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## A SPECIAL REPORT FOR THE SOUTHERN ASSOCIATION OF COLLEGES AND SCHOOLS ON THE UNIVERSITY OF HOUSTON

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## Agreed-Upon Procedures - University of Houston

We performed agreed-upon procedures for the Southern Association of Colleges and Schools for its accreditation review of the University of Houston for fiscal year 1996. The agreed-upon procedures, applied to the Current Funds Balance Sheet of the University of Houston (University) as of August 31, 1996, the Statement of Current Funds Expenditures for the year then ended, and the related Notes (Financial Statements), are detailed as follows:

- a. We compiled the accompanying Current Funds Balance Sheet, the Statement of Current Funds Expenditures, and the related Notes to present the financial position and expenditures by function of the University of Houston's Current Funds as of August 31, 1996. These statements are prepared pursuant to criteria of the Southern Association for supplementary special reports by institutions in states which conduct statewide audits.
- b. We performed analytical procedures including ratio analyses designed to identify relationships and individual items that appeared to be unusual. We obtained and verified management's explanations for significant fluctuations in accounts for the Current Funds Balance Sheet and the related Statement of Current Funds Expenditures at August 31, 1996, and confirmed the validity of such explanations as considered necessary.
- c. We reviewed the Financial Statements to determine whether they appeared to conform with applicable requirements described in the 1996 *Annual Reporting Requirements for Colleges and Universities* (AFR Requirements) published by the Comptroller of Public Accounts.
- d. We agreed balances identified as significant per our materiality threshold to the supporting general ledger, and we reviewed significant accounting adjustments made in the current and preceding years by the University or its System Offices.
- e. For the accounts included in Cash and Temporary Investments, Balance in State Appropriations, and Investments, we reviewed year-end reconciliations, agreed them to the respective bank, Comptroller of Public Accounts, or custodian statements, and traced significant or unusual items to subsequent clearing. We inquired as to whether appropriate cutoff of transactions was made (for the current and preceding year) and, additionally for Investments, we inquired as to whether appropriate consideration had been given to the allocation of investments between Current Funds and noncurrent funds.
- f. We reviewed, verified, and modified the Notes to the Financial Statements prepared by the University to ensure they were accurate and complete, that they disclosed all necessary items, and that they were in conformity with the AFR Requirements.
- g. We inquired of persons having responsibility for financial accounting matters concerning questions which have arisen in the course of applying the foregoing procedures, changes in the University's activities, accounting principles and practices, accounting systems, computer systems, key personnel, and events subsequent to the date of the Financial Statements that would have a material effect on them.
- h. We reviewed board minutes for actions that may affect the Financial Statements.

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## Current Funds Balance Sheet at August 31, 1996

<u>Assets</u>	<u>Total Current Funds</u>
Cash and Temporary Investments	\$ 18,329,090
Balance in State Appropriations	30,237,156
Accounts Receivable (net of allowance)	14,127,095
Due From Other Agencies	414,645
Due From Other Funds	118,495
Due From Other Components	8,549,856
Investments	51,124,503
Federal Receivables	3,453,522
Accrued Interest Receivable	752,605
Prepaid Expenses	5,085,155
Deferred Charges	46,624
Notes Receivable (net of allowance)	22,014
Consumable Inventories	658,489
Resale Inventories, at Cost	1,795,184
<b>TOTAL ASSETS</b>	<b><u>\$ 134,714,433</u></b>
<u>Liabilities And Fund Balances</u>	
<b>Liabilities</b>	
Accounts Payable	\$ 5,101,146
Accrued Liabilities	10,930,691
Deposits Payable	1,508,201
Due to Other Funds	91,660
Deferred Revenues	28,483,654
Accrued Compensable Absences Payable	5,602,474
<b>Total Liabilities</b>	<b><u>\$ 51,717,826</u></b>
<b>Fund Balances</b>	
Unrestricted	
Reserved for	
Encumbrances	\$ 7,279,786
Accounts and Notes Receivable	12,456,324
Inventories	2,453,672
Self-Insured Plans	1,511,804
Other Specific Purposes	5,239,269
Unreserved	
Allocated	\$ 23,870,837
Unallocated	719,369

Restricted	
Restricted - Encumbered	\$ 1,572,818
Restricted - Other	<u>27,892,728</u>
<b>Total Fund Balances</b>	<u>\$ 82,996,607</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 134,714,433</u>

## Statement of Current Funds Expenditures for the Fiscal Year Ended August 31, 1996

	<u>Total Current Funds</u>
<b>Educational and General Expenditures</b>	
Instruction	\$ 116,423,710
Research	38,770,864
Public Service	14,434,918
Academic Support	26,802,038
Student Services	8,390,860
Institutional Support	26,957,214
Operation and Maintenance of Plant	19,473,170
Scholarships and Fellowships	<u>28,981,435</u>
<b>Total Educational and General Expenditures</b>	\$ 280,234,209
<b>Auxiliary Enterprises Expenditures</b>	<u>34,484,644</u>
<b>TOTAL CURRENT FUNDS EXPENDITURES</b>	<u>\$ 314,718,853</u>

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

# Notes to the Financial Statements for the Fiscal Year Ended August 31, 1996

## General Introduction

This special report has been prepared for the use of the Southern Association of Colleges and Schools (Southern Association), in connection with the review of the University of Houston for accreditation purposes. This report includes a Current Funds Balance Sheet and a Statement of Current Funds Expenditures and the related Notes (Financial Statements).

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

Institutions in this category must provide either a separate report or a consolidated balance sheet. The Southern Association requires state colleges and universities audited in this manner to have a Special Report which includes Current Funds expenditure classifications and amounts in accordance with generally accepted principles of institutional accounting, and the institution's Current Funds Balance Sheet.

The significant accounting policies followed by the University of Houston System and its components in maintaining accounts and in financial statement preparation are in accordance with the *Annual Financial Reporting Requirements for Colleges and Universities* of the Texas Comptroller of Public Accounts. These requirements follow, as nearly as practicable, the American Institute of Certified Public Accountants (AICPA) Industry Audit Guide, *Audits of Colleges and Universities*, 1973 Edition, as amended by AICPA Statement of Position (SOP) 74-8; *Financial Accounting and Reporting by Colleges and Universities*, as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989; and as modified by all applicable Governmental Accounting Standards Boards (GASB) pronouncements cited in Codification Section Co5, "Colleges and Universities." The requirements are also in substantial conformity with the *Financial Accounting and Reporting Manual for Higher Education* published by the National Association of College and University Business Officers (NACUBO).

## Summary of Significant Accounting Policies

### Basis of Accounting

The accompanying Financial Statements present the financial position and expenditures of the University of Houston on the accrual basis of accounting. The Financial Statements presented are in accordance with the specifications of, and for the use of, the Southern Association. They do not constitute a complete set of financial statements and are not designed for general purpose usage.

## **Fund Accounting**

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the University of Houston, accounts are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying Financial Statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported for the fund group referred to as Current Funds.

The Current Funds fund group used at the University of Houston in these specific Financial Statements is composed of those funds available for current operating and maintenance purposes as well as those restricted by donors and other outside agencies for specific operating purposes. Current Funds are segregated by the University into separate balanced fund groups as follows:

**Educational and General** - Funds for administration, institutional expense, instruction and departmental research, physical plant operation, libraries, and other items relating to the primary function of the institution.

**Designated** - Funds arising from sources that have been designated by the Board of Regents or management to be used for special purposes. This fund distinguishes such internally designated funds from externally restricted funds as well as other current funds. Service department funds and revolving and clearing accounts are also included in this fund group.

**Auxiliary Enterprises** - Funds for activities which furnish a service to students, faculty, staff, or the public for which charges are made that are directly related to, although not necessarily equal to, the cost of the service, such as residence halls, food services, bookstores, and athletics.

**Restricted** - Funds available for current purposes, the use of which has been restricted by outside agencies or persons. Revenues are reported only to the extent of expenditures for the current year.

Other fund groups used by the University of Houston but not included in these specific Financial Statements because they are for noncurrent purposes or funds held in custody for other are as follows:

**Loan Funds** - Funds available for loans to students.

**Endowment Funds** - Funds for which a donor or other external agency has stipulated as a condition of a gift that the principal is to be maintained inviolate and in perpetuity and that only the income from the investments of the funds may be expended.

**Plant Funds** - Plant Funds are segregated into the following balanced fund groups:

**Unexpended Plant Funds** - Funds to be used for construction, rehabilitation, and acquisition of physical properties for institutional purposes.

**Renewals and Replacements** - Funds to be used for renewal and replacement of existing physical properties for institutional purposes.

**Retirement of Indebtedness** - Funds accumulated for payment of interest on debt and retirement of the principal indebtedness on physical properties.

**Investment in Plant** - Funds already expended for plant properties. Physical properties are stated at cost at date of acquisition or estimated fair market value at date of donation in the case of gifts, without provisions in the accounts for depreciation.

**Agency Funds** - Funds held by the University as custodial or fiscal agent for students, faculty members, and others.

**Unrestricted Fund Balances** - The terms and definitions, as subsequently presented, are used to enhance the information provided in reporting of fund balances. The presentation format for fund balances is not required by generally accepted accounting principles (GAAP); however, it should be useful to the users of the financial report as it provides further insights into the availability and anticipated use of funds.

These represent the net accumulation of the excess revenues and other additions over expenditures, other deductions, and transfers for specific fund groups. As a general rule, it is available for future operating purposes and its use is determined by the Board of Regents.

Unrestricted fund balances are further classified as reserved or unreserved as follows:

**Reserved** - That portion of the unrestricted fund balances that is allocated for third-party claims against resources that have not materialized at balance sheet date. Assets identified as reserved are of a nonmonetary nature or lack liquidity; therefore, they are not available for current appropriations or expenditure.

**Unreserved** - All unrestricted fund balances that are not reserved. Unreserved fund balances are classified as allocated or unallocated as follows:

**Allocated** - That portion of the unrestricted fund balances that has been identified for specific future use by the Board or institutional management.

Also classified as allocated are unencumbered balances of legislative appropriations from the State's general revenue that have been reappropriated to the System for its use in the subsequent year.

**Unallocated** - Fund balances that are available for future operating purposes as determined by subsequent Board or institutional management directives.

## Financing of Plant Assets

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as expenditures in the case of normal replacement of movable equipment and library books.

## Other Significant Accounting Policies

Other significant accounting policies are set forth in the Financial Statements and the notes thereto.

### Note 1: Authorized Investments

The University of Houston System is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act of 1987 (Article 842a-2 of the Texas Revised Civil Statutes). Such investments include (1) obligations of the United States or its agencies; (2) direct obligations of the State of Texas or its agencies; (3) obligations of political subdivisions rated not less than A by a national investment rating firm; (4) certificates of deposit; and (5) other instruments and obligations authorized by statute.

### Note 2: Deposits and Investments

#### DEPOSITS OF CASH IN BANK

- A. The carrying amount of \$(9,154,194) for Cash in Bank (including restricted assets) is presented below as presented in Exhibit A.
- B. The bank balance of the University of Houston has been classified according to the following risk categories:

- Category 1:** Insured or collateralized with securities held by the governmental entity or by its agent in the name of the governmental entity.
- Category 2:** Collateralized with securities held by the pledging institutions trust department or agent in the governmental entity's name.
- Category 3:** Uncollateralized (which would include any deposits collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the governmental entity's name).

**Exhibit A**

<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
\$(9,154,194)	\$373,627	\$344,387	\$0	\$29,240

At August 31, 1996, the carrying amount of the University of Houston's Current Funds deposits was \$(9,154,194), which represents disbursement amounts that had cleared the University's books at fiscal year end, but had not yet cleared the bank. As part of its cash management process which is designed to maximize investment income, the University liquidates Temporary Investments as needed to meet expenditure requirements. Temporary Investments at fiscal year end totaled \$19,130,009.

Total bank balances equaled \$373,627, of which, \$344,387 was covered by collateral pledged in the University of Houston System's name and held in the safekeeping departments of unrelated banks which act as the pledging bank's agent (GASB risk category 1). Additionally, \$29,240 was deposited in foreign banks and was neither covered by insurance nor collateralized (GASB risk category 3). Cash and deposits included in the Current Funds Balance Sheet consist of the items reported below:

**Cash and Deposits**

Bank Deposits:

Demand Deposits	\$(9,154,194)	
Total Bank Deposits:		<u>\$(9,154,194)</u>

Cash and Cash Equivalents:

Petty Cash	\$ 133,081	
Local Funds in State Treasury	8,307,513	
Reimbursements in Transit	(87,320)	
Total Cash and Cash Equivalents:		<u>8,353,274</u>
Total Current Funds and Cash Deposits		<u>\$(800,920)</u>

**INVESTMENTS**

To comply with the reporting requirements of Governmental Accounting Standards Board (GASB) Statement No. 3, *Deposits with Financial Institutions, Investment (including Repurchase Agreements), and Reverse Repurchase Agreements*, the University of Houston's investments are categorized to give an indication of credit risk assumed by the University of Houston at year end.

Credit risk is the risk that another party to a deposit or investment transaction will not fulfill its obligation. This is not to be confused with market risk, which is the risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline. Market risk is not depicted in this note.

The following categories of risk are included:

- Category 1:** Investments that are insured or registered or for which the securities are held by the institution or its agent in the institution's name.
- Category 2:** Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or institution in the institution's name.
- Category 3:** Uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent but not in the institution's name.

At August 31, 1996, all of the University of Houston's categorized investments in Current Funds were uninsured and unregistered for which the securities were held in the name of the University by an institution related to the investment manager (GASB risk category 2), and are summarized below. Certain other investments cannot be categorized because they are not evidenced in physical or book entry form, and these are included in the summary below:

**Investment Categories**

Type of Security	Category			Carrying Amount	Market Value
	<u>1</u>	<u>2</u>	<u>3</u>		
U.S. Treasury Notes		\$34,349,775		\$34,349,775	\$34,059,412
Municipal Bonds		16,774,728		16,774,728	16,437,902
Federal Agency Obligations		<u>1,837,384</u>		<u>1,837,384</u>	<u>1,749,660</u>
TOTALS		<u>\$52,961,887</u>		<u>\$52,961,887</u>	<u>\$52,246,974</u>
<u>Uncategorized Investments</u>					
Money Market Funds				\$17,292,626	\$17,292,626
TOTAL INVESTMENTS				<u>\$70,254,513</u>	<u>\$69,539,600</u>
Total Cash and Deposits				\$ (800,920)	
Total Investments				<u>70,254,513</u>	
TOTAL DEPOSITS AND INVESTMENTS				<u>\$69,453,593</u>	
Cash and Temporary Investments				\$18,329,090	
Investments				<u>\$51,124,503</u>	
TOTAL DEPOSITS AND INVESTMENTS				<u>\$69,453,593</u>	

### **Note 3: Employee Benefits**

#### **A. Employees' Retirement Plan**

The University of Houston participates in the State of Texas joint contributory retirement plans and thereby provides retirement plans for substantially all of its employees designated as "benefits eligible."

One of the primary plans in which the System participates is administered by the Teacher Retirement System of Texas (TRS). The contributory percentages of participant salaries by the State and by each participant were 6 percent and 6.4 percent, respectively, of annual compensation.

TRS does not account for each of its component governmental agencies, since TRS itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. According to an independent actuarial evaluation as of August 31, 1995, the present value of TRS's actual and projected liabilities, including projected benefits payable to its retired and active members and their beneficiaries, was in excess of the assets of TRS. However, the actuary projected that such assets, augmented by projected future contributions and earnings, would be sufficient to amortize the unfunded difference over a period of 14 years assuming payroll growth of 4.25 percent. Further information regarding actuarial assumptions and conclusions, together with audited Financial Statements, is included in the TRS's annual financial report.

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

For employees participating prior to September 1, 1995, the contributory percentages of participant salaries provided by the State and by each participant was 8.50 (2.50 percent from funding sources available to the System and 6.00 percent from the State General Revenue funds) and 6.65 percent, respectively, of annual compensation. For employees hired September 1, 1995, or later, the contributory percentages of participant salaries provided by the State and each participant was 6.00 percent and 6.65 percent, respectively, of annual compensation. Since these are individual investment product contracts, the State has no additional or unfunded liability for this program.

The retirement expense to the State for the University of Houston was \$4,606,868 for the fiscal year ended August 31, 1996. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the University.

#### **B. Employment Health Care, Life, and Other Insurance Plans**

The University of Houston provides group health, life, and other insurance to eligible employees and dependents, both active and retired. The programs were funded by monthly payments made by the State of Texas and by participants' payments and were

administered by the Employees Retirement System of Texas (ERS). During fiscal year 1996, the State paid \$186 per eligible person for employee-only coverage, \$257 per eligible person for employee-plus-child coverage, \$292 for employee-plus-spouse coverage, and \$363 for employee-plus-family coverage.

Employees are provided the option of having their health plan contributions deducted on a pre-tax basis, thereby reducing their taxable income. This benefit is permitted by Section 125 of the Internal Revenue Service Code. Information regarding the State's contribution, the number of participants, and the cost of providing benefits is included in the notes to the annual financial report of ERS.

Employees are offered the option of establishing pre-tax reimbursement accounts for eligible dependent care expenses and for eligible health expenses not reimbursed through health insurance. Under this arrangement, the employee specifies an amount to be deducted from his or her check for one or both accounts on a pre-tax basis. The employee may file claims against the accounts for incurred expenses and receive reimbursement from his or her pre-tax funds. The program is administered by the System's insurance carrier and is permitted by Section 125 of the Internal Revenue Service Code. Life and disability insurance benefits are provided by insurance policies administered by ERS, and these programs are funded by participants' payments.

**C. Post-Employment Health Care and Life Insurance Benefits**

Substantially all employees may become eligible for health care and life insurance benefits if they reach normal retirement age while working for the University of Houston System. This program is funded by the State of Texas and by retiree payments. During fiscal year 1996, amounts funded by the State for each employee were the same as for active employees, discussed above. Information regarding the cost of providing benefits for retirees, the State's contribution, and the number of participants is included in the notes to ERS's annual financial report.

**D. State of Texas Employee Benefit Payments**

Funds paid by the State of Texas directly into retirement funds and for group insurance, discussed above, and for matching FICA for the benefit of employees of the University are recorded as revenues and expenditures in unrestricted Current Funds. These payments by the State for the benefit of employees of the University of Houston System are recorded as unrestricted Current Funds revenues and expenditures. The amounts paid by the State of Texas on behalf of the University of Houston during fiscal year 1996 are shown below:

<u>Retirement</u>	<u>Group Insurance</u>	<u>FICA</u>
\$ 4,606,868	\$ 8,062,049	\$ 6,242,090

## **E. Risk Financing and Related Insurance**

The University of Houston System has self-insured arrangements for coverage in the areas of workers' compensation and unemployment compensation for employees of the University. These plans are funded by a pool with monthly charges made to local accounts of the University. Self-insured plans are reported in Designated Funds within unrestricted Current Funds of the University.

## **F. Deferred Compensation and Tax-Deferred Investment Programs**

Active benefits-eligible employees may elect, for federal income tax purposes, to defer a portion of their earnings in a qualified state-deferred compensation plan which complies with Internal Revenue Code 457. These employees may also purchase qualified tax-deferred investments with a portion of their earnings in order to supplement either of the two retirement programs offered by the State, discussed above, in which the employees participate. For the year ended August 31, 1996, four employees participated in deferred compensation plans, for which \$17,840 was deducted from pay during the fiscal year, and 1,019 employees invested \$3,393,132 in tax-deferred investments during the year via payroll deductions. Since these are individually-owned annuity contracts and other investment instruments, the State has no additional or unfunded liability for this plan and program.

### **Note 4: Compensated Absences**

The University of Houston records a liability for accrued, unused annual leave. Full-time state employees earn annual leave from 7 to 14 hours per month depending on the respective employee's years of state-employed service.

The State's policy is that an employee may carry his/her accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours of 376 for those employees with 20 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 1996. 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.

The University recognizes the accrued liability for the unpaid annual leave in the unrestricted Current Funds. The estimated cumulative amount of this liability is set forth below.

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month. Payment is made only (1) when an employee is absent because of illness, or (2) with defined limitations to the estate of a deceased employee at one-half of the employee's accumulated entitlement up to 336 hours. The cost of sick leave is recognized when paid. A liability is not recorded because experience indicates the expenditure for sick leave is minimal.

Estimated accrued compensable absences payable on August 31, 1996, were \$5,602,474 an increase of \$582,937 from August 31, 1995.

**Note 5: Contract and Grant Awards**

Contract and grant awards are accounted for in accordance with the requirements of the American Institute of Certified Public Accountants (AICPA) Industry Audit Guide, *Audits of Colleges and Universities*. Funds received but not expended during the reporting period increase fund balances in restricted Current Funds. Revenues are recognized as funds are actually expended.

For federal and non-federal contract and grant awards, funds expended but not collected are reported as Federal Receivables and Accounts Receivable in the Current Funds Balance Sheet. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the Financial Statements. Contract and grant award funds already committed, including multi-year awards and funds awarded during fiscal year 1996 for which monies have not been received nor funds expended, totaled \$30,850,759. The amounts of these contract and grant awards are shown below:

<u>Contract and Grant Category</u>	<u>Amount</u>
Federal	\$ 26,621,177
State	1,181,715
Local	120,774
Private	<u>2,927,093</u>
Total Contracts and Grants Awarded	<u>\$ 30,850,759</u>

**Note 6: Allowances for Doubtful Accounts**

Allowances are recorded for certain accounts receivable. Net change for the year is recorded in expenditures and other deductions from fund balances. Accounts receivable are written off if more than two years past due. Accounts receivable as of August 31, 1996, are shown below:

	<u>Gross Accounts Receivable</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Accounts Receivable</u>
Federal Receivable	\$ 3,453,521	\$ 0	\$ 3,453,521
Non-Federal Receivable	<u>16,452,914</u>	<u>2,025,700</u>	<u>14,427,214</u>
Total Accounts Receivable	<u>\$ 19,906,435</u>	<u>\$2,025,700</u>	<u>\$17,880,735</u>

**Note 7: Operating Lease Obligations and Rental Agreements**

Included in Current Funds expenditures are the following amounts for rent paid or due under operating leases and rental agreements by fund group:

<u>Fund Group</u>	<u>Amount</u>
Educational and General	\$1,439,526
Designated	1,013,056
Auxiliary	188,734
Restricted	<u>543,928</u>
Total	<u>\$3,185,244</u>

Future minimum lease rental payments under operating leases having an initial term in excess of one year as of August 31, 1996, are shown below:

**Future Commitments**

<u>Fiscal Year</u>	<u>Minimum Lease Payment</u>
1997	\$ 1,862,194
1998	1,396,646
1999	931,097
2000	465,548
2001	232,774
2002 and beyond	<u>116,387</u>
Total	<u>\$ 5,004,646</u>

**Note 8: Pending Lawsuits and Claims**

At August 31, 1996, various lawsuits and claims involving the System and/or its components were pending. While the ultimate liability with respect to litigation and other claims asserted against the University of Houston System cannot be reasonably estimated at this time, such liability is not expected to have material effect on University of Houston System accounts.

**Note 9: Related Parties**

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

Financial Statements of the University. Although the System is affiliated with several separate legal entities, as disclosed below, these organizations are not considered component units as defined by generally accepted accounting principles. Therefore, the account balances and financial transactions of these organizations are not included in the University's Financial Statements. The amounts provided by these foundations and alumni association are not collectively deemed material to the Financial Statements included in this special report. The University did not provide services or make expenditures on behalf of any of these organizations.

The University of Houston Foundation is for "the advancement of the general welfare of the University of Houston, as a whole, including, without limitation, all of the colleges and branches or divisions thereof, wheresoever located, as well as all of the facilities and activities thereof, now or hereafter existing or created, not inconsistent with the objectives, operation and management of the University of Houston." The Foundation's Board of Trustees consists of eight members, none of whom are members of the Board of Regents of the System or employees of the System.

The University of Houston College of Business Administration Foundation has a stated purpose to solicit, receive, or otherwise acquire real or personal property with the primary objective of improving the quality of education provided by the College of Business Administration; to assist in developing and increasing the facilities of the College for broader educational opportunities; to apply funds and other resources in procuring quality personnel, materials, and equipment; and to foster professional zeal among the faculty of the College and to promote the general educational interests of such faculty. The Foundation's Board of Trustees consists of fifteen members, none of whom are members of the Board of Regents of the System, and one of whom is an employee of the System.

The University of Houston Law Foundation is to complement legal education and assist in the orderly development of law and legal institutions through basic and applied research, service, and cooperative effort for the benefit of the Law Program, and other programs and schools now or hereafter existing in related fields of the University of Houston. The Foundations's Board of Trustees consists of fifteen members, one of whom is a member of the Board of Regents of the System, and none of whom are employees of the System.

The Houston Athletics Foundations, Inc. is to assist in the development and implementation of a strategic plan for the athletics development including annual fund, major gifts, leadership gifts, and endowments for the University in compliance with rules and regulations set forth by the National Collegiate Athletic Association and the Board of Regents of the System. The Foundation's Board of Directors consists of 7 officers and 14 directors, none of whom are members of the Board of Regents of the System or employees of the System.

The University of Houston Alumni Organization is to promote the aims, ideals, and purposes of the founders, officers, and faculty of the University. The Board of Trustees consists of 14 officers and 21 at large directors, none of whom are members of the Board of Regents of the System or employees to the System.