

UNAUDITED

**SAM HOUSTON STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

*For the Year Ended August 31, 2004*

***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.

The significant accounting policies followed by Sam Houston State University in maintaining accounts and in the preparation of the preceding statements are in accordance with Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements. These requirements follow, as near as practicable, the AICPA Industry Audit Guide, Audits of Colleges and Universities, 1996 Edition, as amended by AICPA Statement of Position (SOP) 74-8, Financial Accounting and Reporting by Colleges and Universities, and as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989, and as modified by all applicable Governmental Accounting Standards Board (GASB) pronouncements cited in Codification Section Co5, "Colleges and Universities." The requirements are also in substantial conformity with the Financial Accounting and Reporting Manual for Higher Education published by the National Association of College and University Business Officers (NACUBO).

Due to the significant changes related to Government Accounting Standards Board Statements No. 34/35, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments/Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments and Public Colleges and Universities*, the Comptroller of Public Accounts does not require the accompanying annual financial report to be in compliance with generally accepted accounting principles (GAAP). 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.

## UNAUDITED

### 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

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:

## UNAUDITED

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 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.

## UNAUDITED

### 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

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.

## UNAUDITED

### 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 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 "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, 2003, there were no outstanding interfund receivables or payables.  
The composition of the agency's Interfund activities and balances are presented in Note 7.

UNAUDITED

**Note 2: Capital Assets**

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

	Balance 09/01/03	Adjustments	Reclassification Construction in Progress	Reclassifica- tion Transfers In	Additions	Deletions	Balance 08/31/04
<b>Business-Type Activities:</b>							
<b>Non-Depreciable Assets</b>							
Land & Improvements	\$ 12,418,188.41	\$ (3,100.00)			\$ 12,731.25		\$ 12,427,819.66
Construction in Progress	42,840,798.16		(10,775,157.38)		32,242,593.21		64,308,233.99
Other Capital Assets	23,385,412.14				1,253,906.10		24,639,318.24
<b>Total non-depreciable assets</b>	<b>78,644,398.71</b>	<b>(3,100.00)</b>	<b>(10,775,157.38)</b>		<b>33,509,230.56</b>	<b>0.00</b>	<b>101,375,371.89</b>
<b>Depreciable Assets:</b>							
Buildings & Improvements	142,875,973.30		11,267,535.70				154,143,509.00
Infrastructure	9,023,977.71						9,023,977.71
Facilities & Other Improvements	13,897,563.74						13,897,563.74
Furniture & Equipment	13,190,443.33			15,780.90	1,285,111.96	(309,683.14)	14,181,653.05
Vehicles, Boats & Aircraft	1,893,444.18			40,595.00	171,009.00	(91,058.22)	2,013,989.96
Other Capital Assets							0.00
<b>Total Depreciable Assets - Historical Costs:</b>	<b>180,881,402.26</b>	<b>0.00</b>	<b>11,267,535.70</b>	<b>56,375.90</b>	<b>1,456,120.96</b>	<b>(400,741.36)</b>	<b>193,260,693.46</b>
Less Accumulated Depreciation for:							
Buildings & Improvements	(119,307,710.85)				(2,202,525.09)		(121,510,235.94)
Infrastructure	(2,082,456.00)				(347,076.00)		(2,429,532.00)
Facilities & Other Improvements	(2,245,867.51)				(416,425.56)		(2,662,293.07)
Furniture & Equipment	(8,801,853.36)			(15,780.90)	(1,245,612.53)	305,293.09	(9,757,953.70)
Vehicles, Boats & Aircraft	(1,470,655.82)			(30,982.47)	(139,037.15)	83,003.42	(1,557,672.02)
Other Capital Assets							0.00
<b>Total Accumulated Depreciation</b>	<b>(133,908,543.54)</b>	<b>0.00</b>	<b>0.00</b>	<b>(46,763.37)</b>	<b>(4,350,676.33)</b>	<b>388,296.51</b>	<b>(137,917,686.73)</b>
Depreciable Assets, Net	46,972,858.72	0.00	11,267,535.70	9,612.53	(2,894,555.37)	(12,444.85)	55,343,006.73
<b>Business-Type Activities Capital Assets, Net</b>	<b>\$ 125,617,257.43</b>	<b>\$ (3,100.00)</b>	<b>\$ 492,378.32</b>	<b>\$ 9,612.53</b>	<b>\$ 30,614,675.19</b>	<b>\$(12,444.85)</b>	<b>\$ 156,718,378.62</b>

★ 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 to invest in obligations and instruments as defined in the Public Funds Investment Act (Tex. Gov't Code Ann. Sec 2256.001) and the Endowment Fund, the Uniform Management of Institutional Funds Act. Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) obligations of political subdivisions rated not less than A by a national investment rating firm, (4) certificates of deposits, and (5) other instruments and obligations authorized by statute.

**DEPOSITS OF CASH IN BANK**

- The carrying amount of \$2,753,128.25 for Cash in Bank (including restricted assets) is presented below.
- The bank balance of Sam Houston State University has been classified according to the following risk categories:

UNAUDITED

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

Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
\$ 100,000.00	\$ 4,731,474.43	\$ 0.00	\$ 4,831,474.43	\$ 2,753,128.25

Consisting of the following:	
Demand Deposits	\$ 2,753,128.25
Cash on Hand	24,000.00
Cash in Transit to State Treasury	616,841.30
Cash in State Treasury (See Schedule 3)	25,863,952.54
Reimbursement Due From State	3,245.15
Proprietary Funds Certificates of Deposit	0.00
Fiduciary Funds Uninvested Securities Lending Cash Collateral	0.00
<b>Total Deposits Carrying Amounts</b>	<b>\$ 29,261,167.24</b>

INVESTMENTS

To comply with the reporting requirements of GASB Statement No. 3, Investments (including Repurchase Agreements and Reverse Repurchase Agreements), Sam Houston State University's investments (including temporary investments) are categorized in the tabulation entitled "Investment Categories" to give an indication of the 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 obligations. This is not to be confused with the market risk, which is the risk of a decline in the

UNAUDITED

market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement. 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.
- 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.

**Categorized Investments:**

Type of Security	Category			Fair Value
	1	2	3	
U.S. Government Obligations	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Corporate Stock	45,063.70	0.00	0.00	\$ 45,063.70
<b>Total Categorized Investments</b>	<b>\$ 45,063.70</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 45,063.70</b>

**Uncategorized Investments:**

Texpool	93,418,291.63
Real Estate	290,920.00
Investment in Common Fund Equities	11,265,734.04
Mutual Funds	106,920.53
York Annuity Trust Certificate	142,821.87
<b>Total Investments</b>	<b>\$ 105,269,751.77</b>

**Consisting of the following:**

Proprietary Funds Current Cash Equivalents	79,939,159.39
Proprietary Funds Current Short Term Investments	0.00
Proprietary Funds Current Invested Securities Lending Collateral	0.00
Proprietary Funds Current Restricted Cash Equivalents	1,931,628.33
Proprietary Funds Current Restricted Short Term Investments	0.00
Proprietary Funds Non-Current Restricted Cash Equivalents	11,547,503.91
Proprietary Funds Non-Current Investments	11,851,460.14
Proprietary Funds Non-Current Restricted Investments	0.00
<b>Total, As Above</b>	<b>\$ 105,269,751.77</b>

UNAUDITED

Proprietary Funds CDs disclosed as Deposits but reported as Non-Current Restricted Short-Term Investments on Financial Statements	0.00
Fiduciary Funds Uninvested Cash Collateral disclosed as deposits but reported as Securities Lending Collateral on Financial Statement	0.00
<b>Total Investments per Financial Statements</b>	<b>\$ 105,269,751.77</b>

**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 2004.

***Note 4: Short-Term Debt***

None.

***Note 5: Summary of Long Term Liabilities***

**CHANGES IN LONG-TERM LIABILITIES**

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

<b>BUSINESS-TYPE ACTIVITIES</b>	<b>Balance 09/01/03</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance 08/31/04</b>	<b>Amounts Due Within One Year</b>
Compensable Leave	\$ 2,005,183.35	0.00	100,344.74	\$1,904,838.61	\$1,197,339.79
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>\$ 2,005,183.35</b>	<b>\$ 0.00</b>	<b>\$ 100,344.74</b>	<b>\$1,904,838.61</b>	<b>\$1,197,339.79</b>

**NOTES AND LOANS PAYABLE**

None.

## UNAUDITED

### **CLAIMS & JUDGEMENTS**

At August 31, 2004, 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 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 520 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, 2004, the accrued liability totaled \$ 1,904,838.61 .

The University made lump sum payments totaling \$ 114,719.20 for accrued vacation and/or compensatory time to employees who separated from state service during fiscal year ending August 31, 2004.

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, 2004.

UNAUDITED

***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, 2004 are:

<u>Fiscal Year</u>	<u>Minimum Future Lease Payments</u>
2005	10,213.52
2006	10,213.52
2007	<u>10,213.52</u>
Total Minimum Future Lease Rental Payments	<u>\$30,640.56</u>

***Note 8: Interfund Balances/Activities***

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

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 2004.

The agency experienced routine transfers with other state agencies, which were consistent with the activities of the fund making the transfer.

UNAUDITED

<b>Current Portion</b>	<b>Current Interfund Receivable</b>	<b>Current Interfund Payable</b>
<b>GENERAL (01)</b>		
Total Interfund Receivable/Payable		

<b>Non-Current Portion</b>	<b>Non-Current Interfund Receivable</b>	<b>Non-Current Interfund Payable</b>	<b>Purpose (Disclosure required)</b>
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)			
<b>Total Interfund Receivable/Payable</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>

	<b>Due From Other Agencies</b>	<b>Due to Other Agencies</b>	<b>Source</b>
<b>GENERAL (01)</b>			
<b>Appd Fund 0001, D23 Fund 0001</b>			
(Agency 781, D23 Fund 0001)	\$ 197,597.82	\$	Federal P-T
<b>Federal Pass Throughs</b>			
(Agency 300, D23 Fund 7999)		\$ 25,940.31	Federal P-T
(Agency 601, D23 Fund 0006)	\$ 135,265.57		Federal P-T
(Agency 701, D23 Fund 0148)	\$ 53,465.19		Federal P-T
(Agency 730, D23 Fund 7999)		\$ 131,387.56	Federal P-T
<b>SPECIAL REVENUE (02)</b>			
<b>Appd Fund 9999, D23 Fund 9999</b>			
(Agency 302, D23 Fund 0469)	\$ 45,305.98		N/A
(Agency 601, D23 Fund 5015)	\$ 7,239.00		N/A
(Agency 300, D23 Fund 0421)	\$ 30,447.48		State P-T
(Agency 701, D23 Fund 0148)		\$29,909.31	State P-T
<b>TOTAL DUE TO AND FROM OTHER STATE AGENCIES</b>	<b>\$ 469,321.04</b>	<b>\$ 187,237.18</b>	

UNAUDITED

Legislative transfers in and out were as follows:

	Legislative Transfers In	Legislative Transfers Out
<b>GENERAL REVENUE (01)</b>		
<b>Appd Fund 0001, D23 Fund 0001</b>		
(Agency 479, D23 Fund 0001)	\$	
(Agency 902, D23 Fund 0001)		
<b>Total Legislative Transfers</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

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.

***Note 9: Contingent Liabilities***

At August 31, 2004, 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

## UNAUDITED

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, 2004.

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, 77<sup>th</sup> 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 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, 2004.

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

UNAUDITED

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 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 Southwest Texas State University are subject to a prior claim for the following heretofore issued bonds of the Board

## UNAUDITED

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

UNAUDITED

Houston State University, Southwest Texas State University, and Sul Ross State University.

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, 2004.

A gift was made to the University from the Sam Houston Foundation for fiscal year 2004 of \$7,000 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.

## UNAUDITED

The Lettermen's Association's funds are carried on the University's books, and comprise \$16,025.77 of Total Deposits Held in Custody for Others - Agency Funds, at August 31, 2004. 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 2004 of \$3,000 to Restricted Funds.

### ***Note 16: Stewardship, Compliance and Accountability***

No material issues were noted.

### ***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, 2004, Sam Houston State University does not have any component units.

### ***Note 18: Restatement of Fund Balances/Net Assets***

Two Restatements were necessary to bring Sam Houston State University's beginning Net Asset balance to the correct amount.

(a) After the publication of Sam Houston State University's 2003 Annual Financial Report, but before the State of Texas Combined Annual Financial Report, an error was found in the State of Texas Property Accounting Reports for the calculation of depreciation.

UNAUDITED

(b) After the publication of the State of Texas Combined Annual Financial Report for 2003, an error was found on the State of Texas Property Accounting Reports in the calculation of depreciation.

Net Asset Balance August 31, 2003	\$ 247,035,726.31
(a) Restatement of Depreciation to bring SHSU balance to CAFR	<u>(7,254,491.41)</u>
Net Asset Balance August 31, 2003 per CAFR	\$ 239,781,234.90
(b) Restatement of Depreciation	<u>(767,545.93)</u>
<b>Net Asset Balance, September 1, 2004 As Restated</b>	<b>\$ 239,013,688.97</b>

***Note 21: Donor Restricted Endowments***

<u>Donor- Restricted Endowment</u>	<u>Amounts Of Net Appreciation</u>	<u>Reported in Net Assets</u>
True Endowments	\$1,706,975.14	Restricted for Nonexpendable
Term Endowments	0	Restricted for Nonexpendable
True Endowments	0	Restricted for Expendable

***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. New building projects planned or in progress include a new Business Building Annex, a Recreational Center Annex with Pool, a baseball/softball complex, and a new science building, and renovation of the existing science classroom building.

UNAUDITED

A significant increase, thirty four percent over the two 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 \$35 in FY03. The downturn in the economy over the last few years caused a lack 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 \$39 are in effect for Fall '03 Semester and planned at \$46 in the Spring 04 Semester, and \$53 for the Fall 04 Semester and \$60 for the Spring 05. The legislature also provided for additional scholarship funds to be generated from a percentage of the designated funds to be collected.

The downturn in the economy over the last few years is evidenced by the depreciation of fair market value of endowments (\$1,845,392.26) that are invested in Common Fund (stock market) during the fiscal year 2002. Sam Houston State University experienced a partial recovery of that loss in fiscal year 2003 (\$1,434,864.91). As of August 31, 2004 the endowment was valued at \$23,139,747.51, which is an amount greater than original cost.

***Note 24: Special or Extraordinary Items***

None.

***Note 25: Disaggregation of Receivable and Payable Balances***

None