

UNIVERSITY of HOUSTON SYSTEM  
ANNUAL FINANCIAL REPORT

# 2012/13



UH HOUSTON

UH CLEAR LAKE

UH DOWNTOWN

UH VICTORIA

UH SYSTEM

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## organizational data

AS OF AUGUST 31, 2013

### BOARD OF REGENTS

Nelda Luce Blair, The Woodlands  
TERM EXPIRES AUGUST 31, 2013

Jacob M. Monty, Houston  
TERM EXPIRES AUGUST 31, 2013

Michele "Mica" Mosbacher, Austin  
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

Spencer D. Armour, III, Midland  
TERM EXPIRES AUGUST 31, 2017

Roger F. Welder, Victoria  
TERM EXPIRES AUGUST 31, 2017

Welcome W. Wilson, Jr., Houston  
TERM EXPIRES AUGUST 31, 2017

Benjamin P. Wells (Student Regent), Houston  
TERM EXPIRES MAY 31, 2014

### OFFICERS OF THE BOARD

FISCAL YEAR 2013

Nelda Luce Blair  
CHAIRMAN

Jarvis V. Hollingsworth  
VICE CHAIRMAN

Tilman J. Fertitta  
SECRETARY

### OFFICERS OF THE BOARD

FISCAL YEAR 2014

Jarvis V. Hollingsworth  
CHAIRMAN

Nandita V. Berry  
VICE CHAIRMAN

Welcome W. Wilson Jr.  
SECRETARY

### ADMINISTRATIVE OFFICERS

Renu Khator  
CHANCELLOR

John J. Antel  
SENIOR VICE CHANCELLOR  
FOR ACADEMIC AFFAIRS AND PROVOST

Carl P. Carlucci  
EXECUTIVE VICE CHANCELLOR  
FOR ADMINISTRATION AND FINANCE

Rathindra N. Bose  
VICE CHANCELLOR  
FOR RESEARCH AND TECHNOLOGY TRANSFER

Dona H. Cornell  
VICE CHANCELLOR  
FOR LEGAL AFFAIRS AND GENERAL COUNSEL

Eloise Dunn Stuhr  
VICE CHANCELLOR FOR UNIVERSITY ADVANCEMENT

J. Richard Walker  
VICE CHANCELLOR FOR STUDENT AFFAIRS

Renu Khator  
PRESIDENT – UNIVERSITY OF HOUSTON

William A. Staples  
PRESIDENT – UH CLEAR LAKE

William V. Flores  
PRESIDENT – UH DOWNTOWN

Philip D. Castille  
PRESIDENT – UH VICTORIA

## introduction

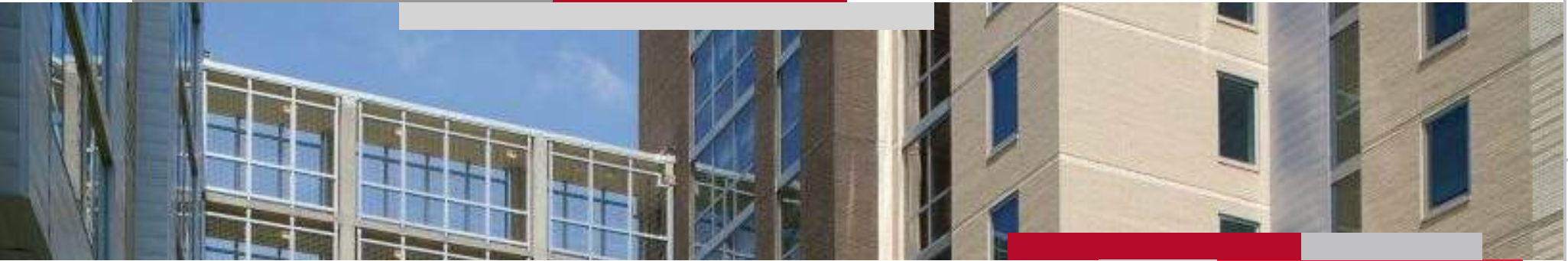


On behalf of the University of Houston System, we are pleased to submit to you our Annual Financial Report for the fiscal year ended August 31, 2013. Within the contents of this presentation you will have the opportunity to review our financial statements and examine the results of the financial activities and operations of the UH System.

The data and graphics included in the accompanying narrative are designed to enable analysis of significant financial events and accomplishments. Our faculty, staff, and administrators are dedicated and committed to our responsibility to provide our students and our community a superior level of instruction, research, and community support and involvement.

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

The Texas State Auditor has not audited the accompanying annual financial statements and, therefore, an opinion has not been nor will be expressed on the financial statements and related information contained in this report. The information contained in the combined financial statements of the University of Houston System is part of and included in the State of Texas Comprehensive Annual Report (CAFR). Beginning with the fiscal year ended August 31, 1987, the State of Texas has issued audited financial statements, prepared in accordance with generally accepted accounting principles, for the State government as a whole. The State Auditor expresses an opinion on the CAFR financial statements of the State of Texas, but not on the individual financial statements of the component units of the State.



## university of houston system

ASSETS | AUGUST 31, 2013

	2013	%	
Capital Assets	\$ 1,224,966,559	44	■
Inventories and Other Assets	783,192,186	28	■
Cash and Investments	464,185,987	17	■
Receivables	215,096,070	8	■
Appropriations	83,915,403	3	■
<b>TOTAL ASSETS</b>	<b>\$ 2,771,356,205</b>	<b>100</b>	

### UNIVERSITY OF HOUSTON SYSTEM - ASSETS

100%







## university of houston system

LIABILITIES | AUGUST 31, 2013

	2013	%	
Bonds Payable	\$ 841,549,907	68	■
Unearned Revenue	196,502,554	16	■
Payables and Accrued Liabilities	159,336,230	13	■
Accrued Compensable Absences Payable	24,146,947	2	■
Funds Held for Others	14,550,028	1	■
<b>TOTAL LIABILITIES</b>	<b>\$ 1,236,085,666</b>	<b>100</b>	

### UNIVERSITY OF HOUSTON SYSTEM - LIABILITIES

100%





## university of houston system

OPERATING REVENUE | AUGUST 31, 2013

	2013	%	
Tuition and Fees Pledged, Net of Discounts	\$ 436,002,372	61	■
Auxiliary Enterprise - Pledged	78,028,650	11	■
Federal Grant Revenues	71,202,958	10	■
State Grant Revenue	50,390,519	7	■
Sales of Other Goods and Services - Pledged	45,717,993	6	■
Local and Private Awards	27,123,268	4	■
Other Operating Revenues	903,448	1	■
<b>TOTAL OPERATING REVENUE</b>	<b>\$ 709,369,208</b>	<b>100</b>	

### UNIVERSITY OF HOUSTON SYSTEM - OPERATING REVENUE

100%



# university of houston system

OPERATING EXPENSES NATURAL CLASSIFICATION | AUGUST 31, 2013

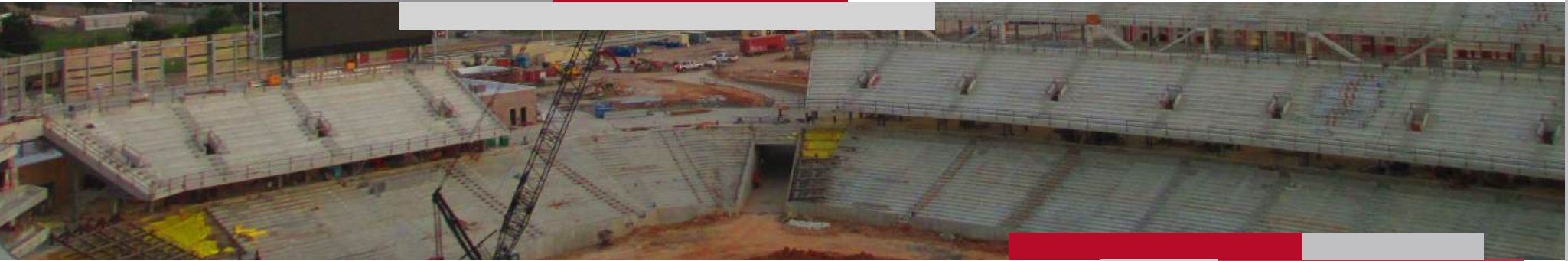
	2013	%	
Salaries and Benefits	\$ 659,262,646	60	■
Supplies, Office Operations, Travel	126,054,811	11	■
Scholarships	109,199,437	10	■
Depreciation	82,040,770	7	■
Communication and Utilities	47,921,362	4	■
Other Operating Expenses	44,171,545	4	■
Financing and Legal	34,039,754	3	■
Repairs and Maintenance	15,543,350	1	■
<b>TOTAL OPERATING EXPENSES (NATURAL)</b>	<b>\$ 1,118,233,675</b>	<b>100</b>	

## UNIVERSITY OF HOUSTON SYSTEM - OPERATING EXPENSES NATURAL CLASSIFICATION

100%







## university of houston system

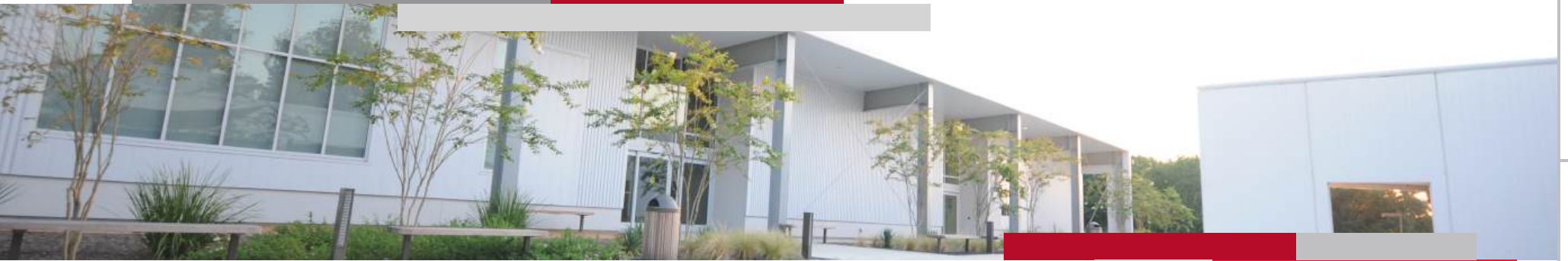
REVENUE | AUGUST 31, 2013

	2013	%	
<b>OPERATING REVENUE</b>			
Operating Revenue	\$ 436,002,372	34	■
Sales of Goods and Services	124,650,091	10	■
All Other Contracts and Grants	77,513,787	6	■
Federal Contracts and Grants	71,202,958	6	■
<b>NON-OPERATING REVENUE</b>			
Legislative Sources	259,286,635	20	■
Other Revenue	61,787,118	5	■
Federal Revenue	99,388,937	8	■
Gifts	76,495,557	6	■
Other Appropriations	50,929,094	4	■
Endowment Additions	9,974,321	1	■
<b>TOTAL ASSETS</b>	<b>\$ 1,267,230,870</b>	<b>100</b>	

### UNIVERSITY OF HOUSTON SYSTEM - REVENUE

100%





## university of houston system

TOTAL EXPENSES | UNIVERSITY OF HOUSTON SYSTEM

	2013	%	
<b>OPERATING EXPENSES</b>			
Salaries and Benefits	\$ 659,262,646	56	■
Office Operations and Supplies	189,519,523	16	■
Scholarships	109,199,437	9	■
Depreciation and Amortization	82,040,770	7	■
Other Operating Expenses	41,154,801	3	■
Financing and Legal	34,039,754	3	■
Pass Through Expenses	3,016,744	1	■
<b>NON-OPERATING EXPENSES</b>			
Other Non-Operating Expenses	28,192,278	2	■
Interest Expense	39,741,099	3	■
<b>TOTAL EXPENSES (NATURAL)</b>	<b>\$ 1,186,167,052</b>	<b>100</b>	

### UNIVERSITY OF HOUSTON SYSTEM - TOTAL EXPENSES

100%





# statement of net position

UNIVERSITY OF HOUSTON SYSTEM | FOR THE YEAR ENDED AUGUST 31, 2013

ASSETS	2013	2012
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 239,327,142	\$ 432,847,036
Short-term Investments	151,076,755	249,721,438
Restricted Cash and Cash Equivalents	73,782,090	(48,957,735)
Legislative Appropriations	83,915,403	83,182,728
Receivables	109,668,703	95,088,726
Inventories	1,905,694	2,018,639
Prepaid Items	33,410,856	27,231,773
Loans and Contracts	15,861,333	14,400,435
<b>TOTAL CURRENT ASSETS</b>	<b>708,947,976</b>	<b>855,533,040</b>
<b>NON-CURRENT ASSETS</b>		
Loans and Other Receivables	56,155,178	45,004,235
Investments	735,821,874	638,584,140
Capital Assets, Non-Depreciable/ Non-Amortizable	306,075,188	268,112,709
Capital Assets, Amortizable/Depreciable	1,926,917,977	1,753,275,560
Accumulated Amortization/Depreciation	(1,008,026,606)	(946,938,852)
Deferred Charges	45,464,618	48,393,844
<b>TOTAL NON-CURRENT ASSETS</b>	<b>2,062,408,229</b>	<b>1,806,431,636</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,771,356,205</b>	<b>\$ 2,661,964,676</b>

LIABILITIES	2013	2012
<b>CURRENT LIABILITIES</b>		
Payables	\$ 98,948,561	\$ 85,362,574
Unearned Revenues	196,502,554	186,194,740
Notes and Loans Payable	53,256,000	25,123,000
Employees' Compensable Leave	11,768,487	11,324,349
Revenue Bonds Payable	38,390,939	34,705,939
Claims and Judgments Payable	499,481	328,795
Capital Lease Obligations	382,928	374,630
Funds Held for Others	14,550,028	9,009,255
<b>TOTAL CURRENT LIABILITIES</b>	<b>414,298,978</b>	<b>352,423,282</b>
<b>NON-CURRENT LIABILITIES</b>		
Claims and Judgments Payable		4,913
Employee's Compensable Leave	12,378,462	12,063,402
Revenue Bonds Payable	803,158,967	842,329,907
Capital Lease Obligations	6,249,259	6,632,188
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>821,786,688</b>	<b>861,030,410</b>
<b>TOTAL LIABILITIES</b>	<b>1,236,085,666</b>	<b>1,213,453,692</b>

## NET POSITION

Invested in Capital Assets, Net of Related Debt	494,737,995	450,813,216
Restricted, Debt Retirement	45,019,368	55,229,164
Restricted, Capital Projects	7,517,452	2,219,178
Restricted, Endowment Funds	425,492,739	413,127,670
Restricted, Other	185,685,186	156,605,410
Unrestricted	376,817,799	370,516,346
<b>TOTAL NET POSITION</b>	<b>\$1,535,270,539</b>	<b>\$ 1,448,510,984</b>





# statement of revenues, expenses and changes in net position

UNIVERSITY OF HOUSTON SYSTEM | FOR THE YEAR ENDED AUGUST 31, 2013

OPERATING REVENUES	2013	2012
Tuition and Fees, Net of Discounts	\$ 436,002,372	\$ 442,261,451
Sales of Goods and Services	124,650,091	107,306,335
Federal Revenue	71,202,958	68,095,655
State Grant Revenue	50,390,519	51,228,613
Other Grants and Contracts	27,123,268	19,298,095
<b>TOTAL OPERATING REVENUES</b>	<b>709,369,208</b>	<b>688,190,149</b>
<b>OPERATING EXPENSES</b>		
Instruction	297,370,217	290,881,984
Research	111,203,556	97,794,819
Public Service	43,862,090	44,697,819
Academic Support	182,827,524	168,312,893
Student Services	43,092,611	38,417,287
Institutional Support	106,636,843	97,461,355
Operation and Maintenance of Plant	59,896,134	54,490,664
Scholarships and Fellowships	93,608,791	72,390,396
Auxiliary Enterprises	97,695,139	91,819,800
Depreciation and Amortization	82,040,770	78,675,741
<b>TOTAL OPERATING EXPENSES</b>	<b>1,118,233,675</b>	<b>1,034,942,758</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (408,864,467)</b>	<b>\$ (346,752,609)</b>

NON-OPERATING REVENUES (EXPENSES)	2013	2012
Legislative Revenue	\$ 259,286,635	\$ 258,932,816
Gifts	76,495,557	78,122,390
Federal Revenue Non-Operating (PR-OP Grants and Contributions)	99,388,937	78,380,073
Investment Income	28,367,292	15,521,016
Interest Expense and Fiscal Charges	(39,741,099)	(38,013,587)
Net Incr (Decr) in Fair Value of Investments (PR-OP Grants and Contributions)	22,559,316	16,096,586
Other Non-Operating Revenues (Expenses)	(18,429,893)	9,743,633
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>427,926,745</b>	<b>418,782,927</b>
<b>INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>19,062,278</b>	<b>72,030,318</b>
<b>OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>		
Capital Appropriation (Higher Education Assistance Funds)	50,929,094	50,929,094
Additions to Permanent and Term Endowments	9,974,321	8,313,140
Transfers In	8,518,138	7,877,932
Transfers Out	(6,586,157)	(6,344,802)
Legislative Appropriations Lapsed	(833,856)	(58,820)
<b>TOTAL OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>62,001,540</b>	<b>60,716,544</b>
<b>CHANGE IN NET POSITION</b>	<b>81,063,818</b>	<b>132,746,862</b>
Net Position Beginning	1,448,510,984	1,315,995,481
Restatements	5,695,737	(231,359)
<b>NET POSITION BEGINNING, AS RESTATED</b>	<b>1,454,206,721</b>	<b>1,315,764,122</b>
<b>NET POSITION, ENDING</b>	<b>\$1,535,270,539</b>	<b>\$ 1,448,510,984</b>

# statement of cash flows

UNIVERSITY OF HOUSTON SYSTEM | FOR THE YEAR ENDED AUGUST 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	2013	2012
Proceeds Received from Students and Customers	\$ 487,782,760	\$ 477,730,001
Proceeds from Loan Programs	110,116,546	148,142,262
Proceeds from Other Revenues	224,036,177	241,839,816
Payments to Suppliers for Goods and Services	(215,662,507)	(213,675,810)
Payments to Employees	(655,061,908)	(624,899,544)
Payments for Loans Provided	(109,910,628)	(154,798,478)
Payments for Other Expenses	(150,665,126)	(110,565,742)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(309,364,686)</b>	<b>(236,227,495)</b>

## CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Proceeds from State Appropriations	257,720,104	264,910,697
Proceeds from Gifts	57,363,905	53,416,814
Proceeds from Endowments	9,974,321	8,313,140
Proceeds of Transfers from Other Funds	18,280,523	53,631,313
Proceeds from Other Revenues	64,434,795	34,385,735
Payments for Other Uses		(862,911)
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>407,773,648</b>	<b>413,794,788</b>

## CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Financing Activities	203,625,034	452,549,856
Payments for Additions to Capital Assets	(226,862,176)	(189,342,762)
Payments for Capital Lease	(374,630)	(366,160)
Payments of Principal and Interest on Debt Issuance	(197,769,852)	(281,331,974)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(221,381,624)</b>	<b>(18,491,040)</b>

CASH FLOWS FROM INVESTING ACTIVITIES	2013	2012
Proceeds from Interest and Investment Income	\$ 684,741,425	\$ 591,651,650
Payments to Acquire Investments	(632,548,833)	(690,494,882)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>52,192,592</b>	<b>(98,843,232)</b>
Increase (Decrease) in Cash and Cash Equivalents	(70,780,070)	60,233,021
<b>CASH AND CASH EQUIVALENTS, SEPTEMBER 1</b>	<b>383,889,301</b>	<b>323,656,280</b>
<b>CASH AND CASH EQUIVALENTS, AUGUST 31</b>	<b>313,109,231</b>	<b>383,889,301</b>

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

<b>OPERATING INCOME (LOSS)</b>	<b>(408,864,467)</b>	<b>(346,752,609)</b>
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## ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Amortization and Depreciation	82,040,770	78,675,741
Classification Differences	205,917	(6,656,216)
(Increase) Decrease in Receivables and Loans	(4,637,688)	28,786,009
(Increase) Decrease in Inventories	112,945	61,258
(Increase) Decrease in Other Assets	(3,487,430)	(7,892,353)
(Increase) Decrease in Prepaid Expenses	(6,179,083)	1,623,940
Increase (Decrease) in Payables	10,922,880	10,790,924
Increase (Decrease) in Deferred Income	10,307,814	4,361,999
Increase (Decrease) in Other Liabilities	10,213,656	773,812
<b>TOTAL ADJUSTMENTS</b>	<b>99,499,781</b>	<b>110,525,114</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ (309,364,686)</b>	<b>\$ (236,227,495)</b>





## matrix of operating expenses

UNIVERSITY OF HOUSTON SYSTEM | FOR THE YEAR ENDED AUGUST 31, 2013

EXPENSES BY NATURAL CLASSIFICATION	2013	2012
Cost of Goods Sold	\$ 2,816,345	\$ 2,467,156
Salaries and Wages	534,356,585	509,939,505
Payroll Related Costs	124,906,061	115,422,656
Professional Fees and Services	66,996,783	57,522,058
Federal Pass-Through Expenses	2,799,505	2,443,360
State Pass-Through Expenses	217,239	303,635
Travel	14,449,491	13,928,362
Materials and Supplies	38,191,269	38,254,835
Communication and Utilities	47,921,362	46,436,488
Repairs and Maintenance	15,543,350	14,912,202
Rentals and Leases	31,039,065	24,037,194
Printing and Reproduction	3,600,922	4,128,898
Depreciation and Amortization	82,040,770	78,675,741
Interest	1,906,376	1,957,876
Scholarships	109,199,437	87,990,783
Claims and Losses	1,094,314	1,389,365
Other Operating Expenses	41,154,801	35,132,644
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 1,118,233,675</b>	<b>\$ 1,034,942,758</b>

EXPENSES BY FUNCTIONAL CLASSIFICATION	2013	2012
Instruction	\$ 297,370,217	\$ 290,881,984
Research	111,203,556	97,794,819
Public Service	43,862,090	44,697,819
Academic Support	182,827,524	168,312,893
Student Services	43,092,611	38,417,287
Institutional Support	106,636,843	97,461,355
Operation and Maintenance of Plant	59,896,134	54,490,664
Scholarships and Fellowships	93,608,791	72,390,396
Auxiliary Enterprises	97,695,139	91,819,800
Depreciation and Amortization	82,040,770	78,675,741
<b>TOTAL EXPENSES BY EXPENDITURE FUNCTION</b>	<b>\$1,118,233,675</b>	<b>\$ 1,034,942,758</b>

## management's discussion and analysis



### INTRODUCTION

The following Management's Discussion and Analysis (MD&A) section of the University of Houston System's Annual Financial Report has been prepared to provide an overview of the activities and the financial performance of the University of Houston System (the System) for the fiscal year ended August 31, 2013. 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. Following the approval of downward expansion legislation during the 2011 Texas legislative session, UHCL will begin admitting freshmen and sophomores for the first time in fall 2014, as UHCL transitions from an upper-level to a four-year university. 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 UH 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 Board of Regents and Chancellor 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 UH 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 institutionally developed progress and goals objectives remains strong. The System has continued to improve performance on most of its key progress measures again this fiscal year and is positioned for further success in the future. Examples of UH accomplishments on the FY2013 progress report include: total enrollment increased to 67,151 from 65,256 in FY2012; total degrees awarded increased to 14,004 from 13,685 in FY2012; total research expenditures increased to \$120 million from \$118 million in FY2012; and total federal research expenditures increased to \$67 million from \$62 million in FY2012. The UH System raised a record-setting \$117.8 million in private support donations, commitments, and pledges in FY2013, the largest total in the institution's history. This achievement tells an encouraging story of fundraising success which surpasses the prior year's record-setting total of \$112.5 million for the UH System.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements for fiscal year 2013 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 2013 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 Position, (2) the Statement of Revenues, Expenses, and Changes in Net Position, 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, 2013, with financial data for the fiscal year ended August 31, 2012, 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 POSITION

The first schedule presented is the Statement of Net Position. 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, 2013. Comparative data for the previous fiscal year has also been presented as of August 31, 2012. Assets and liabilities are presented as either current or non-current to provide an indication of their anticipated liquidation. Net Position is equal to Assets minus Liabilities. The Unrestricted Net Position balance is available to the System for any lawful purpose. Unrestricted Net Positions 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, 2013, the University of Houston System's Assets totaled \$2.771 billion, and Liabilities totaled \$1.236 billion, resulting in a Net Position valuation of \$1.535 billion. This represents an increase in net position of \$86 million. Asset increases occurred in investment balances due to the continued improvement of market driven increases in the valuation of the endowment fund and non-endowed intermediate term investments. Cash and cash equivalent balances decreased primarily as a result of utilizing unspent bond proceeds from prior year bond issues on current capital construction and renovation projects. 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. Total Assets increased approximately 4.1%. Changes in the Liabilities balance reflect a decrease in revenue bonds payable due to scheduled debt service payments, and no issuances of additional long term bonded indebtedness. Unearned revenues increased due to additional receipts of fall semester tuition and fees resulting from enrollment growth. The increase in notes payable reflects new issuances of commercial

paper. The balance in other payables increased due to increased construction project activity – capital construction retainage rose and accrued payables for capital projects reflected an increase. In total, Liabilities increased approximately 1.9%.

The Statement of Net Position enables the reader of the financial statements to determine the assets available for use in the continuing operations of the institution. Also, the reader will be able to determine the amounts owed to vendors, investors, and lending institutions. Net Position is presented in three major categories: invested in capital assets, net of debt; restricted net position; and unrestricted net position. The invested in capital assets category identifies the equity in property, plant, and equipment owned by the System. Restricted net position is comprised of two sub categories: non-expendable and expendable. Non-expendable restricted net position is available only for endowed investment purposes. Expendable net position is available for expenditure but must be expended for the purposes specified by the external donor or provider of the assets. Unrestricted net position is 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 position is committed to various future operating budgets related to academic, research, and capital programs and projects. Additional net position balances are reserved for specific purposes by nature of their origin. These commitments are summarized in the accompanying table (Schedule of Unrestricted Net Position).

#### **STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

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

During the 2013 fiscal year the System recognized operating revenues of \$709 million and operating expenses of \$1.118 billion. After recognizing non-operating activities and other gains and losses, the System realized a net increase in net position of \$81.1 million, compared to a net position increase of \$132.7 million during the prior fiscal year. This moderate decrease in the rate of change in financial position is a result of several factors. During 2013 operating revenues increased minimally, attributable to increased sales of non-tuition related goods and services. Revenues from both federal and private sponsored grant activity rose. The System experienced a relatively flat level in state appropriated funding. Investment earnings increased due to improving financial market conditions. Operating expenses for student success initiatives also were higher in 2013 reflecting increased levels of spending for instruction, academic support, student services, and scholarships. Sponsored research expenditures increased as a result of increases in grant awards received. Total Net Position increased approximately 6.0%.

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 \$548 million for fiscal year 2013, compared to \$508 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 Position.

The cash and cash equivalents balance at the conclusion of the 2013 fiscal year totaled \$313 million, which reflected a net decrease in cash balances of \$71 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 remain focused on their continuing efforts to implement their long-range capital plans.

At the end of the 2013 fiscal year, the System had \$1.225 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, 2012 totaled \$1.074 billion. 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.

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 2013 the System continued its efforts to implement the capital projects construction element of its master plan. At UH, construction projects that were completed included Cougar Place student housing facility, the Welcome Center Student Garage, the Health and Biomedical Sciences Center, Cougar Woods Dining Hall, a new Classroom and Business Building, interior laboratory construction at the Science and Engineering Research Center, and safety and mechanical upgrade renovations at the Science and Research 1 Building. Facilities development continues 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. At UH – Downtown an expansion of the Parking Garage adjacent to the existing Academic Building was completed. At UH – Victoria development and construction of Jaguar Suites residence hall 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, 2013, the University of Houston System had \$842 million of long term bonded debt outstanding, \$38 million of which will be retired during the 2014 fiscal year.

In fiscal year 2013, the University of Houston System did not issue any additional revenue or refunding bonds. During 2013, the UHS Board of Regents authorized and approved additional Consolidated Revenue and Refunding Bonds, to be issued at a future date. These bonds were ultimately issued during the 2014 fiscal year in a total authorized par amount of \$152,575,000. The Series 2013-A and the Series 2013-B bonds are for the purpose of financing various construction and renovation projects within the UH System and to refund and defease certain outstanding notes and bonds of the System.

During the 2013 fiscal year Standard & Poor's Ratings Services (S&P) raised its long-term credit rating for the UH System from AA- to AA, the highest rating ever achieved by the UH System from S&P. This upgrade reflects S&P's view that the UH System remains on a fairly impressive enrollment growth trajectory. Additionally, S&P cited the UH System's expanding breadth, depth, and quality of programs, its strong financial operating performance, its favorable location in one of the nation's strongest local economies, and ongoing support from the State of Texas as factors in determining the UHS rating.

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, 2013. 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 2013, the University of Houston System issued \$53.2 million of commercial paper notes. On August 31, 2013, commercial paper notes payable totaled \$52.9 million, compared to \$25.1 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 Texas Gulf Coast region 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. During the 2013 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. UHS is succeeding in providing access to a diverse student population. UH System performance with respect to the improved rankings on its progress and goals measures has also been notable.

With the UH System improving performance on most of its key progress and goals measures this year, the UHS universities are poised for continued success in the coming years. To harness this potential, the UH System is actively expanding its reach in terms of both new degree programs that meet state and regional workforce needs and campus infrastructure that support the growing student populations and faculty. This year, thirteen new degree programs at the UHS universities were approved. Aligned to major industries and university strengths, including energy, health care, and education, these new programs will support our economy, enhance our academic reputation, and produce new revenue streams for the universities. In addition, several major construction projects are currently underway, among them new student residence halls, research facilities, parking garages, student/visitors centers, and a football stadium – all of which will elevate the profile of UHS universities and allow the UH System to better serve its students, faculty, staff, and the community.



During the past fiscal year, much progress has also been made in expanding the reach and accessibility of UH System academic programs throughout the Houston region. Enrollment at the UH System's off-campus teaching centers at Sugar Land, Cinco Ranch, Northwest Houston, Pearland, and the Texas Medical Center reached a record high of 4,880 students. By the year 2020, enrollment at these centers is expected to be over 9,000 students – an increase of over 80%. The UH System universities are also taking a much more 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 UHS universities and make it easier for students to complete a degree.

As is the case for the UHS university components, the UH – System Administration has continued to adjust its budgets to account for proportional reductions in state appropriations. To maintain efficiencies and an effective level of service delivery, central administration staffing levels have been reviewed and optimized.

In recent years, competition for federal research funding has become much more intense. In addition, increased federal scrutiny of higher education makes advocacy on relevant policy issues all the more important. In the upcoming fiscal year, new resources will be used to expand outreach to the federal government. New resources will also be allocated to support community relations.

The Texas Legislature has been heading toward a higher education funding model based on performance. The emphasis is shifting to graduating students, not just enrolling them. UHS has embraced that approach with a strategic enrollment focus. More than ever before, UHS universities are concentrating on student success and degrees produced, rather than simple head count. One result has been impressive enrolling student classes, based on SAT scores and high school class rank.

Following is a brief discussion of the primary budgetary initiatives and priorities on which UHS administration and universities will focus during the 2014 fiscal year. (1) Student



access and success: Increasing the enrollment, retention and graduation of a diverse student body with exceptional academic qualifications is paramount. These goals will be achieved by increasing scholarships, expanding course offerings, enhancing student support staff, improving the curriculum, and implementing more rigorous admissions standards. (2) National competitiveness / academic and research excellence: In fiscal year 2014, the UH System will continue to increase external research funding and enhance its academic programs, including the availability and delivery of courses. (3) University infrastructure and administration: The UH System's physical plant includes considerable land acreage, hundreds of buildings, and several million gross square feet of space. Sustaining this infrastructure year round requires a significant investment in utilities, maintenance, repairs, renovations, and improvements. Making these investments is also essential to supporting the university's goals of student success and national competitiveness. Another measure of administrative effectiveness is the extent to which the System can expand its resources through the cultivation of private gifts. Staff excellence is designed to deliver greater efficiency and better performance, but also commits the System to providing staff with competitive salaries, professional development opportunities, and a campus culture that recognizes excellence even as it expects accountability. (4) Community advancement: Many of UHS's academic initiatives are directed toward community need and interest. Emphasis will also be placed on university initiatives that are both partnership-oriented and community-minded. These endeavors are implemented in part via UHS's various centers and institutes.

The state of economic issues facing Texas and the United States 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.

## notes to the financial statements



### GENERAL INTRODUCTION

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

### ENTITY

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

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

The System was established by House Bill No. 188, Sixty-Fifth Legislature, Regular Session, effective September 1, 1977. Components of the System are System Administration (1977), University of Houston (1963), Clear Lake (1973), Downtown (1974), and Victoria (1973). The System is governed by an appointed nine member Board of Regents.

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

Significant asset categories are summarized below.

### CASH AND CASH EQUIVALENTS

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

### RESTRICTED ASSETS

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

### INVENTORIES AND PREPAID ITEMS

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

### CAPITAL ASSETS

Assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year are capitalized. These assets are capitalized at cost or, if not purchased, at appraised fair value as of the date of acquisition. Depreciation is reported on all exhaustible assets. Inexhaustible assets such as library books, works of art, and historical treasures are not depreciated. Depreciation is charged to operations over the estimated useful life of each asset, using the straight-line method.

### OTHER RECEIVABLES

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

**LIABILITIES**

Significant liability categories are summarized below.

**ACCOUNTS PAYABLE**

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

**OTHER PAYABLES**

Other current payables are the accrual at year-end of expenditure transactions not included in any of the other payable descriptions. Non-current payable balances are not expected to be paid within one year of fiscal year end.

**EMPLOYEES' COMPENSABLE LEAVE BALANCES**

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

**BONDS PAYABLE – REVENUE BONDS**

The bonds payable are reported at par, less unamortized discount or plus unamortized premium. Interest expense is reported on the accrual basis, with amortization of discount or premium. Payables are reported separately as either current or noncurrent in the Statement of Net Assets.

**NET POSITION**

The difference between fund assets and liabilities is Net Position.

**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 tangible, exhaustible assets and amortization on intangible assets. Depreciation and amortization expenses are recognized as current year charges.

At August 31, 2013, non-depreciable capital assets, consisting of land and construction in progress, totaled \$306,075,188. Depreciable capital assets, net of accumulated depreciation, and consisting of buildings, infrastructure, facilities, equipment, library books, and works of art totaled \$886,749,342. Intangible assets, net of accumulated amortization and consisting of computer software and other intangible assets total \$32,142,030. Total net capital assets, at August 31, 2013 are \$1,224,996,559.

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

At August 31, 2013, the carrying amount of the System's cash deposits was \$9,615,226 and the bank balance was \$2,601,500. 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 \$1,165,628,065.

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, 2013, 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, 2013, 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 2013 discounts and allowances that related to tuition and fee revenues totaled \$120,261,064.

## 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 2013. Additional commercial paper was issued during fiscal 2013, the proceeds of which were used to provide interim financing for renovation and construction projects at UH.

The System also holds a loan payable, the proceeds of which are being used to build the Dave Williams Golf Academy.

## LONG TERM LIABILITIES

### A. NOTES AND LOANS PAYABLE

The System reported a balance of \$53,334,684 including interest as of August 31, 2013.

### B. CLAIMS AND JUDGMENTS

At August 31, 2013, 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 2013. Employees with at least six months of state service who terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed.

Lump sum payments made to employees, who separated from state service during the 2013 fiscal year, for accrued vacation and compensatory leave, totaled \$2,660,598.

#### BONDED INDEBTEDNESS

##### A. OUTSTANDING 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 2013 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, 2013 was 0.06%.

- 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 2-15-2013, totaling \$780,000 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, 2013, the System had no bonds payable classified as General Obligation Bonds.

## REFUNDING BONDS

### *Consolidated Revenue Refunding Bonds, Series 2003*

- To refund \$15,975,000 of Consolidated Revenue Refunding Bonds, Series 1995 (UH).
- Issued 12-1-2003.
- \$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 2013 fully from Legislative Appropriation-Tuition Revenue Bonds.)
- Average rate of bonds refunded - 5.92%.
- Net proceeds from refunding series - \$17,419,961 after receipt of bond premium of \$896,716 and payment of \$266,453 in underwriting fees, insurance, and other issuance costs.
- Funds were used to purchase state and local government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the 1995 series bonds, when the bonds were called for early redemption on 2-15-05.
- The 1995 series bonds are considered fully defeased and the liability for those bonds has been removed from the Investment in Plant fund group.
- Refunding of the 1995 series bonds reduced the 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 2013 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, Sugar Land (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 2013 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 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 (UH - \$98,230,000 and UHCL - \$10,165,000).
- 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 2013 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 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 2013 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 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 - \$1,742,552; 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 Health and Medical Sciences Building, a classroom/business building, and renovation of certain facilities at the UH Energy Research Park (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 (UH - \$74,686,469 and UHV - \$5,288,531).
- Source of revenue for debt service - Designated tuition and various other fees, revenues and balances that may be legally available for payment of debt obligations. The System will receive interest subsidy payments from the U.S. Treasury equal to 35 percent of the interest payable on related qualified Build America Bonds contemporaneously with the interest payment dates of the qualified Build America Bonds.

*Consolidated Revenue and Refunding Bonds, Series 2010-C*

- To (a) defease certain outstanding commercial paper notes of the System and (b) finance the acquisition, purchase, construction, improvement, enlargement, and equipping of property, buildings, structures, activities, services, operations and other facilities, roads, or related infrastructure for or on behalf of the System, including individual campuses of the System.



- In addition to the defeasement of certain commercial paper noted above proceeds were used to finance construction costs related to the Stadium Parking Garage 2, and renovation of certain facilities at the UH Energy Research Park and at UHV related to Jaguar Residence Hall.
- Issued 4-15-2010.
- \$18,255,000; all bonds authorized have been issued (UH - \$16,698,745 and UHV - \$1,556,255).
- 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 2013 partially from Legislative Appropriation-Tuition Revenue 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 2-15-2012 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 ended August 31, 2013 the pledged revenue from business type activities required for future principal and interest on existing bonds was \$1,249,863,228. Term of commitment was August 31, 2043. The percentage of revenue pledged is 100%. Current year pledged revenue is \$706,053,336. Current year principal and interest paid is \$71,091,432.

#### *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.

Pursuant to the requirements of the Balanced Budget Emergency Deficit Control Act of 1985, as amended, certain automatic reductions occurred as of March 31, 2013. These reductions apply to certain qualified bonds including BABs. The sequestration reduction applicable to the Series 2010-B Bonds was \$68,223.00. The full amount of interest due to bondholders was paid by the System.

#### B. CHANGES IN BONDED INDEBTEDNESS

Bonds payable are due in annual installments varying from \$1,482,350 to \$23,748,500 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 \$365,828,523 and \$884,034,705 for all years beyond.

#### LEASE OBLIGATIONS

Included in expenditures reported in the financial statements for rent paid or due under operating leases is \$9,300,741. Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year, as of August 31, 2013, totaled \$23,028,244.

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 \$1,006,551 for a total capitalized lease value of \$6,763,319.

#### 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 2013 were \$17,406,119. System contributions were \$17,448,993.

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 2013 were \$14,322,807. System contributions were \$15,262,950. 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 2013, a restatement of the prior year's net position/fund equity was required. The restatements represent prior period adjustments to beginning net position related to capital assets and accumulated depreciation and amortization changes.

#### **SUBSEQUENT EVENTS**

No events occurred between August 31, 2013 and the statement completion date that materially affect the financial condition of the System.

#### **RISK FINANCING AND RELATED INSURANCE**

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

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

The System's liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Liabilities are reevaluated periodically to consider current settlements, frequency of claims, past experience and economic factors.

#### **RELATED PARTIES**

The System is 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 2012 and 2013 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

UH HOUSTON

UH CLEAR LAKE

UH DOWNTOWN

UH VICTORIA

UH SYSTEM

— 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 POSITION | FOR THE YEAR ENDED AUGUST 31, 2013

ASSETS	2013	2012
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 128,048,367	\$ 175,047,300
Short-term Investments	12,483,736	17,878,881
Restricted Cash and Cash Equivalents	81,531,436	99,426,314
Loans and Contracts	11,920,839	10,403,141
Legislative Appropriations	67,259,824	63,704,988
Receivables	272,859,563	193,631,260
Inventories	1,878,383	1,985,639
Prepaid Items	25,146,765	20,049,617
<b>TOTAL CURRENT ASSETS</b>	<b>601,128,913</b>	<b>582,127,140</b>
<b>NON-CURRENT ASSETS</b>		
Loans and Other Receivables	532,036,699	609,091,213
Investments	753,582	442,550
Capital Assets, Non-Depreciable/ Non-Amortizable	270,517,198	234,084,815
Capital Assets, Amortizable/Depreciable	1,460,766,565	1,306,364,199
Accumulated Amortization/Depreciation	(754,100,529)	(713,251,914)
Deferred Charges	37,694,229	39,773,010
<b>TOTAL NON-CURRENT ASSETS</b>	<b>1,547,667,744</b>	<b>1,476,503,873</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,148,796,657</b>	<b>\$ 2,058,631,013</b>

LIABILITIES	2013	2012
<b>CURRENT LIABILITIES</b>		
Payables	\$ 99,810,355	\$ 76,054,651
Employees' Compensable Leave	8,927,621	8,495,337
Unearned Revenues	136,403,017	130,223,530
Revenue Bonds Payable	28,581,726	25,495,828
Claims and Judgments Payable	416,250	246,445
Capital Lease Obligations	13,644,743	8,739,408
<b>TOTAL CURRENT LIABILITIES</b>	<b>287,783,712</b>	<b>249,255,199</b>
<b>NON-CURRENT LIABILITIES</b>		
Employee's Compensable Leave	9,389,205	9,049,762
Revenue Bonds Payable	688,264,217	717,625,942
Claims and Judgments Payable		1,474
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>697,653,422</b>	<b>726,677,178</b>
<b>TOTAL LIABILITIES</b>	<b>985,437,134</b>	<b>975,932,377</b>
<b>NET POSITION</b>		
Invested in Capital Assets, Net of Related Debt	359,171,252	315,614,471
Restricted, Debt Retirement	37,266,572	43,289,780
Restricted, Capital Projects	6,889,123	1,899,116
Restricted, Endowment Funds	331,433,946	323,506,581
Restricted, Other	168,702,237	142,562,812
Unrestricted	259,896,393	255,825,876
<b>TOTAL NET POSITION</b>	<b>\$1,163,359,523</b>	<b>\$ 1,082,698,636</b>

# financial statements

UNIVERSITY OF HOUSTON - STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION | FOR THE YEAR ENDED AUGUST 31, 2013

OPERATING REVENUES	2013	2012
Tuition and Fees, Net of Discounts	\$ 314,306,451	\$ 325,389,562
Sales of Goods and Services	111,280,465	94,548,985
Federal Revenue	65,562,872	61,501,277
State Grant Revenue	40,545,809	41,765,938
Other Grants and Contracts	26,988,833	18,978,839
<b>TOTAL OPERATING REVENUES</b>	<b>558,684,430</b>	<b>542,184,601</b>

OPERATING EXPENSES		
Instruction	202,725,658	198,130,744
Research	107,201,997	92,779,251
Public Service	38,700,160	39,421,973
Academic Support	145,756,264	129,279,558
Student Services	28,514,668	24,914,261
Institutional Support	63,756,372	59,247,275
Physical Plant	43,468,023	36,727,412
Scholarships and Fellowships	54,149,668	30,484,982
Auxiliary Enterprises	82,790,222	77,944,016
Depreciation and Amortization	58,865,715	56,455,700
<b>TOTAL OPERATING EXPENSES</b>	<b>825,928,747</b>	<b>745,385,172</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (267,244,317)</b>	<b>\$ (203,200,571)</b>

NON-OPERATING REVENUES (EXPENSES)	2013	2012
Legislative Revenue	\$ 161,600,982	\$ 160,374,820
Gifts	71,362,477	75,988,604
Federal Revenue Non-Operating	57,472,994	36,054,129
Investment Income	20,930,004	10,846,370
Interest Expense and Fiscal Charges	(33,849,594)	(31,402,706)
Net Incr (Decr) in Fair Value of Investments	14,836,625	32,438,719
Other Non-Operating Revenues (Expenses)	(14,645,376)	5,787,513
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>277,708,112</b>	<b>290,087,449</b>

<b>INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>10,463,795</b>	<b>86,886,878</b>
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## OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS

Capital Appropriation		
(Higher Education Assistance Funds)	35,885,768	35,885,768
Additions to Permanent and		
Term Endowments	9,186,720	7,802,308
Intercomponent Transfers	15,967,138	16,080,390
Transfers In	16,286,070	7,877,932
Transfers Out	(12,824,591)	(4,818,292)

<b>TOTAL OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>64,501,105</b>	<b>62,828,106</b>
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<b>CHANGE IN NET POSITION</b>	<b>74,964,900</b>	<b>149,714,984</b>
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Net Position Beginning	1,082,698,636	933,064,555
Restatements	5,695,987	(80,903)

<b>NET POSITION BEGINNING, AS RESTATED</b>	<b>1,088,394,623</b>	<b>932,983,652</b>
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<b>NET POSITION, ENDING</b>	<b>1,163,359,523</b>	<b>1,082,698,636</b>
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# financial statements

UNIVERSITY OF HOUSTON - STATEMENT OF CASH FLOWS | FOR THE YEAR ENDED AUGUST 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	2013	2012
Proceeds Received from Students and Customers	\$ 359,276,684	\$ 353,294,182
Proceeds from Loan Programs	102,943,957	137,966,391
Proceeds from Other Revenues	198,181,238	219,799,107
Payments to Suppliers for Goods and Services	(175,654,478)	(162,837,282)
Payments to Employees	(482,268,892)	(453,549,656)
Payments for Loans Provided	(102,810,117)	(145,447,048)
Payments for Other Expenses	(99,090,094)	(56,858,208)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(199,421,702)</b>	<b>\$ (107,632,514)</b>

## CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Proceeds from State Appropriations	158,046,146	\$ 167,403,772
Proceeds from Gifts	53,553,169	50,793,154
Proceeds from Endowments	9,186,720	7,802,308
Proceeds of Transfers from Other Funds	46,110,938	30,060,683
Proceeds from Other Revenues	57,472,994	36,054,129
Payments for Other Uses	(41,327,697)	(8,955,217)

<b>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</b>	<b>283,042,270</b>	<b>\$ 283,158,829</b>
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## CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Financing Activities	151,539,167	\$ 315,373,538
Payments for Additions to Capital Assets	(203,155,862)	(176,000,452)
Payments of Principal and Interest on Debt Issuance	(57,646,641)	(229,292,727)

<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (109,263,336)</b>	<b>\$ (89,919,641)</b>
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CASH FLOWS FROM INVESTING ACTIVITIES	2013	2012
Proceeds from Sales of Investments	\$ 5,412,300	\$
Proceeds from Interest and Investment Income	20,930,004	10,846,370
Payments to Acquire Investments	(65,593,347)	(26,039,748)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>(39,251,043)</b>	<b>(15,193,378)</b>
Increase (Decrease) in Cash and Cash Equivalents	(64,893,810)	70,413,296
<b>CASH AND CASH EQUIVALENTS, SEPTEMBER 1</b>	<b>274,473,613</b>	<b>204,060,317</b>
<b>CASH AND CASH EQUIVALENTS, AUGUST 31</b>	<b>209,579,803</b>	<b>274,473,613</b>

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

<b>OPERATING INCOME (LOSS)</b>	<b>(267,244,317)</b>	<b>(203,200,571)</b>
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## ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Amortization and Depreciation	58,865,715	56,455,700
Classification Differences	133,840	(7,480,657)

## CHANGES IN ASSETS AND LIABILITIES

(Increase) Decrease in Receivables and Loans	(4,133,098)	37,334,330
(Increase) Decrease in Inventories	107,256	62,200
(Increase) Decrease in Other Assets	(3,552,878)	(7,772,647)
Increase (Decrease) in Payables	8,133,990	13,834,893
(Increase) Decrease in Prepaid Expenses	(5,097,148)	1,699,430
Increase (Decrease) in Deferred Income	6,179,487	1,349,780
Increase (Decrease) in Other Liabilities	7,185,451	85,028

<b>TOTAL ADJUSTMENTS</b>	<b>67,822,615</b>	<b>95,568,057</b>
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<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ (199,421,702)</b>	<b>\$ (107,632,514)</b>
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# financial statements

UNIVERSITY OF HOUSTON | FOR THE YEAR ENDED AUGUST 31, 2013

EXPENSES BY NATURAL CLASSIFICATION	2013	2012
Cost of Goods Sold	\$ 2,810,703	\$ 2,462,348
Salaries and Wages	393,280,321	372,111,097
Payroll Related Costs	90,805,655	82,938,665
Professional Fees and Services	53,964,960	44,349,455
Federal Pass-Through Expenses	2,856,254	2,500,925
State Pass-Through Expenses	217,239	303,635
Travel	12,249,186	11,662,663
Materials and Supplies	27,522,611	28,266,402
Communication and Utilities	40,747,261	38,455,129
Repairs and Maintenance	11,141,357	9,700,545
Rentals and Leases	27,433,892	20,832,134
Printing and Reproduction	2,943,326	3,351,117
Depreciation and Amortization	58,865,715	56,455,700
Interest	65,026	39,016
Scholarships	65,294,265	41,813,429
Claims and Losses	776,232	1,159,316
Other Operating Expenses	34,954,744	28,983,596
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 825,928,747</b>	<b>\$ 745,385,172</b>

EXPENSES BY FUNCTIONAL CLASSIFICATION	2013	2012
Instruction	\$ 202,725,658	\$ 198,130,744
Research	107,201,997	92,779,251
Public Service	38,700,160	39,421,973
Academic Support	145,756,264	129,279,558
Student Services	28,514,668	24,914,261
Institutional Support	63,756,372	59,247,275
Physical Plant	43,468,023	36,727,412
Scholarships and Fellowships	54,149,668	30,484,982
Auxiliary Enterprises	82,790,222	77,944,016
Depreciation and Amortization	58,865,715	56,455,700
<b>TOTAL EXPENSES BY EXPENDITURE FUNCTION</b>	<b>\$ 825,928,747</b>	<b>\$ 745,385,172</b>

# University of Houston Clear Lake

UH HOUSTON

UH CLEAR LAKE

UH DOWNTOWN

UH VICTORIA

UH SYSTEM

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 POSITION | FOR THE YEAR ENDED AUGUST 31, 2013

ASSETS	2013	2012
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 24,879,501	\$ 24,324,493
Restricted Cash and Cash Equivalents	(3,382,109)	(3,364,879)
Loans and Contracts	1,464,480	1,494,500
Legislative Appropriations	4,719,493	4,948,005
Receivables	28,538,348	26,990,002
Inventories	17,877	17,184
Prepaid Items	2,106,093	2,087,357
<b>TOTAL CURRENT ASSETS</b>	<b>58,343,683</b>	<b>56,496,662</b>
<b>NON-CURRENT ASSETS</b>		
Loans and Other Receivables	25,164,167	23,587,570
Capital Assets, Non-Depreciable/ Non-Amortizable	12,672,403	11,449,339
Capital Assets, Amortizable/Depreciable	154,056,254	151,909,606
Accumulated Amortization/Depreciation	(93,264,508)	(89,203,307)
Deferred Charges	2,985,290	3,317,589
<b>TOTAL NON-CURRENT ASSETS</b>	<b>101,613,606</b>	<b>101,060,797</b>
<b>TOTAL ASSETS</b>	<b>\$ 159,957,289</b>	<b>\$ 157,557,459</b>

LIABILITIES	2013	2012
<b>CURRENT LIABILITIES</b>		
Payables	\$ 4,791,767	\$ 4,866,795
Unearned Revenues	24,619,882	22,698,791
Employees' Compensable Leave	382,928	374,630
Revenue Bonds Payable	41,889	27,462
Claims and Judgments Payable	951,302	965,961
Capital Lease Obligations	2,278,756	2,207,199
Funds Held for Others	378,690	339,410
<b>TOTAL CURRENT LIABILITIES</b>	<b>33,445,214</b>	<b>31,480,248</b>
<b>NON-CURRENT LIABILITIES</b>		
Claims and Judgments Payable		2,227
Employee's Compensable Leave	1,000,487	1,029,002
Revenue Bonds Payable	25,943,535	28,222,290
Capital Lease Obligations	6,249,259	6,632,188
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>33,193,281</b>	<b>35,885,707</b>
<b>TOTAL LIABILITIES</b>	<b>66,638,495</b>	<b>67,365,955</b>
<b>NET POSITION</b>		
Invested in Capital Assets, Net of Related Debt	41,678,499	40,176,389
Restricted, Debt Retirement	2,985,290	3,317,589
Restricted, Endowment Funds	13,830,391	13,155,369
Restricted, Other	3,029,384	1,920,172
Unrestricted	31,795,230	31,621,985
<b>TOTAL NET POSITION</b>	<b>\$ 93,318,794</b>	<b>\$ 90,191,504</b>

# financial statements

UNIVERSITY OF HOUSTON CLEAR LAKE - STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION | FOR THE YEAR ENDED AUGUST 31, 2013

OPERATING REVENUES	2013	2012
Tuition and Fees, Net of Discounts	\$ 44,003,825	\$ 43,503,636
Sales of Goods and Services	2,644,622	2,608,974
Federal Revenue	2,618,891	2,778,689
State Grant Revenue	2,046,698	1,812,851
Other Grants and Contracts	652,303	498,413
Other Operating Revenues	2,598	
<b>TOTAL OPERATING REVENUES</b>	<b>51,968,937</b>	<b>51,202,563</b>
<b>OPERATING EXPENSES</b>		
Instruction	37,151,235	36,789,198
Research	1,542,824	1,769,700
Public Service	415,038	113,471
Academic Support	12,500,301	12,041,362
Student Services	4,874,801	4,371,914
Institutional Support	15,370,335	14,584,606
Operation and Maintenance of Plant	6,405,659	7,342,126
Scholarships and Fellowships	7,089,061	7,776,537
Auxiliary Enterprises	5,255,732	5,089,831
Depreciation and Amortization	5,492,351	4,780,625
<b>TOTAL OPERATING EXPENSES</b>	<b>96,097,337</b>	<b>94,659,370</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (44,128,400)</b>	<b>\$ (43,456,807)</b>

NON-OPERATING REVENUES (EXPENSES)	2013	2012
Legislative Revenue	\$ 29,140,219	\$ 29,158,396
Gifts	1,661,100	411,124
Federal Revenue Non-Operating	8,481,420	8,494,969
Investment Income	1,173,060	946,175
Interest Expense and Fiscal Charges	(1,223,968)	(1,615,553)
Net Incr (Decr) in Fair Value of Investments	798,062	1,722,673
Other Non-Operating Revenues (Expenses)	(393,536)	2,306,138
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>39,636,357</b>	<b>41,423,922</b>
<b>INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>(4,492,043)</b>	<b>(2,032,885)</b>
<b>OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>		
Capital Appropriation (Higher Education Assistance Funds)	5,214,167	5,214,167
Additions to Permanent and Term Endowments	88,988	160,591
Intercomponent Transfers	2,689,140	181,841
Transfers Out	(371,357)	(524,051)
Legislative Appropriations Lapsed	(1,605)	(457)
<b>TOTAL OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>7,619,333</b>	<b>5,032,091</b>
<b>CHANGE IN NET POSITION</b>	<b>3,127,290</b>	<b>2,999,206</b>
Net Position Beginning	90,191,504	87,192,298
<b>NET POSITION, ENDING</b>	<b>\$ 93,318,794</b>	<b>\$ 90,191,504</b>



# financial statements

UNIVERSITY OF HOUSTON CLEAR LAKE - STATEMENT OF CASH FLOWS | FOR THE YEAR ENDED AUGUST 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	2013	2012
Proceeds Received from Students and Customers	\$ 46,240,514	\$ 42,949,051
Proceeds from Loan Programs	3,269,667	5,102,926
Proceeds from Other Revenues	6,417,520	6,453,626
Payments to Suppliers for Goods and Services	(16,024,431)	(17,911,883)
Payments to Employees	(64,034,062)	(62,699,953)
Payments for Loans Provided	(3,224,369)	(4,203,211)
Payments for Other Expenses	(10,677,114)	(10,244,500)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(38,032,275)</b>	<b>(40,553,944)</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Proceeds from State Appropriations	29,367,126	29,967,352
Proceeds from Gifts	1,313,787	655,146
Proceeds from Endowments	88,989	160,591
Proceeds of Transfers from Other Funds	2,795,248	3,326,075
Proceeds from Other Revenues	8,481,420	8,494,969
Payments for Other Uses	(871,003)	(3,444,755)
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>41,175,567</b>	<b>39,159,378</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from Capital Financing Activities	5,214,167	10,127,556
Payments for Additions to Capital Assets	(4,800,863)	(6,704,830)
Payments for Capital Lease	(374,630)	(366,160)
Payments of Principal and Interest on Debt Issuance	(3,098,869)	(6,393,652)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (3,060,195)</b>	<b>\$ (3,337,086)</b>

CASH FLOWS FROM INVESTING ACTIVITIES	2013	2012
Proceeds from Interest and Investment Income	\$ 1,173,060	\$ 946,175
Payments to Acquire Investments	(718,379)	(761,072)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>454,681</b>	<b>185,103</b>
Increase (Decrease) in Cash and Cash Equivalents	537,778	(4,546,549)
<b>CASH AND CASH EQUIVALENTS, SEPTEMBER 1</b>	<b>20,959,613</b>	<b>25,506,162</b>
<b>CASH AND CASH EQUIVALENTS, AUGUST 31</b>	<b>21,497,391</b>	<b>20,959,613</b>

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

<b>OPERATING INCOME (LOSS)</b>	<b>(44,128,400)</b>	<b>(43,456,807)</b>
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## ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Amortization and Depreciation	5,492,351	4,780,625
Classification Differences	45,297	899,715

## CHANGES IN ASSETS AND LIABILITIES

(Increase) Decrease in Receivables and Loans	(1,353,344)	(2,196,221)
(Increase) Decrease in Inventories	(693)	(1,730)
(Increase) Decrease in Other Assets	125,199	(139,437)
(Increase) Decrease in Prepaid Expenses	(18,736)	(105,185)
Increase (Decrease) in Payables	(187,382)	(788,642)
Increase (Decrease) in Deferred Income	1,921,094	451,351
Increase (Decrease) in Other Liabilities	72,339	2,387

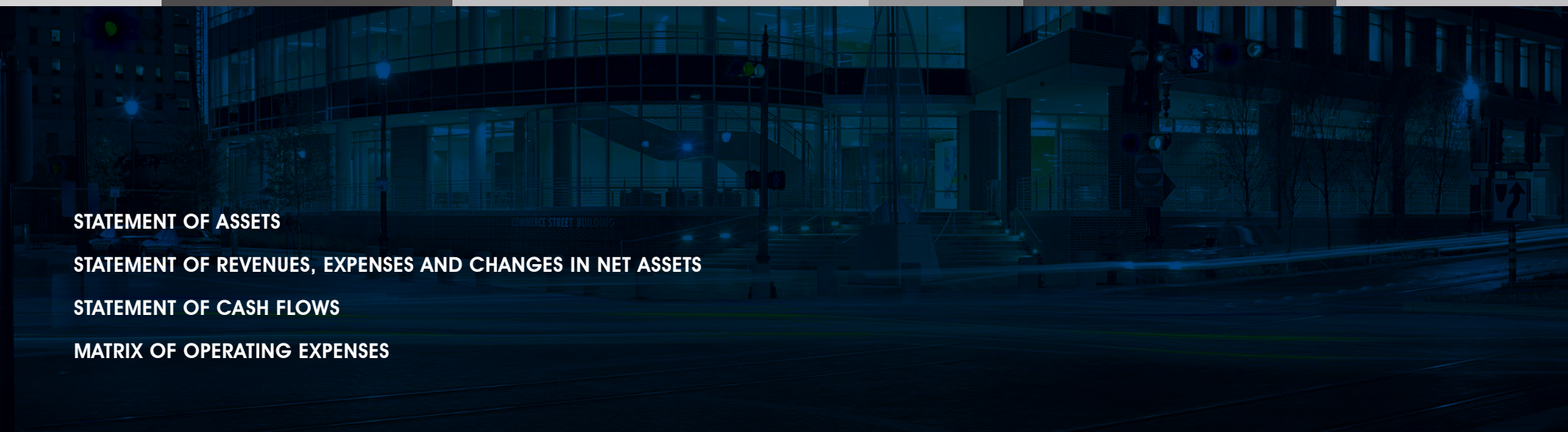
<b>TOTAL ADJUSTMENTS</b>	<b>6,096,125</b>	<b>2,902,863</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES \$</b>	<b>(38,032,275)</b>	<b>\$ (40,553,944)</b>

# financial statements

UNIVERSITY OF HOUSTON CLEAR LAKE - MATRIX OF OPERATING EXPENSES | FOR THE YEAR ENDED AUGUST 31, 2013

EXPENSES BY NATURAL CLASSIFICATION	2013	2012
Cost of Goods Sold	\$ 4,089	\$ 2,830
Salaries and Wages	51,028,736	50,181,595
Payroll Related Costs	13,002,574	12,222,998
Professional Fees and Services	6,238,289	5,793,827
Travel	646,297	656,488
Materials and Supplies	3,731,414	3,889,290
Communication and Utilities	3,009,172	3,034,296
Repairs and Maintenance	1,182,076	1,626,108
Rentals and Leases	760,564	770,138
Printing and Reproduction	273,185	333,724
Depreciation and Amortization	5,492,351	4,780,625
Interest	299,968	316,286
Scholarships	8,898,942	9,225,678
Claims and Losses	85,334	83,938
Other Operating Expenses	1,444,346	1,741,549
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 96,097,337</b>	<b>\$ 94,659,370</b>

EXPENSES BY FUNCTIONAL CLASSIFICATION	2013	2012
Instruction	\$ 37,151,235	\$ 36,789,198
Research	1,542,824	1,769,700
Public Service	415,038	113,471
Academic Support	12,500,301	12,041,362
Student Services	4,874,801	4,371,914
Institutional Support	15,370,335	14,584,606
Physical Plant	6,405,659	7,342,126
Scholarships and Fellowships	7,089,061	7,776,537
Auxillary Enterprises	5,255,732	5,089,831
Depreciation and Amortization	5,492,351	4,780,625
<b>TOTAL EXPENSES BY EXPENDITURE FUNCTION</b>	<b>\$ 96,097,337</b>	<b>\$ 94,659,370</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 DOWNTOWN - STATEMENT OF NET POSITION | FOR THE YEAR ENDED AUGUST 31, 2013

ASSETS	2013	2012
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 34,539,335	\$ 44,805,701
Restricted Cash and Cash Equivalents	(11,568,204)	(12,313,344)
Loans and Contracts	685,103	545,992
Legislative Appropriations	9,019,647	10,391,599
Receivables	44,473,276	29,157,427
Inventories	9,433	15,816
Prepaid Items	4,252,240	3,886,207
<b>TOTAL CURRENT ASSETS</b>	<b>81,410,830</b>	<b>76,489,398</b>
<b>NON-CURRENT ASSETS</b>		
Loans and Other Receivables	27,528,111	25,623,574
Investments	214,792	178,206
Capital Assets, Non-Depreciable/ Non-Amortizable	14,115,394	14,016,592
Capital Assets, Amortizable/Depreciable	173,821,971	168,300,071
Accumulated Amortization/Depreciation	(94,106,270)	(88,145,276)
Deferred Charges	2,909,623	3,263,656
<b>TOTAL NON-CURRENT ASSETS</b>	<b>124,483,621</b>	<b>123,236,823</b>
<b>TOTAL ASSETS</b>	<b>\$ 205,894,451</b>	<b>\$ 199,726,221</b>

LIABILITIES	2013	2012
<b>CURRENT LIABILITIES</b>		
Payables	\$ 9,440,836	\$ 9,424,763
Unearned Revenues	24,886,999	23,548,320
Claims and Judgments Payable	15,838	31,673
Employees' Compensable Leave	1,194,003	1,117,984
Revenue Bonds Payable	4,604,661	4,406,838
Funds Held for Others	(487,401)	(479,013)
<b>TOTAL CURRENT LIABILITIES</b>	<b>39,654,936</b>	<b>38,050,565</b>
<b>NON-CURRENT LIABILITIES</b>		
Claims and Judgments Payable		262
Employee's Compensable Leave	1,257,247	1,190,946
Revenue Bonds Payable	42,957,196	47,561,857
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>44,214,443</b>	<b>48,753,065</b>
<b>TOTAL LIABILITIES</b>	<b>83,869,378</b>	<b>86,803,630</b>
<b>NET POSITION</b>		
Invested in Capital Assets, Net of Related Debt	49,144,150	45,428,350
Restricted, Debt Retirement	2,892,030	3,242,776
Restricted, Capital Projects	611,872	45,417
Restricted, Endowment Funds	19,457,724	18,441,318
Restricted, Other	4,932,588	3,962,675
Unrestricted	44,986,710	41,802,055
<b>TOTAL NET POSITION</b>	<b>\$ 122,025,074</b>	<b>\$ 112,922,591</b>

# financial statements

UNIVERSITY OF HOUSTON DOWNTOWN - STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION | FOR THE YEAR ENDED AUGUST 31, 2013

OPERATING REVENUES	2013	2012
Tuition and Fees, Net of Discounts	\$ 61,460,458	\$ 56,633,160
Sales of Goods and Services	6,993,211	6,278,114
Federal Revenue	2,900,079	3,719,287
State Grant Revenue	6,706,725	6,939,476
Other Grants and Contracts	154,471	317,612
<b>TOTAL OPERATING REVENUES</b>	<b>78,214,944</b>	<b>73,887,649</b>
<b>OPERATING EXPENSES</b>		
Instruction	38,917,075	37,671,875
Research	1,444,330	2,217,057
Public Service	3,777,079	4,256,532
Academic Support	18,609,907	16,794,912
Student Services	4,095,964	3,423,337
Institutional Support	18,968,945	15,933,770
Operation and Maintenance of Plant	5,832,173	6,189,453
Scholarships and Fellowships	28,933,253	31,251,119
Auxiliary Enterprises	7,154,271	6,906,403
Depreciation and Amortization	7,064,170	7,070,095
<b>TOTAL OPERATING EXPENSES</b>	<b>134,797,167</b>	<b>131,714,553</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (56,582,223)</b>	<b>\$ (57,826,904)</b>

NON-OPERATING REVENUES (EXPENSES)	2013	2012
Legislative Revenue	\$ 24,516,264	\$ 24,896,493
Gifts	2,461,544	1,229,312
Federal Revenue Non-Operating	26,563,166	27,362,174
Investment Income	1,167,996	785,172
Interest Expense and Fiscal Charges	(2,255,271)	(2,608,029)
Net Incr (Decr) in Fair Value of Investments	950,581	2,204,734
Other Non-Operating Revenues (Expenses)	(367,587)	952,944
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>53,036,693</b>	<b>54,822,800</b>
<b>INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>(3,545,530)</b>	<b>(3,004,104)</b>
<b>OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>		
Capital Appropriation (Higher Education Assistance Funds)	7,435,238	7,435,238
Additions to Permanent and Term Endowments	222,863	290,511
Intercomponent Transfers	5,950,915	6,424,286
Transfers Out	(960,652)	(823,131)
Legislative Appropriations Lapsed	(100)	(7)
<b>TOTAL OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>12,648,264</b>	<b>13,326,897</b>
<b>CHANGE IN NET POSITION</b>	<b>9,102,734</b>	<b>10,322,793</b>
Net Position Beginning	112,922,591	102,750,681
Restatements	(251)	(150,883)
<b>NET POSITION BEGINNING, AS RESTATED</b>	<b>112,922,340</b>	<b>102,599,798</b>
<b>NET POSITION, ENDING</b>	<b>\$ 122,025,074</b>	<b>\$ 112,922,591</b>



# financial statements

UNIVERSITY OF HOUSTON DOWNTOWN - STATEMENT OF CASH FLOWS | FOR THE YEAR ENDED AUGUST 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	2013	2012
Proceeds Received from Students and Customers	\$ 64,056,700	\$ 62,496,685
Proceeds from Loan Programs	1,571,621	1,647,758
Proceeds from Other Revenues	15,545,052	12,694,777
Payments to Suppliers for Goods and Services	(21,025,802)	(20,117,970)
Payments to Employees	(72,499,969)	(70,611,575)
Payments for Loans Provided	(1,710,732)	(1,749,118)
Payments for Other Expenses	(34,594,037)	(33,767,961)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(48,657,167)</b>	<b>(49,407,404)</b>

## CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Proceeds from State Appropriations	25,888,116	23,679,467
Proceeds from Gifts	1,866,404	1,456,233
Proceeds from Endowments	222,863	290,511
Proceeds of Transfers from Other Funds	6,400,529	7,102,602
Proceeds from Other Revenues	26,563,166	27,362,174
Payments for Other Uses	(1,777,852)	(1,292,109)
<b>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</b>	<b>59,163,226</b>	<b>58,598,878</b>

## CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Financing Activities	7,785,985	10,260,209
Payments for Additions to Capital Assets	(6,724,130)	(5,450,767)
Payments for Capital Lease	(347,527)	(1,233,539)
Payments of Principal and Interest on Debt Issuance	(6,311,362)	(7,987,148)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (5,597,034)</b>	<b>\$ (4,411,245)</b>

CASH FLOWS FROM INVESTING ACTIVITIES	2013	2012
Proceeds from Interest and Investment Income	\$ 1,167,995	\$ 785,172
Payments to Acquire Investments	(15,598,246)	(585,406)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>(14,430,251)</b>	<b>199,766</b>
Increase (Decrease) in Cash and Cash Equivalents	(9,521,226)	4,979,995
<b>CASH AND CASH EQUIVALENTS, SEPTEMBER 1</b>	<b>32,492,357</b>	<b>27,512,362</b>
<b>CASH AND CASH EQUIVALENTS, AUGUST 31</b>	<b>22,971,131</b>	<b>32,492,357</b>

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

<b>OPERATING INCOME (LOSS)</b>	<b>(56,582,223)</b>	<b>(57,826,904)</b>
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## ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Amortization and Depreciation	7,064,170	7,070,095
Classification Differences	(139,111)	(101,360)

## CHANGES IN ASSETS AND LIABILITIES

(Increase) Decrease in Receivables and Loans	153,925	(767,045)
(Increase) Decrease in Inventories	6,382	789
(Increase) Decrease in Other Assets	(98,880)	(19,046)
(Increase) Decrease in Prepaid Expenses	(366,032)	204,327
Increase (Decrease) in Payables	(493,738)	523,411
Increase (Decrease) in Deferred Income	1,338,678	1,997,267
Increase (Decrease) in Other Liabilities	459,662	(488,938)

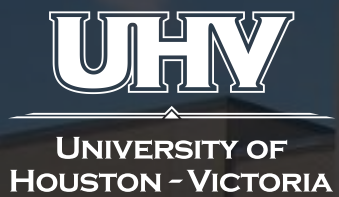
<b>TOTAL ADJUSTMENTS</b>	<b>7,925,056</b>	<b>8,419,500</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ (48,657,167)</b>	<b>\$ (49,407,404)</b>

# financial statements

UNIVERSITY OF HOUSTON DOWNTOWN - MATRIX OF OPERATING EXPENSES | FOR THE YEAR ENDED AUGUST 31, 2013

EXPENSES BY NATURAL CLASSIFICATION	2013	2012
Cost of Goods Sold	\$ 1,554	\$ 1,979
Salaries and Wages	59,214,649	57,531,327
Payroll Related Costs	13,779,406	13,321,611
Professional Fees and Services	7,421,614	6,301,177
Federal Pass-Through Expenses	16,316	8,820
Travel	886,300	1,013,646
Materials and Supplies	4,910,054	4,247,967
Communication and Utilities	2,773,496	3,059,025
Repairs and Maintenance	2,231,573	1,910,364
Rentals and Leases	1,703,232	904,830
Printing and Reproduction	241,568	262,275
Depreciation and Amortization	7,064,170	7,070,095
Interest	11,521	10,163
Scholarships	30,962,132	32,856,075
Claims and Losses	167,739	81,857
Other Operating Expenses	3,411,843	3,133,342
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 134,797,167</b>	<b>\$ 131,714,553</b>

EXPENSES BY FUNCTIONAL CLASSIFICATION	2013	2012
Instruction	\$ 38,917,075	\$ 37,671,875
Research	1,444,330	2,217,057
Public Service	3,777,079	4,256,532
Academic Support	18,609,907	16,794,912
Student Services	4,095,964	3,423,337
Institutional Support	18,968,945	15,933,770
Physical Plant	5,832,173	6,189,453
Scholarships and Fellowships	28,933,253	31,251,119
Auxiliary Enterprises	7,154,271	6,906,403
Depreciation and Amortization	7,064,170	7,070,095
<b>TOTAL EXPENSES BY EXPENDITURE FUNCTION</b>	<b>\$ 134,797,167</b>	<b>\$ 131,714,553</b>



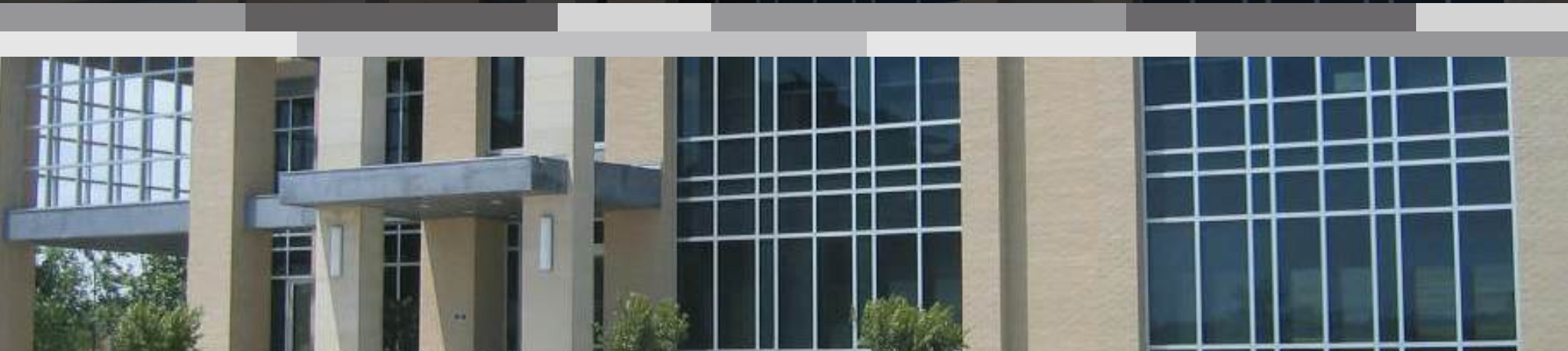
UH HOUSTON

UH CLEAR LAKE

UH DOWNTOWN

UH VICTORIA

UH SYSTEM



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 POSITION | AS OF AUGUST 31, 2013

ASSETS	2013	2012
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 6,354,917	\$ 6,510,290
Restricted Cash and Cash Equivalents	(734,588)	(375,238)
Loans and Contracts	1,790,911	1,956,803
Legislative Appropriations	2,279,152	3,372,747
Receivables	5,440,251	6,153,576
Prepaid Items	1,552,494	1,150,629
<b>TOTAL CURRENT ASSETS</b>	<b>16,683,137</b>	<b>18,768,807</b>
<b>NON-CURRENT ASSETS</b>		
Loans and Other Receivables	22,358,781	29,561,318
Investments	71,597	38,009
Capital Assets, Non-Depreciable/ Non-Amortizable	1,947,442	2,162,213
Capital Assets, Amortizable/Depreciable	46,457,837	34,929,771
Accumulated Amortization/Depreciation	(16,135,537)	(14,701,662)
Deferred Charges	19,713,824	20,787,037
<b>TOTAL NON-CURRENT ASSETS</b>	<b>74,413,944</b>	<b>72,776,686</b>
<b>TOTAL ASSETS</b>	<b>\$ 91,097,081</b>	<b>\$ 91,545,493</b>

LIABILITIES	2013	2012
<b>CURRENT LIABILITIES</b>		
Payables	\$ 5,065,244	\$ 3,357,663
Unearned Revenues	10,591,754	9,719,699
Claims and Judgments Payable	18,364	9,399
Employees' Compensable Leave	395,785	381,029
Revenue Bonds Payable	2,925,797	2,596,074
Funds Held for Others	1,009,245	389,094
<b>TOTAL CURRENT LIABILITIES</b>	<b>20,006,189</b>	<b>16,452,958</b>
<b>NON-CURRENT LIABILITIES</b>		
Claims and Judgments Payable		670
Employee's Compensable Leave	416,248	405,896
Revenue Bonds Payable	45,994,020	48,919,817
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>46,410,268</b>	<b>49,326,383</b>
<b>TOTAL LIABILITIES</b>	<b>66,416,457</b>	<b>65,779,341</b>
<b>NET POSITION</b>		
Invested in Capital Assets, Net of Related Debt	12,200,672	10,013,586
Restricted, Debt Retirement	1,875,476	2,291,464
Restricted, Capital Projects	8,878	258,679
Restricted, Endowment Funds	8,758,087	7,800,240
Restricted, Other	2,303,104	1,707,657
Unrestricted	(465,593)	3,694,526
<b>TOTAL NET POSITION</b>	<b>\$ 24,680,624</b>	<b>\$ 25,766,152</b>

# financial statements

UNIVERSITY OF HOUSTON VICTORIA - STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION | AS OF AUGUST 31, 2013

OPERATING REVENUES	2013	2012
Tuition and Fees, Net of Discounts	\$ 16,231,638	\$ 16,735,095
Sales of Goods and Services	2,768,159	1,712,647
Federal Revenue	194,180	162,786
State Grant Revenue	1,091,655	684,875
Other Grants and Contracts	228,512	396,843
<b>TOTAL OPERATING REVENUES</b>	<b>20,514,144</b>	<b>19,692,246</b>
<b>OPERATING EXPENSES</b>		
Instruction	19,905,074	19,763,372
Research	147,615	118,884
Public Service	893,564	804,473
Academic Support	6,220,421	6,331,208
Student Services	5,472,470	5,571,449
Institutional Support	5,287,179	4,858,241
Operation and Maintenance of Plant	2,271,289	2,041,560
Scholarships and Fellowships	3,436,810	2,823,889
Auxiliary Enterprises	2,702,847	2,087,484
Depreciation and Amortization	1,833,276	1,763,425
<b>TOTAL OPERATING EXPENSES</b>	<b>48,170,545</b>	<b>46,163,985</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (27,656,401)</b>	<b>\$ (26,471,739)</b>

NON-OPERATING REVENUES (EXPENSES)	2013	2012
Legislative Revenue	\$ 16,963,246	\$ 16,973,793
Gifts	968,775	394,798
Federal Revenue Non-Operating	5,371,244	4,900,464
Investment Income	393,401	236,546
Interest Expense and Fiscal Charges	(2,412,265)	(2,387,298)
Net Incr (Decr) in Fair Value of Investments	584,478	899,768
Other Non-Operating Revenues (Expenses)	(1,729,769)	436,827
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>20,139,110</b>	<b>21,454,898</b>
<b>INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>(7,517,291)</b>	<b>(5,016,841)</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	475,749	49,730
Intercomponent Transfers	3,759,583	4,079,333
Transfers Out	(197,490)	(179,328)
<b>TOTAL OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>6,431,763</b>	<b>6,343,656</b>
<b>CHANGE IN NET POSITION</b>	<b>(1,085,528)</b>	<b>1,326,815</b>
Net Position Beginning	25,766,152	24,438,909
Restatements		428
<b>NET POSITION BEGINNING, AS RESTATED</b>	<b>25,766,152</b>	<b>24,439,337</b>
<b>NET POSITION, ENDING</b>	<b>\$ 24,680,624</b>	<b>\$ 25,766,152</b>



# financial statements

UNIVERSITY OF HOUSTON VICTORIA - STATEMENT OF CASH FLOWS | FOR THE YEAR ENDED AUGUST 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	2013	2012
Proceeds Received from Students and Customers	\$ 16,632,719	\$ 17,520,758
Proceeds from Loan Programs	2,331,301	3,425,188
Proceeds from Other Revenues	3,965,410	2,933,542
Payments to Suppliers for Goods and Services	(10,453,571)	(13,307,495)
Payments to Employees	(29,506,262)	(27,625,150)
Payments for Loans Provided	(2,165,409)	(3,399,101)
Payments for Other Expenses	(4,185,492)	(4,484,792)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(23,381,304)</b>	<b>(24,937,050)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from State Appropriations	18,056,841	16,347,553
Proceeds from Gifts	588,884	413,730
Proceeds from Endowments	475,750	49,730
Proceeds of Transfers from Other Funds	4,038,267	4,416,097
Proceeds from Other Revenues	5,371,244	4,900,464
Payments for Other Uses	(1,296,844)	(508,669)
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>27,234,142</b>	<b>25,618,905</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from Capital Financing Activities	11,032,716	13,949,829
Payments for Additions to Capital Assets	(11,712,697)	(976,336)
Payments of Principal and Interest on Debt Issuance	(4,891,571)	(16,339,191)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (5,571,552)</b>	<b>\$ (3,365,698)</b>

CASH FLOWS FROM INVESTING ACTIVITIES	2013	2012
Proceeds from Sales of Investments	\$ 1,074,671	\$ 0
Proceeds from Interest and Investment Income	393,401	1,136,315
Payments to Acquire Investments	(264,081)	(871,855)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>1,203,991</b>	<b>264,460</b>
Increase (Decrease) in Cash and Cash Equivalents	(514,723)	(2,419,383)
<b>CASH AND CASH EQUIVALENTS, SEPTEMBER 1</b>	<b>6,135,053</b>	<b>8,554,436</b>
<b>CASH AND CASH EQUIVALENTS, AUGUST 31</b>	<b>5,620,330</b>	<b>6,135,053</b>

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

<b>OPERATING INCOME (LOSS)</b>	<b>(27,656,401)</b>	<b>(26,471,739)</b>
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## ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Amortization and Depreciation	1,833,276	1,763,425
Classification Differences	165,892	26,087

## CHANGES IN ASSETS AND LIABILITIES

(Increase) Decrease in Receivables and Loans	(824,650)	(67,148)
(Increase) Decrease in Other Assets	38,760	39,101
(Increase) Decrease in Prepaid Expenses	(401,865)	(159,678)
Increase (Decrease) in Payables	1,858,240	(589,655)
Increase (Decrease) in Deferred Income	872,055	563,365
Increase (Decrease) in Other Liabilities	733,389	(40,808)

<b>TOTAL ADJUSTMENTS</b>	<b>4,275,097</b>	<b>1,534,689</b>
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<b>NET CASH PROVIDED BY OPERATING ACTIVITIES \$</b>	<b>(23,381,304)</b>	<b>\$ (24,937,050)</b>
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# financial statements

UNIVERSITY OF HOUSTON VICTORIA - MATRIX OF OPERATING EXPENSES | FOR THE YEAR ENDED AUGUST 31, 2013

EXPENSES BY NATURAL CLASSIFICATION	2013	2012
Cost of Goods Sold	\$ 23,704,041	\$ 22,267,369
Payroll Related Costs	5,909,163	5,310,710
Professional Fees and Services	6,287,577	6,146,539
Travel	546,391	525,085
Materials and Supplies	1,868,772	1,500,876
Communication and Utilities	1,203,914	1,201,594
Repairs and Maintenance	924,150	1,382,867
Rentals and Leases	955,237	1,263,955
Printing and Reproduction	124,084	140,612
Depreciation and Amortization	1,833,276	1,763,425
Interest	556	631
Scholarships	3,574,528	3,572,161
Claims and Losses	51,144	34,055
Other Operating Expenses	1,187,712	1,054,106
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 48,170,545</b>	<b>\$ 46,163,985</b>

EXPENSES BY FUNCTIONAL CLASSIFICATION	2013	2012
Instruction	\$ 19,905,074	\$ 19,763,372
Research	147,615	118,884
Public Service	893,564	804,473
Academic Support	6,220,421	6,331,208
Student Services	5,472,470	5,571,449
Institutional Support	5,287,179	4,858,241
Physical Plant	2,271,289	2,041,560
Scholarships and Fellowships	3,436,810	2,823,889
Auxiliary Enterprises	2,702,847	2,087,484
Depreciation and Amortization	1,833,276	1,763,425
<b>TOTAL EXPENSES BY EXPENDITURE FUNCTION</b>	<b>\$ 48,170,545</b>	<b>\$ 46,163,985</b>

# UNIVERSITY of HOUSTON

## SYSTEM ADMINISTRATION

UH HOUSTON

UH CLEAR LAKE

UH DOWNTOWN

UH VICTORIA

UH SYSTEM



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 POSITION | AS OF AUGUST 31, 2013

ASSETS	2013	2012
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 45,505,021	\$ 182,159,253
Short-term Investments	138,593,019	231,842,556
Restricted Cash and Cash Equivalents	7,935,554	(132,330,588)
Legislative Appropriations	637,287	765,389
Receivables	7,376,452	13,555,556
Prepaid Items	353,265	57,962
<b>TOTAL CURRENT ASSETS</b>	<b>200,400,598</b>	<b>296,050,128</b>
<b>NON-CURRENT ASSETS</b>		
Loans and Other Receivables	23,195,158	6,565,310
Investments	734,781,903	637,925,375
Capital Assets, Non-Depreciable/ Non-Amortizable	6,822,751	6,399,751
Capital Assets, Amortizable/Depreciable	91,815,349	91,771,913
Accumulated Amortization/Depreciation	(50,419,761)	(41,636,693)
<b>TOTAL NON-CURRENT ASSETS</b>	<b>806,195,400</b>	<b>701,025,656</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,006,595,998</b>	<b>\$ 997,075,784</b>

LIABILITIES	2013	2012
<b>CURRENT LIABILITIES</b>		
Payables	\$ 821,225,632	\$ 834,229,995
Unearned Revenues	902	4,402
Notes and Loans Payable	52,856,000	25,123,000
Claims and Judgments Payable	7,140	13,816
Employees' Compensable Leave	299,775	364,038
Funds Held for Others	4,751	20,357
<b>TOTAL CURRENT LIABILITIES</b>	<b>874,394,200</b>	<b>859,755,608</b>
<b>NON-CURRENT LIABILITIES</b>		
Employees' Compensable Leave	315,274	387,796
Claims and Judgments Payable		281
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>315,274</b>	<b>388,077</b>
<b>TOTAL LIABILITIES</b>	<b>874,709,474</b>	<b>860,143,685</b>
<b>NET POSITION</b>		
Invested in Capital Assets, Net of Related Debt	32,543,422	39,580,421
Restricted for: Debt Retirement		3,087,555
Restricted, Capital Projects	7,580	15,967
Restricted, Endowment Funds	52,012,592	50,224,161
Restricted, Other	6,717,871	6,452,092
Unrestricted	40,605,059	37,571,903
<b>TOTAL NET POSITION</b>	<b>\$ 131,886,524</b>	<b>\$ 136,932,099</b>

# financial statements

UNIVERSITY OF HOUSTON SYSTEM ADMINISTRATION - STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION | AS OF AUGUST 31, 2013

OPERATING REVENUES	2013	2012
Sales of Goods and Services	\$ 60,187	\$ 1,264,002
State Grant Revenue	(368)	25,473
<b>TOTAL OPERATING REVENUES</b>	<b>59,819</b>	<b>1,289,475</b>
<b>OPERATING EXPENSES</b>		
Research	939,855	976,312
Public Service	76,250	101,368
Academic Support	1,262,124	5,317,855
Student Services	263,320	255,462
Institutional Support	7,837,830	6,996,487
Operation and Maintenance of Plant	1,918,990	2,190,113
Scholarships and Fellowships		53,870
Depreciation and Amortization	8,785,258	8,605,896
<b>TOTAL OPERATING EXPENSES</b>	<b>21,083,627</b>	<b>24,497,363</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (21,023,808)</b>	<b>\$ (23,207,888)</b>

NON-OPERATING REVENUES (EXPENSES)	2013	2012
Legislative Revenue	\$ 27,065,923	\$ 27,529,314
Gifts	41,660	98,551
Federal Revenue Non Operating (PR-OP Grants/Contributions)	1,500,113	1,568,336
Investment Income	4,702,831	2,706,752
Net Incr (Decr) in Fair Value of Investments (PR-OP Grants/Contrib)	5,389,570	(21,169,309)
Other Nonoperating Revenues (Expenses)	6,477,059	7,671,512
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>45,177,156</b>	<b>18,405,156</b>
<b>INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>24,153,348</b>	<b>(4,802,732)</b>
<b>OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>		
Additions to Permanent and Term Endowments		10,000
Transfers In	4,574,827	3,856,976
Transfers Out	(32,941,600)	(30,622,828)
Legislative Appropriations Lapsed	(832,151)	(58,356)
<b>TOTAL OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>(29,198,924)</b>	<b>(26,814,208)</b>
<b>CHANGE IN NET POSITION</b>	<b>(5,045,576)</b>	<b>(31,616,940)</b>
Net Position Beginning	136,932,099	168,549,039
Restatements	1	
<b>NET POSITION BEGINNING, AS RESTATED</b>	<b>136,932,100</b>	<b>168,549,039</b>
<b>NET POSITION, ENDING</b>	<b>\$ 131,886,524</b>	<b>\$ 136,932,099</b>



# financial statements

UNIVERSITY OF HOUSTON SYSTEM ADMINISTRATION - STATEMENT OF CASH FLOWS | FOR THE YEAR ENDED AUGUST 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	2013	2012
Proceeds Received from Students and Customers	\$ 1,576,143	\$ 1,469,325
Proceeds from Other Revenues	22	25,148
Payments to Suppliers for Goods and Services	(1,184,008)	(6,912,479)
Payments to Employees	(9,046,031)	(10,413,210)
Payments for Other Expenses	(2,191,455)	(5,276,667)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(10,845,329)</b>	<b>(21,107,883)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from State Appropriations	26,361,874	27,512,553
Proceeds from Gifts	41,661	98,551
Proceeds from Endowments		10,000
Proceeds of Transfers from Other Funds	12,389,023	16,137,156
Proceeds from Other Revenues	1,500,113	1,568,336
Payments for Other Uses	(35,363,545)	(30,656,498)
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>4,929,126</b>	<b>14,670,098</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from Other Financing Activities	28,053,000	102,838,723
Payments for Additions to Capital Assets	(468,624)	(210,376)
Payment for Principal on Debt		(17,018,000)
Payments of Principal and Interest on Debt Issuance	(124,561,172)	(3,067,717)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (96,976,796)</b>	<b>\$ 82,542,630</b>

CASH FLOWS FROM INVESTING ACTIVITIES	2013	2012
Proceeds from Sales of Investments	\$ 650,028,126	\$ 577,781,731
Proceeds from Interest and Investment Income	4,561,866	155,886
Payments to Acquire Investments	(548,085,082)	(662,236,800)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>106,504,910</b>	<b>(84,299,183)</b>
Increase (Decrease) in Cash and Cash Equivalents	3,611,911	(8,194,338)
<b>CASH AND CASH EQUIVALENTS, SEPTEMBER 1</b>	<b>49,828,665</b>	<b>58,023,003</b>
<b>CASH AND CASH EQUIVALENTS, AUGUST 31</b>	<b>53,440,576</b>	<b>49,828,665</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
<b>OPERATING INCOME (LOSS)</b>	<b>(21,023,808)</b>	<b>(23,207,888)</b>
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Amortization and Depreciation	8,785,258	8,605,896
<b>CHANGES IN ASSETS AND LIABILITIES</b>		
(Increase) Decrease in Receivables and Loans	1,519,478	(5,517,905)
(Increase) Decrease in Other Assets	368	(324)
(Increase) Decrease in Prepaid Expenses	(295,303)	(14,954)
Increase (Decrease) in Payables	702,670	(2,189,084)
Increase (Decrease) in Deferred Income	(3,500)	236
Increase (Decrease) in Other Liabilities	(530,492)	1,216,140
<b>TOTAL ADJUSTMENTS</b>	<b>10,178,479</b>	<b>2,100,005</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES \$</b>	<b>(10,845,329)</b>	<b>\$ (21,107,883)</b>

## financial statements

UNIVERSITY OF HOUSTON SYSTEM ADMINISTRATION - MATRIX OF OPERATING EXPENSES | FOR THE YEAR ENDED AUGUST 31, 2013

EXPENSES BY NATURAL CLASSIFICATION	2013	2012
Cost of Goods Sold	\$ 7,128,838	\$ 7,848,117
Payroll Related Costs	1,409,263	1,628,672
Professional Fees and Services	855,025	2,342,361
Travel	121,317	70,479
Materials and Supplies	158,419	350,300
Communication and Utilities	187,519	686,444
Repairs and Maintenance	64,195	292,317
Rentals and Leases	186,140	266,138
Printing and Reproduction	18,759	41,169
Depreciation and Amortization	8,785,258	8,605,896
Interest	1,529,305	1,591,781
Scholarships	469,569	523,439
Claims and Losses	13,864	30,200
Other Operating Expenses	156,156	220,050
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 21,083,627</b>	<b>\$ 24,497,363</b>

EXPENSES BY FUNCTIONAL CLASSIFICATION	2013	2012
Research	\$ 939,855	\$ 976,312
Public Service	76,250	101,368
Academic Support	1,262,124	5,317,855
Student Services	263,320	255,462
Institutional Support	7,837,830	6,996,488
Operation and Maintenance of Plant	1,918,990	2,190,112
Scholarships and Fellowships		53,870
Depreciation and Amortization	8,785,258	8,605,896
<b>TOTAL EXPENSES BY EXPENDITURE FUNCTION</b>	<b>\$ 21,083,627</b>	<b>\$ 24,497,363</b>

## a pathway to excellence



The mission statements of each of the UH System component universities influence their strategic goals. Included among these goals are national competitiveness, student success, athletic competitiveness, and resource competitiveness. As outlined elsewhere in this report, UH System universities accomplishments with respect to their performance and progress card measures have been strong during the current fiscal year. With improved performance, the UH System universities are poised for continued success in the coming years. To harness this potential, administrative leaders at the UHS campuses have engaged in regular strategic planning activities over the past several years. In 2012, during the prior fiscal year, the universities developed campus master plans designed to facilitate the accomplishment of their enrollment and research targets. During the 2013 fiscal year, more in-depth campus master planning has occurred.

This year's Annual Financial Report offers a pictorial glimpse into the various campuses of the University of Houston System. Over the last five years, the UH System has initiated or completed nearly \$1 billion of capital project expenditures. These projects encompass several million square feet of new or renovated space; have provided over 5,000 new parking garage spaces, and rooms for over 4,000 new student resident beds. Approximately \$28 million has been devoted to deferred maintenance and life safety upgrades. We would like to take the opportunity in this report to share with you a selection of photographs of some of the buildings, facilities, and infrastructure construction and renovations that have taken place throughout our System. These illustrations offer a brief sample of the numerous facilities and opportunities we have provided to enhance the educational endeavors of our students, to enrich their lives, and to assist them with a successful academic experience. Additionally we offer the following descriptions of our goals and initiatives for our UHS pathways to progress, success, and excellence, as they relate to competitive resources and infrastructure planning.

## UH – SYSTEM ADMINISTRATION

**GOAL:** The city of Houston and the greater Houston region will be known for having one of the best metropolitan systems of higher education in the nation. The UH System will commit to providing access to the people of the greater Houston region and the state. Each university within the System will make student success its top priority and will hold itself publicly accountable for achieving this goal.

**INITIATIVES:** UH System Campus Master Planning and Collaborative Initiatives

- The UH System Administration, in collaboration with campus leadership, will continue campus master planning activities. The University of Houston 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.

## UNIVERSITY OF HOUSTON

**GOAL:** UH will build a resource base that enables it to accomplish its mission and realize its vision.

**INITIATIVES:** University Infrastructure and Administration

- As part of its capital renewal and deferred maintenance program, UH will invest resources in general facilities projects. This will include a central utilities plant expansion, as well as improvements to classroom space, support space, and other infrastructure, as prioritized through the university's facilities condition audit. Additional resources will be used to fund major construction projects on campus, including the Cougar Substation, fire and life safety enhancements, and the Health & Biomedical Sciences Building. In support of its move to the American Athletic Conference, UH will continue planning for the construction of a new football stadium and the renovation of Hofheinz Pavilion.

**CONSTRUCTION PROJECTS:**

- UH Cougar Village II, completed Summer 2013. This is a residential facility consisting of approximately 274 two-bedroom shared bath units, approximately 36 individual units for resident assistants, and related amenities. The project is the second phase of two similar residential facilities to be located along Wheeler Street at the southern edge of the UH campus. Each student bedroom will accommodate two beds for a total capacity of 1,144 beds. Amenities will include a lobby with a service desk, a central lounge and floor lounges on each floor, computer room, free laundry room, testing center, fitness area, Living Learning Center, floor kitchenettes, mail center, courtyards and Wi-Fi service. Adjacent exterior courtyards will support outdoor activities and feature landscaping, seating, bicycle parking, artwork and site lighting. There is a courtyard that creates a large gathering place for campus-wide events and informal recreation. The seven-story building will also house the offices of Student Housing and Residential Life as well as a testing center.
- UH Cougar Place, completed Summer 2013. This student housing facility consists of two four-story residential wings organized around two connecting quads. A separate but connected commons building contains reception, classrooms, and common



living and learning areas intended to provide student gathering space and academic support for an enhanced residential life experience. The facility will have 799 student beds and will be designed to house sophomore and other upper class-level students. Unit configurations will consist of four private bedrooms with two shared bathrooms and a small common living area. Amenities include living/learning spaces, a computer room, free laundry rooms, a fitness area, and free Internet/Wi-Fi. The facility has been designed using green/sustainable principles.

- UH Welcome Center Student Garage, completed Summer 2013. The new parking garage will contain approximately 1,500 parking spaces on four parking levels. It is located at the corner of Wheeler and Calhoun, immediately south of the Welcome Center Parking Garage and east of Moody Towers student housing. This garage will primarily serve the growing student residential corridor along Wheeler Street, but also will provide additional parking for visitors, faculty, and staff immediately adjacent to a future Metro light rail station.
- UH Health and Biomedical Sciences Center, completed Fall 2012. This facility is a six story building with approximately 167,000 gross square feet that includes interstitial spaces above the fifth and sixth floors with vivarium spaces to support animal research. The building also includes an ambulatory surgical center, laser center, research laboratories, clinical facilities, seminar spaces and classrooms. The facility is adjacent to and interconnected with the J. Armistead College of Optometry Building.
- UH Football Stadium, under construction. This new facility, located on the site of the demolished Robertson Stadium, will be oriented to align with the adjacent buildings and the surrounding campus circulation. The playing surface will be a state of the art synthetic turf designed to host a multitude of events. The 40,000 seat stadium will include club facilities, 26 suites, press box facilities, locker rooms, meeting rooms, concessions, central commissary, and the UH Athletics Ticket Office. It will also house band recital halls, classroom spaces, and a gallery/multi-purpose area. The elevated stands are designed to be expanded in the future, while still preserving views to downtown Houston. The new stadium has been designed using green/sustainable principles and for future expansion to 60,000 seats.



- UH University Center transformation, under construction. Phase 1 of the project includes construction of a new two-story north addition for student organizations and other campus services and a new east addition that will house a 450-seat theater, central kitchen, a food court, and the relocated bookstore. Phase 2 of the project will be the complete renovation of the existing UC building and will include new lounge and retail spaces. A new plaza will be created at ground level for public student events such as pep rallies, concerts and public speakers.

### UNIVERSITY OF HOUSTON – CLEAR LAKE

GOAL: UHCL will enhance a campus which is attractive, functional, safe, and supportive of the university's mission; promote an environment for effective collaboration; and maintain fiscal responsibility.

INITIATIVES: University Infrastructure and Administration

- An overall objective is to provide a physical and operationally efficient environment to adequately support the successful achievement of the university's mission. This will provide an environment that is conducive to learning, teaching, research, and service to students, staff development, and community outreach. Resource investments will center on campus facilities, university computing, and deferred maintenance. UHCL will complete the final phase of renovations planned for the Arbor Building.

CONSTRUCTION PROJECTS:

- UHCL Arbor additions and renovations, completed Fall 2012. The Arbor Building project consisted of renovations to the existing building as well as the addition of approximately 32,000 square feet of space for the Fine Arts and Education programs. The project incorporated pre-engineered metal building systems located in two structures: one each at the north and south ends of the building.

### UNIVERSITY OF HOUSTON – DOWNTOWN

GOAL: UHD will develop the processes, programs, and facilities that support the institution's intent to provide a superior, student-centered learning environment and quality experiences.

INITIATIVES: University Infrastructure and Administration

- Success in promoting student access and success, and achieving academic and research excellence, requires that the University provide high quality facilities and administrative support. Well-designed and maintained facilities are important to the satisfaction of faculty, staff and students, and are also important to overall institutional effectiveness. Resource investment provides for the continued maintenance and security of the existing physical plant, and supports initiatives that lead to increased administrative efficiency and better business practices.

CONSTRUCTION PROJECTS:

- UHD Parking Garage expansion, completed Fall 2012. This project consisted of the addition of two new intermediate parking levels for visitor parking for the existing Academic Building, with an internal entry/exit ramp.



- UHD Girard Street Parking Garage and Visitors Center, under construction. The planned project is a parking garage with four levels of parking that is replacing an existing garage, which is being demolished. The project includes a new Welcome Center that will house Admissions and Student Orientation. It will have enough shell space for future build out.

### UNIVERSITY OF HOUSTON – VICTORIA

**GOAL:** UHV will meet the needs of the student body with proven academic strategies for student access and success as well as augment student life through athletics and student organizations. UHV will demonstrate efficient and accountable stewardship of fiscal, human, and physical resources in its efforts to meet educational needs, comply with oversight authorities, and maintain public trust.

**INITIATIVES:** University Infrastructure and Administration

- UHV is committed to maintaining, improving and expanding facilities to provide a safe, up-to-date and efficient environment conducive to learning, teaching, research and service. Facility improvements will include areas such as roof repairs, renovations, continued maintenance, and additional security lighting. UHV will acquire and remodel, as needed, a building to meet the needs of UHV's physical plant and for facility maintenance campus wide.

**CONSTRUCTION PROJECTS:**

- UHV Jaguar Suites, completed Summer 2013. The suite-style residence hall features 54 units, all with four private bedrooms, a shared living space and kitchenette, and two baths. The building contains a multi-purpose room, two large study rooms, computer labs and small group study rooms on each floor, a large fitness room, common areas with televisions on each floor, and two elevators. Additional amenities include Wi-Fi throughout the building, laundry facilities on each floor, and a pool.
- UHV Regional Center for Economic Development, under construction. This three-story multi-use facility will be located northeast of the Center Building. The building will include a 60-seat tiered classroom, 200-seat auditorium, 400-seat multipurpose room, two 40-seat classrooms, and support for the school of Business Administration, Student Affairs, and Allied Health.



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