

**UNIVERSITY OF HOUSTON
VICTORIA**

**UNAUDITED ANNUAL
FINANCIAL REPORT**

FOR THE YEAR ENDED AUGUST 31, 2004

UNIVERSITY OF HOUSTON - VICTORIA

TABLE OF CONTENTS

MISCELLANEOUS DATA	SECTION
Letter Of Transmittal	I
Organizational Data	II
Statement Of Procedure Regarding Annual Financial Report	III
PRIMARY STATEMENTS	
Balance Sheet / Statement Of Net Assets - Proprietary Funds	1
Statement Of Revenues, Expenses, And Changes In Net Assets - Proprietary Funds ...	2
Matrix Of Operating Expenses Reported By Function - Proprietary Funds	3
Statement Of Cash Flows - Proprietary Funds	4
Notes To The Financial Statements	5
SUPPORTING STATEMENTS	
SCHEDULE	
1-A Schedule Of Expenditures Of Federal Awards	6
1-B Schedule Of State Grant Pass - Throughs From/To State Agencies	7
3 Reconciliation Of Cash In State Treasury	8

University of Houston  Victoria

November 15, 2004

Honorable Rick Perry, Governor
Honorable Carole Keeton Strayhorn, State Comptroller
John O'Brien, Acting Director, Legislative Budget Board
Lawrence F. Alwin, CPA, State Auditor

Lady and Gentlemen:

I am pleased to submit the Annual Financial Report of the University of Houston – Victoria for the year ended August 31, 2004, in compliance with Texas Government Code Annotated § 2101.011 and in accordance with the requirements established by the Comptroller of Public Accounts.

Due to the statewide requirements embedded in Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. Since this annual financial report is not subject to a separate financial audit, certain information, such as a Management Discussion and Analysis and a complete set of Government-Wide Financial Statements, are not required to be included in the accompanying report. The financial statements are considered to be materially accurate in all respects.

The accompanying annual financial report will be considered for audit by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

If you have any questions regarding this Annual Report or the Schedule of Expenditures of Federal Awards, please contact Toni Wyer, at 361-570-4815.

Sincerely,



Wayne B. Beran, CPA
Vice President for Administration and Finance

Office of the Vice President For Administration and Finance

3007 N. Ben Wilson • Victoria, Texas 77901-5731 • 361.570.4811 • FAX: 361.570.4812

UNIVERSITY OF HOUSTON - VICTORIA

ORGANIZATIONAL DATA
AUGUST 31, 2004

BOARD OF REGENTS

Morrie K. Abramson, Houston	Term Expires August 31, 2005
Morgan Dunn O'Connor, Victoria	Term Expires August 31, 2005
Thad "Bo" Smith, Sugar Land	Term Expires August 31, 2005
Michael J. Cemo, Houston	Term Expires August 31, 2007
Raul A. Gonzalez, Austin	Term Expires August 31, 2007
Leroy L. Hermes, Houston	Term Expires August 31, 2007
Dennis D. Golden, O.D., Carthage	Term Expires August 31, 2009
Lynden B. Rose, Houston	Term Expires August 31, 2009
Calvin W. Stephens, Dallas	Term Expires August 31, 2009

OFFICERS OF THE BOARD (FISCAL YEAR 2004)

Thad "Bo" Smith	Chair
Morgan Dunn O'Connor	Vice Chair
Michael J. Cemo	Secretary

OFFICERS OF THE BOARD (FISCAL YEAR 2005)

Morgan Dunn O'Connor	Chair
Leroy L. Hermes	Vice Chair
Raul A. Gonzalez	Secretary

ADMINISTRATIVE OFFICERS

Tim Hudson	President
Don N. Smith	Provost and Vice President for Academic Affairs
Wayne B. Beran	Vice President for Administration and Finance
Richard D. Phillips	Associate Vice President for Student Services and Regional Outreach
Carole E. Oliphant	Executive Director of University Advancement

UNIVERSITY OF HOUSTON - VICTORIA
FINANCIAL STATEMENTS
(WITH DETAILED SUPPORTIVE SCHEDULES)

Present herein are the financial statements with detailed supportive schedules for the University of Houston - Victoria for the fiscal year ended August 31, 2004. These statements and detailed supportive schedules are in compliance with the guidelines in *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, published by the Texas Comptroller of Public Accounts. Additionally, this report has been prepared in accordance with the requirements contained in Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

This detailed internal report supplements the annual financial report of the University of Houston System and is intended to be for limited distribution primarily to financial and academic officers of the University who need access to the details included herein; it also provides a historical record of transactions relating to this particular component institution.

The financial report for the University of Houston System includes the primary statements on a combined, system-wide basis complete with explanatory notes.

The State Auditor has not audited the accompanying annual financial statements and, therefore, an opinion has not been nor will be expressed on the financial statements and related information contained in this report. The information contained in the combined financial statements of the University of Houston System, and its related components, is part of and included in the State of Texas Comprehensive Annual Financial Report. The Annual Financial Report of the University of Houston System is reviewed by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report, upon which an opinion is expressed.

Unaudited

University of Houston - Victoria
Statement of Net Assets
August 31, 2004

	<u>Total 2004</u>
Assets	
Current Assets	
Cash and Cash Equivalent	
Cash on Hand	\$ 350.00
Cash in Bank	5,214,373.15
Cash in Transit/Reimb Due From Treasury	818,294.35
Cash in State Treasury	1,040,221.53
Cash Equivalents	136.53
Restricted:	
Cash and Cash Equivalent	
Cash in Bank	860,219.31
Loans and Contracts	275,346.28
Legislative Appropriations	954,456.18
Receivables From:	
Federal Receivables	0.27
UHS Intercampus Receivables	1,060,523.21
Accounts Receivable	41,781.79
Other Receivables	110,208.14
Due From Agencies	750.08
Deferred Charges	18,650.48
<hr/>	
Total Current Assets	<hr/> 10,395,311.30 <hr/>
Non-Current Assets	
Restricted:	
Cash and Cash Equivalent	
Cash in Bank	(916,004.73)
UHS Intercampus Receivables	6,217,263.64
Investments	5,608.76
UHS Intercampus Receivables	774,973.32
Capital Assets	
Non-Depreciable	
Land and Land Improvements	847,250.00
Construction in Progress	108,600.00
Other Capital Assets	3,921,058.71
Depreciable	
Building and Building Improvements	16,238,150.69
Less Accumulated Depreciation	(1,814,401.69)
Furniture and Equipment	3,059,978.89
Less Accumulated Depreciation	(1,892,310.40)
Vehicles, Boats and Aircraft	103,269.00
Less Accumulated Depreciation	(40,530.54)
<hr/>	
Total Noncurrent Assets	<hr/> 26,612,905.65 <hr/>
<hr/> Total Assets <hr/>	<hr/> 37,008,216.95 <hr/>

Unaudited

University of Houston - Victoria
Statement of Net Assets
August 31, 2004

	<u>Total 2004</u>
Liabilities	
Current Liabilities	
Payables	
Accounts Payable	838,115.45
Federal Payable	16,114.92
Payroll Payable	1,265,814.04
Intercampus Payable	351,585.00
Other Payable	41,455.50
Deferred Revenues	1,674,839.98
Revenue Bonds Payable	855,389.92
Employees' Compensable Leave	230,918.57
Funds Held for Others	175,691.62
	<hr/>
Total Current Liabilities	<u>5,449,925.00</u>
Noncurrent Liabilities	
Revenue Bonds Payable	17,237,901.66
Employees' Compensable Leave	273,821.49
	<hr/>
Total Noncurrent Liabilities	<u>17,511,723.15</u>
<u>Total Liabilities</u>	<u>22,961,648.15</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	3,401,015.41
Restricted for:	
Debt Retirement	209.63
Funds Held as Permanent Investments:	
Non-Expendable	
Endowment Funds	4,348,382.06
Other Restricted	922,452.87
Unrestricted	5,374,508.83
	<hr/>
<u>Total Net Assets</u>	<u>\$ 14,046,568.80</u>

Unaudited

University of Houston - Victoria
 Statement of Revenues, Expenses and Changes in Net Assets
 For The Year Ended August 31, 2004

	<u>Total 2004</u>
Operating Revenues	
Sales of Goods and Services (PR-Chgs for Services)	
Tuition and Fees	\$ 7,370,122.87
Discounts and Allowances	(659,757.17)
Auxiliary Enterprise	(54,751.11)
Other Sales of Goods and Services	246,950.63
Federal Revenue-Operating (PR-OP Grants/Contributions)	1,200,136.90
Federal Pass Through Revenue (PR-OP Grants/Contributions)	561,800.48
State Grant Revenue (PR-OP Grants/Contributions)	53,856.84
State Grant Pass Through Revenue (PR-OP Grants/Contributions)	91,973.63
Other Grants and Contracts-Operating (PR-OP Grants/Contributions)	56,215.66
Other Operating Revenues (PR-Chgs for Services)	3,630.49
	<hr/>
Total Operating Revenues	8,870,179.22
	<hr/>
Operating Expenses	
Instruction	7,256,798.09
Research	19,552.07
Public Service	963,556.87
Academic Support	2,809,452.93
Student Services	1,456,245.99
Institutional Support	5,578,135.50
Operation & Maintenance of Plant	2,455,206.36
Scholarships & Fellowships	1,551,251.23
Auxiliary Enterprises	6,818.42
Depreciation & Amortization	1,031,921.39
	<hr/>
Total Operating Expenses	23,128,938.85
	<hr/>
Operating Income (Loss)	(14,258,759.63)
	<hr/>
Non-Operating Revenues (Expenses)	
Legislative Revenue (GR)	13,315,325.12
Gifts (PR-OP Grants/Contributions)	134,605.25
Interest and Investment Income (PR-Chgs for Services)	598,968.97
Interest Expense and Fiscal Charges	(876,214.20)
Other Nonoperating Revenues (Expenses) (PR-Chgs for Services)	1,495,339.90
	<hr/>
Total Nonoperating Revenues (Expenses)	14,668,025.04
	<hr/>
Income (Loss) before Other Revenues, Expenses, Gains, Losses and Transfers	409,265.41
	<hr/>

Unaudited

University of Houston - Victoria
 Statement of Revenues, Expenses and Changes in Net Assets
 For The Year Ended August 31, 2004

	<u>Total 2004</u>
Other Revenues, Expenses, Gains, Losses and Transfers	
Capital Appropriation (HEAF)	1,659,449.00
Additions to Permanent and Term Endowments	62,051.00
UHS Intercampus Transfers-In	93,911.47
UHS Intercampus Transfers-Out	(99,463.35)
Legislative Transfers-In	195,489.00
	<hr/>
<u>Total Other Rev, Exp, Gains, Losses and Transfers</u>	<u>1,911,437.12</u>
<u>Change In Net Assets</u>	<u>2,320,702.53</u>
Net Assets Beginning	11,725,866.27
Restatements	<hr/>
<u>Net Assets Beginning, as Restated</u>	<u>11,725,866.27</u>
<u>Net Assets, Ending</u>	<u><u>14,046,568.80</u></u>

Unaudited

University of Houston - Victoria
 Matrix of Operating Expenses Reported by Function
 For The Year Ended August 31, 2004

Operating Expenses	Instruction	Research	Public Service	Academic Support	Student Services
Salaries and Wages	\$ 4,588,557.65	\$ 12,290.00	\$ 575,302.51	\$ 1,362,788.57	\$ 850,393.91
Payroll Related Costs	1,371,922.70	1,881.86	139,447.78	338,612.39	235,824.91
Professional Fees and Services	1,414.70		600.00		450.00
Travel	142,617.96		22,595.05	55,907.24	12,761.51
Materials and Supplies	4,534.91		3,507.91	208.88	2,273.79
Communication and Utilities	161,071.87		14,506.71	137,060.58	34,863.30
Repairs and Maintenance	83,845.22		3,905.40	20,485.44	14,860.34
Rentals and Leases	59,182.88	187.00	8,245.30	13,747.54	18,760.44
Printing and Reproduction	5,674.33	3,578.93	1,630.22	1,230.20	19,683.24
Depreciation and Amortization					
Interest	460.92		30.79	316.83	13.99
Scholarships	86,948.00			37,551.00	4,000.00
Claims and Losses					
Other Operating Expenses	750,566.95	1,614.28	193,785.20	841,544.26	262,360.56
Total Operating Expenses	\$ 7,256,798.09	\$ 19,552.07	\$ 963,556.87	\$ 2,809,452.93	\$ 1,456,245.99

Unaudited

University of Houston - Victoria
 Matrix of Operating Expenses Reported by Function
 For The Year Ended August 31, 2004

	Institutional Support	Operation and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total 2004
\$	3,620,318.03	\$ 352,575.50	\$ 45,190.72	\$	\$	\$ 11,407,416.89
	520,653.90	108,893.25	64.91			2,717,301.70
	59,169.79	5,850.21				67,484.70
	58,648.90	2,528.18				295,058.84
	848.92	77.98				11,452.39
	70,832.84	246,377.23				664,712.53
	20,655.23	112,810.58				256,562.21
	17,210.99	218,719.00		2,028.60		338,081.75
	45,942.58	1,394.39				79,133.89
					1,031,921.39	1,031,921.39
	8,876.08	95.70				9,794.31
	31,539.50		1,501,088.83			1,661,127.33
	38,119.89					38,119.89
	1,085,318.85	1,405,884.34	4,906.77	4,789.82		4,550,771.03
<u>\$</u>	<u>5,578,135.50</u>	<u>\$ 2,455,206.36</u>	<u>\$ 1,551,251.23</u>	<u>\$ 6,818.42</u>	<u>\$ 1,031,921.39</u>	<u>\$ 23,128,938.85</u>

Unaudited

University of Houston - Victoria
Statement of Cash Flows
For The Year Ended August 31, 2004

	<u>Total 2004</u>
Cash Flows from Operating Activities	
Receipts from Customers	\$ 264,498.21
Proceeds from Tuition & Fees	7,088,533.48
Proceeds from Research Grants & Contracts	161,443.28
Proceeds from Auxiliaries	(57,836.65)
Proceeds from Other Revenues	1,842,223.53
Payments to Suppliers for Goods and Services	(1,433,771.26)
Payments to Employees for Salaries	(11,633,320.31)
Payments to Employees for Benefits	(2,771,112.98)
Payments for Loans Provided	(204,164.92)
Payments for Other Expenses	(6,946,727.78)
<hr/>	
Net Cash Provided (Used) by Operating Activities	<hr/> <u>(13,690,235.40)</u>
Cash Flows from Noncapital Financing Activities	
Proceeds from State Appropriations	13,228,106.60
Proceeds from Gifts	134,605.25
Proceeds from Endowments	62,051.00
Proceeds from Other Financing	1,846,869.80
Payments for Other Uses	981,112.64
<hr/>	
Net Cash Provided by Noncapital Financing Activities	<hr/> <u>16,252,745.29</u>
Cash Flows from Capital and Related Financing Activities	
Proceeds from Capital Contributions	1,659,449.00
Payments for Additions to Capital Assets	(922,817.43)
Payments of Principal on Debt	(1,691,692.12)
<hr/>	
Net Cash Provided by Capital and Related Financing Activities	<hr/> <u>(955,060.55)</u>
Cash Flows from Investing Activities	
Proceeds from Interest Income	
Proceeds from Investment Income	
<hr/>	
Net Cash Provided (Used) by Investing Activities	<hr/> <u>0.00</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,607,449.34
Cash and Cash Equivalents, September 1, 2003	5,410,140.80
Restatements to Beginning Cash and Cash Equivalents	
<hr/>	
Cash and Cash Equivalents, August 31, 2004	<hr/> <u><u>7,017,590.14</u></u>

Unaudited

University of Houston - Victoria
Statement of Cash Flows
For The Year Ended August 31, 2004

	<u>Total 2004</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
<u>Operating Income (Loss)</u>	<u>\$ (14,258,759.63)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities	
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	162,360.53
(Increase) Decrease in Prepaid Expenses	(6,549.48)
(Increase) Decrease in Loans and Contracts	(204,164.92)
(Increase) Decrease in Other Assets	13,253.99
Increase (Decrease) in Payables	360,449.05
Increase (Decrease) in Deferred Income	253,846.35
Increase (Decrease) in Compensated Absence Liability	300,238.71
Increase (Decrease) in Benefits Payable	(354,049.99)
Increase (Decrease) in Other Liabilities	43,139.99
<u>Total Adjustments</u>	<u>568,524.23</u>
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>\$ (13,690,235.40)</u>

UNIVERSITY OF HOUSTON - VICTORIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2004

NOTE 1: Summary of Significant Accounting Policies**Entity**

The University of Houston - Victoria (the University) is an agency of the State of Texas and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' Reporting Requirements for State Agencies.

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

The University includes within this report all components as determined by an analysis of their relationship to the University as listed below.

Due to the statewide requirements embedded in Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The financial report will be considered for audit by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

The accompanying financial statements and related information have been prepared in conformity with the instructions contained in the State Comptroller's manual, Reporting Requirements for Annual Financial Reports of State Agencies and Universities. The instructions and the accompanying report are designed to assist the Texas Comptroller of Public Accounts in compiling and preparing a Comprehensive Annual Financial Report for the State of Texas. Since the University's annual financial report is not subject to a separate financial audit, certain information, such as a Management Discussion and Analysis and a complete set of Government-Wide Financial Statements, are not included in the accompanying report. The University's financial statements are considered to be materially accurate in all respects.

Blended Component Units

No component units have been identified which should have been blended into an appropriated fund.

Discretely Presented Component Units

These component units are legally separate from the state, but are financially accountable to the state, or have a relationship with the state such that exclusion would cause the financial statements to be misleading or incomplete. The component unit columns of the financial statements include the financial data of these entities.

No component units have been identified which should have been discretely presented in the financial statements.

Fund Structure

The accompanying financial statements are presented on the basis of funds, each of which is considered a separate accounting entity.

Governmental Fund Types & Government-wide Adjustment Fund Types

General Fund

The General Fund is the principal operating fund used to account for most of the state's general activities. It accounts for all financial resources except those accounted for in other funds.

Special Revenue Funds

Special Revenue funds are used to account for the proceeds of specific revenue sources (other than for private-purpose trusts or for major capital projects) that are legally restricted to use for specified purposes.

Debt Service Funds

Debt Service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Project Funds

Capital Project funds are used to account for financial resources used for the acquisition, repair, renovation or construction of major capital facilities (other than those financed by proprietary or similar trust funds).

Permanent Funds

Permanent funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

Capital Asset Adjustment Fund Type

Capital Asset Adjustment fund type will be used to convert governmental fund type capital assets from modified accrual to full accrual.

Long-Term Liabilities Adjustment Fund Type

Long-Term Liabilities Adjustment fund type will be used to convert governmental fund type debt from modified accrual to full accrual.

Other Adjustments Fund Type

Other Adjustments fund type will be used to convert all other governmental fund type activity from modified accrual to full accrual.

Proprietary Fund Types

Enterprise Funds

Enterprise funds are used to account for any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met.

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity.
2. Laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service), be recovered with fees and charges.
3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

Internal Service Funds

Internal Service funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of a governmental unit, or to other governmental units, within the state, on a cost reimbursement basis.

Fiduciary Fund Types

Fiduciary funds account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. When assets are held under the terms of a formal trust agreement, either a pension trust fund, or a private purpose trust fund is used.

Pension Trust Funds

Pension trust funds are used to account for resources held in trust for the member and beneficiaries of defined benefit pension plans. A separate pension trust fund is used for each separate pension plan. Separate pension trust funds also may be established to account for supplemental pension benefits.

External Investment Trust Funds

External investment trust funds are used to account for the state's external portion of investment pools reported by the sponsoring government.

Agency Funds

Agency funds are used to account for assets the government holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Private-Purpose Trust Funds

Private-purpose trust funds are used to account for all other trust arrangements whose principal and interest benefit individuals, private organizations, or other governments.

Component Units

The fund types of individual discrete component units are available from the component units' separately issued financial statements. Additional information about component units can be found in Note 17.

Governmental Component Units are used to account for discretely presented component units that follow governmental fund accounting principles.

Proprietary Component Units are used to account for the discretely presented component units which follow proprietary fund measurement focus and accounting principles.

Business-Type Activities

The operations of the Universities are considered to be a Business-Type Activity. The University charges fees to external users for goods and services. Consequently the accompanying financial statements are presented using the proprietary fund type structure.

Basis of Accounting

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

Governmental fund types that build the fund financial statements are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year end. The State of Texas considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current year for Fund Financial Statements prepared on the modified accrual basis. Expenditures and other uses of financial resources are recognized when the related liability is incurred.

Governmental adjustment fund types that will build the government-wide financial statements are accounted for using the full accrual basis of accounting. This includes capital assets, accumulated depreciation, unpaid Employee Compensable leave, the unmatured debt service (principal and interest) on general long-term liabilities, long-term capital leases, long-term claims and judgments and full

accrual revenues and expenses. The activity will be recognized in these fund types.

Proprietary funds, pension trust funds, external investment trust funds and private-purpose trust funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Proprietary funds distinguish operating from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds' principal ongoing operations. Operating expenses for the enterprise and internal services funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

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).

Additionally the University prepares an annual budget which represents anticipated sources of revenues and authorized uses. This budget is approved by the University'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, and Fund Balances/Net Assets

ASSETS

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.

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 more than \$5,000 and an estimated useful life in excess of one year are capitalized. These assets are capitalized at cost or, if purchased, at appraised fair value as of the date of acquisition. Purchases of assets by governmental funds are reported as

UNAUDITED

expenditures, Depreciation is reported on all exhaustible assets. Inexhaustible assets such as works of art and historical treasures are not depreciated. Road and highway infrastructure is reported on the modified basis. Assets are depreciated over the estimated useful life of the asset using the straight-line method.

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

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.

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.

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 noncurrent in the Statement of Net Assets.

Capital Lease Obligations

Capital lease obligations represent the liability for future lease payments under capital lease contracts contingent upon the appropriation of funding by the Legislature. Liabilities are reported separately as either current or noncurrent in the statement of net assets.

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 noncurrent in the statement of net assets.

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 noncurrent in the Statement of Net Assets.

FUND BALANCE/NET ASSETS

The difference between fund assets and liabilities is Net Assets on the government-wide, proprietary, and fiduciary fund statements, and the Fund

UNAUDITED

Balance is the difference between fund assets and liabilities on the governmental fund statements.

Reservations of Fund Balance

Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reservations are legally restricted to a specific future use and are not available for expenditure.

Reserved for Encumbrances

This represents commitments of the value of contracts awarded or assets ordered prior to year-end but not received as of that date. Encumbrances are not included with expenditures or liabilities. They represent current resources designated for specific expenditures in subsequent operating periods.

Unreserved/Undesignated:

This represents the unappropriated balance at year-end.

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 Assets

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

Unrestricted Net Assets

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

INTERFUND ACTIVITIES AND BALANCES

The University has the following types of transactions between funds:

1. Transfers - Legally required transfers that are reported when incurred as Transfers In by the recipient fund and as Transfers Out by the disbursing fund.
2. 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 that 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.
3. 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.
4. Interfund Sales and Purchases - Charges or collections for services rendered by one fund to another that are recorded as revenues of the recipient fund and expenditures or expenses of the disbursing fund. The composition of the University's interfund activities and balances are presented in Note 8.

NOTE 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2004, is presented in Table 2.

Table 2 - Capital Assets

University of Houston - Victoria			
	Balance		
	9/1/03	Adjustments	Reclassifications
Business-type activities:			
Non-depreciable Assets			
Land and Land Improvements	847,250.00		
Construction in Progress	701,197.49	(801,352.98)	
Other Capital Assets	3,853,184.52	(8,605.25)	
Total Non-depreciable Assets	5,401,632.01	(809,958.23)	0.00
Depreciable Assets			
Buildings and Building Improvements Infrastructure	13,836,983.94		
Facilities & Other Improvements			
Furniture and Equipment	2,997,984.52		
Vehicle, Boats & Aircraft	103,333.00		
Other Capital Assets			
Total depreciable assets at historical costs	16,938,301.46	0.00	0.00
Less accumulated depreciation for:			
Buildings and Improvements Infrastructure	(1,124,030.97)	0.78	
Facilities & Other Improvements			
Furniture and Equipment	(1,511,335.98)	(48,901.80)	
Vehicle, Boats & Aircraft	(47,418.47)	0.20	
Other Capital Assets			
Total accumulated depreciation	(2,682,785.42)	(48,900.82)	0.00
Depreciable assets, net	14,255,516.04	(48,900.82)	0.00
Business-type activities capital assets, net	19,657,148.05	(858,859.05)	0.00

Table 2 - Capital Assets

University of Houston - Victoria				
Inc-Int'gy Trans	Dec-Int'gy Trans	Additions	Deletions	Balance 8/31/04
				847,250.00
		208,755.49		108,600.00
		76,479.44		3,921,058.71
0.00	0.00	285,234.93	0.00	4,876,908.71
		2,401,166.75		16,238,150.69
		61,994.37		3,059,978.89
		16,301.00	16,365.00	103,269.00
0.00	0.00	2,479,462.12	16,365.00	19,401,398.58
		(690,371.50)		(1,814,401.69)
		(332,072.62)		(1,892,310.40)
		(9,477.27)	(16,365.00)	(40,530.54)
0.00	0.00	(1,031,921.39)	(16,365.00)	(3,747,242.63)
0.00	0.00	1,447,540.73	0.00	15,654,155.95
0.00	0.00	1,732,775.66	0.00	20,531,064.66

NOTE 3: Deposits, Investments, & Repurchase Agreements

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

Deposits of Cash in Bank

- A. The carrying amount of \$(5,158,587.73) for Cash in Bank (including restricted assets and discretely presented component units) is presented below in Table 3.1.
- B. The bank balance of the University has been classified according to the following risk categories.
 - 1. Category 1 - Insured or collateralized with securities held by the University or by its agent in the name of the University.
 - 2. Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the University name.
 - 3. Category 3 - Uncollateralized (which would include any deposits collateralized with securities held by the pledging financial institutions, or by its trust department or agent but not in the University's name).

Table 3.1 - Cash Deposits

Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
\$(123,167.00)	\$0.00	\$0.00	\$(123,167.00)	\$5,158,587.73
Consisting of the following:				
Demand Deposits				\$5,158,587.73
Proprietary Funds Certificates of Deposit				
Fiduciary Funds Uninvested Securities Lending				
Cash Collateral				
Total Deposits Carrying Amounts				\$5,158,587.73

Investments

The fair values of investments including both short-term and long-term as of the balance sheet date are shown below in Table 3B. Investments are categorized to give an indication of the level of risk assumed by the University at year-end. The three categories are:

- 1. Category 1: Investments that are insured or registered, or for which the securities are held by the University, or its agent in the University's name.
- 2. Category 2: Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the University's name.
- 3. 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 University's name.

UNAUDITED

Table 3.2 - Investments

Type of Security	Category			Fair Value
	1	2	3	
Govt. Investments	\$	\$	\$	\$
Corporate Stock				
Corporate Obligations				
Political Sub Bonds				
Mortgage Backed Securities				
Foreign Equity				
Foreign Obligations				
Commercial Paper				
Miscellaneous Investments				
Repurchase Agreements				
Repurchase Agreements - Texas				
Treasury Safekeeping Trust				
Totals	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Uncategorized Investments:

Investments held by broker-dealers under reverse repurchase agreements:

U.S. Government Securities

Investments held by broker-dealers under securities lending agreements:

Corporate Stock

Security Lending Collateral Investment Pool

Texpool

Other

Total Investments

5,608.76
\$ 5,608.76

Consisting of the following:

Proprietary Funds Investments

5,608.76

Proprietary Funds Non-Current Restricted Short Term Investments

Proprietary Funds Non-Current Restricted Investments

\$5,608.76

Total, as above

Proprietary Funds CDs disclosed as Deposits but reported as Non-Current Restricted as Non-Current Restricted Short-Term Investments on financial Statement

Total Investments per Financial Statements

\$ 5,608.76

Reverse Repurchase Agreements

The University, by statute, is authorized to enter into reverse repurchase agreements. A reverse repurchase agreement is a transaction in which a broker-dealer or financial institution transfers cash to the University and the University transfers securities to the broker-dealer and promises to repay the cash plus interest in exchange for the same or similar securities. Credit risk exposure for the University arises when a broker-dealer does not return the securities or their value at the conclusion of the reverse repurchase agreement. There were no significant violations of legal or contractual provisions during the year.

Securities Lending

The University does not participate in a security-lending program.

In securities lending transactions, the University transfers its securities to broker-dealers and other entities for collateral - which may be cash, or securities - and simultaneously agrees to return the collateral for cash or the same securities in the future. The University invests the cash received as collateral and, if the returns on those investments exceed the rebate paid to the borrowers of the securities, the securities lending transactions generate income for the University. However, if the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss on principal, part of the payment to the borrower would come from the University's resources. The borrower will pay a loan premium or fee for the securities loan, thus generating income for the University.

Securities lending is authorized by state statutes. The University is authorized to lend its U.S. Government and Agency securities. Collateral is either cash or U.S. Government or Agency securities at a value of 102 percent of the value of the securities lent. The securities lending contracts allow the University to pledge or sell collateral securities without borrower default. At year-end, the University has no credit risk exposure to borrowers because the amounts the University owes to borrowers exceed the amounts the borrowers owe the University. Contracts with the lending agents require them to indemnify the University if the borrowers fail to return the securities. The policy is to match the maturities of the collateral investments and the securities loans. There were no significant violations of legal or contractual provisions, any borrower or lending agent default losses, and no recoveries of prior-period losses during the year.

Derivative Investing

The University did not hold any collateralized mortgage obligations at fiscal year-end. These securities are purchased to provide incremental yield above that available on corporate securities with similar terms. The overall return or yield on mortgage-backed securities depends on the amount of interest collected over the life of the security and the change in the fair value. It is estimated that these securities will provide future cash inflows on a time schedule that approximately matches the outflows associated with the University's liabilities. These highly marketable securities are rated AAA by the major rating agencies.

The University does not enter into forward-exchange contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risks associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterpart to perform.

NOTE 4: Short-Term Debt

The University of Houston System did not hold any short-term debt resulting from anticipation notes, lines of credit, or any other similar type of loan at fiscal year-end.

NOTE 5: Summary of Long Term Liabilities**Changes In Long-Term Liabilities**

During the year ended August 31, 2004, the following changes, presented in Table 5, occurred in liabilities.

Table 5 - Long Term Liabilities

Business-Type Activities	Balance 9-1-03	Additions	Reductions	Balance 8-31-04	Amounts Due Within One Year
Revenue Bonds Payable	\$ 18,908,769.50	\$	\$ 815,477.92	\$ 18,093,291.58	\$ 855,389.92
Compensable Leave	444,955.04	59,785.02		504,740.06	230,918.57
Total Business- Type Activities	\$ 19,353,724.54	\$ 59,785.02	\$ 815,477.92	\$ 18,598,031.64	\$ 1,086,308.49

Notes and Loans Payable

The University reported no notes or loans payable at the end of the year ended August 31, 2004.

Claims and Judgments

At August 31, 2004, various lawsuits and claims involving the University were pending. While the ultimate liability, if any, with respect to litigation and other claims asserted against the University cannot be reasonably estimated at this time, such liability, to the extent not provided for by insurance or otherwise, is not expected to have a material effect on University accounts.

Employees' Compensable Leave

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

Full-time state employees earn annual leave from seven to fourteen 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 520 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 2003. 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.

Lump sum payments made to employees, who separated from state service during the 2004 fiscal year, for accrued vacation and compensatory leave, totaled \$32,252.85.

NOTE 6: Capital Leases

The University may enter into long-term leases for financing the purchase of certain fixed assets. Such leases are classified as capital leases for accounting purposes and, therefore, are recorded at the present value of the future minimum lease payments at the inception of the lease. There were no outstanding capital lease payments payable at August 31, 2004.

NOTE 7: Operating Lease Obligations

Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year, as of August 31, 2004, are shown in Table 7.

Table 7 - Operating Leases

Year Ended August 31,	
2005	\$ 237,411.99
2006	178,058.99
2007	118,706.00
2008	59,353.00
2009	29,676.50
2010 - 2014	14,838.25
2015 - 2019	7,419.12
	<hr/>
Total Minimum Future Lease Rental Payments	\$ 645,463.85
	<hr/> <hr/>

NOTE 8: Interfund Balances / Activities

As explained in Note 1, under Interfund Transactions and Balances, there are numerous transactions between funds and agencies. At year-end amounts to be received or paid are reported as:

1. Interfund Receivables or Interfund Payables
2. Due From Other Agencies or Due To Other Agencies
3. Due From Other Funds or Due To Other Funds
4. Transfers In or Transfers Out
5. Legislative Transfers In or Legislative Transfers Out (Note 8 presentation required)

The University experienced routine transfers with other State agencies, which were consistent with the activities of the fund making the transfer. Repayment of interfund balances will occur within one year from the date of the financial statement.

Individual balances and activity at August 31, 2004, are shown in Table 8.

UNAUDITED

Table 8.1 - Interfund Receivables and Payables

Current Portion	Current Interfund Receivable	Current Interfund Payable
GENERAL REVENUE (01)	\$ 0.00	\$ 0.00
Total Current Interfund Receivable/Payable	\$ 0.00	\$ 0.00
Non-Current Portion	Non-Current Interfund Receivable	Non-Current Interfund Payable
GENERAL REVENUE (01)	\$ 0.00	\$ 0.00
Total Non-Current Interfund Receivable/Payable	\$ 0.00	\$ 0.00

Table 8.2 - Due From/To Other Agencies

	Due From Other Agencies	Due To Other Agencies	Source
ENTERPRISE (05) Appd Fund 0347, D23 Fund 0347 Agency 902, D23 Fund 0347			
UH - Victoria	\$ 0.00	\$ 0.00	
Appd Fund 5015, D23 Fund 5015 Agency 601, D23 Fund 5015			
UH - Victoria	693.00	0.00	State Grant
Appd Fund 5079, D23 Fund 5079 Agency 781, D23 Fund 5079			
UH - Victoria	57.08	0.00	State Pass-Through
Appd Fund 9999, D23 Fund 7999 Agency 753, D23 Fund 7999			
UH - Victoria	00.00	0.00	
Total Due From/To Other Agencies	<u>\$750.08</u>	<u>\$0.00</u>	

Table 8.3 - Due From/To Other Funds

	Due From Other Funds	Due To Other Funds	Source
GENERAL REVENUE (01)	\$ 0.00	\$ 0.00	
Total Due From/To Other Funds	<u>\$ 0.00</u>	<u>\$ 0.00</u>	

UNAUDITED

Table 8.4 - Transfers In and Out

	Transfers In	Transfers Out	Purpose
ENTERPRISE (05) Appd Fund 9999, D23 Fund 7999 Agency 781, D23 Fund 0001 UH - Victoria	\$ 0.00	\$ 0.00	\$ 56.465. TUITION SET ASIDE FOR PROGRAM
Agency 902, D23 Fund 001 UH - Victoria	0.00	0.00	\$ 61.9731 TEX. EDUC. CODE ANN.
Total Transfers	\$ 0.00	\$ 0.00	

Table 8.5 - Legislative Transfers In and Out

	Legislative Transfers In	Legislative Transfers Out
GENERAL REVENUE (01) Appd Fund 0001, D23 Fund 001 Agency 730, D23 Fund 0001 UH - Victoria	 \$ 195,489.00	 \$ 0.00
Agency 759, D23 Fund 0001 UH - Victoria	0.00	0.00
Total Legislative Transfers in and Out	\$ 195,489.00	\$ 0.00

NOTE 9: Contingent Liabilities

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

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

NOTE 10: Continuance Subject to Review

The University 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 11: Risk Financing and Related Insurance

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

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

The University's liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Liabilities are reevaluated periodically to consider current settlements, frequency of claims, past experience and economic factors.

Changes in the balances of the University's claims liabilities during fiscal years 2004 and 2003 are shown in Table 11.

Table 11 - Claims Liabilities

Fiscal Year	Beginning Of Fiscal Year Liability	Claims And Estimate Changes	Claims Payments	Balance At Fiscal Year End
2003	\$2,425.24	\$13,921.36	\$12,015.46	\$4,331.14
2004	\$4,331.14	\$45,936.53	\$46,936.07	\$3,331.60

NOTE 12: Segment Information

The University 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 an other 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.

NOTE 13: Bonded Indebtedness

Bonds Payable

Detailed supplemental bond information is disclosed in Schedule 2-A, Miscellaneous Bond Information, Schedule 2-B, Changes in Bonded Indebtedness, Schedule 2-C Debt Service Requirements, Schedule 2-D, Analysis of Funds Available for Debt Service, Schedule 2-E, Defeased Bonds Outstanding, and Schedule 2-F, Early Extinguishment and Refunding.

Revenue Bonds

• Consolidated Revenue Bonds, Series 1995

- To acquire, purchase, construct, improve, renovate, enlarge, or equip property, buildings, structures, facilities, roads, or related infrastructure for the University of Houston - Downtown, including the construction and equipping of an academic and student services building.
- Issued 4-1-95.
- \$22,400,000; all bonds authorized have been issued.
- Source of revenue for debt service - Tuition and various other revenues and balances that may be legally available for payment of debt obligations (funding for fiscal year 2004 from Legislative appropriation).
- Called for early redemption on 2-15-05.
- All outstanding bonds on 2-15-05 will be paid in full with proceeds from Consolidated Revenue Refunding Bonds, series 2003.

• Consolidated Revenue Bonds, Series 1997

- To acquire, purchase, construct, improve, renovate, enlarge, or equip property, land, buildings, structures, facilities, roads, or infrastructure for the University of Houston - Victoria.

UNAUDITED

- Issued 8-1-97.
- \$5,150,000; all bonds authorized have been issued.
- Source of revenue for debt service - Tuition and various other revenues and balances that may be legally available for payment of debt obligations (funding for fiscal year 2004 from Legislative appropriation).

• **Consolidated Revenue Bonds, Series 1998**

- To finance the acquisition, purchase, construction, improvement, renovation, enlargement, and equipping of any property, building, structure, activity, service, operation, or facility of the University of Houston, specifically energy conservation projects.
- Issued 1-1-98.
- \$14,565,000; all bonds authorized have been issued.
- Source of revenue for debt service - Tuition, state appropriations, and various other revenues and balances that may be legally available for payment of debt obligations.

• **Consolidated Revenue Bonds, Series 1999**

- To finance the acquisition, purchase, construction, improvement, renovation, enlargement, and equipping of any property, building, structure, activity, service, operation, or facility of the University of Houston System, specifically projects at the University of Houston, University of Houston - Downtown, University of Houston - Victoria, and the University of Houston multi-institutional teaching center in Fort Bend County.
- Issued 1-1-99.
- \$33,350,000; all bonds authorized have been issued.
- Source of revenue for debt service - Tuition and various other revenues and balances that may be legally available for payment of debt obligations (funding for fiscal year 2004 from Legislative appropriation).

• **Consolidated Revenue Bonds, Series 2000**

- To construct a recreation and wellness facility at the University of Houston.
- Issued 9-01-00.
- \$52,070,000; all bonds authorized have been issued.
- 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.

• **Consolidated Revenue Bonds, Series 2002-A**

- To finance the acquisition, purchase, construction, improvement, renovation, enlargement, and equipping of any property, building, structure, activity, operation, or facility of the University of Houston System.
- Issued 9-01-02.
- \$130,955,000; all bonds authorized have been issued.
- 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 2004, partially from Legislative appropriation).

• **Consolidated Revenue Variable Rate Demand Bonds, Series 2004**

- To finance the acquisition, purchase, construction, improvement, renovation, enlargement, and equipping of any property, buildings, structures, facilities, roads, or related infrastructure for the University of Houston System, including the individual campuses of the System.
- Issued 6-16-04.
- \$25,000,000; all bonds authorized have been issued.
- 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 2004, from Legislative appropriation).

General Obligation Bonds

At August 31, 2004, the University had no bonds payable classified as General Obligation Bonds.

Refunding Bonds

- **Consolidated Revenue Refunding Bonds, Series 2002-B**
 - To refund \$27,415,000 of Consolidated Revenue Refunding Bonds, Series 1993 and \$19,385,000 of Consolidated Revenue Bonds, Series 1993-A.
 - Issued 11-1-02.
 - \$45,425,000; all bonds authorized have been issued.
 - Source of revenue for debt service - Designated tuition and various other revenues and balances that may be legally available for payment of debt obligations.
 - Average rate of bonds refunded - 5.4% (1993) and 5.5% (1993-A).
 - Net proceeds from refunding series - \$47,871,000, after receipt of bond premium of \$2,888,998 and payment of \$442,998 in underwriting fees, insurance, and other issuance costs.
 - Funds were used to purchase state and local government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the 1993 and 1993-A series bonds, when the bonds were called for early redemption on 2-15-03.
 - The 1993 and 1993-A series bonds are considered fully defeased and the liability for those bonds has been removed from the Investment in Plant fund group.
 - Refunding of the 1993 and 1993-A series bonds reduced the University's debt service payments over the life of the bond issues by approximately \$3,228,503.
 - Economic gain - \$2,733,595; the difference between the net present value of the old and new debt service payments.

- **Consolidated Revenue Refunding Bonds, Series 2003**
 - To refund \$15,975,000 of Consolidated Revenue Bonds, Series 1995A.
 - Issued 12-1-03.
 - \$16,490,000; all bonds authorized have been issued.
 - 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 2004, from Legislative appropriation).
 - Average rate of bonds refunded - 5.92%.
 - Net proceeds from refunding series - \$17,419,961.18, after receipt of bond premium of \$896,716.15 and payment of \$266,453.44 in underwriting fees, insurance, and other issuance costs.
 - Funds were used to purchase state and local government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the 1995 series bonds, when the bonds are called for early redemption on 2-15-05.
 - The 1995 series bonds are considered partially defeased and the liability for those bonds has been removed from the investment in Plant fund group.
 - Refunding of the 1995 series bonds reduced the University's debt service payments over the life of the bond issues by approximately \$1,377,275.10.
 - Economic gain - \$1,292,003.91; the difference between the net present value of the old and new debt service payments.

NOTE 14: Subsequent Events

As of the date this report was issued, there have been no occurrences since August 31, 2004 that had a significant financial impact.

NOTE 15: Related Parties

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

- **University of Houston - Victoria**

The University of Houston - Victoria has no material affiliations with any foundation or organization.

NOTE 16: Stewardship, Compliance and Accountability

A negative Change in Net Assets did not occur in the Enterprise fund operations for the fiscal year.

**NOTE 17: The Financial Reporting Entity and Joint Ventures
The Financial Reporting Entity**

The University of Houston System is an agency of the State of Texas, and its financial records reflect compliance with applicable state statutes and regulations. The System was established by House Bill No. 188, Sixty-Fifth Legislature, Regular Session, effective September 1, 1977. Components of the System are System Administration (1977), University of Houston (1963), Clear Lake (1973), Downtown (1974), and Victoria (1973). The System is governed by an appointed nine member Board of Regents.

Although the University is affiliated with several separate legal entities, as previously disclosed, 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.

NOTE 18: Restatement Of Fund Balances/Retained Earnings

During fiscal year 2004, no adjustments were made which required the restatement of the amounts in fund balances and fund equity.

NOTE 19: Employees Retirement Plans

The State has joint contributory retirement plans for substantially all its employees. The University participates in the plans administered by the Teachers Retirement System of Texas. 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 in lieu of participation in the Teacher Retirement System. The Optional Retirement Program provides for the purchase of annuity or mutual fund contracts. Since these are individual investment product contracts, the state has no additional or unfunded liability for this program.

NOTE 20: Deferred Compensation

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

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

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

NOTE 21: Donor-Restricted Endowments

Amounts reported as net appreciation on investments of donor-restricted endowments that are available for authorization for expenditure are disclosed in Table 21. Effective September 1, 1995, the Board of Regents adopted an endowment income payout policy whereby the payout rate is based on a percentage of the fiscal year end market value averaged over rolling three year periods. If an endowment were in existence less than three years, the average is based on the number of years in existence.

Table 21 - Endowments

Donor-Restricted Endowment	Amount of Net Appreciation / (Depreciation)	Reported in Net Assets
Endowments	\$ 236,784.00	Restricted for Nonexpendable
Term Endowments		Restricted for Nonexpendable
Total	\$ 236,784.00	

NOTE 22: Management Discussion and Analysis

The System is continuing the development and implementation of integrated financial, human resources, and student information systems that were purchased from PeopleSoft. The implementation of these systems increases the availability of accurate and timely management information.

The University of Houston System's financial condition and position are strong. The University's administrative and management teams realize that universities must be good stewards of the dollars with which they are entrusted. Management strives to make sound financial decisions.

**NOTE 23: Post Employment Health Care and Life Insurance Benefits
(UT, A&M and ERS only)**

Provisions of this requirement only apply to the following agencies: University of Texas, Texas A&M University and Employees Retirement System.

NOTE 24: Special or Extraordinary Items

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

NOTE 25: Disaggregation of Receivable and Payable Balances

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

A. Taxes Receivable

No reportable balances for this classification.

B. Federal Receivable

Balances by category type for Federal Receivable are shown in Table 25.1.

Table 25.1 - Federal Receivable

Federal Receivable Program	Net Receivable
Department of Education	\$ 0.27
Total Net Federal Receivable	\$ 0.27
<u>As Reported on the Financial Statements</u>	
Current Federal Receivable	\$ 0.27
Total Net Federal Receivable	\$ 0.27

C. Tax Refunds Payable

No reportable balances for this classification.

D. Other Receivables - Current

Balances by category type for Other Receivables - Current are shown in Table 25.2.

Table 25.2 - Other Receivables - Current

Type	Amount
State Contracts and Grants	\$ 82,816.15
Local Contracts and Grants	17,570.67
Private Contracts and Grants	
Other Contracts and Grants	9,821.32
Total Other Receivables - Current	\$ 110,208.14

E. Other Payables - Current

No reportable balances for this classification.

F. Other Receivables - Non-Current

No reportable balances for this classification.

G. Other Payables - Non-Current

No reportable balances for this classification.

Unaudited

Schedule 1 - A
 University of Houston - Victoria
 Schedule of Expenditures Of Federal Awards
 For The Year Ending August 31, 2004

Federal Grantor / Pass Through Grantor / Program Title	Total Pass-Thru To & Expenditures
Note:1 Non-monetary assistance	
Donation of Federal Surplus Personal Property	
No Activity	\$ 0.00
<hr/>	
Total Non-monetary Assistance	0.00
Note 2: Reconciliation	
Federal Revenues	
Federal Grants and Contracts	1,200,136.90
Federal Pass Through Grants	
From Other State Agencies	561,800.48
Indirect Cost Recoveries	
Federal Grants	
Federal Pass Through From State Agencies	
<hr/>	
Total Federal Revenues	1,761,937.38
Reconciling Items	
Additions	
Pass Through To State Entities & Other Entities	0.00
Non-monetary Assistance	
Donation-Federal Surplus Property	0.00
New Student Loans Processed / Adm Costs	
Federal Family Education Loan Program	7,051,688.00
Federal Perkins Loan Program	0.00
Health Prof Student Loans - Optometry	0.00
<hr/>	
Total Additions	7,051,688.00
Deductions	
Federal Perkins Program Disb-Institute Share	0.00
<hr/>	
Total Deductions	0.00
<hr/>	
Total Reconciling Items	7,051,688.00
<hr/>	
Total Pass Through & Expenditures Per Federal Schedule	\$ 8,813,625.38

Unaudited

Schedule 1 - A
 University of Houston - Victoria
 Schedule of Expenses Of Federal Awards

Federal Agency	New Loans Processed	Administrative Cost Recovered	Total Loans Processed Administrative Cost Recovered	Loan Receivable Ending Balances
Note 3: Student Loan Program & Adm Cost Recovered				
Department Of Education				
84.032 Federal Family Education Program				
Loan - Non-monetary Loans	\$ 7,051,688.00	\$	\$ 7,051,688.00	\$
84.038 Federal Perkins Loan Program				
Perkins Student Loans				
<u>Total Department Of Education</u>	<u>7,051,688.00</u>		<u>7,051,688.00</u>	
Department Of Health & Human Services				
93.342 Health Profession Student Loans				
Optometry Loans				
<u>Total Department of Health & Human Services</u>				
<u>Total Student Loan Program & Adm Cost Recovered</u>	<u>\$ 7,051,688.00</u>	<u>\$</u>	<u>\$ 7,051,688.00</u>	<u>\$</u>

Note 4: Governmental Publications

Various University of Houston System libraries participate as a Depository Library in the Government Publications Program, CFDA number 40.001. The University is the legal custodian of Government Publications, which remain the property of the Federal Government. The Publications are not assigned a value by the Government Printing Office. The University System Libraries that participate as a depository library are the University of Houston M.D. Anderson Library, the University of Houston O'Quinn Law Library, and the University of Houston - Clear Lake Alfred R. Neumann Library.

Note 5: Unemployment Insurance Funds

None received

Unaudited

Schedule 1 - B

University of Houston - Victoria

Schedule of State Grant Pass-Throughs From/To State Agencies
For The Year Ended August 31, 2004

	<u>Total</u>
Pass Through From	
Coordinating Board (Agency 781)	
Texas Grant Program	\$ 81,640.00
General Academic Developmental Education Program	0.00
General Academic Enrollment Growth Program	0.00
Advanced Research Program	0.00
Advanced Technology Program	0.00
Developmental Education Program	0.00
College Work Study Program	7,870.63
5th Year Accounting Scholarships Program	2,463.00
Roberta High Memorial Pharmacy Residency Program	0.00
Engineering & Technical Consortium	0.00
<u>Total Coordinating Board (Agency 781)</u>	<u>91,973.63</u>
Texas Education Agency (Agency 701)	
Foundation School Program	0.00
Foundation School Program Technology Allotment	0.00
Student Success Initiatives	0.00
<u>Total Texas Education Agency (Agency 701)</u>	<u>0.00</u>
Texas State Library and Archives Commission (Agency 306)	
Texas Treasures Grant Contract	0.00
<u>Total Texas State Library and Archives Commission (Agency 306)</u>	<u>0.00</u>
Texas Attorney General (Agency 302)	
Immigration Clinic Crime Victims Program	0.00
<u>Total Texas Attorney General (Agency 302)</u>	<u>0.00</u>
Lamar University (Agency 734)	
Texas Air Research Center	0.00
Texas Hazardous Waste Research Center	0.00
<u>Total Lamar University (Agency 734)</u>	<u>0.00</u>
Texas A&M University (Agency 711)	
Telecommunications Infrastructure Funds	0.00
<u>Total Texas A&M University (Agency 711)</u>	<u>0.00</u>
<u>Total Pass Through From Other Agencies</u>	<u>\$ 91,973.63</u>
Pass Through To	
Texas A&M University at Corpus Christi (Agency 760)	
Texas Natural Resources Conservation Commission Grant	
<u>Total Texas A&M University at Corpus Christi (Agency 760)</u>	<u>\$ 0.00</u>
<u>Total Pass Through To Other Agencies</u>	<u>\$ 0.00</u>

Unaudited
 Schedule 3
 University of Houston - Victoria
 Reconciliation Of Cash In State Treasury
 For The Year Ended August 31, 2004

<u>Cash in State Treasury</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Current Year Total</u>
Local Revenue Fund No 0233 (UHV - 765)	\$ 1,040,221.53	\$	\$ 1,040,221.53
<u>Total Cash in State Treasury</u>	<u>\$ 1,040,221.53</u>	<u>\$</u>	<u>\$ 1,040,221.53</u>