



Financial Statements and Independent Accountant's Review Report

For the Year Ended August 31, 2015

Contents

<i>Independent Accountant's Review Report</i>	1
<i>Management's Discussion and Analysis</i>	2
<i>Financial Statements</i>	
Statement of Net Position	9
Statement of Revenues, Expenses and Changes in Net Position.....	11
Statement of Cash Flows	13
Notes to the Financial Statements.....	15
<i>Required Supplementary Information</i>	
Schedule of the University of Houston-Downtown's Proportionate Share of the Net Pension Liability	42
Schedule of the University of Houston-Downtown's Contributions	43
<i>Management Letter</i>	44

Independent Accountant's Review Report

Mr. George Anderson
University of Houston-Downtown
Houston, Texas

We have reviewed the accompanying statement of net position of University of Houston-Downtown as of August 31, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of University management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 10 to the financial statements, in 2015, the entity adopted new accounting guidance included in the Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of Governmental Accounting Standards Board Statement No. 27*.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and pension information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic or historical context. Such information was not audited, reviewed or compiled by us and, accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Houston, Texas
January 29, 2016

Introduction

The following Management's Discussion and Analysis (MD&A) section of the University of Houston-Downtown's annual financial report has been prepared to provide an overview of the activities and the financial performance of the University of Houston-Downtown (the University) for the fiscal year ended August 31, 2015. This presentation is intended to offer a summary of significant current year activities, resulting changes, and currently known economic conditions and facts. This analysis should be read in conjunction with the University's basic financial statements and the notes to the statements.

Background

The University is one of four universities included in the University of Houston System (the System) and is part of the state-supported system of higher education in Texas. The University is an undergraduate and master's-level institution that has been providing these higher education services for over 41 years in the Houston Downtown area. The University also has a growing presence in north and west Houston, through classes taught at the Northwest Campus.

The University is a designated Minority Serving Institution and Hispanic Serving Institution that has been recognized by US News and World Report as being one of the most diverse institutions west of the Mississippi. Additionally, the University is the 4th most affordable of the state's 36 public institutions. As a commuter school, the University draws approximately 94 percent of its students from high schools within a 30-mile radius of the Downtown campus. The University has been steadily growing over the past five years from a headcount of approximately 12,750 in 2010 to approximately 14,400 in 2015 making it the second largest University in the System.

Overview of the Financial Statements

The financial statements for fiscal year 2015 have been prepared in accordance with accounting pronouncements promulgated by the Governmental Accounting Standards Board (GASB). These include GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*. Additionally, these statements conform to reporting requirements of the Texas Comptroller of Public Accounts and guidelines issued by the National Association of College and University Business Officers. GASB requires the University to include three financial statements in the annual financial report. They are (1) the statement of net position, (2) the statement of revenues, expenses and changes in net position, and (3) the statement of cash flows. The information contained in the financial statements of the University is part of and included in the State of Texas Comprehensive Annual Financial Report.

The financial statements of the University are presented for the fiscal year ended August 31, 2015, with financial data for the fiscal year ended August 31, 2014, provided for comparative purposes in this analysis. Prior year totals have been reclassified, when necessary, to reflect current year changes in reporting procedures and to enhance comparability of reported totals. The financial operations of the University are considered a business-type activity because the University charges a fee, in the form of tuition, to customers in order to pay for a significant percentage of the cost of the services provided. Under this classification, the University's financial statements conform to the guidelines and presentation formats prescribed for proprietary funds; revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of when cash is exchanged.

Statement of Net Position

The first statement presented is the statement of net position. This statement represents the University's financial position as of the conclusion of the fiscal year. This is a point in time financial presentation and presents a snapshot view of the financial status as of August 31, 2015. Assets and liabilities are presented as either current or noncurrent to provide an indication of their anticipated liquidation. Net position is equal to total assets plus deferred outflows of resources less total liabilities plus deferred inflows of resources. Net position is divided into three major categories. The first, net investment in capital assets provides the University's equity in property, plant and equipment owned by the University. The restricted net position category is subdivided into nonexpendable and expendable classifications. Restricted nonexpendable net position consists solely of the University's permanent endowment funds and is only available for investment purposes. Restricted expendable net position is available for expenditure by the University, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final major category, unrestricted net position, is available to the University for any lawful purpose.

On the chart below, there is an increase from FY2014 to FY2015 of **Total Assets and Deferred Outflows of Resources** of \$17.6 Million which is due to the Construction of the Girard Street Garage/Welcome Center offset by some of the investments that were liquidated to pay for the construction that was not covered by bond proceeds. Another major contributing factor to the increase is the adjustment of Receivables to include Installments and Emergency Loans for the Fall FY2015 Semester. Per the University of Houston-System Annual Financial Report instructions, these Receivables had been reduced for FY2014 (as in previous years) since they represent uncollected cash for revenue that will be earned the following year. For the 2015 reports, these receivables are reported as increases to Current Assets and increases to Deferred Revenues for FY 2015. The FY2014 amounts were not adjusted. The change in the Deferred Outflows of Resources is due to the GASB 68 requirement to report Unpaid Pension Liability. The \$26.1 Million increase in the **Total Liabilities** is caused primarily by the same GASB 68 requirement. The reduction of the **Total Net Position** of \$14.1 Million is attributed to the Pension Liability reporting. Without including the above noted adjustments the **Total Net Position** of UHD would be \$132.4 Million, an increase of \$4.85 Million over FY2014.

Condensed Statements of Net Position	2015	2014	Increase/ (Difference)
Assets			
Current Assets	\$ 92,205,706	\$ 85,407,740	\$ 6,797,966
Noncurrent Assets			
Capital Assets, Net	109,829,701	96,076,250	13,753,451
Other Assets	<u>27,862,548</u>	<u>34,840,682</u>	<u>(6,978,134)</u>
Total Assets	<u>229,897,955</u>	<u>216,324,672</u>	<u>13,573,283</u>
Deferred Outflows of Resources			
Loss on Bond Refunding	-	27,464	(27,464)
Pension	<u>4,066,182</u>	<u>-</u>	<u>4,066,182</u>
Total Deferred Outflows of Resources	<u>4,066,182</u>	<u>27,464</u>	<u>4,038,718</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 233,964,137</u>	<u>\$ 216,352,136</u>	<u>\$ 17,612,001</u>
Liabilities			
Current Liabilities	\$ 54,267,639	\$ 41,424,561	\$ 12,843,078
Noncurrent Liabilities	<u>58,153,579</u>	<u>44,851,329</u>	<u>13,302,250</u>
Total Liabilities	<u>112,421,218</u>	<u>86,275,890</u>	<u>26,145,328</u>
Deferred Inflows of Resources			
Pensions	<u>5,651,972</u>	<u>-</u>	<u>5,651,972</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 118,073,190</u>	<u>\$ 86,275,890</u>	<u>\$ 31,797,300</u>
Net Position			
Net Investment in Capital Assets	\$ 66,218,655	\$ 51,269,604	\$ 14,949,051
Restricted, Nonexpendable	17,513,063	19,092,281	(1,579,218)
Restricted, Expendable	6,169,248	6,913,095	(743,847)
Unrestricted	<u>25,989,981</u>	<u>52,801,266</u>	<u>(26,811,285)</u>
Total Net Position	<u>\$ 115,890,947</u>	<u>\$ 130,076,246</u>	<u>\$ (14,185,299)</u>

Statement of Revenues, Expenses and Changes in Net Position

The next statement comprising the basic financial statements is the statement of revenues, expenses and changes in net position. This schedule identifies operating and nonoperating revenues received by the University. Additionally, both the operating and nonoperating expenses incurred by the University during the fiscal year are displayed. Finally, any other gains and losses or other forms of revenue and expense are reported.

Revenues and expenses are classified as either operating or nonoperating in the financial statements. Operating revenues are received and recognized as a result of providing services to the University's customers. Tuition and fee revenues are reported net of any scholarship discounts and allowances. A scholarship allowance is the difference between the stated charge for services provided by the University and the amount that is paid by the student or third parties making payments on behalf of the student. Funds received to satisfy student tuition and fee charges are reported as revenue only once. Institutional resources provided to students as financial aid are reported as scholarship allowances in amounts up to and equal to amounts owed by the students to the University. Operating expenses are the costs necessary to provide services to customers and to fulfill the mission of the University. Operating expenses are displayed in the statement using the natural method of classification. The natural method of presentation displays the operating expenses in a manner that categorizes the objects of expenditure within various cost centers. Nonoperating revenues are those received for which no services are directly provided. State appropriations are classified as nonoperating revenues because they are provided by the State Legislature to the University without the State Legislature directly receiving goods or services for those revenues. Significant portions of the University's recurring resources are classified as nonoperating.

As with the statement of net position, the single item with the most effect on the statement of revenues, expenses and changes in net position, is the result of the new GASB 68 requirement to display the University's portion of the Unfunded Pension Liability. This item appears on the Restatements Line in the changes of Net Position (\$20,945,745) and reduces the Net Position of the University by that amount. Without that item, the Net Position would have increased to \$133.5 Million. The increase in Net Position was largely due to the significant increase of Net Tuition and Fee Revenues that was caused by higher enrollment, an increase in the rates of Designated Tuition, and certain mandatory fees, as well as a large increase in the Graduate enrollment (specifically in the MBA program), and the creation of the MBA Certificate Program and the associated fees. Also contributing to the increase in Net Position was the decrease in Scholarship expense which reduced the size of the Tuition Discount and Allowance.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2015	2014	Increase/ (Difference)
Operating Revenues			
Tuition and Fees-Pledged (Net)	\$ 70,700,064	\$ 60,446,861	\$ 10,253,203
Auxiliary Enterprises-Pledged (Net)	2,237,228	2,229,278	7,950
Other Sales of Goods and Services-Pledged	4,345,811	4,462,560	(116,749)
Federal Revenue	2,860,793	3,447,246	(586,453)
State Grant Revenue	7,048,376	7,615,386	(567,010)
Other Operating Grant Revenue	142,415	111,474	30,941
Total Operating Revenue	87,334,687	78,312,805	9,021,882

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2015	2014	Increase/ (Difference)
Operating Expenses			
Cost of Goods Sold	\$ 1,921	\$ 2,157	\$ (236)
Salaries and Wages	66,429,044	62,148,638	4,280,406
Payroll Related Costs	16,819,037	15,170,621	1,648,416
Professional Fees and Services	8,633,964	8,269,916	364,048
Travel	1,053,331	933,398	119,933
Materials and Supplies	4,370,958	5,040,338	(669,380)
Communications and Utilities	2,927,740	3,063,049	(135,309)
Repairs and Maintenance	2,893,515	2,568,265	325,250
Rentals and Leases	1,843,080	1,838,396	4,684
Printing and Reproduction	316,583	388,083	(71,500)
Depreciation and Amortization	7,378,146	7,288,694	89,452
Interest Expense	7,073	9,523	(2,450)
Scholarships	30,421,159	31,189,817	(768,658)
Claims and Judgments	71,437	76,005	(4,568)
Other Operating Expenses	3,338,383	3,643,960	(305,577)
Total Operating Expenses	<u>146,505,371</u>	<u>141,630,860</u>	<u>4,874,511</u>
Operating Loss	<u>(59,170,684)</u>	<u>(63,318,055)</u>	<u>4,147,371</u>
Nonoperating Revenues (Expenses)			
Legislative Appropriations	27,508,750	27,354,006	154,744
Gifts	2,408,005	1,263,992	1,144,013
Interest and Investment Income	2,952,441	2,509,729	442,712
Net Increase (Decrease) in Fair Value Investments	(3,791,431)	1,654,985	(5,446,416)
Interest Expense and Fiscal Charges	(988,477)	(1,758,612)	770,135
Other Non-Operating Revenues-Non-Pledged	28,647,463	32,301,089	(3,653,626)
Other Non-Operating Expenses	(2,819,635)	(4,009,181)	1,189,546
Total Nonoperating Revenues (Expenses)	<u>53,917,116</u>	<u>59,316,008</u>	<u>(5,398,892)</u>
Loss Before Other Revenues, Expenses, Gains, Losses and Transfers	<u>(5,253,568)</u>	<u>(4,002,047)</u>	<u>(1,251,521)</u>
Other Revenues, Expenses, Gains, Losses and Transfers			
Capital Appropriations (HEAF)	7,435,238	7,435,238	-
Additions to Permanent and Term Endowments	233,211	169,084	64,127
Transfers In from Other State Entities	6,348,912	6,352,587	(3,675)
Transfers Out from Other State Entities	(2,034,884)	(1,792,162)	(242,722)
Legislative Transfers In	31,537	-	31,537
Total Other Revenues, Expenses, Gains, Losses and Transfers	<u>12,014,014</u>	<u>12,164,747</u>	<u>(150,733)</u>
Change in Net Position	<u>6,760,446</u>	<u>8,162,700</u>	<u>(1,402,254)</u>
Net Position, September 1, as previously reported	130,076,246	122,026,136	8,050,110
Restatements	(20,945,745)	(112,590)	(20,833,155)
Net Position, September 1, as Restated	<u>109,130,501</u>	<u>121,913,546</u>	<u>(12,783,045)</u>
Net Position, August 31	<u>\$ 115,890,947</u>	<u>\$ 130,076,246</u>	<u>\$ (14,185,299)</u>

Statement of Cash Flows

The third basic statement included in the financial statements is the statement of cash flows. This schedule explains the change during the fiscal year in cash and cash equivalents, regardless of whether there are restrictions on their use. The statement of cash flows should be used in conjunction with related disclosures and information in the other financial statements. The statement can provide relevant information about an entity, such as the ability to generate future net cash flows, the ability to meet obligations when due, or reasons for differences between operating income and associated cash receipts and payments. The statement is comprised of five sections. The first section recognizes the cash flows from operating activities as well as the net cash used by operating activities. The second section identifies the cash flows from non-capital financing activities. The third section reflects the cash flows from capital and related financing activities. The next section details the cash flows from investing activities. The final section reconciles net cash used to the operating loss or income reflected on the statement of revenues, expenses and changes in net position. The net Decrease of over \$2.9 Million in Cash and Cash Equivalents from the previous year is primarily due to the payments for the construction of the Girard Street Garage/Welcome Center that were not covered by Bond Proceeds.

Capital Assets

Instruction and research are fundamental to the University, but these endeavors cannot take place without the land, buildings, facilities, equipment and information technology infrastructure needed to support them. Sustaining these assets requires an ongoing investment in basic maintenance, renovations and other improvements. The steady enrollment growth experienced by the University over the years has also created the need for expansion of its capital assets. The University commits these resources to ensure a safe, modern and efficient campus that is conducive to teaching, learning, research and community service. The University continues to implement its long-range capital plans, reviewing and revising as circumstances change.

During FY 2015, work on the University's newest building, the Girard Street Garage/Welcome Center was nearly completed. When completed and occupied in early 2016, the University's physical campus at the downtown site will expand to eight buildings. The space that the University occupies at the Northwest Campus is leased from Lone Star College System. The University has no capital leases.

Debt Administration

The University engages in the prudent use of debt to finance capital projects, in a manner consistent with the University's debt management policy. The University of Houston System has sufficient debt capacity to finance planned capital improvements and facilities expansion. Detailed information concerning the University's long-term debt is found in the Notes to the Financial Statements. The University is authorized by statute to issue long-term debt in the form of revenue bonds. Each series of revenue bonds is backed by a pledged revenue source specified in the bond resolution. Additionally, each issue is designed to be self-supporting from the primary revenue source.

A major portion of the University's debt service is funded by biennial state appropriations. As of August 31, 2015, the University had \$43.6 million of long-term bonded debt outstanding, \$5.4 million of which will be retired during the 2016 fiscal year. During FY 2015, the new Girard St. Parking Garage/Welcome Center was built at a cost of \$19.2 million, however, only \$6 million of that cost was funded with bond proceeds. The remaining amount was funded with reserve balances. During the 2015 legislative session, UHD was authorized to issue \$60 million of Capital Construction Bonds to fund a long-sought and much-needed Science and Technology Building.

Economic Outlook

Since the Great Recession of 2008/09, the economy of the State of Texas has been expanding at a faster rate than the national economy. During this period, UHD continued to see an upward trend in enrollment, growing from 12,750 students in 2010 to approximately 14,300 students in FY 2015. During those same years, State general revenue funds appropriated directly to UHD, along with employee benefit funds appropriated indirectly to UHD (through ERS) grew from \$24.51 million to \$28.58 million. In the spring of 2015, riding a wave of oil and gas revenue that was just reaching its crest, the 84th Legislature provided UHD with appropriations (direct and indirect) in the amount of \$31.37 million for FY 2016 and \$31.75 million for FY 2017. This increase in state support is funding numerous initiatives aimed at improving retention/graduation rates, and is doing much to improve the overall student experience at UHD.

However, at the time of this writing economic storm clouds are gathering over Texas. Since the summer of 2015, oil prices have plummeted, falling by 60-70 percent. While the Texas economy is now more diversified and less energy dependent than it was in the past, the drop in oil prices is taking a significant toll. When the state budget for FY2017/2018 was developed, the Comptroller projected average oil prices of \$60/bbl over the biennium. With the price-per-bbl now hovering around \$30/bbl, the Comptroller has already reduced the overall state revenue projection by \$2.5 billion for the biennium. Fortunately, the state has a substantial Rainy Day Fund to draw on for this current budget period, but if oil prices remain low all Texas agencies, higher education included, will be in for a challenging legislative session in 2017. During the last major oil downturn in the 1980s it took 18 months to reach bottom and the turnaround was long and slow. If that is again the case this time we would not see the start of recovery until the end of the 2016, or early 2017.

In past years, as the state has gone through these downturns with their resulting slow growth and heavy job losses, many workers who'd lost their jobs returned to school to acquire new skills. This year, UHD recruiters are actively pursuing these potential students in and around the Houston area.

Through its budget and planning efforts and sound fiscal management practices, UHD has positioned itself for continued enrollment growth and improved student retention and graduation rates. Capital funds provided by the state will enable continued expansion of the campus. The future is bright at UHD, as improving academics and a commitment to affordability position the University to be the value choice for higher education in the Houston/Gulf Coast region.

University of Houston-Downtown

Statement of Net Position

August 31, 2015

(See Independent Accountant's Review Report on Page 1)

ASSETS

Current Assets	
Cash and Cash Equivalents (Note 3)	\$ 22,310,910
Short Term Investments (Note 3)	27,958,213
Restricted:	
Short-Term Investments (Note 3)	1,255,157
Legislative Appropriations	8,899,885
Receivables, Net of Allowances:	
Federal	11,490,391
Gifts	54,030
Tuition and fees (net of allowance \$6,524,914)	12,853,594
Due From Other State Entities (Note 6)	128,828
Consumable Inventories	7,302
Prepaid Expenses	5,829,125
Loans and Contracts	789,002
Other Current Assets	480
Funds Held for Others	628,789
	<hr/>
Total Current Assets	92,205,706
Noncurrent Assets	
Restricted:	
Investments (Note 3)	19,899,408
Gifts Receivable (net of allowance \$4,000)	84,885
Investments (Note 3)	7,878,255
Capital Assets (Note 2)	
Nondepreciable or Non-Amortizable	31,563,752
Depreciable or Amortizable	183,373,134
Less: Accumulated Depreciation and Amortization	<u>(105,107,185)</u>
	<hr/>
Total Noncurrent Assets	137,692,249
	<hr/>
Total Assets	229,897,955
DEFERRED OUTFLOWS OF RESOURCES	
Pension (Note 8)	<u>4,066,182</u>
	<hr/>
Total Assets and Deferred Outflows of Resources	<u>\$ 233,964,137</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

University of Houston-Downtown
Statement of Net Position (Continued)

August 31, 2015

(See Independent Accountant's Review Report on Page 1)

LIABILITIES

Current Liabilities:		
Payables:		
Accounts	\$	4,218,558
Payroll		4,875,799
Federal		17,942
Other		70,028
Due to Other State Entities (Note 6)		13,119
Unearned Revenues		38,308,726
Claims and Judgments (Notes 4, 13)		16,482
Employees' Compensable Leave (Note 4)		1,381,785
Revenue Bonds Payable (Notes 4, 5)		<u>5,365,200</u>
Total Current Liabilities		<u>54,267,639</u>
Noncurrent Liabilities		
Employees' Compensable Leave (Note 4)		1,417,050
Net Pension Liability (Note 8)		18,490,682
Revenue Bonds Payable (Notes 4, 5)		<u>38,245,847</u>
Total Noncurrent Liabilities		<u>58,153,579</u>
Total Liabilities		112,421,218
DEFERRED INFLOWS OF RESOURCES		
Pension (Note 8)		<u>5,651,972</u>
Total Liabilities and Deferred Inflows of Resources	\$	<u><u>118,073,190</u></u>

NET POSITION

Net Investment in Capital Assets	\$	66,218,655
Restricted for:		
Nonexpendable		
Permanent Funds, True Endowments, Annuities		17,513,063
Expendable		
Debt Retirement		3,693
Capital Projects		160,717
Funds Functioning as Endowments		2,034,889
Other		3,969,949
Unrestricted		<u>25,989,981</u>
Total Net Position	\$	<u><u>115,890,947</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

University of Houston-Downtown

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended August 31, 2015

(See Independent Accountant's Review Report on Page 1)

Operating Revenues

Tuition and Fees - Pledged	\$	82,729,494
Discounts and Allowances		(12,029,430)
Auxiliary Enterprises - Pledged		2,417,231
Discounts and Allowances		(180,003)
Other Sales of Goods and Services - Pledged		4,345,811
Federal Revenue		2,860,793
State Grant Revenue		7,048,376
Other Operating Grant Revenue		142,415

Total Operating Revenues 87,334,687

Operating Expenses

Cost of Goods Sold		1,921
Salaries and Wages		66,429,044
Payroll Related Costs		16,819,037
Professional Fees and Services		8,633,964
Travel		1,053,331
Materials and Supplies		4,370,958
Communications and Utilities		2,927,740
Repairs and Maintenance		2,893,515
Rentals and Leases		1,843,080
Printing and Reproduction		316,583
Depreciation and Amortization		7,378,146
Interest Expense		7,073
Scholarships		30,421,159
Claims and Judgments		71,437
Other Operating Expenses		3,338,383

Total Operating Expenses 146,505,371

Operating Loss (59,170,684)

Nonoperating Revenues (Expenses)

Legislative Appropriations		27,508,750
Gifts		2,408,005
Interest and Investment Income		2,952,441
Net Decrease in Fair Value Investments		(3,791,431)
Interest Expense and Fiscal Charges		(988,477)
Other Nonoperating Revenues - Nonpledged		28,647,463
Other Nonoperating Expenses		(2,819,635)

Total Nonoperating Revenues (Expenses) 53,917,116

Loss before Other Revenues, Expenses, Gains, Losses and Transfers (5,253,568)

The accompanying Notes to the Financial Statements are an integral part of this statement.

University of Houston-Downtown

Statement of Revenues, Expenses and Changes in Net Position (Continued)

For the Year Ended August 31, 2015

(See Independent Accountant's Review Report on Page 1)

Other Revenues, Expenses, Gains, Losses and Transfers

Capital Appropriation (HEAF)	\$	7,435,238
Additions to Permanent and Term Endowments		233,211
Payments from Other State Entities (Note 6)		6,348,912
Payments to Other State Entities (Note 6)		(2,034,884)
Legislative payments (Note 6)		<u>31,537</u>
Total Other Revenues, Expenses, Gains, Losses and Transfers		<u>12,014,014</u>
Change in Net Position		<u>6,760,446</u>
Net Position, September 1, as previously reported		130,076,246
Restatement (Note 10)		<u>(20,945,745)</u>
Net Position, September 1, as restated		<u>109,130,501</u>
Net Position, August 31, 2015	\$	<u><u>115,890,947</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

University of Houston-Downtown

Statement of Cash Flows

For the Year Ended August 31, 2015

(See Independent Accountant's Review Report on Page 1)

Cash Flows from Operating Activities	
Receipts from Customers	\$ 4,393,988
Proceeds from Tuition & Fees	70,827,853
Proceeds from Research Grants & Contracts	11,810,710
Proceeds from Loan Programs	1,780,129
Proceeds from Auxiliaries	1,521,202
Payments to Suppliers for Goods and Services	(22,093,609)
Payments to Employees for Salaries	(66,507,588)
Payments to Employees for Benefits	(16,497,352)
Payments for Loans Provided	(1,961,472)
Payments for Other Expenses	<u>(35,126,645)</u>
Net Cash Used in Operating Activities	<u>(51,852,784)</u>
Cash Flows from Noncapital Financing Activities	
Proceeds from State Appropriations	28,261,544
Proceeds from Gifts	2,535,144
Proceeds from Endowments	233,211
Proceeds of Payments from Other State Entities	8,306,388
Proceeds from Grant Receipts	26,721,524
Payments to Other State Entities	<u>(2,516,623)</u>
Net Cash Provided by Noncapital Financing Activities	<u>63,541,188</u>
Cash Flows from Capital and Related Financing Activities	
Proceeds from Debt Issuance	17,765,000
Proceeds from Other Financing Activities	4,691,030
Proceeds from Capital Contributions	7,435,238
Payments for Additions to Capital Assets	(19,739,456)
Payments of Principal on Debt	(23,431,614)
Payments of Interest on Debt Issuance	(961,012)
Payments of Other Costs on Debt Issuance	<u>(1,634,561)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(15,875,375)</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

University of Houston-Downtown
Statement of Cash Flows (Continued)

For the Year Ended August 31, 2015

(See Independent Accountant's Review Report on Page 1)

Cash Flows from Investing Activities	
Proceeds from Investment Income	\$ 2,952,441
Payments to Acquire Investments	<u>(1,686,856)</u>
Net Cash Provided by Investing Activities	<u>1,265,585</u>
Net Decrease in Cash and Cash Equivalents	(2,921,386)
Cash and Cash Equivalents, September 1	<u>25,232,296</u>
Cash and Cash Equivalents, August 31	<u><u>\$ 22,310,910</u></u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating Loss	<u>\$ (59,170,684)</u>
Adjustments to Reconcile Operating Loss to Net Cash	
Provided (Used) by Operating Activities	
Amortization and Depreciation	7,378,147
Changes in Assets and Liabilities:	
Increase in Receivables	(8,785,288)
Decrease in Inventories	3,775
Increase in Prepaid Expenses	(975,804)
Increase in Other Assets	(236)
Increase in Payables	1,031,751
Increase in Deferred Income	9,808,180
Increase Comp Absence Liability	321,685
Decrease in Benefits Payable	(2,657,150)
Change in Pension Amounts	1,709,332
Decrease in Other Liabilities	<u>(516,492)</u>
Total Adjustments	<u>7,317,900</u>
Net Cash Used in Operating Activities	<u><u>\$ (51,852,784)</u></u>
Non-Cash Transactions	
Net Change in Fair Value of Investments	\$ (3,791,431)
Loss on Disposal of Fixed Asset	150,745
Fixed Assets included in Accounts Payable	<u>(1,542,887)</u>
Non-Cash Transactions	<u><u>\$ (5,183,573)</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 1: Summary of Significant Accounting Policies

Entity

The University of Houston - Downtown (the University) is a component of the University of Houston System (the System), an agency of the State of Texas, and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' Reporting Requirements for State Agencies. The System prepares financial statements that are included in the State's Comprehensive Annual Financial Report which is audited by the Texas State Auditor's Office.

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

The basis of accounting determines when revenues and expenses and the related assets, deferred outflows of resources, liabilities and deferred inflows of resources are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment of what is measured is determined by measurement focus.

For financial reporting purposes, the University is considered a special-purpose government engaged in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Operating items are distinguished from nonoperating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the University's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation or amortization on capital assets.

The accompanying financial statements were prepared in conformance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

ASSETS

Cash and Cash Equivalents

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

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 1: Summary of Significant Accounting Policies (Continued)

Investments

Investments are stated at fair value in all funds except pension trust funds in accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. For pension trust funds, investments are required to be reported at fair value using the accrual basis of accounting in accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*.

Restricted Assets

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

Prepaid Items

The consumption method of accounting is used to account for prepaid items. The cost of these items is expensed when the items are consumed.

Capital Assets

Assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year are capitalized. These assets are capitalized at cost or, if purchased, at appraised fair value as of the date of acquisition. Depreciation is reported on all exhaustible assets. Inexhaustible assets such as works of art and historical treasures are not depreciated. Assets are depreciated over the estimated useful life of the asset using the straight-line method. The University capitalizes interest costs as a component of construction in progress, based on the weighted average rates paid for the bonds obtained as a part of the construction. During the year ended August 31, 2015, the University capitalized approximately \$249,350 of interest.

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

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 1: Summary of Significant Accounting Policies (Continued)

Current Receivables - Other

Other receivables include year-end revenue accruals.

Noncurrent Receivables - Other

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

Deferred Outflows of Resources-Pension

In accordance with GASB 68, certain changes in the collective net pension liability are excluded from current year collective pension expense and are deferred and amortized to collective pension expense using a systematic and rational method over the periods prescribed by GASB 68.

LIABILITIES

Accounts Payable

Accounts payable represent the liability for the value of assets or services received at the statement of net position date for which payment is pending.

Current Payables - Other

Payables are those accrued at year-end.

Noncurrent Payables - Other

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

Employees' Compensable Leave Balances

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

Unearned Revenue

Unearned revenue represents unearned student fees and advances on grants and contract awards for which the University has not met all of the applicable eligibility requirements.

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 1: Summary of Significant Accounting Policies (Continued)

Bonds Payable - Revenue Bonds

Revenue bonds are reported at par, less unamortized discount or plus unamortized premium. Interest expense is reported on the accrual basis, with amortization of discount or premium. Payables are reported separately as either current or noncurrent in the statement of net position.

Cost-Sharing Benefit Pension Plan

The University participates in a cost-sharing multiple-employer defined benefit pension plan, Teacher Retirement System (the Plan). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources-Pension

In accordance with GASB 68, certain changes in the collective net pension liability are excluded from current year collective pension expense and are deferred and amortized to collective pension expense using a systematic and rational method over the periods prescribed by GASB 68.

NET POSITION

The difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources is Net Position.

Net Investment in Capital Assets

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

Restricted Net Assets

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

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

Unrestricted Net Assets

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

Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2015, is presented below.

	Balance, Beginning of Year	Completed Construction in Progress	Additions	Deductions	Balance, End of Year
Non-Depreciable and Non-Amortizable Assets:					
Land and Land Improvements	\$ 9,241,394	\$ -	\$ -	\$ -	\$ 9,241,394
Construction in Progress	9,154,347	(4,873,173)	17,159,094	-	21,440,268
Other Capital Assets	822,090	-	60,000	-	882,090
Total Non-Depreciable Assets	19,217,831	(4,873,173)	17,219,094	0	31,563,752
Depreciable and Amortizable Assets:					
Buildings and Building Improvements	\$ 149,301,144	\$ 4,873,173	\$ 424,145	\$ (815,295)	\$ 153,783,167
Facilities and Other Improvements	1,219,132	-	-	-	1,219,132
Furniture and Equipment	12,093,787	-	1,348,909	(913,254)	12,529,442
Vehicles, Boats, and Aircraft	390,019	-	60,379	(29,982)	420,416
Other Capital Assets	13,501,959	-	2,229,817	(310,799)	15,420,977
Total Depreciable and Amortizable Assets at Historical Cost	176,506,041	4,873,173	4,063,250	(2,069,330)	183,373,134
Less Accumulated Depreciation and Amortization for:					
Buildings and Building Improvements	(88,371,623)	-	(5,296,213)	815,295	(92,852,541)
Facilities and Other Improvements	(859,805)	-	(53,005)	-	(912,810)
Furniture and Equipment	(7,733,555)	-	(1,163,229)	794,250	(8,102,534)
Vehicles, Boats, and Aircraft	(243,777)	-	(36,695)	26,054	(254,418)
Other Capital Assets	(2,438,863)	-	(829,005)	282,986	(2,984,882)
Total Accumulated Depreciation and Amortization	(99,647,623)	0	(7,378,147)	1,918,585	(105,107,185)
Depreciable and Amortizable Assets, Net	76,858,418	4,873,173	(3,314,897)	(150,745)	78,265,949
Capital Assets, Net	\$ 96,076,249	\$ 0	\$ 13,904,197	\$ (150,745)	\$ 109,829,701

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 3: Deposits, Investments and Repurchase Agreements

The University is authorized by statute to make investments following the "prudent person rule". There were no significant violations of legal provisions during the period.

As of August 31, 2015, the total Cash and Cash Equivalents balance was as follows:

Bank Deposits	<u>Carrying Amount</u>
Cash in Bank (other than Certificates of Deposit (CDs))	<u>\$ 1,930,846</u>
Composition of Cash and Cash Equivalents	
Cash on Hand	\$ 11,450
Cash in State Treasury	629,051
Reimbursement Due from Treasury	454,584
Total Bank Deposits (per above)	1,930,846
Other Cash Equivalents (included in the Investments note disclosure)	<u>19,284,979</u>
Total Cash and Cash Equivalents	<u>\$ 22,310,910</u>

Investments

As of August 31, 2015, the fair value of investments is presented below.

Investments	
Fixed Income Money Market and Bond Mutual Fund	\$ 19,284,979
Other Commingled Funds (include TexPool)	<u>230,825</u>
Total Investments	<u>\$ 19,515,804</u>
Reconciliation of Investments per Note Disclosure to Investment Accounts on the Statement of Net Position	
Total Investments, per above disclosure	\$ 19,515,804
Less Investments included on the Statement of Net Position in Cash Equivalents line items	<u>(19,284,979)</u>
Total Investment Accounts on the Statement of Net Position	<u>\$ 230,825</u>

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 3: Deposits, Investments and Repurchase Agreements (Continued)

Investment Accounts on the Statement of Net Position

Current Assets – Short-Term Investments	\$ 27,958,213
Current Assets – Restricted Short-Term Investments	1,255,157
Noncurrent Assets – Restricted Investments	19,899,408
Noncurrent Assets – Investments	<u>7,878,255</u>
Total Investments per Statement of Net Position	<u>\$ 56,991,033</u>

University Share of Pooled Investments Held by the System, by Pool and by Statement of Net Position Classification

Investments Held by System in:

Money Market Funds	\$ 19,284,979
Intermediate Investment Pool	27,958,213
Endowment Pool	20,803,109
Quasi-Endowment Pool	7,647,430
Other Commingled Funds	230,825
Other Commingled Funds (TexPool)	<u>351,456</u>

Total University Share of Pooled Investments Held by System \$ 76,276,012

Current Assets (if Short-Term Investments are pooled)

Money Market Funds	\$ 19,284,979
Intermediate Investment Pool	27,958,213

Current Assets, Restricted (if Short-Term Investments are pooled)

Endowment Pool	1,255,157
----------------	-----------

Noncurrent Assets

Quasi-Endowment Pool	7,647,430
Other Commingled Funds	230,825

Noncurrent Assets, Restricted

Endowment Pool	19,547,952
Other Commingled Funds (TexPool)	<u>351,456</u>

Total University Share of Pooled Investments Held by System \$ 76,276,012

At the direction of the System and the Board of Regents, the University's investments and cash equivalents are mandatorily pooled and managed at the System level. The System is responsible for the disclosure of all information on the pooled investments and has included the required disclosures about the composition of the portfolio(s), the specific types of risks which those investments are exposed and the System's policies to address each of those risks in its annual financial report.

NOTE 4: Long-Term Liabilities

Changes in Long-Term Liabilities

During the year ended August 31, 2015, the following changes, presented in Table 4.1 occurred in liabilities.

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 4: Long-Term Liabilities (Continued)

Table 4.1 – Long-term Liabilities

	Balance, Beginning of Year	Additions	Deductions	Balance, End of Year	Amounts Due Within One Year	Due Thereafter
Claims and Judgments	\$ 10,149	\$ 210,101	\$ 203,768	\$ 16,482	\$ 16,482	\$ -
Employees' Compensable Leave	2,477,150	1,689,815	1,368,130	2,798,835	1,381,785	1,417,050
Revenue Bonds Payable	45,583,030	17,765,000	23,431,614	39,916,416	4,893,822	35,022,594
Premiums on Revenue Bonds	3,061,559	1,867,611	1,234,539	3,694,631	471,378	3,223,253
Total	\$ 51,131,888	\$ 21,532,527	\$ 26,238,051	\$ 46,426,364	\$ 6,763,467	\$ 39,662,897

Claims and Judgments

At August 31, 2015, various lawsuits and claims involving the University were pending. While the ultimate liability, if any, with respect to litigation and other claims asserted against the University cannot be reasonably estimated at this time, such liability, to the extent not provided for by insurance or otherwise, is not expected to have a material effect on University accounts.

Capital Lease Obligations

The University reported no Capital Lease Obligations.

Notes and Loans Payable

The University reported no long-term notes or loans payable as of the year ended August 31, 2015.

Employees' Compensable Leave

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

Full-time state employees earn annual leave from eight to twenty-one hours per month depending on the respective employees' years of state employment. The state's policy is that an employee may carry his accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours up to 532 for those employees with 35 or more years of state service. Accrued leave in excess of the normal maximum was converted to sick leave at the conclusion of fiscal year 2015. 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.

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 4: Long-Term Liabilities (Continued)

Lump sum payments made to employees, who separated from state service during the 2015 fiscal year, for accrued vacation and compensatory leave, totaled \$211,286.

Revenue Bonds Payable

See Note 5 for required Revenue Bond disclosures.

NOTE 5: Bonded Indebtedness

Bonds Payable

The University receives proceeds from bonds issued to support capital projects of the institution.

General Obligation Bonds

At August 31, 2015, the University had no bonds payable classified as General Obligation Bonds.

Refunding Bonds

- **Consolidated Revenue and Refunding Bonds, Series 2009-A**
 - To (a) refund and defease \$20,515,000 of outstanding Consolidated Revenue Bonds, Series 1999 and (b) finance the acquisition, purchase, construction, improvement, enlargement, and equipping of property, buildings, structures, activities, services, operation and other facilities, roads, or related infrastructure for or on behalf of the System, including individual campuses of the System.
 - In addition to the defeasement of the bonds noted above, the proceeds were used to finance the construction of Cougar Village Part 1 at the UH Main Campus.
 - Issued 07-02-2009.
 - \$4,267,478 for the University (used for the defeasement of bonds noted above); \$71,175,000 for the entire system; all bonds authorized have been issued.
 - Source of revenue for debt service – Tuition and various other fees, revenues and balances that may be legally available for payment of debt obligations. (Funding for fiscal year 2015 partially from Legislative Appropriation-Tuition Revenue Bonds.)
 - Average interest rate of bonds refunded - 4.885 percent.
 - Net proceeds from refunding series for the System - \$20,892,800, after receipt of bond premium of \$1,719,639 and additional available funds of \$377,641 and payment of \$179,479 in underwriting fees, insurance and other issuance costs.

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 5: Bonded Indebtedness (Continued)

- Sufficient funds were deposited with an escrow agent to provide for full payment of all outstanding obligations related to the 1999 series bonds, after they were called for early redemption.
- The 1999 series bonds maturing subsequent to 02-15-2009 are considered fully defeased, and the obligation for those bonds has been removed from the reported liabilities of the System.
- Refunding of the 1999 series bonds reduced the System's debt service payments over the life of the bond issues by approximately \$455,026.
- Economic gain for the System - \$1,742,552; the difference between the net present value of the old and new debt service payments.
- **Consolidated Revenue and Refunding Bonds, Series 2011-A**
 - To (a) refund and defease \$78,195,000 of outstanding Consolidated Revenue Bonds, Series 2002-A and \$9,255,000 of Consolidated Revenue Refunding Bonds, Series 2002-B and (b) finance the acquisition, purchase, construction, improvement, enlargement, and equipping of property, buildings, structures, activities, services, operation and other facilities, roads, or related infrastructure for or on behalf of the System, including individual campuses of the System.
 - In addition to the defeasement of the bonds noted above, the proceeds were used to finance the acquisition, construction or renovation of various buildings for UH System campuses other than UHD.
 - Issued December 29, 2011.
 - \$9,487,589 issued for the University; \$265,500,000 in total for the System; all bonds authorized have been issued
 - Source of revenue for debt service – Tuition and various other fees, revenues and balances that may be legally available for payment of debt obligations. (Funding for fiscal year 2015 partially from Legislative Appropriation-Tuition Revenue Bonds.)
 - Average interest rate of bonds refunded - 4.464013 percent.
 - Net proceeds from refunding series for the System - \$89,366,528, after receipt of bond premium of \$12,525,317 and additional available funds of \$1,427,621 and payment of \$226,410 underwriting fees, insurance, and other issuance costs.
 - Sufficient funds were deposited with an escrow agent to provide for full payment of all outstanding obligations related to the 2002-A and 2002-B series bonds, after they were called for early redemption on February 15, 2012.

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 5: Bonded Indebtedness (Continued)

- The 2002-A series bonds maturing subsequent to 02-15-2012 are considered fully defeased and the obligation for those bonds has been removed from the reported liabilities of the System.
- Refunding of the 2002-A and 2002-B series bonds reduced the System's debt service payments over the life of the bond issues by approximately \$12,683,166.71.
- Economic gain for the System - \$11,417,870; the difference between the net present value of the old and new debt service payments.
- **Consolidated Revenue and Refunding Bonds, Series 2013-A**
 - To (a) refund and defease \$5,175,000 of Consolidated Revenue Refunding Bonds, Series 2003; and \$16,355,000 of Consolidated Revenue and Refunding Bonds, Series 2005; and \$10,415,000 of the Consolidated Revenue and Refunding Bonds, Series 2006, and (b) finance the acquisition, purchase, construction, improvement, enlargement, and equipping of property, buildings, structures, activities, services, operation and other facilities, roads, or related infrastructure for or on behalf of the System, including individual campuses of the System.
 - In addition to the defeasement of the bonds noted above, the proceeds were used to finance the acquisition, construction, or renovation of the Girard Street Parking Garage (UHD), various facilities on other UH System and to defease certain outstanding commercial paper notes of the System.
 - Issued September 17, 2013.
 - \$9,605,000 of Refunding Bonds and \$6,035,000 for construction issued for the University; \$50,155,000 total issued for the System; all bonds authorized have been issued.
 - Source of revenue for debt service – Tuition and various other fees, revenues and balances that may be legally available for payment of debt obligations. (Funding for fiscal year 2015 partially from Legislative Appropriation-Tuition Revenue Bonds.) A portion of the University funding is from parking proceeds.
 - Average interest rate of bonds refunded - 4.74 percent.
 - Net proceeds from refunding series - \$33,077,546, after receipt of bond premium of \$3,186,376 and payment of \$218,830 in underwriting fees, insurance, and other issuance costs.
 - Sufficient funds were deposited with an escrow agent to provide for full payment of all outstanding obligations related to the 2003 and 2006 series bonds, after they were called for early redemption on February 15, 2015.

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 5: Bonded Indebtedness (Continued)

- The advance refunded 2003, and 2006 series bonds maturing subsequent to February 15, 2015, are considered fully defeased and the obligation for those bonds has been removed from the reported liabilities of the System.
- Refunding of the 2003 and 2006 series bonds reduced the University's debt service payments over the life of the bond issues by approximately \$3,116,482.
- Economic gain - \$2,640,371 for the System; the difference between the net present value of the old and new debt service payments.
- Accounting Loss (deferred outflow of resources) - \$515,099 for the System; the accounting loss (the difference between the reacquisition price and the net carrying value of the refunded bonds) resulted from the advance refunding.
- **Consolidated Revenue and Refunding Bonds, Series 2014**
 - To refund \$18,385,000 of Consolidated Revenue Bonds, Series 2006; and \$32,715,000 of Consolidated Revenue and Refunding Bonds, Series 2006.
 - Issued November 18, 2014.
 - \$17,765,000 issued for the University; \$47,915,000 issued for the System; all bonds authorized have been issued.
 - Source of revenue for debt service – Tuition and various other fees, revenues and balances that may be legally available for payment of debt obligations. (Funding for fiscal year 2015 partially from Legislative Appropriation-Tuition Revenue Bonds.)
 - Average interest rate of bonds refunded - 4.67 percent.
 - Net proceeds from refunding series for the System - \$52,309,206, after receipt of bond premium of \$5,037,241 and payment of \$643,035 in underwriting fees, insurance and other issuance costs.
 - Sufficient funds were deposited with an escrow agent to provide for full payment of all outstanding obligations related to the 2006 series bonds, after they were called for early redemption on February 15, 2015.
 - The advance refunded 2006 series bonds maturing subsequent to 02-15-2015 are considered fully defeased and the obligation for those bonds has been removed from the reported liabilities of the System.
 - Refunding of the 2006 series bonds reduced the System's debt service payments over the life of the bond issues by approximately \$3,355,879.
 - Refunding of the 2006 series bonds reduced the System's debt service payments over the life of the bond issues by approximately \$9,051,335.

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 5: Bonded Indebtedness (Continued)

- Economic gain - \$7,400,594 for the System; the difference between the net present value of the old and new debt service payments.
- Accounting Gain (deferred inflow of resources) - \$445,456 for the System; the accounting gain (the difference between the reacquisition price and the net carrying value of the refunded bonds) resulted from the advance refunding.

Annual Debt Service Requirements

Year	Total Principal	Total Interest	CRRB Series 2009-A		CRRB Series 2011-A		CRRB Series 2013-A		CRRB Series 2014	
			Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 4,893,822	\$ 1,599,025	\$ 456,547	\$ 81,661	\$ 882,275	\$ 312,014	\$ 1,885,000	\$ 575,750	\$ 1,670,000	\$ 629,600
2017	5,099,082	1,394,823	480,162	58,243	928,920	267,930	2,695,000	470,675	995,000	597,975
2018	3,399,346	1,203,742	503,776	33,645	980,570	221,322	885,000	381,175	1,030,000	567,600
2019	3,504,609	1,072,611	526,266	10,525	988,343	190,186	945,000	335,425	1,045,000	536,475
2020	3,118,329	930,970	-	-	1,043,329	139,395	990,000	287,050	1,085,000	504,525
2021-2025	14,381,229	2,743,008	-	-	2,266,229	114,808	3,040,000	870,900	9,075,000	1,757,300
2026-2030	4,260,000	540,950	-	-	-	-	1,775,000	478,825	2,485,000	62,125
2031-2035	1,260,000	91,313	-	-	-	-	1,260,000	91,313	-	-
Total	\$ 39,916,417	\$ 9,576,442	\$ 1,966,751	\$ 184,074	\$ 7,089,666	\$ 1,245,655	\$ 13,475,000	\$ 3,491,113	\$17,385,000	\$ 4,655,600

Pledged Future Revenues

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, makes a basic distinction between sales of receivables and future revenues, on the one hand, and the pledging of receivables or future revenues to repay a borrowing (a collateralized borrowing), on the other. The following table provides the pledged future revenue information for the University's revenue bonds:

	<u>Business-Type Activities</u>
Pledged revenue required for future principal and interest on existing revenue bonds	\$ 49,492,859
Term of commitment year ending 08/31	2043
Percentage of revenue pledged	100%
Current year pledged revenue	\$ 95,633,170
Current year principal and interest paid	\$ 7,674,712

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

Pledged revenue sources:

Operating income from tuition and fees, and sales and service revenue from auxiliary and non-auxiliary activities including intercollegiate athletics, residential life, parking, rental of facilities, continuing education, royalties, publications, clinics, bookstores and vending commissions.

NOTE 6: Interagency Balances/Activity

The University experienced routine interagency transactions with other state agencies that were consistent with the activities of the fund making the transfer.

Entity	Due from Other State Entities	Due to Other State Entities	Purpose
Agency 320 - Texas Workforce Commission	\$ 75,215	\$ -	- Science,Technology,Engineering,Math Camp
Agency 724 - University of Texas at El Paso	47,489	-	- Computing Alliance for Hispanic Serving Institution
Agency 730 - University of Houston	6,124	-	- Alliance for Minority Participation scholarships
Agency 601 - Texas Department of Transportation	-	13,119	Mobile Video Instruction Training
	<u>\$ 128,828</u>	<u>\$ 13,119</u>	

Entity	Payments from Other State Entities	Payments to Other State Entities	Purpose
Agency 783 - University of Houston System Administration	\$ 40,015	\$ -	- FY2014 Enron Scholarship Distribution From UH Advancement for Student Success Grant
Agency 730 - University of Houston	144,078	-	- and for fundraising campaign FY2015 Endowment special allocations and equity
Agency 783 - University of Houston System Administration	211,945	-	- transfers
Agency 783 - University of Houston System Administration	5,952,874	-	- Consolidated Refunding Bond activities
Agency 783 - University of Houston System Administration	-	372,435	Provost Salary and SORM adjustments
Agency 783 - University of Houston System Administration	-	269,469	Endowment Allocations FY15 Insurance claims Fund and FY15
Agency 730 - University of Houston	-	97,375	Salary/Benefits for former university president
Agency 781 - Texas Higher Education Coordinating Board	-	1,295,605	B-On_Time FY15 transfer deposit
	<u>\$ 6,348,912</u>	<u>\$ 2,034,884</u>	

Entity	Legislative Payments In	Legislative Payments Out	Purpose
Texas 83rd Legislature (2013)	<u>\$ 31,537</u>	<u>\$ 0</u>	SB 1158 Hazlewood Funding

The University has no interfund activity to report.

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 7: Leases

Operating Leases

The University has entered into short-term and long-term non-cancellable operating leases for various business purposes such as academic space, machines, and equipment. Included in the expenses reported in the financial statements are the following amounts of rent paid or due under operating lease obligations:

<u>Fund Type</u>	<u>Amount</u>
Proprietary Fund	\$ 655,755

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

<u>Year Ending August 31,</u>	<u>Amount</u>
2016	\$ 524,604
2017	393,453
2018	262,302
2019	131,151
2020	65,575
2021-2025	163,939
2026-2030	<u>81,969</u>
Total Minimum Future Lease Rental Payments	<u>\$ 1,622,993</u>

NOTE 8: Pension Plans and Optional Retirement Program

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

The state has also established an Optional Retirement Program (ORP) for institutions of higher education, which is a defined contribution plan. Participation in the Optional Retirement Program is available to certain eligible employees and is in lieu of participation in the Teacher Retirement System.

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 8: Pension Plans and Optional Retirement Program (Continued)

The contributions made by plan members and employers for the fiscal year ended August 31, 2015 are shown below:

	TRS	ORP	Total Contributions
	Participants	Participants	
Member Contributions	\$ 2,579,615	\$ 1,391,912	\$ 3,971,527
Employer Contributions	<u>2,618,718</u>	<u>1,525,524</u>	<u>4,144,242</u>
Total	<u>\$ 5,198,333</u>	<u>\$ 2,917,436</u>	<u>\$ 8,115,769</u>

The state of Texas has three retirement systems in its financial reporting entity – Employees Retirement System (ERS), Teacher Retirement System (TRS), and Texas Emergency Services Retirement System (TESRS). These three retirement systems administer the following six defined benefit pension plans:

- ERS – the Employees Retirement System of Texas Plan (ERS), the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS), the Judicial Retirement System of Texas Plan One (JRS1) and Judicial Retirement System of Texas Plan Two (JRS2).
- TRS – the Teacher Retirement System of Texas (TRS) plan.
- TESRS – the Texas Emergency Services Retirement System (TESRS) plan.

ERS, LECOS, JRS2, TRS, and TESRS plans are administered through trust; JRS1 plan is on a pay-as-you-go basis.

TRS plan

Teacher Retirement System is the administrator of the TRS plan, a cost-sharing, multiple-employer defined benefit pension plan with a special funding situation.

The employers of the TRS Plan include the state of Texas, TRS, the state's public schools, education service centers, charter schools, community and junior colleges. TRS membership is in employee class. All employees of public, state-supported education institutions in Texas who are employed for one-half or more of the standard work load and not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system. Employees of TRS and state of Texas colleges, universities and medical schools are members of the TRS plan.

The TRS Plan provides retirement, disability annuities and death and survivor benefits. The benefit and contribution provisions of the TRS Plan are authorized by state law and may be amended by the Legislature. The pension benefit formulas are based on members' average annual compensation and years of service credit. The standard annuity is 2.3 percent of the average of the five highest annual

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 8: Pension Plans and Optional Retirement Program (Continued)

salaries multiplied by years of service credit. For grandfathered members who were hired on or before August 31, 2005, and meet certain criteria, the standard annuity is based on the average of the three highest annual salaries. The plan does not provide automatic cost of living adjustments (COLAs).

Audited Comprehensive Annual Financial Report (CAFR) for Teacher Retirement System may be obtained from:

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

During the measurement period of 2014 for fiscal 2015 reporting, the amount of the University of Houston Downtown's contributions recognized by the plan was \$2,415,502. The contribution rates for the state and the members in the measurement period are presented in the table below:

Required Contribution Rates

	<u>TRS Plan</u>
Contribution Rates	
Employer	6.8%
Employees	6.4%

The total pension liability is determined by an annual actuarial valuation. The table below presents the actuarial methods and assumptions used to measure the total pension liability as of the August 31, 2014, measurement date.

Actuarial Methods and Assumptions

	<u>TRS Plan</u>
Actuarial Valuation Date	August 31, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent, Open
Actuarial Assumptions:	
Discount Rate	8.0%
Investment Rate of Return	8.0%
Inflation	3.00%
Salary Increase	4.25% to 7.25% including inflation
Mortality	
Active	1994 Group Annuity Mortality Table set back 6 years for males and females.
Post-Retirement	Client specific tables multiplied by 80%
Ad Hoc Post-Employment Benefit Changes	None

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 8: Pension Plans and Optional Retirement Program (Continued)

The actuarial assumptions used in valuation were primarily based on the result of an actuarial experience study for the four-year period ending August 31, 2010, and adopted on April 8, 2011. With the exception of the postretirement mortality rates for healthy lives and a minor change to the expected retirement age for inactive vested members stemming from the actuarial audit performed in the summer of 2014, the methods and assumptions are the same as used in the prior valuation.

When the mortality assumptions were adopted in 2011, they contained significant margin for possible future mortality improvements. As of the date of the valuation, there has been a significant erosion of this margin to the point that the margin has been eliminated. Therefore, the postretirement mortality rates for current and future retirees have decreased to add additional margin for future improvement in mortality in accordance with the Actuarial Standards practice No. 35.

There have been no changes to the benefit and contribution provisions of the plan since the prior measurement date.

The discount rate of 8 percent was applied to measure the total pension liability. There has been no change in the discount rate since the prior measurement period. The projected cash flows into and out of the pension plan assumed that members and employers make their contributions at the statutorily required rates. Under this assumption, the pension plan's fiduciary net position is projected to be sufficient to make all future pension benefit payments of current plan members. Therefore, the 8 percent long-term expected rate of return on pension plan investments was used as the discount rate without incorporating the municipal bond rate.

The long-term expected rate of return on plan investments was developed using a coding-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on investments, and inflation factor. Under this method, best estimate ranges of expected future real rates of return (net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of geometric real rates of return for each major asset class for the plan's investment portfolio are presented below.

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 8: Pension Plans and Optional Retirement Program (Continued)

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Global Equity		
U.S.	18%	4.6%
Non-U.S. Developed	13%	5.1%
Emerging Markets	9%	5.9%
Directional Hedge Funds	4%	3.2%
Private Equity	13%	7.0%
Stable Value		
U.S. Treasury	11%	0.7%
Absolute Return	0%	1.8%
Stable Value Hedge Funds	4%	3.0%
Cash	1%	-0.2%
Global Inflation Linked Bonds	3%	0.9%
Real Assets	16%	5.1%
Energy and Natural Resources	3%	6.6%
Commodities	0%	1.2%
Risk Parity		
Risk Parity	5%	6.7%
Total	100%	

Sensitivity analysis was performed on the impact of changes in the discount rate on the proportionate share of the University of Houston – Downtown's net pension liability. The result of the analysis is presented in the table:

Sensitivity of the University of Houston - Downtown's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
\$ 33,038,759	\$ 18,490,682	\$ 7,611,430

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 8: Pension Plans and Optional Retirement Program (Continued)

The pension plan's fiduciary net position is determined using economic resources measurement focus and the accrual basis of accounting, which is the same basis used by Teacher Retirement System. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. The framework for measuring fair value is based on a hierarchy that gives the highest priority to the use of observable inputs in an active market and lowest priority to the use of unobservable inputs.

More detailed information on the plan's investment policy, assets, and fiduciary net position, may be obtained from TRS' fiscal 2014 Comprehensive Annual Financial Report.

At August 31, 2015, the University of Houston - Downtown reported a liability of \$18,490,682 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of August 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University of Houston - Downtown's proportion at August 31, 2014 was 0.0692099 percent. The University of Houston - Downtown's proportion of the collective net pension liability was based on its contributions to the pension plan relative to the contributions of all the employers and non-employer contributing entity to the plan for the period September 1, 2013 through August 31, 2014.

For the year ending August 31, 2015, the University of Houston - Downtown recognized pension expense of \$1,709,332. At August 31, 2015, the University of Houston - Downtown reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 285,906	\$ -
Changes of assumptions	1,201,669	-
Net difference between projected and actual investment return	-	5,650,355
Change in proportion and contribution difference	-	1,617
Contributions subsequent to the measurement date	2,578,607	-
Total	<u>\$ 4,066,182</u>	<u>\$ 5,651,972</u>

The \$2,578,607 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending August 31, 2016.

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 8: Pension Plans and Optional Retirement Program (Continued)

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense in the following years as shown below:

Year ended August 31:

2016	\$	(1,162,453)
2017		(1,162,453)
2018		(1,162,453)
2019		(1,162,453)
2020		250,136
Thereafter		<u>235,279</u>
	\$	<u>(4,164,397)</u>

NOTE 9: Deferred Compensation (Administering Agencies Only)

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

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

The tax deferred investment program permits benefits-eligible employees of the University to purchase qualified tax deferred investments with a portion of their salaries. Participation in the program is voluntary and is a supplement to the Teacher Retirement System or the Optional Retirement Program. It is however, separate and apart from either.

NOTE 10: Adjustments to Net Position

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*. In addition to making changes to how annual pension expense is to be calculated for defined benefit pension plans, the standard also requires that governmental entities record a liability in their financial statements that is equal to the net pension asset or liability. Historically, governmental entities have only been required to record a liability for the difference between annual pension cost (APC) and the amount of APC contributed to the plan. The University has reported the cumulative effect of applying GASB 68 as a restatement of net position as of September 1, 2014. This restatement decreased previously reported net position by \$20,945,745.

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 11: Contingencies and Commitments

Unpaid Claims and Lawsuits

As mentioned in Note 4, various lawsuits and claims involving the University were pending. While the ultimate liability, if any, remains uncertain, management does not expect any possible adverse ruling to have a material effect on University accounts.

Federal Assistance

The University has received several federal grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to a request for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. Based on prior experience, management believes such disallowances, if any, will be immaterial.

Arbitrage

Rebatable arbitrage is defined by Internal Revenue Code, Section 148, as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investment were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government.

The University monitors its investments to restrict earnings to a yield less than the bond issue and, therefore, limit any arbitrage liability. The University estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial conditions.

Pension Obligations

There was a restatement of \$20,945,745 to beginning Net Position for the adoption of GASB 68. See Note 10 for additional details.

Construction Commitments

The University has outstanding commitments for the construction of the Girard Street Parking Garage/Welcome Center totally approximately \$1.5 million.

Investment Funds

The University has entered into contractual commitments to fund private investments made by external investment managers. Investments in which a public market does not exist have an inherent uncertainty of valuation. Because of this uncertainty, the estimate of fair value for alternative investments may differ from the values that would have been used had a ready market existed.

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 12: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountant's Report, which is the date the financial statements were available to be issued.

NOTE 13: Risk Management

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

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

The University's liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Liabilities are reevaluated periodically to consider current settlements, frequency of claims, past experience and economic factors. There were no significant reductions in insurance coverage in the past year and losses did not exceed funding arrangements during the past three years. Changes in the balances of the agency's claims liabilities during fiscal 2014 and 2015 were:

Table 13.1 – Balance of Claims Activity

	<u>Beginning</u> <u>Balance</u>		<u>Increase</u>		<u>Decrease</u>		<u>Ending</u> <u>Balance</u>
2014	\$ 15,838	\$	173,318	\$	179,006	\$	10,150
2015	\$ 10,150	\$	210,101	\$	203,769	\$	16,482

Liabilities include an amount for estimated future workers' compensation and unemployment claims that have been incurred as of the fiscal year end, but that have not been reported.

NOTE 14: The Financial Reporting Entity

The University is an agency of the State of Texas. While it is affiliated with several separate legal entities these organizations are not considered component units as defined by generally accepted accounting principles. The University has no affiliations classified as related organizations, joint ventures or jointly governed organizations.

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 15: Stewardship, Compliance and Accountability

These statements are prepared in compliance with the guidelines provided by the Texas Comptroller of Public Accounts. There were no material violations of finance related legal or contractual provisions, no deficit net assets, and no changes in reporting of loans. The University adopted GASB 68 during the fiscal year ending August 31, 2015, which constitutes a change in accounting principle. See Note 10 for additional details.

NOTE 16: Donor Restricted Endowments

Expenditure of endowed funds is not permitted without the express consent of the donor. The majority of the System's Endowments are held in perpetuity. In many cases, endowment earnings are expendable for student financial assistance or other purposes as specified by the donor. In other cases, endowment earnings are reinvested.

The Regents of the System have established an endowment policy which attempts to balance the long-term objective of maintaining the purchasing power of the endowment with the goal of providing a reasonable, predictable, stable and sustainable level of income to support current needs. Payout is derived from interest, dividends and realized gains net of portfolio management fees. The historical rate of payout has been 4 to 5 percent, with any change to this range to be approved by the Board.

The net appreciation (cumulative and unexpended) on donor-restricted endowments, presented below in Table 16.1, is available for authorization and expenditure by the System.

Table 16.1 – Net Appreciation of Endowments

Donor-Restricted Endowments	Amount of Net Appreciation/ (Depreciation)	Reported in Net Assets
True Endowments	\$ 5,769,468	Restricted Expendable
Term Endowments	-	Restricted Expendable
Total	<u>\$ 5,769,468</u>	

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 17: Post Employment Health Care and Life Insurance Benefits

Plan Description

The University contributes to the State Retiree Health Plan (SRHP), a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan administered by the Employees Retirement System of Texas (ERS). The SRHP provides healthcare, life, and dental insurance benefits to eligible retired employees of the State, including retirees of participating universities, as well as to eligible retirees of other entities as specified in statute. Eligible participants generally are retirees who retired with at least 10 years of service to eligible entities. The Texas Insurance Code, Chapter 1551, assigns the authority to establish and amend benefit provisions to the ERS board of trustees. The ERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for SRHP. That report may be obtained by writing to ERS at Employees Retirement System of Texas, P.O. Box 13207, Austin, Texas 78711-3207, or from the ERS Web site at www.ers.state.tx.us.

Funding Policy

The Legislature determines the amount to be appropriated each biennium for the employer's contribution toward retiree benefit costs. Currently, for retirees who were state employees, the State pays 100 percent of eligible retiree health and basic life insurance premiums and 50 percent of dependents' premiums. The retiree contributes any premium in excess of the employer contribution amount. Employer contributions do not include the cost of any optional life or dental insurance benefits. The table below summarizes the maximum monthly employer contribution toward eligible retirees' health and basic life premium for fiscal year 2015.

Maximum Monthly Employer Contribution for Retiree OPEB (HealthSelect of Texas)	
For the fiscal year ended August 31, 2015	
Level of Coverage	Amount (\$)
Retiree Only	537
Retiree and Spouse	846
Retiree and Children	744
Retiree and Family	1,052

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

NOTE 17: Post Employment Health Care and Life Insurance Benefits (Continued)

Contractually required employer contributions to the plan are currently based on the annual pay-as-you-go expenses of the SRHP. The University's contributions to SRHP for the years ended August 31, 2013, 2014 and 2015, included in amounts reported as Payroll Related Costs, were \$912,117, \$1,035,335 and \$1,232,231, respectively, which equaled the required contributions each year.

NOTE 18: Extraordinary and Special Items

During FY2015 the University Student Accounts Receivable (AR) were audited by the UH-System Internal Audit Department. As recommended in the results from this audit, the University's annual write-off procedures were changed. The FY2015 AR Write-off was postponed from FY2015 year-end until March 2016 in order to get approval from the System Board of Regents for write-off amounts. Additionally, as recommended per the audit, the University will write-off \$2,996,026 of Student Accounts Receivable from prior years and \$1,668,715 aged per the standard two-year period.

NOTE 19: Disaggregation of Receivable & Payable Balances

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

A. Taxes Receivable

No reportable balances for this classification.

B. Federal Receivable

No reportable balances for this classification.

C. Tax Refunds Payable

No reportable balances for this classification.

D. Other Receivables - Current

No reportable balances for this classification.

University of Houston-Downtown

Notes to the Financial Statements

For the Fiscal Year Ended August 31, 2015

(See Independent Accountants' Review Report on Page 1)

E. Other Payables – Current

No reportable balances for this classification.

F. Other Receivables – Noncurrent

No reportable balances for this classification.

G. Other Payables – Noncurrent

No reportable balances for this classification.

NOTE 20: Deferred Outflows and Inflows of Resources

In fiscal year 2015, the University reported deferred outflows of resources and deferred inflows of resources in connection with the TRS pension plan.

As of August 31, 2015	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension plan (Note 8)	\$ 4,066,182	\$ 5,651,972

NOTE 21: Troubled Debt Restructuring

No debts have been identified that fall under the troubled debt restructuring guidelines of GASB 62.

NOTE 22: Non-Exchange Financial Guarantees

As of August 31, 2015, the University has no non-exchange financial guarantees; therefore, there are no balances to be reported.

Required Supplementary Information

Schedule TRS-A
University of Houston - Downtown (784)
Schedule of the University of Houston - Downtown's Proportionate Share of the Net Pension Liability
Teacher Retirement System of Texas Plan
Unaudited
(See Independent Accountants' Review Report on Page 1)

	2014
University of Houston - Downtown's Proportion of the Net Pension Liability (Asset)	0.0692099%
University of Houston - Downtown's Proportionate Share of the Net Pension Liability (Asset)	\$ 18,490,682
University of Houston - Downtown's Covered Payroll	\$ 25,368,382
University of Houston - Downtown's Proportionate Share of the Net Pension Liability (Asset) As a Percentage of its Covered Payroll	72.89%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.25%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, the University will present information for the years for which the information is available. Information presented in the schedule has been determined as of the measurement date (one year before the most recent fiscal year end) of the collective net pension liability in accordance with GASB 68.

Schedule TRS-B
University of Houston - Downtown (784)
Schedule of the University of Houston - Downtown's Contributions
Teacher Retirement System of Texas Plan
Unaudited
(See Independent Accountants' Review Report on Page 1)

Contributions	2015	2014
Statutorily Required Contributions	\$ 2,195,316	\$ 2,199,439
Contributions in Relation to the Statutorily Required Contributions	\$ 2,055,156	\$ 1,740,750
Contribution Deficiency (Excess)	\$ 140,160	\$ 458,689
University of Houston - Downtown's Covered-Employee Payroll	\$ 26,609,891	\$ 25,368,382
Contributions as a Percentage of Covered-Employee Payroll	7.72%	6.86%

This schedule is presented to illustrate the requirements to show information for 10 years. However until a full 10-year trend is compiled, the University will present information for the years for which the information is available. Information presented in the schedule has been determined as of the University's most recent fiscal year-end in accordance with GASB 68.

Mr. George Anderson
University of Houston-Downtown
Houston, Texas

In planning and performing our review of the financial statements of University of Houston-Downtown as of and for the year ended August 31, 2015, in accordance with the statement on standards for accounting and review services as defined by the American Institute of Certified Public Accountants, we reviewed the statement of net position and the statements of revenues, expenses and changes in net position and cash flows. In the course of our review, which is substantially less in scope than an audit, we identified three adjusting entries in regards to the areas listed below:

Proposed adjustments recorded:

- Deferred revenue and accounts receivable for tuition and fees
- Tuition and fee revenue and scholarship expense
- Cash credit card payments

This communication is intended solely for the information and use of management, the Board of Regents, others within the University, and the Southern Association of Colleges and Schools Commissions on Colleges, and is not intended to be, and should not be, used by anyone other than these specified parties.

BKD, LLP

January 29, 2016