

**UNIVERSITY OF HOUSTON  
DOWNTOWN**

**UNAUDITED ANNUAL  
FINANCIAL REPORT**

FOR THE YEAR ENDED AUGUST 31, 2005

UNIVERSITY OF HOUSTON - DOWNTOWN

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Office of the Vice President for Administration

November 15, 2005

Honorable Rick Perry, Governor  
Honorable Carole Keeton Strayhorn, State Comptroller  
John O'Brien, Deputy Director, Legislative Budget Board  
John Keel, CPA, State Auditor

Lady and Gentlemen:

I am pleased to submit the Annual Financial Report of the University of Houston – Downtown for the year ended August 31, 2005, 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 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. Since this 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 required to be included in the accompanying report. The financial statements are considered to be materially accurate in all respects.

The accompanying annual financial report will be considered for audit by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

If you have any questions regarding this Annual Report or the Schedule of Expenditures of Federal Awards, please contact George Anderson, at 713-221-8449.

Sincerely,

A handwritten signature in blue ink, appearing to read 'David M. Bradley', is written over a horizontal line.

David M. Bradley  
Vice President for Administration & Finance

UNIVERSITY OF HOUSTON - DOWNTOWN

ORGANIZATIONAL DATA  
AUGUST 31, 2005

BOARD OF REGENTS

Morrie K. Abramson, Houston	Term Expires August 31, 2005
Morgan Dunn O'Connor, Victoria	Term Expires August 31, 2005
Thad "Bo" Smith, Sugar Land	Term Expires August 31, 2005
Michael J. Cemo, Houston	Term Expires August 31, 2007
Raul A. Gonzalez, Austin	Term Expires August 31, 2007
Leroy L. Hermes, Houston	Term Expires August 31, 2007
Dennis D. Golden, O.D., Carthage	Term Expires August 31, 2009
Lynden B. Rose, Houston	Term Expires August 31, 2009
Calvin W. Stephens, Dallas	Term Expires August 31, 2009

OFFICERS OF THE BOARD (FISCAL YEAR 2005)

Morgan Dunn O'Connor	Chair
Leroy L. Hermes	Vice Chair
Raul A. Gonzalez	Secretary

OFFICERS OF THE BOARD (FISCAL YEAR 2006)

Leroy L. Hermes	Chair
Michael J. Cemo	Vice Chair
Dennis D. Golden, O.D.	Secretary

ADMINISTRATIVE OFFICERS

Max Castillo	President
Molly Woods	Vice President for Academic Affairs and Provost
David M. Bradley	Vice President for Administration and Finance
Michele Sabino	Executive Director of University Advancement
J. David Fairbanks	Associate Vice President for Policy, Planning and Analysis
Patrick S. Williams	Assistant Vice President for Academic Affairs
Ivonne Montalbano	Vice President for Employment Services and Operations
Edward Apodaca	Vice President for Student Services and Enrollment Management

UNIVERSITY OF HOUSTON - DOWNTOWN  
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 - Downtown for the fiscal year ended August 31, 2005. 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 contained in Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

This detailed internal report supplements the annual financial report of the University of Houston System and is intended to be for limited distribution primarily to financial and academic officers of the University who need access to the details included herein; it also provides a historical record of transactions relating to this particular component institution.

The financial report for the University of Houston System includes the primary statements on a combined, system-wide basis complete with explanatory notes.

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 Financial 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 - Downtown  
Statement of Net Assets  
August 31, 2005

	<u>Total 2005</u>
Assets	
Current Assets	
Cash and Cash Equivalent	
Cash on Hand	\$ 12,130.00
Cash in Bank	926,508.43
Cash in State Treasury	2,667,832.45
Cash Equivalents	17,535,538.47
Restricted:	
Cash and Cash Equivalent	
Cash in Bank	(3,293,995.77)
Loans and Contracts	470,022.49
Legislative Appropriations	3,093,961.31
Receivables From:	
Federal Receivables	724,958.14
UHS Intercampus Receivables	4,235,440.12
Accounts Receivable	1,802,733.71
Gifts	1,611,134.41
Other Receivables	196,251.79
Due From Agencies	1,331.00
Consumable Inventories	54,255.07
Deferred Charges	6,971,348.00
<hr/>	
<b>Total Current Assets</b>	<hr/> <b>37,009,449.62</b> <hr/>
Non-Current Assets	
Restricted:	
Cash and Cash Equivalent	
Cash in Bank	244,593.18
UHS Intercampus Receivables	10,432,733.09
UHS Intercampus Receivables	1,239,093.20
Capital Assets	
Non-Depreciable	
Land and Land Improvements	8,100,819.44
Construction in Progress	930,334.05
Other Capital Assets	474,036.00
Depreciable	
Building and Building Improvements	92,969,684.99
Less Accumulated Depreciation	(44,826,083.50)
Facilities and Other Improvements	1,068,464.00
Less Accumulated Depreciation	(388,760.86)
Furniture and Equipment	8,199,441.34
Less Accumulated Depreciation	(5,909,336.44)
Vehicles, Boats and Aircraft	210,975.00
Less Accumulated Depreciation	(156,404.01)
Other Capital Assets	7,598,685.38
Less Accumulated Depreciation	(1,307,695.77)
<hr/>	
<b>Total Non-Current Assets</b>	<hr/> <b>78,880,579.09</b> <hr/>
<hr/> <b>Total Assets</b>	<hr/> <b>115,890,028.71</b> <hr/>

Unaudited

University of Houston - Downtown  
Statement of Net Assets  
August 31, 2005

	<u>Total 2005</u>
Liabilities	
Current Liabilities	
Payables	
Accounts Payable	1,086,735.34
Federal Payable	334,472.65
Payroll Payable	2,721,869.33
UHS Intercampus Payable	(783,067.14)
Other Payable	89,590.69
Deferred Revenues	14,024,855.68
Revenue Bonds Payable	1,589,884.05
Employees' Compensable Leave	699,802.31
Funds Held for Others	1,703,685.42
	<hr/>
<b>Total Current Liabilities</b>	<b>21,467,828.33</b>
	<hr/>
Non-Current Liabilities	
Revenue Bonds Payable	37,916,688.38
Employees' Compensable Leave	821,507.02
	<hr/>
<b>Total Non-Current Liabilities</b>	<b>38,738,195.40</b>
	<hr/>
<b>Total Liabilities</b>	<b>60,206,023.73</b>
	<hr/> <hr/>
Net Assets	
Invested in Capital Assets, Net of Related Debt	28,482,603.20
Restricted for:	
Debt Retirement	601.63
Capital Projects	1,228.59
Funds Held as Permanent Investments	
Nonexpendable	
Endowment Funds	9,873,395.91
Other Restricted	4,558,457.91
Unrestricted	12,767,717.74
	<hr/>
<b>Total Net Assets</b>	<b>\$ 55,684,004.98</b>
	<hr/> <hr/>

Unaudited

University of Houston - Downtown  
Statement of Revenues, Expenses and Changes in Net Assets  
For The Year Ended August 31, 2005

	Total 2005
<b>Operating Revenues</b>	
Sales of Goods and Services (PR-Chgs for Services)	
Tuition and Fees	\$ 37,327,047.45
Discounts and Allowances	(7,961,381.84)
Auxiliary Enterprise	1,968,050.39
Other Sales of Goods and Services	1,232,337.72
Federal Revenue-Operating (PR-OP Grants/Contributions)	15,308,320.46
Federal Pass Through Revenue (PR-OP Grants/Contributions)	231,655.86
State Grant Revenue (PR-OP Grants/Contributions)	170,304.47
State Grant Pass Through Revenue (PR-OP Grants/Contributions)	1,827,379.10
Other Grants and Contracts-Operating (PR-OP Grants/Contributions)	165,855.79
<b>Total Operating Revenues</b>	<b>50,269,569.40</b>
<b>Operating Expenses</b>	
Instruction	27,832,144.99
Research	453,052.59
Public Service	1,872,468.69
Academic Support	8,786,688.86
Student Services	3,174,433.84
Institutional Support	13,957,972.27
Operation & Maintenance of Plant	4,075,425.83
Scholarships & Fellowships	9,141,291.49
Auxiliary Enterprises	4,476,080.92
Depreciation & Amortization	4,698,547.61
<b>Total Operating Expenses</b>	<b>78,468,107.09</b>
<b>Operating Income (Loss)</b>	<b>(28,198,537.69)</b>
<b>Non-Operating Revenues (Expenses)</b>	
Legislative Revenue (GR)	20,882,390.00
Additional Appropriations (GR)	3,666,651.34
Gifts (PR-OP Grants/Contributions)	1,973,727.65
Interest and Investment Income (PR-Chgs for Services)	1,870,190.13
Interest Expense and Fiscal Charges	(1,627,043.14)
Other Nonoperating Revenue (Expenses) (PR-Chgs for Services)	(933,243.96)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>25,832,672.02</b>



Unaudited

University of Houston - Downtown  
 Statement of Revenues, Expenses and Changes in Net Assets  
 For The Year Ended August 31, 2005

	<u>Total 2005</u>
<u>Income (Loss) before Other Revenues, Expenses, Gains, Losses and Transfers</u>	<u>(2,365,865.67)</u>
Other Revenues, Expenses, Gains, Losses and Transfers	
Capital Appropriation (HEAF)	5,453,977.00
Additions to Permanent and Term Endowments	488,485.24
UHS Intercampus Transfers-In	286,107.70
UHS Intercampus Transfers-Out	(672,979.46)
Transfers-In	22,977.00
Transfers-Out	(150,671.22)
Legislative Appropriations Lapsed	(13,829.97)
<hr/>	<hr/>
<u>Total Other Revenues, Expenses, Gains, Losses and Transfers</u>	<u>5,414,066.29</u>
<u>Change In Net Assets</u>	<u>3,048,200.62</u>
Net Assets Beginning	53,378,452.68
Restatements	(742,648.32)
<hr/>	<hr/>
<u>Net Assets Beginning, as Restated</u>	<u>52,635,804.36</u>
<u>Net Assets, Ending</u>	<u>\$ 55,684,004.98</u>

Unaudited

University of Houston - Downtown  
 Matrix of Operating Expenses Reported by Function  
 For The Year Ended August 31, 2005

Operating Expenses	Instruction	Research	Public Service	Academic Support	Student Services
Cost of Goods Sold	\$	\$	\$	\$	\$
Salaries and Wages	21,241,614.59	212,047.03	1,144,284.38	5,016,743.93	2,073,504.75
Payroll Related Costs	4,548,400.14	41,858.07	226,827.56	1,112,727.92	452,142.64
Professional Fees and Services	511,380.21	15,846.00	69,528.18	599,209.02	53,213.84
Federal Pass-Through Expenses	158,219.31				
Travel	267,613.22	29,227.23	62,237.14	148,254.74	30,320.98
Materials and Supplies	364,506.17	81,157.32	119,782.74	1,212,549.31	129,976.27
Communication and Utilities	91,202.96	5,682.46	42,345.49	99,717.24	89,370.50
Repairs and Maintenance	51,816.71	283.20	3,602.85	222,956.06	20,406.74
Rentals and Leases	87,676.21	1,809.99	17,710.93	112,654.24	16,990.56
Printing and Reproduction	11,409.83		14,786.85	16,822.12	44,255.93
Depreciation and Amortization					
Bad Debt Expense				33,080.66	22,752.35
Interest	274.25	0.28	305.90	1,815.51	147.57
Scholarships	250,109.25	36,000.00	10,310.10	7,119.00	126,251.00
Claims and Losses					
Other Operating Expenses	247,922.14	29,141.01	160,746.57	203,039.11	115,100.71
<b>Total Operating Expenses</b>	<b>\$ 27,832,144.99</b>	<b>\$ 453,052.59</b>	<b>\$ 1,872,468.69</b>	<b>\$ 8,786,688.86</b>	<b>\$ 3,174,433.84</b>

Unaudited

University of Houston - Downtown  
 Matrix of Operating Expenses Reported by Function  
 For The Year Ended August 31, 2005

Institutional Support	Operation and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total Expenditure
\$	\$	\$	\$ 101.26	\$	\$ 101.26
6,251,004.03	1,264,044.03	54,725.40	1,831,011.15		39,088,979.29
1,438,498.28	357,306.15	2,080.08	540,280.44		8,720,121.28
3,078,955.88	536,536.98	39,107.00	636,824.79		5,540,601.90
					158,219.31
147,203.88	4,797.07		52,361.09		742,015.35
1,096,138.81	187,193.55	41,709.99	318,973.75		3,551,987.91
176,480.12	1,367,910.37		307,775.46		2,180,484.60
309,615.26	322,129.13		321,367.23		1,252,177.18
188,729.76	7,410.02		147,339.18		580,320.89
125,728.00	1,392.55		46,934.06		261,329.34
				4,698,547.61	4,698,547.61
381,837.93		372,135.81	64,041.41		873,848.16
313,175.80	204.03		261.58		316,184.92
		8,631,260.11			9,061,049.46
88,580.75			10.00		88,590.75
362,023.77	26,501.95	273.10	208,799.52		1,353,547.88
<u>\$ 13,957,972.27</u>	<u>\$ 4,075,425.83</u>	<u>\$ 9,141,291.49</u>	<u>\$ 4,476,080.92</u>	<u>\$ 4,698,547.61</u>	<u>\$ 78,468,107.09</u>

Unaudited

University of Houston - Downtown  
Statement of Cash Flows  
For The Year Ended August 31, 2005

	<u>Total 2005</u>
Cash Flows from Operating Activities	
Receipts from Customers	\$ 1,205,072.44
Proceeds from Tuition & Fees	27,260,324.19
Proceeds from Research Grants & Contracts	92,419.24
Proceeds from Loan Programs	2,319,570.77
Proceeds from Auxiliaries	1,924,507.59
Proceeds from Other Revenues	20,358,694.62
Payments to Suppliers for Goods and Services	(20,867,183.12)
Payments to Employees for Salaries	(41,357,377.18)
Payments to Employees for Benefits	(8,694,655.12)
Payments for Loans Provided	(2,445,429.77)
Payments for Other Expenses	(5,539,906.40)
<hr/>	
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(25,743,962.74)</b>
Cash Flows from Noncapital Financing Activities	
Proceeds from State Appropriations	24,018,191.11
Proceeds from Gifts	2,523,063.24
Proceeds from Endowments	(216,710.00)
Proceeds of Transfers from Other Funds	286,107.70
Proceeds from Legislative Transfers	22,977.00
Payments for Transfers to Other Funds	(823,650.68)
Payments for Other Uses	(1,749,417.81)
<hr/>	
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>24,060,560.56</b>
Cash Flows from Capital and Related Financing Activities	
Proceeds from Capital Contributions	5,453,977.00
Payments for Additions to Capital Assets	4,272,518.60
Payments of Principal on Debt	(1,869,370.00)
Payments of Interest on Debt Issuance	(1,608,480.58)
Payments of Other Related Financing Activities	(1.05)
<hr/>	
<b>Net Cash Provided by Capital and Related Financing Activities</b>	<b>6,248,643.97</b>
Cash Flows from Investing Activities	
Proceeds from Investment Income	3,530,451.72
<hr/>	
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>3,530,451.72</b>

Unaudited

University of Houston - Downtown  
Statement of Cash Flows  
For The Year Ended August 31, 2005

	<u>Total 2005</u>
Net Increase (Decrease) in Cash and Cash Equivalents	8,095,693.51
Cash and Cash Equivalents, September 1, 2004	9,996,913.36
Restatements to Beginning Cash and Cash Equivalents	
<hr/>	
Cash and Cash Equivalents, August 31, 2005	<u>18,092,606.87</u>
<hr/>	
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
<u>Operating Income (Loss)</u>	<u>(28,198,537.69)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities	
Amortization and Depreciation	4,698,547.61
Bad Debt Expense	873,848.16
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	993,735.87
(Increase) Decrease in Inventories	(18,487.09)
(Increase) Decrease in Prepaid Expenses	(1,177,404.66)
(Increase) Decrease in Loans and Contracts	(125,859.00)
(Increase) Decrease in Other Assets	(711.00)
Increase (Decrease) in Payables	(1,754,225.88)
Increase (Decrease) in Deferred Income	(1,279,486.43)
Increase (Decrease) in Compensated Absence Liability	244,617.37
<hr/>	
Total Adjustments	2,454,574.95
<hr/>	
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>\$ (25,743,962.74)</u>
<hr/>	
Non-Cash Transactions	
Depreciation	\$ 4,698,547.72
Disposal of Capital Assets	89,760.19
Library Books Withdrawn	(213,495.50)
<hr/>	
<u>Non-Cash Transactions</u>	<u>\$ 4,574,812.41</u>

UNIVERSITY OF HOUSTON - DOWNTOWN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2005

**NOTE 1: Summary of Significant Accounting Policies****Entity**

The University of Houston - Downtown (the University) 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 University 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 University includes within this report all components as determined by an analysis of their relationship to the University 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 University'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 University'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

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

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

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 17.

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 the Universities are considered to be a Business-Type Activity. The University 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 University prepares an annual budget which represents anticipated sources of revenues and authorized uses. This budget is approved by the University'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

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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 noncurrent in the Statement of Net Assets.

Capital Lease Obligations

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

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 noncurrent 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 noncurrent in the Statement of Net Assets.

**FUND BALANCE/NET ASSETS**

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

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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:

1. Transfers - Legally required transfers that are reported when incurred as Transfers In by the recipient fund and as Transfers Out by the disbursing fund.
2. Reimbursements - Reimbursements are repayments from funds responsible for expenditures or expenses to funds that made the actual payment. Reimbursements of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. Reimbursements are not displayed in the financial statements.
3. Interfund Receivables and Payables - Interfund loans are reported as interfund receivables and payables. If repayment is due during the current year or soon thereafter it is classified as Current. Repayment for two (or more) years is classified as Non-Current.
4. Interfund Sales and Purchases - Charges or collections for services rendered by one fund to another that are recorded as revenues of the recipient fund and expenditures or expenses of the disbursing fund. The composition of the University's interfund activities and balances are presented in Note 8.

**NOTE 2: Capital Assets**

A summary of changes in Capital Assets for the year ended August 31, 2005, is presented in Table 2.

**Table 2 - Capital Assets**

	<b>University of Houston - Downtown</b>		
	<b>Balance 9/01/2004</b>	<b>Adjustments</b>	<b>Completed CIP</b>
<b>Business-type activities:</b>			
Non-depreciable Assets			
Land and Land Improvements	8,167,486.11		
Construction in Progress	382,666.77		(2,724,382.40)
Other Capital Assets	4,714,078.86	(4,335,944.86)	
Total Non-depreciable Assets	13,264,231.74	(4,335,944.86)	(2,724,382.40)
Depreciable Assets			
Buildings and Building Improvements Infrastructure	90,245,302.59		2,724,382.40
Facilities & Other Improvements	1,068,464.00		
Furniture and Equipment	7,845,154.88		
Vehicle, Boats & Aircraft	181,076.00		
Other Capital Assets	2,472,903.63	4,335,944.86	
Total depreciable assets at historical costs	101,812,901.10	4,335,944.86	2,724,382.40
Less accumulated depreciation for:			
Buildings and Improvements Infrastructure	(41,666,241.14)		
Facilities & Other Improvements	(342,305.91)		
Furniture and Equipment	(5,368,428.93)		
Vehicle, Boats & Aircraft	(126,935.47)		
Other Capital Assets	(9,367.05)	(742,648.32)	
Total accumulated depreciation	(47,513,278.50)	(742,648.32)	0.00
Depreciable assets, net	54,299,622.60	3,593,296.54	2,724,382.40
Business-type activities capital assets, net	67,563,854.34	(742,648.32)	0.00

**Table 2 - Capital Assets**

<b>University of Houston - Downtown</b>				
<b>Inc-Int'agy Trans</b>	<b>Dec-Int'agy Trans</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 8/31/2005</b>
			(66,666.67)	8,100,819.44
		3,272,049.68		930,334.05
		95,902.00		474,036.00
0.00	0.00	3,367,951.68	(66,666.67)	9,505,189.49
				92,969,684.99
				0.00
				1,068,464.00
		738,660.46	(384,374.00)	8,199,441.34
		29,899.00		210,975.00
		1,003,332.39	(213,495.50)	7,598,685.38
0.00	0.00	1,771,891.85	(597,869.50)	110,047,250.71
		(3,159,842.36)		(44,826,083.50)
				0.00
		(46,454.95)		(388,760.86)
		(906,842.24)	365,934.73	(5,909,336.44)
		(29,468.54)		(156,404.01)
		(555,680.40)		(1,307,695.77)
0.00	0.00	(4,698,288.49)	365,934.73	(52,588,280.58)
0.00	0.00	(2,926,396.64)	(231,934.77)	57,458,970.13
0.00	0.00	441,555.04	(298,601.44)	66,964,159.62

**NOTE 3: Deposits, Investments, & Repurchase Agreements**

**Deposits of Cash in Bank**

As of August 31, 2005, the carrying amount of deposits was \$(2,122,894.16) as presented below.

**Government and Business-Type Activities:**

Cash In Bank - Carrying Value	\$(2,122,894.16)
Less: Certificates of Deposit included in carrying value and reported as Cash Equivalent	0.00
Less: Uninvested Securities Lending Cash Collateral included in carrying value and reported as Securities Lending Collateral	0.00
Less: Securities Lending CD Collateral included in carrying value and reported as Securities Lending Collateral	<u>0.00</u>
Cash in Bank per Annual Financial Report	<u>\$(2,122,894.16)</u>
Proprietary Funds Current Assets Cash in Bank	\$926,508.43
Proprietary Funds Current Assets Restricted Cash in Bank	(3,293,995.77)
Proprietary Funds Non-Current Restricted Cash in Bank	<u>\$244,593.18</u>
Cash in Bank per Annual Financial Report	<u>\$(2,122,894.16)</u>

These amounts consist of all cash in local banks and a portion of short-term investments. These amounts are included on the Combined Statement of Net Assets as part of the "Cash and Cash Equivalents" and "Securities Lending Collateral" accounts.

As of August 31, 2005, the total bank balance was as follows.

Governmental and Business-Type Activities	\$191,962.00
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Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the University 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 bank balances that were exposed to custodial credit risks are as follows.

Fund Type	GAAP Fund	Uninsured and Uncollateralized	Uninsured and Collateralized with securities held by the pledging financial institution	Uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the state's name
			\$0.00	

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Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the deposit. The exposure to foreign currency risk for deposits as of August 31, 2005 is as follows.

Fund Type	GAAP Fund	Currency	Balance
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**Investments**

As of August 31 2005, the carrying value and fair value of investments are as presented below.

Governmental and Business-Type Activities	Carrying Value	Fair Value
U.S. Government		
U.S. Treasury Securities	\$ 0.00	\$ 0.00
U.S. Treasury Strips		
U.S. Treasury TIPS		
U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, etc.)		
U.S. Government Agency obligations (Texas Treasury Safekeeping Trust Co)		
Corporate Obligations		
Corporate Asset and Mortgage Backed Securities		
Equity		
International Obligations (Govt and Corp)		
International Equity		
Repurchase Agreement		
Repurchase Agreement (Texas Treasury Safekeeping Trust Co)		
Fixed Income Money Market and Bond Mutual Fund		
Other Commingled Funds		
Other Commingled Funds (Texpool)		
Commercial Paper		
Securities Lending Collateral Investment Pool		
Real Estate		
Misc (alternative investments, limited partnerships, guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)	<u>0.00</u>	<u>0.00</u>
<b>Total</b>	<u>\$ 0.00</u>	<u>\$ 0.00</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 University 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, 2005, the University's credit quality distribution for securities with credit risk exposure was as follows.

**Moody's**

Fund Type	GAAP Fund	Investment Type	Aaa	Aa	A	Baa
05	9999	U.S. Government Agency Obligations	\$	\$	\$	\$
		U.S. Government Agency Obligations (Texas Treasury Safekeeping Trust Co.)				
		Corporate Obligations				
		Corporate Asset and Mortgage Backed Securities				
		International Obligation				
		Repurchase Agreement				
		Repurchase Agreement (Texas Treasury Safekeeping Trust Co.)				
		Fixed Income Money Market and Bond Mutual Fund	17,535,340.00			
		Misc.				
			P-1	P-2	P-3	
		Commercial Paper				
		Misc.				

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2005, the agency'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 University, 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 University and the University 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 University arises when a broker-dealer does not return the securities or their value at the conclusion of the reverse repurchase agreement. There were no significant violations of legal or contractual provisions during the year.

### **Securities Lending**

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

In securities lending transactions, the University 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 University 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 University. 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 University's resources. The borrower will pay a loan premium or fee for the securities loan, thus generating income for the University.

Securities lending is authorized by state statutes. The University 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 University to pledge or sell collateral securities without borrower default. At year-end, the University has no credit risk exposure to borrowers because the amounts the University owes to borrowers exceed the amounts the borrowers owe the University. Contracts with the lending agents require them to indemnify the University 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.

### **Derivative Investing**

The University did not hold any collateralized mortgage obligations at fiscal year-end. These securities are purchased to provide incremental yield above that available on corporate securities with similar terms. The overall return or yield on mortgage-backed securities depends on the amount of interest collected over the life of the security and the change in the fair value. It is estimated that these securities will provide future cash inflows on a time schedule that approximately matches the outflows associated with the University's liabilities. These highly marketable securities are rated AAA by the major rating agencies.

The University does not enter into forward-exchange contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risks associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterpart to perform.

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

The University of Houston did not hold any short-term debt resulting from anticipation notes, lines of credit or any other similar type of loan at fiscal year-end.



**NOTE 5: Summary of Long Term Liabilities****Changes In Long-Term Liabilities**

During the year ended August 31, 2005, the following changes, presented in Table 5, occurred in liabilities.

Table 5 - Long Term Liabilities

Business-Type Activities	Balance 9-1-04	Additions	Reductions	Balance 8-31-05	Amounts Due Within One Year
Revenue Bonds Payable	\$41,447,713.48	\$	\$1,941,141.05	\$39,506,572.43	\$ 1,589,884.05
Compensable Leave	1,276,691.96	244,617.37		1,521,309.33	699,802.31
Total Business- Type Activities	\$42,724,405.44	\$ 244,617.37	\$1,941,141.05	\$41,027,881.76	\$2,289,686.36

**Notes and Loans Payable**

The University reported no notes or loans payable at the end of the year ended August 31, 2005.

**Claims and Judgments**

At August 31, 2005, various lawsuits and claims involving the University were pending. While the ultimate liability, if any, with respect to litigation and other claims asserted against the University cannot be reasonably estimated at this time, such liability, to the extent not provided for by insurance or otherwise, is not expected to have a material effect on University 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 2004. 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 2005 fiscal year, for accrued vacation and compensatory leave, totaled \$242,612.61.

**NOTE 6: Capital Leases**

The University may enter into long-term leases for financing the purchase of certain fixed assets. Such leases are classified as capital leases for accounting purposes and, therefore, are recorded at the present value of the future minimum lease payments at the inception of the lease. There were no outstanding capital lease payments payable at August 31, 2005.

**NOTE 7: Operating Lease Obligations**

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

Fund Type	Amount
Proprietary Fund	\$347,467.69

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

Year Ended August 31	
2006	\$ 277,974.15
2007	208,480.61
2008	138,987.08
2009	69,493.54
2010	34,746.77
2011 - 2015	17,373.38
2016 - 2020	8,686.69
	<hr/>
Total Minimum Future Lease Rental Payments	\$ 755,742.23
	<hr/> <hr/>

**NOTE 8: Interfund Balances / Activities**

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. Due From Other Agencies or Due To Other Agencies
3. Due From Other Funds or Due To Other Funds
4. Transfers In or Transfers Out
5. Legislative Transfers In or Legislative Transfers Out (Note 8 presentation required)

The University 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 and activity at August 31, 2005, are shown in Table 8.

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Table 8.1 - Interfund Receivables and Payables

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

Table 8.2 - Due From/To Other Agencies

	Due From Other Agencies	Due To Other Agencies	Source
ENTERPRISE (05) Appd Fund 0347, D23 Fund 0347 Agency 902, D23 Fund 0347			
UH-Clear Lake	\$ 0.00	\$ 0.00	Transfer
Appd Fund 5015, D23 Fund 5015 Agency 601, D23 Fund 5015 University of Houston	0.00	0.00	State Grant
UH-Clear Lake	0.00	0.00	State Grant
UH-Victoria	0.00	0.00	State Grant
UH-System Admin	0.00	0.00	State Grant
UH-Downtown	1,331.00	0.00	State Grant
Appd Fund 5079, D23 Fund 5079 Agency 781, D23 Fund 5079 University of Houston	0.00	0.00	State Pass- Through
UH-Clear Lake	0.00	0.00	State Pass- Through
UH-Victoria	0.00	0.00	State Pass- Through
Appd Fund 9999, D23 Fund 7999 Agency 753, D23 Fund 7999			
University of Houston	0.00	0.00	Federal Pass- Through
Total Due From/To Other Agencies	\$1,331.00	\$ 0.00	

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Table 8.3 - Due From/To Other Funds

Current Portion	Due From Other Funds	Due To Other Funds	Source
GENERAL REVENUE (01)	\$ 0.00	\$ 0.00	
Total Due From/To Other Funds	\$ 0.00	\$ 0.00	

Table 8.4 - Transfers In and Out

	Transfers In	Transfers Out	Purpose
ENTERPRISE (05) Appd Fund 9999, D23 Fund 7999 Agency 781, D23 Fund 0001			
UH-Downtown	\$ 0.00	\$ 150,671.22	§ 56.465. TEX. EDUC. CODE ANN., SUBCHAPTER Q (B-On- Time)
UH-Downtown	0.00	0.00	§ 61.9731 TEX. EDUC. CODE ANN. (Law Tuition Set Aside)
Fund 0001, D23 Fund 0001 Agency 902, D23 Fund 0001			
UH-Downtown	0.00	0.00	§ 56.302 TEX. EDUC. CODE ANN. SUBCHAPTER M (Texas Grants)
UH-Downtown	22,977.00	0.00	§ House Bill 28, Article V, 78 <sup>th</sup> Leg., 3 <sup>rd</sup> Session (Texas Excellence Fund)
Total Transfers	\$ 22,977.00	\$ 150,671.22	

Table 8.5 - Legislative Transfers In and Out

	Legislative Transfers In	Legislative Transfers Out
GENERAL REVENUE (01) Appd Fun 0001, D23 Fund 001 Agency 730, D23 Fund 0001		
University of Houston	\$ 0.00	\$ 0.00
UH-Clear Lake	0.00	0.00
UH-Victoria	0.00	0.00
Agency 759, D23 Fund 0001		
University of Houston	0.00	0.00
UH-Clear Lake	0.00	0.00
Agency 765, D23 Fund 0001		
University of Houston	0.00	0.00
UH-Victoria	0.00	0.00
Total Legislative Transfers In and Out	\$ 0.00	\$ 0.00

**NOTE 9: Contingent Liabilities**

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

The System 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.

**NOTE 10: Continuance Subject to Review**

The University 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 11: Risk Financing and Related Insurance**

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.

Changes in the balances of the University's claims liabilities during fiscal years 2005 and 2004 are shown in Table 11.

Table 11 - Claims Liabilities

Fiscal Year	Beginning Of Fiscal Year Liability	Claims And Estimate Changes	Claims Payments	Balance At Fiscal Year End
2004	\$17,094.03	\$ 97,149.20	\$102,770.22	\$11,473.01
2005	\$11,473.01	\$116,368.02	\$105,546.12	\$22,294.91

**NOTE 12: Segment Information**

The University 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 an other 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.

**NOTE 13: 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**

- **Consolidated Revenue Bonds, Series 1995**

- To acquire, purchase, construct, improve, renovate, enlarge, or equip property, buildings, structures, facilities, roads, or related infrastructures for the University of Houston - Downtown, including the construction and equipping of an academic and student services building.
- Issued 4-1-95.
- \$22,400,000; all bonds authorized have been issued.
- Source of revenue for debt service - Tuition and various other revenues and balances that may be legally available for payment of debt obligations (funding for fiscal year 2004 from legislative appropriation).
- Called for early redemption on 2-15-05.
- All outstanding bonds on 2-15-05 were paid in full with proceeds from Consolidated Revenue Refunding Bonds, series 2003.

- **Consolidated Revenue Bonds, Series 1997**

- To acquire, purchase, construct, improve, renovate, enlarge, or equip property, land, buildings, structures, facilities, roads, or infrastructure for the University of Houston - Victoria.
- Issued 8-1-97.
- \$5,150,000; all bonds authorized have been issued.
- Source of revenue for debt service - Designated tuition and various other revenues and balances that may be legally available for payment of debt obligations (funding for fiscal year 2004 from Legislative appropriation).

- **Consolidated Revenue Bonds, Series 1998**

- To finance the acquisition, purchase, construction, improvement, renovation, enlargement, and equipping of any property, building, structure, activity, service, operation, or facility of the University of Houston, specifically energy conservation projects.
- Issued 1-1-98.
- \$14,565,000; all bonds authorized have been issued.
- Source of revenue for debt service - Tuition, state appropriations, and various other revenues and balances that may be legally available for payment of debt obligations.

- **Consolidated Revenue Bonds, Series 1999**

- To finance the acquisition, purchase, construction, improvement, renovation, enlargement, and equipping of any property, building, structure, activity, service, operation, or facility of the University of Houston System, specifically projects at The University of Houston, University of Houston - Downtown, University of Houston - Victoria, and the University of Houston multi-institutional teaching center in Fort Bend County.
- Issued 1-1-99.
- \$33,350,000; all bonds authorized have been issued.
- Source of revenue for debt service - Tuition and various other revenues and balances that may be legally available for payment of debt obligations (funding for fiscal year 2004 from Legislative appropriation).

- **Consolidated Revenue Bonds, Series 2000**

- To construct a recreation and wellness facility at the University of Houston.
- Issued 9-1-00.
- \$52,070,000; all bonds authorized have been issued.
- Source of revenue for debt service - Tuition and various other fees, and revenues and balances that may be legally available for payment of debt obligations.

- **Consolidated Revenue Bonds, Series 2002-A**
  - To finance the acquisition, purchase, construction, improvement, renovation, enlargement, and equipping of any property, building, structure, activity, service, operation, or facility of the University of Houston System.
  - Issued 9-1-02.
  - \$130,955,000; all bonds authorized have been issued.
  - Source of revenue for debt service - Tuition and various other fees, and revenues and balances that may be legally available for payment of debt obligations (funding for fiscal year 2004, partially from Legislative appropriation).
  
- **Consolidated Revenue Variable Rate Demand Bonds, Series 2004**
  - To finance the acquisition, purchase, construction, improvement, renovation, enlargement, and equipping of any property, buildings, structures, facilities, roads, or related infrastructure for the University of Houston System, including the individual campuses of the System.
  - Issued 6-16-04.
  - \$25,000,000; all bonds authorized have been issued.
  - Source of revenue for debt service - Tuition and various other fees, and revenues and balances that may be legally available for payment of debt obligations (funding for fiscal year 2004, from Legislative appropriation).
  
- **Consolidated Revenue Bonds, Series 2005**
  - To construct a parking garage facility at the University of Houston.
  - Issued 4-01-05.
  - \$25,800,000; all bonds authorized have been issued.
  - Source of revenue for debt service - Tuition and various other fees, and revenues and balances that may be legally available for payment of debt obligations.

**General Obligation Bonds**

At August 31, 2005, the University had no bonds payable classified as General Obligation Bonds.

**Refunding Bonds**

- **Consolidated Revenue Refunding Bonds, Series 2002-B**
  - To refund \$27,415,000 of Consolidated Revenue Refunding Bonds, Series 1993 and \$19,385,000 of Consolidated Revenue Bonds, Series 1993-A.
  - Issued 11-1-02.
  - \$45,425,000; all bonds authorized have been issued.
  - Source of revenue for debt service - Designated tuition and various other revenues and balances that may be legally available for payment of debt obligations.
  - Average rate of bonds refunded - 5.4% (1993) and 5.5% (1993-A).
  - Net proceeds from refunding series - \$47,871,000, after receipt of bond premium of \$2,888,998 and payment of \$442,998 in underwriting fees, insurance, and other issuance costs.
  - Funds were used to purchase state and local government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the 1993 and 1993-A series bonds, when the bonds were called for early redemption on 2-15-03.
  - The 1993 and 1993-A series bonds are considered fully defeased and the liability for those bonds has been removed from the Investment in Plant fund group.
  - Refunding of the 1993 and 1993-A series bonds reduced the University's debt service payments over the life of the bond issues by approximately \$3,228,503.
  - Economic gain - \$2,733,595; the difference between the net present value of the old and new debt service payments.
  
- **Consolidated Revenue Refunding Bonds, Series 2003**
  - To refund \$15,975,000 of Consolidated Revenue Bonds, Series 1995.
  - Issued 12-1-03.
  - \$16,490,000; all bonds authorized have been issued.
  - Source of revenue for debt service - Tuition and various other fees, and revenues and balances that may be legally available for payment of debt obligations (funding for fiscal year 2004, from Legislative appropriation).

- Average rate of bonds refunded - 5.92%.
- Net proceeds from refunding series - \$17,419,961.18, after receipt of bond premium of \$896,716.15 and payment of \$266,453.44 in underwriting fees, insurance, and other issuance costs.
- Funds were used to purchase state and local government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the 1995 series bonds, when the bonds were called for early redemption on 2-15-05.
- The 1995 series bonds are considered fully defeased and the liability for those bonds has been removed from the Investment in Plant fund group.
- Refunding of the 1995 series bonds reduced the University's debt service payments over the life of the bond issues by approximately \$1,377,275.10.
- Economic gain - \$1,292,003.91; the difference between the net present value of the old and new debt service payments.

#### **NOTE 14: Subsequent Events**

As of the date this report was issued, there have been no occurrences since August 31, 2005 that have had a significant financial impact.

#### **NOTE 15: Related Parties**

The University Of Houston System is affiliated with several foundations and organizations that have been created to benefit certain operations of the University. Those which have a significant relationship with the University are described below. The assets, liabilities, and equities of the various foundations and organizations are not contained in the financial statements of the University.

- **University of Houston - Downtown**

The University of Houston - Downtown has no material affiliations with any foundation or organization.

- **Privatized Student Housing Facilities**

Several student housing facility projects have been constructed by private external entities in order to enhance the residential life experience of students at various System campuses. The participating entities have financed and constructed housing complexes on System owned property adjacent to the university campus. These facilities are operated under grounded leases and management agreements with the System for extended time periods. Under the terms of the agreements, cash revenues from rental income, net of operating expenses, are shared with the University. Repayment of project financing is serviced from revenues generated by the housing projects, and is the sole responsibility of the external entity. The related loans and bonds are not liabilities of the System or component universities.

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

A negative Change in Net Assets did not occur in the Enterprise fund operations for the fiscal year.

#### **NOTE 17: The Financial Reporting Entity and Joint Ventures**

##### **The Financial Reporting Entity**

The University of Houston System is an agency of the State of Texas, and its financial records reflect compliance with applicable state statutes and regulations. The System was established by House Bill No. 188, Sixty-Fifth Legislature, Regular Session, effective September 1, 1977. Components of the System are System Administration (1977), University of Houston (1963), Clear Lake (1973), Downtown (1974), and Victoria (1973). The System is governed by an appointed nine member Board of Regents.

Although the University is affiliated with several separate legal entities, as previously disclosed, these organizations are not considered component units as defined by generally accepted accounting principles. Therefore, the account balances and financial



transactions of these organizations are not included in the University's financial statements.

**NOTE 18: Restatement Of Fund Balances/Retained Earnings**

During fiscal year 2005, adjustments were made which required the restatement of the amounts in fund balances and fund equity as shown and discussed in Table 18. These adjustments were necessary in order to comply with a change in policy whereby the state of Texas changed its classification of professional, academic and research library books and materials from non-depreciable to depreciable. This resulted in a recognition of prior years' accumulated depreciation not previously recorded.

Table 18 - Net Assets Restatement

	Enterprise Fund
Fund Balance/Equity August 31, 2004	\$53,378,452.68
Restatements:	
Capital asset depreciation	(742,648.32)
Fund Balance/Equity September 1, 2004, As Restated	\$52,635,804.36

**NOTE 19: Employees Retirement Plans**

The State has joint contributory retirement plans for substantially all its employees. The University 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 in lieu of participation in the Teacher Retirement System. The Optional Retirement Program provides for the purchase of annuity or mutual fund contracts. Since these are individual investment product contracts, the state has no additional or unfunded liability for this program.

**NOTE 20: Deferred Compensation**

State employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in 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 University 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 21: Donor-Restricted Endowments**

Amounts reported as net appreciation on investments of donor-restricted endowments that are available for authorization for expenditure are disclosed in Table 21. Effective September 1, 1995, the Board of Regents adopted an endowment income payout policy whereby the payout rate is based on a percentage of the fiscal year end market value averaged over rolling three year periods. If an endowment were in existence less than three years, the average is based on the number of years in existence.

Table 21 -Endowments

Donor-Restricted Endowment	Amount of Net Appreciation / (Depreciation)	Reported in Net Assets
Endowments	\$ 1,181,345.24	Restricted for Nonexpendable
Term Endowments	_____	Restricted for Nonexpendable
Total	\$ 1,181,345.24	

**NOTE 22: Management Discussion and Analysis**

The System is continuing the development and implementation of integrated financial, human resources, and student information systems that were purchased from PeopleSoft. The implementation of these systems increases the availability of accurate and timely management information.

The University of Houston System's financial condition and position are strong. The University's administrative and management teams realize that universities must be good stewards of the dollars with which they are entrusted. Management strives to make sound financial decisions.

**NOTE 23: Post Employment Health Care and Life Insurance Benefits  
(UT, A&M and ERS only)**

Provisions of this requirement only apply to the following agencies: University of Texas, Texas A&M University and Employees Retirement System.

**NOTE 24: Special or Extraordinary Items**

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

**NOTE 25: 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 noncurrent portions of receivables and payable are separately disclosed. Significant balances in various classifications of receivables and payables are disclosed below.

**A. Taxes Receivable**

No reportable balances for this classification.

**B. Federal Receivable**

Balances by category type for Federal Receivable are shown in Table 25.1.

Table 25.1 - Federal Receivable

Federal Receivable Program	Net Receivable
Department of Agriculture	\$ 85,760.82
Department of Defense	326,307.84
Department of Education	176,521.84
Department of Health and Human Services	28,703.74
National Aeronautics and Space Administration	39,370.88
National Science Foundation	68,293.02
Total Net Federal Receivable	\$ 724,958.14

As Reported on the Financial Statements

Current Federal Receivable	\$ 724,958.14
Total Net Federal Receivable	\$ 724,958.14

**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.

Unaudited  
Schedule 1 - A  
University of Houston - Downtown  
Schedule of Expenditures Of Federal Awards  
For The Year Ended August 31, 2005

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	\$
Total Non-monetary Assistance	0.00
Note 2: Reconciliation	
Federal Revenues	
Federal Grants and Contracts	15,308,320.46
Federal Pass Through Grants	
From Other State Agencies	231,655.86
Indirect Cost Recoveries	
Federal Grants	0.00
Federal Pass Through From State Agencies	
Total Federal Revenues	15,539,976.32
Reconciling Items	
Additions	
Pass Through To State Entities & Other Entities	0.00
Non-monetary Assistance	
Donation-Federal Surplus Property	
New Student Loans Processed / Adm Costs	
Federal Family Education Loan Program	29,108,827.00
Federal Perkins Loan Program	
Health Prof Student Loans - Optometry	
Total Additions	29,108,827.00
Deductions	
Federal Perkins Program Disb-Institute Share	
Total Deductions	0.00
Total Reconciling Items	29,108,827.00
Total Pass Through & Expenditures Per Federal Schedule	\$ 44,648,803.32

Unaudited

Schedule 1 - A  
 University of Houston - Downtown  
 Schedule of Expenses Of Federal Awards  
 For The Year Ended August 31, 2005

Federal Agency	New Loans Processed	Administrative Cost Recovered	Total Loans Processed Administrative Cost Recovered	Loan Receivable Ending Balances
Note 3: Student Loan Program & Adm Cost Recovered				
Department Of Education				
84.032 Federal Family Education Program Loan - Non-monetary Loans	\$ 29,108,827.00	\$	\$ 29,108,827.00	\$
84.038 Federal Perkins Loan Program Perkins Student Loans				
<u>Total Department Of Education</u>	<u>29,108,827.00</u>		<u>29,108,827.00</u>	
Department Of Health & Human Services				
93.342 Health Profession Student Loans Optometry Loans				
<u>Total Department of Health &amp; Human Services</u>				
<u>Total Student Loan Program &amp; Adm Cost Recovered</u>	<u>\$ 29,108,827.00</u>	<u>\$</u>	<u>\$ 29,108,827.00</u>	<u>\$</u>

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

Unaudited  
Schedule 1 - B  
University of Houston - Downtown  
Schedule of State Grant Pass-Throughs From/To State Agencies  
For The Year Ended August 31, 2005

	Total
Pass Through From	
Coordinating Board (Agency 781)	
Texas Grant Program	\$ 1,770,320.00
General Academic Developmental Education Program	0.00
General Academic Enrollment Growth Program	0.00
Advanced Research Program	(7.61)
Advanced Technology Program	(10.29)
Developmental Education Program	0.00
College Work Study Program	44,297.00
5th Year Accounting Scholarships Program	12,780.00
Roberta High Memorial Pharmacy Residency Program	0.00
Texas Workforce Development Program	0.00
Total Coordinating Board (Agency 781)	1,827,379.10
Texas Education Agency (Agency 701)	
Foundation School Program	0.00
Foundation School Program Technology Allotment	0.00
Student Success Initiatives	0.00
Total Texas Education Agency (Agency 701)	0.00
Texas Governor's Office (Agency 300)	
Texas Enterprise Fund - TIGRE Project	0.00
Total Texas Attorney General (Agency 302)	0.00
Lamar University (Agency 734)	
Texas Air Research Center	0.00
Texas Hazardous Waste Research Center	0.00
Total Lamar University (Agency 734)	0.00
Total Pass Through From Other Agencies	\$ 1,827,379.10
Pass Through To	
Texas A&M University at Corpus Christi (Agency 760)	
Texas Natural Resources Conservation Commission Grant	
Total Texas A&M University at Corpus Christi (Agency 760)	\$ 0.00
Total Pass Through To Other Agencies	\$ 0.00

Unaudited

Schedule 2 - A  
 University of Houston - Downtown  
 Miscellaneous Bond Information  
 For The Year Ended August 31, 2005

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 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-B  
 University of Houston - Downtown  
 Changes in Bonded Indebtedness  
 For The Year Ended August 31, 2005

Business-Type Activities

Description of Issue	Bonds	Bonds	Bonds	Bonds	Bonds	Net Bonds Outstanding 08/31/2005	Amounts Due Within One Year
	Outstanding 09/01/2004	Issued	Matured or Retired	Refunded or Extinguished	Outstanding 08/31/2005		
Schedule not used	Unamortized Premium	Unamortized Discount	Insurance 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.



Unaudited  
Schedule 2 - C  
University of Houston - Downtown  
Debt Service Requirements  
For The Year Ended August 31, 2005

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 - Downtown  
 Analysis Of Funds Available For Debt Service  
 For The Year Ending August 31, 2005

Business-Type Activities  
 General Obligation Bonds

Description of Issue	Beginning Balance Available for Debt Service 09/01/2004	Sources of Funds				Total Sources Available
		Pledged Sources	Other Pledged Sources	Other Sources	State's General Revenue	
Schedule not used.		Interest Earned on Investments	Operating Transfers			
		Application of Funds				
	Principal	Interest	Refunded or Extinguished	Other Application of Funds	Total Application of Funds	

Schedule not used.

Ending Balance Available for Debt Service at 08/31/2005  
 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-E  
 University of Houston - Downtown  
 Defeased Bonds Outstanding  
 For The Year Ended August 31, 2005

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.

Unaudited

Schedule 2-F  
 University of Houston - Downtown  
 Early Extinguishment and Refunding  
 For The Year Ended August 31, 2005

Business-Type Activities

Description of Issue	Category	Amount Extinguished Or Refunded	For Refunding Only		Economic Gain / (Loss)
			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.

Unaudited  
 Schedule 3  
 University of Houston - Downtown  
 Reconciliation Of Cash In State Treasury  
 For The Year Ended August 31, 2005

<u>Cash in State Treasury</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Current Year Total</u>
Local Revenue Fund No 0268 (UHD - 784)	\$ 2,667,446.91	\$	\$ 2,667,446.91
Warrant Hold Offset Fund No 9016 (UHD - 784)	385.54		385.54
<u>Total Cash in State Treasury</u>	<u>\$ 2,667,832.45</u>	<u>\$</u>	<u>\$ 2,667,832.45</u>