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SAM HOUSTON STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended August 31, 2005

Note 1: Summary of Significant Accounting Policies

GENERAL INTRODUCTION

Sam Houston State University is an agency of the State of Texas and a component of The Texas State University System and its financial records comply with applicable State statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' Reporting Requirements for State Agencies.

Sam Houston State University serves the state by providing a high quality education to residents of the state.

Sam Houston State University includes within this report all components as determined by an analysis of their relationship to Sam Houston State University as list below.

Due to the statewide requirements embedded in Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The financial report will be considered for audit by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

FUND STRUCTURE

The financial statements of Sam Houston State University have been prepared on the basis of funds, each of which is considered a separate accounting entity. The fund designation for institutions of higher education is Business-Type Activity within the Proprietary Fund Type.

Proprietary Fund Types

Business-Type Activity

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

BASIS OF ACCOUNTING

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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.

Business type activity funds (proprietary funds) are accounted for on 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. Proprietary funds distinguish operating from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

BUDGET AND BUDGETARY ACCOUNTING

The budget is prepared biennially and represents appropriations authorized by the legislature and approved by the Governor (the General Appropriations Act).

Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

ASSETS, LIABILITIES, AND FUND BALANCES/NET ASSETS

ASSETS

Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash and cash equivalents.

Securities Lending Collateral

The University reports investments at fair value in the Statement of Net Assets with the following exceptions. (Fair value is the amount at which an investment could be exchanged in a current transaction between parties, other than in a forced or liquidation sale.) The exceptions are as follows:

1. Nonparticipating contracts, such as nonnegotiable certificates of deposit with redemption terms that do not consider market rates, are reported using a cost-based measure, provided that the fair value of those contracts is not significantly affected by the financial institution's credit standing or other relevant factors.
2. Money market investments and participating interest-earning investment contracts that mature within one year or less of the date of their acquisition may be reported at amortized cost, assuming that the investment is not affected by the financial institution's credit standing or other relevant factors.
3. For real estate, mortgages, venture capital, limited partnerships, and future and

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forward contracts, etc. held by non-external pool entities, fair value is not permitted. Instead, amortized cost or historical cost should be used.

Restricted Assets

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

Inventories

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost, generally utilizing the last-in, first-out method. Inventories for governmental fund types are the purchase method of accounting. The consumption method of accounting is used to account for inventories that appear in the proprietary fund types and the government-wide statements. The cost of these items is expended when the items are consumed.

Capital Assets

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

All capital assets acquired by proprietary funds or trust funds are reported at cost or estimated historical cost, if actual historical cost is not available. Donated assets are reported at fair value on the acquisition dated. Depreciation is charged to operations over the estimated useful life of each asset, using the straight-line method.

Other Receivables

Other receivables include year-end revenue accruals not included in any other receivable category. This account can appear in governmental and proprietary fund types.

LIABILITIES

Accounts Payable

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

Other Payables

Other payables are the accrual at year-end of expenditure transactions not included in any of the other payable descriptions.

Employees' Compensable Leave Balances

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Employees' Compensable Leave Balances represent the liability that become “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 noncurrent in the statement of net assets.

Capital Lease Obligations

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

FUND BALANCE/NET ASSETS

The difference between fund assets and liabilities is ‘Net Assets’ on the government-wide, proprietary and fiduciary fund statements, and the ‘Fund Balance’ is the difference between fund assets and liabilities on the governmental fund statements.

Reservations of Fund Balance

Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reservations are legally restricted to a specific future use or not available for expenditure.

Reserved for Encumbrances

This represents commitments of the value of contracts awarded or assets ordered prior to year-end but not received as of that date. Encumbrances are not included with expenditures or liabilities. They represent current resources designated for specific expenditures in subsequent operating periods.

Reserved for Consumable Inventories

This represents the amount of supplies, postage and prepaid assets to be used in the next fiscal year.

Unreserved/Undesignated

Other represents the unappropriated balance at year-end.

Invested In Capital Assets, Net Of Related Debt

Invested in capital assets, net of related debt 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 Assets

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets

Unrestricted net assets consist of net assets, which do not meet the definition of the two

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preceding categories. Unrestricted net assets often have constraints on resources, which are imposed by management, but can be removed or modified.

INTERFUND TRANSACTIONS AND BALANCES

The agency has the following types of transactions among funds:

1. **Transfers:** Legally required transfers that are reported when incurred as ‘Transfers In’ by the recipient fund and as ‘Transfers Out’ by the disbursing fund.
2. **Reimbursements:** Reimbursements are repayments from funds responsible for expenditures or expenses to funds that made the actual payment. Reimbursements of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. Reimbursements are not displayed in the financial statements.
3. **Interfund receivables and payables:** Interfund loans are reported as interfund receivables and payables. If repayment is due during the current year or soon thereafter it is classified as “Current”, repayment for two (or more) years is classified as “Non-Current”.
4. **Interfund Sales and Purchases:** Charges or collections for services rendered by one fund to another that are recorded as revenues of the recipient fund and expenditures or expenses of the disbursing fund. At August 31, 2005, there were no outstanding interfund receivables or payables.
The composition of the agency’s Interfund activities and balances are presented in Note 7.

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Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2005 is presented below:

	Balance 09/01/04	Adjustments	Reclassification Construction in Progress	Reclassif- ication Transfers In	Additions	Deletions	Balance 08/31/05
Business-Type Activities:							
Non-Depreciable Assets							
Land & Improvements	\$ 12,427,819.66				\$ 28,795.00		\$ 12,456,614.66
Construction in Progress	64,308,233.99		(26,157,870.45)		31,067,171.51		69,217,535.05
Other Capital Assets	24,639,318.24	(23,879,414.74)					759,903.50
Total non-depreciable assets	101,375,371.89	(23,879,414.74)	(26,157,870.45)	0.00	31,095,966.51	0.00	82,434,053.21
Depreciable Assets:							
Buildings & Improvements	154,143,509.00		25,728,163.46			(1,887,926.19)	177,983,746.27
Infrastructure	9,023,977.71						9,023,977.71
Facilities & Other Improvements	13,897,563.74		398,118.50				14,295,682.24
Furniture & Equipment	14,181,653.05				1,789,980.60	(984,636.24)	14,986,997.41
Vehicles, Boats & Aircraft	2,013,989.96				313,717.00	(100,597.06)	2,227,109.90
Other Capital Assets	0.00	8,392,608.23			517,057.00		8,909,665.23
Total Depreciable Assets - Historical Costs:	193,260,693.46	8,392,608.23	26,126,281.96	0.00	2,620,754.60	(2,973,159.49)	227,427,178.76
Less Accumulated Depreciation for:							
Buildings & Improvements	(121,510,235.94)				(3,396,863.34)	1,793,529.84	(123,113,569.44)
Infrastructure	(2,429,532.00)				(347,076.00)		(2,776,608.00)
Facilities & Other Improvements	(2,662,293.07)				(433,887.40)		(3,096,180.47)
Furniture & Equipment	(9,757,953.70)				(1,351,649.83)	901,677.70	(10,207,925.83)
Vehicles, Boats & Aircraft	(1,557,672.02)				(158,847.70)	94,618.86	(1,621,900.86)
Other Capital Assets		(5,699,682.31)			(357,768.40)		(6,057,450.71)
Total Accumulated Depreciation	(137,917,686.73)	(5,699,682.31)	0.00	0.00	(6,046,092.67)	2,789,826.40	(146,873,635.31)
Depreciable Assets, Net	55,343,006.73	2,692,925.92	26,126,281.96	0.00	(3,425,338.07)	(183,333.09)	80,553,543.45
Business-Type Activities Capital Assets, Net	\$ 156,718,378.62	\$21,186,488.82	\$ (31,588.49)	\$ 0.00	\$27,670,628.44	\$ (183,333.09)	\$ 162,987,596.66

★ Adjustment column includes GASB 34 fund type changes, capitalization threshold changes, assets that were not previously reported and accumulated.

Note 3: Deposits & Investments

Sam Houston State 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, 2005, the carrying amount of deposits was \$125,684.56 as presented below.

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Governmental and Business-Type Activities	
CASH IN BANK – CARRYING VALUE	\$ 125,684.56
Less: Certificates of Deposit included in carrying value and reported as Cash Equivalent	0.00
Less: Uninvested Securities Lending Cash Collateral included in carrying value and reported as Securities Lending Collateral	0.00
Less: Securities Lending CD Collateral included in carrying value and reported as Securities Lending Collateral	0.00
Cash In Bank per AFR	\$ 125,684.56
Governmental Funds Current Assets Cash in Bank	
Governmental Funds Current Assets Restricted Cash in Bank	
Governmental Funds Non-Current Assets Restricted Cash in Bank	
Proprietary Funds Current Assets Cash in Bank	(198,428.35)
Proprietary Funds Current Assets Restricted Cash in Bank	130,540.09
Proprietary Funds Non-Current Restricted Cash in Bank	193,572.82
Cash in Bank per AFR	\$ 125,684.56

These amounts consist of all cash in local banks and a portion of short-term investments. These amounts are included on the Combined Statement of Net Assets as part of the “Cash and Cash Equivalents” and “Securities Lending Collateral” accounts.

As of August 31, 2005, the total bank balance was as follows.

Governmental and Business-Type Activities	\$3,998,767.26	Fiduciary Funds		Discrete Component Units	
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Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The agency does not have a deposit policy for custodial credit risk. As of August 31, 2005, Sam Houston State University was not subject to custodial credit risk for deposits.

Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the deposit. The agency’s policy is to limit deposits subject to foreign currency risk to 5% of total deposits. Sam Houston State University held no exposure to foreign currency risk for deposits as of August 31, 2005.

Investments

Sam Houston State University invests its endowment funds to provide funding for scholarships, fellowships, professorships, academic chairs, and other uses as specified by donors. Investments of University funds for endowments and quasi endowments shall be accomplished in accordance with the following principals:

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1. There are two primary investment objectives. One is to provide a continuing and dependable cash payout, stable, and preferably growing in real terms, after giving effect to inflation. The second is to cause the total value of the funds to appreciate, over time, exclusive of growth derived from donations.

2. The cash payout requirement for endowment and quasi endowment funds are significant and continuous. Income must be sufficient to provide an adequate cash stream to support the programs for which the endowments and quasi endowment accounts need to appreciate to insure preservation of purchasing power, and also to satisfy the need for future growth in payouts.

3. The endowment and quasi endowment funds will be invested to meet these objectives, by maximizing returns consistent with an appropriate level of risk and subject to generation of adequate current income. Additionally, the investments shall be diversified at all times to provide reasonable assurance that investment in a single security, a class of securities, or industry will not have an excessive impact on the funds.

As of August 31, 2005, the carrying value and fair value of investments are as presented below.

Governmental and Business-Type Activities	Carrying Value	Fair Value
U.S. Government		
U.S. Treasury Securities		
U.S. Treasury Strips		
U.S. Treasury TIPS		
U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, etc)		
U.S. Government Agency Obligations (Texas Treasury Safekeeping Trust Co)		
Corporate Obligations		
Corporate Asset and Mortgage Backed Securities		
Equity		
International Obligations (Govt and Corp)		
International Equity		
Repurchase Agreement		
Repurchase Agreement (Texas Treasury Safekeeping Trust Co)		
Fixed Income Money Market and Bond Mutual Fund		23,799,204.09
Other Commingled Funds		291,443.38
Other Commingled Funds (Texpool)		73,486,552.73
Commercial Paper		
Securities Lending Collateral Investment Pool		
Real Estate		290,920.00
Misc (alternative investments, limited partnerships, guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)		22,575.68
Total		\$97,890,695.88

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The Miscellaneous category consists of one investment type, defined portfolios, Nuveen Unit Trusts. These are non-rated investments in municipal bonds.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The agency’s investment policy limits holding of securities by counterparties to those involved with securities lending. As of August 31, 2005, Sam Houston State University had no investments subject to custodial credit risk.

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. The agency’s policy is to limit investments subject to foreign currency risk to 5% of total investments. As of August 31, 2005 Sam Houston State University was not subject to foreign currency risk.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The general investment policy of the agency limits investments in debt securities that are not in the top three investment grade ratings issued by nationally recognized statistical rating organizations to 5% of total investments. As of August 31, 2005, Sam Houston State University was not subject to credit risk.

Moody's

Fund Type	GAAP Fund	Investment Type	Aaa	Aa	A	Baa
XX	XXXX	U.S. Government Agency Obligations (Exclude obligations explicitly guaranteed by the U.S. Government such as Ginnie Mae. GSEs such as Fannie Mae have implicit U.S. Government guarantees and therefore are considered to have credit risk and require disclosure of credit quality.)				
		U.S. Government Agency Obligations (Texas Treasury Safekeeping Trust Co)				
		Corporate Obligations				
		Corporate Asset and Mortgage Backed Securities				
		International Obligation				
		Repurchase Agreement (only when the securities underlying repurchase agreements are subject to credit risk disclosure)				
		Repurchase Agreement (Texas Treasury Safekeeping Trust Co)				
		Fixed Income Money Market and Bond Mutual Fund				
		Misc				
		Commercial Paper				
		Misc				

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Standard & Poor's

Fund Type	GAAP Fund	Investment Type	AAA	AA	A	BB
		U.S. Government Agency Obligations (Exclude obligations explicitly guaranteed by the U.S. Government such as Ginnie Mae. GSEs such as Fannie Mae have implicit U.S. Government guarantees and therefore are considered to have credit risk and require disclosure of credit quality.)				
		U.S. Government Agency Obligations (Texas Treasury Safe-keeping Trust Co)				
		Corporate Obligations				
		Corporate Asset and Mortgage Backed Securities				
		International Obligation				
		Repurchase Agreement				
		Repurchase Agreement (Texas Treasury Safekeeping Trust Co)				
		Misc				
		Fixed Income Money Market and Bond Mutual Fund				
		Commercial Paper				
		Misc				

Fitch

Fund Type	GAAP Fund	Investment Type	AAA	AA	A	BBB
		U.S. Government Agency Obligations (Exclude obligations explicitly guaranteed by the U.S. Government such as Ginnie Mae. GSEs such as Fannie Mae have implicit U.S. Government guarantees and therefore are considered to have credit risk and require disclosure of credit quality.)				
		U.S. Government Agency Obligations (Texas Treasury Safe-keeping Trust Co)				
		Corporate Obligations				
		Corporate Asset and Mortgage Backed Securities				
		International Obligation				
		Repurchase Agreement				
		Repurchase Agreement (Texas Treasury Safekeeping Trust Co)				
		Misc				
		Fixed Income Money Market and Bond Mutual Fund				
		Commercial Paper				
		Misc				

Unrated

		Corporate Obligations				
		International Obligations				

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single

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issuer. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this disclosure requirement. As of August 31, 2005, Sam Houston State University was not subject to concentration of credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Sam Houston State University is not required to disclose interest rate risk.

REVERSE REPURCHASE, SECURITIES LENDING, DERIVATIVE INVESTING

Sam Houston State University did not participate in Reverse Repurchase Agreements, Securities Lending, or Derivative Investing during fiscal year 2005.

Note 4: Short-Term Debt

None.

Note 5: Summary of Long Term Liabilities

CHANGES IN LONG-TERM LIABILITIES

During the year ended August 31, 2005, the following changes occurred in liabilities.

BUSINESS-TYPE ACTIVITIES	Balance 09/01/04	Additions	Reductions	Balance 08/31/05	Amounts Due Within One Year
Compensable Leave	\$ 1,904,838.61	530,692.45	0.00	\$ 2,435,531.06	\$1,590,285.37
TOTAL BUSINESS- TYPE ACTIVITIES	\$ 1,904,838.61	\$ 530,692.45	\$ 0.00	\$ 2,435,531.06	\$1,590,285.37

NOTES AND LOANS PAYABLE

None.

CLAIMS & JUDGEMENTS

At August 31, 2005, various lawsuits and claims involving Sam Houston State 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 for by insurance or otherwise, is not likely to have a material effect on the University.

EMPLOYEES COMPENSABLE LEAVE

Full-time State employees earn annual leave from seven to twenty hours per month depending on the

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respective employee's years of State employment. The State's policy is that an employee may carry his accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours up to 532 for those employees with 35 or more years of State service. Employees with at least six months of State service, who terminate their employment, are entitled to payment for all accumulated annual leave up to the maximum allowed. The University recognizes the accrued liability for the unpaid annual leave in the Unrestricted Current Funds. For the year ended August 31, 2005, the accrued liability totaled \$ 2,435,531.06 .

The University made lump sum payments totaling \$252,519.55 for accrued vacation and/or compensatory time to employees who separated from state service during fiscal year ending August 31, 2005.

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

Note 6: Capital Leases

Sam Houston State University had no capital leases as of August 31, 2005.

Note 7: Operating Lease Operations

Future minimum lease rental payments under noncancellable operating leases having an initial term in excess of one year as of August 31, 2005 are:

<u>Fiscal Year</u>	<u>Minimum Future Lease Payments</u>
2006	10,213.52
2007	10,213.52
2008	<u>2,553.38</u>
Total Minimum Future Lease Rental Payments	<u><u>\$22,980.42</u></u>

Note 8: Interfund Balances/Activities

As explained in Note 1 on Interfund Transactions and Balances, there are transactions between funds and agencies.

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At year-end amounts to be received or paid are reported as (when applicable):

- Interfund Receivables or Interfund Payables - None
- Due From Other Agencies or Due To Other Agencies - See Schedule 1A - *Schedule of Expenditures of Federal Awards*, and Schedule 1B - *Schedule of Grant Pass Through From/To State Agencies*
- Due From Other Funds or Due To Other Funds - None
- Transfers in or transfers out -
- Legislative Transfers In or Legislative Transfers Out - See below.

Sam Houston State University has not participated in any interfund borrowing during fiscal year 2005.

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

Individual balances and activity at August 31, 2005, follows:

Current Portion	Current Interfund Receivable	Current Interfund Payable	Purpose (Disclosure required)
GENERAL (01)			
Total Interfund Receivable/Payable			

Non-Current Portion	Non-Current Interfund Receivable	Non-Current Interfund Payable	Purpose (Disclosure required)
GENERAL REVENUE (01)			
SPECIAL REVENUE (2)			
Appd Fund 0210 and D23 Fund 0210 (Agency 700, D23 Fund 0400)			
ENTERPRISE FUND (05)			
Appd Fund 9999, D23 Fund 1999 (Agency 700, D23 Fund 0500)			
Total Interfund Receivable/Payable	-0-	-0-	-0-

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	Due From Other Agencies	Due to Other Agencies	Source
GENERAL (01)			
Appd Fund 0001, D23 Fund 0001			
(Agency 781, D23 Fund 0001)	\$ 78,008.74		Federal P-T
Federal Pass Throughs			
(Agency 300, D23 Fund 7999)			Federal P-T
(Agency 601, D23 Fund 0006)	\$ 90,628.59		Federal P-T
(Agency 701, D23 Fund 0148)	\$ 43,569.48		Federal P-T
(Agency 730, D23 Fund 7999)		\$ 149,435.99	Federal P-T
(Agency 723, D23 Fund 7999)	\$ 17.26		Federal P-T
(Agency 756, D23 Fund 7999)	\$ 117,135.48		Federal P-T
(Agency 405, D23 Fund 0006)		\$ 10,986.83	Federal P-T
SPECIAL REVENUE (02)			
Appd Fund 9999, D23 Fund 9999			
(Agency 302, D23 Fund 0469)	\$ 51,849.13		N/A
(Agency 601, D23 Fund 5015)	\$ 9,593.00		N/A
(Agency 902, D23 Fund 0347)	\$ 26,191.20		N/A
(Agency 300, D23 Fund 0421)	\$ 3,442.90		State P-T
TOTAL DUE TO AND FROM OTHER STATE AGENCIES	\$ 420,435.78	\$ 160,422.82	

Legislative transfers in and out were as follows:

	Legislative Transfers In	Legislative Transfers Out
GENERAL REVENUE (01)		
Appd Fund 0001, D23 Fund 0001		
(Agency 758, D23 Fund 0001)		\$ 1,267,478.00
(Agency 902, D23 Fund 0001)		
Total Legislative Transfers	\$ 0.00	\$ 1,267,478.00

The Federal and State Grant Pass Through information is provided on Schedule 1A - *Schedule of Expenditures of Federal Awards*, and Schedule 1B - *Schedule of Grant Pass Through From/To State Agencies*, respectively.

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Note 9: Contingent Liabilities

At August 31, 2005, various lawsuits and claims involving Sam Houston State 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 for by insurance or otherwise, is not likely to have a material effect on the University.

Note 10: Continuance Subject to Review

Not applicable.

Note 11: Risk Financing and Related Insurance

Sam Houston State University is self-insured by the State of Texas for coverage in the areas of workers' compensation and unemployment compensation.

Unemployment Compensation: The State provides coverage for unemployment benefits for University employees from appropriations made to the Texas Workforce Commission (TWC). The current General Appropriations Act provides that the University must reimburse the General Revenue Fund, from University appropriations, 50% of the unemployment benefits paid for State funded positions and 100% of the cost for unemployment compensation for any positions paid from funds held in local bank accounts and local funds held in the State Treasury. The Comptroller of Public Accounts determines the proportionate amount to be reimbursed from each appropriated fund type. The unemployment benefit plan is on a pay-as-you-go basis, in which no assets are set aside to be accumulated for the payment of claims. It is estimated that there were no material liabilities as of August 31, 2005.

Workers' Compensation: The administration of the State's employee workers' compensation program is vested with the State Office of Risk Management (SORM). In accordance with H.B. No. 1203, 77th Legislature, SORM developed and imposed a formula driven charge for workers' compensation costs upon participating agencies. The workers' compensation assessment is prepaid to SORM through an Interagency Contract for risk management services and workers' compensation coverage for its employees in compliance with TEX.LABOR CODE Chapter 412 and Chapter 501. The assessment for SHSU for FY 2004 was \$334,951.88. The assessment for SHSU for FY 2005 is \$236,639.91.

Sam Houston State University is required by certain bond covenants to carry fire and extended coverage and boiler insurance on buildings financed through the issuance of bonds using pledged Auxiliary Enterprise or other non-Educational and General Funds. The insurance protects the bond

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holders from a disruption to the revenue stream that is being utilized to make the bond interest and principal payments. Sam Houston State University had no insurance claims made during the fiscal year ended August 31, 2005.

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. All vehicles owned and/or leased by Sam Houston State University are covered by one of two commercial insurance policies specifically customized for the Texas State University System. Both policies provide coverage to the extent of \$1,000,000 combined single liability. The coverage exceeds the extent of the waivers of state immunity specified in the Texas Tort Claims Act, Civil Properties and Remedies Code Section 101.023.

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

The University assumes substantially all risks associated with tort and liability claims due to the performance of its duties. Currently, there is no purchase of commercial insurance, nor is the University involved in any risk pools with other governmental 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 have been no significant reductions in insurance coverage in the past year and losses did not exceed coverages or funding arrangements during the past three years.

Note 12: Segment Information

Not applicable.

Note 13: Bonded Indebtedness

The Board of Regents approved the order establishing the Master Resolution for the Texas State University System Revenue Financing System in August 1998. The Master Resolution provides a financing structure under which revenue supported indebtedness of the Revenue Financing System can be incurred. Each component institution and the System Administration of TSUS are members of the Revenue Financing System. The Board pledged all of the funds (revenues) and balances derived or attributable to any member of the Revenue Financing System which are lawfully available to the Board for payments on Parity Debt. Specifically exempted from pledged revenues are:

- (a) Amounts received on behalf of any member under Article 7, Section 17 of the Constitution

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of the State of Texas, including the income therefrom and any balances relating thereto, and

- (b) General Revenue Fund appropriations, except to the extent so specifically appropriated for debt service to the Board by the Legislature of the State of Texas.

Pledged revenue is also subject to the provisions of the "Prior Encumbered Obligations." Prior encumbered obligations means the revenues included in the Revenue Financing System for Texas State University - San Marcos are subject to a prior claim for the following heretofore issued bonds of the Board on behalf of that University that were not refunded by the issuance of Revenue Refunding Bonds, Series 1998B or Taxable Series 1998:

Housing System Revenue Bonds, Series 1986

Housing System Revenue Refunding Bonds, Series 1989

University Housing System Revenue Refunding Bonds, Series 1993

Utility System Revenue Refunding Bonds, Series 1993

University Housing System Bonds, Series 1994

University Housing System Bonds, Series 1995

Utility System Revenue Bonds, Series 1996

Members may use the Revenue Financing System as a long-term debt program to acquire, purchase, construct, improve, renovate, enlarge, or equip property, buildings, structures, facilities, roads, or related infrastructure. An institution's request for the use of the Revenue Financing System is evaluated for an adequate revenue stream and bonding capacity for the specific institution prior to Board approval of issuing additional parity debt.

Each component institution received its portion of the bond proceeds and will account for the earnings and disbursements of the bond proceeds. Assets created and/or acquired as a result of the Revenue Financing System bond proceeds expended and subsequently capitalized are reported on the component institutions' Financial Reports in the Investment in Plant Fund. The associated bond liability and debt service activities are reported in total by the TSUS - System Administration.

DEFEASED BONDS

Tuition Revenue Bonds, Series 1993

- To provide funds to acquire, purchase, construct, improve, renovate, enlarge, or equip property, buildings, structures, facilities, roads or related infrastructure for institutions at the following branches or entities of the Texas State University System, Angelo State University, Sam Houston State University, Texas State University - San Marcos, and Sul Ross State University.

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Issued December 1, 1993.

\$27,000,000; all authorized bonds have been issued.

Bond proceeds were distributed to the four component universities.

The debt has been retained on the books of System Administration.

Debt service payments will be made from transfers from the respective universities.

Tuition from System Universities is pledged.

The Texas Legislature has continually appropriated General Revenue Funds as an alternative funding source through the 2002-2003 Biennium and is expected to continue in the future.

Outstanding par value defeased \$22,545,000.

Note 14: Subsequent Events

None

Note 15: Related Parties - Relationships with Sam Houston Foundation and SHSU Letterman's Association

The Sam Houston Foundation is a separate nonprofit organization which was established for the purpose of cooperating with and working on behalf of the University. Neither the balance nor the transactions of this organization's fund are reflected in the financial statements during the year ended August 31, 2005.

A gift was made to the University from the Sam Houston Foundation for fiscal year 2005 of \$8,900.00 to Restricted Funds.

The SHSU Lettermen's Association was created in October 1974 for the stated purpose of providing a means for the former students of Sam Houston State University who won varsity letters in any of the sports recognized by the Conference to gather from time to time for certain fraternal beneficiary society purposes and to encourage support of the athletic staff and athletic programs of Sam Houston State University through the efforts of its members, including donations to Sam Houston State University for use by such educational institution.

The Lettermen's Association's funds are carried on the University's books, and comprise \$17,703.51 of Total Deposits Held in Custody for Others - Agency Funds, at August 31, 2005. Sam Houston State University has performed stewardship functions in support of this account, including the receipt of deposits and payment of expenditures. A gift was made to the University from the Lettermen's Associations for fiscal year 2005 of \$3,000 to Restricted Funds.

Note 16: Stewardship, Compliance and Accountability

No material issues were noted.

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Note 17: The Financial Reporting Entity and Joint Ventures

The Financial Reporting Entity

Sam Houston State University is an agency of the State of Texas and a component of the Texas State University System and its financial records comply with applicable State statutes and regulations. As required by generally accepted accounting principles, these financial statements present Sam Houston State University (the primary government) and its component units, if applicable.

As of August 31, 2005, Sam Houston State University does not have any component units.

Note 18: Restatement of Fund Balances/Net Assets

Due to a new interpretation of the reporting guidelines, two restatements were necessary to bring Sam Houston State University's beginning Net Capital Asset balance to the correct amount.

(a) The value of Library Books was restated for periodicals which are no longer considered capital purchases.

(b) The determination of Library Books as depreciable assets caused the beginning balance to be restated due to recognition of depreciation as of September 1, 2004.

Net Carrying Value of Net Assets, September 1, 2004	\$271,429,107.47
(a) Restatement of Library Books	(15,486,806.51)
(b) Restatement of Depreciation	<u>(5,699,682.31)</u>
Total Net Assets As Restated, September 1, 2004	\$250,242,618.65

Note 21: Donor Restricted Endowments

<u>Donor- Restricted Endowment</u>	<u>Amounts Of Net Appreciation</u>	<u>Reported in Net Assets</u>
True Endowments	\$2,456,307.22	Restricted for Nonexpendable
Term Endowments	0	Restricted for Nonexpendable
True Endowments	0	Restricted for Expendable

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Note 22: Management Discussion and Analysis (Material Changes to AFR)

The following events occurred at Sam Houston State University:

Assets and liabilities have increased substantially in the prior year due to increased issuance of bonds, the receipt of bond proceeds and the increase in capital assets due to building projects financed by the bonds. Building projects planned or in progress include a Housing Project #3, a visitor's center, and an Academic Building V, a total of \$62.2 million.

A significant increase, 220% over the fiscal years since FY02, in the designated portion of net assets correlates to an increase in designated tuition per semester credit hour from \$27 in FY02, to \$60 in FY04. The downturn in the economy over the last few years caused a reduction of state revenues which led to fewer appropriated revenues for the University. The legislature approved Universities to set their own designated tuition level beginning with Fall 2003. As a result, designated tuition increases of \$43 are in effect for Fall '05 Semester and planned at \$70 in the Spring 06 Semester. The legislature also provided for additional scholarship funds to be generated from a percentage of the designated funds to be collected.

Note 24: Special or Extraordinary Items

None.

Note 25: Disaggregation of Receivable and Payable Balances

None