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**A SPECIAL REPORT FOR  
THE SOUTHERN ASSOCIATION OF COLLEGES AND SCHOOLS ON  
ANGELO STATE UNIVERSITY  
JUNE 1997**

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State Auditor's Report

June 25, 1997

Dr. E. James Hindman, President  
Angelo State University  
2601 West Avenue N  
San Angelo, Texas 76909

Dear Dr. Hindman:

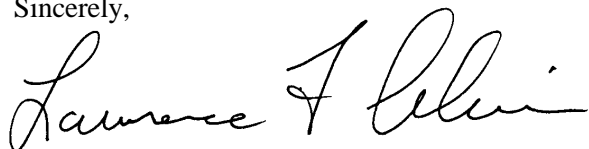
We have applied certain agreed-upon procedures (as discussed on page 3) to the Current Funds Balance Sheet of Angelo State University (University) as of August 31, 1996, and August 31, 1995; the Statement of Current Funds Expenditures for the years then ended; and the related Notes (Financial Statements). The procedures were performed solely to assist the Southern Association of Colleges and Schools (Southern Association), in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is the responsibility of the Southern Association and the University. All information in the above-mentioned items is the representation of the management of the University.

In connection with the procedures referred to above, we noted that the Balance Sheets in Angelo State University's 1996 and 1995 *Annual Financial Reports* contained errors. The errors included not accruing August 1996 payrolls and reporting some of the Fund Balance categories incorrectly in both years. The Balance Sheets in this special report have been adjusted to properly reflect Cash and Temporary Investments, Balances in State Appropriations, Accrued Liabilities, and Fund Balance categories.

No other exceptions were noted as a result of our agreed-upon procedures. Because the procedures do not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on any of the accounts or items referred to above. Had we performed additional procedures or had we conducted an audit of the financial statements in accordance with generally accepted auditing standards, matters might have come to our attention that would have been reported to you. This report relates only to the Current Funds Balance Sheet, the Statement of Current Funds Expenditures, and the related Notes and does not extend to any financial statements of the University taken as a whole. These Financial Statements are not intended to be a complete presentation of the financial position and results of operations of Angelo State University.

This report is intended for use of the Board of Regents of the Texas State University System, management of the University, and the Southern Association. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,



State Auditor  
Lawrence F. Alwin, CPA

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## Agreed-Upon Procedures Angelo State University

We performed agreed-upon procedures for the Southern Association of Colleges and Schools for its accreditation review of Angelo State University (University) for fiscal years 1996 and 1995. The agreed-upon procedures, applied to the Current Funds Balance Sheet of the University as of August 31, 1996, and August 31, 1995; the Statement of Current Funds Expenditures for the years then ended; and the related Notes (Financial Statements), are detailed as follows:

- a. We compiled the accompanying Current Funds Balance Sheet, the Statement of Current Funds Expenditures, and the related Notes to present the financial position and expenditures by function of the University's Current Funds as of August 31, 1996, and August 31, 1995. These Financial Statements were prepared pursuant to criteria of the Southern Association for supplementary special reports by institutions in states which conduct statewide audits.
- b. We performed analytical procedures, including ratio analyses designed to identify relationships and individual items that appeared to be unusual. We obtained and verified management's explanations for significant fluctuations in accounts for the Current Funds Balance Sheet and the related Statement of Current Funds Expenditures at August 31, 1996, and August 31, 1995, respectively, and confirmed the validity of such explanations as considered necessary.
- c. We reviewed the Financial Statements to determine whether they appeared to conform with applicable requirements described in the *Annual Financial Reporting Requirements for Colleges and Universities* (AFR Requirements) for 1996 and 1995 published by the Texas Comptroller of Public Accounts.
- d. We agreed balances identified as significant per our materiality threshold to the supporting general ledger, and we reviewed significant accounting adjustments made in the current and preceding years by the University or its System Offices.
- e. For the accounts included in Cash and Temporary Investments (1996 and 1995) and Investments (1995 only), we reviewed year-end reconciliations, agreed them to the respective bank or custodian statements, and traced material/significant or unusual items to subsequent clearing. We inquired as to whether appropriate cutoff of transactions was made (for the current and preceding year) and, additionally for Investments (1995 only), we inquired as to whether appropriate consideration had been given to the allocation of investments between Current Funds and Noncurrent Funds.
- f. We reviewed, verified, and modified the Notes to the Financial Statements prepared by the University to ensure they were accurate and complete, that they disclosed all necessary items, and that they were in conformity with AFR Requirements.
- g. We inquired of persons having responsibility for financial accounting matters concerning questions which have arisen in the course of applying the foregoing procedures, changes in the University's activities, accounting principles and practices, accounting systems, computer systems, key personnel, and events subsequent to the date of the Financial Statements that would have a material effect on them.
- h. We reviewed board minutes for actions that may affect the Financial Statements.

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# Current Funds Balance Sheet at August 31, 1996

	Total Current Funds
<b><u>Assets</u></b>	
Cash and Temporary Investments	\$ 14,675,237
Balance in State Appropriations	3,266,218
Accounts Receivable	593,521
Due From Other Funds	194,268
Investments	4,321,189
Accrued Interest Receivable	136,131
Prepaid Expenses	3,134,599
Federal Receivables	97,935
Consumable Inventories	452,241
Inventories, at Cost	<u>1,327</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 26,872,666</u></b>
 <b><u>Liabilities and Fund Balances</u></b>	
<b>Liabilities</b>	
Accounts Payable	\$ 513,924
Accrued Liabilities	1,763,057
Deposits Payable	367,003
Due to Other Funds	48,044
Deferred Revenues	5,334,534
Accrued Compensable Absences Payable	<u>513,872</u>
<b>Total Liabilities</b>	<b><u>\$ 8,540,434</u></b>
 <b>Fund Balances</b>	
Unrestricted	
Reserved for	
Encumbrances	\$ 622,008
State Appropriations to be Lapsed	400,576
Petty Cash	24,500
Accounts Receivable	640,461
Consumable Inventories	453,568
Prepaid Expenses	631,077
Communication Reserve	267,307
Other Specific Purposes	100,000
Unreserved	
Allocated	8,612,322
Unallocated	949,936
Restricted	
Encumbrances	20,615
Other	<u>5,609,862</u>
<b>Total Fund Balances</b>	<b><u>\$ 18,332,232</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 26,872,666</u></b>

## Statement of Current Funds Expenditures for the Fiscal Year Ended August 31, 1996

	<u>Total Current Funds</u>
<b>Educational and General Expenditures</b>	
Instruction	\$ 17,916,827
Research	609,764
Public Service	612,982
Academic Support	2,153,930
Student Services	1,369,690
Institutional Support	3,565,537
Operation and Maintenance of Plant	2,752,526
Scholarships and Fellowships	<u>3,904,766</u>
<b>Total Educational and General Expenditures</b>	<b>\$ 32,886,022</b>
 <b>Auxiliary Enterprises Expenditures</b>	 <u>8,098,954</u>
<b>TOTAL CURRENT FUNDS EXPENDITURES</b>	 <u><u>\$ 40,984,976</u></u>

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

# Notes to the Financial Statements for the Fiscal Year Ended August 31, 1996

## General Introduction

This special report has been prepared for the use of the Southern Association of Colleges and Schools (Southern Association) in connection with the review of Angelo State University for accreditation purposes. This report includes a Current Funds Balance Sheet, a Statement of Current Funds Expenditures, and the related Notes (Financial Statements).

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

Institutions in this category must provide either a separate report or a consolidated balance sheet. The Southern Association requires state colleges and universities audited in this manner to have a Special Report which includes Current Funds expenditure classifications and amounts in accordance with generally accepted principles of institutional accounting and the institution's Current Funds Balance Sheet.

The significant accounting policies followed by the University in maintaining accounts and in preparing financial statements are in accordance with the *1996 Annual Financial Reporting Requirements for Colleges and Universities* of the Texas Comptroller of Public Accounts. These requirements follow, as nearly as practicable:

- The American Institute of Certified Public Accountants (AICPA) Industry Audit Guide, *Audits of Colleges and Universities*, 1994 Edition
- *Financial Accounting and Reporting by Colleges and Universities*, as modified by applicable Financial Accounting Standards Board (FASB) pronouncements
- Modifications resulting from applicable Governmental Accounting Standards Boards (GASB) pronouncements cited in Codification Section Co5, "Colleges and Universities"

The requirements are also in substantial conformity with the *Financial Accounting and Reporting Manual for Higher Education* published by the National Association of College and University Business Officers (NACUBO).



## Summary of Significant Accounting Policies

### Basis of Accounting

The accompanying Financial Statements present the financial position and expenditures of Angelo State University on the modified accrual basis. The Financial Statements presented are in accordance with the specifications of, and for the use of, the Southern Association. They do not constitute a complete set of Financial Statements and are not designed for general purpose use.

### Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of the resources available to Angelo State University, accounts are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying Financial Statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported for the fund group referred to as Current Funds.

The Current Funds fund group used at Angelo State University in these specific Financial Statements is composed of those funds available for current operating and maintenance purposes as well as those restricted by donors and other outside agencies for specific operating purposes. Current Funds are segregated by the University into separate balanced fund groups as follows:

- **Educational and General** - Funds for administration, institutional expense, instruction and departmental research, physical plant operation, libraries, and other items relating to instruction.
- **Designated** - Funds arising from sources that have been designated by the Board of Regents to be used for special purposes. This fund distinguishes such internally designated funds from externally restricted funds as well as other current funds. Service department funds, revolving and clearing accounts are also included in this fund group.
- **Auxiliary Enterprises** - Funds for activities which furnish a service to students, faculty, or staff for which charges are made that are directly related to, although not necessarily equal to, the cost of the service, such as residence halls, food services, and bookstores.
- **Restricted** - Funds available for current purposes, the use of which has been restricted by outside agencies or persons. Revenues are reported only to the extent of expenditures for the current year.

Other fund groups used by Angelo State University, but not included in these specific Financial Statements because they are for noncurrent purposes or funds held in custody for others, are as follows:

- **Loan Funds** - Funds available for loans to students.
- **Endowment Funds** - Funds subject to restrictions of endowment and trust instruments requiring that principal be maintained and that only the income be used.
- **Plant Funds** - Plant Funds are segregated into the following balanced fund groups:
  - **Unexpended Plant Funds** - Funds to be used for construction, rehabilitation, and acquisition of physical properties for institutional purposes.
  - **Renewals and Replacements** - Funds accumulated for the renewal and replacement of physical properties.
  - **Retirement of Indebtedness** - Funds accumulated to meet debt service charges and the retirement of indebtedness.
  - **Investment in Plant** - Funds already expended for plant properties. Physical properties are stated at cost at date of acquisition or estimated fair market value at date of donation for gifts and fair value at August 31, 1996, for livestock. Depreciation on physical plant and equipment is not recorded.
- **Agency Funds** - Funds held by the University as custodial or fiscal agent for students, faculty members, and others.

The terms and definitions, as subsequently presented, are used to enhance the information provided in reporting of fund balances. The presentation format for fund balances is not required by generally accepted accounting principles (GAAP); however, it is considered useful as it provides further insights into the availability and anticipated use of funds.

- **Unrestricted Fund Balances** - These represent the net accumulation of the excess revenues and other additions over expenditures, other deductions, and transfers for specific fund groups. As a general rule, they are available for future operating purposes and their use is determined by the Board of Regents.

Unrestricted fund balances are further classified as reserved or unreserved as follows:

- **Reserved** - That portion of the unrestricted fund balances that is allocated for third-party claims against resources that have not materialized as of balance sheet date. Assets identified as reserved are of a nonmonetary nature or lack liquidity; therefore, they are not available for current appropriations or expenditure.
- **Unreserved** - All unrestricted fund balances that are not reserved. Unreserved fund balances are classified as allocated or unallocated as follows:

- Allocated - That portion of the unrestricted fund balances that has been identified for specific future use by the Board or institutional management.

Also classified as allocated are unencumbered balances of legislative appropriations from the State's general revenue that have been reappropriated to the University for use in the subsequent year.

- Unallocated - Fund balances that are available for future operating purposes as determined by subsequent Board or institutional management directives.

### Financing of Plant Assets

To the extent that Current Funds are used to finance plant assets, the amounts so provided are accounted for as expenditures in the case of normal replacement of movable equipment and library books.

### Other Significant Accounting Policies

Other significant accounting policies are set forth in the Financial Statements and the Notes thereto.

### Note 1: Authorized Investments

Angelo State University is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act of 1995 (Government Code, Chapter 2256). Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) obligations of political subdivisions rated not less than A by a national investment rating firm, (4) certificates of deposit, and (5) other instruments and obligations authorized by statute.

Note 2: Deposits and Investments

**DEPOSITS OF CASH IN BANK**

The carrying amount of \$3,959,341 for Cash in Bank (including restricted assets) is presented in Exhibit A below.

The bank balance of Angelo State University has been classified according to the following risk categories:

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

Exhibit A

<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
\$ 3,959,341	\$ 3,287,301	\$ 3,287,301		

**Cash and Deposits**

Bank Deposits			
Demand Deposits			\$ 3,959,341
Cash and Cash Equivalents			
Petty Cash		\$ 14,451	
Local Funds in State Treasury		2,026,664	
Reimbursements in Transit		<u>31,662</u>	
Total Cash and Cash Equivalents			<u>2,072,777</u>
Total Current Funds Cash and Deposits			<u><u>\$ 6,032,118</u></u>

## INVESTMENTS

To comply with the reporting requirements of GASB Statement No. 3, *Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, Angelo State University's investments are categorized in the tabulation titled "Investment Categories" to give an indication of credit risk assumed by the University at year end.

Credit risk is the risk that another party to a deposit or investment transaction will not fulfill its obligations. This is not to be confused with market risk, which is the risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline. Market risk is not depicted in this note.

The following categories of credit risk are included:

- Category 1:** Investments that are insured or registered or for which the securities are held by the University or its agent in the University's name.
- Category 2:** Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or University in the University's name.
- Category 3:** Uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the University's name.

Investment Categories					
Type of Security	Category			Carrying Amount	Market Value
	1	2	3		
<u>Categorized Investments</u>					
U.S. Government Securities	\$1,348,750			\$ 1,348,750	\$ 1,324,013
CMOs	2,958,447			2,958,447	2,442,573
Common Stock - Equities	<u>6,092</u>			<u>6,092</u>	<u>7,766</u>
TOTALS	<u>\$ 4,313,289</u>			\$ 4,313,289	\$ 3,774,352
Uncategorized Investments:					
TexPool				8,643,119	8,643,119
Real Estate				<u>7,900</u>	<u>7,900</u>
TOTAL INVESTMENTS				<u>\$ 12,964,308</u>	<u>\$ 12,425,371</u>
Total Cash and Deposits				\$ 6,032,118	
Total Investments				<u>12,964,308</u>	
TOTAL DEPOSITS AND INVESTMENTS				<u>\$ 18,996,426</u>	
<u>Balance Sheet Presentation</u>					
Cash and Temporary Investments				\$ 14,675,237	
Investments				<u>4,321,189</u>	
TOTAL DEPOSITS AND INVESTMENTS				<u>\$ 18,996,426</u>	

### Derivative Investing

Derivatives are financial instruments (securities or contracts) whose value is linked to, or "derived" from, changes in interest rates, currency rates, and stock and commodity prices. Derivatives cover a broad range of financial instruments such as forwards, futures, options, swaps, and mortgage derivatives. Mortgage derivatives are influenced by changes in interest rates, the current economic climate, and the geographic make-up of underlying mortgage loans. There are varying degrees of risk associated with mortgage derivatives. For example, Planned Amortization Class (PACs) Collateralized Mortgage Obligations (CMOs) are considered a more conservative, lower-risk investment. In contrast, principal-only and interest-only strips are considered higher-risk investments.

Angelo State University's Current Funds investments in derivatives comprise 23 percent of total investments as of August 31, 1996, with a carrying value and market value of \$2,958,447 and \$2,442,573, respectively.

The majority of these investments were purchased prior to fiscal year 1995. In 1995, the Texas Legislature took steps to limit state entities' and local governments' ability to invest in high-risk derivatives by amending the Public Funds Investment Act. These statutory limitations do not apply to institutions of higher education having total endowments of at least \$95 million. Angelo State University is in compliance with the Public Funds Investment Act.

### **Note 3: Employee Benefits**

#### **A. Employees' Retirement Plan**

The State of Texas has joint contributory retirement plans for substantially all of its employees. One of the primary plans in which the University participates is administered by the Teacher Retirement System of Texas (TRS). As of August 31, 1996, the contributory percentages of participant salaries provided by the State and by each participant are 6.0 percent and 6.4 percent, respectively, of annual compensation.

The Teacher Retirement System does not separately account for each of its component government agencies, since TRS itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. According to an independent actuarial evaluation as of August 31, 1996, the present value of TRS's actual and project liabilities, including projected benefits payable to its retirees and active members and their beneficiaries, was in excess of the assets of TRS. However, the actuary projected that such assets, augmented by projected future contributions and earnings, would be sufficient to amortize the unfunded difference over a period of 11.3 years, assuming payroll growth of 4.25 percent per year. Further information regarding actuarial assumptions and conclusions, together with audited financial statements, are included in TRS'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. As of August 31, 1996, the contributory percentages of participant salaries provided by the State and each participant are 8.5 percent, and 6.65 percent, respectively. Since these are individual annuity contracts, the State has no additional or unfunded liability for this program.

The retirement expense to the State for the University was \$844,979 for the fiscal year ended August 31, 1996. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the University.

#### **B. Deferred Compensation Program**

University employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Texas Government Code, Section 609.001. Two plans are available for employees' deferred compensation plan. Both plans are administered by the Employees Retirement System (ERS).

The State's 457 plan complies with the Internal Revenue Code Section 457. 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. Participants' rights under the plan are 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. As of August 31, 1996, the University had one employee participating in the 457 program. A total of \$600 in payroll deductions was invested in the 457 plan during the fiscal year.

The State also administers another plan, "TexSaver" created in accordance with Internal Revenue Code Section 401(k). However, the assets of this plan do not belong to the State, nor does the State have a liability related to this plan.

#### C. Post-Employment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provided certain health care and life insurance benefits for retired employees, in accordance with state statutes. Substantially all employees may become eligible for those benefits if they reach normal retirement age while working for the State. Angelo State University participates in the ERS insurance plans. The information regarding the State's contribution, the number of eligible retirees, and the cost of providing those benefits is included in the notes to the annual financial report of ERS.

#### **Note 4: Compensated Absences**

Full-time state employees earn annual leave from 7 to 14 hours per month depending on the respective employee's years of State employment. The State's policy is that an employee may carry his or her accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours up to 376 for those employees with 20 or more years of state service. Employees with at least six months of state service who terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed.

The University recognizes and reports the accrued liability for the unpaid annual leave in the Unrestricted Current Funds, and it appears on the Current Funds Balance Sheet. This liability is determined through the summarization of each employee's annual leave balance multiplied by their respective year-end salary rate. Estimated accrued compensable absences payable on August 31, 1996, were \$513,872.

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 or her death. The maximum sick leave that may be paid an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The University's policy is to recognize the cost of sick leave when paid and the liability is not shown in the financial statements since experience indicates the expenditure for sick leave to be minimal.



**Note 5: Pending Lawsuits and Claims**

At August 31, 1996, there were no lawsuits or claims pending against the University.

**Note 6: Funds Held in Trust by Others**

The balances, or transactions, of funds held in trust by others on behalf of Angelo State University are not reflected in the financial statements. At August 31, 1996, there were two such funds for the benefit of the University. Based upon the most recent available information, the assets of these funds are reported by the Trustees at values totaling \$1,515,585.

**Note 7: Contract and Grant Awards**

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, *Audits of Colleges and Universities*. Funds received but not expended during the reporting period are shown as additions to fund balance. Revenues are recognized as funds are actually expended. For federal contract and grant awards, funds expended but not collected are reported as Federal Receivables. Non-federal contract and grant awards for which funds are expended but not collected are reported as Accounts Receivable. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract and grant awards funds already committed, (for example, multi-year awards), or funds awarded during fiscal year 1996 for which moneys have not been received or funds expended totaled \$84,090. Of this amount, all was from Federal Contract and Grant Awards.

**Note 8: Risk Financing and Related Insurance**

The University has various self-insured arrangements for coverage in the areas of workers' compensation and unemployment compensation. Workers' compensation and unemployment compensation plans are on a pay-as-you-go basis in which no assets are set aside.

**Note 9: Related Parties**

The Angelo State University Foundation is a nonprofit organization with the sole purpose of supporting educational and other activities of the University. The assets of the Foundation are managed under a Fiduciary Agreement by the Norwest Bank Texas, N.A., San Angelo, Texas. The Foundation remitted unrestricted gifts of \$85,000 to the University during the year ended August 31, 1996. Since the assets are managed externally, the Foundation does not have any employees. The only services provided by the University is the keeping of the minutes.

The Ex-Students Association contributed \$10,405 to the University during the 1996 fiscal year for operation of the Alumni Office. The University paid \$47,067 above the contributed amount for maintaining the records on the students who have graduated from the University. The University also provided office space and utilities to the Alumni Office.

The Angelo State University President's Circle is a nonprofit organization with the sole purpose of supporting educational and other activities of the University. The President's Circle solicits donations and acts as Coordinator of Gifts made by other parties. The President's Circle expended \$27,774 on behalf of the University during the year ended August 31, 1996. During the year the University furnished limited staff assistance to the President's Circle.

#### **Note 10: Robert G. Carr and Nona K. Carr Scholarship Foundation**

On September 1, 1980, the Robert G. Carr Estate transferred certain assets totaling \$6,815,644 to the Texas State University System Board of Regents, trustees of the Robert G. Carr and Nona K. Carr Scholarship Foundation. The Scholarship Foundation was established for the benefit of Angelo State University under provisions of the Last Will and Testament of Robert G. Carr, whose death occurred on March 17, 1978. This principal fund included \$2,986,880 in cash, and \$3,828,765 in oil, gas, and mineral properties.

On September 1, 1989, the Nona K. Carr Estate transferred certain assets totaling \$5,098,288 to the Texas State University System Board of Regents, trustees of the Robert G. Carr and Nona K. Carr Scholarship Fund, which was established for the benefit of Angelo State University under provision of the Last Will and Testament of Robert G. Carr. Nona K. Carr died on June 17, 1987. This principal fund included \$2,089,219 in cash and \$3,009,069 in oil, gas, and mineral properties.

Prior to the 1996 fiscal year, the Scholarship Foundation received payments for oil and gas royalties, oil and gas lease rental and bonuses, and oil and gas payment commissions totaling \$36,473,832 and realized an appreciation on investments of \$748,736. During the 1996 fiscal year, the Scholarship Foundation received payments for oil and gas royalties, oil and gas lease rentals and bonuses, and oil and gas payment commissions, and refunds totaling \$2,114,641.

All principal fund cash that is received by the Scholarship Foundation is transferred to Bankers Trust Company of the Southwest as master custodian for investment with Vaughan, Nelson, Scarborough & McConnell, Inc. and Scudder Global Bond Investment Trust as investment managers for the Scholarship Foundation.

The value at which oil, gas, and other mineral properties is carried on the Financial Statements is the value that was agreed to in the settlement with the Internal Revenue Service of the Federal Estate Tax Liability of the Estate of Robert G. Carr. No provision has been made for depletion of these properties. The interest income earned on the Trust is transferred to the Angelo State University Robert G. Carr and Nona K.

Carr Scholarship and expense funds. During the 1996 fiscal year, the investment income received from the investment agent totaled \$2,688,093. Of this amount, \$505,000 was transferred by the trustees to the Foundation Trust Estate Expense Account for the payment of salaries and wages and other operating expenses of the Scholarship Foundation. Disbursements from the expense account for the 1996 fiscal year totaled \$476,496. The remaining \$2,183,093 was transferred to the Angelo State University Robert G. Carr and Nona K. Carr Scholarship Foundation Account.

During the 1996 fiscal year, the Scholarship Foundation Account earned interest totaling \$139,751.

Total scholarships awarded prior to the 1996 fiscal year amounted to \$21,465,354. During the 1996 fiscal year, scholarship awards amounted to \$1,797,925. It is estimated that the amount of annual scholarship awards from the scholarship fund will total \$1,750,000 in fiscal year 1997.

The records of the Scholarship Foundation are audited annually by the firm of Hall, Bachman, McDonough, Pruett and Chilton, Certified Public Accountants, San Angelo, Texas.

**Note 11: Interfund Borrowing**

All interfund borrowing is payable within one year without interest.

## Current Funds Balance Sheet at August 31, 1995

	Total Current Funds
<b><u>Assets</u></b>	
Cash and Temporary Investments	\$ 12,311,192
Balance in State Appropriations	1,863,952
Accounts Receivable	375,591
Due From Other Funds	189,271
Investments	4,090,791
Accrued Interest Receivable	119,151
Prepaid Expenses	2,795,724
Federal Receivables	73,555
Consumable Inventories	435,203
Inventories, at Cost	<u>1,327</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 22,255,757</u></b>
 <b><u>Liabilities and Fund Balances</u></b>	
<b>Liabilities</b>	
Accounts Payable	\$ 674,323
Accrued Liabilities	1,550,935
Deposits Payable	351,238
Due to Other Funds	12,425
Deferred Revenues	5,363,870
Accrued Compensable Absences Payable	<u>484,347</u>
<b>Total Liabilities</b>	<b><u>\$ 8,437,138</u></b>
 <b>Fund Balances</b>	
Unrestricted	
Reserved for	
Encumbrances	\$ 746,525
State Appropriations to be Lapsed	98,327
Petty Cash	24,500
Accounts Receivable	391,446
Consumable Inventories	436,530
Prepaid Expenses	762,811
Communication Reserve	252,301
Other Specific Purposes	100,000
Unreserved	
Allocated	5,262,653
Unallocated	875,355
Restricted	
Encumbrances	19,291
Other	<u>4,848,880</u>
<b>Total Fund Balances</b>	<b><u>\$ 13,818,619</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 22,255,757</u></b>

## Statement of Current Funds Expenditures for the Fiscal Year Ended August 31, 1995

	Total Current <u>Funds</u>
<b>Educational and General Expenditures</b>	
Instruction	\$ 17,364,886
Research	441,701
Public Service	578,097
Academic Support	1,934,260
Student Services	1,152,294
Institutional Support	3,054,392
Operation and Maintenance of Plant	2,715,353
Scholarships and Fellowships	<u>3,559,236</u>
<b>Total Educational and General Expenditures</b>	<b>\$ 30,800,219</b>
 <b>Auxiliary Enterprises Expenditures</b>	 <u>8,115,628</u>
<b>TOTAL CURRENT FUNDS EXPENDITURES</b>	<b><u><u>\$ 38,915,847</u></u></b>

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

# Notes to the Financial Statements for the Fiscal Year Ended August 31, 1995

## General Introduction

This special report has been prepared for the use of the Southern Association of Colleges and Schools (Southern Association) in connection with the review of Angelo State University for accreditation purposes. This report includes a Current Funds Balance Sheet, a Statement of Current Funds Expenditures, and the related Notes (Financial Statements).

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

Institutions in this category must provide either a separate report or a consolidated balance sheet. The Southern Association requires state colleges and universities audited in this manner to have a Special Report which includes Current Funds expenditure classifications and amounts in accordance with generally accepted principles of institutional accounting and the institution's Current Funds Balance Sheet.

The significant accounting policies followed by the University in maintaining accounts and in preparing financial statements are in accordance with the *1996 Annual Financial Reporting Requirements for Colleges and Universities* of the Texas Comptroller of Public Accounts. These requirements follow, as nearly as practicable:

- The American Institute of Certified Public Accountants (AICPA) Industry Audit Guide, *Audits of Colleges and Universities*, 1994 Edition
- *Financial Accounting and Reporting by Colleges and Universities*, as modified by applicable Financial Accounting Standards Board (FASB) pronouncements
- Modifications resulting from applicable Governmental Accounting Standards Boards (GASB) pronouncements cited in Codification Section Co5, "Colleges and Universities"

The requirements are also in substantial conformity with the *Financial Accounting and Reporting Manual for Higher Education* published by the National Association of College and University Business Officers (NACUBO).

## Summary of Significant Accounting Policies

### Basis of Accounting

The accompanying Financial Statements present the financial position and expenditures of Angelo State University on the modified accrual basis. The Financial Statements presented are in accordance with the specifications of, and for the use of, the Southern Association. They do not constitute a complete set of Financial Statements and are not designed for general purpose use.

### Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of the resources available to Angelo State University, accounts are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying Financial Statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported for the fund group referred to as Current Funds.

The Current Funds fund group used at Angelo State University in these specific Financial Statements is composed of those funds available for current operating and maintenance purposes as well as those restricted by donors and other outside agencies for specific operating purposes. Current Funds are segregated by the University into separate balanced fund groups as follows:

- **Educational and General** - Funds for administration, institutional expense, instruction and departmental research, physical plant operation, libraries, and other items relating to instruction.
- **Designated** - Funds arising from sources that have been designated by the Board of Regents to be used for special purposes. This fund distinguishes such internally designated funds from externally restricted funds as well as other current funds. Service department funds, revolving and clearing accounts are also included in this fund group.
- **Auxiliary Enterprises** - Funds for activities which furnish a service to students, faculty, or staff for which charges are made that are directly related to, although not necessarily equal to, the cost of the service, such as residence halls, food services, and bookstores.
- **Restricted** - Funds available for current purposes, the use of which has been restricted by outside agencies or persons. Revenues are reported only to the extent of expenditures for the current year.

Other fund groups used by Angelo State University, but not included in these specific Financial Statements because they are for noncurrent purposes or funds held in custody for others, are as follows:

- **Loan Funds** - Funds available for loans to students.
- **Endowment Funds** - Funds subject to restrictions of endowment and trust instruments requiring that principal be maintained and that only the income be used.
- **Plant Funds** - Plant Funds are segregated into the following balanced fund groups:
  - **Unexpended Plant Funds** - Funds to be used for construction, rehabilitation, and acquisition of physical properties for institutional purposes.
  - **Renewals and Replacements** - Funds to be used for renewal and replacement of physical properties.
  - **Retirement of Indebtedness** - Funds accumulated to meet debt service charges and the retirement of indebtedness.
  - **Investment in Plant** - Funds already expended for plant properties. Physical properties are stated at cost at date of acquisition or estimated fair market value at date of donation in the case of gifts and fair value at August 31, 1995, for livestock. Depreciation on physical plant and equipment is not recorded.
- **Agency Funds** - Funds held by the University as custodial or fiscal agent for students, faculty members, and others.

The terms and definitions, as subsequently presented, are used to enhance the information provided in reporting of fund balances. The presentation format for fund balances is not required by generally accepted accounting principles (GAAP); however, it is considered useful as it provides further insights into the availability and anticipated use of funds.

- **Unrestricted Fund Balances** - These represent the net accumulation of the excess revenues and other additions over expenditures, other deductions, and transfers for specific fund groups. As a general rule, they are available for future operating purposes and their use is determined by the Board of Regents.



Unrestricted fund balances are further classified as reserved or unreserved as follows:

- **Reserved** - That portion of the unrestricted fund balances that is allocated for third-party claims against resources that have not materialized as of balance sheet date. Assets identified as reserved are of a nonmonetary nature or lack liquidity; therefore, they are not available for current appropriations or expenditure.
- **Unreserved** - All unrestricted fund balances that are not reserved. Unreserved fund balances are classified as allocated or unallocated as follows:

- Allocated - That portion of the unrestricted fund balances that has been identified for specific future use by the Board or institutional management.

Also classified as allocated are unencumbered balances of legislative appropriations from the State's general revenue that have been reappropriated to the University for use in the subsequent year.

- Unallocated - Fund balances that are available for future operating purposes as determined by subsequent Board or institutional management directives.

### Financing of Plant Assets

To the extent that Current Funds are used to finance plant assets, the amounts so provided are accounted for as expenditures in the case of normal replacement of movable equipment and library books.

### Other Significant Accounting Policies

Other significant accounting policies are set forth in the Financial Statements and the Notes thereto.

### Note 1: Authorized Investments

Angelo State University is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act of 1987 (Article 842a-2, Texas Revised Civil Statutes). Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) obligations of political subdivisions rated not less than A by a national investment rating firm, (4) certificates of deposit, and (5) other instruments and obligations authorized by statute.

**Note 2: Deposits and Investments**

**DEPOSITS OF CASH IN BANK**

The carrying amount of \$163,917 for Cash in Bank (including restricted assets) is presented in Exhibit A below.

The bank balance of Angelo State University has been classified according to the following risk categories:

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

Exhibit A

<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
\$ 163,917	\$ 240,376	\$ 17,351	\$ 223,025	
 <b>Cash and Deposits</b>				
Bank Deposits				
	Demand Deposits			\$ 163,917
 Cash and Cash Equivalents				
	Petty Cash		\$ 11,551	
	Local Funds in State Treasury		1,945,066	
	Reimbursements in Transit		<u>50,365</u>	
	Total Cash and Cash Equivalents			<u>2,006,982</u>
Total Current Funds Cash and Deposits				<u><u>\$ 2,170,899</u></u>

## INVESTMENTS

To comply with the reporting requirements of GASB Statement No. 3, *Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, Angelo State University's investments are categorized in the tabulation titled "Investment Categories" to give an indication of credit risk assumed by the University at year end.

Credit risk is the risk that another party to a deposit or investment transaction will not fulfill its obligations. This is not to be confused with market risk, which is the risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline. Market risk is not depicted in this note.

The following categories of credit risk are included:

- Category 1:** Investments that are insured or registered or for which the securities are held by the University or its agent in the University's name.
- Category 2:** Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or University in the University's name.
- Category 3:** Uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the University's name.

Investment Categories					
Type of Security	Category			Carrying Amount	Market Value
	1	2	3		
<u>Categorized Investments</u>					
U.S. Government Securities	\$1,098,750			\$ 1,098,750	\$ 1,080,008
CMOs	2,986,025			2,986,025	2,580,203
Common Stock - Equities	5,017			5,017	6,154
<b>TOTALS</b>	<u>\$ 4,089,792</u>			\$ 4,089,792	\$ 3,666,365
Uncategorized Investments:					
TexPool				10,140,292	10,140,292
Real Estate				1,000	1,000
<b>TOTAL INVESTMENTS</b>				<u>\$ 14,231,084</u>	<u>\$ 13,807,657</u>
Total Cash and Deposits				\$ 2,170,899	
Total Investments				<u>14,231,084</u>	
<b>TOTAL DEPOSITS AND INVESTMENTS</b>				<u>\$ 16,401,983</u>	
<u>Balance Sheet Presentation</u>					
Cash and Temporary Investments				\$ 12,311,192	
Investments				<u>4,090,791</u>	
<b>TOTAL DEPOSITS AND INVESTMENTS</b>				<u>\$ 16,401,983</u>	

### Derivative Investing

Angelo State University invests in various forms of collateralized mortgage obligations such as fixed coupon, inverse floating rate, and principal only. Angelo State University invests in these securities in part to maximize yields and in part to hedge against falling interest rates. These securities are reported at cost in the balance sheet. They are reported in aggregate as Other Investments in the disclosure of credit risk in this note.

Angelo State University's Current Funds investments in derivatives comprise 21 percent of total investments as of August 31, 1995, with a carrying value and market value of \$2,986,025 and \$2,580,203, respectively.

### Note 3: Employee Benefits

#### A. Employees' Retirement Plan

The State of Texas has joint contributory retirement plans for substantially all of its employees. One of the primary plans in which the University participates is administered by the Teacher Retirement System of Texas (TRS). As of August 31, 1995, the contributory percentages of participant salaries provided by the State and by each participant are 7.31 percent and 6.4 percent, respectively, of annual compensation.

The Teacher Retirement System does not separately account for each of its component government agencies, since TRS itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. According to an independent actuarial evaluation as of August 31, 1995, the present value of TRS's actual and project liabilities, including projected benefits payable to its retirees and active members and their beneficiaries, was in excess of the assets of TRS. However, the actuary projected that such assets, augmented by projected future contributions and earnings, would be sufficient to amortize the unfunded difference over a period of 14 years, assuming payroll growth at an aggregate compound rate of 4.25 percent per year. Further information regarding actuarial assumptions and conclusions, together with audited financial statements, are included in TRS'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. As of August 31, 1995, the contributory percentages of participant salaries provided by the State, the University, and each participant are 7.31 percent, 1.19 percent and 6.65 percent, respectively. Since these are individual annuity contracts, the State has no additional or unfunded liability for this program.

The retirement expense to the State for the University was \$989,553 for the fiscal year ended August 31, 1995. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the University.

#### B. Deferred Compensation Program

University employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Texas Government Code, Section 609.001. Two plans are available for employees' deferred compensation plan. Both plans are administered by the Employees Retirement System (ERS).

The State's 457 plan complies with the Internal Revenue Code Section 457. 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. Participants' rights under the plan are 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. As of

August 31, 1995, the University had one employee participating in the 457 program. A total of \$600 in payroll deductions was invested in the 457 plan during the fiscal year, bringing the total of deferred salaries of current employees to \$8,000 since the inception of the 457 program.

The State also administers another plan, "TexSaver" created in accordance with Internal Revenue Code Section 401(k). However, the assets of this plan do not belong to the State, nor does the State have a liability related to this plan.

#### C. Post-Employment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provided certain health care and life insurance benefits for retired employees. Substantially all employees may become eligible for those benefits if they reach normal retirement age while working for the State. Angelo State University participates in the ERS insurance plans. The information regarding the State's contribution, the number of eligible retirees, and the cost of providing those benefits is included in the notes to the annual financial report of ERS.

#### **Note 4: Compensated Absences**

Full-time state employees earn annual leave from 7 to 14 hours per month depending on the respective employee's years of state employment. The State's policy is that an employee may carry his or her accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours up to 376 for those employees with 20 or more years of state service. Employees with at least six months of state service who terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed.

The University recognizes the accrued liability for the unpaid annual leave in the Unrestricted Current Funds. This liability is determined through the summarization of each employee's annual leave balance multiplied by their respective year-end salary rate. The estimated cumulative amount of this liability is \$484,347.

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

**Note 5: Pending Lawsuits and Claims**

At August 31, 1995, there were no lawsuits or claims pending against the University.

**Note 6: Funds Held in Trust by Others**

The balances, or transactions, of funds held in trust by others on behalf of Angelo State University are not reflected in the financial statements. At August 31, 1995, there were two such funds for the benefit of the University. Based upon the most recent available information, the assets of these funds are reported by the Trustees at values totaling \$1,462,321.

**Note 7: Contract and Grant Awards**

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, *Audits of Colleges and Universities*. Funds received but not expended during the reporting period are shown as additions to fund balance. Revenues are recognized as funds are actually expended. For federal contract and grant awards, funds expended but not collected are reported as Federal Receivables. Non-federal contract and grant awards for which funds are expended but not collected are reported as Accounts Receivable. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract and grant awards funds already committed, (for example, multi-year awards), or funds awarded during fiscal year 1995 for which moneys have not been received nor funds expended totaled \$795,802. Of this amount, all was from Federal Contract and Grant Awards.

**Note 8: Risk Financing and Related Insurance**

The University has various self-insured arrangements for coverage in the areas of workers' compensation and unemployment compensation. Workers' compensation and unemployment compensation plans are on a pay-as-you-go basis in which no assets are set aside.

**Note 9: Related Parties**

The Angelo State University Foundation is a nonprofit organization with the sole purpose of supporting educational and other activities of the University. The assets of the Foundation are managed under a Fiduciary Agreement by the Norwest Bank Texas, N.A., San Angelo, Texas. The Foundation remitted unrestricted gifts of \$95,000 to the University during the year ended August 31, 1995. Since the assets are managed externally, the Foundation does not have any employees. The only services provided by the University is the keeping of the minutes.

The Ex-Students Association contributed \$12,781 to the University during the 1995 fiscal year for operation of the Alumni Office. The University paid \$43,867 above the contributed amount for maintaining the records on the students who have graduated from the University. The University also provided office space and utilities to the Alumni Office.

The Honorary Alumni Association is a nonprofit organization with the sole purpose of supporting educational and other activities of the University. The Foundation solicits donations and acts as Coordinator of Gifts made by other parties. The association expended \$21,787 on behalf of the University during the year ended August 31, 1995. During the year the University furnished limited staff assistance to the association.

#### **Note 10: Robert G. Carr and Nona K. Carr Scholarship Foundation**

On September 1, 1980, the Robert G. Carr Estate transferred certain assets totaling \$6,815,644 to the Texas State University System Board of Regents, trustees of the Robert G. Carr and Nona K. Carr Scholarship Foundation. The Scholarship Foundation was established for the benefit of Angelo State University under provisions of the Last Will and Testament of Robert G. Carr, whose death occurred on March 17, 1978. This principal fund included \$2,986,880 in cash, and \$3,828,765 in oil, gas, and mineral properties.

On September 1, 1989, the Nona K. Carr Estate transferred certain assets totaling \$5,098,288 to the Texas State University System Board of Regents, trustees of the Robert G. Carr and Nona K. Carr Scholarship Fund, which was established for the benefit of Angelo State University under provision of the Last Will and Testament of Robert G. Carr. Nona K. Carr died on June 17, 1987. This principal fund included \$2,089,219 in cash and \$3,009,069 in oil, gas, and mineral properties.

Prior to the 1995 fiscal year, the Scholarship Foundation received payments for oil and gas royalties, oil and gas lease rental and bonuses, and oil and gas payment commissions totaling \$34,469,878 and realized an appreciation on investments of \$370,387. During the 1995 fiscal year, the Scholarship Foundation received payments for oil and gas royalties, oil and gas lease rentals and bonuses, and oil and gas payment commissions, and refunds totaling \$2,005,042.

All principal fund cash that is received by the Scholarship Foundation is transferred to Bankers Trust Company of the Southwest as master custodian for investment with Vaughan, Nelson, Scarborough & McConnell, Inc. and Scudder Global Bond Investment Trust as investment managers for the Scholarship Foundation.

The value at which oil, gas, and other mineral properties is carried on the Financial Statements is the value that was agreed to in the settlement with the Internal Revenue Service of the Federal Estate Tax Liability of the Estate of Robert G. Carr. No provision has been made for depletion of these properties. The interest income earned on the Trust is transferred to the Angelo State University Robert G. Carr and Nona K. Carr Scholarship and expense funds. During the 1995 fiscal year, the investment



income received from the investment agent totaled \$2,209,157. Of this amount, \$410,000 was transferred by the trustees to the Scholarship Foundation Trust Estate Expense Account for the payment of salaries and wages, and other operating expenses of the Scholarship Foundation. Disbursements from the expense account for the 1995 fiscal year totaled \$460,753. The remaining \$1,799,157 was transferred to the Angelo State University Robert G. Carr and Nona K. Carr Scholarship Foundation Account.

During the 1995 fiscal year, the Scholarship Foundation Account earned interest totaling \$101,050.

Total scholarships awarded prior to the 1995 fiscal year amounted to \$19,760,027. During the 1995 fiscal year, scholarship awards amounted to \$1,705,328. It is estimated that the amount of annual scholarship awards from the scholarship fund will total \$1,700,000 in fiscal year 1996.

The records of the Scholarship Foundation are audited annually by the firm of Hall, Bachman, McDonough, Pruett and Chilton, Certified Public Accountants, San Angelo, Texas.

**Note 11: Interfund Borrowing**

All interfund borrowing is payable within one year without interest.

## Detailed Finding With Management's Response

Finding:

### Properly Report Accrued Payroll and Fund Balance Categories

The Balance Sheets in Angelo State University's 1996 and 1995 *Annual Financial Reports* contained errors. The errors included not accruing August 1996 payrolls and reporting some of the Fund Balance categories incorrectly in both years.

Payroll expenditures for August 1996 totaled \$1,763,057. Payroll liabilities for August 1996 were reported as \$98,587, the amount of the hourly payrolls, in the 1996 *Annual Financial Report*. The remaining payroll expenditures of \$1,664,460, the amount of the monthly and supplemental payrolls, were incorrectly reported as a reduction in cash of \$898,238 and a reduction in state appropriations of \$766,222, instead of as an increase in accrued liabilities.

According to management, the University misinterpreted the State Comptroller's instructions for reconciling Local Funds in the State Treasury to the balance per the Uniform Statewide Accounting System. As a result, the University thought the August 1996 monthly and supplemental payrolls should be reported as reductions in cash and appropriations instead of as accrued payroll. In the 1995 *Annual Financial Report*, the August 1995 payrolls appear to have been properly accrued.

While correctly reporting Fund Balances in total, the University reported some amounts in incorrect categories in both years. In 1996 and 1995, the University reported Unallocated Fund Balances in the Allocated category. In 1996, the net amount of the misclassification was \$1,394,805. In 1995, it was \$875,355. In 1994, the Unallocated amount appears to have been categorized correctly.

The Balance Sheets in this special report have been adjusted to properly reflect Cash and Temporary Investments, Balances in State Appropriations, Accrued Liabilities, and Fund Balance categories.

#### Recommendation:

The University should properly report accrued payroll and Fund Balance categories in its *Annual Financial Reports*.

#### Management's Response:

*Accrued payrolls will be recorded as accrued liabilities rather than a reduction of cash. Fund Balance Categories will be reported in compliance with the Comptroller's Annual Financial Reporting Requirements for State Colleges and Universities guidelines.*

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