

**UNIVERSITY OF HOUSTON
SYSTEM ADMINISTRATION**

**UNAUDITED ANNUAL
FINANCIAL REPORT**

FOR THE YEAR ENDED AUGUST 31, 2011

UNIVERSITY OF HOUSTON - SYSTEM ADMINISTRATION

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**UNIVERSITY OF HOUSTON SYSTEM
UNIVERSITY OF HOUSTON**

DR. CARL CARLUCCI

Executive Vice Chancellor, Administration and Finance
UH System
Executive Vice President, Administration and Finance
University of Houston

November 16, 2011

The Honorable Rick Perry, Governor
The Honorable Susan Combs, Texas Comptroller
Mr. John O'Brien, Director, Legislative Budget Board
Mr. John Keel, CPA, State Auditor

Lady and Gentlemen:

We are pleased to submit the annual financial report of the University of Houston - System Administration for the year ended August 31, 2011, in compliance with Texas Government Code Annotated §2101.011 and in accordance with the requirements established by the Comptroller of Public Accounts.

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

If you have any questions regarding this Annual Report, please contact Mr. David Ellis at (713)743-8754. Mr. Kevin Draper may be contacted at (713)743-8726 for questions related to the Schedule of Expenditures of Federal Awards.

Sincerely,

Carl Carlucci, Ph.D.
Executive Vice Chancellor

University of Houston – System Administration

Organizational Data
August 31, 2011

Board of Regents

Welcome W. Wilson, Sr., Houston	Term Expires August 31, 2011
Jim P. Wise, Houston	Term Expires August 31, 2011
Carroll Robertson Ray, Houston	Term Expires August 31, 2011
Michele “Mica” Mosbacher, Houston	Term Expires August 31, 2013
Nelda Luce Blair, The Woodlands	Term Expires August 31, 2013
Jacob M. Monty, Houston	Term Expires August 31, 2013
Nandita V. Berry, Houston	Term Expires August 31, 2015
Tilman J. Fertitta, Houston	Term Expires August 31, 2015
Jarvis V. Hollingsworth, Houston	Term Expires August 31, 2015
Tamecia Glover Harris, Houston	Term Expires May 31, 2011

Officers of the Board (Fiscal Year 2011):

Carroll Robertson Ray	Chair
Nelda Luce Blair	Vice Chair
Michele “Mica” Mosbacher	Secretary

Officers of the Board (Fiscal Year 2012):

Nelda Luce Blair	Chair
Michele “Mica” Mosbacher	Vice Chair
Jarvis V. Hollingsworth	Secretary

Administrative Officers

Renu Khator	Chancellor
John J. Antel	Senior Vice Chancellor for Academic Affairs and Provost
Carl P. Carlucci	Executive Vice Chancellor for Administration and Finance
Michael J. Lawrence	Interim Vice Chancellor for Student Affairs
Grover S. Campbell	Vice Chancellor for Governmental Relations
Rathindra N. Bose	Vice Chancellor for Research
Dona H. Cornell	Vice Chancellor for Legal Affairs and General Counsel

University of Houston – System Administration
Financial Statements
(With Detailed Supportive Schedules)

Statement of Procedure Regarding
Annual Financial Report

Present herein are the financial statements with detailed supportive schedules for the University of Houston – System Administration for the fiscal year ended August 31, 2010. These statements and detailed supportive schedules are in compliance with the guidelines in *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, published by the Texas Comptroller of Public Accounts. Additionally, this report has been prepared in accordance with the requirements in Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Managements Discussion and Analysis – For State and Local Governments*.

The State Auditor has not audited the accompanying annual financial statements and, therefore, an opinion has not been nor will be expressed on the financial statements and related information contained in this report. The information contained in the combined financial statements of the University of Houston System, and its related components, is part of and included in the State of Texas Comprehensive Annual Report. The Annual Financial Report of the University of Houston System is reviewed by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report, upon which an opinion is expressed.

Unaudited

University of Houston - System Administration
Statement of Net Assets
August 31, 2011

	<u>Total 2011</u>
Assets	
Current Assets	
Cash and Cash Equivalents	
Cash on Hand	\$ 125.00
Cash in Bank	(5,235,065.69)
Cash in Transit/Reimburse From Treasury	1,769,940.48
Cash Equivalents	53,168,984.50
Short Term Investments	147,505,356.71
Restricted:	
Cash in Bank	5,568,162.06
Legislative Appropriations	806,983.53
Receivables:	
UHS Intercampus Receivables	6,602,052.17
Interest and Dividends	529,517.86
Accounts Receivable	206,338.05
Other Receivables	826,815.54
Due From Other Agencies	66.00
Deferred Charges	43,008.06
<hr/>	
Total Current Assets	211,792,284.27
<hr/>	
Non-Current Assets	
Restricted:	
Cash and Cash Equivalents	
Cash in Bank	2,750,856.63
UHS Intercampus Receivables	12,859,881.35
Investments	611,083,257.02
Capital Assets	
Non-Depreciable or Non-Amortizable	6,528,754.42
Depreciable or Amortizable, Net	58,401,736.69
<hr/>	
Total Non-Current Assets	691,624,486.11
<hr/>	
Total Assets	903,416,770.38

Unaudited

University of Houston - System Administration
Statement of Net Assets
August 31, 2011

	<u>Total 2011</u>
Liabilities	
Current Liabilities:	
Payables:	
Accounts Payable	10,278,776.81
Payroll Payable	587,427.88
Intercampus Payable	661,185,207.26
Other Payable	19,842,777.31
Deferred Revenues	4,166.19
Notes and Loans Payable	42,141,000.00
Claims and Judgments Payable	970.60
Employees' Compensable Leave	384,300.73
Funds Held for Others	25,606.02
	<hr/>
Total Current Liabilities	<u>734,450,232.80</u>
Non Current-Liabilities	
Claims and Judgments Payable	3.66
Employees' Compensable Leave	417,495.09
	<hr/>
Total Non-Current Liabilities	<u>417,498.75</u>
Total Liabilities	<u><u>734,867,731.55</u></u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	47,073,677.04
Restricted for:	
Debt Retirement	221,393.33
Funds Held as Permanent Investments	
Non-Expendable	
True Endowments, Annuities	42,068,908.99
Expendable	
Funds Functioning as Endowments	36,050,121.28
Other Restricted	6,112,412.42
Unrestricted	37,022,525.77
	<hr/>
Total Net Assets	<u><u>\$ 168,549,038.83</u></u>

Unaudited

University of Houston - System Administration
Statement of Revenues, Expenses, And Changes In Net Assets
For The Year Ended August 31, 2011

	<u>Total 2011</u>
Operating Revenues	
Sales of Goods and Services (PR-Chgs for Services)	
Other Sales of Goods and Services-Pledged	\$ 1,087,484.69
State Grant Pass Through Revenue (PR-OP Grants/Contributions)	48,427.40
<hr/>	<hr/>
Total Operating Revenues	<u>1,135,912.09</u>
Operating Expenses	
Research	1,079,042.34
Public Service	76,250.00
Academic Support	4,773,128.09
Student Services	189,990.48
Institutional Support	7,540,918.95
Physical Plant	2,191,814.20
Scholarships & Fellowships	65,827.40
Depreciation and Amortization	8,183,552.04
<hr/>	<hr/>
Total Operating Expenses	<u>24,100,523.50</u>
Operating Income (Loss)	<u>(22,964,611.41)</u>
Non-Operating Revenues (Expenses)	
Legislative Revenue (GR)	2,583,540.00
Additional Appropriations (GR)	1,445,493.00
Federal Revenue Non-Operating (PR-OP Grants/Contributions)	1,568,336.00
Gifts (PR-OP Grants/Contributions)	1,252,095.91
Interest and Investment Income (PR-Chgs for Services)	6,907,262.38
Net Incr (Decr) in Fair Value of Investments (PR-OP Grants/Contrib)	26,627,058.30
Other Nonoperating Revenues	3,742,224.76
Other Nonoperating Expenses	(3,192,390.24)
<hr/>	<hr/>
Total Nonoperating Revenues (Expenses)	<u>40,933,620.11</u>

Unaudited

University of Houston - System Administration
Statement of Revenues, Expenses, And Changes In Net Assets
For The Year Ended August 31, 2011

	<u>Total 2011</u>
<u>Income (Loss) before Other Revenues, Expenses, Gains, Losses and Transfers</u>	<u>17,969,008.70</u>
Other Revenues, Expenses, Gains, Losses and Transfers	
Additions to Permanent and Term Endowments	443,604.27
UHS Intercampus Transfers-In	4,296,573.12
UHS Intercampus Transfers-Out	(7,004,577.03)
<u>Total Other Rev, Exp, Gains, Losses and Transfers</u>	<u>(2,264,399.64)</u>
<u>Change In Net Assets</u>	<u>15,704,609.06</u>
<u>Net Assets, Beginning</u>	<u>152,844,429.77</u>
<u>Net Assets, Ending</u>	<u>\$ 168,549,038.83</u>

Unaudited

University of Houston - System Administration
 Matrix of Operating Expenses Reported by Function
 For The Year Ended August 31, 2011

Operating Expenses	Instruction	Research	Public Service	Academic Support	Student Services
Salaries and Wages	\$	\$ 251,765.53	\$	\$ 2,360,459.39	\$ 163,219.13
Payroll Related Costs		36,337.69		549,247.81	19,510.04
Professional Fees and Services		124,200.00	76,250.00	436,441.32	61.31
Travel				14,217.06	
Materials and Supplies				434,310.87	
Communication and Utilities				473,708.39	
Repairs and Maintenance				310,109.84	
Rentals and Leases				87,221.50	7,200.00
Printing and Reproduction				28,224.34	
Depreciation and Amortization					
Interest					
Scholarships		666,739.12			
Claims and Losses					
Other Operating Expenses				79,187.57	
Total Operating Expenses	\$	\$ 1,079,042.34	\$ 76,250.00	\$ 4,773,128.09	\$ 189,990.48

Unaudited

University of Houston - System Administration
 Matrix of Operating Expenses Reported by Function
 For The Year Ended August 31, 2011

Institutional Support	Operation and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total 2011
\$ 5,068,920.60	\$ 68,700.08	\$	\$	\$	\$ 7,913,064.73
947,597.78	23,454.47				1,576,147.79
976,250.66	384,004.78				1,997,208.07
56,859.26					71,076.32
84,866.37	18,477.11				537,654.35
120,386.49	73,797.52				667,892.40
28,080.94	53,837.98				392,028.76
151,276.21	959.60				246,657.31
16,737.65					44,961.99
				8,183,552.04	8,183,552.04
10,854.16	1,568,357.16				1,579,211.32
		17,400.00			684,139.12
21,891.55					21,891.55
57,197.28	225.50	48,427.40			185,037.75
<u>\$ 7,540,918.95</u>	<u>\$ 2,191,814.20</u>	<u>\$ 65,827.40</u>	<u>\$</u>	<u>\$ 8,183,552.04</u>	<u>\$ 24,100,523.50</u>

Unaudited

University of Houston - System Administration
Statement of Cash Flows
For The Year Ended August 31, 2011

	<u>Total 2011</u>
Cash Flows from Operating Activities	
Receipts from Customers	\$ 882,397.91
Proceeds from Research Grants & Contracts	48,427.40
Proceeds from Other Revenues	177.83
Payments to Suppliers for Goods and Services	(2,704,706.92)
Payments to Employees for Salaries	(7,842,228.43)
Payments to Employees for Benefits	(1,478,576.66)
Payments for Other Expenses	(3,221,440.29)
<hr/>	
Net Cash Provided (Used) by Operating Activities	(14,315,949.16)
Cash Flows from Noncapital Financing Activities	
Proceeds from State Appropriations	11,573,368.69
Proceeds from Gifts	1,521,635.59
Proceeds from Endowments	443,604.27
Proceeds of Transfers from Other Funds	48,273,830.57
Proceeds from Grant Receipts	1,568,336.00
Payments for Transfers to Other Funds	(22,954,783.92)
<hr/>	
Net Cash Provided by Noncapital Financing Activities	40,425,991.20
Cash Flows from Capital and Related Financing Activities	
Proceeds from Other Financing Activities	35,801,132.20
Payments for Additions to Capital Assets	(2,765,911.25)
Payments of Other Costs on Debt Issuance	(76,872,984.01)
<hr/>	
Net Cash Provided by Capital and Related Financing Activities	(43,837,763.06)
Cash Flows from Investing Activities	
Proceeds from Sales of Investments	497,425,887.38
Proceeds from Interest Income	3,545,123.57
Proceeds from Investment Income	9,157,550.23
Payments to Acquire Investments	(492,481,254.49)
<hr/>	
Net Cash Provided (Used) by Investing Activities	17,647,306.69
Net Increase (Decrease) in Cash and Cash Equivalents	(80,414.33)
Cash and Cash Equivalents, September 1	58,103,417.31
<hr/>	
Cash and Cash Equivalents, August 31	\$ 58,023,002.98

Unaudited

University of Houston - System Administration
Statement of Cash Flows
For The Year Ended August 31, 2011

	<u>Total 2011</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
<u>Operating Income (Loss)</u>	<u>\$ (22,964,611.41)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities	
Amortization and Depreciation	8,183,552.04
Operating Income and Cash Flow Categories: Classification Differences	
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	(1,308,149.66)
(Increase) Decrease in Prepaid Expenses	(42,984.17)
(Increase) Decrease in Other Assets	177.83
Increase (Decrease) in Payables	1,388,625.26
Increase (Decrease) in Deferred Income	(21,282.00)
Increase (Decrease) in Compensated Absence Liability	(138,704.93)
Increase (Decrease) in Benefits Payable	587,427.88
<u>Total Adjustments</u>	<u>8,648,662.25</u>
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>\$ (14,315,949.16)</u>
Non-Cash Transactions	
Net Change in Fair Value of Investments	\$ 26,627,058.30
<u>Non-Cash Transactions</u>	<u>\$ 26,627,058.30</u>

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**UNIVERSITY OF HOUSTON - SYSTEM ADMINISTRATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2011**

NOTE 1: Summary of Significant Accounting Policies

Entity

The University of Houston - System Administration (the Institution) is an agency of the State of Texas and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' Reporting Requirements for State Agencies.

The Institution serves the state as the primary provider of educational and cultural opportunities, skilled employers and leaders, technical knowledge, and innovative research to the Houston metropolitan area and the Gulf Coast region. Houston and the upper Gulf Coast region represent approximately one fourth of the state's population and economy.

The Institution includes within this report all components as determined by an analysis of their relationship to the Institution as listed below.

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

The accompanying financial statements and related information have been prepared in conformity with the instructions contained in the State Comptroller's manual, *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*. The instructions and the accompanying report are designed to assist the Texas Comptroller of Public Accounts in compiling and preparing a Comprehensive Annual Financial Report for the State of Texas. Since the Institution's annual financial report is not subject to a separate financial audit, certain information, such as a Management Discussion and Analysis and a complete set of Government-Wide Financial Statements, are not included in the accompanying report. The Institution's financial statements are considered to be materially accurate in all respects.

Blended Component Units

No component units have been identified which should have been blended into an appropriated fund.

Discretely Presented Component Units

These component units are legally separate from the state, but are financially accountable to the state, or have a relationship with the state such that exclusion would cause the financial statements to be misleading or incomplete. The component unit columns of the financial statements include the financial data of these entities.

No component units have been identified which should have been discretely presented in the financial statements

Fund Structure

The accompanying financial statements are presented on the basis of funds, each of which is considered a separate accounting entity.

Governmental Fund Types & Government-wide Adjustment Fund Types

General Fund

The General Fund is the principal operating fund used to account for most of the state's general activities. It accounts for all financial resources except those accounted for in other funds.

Special Revenue Funds

Special Revenue funds are used to account for the proceeds of specific revenue sources (other than for private-purpose trusts or for major capital projects) that are legally restricted to use for specified purposes.

Debt Service Funds

Debt Service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Project Funds

Capital Project funds are used to account for financial resources used for the acquisition, repair, renovation or construction of major capital facilities (other than those financed by proprietary or similar trust funds).

Permanent Funds

Permanent funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

Capital Asset Adjustment Fund Type

The Capital Asset Adjustment fund type will be used to convert governmental fund type capital assets from modified accrual to full accrual.

Long-Term Liabilities Adjustment Fund Type

The Long-Term Liabilities Adjustment fund type will be used to convert governmental fund type debt from modified accrual to full accrual.

Other Adjustments Fund Type

The Other Adjustments fund type will be used to convert all other governmental fund type activity from modified accrual to full accrual.

Proprietary Fund Types

Enterprise Funds

Enterprise funds are used to account for any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met.

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity.
2. Laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service), be recovered with fees and charges.
3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

Internal Service Funds

Internal Service funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of a governmental unit, or to other governmental units, within the state, on a cost reimbursement basis.

Fiduciary Fund Types

Fiduciary funds account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. When assets are held under the terms of a formal trust agreement, either a pension trust fund, or a private purpose trust fund is used.

Pension Trust Funds

Pension trust funds are used to account for resources held in trust for the member and beneficiaries of defined benefit pension plans. A separate pension trust fund is used for each separate pension plan. Separate pension trust funds also may be established to account for supplemental pension benefits.

External Investment Trust Funds

External investment trust funds are used to account for the state's external portion of investment pools reported by the sponsoring government.

Agency Funds

Agency funds are used to account for assets the government holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Private-Purpose Trust Funds

Private-purpose trust funds are used to account for all other trust arrangements whose principal and interest benefit individuals, private organizations, or other governments.

Component Units

The fund types of individual discrete component units are available from the component units' separately issued financial statements. Additional information about component units can be found in Note 19.

Governmental Component Units are used to account for discretely presented component units that follow governmental fund accounting principles.

Proprietary Component Units are used to account for the discretely presented component units which follow proprietary fund measurement focus and accounting principles.

Business-Type Activities

The operations of universities are considered to be a Business-Type Activity. The Institution charges fees to external users for goods and services. Consequently the accompanying financial statements are presented using the proprietary fund type structure.

Basis of Accounting

The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Governmental fund types that build the fund financial statements are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year end. The State of Texas considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current year for Fund Financial Statements prepared on the modified accrual basis. Expenditures and other uses of financial resources are recognized when the related liability is incurred.

Governmental adjustment fund types that will build the government-wide financial statements are accounted for using the full accrual basis of accounting. This includes capital assets, accumulated depreciation, unpaid Employee Compensable leave, the unmatured debt service (principal and interest) on general long-term liabilities, long-term capital leases, long-term claims and judgments and full accrual revenues and expenses. The activity will be recognized in these fund types.

Proprietary funds, pension trust funds, external investment trust funds and private-purpose trust funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Proprietary funds distinguish operating from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds' principal ongoing operations. Operating expenses for the enterprise and internal services funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Budget and Budgetary Accounting

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

Additionally the Institution prepares an annual budget which represents anticipated sources of revenues and authorized uses. This budget is approved by the System's Board of Regents.

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

Assets, Liabilities, and Fund Balances/Net Assets

ASSETS

Cash and Cash Equivalents

Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents.

Securities Lending Collateral

Investments are stated at fair value in all funds except pension trust funds in accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. For pension trust funds, investments are required to be reported at fair value using the accrual basis of accounting in accordance with GASB Statement 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

Securities lent are reported as assets on the balance sheet. The costs of securities lending transactions are reported as expenditures or expenses in the Operating Statement. These costs are reported at gross.

Restricted Assets

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

Inventories and Prepaid Items

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

Capital Assets

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

reported on the modified basis. Assets are depreciated over the estimated useful life of the asset using the straight-line method.

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

Current Receivables - Other

Other receivables include year-end revenue accruals. This account can appear in governmental and proprietary fund types.

Non-Current Receivables - Other

Receivable balances not expected to be collected within one year of fiscal year end.

LIABILITIES

Accounts Payable

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

Current Payables - Other

Payables are the accrual at year-end of expenditure transactions. Payables may be included in either the governmental or proprietary fund types.

Non-Current Payables - Other

Payable balances not expected to be paid within one year of fiscal year end.

Employees' Compensable Leave Balances

Employees' Compensable Leave Balances represent the liability that becomes due upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Liabilities are reported separately as either current or non-current in the Statement of Net Assets.

Capital Lease Obligations

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

Bonds Payable - General Obligation Bonds

The unmatured principal of general obligations bonds is accounted for in the Long-term Liabilities column. Payables are reported separately as either current or non-current in the statement of net assets.

Bonds payable are recorded at par. The bond proceeds are accounted for as an Other Financing Source in the governmental funds when received, and expenditures for payment of principal and interest are recorded in debt service funds when paid. These amounts are adjusted in the long-term liabilities column.

Bonds Payable - Revenue Bonds

Revenue bonds are generally accounted for in the proprietary funds. The bonds payable are reported at par, less unamortized discount or plus unamortized premium. Interest expense is reported on the accrual basis, with amortization of discount or premium. Payables are reported separately as either current or non-current in the Statement of Net Assets.

FUND BALANCE/NET ASSETS

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

Reservations of Fund Balance

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

Reserved for Encumbrances

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

Unreserved/Undesignated

This represents the unappropriated balance at year-end.

Invested In Capital Assets, Net Of Related Debt

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted Net Assets

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

Unrestricted Net Assets

Unrestricted net assets consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources, which are imposed by management, but can be removed or modified.

INTERFUND ACTIVITIES AND BALANCES

The University has the following types of transactions between funds:

Transfers - Legally required transfers that are reported when incurred as Transfers In by the recipient fund and as Transfers Out by the disbursing fund.

Reimbursements - Reimbursements are repayments from funds responsible for expenditures or expenses to funds that made the actual payment. Reimbursements of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. Reimbursements are not displayed in the financial statements.

Interfund Receivables and Payables - Interfund loans are reported as interfund receivables and payables. If repayment is due during the current year or soon thereafter it is classified as Current. Repayment for two (or more) years is classified as Non-Current.

Interfund Sales and Purchases - Charges or collections for services rendered by one fund to another that are recorded as revenues of the recipient fund and expenditures or expenses of the disbursing fund. The composition of the University's interfund activities and balances are presented in Note 12.

University of Houston System Administration (783) Unaudited

NOTE 2: Capital Assets

A summary of changes in Capital Assets for the year ending August 31, 2011 is presented in Table 2.

Table 2 - Capital Assets

	University of Houston - System Administration							
	Balance 09/01/10	Adjustment	Completed CIP	Inc-Int'gy Trans	Dec-Int'gy Tran	Additions	Deletions	Balance 08/31/11
Business-Type Activities:								
Non-Depreciable/Non-Amortizable Assets								
Land & Land Improvements	\$ 5,856,569.85	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,856,569.85
Construction in Progress	4,883,235.35	-	(4,085,172.08)	-	(342,474.30)	216,595.60	-	672,184.57
Total Non-Depreciable and Non-Amortizable Assets	10,739,805.20	-	(4,085,172.08)	-	(342,474.30)	216,595.60	-	6,528,754.42
Depreciable Assets								
Buildings & Building Improvements	44,067,549.70	-	317,653.98	-	-	-	-	44,385,203.68
Facilities & Other Improvements	-	-	1,212,514.55	-	-	-	-	1,212,514.55
Furniture & Equipment	404,020.34	-	-	11,955.00	(16,042.08)	7,763.00	(7,586.00)	400,110.26
Vehicle, Boats & Aircraft	140,254.10	-	-	17,024.50	-	28,805.60	(19,147.00)	166,937.20
Other Capital Assets	592,500.18	-	63,800.00	-	-	-	-	656,300.18
Total Depreciable Assets	45,204,324.32	-	1,593,968.53	28,979.50	(16,042.08)	36,588.60	(26,733.00)	46,821,065.87
Less Accumulated Depreciation For:								
Buildings & Building Improvements	(5,334,899.32)	-	-	-	-	(2,192,033.35)	-	(7,526,932.67)
Facilities & Other Improvements	-	-	-	-	-	(10,104.28)	-	(10,104.28)
Furniture & Equipment	(329,794.20)	-	-	(11,955.00)	16,042.08	(21,273.49)	7,586.00	(339,394.61)
Vehicle, Boats & Aircraft	(78,975.63)	-	-	(17,024.50)	-	(17,921.09)	19,147.00	(94,774.22)
Other Capital Assets	(588,493.00)	-	-	-	-	(2,853.38)	-	(591,346.38)
Total Accumulated Depreciation	(6,332,162.15)	-	-	(28,979.50)	16,042.08	(2,244,185.59)	26,733.00	(8,562,552.16)
Depreciable Assets, Net	38,872,162.17	-	1,593,968.53	-	-	(2,207,616.99)	-	38,258,513.71
Amortizable Assets-Intangible								
Computer Software	42,170,738.79	-	2,491,203.55	-	-	-	-	44,661,942.34
Total Amortizable Assets-Intangible	42,170,738.79	-	2,491,203.55	-	-	-	-	44,661,942.34
Less Accumulated Amortization For:								
Computer Software	(18,579,352.91)	-	-	-	-	(5,939,366.45)	-	(24,518,719.36)
Total Accumulated Amortization	(18,579,352.91)	-	-	-	-	(5,939,366.45)	-	(24,518,719.36)
Amortizable Assets-Intangible, Net	23,591,385.88	-	2,491,203.55	-	-	(5,939,366.45)	-	20,143,222.98
Total Business-Type Activities - Capital Assets, Net	\$ 73,203,353.25	\$ -	\$ -	\$ -	\$ (342,474.30)	\$ (7,930,387.84)	\$ -	\$ 64,930,491.11

NOTE 3: Deposits, Investments, & Repurchase Agreements

The Institution is authorized by statute to make investments following the "prudent person rule". There were no significant violations of legal provisions during the period.

Deposits of Cash in Bank

As of August 31, 2011, the carrying amount of deposits was \$3,083,953.00 as presented below.

<u>Governmental and Business-Type Activities</u>	
Cash in Bank - Carrying Value	\$ 3,083,953.00
Cash in Bank per Annual Financial Report	<u>\$ 3,083,953.00</u>
<u>Reconciliation of Cash per Annual Financial Report</u>	
Proprietary Funds, Current Assets Cash in Bank	(5,235,065.69)
Proprietary Funds, Restricted Current Assets Cash in Bank	5,568,162.06
Proprietary Funds, Non-Current Assets Restricted Cash in Bank	<u>2,750,856.63</u>
Cash in Bank per Annual Financial Report	<u>\$ 3,083,953.00</u>

These amounts consist of all cash in local banks. These amounts are included on the Statement of Net Assets as part of the "Cash and Cash Equivalents" accounts.

As of August 31, 2011, the total bank balance was as follows.

Governmental and
Business-Type Activities \$3,052,013.03

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Institution 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 Institution has no deposits that are at risk of recovery with the failure of a depository financial institution.

Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the deposit. The Institution maintains no foreign bank accounts; therefore no foreign currency risks exist.

Investments

As of August 31, 2011, the fair value of investments is as presented below.

<u>Governmental and Business-Type Activities</u>	<u>Fair Value</u>
U.S. Government Agency Obligations	\$ 35,476,719.29
U.S. Treasury Securities	97,939,742.18
Corporate Obligations	42,448,907.84
Equities	102,582,068.97
Externally Managed Investments-Domestic	42,089,315.58
Externally Managed Investments-International	174,577,059.79
International Equities	103,825,419.66
Fixed Income Money Market and Bond Mutual Funds	53,168,984.50
Other Commingled Funds	781,019.01
Other Commingled Funds (TexPool)	147,505,356.71
Miscellaneous Investments	7,324,712.70
Real Estate	<u>4,038,292.00</u>
Total Investments	<u>\$ 811,757,598.23</u>

Reconciliation of Investments per Annual Financial Statements

Proprietary Funds, Current Assets, Short Term Investments	\$ 200,674,341.21
Proprietary Funds, Non-Current Assets, Investments	611,083,257.02
Investments per Annual Financial Statements	<u>\$ 811,757,598.23</u>

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The general investment policy of the Institution limits investments in debt securities that are not in the top three investment grade ratings issued by nationally recognized statistical rating organizations to 5% of total investments. As of August 31, 2011, the Institution had no investment securities with credit risk exposure. A schedule of investments as rated by the national rating agency Standard & Poor's follows:

Investments as Rated by Standard & Poor's

Fund Type	GAAP Fund	Investment Type	AAA	AAAm	AA	A	BBB	NR
05	9999	US Govt Agency Oblig	35,476,719.29					
		Corporate Obligations	6,613,254.19		25,254,451.10	3,649,514.10	6,246,714.15	684,974.30
		Fixed Income & Bond Mutual		53,168,984.50				
		Miscellaneous Investments			4,879,895.40	1,327,480.80		1,117,336.50

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2011, this institution's concentration of credit risk in any single issuer did not exceed five percent of total investment assets as reported on the Statement of Net Assets.

Reverse Repurchase Agreements

The Institution, by statute, is authorized to enter into reverse repurchase agreements. A reverse repurchase agreement is a transaction in which a broker-dealer or financial institution transfers cash to the Institution and the Institution transfers securities to the broker-dealer and promises to repay the cash plus interest in exchange for the same or similar securities. Credit risk exposure for the Institution arises when a broker-dealer does not return the securities or their value at the conclusion of the reverse repurchase agreement. During the fiscal year, the System had no investments in reverse repurchase agreements.

Securities Lending

The Institution does not participate in a security-lending program.

In securities lending transactions, the Institution transfers its securities to broker-dealers and other entities for collateral - which may be cash, or securities - and simultaneously agrees to return the collateral for cash or the same securities in the future. The Institution invests the cash received as collateral and, if the returns on those investments exceed the rebate paid to the borrowers of the securities, the securities lending transactions generate income for the Institution. However, if the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss on principal, part of the payment to the borrower would come from the Institution's resources. The borrower will pay a loan premium or fee for the securities loan, thus generating income for the Institution.

Securities lending is authorized by state statutes. The Institution is authorized to lend its U.S. Government and Agency securities. Collateral is either cash or U.S. Government or Agency securities at a value of 102 percent of the value of the securities lent. The securities lending contracts allow the Institution to pledge or sell collateral securities without borrower default. At year-end, the Institution has no credit risk exposure to borrowers because the amounts the Institution owes to borrowers exceed the amounts the borrowers owe the Institution. Contracts with the lending agents require them to indemnify the Institution if the borrowers fail to return the securities. The policy is to match the maturities of the collateral investments and the securities loans. There were no significant violations of legal or contractual provisions, any borrower or lending agent default losses, and no recoveries of prior-period losses during the year.

NOTE 4: Short-Term Debt

In the prior fiscal year the System issued commercial paper (Consolidated Revenue Commercial Paper Program, Series A) to facilitate renovation and construction projects at the University of Houston and UH-Victoria. The balance remaining from the prior year issuance was redeemed during fiscal year 2011. Additional commercial paper was issued during fiscal year 2011, the proceeds of which were used to provide interim financing for renovation and construction projects at UH. Additional information about the System's long-term debt liabilities can be found in Note 5.

Table 4: Commercial Paper Activity

Business Type Activities	Balance 9/01/10	Additions	Deletions	Balance 8/31/11
Commercial Paper	\$ 10,000,000.00	\$ 38,341,000.00	\$ 6,200,000.00	\$ 42,141,000.00

**NOTE 5: Long-Term Liabilities
Changes in Long-Term Liabilities**

During the year ended August 31, 2011, the following changes, presented in Table 5, occurred in liabilities.

Non-debt liability obligations are usually paid from the same funding source from which the employee's salary or wage compensation was paid.

Table 5.1- Long Term Liabilities

Business-Type Activities	Balance 9/1/10	Additions	Reductions	Balance 8/31/11	Due Within 1 Year	Due Thereafter
Claims and Judgments	\$ 915.64	\$ 23,299.04	\$ 23,240.42	\$ 974.26	\$ 970.60	\$ 3.66
Compensable Leave	940,500.75	362,770.07	501,475.00	801,795.82	384,300.73	417,495.09
Commercial Paper	<u>10,000,000.00</u>	<u>38,341,000.00</u>	<u>6,200,000.00</u>	<u>42,141,000.00</u>	<u>42,141,000.00</u>	<u>0.00</u>
Totals	<u>\$ 10,941,416.39</u>	<u>\$ 38,727,069.11</u>	<u>\$ 6,724,715.42</u>	<u>\$ 42,943,770.08</u>	<u>\$ 42,526,271.33</u>	<u>\$ 417,498.75</u>

Notes and Loans Payable

The Board of Regents has established a program to issue commercial paper notes payable from pledged revenues, the general purpose and function of which is to finance System project costs of eligible projects and to refinance, renew, or refund notes, any prior encumbered obligations, and parity debt obligations, including interest thereon. The System is authorized to issue commercial paper (Consolidated Revenue Commercial Paper Program, Series A) in the form of notes which may not exceed, in the aggregate, a principal amount which was initially established at \$50,000,000 at any one time, and was increased in March 2009 to \$125,000,000 at any one time. The maximum maturity for the commercial paper is 270 days and is issued at tax exempt and taxable interest rates. During the 2011 fiscal year the System issued \$38,341,000 of commercial paper notes. As of the date of the issuance of this financial report, the System had outstanding commercial paper liabilities of \$42,141,000, which will be redeemed during fiscal year 2011, and which the System anticipates refinancing with long-term debt. The System's debt service requirements for long-term notes and loans payable as of August 31, 2011 are presented in Table 5.2.

Table 5.2 – Notes and Loans Payable

Business-Type Activities	Year	Principal	Interest	Total
Commercial Paper	2012	\$ 42,141,000.00	\$ 9,433.22	\$ 42,150,433.22
Total		<u>\$ 42,141,000.00</u>	<u>\$ 9,433.22</u>	<u>\$ 42,150,433.22</u>

Claims and Judgments

At August 31, 2011, various lawsuits and claims involving the Institution were pending. While the ultimate liability, if any, with respect to litigation and other claims asserted against the Institution cannot be reasonably estimated at this time, such liability, to the extent not provided for by insurance or otherwise, is not expected to have a material effect on Institution accounts.

Employees' Compensable Leave

A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from State employment, provided the employee has had continuous employment with the State for six months. Expenditures for accumulated annual leave balances are recognized in the period paid or taken in governmental fund types. For these fund types, the liability for unpaid benefits is recorded in the Statement of Net Assets. An expense and liability for proprietary fund types are recorded in the proprietary funds as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Full-time state employees earn annual leave from eight to twenty-one hours per month depending on the respective employees' years of state employment. The state's policy is that an employee may carry his accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours up to 532 for those employees with 35 or more years of state service. Accrued leave in excess of the normal maximum was converted to sick leave at the conclusion of fiscal year 2011. 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.

Lump sum payments made to employees, who separated from state service during the 2011 fiscal year, for accrued vacation and compensatory leave, totaled \$149,068.63.

NOTE 6: Bonded Indebtedness-Bonds Payable

Detailed supplemental bond information is disclosed in Schedule 2-A, Miscellaneous Bond Information, Schedule 2-B, Changes in Bonded Indebtedness, Schedule 2-C Debt Service Requirements, Schedule 2-D, Analysis of Funds Available for Debt Service, Schedule 2-E, Defeased Bonds Outstanding, and Schedule 2-F, Early Extinguishment and Refunding.

Revenue Bonds

At August 31, 2011, the Institution has no bonds payable classified as Revenue Bonds.

General Obligation Bonds

At August 31, 2011, the Institution had no bonds payable classified as General Obligation Bonds.

Refunding Bonds

At August 31, 2011, the Institution has no bonds payable classified as Refunding Bonds

NOTE 7: Derivative Instruments

Derivatives are financial instruments the value of which is derived, in whole or part, from the value of any one or more underlying assets or index of asset values. Derivatives include swap contracts, futures contracts, options, options on futures contracts and forward contracts.

Hedging derivative contracts are entered into for the purpose of reducing the overall cost of borrowing long-term capital and to protect the agency against the risk of rising interest rates. The hedging derivatives primarily consist of interest rate swap agreements entered into in connection with long-term bonds. The derivative contracts enable the agency to issue bonds at a cost less than what the agency would have paid to issue conventional fixed-rate debt.

Investment derivatives are entered into with the intention of managing transaction or currency exchange risk in purchasing, selling or holding investments. Ineffective hedges are also reported as investment derivatives.

As of August 31, 2011 the System has no investments in Derivative Instruments.

NOTE 8: Leases

Operating Leases

Included in the expenditures reported in the financial statements are the following amounts of rent paid or due under operating leases:

<u>Fund Type</u>	<u>Amount</u>
Proprietary Fund	\$ 216,804.40

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

<u>Year Ending August 31,</u>	<u>Amount</u>
2012	\$ 173,443.52
2013	130,082.64
2014	86,721.76
2015	43,360.88
2016	21,680.44
2017-2021	10,840.22
2022-2026	5,420.11
Total Minimum Future Lease Payments	<u>\$ 471,549.57</u>

Capital Leases

The System has no capital Leases to report as of August 31, 2011.

NOTE 9: Retirement Plans

The State has joint contributory retirement plans for substantially all its employees. The Institution participates in the plans administered by the Teachers Retirement System of Texas. Future pension costs are the liabilities of the Retirement System. The Retirement System does not account for each State agency separately. Annual financial reports prepared by the Retirement System include audited financial statements and actuarial assumptions and conclusions.

The state has also established an Optional Retirement Program for institutions of higher education. Participation in the Optional Retirement Program is available to certain eligible employees and is in lieu of participation in the Teacher Retirement System.

The contributions made by plan members and employers for the fiscal year ended August 31, 2011 are:

	<u>TRS Participants</u>	<u>ORP Participants</u>	<u>Total Contributions</u>
Member Contributions	\$ 245,057.00	\$ 2,895,785.00	\$ 3,140,842.00
Employer Contributions	<u>248,464.37</u>	<u>3,466,109.00</u>	<u>3,714,573.37</u>
Total	<u>\$ 493,521.37</u>	<u>\$ 6,361,894.00</u>	<u>\$ 6,855,415.37</u>

NOTE 10: Deferred Compensation

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

The State's 457 plan complies with the Internal Revenue Code Section 457. The State also administers another plan; "TexaSaver" created in accordance with Internal Revenue Code Sec. 401(k). The assets of this plan do not belong to the state. The state has no liability related to this plan.

The tax deferred investment program permits benefits-eligible employees of the Institution to purchase qualified tax deferred investments with a portion of their salaries. Participation in the program is voluntary and is a supplement to the Teacher Retirement System or the Optional Retirement Program. It is however, separate and apart from either.

NOTE 11: Post Employment Health Care and Life Insurance Benefits (UT, A&M, TRS, and ERS)

Provisions of this requirement apply only to University of Texas, Texas A&M University, Teacher Retirement System, and Employee Retirement System

NOTE 12: Interfund Activity and Transactions

As explained in Note 1, under Interfund Transactions and Balances, there are numerous transactions between funds and agencies. At year-end amounts to be received or paid are reported as:

1. Interfund Receivables or Interfund Payables
2. Legislative Transfers In / Out

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

Individual balances at August 31, 2011, are shown in Tables 12.1 and 12.2.

Table 12.1 - Interfund Receivable/Payable

	Interfund Receivable	Interfund Payable	Purpose
<i>Current Portion</i> GENERAL REVENUE (01)			
Total Current Interfund Receivable/Payable	\$ 0.00	\$ 0.00	
<i>Non-Current Portion</i> GENERAL REVENUE (01)			
Total Non-Current Interfund Receivable/Payable	\$ 0.00	\$ 0.00	

Table 12.2 - Due From/To Other Agencies

	Due From Other Agencies	Due To Other Agencies	Purpose
Enterprise (05)			
Appd Fund 5015, D23 Fund 5015 Agency 608, D23 Fund 5015 UH - System Administration	\$ 66.00	\$	State Grant
Total Due From/To Other Agencies	\$ 66.00	\$ 0.00	

NOTE 13: Continuance Subject to Review

The Institution is not subject to the provisions of the Texas Sunset Act (Chapter 325, Texas Government Code Annotated). The Act provides for the regular assessment of the continuing need for state agencies to exist. Certain agencies, such as institutions of higher education and courts, are not subject to the Sunset Act.

NOTE 14: Adjustments to Fund Balances/Net Assets

During fiscal year 2011 there were no restatements of fund balance or net assets.

NOTE 15: Contingencies and Commitments

As mentioned in Note 5, various lawsuits and claims involving the Institution were pending. While the ultimate liability, if any, remains uncertain, management does not expect any possible adverse ruling to have a material effect on Institution accounts.

The Institution has received several federal grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to a request for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. Based on prior experience, management believes such disallowances, if any, will be immaterial.

The Institution has entered into contractual commitments to fund private investments made by external investment managers. Investments in which a public market does not exist have an inherent uncertainty of valuation. Because of this uncertainty, the estimate of fair value for alternative investments may differ from the values that would have been used had a ready market existed. As displayed in Note 3, the fair value of Externally Managed Investments-Domestic is \$42,089,315.58 and International is \$174,577,059.79. The total amount of unfunded commitment is \$20,955,632.94; composed of \$14,774,507.94-Domestic and \$6,181,125.00-International.

NOTE 16: Subsequent Events

The Board of Regents authorized additional Consolidated Revenue and Refunding Bonds to be issued during the 2012 fiscal year in a par amount not to exceed \$315,000,000. The Series 2011-A bonds are for the purpose of financing various construction and renovation projects within the UH System including projects for the University of Houston, as well as projects for UH-Victoria. The Series 2011-B bonds are for the purpose of refunding certain outstanding Series 2002-A and Series 2002-B Consolidated Revenue and Refunding Bonds.

As of the date this report was issued, there have been no additional events since August 31, 2011 that had a significant financial impact and require disclosure.

NOTE 17: Risk Management

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

The University assumes substantially all risks associated with tort and liability claims due to the performance of its duties. Currently there is the purchase of some commercial insurance, and the University is not involved in any risk pools with other government entities.

The University's liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Liabilities are reevaluated periodically to consider current settlements, frequency of claims, past experience and economic factors. There were no significant reductions in insurance coverage in the past year and losses did not exceed funding arrangements during the past three years. Changes in the balances of the agency's claims liabilities during fiscal 2010 and 2011 were:

Table 17.1 - Balance of Claims Activity

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
2010	\$ 1,364.37	\$ 10,711.27	\$ 11,160.00	\$ 915.64
2011	\$ 915.64	\$ 23,299.04	\$ 23,240.42	\$ 974.26

Liabilities include an amount for estimated future workers' compensation and unemployment claims that have been incurred as of the fiscal year end, but that have not been reported.

NOTE 18: Management Discussion and Analysis

The System's financial condition and position are stable and are adequately structured to function within the current national and global economic environment. The System's administrative and management teams realize that universities must be good stewards of the dollars and resources with which they are entrusted. Management strives to make sound financial decisions.

NOTE 19: The Financial Reporting Entity

The University is an agency of the State of Texas. While it is affiliated with several separate legal entities these organizations are not considered component units as defined by generally accepted accounting principles. The University has no affiliations classified as related organizations, joint ventures or jointly governed organizations. The University does however maintain related party relationships as reported below.

Related Parties**University of Houston Foundation**

The stated purpose of the University of Houston Foundation is for the advancement of the general welfare of the University of Houston, Houston, Texas, as a whole, including, without limitation, all of the colleges and branches or divisions, thereof, wheresoever located, as well as all of the facilities and activities thereof now or hereafter existing or created, not inconsistent with the objectives, operation and management of the University of Houston. The Foundations Board of Trustees consists of nine members. The Foundation remitted no direct support and \$11,850.00 of indirect support to the System during the year ended August 31, 2011.

NOTE 20: Stewardship, Compliance and Accountability

A negative change in Net Assets did not occur in the Enterprise Fund operations for the fiscal year.

NOTE 21: N/A

Note 21 is not applicable to the AFR reporting requirements process.

NOTE 22: Donor-Restricted Endowments

Expenditure of endowed funds is not permitted without the express consent of the donor. The majority of the System's Endowments are held in perpetuity. In many cases, endowment earnings are expendable for student financial assistance or other purposes as specified by the donor. In other cases endowment earnings are reinvested.

The Regents of the University of Houston System have established an endowment policy which attempts to balance the long term objective of maintaining the purchasing power of the endowment with the goal of providing a reasonable, predictable, stable and sustainable level of income to support current needs. Payout is derived from interest, dividends and realized gains net of portfolio management fees. The historical rate of payout has been 4 to 5 percent, with any change to this range to be approved by the Board.

The net appreciation (cumulative and unexpended) on donor restricted endowments presented below in Note 22 is available for authorization and expenditure by the System.

Table 22 - Net Appreciation of Endowments

<u>Donor-Restricted Endowments</u>	<u>Amount of Net Appreciation/(Depreciation)</u>	<u>Reported in Net Assets</u>
True Endowments	\$ 2,996,323.81	Restricted Expendable
Total	<u>\$ 2,996,323.81</u>	

(A fair market value increase of \$8,450,003.99 was recognized for endowments at or above historical cost. A fair market value increase of \$217,573.50 was recognized for endowments below historical cost.)

NOTE 23: Extraordinary and Special Items

No items have been identified which should have been presented in the financial statements.

NOTE 24: Disaggregation of Receivable & Payable Balances

Balances of receivables and payables reported on the Statement of Net Assets may be aggregations of different components. GASB Statement 38, Certain Financial Statement Note Disclosures, requires that the University provide details in the notes to the financial statements when significant components have been obscured by aggregation. The Statement of Net Assets is presented in the classified format, and therefore the current and non-current portions of receivables and payables are separately disclosed. There were no amounts qualified to report.

A. Taxes Receivable

No reportable balances for this classification.

B. Federal Receivable

No reportable balances for this classification.

C. Tax Refunds Payable

No reportable balances for this classification.

D. Other Receivables – Current

No reportable balances for this classification.

E. Other Payables – Current

No reportable balances for this classification.

F. Other Receivables – Non-Current

No reportable balances for this classification.

G. Other Payables – Non-Current

No reportable balances for this classification.

NOTE 25: Termination Benefits

The Institution has no retiring members of the Employees Retirement System of Texas (ERS) eligible for a temporary retirement incentive payment.

NOTE 26: Segment Information

The Institution has no segment activity that requires separate disclosure in the notes to the financial statements. A segment is an identifiable activity, or group of activities, reported as or within an enterprise fund or another stand-alone entity that has one or more bonds or other debt instruments outstanding, with a revenue stream pledged in support of that debt. In addition, the activity's revenues, expenses, gains and losses, assets, and liabilities are required to be accounted for separately.

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Unaudited

Schedule 1 - A
 University of Houston - System Administration
 Schedule of Expenditures of Federal Awards
 For The Year Ended August 31, 2011

Federal Grantor / Pass Through Grantor / Program Title	Total Pass-Thru To & Expenditures
Note:1 Non-monetary assistance Donation of Federal Surplus Personal Property	
No Activity	\$
<hr/>	
Total Non-monetary Assistance	0.00
<hr/>	
Note 2: Reconciliation Federal Revenues	
Federal Grants and Contracts Non-operating	1,568,336.00
<hr/>	
Total Federal Revenues	1,568,336.00
<hr/>	
Reconciling Items Additions	
Federal Direct Student Loans Health Prof Student Loans - Optometry Nursing Faculty Loan Program ARRA - Nurse Faculty Loan Program	
<hr/>	
Total Additions	0.00
<hr/>	
Deductions	
Federal grants from Texas A&M Research Foundation Build America Bond	(1,568,336.00)
<hr/>	
Total Deductions	(1,568,336.00)
<hr/>	
Total Reconciling Items	(1,568,336.00)
<hr/>	
Total Pass Through & Expenditures Per Federal Schedule	\$ 0.00

Unaudited
 Schedule 1 - A
 University of Houston - System Administration
 Schedule of Expenditures of Federal Awards
 For The Year Ended August 31, 2011

Federal Agency	New Loans Processed	Administrative Cost Recovered	Total Loans Processed Administrative Cost Recovered	Loan Receivable Ending Balances
Note 3a: Student Loan Program & Adm Cost Recovered None Received				
Note 3b: Federally Funded Loans Processed and Administrative Cost Recovered None processed				
Note 4: Governmental Publications Various University of Houston System libraries participate as a Depository Library in the Government Publications Program, CFDA number 40.001. The University is the legal custodian of Government Publications, which remain the property of the Federal Government. The Publications are not assigned a value by the Government Printing Office. The University System Libraries that participate as a depository library are the University of Houston M.D. Anderson Library, the University of Houston O'Quinn Law Library, and the University of Houston-Clear Lake Alfred R. Neumann Library.				
Note 5: Unemployment Insurance Funds None received				
Note 6: Rebates for the Special Supplemental Food Program for Women, Infants and Children (WIC) None received				
Note 7: Federal Deferred Revenue None received				
Note 8: Supplemental Nutrition Assistance Program (SNAP) None received				

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Unaudited

Schedule 1 - B
University of Houston - System Administration
Schedule of State Grant Pass-Throughs From/To State Agencies
For The Year Ended August 31, 2011

	<u>Total</u>
Pass Through From	
Texas Higher Education Coordinating Board (Agency 781)	
Promote Participation & Success	\$ 5,000.00
College Readiness Initiative	43,427.40
	<hr/>
Total Texas Higher Education Coordinating Board (Agency 781)	48,427.40
	<hr/>
Total Pass Through From Other Agencies	\$ 48,427.40
	<hr/> <hr/>
Pass Through To	
None reported	

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Unaudited

Schedule 2 - A
 University of Houston - System Administration
 Miscellaneous Bond Information
 For The Year Ended August 31, 2011

Business-Type Activities Revenue Bonds	Description of Issue	Issued Year	Bonds Issued to Date	Range of Interest Rates	Terms Of Variable Interest Rate	Scheduled Maturities		First Call Date
						First Year	Last Year	

Schedule not used.

Information related to all party debt obligations is reported at the combined system-wide level.
 Please refer to the University of Houston System Combined Annual Financial Report.

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Unaudited

Schedule 2-B
 University of Houston - System Administration
 Changes In Bonded Indebtedness
 For The Year Ended August 31, 2011

Business-Type Activities

Description of Issue	Bonds	Bonds	Bonds	Bonds	Bonds	Net Bonds Outstanding 08/31/2011	Amounts Due Within One Year
	Outstanding 09/01/2010	Issued	Matured or Retired	Refunded or Extinguished	Outstanding 08/31/2011		
	Unamortized Premium	Unamortized Discount	Issuance Costs	Gain / (Loss) On Refunding			

Schedule not used

Information related to all parity debt obligations is reported at the combined system-wide level.
 Please refer to the University of Houston System Combined Annual Financial Report.

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Unaudited

Schedule 2 - C
University of Houston - System Administration
Debt Service Requirements
For The Year Ended August 31, 2011

Business-Type Activities

Description of Issue	Year	Principal	Interest	Total
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Schedule not used.

Information related to all parity debt obligations is reported at the combined system-wide level.
Please refer to the University of Houston System Combined Annual Financial Report.

Unaudited

Schedule 2-D
 University of Houston - System Administration
 Analysis of Funds Available for Debt Service
 For The Year Ended August 31, 2011

Business-Type Activities
 General Obligation Bonds

Description of Issue	Beginning Balance Available for Debt Service 09/01/2010	Sources of Funds				Total Sources Available
		Pledged Sources	Other Pledged Sources	Other Sources	State's General Revenue	
		Interest Earned on Investments	Operating Transfers			
Schedule not used.						
		Application of Funds				
		Principal	Interest	Other Application of Funds	Total Application of Funds	
Schedule not used.						

Ending Balance Available for Debt Service at 08/31/2011
Required
Actual

Schedule not used.

Information related to all parity debt obligations is reported at the combined system-wide level. Please refer to the University of Houston System Combined Annual Financial Report.

Unaudited

Schedule 2-D
 University of Houston - System Administration
 Analysis of Funds Available for Debt Service
 For The Year Ended August 31, 2011

Business-Type Activities
 Revenue Bonds

Description of Issue	Pledged and Other Sources and Related Expenditure for FY 2011							(a+b-c-d) Net Available for Debt Service
	Operating Revenues	Interest Earned on Investments	Other Pledged Revenues	a Total Pledged Sources	b Other Sources	c Operating Expenses & Expenditures	d Capital Outlay	
Description of Issue	Debt Service		Refunded or Extinguished	Interest & Sinking Fund		Reserve Fund		
	Principal	Interest		Minimum	Actual	Minimum	Actual	
Schedule not used.								
Information related to all parity debt obligations is reported at the combined system-wide level. Please refer to the University of Houston System Combined Annual Financial Report.								

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Unaudited

Schedule 2-E
University of Houston - System Administration
Defeased Bonds Outstanding
For The Year Ended August 31, 2011

Business-Type Activities

Description of Issue	Year Refunded	Par Value Outstanding
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Schedule not used.

Information related to all parity debt obligations is reported at the combined system-wide level.
Please refer to the University of Houston System Combined Annual Financial Report.

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Unaudited

Schedule 2-F
 University of Houston - System Administration
 Early Extinguishment and Refunding
 For The Year Ended August 31, 2011

Business-Type Activities

Description of Issue	Category	Amount Extinguished Or Refunded	For Refunding Only	
			Refunding Issue Par Value	Cash Flow Increase / (Decrease)

Schedule not used.

Information related to all parity debt obligations is reported at the combined system-wide level.
 Please refer to the University of Houston System Combined Annual Financial Report.

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Unaudited

Schedule 3

University of Houston - System Administration
Reconciliation Of Cash In State Treasury
For The Year Ended August 31, 2011

<u>Cash in State Treasury</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Current Year Total</u>
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Schedule not used

