$		$	299,543	Texas B-On-Time Loan Program
Texas Higher Education Coordinating Board D23 Fund 0264				945	Dental Hygienist Degree or Certification Program
Texas Public Finance Authority D23 Fund 7999				632,683	Master Lease Purchase Payment
Texas Public Finance Authority D23 Fund 7999		333,347			Master Lease Purchase Payment
	$	333,347	$	933,171	

Note 9: Risk Financing and Related Insurance

The university is exposed to a variety of civil claims resulting from the performance of its duties. It is the university's policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed. Currently there is no purchase of commercial general liability insurance for the university. The University participates in the statewide property insurance program and purchases educators legal liability insurance.

The university's liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated. At August 31, 2012, there were no known claim liabilities.

The State provides coverage for workers' compensation and unemployment benefits from appropriations made to other state agencies for university employees. The university was assessed $101,258 and $79,062 for worker's compensation coverage for fiscal years ending August 31, 2011 and 2012, respectively. Unemployment compensation is funded on a pay as you go method, with the State contributing ½ of the cost of benefits and the university contributing the other half for employees paid by State appropriated funds. The university must pay 100% of the cost of benefits for employees paid from local funds.

The Texas Motor Vehicle Safety Responsibility Act requires that every non-governmental vehicle operated on a state highway be insured for minimum limits of liability in the amount of $30,000/$60,000 bodily injury and $25,000 property damage. However, the university has chosen to carry liability insurance on its licensed vehicles in the amount of $250,000/$500,000/$100,000 with a combined single limit of $1,000,000 if the Texas Tort Claims Act is not applicable.

Note 10: Subsequent Events

The University issued $4,710,000 of Revenue Financing System Revenue Refunding Bonds, Series 2012A and $5,415,000 Revenue Financing System Revenue Refunding Bonds, Series 2012B to refund $4,600,000 of the Revenue Financing System Revenue Bonds, Series 2002 and the $4,945,000 of the Revenue Financing System Revenue and Refunding Bonds, Series 2003 on October 9, 2012. The refunding was undertaken to reduce total debt service payments by $1,313,344 that will result in an economic gain of $1,059,634.

While the university does not expect any additional state resources for capital construction from state appropriations for the next biennium, the generous support of donor contributions will provide funding for capital construction needs for the next two years. Short-term capital projects include razing of several old facilities to accommodate new parking and the expansion of the Engineering Building to add additional classrooms and class labs.

A $40 million request has been submitted to the state to renovate the library to accommodate the West college of Education and Information Technology. Such construction is dependent on authorization from the Texas State Legislature for tuition revenue bonds. The current outlook for the authorization for this funding is not strong given the current unfunded demands on the state budget.

Note 11: Related Parties

The University is an agency of the State of Texas. The ten members of its Board of Regents are appointed by the Governor, and include one non-voting student Regent. The University has no component units or joint ventures; however, there are two related parties described below. The two related parties operate independently of the University. The University has no access to their assets or responsibility for their respective liabilities.

The Midwestern State University Foundation and MSU Charitable Trust are nonprofit organizations with the sole purpose of supporting the educational and other activities of the University. The Foundation solicits donations and acts as coordinator of gifts made by other parties. The Foundation remitted restricted gifts of $1,025,884 to the University during the year ended August 31, 2012, and $611,378 for the prior year. The MSU Charitable Trust remitted restricted gifts of $874,318 to the University during the year ended August 31, 2012 and $460,070 for the prior year. The assets of the Midwestern State University Foundation and the MSU Charitable Trust as of August 31, 2012 are reported by their trustees in the amount of $16,812,235 and $24,012,296, respectively.

Note 12: Employee Retirement Plans

Teacher Retirement System Pension Plan

The State of Texas has joint contributory retirement plans for substantially all of its employees. One of the primary plans in which the University participates is a cost-sharing multiple-employer defined benefit pension plan administered by the Teacher Retirement System of Texas. Participating employers in the TRS Plan include public schools, service centers, charter schools, and 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 the Texas Government Code, Chapter 824. Benefits include retirement and disability annuities and death 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% 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, 2012, the statutorily required contribution rate was 6.4% of annual compensation from active plan members and 6% of annual compensation from the University.

The Teacher Retirement System does not separately account for each of its component government agencies because the Teacher Retirement System itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. Further information regarding actuarial assumptions and conclusions, together with audited financial statements, are included in the Teacher Retirement System's annual financial report.

Optional Retirement Program

The state has established an Optional Retirement Program (ORP) for institutions of higher education. Participation in ORP is in lieu of participation in the Teacher Retirement System and is available to certain eligible employees. The ORP is authorized by the 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. The ORP provides for the purchase of annuity contracts and mutual funds. The contributory percentages of participant salaries provided by the State and by each participant enrolled in the plan on or before August 31, 1995, are 8.5% and 6.65%, respectively. The 8.5% is composed of 6.4% contributed by the State and an additional 2.1% contributed by the University. For participants who enrolled after September 1, 1995, State and participant contributions are 6%, and 6.65%, respectively. Because there are individual annuity contracts, the State has no additional or unfunded liability for this program, and the University bears no responsibility for retirement commitments beyond contributions.

The contributions made to the ORP by the plan members and employer for the fiscal year ended August 31, 2012 compared to the previous year, are shown below:

	Year Ended August 31, 2012	Year Ended August 31, 2011
Member Contributions	$1,105,506	$1,148,451
Employer Contributions	1,178,576	1,270,927
Total Remittance	$2,284,082	$2,419,378

Note 13: Deferred Compensation

The university's Board of Regents approved a non-qualified deferred compensation plan for the university President which provided for $2,500.00 per month to be set-aside for the President for thirty-six months, ending August 31, 2011, at which time the President received the full distribution of the $91,547.00 balance of the Deferred Compensation Account. A second non-qualified deferred compensation plan was approved by the Board of Regents, which provided for $1,250.00 per month to be set-aside for the President for twelve months beginning September 1, 2010 and ending August 31, 2011, at which time the amount of $3,750.00 per month would be set aside for the President for twenty-four months, ending August 31, 2013. The balance of this account at August 31, 2012 was $60,458.53.

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, Sec 609.001. Deferred compensation plans are administered by the Employees Retirement System.

The State's 457 Plan complies with Internal Revenue Code, Section 457. This plan is referred to as the TexaSaver Deferred Compensation Plan and is available to all employees. Deductions, purchased investments, and earnings attributed to the 457 Plan are the property of the State and subject only to the claims of the State's general creditors. Participant rights under the plan are equal to those of the general creditors of the State in an amount equal to the fair market value of the 457 account for each participant. Neither the State nor the University has a liability under the 457 Plan, and it is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.

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

Note 14: Donor-Restricted Endowments

The university is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA), Property Code Chapter 163. UPMIFA allows the university to distribute net appreciation on donor restricted endowment investments to the extent prudent. This includes cumulative realized and unrealized appreciation in the fair market value of the endowment assets in excess of historical dollar value of the gifts.

For the fiscal year ended August 31, 2012, the net appreciation on investments of donor restricted endowments available for authorization of expenditure, after distributions, is as follows:

Donor-Restricted Endowment	Amounts of Net Appreciation	Reported in Net Assets
Term Endowments	$ 421,028	Restricted for Nonexpendable

Note 15: Post-Employment 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 2012.

Maximum Monthly Employer Contribution for Retiree OPEB For the fiscal year ended August 31, 2012	
Level of Coverage	**Amount ($)**
Retiree Only	$ 438.30
Retiree and Spouse	689.04
Retiree and Children	606.20
Retiree and Family	856.94

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, 2012, 2011, and 2010, included in amounts reported as Payroll Related Costs, were $1,279,933.20, $1,178,675.22, and $1,019,746.08 respectively, which equaled the required contributions each year.

Note 16: Disaggregation of Receivable and Payable Balances

The components of Other Receivables, as reported in the Statement of Net Assets, are as follows:

Accounts Receivable Category	Current Amount	
3rd Party Contracts on Student Receivables	$	980,271
Non-Student Receivables from Other Agencies		256,980
MSU Foundation Receivable		115,000
Barnes and Noble Bookstore Receivable		49,622
Employee Travel Advances		10,219
Payroll Advances and Receivables		2,704
Miscellaneous Receivables		2,068
Total	**$**	**1,416,864**

Of these amounts, there are no significant receivable balances that the University does not expect to collect within the next fiscal year.

State Auditor's Office
John Keel, CPA
State Auditor

February 19, 2013

Dr. Jesse Rogers, President
Midwestern State University
3410 Taft Boulevard
Wichita Falls, TX 76308-2099

Subject: Management Letter Resulting from a Review of Midwestern State University's Fiscal Year 2012 Financial Statements

Dear Dr. Rogers:

We offer this management letter in conjunction with our review of the financial statements of Midwestern State University (University) as of and for the fiscal year ended August 31, 2012, on which we have issued our report dated February 19, 2013. We reviewed the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. In the course of our review, which was substantially less in scope than an audit, we did not find that material modifications needed to be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

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

Sincerely,

Nicole M. Guerrero

Nicole M. Guerrero, MBA, CIA, CGAP, CICA
Audit Manager

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Texas A&M University

Financial Statements

For the Fiscal Year Ended August 31, 2012

Contents

State Auditor's Office
John Keel, CPA
State Auditor

Independent Accountant's Review Report

Dr. R. Bowen Loftin, President
Texas A&M University
1246 TAMU
College Station, TX 77843-1246

We have reviewed the accompanying Statement of Net Assets of Texas A&M University (University), including Texas A&M University at Galveston, as of August 31, 2012, and the related Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows for the year then ended. A review includes primarily applying analytical procedures to the University's financial data and making inquiries of University personnel. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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

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

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

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

April 1, 2013

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SAO Report No. 13-330

Texas A&M University, including Texas A&M University at Galveston
Statement of Net Assets
August 31, 2012
(See Independent Accountant's Report on Page 1)

ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 3)	$	222,828,373
Restricted:		
Cash and Cash Equivalents (Note 3)		22,611,980
Legislative Appropriations		76,077
Receivables, Net of Allowances:		
Federal (Note 18)		13,297,237
Gifts (Note 18)		21,775,577
Other (Note 18)		58,774,725
Due from Other State Entities (Note 8)		81,832,483
Consumable Inventories		13,422,536
Merchandise Inventories		3,163,325
Loans and Contracts		13,076,965
Other Current Assets		48,275,290
Total Current Assets	$	499,134,568
Non-Current Assets		
Restricted:		
Investments (Note 3)	$	408,199,196
Gifts Receivable		58,519,674
Investments (Note 3)		847,355,352
Loans and Contracts		18,911,409
Capital Assets (Note 2):		
Non-Depreciable		138,239,522
Depreciable and Amortizable		2,989,416,309
Less: Accumulated Depreciation and Amortization		(1,655,226,278)
Total Non-Current Assets	$	2,805,415,184
Total Assets	$	3,304,549,752
LIABILITIES		
Current Liabilities		
Payables:		
Accounts (Note 18)	$	22,634,896
Payroll (Note 18)		44,394,313
Other (Note 18)		8,430,134
Due to Other State Entities (Note 8)		26,475,214
Deferred Revenue		269,649,447
Capital Lease Obligations (Notes 4, 6)		385,536
Employees' Compensable Leave (Note 4)		4,005,797
Funds Held for Others (Note 4)		8,794,229
Other Current Liabilities (Note 4)		10,587,203
Total Current Liabilities	$	395,356,769
Non-Current Liabilities		

Due to Other State Entities (Note 8)	$	2,340,088
Capital Lease Obligations (Notes 4, 6)		1,834,227
Employees' Compensable Leave (Note 4)		42,726,695
Other Non-Current Liabilities (Note 4)		19,389,500
Total Non-Current Liabilities	$	66,290,510
Total Liabilities	$	461,647,279
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$	1,453,240,053
Restricted for:		
Non-Expendable		
Permanent Funds, True Endowments, Annuities		223,684,263
Expendable		
Capital Projects		80,885,333
Education		113,956,425
Term Endowments		65,229,891
Unrestricted		905,906,508
Total Net Assets	$	2,842,902,473

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

Texas A&M University, including Texas A&M University at Galveston
Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended August 31, 2012
(See Independent Accountant's Report on Page 1)

OPERATING REVENUES		
Tuition and Fees - Non-Pledged	$	16,509,989
Tuition and Fees - Pledged		480,056,484
Discounts and Allowances		(105,100,578)
Auxiliary Enterprises - Pledged		178,745,601
Discounts and Allowances		(14,735,468)
Other Sales of Goods and Services - Non-Pledged		6,161,452
Other Sales of Goods and Services - Pledged		101,883,900
Interest Revenue		1,574,950
Federal Revenue		88,052,461
State Grant Revenue		29,071,885
Other Operating Grant Revenue		103,049,228
Other Operating Revenues		19,270,874
Total Operating Revenues	$	904,540,778
OPERATING EXPENSES		
Cost of Goods Sold	$	14,796,417
Salaries and Wages		651,340,133
Payroll Related Costs		133,406,489
Professional Fees and Services		71,812,671
Travel		28,986,965
Materials and Supplies		84,629,732
Communications and Utilities		68,127,149
Repairs and Maintenance		51,423,449
Rentals and Leases		20,156,060
Printing and Reproduction		4,176,821
Depreciation and Amortization		112,006,284
Bad Debt Expense		42,148
Interest Expense		17,518
Scholarships		62,003,472
Other Operating Expenses		46,019,907
Total Operating Expenses	$	1,348,945,215
Operating Income (Loss)	$	(444,404,437)
NONOPERATING REVENUES (EXPENSES)		
Legislative Appropriations	$	299,465,049
Federal Revenue		37,633,142
Gifts		75,991,683
Interest and Investment Income (Loss)		20,911,823
Investing Activities Expense		(2,019,351)
Net Increase (Decrease) in Fair Value of Investments		30,336,366
Land Income		1,082,267
Interest Expense and Fiscal Charges		(217,763)

Gain (Loss) on Sale of Capital Assets		112,180
Claims and Judgments		(1,971)
Other Nonoperating Revenues - Non-Pledged		646,379
Other Nonoperating Revenues - Pledged		391,323
Other Nonoperating Expenses		(10,971,971)
Total Nonoperating Revenues (Expenses)	$	453,359,156
Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers	$	8,954,719
OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS		
Capital Contributions	$	613,406
Additions to Permanent and Term Endowments		1,525,579
Transfers In from Other State Entities (Note 8)		433,894,430
Transfers Out to Other State Entities (Note 8)		(98,941,119)
Legislative Transfers Out (Note 8)		(6,564,726)
Legislative Appropriations Lapsed		(113)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	$	330,527,457
CHANGE IN NET ASSETS	$	339,482,176
Net Assets, September 1, 2011	$	2,504,992,469
Restatements (Note 13)		(1,572,172)
Net Assets, September 1, 2011, as Restated	$	2,503,420,297
NET ASSETS, August 31, 2012	$	2,842,902,473

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

Texas A&M University, including Texas A&M University at Galveston
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2012
(See Independent Accountant's Report on Page 1)

CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Tuition and Fees	$	405,010,302
Receipts from Customers		99,374,474
Proceeds from Research Grants and Contracts		232,494,178
Proceeds from Loan Programs		1,839,119
Proceeds from Auxiliaries		153,597,161
Proceeds from Other Revenues		25,751,747
Payments to Suppliers for Goods and Services		(385,243,145)
Payments to Employees for Salaries		(656,380,936)
Payments to Employees for Benefits		(133,791,191)
Payments for Loans Provided		(1,373,691)
Payments for Other Expenses		(62,812,319)
Net Cash Provided (Used) by Operating Activities	$	(321,534,301)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Legislative Appropriations	$	304,595,325
Proceeds from Gifts		95,088,418
Proceeds from Endowments		1,525,578
Proceeds of Transfers from Other Entities		129,194,465
Proceeds from Other Grant Revenues		39,033,898
Proceeds from Other Sources		2,823,333
Payments for Transfers to Other Entities		(5,161,801)
Payments for Other Uses		(610,937)
Net Cash Provided (Used) by Non-Capital Financing Activities	$	566,488,279
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Disposal of Capital Assets		373,096
Proceeds of Transfers from Other Entities		16,796,642
Payments for Additions to Capital Assets		(60,519,980)
Payments of Principal on Capital-Related Debt		(282,263)
Payments of Interest on Capital-Related Debt		(216,696)
Payments for Transfers to Other Entities		(98,394,272)
Net Cash Provided (Used) by Capital and Related Financing Activities	$	(142,243,473)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Interest and Investment Income		18,892,472
Payments to Acquire Investments		(52,217,218)
Net Cash Provided (Used) by Investing Activities	$	(33,324,746)
Net Increase (Decrease) in Cash and Cash Equivalents	$	69,385,759
Cash and Cash Equivalents, September 1, 2011	$	176,054,594
Cash and Cash Equivalents, August 31, 2012	$	245,440,353

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

Operating Income (Loss)	$	(444,404,437)
Adjustments:		
Depreciation and Amortization	$	112,006,284
Bad Debt Expense		(306,678)
Operating Income and Cash Flow Categories:		
Classification Differences		
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		(12,149,170)
(Increase) Decrease in Due from Other Entities		(95,716)
(Increase) Decrease in Inventories		293,284
(Increase) Decrease in Prepaid Expenses		(1,920,090)
(Increase) Decrease in Loans and Contracts		(673,446)
(Increase) Decrease in Other Assets		(90,479)
Increase (Decrease) in Payables		(8,532,513)
Increase (Decrease) in Due to Other Entities		136,252
Increase (Decrease) in Deferred Revenue		32,741,132
Increase (Decrease) in Employees' Compensable Leave		(121,568)
Increase (Decrease) in Other Liabilities		1,582,844
Total Adjustments	$	122,870,136
Net Cash Provided (Used) by Operating Activities	$	(321,534,301)
Non-Cash Transactions		
Net Increase (Decrease) in Fair Value of Investments	$	18,916,318
Other Additions to Capital Assets (Transfer from Other Entities)		294,600,105
Disposal of Capital Assets		(260,916)

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

General Introduction

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

Reporting Entity

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

Note 1: Summary of Significant Accounting Policies

Basis of Accounting

The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

For financial reporting purposes, Texas A&M University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Operating items are distinguished from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the 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 as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The University does not apply FASB pronouncements issued after November 30, 1989 in the preparation of the accompanying financial statements.

Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash and cash equivalents according to GASB No. 9. With the exception of residual cash which results from the management of investment portfolios, the A&M System maintains cash and cash equivalents for the purpose of meeting short-term disbursement requirements.

Investments

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

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

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

Current Assets

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

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 19, Disaggregation of Receivable and Payable Balances, for additional details.

Voluntary Nonexchange Transaction

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Livestock held for educational purposes is recorded at estimated fair value. The capitalization threshold for personal property is $5,000. The capitalization threshold is $100,000 for buildings/building improvements, facilities and other improvements, software purchased, land use rights with terms, and leasehold improvements. Infrastructure has a capitalization threshold of

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

According to GASB No. 34, No. 35, and No. 51, the A&M System is required to depreciate and amortize capital assets. Depreciation is computed using the straight-line method over the estimated useful lives of the assets; generally, 10 to 30 years for buildings, 10 to 45 years for infrastructure, 4 to 15 years for equipment, and 15 years for library books.

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

Payables

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

Unearned Revenue

The A&M System members record receivables 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. In accordance with GASB 45, the OPEB liability is classified as noncurrent. Additionally, the net change in OPEB obligation is recorded as a natural classification of expense, which was formerly included in the payroll related costs classification.

Restricted Net Assets

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

Other Significant Accounting Policies

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

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

Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2012, is presented below:

	Balance 9/1/2011	Adjustments	Completed Construction in Progress	Additions	Deductions	Balance 8/31/2012
Non-Depreciable and Non-Amortizable Assets:						
Land and Land Improvements	$ 33,390,581	$ 233,111	$ 0	$ 175,138	$ 0	$ 33,798,830
Construction in Progress	55,380,802	(186,126,685)	(122,060,966)	318,592,784	0	65,785,935
Library Books	11,445,569	(5,955)	0	756,220	0	12,195,834
Other Capital Assets	26,345,146	27,673	0	90,394	(4,290)	26,458,923
Total Non-Depreciable Assets	$ 126,562,098	$ (185,871,856)	$ (122,060,966)	$ 319,614,536	$ (4,290)	$ 138,239,522
Depreciable and Amortizable Assets:						
Buildings and Building Improvements	$ 1,809,724,376	$ 85,762,008	$ 106,856,982	$ 13,708,349	$ (2,231,391)	$ 2,013,820,324
Infrastructure	280,832,638	92,490,083	6,750,959	673,030	(1,324,535)	379,422,175
Facilities and Other Improvements	163,235,949	5,683,530	2,824,336	28,497	(562,208)	171,210,104
Furniture and Equipment (including Computer Software)	292,492,189	2,630,425	4,948,947	18,961,745	(17,734,085)	301,299,221
Vehicles, Boats, and Aircraft	41,901,475	8,000	679,742	2,233,738	(1,347,840)	43,475,115
Other Capital Assets	78,348,712	0	0	2,159,765	(319,107)	80,189,370
Total Depreciable and Amortizable Assets at Historical Cost	$ 2,666,535,339	$ 186,574,046	$ 122,060,966	$ 37,765,124	$ (23,519,166)	$ 2,989,416,309
Less Accumulated Depreciation and Amortization for:						
Buildings and Building Improvements	$ (951,741,623)	$ (1,587,542)	$ 0	$ (68,495,006)	$ 175,444	$ (1,021,648,727)
Infrastructure	(184,318,781)	(745,336)	0	(11,702,810)	0	(196,766,927)
Facilities and Other Improvements	(126,802,943)	(77,871)	0	(3,939,420)	0	(130,820,234)
Furniture and Equipment	(204,418,425)	4,172	0	(24,132,343)	10,959,741	(217,586,855)
Vehicles, Boats, and Aircraft	(30,410,122)	3,774	0	(3,530,364)	1,326,716	(32,609,996)
Other Capital Assets	(52,671,338)	128,441	0	(3,418,629)	167,987	(55,793,539)
Total Accumulated Depreciation and Amortization	$ (1,550,363,232)	$ (2,274,362)	$ 0	$ (115,218,572)	$ 12,629,888	$ (1,655,226,278)
Depreciable and Amortizable Assets, Net	$ 1,116,172,107	$ 184,299,684	$ 122,060,966	$ (77,453,448)	$ (10,889,278)	$ 1,334,190,031
Capital Assets, Net	$ 1,242,734,205	$ (1,572,172)	$ 0	$ 242,161,088	$ (10,893,568)	$ 1,472,429,553

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, 2012, the carrying amount of deposits was $245,440,353 as presented below:

Cash on Hand	$	496,654
Cash in State Treasury		63,511,810
Reimbursement Due from Treasury		1,175,200
Cash in Bank		5,166,433
Assets Held for Investment by System Offices		157,913,109
Restricted Assets Held for Investment by System Offices		17,177,147
Total Cash and Cash Equivalents	$	245,440,353
Cash and Cash Equivalents - Current Assets	$	222,828,373
Cash and Cash Equivalents - Current Assets, Restricted		22,611,980
Total Cash and Cash Equivalents	$	245,440,353

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

At the direction of the A&M System Board of Regents, Texas A&M 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 University investments and cash equivalents are pooled at the System level. This fund pool is managed centrally at the A&M System and participation is mandatory. The A&M System'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, 2012 the value of assets held long-term by the A&M System on behalf of Texas A&M University totaled $1,255,554,548. Of that amount $408,199,196 is restricted. These investments are reported as Non-Current Assets, Restricted Assets held by System Offices – Long Term and Assets held by System Offices – Long Term on the Statement of Net Assets. Texas A&M University's investments held by the A&M System, by Pool and by Statement of Net Assets Classification are as follows:

Investments Held by System in:		
Cash Concentration Pool	$	931,107,316
System Endowment Fund		324,403,027
Separate Investment Accounts		44,205
Total University Share of Pooled Investments Held by System	$	1,255,554,548
Non-Current Assets		
Cash Concentration Pool	$	525,067,020
System Endowment Fund		322,244,127
Separate Investment Accounts		44,205
Non-Current Assets, Restricted		
Cash Concentration Pool		406,040,297
System Endowment Fund		2,158,899
Total University Share of Pooled Investments Held by System	$	1,255,554,548

Note 4: Summary of Long-Term Liabilities

During the year ended August 31, 2012, the following changes occurred in liabilities:

		Balance 9/1/2011		Additions		Deductions		Balance 8/31/2012		Amounts Due Within One Year
Capital Lease Obligations	$	2,423,528	$	86,891	$	290,656	$	2,219,763	$	385,536
Employees' Compensable Leave		46,854,060		1,122,398		1,243,966		46,732,492		4,005,797
Funds Held for Others		8,220,496		575,756		2,023		8,794,229		8,794,229
Other Liabilities										
Deferred Compensation Liability		1,410,679				1,010,679		400,000		200,000
Deposits		8,804,359		1,582,844				10,387,203		10,387,203
Assets Held in Trust		19,189,500						19,189,500		
Total	$	86,902,622	$	3,367,889	$	2,547,324	$	87,723,187	$	23,772,765

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 520 hours accrued leave forward from one fiscal year to another.

Employees with at least six months of State service who terminate employment are entitled to payment for all accumulated annual leave up to the maximum allowed. The A&M System has accrued the dollar value of annual leave benefits which are payable upon retirement, termination, or death of its employees. This liability (current and noncurrent) for Texas A&M University is projected to be $46,732,492 as of August 31, 2012. 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 made lump sum payments of $6,530,126 for accrued vacation to employees who separated from State service during the fiscal year ended August 31, 2012.

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

Texas A&M University receives proceeds from revenue bonds issued and held by the A&M System to support capital projects of the A&M System and its institutions. These proceeds are recorded as transfers from the A&M System. Texas A&M 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, 2012 the A&M System had outstanding bonds payable of $2,241,200,000. All bonds issued by the A&M System are defined as revenue bonds. As such, the revenues of the A&M System, including Texas A&M University, are pledged for repayment of the bonds. Segment information requirements are not applicable, due to the bond indentures' lack of specifically identifiable activities and separate accounting requirements imposed by an external party.

No amount of indebtedness related to these bonds has been recorded in Texas A&M University's financial statements as the A&M System is the party directly liable for these bonds. At August 31, 2012, however, outstanding debt issued on behalf of Texas A&M University is $711,846,633.

Note 6: Capital Leases

Certain leases to finance the purchase of property are capitalized at the present value of future minimum lease payments. At August 31, 2012, Texas A&M University had various capital lease obligations relating to the acquisition of capital assets. The original capitalized cost of the capital assets under capital lease as of August 31, 2012, is $4,111,488. The following is a schedule of the future minimum lease payments for leased property and the present value of the net minimum lease payments:

Year Ended August 31, 2012		Total
2013	$	528,364
2014		454,232
2015		407,372
2016		365,758
2017		107,668
2018-2022		494,543
2023-2027		491,384
2028-2032		65,517
Total Minimum Lease Payments	$	2,914,838
Less: Amount Representing Interest at Various Rates		(695,075)
Present Value of Net Minimum Lease Payments	$	2,219,763

		Assets under Capital Lease		Accumulated Depreciation
Buildings and Building Improvements	$	2, 372,049	$	625, 957
Furniture and Equipment		1,516,031		603,179
Vehicles, Boats, and Aircraft		223,408		22,482
Total	$	4,111,488	$	1,251,618

Note 7: Operating Leases

A summary of future operating lease payments for the year ended August 31, 2012, is presented below:

Year Ended August 31, 2012		Total
2013	$	2,450,467
2014		2,006,632
2015		1,636,279
2016		1,370,679
2017		1,144,430
2018-2022		1,238,558
Total Minimum Future Lease Payments	$	9,847,045

Note 8: Interagency Balances / Activity

As of August 31, 2012, 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 made transfers with other state agencies, which were consistent with the activities of the fund making the transfer. All of the following balances will be paid within a year except for the $2,340,088 due to the State Energy Conservation Office for the Texas LoanSTAR (Saving Taxes and Resources) Program. Individual balances and activity at August 31, 2012, were as follows:

DUE FROM/TO OTHER STATE ENTITIES

Entity	Due from Other State Entities	Due to Other State Entities	Purpose
Texas A&M University System Administrative & General Offices	$ 18,182,342	$	RFS/PUF Debt Proceeds for minor construction projects
Texas A&M University System Administrative & General Offices	48,328,500		Shared Cash - AUF required to be reported on System Offices financial report
Texas A&M University System Administrative & General Offices	996,521		Contracts & Grants reimbursements due
Texas A&M University System Administrative & General Offices		26,191,335	Locally funded construction project funds due to System for System managed construction projects
Tarleton State University		7,000	Contracts & Grants reimbursements due
Prairie View A&M University		12,390	Contracts & Grants reimbursements due
Texas Agrilife Research		50,237	Contracts & Grants reimbursements due
Texas Agrilife Extension Service	16,900	8,308	Contracts & Grants reimbursements due
Texas Engineering Experiment Station		78,948	Contracts & Grants reimbursements due
Texas Transportation Institute	5,929		Contracts & Grants reimbursements due
Texas A&M University - Corpus Christi	12,344	126,996	Contracts & Grants reimbursements due
Texas A&M Research Foundation	11,367,231		Contracts & Grants reimbursements due
Texas Department of Motor Vehicles	72,900		Shared Cash - funds required to be reported on Tx DOT AFR
Texas General Land Office	200,754		Contracts & Grants reimbursements due
Governor's Office	32,842		Contracts & Grants reimbursements due
Texas Department of State Health Services	156,944		Contracts & Grants reimbursements due
Texas Department of Transportation	8,840		Contracts & Grants reimbursements due
Texas Education Agency	259,148		Contracts & Grants reimbursements due
Texas Higher Education Coordinating Board	509,547		Contracts & Grants reimbursements due
Texas Parks & Wildlife Department	9,267		Contracts & Grants reimbursements due
University of Texas at Austin	96,312		Contracts & Grants reimbursements due
Cancer Prevention and Research Institute of Texas	214,708		Contracts & Grants reimbursements due
Texas Water Development Board	4,998		Contracts & Grants reimbursements due
Texas Commission on Environmental Quality	75,856		Contracts & Grants reimbursements due
State Energy Conservation Office		2,340,088	SECO LoanSTAR Program
Texas Real Estate Commission	1,280,600		Real Estate license fee revenue due at year-end
	$ 81,832,483	$ 28,815,302	

TRANSFERS IN FROM/OUT TO OTHER STATE ENTITIES

Entity	Transfers In from Other State Entities	Transfers Out to Other State Entities	Purpose
Texas A&M University System Administrative & General Offices	$ (908,386)	$	RFS/PUF Debt Proceeds for minor construction projects
Texas A&M University System Administrative & General Offices	13,451,165	1,543,808	System Endowment Fund Appreciation Reserve distribution
Texas A&M University System Administrative & General Offices	283,978,387		Fixed Assets and Construction in Progress upon semi-final/final completion
Texas A&M University System Administrative & General Offices	8,303,612		Reversion of Local funds originally set aside for major construction projects
Texas A&M University System Administrative & General Offices	113,715,789		Available University Fund Allocation for the year
Texas A&M University System Administrative & General Offices	374,983		Resource Allocation Program funding for the year
Texas A&M University System Administrative & General Offices	189,000		Weizmann Research Initiative
Texas A&M University System Administrative & General Offices		67,903,814	Debt Service funding requirements
Texas A&M University System Administrative & General Offices		24,214,804	Local funds set aside for major construction projects
Texas A&M University System Administrative & General Offices		19,884	Fixed Assets
Texas Agrilife Research	10,724,511	14,903	Fixed Assets
Texas Agrilife Extension Service	12,805		Fixed Assets
Texas Engineering Experiment Station	163,191		Fixed Assets
Texas Transportation Institute	4,793		Fixed Assets
Texas Transportation Institute		9,856	Transfer Engineering Gift
Texas Real Estate Commission	3,884,580		Real Estate license fee revenue
Texas Higher Education Coordinating Board		181,364	Doctoral set asides
Texas Higher Education Coordinating Board		5,052,686	B-On Time set asides
	$ 433,894,430	$ 98,941,119	

LEGISLATIVE TRANSFERS IN/OUT

Entity	Legislative Transfers In	Legislative Transfers Out	Purpose
Texas A&M University System Administrative & General Offices	$	$ 6,564,726	RFS Debt Service
	$ 0	$ 6,564,726	

Note 9: Contingent Liabilities

At August 31, 2012, various lawsuits and claims involving Texas A&M University had arisen in the course of conducting Texas A&M University business. While the ultimate liability with respect to litigation and other claims cannot be reasonably estimated at this time, management is of the opinion that the liability not provided for by insurance or otherwise, if any, for these legal actions will not have a material adverse affect on Texas A&M University's financial position.

Note 10: Risk Financing and Related Insurance

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

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

All commercial insurance policies include retention amounts (deductibles) for which the A&M System is responsible and for which A&M System members maintain funding reserve pools. Ongoing analysis of the risks facing the A&M System results in the continual evaluation of insurance policies purchased.

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

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

The A&M System implemented a self-insured health and dental plan on September 1, 1994, which is also considered a funded pool. Premiums are determined through an actuarial pricing process that takes place each spring. The A&M System maintains an experience stabilization fund of $51,188,288 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.

IBNR Liability		
Plan	WCI	Health & Dental
IBNR Liability 9/1/11	7,349,000	10,218,000
CY Claims Plus Change in Estimates	2,723,000	178,306,499
Claims Payments	(3,041,000)	(174,433,499)
Other Items (changes in estimates)	(463,000)	-
IBNR Liability 8/31/12	6,568,000	14,091,000

Note 11: Stewardship, Compliance, and Accountability

Changes to the financial reports of Texas A&M University are discussed in Note 1. Texas A&M University has no material violations of finance related to legal and contract provisions. Per the laws of the State of Texas, Texas A&M University cannot spend amounts in excess of appropriations granted by the Texas Legislature and there are no deficits reported in net assets or retained earnings.

Note 12: The Financial Reporting Entity

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

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

The **Texas A&M Research Foundation (Research Foundation)** has been included as a blended component unit in the combined financial statements of the A&M System since fiscal year 1990, at the direction of the State Auditor's Office. This determination is based on the close relationship and joint agreements in effect between the Research Foundation and the A&M System in regard to research grant/contract administration, as well as the fact that various officials of the A&M System serve as ex-officio voting and non-voting trustees, and members of the executive committee of the Research Foundation. The Research Foundation has a fiscal year end of August 31, 2012 and is Fund Type 05, Appd Fund 9999. Complete financial statements of the Research Foundation may be obtained from their administrative offices at 400 Harvey Mitchell Parkway South, Suite 100, College Station, Texas, 77845.

As of August 31, 2012, the Research Foundation had total Research and Development Expenditures for Texas A&M University of $100,156,378.

A new agency, Texas A&M University System- Office of Sponsored Research Services, now manages a number of the relationships and agreements that the Texas A&M Research Foundation has previously managed beginning in 2012. The intent is to move the majority of fiscal activity to each A&M System member’s financial statements. The A&M System will begin to see a reduction in the balances and activities reported by the Texas A&M Research Foundation.

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

The Texas A&M Foundation does not meet the State Comptroller's criteria for inclusion in the financial statements as a component unit of Texas A&M University, and is therefore not included in the Texas A&M University annual financial report. The foundation holds a significant amount of economic resources for the direct benefit of Texas A&M University. The financial statements for the foundation's fiscal year ended June 30, 2012 are prepared in accordance with financial accounting standards for not-for-profit organizations. Net assets as of June 30, 2012 totaled $1.1 billion. Total revenues, gains and other support totaled $68.9 million.

Note 13: Restatement of Net Assets

A summary of restatements of net assets for the year ended August 31, 2012, is presented below:

Net Assets, September 1, 2011	$	2,504,992,469
Restatements:		
(a) Construction in progress close outs processed during FY2012 that had prior year in-service dates.	$	(2,109,255)
(b) Equipment purchased in prior year not originally capitalized.		138,265
(c) Fixed Asset gift received in prior fiscal year not identified until current fiscal year.		398,818
Total Restatements	$	(1,572,172)
Net Assets, September 1, 2011, as Restated	$	2,503,420,297

Note 14: 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.

<u>Teacher Retirement System pension plan</u>
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, 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% 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, 2012, the statutorily required contribution rate was 6.4% of annual compensation from active plan members and 6.0% of annual compensation from the A&M System.

For the years ended August 31, 2012, 2011, and 2010, Texas A&M University contributed 100% of the following statutorily required employer contributions:

	2012	**2011**	**2010**
Required Contribution Rate	6.00%	6.644%	6.644%
Contributions Required & Made	$4,642,326	$5,918,984	$6,005,344

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 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 A&M System may be required to make the employer contribution in lieu of the State. During the year ended August 31, 2012, the required State contribution rate was 6.00 percent and the A&M System's contribution rate was 0.40 percent of participants' annual compensation. For participants who enrolled in the plan on or before August 31, 1995, the A&M System's contribution was 2.50 percent.

For the year ended August 31, 2012, contributions to the ORP were as follows:

Optional Retirement Program

	Amount
Employer Contributions	40,627,092
Employee Contributions	36,894,582
Total	77,521,674

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

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

The retirement expense to Texas A&M University was $20,203,515 for the year ended August 31, 2012. Of this amount, $7,507,433 represents the portion of appropriations made by the State Legislature expended on behalf of Texas A&M University and $12,696,082 represents the portion paid from Texas A&M University's funds.

Note 15: 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 may be insurance companies, banks, or approved non-bank trustees such as mutual fund companies. The assets of this plan do not belong to the A&M System or the State and thus do not have a liability related to this plan beyond the administrative requirements outlined in the corresponding provisions of the IRC.

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

Note 16: 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 on how endowments should be maintained.

Net Appreciation of Donor-Restricted Endowments

Donor-Restricted Endowments	Amount of Net Appreciation*	Reported in Net Assets
True Endowments	65,655,987	Restricted for Expendable

* The total fiscal year 2012 fair value adjustment to the Fund was $39,832,113

The amount of net appreciation for donor restricted endowments specific to Texas A&M University is $41,032,120.

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

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired employees in accordance with State statutes. Substantially all of the employees may become eligible for those benefits if they reach normal retirement age while working for the State. Those and similar benefits for active employees are provided through the group insurance program, and premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expensing the annual premiums. For the year ending August 31, 2012, the employer contributions are presented below.

Employer Contribution Rates

Level of Coverage	Amount
Full-Time Employee/Retiree Only	$ 367
Full-Time Employee/Retiree and Spouse	$ 552
Full-Time Employee/Retiree and Children	$ 482
Full-Time Employee/Retiree and Family	$ 644

For the year ended August 31, 2012, benefit plan expenses totaled $157,228,100. The cost of providing benefits for 7,415 retirees was $39,855,108; and for 22,149 active employees the cost was $117,372,992.

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

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

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

For the year ended August 31, 2012, the contributions for the self-funded plan by the state per full-time retired employee are shown in the following table. The retiree contributes any premium over and above state contributions.

Three-Year Schedule of Employer Contributions

Fiscal Year Ending	Employer Contribution	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation At End of Fiscal Year
8/31/2012	$ 63,131,287	$ 190,199,827	33%	$ 603,878,029
8/31/2011	$ 40,489,312	$ 174,919,214	23%	$ 476,809,489
8/31/2010	$ 40,173,687	$ 162,680,000	25%	$ 342,379,587

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

Annual OPEB Cost and Net OPEB Obligation

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

Annual OPEB Cost and Net OPEB Obligation
(in thousands of dollars)

Annual Required Contribution (ARC)	$	180,940
Interest on Net OPEB Obligation		34,807
Adjustment to ARC		(25,547)
Annual OPEB Cost		190,200
Employer Contributions Made		(63,131)
Increase Net OPEB Obligation		127,069
Net OPEB Obligation 9/1/2011		476,809
Net OPEB Obligation 8/31/2012	$	603,878

Schedule of Funding Progress of the Plan

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

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over AAL (Unfunded AAL) (a)-(b)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	Ratio of UAAL to Covered Payroll ((a-b)/c)
8/31/2010	$ -	$ 1,996,798,639	$ (1,996,798,639)	0.0%	$ 1,359,512,304	146.9%
9/1/2010	$ -	$ 1,854,690,001	$ (1,854,690,001)	0.0%	$ 1,313,538,458	141.2%
9/1/2009	$ -	$ 1,864,320,000	$ (1,864,320,000)	0.0%	$ 1,315,291,687	141.7%

Actuarial Methods and Assumptions

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

Summary of Actuarial Methods and Assumptions	
Actuarial Valuation Date	September 1, 2011
Actuarial Cost Method	Entry Age Normal
Amortization Method	Open
Remaining Amortization Period of Unfunded Liability	30 years
Actuarial Assumptions:	
Investment Rate of Return	7.3%
Inflation	3.0%
Health Care Trend Rates	9.5% in 2012
	Decreasing to 5.0% in 2021

Medicare Part D

In fiscal year 2012 the plan received payments from the federal government pursuant to the retiree drug subsidy provisions of Medicare Part D. GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requires that these on-behalf payments be recorded as revenues and expenses of each plan. In fiscal year 2012 the A&M System received $3,834,332 of Medicare Part D payments from the federal government.

Note 18: Disaggregation of Receivable and Payable Balances

A summary of accounts receivable and associated allowances for doubtful accounts balances and accounts payable balances for Texas A&M University for the year ended August 31, 2012, is presented below:

Accounts Receivable:			
Current Accounts Receivable			Amount on SNA
Federal Receivables		$	13,297,237
Gift, Pledges & Donations			21,775,577
Other			58,774,725
	Total	$	93,847,539
Other Receivables			Amount on SNA
Student Receivables			11,497,412
Customer Receivables (Account)			46,841,180
Deferred Comp-Goodman Receivable		$	328,563
Outsourcing Arrangement Receivable			85,069
Receivable from TAMUG			22,500
	Total	$	58,774,724
Accounts Payable:			
Current Accounts Payable			Amount on SNA
Accounts Payable		$	22,634,896
Payroll Payable			44,394,313
Other			8,430,134
	Total	$	75,459,343
Other Payables			Amount on SNA
Sales Tax Payable		$	1,568,672
Student Liabilities			6,685,730
Payable to A&M Foundation			81,479
Other (UBIT Payable)			94,253
	Total	$	8,430,134

Note 19: Termination Benefits

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

As of August 31, 2012, the A&M System has not incurred obligations to pay voluntary or involuntary termination benefits in fiscal year 2013.

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

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

As part of the stimulus funding from the federal government, some terminated employees were eligible for the 65% subsidy for COBRA coverage. The Federal Department of Labor agreed to reimburse employers the 65% COBRA reimbursement up to 15 months. This applies to employees who were involuntarily terminated between September 1, 2008 and May 31, 2010. The maximum end of the 15 month payment period was August 31, 2011. The remaining balances received in fiscal year 2012 totaled $1,805.

COBRA benefits for the A&M System for the year ended August 31, 2012 are as follows:

Termination Benefits - COBRA

Enrollment	Self-Insured Medical Plan	Self-Insured Dental Plan	Fully-Insured Medical HMO Plans	Fully-Insured Dental Plan	Fully-Insured Vision Plan
Number of Participants	208	115	16	27	137
Self-Insured Activity					
Premium Revenue	$ 940,024	$ 69,165			
2 Percent Administrative Fee Revenue	18,800	1,383			
Total COBRA Revenue	958,824	70,548			
Claims Paid	1,985,079	154,429			
Administrative Expenses	27,680	6,694			
Total COBRA Expenses	2,012,759	161,123			
Total Cost to State	$ 1,053,935	$ 90,575			

State Auditor's Office
John Keel, CPA
State Auditor

April 1, 2013

Dr. R. Bowen Loftin, President
Texas A&M University
1246 TAMU
College Station, TX 77843-1246

Subject: Management Letter Resulting from a Review of Texas A&M University's Fiscal Year 2012 Financial Statements

Dear Dr. Loftin:

We offer this management letter in conjunction with our review of the financial statements of Texas A&M University (University), including Texas A&M University at Galveston, as of and for the fiscal year ended August 31, 2012, on which we have issued our report dated April 1, 2013. We reviewed the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. In the course of our review, which was substantially less in scope than an audit, we did not find that material modifications needed to be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

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

Sincerely,

Nicole M. Guerrero, MBA, CIA, CGAP, CICA
Audit Manager

Robert E. Johnson Building
1501 N. Congress Avenue
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P.O. Box 12067
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SAO Report No. 13-331

Texas A&M Health Science Center

Financial Statements

For the Fiscal Year Ended August 31, 2012

Contents

State Auditor's Office
John Keel, CPA
State Auditor

Independent Accountant's Review Report

Dr. E. J. Pederson, Interim President
Texas A&M University System Health Science Center
8441 State Highway 47
Clinical Bldg 1, Suite 3100
Bryan, TX 77807

We have reviewed the accompanying Statement of Net Assets of the Texas A&M Health Science Center (Health Science Center) as of August 31, 2012, and the related Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows for the year then ended. A review includes primarily applying analytical procedures to the Health Science Center's financial data and making inquiries of Health Science Center 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.

Health Science Center 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 Health Science Center, 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

April 1, 2013

SAO Report No. 13-332

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Texas A&M Health Science Center
Statement of Net Assets
August 31, 2012
(See Independent Accountant's Report on Page 1)

ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 3)	$	16,665,193
Short-Term Investments (Note 3)		20,933
Restricted:		
Cash and Cash Equivalents (Note 3)		12,680,483
Legislative Appropriations		23,908,004
Receivables, Net of Allowances (Note 17):		
Federal		1,125,686
Accounts		3,074,501
Gifts		178,634
Due from Other State Entities (Note 8)		14,702,258
Consumable Inventories		900,468
Loans and Contracts		249,083
Other Current Assets		1,237,412
Total Current Assets	$	74,742,655
Non-Current Assets		
Restricted:		
Loans and Contracts		3,250,915
Assets held by System Offices-Long Term		66,326,239
Assets held by System Offices-Long Term		77,109,346
Capital Assets (Note 2):		
Non-Depreciable		138,941,334
Depreciable and Amortizable		223,853,719
Less: Accumulated Depreciation and Amortization		(102,684,439)
Total Non-Current Assets	$	406,797,114
Total Assets	$	481,539,769
LIABILITIES		
Current Liabilities		
Payables:		
Accounts	$	3,127,232
Payroll		8,942,944
Other		9,636
Due to Other State Entities (Note 8)		1,084,853
Deferred Revenue		11,977,269
Capital Lease Obligations (Notes 4, 6)		251,468
Employees' Compensable Leave (Note 4)		464,399
Funds Held for Others		601,828
Other Current Liabilities		465,722
Total Current Liabilities	$	26,925,351
Non-Current Liabilities		

Capital Lease Obligations (Notes 4, 6)		898,902
Employees' Compensable Leave (Note 4)		7,605,390
Assets Held for Others		15,688,746
Other Non-Current Liabilities		50,000
Total Non-Current Liabilities	$	24,243,038
Total Liabilities	$	51,168,389
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$	260,110,614
Restricted for:		
Non-Expendable		
Permanent Funds, True Endowments, Annuities		42,921,757
Expendable		
Capital Projects		1,331,297
Education		16,033,403
Funds Functioning as Endowments		7,715,736
Unrestricted		102,258,573
Total Net Assets	$	430,371,380

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

Texas A&M Health Science Center
Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended August 31, 2012
(See Independent Accountant's Report on Page 1)

OPERATING REVENUES		
Tuition and Fees - Pledged		29,282,085
Discounts and Allowances		(1,787,146)
Professional Fees - Pledged		343,486
Auxiliary Enterprises - Pledged		974,910
Other Sales of Goods and Services - Pledged		25,046,794
Interest Revenue		100,618
Federal Revenue		22,419,389
State Grant Revenue		3,070,613
Other Operating Grant Revenue		5,453,253
Other Operating Revenues		154,559
Total Operating Revenues	$	85,058,561
OPERATING EXPENSES		
Cost of Goods Sold	$	345,561
Salaries and Wages		104,934,571
Payroll Related Costs		22,172,928
Professional Fees and Services		11,325,446
Travel		1,628,256
Materials and Supplies		12,846,756
Communications and Utilities		7,825,580
Repairs and Maintenance		4,572,076
Rentals and Leases		3,431,347
Printing and Reproduction		527,356
Depreciation and Amortization		10,660,895
Bad Debt Expense		5,544
Interest Expense		3,333
Scholarships		2,339,740
Other Operating Expenses		17,550,193
Total Operating Expenses	$	200,169,582
Operating Income (Loss)	$	(115,111,021)
NONOPERATING REVENUES (EXPENSES)		
Legislative Appropriations	$	116,363,593
Federal revenue and Federal Pass-Through		158,266
Gifts		4,047,163
Interest and Investment Income (Loss)		3,451,310
Investing Activities Expense		(166,099)
Net Increase (Decrease) in Fair Value of Investments		4,446,340
Land Income		2,104,459
Interest Expense and Fiscal Charges		(18,981)
Gain (Loss) on Sale of Capital Assets		9,808
Claims and Judgments		(37,500)
Other Nonoperating Revenues - Pledged		103,536

Other Nonoperating Expenses		(100,234)
Total Nonoperating Revenues (Expenses)	$	130,361,661
Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers	$	15,250,640
OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS		
Capital Contributions	$	59,334
Transfers In from Other State Entities (Note 8)		7,696,281
Transfers Out to Other State Entities (Note 8)		(1,518,069)
Legislative Transfers Out (Note 8)		(8,294,726)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	$	(2,057,180)
CHANGE IN NET ASSETS	$	13,193,460
Net Assets, September 1, 2011	$	417,177,920
NET ASSETS, August 31, 2012	$	430,371,380

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

Texas A&M Health Science Center
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2012
(See Independent Accountant's Report on Page 1)

CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Tuition and Fees	$	27,202,147
Receipts from Customers		26,149,919
Proceeds from Research Grants and Contracts		30,792,592
Proceeds from Loan Programs		743,029
Proceeds from Auxiliaries		974,909
Proceeds from Other Revenues		117,272
Payments to Suppliers for Goods and Services		(61,808,749)
Payments to Employees for Salaries		(104,595,670)
Payments to Employees for Benefits		(21,438,583)
Payments for Loans Provided		(484,088)
Payments for Other Expenses		(1,705,787)
Net Cash Provided (Used) by Operating Activities	$	(104,053,009)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Legislative Appropriations	$	108,797,754
Proceeds from Gifts		3,949,030
Proceeds from Other Grant Revenue		215,860
Proceeds of Transfers from Other Entities		1,878,221
Proceeds from Other Sources		48,447,633
Payments for Transfers to Other Entities		(150,919)
Payments for Other Uses		(46,498,378)
Net Cash Provided (Used) by Non-Capital Financing Activities	$	116,639,201
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Sale of Capital Assets		19,084
Payments for Additions to Capital Assets		(3,759,942)
Payments of Principal on Capital-Related Debt		(416,572)
Payments of Interest on Capital-Related Debt		(18,981)
Transfer of Capital Debt Proceeds from System (Nonmandatory)		4,357,317
Transfer to System for Capital Related Debt (Mandatory)		(9,491,668)
Net Cash Provided (Used) by Capital and Related Financing Activities	$	(9,310,762)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Interest and Investment Income		3,285,212
Sales and Purchases of Investments Held by System		(4,770,399)
Net Cash Provided (Used) by Investing Activities	$	(1,485,187)
Net Increase (Decrease) in Cash and Cash Equivalents	$	1,790,243
Cash and Cash Equivalents, September 1, 2011	$	27,555,433
Cash and Cash Equivalents, August 31, 2012	$	29,345,676

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

Operating Income (Loss)	$	(115,111,021)
Adjustments:		
Depreciation and Amortization	$	10,660,895
Bad Debt Expense		225,658
Operating Income and Cash Flow Categories:		
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		(794,286)
(Increase) Decrease in Due from Other Entities		(276,109)
(Increase) Decrease in Inventories		(550,146)
(Increase) Decrease in Prepaid Expenses		(127,596)
(Increase) Decrease in Loans and Contracts		157,513
Increase (Decrease) in Payables		(771,510)
Increase (Decrease) in Due to Other Entities		1,084,812
Increase (Decrease) in Deferred Revenue		643,836
Increase (Decrease) in Deposits		278,265
Increase (Decrease) in Employees' Compensable Leave		526,680
Total Adjustments	$	11,058,012
Net Cash Provided (Used) by Operating Activities	$	(104,053,009)
Non-Cash Transactions		
Nonmonetary Gifts, including Capital Assets	$	563,146
Net Increase (Decrease) in Fair Value of Investments		1,752,114
Disposal of Capital Assets		9,808
Other Deductions to Capital Assets		199,282

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

General Introduction

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

Reporting Entity

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

Note 1: Summary of Significant Accounting Policies

Basis of Accounting

The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

For financial reporting purposes, the Texas A&M Health Science Center is considered a special-purpose government engaged only in business-type activities. Accordingly, the Texas A&M Health Science Center's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Operating items are distinguished from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the Texas A&M Health Science Center'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 Texas A&M Health Science Center applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Texas A&M Health Science Center does not apply FASB pronouncements issued after November 30, 1989 in the preparation of the accompanying financial statements.

Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash and cash equivalents according to GASB No. 9. With the exception of residual cash which results from the management of investment portfolios, the A&M System maintains cash and cash equivalents for the purpose of meeting short-term disbursement requirements.

Investments

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

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

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

Current Assets

On the Balance Sheet, 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 24, Disaggregation of Receivable and Payable Balances, for additional details.

Voluntary Nonexchange Transaction

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Livestock held for educational purposes is recorded at estimated fair value. The capitalization threshold for personal property is $5,000. The capitalization threshold is $100,000 for buildings/building improvements, facilities and other improvements, software purchased, land use rights with terms, and leasehold improvements. Infrastructure has a capitalization threshold of $500,000. Internally developed software has a capitalization threshold of $1,000,000. All land, land improvements, permanent land use rights, library books/materials, museums/collections, and works of art/historical treasures are capitalized.

According to GASB No. 34, No. 35, and No. 51, the A&M System is required to depreciate and amortize capital assets. Depreciation is computed using the straight-line method over the estimated useful lives of the assets; generally, 10 to 30 years for buildings, 10 to 45 years for infrastructure, 4 to 15 years for equipment, and 15 years for library books.

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

Payables

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

Unearned Revenue

The A&M System members record receivables 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. In accordance with GASB 45, the OPEB liability is classified as noncurrent. Additionally, the net change in OPEB obligation is recorded as a natural classification of expense, which was formerly included in the payroll related costs classification.

Restricted Net Assets

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

Other Significant Accounting Policies

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

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

Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2012, is presented below:

	Balance 9/1/2011	Adjustments	Completed Construction in Progress	Additions	Deductions	Balance 8/31/2012
Non-Depreciable and Non-Amortizable Assets:						
Land and Land Improvements	$ 30,436,317	$ (3,310,012)	$	$	$	$ 27,126,305
Construction in Progress	111,572,012					111,572,012
Library Books	243,017					243,017
Total Non-Depreciable Assets	$ 142,251,346	$ (3,310,012)	$ 0	$ 0	$ 0	$ 138,941,334
Depreciable and Amortizable Assets:						
Buildings and Building Improvements	$ 142,469,030	$ 3,310,012	$	$	$	$ 145,779,042
Infrastructure	3,224,314					3,224,314
Facilities and Other Improvements	1,831,305					1,831,305
Furniture and Equipment	42,543,686			5,665,670	(989,631)	47,219,725
Vehicles, Boats, and Aircraft	914,329			57,837		972,166
Other Capital Assets	24,824,609			3,448	(890)	24,827,167
Total Depreciable and Amortizable Assets at Historical Cost	$ 215,807,273	$ 3,310,012	$ 0	$ 5,726,955	$ (990,521)	$ 223,853,719
Less Accumulated Depreciation and Amortization for:						
Buildings and Building Improvements	$ (43,867,027)	$	$	$ (6,346,156)	$	$ (50,213,183)
Infrastructure	(919,273)			(179,060)		(1,098,333)
Facilities and Other Improvements	(471,630)			(93,691)		(565,321)
Furniture and Equipment	(24,661,914)			(3,899,763)	968,549	(27,593,128)
Vehicles, Boats, and Aircraft	(683,747)			(78,116)		(761,863)
Other Capital Assets	(22,247,940)			(205,561)	890	(22,452,611)
Total Accumulated Depreciation and Amortization	$ (92,851,531)	$ 0	$ 0	$ (10,802,347)	$ 969,439	$ (102,684,439)
Depreciable and Amortizable Assets, Net	$ 122,955,742	$ 3,310,012	$ 0	$ (5,075,392)	$ (21,082)	$ 121,169,280
Capital Assets, Net	$ 265,207,088	$ 0	$ 0	$ (5,075,392)	$ (21,082)	$ 260,110,614

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, 2012, the carrying amount of deposits was $29,345,676 as presented below:

Composition of Cash and Cash Equivalents		Carrying Amount
Cash on Hand	$	12,941
Cash in State Treasury		11,863,540
Reimbursement Due from Treasury		783,645
Assets Held For Investment By System Offices		4,005,067
Restricted Cash on Hand		500
Restricted Assets Held For Investment By System Office		12,679,983
Total Cash and Cash Equivalents	$	29,345,676

Cash and Cash Equivalents per Statement of Net Assets		Carrying Amount
Cash and Cash Equivalents - Current Assets	$	16,665,193
Cash and Cash Equivalents - Current Assets, Restricted		12,680,483
Total Cash and Cash Equivalents per Statement of Net Assets	$	29,345,676

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

At the direction of the A&M System Board of Regents, Texas A&M Health Science Center cash and cash equivalents are held at the 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 Health Science Center investments and cash equivalents are pooled at the System level. This fund pool is managed centrally at the A&M System and participation is mandatory. The A&M System'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, 2012 the value of assets held long-term by the A&M System on behalf of the Texas A&M Health Science Center totaled $143,435,585 as presented below. Of that amount $66,326,239 is restricted. These investments are reported as Non-Current Assets, Restricted Assets held by System Offices – Long Term and Assets held by System Offices – Long Term on the Statement of Net Assets.

Health Science Center Share of Pooled Investments Held by the System, by Pool and by Statement of Net Assets Classification		
Investments Held by System in:		
Cash Concentration Pool	$	80,302,128
System Endowment Fund		63,074,707
Separate Investment Accounts		58,750
Total Health Science System Share of Pooled Investments Held by System	$	143,435,585
Non-Current Assets		
Cash Concentration Pool	$	77,050,596
Separate Investment Accounts		58,750
Non-Current Assets, Restricted		
Cash Concentration Pool		3,251,532
System Endowment Fund		63,074,707
Total Health Science Center Share of Pooled Investments Held by System	$	143,435,585

The Texas A&M Health Science Center has one current short-term investment, a trust donation, managed through Concord Trust Company with a value of $20,933. This trust is the only investment managed directly by the Texas A&M Health Science Center.

Investments		
Domestic Equity		6,390
International Equity		6,347
Fixed Income Money Market and Bond Mutual Fund		8,196
Total Unrestricted Short Term Investments	$	20,933

Note 4: Summary of Long-Term Liabilities

During the year ended August 31, 2012, the following changes occurred in liabilities:

		Balance 9/1/2011		Additions		Deductions		Balance 8/31/2012		Amounts Due Within One Year
Capital Lease Obligations	$		$	1,150,370	$		$	1,150,370	$	251,468
Employees' Compensable Leave		7,543,109		526,680				8,069,789		464,399
Funds Held for Others		15,611,510		61,928,384		61,249,320		16,290,574		601,828
Other Liabilities		237,456		550,734		272,468		515,722		465,722
Total	$	23,392,075	$	64,156,168	$	61,521,788	$	26,026,455	$	1,783,417

Notes and Loans Payable - Debt Service Requirements

Notes payable consist of amounts used to make permanent improvements at the Texas A&M Health Science Center, to refund and retire the Board's Permanent University Fund Commercial Paper Notes and Flexible Rate Notes, to provide interim financing for capital improvements and acquisition of equipment and land, to pay interest on notes, to refund outstanding notes as they mature and to pay the costs of issuing the notes.

The Texas A&M Health Science Center did not have any notes and loans payable outstanding as of August 31, 2012.

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 520 hours accrued leave forward from one fiscal year to another.

Employees with at least six months of State service who terminate employment are entitled to payment for all accumulated annual leave up to the maximum allowed. The A&M System has accrued the dollar value of annual leave benefits which are payable upon retirement, termination, or death of its employees. This liability (current and noncurrent) for the Texas A&M Health Science Center is projected to be $8,069,789 as of August 31, 2012. This liability is based on calculations from the A&M System centralized leave tracking system and employer estimates. The accrued liability for the unpaid annual leave has been recognized as a current and non-current liability. The Texas A&M Health Science Center made lump sum payments of $753,766 for accrued vacation to employees who separated from State service during the fiscal year ended August 31, 2012.

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

The Texas A&M Health Science Center receives proceeds from revenue bonds issued and held by the System to support capital projects of the System and its institutions. These proceeds are recorded as transfers from the System. The Texas A&M Health Science Center disburses funds to the System for payments of principal and interest related to the Texas A&M Health Science Center's share of bond proceeds. These disbursements are recorded as transfers to the System. At August 31, 2012 the System had outstanding bonds payable of $2,241,200,000. All bonds issued by the System are defined as revenue bonds. As such, the revenues of the System, including the Texas A&M

Health Science Center, are pledged for repayment of the bonds. Segment information requirements are not applicable, due to the bond indentures' lack of specifically identifiable activities and separate accounting requirements imposed by an external party.

No amount of indebtedness related to these bonds has been recorded in the Texas A&M Health Science Center's financial statements as the System is the party directly liable for these bonds. At August 31, 2012, however, outstanding debt issued on behalf of the Texas A&M Health Science Center is $104,124,612.

Note 6: Capital Leases

Certain leases to finance the purchase of property are capitalized at the present value of future minimum lease payments. At August 31, 2012, the Texas A&M Health Science Center had various capital lease obligations relating to the acquisition of capital assets. The original capitalized cost of the capital assets under capital lease as of August 31, 2012, is $1,566,943. The following is a schedule of the future minimum lease payments for leased property and the present value of the net minimum lease payments:

Year Ended August 31, 2012		**Total**
2013 (Future Yr 1)	$	298,364
2014 (Future Yr 2)		328,331
2015 (Future Yr 3)		328,332
2016 (Future Yr 4)		278,018
2017 (Future Yr 5)		38,903
Total Minimum Lease Payments	$	1,271,948
Less: Amount Representing Interest at Various Rates		(121,578)
Present Value of Net Minimum Lease Payments	$	1,150,370

ORIGINAL CAPITALIZED COSTS OF ASSETS UNDER CAPITAL LEASE OBLIGATIONS				
		Assets under Capital Lease		Accumulated Depreciation
Furniture and Equipment	$	1,566,943	$	94,418
Total	$	1,566,943	$	94,418

Note 7: Operating Leases

A summary of future operating lease payments for the year ended August 31, 2012, is presented below:

Year Ended August 31, 2012		**Total**
2013	$	3,036,845
2014		1,737,103
2015		1,671,589
2016		1,498,393
2017		1,136,511
2018-2022		4,425,783
Total Minimum Future Lease Payments	$	13,506,224

A summary of future operating lease revenues for the year ended August 31, 2012, is presented below:

Year Ended August 31, 2012		Total
2013	$	1,942,109
2014		1,086,244
2015		107,480
2016		108,643
2017		80,278
2018-2022		298,575
2023-2027		298,575
2028-2032		298,575
2033-2037		298,575
2038-2042		298,575
2043-2047		298,575
2048-2052		238,860
Total Minimum Future Lease Revenues	$	5,355,064

The cost and carrying amount of leased assets and depreciation on those assets is presented below.

Carrying Value of Leased Assets

Class of Property		Leased Assets		Accumulated Depreciation		Carrying Value
Building	$	14,990,679	$	4,384,623	$	10,606,056
Land		666,783		-		666,783
Totals	$	15,657,462	$	4,384,623	$	11,272,839

Note 8: Interagency Balances / Activity

As of August 31, 2012, 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

The Texas A&M Health Science Center 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, 2012, were as follows:

DUE FROM/TO OTHER STATE ENTITIES					
Entity		Due from Other State Entities		Due to Other State Entities	Purpose
Agency 720, University of Texas System	$	2,523,067	$		Shared cash in Permanent Endowment Fund
Agency 537, Department of State Health Services		65,773			Federal pass through funds related to contracts and grants
Agency 537, Department of State Health Services		67,153			State pass through funds related to contracts and grants
Agency 723, University of Texas Medical Branch at Galveston		81,577			Federal pass through funds related to contracts and grants
Agency 506, University of Texas M.D. Anderson Cancer Center		8,256			Federal pass through funds related to contracts and grants
Agency 506, University of Texas M.D. Anderson Cancer Center		157,479			State pass through funds related to contracts and grants
Agency 744, University of Texas Health Science Center at Houston		28,402			Federal pass through funds related to contracts and grants
Agency 785, University of Texas Health Center at Tyler		994			Federal pass through funds related to contracts and grants
Agency 542, Cancer Prevention and Research Institute of Texas		1,558,253			State pass through funds related to contracts and grants
Agency 729, University of Texas Southwestern Medical Center at D		6,500			State pass through funds related to contracts and grants
Agency 732, Texas A&M University - Kingsville		2,489			Federal pass through funds related to contracts and grants
Agency 710, Texas A&M University System		7,432,545			RFS/PUF debt proceeds
Texas A&M Research Foundation		2,769,770			Payroll reimbursement and indirect cost earnings
Agency 300, Governor, Fiscal				1,084,853	State pass through funds related to contracts and grants
	$	14,702,258	$	1,084,853	

TRANSFERS IN FROM/OUT TO OTHER STATE ENTITIES					
Entity		Transfers In from Other State Entities		Transfers Out to Other State Entities	Purpose
Agency 781, Texas Higher Education Coordinating Board	$		$	150,919	Tuition set asides
Agency 710, Texas A&M University System				1,196,942	Mandatory debt service
Agency 710, Texas A&M University System				170,208	System Endowment Fund appreciation reserve
Agency 710, Texas A&M University System		6,200,000			RFS/PUF debt proceeds
Agency 710, Texas A&M University System		969,998			System Endowment Fund appreciation reserve
Agency 710, Texas A&M University System		300,000			Grant matching funds
Agency 710, Texas A&M University System		27,001			Resource Allocation Program
Agency 556, Texas Agrilife Research		87,872			Capital Assets
Agency 712, Texas Engineering Experiment Station		2,358			Capital Assets
Agency 506, University of Texas M.D. Anderson Cancer Center		109,052			Capital Assets
	$	7,696,281	$	1,518,069	

LEGISLATIVE TRANSFERS IN/OUT					
Entity		Legislative Transfers In		Legislative Transfers Out	Purpose
Agency 710, Texas A&M University System	$		$	8,294,726	Mandatory Debt Service
	$	0	$	8,294,726	

Note 9: Contingent Liabilities

At August 31, 2012, various lawsuits and claims involving the Texas A&M Health Science Center and its members had arisen in the course of conducting Texas A&M Health Science Center business. While the ultimate liability with respect to litigation and other claims cannot be reasonably estimated at this time, management is of the opinion that the liability not provided for by insurance or otherwise, if any, for these legal actions will not have a material adverse effect on the A&M System's financial position.

Note 10: Risk Financing and Related Insurance

Risk financing and related insurance is managed centrally at the 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 the Texas A&M Health Science Center.

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

All commercial insurance policies include retention amounts (deductibles) for which the A&M System is responsible and for which A&M System members maintain funding reserve pools. Ongoing analysis of the risks facing the A&M System results in the continual evaluation of insurance policies purchased.

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

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

The A&M System implemented a self-insured health and dental plan on September 1, 1994, which is also considered a funded pool. Premiums are determined through an actuarial pricing process that takes place each spring. The A&M System maintains an experience stabilization fund of $51,188,287.56 that is comprised of excess premiums from previous years and is used to offset losses in a given year. Dental benefits under the plan are limited to $1,500 per individual per year, so the potential for catastrophic loss is not a significant risk.

The Texas A&M Health Science Center College of Medicine has established a medical student liability self-insurance plan (the Plan) to provide eligible medical students of the Texas A&M Health Science Center College of Medicine with medical malpractice liability indemnity from and against medical malpractice claims. Limits of liability are $25,000 per claim, $75,000 aggregate per participant, and $100,000 annual aggregate. The Plan is funded through a student participation fee. At August 31, 2012, the Plan had a balance of $311,424 with no accrued liabilities.

IBNR Liability

Plan	WCI		Health & Dental	
IBNR Liability 9/1/11	$	7,349,000	$	10,218,000
CY Claims Plus Change in Estimates		2,723,000		178,306,499
Claims Payments		(3,041,000)		(174,433,499)
Other Items (changes in estimates)		(463,000)		-
IBNR Liability 8/31/12	$	6,568,000	$	14,091,000

Note 11: Stewardship, Compliance, and Accountability

Changes to the financial reports of the Texas A&M Health Science Center are discussed in Note 1. The Texas A&M Health Science Center has no material violations of finance related legal and contract provisions. Per the laws of the State of Texas, the Texas A&M Health Science Center cannot spend amounts in excess of appropriations granted by the Texas Legislature and there are no deficits reported in net assets or retained earnings.

The Texas A&M Health Science Center Foundation is organized exclusively for the charitable, educational or scientific purposes of the Texas A&M Health Science Center and is operated exclusively to receive, hold, invest and administer property, real and personal, tangible and intangible, and to make expenditures to or for the benefit of the Texas A&M Health Science Center. The Texas A&M Health Science Center carried the Texas A&M Health Science Center Foundation in Agency Funds. As of August 31, 2012, the Texas A&M Health Science Center held funds for the Foundation in Agency Funds totaling $16,179,269.

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

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

Blended Component Unit

The **Texas A&M Research Foundation (Research Foundation)** has been included as a blended component unit in the combined financial statements of the A&M System since fiscal year 1990, at the direction of the State Auditor's Office. This determination is based on the close relationship and joint agreements in effect between the Research Foundation and the A&M System in regard to research grant/contract administration, as well as the fact that various officials of the A&M System serve as ex-officio voting and non-voting trustees, and members of the executive committee of the Research Foundation. The Research Foundation has a fiscal year end of August 31, 2012 and is Fund Type 05, Appd Fund 9999. Complete financial statements of the Research Foundation may be obtained from their administrative offices at 400 Harvey Mitchell Parkway South, Suite 100, College Station, Texas, 77845.

As of August 31, 2012, the Research Foundation had total Research and Development Expenditures for the Texas A&M Health Science Center of $29,534,885.

A new agency, A&M System- Office of Sponsored Research Services, now manages a number of the relationships and agreements that the Texas A&M Research Foundation has previously managed beginning in 2012. The intent is to move the majority of fiscal activity to each System member's financial statements. We will begin to see a reduction in the balances and activities reported by the Texas A&M Research Foundation.

Note 13: Employee Retirement Plans

Information included in this note is presented from a 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, 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% 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, 2012, the statutorily required contribution rate was 6.4% of annual compensation from active plan members and 6.0% of annual compensation from the A&M System.

For the years ended August 31, 2012, 2011, and 2010, the A&M System contributed 100% of the following statutorily required employer contributions:

	2012	**2011**	**2010**
Required Contribution Rate	6.00%	6.644%	6.644%
Contributions Required & Made	$1,854,599	$1,936,080	$1,985,134

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 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 A&M System may be required to make the employer contribution in lieu of the State. During the year ended August 31, 2012, the required State contribution rate was 6.00 percent and the A&M System's contribution rate was 0.40 percent of participants' annual compensation. For participants who enrolled in the plan on or before August 31, 1995, the A&M System's contribution was 2.50 percent.

For the year ended August 31, 2012, contributions to the ORP were as follows:

Optional Retirement Program

	Amount
Employer Contributions	$ 40,627,092
Employee Contributions	36,894,582
Total	$ 77,521,674

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

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

The retirement expense to the Texas A&M Health Science Center was $2,941,805 for the year ended August 31, 2012. Of this amount, $1,536,081 represents the portion of appropriations made by the State Legislature expended on behalf of the Texas A&M Health Science Center and $1,405,724 represents the portion paid from the Texas A&M Health Science Center's funds.

Note 14: Deferred Compensation

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

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

The State's 457 Plan complies with IRC Section 457. This plan is referred to as the Texa$aver Deferred Compensation Plan (DCP) and is available to all employees. The DCP is an employer-sponsored plan administered by the Employees Retirement System of Texas (ERS). A&M System employees are permitted to participate in the plan as an agency of the State. The deductions, purchased investments and earnings attributed to the 457 Plan are held in trust and belong to the participants. The State has no liability under the 457 Plan beyond the administrative requirements outlined in the corresponding provisions of the IRC.

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

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

Note 15: Donor-Restricted Endowments

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

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

Distribution is made quarterly 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 Uniform Prudent Management of Institutional Funds Act, Texas Property Code, Chapter 163, provides general guidelines on how endowments should be maintained.

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

Net Appreciation of Donor-Restricted Endowments

Donor-Restricted Endowments	Amount of Net Appreciation*	Reported in Net Assets
True Endowments	$ 65,655,987	Restricted for Expendable

* The total fiscal year 2012 fair value adjustment to the Fund was $39,832,113.

The amount of net appreciation for donor restricted endowments specific to the Texas A&M Health Science Center is $7,987,469.

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

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

Plan Description and Funding Policy

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired employees in accordance with State statutes. Substantially all of the employees may become eligible for those benefits if they reach normal retirement age while working for the State. Those and similar benefits for active employees are provided through the group insurance program, and premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expensing the annual premiums. For the year ending August 31, 2012, the employer contributions are presented below.

Employer Contribution Rates

Level of Coverage	Amount	
Full-Time Employee/Retiree Only	$	367
Full-Time Employee/Retiree and Spouse	$	552
Full-Time Employee/Retiree and Children	$	482
Full-Time Employee/Retiree and Family	$	644

For the year ended August 31, 2012, benefit plan expenses totaled $157,228,100. The cost of providing benefits for 7,415 retirees was $39,855,108; and for 22,149 active employees the cost was $117,372,992.

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

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

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

For the year ended August 31, 2012, the contributions for the self-funded plan by the state per full-time retired employee are shown in the following table. The retiree contributes any premium over and above state contributions.

Three-Year Schedule of Employer Contributions

Fiscal Year Ending	Employer Contribution	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation At End of Fiscal Year
8/31/2012	$ 63,131,287	$ 190,199,827	33%	$ 603,878,029
8/31/2011	$ 40,489,312	$ 174,919,214	23%	$ 476,809,489
8/31/2010	$ 40,173,687	$ 162,680,000	25%	$ 342,379,587

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

Annual OPEB Cost and Net OPEB Obligation

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

Annual OPEB Cost and Net OPEB Obligation

(in thousands of dollars)

Annual Required Contribution (ARC)	$ 180,940
Interest on Net OPEB Obligation	34,807
Adjustment to ARC	(25,547)
Annual OPEB Cost	190,200
Employer Contributions Made	(63,131)
Increase Net OPEB Obligation	127,069
Net OPEB Obligation 9/1/2011	476,809
Net OPEB Obligation 8/31/2012	$ 603,878

Schedule of Funding Progress of the Plan

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

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over AAL (Unfunded AAL) (a)-(b)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	Ratio of UAAL to Covered Payroll ((a-b)/c)
8/31/2010	$ -	$ 1,996,798,639	$ (1,996,798,639)	0.0%	$ 1,359,512,304	146.9%
9/1/2010	$ -	$ 1,854,690,001	$ (1,854,690,001)	0.0%	$ 1,313,538,458	141.2%
9/1/2009	$ -	$ 1,864,320,000	$ (1,864,320,000)	0.0%	$ 1,315,291,687	141.7%

Actuarial Methods and Assumptions

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

Summary of Actuarial Methods and Assumptions

Actuarial Valuation Date	September 1, 2011
Actuarial Cost Method	Entry Age Normal
Amortization Method	Open
Remaining Amortization Period of Unfunded Liability	30 years
Actuarial Assumptions:	
Investment Rate of Return	7.3%
Inflation	3.0%
Health Care Trend Rates	9.5% in 2012
	Decreasing to 5.0% in 2021

Medicare Part D

In fiscal year 2012 the plan received payments from the federal government pursuant to the retiree drug subsidy provisions of Medicare Part D. GASB Statement No. 24, *Accounting and Financial Reporting* *for Certain Grants and Other Financial Assistance*, requires that these on-behalf payments be recorded as revenues and expenses of each plan. In fiscal year 2012 the system received $3,834,332 of Medicare Part D payments from the federal government.

Note 17: Disaggregation of Receivable and Payable Balances

A summary of accounts receivable and associated allowances for doubtful accounts balances and accounts payable balances for the Texas A&M Health Science Center for the year ended August 31, 2012, is presented below:

Current Receivables			Amount on SNA
Federal Receivables			1,125,686
Gift, Pledges & Donations			178,634
Student Receivables			57,393
Accounts Receivable			3,017,108
	Total		4,378,821
Current Accounts Payable			
Accounts Payable			3,127,233
Payroll Payable			8,942,944
Other			9,636
	Total		12,079,813

Note 18: Termination Benefits

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

As of August 31, 2012, the A&M System has not incurred obligations to pay voluntary or involuntary termination benefits in fiscal year 2013.

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

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

As part of the stimulus funding from the federal government, some terminated employees were eligible for the 65% subsidy for COBRA coverage. The Federal Department of Labor agreed to reimburse employers the 65% COBRA reimbursement up to 15 months. This applies to employees who were involuntarily terminated between September 1, 2008 and May 31, 2010. The maximum end of the 15 month payment period was August 31, 2011. The remaining balances received in fiscal year 2012 totaled $1,805.

COBRA benefits for the A&M System for the year ended August 31, 2012 are as follows:

Termination Benefits - COBRA

Enrollment

	Self-Insured Medical Plan	Self-Insured Dental Plan	Fully-Insured Medical HMO Plans	Fully-Insured Dental Plan	Fully-Insured Vision Plan
Number of Participants	208	115	16	27	137

Self-Insured Activity

	Self-Insured Medical Plan	Self-Insured Dental Plan
Premium Revenue	$ 940,024	$ 69,165
2 Percent Administrative Fee Revenue	18,800	1,383
Total COBRA Revenue	958,824	70,548
Claims Paid	1,985,079	154,429
Administrative Expenses	27,680	6,694
Total COBRA Expenses	2,012,759	161,123
Total Cost to State	$ 1,053,935	$ 90,575

State Auditor's Office
John Keel, CPA
State Auditor

April 1, 2013

Dr. E. J. Pederson, Interim President
Texas A&M University System Health Science Center
8441 State Highway 47
Clinical Bldg 1, Suite 3100
Bryan, TX 77807

Subject: Management Letter Resulting from a Review of Texas A&M University System Health Science Center's Fiscal Year 2012 Financial Statements

Dear Dr. Pederson:

We offer this management letter in conjunction with our review of the financial statements of the Texas A&M University System Health Science Center (Health Science Center) as of and for the fiscal year ended August 31, 2012, on which we have issued our report dated April 1, 2013. We reviewed the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. In the course of our review, which was substantially less in scope than an audit, we did not find that material modifications needed to be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

We appreciate the assistance provided during this review by the management of the Health Science Center and internal audit. If you have any questions, please call me at (512) 936-9500.

Sincerely,

Nicole M. Guerrero

Nicole M. Guerrero, MBA, CIA, CGAP, CICA
Audit Manager

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TEXAS WOMAN'S UNIVERSITY

Financial Statements
and Independent Accountant's Review Report

FOR THE YEAR ENDED
AUGUST 31, 2012

Texas Woman's University

Financial Statements

For the Fiscal Year Ended August 31, 2012

Contents

State Auditor's Office
John Keel, CPA
State Auditor

Independent Accountant's Review Report

Dr. Ann Stuart, Chancellor and President
Texas Woman's University
P.O. Box 425587
Denton, TX 76204-5587

We have reviewed the accompanying Statement of Net Assets of Texas Woman's University (University) as of August 31, 2012, and the related Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows for the year then ended. A review includes primarily applying analytical procedures to the University's financial data and making inquiries of University personnel. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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

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

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

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

This report is intended for use by the board of regents of Texas Woman's University, 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 20, 2013

SAO Report No. 13-327

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Throughout its first century and into the first decade of its second, Texas Woman's University has relied upon conservative financial policies to retain institutional stability and viability. While other institutions have the luxury of support from billion dollar endowments, TWU, as an institution primarily for women, has been less fortunate. Still, the University's financial position is stout and stable, as illustrated in the year-to-year comparison below:

Statement of Net Assets

		FY12		FY11	% Change	$ Change
Current Assets	$	167,182,729	$	160,419,979	4.22%	6,762,750
Capital Assets (Net of Depreciation)		236,017,246		240,193,228	-1.74%	(4,175,982)
Other Non-current Assets		103,024,850		103,951,083	-0.89%	(926,233)
Total Assets	$	506,224,825	$	504,564,290	0.33%	1,660,535
Current Liabilities		57,876,455		62,562,683	-7.49%	(4,686,228)
Non-Current Liabilities		80,674,698		85,765,530	-5.94%	(5,090,832)
Total Liabilities	$	138,551,153	$	148,328,213	-6.59%	(9,777,060)
Net Assets						
Invested in Capital (Net of Debt)	$	153,126,694	$	151,626,132	0.99%	1,500,562
Restricted		102,943,290		96,468,176	6.71%	6,475,114
Unrestricted		111,603,688		108,141,769	3.20%	3,461,919
Total Net Assets	$	367,673,672	$	356,236,077	3.21%	11,437,595
Current Ratio		2.89		2.56	Current Assets / Current Liabilities	
Debt/Asset Ratio		0.27		0.29	Total Liabilities / Total Assets	
Debt - to - Unrestricted Net Assets		0.22		0.24	Non-Current Liabilities / Unrestricted Net Assets	

Improvement in each ratio above.

The increase of over 3% in Net Assets was realized primarily as a result of a reduction in long-term debt though the refunding issue of bonds. On June 5, 2012 the University issued $17,915,000 in Revenue Financing System Refunding Bonds (RFSRB-2012) with an average interest rate of 2.422% to refund $18,860,000 of outstanding bonds from 3 earlier series with an average interest rate of 4.922%. Additional information is available in Note 5.

With the absence of significant endowed resources, TWU operations remain dependent on support from the state and on board designated tuition. In FY12, state appropriated funds for operations dropped by $8.5 Million, or 12.6%. The results are evident in the year-to-year comparison of key values of the Operating Statement, particularly in the Non-Operating section:

Statement of Revenues, Expenditures and Changes in Net Assets

		FY12		FY11	% Change	$ Change
Operating Revenues						
Net Tuition and Fee Revenue	$	69,429,245	$	63,655,783	9.07%	5,773,462
Net Auxiliary Revenue		22,598,202		19,723,858	14.57%	2,874,344
Other Operating Revenue		11,822,329		15,244,187	-22.45%	(3,421,858)
Total Operating Revenue	$	103,849,776	$	98,623,828	5.30%	5,225,948
Operating Expenses						
Cost of Goods Sold	$	58,311	$	65,295	-10.70%	(6,984)
Salaries and Wages		84,467,935		82,247,395	2.70%	2,220,540
Payroll Related Costs		21,129,066		20,582,331	2.66%	546,735
Professional Fees and Services		2,592,417		1,456,647	77.97%	1,135,770
Travel		1,813,242		1,660,809	9.18%	152,433
Materials and Supplies		13,590,118		15,381,125	-11.64%	(1,791,007)
Communications and Utilities		7,075,669		6,979,852	1.37%	95,817
Repairs and Maintenance		3,800,832		4,049,313	-6.14%	(248,481)
Rentals and Leases		2,031,394		1,392,592	45.87%	638,802
Printing and Reproduction		641,526		633,812	1.22%	7,714
Depreciation and Amortization		14,433,498		11,194,973	28.93%	3,238,525
Bad Debt Expense		906,204		628,508	44.18%	277,696
Scholarships		15,790,641		15,420,757	2.40%	369,884
Other Operating Expenses		6,759,625		6,347,260	6.50%	412,365
Total Operating Expenses	$	175,090,478	$	168,040,668	4.20%	7,049,810
Operating Income (Loss)		(71,240,702)		(69,416,839)	2.63%	(1,823,863)

Continued on next page

Statement of Revenues, Expenditures and Changes in Net Assets *(continued)*						
		FY12		**FY11**	**% Change**	**$ Change**
Non-Operating Revenue (Expense)						
Legislative Appropriations	$	57,329,231	$	65,571,760	-12.57%	(8,242,529)
Gifts		1,186,173		1,829,107	-35.15%	(642,934)
Interest and Investment Income (Loss)		4,566,882		4,236,899	7.79%	329,983
Investing Activities Expense		(189,627)		(247,195)	-23.29%	57,568
Change in Fair Value of Investments		674,459		755,919	-10.78%	(81,460)
Interest Expense and Fiscal Charges		(4,416,103)		(4,107,853)	7.50%	(308,250)
Gain (Loss) on Sale of Capital Assets		(4,222,536)		(763,860)	452.79%	(3,458,676)
Other Non-Operating Items		20,047,647		21,111,808	-5.04%	(1,064,161)
Total Nonoperating Revenues (Expenses)	$	74,976,126	$	88,386,585	-15.17%	(13,410,459)
Gains, (Losses) & Xfrs	$	8,044,672	$	8,105,577	-0.75%	(60,905)
Change in Net Assets	$	11,780,096	$	27,075,323	-56.49%	(15,295,227)
Net Operating Ratio		0.0723		0.1478	(Total Revenue - Total Expenses) / Total Revenue	

At over 50%, the decline in this ratio is ominous…

The primary reason is the continuing decline in state appropriated support.

In addition to the decline in state appropriations, revenue from gifts also declined, and a loss was sustained on the disposal of Capital Assets. The capital loss was a unique transaction that resulted from the combination of the University's Dallas operations at the new TWU T. Boone Pickens Institute of Health Sciences-Dallas Center. This new campus opened in January 2011, but the sale of the old campus property at Presbyterian Hospital in Dallas was delayed until FY 2012. A capital gain recognized in FY2011 from sale of the former Dallas Parkland campus offsets the loss on the Presbyterian Campus recognized in FY2012.

As a result of declining state support and a one-time capital loss, the University suffered a 9% reduction in its Composite Financial Index (CFI). While the drop in CFI is disappointing, the current score shows a secure financial status to sustain the University's initiatives as it competes for future resources. Information about the CFI, its calculation and its meaning are provided on the following two pages.

Composite Financial Index (CFI) for Texas Woman's University

Core Ratio Values	FY12	FY11	FY10	FY09	FY08	FY07	FY12	FY11	FY10	FY09	FY08	FY07
	TWU's Composite Financial Index (CFI) History											
	Ratios						Converted & Weighted					
Primary Reserve	1.1461	1.0640	1.1100	1.1521	1.0424	0.8003	3.0162	2.7999	2.9211	3.0319	2.7431	2.1061
Net Operating Revenues	0.0204	0.0991	0.1016	0.1097	0.0836	0.1431	0.1568	0.7625	0.7813	0.8437	0.6434	1.1010
Return on Net Assets	0.0351	0.0821	0.0832	0.0958	0.0694	0.1283	0.3514	0.8212	0.8325	0.9576	0.6937	1.2830
Viability	2.4397	2.0666	1.9603	2.2015	2.3207	2.4382	2.0477	1.7345	1.6453	1.8478	1.9478	2.0465
				Composite Financial Index >			**5.5721**	**6.1182**	**6.1802**	**6.6810**	**6.0279**	**6.5366**

After sustaining a CFI of 6+ for the last 5 years, the decline experienced in FY12 is disappointing. While management can work to improve the revenue recognized from gifts, and no significant disposal of capital assets is contemplated, the flow of appropriations from the state is in the hands of the legislature currently in session. Based on the original bills posted in January 2013, it appears that state appropriations for TWU in the next biennium will remain very close to those budgeted for the FY12-13 biennium.

FY12 vs. FY11	Ratios			Converted & Weighted				
Change in Core Ratios	**FY12**	**FY11**	**Δ**	**FY12**	**FY11**	**Δ**	***Narrative Analysis***	**%Δ**
Primary Reserve	1.1461	1.0640	0.0822	3.0162	2.7999	0.2162	*The Primary Reserve climbed back to its FY09 peak.*	7.7%
Net Operating Revenues	0.0204	0.0991	(0.0787)	0.1568	0.7625	(0.6057)	*A precipitous decline in Net Operating Revenue Ratio*	-79.4%
Return on Net Assets	0.0351	0.0821	(0.0470)	0.3514	0.8212	(0.4699)	*A significant decline in Return on Net Asset Ratio*	-57.2%
Viability	2.4397	2.0666	0.3732	2.0477	1.7345	0.3132	*Viability Ratio ascended to a new high.*	18.1%
	Composite Financial Index >			5.5721	6.1182	(0.5461)	***Net Result is a 9% drop in the CFI.***	-8.9%
				An $8.2 Million reduction in State Appropriated Revenue was the principal cause for this drop				

Composite Financial Index (CFI) Information and Methodology

http://www.cic.org/projects_services/infoservices/fit/cfi_information.asp

The Composite Financial Index (CFI) provides a more complex picture of the financial health of the institution at a point in time than is possible by simply comparing multiple indicators. Examining the trend of an institution's CFI score over an extended period offers a more stable long-term view of an institution's financial performance, given fluctuations in institutional conditions, and external circumstances, such as market performance.

The CFI includes four commonly used financial ratios:

Primary Reserve Ratio – A measure of the level of financial flexibility

Net Operating Revenues Ratio – A measure of the operating performance

Return on Net Assets Ratio – A measure of overall asset return and performance

Viability Ratio – A measure of the ability to cover debt with available resources

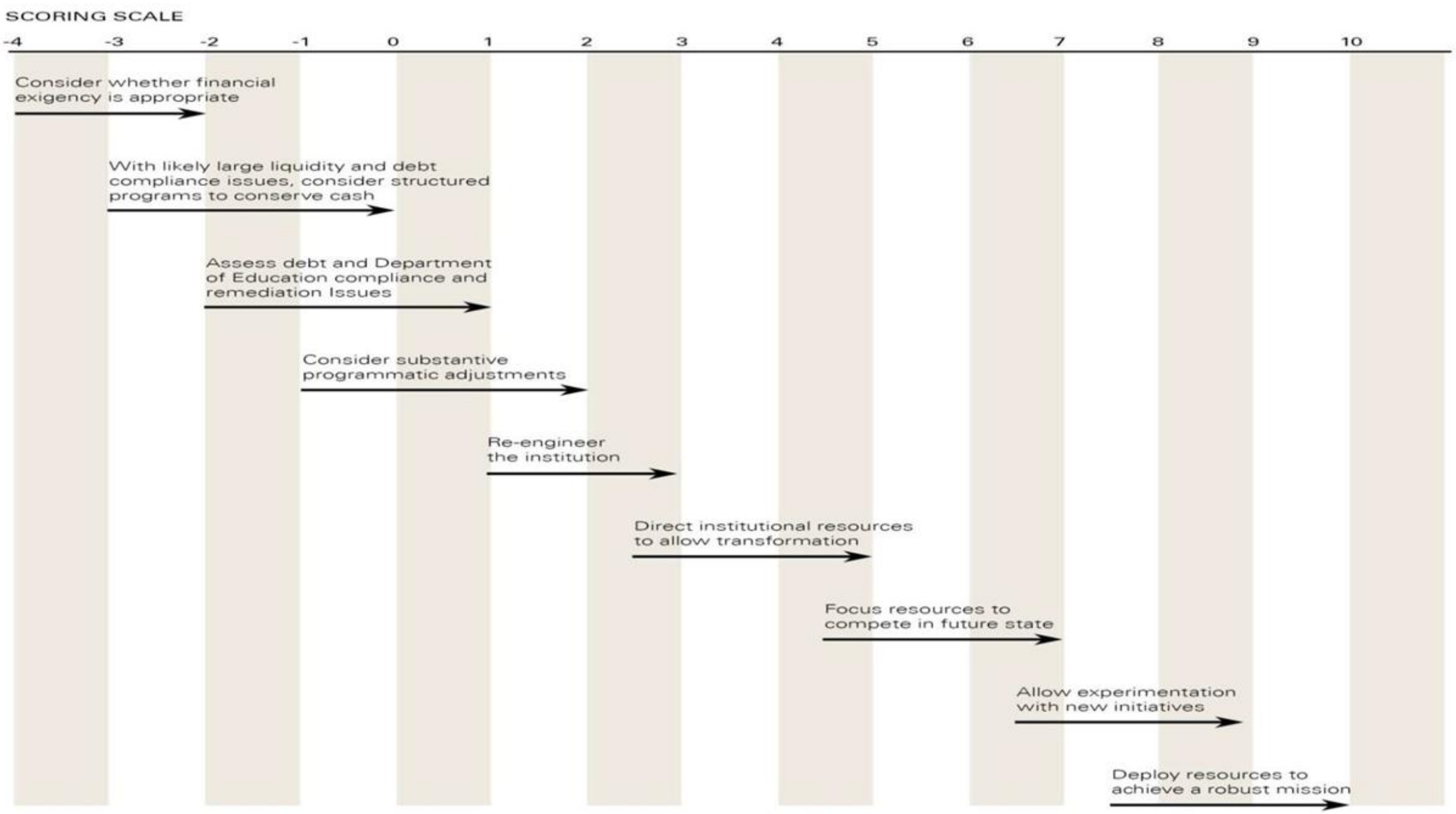
Continued on next page

Once each of the four ratios is calculated, the relative strength of the score, or strength factor, and its importance in the mix of creating a composite score, or weight, are computed. The result is one weighted score for each indicator that when added together produces the Composite Financial Index.

The strength factors and CFI score are standardized scores that fall along a scale of -1 to 10. A CFI score of 3 is the threshold of institutional financial health. A score of less than 3 indicates a need for serious attention to the institution's financial condition. A score of greater than 3 indicates an opportunity for strategic investment of institutional resources to optimize the achievement of institutional mission.

Scale from NACUBO presentation, Composite Financial Index, Measuring Reporting and Monitoring

FIGURE 10.1: SCALE FOR CHARTING CFI PERFORMANCE



FINANCIAL STATEMENTS

Texas Woman's University
Statement of Net Assets
August 31, 2012

(See Independent Accountant's Report on Page 1)

ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 3)	$	51,291,674
Short-Term Investments (Note 3)		3,738,662
Restricted:		
Cash and Cash Equivalents (Note 3)		32,076,523
Short-Term Investments (Note 3)		27,980,007
Legislative Appropriations		27,623,064
Receivables, Net of Allowances:		
Student Accounts		11,794,162
Federal		2,093,296
Interest and Dividends		656,661
Texas Grants		1,763,077
Other		337,504
Due from Other State Entities (Note 8)		220,251
Consumable Inventories		847,289
Prepaid Expenses		979,397
Loans and Contracts		5,781,163
Total Current Assets	$	167,182,729
Non-Current Assets		
Restricted:		
Cash and Cash Equivalents (Note 3)	$	31,718,669
Investments (Note 3)		71,306,181
Capital Assets (Note 2):		
Non-Depreciable		4,846,666
Depreciable and Amortizable		394,280,663
Less: Accumulated Depreciation and Amortization		(163,110,083)
Total Non-Current Assets	$	339,042,096
Total Assets	$	506,224,825

Texas Woman's University
Statement of Net Assets (*continued*)
August 31, 2012

LIABILITIES		
Current Liabilities		
Payables:		
Accounts	$	2,401,295
Payroll		8,636,236
Due to Other State Entities (Note 8)		323,564
Deferred Revenue		37,861,792
Capital Lease Obligations (Notes 4, 6)		223,230
Employees' Compensable Leave (Note 4)		2,034,436
Accrued Bond Interest Payable		555,882
Revenue Bonds Payable (Notes 4, 5)		4,691,123
Other Current Liabilities		1,148,897
Total Current Liabilities	$	57,876,455
Non-Current Liabilities		
Capital Lease Obligations (Notes 4, 6)	$	1,167,322
Employees' Compensable Leave (Note 4)		1,260,601
Revenue Bonds Payable (Notes 4, 5)		78,246,775
Total Non-Current Liabilities	$	80,674,698
Total Liabilities	$	138,551,153
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$	153,126,694
Restricted for:		
Non-Expendable		
Permanent Funds, True Endowments, Annuities		9,363,204
Expendable		
Debt Retirement		4,923,499
Capital Projects		59,531,672
Funds Functioning as Endowments		1,324,111
Other		27,800,804
Unrestricted		111,603,688
Total Net Assets	$	367,673,672

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

Texas Woman's University
Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended August 31, 2012

(See Independent Accountant's Report on Page 1)

OPERATING REVENUES		
Tuition and Fees - Non-Pledged	$	807,869
Tuition and Fees - Pledged		89,506,473
Discounts and Allowances		(20,885,097)
Auxiliary Enterprises - Pledged		27,561,651
Discounts and Allowances		(4,963,449)
Federal Revenue		3,592,966
State Grant Revenue		5,693,290
Other Operating Grant Revenue		1,059,097
Other Operating Revenues		1,476,976
Total Operating Revenues	$	103,849,776
OPERATING EXPENSES		
Cost of Goods Sold	$	58,311
Salaries and Wages		84,467,935
Payroll Related Costs		21,129,066
Professional Fees and Services		2,592,417
Travel		1,813,242
Materials and Supplies		13,590,118
Communications and Utilities		7,075,669
Repairs and Maintenance		3,800,832
Rentals and Leases		2,031,394
Printing and Reproduction		641,526
Depreciation and Amortization		14,433,498
Bad Debt Expense		906,204
Scholarships		15,790,641
Other Operating Expenses		6,759,625
Total Operating Expenses	$	175,090,478
Operating Income (Loss)	$	(71,240,702)

Texas Woman's University
Statement of Revenues, Expenses and Changes in Net Assets (*continued*)
For the Fiscal Year Ended August 31, 2012

NONOPERATING REVENUES (EXPENSES)		
Legislative Appropriations	$	57,329,231
Gifts		1,186,173
Interest and Investment Income (Loss)		4,566,882
Investing Activities Expense		(189,627)
Net Increase (Decrease) in Fair Value of Investments		674,459
Interest Expense and Fiscal Charges		(4,416,103)
Gain (Loss) on Sale of Capital Assets		(4,222,536)
Other Nonoperating Revenues - Pledged		20,061,647
Other Nonoperating Expenses		(14,000)
Total Nonoperating Revenues (Expenses)	$	74,976,126
Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers	$	3,735,424
OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS		
Capital Appropriations (HEAF)	$	10,169,695
Transfers Out to Other State Entities (Note 8)		(2,125,023)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	$	8,044,672
CHANGE IN NET ASSETS	$	11,780,096
Net Assets, September 1, 2011	$	355,730,744
Restatements (Note 12)		162,832
Net Assets, September 1, 2011, as Restated	$	355,893,576
NET ASSETS, August 31, 2012	$	367,673,672

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

Texas Woman's University
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2012

(See Independent Accountant's Report on Page 1)

CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Tuition and Fees	$	69,429,245
Proceeds from Research Grants and Contracts		10,345,353
Proceeds from Auxiliaries		22,598,202
Proceeds from Other Revenues		1,476,976
Payments to Suppliers for Goods and Services		(31,793,137)
Payments to Employees for Salaries		(84,467,935)
Payments to Employees for Benefits		(21,129,066)
Payments for Loans Provided		(9,594,865)
Payments for Other Expenses		(6,534,266)
Net Cash Provided (Used) by Operating Activities	$	(49,669,493)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Legislative Appropriations	$	55,204,208
Proceeds from Gifts		1,186,173
Proceeds from Other Sources		20,061,647
Net Cash Provided (Used) by Non-Capital Financing Activities	$	76,452,028
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from State Appropriations (HEAF)	$	10,169,695
Proceeds from Issuance of Capital-Related Debt		19,743,712
Payments for Additions to Capital Assets		(14,480,052)
Payments of Principal on Capital-Related Debt		(23,380,000)
Payments of Interest on Capital-Related Debt		(3,860,221)
Payments of Other Costs of Capital-Related Debt		(268,261)
Net Cash Provided (Used) by Capital and Related Financing Activities	$	(12,075,127)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales of Investments	$	40,375,177
Proceeds from Interest and Investment Income		4,566,882
Proceeds from Principal Payment on Bonds		1,398,150
Payments to Acquire Investments		(44,540,864)
Net Cash Provided (Used) by Investing Activities	$	1,799,345
Net Increase (Decrease) in Cash and Cash Equivalents	$	16,506,753
Cash and Cash Equivalents, September 1, 2011	$	98,580,113
Cash and Cash Equivalents, August 31, 2012	$	115,086,866

Texas Woman's University
Statement of Cash Flows *(continued)*
For the Fiscal Year Ended August 31, 2012

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	$	(71,240,702)
Adjustments:		
Depreciation and Amortization	$	14,433,498
Bad Debt Expense		906,204
Operating Income and Cash Flow Categories:		
Classification Differences		
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		12,020,585
(Increase) Decrease in Due from Other Entities		554,817
(Increase) Decrease in Inventories		(71,569)
(Increase) Decrease in Prepaid Expenses		44,176
Increase (Decrease) in Payables		(150,829)
Increase (Decrease) in Due to Other Entities		(622,297)
Increase (Decrease) in Deferred Revenue		(5,454,394)
Increase (Decrease) in Employees' Compensable Leave		(101,636)
Increase (Decrease) in Other Liabilities		12,654
Total Adjustments	$	21,571,209
Net Cash Provided (Used) by Operating Activities	$	(49,669,493)
Non-Cash Transactions		
Net Increase (Decrease) in Fair Value of Investments	$	674,459
Disposal of Capital Assets		4,222,536

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

General Introduction

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

Note 1: Summary of Significant Accounting Policies

Reporting Entity

Texas Woman's University (TWU) was created in 1901 by an Act of the Twenty-Seventh Legislature of the State of Texas, and the enacting statute laid a strong foundation for a multi-purpose institution of higher education. As a publicly funded institution, TWU's financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' Reporting Requirements for State Agencies and State Colleges and Universities.

Prepared for the University's decennial accreditation process, these financial statements for the fiscal year ending August 31, 2012 meet all requirements delineated in Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The financial Statements include the Statement of Net Assets, the Statement of Revenues, Expenditures, and Changes in Net Assets, and the Statement of Cash Flows.

As part of the preparation of this financial report, consideration was given to the requirements of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The results of this evaluation determined that Texas Woman's University has neither Blended nor Discrete Component Units. Consequently, these statements present the financial position and results of operations for TWU alone.

Fund Type, Measurement Focus, and Basis of Accounting

For financial reporting purposes, Texas Woman's University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been prepared and presented as an Enterprise Fund, using the economic resources measurement focus and the accrual basis of accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements.

Under the accrual basis, revenues are recognized when earned, and expenses are recorded when a liability has been incurred. All significant intra-agency transactions have been eliminated. 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 as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The University does not apply FASB pronouncements issued after November 30, 1989 in the preparation of the accompanying financial statements.

Assets, Liabilities, and Net Assets

ASSETS

Cash and Cash Equivalents

For purposes of the statements of cash flows, the University has adopted the definition provided in GASB Statement No. 9, and considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted Assets

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

Inventories

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

Capital Assets

For classification of property assets, the University subscribes to the definitions and useful life classifications provided in the State Property Accounting Manual. These can be reviewed at https://fmx.cpa.state.tx.us/fmx/spa/classcodes/index.php

Assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year should be capitalized. These assets are capitalized at cost or estimated historical cost, if actual historical cost is not available. Donated assets are reported at fair value on the acquisition date. Depreciation is charged to operations over the estimated useful life of the asset using the straight-line method. Categories and Useful Life for Capital Assets is shown in tabular form below.

Capital Asset Categories and Assumed Useful Life	Capitalization	(Months)
Category/Description	**Threshold**	**Useful Life**
Land and Land Improvements	$ -	N/A
Buildings and Building Improvements	$ 100,000	360
Infrastructure, Depreciable	$ 500,000	312
Furniture and Equipment	$ 5,000	120
Vehicles, Boats and Aircrafts	$ 5,000	60 - 120
Construction in Progress	$ -	N/A
Infrastructure, Non-Depreciable	$ -	N/A
Other Assets (Artwork, Libraries, Leasehold Improvements)	Various	120 - 180
Facilities and Other Improvements	$ 100,000	120 - 300
Land Use Rights	Various	0 - 120
Computer Software	Various	60 - 72
Other Intangible Capital Assets	$ 100,000	0 - 120

Other Receivables

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

LIABILITIES

Accounts Payable

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

Employees Compensable Leave Balances

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

Bonds Payable-Revenue Bonds

Revenue bonds are reported at par. Payables are reported separately as either current or non-current in the statement of net assets.

NET ASSETS

The difference between fund assets and liabilities is "Net Assets".

Net assets are divided into three components—invested in capital assets, restricted, and unrestricted.

Invested in Capital Assets, Net of Related Debt

This amount represents the total amount of capital assets, net of accumulated depreciation and net of outstanding balances for bonds and other debt that is attributed to the acquisition, construction, or improvement of those assets.

Restricted

Restricted net assets represent resources that are constrained to a particular purpose, and are presented according to the purposes to which they are limited. Grants, Student Loan Funds and Endowment assets are included in this category. Restricted net assets result when constraints placed on net assets are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. Generally, when an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards the restricted resources and then towards the unrestricted resources.

Unrestricted

This represents all resources not included in the other components. These resources can be considered usable for any purpose, though they may not be in a spendable form, like cash. Unrestricted net assets often have constraints on resources, which are imposed by management but can be removed or modified.

CLASSIFICATION OF REVENUE

Operating Revenues

Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, and (3) most Federal, state and local grants and contracts.

Non-operating Revenues

Non-operating revenues include activities that have the characteristics of non-exchange transactions such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9 and GASB No. 34, such as state appropriations and investment income.

EXPENSES

As a general operating policy the University applies restricted funds first in the payment of expenses for which both restricted and unrestricted funds are available.

Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2012, is presented below:

	Balance 9/1/2011	Completed Construction in Progress	Additions	Deductions	Balance 8/31/2012
Non-Depreciable and Non-Amortizable Assets:					
Land and Land Improvements	$ 4,846,666	$	$	$	$ 4,846,666
Construction in Progress	10,316,509	(21,798,391)	11,481,882		0
Total Non-Depreciable Assets	$ 15,163,175	$ (21,798,391)	$ 11,481,882	$ 0	$ 4,846,666
Depreciable and Amortizable Assets:					
Buildings and Building Improvements	$ 315,128,511	$ 20,945,517	$	$ (8,833,823)	$ 327,240,205
Infrastructure	10,647,913	852,874			11,500,787
Facilities and Other Improvements	6,782,720				6,782,720
Furniture and Equipment	21,895,530		2,183,045	(1,213,063)	22,865,512
Vehicles, Boats, and Aircraft	2,074,263		269,738		2,344,001
Computer Software – Intangible	3,199,146		262,642	(127,335)	3,334,453
Other Capital Assets					
Library Books	20,536,399		282,744	(653,158)	20,165,985
Museum and Art	47,000				47,000
Total Depreciable and Amortizable Assets at Historical Cost	$ 380,311,482	$ 21,798,391	$ 2,998,169	$ (10,827,379)	$ 394,280,663
Less Accumulated Depreciation and Amortization for:					
Buildings and Building Improvements	$ (103,796,017)	$	$ (11,447,777)	$ 4,797,493	$ (110,446,301)
Infrastructure	(10,494,723)		(51,083)		(10,545,806)
Facilities and Other Improvements	(5,367,962)		(203,259)		(5,571,221)
Furniture and Equipment	(14,322,817)		(1,895,870)	1,026,857	(15,191,830)
Vehicles, Boats, and Aircraft	(1,482,848)		(161,010)		(1,643,858)
Computer Software – Intangible	(3,156,293)		(27,183)	127,335	(3,056,141)
Other Capital Assets					
Library Books	(16,614,352)		(647,115)	653,158	(16,608,309)
Museum and Art	(46,417)		(200)		(46,617)
Total Accumulated Depreciation and Amortization	$ (155,281,429)	$ 0	$ (14,433,497)	$ 6,604,843	$ (163,110,083)
Depreciable and Amortizable Assets, Net	$ 225,030,053	$ 21,798,391	$ (11,435,328)	$ (4,222,536)	$ 231,170,580
Capital Assets, Net	$ 240,193,228	$ 0	$ 46,554	$ (4,222,536)	$ 236,017,246

One notable change in the Depreciable Capital Asset category is seen in the “Deduction” column above. With the consolidation of the University’s Dallas-based operations at the TWU T. Boone Pickens Institute of Health Sciences-Dallas Center, the sale of the old campus building near Presbyterian Hospital was completed, resulting in a net reduction of approximately $9 Million in this asset category.

Note 3: Deposits, Investments, and Repurchase Agreements

DEPOSITS				
Bank Deposits (all deposits covered by FDIC insurance)		Carrying Amount		Bank Balance
Cash in Bank	$	4,235,854	$	5,767,161
Total Bank Deposits	$	4,235,854	$	5,767,161
Composition of Cash and Cash Equivalents		Carrying Amount		
Cash on Hand	$	15,390		
Cash in State Treasury		12,530,096		
Total Bank Deposits (per above)		4,235,854		
Other Cash Equivalents (included in the Investments note disclosure)		98,305,526		
Total Cash and Cash Equivalents	$	115,086,866		
Cash and Cash Equivalents per Statement of Net Assets		Carrying Amount		
Cash and Cash Equivalents - Current Assets	$	51,291,674		
Cash and Cash Equivalents - Current Assets, Restricted		32,076,523		
Cash and Cash Equivalents - Non-Current Assets, Restricted		31,718,669		
Total Cash and Cash Equivalents per Statement of Net Assets	$	115,086,866		

INVESTMENTS

The University's Investment holdings and activity are governed by the Investment Policy adopted by the Board of Regents (http://www.twu.edu/regents/investment-policy.asp), which is, in turn, styled to assure compliance with the Public Funds Investment Act of the State of Texas (Texas Gov't Code 2256). Accordingly, the investment portfolio is very conservative, and investments are actively managed by SEC certified Investment Advisory firms. Credit risk, interest rate risk, and foreign currency risk are all minimized by the strictures of the Regents' Investment Policy. This policy driven risk aversion is illustrated in the objectives stated in this brief excerpt:

It is the policy of Texas Woman's University to invest its funds primarily in instruments that emphasize the safety of the capital as well as the expected return on the investment. Investment decisions are based on the overall investment strategy of the University rather than the performance of any single investment instrument. The investment policy is governed by the following objectives:

> The investment instruments provide a measure of safety that protects the original principal contribution. The primary aim of the investment is the avoidance of the loss of original investment.
>
> The investment instruments provide the necessary liquidity to meet the University's daily operating and planned capital improvement needs which might be reasonably anticipated.
>
> The investment portfolio will be designed to provide an average yield equal to or greater than the yield on U. S. Treasury securities of comparable maturity to its maximum weighted average maturity. The objective is to maintain a reasonable rate of return on investments through budgetary and economic cycles in line with the University's investment risk constraints and cash flow needs.

Additional evidence of risk aversion is evident in the quality of investments held:

Standard & Poor's Rating for Investments Held			
Investment Type	**AAA**	**AA+**	**A**
U.S. Government Agency Obligations	2,325,792	17,076,128	1,322,928
Corporate Obligations	4,680,392	37,343,888	1,006,615
Corporate Asset and Mortgage Backed Securities		7,328,553	

Since 2008, recession, turbulence in security markets, and Federal Reserve policy have created an environment with historically low short term investment yields. As a result the target maturities of fixed income securities in TWU's portfolio have stretched to longer durations. Average modified duration for the fixed income investments in both portfolios is shown below:

Modified Duration for Endowment Portfolio	
Duration (Years)	**Par Value**
Under 5	995,000
6 - 10	625,000
11 - 20	1,150,000
21 - 27	937,526
Total Par	3,707,526

Modified Duration for General Portfolio	
Duration (Years)	**Par Value**
Under 5	49,004,195
6 - 10	35,098,474
Total Par	84,102,669

Valuation for all true investments is based on quoted market value at the close of business on August 31st. For the category "Other Pooled Investment Funds", the entire amount is attributed to the University's accounts in TexPool (a 2a7-like investment pool, for which valuation is based on by net asset value per share of $1.00 USD per share) and other Money Market Accounts. These accounts are reported as Cash Equivalents in the Statement of Net Assets.

Investment Security Types	$ Market Value	% Portfolio
U.S. Treasury Securities	24,669,518	12.25%
U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, etc)	20,724,848	10.29%
Corporate Obligations	43,030,895	21.37%
Corporate Asset and Mortgage Backed Securities	7,328,552	3.64%
Domestic Equity	6,269,154	3.11%
International Equity (ETF and Index Funds)	965,401	0.48%
Other Pooled Investment Funds	98,342,008	48.85%
Total	201,330,376	100.00%

Reconciliation of Investments per Note Disclosure to Investment Accounts on the Statement of Net Assets		
Total Investments, per above disclosure	$	201,330,376
Less Investments included on the Statement of Net Assets in Cash Equivalents line items		(98,305,526)
Total Investment Accounts on the Statement of Net Assets	$	103,024,850
Investment Accounts on the Statement of Net Assets		
Current Assets – Short-Term Investments	$	3,738,662
Current Assets – Restricted Short-Term Investments		27,980,007
Non-Current Assets – Investments		71,306,181
Total Investments per Statement of Net Assets	$	103,024,850

Note 4: Summary of Long-Term Liabilities

Changes in Long Term Liabilities

The table below summarizes the changes that occurred in liabilities during the year ended August 31, 2012.

		Balance 9/1/2011		Additions		Deductions		Balance 8/31/2012		Amounts Due Within One Year		Non-Current Amounts
Capital Lease Obligations	$	1,602,096	$	-	$	211,544	$	1,390,552	$	223,230	$	1,167,322
Employees' Compensable Leave		3,488,757		2,726,109		2,919,829		3,295,037		2,034,436		1,260,601
Revenue Bonds Payable		87,156,043		19,161,855		23,380,000		82,937,898		4,691,123		78,246,775
Total	$	92,246,896	$	21,887,964	$	26,511,373	$	87,623,487	$	6,948,789		80,674,698

Detailed information is provided in Note 5 for Revenue Bonds Payable and in Note 6 for Capital Lease Obligations.

Employees' Compensable Leave

A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from State employment, provided the employee has had continuous employment with the State for six months.

Full-time state employees earn annual leave from eight to twenty-one hours per month depending on the respective employees' years of state employment. The State's policy is that an employee may carry his accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours up to 532 for those employees with 35 or more years of state service. Employees with at least six months of state service who terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed. The University recognizes the accrued liability for the unpaid annual leave. For the year ended August 31, 2012, the accrued liability totaled $3,295,037.

The University made lump sum payments totaling $337,848 for accrued vacation (and/or compensatory time) to employees who separated from state service during fiscal year ending August 31, 2012.

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

Note 5: Bonded Indebtedness

The Board of Regents has authorized the creation of the University's Revenue Financing System which issues revenue bonds held to support capital projects of the University. At August 31, 2012, the future liabilities related to outstanding series of bonds are listed below.

REVENUE BONDS PAYABLE				
Year		Total Principal		Total Interest
2013 (Future Yr 1)	$	4,530,000	$	3,522,531
2014 (Future Yr 2)		4,385,000		3,392,019
2015 (Future Yr 3)		4,535,000		3,239,944
2016 (Future Yr 4)		4,705,000		3,072,494
2017 (Future Yr 5)		4,870,000		2,913,606
2018-2022 (Future yrs 6-10)		25,665,000		11,214,985
2023-2027 (Future yrs 11-15)		21,585,000		5,855,290
2028-2032 (Future yrs 16-20)		8,715,000		1,446,775
2033-2037 (Future yrs 21-25)		2,510,000		261,631
Total	$	81,500,000	$	34,919,276

Also included in the accounts for bonded indebtedness are unamortized original issue premiums totaling $1,437,898.

A significant restructuring of bonded indebtedness was completed during the fiscal year.

On June 5, 2012 the University issued $17,915,000 in Revenue Financing System Refunding Bonds (RFSRB-2012) with an average interest rate of 2.422% to refund $18,860,000 of outstanding bonds from 3 earlier series with an average interest rate of 4.922%:

Summary of Refunded Bonds				
			Date of	Coupon
Series	**Maturities**	**Par Amount**	**Redemption**	**Range**
Combined Fee Revenue Bonds, Series 1999	2013 - 2019	$ 3,965,000	12-Jun-12	4.600% to 4.750%
Combined Fee Revenue Bonds, Series 2002	2013 - 2022	10,830,000	1-Jul-12	4.400% to 5.000%
Revenue Financing System Refunding and Improvement Bonds, Series 2004A	2017 - 2024	4,065,000	1-Jul-14	5.00%
Total		$ 18,860,000		

The net proceeds of $19,695,877.63 (after payment of underwriting fees and other costs of issuance) were deposited in an irrevocable trust with an escrow agent (Bank of New York-Mellon) to provide for all future debt service payments on the bonds listed above. As a result, the refunded bonds are considered to be defeased and the liability for them has been removed from the Statement of Net Assets.

In June and July the escrow agent applied $15.3 Million from the escrow account to pay interest and principal on called bonds. At August 31, 2012 the escrow account holdings consisted of 4 U.S. Treasury securities with a market value of $ 4,452,777.84. These funds will be applied to make interest payments and call the remaining bonds in 2014.

The refunding transaction resulted in deferred expenditures of $638 Thousand, but TWU also received an original issue premium of $2 Million on the new bonds. As a result of this refunding transaction, the University reduced its aggregate debt service payments by almost $3.8 Million over the next 12 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $2.6 Million. All of the defeased debt was supported by the State of Texas (Tuition Revenue Bonds), so the savings are passed through to the citizens of the State.

General information related to each series of bonds outstanding during FY2012 is summarized below:

Combined Fee Revenue Bonds, Series 1999

- To provide funds for the renovation of the TWU Denton Campus Human Development Building, Arts and Science Building, major repairs and renovations of other education and general buildings, and for paying costs of issuance for the bonds.
- Issued 02-01-99. **The issue is defeased**.
- $8,500,000; all bonds have been issued. All bonds still outstanding were called 07-01-12.
- Source of revenue for debt service – Pledged revenues including a General Revenue Appropriation.

Combined Fee Revenue Bonds, Series 2002

- To provide funds for the renovation and upgrading of buildings on the Denton and Dallas campuses, including, but not limited to, fire safety compliance, ADA improvements, environmental health and safety issues, electrical system upgrades, and for paying costs of issuance for the Bonds.
- Issued 05-01-02. **The issue is defeased**.
- $17,500,000; all bonds have been issued. All bonds still outstanding were called 07-01-12.
- Source of revenue for debt service – Pledged revenues including a General Revenue Appropriation.

Revenue Financing System Bonds, Series 2004

- To provide funds for acquiring, purchasing, constructing, improving, renovating, enlarging or equipping property, buildings, structures, facilities, roads or related infrastructure for the University and paying certain costs of issuing the Bonds.
- Issued 3-15-04.
- $15,000,000; all bonds have been issued.
- Source of revenue for debt service – Pledged revenues.

Revenue Financing System Refunding and Improvement Bonds, Series 2004A

- To provide funds for acquiring, purchasing, constructing, improving, renovating, enlarging or equipping property, buildings, structures, facilities, roads or related infrastructure for the University, refunding certain outstanding debt obligations of the Board, and paying certain costs of issuing the Bonds.
- Issued 12-1-04. **The issue is partially defeased**.
- $11,820,000; all bonds have been issued.
- Source of revenue for debt service – Pledged revenues including a General Revenue Appropriation.

Revenue Financing System Bonds, Series 2008

- To provide funds for acquiring, purchasing, constructing, improving, renovating, enlarging or equipping property, buildings, structures, facilities, roads or related infrastructure for the University and paying certain costs of issuing the Bonds.
- Issued 7-15-08.
- $21,670,000; all bonds have been issued.
- Source of revenue for debt service – Pledged revenues including a General Revenue Appropriation.

Revenue Financing System Bonds, Series 2009

- To provide funds for acquiring, purchasing, constructing, improving, renovating, enlarging or equipping property, buildings, structures, facilities, roads or related infrastructure for the University, specifically, without limitations, to pay costs of constructing and equipping a new Institute for Health Sciences – Dallas Center on land leased by the University in the City of Dallas, Texas, and (ii) paying certain costs of issuing the Bonds.
- Issued 1-15-09.
- $20,400,000; all bonds have been issued.
- Source of revenue for debt service – Pledged revenues.

Revenue Financing System Bonds, Series 2009A

- To provide funds for acquiring, purchasing, constructing, improving, renovating, enlarging or equipping property, buildings, structures, facilities, roads or related infrastructure for the University, specifically, without limitation, to pay costs of constructing and equipping a new fitness and recreation center on the Denton campus, and (ii) paying certain costs of issuing the Bonds.
- Issued 12-01-09.
- $14,980,000; all bonds have been issued.
- Source of revenue for debt service – Pledged revenues.

Revenue Financing System Refunding Bonds, Series 2012

- To provide funds for refunding certain outstanding obligations of the Board to realize a net present value debt service savings and to pay costs of issuance of the Bonds.
- Issued 06-05-12.
- $17,915,000; all bonds have been issued.
- Source of revenue for debt service – Pledged revenues including a General Revenue Appropriation.

Revenue Pledged for Debt Service *(See table below)*

Pledged Revenue Required for Future Principal and Interest on Existing Revenue Bonds	$116,419,276
Term of Commitment Year Ending 08/31	2035
Percentage of Revenue Pledged	54%
Current Year Pledged Revenue	$230,409,331
Current Year Principal and Interest Paid	$8,068,247

Note 6: Capital Leases

The University has entered into long-term leases for financing the purchase of certain fixed assets. Such leases are classified as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments at the inception of the lease. The following is a summary of original capitalized costs of all such property under lease as well as the accumulated depreciation as of August 31, 2012:

		Assets under Capital Lease		Accumulated Depreciation
Buildings and Building Improvements	$	2,809,510	$	(1,213,197)
Total	$	2,809,510	$	(1,213,197)

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

Year Ended August 31,		Total
2013 (Future Yr 1)	$	296,015
2014 (Future Yr 2)		296,015
2015 (Future Yr 3)		296,015
2016 (Future Yr 4)		296,015
2017 (Future Yr 5)		296,015
2018-2022 (Future yrs 6-10)		148,007
Total Minimum Lease Payments	$	1,628,080
Less: Amount Representing Interest at Various Rates		(237,528)
Present Value of Net Minimum Lease Payments	$	1,390,552

Note 7: Operating Leases

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

Year Ended August 31,		Total
2013	$	41,596
2014		12,308
Total Minimum Future Lease Payments	$	53,903

There are no obligations for operating leases after fiscal year 2014.

Note 8: Interagency Balances / Activity

Texas Woman's University experienced routine transfers with other state agencies that were consistent with the activities of the fund making the transfer. Repayment of interagency balances will occur within one year from the date of the financial statement.

Individual balances and activity at August 31, 2012, follows:

DUE FROM/TO OTHER STATE ENTITIES					
Entity		Due from Other State Entities		Due to Other State Entities	Purpose
Texas Higher Education Coordinating Board	$	5,054	$	-	THECB ST WS Mentorship outstanding invoices on ST P-T Grants
Department of Family Protective Services		96,384		-	DFPS Outstanding Invoice and Unreimbursed Expenses for Fed P-T Grant CFDA 93.658
Texas Department of Agriculture		-		84	TWU owes TDA for Unexpended ST P-T funds that TX AgriLife owes TWU
Texas AgriLife		84		-	TX AgriLife owes TWU for Unexpended funds from ST PT Grant from TDA
U. Texas Health Science Ctr-Houston		2,311		-	Fed PT Grant to TWU from UTHSCH-Outstanding Invoice CFDA 93.110
Texas A&M U. Corpus Christi		8,565		-	TX A&M-Corpus Christi owes TWU for Outstanding Invoices for ST P-T Grant
Texas Higher Education Coordinating Board		-		301,480	Unspent Funds ST P-T Funds from THECB WS Mentorship (local fnds), Top 10% and Prof. Nursing Scholar
Texas Higher Education Coordinating Board		74,595		-	Net due from THECB for CRU-Prof Services & State Grants to TWU
Texas Higher Education Coordinating Board		33,257		-	Due from THECB for Federal PT grants to TWU CFDA 84.378 & CFDA 84.367
Texas Higher Education Coordinating Board		-		22,000	Unspent Funds Fed Funds from THECB CFDA 84.378
Totals	$	220,251	$	323,564	

TRANSFERS IN FROM/OUT TO OTHER STATE ENTITIES					
Entity		Transfers In from Other State Entities		Transfers Out to Other State Entities	Purpose
Texas Finance Authority	$	-	$	1,242,749	Texas Finance Authority principal payment
Texas Finance Authority		-		74,406	Texas Finance Authority Interest payment
Texas Higher Education Coordinating Board		-		784,435	Tuition Set Aside - Be On Time
Texas Higher Education Coordinating Board		-		23,433	Tuition Set Aside - Doctoral and Dental Hygiene
Totals	$	-	$	2,125,023	

Note 9: Contingent Liabilities

At August 31, 2012, there were no material pending lawsuits or claims involving Texas Woman's University. Any claims incurred but not asserted against the University cannot be reasonably estimated at this time, and any such liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the University.

The University has received several grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to a request for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. Based on prior experience, management believes such disallowance's if any, will be immaterial.

Note 10: Risk Financing and Related Insurance

The state now utilizes an allocation program that funds both workers' compensation benefits and risk management costs through annual assessments that participating agencies pay to the State Office of Risk Management (SORM).

The University is required by certain bond covenants to carry fire and extended coverage and boiler insurance on buildings financed through the issuance of bonds using pledged Auxiliary Enterprise or other non-Educational and General Funds. The insurance protects the bondholders from a disruption to the revenue stream that is being utilized to make the bond interest and principal payments. In Fiscal Year 2012 this coverage was also purchased for buildings that are not financed with bonds. The total limit of liability is $400,000,000 and the carrier is Zurich American Insurance Company.

The University carries a Commercial General Liability Policy through Travelers Insurance Company which provides insurance protection to pay for bodily injury or property damages. The policy provides coverage for liability arising from personal injury and advertising injury. While the general total limit of coverage is $1,000,000 for each occurrence and $2,000,000 general aggregate. An Umbrella Excess Liability Protection Policy provides additional $10,000,000 coverage.

The Texas Motor Vehicle Safety Responsibility Act requires that every non-governmental vehicle operated on a state highway be insured for minimum limits of liability in the amount of $20,000/$40,000 bodily injury and $15,000 property damage. However, Texas Woman's University has chosen to carry liability insurance on its licensed vehicles in the amount of $1,000,000 combined bodily injury and property damage. This coverage is provided by Travelers Insurance Company. In addition, the University carries the same coverage for leased vehicles.

A Medical Professional Liability Policy is carried to cover Officers of the University, and employees of the Student Health Services Clinic, the University Family Counseling Clinic, the University Dental Hygiene Clinic, the Speech and Hearing Clinic, the TWU Counseling Center, the Stroke Center, the Fitness & Recreation Center, the Dysphagia Clinic, and the Exercise & Sports Nutrition Clinic.

The University participates in the United Educators Insurance Risk Retention Group, Inc., with a limit of liability of $5,000,000 for each claim. This legal liability policy covers Directors, Trustee, or Officers of the University.

In addition, the University carries crime coverage through Travelers Insurance as follows:

$1,000,000	Employee Dishonesty
$1,000,000	Forgery and Alteration
$1,000,000	Computer Fraud
$1,000,000	Funds Transfer Fraud

Note 11: The Financial Reporting Entity

Texas Woman's University is an Enterprise Fund reported in the State of Texas' Comprehensive Annual Financial Report as a Proprietary Fund Type. There are no component units or related parties to be included in its financial statements. Because the University is considered a component of the State of Texas, and because its financial information is included in the State's audited Annual Financial Report, the University's financial statements are usually not independently audited. For SACS accreditation, a review of financial statements for fiscal year 2012 has been completed by accountants independent of the University.

Note 12: Restatement of Net Assets

During FY 2012, the following adjustments were made which required the restatement of the amounts in Net Assets:

Balance of Net Assets August 31, 2011	355,730,744
Adjust Loan Balances for Perkins Nursing Loans	164,946
Adjust Grant Receivable Balance	(2,114)
Balance of Net Assets Sept. 1, 2011, As Restated	355,893,576

Note 13: 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% 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, 2012, the statutorily required contribution rate was 6.4% of annual compensation from active plan members and 6.0% of annual compensation from the University.

For the years ended August 31, 2012, 2011, and 2010, the University contributed 100% of the following statutorily required employer contributions:

	2012	2011	2010
Required Contribution Rate	6.0%	6.664%	6.664%
Contributions Required & Made	$2,766,253	$2,936,854	$2,841,561

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. TWU's Board of Regents has approved the additional contributions for employees of the University who were participating in ORP on or before August 31, 1995. 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, 2012, the required State contribution rate was 6.0 percent and the University's contribution rate was 2.5 percent of participants' annual compensation (for employees participating in ORP on or prior to August 31, 1995).

For the year ended August 31, 2012, contributions to the ORP were as follows:

Participant contributions	$1,634,838
Employer contributions	1,756,397
Total	$3,391,235

Note 14: 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-Sheltered Annuity Program created in accordance with Internal Revenue Code, Section 403(b). All employees are eligible to participate. The Tax-Sheltered Annuity 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 15: Donor-Restricted Endowments

Donor-Restricted Endowments	Amounts of Net Appreciation	Reported in Net Assets
True Endowment Earnings	501,962.22	Restricted for Expendable
	501,962.22	

The net appreciation (cumulative and unexpended) on earnings from donor-restricted endowments presented above is available for authorization and expenditure by Texas Woman's University for the support of students and programs.

Endowments are established at Texas Woman's University for the support of students and programs in the various colleges and schools. When initially created, the endowment contract legally specifies the purpose of the fund and how investment income is to be distributed. The University restricts the expenditure of the annual income based upon terms of the agreement. For each endowment, a separate scholarship account is established and funded annually by the interest income generated from investments of the endowment principal.

The current University policy for distributions permits annual distributions of up to 5% of a trailing five-year average of the investment fund's total market value. The University's policy is based on the Uniform Prudent Management of Institutional Funds Act (Texas Property Code Chapter 163).

Note 16: Post-Employment 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 2012.

Maximum Monthly Employer Contribution for Retiree OPEB	
For the fiscal year ended August 31, 2012	
Level of Coverage	**Amount ($)**
Retiree Only	$438
Retiree and Spouse	$689
Retiree and Children	$606
Retiree and Family	$857

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, 2012, 2011, and 2010, included in amounts reported as Payroll Related Costs, were $3,093,239, $2,855,273, and $2,562,464 respectively, which equaled the required contributions each year.

Note 17: Disaggregation of Receivable and Payable Balances

Net other receivables at 08/31/12, are detailed by type as follows:	
Net Other Receivables	**Amount**
Receivables related to gifts, grants and sponsored programs	2,100,581
Total Net Other Receivables	**$ 2,100,581**
Net other payables at 08/31/12, are detailed by type as follows:	
Net Other Payables	**Amount**
Payables related to students deposits	1,148,897
Total Net Other Payables	**$ 1,148,897**

Note 18: Termination Benefits

The University entered into Agreements with 23 employees resulting in termination benefits. These benefits totaled $1,262,270 and were paid in a lump sum payment to each employee. All benefits were paid and expensed during the fiscal year and no additional liability extends to future years.

State Auditor's Office
John Keel, CPA
State Auditor

February 20, 2013

Dr. Ann Stuart, Chancellor and President
Texas Woman's University
P.O. Box 425587
Denton, TX 76204-5587

Subject: Management Letter Resulting from a Review of Texas Woman's University's Fiscal Year 2012 Financial Statements

Dear Dr. Stuart:

We offer this management letter in conjunction with our review of the financial statements of Texas Woman's University (University) as of and for the fiscal year ended August 31, 2012, on which we have issued our report dated February 20, 2013. We reviewed the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. In the course of our review, which was substantially less in scope than an audit, we did not find that material modifications needed to be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The University should improve its process for preparing the Statement of Cash Flows in its financial statements. Specifically, some line items regarding the cash flows from operating activities incorrectly presented revenues the University had earned and expenses the University had incurred, rather than the cash flows the University had received or paid during the fiscal year. The effect of those errors, however, was not material to the financial statements.

Recommendation: The University should accurately report cash flows from operating activities in its Statement of Cash Flows.

Management's Response:

Management has committed to revising the process for preparation of the Statement of Cash Flows. Rather than working back retrospectively from accounts in the general ledger, the new process will entail developing the statement of cash flows directly from the monthly bank statements. As part of the regular bank reconciliation process, cash inflows and outflows will be classified according to their corresponding line item on the Statement of Cash Flows. This change in process will add precision and assure accuracy to the Statement.

Responsible Person: Associate Vice President - Finance, Controller & Treasury

Implementation Date: Fiscal Year ending August 31, 2013

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SAO Report No. 13-328

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,

Nicole Guerrero

Nicole M. Guerrero, MBA, CIA, CGAP, CICA
Audit Manager

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Joe Straus III, Speaker of the House, Joint Chair
The Honorable Thomas "Tommy" Williams, Senate Finance Committee
The Honorable Jim Pitts, House Appropriations Committee
The Honorable Harvey Hilderbran, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor