State Auditor's Office

John Keel, CPA
State Auditor

Accreditation Reviews Fiscal Year 2013

March 2014

Report No. 14-028

Introduction

The State Auditor's Office completed reviews of the following five higher education institutions' fiscal year 2013 financial statements:

- Lamar Institute of Technology.
- Lamar State College – Orange.
- Texas A&M University, including Texas A&M University at Galveston and the Texas A&M University Health Science Center.
- Texas A&M University – Commerce.
- University of Houston – Victoria.

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.

Lamar Institute of Technology

Financial Statements And Independent Accountant's Review Report

For The Year Ended August 31, 2013

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

A Member of the Texas State University System

Lamar Institute of Technology

Financial Statements

For the Fiscal Year Ended August 31, 2013

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John Keel, CPA
State Auditor

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Dr. Paul J. Szuch, President
Lamar Institute of Technology
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We have reviewed the accompanying Statement of Net Position of Lamar Institute of Technology (Institute) as of August 31, 2013, and the related Statement of Revenues, Expenses, and Changes in Net Position and Statement of Cash Flows for the year then ended. A review includes primarily applying analytical procedures to the Institute's financial data and making inquiries of Institute 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.

Institute 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 State University System, management of the Institute, 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

March 21, 2014

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Lamar Institute of Technology
Statement of Net Position
August 31, 2013
(See Independent Accountant's Report on Page 1)

ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 3)	$	5,806,907
Restricted:		
Cash and Cash Equivalents (Note 3)		(146,589)
Legislative Appropriations		7,766,983
Receivables, Net of Allowances:		
Other (Note 13)		4,946,614
Due from Other State Entities (Note 7)		8,562
Total Current Assets	$	18,382,477
Non-Current Assets		
Capital Assets (Note 2):		
Non-Depreciable and Non-Amortizable	$	4,147,241
Depreciable and Amortizable		28,619,649
Less: Accumulated Depreciation and Amortization		(15,071,246)
Total Non-Current Assets	$	17,695,642
Total Assets	$	36,078,119
LIABILITIES		
Current Liabilities		
Payables:		
Accounts	$	1,099,610
Payroll		824,158
Due to Other State Entities (Note 7)		568,076
Deferred Revenue		5,952,405
Employees' Compensable Leave (Note 4)		46,703
Total Current Liabilities	$	8,490,952
Non-Current Liabilities		
Employees' Compensable Leave (Note 4)		264,649
Total Non-Current Liabilities	$	264,649
Total Liabilities	$	8,755,601

NET POSITION

Invested in Capital Assets, Net of Related Debt	$	17,695,643
Unrestricted		9,626,875
Total Net Position	$	27,322,518

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

Lamar Institute of Technology
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended August 31, 2013
(See Independent Accountant's Report on Page 1)

OPERATING REVENUES		
Tuition and Fees - Pledged	$	11,507,145
Discounts and Allowances		(2,717,442)
Auxiliary Enterprises - Pledged		150,784
Federal Revenue		601,703
State Grant Revenue		180,821
Total Operating Revenues	$	9,723,011
OPERATING EXPENSES		
Salaries and Wages	$	10,896,239
Payroll Related Costs		3,099,159
Professional Fees and Services		3,652,906
Travel		167,175
Materials and Supplies		1,033,537
Communications and Utilities		1,235,545
Repairs and Maintenance		703,786
Rentals and Leases		199,540
Printing and Reproduction		252,381
Depreciation and Amortization		1,222,234
Bad Debt Expense		1,485,501
Interest Expense		123
Scholarships		2,148,703
Other Operating Expenses		1,626,919
Total Operating Expenses	$	27,723,748
Operating Income (Loss)	$	(18,000,737)
NONOPERATING REVENUES (EXPENSES)		
Legislative Appropriations	$	9,978,864
Gifts		174,912
Interest and Investment Income (Loss)		9,052
Other Nonoperating Revenues - Non-Pledged		3,768,863
Other Nonoperating Expenses		(1,792,377)
Total Nonoperating Revenues (Expenses)	$	12,139,314
Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers	$	(5,861,423)

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

Capital Contributions	$	2,177,919
Capital Appropriations (HEAF)		2,332,463
Transfers Out to Other State Entities (Note 7)		(117,895)
Legislative Transfers Out (Note 7)		(523,827)
Legislative Appropriations Lapsed		(55)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	$	3,868,605
CHANGE IN NET POSITION	$	(1,992,818)
Net Position, September 1, 2012	$	29,315,336
NET POSITION, August 31, 2013	$	27,322,518

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

Lamar Institute of Technology
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2013
(See Independent Accountant's Report on Page 1)

CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Tuition and Fees	$	10,184,865
Proceeds from Research Grants and Contracts		949,723
Payments to Suppliers for Goods and Services		(9,813,401)
Payments to Employees for Salaries		(14,195,408)
Payments for Other Expenses		(2,148,703)
Net Cash Provided (Used) by Operating Activities	$	(15,022,924)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Legislative Appropriations	$	10,690,627
Proceeds from Gifts		174,912
Proceeds from Other Sources		4,023,336
Payments for Other Uses		(1,792,378)
Net Cash Provided (Used) by Non-Capital Financing Activities	$	13,096,497
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from State Appropriations (HEAF)	$	2,219,239
Payments of Other Costs of Capital-Related Debt		(528,554)
Net Cash Provided (Used) by Capital and Related Financing Activities	$	1,690,685
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Interest and Investment Income	$	9,052
Net Cash Provided (Used) by Investing Activities	$	9,052
Net Increase (Decrease) in Cash and Cash Equivalents	$	(226,690)
Cash and Cash Equivalents, September 1, 2012	$	5,887,008
Cash and Cash Equivalents, August 31, 2013	$	5,660,318

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

Operating Income (Loss)	$	(18,000,737)
Adjustments:		
Depreciation and Amortization	$	1,222,234

Bad Debt Expense		1,485,501
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		(623,569)
(Increase) Decrease in Loans and Contracts		1,422,740
Increase (Decrease) in Payables		(1,159,264)
Increase (Decrease) in Deferred Revenue		587,040
Increase (Decrease) in Employees' Compensable Leave		17,764
Increase (Decrease) in Other Liabilities		25,365
Total Adjustments	$	2,977,813
Net Cash Provided (Used) by Operating Activities	$	(15,022,924)

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

General Introduction

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

Note 1: Summary of Significant Accounting Policies

Reporting Entity

Lamar Institute of Technology (Institute) is considered an Institution of Higher Education of the State of Texas. The Institute is a component of Texas State University System (System). The System prepares financial statements that are included in the State's *Comprehensive Annual Financial Report,* which is audited by the Texas State Auditor's Office.

There are no component units.

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 is determined by its measurement focus.

For financial reporting purposes, the Institute is considered a special-purpose government engaged only in business-type activities. Accordingly, the Institute'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 revenues and expenses result from providing services or producing and delivering goods in connection with the Institute'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 Institute applies all GASB pronouncements, including GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* and GASB 63*, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Net Position

Net Position reports the equity position of an entity, and was previously classified as "Net Assets" or some time back as "Fund Balance."

Restricted Net Position represents amounts over which third parties or the entity has imposed restrictions upon these funds. Non-expendable funds are gifts that have been received for endowment purposes, the corpus of which cannot be expended. The restrictions for capital projects are assets restricted by the College for a specific purpose. These funds also include proceeds from bond issuances that can only be used for capital projects. Other assets include donor restricted funds.

Unrestricted Net Position describes assets available for College use, and has been internally designated or reserved for specific purposes such as student loans, budget commitments, and reserves for working capital.

Cash and Cash Equivalents

Short-term highly liquid investments with an original maturity of less than twelve months at the time of purchase are considered cash equivalents. Funds are either held at the bank or in TexPool and are liquid assets.

Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include proceeds of revenue bonds and revenues set aside for statutory or contractual requirements. Assets held in reserve for guaranteed student loan defaults are also included. Restricted assets include donor restricted funds. It is the Institute's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Capital Assets

Assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year are capitalized. These assets are capitalized at cost or, if not purchased, at appraised fair value as of the date of acquisition. Depreciation is reported on all "exhaustible" assets. "Inexhaustible" assets such as works of art and historical treasures are not depreciated. Assets are depreciated over the estimated useful life of the asset using the straight -line method.

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	120-600
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	60-480
Other Intangible Capital Assets	$100,000	0-180
Computer Software	$100,000	60-72

Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2013 is presented below:

	Balance 9/1/2012	Completed Construction in Progress	Additions	Deductions	Balance 8/31/2013
Non-Depreciable and Non-Amortizable Assets:					
Land and Land Improvements	$ 1,848,840	$	$	$	$ 1,848,840
Construction in Progress	663,078		1,635,323		2,298,401
Total Non-Depreciable Assets	$ 2,511,918	$ 0	$ 1,635,323	$ 0	$ 4,147,241
Depreciable and Amortizable Assets:					
Buildings and Building Improvements	$ 17,478,847	$	$	$	$ 17,478,847
Facilities and Other Improvements	4,983,812		202,497		5,186,309
Furniture and Equipment	5,322,067		340,099	(294,781)	5,367,386
Vehicles, Boats, and Aircraft	605,107			(28,000)	577,107
Other Capital Assets	10,000				10,000
Total Depreciable and Amortizable Assets at Historical Cost	$ 28,399,833	$ 0	$ 542,596	$ (322,781)	$ 28,619,649
Less Accumulated Depreciation and Amortization for:					
Buildings and Building Improvements	$ (9,110,700)	$	$ (583,570)	$	$ (9,694,270)
Facilities and Other Improvements	(517,284)		(233,931)		(751,216)
Furniture and Equipment	(3,986,715)		(389,092)	294,781	(4,081,026)
Vehicles, Boats, and Aircraft	(547,093)		(15,641)	28,000	(534,735)
Other Capital Assets	(10,000)				(10,000)
Total Accumulated Depreciation and Amortization	$ (14,171,792)	$ 0	$ (1,222,234)	$ 322,781	$ (15,071,246)
Depreciable and Amortizable Assets, Net	$ 14,228,041	$ 0	$ (679,638)	$ 0	$ 13,548,403
Capital Assets, Net	$ 16,739,959	$ 0	$ 955,685	$ 0	$ 17,695,644

Note 3: Deposits, Investments, and Repurchase Agreements

The Institute is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec. 2256. 001 Texas Governrnent Code). Endowment Funds may be invested in accordance with the Uniform Management of Institutional Funds Act, Property Code Chapter 163. Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) obligations of political subdivisions rated not less than A by a national investment rating firm, (4) certificates of deposit, and (5) other instruments and obligations authorized by statute.

Lamar Institute of Technology is authorized by statute to make investments following the "prudent person rule". There were no significant violations of legal provisions during the period. The Public Funds Investment Act (PFIA) Audit Report for the Institute was completed in December 2013. Although instances of noncompliance with PFIA, Rider 5, and System policy requirements were noted, such instances were deemed immaterial, and only involved reporting requirements. The Institute will work with the System Administration to resolve all noted areas of noncompliance and ensure the Institute is in compliance with investment reporting requirements. All of the Institute's investment assets were properly invested and controlled.

Deposits of Cash in Banks

As of 08/31/2013, the carrying amount of deposits was $666,982 as presented below:

Bank Deposits	Carrying Amount	Bank Balance
Cash in Bank (other than Certificates of Deposit (CDs))	$ 666,982	$ 757,165
Total Bank Deposits	$ 666,982	$ 757,165

Bank Balance of Deposits Subject to Custodial Credit Risk	Bank Balance
Bank balances uninsured and:	
Collateralized with securities held by the pledging financial institution's trust department or agent but not in the University's name	$ 507,165
Total Deposits Subject to Custodial Credit Risk	$ 507,165

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the events of the failure of a depository financial institution, the institute 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. System policy and State Statute require the Institute's deposits be deposited into authorized commercial banks. State statutes also require that these financial institutions pledge securities as collateral to secure Institute deposits if they are not fully insured by FDIC.

Composition of Cash and Cash Equivalents		Carrying Amount
Cash on Hand	$	2,000
Cash in State Treasury		1,150,373
Total Bank Deposits (per above)		666,982
Other Cash Equivalents (included in the Investments note disclosure)		3,840,963
Total Cash and Cash Equivalents	$	5,660,318

Cash and Cash Equivalents per Statement of Net Position		Carrying Amount
Cash and Cash Equivalents - Current Assets	$	5,806,907
Cash and Cash Equivalents - Current Assets, Restricted		(146,589)
Total Cash and Cash Equivalents per Statement of Net Position	$	5,660,318

The negative balance in Cash and Cash Equivalent – Current Assets, Restricted arises from timing differences between the application of Department of Veterans Affairs sponsorship funds and their subsequent receipt.

Investments

The fair value of investments as of 08/31/2013 is shown below:

Investments		
Other Commingled Funds (TexPool)	$	3,840,963
Total Investments, per Investments note disclosure	$	3,840,963

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

Total Investments, per above disclosure	$	3,840,963
Less Investments included on the Statement of Net Assets in Cash Equivalents line items		(3,840,963)
Total Investment Accounts on the Statement of Net Position	$	0

The College's TexPool investment of $3,840,963 is valued using the net asset value per share methodology and is exposed to minimal credit risk. TexPool and TexPool Prime are rated 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.

Note 4: Summary of Long-Term Liabilities

		Balance 9/1/2012		Additions		Deductions		Balance 8/31/2013		Amounts Due Within One Year		*Non-Current Amounts*
Employees' Compensable Leave	$	293,588	$	17,764	$		$	311,352	$	46,703	$	*264,649*
Total	$	293,588	$	17,764	$	0	$	311,352	$	46,703		264,649

Employees' Compensable Leave

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

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

Note 5: Bonded Indebtedness

The Institute 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 Institute disburses funds to the System for payments of principal and interest related to the Institute's share of bond proceeds. These disbursements are recorded as transfers to the System. At August 31, 2013, the System had outstanding bonds payable of $812,824,883. All bonds issued by the System are defined as revenue bonds. As such, the revenues of the System, including the Institute, 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 Institute's financial statements as the System is the party directly liable for these bonds. At August 31, 2013, however, the Institute's remaining unpaid share of the bond proceeds was $4,094,572.

Note 6: 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
2014	$	62,227
2015		62,227
2016		46,670
Total Minimum Future Lease Payments	$	171,125

There are no obligations for non-cancelable operating leases after fiscal year 2016. Until that date, the Institute may buy the leased equipment by paying an amount specified in the lease. In FY2013, the Institute paid $15,557 in rentals arising from non-cancelable operating leases.

Note 7: Interagency Balances / Activity

Lamar Institute of Technology experiences routine transfers with other state agencies. Repayment of interagency balances will occur within one year from the date of the financial statement.

Individual balances and activity at August 31, 2013 follows:

DUE FROM/TO OTHER STATE ENTITIES

Entity		Due from Other State Entities		Due to Other State Entities	Purpose
Lamar University, Fund 7999	$		$	533,437	Computer Inter-component Charges
Lamar University, Fund 0287		8,562		22,929	Utilities
Lamar State College - Port Arthur, Fund 7999				11,710	DOJ direct deposit
	$	8,562	$	568,076	

TRANSFERS IN FROM/OUT TO OTHER STATE ENTITIES

Entity		Transfers In from Other State Entities		Transfers Out to Other State Entities	Purpose
Texas Tech University System, D23, Fund 7999	$		$	4,671	Debt Service - Institutional Funds
Texas Higher Education Coordinating Board, D23, Fund 0287				1,139	Dental Hygiene Loan Program
Texas State University System, D23, Fund 7999				112,085	System Office Support
	$	0	$	117,895	

LEGISLATIVE TRANSFERS IN/OUT

Entity		Legislative Transfers In		Legislative Transfers Out	Purpose
Texas State University System	$		$	523,827	Transfer TRB for Debt Service
	$	0	$	523,827	

Note 8: Risk Financing and Related Insurance

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

The Institute assumes substantially all risks associated with tort and liability claims due to the performance of its duties. Currently there is no purchase of commercial insurance, nor is the Institute involved in any risk pool with other government entities for these risks. Lamar Institute of Technology incurred no losses during the fiscal year ended August 31, 2013 and no claims were pending at that date.

The Institute is required by certain bond covenants and FEMA to carry Fire and Extended Coverage and Boiler insurance on buildings financed through the issuance of bonds using pledged Auxiliary Enterprise or other non-Educational and General Funds. The insurance protects the bond holders from a disruption to the revenue stream that is being utilized to make the bond interest and principal payments and the federal government for storm damage.

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

Note 9: The Financial Reporting Entity

The Institute is a state-supported college, governed by an elected nine-member board. As required by generally accepted accounting principles, these financial statements are presented for the Institute. There are no component units.

The Lamar Institute of Technology Foundation is a nonprofit organization with the sole purpose of supporting educational activities of the Institute. The Foundation solicits donations and acts as coordinator of gifts made by other parties. The Foundation remitted restricted gifts of $67,002 to the Institute during the year ended August 31, 2013.

Note 10: 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 Institute 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 Institute 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, 2013, the statutorily required contribution rate was 6.4% of annual compensation from active plan members and 6.4% of annual compensation from the Institute.

For the years ended August 31, 2013, 2012, and 2011, the Institute contributed 100% of the following statutorily required employer contributions:

	2013	2012	2011
Required Contribution Rate	6.4%	6%	6.644%
Contributions Required & Made	$406,710	$349,384	$429,252

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 Institute, 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 Institute 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 Institute may be required to make the employer contribution in lieu of the State. During the year ended August 31, 2013, the required State contribution rate was 6 percent and the Institute's contribution rate was 2.5 percent of participants' annual compensation.

For the year ended August 31, 2013, contributions to the ORP were as follows:

Participant contributions	$244,306
Employer contributions	257,706
Total	$502,012

Note 11: Deferred Compensation

The following deferred compensation plans are available to Institute employees:

Institute 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 Institute 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 Institute 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 Institute or the State. Therefore, neither entity has a liability related to this plan.

Note 12: Post-Employment Health Care and Life Insurance Benefits

Plan Description. The Institute 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 2013.

Maximum Monthly Employer Contribution for Retiree OPEB
For the fiscal year ended August 31, 2013

Level of Coverage	**Amount ($)**
Retiree Only	470.38
Retiree and Spouse	739.58
Retiree and Children	650.62
Retiree and Family	919.82

Contractually required employer contributions to the plan are currently based on the annual pay-as-you-go expenses of the SRHP. The Institute's contributions to SRHP for the years ended August 31, 2013, 2012, and 2011, included in amounts reported as Payroll Related Costs, were $236,804, $203,271, and $187,016 respectively, which equaled the required contributions each year.

Note 13: Disaggregation of Receivable and Payable Balances

Other Receivables	
Accounts Receivable Federal Programs	$ 834,690
Accounts Receivable Students	3,891,671
Accounts Receivable Employees	1,608
Accounts Receivable Comptroller	810,086
Accounts Receivable Contracts	168,342
Allowance	(759,783)
Total Other Receivables	$ 4,946,614

State Auditor's Office
John Keel, CPA
State Auditor

March 21, 2014

Dr. Paul J. Szuch, President
Lamar Institute of Technology
P.O. Box 10043
Beaumont, TX 77710

Subject: Management Letter Resulting from a Review of Lamar Institute of Technology's Fiscal Year 2013 Financial Statements

Dear Dr. Szuch:

We offer this management letter in conjunction with our review of the financial statements of Lamar Institute of Technology (Institute) as of and for the fiscal year ended August 31, 2013, on which we have issued our report dated March 21, 2014. We reviewed the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. In the course of our review, which was substantially less in scope than an audit, we did not find that material modifications needed to be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The Institute should enhance its financial reporting preparation and review process. Reviewers identified errors and unsupported amounts in the initial fiscal year 2013 financial report that the Institute prepared for its accreditation review. The type and number of errors identified indicate that the Institute has inadequate controls over financial reporting, which could lead to errors in other financial reports.

The following are examples of the errors that reviewers identified in the <u>initial</u> fiscal year 2013 financial report that the Institute prepared:

- The Institute did not initially provide documentation that it appropriately recorded and supported in its general ledger system $936,945 in tuition and fee revenue.
- Other operating expenses totaled $5,279,815 and accounted for approximately 19 percent of total operating expenses. Recording a large amount in other operating expenses indicates that the Institute may not have appropriately classified those expenses in its general ledger. The Institute also did not provide adequate documentation that it appropriately recorded those expenses in its general ledger system.
- The Institute used an incorrect accounting process that caused it to record a negative restricted non-current cash balance of $2,812,968 in fiscal year 2013. That resulted in an overstatement of available cash balances and an understatement of non-current assets.

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The Institute corrected the majority of the errors that reviewers identified prior to the completion of this review. The remaining errors were not material to the financial statements.

Recommendation:

The Institute should ensure that its general ledger system adequately supports its financial reports and that it appropriately records all financial transactions.

Management's Response:

Corrective Action Plan: Lamar Institute of Technology agrees with this finding. The Institute will further enhance its financial reporting preparation and review process. The Institute's key person in preparing the financial statements and overseeing the accounting system passed away unexpectedly during the review fieldwork. The Institute continues to evaluate its controls and is taking corrective action to improve its processes and procedures.

Responsible Person: Vice President of Finance and Operations

Implementation Date: August 31, 2014

The State Auditor's Office appreciates the assistance that the Institute's management and internal auditor provided during this review. If you have any questions, please call me at (512) 936-9500.

Sincerely,

Nicole Guerrero

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

LAMAR STATE COLLEGE
ORANGE

Financial Statements And
Independent Accountant's Review Report

For The Year Ended
August 31, 2013

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

A Member of the Texas State University System

An Equal Opportunity Institution

Lamar State College - Orange

Financial Statements

For the Fiscal Year Ended August 31, 2013

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State Auditor's Office
John Keel, CPA
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Dr. J. Michael Shahan, President
Lamar State College – Orange
410 Front Street
Orange, TX 77630-5802

We have reviewed the accompanying Statement of Net Position of Lamar State College – Orange (College) as of August 31, 2013, and the related Statement of Revenues, Expenses, and Changes in Net Position and Statement of Cash Flows for the year then ended. A review includes primarily applying analytical procedures to the College's financial data and making inquiries of College personnel. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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

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

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

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 State University System, management of the College, 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

March 7, 2014

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Lamar State College - Orange
Statement of Net Position
August 31, 2013
(See Independent Accountant's Report on Page 1)

ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 3)	$	14,522,554
Restricted:		
Cash and Cash Equivalents (Note 3)		662,213
Legislative Appropriations		5,713,524
Receivables, Net of Allowances:		
Federal (Note 13)		594,543
Interest and Dividends		358
Other (Note 13)		435,612
Due from Other State Entities (Note 6)		57,076
Prepaid Expenses		605,297
Total Current Assets	$	22,591,177
Non-Current Assets		
Restricted:		
Cash and Cash Equivalents (Note 3)	$	1,611,437
Loans and Contracts		1,031,553
Capital Assets (Note 2):		
Non-Depreciable and Non-Amortizable		8,412,500
Depreciable and Amortizable		34,361,283
Less: Accumulated Depreciation and Amortization		(19,334,410)
Total Non-Current Assets	$	26,082,363
Total Assets	$	48,673,540

LIABILITIES		
Current Liabilities		
Payables:		
Accounts	$	218,936
Payroll		724,653
Deferred Revenue		3,587,262
Employees' Compensable Leave (Note 4)		25,999
Funds Held for Others		35,886
Other Current Liabilities (Note 13)		5,883
Total Current Liabilities	$	4,598,619
Non-Current Liabilities		
Employees' Compensable Leave (Note 4)	$	326,226
Other Non-Current Liabilities (Note 13)		52,947
Total Non-Current Liabilities	$	379,173
Total Liabilities	$	4,977,792
NET POSITION		
Invested in Capital Assets, Net of Related Debt	$	23,439,373
Restricted for:		
Non-Expendable		
Permanent Funds, True Endowments, Annuities (Note 11)		15,524
Expendable		
Capital Projects		1,595,913
Other		746,231
Unrestricted		17,898,707
Total Net Position	$	43,695,748

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

Lamar State College - Orange
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended August 31, 2013
(See Independent Accountant's Report on Page 1)

OPERATING REVENUES		
Tuition and Fees - Pledged	$	7,742,183
Discounts and Allowances		(2,557,645)
Other Sales of Goods and Services - Pledged		259,146
Federal Revenue		647,910
State Grant Revenue		735,268
Other Operating Revenues		269,398
Total Operating Revenues	$	7,096,260
OPERATING EXPENSES		
Salaries and Wages	$	8,335,185
Payroll Related Costs		2,403,268
Professional Fees and Services		1,207,466
Travel		210,826
Materials and Supplies		876,609
Communications and Utilities		537,867
Repairs and Maintenance		766,384
Rentals and Leases		56,352
Printing and Reproduction		(9,390)
Depreciation and Amortization		1,625,348
Bad Debt Expense		238,563
Interest Expense		2
Scholarships		2,997,199
Other Operating Expenses		743,387
Total Operating Expenses	$	19,989,066
Operating Income (Loss)	$	(12,892,806)

NONOPERATING REVENUES (EXPENSES)		
Legislative Appropriations	$	8,181,825
Gifts		277,860
Interest and Investment Income (Loss)		25,521
Gain (Loss) on Sale of Capital Assets		(2,690)
Other Nonoperating Revenues - Non-Pledged		4,060,643
Other Nonoperating Expenses		(199,021)
Total Nonoperating Revenues (Expenses)	$	12,344,138
Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers	$	(548,668)
OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS		
Capital Appropriations (HEAF)	$	1,235,752
Transfers In from Other State Entities (Note 6)		5,181,119
Transfers Out to Other State Entities (Note 6)		(312,199)
Legislative Transfers Out (Note 6)		(426,682)
Legislative Appropriations Lapsed		(354,899)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	$	5,323,091
CHANGE IN NET POSITION	$	4,774,423
Net Position, September 1, 2012	$	38,921,325
NET POSITION, August 31, 2013	$	43,695,748

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

Lamar State College - Orange
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2013
(See Independent Accountant's Report on Page 1)

CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Tuition and Fees	$	4,718,727
Receipts from Customers		259,146
Proceeds from Other Revenues		1,789,726
Payments to Suppliers for Goods and Services		(7,257,860)
Payments to Employees for Salaries		(8,335,185)
Payments to Employees for Benefits		(2,397,955)
Payments for Loans Provided		(457,341)
Net Cash Provided (Used) by Operating Activities	$	(11,680,742)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Legislative Appropriations	$	10,700,922
Proceeds from Gifts		277,860
Proceeds from Other Sources		4,086,164
Payments for Other Uses		(316,174)
Net Cash Provided (Used) by Non-Capital Financing Activities	$	14,748,772
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds of Transfers from Other Entities	$	5,181,119
Payments for Additions to Capital Assets		(7,236,981)
Payments of Principal on Capital-Related Debt		(477,125)
Payments of Interest on Capital-Related Debt		(144,604)
Net Cash Provided (Used) by Capital and Related Financing Activities	$	(2,677,591)
Net Increase (Decrease) in Cash and Cash Equivalents	$	390,439
Cash and Cash Equivalents, September 1, 2012	$	16,405,765
Cash and Cash Equivalents, August 31, 2013	$	16,796,204

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

Operating Income (Loss)	$	(12,892,806)
Adjustments:		
Depreciation and Amortization	$	1,625,348
Bad Debt Expense		238,563
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		(444,961)
(Increase) Decrease in Prepaid Expenses		49,949
(Increase) Decrease in Loans and Contracts		(457,341)
Increase (Decrease) in Payables		56,417
Increase (Decrease) in Deferred Revenue		136,985
Increase (Decrease) in Employees' Compensable Leave		5,313
Increase (Decrease) in Other Liabilities		1,791
Total Adjustments	$	1,212,064
Net Cash Provided (Used) by Operating Activities	$	(11,680,742)

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

General Introduction

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

Reporting Entity

Lamar State College – Orange is a public institution of higher education, a component of Texas State University System and an agency of the State of Texas. Accordingly, the College's financial position is included in the State of Texas's *Comprehensive Annual Financial Report,* which is audited by the Texas State Auditor's Office. Transactions with the State relate primarily to appropriations for operations and capital improvements, and grants from various state agencies.

Note 1: Summary of Significant Accounting Policies

Basis of Accounting

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

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Operating items are distinguished from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the College's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation or amortization on capital assets. Both current and long-term assets and liabilities are shown on the statement of net position.

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.

Basis of Presentation

The accompanying financial statements were prepared in conformance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The College applies all GASB pronouncements, including GASB 62, *Codification of Accounting and*

Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, and GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

The statement of revenues, expenses and changes in net position is segregated into operating and nonoperating sections.

Generally, operating activities are those that directly result from providing goods and services to customers or are directly related to the principal and usual activity of an enterprise. GASB 63 and GASB 65 amend GASB 34 to incorporate deferred outflows of resources and deferred inflows of resources into the financial reporting model. Deferred outflows of resources are defined as a consumption of net assets by the entity that is applicable to a future reporting period. It has a positive effect on net position, similar to assets. Deferred inflows of resources are defined as an acquisition of net assets by the government that is applicable to the future reporting period. It has a negative effect on net position, similar to liabilities.

Net Position

Net Position reports the equity position of an entity, and was previously classified as "Net Assets" or some time back as "Fund Balance."

Restricted Net Position represents amounts over which third parties or the entity has imposed restrictions upon these funds. Non-expendable funds are gifts that have been received for endowment purposes, the corpus of which cannot be expended. The restrictions for capital projects are assets restricted by the College for a specific purpose. These funds also include proceeds from bond issuances that can only be used for capital projects. Other assets are donor restricted funds.

Unrestricted Net Position describes assets available for College use, and has been internally designated or reserved for specific purposes such as student loans, budget commitments, and reserves for working capital.

Cash and Cash Equivalents

All highly liquid investments with a maturity of less than twelve months at the time of purchase are considered cash and cash equivalents. Funds are either held at the bank or in TexPool and are liquid assets.

Restricted Assets

Restricted assets are those assets that have third party restrictions or are restricted for specific uses by the contractual obligation, or the College. Restricted assets include donor restricted funds. It is the College's practice to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Capital Assets

Property, plant and equipment are recorded at cost, or, if acquired by gift, at the fair 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	120-600
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	60-480
Other Capital Assets	$100,000	0-180
Computer Software	$100,000	60-72

Note 2: Capital Assets

	Balance 9/1/2012	Completed Construction in Progress	Additions	Deductions	Balance 8/31/2013
Non-Depreciable and Non-Amortizable Assets:					
Land and Land Improvements	$ 1,323,577	$	$	$	$ 1,323,577
Construction in Progress	136,673		6,952,250		7,088,923
Total Non-Depreciable Assets	$ 1,460,250	$ 0	$ 6,952,250	$ 0	$ 8,412,500
Depreciable and Amortizable Assets:					
Buildings and Building Improvements	$ 24,219,645	$	$	$	$ 24,219,645
Facilities and Other Improvements	938,654				938,654
Furniture and Equipment	2,686,140		216,970	(5,510)	2,897,600
Vehicles, Boats, and Aircraft	52,553				52,553
Other Capital Assets	3,236,209		67,761		3,303,970
Computer Software	2,948,861				2,948,861
Total Depreciable and Amortizable Assets at Historical Cost	$ 34,082,062	$ 0	$ 284,731	$ (5,510)	$ 34,361,283
Less Accumulated Depreciation and Amortization for:					
Buildings and Building Improvements	$ (11,595,076)	$	$ (656,955)	$	$ (12,252,031)
Facilities and Other Improvements	(705,067)		(26,197)		(731,264)
Furniture and Equipment	(1,728,401)		(225,283)	2,820	(1,950,864)
Vehicles, Boats, and Aircraft	(48,423)		(2,253)		(50,676)
Other Capital Assets	(2,392,136)		(124,888)		(2,517,024)
Computer Software	(1,242,779)		(589,772)		(1,832,551)
Total Accumulated Depreciation and Amortization	$ (17,711,882)	$ 0	$ (1,625,348)	$ 2,820	$ (19,334,410)
Depreciable and Amortizable Assets, Net	$ 16,370,180	$ 0	$ (1,340,617)	$ (2,690)	$ 15,026,873
Capital Assets, Net	$ 17,830,430	$ 0	$ 5,611,633	$ (2,690)	$ 23,439,373

Note 3: Deposits, Investments, and Repurchase Agreements

Authorized Investments

Lamar State College – Orange 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.

The College's TexPool investment of $14,713,033 is valued using the net asset value per share methodology and is exposed to minimal credit risk. TexPool and TexPool Prime are rated 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.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the institution 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. Texas State University System policy and State Statute require the institution's deposits be deposited into authorized commercial banks. State Statutes also require that these financial institutions pledge securities as collateral to secure institution's deposits if they are not fully insured by FDIC. The College complies with State Statute and ensures collateral is pledged to cover all amounts on deposit with First Financial Bank that exceed FDIC insured amounts, thus ensuring protection of all bank deposits.

The Public Funds Investment Act Audit Report for the College was completed in December 2013. Although instances of noncompliance with PFIA, Rider 5, and TSUS policy requirements were noted, such instances were deemed immaterial, and only involved reporting requirements. College will work with the Texas State University System Administration to resolve all noted areas of noncompliance and ensure College is in compliance with investment reporting requirements. All of College's investment assets were properly invested and controlled.

DEPOSITS

Bank Deposits		Carrying Amount		Bank Balance
Cash in Bank (other than Certificates of Deposit (CDs))	$	286,628	$	308,598
Total Bank Deposits	$	286,628	$	308,598

Bank Balance of Deposits Subject to Custodial Credit Risk		Bank Balance
Bank balances uninsured and:		
Collateralized with securities held by the pledging financial institution	$	58,598
Total Deposits Subject to Custodial Credit Risk	$	58,598

Composition of Cash and Cash Equivalents		Carrying Amount
Cash on Hand	$	900
Cash in State Treasury		1,795,643
Total Bank Deposits (per above)		286,628
Other Cash Equivalents (included in the Investments note disclosure)		14,713,033
Total Cash and Cash Equivalents	$	16,796,204

Cash and Cash Equivalents per Statement of Net Position		Carrying Amount
Cash and Cash Equivalents - Current Assets	$	14,522,554
Cash and Cash Equivalents - Current Assets, Restricted		662,213
Cash and Cash Equivalents - Non-Current Assets, Restricted		1,611,437
Total Cash and Cash Equivalents per Statement of Net Position	$	16,796,204

INVESTMENTS

Investments		
Other Commingled Funds (include TexPool and similar gov't investment pools)	$	14,713,033
Total Investments, per Investments note disclosure	$	14,713,033

Reconciliation of Investments per Note Disclosure to Investment Accounts on the Statement of Net Position		
Total Investments, per above disclosure	$	14,713,033
Less Investments included on the Statement of Net Position in Cash Equivalents line items		(14,713,033)
Total Investment Accounts on the Statement of Net Position	$	0

Note 4: Summary of Long-Term Liabilities

	Balance 9/1/2012	Additions	Deductions	Balance 8/31/2013	Amounts Due Within One Year	Non-Current Amounts
Employees' Compensable Leave	$ 346,912	$ 25,999	$ 20,686	$ 352,225	$ 25,999	$ 326,226

Employees' Compensable Leave

Substantially all full-time College employees earn annual leave in the amount of 8 to 21 hours per month depending upon the respective employee's years of state employment. State law permits employees to carry accrued leave forward from one fiscal year to another fiscal year with a maximum of 532 hours for those employees with 35 or more years of state service. Eligible part-time employees' annual leave accrual rate and maximum carryover are proportional to the number of hours appointed to work. Employees with at least six months of state service who terminate their employment are entitled to payment for all accumulated annual leave. 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 $352,225. The College made payments totaling $20,686 for accrued vacation to employees who separated from the College during the fiscal year ended August 31, 2013 and payments of $19,755 for 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 or her death. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The College's policy is to recognize the cost of sick leave when paid, and the liability is not shown in the financial statements because experience indicates that the expense for sick leave will be minimal. Eligible part-time employees' sick leave accrual rate is proportional to the number of hours appointed to work.

Note 5: Bonded Indebtedness

The College receives proceeds from revenue bonds issued and held by the Texas State University System (System) to support capital projects of the System and its institutions. These proceeds are recorded as transfers from the System. The College disburses funds to the System for payments of principal and interest related to the College's share of bond proceeds. These disbursements are recorded as transfers to the System. At August 31, 2013, the System had outstanding bonds payable of $812,824,883. All bonds issued by the System are defined as revenue bonds. As such, the revenues of the System, including the College, are pledged for repayment of the bonds. Segment information requirements are not applicable, due to the bond indentures' lack of specifically identifiable activities and separate accounting requirements imposed by an external party.

No amount of indebtedness related to these bonds has been recorded in the College's financial statements as the System is the party directly liable for these bonds. At August 31, 2013, however, the College's remaining unpaid share of the bond proceeds was $9,220,848.

Note 6: Interagency Balances / Activity

DUE FROM/TO OTHER STATE ENTITIES

Entity		Due from Other State Entities		Due to Other State Entities	Purpose
Agency 320, D23, Fund 7999 Texas Workforce Commission	$	13,348	$		State Pass Thru Grant
Agency 755, D23, Fund 7999 Stephen F Austin State University		14,100			State Pass Thru Grant
Agency 734, D23, Fund 7999 Lamar University		600			Accounts Payable
Agency 320, D23, Fund 7999 Texas Workforce Commission		9,029			Federal Pass Thru Grant
Agency 306, D23, Fund 7999 Texas State Library and Archives Commis		19,999			Federal Pass Thru Grant
	$	57,076	$	0	

TRANSFERS IN FROM/OUT TO OTHER STATE ENTITIES

Entity		Transfers In from Other State Entities		Transfers Out to Other State Entities	Purpose
Agency 758, D23, Fund 7999, Texas State University System	$		$	96,064	System Office Support
Agency 758, D23, Fund 7999, Texas State University System				195,046	Bond Payment
Agency 758, D23, Fund 7999, Texas State University System		5,181,119			Bond Issue Proceeds
Agency 751, D23 Fund 0285 Texas Higer Education Coordinating Board				21,089	Tuition Set Aside Funds
	$	5,181,119	$	312,199	

LEGISLATIVE TRANSFERS IN/OUT

Entity		Legislative Transfers In		Legislative Transfers Out	Purpose
Agency 758 Texas State University System	$		$	426,682	General Revenue (01) TRB Payment
	$	0	$	426,682	

Note 7: Risk Financing and Related Insurance

The State provides coverage for workers' compensation and unemployment compensation benefits from appropriations made to other State agencies for Lamar State College-Orange employees. The current General Appropriations Act provides that the College must reimburse General Revenue Fund-Consolidated, from the College's appropriations, one-half of the unemployment benefits paid and twenty-five percent of the worker's compensation benefits paid for current and former employees. The Comptroller of Public Accounts determines the proportionate amount to be reimbursed from each fund type. The College must reimburse the General Revenue Fund one hundred percent of the cost for worker's compensation and employment compensation for any employees paid from funds held in local bank accounts. Workers' compensation and unemployment plans are on a pay-as-you-go basis, in which no assets are set aside to be accumulated for the payment of claims. No material outstanding claims are pending at August 31, 2013. The following insurance coverage is maintained by Lamar State College – Orange.

The College is required by certain bond covenants and FEMA to carry Fire and Extended Coverage and Boiler insurance on buildings financed through the issuance of bonds using pledged Auxiliary Enterprise, Educational and General Funds and 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 and the federal government for storm damage.
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, Lamar State College - Orange has chosen to carry liability insurance on their licensed vehicles in the amount of $1,000,000 combined single liability amount. The coverage exceeds the extent of the waivers of state immunity in the Tort Claims Act.

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

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

Note 8: The Financial Reporting Entity

Lamar State College - Orange is a state-supported college, governed by an elected nine-member board. As required by generally accepted accounting principles, these financial statements are presented for Lamar State College - Orange. There are no component units.

Lamar State College – Orange Foundation, Inc. is a non-profit organization, which was established in December 1983, to support the development and promotion of Lamar State College – Orange, its students, faculty, staff, and physical facilities. Neither the balance nor the transactions of this organization's fund are reflected in the financial statements during the year ended August 31, 2013. Lamar State College – Orange received $135,000 from the Lamar State College – Orange Foundation during the year ended August 31, 2013.

Note 9: 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 College 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 College 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, 2013, the statutorily required contribution rate was 6.4% of annual compensation from active plan members and 6.4% of annual compensation from the College.

For the years ended August 31, 2013, 2012, and 2011, the College contributed 100% of the following statutorily required employer contributions:

	2013	**2012**	**2011**
Required Contribution Rate	6.4%	6%	6.644%
Contributions Required & Made	$306,623	$297,133	$329,674

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 College, 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 College 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 College may be required to make the employer contribution in lieu of the State. During the year ended August 31, 2013, the required State contribution rate was 6 percent and the College's contribution rate was 2.5 percent of annual compensation for participants who were grandfathered and eligible to receive the College's contribution.

For the year ended August 31, 2013, contributions to the ORP were as follows:

Participant contributions	$196,520
Employer contributions	405,152
Total	$601,672

Note 10: Deferred Compensation

The following deferred compensation plans are available to College employees:

College employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Texas Government Code, Section 609.001. The State 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 College 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 College also administers a Tax-Sheltered Annuity Program with various vendors, 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 College or the State. Therefore, none of these entities has a liability related to this plan.

Note 11: Donor-Restricted Endowments

Donor-Restricted Endowment	Amounts of Net Appreciation	Reported in Net Position
True Endowments	$ 15,524	Restricted for Nonexpendable
Total Restricted Endowments	$ 15,524	

This amount was reported as Nonexpendable Restricted by Contributor on the Statement of Net Position. Lamar State College - Orange's policy for authorizing and expending endowment investment income allows for an accrual of earned investment income to provide a periodic scholarship. The endowment participates in a pool of invested funds and earned an approximate rate of interest in the amount .14% for the fiscal year ended August 31, 2013.

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

Note 12: Post-Employment Health Care and Life Insurance Benefits

Plan Description. The College 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 2013.

Maximum Monthly Employer Contribution for Retiree OPEB For the fiscal year ended August 31, 2013	
Level of Coverage	**Amount ($)**
Retiree Only	$470.38
Retiree and Spouse	$739.58
Retiree and Children	$650.62
Retiree and Family	$919.82

Contractually required employer contributions to the plan are currently based on the annual pay-as-you-go expenses of the SRHP. The College's contributions to SRHP for the years ended August 31, 2013, 2012, and 2011, included in amounts reported as Payroll Related Costs, and were $229,997, $218,060 and $199,807 respectively, which equaled the required contributions each year.

Note 13: Disaggregation of Receivable and Payable Balances

Current Receivables and Other Current and Non-Current Liabilities as of August 31, 2013, are comprised of the following:

Federal Receivables		
Financial Aid	$	594,543
Other Receivables		
Student Receivables	$	435,612
Other Current Liabilities		
Refundable Student Deposits	$	5,883
Other Non-Current Liabilities		
Refundable Student Deposits	$	52,947

State Auditor's Office
John Keel, CPA
State Auditor

March 7, 2014

Dr. J. Michael Shahan, President
Lamar State College – Orange
410 Front Street
Orange, TX 77630-5802

Subject: Management Letter Resulting from a Review of Lamar State College - Orange's Fiscal Year 2013 Financial Statements

Dear Dr. Shahan:

We offer this management letter in conjunction with our review of the financial statements of Lamar State College – Orange (College) as of and for the fiscal year ended August 31, 2013, on which we have issued our report dated March 7, 2014. We reviewed the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. In the course of our review, which was substantially less in scope than an audit, we did not find that material modifications needed to be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

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

Sincerely,

Nicole Guerrero

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

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Texas A&M University

Financial Statements and Independent Accountant's Review Report

For the Fiscal Year Ended August 31, 2013

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State Auditor's Office
John Keel, CPA
State Auditor

Independent Accountant's Review Report

Dr. Mark Hussey, Interim President
Texas A&M University
1246 TAMU
College Station, Texas 77843-1246

We have reviewed the accompanying Statement of Net Position of Texas A&M University (University) including Texas A&M University at Galveston and the Texas A&M University Health Science Center as of August 31, 2013, and the related Statement of Revenues, Expenses, and Changes in Net Position and Statement of Cash Flows for the year then ended. A review includes primarily applying analytical procedures to the University's financial data and making inquiries of University personnel. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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

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

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

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

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

John Keel, CPA
State Auditor

January 16, 2014

SAO Report No. 14-323

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Texas A&M University, including Texas A&M University at Galveston and Texas A&M Health Science Center
Statement of Net Position
August 31, 2013
(See Independent Accountant's Report on Page 1)

ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 3)	$	161,079,791
Restricted:		
Cash and Cash Equivalents (Note 3)		26,229,271
Short-Term Investments (Note 3)		21,605
Legislative Appropriations		9,096,165
Receivables, Net of Allowances (Note 18):		
Federal		17,726,097
Gifts/Pledges		15,344,437
Accounts		59,141,824
Other		857,212
Due from Other State Entities (Note 8)		116,384,977
Consumable Inventories		14,338,865
Merchandise Inventories		2,686,789
Prepaid Expenses		55,015,115
Loans and Contracts		11,616,221
Other Current Assets		983,611
Total Current Assets	$	490,521,980
Non-Current Assets		
Restricted:		
Assets Held by System Offices (Note 3)	$	515,568,117
Loans and Contracts		3,004,702
Gifts Receivable		50,590,967
Assets Held by System Offices (Note 3)		1,120,420,832
Loans and Contracts		15,956,515
Capital Assets (Note 2):		
Non-Depreciable and Non-Amortizable		160,946,706
Depreciable and Amortizable		3,637,708,577
Less: Accumulated Depreciation and Amortization		(1,899,548,398)
Total Non-Current Assets	$	3,604,648,018
Total Assets	$	4,095,169,998
DEFERRED OUTFLOW OF RESOURCES		
Acquisition of Law School Operations (Note 20)	$	39,065,644
Total Deferred Outflows of Resources	$	39,065,644

LIABILITIES		
Current Liabilities		
Payables (Note 18):		
Accounts	$	41,787,659
Payroll		50,550,093
Other		6,938,359
Due to Other State Entities (Note 8)		30,016,780
Deferred Revenue		310,307,365
Capital Lease Obligations (Notes 4, 6)		693,771
Employees' Compensable Leave (Note 4)		6,455,445
Funds Held for Others (Note 4)		7,481,705
Other Current Liabilities (Note 4)		18,671,724
Total Current Liabilities	$	472,902,901
Non-Current Liabilities		
Due to Other State Entities (Note 8)	$	10,767,127
Capital Lease Obligations (Notes 4, 6)		2,173,063
Employees' Compensable Leave (Note 4)		49,348,347
Funds Held for Others (Note 4)		16,635,402
Other Non-Current Liabilities (Note 4)		37,439,500
Total Non-Current Liabilities	$	116,363,439
Total Liabilities	$	589,266,340
NET POSITION		
Invested in Capital Assets, Net of Related Debt	$	1,879,917,385
Restricted for:		
Non-Expendable		
Permanent Funds, True Endowments, Annuities		271,352,722
Expendable		
Capital Projects		69,364,067
Education		138,250,276
Funds Functioning as Endowments		99,069,359
Unrestricted		1,087,015,493
Total Net Position	$	3,544,969,302

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 and Texas A&M Health Science Center
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended August 31, 2013
(See Independent Accountant's Report on Page 1)

OPERATING REVENUES		
Tuition and Fees - Pledged	$	540,822,296
Discounts and Allowances		(121,013,229)
Professional Fees - Pledged		461,653
Auxiliary Enterprises - Pledged		175,522,536
Discounts and Allowances		(11,772,912)
Hospitals and Clinics		5,040,360
Other Sales of Goods and Services - Pledged		147,496,361
Interest Revenue		853,100
Federal Revenue		121,268,502
State Grant Revenue		33,938,385
Other Operating Grant Revenue		112,767,497
Other Operating Revenues		26,708,757
Total Operating Revenues	$	1,032,093,306
OPERATING EXPENSES		
Cost of Goods Sold	$	6,263,088
Salaries and Wages		756,824,466
Payroll Related Costs		152,352,419
Professional Fees and Services		94,091,038
Travel		27,902,776
Materials and Supplies		104,378,555
Communications and Utilities		74,359,134
Repairs and Maintenance		85,293,933
Rentals and Leases		27,748,667
Printing and Reproduction		4,623,552
Depreciation and Amortization		154,375,765
Bad Debt Expense		12,895
Interest Expense		17,917
Scholarships		65,367,773
Other Operating Expenses		90,647,014
Total Operating Expenses	$	1,644,258,992
Operating Income (Loss)	$	(612,165,686)
NONOPERATING REVENUES (EXPENSES)		
Legislative Appropriations	$	403,816,959
Federal Revenues		39,322,421
Gifts		79,408,867
Interest and Investment Income (Loss)		27,536,872
Investing Activities Expense		(2,839,136)
Net Increase (Decrease) in Fair Value of Investments		63,114,314
Land Income		3,706,551
Interest Expense and Fiscal Charges		(486,221)
Gain (Loss) on Sale of Capital Assets		328,806

Claims and Judgments		(35,959)
Other Nonoperating Revenues - Pledged		14,970,733
Other Nonoperating Expenses		(26,131,392)
Total Nonoperating Revenues (Expenses)	$	602,712,815
Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers	$	(9,452,871)
OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS		
Capital Contributions	$	1,547,404
Additions to Permanent and Term Endowments		1,785,970
Transfers In from Other State Entities (Note 8)		422,652,274
Transfers Out to Other State Entities (Note 8)		(117,250,685)
Legislative Transfers Out (Note 8)		(14,862,593)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	$	293,872,370
CHANGE IN NET POSITION	$	284,419,499
Net Position, September 1, 2012	$	3,273,273,852
Restatements (Note 13)		(12,724,049)
Net Position, September 1, 2012, as Restated	$	3,260,549,803
NET POSITION, August 31, 2013	$	3,544,969,302

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 and Texas A&M Health Science Center
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2013
(See Independent Accountant's Report on Page 1)

CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Tuition and Fees	$	405,325,862
Receipts from Customers		148,882,200
Proceeds from Research Grants and Contracts		279,311,789
Proceeds from Loan Programs		1,973,842
Proceeds from Auxiliaries		161,856,957
Proceeds from Other Revenues		69,923,570
Payments to Suppliers for Goods and Services		(497,345,791)
Payments to Employees for Salaries		(756,562,810)
Payments to Employees for Benefits		(154,399,727)
Payments for Loans Provided		(815,222)
Payments for Other Expenses		(69,115,069)
Net Cash Provided (Used) by Operating Activities	$	(410,964,399)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Legislative Appropriations	$	418,704,876
Proceeds from Gifts		94,226,648
Proceeds from Endowments		1,785,970
Proceeds of Transfers from Other Entities		114,300,239
Proceeds from Other Grants Revenues		35,673,870
Proceeds from Other Sources		54,255,008
Payments for Transfers to Other Entities		(8,238,811)
Payments for Other Uses		(54,565,003)
Net Cash Provided (Used) by Non-Capital Financing Activities	$	656,142,797
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Disposal of Capital Assets	$	1,348,353
Proceeds of Transfers from Other Entities		17,249,373
Payments for Additions to Capital Assets		(73,501,110)
Payments of Principal on Capital-Related Debt		(1,646,292)
Payments of Interest on Capital-Related Debt		(483,139)
Payments for Transfers to Other Entities		(112,316,795)
Net Cash Provided (Used) by Capital and Related Financing Activities	$	(169,349,610)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Interest and Investment Income	$	9,632,092
Payments to Acquire Investments		(172,937,847)
Net Cash Provided (Used) by Investing Activities	$	(163,305,755)
Net Increase (Decrease) in Cash and Cash Equivalents	$	(87,476,967)

Cash and Cash Equivalents, September 1, 2012	$	274,786,029
Cash and Cash Equivalents, August 31, 2013	$	187,309,062

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

Operating Income (Loss)	$	(612,165,686)
Adjustments:		
Depreciation and Amortization	$	154,375,765
Bad Debt Expense		1,419,895
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		509,266
(Increase) Decrease in Due from Other Entities		3,616,963
(Increase) Decrease in Inventories		460,673
(Increase) Decrease in Prepaid Expenses		(5,980,445)
(Increase) Decrease in Loans and Contracts		4,898,041
(Increase) Decrease in Other Assets		(24,505,578)
Increase (Decrease) in Payables		11,238,835
Increase (Decrease) in Due to Other Entities		(69,629)
Increase (Decrease) in Deferred Revenue		28,680,646
Increase (Decrease) in Employees' Compensable Leave		1,001,511
Increase (Decrease) in Other Liabilities		25,555,344
Total Adjustments	$	201,201,287
Net Cash Provided (Used) by Operating Activities	$	(410,964,399)
Non-Cash Transactions		
Net Increase (Decrease) in Fair Value of Investments	$	819,005
Donated Capital Assets		1,753,993
Other Additions to Capital Assets (Transfer from Other Entities)		267,937,530
Disposal of Capital Assets		(1,001,018)

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

General Introduction

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

Reporting Entity

Texas A&M University, including Texas A&M University at Galveston and Texas A&M Health Science Center (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.

On July 15, 2013, the Texas A&M Health Science Center was brought under the administration of Texas A&M University. The move was authorized by the A&M System Board of Regents in August 2012 and went through a multi-step process of approvals from the Texas Higher Education Coordinating Board and the Southern Association of Colleges and Schools Commission on Colleges, the accrediting body for the university and health science center.

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, including GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA*

Pronouncements, and GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash and cash equivalents. With the exception of residual cash which results from the management of investment portfolios, the A&M System maintains cash and cash equivalents for the purpose of meeting short-term disbursement requirements.

Investments

Investments are reported at fair value on the Statement of Net Position. Fair value is defined as the amount at which an investment could be exchanged in a current transaction between parties, other than in a forced or liquidation sale. The A&M System notes to the financial statements disclose deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Current Assets

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

Receivables

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

Receivable balances are presented net of an allowance for uncollectible accounts. The allowance is based on management's judgment of potential uncollectible amounts, which includes such factors as historical experience and type of receivable. Refer to Note 18, Disaggregation of Receivable and Payable Balances, for additional details.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Livestock held for educational purposes is recorded at estimated fair value. The capitalization threshold for personal property is $5,000. The capitalization threshold is $100,000 for buildings/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.

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.

Payables

Payable balances are grouped into various payable categories on the Statement of Net Position. Accounts payable represents the liability for the value of assets or services received, as of the date of the financial statements, which payment is pending. Payroll payable includes accrued salary, wages, and benefits. Other payables include a variety of items, including payables for purchasing card activity, manager fees, sales taxes, and student liabilities. Refer to Note 18, Disaggregation of Receivable and Payable Balances, for additional details.

Revenues and Expenses

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

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

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

Deferred Outflows and Inflows of Resources

Deferred Outflows of Resources and Deferred Inflows of Resources are presented in separate sections on the Statement of Net Position effective fiscal year 2013, in compliance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Deferred Outflows of Resources are defined as the consumption of net assets applicable to a future reporting period, and have a positive effect on net position, similar to assets. Deferred Inflows of Resources are defined as the acquisition of net assets applicable to a future reporting period, and have a negative effect on net position, similar to liabilities. Texas A&M University has no reportable Deferred Inflows of Resources.

The early implementation of GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, resulted in a deferred outflow of resources related to the acquisition of law school operations from a private university, as detailed in Note 20.

Net Position

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

Net Investment in Capital Assets

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

Restricted Net Position

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

Unrestricted Net Position

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

Other Significant Accounting Policies

Certain operations provide goods and services to internal customers. These operations include activities such as self insured programs, repairs & maintenance, utilities, computer services, and other services with interdepartmental activities. The revenues were eliminated to the extent of expenses for these internal transactions in the Statement of Revenues, Expenses, and Changes in Net Position to avoid inflating revenues and expenses. 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. All realized gains and losses are deposited to or funded from the Appreciation Reserve, and distributions from the reserve are used to supplement current income when the income received is insufficient to meet the required distribution in accordance with the System Endowment Fund spending policy.

Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2013, is presented below:

	Balance 9/1/2012	Adjustments	Completed Construction in Progress	Additions	Deductions	Balance 8/31/2013
Non-Depreciable and Non-Amortizable Assets:						
Land and Land Improvements	$ 60,925,135	$ -	$ 1,158,808	$ 8,081	$ -	$ 62,092,024
Construction in Progress	177,357,946	-	(426,677,915)	307,575,295	(11,562)	58,243,764
Library Books	12,188,937	-	-	1,244,293	-	13,433,230
Other Capital Assets	26,708,839	-	15,000	453,849	-	27,177,688
Total Non-Depreciable Assets	$ 277,180,857	$ -	$ (425,504,107)	$ 309,281,518	$ (11,562)	$ 160,946,706
Depreciable and Amortizable Assets:						
Buildings and Building Improvements	$ 2,159,599,367	$ -	$ 344,081,311	$ 182,780	$ (12,556,248)	$ 2,491,307,210
Infrastructure	382,646,490	-	39,474,029	8,137,710	(438,270)	429,819,959
Facilities and Other Improvements	173,041,409	-	13,080,039	135,796	(161,915)	186,095,329
Furniture and Equipment	348,190,956	-	27,856,455	23,669,170	(32,560,803)	367,155,778
Vehicles, Boats, and Aircraft	44,447,280	-	-	2,793,919	(2,334,284)	44,906,915
Other Capital Assets	105,344,526	-	1,012,273	12,936,013	(869,426)	118,423,386
Total Depreciable and Amortizable Assets at Historical Cost	$ 3,213,270,028	$ -	$ 425,504,107	$ 47,855,388	$ (48,920,946)	$ 3,637,708,577
Less Accumulated Depreciation and Amortization for:						
Buildings and Building Improvements	$ (1,071,861,910)	$ (11,128,591)	$ -	$ (88,879,083)	$ 8,855,621	$ (1,163,013,963)
Infrastructure	(197,865,261)	(1,151,671)	-	(13,828,846)	-	(212,845,778)
Facilities and Other Improvements	(131,385,554)	(443,787)	-	(4,691,426)	7,649	(136,513,118)
Furniture and Equipment	(244,868,304)	-	-	(37,195,956)	13,789,394	(268,274,866)
Vehicles, Boats, and Aircraft	(33,371,859)	-	-	(2,657,009)	2,260,326	(33,768,542)
Other Capital Assets	(78,557,829)	-	-	(7,251,678)	677,376	(85,132,131)
Total Accumulated Depreciation and Amortization	$ (1,757,910,717)	$ (12,724,049)	$ -	$ (154,503,998)	$ 25,590,366	$ (1,899,548,398)
Depreciable and Amortizable Assets, Net	$ 1,455,359,311	$ (12,724,049)	$ 425,504,107	$ (106,648,610)	$ (23,330,580)	$ 1,738,160,179
Capital Assets, Net	$ 1,732,540,168	$ (12,724,049)	$ -	$ 202,632,908	$ (23,342,142)	$ 1,899,106,885

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, 2013, the carrying amount of deposits was $187,309,062 as presented below:

Composition of Cash and Cash Equivalents		Carrying Amount
Cash on Hand	$	231,844.00
Cash in State Treasury		61,046,691.00
Reimbursement Due from Treasury		1,726,445.00
Assets Held for Investment by System Offices (Current)		98,074,810.00
Restricted Cash on Hand		288,572.00
Assets Held for Investment by System Offices (Current, Restricted)		19,895,038.00
Total Bank Deposits (per above)		6,045,662.00
Total Cash and Cash Equivalents	$	187,309,062.00

Cash and Cash Equivalents per Statement of Net Position		Carrying Amount
Cash and Cash Equivalents - Current Assets	$	161,079,791.00
Cash and Cash Equivalents - Current Assets, Restricted		26,229,271.00
Total Cash and Cash Equivalents per Statement of Net Position	$	187,309,062.00

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

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

As of August 31, 2013 the value of assets held long-term by the A&M System on behalf of Texas A&M University totaled $1,753,958,797. Of that amount $535,463,155 is restricted. These investments are reported as Current Assets, Non-Current Assets, Restricted Assets held by System Offices – Long Term and Assets held by System Offices – Long Term on the Statement of Net Position. Texas A&M University's investments held by the A&M System, by Pool and by Statement of Net Position Classification are as follows:

University Share of Pooled Investments Held by the System, by Pool and by Statement of Net Position Classification		
Investments Held by System in:		
Cash Concentration Pool	$	1,332,136,965
System Endowment Fund		421,719,242
Separate Investment Accounts		102,590
Total University Share of Pooled Investments Held by System	$	1,753,958,797
Current Assets		
Cash Concentration Pool	$	98,074,810
Current Assets, Restricted		
Cash Concentration Pool		19,865,229
Separate Investment Accounts		29,809
Non-Current Assets		
Cash Concentration Pool		1,109,815,930
System Endowment Fund		10,533,652
Separate Investment Accounts		71,250
Non-Current Assets, Restricted		
Cash Concentration Pool		104,380,996
System Endowment Fund		411,185,590
Separate Investment Accounts		1,531
Total University Share of Pooled Investments Held by System	$	1,753,958,797

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 $21,605. This trust is the only investment managed directly by the Texas A&M Health Science Center.

Investments		
Domestic Equity		6,428
International Equity		6,520
Fixed Income Money Market and Bond Mutual Fund		8,657
Total Investments, per Investments note disclosure	$	21,605

Note 4: Summary of Long-Term Liabilities

During the year ended August 31, 2013, the following changes occurred in liabilities:

		Balance 9/1/2012		Additions		Deductions		Balance 8/31/2013		Amounts Due Within One Year
Capital Lease Obligations		3,370,133		26,659		529,958		2,866,834		693,771
Employees' Compensable Leave		54,802,281		1,984,796		983,285		55,803,792		6,455,445
Funds Held for Others		25,084,803		48,154,035		49,121,731		24,117,107		7,481,705
Assets Held in Trust		30,292,425		8,062,703		493,904		37,861,224		18,671,724
Law School Acquisition Contract Payable		-		18,000,000		-		18,000,000		-
Other Liabilities		200,000		50,000		-		250,000		-
Total	$	113,749,642	$	76,278,193	$	51,128,878	$	138,898,957	$	33,302,645

Employees' Compensable Leave

Full-time State employees earn eight to twenty-one hours per month annual leave depending on years of State employment. Under the State's policy, an employee with 35 or more years of State service may carry up to 532 hours accrued leave forward from one fiscal year to another.

Employees with at least six months of State service who terminate employment are entitled to payment for all accumulated annual leave up to the maximum allowed. The A&M System accrues the dollar value of annual leave benefits which are payable upon retirement, termination, or death of its employees. This liability (current and noncurrent) for Texas A&M University is projected to be $55,803,792 as of August 31, 2013. 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 $4,086,505 for accrued vacation to employees who separated from State service during the fiscal year ended August 31, 2013.

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 Position 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, 2013, the A&M System had outstanding bonds payable of $2,359,640,000. All bonds issued by the A&M System are defined as revenue bonds. As such, the revenues of the A&M System, including the Texas A&M University, are pledged for repayment of the bonds. Segment information requirements are not applicable, due to the bond indentures' lack of specifically identifiable activities and separate accounting requirements imposed by an external party.

No amount of indebtedness related to these bonds has been recorded in the Texas A&M University's financial statements as the A&M System is the party directly liable for these bonds. At August 31, 2013, however, outstanding debt issued on behalf of Texas A&M University is $776,620,636.

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, 2013, 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, 2013, is $5,851,069. 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, 2013		Total
2014	$	861,314
2015		780,082
2016		657,040
2017		150,526
2018		102,450
2019-2023		491,384
2024-2028		458,783
Total Minimum Lease Payments	$	3,501,579
Less: Amount Representing Interest at Various Rates		(634,745)
Present Value of Net Minimum Lease Payments	$	2,866,834

ORIGINAL CAPITALIZED COSTS OF ASSETS UNDER CAPITAL LEASE OBLIGATIONS				
		Assets under Capital Lease		Accumulated Depreciation
Buildings and Building Improvements	$	2,372,049	$	933,418
Furniture and Equipment		2,894,818		1,009,805
Vehicles, Boats, and Aircraft		253,632		49,513
Other Capital Assets		330,570		136,335
Total	$	5,851,069	$	2,129,071

Note 7: Operating Leases

Future minimum lease payments under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2013, are presented below:

Year Ended August 31, 2013		Total
2014	$	4,060,555
2015		3,741,570
2016		3,160,602
2017		2,428,011
2018		2,077,379
2019-2023		3,598,505
Total Minimum Future Lease Payments	$	19,066,622

Future minimum lease rentals under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2013, are presented below:

Year Ended August 31, 2013		**Total**
2014	$	2,418,221
2015		897,747
2016		784,732
2017		499,185
2018		397,003
2019-2023		1,719,875
2024-2028		1,719,875
2029-2033		1,719,875
Total Minimum Future Lease Revenues	$	10,156,513

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

Carrying Value of Leased Assets			
		Accumulated	Carrying
Class of Property	Leased Assets	Depreciation	Value
Building	$ 24,916,845	$ 9,218,783	$ 15,698,062
Land	666,783	-	666,783
Totals	$ 25,583,628	$ 9,218,783	$ 16,364,845

Note 8: Interagency Balances / Activity

As of August 31, 2013, 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 $10,767,127 due to the State Energy Conservation Office for the Texas LoanSTAR (Saving Taxes and Resources) Program. Individual balances and activity at August 31, 2013, 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 Offices	$ 34,304,364	$ -	RFS/PUF Debt Proceeds
Texas A&M University System Offices	65,922,352	-	Shared Cash-Available University Funds
Texas A&M University System Offices	369,007	-	Contracts and Grant Reimbursements
Texas A&M University System Offices	-	26,192,206	Construction Proceeds
Texas AgriLife Research	16,874	16,009	Contracts and Grant Reimbursements
Texas AgrilLife Extension	7,597	27,663	Contracts and Grant Reimbursements
Texas Engineering Experiment Station	3,022	81,370	Contracts and Grant Reimbursements
Texas A&M University-Corpus Christi	11,499	46,591	Contracts and Grant Reimbursements
Texas A&M University-Kingsville	1,803	-	Contracts and Grant Reimbursements
Texas A&M Resesarch Foundation	10,284,217	-	Contracts and Grant-payroll reimbursement and indirect cost earnings
300-Governor's Office	17,892	681,027	Contracts and Grant Reimbursements
305-General Land Office	126,362	-	Contracts and Grant Reimbursements
329-Texas Real Estate Commission	429,940	-	Real estate license fee revenue
506-University of Texas M.D. Anderson Cancer Center	44,518	225,752	Contracts and Grant Reimbursements
537-Department of State Health Services	405,853	24,797	Contracts and Grant Reimbursements
542-Cancer Prevention and Research Institute of Texas	1,661,487	34,407	Contracts and Grant Reimbursements
580-Texas Water Development Board	21,705	-	Contracts and Grant Reimbursements
582-Texas Commissionon Environmental Quality	30,831	16	Contracts and Grant Reimbursements
601-Texas Department of Transporation	753,178	-	Contracts and Grant Reimbursements
608-Texas Department of Motor Vehicles	19,397	-	Contracts and Grant Reimbursements
701-Texas Education Agency	444,942	-	Contracts and Grant Reimbursements
714-University of Texas at Arlington	-	4,369	Contracts and Grant Reimbursements
720-University of Texas System	609,848	-	Shared Cash in Permanent Endowment fund
721-University of Texas at Austin	79,335	2,585	Contracts and Grant Reimbursements
723-University of Texas Medical Branch at Galveston	74,233	18,165	Contracts and Grant Reimbursements
729-University of Texas Southwestern Medical Center at Dallas	4,860	-	Contracts and Grant Reimbursements
730-University of Houston	-	6,488	Contracts and Grant Reimbursements
744-University of Texas Health Science Center at Houston	14,654	4,128	Contracts and Grant Reimbursements
753-Sam Houston State University	-	125,046	Contracts and Grant Reimbursements
759-University of Houston-Clear Lake	-	1,941	Contracts and Grant Reimbursements
781-Texas Higher Education Coordinating Board	579,727	-	Contracts and Grant Reimbursements
785-University of Texas Health Center at Tyler	98,780	-	Contracts and Grant Reimbursements
802-Parks and Wildlife Department	46,700	-	Contracts and Grant Reimbursements
907-Comptroller--State Energy Conservation Office	-	13,291,347	Contracts and Grant Reimbursements
	$ 116,384,977	$ 40,783,907	

TRANSFERS IN FROM/OUT TO OTHER STATE ENTITIES

Entity	Transfers In from Other State Entities	Transfers Out to Other State Entities	Purpose
Texas A&M University System Offices	$ -	$ 75,728,502	Mandatory Debt Service
Texas A&M University System Offices	13,596,606	-	RFS/PUF Proceeds
Texas A&M University System Offices	29,880,959	-	SEF Appreciation Reserve
Texas A&M University System Offices	270,532,839	-	Fixed Assets
Texas A&M University System Offices	8,967,614	30,694,186	Construction Proceeds
Texas A&M University System Offices	300,000	300,000	Grant Matching funds
Texas A&M University System Offices	93,829,000	-	Available University Funds
Texas A&M University System Offices	154,000	-	Research Initiatives
Texas A&M University System Offices	403,630	-	Resource Allocation Program
Texas A&M University System Offices	-	12,361	Other
Texas AgriLife Research	17,620	2,547,044	Fixed Assets
Texas AgriLife Extension	4,358	-	Fixed Assets
Texas Engineering Experiment Station	105,746	65,573	Fixed Assets
Texas Forest Service	-	3,294	Fixed Assets
Texas Transportation Institute	12,684	-	Fixed Assets
Texas Transportation Institute	150,000	-	Other
Sponsored Research Services	-	686	Fixed Assets
329-Texas Real Estate Commission	4,681,480	-	Real estate license fee revenue
529-Texas Health & Human Services Commission	-	3,200,000	1115 Healthcare Transformation Waiver
721-University of Texas at Austin	15,738	-	Fixed Assets
781-Texas Higher Education Coordinating Board	-	4,386,135	B-On Time Set Asides
781-Texas Higher Education Coordinating Board	-	179,202	Doctoral Set Asides
781-Texas Higher Education Coordinating Board	-	133,702	Medical Set Asides
	$ 422,652,274	$ 117,250,685	

LEGISLATIVE TRANSFERS IN/OUT

Entity	Legislative Transfers In	Legislative Transfers Out	Purpose
Texas A&M University System Offices	$ -	$ 14,862,593	Mandatory Debt Service
	$ -	$ 14,862,593	

Note 9: Contingent Liabilities

At August 31, 2013, 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 (WCI), group health and dental insurance and certain areas of medical malpractice. Liabilities for claims have been reported where information prior to issuance of the financial statements indicated that it was probable that a liability had been incurred and the amount of the loss could be reasonably estimated.

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

The A&M System implemented a self-insured health and dental plan on September 1, 1994, which is also considered a funded pool. Premiums are determined through an actuarial pricing process that takes place each spring. The A&M System maintains an experience stabilization fund of $49,607,033 that is comprised of excess premiums from previous years and is used to offset losses in a given year. Dental benefits under the plan are limited to $1,500 per individual per year, so the potential for catastrophic loss is not a significant risk.

The Texas A&M University System Health Science Center College of Medicine has established a medical student liability self-insurance plan (the Plan) to provide eligible medical students of the Texas A&M University System Health Science Center College of Medicine with medical malpractice liability indemnity from and against medical malpractice claims. Limits of liability are $25,000 per claim, $75,000 aggregate per participant, and $100,000 annual aggregate. The Plan is funded through a student participation fee. At August 31, 2013, the Plan had a balance of $374,093 with no accrued liabilities.

The following table presents the changes in IBNR liability balances.

Changes in IBNR Liability Balances

Plan	WCI	Health & Dental
IBNR Liability 9/1/12	$ 6,568,000	$ 14,091,000
CY Claims Plus Change in Estimates	$ 2,289,000	$ 216,076,475
Claims Payments	$ (2,595,000)	$ (214,055,475)
Other Items (changes in estimates)	$ 2,002,000	$ -
IBNR Liability 8/31/13	$ 8,264,000	$ 16,112,000

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 position 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 Foundation in Agency Funds. As of August 31, 2013 the Texas A&M Health Science Center held funds for the Foundation in Agency Funds totaling $17,266,536.

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, 2013 and is Fund Type 05, Appropriated 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, 2013, the Research Foundation had total Research and Development Expenditures for Texas A&M University of $106,669,091.

Since 2012, Texas A&M System Sponsored Research Services has managed a number of the relationships and agreements previously managed by the Texas A&M Research Foundation. The intent is to move the majority of fiscal activity to each System member’s financial statements. The Texas A&M Research Foundation’s operating revenues and expenses decreased by 11% compared to the prior fiscal year. We will continue to see reductions 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.)** has been included in the combined financial statements of the A&M System as a discretely presented component unit. The audited financial statements of the Mexico City Center for the year ended December 31, 2012 are prepared in accordance with the financial accounting standards in Mexico.

The **Casa Verde Research Center, Sociedad Anonimo,** has also been included in the combined financial statements of the A&M System. The financial statements for the Casa Verde Research Center for the year ended August 31, 2013 are prepared in accordance with the financial accounting standards in Costa Rica.

Texas A&M University can appoint a voting majority of the boards of The Mexico City Center and the Casa Verde Research Center. 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.

Note 13: Restatement of Net Position

A summary of restatements of net position for the year ended August 31, 2013, is presented below:

Net Position, September 1, 2012	$	3,273,273,852
Restatements:		
(a) Due to transfer of Bryan campus buildings from System Offices to HSC in FY10, but items were not reclassed out of CIP until the final close in FY13. Amount represents between 1 and 3 years of depreciation of $133M in buildings.	$	(12,724,049)
Total Restatements	$	(12,724,049)
Net Position, September 1, 2012, as Restated	$	3,260,549,803

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.

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, 2013, the statutorily required contribution rate was 6.4% of annual compensation from active plan members and 6.4% of annual compensation from the A&M System.

For the years ended August 31, 2013, 2012, and 2011, Texas A&M University contributed 100% of the following statutorily required employer contributions:

	2013	2012	2011
Required Contribution Rate	6.40%	6.00%	6.644%
Contributions Required & Made	$7,290,328	$6,496,925	$7,855,064

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, 2013, the required State contribution rate was 6.0% percent and the A&M System's contribution rate was 0.4% 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 2.5%.

For the year ended August 31, 2013, contributions to the ORP were as follows:

Optional Retirement Program	Amount
Employer Contributions	$ 40,750,920
Employee Contributions	$ 37,146,364
Total	$ 77,897,284

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 $23,367,657 for the year ended August 31, 2013. Of this amount, $10,756,300 represents the portion of appropriations made by the State Legislature expended on behalf of Texas A&M University and $12,611,357 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 can include insurance companies, banks, or approved non-bank trustees such as mutual fund companies. The assets of this plan do not belong to the A&M System or the State and thus do not have a liability related to this plan beyond the administrative requirements outlined in the corresponding provisions of the IRC.

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

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

Note 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 Position
True Endowments	$ 108,925,190	Restricted for Expendable

* The total fiscal year 2013 fair value adjustment to the Fund was $48,975,828.

The amount of net appreciation for donor restricted endowments specific to Texas A&M University is $67,166,954.

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. As of August 31, 2013, the A&M System had 7,652 retirees and 20,933 active employees. For the year ending August 31, 2013, the employer and retiree contribution rates are presented below.

Required Contribution Rates
Retiree Health and Basic Life Premium

Level of Coverage	Employer	Retiree*
Retiree Only	$ 370	$ 79
Retiree/Spouse	548	257
Retiree/Children	482	190
Retiree/Family	637	346

*Health Premium Only

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

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

Because the OPEB plan described herein is not administered through a trust as defined under Paragraph 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, 2013, 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
8/31/2013	$ 61,529,733	$ 176,876,299	35%	$ 719,224,595
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

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

Annual OPEB Cost and Net OPEB Obligation

The annual OPEB cost of the plan is calculated and based on the annual required contribution (ARC). The ARC is the amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period of years, not to exceed 30 years. The following table shows the components of the annual OPEB cost for the year for the plan:

Annual OPEB Cost and Net OPEB Obligation

Annual Required Contribution (ARC)	$ 165,148,207
Interest on Net OPEB Obligation	44,083,096
Adjustment to ARC	(32,355,004)
Annual OPEB Cost	176,876,299
Employer Contributions Made	(61,529,733)
Increase Net OPEB Obligation	115,346,566
Net OPEB Obligation 9/1/2012	603,878,029
Net OPEB Obligation 8/31/2013	$ 719,224,595

Schedule of Funding Progress of the Plan

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

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over AAL (Unfunded AAL) (a)-(b)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	Ratio of UAAL to Covered Payroll ((a-b)/c)
9/1/2012	$ -	$ 1,924,980,271	$ (1,924,980,271)	0.0%	$ 1,149,300,305	167.5%
9/1/2011	$ -	$ 1,996,798,639	$ (1,996,798,639)	0.0%	$ 1,359,512,304	146.9%
9/1/2010	$ -	$ 1,854,690,001	$ (1,854,690,001)	0.0%	$ 1,313,538,458	141.2%

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, 2012
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market
Amortization Method	Open
Remaining Amortization Period of Unfunded Liability	30 years
Actuarial Assumptions:	
Projected Salary Increases	3.5%
Investment Rate of Return	7.3%
Inflation	3.0%
Health Care Trend Rates*	9.0% in 2013

* Grading down .5% annually until reaching 5% in 2021

Medicare Part D

In fiscal year 2013 the plan received payments from the federal government pursuant to the retiree drug subsidy provisions of Medicare Part D. These on-behalf payments were recorded as revenues and expenses of each plan. In fiscal year 2013 the system received $3,829,991 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, 2013, is presented below:

Accounts Receivable:		
Current Receivables		**Amount on SNP**
Federal Receivables		$ 17,726,097
Pledges Receivable		15,344,437
Accounts Receivable		59,141,824
Other Receivables		857,212
	Total	**$ 93,069,570**
Accounts Payable:		
Current Payables		**Amount on SNP**
Accounts Payable		$ 41,787,659
Payroll Payable		$ 50,550,093
Other Payables		$ 6,938,359
	Total	**$ 99,276,111**
Other Payables		**Amount on SNP**
Sales Tax Payable		$ 1,471,100
Student Liabilities		$ 5,397,171
Payable to A&M Foundation		$ 66,671
University Center Hotel Taxes		$ 3,417
	Total	**$ 6,938,359**

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, 2013, the A&M System has not incurred obligations to pay voluntary or involuntary termination benefits in fiscal year 2014.

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.

COBRA benefits for the A&M System for the year ended August 31, 2013 are as follows:

Termination Benefits - COBRA				
Enrollment				
	Self-Insured Medical Plan	Self-Insured Dental Plan	Fully-Insured Dental Plan	Fully-Insured Vision Plan
Number of Participants	175	103	28	144
Self-Insured Activity				
Premium Revenue	$ 970,580	$ 74,259		
2 Percent Administrative Fee Revenue	19,412	1,485		
Total COBRA Revenue	989,992	75,744		
Claims Paid	3,302,786	90,367		
Administrative Expenses	28,932	6,110		
Total COBRA Expenses	3,331,718	96,477		
Total Cost to State	$ 2,341,726	$ 20,733		

Note 20: Deferred Outflows of Resources – Governmental Acquisitions

Texas A&M University, a member of the A&M System, finalized the acquisition of all operational aspects of the Texas Wesleyan University School of Law on August 13, 2013 and issued a payment of $31.4 million which included $29.9 million initial payment towards the purchase, $1.4 million first year lease payment for the building which houses the law school, and $100,000 building purchase option fee. Classes for the Texas A&M University School of Law officially began on August 19, 2013. The purchased Net Position for the Texas Wesleyan Law School totals $24,009,565.

The primary reason for this purchase was to expand the Texas A&M brand into the field of law with a focus on emerging fields that require a growing legal expertise.

Over the next four years, annual payments of $6 million will be made towards the acquisition of law school operations. A liability for the current and non-current amount of these payments is included in Other Liabilities on the Statement of Net Position.

Annual building lease payments of $1.7 million will also be paid. Prior to the end of the fifth lease year, Texas A&M University may choose to exercise the option to purchase the building for an additional $11 million.

In the Statement of Net Position, under Deferred Outflows of Resources-Acquisition of Law School Operations, $39,065,644 represents compensation in excess of tangible asset value received, and will be amortized in future periods.

State Auditor's Office
John Keel, CPA
State Auditor

January 16, 2014

Dr. Mark Hussey, Interim President
Texas A&M University
1246 TAMU
College Station, Texas 77843-1246

Subject: Management Letter Resulting from a Review of Texas A&M University's Fiscal Year 2013 Financial Statements

Dear Dr. Hussey:

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 and the Texas A&M University Health Science Center as of and for the fiscal year ended August 31, 2013 on which we have issued our report dated January 16, 2014. We reviewed the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. In the course of our review, which was substantially less in scope than an audit, we did not find that material modifications needed to be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

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

Sincerely,

Nicole Guerrero

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

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Texas A&M University - Commerce

Financial Statements

For the Fiscal Year Ended August 31, 2013

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Independent Accountant's Review Report

Dr. Dan Jones, President
Texas A&M University – Commerce
P.O. Box 3011
Commerce, TX 75429-3011

We have reviewed the accompanying Statement of Net Position of Texas A&M University – Commerce (University) as of August 31, 2013, and the related Statement of Revenues, Expenses, and Changes in Net Position and Statement of Cash Flows for the year then ended. A review includes primarily applying analytical procedures to the University's financial data and making inquiries of University personnel. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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

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

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

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

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

John Keel, CPA
State Auditor

January 16, 2014

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Texas A&M University – Commerce
Statement of Net Position
August 31, 2013
(See Independent Accountant's Report on Page 1)

ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 3)	$	23,879,801
Restricted:		
Cash and Cash Equivalents (Note 3)		402,010
Legislative Appropriations		6,128,135
Receivables, Net of Allowances (Note 16):		
Federal		85,513
Gifts		56,300
Student		2,329,781
Accounts		793,456
Other		277,890
Due from Other State Entities (Note 7)		309,420
Consumable Inventories		411,326
Merchandise Inventories		45,198
Loans and Contracts		169,211
Other Current Assets		6,102,550
Total Current Assets	$	40,990,591
Non-Current Assets		
Restricted:		
Assets Held by System Offices - Long Term (Note 3)	$	16,180,086
Investments (Note 3)		312,378
Loans and Contracts		951,768
Investments (Note 3)		117,750
Loans and Contracts		526,943
Assets Held by System Offices - Long Term (Note 3)		105,416,432
Capital Assets (Note 2):		
Non-Depreciable and Non-Amortizable		5,197,436
Depreciable and Amortizable		222,009,437
Less: Accumulated Depreciation and Amortization		(103,548,843)
Total Non-Current Assets	$	247,163,387
Total Assets	$	288,153,978
LIABILITIES		
Current Liabilities		
Payables (Note 16):		
Accounts	$	3,369,142
Payroll		4,061,250
Other		215,990
Due to Other State Entities (Note 7)		2,546,710
Deferred Revenue		30,409,808
Employees' Compensable Leave (Note 4)		197,920
Assets Held for Others (Note 4)		447,168
Other Current Liabilities (Note 4)		790,037

Total Current Liabilities	$	42,038,025
Non-Current Liabilities		
Employees' Compensable Leave (Note 4)		1,748,193
Assets Held for Others (Note 4)		16,670,054
Other Non-Current Liabilities (Note 4)		219,834
Total Non-Current Liabilities	$	18,638,081
Total Liabilities	$	60,676,106
NET POSITION		
Invested in Capital Assets, Net of Related Debt	$	123,658,030
Restricted for:		
Non-Expendable		
Permanent Funds, True Endowments, Annuities		1,301,483
Expendable		
Education		3,657,027
Endowments		48,880
Unrestricted		98,812,452
Total Net Position	$	227,477,872

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

Texas A&M University – Commerce
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended August 31, 2013
(See Independent Accountant's Report on Page 1)

OPERATING REVENUES		
Tuition and Fees - Pledged	$	83,037,010
Discounts and Allowances		(14,399,831)
Professional Fees - Pledged		17,201
Auxiliary Enterprises - Pledged		16,232,334
Discounts and Allowances		(2,435,118)
Other Sales of Goods and Services - Pledged		1,891,700
Interest Revenue		47,018
Federal Revenue		5,017,806
State Grant Revenue		4,176,084
Other Operating Grant Revenue		963,009
Other Operating Revenues		246,961
Total Operating Revenues	$	94,794,174
OPERATING EXPENSES		
Cost of Goods Sold	$	56,853
Salaries and Wages		63,331,384
Payroll Related Costs		15,194,957
Professional Fees and Services		12,699,525
Travel		2,087,103
Materials and Supplies		7,156,745
Communications and Utilities		5,297,675
Repairs and Maintenance		3,655,998
Rentals and Leases		1,773,937
Printing and Reproduction		415,346
Depreciation and Amortization		7,331,690
Bad Debt Expense		223,434
Interest Expense		557
Scholarships		17,722,240
Other Operating Expenses		7,591,227
Total Operating Expenses	$	144,538,671
Operating Income (Loss)	$	(49,744,497)
NONOPERATING REVENUES (EXPENSES)		
Legislative Appropriations	$	41,376,846
Federal Revenue Non-Operating		14,650,303
Gifts		1,774,703
Interest and Investment Income (Loss)		1,892,162
Investing Activities Expense		(201,710)
Net Increase (Decrease) in Fair Value of Investments		5,417,582
Land Income		29,369
Gain (Loss) on Sale of Capital Assets		(72,577)
Other Nonoperating Revenues - Pledged		26,284

Other Nonoperating Expenses		(2,607,312)
Total Nonoperating Revenues (Expenses)	$	62,285,650
Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers	$	12,541,153
OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS		
Capital Appropriations (HEAF)		5,193,232
Transfers In from Other State Entities (Note 7)		20,817,603
Transfers Out to Other State Entities (Note 7)		(7,048,811)
Legislative Transfers Out (Note 7)		(2,465,903)
Legislative Appropriations Lapsed		(125,814)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	$	16,370,307
CHANGE IN NET POSITION	$	28,911,460
Net Position, September 1, 2012	$	198,566,412
NET POSITION, August 31, 2013	$	227,477,872

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

Texas A&M University – Commerce
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2013
(See Independent Accountant's Report on Page 1)

CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Tuition and Fees	$	65,484,709
Receipts from Customers		1,723,473
Proceeds from Research Grants and Contracts		9,222,344
Proceeds from Loan Programs		60,465
Proceeds from Auxiliaries		16,116,294
Proceeds from Other Revenues		235,472
Payments to Suppliers for Goods and Services		(40,075,243)
Payments to Employees for Salaries		(63,408,539)
Payments to Employees for Benefits		(14,598,398)
Payments for Loans Provided		(203,704)
Payments for Other Expenses		(17,662,035)
Net Cash Provided (Used) by Operating Activities	$	(43,105,162)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Legislative Appropriations	$	42,421,452
Proceeds from Gifts		1,814,658
Proceeds from Other Grant Revenue		14,662,171
Proceeds from Other Sources		892,239
Proceeds of Transfers from Other Entities		154,618
Payments for Transfers to Other Entities		(530,253)
Payments for Other Uses		(95,519)
Net Cash Provided (Used) by Non-Capital Financing Activities	$	59,319,366
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Sale of Capital Assets	$	6,162
Proceeds from State Grants and Contracts		5,042,745
Payments for Additions to Capital Assets		(5,704,855)
Transfers for Capital Debt - Mandatory to System		(7,682,462)
Transfers for Capital Debt - Non-Mandatory to System		(576,050)
Net Cash Provided (Used) by Capital and Related Financing Activities	$	(8,914,460)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Interest and Investment Income	$	1,690,452
Sales and Purchases of Investments Held By System		(10,125,330)
Payments to Acquire Investments		(44,517)
Net Cash Provided (Used) by Investing Activities	$	(8,479,395)
Net Increase (Decrease) in Cash and Cash Equivalents	$	(1,179,651)
Cash and Cash Equivalents, September 1, 2012	$	25,461,460
Cash and Cash Equivalents, August 31, 2013	$	24,281,809

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

Operating Income (Loss)	$	(49,744,497)
Adjustments:		
Depreciation and Amortization	$	7,331,690
Bad Debt Expense		591,911
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		(644,497)
(Increase) Decrease in Due from Other Entities		(87,703)
(Increase) Decrease in Due from System Members		(5,143)
(Increase) Decrease in Inventories		47,947
(Increase) Decrease in Prepaid Expenses		229,252
(Increase) Decrease in Loans and Contracts		(174,864)
(Increase) Decrease in Other Assets		(26,331)
Increase (Decrease) in Payables		1,173,427
Increase (Decrease) in Due to Other Entities		47,581
Increase (Decrease) in Due to System Members		(4,304)
Increase (Decrease) in Deferred Revenue		(1,904,797)
Increase (Decrease) in Deposits		16,793
Increase (Decrease) in Employees' Compensable Leave		48,373
Total Adjustments	$	6,639,335
Net Cash Provided (Used) by Operating Activities	$	(43,105,162)
Non-Cash Transactions		
Net Increase (Decrease) in Fair Value of Investments	$	(20,532)
Disposal of Capital Assets		(72,577)
Other Additions to Capital Assets (Transfer from Other Entities)		20,662,985

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

General Introduction

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

Reporting Entity

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

Note 1: Summary of Significant Accounting Policies

Basis of Accounting

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

For financial reporting purposes, Texas A&M University - Commerce is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Operating items are distinguished from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the University's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation or amortization on capital assets.

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

Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash and cash equivalents. With the exception of residual cash which results from the management of investment portfolios, the A&M System maintains cash and cash equivalents for the purpose of meeting short-term disbursement requirements.

Investments

Investments are reported at fair value on the Statement of Net Position. Fair value is defined as the amount at which an investment could be exchanged in a current transaction between parties, other than in a forced or liquidation sale. The A&M System notes to the financial statements disclose deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Current Assets

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

Receivables

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

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Livestock held for educational purposes is recorded at estimated fair value. The capitalization threshold for personal property is $5,000. The capitalization threshold is $100,000 for buildings/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.

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.

Payables

Payable balances are grouped into various payable categories on the Statement of Net Position. Accounts payable represents the liability for the value of assets or services received, as of the date of the financial statements, which payment is pending. Payroll payable includes accrued salary, wages, and benefits. Other payables include a variety of items, including payables for purchasing card activity, manager fees, sales taxes, and student liabilities. Refer to Note 16, Disaggregation of Receivable and Payable Balances, for additional details.

Revenues and Expenses

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

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

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

Deferred Outflows and Inflows of Resources

Deferred Outflows of Resources and Deferred Inflows of Resources are presented in separate sections on the Statement of Net Position effective fiscal year 2013, in compliance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Deferred Outflows of Resources are defined as the consumption of net assets applicable to a future reporting period, and have a positive effect on net position, similar to assets. Deferred Inflows of Resources are defined as the acquisition of net assets applicable to a future reporting period, and have a negative effect on net position, similar to liabilities. Texas A&M University – Commerce has no reportable Deferred Outflows and Inflows of Resources.

Net Position

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

Net Investment in Capital Assets

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

Restricted Net Position

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

Unrestricted Net Position

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

Other Significant Accounting Policies

Certain operations provide goods and services to internal customers. These operations include activities such as self insured programs, repairs & maintenance, utilities, computer services, and other services with interdepartmental activities. The revenues were eliminated to the extent of expenses for these internal transactions in the Statement of Revenues, Expenses, and Changes in Net Position to avoid inflating revenues and expenses. 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. All realized gains and losses are deposited to or funded from the Appreciation Reserve, and distributions from the reserve are used to supplement current income when the income received is insufficient to meet the required distribution in accordance with the System Endowment Fund spending policy.

Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2013, is presented below:

	Balance 9/1/2012	Adjustments	Completed Construction in Progress	Additions	Deductions	Balance 8/31/2013
Non-Depreciable and Non-Amortizable Assets:						
Land and Land Improvements	$ 3,997,165	$	$	$	$	$ 3,997,165
Construction in Progress	1,747,547		(4,004,676)	3,385,400		1,128,271
Other Capital Assets	72,000					72,000
Total Non-Depreciable Assets	$ 5,816,712	$ 0	$ (4,004,676)	$ 3,385,400	$ 0	$ 5,197,436
Depreciable and Amortizable Assets:						
Buildings and Building Improvements	$ 163,322,179	$	$ 22,765,861	$	$ (3,764,942)	$ 182,323,098
Infrastructure	6,785,093		1,549,135	450,883		8,785,111
Facilities and Other Improvements	11,028,686		351,389		(57,878)	11,322,197
Furniture and Equipment	12,703,845		1,276	1,232,627	(219,978)	13,717,770
Vehicles, Boats, and Aircraft	1,635,578			148,939	(32,394)	1,752,123
Other Capital Assets	4,391,500			487,005	(921,863)	3,956,642
Computer Software	152,495					152,495
Total Depreciable and Amortizable Assets at Historical Cost	$ 200,019,376	$ 0	$ 24,667,661	$ 2,319,454	$ (4,997,055)	$ 222,009,436
Less Accumulated Depreciation and Amortization for:						
Buildings and Building Improvements	$ (74,432,024)	$	$	$ (5,437,492)	$ 1,212,029	$ (78,657,487)
Infrastructure	(6,196,668)			(217,130)		(6,413,798)
Facilities and Other Improvements	(4,746,410)			(393,740)		(5,140,150)
Furniture and Equipment	(8,581,220)			(1,044,880)	192,243	(9,433,857)
Vehicles, Boats, and Aircraft	(1,164,506)			(85,443)	32,394	(1,217,555)
Other Capital Assets	(3,282,838)			(153,004)	902,342	(2,533,500)
Computer Software	(152,495)					(152,495)
Total Accumulated Depreciation and Amortization	$ (98,556,161)	$ 0	$ 0	$ (7,331,689)	$ 2,339,008	$ (103,548,842)
Depreciable and Amortizable Assets, Net	$ 101,463,215	$ 0	$ 24,667,661	$ (5,012,235)	$ (2,658,047)	$ 118,460,594
Capital Assets, Net	$ 107,279,927	$ 0	$ 20,662,985	$ (1,626,835)	$ (2,658,047)	$ 123,658,030

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, 2013, the carrying amount of deposits was $24,281,811 as presented below:

Composition of Cash and Cash Equivalents		Carrying Amount
Cash on Hand	$	12,084
Cash in State Treasury		8,563,336
Cash in Bank		32,552
Assets Held for Investment by System Office		15,271,829
Restricted Assets Held for Investment by System Office		402,010
Total Cash and Cash Equivalents	$	24,281,811

Cash and Cash Equivalents per Statement of Net Position		Carrying Amount
Cash and Cash Equivalents - Current Assets	$	23,879,801
Cash and Cash Equivalents - Current Assets, Restricted		402,010
Total Cash and Cash Equivalents per Statement of Net Position	$	24,281,811

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

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

As of August 31, 2013 the value of assets held long-term by the A&M System on behalf of Texas A&M University - Commerce totaled $137,270,357. Of that amount $16,582,096 is restricted. These investments are reported as Current Assets, Non-Current Assets, Restricted Assets held by System Offices – Long Term and Assets held by System Offices – Long Term on the Statement of Net Position. Texas A&M University - Commerce's investments held by the A&M System, by Pool and by Statement of Net Position Classification are as follows:

University Share of Pooled Investments Held by the System, by Pool and by Statement of Net Position Classification		
Investments Held by System in:		
Cash Concentration Pool	$	120,741,341
System Endowment Fund		16,529,016
Total University Share of Pooled Investments Held by System	$	137,270,357
Current Assets (if Short-Term Investments are pooled)		
Cash Concentration Pool	$	15,271,829
Current Assets, Restricted (if Short-Term Investments are pooled)		
Cash Concentration Pool		402,010
Non-Current Assets		
Cash Concentration Pool		102,739,067
System Endowment Fund		2,677,365
Non-Current Assets, Restricted		
Cash Concentration Pool		2,328,435
System Endowment Fund		13,851,651
Total University Share of Pooled Investments Held by System	$	137,270,357

Texas A&M University-Commerce has one mineral holding ($117,750), one Charitable Remainder Annuity Trust ($1), one chair annuity ($263,016) and four charitable gift annuities ($49,361) all held in agency funds. The chair annuity is managed by American Legacy Securities. The CRAT and charitable gift annuities are managed by Kaspick & Company. These items are the only things managed directly by Texas A&M University-Commerce.

Investments		
Real Estate	$	117,750
Misc (e.g., guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)		312,378
Total Investments, per Investments note disclosure	$	430,128

Note 4: Summary of Long-Term Liabilities

During the year ended August 31, 2013, the following changes occurred in liabilities:

		Balance 9/1/2012		Additions		Deductions		Balance 8/31/2013		Amounts Due Within One Year
Employees' Compensable Leave		1,897,740		48,373				1,946,113		197,920
Assets Held for Others		16,276,090		841,132				17,117,222		447,168
Other Liabilities		1,065,138				55,267		1,009,871		790,037
Total	$	19,238,968	$	889,505	$	55,267	$	20,073,206	$	1,435,125

Employees' Compensable Leave

Full-time State employees earn eight to twenty-one hours per month annual leave depending on years of State employment. Under the State's policy, an employee with 35 or more years of State service may carry up to 532 hours accrued leave forward from one fiscal year to another.

Employees with at least six months of State service who terminate employment are entitled to payment for all accumulated annual leave up to the maximum allowed. The A&M System accrues the dollar value of annual leave benefits which are payable upon retirement, termination, or death of its employees. This liability (current and noncurrent) for Texas A&M University – Commerce is projected to be $1,946,113 as of August 31, 2013. 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 – Commerce made lump sum payments of $565,292 for accrued vacation to employees who separated from State service during the fiscal year ended August 31, 2013.

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

Texas A&M University – Commerce 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 – Commerce 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, 2013, the A&M System had outstanding bonds payable of $2,359,640,000. All bonds issued by the A&M System are defined as revenue bonds. As such, the revenues of the A&M System, including the Texas A&M University – Commerce, are pledged for repayment of the bonds. Segment information requirements are not applicable, due to the bond indentures' lack of specifically identifiable activities and separate accounting requirements imposed by an external party.

No amount of indebtedness related to these bonds has been recorded in the Texas A&M University – Commerce's financial statements as the A&M System is the party directly liable for these bonds. At August 31, 2013, however, outstanding debt issued on behalf of Texas A&M University – Commerce is $104,306,791.

Note 6: Operating Leases

Future minimum lease payments under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2013, are presented below:

Year Ended August 31, 2013		Total
2014	$	1,051,819
2015		871,235
2016		452,036
2017		355,959
2018		119,626
Total Minimum Future Lease Payments	$	2,850,675

Future minimum lease rentals under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2013, are presented below:

Year Ended August 31, 2013		Total
2014	$	79,999
2015		70,399
2016		9,769
2017		9,809
2018		10,249
2019-2023		51,288
2024-2028		53,870
2029-2033		56,572
2034-2038		58,356
2039-2099		60
Total Minimum Future Lease Revenues	$	400,371

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

Carrying Value of Leased Assets						
				Accumulated		Carrying
Class of Property		Leased Assets		Depreciation		Value
Land	$	16,683	$	0	$	16,683
Totals	$	16,683	$	0	$	16,683

Note 7: Interagency Balances / Activity

As of August 31, 2013, 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 - Commerce 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, 2013, were as follows:

DUE FROM/TO OTHER STATE ENTITIES

Entity		Due from Other State Entities		Due to Other State Entities	Purpose
Texas Higher Education Coordinating Board	$	185,554	$		Federal pass through funds related to contracts and grants
Texas Department of Agriculture		3,333			Federal pass through funds related to contracts and grants
Texas Department of Family and Protective Services		100,597			Federal pass through funds related to contracts and grants
Texas State Library and Archives Commission		11,650			Federal pass through funds related to contracts and grants
Texas Department of Motor Vehicles		2,738			Shared cash for Collegiate License Plate
Texas A&M Research Foundation		5,548			Federal pass through funds related to contracts and grants
Texas A&M AgriLife Research				10,462	Private pass through funds related to contracts and grants
Texas Higher Education Coordinating Board				58,488	State pass through funds related to contracts and grants
Texas A&M University System				2,477,760	Construction Proceeds
	$	309,420	$	2,546,710	

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	$	107,025	$		System Endowment Fund Appreciation Reserve Allocation
Texas A&M University System		20,662,985			CIP - Fixed Assets
Texas A&M University System		47,593			Resource Allocation Plan funding
Texas Comptroller				530,253	Tuition Set Asides
Texas A&M University System				5,216,558	Mandatory Debt Service
Texas A&M University System				1,302,000	Construction Proceeds
	$	20,817,603	$	7,048,811	

LEGISLATIVE TRANSFERS IN/OUT

Entity		Legislative Transfers In		Legislative Transfers Out	Purpose
Texas A&M University System	$		$	2,465,903	Mandatory Debt Service
	$	0	$	2,465,903	

Note 8: Contingent Liabilities

At August 31, 2013, various lawsuits and claims involving Texas A&M University – Commerce had arisen in the course of conducting Texas A&M University – Commerce 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 – Commerce's financial position.

Note 9: 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 – Commerce.

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 (WCI), group health and dental insurance and certain areas of medical malpractice. Liabilities for claims have been reported where information prior to issuance of the financial statements indicated that it was probable that a liability had been incurred and the amount of the loss could be reasonably estimated.

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

The A&M System implemented a self-insured health and dental plan on September 1, 1994, which is also considered a funded pool. Premiums are determined through an actuarial pricing process that takes place each spring. The A&M System maintains an experience stabilization fund of $49,607,033 that is comprised of excess premiums from previous years and is used to offset losses in a given year. Dental benefits under the plan are limited to $1,500 per individual per year, so the potential for catastrophic loss is not a significant risk.

The following table presents the change in IBNR Liability balances:

Changes in IBNR Liability Balances		
Plan	**WCI**	**Health & Dental**
IBNR Liability 9/1/12	$ 6,568,000	$ 14,091,000
CY Claims Plus Change in Estimates	$ 2,289,000	$ 216,076,475
Claims Payments	$ (2,595,000)	$ (214,055,475)
Other Items (changes in estimates)	$ 2,002,000	$ -
IBNR Liability 8/31/13	$ 8,264,000	$ 16,112,000

Note 10: Stewardship, Compliance, and Accountability

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

The Texas A&M University-Commerce Foundation is organized for the sole purpose of soliciting, receiving, investing and disbursing private gifts for Texas A&M University-Commerce. The purpose of the Foundation is to perpetuate and strengthen philanthropic support for the University and to further the interest and well being of the University. As of August 31, 2013 Texas A&M University – Commerce held funds for the Foundation totaling $19,706,802.

The Texas A&M University-Commerce Alumni Association is organized to further the cause of higher education and promote the best interests of Texas A&M University-Commerce. As of August 31, 2013 Texas A&M University – Commerce held funds for the Alumni Association totaling $533,810.

Note 11: The Financial Reporting Entity

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

Note 12: Employee Retirement Plans

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

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

Teacher Retirement System pension plan
One of the plans in which the A&M System participates is a cost-sharing multiple-employer defined benefit pension plan administered by the Teacher Retirement System of Texas (TRS Plan). Participating employers in the TRS Plan include public schools, service centers, charter schools, and community colleges as well as the State of Texas, which covers employees of colleges, universities, medical schools, and certain other state agencies. Employees of the A&M System are members of the TRS Plan if they are employed on a half-time or greater basis, unless they participate in the Optional Retirement Program, described below, 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, 2013, the statutorily required contribution rate was 6.4% of annual compensation from active plan members and 6.4% of annual compensation from the A&M System
.

For the years ended August 31, 2013, 2012, and 2011, Texas A&M University – Commerce contributed 100% of the following statutorily required employer contributions:

	2013	**2012**	**2011**
Required Contribution Rate	6.40%	6.00%	6.644%
Contributions Required & Made	$1,131,205	$944,640	$943,858

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, 2013, the required State contribution rate was 6.0% percent and the A&M System's contribution rate was 0.4% percent of participants' annual compensation. For participants who enrolled in the plan on or before August 31, 1995, the University's contribution was 2.5%.

For the year ended August 31, 2013, contributions to the ORP were as follows:

Optional Retirement Program	Amount
Employer Contributions	$ 40,750,920
Employee Contributions	$ 37,146,364
Total	$ 77,897,284

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 – Commerce was $1,203,143 for the year ended August 31, 2013. Of this amount, $605,025 represents the portion of appropriations made by the State Legislature expended on behalf of Texas A&M University – Commerce and $598,118 represents the portion paid from Texas A&M University – Commerce's funds.

Note 13: Deferred Compensation

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

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

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

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

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

Note 14: Donor-Restricted Endowments

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

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

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

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

Net Appreciation of Donor-Restricted Endowments		
Donor-Restricted Endowments	**Amount of Net Appreciation***	**Reported in Net Position**
True Endowments	$ 108,925,190	Restricted for Expendable
* The total fiscal year 2013 fair value adjustment to the Fund was $48,975,828.		

The amount of net appreciation for donor restricted endowments specific to Texas A&M University – Commerce is $2,677,365.

Note 15: 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. As of August 31, 2013, the A&M System had 7,652 retirees and 20,933 active employees. For the year ending August 31, 2013, the employer and retiree contribution rates are presented below.

Required Contribution Rates
Retiree Health and Basic Life Premium

Level of Coverage	Employer	Retiree*
Retiree Only	$ 370	$ 79
Retiree/Spouse	548	257
Retiree/Children	482	190
Retiree/Family	637	346

*Health Premium Only

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

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

Because the OPEB plan described herein is not administered through a trust as defined under Paragraph 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, 2013, 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
8/31/2013	$ 61,529,733	$ 176,876,299	35%	$ 719,224,595
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

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

Annual OPEB Cost and Net OPEB Obligation

The annual OPEB cost of the plan is calculated and based on the annual required contribution (ARC). The ARC is the amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period of years, not to exceed 30 years. The following table shows the components of the annual OPEB cost for the year for the plan:

Annual OPEB Cost and Net OPEB Obligation	
Annual Required Contribution (ARC)	$ 165,148,207
Interest on Net OPEB Obligation	44,083,096
Adjustment to ARC	(32,355,004)
Annual OPEB Cost	176,876,299
Employer Contributions Made	(61,529,733)
Increase Net OPEB Obligation	115,346,566
Net OPEB Obligation 9/1/2012	603,878,029
Net OPEB Obligation 8/31/2013	$ 719,224,595

Schedule of Funding Progress of the Plan

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

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over AAL (Unfunded AAL) (a)-(b)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	Ratio of UAAL to Covered Payroll ((a-b)/c)
9/1/2012	$ -	$ 1,924,980,271	$ (1,924,980,271)	0.0%	$ 1,149,300,305	167.5%
9/1/2011	$ -	$ 1,996,798,639	$ (1,996,798,639)	0.0%	$ 1,359,512,304	146.9%
9/1/2010	$ -	$ 1,854,690,001	$ (1,854,690,001)	0.0%	$ 1,313,538,458	141.2%

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, 2012
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market
Amortization Method	Open
Remaining Amortization Period of Unfunded Liability	30 years
Actuarial Assumptions:	
Projected Salary Increases	3.5%
Investment Rate of Return	7.3%
Inflation	3.0%
Health Care Trend Rates*	9.0% in 2013
* Grading down .5% annually until reaching 5% in 2021	

Medicare Part D

In fiscal year 2013 the plan received payments from the federal government pursuant to the retiree drug subsidy provisions of Medicare Part D. These on-behalf payments were recorded as revenues and expenses of each plan. In fiscal year 2013 the system received $3,829,991 of Medicare Part D payments from the federal government.

Note 16: 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 – Commerce for the year ended August 31, 2013, is presented below:

Current Receivables			**Amount on SNP**
Federal Receivables		$	85,513
Gift Receivables			56,300
Student Receivables			2,329,779
Accounts Receivable			793,456
Other Receivables			277,890
	Total	**$**	**3,542,938**
Current Payables			**Amount on SNP**
Accounts Payable		$	3,369,142
Payroll Payable			4,061,250
Other Payables			215,990
	Total	**$**	**7,646,381**

Note 17: Termination Benefits

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

As of August 31, 2013, the A&M System has not incurred obligations to pay voluntary or involuntary termination benefits in fiscal year 2014.

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.
COBRA benefits for the A&M System for the year ended August 31, 2013 are as follows:

Termination Benefits - COBRA				
Enrollment				
	Self-Insured Medical Plan	Self-Insured Dental Plan	Fully-Insured Dental Plan	Fully-Insured Vision Plan
Number of Participants	175	103	28	144
Self-Insured Activity				
Premium Revenue	$ 970,580	$ 74,259		
2 Percent Administrative Fee Revenue	19,412	1,485		
Total COBRA Revenue	989,992	75,744		
Claims Paid	3,302,786	90,367		
Administrative Expenses	28,932	6,110		
Total COBRA Expenses	3,331,718	96,477		
Total Cost to State	$ 2,341,726	$ 20,733		

Texas A&M University – Commerce had termination benefits during fiscal year 2013 totaling $330 for voluntary terminations and $22,840 for involuntary terminations. These amounts were considered immaterial to the A&M System as a whole and therefore not included in the System notes. The amounts paid out during the year would be included in the table of COBRA termination benefits above.

State Auditor's Office
John Keel, CPA
State Auditor

January 16, 2014

Dr. Dan Jones, President
Texas A&M University – Commerce
P.O. Box 3011
Commerce, TX 75429-3011

Subject: Management Letter Resulting from a Review of Texas A&M University - Commerce's Fiscal Year 2013 Financial Statements

Dear Dr. Jones:

We offer this management letter in conjunction with our review of the financial statements of Texas A&M University - Commerce (University) as of and for the fiscal year ended August 31, 2013, on which we have issued our report dated January 16, 2014. We reviewed the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. In the course of our review, which was substantially less in scope than an audit, we did not find that material modifications needed to be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

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

Sincerely,

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

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Financial Statements and Independent Accountant's Review Report

For the Year Ended August 31, 2013

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John Keel, CPA
State Auditor

Independent Accountant's Review Report

Dr. Philip Castille, President
University of Houston – Victoria
3007 N. Ben Wilson
Victoria, TX 77901

We have reviewed the accompanying Statement of Net Position of the University of Houston – Victoria (University) as of August 31, 2013, and the related Statement of Revenues, Expenses, and Changes in Net Position and Statement of Cash Flows for the year then ended. A review includes primarily applying analytical procedures to the University's financial data and making inquiries of University personnel. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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

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

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

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 of Houston System, management of the University, and the Southern Association of Colleges and Schools' Commission on Colleges. This report is a matter of public record and its distribution should not be limited.

John Keel, CPA
State Auditor

February 19, 2014

SAO Report No. 14-328

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University of Houston-Victoria

Management's Discussion and Analysis

For the Fiscal Year Ended August 31, 2013

Introduction

The following Management's Discussion and Analysis (MD&A) section of the University of Houston-Victoria's annual financial report has been prepared to provide an overview of the activities and the financial performance of the University of Houston-Victoria (the University) for the fiscal year ended August 31, 2013. This presentation is intended to offer a summary of significant current year activities, resulting changes, and currently known economic conditions and facts. This analysis should be read in conjunction with the University's basic financial statements and the notes to the statements.

Background

The University is one of four universities included in the University of Houston System (the System) and is part of the state-supported system of higher education in Texas. The University is an undergraduate and master's-level institution that, for the first time in fall 2010, began enrolling freshmen and sophomores as it emerged as a destination university in the Coastal Bend region of Texas. The University also has a large presence in southwest and west Houston, reaching many students in Houston and beyond through extensive online programs and classes taught at System learning centers in the Sugar Land and Cinco Ranch areas of Houston.

Largely due to its downward expansion into a four-year institution, the University has experienced a high rate of growth in recent years. From fall 2008 to fall 2012, the University's enrollment increased 36.6 percent while the average rate of growth for public universities in Texas was 13.3 percent for the same period. The University was recognized for continuous growth when it was named the third fastest-growing public master's institution in the nation from 2000 to 2010 in the Chronicle of Higher Education's 2012-2013 Almanac. The University was also recently designated by the U.S. Department of Education as a Hispanic-Serving Institution, a tribute to its efforts to meet the needs of a growing, diverse population in areas it serves. In fiscal year 2013, the University broke its own fundraising record by raising $1.8 million, an increase of 231 percent from the previous fiscal year.

Overview of the Financial Statements

The financial statements for fiscal year 2013 have been prepared in accordance with accounting pronouncements promulgated by the Governmental Accounting Standards Board (GASB). These include GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Additionally, these statements conform to reporting requirements of the Texas Comptroller of Public

Overview of the Financial Statements (Cont'd)

Accounts and guidelines issued by the National Association of College and University Business Officers. GASB requires the University to include three financial statements in the annual financial report. They are (1) the Statement of Net Position, (2) the Statement of Revenues, Expenses, and Changes in Net Position, and (3) the Statement of Cash Flows. The information contained in the financial statements of the University is part of and included in the State of Texas Comprehensive Annual Financial Report.

The financial statements of the University are presented for the fiscal year ended August 31, 2013, with financial data for the fiscal year ended August 31, 2012, provided for comparative purposes. Prior year totals have been reclassified, when necessary, to reflect current year changes in reporting procedures and to enhance comparability of reported totals. The financial operations of the University are considered a business-type activity because the University charges a fee, in the form of tuition, to customers in order to pay for a significant percentage of the cost of the services provided. Under this classification, the University's financial statements conform to the guidelines and presentation formats prescribed for proprietary funds; revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of when cash is exchanged.

Statement of Net Position

The first schedule presented is the Statement of Net Position. This statement represents the University's financial position as of the conclusion of the fiscal year. This is a point in time financial presentation and presents a snapshot view of the financial status as of August 31, 2013. Comparative data for the previous fiscal year has also been presented as of August 31, 2012. Assets and liabilities are presented as either current or non-current to provide an indication of their anticipated liquidation. Net position is equal to total assets less total liabilities. Net position is divided into three major categories. The first, invested in capital assets, net of related debt, provides the University's equity in property, plant, and equipment owned by the University. The restricted net position category is subdivided into non-expendable and expendable classifications. Restricted non-expendable net position consists solely of the university's permanent endowment funds and is only available for investment purposes. Restricted expendable net position is available for expenditure by the University, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final major category, unrestricted net position, is available to the University for any lawful purpose.

Statement of Net Position (Cont'd)

Condensed Statement of Net Position		2013	2012	Increase/ (Decrease)
Assets				
Current Assets	$	16,683,137	18,768,806	(2,085,669)
Non-Current Assets				
Capital Assets, Net		32,269,742	22,390,322	9,879,420
Other Assets		42,144,202	50,386,365	(8,242,163)
Total Assets	$	**91,097,081**	**91,545,493**	**(448,412)**
Liabilities				
Current Liabilities	$	20,006,189	16,452,958	3,553,231
Non-Current Liabilities		46,410,268	49,326,383	(2,916,115)
Total Liabilities	$	**66,416,457**	**65,779,341**	**637,116**
NET POSITION				
Invested in Capital Assets, Net of Related Debt	$	12,200,672	10,013,586	2,187,086
Restricted, Non-Expendable		7,833,622	6,908,061	925,561
Restricted, Expendable		5,111,922	5,149,978	(38,056)
Unrestricted		(465,592)	3,694,527	(4,160,119)
Total Net Position	$	**24,680,624**	**25,766,152**	**(1,085,528)**

Net capital assets increased by $9.9 million in the last fiscal year, a result of the University's investment in facilities to accommodate its growing resident student population. This resulted in an increase in net position invested in capital assets, net of related debt, of $2.2 million and a decrease in unrestricted net position of $4.2 million as the University used its available resources to fund its expansion. Future returns from this investment will be used to recoup the University's initial investment outlay and replenish unrestricted net position.

Statement of Revenues, Expenses, and Changes in Net Position

The next statement comprising the primary financial statements is the Statement of Revenues, Expenses and Changes in Net Position. This schedule identifies operating and non-operating revenues received by the University. Additionally, both the operating and non-operating expenses incurred by the University during the fiscal year are displayed. Finally, any other gains and losses or other forms of revenue and expense are reported.

Revenues and expenses are classified as either operating or non-operating in the financial statements. Operating revenues are received and recognized as a result of providing services to the University's customers. Tuition and fee revenues are reported net of any scholarship discounts and allowances. A scholarship allowance is the difference between the stated charge for services provided by the University and the amount that is paid by the student or third parties making payments on behalf of the student. Funds received to satisfy student tuition and fee charges are reported as revenue only once. Institutional

Statement of Revenues, Expenses, and Changes in Net Position (Cont'd)

resources provided to students as financial aid are reported as scholarship allowances in amounts up to and equal to amounts owed by the students to the University. Operating expenses are the costs necessary to provide services to customers and to fulfill the mission of the University. Operating expenses are displayed in the statement using the natural method of classification. The natural method of presentation displays the operating expenses in a manner that categorizes the objects of expenditure within various cost centers. Non-operating revenues are those received for which no services are directly provided. State appropriations are classified as non-operating revenues because they are provided by the State Legislature to the University without the State Legislature directly receiving goods or services for those revenues. Significant portions of the University's recurring resources are classified as non-operating.

Condensed Statement of Revenues, Expenses, and Changes in Net Position				
		2013	**2012**	Increase/ (Decrease)
Operating Revenues				
Tuition and Fees - Pledged (Net)	$	16,231,638	16,735,095	(503,457)
Auxiliary Enterprises - Pledged		2,399,014	1,285,455	1,113,559
Other Sales of Goods and Services - Pledged		369,144	427,193	(58,049)
Federal Revenue		194,180	162,786	31,394
State Grant Revenue		1,091,656	684,874	406,782
Other Operating Grant Revenue		228,512	396,843	(168,331)
Total Operating Revenues	$	**20,514,144**	**19,692,246**	**821,898**
Operating Expenses				
Salaries and Wages	$	23,704,041	22,267,369	1,436,672
Payroll Related Costs		5,909,163	5,310,710	598,453
Professional Fees and Services		6,287,577	6,146,539	141,038
Travel		546,391	525,085	21,306
Materials and Supplies		1,868,772	1,500,876	367,896
Communications and Utilities		1,203,914	1,201,593	2,321
Repairs and Maintenance		924,150	1,382,867	(458,717)
Rentals and Leases		955,237	1,263,955	(308,718)
Printing and Reproduction		124,084	140,612	(16,528)
Depreciation and Amortization		1,833,276	1,763,425	69,851
Interest Expense		556	631	(75)
Scholarships		3,574,528	3,572,161	2,367
Claims and Judgments		51,144	34,055	17,089
Other Operating Expenses		1,187,712	1,054,106	133,606
Total Operating Expenses	$	**48,170,545**	**46,163,984**	**2,006,561**
Operating Income (Loss)	$	**(27,656,401)**	**(26,471,738)**	**(1,184,663)**

Statement of Revenues, Expenses, and Changes in Net Position (Cont'd)

Condensed Statement of Revenues, Expenses, and Changes in Net Position (Cont'd)				
		2013	2012	Increase/ (Decrease)
Non-Operating Revenues (Expenses)				
Legislative Appropriations	$	16,963,246	16,973,793	(10,547)
Gifts		968,775	394,799	573,976
Interest and Investment Income (Loss)		393,401	236,546	156,855
Net Increase (Decrease) in Fair Value of Investments		584,478	899,768	(315,290)
Interest Expense and Fiscal Charges		(2,412,265)	(2,387,298)	(24,967)
Other Non-Operating Revenues - Non-Pledged		5,479,231	6,473,564	(994,333)
Other Non-Operating Expenses		(1,837,756)	(1,136,274)	(701,482)
Total Non-Operating Revenues (Expenses)	$	**20,139,110**	**21,454,898**	**(1,315,788)**
Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers	$	**(7,517,291)**	**(5,016,840)**	**(2,500,451)**
Other Revenues, Expenses, Gains (Losses), And Transfers				
Capital Appropriations (HEAF)	$	2,393,921	2,393,921	-
Additions to Permanent and Term Endowments		475,749	49,729	426,020
Transfers In from Other State Entities		3,930,280	4,166,927	(236,647)
Transfers Out to Other State Entities		(368,187)	(266,921)	(101,266)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	$	**6,431,763**	**6,343,656**	**88,107**
Change In Net Position	$	**(1,085,528)**	**1,326,816**	**(2,412,344)**
Net Position, September 1,	$	25,766,152	24,438,909	1,327,243
Restatements		-	427	(427)
Net Position, September 1, as Restated	$	25,766,152	24,439,336	1,326,816
Net Position, August 31,	**$**	**24,680,624**	**25,766,152**	**(1,085,528)**

Although the University's total operating revenues increased by $0.8 million, its net position decreased by $1.1 million, primarily due to non-capital expenditures on renovation of existing and leased facilities to better accommodate the University's growing enrollment.

Statement of Cash Flows

The third primary statement included in the financial statements is the Statement of Cash Flows. This schedule explains the change during the fiscal year in cash and cash equivalents, regardless of whether there are restrictions on their use. The Statement of Cash Flows should be used in conjunction with related disclosures and information in the other financial statements. The statement can provide relevant information about an entity, such as the ability to generate future net cash flows, the ability to meet obligations when due, or reasons for differences between operating income and associated cash

Statement of Cash Flows (Cont'd)

receipts and payments. The statement is comprised of five sections. The first section recognizes the cash flows from operating activities as well as the net cash used by operating activities. The second section identifies the cash flows from non-capital financing activities. The third section reflects the cash flows from capital and related financing activities. The next section details the cash flows from investing activities. The final section reconciles net cash used to the operating loss or income reflected on the Statement of Revenues, Expenses, and Changes in Net Position. The cash and cash equivalents balance at the conclusion of the 2013 fiscal year totaled $5.6 million, which reflected a net decrease in cash of $0.5 million from the prior year.

Capital Assets

As fundamental as instruction and research are to the University, these endeavors cannot take place without the land, buildings, facilities, equipment, and information technology infrastructure needed to support them. Sustaining these assets requires a significant investment in renovations, improvements, and maintenance. The steady enrollment growth experienced by the University has also created the need for steady expansion of its capital assets. The goal of expending resources for these investments is achieving a safe, modern, and efficient campus environment that is conducive to learning, teaching, research, and community service. The University continues to implement its long-range capital plans.

At the end of the 2013 fiscal year, the University had $32.3 million of capital assets, net of accumulated depreciation and amortization, compared to $22.4 million at the end of the 2012 fiscal year, an increase of $9.9 million. These assets included land, buildings, infrastructure and improvements, furniture and equipment, library books, computer systems software, and works of art. The cumulative investment in major capital construction projects in various stages of completion is reported as construction in progress. As required by GASB reporting standards, the University reports accumulated depreciation and amortization on its capital assets. Additionally, the University recognizes a current year charge for depreciation and amortization expense.

Building on a strategic planning process, the University has developed a campus master planning process designed to identify facilities needs congruent with enrollment and research projections that are consistent with their missions and academic master plans. During fiscal year 2013, the University implemented the capital projects construction element of its master plan by constructing a new $11.5 million, 82,000 square foot residence hall, Jaguar Suites. In fiscal year 2014, the University will continue its expansion by beginning construction of a $12.5 million, 63,000 square foot academic building, the Academic & Regional Economic Development Building, to be financed with state construction bonds and other state funding.

Debt Administration

The University engages in the prudent use of debt to finance capital projects, as a means of maximizing the management of financial and physical resources. A combination of variable and fixed rate debt, consistent with the University's debt management policy, is maintained. The University has sufficient debt capacity to finance planned capital improvements and facilities. Detailed information concerning the University's long-term debt is found in the Notes to the Financial Statements. The University is authorized by statute to issue long-term debt in the form of revenue bonds. Each series of revenue bonds issued is backed by a pledged revenue source specified in the bond resolution. Additionally, each issue is designed to be self-supporting from the primary revenue source. A portion of debt service is funded by biennial state appropriations. At August 31, 2013, the University had $49 million of long-term bonded debt outstanding, $3 million of which will be retired during the 2014 fiscal year. No additional long-term debt was issued during the 2013 fiscal year.

Economic Outlook

The recent recession that the country experienced since 2008 and is now recovering from has not impacted the quality of academic programs or student support services and has not slowed the level of growth of the University. As economic prosperity returns, it is usual for university enrollments to drop as some in the student population return to work. This has not been the case with the University. On the contrary, through the recession and now, as the area returns to prosperity, the University has been experiencing a period of sustained, substantial growth of its student population. This is due in large measure to the transition of the University from a two-year, upper-level institution to a full four-year residential university. Also, the University, located in the Golden Crescent area of Texas, is the only four-year residential destination university within a one hundred mile radius of the campus in Victoria, fulfilling unmet regional needs within and even beyond its service area.

The Texas economy is growing and thriving and the long term outlook is positive; according to the State Comptroller, in fiscal 2013 Texas continued its steady post-recession expansion, regaining all of the jobs lost since the start of the recession in 2008 and adding more new jobs than any state in 2012. Among the ten most populous states, Texas also had the lowest unemployment rate at the end of 2013. The robust economic conditions, especially during a slower national recovery, has resulted in an influx of residents into Texas with a net increase of over 200,000 new residents coming from other states, seeking economic and other opportunity.

As good as the overall Texas economy is the argument can be made that the local Victoria area regional economy may be better. Victoria and the Golden Crescent region are forecasted to experience economic growth at a pace exceeding most parts of the United States. According to a 2012 Perryman Group forecast of future economic activity for the Golden Crescent region, projections through 2020 indicate healthy growth in all key economic indicators: real gross product, population, wage and salary, employment, real personal income and real retail sales.

Economic Outlook (Cont'd)

Victoria's premium location in the state of Texas puts the city in the geographic center (within two hour drive) of Austin, Houston and San Antonio, three of the fastest growing cities in the United States, and less than two hours from Corpus Christi. The University is located in the Victoria Crossroads area. The Crossroads area has significant infrastructure that attracts economic development; major highways U.S. 59, U.S. 77, and U.S. 87 physically intersect the city and there is easy access to I-10, I-35, and I-37. There is major railroad access to Union Pacific and two other rail providers. There is motor freight access to more than fifty trucking companies. Victoria Regional Airport offers daily commercial flights. Water transport needs are served by the Port of Victoria, the Victoria Barge Canal and deep water port access is located in nearby Calhoun County. In addition to these assets, Victoria is becoming a major regional medical hub offering services and access that one would only expect to find in a larger metropolitan area.

Recent large national corporate locations (Caterpillar), chemical plant expansions (Invista, Formosa Plastics), and the magnitude of economic effects of the Eagle Ford Shale oil and gas formation are reshaping local area economies within the service area, enhancing growth through direct stimulus and multiplier effects.

The Eagle Ford Shale, a relatively new field, may prove to be one of the largest oil and natural gas formations in the continental United States. The region has recently experienced a major upswing in drilling, exploration activity, and related oil and gas operations. Activity and associated economic impact is expected to grow significantly, some say exponentially, through 2020 and beyond. With thousands of new wells scheduled for completion between now and 2021, the University of Texas-San Antonio Institute for Economic Development predicts Eagle Ford Shale development in twenty participating counties will account for $90 billion in total economic output, provide nearly 117,000 full-time jobs, and add $42 billion in gross regional product. For this reason, the oil and gas industry is expected to be a major regional economic driver that will have a significantly positive impact on the local economic outlook.

The University has a major presence in the Houston suburban area at the System's learning centers in Sugar Land and Cinco Ranch, offering undergraduate and graduate degrees along with two other System universities. Sugar Land is part of the Houston-Sugar Land- Baytown metropolitan statistical area. The City of Sugar Land itself is 20 miles southwest of Houston. Sugar Land has a strong local economy through focused economic development programs. As a regional employment center, the City is home to high-profile regional and international corporations including Minute Maid, Schlumberger, Fluor Corporation, Bechtel EO, and Aetna.

Sugar Land has also positioned itself as a hub for premium shopping, dining and entertainment. Venues such as the Houston Museum of Natural Science at Sugar Land, Constellation Field, as well as the future concert/performing arts center and Sugar Land

Economic Outlook (Cont’d)

Heritage Museum, are intended to further establish the community as a cultural and historical destination.

Cinco Ranch is next to Katy, another fast growing community with upscale neighborhoods, quality public schools, strong economy, and highly educated citizens. Katy is located a short distance west of downtown Houston.

University of Houston-Victoria
Statement of Net Position
For the Year Ended August 31, 2013
(See Independent Accountant's Review Report on Page 1)

ASSETS

Current Assets		
Cash and Cash Equivalents (Note 3)	$	6,354,917
Short-Term Investments (Note 3)		557,976
Restricted:		
Cash and Cash Equivalents (Note 3)		(734,588)
Short-Term Investments (Note 3)		343,163
Legislative Appropriations		2,279,152
Receivables, Net of Allowances:		
Federal (Note 17)		2,107,165
Accounts		1,588,161
Gifts		235,599
Auxiliary		599,732
Due from Other State Entities (Note 7)		8,455
Prepaid Expenses		1,552,494
Loans and Contracts		1,790,911
Total Current Assets	$	16,683,137
Non-Current Assets		
Restricted:		
Investments (Note 3)	$	19,514,887
Gifts Receivable		243,153
Investments (Note 3)		2,624,995
Capital Assets (Note 2):		
Non-Depreciable and Non-Amortizable		1,947,442
Depreciable and Amortizable		46,457,837
Less: Accumulated Depreciation and Amortization		(16,135,537)
Deferred Charges		19,713,824
Other Non-Current Assets		47,343
Total Non-Current Assets	$	74,413,944
Total Assets	$	91,097,081

University of Houston-Victoria

Statement of Net Position (Cont'd)

For the Year Ended August 31, 2013

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

LIABILITIES		
Current Liabilities		
Payables:		
Accounts	$	2,061,255
Payroll		2,902,237
Federal		2,722
Deferred Revenues		10,591,754
Claims and Judgments (Note 4)		18,364
Employees' Compensable Leave (Note 4)		395,785
Accrued Bond Interest Payable		99,029
Revenue Bonds Payable (Notes 4,5)		2,925,797
Funds Held for Others		1,009,246
Total Current Liabilities	$	20,006,189
Non-Current Liabilities		
Employees' Compensable Leave (Note 4)	$	416,248
Revenue Bonds Payable (Notes 4, 5)		45,994,020
Total Non-Current Liabilities	$	46,410,268
Total Liabilities	$	66,416,457
NET POSITION		
Invested in Capital Assets, Net of Related Debt	$	12,200,672
Restricted for:		
Non-Expendable		
Permanent Funds, True Endowments, Annuities		7,833,622
Expendable		
Debt Retirement		1,875,476
Capital Projects		8,878
Funds Functioning as Endowments		924,464
Other		2,303,104
Unrestricted (Note 11)		(465,592)
Total Net Position	$	24,680,624

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

University of Houston-Victoria

Statement of Revenues, Expenses, and Changes in Net Position

For the Fiscal Year Ended August 31, 2013

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

OPERATING REVENUES		
Tuition and Fees - Pledged	$	22,312,096
Discounts and Allowances		(6,080,458)
Auxiliary Enterprises - Pledged		2,399,014
Other Sales of Goods and Services - Pledged		369,144
Federal Revenue		194,180
State Grant Revenue		1,091,656
Other Operating Grant Revenue		228,512
Total Operating Revenues	$	20,514,144
OPERATING EXPENSES		
Salaries and Wages	$	23,704,041
Payroll Related Costs		5,909,163
Professional Fees and Services		6,287,577
Travel		546,391
Materials and Supplies		1,868,772
Communications and Utilities		1,203,914
Repairs and Maintenance		924,150
Rentals and Leases		955,237
Printing and Reproduction		124,084
Depreciation and Amortization		1,833,276
Interest Expense		556
Scholarships		3,574,528
Claims and Judgments		51,144
Other Operating Expenses		1,187,712
Total Operating Expenses	$	48,170,545
Operating Income (Loss)	$	(27,656,401)

University of Houston-Victoria

Statement of Revenues, Expenses, and Changes in Net Position (Cont'd)

For the Fiscal Year Ended August 31, 2013

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

NON-OPERATING REVENUES (EXPENSES)		
Legislative Appropriations	$	16,963,246
Gifts		968,775
Interest and Investment Income (Loss)		393,401
Net Increase (Decrease) in Fair Value of Investments		584,478
Interest Expense and Fiscal Charges		(2,412,265)
Other Non-Operating Revenues - Non-Pledged		5,479,231
Other Non-Operating Expenses		(1,837,756)
Total Non-Operating Revenues (Expenses)	$	20,139,110
Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers	$	(7,517,291)
OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS		
Capital Appropriations (HEAF)	$	2,393,921
Additions to Permanent and Term Endowments		475,749
Transfers In from Other State Entities (Note 7)		3,930,280
Transfers Out to Other State Entities (Note 7)		(368,187)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	$	6,431,763
CHANGE IN NET POSITION	$	(1,085,528)
Net Position, September 1, 2012	$	25,766,152
NET POSITION, August 31, 2013	$	24,680,624

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

University of Houston-Victoria

Statement of Cash Flows

For the Fiscal Year Ended August 31, 2013

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

CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Tuition and Fees	$	16,263,574
Receipts from Customers		369,144
Proceeds from Research Grants and Contracts		1,899,887
Proceeds from Loan Programs		2,331,301
Proceeds from Auxiliaries		2,065,524
Payments to Suppliers for Goods and Services		(10,453,571)
Payments to Employees for Salaries		(23,622,207)
Payments to Employees for Benefits		(5,884,055)
Payments for Loans Provided		(2,165,409)
Payments for Other Expenses		(4,185,492)
Net Cash Provided (Used) by Operating Activities	$	(23,381,304)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Legislative Appropriations	$	18,056,841
Proceeds from Gifts		588,884
Proceeds from Endowments		475,749
Proceeds of Transfers from Other Entities		5,371,244
Proceeds from Other Sources		4,038,267
Payments for Other Uses		(1,296,844)
Net Cash Provided (Used) by Non-Capital Financing Activities	$	27,234,141
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from State Appropriations (HEAF)	$	2,393,921
Proceeds from Other Financing Activities		8,638,795
Payments for Additions to Capital Assets		(11,712,697)
Payments of Principal on Capital-Related Debt		(2,431,961)
Payments of Interest on Capital-Related Debt		(2,412,265)
Payments of Other Costs of Capital-Related Debt		(47,344)
Net Cash Provided (Used) by Capital and Related Financing Activities	$	(5,571,551)

University of Houston-Victoria
Statement of Cash Flows (Cont'd)
For the Fiscal Year Ended August 31, 2013
(See Independent Accountant's Review Report on Page 1)

CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales of Investments	$	1,074,671
Proceeds from Interest and Investment Income		393,401
Payments to Acquire Investments		(264,081)
Net Cash Provided (Used) by Investing Activities	$	1,203,991
Net Increase (Decrease) in Cash and Cash Equivalents	$	(514,723)
Cash and Cash Equivalents, September 1, 2012	$	6,135,052
Cash and Cash Equivalents, August 31, 2013	$	5,620,329

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

Operating Income (Loss)	$	(27,656,401)
Adjustments:		
Depreciation and Amortization		1,833,276
Operating Income and Cash Flow Categories:		
Classification Differences		165,892
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		(824,650)
(Increase) Decrease in Prepaid Expenses		(401,864)
(Increase) Decrease in Other Assets		38,760
Increase (Decrease) in Payables		1,858,240
Increase (Decrease) in Deferred Revenue		872,055
Increase (Decrease) in Employees' Compensable Leave		25,107
Increase (Decrease) in Other Liabilities		708,281
Total Adjustments	$	4,275,097
Net Cash Provided (Used) by Operating Activities	$	(23,381,304)
Non-Cash Transactions		
Net Increase (Decrease) in Fair Value of Investments	$	584,478

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

Note 1: Summary of Significant Accounting Policies

General Introduction

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

Reporting Entity

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

Basis of Accounting

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

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Operating items are distinguished from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the University's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation or amortization on capital assets.

The accompanying financial statements were prepared in conformance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The University applies all GASB pronouncements, including GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Cash and Cash Equivalents

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

Investments

The University accounts for its investments, other than money market funds, at fair value, as determined by quoted market prices, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* Money market funds are stated at fair value based on the Net Asset Value (NAV) per share. Changes in unrealized gains (losses) on the carrying value of investments are reported as a component of the net change in fair value of investments in the Statement of Revenues, Expenses, and Changes in Net Position.

Restricted Assets

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

Receivables

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

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

Gift receivables are accounted for at their estimated net realizable value. The estimated net realizable value consists of the present value of long-term pledges and a reduction for any allowance for uncollectible pledges.

Prepaid Expenses

Disbursements for insurance, subscriptions, postage, and similar services paid in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. Scholarships awarded to students in the current fiscal year benefitting a subsequent fiscal year are also accounted for as prepaid expenses.

Capital Assets

Assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year are capitalized. These assets are capitalized at cost or, if purchased, at appraised fair value as of the date of acquisition. Donated assets are reported at fair value as of the acquisition date. Routine repairs and maintenance and capital assets acquired for

Capital Assets (Cont'd)

less than the threshold amounts are charged to operating expenses in the year in which the expense was incurred.

Depreciation is reported on all exhaustible assets. Assets are depreciated over their estimated useful lives using the straight-line method of depreciation. Depreciation of capital assets is recorded as a periodic expense and accumulated as an offset to the asset book values. Capitalization thresholds and estimated useful lives of the various categories of capital assets are based on those prescribed by the Statewide Property Accounting (SPA) system as summarized below.

Table 1.1 - Capitalization of Assets		
Type	**Capitalization Threshold**	**Estimated Useful Life**
Land and Land Improvements	$ 0	Not applicable
Infrastructure, Non-Depreciable	0	Not applicable
Construction in Progress	0	Not applicable
Buildings and Building Improvements	100,000	5-30 years
Infrastructure, Depreciable	500,000	10-50 years
Facilities and Other Improvements	100,000	10-60 years
Furniture and Equipment	5,000	3-15 years
Vehicles, Boats and Aircraft	5,000	5-40 years
Other Capital Assets (Library Books and Leasehold Improvements)		
Depreciable	Various	3-22 years
Non-Depreciable	Various	Not applicable
Internally Generated Computer Software	1,000,000	3-10 years
Other Computer Software	100,000	3-10 years
Land Use Rights - Permanent	0	Not applicable
Land Use Rights - Term	100,000	10-60 years
Other Intangible Capital Assets	100,000	3-15 years

Accounts Payable

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

Employees’ Compensable Leave

Employees’ Compensable Leave balances represent the liability that becomes due upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Liabilities are reported separately as either current or non-current in the Statement of Net Position.

Revenue Bonds Payable

Revenue bonds payable are reported at par, less unamortized discount or plus unamortized premium. Interest expense is reported on the accrual basis, with an amortization of the discount or premium. Payables are reported separately as either current or non-current in the Statement of Net Position.

Funds Held for Others

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

Net Position

Net position is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. The University has classified resources into the following three net asset categories:

Invested in Capital Assets, Net of Related Debt

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

Restricted Net Position

Restricted net position results when constraints placed on net resources are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position

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

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

Revenues and Expenses

Operating revenues include activities such as student tuition and fees, net of scholarship allowances, sales and services of auxiliary enterprises, and some federal, state, and local grants, and contracts. Operating expenses include salaries and wages, payroll related costs, materials and supplies, depreciation, scholarships and fellowships, and impairment losses and insurance recoveries received in the same year as the associated loss in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Non-operating revenues include activities such as gifts and contributions, insurance recoveries received in years subsequent to the associated loss, state appropriations, investment income, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Non-operating expenses include activities such as interest expense on capital asset financings, and other expenses that are defined as non-operating expenses by GASB Statement Nos. 9, 34, and 42.

Scholarship Allowances and Student Aid

Financial aid to students is reported in the financial statements as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid (student loans, funds provided to students as awarded by third parties, and Federal Direct Lending) is accounted for as third party payments (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expenses represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition.

Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2013, is presented below.

Table 2.1 - Capital Assets		Balance 9/1/2012		Completed Construction in Progress		Additions		Deductions		Balance 8/31/2013
Non-Depreciable and Non-Amortizable Assets:										
Land and Land Improvements	$	1,326,106	$		$	57,933	$		$	1,384,039
Construction in Progress		590,191		(10,478,135)		10,205,456				317,512
Other Capital Assets		245,916						(25)		245,891
Total Non-Depreciable and Non-Amortizable Assets	$	2,162,213	$	(10,478,135)	$	10,263,389	$	(25)	$	1,947,442
Depreciable and Amortizable Assets:										
Buildings and Building Improvements	$	27,011,359	$	10,478,135	$	918,445	$		$	38,407,939
Facilities and Other Improvements		109,678								109,678
Furniture and Equipment		4,524,013				417,036		(329,537)		4,611,512
Vehicles, Boats, and Aircraft		107,822				57,019				164,841
Other Capital Assets		3,176,899				77,973		(91,005)		3,163,867
Total Depreciable and Amortizable Assets at Historical Cost	$	34,929,771	$	10,478,135	$	1,470,473	$	(420,542)	$	46,457,837

Table 2.1 - Capital Assets (Cont'd)		Balance 9/1/2012		Completed Construction in Progress		Additions		Deductions		Balance 8/31/2013
Less Accumulated Depreciation and Amortization for:										
Buildings and Building Improvements	$	(8,943,862)	$		$	(1,351,170)	$		$	(10,295,032)
Facilities and Other Improvements		(17,518)				(9,139)				(26,657)
Furniture and Equipment		(3,251,895)				(340,776)		308,396		(3,284,275)
Vehicles, Boats, and Aircraft		(95,206)				(6,661)				(101,867)
Other Capital Assets		(2,393,181)				(125,530)		91,005		(2,427,706)
Total Accumulated Depreciation and Amortization	$	(14,701,662)	$		$	(1,833,276)	$	399,401	$	(16,135,537)
Depreciable and Amortizable Assets, Net	$	20,228,109	$	10,478,135	$	(362,803)	$	(21,141)	$	30,322,300
Capital Assets, Net	$	22,390,322	$	0	$	9,900,586	$	(21,166)	$	32,269,742

Note 3: Deposits, Investments, and Repurchase Agreements

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

Deposits of Cash in Bank

As of August 31, 2013, the carrying amount of deposits was as presented below.

Table 3.1 - Bank Deposits		Carrying Amount		Bank Balance
Cash in Bank (other than Certificates of Deposit (CDs))	$	410,108	$	0
Total Bank Deposits	$	410,108	$	0

Deposits of Cash in Bank (Cont'd)

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

As of August 31, 2013, the total Cash and Cash Equivalents balance was as follows.

Table 3.2 - Composition of Cash and Cash Equivalents		Carrying Amount
Cash on Hand	$	2,025
Cash in State Treasury		2,516,318
Total Bank Deposits (per above)		410,108
Other Cash Equivalents (included in the Investments note disclosure)		2,691,878
Total Cash and Cash Equivalents	$	5,620,329

Table 3.3 - Cash and Cash Equivalents per Statement of Net Position		Carrying Amount
Cash and Cash Equivalents - Current Assets	$	6,354,917
Cash and Cash Equivalents - Current Assets, Restricted		(734,588)
Total Cash and Cash Equivalents per Statement of Net Position	$	5,620,329

Cash and Cash Equivalents – Current Assets, Restricted has a negative balance due to the fact that many of the grants that the University receives funding for are grants for which expenditures must be made before reimbursements can be requested from the grantor.

Investments

As of August 31, 2013, the fair value of investments is as presented below.

Table 3.4 - University Share of Pooled Investments Held by the System by Pool		
Investments Held by System in:		
Money Market Funds	$	2,691,878
Intermediate Investment Pool		557,976
Endowment Pool		9,101,250
Quasi-Endowment Pool		2,553,398
Other Commingled Funds		71,597
Other Commingled Funds (TexPool)		10,756,800
Total University Share of Pooled Investments Held by System	$	25,732,899

Table 3.5 - University Share of Pooled Investments Held by the System by Statement of Net Position Classification		
Current Assets		
Money Market Funds	$	2,691,878
Intermediate Investment Pool		557,976
Current Assets, Restricted		
` Endowment Pool		343,163
Non-Current Assets		
Quasi-Endowment Pool		2,553,398
Other Commingled Funds		71,597
Non-Current Assets, Restricted		
Endowment Pool		8,758,087
Other Commingled Funds (TexPool)		10,756,800
Total University Share of Pooled Investments Held by System	$	25,732,899

Investments (Cont'd)

At the direction of the System and its Board of Regents, the University's investments and cash equivalents are mandatorily pooled and managed at the System level. The System is responsible for the disclosure of all information on the pooled investments and has included the required disclosures about the composition of the portfolio(s), the specific types of risks to which those investments are exposed, and the System's policies to address each of those risks, in its annual financial report.

Note 4: Summary of Long-Term Liabilities

During the year ended August 31, 2013, the following changes occurred in liabilities.

Table 4.1 - Long-Term Liabilities	Balance 9/1/2012	Additions	Deductions	Balance 8/31/2013	Amounts Due Within One Year
Claims and Judgments	$ 10,068	$ 71,625	$ 63,329	$ 18,364	$ 18,364
Employees' Compensable Leave	786,925	408,656	383,548	812,033	395,785
Revenue Bonds Payable	51,515,891		2,596,074	48,919,817	2,925,797
Total	$ 52,312,884	$ 480,281	$ 3,042,951	$ 49,750,214	$ 3,339,946

Claims and Judgments

At August 31, 2013, various lawsuits and claims involving the University were pending. While the ultimate liability, if any, with respect to litigation and other claims asserted against the University cannot be reasonably estimated at this time, such liability, to the extent not provided for by insurance or otherwise, is not expected to have a material effect on University accounts. The liability recorded consists of amounts for estimated future workers' compensation and unemployment claims that have been incurred as of the fiscal year end, but that have not been reported.

Employees' Compensable Leave

Employees' Compensable Leave is the University's liability for all unused vacation and unpaid overtime accrued by employees, payable as severance pay under specified conditions. This obligation is paid only at the time of termination, usually from the same funding source(s) from which the employee's salary or wage compensation was paid.

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. The eligible part-time employees' annual leave accrual rates and maximum carryovers are proportional to the number of hours authorized to work. Employees with at least six months of state service who terminate their employment are entitled to payment for all accumulated annual leave.

Employees' Compensable Leave (Cont'd)

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. The eligible part-time employees' sick leave accrual rate is proportional to the number of hours authorized to work.

Note 5: Bonded Indebtedness

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

General Obligation Bonds

At August 31, 2013, the University had no bonds payable classified as General Obligation Bonds.

Revenue and Refunding Bonds

- **Consolidated Revenue Refunding Bonds, Series 2006**
    - To refund and defease $3,295,000 of Consolidated Revenue Bonds, Series 1997 and $44,430,000 of Consolidated Revenue Bonds, Series 2000 of the System.
    - $3,210,000 issued for the University; $48,450,000 in total for the System; all bonds authorized have been issued.
    - Issued 02-01-2006.
    - Source of revenue for debt service – Tuition and various other fees, revenues and balances that may be legally available for payment of debt obligations. (The University's funding for fiscal year 2013 from legislative appropriations.)
    - Average rate of bonds refunded - 5.45% (1997) and 5.45% (2000).
    - Net proceeds from refunding series for the System - $49,799,345, after receipt of bond premium of $1,823,210 and payment of $473,865 in underwriting fees, insurance, and other issuance costs.
    - Funds were used to purchase state and local government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the refunded 1997 and 2000 series bonds. The refunded 1997 series bonds will be called for early redemption on 08-15-2007, and the refunded 2000 series bonds will be called for early redemption on 02-15-2010.
    - The 1997 series bonds maturing subsequent to 08-15-2007 and the 2000 series bonds maturing subsequent to 02-15-2010 are considered fully defeased and the liability for those bonds has been removed from the Investment in Plant fund group.
    - Refunding of the 1997 and 2000 series bonds reduced the System's debt service payments over the life of the bond issues by approximately $4,841,586.

- **Consolidated Revenue Refunding Bonds, Series 2006 (Cont'd)**
  - Economic gain for the System - $3,013,573; the difference between the net present value of the old and new debt service payments.

- **Consolidated Revenue Refunding Bonds, Series 2008**
  - To (a) refund and defease certain outstanding commercial paper notes of the System and (b) finance the acquisition, purchase, construction, improvement, enlargement and equipping of property, buildings, structures, activities, services, operations and other facilities, roads or related infrastructure on behalf of the System, including individual campuses of the System.
  - In addition to the defeasement of the commercial paper noted above, the University's proceeds were used to finance the construction of Building 2 at the UH Sugarland teaching center; remaining proceeds will be used to finance the construction of the UHV Regional Center for Economic Development and the UHV Allied Health Facility.
  - $31,415,000 issued for the University; $175,030,000 in total for the System; all bonds authorized have been issued.
  - Issued 07-01-2008.
  - Source of revenue for debt service – Tuition and various other fees and revenues and balances that may be legally available for payment of debt obligations. (The University's funding for fiscal year 2013 from legislative appropriations.)

- **Consolidated Revenue and Refunding Bonds, Series 2009-A**
  - To (a) refund and defease $20,515,000 of outstanding Consolidated Revenue Bonds, Series 1999 of the System and (b) finance the acquisition, purchase, construction, improvement, enlargement, and equipping of property, buildings, structures, activities, services, operation and other facilities, roads, or infrastructure related for or on behalf of the System, including individual campuses of the System.
  - The University's proceeds were used for the defeasement of the bonds noted above.
  - $7,878,420 issued for the University; $71,175,000 in total for the System; all bonds authorized have been issued.
  - Issued 07-02-2009.
  - Source of revenue for debt service – Tuition and various other fees, revenues and balances that may be legally available for payment of debt obligations. (The University's funding for fiscal year 2013 from legislative appropriations.)
  - Average interest rate of bonds refunded - 4.885%.
  - Net proceeds for the System from refunding series - $20,892,800, after receipt of bond premium of $1,719,638 and additional available funds of $377,641 and payment of $179,479 in underwriting fees, insurance, and other issuance costs.
  - Sufficient funds were deposited with an escrow agent to provide for full payment of all outstanding obligations related to the 1999 series bonds, after they were called for early redemption.

- **Consolidated Revenue and Refunding Bonds, Series 2009-A (Cont'd)**
  - The 1999 series bonds maturing subsequent to 02-15-2009 are considered fully defeased and the obligation for those bonds has been removed from the reported liabilities of the System.
  - Refunding of the 1999 series bonds reduced the System's debt service payments over the life of the bond issues by approximately $2,023,239.
  - Economic gain for the System - $1,742,552; the difference between the net present value of the old and new debt service payment.

- **Consolidated Revenue and Refunding Bonds, Series 2010-B**
  - To (a) defease certain outstanding commercial paper notes of the System and (b) finance the acquisition, purchase, construction, improvement, enlargement, and equipping of property, buildings, structures, activities, services, operations and other facilities, roads, or related infrastructure for or on behalf of the System, including individual campuses of the System.
  - In addition to the defeasement of the commercial paper noted above, the University's proceeds were used to finance the acquisition and renovation of the UHV Jaguar Hall residence hall.
  - $5,380,000 issued for the University; $79,975,000 in total for the System; all bonds authorized have been issued.
  - Issued 04-15-2010.
  - This bond issue is a qualified Build America Bond (BAB) as defined within Sections 54AA and 6431 of the Internal Revenue Code of 1986, as amended.
  - Source of revenue for debt service – Designated tuition and various other fees, revenues and balances that may be legally available for payment of debt obligations. The System will receive interest subsidy payments from the U.S. Treasury equal to 35 percent of the interest payable on related qualified Build America Bonds contemporaneously with the interest payment dates of the qualified Build America Bonds.

- **Consolidated Revenue and Refunding Bonds, Series 2010-C**
  - To (a) defease certain outstanding commercial paper notes of the System and (b) finance the acquisition, purchase, construction, improvement, enlargement, and equipping of property, buildings, structures, activities, services, operations and other facilities, roads, or related infrastructure for or on behalf of the System, including individual campuses of the System.
  - In addition to the defeasement of the commercial paper noted above, the University's proceeds were used to finance the acquisition and renovation of the UHV Jaguar Hall residence hall.
  - $1,635,000 issued for the University; $18,255,000 in total for the System; all bonds authorized have been issued.
  - Issued 04-15-2010.
  - Source of revenue for debt service – Designated tuition and various other fees, revenues and balances that may be legally available for payment of debt obligations.

- **Consolidated Revenue and Refunding Bonds, Series 2011-A**
  - To (a) refund and defease $78,195,000 of outstanding Consolidated Revenue Bonds, Series 2002-A and $9,255,000 of Consolidated Revenue Refunding Bonds, Series 2002-B of the System and (b) finance the acquisition, purchase, construction, improvement, enlargement, and equipping of property, buildings, structures, activities, services, operation and other facilities, roads, or related infrastructure for or on behalf of the System, including individual campuses of the System.
  - In addition to the defeasement of the bonds noted above, the University's proceeds were used to finance the construction of the UHV Jaguar Suites residence hall.
  - $11,539,322 issued for the University; $265,500,000 in total for the System; all bonds authorized have been issued.
  - Issued 12-29-2011.
  - Source of revenue for debt service – Tuition and various other fees, revenues and balances that may be legally available for payment of debt obligations. (The University's funding for fiscal year 2013 partially from legislative appropriations.)
  - Average interest rate of bonds refunded - 4.464013%.
  - Net proceeds from refunding series for the System - $89,366,528, after receipt of bond premium of $12,525,317 and additional available funds of $1,427,621 and payment of $226,410 in underwriting fees, insurance, and other issuance costs.
  - Sufficient funds were deposited with an escrow agent to provide for full payment of all outstanding obligations related to the 2002-A and 2002-B series bonds, after they were called for early redemption on 02-15-2012.
  - The 2002-A and 2002-B series bonds maturing subsequent to 02-15-2012 are considered fully defeased and the obligation for those bonds has been removed from the reported liabilities of the System.
  - Refunding of the 2002-A and 2002-B series bonds reduced the System's debt service payments over the life of the bond issues by approximately $12,683,167.
  - Economic gain for the System - $11,417,870; the difference between the net present value of the old and new debt service payments.

Debt Service Requirements

The future debt service requirements, as of August 31, 2013, for the University's outstanding bonds are as follows:

Table 5.1 - Debt Service Requirements Year(s)		Total Principal		Total Interest		Total
2014	$	2,761,684	$	2,295,717	$	5,057,401
2015		2,902,508		2,158,446		5,060,954
2016		3,049,027		2,012,742		5,061,769
2017		3,194,822		1,865,196		5,060,018
2018		2,911,390		1,726,453		4,637,843
2019 - 2023		12,194,910		6,729,852		18,924,762
2024 - 2028		13,525,000		3,503,578		17,028,578
2029 - 2033		3,380,000		1,157,102		4,537,102
2034 - 2038		3,125,000		406,375		3,531,375
Total Debt Service	$	47,044,341	$	21,855,461	$	68,899,802

Build America Bonds

Build America Bonds (BABs) were created as part of the federal American Recovery and Reinvestment Act of 2009 (ARRA). Taxable bonds may be issued by governmental entities, including state agencies and state universities, as Tax Credit BABs or as Direct Payment BABs. Tax Credit BABs provide a federal tax credit to investors equal to 35 percent of the interest received from the bond issuer. Direct Payment BABs provide a direct federal reimbursement to state and local governmental issuers equal to 35 percent of the interest paid on the bonds. Authority to issue BABs expired on December 31, 2010.

During the 2010 fiscal year the University issued $5,380,000 of Consolidated Revenue and Refunding Bonds, Series 2010-B, taxable revenue bonds under the Direct Payment BABs program. A balance of $5,380,000 remained outstanding at August 31, 2013. No Tax Credit BABs were issued.

Pursuant to the requirements of the Balanced Budget Emergency Deficit Control Act of 1985, as amended, certain automatic reductions occurred as of March 1, 2013. These reductions apply to certain qualified bonds, including BABs. The sequestration reduction applicable to the Series 2010-B bonds was $4,511. The full amount of interest due to bond holders was paid by the University.

Note 6: Operating Leases

The University has entered into short-term and long-term non-cancellable operating leases for various business purposes such as office space, machines and equipment. Included in the expenditures reported in the financial statements is $390,882 of rent paid or due under operating leases.

Note 6: Operating Leases (Cont'd)

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

Table 6.1 - Minimum Future Lease Payments		
Year Ended August 31,		**Total**
2014	$	315,586
2015		236,689
2016		157,793
2017		78,896
2018		39,448
2019-2023		98,621
2024-2028		49,310
Total Minimum Future Lease Payments	$	976,343

Note 7: Interagency Balances/Activity

Numerous transactions routinely occur between state agencies and entities. At year end, amounts to be received or paid are reported as Due From Other State Entities or Due To Other State Entities, as appropriate. Transfers in or out are reported as Transfers In From Other State Entities or Transfers Out To Other State Entities or as Legislative Transfers In or Legislative Transfers Out, as appropriate.

During the 2013 fiscal year, the University experienced several routine transfers with other State agencies. Repayment of any balances due to or from another state agency occurs within one year from the date of the financial statement.

Individual activity and balances at August 31, 2013, are shown in the following tables.

Table 7.1 - Due From/To Other State Entities					
Entity		Due from Other State Entities		Due to Other State Entities	Purpose
Agency 608 - Texas Department of Motor Vehicles	$	1,106	$		Collegiate License Plate Program funds
Agency 743 - University of Texas San Antonio		7,349			Small Business Development Center federal pass-through funds
Total Due From/To Other State Entities	$	8,455	$	0	

Note 7: Interagency Balances/Activity (Cont'd)

Table 7.2 - Transfers In From/Out To Other State Entities

Entity		Transfers In from Other State Entities		Transfers Out to Other State Entities	Purpose
Agency 783 - UH System Administration	$	10,000	$		FY12 and FY13 Enron Teaching Awards
Agency 783 - UH System Administration		95,686			Endowment special income allocation and matching fund transfer
Agency 783 - UH System Administration		3,749,594			Tuition Revenue Bond funds for UHV bonds appropriated by the state to UHSA
Agency 730 - University of Houston		75,000			From UH Advancement for FY13 fundraising campaign
Agency 781 - Texas Higher Education Coordinating Board				197,490	B-On Time FY13 transfer deposit
Agency 783 - UH System Administration				167,819	Endowment institutional advancement assessment fee and matching fund transfer
Agency 730 - University of Houston				2,878	Property claims fund allocation
Total In From/Out To Other State Entities	$	3,930,280	$	368,187	

Note 8: Contingent Liabilities

Unpaid Claims and Lawsuits

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

Federal Assistance

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

Arbitrage

Rebatable arbitrage is defined by Internal Revenue Code, Section 148, as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investment were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government.

The University monitors its investments to restrict earnings to a yield less than the bond issue and, therefore, limit any arbitrage liability. The University estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial conditions.

Student Housing Contractual Commitments

The University has contractual agreements with external management entities to maintain and manage on-campus student housing complexes and dining facilities owned or leased by the University. Under certain circumstances, the University may have contingent liabilities to these entities. Based on prior experience, previous years' liabilities have been immaterial, and management believes no such liabilities currently exist.

Note 9: Risk Financing and Related Insurance

The University is exposed to various risks of loss related to property, general and employer liability, net income, and personnel. The University and its employees are covered by numerous immunities and defenses that limit some of these risks of loss, particularly in liability actions brought against the state or its employees. It is University policy to periodically assess the proper combination of commercial insurance and retention of risk to cover the remaining losses to which it may be exposed.

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

The University's liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Liabilities are reevaluated periodically to consider current settlements, frequency of claims, past experience and economic factors. There were no significant reductions in insurance coverage in the past year and losses did not exceed funding arrangements during the past three years. Changes in the balances of the University's claims liabilities during fiscal 2012 and 2013 were as follows.

Table 9.1 - Balances of Claims Activity

Fiscal Year		Beginning Balance		New Claims and Changes in Estimates		Claims Payments		Ending Balance
2012	$	5,012	$	51,343	$	(46,287)	$	10,068
2013	$	10,068	$	71,625	$	(63,329)	$	18,364

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

Note 10: Subsequent Events

At a special called meeting in June 2013, the Board of Regents approved additional Consolidated Revenue and Refunding Bonds, to be issued at a future date. The Series 2013-A and the Series 2013-B bonds were for the purpose of financing various construction and renovation projects within the System and to refund and defease certain outstanding notes and bonds of the System. The bonds were ultimately issued by the System during the 2014 fiscal year; $5,300,000 was issued for the University for the purchase and renovation of property used for student housing, Jaguar Court.

As of the date this report was issued, there have been no additional events since August 31, 2013 that had a significant financial impact and require disclosure.

Note 11: Stewardship, Compliance, and Accountability

A negative change in net position occurred in fiscal year 2013 primarily due to non-capital expenditures on renovation of existing and leased facilities to better accommodate the University's growing enrollment. This negative change, as well as the University's investment in capital assets for student housing necessitated by a growing resident student population, led to a deficit unrestricted net position of ($465,592) at August 31, 2013.

The University's management continues to closely monitor its resources and balance the need for reserves with the need for investment in capital assets to support its steady enrollment growth.

Note 12: The Financial Reporting Entity

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

Note 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 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,

Teacher Retirement System Pension Plan (Cont'd)

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, 2013, the statutorily required contribution rate was 6.4% of annual compensation from active plan members and 6.4% of annual compensation from the University.

For the years ended August 31, 2013, 2012, and 2011, the University contributed 100% of the following statutorily required employer contributions:

	2013	2012	2011
Required Contribution Rate	6.4%	6.0%	6.64%
Contributions Required & Made	$882,065	$751,960	$822,933

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 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

Optional Retirement Program (Cont'd)

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, 2013, the required State contribution rate was 6.65 percent and the University's contribution rate was 6.0 percent of participants' annual compensation.
For the year ended August 31, 2013, contributions to the ORP were as follows:

Participant contributions	$ 541,884
Employer contributions	555,359
Total	$ 1,097,243

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 is 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 and System 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.

Note 14: Deferred Compensation (Cont'd)

The System also administers a tax deferred investment program consisting of private arrangements between various approved companies and the employee, created in accordance with Internal Revenue Code, Section 403(b). Benefits eligible employees may purchase qualified tax deferred investments with a portion of their salaries. Participation in the program is voluntary and is a supplement to the Teacher Retirement System or the Optional Retirement Program. It is however, separate and apart from either. The assets of this plan do not belong to the System or the state. Therefore, none of these entities has a liability related to this plan.

Note 15: Donor-Restricted Endowments

Expenditure of endowed funds is not permitted without the express consent of the donor. The majority of the University's Endowments are held in perpetuity. In many cases, endowment earnings are expendable for student financial assistance or other purposes as specified by the donor. In other cases endowment earnings are reinvested. Chapter 163 of the Texas Property Code (also cited as the Uniform Prudent Management of Institutional Funds Act) grants the University the authority to spend net appreciation. The Regents of the System have established an endowment policy which attempts to balance the long term objective of maintaining the purchasing power of the endowment with the goal of providing a reasonable, predictable, stable and sustainable level of income to support current needs. Payout is derived from interest, dividends and realized gains net of portfolio management fees. The historical rate of payout has been 4 to 5 percent, with any change to this range to be approved by the Board.

The net appreciation (cumulative and unexpended) on donor-restricted endowments presented below is available for authorization and expenditure by the University.

Table 15.1 - Net Appreciation of Endowments

Donor-Restricted Endowments		Amount of Net Appreciation (Depreciation)	Reported in Net Position
True Endowments	$	3,340,558	Restricted Expendable
Total	$	3,340,558	

A fair value increase of $443,301 was recognized for endowments at or above historical cost. No endowments were valued below historical cost.

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

Plan Description (Cont'd)

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 premiums for fiscal year 2013.

Maximum Monthly Employer Contribution for Retiree OPEB
For the Fiscal Year Ended August 31, 2013

Level of Coverage	**Amount ($)**
Retiree Only	470.38
Retiree and Spouse	739.58
Retiree and Children	650.62
Retiree and Family	919.82

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, 2013, 2012, and 2011, included in amounts reported as Payroll Related Costs, were $223,515, $165,521, and $129,224 respectively, which equaled the required contributions each year.

Note 17: Disaggregation of Receivable Balances

Balances of receivables reported on the Statement of Net Position may be aggregations of different components. GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, requires that the University provide details in the notes to the financial statements when significant components have been obscured by aggregation. The Statement of Net Position is presented in the classified format, and therefore, the current and non-current portions of receivables are separately disclosed. Significant balances in various classifications of receivables are disclosed below.

Note 17: Disaggregation of Receivable Balances (Cont'd)

Table 17.1 - Federal Receivable - Current		**Total**
U.S. Department of Education	$	2,102,766
U.S. Departement of Justice		4,399
Total Federal Receivable	$	2,107,165

State Auditor's Office
John Keel, CPA
State Auditor

February 19, 2014

Dr. Philip Castille, President
University of Houston – Victoria
3007 N. Ben Wilson
Victoria, TX 77901

Subject: Management Letter Resulting from a Review of the University of Houston - Victoria's Fiscal Year 2013 Financial Statements

Dear Dr. Castille:

We offer this management letter in conjunction with our review of the financial statements of the University of Houston – Victoria (University) as of and for the fiscal year ended August 31, 2013, on which we have issued our report dated February 19, 2014. We reviewed the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. In the course of our review, which was substantially less in scope than an audit, we did not find that material modifications needed to be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

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

Sincerely,

Nicole Guerrero

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

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Copies of this report have been distributed to the following:

Legislative Audit Committee

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

Office of the Governor

The Honorable Rick Perry, Governor