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**A Special Report for  
The Southern Association of Colleges and Schools on  
The University of Texas at El Paso**

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April 1996

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LAWRENCE F. ALWIN, CPA  
State Auditor

### State Auditor's Report

April 22, 1996

Dr. Diana Natalicio, President  
Office of the President  
The University of Texas at El Paso  
El Paso, Texas 79968-0500

Dr. Natalicio:

We have reviewed the accompanying Current Funds Balance Sheet of The University of Texas at El Paso and the related Statement of Current Funds Expenditures as of August 31, 1995, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The review was also performed in accordance with the Southern Association of Colleges and School's (Southern Association) *Criteria for Accreditation*. All information included in these financial statements is the representation of management of The University of Texas at El Paso.

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

Accompanying statements were prepared to present the financial position and expenditures by function of The University of Texas at El Paso's Current Funds. These statements are prepared pursuant to criteria of the Southern Association for supplementary special reports by institutions in states which conduct statewide audits. These statements are not intended to be a complete presentation of the financial position and results of operations of The University of Texas at El Paso.

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

Sincerely,

A handwritten signature in cursive script that reads "Lawrence F. Alwin".

Lawrence F. Alwin, CPA  
State Auditor

LFA/ggh

## Current Funds Balance Sheet at August 31, 1995

	<u>Total Current Funds</u>
<b><u>Assets</u></b>	
Cash and Temporary Investments	\$ 23,346,712
Balance in State Appropriations	1,736,795
Investments	4,703,652
Federal Accounts Receivable	3,276,432
Other Accounts Receivable	1,835,163
Accrued Interest Receivable	40,158
Other Receivables and Prepayments	1,184,291
Due from System Administration	176,183
Inventories	<u>1,968,608</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 38,267,994</u></b>
<b><u>Liabilities And Fund Balances</u></b>	
<b>Liabilities</b>	
Accounts Payable	\$ 1,632,128
Accrued Compensable Absences Payable	1,788,571
Other Accrued Liabilities	4,210,222
Due to System Administration	592,174
Deposits	413,539
Deferred Revenue	<u>11,087,979</u>
<b>Total Liabilities</b>	<b><u>\$ 19,724,613</u></b>
<b>Fund Balances</b>	
Unrestricted	
Reserved for	
Encumbrances	\$ 855,635
State Appropriations to be Lapsed	964,405
Accounts Receivable	1,032,566
Inventories	1,968,608
Other Specific Purposes	848,767
Unreserved	
Allocated	\$ 7,194,810
Unallocated	(682,725)
Restricted	
Restricted - Encumbrances	\$ 473,032
Restricted - Other	<u>5,888,283</u>
<b>Total Fund Balances</b>	<b><u>\$ 18,543,381</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 38,267,994</u></b>

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

	<u>Total Current Funds</u>
<b>Educational and General Expenditures</b>	
Instruction	\$ 46,690,938
Research	12,048,349
Public Service	4,441,225
Academic Support	7,337,260
Student Services	2,508,335
Institutional Support	10,485,975
Operation and Maintenance of Plant	12,311,329
Scholarships and Fellowships	<u>13,036,288</u>
<b>Total Educational and General Expenditures</b>	<b>\$ 108,859,699</b>
 <b>Auxiliary Enterprises Expenditures</b>	 <u>22,855,393</u>
 <b>TOTAL CURRENT FUNDS EXPENDITURES</b>	 <b><u>\$ 131,715,092</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 accordance with their *Criteria for Accreditation*, as adopted in December 1990 and modified in June 1993. This report includes a Current Funds Balance Sheet and a Statement of Current Funds Expenditures for The University of Texas at El Paso, as required by the Southern Association.

The University of Texas at El Paso is a part of The University of Texas System (System). The System prepares consolidated 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.

The Southern Association requires state colleges and universities audited in this manner to have a separate report which includes separate financial statements pertaining to Current Funds in the same year as the Southern Association's on-site accreditation review. This report must include a statement of negative assurance as to the material accuracy of those Current Funds.

The significant accounting policies followed by The University of Texas at El Paso in maintaining accounts and in financial statement preparation are in accordance with the *Annual Financial Reporting Requirements* 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*, 1973 Edition, as amended by AICPA Statement of Position (SOP) 74-8; *Financial Accounting and Reporting by Colleges and Universities*, as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989; and as modified by all applicable Governmental Accounting Standards Board (GASB) pronouncements cited in Codification Section Co5, "Colleges and Universities." The requirements are also in substantial conformity with the *Financial Accounting and Reporting Manual for Higher Education* published by the National Association of College and University Business Officers (NACUBO) in 1990.

## Summary of Significant Accounting Policies

### Basis of Accounting

The accompanying financial statements present the financial position and expenditures of The University of Texas at El Paso on the accrual basis of accounting. 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 usage.

### **Fund Accounting**

In order to ensure observance of limitations and restrictions placed on the use of the resources available to The University of Texas at El Paso, 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 activities or objectives specified. 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 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. Within each fund group within the Current Funds fund group, any fund balances restricted to uses specified by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by action of the governing board to use in achieving any of its institutional 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 the primary function of the institution.

**Designated** - Funds arising from sources that have been designated by the Board or management 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 and 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.

Other fund groups used by The University of Texas at El Paso 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, faculty, and staff.

**Endowment and Similar Funds** - Funds subject to restrictions of endowment and trust instruments requiring that principal be maintained and that only the income be utilized.

**Plant Funds** - Plant funds are segregated into the following separate balanced fund groups:

**Unexpended** - Funds to be used for the construction, rehabilitation, and acquisition of physical plant properties for institutional purposes.

**Renewals and Replacements** - Funds accumulated for the renewal and replacement of physical plant properties.

**Investment in Plant** - Funds already expended for physical plant properties. Physical properties are stated at cost at the date of acquisition or fair market value at the date of donation for gifts. Depreciation on physical plant and equipment is not recorded. Investment in Plant includes the total carrying value of all physical plant properties and facilities except those real properties that are the investment of Endowment Funds. Equipment and other plant assets that exceed \$1,000 in value are capitalized by the University.

**Agency Funds** - Funds held by the institution as custodial or fiscal agent for students, faculty members, and/or others.

## Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the notes thereto.

### Note 1: Deposits and Investments

#### DEPOSITS OF CASH IN BANK

- A. The carrying amount of <\$1,222,248> for Cash in Bank is presented on page 7.
- B. The bank balance of The University of Texas at El Paso 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 financial 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).

**Current Funds**

<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
<\$1,222,248>	\$1,079,250	\$1,079,250	\$0.00	\$0.00

At August 31, 1995, cash in bank for Current Funds was \$1,079,250. Bank balances of \$1,079,250 (Category 1) were insured or collateralized with securities held by the governmental entity or by its agent in the name of the governmental entity. Cash and deposits included on the Current Funds Balance Sheet consist of the items reported below:

**Cash and Deposits**

Bank Deposits:

Demand Deposits	<\$1,222,248>
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Cash and Cash Equivalents:

Petty Cash on Hand	\$ 335,837	
Local Funds in State Treasury	7,739,674	
Reimbursements in Transit	<u>176,241</u>	
Total Cash and Cash Equivalents		<u>8,251,752</u>

Total Current Funds Cash and Deposits	<u>\$ 7,029,504</u>
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To comply with the reporting requirements of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, the University's investments are categorized in the tabulation titled "Investment Categories" to give an indication of credit risk assumed by the University at fiscal year-end.

Credit risk is the risk that another party to a deposit transaction will not fulfill its obligations. This is not to be confused with market risk which is the risk that the market value of collateral protecting a deposit 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 governmental entity or its agent in the governmental entity's name.
- Category 2:** Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or governmental entity in the governmental entity'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 governmental entity's name.

**Investment Categories**

<u>Type of Security</u>	<u>Category</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
U.S. Treasury Bills					
U.S. Gov't. Securities	\$830,546			\$830,546	\$830,546
Municipal Bonds					
Corporate Bonds					
Corporate Stocks					
Repurchase Agreements					
Commercial Paper					
Pooled Investments	8,109,053			8,109,053	8,125,010
Other Investments	<u>\$12,081,261</u>			<u>\$12,081,261</u>	<u>\$12,081,261</u>
Total Investments	<u>\$21,020,860</u>			<u>\$21,020,860</u>	<u>\$21,036,817</u>
Total Cash and Deposits				7,029,504	
Total Investments				<u>\$21,020,860</u>	
Total Deposits and Investments				<u>\$28,050,364</u>	
Cash and Temporary Investments				23,346,712	
Investments				<u>\$4,703,652</u>	
Total Deposits and Investments				<u>\$28,050,346</u>	

**Note 2: 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 of Texas at El Paso participates in is administered by the Teacher Retirement System of Texas. The contributory percentages of participant salaries provided by the State and by each participant were 7.31 and 6.4 percent, respectively, of annual compensation.

The Teacher Retirement System does not separately account for each of its component government agencies, since the Retirement System itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. According to an independent actuarial evaluation as of August 31, 1995, the present value of the Retirement System's actual and projected liabilities, including projected benefits payable to its retirees and active members and their beneficiaries, was in excess of the assets of the Retirement System. 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 30 years assuming payroll growth of six percent. Further information regarding actuarial assumptions and conclusions, together with audited financial statements, is included in the Retirement System's annual financial report.

The State has also established an Optional Retirement Program for institutions of higher education. Participation in the Optional Retirement Program is in lieu of participation in the Teacher Retirement System. The Optional Retirement Program provides for the purchase of annuity contracts. The contributory percentages of participant salaries currently provided by the State and by each participant were 7.31 percent and 6.65 percent, respectively, of annual compensation. 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 of Texas at El Paso was \$3,384,257 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 and the portion paid from the University's Current Funds.

**Note 3: Deferred Compensation Program**

State employees may elect to defer a portion of their earnings for income tax and investment purposes to authority granted in Senate Bill 872, 63rd Legislature. As of August 31, 1995, the University had two employees participating in the program. During the fiscal year, payroll deductions for deferred compensation totaled \$4,565, which has been invested in approved plans. Since these are individual contracts, the State has no additional or unfunded liability for this program.

#### **Note 4: 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 of the employees may become eligible for those benefits if they reach normal retirement age while working for the State. Currently, there are 395 retirees who are eligible for these benefits. Similar benefits for active employees are provided through a self-insurance program of health maintenance organizations, whose premiums are based on benefits paid during the previous year. Depending on the status of the employee at the time of retirement, the State or the University recognizes the cost of providing these benefits by expensing the annual insurance premiums. For the fiscal year ended August 31, 1995, the monthly contribution by the State or the University per full-time employee/retiree was \$195.82 for those enrolled in the "employee" only category, \$307.39 for those in the "employee/spouse" category, \$270.52 for those in the "employee/children" category, and \$382.09 for those in the "employee/family" category. For the fiscal year ended August 31, 1995, the cost of providing those benefits for 395 retirees was \$922,912 for the State and \$89,575 for the University.

#### **Note 5: Compensated Absences**

Full-time state employees earn annual leave at a rate of 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 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 has accrued the dollar value of annual leave benefits which are payable upon retirement, termination, or death of its employees. This liability has been projected to be \$1,788,571 as of August 31, 1995, for the University and has been recognized in Current Funds.

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is off due to illness or to the estate of an employee in the event of 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 University's policy is to recognize the cost of sick leave when paid, and the liability is not shown in the financial statements since experience indicates the expenditure for sick leave to be minimal.

#### **Note 6: Contract and Grant Awards**

Contract and grant awards are accounted for in accordance with the requirements of the American Institute of Certified Public Accountants (AICPA) Industry Audit Guide, *Audits of Colleges and Universities*. Funds received, but not expended during the reporting period, increase fund balances in Restricted Current Funds. Restricted

Current Funds are reported as revenues and expenditures when expended for current operating purposes.

For federal and non-federal contract and grant awards, funds expended, but not collected during the reporting period, are reported as Federal Receivables and Accounts Receivable, respectively, on the Current Funds Balance Sheet. Contract and grant awards that were not yet funded and for which the institution had not yet performed services during the fiscal year are not included in the financial statements. Contract and grant awards funds already committed, e.g., multi-year awards, or funds awarded during fiscal year 1995 for which monies had not been received nor funds expended totaled \$28,060,290. Of this amount, \$26,460,552 was from Federal Contract and Grant Awards, \$840,274 was from State Contract and Grant Awards, \$522,980 from Local Contract and Grant Awards, and \$236,484 was from Private Contract and Grant Awards.