



Heading in the right direction

UNIVERSITY of HOUSTON SYSTEM
ANNUAL FINANCIAL REPORT 09/10



UH

UHCL

UHD

UHV

UHSA

Contents

Organizational Data	1
Message from the Chancellor	2
Message from the Executive Vice Chancellor	3
Financial Highlights	4
Financial Statements	10
Management's Discussion and Analysis	14
Notes	24
University of Houston	42
UH-Clear Lake	47
UH-Downtown	52
UH-Victoria	57
UH System Administration	62
Research	67



Organizational Data

BOARD OF REGENTS

WELCOME W. WILSON, SR., HOUSTON
Term Expires August 31, 2011

JIM P. WISE, HOUSTON
Term Expires August 31, 2011

CARROLL ROBERTSON RAY, HOUSTON
Term Expires August 31, 2011

MICA MOSBACHER, HOUSTON
Term Expires August 31, 2013

NELDA LUCE BLAIR, THE WOODLANDS
Term Expires August 31, 2013

JACOB M. MONTY, HOUSTON
Term Expires August 31, 2013

NANDITA V. BERRY, HOUSTON
Term Expires August 31, 2015

TILMAN J. FERTITTA, HOUSTON
Term Expires August 31, 2015

JARVIS V. HOLLINGSWORTH, HOUSTON
Term Expires August 31, 2015

ANDREW COBOS, HOUSTON
Term Expires May 31, 2011

OFFICERS OF THE BOARD (FISCAL YEAR 2010)

WELCOME W. WILSON, SR.
Chair

JIM P. WISE
Vice Chair

NELDA LUCE BLAIR
Secretary

OFFICERS OF THE BOARD (FISCAL YEAR 2011)

CARROLL ROBERTSON RAY
Chair

NELDA LUCE BLAIR
Vice Chair

MICA MOSBACHER
Secretary

ADMINISTRATIVE OFFICERS

RENU KHATOR
Chancellor

JOHN J. ANTEL
Senior Vice Chancellor
for Academic Affairs and Provost

CARL P. CARLUCCI
Executive Vice Chancellor
for Administration and Finance

ELWYN C. LEE
Vice Chancellor
for Student Affairs

GROVER S. CAMPBELL
Vice Chancellor
for Governmental Relations

STUART A. LONG
Interim Vice Chancellor
for Research

MICHAEL D. RIERSON
Vice Chancellor
for University Advancement

DONA H. CORNELL
Vice Chancellor
for Legal Affairs and General Counsel

RENU KHATOR
President – University of Houston

WILLIAM A. STAPLES
President – UH-Clear Lake

WILLIAM FLORES
President – UH-Downtown

TIM HUDSON
President – UH-Victoria

Message from the Chancellor

When this 2009-2010 Annual Financial Report was going to press, the University of Houston received word that the Carnegie Foundation for the Advancement of Teaching had elevated us to their highest ranking of “very high research university” – the equivalent of Tier One status.

That ranking, as the designation implies, is weighted heavily on UH’s research activity. Coincidentally – and fortuitously – this annual report’s visual theme is research, not just at the University of Houston, but throughout the UH System, including UH-Clear Lake, UH-Downtown, and UH-Victoria.

Last year, the four UH System universities brought in a total of \$124 million in research awards (UH, \$114.8 million; UH-Clear Lake, \$3.6 million; UH-Downtown, \$2.8 million; and UH-Victoria, \$2.9). These funds multiply throughout the city and the region.

Economists estimate that every \$10 million in research expenditures creates 334 new jobs, adds \$8.6 million in wages to the regional economy, draws \$500,000 in additional state revenue, including tax revenue, and generates \$13.5 million in local sales. That is a 226 percent return on investment!

UH’s research activities cut across many disciplines and subjects, from the biomedical sciences and engineering, to energy and natural resources, and from complex system and space exploration to the arts, the humanities, and the social sciences.

Reaching Tier One status was driven in great part by the creation of UH research clusters and by pulling together multi principal investigator grant proposals – innovative ways in which our labs can function more cost-effectively, while bringing in greater numbers of multi-million-dollar research awards.

As we celebrate achieving the top-tier designation by the Carnegie Foundation, which now places UH, along with the University of Texas and Texas A&M University, as one of only three public Tier One universities in Texas, we have set our sights on additional top-tier rankings for the University of Houston – rankings which will weigh heavily on student success and other criteria besides research.

The Carnegie designation is one important milestone in our journey, and one we believe will provide a solid foundation to UH’s efforts, as well as an inspiration to all UH System faculty, staff, and students, to achieve additional levels of distinction and national recognition.

RENU KHATOR
Chancellor, UH System
President, University of Houston



Renu Khator, Chancellor

Message from the Executive Vice Chancellor



Carl Carlucci, Executive Vice Chancellor

I welcome the opportunity to present to you the results of financial activities and operations within the University of Houston System as displayed throughout our annual financial report for the fiscal year ended August 31, 2010. I am pleased to assure you that the UH System's financial position remains sound and well managed. Our faculty, staff, and administrators are serious in their commitment to exercise the most efficient and productive use of our assets and resources. We recognize and respect the degree of pride our constituents have in their university. I believe that you will agree that the following analysis and presentation of financial data is also a worthy reflection of our dedication to our customers, whether they be our students and their families, our donors, our alumni, or the organizations and government agencies that provide funding for higher education and research.

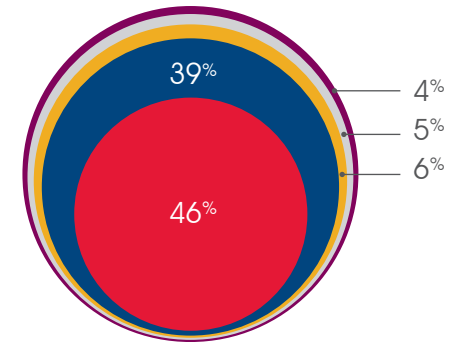
This report contains financial statements that have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. Responsibility for the accuracy of the information and for the completeness and fairness of its presentation, including all disclosures, rests with the management of the UH System. We believe our system of internal controls is sound and sufficient, which will ensure the System's accountability to the public.

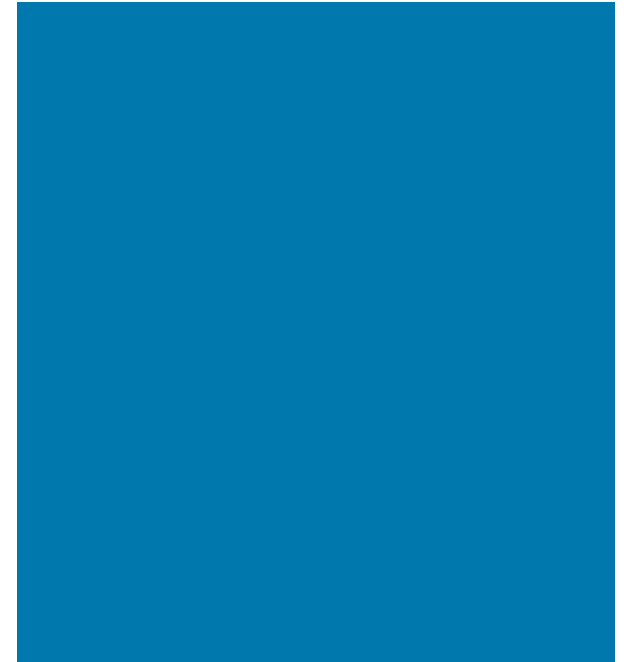
There were numerous positive achievements that transpired within the System during the 2010 fiscal year. System-wide enrollment continued to rise, reaching 61,040 in Fall 2009, an increase from 59,219 in 2008 and 56,762 in 2007. Sponsored program expenditures for research grants, financial aid, and other sponsored activities totaled \$237.4 million system-wide in fiscal 2010, reflecting increases from \$187.8 million in 2009, and \$154.2 million in 2008. The depressed national and world-wide economy has had a tempering effect on these successes. Although Texas has weathered the recessionary forces better than some segments of the economy, limitations on the availability of resources have begun to grow. The System has identified mandated state appropriation budget reductions of 5% across the current fiscal biennium. Management is scrutinizing our business model to ensure that we are using our resources to their maximum level of efficiency, particularly in light of anticipated future reductions in funding and appropriations. The state of Texas operates under a constitutionally mandated balanced budget concept. The UH System will also follow that same approach, and will adopt the fiscal decisions that are necessary to make certain that expenditures are limited to available resources, while at the same time, providing a level of high quality and distinctive service, education, and research consistent with our mission and goals.

CARL CARLUCCI
Executive Vice Chancellor
for Administration and Finance

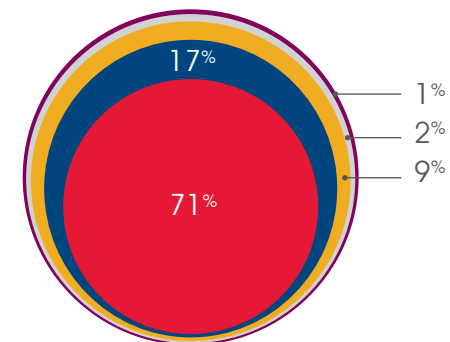
Financial Highlights

	2010	%	
Cash and Investments	\$ 1,025,697,949	46	●
Capital Assets	859,838,160	39	●
Appropriations	108,068,914	6	●
Receivables	101,333,421	5	●
Inventories and Other Assets	83,554,346	4	●
Total Assets	\$ 2,178,492,790	100	





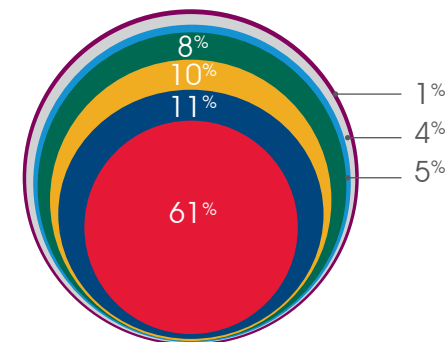
	2010	%	
Bonds Payable	\$ 702,354,407	71	●
Deferred Revenue	172,822,420	17	●
Payables and Accrued Liabilities	84,599,366	9	●
Accrued Compensable Absences Payable	23,130,323	2	●
Funds Held For Others	12,843,326	1	●
Total Liabilities	\$ 995,749,842	100	



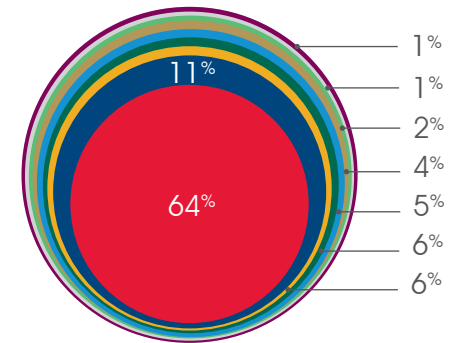


Tuition and Fees, Net of Discounts
 Sales of Auxiliary Services
 Federal Grant Revenues
 State Grant Revenue
 Sales of Other Goods and Services
 Local and Private Awards
 Other Operating Revenues
Total Operating Revenues

	2010	%	
\$	335,644,516	61	●
	57,154,395	11	●
	50,562,211	10	●
	40,509,952	8	●
	24,252,700	5	●
	22,492,468	4	●
	397,469	1	●
\$	531,013,711	100	



	2010	%	
Salaries and Benefits	\$ 598,418,324	64	●
Supplies, Office Operations, Travel	109,194,225	11	●
Scholarships	67,666,890	6	●
Depreciation, Amortization	57,342,724	6	●
Communication and Utilities	43,845,070	5	●
Other Operating Expenses	39,267,985	4	●
Financing and Legal	18,959,807	2	●
Repairs and Maintenance	13,189,183	1	●
Pass Through Expenses	3,177,670	1	●
Total Operating Expenses (Natural)	\$ 951,061,878	100	

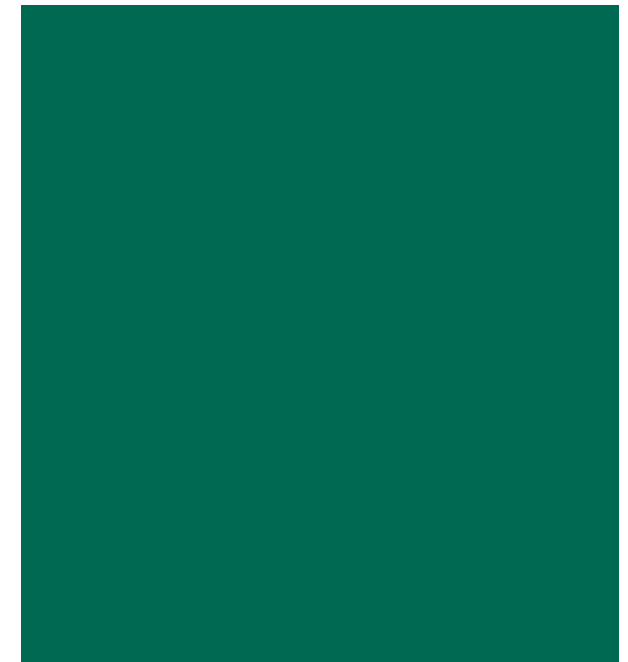
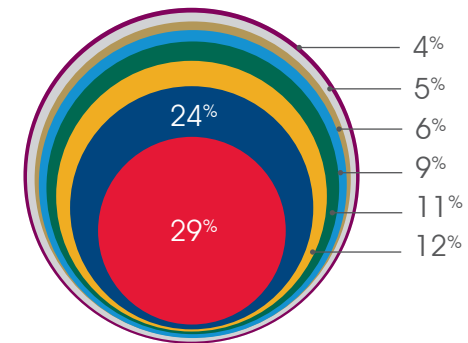


OPERATING REVENUE

	2010	%	
Tuition and Fees, Net of Discounts	\$ 335,644,516	29	●
Sales of Goods and Services	81,804,565	6	●
All Other Contracts and Grants	63,002,419	5	●
Federal Contracts and Grants	50,562,211	4	●

NON-OPERATING REVENUE

Legislative Sources	278,776,444	24	●
Other Revenue-Including Capital	141,143,556	12	●
Federal Revenue	123,399,498	11	●
Gifts	100,824,499	9	●
Total Revenues	\$ 1,175,157,708	100	





NON-OPERATING EXPENSES

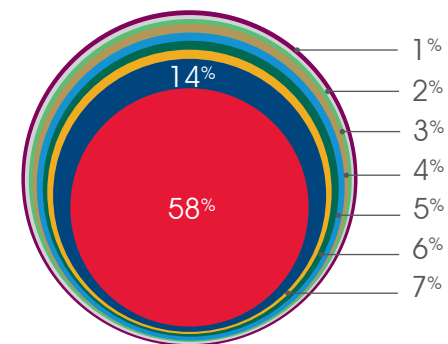
Interest Expense	\$ 28,998,530	3	●
Non-Operating Expense, Other	51,417,548	5	●

OPERATING EXPENSES

Salaries and Benefits	598,418,324	58	●
Office Operations and Supplies	166,228,478	14	●
Scholarships	67,666,890	7	●
Depreciation and Amortization	57,342,724	6	●
Other Operating Expenses	39,267,985	4	●
Financing and Legal	18,959,807	2	●
Pass Through Expenses	3,177,670	1	●

Total Expenses (Natural)

	2010	%	
	\$ 28,998,530	3	●
	51,417,548	5	●
	598,418,324	58	●
	166,228,478	14	●
	67,666,890	7	●
	57,342,724	6	●
	39,267,985	4	●
	18,959,807	2	●
	3,177,670	1	●
Total Expenses (Natural)	\$ 1,031,477,956	100	



Financial Statements

	2010	2009		2010	2009
ASSETS			LIABILITIES		
CURRENT ASSETS			CURRENT LIABILITIES		
Cash and Cash Equivalents	\$ 170,601,429	\$ 180,622,500	Payables	\$ 74,197,131	\$ 88,470,743
Short-term Investments	195,383,126	164,320,758	Deferred Revenues	172,822,420	168,470,917
Restricted Cash and Cash Equivalents	16,329,448	23,092,527	Notes and Loans Payable	10,000,000	27,300,000
Loans and Contracts	15,503,818	15,198,638	Employees' Compensable Leave	10,963,773	10,804,185
Legislative Appropriations	108,068,914	86,802,836	Revenue Bonds Payable	26,523,915	21,935,606
Receivables	93,350,241	59,032,105	Claims and Judgments Payable	387,792	331,306
Inventories	2,208,028	2,538,147	Funds Held for Others	12,843,326	14,172,961
Deferred Charges	49,309,449	53,627,412	Total Current Liabilities	307,738,357	331,485,718
Total Current Assets	650,754,453	585,234,923	NON-CURRENT LIABILITIES		
NON-CURRENT ASSETS			Claims and Judgments Payable	14,443	14,425
Restricted Cash and Cash Equivalents	90,186,098	50,629,066	Employees' Compensable Leave	12,166,550	12,294,767
Loans and Other Receivables	24,516,231	22,451,874	Revenue Bonds Payable	675,830,492	580,152,447
Investments	553,197,848	524,949,911	Total Noncurrent Liabilities	688,011,485	592,461,639
Capital Assets, Non-Depreciable, Non-Amortizable	199,721,462	150,672,528	Total Liabilities	995,749,842	923,947,357
Capital Assets, Depreciable, Amortizable, Net	660,116,698	628,997,730	NET ASSETS		
Total Noncurrent Assets	1,527,738,337	1,377,701,109	Invested in Capital Assets, Net of Related Debt	348,346,604	364,447,459
Total Assets	2,178,492,790	1,962,936,032	Restricted, Debt Retirement	20,455,746	4,356,434
			Restricted, Capital Projects	4,984,732	3,259,343
			Restricted, Endowment Funds	353,068,486	360,219,183
			Restricted, Other	121,233,332	102,584,985
			Unrestricted	334,654,048	204,121,271
			Total Net Assets	\$ 1,182,742,948	\$ 1,038,988,675

	2010	2009		2010	2009
OPERATING REVENUES			NONOPERATING REVENUES (EXPENSES)		
Tuition and Fees, Net of Discounts	\$ 335,644,516	\$ 324,277,329	Legislative Revenue	\$ 281,926,449	\$ 284,238,433
Sales of Goods and Services	81,407,095	68,011,643	Gifts	56,567,581	35,518,010
Federal Revenue	50,562,211	61,399,930	Federal Revenue Non Operating	123,399,498	56,778,704
State Grant Revenue	40,509,952	46,910,292	Investment Income and Change in Fair Value	40,240,466	(169,038,853)
Other Grants and Contracts	22,889,937	22,680,947	Interest Expense and Fiscal Charges	(28,998,530)	(22,113,595)
Total Operating Revenues	531,013,711	523,280,141	Other Nonoperating Revenues (Expenses)	34,991,425	(15,286,913)
			Total Nonoperating Revenues (Expenses)	508,126,889	170,095,786
			Income (Loss) Before Other Revenues, Expenses, Gains, Losses and Transfers	88,078,722	(201,085,479)
OPERATING EXPENSES			OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS		
Instruction	278,812,621	276,415,400	Capital Appropriation (Higher Education Assistance Funds)	53,332,099	53,332,099
Research	99,682,859	87,722,681	Additions to Permanent and Term Endowments	5,418,936	6,635,447
Public Service	42,901,388	40,982,362	Transfers	(4,237,468)	(3,529,482)
Academic Support	155,661,094	142,889,411	Legislative Appropriations Lapsed	1,087,464	(1,224,870)
Student Services	36,581,748	35,299,656	Total Other Revenues, Expenses, Gains, Losses and Transfers	55,601,031	55,213,194
Institutional Support	87,585,998	81,684,582	Change in Net Assets	143,679,753	(145,872,285)
Operation and Maintenance of Plant	47,493,338	51,727,006	Net Assets Beginning	1,038,988,675	1,184,422,711
Scholarships and Fellowships	63,260,383	54,411,280	Restatements	74,520	438,249
Auxiliary Enterprises	81,739,725	81,558,057	Net Assets Beginning, as Restated	1,039,063,195	1,184,860,960
Depreciation and Amortization	57,342,724	41,770,971	Net Assets, Ending	\$1,182,742,948	\$1,038,988,675
Total Operating Expenses	951,061,878	894,461,406			
Operating Income (Loss)	(420,048,167)	(371,181,265)			

	2010	2009		2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds Received from Students and Customers	\$ 358,055,399	\$ 349,683,248	Proceeds from Interest and Investment Income	\$ 313,528,337	\$ 588,976,098
Proceeds from Loan Programs	105,660,221	125,798,584	Payments to Acquire Investments	(346,364,154)	(567,485,004)
Proceeds from Other Revenues	142,304,305	186,775,674	Net Cash Provided by Investing Activities	(32,835,817)	21,491,094
Payments to Suppliers for Goods and Services	(219,293,211)	(183,939,675)	Increase (Decrease) in Cash and Cash Equivalents	22,772,882	32,839,912
Payments to Employees	(597,192,395)	(567,660,283)	Cash and Cash Equivalents, September 1	254,344,093	221,504,181
Payments for Loans Provided	(106,330,183)	(136,348,561)	Cash and Cash Equivalents, August 31	\$ 277,116,975	\$ 254,344,093
Payments for Other Expenses	(84,543,847)	(95,091,839)			
Net Cash Provided (Used) by Operating Activities	(401,339,711)	(320,782,852)			
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH		
Proceeds from State Appropriations	261,627,471	272,521,665	Provided (Used) by Operating Activities		
Proceeds from Gifts	53,923,835	55,627,401	OPERATING INCOME (LOSS)	\$ (420,048,167)	\$ (371,181,265)
Proceeds from Endowments	5,125,852	9,982,044			
Proceeds of Transfers from Other Funds	50,616,497	25,517,436	ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH		
Proceeds from Other Revenues	124,338,274	61,752,983	PROVIDED (USED) BY OPERATING ACTIVITIES		
Payments for Other Uses	(22,393,857)	(99,490,060)	Amortization and Depreciation	57,342,724	41,770,971
Net Cash Provided by Noncapital Financing Activities	473,238,072	325,911,469	Bad Debt Expense	12,771	43,524
			Classification Differences	(715,856)	(10,985,399)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			CHANGES IN ASSETS AND LIABILITIES		
Proceeds from Capital Financing Activities	256,363,029	302,981,894	(Increase) Decrease in Receivables and Loans	(40,535,130)	151,516
Payments for Additions to Capital Assets	(150,535,382)	(196,645,762)	(Increase) Decrease in Inventories	330,119	(208,088)
Payments of Principal and Interest on Debt Issuance	(122,117,309)	(100,115,931)	(Increase) Decrease in Other Assets	1,484,934	(1,690,561)
Net Cash Used by Capital and Related Financing Activities	(16,289,662)	6,220,201	(Increase) Decrease in Prepaid Expenses	6,508,914	(14,188,330)
			Increase (Decrease) in Payables	(11,197,275)	14,501,857
			Increase (Decrease) in Deferred Income	4,351,503	16,702,154
			Increase (Decrease) in Other Liabilities	1,125,752	4,300,769
			Total Adjustments	18,708,456	50,398,413
			Net Cash Provided by Operating Activities	\$ (401,339,711)	\$ (320,782,852)

	2010	2009		2010	2009
EXPENSES BY NATURAL CLASSIFICATION			EXPENSES BY FUNCTIONAL CLASSIFICATION		
Cost of Goods Sold	\$ 3,175,555	\$ 2,604,382	Instruction	\$ 278,812,621	\$ 276,415,400
Salaries and Wages	491,283,365	469,299,862	Research	99,682,859	87,722,681
Payroll Related Costs	107,134,959	102,555,758	Public Service	42,901,388	40,982,362
Professional Fees and Services	44,605,103	42,349,995	Academic Support	155,661,094	142,889,411
Federal Pass-Through Expenses	3,177,670	3,154,091	Student Services	36,581,748	35,299,656
Travel	14,033,314	14,373,283	Institutional Support	87,585,998	81,684,582
Materials and Supplies	42,357,217	39,120,318	Operation and Maintenance of Plant	47,493,338	51,727,006
Communication and Utilities	43,845,070	45,641,029	Scholarships and Fellowships	63,260,383	54,411,280
Repairs and Maintenance	13,189,183	12,698,902	Auxiliary Enterprises	81,739,725	81,558,057
Rentals and Leases	16,931,469	13,195,238	Depreciation and Amortization	57,342,724	41,770,971
Printing and Reproduction	5,023,036	5,049,722	Total Expenses by Expenditure Function	\$ 951,061,878	\$ 894,461,406
Depreciation and Amortization	57,342,724	41,770,971			
Interest	541,098	63,313			
Scholarships	67,666,890	58,775,330			
Claims and Losses	1,487,240	1,361,137			
Other Operating Expenses	39,267,985	42,448,075			
Total Operating Expenses	\$ 951,061,878	\$ 894,461,406			

Management's Discussion & Analysis

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) section of the University of Houston System's Annual Financial Report has been prepared to provide an overview of the activities and the financial performance of the University of Houston System (the System) for the fiscal year ended August 31, 2010. This presentation 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 System's basic financial statements and the notes to the statements.

BACKGROUND

The University of Houston System (UHS), serving the nation's fourth largest city and its metropolitan area, as well as the upper Texas Gulf Coast region, is part of the state-supported system of higher education in Texas. UHS is the region's largest provider of comprehensive (baccalaureate to doctorate) higher education services. The System is comprised of four universities and a supporting System Administration. The four universities are University of Houston (UH), University of Houston – Clear Lake (UHCL), University of Houston – Downtown (UHD), and University of Houston – Victoria (UHV); all of which are located along the Texas Gulf Coast. The University of Houston is the flagship institution of the System, its principal doctoral degree-granting institution, and a comprehensive research university.

The University of Houston – Clear Lake is an upper-level/ master's university located in southeast Houston with close ties to NASA's Johnson Space Center and regional community colleges. University of Houston – Downtown, Houston's second largest university after UH and the most ethnically diverse university in the state, is a predominantly undergraduate institution with a limited but growing number of master's programs. University of Houston – Victoria is an undergraduate and master's-level institution that, for the first time in fall 2010, began enrolling

freshmen and sophomores as it seeks to become a destination university in the Coastal Bend region of Texas. UHV and UHS also have a large presence in southwest and west Houston, reaching many students in Houston and beyond through extensive online programs. The UH System Administration is responsible for coordinating the operations of the universities, as well as providing select centralized services. Among universities nationwide, the UH System remains a model of diversity and a reflection of the city and region it



serves. During the two most recent fiscal years, the System has achieved significant milestones in both research and enrollment. Research expenditures have surpassed \$100 million annually, and for the first time, enrollment has exceeded 60,000 students. In addition, total degrees awarded reached record highs, surpassing 12,500 in 2009 and 12,300 in 2010.

Over the past two years, the System's Chancellor and Board of Regents have led a comprehensive strategic planning process through which new mission statements, goals, principles, and accountability measures have been developed for the System and its universities. In addition, the universities have developed enrollment and research projections for 2020 and are in the process of developing academic and facilities master plans. Upon completion, these plans will identify the programs, faculty, staff, and infrastructure needed to achieve the 2020 enrollment and research projections, as well as the resources needed to get there. The UHS universities are also working collaboratively on four system-wide initiatives in health, global outreach, and student and faculty pathways that have been identified during this strategic planning process. Central to all of these planning activities are the UH System's new goals – student access and success, national competitiveness, and community advancement – all of which further Texas's goals for higher education,

as well as the social and economic well-being and development of the Houston metropolitan area.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements for fiscal year 2010 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 System during the 2002 fiscal year. All financial statements for fiscal years 2002 through 2010 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 System to include three financial statements in the annual financial report. They are (1) the Statement of Net Assets,

During the two most recent fiscal years, the System has achieved significant milestones in both research and enrollment.

(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 System is part of and included in the State of Texas Comprehensive Annual Financial Report. The financial statements of the System are presented for the fiscal year ended August 31, 2010, with financial data for the fiscal year ended August 31, 2009, 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 Texas statewide financial statements presents a 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 System are considered a business-type activity because the System's universities charge a fee, in the form of tuition, to customers in order to pay for a significant percentage of the cost of the services provided. Under this classification, the System's financial statements conform to the guidelines and presentation formats prescribed for Proprietary Funds.

STATEMENT OF NET ASSETS

The first schedule presented is the Statement of Net Assets. The statement reflects the System'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, 2010. Comparative data for the previous fiscal year has also been presented as of August 31, 2009. Assets and liabilities are presented as either current or

non-current to provide an indication of their anticipated liquidation. Net Assets is equal to Assets minus Liabilities. Unrestricted Net Assets are available to the System for any lawful purpose. Unrestricted Net Assets often have constraints on resources, which are imposed by management or implied by statutes or regulations, but can be removed or modified. On August 31, 2010, the University of Houston System's Assets totaled \$2.178 billion, and Liabilities totaled \$995 million, resulting in a Net Asset valuation of \$1.183 billion. This represents

SCHEDULE OF UNRESTRICTED NET ASSETS (MILLION)

Reserved for:

	2010	2009
Accounts Receivable	\$ 50	\$ 46
Encumbrances	11	11
Higher Education Fund	63	54
Future Operating Budgets	42	48
Student Fees Restricted by Statute	10	8
Other Funds	71	31

Unreserved Allocated:

Service Department Operating	\$ 2	\$ 1
Auxiliary Enterprises Operating	4	10
Endowment and Loan Funds	37	(3)
Student Fees Limited to Purpose	24	21
Unallocated	21	(23)
Total Unrestricted Net Assets	\$ 335	\$ 204



an increase in net assets of \$144 million. Asset increases occurred in investments due in part to improved market driven increases in the valuation of the endowment and from investable capital proceeds as a result of the issuance of revenue bonds. Capital asset acquisitions and holdings also increased.

The Statement of Net Assets enables the reader of the financial statements to determine the assets available for use in the continuing operations of the institutions. 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 System. 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 purposes of the institutions. Although not subject to the stipulations of external requirements, a significant portion of the System's unrestricted net assets are committed to various future operating budgets related to

academic, research, and capital programs and projects. Additional net asset balances are reserved for specific purposes by nature of their origin. 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 non-operating revenues received by the System. Additionally, both the operating and non-operating expenses incurred by the System during the fiscal year are displayed. Finally, any other gains and losses or other forms of revenue and expense are reported.

During the 2010 fiscal year the System recognized operating revenues of \$531 million and operating expenses of \$951 million. After recognizing non-operating activities and other gains and losses, the System realized a net increase in net assets of \$144 million. This is a result of increases in revenues received in the categories of federal awards, gifts and contributions, and revenues for services provided. During the prior fiscal year, the System experienced a decrease in net assets of \$146 million as a result of declines in revenues received, particularly decreases in revenues from investments and decreased distributions of endowment earnings due to the decline in national economic conditions.

Revenues and expenses are classified as either operating or non-operating in the financial statements. Operating revenues are received and recognized as a result of providing services to the component universities' customers. 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 System 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 System.

Operating expenses are the costs necessary to provide services to customers and to fulfill the mission of the System. 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 System'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

PHOTO BY BERYL STRIEWSKI

methods. The natural method of presentation displays the operating expenses in a manner that categorizes the objects of expenditure within various cost centers. Non-operating revenues are those received for which no services are directly provided. State appropriations are classified as non-operating revenue because they are provided by the Legislature to the System without the Legislature directly receiving goods or services for those revenues. Significant portions of the System's recurring resources are classified as non-operating. Net resources

from other than operating revenues totaled \$557 million for fiscal year 2010, compared to \$431 million for the prior fiscal year.

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 2010 fiscal year totaled \$277 million, which reflected a net increase in cash of \$23 million.

CAPITAL ASSETS

As fundamental as instruction and research are to the universities within UHS, these endeavors cannot take place without the land, buildings, facilities, equipment, and information technology infrastructure needed to support them. Sustaining these assets requires a significant investment in renovations, improvements, expansion, and maintenance. The goal of expending resources for these investments is achieving a safe, modern, and

efficient campus environment that is conducive to learning, teaching, research, and community service. UHS institutions continue to implement their long-range capital plans.

At the end of the 2010 fiscal year, the System had \$860 million of capital assets, net of accumulated depreciation and amortization. These assets included land, buildings, infrastructure and improvements, furniture and equipment, library books, computer systems software, 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. Net capital assets at August 31, 2009 totaled \$780 million. As required by GASB reporting standards, the System reports accumulated depreciation and amortization on its capital assets. Additionally, the System recognizes a current year charge for depreciation and amortization expense.

Building on a strategic planning process initiated under the leadership of the Chancellor and the Board of Regents, the UHS universities have developed a campus master planning process designed to identify facilities needs congruent with enrollment and research projections that are consistent with their missions and academic master plans. The time frame for the campus master plans is 10 years, with the universities developing their projections out to 2020. During fiscal year 2010 the System continued its efforts to implement the capital projects construction element of its master plan. At UH, construction of

"We have undertaken an expansion of the campus that I believe is unprecedented in UH history."

*Dr. Carl Carlucci, UH System
Executive Vice Chancellor,
Administration & Finance*



a new residential facility, Cougar Village, drew to a conclusion, and the complex opened its doors for the fall 2010 semester. Complementing this contribution to the needs of student residential life was the completion of the Moody Tower dining facility, which also opened for the fall semester. Major UH construction projects that were started during the 2010 fiscal year or have entered the final planning stage included the build out of additional lab and research space in the Science and Engineering Research Complex, renovations and additions at the School of Communications, new labs and an addition to the Fleming Science Building, an expansion and modernization of the Central Power Plant, and a new 2,400 car parking garage for the west side of the UH campus. Additionally, development of the 74 acre UH Energy Research Park progresses toward its quest to provide research and classroom space for programs such as petroleum engineering, as well as energy research centers and institutes. Construction was completed on a new student housing facility at UH-Victoria. Jaguar Hall will enable the campus to better serve the needs of freshmen and sophomore students who will begin attending classes at UHV during the 2010-2011 academic year. UH-Clear Lake is completing construction of the Pearland campus, a joint venture with the city of Pearland that will provide upper level instructional facilities beginning in the fall 2010 semester.

DEBT ADMINISTRATION

The System engages in the prudent use of debt to finance capital projects, as a means of maximizing

the management of financial and physical resources. A combination of variable and fixed rate debt, consistent with the System's debt management policy, is maintained. The System has sufficient debt capacity to finance planned capital improvements and facilities. Detailed information concerning the System's long-term debt is found in the Notes to the Financial Statements.

The University of Houston System 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, 2010, the University of Houston System had \$702 million of long term bonded debt outstanding, \$27 million of which will be retired during the 2011 fiscal year.

In fiscal year 2010, the University of Houston System issued \$121.5 million of Consolidated Revenue and



Refunding Bonds, Series 2010-A, B, and C. Proceeds from this bond issue will be used to finance projects at UH including renovations and construction of residential life facilities, construction of parking facilities, and renovations and construction of academic and research facilities. Proceeds will also be used to fund construction and renovations of residential life facilities at UHV. Issuance of additional long-term debt is not anticipated to occur during the 2011 fiscal year.

Included in bonds issued during 2010 were \$79.9 million of Build America Bonds. The American Recovery and Reinvestment Act of 2009 created Build America Bonds to assist in stimulating the local and national economy. The federal government provides a subsidy equal to 35% of the interest payments on Build America Bonds. During 2010, the System reported \$461 thousand of Build America Bond subsidy revenues.

The System established a commercial paper program during the 2008 fiscal year, which permits the issuance of commercial paper notes which may not exceed, in the aggregate, a principal amount of \$125 million at any one time. The maximum maturity for the commercial paper is 270 days and is issued at tax exempt and taxable interest rates. The commercial paper program provides interim financing for the costs of various capital projects within the System. In fiscal year 2010, the University of Houston System issued \$24.1 million of Consolidated

Revenue Commercial Paper Notes, Series A. On August 31, 2010, commercial paper notes payable totaled \$10 million, compared to \$27.3 million at the end of the previous fiscal year.

ECONOMIC OUTLOOK

As the global economy becomes increasingly driven by the creation of new knowledge and technological innovation, success for the upper Texas Gulf Coast region and metropolitan Houston depends increasingly on the existence of a highly-skilled, professional workforce and cutting-edge research and development. The University of Houston System will play a primary role in meeting these needs. UHS will achieve this goal by expanding access to its universities to all qualified students; ensuring their success by the completion of a degree; delivering programs that correspond to workforce needs; and conducting research that is relevant to industry and society. The System and its universities will meet these expectations in a manner that demonstrates accountability to students and the citizens of Texas. The limitation of available resources creates a challenge in fulfilling these commitments. As the System looks to the future, the needs of its constituents and the goals that have been established for serving them necessitate greater resources than UHS universities currently possess. By 2015, demographic forecasts predict the Houston metropolitan area will add another 1.4 million persons. Accommodating a corresponding level

"During the spring semester UH was named one of the best institutions for undergraduate education by The Princeton Review."

*Dr. Renu Khator,
Chancellor, UH System*

of enrollment growth at UHS universities will require tremendous investments in faculty, staff, facilities and other infrastructure. The System fully recognizes the unprecedented current shortfall of state budgetary resources and the difficult decisions that lie ahead for UHS administrators and management.

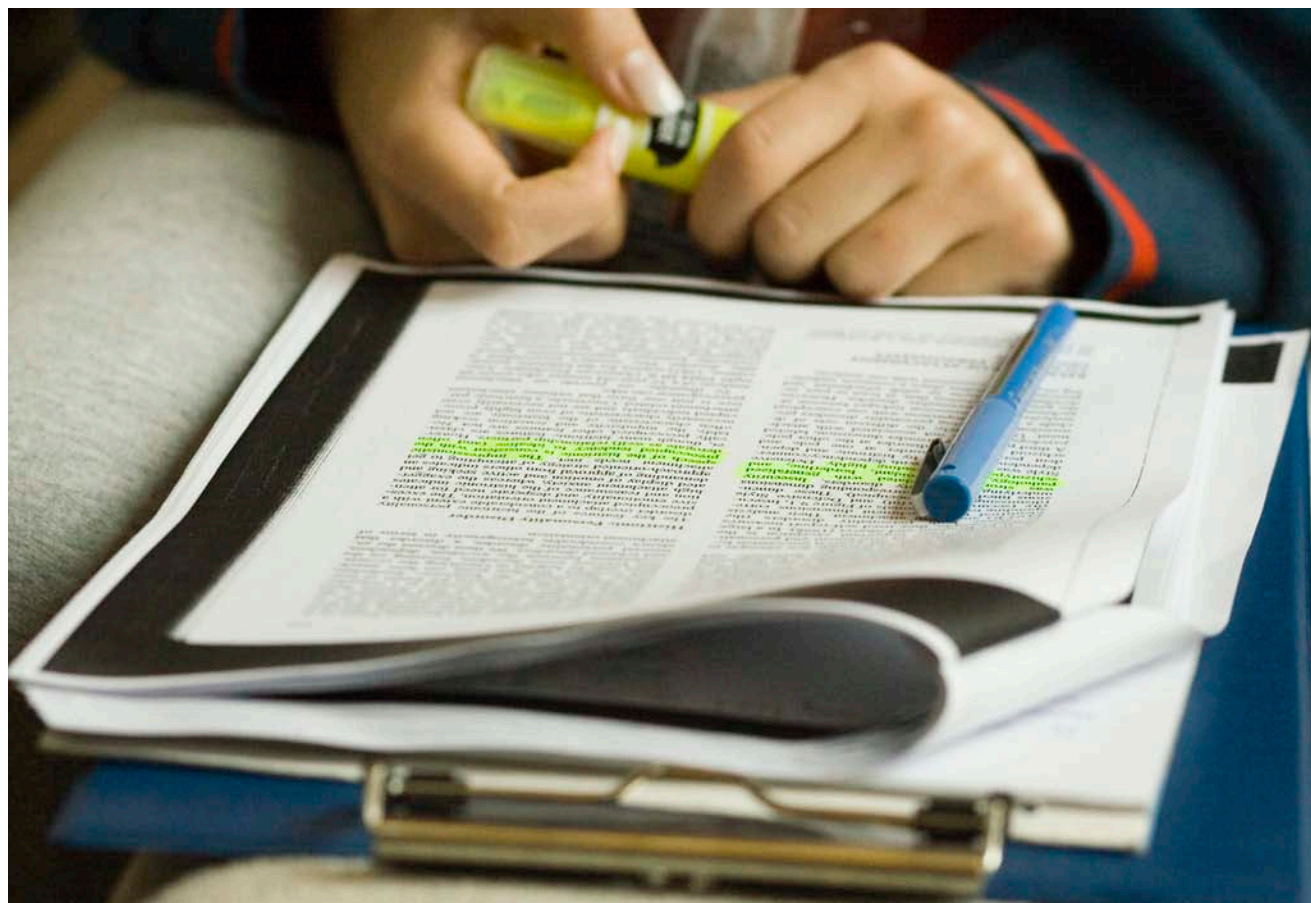
The economies of the United States and other global nations experienced a significant downturn in their financial environments beginning in mid calendar year 2008. The recessionary situation was characterized by a contraction of credit, high unemployment, falling prices in housing, rising foreclosures, and deflated valuations for equities and other investment instruments. While the most recent recession has technically ended, uncertainty remains as to when the economy will begin to experience greater expansion than currently exists and when the continued high unemployment will subside. Uncertainty also persists as to future tax and interest rate policy in the United States. Although valuations for equities and other investment instruments have rebounded from their depressed levels of mid calendar year 2008 to March 2009, there continues to be increased volatility in valuations for equities and other investment instruments. During the past two fiscal years UHS has experienced significant decreases in revenues from investments and decreased distributions of endowment earnings as a consequence of the global economic downturn. Benefitting from a combination of changes implemented within UHS investment management

and some limited improvements within certain economic sectors, the System has been able to achieve a moderate degree of improvement in the valuation of its endowment and investment holdings during the 2010 fiscal year.

During a significant segment of the recent recessionary time frame, the Texas economy has been able to remain stronger than that of many other states. However, looking beyond the 2010 fiscal year, it is apparent that the economic effects of global and national finances are

permeating into the local and state economies, and will have a harsh impact on revenues, the job market, and other resources critical to the development and growth of the state and the UH System.

During the second quarter of the 2010 fiscal year, Texas state leadership notified all state agencies and institutions of higher education that it would be necessary to develop and implement plans that would achieve savings and expenditure reductions of state appropriation funds totaling 5% across the





2010-2011 fiscal biennium. In order to meet this commitment, UHS identified actions that offer proven quantifiable results, that do not violate state regulations that are consistent with the mission and goals of the universities, and are not beyond the ability of the System to implement. Additionally UHS is examining its current business model, as well as identifying fresh ideas and strategies, with the intent of developing improved and more cost efficient methods for delivering services. Measures that have been or are in the process of being implemented include developing purchasing economies, limiting certain business expenses to mission essential necessities, imposing hiring limits and reductions in staff, reorganizing selected departments to effect operating efficiencies, and increasing the scrutiny of fund balance management. Revenue enhancements that have been initiated include examining the viability of new revenue producing programs, evaluating tuition management, and identifying additional opportunities for generating increases in gift and sponsored grant awards.

The 82nd Texas Legislature, which convenes in January 2011, will face one of the most challenging and significant sessions in the state's history. The State Comptroller has projected a significant shortage of resources to fund the same level of services in the 2012-2013 biennium as were funded in the 2010-2011 biennium. Legislative response will certainly impact future funding for

state entities, including higher education and the University of Houston System. It is very probable that UHS will sustain significant and possibly permanent reductions in state provided funding resources. It is anticipated that over the next decade the proportion of state support will decrease from approximately 25% of revenue sources to no more than 10%.

The duration of the economic issues facing the state and the U.S. cannot be predicted, however UHS administration believes that its financial management has historically demonstrated strength and is capable of responding and adjusting to ongoing economic uncertainties. Although it is not possible to predict ultimate results, management believes the University of Houston System will continue to maintain a sound financial position, and will be administratively structured and governed in a manner that will equip the System to withstand the current global financial situation. The System continues to stand committed to the principles of prudent and sound stewardship. UHS will not compromise on its long-term goals. Its commitment to student success, research development, and responsibility to the community will remain at the forefront of the financial decision making process.

Notes to the Financial Statements

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 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, upon which an opinion is expressed. The state's financial statements are audited by the State Auditor.

ENTITY

The University of Houston System (the System) 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 of Houston System 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 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.

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. The System's annual financial report is not subject to a separate financial audit so 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 System and its component universities are considered to be a Business-Type Activity. The System 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 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 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 System 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.

D. Assets, Liabilities, and Net Assets

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.



"Student success remains our top priority, and we will not be satisfied until our student success rate reaches the level of overall excellence that we aspire to."

*Dr. Renu Khator,
Chancellor, UH System*

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 library books, 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. Non-current receivable balances are not expected to be collected within one year of fiscal year end.

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. Non-current 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.

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 System reports accumulated depreciation on its capital assets and amortization on its intangible assets. The System recognizes depreciation and amortization expenses as current year charges.

At August 31, 2010, non-depreciable capital assets, consisting of land and construction in progress, totaled \$199,721,462. Depreciable capital assets, net of accumulated depreciation, and consisting of buildings, infrastructure, facilities, equipment, library books, and works of art totaled \$635,955,636. Intangible assets, net of accumulated amortization and consisting of computer software total \$24,161,062.

DEPOSITS AND INVESTMENTS

A. Deposits of Cash in Bank

At August 31, 2010, the carrying amount of the System's cash deposits was \$10,203,620 and the bank balance was \$47,729,216. There were no deposits to foreign banks.

"With the opening of Cougar Village freshman housing and the newly refurbished Moody Towers dining facility, the university has taken the next bold steps in its transformation into more of a residential campus."

Dr. Carl Carlucci, UH System
Executive Vice Chancellor,
Administration & Finance

B. Investments

The University of Houston System 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 \$967,738,076.

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, 2010, the System’s credit quality distribution for securities with credit risk included significantly less than 5% of total investments that were not in the top three grade ratings.

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2010, 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 System, by statute, is authorized to enter into reverse repurchase agreements. The System did not invest in any reverse repurchase agreements during the fiscal year.

Securities Lending

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

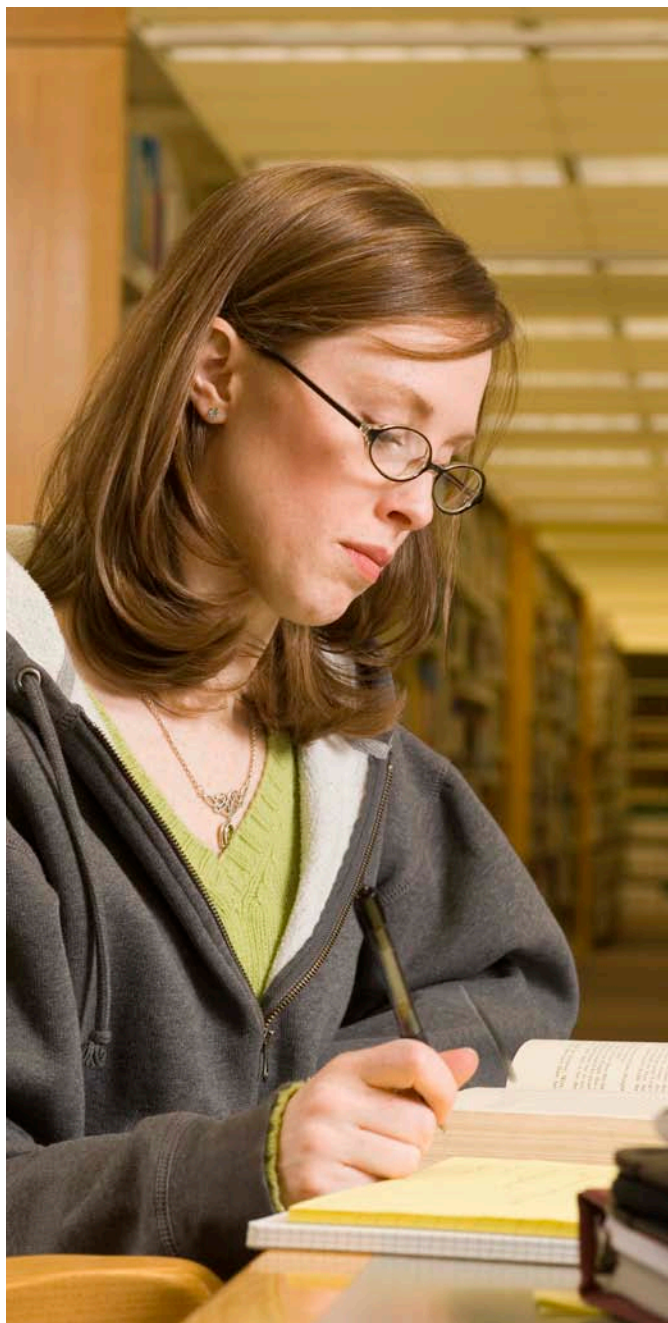
Derivative Investing

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

DISCOUNTS AND ALLOWANCES

The System reports revenues net of discounts and allowances in proprietary funds. Discounts and allowances are calculated based on historical





experience. For the fiscal year 2010 discounts and allowances that related to tuition and fee revenues totaled \$100,746,670.

SHORT TERM LIABILITIES

In the prior fiscal year The System issued commercial paper (Consolidated Revenue Commercial Paper Notes, Series A) to facilitate remodeling of the Moody Towers Dining Facility and for the purchase of UH Energy Research Park. Series A Third Draw was redeemed in its entirety during fiscal 2010 and refinanced as long term debt. Commercial Paper Series A, Fourth Draw was used to assist UH-Victoria in the acquisition of a residential life facility. Additionally, Fourth Draw as well as Fifth Draw were used to finance renovations and construction at the UH Energy Research Park. A portion of the Fourth Draw was redeemed in fiscal year 2010.

LONG TERM LIABILITIES

A. Notes and Loans Payable

The System reported no notes or loans payable at the end of the year for August 31, 2010.

B. Claims and Judgments

At August 31, 2010, various lawsuits and claims involving the System and/or its components were pending. While the ultimate liability, if any, with respect to litigation and other claims asserted against the System 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 System 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 2010. 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 2010 fiscal year, for accrued vacation and compensatory leave, totaled \$2,403,284.

BONDED INDEBTEDNESS

A. Outstanding Revenue Bonds

Consolidated Revenue Bonds, Series 2000

- To 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 of Houston System and the individual campuses of the System. Proceeds were used to construct a recreation and wellness facility at the University of Houston.
- Issued 09-01-2000.
- \$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, enlargement and equipping of property, buildings, structures, activities, services, operations and other facilities, roads or related infrastructure for or on behalf of

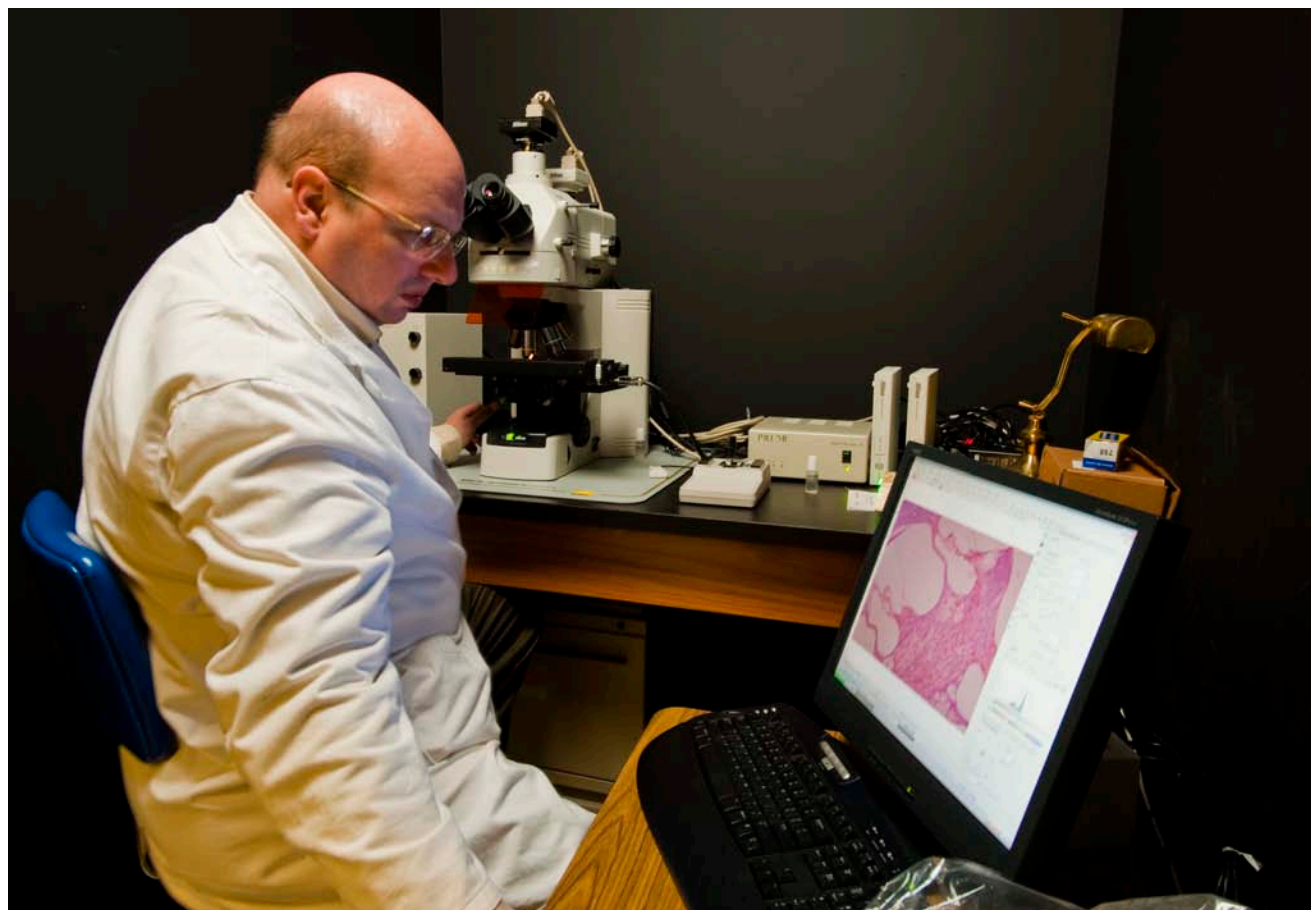
the University of Houston System and the individual campuses of the System. Proceeds were used to finance the renovation of M.D. Anderson Library (UH), construction of classroom buildings (UHCL, UHD) and an academic building (UHV).

- Issued 09-01-2002.
- \$130,955,000; 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 (partial funding for fiscal year 2010 from Legislative appropriation).

Consolidated Revenue Variable Rate Demand Bonds, Series 2004

- To 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 of Houston System and the individual campuses of the System. Proceeds were used for renovations following Tropical Storm Allison.

- Issued 06-16-2004.
- \$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 2010 from Legislative appropriation).
- The bonds bear interest at a variable rate, which is determined on a weekly basis each Wednesday. The rate is effective for a seven day period commencing on the immediately following Thursday. The variable rate in effect on August 31, 2010 was 0.26%.
- Bondholders have the option to tender their bonds for purchase at the price equal to the principal amount thereof, plus accrued interest, at the times and subject to the conditions described in the bond resolution. Tendered bonds may be remarketed, and remain outstanding. Bonds tendered for purchase will be paid first from the proceeds of remarketing, if any, and then from the legally available money advanced by the Board of Regents. In order to provide for the payment of the purchase price of tendered bonds, the Board has agreed to

provide self-liquidity. The Board has not entered into an agreement with an outside entity to provide liquidity in the event that the remarketing agent is unable to remarket the bonds on an optional tender date. Liquidity support for the bonds will be provided by the System's funds and is expected to be provided first from funds invested in the Systems' non-endowed investment pool and money market accounts.

- Outstanding bonds maturing subsequent to 02-15-2010, totaling \$895,000 were extinguished early by using existing assets.

Consolidated Revenue Bonds, Series 2005

- To 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 of Houston System and the individual campuses of the System. Proceeds were used to construct a parking garage facility at the University of Houston.
- Issued 04-01-2005.
- \$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 Bonds, Series 2006

- To 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 of Houston System and the individual campuses of the System. Proceeds were used to construct a new classroom and office building for the University of Houston – Downtown.
- Issued 02-01-2006.
- \$35,140,000; all bonds authorized have been issued.
- Source of revenue for debt service – Tuition and various other fees that may be legally available for payment of debt (partial funding for fiscal year 2010 from Legislative appropriation).

General Obligation Bonds

At August 31, 2010, the System 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 11-01-2002.

- \$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 02-15-2003.
- 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 2003

- To refund \$15,975,000 of Consolidated Revenue Refunding Bonds, Series 1995 (University of Houston).
- Issued 12-01-2003.
- \$16,490,000; 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 2010 from Legislative appropriation).
- Average rate of bonds refunded - 5.92%.
- Net proceeds from refunding series - \$17,419,961 after receipt of bond premium of \$896,716 and payment of \$266,453 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 02-15-2005.

- 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 System's debt service payments over the life of the bond issues by approximately \$1,377,275.
- Economic gain - \$1,292,003; 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 02-01-2006.
- \$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 2010 partially from Legislative appropriation).

Success for the upper Gulf Coast region and metropolitan Houston depends increasingly on the existence of a highly skilled, professional workforce and cutting edge research and development.

- 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 2000 series bonds were called for early redemption on 02-15-2010.
- The 1997 series bonds maturing subsequent to 08-15-2007 and the 2000 series bonds maturing subsequent to 02-15-2010 are considered fully defeased and the liability for those bonds has been removed from the Investment in Plant Fund Group.
- 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.

Consolidated Revenue Refunding Bonds, Series 2008

- To (a) refund and defease certain outstanding commercial paper notes of the System. And (b)

finance the acquisition, purchase, improvement, enlargement and equipping of property, buildings, structures, activities, services, operations and other facilities, roads or related infrastructure for or on behalf of the System, including individual campuses of the System.

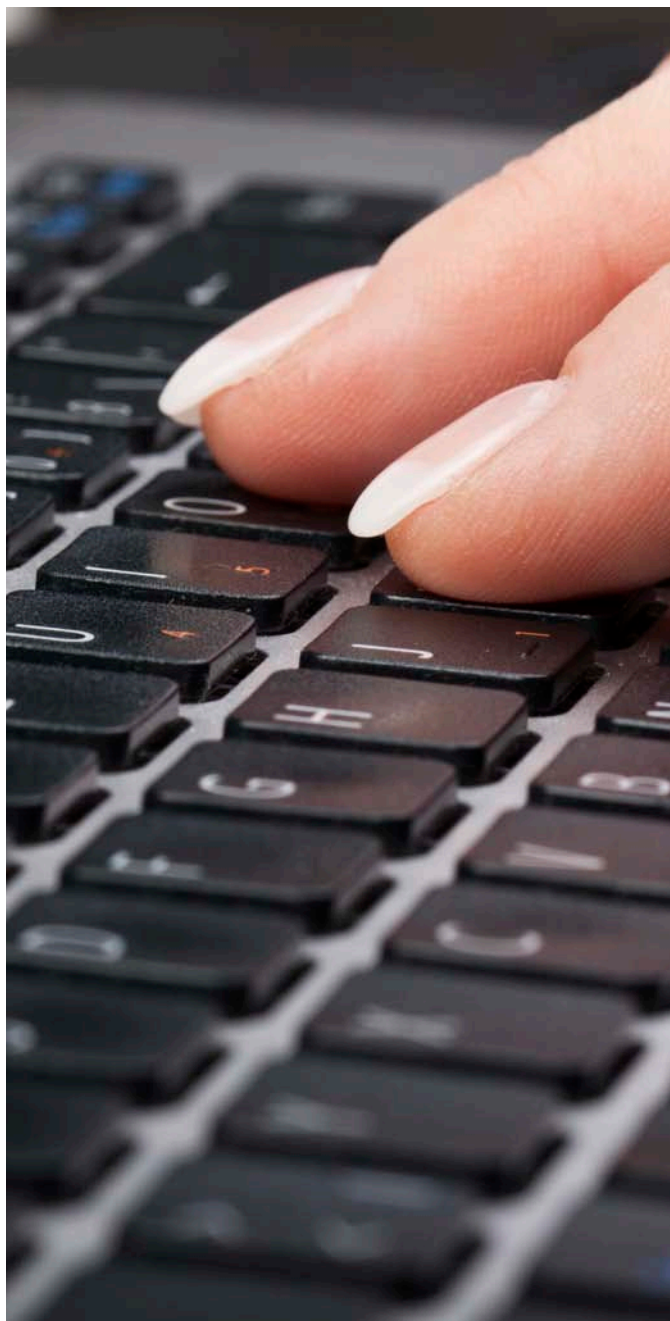
- Issued 07-01-2008.
- \$175,030;000; all bonds authorized have been issued.
- Source of revenue for debt service – Designated

tuition and various other revenues and balances that may be legally available for payment of debt obligations (funding for fiscal year 2010 partially from Legislative appropriation.)

Consolidated Revenue Refunding Bonds, Series 2009

- To (a) defease certain outstanding commercial paper notes of the System and (b) finance the acquisition, purchase, construction,





improvement, enlargement and equipping of property, buildings, structures, activities, services, operations and other facilities, roads or infrastructure related for or on behalf of the System, including individual campuses of the System.

- Issued 02-04-2009.
- \$108,395,000; all bonds authorized have been issued (\$98,230,000 University of Houston and \$10,165,000 University of Houston – Clear Lake).
- 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 2010 partially from Legislative appropriation).

Consolidated Revenue and Refunding Bonds, Series 2009-A

- To (a) refund and defease \$20,515,000 of outstanding Consolidated Revenue Bonds, Series 1999 and (b) finance the acquisition, purchase, construction, improvement, enlargement and equipping of property, buildings, structures, activities, services, operations and other facilities, roads or infrastructure related for or on behalf of the System, including individual campuses of the System.
- Issued 07-02-2009.

- \$71,175,000; all bonds authorized have been issued (\$52,200,000 revenue bonds - University of Houston and \$18,975,000 refunding bonds - University of Houston, \$6,829,106 University of Houston – Downtown \$4,267,478 and University of Houston – Victoria \$7,878,420).
- 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 2010 partially from Legislative appropriation).
- Average interest rate of bonds refunded - 4.885%
- Net proceeds from refunding series - \$20,892,800 after receipt of \$1,719,639 and additional available funds of \$377,641 and payment of \$179,479 in underwriting fees, insurance and other issuance costs.
- Sufficient funds were deposited with an escrow agent to provide for full payment of all outstanding obligations related to the 1999 series bonds after they were called for early redemption.
- The 1999 series bonds maturing subsequent to 02-15-2009 are considered fully defeased and the obligation for these bonds has been removed from the reported liabilities of the System.
- Refunding the 1999 series bonds reduced the System's debt service payments over the life of the bond issues by approximately \$2,023,239.

- Economic gain -\$1,174,552; the difference between the net present value of the old and new debt service payment.

Consolidated Revenue and Refunding Bonds, Series 2010-A

- To (a) defease certain outstanding commercial paper notes of the System 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 System, including individual campuses of the System. The System anticipates using bond proceeds to finance construction costs related to the UH Moody Towers Dining Hall and facilities at the UH Energy Research Park.
- Issued 04-15-2010.
- \$23,305,000; all bonds authorized have been issued (\$23,305,000 University of Houston).
- 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.

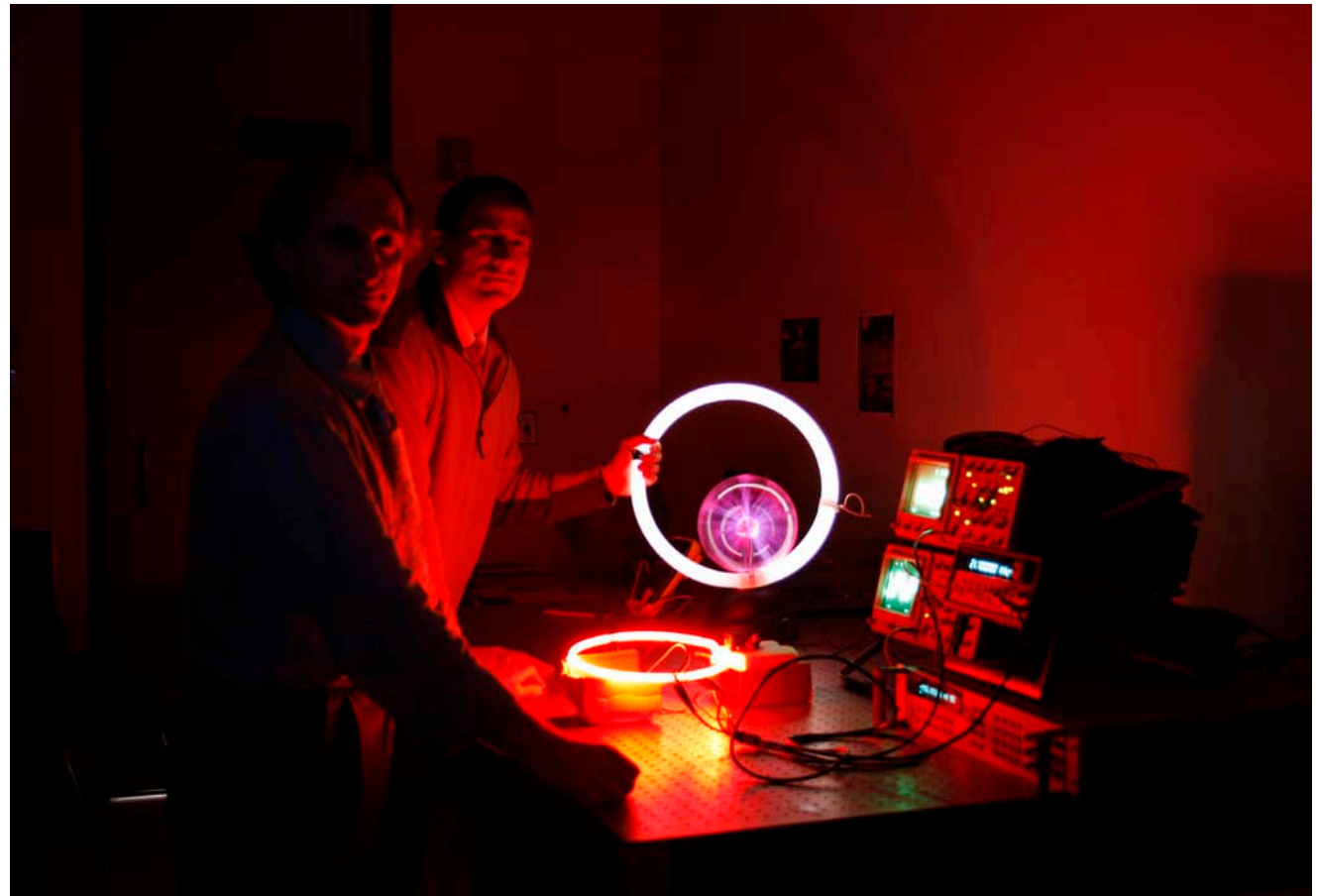
Consolidated Revenue and Refunding Bonds, Series 2010-B

- To (a) defease certain outstanding commercial paper notes of the System 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 System. The System anticipates using bond proceeds to finance construction costs at UH related to the Moody Towers Dining Hall, various science buildings, a classroom/business building, Stadium Parking Garage 1, and facilities at the UH Energy

Research Park and at UHV related to Jaguar Residence Hall. This bond issue is a qualified Build America Bond (BAB) as defined within Sections 54AA and 6431 of the Internal Revenue Code of 1986, as amended.

- Issued 04-15-2010.
- \$79,975,000; all bonds authorized have been issued (\$74,686,469 University of Houston and \$5,288,531 University of Houston – Victoria).
- 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. The System will receive interest subsidy payments from the U.S. Treasury equal to 35 percent of the interest payable on related qualified Build America Bonds contemporaneously with the interest payment dates of the qualified Build America Bonds.

Consolidated Revenue and Refunding Bonds, Series 2010-C

- To (a) defease certain outstanding commercial paper notes of the System 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 System, including individual campuses of the System. The System anticipates using bond proceeds to finance construction costs at UH related to the Moody Towers Dining Hall, various science buildings, a classroom/business building, Stadium Parking Garage 1, and facilities at the UH Energy Research Park and at UHV related to Jaguar Residence Hall.
- Issued 04-15-2010.
- \$18,255,000; all bonds authorized have been issued (\$16,698,745 University of Houston and \$1,556,255 University of Houston – Victoria).

- 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.

Build America Bonds

Build America Bonds (BABs) were created as part of the federal American Recovery and Reinvestment Act of 2009 (ARRA). Taxable bonds may be issued by government entities, including state agencies and state universities, as Tax Credit BABs or Direct Payment BABs. Tax Credit BABs provide a federal tax credit to investors equal to 35 percent of the interest received from the bond issuer. Direct Payment BABs provide a direct federal reimbursement to state and local issuers equal to 35 percent of the interest paid on the bonds.

During the 2010 fiscal year the University of Houston issued \$79,975,000 of Consolidated Revenue and Refunding Bonds, Series 2010-B taxable revenue bonds under the Direct Payment BABs program. A balance of \$79,975,000 remained outstanding at fiscal year end. No Tax Credit BABs were issued.

B. Changes In Bonded Indebtedness

Bonds payable are due in annual installments varying from \$6,425,000 to \$35,700,000 with interest rates from 2.00% to 7.00%, and the final installment due 02-15-2038.



C. Future Debt Service Requirements

Principal and interest requirements on the obligations for the next five years were \$295,898,220 and \$774,250,283 for all years beyond.

LEASE OBLIGATIONS

The System 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, 2010.

Included in expenditures reported in the financial statements for rent paid or due under operating leases is \$5,708,038. Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year, as of August 31, 2010, totaled \$12,265,863.

EMPLOYEES RETIREMENT PLANS

The State has joint contributory retirement plans for substantially all its employees. The System 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. The contributions made by plan members for 2010 were \$12,327,676. System contributions were \$13,761,205. 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, "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 of Houston System 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.

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 System 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 System were pending. While the ultimate liability, if any, remains

uncertain, management does not expect any possible adverse ruling to have a material effect on System 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.

CONTINUANCE SUBJECT TO REVIEW

The System 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.

RESTATEMENT OF NET ASSETS

During fiscal year 2010 a restatement of the prior year's net assets/fund equity was required. The restatements represent prior period adjustments to beginning net assets related to capital assets and accumulated depreciation changes.

SUBSEQUENT EVENTS

There are no subsequent events to report.

RISK FINANCING AND RELATED INSURANCE

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

The System 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 System is not involved in any risk pools with other government entities.

The System'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.

RELATED PARTIES

The System is affiliated with several foundations and organizations that have been created to benefit certain operations of the System. 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 System'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. 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 System.

If cash revenues do not attain certain contractually defined thresholds, the University is liable to the external management for the deficiency. During the 2009 and 2010 fiscal years net cash flows were sufficiently adequate so as not to generate a liability payment. System 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. American Campus Communities operates the Cullen Oaks facility at the University of Houston. Century Development operates the Cambridge Oaks facility at the University of Houston and the University Forest facility at the University of Houston – Clear Lake,

SEGMENT INFORMATION

The System 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.

EXTRAORDINARY AND SPECIAL ITEMS

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

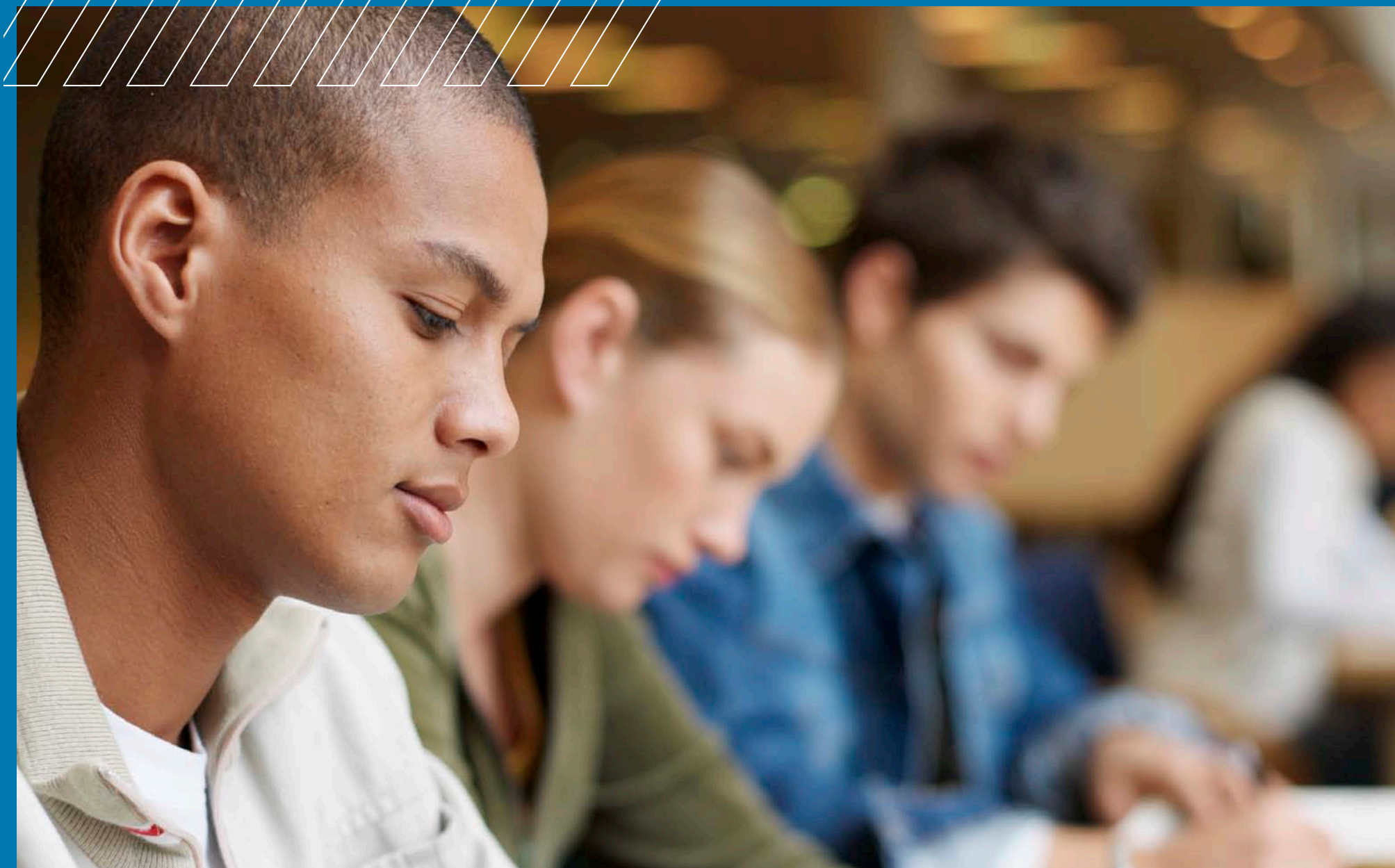


	2010	2009		2010	2009
ASSETS			LIABILITIES		
CURRENT ASSETS			CURRENT LIABILITIES		
Cash and Cash Equivalents	\$ 52,910,036	\$ 76,132,472	Payables	\$ 63,008,606	\$ 68,311,608
Short-term Investments	5,239,536	0	Deferred Revenues	123,667,579	122,850,856
Restricted Cash and Cash Equivalents	20,496,258	25,084,930	Notes and Loans Payable	0	27,300,000
Loans and Contracts	10,745,356	10,602,321	Employees' Compensable Leave	8,114,776	7,995,394
Legislative Appropriations	80,639,364	62,988,906	Revenue Bonds Payable	18,031,708	13,961,902
Receivables	194,028,332	199,044,869	Claims and Judgments Payable	279,414	279,936
Inventories	2,177,925	2,495,230	Funds Held for Others	11,642,957	12,052,217
Deferred Charges	38,434,345	45,483,514	Total Current Liabilities	224,745,040	252,751,913
Total Current Assets	404,671,152	421,832,242	NON-CURRENT LIABILITIES		
NON-CURRENT ASSETS			Claims and Judgments Payable	10,933	12,470
Restricted Cash and Cash Equivalents	90,933,259	55,789,763	Employees' Compensable Leave	9,005,005	9,096,086
Loans and Other Receivables	501,482,210	419,675,047	Revenue Bonds Payable	544,396,288	447,180,196
Investments	768,130	570,330	Total Noncurrent Liabilities	553,412,226	456,288,752
Capital Assets, Non-Depreciable, Non-Amortizable	160,392,784	119,263,500	Total Liabilities	778,157,266	709,040,665
Capital Assets, Depreciable, Amortizable, Net	452,708,413	441,581,937	NET ASSETS		
Total Noncurrent Assets	1,206,284,796	1,036,880,577	Invested in Capital Assets, Net of Related Debt	215,098,136	216,851,878
Total Assets	1,610,955,948	1,458,712,819	Restricted, Debt Retirement	16,525,774	4,132,691
			Restricted, Capital Projects	4,874,828	3,150,499
			Restricted, Endowment Funds	265,880,808	254,716,141
			Restricted, Other	106,818,832	86,444,445
			Unrestricted	223,600,304	184,376,500
			Total Net Assets	\$ 832,798,682	\$ 749,672,154

	2010	2009		2010	2009
OPERATING REVENUES			NONOPERATING REVENUES (EXPENSES)		
Tuition and Fees, Net of Discounts	\$ 241,782,418	\$ 233,248,031	Legislative Revenue	\$ 189,416,091	\$ 184,862,607
Sales of Goods and Services	72,454,231	62,004,602	Gifts	54,231,326	33,563,953
Federal Revenue	44,965,192	56,087,382	Federal Revenue Non Operating	83,008,295	32,814,148
State Grant Revenue	31,878,822	37,695,153	Investment Income and Change in Fair Value	17,344,627	(26,996,947)
Other Grants and Contracts	21,530,723	17,393,515	Interest Expense and Fiscal Charges	(22,587,114)	(16,153,671)
Total Operating Revenues	412,611,386	406,428,683	Other Nonoperating Revenues (Expenses)	(73,234)	(9,820,916)
			Total Nonoperating Revenues (Expenses)	321,339,991	198,269,174
			Income (Loss) Before Other Revenues, Expenses, Gains, Losses and Transfers	41,335,180	(62,922,772)
OPERATING EXPENSES			OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS		
Instruction	191,027,113	193,273,643	Capital Appropriation (Higher Education Assistance Funds)	36,091,538	36,091,538
Research	95,929,702	84,560,067	Additions to Permanent and Term Endowments	4,824,694	5,464,978
Public Service	38,906,786	37,297,832	Intercomponent Transfers	4,048,625	8,154,877
Academic Support	119,125,016	110,147,715	Transfers	(3,253,755)	(2,723,447)
Student Services	24,976,384	24,966,649	Legislative Transfers	130,817	130,816
Institutional Support	51,616,907	51,192,687	Legislative Appropriations Lapsed	(22,152)	0
Operation and Maintenance of Plant	32,067,365	35,755,138	Total Other Revenues, Expenses, Gains, Losses and Transfers	41,819,767	47,118,762
Scholarships and Fellowships	30,623,526	29,380,961	Change In Net Assets	83,154,947	(15,804,010)
Auxiliary Enterprises	71,114,740	71,445,200	Net Assets Beginning	749,672,154	765,447,212
Depreciation and Amortization	37,228,658	29,600,737	Restatements	(28,419)	28,952
Total Operating Expenses	692,616,197	667,620,629	Net Assets Beginning, as Restated	749,643,735	765,476,164
Operating Income (Loss)	(280,004,811)	(261,191,946)	Net Assets, Ending	\$ 832,798,682	\$ 749,672,154

	2010	2009		2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds Received from Students and Customers	\$ 256,281,417	\$ 250,978,954	Proceeds from Interest and Investment Income	\$ 8,432,512	\$ 41,665,661
Proceeds from Loan Programs	97,163,907	116,933,064	Payments to Acquire Investments	(11,843,873)	(35,047,127)
Proceeds from Other Revenues	126,684,010	167,333,695	Net Cash Provided by Investing Activities	(3,411,361)	6,618,534
Payments to Suppliers for Goods and Services	(183,213,167)	(147,254,232)	Increase (Decrease) in Cash and Cash Equivalents	7,332,388	28,489,659
Payments to Employees	(435,566,690)	(417,428,483)	Cash and Cash Equivalents, September 1	157,007,165	128,517,506
Payments for Loans Provided	(97,651,792)	(127,503,085)	Cash and Cash Equivalents, August 31	\$ 164,339,553	\$ 157,007,165
Payments for Other Expenses	(44,191,838)	(62,443,365)			
Net Cash Provided (Used) by Operating Activities	(280,494,153)	(219,383,452)			
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH		
Proceeds from State Appropriations	171,743,482	181,674,848	Provided (Used) by Operating Activities		
Proceeds from Gifts	50,264,323	51,092,007	OPERATING INCOME (LOSS)	\$ (280,004,811)	\$ (261,191,946)
Proceeds from Endowments	4,824,694	5,464,978			
Proceeds of Transfers from Other Funds	20,105,793	10,849,132	ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH		
Proceeds from Other Revenues	83,008,296	37,210,472	PROVIDED (USED) BY OPERATING ACTIVITIES		
Payments for Other Uses	(6,653,712)	(23,706,369)	Amortization and Depreciation	37,228,658	29,600,737
Net Cash Provided by Noncapital Financing Activities	323,292,876	262,585,068	Classification Differences	(487,884)	(10,570,021)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			CHANGES IN ASSETS AND LIABILITIES		
Proceeds from Capital Financing Activities	161,025,183	226,707,209	(Increase) Decrease in Receivables and Loans	(32,024,845)	648,403
Payments for Additions to Capital Assets	(89,484,418)	(173,774,618)	(Increase) Decrease in Inventories	317,306	(213,188)
Payments of Principal and Interest on Debt Issuance	(103,595,739)	(74,263,082)	(Increase) Decrease in Other Assets	2,145,769	(1,708,092)
Net Cash Used by Capital and Related Financing Activities	(32,054,974)	(21,330,491)	Increase (Decrease) in Payables	(16,317,033)	18,325,213
			(Increase) Decrease in Prepaid Expenses	7,049,169	(12,039,115)
			Increase (Decrease) in Deferred Income	816,723	13,459,012
			Increase (Decrease) in Other Liabilities	782,795	4,305,545
			Total Adjustments	(489,342)	41,808,494
			Net Cash Provided by Operating Activities	\$ (280,494,153)	\$ (219,383,452)

	2010	2009		2010	2009
EXPENSES BY NATURAL CLASSIFICATION			EXPENSES BY FUNCTIONAL CLASSIFICATION		
Cost of Goods Sold	\$ 3,151,410	\$ 2,596,722	Instruction	\$ 191,027,113	\$ 193,273,643
Salaries and Wages	360,252,578	346,422,141	Research	95,929,702	84,560,067
Payroll Related Costs	77,219,563	74,109,318	Public Service	38,906,786	37,297,832
Professional Fees and Services	37,967,232	40,020,440	Academic Support	119,125,016	110,147,715
Federal Pass-Through Expenses	3,262,107	3,266,564	Student Services	24,976,384	24,966,649
Travel	11,547,201	11,905,391	Institutional Support	51,616,907	51,192,687
Materials and Supplies	30,534,091	28,439,003	Operation and Maintenance of Plant	32,067,365	35,755,138
Communication and Utilities	35,705,825	37,727,145	Scholarships and Fellowships	30,623,526	29,380,961
Repairs and Maintenance	9,121,373	8,005,083	Auxiliary Enterprises	71,114,740	71,445,200
Rentals and Leases	14,828,218	11,534,313	Depreciation and Amortization	37,228,658	29,600,737
Printing and Reproduction	4,025,186	3,993,741	Total Expenses by Expenditure Function	\$ 692,616,197	\$ 667,620,629
Depreciation and Amortization	37,228,658	29,600,737			
Interest	35,570	31,877			
Scholarships	33,398,690	32,542,070			
Claims and Losses	1,139,699	943,285			
Other Operating Expenses	33,198,796	36,482,799			
Total Operating Expenses	\$ 692,616,197	\$ 667,620,629			



University of Houston Clear Lake
STATEMENT OF NET ASSETS • For the Year Ended August 31, 2010

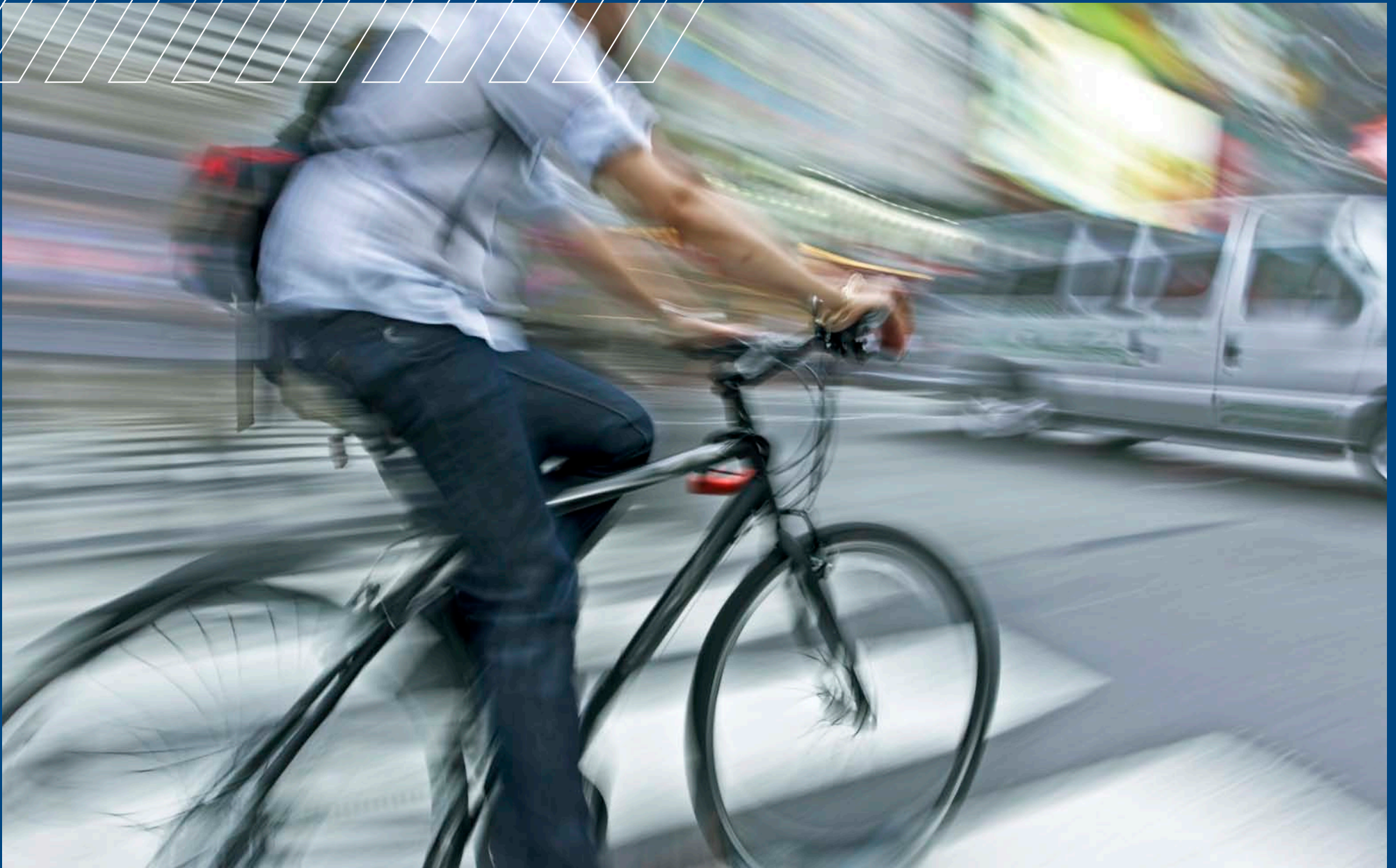
	2010	2009		2010	2009
ASSETS			LIABILITIES		
CURRENT ASSETS			CURRENT LIABILITIES		
Cash and Cash Equivalents	\$ 20,109,572	\$ 19,208,361	Payables	\$ 4,943,199	\$ 4,893,817
Restricted Cash and Cash Equivalents	(2,536,445)	(1,616,678)	Deferred Revenues	21,367,990	19,126,552
Loans and Contracts	2,336,600	2,277,221	Employees' Compensable Leave	920,322	914,966
Legislative Appropriations	5,670,929	4,419,859	Revenue Bonds Payable	1,984,858	1,914,858
Receivables	23,563,135	27,785,325	Funds Held for Others	404,204	325,849
Inventories	12,909	17,195	Total Current Liabilities	29,620,573	27,176,042
Deferred Charges	2,651,024	2,087,655			
Total Current Assets	51,807,724	54,178,938	NON-CURRENT LIABILITIES		
NON-CURRENT ASSETS			Employees' Compensable Leave	1,021,286	1,040,925
Restricted Cash and Cash Equivalents	458,098	(1,252,460)	Revenue Bonds Payable	32,416,759	34,401,617
Loans and Other Receivables	31,141,357	25,472,253	Total Noncurrent Liabilities	33,438,045	35,442,542
Capital Assets, Non-Depreciable, Non-Amortizable	12,504,633	11,362,367	Total Liabilities	63,058,618	62,618,584
Capital Assets, Depreciable, Amortizable, Net	43,023,596	44,679,982			
Total Noncurrent Assets	87,127,684	80,262,142	NET ASSETS		
Total Assets	138,935,408	134,441,080	Invested in Capital Assets, Net of Related Debt	32,533,881	32,065,254
			Restricted, Debt Retirement	561,630	11
			Restricted, Endowment Funds	11,199,237	10,771,302
			Restricted, Other	1,672,398	1,160,980
			Unrestricted	29,909,644	27,824,949
			Total Net Assets	\$ 75,876,790	\$ 71,822,496

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS • For the Year Ended August 31, 2010

	2010	2009		2010	2009
OPERATING REVENUES			NONOPERATING REVENUES (EXPENSES)		
Tuition and Fees, Net of Discounts	\$ 37,914,718	\$ 37,454,316	Legislative Revenue	\$ 35,743,895	\$ 35,420,786
Sales of Goods and Services	2,734,748	2,804,367	Gifts	550,415	527,714
Federal Revenue	2,063,460	1,752,668	Federal Revenue Non Operating	7,888,051	4,616,324
State Grant Revenue	2,414,561	2,614,827	Investment Income and Change in Fair Value	1,461,352	(53,305)
Other Grants and Contracts	283,455	587,614	Interest Expense and Fiscal Charges	(1,559,998)	(1,367,026)
Total Operating Revenues	45,410,942	45,213,792	Other Nonoperating Revenues (Expenses)	(225,321)	(925,139)
			Total Nonoperating Revenues (Expenses)	43,858,394	38,219,354
			Income (Loss) Before Other Revenues, Expenses, Gains, Losses and Transfers	(763,955)	(2,446,035)
OPERATING EXPENSES			OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS		
Instruction	35,935,021	33,427,282	Capital Appropriation (Higher Education Assistance Funds)	5,355,874	5,355,874
Research	1,279,461	1,244,098	Additions to Permanent and Term Endowments	181,846	260,302
Public Service	189,118	237,568	Intercomponent Transfers	(302,815)	(612,559)
Academic Support	11,572,561	11,097,452	Transfers	(275,387)	(232,440)
Student Services	3,494,592	3,303,598	Legislative Transfers	(130,817)	(130,816)
Institutional Support	14,145,385	13,377,596	Legislative Appropriations Lapsed	(10,452)	(15,334)
Operation and Maintenance of Plant	6,499,800	7,580,707	Total Other Revenues, Expenses, Gains, Losses and Transfers	4,818,249	4,625,027
Scholarships and Fellowships	7,928,209	7,298,971	Change In Net Assets	4,054,294	2,178,992
Auxiliary Enterprises	4,758,025	4,444,925	Net Assets Beginning	71,822,496	69,233,033
Depreciation and Amortization	4,231,119	3,866,984	Restatements	0	410,471
Total Operating Expenses	90,033,291	85,879,181	Net Assets Beginning, as Restated	71,822,496	69,643,504
Operating Income (Loss)	(44,622,349)	(40,665,389)	Net Assets, Ending	\$ 75,876,790	\$ 71,822,496

	2010	2009		2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds Received from Students and Customers	\$ 41,593,384	\$ 39,354,431	Proceeds from Interest and Investment Income	\$ 1,461,352	\$ (53,305)
Proceeds from Loan Programs	3,399,210	3,694,749	Net Cash Provided by Investing Activities	1,461,352	(53,305)
Proceeds from Other Revenues	4,150,829	5,729,975	Increase (Decrease) in Cash and Cash Equivalents	1,692,001	1,386,618
Payments to Suppliers for Goods and Services	(15,379,870)	(16,255,689)	Cash and Cash Equivalents, September 1	16,339,224	14,952,606
Payments to Employees	(59,742,894)	(55,811,550)	Cash and Cash Equivalents, August 31	\$ 18,031,225	\$ 16,339,224
Payments for Loans Provided	(3,478,521)	(3,545,355)			
Payments for Other Expenses	(11,724,265)	(9,324,604)			
Net Cash Provided (Used) by Operating Activities	(41,182,127)	(36,158,043)			
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH		
Proceeds from State Appropriations	34,362,008	35,750,181	Provided (Used) by Operating Activities		
Proceeds from Gifts	550,315	527,714	OPERATING INCOME (LOSS)	\$ (44,622,349)	\$ (40,665,389)
Proceeds from Endowments	181,946	260,302			
Proceeds from Other Revenues	8,283,209	4,616,324	ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH		
Payments for Other Uses	(158,213)	(11,822,899)	PROVIDED (USED) BY OPERATING ACTIVITIES		
Net Cash Provided by Noncapital Financing Activities	43,219,265	29,331,622	Amortization and Depreciation	4,231,119	3,866,984
			Classification Differences	12,771	43,524
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			CHANGES IN ASSETS AND LIABILITIES		
Proceeds from Capital Financing Activities	5,355,874	16,008,456	(Increase) Decrease in Receivables and Loans	(1,434,534)	(1,043,690)
Payments for Additions to Capital Assets	(3,716,999)	(4,208,408)	(Increase) Decrease in Inventories	4,286	(2,129)
Payments of Principal and Interest on Debt Issuance	(3,445,364)	(3,533,704)	(Increase) Decrease in Other Assets	(631,344)	16,881
Net Cash Used by Capital and Related Financing Activities	(1,806,489)	8,266,344	(Increase) Decrease in Prepaid Expenses	(563,369)	(398,815)
			Increase (Decrease) in Payables	(512,966)	133,888
			Increase (Decrease) in Deferred Income	2,241,436	980,522
			Increase (Decrease) in Other Liabilities	92,823	910,181
			Total Adjustments	3,440,222	4,507,346
			Net Cash Provided by Operating Activities	\$ (41,182,127)	\$ (36,158,043)

	2010	2009		2010	2009
EXPENSES BY NATURAL CLASSIFICATION			EXPENSES BY FUNCTIONAL CLASSIFICATION		
Cost of Goods Sold	\$ 19,335	\$ 6,764	Instruction	\$ 35,935,021	\$ 33,427,282
Salaries and Wages	48,535,599	45,464,418	Research	1,279,461	1,244,098
Payroll Related Costs	11,341,081	10,709,661	Public Service	189,118	237,569
Professional Fees and Services	4,737,880	4,907,491	Academic Support	11,572,562	11,097,452
Travel	663,214	641,947	Student Services	3,494,591	3,303,598
Materials and Supplies	4,439,833	4,100,722	Institutional Support	14,145,385	13,377,595
Communication and Utilities	3,395,442	3,605,327	Operation and Maintenance of Physical Plant	6,499,800	7,580,707
Repairs and Maintenance	1,248,328	2,225,669	Scholarships and Fellowships	7,928,209	7,298,971
Rentals and Leases	546,341	407,238	Auxiliary Enterprises	4,758,025	4,444,925
Printing and Reproduction	433,255	599,340	Depreciation and Amortization	4,231,119	3,866,984
Depreciation and Amortization	4,231,119	3,866,984	Total Expenses by Expenditure Function	\$ 90,033,291	\$ 85,879,181
Interest	372	2,195			
Scholarships	8,537,033	7,382,797			
Claims and Losses	153,385	142,141			
Other Operating Expenses	1,751,074	1,816,487			
Total Operating Expenses	\$ 90,033,291	\$ 85,879,181			



	2010	2009		2010	2009
ASSETS			LIABILITIES		
CURRENT ASSETS			CURRENT LIABILITIES		
Cash and Cash Equivalents	\$ 33,277,807	\$ 30,694,477	Payables	\$ 8,266,347	\$ 6,187,727
Restricted Cash and Cash Equivalents	(8,051,112)	(7,683,607)	Deferred Revenues	19,169,808	19,009,293
Loans and Contracts	497,668	622,874	Claims and Judgments Payable	98,748	46,642
Legislative Appropriations	9,905,436	9,358,081	Employees' Compensable Leave	1,077,103	1,061,669
Receivables	24,518,391	30,888,210	Revenue Bonds Payable	4,014,613	3,850,255
Inventories	17,194	25,722	Funds Held for Others	88,468	1,798,833
Deferred Charges	6,804,809	4,536,365	Total Current Liabilities	32,715,087	31,954,419
Total Current Assets	66,970,193	68,442,122	NON-CURRENT LIABILITIES		
NON-CURRENT ASSETS			Claims and Judgments Payable	3,311	1,773
Restricted Cash and Cash Equivalents	(301,132)	(826,832)	Employees' Compensable Leave	1,195,266	1,211,041
Loans and Other Receivables	21,580,286	15,769,592	Revenue Bonds Payable	56,113,334	60,127,946
Investments	108,085	0	Total Noncurrent Liabilities	57,311,911	61,340,760
Capital Assets, Non-Depreciable, Non-Amortizable	9,886,822	11,154,102	Total Liabilities	90,026,998	93,295,179
Capital Assets, Depreciable, Amortizable, Net	87,275,440	88,631,136	NET ASSETS		
Total Noncurrent Assets	118,549,501	114,727,998	Invested in Capital Assets, Net of Related Debt	40,725,667	39,937,916
Total Assets	185,519,694	183,170,120	Restricted, Debt Retirement	2,208,600	193
			Restricted, Capital Projects	94,574	94,574
			Restricted, Endowment Funds	13,966,321	13,642,210
			Restricted, Other	4,127,161	4,342,735
			Unrestricted	34,370,373	31,857,313
			Total Net Assets	\$ 95,492,696	\$ 89,874,941

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS • For the Year Ended August 31, 2010

	2010	2009		2010	2009
OPERATING REVENUES			NONOPERATING REVENUES (EXPENSES)		
Tuition and Fees, Net of Discounts	\$ 42,290,963	\$ 40,816,418	Legislative Revenue	\$ 33,621,034	\$ 34,053,688
Sales of Goods and Services	4,736,074	4,264,905	Gifts	1,265,032	1,193,111
Federal Revenue	3,250,339	3,313,307	Federal Revenue Non Operating	27,210,256	18,139,503
State Grant Revenue	5,073,857	5,714,604	Investment Income and Change in Fair Value	1,555,093	(650,675)
Other Grants and Contracts	171,108	290,259	Interest Expense and Fiscal Charges	(2,811,760)	(2,616,504)
Total Operating Revenues	55,522,341	54,399,493	Other Nonoperating Revenues (Expenses)	(1,314,402)	(1,001,940)
			Total Nonoperating Revenues (Expenses)	59,525,253	49,117,183
			Income (Loss) Before Other Revenues, Expenses, Gains, Losses and Transfers	(3,785,549)	(3,525,393)
OPERATING EXPENSES			OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS		
Instruction	36,201,350	35,296,076	Higher Education Assistance Funds	9,548,995	9,548,995
Research	1,285,575	726,783	Additions to Permanent and Term Endowments	293,184	777,326
Public Service	2,930,191	2,670,150	Intercomponent Transfers	91,331	(498,221)
Academic Support	16,059,333	13,782,381	Transfers	(604,509)	(493,228)
Student Services	4,091,980	3,604,034	Legislative Transfers	(28,637)	(603)
Institutional Support	17,363,901	16,524,270	Total Other Revenues, Expenses, Gains, Losses and Transfers	9,300,364	9,334,269
Operation and Maintenance of Plant	6,007,834	5,688,215	Change In Net Assets	5,514,815	5,808,876
Scholarships and Fellowships	22,279,589	16,409,013	Net Assets Beginning	89,874,941	84,066,065
Auxiliary Enterprises	6,072,504	5,877,051	Restatements	102,940	0
Depreciation and Amortization	6,540,886	6,464,096	Net Assets Beginning, as Restated	89,977,881	84,066,065
Total Operating Expenses	118,833,143	107,042,069	Net Assets, Ending	\$ 95,492,696	\$ 89,874,941
Operating Income (Loss)	(63,310,802)	(52,642,576)			

	2010	2009		2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds Received from Students and Customers	\$ 44,709,166	\$ 43,503,521	Proceeds from Interest and Investment Income	\$ 865,351	\$ (1,590,626)
Proceeds from Loan Programs	2,030,610	2,386,424	Net Cash Provided by Investing Activities	865,351	(1,590,626)
Proceeds from Other Revenues	10,163,515	9,175,305	Increase (Decrease) in Cash and Cash Equivalents	2,741,525	(160,494)
Payments to Suppliers for Goods and Services	(22,692,863)	(20,277,608)	Cash and Cash Equivalents, September 1	22,184,038	22,344,532
Payments to Employees	(63,909,122)	(63,216,336)	Cash and Cash Equivalents, August 31	\$ 24,925,563	\$ 22,184,038
Payments for Loans Provided	(1,905,404)	(2,100,396)			
Payments for Other Expenses	(22,628,170)	(19,311,598)			
Net Cash Provided (Used) by Operating Activities	(54,232,268)	(49,840,688)			
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH		
Proceeds from State Appropriations	33,045,041	32,184,442	Provided (Used) by Operating Activities		
Proceeds from Gifts	1,390,573	1,866,444	OPERATING INCOME (LOSS)	\$ (63,310,802)	\$ (52,642,576)
Proceeds of Transfers from Other Funds	332,204	3,150,229			
Proceeds from Other Revenues	27,753,873	18,717,459	ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH		
Payments for Other Uses	(4,386,422)	(1,543,692)	PROVIDED (USED) BY OPERATING ACTIVITIES		
Net Cash Provided by Noncapital Financing Activities	58,135,269	54,374,882	Amortization and Depreciation	6,540,886	6,464,096
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			CHANGES IN ASSETS AND LIABILITIES		
Proceeds from Capital Financing Activities	9,548,995	9,548,995	(Increase) Decrease in Receivables and Loans	307,290	(2,336,047)
Payments for Additions to Capital Assets	(5,105,920)	(6,200,024)	(Increase) Decrease in Inventories	8,528	7,228
Payments of Principal and Interest on Debt Issuance	(6,469,902)	(6,453,033)	(Increase) Decrease in Other Assets	(774)	931
Net Cash Used by Capital and Related Financing Activities	(2,026,827)	(3,104,062)	Increase (Decrease) in Payables	2,139,921	(996,398)
			(Increase) Decrease in Prepaid Expenses	(77,492)	(649,822)
			Increase (Decrease) in Deferred Income	160,515	323,106
			Increase (Decrease) in Other Liabilities	(340)	(11,206)
			Total Adjustments	9,078,534	2,801,888
			Net Cash Provided by Operating Activities	\$ (54,232,268)	\$ (49,840,688)

	2010	2009		2010	2009
EXPENSES BY NATURAL CLASSIFICATION			EXPENSES BY FUNCTIONAL CLASSIFICATION		
Cost of Goods Sold	\$ 4,810	\$ 897	Instruction	\$ 36,201,350	\$ 35,296,076
Salaries and Wages	54,537,445	51,787,458	Research	1,285,575	726,783
Payroll Related Costs	12,284,310	11,489,458	Public Service	2,930,191	2,670,150
Professional Fees and Services	7,265,503	6,059,757	Academic Support	16,059,333	13,782,381
Travel	1,034,323	1,047,874	Student Services	4,091,980	3,604,034
Materials and Supplies	5,714,656	4,913,375	Institutional Support	17,363,901	16,524,270
Communication and Utilities	3,045,848	2,824,236	Operation and Maintenance of Physical Plant	6,007,834	5,688,215
Repairs and Maintenance	1,962,647	1,994,851	Scholarships and Fellowships	22,279,589	16,409,013
Rentals and Leases	704,171	434,542	Auxiliary Enterprises	6,072,504	5,877,051
Printing and Reproduction	360,664	311,692	Depreciation and Amortization	6,540,886	6,464,096
Depreciation and Amortization	6,540,886	6,464,096	Total Expenses by Expenditure Function	\$ 118,833,143	\$ 107,042,069
Interest	22,957	28,437			
Scholarships	22,266,939	16,600,815			
Claims and Losses	129,475	88,081			
Other Operating Expenses	2,958,509	2,996,500			
Total Operating Expenses	\$ 118,833,143	\$ 107,042,069			



	2010	2009		2010	2009
ASSETS			LIABILITIES		
CURRENT ASSETS			CURRENT LIABILITIES		
Cash and Cash Equivalents	\$ 10,831,522	\$ 7,840,287	Payables	\$ 5,593,901	\$ 1,891,440
Restricted Cash and Cash Equivalents	970,558	(5,210)	Deferred Revenues	8,591,595	7,479,363
Loans and Contracts	1,924,194	1,696,222	Claims and Judgments Payable	8,738	3,364
Legislative Appropriations	3,501,865	3,002,608	Employees' Compensable Leave	405,774	366,592
Receivables	5,963,531	6,052,647	Revenue Bonds Payable	2,492,736	2,208,591
Deferred Charges	22,280,242	1,519,854	Funds Held for Others	687,100	(18,546)
Total Current Assets	45,471,912	20,106,408	Total Current Liabilities	17,779,844	11,930,804
NON-CURRENT ASSETS			NON-CURRENT LIABILITIES		
Restricted Cash and Cash Equivalents	(84,863)	(135,519)	Claims and Judgments Payable	175	182
Loans and Other Receivables	20,628,996	16,561,089	Employees' Compensable Leave	450,290	417,059
Investments	5,609	98,767	Revenue Bonds Payable	42,904,112	38,442,687
Capital Assets, Non-Depreciable, Non-Amortizable	6,197,417	1,154,956	Total Noncurrent Liabilities	43,354,577	38,859,928
Capital Assets, Depreciable, Amortizable, Net	14,645,701	13,070,348	Total Liabilities	61,134,421	50,790,732
Total Noncurrent Assets	41,392,860	30,749,641	NET ASSETS		
Total Assets	86,864,772	50,856,049	Invested in Capital Assets, Net of Related Debt	6,964,644	26,367,382
			Restricted, Debt Retirement	921,429	2,526
			Restricted, Endowment Funds	6,875,563	6,789,603
			Restricted, Other	2,410,010	1,656,089
			Unrestricted	8,558,705	(34,750,283)
			Total Net Assets	\$ 25,730,351	\$ 65,317

	2010	2009		2010	2009
OPERATING REVENUES			NONOPERATING REVENUES (EXPENSES)		
Tuition and Fees, Net of Discounts	\$ 13,656,416	\$ 12,758,563	Legislative Revenue	\$ 18,843,340	\$ 18,252,372
Sales of Goods and Services	433,682	335,030	Gifts	191,316	193,308
Federal Revenue	367,658	316,833	Federal Revenue Non Operating	4,831,108	1,208,728
State Grant Revenue	1,078,971	820,426	Investment Income and Change in Fair Value	560,362	(657,368)
Other Grants and Contracts	904,651	887,760	Interest Expense and Fiscal Charges	(2,039,658)	(1,976,394)
Total Operating Revenues	16,441,378	15,118,612	Other Nonoperating Revenues (Expenses)	21,566,052	(9,839,018)
			Total Nonoperating Revenues (Expenses)	43,952,520	7,181,628
			Income (Loss) Before Other Revenues, Expenses, Gains, Losses and Transfers	23,261,654	(10,068,107)
OPERATING EXPENSES			OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS		
Instruction	16,596,904	14,541,399	Capital Appropriation (Higher Education Assistance Funds)	2,335,692	2,335,692
Research	121,830	23,280	Additions to Permanent and Term Endowments	111,958	121,841
Public Service	811,796	711,812	Intercomponent Transfers	59,548	(447,086)
Academic Support	5,739,913	5,450,908	Transfers	(103,818)	(80,368)
Student Services	3,919,274	3,294,422	Legislative Appropriations Lapsed	0	(60,227)
Institutional Support	4,473,561	3,757,280	Total Other Revenues, Expenses, Gains, Losses and Transfers	2,403,380	1,869,852
Operation and Maintenance of Plant	1,819,108	2,193,299	Change In Net Assets	25,665,034	(8,198,255)
Scholarships and Fellowships	2,425,959	1,220,614	Net Assets, Beginning	65,317	8,263,572
Auxiliary Enterprises	11,876	8,301	Net Assets, Ending	\$ 25,730,351	\$ 65,317
Depreciation and Amortization	1,212,023	1,167,032			
Total Operating Expenses	37,132,244	32,368,347			
Operating Income (Loss)	(20,690,866)	(17,249,735)			

	2010	2009		2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds Received from Students and Customers	\$ 14,424,325	\$ 15,471,754	Proceeds from Interest and Investment Income	\$ 2,927,660	\$ 338,447
Proceeds from Loan Programs	3,066,494	2,784,346	Payments to Acquire Investments	(311,746)	(1,201,147)
Proceeds from Other Revenues	1,206,728	2,258,115	Net Cash Provided by Investing Activities	2,615,914	(862,700)
Payments to Suppliers for Goods and Services	(5,455,571)	(7,043,268)	Increase (Decrease) in Cash and Cash Equivalents	4,017,659	1,451,335
Payments to Employees	(23,305,744)	(21,962,008)	Cash and Cash Equivalents, September 1	7,699,558	6,248,223
Payments for Loans Provided	(3,294,466)	(3,199,725)	Cash and Cash Equivalents, August 31	\$ 11,717,217	\$ 7,699,558
Payments for Other Expenses	(3,317,179)	(3,203,969)			
Net Cash Provided (Used) by Operating Activities	(16,675,413)	(14,894,755)			
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH		
Proceeds from State Appropriations	18,344,082	18,053,270	Provided (Used) by Operating Activities		
Proceeds from Gifts	355,540	168,774	OPERATING INCOME (LOSS)	\$ (20,690,866)	\$ (17,249,735)
Proceeds from Endowments	111,958	1,506,032			
Proceeds of Transfers from Other Funds	158,067	148,101	ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH		
Proceeds from Other Revenues	4,831,108	1,208,729	PROVIDED (USED) BY OPERATING ACTIVITIES		
Payments for Other Uses	(1,737,052)	(1,393,281)	Amortization and Depreciation	1,212,023	1,167,032
Net Cash Provided by Noncapital Financing Activities	22,063,703	19,691,625	Classification Differences	(227,972)	(415,379)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			CHANGES IN ASSETS AND LIABILITIES		
Proceeds from Capital Financing Activities	10,096,348	12,156,496	(Increase) Decrease in Receivables and Loans	(1,926,633)	671,493
Payments for Additions to Capital Assets	(9,661,924)	(415,085)	(Increase) Decrease in Other Assets	(28,756)	(1,309)
Payments of Principal and Interest on Debt Issuance	(4,420,969)	(14,224,246)	(Increase) Decrease in Prepaid Expenses	100,607	(1,100,578)
Net Cash Used by Capital and Related Financing Activities	(3,986,545)	(2,482,835)	Increase (Decrease) in Payables	3,468,757	7,596
			Increase (Decrease) in Deferred Income	1,112,232	1,940,413
			Increase (Decrease) in Other Liabilities	305,195	85,712
			Total Adjustments	4,015,453	2,354,980
			Net Cash Provided by Operating Activities	\$ (16,675,413)	\$ (14,894,755)

	2010	2009		2010	2009
EXPENSES BY NATURAL CLASSIFICATION			EXPENSES BY FUNCTIONAL CLASSIFICATION		
Salaries and Wages	\$ 19,679,473	\$ 17,761,516	Instruction	\$ 16,596,904	\$ 14,541,399
Payroll Related Costs	4,553,786	4,180,199	Research	121,830	23,280
Professional Fees and Services	3,771,173	3,349,821	Public Service	811,796	711,812
Travel	662,428	663,163	Academic Support	5,739,913	5,450,908
Materials and Supplies	1,218,361	1,154,226	Student Services	3,919,274	3,294,422
Communication and Utilities	933,205	832,793	Institutional Support	4,473,561	3,757,280
Repairs and Maintenance	490,447	300,187	Operation and Maintenance of Physical Plant	1,819,107	2,193,299
Rentals and Leases	583,780	559,611	Scholarships and Fellowships	2,425,959	1,220,614
Printing and Reproduction	145,409	97,449	Auxiliary Enterprises	11,877	8,301
Depreciation and Amortization	1,212,023	1,167,032	Depreciation and Amortization	1,212,023	1,167,032
Interest	474	407	Total Expenses by Expenditure Function	\$ 37,132,244	\$ 32,368,347
Scholarships	2,793,642	1,445,309			
Claims and Losses	41,383	34,631			
Other Operating Expenses	1,046,660	822,003			
Total Operating Expenses	\$ 37,132,244	\$ 32,368,347			

UNIVERSITY of HOUSTON

SYSTEM ADMINISTRATION

UH

UHCL

UHD

UHV

UHSA



	2010	2009		2010	2009
ASSETS			LIABILITIES		
CURRENT ASSETS			CURRENT LIABILITIES		
Cash and Cash Equivalents	\$ 53,472,493	\$ 46,746,903	Payables	\$ 735,659,547	\$ 670,068,706
Short-term Investments	190,143,590	164,320,758	Deferred Revenues	25,448	4,854
Restricted Cash and Cash Equivalents	5,450,188	7,313,092	Notes and Loans Payable	10,000,000	0
Legislative Appropriations	8,351,319	7,033,381	Claims and Judgments Payable	892	1,363
Receivables	7,368,343	3,117,503	Employees' Compensable Leave	445,797	465,564
Deferred Charges	24	24	Funds Held for Others	20,597	14,608
Total Current Assets	264,785,957	228,531,661	Total Current Liabilities	746,152,281	670,555,095
NON-CURRENT ASSETS			NON-CURRENT LIABILITIES		
Restricted Cash and Cash Equivalents	(819,264)	(2,945,886)	Employees' Compensable Leave	494,703	529,656
Loans and Other Receivables	10,005,368	0	Claims and Judgments Payable	24	1
Investments	552,316,024	524,280,814	Total Noncurrent Liabilities	494,727	529,657
Capital Assets, Non-Depreciable, Non-Amortizable	10,739,805	7,737,603	Total Liabilities	746,647,008	671,084,752
Capital Assets, Depreciable, Amortizable, Net	62,463,548	41,034,327			
Total Noncurrent Assets	634,705,481	570,106,858	NET ASSETS		
Total Assets	899,491,438	798,638,519	Invested in Capital Assets, Net of Related Debt	53,024,276	49,225,029
			Restricted, Debt Retirement	238,313	221,015
			Restricted, Capital Projects	15,330	14,270
			Restricted, Endowment Funds	55,146,559	74,299,926
			Restricted, Other	6,204,930	8,980,735
			Unrestricted	38,215,022	(5,187,208)
			Total Net Assets	\$ 152,844,430	\$ 127,553,767

	2010	2009		2010	2009
OPERATING REVENUES			NONOPERATING REVENUES (EXPENSES)		
Sales of Goods and Services	\$ 1,048,359	\$ 374,539	Legislative Revenue	\$ 4,302,090	\$ 11,648,980
Federal Revenue	0	42,214	Gifts	329,492	39,924
State Grant Revenue	63,741	65,282	Federal Revenue Non Operating	461,788	0
Other Grants and Contracts	0	1,750,000	Investment Income and Change in Fair Value	19,319,032	(140,680,556)
Total Operating Revenues	1,112,100	2,232,035	Other Nonoperating Revenues (Expenses)	25,641,054	19,408,630
			Total Nonoperating Revenues (Expenses)	50,053,456	(109,583,022)
			Income (Loss) Before Other Revenues, Expenses, Gains, Losses and Transfers	28,031,393	(122,123,171)
OPERATING EXPENSES			OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS		
Research	1,086,626	1,186,901	Additions to Permanent and Term Endowments	7,254	11,000
Public Service	63,497	65,000	Intercomponent Transfers	(3,896,689)	(6,597,012)
Academic Support	5,340,053	4,712,311	Legislative Appropriations Lapsed	1,148,705	(1,148,705)
Student Services	259,611	277,400	Total Other Revenues, Expenses, Gains, Losses and Transfers	(2,740,730)	(7,734,717)
Institutional Support	7,152,006	6,835,817	Change in Net Assets	25,290,663	(129,857,888)
Operation and Maintenance of Plant	1,099,232	920,910	Net Assets Beginning	127,553,767	257,412,829
Scholarships and Fellowships	3,100	101,722	Restatements	0	(1,174)
Depreciation and Amortization	8,130,038	672,123	Net Assets Beginning, as Restated	127,553,767	257,411,655
Total Operating Expenses	23,134,163	14,772,184	Net Assets, Ending	\$ 152,844,430	\$ 127,553,767
Operating Income (Loss)	(22,022,063)	(12,540,149)			

University of Houston System Administration
STATEMENT OF CASH FLOWS • For the Year Ended August 31, 2010

	2010	2009		2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds Received from Students and Customers	\$ 1,047,107	\$ 374,589	Proceeds from Sales of Investments	\$ 288,150,166	\$ 545,005,595
Proceeds from Other Revenues	183,661	2,389,925	Proceeds from Interest and Investment Income	11,691,295	3,610,326
Payments to Suppliers for Goods and Services	(3,154,463)	(6,217,407)	Payments to Acquire Investments	(334,208,534)	(531,236,730)
Payments to Employees	(14,667,945)	(9,241,906)	Net Cash Provided by Investing Activities	(34,367,073)	17,379,191
Payments for Other Expenses	(2,766,833)	(919,643)	Increase (Decrease) in Cash and Cash Equivalents	6,989,308	1,672,795
Net Cash Provided (Used) by Operating Activities	(19,358,473)	(13,614,442)	Cash and Cash Equivalents, September 1	51,114,109	49,441,314
			Cash and Cash Equivalents, August 31	\$ 58,103,417	\$ 51,114,109
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH		
Proceeds from State Appropriations	4,132,857	4,858,923	Provided (Used) by Operating Activities		
Proceeds from Gifts	1,363,083	1,972,462	OPERATING INCOME (LOSS)	\$ (22,022,063)	\$ (12,540,149)
Proceeds from Endowments	7,254	11,000	ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH		
Proceeds of Transfers from Other Funds	40,623,155	27,218,235	PROVIDED (USED) BY OPERATING ACTIVITIES		
Proceeds from Other Revenues	461,788	0	Amortization and Depreciation	8,130,038	672,123
Payments for Other Uses	(9,458,456)	(61,023,819)	CHANGES IN ASSETS AND LIABILITIES		
Net Cash Provided by Noncapital Financing Activities	37,129,681	(26,963,199)	(Increase) Decrease in Receivables and Loans	(5,456,407)	2,211,358
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			(Increase) Decrease in Other Assets	38	(106)
Proceeds from Other Financing Activities	70,336,630	38,560,738	Increase (Decrease) in Payables	24,045	(2,968,441)
Payments for Additions to Capital Assets	(42,566,121)	(12,047,628)	Increase (Decrease) in Deferred Income	20,594	(900)
Payments of Other Costs of Debt Issuance	(4,185,336)	(1,641,865)	Increase (Decrease) in Other Liabilities	(54,718)	(988,327)
Net Cash Used by Capital and Related Financing Activities	23,585,173	24,871,245	Total Adjustments	2,663,590	(1,074,293)
			Net Cash Provided by Operating Activities	\$ (19,358,473)	\$ (13,614,442)

University of Houston System Administration
STATEMENT OF OPERATING EXPENSES • For the Year Ended August 31, 2010

	2010	2009		2010	2009
EXPENSES BY NATURAL CLASSIFICATION			EXPENSES BY FUNCTIONAL CLASSIFICATION		
Salaries and Wages	\$ 8,278,271	\$ 7,864,329	Research	\$ 1,086,626	\$ 1,186,901
Payroll Related Costs	1,736,219	2,067,122	Public Service	63,497	65,000
Professional Fees and Services	1,466,039	1,121,015	Academic Support	5,340,053	4,712,311
Travel	126,147	114,907	Student Services	259,611	277,400
Materials and Supplies	450,276	512,992	Institutional Support	7,152,006	6,835,817
Communication and Utilities	764,749	651,528	Operation and Maintenance of Plant	1,099,232	920,910
Repairs and Maintenance	366,389	173,113	Scholarships and Fellowships	3,100	101,722
Rentals and Leases	268,959	259,535	Depreciation and Amortization	8,130,038	672,123
Printing and Reproduction	58,521	47,500	Total Expenses by Expenditure Function	\$ 23,134,163	\$ 14,772,184
Depreciation and Amortization	8,130,038	672,123			
Interest	481,726	397			
Scholarships	670,586	804,339			
Claims and Losses	23,297	153,000			
Other Operating Expenses	312,946	330,284			
Total Operating Expenses	\$ 23,134,163	\$ 14,772,184			

Research - The Path to National Competitiveness

The famed astronomer and writer Carl Sagan once said, "Somewhere, something incredible is waiting to be known."

At the University of Houston System, we are proud to be part of higher education's continuing quest for incredible knowledge.

Of course, "incredible" isn't limited to such high-profile pursuits as the discovery of alternative energy sources or a cure for cancer – though we are actively involved in exactly such projects. "Incredible" can also include better ways to fix pot holes, to slow down food spoilage, to teach bilingual elementary school students, to clean up oil spills – and literally hundreds of other such practical solutions to the problems that face our community and our world.

While each UH System institution has a unique mission, you will find the word "research" mentioned prominently in each of our four universities' respective mission statements. Indeed, the overall mission statement for the entire UH System commits us to research that is "globally significant and nationally competitive" and serves as "an engine for economic development."

To that end, we note that in FY2010, the four institutions of the UH System received a combined total of \$124 million in research awards. Considering that a recent study by the Perryman Group shows that every \$10 million in research expenditures creates 334 new jobs, adds \$8.6 million to the regional economy and generates \$13.5 million in local sales, that's a really remarkable total.

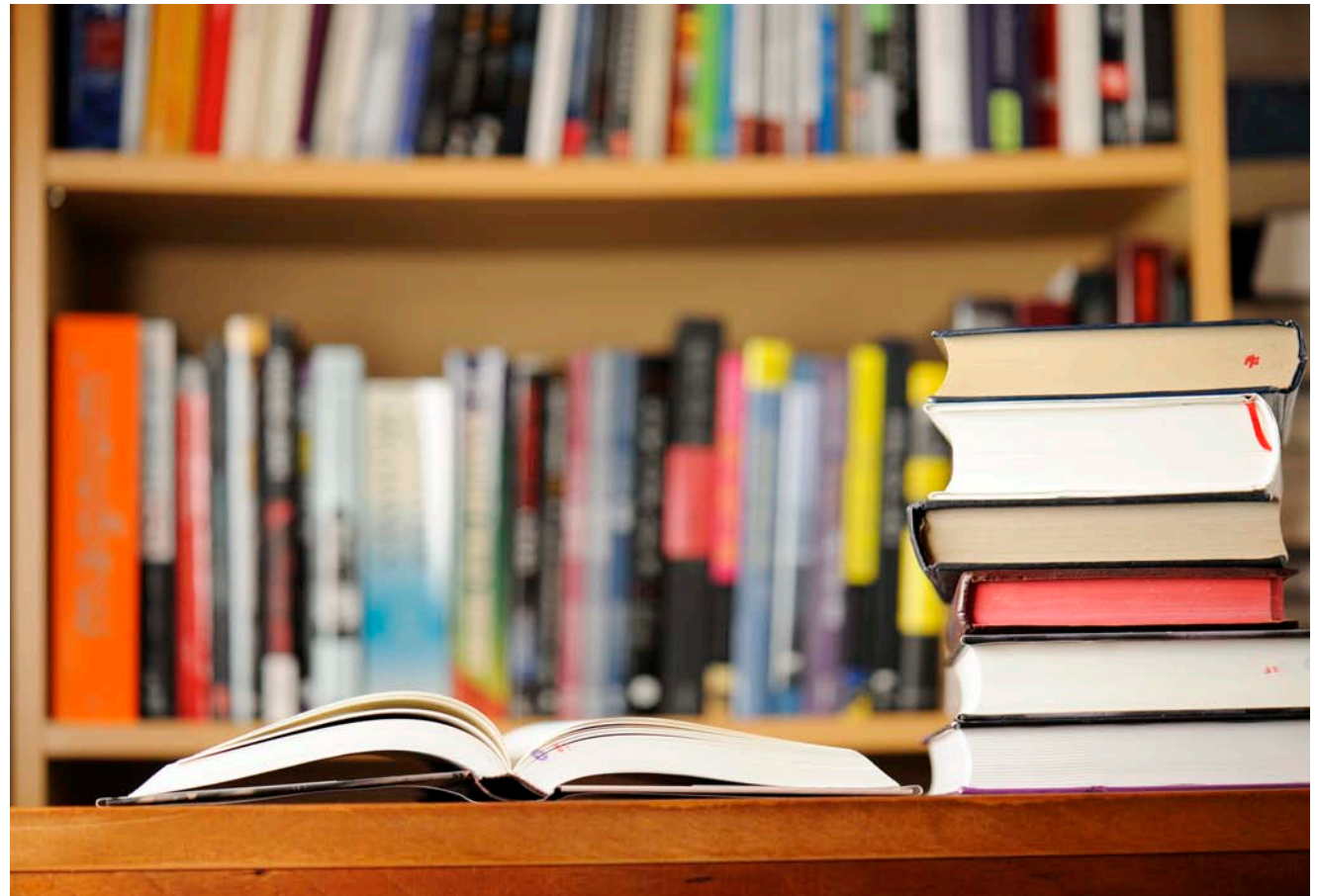
We're even researching the best way to do research.

The University of Houston, which serves as the flagship for the UH System, has been implementing an ambitious and innovative approach to research, establishing six interdisciplinary "clusters" designed to encourage the free movement of ideas and data. This is a significant step toward synergistic and collaborative efforts that will more effectively address issues of intellectual, scientific, social, economic, environmental and cultural importance.

These six clusters are made up of:

Arts and human enrichment – where the understanding of different cultures, history and human enrichment are explored through arts, media and literature.

Bio-medical sciences and engineering – where improvements in human health, the treatment of eye diseases, neurotransmitters and bio-imaging and genetics are explored.



Community advancement and education – where fostering cultural sensitivity and diversity promotes educational opportunities, economic development, social interactions and education.

Complex systems and space exploration – where the study of complex human and artificial intelligence, and space exploration is leading the way to a greater understanding of the earth and beyond.

Energy and natural resources – where the focus is on environmental issues including conservation, discovery of alternate fuels and particle physics, which will lead to greater energy independence and a cleaner environment.

Nano materials – where the exploration of advanced resources, including nano materials and superconductors, will lead the way to the next phase of manufacturing and science to benefit human development.

Meanwhile, our other UH System schools continue to focus on their own specialized research interests.

The University of Houston – Clear Lake, for example, is collaborating with the U.S. Department of Education to send teachers proficient in other languages to areas where they are needed. Local mental health and mental retardation agencies provide funding to explore “Children with Autism Spectrum Disorders.” And the Texas Commission on Environmental Quality is sponsoring UHCL’s testing of recreational waters for appropriate uses.

The University of Houston – Downtown is working to address the questions related to effectively educating underserved minorities, first-time college attendees and undergraduate students in their first academic roles.

The University of Houston – Victoria is evaluating teacher quality in schools, analyzing elements of certain foods that may check the growth of cancer and examining issues related to nursing education and alleviation of the nursing shortage.

With the Carnegie Foundation for the Advancement of Teaching recently elevating UH into its highest category for research universities – making it a Tier One institution – all our components can take pride in the system’s continuing commitment to research and the “incredible” results we are producing.

The photographs presented throughout this report offer a glimpse into the many aspects of research and its impact on our students, faculty and staff across all of the universities within the University of Houston System.

“As our recent Tier One designation from the Carnegie Foundation confirms, UH has moved to the forefront in research, which fosters important economic development for this region and will help address many of the problems facing our community.”

*Dr. Renu Khator,
Chancellor, UH System*



University of Houston



University of Houston
Clear Lake



University of Houston
Downtown



University of Houston
Victoria



University of Houston
System Administration

