

**UNIVERSITY OF HOUSTON  
SYSTEM**

**UNAUDITED COMBINED ANNUAL  
FINANCIAL REPORT**

**FOR THE YEAR ENDED AUGUST 31, 2008  
WITH AUGUST 31, 2007 COMPARATIVE DATA**

# UNIVERSITY OF HOUSTON SYSTEM

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UNIVERSITY OF HOUSTON SYSTEM  
UNIVERSITY OF HOUSTON

Executive Director, Financial Reporting

January 15, 2009

Dr. Carl Carlucci  
Executive Vice Chancellor, Administration and Finance  
University of Houston System  
Houston, Texas 77204-2016

Dr. Carlucci:

Submitted herewith is the Annual Financial Report of the University of Houston System for the fiscal year ended August 31, 2008.

This report has been prepared in compliance with Texas Government Code Annotated §2101.011 and in accordance with the Annual Financial Reporting Requirements established by the Texas Comptroller of Public Accountants. Additionally, in order to support internal management reporting needs within the University of Houston System, this report presents financial statements with comparative data for the prior fiscal year.

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

Sincerely,

David Ellis  
Executive Director, Financial Reporting

University of Houston System

Organizational Data  
August 31, 2008

Board of Regents

Welcome W. Wilson, Sr., Houston	Term Expires August 31, 2011
Lynden B. Rose, Houston	Term Expires August 31, 2009
Dennis D. Golden, O.D., Carthage	Term Expires August 31, 2009
Calvin W. Stephens, Dallas	Term Expires August 31, 2009
Jim P. Wise, Houston	Term Expires August 31, 2011
Carroll Robertson Ray, Houston	Term Expires August 31, 2011
Mica Mosbacher, Houston	Term Expires August 31, 2013
Nelda Luce Blair, The Woodlands	Term Expires August 31, 2013
Jacob M. Monty, Houston	Term Expires August 31, 2013
Tamara K. Goodwin, Austin	Term Expires May 31, 2009

Officers of the Board (Fiscal Year 2008):

Welcome W. Wilson, Sr.	Chair
Calvin W. Stephens	Vice Chair
Jim P. Wise	Secretary

Officers of the Board (Fiscal Year 2009):

Welcome W. Wilson, Sr.	Chair
Lynden B. Rose	Vice Chair
Jim P. Wise	Secretary

Administrative Officers

Renu Khator	Chancellor
Jerald W. Strickland	Senior Vice Chancellor for Academic Affairs and Provost
Carl P. Carlucci	Executive Vice Chancellor for Administration and Finance
Elwyn C. Lee	Vice Chancellor for Student Affairs
Grover S. Campbell	Vice Chancellor for Governmental Relations
Donald L. Birx	Vice Chancellor for Research
Michael Rierson	Vice Chancellor for University Advancement
Dona H. Cornell	Vice Chancellor for Legal Affairs and General Counsel
Renu Khator	President – University of Houston
William A. Staples	President – UH Clear Lake
Max S. Castillo	President – UH Downtown
Tim Hudson	President – UH Victoria

University of Houston System  
Financial Statements  
(With Detailed Supportive Schedules)

Statement of Procedure Regarding  
Annual Financial Report

Present herein are the financial statements with detailed supportive schedules for the University of Houston System for the fiscal year ended August 31, 2008. These statements and detailed supportive schedules are in compliance with the guidelines in *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, published by the Texas Comptroller of Public Accounts. Additionally, this report has been prepared in accordance with the requirements in Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Managements Discussion and Analysis – For State and Local Governments*.

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

Unaudited

University of Houston System  
Combined Statement of Net Assets  
August 31, 2008

	Total 2008	Total 2007
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents		
Cash on Hand	\$ 228,170.00	\$ 173,047.64
Cash in Bank	(26,437,513.02)	(58,313,857.31)
Cash in Transit/Reimb Due From Treasury	334,515.05	255,212.40
Cash in State Treasury	16,805,630.21	18,845,866.77
Cash Equivalents	175,206,941.46	185,008,342.82
Short Term Investments	131,751,148.68	14,886,563.69
Restricted:		
Cash and Cash Equivalents		
Cash on Hand	500.00	500.00
Cash in Bank	11,694,407.06	23,442,505.09
Legislative Appropriations	76,426,015.98	56,552,065.15
Receivables:		
Federal Receivables	20,872,799.72	30,227,635.19
Interest and Dividends		1,789,243.64
Accounts Receivable	17,544,300.77	14,272,213.11
Gifts	15,691,292.75	8,970,851.15
Other Receivables	1,741,838.71	1,144,786.34
Due From Other Agencies	706,363.96	890,954.40
Consumable Inventories	604,043.08	534,101.35
Merchandise Inventories	1,726,016.12	2,498,331.05
Deferred Charges	39,439,082.17	23,850,352.56
Loans and Contracts	6,640,420.80	9,255,099.14
<b>Total Current Assets</b>	<b>490,975,973.50</b>	<b>334,283,814.18</b>
<b>Non-Current Assets</b>		
Restricted:		
Cash and Cash Equivalents		
Cash in Bank	43,671,530.59	39,070,335.58
Receivables		
Pledges Receivable	16,392,081.64	8,408,559.31
Loans and Contracts	14,174,508.72	9,916,546.76
Investments	716,312,856.18	642,805,127.12
Capital Assets		
Non-Depreciable		
Land and Land Improvements	86,245,956.70	60,818,951.69
Construction in Progress	81,159,441.48	22,392,589.51
Other Capital Assets	2,659,549.06	2,534,209.06
Depreciable		
Building and Building Improvements	788,892,650.14	781,524,545.12
Less Accumulated Depreciation	(465,406,036.64)	(442,835,128.29)
Infrastructure	43,297,217.46	43,297,217.46
Less Accumulated Depreciation	(36,249,467.31)	(35,619,247.69)
Facilities and Other Improvements	68,284,900.89	68,284,900.89
Less Accumulated Depreciation	(36,924,765.97)	(35,007,222.34)
Furniture and Equipment	148,200,991.30	164,991,047.91
Less Accumulated Depreciation	(105,567,965.32)	(124,375,696.84)
Vehicles, Boats and Aircraft	3,764,186.32	3,490,420.74
Less Accumulated Depreciation	(2,661,250.61)	(2,613,338.37)
Other Capital Assets	116,964,347.73	116,635,472.15
Less Accumulated Depreciation	(66,402,206.85)	(62,718,244.69)
<b>Total Non-Current Assets</b>	<b>1,416,808,525.51</b>	<b>1,261,001,045.08</b>
<b>Total Assets</b>	<b>1,907,784,499.01</b>	<b>1,595,284,859.26</b>

Unaudited

University of Houston System  
Combined Statement of Net Assets  
August 31, 2008

	Total 2008	Total 2007
<b>Liabilities</b>		
Current Liabilities:		
Payables:		
Accounts Payable	34,931,974.29	36,948,580.40
Federal Payable	1,736,057.46	412,818.71
Payroll Payable	32,702,893.63	30,936,236.85
Other Payable	2,846,650.98	2,586,641.80
Due to Other Agencies	91,061.34	5,977.84
Deferred Revenues	151,768,763.43	122,526,147.99
Notes and Loans Payable		26,775.02
Revenue Bonds Payable	22,591,393.09	19,597,739.13
Claims and Judgments Payable	272,145.64	254,947.98
Employees' Compensable Leave	10,080,415.03	9,202,915.35
Funds Held for Others	12,497,504.26	5,981,717.34
<b>Total Current Liabilities</b>	<b>269,518,859.15</b>	<b>228,480,498.41</b>
Non Current-Liabilities		
Revenue Bonds Payable	442,138,788.81	292,935,356.68
Claims and Judgments Payable	14,636.10	15,505.02
Employees' Compensable Leave	11,689,503.72	10,666,318.85
<b>Total Non-Current Liabilities</b>	<b>453,842,928.63</b>	<b>303,617,180.55</b>
<b>Total Liabilities</b>	<b>723,361,787.78</b>	<b>532,097,678.96</b>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	283,560,863.65	262,722,666.99
Restricted for:		
Debt Retirement	5,790,180.95	29,755.69
Capital Projects	4,140,832.86	593,880.27
Funds Held as Permanent Investments		
Non-Expendable		
True Endowments, Annuities	350,554,185.40	340,735,705.12
Expendable		
Term Endowments	214,334.72	256,217.57
Funds Functioning as Endowments	145,748,279.75	114,123,857.79
Other Restricted	115,470,897.84	86,731,400.88
Unrestricted	278,943,136.06	257,993,695.99
<b>Total Net Assets</b>	<b>\$ 1,184,422,711.23</b>	<b>\$ 1,063,187,180.30</b>

Unaudited

University of Houston System  
Combined Statement of Revenues, Expenses And Changes In Net Assets  
For The Year Ended August 31, 2008

	Total 2008	Total 2007
Operating Revenues		
Sales of Goods and Services (PR-Chgs for Services)		
Tuition and Fees	\$ 365,349,836.09	\$ 335,798,054.49
Discounts and Allowances	(56,858,757.38)	(50,514,214.48)
Auxiliary Enterprise	46,478,440.06	42,996,006.56
Other Sales of Goods and Services	20,155,405.37	20,894,248.09
Federal Revenue-Operating (PR-OP Grants/Contributions)	102,211,586.90	91,586,304.42
Federal Pass Through Revenue (PR-OP Grants/Contributions)	4,590,623.69	6,765,804.47
State Grant Revenue (PR-OP Grants/Contributions)	14,176,029.40	9,341,148.69
State Grant Pass Through Revenue (PR-OP Grants/Contributions)	18,250,952.47	12,633,162.40
Other Grants and Contracts-Operating (PR-OP Grants/Contributions)	14,930,317.06	13,854,868.43
Other Operating Revenues (PR-Chgs for Services)	1,172,165.10	835,527.58
<b>Total Operating Revenues</b>	<b>530,456,598.76</b>	<b>484,190,910.65</b>
Operating Expenses		
Instruction	264,505,061.08	243,314,239.40
Research	80,513,171.19	74,952,194.59
Public Service	40,319,266.04	34,605,751.25
Academic Support	128,294,874.22	113,975,339.80
Student Services	32,257,748.78	31,871,801.33
Institutional Support	76,144,246.94	73,074,768.34
Physical Plant	54,324,022.39	45,146,018.72
Scholarships & Fellowships	53,455,692.22	47,960,866.95
Auxiliary Enterprises	77,705,506.19	71,615,552.52
Depreciation and Amortization	41,231,411.06	40,972,546.02
<b>Total Operating Expenses</b>	<b>848,751,000.11</b>	<b>777,489,078.92</b>
<b>Operating Income (Loss)</b>	<b>(318,294,401.35)</b>	<b>(293,298,168.27)</b>
Non-Operating Revenues (Expenses)		
Legislative Revenue (GR)	236,810,857.00	211,725,384.00
Additional Appropriations (GR)	45,742,475.35	42,410,319.94
Gifts (PR-OP Grants/Contributions)	66,127,625.32	43,159,548.39
Interest and Investment Income (PR-Chgs for Services)	58,561,468.90	49,694,884.93
Interest Expense and Fiscal Charges	(13,718,478.13)	(13,771,856.47)
Gain (Loss) on Sale of Capital Assets (GR)		6,500.00
Net Incr (Decr) in Fair Value of Investments (PR-OP Grants/Contrib)	20,887,698.81	31,631,518.43
Other Non-Operating Revenue (Expenses) (PR-Chgs for Services)	(35,196,611.84)	(10,818,290.15)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>379,215,035.41</b>	<b>354,038,009.07</b>

Unaudited

University of Houston System  
Combined Statement of Revenues, Expenses And Changes In Net Assets  
For The Year Ended August 31, 2008

	Total 2008	Total 2007
<u>Income (Loss) before Other Revenues, Expenses, Gains, Losses and Transfers</u>	<u>60,920,634.06</u>	<u>60,739,840.80</u>
Other Revenues, Expenses, Gains, Losses and Transfers		
Capital Appropriation (HEAF)	53,188,511.00	35,459,008.00
Additions to Permanent and Term Endowments	11,826,699.45	9,278,667.10
Transfers-Out	(2,953,497.11)	(2,253,071.92)
Legislative Appropriations Lapsed	(1,047,681.35)	(25,668.87)
<u>Total Other Rev, Exp, Gains, Losses and Transfers</u>	<u>61,014,031.99</u>	<u>42,458,934.31</u>
<u>Change In Net Assets</u>	<u>121,934,666.05</u>	<u>103,198,775.11</u>
Net Assets Beginning	1,063,187,180.30	961,766,439.72
Restatements	(699,135.12)	(1,778,034.53)
<u>Net Assets Beginning, as Restated</u>	<u>1,062,488,045.18</u>	<u>959,988,405.19</u>
<u>Net Assets, Ending</u>	<u>\$ 1,184,422,711.23</u>	<u>\$ 1,063,187,180.30</u>

Unaudited

University of Houston System  
Combined Matrix of Operating Expenses Reported by Function  
For The Year Ended August 31, 2008

Operating Expenses	Instruction	Research	Public Service	Academic Support	Student Services
Cost of Goods Sold	\$	\$	\$ 995,849.30	\$ 1,714.23	\$
Salaries and Wages	197,927,361.38	40,569,945.72	16,605,692.65	74,659,271.23	17,258,931.78
Payroll Related Costs	44,143,852.99	7,360,449.08	3,887,745.98	14,721,752.58	4,399,621.47
Professional Fees and Services	3,361,043.07	3,489,190.49	2,412,694.01	6,049,111.80	2,829,200.12
Federal Pass-Through Expenses	14,534.75	2,828,569.95	304,878.86	7,216.84	118,849.07
Travel	2,705,154.15	3,352,445.85	1,098,738.49	2,799,956.41	397,743.42
Materials and Supplies	6,462,143.50	8,813,187.13	1,660,999.52	11,427,269.24	1,601,531.88
Communication and Utilities	1,763,685.70	723,242.11	2,552,896.64	7,525,298.53	1,009,209.84
Repairs and Maintenance	574,525.11	792,014.62	310,231.96	2,519,271.13	266,127.05
Rentals and Leases	1,188,189.49	977,959.88	4,757,083.80	1,930,017.84	395,015.26
Printing and Reproduction	635,178.68	227,559.28	1,088,198.50	1,145,234.44	721,734.39
Depreciation and Amortization					
Interest	8,187.66	10,557.00	1,728.02	7,626.05	6,015.37
Scholarships	1,803,678.90	1,144,370.08	347,032.70	795,316.43	591,177.08
Claims and Losses				12.78	
Other Operating Expenses	3,917,525.70	10,223,680.00	4,295,495.61	4,705,804.69	2,662,592.05
<b>Total Operating Expenses</b>	<b>\$ 264,505,061.08</b>	<b>\$ 80,513,171.19</b>	<b>\$ 40,319,266.04</b>	<b>\$ 128,294,874.22</b>	<b>\$ 32,257,748.78</b>

Unaudited

University of Houston System  
Combined Matrix of Operating Expenses Reported by Function  
For The Year Ended August 31, 2008

Institutional Support	Operation and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total 2008	Total 2007
\$	\$	\$	\$	\$	\$	\$
46,045,628.11	14,118,057.93	914,973.67	2,040,145.34		3,037,708.87	2,891,050.19
11,701,153.55	5,480,637.48	71,709.94	29,160,902.85		437,260,765.32	411,225,610.01
5,743,282.05	4,543,640.69	848,503.29	5,996,085.18		97,763,008.25	91,224,464.66
			11,320,502.79		40,597,168.31	39,532,669.23
					3,274,049.47	2,906,252.17
688,832.70	63,696.50	86,384.91	3,208,079.85		14,401,032.28	12,924,307.87
3,394,573.94	2,661,941.75	157,256.49	5,401,904.76		41,580,808.21	33,915,529.56
1,506,813.92	23,893,501.61	13,986.96	11,310,299.71		50,298,935.02	42,191,850.51
1,446,706.33	2,033,734.31	5,514.03	1,655,051.54		9,603,176.08	9,456,827.76
1,373,560.80	1,054,894.21	179.25	1,030,032.15		12,706,932.68	13,407,089.80
726,259.27	29,023.50	8,779.47	755,521.82		5,337,489.35	4,652,340.15
				41,231,411.06	41,231,411.06	40,972,546.02
8,840.51	1,393.35	69.80	27,772.57		72,190.33	44,723.41
58,483.13		51,170,523.43	710,736.05		56,621,317.80	50,463,805.61
950,903.16			496.25		951,412.19	913,975.50
2,499,209.47	443,501.06	177,810.98	5,087,975.33		34,013,594.89	20,766,036.47
<u>\$ 76,144,246.94</u>	<u>\$ 54,324,022.39</u>	<u>\$ 53,455,692.22</u>	<u>\$ 77,705,506.19</u>	<u>\$ 41,231,411.06</u>	<u>\$ 848,751,000.11</u>	<u>\$ 777,489,078.92</u>

Unaudited

University of Houston System  
Combined Statement of Cash Flows  
For The Year Ended August 31, 2008

	Total 2008	Total 2007
Cash Flows from Operating Activities		
Receipts from Customers	\$ 20,497,608.05	\$ 19,936,818.93
Proceeds from Tuition & Fees	335,477,369.29	296,872,594.18
Proceeds from Research Grants & Contracts	140,644,023.18	98,690,527.63
Proceeds from Loan Programs	63,695,516.72	68,829,405.57
Proceeds from Auxiliaries	47,947,124.69	39,832,962.92
Proceeds from Other Revenues	24,129,625.94	22,480,185.29
Payments to Suppliers for Goods and Services	(171,910,593.18)	(142,749,060.91)
Payments to Employees for Salaries	(434,800,291.62)	(427,545,929.66)
Payments to Employees for Benefits	(96,673,860.57)	(90,647,724.24)
Payments for Loans Provided	(68,822,417.35)	(77,663,099.56)
Payments for Other Expenses	(117,171,794.42)	(90,241,746.13)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(256,987,689.27)</b>	<b>(282,205,065.98)</b>
Cash Flows from Noncapital Financing Activities		
Proceeds from State Appropriations	262,475,208.86	253,181,755.37
Proceeds from Gifts	35,054,633.85	11,324,920.24
Proceeds from Endowments	20,289,697.60	19,204,381.05
Proceeds of Transfers from Other Funds	23,705,512.01	46,959,479.08
Proceeds from Other Financing		(60,726.30)
Payments for Transfers to Other Funds	(26,525,219.91)	(22,422,429.01)
Payments for Other Uses	(17,514,045.78)	(7,893,708.16)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>297,485,786.63</b>	<b>300,293,672.27</b>
Cash Flows from Capital and Related Financing Activities		
Proceeds from the Sale of Capital Assets		6,500.00
Proceeds from Debt Issuance		(8,066.11)
Proceeds from Other Financing Activities		2,282,184.63
Proceeds from Capital Contributions	53,188,511.00	35,459,008.00
Payments for Additions to Capital Assets	(23,146,831.89)	(22,776,567.69)
Payments of Principal on Debt	(64,648,735.26)	(19,295,282.03)
Payments of Interest on Debt Issuance	(13,597,319.86)	(14,139,107.68)
Payments of Other Costs on Debt Issuance	(909,242.09)	(1,611,883.19)
<b>Net Cash Provided by Capital and Related Financing Activities</b>	<b>(49,113,618.10)</b>	<b>(20,083,214.07)</b>
Cash Flows from Investing Activities		
Proceeds from Sales of Investments	730,804,384.92	216,932,913.04
Proceeds from Interest Income	10,611,364.53	15,035,240.33
Proceeds from Investment Income	205,320,884.42	26,243,441.20
Payments to Acquire Investments	(925,098,884.77)	(232,913,011.47)
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>21,637,749.10</b>	<b>25,298,583.10</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>13,022,228.36</b>	<b>23,303,975.32</b>
Cash and Cash Equivalents, September 1	208,481,952.99	185,177,977.67
Restatements to Beginning Cash and Cash Equivalents		

Unaudited

University of Houston System  
Combined Statement of Cash Flows  
For The Year Ended August 31, 2008

	Total 2008	Total 2007
Cash and Cash Equivalents, August 31	\$ 221,504,181.35	\$ 208,481,952.99
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ (318,294,401.35)	\$ (293,298,168.27)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Amortization and Depreciation	41,231,411.06	40,972,546.02
Bad Debt Expense	161,579.17	133,337.31
Operating Income and Cash Flow Categories: Classification Differences	(8,565,247.07)	(16,184,742.44)
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	7,113,087.18	(12,859,655.89)
(Increase) Decrease in Inventories	702,373.20	(682,010.89)
(Increase) Decrease in Prepaid Expenses	(15,588,729.61)	(9,373,406.13)
(Increase) Decrease in Loans and Contracts	(977,531.28)	67,353.29
(Increase) Decrease in Other Assets	65,688.78	29,693.69
Increase (Decrease) in Payables	(367,704.16)	(4,742,394.65)
Increase (Decrease) in Deferred Income	29,296,711.10	10,419,334.14
Increase (Decrease) in Compensated Absence Liability	1,900,684.55	1,201,311.57
Increase (Decrease) in Benefits Payable	740,936.40	2,823,610.97
Increase (Decrease) in Other Liabilities	5,593,452.76	(711,874.70)
Total Adjustments	61,306,712.08	11,093,102.29
Net Cash Provided (Used) by Operating Activities	\$ (256,987,689.27)	\$ (282,205,065.98)
Non-Cash Transactions		
Donation of Capital Assets		
Unrealized Gain (Loss) on Investments	\$ 20,996,648.37	\$ 31,631,518.43
Borrowing Under Capital Lease Purchase		
Other		
Non-Cash Transactions	\$ 20,996,648.37	\$ 31,631,518.43

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

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

**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 State Agencies.

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

The System includes within this report all components as determined by an analysis of their relationship to the System as listed below.

Due to the statewide requirements embedded in Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The financial report will be considered for audit by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

The accompanying financial statements and related information have been prepared in conformity with the instructions contained in the State Comptroller's manual, *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*. The instructions and the accompanying report are designed to assist the Texas Comptroller of Public Accounts in compiling and preparing a Comprehensive Annual Financial Report for the State of Texas. Since the System's annual financial report is not subject to a separate financial audit, certain information, such as a Management Discussion and Analysis and a complete set of Government-Wide Financial Statements, are not included in the accompanying report. The System's financial statements are considered to be materially accurate in all respects.

Blended Component Units

No component units have been identified which should have been blended into an appropriated fund.

Discretely Presented Component Units

These component units are legally separate from the state, but are financially accountable to the state, or have a relationship with the state such that exclusion would cause the financial statements to be misleading or incomplete. The component unit columns of the financial statements include the financial data of these entities.

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

**Fund Structure**

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

## **Governmental Fund Types & Government-wide Adjustment Fund Types**

### **General Fund**

The General Fund is the principal operating fund used to account for most of the state's general activities. It accounts for all financial resources except those accounted for in other funds.

### **Special Revenue Funds**

Special Revenue funds are used to account for the proceeds of specific revenue sources (other than for private-purpose trusts or for major capital projects) that are legally restricted to use for specified purposes.

### **Debt Service Funds**

Debt Service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

### **Capital Project Funds**

Capital Project funds are used to account for financial resources used for the acquisition, repair, renovation or construction of major capital facilities (other than those financed by proprietary or similar trust funds).

### **Permanent Funds**

Permanent funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

### **Capital Asset Adjustment Fund Type**

The Capital Asset Adjustment fund type will be used to convert governmental fund type capital assets from modified accrual to full accrual.

### **Long-Term Liabilities Adjustment Fund Type**

The Long-Term Liabilities Adjustment fund type will be used to convert governmental fund type debt from modified accrual to full accrual.

### **Other Adjustments Fund Type**

The Other Adjustments fund type will be used to convert all other governmental fund type activity from modified accrual to full accrual.

## **Proprietary Fund Types**

### **Enterprise Funds**

Enterprise funds are used to account for any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met.

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity.
2. Laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service), be recovered with fees and charges.
3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

### **Internal Service Funds**

Internal Service funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of a governmental unit, or to other governmental units, within the state, on a cost reimbursement basis.

### **Fiduciary Fund Types**

Fiduciary funds account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. When assets are held under the terms of a formal trust agreement, either a pension trust fund, or a private purpose trust fund is used.

#### **Pension Trust Funds**

Pension trust funds are used to account for resources held in trust for the member and beneficiaries of defined benefit pension plans. A separate pension trust fund is used for each separate pension plan. Separate pension trust funds also may be established to account for supplemental pension benefits.

#### **External Investment Trust Funds**

External investment trust funds are used to account for the state's external portion of investment pools reported by the sponsoring government.

#### **Agency Funds**

Agency funds are used to account for assets the government holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

#### **Private-Purpose Trust Funds**

Private-purpose trust funds are used to account for all other trust arrangements whose principal and interest benefit individuals, private organizations, or other governments.

### **Component Units**

The fund types of individual discrete component units are available from the component units' separately issued financial statements. Additional information about component units can be found in Note 17.

Governmental Component Units are used to account for discretely presented component units that follow governmental fund accounting principles.

Proprietary Component Units are used to account for the discretely presented component units which follow proprietary fund measurement focus and accounting principles.

### **Business-Type Activities**

The operations of 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.

### **Basis of Accounting**

The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Governmental fund types that build the fund financial statements are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year end. The State of Texas considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current year for Fund Financial Statements prepared on the modified accrual basis. Expenditures and other uses of financial resources are recognized when the related liability is incurred.

Governmental adjustment fund types that will build the government-wide financial statements are accounted for using the full accrual basis of accounting. This includes capital assets, accumulated depreciation, unpaid Employee Compensable leave, the unmatured debt service (principal and interest) on general long-term liabilities, long-term capital leases, long-term claims and judgments and full accrual revenues and expenses. The activity will be recognized in these fund types.

Proprietary funds, pension trust funds, external investment trust funds and private-purpose trust funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Proprietary funds distinguish operating from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds' principal ongoing operations. Operating expenses for the enterprise and internal services funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

### **Budget and Budgetary Accounting**

The budget is prepared biennially and represents appropriations authorized by the legislature and approved by the Governor (the General Appropriations Act).

Additionally the 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.

## **Assets, Liabilities, and Fund Balances/Net Assets**

### **ASSETS**

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

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

#### **Securities Lending Collateral**

Investments are stated at fair value in all funds except pension trust funds in accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. For pension trust funds, investments are required to be reported at fair value using the accrual basis of accounting in accordance with GASB Statement 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

Securities lent are reported as assets on the balance sheet. The costs of securities lending transactions are reported as expenditures or expenses in the Operating Statement. These costs are reported at gross.

#### **Restricted Assets**

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include proceeds of enterprise fund general obligation and revenue bonds and revenues set aside for statutory or contractual requirements. Assets held in reserve for guaranteed student loan defaults are also included.

#### **Inventories and Prepaid Items**

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost, generally utilizing the last-in, first-out method. The consumption method of accounting is used to account for inventories and prepaid items that appear in the governmental and proprietary fund types. The cost of these items is expensed when the items are consumed.

#### **Capital Assets**

Assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year are capitalized. These assets are capitalized at cost or, if purchased, at appraised fair value as of the date of acquisition. Purchases of assets by governmental funds are reported as expenditures. Depreciation is reported on all exhaustible assets. Inexhaustible assets such as works of art and historical treasures are not depreciated. Road and highway infrastructure is

reported on the modified basis. Assets are depreciated over the estimated useful life of the asset using the straight-line method.

All capital assets acquired by proprietary funds or trust funds are reported at cost or estimated historical cost, if actual historical cost is not available. Donated assets are reported at fair value on the acquisition date. Depreciation is charged to operations over the estimated useful life of each asset, using the straight-line method.

Current Receivables - Other

Other receivables include year-end revenue accruals. This account can appear in governmental and proprietary fund types.

Non-Current Receivables - Other

Receivable balances not expected to be collected within one year of fiscal year end.

**LIABILITIES**

Accounts Payable

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

Current Payables - Other

Payables are the accrual at year-end of expenditure transactions. Payables may be included in either the governmental or proprietary fund types.

Non-Current Payables - Other

Payable balances not expected to be paid within one year of fiscal year end.

Employees' Compensable Leave Balances

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

Capital Lease Obligations

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

Bonds Payable - General Obligation Bonds

The unmatured principal of general obligations bonds is accounted for in the Long-term Liabilities column. Payables are reported separately as either current or non-current in the statement of net assets.

Bonds payable are recorded at par. The bond proceeds are accounted for as an Other Financing Source in the governmental funds when received, and expenditures for payment of principal and interest are recorded in debt service funds when paid. These amounts are adjusted in the long-term liabilities column.

Bonds Payable - Revenue Bonds

Revenue bonds are generally accounted for in the proprietary funds. The bonds payable are reported at par, less unamortized discount or plus unamortized premium. Interest expense is reported on the accrual basis, with amortization of discount or premium. Payables are reported separately as either current or non-current in the Statement of Net Assets.

**FUND BALANCE/NET ASSETS**

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

Reservations of Fund Balance

Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reservations are legally restricted to a specific future use and are not available for expenditure.

Reserved for Encumbrances

This represents commitments of the value of contracts awarded or assets ordered prior to year-end but not received as of that date. Encumbrances are not included with expenditures or liabilities. They represent current resources designated for specific expenditures in subsequent operating periods.

Unreserved/Undesignated

This represents the unappropriated balance at year-end.

Invested In Capital Assets, Net Of Related Debt

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted Net Assets

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets

Unrestricted net assets consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources, which are imposed by management, but can be removed or modified.

**INTERFUND ACTIVITIES AND BALANCES**

The System has the following types of transactions between funds:

Transfers

Legally required transfers that are reported when incurred as Transfers In by the recipient fund and as Transfers Out by the disbursing fund.

Reimbursements

Reimbursements are repayments from funds responsible for expenditures or expenses to funds that made the actual payment. Reimbursements of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. Reimbursements are not displayed in the financial statements.

Interfund Receivables and Payables

Interfund loans are reported as interfund receivables and payables. If repayment is due during the current year or soon thereafter it is classified as Current. Repayment for two (or more) years is classified as Non-Current.

Interfund Sales and Purchases

Charges or collections for services rendered by one fund to another that are recorded as revenues of the recipient fund and expenditures or expenses of the disbursing fund. The composition of the System's interfund activities and balances are presented in Note 8.

**NOTE 2: Capital Assets**

A summary of changes in Capital Assets for the year ended August 31, 2008, is presented in Table 2.

**Table 2 - Capital Assets**

	University of Houston System		
	Balance 9/1/2007	Adjustments	Completed CIP
<b>Business-Type Activities:</b>			
<b>Non-Depreciable Assets</b>			
Land & Land Improvements	\$ 60,818,951.69	\$	\$
Construction in Progress	22,392,589.51	(353.71)	(3,180,999.06)
Other Capital Assets	2,534,209.06		
<b>Total Non-Depreciable Assets</b>	<b>85,745,750.26</b>	<b>(353.71)</b>	<b>(3,180,999.06)</b>
<b>Depreciable Assets</b>			
Buildings & Building Improvements	781,524,545.12		3,453,452.06
Infrastructure	43,297,217.46		
Facilities & Other Improvements	68,284,900.89		
Furniture & Equipment	164,991,047.91	(448,572.64)	(272,453.00)
Vehicles, Boats & Aircraft	3,490,420.74	(66.00)	
Other Capital Assets	116,635,472.15	(150,726.10)	
<b>Total Depreciable Assets at Historical Costs</b>	<b>1,178,223,604.27</b>	<b>(599,364.74)</b>	<b>3,180,999.06</b>
<b>Less Accumulated Depreciation:</b>			
Buildings & Building Improvements	(442,835,128.29)	(30,508.07)	
Infrastructure	(35,619,247.69)		
Facilities & Other Improvements	(35,007,222.33)		
Furniture & Equipment	(124,375,696.84)	(68,908.60)	
Vehicles, Boats & Aircraft	(2,613,338.37)		
Other Capital Assets	(62,718,244.69)		
<b>Total Accumulated Depreciation</b>	<b>(703,168,878.21)</b>	<b>(99,416.67)</b>	
<b>Depreciable Assets, Net</b>	<b>475,054,726.06</b>	<b>(698,781.41)</b>	<b>3,180,999.06</b>
<b>Business-Type Activities – Capital Assets, Net</b>	<b>\$ 560,800,476.32</b>	<b>\$ (699,135.12)</b>	<b>\$</b>

University of Houston System				
Inc-Int'agy Transfers	Dec-Int'agy Transfers	Additions	Deletions	Balance 8/31/2008
\$	\$	\$ 25,427,005.01	\$	\$ 86,245,956.70
		61,948,204.74		81,159,441.48
		126,100.00	(760.00)	2,659,549.06
		87,501,309.75	(760.00)	170,064,947.24
		3,914,652.96		788,892,650.14
				43,297,217.46
				68,284,900.89
2,306,541.03	(2,296,541.03)	12,820,246.78	(28,899,277.75)	148,200,991.30
		565,675.23	(291,843.65)	3,764,186.32
		4,692,428.46	(4,212,826.78)	116,964,347.73
2,306,541.03	(2,296,541.03)	21,993,003.43	(33,403,948.18)	1,169,404,293.84
		(22,540,400.28)		(465,406,036.64)
		(630,219.62)		(36,249,467.31)
		(1,917,543.64)		(36,924,765.97)
(1,179,821.33)	1,167,991.93	(9,738,568.28)	28,627,037.80	(105,567,965.32)
		(315,970.05)	268,057.81	(2,661,250.61)
		(6,088,709.19)	2,404,747.03	(66,402,206.85)
(1,179,821.33)	1,167,991.93	(41,231,411.06)	31,299,842.64	(713,211,692.70)
1,126,719.70	(1,128,549.10)	(19,238,407.63)	(2,104,105.54)	456,192,601.14
\$ 1,126,719.70	\$ (1,128,549.10)	\$ 68,262,902.12	\$ (2,104,865.54)	\$ 626,257,548.38

**NOTE 3: Deposits, Investments, & Repurchase Agreements****Deposits of Cash in Bank**

As of August 31, 2008, the carrying amount of deposits was \$28,928,424.63 as presented below.

Governmental and Business-Type Activities	
Cash in Bank - Carrying Amount	\$ 28,928,424.63
Total Cash in Bank per Annual Financial Report	<u>\$ 28,928,424.63</u>
Reconciliation of Cash per Annual Financial Report	
Proprietary Funds, Current Assets, Cash in Bank	\$ (26,437,513.02)
Proprietary Funds, Current Assets, Restricted Cash in Bank	11,694,407.06
Proprietary Funds, Non-Current Assets, Restricted Cash in Bank	<u>43,671,530.59</u>
Cash in Bank per Annual Financial Report	<u>\$ 28,928,424.63</u>

These amounts consist of all cash in local banks. These amounts are included on the Statement of Net Assets as part of the "Cash and Cash Equivalents" accounts.

As of August 31, 2008, the total bank balance was as follows.

Governmental and Business-Type Activities	\$ 34,121,833.00
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Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The System has no deposits that are at risk of recovery with the failure of a depository financial institution.

Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the deposit. The System maintains no foreign bank accounts; therefore no foreign currency risks exist.

**Investments**

As of August 31, 2008, fair value of investments is as presented below.

Governmental and Business-Type Activities	Fair Value
U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, etc.)	\$ 26,829,037.94
U.S. Government - Treasury Securities	49,855,703.44
Corporate Obligations	60,568,210.63
Equities	199,413,622.42
International Equities	78,458,454.63
Fixed Income Money Market and Bond Mutual Funds	217,499,117.30
Other Commingled Funds (TexPool)	131,751,148.68
Other Commingled Funds	141,815,891.74
Alternative Investments	105,401,795.65
Real Estate	4,004,958.67
Misc. (Political Subdivisions, Bankers Acceptance, Negotiable CD's)	<u>7,673,005.22</u>
Total Investments	<u>\$ 1,023,270,946.32</u>

Reconciliation of Investments per Annual Financial Statements

Proprietary Funds, Current Assets, Short Term Investments	\$ 306,958,090.14
Proprietary Funds, Non-Current Assets, Investments	<u>716,312,856.18</u>

Investments per Annual Financial Statements	<u><u>\$ 1,023,270,946.32</u></u>
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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 System limits investments in debt securities that are not in the top three investment grade ratings issued by nationally recognized statistical rating organizations to 5% of total investments. As of August 31, 2008, the System had no investment securities with credit risk exposure.

**Investments as rated by Standard & Poor's**

Fund Type	GAAP Fund	Investment Type	AAA	AA	A	BBB	NR
05	9999	U.S. Government Agency Obligations	\$ 26,829,037.94	\$	\$	\$	\$
		U.S. Government - Treasury Securities	49,855,703.44				
		Corporate Obligations	3,270,683.37	12,537,619.61	30,889,787.42	13,870,120.23	
		Repurchase Agreements					1,725,259.98
		Fixed Income MM & Bond Mutual Fds	217,499,117.30				
		Misc. Investments					7,673,005.22

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2008, the agency's concentration of credit risk in any single issuer did not exceed five percent of total investment assets as reported on the Statement of Net Assets.

**Reverse Repurchase Agreements**

The System, by statute, is authorized to enter into reverse repurchase agreements. A reverse repurchase agreement is a transaction in which a broker-dealer or financial institution transfers cash to the System and the System transfers securities to the broker-dealer and promises to repay the cash plus interest in exchange for the same or similar securities. Credit risk exposure for the System arises when a broker-dealer does not return the securities or their value at the conclusion of the reverse repurchase agreement. During the fiscal year, the System had no investments in reverse repurchase agreements.

**Securities Lending**

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

In securities lending transactions, the System transfers its securities to broker-dealers and other entities for collateral - which may be cash, or securities - and simultaneously agrees to return the collateral for cash or the same securities in the future. The System invests the cash received as collateral and, if the returns on those investments exceed the rebate paid to the borrowers of the securities, the securities lending transactions generate income for the System. However, if the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss on principal, part of the payment to the borrower would come from the System's resources. The borrower will pay a loan premium or fee for the securities loan, thus generating income for the System.

Securities lending is authorized by state statutes. The System is authorized to lend its U.S. Government and Agency securities. Collateral is either cash or U.S. Government or Agency securities at a value of 102% of the value of the securities lent. The securities lending contracts allow the System to pledge or sell collateral securities without borrower default. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes to borrowers exceed the amounts the borrowers owe the System. Contracts with the lending agents require them to indemnify the System if the borrowers fail to return the securities. The policy is to match the maturities of the collateral investments and the securities loans. There were no significant violations of legal or contractual provisions, any borrower or lending agent default losses, and no recoveries of prior-period losses during the year.

### Derivative Investing

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

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

### NOTE 4: Short-Term Debt

The System holds a short term note payable, the proceeds of which were used to complete renovations of Hofheinz Pavilion. The System issued commercial paper (Consolidated Revenue Commercial Paper Notes, Series A) to facilitate the progress of the purchase of a tract of land, construction of the Calhoun Lofts and a building at UH Sugarland. It was entirely redeemed in 2008 by Consolidated Revenue and Refunding Bonds Series 2008.

The following changes in Table 4 below occurred during the year ended August 31, 2008:

**Table 4 – Short-Term Liabilities**

Business-Type Activities	Balance 09-1-07	Additions	Reductions	Balance 08-31-08
Note Payable	\$ 26,775.02	\$	\$ 26,775.02	\$
Commercial Paper		48,500,000.00	48,500,000.00	
Total	<u>\$ 26,775.02</u>	<u>\$ 48,500,000.00</u>	<u>\$ 48,526,775.02</u>	<u>\$</u>

### NOTE 5: Summary of Long Term Liabilities

#### Changes in Long-Term Liabilities

During the year ended August 31, 2008, the following changes, presented in Table 5, occurred in liabilities.

Non-debt liability obligations are usually paid from the same funding source from which the employee's salary or wage compensation was paid.

**Table 5 - Long Term Liabilities**

Business- Type Activities	Balance 09-01-07	Additions	Reductions	Balance 08-31-08	Due Within 1 Year	Due Thereafter
Revenue Bonds Payable	\$ 312,533,095.81	\$ 180,853,767.55	\$ 28,656,681.46	\$ 464,730,181.90	\$ 22,591,393.09	\$ 442,138,788.81
Claims and Judgments	270,453.00	1,570,233.87	1,553,905.13	286,781.74	272,145.64	14,636.10
Compensable Leave	19,869,234.20	11,026,543.35	9,125,858.80	21,769,918.75	10,080,415.03	11,689,503.72
Total	<u>\$ 332,672,783.01</u>	<u>\$ 193,450,544.77</u>	<u>\$ 39,336,445.39</u>	<u>\$ 486,786,882.39</u>	<u>\$ 32,943,953.76</u>	<u>\$ 453,842,928.63</u>

**Notes and Loans Payable**

The System reported no long-term notes or loans payable at the close of the year ended August 31, 2008.

**Claims and Judgments**

At August 31, 2008, various lawsuits and claims involving the System 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.

**Employees' Compensable Leave**

A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from State employment, provided the employee has had continuous employment with the State for six months. Expenditures for accumulated annual leave balances are recognized in the period paid or taken in governmental fund types. For these fund types, the liability for unpaid benefits is recorded in the Statement of Net Assets. An expense and liability for proprietary fund types are recorded in the proprietary funds as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Full-time state employees earn annual leave from eight to twenty-one hours per month depending on the respective employees' years of state employment. The state's policy is that an employee may carry his accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours up to 532 for those employees with 35 or more years of state service. Accrued leave in excess of the normal maximum was converted to sick leave at the conclusion of fiscal year 2007. Employees with at least six months of state service who terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed.

Lump sum payments made to employees, who separated from state service during the 2008 fiscal year, for accrued vacation and compensatory leave, totaled \$1,609,144.38

**NOTE 6: Capital Leases**

The System may enter into long-term leases for financing the purchase of certain fixed assets. Such leases are classified as capital leases for accounting purposes and, therefore, are recorded at the present value of the future minimum lease payments at the inception of the lease. There were no outstanding capital lease payments payable at August 31, 2008.

**NOTE 7: Operating Leases**

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

<u>Fund Type</u>	<u>Amount</u>
Proprietary Fund	\$ 4,655,613.60

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

Year ended August 31,	
2009	\$ 3,744,767.43
2010	2,808,575.57
2011	1,862,326.93
2012	931,163.46
2013	465,581.73
2014-2018	232,790.86
2019-2023	116,395.43
Total Minimum Future Lease Rental Payments	<u>\$ 10,161,601.41</u>

**NOTE 8: Interfund Balances / Activities**

As explained in Note 1, under Interfund Transactions and Balances, there are numerous transactions between funds and agencies. At year-end amounts to be received or paid are reported as:

1. Interfund Receivables or Interfund Payables
2. Legislative transfers in/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.

Individual balances at August 31, 2008, are shown in Tables 8.1 and 8.2.

**Table 8.1 - Interfund Receivable/Payable**

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

**Table 8.5 Legislative Transfers In/Out**

		Legislative Transfers In		Legislative Transfers Out	
GENERAL REVENUE (01)					
Appd Fund 0001,D23 Fund 0001 Agency 730, D23 Fund 0001	\$		\$		
UH Clear Lake		76,996.00		207,813.00	Shared Appropriation approved by UH Board of Regents
Agency 759, D23 Fund 0001					
University of Houston		207,813.00		76,996.00	Shared Appropriation approved by UH Board of Regents
Total Legislative Transfers In/Out	\$	284,809.00	\$	284,809.00	

**NOTE 9: Contingent Liabilities**

As mentioned in Note 5, 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.

The System has several contractual agreements with various external housing management entities to construct, maintain, and manage off-campus student housing complexes. Under certain circumstances, the System may have contingent liabilities to these entities. Based on prior experience, previous years' liabilities have been immaterial, and management believes no such liabilities currently exist. Additional information is provided in Note 15.

**NOTE 10: 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.

**NOTE 11: Risk Financing and Related Insurance**

The 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 there is the purchase of some commercial insurance, 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.

Liabilities include an amount for estimated future workers' compensation and unemployment claims that have been incurred as of the fiscal year end, but that have not been reported. Additional information about claims and judgments payable is provided in Note 5.

#### **NOTE 12: 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 another stand-alone entity that has one or more bonds or other debt instruments outstanding, with a revenue stream pledged in support of that debt. In addition, the activity's revenues, expenses, gains and losses, assets, and liabilities are required to be accounted for separately.

#### **NOTE 13: Bonded Indebtedness**

##### **Bonds Payable**

Detailed supplemental bond information is disclosed in Schedule 2-A, Miscellaneous Bond Information, Schedule 2-B, Changes in Bonded Indebtedness, Schedule 2-C Debt Service Requirements, Schedule 2-D, Analysis of Funds Available for Debt Service, Schedule 2-E, Defeased Bonds Outstanding, and Schedule 2-F, Early Extinguishment and Refunding.

##### **Revenue Bonds**

###### **• Consolidated Revenue Bonds, Series 1998**

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

###### **• Consolidated Revenue Bonds, Series 1999**

- To finance the acquisition, purchase, construction, improvement, renovation, enlargement, and equipping of any property, building, structure, activity, service, operation, or facility of the University of Houston System, specifically projects at the University of Houston, University of Houston – Downtown, University of Houston – Victoria, and the University of Houston multi-institutional teaching center in Fort Bend County.
- Issued 1-1-99.
- \$33,350,000; all bonds authorized have been issued.
- Source of revenue for debt service – Tuition and various other revenues and balances that may be legally available for payment of debt obligations. (Funding for fiscal year 2008 from Legislative appropriation.)

###### **• Consolidated Revenue Bonds, Series 2000**

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

###### **• Consolidated Revenue Bonds, Series 2002-A**

- To finance the acquisition, purchase, construction, improvement, renovation, enlargement, and equipping of any property, building, structure, activity, service, operation, or facility of the University of Houston System.
- Issued 9-1-02.
- \$130,955,000; all bonds authorized have been issued.
- Source of revenue for debt service – Tuition and various other fees, and revenues and balances that may be legally available for payment of debt obligations. (Funding for fiscal year 2008 partially from Legislative appropriation.)

- **Consolidated Revenue Variable Rate Demand Bonds, Series 2004**

- To finance the acquisition, purchase, construction, improvement, renovation, enlargement, and equipping of any property, buildings, structures, facilities, roads, or related infrastructure for the University of Houston System, including the individual campuses of the System.
- Issued 6-16-04.
- \$25,000,000: all bonds authorized have been issued.
- Source of revenue for debt service – Tuition and various other fees, and revenues and balances that may be legally available for payment of debt obligations. (Funding for fiscal year 2008 from Legislative appropriation.)
- The bonds bear interest at a variable rate, which is determined on a weekly basis on each Wednesday, and the rate is effective for a seven-day period commencing on the immediately following Thursday. The variable rate in effect on August 31, 2008 was 1.85%.
- Bondholders have the option to tender their bonds for purchase at a 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 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.

- **Consolidated Revenue Bonds, Series 2005**

- To construct a parking garage facility at the University of Houston.
- Issued 4-01-05.
- \$25,800,000; all bonds authorized have been issued.
- Source of revenue for debt service – Tuition and various other fees, and revenues and balances that may be legally available for payment of debt obligations.

- **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, including construction of a new classroom and office building for the University of Houston - Downtown.
- Issued 2-01-06.
- \$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. (Funding for fiscal year 2008 partially from Legislative appropriation.)

- **Consolidated Revenue and 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 the behalf of the system, including individual campuses of the System.
- Issued 7-01-08.
- \$175,030,000: all bonds have been issued.
- Source of revenue for debt service – Tuition and various other fees and revenues and balances that may be legally available for payment of debt obligations. (Funding for fiscal year 2008 partially from Legislative appropriation.)

**General Obligation Bonds**

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

## **Refunding Bonds**

### **• Consolidated Revenue Refunding Bonds, Series 2002-B**

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

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

- To refund \$15,975,000 of Consolidated Revenue Refunding Bonds, Series 1995.
- Issued 12-01-2003.
- \$16,490,000; all bonds authorized have been issued.
- Source of revenue for debt service – Tuition and various other revenues and balances that may be legally available for payment of debt obligations. (Funding for fiscal year 2008 from Legislative appropriation.)
- Average rate of bonds refunded - 5.92%.
- Net proceeds from refunding series - \$17,419,961 after receipt of bond premium of \$896,716 and payment of \$266,453 in underwriting fees, insurance, and other issuance costs.
- Funds were used to purchase state and local government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the 1995 series bonds, when the bonds were called for early redemption on 02-15-05.
- 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 (University of Houston-Victoria) and \$44,430,000 of Consolidated Revenue Bonds, Series 2000 (University of Houston).
- Issued 02-01-2006.
- \$48,450,000; all bonds authorized have been issued.
- Source of revenue for debt service – Designated tuition and various other fees, revenues and balances that may be legally available for payment of debt obligations. (Funding for fiscal year 2008 partially from Legislative appropriation.)
- Average rate of bonds refunded - 5.45% (1997) and 5.45% (2000).
- Net proceeds from refunding series - \$49,799,345, after receipt of bond premium of \$1,823,210 and payment of \$473,865 in underwriting fees, insurance, and other issuance costs.
- Funds were used to purchase state and local government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the 1997 and 2000 series bonds. The refunded 1997 series will be called for early redemption on 08-15-2007, and the 2000 series bonds will be called for early redemption on 02-15-2010.
- The 1997 series bonds maturing subsequent to 08-15-2007 and the 2000 series bonds maturing subsequent to 02-15-2010 are considered fully defeased and the liability for those bonds has been removed from the Investment in Plant Fund Group.

- Refunding of the 1997 and 2000 series bonds reduced the System's debt service payments over the life of the bond issues by approximately \$4,841,586.
- Economic gain - \$3,013,573; the difference between the net present value of the old and new debt service payment.

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

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

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

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

##### **University of Houston-System Administration**

The stated purpose of the University of Houston Foundation is for the advancement of the general welfare of the University of Houston, Houston, Texas, as a whole, including, without limitation, all of the colleges and branches or divisions, thereof, wheresoever located, as well as all of the facilities and activities thereof now or hereafter existing or created, not inconsistent with the objectives, operation and management of the University of Houston. The Foundations Board of Trustees consists of nine members. The Foundation remitted \$3,079,756.93 of direct support and \$427,904.29 of indirect support to the System during the year ended August 31, 2008.

##### **University of Houston**

The stated purpose of the University of Houston College of Business Administration Foundation is to solicit, receive, or otherwise acquire real or personal property with the primary objective of improving the quality of education provided by the College of Business Administration; to assist in developing and increasing the facilities of the College for broader educational opportunities; to apply funds and other resources in procuring quality personnel, materials, and equipment; and to foster professional zeal among the faculty of the College and to promote the general educational interests of such faculty. The Foundation's Board of Trustees consists of fourteen members. The Foundation remitted \$1,075,480.98 of direct support and \$636,953.99 of indirect support to the System during the year ended August 31, 2008.

The stated purpose of the University of Houston Law Foundation is to complement legal education and assist in the orderly development of law and legal institutions through basic and applied research, service and cooperative effort for the benefit of the Law Program, and other programs and schools now or hereafter existing in related fields, of the University of Houston. The Foundation's Board of Trustees consists of fifteen members. The Foundation remitted \$873,827.61 of direct support and \$1,845,943.89 of indirect support to the System during the year ended August 31, 2008.

The stated purpose of the University of Houston Alumni Organization is to promote the aims, ideals, and purposes of the founders, officers, and faculty of the University of Houston. The Organization's Board of Trustees consists of fifteen officers and twenty-one at large directors. The Organization remitted no direct support to the System during the year ended August 31, 2008.

The stated purpose of the Houston Athletics Foundation, Inc. is to assist in the development and implementation of a strategic plan for athletics development including annual fund, major gifts, leadership gifts, and endowments for the University of Houston in compliance with rules and regulations set forth by the National Collegiate Athletic Association and the Board of Regents of the University of Houston System. The Foundation's Board of Directors consists of one officer and twenty eight directors. The Foundation remitted no direct support to the System during the year ended August 31, 2008.

### **Foundation for Education and Research in Vision**

The stated purpose of The Foundation for Education and Research in Vision (FERV) is to improve the quality of life for others through promoting education in the field of vision. The organization seeks to encourage the study of human vision by providing resources for student scholarships and loans, research and state of the art equipment. FERV is a not for profit foundation of the University of Houston College of Optometry helping to generate and manage funding for optometric study. The organization submitted \$52,010.98 in direct support to the University during the year ended August 31, 2008.

### **The Association for Community Broadcasting**

The stated purpose of the Association for Community Broadcasting (ACB) is to engage in cooperating to sustain and continue a public cultural educational television and radio dedicated to bring the KUHT (Public Television Station Channel 8) and KUHF (FM Radio Station 88.7) service area excellence in operation and programming and to further mutual goals for KUHT, KUHF and ACB, by providing various and substantial support to KUHT, KUHF and the University of Houston. The organization remitted \$5,953,125.34 of direct support and no indirect support to the System during the year ended August 31, 2008.

### **Privatized Student Housing Facilities**

Several student housing facility projects have been constructed by private external entities in order to enhance the residential life experience of students at various System campuses. The participating entities have financed and constructed housing complexes on System owned property adjacent to the university campus. These facilities are operated under grounded leases and management agreements with the System for extended time periods. Under the terms of the agreements, cash revenues from rental income, net of operating expenses, are shared with the System. If cash revenues do not attain certain contractually defined thresholds, the System may be liable to the external management entity for the deficiency. In previous fiscal years (2005 and 2006), contingent liability payments were made for, both in relation to the University of Houston's Bayou Oaks facility. During the 2008 fiscal year, 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 for each residential facility 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, and are not contained in the financial statements of the System. American Campus Communities operates the Bayou Oaks and Cullen Oaks residential facilities at the University of Houston. Century Development operates the Cambridge Oaks facility at the University of Houston campus and the University Forest project at the University of Houston-Clear Lake.

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

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

### **NOTE 17: The Financial Reporting Entity**

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

Although the System is affiliated with several separate legal entities, as previously disclosed, these organizations are not considered component units as defined by generally accepted accounting principles. Therefore, the account balances and financial transactions of these organizations are not included in the System's financial statements.

### **NOTE 18: Restatement of Fund Balances and Net Assets**

During fiscal year 2008, a restatement of the prior year's net assets/fund equity balance was required. The restatements represent prior period adjustments to beginning net assets related to capital assets and accumulated depreciation changes. The changes and restatements are shown in Tables 18.1 and 18.2.

**Table 18.1 - Restatement of Net Assets**

Description		
Net Assets, as Reported, August 31, 2007		\$ 1,063,187,180.30
Restatements:		
Capital assets valuation correction	\$ (599,718.45)	
Accumulated depreciation correction	(99,416.67)	
Total Restatements		(699,135.12)
Net Assets, September 1, 2007, as Restated		<u>\$ 1,062,488,045.18</u>

**Table 18.2 - Restatement of Capital Assets**

Description		
Capital Assets, as Reported, August 31, 2007		
Non-depreciable	\$ 85,745,750.26	
Depreciable	1,178,223,604.27	
Accumulated depreciation	(703,168,878.21)	
Total		\$ 560,800,476.32
Restatements:		
Non-depreciable capital assets valuation	(353.71)	
Depreciable capital asset valuation	(599,364.74)	
Accumulated depreciation correction	(99,416.67)	
Total Restatements		(699,135.12)
Capital Assets, September 1, 2007, as Restated		<u>\$ 560,101,341.20</u>

**NOTE 19: Employees Retirement Plans**

The State has joint contributory retirement plans for substantially all its employees. The System participates in the plans administered by the Teachers Retirement System of Texas. Future pension costs are the liabilities of the Retirement System. The Retirement System does not account for each State agency separately. Annual financial reports prepared by the Retirement System include audited financial statements and actuarial assumptions and conclusions.

The state has also established an Optional Retirement Program for institutions of higher education. Participation in the Optional Retirement Program is in lieu of participation in the Teacher Retirement System. The Optional Retirement Program provides for the purchase of annuity or mutual fund contracts. Since these are individual investment product contracts, the state has no additional or unfunded liability for this program.

**NOTE 20: Deferred Compensation**

State employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in the Texas Government Code Annotated, Section 609.001. Multiple plans are available for employees' deferred compensation plan. Both plans are administered by the Employees Retirement System.

The State's 457 plan complies with the Internal Revenue Code Section 457. The State also administers another plan; "TexaSaver" created in accordance with Internal Revenue Code Sec. 401(k). The assets of this plan do not belong to the state. The state has no liability related to this plan.

The tax deferred investment program permits benefits-eligible employees of the 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.

#### **NOTE 21: Donor-Restricted Endowments**

Expenditure of endowed funds is not permitted without the express consent of the donor. The majority of the System's Endowments are held in perpetuity. In many cases, endowment earnings are expendable for student financial assistance or other purposes as specified by the donor. In other cases endowment, endowment earnings are reinvested. Amounts reported as net appreciation on investments of donor-restricted endowments that are available for authorization for expenditure are disclosed in Table 21. Chapter 163 of the Texas Property Code (also cited as the Uniform Prudent Management of Institutional Funds Act) grants the System the authority to spend net appreciation. Effective September 1, 1995, the Board of Regents adopted an endowment income payout policy whereby the payout rate is based on a percentage of the fiscal year end market value averaged over rolling three year periods. If an endowment were in existence less than three years, the average is based on the number of years in existence. The following table displays the net appreciation to the endowments for the year ended August 31, 2008.

**Table 21-Net Appreciation of the Endowments**

<u>Donor Restricted Endowments</u>	<u>Amount of Net Appreciation/(Depreciation)</u>	<u>Reported in Net Assets</u>
True Endowments	\$ 18,724,285.00	Restricted Non-Expendable
Term Endowments	15,592.00	Restricted Expendable
Total	<u>\$ 18,739,877.00</u>	

#### **NOTE 22: Management Discussion and Analysis**

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

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

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

Provisions of this requirement apply only to University of Texas, Texas A&M University, Teacher Retirement System, and Employee Retirement System

#### **NOTE 24: Special and Extraordinary Items**

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

**NOTE 25: Disaggregation of Receivable & Payable Balances**

Balances of receivables and payables reported on the Statement of Net Assets may be aggregations of different components. GASB Statement 38, Certain Financial Statement Note Disclosures, requires that the System provide details in the notes to the financial statements when significant components have been obscured by aggregation. The Statement of Net Assets is presented in the classified format, and therefore the current and non-current portions of receivables and payables are separately disclosed. Significant balances in various classifications of receivables and payables are disclosed below.

**A. Taxes Receivable**

No reportable balances for this classification.

**B. Federal Receivable**

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

**Table 25.1 Federal Receivables**

<u>Federal Receivable Program</u>	<u>Net Receivable</u>
Department of Agriculture	\$ 45,065.17
Department of Commerce	557,953.57
Department of Defense	1,637,387.69
Department of Education	10,227,146.61
Department of Energy	570,294.79
Department of Health and Human Services	2,228,877.15
Department of Housing and Urban Development	11,309.20
Department of Homeland Security	497,256.91
Department of the Interior	188,715.11
Department of Justice	167,910.02
Department of Labor	1,084,435.58
Department of Transportation	116,648.13
Department of Veterans Affairs	10,488.83
Environmental Protection Agency	539,383.74
National Aeronautics and Space Administration	741,425.05
National Foundation for the Arts and Humanities	290,079.07
National Science Foundation	1,932,297.64
Securities and Exchange Commission	703.43
Small Business Administration	15,170.73
U.S. Agency for International Development	10,251.30
	<hr/>
Total Net Federal Receivable	<u>\$ 20,872,799.72</u>
	<hr/>
<u>As Reported on the Financial Statements</u>	
Current Federal Receivable	<u>\$ 20,872,799.72</u>
	<hr/>
Total Net Federal Receivable	<u>\$ 20,872,799.72</u>

**C. Tax Refunds Payable**

No reportable balances for this classification.

**D. Other Receivables – Current**

No reportable balances for this classification.

**E. Other Payables – Current**

No reportable balances for this classification.

**F. Other Receivables – Non-Current**

No reportable balances for this classification.

**G. Other Payables – Non-Current**

No reportable balances for this classification.

**Note 26: Termination Benefits**

The System has no retiring members of the Employees Retirement System of Texas (ERS) eligible for a temporary retirement incentive payment.

Unaudited  
Schedule 1 - A  
University of Houston System  
Schedule of Expenditures of Federal Awards  
For The Year Ended August 31, 2008

Federal Grantor / Pass Through Grantor / Program Title	Total Pass-Thru To & Expenditures
Note:1 Non-monetary assistance	
Donation of Federal Surplus Personal Property	
No Activity	\$ 0.00
<u>Total Non-monetary Assistance</u>	<u>0.00</u>
Note 2: Reconciliation	
Federal Revenues	
Federal Grants and Contracts	102,211,586.90
Federal Pass Through Grants	
From Other State Agencies	4,590,623.69
<u>Total Federal Revenues</u>	<u>106,802,210.59</u>
Reconciling Items	
Additions	
Non-monetary Assistance	
Donation-Federal Surplus Property	0.00
New Student Loans Processed / Adm Costs	
Federal Family Education Loan Program	196,957,896.81
Federal Perkins Loan Program	5,130,785.00
Health Prof Student Loans - Optometry	0.00
<u>Total Additions</u>	<u>202,088,681.81</u>
Deductions	
<u>Total Deductions</u>	<u>0.00</u>
<u>Total Reconciling Items</u>	<u>202,088,681.81</u>
<u>Total Pass Through &amp; Expenditures Per Federal Schedule</u>	<u>\$ 308,890,892.40</u>

Unaudited

Schedule 1 - A  
University of Houston - System  
Schedule of Expenditures of Federal Awards  
For The Year Ended August 31, 2008

Federal Agency	New Loans Processed	Administrative Cost Recovered	Total Loans Processed Administrative Cost Recovered	Loan Receivable Ending Balances
Note 3a: Student Loan Program & Adm Cost Recovered				
Department Of Education				
84.032 Federal Family Education Program				
Loan - Non-monetary Loans	\$ 196,957,896.81	\$	\$ 196,957,896.81	\$
84.038 Federal Perkins Loan Program				
Perkins Student Loans	5,130,785.00	83,153.00	5,213,938.00	13,560,291.60
Total Department Of Education	202,088,681.81	83,153.00	202,171,834.81	13,560,291.60
Department Of Health & Human Services				
93.342 Health Profession Student Loans				
Optometry Loans				
Total Department of Health & Human Services				
Total Student Loan Program & Adm Cost Recovered	\$ 202,088,681.81	\$ 83,153.00	\$ 202,171,834.81	\$ 13,560,291.60

Note: The Perkins Student Loan Program is administered by an outside entity, Affiliated Computer Services (ACS).

Note 3b: Federally Funded Loans Processed and Administrative Cost Recovered  
None processed

Note 4: Governmental Publications  
Various University of Houston System libraries participate as a Depository Library in the Government Publications Program, CFDA number 40.001. The University is the legal custodian of Government Publications, which remain the property of the Federal Government. The Publications are not assigned a value by the Government Printing Office. The University System Libraries that participate as a depository library are the University of Houston M.D. Anderson Library, the University of Houston O'Quinn Law Library, and the University of Houston - Clear Lake Alfred R. Neumann Library.

Note 5: Unemployment Insurance Funds  
None received

Note 6: Rebates for the Special Supplemental Food Program for Women, Infants and Children (WIC)  
None received

Note 7: Federal Deferred Revenue  
None received

# Unaudited

## Schedule 1 - B University of Houston System Schedule of State Grant Pass-Throughs From/To State Agencies For The Year Ended August 31, 2008

	Total
Pass Through From	
Coordinating Board (Agency 781)	
Texas Grant Program	\$ 13,694,689.00
Advanced Research Program	2,517,545.00
Engineering Recruitment Program	65,000.00
College Work Study Program	225,861.32
5th Year Accounting Scholarships Program	88,767.00
Texas Workforce Development Program	0.00
Professional Nursing Scholarship	2,528.00
Work Study Mentorship Program	25,000.00
CRU - Professional Services & Grants	185,536.00
Total Coordinating Board (Agency 781)	16,804,926.32
Texas Education Agency (Agency 701)	
Foundation School Program	935,297.00
Foundation School Program Technology Allotment	3,652.00
Student Success Initiatives	309.60
Automated External Defibrillators	6,730.20
Total Texas Education Agency (Agency 701)	945,988.80
Texas Attorney General's Office (Agency 302)	
Crime Victim Assistance Grants	44,232.89
Total Texas Attorney General (Agency 302)	44,232.89
Texas Department of State Health Services (Agency 537)	
Families CAN Program	154,617.75
Tobacco Prevention and Control	301,186.71
Total Texas Department of State Health Services (Agency 537)	455,804.46
Total Pass Through From Other Agencies	\$ 18,250,952.47
Pass Through To	
None Reported	
Total Pass Through To Other Agencies	\$ 0.00

# Unaudited

## Schedule 2 - A University of Houston System Combined Schedule Of Miscellaneous Bond Information For The Year Ended August 31, 2008

Business-Type Activities Revenue Bonds	Description of Issue	Issued Year	Bonds Issued to Date	Range of Interest Rates	Terms Of Variable Interest Rate	Scheduled Maturities		First Call Date
						First Year	Last Year	
Consolidated Revenue Refunding Bonds Self-supporting Revenue Bonds	Consolidated Revenue Refunding Bonds Series	2002-B	\$ 45,425,000.00	3.000% - 5.250%		2003	2018	2/15/2012
	Consolidated Revenue Refunding Bonds Series	2006	48,450,000.00	3.500% - 5.000%		2007	2030	2/15/2015
	Consolidated Revenue Refunding Bonds Series	2003	16,490,000.00	2.000% - 5.000%		2006	2017	2/15/2013
	Consolidated Revenue & Refunding Bonds Series	2008	175,030,000.00	4.000% - 5.250%		2008	2038	2/15/2018
	Consolidated Revenue Bonds							
Consolidated Revenue Bonds Self-supporting Revenue Bonds	Consolidated Revenue Bonds Series	1998	14,565,000.00	4.100% - 5.500%		2000	2009	8/15/2007
	Consolidated Revenue Bonds Series	2000	52,070,000.00	5.250% - 7.000%		2003	2030	2/15/2010
	Consolidated Revenue Bonds Series	2005	25,800,000.00	4.000% - 5.000%		2006	2025	2/15/2015
	Consolidated Revenue Bonds Series	2006	35,140,000.00	3.500% - 5.000%		2007	2026	2/15/2015
	Consolidated Revenue Bonds Series	1999	33,350,000.00	4.500% - 5.000%		2000	2019	2/15/2009
	Consolidated Revenue Bonds Series	2002-A	130,955,000.00	2.500% - 4.750%		2003	2022	2/15/2012
	Consolidated Revenue Variable Rate Demand Bonds Series	2004	25,000,000.00	VAR - VAR	Weekly	2006	2024	8/15/2004
			\$ 602,275,000.00					

Schedule 2-B  
University of Houston System  
Combined Schedule Of Changes In Bonded Indebtedness  
For The Year Ended August 31, 2008

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Unaudited  
Schedule 2 - C  
University of Houston System  
Combined Schedule Of Debt Service Requirements  
For The Year Ended August 31, 2008

Business-Type Activities

Description of Issue	Year	Principal	Interest	Total
General Obligations Bonds				
Self-Supporting Bonds				
None		\$	\$	\$
Not Self-Supporting Bonds				
None		\$	\$	\$
Revenue Bonds				
Self-Supporting Bonds				
Consolidated Revenue Refunding Bonds Series 2002-B	2009	\$ 6,080,000.00	\$ 837,375.00	\$ 6,917,375.00
	2010	1,155,000.00	647,456.25	1,802,456.25
	2011	1,215,000.00	585,243.75	1,800,243.75
	2012	1,285,000.00	519,618.75	1,804,618.75
	2013	1,345,000.00	450,581.25	1,795,581.25
	2014 - 2018	7,910,000.00	1,081,237.50	8,991,237.50
	2019 - 2023			
	2024 - 2028			
	2029 - 2033			
	2034 - 2038			
		<u>\$ 18,990,000.00</u>	<u>\$ 4,121,512.50</u>	<u>\$ 23,111,512.50</u>
Consolidated Revenue & Refunding Bonds Series 2008	2009	\$ 2,165,000.00	\$ 8,602,337.50	\$ 10,767,337.50
	2010	3,665,000.00	8,456,587.50	12,121,587.50
	2011	3,850,000.00	8,268,712.50	12,118,712.50
	2012	4,050,000.00	8,071,212.50	12,121,212.50
	2013	4,250,000.00	7,863,712.50	12,113,712.50
	2014 - 2018	24,680,000.00	35,914,737.50	60,594,737.50
	2019 - 2023	31,460,000.00	29,128,425.00	60,588,425.00
	2024 - 2028	40,885,000.00	19,705,881.25	60,590,881.25
	2029 - 2033	25,080,000.00	11,310,500.00	36,390,500.00
	2034 - 2038	32,200,000.00	4,186,250.00	36,386,250.00
		<u>\$ 172,285,000.00</u>	<u>\$ 141,508,356.25</u>	<u>\$ 313,793,356.25</u>
Consolidated Revenue Refunding Bonds Series 2006	2009	\$ 355,000.00	\$ 2,266,456.26	\$ 2,621,456.26
	2010	370,000.00	2,253,306.26	2,623,306.26
	2011	1,665,000.00	2,213,068.76	3,878,068.76
	2012	1,730,000.00	2,136,518.76	3,866,518.76
	2013	1,820,000.00	2,047,768.76	3,867,768.76
	2014 - 2018	10,195,000.00	8,747,468.80	18,942,468.80
	2019 - 2023	11,130,000.00	6,135,012.55	17,265,012.55
	2024 - 2028	14,115,000.00	3,183,265.63	17,298,265.63
	2029 - 2033	6,635,000.00	302,062.50	6,937,062.50
	2034 - 2038			
		<u>\$ 48,015,000.00</u>	<u>\$ 29,284,928.28</u>	<u>\$ 77,299,928.28</u>

Unaudited  
Schedule 2 - C  
University of Houston System  
Combined Schedule Of Debt Service Requirements  
For The Year Ended August 31, 2008

Business-Type Activities

Description of Issue	Year	Principal	Interest	Total
Consolidated Revenue Bonds Series 1998	2009	\$ 1,785,000.00	\$ 39,046.88	\$ 1,824,046.88
	2010			
	2011			
	2012			
	2013			
	2014 - 2018			
	2019 - 2023			
	2024 - 2028			
	2029 - 2033			
	2034 - 2038			
		<u>\$ 1,785,000.00</u>	<u>\$ 39,046.88</u>	<u>\$ 1,824,046.88</u>
Consolidated Revenue Bonds Series 2000	2009	\$ 1,125,000.00	\$ 123,725.00	\$ 1,248,725.00
	2010	1,205,000.00	42,175.00	1,247,175.00
	2011			
	2012			
	2013			
	2014 - 2018			
	2019 - 2023			
	2024 - 2028			
	2029 - 2033			
	2034 - 2038			
		<u>\$ 2,330,000.00</u>	<u>\$ 165,900.00</u>	<u>\$ 2,495,900.00</u>
Consolidated Revenue Bonds Series 2005	2009	\$ 910,000.00	\$ 1,009,812.50	\$ 1,919,812.50
	2010	955,000.00	972,512.50	1,927,512.50
	2011	1,005,000.00	933,312.50	1,938,312.50
	2012	1,060,000.00	892,012.50	1,952,012.50
	2013	1,110,000.00	848,612.50	1,958,612.50
	2014 - 2018	6,480,000.00	3,483,737.50	9,963,737.50
	2019 - 2023	8,320,000.00	1,968,293.75	10,288,293.75
	2024 - 2028	3,955,000.00	200,125.00	4,155,125.00
	2029 - 2033			
	2034 - 2038			
		<u>\$ 23,795,000.00</u>	<u>\$ 10,308,418.75</u>	<u>\$ 34,103,418.75</u>
Consolidated Revenue Bonds Series 2006	2009	\$ 1,190,000.00	\$ 1,544,731.26	\$ 2,734,731.26
	2010	1,235,000.00	1,500,750.01	2,735,750.01
	2011	1,285,000.00	1,451,893.76	2,736,893.76
	2012	1,345,000.00	1,392,568.76	2,737,568.76
	2013	1,415,000.00	1,323,568.76	2,738,568.76
	2014 - 2018	8,225,000.00	5,454,093.80	13,679,093.80
	2019 - 2023	10,555,000.00	3,126,043.80	13,681,043.80
	2024 - 2028	7,635,000.00	577,296.88	8,212,296.88
	2029 - 2033			
	2034 - 2038			
		<u>\$ 32,885,000.00</u>	<u>\$ 16,370,947.03</u>	<u>\$ 49,255,947.03</u>

Unaudited  
Schedule 2 - C  
University of Houston System  
Combined Schedule Of Debt Service Requirements  
For The Year Ended August 31, 2008

Business-Type Activities

Description of Issue	Year	Principal	Interest	Total
Consolidated Revenue Refunding Bonds Series 2003	2009	\$ 1,270,000.00	\$ 589,987.50	\$ 1,859,987.50
	2010	1,310,000.00	544,937.50	1,854,937.50
	2011	1,355,000.00	503,268.75	1,858,268.75
	2012	1,410,000.00	446,000.00	1,856,000.00
	2013	1,480,000.00	373,750.00	1,853,750.00
	2014 - 2018	6,735,000.00	694,375.00	7,429,375.00
	2019 - 2023			
	2024 - 2028			
	2029 - 2033			
	2034 - 2038			
		<u>\$ 13,560,000.00</u>	<u>\$ 3,152,318.75</u>	<u>\$ 16,712,318.75</u>
Consolidated Revenue Bonds Series 1999	2009	\$ 1,585,000.00	\$ 1,028,002.50	\$ 2,613,002.50
	2010	1,660,000.00	952,915.00	2,612,915.00
	2011	1,730,000.00	872,402.50	2,602,402.50
	2012	1,810,000.00	788,327.50	2,598,327.50
	2013	1,890,000.00	700,452.50	2,590,452.50
	2014 - 2018	10,910,000.00	2,018,090.00	12,928,090.00
	2019 - 2023	2,515,000.00	62,875.00	2,577,875.00
	2024 - 2028			
	2029 - 2033			
	2034 - 2038			
		<u>\$ 22,100,000.00</u>	<u>\$ 6,423,065.00</u>	<u>\$ 28,523,065.00</u>
Consolidated Revenue Bonds Series 2002-A	2009	\$ 5,445,000.00	\$ 4,162,812.52	\$ 9,607,812.52
	2010	5,645,000.00	3,941,012.52	9,586,012.52
	2011	5,865,000.00	3,710,812.52	9,575,812.52
	2012	6,100,000.00	3,471,512.52	9,571,512.52
	2013	6,350,000.00	3,222,512.52	9,572,512.52
	2014 - 2018	36,170,000.00	11,963,765.71	48,133,765.71
	2019 - 2023	35,675,000.00	3,400,165.69	39,075,165.69
	2024 - 2028			
	2029 - 2033			
	2034 - 2038			
		<u>\$ 101,250,000.00</u>	<u>\$ 33,872,594.00</u>	<u>\$ 135,122,594.00</u>
Consolidated Revenue Variable Rate Demand Bonds Series 2004	2009	\$	\$ 722,475.00	\$ 722,475.00
	2010		722,475.00	722,475.00
	2011		722,475.00	722,475.00
	2012		722,475.00	722,475.00
	2013		722,475.00	722,475.00
	2014 - 2018	5,755,000.00	3,075,637.50	8,830,637.50
	2019 - 2023	8,385,000.00	1,407,937.50	9,792,937.50
	2024 - 2028	1,915,000.00	43,087.50	1,958,087.50
	2029 - 2033			
	2034 - 2038			
		<u>\$ 16,055,000.00</u>	<u>\$ 8,139,037.50</u>	<u>\$ 24,194,037.50</u>
Not Self-Supporting Bonds None		\$	\$	\$
Total		<u>\$ 453,050,000.00</u>	<u>\$ 253,386,124.94</u>	<u>\$ 706,436,124.94</u>

Unaudited

Schedule 2-D

University of Houston System  
Combined Analysis of Funds Available for Debt Service  
For The Year Ended August 31, 2008

Business-Type Activities  
General Obligation Bonds

Description of Issue	Beginning Balance Available for Debt Service 09/01/2007	Sources of Funds				Total Sources Available
		Pledged Sources		Other Sources		
		Interest Earned on Investments	Other Pledged Sources	Operating Transfers	State's General Revenue	
	\$	\$	\$	\$	\$	\$
Total	\$	\$	\$	\$	\$	\$

	Application of Funds			Total Application of Funds
	Refunded or Extinguished		Other Application of Funds	
	Principal	Interest		
	\$	\$	\$	\$
Total	\$	\$	\$	\$

	Ending Balance Available for Debt Service at 08/31/2008	
	Required	Actual
	\$	\$
Total	\$	\$

Unaudited

Schedule 2-D

University of Houston System  
Combined Analysis of Funds Available for Debt Service  
For The Year Ended August 31, 2008

Business-Type Activities  
Revenue Bonds

Description of Issue	Pledged and Other Sources and Related Expenditure for FY 2008						
	Operating Revenues	Interest Earned on Investments	Other Pledged Revenues	Total Pledged Sources	Other Sources	Operating Expenses & Expenditures	d Capital Outlay
(a+b-c-d) Net Available for Debt Service							
Consolidated Revenue Refunding Bonds and Consolidated Revenue Bonds (A)	\$	\$	\$	\$	\$	\$	\$
Total	\$	\$	\$	\$	\$	\$	\$
(A) Other Pledged Revenues Consist of							
Tuition and Fees			\$				
Investment Income			365,349,836.09				
Sales and Service			10,023,853.04				
Legislative Appropriations			46,478,440.06				
			25,909,454.00				
Total as shown above			\$	\$	\$	\$	\$
			447,761,583.19	447,782,273.65			447,782,273.65

(B) Expenditures associated with pledged sources were approximately \$ 324,199,471.97

Description of Issue	Debt Service		Refunded or Extinguished	Interest & Sinking Fund		Reserve Fund	
	Principal	Interest		Minimum	Actual	Minimum	Actual
Consolidated Revenue Refunding Bonds Series 2002-B	\$	\$	\$	\$	\$	\$	\$
Consolidated Revenue Refunding Bonds Series 2003	5,760,000.00	1,148,175.00					
Consolidated Revenue Refunding Bonds Series 2006	1,225,000.00	633,762.50					
Consolidated Revenue & Refunding Bonds Series 2008	345,000.00	2,278,883.15					
Consolidated Revenue Bonds Series 1998	2,745,000.00	586,247.50					
Consolidated Revenue Bonds Series 1999	1,705,000.00	120,718.75					
Consolidated Revenue Bonds Series 2000	1,510,000.00	1,097,640.00					
Consolidated Revenue Bonds Series 2002-A	1,045,000.00	199,675.00					
Consolidated Revenue Variable Rate Demand Bonds Series 2004	5,265,000.00	4,321,572.90					
Consolidated Revenue Bonds Series 2005	6,555,000.00	564,968.80					
Consolidated Revenue Bonds Series 2006	865,000.00	1,045,312.50					
	1,150,000.00	1,585,681.26					
Total	\$	\$	\$	\$	\$	\$	\$
	28,170,000.00	13,582,637.36					

# Unaudited

## Schedule 2-E

### University of Houston System Combined Schedule Of Defeased Bonds Outstanding For The Year Ended August 31, 2008

#### Business-Type Activities

Description of Issue	Year Refunded	Par Value Outstanding
General Obligations Bonds		
		\$
Total		\$
Revenue Bonds		
Consolidated Revenue Bonds Series 2000	2006	44,430,000.00
Total		\$ 44,430,000.00

# Unaudited

## Schedule 2-F University of Houston System Combined Schedule Of Early Extinguishment and Refunding For The Year Ended August 31, 2008

Business-Type Activities	Description of Issue	Category	Amount Extinguished Or Refunded	For Refunding Only		
				Refunding Issue Par Value	Cash Flow Increase / (Decrease)	Economic Gain / (Loss)
General Obligations Bonds Schedule not used.	\$		\$	\$	\$	\$
Total	\$		\$	\$	\$	\$
Revenue Bonds Schedule not used.	\$		\$	\$	\$	\$
Total	\$		\$	\$	\$	\$

Unaudited  
Schedule 3  
University of Houston System  
Combined Reconciliation Of Cash In State Treasury  
For The Year Ended August 31, 2008

<u>Cash in State Treasury</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Current Year Total</u>
Local Revenue Fund No 0225 (UH - 730)	\$ 8,734,201.77	\$	\$ 8,734,201.77
Local Revenue Fund No 0229 (UHC - 759)	4,875,477.79		4,875,477.79
Local Revenue Fund No 0233 (UHV - 765)	683,328.32		683,328.32
Local Revenue Fund No 0268 (UHD - 784)	2,512,622.33		2,512,622.33
<u>Total Cash in State Treasury</u>	<u>\$ 16,805,630.21</u>	<u>\$</u>	<u>\$ 16,805,630.21</u>