

**UNIVERSITY** *of* **HOUSTON**



# ANNUAL FINANCIAL REPORT

**07**  
**08**





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## ORGANIZATIONAL DATA

### BOARD OF REGENTS

**Welcome W. Wilson, Sr., Houston**  
Term Expires August 31, 2011

**Lynden B. Rose, Houston**  
Term Expires August 31, 2009

**Dennis D. Golden, O.D., Carthage**  
Term Expires August 31, 2009

**Calvin W. Stephens, Dallas**  
Term Expires August 31, 2009

**Jim P. Wise, Houston**  
Term Expires August 31, 2011

**Carroll Robertson Ray, Houston**  
Term Expires August 31, 2011

**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

**Tamara K. Goodwin, Austin**  
Term Expires May 31, 2009

### OFFICERS OF THE BOARD (FISCAL YEAR 2008):

**Welcome W. Wilson, Sr.**  
Chair

**Calvin W. Stephens**  
Vice Chair

**Jim P. Wise**  
Secretary

### OFFICERS OF THE BOARD (FISCAL YEAR 2009):

**Welcome W. Wilson, Sr.**  
Chair

**Lynden B. Rose**  
Vice Chair

**Jim P. Wise**  
Secretary

### ADMINISTRATIVE OFFICERS

**Renu Khator**  
President

**Jerald Strickland**  
Interim Senior Vice President  
for Academic Affairs and Provost

**Carl P. Carlucci**  
Executive Vice President  
for Administration and Finance

**Elwyn C. Lee**  
Vice President for Student Affairs

**Grover S. Campbell**  
Vice President  
for Governmental Relations

**Donald L. Birx**  
Vice President for Research

**Michael Rierson**  
Vice President  
for University Advancement

**Dona H. Cornell**  
Vice President for Legal Affairs  
and General Counsel



## MESSAGE FROM THE PRESIDENT

The University of Houston, as a public institution, must account fully for the dollars we receive as investments in the educational future of Houston and of Texas. We are pleased to present UH's Annual Financial Report for Fiscal Year 2008, one way of providing assurance of such accountability. The report provides an overview of UH's financial operations and financial position as of August 31, 2008.

The UH administration continually evaluates the utilization of our resources to keep our status as the state's premier metropolitan teaching and research institution. UH is located in the region of Texas that accounts for almost a quarter of the state's population and almost a third of the gross state product. UH is home to 12 degree-granting colleges and an interdisciplinary Honors College. We comprise more than 40 research centers and institutes, and we sponsor more than 300 partnerships with corporate, civic, and governmental entities. More than 4,600 benefits-eligible faculty and staff members educate and provide support for the more than 36,000 students in our 109 bachelor's degree programs, 131 master's programs, 51 doctoral programs, and three first professional programs.

Here at UH, men and women from 136 countries and across the nation receive the training and education needed to be successful leaders in the global marketplace, thanks to the outstanding support of our university family, community partners, friends and donors, and elected officials.

The University of Houston has a remarkable past filled with great achievements, and an even brighter future as we continue our focused and determined drive to achieve top-tier national status.



**Renu Khator**  
President

## MESSAGE FROM THE EXECUTIVE VICE PRESIDENT

The University of Houston is Texas' premier public metropolitan research and teaching institution. The statements and information contained in this report illustrate the university's financial performance and financial condition for the year ended August 31, 2008. The supporting schedules and graphs included in the accompanying narrative are designed to enable analysis of significant items. It is my pleasure to present the following Annual Financial Report.

The resources of the Texas gulf coast region complement and enrich the university's academic programs, providing students with professional expertise, practical experience, and career opportunities. UH has awarded more than 230,000 degrees, and approximately 75% of the alumni remain in the Houston area. In fall 2007, the university's student enrollment increased to 34,663 students. Enrollment for the fall 2008 semester rose in excess of 36,000 students.

In 2008, UH Energy and UH Health became the two focal research clusters for the campus. Significant progress was made in development of the UH Energy organization, and in the Lone Star Wind Alliance (LSWA) in particular. The University of Houston's role as general manager of the LSWA, an industry driven/university research partnership creates statewide, nationwide, and international opportunities for the institution's leadership in the strategic area of renewable energy. The commitment to develop critical research infrastructure in the Science and Engineering Research Center for UH Health began to come to fruition through build-out of laboratory space and strategic faculty recruitment. Eleven UH researchers from five different colleges generated research expenditures exceeding one million dollars each. Most of this funding was in the areas of community advancement for education, social services and training, business development, and complex systems for cognitive research. Working with business and industry are a top priority, and commercialization is a necessary and central part of such work, particularly in the fields of energy, including alternative energy, and health care.

The University of Houston invested \$38 million of new resources in operations during the 2008 fiscal year. The 80th Texas Legislature increased general revenue funding on a recurring basis to the university by \$12 million. This included an increase to the Research Development Fund ("Tier One") of \$2.4 million and an increase to the tuition revenue bond debt service funding of \$5.2 million for the newly authorized \$57 million science laboratory renovations. The student tuition and fee increase of 6.9% for undergraduate students included a set-aside of 20% for financial aid. Favorable utility rate changes allowed \$2 million of utility dollars to be reallocated to other operating needs. The increased operating funds allowed for a \$7 million increase in student financial aid, investments in academic excellence, including new faculty and academic positions, and compensation increases averaging 4% for faculty and staff. In addition to operating funds, there was a fifty percent, \$12 million, increase in the Higher Education Assistance Fund for capital expenditures.



The University of Houston has established sound fiscal policies and procedures and implemented a system of internal accounting controls, for the purpose of providing reasonable assurance that assets are protected and transactions and events are properly recorded. We believe the accompanying report will demonstrate that the university continues to be a worthy steward of the resources with which it has been entrusted.

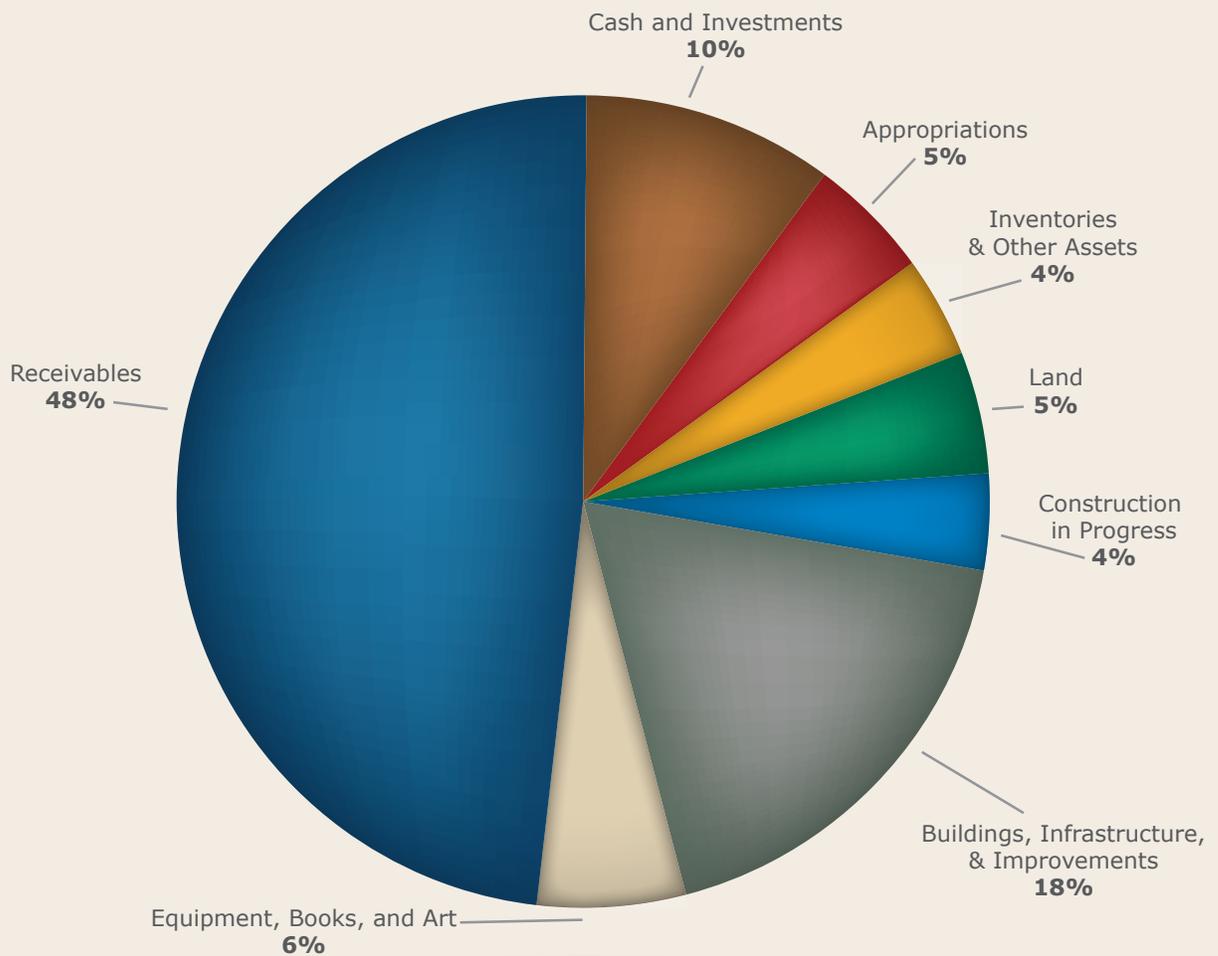
**Carl Carlucci**  
Executive Vice President, Administration and Finance



# UNIVERSITY OF HOUSTON

Assets • AUGUST 31, 2008

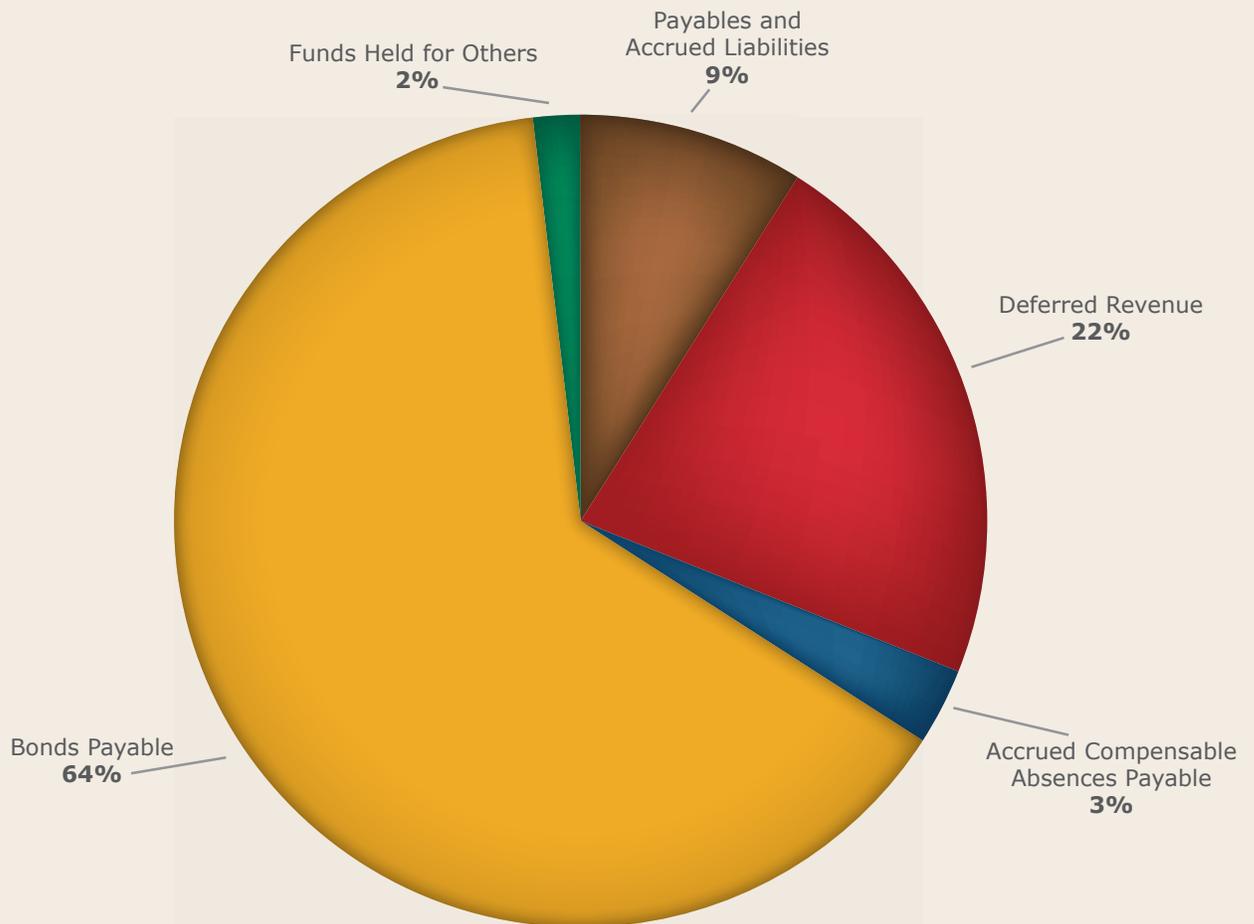
	<b>2008</b>	<b>%</b>
Cash and Investments	\$ 128,905,742	10%
Appropriations	59,801,148	5%
Receivables	617,275,454	48%
Inventories & Other Assets	51,432,421	4%
Land	61,647,066	5%
Construction in Progress	55,432,825	4%
Buildings, Infrastructure, & Improvements	224,090,531	18%
Equipment, Books, and Art	75,501,134	6%
<b>Total Assets</b>	<b>\$ 1,274,086,321</b>	<b>100%</b>



# UNIVERSITY OF HOUSTON

## Liabilities • AUGUST 31, 2008

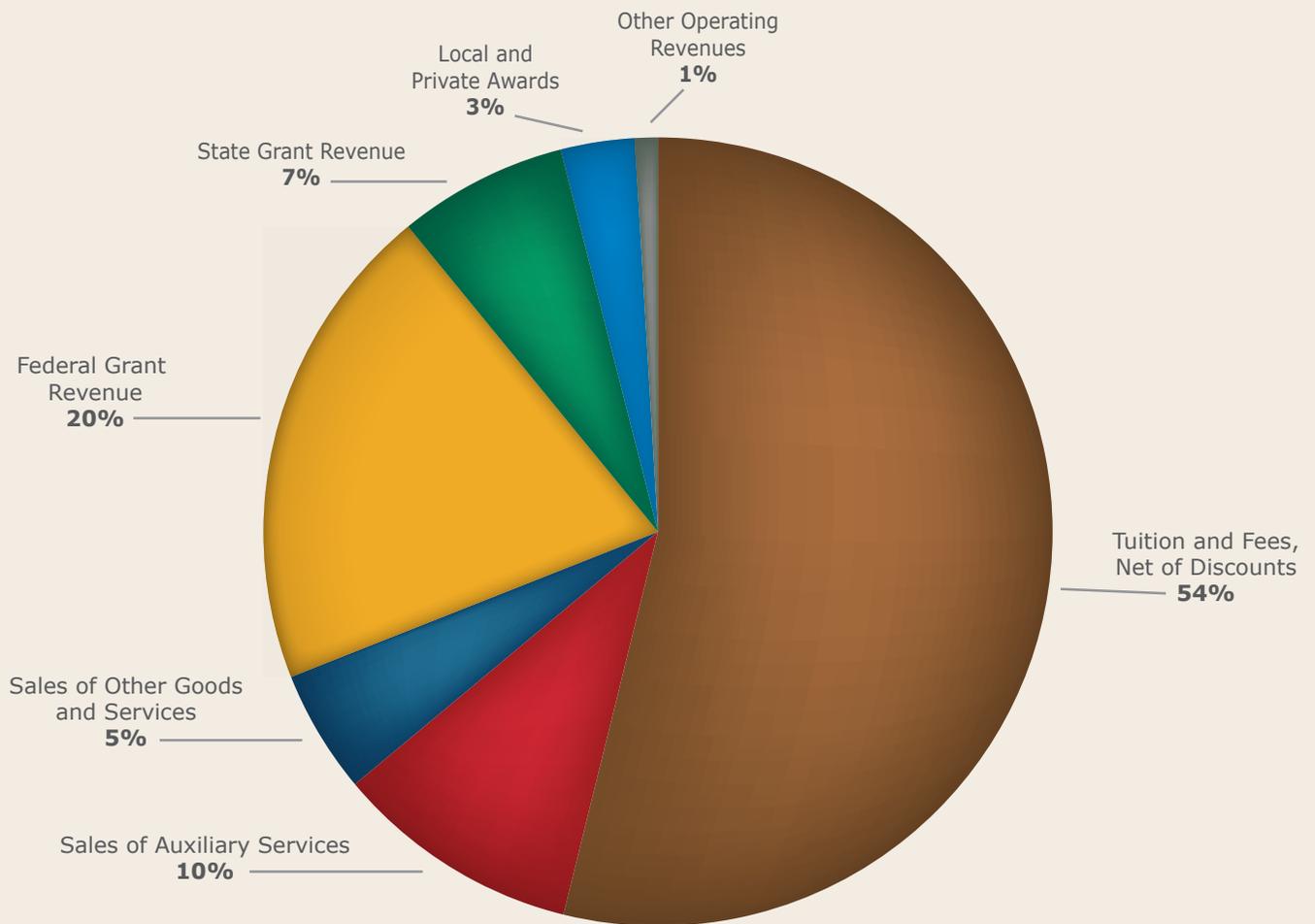
	<b>2008</b>	<b>%</b>
Payables and Accrued Liabilities	\$ 46,808,275	9%
Deferred Revenue	109,391,843	22%
Accrued Compensable Absences Payable	15,972,167	3%
Bonds Payable	326,090,424	64%
Funds Held for Others	10,376,400	2%
<b>Total Liabilities</b>	<b>\$ 508,639,109</b>	<b>100%</b>



# UNIVERSITY OF HOUSTON

## Operating Revenues • FOR THE YEAR ENDED AUGUST 31, 2008

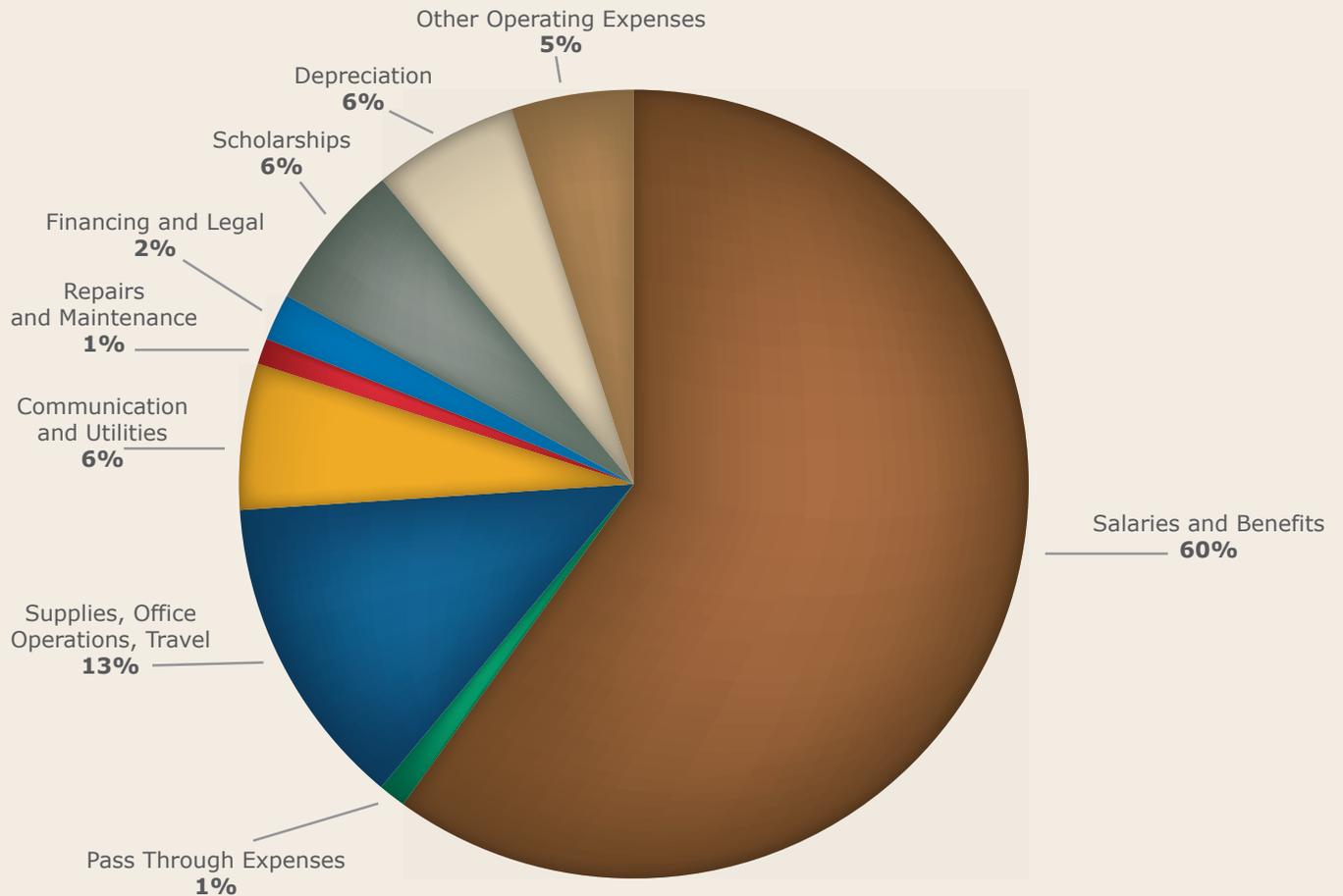
	<b>2008</b>	<b>%</b>
Tuition and Fees, Net of Discounts	\$ 223,434,114	54%
Sales of Auxiliary Services	42,666,102	10%
Sales of Other Goods and Services	16,923,125	5%
Federal Grant Revenue	81,453,634	20%
State Grant Revenue	29,011,142	7%
Local and Private Awards	13,599,667	3%
Other Operating Revenues	1,172,165	1%
<b>Total Operating Revenues</b>	<b>\$ 408,259,949</b>	<b>100%</b>



# UNIVERSITY OF HOUSTON

## Operating Expenses – Natural Classification • FOR THE YEAR ENDED AUGUST 31, 2008

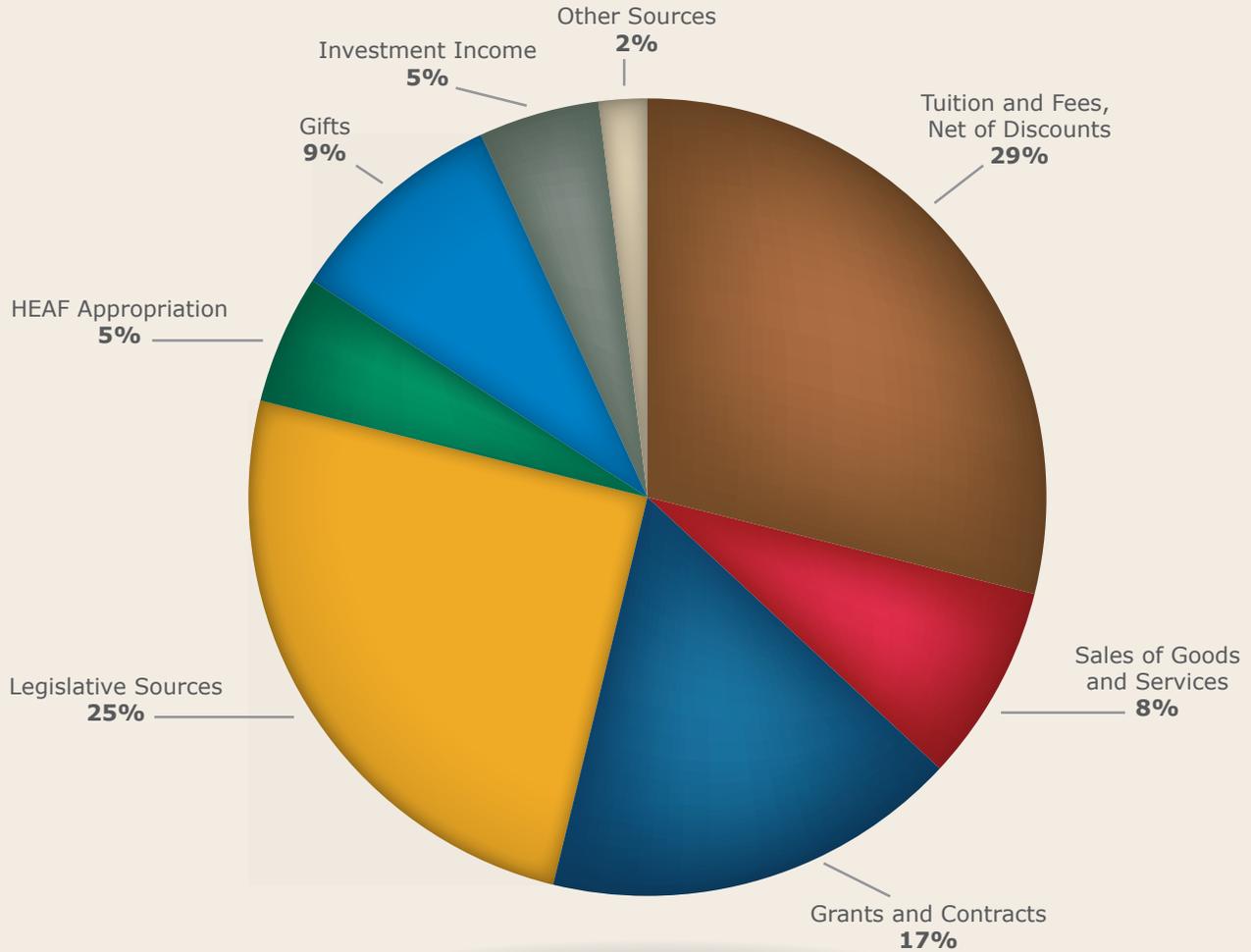
	<b>2008</b>	<b>%</b>
Salaries and Benefits	\$ 392,371,604	60%
Pass Through Expenses	3,318,178	1%
Supplies, Office Operations, Travel	89,224,517	13%
Communication and Utilities	41,144,074	6%
Repairs and Maintenance	6,218,507	1%
Financing and Legal	11,822,601	2%
Scholarships	35,458,983	6%
Depreciation	28,876,819	6%
Other Operating Expenses	28,918,487	5%
<b>Total Operating Expenses (Natural)</b>	<b>\$ 637,353,770</b>	<b>100%</b>



# UNIVERSITY OF HOUSTON

## Total Revenues • FOR THE YEAR ENDED AUGUST 31, 2008

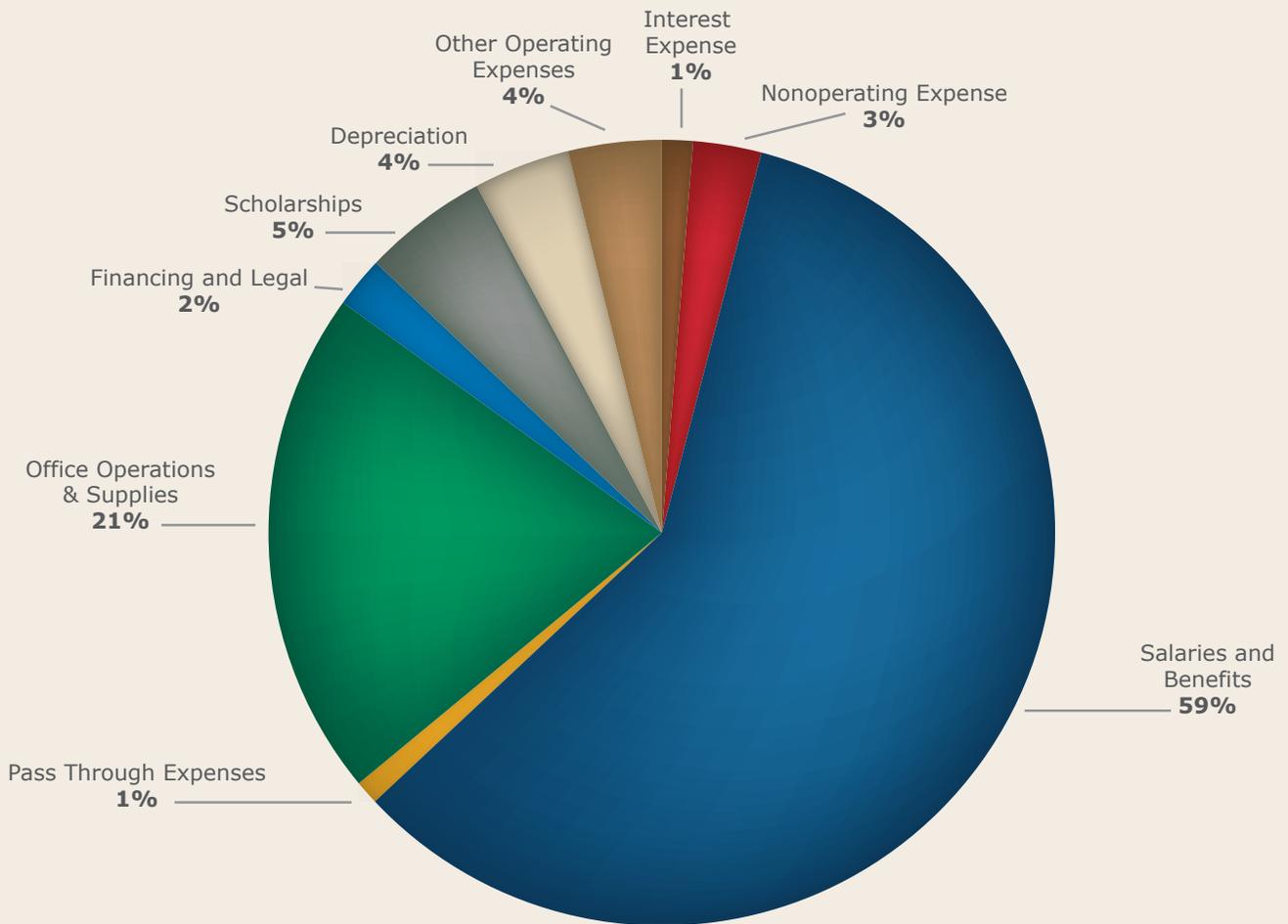
	2008	%
<b>Operating Revenue</b>		
Tuition and Fees, Net of Discounts	\$ 223,434,114	29%
Sales of Goods and Services	60,761,392	8%
Grants and Contracts	124,064,443	17%
<b>Nonoperating Revenue</b>		
Legislative Sources	187,450,275	25%
HEAF Appropriation	35,276,140	5%
Gifts	67,770,253	9%
Investment Income	31,420,692	5%
Other Sources	12,148,259	2%
<b>Total Revenues</b>	<b>\$ 742,325,568</b>	<b>100%</b>



# UNIVERSITY OF HOUSTON

## Total Expenses • FOR THE YEAR ENDED AUGUST 31, 2008

	2008	%
<b>Nonoperating Expenses</b>		
Interest Expense	\$ 8,619,339	1%
Nonoperating Expense	18,208,478	3%
<b>Operating Expenses</b>		
Salaries and Benefits	392,371,604	59%
Pass Through Expenses	3,318,178	1%
Office Operations & Supplies	136,587,098	21%
Financing and Legal	11,822,601	2%
Scholarships	35,458,983	5%
Depreciation	28,876,819	4%
Other Operating Expenses	28,918,487	4%
<b>Total Expenses (Natural)</b>	<b>\$ 664,181,587</b>	<b>100%</b>



# UNIVERSITY OF HOUSTON

## Statement Of Net Assets • AUGUST 31, 2008

	2008	2007
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 67,417,777	\$ 55,121,569
Short-term Investments	121,218	694,719
Restricted Cash and Cash Equivalents	10,407,991	20,886,047
Loans and Contracts	2,015,069	6,007,303
Legislative Appropriations	59,801,148	44,668,282
Receivables	203,311,213	184,634,880
Inventories	2,282,043	2,980,408
Deferred Charges	33,444,400	18,976,131
<b>Total Current Assets</b>	<b>378,800,859</b>	<b>333,969,339</b>
<b>Noncurrent Assets</b>		
Restricted Cash and Cash Equivalents	50,691,738	40,544,469
Loans and Other Receivables	427,655,150	291,939,700
Investments	267,018	229,361
Capital Assets, Non-Depreciable	117,079,891	55,178,656
Capital Assets, Depreciable	857,729,046	869,715,268
Accumulated Depreciation	(558,137,381)	(555,797,093)
<b>Total Noncurrent Assets</b>	<b>895,285,462</b>	<b>701,810,362</b>
<b>Total Assets</b>	<b>1,274,086,321</b>	<b>1,035,779,701</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Payables	46,795,633	47,611,686
Deferred Revenues	109,391,843	85,999,573
Employees' Compensable Leave	7,401,503	6,841,279
Notes Payable	0	26,775
Revenue Bonds Payable	14,865,934	13,530,288
Funds Held for Others	10,376,400	2,905,960
<b>Total Current Liabilities</b>	<b>188,831,313</b>	<b>156,915,561</b>
<b>Noncurrent Liabilities</b>		
Payables	12,641	13,794
Employees' Compensable Leave	8,570,665	7,918,762
Revenue Bonds Payable	311,224,490	182,965,599
<b>Total Noncurrent Liabilities</b>	<b>319,807,796</b>	<b>190,898,155</b>
<b>Total Liabilities</b>	<b>508,639,109</b>	<b>347,813,716</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	184,838,330	176,514,722
Restricted, Debt Retirement	5,782,528	23,512
Restricted, Capital Projects	684,443	586,629
Restricted, Endowment Funds	283,737,500	275,670,034
Restricted, Other	98,232,467	66,680,653
Unrestricted	192,171,944	168,490,435
<b>Total Net Assets</b>	<b>\$ 765,447,212</b>	<b>\$ 687,965,985</b>

# UNIVERSITY OF HOUSTON

## Statement Of Revenues, Expenses And Changes In Net Assets • FOR THE YEAR ENDED AUGUST 31, 2008

	2008	2007
<b>OPERATING REVENUES</b>		
Tuition and Fees, Net of Discounts	\$ 223,434,114	\$ 208,752,004
Sales of Goods and Services	60,761,392	58,030,274
Federal Revenue	81,453,634	75,350,861
State Grant Revenue	29,011,142	19,126,459
Other Grants and Contracts	13,599,667	12,351,162
<b>Total Operating Revenues</b>	<b>408,259,949</b>	<b>373,610,760</b>
<b>OPERATING EXPENSES</b>		
Instruction	183,436,103	169,867,475
Research	77,902,485	72,566,801
Public Service	36,826,504	31,297,741
Academic Support	100,089,247	88,892,432
Student Services	22,336,061	23,479,032
Institutional Support	48,371,209	44,947,976
Operation and Maintenance of Plant	37,705,677	30,660,871
Scholarships and Fellowships	33,582,154	30,190,626
Auxiliary Enterprises	68,227,511	62,938,989
Depreciation and Amortization	28,876,819	30,443,816
<b>Total Operating Expenses</b>	<b>637,353,770</b>	<b>585,285,759</b>
<b>Operating Income (Loss)</b>	<b>(229,093,821)</b>	<b>(211,674,999)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Legislative Revenue	189,598,914	173,081,014
Gifts	62,961,728	39,467,494
Investment Income	32,366,202	38,273,149
Interest Expense and Fiscal Charges	(8,619,339)	(8,706,185)
Other Nonoperating Revenues (Expenses)	(18,208,478)	(12,624,696)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>258,099,027</b>	<b>229,490,776</b>
<b>Income (Loss) Before Other Revenues, Expenses, Gains, Losses and Transfers</b>	<b>29,005,206</b>	<b>17,815,777</b>
<b>OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>		
Capital Appropriation (Higher Education Assistance Funds)	35,276,140	23,517,427
Additions to Permanent and Term Endowments	3,863,015	8,350,354
Intercomponent Transfers	12,148,259	7,303,673
Transfers	(2,208,546)	(1,765,099)
Legislative Transfers	130,817	130,816
Legislative Appropriations Lapsed	(70,910)	(15,114)
<b>Total Other Revenues, Expenses, Gains, Losses and Transfers</b>	<b>49,138,775</b>	<b>37,522,057</b>
<b>Change In Net Assets</b>	<b>78,143,981</b>	<b>55,337,834</b>
Net Assets Beginning	687,965,985	633,934,374
Restatements	(662,754)	(1,306,223)
<b>Net Assets Beginning, as Restated</b>	<b>687,303,231</b>	<b>632,628,151</b>
<b>Net Assets, Ending</b>	<b>\$ 765,447,212</b>	<b>\$ 687,965,985</b>

# UNIVERSITY OF HOUSTON

## Statement Of Cash Flows • FOR THE YEAR ENDED AUGUST 31, 2008

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Proceeds Received from Students and Customers	\$ 263,063,977	\$ 232,700,559
Proceeds from Loan Programs	57,228,387	62,528,239
Proceeds from Other Revenues	181,429,914	131,700,724
Payments to Suppliers for Goods and Services	(138,336,334)	(110,931,405)
Payments to Employees	(389,959,503)	(382,388,853)
Payments for Loans Provided	(60,325,289)	(70,176,537)
Payments for Other Expenses	(88,789,557)	(66,465,189)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(175,688,405)</b>	<b>(203,032,462)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from State Appropriations	174,395,138	173,941,847
Proceeds from Gifts	30,711,606	8,204,258
Proceeds from Endowments	3,863,015	8,350,354
Proceeds of Transfers from Other Funds	18,276,558	23,731,549
Payments for Other Uses	(11,285,280)	(13,030,389)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>215,961,037</b>	<b>201,197,619</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from Capital Financing Activities	35,276,140	23,517,427
Payments for Additions to Capital Assets	(14,523,257)	(13,850,097)
Payments of Principal and Interest on Debt Issuance	(64,508,848)	(22,455,876)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(43,755,965)</b>	<b>(12,788,546)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Interest and Investment Income	15,448,754	34,022,719
<b>Net Cash Provided by Investing Activities</b>	<b>15,448,754</b>	<b>34,022,719</b>
Increase (Decrease) in Cash and Cash Equivalents	11,965,421	19,399,330
<b>Cash and Cash Equivalents, September 1</b>	<b>116,552,085</b>	<b>97,152,755</b>
Restatements to Beginning Cash and Cash Equivalents		
<b>Cash and Cash Equivalents, August 31</b>	<b>128,517,506</b>	<b>116,552,086</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
<b>Operating Income (Loss)</b>	<b>(229,093,821)</b>	<b>(211,674,999)</b>
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Amortization and Depreciation	28,876,819	30,443,816
Classification Differences	(2,868,527)	(8,352,512)
Changes in Assets and Liabilities		
(Increase) Decrease in Receivables and Loans	9,829,010	(11,356,957)
(Increase) Decrease in Inventories	698,365	(688,383)
(Increase) Decrease in Prepaid Expenses	(14,468,269)	(8,334,802)
Increase (Decrease) in Payables	(1,559,965)	(1,073,772)
Increase (Decrease) in Deferred Income	23,392,271	7,525,063
Increase (Decrease) in Other Liabilities	9,505,712	480,084
<b>Total Adjustments</b>	<b>53,405,416</b>	<b>8,642,537</b>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ (175,688,405)</b>	<b>\$ (203,032,463)</b>

# UNIVERSITY OF HOUSTON

## Matrix of Operating Expenses • FOR THE YEAR ENDED AUGUST 31, 2008

	2008	2007
<b>EXPENSES BY NATURAL CLASSIFICATION</b>		
Cost of Goods Sold	\$ 3,023,653	\$ 2,878,116
Salaries and Wages	322,218,879	305,579,336
Payroll Related Costs	70,152,725	65,881,707
Professional Fees and Services	38,193,822	36,126,543
Federal Pass-Through Expenses	3,318,178	2,864,024
Travel	11,936,221	10,663,671
Materials and Supplies	31,620,177	24,766,571
Communication and Utilities	41,144,074	34,604,291
Repairs and Maintenance	6,218,507	6,394,922
Rentals and Leases	11,081,257	11,844,968
Printing and Reproduction	4,450,644	3,751,422
Depreciation and Amortization	28,876,819	30,443,816
Interest	46,222	66,525
Scholarships	35,458,983	31,658,463
Claims and Losses	695,122	617,276
Other Operating Expenses	28,918,487	17,144,108
<b>Total Expenses by Natural Classification</b>	<b>\$ 637,353,770</b>	<b>\$ 585,285,759</b>
<b>EXPENSES BY FUNCTIONAL CLASSIFICATION</b>		
Instruction	183,436,103	169,867,475
Research	77,902,485	72,566,801
Public Service	36,826,504	31,297,741
Academic Support	100,089,247	88,892,432
Student Services	22,336,061	23,479,032
Institutional Support	48,371,209	44,947,976
Operation & Maintenance of Plant	37,705,677	30,660,871
Scholarships & Fellowships	33,582,154	30,190,626
Auxillary Enterprises	68,227,511	62,938,989
Depreciation & Amortization	28,876,819	30,443,816
<b>Total Expenses by Expenditure Function</b>	<b>\$ 637,353,770</b>	<b>\$ 585,285,759</b>



## UNIVERSITY OF HOUSTON MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR 2008

### INTRODUCTION

The following section of the University of Houston's Financial Report provides an overview of the activities and the financial position of the University of Houston (the university) for the fiscal year ended August 31, 2008. This Management's Discussion and Analysis is intended to offer a summary of significant current year activities, resulting changes, and currently known economic conditions and facts. This analysis should be read in conjunction with the university's basic financial statements and the notes to the statements.

### BACKGROUND

The University of Houston (UH) is part of the state-supported system of higher education in Texas, serving over 34,000 students and annually generating between \$75 and \$80 million in externally funded research awards, the third highest among Texas public universities. The university is the flagship institution of the University of Houston System, and is its principal doctoral degree-granting institution. As such, it has the traditional functions of a comprehensive research university including a full range of undergraduate through post-doctoral academic programs, nationally recognized quality in its programs and faculty, extensive externally funded basic and applied research, and diverse cultural and public service programs of benefit to the community and the state.

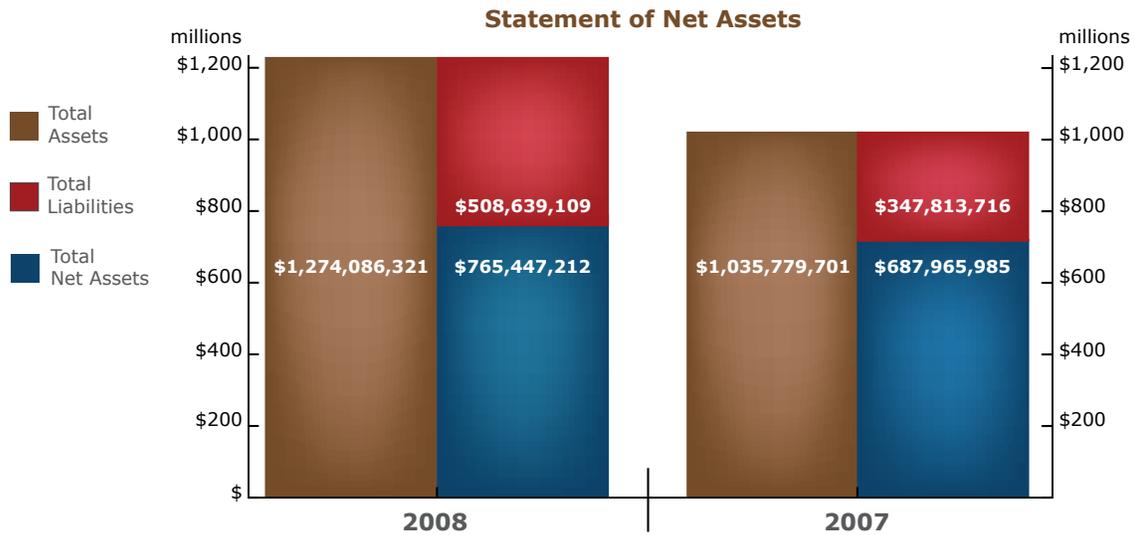
The university offers exceptional programs and outstanding opportunities for its students, who learn from some of the world's premier scholars and researchers. UH students come

from across the United States and from more than 130 countries, which accounts for diversities in ethnicities, cultures, and interests unique among the nation's urban research universities. Undergraduates choose from 109 majors and minors. At the graduate level, 131 master's, 51 doctoral, and three professional degree programs are offered. Additional academic opportunities are offered online through the Distance Education program, and individuals may take non-credit courses through Continuing Education.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements for fiscal year 2008 have been prepared in accordance with accounting pronouncements promulgated by the Governmental Accounting Standards Board (GASB). These include Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, and GASB Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities. The requirements focus on the preparation of financial statements that present financial operations in the aggregate, rather than accountability by individual fund group. These standards were adopted by the State of Texas and the university during the 2002 fiscal year. All financial statements for fiscal years 2002 through 2008 have been prepared in accordance with these rules. Additionally, these statements conform to reporting requirements of the Texas Comptroller of Public Accounts and to guidelines issued by the National Association of College and University Business Officers.

Governmental Accounting Standards Board Statement No. 35 requires the university to include three financial statements in the annual financial report. They are (1) the Statement of Net Assets, (2) the Statement of Revenues, Expenses, and Changes in Net Assets, and (3) the Statement of Cash Flows. The information contained in the financial statements of the University of Houston is part of and included in the State of Texas Comprehensive Annual Financial Report. The financial statements of the university are presented for the fiscal year ended August 31, 2008, with financial data for the fiscal year



ended August 31, 2007, provided for comparative purposes. Prior year totals have been reclassified, when necessary, to reflect current year changes in reporting procedures and to enhance comparability of reported totals.

The format of the statewide financial statements presents a more comprehensive perspective of the state's financial activities. The state's activities are divided into three types for presentation in the primary financial statements. They are Governmental Activities, Business-type Activities, and Component Units. The financial operations of the University of Houston are considered a business-type activity because the university charges a fee, in the form of tuition, to customers in order to pay for a majority of the cost of the services provided. Under this classification, the university's financial statements conform to the guidelines and presentation formats prescribed for Proprietary Funds.

As required by GASB reporting standards, the university reports accumulated depreciation on its capital assets. Additionally, the university recognizes a current year charge for depreciation expense. Revenues and expenses are classified as either operating or nonoperating in the financial statements. The statements provide a measurement of entity-wide operations. Significant portions of the university's recurring resources are classified as nonoperating by GASB Statement No. 35. Substantially all state appropriations are treated as nonoperating revenues.

Tuition and fee revenues are reported net of any scholarship discounts and allowances. A scholarship allowance is the difference between the stated charge for services provided by the university and the amount that is paid by the student or third parties making payments on behalf of the student. Funds received to satisfy student tuition and fee charges are reported as revenue only once. Institutional resources provided to students as financial aid are reported as scholarship allowances in amounts up to and equal to amounts owed by the students to the university. This accounting procedure is defined as tuition discounting.

## STATEMENT OF NET ASSETS

The first schedule presented is the Statement of Net Assets. The statement reflects the university's assets and liabilities using the full accrual basis of accounting, and represents financial position as of the conclusion of the fiscal year. This is a point in time financial presentation and presents a snapshot view of the financial status as of August 31, 2008. Comparative data for the previous fiscal year has also been presented as of August 31, 2007. Assets and liabilities are presented as either current or noncurrent to provide an indication of their anticipated liquidation. Net Assets is equal to Assets minus Liabilities. Unrestricted Net Assets are available to the university for any lawful purpose. Unrestricted Net Assets often have constraints on resources, which are imposed by management, but can be removed or modified. On August 31, 2008, the University of Houston's Assets totaled \$1.274 billion, and Liabilities totaled \$509 million, resulting in a Net Asset valuation of \$765 million. This represents an increase in net assets of \$78 million. The Statement of Net Assets allows the reader of the financial statements to determine the assets available for use in the continuing operations of the university. Also, the reader will be able to determine the amounts owed to vendors, investors and lending institutions. Net Assets are presented in three major categories: invested in capital assets, net of debt; restricted net assets; and unrestricted net assets. The invested in capital assets category identifies the equity in property, plant, and equipment owned by the university. Restricted net assets are comprised of two sub categories: non-expendable and expendable. Non-expendable restricted net assets are available only for endowed investment purposes. Expendable net assets are available for expenditure but must be expended for the purposes specified by the external donor or provider of the assets. Unrestricted net assets are available for any lawful purpose of the university. Although not subject to the stipulations of external requirements, a significant portion of the university's unrestricted net assets are committed to various future operating budgets related to academic, research,

## Unrestricted Net Assets • AS OF AUGUST 31, 2008

Reserved for:	(millions)
Accounts Receivable	\$ 24
Encumbrances	10
Higher Education Fund	36
Future Operating Budgets	39
Other Funds	26
<b>Unreserved Allocated:</b>	
Service Department Operating	3
Auxiliary Enterprise Operating Funds	5
Endowment and Loan Funds	12
Retirement of Indebtedness	(4)
Student Fees	16
Unallocated	25
<b>Total Unrestricted Net Assets</b>	<b>\$ 192</b>

and capital programs and projects. These commitments are summarized in the accompanying table.

### STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The next statement comprising the primary financial statements is the Statement of Revenues, Expenses, and Changes in Net Assets. This schedule identifies operating and nonoperating revenues received by the university. Additionally, both the operating and nonoperating expenses incurred by the university during the fiscal year are displayed. Finally, any other gains and losses or other forms of revenue and expense are reported.

During the 2008 fiscal year, the university recognized operating revenues of \$408 million and operating expenses of \$637 million. After recognizing nonoperating activities and other gains and losses, the university realized a current year net increase in net assets of \$78 million. During the prior fiscal year, the university experienced an increase in net assets of \$55 million.

Operating revenues are received and recognized as a result of providing services to the university's customers. Operating expenses are the costs necessary to provide those services and to fulfill the mission of the university. Operating expenses are displayed in the Statement using the functional method of classification. The functional, or programmatic, classification method presents operating expenses in a manner that reflects the university's commitments in fulfilling its mission of instruction, research, and public service, as well as the requirements of supporting and maintaining its administrative and physical structure. A supplemental Schedule of Operating Expenses displays operating expenses comparing the functional classification and the natural classification methods. The natural method of presentation displays the operating expenses in

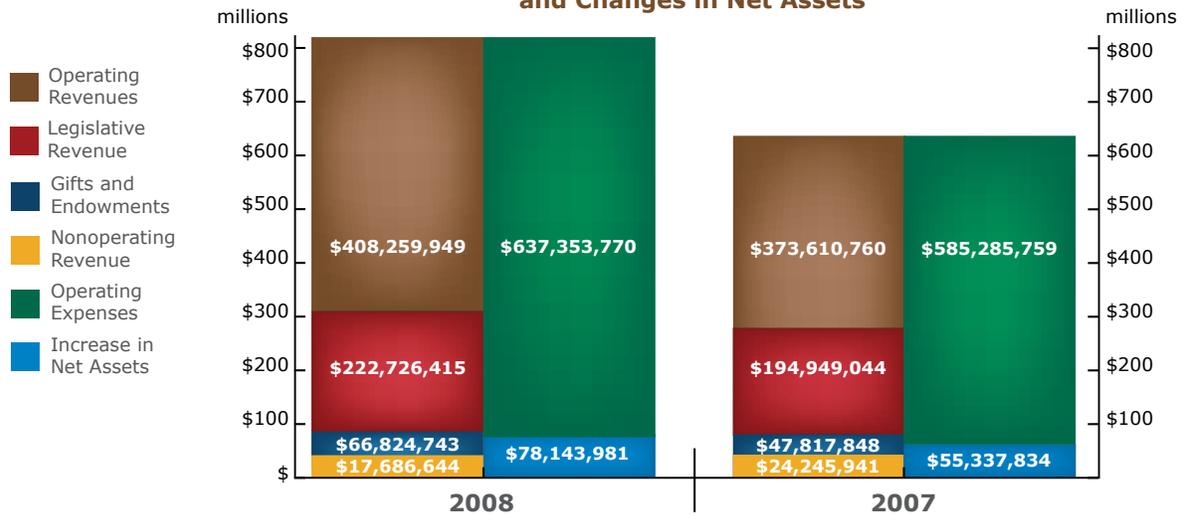
a manner that categorizes the objects of expenditure within various cost centers. Nonoperating revenues are those received for which no services are directly provided. State appropriations are classified as nonoperating revenue because they are provided by the Legislature to the university without the Legislature directly receiving goods or services for those revenues. As previously mentioned, significant portions of the university's recurring resources are classified as nonoperating. Net resources from other than operating revenues totaled \$334 million for fiscal year 2008.

### STATEMENT OF CASH FLOWS

The third primary statement included in the financial statements is the Statement of Cash Flows. This schedule explains the change during the fiscal year in cash and cash equivalents, regardless of whether there are restrictions on their use. The Statement of Cash Flows should be used in conjunction with related disclosures and information in the other financial statements. The statement can provide relevant information about an entity, such as the ability to generate future net cash flows, the ability to meet obligations when due, or reasons for differences between operating income and associated cash receipts and payments. The statement is comprised of five sections. The first section recognizes the cash flows from operating activities as well as the net cash used by operating activities. The second section identifies the cash flows from non-capital financing activities. The third section reflects the cash flows from capital and related financing activities. The next section details the cash flows from investing activities. The final section reconciles net cash used to the operating loss or income reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

The cash and cash equivalents balance at the conclusion of the fiscal year totaled \$128 million, which reflected a net increase in cash of \$12 million.

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



### CAPITAL ASSETS

Maintaining quality in classrooms, laboratories, libraries, and equipment is critical to achieving the university's goals of academic and research excellence. As the number of students and faculty at the University of Houston continues to grow, so too does the need for expanded and better facilities and infrastructure. Equally critical to maintaining the quality of academic, research, and service programs, as well as residential life, is the development and renewal of the university's capital assets. The university continues the implementation of its long-range capital plan, through a combination of renovation and modernization of older facilities, along with new construction.

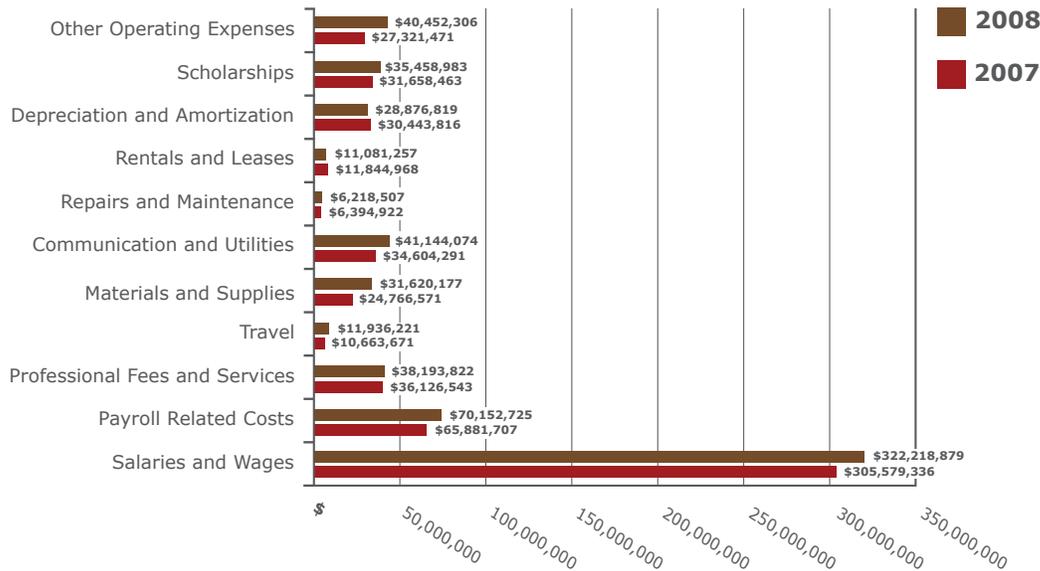
As of the end of the 2008 fiscal year, the university had \$417 million of capital assets, net of accumulated depreciation. These assets included land, buildings, infrastructure and improvements, furniture and equipment, library books, and works of art. Several major capital construction projects are in various stages of completion, and the cumulative investment in these assets is reported as construction in progress. Capital assets, net of accumulated depreciation, at August 31, 2007, totaled \$369 million.

Design activities began on Michael J. Cemo Hall, a LEED gold project. The Leadership in Energy and Environmental Design (LEED) green building rating system provides a set of standards for environmentally sustainable construction. Along with a state of the art auditorium, with a seating capacity of 450, two 70-seat classrooms, and faculty offices, the multi-story building will house three vital services for students - a satellite of the university's Writing Center, a testing facility, and the Elizabeth D. Rockwell Career Services Center. Construction is progressing toward a fall 2009 completion of the UH graduate and professional students loft apartments and retail complex. This facility will be the university's first campus housing designed exclusively for graduate and professional students. The build out of five floors of the existing Science and Engineering Research and Classroom Complex (SERCC) continues. This project will provide interior laboratories and research apparatus for chemistry, biochemistry, and bioengineering. During 2008 design

was completed and construction began on a new \$18 million 1,500 car parking garage located adjacent to the C. T. Bauer College of Business Melcher Hall and the new Calhoun Lofts complex. This facility will begin serving students in fall 2009. Design work began on the Wilhelmina Robertson Smith addition to Robertson Stadium, home of the Conference USA UH Cougars. Each of these projects represents an integral component of the university's Campus Master Plan, which was approved during the 2007 fiscal year. The plan lays a framework for a vision of growth and expansion of services, with a projected fulfillment by the year 2020. The university maintains a goal of improving the physical condition of the campus and its various facilities, while at the same time, preserving their condition and maximizing their utilization.



## Expenses by Natural Classification



## DEBT ADMINISTRATION

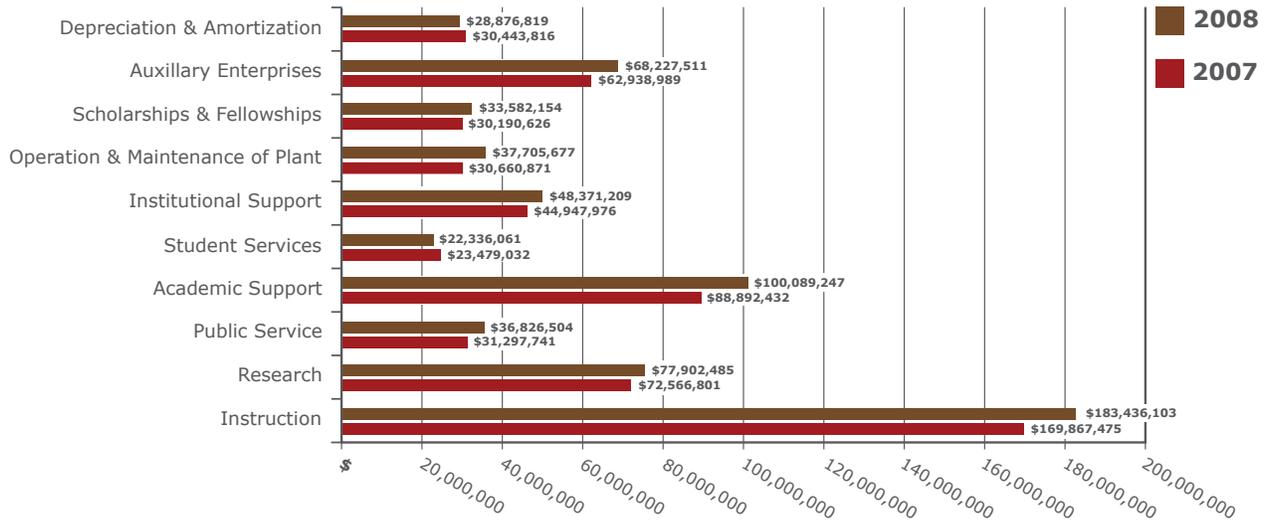
The university believes that the financing of capital projects and improvements through the prudent use of debt is an effective tool in the management of its financial resources. The university has sufficient debt capacity to finance planned capital improvements and facilities. Detailed information concerning the university's long-term debt is found in the Notes to the Financial Statements.

The University of Houston is authorized by statute to issue long-term debt in the form of revenue bonds. Each series of revenue bonds issued is backed by a pledged revenue source specified in the bond resolution. Additionally, each issue is designed to be self supporting from the primary revenue source. A portion of debt service is funded by biennial State appropriations. At August 31, 2008, the University of Houston had \$326 million of long term bonded debt outstanding, \$15 million of which will be retired during the 2009 fiscal year.

In fiscal year 2008, the University of Houston issued \$143.6 million of Consolidated Revenue and Refunding Bonds, Series 2008. Proceeds from this bond issue will be used to finance construction of a new residential life housing complex and a parking garage facility at the University of Houston. Issuance of additional long-term debt is anticipated to occur during the 2009 fiscal year. The university has requested authorization from the State Legislature for the appropriation of funds to pay debt service during the 2010-2011 biennium for additional planned Consolidated Revenue Bonds.

The university established a commercial paper program during the 2007 fiscal year, which permits the issuance of commercial paper notes which may not exceed, in the aggregate, the principal amount of \$50 million. The commercial paper program provides interim financing for the costs of various capital projects. In fiscal year 2008, the University of Houston issued and fully repaid \$36.3 million of Consolidated Revenue Commercial Paper Notes, Series A. Subsequent to the close of the 2008 fiscal year, the university issued \$18.7 million of additional commercial paper notes.

## Expenses by Functional Classification



## ECONOMIC OUTLOOK

Dr. Renu Khator became the thirteenth president of the University of Houston in January 2008. In May of this year, at the conclusion of Dr. Khator's first one hundred days in office, the UH System Board of Regents met with executive leadership of the university to discuss the future direction of the University of Houston. An important result of these planning sessions was the establishment of new goals for UH that seek to elevate the institution to a place among the nation's finest research universities in the next five years. These goals include student access and success, national competitiveness, and community advancement, all of which further the state's goals for higher education, as well as the social and economic well-being of the Houston metropolitan area – UH's primary service area.

The University of Houston is strongly committed to undergraduate education and moving students from admission to graduation while maintaining rigorous academic standards. In addition to its instructional goals, UH is committed to the discovery, dissemination, and application of knowledge. Becoming the state's third tier-one research university will remain the university's highest priority. In order to become a tier-one university, UH must double its current research expenditure level to \$150 million. The goal is to reach this mark in five years. To do so, UH plans to hire clusters of science and engineering faculty in areas of research strength for the university that align with industry needs, including the health sciences, energy, and complex systems. The expectation is that these clusters will bring with them \$10 – 20 million in research funding to the university.

Unlike most other Texas universities, UH is a metropolitan university, whose mission is focused on advancing the community in which UH is located. In 2006, an economic impact study estimated that UH's impact on the Houston economy exceeded \$3 billion for the years 2002-2004. However, given the size and quality of UH, the impact extends far beyond the Houston metropolitan area – the reach being truly world-wide. Apart from its direct economic impact, the University of

Houston has a multitude of programs that enhance the quality of life in Houston and beyond. None of the accomplishments the university has made in the areas of student success, research, and community advancement would have been possible without strong support from the Texas Legislature. Looking ahead to the Eighty-first Legislative session during spring 2009, the university will seek the investments from the state that are needed to build on the momentum achieved over the past several years.

Beginning during the first months of the 2009 fiscal year, and subsequent to the conclusion of fiscal year 2008, the U.S. and world-wide economies began experiencing a significant downturn in their financial environments. The recessionary situation has been characterized by a contraction of credit, falling prices in housing, and deflated valuations for equities and other investment instruments. The current economic issues facing the U.S. are reflected in the performance of the capital markets in the U.S. and abroad; markets in which the university's endowment and other resources are invested. However, working with its investment consultant, the university believes important steps were taken by management over the course of the previous 18 to 36 months in expectation of a climate such as that being faced today. The duration of the economic issues facing the U.S. and the global economy cannot be predicted, however management believes that the endowment's financial condition has historically reflected strength and is capable of withstanding and adjusting to future economic uncertainties. Additionally, although it is not possible to predict ultimate results, management believes the University of Houston continues to maintain a healthy financial position, and is administratively structured and governed in a manner that has equipped it to weather the current world-wide adverse financial situation. As always, the university stands committed to the principles of prudent and effective administration and management, while demonstrating that the university remains a good steward of the dollars entrusted to it by its constituencies.



## UNIVERSITY OF HOUSTON NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2008

### GENERAL INTRODUCTION

The State Auditor of Texas has not audited the accompanying Annual Financial Report 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 financial statements of the University of Houston is part of and included in the State of Texas Comprehensive Annual Financial Report, upon which an opinion is expressed. The state's financial statements are audited by the State Auditor.

### ENTITY

The University of Houston (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 Annual Financial Reports of State Agencies and Universities*.

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 upper Texas Gulf Coast region. Houston and the upper Gulf Coast region represent approximately one fourth of the state's population and economy.

The University is a component of the University of Houston System (the System), which was established by House Bill No. 188, Sixty-Fifth Legislature, Regular Session, effective September 1, 1977. The University of Houston, previously a private university, became a state agency in 1963. The System is governed by an appointed nine member Board of Regents and a student regent.

During the 2002 fiscal year, the State of Texas adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. These accounting pronouncements established new reporting requirements including the presentation of new financial information and a restructuring of the presentation of previous fiscal years. Since the University's annual financial report is not subject to a separate financial audit, certain information, such as a complete set of Government-Wide Financial Statements, is not included in the accompanying report. The financial statements are presented in columnar form, including totals for prior year data. Prior year totals have been restated when necessary to reflect current year changes in reporting procedures and to permit comparability of reported totals.

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

### BASIS OF ACCOUNTING

#### A. Fund Structure

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

#### B. Basis of Accounting

The basis of accounting determines when revenues and 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.

Proprietary 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 nonoperating 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 include the cost of sales and services, administrative expenses, and depreciation on capital assets.

## C. 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 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 NET ASSETS

### A. Assets

Significant asset categories are summarized below.

#### **Cash and Cash Equivalents**

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

#### **Restricted Assets**

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include proceeds of revenue bonds and revenues set aside for statutory or contractual requirements.

#### **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. Prepaid items reflect payments for costs applicable to future accounting periods. The consumption method of accounting is used to account for inventories and prepaid items. 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 not purchased, at appraised fair value as of the date of acquisition. Depreciation is reported on all exhaustible assets. Inexhaustible assets such as certain works of art and historical treasures are not depreciated. Depreciation is charged to operations over the estimated useful life of each asset, using the straight-line method.

#### **Other Receivables**

Other current receivables include year-end revenue accruals not included in any other receivable category. Noncurrent receivable balances are not expected to be collected within one year of fiscal year end.

### B. Liabilities

Significant liability categories are summarized below.

#### **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.

#### **Other Payables**

Other current payables are the accrual at year-end of expenditure transactions not included in any of the other payable descriptions. Noncurrent payable balances are 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.

#### **Bonds Payable - Revenue Bonds**

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.

### C. Net Assets

The difference between fund assets and liabilities is Net Assets.

#### **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.

## **CAPITAL ASSETS**

The University reports accumulated depreciation on its capital assets and recognizes depreciation expense as a current year charge.

At August 31, 2008, non-depreciable capital assets, consisting of land and construction in progress, totaled \$117,079,891. Depreciable capital assets, net of accumulated depreciation, and consisting of buildings, infrastructure, facilities, equipment, library books, and works of art, totaled \$299,591,665.

## **DEPOSITS AND INVESTMENTS**

### **A. Deposits of Cash in Bank**

At August 31, 2008, the carrying amount of the University's cash deposits was \$17,611,818 and the bank balance was \$23,038,934. There are no deposits to foreign bank accounts at this time.

### **B. Investments**

The University of Houston is authorized by statute to make investments following the prudent person rule. There were no significant violations of legal provisions during the period. The fair value of investments, including short-term, long-term, and money market cash equivalents, as of the balance sheet date was \$102,193,729.

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, 2008, the University had no investment securities with credit risk exposure.

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2008, the University'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.

### **C. Investment Transactions**

#### **Reverse Repurchase Agreements**

The University, by statute, is authorized to enter into reverse repurchase agreements. The University did not invest in any reverse repurchase agreements during the fiscal year.

#### **Securities Lending**

Securities lending is authorized by state statutes. The University does not participate in a security-lending program.

#### **Derivative Investing**

The University did not hold any collateralized mortgage obligations at fiscal year-end. The University does not enter into forward-exchange contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates.

## **SHORT TERM LIABILITIES**

The University held no short term notes payable as of August 31, 2008. During 2008 the University issued commercial paper to facilitate the progress of construction of the Calhoun Lofts Project and the purchase of a tract of land. The commercial paper was entirely redeemed by the issuance of the Consolidated Revenue Refunding and Bonds, Series 2008.

## LONG TERM LIABILITIES

### A. Notes and Loans Payable

The University reported no long term notes or loans payable as of August 31, 2008.

### B. Claims and Judgments

At August 31, 2008, 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.

### C. 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. An expense and liability are recorded as the benefits accrue to employees. The liability for unpaid benefits is recorded in the Statement of Net Assets. 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 2008. 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 2008 fiscal year, for accrued vacation and compensatory leave, totaled \$1,286,627.

## LEASE OBLIGATIONS

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. There were no reportable outstanding capital lease payments payable at August 31, 2008.

Included in expenditures reported in the financial statements for rent paid or due under operating leases is \$3,676,339. Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year, as of August 31, 2008, totaled \$8,031,236.

## INTERFUND BALANCES

There are numerous transactions between funds and state agencies. At year-end, amounts to be received or paid are reported as (1) Interfund Receivables or Payables, (2) Due From or Due To Other Agencies, (3) Due From or Due To Other Funds, (4) Transfers In or Transfers Out, and (5) Legislative Transfers In or Legislative Transfers Out.

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.

## CONTINGENT LIABILITIES

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 University 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 University has several contractual agreements with various external housing management entities to construct, maintain and manage off campus student housing complexes. Under certain circumstances, the university may have contingent liabilities to these entities. Based on prior experience, previous years liabilities have been immaterial, and management believes no such liabilities currently exist. Additional information is provided in the Related Parties note.

## 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.

## RISK FINANCING AND RELATED INSURANCE

The University of Houston 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 some commercial insurance is purchased, 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.



## 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 any 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.

## BONDED INDEBTEDNESS

### A. Outstanding Revenue Bonds

#### **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. \$12,002,665; allocated to University of Houston.
- 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 2008 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 2008 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, building, structure, 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 \$74,000,000 allocated to the University of Houston.
- 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 2008 from Legislative appropriation).

#### **Consolidated Revenue Bonds, Series 2005**

- To construct a parking garage facility at the University of Houston.
- Issued 4-1-05.
- \$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.

#### **Consolidated Revenue and Refunding Bonds, Series 2008**

- To (a) refund and defease certain outstanding commercial paper notes of the University and (b) finance the acquisition, purchase, construction, improvement enlargement and equipping of property, buildings, structures, activities, services, operations and other facilities, roads or related infrastructure for or on behalf of the University.
- Issued 7-1-08.
- \$143,615,000; all bonds authorized have been issued.
- Source of revenue for debt service – Designated tuition and



various other fees, revenues and balances that may be legally available for payment of debt obligations.

**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.
- Refunding of the 1993 and 1993-A series bonds reduced the System'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 payment.

**Consolidated Revenue Refunding Bonds, Series 2006**

- To refund \$3,295,000 of Consolidated Revenue Refunding Bonds, Series 1997 (University of Houston-Victoria) and \$44,430,000 of Consolidated Revenue Bonds, Series 2000 (University of Houston).
- Issued 2-1-06.
- \$48,450,000; all bonds authorized have been issued.
- Source of revenue for debt service – Designated tuition and

various other fees, revenues and balances that may be legally available for payment of debt obligations.(Funding for fiscal year 2008 partially from Legislative appropriation).

- Average rate of bonds refunded - 5.45% (1997) and 5.45% (2000).
- Net proceeds from refunding series - \$49,799,345, after receipt of bond premium of \$1,823,210 and payment of \$473,865 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 1997 and 2000 series bonds. The refunded 1997 series will be called for early redemption on 8-15-07, and the 2000 series bonds will be called for early redemption on 2-15-10.
- The 1997 series bonds maturing subsequent to 8-15-07 and the 2000 series bonds maturing subsequent to 2-15-10 are considered fully defeased and the liability for those bonds has been removed.
- Refunding of the 1997 and 2000 series bonds reduced the System's debt service payments over the life of the bond issues by approximately \$4,841,586.
- Economic gain - \$3,013,573; the difference between the net present value of the old and new debt service payment.

**B. General Obligation Bonds**

At August 31, 2008, the University had no bonds payable classified as General Obligation Bonds.

**C. Changes in Bonded Indebtedness**

Bonds payable are due in annual installments varying from \$5,005,000 to \$19,538,449 with interest rates from 2.50% to 7.00%, with the final installment due 2-15-38.

#### **D. Future Debt Service Requirements**

Principal and interest requirements on the obligations for the next five years were \$125,217,308 and \$389,731,013 for all years beyond.

#### **DISCOUNTS AND ALLOWANCES**

The University reports revenues net of discounts and allowances in proprietary funds. Discounts and allowances are calculated based on historical experience. For the fiscal year 2008 discounts and allowances that related to tuition and fee revenues totaled \$44,430,083.

#### **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 available to certain eligible employees and 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.

#### **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. Two plans are available for employees' deferred compensation plans. 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, "TexasSaver," 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 of Houston 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.

#### **RESTATEMENT OF NET ASSETS**

During fiscal year 2008 a restatement of the prior year's net assets/fund equity balance was required. The restatements

represent prior period adjustments to beginning net assets related to capital assets and accumulated depreciation changes.

#### **RELATED PARTIES**

The University is affiliated with several foundations and organizations that have been created to benefit certain operations of the University. These organizations are considered to be separate legal entities, and as such 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.

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 ground 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. If cash revenues do not attain certain contractually defined thresholds, the University is liable to the external management entity for the deficiency. In previous fiscal years (2005 and 2006) contingent liability payments were made, both in relation to the Bayou Oaks facility. During the 2007-2008 fiscal year net cash flows were sufficiently adequate so as not to generate a liability payment. University management believes that current financial and occupancy performance indicates that future years net cash flows will be sufficient and that future contingent liabilities will not occur. 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.

#### **SUBSEQUENT EVENTS**

The University of Houston System has established a commercial paper program (Consolidated Revenue Commercial Paper Notes, Series A) that permits the issuance of commercial paper notes which may not exceed, in the aggregate, the principal amount of \$50,000,000 at any one time. Commercial paper is issued to provide interim financing for the costs of various capital projects within the System. The maximum maturity for the commercial paper is 270 days and is issued at tax exempt interest rates. As of the date of the issuance of this financial report, the System had no outstanding commercial paper liabilities. During November 2008, the System issued \$18,700,000 of commercial paper notes.





## UNIVERSITY OF HOUSTON GREEN VISTAS

Founded in 1927, the University of Houston is the leading public research university in the vibrant international city of Houston, Texas, the nation's fourth largest city and the energy capital of the world. UH students regularly test their skills through internships with national and international companies based in Houston and the upper Gulf coast region, and the faculty routinely partner with businesses and government agencies through research. Houston's quality of life, its proximity to research partners, the world's largest medical center, and a vibrant arts and entertainment community all contribute to make the city an attractive location to live and work. Recognized as Texas' premier urban teaching and research institution and as the largest component of the University of Houston System, UH is proud to be an active and vital participant within the Houston community hosting students from over 130 countries.

The campus of the University of Houston is equally impressive. In the midst of a bustling city, less than five miles from downtown Houston, UH's 550 acre campus is a lush, green oasis. Fountains and sculptures adorn the grounds, while manicured lawns, seasonal flowers, and tree filled parks offer a tranquil and uplifting environment. Strategically placed benches and meeting areas provide unlimited opportunities to gather, collaborate, or study. At the same time, the campus offers all the amenities and high-tech facilities required by modern university life. The

facilities and grounds have been carefully designed to enhance and complement our students' academic and social experience. As you read through this year's financial report, we would like to take the opportunity to share with you some of the highlights and scenery that members of the UH community have the benefit of experiencing every day on our campus.

Energy management and sustainability projects are environmentally responsible measures and financial resource conservation opportunities. With its 550 acre footprint, the university is poised to become a showcase of sustainability. Greenspace abounds, helping to cool buildings and create an atmosphere of bright, lush surroundings. New, forward thinking, sustainability programs are complementing our students' academic and social experiences, while enhancing their lifestyles, as well as those of our faculty and staff. As new buildings reach the drawing board, careful consideration for the orientation of the building, as well as the trees and plants that will accent the buildings make energy efficiency an accomplishable task. Placement of bottle, can, and paper recycling bins in prominent places throughout the campus helps recycling become second nature for students and staff alike, and further maintains the beauty of our campus.



## FINANCIAL STAFF



**Chief Accounting Officers** (Standing left to right)  
**John Cordary**, UHCL Associate Vice President Finance,  
**David Ellis**, Executive Director Financial Reporting,  
**Michael Glisson**, Executive Director Finance

(Seated left to right)  
**Karin Livingston**, Director, General Accounting,  
**George Anderson**, UHCL Assistant Vice President  
 Business Affairs,  
**Toni Wyer**, UHV Comptroller



**General Accounting** (Left to right)  
**Lavonda Horn**, Financial Manager,  
**Patricia Benoit**, Manager Student Accounting,  
**Karin Livingston**, Director General Accounting

(Not pictured)  
**Alex Vuong**, Financial Manager,  
**Gretta McClain**, Financial Manager



**Financial Reporting Staff** (Standing left to right)  
**Linda Klemm**, Manager Financial Reporting,  
**Phyllis Rusk**,  
**Kevin Draper**, Director Financial Compliance,  
**Juanita Broughton**,  
**Gwendolyn Allen**

(Seated left to right)  
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**Carole Bohnert**

## ACKNOWLEDGEMENTS

The Financial Reporting Staff would like to acknowledge the contributions of the following people/departments:

**Thomas Ehardt**, Interim Associate Vice President, Finance

**UH Treasury** – Raymond Bartlett, Treasurer

**UH University Services** – Emily Messa, Assistant Vice President  
 Business Services

**UH Payroll** – Marli Bober, Executive Director Payroll

### **UH Marketing and Creative Services**

Karen Clarke, Associate Vice President University Relations  
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 V. Watson Riddle, Senior Graphics Designer  
 Thomas Campbell, Photographer

**University Copy Center** – Roddy Chambless

**Spotlight Creative, LLC** – Kimberly Abey, Cheryl Walters

## PHOTO DESCRIPTIONS

**Cover front to back:** Highly polished marble highlights one entrance to the athletic stadium district of the university. Poplar columns create a green backdrop.

**Front Cover clockwise from lower right** – Stone benches in the Moore’s Music Wortham Theater Fine Arts Grove offer seating softened by plantings of day lilies, iris and various annuals that bloom sequentially providing color as a backdrop to the musical and theatrical productions presented there.

Crepe Myrtle in full bloom accent the entry to the Moore’s Opera House.

The Moon Pond, bordered by crepe myrtles, hydrangea and Nearly Wild Rose, is an oasis of color outside the Student Service Center.

**Page 2** – Wide sidewalks with ample seating shaded by mature live oaks beckon students to study and professors to adjourn classes to the out of doors.

**Page 3** – Well tended hedges shaded by large oaks, bordered by blue Agapanthus provide vistas of color and frame the UH College of Education building, Farrish Hall.

**Page 16** – An entrance to the university is planted in brilliant red and white geraniums framed by a set of obelisks symbolizing stability and creative forces. Immediately inside the obelisks is the Avenue of Trees, sixty four oaks, planted by University supporters to welcome visitors and enhance the beauty of the campus.

**Page 19** – The University of Houston seal provides a firm anchor for immaculate beds of red and white geranium, backed by long lasting Nearly Wild Rose. These plantings complement the M.D. Anderson Library and Philip Hoffman Hall in the background.

**Page 20** – A stepping stone walkway surrounded by green plantings creates a path between student gathering areas in the University Center.

**Page 22** – A view of blooming crepe myrtles and a variety of trees outside Stephen Farish Hall accents the tile roof of the Roy G. Cullen Building. The Roy Cullen Building, the first permanent UH Building, was constructed in 1939 as the first air conditioned building for use in higher education.

**Page 23** – Crepe myrtles, live oaks, hedges and seating border a fountain and a cool, blue reflection pool ready to be enjoyed by passers-by.

**Page 24** – The Reflection Pool in the Cullen Family Plaza showcases the many plantings that enhance the centerpiece of the campus. Annual beds blooming nearly year round, live oaks, crepe myrtles and hedges trimmed to perfection create an atmosphere that asks the traveler, be he or she, student, faculty or visitor to pause to enjoy the view.

**Page 26** – Prolific daylilies bloom outside the M.D. Anderson Library and Honors College. The library also houses several computer labs as well as the acclaimed Honors College, a nationally recognized, intellectually stimulating learning community.

**Page 27** – Under a canopy of live oaks and cushioned by luscious green lawns, beautiful beds of annuals surround a bronze cougar, the university mascot. Benches are readily available for study or contemplation of the scenery.

**Page 29** – Surrounded by fully grown crepe myrtles accented by ferns, azaleas and seasonal plantings a walk into the Moore’s Music Wortham Theater Fine Arts Grove leads to cool green spots to stop for discussion or study.

**Picture below** – A view of the downtown Houston skyline, with the College of Architecture in the foreground, illustrates the proximity of the 4th largest city in the country and the verdant green spaces that join UH to the larger community.



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**UNIVERSITY of HOUSTON**

ANNUAL FINANCIAL REPORT

