

ANNUAL FINANCIAL REPORT

UHDTM

University of Houston
DOWNTOWN



YEAR ENDED AUGUST 31, 2025



University of Houston-Downtown®

**Annual Financial Report and Independent Accountant's Review
Report**

For the Year Ended August 31, 2025

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**University of Houston - Downtown
Organizational Data**

Board of Regents

| | |
|-----------------------------------|------------------------------|
| Durga D. Agrawal, Houston | Term Expires August 31, 2025 |
| Alonzo Cantu, McAllen | Term Expires August 31, 2025 |
| Beth Madison, Houston | Term Expires August 31, 2027 |
| Ricky Raven, Sugarland | Term Expires August 31, 2027 |
| Jack B. Moore, Houston | Term Expires August 31, 2029 |
| Tammy D. Murphy, Victoria | Term Expires August 31, 2029 |
| Gregory C. King, San Antonio | Term Expires August 31, 2029 |
| Adrian Caraves (Student), Houston | Term Expires May 31, 2026 |

Officers of the Board (Fiscal Year 2025):

| | |
|--------------------|-----------------------------------|
| Tilman J. Fertitta | Chairman (Resigned 04/28/25) |
| John McCall Jr. | Vice Chairman (Resigned 06/03/25) |
| Gregory C. King | Secretary |

Officers of the Board (Fiscal Year 2026)

| | |
|-----------------|---------------|
| Jack B. Moore | Chairman |
| Ricky Raven | Vice Chairman |
| Gregory C. King | Secretary |

Administrative Officers

| | |
|---------------------|---|
| Renu Khator | Chancellor |
| Diane Z. Chase | Senior Vice Chancellor for Academic Affairs |
| Raymond S. Bartlett | Senior Vice Chancellor for Administration and Finance |
| Claudia Neuhauser | Vice Chancellor for Research |
| Dona H. Cornell | Vice Chancellor for Legal Affairs and General Counsel |
| Russell Dunlavy | Vice Chancellor for University Advancement |
| Paul R. Kittle | Vice Chancellor for Student Affairs |
| Jason Smith | Vice Chancellor for Government and Relations |
| Lisa K. Holdeman | Vice Chancellor for Marketing and Communications |

UHD Administrative Officers

| | |
|---------------------|---|
| Loren J. Blanchard | President |
| Deborah E. Bordelon | Senior Vice President for Academic Affairs and Provost |
| Kimberly Thomas | Vice President for Administration and Finance |
| Daniel M. Maxwell | Vice President for Student Success and Student Life |
| Long Huynh | Vice President for Enrollment Management |
| Carole Clerie | Vice President for Human Resources |
| Javier Zambrano | Vice President for Advanced and University Relations |

**University of Houston - Downtown
Organizational Data (Continued)**

UHD General Accounting

Theresa Meneley
Maria Cadena
Tiffany Luong
Tanisha Wilson

Assistant Vice President for Business Affairs
Director, General Accounting and Financial Reporting
Associate Director, Accounting
Associate Director, Business Affairs

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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

We have reviewed the accompanying financial statements of University of Houston Downtown (UHD), an agency of the State of Texas (the "State"), which comprise the Statement of Net Position as of August 31, 2025, and the related Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company 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's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of UHD and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

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 accordance with accounting principles generally accepted in the United States of America.

(Continued)

Emphasis of Matter

While the results of our review are not modified with respect to this matter, the financial statements of UHD are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the State that are attributable to the transactions of UHD, as discussed in Note 1. Transactions associated with bonds, pensions, and other postemployment benefits related to UHD's activities in the name of the University of Houston System (UHS) are reported by UHS and not UHD. The financial statements do not purport to, and do not, present fairly the financial position of the State or UHS as of August 31, 2025, or the changes in financial position, or, where applicable, cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

UHD's financial statements for the year ended August 31, 2024, previously issued by management, were not audited or reviewed by an independent accountant. As discussed in Note 14 to the financial statements, management subsequently identified errors in those financial statements related to disposal of an asset. UHD has restated those financial statements to correct capital assets as discussed in Note 14. Our conclusion is not modified with respect to this matter.

Other Matters

Prior Year Comparative Amounts

UHD has elected to present prior year comparative amounts on its financial statements, but related disclosures are not included related to the prior year comparative amounts and, accordingly, the financial statements are not intended to be complete comparative financial statements. We were not engaged to review the financial statements for the year ended August 31, 2024 and, accordingly, take no responsibility for them. However, in performing our procedures, nothing came to our attention which would indicate that the comparative financial amounts were not fairly presented.

Required Supplementary Information and Additional Supplementary Information.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 to 13 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 for placing the basic financial statements in an appropriate operational, economic, or historical context. The information is the responsibility of management. We did not perform a compilation, review, or audit on the required supplementary information and do not express an opinion or provide any assurance on the information.

The Organizational Data and the Matrix of Operating Expenses are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information is the responsibility of management. We have not audited or reviewed such information and we do not express an opinion, a conclusion, nor provide any assurance on it.

Crowe LLP
Crowe LLP

Houston, Texas
January 9, 2026

University of Houston-Downtown Management’s Discussion and Analysis

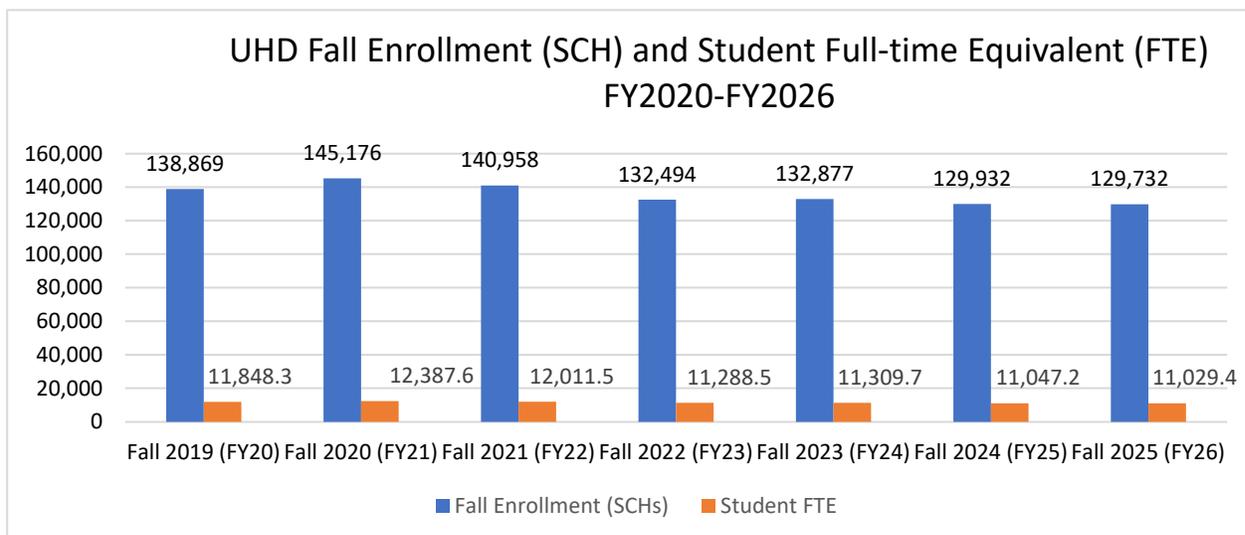
Introduction

The following Management’s Discussion and Analysis (MD&A) section of the University of Houston-Downtown’s (UHD) annual financial report has been prepared to provide an overview of the activities and the financial performance of UHD for the fiscal year ended August 31, 2025. 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 UHD’s basic financial statements and the notes to the statements.

Background

The University of Houston-Downtown (UHD) began in 1974 when the University of Houston acquired the assets of South Texas Junior College and opened the University of Houston-Downtown College (UHDC) as a four-year institution. By the 1970s, the Texas Legislature had approved UHDC as one of the four universities in the University of Houston System. In the 1980s, "College" was dropped from the name, and by the 1990s, UHD was the third fastest growing university in the state.

UHD is an urban university located in Houston's central business district. The University draws students from throughout the Houston area, central Texas, and the nation. UHD is one of the most ethnically diverse liberal arts institutions in the southwest, and the student body accurately reflects our community's wealth of cultures, languages, and ethnicities. UHD’s diversity is also reflected in the variety of backgrounds of our students including many first-generation college students. In Fall 2024, UHD had a total enrollment of 13,730 (12,622 undergraduates and 1,108 graduate students). Overall, 62.1% of UHD’s students are female.



Source: Fall 2024 and Fall 2023 Certified Fact Sheets, Office of Data Analytics Institutional Research

Semester Credit Hours (SCH)

Student Full-time Equivalent (FTE)

Enrollment Trend

In the years leading up to the COVID-19 pandemic, the University of Houston–Downtown (UHD) experienced steady enrollment and academic activity. In Fall 2019, UHD recorded 138,869 student credit hours (SCH) and a headcount of 11,843, reflecting strong demand for courses and a stable student population across its academic programs.

When the pandemic struck in 2020, UHD like many institutions nationwide faced significant operational and instructional challenges. Despite these disruptions, enrollment patterns at UHD initially moved in a surprising direction. In Fall 2020, the first full semester under pandemic conditions, UHD saw an increase to 145,175 SCH and 12,876 students, marking the highest levels in the period observed. This growth was consistent with national trends in which many students sought additional education or returned to school during economic uncertainty.

By Fall 2021, as the pandemic's immediate shock began to settle and institutions transitioned gradually back to hybrid and in-person formats, UHD's numbers began to recalibrate. SCH decreased slightly to 140,958, and headcount fell to 12,011 a decline from the 2020 peak but still above pre-pandemic levels, suggesting continued student persistence even as conditions changed.

The post-pandemic years, beginning in Fall 2022, show a more pronounced shift. UHD's SCH dropped to 132,494, accompanied by a headcount decline to 11,288, falling below pre-pandemic levels. This trend continued into Fall 2023 with 132,877 SCH and 11,309 students, indicating stabilization but no return to earlier highs. By Fall 2024, SCH declined further to 129,932, and headcount dipped to 11,047, followed by a similar pattern in Fall 2025 with 129,732 SCH and 11,029 students.

Overall, UHD's enrollment trajectory shows a clear arc: a stable pre-pandemic baseline, a temporary but significant enrollment surge during the pandemic, and a gradual decline in the years that followed. Post-pandemic enrollment levels have not yet returned to their earlier strength, reflecting broader demographic, economic, and behavioral shifts affecting higher education nationwide. The persistence of SCH and headcount figures that remain relatively close year-to-year after 2022 suggests a new period of stabilization in which UHD may build strategies for renewed growth.

Overview of the Financial Statements

The financial statements for fiscal year 2025 have been prepared in accordance with accounting pronouncements promulgated by the Governmental Accounting Standards Board (GASB). 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. The information contained in the financial statements of UHD is part of and included in the State of Texas Annual Comprehensive Financial Report.

The financial statements of UHD are presented for the fiscal year ended August 31, 2025, with financial data for the fiscal year ended August 31, 2024, provided for comparative purposes. Prior year totals have been

reclassified, when necessary, to reflect current year changes in reporting procedures and to enhance comparability of reported totals. The financial operations of UHD are considered a business-type activity because UHD 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, UHD'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 schedule presented is the Statement of Net Position. This statement represents UHD'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, 2025. Comparative data for the previous fiscal year has also been presented as of August 31, 2024. Assets and liabilities are presented as either current or non-current to provide an indication of their anticipated liquidation. Net position is equal to total assets less total liabilities. Net position is divided into three major categories. The first, invested in capital assets, net of related debt, provides UHD's equity in property, plant, and equipment owned by UHD. The restricted net position category is subdivided into non-expendable and expendable classifications. Restricted non-expendable net position consists solely of UHD's permanent endowment funds and is only available for investment purposes. Restricted expendable net position is available for expenditure by UHD 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 UHD for any lawful purpose.

Condensed Statement of Net Position

| | 2024 | 2025 | Increase/ (Decrease) |
|--------------------------|------------------------------|------------------------------|-------------------------------|
| Assets | | | |
| Current Assets | \$137,555,662.71 | \$136,730,986.44 | (824,676.27) |
| Non-Current Assets: | | | |
| Capital Assets, Net | 225,304,986.12 | 222,567,387.97 | (2,737,598.15) |
| Other Assets | 96,353,105.11 | 94,557,135.14 | (1,795,969.97) |
| Total Assets | <u>459,213,753.94</u> | <u>453,855,509.55</u> | <u>(5,358,244.39)</u> |
| Liabilities | | | |
| Current Liabilities | 89,510,633.50 | 87,696,305.26 | (1,814,328.24) |
| Non-Current Liabilities | 146,355,364.62 | 135,651,865.28 | (10,703,499.34) |
| Total Liabilities | <u>235,865,998.12</u> | <u>223,348,170.54</u> | <u>(12,517,827.58)</u> |

Condensed Statement of Net Position (Continued)

| | 2024 | 2025 | Increase/ (Decrease) |
|---|------------------------------|------------------------------|----------------------------|
| Net Position | | | |
| Invested in Capital Assets, Net of Related Debt | 114,238,871.32 | 115,740,735.64 | 1,501,864.32 |
| Restricted for Debt Retirement & Capital Projects | 2,888.00 | 524,813.00 | 521,925.00 |
| Restricted, Non-Expendable | 36,051,660.48 | 38,730,804.73 | 2,679,144.25 |
| Restricted, Expendable | 2,799,561.32 | 1,426,119.44 | (1,373,441.88) |
| Unrestricted | 58,147,284.51 | 60,242,338.20 | 2,095,053.69 |
| Other | 12,107,490.19 | 13,842,528.00 | 1,735,037.81 |
| Total Net Position | <u>223,347,755.82</u> | <u>230,507,339.01</u> | <u>7,159,583.19</u> |

**University of Houston- Downtown
Statement of Change**

| | 2024 | 2025 |
|--|-------------------------|-------------------------|
| Operating Revenue: | | |
| Tuition and Fees-Pledged- Including Discounts and Allowances | \$ 74,613,308.24 | \$ 52,944,433.18 |
| PR-OP Grants/Contributions | 12,001,616.15 | 19,890,646.05 |
| Other Sales of Goods and Services-Pledged-Including Discounts and Allowances | 2,543,109.96 | 1,971,154.16 |
| Auxiliary Enterprise-Pledged | 1,625,911.39 | 2,121,427.07 |
| Total Operating Revenue | <u>90,783,945.74</u> | <u>76,927,660.46</u> |
| Total Operating Expenses | <u>(198,537,259.21)</u> | <u>(186,736,511.08)</u> |
| Operating Loss | <u>(107,753,313.47)</u> | <u>(109,808,850.62)</u> |
| Non-Operating Revenues (Expenses): | | |
| Legislative Revenue (GR) | 28,558,470.00 | 28,526,316.00 |
| Additional Appropriations (GR) | 8,023,697.63 | 8,008,493.49 |
| Federal Revenue Non-Operating (PR-OP Grants/Contributions) | 45,106,470.24 | 50,315,789.47 |
| Gifts (PR-OP Grants/Contributions) | 1,104,565.76 | 4,763,595.79 |
| Other Nonoperating Revenues | 1,613,278.46 | 222,529.82 |
| Interest and Investment Income (PR-Chgs for Services) | 6,345,610.06 | 7,113,623.01 |
| Net Incr (Decr) in Fair Value of Investments (PR-OP Grants/Contrib) | 3,722,018.66 | 760,861.52 |
| Interest Expense and Fiscal Charges | (5,431,995.90) | (5,004,834.73) |
| Total Non-Operating Revenue | <u>89,042,114.91</u> | <u>94,706,374.37</u> |
| (Loss) Before Capital Contributions, Additions to Endowments, Transfers, and Other Revenue | (18,711,198.56) | (15,102,476.25) |

**University of Houston- Downtown
Statement of Change (Continued)**

| | 2024 | 2025 |
|--|---------------------------------|---------------------------------|
| Capital Contributions, Additions to Endowments, Transfers, and Other Revenue | | |
| Capital Appropriation (HEAF) | 11,155,034.00 | 11,155,034.00 |
| Additions to Permanent and Term Endowments | 1,086,339.09 | 1,047,557.77 |
| Transfers In | 9,900,951.91 | 10,198,695.14 |
| Transfers Out | (429,404.67) | (464,953.67) |
| Legislative Transfers-In | 428,765.00 | 421,416.00 |
| Increase in Net Position | <u>3,430,486.77</u> | <u>7,255,272.99</u> |
| Net Position, Beginning of Year | 219,917,269.05 | 223,347,755.82 |
| Restatements | - | (95,689.80) |
| Net Position, Beginning of Year, Restated | <u>219,917,269.05</u> | <u>223,252,066.02</u> |
| Net Position, End of Year | <u>\$ 223,347,755.82</u> | <u>\$ 230,507,339.01</u> |

See Independent Accountant's Review Report and Notes to Financial Statements.

Unrestricted Net Position Exclusive of Plant (UNAEP)

When evaluating Unrestricted Net Position analysis will often make certain adjustments to Unrestricted Net Position to determine operational resources available to carry out institutional goals. This benchmark is often described using a previous acronym UNAEP. Typically, adjustments include removing compensated absences (current and non-current), OPEB liabilities, and pension liabilities, if applicable. As indicated by the favorable pattern of UNAEP from 2019 to 2025, UHD has adequate unrestricted resources amounting to \$65,311,075 at August 31, 2025. Furthermore, the net change in UNAEP reveals that the changes in the compensated absences over the same period were not significant; and thereby had minimal impact to unrestricted resources.

Analysis will compare UNAEP to operating expenses to determine how the institution compares to an industry standard strong reserve benchmark of 25%. UHD monitors its UNAEP and its ratio to expenses is more than the 25% benchmark from 2020 to 2025, UHD continues to invest heavily in the development of UHD operations. UHD as part of the UH System and the State of Texas has additional resources to rely upon in an emergency but continues to maintain reserves in conjunction with its development plans.

| Unrestricted Net Assets, Excluding Plant (UNAEP) | | | | | | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
| Unrestricted Net Position | \$41,577,620.55 | \$69,051,053.19 | \$72,199,719.80 | \$60,064,055.49 | \$58,147,284.51 | \$60,242,338.20 |
| (Add) Employees' Compensable Leave | 4,193,698.93 | 4,503,556.56 | 4,176,206.73 | 4,318,296.75 | 4,502,601.84 | 5,068,737.11 |
| Unrestricted Net Assets, Excluding Plant (UNAEP) | 45,771,319.48 | 73,554,609.75 | 76,375,926.53 | 64,382,352.24 | 62,649,886.35 | 65,311,075.31 |
| Operating Expenses | \$174,146,805.64 | \$184,409,459.72 | \$198,258,525.82 | \$198,715,297.78 | \$198,537,259.21 | \$186,736,511.08 |
| Ratio UNAEP to Operating Expenses | 26.28% | 39.89% | 38.52% | 32.40% | 31.56% | 34.97% |

Statement of Revenues, Expenses, and Changes in Net Position

The next statement comprising the primary financial statements is the Statement of Revenues, Expenses, and Changes in Net Position. This statement identifies operating and non-operating revenues received by UHD. Additionally, both the operating and non-operating expenses incurred by UHD 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 UHD'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 UHD 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 UHD. Operating expenses are the costs necessary to provide services to customers and to fulfill the mission of UHD. 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. Non-operating revenues are those received for which no services are directly provided. State appropriations are classified as non-operating revenues because they are provided by the State Legislature to UHD without the State Legislature directly receiving goods or services for those revenues. Significant portions of UHD's recurring resources are classified as non-operating.

UHD's operating revenues decreased \$13.9 million largely due to the AR 2023-01. This new calculation methodology for tuition and fees discount estimation was adopted in fiscal 2025. The National Association of College and University Business Officers (NACUBO) issued this new guidance to highlight the capabilities of more modern student and financial systems and the ability of higher education institutions to execute more accurate methods of estimating tuition discounts. The new systems advancements have created the capacity for more accurate estimates using a methodology that reflects the financial aid process flow. The Discounts and Allowances and the Scholarships and Fellowships line items within the Statement of Revenues, Expenses, and Changes in Net Position are affected by the described change in methodology. There was also an increase in revenue from State Grant Pass Through Revenue. Operating expenses decreased \$11.8 million as a result AR 2023-01 change and an increase in the Professional Fees and Services expenditures. The operating expenses for the UHD Police Department, Mailroom, and Environmental Health and Safety department were reported in FY24 as Institutional Support. In FY25, these operating expenses were reported as Physical Plant.

Statement of Cash Flows

The third primary statement included in the financial statements is the Statement of Cash Flows. This statement 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 noncapital 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 provided or used to the operating loss or income reflected on the Statement of Revenues, Expenses, and Changes in Net Position. The cash and cash equivalents balance at the conclusion of the 2025 fiscal year totaled \$42.9 million, which reflected a net decrease in cash of \$13.3 million from the prior year due to a Direct Loan FY26 drawdown request in September (FY26).

Capital Assets

As fundamental as instruction and research are to UHD, these endeavors cannot take place without the land, buildings, facilities, equipment, and information technology infrastructure needed to support them. Sustaining these assets requires a significant investment in renovations, improvements, and maintenance. The steady enrollment experienced by UHD over the past decade, along with the current state of enrollment, has created the need for steady expansion of its capital assets to retain and recruit students. The goal of expending resources for these investments is achieving a safe, modern, and efficient campus environment that is conducive to learning, teaching, research, and community service. UHD continues to implement its long-range capital plans.

At the end of the 2025 fiscal year, UHD had \$222.6 million of capital assets, net of accumulated depreciation and amortization, compared to \$225.3 million at the end of the 2024 fiscal year, a decrease of \$2.7 million. These assets included land, buildings, infrastructure and improvements, furniture and equipment, library books, computer systems software, and works of art. The cumulative investment in major capital construction projects in various stages of completion is reported as construction in progress. As required by GASB reporting standards, UHD reports accumulated depreciation and amortization on its capital assets. Additionally, UHD recognizes a current year charge for depreciation and amortization expense.

Building on its strategic planning process, UHD has developed a campus master planning framework to identify facility needs aligned with enrollment and research projections, and consistent with the University's mission and academic master plans. During fiscal year 2025, UHD launched a major capital construction initiative under its "Vision 2050" campus master plan with the first phase of the \$45 million Gator Expansion Project. This initial phase includes relocating and renovating former library space to create the new Testing Service Center and Academic Support Center. The enhanced space expands UHD's capacity to serve students, providing improved access to testing services, tutoring, and academic resources.

Debt Administration

UHD engages in the prudent use of debt to finance capital projects, as a means of maximizing the management of financial and physical resources. A combination of variable and fixed rate debt, consistent with UHD's debt management policy, is maintained. UHD has sufficient debt capacity to finance planned capital improvements and facilities. Detailed information concerning UHD's long-term debt is found in the Notes to the Financial Statements. UHD is authorized by statute to issue long-term debt in the form of revenue bonds. Each series of revenue bonds issued is backed by a pledged revenue source specified in the bond resolution. Additionally, each issue is designed to be self-supporting from the primary revenue source. A portion of debt service is

funded by biennial state appropriations. At August 31, 2025, UHD had \$143 million of long-term bonded debt outstanding. No additional long-term debt was issued during the 2025 fiscal year.

Economic Outlook

The University of Houston–Downtown (UHD) continues to be recognized for its commitment to providing high-quality, affordable, and accessible education. With more than 71,000 alumni, UHD graduates are making a positive impact across their professions, communities, and spheres of influence. As a public regional institution, UHD plays a pivotal role in preparing students to address the challenges facing Houston, Texas, and the broader global community.

Like many public regional universities across the nation, UHD faced significant pressures during and after the COVID-19 pandemic pressures that reshaped enrollment patterns, student needs, and institutional operations. The pandemic's disproportionate impact on working adults, first-generation students, and underrepresented communities intensified challenges related to enrollment volatility, student persistence, and financial stability. However, UHD's mission-centered focus, community partnerships, and flexible academic programs have positioned the institution to emerge resiliently from this period.

UHD's primary sources of revenue tuition and fees and state appropriations were directly affected by pandemic-era enrollment declines. In the years since, recent enrollment growth and program expansion have contributed to a strengthened financial outlook. This recovery is supported by robust state and regional economic conditions and by UHD's targeted efforts to reengage stopped-out students, expand online and hybrid learning options, and enhance student support infrastructure.

Texas maintains one of the most robust economies in the nation, with a rapidly expanding tax base that strengthens the state's capacity to invest in public higher education. Texas continues to lead the United States in population growth, adding more than 560,000 new residents in 2024 and pushing the state's population beyond 31 million. The Houston metropolitan area is experiencing similar momentum and is projected to become the third-largest city in the country after the next census.

UHD has benefited directly from these demographic trends. Enrollment has not only stabilized but has recovered since FY2023, returning to pre-pandemic levels. As Houston's population expands, UHD is well positioned to serve increasing numbers of college-aged and working-aged adults seeking to upskill in a competitive labor market reshaped in part by the pandemic's long-term effects on workforce expectations and economic mobility. The region's economic expansion fuels demand for degrees that enhance earnings and resilience. UHD's downtown location, affordability, and strong ties to the Houston community make it particularly attractive to commuter students, adult learners, transfer students, and first-generation students. With strengthened recruitment strategies and enhanced student retention efforts developed during the post-COVID period, UHD anticipates continued enrollment growth over the next five years.

State funding expectations are likewise favorable. Texas' strong and growing tax base has supported increases in annual appropriations. During the 89th Legislative Session, UHD secured meaningful gains, including exceptional item funding for a crime center and a \$2.8 million increase in base formula funding driven by enrollment growth. UHD is also positioned to benefit from emerging statewide priorities that emphasize investments in workforce-aligned programs and from a future funding model that shifts from enrollment-

based allocations toward performance-based funding tied to student success outcomes-an evolution accelerated by post-COVID policy conversations about equity and economic competitiveness.

In addition to state support, UHD continues to cultivate strong partnerships with national and local businesses and philanthropic organizations to secure resources for student success initiatives, scholarships, and workforce development programs. Many of these collaborations emerged or expanded during the pandemic to address heightened student needs and have since evolved into long-term strategic investments.

Overall, UHD's economic outlook is highly promising. The combination of a strong Texas economy, significant population growth, and rising regional demand for higher education creates a environment for growth and stability. By strategically leveraging these trends, UHD is poised to expand its enrollment, strengthen its revenue base, and deepen its role as a driver of social mobility, workforce development, and economic resilience across the Greater Houston region.

CONTACTING UHD'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of UHD's finances. General information regarding UHD can be found at <https://www.uhd.edu>. Questions concerning this report or requests for additional financial information should be directed to:

Theresa Meneley, Associate Vice President for Business Affairs
University of Houston-Downtown
One Main Street
Houston, TX 77002
P: 713-221-8612
E-mail: meneleyt@uhd.edu

University of Houston- Downtown
Statement of Net Position

| | 2024 | 2025 |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and Cash Equivalents | | |
| Cash on Hand | \$ 20,450.00 | \$ 20,100.00 |
| Cash in Bank | 13,062,222.41 | 250,406.50 |
| Cash in Transit/Reimburse From Treasury | 3,192,115.77 | 2,675,000.70 |
| Cash in State Treasury | 2,053,295.14 | 2,084,722.49 |
| Cash Equivalents | 38,281,118.41 | 37,326,601.08 |
| Restricted: | | |
| Cash In Bank | 2,888.00 | 524,813.00 |
| Legislative Appropriation | 14,410,786.92 | 14,029,674.15 |
| Receivables: | | |
| Federal Receivables | 5,757,512.60 | 3,617,945.47 |
| UHS Intercampus Receivables | 31,103,234.85 | 32,612,183.98 |
| Accounts Receivable | 12,715,948.40 | 14,379,664.77 |
| Gifts | 2,223,138.89 | 469,026.37 |
| Other | 0.00 | 14,115,851.38 |
| Due From Other Agencies | 553,628.67 | 264,282.73 |
| Consumable Inventories | 28,821.14 | 19,324.77 |
| Prepaid Costs | 6,410,047.71 | 5,833,854.89 |
| Loans and Contracts | 7,740,453.80 | 8,507,534.16 |
| Total Current Assets | 137,555,662.71 | 136,730,986.44 |
| Non-Current Assets | | |
| Restricted: | | |
| Receivables | 404,653.62 | 2,250,414.88 |
| UHS Intercampus Receivables | 85,149,751.26 | 81,010,870.20 |
| Investments | 149,965.20 | 195,414.13 |
| UHS Intercampus Receivables | 10,648,735.03 | 11,100,435.93 |
| Capital Assets | | |
| Non-Depreciable or Non-Amortizable | 33,527,333.82 | 35,162,591.81 |
| Depreciable or Amortizable, Net | 190,245,995.92 | 186,067,008.03 |
| Right to Use Assets - Amortizable, Net | 1,191,964.85 | 501,410.45 |
| Right to Use Subscriptions - Amortizable, Net | 339,691.53 | 836,377.68 |
| Total Non-Current Assets | 321,658,091.23 | 317,124,523.11 |
| Total Assets | 459,213,753.94 | 453,855,509.55 |

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

| | 2024 | 2025 |
|---|-------------------------|-------------------------|
| LIABILITIES | | |
| Current Liabilities: | | |
| Payables: | | |
| Accounts Payable | 12,759,496.72 | 3,120,430.91 |
| Accrued Lease Interest Payable | 4,566.57 | 362.88 |
| Accrued Subscription Interest Payable | 5,516.90 | 7,927.29 |
| Federal Payable | 84,370.59 | 9,394.56 |
| Payroll Payable | 9,961,458.77 | 9,393,861.20 |
| UHS Intercampus Payable | 1,862,362.97 | 2,860,211.59 |
| Other Payable | 267,710.19 | 249,295.40 |
| Due to Other Agencies | 202,670.25 | 114,690.48 |
| Unearned Revenues | 51,251,598.38 | 54,164,292.29 |
| Revenue Bonds Payable | 9,954,907.76 | 10,404,907.76 |
| Claims and Judgments Payable | 66,193.42 | 67,034.51 |
| Employees' Compensable Leave | 2,268,861.07 | 2,787,439.48 |
| Right to Use Lease Obligations | 704,361.21 | 525,618.07 |
| Right to Use Subscription Obligations | 116,558.70 | 137,604.25 |
| Funds Held for Others | 0.00 | 3,853,234.59 |
| Total Current Liabilities | 89,510,633.50 | 87,696,305.26 |
| Non Current-Liabilities | | |
| Revenue Bonds Payable | 143,466,822.08 | 133,061,914.32 |
| Employees' Compensable Leave | 2,233,740.77 | 2,281,297.63 |
| Right to Use Lease Obligations | 525,618.13 | 0.46 |
| Right to Use Subscription Obligations | 129,183.64 | 308,652.87 |
| Total Non-Current Liabilities | 146,355,364.62 | 135,651,865.28 |
| Total Liabilities | 235,865,998.12 | 223,348,170.54 |
| NET POSITION | | |
| Invested in Capital Assets, Net of Related Debt | 114,238,871.32 | 115,740,735.64 |
| Restricted for: | | |
| Debt Retirement | | 521,925.00 |
| Capital Projects | 2,888.00 | 2,888.00 |
| Funds Held as Permanent Investments | | |
| Non-Expendable | | |
| True Endowments, Annuities | 36,051,660.48 | 38,730,804.73 |
| Expendable | | |
| Funds Functioning as Endowments | 2,799,561.32 | 1,426,119.44 |
| Other | 12,107,490.19 | 13,842,528.00 |
| Unrestricted | 58,147,284.51 | 60,242,338.20 |
| Total Net Position | \$223,347,755.82 | \$230,507,339.01 |

See Independent Accountant's Review Report and Notes to Financial Statements.

University of Houston- Downtown
Statement of Revenues, Expenses and Changes in Net Position

| | 2024 | 2025 |
|---|-------------------------|-------------------------|
| Operating Revenues | | |
| Sales of Goods and Services (PR-Chgs for Services) | | |
| Tuition and Fees-Pledged | \$ 111,685,755.44 | \$111,910,849.58 |
| Discounts and Allowances | (37,072,447.20) | (58,966,416.40) |
| Auxiliary Enterprise-Pledged | 2,433,763.44 | 2,121,427.07 |
| Discounts and Allowances | (807,852.05) | |
| Other Sales of Goods and Services-Pledged | 2,543,109.96 | 1,971,154.16 |
| Federal Revenue-Operating (PR-OP Grants/Contributions) | 4,329,257.36 | 4,580,427.25 |
| Federal Pass Through Revenue (PR-OP Grants/Contributions) | 875,788.96 | 95,936.69 |
| State Grant Revenue (PR-OP Grants/Contributions) | 308,797.29 | 325,979.76 |
| State Grant Pass Through Revenue (PR-OP Grants/Contributions) | 10,090,046.72 | 14,340,101.40 |
| Other Grants and Contracts-Operating (PR-OP Grants/Contributions) | (3,602,274.18) | 548,200.95 |
| Total Operating Revenues | 90,783,945.74 | 76,927,660.46 |
| Operating Expenses | | |
| Instruction | 57,756,839.89 | 57,940,010.76 |
| Research | 3,117,455.19 | 3,624,229.96 |
| Public Service | 3,068,147.47 | 3,077,493.68 |
| Academic Support | 30,238,825.08 | 31,201,369.99 |
| Student Services | 8,808,312.25 | 7,734,715.26 |
| Institutional Support | 32,695,843.41 | 26,838,394.56 |
| Physical Plant | 10,699,100.54 | 17,203,341.97 |
| Scholarships & Fellowships | 28,289,104.65 | 12,553,456.85 |
| Auxiliary Enterprises | 8,701,764.61 | 11,168,069.18 |
| Depreciation and Amortization | 15,161,866.12 | 15,395,428.87 |
| Total Operating Expenses | 198,537,259.21 | 186,736,511.08 |
| Operating Income (Loss) | (107,753,313.47) | (109,808,850.62) |
| Non-Operating Revenues (Expenses) | | |
| Legislative Revenue (GR) | 28,558,470.00 | 28,526,316.00 |
| Additional Appropriations (GR) | 8,023,697.63 | 8,008,493.49 |
| Federal Revenue Non-Operating (PR-OP Grants/Contributions) | 45,106,470.24 | 50,315,789.47 |
| Gifts (PR-OP Grants/Contributions) | 1,104,565.76 | 4,763,595.79 |
| Interest and Investment Income (PR-Chgs for Services) | 6,345,610.06 | 7,113,623.01 |
| Interest Expense and Fiscal Charges | (5,431,995.90) | (5,004,834.73) |
| Net Incr (Decr) in Fair Value of Investments (PR-OP Grants/Contrib) | 3,722,018.66 | 760,861.52 |
| Other Nonoperating Revenues | 1,450,618.47 | 1,698,153.76 |
| Other Nonoperating Expenses | 162,659.99 | (1,475,623.94) |
| Total Nonoperating Revenues (Expenses) | 89,042,114.91 | 94,706,374.37 |
| Income (Loss) before Other Revenues, Expenses, Gains, Losses and Transfers | (18,711,198.56) | (15,102,476.25) |

University of Houston- Downtown
Statement of Revenues, Expenses and Changes in Net Position
(Continued)

| | 2024 | 2025 |
|--|--------------------------|-------------------------|
| Other Revenues, Expenses, Gains, Losses and Transfers | | |
| Capital Appropriation (HEAF) | 11,155,034.00 | 11,155,034.00 |
| Additions to Permanent and Term Endowments | 1,086,339.09 | 1,047,557.77 |
| UHS Intercampus Transfers-In | 9,859,791.91 | 10,156,460.14 |
| UHS Intercampus Transfers-Out | (429,404.67) | (464,953.67) |
| Transfers-In | 41,160.00 | 42,235.00 |
| Legislative Transfers-In | 428,765.00 | 421,416.00 |
| <u>Total Other Rev, Exp, Gains, Losses and Transfers</u> | <u>22,141,685.33</u> | <u>22,357,749.24</u> |
| <u>Changes in Net Position</u> | <u>3,430,486.77</u> | <u>7,255,272.99</u> |
| Net Position Beginning | 219,917,269.05 | 223,347,755.82 |
| Restatements | | (95,689.80) |
| <u> Net Position Beginning, as Restated</u> | <u>219,917,269.05</u> | <u>223,252,066.02</u> |
| <u>Net Position, Ending</u> | <u>\$ 223,347,755.82</u> | <u>\$230,507,339.01</u> |

See Independent Accountant's Review Report and Notes to Financial Statements.

University of Houston - Downtown

Matrix of Operating Expenses

For the year ended August 31, 2025

| Operating Expenses | Instruction | Research | Public Service | Academic Support | Student Services | Institutional Support | Operation and Maintenance of Plant | Scholarships and Fellowships | Auxiliary Enterprises | Depreciation and Amortization | Total |
|---------------------------------|------------------------|-----------------------|-----------------------|------------------------|-----------------------|------------------------|------------------------------------|------------------------------|------------------------|-------------------------------|-------------------------|
| Cost of Goods Sold | - | - | - | - | - | - | - | - | - | - | - |
| Salaries and Wages | 44,451,371.45 | 1,533,200.20 | 1,214,555.56 | 18,705,253.98 | 4,578,298.68 | 12,192,416.28 | 5,947,806.49 | 118,043.32 | 5,307,783.63 | - | 94,048,729.59 |
| Payroll Related Costs | 11,615,801.41 | 375,390.64 | 328,139.00 | 5,427,774.02 | 1,445,451.34 | 3,545,513.49 | 2,385,120.86 | 0.00 | 1,598,171.50 | - | 26,721,362.26 |
| Professional Fees and Services | 485,887.44 | 946,508.95 | 696,160.60 | 2,067,263.04 | 750,163.62 | 5,159,963.03 | 5,056,562.04 | - | 2,428,734.39 | - | 17,591,243.11 |
| State Pass Through Expenses | - | 140,245.08 | - | - | - | - | - | - | - | - | 140,245.08 |
| Travel | 365,636.80 | 130,982.63 | 60,201.25 | 421,804.47 | 34,164.07 | 114,996.98 | 12,342.56 | - | 72,777.03 | - | 1,212,905.79 |
| Materials and Supplies | 408,888.42 | 265,981.25 | 225,679.64 | 1,569,557.31 | 109,568.35 | 1,113,128.58 | 568,630.83 | 814.05 | 239,604.36 | - | 4,501,852.79 |
| Communication and Utilities | 110,652.39 | 5,770.76 | 14,540.30 | 240,630.41 | 59,232.72 | 186,430.73 | 2,580,725.73 | - | 278,594.59 | - | 3,476,577.63 |
| Repairs and Maintenance | 2,716.68 | 1,945.94 | 14,440.60 | 46,255.06 | 10,891.86 | 689,684.03 | 577,030.66 | - | 118,034.46 | - | 1,460,999.29 |
| Rentals and Leases | 121,341.41 | 12,154.44 | 35,465.41 | 1,634,810.84 | 272,627.38 | 2,028,387.95 | 40,948.92 | - | 324,489.52 | - | 4,470,225.87 |
| Printing and Reproduction | 10,723.87 | 3,742.87 | 6,122.20 | 20,275.50 | 56,531.46 | 98,422.04 | 4,011.95 | - | 95,375.45 | - | 295,205.34 |
| Depreciation and Amortization | - | - | - | - | - | - | - | - | - | 15,395,428.87 | 15,395,428.87 |
| Interest | 969.31 | 2,011.69 | 474.79 | 9,443.10 | 154.52 | 3,556.57 | 2,008.50 | 58.16 | 2,859.42 | - | 21,536.06 |
| Scholarships | 4,607.41 | 25,598.17 | 556.79 | 87,120.92 | 43,007.22 | 398,802.81 | 121.37 | 12,375,078.32 | 30,936.75 | - | 12,965,829.76 |
| Claims and Judgments | - | - | - | - | - | 62,304.65 | - | - | 12,250.00 | - | 74,554.65 |
| Capital Expenditures | 0.00 | - | - | 0.00 | 0.00 | 0.00 | 0.00 | - | - | - | 0.00 |
| Other Operating Expenses | 361,414.17 | 180,697.34 | 481,157.54 | 971,181.34 | 374,624.04 | 1,244,787.42 | 28,032.06 | 59,463.00 | 658,458.08 | - | 4,359,814.99 |
| Total Operating Expenses | \$57,940,010.76 | \$3,624,229.96 | \$3,077,493.68 | \$31,201,369.99 | \$7,734,715.26 | \$26,838,394.56 | \$17,203,341.97 | \$12,553,456.85 | \$11,168,069.18 | \$15,395,428.87 | \$186,736,511.08 |

See Independent Accountant's Review Report and Notes to Financial Statements.

University of Houston - Downtown

Matrix of Operating Expenses (Continued)

Supplemental unreviewed information for the year ended August 31, 2024

| Operating Expenses | Instruction | Research | Public Service | Academic Support | Student Services | Institutional Support | Operation and Maintenance of Plant | | Scholarships and Fellowships | Auxiliary Enterprises | Depreciation and Amortization | Total |
|---------------------------------|------------------------|-----------------------|-----------------------|------------------------|-----------------------|------------------------|------------------------------------|------------------------|------------------------------|------------------------|-------------------------------|---------------|
| | | | | | | | | | | | | |
| Cost of Goods Sold | - | - | - | - | - | - | - | - | - | 449.59 | - | 449.59 |
| Salaries and Wages | 44,554,106.08 | 1,533,822.13 | 1,223,898.23 | 19,644,792.26 | 5,390,621.83 | 14,901,785.38 | 2,586,169.86 | 103,512.09 | 4,067,232.33 | - | - | 94,005,940.19 |
| Payroll Related Costs | 11,401,964.76 | 379,418.68 | 327,249.74 | 5,811,774.87 | 1,878,938.07 | 4,905,895.72 | 1,069,250.75 | 0.00 | 1,027,840.24 | - | - | 26,802,332.83 |
| Professional Fees and Services | 344,179.79 | 426,973.03 | 745,322.56 | 663,040.08 | 192,834.65 | 6,035,154.53 | 3,897,925.41 | - | 2,130,159.15 | - | - | 14,435,589.20 |
| State Pass Through Expenses | - | 216,415.74 | - | - | - | - | - | - | - | - | - | 216,415.74 |
| Travel | 461,933.10 | 134,792.74 | 65,459.08 | 364,160.78 | 60,160.66 | 77,704.82 | 20,825.74 | - | 74,897.53 | - | - | 1,259,934.45 |
| Materials and Supplies | 382,306.72 | 241,835.01 | 212,438.38 | 1,220,073.99 | 116,731.52 | 1,016,854.82 | 765,255.84 | 0.00 | 285,179.27 | - | - | 4,240,675.55 |
| Communication and Utilities | 132,068.93 | 14,671.36 | 14,926.86 | 244,311.95 | 97,800.10 | 270,075.39 | 1,926,008.57 | - | 257,209.63 | - | - | 2,957,072.79 |
| Repairs and Maintenance | 28,347.44 | 9,870.98 | 14,946.52 | 111,930.24 | 20,328.62 | 425,857.53 | 356,072.72 | - | 83,554.82 | - | - | 1,050,908.87 |
| Rentals and Leases | 99,075.07 | 12,421.10 | 24,469.59 | 1,169,900.01 | 259,800.68 | 2,155,775.52 | 34,214.63 | - | 179,590.60 | - | - | 3,935,247.20 |
| Printing and Reproduction | 20,917.09 | 5,581.28 | 6,090.64 | 19,809.42 | 114,758.87 | 69,896.69 | 3,595.09 | - | 58,086.12 | - | - | 298,735.20 |
| Depreciation and Amortization | - | - | - | - | - | - | - | - | - | 15,161,866.12 | - | 15,161,866.12 |
| Interest | 1,018.44 | 2,208.93 | 198.36 | 1,455.86 | 647.98 | 7,217.04 | 3,233.44 | 15.97 | 957.10 | - | - | 16,953.12 |
| Scholarships | 4,492.93 | 91,047.96 | 23,044.68 | 254,992.65 | 91,034.51 | 984,454.22 | 1,819.00 | 28,129,002.59 | 69,776.62 | - | - | 29,649,665.16 |
| Claims and Judgments | - | - | - | - | - | 55,983.65 | - | - | - | - | - | 55,983.65 |
| Capital Expenditures | 0.00 | 0.00 | - | 0.00 | 0.00 | 0.00 | 0.00 | - | 0.00 | - | - | 0.00 |
| Other Operating Expenses | 326,429.54 | 48,396.25 | 410,102.83 | 732,582.97 | 584,654.76 | 1,789,178.10 | 34,729.49 | 56,574.00 | 466,831.61 | - | - | 4,449,479.55 |
| Total Operating Expenses | \$57,756,839.89 | \$3,117,455.19 | \$3,068,147.47 | \$30,238,825.08 | \$9,808,312.25 | \$32,695,843.41 | \$10,699,100.54 | \$28,289,104.65 | \$8,701,764.61 | \$15,161,866.12 | \$198,537,259.21 | |

University of Houston-Downtown
Statement of Cash Flows

| | 2024 | 2025 |
|---|------------------------|-------------------------|
| Cash Flows From Operating Activities | | |
| Receipts from Customers | \$ 2,940,071.92 | \$ 1,366,549.66 |
| Proceeds from Tuition and Fees | 76,316,716.20 | 55,857,127.09 |
| Proceeds from Research Grants and Contracts | 28,006,322.85 | 20,668,079.18 |
| Proceeds from Loan Programs | 8,952,948.35 | 8,894,564.73 |
| Proceeds from Auxiliaries | 1,625,911.39 | 2,121,427.07 |
| Payments to Suppliers for Goods and Services | (22,088,330.35) | (42,082,594.53) |
| Payments to Employees for Salaries | (94,529,751.29) | (94,197,274.04) |
| Payments to Employees for Benefits | (26,618,027.74) | (26,155,226.99) |
| Payments for Loans Provided | (8,712,607.19) | (23,731,465.09) |
| Payments for Other Expenses | (34,135,836.35) | (13,324,523.97) |
| Net Cash Provided (Used) by Operating Activities | (68,242,582.21) | (110,583,336.89) |
| Cash Flows from Noncapital Financing Activities | | |
| Proceeds from State Appropriations | 47,217,951.18 | 48,492,372.26 |
| Proceeds from Gifts | 4,118,032.69 | 4,671,947.05 |
| Proceeds from Endowments | 1,086,339.09 | 1,047,557.77 |
| Proceeds of Transfers from Other Funds | 11,351,570.38 | 11,896,848.90 |
| Proceeds from Grants | 45,106,470.24 | 50,315,789.47 |
| Payments for Transfers to Other Funds | (266,744.68) | (1,940,577.61) |
| Net Cash Provided (Used) by Noncapital Financing Activities | 108,613,618.90 | 114,483,937.84 |
| Cash Flows from Capital and Related Financing Activities | | |
| Proceeds from Other Financing Activities | 107,312.92 | 22,608,588.21 |
| Payments for Additions to Capital Assets | (10,360,669.73) | (12,753,520.52) |
| Payments of Principal on Debt Issuance | (8,370,000.00) | (8,790,000.00) |
| Payments for Leases/SBITA | (733,965.39) | (704,360.81) |
| Payments of Interest on Debt Issuance | (5,431,995.90) | (5,004,834.73) |
| Payments of Other Costs on Debt Issuance | 568,702.51 | (17,606,472.76) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | (24,220,615.59) | (22,250,600.61) |
| Cash Flows From Investing Activities | | |
| Proceeds from Sales of Investments | 44,125.20 | 45,448.93 |
| Proceeds from Interest and Investment Income | 6,345,610.06 | 7,113,623.01 |
| Payments to Acquire Investments | (3,614,219.47) | (2,539,518.24) |
| Net Cash Provided (Used) by Investing Activities | 2,775,515.79 | 4,619,553.70 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 18,925,936.89 | (13,730,445.96) |
| Cash and Cash Equivalents, September 1 | 37,686,152.84 | 56,612,089.73 |
| Cash and Cash Equivalents, August 31 | \$ 56,612,089.73 | \$42,881,643.77 |

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

| | 2024 | 2025 |
|--|------------------------|-------------------------|
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | | |
| Operating Income (Loss) | (107,753,313.47) | (109,808,850.62) |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities | | |
| Depreciation and Amortization Expense | 15,161,866.12 | 15,395,428.87 |
| Operating Income and Cash Flow Categories: | | |
| Classification Differences | 240,341.16 | (767,080.36) |
| Changes in Assets and Liabilities: | | |
| (Increase) Decrease In Receivables | 16,321,706.95 | (13,640,000.62) |
| (Increase) Decrease in Inventories | 5,693.10 | 9,496.37 |
| (Increase) Decrease in Prepaid Expenses | (1,503,760.74) | 576,192.82 |
| (Increase) Decrease in Other Assets | (553,628.67) | 289,345.94 |
| Increase (Decrease) in Payables | 7,643,730.44 | (9,732,456.63) |
| Increase (Decrease) in Deferred Income | 1,703,407.96 | 2,912,693.91 |
| Increase (Decrease) in Compensated Absences | 184,305.09 | 566,135.27 |
| Increase (Decrease) in Benefits Payable | (523,811.10) | (148,544.45) |
| Increase (Decrease) in Other Liabilities | 830,880.95 | 3,764,302.61 |
| Total Adjustments | 39,510,731.26 | (774,486.27) |
| Net Cash Provided (Used) by Operating Activities | (68,242,582.21) | (110,583,336.89) |
| Non Cash Transactions | | |
| Net Change in Fair Value of Investments | 3,722,018.66 | 760,861.52 |
| Non Cash Transactions | \$ 3,722,018.66 | \$ 760,861.52 |

See Independent Accountant's Review Report and Notes to Financial Statements.

UNIVERSITY OF HOUSTON-DOWNTOWN NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: Summary of Significant Accounting Policies

Entity

These financial statements are for the reporting entity University of Houston – Downtown (UHD), which is an academic institution of the University of Houston System (UH System). UH System is an agency of the State of Texas (the State) and is reported as one of the university systems and independent universities that are presented as a major enterprise fund in the State of Texas' Comprehensive Annual Financial Report.

The UH System is comprised of four academic institutions, which includes the University of Houston (UH), University of Houston-Clear Lake (UHCL), University of Houston–Victoria (UHV), and University of Houston-Downtown (UHD). The academic entities are under the direction, management, and control of the UH System Board of Regents (the Board), which acts separately and independently on all matters. The Board consists of ten members, nine of whom are appointed by the governor of the State and a student regent elected by the student body. In some instances, shared services and management are provided for the entities by the UH System Administration (UHSA).

UH System serves the State as the primary provider of educational and cultural opportunities, skilled employers and leaders, technical knowledge, and innovative research to the Houston metropolitan area and the Gulf Coast region. Houston and the upper Gulf Coast region represent approximately one fourth of the State's population and economy. UHD is an urban university located in the central business district in Houston, Texas.

UH System and UHD have elected to define UHD's reporting entity to include only activities in UHD's name. UHD's proportional share of liabilities in the name of UH System is reported by UH System. Transactions associated with pensions, and other postemployment benefits related to UHD's activities in the name of UH System are not reported by UHD. However, UHD has elected to make limited disclosures with respect to these matters in Notes 9 and 11. The associated financial activities related to these items and required disclosures are made within UH System's Annual Financial Report.

The accounting policies followed by UHD in maintaining accounts and in the preparation of the financial statements are in accordance with the Texas Comptroller of Public Accounts' Reporting Requirement for the Annual Financial Reports of State Agencies and Universities (Comptroller's AFR requirements) and with generally accepted accounting principles in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments. The Comptroller's AFR Requirements are designed to assist the Texas Comptroller of Public Accounts in compiling and preparing a CAFR for the State and, accordingly, have some untraditional elements, such as the prohibition of rounding, unique ordering and specific numbering of footnotes, and the inclusion of footnote titles when the subject matter does not apply.

No entities have been identified meeting GASB's definition of component units, which are legally separate entities and, accordingly, none are included within the reporting entity. As previously noted, UHD is considered by the State as one of the academic entities that consist of the UH System, however, each entity is considered an agency of the State.

GASB Statements Implemented in Fiscal Year 2025

During the implementation of GASB 34/35, an allocation methodology was adopted to estimate the discount associated with student tuition and fees revenue. The allocation was based on pooled student refunds for the fiscal year. The use of refunds as the basis for the discount introduced non-discountable transactions into the calculation process, reducing the accuracy of estimates. Enterprise system advancements have created the capacity for more

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Notes to the Financial Statements

accurate estimates using a methodology that reflects the financial aid process flow. The new calculation methodology for tuition and fees discount estimation was adopted in FY25. The Discounts and Allowances, and the Scholarships and Fellowships line items within the Statement of Revenues, Expenses, and Changes in Net Position are affected by the described change in methodology.

GASB Statement No. 100, Accounting Changes and Error Corrections, implemented in FY25, is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The adoption of GASB 100 did not have a material effect on the System's financial statements.

GASB Statement No. 101, Compensated Absences, implemented in FY25, updates the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means. A liability is recognized for:

- Unused vacation, personal time, or sick time that is attributable to services already rendered, accumulates, and is more likely than not to be used or paid.
- The liability includes salary-related payments (e.g., employer share of social security and Medicare taxes) that are directly and incrementally associated with compensated absences.
- The liability is measured using the employee's pay rate as of the financial statement date.

The adoption of GASB 101 did not have a material effect on the System's financial statements.

GASB Statement No. 102, Certain Risk Disclosures, implemented in FY25, requires disclosing risks due to certain concentrations or constraints. GASB 102 defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources. A constraint is a limitation that is imposed by an external party or by a formal action of an entity's highest level of decision-making authority. The System has evaluated the applicability of GASB 102 and determined that, as of the date of these financial statements, no concentrations or constraints exist that meet all three criteria for disclosure:

1. Known prior to issuance of the financial statements,
2. Create vulnerability to substantial impact, and
3. Have had or are more likely than not to have an associated event occur within 12 months of the issuance date.

Accordingly, no disclosures are required under GASB 102, and the implementation of this Statement has no impact on the financial statements.

Basis of Accounting

For financial reporting purposes, institutions of higher education are considered proprietary funds. The basis of accounting determines when revenues and expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds use the flow of economic resources measurement focus (whether or not the entity is economically better off as a result of the events and transactions that occurred during the fiscal period reported) and the full accrual basis of accounting, meaning revenues are recognized when earned and expenses are recorded when an obligation has occurred.

The proprietary Statement of Revenues, Expenses, and Changes in Net Position is segregated into operating and non-operating sections. Generally, operating activities are those that directly related to the principal and usual activity of an enterprise.

Budget and Budgetary Accounting

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

University of Houston –Downtown Notes to the Financial Statements

Additionally, UHD prepares an annual budget which represents anticipated sources of revenues and authorized uses. This budget is approved by the University of Houston-Downtown's Board of Regents.

Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

Assets, Liabilities, Deferred Inflows and Outflows and Fund Balances/Net Position

ASSETS

Current and Non-Current Assets

Current assets are those that are readily available to meet current operational requirements. Non-current assets are those that are not readily available to meet current operational requirements and, instead, are intended to support long-term institutional needs.

Cash and Cash Equivalents

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

Securities Lending Collateral

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

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

Restricted Assets

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

Legislative Appropriations

This item represents the balance of General Revenue funds at August 31 as calculated in the Texas State Comptroller's General Revenue Reconciliation.

Investments

Investments are generally stated at fair value with certain exceptions in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Fair value, which is determined based on quoted market prices, is the amount at which an investment could be exchanged in a current transaction between parties other than in a forced or liquidation sale. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the accompanying Comparative Statement of Revenues, Expenses, and Changes in Net Position.

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

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Notes to the Financial Statements

revenues set aside for statutory or contractual requirements. Assets held in reserve for guaranteed student loan defaults are also included.

Inventories and Prepaid Items

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

Capital Assets

Assets with an initial, individual cost of \$5,000 or more (prior to September 1, 2024) and \$10,000 or more (after September 1, 2024) and an estimated useful life in excess of one year are capitalized. Capitalization thresholds are also utilized for buildings and building improvements (\$100,000), infrastructure (\$500,000), and facilities and other improvements (\$100,000). These assets are capitalized at cost or, if purchased, at appraised fair value as of the date of acquisition. Purchases of assets by governmental funds are reported as expenditures. Right-of-Use (ROU) intangible assets are recognized at the lease commencement date and represent the System's right to use an underlying asset for the lease term. ROU assets are measured at the initial value of the lease liability plus any payments made to the lessor at or before commencement and initial direct costs.

Inexhaustible assets such as works of art and historical treasures, are not depreciated. Depreciation is reported on all exhaustible assets. Capital assets are depreciated over the estimated useful life of the asset using the straight-line method. Depreciation is recorded as a periodic expense and accumulated as an offset to the asset book values. Depreciation expense is not allocated to functional categories for this Annual Financial Report. Amortization for ROU intangible assets is computed using the straight-line method over the shorter of the lease term or estimated useful lives of the assets; but if the underlying lease contains a purchase option determined to be reasonably certain of being exercised, the ROU intangible asset is amortized over the estimated useful life of the asset.

Intangible Right to Use (IRTU) capital assets are defined as assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. These assets are required to be reported if they are identifiable. Land use rights are capitalized if the cost meets or exceeds \$100,000. Purchased computer software is capitalized if the aggregate cost of the purchase meets or exceeds \$100,000. Internally generated computer software has a capitalization threshold of \$1,000,000, and other intangible capital assets must be capitalized if the cost meets or exceeds \$100,000. Intangible assets are amortized based on the estimated useful life of the asset using the straight-line method.

Current Receivables - Other

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

Non-Current Receivables - Other

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

LIABILITIES

Accounts Payable

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

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Notes to the Financial Statements

Current Payables - Other

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

Unearned Revenues

Unearned revenues include amounts for tuition and fees, certain auxiliary activities, and amounts from grant and contract sponsors received prior to the end of the fiscal year but related to the subsequent accounting period.

Non-Current Payables - Other

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

Employees' Compensable Leave Balances

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

Lease Liabilities

Lease liability represents the amount recognized by a lessee on its financial statements regarding its leases. It is initially measured at the present value of lease payments and is remeasured whenever there is a change in lease payments or lease modification. Liabilities are reported separately as either current or noncurrent.

The Right to Use (RTU) lease/subscription gives the university the ability to control the use of an asset for a set time period. For contracts greater than 12 months in Texas, the Governmental Accounting Standards Board (GASB) requires the reporting of RTU lease/subscription obligations for the annual financial statements.

Bonds Payable - General Obligation Bonds

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

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

Bonds Payable - Revenue Bonds

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

DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

The Statement of Net Position includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources are defined as the consumption of net assets applicable to a future reporting period, and have a positive effect on net position, similar to assets. Deferred inflows of resources are defined as the acquisition of net assets applicable to a future reporting period, and have a negative effect on net position, similar to liabilities. Additional details are provided in Note 28 - Deferred Outflows of Resources and Deferred Inflows of Resources.

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Notes to the Financial Statements

NET POSITION

Invested In Capital Assets, Net Of Related Debt

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

Restricted Net Position

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

Unrestricted Net Position

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

INTERFUND ACTIVITIES AND BALANCES

UHD has the following types of transactions between funds:

Transfers

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

Reimbursements

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

Interfund Receivables and Payables

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

Interfund Sales and Purchases

Charges or collections for services rendered by one fund to another are recorded as revenues of the recipient fund and expenditures or expenses of the disbursing fund. The composition of the System's interfund activities and balances are presented in Note 12.

University of Houston –Downtown
Notes to the Financial Statements

NOTE 2: Capital Assets and Intangible Right to Use

A summary of changes in Capital Assets and Intangible Right to Use is presented in Table 2.

Table 2 - Capital Assets

| University of Houston - Downtown | | | | | | |
|---|--------------------------|-----------------------|-----------------------|--------------------------|-----------------------|--------------------------|
| Business-Type Activities: | Balance 9/1/2024 | Adjustments | Completed CIP | Additions | Deletions | Balance 8/31/2025 |
| Non-Depreciable/Non-Amortizable Assets | | | | | | |
| Land & Land Improvements | \$ 23,722,567.02 | \$ - | \$ - | \$ - | \$ - | \$ 23,722,567.02 |
| Construction in Progress | 8,775,355.76 | - | (5,183,309.07) | 6,818,567.06 | - | 10,410,613.75 |
| Other Tangible Capital Assets | 1,029,411.04 | - | - | - | - | 1,029,411.04 |
| Total Non-Depreciable and Non-Amortizable Assets | 33,527,333.82 | - | (5,183,309.07) | 6,818,567.06 | - | 35,162,591.81 |
| Depreciable Assets | | | | | | |
| Buildings & Buildings Improvements | 330,131,138.41 | - | 3,921,633.37 | 2,535,804.85 | - | 336,588,576.63 |
| Infrastructure | 0.00 | - | 951,440.30 | - | - | 951,440.30 |
| Facilities & Other Improvements | 1,607,048.52 | - | 310,235.40 | 21,850.00 | - | 1,939,133.92 |
| Furniture & Equipment | 20,145,523.32 | - | - | 422,977.26 | (1,227,934.61) | 19,340,565.97 |
| Vehicle, Boats & Aircraft | 889,884.64 | - | - | 11,567.80 | - | 901,452.44 |
| Other Capital Assets | 34,059,921.14 | - | - | 2,254,683.36 | (1,347.33) | 36,313,257.17 |
| Total Depreciable Assets | 386,833,516.03 | - | 5,183,309.07 | 5,246,883.27 | (1,229,281.94) | 396,034,426.43 |
| Less Accumulated Depreciation For: | | | | | | |
| Buildings & Buildings Improvements | (164,017,714.85) | - | - | (10,356,741.67) | - | (174,374,456.52) |
| Facilities & Other Improvements | (1,350,582.03) | - | - | (37,129.36) | - | (1,387,711.39) |
| Furniture & Equipment | (15,085,330.00) | - | - | (1,651,244.89) | 1,227,934.61 | (15,508,640.28) |
| Vehicle, Boats & Aircraft | (656,922.65) | - | - | (69,831.58) | - | (726,754.23) |
| Other Capital Assets | (15,840,456.51) | - | - | (2,154,057.77) | 89.82 | (17,994,424.46) |
| Total Accumulated Depreciation | (196,951,006.04) | - | - | (14,269,005.27) | 1,228,024.43 | (209,991,986.88) |
| Depreciable Assets, Net | 189,882,509.99 | - | 5,183,309.07 | (9,022,122.00) | (1,257.51) | 186,042,439.55 |
| Amortizable Assets- Intangible, Net | 363,485.93 | (95,689.80) | - | (243,227.65) | - | 24,568.48 |
| Total Business-Type Activities - Capital Assets, Net | \$ 223,773,329.74 | \$ (95,689.80) | \$ - | \$ (2,446,782.59) | \$ (1,257.51) | \$ 221,229,599.84 |

**University of Houston –Downtown
Notes to the Financial Statements**

NOTE 2: Capital Assets and Intangible Right to Use Assets

In accordance with the implementation of GASB 87, leased assets are presented separately in Note 2.

A summary of changes in Intangible Right to Use Assets (IRTU) is presented below.

Table for Intangible RTU Assets:

| University of Houston - Downtown | | | | | |
|---|------------------------|-------------|------------------------|-----------|------------------------|
| | Balance 09/01/2024 | Adjustments | Additions | Deletions | Balance 08/31/2025 |
| Amortizable Assets-IRTU: | | | | | |
| Buildings & Building Improvements | \$ 3,085,902.06 | - | - | - | \$ 3,085,902.06 |
| Subscriptions | 578,094.34 | - | 689,327.70 | - | 1,267,422.04 |
| Total Amortizable RTU Assets | 3,663,996.40 | - | 689,327.70 | - | 4,353,324.10 |
| Less Accumulated Amortization For: | | | | | |
| Buildings & Building Improvements | (1,893,937.21) | - | (690,554.40) | - | (2,584,491.61) |
| Subscriptions | (238,402.81) | - | (192,641.55) | - | (431,044.36) |
| Total Accumulated Amortization | (2,132,340.02) | - | (883,195.95) | - | (3,015,535.97) |
| Business-Type Activities-RTU Assets, Net | \$ 1,531,656.38 | - | \$ (193,868.25) | - | \$ 1,337,788.13 |

NOTE 3: Deposits, Investments, & Repurchase Agreements

UHD is authorized by statute to make investments following the “prudent person rule”. There were no significant violations of legal provisions during the period.

Deposits of Cash in Bank

As of August 31, 2025, the carrying amount of deposits was \$ 775,219.50 as presented below:

| Governmental and Business-Type Activities | |
|--|----------------------|
| Cash in Bank-Carrying Amount | \$ 775,219.50 |
| Total Cash in Bank per Annual Financial Report | <u>\$ 775,219.50</u> |
| Reconciliation of Cash per Annual Financial Report | |
| Proprietary Funds, Current Assets, Cash in Bank | 250,406.50 |
| Proprietary Funds, Current Assets, Restricted Cash in Bank | <u>\$ 524,813.00</u> |
| Cash in Bank per Annual Financial Report | <u>\$ 775,219.50</u> |

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

As of August 31, 2025, the total bank balance was as follows:

| | |
|--|---------|
| Governmental and Business-Type Activities | \$ 0.00 |
|--|---------|

University of Houston –Downtown

Notes to the Financial Statements

Custodial Credit Risk – UHD has no deposits that are at risk of recovery due to the failure of a depository financial institution.

Foreign Currency Risk – UHD maintains no foreign bank accounts.

Investments

Investments are reported at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between two market participants at the measurement date. GAAP provides a hierarchy that prioritizes the inputs of fair value measurements based on the extent to which inputs to valuation techniques are observable in the marketplace. The hierarchy assigns a higher priority to observable inputs that reflect verifiable information obtained from independent sources, and a lower priority to unobservable inputs that would reflect management’s assumptions about how market participants would value an asset or liability based on the best information available. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of the hierarchy of inputs used to measure fair value are as follows:

- Level 1 – inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that can be accessed at the measurement date.
- Level 2 – inputs are inputs (other than quoted prices included within Level 1) are observable for an asset or liability, either directly (quoted market prices for similar assets or liabilities) or indirectly (corroborated from observable market information).
- Level 3 – inputs are unobservable inputs for an asset or liability.

Beyond these three levels, net asset value may be used to categorize investments without a readily determinable fair value. As of August 31, 2025, fair value of investments were categorized as follows:

| | Fair Value Hierarchy | | |
|---|-------------------------|--------------------|-------------------------|
| | Level 1 Inputs | Net Position Value | Fair Value |
| Governmental and Business- Type Activities | | | |
| Fixed Income Money Market & Bond Mutual Funds | \$ 37,326,601.08 | - | \$ 37,326,601.08 |
| Other Commingled Funds | - | 195,414.13 | 195,414.13 |
| Total Investments | <u>\$ 37,326,601.08</u> | <u>195,414.13</u> | <u>\$ 37,522,015.21</u> |
| Reconciliation of Investments per Annual Financial Statements | | | |
| Proprietary Funds, Current Assets, Cash Equivalents | \$ 37,326,601.08 | | |
| Proprietary Funds, Non-Current Assets, Investments | 195,414.13 | | |
| Investments per Annual Financial Statements | <u>\$ 37,522,015.21</u> | | |

Custodial Credit Risk (Investments) – UHD has no direct investments held by its custodians that are not covered by insurance.

Foreign Currency Risk (Investments) – UHD has no direct investments subject to foreign currency risk, nor any denominated in a foreign currency.

Credit Risk (Investments) – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The general investment policy of UHD 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

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Notes to the Financial Statements

total investments. As of August 31, 2025, UHD had no direct investment in securities with credit risk exposure that exceeded its policy limit. As of August 31, 2025, UHD had no investment which required disclosure of investment ratings.

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2025, the University of Houston-Downtown’s concentration of credit risk in any single issuer did not exceed 5% of total investment assets as reported on the Statement of Net Position.

Reverse Repurchase Agreements

UHD has no investments in reverse repurchase agreements.

Securities Lending

UHD does not participate in a security-lending program.

NOTE 4: Short-Term Debt

UHD does not have Commercial paper. In the prior fiscal year, the System issued commercial paper (Consolidated Revenue Commercial Paper Program, Series A) to provide interim financing for renovation and construction projects, and no additional commercial paper was issued during fiscal year 2025.

NOTE 5: Long-Term Liabilities
Changes in Long-Term Liabilities

During the year ended August 31, 2025, the following changes, presented in Table 5.1, occurred in liabilities:

Table 5.1 – Long-Term Liabilities

| Business-Type Activities | Balance 9/1/24 | Additions | Reductions | Other Changes | Balance 8/31/25 | Due Within 1 Year | Due Thereafter |
|---------------------------------------|--------------------------|------------------------|-------------------------|--------------------------|--------------------------|-------------------------|--------------------------|
| Claims and Judgments | \$ 66,193.42 | \$ 75,395.74 | \$ 74,554.65 | \$ 0.00 | \$ 67,034.51 | \$ 67,034.51 | \$ 0.00 |
| Right to Use Lease Obligations | 1,229,979.34 | 0.00 | 704,360.81 | 0.00 | 525,618.53 | 525,618.07 | 0.46 |
| Right to Use Subscription Obligations | 245,742.34 | 689,327.70 | 488,812.92 | 0.00 | 446,257.12 | 137,604.25 | 308,652.87 |
| Employees’ Compensable Leave | 4,502,601.84 | 2,453,017.48 | 1,886,882.21 | 0.00 | 5,068,737.11 | 2,787,439.48 | 2,281,297.63 |
| Revenue Bonds Payable | 153,421,729.84 | 0.00 | 8,790,000.00 | (1,164,907.76) | 143,466,822.08 | 10,404,907.76 | 133,061,914.32 |
| Total | \$ 159,466,246.78 | \$ 2,651,605.65 | \$ 12,510,745.86 | \$ (1,164,907.76) | \$ 149,574,469.35 | \$ 13,922,604.07 | \$ 135,651,865.28 |

Claims and Judgments

At August 31, 2025, various lawsuits and claims involving UHD were pending. While the ultimate liability, if any, with respect to litigation and other claims asserted against UHD 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 UHD accounts.

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Notes to the Financial Statements

Right to Use Lease Obligations

UHD is a lessee for various noncancelable leases of buildings and equipment. For leases with a maximum possible term of 12 months or more UHD recognizes a lease liability and an intangible right to use lease asset. At the commencement of a lease UHD initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. Additional information on UHD's right to use lease obligations is provided in Note 8. Right to use lease asset detail is provided in Note 2.

Right to Use Subscription Obligations

UHD has various non-cancellable subscription obligations of information technology. For subscriptions with a maximum possible term of 12 months or more UHD recognizes a lease liability and an intangible right to use subscription obligation. At the commencement of the subscription, UHD initially measures the lease liability at the present value of payments expected to be made during the obligation term. Subsequently, the lease liability is reduced by the principal portion of obligation payments made. Additional information on UHD's right to use subscription obligations is provided in Note 2 and Note 8.

Notes and Loans Payable

As of August 31, 2025, UHD had no notes and loans payable.

Employees' Compensable Leave

Under the provisions of GASB Statement No. 101, a liability is recognized for compensated absences when (1) leave is attributable to services already rendered, (2) leave accumulates, and (3) the leave is more likely than not to be used for time off or paid/settled. Additionally, leave that has been used but not yet paid is recognized as a liability.

The liability is measured using pay rates in effect as of the financial statement date and includes applicable salary-related payments. At August 31, 2025, the compensated absences liability was \$ 5,068,737.11, of which \$2,787,439.48 is expected to be paid within one year.

A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from State employment, provided the employee has had continuous employment with the State for six months. Expenditures for accumulated annual leave balances are recognized in the period paid or taken in governmental fund types. For these fund types, the liability for unpaid benefits is recorded in the Statement of Net Position. An expense and liability for proprietary fund types are recorded in the proprietary funds as the benefits accrue to employees.

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 2025. 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.

Sick leave entitlement shall be earned at the rate of eight hours for each month or fraction of a month employment, proportionate to the FTE percentage established for the position(s) in which employed. GASB 101 now requires that the current portion of sick leave liability be recorded as a current liability, and represented in the Employees' Compensable Leave line.

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

Lump sum payments made to employees, who separated from state service during the 2025 fiscal year, for accrued vacation and compensatory leave totaled \$ 354,991.52.

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Notes to the Financial Statements

Revenue Bonds Payable

See Note 6 for required Revenue Bond disclosures.

NOTE 6: Bonded Indebtedness

Principal and interest payable on long term debt through maturity is as follows:

| Summary | Year | Principal | Interest | Total | |
|------------------------------|----------------------|-----------------|-------------------|------------------|-------------------|
| All Bonds Issues, All Series | 2026 | \$ 9,240,000.00 | \$ 5,718,850.00 | \$ 14,958,850.00 | |
| | 2027 | 7,105,000.00 | 5,310,225.00 | 12,415,225.00 | |
| | 2028 | 7,465,000.00 | 4,945,975.00 | 12,410,975.00 | |
| | 2029 | 7,845,000.00 | 4,563,225.00 | 12,408,225.00 | |
| | 2030 | 8,230,000.00 | 4,177,150.00 | 12,407,150.00 | |
| | 2031 - 2035 | 46,475,000.00 | 14,700,125.00 | 61,175,125.00 | |
| | 2036 - 2040 | 35,345,000.00 | 4,433,500.00 | 39,778,500.00 | |
| | 2041 - 2045 | 5,925,000.00 | 299,875.00 | 6,224,875.00 | |
| | Total as shown above | | \$ 127,630,000.00 | \$ 44,148,925.00 | \$ 171,778,925.00 |

Principal and Premium Liability

| UHD Bonds Data for SACSCOC Audit FY25 | Principal | Interest | Total |
|--|-------------------|------------------|-------------------|
| Consolidated Revenue Refunding Bonds Series 2014 | 2,485,000.00 | 62,125.00 | 2,547,125.00 |
| Consolidated Revenue & Refunding Bonds Series 2017-A | 60,500,000.00 | 19,941,000.00 | 80,441,000.00 |
| Consolidated Revenue & Refunding Bonds Series 2020-A | 25,915,000.00 | 6,541,425.00 | 32,456,425.00 |
| Consolidated Revenue & Refunding Bonds Series 2022-A | 38,730,000.00 | 17,604,375.00 | 56,334,375.00 |
| Total | \$ 127,630,000.00 | \$ 44,148,925.00 | \$ 171,778,925.00 |

| UHD Bonds Data for SACSCOC Audit FY25 | Unamortized Premium |
|--|---------------------|
| Consolidated Revenue & Refunding Bonds Series 2017-A | 7,541,567.35 |
| Consolidated Revenue & Refunding Bonds Series 2020-A | 2,575,085.64 |
| Consolidated Revenue Refunding Bonds Series 2014 | 227,141.89 |
| Consolidated Revenue & Refunding Bonds Series 2022-A | 5,493,027.20 |
| Total | \$ 15,836,822.08 |

| | |
|-----------------------------|-------------------|
| Principal Liability Total | \$ 127,630,000.00 |
| Unamortized Premium Total | 15,836,822.08 |
| Total Revenue Bonds Payable | \$ 143,466,822.08 |

Bonds Payable

The following is information related to UH System bonds which UH-Downtown has a proportional share of the outstanding obligation. *Information presented is for the total UH System bond with the exception of the UHD proportion of the bond outstanding.*

Refunding Bonds

- **Consolidated Revenue 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 11-18-2014.
 - \$47,915,000; all bonds authorized have been issued (UH – \$29,525,000, UHD – \$17,765,000, and UHV – \$625,000).
 - 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 2025 partially from Legislative Appropriation-Tuition Revenue Bonds.)
 - Average interest rate of bonds refunded - 4.67%.
 - Net proceeds from refunding series - \$52,309,205.77, after receipt of bond premium of \$5,037,241.05 and payment of \$643,035.28 in underwriting fees, insurance, and other issuance costs.

University of Houston –Downtown

Notes to the Financial Statements

- 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 02-15-2015.
 - 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 \$9,051,334.58.
 - Economic gain - \$7,400,593.85; the difference between the net present value of the old and new debt service payments.
 - Accounting gain (deferred inflow of resources) - \$445,456.16; the accounting gain (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 2017-A**
 - To (a) advance refund and defease \$38,400,000 of Consolidated Revenue Refunding Bonds, Series 2008; \$50,325,000 of Consolidated Revenue and Refunding Bonds, Series 2009; and \$12,840,000 of Consolidated Revenue and Refunding Bonds, Series 2009A; (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; and (c) to defease certain outstanding commercial paper notes of the System.
 - In addition to the defeasement of the notes and bonds noted above, the proceeds were used to finance the acquisition, construction, or renovation of various properties, buildings, and facilities at the University of Houston – System Administration, University of Houston, University of Houston – Clear Lake, University of Houston – Downtown, and University of Houston – Victoria.
 - Issued 2-16-2018.
 - \$379,450,000; all bonds authorized have been issued; (a) \$93,460,000 refunding bonds: Series 2008: UHSA – \$265,000, UH – \$35,300,000, and UHV – \$95,000; Series 2009: UH – \$41,990,000, and UHCL – \$4,165,000; and Series 2009A: UH - \$11,645,000; and (b) \$285,990,000 new money revenue bonds: UHSA – \$40,920,000, UH – \$47,180,000, UHCL – \$53,830,000, UHCL – \$84,750,000 and UHV – \$59,310,000.
 - 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 2025 partially from Legislative Appropriation-Tuition Revenue Bonds.)
 - Average interest rate of bonds refunded - 4.971035%.
 - Net proceeds from refunding series - \$108,438,040.58, after receipt of \$93,460,000 par value, plus receipt of the bond premium of \$15,956,653, and payment of \$978,612.42 in underwriting fees, insurance, and other issuance costs.
 - Refunding of the 2008, 2009, and 2009A series' bonds reduced the System's debt service payments over the life of the bond issues by approximately \$14,322,761.90.
 - Economic gain - \$10,020,739.63; the difference between the net present value of the old and new debt service payments.
 - Accounting loss (deferred outflow of resources) - \$2,300,255.73; 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 2020-A**
 - To (a) advance refund and defease \$13,230,000 of Consolidated Revenue Refunding Bonds, Series 2008; \$1,950,000 of Consolidated Revenue and Refunding Bonds, Series 2009A; and \$63,275,000 of Consolidated Revenue and Refunding Bonds, Series 2010B; (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; and (c) to defease certain outstanding commercial paper notes of the System.
 - In addition to the defeasement of the notes and bonds noted above, the proceeds were used to finance the acquisition, construction, or renovation of various properties, buildings, and facilities at the University of Houston, University of Houston – Downtown, and University of Houston – Victoria.

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- Issued 2-19-2020.
 - \$320,635,000; all bonds authorized have been issued; (a) \$68,255,000 refunding bonds: Series 2008: UHSA – \$375,000, UH – \$11,070,000, and UHV – \$135,000; Series 2009A: UH – \$1,640,000; and Series 2010B: UH - \$51,500,000 and UHV – \$3,535,000; and (b) \$252,380,000 new money revenue bonds: UH – \$210,615,000, UHD – \$31,545,000, and UHV – \$10,220,000.
 - 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 2025 partially from Legislative Appropriation-Tuition Revenue Bonds.)
 - Average interest rate of bonds refunded – 3.968953%.
 - Net proceeds from refunding series - \$78,788,387.21, after receipt of \$68,255,000 par value, plus receipt of the bond premium of \$10,758,186.25, and payment of \$224,799.04 in underwriting fees, insurance, and other issuance costs.
 - Refunding of the 2008, 2009A, and 2010B series' bonds reduced the System's debt service payments over the life of the bond issues by approximately \$15,204,230.00.
 - Economic gain - \$12,862,320.00; the difference between the net present value of the old and new debt service payments.
 - Accounting gain (deferred inflow of resources) - \$434,718.51; the accounting gain (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 2022-A**
 - To (a) advance refund and defease \$18,160,000 of Consolidated Revenue and Refunding Bonds, Series 2013A; (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; and (c) to refund and defease certain outstanding commercial paper notes and bonds of the System.
 - In addition to the defeasement of the notes and bonds noted above, the proceeds were used to finance the acquisition, construction, or renovation of various properties, buildings, and facilities at the University of Houston – System Administration, University of Houston, University of Houston – Clear Lake, and University of Houston – Victoria.
 - Issued 6-29-2022.
 - \$385,680,000; all bonds authorized have been issued; (a) \$16,690,000 refunding bonds: Series 2013A: UH – \$10,715,000, UHD – \$3,600,000, and UHV – \$2,375,000; and (b) \$368,990,000 new money revenue bonds: UHSA – \$52,535,000, UH - \$198,250,000, UHD – \$39,405,000, UHCL – \$39,400,000, and UHV – \$39,400,000.
 - 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 2025 partially from Legislative Appropriation-Tuition Revenue Bonds.)
 - Average interest rate of bonds refunded – 5.000000%.
 - Net proceeds from refunding series - \$18,496,372.22, after receipt of \$16,690,000 par value, plus receipt of the bond premium of \$1,875,958.80, and payment of \$69,586.58 in underwriting fees, insurance, and other issuance costs.
 - Refunding of the 2013A series' bonds reduced the System's debt service payments over the life of the bond issues by approximately \$1,453,207.02.
 - Economic gain - \$1,334,975.36; the difference between the net present value of the old and new debt service payments.
 - Accounting gain (deferred inflow of resources) - \$647,097.54; the accounting gain (the difference between the reacquisition price and the net carrying value of the refunded bonds) resulted from the advance refunding.

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Notes to the Financial Statements

Pledged Future Revenues

The following table provides the pledged future revenue information for UHD’s revenue bonds:

| | Government Activities | Business-Type Activities | Component Units |
|--|--------------------------|-----------------------------|--------------------|
| Pledged revenue required for future principal and interest on existing revenue bonds | \$ NA | \$ 171,778,925.00 | \$ NA |
| Term of commitment year ending 08/31 | NA | 2056 | NA |
| Percentage of revenue pledged | NA | 100% | NA |
| Current year pledged revenue | \$ NA | \$ 128,649,705.90 | \$ NA |
| Current year principal and interest paid | \$ NA | \$ 14,959,600 | \$ NA |

Pledged revenue sources:

Governmental activities – None.

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

Component Units – None.

NOTE 7: Derivative Instruments

Derivatives are financial instruments the value of which is derived, in whole or part, from the value of any one or more underlying assets or index of asset values. Derivatives include swap contracts, futures contracts, options, options on futures contracts, and forward contracts. As of August 31, 2025, UHD had no investments in Derivative Instruments.

NOTE 8: Leases/SBITAs

Lease Liability

UHD is a lessee for various non-cancellable leases of buildings and equipment. A summary of UHD's right to use lease asset activity during the year is disclosed separately in Note 2. Included in the expenditures reported in the financial statements are the following amounts of rent paid or due under lease liability:

| Fund Type | Amount |
|------------------|-----------------|
| Proprietary Fund | \$ 1,160,739.09 |

Future Lease Payments

August 31, 2025

| Primary Government – Business-Type Activities | | | |
|---|---------------|-------------|---|
| Year | Principal | Interest | Total Future Minimum Lease Payments |
| 2026 | \$ 525,618.07 | \$ 2,028.33 | \$ 527,646.40 |
| 2027 | 0.46 | 0.00 | 0.46 |
| Total | \$ 525,618.53 | \$ 2,028.33 | \$ 527,646.86 |

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Notes to the Financial Statements

Lease Income

UHD is not a lessor for any material non-cancellable leases of buildings, land, office space and equipment to outside parties.

Subscription Liability

UHD has various non-cancellable subscriptions of information technology. Included in the expenditures reported in the financial statements are the following amounts of subscription fees paid under subscription liability:

| Fund Type | Amount |
|------------------|-----------------|
| Proprietary Fund | \$ 3,211,702.22 |

Future Subscription Payments

August 31, 2025

| Primary Government – Business-Type Activities | | | |
|---|----------------------|---------------------|--|
| Year | Principal | Interest | Total Future Minimum Subscription Payments |
| 2026 | \$ 137,604.25 | \$ 19,005.81 | \$ 156,610.06 |
| 2027 | 143,403.83 | 13,206.23 | 156,610.06 |
| 2028 | 80,862.21 | 7,181.98 | 88,044.19 |
| 2029 | 84,386.83 | 3,657.36 | 88,044.19 |
| 2030 | 0 | 0 | 0 |
| Total | <u>\$ 446,257.12</u> | <u>\$ 43,051.38</u> | <u>\$ 489,308.50</u> |

NOTE 9: Defined Benefit Pension Plans and Defined Contribution Plan

As discussed in Note 1, UHD’s proportionate share of pension liabilities in the name of UH System are reported by UH System and not UHD. UHD has elected to make limited disclosures with respect to this matter.

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

The state has also established an Optional Retirement Program for institutions of higher education. Participation in the Optional Retirement Program is available to certain eligible employees and is in lieu of participation in the Teacher Retirement System. Since contributions are invested in individual annuity contracts, neither the State nor UHD have any additional or unfunded liability for this program.

The contributions made by plan members and employers for the fiscal year ended August 31, 2025 are:

| | TRS Participants | ORP Participants | Total Contributions |
|------------------------|-------------------------|------------------------|-------------------------|
| Member Contributions | \$ 5,274,074.15 | \$ 1,591,944.00 | \$ 6,866,018.15 |
| Employer Contributions | <u>5,402,119.25</u> | <u>1,637,519.00</u> | <u>7,039,638.25</u> |
| Total | <u>\$ 10,676,193.40</u> | <u>\$ 3,229,463.00</u> | <u>\$ 13,905,656.40</u> |

University of Houston –Downtown

Notes to the Financial Statements

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

The Teacher Retirement System (TRS) is the administrator of the TRS plan, a cost-sharing, multiple-employer defined benefit pension plan with a special funding situation. The TRS Plan is one of three retirement systems reported in the state of Texas Annual Comprehensive Financial Report (ACFR).

The employers of the TRS Plan include the state of Texas, TRS, the state’s public schools, education service centers, charter schools, and community and junior colleges. 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 (TGC), 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. Detailed information about the TRS Plan’s fiduciary net position is available in a separately issued ACFR that includes financial statements and required supplementary information, located at www.trs.texas.gov and then searching for financial and actuarial highlights.

Benefits Provided

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 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).

State law requires the plan to be actuarially sound in order for the legislature to consider a benefit enhancement, such as a supplemental payment to retirees. The pension became actuarially sound in May 2019 when the 86th Texas legislature approved the TRS Pension Reform Bill (SB12) that provided gradual contribution increases from the state, participating employers, and active employees for the fiscal years 2019 through 2024. In addition, the 2023 Texas Legislature passed Senate Bill (SB) 10 and House Joint Resolution (HJR) 2 to provide eligible retirees with a one-time stipend and an ad hoc COLA.

The stipend was paid in September 2023 to annuitants who met the qualifying age requirement on or before August 31, 2023:

- One-time stipend of \$7,500 to eligible annuitants 75 years of age or older
- One-time stipend of \$2,400 to eligible annuitants age 70 to 74

The COLA, which needed (and received) voter approval, was applied to eligible annuitant payments beginning with the January 2024 payment. The COLA was based on retirement date:

- 2% COLA for eligible retirees who retired between September 1, 2013 through August 31, 2020
- 4% COLA for eligible retirees who retired between September 1, 2001 through August 31, 2013
- 6% COLA for eligible retirees who retired on or before August 31, 2001

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Otherwise, there have been no changes to the benefit provisions of the plan since the prior measurement date.

Contributions

Contribution requirements are established or amended pursuant to *Article 16, Section 67 of the Texas Constitution*, which requires the Legislature to establish a member contribution rate of not less than 6.00% of the member’s annual compensation and a state contribution rate of not less than 6.00% and not more than 10.00% of the aggregate annual compensation paid to members of the System during the year. *TGC Section 821.006* prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS’ unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

During the measurement period of 2024 for fiscal 2025 reporting, the amount of the University of Houston-Downtown’s contributions recognized by the plan was \$4,450,445.00. The contribution rates are based on a percentage of the monthly gross compensation for each member. The contribution requirements for the state and the members in the measurement period are presented in the table below:

Required Contribution Rates

| Contribution Rates | TRS Plan |
|--------------------|----------|
| Employer | 8.25% |
| Employees | 8.25% |

Actuarial Methods and Assumptions

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, 2024 measurement date.

Actuarial Methods and Assumptions*

| Actuarial Methods: | TRS Plan |
|--|---|
| Actuarial Valuation Date | August 31, 2023 rolled forward to August 31, 2024 |
| Actuarial Cost Method | Individual Entry Age Normal |
| Amortization Method | Level Percentage of Payroll, Floating |
| Asset Valuation Method | Fair Value |
| Actuarial Assumptions: | |
| Discount Rate | 7.00% |
| Long-term Expected Rate of Return | 7.00% |
| Municipal Bond Rate as of August 2023 | 3.87% * |
| Inflation | 2.30% |
| Salary Increase | 2.95% to 8.95% including inflation |
| Mortality: | |
| Active | PUB (2010) Mortality Tables for males and females with full generational mortality. |
| Post-Retirement | 2021 TRS Healthy Pensioner Mortality Tables with full generation projection using Scale U-MP. |
| Ad Hoc Post-Employment Benefit Changes | None |

Notes:

* “Source for the rate is the Bond Buyers 20 Index, which represents the estimated yield of a portfolio of 20 general obligation bonds maturing in 20 years based on a survey of municipal bond traders. The rate used is as of August 30, 2024 the rate closest to but not later than the Measurement Date.”

University of Houston –Downtown

Notes to the Financial Statements

Roll Forward

The actuarial valuation was performed as of August 31, 2023. Update procedures were used to roll forward the total pension liability to August 31, 2024. The actuarial assumptions used in the determination of the total pension liability were primarily based on the result of an actuarial experience study for the four-year period ending Aug. 31, 2021 and adopted in July 2022.

Changes of Assumptions Since the Prior Measurement Date

The actuarial assumptions and methods are the same as used in the determination of the prior year's Net Pension Liability.

Changes in Benefit Provisions Since the Prior Measurement Date

Due to the timing of the previously mentioned one-time stipend and ad hoc COLA, the legislation and payments were not reflected in the August 31, 2023 actuarial valuation. Under the roll forward method, an adjustment was made to reflect the legislation in the rolled forward liabilities for the current measurement year, August 31, 2024. SB 10 and House Joint Resolution 2 (HJR 2) of the 88th Regular Legislative Session appropriated payments of \$1.645 billion for one-time stipends and \$3.355 billion for COLAs. This appropriation is treated as a supplemental contribution and included in other additions. Since the Legislature appropriated funds for this one-time stipend and COLA, there was no impact on the Net Pension Liability of TRS.

Discount Rate

The discount rate of 7.00% was applied to measure the total pension liability. The discount rate was based on the expected rate of return on pension plan investments of 7.00%. The projected cash flows into and out of the pension plan assumed that active members, employers, and non-employer contributing entity make their contributions at the statutorily required rates. It is assumed that future employer and state contributions will be 9.54% of payroll in fiscal year 2025 and thereafter. This includes a factor for all employer and state contributions for active and rehired retirees. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments of current plan members. As a result, the long-term expected rate of return on pension plan investments was applied to all projected benefit payments to determine the total pension liability.

The long-term expected rate of return on plan investments was developed using a building-block method in which best estimate ranges of expected future real rates of return (net of pension plan 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:

| Asset Class | Target Allocation | Long-Term Expected Geometric Real Rate of Return |
|----------------------|--------------------------|---|
| Global Equity | | |
| U.S.A. | 18.00% | 4.40% |
| Non-U.S. Developed | 13.00% | 4.20% |
| Emerging Markets | 9.00% | 5.20% |
| Private Equity | 14.00% | 6.70% |
| Stable Value | | |
| Government Bonds | 16.00% | 1.90% |

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Notes to the Financial Statements

| | | |
|--|----------------|-------|
| Absolute Return * | 0.00% | 4.00% |
| Stable Value Hedge Funds | 5.00% | 3.00% |
| Real Return | | |
| Real Estate | 15.00% | 6.60% |
| Energy, Natural Resources and Infrastructure | 6.00% | 5.60% |
| Commodities | 0.00% | 2.50% |
| Risk Parity | | |
| Risk Parity | 8.00% | 4.00% |
| Asset Allocation Leverage | | |
| Cash | 2.00% | 1.00% |
| Asset Allocation Leverage | (6.00)% | 1.30% |
| Total | 100.00% | |

Notes:

* Absolute Return includes Credit Sensitive Investments
 Target Allocations are based on fiscal year 2024 policy model
 Capital Market assumptions come from 2024 SAA Study CAM Survey (as of 12/31/2023)

Sensitivity of the University of Houston-Downtown’s Proportionate Share of the Net Pension Liability to the Single Discount Rate Assumption

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 below:

| Sensitivity of the University of Houston-Downtown’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate | | |
|---|------------------------------|--------------------|
| 1% Decrease | Current Discount Rate | 1% Increase |
| (6.00%) | (7.00%) | (8.00%) |
| \$ 77,052,153 | \$ 38,964,741 | \$ 24,367,827 |

Pension Liabilities

The pension plan’s fiduciary net position is determined using economic resources measurement focus and accrual basis of accounting, which is the same basis used by TRS. 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. Fair value is a market-based measurement, not an entity-specific measurement. TRS utilizes one or more of the following valuation techniques in order to measure fair value: the market approach, the cost approach, and the income approach. More detailed information on the plan’s investment policy, assets, and fiduciary net position, may be obtained from TRS’ fiscal 2024 ACFR.

UHD’s proportionate share of pension liabilities in the name of UH System are reported by UH System, therefore, not present in UHD’s annual financial report. At August 31, 2025, the University of Houston System reported a liability of \$38,964,741 for UHD’s proportionate share of the collective net pension liability. The collective net pension liability was measured as of August 31, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. University of Houston-Downtown’s proportion at August 31, 2025 was 0.0789737% percent which was a increase from the 0.0753124% percent measured at the prior measurement date. 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, 2023 through August 31, 2024.

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Notes to the Financial Statements

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ending August 31, 2025, the University of Houston-Downtown recognized pension expense of \$5,442,133. for UHD’s calculated portion of pension expense. At August 31, 2025, the University of Houston-Downtown reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Difference between expected and actual experience | \$ 2,658,945 | \$ 376,638 |
| Changes of assumptions | 2,490,756 | 333,925 |
| Net difference between projected and actual investment return | 11,582,872 | 11,289,635 |
| Change in proportion and contribution difference | 1,823,052 | 5,735,249 |
| Contributions subsequent to the measurement date | 4,366,810 | 0.00 |
| Total | <u>\$ 22,922,435</u> | <u>\$ 17,735,447</u> |

The \$4,366,810 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, 2026. Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense in the following years:

| <u>Year Ending August 31,</u> | <u>Amount</u> |
|-------------------------------|----------------|
| 2026 | \$ (1,814,184) |
| 2027 | 3,750,966 |
| 2028 | (416,884) |
| 2029 | (1,069,291) |
| 2030 | 369,571 |
| Thereafter | 0.00 |

NOTE 10: 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 UHD 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 11: Postemployment Benefits Other Than Pensions

As discussed in Note 1, UHD’s proportionate share of post-employment benefits other than pension liabilities in the name of UH System are reported by UH System and not UHD. University of Houston-Downtown has elected to make limited disclosures with respect to this matter.

In addition to providing pension benefits, the State contributes to a plan that provides health care and life insurance benefits for retired employees of UHD, their spouses, and beneficiaries. These other postemployment benefits

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Notes to the Financial Statements

(OPEB), authorized by statute and contributions, are established by the General Appropriations Act. ERS administers a program that provides postemployment health care, life, and dental insurance benefits to retirees through the Texas Employees Group Benefits Program as authorized by Texas Insurance Code, Chapter 1551. ERS implemented GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, in fiscal year 2017. Complete disclosure of the State’s OPEB can be found in the State’s Annual Comprehensive Financial Report.

NOTE 12: Interfund Activity and Transactions

UHD experienced routine transfers with other state agencies that were consistent with the activities of the fund making the transfer. UHD had no interfund activity to report.

NOTE 13: Continuance Subject to Review

UHD is not subject to the provisions of the Texas Sunset Act (Chapter 325, Texas Government Code Annotated). The Act provides for the regular assessment of the continuing need for state agencies to exist. Certain agencies, such as institutions of higher education and courts, are not subject to the Sunset Act.

NOTE 14: Adjustments to Beginning Net Position or Fund Net Position

During fiscal year 2025, an accounting adjustment, due to the disposal of an asset, was made that required the restatement of net position. The restatement is presented below:

| 8/31/2024 Previously Reported | Correction | 8/31/2024 Restated |
|----------------------------------|---------------|-----------------------|
| \$223,347,755.82 | \$(95,689.80) | \$223,252,066.02 |

NOTE 15: Contingencies and Commitments

Unpaid Claims and Lawsuits

As mentioned in Note 5, various lawsuits and claims involving UHD were pending. While the ultimate liability, if any, remains uncertain, management does not expect any possible adverse ruling to have a material effect on the UHD accounts.

Federal Assistance

UHD 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.

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

Construction Commitments

The System has several contractual agreements with various external construction entities to construct, and/or renovate UHD facilities. Under certain circumstances, the System may have contingent liabilities to these entities. Based on prior experience, previous years’ liabilities have been immaterial, and management believes no such liabilities currently exist. Additional information is provided in Note 19.

University of Houston –Downtown
Notes to the Financial Statements

NOTE 16: Subsequent Events

Not applicable to UHD.

NOTE 17: Risk Management

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

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

The UHD'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 years 2024 and 2025 were:

Table 17.1 – Balance of Claims Activity

| | Beginning Balance | Increase | Decrease | Ending Balance |
|------|----------------------|--------------|--------------|-------------------|
| 2025 | \$ 66,193.42 | \$ 75,395.74 | \$ 74,554.65 | \$ 67,034.51 |

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. 2025 decreases include payments for worker's compensation claims of \$74,554.65.

NOTE 18: Management's Discussion and Analysis (MD&A)

See Management's Discussion and Analysis Section.

NOTE 19: The Financial Reporting Entity

See Financial Reporting Entity in Note 1.

NOTE 20: 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 position, no changes in reporting of loans, and no changes in accounting principles.

NOTE 21: N/A

Note 21 is not applicable to the Annual Financial Reporting requirements process.

NOTE 22: Donor Restricted Endowments

Expenditure of endowed funds is not permitted without the express consent of the donor. The majority of the University of Houston-Downtown'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 UHD 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,

University of Houston –Downtown
Notes to the Financial Statements

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 22.1, is available for authorization and expenditure by UHD:

Table 22.1 – Net Appreciation of Endowments

| Donor-Restricted Endowments | Amount of Net Appreciation/(Depreciation) | Reported in Net Position |
|--------------------------------|--|--------------------------|
| True Endowments | \$ 16,106,188.68 | Restricted Expendable |
| Total | <u>\$ 16,106,188.68</u> | |

Variances from prior year-end for expendable and nonexpendable balances are shown in Table 22.2:

Table 22.2 - Changes from Prior Year Balances:

| Endowment Funds | Increase/(Decrease) | Reason for Change |
|--------------------------------|---------------------|--------------------------------------|
| Expendable Balances | | |
| True Endowments | 3,401,136.97 | Fair value increase in portfolio |
| True Endowments | (1,630,995.00) | Spending distribution from endowment |
| Term Endowments | 0.00 | Fair value increase in portfolio |
| Term Endowments | 0.00 | Spending distribution from endowment |
| Non-Expendable Balances | | |
| True Endowments | 0.00 | |
| Term Endowments | 0.00 | |

NOTE 23: Extraordinary and Special Items

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

NOTE 24: 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 UHD 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 non-current portions of receivables and payables are separately disclosed. Significant balances in various classifications of receivables and payables are disclosed below:

University of Houston –Downtown
Notes to the Financial Statements

Receivables Current:

| | Gross | Allowance | Net |
|-------------|----------------------|---------------------|----------------------|
| Federal | \$3,617,945.47 | \$ - | \$3,617,945.47 |
| Intercampus | 32,612,183.98 | - | 32,612,183.98 |
| Accounts | 19,133,844.18 | 4,754,179.41 | 14,379,664.77 |
| Gifts | 469,026.37 | - | 469,026.37 |
| Other | 14,115,851.38 | - | 14,115,851.38 |
| | <u>69,948,851.38</u> | <u>4,754,179.41</u> | <u>65,194,671.97</u> |

Receivables Non-Current:

| | Gross | Allowance | Net |
|-------------|----------------------|------------------|----------------------|
| Intercampus | 92,111,306.13 | - | 92,111,306.13 |
| Pledges | 2,303,964.88 | 53,550.00 | 2,250,414.88 |
| | <u>94,415,271.01</u> | <u>53,550.00</u> | <u>94,361,721.01</u> |

Payables Current:

| | Gross | Allowance | Net |
|-------------------------------|------------------------|------------------|------------------------|
| Federal | 9,394.56 | - | 9,394.56 |
| Intercampus | 2,860,211.59 | - | 2,860,211.59 |
| Accounts | 3,120,430.91 | - | 3,120,430.91 |
| Payroll | 9,393,861.20 | - | 9,393,861.20 |
| Accrued Subscription Interest | 7,927.29 | - | 7,927.29 |
| Accrued Lease Interest | 362.88 | - | 362.88 |
| Other | 249,295.40 | - | 249,295.40 |
| | <u>\$15,641,483.83</u> | <u>\$ -</u> | <u>\$15,641,483.83</u> |

NOTE 25: Termination Benefits

UHD has no retiring members of the Employees Retirement System of Texas (ERS) eligible for a temporary retirement incentive payment. UHD does not offer terminated employees any non-health care benefits such as severance packages, one-time incentive bonuses, or other benefits. COBRA, handled directly by ERS, is the only benefit offered to retiring or terminated employees.

NOTE 26: Segment Information

UHD has no segment activity that requires separate disclosure in the notes to the financial statements. A segment is an identifiable activity, or group of activities, reported as or within an enterprise fund or another stand-alone entity that has one or more bonds or other debt instruments outstanding, with a revenue stream pledged in support of that debt. In addition, the activity's revenues, expenses, gains and losses, assets, and liabilities are required to be accounted for separately.

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NOTE 27: Public-Private and Public-Public Partnerships

As of August 31, 2025, UHD has no agreements that are qualified as Public-Private and Public-Public Partnerships and Availability Payment Arrangements.

NOTE 28: Deferred Outflows of Resources and Deferred Inflows of Resources

In fiscal year 2025, UHD reported no deferred outflows of resources nor deferred inflows of resources in connection with the TRS pension plan, other post-employment benefits, GASB 87 and 96 Leases and GASB 94 public-public partnerships.

NOTE 29: Troubled Debt Restructuring

As of August 31, 2025, no debts have been identified that fall under the troubled debt restructuring guidelines of GASB 62, *Codification Accounting and Reporting*.

NOTE 30: Non-Exchange Financial Guarantees

As of August 31, 2025, UHD has no non-exchange financial guarantees; therefore, there are no balances to be reported.

NOTE 31: Tax Abatements

As of August 31, 2025, UHD has no tax abatement agreements entered into to reduce the reporting revenues nor agreements with other governments that reduce the tax revenues.

NOTE 32: Governmental Fund Balances

As of August 31, 2025, UHD does not have any fund balance reporting of obligations or requirements as established by GASB 54, *Fund Balance*, because the University of Houston-Downtown's fund balances are reported as proprietary funds and not governmental funds.



University of Houston
DOWNTOWN



DID YOU KNOW?

47

BACHELOR DEGREES

70K+

ALUMNI

26

AVERAGE CLASS SIZE