



THE TEXAS A&M UNIVERSITY SYSTEM

*Annual Financial Report*

Fiscal Year 2008







## A&M System Mission

The mission of The Texas A&M University System is to provide education, conduct research, commercialize technology, offer training and deliver services for the people of Texas and beyond through its universities, state agencies and health science center.

TEXAS A&M UNIVERSITY-COMMERCE

Opposite: TEXAS VETERINARY MEDICAL DIAGNOSTIC LABORATORY

THE TEXAS A&M UNIVERSITY SYSTEM

*Annual Financial Report*

**Table of Contents**

Message from the Chancellor	2
Leadership	4
Management's Discussion and Analysis	9
Financial Statements	19
Notes to the Combined Financial Statements	27





## Message from the Chancellor

### THE TEXAS A&M UNIVERSITY SYSTEM

As one of the largest systems of higher education in the world, The Texas A&M University System constantly expands the frontiers of learning and discovery. In keeping with our land-grant mission of education, service and research for the benefit of the public, our nine universities, seven state agencies and comprehensive health science center are engaged in the ceaseless pursuit of excellence.

Our \$2.5 billion capital improvement plan includes immediate and long-term construction and renovation projects that will transform our facilities across the A&M System.

We have initiated far-reaching new academic programs, more recognition for our excellent teachers and guarantees of tuition assistance for families that might not otherwise be able to afford higher education. Our new military friendly project enables us to increase our assistance to active duty personnel, veterans and their families. Our five-year strategic plan provides the planning tool to help us focus on our mission and imperatives and to track our progress.

With the system's dynamic growth comes a duty to the people of Texas. We must assure our citizens that we operate the A&M System in a fiscally sound manner with the best interests of the state at heart. With this financial report we show that we accept this duty and hold ourselves to the highest standards.

Sincerely,

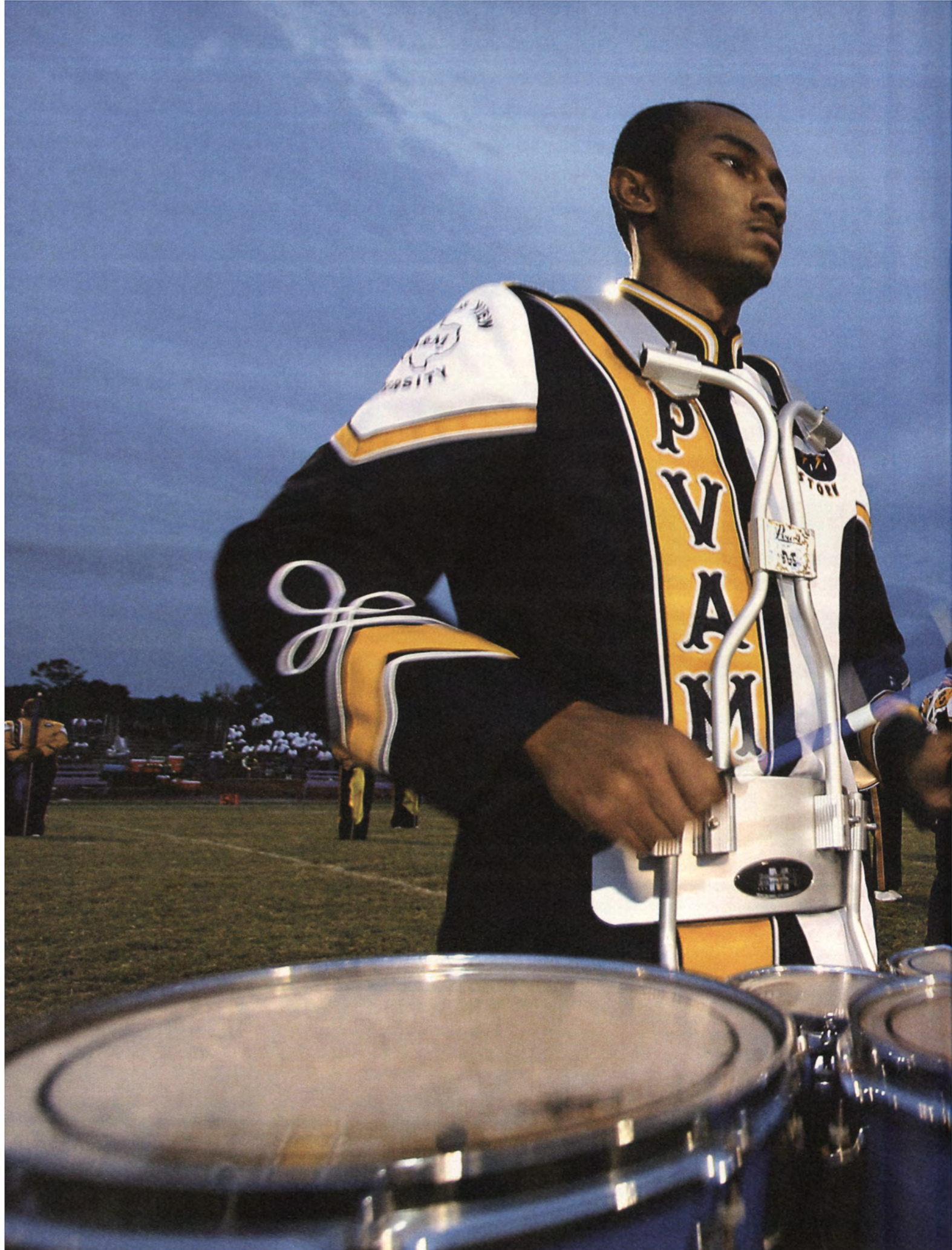
A handwritten signature in black ink that reads "Michael D. McKinney, MD". The signature is written in a cursive, flowing style.

Michael D. McKinney, M.D.  
Chancellor



TEXAS A&M UNIVERSITY AT QATAR  
Opposite: TEXAS A&M HEALTH SCIENCE CENTER





## Leadership

### THE TEXAS A&M UNIVERSITY SYSTEM



#### Board of Regents

Bill Jones, Chairman, Austin  
John D. White, Vice Chairman, Houston  
Morris E. Foster, Houston  
J. L. Huffines, Dallas  
Lupe Fraga, Houston  
Erle Nye, Dallas  
Gene Stallings, Powderly  
Ida Clement Steen, San Antonio  
James P. Wilson, Sugar Land  
Anthony Cullins, Student Regent, Dallas  
Vickie Spillers, Executive Secretary to the Board

#### Officers of the Board

Bill Jones, Chairman  
John D. White, Vice Chairman

#### Administrative Officers

Michael D. McKinney, Chancellor  
B. J. Crain, Associate Vice Chancellor for Budgets and Accounting  
Gregory R. Anderson, Associate Vice Chancellor and Treasurer  
Sandra K. Brown, Comptroller

#### Chief Executive Officers

Michael D. McKinney, System Offices  
Elsa A. Murano, Texas A&M University  
R. Bowen Loftin, Texas A&M University at Galveston  
Mark H. Weichold, Texas A&M University at Qatar  
George C. Wright, Prairie View A&M University  
F. Dominic Dottavio, Tarleton State University  
Ray M. Keck, Texas A&M International University  
Flavius C. Killebrew, Texas A&M University-Corpus Christi  
Steven H. Tallant, Texas A&M University-Kingsville  
J. Patrick O'Brien, West Texas A&M University  
Dan R. Jones, Texas A&M University-Commerce  
C. B. Rathburn III, Texas A&M University-Texarkana  
Nancy W. Dickey, Texas A&M Health Science Center  
Mark A. Hussey, Texas AgriLife Research  
K. Lee Peddicord, Texas Engineering Experiment Station  
Edward G. Smith, Texas AgriLife Extension Service  
Thomas G. Boggus, Texas Forest Service  
Gary F. Sera, Texas Engineering Extension Service  
Dennis L. Christiansen, Texas Transportation Institute  
Tammy Beckham, Texas Veterinary Medical Diagnostic Laboratory



# THE TEXAS A&M UNIVERSITY SYSTEM Financial Statements

*For the year ended August 31, 2008, Unaudited*



PRAIRIE VIEW A&M UNIVERSITY

Top: TEXAS A&M INTERNATIONAL UNIVERSITY



TEXAS ENGINEERING EXTENSION SERVICE  
Opposite: TEXAS A&M UNIVERSITY-KINGSVILLE



THE TEXAS A&M UNIVERSITY SYSTEM  
Office of Budgets and Accounting

November 20, 2008

Michael D. McKinney, M.D.  
Chancellor  
The Texas A&M University System  
200 Technology Way  
College Station, Texas 77845

Dear Dr. McKinney:

We are submitting herewith the Annual Financial Report of The Texas A&M University System for the fiscal year ended August 31, 2008.

This report has been prepared in conformity with the TEX. GOV'T CODE ANN §2101.011 and in accordance with the Annual Financial Reporting Requirements of the Texas Comptroller of Public Accounts.

The accompanying Annual 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.

Respectfully submitted,

Sandra K. Brown  
Comptroller

B. J. Crain  
Associate Vice Chancellor  
for Budgets and Accounting

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200 Technology Way, Suite 2003 • College Station, Texas 77845-3424  
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Cash collateral received from the borrower is invested in a collective investment portfolio that includes investments with next day liquidity. The portfolio has a liquidity target of 20%, but does not generally match the maturities of investments with the term maturities of the loan agreements. There are no restrictions on loan amounts. 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 24 securities lending relationships because the amount the A&M System held as collateral exceeded the amounts the borrowers owed the A&M System. No losses were incurred during the fiscal year as a result of default by a securities lending borrower or agent and no losses were reported in the previous period.

Cash collateral holdings consisted of \$184,822,818.28 in securities lending collateral investment pool with a corresponding market value of securities on loan of \$179,767,225.20.

Non-cash collateral consisting of U.S. Government and U.S. Government Agency securities held by the A&M System's custodian totaled \$479,574.00 in market value with a corresponding market value of securities on loan of \$460,018.49.

#### **DERIVATIVE INVESTING**

The A&M System investment policy allows investment in certain derivative securities. A derivative security is an investment product which derives its value from another security, currency, commodity, or index.

The A&M System entered into forward currency contracts for the purpose of hedging international currency risk. As of August 31, 2008, the A&M System held an unfavorable position in contracts receivable of \$5,532.79 and a favorable position in contracts payable of \$2,628,974.96.

#### **PERMANENT UNIVERSITY FUND**

The Permanent University Fund is administered by the University of Texas System and is not reflected in the financial statements of the A&M System. Prior to changes in the arbitrage laws, plant funds were appropriated from bond proceeds only after the bonds had been sold and cash was on hand. Currently, receipt of cash may or may not precede appropriations of bond or note proceeds.

The total carrying value of the PUF assets at August 31, 2008, was \$10,790,093,329.32 excluding PUF land grants. By acts of the Legislature and provisions of the State Constitution, the net income of the PUF is divided one-third to the A&M System and two-thirds to the University of Texas System. The A&M System's one-third share of the net revenues was \$154,688,545.31 for the fiscal year ended August 31, 2008, and was credited to the A&M System Available University Fund as reported in Unrestricted Funds.

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

During the year ended August 31, 2008, there was no reportable activity for short-term debt.

#### Revenue Financing System Bonds, Series 2001B

- Issued June 14, 2001, to refund \$35,140,000 of the Board's previously issued and outstanding Revenue Financing System Commercial Paper Notes, Series B; to current refund \$1,270,000 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 1990B; to current refund \$25,135,000 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 1990C; to current refund \$655,000 of the Board's previously outstanding Revenue Financing System Bonds, Series 1991C; to advance refund \$4,685,000 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 1995; to provide funds for capital improvements and to pay the costs of issuing the bonds.
- \$111,875,000 authorized; all authorized bonds have been issued. \$31,605,000 was refunded by Revenue Financing System Bonds, Series 2005B. Outstanding balance at August 31, 2008, was \$33,775,000.

#### Revenue Financing System Bonds, Series 2002

- Issued October 10, 2002, to refund \$40,000,000 of the Board's previously issued and outstanding Revenue Financing System Commercial Paper Notes, Series B, to provide for construction of certain improvements and to pay the costs of issuing the bonds.
- \$93,835,000 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2008, was \$66,740,000.

#### Revenue Financing System Bonds, Series 2003A

- Issued May 20, 2003, to provide funds for certain improvements in the A&M System.
- \$117,135,000 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2008, was \$102,850,000.

#### Revenue Financing System Bonds, Series 2003B

- Issued May 20, 2003, to current refund \$34,705,000 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 1993; to current refund \$3,925,000 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 1993A; to current refund \$9,470,000 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 1993B; to advance refund \$72,775,000 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 1996; and to pay the costs of issuing the bonds.
- \$117,140,000 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2008, was \$81,870,000.

#### Revenue Financing System Bonds, Series 2005A

- Issued June 30, 2005, to advance refund \$6,820,000 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 1997, to advance refund \$32,755,000 of the Board's previously issued and outstanding Revenue Financing System

Bonds, Series 1999, to advance refund \$11,105,000 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 2001A, to provide funds for certain improvements in the A&M System and to pay the costs of issuing the bonds.

- \$148,895,000 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2008, was \$134,495,000.

#### Revenue Financing System Bonds, Series 2005B

- Issued June 30, 2005, to advance refund \$40,740,000 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 1996, to advance refund \$15,730,000 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 1997, to advance refund \$98,395,000 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 1999, to advance refund \$31,605,000 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 2001B, to provide funds for construction and capital improvements and to pay the costs of issuing the bonds.
- \$275,755,000 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2008, was \$246,325,000.

#### Revenue Financing System Bonds, Series 2008

- Issued February 7, 2008, to refund approximately \$127,912,303 of the Board's previously issued and outstanding Revenue Financing System Commercial Paper Notes, Series B; to provide funding for project costs of approximately \$55,000,000 and to pay the costs of issuing the bonds.
- \$169,515,000 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2008 was \$164,995,000.

#### C. ADVANCE REFUNDING BONDS

The A&M System has defeased certain revenue bond issues by placing the proceeds of new bond issues in irrevocable trusts to provide for all future debt service payments on the issues. Accordingly, the liability for the bonds is not included in the financial statements. At August 31, 2008, the principal balance outstanding for the defeased bonds is \$174,626,000.







## THE TEXAS A&M UNIVERSITY SYSTEM

# Management's Discussion and Analysis

*For the year ended August 31, 2008, Unaudited*

The Texas A&M University System presents its financial statements for fiscal year 2008, with comparative data presented for fiscal year 2007 and 2006. The emphasis of discussion will be for the current year. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows.

The statements as presented are for the combined A&M System. The A&M System is composed of nine universities, seven state agencies, a comprehensive health science center and the system administrative offices. The report also includes a blended component unit, the Texas A&M Research Foundation.

The member institutions of higher education offer a broad range of undergraduate and graduate degrees. With locations in Canyon, Stephenville, Commerce, Texarkana, College Station, Prairie View, Galveston, Corpus Christi, Kingsville and Laredo, the A&M System strives to meet the education needs of Texas.

The agencies of the A&M System include both engineering and agricultural research and extension agencies. The agencies provide research, service and instruction to benefit the state.

The Texas A&M Health Science Center continues to grow and expand. It now includes a college of medicine, a college of dentistry, school of rural public health, a school of nursing, a pharmacy school and research divisions.

The A&M System, with its broad range of activities and services, has a presence in every county in Texas. The A&M System serves approximately 109,000 students and employs more than 27,000 people.

### Overview of the Financial Statements and Financial Analysis

The A&M System presents its financial statements for fiscal year 2008. The statements are prepared in accordance with Governmental Accounting Standards Board pronouncements, the requirements of the Texas Comptroller of Public Accounts and the guidelines from the National Association of College and University Business Officers.

## Notes

## Balance Sheet

The Balance Sheet presents current and non-current assets and liabilities and net assets (assets minus liabilities) as of the end of the fiscal year. The statement presents a snapshot of the A&M System as of the end of the fiscal year. Current and non-current presentation is discussed in the notes to the financial statements.

Readers of the Balance Sheet are able to determine the assets available to continue the operations of the system. They also are able to determine the amount the system owes to vendors, investors and lending institutions. The statement also provides a picture of net assets (assets minus liabilities) and their availability for expenditure by the A&M System.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the system's equity in property, plant and equipment owned by the system. Restricted net assets are divided into two categories, non-expendable and expendable. The corpus of the non-expendable restricted resources is only available for investment purposes. The non-expendable restricted net assets consist of the system's endowment funds. Expendable restricted net assets are available for expenditure by the system, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available for any lawful purpose of the system. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the system's unrestricted net assets have been designated for various academic and research programs and initiatives.

<b>Balance Sheet</b> (in millions of dollars)	2008	2007	2006
<b>ASSETS</b>			
Current Assets	\$1,424	\$1,348	\$1,735
Capital Assets, Net	2,224	1,966	1,824
Other Assets	2,497	2,643	2,120
<b>Total Assets</b>	<b>\$6,145</b>	<b>\$5,957</b>	<b>\$5,679</b>
<b>LIABILITIES</b>			
Current Liabilities	\$1,090	\$1,018	\$1,032
Non-Current Liabilities	1,575	1,427	1,425
<b>Total Liabilities</b>	<b>\$2,665</b>	<b>\$2,445</b>	<b>\$2,457</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Debt	\$928	\$729	\$649
Restricted			
Expendable	297	283	257
Non-Expendable	465	496	436
Unrestricted	1,790	2,004	1,880
<b>Total Net Assets</b>	<b>\$3,480</b>	<b>\$3,512</b>	<b>\$3,222</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$6,145</b>	<b>\$5,957</b>	<b>\$5,679</b>

The Balance Sheet indicates an increase in total assets of 3%. The most significant increase in assets is the 13% increase in capital assets. The net capital assets in 2008 are \$2.2 billion, an increase of \$258 million from the 2007 \$2.0 billion.

Liabilities increased 9% from the 2007 amount of \$2.4 billion to \$2.7 billion in 2008. There are two significant factors in this increase: 1) The A&M System issued bonds in 2008 in the amount of \$160 million and 2) the A&M System recognized Other Postemployment Benefits for the first time in fiscal year 2008. This accrued liability will be amortized over 30 years. This recognition increased liabilities by \$140 million in 2008.

## Notes

The final section of the statement presents the net assets of the system. Net assets decreased approximately 1% from the 2007 amount of \$3.51 billion to \$3.48 billion in 2008. The amount invested in capital assets net of debt increased 27% in 2008. Expendable restricted assets increase approximately 5%. These are assets that have external restrictions and may be spent only in the manner defined by the external party. Non-expendable net assets represent the true endowments held by the A&M System. The earnings from these endowments are available for the use of the system. Unrestricted net assets are primarily designated for the support of the A&M System. The following table presents a summary of the commitments on unrestricted net assets.

**Unrestricted Net Assets as of August 31, 2008** (in millions of dollars)

<b>RESERVED FOR:</b>	
Accounts Receivable	\$482
Encumbrances	90
Capital Projects	121
Retirement of Indebtedness	123
Inventories	26
Higher Education Assistance Fund	19
Available University Fund	33
Self-Insured Plans	68
Prepaid Expenses and Other Reserves	68
Other State Funds	53
<b>UNRESERVED</b>	
Allocated	567
Funds Functioning As Endowments	139
<b>Total Unrestricted Net Assets</b>	<b>\$1,790</b>

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

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as operating or non-operating. The Governmental Accounting Standards Board requires that state appropriations and federal Pell Grants be reported as non-operating revenue. This will generally result in an operating deficit for most public institutions. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The purpose of this statement is to present the revenues received by the A&M System, both operating and non-operating, and the expenses paid by the A&M System both operating and non-operating and any other revenues, expenses, gains and losses received or spent by the system. The change in total net assets as presented on the Statement of Net Assets is a result of these activities.

Operating revenues are received for providing goods and services to the various customers and constituencies of the A&M System. Operating expenses are those expenses paid to acquire goods and services provided in return for the operating revenues. Non-operating revenues are revenues received for which goods and services are not provided. State capital appropriations and capital grants and gifts are considered neither operating nor non-operating revenues and are reported after "Income before other revenues, expenses, gains or losses."

The condensed Statement of Revenues, Expenses and Changes in Net Assets reflects a significant decrease in Net Assets. This is primarily due to the recognition of Governmental Accounting Standards Board Statement 45, Other Postemployment Benefits. The payroll related costs and related liability include \$140 million for Other Postemployment Benefits.

<b>Statement of Revenues, Expenses and Changes in Net Assets</b> (in millions of dollars)	2008	2007	2006
Operating Revenues	\$1,677	\$1,605	\$1,485
Operating Expense	(3,008)	(2,654)	(2,551)
Operating Income (Loss)	(1,331)	(1,049)	(1,066)
Non-Operating Revenues and Expense	1,087	1,185	1,048
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	(244)	136	(18)
Other Revenues, Expense, Gains (Losses)	216	159	287
Increase in Net Assets	(28)	295	269
Net Assets at Beginning of Year	\$3,512	\$3,222	\$2,881
Restatement of Prior Year Balance	(4)	(5)	72
Net Assets at Beginning of Year-As Adjusted	\$3,508	\$3,217	\$2,953
Net Assets at End of Year	\$3,480	\$3,512	\$3,222

Operating revenues of the A&M System increased 4.5% to \$1.7 billion from the 2007 amount of \$1.6 billion. The increase is attributed to an increase in student enrollment and also an increase in designated tuition and student fees.

During the 2008 fiscal year, operating expense increased \$354 million or 13.3%. The recognition of other post employment benefits had a significant effect on operating expense accounting for approximately 40% of the increase. Another factor is the \$86 million increase in salaries and wages. Operating expense increases were seen in every category of expense. One of the most significant is operational cost for repairs and maintenance, which increased 30% from \$62 million in 2007 to \$80 million in 2008. These costs are necessary to maintain the campus infrastructure. With an aging campus infrastructure on several campuses, repairs and maintenance costs will continue to be a significant cost of operations.

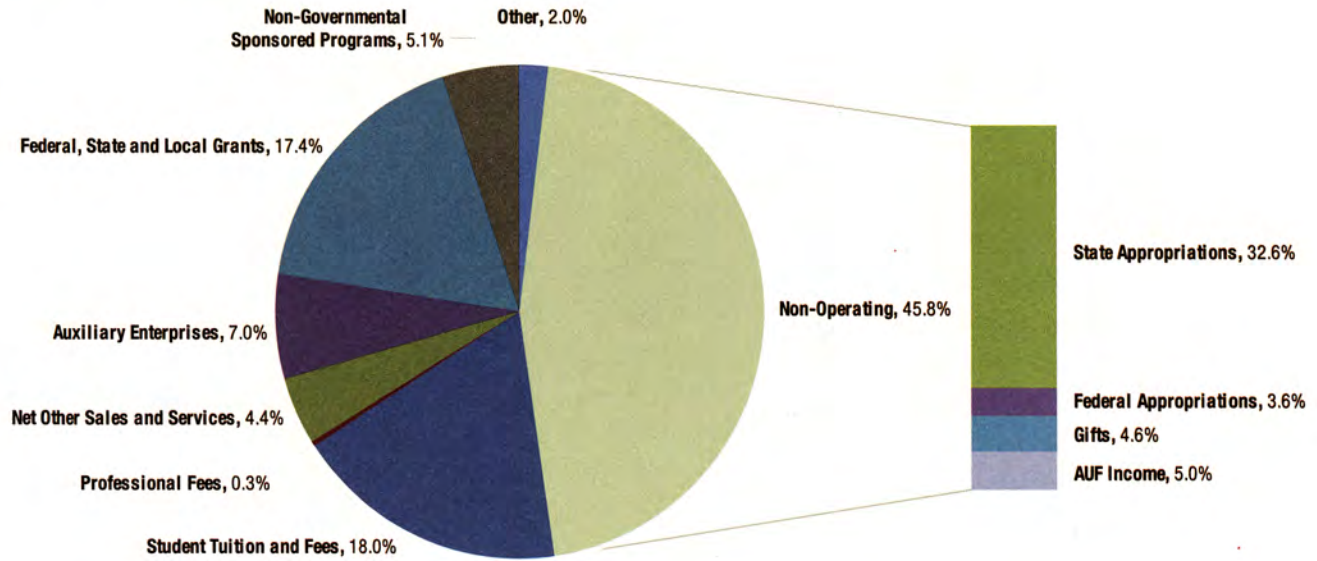
Non-operating Revenues and Expenses for 2008 is \$1.09 billion, a reduction of 8% or \$98 million from the 2007 amount. The decline in markets and unrealized losses on investments resulted in a reduction in investment income of \$321 million for 2008 to net investment income of \$47 million. Legislative revenue increased \$96.8 million from the 2007 amount of \$882.9 million.

Other Revenues, Expense, Gains (Losses) and Transfers increased 36% to \$216 million. Included in this amount are gifts of land for the San Antonio campus and for the Round Rock campus.

Net assets for 2008 decreased \$28 million to \$3,480 million. This represents less than 1% decrease in net assets. The change in net assets represents the results of activities for 2008.

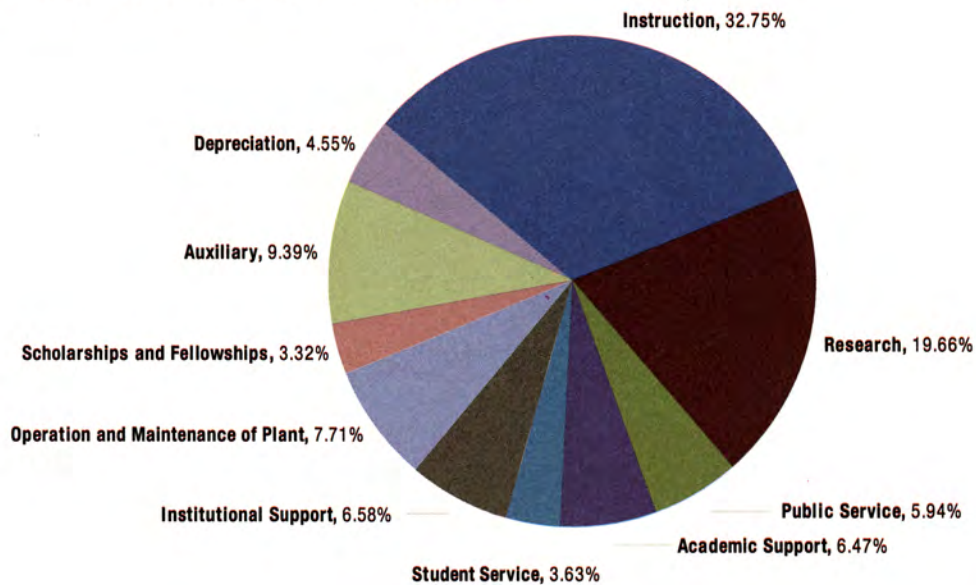
The following graph presents total revenues for 2008. Revenues are presented as operating and non-operating in the Statement of Revenues, Expenses and Changes in Net Assets.

**2008 Revenues \$3.1 BILLION**

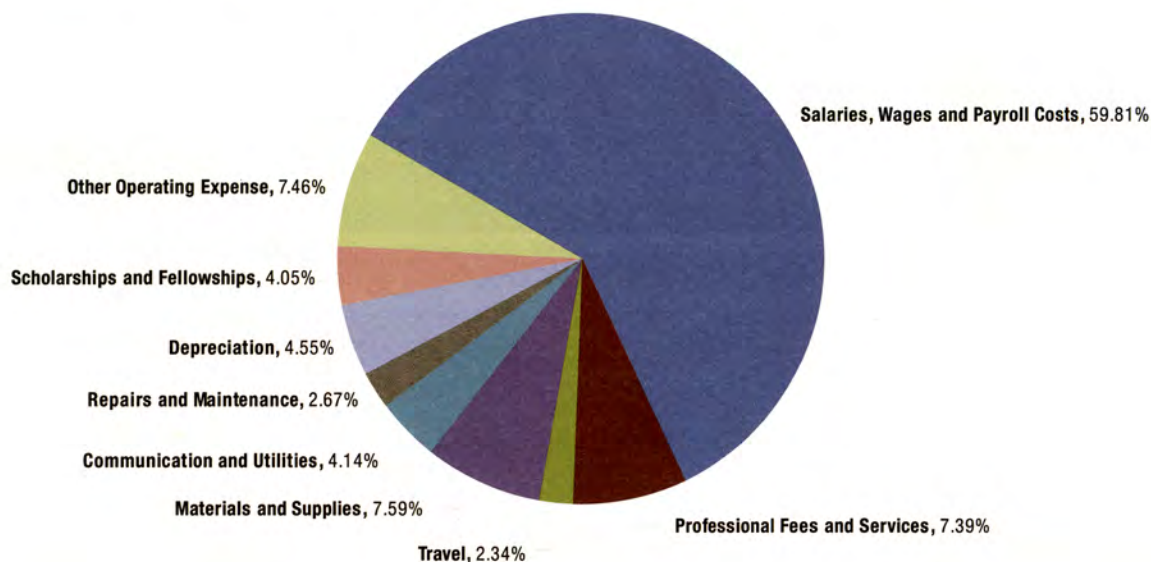


The following two graphs present operating expenses of \$3.0 billion. The first graph presents the operating expenses in the National Association of College and University Business Officer functional classification and the second graph presents operating expense in the natural classification.

**NACUBO Function 2008 Operating Expenses \$3.0 BILLION**



## Natural Classification 2008 Operating Expenses \$3.0 BILLION



## Statement of Cash Flows

The final statement presented is the Statement of Cash Flows. This statement presents detailed information about the cash activity during the year. The statement has five sections. The first section deals with operating cash flows and presents the net cash used by operating activities. The next section presents the results of non-capital financing activities. This section includes the cash flows from state appropriations and other non-operating activities. The capital and related financing activities section includes cash used for acquisition and construction of capital assets. The investing activities section shows purchases, proceeds and earnings from investments. The final section is a reconciliation of net cash from operations to operating income.

Statement of Cash Flows (in millions of dollars)	2008	2007	2006
<b>CASH PROVIDED (USED) BY:</b>			
Operating Activities	\$(1,015)	\$(960)	\$(875)
Non-Capital Financing Activities	1,318	1,162	1,107
Capital and Related Financing Activities	(294)	(314)	(131)
Investing Activities	18	131	(99)
<b>Net Change in Cash</b>	<b>27</b>	<b>20</b>	<b>2</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>259</b>	<b>239</b>	<b>237</b>
Restatement, Beginning Cash	(1)	-	-
	<b>258</b>	<b>239</b>	<b>237</b>
<b>Cash, End of Year</b>	<b>\$285</b>	<b>\$259</b>	<b>\$239</b>



## Capital Asset and Debt Administration

The A&M System continues to be committed to improving the quality of its academic, research and service programs through the development and renewal of its capital assets. The system continues to implement a long-range plan to modernize its older teaching and research facilities along with plans for new construction. The long-range plan includes the planning and construction of four new campuses in Bryan, San Antonio, Killeen and Texarkana. The first building on the Texarkana campus opened in 2008, and the Texas A&M Health Science Center is building a new campus in Bryan.

Capitalized expenses for construction in progress during 2008 totaled \$253 million as compared to \$173 million in 2007. This represents projects that have been substantially completed and moved to the appropriate capital asset categories.

The A&M System had significant capital asset additions for facilities in 2008. There are many construction projects in various stages of completion.

Construction Projects Planned for the Next Two Years	Projected Fiscal Year Completion	Projected Budget
<b>TEXAS A&amp;M UNIVERSITY</b>		
Interdisciplinary Life Sciences Building	2009	\$96,857,276
Mitchell Physics Buildings	2009	82,500,000
McFerrin Athletic Center/Indoor Athletic Facility	2009	35,600,000
Reed Arena Expansion	2009	22,021,000
Veterinary Research Building Addition	2009	19,677,265
Upgrade of Central and Southside Utility Plants	2009	13,500,000
Chemistry Complex Renovation	2009	11,447,736
West Campus Utility Plant No. 2 Expansion	2009	10,490,000
Nuclear Magnetic Resonance Facility	2009	8,000,001
MSC and Rudder Life Safety Upgrades	2009	5,500,000
Ross Street Utility Improvements	2009	4,645,000
Zachry Fire and Life Safety Upgrade	2009	4,300,000
Rehab/Strengthen Runway 16/34	2009	3,345,000
Chemistry Building '72 Wing 4th floor Renovation	2009	3,200,000
Easterwood Airport McKenzie Terminal Apron	2009	1,969,000
Athletic Master Plan and Facility Assessment	2009	990,960
Easterwood Airport High Mast Lighting Improvements	2009	582,000
Satellite Utility Plant Chiller 1 Upgrade	2010	9,600,000
Central Utility Plant Steam Generator 4 Replacement	2010	5,500,000
Anderson Track Modifications	2010	4,860,000
General Aviation Ramp Rehabilitation	2010	2,300,000
<b>TEXAS A&amp;M UNIVERSITY AT GALVESTON</b>		
Science Building	2009	\$53,200,000
<b>THE TEXAS A&amp;M HEALTH SCIENCE CENTER</b>		
IBT Animal Facility Renovation	2009	\$4,852,874
<b>PRAIRIE VIEW A&amp;M UNIVERSITY</b>		
John B. Coleman Library Exterior Repairs	2009	\$3,749,660
<b>TARLETON STATE UNIVERSITY</b>		
New Dining Hall	2009	\$12,996,000
Recreational Sports Facility	2009	15,000,000
Campus Master Plan	2009	450,000

*Continued on page 16*

<i>Continued from page 15</i>	Projected Fiscal Year Completion	Projected Budget
<b>TEXAS A&amp;M UNIVERSITY-CORPUS CHRISTI</b>		
Wellness Center	2009	\$21,800,000
Harte Research Institute Building	2009	17,375,000
<b>TEXAS A&amp;M INTERNATIONAL UNIVERSITY</b>		
Kinesiology Facilities	2009	\$12,510,000
Completion Fine Arts Theater	2009	4,950,000
Student Success Center	2009	25,965,000
Loop Road and Chill Water Loop	2009	7,626,600
<b>TEXAS A&amp;M UNIVERSITY-KINGSVILLE</b>		
Rhode Hall Renovation	2009	\$5,500,000
Recreation Sports Center	2009	12,000,000
Citrus Center Building	2010	9,540,000
<b>WEST TEXAS A&amp;M UNIVERSITY</b>		
New Residential Housing	2009	\$12,800,000
Classroom Center Renovation	2009	17,800,000
<b>TEXAS A&amp;M UNIVERSITY-TEXARKANA</b>		
Science and Technology Building	2009	\$20,643,235
<b>TEXAS A&amp;M UNIVERSITY-COMMERCE</b>		
New Student Center	2009	\$25,400,000
Music Building	2009	29,607,000
<b>TEXAS ENGINEERING EXTENSION SERVICE</b>		
Wastewater System Upgrade, Brayton Fire Training Field	2009	\$17,268,000
Emergency Operations Training Center Expansion	2009	4,409,674
<b>TEXAS TRANSPORTATION INSTITUTE</b>		
TTI State Headquarters and Research Building	2009	\$18,883,000
<b>Total</b>		<b>\$707,211,281</b>

The A&M System understands its role of financial stewardship and works to manage its resources effectively, including the prudent use of debt to finance capital projects.

During fiscal year 2008, the A&M System issued bonds under the Revenue Financing System debt program to refund a portion of the previously outstanding commercial paper notes and to provide approximately \$55 million of funding for new projects and issuance costs. The Revenue Financing System Bonds, Series 2008, had a par amount of \$169.5 million with a true interest cost of 3.95%. Revenue Financing System Commercial Paper was issued in the amount of \$130 million to provide interim funding for projects. In addition, Permanent University Fund Flexible Rate Notes in the amount of \$65.3 million were issued to fund eligible projects. In fiscal year 2009, it is anticipated that \$32.8 million of Tuition Revenue Bond projects and approximately \$50 million of Permanent University Fund projects will be initiated. The A&M System has sufficient debt capacity to finance planned facilities and other capital improvements. In addition, the State appropriated amounts are sufficient for the reimbursement of tuition used to pay the debt service on all outstanding and planned Tuition Revenue Bond debt for the FY 2008-09 biennium. For additional information concerning Capital Assets and Debt Administration, see the Notes to the Financial Statements.

## Economic Outlook

The months of September and October 2008 represented a deflationary environment where credit contracted, causing falling prices in housing, equities and commodities. Central banks around the world exerted concerted efforts to open up credit markets and restore capital flows. Although currently London interbank offered rate (LIBOR) rates and commercial paper rates have eased, there is still the possibility that credit could experience difficulties going forward.

The coordinated global efforts to inject liquidity into the financial system by nature are inflationary. Lower interest rates and increased government loan programs to consumers and businesses may help stabilize prices and restore consumer spending; however, it has the potential to invite demand that would not have existed without government intervention, which may result in much higher inflation.

The A&M System's investment portfolios are well diversified across asset classes; however, the declines in September and October had negative impacts on almost every investment asset class. A risk remains that continued uncertainty in the markets may lead to additional equity declines. However, this period also will provide opportunities to acquire assets at substantial discounts that will benefit returns over longer investment cycles.

## Significant Events

During fiscal year 2008, several leadership changes occurred in the A&M System. Those appointments include:

- F. Dominic Dottavio, president of Tarleton State University
- Juan Castillo, vice president for finance and administration, Texas A&M International University
- Elsa A. Murano, president of Texas A&M University
- Terry A. Pankratz, vice president of finance, chief financial officer of Texas A&M
- Dan R. Jones, president of Texas A&M University-Commerce
- Jody Nelsen, executive vice president for finance and administration at Texas A&M University-Corpus Christi.
- Steven H. Tallant, president of Texas A&M University-Kingsville
- C. B. Rathburn III, president of Texas A&M University-Texarkana
- John P. Skrabanek, associate agency director and chief financial officer of Texas Engineering Extension Service
- Thomas G. Boggus, interim director of Texas Forest Service
- Tammy Beckham, director of Texas Veterinary Medical Diagnostic Laboratory
- Gary F. Sera, director of Texas Engineering Extension Service
- Leo Paterra, president of the Texas A&M Research Foundation

The Texas A&M System continues to focus on its mission to serve the needs of the state of Texas. The continued enrollment growth, expansion of sponsored project activity and the successful capital campaigns are an integral part of the future of the A&M System.

**Exhibit III Combined Balance Sheet***For the year ended August 31, 2008, Unaudited*

	Current Year Total	Prior Year Total
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	294,007,747.27	263,921,496.32
Securities Lending Collateral	184,822,818.28	286,651,523.83
Short-term Investments	197,072,175.22	193,812,867.93
<b>Restricted:</b>		
Cash and Cash Equivalents	(8,929,790.79)	(4,753,921.19)
Short-term Investments	190,296,634.24	151,451,810.38
Legislative Appropriations	128,757,359.16	85,932,359.94
<b>Accounts Receivable, Net:</b>		
<b>Intergovernmental:</b>		
Federal Receivables	94,954,324.17	84,052,386.72
State of Texas	17,810,772.02	8,394,998.55
Other Intergovernmental Receivables	5,635,565.70	2,753,857.93
Interest and Dividends	6,187,520.32	9,423,604.86
Gifts and Donations Receivable	11,538,859.31	11,887,662.43
Student Receivables	17,765,633.80	14,005,858.28
Investment Trade Receivables	70,751,351.39	59,056,435.84
Other Receivables	84,576,668.85	69,834,768.22
Due from Other Agencies	9,640,491.04	10,774,873.49
Consumable Inventories	18,442,065.07	18,405,054.51
Merchandise Inventories	7,422,598.56	7,030,918.85
Deferred Charges	634,995.25	848,345.49
Loans and Contracts	24,254,799.57	22,040,229.87
Interfund Receivable	14,685,000.00	23,340,000.00
Other Current Assets	53,685,905.11	29,550,500.37
<b>Total Current Assets</b>	<b>1,424,013,493.54</b>	<b>1,348,415,632.62</b>
<b>Non-current Assets:</b>		
<b>Restricted:</b>		
Investments	673,976,581.79	716,677,332.67
Loans, Contracts and Other	5,286,414.06	5,203,388.07
Pledges Receivable	47,747,218.12	53,594,244.07
Loans and Contracts	26,411,917.58	27,217,545.56
Investments	1,373,889,002.48	1,456,421,977.85
Interfund Receivable	367,945,000.00	382,630,000.00
<b>Capital Assets, Non-depreciable</b>		
Land and Land Improvements	117,699,162.19	79,421,856.46
Construction in Progress	382,751,566.27	380,638,500.49
Other Capital Assets	35,546,760.40	34,673,724.14
<b>Capital Assets, Depreciable</b>		
Buildings and Building Improvements	2,492,795,271.03	2,247,953,245.79
Infrastructure	321,493,847.92	297,032,497.44
Facilities and Other Improvements	273,708,316.37	266,436,188.70
Furniture and Equipment	550,592,961.56	528,673,200.92
Vehicles, Boats and Aircraft	94,609,742.87	86,028,959.47
Other Capital Assets	177,333,826.78	170,159,718.46
Accumulated Depreciation	(2,222,235,963.18)	(2,125,393,381.69)
Assets Held in Trust	362,100.00	362,100.00
Other Non-current Assets	1,185,579.27	1,104,561.70
<b>Total Non-current Assets</b>	<b>4,721,099,305.51</b>	<b>4,608,835,660.10</b>
<b>Total Assets</b>	<b>6,145,112,799.05</b>	<b>5,957,251,292.72</b>

	Current Year Total	Prior Year Total
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Payables:		
Accounts Payable	105,837,544.81	67,078,016.33
Payroll Payable	104,131,810.92	93,994,077.48
Investment Trade Payables	64,987,210.30	64,959,691.62
Other Payables	18,180,568.03	17,640,359.63
Interfund Payable	1,356,651.47	532,871.67
Due to Other Agencies	306,025.45	-
Deferred Revenues	363,770,358.71	322,013,074.45
Employees' Compensable Leave	6,131,858.03	5,395,365.96
Other Post Employment Benefits	39,823,142.00	-
Self-insured Accrued Liability	12,438,352.00	12,771,593.00
Notes and Loans Payable	55,375,000.00	9,780,000.00
Bonds Payable	82,574,296.10	83,191,148.06
Capital Lease Obligations	295,375.71	209,572.81
Liabilities Payable from Restricted Assets	19,033,351.32	18,451,960.74
Funds Held for Others	20,766,675.62	22,706,724.46
Obligations/Securities Lending	184,822,818.28	286,651,523.83
Other Current Liabilities	10,636,718.97	12,585,915.55
<b>Total Current Liabilities</b>	<b>1,090,467,757.72</b>	<b>1,017,961,895.59</b>
<b>Non-Current Liabilities:</b>		
Interfund Payable	5,687,255.43	7,959,332.06
Employees' Compensable Leave	85,039,202.17	82,495,115.12
Other Post Employment Benefits	100,485,677.00	-
Self-insured Accrued Liability	6,970,496.00	9,534,000.00
Notes and Loans Payable	107,412,534.03	150,693,796.94
Bonds Payable	1,178,022,062.86	1,081,001,757.38
Assets Held in Trust	362,100.00	362,100.00
Funds Held for Others	66,257,824.50	70,656,010.49
Capital Lease Obligations	1,266,039.07	1,301,601.48
Other Non-current Liabilities	23,515,551.22	23,370,804.52
<b>Total Non-current Liabilities</b>	<b>1,575,018,742.28</b>	<b>1,427,374,517.99</b>
<b>Total Liabilities</b>	<b>2,665,486,500.00</b>	<b>2,445,336,413.58</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Debt	928,495,222.23	729,189,975.98
Restricted for:		
Debt Service	(12,726,214.10)	1,099,269.83
Capital Projects	17,392,462.56	2,384,294.39
Education	216,526,005.52	197,597,681.60
Endowment and Permanent Funds:		
Nonexpendable	464,722,299.99	495,999,363.72
Expendable	75,449,606.73	82,168,397.01
Unrestricted	1,789,766,916.12	2,003,475,896.61
<b>Total Net Assets [Exhibit IV]</b>	<b>3,479,626,299.05</b>	<b>3,511,914,879.14</b>
<b>Total Liabilities and Net Assets</b>	<b>6,145,112,799.05</b>	<b>5,957,251,292.72</b>

<b>Exhibit IV Combined Statement of Revenues, Expenses and Changes in Net Assets</b>	<b>Current Year Total</b>	<b>Prior Year Total</b>
<b>Revenues and Expenses from Operations</b>		
<b>Operating Revenues</b>		
<b>Sales of Goods and Services</b>		
Tuition and Fees-Pledged	687,515,112.30	626,918,138.12
Discounts and Allowances	(130,425,583.28)	(124,958,801.50)
Net Professional Fees	9,245,026.65	11,978,177.76
Net Auxiliary Enterprises	217,651,920.94	215,048,898.78
Net Other Sales of Goods and Services	151,590,496.30	130,938,126.01
Discounts and Allowances-Sales	(16,626,349.79)	(16,080,624.66)
<b>Total Sales of Goods and Services</b>	<b>918,950,623.12</b>	<b>843,843,914.51</b>
Interest Revenue	1,394,127.17	1,043,490.91
Federal Revenue-Operating	387,908,102.95	421,444,039.68
Federal Pass Through Revenue	34,654,616.76	56,164,909.59
State Grant Revenue	70,561,613.69	50,652,988.31
State Pass Through Revenue	45,104,372.99	44,842,948.71
Other Grants and Contracts-Operating	158,476,806.01	120,159,637.80
Other Operating Revenue	59,837,680.18	37,695,244.24
<b>Total Operating Revenues</b>	<b>1,676,887,942.87</b>	<b>1,575,847,173.75</b>
<b>Operating Expenses</b>		
Instruction	985,550,012.62	851,017,326.61
Research	591,514,728.22	516,819,446.52
Public Service	178,561,300.66	162,263,341.06
Academic Support	194,490,294.18	166,099,284.94
Student Services	109,070,769.27	99,330,611.94
Institutional Support	197,850,853.11	167,762,507.89
Operation and Maintenance of Plant	227,338,439.20	201,568,211.60
Major Repair and Rehabilitation of Plant	4,686,832.75	3,960,829.84
Scholarships and Fellowships	99,881,737.19	93,682,405.44
Auxiliary	282,395,367.55	262,848,713.27
Depreciation	136,959,262.74	128,997,718.67
<b>Total Operating Expenses</b>	<b>3,008,299,597.49</b>	<b>2,654,350,397.78</b>
<b>Total Operating Revenues [Expenses]</b>	<b>(1,331,411,654.62)</b>	<b>(1,078,503,224.03)</b>
<b>Non-operating Revenues [Expenses]</b>		
Legislative Revenue	979,654,348.99	882,859,160.09
Federal Revenue Non-operating	112,801,295.87	65,241,476.62
Gifts	95,330,201.80	72,144,675.09
Land Income	5,468,993.81	5,179,469.55
Investment Income	77,266,051.42	94,379,698.77
Investing Activities Expense	(9,776,914.69)	(11,817,576.80)
Interest Expense and Fiscal Charges	(56,631,036.11)	(63,124,513.20)
Borrower Rebates and Agent Fees	(703,011.30)	(58,200.65)
Gain [Loss] on Sale or Disposal of Capital Assets	260,646.78	148,703.13
Net Increase [Decrease] in Fair Value	(124,555,953.13)	179,147,255.66
Settlement of Claims	(2,177,637.07)	(946,972.65)
Other Non-operating Revenues	22,931,203.15	28,723,480.44
Other Non-operating [Expenses]	(12,892,094.07)	(37,573,106.76)
<b>Total Non-operating Revenues [Expenses]</b>	<b>1,086,976,095.45</b>	<b>1,214,303,549.29</b>
<b>Income [Loss] Before Other Revenues, Expenses, Gain, Losses</b>	<b>(244,435,559.17)</b>	<b>135,800,325.26</b>

	Current Year Total	Prior Year Total
<b>Other Revenues, Expenses, Gains, Losses and Transfers</b>		
Capital Contributions	37,653,268.55	8,425,521.27
HEF Appropriation	28,230,356.00	18,820,237.00
Additions to Permanent and True Endowments	9,070,731.18	5,565,962.57
Transfers In		
Transfers from Other State Agencies	15,491,031.11	15,153,756.03
Transfers from UT System AUF	154,688,545.31	138,219,816.66
Non-mandatory Transfers from Parts or Agencies-CAP Assets	128,241.00	-
Transfers Out		
Transfers to Other State Agencies	(5,148,372.49)	(4,059,751.48)
Transfers to UT System AUF	(23,340,000.00)	(22,920,000.00)
Non-Mandatory Transfers to Parts or Agencies-CAP Assets	(303,706.75)	(125,237.18)
Legislative Appropriations Lapsed	(54,181.10)	(26,372.36)
<b>Total Change in Revenues, Expenses, Gain, Losses and Transfers</b>	<b>216,415,912.81</b>	<b>159,053,932.51</b>
<b>Change in Net Assets</b>	<b>(28,019,646.36)</b>	<b>294,854,257.77</b>
<b>Beginning Net Assets, September 1, 2007 and 2006</b>	<b>3,511,914,879.14</b>	<b>3,221,468,259.13</b>
<b>Restatement</b>	<b>(4,268,933.73)</b>	<b>(4,407,637.76)</b>
<b>Beginning Net Assets, September 1, 2007 and 2006 Restated</b>	<b>3,507,645,945.41</b>	<b>3,217,060,621.37</b>
<b>Net Assets, August 31, 2008 and 2007</b>	<b>3,479,626,299.05</b>	<b>3,511,914,879.14</b>

**Exhibit V Combined Statement of Cash Flows***For the year ended August 31, 2008, Unaudited*

	Current Year Total	Prior Year Total
<b>Cash Flows from Operating Activities</b>		
Proceeds Received from Students	604,303,018.71	545,845,675.52
Proceeds Received from Customers	135,672,820.62	132,231,191.23
Proceeds from Sponsored Programs	802,419,087.53	776,291,619.68
Proceeds from Auxiliary Enterprises	197,885,975.77	197,903,617.56
Proceeds from Loan Programs	5,614,480.95	13,319,395.38
Proceeds from Other Revenues	58,248,968.43	36,906,564.31
Payments to Suppliers for Goods and Services	(999,722,083.52)	(944,533,248.72)
Payments to Employees-Salaries	(1,324,646,673.30)	(1,243,914,871.73)
Payments to Employees-Benefits	(318,521,885.84)	(297,595,678.33)
Payments for Loans Provided	(6,850,169.19)	(21,161,229.41)
Payments for Other Expenses	(169,164,648.52)	(155,042,824.63)
<b>Net Cash Provided [Used] by Operating Activities</b>	<b>(1,014,761,108.36)</b>	<b>(959,749,789.14)</b>
<b>Cash Flows from Non-capital Financing Activities</b>		
Proceeds from State Appropriations	942,912,970.68	867,367,550.72
Proceeds from Gifts	101,125,198.63	78,500,927.97
Proceeds from Endowments	9,070,731.18	5,555,034.57
Proceeds-Transfers from Other Funds	170,341,860.93	154,297,323.72
Proceeds from Other Grant Revenue	108,040,773.95	64,301,646.42
Proceeds from Other Revenues	52,602,500.14	21,868,454.08
Payments - Transfers to Other Funds	(5,148,372.49)	(4,059,751.48)
Payments for Other Uses	(60,595,525.67)	(25,792,688.65)
<b>Net Cash Provided [Used] by Non-capital Financing Activities</b>	<b>1,318,350,137.35</b>	<b>1,162,038,497.35</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from Sale of Capital Assets	1,902,542.57	1,680,172.80
Proceeds from Capital Debt Issuance	391,165,230.16	77,659,239.08
Proceeds from State Grants and Contracts	22,092,553.99	18,051,241.15
Proceeds from Federal Grants and Contracts	2,735,598.95	(2,912,503.00)
Proceeds-Advances from Other Funds	(1,448,296.83)	(416,692.75)
Payments for Additions to Capital Assets	(359,469,199.00)	(259,373,573.51)
Payments of Principal on Debt	(293,801,499.10)	(85,135,000.00)
Payments for Capital Leases	(39,363.36)	(21,018.99)
Payments for Interest on Capital Related Debt	(56,602,496.90)	(63,188,711.50)
Payments of Other Costs on Debt Issuance	(705,027.72)	(55,682.13)
<b>Net Cash Provided [Used] by Capital and Related Finc. Activity</b>	<b>(294,169,957.24)</b>	<b>(313,712,528.85)</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from Sales and Maturities of Investments	3,571,129,377.18	4,118,072,322.77
Proceeds from Interest and Investment Income	67,646,575.16	82,607,989.23
Payments to acquire investments	(3,621,248,709.12)	(4,069,411,234.42)
<b>Net Cash Provided [Used] by Investing Activities</b>	<b>17,527,243.22</b>	<b>131,269,077.58</b>
<b>Increase [Decrease] in Cash and Cash Equivalents</b>	<b>26,946,314.97</b>	<b>19,845,256.94</b>
<b>Cash and Cash Equivalents, September 1, 2007 and 2006</b>	<b>259,167,575.13</b>	<b>239,322,318.19</b>
<b>Restatements to Beginning Cash and Cash Equivalents</b>	<b>(1,035,933.62)</b>	<b>-</b>
<b>Restated Beginning Cash and Cash Equivalents</b>	<b>258,131,641.51</b>	<b>239,322,318.19</b>
<b>Cash and Cash Equivalents, August 31, 2008 and 2007</b>	<b>285,077,956.48</b>	<b>259,167,575.13</b>



	Current Year Total	Prior Year Total
<b>Reconciliation of Operating Income [Loss] to Net Cash Provided [Used]</b>		
<b>by Operating Activities</b>		
Operating Income [Loss]	(1,331,411,654.62)	(1,078,503,224.03)
<b>Adjustments to Reconcile Operating Income to Net Cash Provided [Used]</b>		
<b>by Operating Activities</b>		
Depreciation and Amortization	136,959,262.74	128,997,718.67
Bad Debt Expense	3,622,277.04	2,206,831.19
Operating Income and Expense Classification Differences	127,505.34	941,935.20
<b>Changes in Assets and Liabilities</b>		
Accounts Receivable, Net	(42,102,619.59)	(3,963,540.66)
Due from Other Agencies/Funds	972,097.94	(1,425,860.95)
Due from System Members	3,862,330.33	(7,479,724.21)
Inventory	(428,690.27)	1,261,192.68
Deferred Charges	171,606.29	296,497.12
Prepaid Expenses	(25,494,809.65)	(5,180,122.96)
Loans and Contracts	(2,226,440.43)	(8,289,673.20)
Other Assets	1,320,131.29	(780,369.33)
Payables	56,317,475.22	(26,763,808.76)
Due to Other Agencies/Funds	306,025.45	(22,342.74)
Due to System Members	(7,418,330.33)	12,135,724.21
Deferred Revenue	50,476,856.33	24,608,611.51
Deposits	(181,627.37)	557,886.78
Compensated Absences Payable	3,280,579.12	3,099,872.02
Other Post Employment Benefits Liability	140,308,819.00	-
Self Insured Accrued Liability	(2,896,745.00)	(1,391,816.00)
Other Liabilities	(325,157.19)	(55,575.68)
<b>Total Adjustments</b>	<b>316,650,546.26</b>	<b>118,753,434.89</b>
<b>Net Cash Provided [Used] by Operating Activities</b>	<b>(1,014,761,108.36)</b>	<b>(959,749,789.14)</b>
<b>Non-cash Transaction</b>		
Nonmonetary Gifts, Including Capital Assets	21,925,590.31	7,261,475.70
Net Increase [Decrease] in FMV of Investments	(145,182,361.06)	92,970,591.21
Gain/Loss on Sale or Disposal of Capital Assets	729,380.56	(12,045.24)
Amortization of Bond Premiums and Discounts	-	1,340,760.92
Other	(11,377,682.55)	(206,793.40)



# THE TEXAS A&M UNIVERSITY SYSTEM

## Notes to the Combined Financial Statements

*For the year ended August 31, 2008, Unaudited*

### General Introduction

This report covers all financial operations of The Texas A&M University System for the fiscal year ended August 31, 2008. The A&M System is an agency of the State of Texas providing education, research and extension work in the broad fields of agriculture and engineering, as well as in geoscience, science, the arts, architecture, medicine, veterinary medicine, dentistry, business, education, marine engineering and transportation. The financial records of the A&M System reflect compliance with applicable state statutes and regulations.

The significant accounting policies followed by all members of the A&M System in maintaining accounts and in the preparation of the preceding statements are in accordance with the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements except as identified in Other Significant Accounting Policies. The requirements are also in substantial conformity with the Financial Accounting and Reporting Manual for Higher Education, as revised by GASB No. 34 and No. 35, published by the National Association of College and University Business Officers (NACUBO).

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. This was followed in November 1999 by GASB Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the A&M System's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows; it replaces the fund-group perspective previously required. The A&M System has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The A&M System has elected not to apply FASB pronouncements issued after the applicable date.

## **Note 1: Summary of Significant Accounting Policies**

### **BASIS OF ACCOUNTING**

For financial reporting purposes, the A&M System is considered a special-purpose government engaged only in business-type activities. Accordingly, the A&M System's financial statements are presented 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 is 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 sales and services, administrative expenses, and depreciation on capital 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 according to GASB No. 9. With the exception of residual cash which results from the management of investment portfolios, the A&M System maintains cash and cash equivalents for the purpose of meeting short-term expenditure requirements.

### **INVESTMENTS**

In accordance with GASB No. 31, the A&M System reports investments at fair market value in the Balance Sheet. 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.

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

### **CAPITAL ASSETS**

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

According to GASB No. 34 and No. 35, the A&M System is required to depreciate capital assets. Effective fiscal year 2005, the State Comptroller's Office reclassified Professional, Academic and Research Library books and materials from non-depreciable to depreciable. Depreciation is computed using the straight-line method over the estimated useful lives of the assets; generally, 40 to 50 years for buildings, 20 to 25 years for infrastructure, 5 to 7 years for equipment, and 15 years for library books.

### **CURRENT ASSETS**

In the Balance Sheet, items classified as current are defined as resources expected to be realized or consumed within one year.

### **RESTRICTED NET ASSETS**

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

### **VOLUNTARY NONEXCHANGE TRANSACTION**

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

## OTHER SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements for the A&M System include the primary financial statements of each member of the A&M System, including the A&M System Offices, as well as the Texas A&M Research Foundation. Transfers between A&M System members and fund groups have been eliminated. Certain operations provide goods and services to internal customers. These operations include activities such as central stores, the print shop and other services with interdepartmental activities. The net effect of these internal transactions has been eliminated in the Statement of Revenues, Expenses and Changes in Net Assets to avoid inflating revenues and expenses. Receivables and payables between A&M System members were eliminated except those arising from service department operations and auxiliary enterprises.

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

The financial statements of the A&M System are prepared and presented materially in accordance with the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements. The A&M System members record receivables when revenue is earned but not collected. Deferred revenue is recognized when cash is received prior to revenue recognition.

## Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2008, is presented below:

### EXHIBIT I Primary Government

(excluding Research Foundation)

	Balance 09/01/07	Adjustments	Completed CIP	Inc-Interagency Transactions	Dec-Interagency Transactions	Additions	Deletions	Balance 08/31/08
<b>BUSINESS-TYPE ACTIVITIES:</b>								
<b>Non-Depreciable Assets</b>								
Land and Land Improvements	\$79,058,179.01	\$(0.10)	\$800,816.49	\$-	\$-	\$37,478,190.88	\$(1,701.54)	\$117,335,484.74
Construction in Progress	380,638,500.49	(5,724,648.53)	(253,381,501.27)	-	-	261,890,381.58	(671,166.00)	382,751,566.27
Other Capital Assets	34,666,506.14	67,500.00	-	-	-	814,478.76	(8,942.50)	35,539,542.40
<b>Total Non-Depreciable Assets</b>	<b>494,363,185.64</b>	<b>(5,657,148.63)</b>	<b>(252,580,684.78)</b>	<b>-</b>	<b>-</b>	<b>300,183,051.22</b>	<b>(681,810.04)</b>	<b>535,626,593.41</b>
<b>Depreciable Assets</b>								
Buildings	2,246,146,603.62	3,635,770.08	217,580,106.78	-	-	26,814,945.99	(3,188,797.61)	2,490,988,628.86
Infrastructure	297,032,497.44	-	22,596,052.48	-	-	1,865,298.00	-	321,493,847.92
Facilities and Other Improvements	266,436,188.70	(3,753,137.71)	10,779,217.83	-	-	246,047.55	-	273,708,316.37
Furniture and Equipment	489,254,022.43	443,668.96	1,017,500.74	258,109.50	(396,116.11)	49,804,376.56	(28,128,229.92)	512,253,332.16
Vehicles, Boats and Aircraft	85,986,265.76	21,136.18	607,806.95	76,077.12	(1,870,589.60)	14,428,380.16	(4,663,165.23)	94,585,911.34
Other Capital Assets	170,159,718.46	(22,516.24)	-	-	-	10,762,910.25	(3,566,285.69)	177,333,826.78
<b>Total Depreciable Assets at Cost</b>	<b>3,555,015,296.41</b>	<b>324,921.27</b>	<b>252,580,684.78</b>	<b>334,186.62</b>	<b>(2,266,705.71)</b>	<b>103,921,958.51</b>	<b>(39,546,478.45)</b>	<b>3,870,363,863.43</b>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>								
Buildings	(1,214,131,583.12)	(2,578,719.85)	-	-	-	(69,117,815.93)	2,796,465.01	(1,283,031,653.89)
Infrastructure	(186,588,375.61)	(19,295.47)	-	-	-	(9,292,252.00)	-	(195,899,923.08)
Facilities and Other Improvements	(176,997,065.24)	1,573,976.59	-	-	-	(6,889,870.05)	-	(182,312,958.70)
Furniture and Equipment	(350,274,200.18)	166,895.89	-	(150,181.47)	93,360.48	(35,268,999.22)	25,759,671.49	(359,673,453.01)
Vehicles, Boats and Aircraft	(65,041,603.12)	(30,507.30)	-	(55,764.15)	1,869,638.48	(6,951,328.37)	4,586,271.49	(65,623,292.97)
Other Capital Assets	(101,475,672.40)	39,853.77	-	-	-	(6,943,624.99)	2,970,244.28	(105,409,199.34)
<b>Total Accumulated Depreciation</b>	<b>(2,094,508,499.67)</b>	<b>(847,796.37)</b>	<b>-</b>	<b>(205,945.62)</b>	<b>1,962,998.96</b>	<b>(134,463,890.56)</b>	<b>36,112,652.27</b>	<b>(2,191,950,480.99)</b>
<b>Depreciable Assets, Net</b>	<b>1,460,506,796.74</b>	<b>(522,875.10)</b>	<b>252,580,684.78</b>	<b>128,241.00</b>	<b>(303,706.75)</b>	<b>(30,541,932.05)</b>	<b>(3,433,826.18)</b>	<b>1,678,413,382.44</b>
<b>Business-Type Activities Capital Assets, Net:</b>	<b>\$1,954,869,982.38</b>	<b>\$(6,180,023.73)</b>	<b>\$-</b>	<b>\$128,241.00</b>	<b>\$(303,706.75)</b>	<b>\$269,641,119.17</b>	<b>\$(4,115,636.22)</b>	<b>\$2,214,039,975.85</b>

## EXHIBIT II Texas A&M Research Foundation

	Balance 09/01/07	Adjustments	Completed CIP	Inc-Interagency Transactions	Dec-Interagency Transactions	Additions	Deletions	Balance 08/31/08
<b>BUSINESS-TYPE ACTIVITIES:</b>								
<b>Non-Depreciable Assets</b>								
Land and Land Improvements	\$363,677.45	\$-	\$-	\$-	\$-	\$-	\$-	\$363,677.45
Construction in Progress	-	-	-	-	-	-	-	-
Other Capital Assets	7,218.00	-	-	-	-	-	-	7,218.00
<b>Total Non-Depreciable Assets</b>	<b>370,895.45</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>370,895.45</b>
<b>Depreciable Assets</b>								
Buildings	1,806,642.17	-	-	-	-	-	-	1,806,642.17
Infrastructure	-	-	-	-	-	-	-	-
Facilities and Other Improvements	-	-	-	-	-	-	-	-
Furniture and Equipment	39,419,178.49	(2,096,360.24)	-	-	-	3,259,770.33	(2,242,959.18)	38,339,629.40
Vehicles, Boats and Aircraft	42,693.71	-	-	-	-	25,787.22	(44,649.40)	23,831.53
Other Capital Assets	-	-	-	-	-	-	-	-
<b>Total Depreciable Assets at Cost</b>	<b>41,268,514.37</b>	<b>(2,096,360.24)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,285,557.55</b>	<b>(2,287,608.58)</b>	<b>40,170,103.10</b>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>								
Buildings	(1,142,847.98)	-	-	-	-	(57,854.18)	-	(1,200,702.16)
Infrastructure	-	-	-	-	-	-	-	-
Facilities and Other Improvements	-	-	-	-	-	-	-	-
Furniture and Equipment	(29,699,340.33)	1,694,151.76	-	-	-	(2,436,309.57)	1,380,549.64	(29,060,948.50)
Vehicles, Boats and Aircraft	(42,693.71)	-	-	-	-	(1,208.43)	20,070.61	(23,831.53)
Other Capital Assets	-	-	-	-	-	-	-	-
<b>Total Accumulated Depreciation</b>	<b>(30,884,882.02)</b>	<b>1,694,151.76</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,495,372.18)</b>	<b>1,400,620.25</b>	<b>(30,285,482.19)</b>
<b>Depreciable Assets, Net</b>	<b>10,383,632.35</b>	<b>(402,208.48)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>790,185.37</b>	<b>(886,988.33)</b>	<b>9,884,620.91</b>
<b>Business-Type Activities Capital Assets, Net:</b>	<b>\$10,754,527.80</b>	<b>\$(402,208.48)</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$790,185.37</b>	<b>\$(886,988.33)</b>	<b>\$10,255,516.36</b>

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

The Texas Education Code, Title III, Chapter 51.0031 grants authority for a governing board to invest funds under prudent person standards "if a governing board has under its control at least \$25 million in book value of endowment funds."

The A&M System's investment policy authorizes the following types of investments: U.S. Government obligations, U.S. Government Agency obligations, other government obligations, corporate obligations, corporate asset and mortgage backed securities, equity, international obligations, international equity, certificates of deposit, banker's acceptances, negotiable certificates of deposit, money market mutual funds, mutual funds, repurchase agreements, venture capital, private equity, hedge funds, Real Estate Investment Trusts (REITs), securities lending, derivatives, timber, bank loans, energy and real estate.

#### DEPOSITS OF CASH IN BANK

As of August 31, 2008, the carrying amount of deposits was (\$21,599,355.89) as follows:

#### EXHIBIT III Governmental and Business-Type Activities

Cash in Bank - Carrying Value	\$(21,599,355.89)
Less: Certificates of Deposit included in carrying value and reported as Cash Equivalent	-
Less: Uninvested Securities Lending Cash Collateral included in carrying value and reported as Securities Lending Collateral	-
Less: Securities Lending CD Collateral included in carrying value and reported as Securities Lending Collateral	-
Cash in Bank per AFR	\$(21,599,355.89)

#### EXHIBIT IIIa

Proprietary Funds Current Assets Cash in Bank	\$(12,072,115.10)
Proprietary Funds Current Assets Restricted Cash in Bank	(9,527,240.79)
Cash in Bank Per AFR	\$(21,599,355.89)

These amounts consist of all cash in local banks. These amounts are included on the Combined Statement of Net Assets as part of the "Cash and Cash Equivalents" line items. As of August 31, 2008, the total bank balance was as follows:

#### EXHIBIT IV

Business-Type Activities	\$14,267,080.20
Blended Component Unit	\$2,007,367.34

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 A&M System's policy requires collateral of 102% pledged against all deposits and limits the amounts of funds which may be deposited with any bank to the lesser of \$100,000,000 or 10% of total deposits.

The policy also requires that deposits in federally insured savings and loan associations, building and loan associations, and state and national banks not exceed the amount insured by the Federal Savings and Loan Insurance Corporation, Federal Deposits Insurance Corporation (FDIC), or their successors.

The A&M System has a regulation applicable to working fund bank accounts that requires the chancellor, or designee, to approve a working fund in any bank in which the A&M System member does not have a proper allocation of securities. The bank balance of a working fund may not, at any time, exceed the FDIC coverage limit. As of August 31, 2008 the A&M System had working fund bank accounts held at Commercial Bank in Qatar for the operation of Texas A&M University at Qatar. These working funds are not insured or collateralized. The daily average exposure during fiscal year 2008 was \$588,480.80. As of August 31, 2008, the A&M System also had a working fund bank account in Italy to facilitate Texas A&M University's Santa Chiara Study Center in Arezzo, Italy. The daily average exposure during fiscal year 2008 was \$2,294.68. The bank balances exposed to custodial credit risk as of August 31, 2008 are as follows:

**EXHIBIT V Fund Type 05, GAAP Fund 9999**

Uninsured and uncollateralized	\$743,096.60
Uninsured and collateralized with securities held by the pledging financial institution	\$-
Uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the state's name	\$-

Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the deposits. The A&M System does not have a deposit policy for foreign currency risk. The exposure to foreign currency risk for deposits as of August 31, 2008 is as follows:

**INVESTMENTS**

As of August 31, 2008, the fair value of investments is presented below:

<b>EXHIBIT VI Fund Type 05, GAAP Fund 9999</b>	<b>Balance</b>
<b>CURRENCY</b>	
Australian Dollars	\$3,042.34
Euro	\$38.32
New Zealand Dollars	\$4,176.36
Qatar Riyal	\$436,291.32

**EXHIBIT VII Business-Type Activities - Fair Value**

U.S. Treasury Securities	\$144,438,547.55
U.S. Government Agency Obligations	223,701,259.65
Corporate Obligations	157,656,533.32
Corporate Asset and Mortgage Backed Securities	32,898,890.23
Equity	152,900,712.33
Fixed Income Money Market and Bond Mutual Fund	6,454,292.37
International Obligations (Government and Corporate)	94,234,705.48
International Equity	19,318,574.13
Repurchase Agreements	255,734,817.00
Repurchase Agreements (Texas Treasury Safekeeping Trust Co.)	403,660.82
Other Commingled Funds	
Bank Loans	90,698,234.53
Equity - Collective Funds	202,513,218.20
Equity - Mutual Funds	167,791,812.54
Hedge Funds	402,662,583.93
Hedge Funds - Master Limited Partnerships	18,736,399.56
Hedge Funds - Real Estate Investment Trusts	16,803,365.01
International Other Commingled Funds	
International Equity - Mutual Funds	171,847,603.78
International Equity - Collective Funds	160,270,960.99
Commercial Paper	7,912,026.06
Securities Lending Collateral Investment Pool	184,822,818.28
Alternative Investments	
Limited Partnerships - International Private Equity	1,461,322.37
Limited Partnerships - International Real Estate	903,956.00
Limited Partnerships - Private Equity	61,511,774.20
Limited Partnerships - Real Estate	5,608,150.00
Limited Partnerships - Timber	42,514,019.58
Miscellaneous	
Life Insurance	5,386.43
Mineral Interests	119,283.07
Political Subdivisions and Other Investments	1,660,140.00
Real Estate	1,186,460.75
<b>Total Investments</b>	<b>\$2,626,771,508.16</b>

**EXHIBIT VIIa**

Current Unrestricted Cash Equivalents	\$6,714,296.15
Current Unrestricted Short-Term Investments	197,072,175.22
Current Restricted Short-Term Investments	190,296,634.24
Current Unrestricted Securities Lending Collateral	184,822,818.28
Non-Current Unrestricted Investments	1,373,889,002.48
Non-Current Restricted Investments	673,976,581.79
<b>Total Investments per AFR</b>	<b>\$2,626,771,508.16</b>

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 A&M System's policy requires that direct repurchase agreements and security lending transactions be fully collateralized by obligations authorized under the A&M System investment policy and such collateral be held by a third party. As of August 31, 2008, the A&M System's securities lending transactions were not exposed to custodial credit risks because the collateral was held by the A&M System's custodian.



Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investments. The A&M System's policy authorizes the utilization of derivatives for the purpose of hedging currency risk, but does not otherwise address foreign currency risk. The exposure to foreign currency risk as of August 31, 2008 is as follows:

#### EXHIBIT VIII

Fund Type	GAAP Fund	Foreign Currency	International Obligation (Govt. and Corp.)	International Equity	International Other Commingled Funds	International Alternative Investments
05	9999	U.S. Dollar Denominated Foreign Securities	\$55,217,956.10	\$19,318,574.13	\$332,118,564.77	\$903,956.00
05	9999	Australian Dollar	14,661,664.71	-	-	-
05	9999	British Pound Sterling	11,548,249.75	-	-	-
05	9999	Euro Currency Unit	12,806,834.92	-	-	1,461,322.37
<b>Total</b>			<b>\$94,234,705.48</b>	<b>\$19,318,574.13</b>	<b>\$332,118,564.77</b>	<b>\$2,365,278.37</b>

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The A&M System's investment policy requires that securities have a long-term rating of BB or better and the fixed income portfolio have an overall credit rating of AA or better by a nationally recognized statistical rating organization (NRSRO). Securities using short-term credit ratings must be rated at least A-2, P-2, F-2 or equivalent. As of August 31, 2008, the A&M System's credit quality distribution for securities with credit risk exposure is as follows:

#### EXHIBIT IX Standard and Poor's

Fund Type	GAAP Fund	Investment Type	AAA	AA	A	BBB	BB	B	A-1
05	9999	U.S. Govt Agency Obligations	177,792,351						
05	9999	Corporate Obligations	9,506,417	28,455,836	45,093,753	49,539,636	24,321,298	739,594	
05	9999	Corporate Asset and Mortgage Backed Securities	22,790,663	9,112,796				995,430	
05	9999	International Obligations	50,426,209	13,304,500	17,866,552	10,607,481	745,338	528,638	
05	9999	Repurchase Agreements (Texas Treasury Safekeeping Trust Co.)	403,661						
05	9999	Commercial Paper							7,912,026
05	9999	Repurchase Agreements	255,734,817						
05	9999	Fixed Income Money Market and Bond Mutual Fund	20,000						
05	9999	Miscellaneous	1,254,480		405,660				

#### Unrated

Fund Type	GAAP Fund	Investment Type	Unrated
05	9999	Fixed Income Money Market and Bond Mutual Fund	6,434,292
05	9999	International Obligations	755,989

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2008, no more than 5% of the A&M System's total investments are represented by a single issuer. The A&M System's investment policy does not address this type of concentration risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the A&M System manages its exposure to fair value losses arising from changing interest rates by requiring fixed income managers to maintain duration of +/- 20% of the effective duration of the appropriate index. In addition, the A&M System's policy limits the duration of its short term investment portfolio to a maximum of one year. The A&M System's exposure to interest rate risk is presented using the effective duration method as follows:

### EXHIBIT X

Investment Type	Effective Duration	Market Value
U.S. Treasury Securities	4.19	\$144,438,547.55
U.S. Government Agency Obligations		
Agencies and Other U.S. Government Obligations	0.36	56,758,533.67
CMO Government Agencies	1.91	2,133,450.32
U.S. Government Mortgages	4.07	164,809,275.66
Corporate Obligations		
Corporates and Other Credit	2.90	140,399,631.07
U.S. Private Placements	3.75	17,256,902.25
Corporate Asset and Mortgage Backed Securities		
CMO Corporate	1.24	22,931,117.35
Asset Backed Securities	0.36	9,967,772.88
International Obligations	3.44	94,234,705.48
Repurchase Agreements	0.01	255,734,817.00
Repurchase Agreements TTSTC	0.01	403,660.82
Fixed Income Mutual Fund 10-20 yrs.	9.37	30,738.24
Fixed Income Money Market	0.16	6,423,554.13
Commercial Paper	0.35	7,912,026.06
Miscellaneous (political subdivision)	1.39	1,660,140.00
<b>Total Fair Value</b>		<b>\$925,094,872.48</b>
<b>Portfolio Effective Duration</b>	<b>2.31</b>	

### SECURITIES LENDING

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, Board policy or contract provisions occurred during fiscal year 2008.

GASB 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 Balance Sheet as an asset with a corresponding liability to repay the collateral and disclosure of related custodial credit risk for any collateral reported on the Balance Sheet.

Securities lending transactions may 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 or sell securities as collateral without default of the borrower.

Market value of the received cash must be at least 102% 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 of the collateral falls below 100%.

## Note 5: Summary of Long-Term Liabilities

During the year ended August 31, 2008, the following changes occurred in liabilities:

<b>EXHIBIT XI Primary Government</b>	Balance 9/1/07	Additions	Reductions	Balance 8/31/08	Amounts Due Within One Year
Employees' Compensable Leave	\$87,357,067.84	\$5,029,939.21	\$(1,752,724.37)	\$90,634,282.68	\$6,050,970.72
Other Post Employment Benefits	-	140,308,819.00	-	140,308,819.00	39,823,142.00
Self-Insured Accrued Liability	22,305,593.00	112,927.00	(3,009,672.00)	19,408,848.00	12,438,352.00
Notes and Loans Payable	160,473,796.94	195,300,000.00	(192,986,262.91)	162,787,534.03	55,375,000.00
Bonds Payable	1,164,192,905.44	170,909,722.46	(74,506,268.94)	1,260,596,358.96	82,574,296.10
Assets Held in Trust	362,100.00	-	-	362,100.00	-
Liabilities Payable from Restricted Assets	18,451,960.74	22,762,165.84	(22,180,775.26)	19,033,351.32	19,033,351.32
Funds Held for Others	93,130,267.34	45,261,148.42	(51,381,915.64)	87,009,500.12	20,766,675.62
Capital Lease Obligations	1,511,174.29	124,163.32	(73,922.83)	1,561,414.78	295,375.71
Other Non-Current Liabilities	35,898,111.78	2,161,484.81	(4,029,851.40)	34,029,745.19	10,514,193.97
<b>Total</b>	<b>\$1,583,682,977.37</b>	<b>\$581,970,370.06</b>	<b>\$(349,921,393.35)</b>	<b>\$1,815,731,954.08</b>	<b>\$246,871,357.44</b>

<b>EXHIBIT XI Texas A&amp;M Research Foundation</b>	Balance 9/1/07	Additions	Reductions	Balance 8/31/08	Amounts Due Within One Year
Employees' Compensable Leave	\$533,413.24	\$402,642.61	\$(399,278.33)	\$536,777.52	\$80,887.31
Other Post Employment Benefits	-	-	-	-	-
Self-Insured Accrued Liability	-	-	-	-	-
Notes and Loans Payable	-	-	-	-	-
Bonds Payable	-	-	-	-	-
Assets Held in Trust	-	-	-	-	-
Liabilities Payable from Restricted Assets	-	-	-	-	-
Funds Held for Others	232,467.61	15,000.00	(232,467.61)	15,000.00	-
Capital Lease Obligations	-	-	-	-	-
Other Non-Current Liabilities	58,608.29	122,525.00	(58,608.29)	122,525.00	122,525.00
<b>Total</b>	<b>\$824,489.14</b>	<b>\$540,167.61</b>	<b>\$(690,354.23)</b>	<b>\$674,302.52</b>	<b>\$203,412.31</b>

### NOTES AND LOANS PAYABLE

Notes payable consists of amounts used to make permanent improvements at various institutions in the A&M System, to refund and retire the Board's Permanent University Fund Flexible Rate Notes, to provide interim financing for capital improvements and acquisition of equipment and land, to pay interest on the notes, to refund outstanding notes as they mature and to pay the costs of issuing the notes.

The Revenue Financing System Note (2007 TIPS Project) was issued on July 12, 2007 to fund \$4 million of costs for the Texas Institute for Preclinical Studies (TIPS) within Texas A&M University. The note is structured as a loan with the Office of the Governor, Economic Development and Tourism Division through the Texas Economic Development Bank; all authorized debt has been issued. The outstanding balance at August 31, 2008 was \$4,000,000.00.

**EXHIBIT XII**

Description	Balances September 1, 2007	Increases	Decreases	Balances August 31, 2008
Permanent University Fund Flexible Rate Notes	\$5,000,000	\$65,300,000	\$18,300,000	\$52,000,000
Revenue Financing System Commercial Paper Notes, Series B	151,170,000	130,000,000	174,645,000	106,525,000
Revenue Financing System Note (2007 TIPS Project)*	4,000,000	-	-	4,000,000
Other Notes and Loans Payable	303,797	-	41,263	262,534
<b>Total</b>	<b>\$160,473,797</b>	<b>\$195,300,000</b>	<b>\$192,986,263</b>	<b>\$162,787,534</b>

Fiscal Year	Principal	Interest**	Total
2009	\$55,375,000	\$5,004,600	\$60,379,600
2010	3,569,630	4,794,010	8,363,640
2011	4,064,528	4,630,912	8,695,440
2012	4,236,156	4,454,456	8,690,611
2013	4,412,847	4,269,795	8,682,642
2014-2018	24,856,040	18,293,595	43,149,635
2019-2023	30,198,333	12,352,187	42,550,520
2024-2028	36,075,000	5,082,120	41,157,120
<b>Total</b>	<b>\$162,787,534</b>	<b>\$58,881,674</b>	<b>\$221,669,208</b>

\* Private Placement note with the Office of the Governor, Economic Development and Tourism Division through the Texas Economic Development Bank. For fiscal years 2009-2010, an implied interest rate of 2.00% is used to estimate debt service. For fiscal years 2011-2022, actual principal and interest payments for this note are included in the debt service schedule above.

\*\* Revenue Financing System Commercial Paper Notes will be refunded into long term bonds. For estimated debt service on this exhibit, the rate of 4.56% corresponds to the municipal market data published by The Bond Buyer on August 31, 2008. Notes are remarketed in commercial paper mode at current market rates with maturities between 1 and 270 days.

Permanent University Fund Flexible Rate Notes will be paid off in fiscal year 2009. Actual principal and interest payments in fiscal year 2009 are included in the debt service schedule above.

**COMPENSATED ABSENCES**

Full-time state employees earn 8 to 21 hours per month annual leave depending on the respective employee's years of state employment. Under the state's policy, an employee may carry accrued leave forward from one fiscal year to another fiscal year up to a maximum of 520 hours 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 A&M System has accrued the dollar value of annual leave benefits which are payable upon retirement, termination, or death of its employees. This liability for A&M System members has been projected to be \$90,634,282.68 as of August 31, 2008, based on calculations from the A&M System centralized leave tracking system and employer estimates. The accrued liability for the unpaid annual leave has been recognized as a current and non-current liability.

An additional \$536,777.52 is included for the Research Foundation. The A&M System made lump sum payments totaling \$9,179,331.00 for accrued vacation to employees who separated from State service during the fiscal year ended August 31, 2008.

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 absent due to illness or to the estate of an employee in the event of his/her death. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The policy of the A&M System 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 is minimal.

### Note 6: Capital Leases

Certain leases to finance the purchase of property are capitalized at the present value of future minimum lease payments.

At August 31, 2008, the A&M System had various capital lease obligations relating to the acquisition of capital assets. The original capitalized cost of the capital assets under capital lease as of August 31, 2008, is \$3,852,990.99. The following is a schedule of the future minimum lease payments for leased property and the present value of the net minimum lease payments at August 31, 2008:

#### EXHIBIT XIII Capital Leases - Primary Government

Assets Under Capital Leases	Business-Type Activities
Buildings	\$2,372,049.28
Furniture and Equipment	1,480,941.71
Less: Accumulated Depreciation	(820,972.59)
<b>Total</b>	<b>\$3,032,018.40</b>

#### EXHIBIT XIII Capital Leases - Primary Government

Fiscal Year	Interest Payments	Minimum Future Lease Payments
2009	\$87,879.20	\$383,254.91
2010	181,361.83	295,916.08
2011	56,628.41	98,276.76
2012	54,497.59	98,276.76
2013	52,257.78	98,276.76
2014-2018	223,469.05	491,383.80
2019-2023	147,553.10	491,383.80
2024-2028	50,331.02	458,623.89
	<b>\$853,977.98</b>	<b>\$2,415,392.76</b>

Summary:

Total: Minimum Lease Payments	\$2,415,392.76
Less: Interest at Various Rates	(853,977.98)
<b>Present Value of Net Minimum Lease Payments</b>	<b>\$1,561,414.78</b>

### Note 7: Operating Leases

The A&M System has included operating expenses for rent paid under operating leases in the amount of \$4,462,926.61 for primary government and \$606,751.00 for the Texas A&M Research Foundation for the year ended August 31, 2008.

Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2008, are as follows:

#### EXHIBIT XIV Operating Leases - Primary Government

Fiscal Year	Minimum Future Lease Payments
2009	\$3,435,016.39
2010	2,101,610.69
2011	1,426,756.57
2012	846,328.42
2013	608,463.60
2014-2018	483,630.00
<b>Total: Minimum Future Lease Payments</b>	<b>\$8,901,805.67</b>

#### EXHIBIT XIV Operating Leases - Texas A&M Research Foundation

Fiscal Year	Minimum Future Lease Payments
2009	\$361,379.00
2010	265,000.00
2011	270,000.00
2012	257,661.00
2013	-
2014-2018	-
<b>Total: Minimum Future Lease Payments</b>	<b>\$1,154,040.00</b>

## Note 8: Interfund Balances/Activity

As of August 31, 2008, amounts to be received or paid between funds and agencies are to be reported as:

- Interfund Receivable or Interfund Payable
- Legislative Transfer In or Legislative Transfer Out

The A&M System made routine transfers with other state agencies, which were consistent with the activities of the fund making the transfer. Individual balances and activity at August 31, 2008, were as follows:

<b>EXHIBIT XV</b>	Current Interfund Receivable	Current Interfund Payable	Purpose
<b>CURRENT PORTION</b>			
Enterprise Fund (05)			
Agy# 710, Appd Fund 0047, D23 Fund 0047 from Agy# 720, Appd Fund 0047, D23 Fund 0047	\$14,685,000.00	\$-	PUF
Agy# 715, Appd Fund 7999, D23 Fund 7999 from Agy# 907, Appd Fund 5005, D23 Fund 0515	-	1,356,651.47	Lone Star Program
<b>Total Current Interfund Receivable/Payable</b>	<b>\$14,685,000.00</b>	<b>\$1,356,651.47</b>	
<b>NON-CURRENT PORTION</b>			
Enterprise Fund (05)			
Agy# 710, Appd Fund 0047, D23 Fund 0047 from Agy# 720, Appd Fund 0047, D23 Fund 0047	\$367,945,000.00	\$-	PUF Lone Star Program
Agy# 711, Appd Fund 7999, D23 Fund 7999 from Agy# 907, Appd Fund 0515, D23 Fund 0515	-	1,321,172.85	Lone Star Program
Agy# 715, Appd Fund 7999, D23 Fund 7999 from Agy# 907, Appd Fund 5005, D23 Fund 0515	-	4,125,815.35	Lone Star Program
Agy# 732, Appd Fund 7999, D23 Fund 7999 from Agy# 907, Appd Fund 5005, D23 Fund 0515	-	240,267.23	
<b>Total Non-Current Interfund Receivable/Payable</b>	<b>\$367,945,000.00</b>	<b>\$5,687,255.43</b>	
	Legislative Transfer In	Legislative Transfer Out	
<b>GENERAL REVENUE (01)</b>	<b>\$-</b>	<b>\$-</b>	
<b>Total Legislative Transfer</b>	<b>\$-</b>	<b>\$-</b>	

## Note 9: Contingent Liabilities

At August 31, 2008, various lawsuits and claims involving the A&M System and its members had arisen in the course of conducting A&M System business. While the ultimate liability with respect to litigation and other claims cannot be reasonably estimated at this time, management is of the opinion that the liability not provided for by insurance or otherwise, if any, for these legal actions will not have a material adverse effect on the A&M System's financial position.

## Note 10: Continuance Subject to Review

This note does not apply to the A&M System.

## Note 11: Risk Financing and Related Insurance

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

All commercial insurance policies include retention amounts (deductibles) for which the A&M System is responsible and for which A&M System members maintain funding reserve pools. Ongoing analysis of the risks facing the A&M System results in the continual evaluation of insurance policies purchased. During the past year, insurance coverage has changed. However, these changes do not represent a material increase in risk to the A&M System and losses have not exceeded funding arrangements during the past three years.

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

The workers' compensation plan is considered a funded employer liability pool. As of August 31, 2008, the workers' compensation incurred but not reported liability was based on actuarial analysis of claims history for fiscal years 1991 through 2007. The plan provides claims servicing and claims payments by charging a "cost allocation" assessment to each A&M System member based on a percentage of payroll.

The A&M System implemented a self-insured health and dental plan on September 1, 1994, which is also considered a funded pool. Premiums are determined through an actuarial pricing process that takes place each spring. The A&M System maintains an experience stabilization fund of \$27,937,130 that is comprised of excess premiums from previous years and is used to offset losses in a given year. Dental benefits under the plan are limited to \$1,500 per individual per year, so the potential for catastrophic loss is not a significant risk.

The Texas A&M Health Science Center College of Medicine has established a medical student liability self-insurance plan (the Plan) to provide eligible medical students of the Texas A&M Health Science Center College of Medicine with medical malpractice liability indemnity from and against medical malpractice claims. Limits of liability are \$25,000 per claim, \$75,000 aggregated per participant and \$100,000 annual aggregate. The Plan is funded through a student participation fee. At August 31, 2008, the Plan had a balance of \$172,195.20 with no accrued liabilities.

### EXHIBIT XVI

Plan	WCI	Health and Dental
IBNR Liability 9/1/07	\$11,734,000.00	\$10,571,592.00
CY Claims Plus Change in Estimates	(987,600.00)	123,186,355.00
Claims Payments	(1,575,904.00)	(123,519,595.00)
Other Items (changes in estimates)	-	-
<b>IBNR Liability 8/31/08</b>	<b>\$9,170,496.00</b>	<b>\$10,238,352.00</b>

## Note 12: Segment Information

The A&M System does not have any reportable segments.

## Note 13: Bonded Indebtedness

### A. FINANCIAL REPORTING

The A&M System has established a financing program known as the Revenue Financing System. Members of the A&M System may use the Revenue Financing System as a long-term debt program to finance new facilities or as a short-term debt program to finance equipment or to interim finance construction projects. Members' financing requests are evaluated for adequate revenue streams and bonding capacity.

Assets created as a result of the expenditures of Permanent University Fund and Revenue Financing System Bonds and Notes (see Note 5) proceeds, which are subsequently capitalized, are reported on the applicable members' Statement of Net Assets in the Capital Assets category. The associated bond liability is reported in total by the A&M System Administrative and General Offices.

As of August 31, 2008, \$144,639,797.96 of Revenue Financing System debt proceeds had been appropriated prior to the receipt of the proceeds. As of August 31, 2008, \$219,745,601.77 of Permanent University Fund debt proceeds had been appropriated prior to the receipt of the proceeds.

### B. GENERAL INFORMATION

At August 31, 2008, the A&M System had outstanding bonds payable of \$1,247,391,479.84 as detailed in Exhibit XVII, which does not include unamortized premium of \$13,204,879.12 or capital appreciation as discussed below.

Bonds payable are due in annual installments varying from \$175,000.00 to \$21,955,000.00 with interest rates ranging from 3.20% to 7.15%, with the final installment due in 2037. Principal and interest on outstanding capital appreciation bonds are not due until the maturity date of the bonds. Such additional principal for capital appreciation in the amount of \$8,520.16 is included in Exhibit XVIII in the total principal of \$1,247,400,000.00. Exhibit XVIII summarizes the principal and interest expense for the next five years and beyond for bonds issued and outstanding.

Revenue for debt service on the Permanent University Fund Bonds and Notes is derived from liens on and pledges of payout distributions from the Permanent University Fund allocable to the A&M System.

Sources of revenue for debt service on the Revenue Financing System Bonds and Notes are pledged revenue from any or all of the revenues, funds, and balances now or hereafter lawfully available to the Board and derived from or attributable to any participant of the Revenue Financing System which are lawfully available to the Board for the payment of Parity Obligations, including unrestricted funds and reserve balances.

All bonds are for the benefit of business-type activities. General information related to bonds payable is summarized in Exhibits XVII and XVIII.

<b>EXHIBIT XVII</b>	<b>Interest Rates</b>	<b>Maturity Dates</b>	<b>Outstanding Principal</b>
Permanent University Fund Bonds	4.50–5.50%	2008–2036	\$382,630,000.00
Revenue Financing System Bonds	3.20–7.15%	2008–2037	864,761,479.84
			<b>\$1,247,391,479.84</b>

<b>EXHIBIT XVIII</b>	<b>Principal</b>	<b>Interest</b>	<b>Total*</b>
Fiscal Year			
2009	\$81,490,000.00	\$61,185,255.04	\$142,675,255.04
2010	70,760,000.00	57,224,440.08	127,984,440.08
2011	72,765,000.00	53,817,327.50	126,582,327.50
2012	68,770,000.00	50,325,648.80	119,095,648.80
2013	74,165,000.00	46,895,901.28	121,060,901.28
2014-2018	367,235,000.00	176,409,021.50	543,644,021.50
2019-2023	273,235,000.00	96,945,485.06	370,180,485.06
2024-2028	141,760,000.00	42,041,699.98	183,801,699.98
2029-2033	61,235,000.00	17,467,112.50	78,702,112.50
2034-2037	35,985,000.00	3,688,050.00	39,673,050.00
<b>Total</b>	<b>\$1,247,400,000.00</b>	<b>\$605,999,941.74</b>	<b>\$1,853,399,941.74</b>

\* Includes capital appreciation; see preceding narrative for detail.



#### **Permanent University Fund Bonds, Series 1992A**

- Issued February 12, 1992, to advance refund a portion of the Board's previously issued and outstanding Permanent University Fund Bonds, Series 1988, then outstanding in the aggregate principal amount of \$50,000,000 and to pay the costs of issuing the bonds.
- \$49,239,976 authorized; all authorized bonds have been issued. \$28,210,000 was refunded by Permanent University Fund Bonds, Series 2003. Outstanding balance at August 31, 2008, was \$0.

#### **Permanent University Fund Bonds, Series 1998**

- Issued September 9, 1998, to refund \$65,000,000 of the Board's previously issued and outstanding Permanent University Fund Variable Rate Notes, Series B, and \$27,860,000 of Permanent University Fund Bonds, Series 1992B then outstanding in the aggregate principal amount of \$36,360,000, and to pay the costs of issuing the bonds.
- \$92,520,000 authorized; all authorized bonds have been issued. \$12,335,000 was refunded by Permanent University Fund Bonds, Series 2006. Outstanding balance at August 31, 2008, was \$44,505,000.

#### **Permanent University Fund Bonds, Series 2003**

- Issued April 3, 2003, to current refund \$28,210,000 of the Board's previously issued and outstanding Permanent University Fund Bonds, Series 1992A; to current refund \$35,590,000 of the Board's previously issued and outstanding Permanent University Fund Bonds, Series 1993; to advance refund \$31,080,000 of the Board's previously issued and outstanding Permanent University Fund Bonds, Series 1996; to advance refund \$12,500,000 of the Board's previously issued and outstanding Permanent University Fund Bonds, Series 1996A; and to pay the costs of issuing the bonds.
- \$102,645,000 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2008, was \$102,645,000.

#### **Permanent University Fund Bonds, Series 2004**

- Issued September 1, 2004, to current refund \$73,978,393 of the Board's previously issued and outstanding Permanent University Fund Flexible Rate Notes, to provide funds for construction and other capital improvements, and to pay the costs of issuing the bonds.
- \$79,715,000 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2008, was \$79,715,000.

#### **Permanent University Fund Bonds, Series 2006**

- Issued July 6, 2006, to current refund \$29,340,000 of the Board's previously issued and outstanding Permanent University Fund Bonds, Series 1996A, to advance refund \$12,335,000 of the Board's previously issued and outstanding Permanent University Fund Bonds, Series 1998, and to provide funds for construction and other capital improvements, and to pay for the costs of issuing the bonds.

- \$165,940,000 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2008, was \$155,765,000.

#### **Revenue Financing System Refunding Bonds, Series 1990A**

- Issued December 20, 1990, to refund Prior Encumbered Obligations of Tarleton State University, Prairie View A&M University, and Texas A&M University - Kingsville (formerly Texas A&I University); to restructure the debt service attributable to participants of the A&M System's Revenue Financing System; and to pay the costs of issuing the bonds.
- \$13,198,668 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2008, was \$166,479.84.

#### **Revenue Financing System Bonds, Series 1997**

- Issued July 17, 1997, to refund \$40,500,000 of the Board's previously issued and outstanding Revenue Financing System Commercial Paper Notes, Series B; to refund \$5,845,000 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 1990B; to refund \$1,825,000 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 1991C; to provide funds for construction of certain improvements; and to pay the costs of issuing the bonds.
- \$64,795,000 authorized; all authorized bonds have been issued. \$6,820,000 was refunded by Revenue Financing System Bonds, Series 2005A. \$15,730,000 was refunded by Revenue Financing System Bonds, Series 2005B. Outstanding balance at August 31, 2008, was \$2,610,000.

#### **Revenue Financing System Bonds, Series 1999**

- Issued August 9, 1999, to refund \$71,283,000 of the Board's previously issued and outstanding Revenue Financing System Commercial Paper Notes, Series B; to provide funds for certain capital improvements; and to pay the costs of issuing the bonds.
- \$195,520,000 authorized; all authorized bonds have been issued. \$32,755,000 was refunded by Revenue Financing System Bonds, Series 2005A. \$98,395,000 was refunded by Revenue Financing System Bonds, Series 2005B. Outstanding balance at August 31, 2008, was \$7,000,000.

#### **Revenue Financing System Bonds, Series 2001A**

- Issued June 14, 2001, to refund \$9,860,000 of the Board's previously issued and outstanding Revenue Financing System Commercial Paper Notes, Series B; to advance refund \$36,685,000 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 1995; and to provide for capital improvement projects.
- \$79,410,000 authorized; all authorized bonds have been issued. \$11,105,000 was refunded by Revenue Financing System Bonds, Series 2005A. Outstanding balance at August 31, 2008, was \$23,935,000.

#### **Note 14: Subsequent Events**

The A&M System intends to issue approximately \$50 million of Permanent University Fund Flexible Rate Notes during fiscal year 2009. In addition, during fiscal year 2009, the A&M System intends to issue up to \$200 million of Revenue Financing System Bonds to provide funding for project costs, convert commercial paper to long-term bonds for savings (if economical) and pay the costs of issuing the bonds. In addition, the A&M System expects to issue Revenue Financing System Commercial Paper for interim financing of tuition revenue bonds and other projects.

The months of September and October 2008 represented a deflationary economic environment where credit contracted, causing falling prices in housing, equities and commodities. Central banks around the world exerted concerted efforts to open up credit markets and restore capital flows. Although currently LIBOR rates and commercial paper rates have eased there is still the possibility that credit could experience difficulties going forward.

The coordinated global efforts to inject liquidity into the financial system by nature are inflationary. Lower interest rates and increased government loan programs to consumers and businesses may help stabilize prices and restore consumer spending; however, it has the potential to invite demand which would not have existed without government intervention which may result in much higher inflation.

The A&M System's investment portfolios are well diversified across asset classes, however, the declines in September and October 2008 had negative impacts on almost every investment asset class. A risk remains that continued uncertainty in the markets may lead to additional equity declines. However, this period also will provide opportunities to acquire assets at substantial discounts that will benefit returns over longer investment cycles.

#### **Note 15: Related Parties**

Various not-for-profit foundations benefit the A&M System and its component members through fundraising efforts; sources of funds include gifts, grants, bequests, investments, and rental and royalty income. Unless otherwise described, the governing bodies are not appointed by A&M System officials. The following information relates to these organizations:

**Texas A&M San Antonio Foundation** is a nonprofit foundation that was created to further the educational activities of Texas A&M University-Kingsville System Center-San Antonio, and when formed, Texas A&M University-San Antonio. The governing board of this organization is appointed by, and includes A&M System officials.

**Texas A&M University-Central Texas Foundation** is a nonprofit foundation that was created to further the educational activities of Tarleton State University-Central Texas, and when formed, Texas A&M University-Central Texas. The governing board of this organization is appointed by, and includes A&M System officials.

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

For the year ended August 31, 2008, the A&M System is reporting financial information in accordance with requirements set forth by GASB No. 34 and No. 35. Changes to the financial reports of the A&M System are discussed in Note 1. The A&M System has no material violations of finance related legal and contract provisions and no new component units are included in the financial report. Per the laws of the State of Texas, the A&M System cannot spend amounts in excess of appropriations granted by the Texas Legislature and there are no deficits reported in net assets or retained earnings.

#### **Note 17: 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.

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

The Texas A&M Research Foundation has been included in the combined financial statements of the A&M System since fiscal year 1990, at the direction of the State Auditor's Office. This determination is based on the close relationship and joint agreements in effect between the Research Foundation and the A&M System in regard to research grant/contract administration, as well as the fact that various officials of the A&M System serve as ex-officio voting and non-voting trustees, councilors and members of the executive committee of the Research Foundation.

Additionally, the Texas A&M Foundation has been included in the combined financial statements of the A&M System as a discretely presented component unit. The Foundation does not meet the State Comptroller's materiality requirements but does meet the materiality requirements of the A&M System.

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

Fund balances as of August 31, 2008, have been restated due to the following reasons: direction by the State Comptroller; analysis and reclassification of certain accounts, revenues or expenditures; and consolidation of certain line items on the primary exhibits.

## Note 19: Employees Retirement Plans

The State of Texas has joint contributory retirement plans for substantially all its employees. The contribution amounts for both the employee and the A&M System are set by the Texas Legislature and can change over time. One of the primary plans in which the A&M System participates is administered by the Teacher Retirement System of Texas. The contributory percentages of participant salaries provided by the State and by each participant during the fiscal year were 6.58% and 6.4%, respectively, of annual compensation.

The Teacher Retirement System of Texas does not separately account for each of its component governmental agencies, since the Retirement System bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. According to an independent actuarial evaluation as of August 31, 2008, the present value of the Teacher Retirement System's actual and projected liabilities, including projected benefits payable to its retirees and active members and their beneficiaries, was more than the assets of the Teacher Retirement System.

The retirement expense to the State for the A&M System TRS retirement program was \$19,809,699.75 for the year ended August 31, 2008. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the A&M System. Further information regarding actuarial assumptions and conclusions, together with audited financial statements, is included in the Teacher 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 Teacher Retirement System. The Optional Retirement Program provides for the purchase of annuity contracts and mutual funds. The contributory percentages of participant salaries during the fiscal year provided by the State and by each participant who was enrolled in the plan on or before August 31, 1995 were 8.5% and 6.65%, respectively. The 8.5% is composed of 6.58% contributed by the State and an additional 1.92% contributed by the A&M System. For participants who enrolled on or after September 1, 1995, the State and participant contributions were 6.58% and 6.65%, respectively. Since these are individual annuity contracts or custodial agreements, the State has no additional or unfunded liability for this program.

The contributions for the A&M System ORP retirement program was as follows:

### EXHIBIT XIX Optional Retirement Program

	Amount
Employer Contributions	\$40,835,937.00
Employee Contributions	35,792,232.00
<b>Total</b>	<b>\$76,628,169.00</b>

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

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

## Note 20: Deferred Compensation

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

The State's 457 Plan complies with IRC Section 457. This plan is referred to as the TexaSaver Deferred Compensation Plan (DCP) and is available to all employees. The DCP is a State plan, and the deductions, purchased investments and earnings attributed to the 457 Plan are the property of the State subject only to the claims of the State's general creditors. Participant's 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 A&M System also administers a Tax-Deferred Account (TDA) Program, created in accordance with IRC Section 403(b). All employees are eligible to participate. The TDA is a private plan, and the deductions, purchased investments, and earnings attributed to each employee's 403(b) plan are held by vendors chosen by the employee. The vendors may be insurance companies, banks, or approved non-bank trustees such as mutual fund companies. The assets of this plan do not belong to the A&M System or the State and thus do not have a liability related to this plan.

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

The Nonqualified Share Option Plan is designed to allow the transfer of shares of specific mutual funds to designated employees of the A&M System. The plan is structured under Section 83 of the Internal Revenue Code of 1986, as amended. All employees of the A&M System are eligible to participate in this plan subject to the approval of the Board of Regents, the chancellor, or any chancellor-designated A&M System member chief executive officer.

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

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

Distribution is made quarterly 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% of the 20-quarter average market value per unit as of the end of the previous February.

The amount of net appreciation for donor restricted true endowments is \$113,707,681.30. It is included on the Statement of Net Assets.

### **Note 23: Postemployment 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 to health plan coverage per full-time employee or retiree was \$375.94 per month for those enrolled in the "employee only" category, \$551.53 for "employee and spouse," \$485.69 for "employee and child(ren)," and \$639.33 for "employee and family."

For the year ended August 31, 2008, benefit plan expenditures totaled \$157,060,413. The cost of providing benefits for 6,595 retirees was \$36,284,181; and for 22,053 active employees the cost was \$120,776,232.

### **OTHER POSTEMPLOYMENT BENEFITS**

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, requires compliance by the A&M System and its members for the year ended August 31, 2008. Other Postemployment Benefits (OPEB) are benefits provided to the A&M System's retirees under the A&M System group insurance program. The authority under which the obligations of the plan members and the A&M System are established, and may be amended, is Chapter 1601, Texas Insurance Code.

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

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

For the year ended August 31, 2008, the A&M System has an unfunded present value liability of \$1,993,236,000 and a normal cost of \$79,219,000. The A&M System has elected to amortize the liability over a 30-year period, which results in an Annual Required Contribution (ARC) of \$176,593,000 for the reporting period. Plan contributions by the A&M System in fiscal year 2008 were \$36,284,181, resulting in a net liability of \$140,308,819.

The information presented herein was determined as part of an actuarial valuation process using actuarial methods and assumptions. The calculation is based on an entry-age normal actuarial method, 7.0% discount rate, 6.0% ultimate trend and a 4.0% inflation rate. A change in any of these assumptions could have a significant effect on the results of the actuarial calculation presented above.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of future events. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

## Note 24: Special and Extraordinary Items

The A&M System does not have any special or extraordinary items to report for the year ended August 31, 2008.

## Note 25: Disaggregation of Receivable and Payable Balances

A summary of accounts receivable and accounts payable balances for the year ended August 31, 2008, is presented below:

The contributions for the A&M System ORP retirement program was as follows:

### EXHIBIT XX Accounts Receivable

	Total
<b>CURRENT ACCOUNTS RECEIVABLE:</b>	
Federal Receivables	\$94,954,324.17
State of Texas Receivables	17,810,772.02
Other Intergovernmental	5,635,565.70
Interest and Dividends	6,187,520.32
Gift, Pledges, Donations	11,538,859.31
Student Receivables	17,765,633.80
Investment Trade Receivables	70,751,351.39
Other Receivables	84,576,668.85
<b>Total Current Accounts Receivable:</b>	<b>\$309,220,695.56</b>
<b>OTHER RECEIVABLES:</b>	
Departmental Receivable-Manual	\$2,080,927.11
Travel Advance Receivable	823,044.69
Petty Cash Receivable	263,596.92
Accts. Receivable - Returned Checks	271,863.43
Unbilled Receivables-Private/Local	7,569,185.41
Service Department Receivable	36,737,250.03
Grants Receivable	2,613,301.43
Customer Receivable	32,241,379.85
Allowance for Doubtful Accounts	(1,351,577.10)
Veterinary Hospital Receivables	1,577,878.70
Deferred Compensation Plans	400,000.00
Other	1,349,818.38
<b>Total Other Receivables:</b>	<b>\$84,576,668.85</b>

### EXHIBIT XXI Accounts Payable

	Total
<b>CURRENT ACCOUNTS PAYABLE:</b>	
Accounts Payable	\$105,837,544.81
Payroll Payable	104,131,810.92
Investment Trade Payables	64,987,210.30
Other Payables	18,180,568.03
<b>Total Current Accounts Payable:</b>	<b>\$293,137,134.06</b>
<b>OTHER PAYABLES:</b>	
Retainage Payable	\$407,582.95
Sales Tax Payable	1,025,535.39
Student Liabilities	8,206,609.33
Grants Payable	770,059.94
Purchase Card Payable	2,417,478.08
Group Medical Insurance Payable	480,600.51
Loan Payment Disbursements Payable	2,574,704.40
Other	2,297,997.43
<b>Total Other Payables:</b>	<b>\$18,180,568.03</b>

## Note 26: Termination Benefits

In accordance with GASB No. 47, Accounting for Termination Benefits, the A&M System paid voluntary termination benefits of \$11,635.37. Included in current liabilities are commitments for salaries and wages and payroll related to costs related to these terminations.

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

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

COBRA benefits for the A&M System for the ended August 31, 2008 are as follows:

<b>EXHIBIT XXII Termination Benefits - COBRA</b>	<b>Self-Insured Medical Plan</b>	<b>Self-Insured Dental Plan</b>	<b>Fully-Insured Medical HMO Plans</b>	<b>Fully-Insured Dental Plan</b>	<b>Fully-Insured Vision Plan</b>
Number of Participants	205	109	60	47	71
Premium Revenue	\$703,304	\$36,681			
2 Percent Administrative Fee Revenue	14,066	734			
<b>Total COBRA Revenue</b>	<b>717,370</b>	<b>37,415</b>			
Claims Paid	1,434,515	39,857			
Administrative Expenses	21,666	3,074			
<b>Total COBRA Expenses</b>	<b>1,456,181</b>	<b>42,931</b>			
<b>Total Cost to State</b>	<b>\$738,811</b>	<b>\$5,516</b>			



## UNIVERSITIES

Texas A&M University  
Prairie View A&M University  
Tarleton State University  
Texas A&M International University  
Texas A&M University-Corpus Christi  
Texas A&M University-Kingsville  
West Texas A&M University  
Texas A&M University-Commerce  
Texas A&M University-Texarkana  
Texas A&M Health Science Center

## AGENCIES

Texas AgriLife Research  
Texas Engineering Experiment Station  
Texas AgriLife Extension Service  
Texas Forest Service  
Texas Engineering Extension Service  
Texas Transportation Institute  
Texas Veterinary Medical Diagnostic Laboratory

