University of Houston Clear Lake

# Financial Statements and Independent Accountant's Review Report

**As of August 31, 2011 and for the year then ended**

## *Contents*

*Independent Accountant's Review Report* ..... 1

*The University of Houston – Clear Lake Financial Report (prepared in accordance with SACS Criteria for Accreditation)*

Statement of Net Assets at August 31, 2011 ..... 2

Statement of Revenues, Expenses and Changes in Net Assets for the Fiscal Year Ended August 31, 2011 ..... 4

Statement of Cash Flows for the Fiscal Year Ended August 31, 2011 ..... 6

Notes to the Financial Statements for the Fiscal Year Ended August 31, 2011 ..... 8

*Supplemental Information*

Schedule of Changes in Unrestricted Net Assets for the Fiscal Year Ended August 31, 2011 ..... 26

*Management Letter* ..... 27

State Auditor's Office
John Keel, CPA
State Auditor

## Independent Accountant's Review Report

Dr. William A. Staples, President
The University of Houston – Clear Lake
Houston, TX

We have reviewed the accompanying Statement of Net Assets of the University of Houston – Clear Lake (University) as of August 31, 2011, and the related Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows for the year then ended. A review includes primarily applying analytical procedures to the University's financial data and making inquiries of University personnel. 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.

University 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.

Our review was made for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The Schedule of Changes in Unrestricted Net Assets is presented only for the purpose of additional analysis at the request of the Southern Association of Colleges and Schools' Commission on Colleges as part of its core requirements for accreditation and has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements. This schedule is the representation of management, without audit or review, and we do not express an opinion or provide any assurance on it.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Although not a part of the basic financial statements, this information 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. The results of our review of the basic financial statements are not affected by this missing information.

John Keel, CPA
State Auditor

February 13, 2012

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SAO Report No. 12-326

The University of Houston – Clear Lake
**Statement of Net Assets**
**At August 31, 2011**
(See Independent Accountant's Review Report on Page 1)

| | | |
|---|---|---|
| **ASSETS** | | |
| Current Assets | | |
| Cash and Cash Equivalents (Note 3) | $ | 27,311,253 |
| Restricted: | | |
| Cash and Cash Equivalents (Note 3) | | (2,655,213) |
| Legislative Appropriations | | 5,757,418 |
| Receivables, Net of Allowances: | | |
| Federal | | 4,239,700 |
| UHS Intercampus Receivables | | 16,160,961 |
| Accounts | | 3,777,929 |
| Gifts | | 140,390 |
| Other | | 7,385 |
| Due from Other State Entities (Note 8) | | 231,615 |
| Consumable Inventories | | 15,454 |
| Loans and Contracts | | 2,384,151 |
| Other Current Assets | | 2,508,931 |
| Total Current Assets | $ | 59,879,974 |
| Non-Current Assets | | |
| Restricted: | | |
| Cash and Cash Equivalents (Note 3) | $ | 850,122 |
| Receivables | | 109,959 |
| Investments (Note 3) | | 14,786,892 |
| Loans and Contracts | | 604,282 |
| Investments (Note 3) | | 8,807,635 |
| Capital Assets (Note 2) | | |
| Non-Depreciable | | 23,230,236 |
| Depreciable/Amortizable | | 134,885,217 |
| Less: Accumulated Depreciation/Amortization | | (85,884,020) |
| Total Non-Current Assets | $ | 97,390,323 |
| Total Assets | $ | 157,270,297 |
| **LIABILITIES** | | |
| Current Liabilities | | |
| Payables: | | |
| Accounts | $ | 1,979,040 |
| Payroll | | 3,148,764 |
| Federal | | 1,184 |
| Other | | 429,916 |
| Due to Other State Entities (Note 8) | | 7,344 |
| Deferred Revenue | | 22,247,438 |
| Claims and Judgments (Note 4) | | 20,331 |
| Capital Lease Obligations (Notes 4, 6) | | 366,160 |
| Employees' Compensable Leave (Note 4) | | 1,000,192 |

| | | |
|---|---|---|
| Revenue Bonds Payable (Notes 4, 5) | | 2,059,858 |
| Funds Held for Others | | 365,866 |
| Total Current Liabilities | $ | 31,626,093 |
| | | |
| Non-Current Liabilities | | |
| Claims and Judgments (Note 4) | $ | 1,604 |
| Capital Lease Obligations (Notes 4, 6) | | 7,006,818 |
| Employees' Compensable Leave (Note 4) | | 1,086,584 |
| Revenue Bonds Payable (Notes 4, 5) | | 30,356,901 |
| Total Non-Current Liabilities | $ | 38,451,907 |
| | | |
| Total Liabilities | $ | 70,078,000 |
| | | |
| **NET ASSETS** | | |
| Invested in Capital Assets, Net of Related Debt | $ | 34,927,094 |
| Restricted for: | | |
| Non-Expendable | | |
| Permanent Funds, True Endowments, Annuities | | 7,339,673 |
| Expendable | | |
| Debt Retirement | | 526,759 |
| Funds Functioning as Endowments | | 4,392,566 |
| Other | | 2,544,321 |
| Unrestricted | | 37,461,884 |
| | | |
| Total Net Assets | $ | 87,192,297 |

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

The University of Houston – Clear Lake
**Statement of Revenues, Expenses, and Changes in Net Assets**
For the Fiscal Year Ended August 31, 2011
(See Independent Accountant's Review Report on Page 1)

| | | |
|---|---|---|
| **OPERATING REVENUES** | | |
| Tuition and Fees - Pledged | $ | 50,520,961 |
| Discounts and Allowances | | (9,561,997) |
| Auxiliary Enterprises - Pledged | | 1,520,104 |
| Other Sales of Goods and Services - Pledged | | 1,220,176 |
| Federal Revenue | | 2,641,761 |
| State Grant Revenue | | 1,923,960 |
| Other Operating Grant Revenue | | 287,181 |
| Total Operating Revenues | $ | 48,552,146 |
| **OPERATING EXPENSES** | | |
| Cost of Goods Sold | $ | 8,429 |
| Salaries and Wages | | 50,134,796 |
| Payroll Related Costs | | 12,397,312 |
| Professional Fees and Services | | 5,350,966 |
| Travel | | 610,834 |
| Materials and Supplies | | 4,628,078 |
| Communications and Utilities | | 3,090,618 |
| Repairs and Maintenance | | 1,371,479 |
| Rentals and Leases | | 548,904 |
| Printing and Reproduction | | 362,453 |
| Depreciation and Amortization | | 4,640,140 |
| Interest Expense | | 313,465 |
| Scholarships | | 8,610,207 |
| Claims and Judgments | | 158,714 |
| Other Operating Expenses | | 2,031,605 |
| Total Operating Expenses | $ | 94,258,000 |
| Operating Income (Loss) | $ | (45,705,854) |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Legislative Appropriations | $ | 35,212,454 |
| Gifts | | 1,169,644 |
| Interest and Investment Income (Loss) | | 1,707,498 |
| Net Increase (Decrease) in Fair Value of Investments | | 301,258 |
| Interest Expense and Fiscal Charges | | (1,388,439) |
| Other Non-operating Revenues - Non-Pledged | | 31,042,261 |
| Other Non-operating Expenses | | (16,269,139) |
| Total Non-operating Revenues (Expenses) | $ | 51,775,537 |
| Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers | $ | 6,069,683 |

| | | |
|---|---|---|
| **OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS** | | |
| Capital Appropriations (HEAF) | $ | 5,214,167 |
| Additions to Permanent and Term Endowments | | 238,355 |
| UHS Intercampus Transfers-In (Note 8) | | 97,182 |
| UHS Intercampus Transfers-Out (Note 8) | | (95,622) |
| Transfers – Out | | (172,292) |
| Legislative Transfers In (Note 8) | | 73,146 |
| Legislative Transfers Out (Note 8) | | (102,029) |
| Legislative Appropriations Lapsed | | (7,083) |
| Total Other Revenues, Expenses, Gains (Losses), and Transfers | $ | 5,245,824 |
| **CHANGE IN NET ASSETS** | $ | 11,315,507 |
| Net Assets, September 1, 2010 | $ | 75,876,790 |
| **NET ASSETS, August 31, 2011** | $ | 87,192,297 |

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

The University of Houston – Clear Lake
**Statement of Cash Flows**
For the Fiscal Year Ended August 31, 2011
(See Independent Accountant's Review Report on Page 1)

| | | |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Proceeds from Tuition and Fees | $ | 41,179,721 |
| Receipts from Customers | | 1,225,508 |
| Proceeds from Research Grants and Contracts | | 231,733 |
| Proceeds from Loan Programs | | 3,639,110 |
| Proceeds from Auxiliaries | | 1,526,747 |
| Proceeds from Other Revenues | | 4,737,637 |
| Payments to Suppliers for Goods and Services | | (15,534,843) |
| Payments to Employees for Salaries | | (49,879,342) |
| Payments to Employees for Benefits | | (12,334,144) |
| Payments for Loans Provided | | (3,776,420) |
| Payments for Other Expenses | | (10,472,836) |
| Net Cash Provided (Used) by Operating Activities | $ | (39,457,129) |
| **CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES** | | |
| Proceeds from Legislative Appropriations | $ | 35,097,082 |
| Proceeds from Gifts | | 1,047,917 |
| Proceeds from Endowments | | 238,355 |
| Proceeds of Transfers from Other Entities | | 10,404,859 |
| Proceeds from Other Sources | | 10,873,169 |
| Payments for Other Uses | | (523,992) |
| Net Cash Provided (Used) by Non-Capital Financing Activities | $ | 57,137,390 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Proceeds from Capital Contributions | $ | 5,214,167 |
| Payments for Additions to Capital Assets | | (13,573,474) |
| Payments of Principal on Capital-Related Debt | | (1,984,858) |
| Payments of Interest on Capital-Related Debt | | (1,473,023) |
| Payments of Other Costs of Capital-Related Debt | | (396,892) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | $ | (12,214,080) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from Interest and Investment Income | $ | 2,008,756 |
| Net Cash Provided (Used) by Investing Activities | $ | 2,008,756 |
| Net Increase (Decrease) in Cash and Cash Equivalents | $ | 7,474,937 |
| Cash and Cash Equivalents, September 1, 2010 | $ | 18,031,225 |
| Cash and Cash Equivalents, August 31, 2011 | $ | 25,506,162 |

**Reconciliation of Operating Income (Loss) to**
**Net Cash Provided (Used) by Operating Activities**

| | | |
|---|---|---|
| Operating Income (Loss) | $ | (45,705,854) |
| Adjustments: | | |
| Depreciation and Amortization | $ | 4,640,140 |
| Changes in Assets and Liabilities: | | |
| (Increase) Decrease in Receivables | | (878,904) |
| (Increase) Decrease in Inventories | | (2,545) |
| (Increase) Decrease in Prepaid Expenses | | 142,093 |
| (Increase) Decrease in Loans and Contracts | | (137,310) |
| (Increase) Decrease in Other Assets | | 406,822 |
| Increase (Decrease) in Payables | | 1,191,260 |
| Increase (Decrease) in Deferred Revenue | | 879,448 |
| Increase (Decrease) in Employees' Compensable Leave | | 145,168 |
| Increase (Decrease) in Other Liabilities | | (137,447) |
| Total Adjustments | $ | 6,248,725 |
| Net Cash Provided (Used) by Operating Activities | $ | (39,457,129) |
| Non-Cash Transactions | | |
| Net Increase (Decrease) in Fair Value of Investments | $ | 301,258 |

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

(See Independent Accountant's Review Report on page 1.)

**General Introduction**

This report has been prepared for the use of the Southern Association of Colleges and Schools (Southern Association) in connection with the review of The University of Houston – Clear Lake for accreditation purposes. This report includes a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; a Statement of Cash Flows; and the related Notes to the Financial Statements.

**Reporting Entity**

The University is a component of The University of Houston System and an agency of the State of Texas. The University prepares financial statements that are included in the State's *Comprehensive Annual Financial Report,* which is audited by the Texas State Auditor's Office.

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

**Basis of Accounting**

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

For financial reporting purposes, the University is considered a special-purpose government engaged only 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 non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the principle of ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

**Cash and Cash Equivalents**

Included in this category are demand deposits in banks, local funds held by the state, state reimbursements in transit. For the purpose of financial statement reporting, cash equivalents are short-term, highly liquid investments with an original maturity of three months or less.

**Investments**
The University accounts for its investments at fair value, as determined by quoted market prices, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of the investments are reported as a component of net change in fair value of investments in the Statement of Revenues, Expenses, and Changes in Net Assets.

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

**Receivables**
Accounts receivable and student receivables consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable are recorded net of estimated uncollectible amounts.

Federal receivables include amounts due from the federal government or private sources, in connection with reimbursement of allowable expenditures disbursed by the University's grants and contracts department.

Gift receivables are accounted for at their estimated net realizable value. The estimated net realizable value consists of the present value of long-term pledges and a reduction for any allowance for uncollectible pledges. Pledges vary from one to ten years and are used to support specifically identified University programs and initiatives.

Interest and income receivable consists of amounts due from investment holdings, cash management pools, and cash invested in various short-term investment items.

**Inventories**
Inventories include both merchandise inventories on hand for sale and consumable inventories such as maintenance supplies, housing supplies, janitorial supplies, office supplies, and telecommunications supplies. Inventories are valued at cost, generally utilizing the last-in, first-out method.

**Prepaid Expenses**
Disbursements for insurance, subscriptions, postage, travel costs, and similar services paid in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods.

**Capital Assets**
Furniture, equipment, and vehicles with a cost of more than $ 5,000 and an estimated useful life in excess of one year are capitalized. Capitalization thresholds for buildings, building improvements, facilities, and other improvements are $100,000. The capitalization threshold for infrastructure is $500,000. These assets are capitalized at cost. Donated assets are reported at fair value as of the acquisition date. Routine repairs and maintenance and capital assets acquired for less than the threshold amounts are charged to operating expenses in the

year in which the expense was incurred. All land, land improvements, library books and materials, and works of art are capitalized. Assets are depreciated over their estimated useful lives using the straight-line method of depreciation.

Depreciation of capital assets is recorded as a periodic expense and accumulated as an offset to the asset book values. Depreciation of capital assets is based on allocation methods and estimated lives prescribed by the Statewide Property Accounting (SPA) system as summarized below:

| Capital Asset Category | Useful Life |
|---|---|
| Buildings and Building Improvements | 10 – 30 years |
| Infrastructure, Depreciable | 10 - 50 years |
| Facilities and Other Improvements | 10 – 60 years |
| Furniture and Equipment | 3 – 15 years |
| Vehicles & Boats | 5 – 10 years |
| Computer Software | 5 – 6 years |

**Accounts Payable**
Accounts payable represent the liability for the value of assets or services received at the Statement of Net Assets date for which payment is pending.

**Deferred Revenues**
Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

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

**Revenue Bonds Payable**
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 Assets.

**Funds Held for Others**
Current balances in funds held for others result from the University acting as an agent or fiduciary for students and student organizations.

**Net Assets**
Net assets are the difference between assets and liabilities. The University has classified resources into the following three net asset categories:

**Invested in Capital Assets, Net of Related Debt**
This category consists of capital assets net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

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

**Unrestricted Net Assets**
Net assets that are not subject to externally imposed stipulations are reported as Unrestricted Net Assets. These balances may be designated for special purposes by action of University management or the UH System Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital programs.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the university addresses each situation on a case-by-case basis prior to determining the resources to be used to satisfy the obligation. Generally, the University's policy is to first apply the expense towards restricted resources and then towards unrestricted resources.

**Revenues and Expenses**
Operating revenues include activities such as student tuition and fees, net of scholarship allowances; sales and services of auxiliary enterprises; most federal, state, and local grants, and contracts; and interest on student loans. Operating expenses include salaries and wages, payroll related costs, materials and supplies, depreciation, scholarships and fellowships, and impairment losses and insurance recoveries received in the same year as the associated loss in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. In addition, all changes to incurred but not reported liabilities related to insurance programs are reflected as operating. Non operating revenues include activities such as gifts and contributions, insurance recoveries received in years subsequent to the associated loss, State appropriations, investment income, and other revenue sources that are defined as non operating revenues by GASB Statement No.9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, GASB Statement No. 34, and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Non operating expenses include activities such as interest expense on capital asset financings, and other expenses that are defined as non operating expenses by GASB Statement Nos. 9, 34, and 42.

**Scholarship Allowances and Student Aid**

Financial aid to students is reported in the financial statements as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid (student loans, funds provided to students as awarded by third parties, and Federal Direct Lending) is accounted for as third party payments (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expense or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on an entity-wide basis by allocating cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

## Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2011, is presented in Table 2.

Table 2
Capital Assets

| | Balance 9-1-2010 | Adjustments | Completed CIP | Additions | Deletions | Balance 8-31-11 |
|---|---|---|---|---|---|---|
| Non-Depreciable | | | | | | |
| Land & land improvements | $ 9,437,722 | $ | $ | $ | $ | $ 9,437,722 |
| Construction in progress | 1,277,791 | | | 10,706,954 | | 11,984,745 |
| Other capital assets | 1,789,121 | | | 18,648 | | 1,807,769 |
| Total Non-Depreciable | 12,504,634 | | | 10,725,602 | | 23,230,236 |
| Depreciable | | | | | | |
| Buildings & bldg improvement | 83,642,102 | | | 8,084,607 | | 91,726,709 |
| Infrastructure | 8,722,089 | | | | | 8,722,089 |
| Facilities & other improvement | 793,275 | | | | | 793,275 |
| Furniture & equipment | 8,624,878 | | | 976,375 | (214,355) | 9,386,898 |
| Vehicles, boats, aircraft | 666,241 | | | 204,556 | (15,679) | 855,118 |
| Other capital assets | 22,008,224 | | | 1,377,996 | (243,043) | 23,143,177 |
| Total Depreciable | 124,456,809 | | | 10,643,534 | (473,077) | 134,627,266 |
| Less Accumulated Depreciation For | | | | | | |
| Buildings & bldg improvement | (53,755,638) | | | (2,482,376) | | (56,238,014) |
| Infrastructure | (8,058,382) | | | (80,295) | | (8,138,677) |
| Facilities & other improvement | (237,982) | | | (39,664) | | (277,646) |
| Furniture & equipment | (5,727,639) | | | (910,554) | 188,562 | (6,449,630) |
| Vehicles, boats, aircraft | (357,736) | | | (102,981) | 15,679 | (445,038) |
| Other capital assets | (13,316,021) | | | (1,017,021) | 243,043 | (14,090,000) |
| Total Accumulated Depreciation | (81,453,398) | | | (4,632,891) | 447,284 | (85,639,005) |
| Depreciable Assets, Net | 43,003,411 | | | 6,010,643 | (25,793) | 48,988,261 |
| Amortizable Assets- Intangible - Software | 265,911 | | | | (7,960) | 257,951 |
| Total Amortizable Assets | 265,911 | | | | (7,960) | 257,951 |
| Less Accumulated Amortization Software | (245,727) | | | (7,248) | 7,960 | ( 245,015) |
| Total Accumulated Amortization | (245,727) | | | (7,248) | 7,960 | (245,015) |
| Amortizable Assets-Intangible, Net | 20,184 | | | (7,248) | | 12,936 |
| Capital Assets, Net | $ 55,528,229 | $ | $ | $ 16,728,997 | $ (25,793) | $ 72,231,433 |

## Note 3: Deposits, Investments, and Repurchase Agreements
## Deposits of Cash in Bank

As of August 31, 2011, the carrying amount of deposits was $ 4,643,005 as presented below.

Table 3.1
Cash In Bank Deposits

| | |
|---|---|
| Cash in bank – Carrying value | $ 4,643,005 |
| Cash in bank – Carrying value | $ 4,643,005 |

Table 3.2
Cash In Bank By Classification

| | |
|---|---|
| Current assets | 6,448,096 |
| Current assets, restricted | (2,655,213) |
| Non-current assets restricted | 850,122 |
| Carrying Value of Cash in bank per Table 3.4 | $ 4,643,005 |

This balance consists of the carrying amount of all cash on deposit in local banks. The amount is included on the Statement of Net Assets as part of the "Cash and Cash Equivalents" accounts.

As of August 31, 2011, the total bank balance was as follows.

Table 3.3

| | |
|---|---|
| Business-Type Activities | $ 4,361,302 |

As of August 31, 2011, the total Cash and Cash Equivalents balance was as follows.

Table 3.4
Cash & Cash Equivalents Balances

| | |
|---|---|
| Cash on hand | 25,500 |
| Cash in bank | 4,643,005 |
| Reimbursement due from Treasury | 211,332 |
| Cash in State Treasury | 8,375,037 |
| Cash equivalents | 12,251,288 |
| Total cash & cash equivalents | $ 25,506,162 |

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the university will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The university has no deposits that are at risk of recovery with the failure of a depository financial institution.

## Investments

As of August 31, 2011, the fair value of investments is as presented below.

| Business-Type Activities | Fair Value |
|---|---|
| Money Market Funds | $ 12,251,288 |
| Total Investments | $ 12,251,288 |
| Reconciliation of Investments per Financial Statements | |
| Proprietary Fund, Current Assets, Short Term Investments | $ 12,251,288 |

At the direction of the University of Houston System, Board of Regents, the University of Houston – Clear Lake investments and cash equivalents are pooled at the UH system level. The UH System is responsible for the disclosure of all information on the pooled investments and has included these disclosures in its annual financial report. The University of Houston System is authorized by statute to make investments following the "prudent person rule". Credit risk is the risk that an issuer or other counterparty to an investment will not be able to fulfill its obligations. The University of Houston System's investment policy limits investments in debt securities that are not in the top three investment grade ratings issued by nationally recognized statistical rating organizations to 5% of total investments. The value of investments held by System office is as follows:

| | |
|---|---|
| Non-Current Assets – Restricted Investments | $ 14,786,892 |
| Non-Current Assets – Investments | 8,807,635 |
| Total Investments held at System | $ 23,594,527 |

A schedule of investments as rated by the national rating agency Standard & Poor's follows:

### Investments as Rated by Standard & Poor's

| Fund Type | GAAP Fund | Investment Type | AAAm |
|---|---|---|---|
| 05 | 9999 | Money Market Funds | $ 12,251,288 |

## Note 4: Summary of Long-Term Liabilities

During the year ended August 31, 2011, the following changes, presented in Table 4.1, occurred in liabilities.

Table 4.1
Long-Term Liabilities

| | Balance 9-1-2010 | Additions | Reductions | Balance 8-31-11 | Amounts Due Within 1 Yr | Amounts Due Thereafter |
|---|---|---|---|---|---|---|
| Claims & judgments | $ | $ 207,513 | $ 185,578 | $ 21,935 | $ 20,331 | $ 1,604 |
| Employees' compensable leave | 1,941,608 | 1,292,658 | 1,147,490 | 2,086,776 | 1,000,192 | 1,086,584 |
| Capital Lease Obligations | | 7,769,870 | 396,892 | 7,372,978 | 366,160 | 7,006,818 |
| Revenue bonds payable | 34,401,617 | | 1,984,858 | 32,416,759 | 2,059,858 | 30,356,901 |
| Total Long-Term Liabilities | $ 36,343,225 | $ 9,270,041 | $ 3,714,818 | $ 41,898,448 | $ 3,446,541 | $ 38,451,907 |

### Claims and Judgments

At August 31, 2011, various claims and judgments 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.

### Employees' Compensable Leave

Substantially all full-time university employees earn annual leave in the amount of 8 to 21 hours per month depending upon the respective employee's years of state employment. State law permits employees to carry accrued leave forward from one fiscal year to another fiscal year with a maximum of 532 hours for those employees with 35 or more years of state service. Eligible part-time employees' annual leave accrual rate and maximum carryover are proportional to the number of hours appointed to work. Employees with at least six months of state service who terminate their employment are entitled to payment for all accumulated annual leave.

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is off due to illness or to the estate of an employee in the event of his or her death. The maximum sick leave that may be paid to an employee's estate is one - half of the employee's accumulated entitlement or 336 hours, whichever is less. The university's policy is to recognize the cost of sick leave when paid, and the liability is not shown in the financial statements because experience indicates that the expense for sick leave will be minimal. Eligible part-time employees' sick leave accrual rate is proportional to the number of hours appointed to work.

**Note 5: Bonded Indebtedness**

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

Revenue Bonds

- Consolidated Revenue Bonds, Series 2002-A
  - To finance the acquisition, purchase, construction, improvement, renovation, enlargement, and equipping of any property, building, structure, activity, service, operation, or facility of the University of Houston System.
  - $35,918,000; all bonds authorized have been issued.
  - Issued 09-01-2002.
  - Source of revenue for debt service – Tuition and various other fees, and revenues and balances that may be legally available for payment of debt obligations. (Funding for fiscal year 2011, partially from Legislative appropriation.)

General Obligation Bonds

At August 31, 2011 the University had no bonds payable classified as General Obligation Bonds.

Refunding Bonds

- Consolidated Revenue and Refunding Bonds, Series 2010
  - To (a) defease certain outstanding commercial paper notes of the System and (b) finance the acquisition, purchase, construction, improvement, enlargement, and equipping of property, buildings, structures, activities, services, operation and other facilities, roads, or infrastructure related for or on behalf of the System, including individual campuses of the System.
  - $108,395,000; all bonds authorized have been issued ($98,230,000 (UH) and $10,165,000 (UHCL).
  - Issued 02-04-2009
  - Source of revenue for debt service – Designated tuition and various other fees, revenues and balances that may be legally available for payment of debt obligations. (Funding for fiscal year 2011 partially from Legislative appropriation.)

Debt Service Requirements

The future debt service requirements, as of August 31, 2011, for the University's outstanding bonds are as follows:

Table 5.1
Revenue Bonds Payable
Debt Service Requirements

| Year/s | Total Principal | Total Interest | Total |
|---|---|---|---|
| 2012 | $ 2,025,000 | $ 1,363,738 | $ 3,388,738 |
| 2013 | 2,105,000 | 1,282,012 | 3,387,012 |
| 2014 | 2,200,000 | 1,195,912 | 3,395,912 |
| 2015 | 2,285,000 | 1,106,212 | 3,391,212 |
| 2016 | 2,390,000 | 1,012,712 | 3,402,712 |
| 2017 - 2021 | 13,760,000 | 3,371,681 | 17,131,681 |
| 2022 - 2026 | 5,680,000 | 819,962 | 6,499,962 |
| 2027 - 2031 | 1,445,000 | 73,127 | 1,518,127 |
| Total Debt Service | $ 31,890,000 | $ 10,225,356 | $ 42,115,356 |

## Note 6: Capital Leases

The University has entered into a long-term lease for financing the purchase of certain capital assets. Such leases are classified as capital leases for accounting purposes and are recorded at the present value of the future minimum lease payments at the inception of the lease. A summary of the original capitalized costs of all such property under lease in addition to the accumulated depreciation as of August 31, 2011 is as follows:

Assets under Capital Leases
Year ending August 31, 2011

| | Business Type Activities | | |
|---|---|---|---|
| Class of Property | Assets Under Capital Lease | Accumulated Depreciation | Total |
| Buildings | $ 7,372,978 | $ (335,517) | $ 7,037,461 |
| Totals | $ 7,372,978 | $ (335,517) | $ 7,037,461 |

Future Capital Lease payments
Year Ended August 31, 2011

| | Business Type Activities | | |
|---|---|---|---|
| Year | Principal | Interest | Total Future Minimum Lease Payments |
| 2012 | $ 366,160 | $ 315,818 | $ 681,978 |
| 2013 | 374,631 | 298,817 | 673,448 |
| 2014 | 382,929 | 281,456 | 664,385 |
| 2015 | 390,700 | 263,555 | 654,255 |
| 2016 | 397,876 | 245,184 | 643,060 |
| 2017-2021 | 2,047,015 | 929,322 | 2,976,337 |
| 2022-2026 | 2,130,833 | 465,074 | 2,595,907 |
| 2027-2031 | 1,282,834 | 72,672 | 1,355,506 |

## Note 7: Operating Lease Obligations

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

Table 7.1
Operating Leases

| | |
|---|---|
| Lease & rental payments | $ 230,656 |
| Total lease & rental payments | $ 230,656 |

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

| Year Ending August 31, | Amount |
|---|---|
| 2012 | $ 184,524 |
| 2013 | 138,393 |
| 2014 | 92,262 |
| 2015 | 46,131 |
| 2016 | 23,065 |
| 2017-2021 | 11,532 |
| 2022-2026 | 5,769 |
| Total Minimum Future Lease Payments | $ 501,676 |

## Note 8: Interagency Balances/Activities

During the fiscal year there are numerous transactions between state agencies and entities. At year end, amounts to be received or paid are reported as:

1. Due - From Other Agencies or Due - To Other Agencies
2. Transfers In From Other Agencies or Transfers Out To Other Agencies
3. Legislative Transfers In and Legislative Transfers Out
4. UHS Transfers In and Out

The university experienced routine transfers with other State agencies, which were consistent with the activities of the fund making the transfer. Repayment of any state agencies balances occurs within one year from the date of the financial statement.

Individual balances and activity at August 31, 2011, are shown in the following tables.

**Table 8.1 - Due From/To Other Agencies**

| Enterprise (05) | Due From Other Agencies | Due To Other Agencies | Purpose |
|---|---|---|---|
| Appd Fund 9999, D23 Fund 7999 TAMU AgriLife,Agency 555, D23 Fund 7999 UH-Clear Lake | $ 17,952 | $ | Highland Bayou Watershed Project from Texas A&M AgriLife |
| Appd Fund 0015,D23 Fund 0015, Texas Commission Environmental Quality, Agency 582,D23 Fund 0015 UH-Clear Lake | 181,787 | | Recreational Use Attainability Analysis & Wetland Condition Assessments |
| Appd Fund 5015, D23 fund 5015, Texas Motor Vehicle, Agency 608, D23 Fund 5015 UH-Clear Lake | 57 | | Scholarship with License Plate Insignia Revenue |
| Appd Fund 9999, D23 Fund 7999, TAMU, Agency 711, D23 Fund 7999 UH-Clear Lake | 5,615 | | Sea Grant on population and demographics of the Texas Diamondback Terrapin. |
| Appd Fund 9999, D23 Fund 7999, University of Texas at Austin, Agency 721, D23 Fund 7999 UH-Clear Lake | 8,824 | | Math and Science Partnership |
| Appd Fund 9999, D23 Fund 7999, University of Houston Main Campus, Agency 730, D23 Fund 7999 UH-Clear Lake | 8,945 | | Ecological Momentary Assessment Teacher Stress Study |
| Appd Fund 0001, D23 Fund 0001, Texas Higher Education Coordinating Board, Agency 781, D23 Fund 0001 UH-Clear Lake | 4,341 | 5,844 | Teacher Quality Grant Program. College Connection Grant & State wide Data System Grant. |
| Appd Fund 0002, D23 Fund 0002, Texas Higher Education Coordinating Board, Agency 781, D23 Fund 0002 UH-Clear Lake | | 1,500 | College Access Challenge Grant |
| Appd Fund 0951, D23 Fund 0951, Texas Parks and Wildlife Department, Agency 802, D23 Fund 0951 UH-Clear Lake | 4,094 | | Study of blue crab population using ecopath with ecoism |
| Total Due From and To Other Agencies | $ 231,615 | $ 7,344 | |

**Table 8.2 - Transfers In and Out**

| Enterprise (05) | Transfers In | Transfers Out | Purpose |
|---|---|---|---|
| Appd Fund 5103, D23 Fund 510, Texas Higher Education Coordinating Board, Agency 781, D23 Fund 5103<br>UH-Clear Lake | $ | $ 172,292 | §56.465 TEX. Educ.Code Annot.Sub Ch Q (B-on-Time |
| Total Transfers | $ 0 | $ 172,292 | |

**Table 8.3 - Legislative Transfers In and Out**

| General Revenue (01) | Legislative Transfers In | Legislative Transfers Out | Purpose |
|---|---|---|---|
| Appd Fund 001, D23 Fund 001, University of Houston Main, Agency 730, D23 Fund 001 UH Clear Lake | $ 73,146 | $ 102,029 | Shared Appropriation approved by the UH Board of Regents |
| Total Legislative Transfers | $ 73,146 | $ 102,029 | |

**Table 8.4 – UHS Transfers In and Out**

| Inter-Campus | UHS Transfers In | UHS Transfers Out | Purpose |
|---|---|---|---|
| University of Houston Main, Agency 730, UH Clear Lake | $ 97,182 | $ 95,622 | Matching fund transfer, advancement assessment fee and fundraising support |
| Total Legislative Transfers | $ 97,182 | $ 95,622 | |

## Note 9: Contingent Liabilities

As mentioned in Note 4, various claims and judgments 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.

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.

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

## Note 10: Risk Financing and Related Insurance

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 university's claims liabilities during fiscal 2010 and 2011 were:

Table 10.1 - Balances of Claims Activity

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| 2010 | $ 0 | $ 185,509 | $ 185,509 | $ 0 |
| 2011 | $ 0 | $ 207,512 | $ 185,577 | $ 21,935 |

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 11: Subsequent Events

The Board of Regents authorized additional Consolidated Revenue and Refunding Bonds to be issued during the 2012 fiscal year in a par amount not to exceed $315,000,000. The Series 2011-A bonds are for the purpose of financing various construction and renovation projects within the UH System including projects for the University of Houston, as well as projects for UH – Victoria. The Series 2011-B bonds are for the purpose of refunding certain outstanding Series 2002-A Consolidated Revenue and Refunding Bonds.

As of the date this report was issued, there have been no additional events since August 31, 2011 that had a significant financial impact and require disclosure.

## Note 12: Related Parties

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

**University of Houston Foundation**
The stated purpose of the University of Houston Foundation is for the advancement of the general welfare of the University of Houston, Houston, Texas, as a whole, including, without limitation, all of the colleges and branches or divisions, thereof, wheresoever located, as well as all of the facilities and activities thereof now or hereafter existing or created, not inconsistent with the objectives, operation and management of the University of Houston. The Foundation's Board of Trustees consists of nine members. The Foundation remitted $6,000 of direct support and $1,550 of indirect support to the University of Houston – Clear Lake during the year ended August 31, 2011.

**Privatized Student Housing Facilities**
Several student housing facility projects have been constructed by private external entities in order to enhance the residential life experience of students at various System campuses. The participating entities have financed and constructed housing complexes on System owned property adjacent to the university campus. These facilities are operated under grounded leases and management agreements with the System for extended time periods. Under the terms of the agreements, cash revenues from rental income, net of operating expenses, are shared with the University. Repayment of project financing is serviced from revenues generated by the housing projects, and is the sole responsibility of the external entity. The related loans and bonds are not liabilities of the System or component universities. Century Development operates the University Forest project at the University of Houston-Clear Lake.

**NOTE 13: 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.

**NOTE 14: Employee Retirement Plans**
The State of Texas has joint contributory retirement plans for substantially all of its employees. One of the primary plans in which the University participates is administered by the Teacher Retirement System of Texas (Retirement System). The contributory percentages currently provided by the State and by each participant, for the 2011 fiscal year are 6.644 percent and 6.4 percent respectively, of annual compensation.

The Retirement System does not separately account for each of its component government agencies because the Retirement System itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. According to an independent actuarial valuation as of August 31, 2011, the present value of the Retirement System's actual and projected liabilities, including projected benefits payable to its retirees and active members and their beneficiaries, was more than the actuarial valuation of retirement System assets. However, the actuary projected that such assets augmented by projected future contributions and earnings, would be sufficient to amortize the unfunded difference over a period of 30 years. Further information regarding actuarial assumptions and

conclusions, together with audited financial statements, are included in the Retirement System's annual financial report.

The State has also established an Optional Retirement Program for institutions of higher education. Participation in the Optional Retirement Program is in lieu of participation in the Retirement System. The Optional Retirement Program provides for the purchase of annuity contracts and mutual funds. The contributory percentages of participant salaries provided by the State and by each participant enrolled in the plan on or before August 31, 1995, are 8.5 percent and 6.65 percent, respectively. The 8.5 percent is composed of 6.0 percent contributed by the State and an additional 2.5 percent contributed by the University. For participants who enrolled after September 1, 1995, State and participant contributions are 6.0 percent and 6.65 percent, respectively. Because these are individual annuity contracts, the State has no additional or unfunded liability for this program, and the University bears no responsibility for retirement commitments beyond contributions. The contributory percentages of participant salaries provided by the State and by each participant enrolled in the plan on or before August 31, 1995, will continue to be 8.5 percent and 6.65 percent, respectively. The 8.5 percent will be composed of 6.58 percent contributed by the State and an additional 1.92 percent contributed by the University. For participants who enrolled after September 1, 1995, State and participant contributions will be 6.58 percent and 6.65 percent, respectively.

The retirement expense to the University was $2,938,913 for the year ended August 31, 2011. Of this amount, $1,590,562 represents the portion of appropriations made by the State Legislature expended on behalf of the University and $1,348,351 represents the portion paid from the University's funds.

The contributions made by plan members and employers for the fiscal year ended August 31, 2011 are:

| | TRS Participants | ORP Participants | Total Contributions |
|---|---|---|---|
| Member Contributions | $ 1,277,092 | $ 1,404,168 | $ 2,681,260 |
| Employer Contributions | $ 1,308,975 | $ 1,629,938 | $ 2,938,913 |
| Total | $ 2,586,067 | $ 3,034,106 | $ 5,620,173 |

**NOTE 15: Deferred Compensation Program**

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 these plans do not belong to the state. The state has no liability related to these plans.

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.

The University also administers a Tax-Deferred Account Program, created in accordance with Internal Revenue Code, Section 403(b). All employees are eligible to participate. The Tax-Deferred Account Program is a private plan, and the deductions, purchased investments, and earnings attributed to each employee's 403(b) plan are held by vendors chosen by the employee. The vendors may be insurance companies, banks, or approved non-bank trustees such as mutual fund companies. The assets of this plan do not belong to the University, and thus it does not have a liability related to this plan.

## Note 16: Donor Restricted Endowments

Expenditure of endowed funds is not permitted without the express consent of the donor. The majority of the University'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. Chapter 163 of the Texas Property Code (also cited as the Uniform Prudent Management of Institutional Funds Act) grants the University the authority to spend net appreciation.

The Regents of the University of Houston 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 is available for authorization and expenditure by the System.

**Table 16 - Net Appreciation of Endowments**

| Donor-Restricted Endowments | Amount of Net Appreciation/(Depreciation) | Reported in Net Assets |
|---|---|---|
| True Endowments | $ 166,185 | Restricted Expendable |
| Total | $ 166,185 | |

(A fair value increase of $547,418 was recognized for endowments at or above historical cost. A fair value increase of $743,544 was recognized for endowments below historical cost.)

## Note 17: Post-Employment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provided certain health and life insurance benefits for retired employees, in accordance with state statutes. Substantially all of the employees may become eligible for the health and life insurance benefits if they reach normal retirement age while working for the State. Currently, there are 177 University retirees who are eligible for these benefits. Similar benefits for active employees are provided through a self-funded plan and fully insured plans. Depending upon the status of the employee at the time of retirement, the State or the University recognizes the cost of providing these benefits. The cost of retiree post-employment benefits is recognized when paid. This contribution paid all of the "employee/retiree only" premiums and a portion of the premiums for those employees/retirees selecting dependent coverage. The employee/retiree was required to pay a portion of the cost of dependent coverage. For the fiscal year ended August 31, 2011, the cost of providing those benefits for the retirees was $993,377 for the State.

## Note 18: Disaggregation of Receivable Balances

Balances of receivables reported on the Statement of Net Assets 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.

### Federal Receivable

Balances by category type for Federal Receivable are shown in Table 18.1.

**Table 18.1 - Federal Receivables**

| Federal Receivable Program | Net Receivable |
|---|---|
| Department of Agriculture | $ 8,749 |
| Department of Commerce | 5,615 |
| Department of Education | 3,758,802 |
| Department of Health and Human Services | 23,456 |
| Department of Housing and Urban Development | 31,558 |
| Department of the Interior | 5,051 |
| Environmental Protection Agency | 194,733 |
| National Aeronautics and Space Administration | 127,255 |
| National Foundation of the Arts and Humanities | 62,949 |
| National Science Foundation | 21,532 |
| Total Net Federal Receivable | $ 4,239,700 |
| | |
| As Reported on the Financial Statements: | |
| Current Federal Receivable | $ 4,239,700 |
| Total Net Federal Receivable | $ 4,239,700 |

**Supplemental Information**
The University of Houston – Clear Lake
**Schedule of Changes in Unrestricted Net Assets**
For the Fiscal Year Ended August 31, 2011

| | 8/31/2011 | 8/31/2010 | Difference |
|---|---|---|---|
| Reserved | | | |
| Encumbrances | $ 655,479 | $ 2,258,780 | $(1,603,301) |
| Accounts Receivable | 6,222,540 | 6,339,069 | (116,529) |
| Inventories | 15,454 | 12,909 | 2,545 |
| Self-Insurance Plans | 635,663 | 684,461 | (48,798) |
| Higher Education Assistance Funds | 3,731,574 | 3,929,013 | (197,439) |
| Fees with Use Restricted by Statute: | | | |
| Student Service Fees (54.503) | 742,238 | 428,730 | 313,508 |
| University Center Fee (54.527) | 109,079 | 66,244 | 42,835 |
| Prepaid Expenses | 1,883,390 | 1,975,185 | (91,795) |
| Deferred Charges | 526,759 | 561,617 | (34,858) |
| Petty Cash | 25,500 | 25,400 | 100 |
| Texas Public Education Grants | 46,992 | 54,088 | (7,096) |
| Unreserved | | | |
| Allocated | | | |
| Future Operating Budgets | 2,022,468 | 931,918 | 1,090,550 |
| Service Department Operating Funds | 175,401 | 213,266 | (37,865) |
| Auxiliary Enterprises Operating Funds | 1,797,425 | 1,833,610 | (36,185) |
| Funds Functioning as Endowment - Unrestricted | 1,729,269 | 1,328,705 | 400,564 |
| Funds Functioning as Loans | 61,870 | 24,297 | 37,573 |
| Student Fees | 4,402,887 | 4,013,856 | 389,031 |
| Unallocated | 12,677,896 | 5,228,495 | 7,449,401 |
| Total Unrestricted Net Assets | $ 37,461,884 | $ 29,909,643 | $ 7,552,241 |

State Auditor's Office
John Keel, CPA
State Auditor

February 13, 2012

Dr. William A. Staples, President
The University of Houston – Clear Lake
Office of the President
2700 Bay Area Blvd,
Office: B2521, Box 43
Houston, TX 77058

Subject: Management Letter Resulting from a Review of the University of Houston - Clear Lake's Fiscal Year 2011 Financial Statements

Dear Dr. Staples:

We offer this management letter in conjunction with our review of the financial statements of the University of Houston – Clear Lake (University) for the fiscal year ended August 31, 2011, on which we have issued our report dated February 13, 2012. We reviewed the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. In the course of our review, which was substantially less in scope than an audit, we did not find that material modifications needed to be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

We appreciate the assistance provided during this review by the management of the University and Internal Audit. If you have any questions, please call me at (512) 936-9500.

Sincerely,

Sandra Vice, CIA, CGAP, CISA
Assistant State Auditor

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