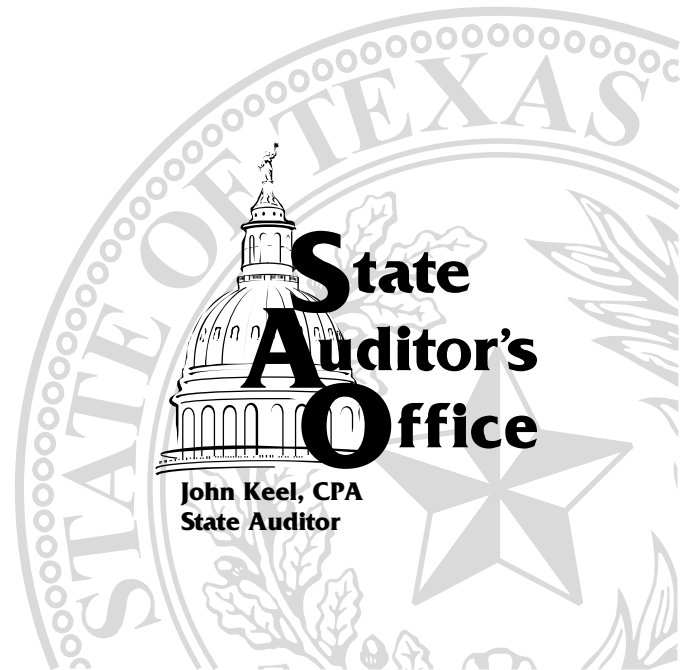


A Review of

# Texas A&M International University

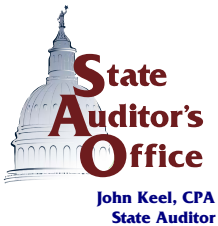
for the Southern Association of Colleges  
and Schools

January 2005  
Report No. 05-315



# Contents

<i>State Auditor's Review Report</i> .....	1
 <i>Texas A&amp;M International University Financial Report (prepared in accordance with SACS Criteria for Accreditation)</i>	
Management's Discussion and Analysis.....	2
Statement of Net Assets at August 31, 2004 .....	10
Statement of Revenues, Expenses, and Changes in Net Assets for the Fiscal Year Ended August 31, 2004 .....	12
Statement of Cash Flows for the Fiscal Year Ended August 31, 2004 .....	14
Statement of Changes in Unrestricted Net Assets for the Fiscal Year Ended August 31, 2004 .....	16
Notes to the Financial Statements for the Fiscal Year Ended August 31 2004 .....	17
 <i>State Auditor's Office Management Letter</i> .....	 29



## State Auditor's Review Report

January 28, 2005

Dr. Ray M. Keck III, President  
Texas A&M International University  
Office of the President  
5201 University Boulevard, Room 270  
Laredo, Texas 78041-1900

Dear Dr. Keck:

We have reviewed the accompanying Statement of Net Assets of Texas A&M International University (University) as of August 31, 2004, and the related Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows for the fiscal year then ended in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The review was performed in accordance with the Southern Association of Colleges and Schools' (Southern Association) *Criteria for Accreditation*. All information included in these financial statements is the representation of management of the University.

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

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

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles. This report is intended for use by the Board of Regents of Texas A&M University System, management of the University, and the Southern Association. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

The Management's Discussion and Analysis on pages 2 through 9 is not a part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Such information has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements but is the representation of management. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

Sincerely,

John Keel, CPA  
State Auditor

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

P.O. Box 12067  
Austin, Texas 78711-2067

Phone:  
(512) 936-9500

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(512) 936-9400

Internet:  
[www.sao.state.tx.us](http://www.sao.state.tx.us)



## *Management's Discussion and Analysis*

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### Introduction

Texas A&M International University (University), a member of the Texas A&M University System, is committed to the preparation of students for leadership roles in their chosen professions and in an increasingly complex, culturally diverse state, national, and global society. The University provides students with a learning environment anchored by the highest quality programs built on a solid academic foundation in the liberal arts and natural sciences. To fulfill its mission, the University offers baccalaureate and masters programs in the arts; humanities; business; education; physical, biological, and social sciences; and health professions, with authority for select doctoral programs. Programs focus on developing strong undergraduate and graduate offerings and progressive agenda for global study and understanding across all disciplines.

Through instruction, faculty and student research, and public service, the University is a strategic point of delivery for well-defined programs and services that improve the quality of life for citizens of the border region, the State of Texas, and national and international communities.

### Overview of the Financial Statements and Financial Analysis

The University presents the financial information in this discussion for fiscal year 2004 with comparative information for 2003. These discussions will focus on the changes and trends in data and provide an overview of the financial activities for the year. Three primary financial statements are presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

### Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end 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, 2004, with comparative information for the previous year. The Statement of Net Assets presents information in current and non-current formats for both assets and liabilities. The net assets section presents assets minus liabilities. The Notes to the Financial Statements will discuss current and non-current definitions.

The Statement of Net Assets allows the reader of the financial statements to determine the assets available for use in the continuing operations of the institution. Also, the readers will be able to determine the amounts owed to vendors, investors, and lending institutions. The Statement of Net Assets presents the net assets (assets minus liabilities) and their availability for expenditure by the institution.

## Texas A&M International University Financial Report

Net Assets are presented in three major categories: invested in capital assets, net of debt; restricted net assets; and unrestricted net assets. The invested in capital assets category identifies the equity in property, plant, and equipment owned by The University. Restricted net assets are presented in two subcategories: non-expendable and expendable. Non-expendable restricted net assets are available only for investment purposes. Expendable restricted net assets are available for expenditure but must be expended for the purposes designated by the external donors/providers of the assets. Unrestricted net assets are available for any lawful purpose of the institution.

### Statement of Net Assets (thousands of dollars)

	2004	2003
<b>Assets</b>		
Current Assets	\$ 18,216	\$ 15,784
Capital Assets, Net	114,939	96,139
Other Assets	17,709	14,900
<b>Total Assets</b>	<b>\$ 150,864</b>	<b>\$ 126,823</b>
<b>Liabilities</b>		
Current Liabilities	\$ 9,289	\$ 5,644
Non-Current Liabilities	843	572
<b>Total Liabilities</b>	<b>\$ 10,132</b>	<b>\$ 6,216</b>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Debt	\$ 114,939	\$ 96,139
Restricted		
Expendable	12,199	9,925
Non-Expendable	6,147	5,560
Unrestricted	7,447	8,983
<b>Total Net Assets</b>	<b>\$ 140,732</b>	<b>\$ 120,607</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$ 150,864</b>	<b>\$ 126,823</b>

In fiscal year 2004, the total net assets of the University increased by \$20 million. This increase can be attributed to the increase in the investment in capital assets.

During 2004, total liabilities increased primarily by a \$2.8 million increase in the Accrued Compensable Absences Payable.

Unrestricted net assets include funds that have been internally designated for future activities. The unrestricted reserves include the following:

# Texas A&M International University Financial Report

## Unrestricted Net Assets as of August 31, 2003 (in thousands of dollars)

<b>Reserved</b>		
Accounts Receivable	\$	1,871
Encumbrances		1,160
Inventories		55
Higher Education Assistance Fund		1,100
Prepaid Expenses and Other Reserves		1
 <b>Unreserved</b>		
Allocated	\$	<u>3,260</u>
 Total Unrestricted Net Assets	 \$	 <u>7,447</u>

### Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented on the Statement of Revenues, Expenses, and Changes in Net Assets. The statement presents both operating and non-operating revenues, expenses, and other revenues, expenses, gains, or losses for the University.

Operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire goods and services provided in return for operating revenues and to carry out the mission of the University. Non-operating revenues are revenues received for which no goods or services are provided. These include state appropriations, gifts, and investing activities.

### Statement of Revenues, Expenses, and Changes in Net Assets (thousands of dollars)

	2004	2003
Operating Revenues	17,579	19,293
Operating Expense	<u>47,714</u>	<u>46,965</u>
<b>Operating Income (Loss)</b>	<b>(30,135)</b>	<b>(27,672)</b>
Non-Operating Revenues and Expense	39,072	37,826
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	<u>8,937</u>	<u>10,154</u>
Other Revenues, Expense, Gains (Losses), and Transfers	<u>11,187</u>	<u>(7,504)</u>
Increase in Net Assets	20,124	2,650
Net Assets at Beginning of Year	<u>120,607</u>	<u>117,957</u>
Net Assets at End of Year	<u>140,731</u>	<u>120,607</u>

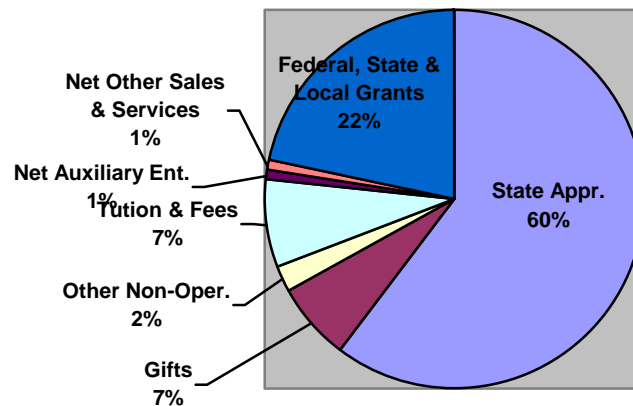
## Texas A&M International University Financial Report

The Statement of Revenues, Expenses, and Changes in Net Assets reflects an increase in Net Assets for the year. Some of the highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- State Appropriations revenue increased 5 percent in 2004.
- Student Tuition and Fees increased 13.9 percent in 2004.
- Federal Revenue increased 31.5 percent in 2004.
- State grant revenue decreased 22 percent. This was primarily due to reductions in the Texas Grant program.
- Operating Expenses increased 1.6 percent.

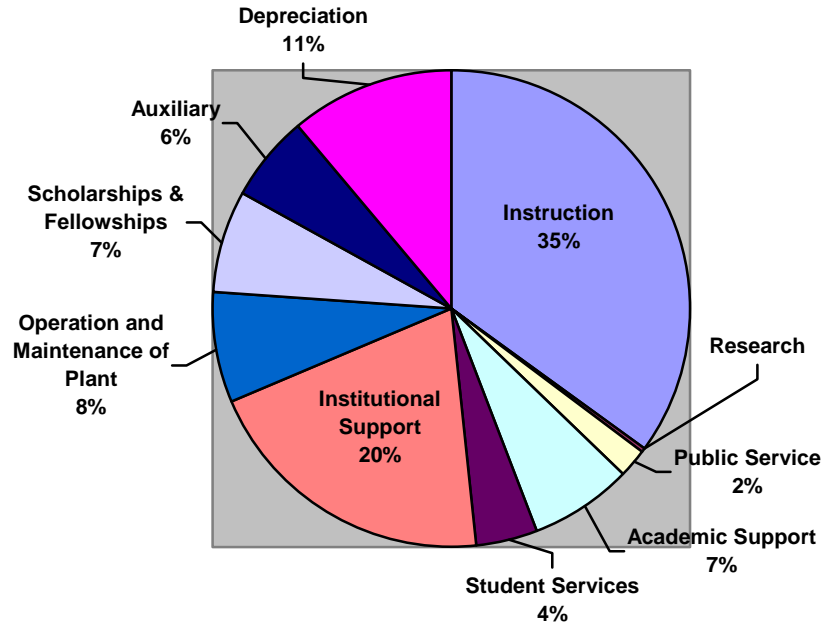
The following is a graphic presentation of revenues by source (both operating and non-operating), which are used to fund the University's operating activities. Significant recurring sources of The University's revenues are considered non-operating as defined by Government Accounting Standards Board Statement No. 35. Included in the non-operating category are Legislative Appropriations, Gifts, and Other Non-Operating Revenues.

### Revenues FY 2004

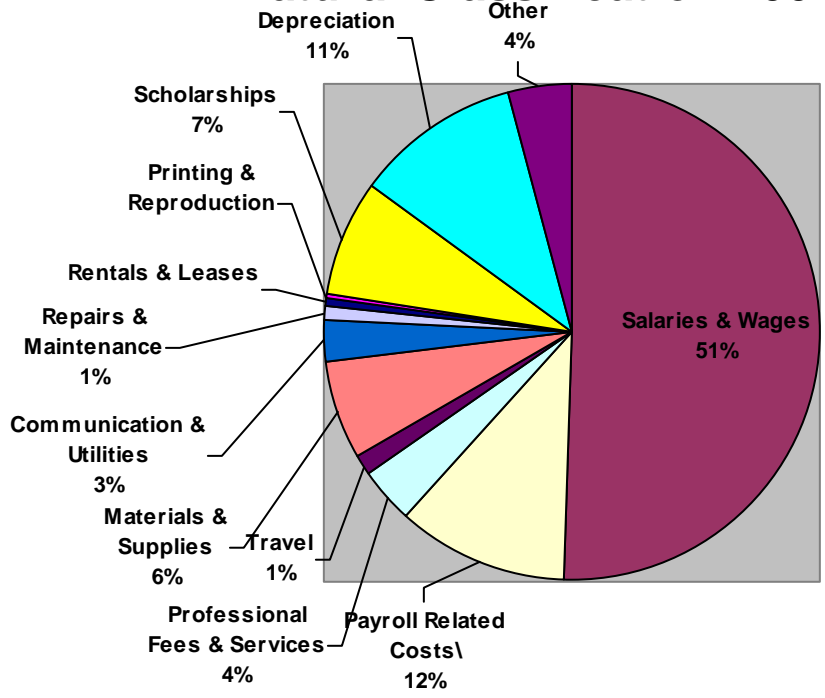


The following graphic presentation gives a comparison of operating expenses in the National Association of College and Universities Business Officers Association (NACUBO) functional categories and the natural category classification of expense for both 2004 and 2003. The total operating expense for fiscal year 2004 was \$47.7 million, and for fiscal year 2003 the operating expense was \$47.0 million.

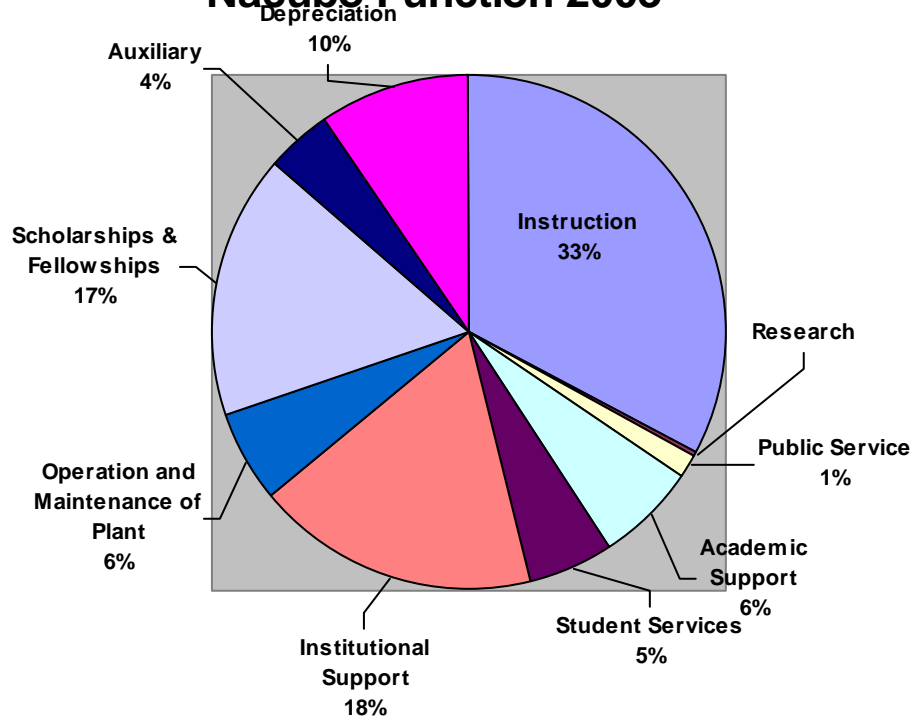
### Nacubo Function 2004



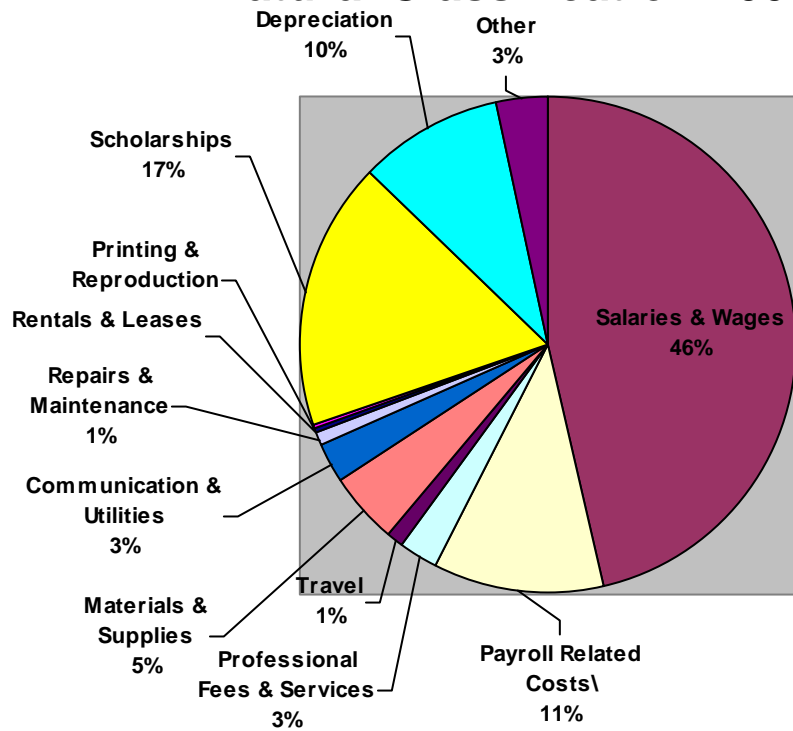
### Natural Classification 2004



### Nacubo Function 2003



### Natural Classification 2003



# Texas A&M International University Financial Report

## Statement of Cash Flows

The final statement presented by the University is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the Texas A&M University System (A&M System) during the year. There are five sections to the statement. The first section reflects the cash flows from operating activities and reflects the net cash used by operating activities. The second section represents the cash flows from non-capital financing activities. This reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. In section three, the cash flows from capital and related financing activities are recognized. The fourth section reflects the cash flows from investing activities. This represents the cash used for the acquisition and construction of capital and related items. The fifth section reconciles net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

### Statement of Cash Flows (thousands of dollars)

	2004	2003
Cash Provided (used) by:		
Operating Activities	\$ (25,045)	\$ (24,409)
Non-Capital Financing Activities	40,722	37,149
Capital and Related Financing Activities	(14,005)	(12,838)
Investing Activities	( 1,886)	( 2,011)
Net Change in Cash	\$ ( 214)	\$ ( 2,109)
Cash, Beginning of Year	5,689	7,798
Cash, End of Year	\$ 5,475	\$ 5,689

## Capital Asset and Debt Administration

The University, in conjunction with the A&M System, has a number of new facilities that are at various stages of construction. These projects include a Student Center, a Fine and Performing Arts Center, a Science Building, Student Housing, and Kinesiology Facility Remodeling. The University also had significant capital asset additions for facilities in fiscal year 2004. The total amount of facilities capitalized was \$14,728,410. The A&M System records the debt of all capital projects for the University. State Appropriations and other funds are transferred from the University to the A&M System for the servicing of this debt.

## Economic Outlook

The University is not aware of any known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during 2004 beyond the unknown variations having a global effect on all types of business operations.

## Texas A&M International University Financial Report

The financial position of the University is sound in light of the reductions in state appropriations. The University has been able to continue to grow in facilities, students, and academic programs. The University will continue to manage this growth while monitoring the economic and political climates.

### Significant Events

The University's College of Business Administration has received degree-granting authority from the Texas Higher Education Coordinating Board for a Ph.D. in International Business Administration.

The University achieved an all-time record enrollment (4,081) for the spring semester. Spring commencement graduates 352 students, the largest group in the history of the University.

# Texas A&M International University Financial Report

## *Statement of Net Assets at August 31, 2004*

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

### ASSETS

Current Assets	
Cash and Cash Equivalents	\$ 4,487,658
Restricted:	
Cash and Cash Equivalents	987,414
Legislative Appropriations	1,603,586
Receivables:	
Federal	2,140,902
Other Intergovernmental	1,675,245
Gifts	3,038,447
Student Receivables	8,934
Other	378,668
Due from Other Agencies	33,182
Due from Other Component Units	284,588
Inventories	55,168
Loans and Contracts	1,613,838
Securities Lending Contracts	1,824,844
Other Current Assets	83,268
Total Current Assets	\$ 18,215,742
Non-Current Assets:	
Restricted:	
Long-Term Investments (held by System)	\$ 11,615,100
Long-Term Investments (held by System)	6,093,809
Capital Assets:	
Non-Depreciable	62,352,158
Depreciable	87,708,009
Accumulated Depreciation	(35,120,939)
Total Non-Current Assets	\$ 132,648,137
Total Assets	\$ 150,863,879

### LIABILITIES

Current Liabilities:	
Payables:	
Accounts	\$ 666,106
Payroll	1,223,781
Other Intergovernmental	1,189,231
Deferred Revenue	3,889,069
Obligations Under Securities Lending	1,824,844
Employees' Compensable Leave	57,547
Funds Held for Others	62,862
Other Current Liabilities	375,393
Total Current Liabilities	\$ 9,288,833

# Texas A&M International University Financial Report

## *Statement of Net Assets at August 31, 2004 (concluded)*

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

Non-Current Liabilities:		
Employees' Compensable Leave	\$	843,114
Other Non-Current Liabilities		<u>175</u>
Total Non-Current Liabilities	\$	843,289
Total Liabilities	\$	<u>10,132,122</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$	114,939,228
Restricted for:		
Capital Projects		2,456,880
Education		9,741,634
Endowment and Permanent Funds:		
Nonexpendable		6,146,922
Unrestricted		<u>7,447,093</u>
Total Net Assets	\$	<u>140,731,757</u>
Total Liabilities and Net Assets	\$	<u><u>150,863,879</u></u>

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

## Texas A&M International University Financial Report

### *Statement of Revenues, Expenses, and Changes in Net Assets for the Fiscal Year Ended August 31, 2004*

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

#### OPERATING REVENUES

Tuition Revenue - Pledged	\$	11,765,335
Discounts and Allowances		(7,337,330)
Auxiliary Enterprises		397,907
Other Sales of Goods and Services		466,283
Discounts and Allowances		(227,554)
Interest and Investment Income		24,768
Federal Revenue		9,088,422
Federal Pass-Through Revenue		219,915
State Grant Revenue		18,556
State Pass-Through Revenue		2,885,216
Other Operating Grant Revenue		223,944
Other Revenues		53,801
<b>Total Operating Revenues</b>	<b>\$</b>	<b><u>17,579,263</u></b>

#### OPERATING EXPENSES

Salaries and Wages	\$	24,074,262
Payroll-Related Costs		5,400,363
Professional Fees and Service		1,698,578
Travel		602,289
Materials and Supplies		3,017,962
Communication and Utilities		1,347,207
Repairs and Maintenance		481,299
Rentals and Leases		182,663
Printing and Reproduction		142,516
Depreciation and Amortization		5,244,840
Scholarships		3,560,654
Other Operating Expense		1,961,627
<b>Total Operating Expenses</b>	<b>\$</b>	<b><u>47,714,260</u></b>

Operating Income (Loss)	\$	(30,134,997)
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#### NONOPERATING REVENUES (EXPENSES)

State Appropriations	\$	34,656,552
Gifts		3,919,347
Land Income		21,901
Interest and Investment Income (Loss)		432,596
Investing Activities Expense		(24,916)
Gain (Loss) on Sale of Capital Assets		1,050
Net Increase (Decrease) in Fair Value of Investments		515,332
Other Revenues		160,792

Texas A&M International University Financial Report

***Statement of Revenues, Expenses, and Changes in Net Assets for the Fiscal Year Ended August 31, 2004 (concluded)***

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

Other Expenses		(610,397)
Total Non-Operating Revenues (Expenses)	\$	<u>39,072,257</u>
Income (Loss) Before Capital Contributions, Endowments, Extraordinary Items and Transfers	\$	8,937,260
 <b>CAPITAL CONTRIBUTIONS, ENDOWMENTS, EXTRAORDINARY ITEMS, AND TRANSFERS</b>		
HEAF Appropriation	\$	1,778,155
Contributions to Endowments		178,926
Transfers In		22,445,439
Transfers Out		(290,343)
Legislative Transfers - Out		(12,924,456)
Legislative Appropriations Lapsed		<u>(534)</u>
Total Capital Contributions, Endowments, Extraordinary Items, and Transfers	\$	<u>11,187,187</u>
Change in Net Assets	\$	20,124,447
Total Net Assets, September 1, 2003		<u>120,607,310</u>
Total Net Assets, August 31, 2004	\$	<u><u>140,731,757</u></u>

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

# Texas A&M International University Financial Report

## Statement of Cash Flows for the Fiscal Year Ended August 31, 2004

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

### CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$	782,593
Proceeds from Tuition and Fees		6,222,146
Proceeds from Research Grants and Contracts		10,228,009
Proceeds from Loan Programs		49,485
Proceeds from Auxiliaries		154,031
Proceeds from Other Revenues		97,339
Payments to Suppliers for Goods and Services		(8,743,030)
Payments to Employees		(29,368,590)
Payments for Loans Provided		(867,153)
Payments for Other Expenses		(3,599,907)
Net Cash Provided by Operating Activities	\$	<u>(25,045,077)</u>

### CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Proceeds from State Appropriations	\$	35,625,295
Proceeds from Gifts		4,063,724
Proceeds from Endowments		178,926
Proceeds from Transfers from Other Funds		193,525
Proceeds from Other Financing Activities		124,179
Payments for Transfers to Other Funds		(1,057)
Payments for Other Uses		31,367
Other Non-Capital Transfers from/to System		506,488
Net Cash Provided by Non-Cash Financing Activities	\$	<u>40,722,447</u>

### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from Sale of Capital Assets	\$	1,050
Proceeds from State Grants and Contracts		1,778,155
Payments for Additions to Capital Assets		(2,570,653)
Transfer to System for Capital-Related Debt		(13,213,742)
Net Cash Provided by Capital and Related Financing Activities	\$	<u>(14,005,190)</u>

### CASH FLOWS FROM INVESTING ACTIVITIES

Sales and Purchases of Investments Held by System	\$	(2,293,535)
Proceeds from Interest and Investment Income		407,680
Net Cash Provided by Investing Activities	\$	<u>(1,885,855)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$	(213,675)

## Texas A&M International University Financial Report

### *Statement of Cash Flows for the Fiscal Year Ended August 31, 2004 (concluded)*

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

Cash and Cash Equivalents, September 1, 2003		5,688,747
Cash and Cash Equivalents, August 31, 2004	\$	5,475,072
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$	(30,134,997)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation and Amortization	\$	5,244,840
Bad Debt Expense		27,320
Operating Income and Expense Classification Differences		247,740
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		(1,303,800)
(Increase) Decrease in Due from Other Agencies/Funds		4,950
(Increase) Decrease in Due from System Components		(206,407)
(Increase) Decrease in Inventories		(10,345)
(Increase) Decrease in Loans and Contracts		(866,900)
(Increase) Decrease in Other Assets		401,729
Increase (Decrease) in Payables		369,169
Increase (Decrease) in Due to System Components		(5,378)
Increase (Decrease) in Deferred Revenue		868,227
Increase (Decrease) in Deposits		49,526
Increase (Decrease) in Compensated Absence Liability		269,249
Total Adjustments	\$	5,089,920
Net Cash Provided (Used) by Operating Activities	\$	(25,045,077)
<b>NON-CASH TRANSACTIONS</b>		
Net Change in Fair Value of Investments	\$	65,747
Gain/Loss on Sale or Disposal of Capital Assets		1,050

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

Texas A&M International University Financial Report

*Statement of Changes in Unrestricted Net Assets for the Fiscal Year Ended August 31, 2004*

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	<u>8/31/2004</u>		<u>8/31/2003</u>		<u>Difference</u>
Unrestricted Net Assets:					
Reserved					
Encumbrances	\$ 1,159,778	\$	1,644,625	\$	(484,847)
Accounts Receivable	1,871,228		1,249,103		622,125
Inventories	55,168		44,823		10,345
Higher Education Assistance Funds	1,099,621		1,960,931		(861,310)
Other Specific Purposes:					
Advanced Research/Advanced Technology Programs	0		7,148		(7,148)
Prepaid Expenses	1,100		1,100		0
Unreserved					
Allocated					
Provision for FY 2004 Operating Budgets	<u>3,260,198</u>		<u>4,074,961</u>		<u>(814,763)</u>
Total Unrestricted Net Assets	<u>\$ 7,447,093</u>	\$	<u>8,982,691</u>	\$	<u>(1,535,598)</u>

## Texas A&M International University Financial Report

### *Notes to the Financial Statements for the Fiscal Year Ended August 31, 2004*

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#### General Introduction

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

#### Reporting Entity

The University is a component of the Texas A&M University System (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 University reports as a business-type activity because it is financed in part by fees charged to external parties for goods or services. The accompanying financial statements present the financial position and operations of the University using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Operating revenues and expenses result from providing services or producing and delivering goods in connection with ongoing operations. Operating expenses include the cost of goods and services, administrative expenses, and depreciation on capital assets.

##### Current Assets

Assets available for current operations are classified as current in the Statement of Net Assets.

##### Cash and Cash Equivalents

Cash and cash equivalents are maintained for the purpose of meeting short-term expense requirements. Highly liquid investments with

## Texas A&M International University Financial Report

maturities of three months or less at the time of purchase are included as cash and cash equivalents in the report in accordance with GASB Statement No. 9.

### Investments

Long-term investments are held and managed by Texas A&M University System Administration. Investments are reported at fair market value in accordance with GASB Statement No. 31. Fair market value is defined as the amount at which an investment could be exchanged in a current transaction between parties, other than in a forced or liquidation sale.

### Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation. Certain capital assets are depreciated using the straight-line depreciation method over the estimated useful lives of the assets: 40–50 years for buildings, 20–25 years for infrastructure, and 5–7 years for equipment and furniture.

### Restricted Net Assets

Restricted Net Assets result when constraints placed on net asset use are either imposed by a party external to the University—such as creditors, grantors, or contributors—or imposed by law.

### Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2004, is presented below:

Exhibit I

	Balance 9/01/03	Adjustments	Completed CIP	Net- Interagency Transactions	Additions	Deletions	Balance 8/31/04
<b>Non-Depreciable Assets</b>							
Land and Land Improvements	\$ 7,500,048	\$	\$	\$	\$	\$	\$ 7,500,048
Construction in Progress	33,858,199	(558,198)	(14,728,410)	21,516,414	568,818		40,656,823
Other Capital Assets	13,217,810				977,477		14,195,287
<b>Total Non-Depreciable Assets</b>	<b>\$ 54,576,057</b>	<b>\$ (558,198)</b>	<b>\$ (14,728,410)</b>	<b>\$ 21,516,414</b>	<b>\$ 1,546,295</b>	<b>\$</b>	<b>\$ 62,352,158</b>
<b>Depreciable Assets</b>							
Buildings and Building Improvements	\$ 54,292,938	\$	\$ 9,278,305	\$	\$ 179,097	\$	\$ 63,750,340
Infrastructure Facilities and Other Improvements	8,031,167		3,757,674				11,788,841
	4,289,055		1,559,138				5,848,193

## Texas A&M International University Financial Report

Furniture and Equipment	4,747,096		133,293		307	1,334,536	(18,564)	6,196,668
Vehicles, Boats and Aircraft	104,204					19,763		123,967
<b>Total Depreciable Assets at Hist. Cost</b>	<b>\$ 71,464,460</b>	<b>\$</b>	<b>\$ 14,728,410</b>	<b>\$</b>	<b>307</b>	<b>\$ 1,533,396</b>	<b>\$ (18,564)</b>	<b>\$ 87,708,009</b>
Less Accumulated Depreciation for:								
Buildings and Building Improvements	\$ (23,334,227)	\$	\$	\$		\$ (3,733,196)	\$	\$ (27,067,423)
Infrastructure	(2,312,362)					(406,451)		(2,718,813)
Facilities & Other Improvements	(1,407,294)					(320,563)		(1,727,857)
Furniture and Equipment	(2,754,782)				6,432	(773,987)	18,564	(3,503,773)
Vehicles, Boats & Aircraft	(92,430)					(10,643)		(103,073)
<b>Total Accumulated Depreciation</b>	<b>\$ (29,901,095)</b>	<b>\$</b>	<b>\$</b>	<b>\$ 6,432</b>		<b>\$ (5,244,840)</b>	<b>\$ 18,564</b>	<b>\$ (35,120,939)</b>
<b>Depreciable Assets, Net</b>	<b>41,563,365</b>		<b>14,728,410</b>		<b>6,739</b>	<b>(3,711,444)</b>		<b>52,587,070</b>
<b>Capital Assets, Net:</b>	<b>\$ 96,139,422</b>	<b>\$ (558,198)</b>	<b>\$</b>	<b>\$ 21,523,153</b>		<b>\$ (2,165,149)</b>	<b>\$</b>	<b>\$ 114,939,228</b>

### Note 3: Deposits, Investments and Repurchase Agreements

#### DEPOSITS OF CASH IN BANK

The University uses controlled disbursement banking whereby funds are transferred to bank accounts on an as-needed basis. At August 31, 2004, payments of \$1,324,001 were in transit and had not cleared the control disbursement account.

The bank balances of the University have been classified in the following risk categories:

- Category 1: Insured or collateralized with securities held by the University or by its agent in the name of the University
- Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the University's name
- Category 3: Uncollateralized (which would include any deposits collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the University's name)

# Texas A&M International University Financial Report

Exhibit II

As of August 31, 2004	Carrying Amount	Bank Balance	Category		
			1	2	3
	\$ (1,324,001)	\$ 1,089,601	1,089,60		
			\$ 1	\$ 0	\$ 0
Cash and Deposits		<u>As of August 31, 2004</u>			
Bank Deposits					
Payments in Transit		\$ <u>(1,324,001)</u>			
Cash and Cash Equivalents					
Petty Cash		\$ 13,900			
Local Funds in State Treasury			<u>4,873,585</u>		
Total Cash and Cash Equivalents		\$ <u>4,887,485</u>			
Total Cash and Deposits		\$ <u>3,563,484</u>			

At August 31, 2004, Local Funds in State Treasury and the bank balances above were either fully insured by the Federal Deposit Insurance Corporation or were secured by collateral held by the State or the State's agent in the State's name.

## INVESTMENTS

The University implemented the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, in fiscal year 1999. GASB Statement No. 31 establishes accounting and financial reporting valuation standards for all investments held by governmental external investment pools and certain other investments. GASB Statement No. 31 also requires governmental entities to report investments at fair value.

In compliance with the reporting requirements of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*, the University's investments are categorized to indicate credit risk assumed by the University at year end. Credit risk is the risk that another party to a deposit or investment transaction will not fulfill its obligation(s). Credit risk differs from market risk, which is the risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline. Market risk is not depicted in this note.

The following categories of credit risk are included:

- Category 1: Investments that are insured or registered or for which the securities are held by the University or its agent in the University's name

## Texas A&M International University Financial Report

Category 2: Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or University in the University's name

Category 3: Uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the University's name

### Exhibit III

Type of Security	Category			Reported Value
	1	2	3	
<u>Categorized Investments</u>				
None	\$ 0	\$ 0	\$ 0	
<u>Uncategorized Investments</u>				
Pooled Investments Held by TAMUS (1)				\$ 19,620,497
Investments Held by Brokers/Dealers Under Securities Lending Agreements				1,824,844
<b>Total Investments</b>				<b>\$ 21,445,341</b>

(1) These investments include \$1,911,588 that is reported as cash equivalents in the Statement of Net Assets.

Securities Lending – On behalf of the University, the A&M System engages in securities lending transactions for investments included in its two internal investment pools: the Cash Concentration Pool and the System Endowment Fund. Authority to engage in these transactions is granted to the Board of Regents in Texas Education Code, Section 51.0031, and is allowed under the A&M System Investment Policy. No violations of applicable law or Board policy occurred during fiscal year 2004

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

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

## Texas A&M International University Financial Report

in a money market mutual fund with next day liquidity and repurchase agreements.

The lending agent is not liable with respect to any losses incurred by the A&M System in connection with the securities lending transactions, except to the extent that such losses result from the lending agent's negligence or willful misconduct in its administration of the securities lending contract.

The A&M System had no credit risk related to 33 securities lending relationships because the amount the A&M System owes exceeds the amounts that the borrowers owe the A&M System. No losses were incurred during the fiscal year as a result of default of a securities lending borrower or agent.

As of August 31, 2004, the University's pro-rata share of cash collateral holdings consisted of \$1,824,844 in a money market mutual fund with a corresponding market value of securities on loan of \$1,790,357. In addition, the University's pro-rata share of collateral in the form of tri-party repurchase agreements totaled \$125,091 in market value with a corresponding market value of securities on loan of \$123,006. The pro-rata shares are estimates based on the market value of total securities on loan by the investment pool compared with the total market value of the investment pool, resulting in the University's share of the investment pool.

Derivative Investing – The A&M System Investment Policy allows investment in certain derivative securities. A derivative security is an investment product that derives its value from another security, currency, commodity, or index.

The A&M System is responsible for derivative investing, and disclosure of pertinent information is made in the annual report for that entity.

### Note 4: Summary of Long-Term Liabilities

During the year ended August 31, 2004, the following changes occurred in liabilities:

Exhibit IV

	<u>Balance</u> <u>9/1/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>8/31/04</u>	<u>Amounts Due</u> <u>Within One</u> <u>Year</u>
Employees' Compensable Leave	\$ 631,413	\$ 269,248	\$	\$ 900,661	\$ 57,547
Other Non-Current Liabilities	<u>175</u>	<u>                    </u>	<u>                    </u>	<u>175</u>	<u>                    </u>
<b>Total</b>	<b>\$ <u>631,588</u></b>	<b>\$ <u>269,248</u></b>	<b>\$ <u>                    </u></b>	<b>\$ <u>900,836</u></b>	<b>\$ <u>57,547</u></b>

## Texas A&M International University Financial Report

### Note 5: Capital Leases

Certain leases to finance the purchase of property are capitalized at the present value of future minimum lease payments. There were no outstanding capital lease payments payables at August 31, 2004.

### Note 6: Operating Lease Obligations

Certain leases to finance the purchase of property are capitalized at the present value of future minimum lease payments. There were no outstanding operating lease payments payables at August 31, 2004.

### Note 7: Contingent Liabilities

At August 31, 2004, various lawsuits and claims involving the University were pending. While the ultimate liability with respect to litigation and other claims asserted against the University cannot be reasonably estimated at this time, such liability, to the extent not provided by insurance or otherwise, is not likely to have a material effect on the University.

### Note 8: Risk Financing and Related Insurance

The University 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 University 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 University 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 University is responsible and for which the University maintains funding reserve pools. Ongoing analysis of the risks facing the University results in the continual evaluation of insurance policies purchased. During the past year, insurance coverage has changed. However, these changes do not represent a material increase in risk to the University, and losses did not exceed funding arrangements during the past three years.

The University has self-insured arrangements for coverage in the areas of workers' compensation, group health and dental insurance and certain areas of medical malpractice. Based on the requirements of GASB No.

## Texas A&M International University Financial Report

10, liabilities for claims have been reported where information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

The workers' compensation plan is considered a funded employer liability pool. At August 31, 2004, the workers' compensation incurred but not reported liability was based on actuarial analysis of claims history for fiscal years 1991 through 2004. The plan provides claims servicing and claims payments by charging a "cost allocation" assessment based on the University's percentage of payroll for the A&M System.

The University implemented a self-insured health and dental plan effective September 1, 1994, which is also considered a funded pool. Premiums are determined through an actuarial pricing process that takes place each spring. The University maintains an experience stabilization fund that is composed of excess premiums from previous years and is used to offset losses in a given year. Dental benefits under the plan are limited to \$1,000 per individual/year, so the potential for catastrophic loss is not a significant risk.

### **Note 9: The Financial Reporting Entity**

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

### **Note 10: Employee Retirement Plans**

The State of Texas has joint contributory retirement plans for substantially all of its employees. One of the primary plans in which the University participates is administered by the Teacher Retirement System of Texas (Retirement System). The contributory percentages currently provided by the State and by each participant are 6.0 percent and 6.4 percent, respectively, of annual compensation.

The Retirement System does not separately account for each of its component government agencies because the Retirement System itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. According to an independent actuarial evaluation as of August 31, 2004, the present value of the Retirement System's actual and projected liabilities, including projected benefits payable to its retirees and active members and their beneficiaries, was more than the actuarial valuation of Retirement System assets. Further information regarding actuarial assumptions and conclusions, together

## Texas A&M International University Financial Report

with audited financial statements, are included in the Retirement System's annual financial report.

The State has also established an Optional Retirement Program for institutions of higher education. Participation in the Optional Retirement Program is in lieu of participation in the Retirement System. The Optional Retirement Program provides for the purchase of annuity contracts and mutual funds. The contributory percentages of participant salaries provided by the State and by each participant enrolled in the plan on or before August 31, 1995, were 8.5 percent and 6.65 percent, respectively. The 8.5 percent is composed of 6.0 percent contributed by the State and an additional 2.5 percent contributed by the University. For participants who enrolled after September 1, 1995, State and participant contributions were 6.0 percent and 6.65 percent, respectively. Because these are individual annuity contracts, the State has no additional or unfunded liability for this program, and the University bears no responsibility for retirement commitments beyond contributions.

The retirement expense to the University was \$871,106 for the year ended August 31, 2004. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the University.

### **Note 11: Deferred Compensation Program**

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

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

The State also administers a Tax-Deferred Account (TDA) Program, created in accordance with Internal Revenue Code, Section 403(b). All employees are eligible to participate. The Tax-Deferred Account Program is a private plan, and the deductions, purchased investments, and earnings attributed to each employee's 403(b) plan are held by vendors chosen by the employee. The vendors may be insurance companies, banks, or approved non-bank trustees such as mutual fund companies. The assets of

## Texas A&M International University Financial Report

this plan do not belong to the University or the State and thus do not have a liability related to this plan.

### **Note 12: Donor Restricted Endowments**

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

Distribution is made quarterly as soon as practicable after the last calendar day of November, February, May, and August of each fiscal year to the endowment and trust funds participating in the Fund during the respective quarter. Income consists of interest earnings, dividends, and realized capital gains. The income distribution per unit for each fiscal year will be to distribute, excluding fees, 5 percent of the 12-quarter average market value per unit as of the end of the previous fiscal year.

### **Note 13: Post-Employment Health Care and Life Insurance Benefits**

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired employees in accordance with state statutes. Substantially all of the employees may become eligible for those benefits if they reach normal retirement age while working for the State. Those and similar benefits for active employees are provided through the group insurance program, and premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expensing the annual premiums. The State's contribution per retiree was \$288 per month for those enrolled in the "employee only" category, \$420 for "employee and spouse," \$371 for "employee and child(ren)," and \$486 for "employee and family." For the year ended August 31, 2004, the expenditure for retirees was \$172,588.

## Texas A&M International University Financial Report

### Note 14: Matrix of Operating Expenses by Natural Classification for the Year Ended August 31, 2004

Function	Salaries & Wages	Payroll Related Costs	Professional Fees & Services	Travel	Materials & Supplies
Instruction	\$ 13,388,723	\$ 1,403,397	\$ 141,771	\$ 107,854	\$ 989,413
Research	17,251	2,586	14,624	13,263	12,386
Public Service	435,095	41,809	124,815	21,174	160,886
Academic Support	2,218,316	271,726	88,192	117,954	254,029
Student Services	954,799	225,469	101,892	105,519	294,078
Institutional Support	4,189,221	2,985,119	694,292	155,730	682,048
Operation and Maintenance of Plant	1,143,972	107,812	357,422	11,031	320,367
Scholarships and Fellowships	272,553	5,412	252	1,743	157
Auxiliary Enterprises	1,454,332	357,033	175,318	68,021	304,598
Depreciation and Amortization					
Total Operating Expenses	\$ 24,074,262	\$ 5,400,363	\$ 1,698,578	\$ 602,289	\$ 3,017,962
Function	Communication & Utilities	Repairs & Maintenance	Rentals and Leases	Printing & Reproduction	Depr. & Amort.
Instruction	\$ 38,058	\$ 27,197	\$ 29,283	\$ 2,267	\$
Research		495		105	
Public Service	3,914	3,956	36,997	6,660	
Academic Support	12,832	49,685	6,057	19,632	
Student Services	15,152	9,931	16,253	2,858	
Institutional Support	44,457	171,709	32,906	76,407	
Operation and Maintenance of Plant	1,130,175	160,774	21,068		
Scholarships and Fellowships					
Auxiliary Enterprises	102,619	57,552	40,099	34,587	
Depreciation and Amortization					5,244,840
Total Operating Expenses	\$ 1,347,207	\$ 481,299	\$ 182,663	\$ 142,516	\$ 5,244,840

## Texas A&M International University Financial Report

### Matrix of Operating Expenses by Natural Classification for the Year Ended August 31, 2004 (concluded)

Function	Scholarships	Other Operating	Grand Total
Instruction	\$ 235,453	\$ 391,218	\$ 16,754,634
Research	20,160	2,570	83,440
Public Service	16,154	45,225	896,685
Academic Support	132,050	116,962	3,287,435
Student Services	12,513	290,614	2,029,078
Institutional Support	55,308	561,579	9,648,776
Operation and Maintenance of Plant		371,578	3,624,199
Scholarships and Fellowships	3,089,016	428	3,369,561
Auxiliary Enterprises		181,453	2,775,612
Depreciation and Amortization			5,244,840
<b>Total Operating Expenses</b>	<b>\$ 3,560,654</b>	<b>\$ 1,961,627</b>	<b>\$ 47,714,260</b>

## State Auditor's Office Management Letter

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January 28, 2005

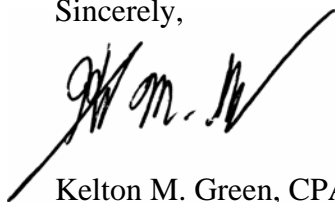
Dr. Ray M. Keck III, President  
Texas A&M International University  
Office of the President  
5201 University Boulevard, Room 270  
Laredo, Texas 78041-1900

Dear Dr. Keck:

We offer this management letter in conjunction with our review of the financial statements of Texas A&M International University for the fiscal year ended August 31, 2004. We reviewed the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows for Texas A&M International University. 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 financials statements in order for them to be in conformity with generally accepted accounting principles.

We appreciate the assistance provided by the management of the University and Texas A&M University System Internal Audit in support of this review. If you have any questions, please call me at (512) 936-9500.

Sincerely,



Kelton M. Green, CPA, CFE  
Managing Senior Auditor

