

**UNIVERSITY OF HOUSTON SYSTEM**  
**Audit and Compliance Committee**  
**Tuesday, April 14, 2009**  
**10:45 a.m. – 12:00 Noon**

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# AGENDA

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## UNIVERSITY OF HOUSTON SYSTEM AUDIT AND COMPLIANCE COMMITTEE MEETING

**DATE:** Tuesday, April 14, 2009

**TIME:** 10:45 a.m.

**PLACE:** University of Houston  
Elizabeth D. Rockwell Pavilion  
M. D. Anderson Library  
4800 Calhoun  
Houston, Texas 77204

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**Chair:** Dennis D. Golden

**Vice Chair:** Nelda L. Blair

**Members:** Jacob M. Monty  
Welcome W. Wilson, Sr., Ex Officio

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### AUDIT AND COMPLIANCE COMMITTEE

A. Call to Order

B. Institutional Compliance Status Report for the Two Months Ended February 28, 2009 – UH System AUDIT - 1

**Action:** Information

C. External Audit Reports – Financial Statements - UH System AUDIT - 2

- UHS KUHF Radio, Financial Statements and Independent Auditors' Report for FY 2008 and 2007;
- UHS KUHT – TV, Financial Statements and Independent Auditors' Report for FY 2008 and 2007;
- UHS Endowment Fund, Financial Statements and Independent Auditors' Report for FY 2008 and 2007; and
- SAO Report 09-330, Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2008 (Excerpts)

**Action:** Information

- D. External Audit Report – Construction – UH System
- Calhoun Lofts Residence Hall Interim Construction Audit
- AUDIT - 3

**Action:** Information

- E. Report on Compliance of Private Support Organizations and Foundations – UH System
- AUDIT - 4

**Action:** Information

- F. Internal Audit Report – Briefing Booklet – UH System
- AUDIT - 5

**Action:** Information

- G. Adjourn

**UNIVERSITY OF HOUSTON SYSTEM  
BOARD OF REGENTS AGENDA**

**COMMITTEE:**        Audit & Compliance

**ITEM:**             Institutional Compliance Status Report for the Two Months Ended February  
                         28, 2009

**DATE PREVIOUSLY SUBMITTED:**

**SUMMARY:**

The Institutional Compliance Status Report summarizes the information provided by each institution for their respective compliance functions.

**FISCAL NOTE:**

**SUPPORTING DOCUMENTATION:**             Institutional Compliance Status Report

**ACTION REQUESTED:**                    Information

**COMPONENT:**                            University of Houston System

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**CHIEF AUDIT EXECUTIVE**

*Don F. Guyton*  
Don F. Guyton

\_\_\_\_\_  
**DATE**  
3/27/09

\_\_\_\_\_  
**CHANCELLOR**

*Renu Khator*  
Renu Khator

\_\_\_\_\_  
**DATE**  
3-31-09

**UNIVERSITY OF HOUSTON SYSTEM  
INSTITUTIONAL COMPLIANCE STATUS REPORT  
For the 2 months ended February 28, 2009**

Institutional compliance activities at each university during the two months ended February 28, 2009, are as follows:

<u>Activity</u>	<u>UH/UHS</u>	<u>UHCL</u>	<u>UHD</u>	<u>UHV</u>
Risk Assessments Completed	0	0	2	0
Risk Assessments Updated	4	0	1	0
Compliance Audits Conducted	76	0	1	2
Compliance Committee Meetings Held	1	1	0	1
Risk Mitigation Implemented:				
Specific Control Activities (pol. & proc.)	13	0	0	30
New Training Program / Activities	14	1	0	15
Hot-line Reports:				
Number Received during last 2 months	4	0	0	1
Reports Resolved during last 2 months	4	0	0	1
Unresolved Reports as of Feb. 28, 2009	3	0	0	0

**UHS:**

A system-wide meeting of the institutional compliance officers was held on January 14, 2009, to discuss institutional compliance activities. Included on the meeting agenda were the following:

- Review of reports to be presented to the audit and compliance committee on February 10, 2009
- Cooperative Problem Solving – Sharing of Ideas (discussion by all compliance officers of major concerns / accomplishments)
- Presentation by Mike Glisson – Update on Red Flag Rule Program and Payment Card Industry (PCI)
- Presentation by Monica Lawrence – (1) training update (Training statistics to be provided to Audit and Compliance Committee by D. Guyton at February 10<sup>th</sup> meeting) and (2) electronic I-9 rollout
- Presentation by Don Guyton – MySafeCampus procedures and flowcharts

**UH:**

The Division of Research hosted a videocast on January 13, 2009 entitled “Audits and the Audit Process” sponsored by the National Council of Research Administrators.

The Division of Research provided support for the members of the two Institutional Review Boards to attend a training workshop held on February 3, 2009 at the Omni Hotel entitled

“Institutional Review Board 101” and sponsored by Public Responsibility in Medicine and Research (PRIMR).

### **Finance**

On February 26, 2009, Mike Glisson and Raymond Bartlett hosted a Red Flag Rules Workshop for all UHS departments who must comply with the Fair and Accurate Credit Transactions Act (FACT Act), Sections 114 and 315. The Workshop provided an overview of the Red Flag Rules issued by the Federal Trade Commission pursuant to the FACT Act and how departments can develop procedures to detect, prevent, and mitigate identity theft by the May 1, 2009 deadline.

The Treasurer’s Office drafted a SAM and MAPP on Identity Theft consistent with the requirements of the FACT Act.

### **Safety Training**

General Laboratory Safety (2 Times)  
Biological Safety  
Biohazardous Materials Shipping  
Bloodborne Pathogens  
Principal Investigator Recombinant DNA (2 Times)  
Radioactive Material Safety  
X-ray Safety Training  
Laser Safety Training  
IATA Infectious Substance Shipping

### **New Safety Programs/Activities**

Conducted peer review of environmental health and safety functions at UHD  
Verified that the required fuel meters have been installed and are working at the Campus Recreation Center  
Completed development of Online Annual X-ray Safety Refresher Training  
Created Declared Pregnancy Brochure for Radiation Workers

### **Environmental Regulatory Reports**

Submitted Annual Waste Summary for Main Campus and TMC facility  
Submitted Stage II Vapor Recovery Exemption  
Submitted Tier II Report  
Submitted NOx Cap and Trade Report  
Submitted UST Self Certification Form

### **Public Safety**

The Juvenile Jail Log was processed and forwarded to the Texas Commission on Jail Standards as required by law.

The traffic stop and pedestrian stop data was compiled and analyzed in the required annual Racial Profiling Report.

## **UHCL:**

The UHCL compliance committee had seven members benefit from the UHD presentation on Organizational Ethics by LT Lafferty on March 3, 2009. The UHCL Compliance committee actions during the quarterly meeting on March 5, 2009 (delayed from February 26, 2009 due to attendance at an EPA Audit meeting) included:

1. The minutes of the December 11, 2008 meeting were approved with no corrections.
2. Revised Compliance Committee members list was approved with corrections.
3. Organizational Ethics presentation by L.T. Lafferty and concepts learned was discussed by attendees
4. Optimization Forms Utilization by UHD with existing data for distribution to six areas including: Contract Administration, Employment, Financial Aid, Gift Receipting, Sponsored Programs (Research) and Student Travel.

## **UHD:**

Guest Speaker: UHD hosted a presentation March 3, 2009, on “Organizational Ethics” by L.T. Lafferty, the Practice Leader for White Collar Crime, Government Investigations, and Corporate Compliance and Ethics practice at Fowler White Boggs Attorneys at Law. LT is a former federal prosecutor and worked as an Assistant United States Attorney (AUSA) in Tampa for ten (10) years.

The presentation was open to all UH System employees and attended by employees from UHS, UH, UHCL, and UHD. The topics presented included:

- Why Does Ethics Matter?
- The Value of Ethics
- The Law of Ethics

Quarterly Compliance Committee Meeting: Will be held March 24, 2009.

- Subject matter experts will give reports on identified institutional risk areas. The reports will highlight failures detected by the monitored controls, actions taken to mitigate future failures, training, new policies, procedures, or regulations and new areas of compliance concerns.
- Review progress-to-date versus FY09 goals.

Risk Assessment Update: Impact on institutional level risk:

- Five (5) risks moved from the “A List” to the “B List”.
- Three (3) Risks added to the “A List”.
- Risks Assessment Matrices completed for Benefits and Payroll.

Self Assessment: The Institutional Compliance Program Self Assessment document is substantially complete. Final supporting work paper is an evaluation of the Compliance Officer by the Compliance Committee. Questionnaire has been forwarded to the members of the Committee.

Peer Team Review: Initial contact has been made with UT System personnel for recommendations of Peer Team Review members to assess our compliance program.

Employee Standard of Conducts Guide: Currently being reviewed by OGC.

TAC 202 Compliance Review: The UHS Office of Internal Audit conducted a follow-up TAC 202 Compliance Review of UHD Information Technology in February, 2009.

IT Risk Management Plan:

- The annual IT Business Continuity and Disaster Recovery plan for major IT systems was completed.
- The annual update of the IT Risk Assessment for major IT systems began in November, 2008. Both the Risk Assessment and the resulting Risk Management Plan update are complete. Final review by application owners and sign-off by leadership are pending.

UHD Website ADA Compliance: ADA compliance update was completed. Final documentation and project closeout occurred with the formal rollout of the web site in March.

[Note: The one item referenced under “Compliance Audits Conducted” is an ongoing audit.]

**UHV:**

The most recent compliance committee meeting was held January 21, 2009 (minutes posted online at <http://www.uhv.edu/compliance/meetings.asp>) Notable compliance activities for the months of January and February included:

- A Coordinating Board Peer Review Team conducted an on-site facilities audit Jan-13-14. A Management Action Plan has been sent to the CB in response to recommendations.
- The biennial Alcohol and Other Drug (AOD) review for the two year period ending 12/31/08 was formally finalized January 7<sup>th</sup>. A summary of the review and report was reported to the President’s Cabinet February 11<sup>th</sup>.
- There were no known hotline reports received. A non-hotline report of possible compromised credit card data was reported by J.P. Morgan Chase. As a precaution, 15 campus cards were cancelled and reissued. No fraudulent use or losses occurred.
- The Athletic Department’s Student Athlete Drug and Alcohol Policy was reviewed by OGC and approved for campus use. Random drug testing of student athletes is scheduled to begin this spring.
- UHV is moving forward with Payment Card Industry (PCI) merchant compliance. The Training and Continuing Education Office and the Athletics Department completed their written PCI Merchant Operating Policies and Procedures in February and the Finance Department’s credit/debit card policies are substantially complete.
- Facilities Services completed a substantial review of internal policies, writing or updating nine (9) departmental compliance related procedures.
- The Finance Department reviewed and updated ten (10) institutional Administrative Policies and Procedures which were approved by the President.
- The School of Nursing (SON) published online the student handbook for nursing students. See online at: <http://www.uhv.edu/nursing/resources/studentbook.pdf>



- HR conducted a series of PeopleSoft ePar application training sessions for university employees in anticipation of the introduction of the new PeopleSoft HR application. ePar facilitates the campuses' move from manual to electronic approval of HR related employee personnel changes.

The information in this summary is taken from a more detailed campus departmental report of compliance related activities. The complete report for January and February is posted online at <http://www.uhv.edu/compliance/reports.asp>



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Don F. Guyton  
System-wide Compliance Officer  
March 20, 2009

**UNIVERSITY OF HOUSTON SYSTEM  
BOARD OF REGENTS AGENDA**

**COMMITTEE:** Audit & Compliance

**ITEM:** External Audit Reports – Financial Statements

- UHS KUHF Radio, Financial Statements and Independent Auditor’s Report for FY 2008 and 2007
- UHS KUHT-TV, Financial Statements and Independent Auditor’s Report for FY 2008 and 2007
- UHS Endowment Fund, Financial Statements and Independent Auditor’s Report for FY 2008 and 2007
- SAO Report 09-330, Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2008 (Excerpts)

**DATE PREVIOUSLY SUBMITTED:**

**SUMMARY:**

The Audit Committee Charter and Checklist, item number 13, requires the Committee to review any significant findings and recommendations of the State Auditor and any employed public accounting firm.

**FISCAL NOTE:**

**SUPPORTING DOCUMENTATION:** External Audit Reports (under separate cover)

**ACTION REQUESTED:** Information

**COMPONENT:** University of Houston System

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**CHIEF AUDIT EXECUTIVE** *Don F. Guyton* 3/27/09  
Don F. Guyton **DATE**

\_\_\_\_\_  
**CHANCELLOR** *Renu Khator* 3-31-09  
Renu Khator **DATE**

**KUHF (FM)**  
(A Component Unit of the University of Houston System)

**Financial Statements And  
Independent Auditors' Report**

**Years Ended August 31, 2008 And 2007**

**KUHF (FM)**  
(A Component Unit of the University of Houston System)

**FINANCIAL STATEMENTS**

**Years Ended August 31, 2008 and 2007**

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McCONNELL & JONES<sup>LLP</sup>  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

To the Board of Regents of  
The University of Houston System  
Houston, Texas

We have audited the accompanying statements of net assets of KUHF (FM) (the "Station") a component unit of the University of Houston System (the "System") as of August 31, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Station's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Station as of August 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Station's basic financial statements. The supplemental schedules on page 23 and 24 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole..

The Management's Discussion and Analysis on pages 2 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Houston, Texas  
January 16, 2009

**KUHF (FM)**  
**(A Component Unit of the University of Houston System)**

**Management's Discussion and Analysis**  
**August 31, 2008 and 2007**

**Introduction**

The following Annual Financial Statements provide an overview of the activities and the financial position of KUHF (FM) (the Station or KUHF) for the fiscal years ended August 31, 2008 and 2007. This Management's Discussion and Analysis is intended to offer a summary of significant current year activities, resulting changes, and currently known economic conditions and facts. This analysis should be read in conjunction with the Station's basic financial statements and the notes to the financial statements.

**Overview of the Financial Statements**

The Station herewith presents its basic financial statements for fiscal years 2008 and 2007. The basic financial statements for both fiscal years have been prepared in accordance with Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Governmental Accounting Standards Board Statement No. 35 (GASB 35), *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The three primary financial statements presented are the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. The information contained in the basic financial statements of the Station is incorporated within the University of Houston System's Annual Financial Report.

The financial operations of the Station are considered a business-type activity. The Station's largest source of revenue is contributions from individual and corporate donations, which are used to pay for a majority of the cost of the services provided to the listeners. Under the business-type activity classification, the Station's basic financial statements conform to the guidelines and presentation formats prescribed for Enterprise Funds, also referred to as Proprietary Funds.

**KUHF (FM)**  
**(A Component Unit of the University of Houston System)**

**Management's Discussion and Analysis**  
**August 31, 2008 and 2007**

**Statement of Net Assets**

The Statement of Net Assets reflects the Station's assets and liabilities using the full accrual basis of accounting, and represents financial position as of the conclusion of the fiscal year. Assets and liabilities are presented as either current or non-current to provide an indication of their anticipated liquidation. Net assets are equal to assets minus liabilities. Unrestricted net assets are available to the Station for any lawful purpose. Unrestricted Net Assets often have constraints on resources, which are imposed by management, but can be removed or modified.

Statement of Net Assets

	2008	2007	2006	2008-2007 Change	2007-2006 Change
<b>Assets</b>					
Current assets	\$ 1,709,831	\$ 1,887,460	\$ 1,673,248	\$ (177,629)	\$ 214,212
Non-current assets (net)	282,634	195,641	215,339	86,993	(19,698)
<b>Total assets</b>	<b>\$ 1,992,465</b>	<b>\$ 2,083,101</b>	<b>\$ 1,888,587</b>		
<b>Liabilities</b>					
Current liabilities	\$ 732,941	\$ 564,846	\$ 423,985	168,095	140,861
<b>Total liabilities</b>	<b>732,941</b>	<b>564,846</b>	<b>423,985</b>		
<b>Net assets</b>					
Invested in capital assets, net of related debt	282,634	195,641	215,339	86,993	(19,698)
Unrestricted	976,890	1,322,614	1,249,263	(345,724)	73,351
<b>Total net assets</b>	<b>1,259,524</b>	<b>1,518,255</b>	<b>1,464,602</b>		
<b>Total liabilities and net assets</b>	<b>\$ 1,992,465</b>	<b>\$ 2,083,101</b>	<b>\$ 1,888,587</b>		

Fiscal year 2008 compared to 2007:

- The decrease in current assets resulted from increased fund raising activities to grow the membership and major donor funding base. Also broadcast staff was increased to fulfill the need of increased content production. Since KUHF now produces three content streams/stations (analog/HD1, HD2 and HD3), local content production has to be increased.
- Payroll and compensable leave was higher in fiscal year 2008 compared to 2007 due to increased staffing and the 2008 salary increases. Also Fiscal year end 2008 accounts payable doubled compared to 2007 due to the return of a \$89k check that was voided in FY2008 and reissued in FY2009.

**KUHF (FM)**  
**(A Component Unit of the University of Houston System)**

**Management's Discussion and Analysis**  
**August 31, 2008 and 2007**

Fiscal year 2007 compared to 2006:

Total current assets increased minimally due to temporary increase in cash balances that could be utilized to pay a comparable increase in accounts payable. A timing difference in the payment of current liabilities such as accounts payable is often represented by a temporary increase in cash balances held for paying those liabilities.

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

The Statement of Revenues, Expenses, and Changes in Net Assets identifies operating revenues received by the Station. Additionally, the operating expenses incurred by the Station during the fiscal year are displayed. Any revenues or expenses resulting from other than operations are displayed on this statement.

	2008	2007	2006	2008-2007 Change	2007-2006 Change
Operating revenues	\$ 8,396,504	\$ 6,920,515	\$ 6,527,507	\$ 1,475,989	\$ 393,008
Operating expenses	8,708,377	6,943,905	6,286,479	1,764,472	657,426
Change in net assets	(311,873)	(23,390)	241,028	(288,483)	(264,418)
Non-operating revenues (expenses):					
Interest	53,142	77,043	23,955		
Change in net assets	(258,731)	53,653	264,983		
Net assets, beginning of year	1,518,255	1,464,602	1,199,619		
Net assets, end of year	\$ 1,259,524	\$ 1,518,255	\$ 1,464,602		

Fiscal year 2008 compared to 2007:

- Operating revenues increased largely in part due to increased membership, major donor philanthropy and underwriting fundraising efforts. There was a large increase in direct mail to help boost individual gifts. Revenues received through Association for Community Broadcasting increased reflecting the rise in direct mailing and major donor activities on behalf of KUHF. Also, KUHF changed underwriting spots from 30 seconds to 15 seconds thus increasing available spot inventory.
- Operating expenses increased somewhat due to an increase in fundraising efforts. Broadcasting staff was enlarged to accommodate the greater need for local programming for the multi-stations offered by the implementation of HD radio and the increased cost of national program fees.



**KUHF (FM)**  
**(A Component Unit of the University of Houston System)**

**Management's Discussion and Analysis**  
**August 31, 2008 and 2007**

Fiscal year 2007 Compared to 2006:

- Operating revenues increased due to a six percent increase in program underwriting and a five and a half percent increase in individual contributions.
- Operating expenses grew due to increased costs of purchased programming. Also, staffing was added to increase online presence. Additionally, marketing expenses increased due to a significant project to increase community awareness of the Station.
- The net assets as they relate to operating revenues and expenses shows a small decrease, but when the total non-operating revenue including interest income is added, the Station gained approximately \$50,000.

Operating revenues include sources that are primarily used to provide services to the Station's listeners and are as follows:

Operating Revenues:

	2008	2007	2006	2008-2007 Change	2007-2006 Change
Subscriptions and memberships	\$ 3,062,434	\$ 2,375,304	\$ 2,251,201	\$ 687,130	\$ 124,103
General support from the UH System	1,682,073	1,305,980	1,135,225	376,093	170,755
Program underwriting	3,084,562	2,614,502	2,467,095	470,060	147,407
CPB grants	467,947	465,065	457,405	2,882	7,660
Other	99,488	159,664	216,581	(60,176)	(56,917)
Total operating revenues	<u>\$ 8,396,504</u>	<u>\$ 6,920,515</u>	<u>\$ 6,527,507</u>		

Fiscal year 2008 compared to 2007:

- The station worked with a contractor to aid increasing membership for the year; as a result, there was an increase in subscription and memberships. Increases were reflected in direct mail and acquisition activities. There was an increase in regaining lapsed members through telemarketing efforts.
- Program underwriting increased due to increased efforts by sales staff, and a change in spot inventory policy. By changing underwriting spots from 30 to 15 seconds the inventory available for sale increased.
- General support from UH is derived by a formula provided by the Corporation for Public Broadcasting. An integral part of the formula is the station's operating expense. Since overall operating expenses increased from FY 2007 to FY 2008, so did the general support.

**KUHF (FM)**  
**(A Component Unit of the University of Houston System)**

**Management's Discussion and Analysis**  
**August 31, 2008 and 2007**

Fiscal year 2007 Compared to 2006:

- Overall operating revenues increased six percent from 2006 to 2007.
- Program underwriting revenues grew six percent due to the continuing strength of the sales staff.
- KUHF has targeted their membership efforts to increasing the member base with new members. Although the number of members increased only one percent. There was an increase in average gift so that membership revenue increased five and a half percent.

Operating Expenses:

	2008	2007	2006	2008-2007 Change	2007-2006 Change
Programming and production	\$ 3,078,938	\$ 2,526,496	\$ 2,319,317	\$ 552,442	\$ 207,179
Broadcasting, engineering, and technical	933,551	700,283	805,428	233,268	(105,145)
Program information	433,310	329,390	221,437	103,920	107,953
Fundraising and membership development	1,625,292	1,037,675	963,555	587,617	74,120
Underwriting and Grant Solicitation	260,733	368,952	240,150	(108,219)	128,802
Management and general	2,308,053	1,920,709	1,668,020	387,344	252,689
Depreciation	68,500	60,400	68,572	8,100	(8,172)
Total operating expenses	<u>\$ 8,708,377</u>	<u>\$ 6,943,905</u>	<u>\$ 6,286,479</u>		

Fiscal year 2008 compared to 2007:

- Fluctuation in programming and production was significant due to added broadcast staffing and increased national program fees.
- Broadcasting, engineering, and technical expenses increased due to staffing and expenses directly related to implementation of automation system and HD radio.
- Program information increased primarily due to addition of second full time web creator.
- Fundraising and membership experienced a significant increase because of improved efforts to boost new membership. As a result, more direct mailings were sent out, gifts for members increased as well. A contractor was also hired to help with this effort both strategically and with implementation.
- Management and general increased due to increase of general support from the university.

**KUHF (FM)**  
**(A Component Unit of the University of Houston System)**

**Management's Discussion and Analysis**  
**August 31, 2008 and 2007**

Fiscal year 2007 Compared to 2006:

- Overall operating expenses increased ten percent from 2006 to 2007.
- Programming expenses increased substantially due to a \$118,000 increase in fees to National Public Radio and a \$44,000 increase to Public Radio International.
- Program information expenses increased to cover the cost of a large scale marketing project to increase community awareness of KUHF's services. This project included development of a new logo, refreshing the current website, billboards, etc.
- Management and General expenses increased due to the additional indirect support provided by the University.

**Statement of Cash Flows**

The Statement of Cash Flows explains the change during the fiscal year in cash and cash equivalents, regardless of whether there are restrictions on their use. The Statement of Cash Flows should be used in conjunction with related disclosures and information in the other financial statements. The statement can provide relevant information about the Station, such as the ability to generate future net cash flows, the ability to meet obligations when due, or reasons for differences between operating income and associated cash receipts and payments.

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2008-2007</u> Change	<u>2007-2006</u> Change
Net cash (used in)/provided by operating activities	\$ (256,580)	\$ 155,634	\$ 261,407	\$ (412,214)	\$ (105,773)
Cash flows from capital and related financing activities	(155,493)	(40,702)	(126,492)	(114,791)	85,790
Cash flows from investing activities	<u>53,142</u>	<u>77,043</u>	<u>23,955</u>		
(Decrease)/increase in cash and cash equivalents	(358,931)	191,975	158,870		
Cash and cash equivalents, beginning of year	<u>1,548,012</u>	<u>1,356,037</u>	<u>1,197,167</u>		
Cash and cash equivalents, end of year	<u>\$ 1,189,081</u>	<u>\$ 1,548,012</u>	<u>\$ 1,356,037</u>		
Reconciliation of operating income to net cash provided by operating activities:					
Operating loss / income	\$ (311,873)	\$ (23,390)	\$ 264,983	\$ (288,483)	\$ (288,373)
Amortization and depreciation	68,500	60,400	68,572	8,100	(8,172)
Net change in assets and liabilities	<u>(13,207)</u>	<u>118,624</u>	<u>(48,193)</u>	(131,831)	166,817
Net cash (used in)/provided by operating activities	<u>\$ (256,580)</u>	<u>\$ 155,634</u>	<u>\$ 285,362</u>		

Fiscal year 2008 compared to 2007:

- The decrease in cash flows is a reflection of increased membership which resulted from a very successful fundraising project offset by increased payments to suppliers for goods and services due to increased direct mail expenses to grow the contribution base and

**KUHF (FM)**  
**(A Component Unit of the University of Houston System)**

**Management's Discussion and Analysis**  
**August 31, 2008 and 2007**

engineering expenses as the station implements automation and secondary broadcast streams. Payments to employees increased due to additional staffing for content creation. Also payments for broadcasting fees increased due to the rising cost of national program fees.

- Cash outflows from capital activities increased because of payments made to increase capital assets relating to implementation of digital FM transmission.

Fiscal year 2007 Compared to 2006:

- Net cash provided by operating activities difference between FY07 and FY06 is \$105,773 negative. The variance is related increase of cash received from our receivable, a decrease on our payments from our payables.
- Cash flows from capital and related financing activity positive variance of \$85,790 are related to a decrease on the capital assets activity from FY07 and FY06.

**Capital Assets**

As of the end of the 2008 fiscal year, the Station had \$282,634 of capital assets, net of accumulated depreciation. These assets included furniture and equipment.

Title to these assets resides with the University of Houston, which allocates custody of the assets to the Station for its operational needs. Accountability for capital assets is consistent with policies established by the State of Texas. Assets are depreciated over their recommended useful lives. The Station capitalizes assets when the acquisition cost exceeds certain threshold values. Funds for the acquisition of capital assets are provided from the Station's operating revenues.

**Debt Administration**

The Station does not separately issue long-term debt. The Station is not currently engaged in any long-term financing transactions. The operating budget for the Station is currently structured such that annual financial obligations are satisfied through operating revenues that are received during each current fiscal year.

**Economic Outlook**

The management and staff of radio station KUHF Houston Public Radio endorse and uphold the Station's Mission Statement - to entertain, educate and uplift its audience through informational and cultural programming. In light of this purpose, the Station has established a set of core values: KUHF exists to serve the community in general and its listeners in particular. In devoting its resources to providing programming about arts, culture, information and education, KUHF remains a positive, uplifting influence both vital and necessary to the community. And in this regard, KUHF continues to strive to be Houston's

**KUHF (FM)**  
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**Management's Discussion and Analysis**  
**August 31, 2008 and 2007**

first choice in electronic media for intelligent, high quality news, information, classical music and cultural programming and outreach, as well as a primary contributor to the quality of life of the community.

Based on a demonstrated, long-term strength in local fundraising from all sources, the Station's financial position remains strong. Community fundraising efforts have been successful in the recently concluded fiscal year. Since September 2008 and the opening of the new fiscal year, the nation's economy has continued to decline, with financial stresses at all levels of society. As of this writing, KUHF has concluded a highly successful fall 2008 membership campaign in the midst of gathering economic gloom. Direct mail renewals continue at expected levels. Also to date, revenue from program underwriting continues strong, with no sign of diminution. That said, station management is seriously concerned about the eventual impact of ongoing financial stress on the ability and willingness of people and institutions to donate to KUHF. Management is now conducting an in-depth review of the FY 2009 budget to indentify areas for reduction in a worse-case scenario; we feel this to be the prudent thing to do. Also, management will closely track all income streams for signs of negative economic impact in the coming months with the intent of making proactive adjustments to company expenditures to minimize that possible negative impact.

KUHF is also participating in the Leadership for Philanthropy project, sponsored by the Corporation for Public Broadcasting and administered by The Development Exchange. Intensive training for the CEO and Association for Community Broadcasting board members is intended to give us the tools to increase major giving and philanthropic support for KUHF. This additional revenue stream will further improve the economic foundation for KUHF and further solidify our perceived value to the community.

KUHF continues to work with KUHT HoustonPBS and the Association for Community Broadcasting (ACB) to fund the Endowment for Public Broadcasting.

The Station remains strongly committed to perform in a responsible manner that merits a high level of community confidence.

## Basic Financial Statements

**KUHF (FM)**  
**(A Component Unit of the University of Houston System)**

**Statements of Net Assets**

**August 31, 2008 and 2007**

	2008	2007
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 1,189,081	\$ 1,548,012
Accounts receivable, net	520,750	339,448
Total current assets	1,709,831	1,887,460
Capital assets, net	282,634	195,641
Total assets	1,992,465	2,083,101
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	206,542	112,248
Accrued payroll	255,108	202,290
Employees' compensable leave	267,791	239,808
Other current liabilities	3,500	10,500
Total current liabilities	732,941	564,846
Total liabilities	732,941	564,846
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	282,634	195,641
Unrestricted	976,890	1,322,614
Total net assets	\$ 1,259,524	\$ 1,518,255

*The accompanying notes are an integral part of the basic financial statements*

**KUHF (FM)**  
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**Statements of Revenues, Expenses and Changes in Net Assets**

**Years Ended August 31, 2008 and 2007**

	2008	2007
Operating revenues:		
Subscriptions and memberships	\$ 3,062,434	\$ 2,375,304
General support from the System	1,682,073	1,305,980
Program underwriting	3,084,562	2,614,502
Corporation for Public Broadcasting grants	467,947	465,065
Royalties	8,211	15,570
Production service	5,600	40,710
Subcarrier income	-	42,000
Special events	79,764	44,153
Other	5,913	17,231
Total operating revenues	8,396,504	6,920,515
Operating expenses:		
Programming and production	3,078,938	2,526,496
Broadcasting, engineering and technical	933,551	700,283
Program information	433,310	329,390
Fundraising and membership development	1,625,292	1,037,675
Underwriting and grant solicitation	260,733	368,952
Management and general	2,308,053	1,920,709
Depreciation	68,500	60,400
Total operating expenses	8,708,377	6,943,905
Operating loss	(311,873)	(23,390)
Non-operating revenues:		
Interest income	53,142	77,043
Total non-operating revenues	53,142	77,043
Change in net assets	(258,731)	53,653
Net assets, beginning of year	1,518,255	1,464,602
Net assets, end of year	\$ 1,259,524	\$ 1,518,255

*The accompanying notes are an integral part of the basic financial statements*



**KUHF (FM)**  
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**Statements of Cash Flows**

**Years Ended August 31, 2008 and 2007**

	2008	2007
<b>Cash flows from operating activities</b>		
Proceeds received from membership	\$ 2,905,210	\$ 2,353,067
Proceeds from Corporation for Public Broadcasting grants	480,311	465,065
Proceeds from program underwriting	3,116,433	2,614,502
Proceeds from other revenues	116,989	138,454
Payments to suppliers for goods and services	(2,188,800)	(1,465,441)
Payments to employees	(3,177,164)	(2,642,058)
Payments for broadcasting fees	(1,336,010)	(1,078,749)
Payments for other expenses	(173,549)	(229,206)
Net cash (used in)/provided by operating activities	(256,580)	155,634
<b>Cash flows from capital and related financing activities</b>		
Payments to acquire capital assets	(155,493)	(40,702)
Net cash used in capital and related financing activities	(155,493)	(40,702)
<b>Cash flows from investing activities</b>		
Interest from claim on cash	53,142	77,043
Cash provided by investing activities	53,142	77,043
(Decrease)/increase in cash and cash equivalents	(358,931)	191,975
<b>Cash and cash equivalents, beginning of year</b>	1,548,012	1,356,037
<b>Cash and cash equivalents, end of year</b>	\$ 1,189,081	\$ 1,548,012
<b>Reconciliation of operating loss to net cash (used in)/provided by operating activities:</b>		
Operating loss	\$ (311,873)	\$ (23,390)
Adjustment to reconcile operating loss to net cash (used in)/provided by operating activities:		
Amortization and depreciation	68,500	60,400
Changes in current assets and liabilities:		
Increase in accounts receivable	(181,302)	(22,237)
Increase in accounts payable	94,294	90,607
Increase in accrued payroll	52,818	5,794
Increase in employees' compensable leave	27,983	44,460
Decrease in other liabilities	(7,000)	-
Total adjustment	55,293	179,024
Net cash (used in)/provided by operating activities	\$ (256,580)	\$ 155,634

*The accompanying notes are an integral part of the basic financial statements*

**KUHF (FM)**  
**(A Component Unit of the University of Houston System)**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2008 AND 2007**

**1. Entity**

KUHF (FM) (the “Station”) signed on the air in 1950 as a public radio station. As a non-commercial, listener supported radio station; the Station serves as Houston's National Public Radio affiliate and classical music source. The Station provides news and cultural programming at both local and national levels. The Station currently operates 24 hours a day and serves the greater Gulf Coast region. The Station is licensed to the Board of Regents of the University of Houston System (the “System”) and is located at the System’s Central campus. It employs a full time local news department and professional music programming and recording staff to fulfill the mission of entertaining, educating and uplifting its audience. The Station maintains strong ties to Houston area arts and cultural organizations as well as local community and governmental leaders. It also produces and broadcasts digitally recorded concerts by Houston's major arts organizations.

The Station is dedicated to education and outreach through a wide variety of activities. Several internship opportunities are available for hands on training in news, production and marketing. The Station actively participates in community-wide events serving greater Houston area youth, the arts and multicultural population.

New media technologies provide new opportunities in KUHF’s program distribution, including expanded audio streaming via the standard Internet and wireless Internet, along with HD digital multi-channel broadcasting. With the implementation of digital radio (HD) broadcasting, KUHF began in fiscal year 2007 to provide three independent channels of 24/7 programming: (1) news and information; (2) classical music and fine arts; and, (3) Spanish language news and information.

The Station’s website has received statewide honors for news content and community service. This site has served as a successful, secure fund raising vehicle offering an alternative and cost effective method for processing contributions.

The Station is a component unit of the System, which is located in the fourth largest metropolitan area of the United States. The System serves the upper Texas Gulf Coast, and is part of the state supported system of higher education in Texas. The Station has no separate legal status or existence. As a component unit of the System, the station is exempt from Federal income tax.

The Station broadcasts in stereo on a frequency of 88.7 MHz, with 100,000 watts, from an antenna 1,671 feet high. The Station's closed-circuit sub-carrier is provided to Houston Taping for the Blind Reading service.

**KUHF (FM)**  
**(A Component Unit of the University of Houston System)**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2008 AND 2007**

**2. Summary of Significant Accounting Policies**

General

All financial accounting records of the Station are maintained by the System's Office of the Associate Vice Chancellor for Finance in accordance with accounting principles generally accepted in the United States of America for colleges and universities, as published by the National Association of College and University Business Officers, set forth in *College and University Business Administration*.

The assets, liabilities, and net assets (fund equity) are reported in a self-balancing fund. The operations of the Station are reported as an enterprise fund. This type of fund is used to account for any activity for which a fee is charged to external users for goods or services. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs. Enterprise funds are accounted for using the accrual basis of accounting whereby revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

Reporting guidelines

The System applies all applicable Governmental Accounting Standards Board (GASB) pronouncements and all applicable Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, unless they conflict or contradict GASB pronouncements. The System has elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB. Under GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the System is reported as a single purpose business-type activity entity. In addition, the Station's basic financial statements have been prepared in accordance with the Corporation for Public Broadcasting's "*Application Principles of Accounting and Financial Reporting to Public Telecommunications Entities*."

Net assets

*Invested in capital assets, net of related debt:* This represents the Station's total investment in capital assets, net of outstanding debt obligations that relate to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net assets invested in capital assets, net of related debt.

*Unrestricted net assets - expendable:* These net assets represent resources that are available for the support of the Station's operations.

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**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2008 AND 2007**

When the Station incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the Station's policy to use restricted resources first, then unrestricted resources.

Revenues

Operating revenues include sources that are primarily used to provide services to the Station's listeners. Substantially, all of the Station's revenues are considered operating.

Contributions and gifts are recorded as revenues when received. Unrestricted grants are recorded as revenues at the time the grant awards are received. Restricted support and revenues are recognized upon incurring the appropriate expenditures or meeting the conditions that satisfy the restrictions. Provisions for uncollectible receivables and recovery of amounts previously deemed uncollectible are recorded as reductions or increases in revenues in the year management determine that the provision is required or the recovery occurs.

Cash and cash equivalents

Cash and cash equivalents are considered to be claim on cash, cash on hand and demand deposits with original maturities of three months or less from the date of acquisition.

Capital assets

Capital assets represent equipment acquired primarily for the operation of the Station. Title to equipment rests with the State of Texas in the name of the System and, therefore, such assets can be transferred to or from the Station at the discretion of the System. The threshold for capitalization of assets is \$5,000 and over. Capital assets are stated at cost at the date of acquisition, or fair value at the date of donation. Expenditures for repairs and maintenance are charged to current operating expenses as incurred. Depreciation is recorded on a straight line basis over the following useful lives of the assets;

Buildings	22-30 years
Towers & transmitters	5-10 years
Broadcast & production equipment	5-10 years
Office furniture and equipment	5-10 years
Software	5 years

Useful lives are established by a uniform classification system maintained by the State of Texas and are measured from the date of acquisition.

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**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2008 AND 2007**

Accounts Receivable

Accounts receivable are stated at the amount billed to customers or grantors. Accounts receivable are ordinarily due 30 days after the issuance of an invoice. The Station provides an allowance for delinquent receivables, which is based upon a review of outstanding receivables, historical collections and existing economic conditions.

In-Kind Contributions

In-kind contributions of goods and services, including general support from the UH System which is further described in Note 6, are included in revenues and expenses in the statements of revenues, expenses and changes in net assets. The fair market value of merchandise contributed by third parties in connection with the Station's fundraising activities is not included in the financial statements. Donated in-kind contributions of services and other intangibles, as well as promotional merchandise, and donated personal services, are not included in the financial statements.

Employee's Compensable Leave

Station employees are classified as state employees and, as such, are entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from state employment, provided the employee has had continuous employment with the State for six months. An expense and liability are recorded as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Full-time State employees earn annual leave from 8 to 21 hours per month depending on the respective employees' years of state employment. The State's policy is that an employee may carry 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 is converted to sick leave at the conclusion of fiscal year. 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.

Advertising

Advertising costs are charged to current operations when incurred.

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**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2008 AND 2007**

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

New Accounting Pronouncements

In 2007, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Statement No. 49 identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. Under Statement No. 49, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted or if any of the following recognition triggers occur:

- Pollution poses an immediate danger to the public or environment and the governmental unit has little or no discretion to avoid fixing the problem.
- The governmental unit has violated a pollution prevention-related permit.
- A regulator has identified (or evidence indicates it will identify) the governmental unit as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the clean up.
- The governmental unit is named (or evidence indicates that it will be named) in a lawsuit to compel it to address the pollution.
- The governmental unit begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the government is legally required to complete).

Statement No. 49 will be effective for financial statements for periods beginning after December 15, 2007, but liabilities should be measured at the beginning of that financial statement period so that beginning net assets can be restated. The Station does not think that the adoption of Statement No. 49 will have any significant impact on its financial position, results of operations or cash flows upon adoption.

In January 2008, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance, to be applied in addition to the existing authoritative guidance for capital assets, include guidance on recognizing intangible assets in the statement of net assets, guidance on determining the useful life of intangible assets, and guidance on amortizing intangible assets. The

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**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2008 AND 2007**

requirements of Statement No. 51 are effective for financial statements for periods beginning after June 15, 2009. The Station does not think that the adoption of Statement No. 51 will have any significant impact on its financial position, results of operations or cash flows upon adoption

Reclassification

Certain prior year amounts were reclassified to conform to the current year presentation.

**3. Cash and Cash Equivalents**

Cash and cash equivalents represent the Station's prorated share of commingled cash and cash equivalents invested by the System to optimize the rate of return. Substantially all of the funds included in cash and cash equivalents are insured or registered, or are securities held by the System or its agent in the System's name.

Immediately upon formal written notification of an approved appropriation or grant, the System permits the Station to draw cash against the full appropriation or grant (in compliance with the terms of the appropriation or grant) regardless of whether the System has received the related funds.

For current unrestricted funds, the System allocates a percentage of the interest income earned to the Station at a fixed rate based on its monthly average cash balance.

**4. Accounts Receivable**

Accounts receivable as of August 31, 2008 and 2007 comprised the following:

	Balance August 31, 2008	Balance August 31, 2007
Accounts receivable	\$ 594,417	\$ 413,116
Allowance for doubtful accounts	(73,667)	(73,667)
	<u>\$ 520,750</u>	<u>\$ 339,449</u>

**KUHF (FM)**  
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**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2008 AND 2007**

**5. Capital Assets**

Capital asset activities for the year ended August 31, 2008 were as follows:

	Balance September 1, 2007	Additions	Deletions	Balance August 31, 2008
Furniture and equipment	\$ 1,355,804	\$ 155,493	\$ -	\$ 1,511,297
Less: accumulated depreciation	<u>1,160,163</u>	<u>68,500</u>	<u>-</u>	<u>1,228,663</u>
Net capital assets	<u>\$ 195,641</u>	<u>\$ 86,993</u>	<u>\$ -</u>	<u>\$ 282,634</u>

Capital asset activities for the year ended August 31, 2007 were as follows:

	Balance September 1, 2006	Additions	Deletions	Balance August 31, 2007
Furniture and equipment	\$ 1,315,102	\$ 40,702	\$ -	\$ 1,355,804
Less: accumulated depreciation	<u>1,099,763</u>	<u>60,400</u>	<u>-</u>	<u>1,160,163</u>
Net capital assets	<u>\$ 215,339</u>	<u>\$ (19,698)</u>	<u>\$ -</u>	<u>\$ 195,641</u>

**6. General Support from the System**

General support includes building and related occupancy costs donated by the System and are recorded in revenues and expenses at their estimated fair rental values based on the occupancy allowance computation permitted by the Corporation for Public Broadcasting. Building and related occupancy support amounted to \$163,821 and \$150,340 in 2008 and 2007, respectively. The System provides indirect administrative support and maintenance support to the Station, which are recorded in revenues and expenses based on the System's allocation methods. Indirect administrative support amounted to \$1,518,252 and \$1,155,640 in 2008 and 2007, respectively.



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**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2008 AND 2007**

**7. Corporation for Public Broadcasting Grant**

The Corporation for Public Broadcasting (“CPB”) is a private, nonprofit grant-making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (“CSGs”) to qualifying public broadcasting entities. CSGs are used to augment the financial resources of public broadcasting entities and thereby to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two federal fiscal years as described in the Communications Act, 47 United States Code Annotated, Section 396(k)(7). In any event, each grant must be expended within two years of the initial grant authorization.

According to the Communications Act, CSG funds may be used at the discretion of recipients for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with CSGs awarded in prior years.

Certain *General Provisions* must be satisfied in connection with application for and use of the grants to maintain eligibility and meet compliance requirements. These *General Provisions* pertain to the use of grant funds, record keeping, audits, financial reporting, mailing lists, and licensee status with the Federal Communications Commission.

**8. Pension Plan**

The Station participates in the State of Texas (the State) joint contributory retirement plans and thereby provides retirement plans for substantially all of its employees designated as “benefits eligible”. One of the primary plans in which the Station participates is administered by the Teacher Retirement System of Texas (the “TRS”). The TRS operates under the authority of provisions contained primarily in Texas Government code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. By statute, TRS participating employees must contribute 6.4 percent of their salary to the plan and the Station contributes an amount equal to 6 percent times the aggregate annual compensation during the fiscal year.

The TRS does not account for each of its component governmental agencies, since the TRS itself bears sole responsibility for retirement commitments beyond contributions fixed by the Texas State Legislature. Contributions to the plan by the Station amounted to \$143,710 and \$104,712 in 2008 and 2007, respectively.

According to an independent actuarial valuation as of August 31, 2008 and 2007, the present value of the TRS's actual and projected liabilities, including projected benefits payable to its

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**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2008 AND 2007**

retired and active members and their beneficiaries, was in excess of the TRS's assets. The actuary projected that such assets, augmented by projected future contributions and earnings, would not be sufficient to amortize the unfunded difference, assuming payroll growth of 3.0%. Although the TRS is a cost-sharing, multiple-employer defined benefit pension plan, the liability associated with this funding shortfall is not the responsibility of the Station. The TRS's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 877-0123.

The State of Texas has also established an Optional Retirement Program (the "ORP") for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS. The ORP provides for the purchase of annuity or mutual fund contracts.

For employees participating prior to September 1, 1995, the contributions to the ORP by the Station and by each participant during both fiscal year 2008 and 2007 were 8.50% of the participants' annual compensation. For employees hired on September 1, 1995, or later, the percentages of the Station's and participants contributions were 6.00% of the participants' annual compensation. Contributions to the plan by the Station amounted to \$16,948 and \$15,248 in 2008 and 2007, respectively. Since these are individual investment product contracts, the State has no additional or unfunded liability for the ORP.

**9. Leases**

The Station has entered into operating leases for various business purposes including a tower antenna, fundraising software, a utility van, fax and copy machine, and a web host connection in support of their operations. The lease expenses for 2008 and 2007 were \$128,387 and \$156,400 respectively.

Future minimum lease payments under operating leases are as follows:

<u>Year Ending August 31,</u>	<u>Amount</u>
2009	\$ 179,636
2010	157,254
2011	99,690
2012	101,349
2013	103,057
Thereafter	168,654
	<u>\$ 809,640</u>

**KUHF (FM)**  
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**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2008 AND 2007**

**10. Related Parties**

The Association for Community Broadcasting, (ACB) formerly known as the Association for Community Television was organized in 1969, as a Texas nonprofit corporation, primarily for the purpose of providing financial and other support to KUHT-TV, Channel 8, in Houston, Texas. On January 25, 2005, the Board of Regents of the System and ACB agreed that the same services provided to KUHT-TV would also be provided to KUHF (FM), FM Radio Station 88.7 and thus adopting the ACB name. The Station and KUHT-TV are ancillary enterprises of the System and both are non-commercial educational public broadcasting stations the licenses for which are held by the Board of Regents of the System.

The System and ACB, as part of an ongoing agreement, have stipulated that all grants for the Station's programming and other activities will be deposited with the System's Office of Sponsored Programs, or, at the discretion of the general manager of the Station, deposited in accounts maintained by ACB and immediately and exclusively available to the Station.

Cash expenditures made by ACB on behalf of the Station, such as expenditures associated primarily with fundraising for the Station and production of the Station's programs, are borne by the Station. Such cash expenditures for the fiscal years ended August 31 2008 and 2007 amounted to \$864,679 and \$508,166, respectively, and have been included in the contributions and production service revenues and in operating expenses in the statements of revenues expenses and changes in net assets. Total revenues including the amounts described above in this paragraph received by the Station through ACB for the fiscal years ended August 31 2008 and 2007 amounted to \$2,683,154 and \$983,166, respectively. At August 31, 2008 and 2007, there were no amounts due to or from ACB.

ACB is directed by a Board of Directors and is managed on a daily basis by a combination of Board officers and the Station's employees.

**11. Income Taxes**

The System of which the Station is a component unit is a university established as an agency of the State of Texas prior to 1969, and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provisions for income taxes have been made in the accompanying financial statements.

**SUPPLEMENTAL SCHEDULES**

KUHF (FM)  
(A Component Unit of the University of Houston System)

Statement of Functional Expenses

Year Ended August 31, 2008

	Program Services			Support Services			Total
	Production and Programming	Broadcast Engineering	Program Information	Fundraising & Membership Development	Underwriting and Grant Solicitation	Management and General	
Salaries and wages	\$ 1,224,249	\$ 190,450	\$ 214,889	\$ 405,325	\$ 213,066	\$ 364,151	\$ 2,612,130
Fringe benefits	333,215	52,916	62,744	104,067	6,913	85,980	645,835
Broadcasting fees	1,187,025	122,111	4,592	862	-	-	1,314,590
Financial and legal services	4,481	544	-	107,047	6,646	57,673	176,391
Fundraising	37,725	-	8,508	266,196	2,811	1,015	316,255
Membership fees	56,555	-	22,423	3,115	-	21,145	103,238
Other expenses	20,631	5,799	6,555	34,943	11,463	93,118	172,509
Postage	2,272	526	4,798	123,690	797	1,382	133,465
Printing and reproduction services	2,837	-	5,007	185,590	849	6,220	200,503
Professional services	81,355	27,074	45,915	167,629	750	22,382	345,105
Rental and leases	3,003	6,600	38,589	76,232	-	11,971	136,395
Repair and maintenance	4,367	26,985	-	583	2,495	24,288	58,718
Supplies and materials	27,771	88,581	4,260	14,669	222	82,380	217,883
Telemarketing Services	-	-	-	7,819	-	-	7,819
Telephone	46,406	22,804	3,965	57,659	3,030	10,177	144,041
Travel	47,046	1,805	11,065	69,866	11,691	7,919	149,392
Utilities	-	223,535	-	-	-	-	223,535
Bad debt	-	-	-	-	-	-	-
Total	\$ 3,078,938	\$ 769,730	\$ 433,310	\$ 1,625,292	\$ 260,733	\$ 789,801	\$ 6,957,804
In-Kind:							
General Support from the System	-	163,821	-	-	-	1,518,252	1,682,073
Total expenses before depreciation	\$ 3,078,938	\$ 933,551	\$ 433,310	\$ 1,625,292	\$ 260,733	\$ 2,308,053	\$ 8,639,877
	36%	11%	5%	19%	3%	27%	100%

*The accompanying notes are an integral part of the basic financial statements*

KUHf (FM)  
(A Component Unit of the University of Houston System)

Statement of Functional Expenses

Year Ended August 31, 2007

	Program Services				Support Services				Total
	Programming and Production	Broadcast Engineering	Program Information	Total	Fundraising & Membership Development	Underwriting and Grant Solicitation	Management and General	Total	
Salaries and wages	\$ 1,068,027	\$ 155,301	\$ 135,571	\$ 1,358,899	\$ 199,093	\$ 204,168	\$ 370,370	\$ 773,631	\$ 2,132,530
Fringe benefits	238,683	38,300	25,186	302,169	43,020	96,574	118,019	257,613	559,782
Broadcasting fees	1,028,132	-	-	1,028,132	50,617	-	-	50,617	1,078,749
Financial and legal services	2,649	839	-	3,488	42,619	6,182	7,691	56,492	59,980
Fundraising	1,710	-	46,042	47,752	104,998	1,001	768	106,767	154,519
Membership fees	25,983	-	2,000	27,983	91,722	782	-	92,504	120,487
Other expenses	26,321	2,544	46,840	75,705	63,644	11,293	78,564	153,501	229,206
Postage	827	1,252	2,976	5,055	46,738	534	292	47,564	52,619
Printing and reproduction services	2,654	-	6,821	9,475	62,194	2,650	5,151	69,995	79,470
Professional services	45,063	-	50,059	95,122	229,692	33,272	48,541	311,505	406,627
Rental and leases	13,058	40,448	-	53,506	13,077	-	12,835	25,912	79,418
Repair and maintenance	-	(5,884)	40	(5,844)	100	-	37,034	37,134	31,290
Supplies and materials	16,333	79,314	5,061	100,708	19,637	2,883	44,517	67,037	167,745
Telephone	35,108	16,251	3,551	54,910	53,550	4,597	11,624	69,771	124,681
Travel	21,948	-	5,243	27,191	16,974	5,016	8,453	30,443	57,634
Utilities	-	221,578	-	221,578	-	-	-	-	221,578
Bad debt	-	-	-	-	-	-	21,210.00	21,210	21,210
<b>Total</b>	<b>2,526,496</b>	<b>549,943</b>	<b>329,390</b>	<b>3,405,829</b>	<b>1,037,675</b>	<b>368,952</b>	<b>765,069</b>	<b>2,150,486</b>	<b>5,577,525</b>
In-Kind:									
General support from the System	-	150,340	-	150,340	-	-	1,155,640	1,155,640	1,305,980
Total expenses before depreciation	\$ 2,526,496	\$ 700,283	\$ 329,390	\$ 3,556,169	\$ 1,037,675	\$ 368,952	\$ 1,920,709	\$ 3,306,126	\$ 6,883,505
	37%	10%	5%	52%	15%	5%	28%	48%	100%

*The accompanying notes are an integral part of the basic financial statements*

**KUHT (TV)**  
(A Component Unit of the University of Houston System)

**Financial Statements And  
Independent Auditors' Report**

**Years Ended August 31, 2008 and 2007**

**KUHT (TV)**  
(A Component Unit of the University of Houston System)

**FINANCIAL STATEMENTS**

**Years Ended August 31, 2008 and 2007**

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McCONNELL & JONES<sub>LLP</sub>  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

To the Board of Regents of  
the University of Houston System  
Houston, Texas

We have audited the accompanying statements of net assets of KUHT (TV) (the "Station"), a component unit of the University of Houston System (the "System"), as of August 31, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Station's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Station as of August 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Station's basic financial statements. The supplemental schedules on page 27 and 28 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis on pages 2 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Houston, Texas  
January 16, 2009

**KUHT (TV)**  
(A Component Unit of the University of Houston System)

**Management's Discussion And Analysis**  
**Years Ended August 31, 2008 And 2007**

**Introduction**

The following Annual Financial Statements provide an overview of the activities and financial position of KUHT (TV) (the "Station" or KUHT), for the fiscal years ended August 31, 2008 and 2007. This Management's Discussion and Analysis is intended to offer a summary of significant current year activities, resulting changes, and currently known economic conditions and facts. This analysis should be read in conjunction with the Station's financial statements and the notes to the financial statements. Responsibility and fairness of the information rests with the Station.

**Overview of the Financial Statements**

The Station herewith presents its financial statements for fiscal years 2008 and 2007. The financial statements for both fiscal years have been prepared in accordance with Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Governmental Accounting Standards Board Statement No. 35 (GASB 35), *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The three primary financial statements presented are the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. The information contained in the financial statements of the Station is incorporated within the University of Houston System's Annual Financial Report.

The financial operations of the Station are considered a business-type activity in accordance with the criteria established by GASB 34. The Station's largest source of revenue is membership and subscriptions which are used to pay for a majority of the cost of the services provided. Additionally, donor contributions are also received from supporting sponsor businesses and organizations to supplement the cost of services. Under this classification, the Station's financial statements conform to the guidelines and presentation formats prescribed for Enterprise Funds, also referred to as Proprietary Funds. Revenues and expenses are classified as either operating or non-operating in the current financial statements.

**Statement of Net Assets**

The Statement of Net Assets reflects the Station's assets and liabilities using the full accrual basis of accounting, and represents financial position as of the conclusion of the fiscal year. Assets and liabilities are presented as either current or non-current to provide an indication of their anticipated liquidation. Net Assets are equal to assets minus liabilities. Unrestricted net assets are available to the Station for any lawful purpose. Unrestricted net assets often have constraints on resources, which are imposed by management, but can be removed or modified.

**KUHT (TV)**  
(A Component Unit of the University of Houston System)

**Management's Discussion And Analysis**  
**Years Ended August 31, 2008 And 2007**

Statements of Net Assets

	2008	2007	2006	2008-2007 Change	2007-2006 Change
<b>Assets</b>					
Current assets	\$ 1,489,792	\$ 1,510,376	\$ 1,902,978	\$ (20,584)	\$ (392,602)
Other non-current assets	9,976,601	10,637,197	10,980,755	(660,596)	(343,558)
<b>Total Assets</b>	<u>11,466,393</u>	<u>12,147,573</u>	<u>12,883,733</u>		
<b>Liabilities</b>					
Current liabilities	3,136,671	3,182,962	2,756,706	(46,291)	426,256
<b>Total Liabilities</b>	<u>3,136,671</u>	<u>3,182,962</u>	<u>2,756,706</u>		
<b>Net assets:</b>					
Invested in capital assets, net of related debt	9,783,983	10,335,172	10,870,357	(551,189)	(535,185)
Restricted for Endowment Funds	47,256	53,429	49,054	(6,173)	4,375
Unrestricted	(1,501,517)	(1,423,990)	(792,384)	(77,527)	(631,606)
<b>Total net assets</b>	<u>8,329,722</u>	<u>8,964,611</u>	<u>10,127,027</u>		
<b>Total liabilities and net assets</b>	<u>\$ 11,466,393</u>	<u>\$ 12,147,573</u>	<u>\$ 12,883,733</u>		

Fiscal Year 2008 Compared to 2007:

- Non current assets decreased due to the reduction of purchased program rights. In order to reduce spending less national programs were purchased.
- Depreciation expenses outpaced new additions, thus contributing to an overall decline the value of capital assets.

Fiscal Year 2007 Compared to 2006:

- The decrease in current assets was due to the unprojected revenue shortfalls in several areas of fundraising, combined with increased costs in staffing and program rights.

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

The Statement of Revenues, Expenses, and Changes in Net Assets identifies operating revenues received by the Station. Additionally, the operating expenses incurred by the Station during the fiscal year are displayed. Finally, any other gains and losses or other forms of revenue and expense are reported. Non-operating revenues are those received for which no services are directly provided. Any revenues or expenses resulting from other than operations would also be displayed on this statement.

**KUHT (TV)**  
(A Component Unit of the University of Houston System)

**Management's Discussion And Analysis**  
**Years Ended August 31, 2008 And 2007**

Statements of Revenues, Expenses and Changes in Net Assets

	2008	2007	2006	2008-2007 Change	2007-2006 Change
Operating revenues:	\$ 11,499,049	\$ 11,424,718	\$ 10,857,313	\$ 74,331	\$ 567,405
Operating expenses:	12,216,586	12,631,689	11,879,232	(415,103)	752,457
Change in net assets	<u>(717,537)</u>	<u>(1,206,971)</u>	<u>(1,021,919)</u>	489,434	(185,052)
Non-operating revenues (expenses)					
Interest	12,434	38,721	-		
Net increase in fair value of endowed funds	70,214	5,834	127,877		
Change in net assets	<u>(634,889)</u>	<u>(1,162,416)</u>	<u>(894,042)</u>		
Net assets, beginning of year	<u>8,964,611</u>	<u>10,127,027</u>	<u>11,021,069</u>		
Net assets, end of year	<u>\$ 8,329,722</u>	<u>\$ 8,964,611</u>	<u>\$ 10,127,027</u>		

Fiscal Year 2008 Compared to 2007:

- Overall operating revenue increased slightly during FY 2008. There was a 4% increase in individual giving. The reduction of equipment grants received as compared with those received in FY 2007 offset the overall increase of operating revenues.
- Operating expenses decreased due to the reduction in force in August 2007. Also, there was a general cutback of expenditures and travel to compensate for increased expenses related to digital television production, broadcasting and electricity.
- Non operating revenue decreased as the market downturn effected endowment funds.

Fiscal Year 2007 Compared to 2006:

- Operating revenues increased over five percent. The increase was largely due to the increased indirect support by the University and a nine percent increase in individual gifts and contributions.
- Operating expenses grew over ten percent due to increased costs in staffing and a five percent increase in programming costs paid to Public Broadcasting Service (PBS). The increase in the UH Systems's indirect administrative support also contributed to the increased operating expenses.

**KUHT (TV)**  
(A Component Unit of the University of Houston System)

**Management's Discussion And Analysis**  
**Years Ended August 31, 2008 And 2007**

Operating revenues include sources that are primarily used to provide services to the Station's viewers and are as follows:

Operating revenues:

	2008	2007	2006	2008-2007 Change	2007-2006 Change
Contributions from Individuals	\$ 6,238,215	\$ 6,004,752	\$ 5,701,393	\$ 233,463	\$ 303,359
General support from the UH System	2,405,251	2,354,035	2,048,917	51,216	305,118
Program underwriting	429,039	415,233	559,323	13,806	(144,090)
Corporation for Public Broadcasting grants (CPB)	1,408,831	1,670,714	1,577,543	(261,883)	93,171
Other	1,017,713	979,984	970,137	37,729	9,847
Total operating revenues	<u>\$ 11,499,049</u>	<u>\$ 11,424,718</u>	<u>\$ 10,857,313</u>		

Fiscal Year 2008 Compared to 2007:

- Contributions from individuals increased by about 5%. Although there were no major bequests as in FY 2007 and 2006 there were a couple of large individual gifts by major donors.
- In FY 2007 a \$280k grant was received from the Corporation for Public Broadcasting for capital digital television equipment. No new capital equipment grants were received in FY 2008

Fiscal Year 2007 Compared to 2006:

- Overall operating revenues increased by approximately five and a half percent from 2006.
- Program underwriting revenues fell considerably short of projections due to inadequate staffing.
- A large percentage of the increase is due to the increase in the University's indirect support funds.

Operating expenses are the costs necessary to provide those services and to fulfill the mission of the Station. Operating expenses are displayed in the statement using the functional method of classification. Alternatively, operating expenses categorized using the natural classification method is disclosed in the Statement of Functional Expenses.

**KUHT (TV)**  
(A Component Unit of the University of Houston System)

**Management's Discussion And Analysis**  
**Years Ended August 31, 2008 And 2007**

Operating Expenses

	2008	2007	2006	2008-2007 Change	2007-2006 Change
Programming and production	\$ 3,382,943	\$ 3,668,343	\$ 3,401,320	\$ (285,400)	\$ 267,023
Broadcasting, engineering, and technical	2,182,172	2,015,653	1,788,118	166,519	227,535
Program information	609,988	651,492	590,990	(41,504)	60,502
Fundraising and membership development	2,462,092	2,476,215	2,283,028	(14,123)	193,187
Underwriting and grant solicitation	97,578	104,598	129,541	(7,020)	(24,943)
Management and general	2,719,655	2,880,190	2,700,075	(160,535)	180,115
Depreciation and amortization	762,158	835,198	986,160	(73,040)	(150,962)
Total operating expenses	<u>\$ 12,216,586</u>	<u>\$ 12,631,689</u>	<u>\$ 11,879,232</u>		

Fiscal Year 2008 Compared to 2007:

- Programming and production expenses decreased significantly by the a reduction in force in August 2007. Expenses were further reduced by a reduction in program rights purchases and travel.
- Broadcasting, engineering and technical expenses increased due to rising utility costs and increased supplies and maintenance services related to the digital transition.
- Management and general expenses decreased due to the in-kind gift of a digital microwave transmitter and receiver for \$92,960. Also, no additional bad debt accrual was necessary.

Fiscal Year 2007 Compared to 2006:

- Overall operating expenses increased over six percent from 2006.
- Programming expenses increased substantially due to a five percent increase in broadcast rights to PBS.
- Program information expenses increased due to the addition of a communications director to guide greater community visibility.
- The large increase in management and general expenses is due to the increased indirect support from the UH System.

**Statement of Cash Flows**

The Statement of Cash Flows explains the change during the fiscal year in cash and cash equivalents, regardless of whether there are restrictions on their use. The Statement of Cash Flows should be used in conjunction with related disclosures and information in the other financial statements. The statement can provide relevant information about the Station, such as its ability to generate future net cash flows, the ability to meet obligations when due, or reasons for differences between operating income and associated cash receipts and payments.

**KUHT (TV)**  
(A Component Unit of the University of Houston System)

**Management's Discussion And Analysis**  
**Years Ended August 31, 2008 And 2007**

Statement of Cash Flows:

	2008	2007	2006	2008-2007 Change	2007-2006 Change
Net cash provided by/(used in) operating activities	\$ 214,393	\$ (842,321)	\$ (189,913)	\$ 1,056,714	\$ (652,408)
Cash flows from capital and related financing activities	(285,557)	331,672	191,547	(617,229)	140,125
Cash flows from investing activities	82,643	44,551	127,877	38,092	(83,326)
Increase/(decrease) in cash and cash equivalents	11,479	(466,098)	129,511		
Cash and cash equivalents, beginning of year	347,562	813,660	733,203		
Cash and cash equivalents, end of year	<u>\$ 359,041</u>	<u>\$ 347,562</u>	<u>\$ 862,714</u>		
Reconciliation of operating income to net cash provided by operating activities:					
Operating loss	\$ (717,537)	\$ (1,206,971)	\$ (1,021,919)	\$ 489,434	\$ (185,052)
Amortization and depreciation	823,545	835,198	986,160	(11,653)	(150,962)
Bad debt expense	-	41,120	-	(41,120)	41,120
Net change in assets and liabilities	108,385	(511,668)	(154,154)	620,053	(357,514)
Net cash provided by/(used in) operating activities	<u>\$ 214,393</u>	<u>\$ (842,321)</u>	<u>\$ (189,913)</u>		

Fiscal Year 2008 Compared to 2007:

- Proceeds from membership and major gifts increased in FY 2008 due to increased fundraising activities.
- Proceeds from other revenues increased due to the addition new fundraising special events in 2008.
- Payments to employees decreased due to the reduction in force in August 2007.

Fiscal Year 2007 Compared to 2006:

- Net cash (used in) provided by operating activities difference between FY 2007 and FY 2006 is \$648,033 negative. The variance is related increase of cash received from our receivable, a decrease on our payments from our payables.
- Cash flows from capital and related financing activities positive variance of \$56,799 are related to a decrease on the capital assets activity in FY 2007 and FY 2006 and increase on the advances from the UH System (claim on cash).

**Capital Assets**

As of the end of the 2008 fiscal years, the Station had \$9,783,983 of capital assets, net of accumulated depreciation. These assets included land, buildings, furniture and equipment, and construction-in-progress.

**KUHT (TV)**  
(A Component Unit of the University of Houston System)

**Management's Discussion And Analysis**  
**Years Ended August 31, 2008 And 2007**

Title to these assets resides with the University, which allocates custody of the assets to the Station for its operational needs. Accountability for capital assets is consistent with policies established by the State of Texas. Assets are depreciated over their recommended useful lives. The Station capitalizes assets when the acquisition cost exceeds certain threshold values.

**Debt Administration**

The Station does not separately issue long-term debt. The Station is not currently engaged in any long-term financing transactions. The operating budget for the Station is currently structured such that annual financial obligations are satisfied through revenues and non-operating additions that are received during each current fiscal year.

**Economic Outlook**

Since its first moment on-air in 1953, KUHT has remained true to its mission to assure public engagement through programs and services that enlighten, educate and inform. From its roots in instructional television, KUHT has always endeavored to be more than just a program delivery system, more than just another channel on the dial, and early on embraced the idea that television can be used to inspire, empower and encourage people to act on their dreams.

Alone among American broadcasters and cable services, public television is directly accountable to the viewers, who represent the full diversity of our communities' cultural and ethnic structure, and who, together, constitute the Station's single largest source of support. At the core of KUHT's mission and tradition is life-long education - that is our legacy and our strength. A commitment to the communities that support KUHT to reflect their cultural values, needs and aspirations informs all programming and service decisions. Hallmarks of our service include programs about and in support of education, health, America's international roles, government, environment, history, economics, culture and children.

We seek to fulfill these objectives with programs and services of consequence, excellence and innovation. We also specifically serve the needs and interests of the underserved in our communities - women, ethnic minorities and the underprivileged.

The Station's current financial position continues to be stable. Fundraising efforts were stretched and challenged in fiscal year 2008 due to added financial burdens being placed on the station to finish preparations for the DTV conversion on February 17, 2009. KUHT had to raise a considerable amount of equipment matching funds to accomplish this, in addition to our normal operating budget.

The impact of new digital technologies continue to allow the Station to develop potential new revenue streams from non-traditional sources, allowing multiple streams of programming on our



**KUHT (TV)**  
(A Component Unit of the University of Houston System)

**Management's Discussion And Analysis**  
**Years Ended August 31, 2008 And 2007**

broadcast spectrum, and data-casting, which is the delivery of digitized file content simultaneously with the broadcast program streams. As KUHT continues relationships with entities like the Department of Homeland Security, PBS National Datacast, TEA, and others, the future is good for digital service delivery as we search for a solid business model for these initiatives. In addition, seeking funding for local and national production efforts will help offset operating costs incurred for production activities.

KUHT has positioned itself in our budget activities to accommodate the impact of the economy and the digital transition on our viewership, and possible membership revenue decline during FY2009. In addition, we expect to see a pullback in corporate on-air underwriting. The Station's senior management team is implementing the strategic plan for the organization, as well as updating and revising the plan through a new strategic planning process, better aligning the needs of our communities that we serve with our resources and capabilities. A conservative budget projection, combined with a strategy to build new relationships, will help to allow KUHT to accomplish budgetary goals and fulfill the Station's service mission to the communities of Southeast Texas. The Station will continue to perform in a manner that deserves this level of confidence.

## Basic Financial Statements

**KUHT (TV)**  
**(A Component Unit of the University of Houston System)**

**Statements of Net Assets**  
**August 31, 2008 and 2007**

	2008	2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 359,041	\$ 347,562
Accounts receivable	1,033,495	1,059,385
Pledge receivable	50,000	50,000
Film rights, net	52,803	61,387
Total current assets	1,495,339	1,518,334
Non-current assets:		
Pledge receivable	130,961	178,981
Capital assets, net	9,783,983	10,335,172
Film rights, net	8,854	61,657
Assets restricted for endowment	47,256	53,429
Total non-current assets	9,971,054	10,629,239
Total assets	11,466,393	12,147,573
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	57,901	47,563
Accrued payroll	263,585	266,583
Due to the System	2,529,534	2,604,118
Employees' compensable leave	285,651	264,698
Total current liabilities	3,136,671	3,182,962
Total liabilities	3,136,671	3,182,962
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	9,783,983	10,335,172
Restricted for endowment funds		
Expendable	3,817	4,510
Nonexpendable	43,439	48,919
Unrestricted	(1,501,517)	(1,423,990)
Total net assets	\$ 8,329,722	\$ 8,964,611

*The accompanying notes are an integral part of the basic financial statements*

**KUHT (TV)**  
**(A Component Unit of the University of Houston System)**

**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended August 31, 2008 and 2007**

	2008	2007
<b>Operating revenues</b>		
Contributions from individuals	\$ 6,238,215	\$ 6,004,752
General support from the System	2,405,251	2,354,035
Program underwriting	429,039	415,233
Production services	550,213	319,361
Corporation for Public Broadcasting grants	1,408,831	1,670,714
Other grants	-	27,963
Special events	331,352	279,705
Gifts	-	232,786
Rental income	300	3,919
Royalties	45,127	44,212
Other	90,721	72,038
Total operating revenues	11,499,049	11,424,718
<b>Operating expenses</b>		
Programming and production	3,382,943	3,668,343
Broadcasting, engineering and technical	2,182,172	2,015,653
Program information	609,988	651,492
Fundraising and membership development	2,462,092	2,476,215
Underwriting and grant solicitation	97,578	104,598
Management and general	2,719,655	2,880,190
Depreciation and amortization	762,158	835,198
Total operating expenses	12,216,586	12,631,689
Operating loss	(717,537)	(1,206,971)
<b>Non-operating revenues</b>		
Interest income	12,434	38,721
Income allocation from endowed cash assets	70,214	5,834
Total non-operating revenues	82,648	44,555
<b>Change in net assets</b>	(634,889)	(1,162,416)
<b>Net assets, beginning of year</b>	8,964,611	10,127,027
<b>Net assets, end of year</b>	\$ 8,329,722	\$ 8,964,611

*The accompanying notes are an integral part of the basic financial statements*

**KUHT (TV)**  
**(A Component Unit of the University of Houston System)**

**Statements of Cash Flows**  
**Years Ended August 31, 2008 and 2007**

	2008	2007
<b>Cash flows from operating activities:</b>		
Proceeds received from membership	\$ 6,270,645	\$ 5,646,438
Proceeds from CPB grant	1,506,501	1,670,714
Proceeds from other grant programs	-	27,963
Proceeds from program underwriting	531,361	415,233
Proceeds from other revenues /receipts	1,017,713	840,354
Payments to suppliers for goods and services	(3,635,789)	(3,708,104)
Payments to employees	(3,550,665)	(3,989,242)
Payments for broadcasting fees	(1,739,985)	(1,741,302)
Payments for other expenses	(185,388)	(4,375)
Net cash provided by/(used in) operating activities	214,393	(842,321)
<b>Cash flows from capital and related financing activities</b>		
(Payments to)/advances from the System	(74,584)	644,327
Payments for additions of film rights	-	(12,646)
Payments to acquire capital assets	(210,973)	(300,009)
Net cash (used in)/provided by capital and financing activities	(285,557)	331,672
<b>Cash flows from investing activities</b>		
Income received from endowed cash assets	82,643	44,551
Cash provided by investing activities	82,643	44,551
<b>Increase/(decrease) in cash and cash equivalents</b>	11,479	(466,098)
<b>Cash and cash equivalents, beginning of year</b>	347,562	813,660
<b>Cash and cash equivalents, end of year</b>	\$ 359,041	\$ 347,562

*The accompanying notes are an integral part of the basic financial statements*

**KUHT (TV)**  
**(A Component Unit of the University of Houston System)**

**Statements of Cash Flows, Continued**  
**Years Ended August 31, 2008 and 2007**

Reconciliation of Operating Loss to Net Cash Provided by/(Used in) Operating Activities:

	2008	2007
Operating loss	\$ (717,537)	\$ (1,206,971)
Amortization and depreciation	762,158	835,198
Amortization of film rights	61,387	-
Changes in assets and liabilities:		
Increase in accounts receivable	32,071	(23,496)
Increase in pledge receivable	48,020	(228,981)
Increase (decrease) in accounts payable	10,338	14,064
(Decrease) increase in accrued payroll	(2,998)	(41,715)
Increase in employees' compensable leave	20,954	13,373
(Decrease) increase in deferred revenues	-	(203,793)
Total adjustments	931,930	364,650
Net cash provided by/(used in) operating activities	\$ 214,393	\$ (842,321)

*The accompanying notes are an integral part of the basic financial statements*

**KUHT (TV)**  
**(A Component Unit of the University of Houston System)**

**Notes To Financial Statements**

**Years Ended August 31, 2008 And 2007**

**1. Entity**

KUHT (TV) (the "Station"), a non-commercial viewer-supported television station, serves as Houston's Public Broadcasting Service (PBS) affiliate. KUHT (TV) signed on the air on May 25, 1953 as the nation's first non-commercial educational television station. PBS provides the building blocks for the Station's schedule with programs selected primarily for their appeal to a national audience; programs chosen on the basis of quality and audience interests and presented uninterrupted by commercial announcements. Locally produced programming and acquired programs compliment the national service. In carrying on its instructional roots, the Station continues to provide formal education through the broadcast of the System's telecourses.

In pursuing all the Station's disparate goals, the Station has consistently used cutting-edge technology to extend the value of its services. The Station was the first Houston television station to offer closed captioning for hearing impaired viewers and descriptive video for visually impaired people. The Station is also the first in Houston to offer stereo broadcasts and the first to make use of the Second Audio Program capabilities to provide additional services to the Greater Houston area including access to the Houston Taping for the Blind radio service.

The Station is a member organization of PBS, a private, non-profit corporation whose members are America's public television stations. PBS provides quality television programming and related services to 354 non-commercial PBS stations serving all 50 states, Puerto Rico, the U.S. Virgin Islands, Guam and America Samoa. PBS oversees program acquisition, distribution and promotion, education services, new media ventures, fundraising support, engineering and technology development, and video marketing.

The Station is licensed by the Federal Communications Commission to the Board of Regents of the UH System and is a component unit of the System. It is located in the fourth largest metropolitan area of the United States. The System serves the upper Texas Gulf Coast, and is part of the state-supported system of higher education in Texas. As a component unit of the System, the Station is exempt from Federal income taxes.

The Station broadcasts on analog station KUHT (TV), Channel 8 and digital station KUHT-DT, Channel 9. Both are non-commercial, VHF television broadcast stations. KUHT (TV) and KUHT-DT's transmitters, transmission line, and antenna are located 1,850 feet above average terrain near Missouri City, Texas, southwest of Houston, about thirteen miles from the LeRoy and Lucile Melcher Center for Public Broadcasting, located on the Central campus of the System. The broadcast signal reaches thirty-three counties in southeast Texas.

**KUHT (TV)**  
**(A Component Unit of the University of Houston System)**

**Notes To Financial Statements**

**Years Ended August 31, 2008 And 2007**

**2. Summary of Significant Accounting Policies**

Reporting guidelines

The System applies all applicable Governmental Accounting Standard Board (GASB) pronouncements and all applicable Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, unless they conflict or contradict GASB pronouncements. The System has elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB. Under GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the System of which the Station is a component unit is reported as a single purpose business-type activity entity. In addition, the Station's basic financial statements have been prepared in accordance with the Corporation of Public Broadcasting's *Application Principles of Accounting and Financial Reporting to Public Telecommunications Entities*.

Basis of Accounting

All financial accounting records of the Station are maintained by the System's Office of the Associate Vice Chancellor for Finance in accordance with generally accepted accounting principles in the United States of America for colleges and universities, as published by the National Association of College and University Business Officers, set forth in *College and University Business Administration*. Revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

Net assets

*Invested in capital assets, net of related debt.* This represents the Station's total investment in capital assets, net of outstanding debt obligations that relate to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net assets invested in capital assets, net of related debt.

*Restricted net assets – nonexpendable:* Restricted nonexpendable net assets are subject to externally imposed provisions that require the Station to permanently maintain such net assets. The corpus of the Station's endowments is included in nonexpendable net assets.

*Restricted net assets - expendable:* Restricted expendable net assets represent income received from an endowment, which is available for purposes restricted by the donor.

*Unrestricted net assets:* Unrestricted net assets represent resources that are available for the support of the Station's operations.



**KUHT (TV)**  
**(A Component Unit of the University of Houston System)**

**Notes To Financial Statements**

**Years Ended August 31, 2008 And 2007**

When the Station incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the Station's policy to use restricted resources first, then unrestricted resources.

Revenues

Operating revenues include sources that are primarily used to provide services to the Station's audience. Substantially, all of the Station's revenues are considered operating with the exception of net change in fair value of endowments.

Unrestricted contributions and gifts are recorded as revenues when received. Unrestricted grants are recorded as revenues at the time the grant awards are received. Restricted support and revenues are recognized upon incurring the appropriate expenditures or meeting the conditions that satisfy the restrictions.

Accounts Receivable

Accounts receivable are stated at the amount billed to customers or grantors. Accounts receivable are ordinarily due 30 days after the issuance of an invoice. The Station provides an allowance for delinquent receivables, which is based upon a review of outstanding receivables, historical collections and existing economic conditions.

Pledge Receivable

Unconditional promises to give (pledges) that are measurable are recorded after being discounted to the anticipated net present value of the future cash flows. The Station provides an allowance for estimated uncollectible pledges, which is based upon a review of outstanding pledges receivable, historical collections and existing economic conditions.

Cash and cash equivalents

Cash and cash equivalents are considered to be claims on cash, cash on hand and demand deposits with original maturities of three months or less from the date of acquisition.

**KUHT (TV)**  
**(A Component Unit of the University of Houston System)**

**Notes To Financial Statements**

**Years Ended August 31, 2008 And 2007**

Buildings and equipment

Buildings and equipment represent assets acquired primarily for the operation of the Station. Title to buildings and equipment rests with the State of Texas in the name of the System and, therefore, such assets can be transferred to or from the Station at the discretion of the System. The threshold for capitalization of assets is \$5,000 and over. Capital assets are stated at cost at the date of acquisition, or fair value at the date of donation. Expenditures for repairs and maintenance are charged to current operating expenses as incurred. Depreciation is recorded on a straight line basis over the following useful lives of the assets:

Buildings	22-30 years
Towers & transmitters	5-10 years
Broadcast & production equipment	5-10 years
Office furniture and equipment	5-10 years
Software	5 years

Useful lives are established by a uniform classification system maintained by the State of Texas and are measured from the date of acquisition.

Program rights

Program rights purchased are amortized over the respective contract periods on a straight-line basis or over the period of expected usage. Estimated useful lives of such rights range from one to five years.

In-kind contributions

In-kind contributions, included in revenues and expenses in the statements of revenues, expenses and changes in net assets, consist of general support from the System which is further described in Note 7, and the fair market value of donated advertising expenses.

The fair market value of merchandise contributed by third parties in connection with the Station's fundraising activities is not included in the financial statements. Donated in-kind contributions of services and other intangibles, as well as promotional merchandise, and donated personal services, are also not included in the financial statements.

Unearned Revenues

Grant and program underwriting revenues received and related to the period after fiscal year end are reported as unearned revenues.

**KUHT (TV)**  
**(A Component Unit of the University of Houston System)**

**Notes To Financial Statements**

**Years Ended August 31, 2008 And 2007**

Advertising

Advertising costs are charged to operations when incurred.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

Employees' Compensable Leave

Station employees are classified as state employees and, as such, are entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from state employment, provided the employee has had continuous employment with the State for six months. An expense and liability are recorded as the benefits accrue to employees. 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 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 is converted to sick leave at the conclusion of fiscal year. 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.

New Accounting Pronouncements

In 2007, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Statement No. 49 identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. Under Statement No. 49, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted or if any of the following recognition triggers occur:

- Pollution poses an immediate danger to the public or environment and the governmental unit has little or no discretion to avoid fixing the problem.
- The governmental unit has violated a pollution prevention-related permit.
- A regulator has identified (or evidence indicates it will identify) the governmental unit as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the clean up.

**KUHT (TV)**  
**(A Component Unit of the University of Houston System)**

**Notes To Financial Statements**

**Years Ended August 31, 2008 And 2007**

- The governmental unit is named (or evidence indicates that it will be named) in a lawsuit to compel it to address the pollution.
- The governmental unit begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the government is legally required to complete).

Statement No. 49 will be effective for financial statements for periods beginning after December 15, 2007, but liabilities should be measured at the beginning of that financial statement period so that beginning net assets can be restated. The Station does not think that the adoption of Statement No. 49 will have any significant impact on its financial position, results of operations or cash flows upon adoption.

In January 2008, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance, to be applied in addition to the existing authoritative guidance for capital assets, include guidance on recognizing intangible assets in the statement of net assets, guidance on determining the useful life of intangible assets, and guidance on amortizing intangible assets. The requirements of Statement No. 51 are effective for financial statements for periods beginning after June 15, 2009. The Station does not think that the adoption of Statement No. 51 will have any significant impact on its financial position, results of operations or cash flows upon adoption.

Reclassification

Certain prior year amounts were reclassified to conform to the current year presentation.

**3. Cash and Cash Equivalents**

Cash and cash equivalents represent the Station's prorated share of commingled cash and cash equivalents invested by the System to optimize the rate of return. Substantially all of the funds included in cash and cash equivalents are insured or registered, or are securities held by the System or its agent in the System's name.

Immediately upon notification of an approved appropriation or grant, the System permits the Station to draw cash against the full appropriation or grant (in compliance with the terms of the appropriation or grant) regardless of whether the System has received the related funds.

For current unrestricted and restricted funds, the System allocates a percentage of the interest income earned to the Station at a fixed rate based on its monthly average cash balance. Included in cash and cash equivalents is the Station's claim on cash in the System's Endowment Fund, representing the net assets of the Station's quasi endowments pooled in the System's Endowment Fund.

**KUHT (TV)**  
**(A Component Unit of the University of Houston System)**

**Notes To Financial Statements**

**Years Ended August 31, 2008 And 2007**

The System's Endowment Fund allocates income (net of management fees) to the individual endowments based on an income allocation policy that establishes the income payment rate as a percentage on the average of the outstanding endowments' fair value in the previous three fiscal years. That percentage was 5% in fiscal years 2008 and 2007. If an endowment were in existence less than three years, the average was based on the number of years in existence.

**4. Accounts Receivable**

Accounts receivable as of August 31, 2008 and 2007 were comprised of the following:

	Balance August 31, 2008	Balance August 31, 2007
Receivable on endowed assets	\$ -	\$ 2,081
Contributions receivables	1,175,746	1,648,424
Bad debt reserve	(92,251)	(541,120)
Total	<u>\$ 1,083,495</u>	<u>\$ 1,109,385</u>

**5. Pledge Receivable**

As of August 31, 2008 and 2007, the Station had a pledge receivable consisting of an unconditional promise to give in connection with a Board Room naming program as follows:

	2008	2007
Receivable within one year	<u>\$ 50,000</u>	<u>\$ 50,000</u>
Receivable in two to five years	\$ 150,000	\$ 200,000
Less: Discount at 4.125%	(19,039)	(21,019)
Pledge receivable in two to five years, present value	<u>\$ 130,961</u>	<u>\$ 178,981</u>

**KUHT (TV)**  
**(A Component Unit of the University of Houston System)**

**Notes To Financial Statements**

**Years Ended August 31, 2008 And 2007**

**6. Capital Assets**

Capital asset activities for the year ended August 31, 2008 were as follows:

	Balance September 1, 2007	Additions	Deletions	Balance August 31, 2008
Capital Assets:				
Construction in progress	\$ -	\$ 118,010	\$ -	\$ 118,010
Buildings	12,637,863	-	-	12,637,863
Equipment and furniture	9,064,261	92,959	-	9,157,220
Total capital assets	21,777,124	210,969	-	21,988,093
Less accumulated depreciation	(11,441,952)	(762,158)	-	(12,204,110)
Net capital assets	<u>\$ 10,335,172</u>	<u>\$ (551,189)</u>	<u>\$ -</u>	<u>\$ 9,783,983</u>

Capital asset activities for the year ended August 31, 2007 were as follows:

	Balance September 1, 2006	Additions	Deletions	Balance August 31, 2007
Capital Assets:				
Construction in progress	\$ 222,000	\$ -	\$ 222,000	\$ -
Buildings	12,415,863	222,000	-	12,637,863
Equipment and furniture	8,839,251	300,010	-	9,139,261
Total capital assets	21,477,114	522,010	222,000	21,777,124
Less accumulated depreciation	(10,606,758)	(835,194)	-	(11,441,952)
Net capital assets	<u>\$ 10,870,356</u>	<u>\$ (313,184)</u>	<u>\$ 222,000</u>	<u>\$ 10,335,172</u>

**KUHT (TV)**  
**(A Component Unit of the University of Houston System)**

**Notes To Financial Statements**

**Years Ended August 31, 2008 And 2007**

**7. Film Rights**

The Station pays for the right to use certain films in its broadcasting activities over a short-term or long-term period. The costs of those rights are amortized over the purchased periods. Changes in the costs of long-term film rights for the years ended August 31, 2008 and 2007 were as follows:

	2008	2007
Balance at beginning of year	\$ 123,044	\$ 110,398
Additions to long-term film rights	25,450	90,280
Total	148,494	200,678
Current year amortization	(86,837)	(77,634)
Balance at end of year	\$ 61,657	\$ 123,044
Current portion	\$ 52,803	\$ 61,387
Non-current portion	8,854	61,657
Total	\$ 61,657	\$ 123,044

**8. Due to the System**

Since the Station maintains all of its cash balances with the System's treasury department, the System permits the Station to overdraw its claim on cash account from time to time. The amounts disclosed in the "Due to the System" account represents the amounts by which the Station overdrew its claim on cash account with the System as of August 31, 2008 and 2007.

**9. Unrestricted Net Deficit**

The Station has been experiencing a net excess of expenses over revenues, resulting in an increasing net deficit of unrestricted assets under liabilities. The net deficit of unrestricted assets under liabilities at August 31, 2008 and 2007 was (\$1,501,517) and (\$1,423,990), respectively. The deficit resulted mainly from general increases in operating expenses over and above increases in operating revenues. In response to this situation, management is developing plans to generate additional unrestricted resources through more robust marketing efforts and fundraising campaigns to foundations and individuals, and to more effectively control operating costs within the foreseeable future.

**KUHT (TV)**  
**(A Component Unit of the University of Houston System)**

**Notes To Financial Statements**

**Years Ended August 31, 2008 And 2007**

**10. General Support from the System**

General support includes building and related occupancy costs donated by the System and are recorded in revenues and expenses at their estimated fair rental values based on the occupancy allowance computation permitted by the Corporation for Public Broadcasting. Building and related occupancy support amounted to \$430,642 and \$392,824 in fiscal years 2008 and 2007, respectively. The System provides indirect administrative support and maintenance support to the Station, which are recorded in revenues and expenses based on the System's allocation methods. Indirect administrative support amounted to \$1,947,818 and \$1,983,468 in fiscal years 2008 and 2007, respectively.

**11. Corporation for Public Broadcasting Grants**

The Corporation for Public Broadcasting ("CPB") is a private, nonprofit grant-making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants ("CSGs") to qualifying public broadcasting entities. CSGs are used to augment the financial resources of public broadcasting entities and thereby to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two federal fiscal years as described in the Communications Act, 47 United States Code Annotated, Section 396(k)(7). In any event, each grant must be expended within two years of the initial grant authorization.

According to the Communications Act, CSG funds may be used at the discretion of recipients for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with CSGs awarded in prior years.

Certain *General Provisions* must be satisfied in connection with application for and use of the grants to maintain eligibility and meet compliance requirements. These *General Provisions* pertain to the use of grant funds, record keeping, audits, financial reporting, mailing lists, and licensee status with the Federal Communications Commission.

**12. Pension Plan**

The Station participates in the State of Texas (the State) joint contributory retirement plans and thereby provides retirement plans for substantially all of its employees designated as "benefits eligible". One of the primary plans in which the Station participates is administered by the Teacher Retirement System of Texas (the "TRS"). The TRS operates under the authority of provisions contained primarily in Texas Government code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. By statute, TRS participating employees must contribute 6.4 percent of their salary to the plan and the Station contributes an amount equal to 6.58 percent times the aggregate annual compensation during the fiscal year.



**KUHT (TV)**  
**(A Component Unit of the University of Houston System)**

**Notes To Financial Statements**

**Years Ended August 31, 2008 And 2007**

The TRS does not account for each of its component governmental agencies, since the TRS itself bears sole responsibility for retirement commitments beyond contributions fixed by the Texas State Legislature. Contributions to the TRS by the Station amounted to \$154,395 and \$149,941 in 2008 and 2007, respectively.

According to an independent actuarial valuation as of August 31, 2008, the present value of the TRS's actual and projected liabilities, including projected benefits payable to its retired and active members and their beneficiaries, was in excess of the TRS's assets. The actuary projected that such asset, augmented by projected future contributions and earnings, would not be sufficient to amortize the unfunded difference assuming payroll growth of 3.0%. Although the TRS is a cost-sharing, multiple-employer defined benefit pension plan, the liability associated with this funding shortfall is not the responsibility of the Station. The TRS's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 877-0123.

The State has also established an Optional Retirement Program (the "ORP") for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS. The ORP provides for the purchase of annuity or mutual fund contracts.

For employees participating prior to September 1, 1995, the contributions to the ORP by the Station and by each participant during fiscal years 2008 and 2007 were 8.50% of the participants' annual compensation. For employees hired on September 1, 1995, or later, the percentages of the Station's and participants' contribution were 6.00% of the participants' annual compensation. Contributions to the plan by the Station amounted to \$32,747 and \$29,526 in 2008 and 2007, respectively. Since these are individual investment product contracts, the Station has no additional or unfunded liability for the ORP.

**13. Leases**

The Station leases its transmitting facility and other equipment under a long-term operating lease agreement. During the years ended August 31, 2008 and 2007, rent incurred for the leased facility and equipment amounted to \$284,139 and \$292,811 respectively.

Future minimum lease payments under this non-cancelable operating lease are as follows:

<u>Year Ending August 31,</u>	<u>Amount</u>
2009	\$ 288,643
2010	253,573
2011	53,613
	<u>\$ 595,829</u>

**KUHT (TV)**  
**(A Component Unit of the University of Houston System)**

**Notes To Financial Statements**

**Years Ended August 31, 2008 And 2007**

**14. Related Parties**

The Association for Community Broadcasting (ACB), formerly known as the Association for Community Television was organized in 1969, as a Texas nonprofit corporation, primarily for the purpose of providing financial and other support to the Station, Channel 8, in Houston, Texas. On January 25, 2005, the Board of Regents of the System and ACB agreed that the same services provided to the Station would also be provided to KUHF (FM), FM Radio Station 88.7 and thus adopting the ACB name. The Station and KUHF (FM) are ancillary enterprises of the System; they are non-commercial educational public broadcasting stations, the licenses for which are held by the Board of Regents of the System.

The System and ACB, as part of an ongoing agreement, have stipulated that all grants for the Station's programming and other activities will be deposited with the System's Office of Sponsored Programs, or, at the discretion of the general manager of the Station, deposited in accounts maintained by ACB and immediately and exclusively available to the Station.

Cash expenditures made by ACB on behalf of the Station, such as expenditures associated primarily with fundraising for the Station and production of the Station's programs, are borne by the Station. Such cash expenditures for the fiscal years ended August 31 2008 and 2007 amounted to \$1,139,804 and \$1,032,972, respectively, and have been included in the contributions and production service revenues and in operating expenses in the statements of revenues expenses and changes in net assets. Total revenues including the amounts described above in this paragraph received by the Station through ACB for the fiscal years ended August 31, 2008 and 2007 amounted to \$5,549,580 and \$3,090,972, respectively. As of August 31, 2008 and 2007, the amount due to the Station from ACB, net of allowance, was \$837,595 and \$1,123,375, respectively.

ACB is directed by a Board of Directors and is managed on a daily basis by a combination of Board officers and the Station's employees.

**15. Commitment - Digital Television Conversion**

In 1996, the U.S. Congress authorized the distribution of an additional broadcast channel to each broadcast TV station so that they could start a digital broadcast channel while simultaneously continuing their analog broadcast channel. Subsequently, the Federal Communications Commission (the "FCC") mandated that all public broadcasting stations begin transmitting digital TV (DTV) signals by May 1, 2003. Later and by the Digital Television Transition and Public Safety Act of 2005 ("DTV Act of 2005"), Congress mandated that February 17, 2009 would be the last day for full-power television stations to broadcast in analog. The Station is currently broadcasting in both analog and digital. After February 17, 2009, the Station will broadcast in digital only.

**KUHT (TV)**  
**(A Component Unit of the University of Houston System)**

**Notes To Financial Statements**

**Years Ended August 31, 2008 And 2007**

**16. Income Taxes**

The System of which the Station is a component unit is a university established as an agency of the State of Texas prior to 1969, and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provisions for income taxes have been made in the accompanying financial statements.

**SUPPLEMENTAL SCHEDULES**

KUHT (TV)  
(A Component Unit of the University of Houston System)  
Statement of Functional Expenses  
Year Ended August 31, 2008

	Program Services				Support Services				Total
	Programming and Production	Broadcast Engineering	Program Information	Sub-Total	Membership Solicitation	Underwriting Solicitation	Management and General	Total	
Salaries and wages	\$ 846,184	\$ 581,093	\$ 441,090	\$ 1,868,367	\$ 443,644	\$ 74,365	\$ 482,931	\$ 1,000,940	\$ 2,869,307
Fringe benefits	199,418	120,904	113,108	433,430	115,551	19,190	131,135	265,876	699,306
Financial and legal services	14,423	670	-	15,093	106,437	43	53,047	159,527	174,620
Fundraising	4,584	-	1,117	5,701	721,554	-	4,098	725,652	731,353
Membership fees	237,388	135	-	237,523	3,425	-	23,504	26,929	264,452
Other expenses	13,789	10,733	2,048	26,570	10,686	521	(5,073)	6,134	32,704
Postage	592	242	1,508	2,342	222,715	758	4,070	227,543	229,885
Printing and reproduction services	806	583	5,412	6,801	486,227	98	102	486,427	493,228
Professional services	162,620	41,824	7,433	211,877	49,263	-	360	49,623	261,500
Program rights	1,801,372	-	-	1,801,372	-	-	-	-	1,801,372
Rental and leases	31,469	246,133	22,683	300,285	33,206	-	14,302	47,508	347,793
Repair and maintenance	7,466	133,226	-	140,692	119	-	478	597	141,289
Supplies and materials	17,834	59,432	5,826	83,092	84,877	231	13,414	98,522	181,614
Telemarketing services	-	-	-	-	44,998	-	-	44,998	44,998
Telephone	34,524	107,999	8,782	151,305	123,522	2,006	16,642	142,170	293,475
Travel	6,173	2,456	979	9,608	15,872	366	6,037	22,275	31,883
Utilities	-	446,100	-	446,100	-	-	-	-	446,100
Broadcasting fees	4,299	-	-	4,299	-	-	-	-	4,299
Bad debt	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>3,382,941</b>	<b>1,751,530</b>	<b>609,986</b>	<b>5,744,457</b>	<b>2,462,096</b>	<b>97,578</b>	<b>745,047</b>	<b>3,304,721</b>	<b>9,049,178</b>
Inkind:									
General support from the System	-	430,642	-	430,642	-	-	1,974,609	1,974,609	2,405,251
<b>Total in-kind</b>	<b>-</b>	<b>430,642</b>	<b>-</b>	<b>430,642</b>	<b>-</b>	<b>-</b>	<b>1,974,609</b>	<b>1,974,609</b>	<b>2,405,251</b>
<b>Total expenses excluding depreciation</b>	<b>\$ 3,382,941</b>	<b>\$ 2,182,172</b>	<b>\$ 609,986</b>	<b>\$ 6,175,099</b>	<b>\$ 2,462,096</b>	<b>\$ 97,578</b>	<b>\$ 2,719,656</b>	<b>\$ 5,279,330</b>	<b>\$ 11,454,429</b>
Percentage of total expenses	31%	19%	5%	55%	21%	1%	24%	45%	100%

*The accompanying notes are an integral part of the basic financial statements*

KUHT (TV)  
(A Component Unit of the University of Houston System)  
Statement of Functional Expenses  
Year Ended August 31, 2007

	Program Services				Support Services				Total
	Programming and Production	Broadcast Engineering	Program Information	Total	Membership Solicitation	Underwriting Solicitation	Management and General	Total	
Salaries and wages	\$ 1,026,029	\$ 572,209	\$ 464,967	\$ 2,063,205	\$ 544,709	\$ 88,402	\$ 472,168	\$ 1,105,279	\$ 3,168,484
Fringe benefits	249,658	150,593	110,145	510,396	125,157	5,668	132,466	263,291	773,687
Financial and legal services	7,346	1,415	64	8,825	75,804	116	9,865	85,785	94,610
Fundraising	27,211	-	10,882	38,093	650,352	615	1,566	652,533	690,626
Membership fees	265,640	-	135	265,775	5,622	-	36,619	42,241	308,016
Other expenses	88,453	26,804	26,752	142,009	3,921	1,967	139,513	145,401	287,410
Postage	801	314	1,457	2,572	479,752	646	9,129	489,527	492,099
Printing and reproduction services	3,254	-	5,113	8,367	123,869	1,085	1,265	126,219	134,586
Professional services	113,006	33,853	472	147,331	83,199	-	(4,994)	78,205	225,536
Program rights	1,741,302	-	-	1,741,302	-	-	-	-	1,741,302
Rental and leases	38,835	146,152	13,635	198,622	99,226	640	30,164	130,030	328,652
Repair and maintenance	8,327	94,484	576	103,387	711	-	(1,653)	(942)	102,445
Supplies and materials	33,101	86,667	5,755	125,523	15,132	(99)	31,854	46,887	172,410
Telephone	39,574	109,098	7,891	156,563	253,618	2,504	22,083	278,205	434,768
Travel	25,806	5,746	3,648	35,200	15,143	3,054	(2,185)	16,012	51,212
Utilities	-	395,493	-	395,493	-	-	-	-	395,493
Bad debt	-	-	-	-	-	-	41,120	41,120	41,120
<b>Total</b>	<b>3,668,343</b>	<b>1,622,828</b>	<b>651,492</b>	<b>5,942,663</b>	<b>2,476,215</b>	<b>104,598</b>	<b>918,980</b>	<b>3,499,793</b>	<b>9,442,456</b>
Inkind:									
General support from the System	-	392,825	-	392,825	-	-	1,961,210	1,961,210	2,354,035
<b>Total in-kind</b>	<b>-</b>	<b>392,825</b>	<b>-</b>	<b>392,825</b>	<b>-</b>	<b>-</b>	<b>1,961,210</b>	<b>1,961,210</b>	<b>2,354,035</b>
<b>Total expenses excluding depreciation</b>	<b>\$ 3,668,343</b>	<b>\$ 2,015,653</b>	<b>\$ 651,492</b>	<b>\$ 6,335,488</b>	<b>\$ 2,476,215</b>	<b>\$ 104,598</b>	<b>\$ 2,880,190</b>	<b>\$ 5,461,003</b>	<b>\$ 11,796,491</b>
Percentage of total expenses	32%	17%	6%	55%	21%	1%	24%	45%	100%

*The accompanying notes are an integral part of the basic financial statements*

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**FINANCIAL STATEMENTS**

**AUGUST 31, 2008 AND 2007**

**UNIVERSITY OF HOUSTON SYSTEM  
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McCONNELL & JONES<sub>LLP</sub>  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

To the Board of Regents  
The University of Houston System

We have audited the accompanying statements of net assets of the University of Houston System Endowment Fund (the "Endowment Fund") as of August 31, 2008 and 2007, and the related statements of revenues and expenses and changes in net assets, and cash flows for the years then ended. These basic financial statements are the responsibility of the University of Houston System's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of the Endowment Fund's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Endowment's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Endowment Fund and do not purport to, and do not, present fairly the financial position of the University of Houston System as a whole, as of August 31, 2008 and 2007, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Endowment Fund as of August 31, 2008 and 2007, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of Endowment Investments by Issuer, and Changes in Net Assets by Endowment are presented for purposes of additional analysis and



are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the 2008 basic financial statements taken as a whole.

The Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standard Board. This information is the responsibility of the University of Houston System's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in blue ink, appearing to read 'McConnell &amp; Sons LLP'.

Houston, Texas  
February 25, 2009

## Management's Discussion and Analysis

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**Introduction**

The following section of the Endowment Fund's Annual Financial Statements provides an overview of the activities and the financial position of the fund for the fiscal year ended August 31, 2008 as compared to fiscal year ended August 31, 2007 with summary comparisons for the year ended August 31, 2006. This Management's Discussion and Analysis is intended to offer a summary of significant current year activities, resulting changes, and currently known economic conditions and facts. This analysis should be read in conjunction with the Endowment Fund's basic financial statements and the notes to the financial statements. Responsibility and fairness of this information rests with the Endowment Fund.

During the 2002 fiscal year, the State of Texas adopted Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The University of Houston System ("UH System") is a governmental entity of the State of Texas. The Endowment Fund is a fund group of the UH System reporting entity.

During the 2005 fiscal year, the System adopted and implemented the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This resulted in the display of additional information within the Notes to the Financial Statements. The deposits and investments of the Endowment Fund are exposed to certain inherent risks, such as credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The disclosures required by Statement No. 40 provide users of the Endowment Fund financial statements with information to assess common risks associated with the fund's deposits and investments.

During fiscal year 2008, the Endowment Management Committee of the UH System Board of Regents ("Board of Regents") continued to review existing objectives, risks, asset allocation, and manager structure within the endowment portfolio. The Endowment Fund Statement of Investment Objectives and Policies, among other things, establishes financial objectives for the endowment and an asset allocation with targets and ranges and categorizes each asset class as either a risk reducer or a driver of return.

**Endowment Fund Structure**

Gifts to the UH System are placed in the Endowment Fund for investment and oversight purposes. The Board of Regents strives to maintain a plan to preserve and augment the value of the endowment. The Board of Regents works to preserve the broad objective of investing endowment assets so as to preserve both their real value and the long-range purchasing power of endowment income. The Endowment Management Committee of the Board of Regents is responsible for reviewing and approving investment management goals and policies for the

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Endowment Fund. The Endowment Management Committee, among other things, recommends to the Board of Regents the appointment of investment managers, and monitors investment performance and allocations of funds to asset classes to ensure appropriate diversification of investment risks.

The Endowment Fund is a pooled investment fund consisting of more than 1,200 individual endowments benefiting the four UH System universities. The investment pool functions similarly to a mutual fund, with each fund owning units that represent a claim on the Endowment Fund's net assets. By pooling the investments, the UH System achieves increased diversification of investment risks and more effective management of endowment assets.

**Asset Selection and Allocation**

The Endowment Fund's Statement of Investment Objectives and Policies governs the overall allocation of endowment funds to asset classes, and considerations of limits to investment risk exposures. Allocation of funds to asset classes is based on expected returns, risk levels, desired risk diversification, interaction of various asset classes, and income generation and capital appreciation potentials of each asset class. The market value of investments in each asset class is maintained within an approved range of ratios to the market value of the Endowment Fund's total investments, except for minor deviations due to fluctuations in market value. The Endowment Management Committee monitors asset allocation targets and limits, and asset custodial risks and may authorize the reallocation of funds among investment managers.

The Endowment Fund currently invests substantially in readily marketable securities, such as domestic or international common stocks, domestic bonds, and cash equivalents. Marketable alternative investments (i.e. Absolute Return and Hedged Equity) constitute 18% and 17% of the overall investment portfolio ("portfolio") at August 31, 2008 and 2007, respectively, and non-marketable alternative investments (i.e. Venture Capital and Private Equity) constitute less than 1% of the portfolio on a funded basis at both dates. The Endowment Fund's overall investment risk is diversified by asset class and within each class by economic sector, industry, and market size. Such diversification is aimed at limiting the risks specifically associated with any single security or class of securities.

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As of August 31, the asset allocation of the Endowment Fund was as follows:

<u>Asset Class</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Domestic Large Cap Equities <i>(includes pooled equities)</i>	22%	24%	23%
Domestic Small Cap Equities	4%	4%	7%
International Equities	23%	27%	26%
Inflation Hedging	14%	13%	6%
Absolute Return	6%	5%	5%
Hedged Equity	12%	12%	10%
Domestic Fixed Income	16%	14%	18%
Alternative Investments <i>(venture capital/private equity)</i>	1%	<1%	<1%
Cash Equivalents	<u>2%</u>	<u>2%</u>	<u>4%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

*Sum may not equal 100% due to rounding.*

### **Management of the Fund**

The Endowment Fund retains thirty-two independent investment managers who pursue different portfolio management strategies to maximize the total return through a variety of capital market cycles. Investment managers have been engaged with expertise in the specific areas of:

- Large capitalization growth equities – Fayeze Sarofim; Smith Group; Wellington
- Large capitalization value equities – Robeco Boston Partners; Dodge & Cox
- Small capitalization value equities – Luther King Capital Management
- Small capitalization growth equities – Hoover Investment Management
- Pooled equities – Cougar Investment Fund
- Domestic fixed income – Wells Capital; Smith Graham & Company
- International growth equities – Alliance Bernstein
- International value equities – William Blair
- Absolute return – Whippoorwill; Davidson Kempner; Crestline Investors
- Hedged equity – Barlow Partners; York Institutional Partners; Federal Street
- Inflation hedge – Sustainable Woodlands Fund; Morgan Stanley; Berwind Property Group; Salient Trust; Newlin Realty Partners; Colchester Global Investors; Moncrief Willingham; Wellington; Absolute Plus; Other (real estate holdings)
- Alternatives – HarbourVest; Trident; Commonfund; EnCap Energy; Fisher Lynch

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As of August 31, the allocation of Endowment Fund assets among investment managers was as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<u>Domestic Large Cap Equities</u>			
Fayez Sarofim	3%	4%	3%
Smith Group	5%	4%	0%
Wellington	3%	2%	0%
Barclay's Global ETF	0%	0%	6%
Dodge & Cox	5%	7%	7%
Robeco Boston Partners	5%	7%	7%
Cougar Investment Fund (pooled fund)	<u>&lt; 1%</u>	<u>&lt; 1%</u>	<u>&lt; 1%</u>
Subtotal – domestic large cap equities	22%	24%	23%
<u>Domestic Small Cap Equities</u>			
Luther King Capital Management	2%	2%	4%
Hoover Investment Management	<u>2%</u>	<u>2%</u>	<u>3%</u>
Subtotal – domestic small cap equities	4%	4%	7%
<u>International Equities</u>			
Arnhold & S. Bleichroder	0%	13%	13%
William Blair	11%	14%	13%
Alliance Bernstein	<u>12%</u>	<u>0%</u>	<u>0%</u>
Subtotal – international equities	23%	27%	26%
<u>Absolute Return</u>			
Davidson Kempner	2%	2%	2%
Whippoorwill	2%	1%	1%
Crestline Investors	<u>2%</u>	<u>2%</u>	<u>2%</u>
Subtotal – absolute return	6%	5%	5%
<u>Hedged Equity</u>			
Barlow Partners	7%	7%	8%
York Institutional Partners	2%	3%	2%
Federal Street	<u>2%</u>	<u>2%</u>	<u>0%</u>
Subtotal – hedged equity	11%	12%	10%
<u>Inflation Hedge</u>			
Morgan Stanley	1%	1%	2%
Colchester	1%	1%	0%
Moncrief Willingham	1%	1%	0%
Wellington	5%	5%	0%
Absolute Plus	1%	1%	0%
Salient Trust	1%	1%	1%

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*Continuation of allocation of Endowment Fund assets among investment managers as of August 31,:*

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Sustainable Woodlands Fund	1%	1%	1%
Berwind Property Group	1%	1%	1%
Newlin Realty Partners	1%	1%	< 1%
Other – real estate holding	<u>1%</u>	<u>1%</u>	<u>1%</u>
Subtotal – inflation hedge	14%	13%	6%
 <u>Domestic Fixed Income</u>			
Wells Capital	8%	7%	12%
Smith Graham	<u>8%</u>	<u>7%</u>	<u>6%</u>
Subtotal – domestic fixed income	16%	14%	18%
 <u>Alternatives</u>			
HarbourVest Partners	< 1%	< 1%	< 1%
Trident	< 1%	< 1%	< 1%
Commonfund Capital	< 1%	< 1%	< 1%
EnCap Energy	< 1%	0%	0%
Fisher Lynch Capital	<u>&lt; 1%</u>	<u>0%</u>	<u>0%</u>
Subtotal – alternatives	<1%	<1%	<1%
 Cash & equivalents	 <u>3%</u>	 <u>2%</u>	 <u>4%</u>
 Total	 <u>100%</u>	 <u>100%</u>	 <u>100%</u>

*Sum may not equal 100% due to rounding.*

### **Investment Manager Allocation**

Investment managers are given discretion to manage the assets in each portfolio to best achieve investment objectives within the policies and requirements established by the Board of Regents. The objectives and comparative benchmarks, which are provided to each investment manager, are used to evaluate their performance. The Endowment Management Committee reviews performance and adjusts allocation to investment managers and asset classes in response to current market conditions. Monthly and comprehensive quarterly performance reports are distributed to the Board of Regents.

### **Endowment Payout Policy**

The Endowment Management Committee is responsible for reviewing the income payout rate of the Endowment Fund, which is a balance between current income needs and long-term investment objectives. The endowment will maintain a payout rate of approximately 4% to 5%,



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with any change to this range to be approved by the Board of Regents. The endowment income payout for the year ending August 31, 2008 was 5% of the average year-end market value for the three prior fiscal years. If an endowment has been in existence less than three years, the average is based on the number of years in existence. This trailing three-year method is used to smooth large year-over-year changes in market value, thereby allowing the UH System's colleges and departments to more reasonably predict future distributions of endowment income intended to benefit their area.

In the three fiscal years 2006 through 2008, endowment payouts to the beneficiary accounts in total and by the UH System's components were as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
University of Houston	\$14,992,422	\$13,657,740	\$12,575,315
UH – Clear Lake	598,277	542,200	475,021
UH – Downtown	831,970	745,005	674,005
UH – Victoria	422,003	386,124	350,732
System-wide endowments	7,637,876	5,158,126	4,833,556
Endowment Plus & Matching	483,928	452,906	431,027
<b>Total</b>	<b>\$24,966,476</b>	<b>\$20,942,101</b>	<b>\$19,339,656</b>

**Overview of the Financial Statements**

The financial statements for the fiscal year ended August 31, 2008 are presented comparatively to financial statements issued for the fiscal year ended August 31, 2007. Governmental Accounting Standards Board Statement No. 35 requires the UH System to include three financial statements in the Endowment Fund's Annual Financial Statements. They are (1) the Statement of Net Assets, (2) the Statement of Revenues, Expenses, and Changes in Net Assets, and (3) the Statement of Cash Flows. The information contained in the financial statements of the Endowment Fund is incorporated within the UH System's Combined Annual Financial Report.

The financial operations of the UH System, and therefore inclusively the Endowment Fund, are considered a business-type (or proprietary fund) activity. The operating activities of the UH System are financed, to a significant extent, by tuition and fee charges that are paid by the student customers. The Endowment Fund is an internally managed pooled-fund and its beneficiaries are internal to the System. The Statement of Net Assets reports resources held and administered by the UH System, as described in the previous sections of this discussion and analysis. These resources are customarily characterized by the existence of a written agreement that affects the degree of management involvement, the programs supported by income earned by the resources, and the length of time that the resources are held by the UH System. Financial

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statements of proprietary funds are presented using an economic resources measurement focus, and are prepared using the full accrual basis of accounting.

**Statement of Net Assets**

The Statement of Net Assets reflects the Endowment Fund's assets and liabilities, and represents the financial position as of the conclusion of the fiscal year. Net Assets are equal to Total Assets minus Total Liabilities. On August 31, 2008, the fund's Assets totaled approximately \$542 million, and Liabilities totaled approximately \$44 million, resulting in a Net Asset valuation of approximately \$498 million.

The net assets (i.e., fund equity) of the Endowment Fund as contributed by the UH System's components as of August 31, 2008, compared to the corresponding values as of August 31, 2007 and August 31, 2006, were as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
University of Houston	\$290,300,030	\$323,965,886	\$289,835,134
UH – Clear Lake	12,060,799	13,092,567	11,437,480
UH – Downtown	16,160,710	17,561,875	15,749,500
UH – Victoria	8,421,742	9,179,031	8,058,502
System-wide endowments	162,138,028	119,828,700	109,157,828
Endowment Plus & Matching	9,184,972	10,393,899	9,522,620
<b>Total</b>	<b>\$498,266,281</b>	<b>\$494,021,958</b>	<b>\$443,761,064</b>

**Statement of Net Assets**

The statement of Net Assets contains information about the assets and liabilities of the Endowment Fund.

**Variance Analysis-Changes in the Statement of Net Assets**

	<u>2008</u>	<u>2007</u>	<u>Change 2008-2007</u>	<u>2006</u>
Total Assets	\$542,276,438	\$532,111,676	\$10,164,762	\$471,242,338
Total Liabilities	44,010,157	38,089,718	5,920,439	27,481,274
<b>Net Assets</b>	<b>\$498,266,281</b>	<b>\$494,021,958</b>	<b>\$4,244,323</b>	<b>\$443,761,064</b>

- Total Assets: The \$10.2 million increase in fiscal year 2008 is primarily attributable to additions to the endowment.
- Total Liabilities: The majority of the increase in liabilities is attributable to a \$4.5 million increase in the distributed income paid out to the beneficiary accounts and the recognition

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of an additional \$1.4 million in securities that had been purchased in the current fiscal year but which did not settle until after August 31, 2008. Since the endowment's financials are presented using the accrual basis of accounting, a \$12.1 million payable has been recorded to recognize the future commitment to pay for these pending securities purchases. For fiscal year 2007, the endowment recorded a \$10.7 million payable to recognize the future commitment to pay for pending securities purchases.

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

The Statement of Revenues, Expenses, and Changes in Net Assets contains information about the additions to, the deductions from, and the resulting net increase or decrease in the fair value of the net assets for the fiscal year. During fiscal year 2008, the Endowment Fund recognized total additions of \$38.5 million, which consisted of gifts and other receipts of \$69.5 million, interest and investment income of \$15 million, and a \$46 million net decrease in the fair value of investments. The Endowment Fund's total deductions for fiscal year 2008 were \$34.3 million, including \$31.9 million earmarked for distribution to the beneficiary endowment accounts under the planned payout policy, and \$2.4 million of asset management expenses. As a result of these activities, the Endowment Fund realized an increase in net assets of \$4.2 million.

**Variance Analysis for Statement of Revenues, Expenses, and Changes in Net Assets**

	<u>2008</u>	<u>2007</u>	<u>Change 2008-2007</u>	<u>2006</u>
Gifts and Other Receipts	\$69,502,852	\$11,320,846	\$58,182,006	\$8,817,905
Investment Activities	(30,928,966)	68,099,230	(99,028,196)	46,198,866
Fund Deductions	(34,329,563)	(29,159,183)	(5,170,380)	(28,310,032)
<b>Increase in Net Assets</b>	<b>\$4,244,323</b>	<b>\$50,260,893</b>	<b>(\$46,016,570)</b>	<b>\$26,706,739</b>

- The total gifts and other endowment receipts to the endowment increased \$58.2 million in 2008 as compared to 2007 due, in large part, to the investment of a portion of the system's long-term operating funds in the endowment as a quasi endowment.
- Changes in 2008 investment activities included an increase in interest and investment income of \$0.06 million as compared to 2007. The fair value of investments decreased \$100 million in fiscal year 2008 compared to a \$21.4 million increase in the 2007-2006 period.
- Fund deductions increased \$5.2 million due to a few factors. Endowment income distributable to the beneficiary accounts and the institutional advancement fee assessment increased by \$4.1 million and \$0.6 million, respectively, as the rolling average market value of the endowments increased. The institutional advancement fee was approved by the Board of Regents to offset costs associated with gift acquisition and fundraising efforts at the UH System components. Investment expenses increased by \$0.5 million due in

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large part to additional allocations to non-marketable alternatives managers. While these managers charge a higher fee compared to more traditional equity and fixed income managers, these managers are expected to generate returns over time in excess of traditional equity and fixed income managers.

### **Statement of Cash Flows**

The Statement of Cash Flows explains the change during the fiscal year in cash and cash equivalents, regardless of whether there are restrictions on their use. The Statement of Cash Flows should be read in conjunction with related disclosures and information in the other financial statements.

### **Capital Assets**

The Endowment Fund does not hold any capitalized assets, such as buildings or furniture and equipment. The Endowment Fund invests in financial instruments which constitutes most of the Endowment Fund's assets. Although the Endowment Fund is generally not prohibited from acquiring tangible physical assets to be held as investments for their appreciation qualities, such assets are typically not acquired or held by the Endowment Fund. Presently, the Endowment Fund holds certain parcels of land, which were received as gifts and are being held for their appreciative value.

### **Debt Administration**

The Endowment Fund does not issue long-term debt. The Endowment Fund is not currently engaged in any long-term financing transactions. The operation and administration of the Endowment Fund is currently structured such that its annual financial obligations and expenses are satisfied through earnings and other fund additions.

### **Economic Outlook**

Beginning from the early part of the 2009 fiscal year, and subsequent to the conclusion of fiscal year 2008, the U.S. and world-wide economies began experiencing a significant down turn in their financial environments. The recessionary situation has been characterized by a contraction of credit, falling prices in housing, and deflated valuations for equities and other investment instruments. The current economic issues facing the U.S. are reflected in the performance of the capital markets in the U.S. and abroad; markets in which the System's endowment and other resources are invested. The duration of the economic issues facing the U.S. and the global economy cannot be predicted, however management believes that the endowment's financial condition has historically reflected strength and is capable of withstanding and adjusting to future economic uncertainties. Additionally, although it is not possible to predict ultimate

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results, management believes the University of Houston System continues to maintain a healthy financial position, and is administratively structured and governed in a manner that has equipped it to weather the current world-wide adverse financial situation. More so, than ever, the System stands committed to the principles of prudent and effective administration and management, while demonstrating good stewardship of the assets entrusted to them.

# The Basic Financial Statements

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**STATEMENTS OF NET ASSETS**

**AUGUST 31, 2008 AND 2007**

	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 32,406,050	\$ 24,893,154
Interest and dividends receivable	918,985	375,911
Receivable for investments sold	844,262	898,536
Short-term investments	440,990	853,599
Prepayments	-	108,167
Total current assets	34,610,287	27,129,367
 <b>Non-current assets</b>		
Investments	507,666,151	504,982,309
Total non-current assets	507,666,151	504,982,309
Total assets	542,276,438	532,111,676
 <b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payable for investments purchased	12,067,667	10,684,989
Due to other components, net	31,942,490	27,404,729
Total current liabilities	44,010,157	38,089,718
Total liabilities	44,010,157	38,089,718
 <b>NET ASSETS</b>		
Restricted for nonexpendable endowments	362,378,058	405,115,286
Restricted for expendable endowments	83,444,214	31,055,418
Unrestricted	52,444,009	57,851,254
Total net assets	\$ 498,266,281	\$ 494,021,958

The accompanying notes are an integral part of the basic financial statements.

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

**YEARS ENDED AUGUST 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
Operating revenues	\$ -	\$ -
Operating expenses	<u>-</u>	<u>-</u>
Operating income (loss)	<u>-</u>	<u>-</u>
Non-operating revenues (expenses):		
Interest and investment income	11,345,871	11,289,153
Net (decrease) increase in the fair value of investments	(44,661,910)	55,506,292
Other non-operating expenses	<u>(32,054,009)</u>	<u>(27,516,353)</u>
Total non-operating (expenses) revenues	<u>(65,370,048)</u>	<u>39,279,092</u>
Net (loss) income before contributions and transfers	(65,370,048)	39,279,092
Contributions to endowments	69,502,852	11,320,846
Transfers in	111,519	111,624
Transfers out	<u>-</u>	<u>(450,668)</u>
<b>INCREASE IN NET ASSETS</b>	4,244,323	50,260,894
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>494,021,958</u>	<u>443,761,064</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 498,266,281</u>	<u>\$ 494,021,958</u>

The accompanying notes are an integral part of the basic financial statements.



**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED AUGUST 31, 2008 AND 2007**

	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net cash provided by (used in) operating activities	\$ -	\$ -
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Transfers to other funds	(27,516,353)	(26,861,259)
Net cash used in non-capital financing activities	(27,516,353)	(26,861,259)
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Capital contributions	69,502,852	11,320,846
Other receipts	111,519	111,624
Net cash provided by capital financing activities	69,614,371	11,432,470
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	480,911,919	488,049,056
Payments to purchase investments	(524,013,170)	(479,437,178)
Interest and dividends received on investments	10,795,035	11,304,679
Payments for asset management and stewardship	(2,278,906)	(1,959,984)
Net cash (used in) provided by investing activities	(34,585,122)	17,956,573
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	7,512,896	2,527,784
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	24,893,154	22,365,370
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 32,406,050	\$ 24,893,154
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>		
Operating income (loss)	\$ -	\$ -
Adjustments	-	-
Net cash provided by (used in) operating activities	\$ -	\$ -

The accompanying notes are an integral part of the basic financial statements.

Notes To  
The Basic Financial Statements

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**YEARS ENDED AUGUST 31, 2008 AND 2007**

**1. Reporting Entity**

The University of Houston System (the “System”) is an agency of the State of Texas, established by the State of Texas to provide undergraduate and graduate university instruction, scholarly research and public service in the Houston, Texas area. The System is the State of Texas' only metropolitan higher education system, encompassing four universities and two multi-institution teaching centers. The University of Houston System Endowment Fund (the “Endowment Fund”) is a fund group of the System reporting entity. The accompanying financial statements present only the Endowment Fund of the System as of August 31, 2008 and 2007, the changes in its financial position, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Endowment Fund is a fund group that accounts for all of the System’s endowment assets pooled together to ensure better management and uniform accountability for those assets. The Endowment Fund provides financial support for the System’s students and the System’s research endeavors. The Endowment Fund is presently comprised of approximately 1,200 restricted and unrestricted endowment funds located in the System’s four universities and two multi-institution teaching centers. Restricted endowment funds are funds with respect to which a donor or other outside entity has stipulated that the principal be maintained inviolate and in perpetuity, and that only the income from the investments is available for expenditure. Unrestricted endowment funds consist of funds for which the donor did not impose any restriction as to their use, as well as funds that are designated by the System’s Board of Regents, rather than the donor, to function as endowment funds. The principal of these funds may be expended at the discretion of the System’s Board of Regents.

Gains and losses from sale or other disposition of investments are recorded in the Endowment Fund.

**2. Summary of Significant Accounting Policies**

*General*

All financial accounting records of the Endowment Fund are maintained by the University’s Office of the Associate Vice Chancellor for Finance in accordance with accounting principles generally accepted in the United States of America for colleges and universities, as published by the National Association of College and University Business Officers, set forth in *College and University Business Administration*.

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**YEARS ENDED AUGUST 31, 2008 AND 2007**

***Reporting Guidelines***

The System applies all applicable GASB pronouncements and all applicable Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The System has elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB. Under GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, the Endowment Fund is categorized as a proprietary fund type. Consequently, the assets, liabilities, and net assets (fund equity) are reported as a self-balancing fund, and the activities of the Endowment Fund are reported as business-type activities of a governmental entity.

***Basis of Accounting***

The financial statements of the Endowment Fund have been prepared using the economic resources measurement focus and accrual basis of accounting whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

***Cash and Cash Equivalents***

The Endowment Fund considers the carrying value and fair value of cash and temporary investments to be the same. The Endowment Fund considers investments purchased with a maturity of three months or less from the purchase date to be cash equivalents.

***Investments***

In accordance with GASB No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are recorded at fair value. Fair value is based on published closing market prices on the last trading day of the fiscal year. In the case of pooled funds or mutual funds, the fair value is determined as the number of units held in the fund multiplied by the price per unit share as publicly quoted. Investments in limited partnerships are recorded at cost if purchased and at appraised or fair value at date of receipt if donated. In accordance with GASB No. 52, *Land and Other Real Estate Held as Investments by Endowments*, land and other real estate held as investments are recorded at fair value.

Investments received as gifts are initially recorded at estimated fair value based on appraised values or broker closing prices for stocks at the date of the gift.

**UNIVERSITY OF HOUSTON SYSTEM  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**YEARS ENDED AUGUST 31, 2008 AND 2007**

Short-term investments are comprised of U.S. government obligations and corporate obligations with a maturity date of less than one year as of the statement of net assets date.

***Net Assets***

The Endowment Fund's net assets are classified as follows:

*Restricted for nonexpendable endowments:* Net assets that are subject to externally imposed stipulations requiring that the funds be maintained permanently by the System.

*Unrestricted:* Net assets for unrestricted endowment funds donated by third parties or created internally by the System and functioning as endowments.

When both restricted and unrestricted resources are available for use, it is the Endowment Fund's policy to use restricted resources first, then unrestricted resources as they are needed.

***Revenue Recognition***

Gifts to the Endowment Fund and transfers-in from other funds such as income distributions returned by beneficiaries for reinvestment, are recognized as additions to the Endowment Fund's assets. Dividend income is recorded as income on the date the stock traded ex-dividend. Interest is recognized on fixed-income investments on the accrual basis.

The net change in fair value of investments represents both realized and unrealized gains and losses on investments. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Realized gain or loss is computed as the difference between the cost of marketable securities sold and the sale price. The cost of marketable securities sold is determined on specific identification of investments sold. Realized gain is recorded as of the trade date regardless of when the transaction is settled. Unrealized gains or losses are calculated based on the changes in investment fair value between the beginning and end of the fiscal year for investments held since the beginning of the year, or as the difference between the fair value at end of year and the purchase cost for investments purchased during the year. Unrealized gains (losses) are determined and recorded as of the fiscal year-end.

The Endowment Fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with endowment administration. All revenues and expenses not meeting this

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**YEARS ENDED AUGUST 31, 2008 AND 2007**

definition are reported as non-operating revenues and expenses. The Endowment Fund does not currently earn or incur operating revenues and expenses.

***Income Distribution***

Effective September 1, 1995, the System's Board of Regents adopted an endowment payout policy whereby the payout rate is based on a percentage of the fiscal year end net assets averaged over rolling three-year periods. For the fiscal years 2008 and 2007, the payout rate was 5% applied to the endowments' average net asset balances for the preceding three fiscal years, respectively. If an endowment was in existence less than three years, the average was based on the number of years the endowment was in existence. The payout is calculated and recorded at the end of each fiscal year.

***Institutional Advancement Assessment***

The System's Board of Regents has adopted a policy whereby an assessment is made against the earnings of specified endowment funds to offset expenses associated with gift acquisition and fundraising at the System's component universities and multi-institution teaching centers. The policy allows for 1.5% to be assessed on the average of the preceding three years' net asset balances of all endowments except those exempt on the basis of donor imposed restrictions. The assessment is made at the end of each fiscal year to make funds available for the University's institutional advancement activities in the following fiscal year. The total amount assessed for the years ended August 31, 2008 and 2007 was \$5,876,529 and \$5,347,028, respectively.

***Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Investments with reported values of approximately \$156,538,000 and \$139,229,000, as of August 31, 2008 and 2007, respectively, are not publicly traded, and has been estimated by fund managers in the absence of readily available market values. Because of inherent uncertainties of valuations, fund managers' estimates of fair value may differ from the values that would have been used had a ready market existed.

***New Accounting Pronouncement***

In 2007, the GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. Statement No. 52 establishes consistent standards for the

**UNIVERSITY OF HOUSTON SYSTEM  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**YEARS ENDED AUGUST 31, 2008 AND 2007**

reporting of land and other real estate held as investments by essentially similar entities. The Statement requires endowments to report their land and other real estate investments at fair value. Endowments are also required to report the changes in fair value as investment income or loss and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. Statement No. 52 is effective for financial statements for periods beginning after June 15, 2008, but an early application is encouraged. The Endowment Fund implemented Statement No. 52 for fiscal years 2008 and 2007.

***Reclassifications***

Certain amounts have been reclassified in the prior year's financial statements to conform to current year presentation.

**3. Authorized Investments**

The System's Board of Regents is charged with the fiduciary responsibility for preserving and augmenting the value of the Endowment Fund. The System retains the services of a custodial financial institution under a master trust custodian agreement, as well as the services of independent investment managers each of whom plays a part in meeting the System's goals over a variety of capital market cycles. The System's Board of Regents has adopted a written investment policy, including investment manager guidelines for each of the separately invested accounts of the Endowment Fund, regarding the investment of endowment assets as defined in the System's Investment Policies (Policies). The primary long-term financial objective for the Endowment Fund is to preserve the real (inflation adjusted) purchasing power of endowment assets when measured over rolling periods of at least five years. The medium term objective is to outperform each of the capital markets in which the endowment assets are invested, measured over rolling periods of three to five years or complete market cycles, with emphasis on whichever measure is longer.

**4. Derivatives**

Derivatives are investment products that may be a security or contract that derives its value from another security, currency, commodity, or index, regardless of the source of funds used.

The Endowment Fund did not invest in derivatives and held no derivative instruments at August 31, 2008 or 2007.

**UNIVERSITY OF HOUSTON SYSTEM  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**YEARS ENDED AUGUST 31, 2008 AND 2007**

**5. Cash and Investments**

*Composition of Cash and Cash Equivalents*

Cash and cash equivalents consist of money market funds totaling \$32,406,050 and \$24,893,154 at August 31, 2008 and 2007, respectively. The money market funds are invested in corporate prime short-term investment funds and commercial paper.

Cash and cash equivalents included in the statements of net assets consist of the items reported below:

	<b>2008</b>	<b>2007</b>
Money market premier shares	\$ 22,324,307	\$ 12,098,692
Prime short-term investment funds	10,081,743	12,794,462
Total cash and cash equivalents	\$ 32,406,050	\$ 24,893,154

*Reconciliation of Cash and Investments to Statements of Net Assets*

Total cash and investments at August 31, 2008 and 2007 are as follows:

<b>Type of Security</b>	<b>Market Value August 31, 2008</b>	<b>Market Value August 31, 2007</b>
Money market premier shares	\$ 22,324,307	\$ 12,098,692
Prime short-term investment funds	10,081,743	12,794,462
U.S. government obligations	2,437,228	2,709,086
U.S. government agencies	14,862,452	14,838,884
Corporate & other fixed income securities	63,926,141	52,293,094
U.S. equity securities	134,613,038	142,696,059
International securities traded in the U.S.	121,962,890	139,846,710
Hedged equity funds	66,043,566	63,780,840
Inflation hedges (including REITs)	69,000,488	45,241,253
Absolute return funds	30,583,412	25,882,641
Partnerships	639,634	14,463,691
Real estate	4,038,292	4,083,650
Total investments	540,513,191	530,729,062
Less: Cash equivalents	(32,406,050)	(24,893,154)
Short-term investments	(440,990)	(853,599)
Non-current investments	\$ 507,666,151	\$ 504,982,309



**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**YEARS ENDED AUGUST 31, 2008 AND 2007**

***Investment Maturities***

As of August 31, 2008, the Endowment Fund had the following investments and weighted average maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
U.S. government obligations	\$ 2,437,228	15.4
U.S. government agencies	14,862,452	22.2
Corporate bonds and asset backed securities <i>(including short-term investments)</i>	21,704,958	10.4
Equity, mutual funds, other investments	<u>469,102,503</u>	Untenured
Total investments at fair value	<u>\$ 508,107,141</u>	15.2

Weighted average maturity of tenured portfolio

***Investment Related Risks***

*Custodial Credit Risk* - At August 31, 2008 and 2007, Endowment Fund's total investments at fair value under a master trust custodian agreement with a third party financial institution was approximately \$197,816,779 and \$156,581,600, respectively. The third-party custodian operates its business world-wide and, at August 31, 2008 and 2007, held risk insurance contracts with various local and foreign insurance organizations providing coverage for loss due to theft, fraud, and damage to securities while in the custodian's custody; loss of securities while in transit; property damage; and, loss due to business interruption, acts of terrorism, officer negligence, and general liability. The insurance coverage limits ranged from \$1,000,000 to \$500,000,000. The coverage did not protect against market risks and fluctuations associated with market investments.

At August 31, 2008 and 2007, Endowment Fund's investments at fair value not covered by the master trust custodian agreement were approximately \$342,688,650 and \$374,147,500, respectively. These investments excluding real estate valued at \$4,038,292 and \$4,083,650 at August 31, 2008 and 2007, were held by various independent investment managers under various independent investment management agreements. The investments are subject to custodial risks associated with those independent investment managers, and to market risks and fluctuations associated with market investments. The System controls these risks through its credit and concentration risks policies as described in the credit risk and concentration of credit risk paragraph below.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**YEARS ENDED AUGUST 31, 2008 AND 2007**

*Interest Rate Risk* - The System's investment policy, by way of the investment manager guidelines, does restrict investments based on maturities such that the average life of securities purchased are between one and ten years and provides for limitations on the weighted average duration of the active fixed income manager's portfolio. The System's investment policy is driven primarily by the goal to preserve the long-term real (inflation-adjusted) purchasing power of endowment assets while achieving short term maximum earnings. In order to balance these two primary goals, the Board of Regents is closely involved in managing the exposure to declines in investment fair value and earnings.

*Credit Risk and Concentration of Credit Risk* - In accordance with the System's investment policy, investments in fixed income securities must have an average portfolio credit quality of "AA" or better. However, active third party investment managers are permitted to slightly dilute this quality if the dilution would provide short term increased earnings without a significant threat to investments' long term real purchasing power. At no time are these managers permitted to invest in any security below investment grade. The investment manager guidelines limit the amount each active manager may invest in any one issuer.

***Alternative Investments***

Investments with reported values of approximately \$156,538,000 and \$139,229,000, as of August 31, 2008 and 2007, respectively, are not publicly traded, and has been estimated by fund managers in the absence of readily available market values. These funds are invested with external investment managers who invest primarily in various alternative categories, including real estate, long and short equity positions, natural resources, private equity, managed futures, emerging markets, distressed enterprises, and arbitrage positions. Alternative investments include investments in hedge funds, private equity funds, and other limited liability partnerships or corporations. These investments are domestic and international in nature and some of the investments may not be realized for a period of several years after the investments are made. Risks associated with these investments include liquidity risks, market risks, event risks, foreign exchange risks, and interest rate and investment manager risks. More specifically, the risks include the following:

*Nonregulation risk* – These funds are not required to register with the Securities and Exchange Commission (SEC) and are not subject to the kinds of regulatory controls that SEC provides.

*Managerial risk* – Fund managers may fail to produce the intended returns and are not subject to oversight.

*Minimal liquidity* – Many funds impose restrictions on redemptions or require multi-year lock-up periods that restrict investors from redeeming their shares or may impose penalties to redeem.

**UNIVERSITY OF HOUSTON SYSTEM  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**YEARS ENDED AUGUST 31, 2008 AND 2007**

*Limited transparency* – As unregistered investment vehicles, funds are not required to disclose the holdings in their portfolios to investors.

*Investment strategy risk* – The funds often employ sophisticated and more risky investment strategies, as compared to traditional investments, and one or more may use leverage, which could result in volatile returns.

The credit quality (ratings) of tenured securities and concentration of credit exposure as a percentage of total investments as of August 31, 2008 are as follows:

<u>Description of Security</u>	<u>Credit Rating</u>	<u>Fair Value as of 8/31/08</u>	<u>Credit Exposure</u>
AT&T Inc 4.95% 01/15/13	A	239,966	0.05%
AT&T Wireless Services Inc 8.75% 03/01/31	A	322,507	0.06%
AXA 8.6% 12/15/30	A-	259,475	0.05%
Banc One Corp 8% 04/29/27	A+	376,207	0.07%
Bear Stearns 6.4% 10/02/17	AA-	344,061	0.06%
Berkshire Hathaway 5.4% 05/15/18	AAA	179,163	0.03%
Burlington Nothn Santa Fe Corp 5.75% 03/15/18	BBB	168,890	0.03%
CIT Group Inc 5.65% 02/13/17	A-	252,799	0.05%
Citigroup Inc 6% 02/21/12	AA-	342,206	0.06%
Clorox Co 5.95% 10/15/17	BBB+	399,692	0.08%
Clorox Co 5% 03/01/13	BBB+	217,824	0.04%
Commonwealth Edison Co 6.15% 09/15/17	BBB	170,415	0.03%
Commonwealth Edison Co 5.8% 03/15/18	BBB	126,624	0.02%
ConocoPhillips 5.625% 10/15/16	A	426,251	0.08%
Credit Suisse First Boston (USA) Inc 6.125% 11/15/11	AA-	360,500	0.07%
Diageo Cap 5.2% 01/30/13	A-	182,101	0.03%
Disney Walt Co 5.625% 09/15/16	A	390,245	0.07%
Emerson Electric 4.5% 05/01/13	A	390,140	0.07%
General Elec Cap Corp 5.875% 01/14/38	AAA	315,154	0.06%
General Elec Cap Corp 5.625% 05/01/18	AAA	194,444	0.04%
General MIs Inc 5.25% 08/15/13	BBB+	199,568	0.04%
Genworth Financial Inc 4.95% 10/01/15	A	298,273	0.06%
GlaxoSmithKline Cap Inc 5.65% 05/15/18	A+	310,887	0.06%
Goldman Sachs Group 5.75% 10/01/16	AA-	284,871	0.05%
HoneyWell Int'l Inc 4.25% 03/01/13	A	278,079	0.05%
Ingersoll-Rand Global Hldg Co 6% 08/15/13	BBB+	421,050	0.08%
Int'l Lease Finance Corp 4.875% 09/01/10	A+	252,391	0.05%
JPMorgan Chase & Co 5.375% 10/01/12	AA-	327,419	0.06%
Koninklijke Philips Electrs 4.625% 03/11/13	A-	237,427	0.04%
Lehman Bros Hldgs Inc 6.5% 07/19/17	A	274,415	0.05%
Lehman Bros Hldgs Inc 6.875% 07/17/37	A-	139,201	0.03%
Lehman Brothers Hldgs Inc 6.2% 09/26/14	A	56,204	0.01%
Merrill Lynch & Co Inc 6.875% 04/25/18	A	128,941	0.02%
Merrill Lynch & Co Inc 6.11% 01/29/37	A-	300,140	0.06%

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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*Continuation of credit quality (ratings) of tenured securities and concentration of credit exposure as a percentage of total investments as of August 31, 2008:*

<u>Description of Security</u>	<u>Credit Rating</u>	<u>Fair Value as of 8/31/08</u>	<u>Credit Exposure</u>
Pacific Gas & Elec Co 5.625% 11/30/17	BBB+	209,397	0.04%
Rio Tinto Fin USA Ltd 5.875% 07/15/13	BBB+	262,194	0.05%
SBC Communs Inc 5.625% 06/15/16	A	183,960	0.03%
SBC Communications 4.125% 09/15/09	A	351,974	0.07%
Southern Pwr Co 6.25% 07/15/12	BBB+	31,427	0.01%
Tele-Communications Inc 7.875% 08/01/13	BBB+	565,890	0.11%
US Bancorp 5.3% 04/28/09	AA	429,985	0.08%
Valero Energy Corp 6.625% 06/15/37	BBB	158,823	0.03%
Verizon Communications Inc 6.4% 02/15/38	A	428,007	0.08%
Verizon Global Fund 7.25% 12/01/10	A	370,948	0.07%
Virginia Elec & Pwr Co 5.95% 09/15/17	A-	101,293	0.02%
Wal-Mart 4.75% 08/15/10	AA	247,157	0.05%
Wal-Mart 4.25% 04/15/13	AA	80,294	0.02%
Wells Fargo & Co 5.25% 10/23/12	AA+	239,863	0.05%
AEP Tex Cent Transition 4.98% 07/01/13	AAA	349,916	0.07%
American Express 4.35% 12/15/11	AAA	401,708	0.08%
American Express Var Rt 08/15/13	AAA	668,678	0.13%
Capital One 3.65% 07/15/11	AAA	450,068	0.08%
Centerpoint Energy 4.97% 08/01/14	AAA	407,704	0.08%
Chase Issuance Trust 4.23% 01/15/13	AAA	449,091	0.08%
Chase Issuance Trust Var Rt 02/15/12	AAA	357,386	0.07%
GE Capital Credit Card 5.08% 09/15/12	AAA	186,487	0.04%
Honda Auto 4.610% 08/17/09	AAA	11,005	0.00%
MBNA Master 4.3% 02/15/11	AAA	450,257	0.08%
PG&E Energy 5.030% 03/25/14	AAA	403,744	0.08%
USAA Auto 4.630% 05/15/12	AAA	552,987	0.10%
FNMA Gtd Remic 4.491% 11/25/12	AAA	620,143	0.12%
FHLMC Multiclass 4.25% 12/15/10	AAA	393,726	0.07%
FNMA Gtd Remic P/T 04-36 4% 03/25/18	AAA	112,861	0.02%
FNMA Gtd Remic P/T 2004-45 4.5% 06/25/24	AAA	133,119	0.03%
FNMA Gtd Remic P/T 05-51 4.5% 01/25/25	AAA	179,375	0.03%
GNMA Gtd Remic P/T 2002-48 6% 09/16/30	AAA	772,700	0.15%
GE Coml Mtg Corp 2006-1 CL A4 Var Rt 03/10/44	AAA	419,483	0.08%
JPMorgan Chase Coml 04-C2 A3 Var Rt 05/15/41	AAA	392,368	0.07%
LB UBS Coml Mtg 06-C7 CL A2 5.3% 11/15/38	AAA	389,204	0.07%
LB UBS Coml Mtg 02 C1 A 2 5.969% 03/15/26	AAA	94,074	0.02%
LB UBS Coml Mtg TR 03-C5 A-3 4.254% 07/15/27	AAA	352,325	0.07%
LB UBS Coml Mtg 2005-C7 CL A1 4.99% 11/15/30	AAA	232,408	0.04%
Morgan Stanley Cap 04-Top13 A4 4.66% 09/13/45	AAA	95,400	0.02%

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**YEARS ENDED AUGUST 31, 2008 AND 2007**

At August 31, 2008 and 2007, the Endowment Fund held no unrated fixed-income marketable securities.

**6. Due to Other Components**

Due to other components at August 31, 2008 and 2007 consists of the following:

	<u>2008</u>	<u>2007</u>
Payable to System components under the income payout policy	\$ 24,966,476	\$ 20,942,101
Payable to System components for institutional advancement	5,876,529	5,345,027
Payable to System components based on endowment agreements	<u>1,099,485</u>	<u>1,115,601</u>
Total due to other components	<u>\$ 31,942,490</u>	<u>\$ 27,404,729</u>

**7. Related Party Transactions**

In addition to the transfers-in described in the revenue recognition policy in Note 2, and distributions to other components described in Note 6, the Endowment Fund received in-kind contributions from the System in the form of personnel costs, office facilities, equipment and supplies in the fiscal years ended August 31, 2008 and 2007. The total estimated value of these in-kind contributions received from the System was approximately \$451,000 and \$472,000 for the fiscal years 2008 and 2007, respectively.

**8. Fees and Expenses**

The Endowment Fund pays custodial fees and expenses to the financial institution which acts as the custodian of the portion of the Endowment Fund's assets managed under a master trust custodian agreement. The fees are based on the number of accounts, market value of the securities, and transaction activities in accordance with the master trust custodian agreement.

Additionally, the Endowment Fund incurs asset management fees from the independent investment managers of the Endowment Fund. The fees are generally assessed on a quarterly basis on a percentage of the market value of investments held by each investment manager.

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**YEARS ENDED AUGUST 31, 2008 AND 2007**

The Endowment Fund incurs other expenses related to its operations primarily consisting of professional service fees and expenses.

The total fees and expenses incurred by the Endowment Fund for the fiscal years ended August 31, 2008 and 2007 was \$2,387,073 and \$1,754,409, respectively.

**9. Income Taxes**

The System is a university established as an agency of the State of Texas prior to 1969, and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Endowment Fund is a fund group of the System reporting entity. Accordingly, no provisions for income taxes have been made in the accompanying financial statements.

**10. Subsequent Event**

In the months subsequent to the fiscal year year-end, there has been a significant decline in the U.S. and world's financial markets. These and other economic events have had a significant adverse effect on the value of investments held by the Endowment Fund. Interim valuation information is not available for all investments through the date of this report. However, for the Endowment Fund, investment declines subsequent to year-end and through December 31, 2008 were approximately \$94,356,000. As of that date, the Endowment Fund's total investments fair value including cash equivalents was approximately \$407,722,000.

## Supplemental Schedules

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF INVESTMENTS BY ISSUER**

**AUGUST 31, 2008**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Government Agency Issues</b>			
FHLMCGLD Mortpass 4% 09/01/19	261,777	\$ 257,036	\$ 252,262
FHLMC 3.5% 06/01/19	134,875	126,359	128,059
Federal Home Ln Mtg 4.875% 11/15/13	900,000	939,551	926,928
Federal Home Ln Mtg 5.5% 08/23/17	670,000	702,667	715,175
Federal Home Ln Mtg 5.125% 11/17/17	400,000	420,595	415,430
FNMA 5% 02/01/13	274,802	271,895	276,303
FNMA 6% 07/01/23	81,617	82,048	82,880
FNMA 6% 10/01/23	45,355	45,595	46,051
FNMA 5% 08/01/19	335,846	332,369	336,416
FNMA 4.5% 09/01/34	361,916	350,411	336,574
FNMA Var Rt 06/01/34	157,765	157,814	158,751
FNMA 5.5% 03/01/35	565,416	572,533	559,474
GNMA 7.5% 10/15/32	2,458	2,602	2,615
GNMA 9% 08/15/30	12,432	13,130	13,544
GNMA 11% 09/15/15	9,187	10,050	9,626
Commit to Pur FNMA 5% 09/01/38	1,630,000	1,545,253	1,567,092
Commit to Pur GNMA 5% 09/15/38	205,000	196,688	200,067
Commit to Pur GNMA 5.5% 09/15/38	300,000	296,297	299,438
Commit to Pur GNMA 6% 09/15/38	540,000	544,324	547,932
Commit to Pur FNMA 5% 09/01/23	1,050,000	1,026,703	1,042,945
Commit to Pur FNMA 5.5% 09/01/38	2,115,000	2,066,504	2,088,563
Commit to Pur FNMA 6.5% 09/01/38	700,000	716,844	719,907
Commit to Pur FNMA 5.5% 09/01/23	2,110,000	2,108,728	2,127,144
Commit to Pur FNMA 6% 09/01/38	1,990,000	1,994,120	2,009,279
Total Government Agency Issue		<u>14,780,115</u>	<u>14,862,452</u>
<b>U.S. Government Obligations</b>			
US Treas Bonds 4.375% 02/15/38	260,000	250,252	258,233
US Treas Bonds 1.625% 01/15/15	773,273	778,362	784,872
US Treas Strip Generic Tint 11/15/18	405,000	262,536	263,801
US Treas Strip Int Pmt 0% 11/15/27	2,755,000	1,105,659	1,130,321
Total U.S. Government Obligations		<u>2,396,809</u>	<u>2,437,228</u>



**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF INVESTMENTS BY ISSUER, CONTINUED**

**AUGUST 31, 2008**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Corporate Bonds</b>			
AT&T Inc 4.95% 01/15/13	240,000	\$ 242,837	\$ 239,966
AT&T Wireless Services Inc 8.75% 03/01/31	270,000	343,401	322,507
AXA 8.6% 12/15/30	270,000	336,563	259,475
Banc One Corp 8% 04/29/27	385,000	445,254	376,207
Bear Stearns 6.4% 10/02/17	350,000	349,467	344,061
Berkshire Hathaway 5.4% 05/15/18	180,000	179,746	179,163
Burlington Nothn Santa Fe Corp 5.75% 03/15/18	170,000	169,623	168,890
CIT Group Inc 5.65% 02/13/17	360,000	343,174	252,799
Citigroup Inc 6% 02/21/12	345,000	353,732	342,206
Clorox Co 5.95% 10/15/17	400,000	401,135	399,692
Clorox Co 5% 03/01/13	220,000	220,209	217,824
Commonwealth Edison Co 6.15% 09/15/17	170,000	171,351	170,415
Commonwealth Edison Co 5.8% 03/15/18	130,000	129,762	126,624
ConocoPhillips 5.625% 10/15/16	415,000	419,577	426,251
Credit Suisse First Boston (USA) Inc 6.125% 11/15/11	350,000	363,002	360,500
Diageo Cap 5.2% 01/30/13	180,000	179,904	182,101
Disney Walt Co 5.625% 09/15/16	380,000	382,632	390,245
Emerson Electric 4.5% 05/01/13	390,000	381,814	390,140
General Elec Cap Corp 5.875% 01/14/38	350,000	342,157	315,154
General Elec Cap Corp 5.625% 05/01/18	200,000	199,487	194,444
General Mls Inc 5.25% 08/15/13	200,000	199,574	199,568
Genworth Financial Inc 4.95% 10/01/15	345,000	336,095	298,273
GlaxoSmithKline Cap Inc 5.65% 05/15/18	310,000	309,817	310,887
Goldman Sachs Group 5.75% 10/01/16	300,000	299,248	284,871
HoneyWell Int'l Inc 4.25% 03/01/13	280,000	279,129	278,079
Ingersoll-Rand Global Hldg Co 6% 08/15/13	420,000	419,821	421,050
Int'l Lease Finance Corp 4.875% 09/01/10	270,000	269,895	252,391
JPMorgan Chase & Co 5.375% 10/01/12	330,000	329,768	327,419
Koninklijke Philips Electrs 4.625% 03/11/13	240,000	238,338	237,427
Lehman Bros Hldgs Inc 6.5% 07/19/17	310,000	309,523	274,415
Lehman Bros Hldgs Inc 6.875% 07/17/37	170,000	167,172	139,201
Lehman Brothers Hldgs Inc 6.2% 09/26/14	60,000	59,957	56,204
Merrill Lynch & Co Inc 6.875% 04/25/18	140,000	139,884	128,941
Merrill Lynch & Co Inc 6.11% 01/29/37	400,000	353,173	300,140

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF INVESTMENTS BY ISSUER, CONTINUED**

**AUGUST 31, 2008**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Corporate Bonds (Continued)</b>			
Pacific Gas & Elec Co 5.625% 11/30/17	210,000	\$ 209,073	\$ 209,397
Rio Tinto Fin USA Ltd 5.875% 07/15/13	260,000	259,060	262,194
SBC Communs Inc 5.625% 06/15/16	185,000	185,241	183,960
SBC Communications 4.125% 09/15/09	350,000	346,476	351,974
Southern Pwr Co 6.25% 07/15/12	30,000	30,507	31,427
Tele-Communications Inc 7.875% 08/01/13	520,000	563,088	565,890
US Bancorp 5.3% 04/28/09	425,000	424,920	429,985
Valero Energy Corp 6.625% 06/15/37	180,000	178,561	158,823
Verizon Communications Inc 6.4% 02/15/38	460,000	458,807	428,007
Verizon Global Fund 7.25% 12/01/10	350,000	364,808	370,948
Virginia Elec & Pwr Co 5.95% 09/15/17	100,000	99,652	101,293
Wal-Mart 4.75% 08/15/10	240,000	239,883	247,157
Wal-Mart 4.25% 04/15/13	80,000	79,823	80,294
Wells Fargo & Co 5.25% 10/23/12	240,000	239,777	239,863
		<u>13,345,895</u>	<u>12,828,742</u>
<b>Asset Backed Securities</b>			
AEP Tex Cent Transition 4.98% 07/01/13	350,000	349,851	349,916
American Express 4.35% 12/15/11	400,000	396,768	401,708
American Express Var Rt 08/15/13	680,000	680,000	668,678
Capital One 3.65% 07/15/11	450,000	440,084	450,068
Centerpoint Energy 4.97% 08/01/14	400,000	399,891	407,704
Chase Issuance Trust 4.23% 01/15/13	450,000	441,606	449,091
Chase Issuance Trust Var Rt 02/15/12	360,000	358,924	357,386
GE Capital Credit Card 5.08% 09/15/12	185,000	184,978	186,487
Honda Auto 4.610% 08/17/09	10,996	10,996	11,005
MBNA Master 4.3% 02/15/11	450,000	444,357	450,257
PG&E Energy 5.030% 03/25/14	400,000	399,967	403,744
USAA Auto 4.630% 05/15/12	550,000	548,508	552,987
		<u>4,655,929</u>	<u>4,689,030</u>

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF INVESTMENTS BY ISSUER, CONTINUED**

**AUGUST 31, 2008**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Collateralized Mortgage Obligation (CMO)/ Real Estate Mortgage Investment Conduit (REMIC)</b>			
FNMA Gtd Remic 4.491% 11/25/12	620,000	\$ 621,581	\$ 620,143
FHLMC Multiclass 4.25% 12/15/10	393,769	390,375	393,726
FNMA Gtd Remic P/T 04-36 4% 03/25/18	114,002	114,876	112,861
FNMA Gtd Remic P/T 2004-45 4.5% 06/25/24	133,160	130,858	133,119
FNMA Gtd Remic P/T 05-51 4.5% 01/25/25	179,083	175,980	179,375
GNMA Gtd Remic P/T 2002-48 6% 09/16/30	760,000	797,968	772,700
Total CMO/REMIC		<u>2,231,639</u>	<u>2,211,923</u>
<b>Commercial Mortgage Backed Securities</b>			
GE Coml Mtg Corp 2006-1 CL A4 Var Rt 03/10/44	455,000	451,317	419,483
JPMorgan Chase Coml 04-C2 A3 Var Rt 05/15/41	405,000	421,271	392,368
LB UBS Coml Mtg 06-C7 CL A2 5.3% 11/15/38	400,000	403,706	389,204
LB UBS Coml Mtg 02 C1 A 2 5.969% 03/15/26	94,021	94,475	94,074
LB UBS Coml Mtg TR 03-C5 A-3 4.254% 07/15/27	360,000	368,301	352,325
LB UBS Coml Mtg 2005-C7 CL A1 4.99% 11/15/30	232,188	230,360	232,408
Morgan Stanley Cap 04-Top13 A4 4.66% 09/13/45	100,000	97,328	95,400
Total Commercial Mortgage Backed Securities		<u>2,066,758</u>	<u>1,975,262</u>
<b>Common Stock</b>			
ABB Ltd	7,500	172,575	184,275
ABM Inds Inc	4,700	110,790	123,516
Aaron Rents Inc	2,000	53,081	57,120
Abbot Laboratories	1,970	85,546	113,137
Accenture	4,990	120,294	206,386
Ace Ltd	10,575	400,581	556,351
Administaff Inc	3,800	103,757	104,120
Advanced Auto Parts	8,140	281,810	350,346
Advent Software Inc	1,100	53,529	50,875
Aeropostale Inc	21,400	571,109	746,004
AGCO Corp	11,400	672,924	702,582
Airgas Inc	950	24,723	56,278

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF INVESTMENTS BY ISSUER, CONTINUED**

**AUGUST 31, 2008**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Common Stock (Continued)</b>			
Alexandria Real Estate Equities Inc	1,000	\$ 96,488	\$ 107,710
Altria Group Inc	15,720	23,543	330,592
American Express Co	5,825	228,022	231,136
American Med Sys Hldgs Inc	4,900	78,701	87,220
Amerigroup Corp	3,300	85,051	85,404
Ameriprise Financial Inc	1,805	49,145	81,135
Ameron Int'l Corp	700	92,261	81,802
Amphenol Corp	12,700	445,493	603,504
Amsurg Corp	1,900	51,871	51,509
Analog Devices	6,710	211,980	187,612
Analogic Corp	1,100	76,653	74,470
Andersons Inc	2,450	110,896	110,152
Anheuser-Busch Cos Inc	2,400	23,077	162,864
Annaly Capital Management	8,720	141,681	130,451
AnnTaylor Stores Corp	2,200	53,435	53,416
Ansys Inc	2,300	81,105	102,005
Apollo Group Inc	10,100	627,846	643,168
Apple Inc	2,000	260,834	339,060
Argo Group Int'l Holdings Ltd	3,916	142,720	147,202
Arrow Electrics	4,460	131,400	148,027
Assurant Inc	10,100	676,712	590,143
Atwood Oceanics Inc	3,200	103,559	130,112
Automatic Data Processing Inc	3,500	142,154	155,330
Avis Budget Group	14,015	247,607	106,794
Avista Corp	2,700	57,872	60,210
Axsys Technologies Inc	2,350	46,596	159,636
BJS Whsl Club Inc	2,000	66,033	76,060
Baldor Electric Co	6,450	224,448	229,878
Bank of America Corp	18,810	754,210	585,743
Bank of New York Mellon Corp	6,727	217,348	232,821
Barnes Group	900	20,989	21,708
BE Aerospace Inc	800	22,077	19,160
Beasley Farmers Gin Co	19	950	950
Becton Dickinson & Co	7,000	528,935	611,660

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF INVESTMENTS BY ISSUER, CONTINUED**

**AUGUST 31, 2008**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Common Stock (Continued)</b>			
Berkshire Hathaway Inc	206	\$ 604,693	\$ 803,812
Blackboard Inc	3,350	127,961	133,866
BMC Software Inc	19,500	635,363	634,920
BP PLC	3,028	140,974	174,504
Brocade Communications Sys Inc	15,300	102,816	113,526
Bucyrus Int'l	1,300	57,280	90,805
Cabot Corp	3,750	118,042	103,763
CACI Int'l Inc	2,200	102,540	111,430
Calgon Carbon Corp	7,050	119,265	150,377
Canadian Nat Res	3,950	332,074	335,948
Capella Ed Co	2,050	73,809	101,906
Capital One Fin'l Corp	8,875	433,313	391,743
Carrizo Oil & Gas Inc	4,200	216,862	208,488
Cash America Int'l Inc	3,300	128,675	136,587
Caterpillar Inc	3,500	247,280	247,555
Chevron Corp	10,000	367,269	863,200
Chipotle Mexican Grill Inc	1,300	98,055	90,116
Chiquita Brands Int'l Inc	7,450	134,420	109,366
Church & Dwight Inc	12,700	695,650	793,750
CIGNA Corp	5,055	227,226	211,703
Circor International Inc	3,150	118,858	189,819
Cisco Systems	10,000	290,120	240,500
Clarcor Inc	4,150	127,076	165,710
Clean Hbrs Inc	1,400	97,084	113,596
Clorox Co	5,095	285,907	301,115
Coca-Cola Co	12,976	81,394	675,660
Coinstar Inc	3,950	129,479	130,034
Colgate-Palmolive Co	8,700	586,927	661,461
Comstock Res Inc	1,400	74,086	90,916
Conceptus Inc	8,150	151,654	137,735
Concho Res Inc	2,700	84,949	88,209
Conns Inc	3,700	87,558	70,744
Conocophillips	6,000	435,030	495,060
Con-Way Inc	2,300	119,221	112,930

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF INVESTMENTS BY ISSUER, CONTINUED**

**AUGUST 31, 2008**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Common Stock (Continued)</b>			
Core Laboratories	1,250	\$ 109,619	\$ 155,175
Corning Inc	6,000	155,940	123,240
Corporate Office Pptys	3,000	101,807	117,300
Corrections Corp Amer	4,200	110,799	111,720
Costar Group Inc	2,300	107,684	121,463
Covidien Ltd	5,580	229,140	301,711
Curtiss Wright Corp	2,800	134,787	150,836
Cypress Semiconductor	3,900	78,084	126,438
Danaher Corp	8,700	651,428	709,659
Darling Int'l	8,850	113,150	121,511
Davita Inc	6,975	371,795	400,295
Devry Inc	2,000	66,977	103,160
Dicks Sporting Goods Inc	3,400	61,373	77,826
Digital RIV Inc	3,500	131,430	153,125
Digital Rlty Tr Inc	2,400	88,584	110,088
Dollar Tree Inc	3,700	108,727	141,932
Donaldson Inc	400	15,757	17,564
Donnelley (R.R.) & Sons Co	9,020	295,406	251,478
Dover Corp	13,600	677,064	671,568
Dr Pepper Snapple Inc	14,590	361,108	360,519
Dresser Rand Group	4,920	173,971	199,555
Dril Quip Inc	2,000	49,703	110,020
Dycom Inds Inc	3,800	55,306	60,914
Ebay Inc	7,425	210,222	185,105
Edison Int'l	5,900	272,834	270,928
Emcor Group Inc	2,200	63,502	74,954
Emerson Electric	6,000	118,511	280,800
Energys	3,800	119,238	106,856
Entertainment Pptys Tr	1,900	98,662	103,113
EOG Res Inc	3,115	301,598	325,268
Essex Ppty Tr	900	104,989	105,615
Esterline Technologies Corp	900	47,627	50,841
Excel Maritime Carriers Ltd	3,242	43,492	115,707
Exco Res Inc	6,850	142,948	181,388

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF INVESTMENTS BY ISSUER, CONTINUED**

**AUGUST 31, 2008**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Common Stock (Continued)</b>			
Exelon Corp	1,500	\$ 112,156	\$ 113,940
Express Scripts	10,300	382,475	756,123
Exxon Mobil	39,778	1,604,843	3,182,638
FEI Company	4,300	104,111	116,444
Factset Resh Sys Inc	1,900	104,983	119,149
Fcstone Group Inc	3,850	72,388	80,504
Ferro Corp	4,900	99,436	107,996
Firs Cash Fin'l Services Inc	4,850	90,444	89,871
First Energy Corp	7,100	587,571	515,744
F5 Network Inc	8,400	244,339	286,524
Flowers Food Inc	5,200	136,622	137,488
Fluor Corp	1,200	81,697	96,156
Fomento Economico Mexicano	5,000	189,753	222,100
Foot Locker Inc	17,050	231,838	277,745
Formfactor Inc	4,800	83,242	92,112
Forward Air Corp	6,950	227,059	245,266
Fossil Inc	20,400	808,598	610,368
Foundation Coal Hldgs Inc	1,800	87,151	106,470
Franklin Electric	4,800	202,096	207,840
Franklin Res Inc	5,055	476,240	528,248
Freeport McMoran Copper & Gold	2,000	240,926	178,640
Gardner Denver Inc	1,200	61,308	54,168
Gen Probe Inc	2,000	102,001	119,500
General Dynamics	2,000	178,996	184,600
General Electric Co	27,080	128,703	760,948
Geo Group Inc	4,900	140,259	108,437
Gilead Sciences Inc	13,100	590,504	690,108
Glacier Bancorp	4,502	66,642	95,983
Goodrich Pete Corp	1,500	73,575	76,275
Granite Constr Inc	1,500	55,107	55,020
Guess Inc	17,400	615,424	648,498
Haemonetics Corp	4,250	246,073	266,560
Hain Celestial Group Inc	2,100	57,047	54,579
Halliburton Co	5,500	196,129	241,670

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF INVESTMENTS BY ISSUER, CONTINUED**

**AUGUST 31, 2008**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Common Stock (Continued)</b>			
Hancock Hldg Co	2,700	\$ 108,448	\$ 132,435
Harmonic Inc	5,500	48,600	48,400
Harris Corp	10,725	495,967	561,561
Haynes International Inc	1,900	120,929	111,074
Healthcare Svcs Group Inc	5,450	85,354	106,166
Helix Energy Solutions Group Inc	11,245	353,479	346,009
Herbalife Ltd	2,400	103,328	113,040
Hercules Inc	6,600	119,519	142,230
Hess Corp	5,300	665,547	554,963
Hewlett-Packard Co	25,670	1,012,118	1,204,436
Hexcel Corp	9,600	157,128	199,488
Hibbett Sports Inc	4,900	91,344	117,110
Home Depot Inc	14,020	401,820	380,222
Honeywell Int'l	5,320	200,621	266,904
HSBC HLDG	4,000	355,040	314,840
Huntington Bancshares Inc	7,330	52,687	53,656
Huron Consulting Group Inc	2,200	119,805	141,856
IBM Corp	8,720	873,769	1,061,486
IDEX Corp	1,400	51,893	51,898
Illinois Tool Wks Inc	2,815	159,010	139,652
Immucor Inc	900	24,226	28,989
Intel Corp	26,620	465,499	608,799
Intuitive Surgical Inc	2,300	647,331	679,121
Inventiv Health	4,982	145,218	109,953
Investment Tech Grp	5,100	194,711	163,200
I2 Technologies Inc	5,850	80,745	84,299
Jabil Circuit Inc	38,360	633,555	646,750
Jack in the Box Inc	3,500	74,338	83,055
Jacobs Engineering Group	8,300	413,842	612,706
Jarden Corp	5,500	137,769	141,185
Johnson & Johnson	24,380	1,263,489	1,717,083
Jos A Bank Clothiers	4,468	89,315	116,123
JPMorgan Chase & Co	32,135	1,299,933	1,236,876
Juniper Networks Inc	24,632	627,122	633,042



**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF INVESTMENTS BY ISSUER, CONTINUED**

**AUGUST 31, 2008**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Common Stock (Continued)</b>			
K12 Inc	4,600	\$ 112,633	\$ 108,422
Kaydon Corp	3,900	179,302	217,347
Kendle Int'l Inc	2,200	82,258	108,790
KeyCorp	4,600	52,421	55,246
Key Energy Services Inc	4,300	59,982	72,240
Kindred Healthcare Inc	3,600	111,800	111,348
Kirby Corp	2,650	31,573	121,344
Knight Transn Inc	5,600	101,871	100,184
Korn Ferry Int'l	5,000	88,844	88,900
LKQ Corp	5,600	92,825	104,888
Lance Inc	2,700	53,415	55,323
Landstar Sys Inc	4,700	218,571	230,394
LaSalle Hotel	4,550	146,935	118,619
Lawson Software Inc	13,550	123,201	109,620
Lazard Ltd	3,750	145,755	158,963
Liberty Media Corp New Entertainment	9,596	150,104	266,673
Life Time Fitness	800	28,785	28,280
Lilly (Eli) & Co	3,500	280,665	163,275
Lincare Hldgs Inc	8,605	319,208	283,965
Lockheed Martin Corp	6,430	523,895	748,709
Loews Corp	15,840	648,147	687,931
M & T Bk Corp	785	53,138	56,002
MTS Systems Corp	3,550	133,478	147,254
MWI Veterinary Supply Inc	3,650	120,038	143,774
Macys Inc	6,290	146,742	130,958
Mantech Int'l Corp	3,700	168,661	217,893
Marathon Oil Corp	10,020	510,674	451,601
Mariner Energy Inc	1,900	52,451	55,271
Marsh & McLennan Cos Inc	8,040	207,476	256,717
Marshall & Ilsley Corp	9,480	202,019	145,992
Mastec Inc	6,100	76,066	86,132
Mattel Inc	7,540	159,175	145,748
McDermott Int'l	2,000	105,096	69,460
McDonald's Corp	14,600	786,868	905,200

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF INVESTMENTS BY ISSUER, CONTINUED**

**AUGUST 31, 2008**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Common Stock (Continued)</b>			
Mcgraw-Hill Cos Inc	13,760	\$ 467,574	\$ 589,478
McKesson Corp	6,310	368,004	364,592
Medtronic Inc	3,000	161,998	163,800
Merck & Co Inc	2,337	29,452	83,361
Meridian Bioscience	3,425	64,531	97,339
Micros Sys Inc	2,700	85,130	83,214
Microsemi Corp	1,900	44,896	52,250
Microsoft Corp	36,435	1,121,663	994,311
Middleby Corp	1,200	53,360	64,032
Mohawk Inds Inc	1,930	149,121	133,267
Molson Coors Brewing	3,060	105,966	145,809
Moodys Corp	8,510	310,296	346,017
Morgan Stanley	6,745	323,525	275,398
MorningStar Inc	1,300	84,149	84,903
National Instrs Corp	4,250	125,420	137,190
National Oilwell Varco Inc	7,800	247,505	575,094
National Semiconductor Corp	27,115	587,514	581,074
Needville Cotton Warehouse Inc	2	200	200
NetFlix Com Inc	1,700	54,301	52,428
Nike Inc	5,655	233,521	342,750
Noble Energy Inc	7,330	625,041	525,781
Nordson Corp	1,450	71,246	77,764
Northern TR Corp	9,300	577,959	747,627
Novo Nordisk	3,000	202,458	166,680
Nuance Communication Inc	7,900	43,648	124,820
Occidental Petroleum	12,200	779,179	968,192
Omnicom Group	9,150	449,465	387,869
Oracle Corp	51,455	835,933	1,128,408
OSI Pharmaceuticals Inc	13,400	605,351	676,700
Otter Tail Corp	5,400	222,407	214,434
PSS World Medical Inc	7,750	128,050	141,593
Pacer Int'l Inc	6,300	116,156	132,804
Panera Bread	2,100	91,144	112,854
Papa Johns Int'l Inc	1,800	51,715	50,256

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF INVESTMENTS BY ISSUER, CONTINUED**

**AUGUST 31, 2008**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Common Stock (Continued)</b>			
Parallel Pete Corp	5,300	\$ 123,146	\$ 70,172
Parametric Technology Corp	33,500	551,747	672,680
Parexel International Corp	4,850	86,272	154,085
Pediatrix Med Group	2,000	100,895	113,900
Penn VA Corp	500	21,207	33,090
Pepsico Inc	9,370	106,185	641,658
Perrigo Co	16,675	570,688	583,458
Petrohawk Energy Corp	2,700	71,953	93,447
Petroquest Energy Inc	8,600	107,342	159,014
PG&E Corp	5,060	243,586	209,130
Philip Morris Int'l	26,885	469,714	1,443,725
Phillips Van Heusen Corp	3,500	144,798	133,210
PolyCom Inc	4,500	115,581	126,180
Pool Corp	2,200	53,222	53,372
Potlatch Corp	3,462	153,315	161,641
PPG Industries	3,490	239,105	219,381
Praxair Inc	2,615	133,340	234,932
Premiere Global Svcs Inc	16,200	250,313	244,944
Private Bancorp Inc	3,950	133,217	120,910
Proctor & Gamble Co	18,580	599,790	1,296,327
Prosperity Bancshares Inc	4,450	134,073	142,178
Prudential Financial Inc	1,500	137,154	110,565
Qualcomm Inc	14,100	725,055	742,365
Raven Industries	2,850	83,610	128,849
Raymond James Fin'l Inc	20,700	645,028	638,181
Regal Beloit Group	1,100	45,594	51,645
Reinsurance Group Amer Inc	3,860	194,745	185,898
Rent A Center Inc	6,050	136,328	137,093
Rio Tinto	800	220,207	303,776
Ritchie Bros Auctioneers Inc	3,100	83,033	82,026
Robbins & Myers Inc	2,200	96,314	98,670
Rofin-Sinar Technologies Inc	4,100	119,301	165,722
Ross Stores	3,210	99,851	129,074
Royal Dutch Shell	2,400	97,680	166,848

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF INVESTMENTS BY ISSUER, CONTINUED**

**AUGUST 31, 2008**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Common Stock (Continued)</b>			
SBA Communications	3,050	\$ 22,425	\$ 106,537
SRA International	4,050	95,708	95,094
SVB Financial Group	2,200	110,470	123,310
Safeway Inc	6,385	197,286	168,181
Saks Inc	7,100	75,005	80,940
Schering-Plough Corp	11,130	196,235	215,922
Siemens Ag Sponsored	1,850	215,144	201,280
Sigma Aldrich Corp	10,900	620,391	618,684
Silgan Hldgs Inc	3,000	119,100	157,020
Sonic Corp	11,900	223,599	172,431
Staples Inc	8,545	195,240	206,789
State Street Corp	2,995	182,318	202,672
Suntrust Banks Inc	2,980	105,559	124,832
Superior Well Services Inc	5,550	135,478	182,928
Symantec Corp	9,240	180,785	206,144
Synovus Fin'l Corp	25,640	288,734	235,888
Sysco Corp	3,500	113,727	111,405
Taiwan Semiconductor Mfg Co Ltd	23,945	206,319	232,506
Talisman Energy Inc	34,350	621,225	604,217
Target Group	4,475	141,036	237,265
Tempur Pedic International	11,150	152,566	126,107
Tetra Tech Inc	5,300	131,337	151,474
Texas Instruments Inc	14,085	416,312	345,223
Tibco Software Inc	18,200	152,799	149,058
TJX Cos Inc	4,015	129,868	145,504
Total SA	7,105	527,665	510,707
Tractor Supply Co	2,150	48,254	91,633
Transocean Incorp	1,699	202,261	216,113
Travelers	10,707	460,076	472,821
Triumph Group Inc	1,200	49,603	65,688
UMB Fin'l Corp	2,200	111,266	114,466
Under Armour Inc	2,650	94,144	89,332
Unit Corp	800	52,567	54,184
United Parcel Svc Inc	2,085	144,978	133,690

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF INVESTMENTS BY ISSUER, CONTINUED**

**AUGUST 31, 2008**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Common Stock (Continued)</b>			
United Technologies Corp	17,410	\$ 1,147,757	\$ 1,141,922
United Therapeutics Corp	900	92,652	95,517
Unitrin	10,900	159,947	278,277
Varian Med Sys Inc	12,000	632,054	757,920
Viasat Inc	3,900	88,328	102,297
Vodafone Group	15,540	472,527	397,047
WMS Inds Inc	3,300	99,024	110,880
Waddell & Reed Fin'l Inc	3,400	92,144	109,480
Wal-Mart Stores Inc	16,265	700,701	960,774
Walgreen Co	9,620	43,382	350,457
Warnaco Group Inc	1,200	50,538	61,884
Waste Connections Inc	7,750	250,912	281,403
Watsco Inc	1,000	50,233	51,190
Weatherford Int'l	3,000	143,739	115,740
Wellpoint Inc	3,555	280,007	187,668
Wells Fargo & Co	12,125	383,963	367,024
Wesco Int'l Inc	3,600	161,336	138,384
West Pharmaceutical Services Inc	1,400	62,110	68,334
Whole Foods Market Inc	2,500	153,367	45,775
Willbros Group Inc	4,450	179,756	184,275
Wind Riv Sys Inc	14,250	152,528	157,463
Woodward Governor Co	3,000	117,348	138,990
Wright Med Group Inc	4,950	121,744	152,411
Wyeth	6,515	299,310	281,969
Total Common Stock		<u>77,972,043</u>	<u>90,814,485</u>
<b>Preferred Stock</b>			
Hungerford Cooperative Gin Assoc	16	16	16
Total Preferred Stock		<u>16</u>	<u>16</u>

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF INVESTMENTS BY ISSUER, CONTINUED**

**AUGUST 31, 2008**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>
<b>International Funds</b>			
<b>Equity</b>			
Canadian Dollar			
Petro-Canada	29,000	\$ 1,410,409	\$ 1,284,663
Swiss Franc			
Credit Suisse Group	29,100	1,619,262	1,355,183
EURO Currency Unit			
Solvay	5,200	732,259	640,782
Fortis	66,300	1,532,973	925,344
E.On AG	18,300	1,244,811	1,073,646
BASF SE	38,200	2,539,976	2,214,729
Allianz SE (Societas Europeae)	11,600	2,326,128	1,948,611
Deutsche Lufthansa AG	28,800	737,113	623,080
Muenchener Rueckversicherungs G	6,400	1,121,193	1,000,470
Deutsche Bank AG	21,900	2,551,178	1,876,178
Total SA Eur2.5 Post Subdivision	30,200	2,482,573	2,180,636
Lagardere S.C.A. Eur6.1 (REG)	9,600	743,653	539,904
Michelin Cie Gle Des Etabl	10,100	1,142,235	659,621
Renault Regie Nationale Des	18,200	2,276,603	1,534,547
Sanofi-Aventis Eur2	21,700	1,784,882	1,552,984
Societe Generale Eur1.25	14,750	1,847,059	1,435,407
Credit Agricole SA Eur3	69,573	1,943,153	1,487,267
Arcelor	13,500	945,443	1,068,500
BNP Paribas Eur2	10,700	1,151,677	968,499
ENI Eur1	42,600	1,527,624	1,394,218
Telecom Italia Eur0.55	352,600	763,054	575,180
Koninklijke DSM	14,200	746,874	822,231
Royal Dutch Shell A Shs Eur0.07	79,300	3,237,299	2,781,555
Koninklijke Ahold NV Eur0.30	92,000	1,251,671	1,155,363
ING Groep N.V. CVA Eur0.24	40,500	1,442,918	1,272,422
Stora Enso Oyj Ser 'R'	48,000	739,479	484,782
British Pound Sterling			
Kazakhmys	29,000	767,697	683,398
Vodafone Group	477,200	1,803,011	1,227,684
Associated British Foods	41,200	756,889	606,058
Royal Bank of Scotland	384,000	2,802,347	1,644,181
GlaxoSmithKline	32,500	777,160	768,544
HBOS	296,590	3,400,669	1,708,098
Barclays	219,400	2,039,759	1,412,616
Xstrata	11,050	677,750	617,941

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF INVESTMENTS BY ISSUER, CONTINUED**

**AUGUST 31, 2008**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>
<b>International Funds (Continued)</b>			
<b>Equity (Continued)</b>			
Hong Kong Dollar			
China Netcom Group Corp	275,000	\$ 788,069	\$ 649,028
China Petroleum and Chemical	1,268,000	1,365,512	1,221,738
Japanese Yen			
Mitsubishi Chemical Holdings Corp	171,000	1,299,437	978,493
Fujitsu	146,000	1,046,329	1,023,783
JFE Holdings Inc	29,900	1,490,048	1,283,889
Sumitomo Mitsui Gr	112	835,866	691,454
Mitsui & Co	19,000	310,013	329,141
Mitsui O.S.K. Lines	59,000	869,271	711,099
Nippon Tel & Tel Corp	162	740,968	809,067
Nissan Motor Co	161,600	1,645,165	1,252,298
Orix Corp	6,510	1,139,783	808,014
Sharp Corp	45,000	722,613	580,511
Tokyo Electric Pwr Co	38,400	1,010,767	1,103,967
Toshiba Corp	96,000	756,827	543,138
Norwegian Krone			
Statoilhydro ASA	41,500	1,299,066	1,285,174
Swedish Krona			
Ericsson (L.M.)	28,000	316,192	318,264
U.S. Dollar			
Citigroup Global Markets Hldg	290,700	353,638	359,596
Deutsche Bank AG London Call 19/01/2017	176,300	561,290	501,926
Deutsche Bank AG London Call WTS 24/01/17	1,849,350	1,111,053	787,823
Samsung Electrs Co	3,500	723,762	586,600
Hynix Semiconductor	29,900	734,762	532,519
JSC MMC Norilsk Nickel	27,250	750,183	539,550
Kookmin Bk	11,900	617,881	652,120
Oil Co Lukoil	14,300	1,181,327	1,068,925
Total International Equity		<u>74,536,603</u>	<u>60,142,438</u>
<b>Preferred Securities</b>			
U.S. Dollar			
Companhia Vale Do Rio	45,100	1,215,666	1,072,027
Total International Preferred Securities		<u>1,215,666</u>	<u>1,072,027</u>
William Blair		68,497,872	60,748,424
Total International Funds		<u>144,250,141</u>	<u>121,962,889</u>

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF INVESTMENTS BY ISSUER, CONTINUED**

**AUGUST 31, 2008**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Real Estate</b>			
Morgan Stanley Real Estate Fund		\$ 4,609,362	\$ 3,359,162
Berwind Property Group, Fund VII		4,099,066	4,943,000
Berwind Property Group, Fund VIII		1,599,969	1,663,086
Newlin Realty Partners, I		3,059,681	3,169,495
Newlin Realty Partners, II		852,652	803,153
Pinnacle (Salient) Trust REITs		5,463,282	4,872,165
Sustainable Woodlands Fund		4,232,899	5,452,312
Total Real Estate		<u>23,916,910</u>	<u>24,262,373</u>
<b>Fixed Income Mutual Funds</b>			
Wells Capital Management		42,629,257	42,221,167
Total Fixed Income Mutual Funds		<u>42,629,257</u>	<u>42,221,167</u>
<b>Other Investments</b>			
Dodge & Cox		22,823,791	25,036,953
Wellington Research		19,294,261	18,133,307
Cougar Investment Fund		709,189	628,293
Davidson Kempner		9,991,464	10,388,771
Crestline Investors		10,000,000	12,429,146
Whippoorwill Distressed Opportunity Fund		7,500,000	7,765,495
Moncrief Willingham		5,000,000	7,030,047
Wellington DIH		19,742,453	26,374,271
Colchester		5,830,312	5,535,965
Absolute Plus Management		5,441,426	5,797,832
Barlow Partners		30,571,967	37,751,823
York Institutional Partners		9,890,777	12,874,464
Federal Street		11,000,000	11,452,943
Total Other Investments		<u>157,795,639</u>	<u>181,199,310</u>
<b>Partnerships</b>			
Trident		(1,100)	4,472
Harbourvest Partnership		1,025,606	361,601
Harbourvest International Partnership		179,623	247,700
Harbourvest International Direct		16,350	25,861
Commonfund Capital, VI		769,717	786,559
Commonfund Capital, VII		317,168	314,278
Commonfund Capital, VIII		269,354	270,047



**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF INVESTMENTS BY ISSUER, CONTINUED**

**AUGUST 31, 2008**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Partnerships (Continued)</b>			
Encap Energy VII-B		\$ 2,345,619	\$ 2,265,956
Fisher Lynch Venture		49,110	47,880
Fisher Lynch Buyout		287,936	279,617
Total Partnerships		<u>5,259,383</u>	<u>4,603,971</u>
<b>Other Assets</b>			
Land		1,326,667	4,038,292
Total Other Assets		<u>1,326,667</u>	<u>4,038,292</u>
<b>Total Investments</b>		<u><u>\$ 492,627,200</u></u>	<u><u>\$ 508,107,141</u></u>

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**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF CHANGES IN NET ASSETS BY ENDOWMENT  
YEAR ENDED AUGUST 31, 2008**

Endowment Name	Net Assets, Beginning of Year	Additions				Reductions				Net Assets, End of Year
		Contributions Received	Net Return on Investments	Nonmandatory Transfers from Other Funds	Total Additions	Income Distribution	Fundraising Assessment	Unrestricted Principal Reduction	Total Reductions	
System Core Pool Quasi Endowment	\$ -	\$ 60,725,679	\$ (3,375,946)	\$ -	\$ 57,349,733	\$ (2,067,934)	\$ -	\$ -	\$ (2,067,934)	\$ 55,281,799
Cullen Roy & Lillie	62,407,205	-	(3,455,619)	-	(3,455,619)	(2,912,023)	(873,606)	-	(3,785,629)	55,165,957
General Endowment	33,256,003	4,419	(1,841,763)	-	(1,837,345)	(1,549,000)	(464,669)	-	(2,013,669)	29,404,990
Bauer, C.T.	30,290,691	-	(1,703,744)	-	(1,703,744)	(1,395,595)	-	-	(1,395,595)	27,191,352
Hugh Roy & Lillie Cramz Cullen Dist Chairs Prof	27,687,216	-	(1,533,099)	-	(1,533,099)	(1,291,931)	(387,581)	-	(1,679,512)	24,474,605
Moore Presidential Priorities	26,422,853	-	(1,463,130)	-	(1,463,130)	(1,230,752)	(369,226)	-	(1,599,978)	23,359,745
Moore Univ Priority	22,336,888	-	(1,160,175)	-	(1,160,175)	(1,096,997)	(329,099)	(1,211,003)	(2,637,099)	18,539,614
Mitchell, Cynthia Woods Center	18,362,434	-	(1,020,146)	-	(1,020,146)	(676,464)	(202,939)	-	(879,403)	16,462,885
Hirsch, Winifred & Maurice	13,029,943	183,599	(732,442)	-	(548,843)	(604,119)	(180,068)	-	(784,187)	11,696,914
Melrose Thompson	10,438,296	806,677	(624,875)	-	181,802	(475,213)	(136,721)	-	(611,934)	10,008,164
Melcher, Leroy & Lucille	8,705,600	-	(482,047)	-	(482,047)	(406,218)	(121,865)	-	(528,083)	7,695,470
Jones, Jesse Quasi	7,930,786	-	(439,144)	-	(439,144)	(370,064)	(111,019)	-	(481,083)	7,010,559
M. D. Anderson Foundation	6,082,136	-	(342,099)	-	(342,099)	(279,821)	-	-	(279,821)	5,460,217
Endowment Plus	6,172,637	-	(341,801)	-	(341,801)	(287,516)	(86,255)	-	(373,771)	5,457,064
Welch Foundation	5,921,704	-	(333,075)	-	(333,075)	(276,316)	-	-	(276,316)	5,312,313
Mitchell	5,401,738	115,540	(310,346)	-	(194,806)	(247,875)	-	-	(247,875)	4,959,058
School Of Music Quasi	5,287,193	-	(292,763)	-	(292,763)	(246,709)	(74,013)	-	(320,722)	4,673,708
Welch Foundation Chair	5,040,869	-	(283,531)	-	(283,531)	(231,915)	-	-	(231,915)	4,525,423
Franklin, Thomas & Richard Quasi	4,729,207	-	(261,866)	-	(261,866)	(220,673)	(66,202)	-	(286,875)	4,180,466
Superconductivity Quasi	4,691,049	-	(259,753)	-	(259,753)	(218,892)	(65,668)	-	(284,560)	4,146,735
Edmonds Foundation UHD	4,628,766	-	(256,305)	-	(256,305)	(215,986)	(64,794)	-	(280,780)	4,091,681
System Matching	4,216,741	-	(233,496)	-	(233,496)	(196,412)	(58,924)	-	(255,336)	3,727,909
Japan Shipbuilding	3,955,084	-	(222,459)	-	(222,459)	(181,961)	-	-	(181,961)	3,550,663
TLL Temple Foundation Chair	3,822,970	-	(211,686)	-	(211,686)	(178,386)	(53,516)	-	(231,902)	3,379,382
Cullen Eng Schol	3,808,744	-	(210,898)	-	(210,898)	(177,722)	(53,317)	-	(231,039)	3,366,807
Edmonds Foundation -UH	3,676,698	-	(203,587)	-	(203,587)	(171,561)	(51,468)	-	(223,029)	3,250,082
Welch Foundation, Chemistry	3,250,843	-	(182,848)	-	(182,848)	(149,561)	-	-	(149,561)	2,918,434
Athletics Scholarships	3,122,136	-	(172,879)	-	(172,879)	(145,684)	(43,705)	-	(189,389)	2,759,867

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF CHANGES IN NET ASSETS BY ENDOWMENT, CONTINUED  
YEAR ENDED AUGUST 31, 2008**

Endowment Name	Net Assets, Beginning of Year	Additions				Reductions				Net Assets, End of Year
		Contributions Received	Net Return on Investments	Nonmandatory Transfers from Other Funds	Total Additions	Income Distribution	Fundraising Assessment	Unrestricted Principal Reduction	Total Reductions	
Hines, Gerald	\$ 2,832,872	\$ 225,000	\$ (170,397)	\$ -	\$ 54,603	\$ (126,874)	\$ (36,655)	\$ -	\$ (163,529)	\$ 2,723,946
Jones Scholarships	2,711,775	-	(150,157)	-	(150,157)	(126,536)	(37,961)	-	(164,497)	2,397,121
Moore's Fellowships	2,645,558	-	(146,490)	-	(146,490)	(123,446)	(37,034)	-	(160,480)	2,338,588
Worham Chair	2,543,073	-	(140,815)	-	(140,815)	(118,664)	(35,599)	-	(154,263)	2,247,995
Alkek	2,516,458	-	(139,342)	-	(139,342)	(117,422)	(35,227)	-	(152,649)	2,224,467
Moore's TCSUH	2,269,541	-	(125,669)	-	(125,669)	(105,900)	(31,770)	-	(137,670)	2,006,202
Moore's Library Quasi	2,269,541	-	(125,669)	-	(125,669)	(105,900)	(31,770)	-	(137,670)	2,006,202
Carolyn Grant Fay	1,939,430	-	(107,390)	-	(107,390)	(90,497)	(27,149)	-	(117,646)	1,714,393
Cullen Trust Dist Sci	1,924,820	-	(106,581)	-	(106,581)	(89,815)	(26,945)	-	(116,760)	1,701,479
African American Studies	1,798,016	-	(99,560)	-	(99,560)	(83,898)	(25,170)	-	(109,068)	1,589,388
Johnson Foundation	1,705,632	-	(94,486)	-	(94,486)	(77,347)	(23,204)	-	(100,551)	1,510,594
Cain Scholarship - UH	1,681,718	-	(93,120)	-	(93,120)	(78,472)	(23,542)	-	(102,014)	1,486,584
Cullen Fdn Chair Creative Writing	1,566,357	-	(86,759)	-	(86,759)	(71,659)	(21,498)	-	(93,157)	1,386,441
Hispanic Literature Chair	1,486,286	-	(82,299)	-	(82,299)	(69,353)	(20,806)	-	(90,159)	1,313,828
Cullen Leadership	1,448,600	-	(80,212)	-	(80,212)	(67,594)	(20,278)	-	(87,872)	1,280,516
Enron Teaching Award	1,435,407	-	(79,482)	-	(79,482)	(66,978)	(20,094)	-	(87,072)	1,268,854
Faculty Development	1,413,075	-	(78,245)	-	(78,245)	(65,936)	(19,780)	-	(85,716)	1,249,114
Cullen Graduate Scholarships	1,390,327	-	(76,985)	-	(76,985)	(64,875)	(19,462)	-	(84,337)	1,229,005
Cain Scholarship UH	1,372,501	-	(75,998)	-	(75,998)	(64,043)	(19,213)	-	(83,256)	1,213,247
Cullen Eng. Prof.	1,370,800	-	(75,904)	-	(75,904)	(63,964)	(19,189)	-	(83,153)	1,211,743
SICSA/Japan Shipbuilding	1,314,570	-	(73,940)	-	(73,940)	(60,479)	-	-	(60,479)	1,180,151
Baker Hughes Professorship	1,058,105	259,725	(74,126)	-	185,599	(62,262)	(14,812)	-	(77,074)	1,166,630
BPA Quasi	1,243,919	-	(69,104)	-	(69,104)	(46,031)	(13,809)	-	(59,840)	1,114,976
Elvira Dell Krause	1,259,370	-	(69,735)	-	(69,735)	(58,690)	(17,607)	-	(76,297)	1,113,338
PLM Professorships	1,216,778	-	(67,376)	-	(67,376)	(56,777)	(17,033)	-	(73,810)	1,075,592
Jones, Jesse H. & Mary Gibbs	1,187,165	-	(65,736)	-	(65,736)	(55,395)	(16,619)	-	(72,014)	1,049,415
McMahan, Charles Chair	1,180,351	-	(65,355)	-	(65,355)	(55,290)	(16,587)	-	(71,877)	1,043,119
Edythe Bates Old Quasi	1,177,024	-	(65,174)	-	(65,174)	(54,922)	(16,477)	-	(71,399)	1,040,451

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF CHANGES IN NET ASSETS BY ENDOWMENT, CONTINUED  
YEAR ENDED AUGUST 31, 2008**

Endowment Name	Net Assets, Beginning of Year	Additions				Reductions				Net Assets, End of Year
		Contributions Received	Net Return on Investments	Nonmandatory Transfers from Other Funds	Total Additions	Income Distribution	Fundraising Assessment	Unrestricted Principal Reduction	Total Reductions	
Altek/Williams Chair	\$ 1,169,424	\$ -	\$ (64,752)	\$ -	\$ (64,752)	\$ (54,631)	\$ (16,389)	\$ -	\$ (71,020)	\$ 1,033,651
General Purpose	1,166,381	-	(64,587)	-	(64,587)	(54,329)	(16,299)	-	(70,628)	1,031,166
Elkins Professorship	1,152,441	-	(63,813)	-	(63,813)	(53,775)	(16,132)	-	(69,907)	1,018,721
Phieffer, Eckhard Chair Quasi	985,344	-	(54,683)	-	(54,683)	(39,439)	(11,832)	-	(51,271)	879,390
Urban Education Program	973,045	-	(53,880)	-	(53,880)	(45,404)	(13,621)	-	(59,025)	860,140
Houston Professorship	972,978	-	(53,876)	-	(53,876)	(45,401)	(13,620)	-	(59,021)	860,081
Theresa M. Monaco Chair for the Provost		998,652	(73,987)	-	924,665	(59,717)	(17,461)	-	(77,178)	847,487
Urban Scholars Learners Com.	919,901	-	(50,969)	20,607	(30,362)	(41,214)	(12,364)	-	(53,578)	835,961
Faculty Dev Quasi	931,455	-	(51,577)	-	(51,577)	(43,463)	(13,039)	-	(56,502)	823,376
University Scholarships	925,955	1,571	(51,363)	-	(49,792)	(42,965)	(12,872)	-	(55,837)	820,325
Greenman Petty Professorship	890,166	-	(50,069)	-	(50,069)	(40,954)	-	-	(40,954)	799,144
Moore Professorship	902,976	-	(50,000)	-	(50,000)	(42,134)	(12,640)	-	(54,774)	798,203
Arthur Andersen Professorship	808,969	68,250	(49,297)	-	18,954	(40,672)	-	-	(40,672)	787,251
Gillingham, W. J.	883,955	-	(48,946)	-	(48,946)	(41,247)	(12,374)	-	(53,621)	781,388
Enron Scholarship	874,477	-	(48,422)	-	(48,422)	(40,805)	(12,241)	-	(53,046)	773,010
Honors Fellows	870,004	-	(48,174)	-	(48,174)	(40,596)	(12,179)	-	(52,775)	769,055
Borish Chair	858,623	-	(47,544)	-	(47,544)	(40,065)	(12,019)	-	(52,084)	758,995
BPA Health	857,754	-	(47,496)	-	(47,496)	(40,024)	(12,007)	-	(52,031)	758,228
Brown Fdn Research Director	770,522	66,283	(46,272)	-	20,011	(40,710)	(11,558)	-	(52,268)	738,265
Miller, Murray Scholarships	819,544	-	(45,380)	-	(45,380)	(38,241)	(11,472)	-	(49,713)	724,451
Dunn, John Professorship	797,710	-	(44,172)	-	(44,172)	(37,164)	(11,149)	-	(48,313)	705,225
Blaffer Gallery	774,680	-	(42,896)	-	(42,896)	(36,148)	(10,844)	-	(46,992)	684,792
Bates, William Chair	744,985	-	(41,903)	-	(41,903)	(33,637)	-	-	(33,637)	669,445
Texas Scholars	724,888	-	(40,161)	-	(40,161)	(32,607)	(9,782)	-	(42,389)	642,338
Ken Reese Dean's Chair-Business	617,767	88,723	(39,147)	-	49,576	(32,556)	(8,539)	-	(41,095)	626,248
Clear Lake Alumni	674,944	1,600	(37,467)	-	(35,867)	(31,326)	(9,383)	-	(40,709)	598,368
Trust Investment	669,171	-	(37,053)	-	(37,053)	(31,226)	(9,368)	-	(40,594)	591,524
Cizik, Jane Morin Chair	662,527	-	(36,686)	-	(36,686)	(30,915)	(9,274)	-	(40,189)	585,652

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF CHANGES IN NET ASSETS BY ENDOWMENT, CONTINUED  
YEAR ENDED AUGUST 31, 2008**

Endowment Name	Net Assets, Beginning of Year	Additions					Reductions					Net Assets, End of Year
		Contributions Received	Net Return on Investments	Nonmandatory Transfers from Other Funds	Total Additions	Income Distribution	Fundraising Assessment	Unrestricted Principal Reduction	Total Reductions			
Rockwell Foundation	\$ 654,243	\$ -	\$ (36,227)	\$ -	\$ (36,227)	\$ (30,528)	\$ (9,158)	\$ -	\$ (39,686)	\$ 578,330		
Yelderman, Pauline Chair	631,079	-	(34,944)	-	(34,944)	(29,447)	(8,834)	-	(38,281)	557,854		
Rockwell, Elizabeth Engineering Chair	614,255	-	(34,013)	-	(34,013)	(28,662)	(8,599)	-	(37,261)	542,982		
Fiesta/Accounting	609,745	-	(33,763)	-	(33,763)	(28,452)	(8,536)	-	(36,988)	538,994		
Evans, Emily Scott Professorship	608,730	-	(33,707)	-	(33,707)	(28,360)	(8,508)	-	(36,868)	538,154		
Gordon & Mary Cain Sch End	369,156	232,376	(33,074)	-	199,302	(28,954)	(5,490)	-	(34,444)	534,013		
Edwards	601,231	-	(33,291)	-	(33,291)	(28,054)	(8,416)	-	(36,470)	531,469		
Bill Cook Faculty	593,886	-	(32,885)	-	(32,885)	(27,712)	(8,314)	-	(36,026)	524,976		
African Amer Studies, Chair in Creative Writing	587,262	-	(32,518)	-	(32,518)	(27,403)	(8,221)	-	(35,624)	519,120		
Autrey	586,791	-	(32,492)	-	(32,492)	(27,381)	(8,214)	-	(35,595)	518,704		
Taylor, Josie B Quasi	584,891	-	(32,394)	-	(32,394)	(26,897)	(8,069)	-	(34,966)	517,531		
Hearst, W.R.	576,354	-	(31,920)	-	(31,920)	(26,555)	(7,966)	-	(34,521)	509,913		
Rockwell, Elizabeth Education Chair	575,136	-	(31,846)	-	(31,846)	(26,883)	(8,065)	-	(34,948)	508,342		
Lamier, Robert Chair	570,178	-	(31,573)	-	(31,573)	(26,550)	(7,965)	-	(34,515)	504,090		
KPMG/Peat Marwick	518,725	40,951	(31,000)	-	9,951	(26,094)	(7,261)	-	(33,355)	495,322		
HRM Facility Improv: Quasi	552,524	-	(30,594)	-	(30,594)	(25,782)	(7,734)	-	(33,516)	488,413		
Dow Professorship	550,625	-	(30,489)	-	(30,489)	(25,693)	(7,708)	-	(33,401)	486,734		
Melcher, Lucille Endow	548,584	-	(30,382)	-	(30,382)	(25,275)	(7,583)	-	(32,858)	485,344		
Ambassador Kenneth Franzheim II End	545,088	-	(30,149)	-	(30,149)	(27,254)	(8,176)	-	(35,430)	479,510		
Elizabeth D. Rockwell Chair	541,908	-	(30,013)	-	(30,013)	(24,968)	(7,490)	-	(32,458)	479,437		
John S. Dunn Chair End		500,000	(27,474)	16,675	489,201	(16,675)	-	-	(16,675)	472,526		
Sheriff, Margaret & Robert/Seismology	534,108	-	(29,575)	-	(29,575)	(24,922)	(7,477)	-	(32,399)	472,135		
International Paper	516,103	-	(28,578)	-	(28,578)	(24,082)	(7,225)	-	(31,307)	456,218		
Wood Family	502,006	10,000	(28,351)	-	(18,351)	(23,398)	(6,882)	-	(30,280)	453,375		
Engene H Hughes Sch	511,469	542	(28,359)	-	(27,817)	(23,553)	(7,062)	-	(30,615)	453,037		
Lite Family-Baseball	510,960	-	(28,293)	-	(28,293)	(23,842)	(7,153)	-	(30,995)	451,672		
Hurley, Marvin Professorship	510,646	-	(28,276)	-	(28,276)	(23,828)	(7,148)	-	(30,976)	451,394		
Delphian Scholarships	507,106	-	(28,080)	-	(28,080)	(23,662)	(7,099)	-	(30,761)	448,266		

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF CHANGES IN NET ASSETS BY ENDOWMENT, CONTINUED  
YEAR ENDED AUGUST 31, 2008**

Endowment Name	Net Assets, Beginning of Year	Additions				Reductions				Net Assets, End of Year
		Contributions Received	Net Return on Investments	Nonmandatory Transfers from Other Funds	Total Additions	Income Distribution	Fundraising Assessment	Unrestricted Principal Reduction	Total Reductions	
Kenneth Lay Economics Prof	\$ 500,739	\$ -	\$ (27,727)	\$ -	\$ (27,727)	\$ (23,365)	\$ (7,010)	\$ -	\$ (30,375)	\$ 442,637
Athletic Football Facility Quasi	500,206	-	(27,697)	-	(27,697)	(23,340)	(7,002)	-	(30,342)	442,166
Cullinan	493,391	-	(27,320)	-	(27,320)	(23,022)	(6,907)	-	(29,929)	436,142
Rockefeller Fndn Hisp. Lit Quasi	487,717	-	(27,006)	-	(27,006)	(22,750)	(6,825)	-	(29,575)	431,136
Jessie & Mary Jones	478,306	-	(26,485)	-	(26,485)	(22,319)	(6,696)	-	(29,015)	422,806
West, Neva & Wesley	477,762	-	(26,455)	-	(26,455)	(22,293)	(6,688)	-	(28,981)	422,327
Kenneth Lay Professorship	473,261	-	(26,205)	-	(26,205)	(22,083)	(6,625)	-	(28,708)	418,347
Temple - TCSUH	471,615	-	(26,114)	-	(26,114)	(22,006)	(6,602)	-	(28,608)	416,893
Temple-Honors Coll	469,649	-	(26,006)	-	(26,006)	(21,915)	(6,574)	-	(28,489)	415,155
Duncan Professorship	465,518	-	(25,777)	-	(25,777)	(21,722)	(6,517)	-	(28,239)	411,503
Red Rose Ball	461,798	-	(25,571)	-	(25,571)	(21,548)	(6,464)	-	(28,012)	408,215
Hart, David	376,276	80,000	(25,195)	-	54,805	(20,335)	(5,200)	-	(25,535)	405,546
John A. Beck	457,866	-	(25,353)	-	(25,353)	(21,365)	(6,409)	-	(27,774)	404,739
Chevron Scholarship Endowment	456,838	-	(25,296)	-	(25,296)	(21,317)	(6,395)	-	(27,712)	403,830
UH System Quasi	453,726	-	(25,124)	-	(25,124)	(21,134)	(6,340)	-	(27,474)	401,127
UH Quasi	453,726	-	(25,124)	-	(25,124)	(21,134)	(6,340)	-	(27,474)	401,127
Grimaker, Robert Professorship	366,387	77,805	(24,614)	-	53,191	(20,685)	(5,129)	-	(25,814)	393,764
Farfel Lecture	443,834	-	(24,576)	-	(24,576)	(20,710)	(6,213)	-	(26,923)	392,335
Perry, Bob Mexican American	434,680	-	(24,069)	-	(24,069)	(20,305)	(6,091)	-	(26,396)	384,215
O'Leary, Mr. & Mrs. John	429,964	-	(23,808)	-	(23,808)	(20,063)	(6,019)	-	(26,082)	380,074
Hughes, Ruth	419,718	-	(23,240)	-	(23,240)	(19,613)	(5,884)	-	(25,497)	370,981
Hearst, William Randolph	407,704	-	(22,634)	-	(22,634)	(15,905)	(4,771)	-	(20,676)	364,394
KUHT	383,345	-	(21,562)	24,611	3,049	(24,611)	-	-	(24,611)	361,783
Melcher Violin	401,638	-	(22,244)	-	(22,244)	(18,505)	(5,551)	-	(24,056)	355,338
Comp. Sci & Eng. Profship Quasi	399,031	-	(22,095)	-	(22,095)	(18,618)	(5,585)	-	(24,203)	352,733
MIS Professorship Quasi	398,808	-	(22,083)	-	(22,083)	(18,586)	(5,576)	-	(24,162)	352,562
Daniels, Howard	365,659	25,700	(21,713)	-	3,987	(16,840)	(4,821)	-	(21,661)	347,985
Houston Livestock	387,537	-	(21,798)	-	(21,798)	(17,829)	-	-	(17,829)	347,911

**UNIVERSITY OF HOUSTON SYSTEM  
ENDOWMENT FUND**

**SCHEDULE OF CHANGES IN NET ASSETS BY ENDOWMENT, CONTINUED  
YEAR ENDED AUGUST 31, 2008**

Endowment Name	Net Assets, Beginning of Year	Additions				Reductions				Net Assets, End of Year
		Contributions Received	Net Return on Investments	Nonmandatory Transfers from Other Funds	Total Additions	Income Distribution	Fundraising Assessment	Unrestricted Principal Reduction	Total Reductions	
American Petroleum Inst	\$ 374,680	\$ -	\$ (20,761)	\$ -	\$ (20,761)	\$ (16,744)	\$ (5,023)	\$ -	\$ (21,767)	\$ 332,152
Price Waterhouse Professorship	324,299	34,123	(19,855)	-	14,268	(16,706)	(4,540)	-	(21,246)	317,321
Univ. Stud. Loan	347,985	20	(19,274)	-	(19,254)	(16,010)	(4,803)	-	(20,813)	307,918
Lence Distinguished Chair	346,266	-	(19,173)	-	(19,173)	(16,157)	(4,847)	-	(21,004)	306,088
Hope Center Endowment	341,343	(4,375)	(18,945)	-	(23,320)	(16,939)	-	-	(16,939)	301,084
Graham Professorship in Econ	340,167	-	(18,836)	-	(18,836)	(15,866)	(4,760)	-	(20,626)	300,705
Hou International Materials Forum	333,963	-	(18,515)	-	(18,515)	(14,386)	(4,316)	-	(18,702)	296,746
Baldwin, R. W.	334,143	-	(18,502)	-	(18,502)	(15,592)	(4,677)	-	(20,269)	295,371
Gordon, Harry	329,062	-	(18,221)	-	(18,221)	(15,355)	(4,606)	-	(19,961)	290,880
Woody Williams End Sch	207,704	100,000	(17,615)	-	82,385	(9,988)	-	-	(9,988)	280,101
Gordon, Aron	310,420	-	(17,189)	-	(17,189)	(14,485)	(4,345)	-	(18,830)	274,401
Marrel Professorship	309,704	-	(17,149)	-	(17,149)	(14,451)	(4,335)	-	(18,786)	273,769
JP Morgan Chase Professorship	300,782	-	(16,655)	-	(16,655)	(14,035)	(4,211)	-	(18,246)	265,881
Bauer Family Fndn.	294,838	-	(16,326)	-	(16,326)	(13,736)	(4,121)	-	(17,857)	260,655
Cain Scholarship For Teaching	292,461	-	(16,194)	-	(16,194)	(13,647)	(4,094)	-	(17,741)	258,526
School Of Educ Devel.	231,109	56,005	(16,072)	-	39,933	(10,938)	(2,905)	-	(13,843)	257,200
Johnson Fnd. Professorship	286,675	-	(15,912)	-	(15,912)	(11,328)	(3,398)	-	(14,726)	256,037
Blakely, Newell Professorship	289,300	-	(16,019)	-	(16,019)	(13,499)	(4,050)	-	(17,549)	255,732
American Book Review Endowment	136,068	143,365	(16,436)	-	126,929	(7,882)	-	-	(7,882)	255,115
Charles T Bauer Schol Endow	288,922	120	(15,997)	-	(15,877)	(13,902)	(4,169)	-	(18,071)	254,973
Dist Service Fellow	283,697	-	(15,709)	-	(15,709)	(13,214)	(3,964)	-	(17,178)	250,810
Total other endowments	54,352,798	4,660,503	(5,357,333)	49,626	(647,204)	(2,473,149)	(680,375)	-	(3,153,524)	50,552,070
	\$ 494,021,958	\$ 69,502,852	\$ (33,316,039)	\$ 111,519	\$ 36,298,332	\$ (24,966,477)	\$ (5,876,529)	\$ (1,211,003)	\$ (32,054,009)	\$ 498,266,281





John Keel, CPA

John Keel, CPA  
Texas State Auditor

SAO: Reports:

Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2008

## Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2008

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March 2009

Report Number 09-330

### Overall Conclusion

This report contains the results of the federal portion of the Statewide Single Audit for fiscal year 2008. It includes:

- The auditor's opinion and findings from a review of compliance and controls over the State's federal awards.
- The auditor's opinion on the State's Schedule of Expenditures of Federal Awards, as well as a copy of that schedule.

This report, along with the financial portion of the Statewide Single Audit performed by the State Auditor's Office, is submitted to the federal government to fulfill Single Audit reporting requirements.

### Contact the SAO about this report.

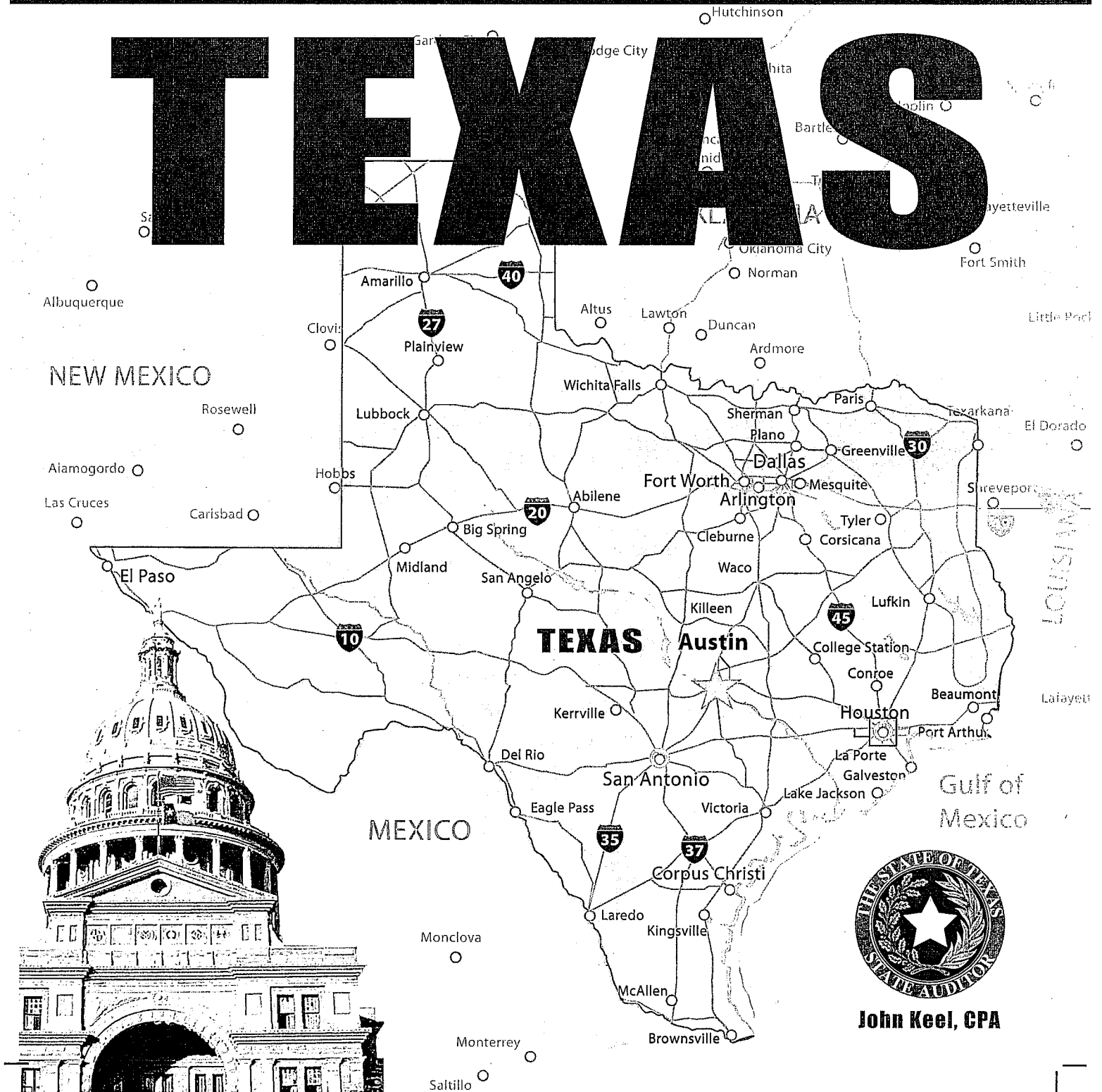
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# Federal Portion of the Statewide Single Audit Report For the Fiscal Year Ended August 31, 2008

# TEXAS



John Keel, CPA

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University of Houston

Reference No. 09-82

Eligibility

Student Financial Assistance Cluster

Award year - July 1, 2007 to June 30, 2008

Award number - CFDA 84.038 Award Number Not Applicable

Type of finding - Significant Deficiency and Non-Compliance

The maximum annual amount of Federal Perkins loans that an eligible student may borrow is \$4,000 for undergraduates and \$6,000 for graduate or professional students. The maximum annual amounts may be exceeded by 20 percent if the student is engaged in a study abroad program that is approved for credit by the home institution at which the student is enrolled and that has reasonable costs in excess of the home institution's cost of attendance (Title 34, Code of Federal Regulations, Section 674.12).

Questioned Cost: \$ 6,755

U.S. Department of Education

For 5 (31 percent) of 16 of students tested, the University of Houston (University) awarded Federal Perkins loans in excess of the maximum annual amount allowed. Four of these students were undergraduate students who received a Federal Perkins loan amount greater than \$4,000 but less than \$6,000. It could not be determined whether the students had a change in their academic status based on the information in the financial aid system (PeopleSoft). The fifth student was an undergraduate student who received \$6,000. Additionally, a review of the records did not indicate whether any of the five students were enrolled in a study abroad program during the award year 2007-2008. It could not be determined why the five students selected for testing received Federal Perkins loan amounts that exceeded the annual maximum allowed.

Recommendations:

The University should:

- Ensure that controls are in place to prevent a student from being awarded a Perkins loan amount that exceeds the maximum allowed. It also should maintain documentation that provides justification for exceeding the maximum annual amount, and that justification should be noted in PeopleSoft.
- Review all Perkins loan recipients who received more than the maximum amount to determine whether these students were erroneously given a Federal Perkins loan amount that exceeded the annual maximum allowed and make corrections as needed.

Management Response and Corrective Action Plan:

*We implemented preventative controls by configuring the maximum limit for Perkins loans in the Financial Aid System. Procedures are in place to identify and review the loans exceeding the maximum level. In addition, we hired a Quality Control Coordinator that is responsible for monitoring the awarding and disbursements of federal Perkins funds. Perkins loan recipients who received more than the maximum amount have been identified. Corrections were made to their accounts for the overages.*

Implementation Date: January 31, 2009

Responsible Person: Sal Loria, Jr.

Reference No. 09-83

**Reporting****Student Financial Assistance Cluster**

Award year - July 1, 2007 to June 30, 2008

Award number - CFDA 84.063 P063P072333

Type of finding - Significant Deficiency and Non-Compliance

Institutions submit Pell origination records and disbursement records to the Common Origination and Disbursement (COD) System (Office of Management and Budget (OMB) Notice 1845-0039-v.4). Origination records can be sent in advance of any disbursements, as early as an institution chooses to submit them for any student it reasonably believes will be eligible for a payment. The institution follows up with a disbursement record for that student no more than 30 days before a disbursement is to be paid. Institutions must report the student payment data (1) within 30 calendar days after it makes payments or (2) when they become aware of the need to make an adjustment to previously reported student payment data or expected student payment data. Institutions may do this by reporting once every 30 calendar days, biweekly, or weekly, or they may set up their own systems to ensure that changes are reported in a timely manner. (OMB Compliance Supplement A-133, March 2008, Part 5, Student Financial Assistance Cluster, III.L.1.e (page 5-3-17 and 5-3-18))

Questioned Cost: \$ 0

U.S. Department of Education

If an institution submits a student's payment data in the manner and form prescribed, and if the U.S. Department of Education accepts the data and considers that information to be accurate in light of other available information, the institution may receive either (1) a payment for an award to a Pell Grant recipient or (2) a corresponding reduction in the amount of federal funds received in advance for which it is accountable. Institutions are required to report to the U.S. Department of Education any change in enrollment status, cost of attendance, or other event or condition that causes a change in the amount of a federal Pell grant for which a student qualifies by submitting student payment data that discloses the basis and result of the change in award (Title 34, Code of Federal Regulations, Section 690.83).

For 12 (24 percent) of 49 students tested, the University of Houston (University) did not report disbursement records to the COD System within 30 calendar days of the disbursement date.

Recommendation:

The University should improve its oversight of the Pell reporting process to ensure that it reports disbursement records to the COD System in a timely manner.

Management Response and Corrective Action Plan:

*We have identified the source of the errors for the non-timely reporting of disbursement records and have implemented procedures to help ensure that these types of errors are not recurring.*

Implementation Date: August 31, 2008

Responsible Person: Melanie Morgan

Reference No. 09-84

**Special Tests and Provisions - Verification**

**Student Financial Assistance Cluster**

**Award year - July 1, 2007 to June 30, 2008**

**Award number - CFDA 84.032 Award Number not applicable, CFDA 84.063 P063P072333, CFDA 84.007 P007A074166, CFDA 84.033 P033A074166, CFDA 84.376 P376S072333, and CFDA 84.375 P375A072333**

**Type of finding - Non-Compliance**

Institutions are required to establish and use written policies and procedures for verifying information contained in a student financial assistance application. These policies and procedures must include the procedures for making referrals described under Title 34, Code of Federal Regulations (CFR), Section 668.16 (Title 34, CFR, Section 668.53). Referrals should include instances in which the institution has identified credible information indicating that an applicant for Title IV Higher Education Act program assistance may have engaged in fraud or other criminal misconduct in connection with his or her application (Title 34, CFR, Section 668.16).

Questioned Cost: \$ 0
U.S. Department of Education

The University of Houston (University) does not have written procedures for making referrals required by federal regulations. As a result, it may not have the capability to identify and report instances of false or fraudulent information to the Office of the Inspector General of the U.S. Department of Education for investigation

Recommendation:

The University should develop and implement written procedures for making referrals as required by federal regulations.

Management Response and Corrective Action Plan:

*We have developed and implemented written procedures for making referrals as required by federal regulations.*

*Implementation Date: January 31, 2009*

*Responsible Person: Miroslava Martinez and Janette Carson*

Reference No. 09-85

**Special Tests and Provisions - Disbursements To or On Behalf of Students**

Student Financial Assistance Cluster

Award year - July 1, 2007 to June 30, 2008

Award number - CFDA 84.032 Award Number Not Applicable and CFDA 84.038 Award Number not Applicable

Type of finding - Significant Deficiency and Non-Compliance

Returning Funds to a Lender

When an institution receives Federal Family Education Loan Program (FFELP) funds from the lender by electronic funds transfer (EFT) or master check, it usually must disburse the funds within three business days. If a student is temporarily not eligible for a disbursement but the institution expects the student to become eligible for disbursement in the immediate future, the institution has an additional 10 business days to disburse the funds. An institution must return FFELP funds that it does not disburse by the end of the initial or conditional period, as applicable, promptly but no later than 10 business days from the last day allowed for disbursement. (Title 34, Code of Federal Regulations, Section 668.167)

Questioned Cost: \$ 0  
U.S. Department of Education

For 4 (8 percent) of 50 students tested, the University of Houston (University) did not disburse some funds to students' accounts within three business days of receipt from the lender. This represents 4 (2 percent) of 165 payments that were not disbursed in a timely manner. This was not due to eligibility issues. The University held the loan funds for significantly more than three business days and did not return the funds to the lender within the required time frame.

Disbursement Notifications

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or FFELP loans, no earlier than 30 days before and no later than 30 days after crediting the student's account, the institution must notify the student or parent of (1) the date and amount of the disbursement, (2) the student's right or parent's right to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan, and (3) the procedures and the time by which the student or parent must notify the institution that he or she wishes to cancel the loan or loan disbursement. The requirement for FFELP loans applies only if the funds are disbursed by electronic funds transfer payment or master check. The notification can be in writing or electronically (Title 34, Code of Federal Regulations, Section 668.165).

For all Perkins and FFELP disbursements tested for 50 students, the University did not have documentation that it had sent the required disbursement notification within the required time frame. The University's newly implemented Student Financial Aid System does not have the capability to capture when disbursement notifications are sent by the system.

Access to PeopleSoft (Student Financial Aid System)

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).



The University does not maintain appropriate access to PeopleSoft, its student financial aid software. Of the 58 users tested, all were IT users with super user access. This level of access provided these users with modify access to the disburse aid with override option, which allows them the capability of disbursing aid to a student while overriding all checks in PeopleSoft that are tied to disbursement. The University has not performed a review of its employees' PeopleSoft access since migrating to the new system. Information Technology support staff in the Student Financial Aid area are unaware of the level of access to the PeopleSoft permission lists.

Recommendations:

The University should:

- Ensure that it does not hold funds for more than the maximum allowed number of days.
- Ensure that documentation is available to support disbursement notifications provided to students.
- Restrict access to PeopleSoft based on job duties and responsibilities, limit the number of super users, and periodically review access levels to ensure that appropriate access is granted.
- Ensure information technology support staff are trained to understand the level of access to the various permission lists in PeopleSoft.

Management Response and Corrective Action Plan:

*We will develop written procedures to help ensure that funds are not held for more than the maximum allowed days.*

*Implementation Date: February 28, 2009*

*Responsible Person: Tina Chargois*

*We have modified the Financial Aid System to send emails to students for all disbursements and to provide for an audit trail to document notifications.*

*Implementation Date: January 31, 2009*

*Responsible Person: Sal Loria, Jr.*

*We hired a new Assistant Director of IT who is responsible for monitoring access controls. We reviewed the listing of all individuals who had access to the Financial Aid System and removed super-user access of all users who were not employees of the Financial Aid Office. We will implement procedures to provide for a periodic review of Financial Aid System access based on the job duties and responsibilities and will modify access, accordingly. The Financial Aid Assistant Director of IT and her staff will receive training on PeopleSoft security to gain knowledge of how the system is configured.*

*Implementation Date: February 28, 2009*

*Responsible Persons: Mary Comerota and Susie Winters*

Reference No. 09-86

**Special Tests and Provisions - Return of Title IV Funds**

**Student Financial Assistance Cluster**

Award year - July 1, 2007 to June 30, 2008

Award number - CFDA 84.032 Award Number Not Applicable and CFDA 84.063 P063P072333

Type of finding - Material Weakness and Material Non-Compliance

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs as prescribed by Title 34, Code of Federal Regulations, Section 668. If the amount the student earned is greater than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement (Title 34 Code of Federal Regulations, Sections 668.22(a)(1)-(3)). For remaining amounts of Federal Family Education Loan Program (FFELP) and Direct Loan Program funds disbursed directly to the student for the payment period or period of enrollment (including funds disbursed directly to the student by the lender for a study-abroad program or for a student enrolled in a foreign school), the institution must immediately notify the lender or the Secretary of the U.S. Department of Education, as appropriate, when it becomes aware that the student will not or has not begun attendance so that the lender or the Secretary will issue a final demand letter to the borrower in accordance with Title 34, Code of Federal Regulations, Section 682.412, or Title 34, Code of Federal Regulations, Section 685.211 (Title 34, Code of Federal Regulations, Section 668.21(a)(2)).

Questioned Cost: \$10,259

U.S. Department of Education

The University of Houston (University) does not consistently return Title IV funds in a timely manner, does not consistently return funds in the proper amount, and does not consistently reimburse the appropriate Federal program. Specifically:

For 32 (67 percent) of 48 students with returns tested, return of funds was not completed in a timely manner.

For 10 (20 percent) of 50 students tested, the withdrawal date shown on the Return of Title IV worksheet was not accurate when compared to student records; the amount of the return was not calculated accurately; the payment period was not shown to be used consistently; and the percentage of aid earned by the student was not calculated correctly. For 8 (80 percent) of those 10 students, the University had not completed the Return of Title IV Funds calculation worksheet as of the time of audit testing.

For 16 (32 percent) of 50 students tested, the correct amount of aid was not returned by the University. For six of these students, the University had calculated returns to be made, but it had not yet made the returns, resulting in questioned costs of \$9,434.

For 9 (18 percent) of 50 students tested, funds returned were not allocated among federal programs in the correct order.

For two (100 percent) of two students tested for whom post-withdrawal disbursements were necessary, applicable requirements were not met. For one of these students, the amount of the post-withdrawal disbursement was too large, resulting in a questioned cost of \$825.

Further questioned costs may exist in the cases for which Return of Title IV worksheets have not been completed, but because the worksheets have not been completed, the amount of these additional questioned costs could not be determined.

For students who attended and withdrew but did not have returns, for 4 (40 percent) of 10 students tested, the withdrawal date on the Return of Title IV Funds worksheet was not supported by student records. For all four students, the University had not completed the Return of Title IV Funds worksheet. Therefore, for these four students, the amount of funds returned was not calculated correctly, there was not a consistent use of payment period, and the percentage of aid earned by the student was not calculated correctly. Because the worksheets have not been completed, the amount of these additional questioned costs could not be determined.

The University had difficulty providing the populations to be tested because it had difficulty using the PeopleSoft information system to identify students who unofficially withdrew. In addition, the University had difficulty identifying students who received aid but are known not to have begun attendance. For the one student identified who received aid but never began attendance, the University fulfilled all requirements except the requirement to notify the lender or Secretary of the U.S. Department Education, as appropriate. The University did not retain any documentation that it notified the lender or Secretary of the U.S. Department of Education that the student withdrew.

Recommendations:

The University should:

- Review its records for the 2007-2008 award year to identify all students for whom returns of Title IV funds still need to be made, and it should complete the necessary returns as promptly as possible.
- Implement controls to ensure that returns of Title IV funds are completed in a timely manner and in accordance with federal regulations.
- Ensure that it can identify within its financial aid system students who unofficially withdraw and who received aid but did not begin attendance.
- Retain documentation of notifying the lender or Secretary of the U.S. Department Education when students withdraw.

Management Response and Corrective Action Plan:

*We are in the process of reviewing records for the 2007-2008 award year to identify all students for whom returns of Title IV funds still need to be made. We have implemented enhanced policies and procedures to help ensure that a.) returns of Title IV funds are completed in a timely manner in accordance with federal regulations; b.) identify students in the Financial Aid System who unofficially withdraw and who received aid but did not begin attendance and c.) document notifications to the lender or Secretary of the U.S. Department of Education when students withdraw.*

*Implementation Date: April 30, 2009*

*Responsible Person: Jessica Thomas*

Reference No. 09-87

**Special Tests and Provisions - Student Status Changes**

(Prior Audit Issue 08-74 and 07-58)

**Student Financial Assistance Cluster**

**Award year - July 1, 2007 to June 30, 2008**

**Award number - CFDA 84.032 Award Number Not Applicable**

**Type of finding - Material Weakness and Material Non-Compliance**

Unless an institution expects to submit its next student status confirmation report to the U.S. Secretary of Education or the guaranty agency within the next 60 days, it must notify the guaranty agency or lender within 30 days, if it (1) discovers that a Stafford, Supplemental Loan for Students (SLS), or Parent Loans for Undergraduate Students (PLUS) has been made to or on behalf of a student who enrolled at that institution, but who has ceased to be enrolled on at least a half-time basis; (2) discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that school, but who failed to enroll on at least a half-time basis for the period for which the loan was intended; (3) discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or (4) discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address (Title 34, Code of Federal Regulations, Section 682.610(c)).

Questioned Cost: \$ 0

U.S. Department of Education

The University of Houston (University) uses the services of the National Student Clearinghouse (NSC) to report status changes to the National Student Loan Data System (NSLDS). Under this arrangement, the University reports all students enrolled and their status to NSC, regardless of whether those students receive federal financial assistance. NSC then identifies any changes in status and reports those changes when required to the respective lenders and guarantors. Additionally, NSC completes the roster file on the University's behalf and communicates status changes to NSLDS as applicable. Although the University uses the services of NSC, it is still ultimately the University's responsibility to submit timely, accurate, and complete responses to roster files and to maintain proper documentation (NSLDS Enrollment Reporting Guide, Chapter 3.1.1.3).

For 29 (71 percent) of 41 student status changes tested, the University either did not report to NSLDS or did not report to NSLDS within the required 60-day time frame. Specifically:

For 20 (69 percent) of the 29 students their change in status was not reported to NSLDS for the time period tested. Specifically:

- Eleven of the 20 students were shown as having graduated; however, NSLDS did not have a graduated status reflected in the students' record.
- Six of the 20 students were shown as changing to less than full-time status, which was not reflected in NSLDS.
- One of the 20 students changed to less than half-time status, and the change was not reported to NSLDS.
- One of the 20 students withdrew, and the change was not reported to NSLDS.
- One of the 20 students dropped out, and the change was not reported to NSLDS.

For nine (31 percent) of the 29 students, their status change was reported; however, it was not reported in a timely manner.

All 29 student status changes that were not reported to NSLDS or were not reported to NSLDS in a timely manner also were not reported to the lender/guarantor within the required 30-day time frame.

The University had difficulty using the PeopleSoft information system to identify students with status changes during the year, and it also had difficulty providing the populations that auditors requested for testing. The University expressed that the system may have pulled all students who dropped a course, but the drop did not result in a change in status.

The University does not have documented policies and procedures for updating student status for Federal Family Education Loan Program (FFELP) and Direct Loan Program recipients.

Recommendations:

The University should:

- Implement changes to its reporting procedures to ensure that student status changes are reported to NSLDS and the lender/guarantors within the required time period.
- Ensure it is capable of identifying students who have a change in status in order to make accurate reports to NSLDS.

Management Response and Corrective Action Plan:

*We are in the process of determining the nature of the errors and we plan to modify our business practices, reporting procedures and enrollment services information systems as necessary to help ensure that student status changes are identified and reported to NSLDS and the lender / guarantors within the required time period.*

*Implementation Date: April 1, 2009*

*Responsible Persons: Debbie Hermann and Sal Loria, Jr.*

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## University of Houston

Reference No. 08-72

### Cash Management

#### Student Financial Assistance Cluster

Award year - July 1, 2006 to June 30, 2007

Award number - CFDA 84.375 P375A062333

Type of finding - Significant Deficiency and Non-Compliance

The U.S. Department of Education (Department) provides funds to an institution under the advance, reimbursement, just-in-time, or cash monitoring payment methods. Under the reimbursement payment method, the institution must make disbursements to students and parents for the amount of funds those students and parents are eligible to receive under the federal Pell grant program, the federal Academic Competitiveness Grant (ACG) program, the national Science and Mathematics Access to Retain Talent (SMART) grant program, Direct Loan program, and campus-based programs before it may seek reimbursement from the Department for those disbursements. The Department considers an institution to have made a disbursement if the institution has either credited a student's account or paid a student or parent directly with its own funds. As part of the institution's reimbursement request, the Department requires the institution to identify the students for whom reimbursement is sought and submit to the Department documentation that shows that each student and parent included in the request was eligible to receive and has received the Title IV Health Education Assistance program funds for which reimbursement is sought (Title 34, Code of Federal Regulations, Section 668.162).

Initial Year Written: 2007  
Status: Implemented

U.S. Department of Education

To account for the funds disbursed, institutions report student payment information to the Department electronically. The Common Origination and Disbursement (COD) System provides a simplified process for requesting, reporting, and reconciling Pell grant, ACG, and SMART funds (Office of Management and Budget Notice 1845-0039-v.4). Grantees draw funds using the Grant Administration and Payment System (GAPS).

Any amounts not disbursed by the end of the third business day following the receipt of funds are considered to be excess cash and generally are required to be promptly returned to the Department (Title 34, Code of Federal Regulations, Section 668.166).

The University of Houston (University) uses the reimbursement method. On May 29, 2007, the ACG award authorization was reduced by \$253,538, as reflected in GAPS, which created an excess cash balance of \$47,499.18 (in other words, cash received to date exceeded the authorized amount by \$47,499.18). This affected 1 of 30 cash draws tested. The University disbursed the related expenditures to the students, but a programming error in the University's accounting system prevented these disbursements from being reported in COD. The programming error was not corrected, and the University processed an adjustment entry of \$49,214.18 on August 21, 2007, to refund the Department. As a result of this situation, the University carried an excess ACG cash balance of \$47,499.18 from May 29, 2007, to August 21, 2007.

The University converted to a new accounting system (PeopleSoft) for the 2008 award year, which should resolve issues pertaining to the ACG COD reporting processes.

#### Corrective Action:

Corrective action was taken.

Reference No. 08-73

**Eligibility**

(Prior Audit Issue 07-56)

**Student Financial Assistance Cluster**

**Award year - July 1, 2006 to June 30, 2007**

**CFDA 84.007 P007A064166and CFDA 84.063 P063P062333**

**Type of finding - Significant Deficiency and Non-Compliance**

Awards of Federal Supplemental Educational Opportunity Grants

In determining awards for Federal Supplemental Educational Opportunity Grants (FSEOG), an institution must first select students with the lowest expected family contributions (EFC) who also receive Pell grants in that year. If the institution has FSEOG funds remaining after giving FSEOG awards to all the Pell grant recipients, it must award the remaining FSEOG funds to those eligible students with the lowest EFCs who will not receive Pell grants (Title 34, Code of Federal Regulations, Section 676.10).

Initial Year Written: 2006

Status: Implemented

U.S. Department of Education

The University of Houston's (University) student financial aid packaging system awarded FSEOG based on an EFC range, without regard to other Pell grant eligibility requirements. The University completed programming changes in April 2007 to award FSEOG funds to Pell-eligible recipients with zero EFC only, but this change only affected awards for the 2008 school year. The University had already awarded 2007 FSEOG before it implemented corrective action.

As a result, the University awarded \$3,000 in FSEOG funds to 3 of 40 (8 percent) students tested when those students had EFCs of between \$2,600 and \$3,500. These students were all Pell recipients, but this conflicted with the revised University policy and with federal regulations because other students who had received Pell grants had lower EFCs but were not awarded FSEOG.

In addition, 4 of 9 (44 percent) students judgmentally selected for testing because they had received FSEOG but had not received Pell awards received FSEOG when they should not have. Three were not eligible for Pell awards, and one had an EFC of \$3,757 that should have disqualified the student for the FSEOG award. The University awarded \$2,650 in FSEOG funds to these four students

Awards of Pell Grants and FSEOG to Post-baccalaureate Students

Except for certain post-baccalaureate programs leading to initial teacher certification or licensing credential within a state, a student is eligible to receive a federal Pell grant only for the period of time required to complete his or her first undergraduate baccalaureate course of study. The institution must determine when the student has completed the academic curriculum requirements for that first undergraduate baccalaureate course of study. Any noncredit or remedial course taken by a student, including a course in English language instruction, is not included in the institution's determination of that student's period of Federal Pell Grant eligibility (Title 34, Code of Federal Regulations, Section 690.6).

The University awarded Pell and/or FSEOG funds to 26 judgmentally selected students who were post-baccalaureate students in the semester they received these awards. In 2007, these students received \$19,203.37 in Pell awards and \$3,000 in FSEOG awards for which they were not eligible. The students' classification changed from undergraduate to post-baccalaureate after funds were awarded, but the University did not adjust these students' awards. The University implemented a new financial aid system for 2008 and asserted that controls were in place in the new system to prevent future errors in grant eligibility determination.

Corrective Action:

Corrective action was taken.



Reference No. 08-74

**Special Tests and Provisions - Student Status Changes**  
(Prior Audit Issues 07-58)

**Student Financial Assistance Cluster**

**Award year - July 1, 2006 to June 30, 2007**

**Award number - CFDA 84.032 Award Number Not Applicable**

**Type of finding - Significant Deficiency and Non-Compliance**

Unless an institution expects to submit its next student status confirmation report to the U.S. Secretary of Education or the guaranty agency within the next 60 days, it must notify the guaranty agency or lender within 30 days, if it (1) discovers that a Stafford, Supplemental Loan for Students (SLS), or Parent Loans for Undergraduate Students (PLUS) has been made to or on behalf of a student who enrolled at that institution, but who has ceased to be enrolled on at least a half-time basis; (2) discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that school, but who failed to enroll on at least a half-time basis for the period for which the loan was intended; (3) discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or (4) discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address (Title 34, Code of Federal Regulations, Section 682.610(c)).

Initial Year Written: 2006  
Status: Partially Implemented

U.S. Department of Education

The University of Houston (University) uses the services of the National Student Clearinghouse (NSC) to report status changes to the National Student Loan Data System (NSLDS). Under this arrangement, the University reports all students enrolled and their status to NSC, regardless of whether those students receive federal financial assistance. NSC then identifies any changes in status and reports those changes when required to the respective lenders and guarantors. Additionally, NSC completes the roster file on the University's behalf and communicates status changes to NSLDS as applicable. Although the University uses the services of NSC, it is still ultimately the University's responsibility to submit timely, accurate, and complete responses to roster files and to maintain proper documentation (*NSLDS Enrollment Reporting Guide*, Chapter 3.1.1.3).

The University did not report 5 of 50 (10 percent) student status changes tested within the required 60 days. Specifically:

- Three of the students graduated in May 2007 and were not reported to NSLDS until September 2007.
- One student graduated in May 2007 but was registered to take classes in the summer. The student was reported to NSLDS as withdrawn in September 2007. This student was not reported to the lenders/grantors as graduated or withdrawn.
- One student changed from full-time to half-time status, and this status change was not reported to NSLDS within 60 days.

Corrective Action:

This finding was reissued as current year reference number: 09-87.

**University of Houston - Downtown**

Reference No. 07-59  
Eligibility

**Student Financial Assistance Cluster**  
Award year - July 1, 2005 to June 30, 2006  
Award number - CFDA 84.007 P007A054118  
Type of finding - Material Weakness Control and Material Non-Compliance

In determining awards for Federal Supplemental Educational Opportunity Grants (FSEOG), an institution must give priority to students with the lowest expected family contributions (EFC) who also receive Pell Grants in that year (Title 34, Code of Federal Regulations, Section 676.10).

Initial Year Written: 2006  
Status: Implemented  
U.S. Department of Education

An institution is not in compliance with the U.S. Higher Education Act, as amended, and FSEOG regulations if it awards FSEOG funds on a first-come, first-serve basis or arbitrarily sets expected EFC benchmarks (or cut-offs) below which it selects FSEOG recipients. Such a practice could exclude eligible students from the FSEOG award process (U.S. Department of Education's 2005 - 2006 *Student Financial Aid Handbook*, Volume 3, Chapter 5).

The University of Houston - Downtown (University) awarded FSEOG funds totaling \$51,734 (26 percent of available FSEOG funds) to only 14 of 776 students who received Pell Grants and who also had EFCs of \$0. It awarded the remaining \$148,531 in FSEOG funds (74 percent of available FSEOG funds) to Pell Grant recipients who did not have the lowest EFCs. As a result, many Pell Grant recipients with the greatest financial need did not receive FSEOG assistance that should have been provided to them.

The University reported in the Schedule of Expenditures of Federal Awards that it awarded \$425,425 in FSEOG grants during fiscal year 2006.

Corrective Action:

Corrective action was taken.

Reference No. 07-60  
**Special Tests and Provisions - Disbursements To or On Behalf of Students**

**Student Financial Assistance Cluster**  
Award year - July 1, 2005 to June 30, 2006  
Award number - CFDA 84.032 Award Number Not Applicable  
Type of finding - Material Weakness Control and Material Non-Compliance

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (FFELP) loans, no earlier than 30 days before and no later than 30 days after crediting the student's account, the institution must notify the student or parent of (1) the date and amount of the disbursement, (2) the student's right or parent's right to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan, and (3) the procedures and the time by which the student or the parent must notify the institution that he or she wishes to cancel the loan or loan disbursement. The requirement for FFELP loans applies only if the funds are disbursed by electronic funds transfer payment or master check. The notification can be made in writing or electronically (Title 34, Code of Federal Regulations, Section 668.165).

Initial Year Written: 2006  
Status: Partially Implemented  
U.S. Department of Education

The University of Houston - Downtown (University) did not consistently send out the required notifications to FFELP loan recipients in fiscal year 2006. Of the 22 FFELP loan recipients sampled, 11 students (50 percent) did not receive any notification, and 7 students (32 percent) received notifications in the fall semester but not in the spring semester.

The University's current notification process is primarily manual and depends on employees to (1) accurately review the *Texas Guaranteed Student Loan Corporation Disbursement Report*, (2) enter the appropriate comment in the student financial aid management system, and (3) mail the notification. When the University does not distribute the required notifications, this reduces the opportunity for loan recipients to cancel the awards if they choose to do so.

Recommendation:

The University should automate its student notification process or implement a review process to ensure that it sends notifications to all FFELP loan recipients within the required time periods.

Management Response and Corrective Action Plan 2006:

*The University has automated this process to ensure that its notifications to all FFELP loan recipients are within the required time periods.*

Management Response and Corrective Action Plan 2007:

*Regarding the follow-up to this finding the errors were due to a system problem and was compounded by human error when a student worker reverted to the pre-automated process and copies were not made of the letters that were sent and not updated in PowerFails.*

*The University has automated this process to ensure that its notifications to all FFELP loan recipients are within the required time periods.*

Management Response and Corrective Action Plan 2008:

*Management concurs with the audit finding.*

*While we did automate this process it was not implemented successfully due to a business process issue. We modified our business process by assigning this function to the Coordinator of Student Loans who has accountability for ensuring that notifications to borrowers are sent in a timely manner. We have also implemented a bi-weekly review to audit a sample of borrowers to ensure that the notification function has been met. The reviewing parties are the Director, Office of Scholarships and Financial Aid and the Assistant Director for Processing , Office of Scholarships and Financial Aid. These steps were implemented on December 10, 2008.*

*Implementation date: December 10, 2008*

*Responsible Person: LaTasha Goudeau*

University of Houston - Victoria

Reference No. 08-75

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster

Award year - July 1, 2006 - June 30, 2007

Award number - CFDA 84.032 Award Number Not Applicable and CFDA 84.063 Award Number P063P063632

Type of finding - Significant Deficiency and Non-Compliance

Pell Payment Reporting

All institutions submit payment data to the U.S. Department of Education through the Common Origination and Disbursement (COD) System. Origination records can be sent well in advance of any disbursement, as early as the institution chooses to submit them for any student the institution reasonably believes will be eligible for a payment. The institution follows up with a disbursement record for that student no more than 30 days before a disbursement is to be paid.

Initial Year Written: 2007  
Status: Partially Implemented

U.S. Department of Education

The disbursement record reports the actual disbursement date and the amount of the disbursement. Institutions must report student payment data within 30 calendar days after they make a payment or become aware of the need to make an adjustment to previously reported student payment data or expected student payment data (Office of Management and Budget Circular A-133 Compliance Supplement, Part 5, Section L.1.e) and the Secretary of the U.S. Department of Education accepts a student's payment data that is submitted in accordance with procedures established through publication in the *Federal Register*, and that contains information the Secretary considers to be accurate in light of other available information including that previously provided by the student and the institution (Title 34, Code of Federal Regulations, Section 690.83.(a)(2)).

In a sample of 50 students tested at the University of Houston - Victoria (University), 14 students received Pell Grant awards. However, the University did not report the correct date of disbursement of Pell Grant awards to the COD System for any of those 14 students.

The University did not record the actual disbursement dates; instead, it set the disbursement dates as 10 days prior to the semester start date and when disbursements were processed (in 6 cases, this was more than 30 days after disbursement). When the University does not accurately report disbursement dates, this increases the risk of over awards being made to students. In addition, the Secretary of the U.S. Department of Education could impose a fine on the institution if the institution fails to comply with the requirement (Title 34, Code of Federal Regulations, Section 690.83(c)).

Disbursement Notifications

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (FFELP) loans, no earlier than 30 days before and no later than 30 days after crediting the student's account, the institution must notify the student or parent of (1) the date and amount of the disbursement, (2) the student's right or parent's right to cancel all or a portion of that loan or loan disbursement, and have the loan proceeds returned to the holder of that loan, and (3) the procedures and the time by which the student or the parent must notify the institution that he or she wishes to cancel the loan or loan disbursement. The requirement for FFELP loans applies only if the funds are disbursed by electronic funds transfer payment or master check. The notification can be made in writing or electronically (Title 34, Code of Federal Regulations, Section 668.165).

The University did not consistently send the required notifications to FFELP loan recipients in fiscal year 2007. In the sample of 50 students, 47 were FFELP loan recipients. Three of these 47 students (6.38 percent) did not receive a notification, and one of these 47 students (2.13 percent) did not receive a notification in a timely manner. In addition the notification letters the University sent for the Fall 2006 and Spring 2007 semesters did not include information regarding the required right to cancel or the procedure and time by which the student or parent must notify the institution. The notification letters the University sent for the Summer 2007 semester were correct.

When the University does not send the required notifications or the notifications do not include required information on the right to cancel and cancellation procedures, the opportunity for loan recipients to cancel their awards is reduced.

#### Transfer Student Monitoring

If a student transfers from one institution to another institution during the same award year, the institution to which the student transfers must request from the Secretary of the U.S. Department of Education, through the National Student Loan Data System (NSLDS), updated information about that student so it can make the following determinations: (1) whether the student is in default on any title IV, HEA program loan; (2) whether the student owes an overpayment on any Title IV, Higher Education Assistance (HEA) program grant or Federal Perkins Loan; (3) for the award year for which a Federal Pell Grant is requested, the student's scheduled Federal Pell Grant and the amount of Federal Pell Grant funds disbursed to the student; and (4) the outstanding principal balance of loans made to the student under each of the Title IV, HEA loan programs. The institution may not make a disbursement to that student for seven days following its request, unless it receives the information from NSLDS in response to its request or obtains that information directly by accessing NSLDS, and the information it receives allows it to make that disbursement (Title 34, Code of Federal Regulations, Section 668.19).

The University did not follow the transfer student monitoring criteria for 5 of 14 (35.7 percent) transfer students included in a sample of 50 students. Specifically:

- Auditors were unable to locate documentation with the date of the file transfer to NSLDS for 4 of 14 transfer students.
- The University made a disbursement to 1 of the 14 transfer students one day after requesting information from NSLDS.

The University's financial aid counselors are not following and/or documenting their completion of the procedures in the *Financial Aid Manual*, Section 17, which requires a review of the student loan history, default status, overpayment status, and aggregate limits on NSLDS prior to disbursement of awards to transfer students.

When the University does not request information from NSLDS, does not wait the required seven days to disburse funds, or does not document that it has accessed NSLDS to verify student status, the University risks awarding or overawarding assistance to a student who may not be eligible.

#### Returning Funds to Lender

An institution must return FFELP funds to a lender if the institution does not disburse those funds to a student or parent for a payment period within three business days following the date the institution receives the funds if the lender provides those funds to the institution by electronic funds transfer (EFT) and master check on or after July 1, 1999. An institution may delay returning FFELP funds to a lender for ten business days after the date if either of the following conditions exists:

- The institution does not disburse FFELP funds to a borrower because (1) the student did not complete the required number of clock or credit hours in a preceding payment period and (2) the institution expects the student to complete required hours within this 10-day period.

- The student has not met all the FFELP eligibility requirements and the institution expects the student to meet those requirements within this 10-day period (Title 34, Code of Federal Regulations, Sections 668.167(b)(1)(ii) and (iii), and Title 34, Code of Federal Regulations, Section 668.167(b)(3)).

The University did not consistently disburse funds received from the lender to the student's account within the required time frame. For a sample of 50 students in which 47 were FFELP loan recipients, the University did not disburse 6 FFELP loans for 4 students (8.5 percent) to the students' account within three business days. Eligibility was not an issue.

When the University does not disburse funds to students within the required time frame, the University is at risk for reduced availability of funds, fines, penalties, and possible conversion to the reimbursement program.

Recommendations:

The University should:

- Ensure that it reports correct dates for all Pell Grant awards to the COD System as required.
- Correct the errors in its disbursement notification process to ensure that it sends notifications to all FFELP loan recipients within the required time frames and that all required elements are included in the disbursement notifications.
- Ensure that it documents transfer student monitoring procedures for each transfer student and that it does not disburse funds for seven days after transmittal of request for information from NSLDS.
- Ensure that it disburses funding received from FFELP lenders to the student's account within the required timeframes.

Management Response and Corrective Action Plan 2007:

Pell Payment Reporting

*With the implementation of a new financial aid management system for the 2007-08 academic year, the Pell Grant award reporting procedure has been modified to reflect actual disbursement dates. A sample of Pell Grant recipients was conducted and reviewed for compliance. The process of submitting the Pell origination and disbursement files biweekly has been implemented.*

Disbursement Notifications

*With the implementation of a new financial aid management system for the 2007-08 academic year, procedures have been modified to identify all students who have had FFELP loans disbursed. An email is being generated and sent to the FFELP loan recipients. The additional required information has been added to the disbursement notifications.*

*The Financial Aid Office is monitoring this procedure for compliance during the 2007-2008 academic year to assure that the processes are functioning correctly.*

Transfer Student Monitoring

The Office of Financial Aid runs the NSLDS transfer monitoring request on a weekly basis. When a transfer alert file has been received, the students are reviewed for possible changes to the student's eligibility. A Financial Aid Counselor checks the Reviewed box once the student has been deemed eligible. The reviewed Transfer Alert reports are retained to indicate that transfer students were verified through the NSLDS database. Procedures are in place so that disbursements do not occur within seven days of transmittal of the request for information from NSLDS.

Returning Funds to Lender

Procedures for authorization of financial aid for disbursement have been modified. The automated process was implemented in August 2007 using a new financial aid management system to ensure that funds are disbursed to the student's account within the required time period. In addition, a Hold/Release process has been put into place to prevent student loans from arriving to UHV via EFT if the student has not enrolled or is not meeting the Satisfactory Academic Progress standards. This ensures the timely return of FFELP funds to the lender for ineligible students. Verification that procedures are functioning properly will be conducted through April.

Management Response and Corrective Action Plan 2008:

We implemented a new financial aid system for the 2007-2008 academic year and implemented a process for biweekly submission of Pell Origination and disbursement files. We modified our procedures to a.) help ensure that all disbursement notifications to FFELP loan recipients are timely and contain all required elements, b.) establish documentation for transfer student monitoring and to help ensure that disbursements do not occur within 7 days of the request for information from NSLDS and c.) help ensure disbursement of funding received from FFELP lenders to the students' accounts within the required timeframes. Note: Verified by Internal Auditing.

Implementation Date: April 2008

Responsible Person: Carolyn Mallory

UNIVERSITY OF HOUSTON SYSTEM  
BOARD OF REGENTS AGENDA

COMMITTEE: Audit & Compliance

ITEM: External Audit Report – Construction  
• Calhoun Lofts Residence Hall Interim Construction Audit

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

The Audit Committee Charter and Checklist, item number 13, requires the Committee to review any significant findings and recommendations of the State Auditor and any employed public accounting firm.

FISCAL NOTE:

SUPPORTING DOCUMENTATION: External Audit Report

ACTION REQUESTED: Information

COMPONENT: University of Houston System

CHIEF AUDIT EXECUTIVE

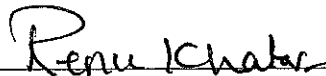


Don F. Guyton

3/27/09

DATE

CHANCELLOR



Renu Khator

3-31-09

DATE



# **University of Houston**

**Calhoun Lofts Residence Hall**  
Houston, Texas

Interim Construction Audit

Pepper-Lawson Construction, LP

**CCM Consulting Group**

Vinson Chapman  
David Butler  
Walter Trojanowsky

January 2009

# Calhoun Lofts Residence Hall Interim Construction Audit

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## Calhoun Lofts Residence Hall Interim Construction Audit

### Background Information

The University of Houston System (University) selected Pepper-Lawson Construction, LP (PLC) to construct the Calhoun Lofts Residence Hall located in Houston, Texas. The work was to be performed for the Cost of Work plus a Fee of 2.82 percent (2.82%) of the Cost of Work with an initial guaranteed maximum price (GMP) of \$100,704,730. The GMP also includes \$3,602,367 as a not-to-exceed amount for general conditions. Cost savings, if any, accrue 100% to the University. The status of the contract as of the audit date, per PLC's records, is as follows:

Original Contract Amount		\$ 100,704,730	
Approved Change Orders		0	
		<u>\$ 100,704,730</u>	
Job Cost at 12/31/08		\$ 71,137,953	
Fee: Phase BBB	\$ 142,086		
Phase AAA	1,794,153		
Phase DES	<u>76,674</u>	<u>2,012,913</u>	
		73,150,866	
Add: Costs Billed, Not Yet in Job Cost System <sup>(1)</sup>		557,068	
Less: Costs in Job Cost Not Included in Billing <sup>(2)</sup>		<u>(111,739)</u>	
Adjusted Cost Plus Fee		73,596,195	
Total Completed and Stored as of 12/31/08 per Pay Application #15		<u>73,596,911</u>	
Billings in Excess of Cost Plus Fee		<u>\$ 716</u>	

(1) Includes invoices on hand when the pay application was prepared but not yet entered into PLC's job cost system plus a \$337,437 key entry error (subsequently corrected).

(2) The billing was actually prepared approximately a week prior to year-end. Certain costs, including a payroll, hit job cost subsequent to the billing cut-off but prior to year-end.

## **Calhoun Lofts Residence Hall Interim Construction Audit**

### Audit Scope and Objectives

The scope of our audit included the review of PLC's billing files, contract and subcontract files, related change order documentation, correspondence and job cost records to:

1. Verify GMP contract value was not overstated.
2. Verify that costs were reimbursable per the terms of the contract.

**Calhoun Lofts Residence Hall  
Interim Construction Audit**

Summary of Potential Cost Exceptions

1.	Credit Due on GL Insurance Costs Billed	\$ 100,294
2.	Paid Time Off Charged Directly to Cost of Work	76,231
3.	Overstatement of Subcontractor Change Order Markup	44,931
4.	“Incidental” Markups in KenMor Change Orders	14,794
5.	Excess Equipment Rental Charges	3,998
6.	Duplicated Overhead in Joslin Change Orders	3,979
7.	Rental Charges in Excess of Cost	2,159
8.	Bond Cost on Change Orders for Non-Bonded Subcontractor	<u>1,336</u>
		<u>\$ 244,722</u>

Summary of Pending Cost Credit

1.	Anticipated Bond Premium Refund	<u>\$ 232,743</u>
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# Calhoun Lofts Residence Hall Interim Construction Audit

## Detail of Potential Cost Exceptions

1. Credit Due on GL Insurance Costs Billed

PLC has charged to the project and billed the Owner \$580,408 for the cost of GL, Umbrella, Auto, and Contractors Equipment insurance. Review of the actual cost support indicates that the accrual percentage used in developing the estimated GL charges may need to be revised. PLC management personnel have agreed to suspend future accruals and credit the current job cost for \$97,543. Based on the GL cost reconciliation methodology discussed and agreed to between the auditors and PLC, it is possible a future further credit reduction is estimated GL insurance costs may be due at project completion. A current credit is due as follows:

Total General Liability Insurance Billed	\$ 580,408
Total Estimated General Liability Insurance Cost, per Audit	<u>482,865</u>
	97,543
Fee at 2.82%	<u>2,751</u>
Potential Cost Exception	<u>\$ 100,294</u>

2. Paid Time Off Charged Directly to Cost of Work

PLC charges 100% of the salary cost, of personnel assigned to the project, to job cost. These salaried costs are then increased by 40% to cover the contractually stipulated "taxes, insurance, and benefits..." Paid time off for salaried PLC has effectively charged the project twice.

Based on discussions with PLC personnel, it was estimated that the total paid time off for holidays and sick days per person per year is 9. This was estimated at 7 holiday days and 2 sick days. The total of 9 days is equivalent to 3.46% of the total assumed work days of 260 days per year. Review of PLC vacation request forms indicate that \$32,213 of vacation pay (including burden) was also included in job cost. PLC should credit the project for this duplication and either reduce the 40% percentage charged or begin separating the paid time off salary expense from job cost. A job cost credit is due as follows:

Total Salaried Charges, Including 40% Burden	\$ 1,211,759
Sick and Holiday Error Rate per Audit	<u>.0346</u>
Paid Time Off Credit Due	41,927
Vacation Time Charged to Project	<u>32,213</u>
	74,140

PLC Fee at 2.82%	<u>2091</u>
Potential Cost Exception	<u>\$ 76,231</u>

3. Overstatement of Subcontractor Change Order Markup

Article 11.8.1 of the Uniform General Conditions limits the markup allowed for overhead and profit by subcontractors for their change order work. The allowed markups are:

Fee on Self Performed Work	
Estimated Cost of Work less than \$10,000	15.0%
Estimated Cost between \$10,000 and \$20,000	10.0%
Estimated Cost over \$20,000	7.5%
Fee on Work Performed by a Sub-Subcontractor	
Estimated Cost of Work less than \$10,000	10.0%
Estimated Cost between \$10,000 and \$20,000	7.5%
Estimated Cost over \$20,000	5.0%

Review of the subcontract change order on the project showed instances where these percentages were not used. These are detailed in Exhibit I to this report and a potential variance is computed. Many of the subcontractors shown in Exhibit I did not provide markup details for every change order. In those cases where detail was not provided, the potential variance was extrapolated based on the markups shown on those change orders where detail was provided. These are noted on the exhibit. A potential job cost adjustment is due as follows:

Subcontractor Markup Included in Change Orders	\$ 80,176
Subcontractor Markup, per Audit	<u>36,477</u>
	43,699
PLC Fee at 2.82%	<u>1,232</u>
Potential Cost Exception	<u>\$ 44,931</u>

4. "Incidental" Markups in KenMor Change Orders

Article 11.8.1 of the Uniform General Conditions limits the various costs and markups that are allowed to be included in subcontract change orders. It also stipulates that certain costs related to change orders are to be included in markup for overhead as follows:

*Overhead shall be considered to include insurance other than mentioned above, field and office supervisors and assistants, including safety and scheduling personnel, use of small tools, incidental job burdens and general Home Office expenses, and no separate allowance will be made therefore.*

Review of KenMor Electric’s change orders showed that KenMor was adding amounts to their change orders for items that appear to be overhead as defined by Article 11.8.1. These include:

- Supervision at 15% of Labor
- Project Management
- Project Engineer
- Testing at 2% of Labor
- Consumables at 3% of Labor
- Safety at 2% of Labor
- Cleanup at 3% of Labor
- Material Handling at 9% of Labor
- Warranty at 1.5%

The amounts included in KenMor’s change orders for the above items are detailed in Exhibit II to this report. A potential adjustment to the job cost is due as follows:

Supervision at 15% of Labor	\$ 4,971
Project Management	2,325
Project Engineer	650
Testing at 2% of Labor	381
Consumables at 3% of Labor	571
Safety at 2% of Labor	381
Cleanup at 3% of Labor	571
Material Handling at 9% of Labor	1,712
Warranty at 1.5%	<u>1,179</u>
	12,741
Markup Allowed on Change Orders	<u>1,647</u>
	14,388
PLC Fee at 2.82%	<u>406</u>
	\$ <u>14,794</u>
Potential Cost Exception	

5. Excess Equipment Rental Charges

Article 13.3.2 of the Contract limits the aggregate rental charges for PLC-owned equipment to the “purchase price and maintenance cost of the item.” Review of the rental charges by PLC indicates that PLC, in some cases, does not appear to be monitoring the aggregate equipment rental. Some items (shown below) have rental charges exceeding



their purchase price; others are close and will probably reach their limits before project completion.

PLC project management has been made aware of this and has stated that they will start monitoring aggregate rental charges. The job cost should be credited for rental charges in excess of the Contract's limits.

Total Station –	Rental Charges	\$ 11,250	
	Purchase Cost	<u>7,523</u>	\$ 3,727
Trash Buggies –	Rental Charges	1,750	
	Purchase Cost	<u>1,589</u>	<u>161</u>
			3,888
PLC Fee at 2.82%			<u>110</u>
	Potential Cost Exception		<u>\$ 3,998</u>

6. Duplicated Overhead in Joslin Change Orders

Article 11.8.1 of the Uniform General Conditions limits the various costs and markups that are allowed to be included in subcontract change orders. It also stipulates that certain costs related to change orders are to be included in markup for overhead as follows:

*Overhead shall be considered to include insurance other than mentioned above, field and office supervisors and assistants, including safety and scheduling personnel, use of small tools, incidental job burdens and general Home Office expenses, and no separate allowance will be made therefore.*

Review of Joslin Construction's change orders showed that Joslin was adding amounts to their change orders for superintendent labor. This appears to fall under the definition of *field supervisor* as defined by Article 11.8.1. A potential adjustment to the job cost is due as follows:

Superintendent Labor Included in Change Orders	
CO #2 – COR #07-042-006	\$ 1,800
CO #2 – COR #07-042-004	<u>1,800</u>
	3,600
Joslin Markup at 7.5%	<u>270</u>
	3,870
PLC Fee at 2.82%	<u>109</u>
	<u>\$ 3,979</u>

7. Rental Charges in Excess of Cost

PLC is renting a forklift from Katy Equipment for \$2,700 per month. Katy is an affiliate company of PLC and shares a common office address. Katy is renting the forklift from RSC Equipment Rental for \$2,000. Katy is supplying maintenance services to the equipment that is not being charged to the job. Discussion with PLC project management indicates that Katy is supplying approximately 8 hours of maintenance service per month with an approximate value of \$350. Since Katy and PLC appear to be related companies, Katy should also be subject to the terms of the Contract. The job cost should be credited for the rental charges in excess of cost as follows:

Rent Charged – 6 Months at \$2,700	\$ 16,200
Rent Allowed – Rent at \$2,000 per month	12,000
Maintenance at \$350 per month	<u>2,100</u>
	14,100
	<u>2,100</u>
PLC Fee at 2.82%	<u>59</u>
Potential Cost Exception	<u>\$ 2,159</u>

8. Bond Cost on Change Orders for Non-Bonded Subcontractor

Review of KenMor Electric's change orders showed that KenMor was adding an amount for payment and performance bonds. However, it does not appear that KenMor was actually bonded. The job cost should be reduced for the amount of bond included in KenMor's change orders as follows:

KenMor Change Order #2	\$ 769
KenMor Change Order #3	<u>530</u>
	1,299
PLC Fee at 2.82%	<u>37</u>
Potential Cost Exception	<u>\$ 1,336</u>

# Calhoun Lofts Residence Hall Interim Construction Audit

## Detail of Pending Cost Credit

### 1. Anticipated Bond Premium Refund

Article 13.5.d. of the Contract states that the Cost of Work shall be credited with: "Rebates, discounts, or commissions allowed to and collected by the Design/Build Contractor from suppliers of materials or from subcontractors, together with all other refunds, returns, or credits received for return of materials."

PLC purchased a payment and performance bond and charged the total cost of the bond to the project. Discussion with PLC project management indicates that upon the successful completion of the project PLC will receive a premium refund equal to 20% percent of the premium paid. This premium refund appears to fall within the meaning of Article 13.5.d.

PLC management is in agreement that if and when the refund is collected, a credit to the Cost of Work will be posted. The anticipated bond refund to be credited to job cost is as follows:

Payment and Performance Bond Premium Paid	\$ 1,131,800
Successful Completion Premium Rebate Rate	<u>20%</u>
	226,360
Fee at 2.82%	<u>6,383</u>
Pending Cost Credit	<u>\$ 232,743</u>

# Calhoun Lofts Residence Hall Interim Construction Audit

## Administrative Issues

### 1. Unsupported Subcontractor Change Orders

Article 11.8.1 of the Uniform General Conditions limits the markup allowed for overhead and profit by subcontractors for their change order work. The allowed markups are:

Fee on Self Performed Work	
Estimated Cost of Work less than \$10,000	15.0%
Estimated Cost between \$10,000 and \$20,000	10.0%
Estimated Cost over \$20,000	7.5%
Fee on Work Performed by a Sub-Subcontractor	
Estimated Cost of Work less than \$10,000	10.0%
Estimated Cost between \$10,000 and \$20,000	7.5%
Estimated Cost over \$20,000	5.0%

Review of the subcontract change order on the project showed instances where these percentages were not used. These are detailed in Exhibit I to this report.

Many of the subcontractors not shown on Exhibit I did not provide any detail of the markups included in their change orders. They either provided a single lump-sum amount or a unit-price as support for their change order. PLC should be requested to obtain supporting detail from their subcontractors showing the estimated cost and markups included in these change orders and adjust the change order amounts as necessary. PLC should also require all future subcontractor change orders to include sufficient detail to allow a proper evaluation of compliance with the Contract.

### 2. Clarification of Contract Terms

Article 23.2 of the Contract stipulates a design fee of \$2,835,925. This amount appears to be a fixed fee. Exhibit D to Contract Amendment #1 refers to design fee as a “not to exceed” amount. Exhibit D also refers to the general conditions as “lump sum, not-to-exceed.” These terms appear to be contradictory. PLC believes that the general conditions do not have a limit other than that of the Contract GMP and that the Design Fee is viewed as a fixed sum, not a “not to exceed”. A memo of understanding would help prevent any future disputes over these terms.

3. Owner Contingency Correction

The Owner Contingency contained within the GMP was \$2,036,171. PLC included fee of 2.9% of \$200,000 or \$5,800 within the GMP estimate, and excluded fee on the remaining Owners Contingency of \$1,836,171. Review of the Owner Contingency Expenditure Authorizations indicates that PLC has reapportioned \$27,419 of the total current contingency usage of \$1,322,845 (OCEA#15) for fee and \$1,295,426 for the actual cost of the change event. Due to the fee not being included on \$1,836,171 of the total Owners Contingency, PLC has actually under allocated its fee on Contingency usages to date. The total additional fee to be allocated should have been \$30,891 on total cost before fee of \$1,295,426. \$200,000 of the \$1,295,426 had already had fee included in the GMP leaving \$1,095,426 for fee to be allocated to. At a contract fee of 2.82% this total fee should have been \$30,891. Therefore an additional contingency usage is due of \$3,472.

University of Houston  
Calhoun Lofts

Exhibit I

Subcontractor Change Order Markup

Subcontractor	Sub CO#	Change Amount	Markup	Cost	Effective Markup %	Markup % per Audit	Markup per Audit	Variance
AYG	2	22,302	2,482	19,820	12.52%	10.0%	\$ 1,982	\$ 500
Joslin	2	32,776	2,980	29,796	10.00%	7.5%	2,235	745
Joslin	2	29,788	2,708	27,080	10.00%	7.5%	2,031	677
Door Pro Systems	1	797	138	659	21.00%	15.0%	99	40
Door Pro Systems	2	17,710	3,073	14,636	21.00%	10.0%	1,464	1,609
Door Pro Systems	3	24,563	4,263	20,300	21.00%	7.5%	1,522	2,740 (E)
Door Pro Systems	4	4,850	842	4,008	21.00%	15.0%	601	240
Door Pro Systems	6	10,612	1,842	8,770	21.00%	15.0%	1,316	526
Door Pro	1	2,005	348	1,657	21.00%	15.0%	249	99
Haley Greer	1	45,912	9,618	36,295	26.50%	7.5%	2,722	6,896 (E)
Haley Greer	2	31,388	6,575	24,813	26.50%	7.5%	1,861	4,714
Haley Greer	4	93,994	19,691	74,305	26.50%	7.5%	5,573	14,118 (E)
Haley Greer	6	8,970	1,879	7,091	26.50%	15.0%	1,064	815 (E)
Haley Greer	8	1,134	238	896	26.50%	15.0%	134	103 (E)
J&B Construction	1	42,204	6,331	35,873	17.65%	7.5%	2,690	3,640 (E)
J&B Construction	2	11,420	1,713	9,707	17.65%	15.0%	1,456	257 (E)
J&B Construction	3	10,833	1,625	9,208	17.65%	15.0%	1,381	244
Letsos	2	23,452	4,022	19,152	21.00%	7.5%	1,436	2,586 Sub
Kenmor Electric	1	3,096	408	2,633	15.50%	15.0%	395	13
Kenmor Electric	2	7,681	1,012	6,528	15.50%	15.0%	979	33
Kenmor Electric	2	14,302	1,885	12,157	15.51%	10.0%	1,216	669
Kenmor Electric	2	7,383	973	6,275	15.51%	15.0%	941	32
Kenmor Electric	2	15,366	292	1,880	15.53%	15.0%	282	10
Kenmor Electric	2		1,175	11,750	10.00%	7.5%	881	294 Sub
Kenmor Electric	3	30,832	4,064	26,225	15.50%	7.5%	1,967	2,097
							<u>\$ 43,699</u>	

Allowable Markups:	Self-Perf	Sub-Sub
\$0 - \$10,000	15.0%	10.0%
\$10,001 - \$20,000	10.0%	7.5%
Over \$20,000	7.5%	5.0%

**Notes:**  
(E) Extrapolated based on other actual change order detail.  
Sub Sub-subcontract work

University of Houston  
Calhoun Lofts

Exhibit II

Kenmor "Incidental" Markups

	SCO #3	SCO #2	SCO #2	SCO #2	SCO #2	SCO #1	Total
Supervision at 15% of Labor	\$ 1,335	\$ 892	\$ 1,456	\$ 882	\$ 239	\$ 167	\$ 4,971
Project Management	600	375	675	375	150	150	2,325
Project Engineer	150	100	200	100	50	50	650
Testing at 2% of Labor	103	69	113	64	19	13	381
Consumables at 3% of Labor	155	104	169	96	28	19	571
Safety at 2% of Labor	103	69	113	64	19	13	381
Cleanup at 3% of Labor	155	104	169	96	28	19	571
Material Handling at 9% of Labor	465	311	508	287	83	58	1,712
Warranty at 1.5%	462	115	215	111	230	46	1,179
	3,528	2,139	3,618	2,075	846	535	12,741
Markup % Allowed	7.5%	15.0%	15.0%	15.0%	15.0%	15.0%	
Markup	264.60	320.85	542.70	311.25	126.90	80.25	1,647
Total With Markup	\$ 3,793	\$ 2,460	\$ 4,161	\$ 2,386	\$ 973	\$ 615	\$ 14,388

UNIVERSITY OF HOUSTON SYSTEM  
BOARD OF REGENTS AGENDA

COMMITTEE: Audit & Compliance

ITEM: Report on Compliance of Private Support Organizations and Foundations

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

Board of Regents Policy 32.06 requires an annual report on compliance of private support organizations and foundations.

FISCAL NOTE:

SUPPORTING DOCUMENTATION: Report on Compliance of Private Support Organizations and Foundations

ACTION REQUESTED: Information

COMPONENT: University of Houston System

CHIEF AUDIT EXECUTIVE

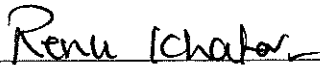


Don F. Guyton

3/27/09

DATE

CHANCELLOR



Renu Khator

3-31-09

DATE



**Compliance Review of UH System Support Organizations  
As of March 2009**

<b>Compliance Item:</b>	<b>Assoc. for Community Broadcasting</b>	<b>Cullen ENG Research Foundation</b>	<b>Found. for Education &amp; Research in Vision</b>	<b>Houston Athletics Foundation</b>	<b>UH Alumni Association</b>	<b>UH Business Foundation</b>	<b>UH Law Foundation</b>	<b>UH Foundation</b>
Articles of Incorporation and Bylaws	√	√	√	√	√	√	√	√
Current List of Board Members	√	Note 1	√	√	√	√	√	√
Audited Financial Reports FY08	Expected April 2009	Note 1	√ Nov 2008	Expected May 2009	Expected May 2009	√ Dec 2008	Expected April 2009	√ Jan 2009
IRS Form 990 for FY08	Expected May 2009	Note 1	Expected May 2009	Expected June 2009	Expected June 2009	√ Mar 2009	Expected April 2009	Expected May 2009
Donor Gift Information	√	Note 1	√	√	√	√	√	√
Written Investment Policies	√	Note 1	√	√	√	√	√	√
Updated State Disclosure Statement for Outside Financial Advisors	√	Note 1	Waiting on Response	√	Note 2	Waiting on Response	√ Still Expect 2nd Advisor's Form	Waiting on Response

*Note 1: The Cullen Engineering Research Foundation has been dormant in recent years but has indicated it will reactivate in future*

*Note 2: The UH Alumni Association is seeking a new advisor at this time*

*Please note that this year's compliance report is earlier than recent years; some audits are still in progress*

UNIVERSITY OF HOUSTON SYSTEM  
BOARD OF REGENTS AGENDA

COMMITTEE: Audit & Compliance

ITEM: Internal Audit Report – Briefing Booklet

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

The Internal Audit Briefing Booklet contains an Internal Audit Activity Outline and Internal Audit Reports issued since the February 10, 2009, Audit & Compliance Committee Meeting of the Board of Regents.

FISCAL NOTE:

SUPPORTING DOCUMENTATION: Internal Audit Briefing Booklet (under separate cover)

ACTION REQUESTED: Information

COMPONENT: University of Houston System

CHIEF AUDIT EXECUTIVE

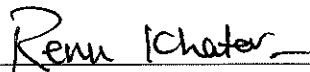


Don F. Guyton

3/27/09

DATE

CHANCELLOR



Renu Khator

3-31-09

DATE

UNIVERSITY OF HOUSTON SYSTEM  
INTERNAL AUDITING DEPARTMENT

BOARD OF REGENTS  
AUDIT & COMPLIANCE COMMITTEE  
MEETING

INTERNAL AUDIT BRIEFING  
MATERIALS

April 14, 2009

**University of Houston System  
Internal Auditing Department**

**Board of Regents  
Audit & Compliance Committee Meeting**

**Internal Audit Briefing Materials**

**April 14, 2009**

**INDEX**

1. Internal Audit Activity Outline
2. Internal Audit Report Executive Summaries
3. Summary of Recommendations by Area
4. Management Action Plans
5. Internal Audit Reports

**University of Houston System  
Internal Auditing Department**

**Board of Regents  
Audit & Compliance Committee Meeting**

**ACTIVITY OUTLINE  
April 14, 2009**

1. Audit Reports Issued since February 10, 2009, Board of Regents Meeting  
(See Tab 5 for Audit Reports)
  - AR2009-15 Follow-up Status Report
  - AR2009-16 UH/UHCL Technology Workforce Development Grants, 2002-2006 Awards
  - AR2009-17 UHD College of Sciences & Technology, Departmental Reviews
  - AR2009-18 UH Administration and Finance, Departmental Reviews
  - AR2009-19 UHV Information Security Standards
  - AR2009-20 UHD Information Security Standards
  
2. Reports in Progress (*scheduled distribution date to Board of Regents*)
  - UHCL Information Technology, TAC 202 Review (*August 11, 2009*)
  - UH Information Technology, TAC 202 Review (*August 11, 2009*)
  - THECB Facilities Audit (*August 11, 2009*)
  
3. Fieldwork in Progress (*scheduled distribution date to Board of Regents*)
  - UH Research Administration (*August 11, 2009*)
  - UH College of Liberal Arts & Social Sciences (*August 11, 2009*)
  - Chancellor / President's Travel and Entertainment Expenditures, FY 2009
  - Board of Regents Travel and Entertainment Expenditures, FY 2009
  
4. Planning in Progress
  - Departmental Reviews (UH College of Pharmacy, UHCL School of Science and Computer Engineering, UHCL School of Business)
  - UH/UHCL ARP Grants, 2006 Awards
  - UH Athletics, NCAA Rules Compliance
  - UH Financial Aid, Scholarships
  - Payroll – Leave Accountability
  - Financial Reporting
  - Cash Handling
  
5. Special Projects in Progress: Assistance to External Auditors & Management

UNIVERSITY OF HOUSTON SYSTEM  
INTERNAL AUDITING DEPARTMENT

INTERNAL AUDIT REPORTS

**EXECUTIVE SUMMARIES**

REPORT NOS. AR2009-15 through AR2009-20

**UNIVERSITY OF HOUSTON SYSTEM  
INTERNAL AUDITING DEPARTMENT**

**INTERNAL AUDIT REPORTS - EXECUTIVE SUMMARIES**

**Internal Audit Report – Follow-up Status Report**

The Standards for the Professional Practice of Internal Auditing require internal auditors to perform follow-up procedures to ascertain that appropriate action is taken on reported audit findings. We performed such procedures for all items included in management action plans which were scheduled to be implemented January 1, 2009, to February 28, 2009, in all audit reports with open recommendations. This status report addresses 24 management actions in 8 individual reports. In ascertaining whether appropriate action was taken, we interviewed personnel, reviewed documentation and performed other audit procedures as necessary. We determined that 17 of these management actions have been completed, 6 partially implemented and 1 not implemented.

**Internal Audit Report – UH/UHCL Technology Workforce Development Grants, 2002-2006 Awards**

The Internal Auditing Department conducted a review of the Technology Workforce Development grants that were awarded to the University of Houston and the University of Houston–Clear Lake from 2002 – 2006 at the request of the Texas Higher Education Coordinating Board (THECB). The primary objective was to determine whether the institutions were in compliance with state provisions applicable to the grant programs. In our opinion, there are adequate internal controls to help ensure compliance with THECB grant conditions.

**Internal Audit Report – UHD College of Sciences & Technology, Departmental Reviews**

The objective of the Departmental Review is to determine whether departments are conducting financial and administrative activities in compliance with university policies. We performed four departmental reviews in the College of Sciences and Technology. We conducted interviews, reviewed documentation, and performed other audit procedures, as necessary, in testing compliance with various policies for each compliance area. We noted two matters that we considered to be significant audit findings: 1) faculty members in the College were not reporting effort correctly and; in certain instances, faculty members were paid more than allowable from grant funds; and 2) lack of administrative and financial oversight. UHD management will work with the Office of the Vice Chancellor for Research and Intellectual Property to develop and implement effort reporting policies and procedures to help ensure compliance with federal regulations and to determine the appropriate actions to take regarding the overpayments made to certain faculty members. In addition, UHD management will develop procedures to help ensure that all recurring administrative and financial tasks are completed in a timely manner. We also noted that some of the departments reviewed were not in compliance with certain policies. Management developed action plans to help ensure compliance with university policies in these areas.

### **Internal Audit Report – UH Division of A&F, Departmental Reviews**

The objective of the Departmental Review is to determine whether departments are conducting financial and administrative activities in compliance with university policies. We performed sixteen departmental reviews in the Division of Administration and Finance. We conducted interviews, reviewed documentation, and performed other audit procedures, as necessary, in testing compliance with various policies for each compliance area. We noted no matters that we considered to be significant audit findings. We noted that some of the departments reviewed were not in compliance with certain policies. Management developed action plans to help ensure compliance with university policies in these areas.

### **Internal Audit Report – UHV Information Security Standards**

Texas Administrative Code Title 1, Part 10, Chapter 202 – Information Security Standards (TAC 202), requires all institutions of higher education to comply with the regulations set forth in Subchapter C - Security Standards for Institutions of Higher Education. For this engagement, we evaluated the information security policies, practices and procedures at the University of Houston–Victoria for the following areas: security standards policy, responsibilities, managing security risks, managing physical security, business continuity planning, information resource security safeguards, security incidents, user security practices, and removal of data from data processing equipment. In our opinion, the University of Houston–Victoria’s information security program in these areas helps ensure compliance with TAC 202, Subchapter C. Although we noted no matters that we considered to be significant audit findings, we did note certain violations of TAC 202 requirements. Management developed action plans to help ensure compliance with TAC 202 in these areas.

### **Internal Audit Report – UHD Information Security Standards**

Texas Administrative Code Title 1, Part 10, Chapter 202 – Information Security Standards (TAC 202), requires all institutions of higher education to comply with the regulations set forth in Subchapter C - Security Standards for Institutions of Higher Education. For this engagement, we evaluated the information security policies, practices and procedures at the University of Houston–Downtown for the following areas: security standards policy, responsibilities, managing security risks, managing physical security, business continuity planning, information resource security safeguards, security incidents, user security practices, and removal of data from data processing equipment. In our opinion, the University of Houston–Downtown’s information security program in these areas helps ensure compliance with TAC 202, Subchapter C. Although we noted no matters that we considered to be significant audit findings, we did note certain violations of TAC 202 requirements. Management developed action plans to help ensure compliance with TAC 202 in these areas.



**University of Houston System**  
**Internal Auditing Department**  
**Internal Audit Report Recommendations - Summarized by Area**  
**April 14, 2009**

REPORT NAME	Rpt. No.	Modify Policies and Procedures			Noncompliance with Guidelines			Efficiency of Resources	Contracts / Agreements	EDP / System Issues			Basic Internal Controls				Human Resources		
		UHS	Campus	Dept.	Fed./Other	State	UHS			Modif.	Security	Other	Reconcl.	Segreg. of Duties	Cash Handling	Safeguard Assets	Other	Job Descr.	Training
Follow-up Status Report	AR2009-15																		
UH / UHCL Technology Workforce Development Grants, 2002 - 2006 Awards	AR2009-16																		
UHD College of Sciences & Technology, Departmental Reviews	AR2009-17		X	X	X	X	X						X		X		X		X
UH Division of A&F, Departmental Reviews	AR2008-18			X				X		X			X		X	X	X		X
UHV Information Security Standards	AR2008-19			X		X							X						
UHD Information Security Standards	AR2008-20		X	X		X						X	X						

UNIVERSITY OF HOUSTON SYSTEM  
INTERNAL AUDITING DEPARTMENT

INTERNAL AUDIT REPORTS

**ACTION PLANS**

(Who is responsible for performing certain action by a specific date.)

REPORT NOS. AR2009-15 through AR2009-20  
(If Applicable)

Note: The Internal Auditing Department will perform follow-up procedures to determine whether management's actions addressing the recommendations have been implemented by the dates indicated in the management action plan. Follow-up status reports are included in the Internal Auditing Briefing Booklets for regularly scheduled Board of Regents Audit & Compliance Committee meetings.

**University of Houston System  
Internal Auditing Department**

**UHD, College of Sciences and Technology - Departmental Reviews - AR2009-17  
Action Plan**

<b>Est. Compl. Date</b>	<b>Responsibility for Action <u>Name/Title</u></b>	<b><u>Action To Be Taken</u></b>
---------------------------------	--	----------------------------------

<b>Risk Level:</b> <b>High</b> <b>Medium</b> <b>Low</b>
---

June 30, 2009	Carolyn Ivey Director Office of Sponsored Programs	Work with the Office of the Vice Chancellor for Research and Intellectual Property to develop and implement university policies to help ensure faculty members are reporting effort and being paid in accordance with federal regulations.
August 31, 2009	Carolyn Ivey Director Office of Sponsored Programs	Prepare a detailed report outlining each faculty member's sponsored project overpayment and work with the Office of the Vice Chancellor for Research and Intellectual Property to address the salary overpayments made from federal funds to faculty members with the sponsoring agencies to determine the appropriate actions to take regarding the allowability of these costs.
June 30, 2009	Elaine Pearson Division Business Administrator II Academic Affairs and Provost Office	Implement procedures to help ensure that all recurring administrative and financial tasks are timely completed, in accordance with university policies, including updating the Administrative Reference Manual to indicate Baseline Standards and performing semi-annual spot audits.
February 1, 2010	Richard Alo Executive Director CCSDS	Develop departmental procedures to help ensure the timely completion of all required training, in accordance with university policies.

**Note:** Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.

**University of Houston System  
Internal Auditing Department**

**UHD, College of Sciences and Technology - Departmental Reviews - AR2009-17  
Action Plan**

<b>Est. Compl. Date</b>	<b>Responsibility for Action Name/Title</b>	<b><u>Action To Be Taken</u></b>
July 1, 2009	Richard Alo Executive Director CCSDS	Restore deficit budgetary balances to zero or positive amounts and implement procedures to prevent spending funds that are not available.
August 31, 2009	Richard Alo Executive Director CCSDS	Develop departmental procedures to help ensure that employees who devote effort to sponsored projects record estimates of the percentage of effort on their time and effort report, in accordance with university policies.
August 31, 2009	Molly Woods Vice President, Academic Affairs and Provost	Change the funding source of the Executive Director's salary from the teaching budget or require the Executive Director to teach an appropriate number of classes to support the salary being paid from the teaching budget.
July 1, 2009	Marvelia Rocha Coordinator CCSDS	Develop departmental procedures to help ensure that checks are restrictively endorsed immediately upon receipt, in accordance with university policies.
July 1, 2009	Marvelia Rocha Coordinator CCSDS	Develop departmental procedures to help ensure that scholarship awards are reconciled to the university's student and financial systems, in accordance with university policies.

**Note:** Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.

**University of Houston System  
Internal Auditing Department**

**UHD, College of Sciences and Technology - Departmental Reviews - AR2009-17  
Action Plan**

<b>Est. Compl. Date</b>	<b>Responsibility for Action Name/Title</b>	<b><u>Action To Be Taken</u></b>
August 31, 2009	Dennis Rodriguez Department Chair Computer & Mathematical Sciences	Implement departmental procedures to help ensure that employees who devote effort to sponsored projects record estimates of the percentage of effort on their time and effort report, in accordance with university policies.
Action Complete	Dennis Rodriguez Department Chair Computer & Mathematical Sciences	Implement departmental procedures to help ensure that all currency receipts are documented and dated on a pre-numbered cash receipt; and cash receipts are deposited in a timely manner, in accordance with university policies.
Action Complete	Dennis Rodriguez Department Chair Computer & Mathematical Sciences	Implement departmental procedures to help ensure that Procurement Cardholders review and verify all transactions, in accordance with university policies.
June 1, 2009	Jon Aoki Program Coordinator UHD Houston START Teacher AP Summer Institute  Rene Garcia Program Manager Scholars Academy	Communicate University and Board policies regarding the approval of fees with the appropriate personnel to help ensure that a reasonable fee is set in an amount sufficient to recover the costs of providing the course.

**Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.**

**University of Houston System  
Internal Auditing Department**

**UHD, College of Sciences and Technology - Departmental Reviews - AR2009-17  
Action Plan**

<b>Est. Compl. Date</b>	<b>Responsibility for Action Name/Title</b>	<b><u>Action To Be Taken</u></b>
June 1, 2009	Jon Aoki Program Coordinator UHD Houston START Teacher AP Summer Institute  Rene Garcia Program Manager Scholars Academy	Discuss the appropriateness of charging the registration fee with the Texas Education Agency and determine the appropriate actions to take regarding allowability of the fee, including return of the funds.
February 1, 2010	James Uzman Department Chair Natural Sciences	Implement departmental procedures to help ensure that appropriate employees complete required disclosure forms, in accordance with university policies.
June 1, 2009	Rene Garcia Program Manager Scholars Academy	Implement departmental procedures to help ensure that cost center verifications are reviewed and approved by the account manager, in accordance with university policies.
August 31, 2009	James Uzman Department Chair Natural Sciences  Vicky Estrera Director Scholars Academy	Develop departmental procedures to help ensure that employees who devote effort to sponsored projects record estimates of the percentage of effort on their time and effort report, in accordance with university policies.
April 1, 2009	Heather Davis Assistant Business Manager Natural Sciences	Implement departmental procedures to help ensure that all time and effort reports are signed by employees and submitted to Payroll in a timely manner, in accordance with university policies.

**Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.**

**University of Houston System  
Internal Auditing Department**

**UHD, College of Sciences and Technology - Departmental Reviews - AR2009-17  
Action Plan**

<b>Est. Compl. Date</b>	<b>Responsibility for Action Name/Title</b>	<b><u>Action To Be Taken</u></b>
June 1, 2009	Rene Garcia Program Manager Scholars Academy	Develop departmental procedures to help ensure that cash receipts are deposited in a timely manner, in accordance with university policies.
June 1, 2009	Rene Garcia Program Manager Scholars Academy	Develop departmental procedures to help ensure that cash receipts are properly classified and deposited into the proper account, in accordance with university policies.
April 1, 2009	Heather Davis Assistant Business Manager Natural Sciences	Implement departmental procedures to help ensure direct reimbursements are processed in a timely manner, in accordance with university policies.
April 1, 2009	Heather Davis Assistant Business Manager Natural Sciences	Implement departmental procedures to help ensure that all long distance charges are certified by the user, in accordance with university policies.

**Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.**

**University of Houston System  
Internal Auditing Department**

**UH, Division of Administration and Finance - Departmental Reviews - AR2009-18  
Action Plan**

<b>Est. Compl. Date</b>	<b>Responsibility for Action Name/Title</b>	<b><u>Action To Be Taken</u></b>
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<b>Risk Level:</b> <b>High</b> <b>Medium</b> <b>Low</b>
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Action Complete	TaShawna Wilson Department Business Administrator Business Services	Implement departmental procedures to help ensure 1) that time and effort reports are properly completed, approved, and dated 2) and that all time and effort reports are submitted to Payroll in a timely manner, in accordance with university policies.
Action Complete	TaShawna Wilson Department Business Administrator Business Services	Implement departmental procedures to help ensure that cash receipts are deposited in a timely manner, in accordance with university policies.
Action Complete	TaShawna Wilson Department Business Administrator Business Services	Implement departmental procedures to help ensure that Procurement Card account numbers are removed from documentation uploaded into PeopleSoft, in accordance with university policies.
Action Complete	Irma Perez Financial Coordinator 2 Finance Department	Modify departmental procedures to help ensure that leave forms are timely completed and approved, in accordance with university policies.
Action Complete	Irma Perez Financial Coordinator 2 Finance Department	Modify departmental procedures to help ensure that all employees and supervisors sign and date time and effort reports, in accordance with university policies.

**Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.**



**University of Houston System  
Internal Auditing Department**

**UH, Division of Administration and Finance - Departmental Reviews - AR2009-18  
Action Plan**

<b>Est. Compl. Date</b>	<b>Responsibility for Action Name/Title</b>	<b><u>Action To Be Taken</u></b>
Action Complete	Sally Rowland Director Printing and Postal Services	Modify departmental procedures to help ensure that the Cost Center Manager approves all monthly cost center verifications, in accordance with university policies.
September 30, 2009	Sally Rowland Director Printing and Postal Services	Restore deficit fund balances to zero or positive amounts and implement procedures to prevent spending funds that are not available.
Action Complete	Sally Rowland Director Printing and Postal Services	Modify departmental procedures to help ensure that Travel Card account numbers are removed from documentation uploaded into PeopleSoft, in accordance with university policies.
June 30, 2009	Deborah Marks Manager One Card Program	Modify departmental procedures to help ensure the timely completion of all cost center verifications, in accordance with university policies.
September 30, 2009	Esmeralda Valdez Director Business Services	Restore deficit fund balances to zero or positive amounts and implement procedures to prevent spending funds that are not available.

**Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.**

**University of Houston System  
Internal Auditing Department**

**UH, Division of Administration and Finance - Departmental Reviews - AR2009-18  
Action Plan**

<b>Est. Compl. Date</b>	<b>Responsibility for Action Name/Title</b>	<b><u>Action To Be Taken</u></b>
Action Complete	Deborah Marks Manager One Card Program	Modify departmental procedures to help ensure that Travel Card account numbers are removed from documentation uploaded into PeopleSoft; and that Travel Cards are used for allowable business purposes only, in accordance with university policies.
May 30, 2009	Deborah Marks Manager One Card Program	Modify departmental procedures to help ensure that SDOL expense reports are signed by the cardholder and certifying signatory, in accordance with university policies.
Action Complete	Deborah Marks Manager One Card Program	Modify departmental procedures to help ensure that contracts are signed by all parties prior to commencement of services, in accordance with university policies.
Action Complete	Cynthia Granier Department Business Administrator Department of Public Safety	Modify departmental procedures to help ensure that time and effort reports are properly completed and approved; and that signed copies of time and effort reports for employees who are unavailable to sign are resubmitted to Payroll, in accordance with university policies.
Action Complete	Cynthia Granier Department Business Administrator Department of Public Safety	Modify departmental procedures to help ensure that bank routing and account numbers are removed prior to the document's upload to PeopleSoft, in accordance with university policies.

**Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.**

**University of Houston System  
Internal Auditing Department**

**UH, Division of Administration and Finance - Departmental Reviews - AR2009-18  
Action Plan**

<b>Est. Compl. Date</b>	<b>Responsibility for Action Name/Title</b>	<b><u>Action To Be Taken</u></b>
Action Complete	Cynthia Granier Department Business Administrator Department of Public Safety	Modify departmental procedures to help ensure that Contract Coversheets are signed by the appropriate person with delegated authority, in accordance with university policies.
Action Complete	Margie Hattenbach Director Budget Office	Modify departmental procedures to help ensure that signed time and effort reports are resubmitted to Payroll for employees who are unavailable to sign, in accordance with university policies.
February 1, 2010	David Ellis Executive Director Financial Reporting	Develop departmental procedures to help ensure the timely completion of all required training, in accordance with university policies.
May 1, 2009	Nakia Harrison Administrative Assistant Financial Reporting	Work with the appropriate office to close expired project/grant cost centers.
Action Complete	Nakia Harrison Administrative Assistant Financial Reporting	Develop departmental procedures to help ensure that all employees sign and date time and effort reports; and that all time and effort reports are submitted to Payroll in a timely manner, in accordance with university policies.
Action Complete	Nakia Harrison Administrative Assistant Financial Reporting	Develop departmental procedures to help ensure that time and effort reports are reconciled to payroll registers, in accordance with university policies.

**Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.**

**University of Houston System  
Internal Auditing Department**

**UH, Division of Administration and Finance - Departmental Reviews - AR2009-18  
Action Plan**

<b>Est. Compl. Date</b>	<b>Responsibility for Action Name/Title</b>	<b><u>Action To Be Taken</u></b>
May 1, 2009	Nakia Harrison Administrative Assistant Financial Reporting	Develop departmental procedures to help ensure that departmental leave records are reconciled to leave accruals recorded in the payroll system on a monthly basis, in accordance with university policies.
May 1, 2009	Nakia Harrison Administrative Assistant Financial Reporting	Develop departmental procedures to help ensure that payroll suspense reports are run after the confirmation of every on-cycle payroll, and corrections are made to minimize the number of reallocations, in accordance with university policies.
May 1, 2009	Nakia Harrison Administrative Assistant Financial Reporting	Complete a new Procurement Card Cardholder application for the Administrative Assistant and a new Department Travel Card application, as required by Accounts Payable.
May 1, 2009	Nakia Harrison Administrative Assistant Financial Reporting	Develop departmental procedures to help ensure that SDOL expense reports are signed by the cardholder and certifying signatory; and that signed expense reports are uploaded to PeopleSoft by the 20th of the month, in accordance with university policies.
Action Complete	Nakia Harrison Administrative Assistant Financial Reporting	Develop departmental procedures to help ensure that all long distance charges are certified by the user, in accordance with university policies.

**Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.**

**University of Houston System  
Internal Auditing Department**

**UH, Division of Administration and Finance - Departmental Reviews - AR2009-18  
Action Plan**

<b>Est. Compl. Date</b>	<b>Responsibility for Action Name/Title</b>	<b><u>Action To Be Taken</u></b>
Action Complete	Nakia Harrison Administrative Assistant Financial Reporting	Develop departmental procedures to help ensure that a Designation of Property Custodian form is completed annually and submitted to Property Management, in accordance with university policies.
Action Complete	Gene Gillis Bursar Student Financial Services	Work with General Accounting and other necessary departments to help ensure the completion of all cost center reconciliations, in accordance with university policies.
Action Complete	Gene Gillis Bursar Student Financial Services	Work with General Accounting to restore deficit fund balances to zero or positive amounts and implement procedures to prevent spending funds that are not available.
February 1, 2010	Raymond Bartlett Treasurer Treasurers Office	Implement departmental procedures to help ensure the timely completion of all required training, in accordance with university policies.
Action Complete	Anne Montgomery Manager Treasurers Office	Implement departmental procedures to help ensure that all time and effort reports are submitted to Payroll in a timely manner, in accordance with university policies.
Action Complete	Anne Montgomery Manager Treasurers Office	Implement departmental procedures to help ensure that Travel Card account numbers are removed from documentation uploaded into PeopleSoft, in accordance with university policies.

**Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.**

**University of Houston System  
Internal Auditing Department**

**UH, Division of Administration and Finance - Departmental Reviews - AR2009-18  
Action Plan**

<b>Est. Compl. Date</b>	<b>Responsibility for Action Name/Title</b>	<b><u>Action To Be Taken</u></b>
February 1, 2010	Bob Browand Director Parking & Transportation	Develop departmental procedures to help ensure the timely completion of all required training, in accordance with university policies.
May 1, 2009	Bob Browand Director Parking & Transportation	Develop departmental procedures to help ensure 1) that time and effort reports are properly completed, approved, and dated and 2) that all time and effort reports are submitted to Payroll in a timely manner, in accordance with university policies.
Action Complete	Virginia Miller Department Business Administrator Human Resources Department	Modify departmental procedures to help ensure that all employees and supervisors sign and date time and effort reports; and that signed time and effort reports are resubmitted to Payroll for employees who are unavailable to sign, in accordance with university policies.
Action Complete	Joan Nelson Executive Director Human Resources Department	Modify departmental procedures to help ensure that all contracts are signed by all parties prior to commencement of services, in accordance with university policies.
August 31, 2009	Ruth Sustala Assistant Director Finance and Operations	Restore deficit fund balances to zero or positive amounts and implement procedures to prevent spending funds that are not available.

**Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.**

**University of Houston System  
Internal Auditing Department**

**UH, Division of Administration and Finance - Departmental Reviews - AR2009-18  
Action Plan**

<b>Est. Compl. Date</b>	<b>Responsibility for Action Name/Title</b>	<b><u>Action To Be Taken</u></b>
August 31, 2010	Ruth Sustala Assistant Director Finance and Operations	Restore deficit budgetary balances to zero or positive amounts and implement procedures to prevent spending funds that are not available.
August 31, 2010	Ruth Sustala Assistant Director Finance and Operations	Notify the appropriate office of expired project/grant cost centers that remain in the financial system.
Action Complete	Ruth Sustala Assistant Director Finance and Operations	Implement departmental procedures to help ensure that all time and effort reports are reconciled to the payroll registers and that employees are paid accurately for time approved, in accordance with university policies.
August 31, 2009	Ruth Sustala Assistant Director Finance and Operations	Obtain reimbursement from a terminated employee for pay received after her termination date, in accordance with university policies.
Action Complete	Ruth Sustala Assistant Director Finance and Operations	Implement departmental procedures to help ensure that terminating PARs are prepared and submitted to Human Resources within five working days of the employee's termination date, in accordance with university policies.
Action Complete	Sondra Armstrong Secretary 2 Environmental Health and Risk Management	Modify departmental procedures to help ensure that signed time and effort reports are resubmitted to payroll for employees who are unavailable to sign, in accordance with university policies.

**Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.**

**University of Houston System  
Internal Auditing Department**

**UH, Division of Administration and Finance - Departmental Reviews - AR2009-18  
Action Plan**

<b>Est. Compl. Date</b>	<b>Responsibility for Action Name/Title</b>	<b><u>Action To Be Taken</u></b>
February 1, 2010	Pat Sanchez Director Facilities Maintenance	Modify departmental procedures to help ensure the timely completion of all required training, in accordance with university policies.
February 1, 2010	Pat Sanchez Director Facilities Maintenance	Modify departmental procedures to help ensure that appropriate employees complete required disclosure forms, in accordance with university policies.
Action Complete	Pat Sanchez Director Facilities Maintenance	Modify departmental procedures to help ensure that all employees and supervisors certify time and effort reports in a timely manner, in accordance with university policies.
Action Complete	Pat Sanchez Director Facilities Maintenance	Modify departmental procedures to help ensure that cash receipts are deposited in a timely manner, in accordance with university policies.
Action Complete	Pat Sanchez Director Facilities Maintenance	Modify departmental procedures to help ensure that Procurement Card account numbers are removed from documentation uploaded into PeopleSoft, in accordance with university policies.
February 1, 2010	Sameer Kapileshwari, P.E. LEED AP Interim Director of Utility Services	Modify departmental procedures to help ensure the timely completion of all required training, in accordance with university policies.

**Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.**



**University of Houston System  
Internal Auditing Department**

**UH, Division of Administration and Finance - Departmental Reviews - AR2009-18  
Action Plan**

<b>Est. Compl. Date</b>	<b>Responsibility for Action Name/Title</b>	<b><u>Action To Be Taken</u></b>
Action Complete	Sameer Kapileshwari, P.E. LEED AP Interim Director of Utility Services	Modify departmental procedures to help ensure that signed time and effort reports are later collected for employees who are unavailable to sign and submitted to Payroll, in accordance with university policies.
Action Complete	Sameer Kapileshwari, P.E. LEED AP Interim Director of Utility Services	Modify departmental procedures to help ensure that terminating PAR's are submitted to Human Resources within five working days of the employee's termination date, in accordance with university policies.
February 1, 2010	Alex Alexander Director Grounds Maintenance and Custodial Services	Modify departmental procedures to help ensure the timely completion of all required training, in accordance with university policies.
Action Complete	Alex Alexander Director Grounds Maintenance and Custodial Services	Modify departmental procedures to help ensure that leave forms are timely completed and approved, in accordance with university policies.
Action Complete	Alex Alexander Director Grounds Maintenance and Custodial Services	Modify departmental procedures to help ensure the completion of property removal requests for all property located off-campus, in accordance with university policies.

**Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.**

**University of Houston System  
Internal Auditing Department**

**UHV, Information Security Standards, AR2009-19  
Action Plan**

<b>Est. Compl. Date</b>	<b>Responsibility for Action Name/Title</b>	<b><u>Action To Be Taken</u></b>
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<b>Risk Level:</b> <b>High</b> <b>Medium</b> <b>Low</b>
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5/31/09	Joe Ferguson Sr. Director of Information Technology	Update the Business Continuity Plan to include the Department Risk Analysis Profile and Department Recovery Team Plan for the Athletics Department.
Action Complete	Joe Ferguson Sr. Director of Information Technology	Develop a "UHV Wireless Standards" document that will include standards for the use of wireless technology, in accordance with the Texas Administrative Code.

**Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.**

**University of Houston System  
Internal Auditing Department**

**UHD, Information Security Standards, AR2009-20  
Action Plan**

<b>Est. Compl. Date</b>	<b>Responsibility for Action <u>Name/Title</u></b>	<b><u>Action To Be Taken</u></b>
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<b>Risk Level:</b> <b>High</b> <b>Medium</b> <b>Low</b>
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8/31/09	Erin Mayer Executive Director Information Technology	Modify Information Technology's policies and procedures manual to require separation of duties that are susceptible to fraudulent or other unauthorized activity.
1/1/10	Hossein Shahroghi Associate Vice President Information Technology	Review and update University policies relating to information technology to help maintain an up-to-date information security program.
1/1/10	Hossein Shahroghi Associate Vice President Information Technology	Work with university leadership to update UHD's Business Continuity Plan to include all business functions of the University.
10/1/09	Erin Mayer Executive Director Information Technology	Work with application owners of major enterprise applications to implement procedures to require an annual review of access to information resources to help ensure the authorized use of information resources.
10/1/09	Erin Mayer Executive Director Information Technology	Develop password standards based on industry best practices and update policies and procedures accordingly.

**Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.**

**University of Houston System  
Internal Auditing Department**

**UHD, Information Security Standards, AR2009-20  
Action Plan**

<b>Est. Compl. Date</b>	<b>Responsibility for Action Name/Title</b>	<b><u>Action To Be Taken</u></b>
1/1/10	Hossein Shahrokhi Associate Vice President Information Technology	Modify policies and procedures to prohibit sending of individual's name and restricted personal information via email unless the data is encrypted.
1/1/10	Hossein Shahrokhi Associate Vice President Information Technology	Update the Computer Use Policy to include requirements related to wireless access, in accordance with TAC 202.

**Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.**

# UNIVERSITY OF HOUSTON SYSTEM INTERNAL AUDITING DEPARTMENT

## INTERNAL AUDIT REPORTS

AR2009-15	Follow-up Status Report
AR2009-16	UH/UHCL Technology Workforce Development Grants, 2002-2006 Awards
AR2009-17	UHD College of Sciences & Technology, Departmental Reviews
AR2009-18	UH Administration and Finance, Departmental Reviews
AR2009-19	UHV Information Security Standards
AR2009-20	UHD Information Security Standards

Note: These internal audit reports are submitted to the Board of Regents and the Chancellor for their review in order to comply with the Board of Regents policy and the Texas Government Code, Section 2102.008. These internal audit reports are also submitted to the Governor's Office of Budget and Planning, the Legislative Budget Board, the State Auditor, and the Sunset Advisory Committee in order to comply with the Texas Government Code, Section 2102.0091.

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON SYSTEM

FOLLOW-UP STATUS REPORT

Actions Scheduled from January 1, 2009 to  
February 28, 2009

REPORT NO. AR2009-15

**UNIVERSITY OF HOUSTON SYSTEM  
FOLLOW-UP STATUS REPORT  
(Actions Scheduled from January 1, 2009 to February 28, 2009)**

**Board of Regents Audit Committee Meeting  
April 14, 2009**

**Table of Contents**

1. Report
2. Listing of Audit Reports Containing Management Action Plans
3. Follow-up Status Matrix

**University of Houston System  
Internal Auditing Department**

**Follow-up Status Report  
(Actions scheduled from January 1, 2009, to February 28, 2009)**

The Standards for the Professional Practice of Internal Auditing require internal auditors to perform follow-up procedures to ascertain that appropriate action is taken on reported audit findings. We performed such procedures for all items included in management action plans which were scheduled to be implemented January 1, 2009, to February 28, 2009, in all audit reports with open recommendations. This status report addresses 24 management actions in 8 individual reports. In ascertaining whether appropriate action was taken, we interviewed personnel, reviewed documentation and performed other audit procedures as necessary. We determined that 17 of these management actions have been completed, 6 partially implemented and 1 not implemented.

The main portion of this report is a follow-up status matrix which lists the report number, report title, action number, total actions in each report, estimated completion date, name/title/entity responsible for action, action to be taken and status. The status of the action items included in the matrix has been categorized as either ***Action Complete, Partially Implemented*** or ***Not Implemented***. In cases where the action item has been partially implemented or not implemented, an updated management's response with an estimated completion deadline is included in the status column, where appropriate.

The "Listing of Audit Reports Containing Management Action Plans" indicates all reports where management has addressed all actions in the action plan during the current fiscal year and all reports which are addressed in this status report. All of the management action plans for internal audit reports contain a footnote indicating that documentation of implementation of actions will be furnished to the Internal Auditing Department on the same date as the estimated completion date of the action being implemented.

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Don F. Guyton  
Chief Audit Executive  
March 24, 2009

Attachment



**UNIVERSITY OF HOUSTON SYSTEM  
AUDIT REPORTS CONTAINING MANAGEMENT ACTION PLANS  
FOLLOW-UP STATUS  
FY 2008**

<u>Report Number</u>	<u>Report Date</u>	<u>REPORT TITLE</u>	<u>All Actions Complete Final Disposition Rept. No.</u>	<u>Some Actions Addressed in this Report</u>
<b><u>INTERNAL AUDIT REPORTS WITH OPEN RECOMMENDATIONS:</u></b>				
AR1999-08	02/18/99	UH, Physical Plant Department, 3rd FU		
AR 2005-25	08/03/05	Departmental Reviews		
AR2006-12	02/07/06	UH Research, Time and Effort Reporting		
AR2006-18	05/02/06	UH Graduate and Professional Studies	<b>AR2009-11</b>	
AR2006-20	05/02/06	Departmental Reviews		
AR2006-26	08/01/06	Department Reviews		<b>X</b>
AR2007-26	05/01/07	UH, Enrollment Services	<b>AR2009-11</b>	
AR2008-08	11/15/07	UH Residential Life & Housing, Operational Review		<b>X</b>
AR2008-12	02/05/08	PeopleSoft Student and Academic Admin., Data Conversion	<b>AR2009-01</b>	
AR2008-13	02/05/08	UHCL Financial Aid, Scholarships	<b>AR2009-01</b>	
AR2008-14	02/05/08	UHD Financial Aid, Scholarships	<b>AR2009-01</b>	
AR2008-16	04/28/08	Review of Expenditures of Endow. Income, FY07		
AR2008-17	04/28/08	College of Engineering, Departmental Reviews		<b>X</b>
AR2008-18	04/28/08	College of Business, Departmental Reviews	<b>AR2009-01</b>	
AR2008-19	04/28/08	Educational Technology and University Outreach		
AR2008-22	08/12/08	UHD College of HSS, Departmental Reviews	<b>AR2009-11</b>	
AR2009-02	12/09/08	UH College of Technology - Departmental Reviews		<b>X</b>
AR2009-03	12/09/08	UHD College of Business - Departmental	<b>AR2009-15</b>	<b>X</b>
AR2009-04	12/09/08	UHD JAMP 2007 - 2008		
AR2009-08	12/09/08	UHS Internal Quality Assurance Review of Internal Auditing		<b>X</b>
AR2009-12	02/10/09	UH NSM - Departmental Reviews		<b>X</b>
AR2009-14	02/10/09	Review of Expenditures of Endowment Income, FY2008		
<b><u>EXTERNAL AUDIT REPORTS WITH OPEN RECOMMENDATIONS:</u></b>				
SAO Report #05-010	11/02/04	UH - The Protection of Confidential Information and Critical Systems		
SAO Report #06-054	08/10/06	The University of Houston System's Management Practices for Endowment Funds		
SAO Report #07-055	02/20/07	Federal Portion of thee Statewide Single Audit Report For the Fiscal Year Ended August 31,		
SAO Report #08-336	02/20/08	Statewide Single Audit Report, FY 2007		
SAO Report #09-002	09/01/09	Student Fees at Selected Higher Education Institutions		
SAO Report #09-030	03/01/09	Federal Portion of thee Statewide Single Audit Report For the Fiscal Year Ended August 31,		
Int. Aud. QAR	01/16/09	Quality Assessment Review of Internal Auditing Department	<b>AR2009-15</b>	<b>X</b>

**University of Houston System  
Internal Auditing Department**

**Follow-up Status Report  
as of February 28, 2009**

Internal Audit Report Number	Report Title	Action No.	Total Actions	Est. Compl. Date	Responsibility For Action		Action To Be Taken	Status
					Name / Title	Entity		
<b>Risk Level: High Medium Low</b>								
AR2006-26	Departmental Reviews	10e	24	1/31/2009	Brenda Cook Department Business Administrator Information Technology	UH	Notify the Division of Research or Budget Office of expired project/grant cost centers that remain in the financial system.	<i>Action Complete</i>
AR2006-26	Departmental Reviews	11e	24	1/31/2009	Brenda Cook Department Business Administrator Information Technology	UH	Modify departmental procedures to help ensure the timely submission of time and effort reports to the Payroll Department, in accordance with university policies.	<i>Action Complete</i>
AR2006-26	Departmental Reviews	13c	24	1/31/2009	Brenda Cook Interim Financial Manager Scholarships and Financial Aid	UH	Develop departmental procedures to help ensure that all contracts are fully executed prior to the start date of the agreement, in accordance with university policies.	<i>Action Complete</i>
AR2006-26	Departmental Reviews	14d	24	2/28/2009	Brenda Cook Interim Financial Manager Scholarships and Financial Aid	UH	Restore deficit fund balances to zero or positive amounts and implement procedures to prevent spending funds that are unavailable.	<b>Partially Implemented - Updated Management's Response:</b> Three of the four funding sources are now positive. By May 1, 2009, the remaining funding source will be positive and procedures to prevent deficit spending will be implemented.
AR2006-26	Departmental Reviews	15d	24	2/28/2009	Brenda Cook Interim Financial Manager Scholarships and Financial Aid	UH	Restore project/grant cost center budgetary balances to zero or positive amounts.	<b>Partially Implemented - Updated Management's Response:</b> Six of the nine cost center balances are now positive. By June 1, 2009, the remaining three cost centers will be positive.
AR2008-08	UH Residential Life & Housing, Operational Review	10b	29	1/1/2009	Diane Murphy Associate Vice President for Student Affairs Administration	UH	Refund to the Department of Education all amounts overawarded to the recipients of the UEP room and board financial assistance.	<i>Action Complete</i>
AR2008-08	UH Residential Life & Housing, Operational Review	17b	29	2/28/2009	Andy Blank Executive Director, Residential Life & Housing  Diane Murphy Associate Vice President for Student Affairs Administration	UH	Develop contract compliance checklists to help with the oversight of the privately managed facilities and assign responsibilities to specific employees to monitor compliance with the items on the checklists.	<i>Action Complete</i>

**University of Houston System  
Internal Auditing Department**

**Follow-up Status Report  
as of February 28, 2009**

Internal Audit Report Number	Report Title	Action No.	Total Actions	Est. Compl. Date	Responsibility For Action		Action To Be Taken	Status
					Name / Title	Entity		
<b>Risk Level: High Medium Low</b>								
AR2008-17	College of Engineering, Departmental Reviews	15a	25	1/1/2009	Pat Cooks Department Business Administrator Chemical & Biomolecular Engineering	UH	Restore deficit grant cost center budgetary balances to zero or positive amounts and implement procedures to help prevent spending funds that are not budgeted.	<i>Partially Implemented - Updated Management's Response:</i> The department has cleared 3 of the 6 project / grant cost centers and expects to have the remaining 3 cleared by August 31, 2009.
AR2009-02	UH College of Technology Departmental Reviews	1	6	1/5/2009	Eduardo Cortes Department Business Administrator Engineering Technology	UH	Modify departmental procedures to help ensure the timely completion of all required training, in accordance with university policies.	<i>Action Complete</i>
AR2009-02	UH College of Technology Departmental Reviews	2	6	2/27/2009	Eduardo Cortes Department Business Administrator Engineering Technology	UH	Restore deficit budgetary balances to zero or positive amounts and implement procedures to prevent spending funds that are not available.	<i>Not Implemented - Updated Management's Response:</i> None of the 4 cost centers with deficit balances at the time of the audit have zero or positive amounts but we expect to them to be at zero or positive by May 1, 2009.
AR2009-02	UH College of Technology Departmental Reviews	3	6	1/30/2009	Eduardo Cortes Department Business Administrator TMAC	UH	Modify departmental procedures to help ensure the timely completion of all required training, in accordance with university policies.	<i>Action Complete</i>
AR2009-02	UH College of Technology Departmental Reviews	6	6	1/30/2009	Eduardo Cortes Department Business Administrator TMAC	UH	Implement departmental procedures to collect outstanding accounts receivable, including documenting collection efforts, in accordance with university policies.	<i>Action Complete</i>
AR2009-03	UHD College of Business Departmental Reviews	1	4	1/31/2009	Scott Curtis College Administrator Dean's Office	UHD	Modify departmental procedures in the Dean's Office to help ensure that appropriate employees complete disclosure forms annually, in accordance with university policies.	<i>Action Complete</i>
AR2009-03	UHD College of Business Departmental Reviews	2	4	1/31/2009	Scott Curtis College Administrator Dean's Office	UHD	Modify departmental procedures in the MMBA Department to help ensure that appropriate employees complete disclosure forms annually, in accordance with university policies.	<i>Action Complete</i>

**University of Houston System  
Internal Auditing Department**

**Follow-up Status Report  
as of February 28, 2009**

Internal Audit Report Number	Report Title	Action No.	Total Actions	Est. Compl. Date	Responsibility For Action		Action To Be Taken	Status
					Name / Title	Entity		
<b>Risk Level: High Medium Low</b>								
AR2009-03	UHD College of Business Departmental Reviews	3	4	1/31/2009	Scott Curtis College Administrator Dean's Office	UHD	Modify departmental procedures in the FACIS Department to help ensure the timely completion of all required training, in accordance with university policies.	<i>Action Complete</i>
AR2009-03	UHD College of Business Departmental Reviews	4	4	1/31/2009	Scott Curtis College Administrator Dean's Office	UHD	Modify departmental procedures in the FACIS Department to help ensure that appropriate employees complete disclosure forms annually, in accordance with university policies.	<i>Action Complete</i>
AR2009-08	Internal Quality Assurance Review UHS Internal Auditing Department	1	6	1/31/2009	Don Guyton Director, Internal Auditing Department	UHS	Review and assess the roles, responsibilities, education, and experience of IAD management job descriptions and develop a written job description for the Information Technology Auditor to help ensure that each job description provide suitable criteria of roles, responsibilities, education and experience.	<i>Partially Implemented - Updated Management's Response:</i> We have created a job description for the Information Technology Auditor and are in the process of updating the job descriptions for the other positions in the Internal Auditing Department. We expect to have the job descriptions updated by August 31, 2009.
AR2009-08	Internal Quality Assurance Review UHS Internal Auditing Department	4	6	1/31/2009	Don Guyton Director, Internal Auditing Department	UHS	Assess the cost and benefit of implementing the remaining functionalities in the TeamMate Audit Management System to help eliminate manual administrative tasks and more effectively manage the IAD's operations.	<i>Partially Implemented - Updated Management's Response:</i> We are in the process of determining the cost benefit of implementing the remaining functionality of TeamMate. We plan to develop an action plan by July 31, 2009.
AR2009-08	Internal Quality Assurance Review UHS Internal Auditing Department	5	6	1/31/2009	Don Guyton Director, Internal Auditing Department	UHS	Complete and update the IAD Policies and Procedures Manual to help ensure employees clearly understand and fulfill their operational roles and responsibilities.	<i>Partially Implemented - Updated Management's Response:</i> We have recently reorganized our department and plan to update our IAD Policies and Procedures Manual by August 31, 2009.
AR2009-08	Internal Quality Assurance Review UHS Internal Auditing Department	6	6	1/31/2009	Don Guyton Director, Internal Auditing Department	UHS	Modify the quality assurance/second review checklist to help ensure that the work programs are approved prior to their implementation, and any adjustments approved promptly.	<i>Action Complete</i>
AR2009-12	College of Natural Sciences & Mathematics Departmental Reviews	1	48	2/28/2009	Fred McGhee Director, NSM Business Operations	UH	Review the college's business processes and the responsibilities of college personnel at the Dean's and department levels to ensure that appropriate oversight and monitoring is in place and functioning.	<i>Action Complete</i>

**University of Houston System  
Internal Auditing Department**

**Follow-up Status Report  
as of February 28, 2009**

<b>Internal Audit Report Number</b>	<b>Report Title</b>	<b>Action No.</b>	<b>Total Actions</b>	<b>Est. Compl. Date</b>	<b>Responsibility For Action</b>		<b>Action To Be Taken</b>	<b>Status</b>
					<b>Name / Title</b>	<b>Entity</b>		
<b>Risk Level: High Medium Low</b>								
QAR	Quality Assessment Review of the Department of Internal Auditing	1	3	2/28/09	Don Guyton Director, Internal Auditing Department	UHS	Recommend to the Audit and Compliance Committee and management that the Director title be changed to Chief Audit Executive and that references to the position be changed in the relevant policies and procedures.	<i>Action Complete</i>
QAR	Quality Assessment Review of the Department of Internal Auditing	2	3	2/28/09	Don Guyton Director, Internal Auditing Department	UHS	Include the topic of ERM on our engagement entrance conference meeting agenda and discuss management's greatest perceived risks during the meeting.	<i>Action Complete</i>
QAR	Quality Assessment Review of the Department of Internal Auditing	3	3	2/28/09	Don Guyton Director, Internal Auditing Department	UHS	Revise our standard audit work programs to determine which audit steps can be broken down into smaller steps and include additional audit steps for staff independence.	<i>Action Complete</i>

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON  
AND  
UNIVERSITY OF HOUSTON–CLEAR LAKE

TECHNOLOGY WORKFORCE  
DEVELOPMENT GRANTS  
2002 - 2006 AWARDS

REPORT NO. AR2009-16

**UNIVERSITY OF HOUSTON SYSTEM  
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON AND  
UNIVERSITY OF HOUSTON-CLEAR LAKE  
TECHNOLOGY WORKFORCE DEVELOPMENT GRANTS  
2002 - 2006 AWARDS**

**BACKGROUND:**

The Internal Auditing department reviewed the Technology Workforce Development (TWD) grants awarded to UHCL in 2002 and 2005 and UH in 2003 and 2006 at the request of the Texas Higher Education Coordinating Board (THECB).

In 2001, the 77th Texas Legislature passed the Technology Workforce Development Act, in response to requests by industry to increase the number of electrical engineering and computer science graduates from higher education institutions in the state. The purpose of the law is to provide seed money that would enable institutions to expand enrollments in engineering and computer science programs; to increase both the quantity and quality of baccalaureate-level engineers and computer scientists; and, to foster cooperative relationships and activities involving technology companies and universities that offer engineering and computer science degrees. This legislation created the Texas Engineering and Technical Consortium, the TWD Grants Program, and charged the THECB with administration of the grant program. All programs were created as peer-review, competitive grants programs.

There were \$331,449 and \$274,888 in grants awarded to UH in 2003 and 2006, respectively, and there were \$508,916 and \$65,612 in grants awarded to UHCL in 2002 and 2005, respectively. Our audit consisted of a review of grants made by THECB to the UH College of Engineering and the UHCL School of Science and Computer Engineering.

**OBJECTIVES:**

The objectives of our review were as follows:

1. Determine whether the grant conditions established by the THECB are being followed.
2. Determine whether the management control system is adequate for the performance of the grant.
3. Determine whether the department compiled its enrollment data ("TWD Roster") according to the definitions in the Program Announcement.

4. Determine whether increased formula funding resulting from increased undergraduate enrollment as a result of the TWD Grants Program is passed on to the appropriate college or department.
5. Determine whether the project leader employed strategies outlined in the project proposal and project reports according to the proposal budget.
6. Determine whether personnel appointed to the grants actually worked on the grants.
7. Determine whether all expenses were governed by the use of the proper procurement procedures in compliance with statute.
8. Determine whether federal expenditures reported to the THECB were expended as reported and in the time frame given by the reports.
9. Determine whether equipment purchased with grant funds is actually used on the grant and was justified by the needs of the grant.
10. Determine whether travel paid from grant funds is actually related to grant activities and conformed to state guidelines.
11. Determine whether approval was obtained from the THECB for budget transfers in excess of those authorized by the grant conditions.

#### **SCOPE OF WORK:**

We interviewed personnel, reviewed written policies and procedures, and completed internal control questionnaires for each area listed below to determine whether there were adequate internal controls over the TWD grants. We also selected a sample of two grants in the UH College of Engineering and a sample of two grants in the UHCL School of Science and Computer Engineering and performed detailed testing in the following areas:

- Management Control System
- Enrollment
- Formula Funding
- Funds Used
- Personnel
- Allowable Costs
- Federal Expenditures
- Capital Equipment
- Travel
- Budget Transfers



**CONCLUSION:**

In our opinion, there are adequate internal controls to help ensure compliance with THECB grant conditions.

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Don F. Guyton  
Chief Audit Executive  
February 6, 2009

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON–DOWNTOWN

COLLEGE OF SCIENCES & TECHNOLOGY  
DEPARTMENTAL REVIEWS

REPORT NO. AR2009-17

**University of Houston System  
Internal Auditing Department**

**University of Houston-Downtown  
College of Sciences and Technology  
Departmental Reviews**

The objective of the Departmental Review is to determine whether departments are conducting financial and administrative activities in compliance with university policies. We performed four departmental reviews in the College of Sciences and Technology. We conducted interviews, reviewed documentation, and performed other audit procedures, as necessary, in testing compliance with various policies for each compliance area. We noted two matters that we considered to be significant audit findings: 1) faculty members in the College were not reporting effort correctly and; in certain instances, faculty members were paid more than allowable from grant funds; and 2) lack of administrative and financial oversight. UHD management will work with the Office of the Vice Chancellor for Research and Intellectual Property to develop and implement effort reporting policies and procedures to help ensure compliance with federal regulations and to determine the appropriate actions to take regarding the overpayments made to certain faculty members. In addition, UHD management will develop procedures to help ensure that all recurring administrative and financial tasks are completed in a timely manner. We also noted that some of the departments reviewed were not in compliance with certain policies. Management developed action plans to help ensure compliance with university policies in these areas.

The attachments listed below contain additional information related to the departmental review and the College:

- Significant Findings
- Compliance Matrix
- Action Plan
- College Background
- Financial Summary of Transactions

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Don F. Guyton  
Chief Audit Executive  
February 27, 2009

**University of Houston System  
Internal Audit Department**

**University of Houston-Downtown  
College of Sciences and Technology  
Significant Findings**

**Questioned Cost - Effort Reporting / Overpayments to Faculty Members**

The University does not have adequate procedures to help ensure compliance with federal regulations for research administration of effort reporting and compensation. We determined that faculty members in the College were not reporting effort correctly and, in certain instances, were paid more than allowable from grant funds. Based on a preliminary review conducted by University management, we were informed that certain faculty members were paid approximately \$200,000 more than allowable under federal regulations for the past several years from grant funds.

The Office of Management and Budgets Circular A-21, Principles for Determining Costs Applicable to Grants, Contracts, and Agreements with Educational Institutions (A-21) requires institutions to maintain an acceptable effort reporting system to provide a reasonable basis for the salary charges to sponsored projects. UHD utilizes the “After the Fact Activity Records” method. Effort reports are the source documents to support the after the fact reporting of activity for which the employee is compensated. To confirm that the activity represents a reasonable estimate of the work performed by the employee, the effort reports must be signed by the employee, principal investigator, or a responsible official having direct knowledge that the work was performed. UHD has approved certain faculty members to have multiple assignments at varying rates per FTE and in some cases more than 100% FTE. These assignments are entered into the payroll system. The source documents for UHD’s effort reporting system are the monthly timesheets generated by the payroll system. We determined that employees expending effort on sponsored projects are not adjusting effort percentages on the timesheet to reflect actual effort. As a result, UHD’s effort reporting system is seriously flawed.

Paragraphs J.10d(1) and J.10d(2) of A-21 explain the allowable salary rates for charges for work performed on sponsored projects by faculty members and provide that no faculty member can receive more than 100% FTE compensation during any time period in which the faculty member’s salary is funded by sponsored projects. As explained above, certain faculty members were compensated at varying rates and in some cases these rates exceeded base salary rates which resulted in compensation greater than 100% FTE.

We question the costs associated with payments to the UHD faculty members from the grant accounts in excess of their base salaries, plus related indirect costs, as allowable under A-21, which defines a cost as allowable for federal reimbursement only to the extent it benefits the project and the cost meets the basic guidelines of allowability, reasonableness, allocability and remains the net of all applicable credits.

**University of Houston System  
Internal Audit Department**

**University of Houston-Downtown  
College of Sciences and Technology  
Significant Findings**

**Recommendation:** University management should work with the Office of the Vice Chancellor for Research and Intellectual Property to: 1) develop and implement University policies to help ensure faculty members are reporting effort and being paid in accordance with federal regulations; and 2) review payments made to faculty members to determine the extent of salary overpayments made from federal funds to faculty members and to discuss these questioned costs with the sponsoring agencies to determine the appropriate actions to take regarding the allowability of these costs.

**Management's Response:** UHD will work with the Executive Director of Research Services at UH to assist with developing and implementing policies and procedures on Time and Effort (T&E) Reporting. In addition, the issues of T&E will be updated on the UHD compliance matrix and the risk factors will be assessed by conducting random samples to ensure that UHD faculty are paid properly and do not exceed 100% of effort as mandated by OMB Circular A-21. Estimated date of completion: June 30, 2009

UHD will provide a detailed report outlining each faculty member's sponsored project overpayments. With the guidance from UH, the questioned overpayments will be addressed with the sponsoring agency to undertake the appropriate action. The outcome will be forwarded to UHD administration, Internal Auditing, and the Office of the Vice Chancellor for Research and Intellectual Property. Estimated date of completion: August 31, 2009

**Management Oversight – Engineering Technology Department**

During our interview with departmental personnel, it was determined that recurring administrative and financial tasks were not being performed timely. We were informed of the following:

- Cost centers are not being reconciled monthly.
- Payroll Verification reports are not being reviewed.
- Leave accrual balances are not being reconciled monthly.
- Time and effort reports are not always forwarded to Employment Services Operations timely.
- Long distance expense reports are not reviewed by departmental personnel monthly.
- Mandatory training was not monitored to ensure completion of training and disclosure forms.

**University of Houston System  
Internal Audit Department**

**University of Houston-Downtown  
College of Sciences and Technology  
Significant Findings**

We were also informed that PARs are not always processed timely. As a result, an adjunct faculty member has not been paid for work performed during the Fall 2008 semester. In addition, a student has not been paid for work performed on a grant during the summer of 2008. We were also informed that no expenditures have been recorded to this grant cost center.

**Note:** Since the recurring administrative and financial tasks are not being completed timely, we did not complete the Departmental Review for this department. We plan to conduct another Departmental Review of the Engineering Technology Department to determine whether procedures have been implemented to help ensure the timely completion of the tasks.

**Recommendation:** The Department should implement procedures to help ensure administrative and financial tasks are completed timely. In addition, the Provost Office should work with the College to develop oversight procedures to help ensure that recurring administrative and financial task are completed timely.

**Management's Response:** UHD will establish universal procedures to ensure that all recurring administrative and financial tasks are completed on a timely basis in accordance with university policies. UHD will update the Administrative Reference Manual (ARM) to include Baseline Standards and institute semi-annual spot audits conducted by the ARM committee. This finding will be listed on the UHD compliance matrix and the risk factors will be assessed. Estimated date of completion: June 30, 2009

**University of Houston System  
Internal Auditing Department**

**University of Houston-Downtown  
College of Sciences & Technology  
Departmental Reviews**

<b>Compliance Area</b>	<b>S&amp;T DEAN'S OFFICE</b>	<b>CCSDS</b>	<b>CMS</b>	<b>NATURAL SCIENCES/ SCHOLARS ACADEMY</b>
Management Oversight	(3)	N/A	N/A	N/A
Operational Activities	N/A	N/A	N/A	(2)
Policies, Procedures, Required Training, And Reporting	✓	(1)	✓	(1)
Cost Center Management	✓	(1)	✓	(1)
Payroll	✓	(2)	(1)	(2)
Human Resources	✓	✓	✓	✓
Change Funds And Cash Receipts	N/A	(1)	(1)	(2)
Procurement And Travel Cards	N/A	N/A	(1)	✓
Departmental Expenses	✓	✓	✓	(2)
Contract Administration	N/A	✓	✓	✓
Property Management	✓	✓	✓	✓
Departmental Computing	✓	✓	✓	✓
Scholarships	N/A	(1)	✓	✓
Incidental And Lab Fees	N/A	N/A	N/A	✓
Research	N/A	(1)	(1)	(1)

- ✓ **Fully Complies**
- ⊖ **Opportunity for Improvement**
- ( ) **Number of action items required to address non-compliance**
- N/A **Not Applicable**

**University of Houston System  
Internal Auditing Department**

**University of Houston-Downtown  
College of Sciences and Technology  
Background Information**

We performed a review of the Dean of the College of Sciences and Technology at the University of Houston-Downtown to assess his effectiveness in performing his financial and administrative responsibilities.

**The Dean provided the following background:**

The College provides quality educational programs in natural sciences, computer and mathematical sciences, and engineering technology. The mission of the College is to provide leadership, support and coordination to the departments of Computer and Mathematical Sciences, Engineering Technology, and Natural Sciences in order to assist them to better achieve institutional and self-goals. These programs prepare students for successful careers and future leadership roles in society, continued formal study, and development of their full potential.

The College of Sciences of Technology includes 3 academic departments: Computer and Mathematical Sciences, Engineering Technology, and Natural Sciences; each department offers several undergraduate degrees. Other major centers reporting to the dean include:

- The UHD Scholars Academy is an academically competitive program in the College of Sciences and Technology at the University of Houston-Downtown that promotes scholarship and student success for undergraduate students majoring in Science, Technology, Engineering and Mathematics (STEM).
- The Center for Computational Sciences and Advanced Distributed Simulation provides opportunities for students and faculty by performing research in support of grants and contracts and also by helping faculty obtain external funding for research and pedagogical activities throughout the university.

UHD responds and works with government and industry through cooperative research efforts closely linked to its fundamental educational mission. The College places emphasis on providing educational opportunities for broad segments of society including minorities and women and strives to be responsive to its many constituencies. Thus, the College aspires to the highest levels of excellence in its basic missions: transmission and discovery of knowledge and in service to the State of Texas and the nation.

In support of this mission, the dean promotes the College to external agencies and develops external support for all of the College's programs. High priorities for the College include:

- Ensuring high quality teaching in classroom and laboratory environments;
- Encouraging faculty to engage in research that benefits students, placing additional effort in recruitment programs to attract more students to existing programs in the College;



- Development of stronger community relationships and enhanced community service through a variety of new initiatives;
- Gaining approval for new programs of high relevance to the community; and
- Securing additional corporate, government and foundation support in order to provide students with unique educational experiences.

**Budget/Financial Summary:**

During fiscal year 2009, with a faculty of 81 FTE and a staff of 19 FTE, the College administers over 107 cost centers with an overall operating M&O budget of \$7,254,753.

The following table presents the fund balance reconciliation for the College for FY 2008:

Beginning Fund Balance (9/1/07)	\$ 829,595
Revenues	3,317,676
Expenditures	(9,825,108)
Transfers/Other	6,535,052
Ending Balance (8/31/08)	<u>\$ 857,215</u>

UNIVERSITY OF HOUSTON - DOWNTOWN  
COLLEGE OF SCIENCES AND TECHNOLOGY  
SUMMARY OF REVENUES AND EXPENDITURES

<u>Account</u>	<u>Description</u>	<u>FY 2008</u>	<u>FY 2007</u>
<u>Revenue</u>			
41600-41899	Federal Grants & Contracts	\$ (2,554,559)	\$ (1,984,168)
41900-42099	Federal Pass Through Grants/Contracts	(145,957)	(142,342)
42100-42299	State Grants & Contracts	(22,715)	(58,104)
42300-42499	State Pass Through - Other State Agencies	(12,000)	0
42500-42699	Local Grants & Contracts	(12,045)	(12,427)
42700-43199; 44400-44428; 44440	Private Gifts, Grants and Cont	(562,277)	(458,953)
43500-43599	Endowment Income Distribution	(7,322)	(6,822)
43600-43630; 43634-43999	Sales & Services - E & G	(828)	(15,072)
50050-50099	Recovered Costs	27	0
Total Revenue		<u>\$ (3,317,676)</u>	<u>\$ (2,677,888)</u>
<u>Cost of Goods Sold</u>			
50000-50049	Cost of Goods Sold	\$ 0	\$ 0
Total Cost of Goods Sold		<u>\$ 0</u>	<u>\$ 0</u>
<u>Payroll</u>			
50100-50999	Salaries & Wages	\$ 6,785,187	\$ 6,353,132
51000-51399	Fringe Benefits	277,403	265,054
Total Payroll		<u>\$ 7,062,590</u>	<u>\$ 6,618,186</u>
<u>M &amp; O</u>			
52000-52199	Professional Services	\$ 44,362	\$ 10,502
52200-52399	General Services	362,636	300,778
52400-52499	Academic Service	5,943	4,215
52500-52599	Printing, Copying, & Reproduction	5,787	11,927
52600-52799	Utilities & Sanitation	4,683	2,921
52800-52999	Communication & Transportation	30,589	34,255
53000-53499	Advertising Promotion & Public	2,660	4,364
53500-53599	Rental Lease & Royalties	30,515	29,801
53700-53799	Routine Repair	30,525	16,948
53800-53849	Pass Through	252,486	218,909
53850-53899	Contracting Services	4,939	38,044
53900-53999	General Supplies	285,286	266,599
54000-54099	Lab Research Supplies	28,425	55,236
54200-54299	Construction Expenses	14,045	5,357
54300-54349	Facilities & Ground Support	0	244
54350-54449	Parts & Furnishing	130,536	108,078
54450-54549	Misc Supplies & Material	6,909	15,361
54700-54799	Financial Tax & License Cost	730	165
54800-54899	Other Recurring Expenses	33,170	80,389
54900-54999	Employee Expenses	27,054	14,148
55000-55199	Special Program & Events	47,266	32,499
55300-55499	Financial Aid	583,359	514,793
56000-56499	Travel	269,994	155,133
56500-56599	Contracts & Grants	117,860	90,519
Total M&O		<u>\$ 2,319,760</u>	<u>\$ 2,011,184</u>
<u>Capital Outlay</u>			
58000-58999	Capital Outlay	\$ 442,757	\$ 42,812
Total Capital Outlay		<u>\$ 442,757</u>	<u>\$ 42,812</u>
Total Cost of Goods Sold, Payroll, M&O and Capital Outlay		<u>\$ 9,825,108</u>	<u>\$ 8,672,183</u>

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON

DIVISION OF ADMINISTRATION & FINANCE  
DEPARTMENTAL REVIEWS

REPORT NO. AR2009-18

**University of Houston System  
Internal Auditing Department**

**University of Houston  
Division of Administration and Finance  
Departmental Reviews**

The objective of the Departmental Review is to determine whether departments are conducting financial and administrative activities in compliance with university policies. We performed sixteen departmental reviews in the Division of Administration and Finance. We conducted interviews, reviewed documentation, and performed other audit procedures, as necessary, in testing compliance with various policies for each compliance area. We noted no matters that we considered to be significant audit findings. We noted that some of the departments reviewed were not in compliance with certain policies. Management developed action plans to help ensure compliance with university policies in these areas.

The attachments listed below contain additional information related to the departmental review and the Division:

- Compliance Matrix
- Action Plan
- Division Background
- Financial Summary of Transactions

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Don F. Guyton  
Chief Audit Executive  
February 27, 2009

**University of Houston System  
Internal Auditing Department**

**University of Houston  
Division of Administration & Finance  
Departmental Reviews**

<b>Compliance Area</b>	<b>BUSS SVCS CBO</b>	<b>FINANCE</b>	<b>PRINTING &amp; POSTAL</b>	<b>ONE CARD PROGRAM</b>
Management Oversight	✓	N/A	N/A	N/A
Operational Activities	N/A	N/A	N/A	N/A
Policies, Procedures, Required Training, And Reporting	✓	✓	✓	✓
Cost Center Management	✓	✓	(2)	(2)
Payroll	(1)	(2)	✓	✓
Human Resources	✓	✓	✓	✓
Change Funds And Cash Receipts	(1)	✓	✓	✓
Procurement And Travel Cards	(1)	✓	(1)	(2)
Departmental Expenses	✓	✓	✓	✓
Contract Administration	✓	✓	✓	(1)
Property Management	✓	✓	✓	✓
Departmental Computing	✓	✓	✓	✓
Scholarships	N/A	N/A	N/A	N/A
Incidental And Lab Fees	N/A	N/A	N/A	N/A
Research	N/A	N/A	N/A	N/A

- ✓ Fully Complies
- ⊖ Opportunity for Improvement
- ( ) Number of action items required to address non-compliance
- N/A Not Applicable

**University of Houston System  
Internal Auditing Department**

**University of Houston  
Division of Administration & Finance  
Departmental Reviews**

<b>Compliance Area</b>	<b>PUBLIC SAFETY</b>	<b>BUDGET OFFICE</b>	<b>FINANCIAL REPORTING</b>	<b>SFS</b>
Management Oversight	✓	N/A	N/A	N/A
Operational Activities	N/A	N/A	N/A	N/A
Policies, Procedures, Required Training, And Reporting	✓	✓	(1)	✓
Cost Center Management	✓	✓	(1)	(2)
Payroll	(1)	(1)	(4)	✓
Human Resources	✓	✓	✓	✓
Change Funds And Cash Receipts	(1)	N/A	N/A	✓
Procurement And Travel Cards	✓	✓	(2)	✓
Departmental Expenses	✓	✓	(1)	✓
Contract Administration	(1)	N/A	✓	✓
Property Management	✓	✓	(1)	✓
Departmental Computing	✓	✓	✓	✓
Scholarships	N/A	N/A	N/A	N/A
Incidental And Lab Fees	N/A	N/A	N/A	N/A
Research	N/A	N/A	N/A	N/A

- ✓ Fully Complies
- ⊖ Opportunity for Improvement
- ( ) Number of action items required to address non-compliance
- N/A Not Applicable

**University of Houston System  
Internal Auditing Department**

**University of Houston  
Division of Administration & Finance  
Departmental Reviews**

<b>Compliance Area</b>	<b>TREASURERS OFFICE</b>	<b>PARKING &amp; TRNSPRTION</b>	<b>HUMAN RESOURCES</b>	<b>PLANT OPS/ F&amp;O CBO</b>
Management Oversight	N/A	N/A	N/A	✓
Operational Activities	N/A	N/A	N/A	N/A
Policies, Procedures, Required Training, And Reporting	(1)	(1)	✓	✓
Cost Center Management	✓	✓	✓	(3)
Payroll	(1)	(1)	(1)	(2)
Human Resources	✓	✓	✓	(1)
Change Funds And Cash Receipts	✓	✓	N/A	✓
Procurement And Travel Cards	(1)	✓	✓	✓
Departmental Expenses	✓	✓	✓	✓
Contract Administration	✓	N/A	(1)	✓
Property Management	✓	✓	✓	✓
Departmental Computing	✓	✓	✓	✓
Scholarships	N/A	N/A	N/A	N/A
Incidental And Lab Fees	N/A	N/A	N/A	N/A
Research	N/A	N/A	N/A	N/A

- ✓ Fully Complies
- ⊖ Opportunity for Improvement
- ( ) Number of action items required to address non-compliance
- N/A Not Applicable

**University of Houston System  
Internal Auditing Department**

**University of Houston  
Division of Administration & Finance  
Departmental Reviews**

<b>Compliance Area</b>	<b>EHRM</b>	<b>FACILITIES &amp; MAINTANCE</b>	<b>UTILITIES</b>	<b>CUSTODIAL &amp; GROUNDS</b>
Management Oversight	N/A	N/A	N/A	N/A
Operational Activities	N/A	N/A	N/A	N/A
Policies, Procedures, Required Training, And Reporting	✓	(2)	(1)	(1)
Cost Center Management	N/A	N/A	N/A	N/A
Payroll	(1)	(1)	(1)	(1)
Human Resources	✓	✓	(1)	✓
Change Funds And Cash Receipts	N/A	(1)	N/A	✓
Procurement And Travel Cards	✓	(1)	✓	✓
Departmental Expenses	✓	✓	✓	✓
Contract Administration	N/A	N/A	N/A	N/A
Property Management	✓	✓	✓	(1)
Departmental Computing	✓	✓	✓	✓
Scholarships	N/A	N/A	N/A	N/A
Incidental And Lab Fees	N/A	N/A	N/A	N/A
Research	N/A	N/A	N/A	N/A

- ✓ Fully Complies
- ⊖ Opportunity for Improvement
- ( ) Number of action items required to address non-compliance
- N/A Not Applicable



**University of Houston System  
Internal Auditing Department**

**University of Houston  
Division of Administration and Finance  
Background Information**

We performed a review of the Executive Vice President of Administration and Finance at the University of Houston to assess his effectiveness in performing his financial and administrative responsibilities.

**The Executive Vice President of Administration and Finance provided the following background:**

The division is a large organization of more than 700 employees. Departments within the division include: Finance, Human Resources, Payroll, Plant Operations, the Department of Public Safety and University Services.

**Division Mission**

We are committed to:

- Operating the division within the framework of transparency – being open and responsive to students, faculty and staff.
- Ensuring the physical needs of the campus are met – from completing classroom repairs to ensuring that the campus looks toward the future in its master plan - so that students, faculty, staff and visitors feel that the university is a thriving community.
- Creating and maintaining an environment that is safe for UH students, faculty and staff to learn, live, work, and that is welcoming to visitors.
- Serving and improving individual University programs, systems, and operations through providing quality assistance with administrative processes, systems improvements and value-oriented services.
- Developing a diverse staff and vendor base that reflects the diversity of the University's student population.
- Building our resource base and economic strength through skillful and designed application of our human, financial and technological resources.
- Providing professional and personal growth opportunities to staff, and enhancing the effectiveness and value of our University and exerting positive leadership in the business operations of the University.

**Recent Accomplishments of the Division:**

- Establishing the division communications team – posting committee information, policies, divisional updates and news on our web sites.
- The development of the Campus Sustainability Taskforce and the engagement of students, faculty and staff in this endeavor through the university's participation in the nation-wide RecycleMania contest.
- Partnered with city leaders to establish an on-campus Point of Distribution after

Hurricane Ike. 950 UH student volunteers staffed the Point of Distribution relief effort held in Robertson Stadium parking lot, handing out 144,000 liters of water, 480,000 pounds of ice and 65,000 ready-to-eat meals to over 35,000 Hurricane Ike victims.

- Re-negotiation and re-visioning of several business partner agreements to ensure that these are more in line with best practices across the country.
- Full implementation of electronic personnel transactions to streamline business processes.
- Implementation of time and labor for exempt employees.
- Re-alignment of the construction procurement and bidding process to match more closely industry best practices to ensure the university is obtaining best value.
- Purchase of 4902 Gulf Freeway office/warehouse space as an option for departments to use for off-site storage and to complement the potential University Business Park acquisition.
- Establishment of a relationship with METRO focused on increasing university ridership and alleviating university accessibility problems.
- Obtaining competitive bids for key construction projects to fulfill the university goal of student success.
- Implementation of the National Incident Management System structure for emergency preparedness.
- Development of a comprehensive transportation management strategy that provides a strategy for the campus in planning and funding for campus accessibility.
- Plant Operations led the build back of the University from Hurricane Ike damage—coordinating, repairing, managing and securing funding for over \$22M in damage all while not delaying any projects, continuing with the full workload and planning over \$200M in new projects.
- Our In House Building Re-commissioning team revised and modified HVAC equipment and building systems resulting in continuing savings of over \$700,000 per year (and a total of \$3.3M over the past few years).
- We upgraded our building systems and implemented energy conservation measures that have saved 3% each year of the past 3 years resulting in millions of dollars in cost saving for the University.
- Utility Services increased oversight and auditing of University Utility bills, finding and correcting overbillings of \$411,000.
- We bid a new utility contract that locked in a lower electrical rate of under \$.07/KWH, saving millions in utility costs to the University.
- Environmental Health Risk Management implemented an aggressive program to reduce hazardous waste and chemicals from class and research labs resulting in a reduction in hazardous waste to 50% of the amount generated in 2003.
- Environmental Health initiated a system-wide program to assist the other component campuses improve campus safety and environmental compliance, helping make sure UHS avoids thousands of dollars in compliance fines.
- Grounds reduced safe food waste and campus yard waste disposal by creating a composting operation and worked with University Services, the Campus Sustainability Task Force, Student Government and UH Dining Services to start a vegetable garden to supply fresh produce for the campus residential dining halls.

- Custodial Services began new programs that improved maintenance of building items such as terrazzo floors and cleaning exterior windows while simultaneously reducing maintenance man hours.
- We significantly increased in house campus construction particularly in Residential Maintenance and Building Maintenance resulting in more efficient construction and significant savings to the University.
- Facilities Planning and Construction (FPC) continued construction of the \$107M 569,000 SF Calhoun Lofts, a 1000 bed residence hall for professional and graduate students; \$9M 34,000 SF Cemo Hall, a classroom office complex for Business; and the \$18M 525,000 SF 1500 car East Parking Garage with all 3 complexes set to open in FY10.
- FPC continued \$51M and 466,000 SF of renovation including the Hilton Hotel, SERC Phase2, Fleming, SR1 and Old Science.
- Residential Maintenance and FPC completed an extensive \$2M renovation of Moody that replaced all existing interior piping and completely renovated the towers' exteriors.
- FPC designed and began construction of a new \$50M 1,000 bed Freshmen Housing Complex and began design of a \$25M 65,000 SF class lab addition to Fleming Hall.
- Utility Services and FPC began design and engineering a \$45M renovation, upgrade and expansion of the Central Utilities Plant that will reduce air pollution and the University's carbon footprint, avoid EPA fines, save money, replace outmoded outdated plant equipment and provide increased capacity for future capital construction.
- We began an aggressive scanning program led by Finance and Operations adding building plans, specifications, campus maps, financial documents and other important reports and information on line and we moved procedures, policies and forms onto our website, moving dramatically toward doing all business electronically.

### **Budget/Financial Summary:**

The Division's operating budget (Fund 1-3) for fiscal year 2009 is \$49,901,664 with staff of 787 FTEs.

The following table presents the fund balance reconciliation for the Division for FY 2008:

Beginning Fund Balance (9/1/07)	\$ 47,248,202
Revenues	20,911,881
Expenditures	(95,495,199)
Transfers/Other	77,029,683
Ending Balance (8/31/08)	<u>\$ 49,694,567</u>

UNIVERSITY OF HOUSTON  
DIVISION OF ADMINISTRATION AND FINANCE  
SUMMARY OF REVENUES AND EXPENDITURES

<u>Account</u>	<u>Description</u>	<u>FY 2008</u>	<u>FY2007</u>
<u>Revenue</u>			
40700-40999	Other Fees	\$ (1,811,354)	\$ (1,750,564)
55500-55999;56700-57999	Waivers & Expenses	168,401	4,481
41600-41899	Federal Grants & Contracts	(385,874)	(352,943)
42700-43199; 44400-44428; 44440	Private Gifts, Grants and Cont	(90,415)	(63,335)
43300-43499	Other Investment Income	0	93
43600-43630; 43634-43999	Sales & Services - E & G	(348,845)	(355,215)
43631-43633; 44000-44399	Sales & Services - Auxiliary	(8,992,976)	(7,479,177)
44429-44439; 44441-45999; 49504	Other Revenue Sources	(302,740)	(373,933)
50050-50099	Recovered Costs	(9,148,078)	(8,079,854)
Total Revenue		<u>\$ (20,911,881)</u>	<u>\$ (18,450,447)</u>
<u>Cost of Goods Sold</u>			
50000-50049	Cost of Goods Sold	\$ 2,511,211	\$ 1,998,989
Total Cost of Goods Sold		<u>\$ 2,511,211</u>	<u>\$ 1,998,989</u>
<u>Payroll</u>			
50100-50999	Salaries & Wages	\$ 28,000,088	\$ 25,844,607
51000-51399	Fringe Benefits	1,721,993	1,585,123
Total Payroll		<u>\$ 29,722,081</u>	<u>\$ 27,429,730</u>
<u>M &amp; O</u>			
52000-52199	Professional Services	\$ 55,731	\$ 128,427
52200-52399	General Services	317,542	192,562
52400-52499	Academic Service	47,974	14,981
52500-52599	Printing, Copying, & Reproduction	144,168	130,354
52600-52799	Utilities & Sanitation	1,255,602	1,020,034
52800-52999	Communication & Transportation	796,802	717,590
53000-53499	Advertising Promotion & Public	60,169	135,693
53500-53599	Rental Lease & Royalties	414,355	312,524
53600-53699	Maintenance	6,707,350	7,337,479
53700-53799	Routine Repair	941,230	667,698
53800-53849	Pass Through	0	(30,577)
53850-53899	Contracting Services	2,392,276	2,291,842
53900-53999	General Supplies	680,448	755,207
54000-54099	Lab Research Supplies	200,564	188,344
54200-54299	Construction Expenses	8,572,075	5,978,211
54300-54349	Facilities & Ground Support	274,872	301,456
54350-54449	Parts & Furnishing	1,867,342	1,623,467
54450-54549	Misc Supplies & Material	794,167	729,198
54550-54699	Legal Services	319,645	57,093
54700-54799	Financial Tax & License Cost	124,996	150,568
54800-54899	Other Recurring Expenses	326,485	272,283
54900-54999	Employee Expenses	242,953	163,406
55000-55199	Special Program & Events	126,597	74,676
55300-55499	Financial Aid	34,164	(830)
56000-56499	Travel	193,453	150,859
Total M&O		<u>\$ 26,890,958</u>	<u>\$ 23,362,545</u>
<u>Capital Outlay</u>			
58000-58999	Capital Outlay	\$ 36,370,950	\$ 6,392,690
Total Capital Outlay		<u>\$ 36,370,950</u>	<u>\$ 6,392,690</u>
Total Cost of Goods Sold, Payroll, M&O and Capital Outlay		<u>\$ 95,495,199</u>	<u>\$ 59,183,954</u>

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON–VICTORIA  
INFORMATION SECURITY STANDARDS

REPORT NO. AR2009-19

**UNIVERSITY OF HOUSTON SYSTEM  
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON-VICTORIA  
INFORMATION SECURITY STANDARDS**

Texas Administrative Code Title 1, Part 10, Chapter 202 – Information Security Standards (TAC 202), requires all institutions of higher education to comply with the regulations set forth in Subchapter C - Security Standards for Institutions of Higher Education.

For this engagement, we evaluated the information security policies, practices and procedures at the University of Houston-Victoria for the following areas: security standards policy, responsibilities, managing security risks, managing physical security, business continuity planning, information resource security safeguards, security incidents, user security practices, and removal of data from data processing equipment. These areas were reviewed using the requirements of TAC 202, Subchapter C. We conducted interviews, reviewed documentation, and performed other audit procedures, as necessary, in testing compliance with regulations in each area.

In our opinion, the University of Houston-Victoria’s information security program in these areas helps ensure compliance with TAC 202, Subchapter C. Although we noted no matters that we considered to be significant audit findings, we did note certain violations of TAC 202 requirements. Management developed action plans to help ensure compliance with TAC 202 in these areas. The compliance matrix below lists areas tested, whether the campus fully complies with TAC 202 rules, and the number of action items.

<b>COMPLIANCE MATRIX</b>	
<b>Compliance Area</b>	<b>Number of Action Items</b>
Security Standards Policy	<b>Fully Complies</b>
Responsibilities	<b>Fully Complies</b>
Managing Security Risks	<b>Fully Complies</b>
Managing Physical Security	<b>Fully Complies</b>
Business Continuity Planning	<b>1</b>
Information Resources Security Safeguards	<b>1</b>
Security Incidents	<b>Fully Complies</b>
User Security Practices	<b>Fully Complies</b>
Removal of Data from Data Processing Equipment	<b>Fully Complies</b>

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Don F. Guyton  
Chief Audit Executive  
March 6, 2009

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON–DOWNTOWN

INFORMATION SECURITY STANDARDS

REPORT NO. AR2009-20

**UNIVERSITY OF HOUSTON SYSTEM  
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON-DOWNTOWN  
INFORMATION SECURITY STANDARDS**

Texas Administrative Code Title 1, Part 10, Chapter 202 – Information Security Standards (TAC 202), requires all institutions of higher education to comply with the regulations set forth in Subchapter C - Security Standards for Institutions of Higher Education.

For this engagement, we evaluated the information security policies, practices and procedures at the University of Houston-Downtown for the following areas: security standards policy, responsibilities, managing security risks, managing physical security, business continuity planning, information resource security safeguards, security incidents, user security practices, and removal of data from data processing equipment. These areas were reviewed using the requirements of TAC 202, Subchapter C. We conducted interviews, reviewed documentation, and performed other audit procedures, as necessary, in testing compliance with regulations in each area.

In our opinion, the University of Houston-Downtown’s information security program in these areas helps ensure compliance with TAC 202, Subchapter C. Although we noted no matters that we considered to be significant audit findings, we did note certain violations of TAC 202 requirements. Management developed action plans to help ensure compliance with TAC 202 in these areas. The compliance matrix below lists areas tested, whether the campus fully complies with TAC 202 rules, and the number of action items.

<b>COMPLIANCE MATRIX</b>	
<b>Compliance Area</b>	<b>Number of Action Items</b>
Security Standards Policy	<b>1</b>
Responsibilities	<b>1</b>
Managing Security Risks	<b>Fully Complies</b>
Managing Physical Security	<b>Fully Complies</b>
Business Continuity Planning	<b>1</b>
Information Resources Security Safeguards	<b>4</b>
Security Incidents	<b>Fully Complies</b>
User Security Practices	<b>Fully Complies</b>
Removal of Data from Data Processing Equipment	<b>Fully Complies</b>

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Don F. Guyton  
Chief Audit Executive  
March 18, 2009