



UNIVERSITY of HOUSTON SYSTEM

ANNUAL FINANCIAL REPORT 2011-2012

***Susan Clemans***

*Future Geologist*

YOU ARE THE PRIDE





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*Silva Tolman*  
*Future Writer*



**BOARD OF REGENTS**

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Term Expires August 31, 2013

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

MICHELE "MICA" MOSBACHER, 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

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Term Expires August 31, 2017

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Term Expires August 31, 2017

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President – UH Victoria



## MESSAGE FROM THE EXECUTIVE VICE CHANCELLOR

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I appreciate the opportunity to present the annual financial report and statements of the University of Houston System for the fiscal year ended August 31, 2012. This presentation provides insights into the System's financial position and the results of operations for the most recently concluded fiscal year. The preparation of this financial report is yet another way in which the administration and management of the UH System fulfill our responsibility to provide prudent and fiduciary care over the public assets and resources with which we have been entrusted.

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 that the UH System has developed a program of sound and sufficient internal accounting controls that provide reasonable assurance that assets have been protected and that financial transactions are properly recorded. Internal control integrity is maintained by establishing a process that develops sound fiscal and budgetary policies and procedures, communicating them clearly, and implementing a thorough program of internal audits and management reviews.

I encourage you to examine the financial events and accomplishments that are highlighted within the narrative and graphics accompanying the following financial statements and data. Our faculty, staff, and administrators are proud to be members of a remarkable university system. Our commitment to excellence extends not only to financial responsibility, but also to the delivery of services provided to our students and their families, our community, our citizens, and our benefactors.

Achievements at each of the UH System universities with respect to our performance measures have been strong. Total enrollment has increased from 63,846 to 65,256. Total degrees awarded increased by 8% to 13,685. Additionally expenditures for federally funded research have risen to over \$62 million. As a means of enhancing our strategic planning activities, our universities have developed campus master plans designed to facilitate the accomplishment of



their enrollment and research targets. During the past year significant progress has been made in expanding the reach and accessibility of UH System academic programs throughout the Houston region.

For the past several years the System, higher education, and the entire global economy, have been exposed to challenging economic conditions. The Texas and local economies have weathered these financial developments with greater strength than have many other environments. Although the legislature has responded to the changing economy by reducing general operating funds for public universities, it has also allocated targeted funding commitments to programs designed to develop more nationally competitive research institutions. In coordination with our state leadership, the UH System will continue to identify opportunities for enhanced efficiencies and cost reduction opportunities. In the process we will demonstrate that transparency, accountability, and affordability are strong components of UH System operations.

**CARL CARLUCCI**  
EXECUTIVE VICE CHANCELLOR  
FOR ADMINISTRATION AND FINANCE



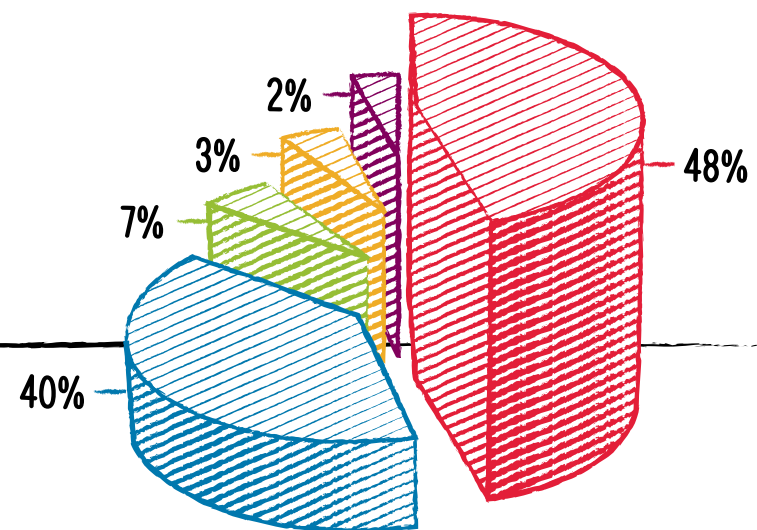


## FINANCIAL HIGHLIGHTS

### UNIVERSITY OF HOUSTON SYSTEM - ASSETS

As of August 31, 2012

	2012	%	
Cash and Investments	\$ 1,272,194,880	48	●
Capital Assets	1,074,449,417	40	●
Receivables	181,725,169	7	●
Appropriations	83,182,728	3	●
Inventories and Other Assets	50,412,482	2	●
<b>TOTAL ASSETS</b>	<b>\$ 2,661,964,676</b>	<b>100</b>	



**Mark Arnim**  
Future Accountant

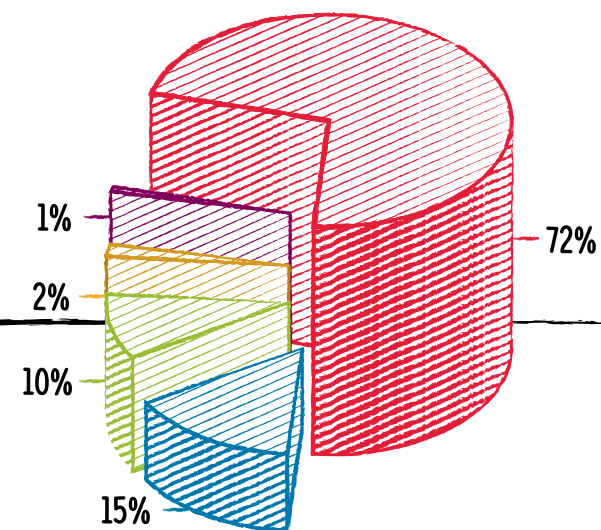


## FINANCIAL HIGHLIGHTS

### UNIVERSITY OF HOUSTON SYSTEM - LIABILITIES

As of August 31, 2012

	2012	%	
Bonds Payable	\$ 877,035,846	72	●
Unearned Revenue	186,194,740	15	●
Payables and Accrued Liabilities	117,826,100	10	●
Accrued Compensable Absences Payable	23,387,751	2	●
Funds Held For Others	9,009,255	1	●
<b>TOTAL LIABILITIES</b>	<b>\$ 1,213,453,692</b>	<b>100</b>	



*Irene Cedillo*  
Future Restaurant Chef

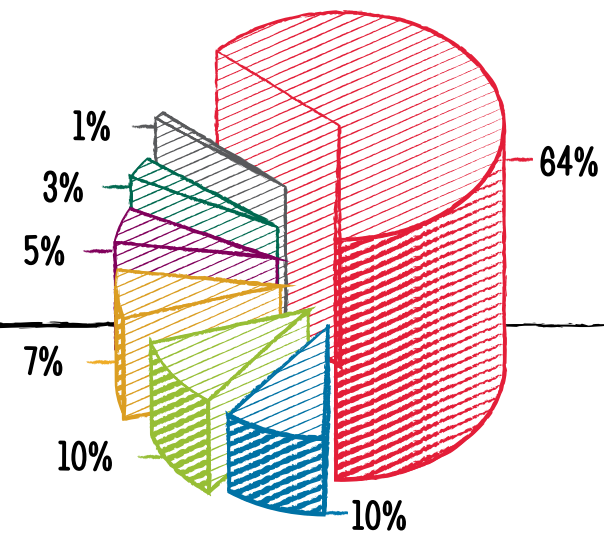


## FINANCIAL HIGHLIGHTS

### UNIVERSITY OF HOUSTON SYSTEM - OPERATING REVENUES

As of August 31, 2012

	2012	%	
Tuition and Fees Pledged, Net of Discounts	\$ 442,261,452	64	●
Auxiliary Enterprise-Pledged	68,546,446	10	●
Federal Grant Revenues	68,095,655	10	●
State Grant Revenue	51,228,613	7	●
Sales of Other Goods and Services-Pledged	37,866,276	5	●
Local and Private Awards	19,298,095	3	●
Other Operating Revenues	893,612	1	●
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 688,190,149</b>	<b>100</b>	



*Calhoun Elston*  
Future Photographer

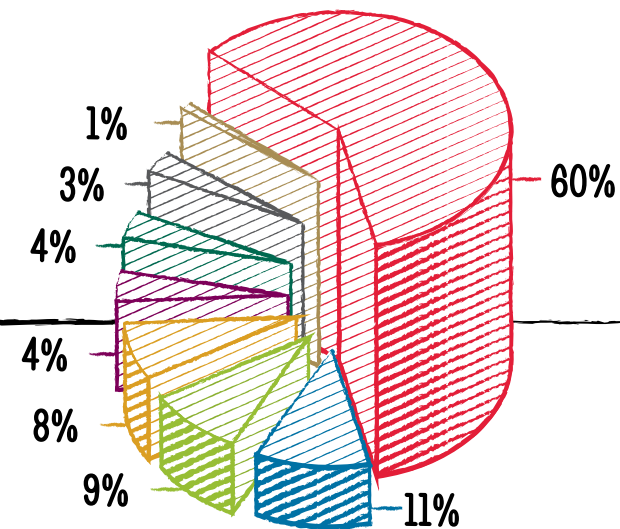


## FINANCIAL HIGHLIGHTS

### UNIVERSITY OF HOUSTON SYSTEM - OPERATING EXPENSES (NATURAL)

As of August 31, 2012

	2012	%	
Salaries and Benefits	\$ 625,362,161	60	●
Supplies, Office Operations, Travel	116,301,308	11	●
Scholarships	87,990,783	9	●
Depreciation and Amortization	78,675,741	8	●
Communication and Utilities	46,436,488	4	●
Other Operating Expenses	37,879,639	4	●
Financing and Legal	27,384,436	3	●
Repairs and Maintenance	14,912,202	1	●
<b>TOTAL OPERATING EXPENSES (NATURAL)</b>	<b>\$ 1,034,942,758</b>	<b>100</b>	



Elizabeth Bahena  
Future Accountant



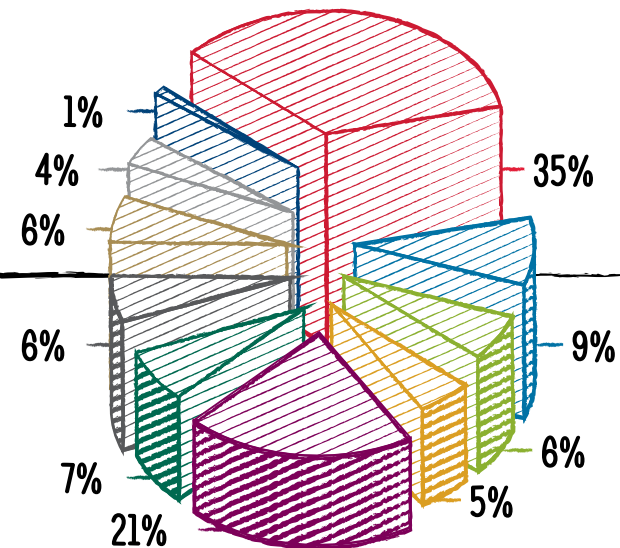


## FINANCIAL HIGHLIGHTS

### UNIVERSITY OF HOUSTON SYSTEM - REVENUE

As of August 31, 2012

	2012	%	
<b>Operating Revenue</b>			
Tuition and Fees, Net of Discounts	\$ 442,261,452	35	●
Sales of Goods and Services	107,306,334	9	●
All Other Contracts and Grants	70,526,708	6	●
Federal Contracts and Grants	68,095,655	5	●
<b>Non-Operating Revenue</b>			
Legislative Sources	258,932,816	21	●
Other Revenue	81,825,465	7	●
Federal Revenue	78,380,073	6	●
Gifts	78,122,390	6	●
Other Appropriations	50,929,094	4	●
Endowment Additions	8,313,140	1	●
<b>TOTAL REVENUE</b>	<b>\$ 1,244,693,127</b>	<b>100</b>	



Mei Chen  
Future Teacher

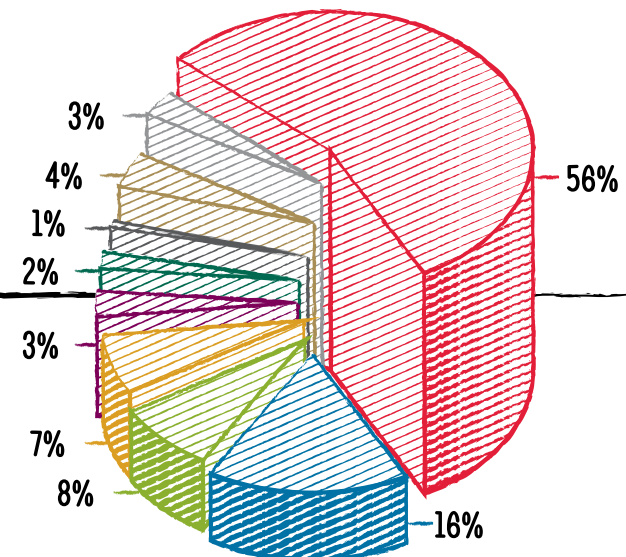


## FINANCIAL HIGHLIGHTS

### UNIVERSITY OF HOUSTON SYSTEM - TOTAL EXPENSES

As of August 31, 2012

	2012	%	
<b>Operating Expenses</b>			
Salaries and Benefits	\$ 625,362,161	56	●
Office Operations and Supplies	177,649,998	16	●
Scholarships	87,990,783	8	●
Depreciation and Amortization	78,675,741	7	●
Other Operating Expenses	35,132,644	3	●
Financing and Legal	27,384,436	2	●
Pass Through Expenses	2,746,995	1	●
<b>Non-Operating Expenses</b>			
Other Non-Operating Expenses	38,989,920	4	●
Interest Expense	38,013,587	3	●
<b>TOTAL EXPENSES (NATURAL)</b>	<b>\$ 1,111,946,265</b>	<b>100</b>	



Zachary Bass  
Future Computer Engineer



# STATEMENT OF NET ASSETS

## UNIVERSITY OF HOUSTON SYSTEM

As of August 31, 2012

ASSETS	2012	2011
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 331,228,480	\$ 218,706,889
Short-term Investments	249,721,438	149,170,220
Restricted Cash and Cash Equivalents	42,779,530	(11,615,602)
Legislative Appropriations	83,182,728	89,218,141
Receivables	95,088,726	121,424,935
Inventories	2,018,639	2,079,897
Prepaid Items	27,231,773	28,855,713
Loans and Contracts	14,400,435	7,502,187
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 845,651,749</b>	<b>\$ 605,342,380</b>
<b>NON-CURRENT ASSETS</b>		
Restricted Cash and Cash Equivalents	\$ 9,881,291	\$ 116,564,993
Loans and Other Receivables	45,004,235	18,636,900
Investments	638,584,140	611,561,274
Capital Assets, Non-Depreciable, Non-Amortizable	268,112,709	285,959,162
Capital Assets, Depreciable, Amortizable	1,753,275,560	1,553,293,163
Accumulated Amortization/Depreciation	(946,938,852)	(875,238,570)
Deferred Charges	48,393,844	17,614,431
<b>TOTAL NON-CURRENT ASSETS</b>	<b>\$1,816,312,927</b>	<b>\$ 1,728,391,353</b>
<b>TOTAL ASSETS</b>	<b>\$2,661,964,676</b>	<b>\$ 2,333,733,733</b>

LIABILITIES	2012	2011
<b>CURRENT LIABILITIES</b>		
Payables	\$ 85,362,574	\$ 77,662,089
Unearned Revenues	186,194,740	181,832,741
Notes and Loans Payable	25,123,000	42,141,000
Employees' Compensable Leave	11,324,349	11,470,640
Revenue Bonds Payable	34,705,939	28,523,915
Claims and Judgments Payable	328,795	307,666
Capital Lease Obligations	374,630	366,160
Funds Held for Others	9,009,255	9,506,475
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 352,423,282</b>	<b>\$ 351,810,686</b>
<b>NON-CURRENT LIABILITIES</b>		
Claims and Judgments Payable	\$ 4,913	\$ 12,742
Employee's Compensable Leave	12,063,402	12,461,428
Revenue Bonds Payable	842,329,907	646,446,578
Capital Lease Obligations	6,632,188	7,006,818
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>\$ 861,030,410</b>	<b>\$ 665,927,566</b>
<b>TOTAL LIABILITIES</b>	<b>\$1,213,453,692</b>	<b>\$ 1,017,738,252</b>

### NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$ 450,813,216	\$ 406,009,374
Restricted, Debt Retirement	55,229,164	17,363,063
Restricted, Capital Projects	2,219,178	5,732,691
Restricted, Endowment Funds	413,127,670	400,780,862
Restricted, Other	156,605,410	121,091,734
Unrestricted	370,516,346	365,017,757
<b>TOTAL NET ASSETS</b>	<b>\$1,448,510,984</b>	<b>\$ 1,315,995,481</b>

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

### UNIVERSITY OF HOUSTON SYSTEM

As of August 31, 2012

OPERATING REVENUES	2012	2011
Tuition and Fees, Net of Discounts	\$ 442,261,452	\$ 388,544,719
Sales of Goods and Services	107,306,334	99,112,343
Federal Revenue	68,095,655	65,793,464
State Grant Revenue	51,228,613	47,785,217
Other Grants and Contracts	19,298,095	18,876,209
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 688,190,149</b>	<b>\$ 620,111,952</b>

### OPERATING EXPENSES

Instruction	\$ 290,881,984	\$ 286,300,388
Research	97,794,819	98,159,064
Public Service	44,697,819	43,985,006
Academic Support	168,312,893	159,673,768
Student Services	38,417,287	36,224,776
Institutional Support	97,461,355	96,146,853
Operation and Maintenance of Plant	54,490,664	53,055,146
Scholarships and Fellowships	72,390,396	92,975,555
Auxiliary Enterprises	91,819,800	90,188,636
Depreciation and Amortization	78,675,741	68,166,442
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 1,034,942,758</b>	<b>\$ 1,024,875,634</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (346,752,609)</b>	<b>\$ (404,763,682)</b>

NONOPERATING REVENUES (EXPENSES)	2012	2011
Legislative Revenue	\$ 258,932,816	\$ 273,572,801
Gifts	78,122,390	83,887,077
Federal Revenue Non Operating (PR-OP Grants and Contributions)	78,380,073	123,028,159
Investment Income	15,521,016	34,793,389
Interest Expense and Fiscal Charges	(38,013,587)	(31,833,559)
Net Incr (Decr) in Fair Value of Investments (PR-OP Grants and Contributions)	16,096,586	29,125,898
Other Nonoperating Revenues (Expenses)	9,743,633	(35,845,583)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>\$ 418,782,927</b>	<b>\$ 476,728,182</b>

<b>INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>\$ 72,030,318</b>	<b>\$ 71,964,500</b>
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### OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS

Capital Appropriation (Higher Education Assistance Funds)	\$ 50,929,094	\$ 50,929,094
Additions to Permanent and Term Endowments	8,313,140	15,855,061
Transfers In	7,877,932	
Transfers Out	(6,344,802)	(5,277,326)
Legislative Appropriations Lapsed	(58,820)	(20,280)

<b>TOTAL OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>\$ 60,716,544</b>	<b>\$ 61,486,549</b>
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<b>CHANGE IN NET ASSETS</b>	<b>\$ 132,746,862</b>	<b>133,451,049</b>
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Net Assets Beginning	\$ 1,315,995,481	\$ 1,182,742,948
Restatements	(231,359)	(198,516)

<b>NET ASSETS BEGINNING, AS RESTATED</b>	<b>\$ 1,315,764,122</b>	<b>\$ 1,182,544,432</b>
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<b>NET ASSETS, ENDING</b>	<b>\$ 1,448,510,984</b>	<b>1,315,995,481</b>
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## STATEMENT OF CASH FLOWS

### UNIVERSITY OF HOUSTON SYSTEM

As of August 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	2012	2011
Proceeds Received from Students and Customers	\$ 477,730,001	\$ 435,601,704
Proceeds from Loan Programs	148,142,262	180,019,620
Proceeds from Other Revenues	241,839,816	171,954,391
Payments to Suppliers for Goods and Services	(213,675,810)	(210,490,915)
Payments to Employees	(624,899,544)	(619,780,802)
Payments for Loans Provided	(154,798,478)	(170,641,189)
Payments for Other Expenses	(110,565,742)	(121,716,964)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ (236,227,495)</b>	<b>\$ (335,054,155)</b>

### CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Proceeds from State Appropriations	\$ 264,910,697	\$ 292,380,206
Proceeds from Gifts	53,416,814	84,947,599
Proceeds from Endowments	8,313,139	13,338,938
Proceeds of Transfers from Other Funds	53,631,313	54,502,124
Proceeds from Other Revenues	78,380,073	132,128,249
Payments for Other Uses	(44,857,248)	(37,887,194)

<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>\$ 413,794,788</b>	<b>\$ 539,409,922</b>
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### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Financing Activities	\$ 452,549,856	\$ 155,676,085
Payments for Additions to Capital Assets	(189,342,762)	(167,798,058)
Payments for Capital Lease	(366,160)	(396,892)
Payments of Principal and Interest on Debt Issuance	(281,331,974)	(169,987,869)

<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (18,491,040)</b>	<b>\$ (182,506,734)</b>
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CASH FLOWS FROM INVESTING ACTIVITIES	2012	2011
Proceeds from Interest and Investment Income	\$ 591,651,650	\$ 540,471,115
Payments to Acquire Investments	(690,494,882)	(515,780,843)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>\$ (98,843,232)</b>	<b>\$ 24,690,272</b>
Increase (Decrease) in Cash and Cash Equivalents	60,233,021	46,539,305
<b>CASH AND CASH EQUIVALENTS, SEPTEMBER 1</b>	<b>\$ 323,656,280</b>	<b>\$ 277,116,975</b>
<b>CASH AND CASH EQUIVALENTS, AUGUST 31</b>	<b>\$ 383,889,301</b>	<b>\$ 323,656,280</b>

### RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

<b>OPERATING INCOME (LOSS)</b>	<b>\$ (346,752,609)</b>	<b>\$ (404,763,682)</b>
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### ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Amortization and Depreciation	\$ 78,675,741	\$ 68,166,442
Classification Differences	(6,656,216)	9,462,703
(Increase) Decrease in Receivables and Loans	28,786,009	(22,660,017)
(Increase) Decrease in Inventories	61,258	128,131
(Increase) Decrease in Other Assets	(7,892,353)	(1,682,767)
(Increase) Decrease in Prepaid Expenses	1,623,940	3,672,372
Increase (Decrease) in Payables	10,790,924	552,530
Increase (Decrease) in Deferred Income	4,361,999	9,010,321
Increase (Decrease) in Other Liabilities	773,812	3,059,812

<b>TOTAL ADJUSTMENTS</b>	<b>\$ 110,525,114</b>	<b>\$ 69,709,527</b>
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<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ (236,227,495)</b>	<b>\$ (335,054,155)</b>
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## MATRIX OF OPERATING EXPENSES

### UNIVERSITY OF HOUSTON SYSTEM

As of August 31, 2012

EXPENSES BY NATURAL CLASSIFICATION	2012	2011
Cost of Goods Sold	\$ 2,467,156	\$ 2,523,773
Salaries and Wages	509,939,505	508,937,364
Payroll Related Costs	115,422,656	114,534,658
Professional Fees and Services	57,522,058	49,179,037
Federal Pass-Through Expenses	2,443,360	2,747,182
State Pass-Through Expenses	303,635	192,677
Travel	13,928,362	12,466,154
Materials and Supplies	38,254,835	38,500,482
Communication and Utilities	46,436,488	44,989,108
Repairs and Maintenance	14,912,202	14,073,497
Rentals and Leases	24,037,194	20,864,963
Printing and Reproduction	4,128,898	4,370,877
Depreciation and Amortization	78,675,741	68,166,442
Interest	1,957,876	1,954,078
Scholarships	87,990,783	102,013,345
Claims and Losses	1,389,365	1,575,577
Other Operating Expenses	35,132,644	37,786,420
<b>TOTAL OPERATING EXPENSES</b>	<b>\$1,034,942,758</b>	<b>\$ 1,024,875,634</b>

EXPENSES BY FUNCTIONAL CLASSIFICATION	2012	2011
Instruction	\$ 290,881,984	\$ 286,300,388
Research	97,794,819	98,159,064
Public Service	44,697,819	43,985,006
Academic Support	168,312,893	159,673,768
Student Services	38,417,287	36,224,776
Institutional Support	97,461,355	96,146,853
Operation and Maintenance of Plant	54,490,664	53,055,146
Scholarships and Fellowships	72,390,396	92,975,555
Auxiliary Enterprises	91,819,800	90,188,636
Depreciation and Amortization	78,675,741	68,166,442
<b>TOTAL EXPENSES BY EXPENDITURE FUNCTION</b>	<b>\$1,034,942,758</b>	<b>\$ 1,024,875,634</b>

**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, 2012. 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 (UHSA). 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, the flagship institution of the System, is its principal doctoral degree-granting institution, and is 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. Each of the UHS universities also have a significant presence through off-campus teaching centers located in the northwest, southeast, southwest and west Houston metropolitan areas. From these facilities UHS



*Stephanie Geissler*  
Future Psychologist



universities are able to reach many students in Houston and beyond through extensive online programs, as well as through classroom instruction. 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.

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 the current decade and have developed academic and facilities master plans. These plans are intended to identify the programs, faculty, staff, and infrastructure needed to achieve enrollment and research projections, as well as the resources needed to accomplish them. The UHS universities are also working collaboratively on four system-wide initiatives – international education; health sciences research and education; pathways for faculty collaboration among institutions; and pathways for student transfer among institutions. Central to all of these planning activities are the UH System's primary 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. UH System performance with respect to measures on its progress and goals objectives has been strong. The System has improved performance on most of its key progress measures this fiscal year and is positioned for continued success in the future. Examples of UHS accomplishments on the FY2012 progress report include: total enrollment increased to 65,256 from 63,846 in FY2011; total degrees awarded increased to 13,685 from 12,664 in FY2011; and total federal research expenditures increased to \$62 million from \$54 million in FY2011.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements for fiscal year 2012 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 2012 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, (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, 2012, with financial data for the fiscal year ended August 31, 2011, 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, 2012. Comparative data for the previous fiscal year has also been presented as of August 31, 2011. 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, 2012, the University of Houston System's Assets totaled \$2.662 billion, and Liabilities totaled \$1.213 billion, resulting in a Net Asset valuation of \$1.449 billion. This represents an increase in net assets of \$133 million. Asset increases occurred in investment balances due in part to the continued improvement of market driven increases in the valuation

### SCHEDULE OF UNRESTRICTED NET ASSETS 2 YEAR COMPARISON, ROUNDED TO MILLIONS

	2012	2011
<b>RESERVED FOR:</b>		
Accounts Receivable	\$ 50	\$ 31
Encumbrances	16	16
Higher Education Fund	49	58
Future Operating Budget	57	41
Student Fees Restricted by Statute	15	12
Other Funds	80	71
<b>UNRESERVED ALLOCATED:</b>		
Service Department Operating	\$ 9	\$ 2
Auxiliary Enterprise Operating	6	4
Endowment and Loan Funds	57	51
Retirement of Indebtedness	2	0
Student Fees Limited to Purpose	26	23
Unallocated	4	56
<b>TOTAL UNRESTRICTED NET ASSETS</b>	<b>\$ 371</b>	<b>\$ 365</b>

James S. Lavelle  
Future Webmaster

UH

UHCL

UHD

UHV

UHSA

of the endowment fund and non-endowed intermediate term investments. Capital asset acquisitions and holdings increased as a result of ongoing campus construction projects. The short term student loans receivable balance also experienced an increase. Changes in the Liabilities balance reflect a decrease in notes payable due to reductions in the amount of outstanding commercial paper. The issuance of additional long term bonded debt resulted in an increase in the revenue bonds payable balance.

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 institution. 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 (Schedule of Unrestricted Net Assets).

#### **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.

*Devlin Buren*  
*Future Architect*

UH

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Finally, any other gains and losses or other forms of revenue and expense are reported.

During the 2012 fiscal year the System recognized operating revenues of \$688 million and operating expenses of \$1.035 billion. After recognizing non-operating activities and other gains and losses, the System realized a net increase in net assets of \$132.7 million, compared to a net asset increase of \$133.5 million during the prior fiscal year. This relatively flat change in financial position is a result of several factors. During 2012 operating revenues increased moderately, attributable to greater tuition and fee collections due to an increase in student semester credit hours attempted. Revenues from sponsored grant activity rose. However the System experienced a decrease in state appropriated funding. Gift income and investment earnings were not as robust as had been experienced during 2011. Operating expenses for student success initiatives also were moderately elevated reflecting increased levels of spending for instruction, academic support, and student services.

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 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. Additionally certain federal resources for student financial aid, as well as most gift revenue, are classified as non-operating revenue. Significant portions of the System's recurring resources are classified as non-operating. Net resources from other than operating revenues totaled \$508 million for fiscal year 2012, compared to \$606 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 2012 fiscal year totaled \$384 million, which reflected a net increase in cash balances of \$60 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 2012 fiscal year, the System had \$1.074 billion 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, 2011 totaled \$964 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. During fiscal year 2012 the System continued its efforts to implement the capital projects construction element of its master plan. At UH, construction projects that were completed included the Classroom and Business Building, Cougar Woods Dining Hall, the Stadium Parking Garage, and renovations at the Blaffer Museum. Ongoing development continued at the 74 acre UH Energy Research Park (UHERP) that is designed to provide research and classroom space for programs such as petroleum engineering, as well as energy research centers and institutes. UHERP projects that were completed included laboratory and research facilities in Building 19, collaboration and conference facilities in Building 3, and administrative facilities in Buildings 1 and 4. At UH – Clear Lake additions and renovations were



**Charlene Torres**  
Future Graphic Designer







*Kevin Castaneda*  
*Future Scientist*

completed at the Arbor Building, which houses instructional and academic facilities. At UH – Downtown an expansion of the Parking Garage adjacent to the existing Academic Building was completed.

#### **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, 2012, the University of Houston System had \$877 million of long term bonded debt outstanding, \$35 million of which will be retired during the 2013 fiscal year.

In fiscal year 2012, the University of Houston System issued \$265.5 million of Consolidated Revenue and Refunding Bonds, Series 2011-A. Proceeds from this bond issue provided \$78.2 million to refund the Consolidated Revenue Bonds, Series 2002-A and \$9.3 million to refund the Consolidated Revenue Refunding Bonds, Series 2002-B, as well as providing financing for the acquisition, construction, or renovation of the University Center, Quadrangle, Moody Towers, Cougar Place, Cougar Village 2, Radio Station, Parking Garage 1A, and various buildings at UH Energy Research Park at the University of Houston and Residential Housing at UH – Victoria. Consolidated Revenue and Refunding Bonds, Series 2011-B, issued in the amount of \$21.3 million, provided funding to defease certain outstanding commercial paper notes of the System and financing for construction costs for West Dining Hall and renovation of the University Center at the University of Houston.



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 governmental entities, including state agencies and state universities, as Tax Credit BABs or as 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 governmental issuers equal to 35 percent of the interest paid on the bonds. During the 2010 fiscal year the UH System issued \$79.9 million of Consolidated Revenue and Refunding Bonds, Series 2010-B, taxable revenue bonds under the Direct Payment BABs program. A balance of \$79.9 million remained outstanding at August 31, 2012. No Tax Credit BABs were issued.

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 2012, the University of Houston System issued \$51.8 million of commercial paper notes. On August 31, 2012, commercial paper notes payable totaled \$25.1 million, compared to \$42.1 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 Houston metropolitan area depends increasingly on the existence of a highly-skilled, professional workforce and cutting-edge research and development. As the region's largest provider of comprehensive (baccalaureate to doctorate) higher education services, the University of Houston System plays a leading role in meeting these needs. In doing so, the UHS universities must succeed in providing access to a regional population that is growing increasingly diverse at a very rapid rate. During the 2012 fiscal year, the ethnic population of the Houston metropolitan area was 17% African-American, 35% Hispanic, 7% Asian, and 41% white. The student population at the UH System, closely mirroring this diversity, was

comprised of 16% African-American, 26% Hispanic, 15% Asian, and 43% white students. Clearly, UHS is doing a good job of providing access to a diverse student population, although there is room for improvement with respect to the burgeoning Hispanic population. UH System performance with respect to the rankings on its progress and goals measures has also been commendable.

With the UH System improving performance on most of its key progress and goals measures this year, the System continues to be positioned for success in future years. To harness this potential, the UH System universities have been engaged in regular strategic planning activities over the past half-decade. In fiscal year 2010, the universities established five- and ten-year targets for enrollment and research that correspond to their updated mission statements. The universities have developed campus master plans designed to facilitate the accomplishment of their enrollment and research targets. Over the past year, the UHS universities have also been working on the four collaborative, system-wide initiatives identified by Chancellor Khator in 2009, specifically, international education, health sciences research and education, pathways for faculty collaboration among institutions, and pathways for student transfer among institutions.

During the 2012 fiscal year, much progress has been achieved in expanding the reach and accessibility of UH System academic programs throughout the metropolitan Houston region. Growth at the UH System's off-campus teaching centers has been substantial (12% in the past year alone), fueled by UH's growth in Sugar Land (24%), UH's and UHD's growth in Northwest Houston (48%), and UHCL's growth at the Pearland campus (40%). The UHS universities are also taking a much improved and coordinated approach to undergraduate admissions. The applications of students not accepted to the University of Houston are now immediately directed to UHD and UHV, and undergraduates at all four universities now have the ability to seamlessly take up to six hours at one of the other UHS institutions. These new services facilitate enrollment at the UHS universities and make it easier for students to complete a degree.

As is the case for the UHS universities, the UH – System Administration has reduced its budgets to account for the reduction in state





**Joahn Long**  
Future Physical Therapist

appropriations. To accomplish these reductions, staff were reduced in the central administration, and both staff and operations support were reduced at the UH System centers, as well as at the university campuses.

Following is a brief discussion of the primary initiatives on which UHS administration and universities will focus during the 2013 fiscal year. (1) UH System campus master planning and collaborative initiatives: In fiscal year 2013, UH – System Administration, in collaboration with campus leadership, will continue campus master planning activities. UH will analyze and address inefficiencies in its use of research and instructional space, UHV and UHCL will continue downward expansion planning activities, and UHD will address transportation and parking issues associated with its space-limited urban campus. With respect to collaborative initiatives, the UH System will begin the process of securing accreditation for its system-wide nursing program in fiscal year 2013. (2) UH System off-campus program expansion: In fiscal year 2013, the UH System will continue to expand program delivery at the off-campus teaching centers. Specifically, next year UH will deliver the Bauer MBA at the Northwest campus and two new programs at Sugar Land – the BS in Digital Media and the MS in Sports and Fitness Administration. (3) Shared services initiative: Currently, the UH System has shared services among its universities valued at \$27.7 million. At the request of the UHS Board of Regents, the UHS universities have identified additional operations that could be shared in order to reduce costs (including training, payroll, benefits, and affirmative action, among other services). In FY2013, the universities will implement a system-wide electronic time-keeping system for hourly employees. Replacing the manual, paper-based system currently employed will save time and money and improve the accuracy of records. (4) 83rd Texas Legislature: Strong support from the Texas Legislature is critical if UH System universities are to achieve their goals of excellence. When the 83rd Texas Legislature opens in January 2013, the UH System will implement a legislative agenda that demonstrates the value of its institutions to the state, so that UHS will be well-positioned for potential increased funding, should it become available, and legislation that supports UHS operations. (5) Federal legislative agenda: During fiscal year 2013 the UH System will develop and pursue its federal agenda for fiscal





year 2014, which will advocate on behalf of federal research programs important to UHS faculty and policy issues related to higher education, including Pell Grants. In the process, it will be incumbent to demonstrate that transparency, accountability and affordability have been, and will continue to be, strong components of UH System operations.

The United States and the world experienced a significant downturn in their financial environments and economies 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 unemployment rates, housing markets, and economic productivity will improve. Uncertainty continues to persist 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 and unpredictability in valuations for equities and other investment instruments.

The duration of the economic issues facing the state and the U.S. cannot be predicted, however UHS administration believes that its financial management continues to demonstrate strength and a capacity to respond and adjust 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 national and international financial situations. 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.



*Rochel Jackson*  
*Future Law School Professor*







*Joshua Yang*  
*Future Doctor*

### 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.

During the 2002 fiscal year, the State of Texas adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion*



*and Analysis - for Public Colleges and Universities*. These accounting pronouncements established new reporting requirements including the presentation of new financial information and a restructuring of the presentation of previous fiscal years. Since the System's annual financial report is not subject to a separate financial audit, certain information, such as a complete set of Government-Wide Financial Statements, is not included in the accompanying report. The financial statements are presented in columnar form, including totals for prior year data. Prior year totals have been restated when necessary to reflect current year changes in reporting procedures and to permit comparability of reported totals.

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

## **BASIS OF ACCOUNTING**

### **A. FUND STRUCTURE**

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

#### **CASH AND CASH EQUIVALENTS**

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

#### **RESTRICTED ASSETS**

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

#### **INVENTORIES AND PREPAID ITEMS**

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost, generally utilizing the last-in, first-out method. Prepaid items reflect payments for costs applicable to future accounting periods. The consumption method of accounting is used to account for inventories and prepaid items. The cost of these items is expensed when the items are consumed.

#### **CAPITAL ASSETS**

Assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year are capitalized. These assets are capitalized at cost or, if not purchased, at appraised fair value as of the date of acquisition. Depreciation is reported on all exhaustible assets. Inexhaustible assets such as 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****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 capital assets and amortization on intangible assets. Depreciation and amortization expenses are recognized as current year charges.

At August 31, 2012, non-depreciable capital assets, consisting of land and construction in progress, totaled \$268,112,709. Depreciable capital assets, net of accumulated depreciation, and consisting of buildings, infrastructure, facilities, equipment, library books, and works of art totaled \$759,288,368. Intangible assets, net of accumulated amortization and consisting of computer software and other intangible assets total \$47,048,340.

**DEPOSITS AND INVESTMENTS****A. DEPOSITS OF CASH IN BANK**

At August 31, 2012, the carrying amount of the System's cash deposits was \$10,229,289 and the bank balance was \$1,868,001. There were no deposits to foreign banks.

**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 \$1,218,396,830.





Elizabeth Martin  
Future Mechanical Engineer

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, 2012, the System had no direct investment in securities with credit risk exposure that exceeded its policy limit. Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2012, the University's concentration of credit risk in any single issuer did not exceed 5% 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 2012 discounts and allowances that related to tuition and fee revenues totaled \$87,461,406.

#### **SHORT TERM LIABILITIES**

In the prior fiscal year the System issued commercial paper (Consolidated Revenue Commercial Paper Notes, Series A) to facilitate renovation and construction projects at the University of



Houston and UH-Victoria. The balance was redeemed during fiscal year 2012. Additional commercial paper was issued during fiscal 2012, the proceeds of which were used to provide interim financing for renovation and construction projects at UH.

### **LONG TERM LIABILITIES**

#### **A. NOTES AND LOANS PAYABLE**

The System reported a balance of \$25,148,398 including interest as of August 31, 2012.

#### **B. CLAIMS AND JUDGMENTS**

At August 31, 2012, 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 2012. 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.



**Alma Sameer**  
Future Social Worker



Lump sum payments made to employees, who separated from state service during the 2012 fiscal year, for accrued vacation and compensatory leave, totaled \$2,613,091.

## **BONDED INDEBTEDNESS**

### **A. OUTSTANDING REVENUE BONDS**

#### **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 and to build the Science and Engineering Research Building (UH), to build the Student Services and Classroom Building (UHCL), to build the Commerce Street Building (UHD) and renovation of the University West building (UHV).
- Issued 9-1-2002.
- \$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 (Funding for fiscal year 2012 partially from Legislative Appropriation-Tuition Revenue Bonds).

#### **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 6-16-2004.
- \$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 2012 fully

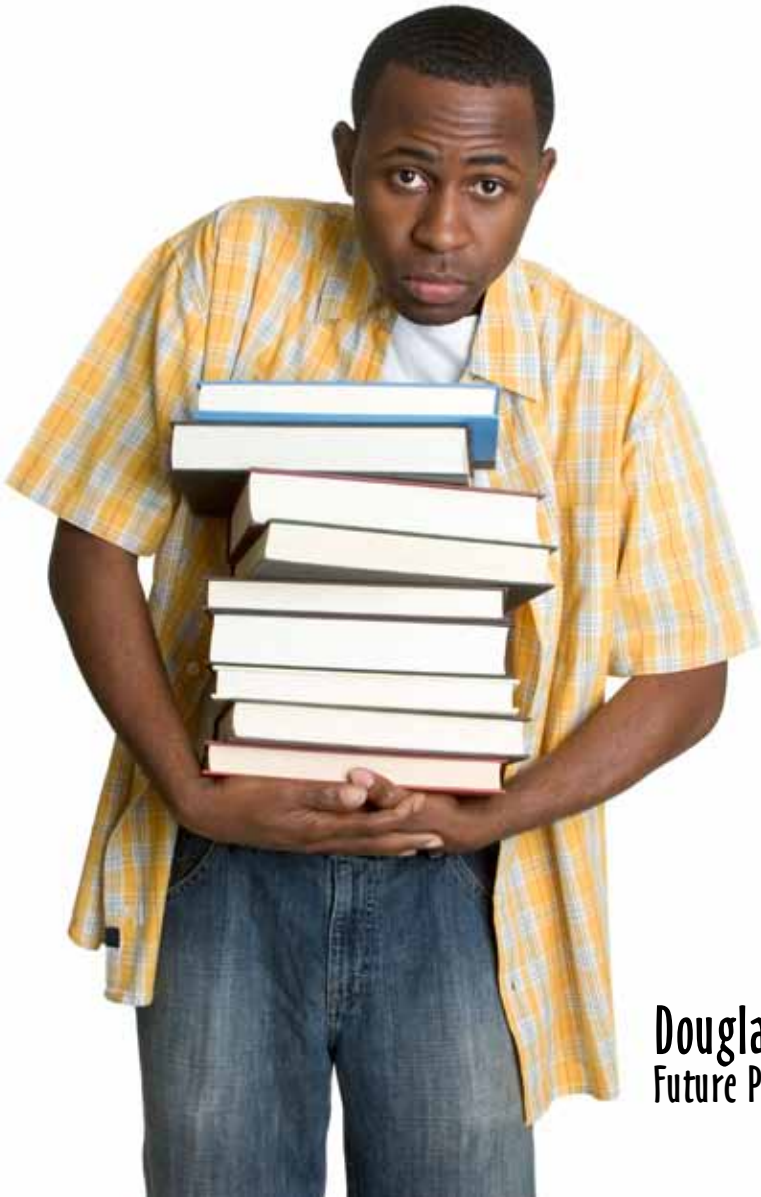
from Legislative Appropriation-Tuition Revenue Bonds).

- 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, 2012 was 0.16%.
- 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 System's non-endowed investment pool and money market accounts.
- Outstanding bonds maturing subsequent to 02-15-2012, totaling \$860,000 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 the Welcome Center Garage (UH).
- Issued 4-1-2005.
- \$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 the Shea Street Academic Building and Parking Facility (UHD).
- Issued 2-1-2006.
- \$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 obligations.

### **General Obligation Bonds**

At August 31, 2012, 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 11-1-2002.
- \$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

**Douglas Weakley**  
Future Philosopher



Gus Hamann  
Future Economist

securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the 1993 and 1993-A series bonds, when the bonds were called for early redemption on 2-15-03.

- The 1993 and 1993-A series bonds are considered fully defeased and the liability for those bonds has been removed from the Investment in Plant fund group.
- Refunding of the 1993 and 1993-A series bonds reduced the 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 (UH).
- 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 fiscal year 2011 from legislative appropriation - Tuition Revenue Bonds).
- Average rate of bonds refunded: 5.92%.
- Net proceeds from refunding series: \$17,419,961.18 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 2-15-2005.
- 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 (UHV) and \$44,430,000 of Consolidated Revenue Bonds, Series 2000 (UH).
- Issued 2-1-2006.
- \$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 2012 partially from Legislative appropriation - Tuition Revenue Bonds).
- 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 was called for early redemption on 2-15-2010.
- The 1997 series bonds maturing subsequent to 8-15-2007 and the 2000 series bonds maturing subsequent to 2-15-2010 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.
- In addition to the defeasement of certain commercial paper noted above, the proceeds were used to finance the construction of Calhoun Lofts, East Parking Garage part 1, MacGregor land purchase (all UH), the Allied Health Facility, The regional Center for Economic Development, and Building 2, Sugarland (all UHV).
- Issued 7-1-2008.
- \$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 2011 partially from legislative appropriation - Tuition Revenue Bonds).

#### **Consolidated Revenue and 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, operation and other facilities, roads or infrastructure related for or on behalf of the System, including individual campuses of the System.
- In addition to the defeasement of certain commercial paper noted above, the proceeds were used to finance the Science Lab renovations, the purchase of Bayou Oaks, the construction



**Stella R. Porter**  
Future Actor

of the Stadium Parking Garage Part 1, the East Garage Part 2 (all UH) and the renovation of the Arbor Building (UHCL).

- Issued 2-4-2009.
- \$108,395,000; all bonds authorized have been issued: \$98,230,000 (UH) and \$10,165,000 (UHCL).
- 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 2012 partially from Legislative appropriation - Tuition Revenue Bonds).

**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 operation and other facilities, roads or infrastructure related for or on behalf of the System, including individual campuses of the System.
- In addition to the defeasement of the bonds noted above, the proceeds were used to finance the construction of Cougar Village Part 1 (UH).
- Issued 7-2-2009.
- \$71,175,000; all bonds authorized have been issued: \$52,200,000 Revenue Bonds (UH); and \$18,975,000 Refunding Bonds – (UH), \$6,829,103, (UHD) \$4,267,478 and (UHV) \$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 2012 partially from Legislative appropriation - Tuition Revenue Bonds).
- 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

UH

UHCL

UHD

UHV

UHSA

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 2-15-2009 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.
- In addition to the defeasement of certain commercial paper noted above proceeds were used to finance construction costs related to the UH Moody Towers Dining Hall and facilities at the UH Energy Research Park.
- Issued 4-15-2010.
- \$23,305,000; all bonds authorized have been issued (UH).
- 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, including individual campuses of the System.

- In addition to the defeasement of certain commercial paper noted above proceeds were used to finance construction costs related to the Moody Towers Dining Hall, the Health and Medical Sciences Building, a classroom/business building, Stadium Parking Garage 1, and facilities at the UH Energy Research Park (all UH) and Jaguar Residence Hall (UHV).
- 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 4-15-2010.
- \$79,975,000; all bonds authorized have been issued: 74,626,469 (UH) and \$5,288,531 (UHV).
- 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 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.
- In addition to the defeasement of certain commercial paper noted above proceeds were used to finance construction costs related to the Moody Towers Dining Hall, various science buildings, a classroom/business building, Stadium Parking Garage 2, facilities at the UH Energy Research Park (all UH) and for construction costs related to Jaguar Residence Hall (UHV).
- Issued 4-15-2010.



- \$18,255,000; all bonds authorized have been issued \$16,698,745 (UH) and \$1,556,255 (UHV).
- 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 2011-A**

- To (a) refund and defease \$78,195,000 of outstanding Consolidated Revenue Bonds, Series 2002-A and \$9,255,000 of Consolidated Revenue Refunding Bonds, Series 2002-B and (b) finance the acquisition, purchase, construction, improvement, enlargement and equipping of property, buildings, structures, activities, services, operation and other facilities, roads or related infrastructure for and on behalf of the System, including individual campuses of the System.
- In addition to the defeasement of the bonds noted above, the proceeds were used to finance the acquisition, construction or renovation of the University Center, Quadrangle, Moody Towers, Cougar Place, Cougar Village 2, Radio Station, Parking Garage 1A and various buildings at UH Energy Research Park (UH) and Residential Housing (UHV).
- Issued 12-29-2011.
- \$265,500,000; all bonds authorized have been issued: \$75,640,000 Refunding Bonds: (UH) \$35,921,188, (UHCL) \$18,691,901, (UHD) \$9,487,589, and (UHV) \$11,539,322; and \$189,860,000 Revenue Bonds: (UH) 179,785,000 and (UHV) \$10,075,000.
- Source of revenue for debt service – Tuition and various other fees, revenues and balances that may be legally available for payment of debt obligation. (Funding for fiscal year 2012 partially from Legislative appropriation – Tuition Revenues Bonds).
- Average interest rate of bonds refunded – 4.464013%.
- Net proceeds from refunding series - \$89,366,528 after receipt of bond premium of \$12,525,317 additional available funds of \$1,427,621 and payment of \$226,410 of 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 2002-A and 2002-B series after they were called for early redemption on 2-15-2012.
- The 2002-A and 2002-B series bonds maturing subsequent to 02-15-2012 are considered fully defeased and the obligation for those bonds has been removed from the reported liabilities of the System.
- Refunding of the 2002-A and the 2002-B series bonds reduced the System's debt service payments over the life of the bond issues by approximately \$12,683,167.
- Economic gain: \$11,417,870; the difference between the net present value of the old and the new debt service payments.

#### **Consolidated Revenue and Refunding Bonds, Series 2011-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, operation and other facilities, roads or related infrastructure for and on behalf of the System, including individual campuses of the System.
- In addition to the defeasement of the commercial paper notes above, the proceeds were used to finance construction costs for the West Dining Hall and renovation of the University Center (UH).
- Issued 12-29-2011.
- \$21,310,000; 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.

#### **Pledged Future Revenues**

GASB Statement No. 48, Sales and Pledges of Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, makes a basic distinction between sales of receivables and future revenues on the one hand, and the pledging of future revenues to repay borrowing (collateralized borrowing) on the other. In the fiscal year







GINA WRIGHT  
FUTURE JOURNALIST

ended August 31, 2012 the pledged revenue from business type activities required for future principal and interest on existing bonds was \$1,322,258,226. Term of commitment was August 31, 2043. The percentage of revenue pledged is 100%. Current year pledged revenue is \$737,897,859. Current year principal and interest paid is \$153,164,596.

#### **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 governmental 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 2012 year end. No Tax Credit BABs were issued.

#### **B. CHANGES IN BONDED INDEBTEDNESS**

Bonds payable are due in annual installments varying from \$6,049,750 to \$73,810,429 with interest rates from 2.00% to 6.31%, and the final installment due 2-15-43.

#### **C. FUTURE DEBT SERVICE REQUIREMENTS**

Principal and interest requirements on the obligations for the next five years were \$366,545,484 and \$955,712,742 for all years beyond.

#### **LEASE OBLIGATIONS**

Included in expenditures reported in the financial statements for rent paid or due under operating leases is \$6,430,094. Future



minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year, as of August 31, 2012, totaled \$15,914,482.

The System has entered into a long term capital lease for the purchase of a certain capital asset. Such leases are classified as capital leases for accounting purposes and are recorded at the present value of the future minimum lease payments at the inception of the lease. The original cost of the asset is \$7,769,870. Accumulated depreciation is \$763,052 for a total capitalized lease value of \$7,006,818.

### **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 contributions made by plan members for 2012 were \$16,391,761. System contributions were \$15,396,067.

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 2012 were \$14,130,112. System contributions were \$14,839,568. 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 2012, 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 and amortization changes.

### SUBSEQUENT EVENTS

No events occurred between August 31, 2012 and the statement completion date that materially affect the financial condition of the System.

### RISK FINANCING AND RELATED ISSUANCE

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 an agency of the State of Texas. While it is affiliated with several separate legal entities, these organizations are not considered component units as defined by generally accepted

accounting principles. The System has no affiliations classified as related organizations, joint ventures or jointly governed organizations.

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 2011 and 2012 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.

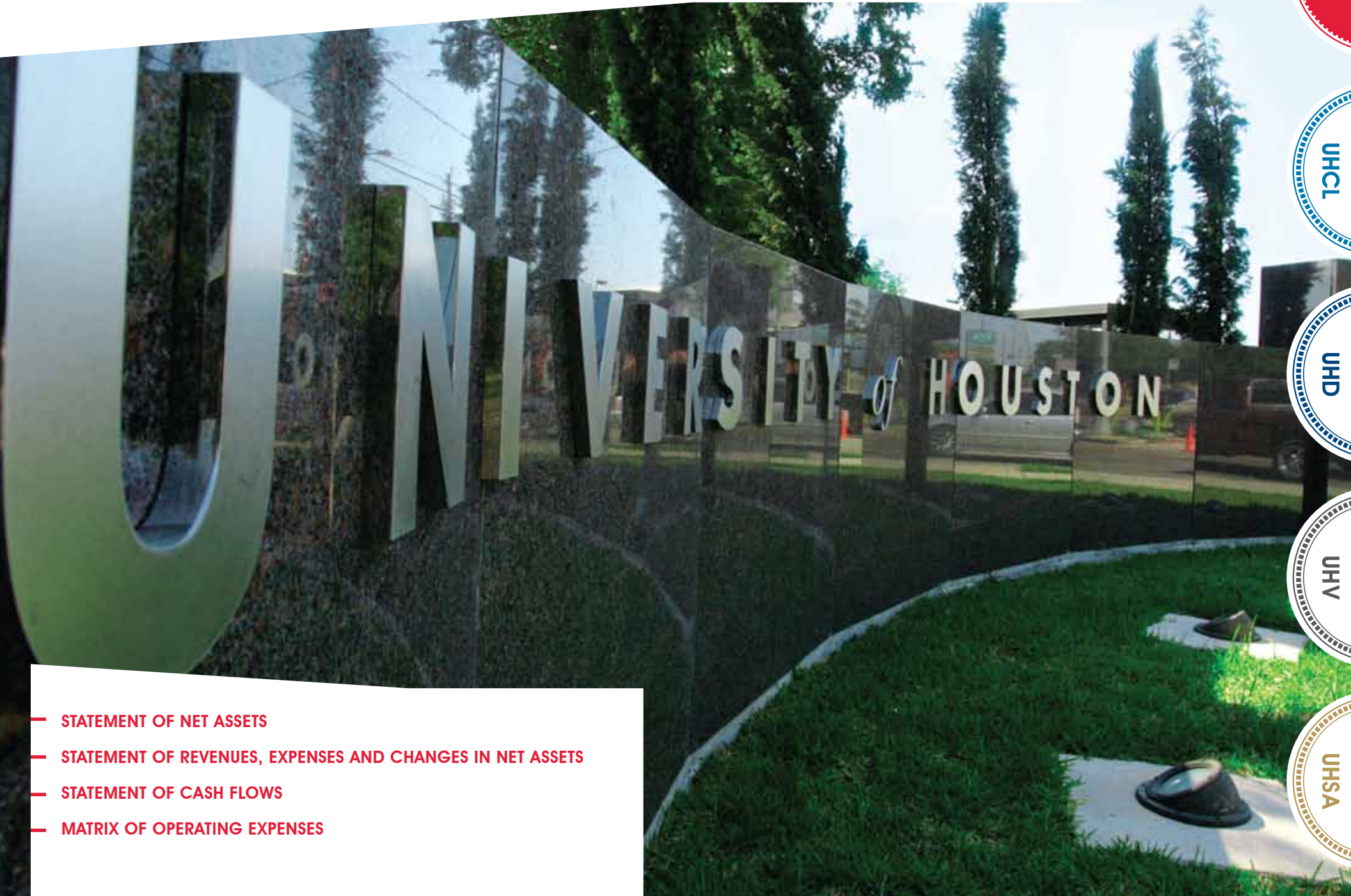
### EXTRAORDINARY AND SPECIAL ITEMS

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





# UNIVERSITY of HOUSTON



- STATEMENT OF NET ASSETS
- STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
- STATEMENT OF CASH FLOWS
- MATRIX OF OPERATING EXPENSES



# FINANCIAL STATEMENTS

## UNIVERSITY OF HOUSTON - STATEMENT OF NET ASSETS

As of August 31, 2012

ASSETS	2012	2011
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 76,280,258	\$ 95,106,147
Short-term Investments	17,878,881	1,664,863
Restricted Cash and Cash Equivalents	52,829,874	(3,216,383)
Loans and Contracts	10,403,141	2,690,518
Legislative Appropriations	63,704,988	70,732,652
Receivables	193,631,260	222,847,396
Inventories	1,985,639	2,047,838
Prepaid Items	20,049,617	21,749,047
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 436,763,658</b>	<b>\$ 413,622,076</b>
<b>NON-CURRENT ASSETS</b>		
Restricted Cash and Cash Equivalents	\$ 145,363,482	\$ 112,170,554
Loans and Other Receivables	609,091,213	452,433,450
Investments	442,550	327,739
Capital Assets, Non-Depreciable, Non-Amortizable	234,084,815	243,079,411
Capital Assets, Depreciable, Amortizable	1,306,364,199	1,126,301,949
Accumulated Amortization/Depreciation	(713,251,914)	(661,648,108)
Deferred Charges	39,773,010	14,333,841
<b>TOTAL NON-CURRENT ASSETS</b>	<b>\$1,621,867,355</b>	<b>\$ 1,286,998,836</b>
<b>TOTAL ASSETS</b>	<b>\$2,058,631,013</b>	<b>\$ 1,700,620,912</b>

LIABILITIES	2012	2011
<b>CURRENT LIABILITIES</b>		
Payables	\$ 76,054,651	\$ 68,180,214
Unearned Revenues	130,223,530	128,873,750
Employees' Compensable Leave	8,495,337	8,568,738
Revenue Bonds Payable	25,495,828	19,565,529
Claims and Judgments Payable	246,445	174,446
Funds Held for Others	8,739,408	8,956,747
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 249,255,199</b>	<b>\$ 234,319,424</b>
<b>NON-CURRENT LIABILITIES</b>		
Employee's Compensable Leave	9,049,762	9,308,872
Revenue Bonds Payable	717,625,942	523,918,717
Claims and Judgements Payable	1,474	9,344
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>\$ 726,677,178</b>	<b>\$ 533,236,933</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 975,932,377</b>	<b>\$ 767,556,357</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	\$ 315,614,471	\$ 271,953,185
Restricted, Debt Retirement	43,289,780	13,882,409
Restricted, Capital Projects	1,899,116	5,642,200
Restricted, Endowment Funds	323,506,581	287,206,810
Restricted, Other	142,562,812	106,573,484
Unrestricted	255,825,876	247,806,467
<b>TOTAL NET ASSETS</b>	<b>\$1,082,698,636</b>	<b>\$ 933,064,555</b>

# FINANCIAL STATEMENTS

## UNIVERSITY OF HOUSTON - STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

As of August 31, 2012

OPERATING REVENUES	2012	2011
Tuition and Fees, Net of Discounts	\$ 325,389,562	\$ 282,533,753
Sales of Goods and Services	94,548,985	88,111,828
Federal Revenue	61,501,277	59,306,883
State Grant Revenue	41,765,938	37,761,519
Other Grants and Contracts	18,978,839	18,269,822
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 542,184,601</b>	<b>\$ 485,983,805</b>
<b>OPERATING EXPENSES</b>		
Instruction	\$ 198,130,744	\$ 194,374,819
Research	92,779,251	93,756,014
Public Service	39,421,973	39,125,318
Academic Support	129,279,558	121,434,691
Student Services	24,914,261	23,827,047
Institutional Support	59,247,275	57,095,308
Operation and Maintenance of Plant	36,727,412	35,586,377
Scholarships and Fellowships	30,484,982	48,516,854
Auxiliary Enterprises	77,944,016	76,811,103
Depreciation and Amortization	56,455,700	46,721,702
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 745,385,172</b>	<b>\$ 737,249,233</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (203,200,571)</b>	<b>\$ (251,265,428)</b>

NONOPERATING REVENUES (EXPENSES)	2012	2011
Legislative Revenue	\$ 160,374,820	\$ 181,506,873
Gifts	75,988,604	79,797,057
Federal Revenue Non Operating	36,054,129	73,835,722
Investment Income	10,846,370	23,549,060
Interest Expense and Fiscal Charges	(31,402,706)	(25,617,831)
Net Incr (Decr) in Fair Value of Investments	32,438,719	1,927,312
Other Nonoperating Revenues (Expenses)	5,787,513	(30,453,231)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>\$ 290,087,449</b>	<b>\$ 304,544,962</b>
<b>INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>\$ 86,886,878</b>	<b>\$ 53,279,534</b>
<b>OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>		
Capital Appropriation (Higher Education Assistance Funds)	\$ 35,885,768	\$ 35,885,768
Additions to Permanent and Term Endowments	7,802,308	12,824,750
Intercomponent Transfers	16,080,390	2,750,257
Transfers In	7,877,932	
Transfers Out	(4,818,292)	(4,295,716)
Legislative Transfers		28,883
Legislative Appropriations Lapsed		(11,609)
<b>TOTAL OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>\$ 62,828,106</b>	<b>\$ 47,182,333</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 149,714,984</b>	<b>100,461,867</b>
Net Assets Beginning	\$ 933,064,555	\$ 832,798,682
Restatements	(80,903)	(195,994)
<b>NET ASSETS BEGINNING, AS RESTATED</b>	<b>\$ 932,983,652</b>	<b>\$ 832,602,688</b>
<b>NET ASSETS, ENDING</b>	<b>\$1,082,698,636</b>	<b>933,064,555</b>

# FINANCIAL STATEMENTS

## UNIVERSITY OF HOUSTON - STATEMENT OF CASH FLOWS

As of August 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	2012	2011
Proceeds Received from Students and Customers	\$ 353,294,182	\$ 320,455,884
Proceeds from Loan Programs	137,966,391	170,760,244
Proceeds from Other Revenues	219,799,107	150,293,781
Payments to Suppliers for Goods and Services	(162,837,282)	(166,659,331)
Payments to Employees	(453,549,656)	(450,970,243)
Payments for Loans Provided	(145,447,048)	(161,238,845)
Payments for Other Expenses	(56,858,208)	(69,242,519)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ (107,632,514)</b>	<b>\$ (206,601,029)</b>

### CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Proceeds from State Appropriations	\$ 167,403,772	\$ 191,400,688
Proceeds from Gifts	50,793,154	80,516,585
Proceeds from Endowments	7,802,308	12,824,750
Proceeds of Transfers from Other Funds	30,060,683	12,884,481
Proceeds from Other Revenues	36,054,129	73,835,722
Payments for Other Uses	(8,955,217)	(11,249,875)

<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>\$ 283,158,829</b>	<b>\$ 360,212,351</b>
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### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Financing Activities	\$ 315,373,538	\$ 101,731,032
Payments for Additions to Capital Assets	(176,000,452)	(141,549,751)
Payments of Principal and Interest on Debt Issuance	(229,292,727)	(76,698,528)

<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (89,919,641)</b>	<b>\$ (116,517,247)</b>
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CASH FLOWS FROM INVESTING ACTIVITIES	2012	2011
Proceeds from Interest and Investment Income	\$ 10,846,370	\$ 25,916,764
Payments to Acquire Investments	(26,039,748)	(23,290,075)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>\$ (15,193,378)</b>	<b>\$ 2,626,689</b>

Increase (Decrease) in Cash and Cash Equivalents	70,413,296	39,720,764
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<b>CASH AND CASH EQUIVALENTS, SEPTEMBER 1</b>	<b>\$ 204,060,317</b>	<b>\$ 164,339,553</b>
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<b>CASH AND CASH EQUIVALENTS, AUGUST 31</b>	<b>\$ 274,473,613</b>	<b>\$ 204,060,317</b>
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### RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

<b>OPERATING INCOME (LOSS)</b>	<b>\$ (203,200,571)</b>	<b>\$ (251,265,428)</b>
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### ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Amortization and Depreciation	\$ 56,455,700	\$ 46,721,702
Classification Differences	(7,480,657)	9,521,398
(Increase) Decrease in Receivables and Loans	37,334,330	(18,462,692)
(Increase) Decrease in Inventories	62,200	130,086
(Increase) Decrease in Other Assets	(7,772,647)	(2,008,552)
Increase (Decrease) in Payables	13,834,893	(1,336,452)
(Increase) Decrease in Prepaid Expenses	1,699,430	2,351,457
Increase (Decrease) in Deferred Income	1,349,780	5,206,171
Increase (Decrease) in Other Liabilities	85,028	2,541,281

<b>TOTAL ADJUSTMENTS</b>	<b>\$ 95,568,057</b>	<b>\$ 44,664,399</b>
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<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ (107,632,514)</b>	<b>\$ (206,601,029)</b>
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# FINANCIAL STATEMENTS

## UNIVERSITY OF HOUSTON - MATRIX OF OPERATING EXPENSES

As of August 31, 2012

EXPENSES BY NATURAL CLASSIFICATION	2012	2011
Cost of Goods Sold	\$ 2,462,348	\$ 2,513,645
Salaries and Wages	372,111,097	371,577,176
Payroll Related Costs	82,938,665	81,891,077
Professional Fees and Services	44,349,455	37,031,070
Federal Pass-Through Expenses	2,500,925	2,805,689
State Pass-Through Expenses	303,635	192,677
Travel	11,662,663	10,362,566
Materials and Supplies	28,266,402	27,042,155
Communication and Utilities	38,455,129	37,569,432
Repairs and Maintenance	9,700,545	9,504,195
Rentals and Leases	20,832,134	18,216,005
Printing and Reproduction	3,351,117	3,561,064
Depreciation and Amortization	56,455,700	46,721,702
Interest	39,016	41,911
Scholarships	41,813,429	55,769,138
Claims and Losses	1,159,316	1,156,754
Other Operating Expenses	28,983,596	31,292,977
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 745,385,172</b>	<b>\$ 737,249,233</b>

EXPENSES BY FUNCTIONAL CLASSIFICATION	2012	2011
Instruction	\$ 198,130,744	\$ 194,374,819
Research	92,779,251	93,756,014
Public Service	39,421,973	39,125,318
Academic Support	129,279,558	121,434,691
Student Services	24,914,261	23,827,047
Institutional Support	59,247,275	57,095,308
Physical Plant	36,727,412	35,586,377
Scholarships and Fellowships	30,484,982	48,516,854
Auxiliary Enterprises	77,944,016	76,811,103
Depreciation and Amortization	56,455,700	46,721,702
<b>TOTAL EXPENSES BY EXPENDITURE FUNCTION</b>	<b>\$ 745,385,172</b>	<b>\$ 737,249,233</b>



# University of Houston Clear Lake

- STATEMENT OF ASSETS
- STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
- STATEMENT OF CASH FLOWS
- MATRIX OF OPERATING EXPENSES



# FINANCIAL STATEMENTS

## UNIVERSITY OF HOUSTON CLEAR LAKE - STATEMENT OF NET ASSETS

As of August 31, 2012

ASSETS	2012	2011
<i>CURRENT ASSETS</i>		
Cash and Cash Equivalents	\$ 22,821,782	\$ 27,311,252
Restricted Cash and Cash Equivalents	(2,934,868)	(2,655,213)
Loans and Contracts	1,494,500	2,384,151
Legislative Appropriations	4,948,005	5,757,418
Receivables	26,990,003	24,557,981
Inventories	17,184	15,454
Prepaid Items	2,087,357	1,982,172
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 55,423,963</b>	<b>\$ 59,353,215</b>
<i>NON-CURRENT ASSETS</i>		
Restricted Cash and Cash Equivalents	\$ 1,072,699	\$ 850,123
Loans and Other Receivables	23,587,570	24,308,768
Capital Assets, Non-Depreciable, Non-Amortizable	11,449,339	23,230,236
Capital Assets, Depreciable, Amortizable	151,909,606	134,885,217
Accumulated Amortization/Depreciation	(89,203,307)	(85,884,020)
Deferred Charges	3,317,589	526,759
<b>TOTAL NON-CURRENT ASSETS</b>	<b>\$ 102,133,496</b>	<b>\$ 97,917,083</b>
<b>TOTAL ASSETS</b>	<b>\$ 157,557,459</b>	<b>\$ 157,270,298</b>

LIABILITIES	2012	2011
<i>CURRENT LIABILITIES</i>		
Payables	\$ 4,866,797	\$ 5,566,248
Unearned Revenues	22,698,789	22,247,438
Capital Lease Obligations	374,630	366,160
Claims and Judgements Payable	27,462	20,331
Employees' Compensable Leave	965,961	1,000,192
Revenue Bonds Payable	2,207,199	2,059,858
Funds Held for Others	339,410	365,866
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 31,480,248</b>	<b>\$ 31,626,093</b>
<i>NON-CURRENT LIABILITIES</i>		
Claims and Judgements Payable	2,227	1,604
Employee's Compensable Leave	1,029,002	1,086,584
Revenue Bonds Payable	28,222,290	30,356,901
Capital Lease Obligations	6,632,188	7,006,818
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>\$ 35,885,707</b>	<b>\$ 38,451,907</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 67,365,955</b>	<b>\$ 70,078,000</b>

### NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$ 40,176,389	\$ 34,927,094
Restricted, Debt Retirement	3,317,589	526,759
Restricted, Endowment Funds	13,155,369	11,732,239
Restricted, Other	1,920,172	2,544,321
Unrestricted	31,621,985	37,461,885
<b>TOTAL NET ASSETS</b>	<b>\$ 90,191,504</b>	<b>\$ 87,192,298</b>

# FINANCIAL STATEMENTS

## UNIVERSITY OF HOUSTON CLEAR LAKE - STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

As of August 31, 2012

OPERATING REVENUES			NONOPERATING REVENUES (EXPENSES)		
	2012	2011		2012	2011
Tuition and Fees, Net of Discounts	\$ 43,503,636	\$ 40,958,965	Legislative Revenue	\$ 29,158,396	\$ 35,212,454
Sales of Goods and Services	2,608,974	2,740,279	Gifts	411,124	1,169,644
Federal Revenue	2,778,689	2,641,762	Federal Revenue Non Operating (PR-OP Grants/Contributions)	8,494,969	10,404,859
State Grant Revenue	1,812,851	1,923,960	Investment Income	946,175	1,707,498
Other Grants and Contracts	498,413	287,181	Interest Expense and Fiscal Charges	(1,615,553)	(1,388,439)
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 51,202,563</b>	<b>\$ 48,552,147</b>	Net Incr (Decr) in Fair Value of Investments	1,722,673	301,258
			Other Nonoperating Revenues (Expenses)	2,306,138	4,368,263
<b>OPERATING EXPENSES</b>			<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>\$ 41,423,922</b>	<b>\$ 51,775,537</b>
Instruction	\$ 36,789,198	\$ 36,686,822	<b>INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>\$ (2,032,885)</b>	<b>\$ 6,069,683</b>
Research	1,769,700	1,746,646			
Public Service	113,471	194,238	<b>OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>		
Academic Support	12,041,362	11,442,015	Capital Appropriation (Higher Education Assistance Funds)	\$ 5,214,167	\$ 5,214,167
Student Services	4,371,914	3,853,655	Additions to Permanent and Term Endowments	160,591	238,355
Institutional Support	14,584,606	15,122,620	Intercomponent Transfers	181,841	1,560
Operation and Maintenance of Plant	7,342,126	7,457,039	Transfers Out	(524,051)	(172,292)
Scholarships and Fellowships	7,776,537	8,295,509	Legislative Transfers		(28,883)
Auxiliary Enterprises	5,089,831	4,819,317	Legislative Appropriations Lapsed	(457)	(7,082)
Depreciation and Amortization	4,780,625	4,640,140			
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 94,659,370</b>	<b>\$ 94,258,001</b>	<b>TOTAL OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>\$ 5,032,091</b>	<b>\$ 5,245,825</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (43,456,807)</b>	<b>\$ (45,705,854)</b>	<b>CHANGE IN NET ASSETS</b>	<b>\$ 2,999,206</b>	<b>\$ 11,315,508</b>
			Net Assets Beginning	\$ 87,192,298	\$ 75,876,790
			Restatements		
			<b>NET ASSETS, ENDING</b>	<b>\$ 90,191,504</b>	<b>87,192,298</b>



# FINANCIAL STATEMENTS

## UNIVERSITY OF HOUSTON CLEAR LAKE - STATEMENT OF CASH FLOWS

As of August 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	2012	2011
Proceeds Received from Students and Customers	\$ 42,949,051	\$ 42,405,229
Proceeds from Loan Programs	5,102,926	3,639,110
Proceeds from Other Revenues	6,453,626	6,496,116
Payments to Suppliers for Goods and Services	(17,911,883)	(15,534,843)
Payments to Employees	(62,699,953)	(62,213,487)
Payments for Loans Provided	(4,203,211)	(3,776,420)
Payments for Other Expenses	(10,244,500)	(10,472,834)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ (40,553,944)</b>	<b>\$ (39,457,129)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from State Appropriations	\$ 29,967,352	\$ 35,097,082
Proceeds from Gifts	655,146	1,047,917
Proceeds from Endowments	160,591	238,355
Proceeds of Transfers from Other Funds	3,326,075	
Proceeds from Other Revenues	8,494,969	21,278,027
Payments for Other Uses	(3,444,755)	(523,992)
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>\$ 39,159,378</b>	<b>\$ 57,137,389</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from Capital Financing Activities	\$ 10,127,556	\$ 5,214,167
Payments for Additions to Capital Assets	(6,704,830)	(13,573,474)
Payments for Capital Lease	(366,160)	(396,892)
Payments of Principal and Interest on Debt Issuance	(6,393,652)	(3,457,881)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (3,337,086)</b>	<b>\$ (12,214,080)</b>

CASH FLOWS FROM INVESTING ACTIVITIES	2012	2011
Proceeds from Interest and Investment Income	\$ 946,175	\$ 2,008,757
Payments to Acquire Investments	(761,072)	
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>\$ 185,103</b>	<b>\$ 2,008,757</b>
Increase (Decrease) in Cash and Cash Equivalents	(4,546,549)	7,474,937
<b>CASH AND CASH EQUIVALENTS, SEPTEMBER 1</b>	<b>\$ 25,506,162</b>	<b>\$ 18,031,225</b>
<b>CASH AND CASH EQUIVALENTS, AUGUST 31</b>	<b>\$ 20,959,613</b>	<b>\$ 25,506,162</b>

### RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

<b>OPERATING INCOME (LOSS)</b>	<b>\$ (43,456,807)</b>	<b>\$ (45,705,854)</b>
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### ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Amortization and Depreciation	\$ 4,780,625	\$ 4,640,140
Classification Differences	899,715	
(Increase) Decrease in Receivables and Loans	(2,196,222)	(1,016,213)
(Increase) Decrease in Inventories	(1,730)	(2,545)
(Increase) Decrease in Other Assets	(139,437)	406,822
(Increase) Decrease in Prepaid Expenses	(105,185)	142,093
Increase (Decrease) in Payables	(788,642)	1,191,260
Increase (Decrease) in Deferred Income	451,351	879,448
Increase (Decrease) in Other Liabilities	2,388	7,720

<b>TOTAL ADJUSTMENTS</b>	<b>\$ 2,902,863</b>	<b>\$ 6,248,725</b>
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<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ (40,553,944)</b>	<b>\$ (39,457,129)</b>
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# FINANCIAL STATEMENTS

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## UNIVERSITY OF HOUSTON CLEAR LAKE - MATRIX OF OPERATING EXPENSES

As of August 31, 2012

EXPENSES BY NATURAL CLASSIFICATION	2012	2011
Cost of Goods Sold	\$ 2,830	\$ 8,429
Salaries and Wages	50,181,595	50,134,796
Payroll Related Costs	12,222,998	12,397,313
Professional Fees and Services	5,793,827	5,350,966
Travel	656,488	610,834
Materials and Supplies	3,889,290	4,628,078
Communication and Utilities	3,034,296	3,090,617
Repairs and Maintenance	1,626,108	1,371,479
Rentals and Leases	770,138	548,904
Printing and Reproduction	333,724	362,453
Depreciation and Amortization	4,780,625	4,640,140
Interest	316,286	313,465
Scholarships	9,225,678	8,610,207
Claims and Losses	83,938	158,714
Other Operating Expenses	1,741,549	2,031,606
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 94,659,370</b>	<b>\$ 94,258,001</b>

EXPENSES BY FUNCTIONAL CLASSIFICATION	2012	2011
Instruction	\$ 36,789,198	\$ 36,686,822
Research	1,769,700	1,746,646
Public Service	113,471	194,238
Academic Support	12,041,362	11,442,015
Student Services	4,371,914	3,853,655
Institutional Support	14,584,606	15,122,620
Physical Plant	7,342,126	7,457,039
Scholarships and Fellowships	7,776,537	8,295,509
Auxiliary Enterprises	5,089,831	4,819,317
Depreciation and Amortization	4,780,625	4,640,140
<b>TOTAL EXPENSES BY EXPENDITURE FUNCTION</b>	<b>\$ 94,659,370</b>	<b>\$ 94,258,001</b>

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UHV

UHSA



- STATEMENT OF ASSETS
- STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
- STATEMENT OF CASH FLOWS
- MATRIX OF OPERATING EXPENSES

# FINANCIAL STATEMENTS

## UNIVERSITY OF HOUSTON DOWNTOWN - STATEMENT OF NET ASSETS

As of August 31, 2012

ASSETS	2012	2011
<i>CURRENT ASSETS</i>		
Cash and Cash Equivalents	\$ 43,686,124	\$ 37,473,264
Restricted Cash and Cash Equivalents	(12,313,344)	(10,314,038)
Loans and Contracts	545,992	444,631
Legislative Appropriations	10,391,599	9,174,580
Receivables	29,157,428	28,254,824
Inventories	15,816	16,605
Prepaid Items	3,886,207	4,090,535
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 75,369,822</b>	<b>\$ 69,140,401</b>
<i>NON-CURRENT ASSETS</i>		
Restricted Cash and Cash Equivalents	\$ 1,119,576	\$ 353,136
Loans and Other Receivables	25,623,575	24,050,875
Investments	178,206	144,670
Capital Assets, Non-Depreciable, Non-Amortizable	14,016,592	11,529,717
Capital Assets, Depreciable, Amortizable	168,300,070	166,016,598
Accumulated Amortization/Depreciation	(88,145,276)	(81,604,718)
Deferred Charges	3,263,656	2,030,118
<b>TOTAL NON-CURRENT ASSETS</b>	<b>\$ 124,356,399</b>	<b>\$ 122,520,396</b>
<b>TOTAL ASSETS</b>	<b>\$ 199,726,221</b>	<b>\$ 191,660,797</b>

LIABILITIES	2012	2011
<i>CURRENT LIABILITIES</i>		
Payables	\$ 9,424,763	\$ 9,276,847
Unearned Revenues	23,548,320	21,551,053
Claims and Judgements Payable	31,673	107,278
Employees' Compensable Leave	1,117,984	1,118,097
Revenue Bonds Payable	4,406,838	4,181,480
Funds Held for Others	(479,013)	(472,585)
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 38,050,565</b>	<b>\$ 35,762,170</b>
<i>NON-CURRENT LIABILITIES</i>		
Claims and Judgements Payable	262	1,419
Employee's Compensable Leave	1,190,946	1,214,673
Revenue Bonds Payable	47,561,857	51,931,854
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>\$ 48,753,065</b>	<b>\$ 53,147,946</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 86,803,630</b>	<b>\$ 88,910,116</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	\$ 45,428,349	\$ 42,871,496
Restricted, Debt Retirement	3,242,776	2,008,789
Restricted, Capital Projects	45,417	81,527
Restricted, Endowment Funds	18,441,319	16,514,319
Restricted, Other	3,962,675	4,143,286
Unrestricted	41,802,055	37,131,264
<b>TOTAL NET ASSETS</b>	<b>\$ 112,922,591</b>	<b>\$ 102,750,681</b>

# FINANCIAL STATEMENTS

## UNIVERSITY OF HOUSTON DOWNTOWN - STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

As of August 31, 2012

OPERATING REVENUES	2012	2011
Tuition and Fees, Net of Discounts	\$ 56,633,160	\$ 50,064,996
Sales of Goods and Services	6,278,114	5,025,016
Federal Revenue	3,719,287	3,430,452
State Grant Revenue	6,939,476	7,252,513
Other Grants and Contracts	317,612	204,455
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 73,887,649</b>	<b>\$ 65,977,432</b>

### OPERATING EXPENSES

Instruction	\$ 37,671,875	\$ 38,301,509
Research	2,217,057	1,473,222
Public Service	4,256,532	3,784,092
Academic Support	16,794,912	17,423,558
Student Services	3,423,337	4,011,293
Institutional Support	15,933,770	15,356,050
Operation and Maintenance of Plant	6,189,453	5,831,035
Scholarships and Fellowships	31,251,119	32,677,308
Auxiliary Enterprises	6,906,403	6,713,483
Depreciation and Amortization	7,070,095	6,967,492
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 131,714,553</b>	<b>\$ 132,539,042</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (57,826,904)</b>	<b>\$ (66,561,610)</b>

NONOPERATING REVENUES (EXPENSES)	2012	2011
Legislative Revenue	\$ 24,896,493	\$ 33,901,987
Gifts	1,229,312	1,357,988
Federal Revenue Non Operating	27,362,174	31,234,059
Investment Income	785,172	1,924,613
Interest Expense and Fiscal Charges	(2,608,029)	(2,648,733)
Net Incr (Decr) in Fair Value of Investments	2,204,734	228,166
Other Nonoperating Revenues (Expenses)	952,944	(1,030,987)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>\$ 54,822,800</b>	<b>\$ 64,967,093</b>

<b>INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>\$ (3,004,104)</b>	<b>\$ (1,594,517)</b>
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### OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS

Capital Appropriation (Higher Education Assistance Funds)	\$ 7,435,238	\$ 7,435,238
Additions to Permanent and Term Endowments	290,511	2,152,521
Intercomponent Transfers	6,424,286	(71,950)
Transfers Out	(823,131)	(661,719)
Legislative Appropriations Lapsed	(7)	(1,588)

<b>TOTAL OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>\$ 13,326,897</b>	<b>\$ 8,852,502</b>
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<b>CHANGE IN NET ASSETS</b>	<b>\$ 10,322,793</b>	<b>\$ 7,257,985</b>
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Net Assets Beginning	\$ 102,750,681	\$ 95,492,696
Restatements	(150,883)	

<b>NET ASSETS BEGINNING, AS RESTATED</b>	<b>\$ 102,599,798</b>	<b>95,492,696</b>
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<b>NET ASSETS, ENDING</b>	<b>\$ 112,922,591</b>	<b>102,750,681</b>
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# FINANCIAL STATEMENTS

## UNIVERSITY OF HOUSTON DOWNTOWN - STATEMENT OF CASH FLOWS

As of August 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	2012	2011
Proceeds Received from Students and Customers	\$ 62,496,685	\$ 54,983,394
Proceeds from Loan Programs	1,647,758	1,916,256
Proceeds from Other Revenues	12,694,777	13,230,143
Payments to Suppliers for Goods and Services	(20,117,970)	(19,434,042)
Payments to Employees	(70,611,575)	(71,330,858)
Payments for Loans Provided	(1,749,118)	(1,863,219)
Payments for Other Expenses	(33,767,961)	(34,831,828)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ (49,407,404)</b>	<b>\$ (57,330,154)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from State Appropriations	\$ 23,679,467	\$ 34,631,255
Proceeds from Gifts	1,456,233	1,357,988
Proceeds from Endowments	290,511	(363,602)
Proceeds of Transfers from Other Funds	7,102,602	306,492
Proceeds from Other Revenues	27,362,174	29,460,980
Payments for Other Uses	(1,292,109)	(2,098,059)
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>\$ 58,598,878</b>	<b>\$ 63,295,054</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from Capital Financing Activities	\$ 10,260,209	\$ 7,435,238
Payments for Additions to Capital Assets	(5,450,767)	(5,918,980)
Payments of Other Costs on Debt Issuance	(1,233,539)	
Payments of Principal and Interest on Debt Issuance	(7,987,148)	(6,469,655)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (4,411,245)</b>	<b>\$ (4,953,397)</b>

CASH FLOWS FROM INVESTING ACTIVITIES	2012	2011
Proceeds from Interest and Investment Income	\$ 785,172	\$ 1,575,296
Payments to Acquire Investments	(585,406)	
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>\$ 199,766</b>	<b>\$ 1,575,296</b>
Increase (Decrease) in Cash and Cash Equivalents	4,979,995	2,586,799
<b>CASH AND CASH EQUIVALENTS, SEPTEMBER 1</b>	<b>\$ 27,512,362</b>	<b>\$ 24,925,563</b>
<b>CASH AND CASH EQUIVALENTS, AUGUST 31</b>	<b>\$ 32,492,357</b>	<b>\$ 27,512,362</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (57,826,904)</b>	<b>\$ (66,561,610)</b>
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Amortization and Depreciation	\$ 7,070,095	\$ 6,967,492
Classification Differences	(101,360)	
(Increase) Decrease in Receivables and Loans	(767,045)	(1,660,221)
(Increase) Decrease in Inventories	789	589
(Increase) Decrease in Other Assets	(19,046)	(25,689)
(Increase) Decrease in Prepaid Expenses	204,327	484,383
Increase (Decrease) in Payables	523,411	1,023,257
Increase (Decrease) in Deferred Income	1,997,267	2,381,245
Increase (Decrease) in Other Liabilities	(488,938)	60,400
<b>TOTAL ADJUSTMENTS</b>	<b>\$ 8,419,500</b>	<b>\$ 9,231,456</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ (49,407,404)</b>	<b>\$ (57,330,154)</b>

# FINANCIAL STATEMENTS

## UNIVERSITY OF HOUSTON DOWNTOWN - MATRIX OF OPERATING EXPENSES

As of August 31, 2012

EXPENSES BY NATURAL CLASSIFICATION	2012	2011
Cost of Goods Sold	\$ 1,979	\$ 1,699
Salaries and Wages	57,531,327	58,073,311
Payroll Related Costs	13,321,611	13,558,631
Professional Fees and Services	6,301,177	6,209,750
Federal Pass-Through Expenses	8,820	10,000
Travel	1,013,646	795,419
Materials and Supplies	4,247,967	4,715,793
Communication and Utilities	3,059,025	2,554,284
Repairs and Maintenance	1,910,364	2,219,233
Rentals and Leases	904,830	1,062,391
Printing and Reproduction	262,275	261,770
Depreciation and Amortization	7,070,095	6,967,492
Interest	10,163	18,835
Scholarships	32,856,075	32,897,581
Claims and Losses	81,857	197,933
Other Operating Expenses	3,133,342	2,994,920
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 131,714,553</b>	<b>\$ 132,539,042</b>

EXPENSES BY FUNCTIONAL CLASSIFICATION	2012	2011
Instruction	\$ 37,671,875	\$ 38,301,509
Research	2,217,057	1,473,222
Public Service	4,256,532	3,784,092
Academic Support	16,794,912	17,423,558
Student Services	3,423,337	4,011,293
Institutional Support	15,933,770	15,356,050
Physical Plant	6,189,453	5,831,035
Scholarships and Fellowships	31,251,119	32,677,308
Auxiliary Enterprises	6,906,403	6,713,483
Depreciation and Amortization	7,070,095	6,967,492
<b>TOTAL EXPENSES BY EXPENDITURE FUNCTION</b>	<b>\$ 131,714,553</b>	<b>\$ 132,539,042</b>



- STATEMENT OF ASSETS
- STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
- STATEMENT OF CASH FLOWS
- MATRIX OF OPERATING EXPENSES

# FINANCIAL STATEMENTS

## UNIVERSITY OF HOUSTON VICTORIA - STATEMENT OF NET ASSETS

As of August 31, 2012

ASSETS	2012	2011
<i>CURRENT ASSETS</i>		
Cash and Cash Equivalents	\$ 6,510,290	\$ 9,112,242
Restricted Cash and Cash Equivalents	(704,951)	(998,130)
Loans and Contracts	1,956,803	1,982,889
Legislative Appropriations	3,372,747	2,746,507
Receivables	6,153,576	6,104,431
Prepaid Items	1,150,629	990,951
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 18,439,094</b>	<b>\$ 19,938,890</b>
<i>NON-CURRENT ASSETS</i>		
Restricted Cash and Cash Equivalents	\$ 329,713	\$ 440,324
Loans and Other Receivables	29,561,318	17,810,304
Investments	38,009	5,609
Capital Assets, Non-Depreciable, Non-Amortizable	2,162,213	1,591,043
Capital Assets, Depreciable, Amortizable	34,929,771	34,606,390
Accumulated Amortization/Depreciation	(14,701,662)	(13,020,452)
Deferred Charges	20,787,037	20,551,869
<b>TOTAL NON-CURRENT ASSETS</b>	<b>\$ 73,106,399</b>	<b>\$ 61,985,087</b>
<b>TOTAL ASSETS</b>	<b>\$ 91,545,493</b>	<b>\$ 81,923,977</b>

LIABILITIES	2012	2011
<i>CURRENT LIABILITIES</i>		
Payables	\$ 3,357,663	\$ 3,903,612
Unearned Revenues	9,719,699	9,156,333
Claims and Judgements Payable	9,399	4,640
Employees' Compensable Leave	381,029	399,312
Revenue Bonds Payable	2,596,074	2,717,048
Funds Held for Others	389,094	630,842
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 16,452,958</b>	<b>\$ 16,811,787</b>
<i>NON-CURRENT LIABILITIES</i>		
Employee's Compensable Leave	405,896	433,803
Revenue Bonds Payable	48,919,817	40,239,106
Claims and Judgments Payable	670	372
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>\$ 49,326,383</b>	<b>\$ 40,673,281</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 65,779,341</b>	<b>\$ 57,485,068</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	\$ 10,013,586	\$ 9,183,922
Restricted, Debt Retirement	2,291,464	723,714
Restricted, Capital Projects	258,679	8,964
Restricted, Endowment Funds	7,800,240	7,208,463
Restricted, Other	1,707,657	1,718,231
Unrestricted	3,694,526	5,595,615
<b>TOTAL NET ASSETS</b>	<b>\$ 25,766,152</b>	<b>\$ 24,438,909</b>



# FINANCIAL STATEMENTS

## UNIVERSITY OF HOUSTON VICTORIA - STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

As of August 31, 2012

OPERATING REVENUES	2012	2011
Tuition and Fees, Net of Discounts	\$ 16,735,095	\$ 14,987,005
Sales of Goods and Services	1,712,647	1,749,745
Federal Revenue	162,786	482,875
State Grant Revenue	684,875	798,798
Other Grants and Contracts	396,843	512,741
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 19,692,246</b>	<b>\$ 18,531,164</b>
<b>OPERATING EXPENSES</b>		
Instruction	\$ 19,763,372	\$ 18,473,491
Research	118,884	162,647
Public Service	804,473	805,108
Academic Support	6,331,208	5,962,053
Student Services	5,571,449	4,463,825
Institutional Support	4,858,241	4,917,645
Operation and Maintenance of Plant	2,041,560	1,988,881
Scholarships and Fellowships	2,823,889	3,420,057
Auxiliary Enterprises	2,087,484	2,062,152
Depreciation and Amortization	1,763,425	1,653,556
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 46,163,985</b>	<b>\$ 43,909,415</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (26,471,739)</b>	<b>\$ (25,378,251)</b>

NONOPERATING REVENUES (EXPENSES)	2012	2011
Legislative Revenue	\$ 16,973,793	\$ 18,922,454
Gifts	394,798	310,292
Federal Revenue Non Operating	4,900,464	5,985,184
Investment Income	236,546	704,955
Interest Expense and Fiscal Charges	(2,387,298)	(2,178,556)
Net Incr (Decr) in Fair Value of Investments	899,768	42,103
Other Nonoperating Revenues (Expenses)	436,827	(2,167,390)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>\$ 21,454,898</b>	<b>\$ 21,619,042</b>
<b>INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>\$ (5,016,841)</b>	<b>\$ (3,759,209)</b>
<b>OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>		
Capital Appropriation (Higher Education Assistance Funds)	\$ 2,393,921	\$ 2,393,921
Additions to Permanent and Term Endowments	49,730	195,832
Intercomponent Transfers	4,079,333	28,136
Transfers Out	(179,328)	(147,600)
<b>TOTAL OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>\$ 6,343,656</b>	<b>\$ 2,470,289</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 1,326,815</b>	<b>\$ (1,288,920)</b>
Net Assets Beginning	\$ 24,438,909	\$ 25,730,351
Restatements	428	(2,522)
<b>NET ASSETS BEGINNING, AS RESTATED</b>	<b>\$ 24,439,337</b>	<b>25,727,829</b>
<b>NET ASSETS, ENDING</b>	<b>\$ 25,766,152</b>	<b>24,438,909</b>

# FINANCIAL STATEMENTS

## UNIVERSITY OF HOUSTON VICTORIA - STATEMENT OF CASH FLOWS

As of August 31, 2012

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>2012</b>	<b>2011</b>
Proceeds Received from Students and Customers	\$ 17,520,758	\$ 16,874,800
Proceeds from Loan Programs	3,425,188	3,704,010
Proceeds from Other Revenues	2,933,542	1,954,251
Payments to Suppliers for Goods and Services	(13,307,495)	(13,270,065)
Payments to Employees	(27,625,150)	(25,945,409)
Payments for Loans Provided	(3,399,101)	(3,762,705)
Payments for Other Expenses	(4,484,792)	(4,016,850)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ (24,937,050)</b>	<b>\$ (24,461,968)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from State Appropriations	\$ 16,347,553	\$ 19,677,813
Proceeds from Gifts	413,730	503,474
Proceeds from Endowments	49,730	195,832
Proceeds of Transfers from Other Funds	4,416,097	149,393
Proceeds from Other Revenues	4,900,464	5,985,184
Payments for Other Uses	(508,669)	(1,060,485)
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>\$ 25,618,905</b>	<b>\$ 25,451,211</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from Capital Financing Activities	\$ 13,949,829	\$ 5,494,516
Payments for Additions to Capital Assets	(976,337)	(3,989,941)
Payments of Principal and Interest on Debt Issuance	(16,339,190)	(6,488,823)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (3,365,698)</b>	<b>\$ (4,984,248)</b>

<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>2012</b>	<b>2011</b>
Proceeds from Interest and Investment Income	\$ 1,136,315	\$ 841,738
Payments to Acquire Investments	(871,855)	(9,514)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>\$ 264,460</b>	<b>\$ 832,224</b>
Increase (Decrease) in Cash and Cash Equivalents	(2,419,383)	(3,162,781)
<b>CASH AND CASH EQUIVALENTS, SEPTEMBER 1</b>	<b>\$ 8,554,436</b>	<b>\$ 11,717,217</b>
<b>CASH AND CASH EQUIVALENTS, AUGUST 31</b>	<b>\$ 6,135,053</b>	<b>\$ 8,554,436</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (26,471,739)</b>	<b>\$ (25,378,251)</b>
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Amortization and Depreciation	\$ 1,763,425	\$ 1,653,556
Classification Differences	26,087	(58,695)
(Increase) Decrease in Receivables and Loans	(67,148)	(212,740)
(Increase) Decrease in Other Assets	39,101	(55,525)
(Increase) Decrease in Prepaid Expenses	(159,678)	737,423
Increase (Decrease) in Payables	(589,655)	(1,714,160)
Increase (Decrease) in Deferred Income	563,365	564,738
Increase (Decrease) in Other Liabilities	(40,808)	1,686
<b>TOTAL ADJUSTMENTS</b>	<b>\$ 1,534,689</b>	<b>\$ 916,283</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ (24,937,050)</b>	<b>\$ (24,461,968)</b>

# FINANCIAL STATEMENTS

## UNIVERSITY OF HOUSTON VICTORIA - MATRIX OF OPERATING EXPENSES

As of August 31, 2012

EXPENSES BY NATURAL CLASSIFICATION	2012	2011
Salaries and Wages	\$ 22,267,369	\$ 21,239,017
Payroll Related Costs	5,310,710	5,111,488
Professional Fees and Services	6,146,539	5,702,116
Travel	525,085	626,259
Materials and Supplies	1,500,876	1,576,802
Communication and Utilities	1,201,594	1,106,882
Repairs and Maintenance	1,382,867	586,562
Rentals and Leases	1,263,955	791,006
Printing and Reproduction	140,612	140,629
Depreciation and Amortization	1,763,425	1,653,556
Interest	631	655
Scholarships	3,572,161	4,052,280
Claims and Losses	34,055	40,284
Other Operating Expenses	1,054,106	1,281,879
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 46,163,985</b>	<b>\$ 43,909,415</b>

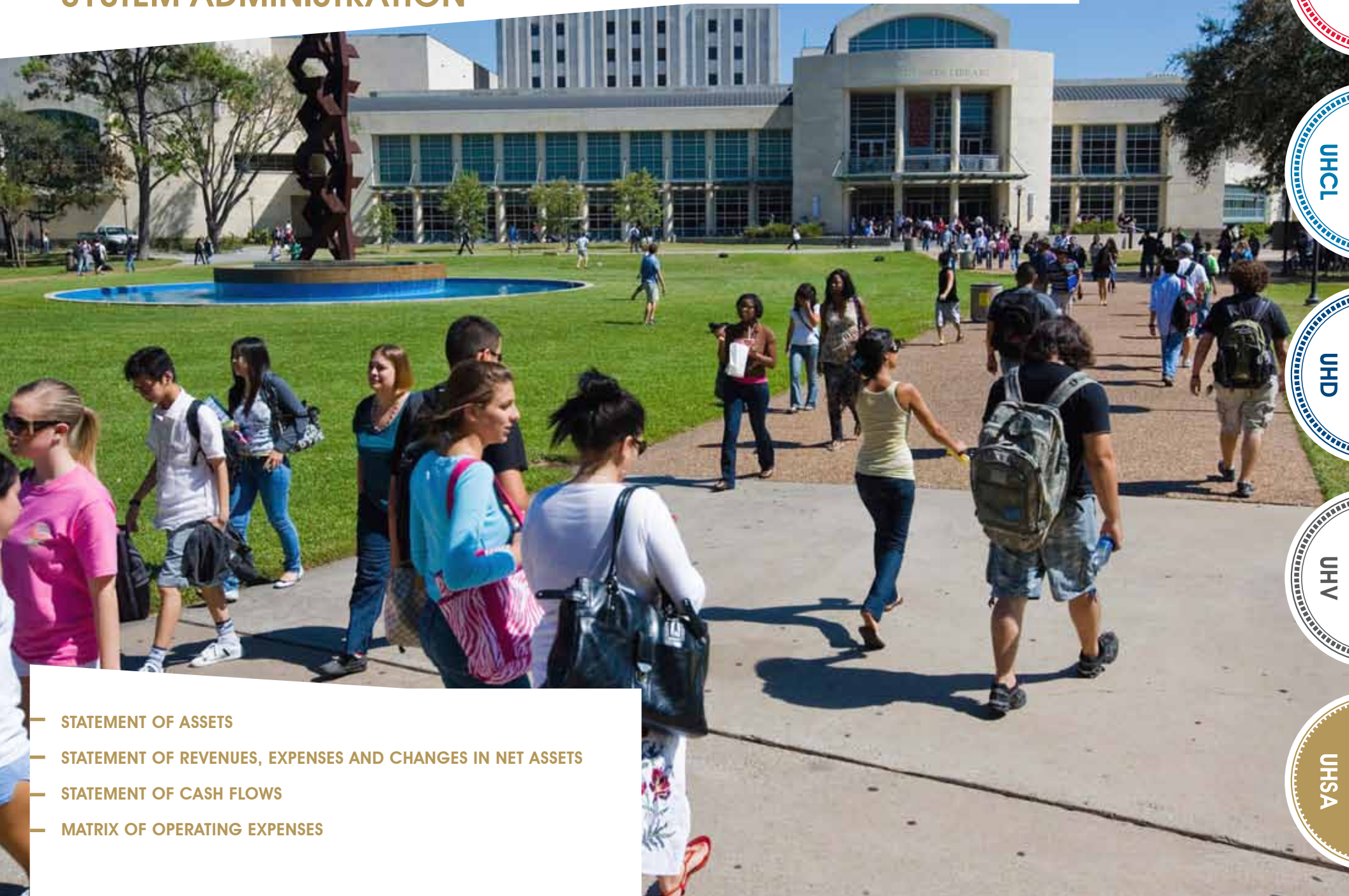
EXPENSES BY FUNCTIONAL CLASSIFICATION	2012	2011
Instruction	\$ 19,763,372	\$ 18,473,491
Research	118,884	162,647
Public Service	804,473	805,108
Academic Support	6,331,208	5,962,053
Student Services	5,571,449	4,463,825
Institutional Support	4,858,241	4,917,645
Physical Plant	2,041,560	1,988,881
Scholarships and Fellowships	2,823,889	3,420,057
Auxiliary Enterprises	2,087,484	2,062,152
Depreciation and Amortization	1,763,425	1,653,556
<b>TOTAL EXPENSES BY EXPENDITURE FUNCTION</b>	<b>\$ 46,163,985</b>	<b>\$ 43,909,415</b>



# UNIVERSITY of HOUSTON

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## SYSTEM ADMINISTRATION



- STATEMENT OF ASSETS
- STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
- STATEMENT OF CASH FLOWS
- MATRIX OF OPERATING EXPENSES



# FINANCIAL STATEMENTS

## UNIVERSITY OF HOUSTON SYSTEM ADMINISTRATION - STATEMENT OF NET ASSETS

As of August 31, 2012

ASSETS	2012	2011	LIABILITIES	2012	2011
<i>CURRENT ASSETS</i>			<i>CURRENT LIABILITIES</i>		
Cash and Cash Equivalents	\$ 181,930,026	\$ 49,703,984	Payables	\$ 834,229,995	\$ 691,894,188
Short-term Investments	231,842,556	147,505,357	Unearned Revenues	4,402	4,166
Restricted Cash and Cash Equivalents	5,902,818	5,568,162	Notes and Loans Payable	25,123,000	42,141,000
Legislative Appropriations	765,389	806,984	Claims and Judgments Payable	13,816	971
Receivables	13,555,555	8,164,789	Employees' Compensable Leave	364,038	384,301
Prepaid Items	57,962	43,008	Funds Held for Others	20,357	25,606
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 434,054,306</b>	<b>\$ 211,792,284</b>	<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 859,755,608</b>	<b>\$ 734,450,232</b>
<i>NON-CURRENT ASSETS</i>			<i>NON-CURRENT LIABILITIES</i>		
Restricted Cash and Cash Equivalents	\$ (138,004,179)	\$ 2,750,857	Employee's Compensable Leave	387,796	417,495
Loans and Other Receivables	6,565,310	12,859,881	Claims and Judgments Payable	281	4
Investments	637,925,375	611,083,257			
Capital Assets, Non-Depreciable, Non-Amortizable	6,399,751	6,528,754	<b>TOTAL NONCURRENT LIABILITIES</b>	<b>\$ 388,077</b>	<b>\$ 417,499</b>
Capital Assets, Depreciable, Amortizable	91,771,914	91,483,008	<b>TOTAL LIABILITIES</b>	<b>\$ 860,143,685</b>	<b>\$ 734,867,731</b>
Accumulated Amortization/Depreciation	(41,636,693)	(33,081,271)			
<b>TOTAL NON-CURRENT ASSETS</b>	<b>\$ 563,021,478</b>	<b>\$ 691,624,486</b>	<b>NET ASSETS</b>		
<b>TOTAL ASSETS</b>	<b>\$ 997,075,784</b>	<b>\$ 903,416,770</b>	Invested in Capital Assets, Net of Related Debt	\$ 39,580,421	\$ 47,073,677
			Restricted, Debt Retirement	3,087,555	221,393
			Restricted, Capital Projects	15,967	
			Restricted, Endowment Funds	50,224,161	78,119,031
			Restricted, Other	6,452,092	6,112,412
			Unrestricted	37,571,903	37,022,526
			<b>TOTAL NET ASSETS</b>	<b>\$ 136,932,099</b>	<b>\$ 168,549,039</b>

# FINANCIAL STATEMENTS

## UNIVERSITY OF HOUSTON SYSTEM ADMINISTRATION - STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

As of August 31, 2012

OPERATING REVENUES	2012	2011
Sales of Goods and Services	1,264,002	1,087,485
State Grant Revenue	25,473	48,427
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 1,289,475</b>	<b>\$ 1,135,912</b>
<b>OPERATING EXPENSES</b>		
Research	976,312	1,079,042
Public Service	101,368	76,250
Academic Support	5,317,855	4,773,128
Student Services	255,462	189,991
Institutional Support	6,996,487	7,540,919
Operation and Maintenance of Plant	2,190,113	2,191,814
Scholarships and Fellowships	53,870	65,827
Depreciation and Amortization	8,605,896	8,183,552
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 24,497,363</b>	<b>\$ 24,100,523</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (23,207,888)</b>	<b>\$ (22,964,611)</b>

NONOPERATING REVENUES (EXPENSES)	2012	2011
Legislative Revenue	\$ 27,529,314	\$ 4,029,033
Gifts	98,551	1,252,096
Federal Revenue Non Operating	1,568,336	1,568,336
Investment Income	2,706,752	6,907,262
Net Incr (Decr) in Fair Value of Investments	(21,169,309)	26,627,058
Other Nonoperating Revenues (Expenses)	7,671,512	549,835
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>\$ 18,405,156</b>	<b>\$ 40,933,620</b>
<b>INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>\$ (4,802,732)</b>	<b>\$ 17,969,009</b>
<b>OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>		
Additions to Permanent and Term Endowments	10,000	443,604
Transfers In	3,856,976	4,296,573
Transfers Out	(30,622,828)	(7,004,577)
Legislative Appropriations Lapsed	(58,356)	
<b>TOTAL OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>\$ (26,814,208)</b>	<b>\$ (2,264,400)</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ (31,616,940)</b>	<b>\$ 15,704,609</b>
Net Assets Beginning	\$ 168,549,039	\$ 152,844,430
<b>NET ASSETS, ENDING</b>	<b>\$ 136,932,099</b>	<b>168,549,039</b>

# FINANCIAL STATEMENTS

## UNIVERSITY OF HOUSTON SYSTEM ADMINISTRATION - STATEMENT OF CASH FLOWS

As of August 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	2012	2011
Proceeds Received from Students and Customers	\$ 1,469,325	\$ 882,398
Proceeds from Other Revenues	25,148	48,605
Payments to Suppliers for Goods and Services	(6,912,479)	(2,704,707)
Payments to Employees	(10,413,210)	(9,320,805)
Payments for Other Expenses	(5,276,667)	(3,221,440)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ (21,107,883)</b>	<b>\$ (14,315,949)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from State Appropriations	\$ 27,512,553	\$ 11,573,369
Proceeds from Gifts	98,551	1,521,636
Proceeds from Endowments	10,000	443,604
Proceeds of Transfers from Other Funds	16,137,156	48,273,830
Proceeds from Other Revenues	1,568,336	1,568,336
Payments for Other Uses	(30,656,498)	(22,954,784)
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>\$ 14,670,098</b>	<b>\$ 40,425,991</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from Other Financing Activities	\$ 102,838,723	\$ 35,801,132
Payments for Additions to Capital Assets	(210,376)	(2,765,911)
Payment of Principal on Debt	(17,018,000)	
Payments of Other Costs of Debt Issuance	(3,067,717)	(76,872,984)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ 82,542,630</b>	<b>\$ (43,837,763)</b>

CASH FLOWS FROM INVESTING ACTIVITIES	2012	2011
Proceeds from Sales of Investments	\$ 577,781,731	\$ 497,425,887
Proceeds from Interest and Investment Income	155,886	12,702,674
Payments to Acquire Investments	(662,236,800)	(492,481,254)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>\$ (84,299,183)</b>	<b>\$ 17,647,307</b>
Increase (Decrease) in Cash and Cash Equivalents	(8,194,338)	(80,414)
<b>CASH AND CASH EQUIVALENTS, SEPTEMBER 1</b>	<b>\$ 58,023,003</b>	<b>\$ 58,103,417</b>
<b>CASH AND CASH EQUIVALENTS, AUGUST 31</b>	<b>\$ 49,828,665</b>	<b>\$ 58,023,003</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (23,207,888)</b>	<b>\$ (22,964,611)</b>
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Amortization and Depreciation	\$ 8,605,896	\$ 8,183,552
(Increase) Decrease in Receivables and Loans	(5,517,905)	(1,308,150)
(Increase) Decrease in Other Assets	(324)	178
(Increase) Decrease in Prepaid Expenses	(14,954)	(42,984)
Increase (Decrease) in Payables	(2,189,084)	1,388,625
Increase (Decrease) in Deferred Income	236	(21,282)
Increase (Decrease) in Other Liabilities	1,216,140	448,723
<b>TOTAL ADJUSTMENTS</b>	<b>\$ 2,100,005</b>	<b>\$ 8,648,662</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ (21,107,883)</b>	<b>\$ (14,315,949)</b>

# FINANCIAL STATEMENTS

## UNIVERSITY OF HOUSTON SYSTEM ADMINISTRATION - MATRIX OF OPERATING EXPENSES

As of August 31, 2012

EXPENSES BY NATURAL CLASSIFICATION	2012	2011
Salaries and Wages	7,848,117	7,913,065
Payroll Related Costs	1,628,672	1,576,148
Professional Fees and Services	2,342,361	1,997,208
Travel	70,479	71,076
Materials and Supplies	350,300	537,654
Communication and Utilities	686,444	667,892
Repairs and Maintenance	292,317	392,029
Rentals and Leases	266,138	246,657
Printing and Reproduction	41,169	44,962
Depreciation and Amortization	8,605,896	8,183,552
Interest	1,591,781	1,579,211
Scholarships	523,439	684,139
Claims and Losses	30,200	21,892
Other Operating Expenses	220,050	185,038
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 24,497,363</b>	<b>\$ 24,100,523</b>

EXPENSES BY FUNCTIONAL CLASSIFICATION	2012	2011
Instruction	\$ 976,312	\$ 1,079,042
Research	101,368	76,250
Public Service	5,317,855	4,773,128
Academic Support	255,462	189,991
Student Services	6,996,487	7,540,919
Institutional Support	2,190,113	2,191,814
Operation and Maintenance of Plant	53,870	65,827
Scholarships and Fellowships	8,605,896	8,183,552
Depreciation and Amortization		
<b>TOTAL EXPENSES BY EXPENDITURE FUNCTION</b>	<b>\$ 24,497,363</b>	<b>\$ 24,100,523</b>





Patricia Solis  
Future Dancer

Strategic goals adopted by the University of Houston System Board of Regents influence the mission statements of each of the component universities. The most prominent of these goals is the principle of Student Access and Success. Each university within the System makes student success its top priority and holds itself publicly accountable for achieving this goal. Together the University of Houston System and its component universities provide many of the best business, engineering, education and health management graduates who contribute to the well-being of the Texas gulf coast economy.

In this year's Annual Financial Report we have taken the opportunity to share with you a variety of photographs of students at each of the universities throughout our system. We hope these glimpses of student life will help you gain some insight into the many ways our students engage and participate in an abundance of educational opportunities as they progress through their academic experience. Additionally we offer the following descriptions of our pathways to progress toward our commitment to enable and encourage success for our students.

#### UNIVERSITY OF HOUSTON

**GOAL:** UH will have a student profile consistent with a nationally competitive public research university by creating an environment in which student success can be ensured.

- Enrollment has increased from 2011 to 2012 by a multitude of students, many of whom are making the University of Houston their

first choice. Freshmen are meeting more competitive standards for admission than ever before.

- Improvements in student success at UH have been facilitated by the university's annual commitment to investing in new initiatives that support student enrollment, persistence and graduation. These include increasing scholarships, expanding course offerings, enhancing student support staff (e.g., recruiters, advisers), improving the curriculum, and providing enhanced facilities. As a part of the student success initiative UH will have the capacity to house 8,000 students on-campus by the fall of 2013.
- In addition to student success at the undergraduate level, UH continues to make progress at the graduate level, which is also a factor in the university's tier-one status. Consistent long-term growth in graduate enrollment will enable UH to achieve its goal of a student body that is 25 percent graduate, which is consistent with a tier-one university profile.

#### UNIVERSITY OF HOUSTON – CLEAR LAKE

**GOAL:** UHCL will provide a supportive student-centered campus environment focused on student access and success.

- UHCL's fall 2011 enrollment was again the highest level in the university's history. As an upper-level and graduate institution, UHCL serves two very different student groups. The undergraduate student body consists primarily of community college transfer students. Over 70% of UHCL undergraduates have attended one or more community colleges prior to





**Ronald E. Moss**  
Future Professional Soccer Player

enrollment. The graduate student body is represented primarily by individuals who are working full-time and pursuing graduate study on a part-time basis in the evening. In fall 2011, Hispanic students were 28.9% of UHCL's undergraduate enrollment, an increase of 1.3%, and which also qualified UHCL as a Hispanic Serving Institution. Hispanic students now comprise 23% of UHCL's total enrollment. UHCL has in excess of 53,000 alumni.

- The university is increasingly responsive to the employers in our community. The Clear Lake area is marked by a heavy concentration of aerospace firms due to the location of NASA's Johnson Space Center. Other major local employers of UHCL graduates include the petrochemical businesses, public school districts, healthcare institutions, and a variety of business and professional service firms.
- To address student needs, UH-Clear Lake is committed to the recruitment, retention, and professional development of faculty as well as the proper balance between full-time and part-time faculty. UHCL is expanding program and course offerings off-campus and online. UHCL continues to offer bachelor's and master's degrees at various off-campus locations including the UH System centers at Sugar Land and Cinco Ranch, community colleges, school districts, and the Texas Medical Center. In addition to these off campus possibilities, UHCL currently offers seven masters degrees, five bachelor's degrees and eight professional development certificates online. A major initiative for UHCL which began during fiscal year 2011 was the start-up of the UHCL Pearland campus. From this newly constructed facility, which is

a partnership with the City of Pearland, UHCL offers six bachelors and five master's degrees from the schools of business, education, and human sciences and humanities. Enrollment at the Pearland campus has grown at a rate of 27% this past year.

- With the passage of Senate Bill 324 and House Bill 706 in the 2011 session of the Texas Legislature UHCL received authority for downward expansion (the addition of freshman and sophomore level courses) with a target date of fall 2014 for the first freshman class.

#### UNIVERSITY OF HOUSTON – DOWNTOWN

**GOAL:** UHD will recruit, advise, retain, and educate increasing numbers of students who will graduate from our programs, assume leadership roles in society, and meet the workforce needs of the region and state.

- Expanding access to quality higher education has been a central component of the university's mission since its founding in 1974. Through flexible scheduling of courses, innovative use of technology and distance learning opportunities, the University provides educational opportunities for many who might not otherwise be able to pursue a college degree. The U.S. Department of Education has awarded UHD a \$3.2 million grant to be used under the Developing Hispanic Serving Institutions Program. This grant will add college success programs and supplemental instruction and engagement activities for UHD students.

- The student body at UHD is widely diverse. With a population of 39% Hispanic, 29% African American, 20% Anglo, and 9% Asian, UHD is the most ethnically diverse university in the state of Texas. More than 50% of UHD's students are first-time-in-college. The Texas Higher Education Journal has named UHD third in Texas among four-year institutions for graduating African American students, based on the Texas Higher Education Coordinating Board's 2012 Higher Education Almanac.
- The University's strategic plan identifies helping students succeed as its first priority, committing the institution to providing the kind of environment that encourages the development of students as scholars and leaders within their communities, and supports students in achieving their full potential through excellent academic programs.

#### UNIVERSITY OF HOUSTON – VICTORIA

**GOAL:** UHV will optimally shape the size and characteristics of the student body to ensure diversity and reflect the needs of the global leaders of tomorrow, with an emphasis on student access and success, and student participation through athletics, student organizations and academic success initiatives.

- UHV's downward expansion entered the third year breaking enrollment records. The addition of freshman and sophomores has more than doubled UHV enrollment in only two years. There were also corresponding increases in upper level students.
- The university strives for high levels of student success and satisfaction, as it enters a new era as a destination university. While

implementing its new, additional mission as a destination university, UHV will continue its historical mission of serving non-traditional students on campus, at the UH System centers, and online. UHV continues to provide support to students by developing academic advising, on-campus, student employment and adding a wider variety of undergraduate courses, thus aiding student retention.

- UHV continues a historical mission to serve the non-traditional student on campus at UH System teaching centers and online. A variety of opportunities exist, including a new Spanish major as well as growing Registered Nursing and Bachelor of Science Nursing programs.
- The university also considers international education to be vital to its mission. It is important that the university continue to enroll students from other countries and to provide opportunities for U.S. students to study abroad.
- UHV has applied for designation as a Hispanic-Serving Institution from the U.S. Department of Education. Prior to downward expansion UHV's student body was less than 18% Hispanic. The addition of freshmen and sophomores has raised Hispanic enrollment to 25.5%. This designation will allow UHV to apply for additional grants to support student success.

**Christine Moore**  
Future Motivational Speaker







*Taylor Dalton*  
*Future Civil Engineer*