

---

# AGENDA

---

## UNIVERSITY OF HOUSTON SYSTEM AUDIT AND COMPLIANCE COMMITTEE MEETING

**DATE:** Thursday, February 25, 2021

**TIME:** 11:45 AM

**PLACE:** Hilton University of Houston Hotel  
Conrad Hilton Ballroom, Second Floor  
4450 University Drive  
Houston, Texas 77204

**Link to live broadcast of meeting:** <https://uh.edu/bor-live>

---

**Chair:** Beth Madison

**Vice Chair:** Jack B. Moore

**Members:** Durga D. Agrawal  
Alonzo Cantu  
John A. McCall, Jr.  
Alvaro De La Cruz  
Tilman J. Fertitta, Ex Officio

---

I. **Audit and Compliance Committee**

*Presenter: Chair Jack Moore*

- A. Approval of Committee Minutes  
-December 3, 2020, Audit and Compliance Committee meeting

**Action:** Approval

*Presenter: Chair Jack Moore*

- B. Report on University of Houston System, Board of Regents' Policies on Internal Audit, Institutional Compliance and Identity Theft Prevention - University of Houston System 4

**Action:** Approval

*Presenter: Phil Hurd, Chief Audit Executive*

- C. Report of University of Houston System, FY2020 External Audit Reports: 12  
- UH Athletics Department, Independent Accountants' Report on the Application of Agreed-upon Procedures  
- UH Charter School, Audit Report and Financial Statements

- UHS Endowment Fund, Auditor's Report and Basic Financial Statements
- UH Cancer Prevention Research Institute of Texas Grant Awards, Independent Accountants' Report on Application of Agreed-upon Procedures

**Action:** Information

*Presenter: Phil Hurd, Chief Audit Executive*

- D. Report on University of Houston System, Institutional Compliance Status Report for the three months ended January 31, 2021 - University of Houston System 141

**Action:** Information

*Presenter: Phil Hurd, Chief Audit Executive*

- E. Report on University of Houston System, Internal Audit Reports - University of Houston System. 149

**Action:** Information

*Presenter: Phil Hurd, Chief Audit Executive*

- F. Report on University of Houston System, UHS Financial Statements Certifications, FY2020 - University of Houston System. 176

**Action:** Information

*Presenter: Phil Hurd, Chief Audit Executive*

## II. **Executive Session**

*Presenter: Chair Jack Moore*

- A. 1. Consultation with System Attorney Regarding Legal Matters, and/or Contemplated Litigation or Settlement Offers.  
Texas Gov't Code Section 551.071
- 2. Deliberations regarding the Purchase, Exchange, Sale or Value of Real Property.  
Texas Gov't Code Section 551.072
- 3. Deliberation Regarding a Prospective Gift.  
Texas Gov't Code Section 551.073
- 4. Personnel Matters Relating to appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees including but not limited to the Chancellor, Presidents, Vice Chancellors, in the Division of Athletics and members of the Board of Regents.  
Texas Gov't Code Section 551.074
- 5. Confidentiality of government information related to security or infrastructure issues for computers

Texas Gov't Code Section 552.139

III. **Report and Action from Executive Session**

*Presenter: Chair Jack Moore*

IV. **Adjourn**

**UNIVERSITY OF HOUSTON SYSTEM  
BOARD OF REGENTS AGENDA**

**COMMITTEE:** Audit and Compliance

**ITEM:** Report on University of Houston System, Board of Regents' Policies on Internal Audit, Institutional Compliance and Identity Theft Prevention

**DATE PREVIOUSLY SUBMITTED:**

**SUMMARY:**

The Audit & Compliance Committee Planner, item number 3.03, requires an annual review of the Board of Regents' policies on Internal Audit, Institutional Compliance and Identity Theft Prevention. There have been no suggested changes to the policies since they were reviewed by the Audit and Compliance Committee on February 27, 2020.

**SUPPORTING**

**DOCUMENTATION:** Board of Regents' Policies on Internal Audit, Institutional Compliance and Identity Theft

**FISCAL NOTE:**

**RECOMMENDATION/  
ACTION REQUESTED:** Information

**COMPONENT:** University of Houston System

*Phillip W. Hurd*

*2-9-21*

\_\_\_\_\_  
CHIEF AUDIT AND COMPLIANCE EXECUTIVE Phillip W. Hurd

\_\_\_\_\_  
DATE

*Renu Khator*  
\_\_\_\_\_  
CHANCELLOR

Renu Khator

\_\_\_\_\_  
2/22/2021  
\_\_\_\_\_  
DATE

# SECTION V – AUDIT AND COMPLIANCE

---

## 41 AUDIT AND COMPLIANCE

### 41.01 Internal Auditing

To develop a framework for the implementation of the internal audit function within the System, and to define the scope of the internal audit function as an effective management tool for use by the Chancellor and the Board in evaluating the System’s fiscal integrity and compliance with the Texas Internal Auditing Act, Texas Government Code, Section 2102, applicable state and federal laws and with approved Board policies, the Board adopts the following policy (which serves as the Internal Audit Charter):

#### 41.01.1 Purpose and Mission

- A. A primary responsibility of the Board is to ensure the legal and fiscal integrity of the System. To that end, the Board directs the Department of Internal Auditing to perform those audit activities necessary to assure that the System’s resources are being properly managed and accounted for and that the institution is complying with approved policies and statutory requirements.
- B. Internal audits are resource tools for management and enable the System to monitor the effectiveness with which policies are followed, objectives met, and control Systems function.
- C. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the System’s operations. The mission of Internal Auditing is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. It helps the System accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes, including those related to contracts.
- D. In carrying out their duties and responsibilities, members of the Department of Internal Auditing will have full, free, and unrestricted access to all System activities, records, property, and personnel. The Department of Internal Auditing may also request access to the financial records of private support organizations and foundations chartered for the benefit of the University of Houston System or any part thereof.

#### 41.01.2 Authority

- A. The Chief Audit ~~and Compliance~~ Executive will report directly to the chair of the Audit and Compliance Committee of the Board, and have access to the Chancellor.

- B. The Board is responsible for the employment, evaluation, dismissal, and remuneration of the Chief Audit ~~and Compliance~~-Executive; however, the Chancellor has the authority to make recommendations to the Board on the employment, evaluation, dismissal, and remuneration of the Chief Audit ~~and Compliance~~-Executive.
- C. The Department of Internal Auditing will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing (Standards)*, and the Definition of Internal Auditing. The Department of Internal Auditing will also perform its duties in accordance with generally accepted government auditing standards.
- D. The Chief Audit ~~and Compliance~~-Executive will report periodically to senior management and the audit and compliance committee regarding:
- The Department of Internal Auditing's purpose, authority, and responsibility.
  - The Department of Internal Auditing's plan and performance relative to its plan.
  - The Department of Internal Auditing's conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
  - Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the audit and compliance committee.
  - Results of audit engagements or other activities.
  - Resource requirements.
  - Any response to risk by management that may be unacceptable to the University of Houston System.
- E. The Core Principles for the Professional Practice of Internal Auditing are:
- Demonstrates integrity.
  - Demonstrates completeness and due professional care.
  - Is objective and free from undue influence (independent).
  - Aligns with the strategies, objectives, and risks of the organization.
  - Is appropriately positioned and adequately resourced.
  - Demonstrates quality and continuous improvement.
  - Communicates effectively.
  - Provides risk-based assurance.
  - Is insightful, proactive, and future-focused.
  - Promotes organizational improvement.

#### **41.01.3 The Internal Auditing Process**

- A. In August of each year, the Department of Internal Auditing will present to the Audit and Compliance Committee an annual internal audit plan and risk assessment for the Board's review and approval. This plan will include a summary of the resources

dedicated to the Internal Audit program in order for the board to determine if adequate resources exist to ensure that risks identified in the risk assessment are adequately covered within a reasonable time frame. The plan will include risk-based testing of contract administration.

- B. The Chief Audit ~~and Compliance~~ Executive will meet with the Chancellor on a regular basis to review audits performed, audits in progress, future audits, and special investigations.
- C. The Chief Audit ~~and Compliance~~ Executive will meet with the chair of the Audit and Compliance Committee on a regular basis to review audits performed, audits in progress, future audits, and special investigations.
- D. Internal Audit reports will be distributed to the Chancellor, members of the Board of Regents, the State Auditor, the Governor's Office of Budget, Planning and Policy, and the Legislative Budget Board, as required by the Texas Government Code, Section 2102.009.
- E. Internal Audit's written responses to the State Auditor's Office's requests of Internal Audit to investigate reports of suspected fraud, waste, abuse and/or ineffective operations at the University of Houston System will be distributed to the Chair of the Audit and Compliance Committee and the Chancellor.

#### **41.01.4 Independence and Objectivity**

- A. The Chief Audit ~~and Compliance~~ Executive will ensure that the Department of Internal Auditing remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Chief Audit ~~and Compliance~~ Executive determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.
- B. Internal audit personnel will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgement on audit matters to others.
- C. The Department of Internal Auditing will be free of all operational and management responsibilities that would impair the ability to make independent reviews of all aspects of the System.
- D. Internal audit personnel will disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- E. The Chief Audit ~~and Compliance~~ Executive will confirm to the Audit and Compliance Committee, at least annually, the organizational independence of the Department of Internal Auditing.

- F. The Chief Audit ~~and Compliance~~ Executive will disclose to the Audit and Compliance Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.
- G. Where the Chief Audit ~~and Compliance~~ Executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

#### **41.01.5 Scope of Internal Auditing**

The internal audit activity evaluates and contributes to the improvement of the System's risk management, control and governance systems by addressing the following objectives:

- A. **Risk Management:** Internal audit activity will assist the System by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.
- B. **Control:** Internal audit activity will assist the System in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.
- C. **Governance:** Internal audit activity will contribute to the System's governance process by evaluating and improving the process through which 1. values and goals are established and communicated, 2. the accomplishment of goals is monitored, 3. accountability is ensured, and 4. values are preserved.
- D. The internal audit activity will evaluate risk exposures and adequacy and effectiveness of controls relating to the System's governance, operations and information systems regarding the:
- Reliability and integrity of financial and operational information
  - Effectiveness and efficiency of operations
  - Safeguarding of assets
  - Compliance with policies, procedures, laws, regulations, and contracts
  - Achievement of strategic objectives
  - Results of operations or programs are consistent with established goals and objectives

Identified opportunities for improvement for these areas during the engagements will be communicated to the appropriate level of management.

- E. The Department of Internal Auditing will coordinate audit efforts with those of external CPA firms and the State Auditor's Office.
- F. The Department of Internal Auditing will investigate reports of suspected defalcation, misappropriation or other fiscal irregularities.

G. The Department of Internal Auditing will follow up on engagement findings and corrective actions, and report periodically to senior management and Audit and Compliance Committee any corrective actions not effectively implemented.

#### **41.01.6 Quality Assurance and Improvement Program**

A. The Department of Internal Auditing will maintain a quality assurance and improvement program that covers all aspects of the internal auditing activity. The program will include an evaluation of the Department of Internal Auditing's conformance with the *Standards* and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the Department of Internal Auditing and identify opportunities for improvement.

B. The Chief Audit ~~and Compliance~~ Executive will communicate to senior management and the Audit and Compliance Committee on the Department of Internal Auditing's quality assurance and improvement program, including results of internal assessments and external assessments.

*Policy last reviewed ~~02/27/20~~ 02/25/21*

---

### **Related Statutes, Policies, or Requirements**

Texas Government Code § 321.0136 – *Investigation*

Texas Government Code, Chapter 2102.001 – *Texas Internal Auditing Act*

Texas Education Code § 51.9337 – *Purchasing Authority Conditional; Required Standards*

The Institute of Internal Auditors, International Standards for the Professional Practice of Internal Auditing and Code of Ethics - <http://www.theiia.org/guidance/standards-and-guidance/ippf/>.

U.S. Government Accountability Office, Government Auditing Standards (The Yellow Book) - <http://www.gao.gov/new.items/d07731g.pdf>.

System Administrative Memoranda (SAMs)

01.C.04 – *Reporting/Investigating Fraudulent Acts*

04.A.01 – *Audits by External Auditors*

04.A.02 – *Audits by Internal Auditing*

---

## **42 COMPLIANCE**

### **42.01 Institutional Compliance**

The Chancellor, as Chief Executive Officer of the System, is responsible for ensuring the implementation of an institutional compliance program for the System designed to promote ethical behavior and ensure compliance with all applicable policies, laws, and rules governing higher education, including research and health care to the extent applicable. Accordingly, the ~~Chief Audit and Compliance Executive~~ System-wide Compliance Officer prepares an executive summary of all institutional compliance activity of the component institutions.

#### **42.01.1 System-Wide Compliance Officer**

The University of Houston Chief Compliance Officer shall serve as the~~Chief Audit and Compliance Executive is the~~ System-Wide Compliance Officer and is responsible, and will be held accountable for, apprising the Chancellor and the Audit and Compliance Committee of the institutional compliance functions and activities at each of the component institutions as set out in Subparagraph B, below. The ~~Chief Audit and Compliance Executive~~ System-wide Compliance Officer provides institutional compliance assistance to the Chancellor and the Vice Chancellors in the exercise of their responsibilities.

A. Appointment: The ~~Chief Audit and Compliance Executive~~ System-wide Compliance Officer shall be appointed by the Chancellor. The ~~Chief Audit and Compliance Executive~~ System-wide Compliance Officer is the senior compliance official of The University of Houston System, provides assistance and advice covering all component compliance programs, and shall hold office without fixed term, subject to the pleasure of the Chancellor.

B. Duties and Responsibilities: The primary responsibilities of the ~~Chief Audit and Compliance Executive~~ System-wide Compliance Officer include developing an infrastructure for the effective operation of The University of Houston System Institutional Compliance Program; chairing the System-wide Compliance Officers Council; and prescribing the format for the annual risk-based compliance plan and the quarterly compliance status reports to be submitted by each component institution.

Policy last reviewed ~~02/27/20~~ 02/25/21

---

#### **Related Statutes, Policies or Requirements**

Texas Education Code § 51.971 – *Compliance Program*

## **42.02 Identity Theft Prevention Program**

The Chancellor, as Chief Executive Officer of the System, is responsible for ensuring the implementation of an identity theft prevention program which adheres to the Federal Trade Commission's Red Flag Rule under sections 114 and 315 of the Federal Fair and Accurate Credit Transactions Act. At least annually, the System-wide compliance officer prepares an executive summary of all activities of the Identity Theft Prevention Programs of the component institutions.

Policy last reviewed ~~02/27/20~~ [02/25/21](#)

---

### **Related Statutes, Policies, or Requirements**

Federal Fair and Accurate Credit Transactions Act, Pub.L. 108-159.

Federal Trade Commission Red Flag Rule, 16 C.F.R. § 681.2.

System Administrative Memoranda (SAMs)  
01.C.14 – *Identity Theft*

**UNIVERSITY OF HOUSTON SYSTEM  
BOARD OF REGENTS AGENDA**

**COMMITTEE:** Audit and Compliance

**ITEM:** Report on University of Houston System, FY 2020 External Audit Reports: UH Athletics Department, Independent Accountants' Report on the Application of Agreed-Upon Procedures; UH Charter School, Audit Report and Financial Statements; UHS Endowment Fund, Auditor's Report and Basic Financial Statements; and UH Cancer Prevention Research Institute of Texas Grant Awards, Independent Accountants' Report on Application of Agreed-Upon Procedures

**DATE PREVIOUSLY SUBMITTED:**

**SUMMARY:**

The Audit & Compliance Committee Charter and Checklist, item number 13, requires the Committee to review any significant findings and recommendations of the State Auditor and any employed public accounting firm or outside expertise. The external audit reports are required by the following:

- UH Athletics Department – NCAA Constitution
- UH Charter School – Texas Education Code and Texas Administrative Code
- UHS Endowment Fund – Endowment Agreement
- UH Cancer Prevention Research Institute of Texas – Administrative Code and Grant Provisions

**SUPPORTING**

**DOCUMENTATION:** External Audit Reports

- UH Athletics Department – Independent Accountants' Report on the Application of Agreed-Upon Procedures, FY 2020
- UH Charter School, Audit Report and Financial Statements, FY 2020
- UHS Endowment Fund, Independent Auditor's Report and Basic Financial Statements, FY 2020 and 2019
- UH Cancer Prevention Research Institute of Texas Grant Awards, Independent Accountants' Report on Application of Agreed-Upon Procedures, FY 2020

**FISCAL NOTE:**

**RECOMMENDATION/  
ACTION REQUESTED:** Information

**COMPONENT:** University of Houston System

*Phillip W. Hurd*

*2-9-21*

CHIEF AUDIT AND COMPLIANCE EXECUTIVE Phillip W. Hurd

DATE

*Renu Khator*

CHANCELLOR

Renu Khator

*2/22/2021*

DATE

# External Audit Reports

The Audit & Compliance Committee Charter and Checklist, item number 13, requires the Committee to review any significant findings and recommendations of the State Auditor and any employed public accounting firm or outside expertise.

Report Name	External Auditor	Page
UH Athletics Department – Independent Accountants’ Report on the Application of Agreed-Upon Procedures, FY 2020	Belt Harris Pechacek, LLLP (BHP)  Robert Belt, CPA, CGMA	1
UH Charter School, Audit Report and Financial Statements, FY 2020	Belt Harris Pechacek, LLLP (BHP)  Robert Belt, CPA, CGMA	19
UHS Endowment Fund, Independent Auditor’s Report and Basic Financial Statements, FY 2020 and 2019	BKD, LLP  Brian K. Krueger, CPA	77
UH Cancer Prevention Research Institute of Texas Grant Awards, Independent Accountants’ Report on Application of Agreed-Upon Procedures, FY 2020	BKD, LLP  Shekita Rawls, CPA	117

# **UNIVERSITY OF HOUSTON**

*Independent Accountants' Report on the  
Application of Agreed-Upon Procedures*

*National Collegiate Athletic Association  
(NCAA) Compliance*

**For the Fiscal Year Ended August 31, 2020**

**By:**

**Belt Harris Pechacek, LLLP**  
*Certified Public Accountants*

3210 Bingle Rd., Suite 300  
Houston, Texas 77055  
Tel (713) 263-1123, Fax (713) 263-1550

# UNIVERSITY OF HOUSTON

## TABLE OF CONTENTS

For the Year Ended August 31, 2020

	<u>Page</u>
Independent Accountants' Report on the Application of Agreed-Upon Procedures	1
Exhibit A – Results of Agreed-Upon Procedures	2
Exhibit B – Statement of Revenues and Expenses of the Intercollegiate Athletics Department	12
Exhibit C – Notes to the Statement of Revenue and Expenses of the Intercollegiate Athletics Department	13
Exhibit D1 – Schedule of Variance – Current to Prior Year - Revenues	N/A
Exhibit D2 – Schedule of Variance – Current to Prior Year - Expenses	N/A
Exhibit E1 – Schedule of Variance – Current to Budget - Revenues	15
Exhibit E2 – Schedule of Variance – Current to Budget - Expenses	16



## ***INDEPENDENT ACCOUNTANTS' REPORT ON THE APPLICATION OF AGREED-UPON PROCEDURES***

To the President and Management of the  
Intercollegiate Athletics Department of the  
University of Houston:

We have performed the procedures enumerated in Results of Agreed-Upon Procedures (Exhibit A) on the Statement of Revenues and Expenses of the Intercollegiate Athletics Department (Exhibit B) of the University of Houston (UH) for the year ended August 31, 2020.

UH has agreed to and acknowledged that the procedure performed are appropriate to meet the intended purpose of assisting in evaluating whether Exhibit B, is in compliance with the National Collegiate Athletic Association's (NCAA) bylaw 3.2.4.17.1 for the year ended August 31, 2020. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes. UH's management is responsible for compliance with NCAA bylaws and Exhibit B.

Our results and findings related to the application of the agreed-upon procedures are included in Exhibit A.

We were engaged by UH to perform this engagement to apply agreed-upon procedures and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not, conduct an audit or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively on Exhibit B or internal control over financial reporting and compliance described above. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be, and should not be, used by anyone other than these specified parties.

*BELT HARRIS PECHACEK, LLLP*

*Certified Public Accountants*  
Houston, Texas  
January 8, 2021

**UNIVERSITY OF HOUSTON**  
**RESULTS OF AGREED-UPON PROCEDURES**  
For the Year Ended August 31, 2020

**General Revenue and Expenses**

**1. Comparison of the Statement of Revenues and Expenses to the General Ledger**

***Procedure(s):***

Obtain the Statement of Revenues and Expenses of the Intercollegiate Athletics Department (the “Statement”) for the fiscal year ending August 31, 2020, recalculate the addition of amounts reported in the Statement for mathematical accuracy, and compare the amounts reported on the Statement to the general ledger detail.

***Result(s) and Finding(s):***

No exceptions noted.

**2. Identification of Accounts Within and Below Scope**

***Procedure(s):***

From the Statement, identify specific reporting categories less than 4% of the total revenues or less than 4% of total expenses. (For these categories, no procedures are required for that specific category in accordance with *NCAA Agreed Upon Procedures – Appendix D.*)

***Result(s) and Finding(s):***

The revenue and expense categories of 4% or less of the respective category of revenues/expenses are noted in Exhibit B.

**3. Sample**

***Procedure(s):***

Compare and agree a sample of operating revenues and expenses obtained from the general ledger to adequate supporting documentation.

***Result(s) and Finding(s):***

No exceptions were noted in applying these procedures.

**4. Prior Year Comparison**

***Procedure(s):***

Compare each major revenue and expense account that is 1) over 10% of the corresponding total revenues and total expenses in the Statement for fiscal year ending August 31, 2020, and 2) which the increase or decrease from the prior year is over 10%, and obtain explanations from Management regarding the reasons for the variances.

**UNIVERSITY OF HOUSTON**  
**RESULTS OF AGREED-UPON PROCEDURES**  
For the Year Ended August 31, 2020

***Result(s) and Finding(s):***

Categories exceeding the criteria and Management's responses are included in Exhibit D1.

**5. Budget Comparison**

***Procedure(s):***

Obtain a schedule of budgeted revenues and expenses. Compare each major revenue and expense account that is 1) over 10% of the corresponding total revenues and total expenses in the Statement for fiscal year ending August 31, 2020 and 2) which the increase or decrease from the budget is over 10%, and obtain explanations from Management regarding the reasons for the variations.

***Result(s) and Finding(s):***

Categories exceeding the criteria and Management's responses are included in Exhibits E1 and E2.

**Revenue**

**6. Ticket Sales**

***Procedure(s):***

Compare tickets sold during the reporting period, complimentary tickets provided during the reporting period, and unsold tickets to the related revenue reported by UH in the Statement and the related attendance figures and recalculate totals.

**UNIVERSITY OF HOUSTON**  
**RESULTS OF AGREED-UPON PROCEDURES**  
For the Year Ended August 31, 2020

**Result(s) and Finding(s):**

We obtained a schedule of tickets, extended the total ticket price, and compared to the related amounts and noted the following variances:

	Ticket Detail	Per Statement	Variance
FOOTBALL	\$ 2,629,471	\$ 2,592,171	\$ 37,300
Ticket consignment	-	36,923	(36,923) <sup>1</sup>
	2,629,471	2,629,094	377
MEN'S BASKETBALL	1,237,363	1,254,329	(16,966) <sup>2</sup>
Tickets consignment	13,824	-	13,824 <sup>3</sup>
	1,251,187	1,254,329	(3,142)
WOMEN'S BASKETBALL	42,490	42,490	-
OTHER SPORTS			
Baseball	56,498	57,831	(1,333) <sup>4</sup>
Soccer	4,225	4,225	-
Softball	26,901	26,772	129 <sup>5</sup>
Swimming	12,460	12,460	-
Track	19,005	19,005	-
Volleyball	26,624	26,628	(4)
	145,713	146,921	(1,208)
NONPROGRAM SPECIFIC	726,746	728,218	(1,472) <sup>6</sup>
	<u>\$ 4,795,607</u>	<u>\$ 4,801,052</u>	<u>\$ (5,445)</u>

<sup>1</sup> Includes ticket consignment guarantees payment not reflected in Ticket Detail.

<sup>2</sup> Includes \$20,872 in general ledger transaction detail as undistributed payments that are not reflected in Ticket Detail.

<sup>3</sup> Includes StubHub direct check payments for ticket inventory not sold in ticket system.

<sup>4</sup> Includes \$6,100 in general ledger transaction detail as internal department transfers and are not reflected in Ticket Detail as paid tickets.

<sup>5</sup> Includes \$716 in general ledger transaction detail as undistributed payments that are not reflected in Ticket Detail.

<sup>6</sup> Includes \$14,620 deposited from Ticket System included in Program, Novelty, Parking, and Concession Sales category, and \$9,223 recorded as deferred revenue in fiscal year 2019, which is not reflected in Ticket Detail for fiscal year 2020.

**UNIVERSITY OF HOUSTON**  
**RESULTS OF AGREED-UPON PROCEDURES**  
For the Year Ended August 31, 2020

**7. Student Fees**

***Procedure(s):***

- A. Obtain and document an understanding of UH's methodology for allocating student fees to intercollegiate athletics programs.
- B. Compare and agree student fees reported by UH in the Statement to student enrollments during the same reporting period and recalculate totals.

***Result(s) and Finding(s):***

- A. Management provided the following explanation:

*Student fees allocated to athletics consist of two components: 1). Fees assessed in accordance with the Student Fee Referendum to cover specific annual debt service payments related to stadium construction and basketball arena renovation and 2) general student fees allocated by the Student Fee Advisory Committee (SFAC).*

*The SFAC is responsible for the establishment of student fees and oversight of the Student Fee Referendum approved by Students in 2012 designating \$45 per student semester to support a new stadium and basketball arena renovation. The SFAC is made up of seven (7) students, two (2) faculty and one (1) non-voting advisor and is charged with recommending funding allocations for Student Services Fees. SFAC meets several times during the latter half of the Fall semester and several more times in early Spring. In the late Summer or early Fall, members receive a comprehensive orientation designed to familiarize them with SFAC's operating and budget procedures. In the later Fall, departments and student organizations which receive Student Service Fees provide a written request following Program Questionnaire Guidelines. In addition, departments and student organizations requesting funds are then required to make a presentation to SFAC so that members have a clear understanding of what a department does and its goals for the next fiscal year. Following these presentations, SFAC goes into deliberation. Once the deliberations are finalized, SFAC forwards its allocation recommendations, as well as a recommendation on the amount of the SFAC Fee for the following year to the Vice President for Student Affairs and Enrollment Services and the President's received its authority via the [Texas Administrative Code](#) (Education Code; Chapter 54; Section 54.5062). As with other University Committees, Boards, and Task Forces, the SFAC has by-laws to ensure they are operating in an effective way to meet their goals and responsibilities. For your reference, you can view the [SFAC By-laws](#). SFAC plays a very important role, making recommendations on behalf of all students at UH. Their recommendations directly affect campus life and the futures of many departments and programs.*

*Pursuant to the SFAC Report covering funding for FY20, the SFAC provided Intercollegiate Athletics a base funding allocation of \$4,407,707 (equal to the FY19 base allocation). In its FY20 report, SFAC also provided an estimated base allocation for renovation and construction of athletics facilities equal to "approximately \$3,375,000". This "approximate" renovations and construction figure was calculated when the Referendum was passed by the students as an estimate based on \$45 per semester for a student body of 37,500. Given actual student attendance varies and the amount of support afforded is tied to the debt service requirements for that year, Student Fee Revenue associated with Athletics Debt Service for FY20 was \$4,375,586. That figure enters an Athletics cost center as revenue and is then transferred out as an expense.*

**UNIVERSITY OF HOUSTON**  
**RESULTS OF AGREED-UPON PROCEDURES**  
For the Year Ended August 31, 2020

- B. We obtained a copy of the SFAC report for FY 2020 noting that \$4,407,707 was approved for UH Athletics, along with a dedicated fee of \$3,375,000. We obtained the undergraduate enrollment data by semester and recalculated the fee for the year. We noted a total variance of \$1,000,586 between the SFAC budget and actual amount recorded on the Statement. We noted a variance of \$431,291 between the recalculated student fees and the actual amount recorded on the Statement. UH Athletics attributed the difference to the manner that UH System records transactions based on estimates.

	SFAC Committee	Recalculated by Accountant
	<hr/>	<hr/>
Undergraduate student enrolment		
Fall 2019		37,689
Spring 2020		34,466
Summer 2020		15,496
Total recalculated enrollment	75,000 *	<hr/> 87,651
Student fee	\$ 45	\$ 45
	<hr/> \$ 3,375,000 *	<hr/> \$ 3,944,295
Budget approved by SFAC	\$ 4,407,707	\$ 4,407,707
Dedicated fee	3,375,000 *	3,944,295
Total	<hr/> 7,782,707	<hr/> 8,352,002
Actual	8,783,293	8,783,293
Variance	<hr/> \$ 1,000,586	<hr/> \$ 431,291

\* Based on projected enrollment

Management provided the following explanation:

Variance from SFAC Report

*The SFAC report does not accurately state the Memorandum of Understanding that was entered into in connection with the issuance of debt to finance the facilities. The amounts presented in the SFAC reflect the original estimated enrollment and debt service, but have not been revised for increases in both. Management will be working with SFAC for the 2021 Report to more accurately reflect the Memorandum of Understanding.*

Variance from Accountants Recalculation

*Management is aware of computational oversight and is working to refine the enrollment and fee calculations to reduce the overall variance.*

**UNIVERSITY OF HOUSTON**  
**RESULTS OF AGREED-UPON PROCEDURES**  
For the Year Ended August 31, 2020

**8. Direct Institutional Support***Procedure(s):*

Compare the direct institutional support recorded by UH in FY 2020 with UH's supporting budget transfers documentation and other corroborative supporting documentation and recalculate totals.

*Result(s) and Finding(s):*

No exceptions were noted in applying these procedures.

**9. Contributions***Procedure(s):*

From the general ledger detail of all contributions received during the reporting period, review the listing to determine if any contributor's total contribution was 10% or more of total contributions.

*Result(s) and Finding(s):*

We did not note any contributions which exceed the 10% threshold.

**Expenses****10. Athletic Student Aid***Procedure(s):*

- A. Select a sample of 10% of the student-athletes for UH who have used NCAA's Compliance Assistance (CA) software to prepare athletic aid detail.
- B. Obtain individual student account detail for each selection and compare total aid in UH's student system to the student's detail in CA or UH report that ties directly to the NCAA Membership Financial Reporting System. Perform a check of each student selected to ensure their information was reported accurately in the NCAA's CA software.
- C. Recalculate totals for each sport and overall.

*Result(s) and Finding(s):*

No exceptions were noted in applying these procedures.

**UNIVERSITY OF HOUSTON**  
**RESULTS OF AGREED-UPON PROCEDURES**  
For the Year Ended August 31, 2020

**11. Coaching Salaries, Benefits, and Bonuses Paid by the University and Related Entities**

***Procedure(s):***

Obtain and inspect a listing of coaches employed by UH Athletics and related entities during the reporting period and select a sample of coach's contracts that must include football and men's and women's basketball from the listing. Compare and agree the financial terms and conditions of each selection to the related coaching salaries, benefits, and bonuses recorded by UH Athletics and related entities in the Statement during the reporting period. In addition, obtain and inspect payroll summary registers for the reporting year for each selection. Compare and agree payroll summary registers from the reporting period to the related coaching salaries, benefits, and bonuses paid by UH and related entities expense recorded by UH in the Statement during the reporting period and recalculate totals.

***Result(s) and Finding(s):***

No exceptions were noted in applying these procedures.

**12. Support Staff/Administrative Salaries, Benefits, and Bonuses Paid by the University and Related Entities**

***Procedure(s):***

- A. Select a sample of support staff/administrative personnel employed by UH Athletics and related entities during the reporting period.
- B. Obtain and inspect reporting period summary payroll register for each selection. Compare and agree related summary payroll register to the related support staff administrative salaries, benefits, and bonuses paid by UH Athletics and related entities expense recorded by UH Athletics in the Statement during the reporting period and recalculate totals.

***Result(s) and Finding(s):***

No exceptions were noted in applying these procedures.

**13. Team Travel**

***Procedure(s):***

- A. Obtain and document an understanding of UH Athletics' team travel policies.
- B. Compare and agree to existing UH Athletics and NCAA related policies.
- C. From the general ledger detail, select three transactions and obtain supporting documentation.
- D. Compare and agree related amounts expensed by UH Athletics to the general ledger detail and the Statement and recalculate amounts.

**UNIVERSITY OF HOUSTON**  
**RESULTS OF AGREED-UPON PROCEDURES**  
For the Year Ended August 31, 2020

**Result(s) and Finding(s):**

No exceptions were noted in applying these procedures.

**14. Athletic Facility Debt Service, Leases, and Rental Fees****Procedure(s):**

Obtain a listing of debt service schedules, lease payments, and rental fees for athletics facilities for the reporting year. Compare a sample of facility payments including the top two highest facility payments to additional supporting documentation (e.g. debt financing agreements, leases, rental agreements). Compare amounts recorded to amounts listed in the general ledger detail and recalculate totals.

**Result(s) and Finding(s):**

No exceptions were noted in applying these procedures.

**15. Direct Overhead and Administrative Expenses****Procedure(s):**

From the general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate the existence of transaction and accuracy of recording and recalculate totals.

**Result(s) and Finding(s):**

No exceptions were noted in applying these procedures.

**Additional Minimum Procedures****16. Sports Sponsorships****Procedure(s):**

- A. Obtain UH Athletics' Sports Sponsorship and Demographics Forms Report for the reporting year.
- B. Validate that the countable sports reported by UH Athletics meet the minimum requirements set forth in Bylaw 20.9.6.3 for the number of contests and the number of participants in each contest that is counted toward meeting the minimum contest requirement.
- C. Once countable sports have been confirmed, ensure that UH has properly reported these sports as countable for revenue distribution purposes within the NCAA Membership Financial Reporting System.

**Result(s) and Finding(s):**

No exceptions were noted in applying these procedures.

**UNIVERSITY OF HOUSTON**  
**RESULTS OF AGREED-UPON PROCEDURES**  
For the Year Ended August 31, 2020

**17. Pell Grants***Procedure(s):*

Agree the total number of Division I student-athletes who, during the academic year, received a Pell Grant award and the total value of the Pell Grants reported in the NCAA Membership Financial Reporting System to a report generated out of UH financial aid records of all student-athletes receiving Pell Grants.

Compare current year Pell Grants total to prior year reported total per the Membership Financial Report submission. Inquire and document an explanation for any variances greater than +/- 20 grants.

*Result(s) and Finding(s):*

No exceptions were noted in applying these procedures. No variances greater than +/- 20 grants were noted.

**Additional Minimum Agreed-Upon Procedures Other Reporting Items****18. Athletic Related Debt***Procedure(s):*

- A. Obtain repayment schedules for all outstanding intercollegiate athletics debt during the reporting period and recalculate annual maturities provided in the schedules obtained.
- B. Agree the total annual maturities and total outstanding athletic related debt to supporting documentation in UH's general ledger.

*Result(s) and Finding(s):*

No exceptions were noted in applying these procedures.

**19. Total Debt***Procedure(s):*

Agree the total outstanding UH debt to the supporting documentation and UH general ledger.

*Result(s) and Finding(s):*

No exceptions were noted in applying these procedures.

**20. Value of Athletics Related Endowments***Procedure(s):*

Obtain a schedule of all athletics dedicated endowments maintained by athletics, UH, and affiliated organizations. Agree the fair market value in the schedule(s) to supporting documentation and the general ledger.

**UNIVERSITY OF HOUSTON**  
**RESULTS OF AGREED-UPON PROCEDURES**  
For the Year Ended August 31, 2020

***Result(s) and Finding(s):***

No exceptions were noted in applying these procedures.

**21. Value of Institutional Endowments**

***Procedure(s):***

Agree the total fair market of the institutional endowments to supporting documentation and the UH general ledger.

***Result(s) and Finding(s):***

No exceptions were noted in applying these procedures.

**22. Total Athletics Related Capital Expenditures**

***Procedure(s):***

Obtain a schedule of athletics related capital expenditures made by UH Athletics during the report period. Obtain general ledger detail and compare the total expense reported. Select a sample of transactions to validate existence of transactions and accuracy of recording and recalculated totals.

***Result(s) and Finding(s):***

No exceptions were noted in applying these procedures.

**UNIVERSITY OF HOUSTON**

**Statement of Revenues and Expenses of the Intercollegiate Athletics Department  
Year Ended August 31, 2020**

	FOOTBALL	MEN'S BASKETBALL	WOMEN'S BASKETBALL	OTHER SPORTS	NON-PROGRAM SPECIFIC	TOTAL	Below 4% of Total
<b>REVENUES</b>							
1. Ticket Sales	\$ 2,592,171	\$ 1,275,201	\$ 42,490	\$ 157,787	\$ 713,598	\$ 4,781,247	No
2. Direct State or Other Gov't Support	-	-	-	-	-	-	Yes
3. Student Fees	-	-	-	-	8,783,293	8,783,293	No
4. Direct Institutional Support	-	-	-	-	37,920,460	37,920,460	No
5. Less-Transfers to Institution	-	-	-	-	-	-	Yes
6. Indirect Institutional Support	-	-	-	-	-	-	Yes
6A. Indirect Institutional Support - Athletic Facility Debt Service	-	-	-	-	-	-	Yes
7. Guarantees	941,780	-	5,000	-	-	946,780	Yes
8. Contributions	395,806	315,199	31,754	573,817	3,512,578	4,829,154	No
9. In Kinds	-	-	-	-	-	-	Yes
10. Compensation and Benefits Provided by 3rd party	-	-	-	-	-	-	Yes
11. Media Rights	-	-	-	-	-	-	Yes
12. NCAA Distributions	-	-	-	-	49,139	49,139	Yes
13. Conf Distributions	-	-	-	-	4,956,868	4,956,868	No
13A. Conference Distributions - Bowl Generated Revenues	-	-	-	-	-	-	Yes
14. Program, Novelty, Parking and Concession Sales	173,188	6,445	-	-	125,898	305,531	Yes
15. Royalties, Licensing, Advertisement, and Sponsorship	-	-	-	-	2,664,043	2,664,043	Yes
16. Sports Camps Revenues	-	-	-	-	-	-	Yes
17. Athletics Restricted Endowment and Investments Income.	16,443	10,724	-	41,518	182,922	251,607	Yes
18. Other Operating Revenue	44,005	(665)	-	397,785	1,453,735	1,894,860	Yes
19. Bowl Revenues	-	-	-	-	-	-	Yes
	<u>4,163,393</u>	<u>1,606,904</u>	<u>79,244</u>	<u>1,170,907</u>	<u>60,362,534</u>	<u>67,382,982</u>	
<b>EXPENSES</b>							
20. Athletic Student Aid	2,996,969	443,266	474,246	3,641,685	490,443	8,046,609	No
21. Guarantees	400,000	429,396	41,260	22,228	-	892,884	Yes
22. Coaching Salaries, Benefits, and Bonuses Paid by the University and Related Entities	8,545,275	4,842,768	734,354	3,230,042	-	17,352,439	No
23. Coaching Salaries, Benefits, and Bonuses Paid by a 3rd party	-	-	-	-	-	-	Yes
24. Support Staff/Admin. Compensation, Benefits and Bonuses Paid by the University and Related Entities	1,265,147	287,016	253,846	676,440	8,129,554	10,612,003	No
25. Support Staff/Admin. Compensation, benefits and Bonuses Paid by a 3rd party	-	-	-	-	-	-	Yes
26. Severance Payments	-	-	-	-	-	-	Yes
27. Recruiting	213,878	29,290	25,422	195,263	-	463,853	Yes
28. Team Travel	913,723	705,080	405,952	930,485	138,361	3,093,601	No
29. Sports Equipment, Uniforms and Supplies	851,028	188,448	82,018	661,032	177,345	1,959,871	Yes
30. Game Expenses	905,009	297,194	67,576	428,151	371,861	2,069,791	Yes
31. Fund Raising, Marketing and Promotion	14,861	30,944	1,916	37,813	354,802	440,336	Yes
32. Sports Camps Expenses	-	-	-	-	-	-	Yes
33. Spirit Groups	-	-	-	-	-	-	Yes
34. Athletic Facilities Debt Service, Leases and Rental Fee	-	-	-	-	5,273,172	5,273,172	No
35. Direct Overhead and Administrative Expenses	523,131	326,904	152,586	676,008	10,395,949	12,074,578	No
36. Indirect Institutional Support	-	-	-	-	-	-	Yes
37. Medical Expenses and Insurance	15,765	1,897	300	21,752	1,308,699	1,348,413	Yes
38. Memberships and Dues	7,720	530	971	3,315	24,090	36,626	Yes
39. Student-Athlete Meals (non-travel)	1,471,182	133,486	79,931	180,117	67,596	1,932,312	Yes
40. Other Operating Expenses	53,423	10,037	4,292	595,065	110,842	773,659	Yes
41. Bowl Expenses	-	-	-	-	-	-	Yes
41.A. Bowl Expenses - Coaching Compensation/Bonuses	-	-	-	-	-	-	Yes
	<u>\$ 18,177,111</u>	<u>\$ 7,726,256</u>	<u>\$ 2,324,670</u>	<u>\$ 11,299,396</u>	<u>\$ 26,842,714</u>	<u>\$ 66,370,147</u>	

See accompanying independent accountants' report on application of agreed-upon procedures.

**UNIVERSITY OF HOUSTON**  
**NOTES TO THE STATEMENT OF REVENUES AND EXPENSES**  
**OF THE INTERCOLLEGIATE ATHLETICS DEPARTMENT**  
For the Year Ended August 31, 2020

**NOTE 1: ORGANIZATION AND BASIS FOR PRESENTATION**

The University of Houston Intercollegiate Athletic Department (UH Athletics) is a department of the University of Houston (UH) and, therefore, is under the control of the Board of Regents of UH, which administers intercollegiate athletic programs. UH is an agency of the State of Texas (the “State”).

The Statement of Revenues and Expenses of the Intercollegiate Athletics Department (the “Statement”) has been prepared on the accrual basis of accounting and is presented to report all activity of UH Athletics.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**

Certain expenses, such as depreciation, are recorded at the University level and not accounted for in the Statement.

Buildings, facilities, and equipment represent capital assets acquired primarily for the operation of UH Athletics. Title to capital assets utilized by UH Athletics rests with the State in the name of UH and, therefore, such assets can be transferred to or from UH Athletics at the discretion of UH. The threshold for capitalization of equipment is \$5,000. Capital assets are stated at cost at the date of acquisition. Donated capital assets are recorded at acquisition value at the date of donation. Depreciation is recorded on a straight-line basis over the useful lives of the assets. Useful lives are established by a uniform classification system maintained by the State and are measured from the date of acquisition.

**UNIVERSITY OF HOUSTON**  
**NOTES TO THE STATEMENT OF REVENUES AND EXPENSES**  
**OF THE INTERCOLLEGIATE ATHLETICS DEPARTMENT**  
**For the Year Ended August 31, 2020**

**NOTE 3: LONG-TERM DEBT**

Future debt service payments for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 3,956,150	\$ 2,552,216	\$ 6,508,366
2022	3,986,695	2,421,528	6,408,223
2023	4,126,140	2,282,053	6,408,193
2024	4,275,585	2,132,497	6,408,082
2025	4,439,475	1,973,551	6,413,026
2026	4,598,920	1,812,456	6,411,376
2027	4,762,810	1,648,774	6,411,584
2028	4,946,700	1,473,230	6,419,930
2029	5,125,590	1,284,762	6,410,352
2030	4,774,480	1,127,542	5,902,022
2031	4,893,925	1,004,950	5,898,875
2032	4,730,000	881,667	5,611,667
2033	4,850,000	756,513	5,606,513
2034	4,980,000	623,424	5,603,424
2035	5,125,000	482,121	5,607,121
2036	4,460,000	343,293	4,803,293
2037	4,595,000	209,173	4,804,173
2038	2,015,000	109,008	2,124,008
2039	1,275,000	57,989	1,332,989
2040	1,315,000	19,527	1,334,527
	<u>\$ 83,231,470</u>	<u>\$ 23,196,274</u>	<u>\$ 106,427,744</u>

**UNIVERSITY OF HOUSTON**  
**Schedule of Variance - Current to Budget - Revenues**  
**Statement of Revenues and Expenses of the Intercollegiate Athletics Department**  
**Year Ended August 31, 2020**

<b>REVENUES</b>	<u>2020</u>	<u>Budget</u>	<u>\$ Variance</u>	<u>Management's Response for Variances Greater Than 10% and 10% of Total</u>
4. Direct Institutional Support	\$ 37,920,460	\$ 32,133,804	\$ 5,786,656	Like so many, the COVID-19 pandemic had serious effects on our revenue generation abilities. One area heavily affected was our Contributions line and more specifically, our seat donation programs in football and men's basketball. In FY2019, Contributions, in total, were \$9.602 million. In FY2020, that total, in large part due to COVID-19 related non-renewal of football and basketball season seat donations, dropped to \$4.829 million, representing a year over year loss of \$4.773 million. As the seat donation program has historically served as the largest funding source for payment of student-athlete scholarship expenses, and as those fundraised dollars were not available in FY2020 to cover these scholarship expenses, additional, one-time, Direct University Support was needed to offset the loss in the seat donation programs.

See accompanying independent accountants' report on application of agreed-upon procedures.

**UNIVERSITY OF HOUSTON**  
**Schedule of Variance - Current to Budget - Expenses**  
**Statement of Revenues and Expenses of the Intercollegiate Athletics Department**  
**Year Ended August 31, 2020**

	2020	Budget	\$ Variance	Management's Response for Variances Greater Than 10% and 10% of Total
<b>EXPENSES</b>				
35. Direct Overhead and Administrative Expenses	\$ 12,074,578	\$ 14,366,381	\$ (2,291,803)	Using historical revenue/expense estimates to budget our fundraising accounts, \$2.115 million in expenses was budgeted for FY2020. With the COVID-19 pandemic negatively affecting our ability to fundraise, related spending (against these fundraised dollars) was also heavily impacted. FY2020 spending for these purposes was only \$684,000, a reduction versus expense budget of \$1.431 million. Other notable COVID-19 affected lines, resulting in less spending versus budget included: Administrative Fees of \$480,000 and Utilities of \$150,000.

See accompanying independent accountants' report on application of agreed-upon procedures.

*ANNUAL FINANCIAL REPORT*  
of the  
**UNIVERSITY OF HOUSTON**  
**CHARTER SCHOOL**  
(a department of the University of Houston,  
an agency of the State of Texas)  
For the Year Ended  
August 31, 2020



# UNIVERSITY OF HOUSTON CHARTER SCHOOL

## Table of Contents

	<u>Page</u>	<u>Exhibit</u>
<b><u>INTRODUCTORY SECTION</u></b>		
Certificate of Board	1	
University of Houston System Board of Regents and Management Board of the University of Houston Charter School	2	
University of Houston Charter School Administrative Organization	3	
<b><u>FINANCIAL SECTION</u></b>		
Independent Auditors' Report	7	
Management's Discussion and Analysis (MD&A) (Required Supplementary Information)	11	
<b><u>BASIC FINANCIAL STATEMENTS</u></b>		
<b>Government-Wide Financial Statements</b>		
Statement of Net Position	18	A-1
Statement of Activities	19	B-1
<b>Fund Financial Statements</b>		
Balance Sheet – Governmental Funds	20	C-1
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	22	C-2
<b>Notes to Financial Statements</b>	25	
<b><u>REQUIRED SUPPLEMENTARY INFORMATION</u></b>		
Budgetary Comparison Schedule – General Fund	37	G-1
<b><u>SUPPLEMENTARY INFORMATION</u></b>		
Schedule of Expenses	41	J-2
<b><u>COMPLIANCE SECTION</u></b>		
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	45	
Schedule of Findings and Questioned Costs	47	K-1
Summary Schedule of Prior Year Audit Findings	49	
Schedule of Required Responses to Selected School First Indicators	51	L-1



## **INTRODUCTORY SECTION**

37  
(This page intentionally left blank.)

**CERTIFICATE OF BOARD**

University of Houston System  
(Federal Employer Identification Number: 74-6001399)  
Charter Holder for  
University of Houston Charter School  
(Harris County – District Number: 101-807)

We, the undersigned, certify that the attached Annual Financial Report and Compliance Report of the University of Houston Charter School were reviewed and (check one) \_\_\_\_\_ approved \_\_\_\_\_ disapproved for the year ended August 31, 2020 at a meeting of the Management Board of the University of Houston Charter School, which has authority to review, monitor, and approve budgets and audited financial statements as granted by the University of Houston System Board of Regents, on the \_\_\_\_ day of January, 2021.

\_\_\_\_\_  
Signature of Board Secretary

\_\_\_\_\_  
Signature of Board President

Note: If the governing body of the Charter School does not approve the independent auditors’ report, it must forward a written statement discussing the reason(s) for not approving the report.

## **University of Houston Charter School 2019-2020**

### University of Houston System Board of Regents and Management Board of the University of Houston Charter School

#### Officers FY2020-FY2021

- Tilman J. Fertitta, Chairman, UH System Board of Regents
- Gerald W. McElvy, Vice Chairman, UH System Board of Regents
- Beth Madison, Secretary, UH System Board of Regents

#### Member(s) with terms set to expire August 31, 2021

- Tilman J. Fertitta
- Beth Madison
- Gerald W. McElvy

#### Member(s) with terms set to expire August 31, 2023

- Doug H. Brooks
- Jack B. Moore
- Steve I. Chazen

#### Member(s) with terms set to expire August 31, 2025

- Durga D. Agrawal
- Alonzo Cantu
- John A. McCall Jr.

#### Member(s) with terms set to expire May 31, 2020

- John D. Fields

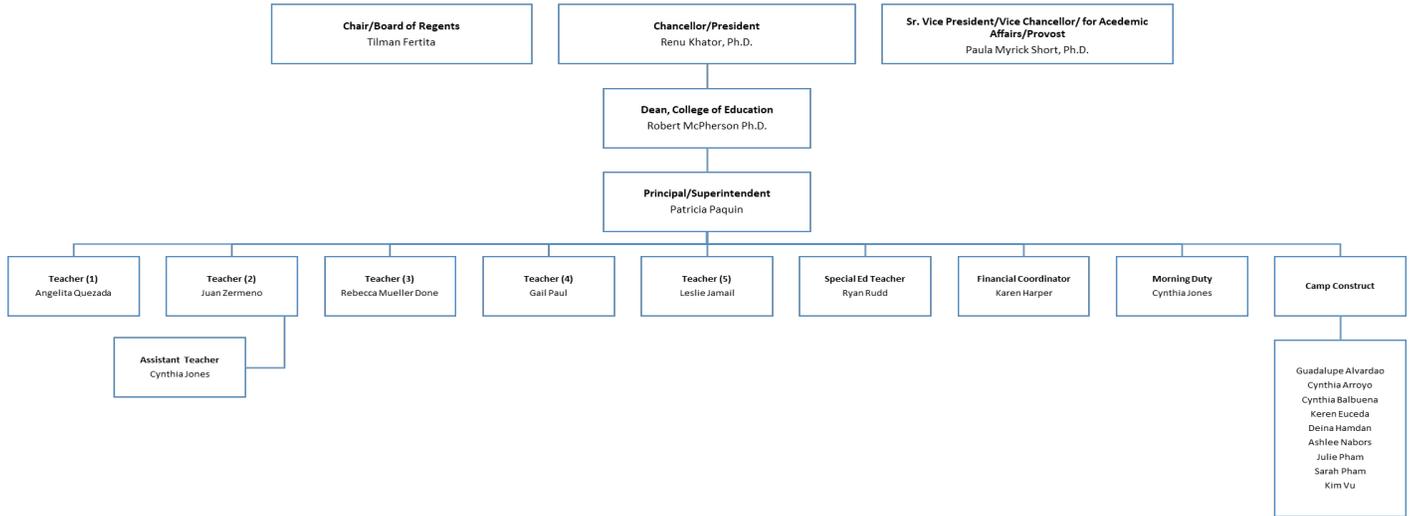
#### **Management Board of the University of Houston Charter School**

- Robert H. McPherson, Ph.D., Chair, Dean, UH College of Education
- Margaret Hale, Ph.D., Secretary, UH College of Education
- Rebecca Sanford, Ph.D., Community Representative, Hambrick Middle School Principal
- Leslie Jamail, Teacher Representative, UH Charter School
- Alexander Hernandez, Parent Representative, UH Charter School

# UNIVERSITY OF HOUSTON CHARTER SCHOOL

## Administrative Organization

### 2019-2020 University of Houston Charter School Organizational Chart



41  
(This page intentionally left blank.)

***FINANCIAL SECTION***

(This page intentionally left blank.)



## INDEPENDENT AUDITORS' REPORT

To the Management Board of the  
University of Houston Charter School:

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of The University of Houston Charter School (the "School") (a department of the University of Houston, which is an agency of the State of Texas) as of and for the year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School as of August 31, 2020, and the changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

The School will permanently close in August 2021. The closure is due to significant budgetary challenges involving the coronavirus pandemic, including enrollment and online learning.

While the results of our audit are not modified with respect to this matter, the financial statements of the School are intended to present the financial position and the changes in financial position of the University of Houston (the “University”), the University of Houston System (the “UH System”), and the State of Texas (the “State”) that are attributable to the transactions of the School, as discussed in Note 1. Transactions associated with facilities, bonds, pensions, and other postemployment benefits related to the School’s activities in the name of the University and/or the UH System are reported by the University and/or the UH System and not the School. The financial statements do not purport to, and do not, present fairly the financial position of the University, the UH System, or the State as of August 31, 2020, and the changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis and budgetary comparison information, identified as Required Supplementary Information, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School’s basic financial statements. The introductory section, other supplementary information, and the schedule of required responses to selected school first indicators are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of

America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and the schedule of required responses to selected school first indicators have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2021 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas  
January 14, 2021

(This page intentionally left blank.)

# UNIVERSITY OF HOUSTON CHARTER SCHOOL

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended August 31, 2020

### Introduction

The discussion and analysis of the financial position of the University of Houston Charter School (the "Charter School") provides an overview of the activities for the fiscal years ended August 31, 2020 and 2019. This Management's Discussion and Analysis is unaudited and is intended to offer a summary of significant current year activities, resulting changes, and currently known economic conditions and facts. It should be read in conjunction with the Charter School's financial statements.

### Overview of the Financial Statements

The Charter School herewith presents its basic financial statements for fiscal year 2020. The basic financial statements have been prepared in accordance with the standards of the Governmental Accounting Standards Board, which establishes generally accepted accounting principles for state and local governments. The Charter School's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The government-wide financial statements presented are the statement of net position and the statement of activities. The fund financial statements presented are the balance sheet and the statement of revenues, expenditures, and changes in fund balances. The notes to the basic financial statements provide additional information and disclosures that are essential to a complete understanding of the data provided in the government-wide and fund financial statements. The information contained in the basic financial statements of the Charter School is incorporated within the University of Houston System's Annual Financial Report.

# UNIVERSITY OF HOUSTON CHARTER SCHOOL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2020

### Statement of Net Position

The statement of net position reflects all the Charter School's assets, liabilities, and deferred outflows/inflows of resources using the full accrual basis of accounting and represents the financial position as of the conclusion of the fiscal year. Government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Net position is equal to assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Unrestricted net position is available to the Charter School for any lawful purpose. Unrestricted net position often has constraints on resources, which are imposed by management, but can be removed or modified. Restricted net position represents net position that can be utilized only in accordance with third-party imposed restrictions.

	<u>2020</u>	<u>2019</u>	<u>Change</u>
Assets:			
Cash	\$ 467,064	\$ 399,200	\$ 67,864
Due from other governments	2,539	6,851	(4,312)
Other receivables	142	142	-
Total assets	<u>469,745</u>	<u>406,193</u>	<u>63,552</u>
Liabilities:			
Accounts payable	15,067	60,355	(45,288)
Payroll deductions and withholdings	23,959	27,636	(3,677)
Accrued wages payable	39,326	49,797	(10,471)
Due to other governments	420	-	420
Total liabilities	<u>78,772</u>	<u>137,788</u>	<u>(59,016)</u>
Net Position:			
Restricted for various programs:			
Summer and camp construct programs	10,630	19,017	(8,387)
Other nonmajor funds	18,969	10,555	8,414
Unrestricted	<u>361,374</u>	<u>238,833</u>	<u>122,541</u>
Total net position	<u>\$ 390,973</u>	<u>\$ 268,405</u>	<u>\$ 122,568</u>

Cash represents 99% of the current assets held by the Charter School. Current assets increased by \$63,552 or 16% and current liabilities decreased by \$59,016 or 43%.

Unrestricted net position increased by \$122,541.

### Statement of Activities

The statement of activities identifies all of the Charter School's revenues and expenses and measures the results of the Charter School's operations during the fiscal year. All revenues and expenses are included, regardless of when cash is received or paid. Revenues are separated into those provided by external entities, which share the costs of certain programs, and those revenues provided as general revenues. Any revenues or expenses resulting from other than operations would also be displayed on this statement.

# UNIVERSITY OF HOUSTON CHARTER SCHOOL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2020

	2020	2019	Change
Revenues:			
Charges for services	\$ 77,706	\$ 116,593	\$ (38,887)
Operating grants and contributions	61,687	88,241	(26,554)
Grants and general	1,371,523	1,341,953	29,570
	1,510,916	1,546,787	(35,871)
Expenses			
Current:			
Instruction	977,190	868,808	108,382
Curriculum and staff development	100	-	100
School leadership	237,800	240,214	(2,414)
Guidance, counseling, and evaluation services	1,432	9,895	(8,463)
Food services	40,160	78,708	(38,548)
General administration	113,996	193,218	(79,222)
Plant maintenance and operations	16,303	8,779	7,524
Community services	1,367	90,171	(88,804)
Total expenses	1,388,348	1,489,793	(101,445)
Excess of revenues over expenses	\$ 122,568	\$ 56,994	\$ 65,574

In fiscal year 2020, charges for services decreased by \$38,887 due to a decrease in revenue for the breakfast and lunch local fund and Camp Construct revenue when compared to fiscal year 2019.

Operating grants and contributions revenue for fiscal year 2020 decreased by \$26,554. This decrease can be attributed to the change in revenue across several state and federal grant programs. There was an increase in Foundation School Program funds received in fiscal year 2020, while there was a decrease in Title II, Part A and Title IV, Part A funds as compared to fiscal year 2019.

In 2020, the general revenues of \$1,371,523 included \$1,239,754 in state program revenues as compared to 2019 where general revenues were \$1,341,953. This reflects an increase in revenue of \$29,570 from 2019 to 2020.

The increase in expenses in instruction is primarily related to staffing in fiscal year 2020 when compared to staffing in fiscal year 2019.

The decrease in general administration is related to general operating expenses.

The decrease in expenses in community services and food services can be attributed to the disruption of the after school year due to COVID-19, as compared to fiscal year 2019.

The majority of the Charter School's revenue is expended for instructional purposes, which includes teacher and support personnel salaries.

### Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific objectives or programs. Contracts and state law require the establishment of some funds. Other funds are created by the Charter School's management to control and manage expenditures for particular purposes. The only category of funds used by the Charter School is governmental funds.

# UNIVERSITY OF HOUSTON CHARTER SCHOOL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2020

The governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as displaying balances of spendable resources available at the end of the fiscal year. These financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. Because these statements provide a detailed short-term perspective of the Charter School's general operations, they may be useful in evaluating a school's near-term financing requirements. Any differences between the broader long-term focus of the government-wide financial statements (as reported in the statement of net position and the statement of activities) and the fund financial statements will be displayed in a reconciliation following the end of the governmental fund financial statements.

**General Fund** – This is the Charter School's primary operating fund. It accounts for all financial resources of the Charter School except those required to be accounted for in another fund. The major revenue source for the general fund is the state funding under the Foundation School Program. Expenditures include all costs associated with the daily operations of the Charter School except for specific programs funded by the federal or state government, which are required to be accounted for in another fund. The Foundation School Program revenues were \$1,239,379 and \$1,190,249 for the years ended August 31, 2020 and 2019, respectively.

**UH Allocation** – The source of this revenue is an allocation from the University of Houston System (the "University System") Administration General Funds to provide support to the Charter School. These funds are used at the discretion of the Charter School to supplement operating needs. The University System Allocation was \$106,153 for the year ended August 31, 2020, as well as for the year ended August 31, 2019.

**Summer Camp/Camp Construct Programs** – The source of this revenue is from tuition payments. Funds originated in the Summer Camp and Camp Construct programs are restricted to these programs. The Summer Camp/Camp Construct revenues were \$63,134 and \$96,307 for the years ended August 31, 2020 and 2019, respectively. Although this fund did not meet the technical requirements to be a major fund, because of its significance, management has elected to present it as such.

**Child Nutrition** – The primary source of revenue is from a federal and state assisted meal program, which provides low cost or free meals to children each school day. Revenues were \$46,749 in the current fiscal year compared to \$64,816 in the prior fiscal year. Of these amounts, \$15,008 and \$21,010 were from local sources for the fiscal years ended August 31, 2020 and 2019, respectively. Although this fund did not meet the technical requirements to be a major fund, because of its significance, management has elected to present it as such.

### Accounting Systems and Annual Budgets

The necessity of legal compliance with applicable laws and regulations related to the state and federal grants requires developing and improving the accounting system and consideration is given to the adequacy of the internal control structure.

The Charter School Planning Panel provides need assessments and prioritizes efforts for the upcoming year. An annual budget is developed for its general fund and each of its separate governmental funds. University policy requires budgeted expenditures to be no more than budgeted revenue. During the course of the fiscal year, the actual to budget amounts are reviewed and modified or adjusted as needed.

The general fund has a budget that is approved by the Management Board. The actual general fund revenue was less than budgeted by \$227,105 and actual expenditures were less than budgeted by \$310,401.

Budgetary comparison schedules have been provided to demonstrate compliance with these budgets.

# UNIVERSITY OF HOUSTON CHARTER SCHOOL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2020

### Capital Assets

As of the end of the fiscal year 2020, the Charter School did not possess any reportable capital assets. Such assets would include property, buildings, furniture, and equipment. The University System provides building space, a playground area, and parking facilities for use by the Charter School.

Title to capital assets resides with the University, which allocates custody of such assets to the Charter School for its operational needs. Therefore, such assets can be transferred to or from the Charter School at the discretion of the University. Accountability for capital assets is consistent with policies established by the State of Texas. Assets are recorded at cost and are depreciated over the estimated useful life of the asset. Useful life is established by a uniform classification system maintained by the State of Texas and is measured from the date of acquisition.

Noncapital furniture and equipment, including computing equipment, is maintained by the Charter School for its operational needs. Title to these items also resides with the University System, which allocates custody to the Charter School. Expenditures for these items are charged to current operating expenses as incurred as they are below the Charter School's capitalization threshold. Funds for the acquisition of such equipment are provided from the Charter School's operating revenues. Additional information regarding the capitalization of assets is in the notes to the financial statements.

### Debt Administration

The Charter School does not separately issue long-term debt. The Charter School is not currently engaged in any long-term financing transactions. The operating budget for the Charter School is currently structured such that annual financial obligations are satisfied through operating revenues that are received during each current fiscal year.

### COVID-19

In March 2020, COVID-19 was recognized as a pandemic both worldwide and in the United States with local stay-at-home orders going into effect. The Charter School suspended in-classroom learning for the remainder of the school year. Changes to operations caused a significant hardship for the Charter School.

### Economic Condition and Outlook

Through the use of effective and judicious financial budgeting and management, and the University's contribution of facilities and other indirect services, the Charter School has been able to satisfy current year expenses with available resources.

In December 2020, the board of regents for the University voted to permanently close the Charter School in August 2021, citing financial issues and the added challenges faced while educating students during the COVID-19 pandemic.

### Contacting the Charter School's Financial Management

This financial report is designed to provide a general overview of the Charter School's financial position and to demonstrate the Charter School's accountability for the funds it receives. Any questions regarding this report or requests for additional financial information should be directed to the Charter School Principal, Patricia Paquin, University of Houston, Houston, Texas 77204-2016.

(This page intentionally left blank.)

## **BASIC FINANCIAL STATEMENTS**

# UNIVERSITY OF HOUSTON CHARTER SCHOOL

## STATEMENT OF NET POSITION - EXHIBIT A-1

August 31, 2020

Data Control Codes		1 Governmental Activities
	Assets:	
1110	Cash	\$ 467,064
1240	Due from other governments	2,539
1290	Other receivables	142
1000	Total assets	469,745
	Liabilities:	
	Current liabilities:	
2110	Accounts payable	15,067
2150	Payroll deductions and withholdings	23,959
2160	Accrued wages payable	39,326
2180	Due to other governments	420
2000	Total current liabilities	78,772
	Net position:	
3800	Restricted for various programs:	
3890	Summer and camp construct programs	10,630
3820	Other nonmajor funds	18,969
3900	Unrestricted	361,374
3000	Total net position	\$ 390,973

See accompanying notes to financial statements.

# UNIVERSITY OF HOUSTON CHARTER SCHOOL

## STATEMENT OF ACTIVITIES - EXHIBIT B-1

For the Year Ended August 31, 2020

Data Control Codes	Functions/Programs	1  Expenses	Program Revenues		6 Net Revenue (Expense) and Changes in Net Position
			3  Charges for Services	4  Operating Grants and Contributions	
	Governmental activities:				
11	Instruction	\$ 977,190	\$ -	\$ 29,611	\$ (947,579)
13	Curriculum and staff development	100	-	-	(100)
23	School leadership	237,800	-	-	(237,800)
31	Guidance, counseling, and evaluation services	1,432	-	336	(1,096)
35	Food services	40,160	15,008	31,740	6,588
41	General administration	113,996	-	-	(113,996)
51	Plant maintenance and operations	16,303	-	-	(16,303)
61	Community services	1,367	62,698	-	61,331
TG	Total governmental activities	\$ 1,388,348	\$ 77,706	\$ 61,687	(1,248,955)
	General revenues:				
GC	Grants and contribution not restricted to specific function				1,371,523
CN	Change in net position				122,568
NB	Net position, beginning of year				268,405
NE	Net position, end of year				\$ 390,973

See accompanying notes to financial statements.

# UNIVERSITY OF HOUSTON CHARTER SCHOOL

## BALANCE SHEET – GOVERNMENTAL FUNDS - EXHIBIT C-1

August 31, 2020

Data Control Codes	10	UH Allocation	Summer Camp/Camp Construct
	General	UH Allocation	Summer Camp/Camp Construct
Assets:			
1110	\$ 366,206	\$ 66,767	\$ 10,630
1240	375	-	-
1262	5,635	-	-
1290	-	142	-
1000	\$ 372,216	\$ 66,909	\$ 10,630
Liabilities:			
2110	\$ 13,943	\$ 103	\$ -
2150	23,959	-	-
2160	39,326	-	-
2170	-	-	-
2180	420	-	-
2000	77,648	103	-
Fund balances:			
3490	-	-	10,630
3490	-	-	-
3590	-	66,806	-
3600	294,568	-	-
3000	294,568	66,806	10,630
4000	\$ 372,216	\$ 66,909	\$ 10,630
Net position, per Statement of Net Position			

See accompanying notes to basic financial statements.

<b>24</b>		<b>98</b>
<b>Child Nutrition</b>	<b>Nonmajor Funds</b>	<b>Total Governmental Funds</b>
\$ 5,635	\$ 17,826	467,064
-	2,164	2,539
-	-	5,635
-	-	142
<u>\$ 5,635</u>	<u>\$ 19,990</u>	<u>475,380</u>
\$ -	\$ 1,021	15,067
-	-	23,959
-	-	39,326
5,635	-	5,635
-	-	420
<u>5,635</u>	<u>1,021</u>	<u>84,407</u>
-	-	10,630
-	18,969	18,969
-	-	66,806
-	-	294,568
<u>-</u>	<u>18,969</u>	<u>390,973</u>
<u>\$ 5,635</u>	<u>\$ 19,990</u>	<u>455,390</u>
		<u>\$ 390,973</u>

**UNIVERSITY OF HOUSTON CHARTER SCHOOL**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS - EXHIBIT C-2**

For the Year Ended August 31, 2020

<u>Data Control Codes</u>	10		
	<u>General</u>	<u>UH Allocation</u>	<u>Summer Camp/Camp Construct</u>
Revenues:			
5700	\$ 17,646	\$ 106,153	\$ 63,134
5800	1,239,379	-	-
5900	-	-	-
5000	<u>1,257,025</u>	<u>106,153</u>	<u>63,134</u>
Expenditures:			
Current:			
0011	872,207	110	65,193
0013	-	-	-
0023	237,027	773	-
0031	540	-	-
0035	-	-	-
0041	47,652	60,016	6,328
0051	16,303	-	-
0061	-	1,367	-
6000	<u>1,173,729</u>	<u>62,266</u>	<u>71,521</u>
	Excess (deficiency) of revenues over (under) expenditures	43,887	(8,387)
Other Financing Sources (Uses)			
7900	Transfers in		
8900	(4,642)		
	<u>(4,642)</u>	-	-
	Net change in fund balances	43,887	(8,387)
	Fund balances, beginning of year	22,919	19,017
3000	<u>\$ 294,568</u>	<u>\$ 66,806</u>	<u>\$ 10,630</u>
Net change in fund balance, per above			
Adjustment			
Change in net position, per statement of activities			

See accompanying notes to basic financial statements.

24		98
Child Nutrition	Nonmajor Funds	Total Governmental Funds
\$ 15,008	\$ 5,074	\$ 207,015
375	-	1,239,754
31,366	32,781	64,147
<u>46,749</u>	<u>37,855</u>	<u>1,510,916</u>
-	39,680	977,190
-	100	100
-	-	237,800
-	892	1,432
40,160	-	40,160
-	-	113,996
-	-	16,303
-	-	1,367
<u>40,160</u>	<u>40,672</u>	<u>1,388,348</u>
6,589	(2,817)	122,568
4,642	-	4,642
	-	(4,642)
<u>4,642</u>	<u>-</u>	<u>-</u>
11,231	(2,817)	122,568
(11,231)	21,786	268,405
<u>\$ -</u>	<u>\$ 18,969</u>	<u>\$ 390,973</u>
		\$ 122,568
		-
		<u>\$ 122,568</u>

61  
(This page intentionally left blank.)  
24

# UNIVERSITY OF HOUSTON CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

### (1) Summary of Significant Accounting Policies

#### (a) Reporting Entity

The basic financial statements are prepared in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and they comply with the requirements of the appropriate version of Texas Education Agency's (TEA) Financial Accountability System Resource Guide (the "Resource Guide") and the requirements of contracts and grants of agencies from which funds are received.

The University of Houston (the "University") and University of Houston System (the "UH System") and the University of Houston Charter School (the "Charter School") have elected to define the Charter School's reporting entity to include only activities in the Charter School's name. The Charter School's proportional share of liabilities in the name of the University and/or the UH System are reported by University and/or UH System. Accordingly, transactions associated with facilities, bonds, pensions, and other postemployment benefits related to the Charter School's activities in the name of the University and/or the UH System are not reported by the Charter School. However, the Charter School has elected to make limited disclosures with respect to these matters in notes 4 and 5. The associated financial activities related to these items and required disclosures are made within the University's, the UH System's, and the State of Texas (the "States") Annual Financial Reports.

The Charter School strives to partner with independent school districts in the greater Houston area to assist in overpopulation of the current school districts and provide an alternative education to families. The Charter School's vision is to provide the highest quality instruction in a safe and motivating learning environment for all students, using a variety of instructional strategies that are research-based best practices in the field to ensure that each student is academically successful in reaching all of his/her learning goals.

The Principal of the Charter School reports to management personnel of the University, and the operations of the Charter School are overseen by the Management Board (the "Board"), which provides general oversight to the Charter School. This oversight includes approval of budgets and financial audits, broad education policies and handbooks, and personnel matters.

The Board consists of five members, all of whom are appointed by the Dean of the University's College of Education. Two of the Board members are employees of the University and one is an employee of the Charter School. The other two members are parent and community representatives. These positions were established through the Charter School's bylaws, as approved on January 26, 2015.

The University is accredited with the Southern Association of Colleges and Schools. The Charter School is chartered by the State Board of Education and accredited by the TEA. The Charter School is a model constructivist elementary school that implements a curriculum in which children develop cognitively, socially, morally, and physically based on a sustained mental action. The Charter School provides educational curriculum to kindergarten through the fifth grade. The Charter School's administrators and staff are degreed and certified for the positions to which they are assigned.

# UNIVERSITY OF HOUSTON CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2020

### ***(b) Government-Wide Financial Statements***

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the Charter School. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Charter School has no business-type activities.

### ***(c) Basis of Presentation – Government-Wide Financial Statements***

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments where the amounts are reasonably equivalent in value to the interfund services provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

### ***(d) Basis of Presentation – Fund Financial Statements***

The fund financial statements provide information about the Charter School's funds. Separate statements for governmental funds are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Charter School reports the following governmental funds:

#### **General Fund**

The general fund is the Charter School's primary operating fund. It accounts for and reports all financial resources of the Charter School not accounted for and reported in another fund. The major revenue source for the general fund is the state funding under the Foundation School Program. Expenditures include all costs associated with the daily operations of the Charter School except for specific programs funded by the federal or state government, which are required to be accounted for in another fund. The general fund is always considered a major fund for reporting purposes.

#### **Special Revenue Funds**

The special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The restricted or committed proceeds of specific revenue sources comprise a substantial portion of the inflows of these special revenue funds. Most federal and some state financial assistance are accounted for in a special revenue fund.

The UH Allocation fund is considered a major fund for reporting purposes. The source of this revenue is an allocation from the University administration general fund to provide support to the Charter School. These funds are used at the discretion of the Charter School to supplement operating needs.

# UNIVERSITY OF HOUSTON CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2020

Management has elected to report the Summer Camp/Camp Construct program fund as a major fund for reporting purposes because of its significance. The source of revenue is from tuition payments.

Management has elected to report the Child Nutrition program fund as a major fund for reporting purposes because of its significance. The primary source of revenue is from federal and state aid, and includes local sources as well.

During the course of operations, the Charter School has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

### ***(e) Measurement Focus and Basis of Accounting***

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Charter School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Grant revenue and interest associated with the current fiscal period is considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability

# UNIVERSITY OF HOUSTON CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2020

period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the Charter School.

### **(f) Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balances**

#### **1. Cash and Cash Equivalents**

The Charter Schools' funds are held by the University in the University's depository bank. On a monthly basis, the University provides the Charter School with a statement of accounts showing all fund activities for the month and ending month balances which is then reconciled to the accounts of the Charter School. Such deposits are insured and collateralized along with other University funds with the University's collateralization agreements with its depository bank.

#### **2. Investments**

The Charter School does not maintain investments of any kind.

#### **3. Receivables and Payables**

The Charter School believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided to further disaggregate those balances. All receivables are scheduled for collection within one year from year end.

#### **4. Capital Assets**

The Charter School did not have any capitalized assets as of August 31, 2020. The University provides the Charter School with building facilities, furniture, playground, and parking facilities. Title to these capital assets resides with the University.

#### **5. Long-Term Obligations**

The Charter School does not separately issue long-term debt. The Charter School is not currently engaged in any long-term financing transactions.

#### **6. Net Position Flow Assumptions**

Sometimes the Charter School will fund outlays for a particular purpose from both restricted (e.g., restricted grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Charter School's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

# UNIVERSITY OF HOUSTON CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2020

### 7. Fund Balance Flow Assumptions

Sometimes the Charter School will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Charter School's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

### 8. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Charter School itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted fund balance.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Charter School's highest level of decision-making authority. The Board is the highest level of decision-making authority for the Charter School that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The Charter School did not have any commitments at year end.

Amounts in the assigned fund balance classification are intended to be used by the Charter School for specific purposes but do not meet the criteria to be classified as committed. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

### 9. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets

# UNIVERSITY OF HOUSTON CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2020

and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

### 10. Data Control Codes

The data control codes refer to the account code structure prescribed by the TEA in the Resource Guide. The TEA requires schools to display these codes in the financial statements filed with the TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

### 11. Income Taxes

The Charter School is a department of the University, which is a local government exempt from income taxes under Section 115(1) of the Internal Revenue Code. Accordingly, income taxes are not provided for in the accompanying financial statements.

## (g) Revenues and Expenditures/Expenses

### 1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

### 2. Expenditures

Expenditures are reported using the data control codes following the TEA requirements to ensure accuracy in building a statewide database for policy development and funding plans.

## (2) Stewardship, Compliance, and Accountability

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). The original budget is adopted by the Charter School prior to the beginning of the year. The legal level of control is the function code stated in the approved budget. Appropriations lapse at the end of the year. Supplemental budget appropriations were made for the year.

In accordance with State law, the Charter School prepares an annual budget for the general fund. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

## (3) Risk Management

### (a) Healthcare Coverage and Risk Management

The University provides healthcare benefits to all of the Charter School's employees who meet the University's employment qualifications and requirements. Contributions are required from the Charter School's employees for coverage of their dependents and for higher level of coverage

# UNIVERSITY OF HOUSTON CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2020

beyond standard benefits. During the year, the University deducted amounts from the Charter School's cash accounts to cover the Charter School's portion of healthcare coverage based on an allocation determined by the State and records a corresponding expense. Healthcare benefits costs attributable to the Charter School for fiscal years 2020, 2019, and 2018 were \$118,846, \$107,040, and, \$130,941, respectively.

### **(b) Risk of Loss**

The Charter School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Charter School purchases commercial insurance. The Charter Schools' operations have been incidental to the University's insurance coverage or settlements for the past three years.

## **(4) Defined Benefit Pension Plan**

### **Teacher Retirement System**

#### Plan Description

The University participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

#### Pension Plan Fiduciary Net Position

Detailed information about the TRS's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and Required Supplementary Information. That report may be obtained on the Internet at <https://www.trs.texas.gov/Pages/Homepage.aspx>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Additional information regarding the University's proportional share of the obligation may be at [https://uh.edu/finance/pages/AFR\\_HOU.htm](https://uh.edu/finance/pages/AFR_HOU.htm).

# UNIVERSITY OF HOUSTON CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2020

### (5) Postemployment Health Care and Life Insurance Benefits

#### Employees Retirement System

##### Plan Description

The UH System participates in a cost-sharing, multiple-employer, other postemployment benefit (OPEB) plan with a special funding situation. The Texas Employees Group Benefits Program (GBP) is administered by the Employees Retirement System of Texas (ERS). The GBP provides certain postemployment health care, life, and dental insurance benefits to retired employees of participating universities, community colleges, and State agencies in accordance with Chapter 1551, Texas Insurance Code. Almost all employees may become eligible for those benefits if they reach normal retirement age while working for the State and retire with at least 10 years of service to eligible entities. Surviving spouses and dependents of these retirees are also covered. Benefit and contribution provisions of the GBP are authorized by State law and may be amended by the Texas Legislature.

##### OPEB Plan Fiduciary Net Position

Detailed information about the GBP's fiduciary net position is available in the separately issued ERS Comprehensive Annual Financial Report that includes financial statements, notes to the financial statements, and Required Supplementary Information. That report may be obtained on the Internet at <https://ers.texas.gov/About-ERS/Reports-and-Studies/Reports-on-Overall-ERS-Operations-and-Financial-Management>; or by writing to ERS at 200 East 18th Street, Austin, TX 78701; or by calling (877) 275-4377. The fiduciary net position of the GBP plan has been determined using the same basis used by the OPEB plan.

Additional information regarding the UH System's proportional share of the obligation may be obtained at [https://uh.edu/finance/pages/AFR\\_HOU.htm](https://uh.edu/finance/pages/AFR_HOU.htm).

### (6) Contingent Liabilities

#### (a) *Federal and State Programs*

The Charter School receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the TEA and is subject to audit and adjustment. In addition, costs charged to federal programs are subject to audit and adjustment by the grantor agencies. The programs administered by the Charter School have complex compliance requirements and, should state or federal auditors discover areas of noncompliance, the Charter School funds may be subject to refund if so determined by the TEA or the grantor agencies. In the opinion of the Charter School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the various state and federal program grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

# UNIVERSITY OF HOUSTON CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2020

**(b) COVID-19**

In March 2020, COVID-19 was recognized as a pandemic both worldwide and in the United States with local stay-at-home orders going into effect. The areas of School operations most impacted by the pandemic related to the teaching/learning process, technology, child nutrition, after school care, building logistics, and return-to-school safety protocols. Essentially, the Charter School was required to pivot overnight to virtual learning for students and staff, which was a complete paradigm shift for employees, students, and parents. Related to this was technology for students to do that virtual learning from their home environment. The Charter School had to ascertain which students needed technology and construct an efficient and effective delivery/distribution method, which is how significant gaps in internet access for students were identified. Because schools across the region, state, and country were dealing with the same issue, the Charter School faced technology shortfalls and backorders of equipment which hindered instruction and required the use of a multipronged approach to teaching and learning. As they proceeded through the summer months to prepare for a safe reopening of school in the fall, the concerns transitioned into building logistics and safety protocols, which required an extraordinary level of coordination and collaboration both within the Charter School and between the Charter School and their local/state/national agencies and partners. The Charter School also faced supply shortfalls in personal hygiene and cleaning products such as sanitizing wipes and gloves. They also had to rethink the flow of operations in the schools so as to maximize space and minimize contact. Now in their fourth month of school operations, student and staff safety remains the Charter School's top focus as they continually adjust their protocols and practices to keep schools open and students engaged in learning.

**(c) Discontinued Operations**

In December 2020, the board of regents for the University voted to permanently close the Charter School in August 2021, citing financial issues and the added challenges faced while educating students during the COVID-19 pandemic. Since all financial statement amounts are current there is no anticipated loss related to the closure.

71  
(This page intentionally left blank.)  
34

***REQUIRED SUPPLEMENTARY INFORMATION***

*Unaudited*

73  
(This page intentionally left blank.)  
36

**UNIVERSITY OF HOUSTON CHARTER SCHOOL**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - SCHEDULE G-1**

For the Year Ended August 31, 2020

Unaudited

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget
		Original	Final		Positive (Negative)
	Revenues:				
5700	Local and intermediate sources	\$ -	\$ -	\$ 17,646	\$ 17,646
5800	State program revenues	1,134,565	1,484,130	1,239,379	(244,751)
5000	Total revenues	<u>1,134,565</u>	<u>1,484,130</u>	<u>1,257,025</u>	<u>(227,105)</u>
	Expenditures:				
	Current:				
	Instruction and instruction related services:				
0011	Instruction	771,965	1,047,530	872,207	175,323
	Total instruction and instruction related services	<u>771,965</u>	<u>1,047,530</u>	<u>872,207</u>	<u>175,323</u>
	Instructional and school leadership:				
0023	School leadership	268,200	302,200	237,027	65,173
	Total instruction and school leadership	<u>268,200</u>	<u>302,200</u>	<u>237,027</u>	<u>65,173</u>
	Support services student:				
0031	Guidance, counseling, and evaluation services	-	-	540	(540)
	Total support services student	<u>-</u>	<u>-</u>	<u>540</u>	<u>(540)</u>
	Food services:				
0035	Food services	400	400	-	400
	Total food services	<u>400</u>	<u>400</u>	<u>-</u>	<u>400</u>
	Administrative support services:				
0041	General administration	67,000	82,000	47,652	34,348
	Total administrative support services	<u>67,000</u>	<u>82,000</u>	<u>47,652</u>	<u>34,348</u>
	Support services nonstudent based:				
0051	Plant maintenance and operations	27,000	52,000	16,303	35,697
	Total support services nonstudent based	<u>27,000</u>	<u>52,000</u>	<u>16,303</u>	<u>35,697</u>
6000	Total expenditures	<u>1,134,565</u>	<u>1,484,130</u>	<u>1,173,729</u>	<u>310,401</u>
	Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>83,296</u>	<u>83,296</u>
	Other Financing Sources (Uses):				
8900	Transfers out	-	-	(4,642)	(4,642)
	Total other financing uses	<u>-</u>	<u>-</u>	<u>(4,642)</u>	<u>(4,642)</u>
	Net change in fund balance	<u>-</u>	<u>-</u>	<u>78,654</u>	<u>78,654</u>
	Fund balance, beginning of year	215,914	215,914	215,914	-
3000	Fund balance, end of year	<u>\$ 215,914</u>	<u>\$ 215,914</u>	<u>\$ 294,568</u>	<u>\$ 78,654</u>

Notes to Supplementary Information:

75  
(This page intentionally left blank.)  
38

***SUPPLEMENTARY  
INFORMATION***

77  
(This page intentionally left blank.)  
40

# UNIVERSITY OF HOUSTON CHARTER SCHOOL

## SCHEDULE OF EXPENSES - EXHIBIT J-2

For the Year Ended August 31, 2020

<u>Data Control Codes</u>			
	Expenses:		
6100	Payroll costs	\$	1,116,426
6200	Professional and contractual services		55,605
6300	Supplies and materials		106,876
6400	Other operating costs		109,441
	Total expenses	\$	<u>1,388,348</u>

79  
(This page intentionally left blank.)  
42

***COMPLIANCE SECTION***





**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

January 14, 2021

To the Management Board of the  
University of Houston Charter School:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the University of Houston Charter School (the "School") (a department of the University of Houston, which is an agency of the State of Texas) as of and for the year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated January 14, 2021.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist which have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas

**UNIVERSITY OF HOUSTON CHARTER SCHOOL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - SCHEDULE K-1**  
**For the Year Ended August 31, 2020**

**I. SUMMARY OF AUDIT RESULTS**

*Financial Statements*

Type of audit report issued	Unmodified
-----------------------------	------------

Internal control over financial reporting:

One or more material weakness(es) identified?	No
---	----

One or more significant deficiency(ies) identified that are not considered to be material weaknesses?	No
---	----

Noncompliance material to financial statements noted?	No
---	----

**II. FINDINGS - BASIC FINANCIAL STATEMENT AUDIT**

*None identified.*

**III. FINDINGS - FEDERAL AWARDS**

*None identified.*

85  
(This page intentionally left blank.)  
48

# UNIVERSITY OF HOUSTON CHARTER SCHOOL

## *SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS*

For the Year Ended August 31, 2020

### A. Summary of Prior Year Audit Findings

*No prior year findings.*

87  
(This page intentionally left blank.)  
50

# UNIVERSITY OF HOUSTON CHARTER SCHOOL

## *SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS - EXHIBIT L-1*

August 31, 2020

<u>Data Control Codes</u>		<u>Responses</u>
SF1	Was there an unmodified opinion in the annual financial report on the financial statements as a whole?	Yes
SF2	Were there any disclosures in the annual financial report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF3	Did the School make timely payments to the Teacher Retirement System, Texas Workforce Commission, Internal Revenue Service, and other governmental agencies?	Yes
SF4	Was the School issued a warrant hold?	No
SF5	Did the annual financial report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the annual financial report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the School post the required financial information on its website in accordance with Governmental Code, Local Government Code, Texas Education Code, Texas Administrative Code, and other statutes, laws, and rules that were in effect at the School's fiscal year end?	Yes
SF8	Did the Board members discuss the School's property values at a Board meeting within 120 days before the School adopted its budget?	N/A
SF9	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end.	\$ <u><u>-</u></u>

89  
(This page intentionally left blank.)

**University of Houston System  
Endowment Fund**

Independent Auditor's Report and Basic Financial Statements

August 31, 2020 and 2019



**University of Houston System  
Endowment Fund  
August 31, 2020 and 2019**

**Contents**

**Independent Auditor's Report** ..... 1

**Management's Discussion and Analysis – (Unaudited)** ..... 3

**The Basic Financial Statements**

    Statements of Net Position..... 11

    Statements of Revenues, Expenses and Changes in Net Position..... 12

    Statements of Cash Flows ..... 13

    Notes to Basic Financial Statements..... 14

## Independent Auditor's Report

Board of Regents  
University of Houston System  
Houston, Texas

We have audited the accompanying financial statements of University of Houston System (the System) Endowment Fund (the Endowment Fund) as of and for the years ended August 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Endowment Fund's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of Houston System Endowment Fund as of August 31, 2020 and 2019, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the financial position, changes in financial position and cash flows of the Endowment Fund and do not purport to, and do not present fairly the financial position of the System as of August 31, 2020 and 2019, the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matter***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**BKD, LLP**

Houston, Texas  
January 13, 2021

**University of Houston System**  
**Endowment Fund**  
**Management's Discussion and Analysis – (Unaudited)**  
**August 31, 2020**

**Introduction**

The following Management's Discussion and Analysis (MD&A) provides an overview of the activities and the financial position of University of Houston System (the System) Endowment Fund (the Endowment Fund) for the fiscal year ended August 31, 2020, as compared to fiscal year ended August 31, 2019, with summary comparisons for the year ended August 31, 2018. This MD&A offers a summary of significant current year activities of the Endowment Fund, resulting changes in net position, and currently known economic conditions and facts. This analysis should be read in conjunction with the Endowment Fund's basic financial statements and the notes to the financial statements. Responsibility of the financial statements, related footnote disclosures and MD&A rests with the Endowment Funds' management.

The System is a governmental entity of the State of Texas. The Endowment Fund is a fund group of the System's reporting entity. The financial statements of the Endowment Fund have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

During fiscal year 2020, the Endowment Management Committee of the University of Houston (UH) System Board of Regents (Board of Regents) continued to review existing objectives, risks, asset allocation, and manager structure within the endowment portfolio and make adjustments as deemed appropriate. The Endowment Fund Statement of Investment Objectives and Policies, among other things, establishes financial objectives for the endowment and an asset allocation with targets and ranges and categorizes each asset class as either a risk reducer or a driver of return.

**Endowment Fund Structure**

Gifts to the UH System are placed in the Endowment Fund for investment and oversight purposes. The Board of Regents strives to maintain a plan to preserve and augment the value of the endowment. The Board of Regents works to preserve the broad objective of investing endowment assets so as to preserve both their real value and the long-range purchasing power of endowment income. The Endowment Management Committee of the Board of Regents is responsible for reviewing and approving investment managers and monitoring investment performance and allocations of funds to asset classes to ensure appropriate diversification of investment risks for the Endowment Fund, as well as making recommendations to the Board of Regents for any changes to the investment policy.

The Endowment Fund is a pooled investment fund consisting of approximately 1,905 individual endowments benefiting the four UH System universities. The investment pool functions similarly to a mutual fund, with each endowment account owning units that represent a claim on the Endowment Fund's net position. By pooling the investments, the UH System achieves increased diversification of investment risks and more effective management of endowment assets.

## Management of the Fund

The Endowment Fund retains sixty-one independent investment managers who pursue various portfolio management strategies to diversify risk and maximize the total return through a variety of capital market cycles. Investment manager diversification of the Endowment Fund's assets is as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<u>Developed U.S. Equity</u>			
Northern Trust	9%	7%	7%
Columbia Management	7	5	6
Vulcan Value Partners	7	6	6
Gotham	5	4	4
Cougar Investment Fund	<1	<1	<1
Subtotal – developed U.S. equity	29	22	23
<u>Developed International Equity</u>			
William Blair	7	5	6
Silchester	7	8	9
Global Alpha	3	3	3
Subtotal – developed international equity	17	16	18
<u>Developing Markets</u>			
Doddington Emerging Markets	1	1	1
Somerset	1	1	1
JO Hambro	0	0	1
Edgbaston Asian Equity	1	1	0
Subtotal – developing markets	3	3	3
<u>Absolute Return</u>			
Anchorage Capital Partners	1	1	2
HBK	2	2	2
Davidson Kempner	2	3	3
Whipporwill	<1	<1	<1
Standard Life	<1	2	2
ISAM	0	2	1
Subtotal – absolute return	6	10	10
<u>Hedged Equity</u>			
Highline Capital	<1	<1	2
AQR	0	2	2
Coatue	0	3	2
Lakewood	<1	2	0
SRS Partners	1	2	2
Marble Arch	0	0	<1
Brahman	0	2	2
Subtotal – hedged equity	2	11	10

	<b>2020</b>	<b>2019</b>	<b>2018</b>
<u>Inflation Hedge</u>			
Morgan Stanley	0%	0%	1%
Vanguard	1	1	0
Van Eck Global Hard Assets	0	0	1
T Rowe Price	1	2	0
Wellington DIH	0	0	2
Subtotal – inflation hedge	2	3	4
<u>Bonds</u>			
Smith Graham	12	10	9
<u>Private Investments</u>			
Sustainable Woodlands Fund	<1	<1	1
Berwind Property Group VII	<1	<1	<1
Berwind Property Group VIII	<1	<1	<1
Newlin Realty Partners	<1	<1	<1
Newlin Realty Partners II	<1	<1	<1
Other – real estate holdings	<1	<1	<1
Commonfund Capital International VI	<1	<1	<1
Commonfund Capital PE VII	<1	<1	<1
Commonfund Capital Venture VIII	<1	<1	<1
Denham Commodity Partners	<1	<1	<1
Denham Oil and Gas	1	1	1
EnCap Flatrock Midstream II-C	<1	<1	<1
EnCap Flatrock Midstream III	<1	<1	<1
Embarcadero Capital	1	1	<1
Envest Fund XIV A	<1	1	1
Advent International GPE VII	<1	1	1
Advent International VIII	<1	1	<1
Advent International IX	<1	0	0
EnCap Energy VII-B	1	1	<1
J.H. Whitney VII	<1	<1	<1
TrueBridge-Kauffman Fellows II	1	1	1
TrueBridge – Kauffman Fellows III	<1	1	<1
TrueBridge – Kauffman Fellow IV	<1	1	<1
TrueBridge – Kauffman Fellow V	<1	<1	<1
TrueBridge – Kauffman Fellow VI	<1	0	0
Dover Street VIII	<1	<1	<1
Dover Street IX	<1	0	0
LiveOak Venture Partners I	<1	<1	<1
Silver Lake Partners V	<1	<1	<1
Jackson Square Ventures II	<1	1	<1
Jackson Square Ventures III	<1	0	0
Mercury Fund IV	<1	<1	<1
Penzance DC Real Estate Fund	<1	<1	<1
Penzance DC Real Estate Fund II	<1	0	0
Silver Lake Partners IV	<1	1	1
Acme Fund III	<1	0	0

	<b>2020</b>	<b>2019</b>	<b>2018</b>
<u>Private Investments (Continued)</u>			
SV Life Sciences Fund VI	<1%	1%	1%
Great Hill Equity Partners V	<1	1	1
Great Hill Equity Partners VI	<1	1	<1
Great Hill Equity Partners VII	<1	0	0
Dover Street IX	<1	1	<1
Fisher Lynch Buyout II	<1	<1	<1
Binary Capital Fund II	<1	<1	<1
Fisher Lynch Venture II	<1	<1	<1
Binary Capital Fund II	<1	<1	0
ASF VIII B	<1	<1	0
Vivo	<1	<1	0
US Venture Partners XIII	<1	0	0
Kelso X	<1	<1	0
Thoma Bravo XIII A	<1	<1	0
Thoma Bravo XIV A	<1	0	0
Energy Spectrum VIII	<1	<1	0
Great Point Partners III	<1	<1	0
PeakSpan II	<1	<1	0
Clear Ventures II	<1	<1	0
Hastings	<1	<1	0
Fisher Lynch Venture II	<1	<1	0
Lexington Capital VIII	<1	1	1
Lexington Capital IX	<1	0	0
LiveOak Venture II	<1	<1	<1
Weathergage Venture IV	<1	<1	<1
Blackstone Europe V	<1	1	1
Blackstone Real Estate IX	<1	0	0
Blackstone Real Estate Europe VI	<1	0	0
EnCap Energy XI	<1	<1	<1
Insight Equity III	<1	1	<1
Francisco Partners IV-A	<1	1	1
Francisco Partners V	<1	<1	<1
Francisco Partners VI	<1	0	0
Trident VII	<1	1	<1
Trident VIII	<1	0	0
EnCap Energy X	<1	<1	<1
EnCap Midstream IV	<1	<1	<1
Blackstone Real Estate Partners VIII	<1	1	1
Subtotal – private investments	<u>28</u>	<u>23</u>	<u>22</u>
Cash and equivalents	<u>1</u>	<u>2</u>	<u>1</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

### **Investment Manager Allocation**

Investment managers are given discretion to manage the assets in each portfolio to best achieve investment objectives within the policies and requirements established by the Board of Regents. The objectives and comparative benchmarks are used to evaluate manager performance. The Endowment Management Committee reviews performance and adjusts allocation to investment managers and asset classes in response to current or future anticipated market conditions. Quarterly performance reports are distributed to the Endowment Management Committee.

### **Endowment Payout Policy**

The Endowment Management Committee is responsible for reviewing the income payout rate of the Endowment Fund, which is a balance between current income needs and long-term investment objectives. The Endowment Fund will maintain a payout rate of approximately 4 percent to 5 percent, with any change to this range to be approved by the Board of Regents. The endowment income payout rate for the years ended August 31, 2020, 2019 and 2018, was 4 percent of the average year-end market value for the 12 prior fiscal quarters. If an endowment has been in existence less than 12 quarters, the average is based on the number of quarters in existence. This trailing 12-quarter method is used to smooth large year-over-year changes in market value, thereby allowing the UH System's colleges and departments to more reasonably predict future distributions of endowment income intended to benefit their area.

In the three fiscal years 2018 through 2020, endowment payouts to the beneficiary accounts, excluding distributed income returned to principal, in total and by the System's components were as follows:

	<b>2020</b>	<b>2019</b>	<b>2018</b>
University of Houston	\$ 19,950,605	\$ 17,383,312	\$ 17,175,183
UH – Clear Lake	953,707	903,268	889,396
UH – Downtown	1,198,201	1,112,549	1,063,154
UH – Victoria	477,694	457,745	450,535
System-wide endowments	<u>4,595,576</u>	<u>4,501,946</u>	<u>4,495,622</u>
Totals	<u>\$ 27,175,783</u>	<u>\$ 24,358,820</u>	<u>\$ 24,073,890</u>

### **Overview of the Financial Statements**

The financial statements for the fiscal year ended August 31, 2020, are presented comparatively to financial statements issued for the fiscal year ended August 31, 2019. The financial statements have been prepared in accordance with the standards of the GASB, which establishes generally accepted accounting principles for state and local governments. The three primary financial statements presented are (1) the statements of net position, (2) the statements of revenues, expenses and changes in net position and (3) the statements of cash flows. The information contained in the financial statements of the Endowment Fund is incorporated within the System's Combined Annual Financial Report.

The financial operations of the System, and therefore inclusively the Endowment Fund, are considered a business-type (or proprietary fund) activity. The operating activities of the System are financed by tuition and fees, state appropriations, contracts and grants, and auxiliary enterprise revenue. The Endowment Fund is an internally managed pooled-fund and its beneficiaries are internal to the System. The statements of net position report resources held and administered by the System, as described in the previous sections of this

MD&A. These resources are customarily characterized by the existence of a written agreement that affects the degree of management involvement, the programs supported by income earned by the resources and the length of time that the resources are held by the System.

### **Statements of Net Position**

The statements of net position reflect the Endowment Fund's assets and liabilities using the economic resources measurement focus and accrual basis of accounting, and represents the financial position as of the conclusion of the fiscal year. Net position is equal to assets minus liabilities. Unrestricted net position are available to the System for any lawful purpose. Unrestricted net position often has constraints imposed by management, but such constraints can be removed or modified. Restricted net position represents net position that can be utilized only in accordance with third-party imposed restrictions. On August 31, 2020, the Endowment Fund's assets totaled \$828.4 million and liabilities totaled \$34.6 million, resulting in a net position of \$793.8 million.

The net position of the Endowment Fund as contributed by the System's components as of August 31, 2020, compared to the corresponding values as of August 31, 2019 and August 31, 2018, were as follows:

	<b>2020</b>	<b>2019</b>	<b>2018</b>
University of Houston	\$ 597,351,708	\$ 543,252,533	\$ 524,237,108
UH – Clear Lake	26,214,690	24,499,798	24,438,688
UH – Downtown	35,323,895	32,093,306	32,467,226
UH – Victoria	12,927,860	12,088,263	12,222,471
System-wide endowments	<u>121,982,504</u>	<u>115,240,781</u>	<u>117,605,880</u>
Totals	<u>\$ 793,800,657</u>	<u>\$ 727,124,681</u>	<u>\$ 710,971,373</u>

### ***Variance Analysis-Changes in the Statements of Net Position***

	<b>2020</b>	<b>2019</b>	<b>Change 2020-2019</b>	<b>2018</b>
Total assets	\$ 828,430,533	\$ 758,219,559	\$ 70,210,974	\$ 744,686,820
Total liabilities	34,629,876	31,094,878	3,534,998	33,715,447
Restricted, nonexpendable endowments	544,197,392	495,948,109	48,249,283	494,404,979
Restricted, expendable endowments	52,757,644	47,941,171	4,816,473	48,846,804
Unrestricted endowments	<u>196,845,621</u>	<u>183,235,401</u>	<u>13,610,220</u>	<u>167,719,590</u>
Net position	<u>\$ 793,800,657</u>	<u>\$ 727,124,681</u>	<u>\$ 66,675,976</u>	<u>\$ 710,971,373</u>

- Total assets: The \$70.2 million increase in fiscal year 2020 is primarily attributable to an increase in the fair value of investments.
- Total liabilities: The \$3.5 million increase in liabilities is primarily attributable to an increase in amounts due to other components of the University for required distributions.
- Restricted, nonexpendable endowments: The \$48.2 million increase in restricted nonexpendable endowments is primarily attributable to an increase in the fair value of investments.

- Restricted, expendable endowments: The \$4.8 million increase in restricted expendable endowments is primarily attributable to an increase in the fair value of investments.
- Unrestricted endowments: The \$13.6 million increase is primarily attributable to an increase in the fair value of investments.

### **Statements of Revenues, Expenses and Changes in Net Position**

The statements of revenues, expenses and changes in net position contain information about the additions to, the deductions from, and the resulting net increase or decrease in the fair value of the net position for the fiscal year. During fiscal year 2020, the Endowment Fund received \$20.4 million of gifts and other receipts, interest and investment income of \$7.0 million, and a \$83.5 million net increase in the fair value of investments. The Endowment Fund's total deductions for fiscal year 2020 were \$44.2 million, including \$27.2 million earmarked for distribution to the beneficiary endowment accounts under the planned payout policy and \$7.0 million for gift acquisition and fund raising efforts. As a result of these activities, the Endowment Fund realized an increase in net position of \$66.7 million for fiscal year 2020.

### ***Variance Analysis-Changes in the Statements of Revenues, Expenses and Changes in Net Position***

	<b>2020</b>	<b>2019</b>	<b>Change 2020-2019</b>	<b>2018</b>
Contributions to endowments	\$ 20,429,180	\$ 27,239,780	\$ (6,810,600)	\$ 58,990,090
Net realized and unrealized appreciation	83,460,443	12,021,371	71,439,072	45,005,116
Other non-operating expenses	(44,172,626)	(36,623,036)	(7,549,600)	(35,505,360)
Interest and investment income	6,958,988	13,515,193	(6,556,205)	9,719,006
Increase in net position	<u>\$ 66,675,975</u>	<u>\$ 16,153,308</u>	<u>\$ 50,522,667</u>	<u>\$ 78,208,852</u>

- Contributions to endowments decreased \$6.8 million in 2020, as compared to 2019, due to the effects of the COVID-19 virus on financial markets and donor uncertainty.
- Changes in investment activities included an \$83.5 million net appreciation in the fair value of investments in fiscal year 2020 compared to \$12.0 million net appreciation in fiscal year 2019. This net change fiscal year-over-year is the result of the stock market increase in certain sectors in fiscal year 2020. Interest and investment income decreased by \$6.6 million as compared to 2019. Fund deductions increased by \$7.5 million from 2019 to 2020. The Endowment Fund established a tiered payout policy for underwater endowments effective 2016. The institutional advancement fee was approved by the Board of Regents to offset costs associated with gift acquisition and fund raising efforts at the System components. Administrative costs were \$4.3 million more in fiscal year 2020 compared to fiscal year 2019. Administrative costs are comprised primarily of investment management fees and consulting fees, and these costs will fluctuate year-over-year as fees are calculated based on the market value of the funds under each firm's advisement.

### **Statements of Cash Flows**

The statements of cash flows explain the changes during the fiscal year in cash and cash equivalents, regardless of whether there are restrictions on their use. The statements of cash flows should be read in conjunction with related disclosures and information in the other financial statements.

### **Capital Assets**

The Endowment Fund does not hold any capitalized assets, such as buildings or furniture and equipment. The Endowment Fund invests in financial instruments which constitutes most of the Endowment Fund's assets. Although the Endowment Fund is generally not prohibited from acquiring tangible physical assets to be held as investments for their appreciation qualities, such assets are typically not acquired or held by the Endowment Fund. Presently, the Endowment Fund holds certain parcels of land, which were received as gifts and are being held for future sale.

### **Debt Administration**

The Endowment Fund does not issue long-term debt. The Endowment Fund is not currently engaged in any long-term financing transactions. The operation and administration of the Endowment Fund is currently structured such that its annual financial obligations and expenses are satisfied through earnings and other fund additions.

### **Economic Outlook**

After the historic drawdown in the first quarter of 2020, the markets rebounded in an equally historic rally in the second quarter. Volatility bounced back at the end of fiscal year 2020 as tensions heightened over the presidential election. U.S. equities declined, but outperformed broader developer markets. Despite the decline, the United States remained up, leading all major global equity markets. Utilities, real estate and consumer staples gained, while energy declined. European equities declined and lagged broader developed markets.

Any questions related to the MD&A or financial statements should be directed to University of Houston, Office of the Treasurer, P.O. Box 988, Houston, Texas 77001-0988.

## **The Basic Financial Statements**

**University of Houston System  
Endowment Fund  
Statements of Net Position  
August 31, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 32,632,514	\$ 21,982,902
Interest and dividends receivable	656,976	658,980
Receivables for investments sold	1,070,758	969,832
Total current assets	34,360,248	23,611,714
Noncurrent assets:		
Investments	794,070,285	734,607,845
Total assets	828,430,533	758,219,559
<b>Liabilities</b>		
Current liabilities:		
Payable for investments purchased	435,437	190,402
Due to other components	34,194,439	30,904,476
Total liabilities	34,629,876	31,094,878
<b>Net Position</b>		
Restricted for nonexpendable endowments	544,197,392	495,948,109
Restricted for expendable endowments	52,757,644	47,941,171
Unrestricted	196,845,621	183,235,401
Total net position	\$ 793,800,657	\$ 727,124,681

# University of Houston System Endowment Fund

## Statements of Revenues, Expenses and Changes in Net Position Years Ended August 31, 2020 and 2019

	<b>2020</b>	<b>2019</b>
<b>Operating Revenues</b>	\$ -	\$ -
<b>Operating Expenses</b>	-	-
Operating income	0	0
<b>Nonoperating Revenues (Expenses)</b>		
Interest and investment income	6,958,988	13,515,193
Net realized and unrealized appreciation	83,460,443	12,021,371
Other nonoperating expenses	(44,172,635)	(36,623,036)
Total nonoperating revenues (expenses)	46,246,796	(11,086,472)
<b>Contributions to Endowments</b>	20,429,180	27,239,780
<b>Change in Net Position</b>	66,675,976	16,153,308
<b>Net Position, Beginning of Year</b>	727,124,681	710,971,373
<b>Net Position, End of Year</b>	\$ 793,800,657	\$ 727,124,681

**University of Houston System  
Endowment Fund  
Statements of Cash Flows  
Years Ended August 31, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Cash Flows From Operating Activities</b>	\$ <u>0</u>	\$ <u>0</u>
<b>Cash Flows From Noncapital and Related Financing Activities</b>		
Contributions to endowments	20,429,180	27,239,780
Increase in due to other components	<u>3,289,963</u>	<u>302,481</u>
Net cash provided by noncapital and related financing activities	<u>23,719,143</u>	<u>27,542,261</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	<u>0</u>	<u>0</u>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sales and maturities of investments	1,940,422,744	1,629,309,925
Payments to purchase investments	(1,950,471,341)	(1,683,197,189)
Interest and dividends received on investments	6,957,263	13,425,801
Payments for asset management and stewardship	<u>(9,978,197)</u>	<u>(5,718,561)</u>
Net cash used in investing activities	<u>(13,069,531)</u>	<u>(46,180,024)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	10,649,612	(18,637,763)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>21,982,902</u>	<u>40,620,665</u>
<b>Cash and Cash Equivalents, End of Year</b>	\$ <u><u>32,632,514</u></u>	\$ <u><u>21,982,902</u></u>

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2020 and 2019

### 1) Reporting Entity

University of Houston System (the System) is an agency of the State of Texas, established by the State of Texas to provide undergraduate and graduate university instruction, scholarly research and public service in the Houston, Texas area. The System is the State of Texas' only metropolitan higher education system, encompassing four universities and two multi-institution teaching centers. University of Houston System Endowment Fund (the Endowment Fund) is a fund group of the System reporting entity, with the earliest endowment having been established in 1950. The accompanying financial statements present only the Endowment Fund of the System as of August 31, 2020 and 2019, the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Endowment Fund is a fund group that accounts for all of the System's endowment assets pooled together to ensure better management and uniform accountability for those assets. The Endowment Fund provides financial support for the System's students and the System's research endeavors. The Endowment Fund is presently comprised of approximately 1,905 restricted and unrestricted endowment funds located in the System's four universities and multi-institution teaching centers. Restricted endowment funds are funds with respect to which a donor or other outside entity has stipulated that the principal be maintained inviolate and in perpetuity, and that only the income from the investments is available for expenditure. Unrestricted endowment funds consist of funds for which the donor did not impose any restriction as to their use, as well as funds that are designated by the System's Board of Regents, rather than the donor, to function as endowment funds. The principal of these funds may be expended at the discretion of the System's Board of Regents.

### 2) Summary of Significant Accounting Policies

#### (a) General

All financial accounting records of the Endowment Fund are maintained by the System's Office of the Associate Vice Chancellor for Finance in accordance with accounting principles generally accepted in the United States of America for colleges and universities.

#### (b) Basis of Accounting and Presentation

The Endowment Fund is reported as a single-purpose business-type activity entity. The financial statements of the Endowment Fund have been prepared using the economic resources measurement focus and accrual basis of accounting whereby all revenues are recorded when earned and all expenses are recorded when they are incurred.

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2020 and 2019

### (c) *Cash and Cash Equivalents*

The Endowment Fund believes the carrying value of cash and temporary investments approximates fair value. The Endowment Fund considers investments purchased with a maturity of three months or less from the statements of net position date to be cash equivalents.

### (d) *Investments*

In accordance with GASB No. 72, *Fair Value Measurement and Application*, investments are recorded at fair value. Fair value is based on published closing market prices on the last trading day of the fiscal year. In the case of pooled funds or mutual funds, the fair value is determined as the number of units or shares held in the fund multiplied by the price per unit or share as publicly quoted. Investments in which a public market does not exist are based on the Endowment Fund's ownership interest in the net asset value (NAV) of each fund as reported by the fund managers. When fund managers do not provide the NAV of each fund at fiscal year-end, the fair value is estimated by the System using the most recent statement and adding contributions and subtracting the distributions during the intervening period. In accordance with GASB No. 52, *Land and Other Real Estate Held as Investments by Endowments*, land and other real estate held as investments are recorded at fair value. Chapter 163 of the Texas Property Code (also cited as the *Uniform Prudent Management of Institutional Funds Act*) grants the System the authority to spend net appreciation.

Because of inherent uncertainties of valuations, management's and fund managers' estimates of fair value may differ from the values that would have been used had a ready market existed.

Investments received as gifts are initially recorded at estimated fair value based on appraised values or broker closing prices for stocks at the date of the gift.

Short-term investments comprise U.S. Government obligations and corporate obligations with a maturity date of less than one year as of the statements of net position date.

### (e) *Net Position*

The Endowment Fund's net position is classified as follows:

*Restricted for nonexpendable endowments:* Net position for restricted nonexpendable endowment funds are maintained permanently by the System following the externally imposed stipulations.

*Restricted for expendable endowments:* Net position for restricted expendable endowment funds are those that may be expended for either a stated purpose or for a general purpose subject to externally imposed stipulations.

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2020 and 2019

*Unrestricted:* Net position for unrestricted endowment funds are donated by third parties or created internally by the System and represent resources that are available without restrictions to the System.

When both restricted and unrestricted resources are available for use, it is the Endowment Fund's policy to use restricted resources first, then unrestricted resources as they are needed.

### **(f) Revenue Recognition**

Contributions to the Endowment Fund and transfers-in from other funds, such as distribution payouts returned by beneficiaries for reinvestment, are recognized as additions to the Endowment Fund's assets. Dividend income is recorded as income on the date the stock traded ex-dividend. Interest is recognized on fixed-income investments on the accrual basis.

Net realized and unrealized appreciation represents both realized and unrealized gains and losses on investments. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Realized gain or loss is computed as the difference between the cost of marketable securities sold and the sale price. The cost of marketable securities sold is determined on specific identification of investments sold. Realized gain is recorded as of the trade date regardless of when the transaction is settled. Unrealized gains or losses are calculated based on the changes in investment fair value between the beginning and end of the fiscal year for investments held since the beginning of the year, or as the difference between the fair value at end-of-year and the purchase cost for investments purchased during the year. Unrealized gains (losses) are determined and recorded as of the fiscal year-end.

The Endowment Fund does not currently earn or incur operating revenues and expenses.

### **(g) Distribution Payout**

Effective September 1, 2018, the System's Board of Regents adopted an endowment payout policy whereby the payout rate is based on a percentage of the fiscal year-end net position averaged over a 12-quarter rolling period. For the fiscal years 2020 and 2019, the payout rate was 4 percent applied to the endowments' average net position balances for the preceding 12 quarters. If an endowment was in existence less than 12 quarters, the average was based on the number of quarters the endowment was in existence. Effective May 1, 2009, no endowment receives a pro rata income distribution from current fiscal year contributions. The payout is calculated and recorded at the end of each fiscal year. Actual endowment return earned in excess of distributions is reinvested. For years actual endowment return is less than the distribution payout, the shortfall is covered by realized returns from prior years.

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2020 and 2019

### *(h) Institutional Advancement Assessment*

The System will annually assess a reasonable fee against the earnings of specified endowment funds to offset expenses associated with gift acquisition and fundraising at the component universities. The System's Board of Regents shall annually review and approve the fee. The fee will be based as a percentage of the fiscal year-end market value averaged over rolling 12 quarter periods. For the fiscal years 2020 and 2019, the assessment fee was 1.3 percent. If an endowment has been in existence less than 12 quarters, the average will be based on the number of quarters in existence.

The assessment is made at the end of each fiscal year to make funds available for the System's institutional advancement activities in the following fiscal year. The total amount assessed for the years ended August 31, 2020 and 2019, was \$7,018,656 and \$6,545,656, respectively.

### *(i) Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

## **3) Authorized Investments**

The System's Board of Regents is charged with the fiduciary responsibility for preserving and augmenting the value of the Endowment Fund. The System retains the services of a custodial financial institution under a master trust custodian agreement, as well as the services of independent investment managers each of whom plays a part in meeting the System's goals over a variety of capital market cycles. The System's Board of Regents has adopted a written investment policy, including investment manager guidelines for each of the separately invested accounts of the Endowment Fund, regarding the investment of endowment assets as defined in the System's Investment Policies. The primary long-term financial objective for the Endowment Fund is to preserve the real (inflation adjusted) purchasing power of endowment assets when measured over rolling periods of at least five years. The medium term objective is to outperform each of the capital markets in which the endowment assets are invested, measured over rolling periods of three to five years or complete market cycles, with emphasis on whichever measure is longer.

## **4) Derivatives**

Derivatives are investment products that may be a security or contract that derives its value from another security, currency, commodity or index, regardless of the source of funds used. The Endowment Fund did not directly invest in derivatives during the years ended August 31, 2020 or 2019, and held no direct derivative instruments at August 31, 2020 or 2019.

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2020 and 2019

### 5) Cash and Investments

#### (a) Composition of Cash and Cash Equivalents

Cash and cash equivalents consist of money market funds and securities maturing within three months totaling \$32,632,514 and \$21,982,902 at August 31, 2020 and 2019, respectively. The money market funds are invested in commercial paper, certificates of deposit, repurchase agreements, corporate notes, time deposits and similar short-term investments considered generally acceptable and prudent for money market funds.

Cash and cash equivalents included in the statements of net position consist of the items reported below:

	2020	2019
Cash	\$ 4,010,518	\$ 478,671
Money market funds	28,621,996	21,504,231
Total cash and cash equivalents	\$ 32,632,514	\$ 21,982,902

#### (b) Reconciliation of Cash and Investments to Statements of Net Position

Total cash and investments at August 31, 2020 and 2019, are as follows:

Type of Security	Fair Value	
	2020	2019
Cash	\$ 4,010,518	\$ 478,671
Money market funds	28,621,996	21,504,231
U.S. Government obligations	37,159,607	22,370,827
U.S. Government agencies	11,648,336	15,250,416
Fixed income (non-government/agency)	44,936,422	35,832,229
U.S. equity securities	117,710,597	81,203,201
Global equities excluding U.S.	175,234,734	148,093,915
Hedged equity funds	15,885,300	81,137,963
Inflation hedge funds (including REITs)	22,929,382	24,616,867
Absolute return funds	48,781,637	76,116,844
Private equity investments	319,709,270	249,874,834
Real estate	75,000	110,749
Total investments	826,702,799	756,590,747
Less cash and cash equivalents	(32,632,514)	(21,982,902)
Total non-current investments	\$ 794,070,285	\$ 734,607,845

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2020 and 2019

**(c) Investment Maturities**

As of August 31, 2020 and 2019, the Endowment Fund had the following investments and weighted-average maturities:

Investment Type	2020		2019	
	Fair Value	Weighted-average Maturity (Years)	Fair Value	Weighted-average Maturity (Years)
U.S. Government obligations <sup>(1)</sup>	\$ 37,159,607	3.54	\$ 22,870,827	5.2
U.S. Government agencies <sup>(1)</sup>	11,648,336	22.95	17,078,202	24.1
U.S. fixed income (non-government/agency) <sup>(1)</sup>	44,936,422	7.85	34,004,444	8.6
Equity, mutual funds, other investments	<u>732,958,434</u>	Untenured	<u>682,637,274</u>	Untenured
Total investments at fair value	<u>\$ 826,702,799</u>		<u>\$ 756,590,747</u>	
Weighted-average maturity of tenured portfolio		8.0		10.8

(1) Includes tenured securities classified as cash equivalents and short-term investments.

**(d) Asset Selection and Allocation**

The Endowment Fund's Statement of Investment Objectives and Policies governs the overall allocation of endowment funds to asset classes and considerations of limits to investment risk exposures. Allocation of funds to asset classes is based on expected returns, risk levels, desired risk diversification, interaction of various asset classes, and income generation and capital appreciation potentials of each asset class. The market value of investments in each asset class is maintained within an approved range of ratios to the market value of the Endowment Fund's total investments, except for minor deviations due to fluctuations in market value. The Endowment Management Committee monitors asset allocation targets and limits and may authorize the reallocation of funds among investment managers. The Endowment Fund currently invests in a broad array of asset classes in order to diversify the portfolio's risk. Marketable securities, such as domestic or international common stocks, domestic bonds, equity money market funds, and cash equivalents comprise 65 percent and 51 percent of the overall investment portfolio (portfolio) at the end of fiscal years 2020 and 2019, respectively. Marketable alternative investments (*i.e.*, inflation hedge funds,

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2020 and 2019

commingled funds invested in marketable securities, absolute return and hedged-equity funds) represent 11 percent and 21 percent of the portfolio, and non-marketable alternative investments (*i.e.*, venture capital, private equity, real estate, natural resources, energy) constitute 24 percent and 28 percent of the portfolio on a funded basis at the end of the fiscal years ended 2020 and 2019, respectively. The Endowment Fund's overall investment risk is diversified by asset class and within each class by strategy, economic sector, geography, industry, market capitalization, manager and with regard to non-marketable alternatives, by vintage year as well. Such diversification is aimed at managing the risks specifically associated with any single strategy, economic sector, geographic area, industry, vintage year or manager.

### (e) *Investment Related Risks*

*Custodial Credit Risk* – Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, the Endowment Fund will not be able to recover its deposits. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Endowment Fund will not be able to recover the value of its investment or collateral securities that may be in the possession of another party. Securities owned by the endowment but held in custody by the endowment custodian may be lent to other parties through a contract between the System and the custodian pursuant to a written agreement approved by the Board of Regents. As of August 31, 2020 and 2019, the System did not have a securities-lending agreement with its custodian. Managers may not enter into securities-lending agreements without the consent of the Board of Regents. The System recognizes, however, that, for those investments placed in commingled vehicles, the Board of Regents cannot dictate whether or not the manager will engage in securities lending. Therefore, the System and its investment consultant make every effort either to avoid commingled investments, or to otherwise limit investment to those managers who will not engage in securities lending. The limited partnerships of marketable and non-marketable alternative investments are excluded from this limitation. At August 31, 2020 and 2019, the Endowment Fund's total investments at fair value under a master trust custodian agreement with a third-party financial institution was \$239,809,293 and \$183,969,308, respectively. The third-party custodian operates its business world-wide and, at August 31, 2020 and 2019, held risk insurance contracts with various local and foreign insurance organizations providing coverage for loss due to theft, fraud, and damage to securities while in the custodian's custody; loss of securities while in transit; property damage; and, loss due to business interruption, acts of terrorism, officer negligence, and general liability. The insurance coverage limits ranged from \$1,000,000 to \$500,000,000. The coverage did not protect against market risks and fluctuations associated with market investments.

At August 31, 2020 and 2019, the Endowment Fund's investments at fair value not covered by the master trust custodian agreement were \$586,893,506 and \$572,621,439, respectively. These investments, excluding real estate valued at \$75,000 and \$110,749 at August 31, 2020 and 2019, respectively, were under various custodian agreements between the investment managers and the investment funds or limited partnerships in which the Endowment Fund is

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements

August 31, 2020 and 2019

invested. The investments are subject to custodial risks associated with those independent investment managers, and to market risks and fluctuations associated with market investments. The System controls these risks through its credit and concentration risk policies as described in the credit risk and concentration of credit risk paragraph below.

*Interest Rate Risk* – Interest rate risk is the risk that changes in market interest rates will adversely affect the value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its value to changes in market interest rates. The System's investment policy, by way of the investment manager guidelines, requires the weighted average duration of the portfolio should remain in a range of a minimum of 90 percent and a maximum of 110 percent of the Barclays Aggregate Bond Index for active fixed income managers in which a separate account structure exists. The System's investment policy is driven primarily by the goal to preserve the long-term real (inflation adjusted) purchasing power of endowment assets while achieving short-term maximum earnings with an acceptable level of risk. In order to balance these two primary goals, the Board of Regents is closely involved in managing the exposure to declines in investment fair value and earnings.

*Credit Risk and Concentration of Credit Risk* – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). Pursuant to GASB Statement No. 40, *Deposit and Investment Risk Disclosures, and amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. In accordance with the System's investment policy and manager guidelines, where applicable, investments in securities within the fixed income allocation of the portfolio must be investment grade and have an average portfolio credit quality of "AA" or better. Securities should be readily marketable and liquid. The use of options, futures and other derivatives (excepting mortgage-backed securities) is prohibited within the domestic fixed income allocation, wherein there is a separate account vehicle, without prior approval by the Endowment Management Committee. The use of leverage is prohibited. The investment manager guidelines, where applicable, limit the amount each active manager may invest in any one issuer. Other than U.S. Government securities (including agency securities), no security may be purchased so that it will constitute more than 5 percent of the market value of the portfolio; however, obligations issued or guaranteed by the full faith and credit of the U.S. Government may be held without limitation. The System's endowment funds also include an allocation to alternative investments, which by their nature, include higher levels of risk, including credit and concentration of credit risk, with the expectation of higher returns relative to traditional equities and fixed income securities. The investment policy does not specify limits as to credit quality or concentration for alternatives as these investments may include highly concentrated positions and may include investing in companies that are either privately held or in financial distress.

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2020 and 2019

The credit quality (ratings) of tenured securities and concentration of credit exposure as a percentage of total investments as of August 31, 2020, are as follows:

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
U S Treasury Note	1.63%	06/30/2021	\$ 1,087,932	NA	0.13%
U S Treasury Note	2.13%	06/30/2021	4,598,169	NA	0.56%
U S Treasury Bond	4.50%	02/15/2036	83,209	NR	0.01%
U S Treasury Bond	4.50%	05/15/2038	717,835	NR	0.09%
U S Treasury Note	2.75%	02/15/2028	442,138	NA	0.05%
U S Treasury Note	2.63%	01/31/2026	1,073,439	NA	0.13%
U S Treasury Note	2.38%	02/29/2024	2,561,951	NA	0.31%
U S Treasury Note	2.38%	05/15/2029	2,057,730	NA	0.25%
U S Treasury Note	2.13%	12/31/2021	6,670,625	NA	0.81%
U S Treasury Note	1.63%	05/15/2026	407,326	NA	0.05%
U S Treasury Note	2.75%	11/15/2023	4,968,675	NA	0.60%
U S Treasury Note	2.38%	05/15/2027	253,582	NA	0.03%
U S Treasury Note	2.13%	06/30/2022	621,678	NA	0.08%
U S Treasury Note	1.75%	11/15/2029	516,817	NA	0.06%
U S Treasury Note	1.50%	02/15/2030	533,283	NA	0.06%
U S Treasury Note	0.63%	05/15/2030	994,380	NA	0.12%
U S Treasury Note	0.25%	06/30/2025	1,574,748	NA	0.19%
U S Treasury Note	0.13%	06/30/2022	2,999,190	NA	0.36%
U S Treasury Note	0.13%	07/15/2023	4,996,900	NA	0.60%
Pnc Bank Na	2.15%	04/29/2021	1,051,492	A	0.13%
Truist Financial Corp	2.05%	05/10/2021	1,061,319	A-	0.13%
AT&T Inc	2.30%	06/01/2027	881,028	BBB	0.11%
Abbvie Inc	2.85%	05/14/2023	887,922	BBB+	0.11%
Ally Auto Receivables Tru 2 A2	2.34%	07/15/2022	296,742	AAA	0.04%
Alphabet Inc	1.10%	08/15/2030	867,399	AA+	0.10%
Apple Inc	2.30%	05/11/2022	898,371	AA+	0.11%
Baker Hughes A Ge Co Llc / Bak	3.34%	12/15/2027	485,615	A-	0.06%
Bank Of America Corp	2.88%	04/24/2023	606,721	A-	0.07%
Bank Of America Corp	3.42%	12/20/2028	1,744,751	A-	0.21%
Bank 2018-Bnk12 Bn12 As Bmw Vehicle Owner Trust 2 A A3	4.49%	05/15/2061	397,038	AAA	0.05%
	2.35%	04/25/2022	109,769	NA	0.01%
Cigna Corp	4.38%	10/15/2028	1,665,025	A-	0.20%
Cvs Health Corp	4.30%	03/25/2028	971,231	BBB	0.12%
California St	4.60%	04/01/2038	700,698	AA-	0.08%

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2020 and 2019

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
Capital One Financial Corp	3.20%	01/30/2023	\$ 697,013	BBB	0.08%
Capital One Prime Auto Re 1 A3	2.51%	11/15/2023	880,889	AAA	0.11%
Carmax Auto Owner Trust 20 1 B	2.54%	09/15/2022	428,404	NA	0.05%
Carmax Auto Owner Trust 20 1 C	2.84%	10/17/2022	322,912	NA	0.04%
Carmax Auto Owner Trust 20 4 B	2.46%	08/15/2023	204,950	AAA	0.02%
Citigroup Inc	3.98%	03/20/2030	760,488	BBB+	0.09%
Citigroup Inc	3.35%	04/24/2025	680,069	BBB+	0.08%
Comcast Corp	4.15%	10/15/2028	879,222	A-	0.11%
Comm 2013-Lc6 Mortgage Lc6 A4	2.94%	01/10/2046	333,193	AAA	0.04%
Costco Wholesale Corp	1.60%	04/20/2030	998,493	A+	0.12%
Cummins Inc	0.75%	09/01/2025	871,984	A+	0.11%
Dell International Llc / 144A Dominion Energy Gas Holdings L	4.90%	10/01/2026	650,843	BBB-	0.08%
Exelon Generation Co Llc	2.50%	11/15/2024	968,721	BBB+	0.12%
Ford Credit Auto Lease T A A2A	3.40%	03/15/2022	265,473	BBB+	0.03%
Gm Financial Automobile Le 2 C	2.84%	09/15/2021	73,518	AAA	0.01%
Gm Financial Consumer Aut 4 A3	3.50%	04/20/2022	221,366	AA+	0.03%
Goldman Sachs Group Inc/The	3.21%	10/16/2023	1,000,498	AAA	0.12%
Goldman Sachs Group Inc/The	3.85%	01/26/2027	809,102	BBB+	0.10%
Hewlett Packard Enterprise Co	2.91%	07/24/2023	693,555	BBB+	0.08%
Honda Auto Receivables 20 1 A2	2.25%	04/01/2023	828,528	BBB	0.10%
Honda Auto Receivables 20 2 A3	2.75%	09/20/2021	165,344	AAA	0.02%
Hyundai Auto Receivables B A3	2.52%	06/21/2023	312,951	NA	0.04%
Hyundai Auto Receivables T B C	1.77%	01/18/2022	94,880	NR	0.01%
Jpmorgan Chase & Co	2.44%	05/15/2024	172,764	AAA	0.02%
Jpmorgan Chase & Co	3.30%	04/01/2026	847,737	A-	0.10%
Metlife Inc	3.54%	05/01/2028	1,479,239	A-	0.18%
Morgan Stanley Bank Of C32 A4	3.00%	03/01/2025	737,472	A-	0.09%
Morgan Stanley	3.72%	12/15/2049	1,410,721	NA	0.17%
Morgan Stanley	3.63%	01/20/2027	502,656	BBB+	0.06%

115

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2020 and 2019

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
Morgan Stanley Bank Of C29 A4	3.33%	05/15/2049	\$ 716,463	NA	0.09%
New York City Ny Transitional	3.55%	08/01/2028	825,297	AAA	0.10%
Newmont Corp	3.70%	03/15/2023	87,442	BBB	0.01%
Newmont Corp	2.25%	10/01/2030	825,266	BBB	0.10%
Nissan Auto Lease Trust 2 A A3	2.76%	03/15/2022	890,454	AAA	0.11%
Oracle Corp	1.90%	09/15/2021	812,616	A	0.10%
Pacific Gas And Electric Co	1.75%	06/16/2022	712,286	BBB-	0.09%
Phillips 66 Partners Lp	3.75%	03/01/2028	325,413	BBB	0.04%
Principal Financial Group Inc	3.40%	05/15/2025	500,391	A-	0.06%
Progress Energy Inc	3.15%	04/01/2022	342,157	BBB+	0.04%
Prologis Lp	1.25%	10/15/2030	853,400	A-	0.10%
Regions Financial Corp	3.80%	08/14/2023	735,811	BBB+	0.09%
Southern California Edison Co	3.50%	10/01/2023	177,593	A-	0.02%
Southern California Edison Co	4.20%	03/01/2029	208,076	A-	0.03%
Starbucks Corp	2.25%	03/12/2030	201,679	BBB+	0.02%
Towd Point Mortgage 2 A1 144A	3.25%	03/25/2058	807,358	NA	0.10%
Toyota Auto Receivables 2 B A3	2.96%	09/15/2022	501,516	AAA	0.06%
United Airlines 2018-1 Class A	3.50%	09/01/2031	199,596	NA	0.02%
United Airlines 2016-1 Class A	3.10%	01/07/2030	447,307	NA	0.05%
Upjohn Inc 144A	1.65%	06/22/2025	215,765	BB	0.03%
Utah St	4.55%	07/01/2024	306,244	AAA	0.04%
Verizon Communications Inc	2.63%	08/15/2026	865,219	BBB+	0.10%
Vulcan Materials Co	3.90%	04/01/2027	388,187	BBB+	0.05%
Wfrbs Commercial Mortga C12 As	3.56%	03/15/2048	627,936	AAA	0.08%
Wfrbs Commercial Mortga C13 As	3.35%	05/15/2045	52,142	NA	0.01%
Wells Fargo & Co	3.07%	01/24/2023	941,495	BBB+	0.11%
World Omni Auto Receivable B	1.73%	07/15/2023	451,206	AA+	0.05%
Fhlmc Pool #G0-1837	5.00%	07/01/2035	25,241	NA	0.00%
Fhlmc Pool #G1-4225	4.00%	08/01/2026	13,338	NA	0.00%
Fhlmc Pool #G1-4496	3.00%	06/01/2027	421,624	NA	0.05%
Fhlmc Pool #G0-8588	4.00%	05/01/2044	87,842	NA	0.01%
Fhlmc Pool #G0-8615	3.50%	11/01/2044	38,599	NA	0.00%
Fhlmc Pool #G0-8667	3.50%	09/01/2045	322,930	NA	0.04%

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2020 and 2019

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
Fhlmc Pool #G0-8698	3.50%	03/01/2046	\$ 193,722	NA	0.02%
Fhlmc Pool #G0-8699	4.00%	03/01/2046	292,561	NA	0.04%
Fhlmc Pool #G0-8681	3.50%	12/01/2045	685,839	NA	0.08%
Fhlmc Pool #G0-8687	3.50%	01/01/2046	1,023,810	NA	0.12%
Fhlmc Pool #G0-8732	3.00%	11/01/2046	1,073,575	NA	0.13%
Fhlmc Pool #G0-8707	4.00%	05/01/2046	440,209	NA	0.05%
Fhlmc Pool #G0-8747	3.00%	02/01/2047	930,252	NA	0.11%
Fhlmc Pool #G1-8561	3.00%	07/01/2030	12,787	NA	0.00%
Fhlmc Pool #G6-7702	4.00%	01/01/2047	1,185,675	NA	0.14%
Fhlmc Pool #G6-0024	3.50%	05/01/2043	150,995	NA	0.02%
Fnlma Pool #0254903	5.00%	10/01/2033	111,701	NA	0.01%
Fnlma Pool #0555330	5.50%	04/01/2033	69,216	NA	0.01%
Fnlma Pool #0Ah3384	3.50%	01/01/2041	743,551	NA	0.09%
Fnlma Pool #0Ah3431	3.50%	01/01/2026	51,164	NA	0.01%
Fnlma Pool #0A10160	4.50%	05/01/2041	154,740	NA	0.02%
Fnlma Pool #0A11697	4.00%	10/01/2041	18,611	NA	0.00%
Fnlma Pool #0A13519	4.50%	11/01/2041	21,921	NA	0.00%
Fnlma Pool #0A13322	4.00%	02/01/2043	26,546	NA	0.00%
Fnlma Pool #0A13802	3.00%	02/01/2028	145,937	NA	0.02%
Fnlma Pool #0A14911	3.00%	10/01/2027	65,984	NA	0.01%
Fnlma Pool #0A17306	4.50%	09/01/2042	80,049	NA	0.01%
Fnlma Pool #0A17521	5.00%	06/01/2039	477,678	NA	0.06%
Fnlma Pool #0A17767	4.50%	06/01/2044	276,184	NA	0.03%
Fnlma Pool #0A19578	4.00%	06/01/2045	37,152	NA	0.00%
Fnlma Pool #0A18383	4.50%	10/01/2045	44,640	NA	0.01%
Fnlma Pool #0As5696	3.50%	08/01/2045	78,169	NA	0.01%
Fnlma Pool #0725231	5.00%	02/01/2034	18,651	NA	0.00%
Fnlma Pool #0725690	6.00%	08/01/2034	31,891	NA	0.00%
Fnlma Pool #0725704	6.00%	08/01/2034	37,219	NA	0.00%
Fnlma Pool #0725773	5.50%	09/01/2034	118,278	NA	0.01%
Fnlma Pool #0735925	5.00%	10/01/2035	141,536	NA	0.02%
Fnlma Pool #0745428	5.50%	01/01/2036	79,529	NA	0.01%
Fnlma Pool #0Bm1909	4.00%	02/01/2045	486,823	NA	0.06%
Fnlma Pool #0995112	5.50%	07/01/2036	31,770	NA	0.00%
Fnlma Pool #0Ma3088	4.00%	07/01/2047	180,821	NA	0.02%
Fnlma Pool #0Ma3384	4.00%	04/01/2048	499,537	NA	0.06%
Fnlma Pool #0Ad0198	5.50%	09/01/2038	41,854	NA	0.01%
Fnlma Pool #0Ad7128	4.50%	07/01/2040	116,275	NA	0.01%
Fnlma Pool #0Ae0698	4.50%	12/01/2040	15,557	NA	0.00%

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2020 and 2019

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
Fnma Pool #0Ae0949	4.00%	02/01/2041	\$ 124,981	NA	0.02%
Fnma Pool #0Ae0988	4.00%	09/01/2025	19,077	NA	0.00%
Gnma Ii Pool #0Ma3663	3.50%	05/20/2046	307,563	NA	0.04%
Gnma Ii Pool #0005056	5.00%	05/20/2041	60,682	NA	0.01%
Gnma Ii Pool #0005116	5.00%	07/20/2041	34,047	NA	0.00%

The credit quality (ratings) of tenured securities and concentration of credit exposure as a percentage of total investments as of August 31, 2019, are as follows:

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
U S Treasury Bond	4.50%	02/15/2036	\$ 77,284	NR	0.01%
U S Treasury Note	2.13%	06/30/2022	1,299,608	NA	0.17%
U S Treasury Note	2.38%	05/15/2029	3,567,187	NA	0.47%
U S Treasury Note	2.38%	05/15/2027	453,156	NA	0.06%
U S Treasury Bond	4.50%	05/15/2038	662,326	NR	0.09%
U S Treasury Note	2.13%	03/31/2024	242,325	NA	0.03%
U S Treasury Note	1.38%	05/31/2020	991,498	NA	0.13%
U S Treasury Note	2.63%	01/31/2026	594,477	NA	0.08%
U S Treasury Note	2.13%	06/30/2029	4,570,793	NA	0.60%
U S Treasury Note	2.75%	11/15/2023	5,164,159	NA	0.68%
U S Treasury Note	2.75%	02/15/2028	418,000	NA	0.06%
U S Treasury Note	2.38%	02/29/2024	3,594,486	NA	0.48%
U S Treasury Note	1.63%	05/15/2026	384,066	NA	0.05%
U S Treasury Note	2.50%	05/15/2024	351,462	NA	0.05%
WFRBS Commercial Mortga C12 As	3.56%	03/15/2048	625,014	AAA	0.08%
Exelon Generation Co Llc	3.40%	03/15/2022	262,234	BBB+	0.03%
Hyundai Auto Receivables T B C	2.44%	05/15/2024	170,768	AAA	0.02%
Carmax Auto Owner Trust 20 1 B	2.54%	09/15/2022	428,553	NA	0.06%
Amgen Inc	2.65%	05/11/2022	482,220	A	0.06%
Verizon Communications Inc	2.63%	08/15/2026	700,132	BBB+	0.09%
Southern California Edison Co	3.50%	10/01/2023	150,958	A-	0.02%
Comcast Corp	4.15%	10/15/2028	720,541	A-	0.10%
Cigna Corp	4.38%	10/15/2028	899,901	A-	0.12%
Dell International Llc / 144A	4.90%	10/01/2026	534,390	BBB-	0.07%

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2020 and 2019

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
Goldman Sachs Group Inc/The	3.85%	01/26/2027	\$ 661,249	BBB+	0.09%
CVS Health Corp	4.30%	03/25/2028	785,131	BBB	0.10%
Bank Of America Corp	3.42%	12/20/2028	1,004,967	A-	0.13%
Citigroup Inc	3.98%	03/20/2030	629,063	BBB+	0.08%
Northrop Grumman Corp	3.20%	02/01/2027	565,939	BBB	0.07%
Abbott Laboratories	3.75%	11/30/2026	425,750	BBB+	0.06%
Towd Point Mortgage 2 A1 144A	3.25%	03/25/2058	948,110	NA	0.13%
New York City Ny Transitional	3.55%	08/01/2028	788,370	AAA	0.10%
Abbvie Inc	2.85%	05/14/2023	749,237	A-	0.10%
GM Financial Consumer Aut 4 A3	3.21%	10/16/2023	1,145,323	AAA	0.15%
JPM Morgan Mortgage 6 1A4 144A	3.50%	12/25/2048	122,142	AAA	0.02%
GM Financial Automobile Le 2 C	3.50%	04/20/2022	222,895	A+	0.03%
Progress Energy Inc	3.15%	04/01/2022	296,447	BBB+	0.04%
Southern California Edison Co	4.20%	03/01/2029	174,914	A-	0.02%
Toyota Auto Receivables 2 B A3	2.96%	09/15/2022	709,681	AAA	0.09%
Principal Financial Group Inc	3.40%	05/15/2025	417,235	A-	0.06%
Nissan Auto Lease Trust 2 A A3	2.76%	03/15/2022	384,887	AAA	0.05%
Ford Credit Auto Owner Tru B	1.85%	09/15/2021	269,576	AAA	0.04%
BB&T Corp	2.05%	05/10/2021	915,787	A-	0.12%
Blackrock Inc	3.38%	06/01/2022	407,211	AA-	0.05%
United Airlines 2016-1 Class A	3.10%	01/07/2030	512,827	NA	0.07%
Carmax Auto Owner Trust 20 1 C	2.84%	10/17/2022	323,024	NA	0.04%
Apple Inc	2.30%	05/11/2022	770,252	AA+	0.10%
United Airlines 2018-1 Class A	3.50%	09/01/2031	237,193	NA	0.03%
Capital One Financial Corp	3.20%	01/30/2023	591,859	BBB	0.08%
Honda Auto Receivables 20 1 A2	2.75%	09/20/2021	703,836	AAA	0.09%
World Omni Auto Receivable B	1.73%	07/15/2023	448,286	AA+	0.06%
Comm 2013-Lc6 Mortgage Lc6 A4	2.94%	01/10/2046	410,828	AAA	0.05%
Fifth Third Bancorp	2.60%	06/15/2022	283,777	BBB+	0.04%

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2020 and 2019

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
Hyundai Auto Receivables B A3	1.77%	01/18/2022	\$ 495,742	NR	0.07%
Regions Financial Corp	3.80%	08/14/2023	624,403	BBB+	0.08%
Citigroup Inc WFRBS Commercial Mortga C13 As	3.35%	04/24/2025	568,462	BBB+	0.08%
Tapestry Inc	4.13%	07/15/2027	349,846	BBB-	0.05%
Utah St Capital One Prime Auto Re 1 A3	4.55%	07/01/2024	384,718	AAA	0.05%
PNC Bank Na	2.51%	11/15/2023	345,454	AAA	0.05%
Bank Of America Corp	2.15%	04/29/2021	912,512	A	0.12%
Bank 2018-Bnk12 Bn12 As	2.88%	04/24/2023	519,420	A-	0.07%
Vulcan Materials Co	4.49%	05/15/2061	390,602	AAA	0.05%
Lowe's Cos Inc	3.90%	04/01/2027	316,725	BBB	0.04%
Phillips 66 Partners Lp	3.65%	04/05/2029	86,898	BBB+	0.01%
Morgan Stanley Bank Of C32 A4	3.75%	03/01/2028	281,956	BBB	0.04%
World Omni Automobile Lea A A3	3.72%	12/15/2049	593,314	NA	0.08%
Wells Fargo Commercial C35 A4	2.83%	07/15/2021	175,949	NA	0.02%
Carmax Auto Owner Trust 20 2 B	2.93%	07/15/2048	418,992	NA	0.06%
JPMorgan Chase & Co Comm 2016-Cr28 Mortgag Cr28 A1	2.16%	12/15/2021	249,933	AAA	0.03%
Ford Credit Auto Lease T A A2A	3.54%	05/01/2028	787,766	A-	0.10%
BMW Vehicle Owner Trust 2 A A3	1.77%	02/10/2049	79,570	NA	0.01%
Carmax Auto Owner Trust 20 4 B	2.84%	09/15/2021	721,581	AAA	0.10%
Santander Retail Aut A A3 144A	2.35%	04/25/2022	325,715	NA	0.04%
Wells Fargo & Co	2.46%	08/15/2023	201,558	AA+	0.03%
Metlife Inc	2.93%	05/20/2021	485,304	AAA	0.06%
Morgan Stanley	3.07%	01/24/2023	812,991	A-	0.11%
Sherwin-Williams Co/The	3.00%	03/01/2025	604,760	A-	0.08%
Oracle Corp	3.63%	01/20/2027	411,808	BBB+	0.05%
Morgan Stanley Bank Of C29 A4	2.75%	06/01/2022	206,140	BBB	0.03%
Ally Auto Receivables Tru 2 A2	1.90%	09/15/2021	699,951	A+	0.09%
California St	3.33%	05/15/2049	695,149	NA	0.09%
	2.34%	06/15/2022	801,984	AAA	0.11%
	4.60%	04/01/2038	654,698	AA-	0.09%

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2020 and 2019

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
JPMorgan Chase & Co	3.30%	04/01/2026	\$ 695,805	A-	0.09%
FHLMC Pool #G0-8615	3.50%	11/01/2044	54,776	NA	0.01%
FNMA Pool #0Ah3431	3.50%	01/01/2026	71,425	NA	0.01%
FNMA Pool #0A10160	4.50%	05/01/2041	193,109	NA	0.03%
FNMA Pool #0A13519	4.50%	11/01/2041	26,987	NA	0.00%
FNMA Pool #0A17306	4.50%	09/01/2042	93,770	NA	0.01%
FNMA Pool #0Ae0988	4.00%	09/01/2025	27,556	NA	0.00%
FNMA Pool #0As5696	3.50%	08/01/2045	111,218	NA	0.01%
FNMA Pool #0995112	5.50%	07/01/2036	37,067	NA	0.00%
FNMA Pool #0Bm1909	4.00%	02/01/2045	580,795	NA	0.08%
FNMA Pool #0A11697	4.00%	10/01/2041	22,858	NA	0.00%
FNMA Pool #0735925	5.00%	10/01/2035	170,245	NA	0.02%
FNMA Pool #0A17521	5.00%	06/01/2039	568,150	NA	0.08%
FHLMC Pool #G6-0024	3.50%	05/01/2043	188,330	NA	0.02%
FNMA Pool #0745428	5.50%	01/01/2036	93,380	NA	0.01%
FNMA Pool #0Ad0198	5.50%	09/01/2038	48,858	NA	0.01%
FNMA Pool #0Ae0949	4.00%	02/01/2041	155,720	NA	0.02%
FHLMC Pool #G1-8561	3.00%	07/01/2030	16,206	NA	0.00%
FHLMC Pool #G0-8732	3.00%	11/01/2046	1,346,125	NA	0.18%
FHLMC Pool #G0-1837	5.00%	07/01/2035	30,117	NA	0.00%
FNMA Pool #0A19578	4.00%	06/01/2045	48,756	NA	0.01%
FNMA Pool #0Ma3384	4.00%	04/01/2048	924,967	NA	0.12%
FHLMC Pool #G0-8707	4.00%	05/01/2046	594,651	NA	0.08%
FNMA Pool #0555330	5.50%	04/01/2033	80,904	NA	0.01%
FNMA Pool #0725704	6.00%	08/01/2034	43,278	NA	0.01%
FHLMC Pool #G0-8698	3.50%	03/01/2046	272,997	NA	0.04%
FNMA Pool #0A13322	4.00%	02/01/2043	32,821	NA	0.00%
FNMA Pool #0725231	5.00%	02/01/2034	22,118	NA	0.00%
FNMA Pool #0Ad7128	4.50%	07/01/2040	149,466	NA	0.02%
FNMA Pool #0Ah3384	3.50%	01/01/2041	946,632	NA	0.13%
FNMA Pool #0A18383	4.50%	10/01/2045	56,490	NA	0.01%
FHLMC Pool #G0-8747	3.00%	02/01/2047	1,121,168	NA	0.15%
FNMA Pool #0725690	6.00%	08/01/2034	37,148	NA	0.00%
FNMA Pool #0254903	5.00%	10/01/2033	131,387	NA	0.02%
FNMA Pool #0Ae0698	4.50%	12/01/2040	19,363	NA	0.00%
GNMA II Pool #0005056	5.00%	05/20/2041	77,877	NA	0.01%
FHLMC Pool #G0-8699	4.00%	03/01/2046	400,536	NA	0.05%
FHLMC Pool #G0-8667	3.50%	09/01/2045	458,468	NA	0.06%
FHLMC Pool #G6-7702	4.00%	01/01/2047	1,408,147	NA	0.19%

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2020 and 2019

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
FNMA Pool #0A17767	4.50%	06/01/2044	\$ 349,842	NA	0.05%
FHLMC Pool #G1-4496	3.00%	06/01/2027	552,923	NA	0.07%
FNMA Pool #0A13802	3.00%	02/01/2028	191,183	NA	0.03%
FHLMC Pool #G0-8681	3.50%	12/01/2045	952,797	NA	0.13%
FHLMC Pool #G1-4225	4.00%	08/01/2026	19,527	NA	0.00%
FHLMC Pool #G0-8687	3.50%	01/01/2046	1,425,983	NA	0.19%
FNMA Pool #0725773	5.50%	09/01/2034	138,213	NA	0.02%
FHLMC Pool #G0-8588	4.00%	05/01/2044	121,589	NA	0.02%
FNMA Pool #0A14911	3.00%	10/01/2027	88,363	NA	0.01%
FNMA Pool #0Ma3088	4.00%	07/01/2047	285,983	NA	0.04%
GNMA II Pool #0005116	5.00%	07/20/2041	42,257	NA	0.01%
GNMA II Pool #0Ma3663	3.50%	05/20/2046	417,890	NA	0.06%

**(f) *Alternative Investments***

Investments reported at fair value of approximately \$571,228,087 and \$572,234,723, as of August 31, 2020 and 2019, respectively, are not publicly traded and have been estimated by management and fund managers in the absence of readily available market values. These funds are invested with external investment managers, generally in commingled funds, limited liability partnerships or corporations in which the System has an interest, who invest, for example, in hedge funds, real estate, natural resources, private equity, managed futures, and distressed opportunities. These investments are domestic and international in nature and some of the investments may not be realized for a period of several years after the investments are made. Risks associated with these investments include liquidity risk, market risk, event risk, foreign exchange risk, interest rate risk and investment manager risk. More specifically, the risks include the following:

*Non-regulation risk* – Historically, these funds were not required to register with the Securities and Exchange Commission (SEC) and, therefore, were not subject to regulatory control. With the passage of the Dodd-Frank Act of 2010, almost all alternative investment managers are required to register with the SEC under the Investment Advisers Act of 1940. As of August 31, 2020, the Endowment Fund has no specific policy statement with respect to non-regulation risk. The policy does contain limitations on the percent that can be allocated to alternative investments.

*Managerial risk* – Fund managers for non-publicly traded investments may fail to produce the intended returns and are not subject to oversight. However, the fund managers are subject to oversight by the Endowment Fund. The Endowment Fund has no specific policy statement with respect to managerial risk for alternative investments. However, the Endowment Fund diversifies across managers to mitigate systematic and organizational risk without creating

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2020 and 2019

over-diversification. The Endowment Fund further attempts to mitigate managerial risk by emphasizing the qualitative evolution of managers, discouraging the use of significant leverage, emphasizing managers with a demonstrated skill in generating returns.

*Liquidity risk* – Many of the Endowment Fund's investment funds impose restrictions on redemptions or require multi-year lock-up periods that restrict investors from redeeming their shares or may impose penalties to redeem. The Endowment Fund has no specific policy statement with respect to liquidity risk. The policy does contain limitations on the percent that can be allocated to alternative investments and liquidity is measured.

*Limited transparency* – Any unregistered investment vehicles are not required to disclose the holdings in their portfolios to investors. This risk is mitigated somewhat by the Dodd-Frank Act of 2010 and the increased transparency provided by the requirement to file Form ADV with the SEC. The Endowment Fund has no specific policy statement with respect to transparency risk.

*Investment strategy risk* – Alternative investments often employ sophisticated and more risky investment strategies, as compared to traditional investments, and one or more may use leverage, which could result in volatile returns. To mitigate this risk, emphasis is placed on those managers who have extensive experience in employing these strategies, a demonstrated ability to consistently employ them effectively, and an established track record of superior performance. The Endowment Fund has no specific policy statement with respect to investment strategy risk. The policy does contain limitations on the percent that can be allocated to alternative investments.

*Foreign currency risk* – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the Endowment Fund's non-U.S. dollar investments. Investment managers may hedge some, all or none of their foreign currency risk. The Endowment Fund has no specific policy statement with respect to foreign currency risk. The estimated foreign currency risk of the endowment, as measured by the un-hedged exposure of non-U.S. dollar investments, as of August 31, 2020 and 2019, is as follows:

	Fair Value <sup>(1)</sup>	
	2020	2019
Currency:		
Euro	\$ 588,357	\$ 1,372,796
Canadian dollar	53,095	78,372
Japanese yen	510,635	296,826
Pound Sterling	331,390	260,012
Swiss Franc	150,914	114,455
Total	\$ 1,634,391	\$ 2,122,461

(1) These figures represent the Endowment Fund's proportional value.

**University of Houston System**  
**Endowment Fund**  
**Notes to Basic Financial Statements**  
**August 31, 2020 and 2019**

**6) Fair Value Measurements**

The Endowment Fund applies GASB guidance on fair value measurements and disclosures, which requires enhanced disclosure about the investments that are measured and reported at fair value and establishes a hierarchical disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured for actively quoted prices generally will have a high degree of market price observability and a lesser degree of judgment used in measuring fair value.

All investments are measured and reported at fair value on a recurring basis and are classified and disclosed in one of the following categories:

- Level 1** – Quoted prices are available in active markets for identical investments as of the reporting date.
- Level 2** – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting data, and fair value is determined through the use of models or other valuation methodologies.
- Level 3** – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

In certain cases, the inputs use to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given instrument is based on the lowest level of input that is significant to the fair value measurement.

Investments held by the Endowment Fund for which market quotes are readily available are valued based on third-party pricing systems and reported at quoted prices as of the reporting date. Investments held for which market quotes are not readily available are reported based on appraised value. Investments with funds held and invested by external managers where the Endowment Fund holds a share of the external manager's fund are valued and reported at NAV and are not categorized according to fair market value.

Assets at fair value as of August 31, 2020 and 2019, were as follows.

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2020 and 2019

<b>August 31, 2020</b>				
<b>Investment Category</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities	\$ 60,945,996	\$ -	\$ -	\$ 60,945,996
Externally managed domestic	56,764,601	-	-	56,764,601
Externally managed international	11,312,236	-	-	11,312,236
Fixed income – money market and bond mutual funds	34,464,753	-	-	34,464,753
Real estate	-	75,000	-	75,000
Corporate obligations	43,104,183	-	-	43,104,183
U.S. Government agencies	11,648,336	-	-	11,648,336
U.S. Government obligations	<u>37,159,607</u>	<u>-</u>	<u>-</u>	<u>37,159,607</u>
Totals	<u>\$ 255,399,712</u>	<u>\$ 75,000</u>	<u>\$ 0</u>	<u>\$ 255,474,712</u>

<b>August 31, 2019</b>				
<b>Category</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities	\$ 36,856,366	\$ -	\$ -	\$ 36,856,366
Externally managed domestic	44,346,835	-	-	44,346,835
Externally managed international	7,515,700	-	-	7,515,700
Fixed income – money market and bond mutual funds	21,982,902	-	-	21,982,902
Real estate	-	110,749	-	110,749
Corporate obligations	35,832,229	-	-	35,832,229
U.S. Government agencies	15,250,416	-	-	15,250,416
U.S. Government obligations	<u>22,370,827</u>	<u>-</u>	<u>-</u>	<u>22,370,857</u>
Totals	<u>\$ 184,155,275</u>	<u>\$ 110,749</u>	<u>\$ 0</u>	<u>\$ 184,266,024</u>

Investments measured at NAV as of August 31, 2020 and 2019, were as follows:

<b>August 31, 2020</b>				
<b>Investment Category</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Equities and equity funds	\$ 76,584,717	\$ -	As needed	30-60 days
Externally managed domestic	152,202,026	88,804,928	N/A	30-60 days
Externally managed international	188,904,772	91,372,870	N/A	30-60 days
International equities	152,069,650	-	As needed	5 days
Other comingled funds	<u>1,466,922</u>	<u>-</u>	As needed	3 days
Totals	<u>\$ 571,228,087</u>	<u>\$ 180,177,798</u>		

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2020 and 2019

August 31, 2019				
Investment Category	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equities and equity funds	\$ 50,425,789	\$ -	As needed	30-60 days
Externally managed domestic	161,470,334	78,084,876	N/A	30-60 days
Externally managed international	227,160,241	44,437,814	N/A	30-60 days
International equities	131,953,421	-	As needed	5 days
Other comingled funds	<u>1,314,938</u>	<u>-</u>	As needed	3 days
Totals	<u>\$ 572,324,723</u>	<u>\$ 122,522,690</u>		

**(a) Equity Funds**

This type includes investments in one fund at August 31, 2020 and 2019, that invest primarily in U.S. equities. Managers have the ability to shift investments within the range of stocks that comprise the Russell 1000 Index. The fair values of the investments in this type have been determined using the NAV per share of the investments. All investments in this category can be redeemed with 30 to 60 days' notice.

**(b) Externally Managed Domestic**

This type includes investments in 35 and 41 funds at August 31, 2020 and 2019, respectively, that invest in inflation hedges, oil and gas, real estate properties, renewable natural resources, commodities, public and private equities, and venture capital. Managers have the ability to invest in natural resources, venture capital, private equity, real estate, multi-strategy funds and secondary market. At August 31, 2020 and 2019, respectively, approximately 13 percent and 17 percent of this class is invested in natural resources, 32 percent and 31 percent in venture capital, 6 percent and 5 percent in real estate, 10 percent and 9 percent in private equity, and 39 percent and 34 percent in multi strategy and 0 percent and 4 percent in secondary markets. The fair values of the investments in this type have been determined using the NAV per share of the investments. All of these investments may be redeemed within a 30-60 days' notice, but early redemption requires complete exit from the fund. At August 31, 2020 and 2019, 41 percent of the funds in this class have distributions that will be received as the underlying investments of the funds are sold. The remaining funds in this class will have the proceeds from the sale of the equities reinvested back into the fund.

**(c) Externally Managed International**

This type includes investments in 42 and 31 funds at August 31, 2020, and 2019, respectively, that invest in inflation hedges, hedged investments, oil and gas, real estate properties, technology, public and private domestic and international equities, fixed income securities,

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2020 and 2019

alternative market equities, long and short equities, global secondaries, and global venture capital. At August 31, 2020 and 2019, respectively, approximately 4 percent and 3 percent of the portfolio is invested in real estate, 28 percent and 22 percent in private equity, 36 percent and 36 percent in venture capital, 3 percent and 0 percent in the secondary market and 32 percent and 39 percent in public and private domestic and global equities. The fair values of the investments in this type have been determined using the NAV per share of the investments. All investments in this category can be redeemed within a 30-60 days' notice, but early redemption requires complete exit from the fund. Funds in this category have expected maturity dates that range from 5 to 10 years. At August 31, 2020 and 2019, 21 percent of the funds in this category will have distributions that will be received as the underlying investments of the funds are liquidated. The remaining funds in this category will have the proceeds from the sale of the equities reinvested back into the fund.

**(d) Fixed Income Money Market and Bond Mutual Funds**

This type includes temporary investments in cash equivalents such as money market funds by managers whose NAV is classified in another category. The fair values of the investments in this type have been determined using the cash value of the temporary investment. These investments are not intended for redemption as they represent a short-term transaction within a separate category.

**(e) International Equities**

This type includes investments in four and two funds at August 31, 2020 and 2019, respectively, that invest in international equities. The manager has the ability to shift investments to gain a more favorable outcome. The fair values of the investments in this category have been determined using the NAV per share of the investments. The investment in this category can be redeemed with five days' notice.

**(f) Other Comingled Funds**

This type includes investments in one fund at August 31, 2020 and 2019, that invests primarily in equities. This equity fund is managed by University of Houston C.T. Bauer College of Business and stocks are traded on a daily basis. The fair values of the investments in this type have been determined using the NAV per share of the investments. All investments in this category can be redeemed with three days' notice.

**7) Due to Other Components**

Due to other components at August 31, 2020 and 2019, consists of the following.

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2020 and 2019

	2020	2019
Payable to System components under the income payout policy	\$ 27,175,783	\$ 24,358,820
Payable to System components for institutional advancement	7,018,656	6,545,656
Total due to other components	\$ 34,194,439	\$ 30,904,476

### 8) Related-party Transactions

In addition to the transfers-in described in the revenue recognition policy in Note 2, and distributions to other components described in Note 7, the Endowment Fund received in-kind contributions from the System in the form of personnel costs, office facilities, equipment and supplies in the fiscal years ended August 31, 2020 and 2019. The total estimated value of these in-kind contributions received from the System was \$1,116,127 and \$1,215,546 for the fiscal years 2020 and 2019, respectively, and was included in contributions and other nonoperating expenses on the statements of revenues, expenses and changes in net position.

### 9) Administrative Costs

The Endowment Fund pays custodial fees and expenses to the financial institution, which acts as the custodian of the portion of the Endowment Fund's assets managed under a master trust custodian agreement. The fees are based on the number of accounts, market value of the securities and transaction activities in accordance with the master trust custodian agreement.

Additionally, the Endowment Fund incurs asset management fees from the independent investment managers of the Endowment Fund. The fees are generally assessed on a quarterly basis on a percentage of the market value of investments held by each investment manager.

The Endowment Fund incurs other expenses related to its operations primarily consisting of professional service fees and expenses. The total fees and expenses incurred by the Endowment Fund for the fiscal years ended August 31, 2020 and 2019, were \$9,978,197 and \$5,718,560, respectively, and was included in net appreciation of investments on the statements of revenues, expenses and changes in net position.

### 10) Income Taxes

The System, of which the Fund is a division, is a university established as an agency of the State of Texas prior to 1969, and is qualified as a governmental entity not generally subject to federal income tax by reason of being a state or political subdivision thereof, or an integral part of a state or political subdivision thereof or an entity whose income is excluded from gross income for federal

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2020 and 2019

income tax purposes under Section 115 of the Internal Revenue Code of 1986. However, as a state college or university, the System is subject to unrelated business income pursuant to Internal Revenue Code of 1986 Section 511(a)(2)(B). No material unrelated business income tax was incurred for the years ended August 31, 2020 and 2019. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

### 11) Subsequent Event

In the months subsequent to the fiscal year-end, the U.S. and world's financial markets, as measured by the global stock markets, have continued to be unpredictable. These and other economic events have had an effect on the value of investments held by the Endowment Fund. Interim valuation information is not available for all investments through the date of this report. However, for the Endowment Fund, investment appreciation subsequent to year-end and through October 31, 2020, was \$26,681,895 (unaudited). As of that date, the Endowment Fund's total net position was \$820,482,552 (unaudited).

**University of Houston**  
Independent Accountants' Report on  
Application of Agreed-upon Procedures  
August 31, 2020



## Independent Accountants' Report on Application of Agreed-upon Procedures

Board of Regents  
University of Houston System  
Houston, Texas

We have performed the procedures enumerated in the attachment to this report, which were agreed to by University of Houston (the University) and Cancer Prevention and Research Institute of Texas (CPRIT), on the University's compliance with the requirements set forth in CPRIT's *Grant Policies and Procedures Guide* updated June 2020, for the year ended August 31, 2020. The management of the University is responsible for its aforementioned compliance with the requirements set forth in CPRIT's *Grant Policies and Procedures Guide*. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in the attachment to this report for the purpose for which this report has been requested or for any other purpose.

The findings obtained are described in the attachment to this report.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or a review, the objective of which would be the expression of an opinion or conclusion, respectively, on the requirements described above. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above, and is not intended to be, and should not be, used by anyone other than these specified parties.

*BKD, LLP*

Houston, Texas  
January 11, 2021

**University of Houston**  
**Agreed-upon Procedures**  
**Year Ended August 31, 2020**

**Processes and Controls**

Procedures:

1. Inquire of the University's management about whether they have assessed the adequacy of internal controls addressing grant noncompliance, errors and fraud. Review documentation of that assessment. Compare the items listed in the risk assessment to the following controls and assess whether the following were included:
  - a. Contract compliance, including submission;
  - b. Expenditures, including payroll and equipment;
  - c. Project income; and
  - d. Reporting, including performance measurement, matching, indirect cost application and early termination.
2. Confirm that the University has documented policies and procedures to account for the receipts and disbursement of the CPRIT funds.

Finding:

No exceptions noted.

**Contract**

Procedures:

1. Obtain the contract proposal for each grant tested and review to assess whether the contract included internal Institutional Review Board approval for the use of human subjects, animals or biohazards. If so, obtain documentation from the grantee showing that the applicable review was done by the appropriate board prior to contract execution as evidence by signature of board meeting minutes.
2. Review the University's policies to assess whether the University is required to have a written standard of conduct and comply with federal law to promote objectivity in research. If so, verify that a conflict of interest statement(s) for all individual principal investigators and assess whether it was signed prior to the effective date of the grant and that the conflict of interest statement(s) was (were) updated as necessary to comply with these provisions.
3. Inquire of management and/or those charged with grant oversight to assess whether the grantee completed all assurances and certifications in Attachment C, Assurances and Certifications, of the grant contract.

**University of Houston**  
**Agreed-upon Procedures (Continued)**  
**Year Ended August 31, 2020**

Finding:

No exceptions noted.

**Indirect Costs**

Procedures:

1. Obtain and read each grant contract and assess whether there is an indirect cost rate specified.
2. To test the indirect cost rate, select a sample of the lesser of 10 percent or 25 indirect costs charged to the grant and perform the following:
  - a. Obtain a list of eligible indirect costs from the University. Agree the description of the costs in the sample to the list of eligible costs. Obtain supporting documentation for the transactions in the sample and assess whether the description is valid. Document any exceptions.
  - b. Obtain from the University's accounting records the listing of direct costs charged to the grant. Compare the sample of indirect costs to the listing of direct costs to assess whether they were not included as direct costs. Document any exceptions.
3. Select a sample of two (2) financial status report (Form 269a) submissions for each grant and recompute the indirect cost rate used based on the requirements noted in the grant contract obtained in procedure 1 above. Compare the recalculated rate to the rate used and document any variance.

Finding:

No exceptions noted. In procedure 2, the sample was 37 items.

**Matching (Research Awards Only)**

Procedures:

1. Obtain each grant contract and assess whether it includes a matching funds requirement. If it does not, no further procedures in this section are necessary. Note: Matching fund requirements applicable to public and private institutions of higher education allow the grantee to receive partial or full matching funds credit. See section "Matching Funds – Certification and Verification."

**University of Houston**  
**Agreed-upon Procedures (Continued)**  
**Year Ended August 31, 2020**

2. Inquire of management and/or those charged with grant oversight to assess whether a tracking mechanism, such as a separate fund/account, was created to track matching fund expenditures. Document management's response.
3. Obtain the grantee's matching certification to assess whether matching funds (as noted in the grant contract obtained in 1 above) were certified prior to grant start. View the grantee's documentation supporting that the matching funds were set aside to be spent on the funded grant only. Document any variance in the amount of matching funds.
4. As of the end of the CPRIT program year, view the grantee's documentation supporting that the matching funds were set aside to be spent on the funded grant(s) only that is the subject of the award. Obtain the bank statement(s) related to the account(s) that hold(s) the match funds and tie in the total bank balance per the grantee's records to the month-end reconciliation.

Finding:

No exceptions noted.

**Expenditures (Excluding Payroll-related Transactions)**

Procedures:

1. Inquire of management and/or those charged with grant oversight as to whether the University has a purchasing policy that establishes a competitive procurement process and safeguards against bias or conflicts of interest.
2. Inquire of management and/or those charged with grant oversight to assess whether the University has a process in place to ensure that entities only purchase from a vendor list (which excludes vendors that are federally debarred or suspended) that has been approved by management and/or those charged with governance as evidence by signature and date. Document management's response.
3. To test non-payroll direct expenditures for each grant, select a sample of the lesser of 10 percent or 60 non-payroll related expenditures. For each item selected, perform the following:
  - a. Agree the sample disbursement to the receipt or invoice supporting the amount and payee.
  - b. Assess whether the purchase was approved and/or reviewed by management or those involved with oversight of the grant (with knowledge of the grant requirements).

**University of Houston**  
**Agreed-upon Procedures (Continued)**  
**Year Ended August 31, 2020**

- c. Trace the description of the purchased goods and/or services received to the underlying supporting documentation and agree the description to items allowable per Uniform Grant Management Standards (UGMS), the grant contract, and the CPRIT Policies and Procedures Guide.
- d. If the item selected is travel related, assess whether the travel was related to the grant based on the inquiry of management or review of supporting documentation. Compare the description of the travel to the narrative and assess whether any discrepancy exists.
- e. If the item selected is related to international travel, assess whether it was approved by CPRIT prior to the initiation of the travel.
- f. If the expended item was transacted prior to the related CPRIT grant being awarded, obtain evidence to assess whether the costs were authorized by CPRIT per review of correspondence or other verification documentation.
- g. Assess whether the vendor was preapproved by the University prior to the purchase, by agreeing the vendor to the preapproved vendor list noted in procedure 2 above.
- h. Review the approved grant budget and assess whether the purchase was included in a category in the approved grant budget provided to CPRIT.
- i. Note by obtaining supporting documentation that the transaction occurred during the period covered by the grant award.

Finding:

No exceptions noted. In Procedure 3, the sample was 96 items.

**Expenditures (Payroll-related Transactions)**

Procedures:

1. Inquire of management and/or those charged with grant oversight to assess whether the University has a formal system to track time and effort of employees associated with the grant.
2. To test payroll direct expenditures for each grant, select a sample of the lesser of 10 percent or 60 payroll-related transactions from the fiscal year:
3. For employees that work solely in a single award/funding stream or cost objective, review documentation covering the period in which the transaction occurred showing that the employee had a semi-annual certification signed by the employee or a supervisory official;
  - a. Note that the budgeted payroll costs pertaining to the selected employee or the position, related to the selected employee, have been included in the approved grant budget;

**University of Houston**  
**Agreed-upon Procedures (Continued)**  
**Year Ended August 31, 2020**

- b. Note by obtaining supporting documentation that the transaction occurred during the period covered by the grant award;
- c. Agree the time allocated to the grant for the related pay period to the employee's time sheet or similar support;
- d. Assess whether the employee's time sheet or similar documentation was approved by a supervisor;
- e. Agree the employee's pay rate per the transaction to the employee's pay rate per their employee file and that the rate was properly approved; and
- f. Assess whether the grantee has reported each employee whose salary or partial salary is paid by a CPRIT grant in the original Personnel Level of Effort (PLOE) submitted with the grant application.

Finding:

No exceptions were noted. In Procedure 2, the sample was 32 items.

**Equipment**

Procedure:

1. For each grant, select a sample of the lesser of 10 percent or 25 equipment purchases during the fiscal year, and assess whether:
  - a. The purchase was included in a category in the contract approved budget.
  - b. The University's internal procedures for recording the receipt of the equipment were followed.
  - c. The item was included in the grant Inventory Report submitted to CPRIT.
  - d. If the purchase was greater than \$5,000, verify that the purchase was authorized by CPRIT prior to the purchase.
  - e. Review the purchase documentation and assess whether the University has title to the equipment purchased or fabricated with grant funds.
  - f. If the University still owns the equipment, observe the equipment's physical location, assess whether it is located at the University and agree the equipment's property tag to the property identification number reported in the inventory report to CPRIT.
  - g. Note by obtaining supporting documentation that the transaction occurred during the period covered by the grant award.

**University of Houston**  
**Agreed-upon Procedures (Continued)**  
**Year Ended August 31, 2020**

Finding:

No exceptions were noted. In Procedure 1, the sample was 1 item.

**Revenue Sharing and Project Income**

Procedures:

1. Inquire of management and assess whether any revenue generated by the grant project during the preceding fiscal year.
2. Assess whether revenue or project income collected by the University for the year has been identified for each grant in accordance with the grant contract or CPRIT approval and reported on the annual Revenue Sharing/Program Income Report form to CPRIT.
3. For revenue sharing, obtain documentation to assess whether revenue generated by the sale or licensing of products or research developed through a CPRIT grant resulted in payment made to CPRIT and that the payment is accurate based on the grant contract and Revenue Sharing/Program Income Report form.

Finding:

According to management, no grants generated program income.

**Reporting**

Procedures:

1. Inquire of the University's management and those charged with oversight over the CPRIT grant as to whether they are aware of any instances related to CPRIT grants of fraud, illegal acts, or noncompliance, and whether they have been properly reported to the granting agency. Document management's response regarding any such acts that were reported.
2. To test the reporting requirements, select a sample of reporting time periods for the following reports:
  - a. **Quarterly** – Select two Financial Status Reports (due within 90 days of the end of the fiscal quarter). For Prevention Grants, also select two quarters of Data Elements.

**University of Houston**  
**Agreed-upon Procedures (Continued)**  
**Year Ended August 31, 2020**

- b. **Annual** – Select the current years, Grant Progress Report and other required annual reports (due within 60 days of the anniversary date of the Contract). The Grant Progress Report is filed along with the Single Audit Determination form, Historically Underutilized Business report, listing of equipment, inventory and Revenue Sharing/Program Income Report form.
  - c. **End of Contract Term** – Grant Final Report, a final grant progress report shall be filed no more than 90 days after the termination date of the Contract. The final grant progress report shall include a comprehensive description of the grantee's progress toward completing the scope of work specified by the Contract, as well as other information specified by CPRIT.
  - d. **Tranche Grant Progress Report (Product Development grantees only)** – In addition to annual Grant Progress Reports, Product Development grantees may submit a Grant Progress Report at the completion of specific tranches of funding specified in the Award Contract. A Tranche Grant Progress Report is not required when the completion of the tranche coincides with the end of the grant year. In that event, the annual Grant Progress Report is sufficient.
3. Perform the following procedures over the reports:
- a. Obtain applicable documentation and/or correspondence and assess whether required reports were filed within required timeframes as noted above.
  - b. Review documentation and/or correspondence to assess whether the reports were reviewed and approved by management and/or those charged with oversight over the grant prior to submission.
  - c. Agree all financial information included in reimbursement request reports for each request, and cumulatively for the reporting period, to the University's general ledger.
  - d. If applicable, assess whether any reimbursements payments have been withheld by inquiring of management and/or those charged with grant oversight. Document management's response for the reason for a delay in payment related to not complying with a grant contract requirement or any state or federal law. If funds had been withheld, note whether the withheld payments were released per review of applicable documentation.
  - e. For the Grant Progress Reports, in addition to the procedures above, assess whether the progress report includes a Single Audit Determination form, an inventory form, a Revenue Sharing/Program Income Report and a Historically Underutilized Business/Texas Supplier report. Note any missing reports.
  - f. For the Grant Progress Reports, in addition to the procedures above, confirm that the other key data points related to project data (*i.e.*, publications, patent information, commercialization, etc.) are accurate for the period and supported by documentation from the University. Note any incorrect amounts.

**University of Houston**  
**Agreed-upon Procedures (Continued)**  
**Year Ended August 31, 2020**

Finding:

No exceptions noted. According to management, the University did not receive any product development grants.

**Grant Closeout**

Procedures:

1. Obtain correspondence and/or related documentation showing the date that the grantee submitted all required reports (as defined by the contract) to CPRIT to assess whether the submission was completed within the 145-day closeout period following the end of the contract term for each grant.
2. Select the last financial status report for the grant and assess whether it was submitted in a timely manner (as defined by the Contract) and that the related payment was received. If payment was delayed, inquire of management the reason for the delay and document the response.

Finding:

No exceptions noted. According to management, one grant closure occurred.

**Sampling**

When selecting a sample, we will follow CPRIT's recommendation and use the guidance from the AICPA's Audit and Accounting Guide: *Government Auditing Standards* and Circular A-133 Audits, Chapter 11 – Audit Sampling Considerations of Circular A-133 Compliance Audits:

Table 7: Audit Sampling Considerations

Frequency or Population Size	Sample Size
Quarterly (4)	2
Monthly (12)	3
Semimonthly (24)	6
Weekly (52)	8
<b>Greater than 52 transactions:</b>	
Expenditures	Lesser of 10% or 60
All other	Lesser of 10% or 25

**University of Houston**  
**Agreed-upon Procedures (Continued)**  
**Year Ended August 31, 2020**

We chose four grants from the schedule of CPRIT awards for testing as follows:

1. RR170075: Recruitment of First-Time, Tenure-Track Faculty Member – Dr. Rohith Reddy
2. RP150656: Engineered Bone Targeting Nanomedicine for Treatment of Bone Metastases from Breast Cancer
3. RR150088: Stem Cells of Precursor Lesions: Preempting Highly Lethal Upper Gi Tract Cancers
4. PP170070: Taking Texas Tobacco Free: Increasing Tobacco Cessation In Substance Use Treatment Centers via an Evidence-based, Comprehensive Tobacco-free Workplace Program

UNIVERSITY OF HOUSTON SYSTEM  
BOARD OF REGENTS AGENDA

**COMMITTEE:** Audit and Compliance

**ITEM:** Report on University of Houston System, Institutional Compliance Status Report for the three months ended January 31, 2021

**DATE PREVIOUSLY SUBMITTED:**

**SUMMARY:**

The Institutional Compliance Status Report summarizes the information provided by each institution for their respective compliance functions, including training, risk assessment, audits, meetings, risk mitigation, and hot-line reports.

**SUPPORTING DOCUMENTATION:** Institutional Compliance Status Report

**FISCAL NOTE:**

**RECOMMENDATION/  
ACTION REQUESTED:** Information

**COMPONENT:** University of Houston System

*Phillip W. Hurd*

*2-10-21*

CHIEF AUDIT AND COMPLIANCE EXECUTIVE Phillip W. Hurd

DATE

*Renu Khator*

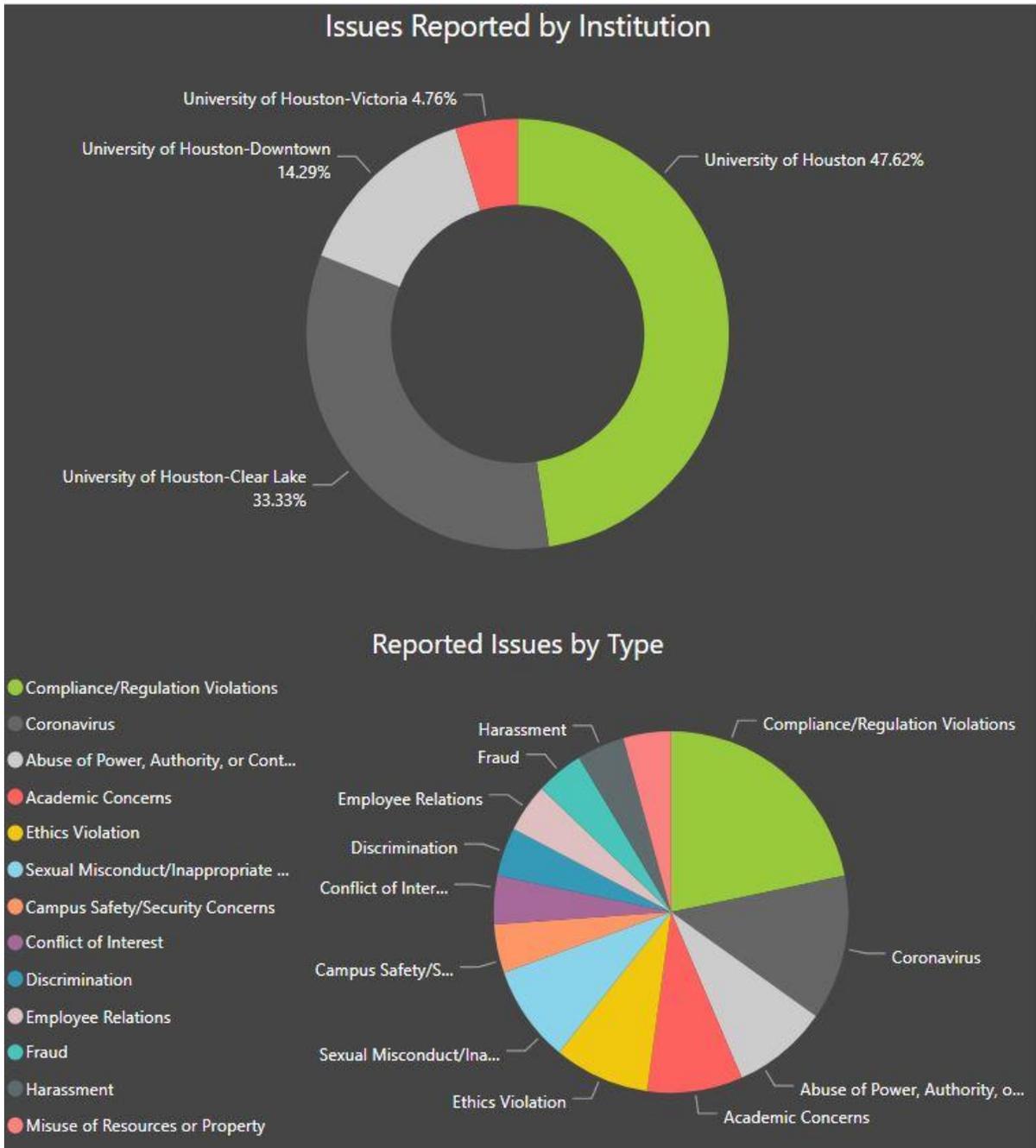
2/22/2021

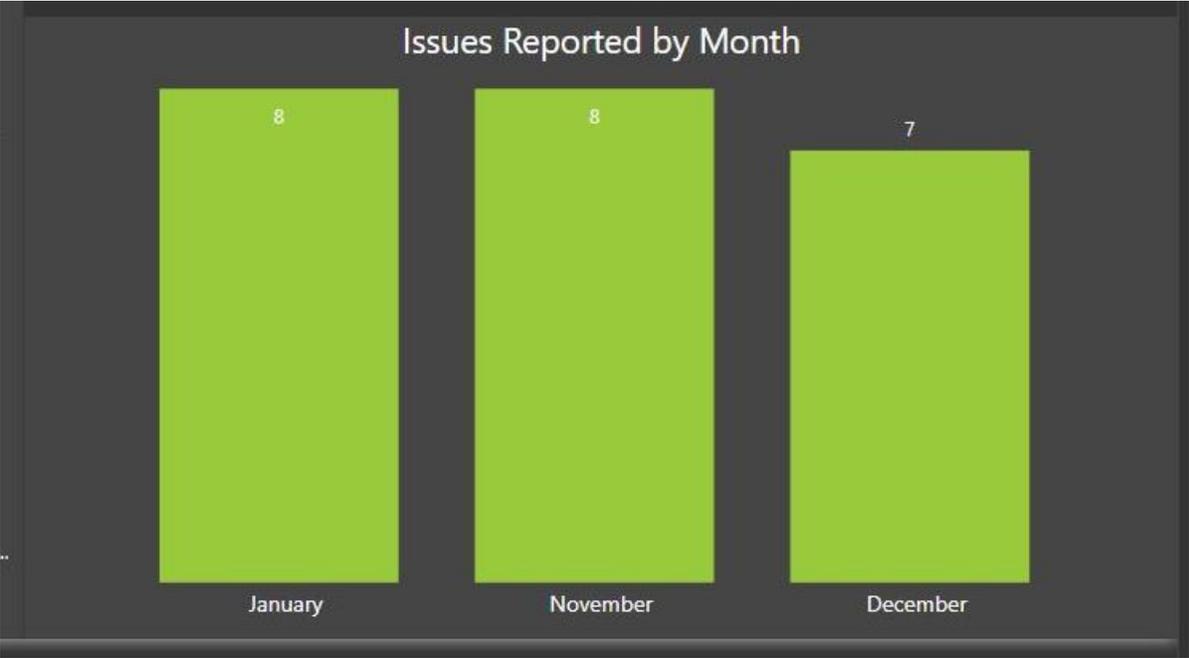
CHANCELLOR Renu Khator

DATE

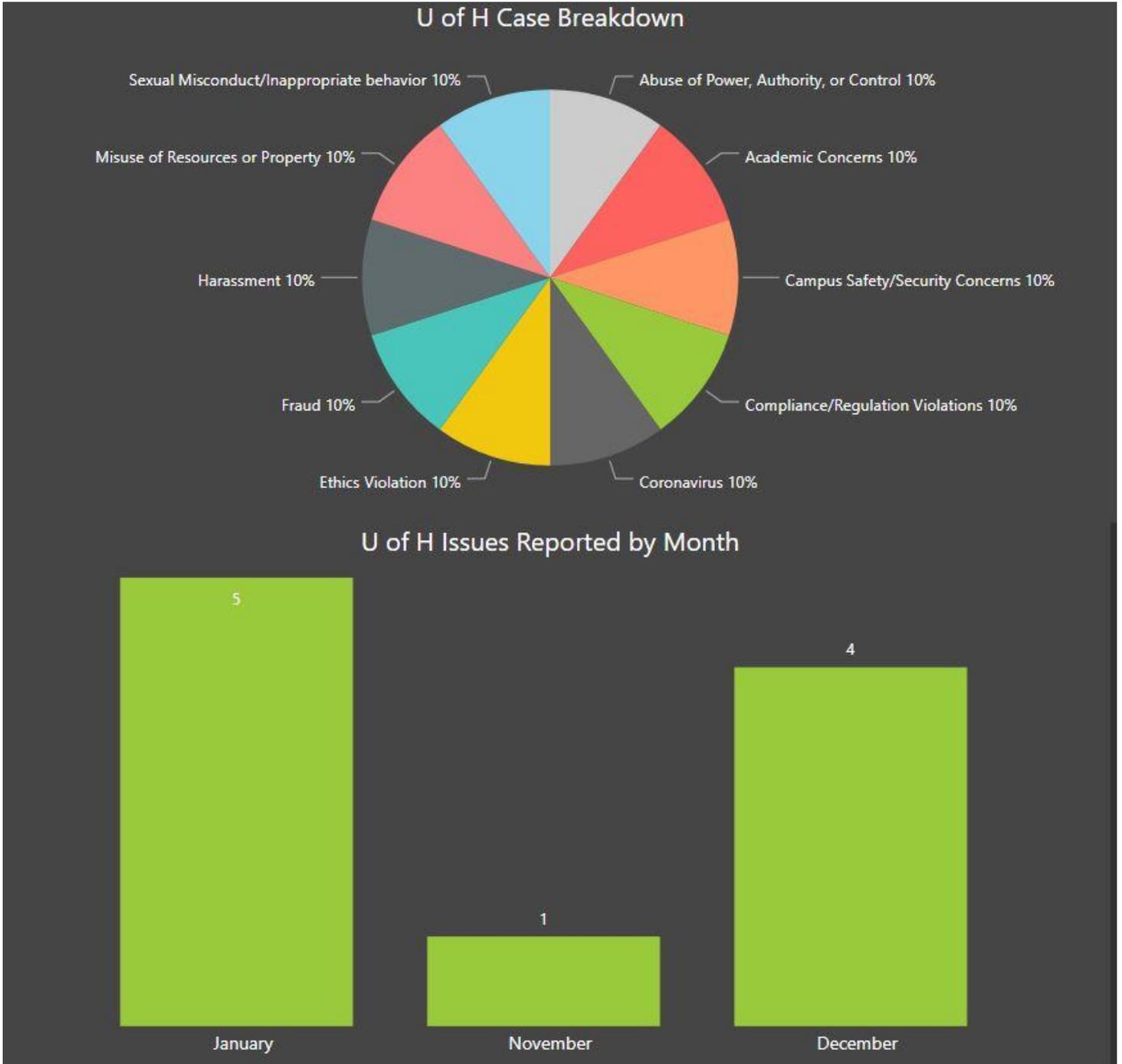
**UNIVERSITY OF HOUSTON SYSTEM  
INSTITUTIONAL COMPLIANCE STATUS REPORT  
For the three months ended January 31, 2021**

**Hotline reports for all Universities**



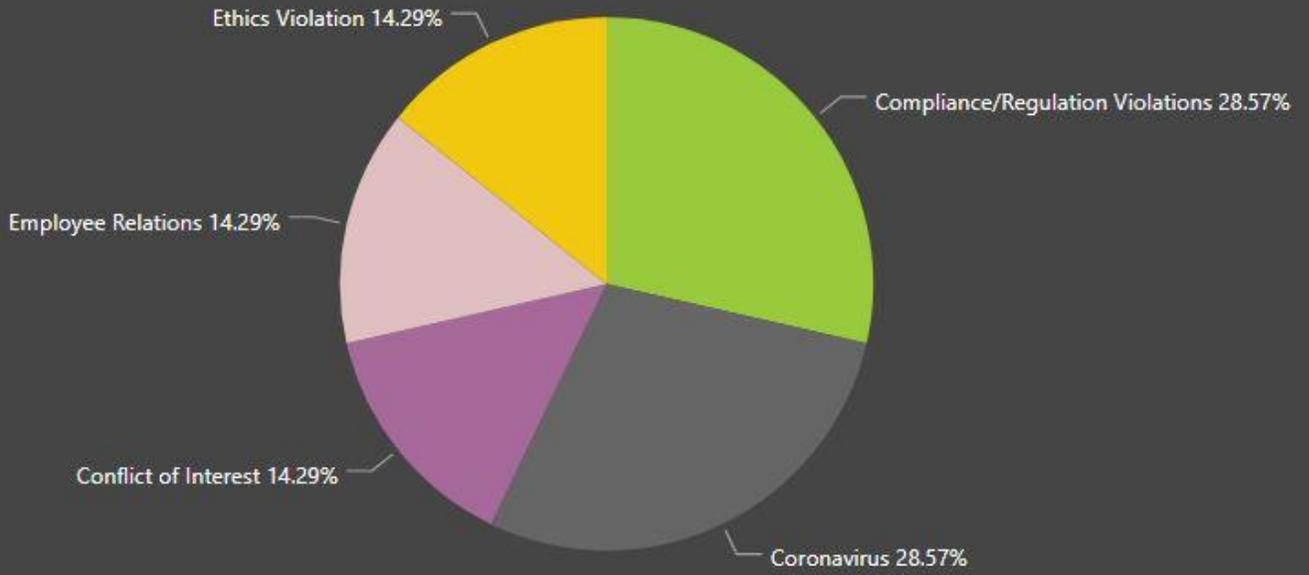


## Hotline reports for University of Houston

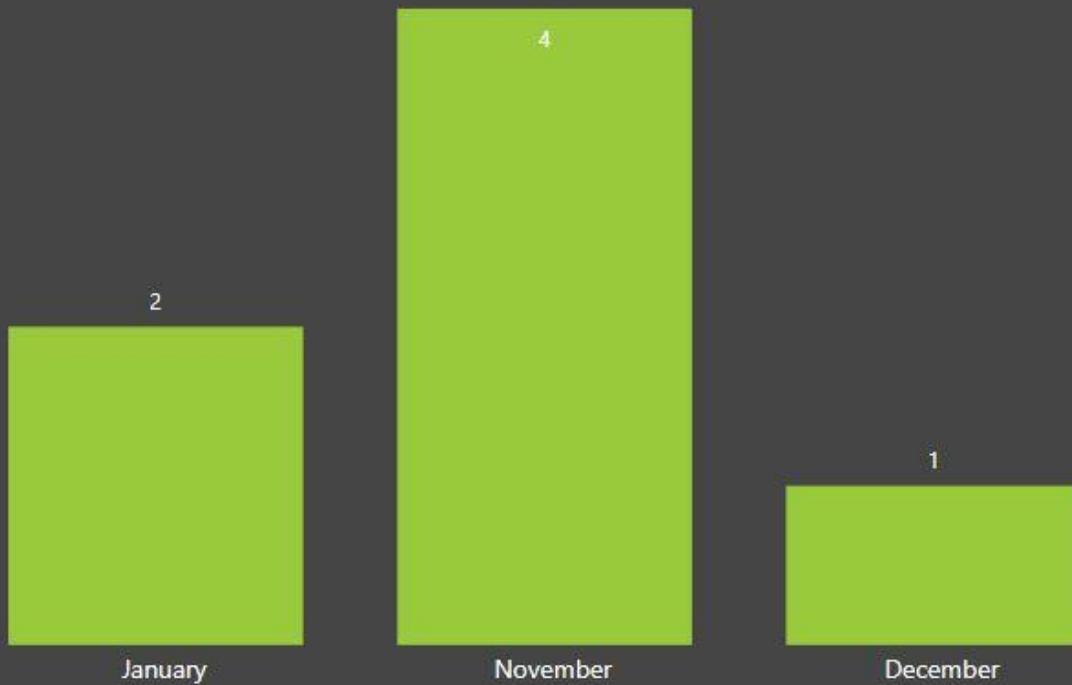


# University of Houston Clear Lake

## UHCL Case Breakdown

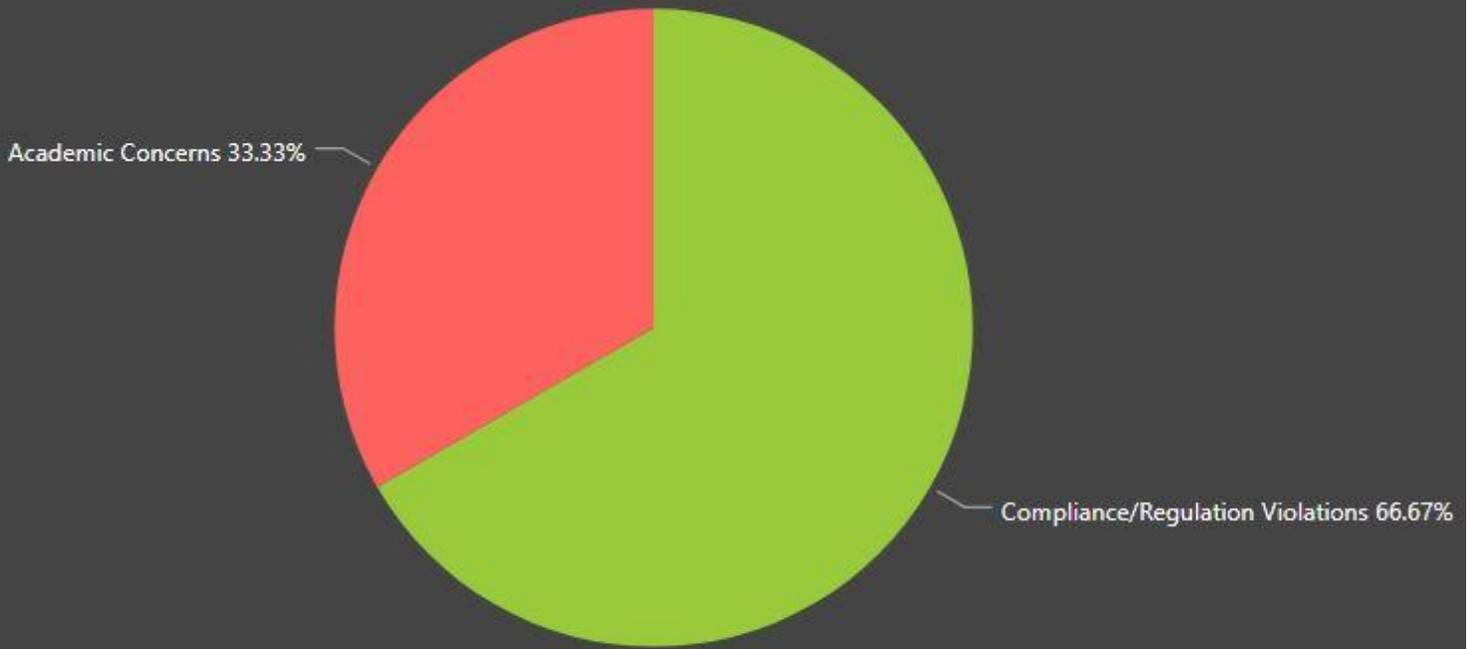


## UHCL Issues Reported by Month

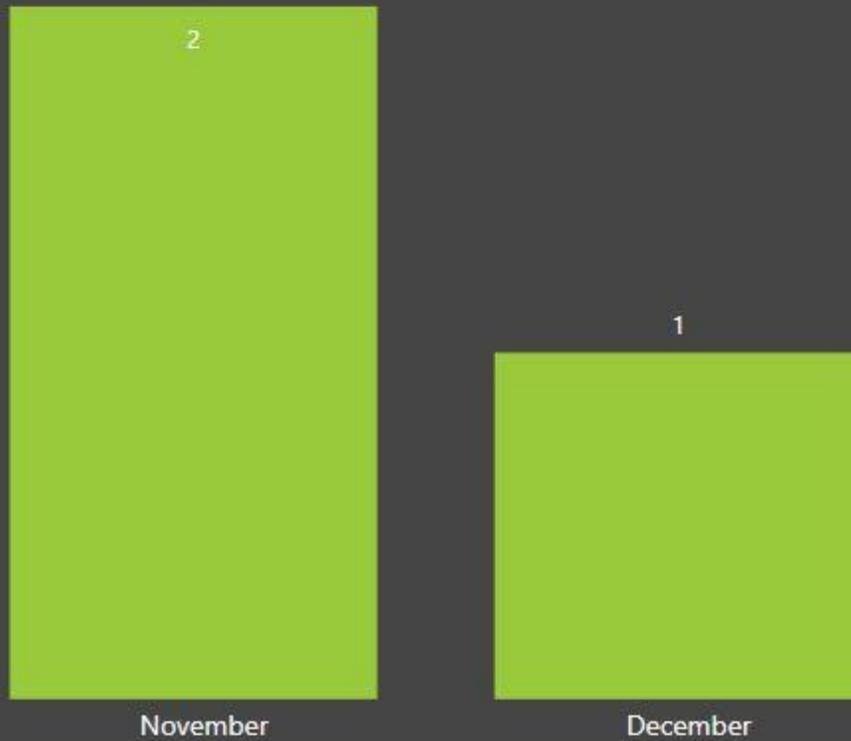


# University of Houston Downtown

## UHD Case Breakdown

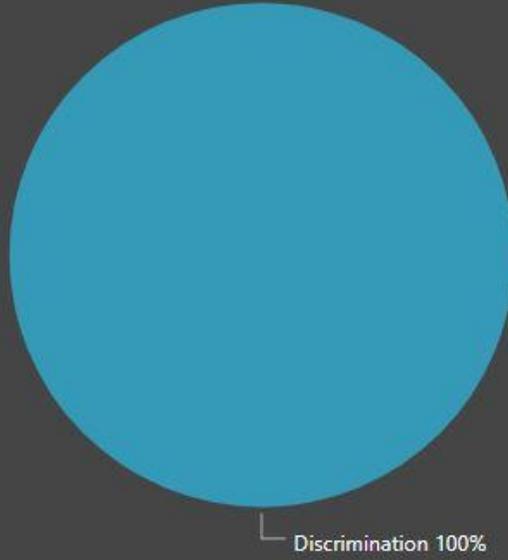


## UHD Issues Reported by Month



# University of Houston Victoria

## UHV Case Breakdown



## UHV Issues Reported by Month



January

**Training Statistics for FY 2021 for Mandatory Compliance Training**

<b>University</b>	<b>FY 2020</b>	<b>FY 2021</b>
UH	97%	98%
UHCL	94%	97%
UHD	97%	99%
UHV	97%	99%
UHS TOTAL	97%	98%

**UNIVERSITY OF HOUSTON SYSTEM  
BOARD OF REGENTS AGENDA**

**COMMITTEE:** Audit and Compliance

**ITEM:** Report on University of Houston System, Internal Audit Reports

**DATE PREVIOUSLY SUBMITTED:**

**SUMMARY:**

The Internal Audit Reports issued since the December 3, 2020 Audit & Compliance Committee Meeting of the Board of Regents are:

- University of Houston System, Construction and Other Contracts Requiring Board of Regents' Approval, Activity from October 1, 2020 to December 31, 2020;
- University of Houston System, Accounts Payable, Fiscal Years 2016-2020

The Internal Audit Reports included will be filed with the Governor's Office of Budget, Planning, and Policy; the State Auditor's Office; and the Legislative Budget Board, within the next 30 days, as required by the Texas Government Code, Section 2102.0091.

**SUPPORTING**

**DOCUMENTATION:** Internal Audit Reports

**FISCAL NOTE:**

**RECOMMENDATION/  
ACTION REQUESTED:** Information

**COMPONENT:** University of Houston System

*Phillip W. Hurd*

*2-9-21*

\_\_\_\_\_  
CHIEF AUDIT AND COMPLIANCE EXECUTIVE Phillip W. Hurd

\_\_\_\_\_  
DATE

*Renu Khator*  
\_\_\_\_\_  
CHANCELLOR

Renu Khator

*2/22/2021*

\_\_\_\_\_  
DATE

# Internal Audit Reports

Report on University of Houston System, Department of Internal Auditing Reports:

Report Name	Page
AR2021-04 Construction and Other Contracts Requiring BOR Approval, Activity from October 1, 2020 to December 31, 2020	1
AR2021-05 UHS Accounts Payable, FY 2016 to FY 2020	7

# UNIVERSITY OF HOUSTON SYSTEM

## INTERNAL AUDIT REPORT

# UNIVERSITY OF HOUSTON SYSTEM

## CONSTRUCTION AND OTHER CONTRACTS REQUIRING BOARD OF REGENTS APPROVAL

Activity from October 1, 2020 to  
December 31, 2020

REPORT NO. AR2021-04



UNIVERSITY OF HOUSTON SYSTEM  
Internal Auditing Department  
Houston, Texas 77204-0930  
(713)743-8000  
Fax: (713)743-8015

## MEMORANDUM

**TO:** Mr. Jack B. Moore  
Chair, Audit and Compliance Committee

Dr. Renu Khator  
Chancellor/President, UHS/UH

**FROM:** Phillip W. Hurd  
Chief Audit and Compliance Executive

**DATE:** January 29, 2021

**SUBJ:** Internal Audit Report – Construction and Other Contracts Requiring Board of Regents Approval

I have attached for your review the final draft of the above referenced internal audit report. This report has been distributed to/discussed with key personnel of the University of Houston System. This report is summarized as follows:

### **Executive Summary:**

The internal audit review of procurement of construction and other contracts requiring Board of Regents approval covers the time period from October 1, 2020 through December 31, 2020. For each project, we review the following: 1. the solicitation documents posted on the State Comptroller's Electronic State Business Daily, the solicitation requirements checklist, subcontracting probability form, and the HUB subcontracting compliance form to determine whether the appropriate evaluation criteria was used by the Purchasing Department/selection team evaluation members; 2. the Purchasing Department's compilation of the selection team members' rankings of RFQ / RFP for clerical accuracy and agreement of evaluation criteria to RFQ / RFP and evaluation criteria provided to selected firms in instances where RFP's were not applicable; 3. the Purchasing Department's recommendation of RFQ / RFP evaluations to the VC/VP for reasonableness; 4. the VC/VP evaluation of the Purchasing Department's recommendation of RFQ / RFP for reasonableness; 5. the invitation to bid or sole source justification form, if applicable, for reasonableness/completion. We noted no unusual items or other matters that we considered non-compliant with university policies and procedures or state statutes.

This audit report is scheduled to be included in the agenda materials for the February 25, 2021 meeting of the Audit and Compliance Committee of the Board of Regents. Please let me know if you have any questions.

Attachments

University of Houston System  
Internal Auditing Department  
Construction and Other Contracts Requiring Board of Regents Approval  
October 1, 2020 through December 31, 2020

**Background:** UHS procures construction services under the provisions of the Texas Education Code, Sections 51.778 – 51.785. These statutes address the following construction contract methods: Design-Build, Construction Manager-Agent, Construction Manager-At-Risk, Construction Services through Competitive Sealed Proposals and Job Order Contracts. The UHS Facilities, Planning and Construction Department and the Purchasing Department have developed policies and procedures to help ensure compliance with these statutes. For major construction projects, UHS primarily uses the Design-Build and Construction Manager-At-Risk contract methods. The Internal Auditing Department reviews the construction RFQ / RFP evaluation process on an ongoing basis. The Internal Audit Department also reviews the procurement process for other contracts requiring Board of Regents approval (RFQ/RFP, Invitation to Bid, and Sole Source).

**Objective:** The objectives of this review are to determine whether UHS is complying with its policies and procedures and the Texas Education Code in selecting its contractors for its major construction projects and other contracts requiring Board of Regents approval.

**Scope of Work:** The internal audit review of procurement of construction and other contracts requiring Board of Regents approval covers the time period from October 1, 2020 through December 31, 2020.

**Audit Procedures:** For each solicitation we review the following:

1. The solicitation documents posted on the State Comptroller's Electronic State Business Daily and the solicitation requirements checklist and subcontracting probability form and HUB subcontracting compliance form to determine whether the appropriate evaluation criteria was used by the Purchasing Department/selection team evaluation members.
2. The Purchasing Department's compilation of the selection team members' rankings of RFQ / RFP for clerical accuracy and agreement of evaluation criteria to RFQ / RFP and evaluation criteria provided to selected firms in instances where RFP's were not applicable.
3. The Purchasing Department's recommendation of RFQ / RFP evaluations to the VC/VP for reasonableness.
4. The VC/VP evaluation of the Purchasing Department's recommendation of RFQ / RFP for reasonableness.
5. The invitation to bid or sole source justification form, if applicable, for reasonableness/completion.

**Appendices:** Attached is an analysis of internal audit activity related to the construction projects and other contracts requiring Board of Regents approval award evaluations (Appendix 1), the Purchasing Department Flowchart for major construction projects (Appendix 2), the Purchasing Department Flowchart for other contracts requiring board approval (Appendix 3).

**Conclusion:** We noted no unusual items or other matters that we considered non-compliant with university policies and procedures or state statutes.

  
\_\_\_\_\_  
Phillip W. Hurd  
Chief Audit and Compliance Executive  
December 16, 2020

UHS Construction and Other Contracts Requiring Board of Regents Approval  
Internal Audit Activity  
October 1, 2020 to December 31, 2020

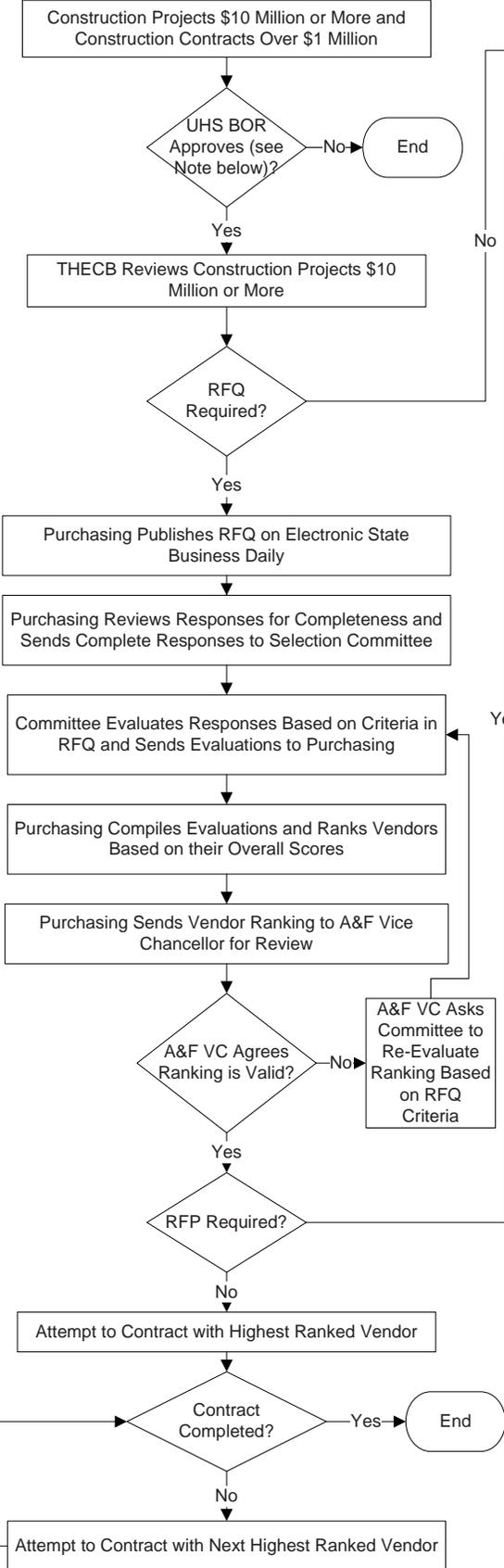
<u>Project or Contract Description</u>	<u>Solicitation Type</u>	(\$ Millions) <u>Amount</u>	<u>BOR Approval</u>		<u>Internal Audit Review</u>	
			FCMP Comm. (Scope) Date	F&A Comm. (Financing) Date	<u>Initiated</u>	<u>Completed</u>
<b><u>Construction Projects \$10 Million and Over</u></b>						
UHV - Student Center and Learning Commons - FE	ITB	1.3	11/19/2015	11/19/2015		
UHV - STEM Building - FE	ITB	1.0	5/19/2016	5/19/2016		
UH - John M. O'Quinn Law Building - FE	ITB	1.5	8/22/2019	8/22/2019		
UHV - Health and Wellness Center - AE	RFQ	2.0	8/20/2020	8/20/2020		
UHV - Health and Wellness Center - CMAR	RFP	16.0	8/20/2020	8/20/2020		
UH - Science, Engineering, & Research HVAC Upgrades and Roof Replacement - AE	RFQ	1.1	8/20/2020	8/20/2020		
UH - Science, Engineering, & Research HVAC Upgrades and Roof Replacement - CMAR	RFP	10.6	8/20/2020	8/20/2020		
<b><u>Construction Projects Over \$1 Million and Under \$10 Million</u></b>						
UHS - Road/Parking Maintenance (up to 3 awards at 2.5M/each)	RFP	2.5	N/A	2/28/2019		
UHS - Job Order Contract Services (up to 5 awards)	RFP	50.0	N/A	5/16/2019	✓	
UH - Intramural Gravel Lot Conversion	RFP	1.6	N/A	8/22/2019	✓	✓
UH - Lighting & Security Upgrades	RFP	3.8	N/A	8/20/2020		
UH - General Services Roof Replacement	RFP	4.5	N/A	8/20/2020		
UH - Multiple Fire Alarm Upgrades	SS	2.2	N/A	8/20/2020		
UH - Bldg 525 Office of Human Resources Renovation	RFP	2.3	N/A	8/20/2020	✓	✓
UHS - Architectural Services Continuing Services Agreement (up to 10 awards)	RFP	15.0	N/A	12/3/2020		
<b><u>Non-Construction Contracts Over \$1 Million</u></b>						
UH - Housing Access Control	RFP	4.0	N/A	2/27/2020		
UHD - Campus Elevator Maintenance and Modernization	RFP	2.3	N/A	2/27/2020		
UHS - CRM for Enrollment Management	RFP	1.5	N/A	5/21/2020	✓	
UHS - Trademark Licensing Agency	RFP	4.1	N/A	8/20/2020	✓	✓
UH - Copier Lease and Maintenance	RFP	4.5	N/A	12/3/2020		
UH - Campus and Networking Connectivity	RFP	1.5	N/A	12/3/2020		

CMAR - Construction Manager at Risk  
 AE - Architectural and Engineering Services (RFQ only)  
 SS - Sole Source  
 ITB - Invitation to Bid  
 ✓ - Initiated or Completed audit procedures, as specified in report.

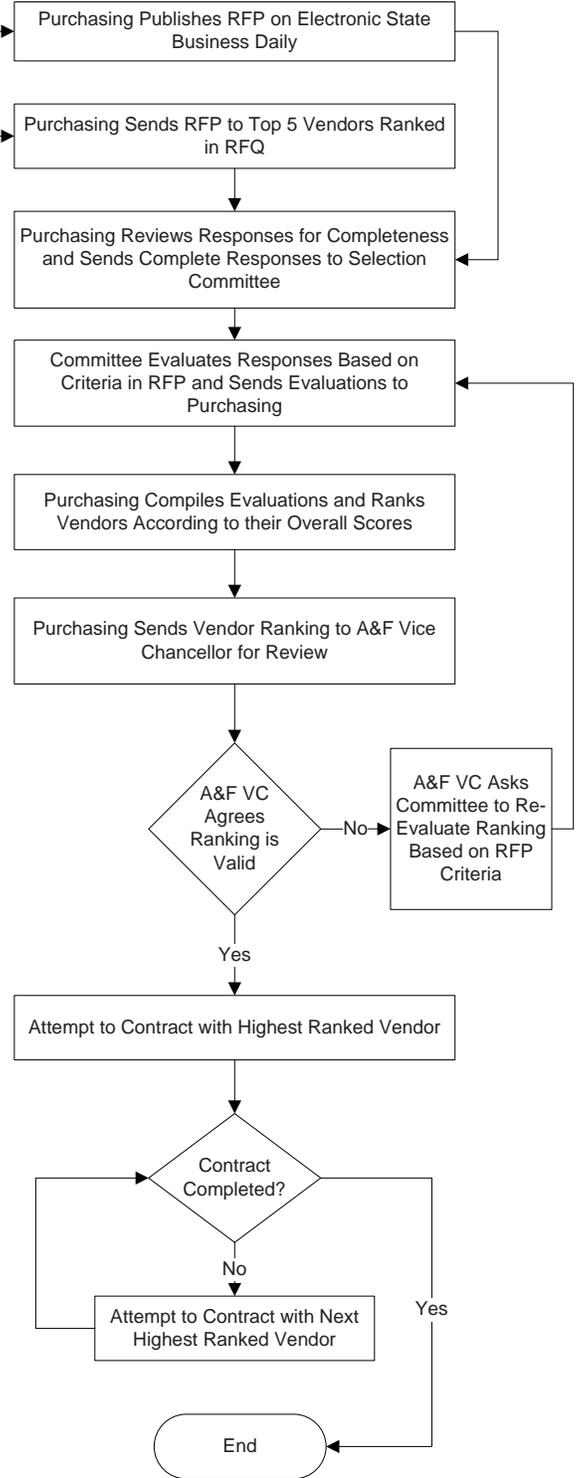
RFP - Request for Proposal  
 RFQ - Request for Qualifications  
 FE - Furnishings and Equipment

University of Houston System Construction Projects \$10 Million or More and Construction Contracts Over \$1 Million

Request for Qualifications (RFQ)



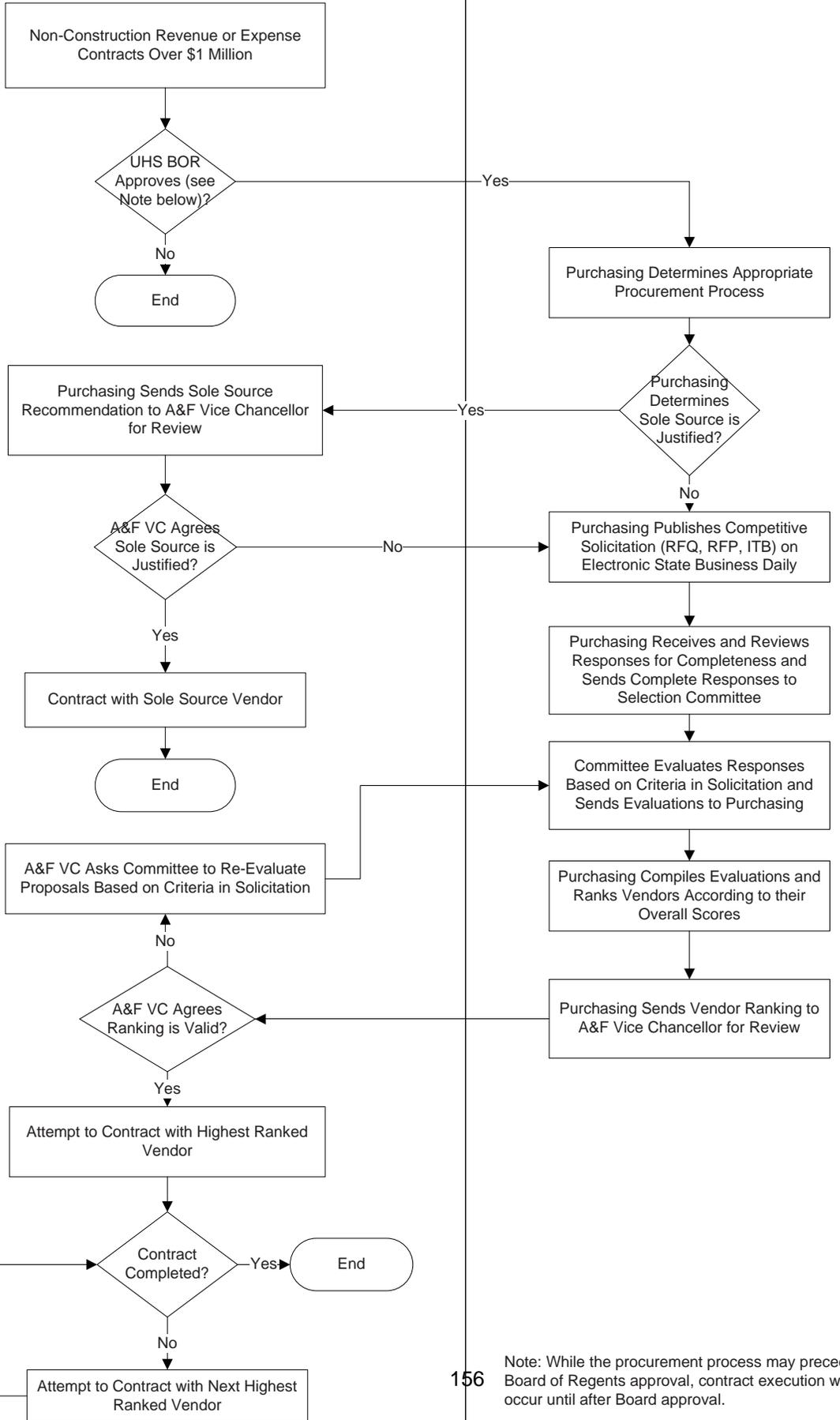
Request for Proposal (RFP)



Note: While the procurement process may precede UHS Board of Regents approval, contract execution will not occur until after Board approval.

Approval Process

Procurement Process



Note: While the procurement process may precede UHS Board of Regents approval, contract execution will not occur until after Board approval.



**Report to the Audit and  
Compliance Committee of the UHS Board  
of Regents on:**

**The University of Houston System's Accounts Payable Function  
FY 2016 – FY 2020**

**AR-2021-05**

**Department of Internal Auditing**

# BOARD EXECUTIVE SUMMARY

## Overview and Scope Summary

The accounts payable process is one of the accounting process cycles and is important in the concept that this is a frequently manipulated cycle. Having an adequate control structure over this accounting cycle is necessary to safeguard assets. The scope for this audit was FY16 – FY20. In addition, special emphasis and testing was given to duplicate payments, duplicate vendors, and data analysis of associated processes.

## Observations:

The University of Houston System’s accounts payable process is a decentralized process with the elements of the control system (authorization, recordkeeping, custody) taking place at various entities along the process line. A central system (PeopleSoft) is deployed for management of the process. Numerous elements of the process still rely on manual entry, authorization and recordkeeping.

During the Accounts Payable audit, the Department of Internal Auditing reviewed approximately \$3 Billion in spend across more than 500,000 vouchers. This was a full population review that encompassed a period of FY16 – FY20. A total of \$297,000 in duplicate spend was identified, of which \$197,000 was previously identified and recovered. A total of \$100,000 was recovered or is currently in the process of being recovered by the units.

## Overall Audit Opinion

There were no material or significant findings. There were four areas of opportunity for enhancement to the efficiency, effectiveness, and consistency of the process:

1. Vendor management
2. Transaction and process controls
3. Duplicate payments
4. Compliance with the Texas prompt payment law

## Recommendations:

The University of Houston System, Department of Internal Auditing recommends the following actions:

1. UHS implement an artificial intelligence logic system that contains support of the following:
  - Automated risk management that supports exception resolution.
  - Anti-fraud controls utilizing the standard tests but is also tunable to the specific needs of the university/universities.
  - Automated supplier risk profiling that supports identification of exceptions in supplier data.
  - Automatic systematic hygiene and maintenance of the master vendor file.
  - Actionable reporting and dashboards so trending issues may be identified quickly.
2. UHS implement logic safeguards to ensure duplicate invoices cannot be entered and controls not circumvented to allow replica information into the PeopleSoft Finance System and allow potential loss.
3. UHS develop and implement policies and procedures to ensure proper recording of refunds and credits in the PeopleSoft Finance System to help ensure accounting records are accurate and complete.

# TABLE OF CONTENTS AND SUMMARY

<b>BOARD EXECUTIVE SUMMARY .....</b>	<b>2</b>
<b>INTRODUCTION.....</b>	<b>4</b>
<b>BACKGROUND .....</b>	<b>4</b>
<b>Issue 1 – Vendor Management.....</b>	<b>5</b>
<b>Objective .....</b>	<b>5</b>
<b>Criteria.....</b>	<b>5</b>
<b>Risk.....</b>	<b>5</b>
<b>Observation.....</b>	<b>5</b>
<b>Conclusion.....</b>	<b>7</b>
<b>Cause .....</b>	<b>7</b>
<b>Issue 2 - Transaction Processes and Controls.....</b>	<b>7</b>
<b>Objective:.....</b>	<b>7</b>
<b>Criteria.....</b>	<b>7</b>
<b>Risk.....</b>	<b>7</b>
<b>Observation.....</b>	<b>7</b>
<b>Conclusion.....</b>	<b>10</b>
<b>Issue 3 - Duplicate Payments.....</b>	<b>10</b>
<b>Objective .....</b>	<b>10</b>
<b>Criteria.....</b>	<b>11</b>
<b>Risk.....</b>	<b>11</b>
<b>Observation.....</b>	<b>11</b>
<b>Conclusion.....</b>	<b>13</b>
<b>Cause .....</b>	<b>13</b>
<b>Issue 4 – Compliance with the Prompt Payment Law .....</b>	<b>13</b>
<b>Objective .....</b>	<b>13</b>
<b>Criteria.....</b>	<b>14</b>
<b>Risk.....</b>	<b>14</b>
<b>Observation.....</b>	<b>14</b>
<b>Conclusion.....</b>	<b>15</b>
<b>Recommendations .....</b>	<b>15</b>
<b>Management Response: .....</b>	<b>16</b>

# ANALYSIS OF THE UNIVERSITY OF HOUSTON SYSTEM ACCOUNTS PAYABLE

## INTRODUCTION

The Department of Internal Auditing developed an annual audit plan based upon a system-wide risk assessment to identify significant areas of risk facing the System. All the audits on the plan are conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and International Standards for the Professional Practice of Internal Audit, published by the Institute of Internal Auditors (IIA).

## BACKGROUND

The Department of Internal Auditing (IAD) performed a review of Accounts Payable of the University of Houston System (UHS) comprised of University of Houston (UH), University of Houston-Clear Lake (UHCL), University of Houston-Downtown (UHD) and University of Houston-Victoria (UHV).

The accounts payable process includes two separate but equally important components:

- Set-up and maintenance of the vendor master file
- Approval and payment of invoices in the PeopleSoft Finance System

Vendor set-up and maintenance is a centralized functional responsibility for the System Universities and is the functional responsibility of the UH Finance, Accounts Payable Department.

Processing invoices for approval and payment is a decentralized function for the System Universities. Each department at each University is responsible for entering and obtaining appropriate approval in the PeopleSoft Finance System. The invoices are electronically routed to each University's Accounts Payable Department where each voucher is reviewed for compliance with policies, procedures and approval.

## OBJECTIVE AND SCOPE

The primary areas of focus for the Accounts Payable audit were:

- Vendor Management
- Compliance with Prompt Payment Law
- Unrecorded Liabilities
- Transaction Processes and Controls
- Duplicate Payments

Areas excluded from the scope of this audit include:

- Procurement Process
- Procurement and Travel Card
- Bank administration and reconciliation
- Travel Management and Processes

The objective of our analysis was to examine each of these areas for:

- Strength of controls for appropriate risk mitigation over transactions and vendor management
- Compliance with Texas Government Code 2251 (prompt or early discounts are taken and interest on overdue payments is avoided)
- Accuracy and proper supporting documentation
- Accounts payable balances accurately reflect the obligations of the University.

Information relevant to this audit was obtained through:

- Interviewing Accounts Payable and departmental personnel.
- Reviewing statutes, policies, and procedures; and
- Data obtained from the PeopleSoft Finance System queries.

## Issue 1 – Vendor Management

**Objective:** To ensure the integrity and protection of vendor data and to determine if processes, procedures, and controls exist to validate vendors, minimize opportunities for malfeasance, duplication of vendors, and duplicate payments.

**Criteria:** Requirements and best businesses practices suggest that appropriate vetting of vendors before inclusion to the vendor master file and regular maintenance of the vendor master file helps to ensure the integrity and protection of the information contained within the vendor master file for the entire purchase cycle -- from procurement to payment. Specific criteria utilized included the State of Texas Comptroller's policies, procedures, and guidelines.

**Risk:** If the vendor information is not validated and the vendor master file is not regularly maintained, the University is susceptible to fraud, inaccurate 1099 tax reporting and compliance issues, and duplicate payments. Duplicate/similar/inaccurate vendors in the vendor master file increases the risk for duplicate payments and complicates the selection of the correct vendor when creating a purchase order or voucher.

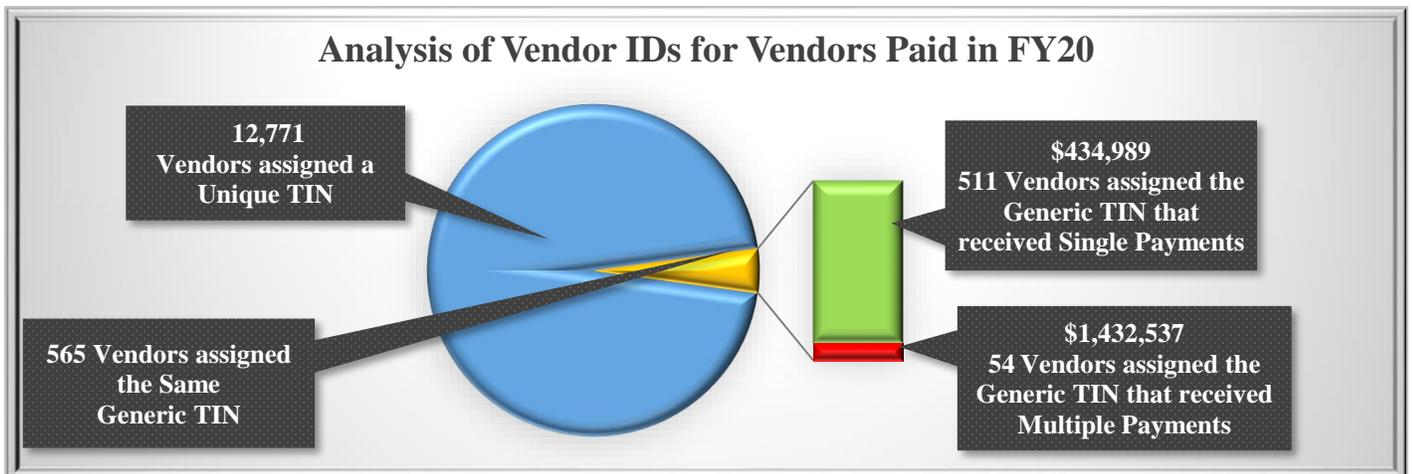
**Observation:** Prior to the implementation of the new vendor management system, the process of vetting vendors was entirely manual and extremely labor intensive. Due to the volume of requests for changes and new vendor additions, identifying an existing vendor in the vendor master file may be further complicated by inconsistent data provided by the vendor on the vendor set-up form and it is difficult for a departmental user to identify a vendor in the vendor master file. As such, vendors may appear in the system as two different entities in the vendor master file. This often occurs when vendor standard naming guidelines are not established. For example, the company name in the system is listed in one instance as Cardinal Health (truncating Inc.) and a second similar instance as Cardinal Health Inc. Additionally, many organizations have an acronym that is commonly used and accepted as the entity name.

In addition, due to various business organizational structures, vendors may have the same or similar names but different Tax Identification Numbers and be entered into the vendor master file multiple times. When entering voucher payment information (i.e., invoices) the department is unable to see the difference between the vendors and this information is not usually contained on the invoice provided by the vendor.

IAD used data analytics tools to perform a review of the vendor master file to identify vendors that had similar records based on the name, address, both name and address, bank accounts, and/or IRS tax identification number. Vendors with matching Tax IDs totaled 36, vendors with matching bank account numbers totaled 154, vendors with matching addresses totaled 462, and vendors with matching names and addresses totaled 3,112. Once the similar vendor records were determined, an analysis was performed based on whether those similar vendors were involved in transactions with the University of Houston System during our testing period.

Vendor Master File Analysis			
Vendors with Matching:	Without Spend	With Spend	Total Similar Vendors
Names	293	74	367
Addresses	341	121	462
Names and Addresses	2,461	651	3,112
Bank Accounts	0	154	154
Tax ID	32	4	36

For a vendor to receive payments from the state (i.e., UHS), a vendor must be set up in the Texas Identification Number System (TINS) and assigned a unique Texas Identification Number (TIN). UHS assigns a generic TIN to single payment vendors or foreign vendors who do not have a social security number. Additionally, changes to the name of a vendor, including a change in type of business, will necessitate the creation of a new vendor account. The TIN in the old vendor account will be replaced with the generic TIN and subsequently inactivated. IAD analyzed 13,336 vendor payments made by all UHS Universities for FY20. The UHS vendor master file contained multiple vendors (businesses and individuals) assigned the same generic TIN. We identified 54 vendors assigned the same generic TIN that received more than one payment from the UHS.<sup>1</sup>



<sup>1</sup> In August 2019, a change to a vendor bank account resulted in a preventable loss of approximately \$600,000. The incident was reported to the Houston Police Department (report number 1116799-19). The incident shows as a duplicate payment but was a theft and has already been addressed by management.

**Conclusion:** Management has recognized the vendor master file as an issue and has implemented a system which will tighten controls over the process. We believe further improvements resulting in decreased risk can be made to the vendor master file management.

**Cause:** Factors that may have contributed to similar vendor records with the vendor master file are:

- Inconsistent information provided by the vendor who initiates the request for a vendor record.
- Vendors entered in our systems having different legal structures, but similar attributes (address, name, location, etc.), can cause confusion during data entry.

## Issue 2 - Transaction Processes and Controls

**Objective:** To determine if processes, procedures, and controls are effective in ensuring compliance with University policies and Texas Government Code Sec. 2251.

**Criteria:** S.A.M. 03.A.01 (Expenditure and Use of all Funds Administered by the University of Houston System) and Texas Government Code Sec. 2251 (Payment for Goods and Services).

**Risk:** If errors are made and go undetected, the University could be exposed to inaccurate financial records, financial loss, legal liability, loss of public trust and adverse publicity.

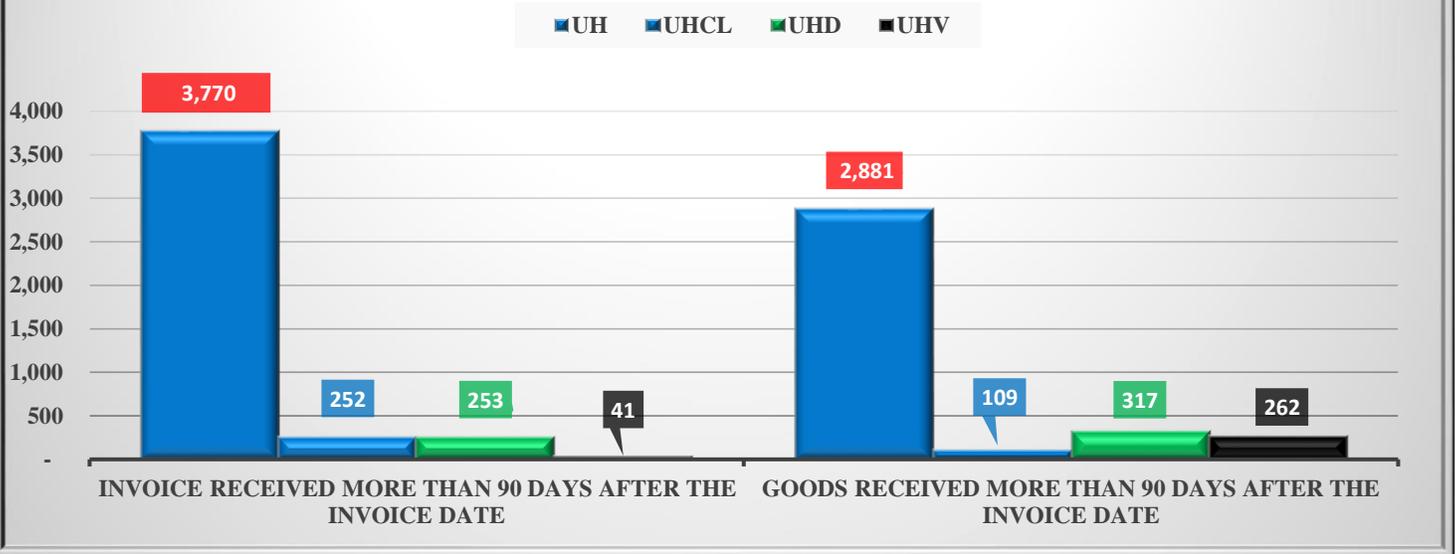
**Observation:** IAD performed an analysis of the quantity of vouchers and dollar value of payment vouchers processed by each University for fiscal years 2016 through 2020

Year	UH and UHS		UHCL		UHD		UHV		All Universities Combined	
	Voucher Qty	Dollar Value of Vouchers	Voucher Qty	Dollar Value of Vouchers						
2016	95,155	\$410,135,394	13,446	\$23,116,484	13,445	\$37,302,296	4,655	\$13,179,141	126,701	\$483,733,315
2017	94,461	\$397,109,894	12,069	\$46,335,196	12,819	\$34,793,607	4,898	\$20,743,899	124,247	\$498,982,596
2018	90,899	\$488,431,160	10,602	\$82,421,121	14,065	\$72,906,912	4,276	\$17,137,712	119,842	\$660,896,905
2019	97,712	\$595,890,074	11,568	\$63,765,586	12,796	\$79,561,552	4,647	\$24,811,667	126,723	\$764,028,878
2020	76,910	\$500,503,544	8,941	\$27,592,220	9,154	\$41,464,364	3,612	\$31,628,777	98,617	\$601,188,904
<b>Total</b>									596,130	\$3,008,830,598

We performed an analysis of accounts payable voucher transactions for all universities posted for payment during September 1, 2019 through June 30, 2020. The data was analyzed to identify anomalies such as dates entered incorrectly. Multiple date inconsistencies, such as dates outside of a reasonable timeframe for processing, were identified during the course of the audit, indicating that additional date controls and explanations should be required within the finance system.

The data also yielded invoices received prior to the invoice date, and invoices received more than 90 days after the invoice date. The invoice date, invoice receipt date and the goods receipt dates are the three key dates the PeopleSoft Finance System uses to calculate the net due date of an invoice to ensure compliance with SAM 03.A.01 (Expenditure and Use of all Funds Administered by the University of Houston System) and Texas Government Code Sec. 2251 (i.e., the Prompt Payment Statute).

## Voucher Data Analysis September 1, 2019 - June 30, 2020



Multiple invoices were received more than 60 days after the invoice date at all Universities of the System. Many vendors, especially considering the recent pandemic, are sending their invoices electronically to avoid mail delays which generates documentation to support the invoice receipt date. However, our testing identified difficulty in verifying the accuracy of the invoice receipt date entered the PeopleSoft Finance System for all Universities.

According to the Texas Government Code Sec. 2251.021 payments are considered overdue on the 31<sup>st</sup> day after the later of (1) date goods received (2) date performance of the service under the contract is completed or (3) date the invoice is received. Overdue payments accrue interest from the 31<sup>st</sup> day until the payment is made. The analysis of the voucher data identified late interest payments made by the System totaling \$6,825.26 out of approximately \$3 Billion.

IAD also reviewed a sample of voucher transactions from each University for the items bulleted for the time period September 1, 2019 through June 30, 2020. The results are represented for each University.

- Information in the PeopleSoft Finance System agrees with the invoice.
- Invoice was authorized by management.
- Associated voucher purchase order/requisition was processed timely, authorized by management and information agrees with invoice.
- Goods or services purchased are allowable for funds used to pay for goods or services.
- Prompt payment interest paid if payment was untimely.
- Contract payments are in accordance with contract terms and the contract is properly authorized.

### **University of Houston System/University of Houston:**

- 43 transactions were reviewed for the accuracy of dates entered in the PeopleSoft Finance System. One transaction (2%) contained an incorrect Invoice Received Date and Good Received Date.
- 43 invoices were reviewed for proper authorization by management for payment. All the transactions were properly authorized by management.
- 43 transactions were reviewed to ensure the proper vendor was selected for payment. The proper vendor was selected for all vouchers.
- We identified 33 transactions requiring a purchase order. Four transactions (12%) were not in compliance with purchase order policies. A purchase order was not processed for one of the transactions; two transactions with purchase orders processed between 200 and 221 days after the invoice date and one purchase order was processed 58 days after the invoice date.
- We reviewed the 33 transactions that required a requisition/purchase order to ensure the requisition/purchase order was properly authorized by management. All the transactions were properly authorized by management.
- 43 transactions were reviewed to ensure transactions were processed timely. Four transactions (9%) were processed between 4 and 59 days after the Net Due Date.
- We reviewed the invoice receipt date for 43 transactions. Ten invoices (23%) were received at least 60 days after the invoice date.

### **University of Houston-Clear Lake:**

- 31 transactions were reviewed for the accuracy of dates entered in the PeopleSoft Finance System. All the dates were entered into the PeopleSoft Finance System accurately.
- 31 invoices were reviewed for proper authorization by management for payment. All the transactions were properly authorized by management.
- 31 transactions were reviewed to ensure the proper vendor was selected for payment. The proper vendor was selected for all vouchers.
- We identified 30 transactions requiring a purchase order. One purchase order (3%) was processed 69 days after the invoice date.
- We reviewed the 30 transactions that required a requisition/purchase order to ensure the requisition/purchase order was properly authorized by management. All the transactions were properly authorized by management.
- 31 transactions were reviewed to ensure transactions were processed timely. Three transactions (10%) were processed after the Net Due Date. One transaction was processed 67 days after the Net Due Date. Two transactions were processed between 2 and 17 days after the Net Due Date.
- We reviewed the invoice receipt date for 31 transactions. Four invoices (13%) were received at least 60 days after the invoice date.

### **University of Houston-Downtown:**

- 30 transactions were reviewed for the accuracy of dates entered in the PeopleSoft Finance System. All the dates were entered into the PeopleSoft Finance System accurately.

- 30 invoices were reviewed for proper authorization by management for payment. All the transactions were properly authorized by management.
- 30 transactions were reviewed to ensure the proper vendor was selected for payment. The proper vendor was selected for all vouchers.
- We identified 25 transactions requiring a purchase order. Four transactions (16%) were not in compliance with purchase order policies because a copy of the purchase order was not uploaded in the PeopleSoft Finance System.
- We reviewed the 25 transactions that required a requisition/purchase order to ensure the requisition/purchase order was properly authorized by management. All the transactions were properly authorized by management.
- 55 transactions were reviewed to ensure transactions were processed timely. Five transactions (9%) were processed after the Net Due Date. One transaction was processed 24 days after the Net Due Date. Four transactions were processed between 2 and 8 days after the Net Due Date.
- We reviewed the invoice receipt date for 55 transactions. Eight invoices (15%) were received at least 60 days after the invoice date.

#### **University of Houston-Victoria:**

- 30 transactions were reviewed for the accuracy of dates entered in the PeopleSoft Finance System All of the dates were entered into the PeopleSoft Finance System accurately.
- 30 invoices were reviewed for proper authorization by management for payment. All the transactions were properly authorized by management.
- 30 transactions were reviewed to ensure the proper vendor was selected for payment. The proper vendor was selected for all invoices.
- We identified 25 of the transactions requiring a purchase order. Four transactions (16%) were not in compliance with purchase order policies. Two purchase orders were processed between 23 and 44 days after the invoice date. Two purchase orders were processed 3 and 5 days after the invoice date.
- We reviewed the 25 transactions that required a requisition/purchase order to ensure the requisition/purchase order was properly authorized by management. All the transactions were properly authorized by management.
- 54 transactions were reviewed to ensure transactions were processed timely. Two transactions (4%) were processed after the Net Due Date.
- We reviewed the invoice receipt date for 54 transactions. Four invoices (7%) were received at least 60 days after the invoice date.

**Conclusion:** There is opportunity to enhance the procedures for invoice data element entry and voucher supporting documentation upload.

## **Issue 3 - Duplicate Payments**

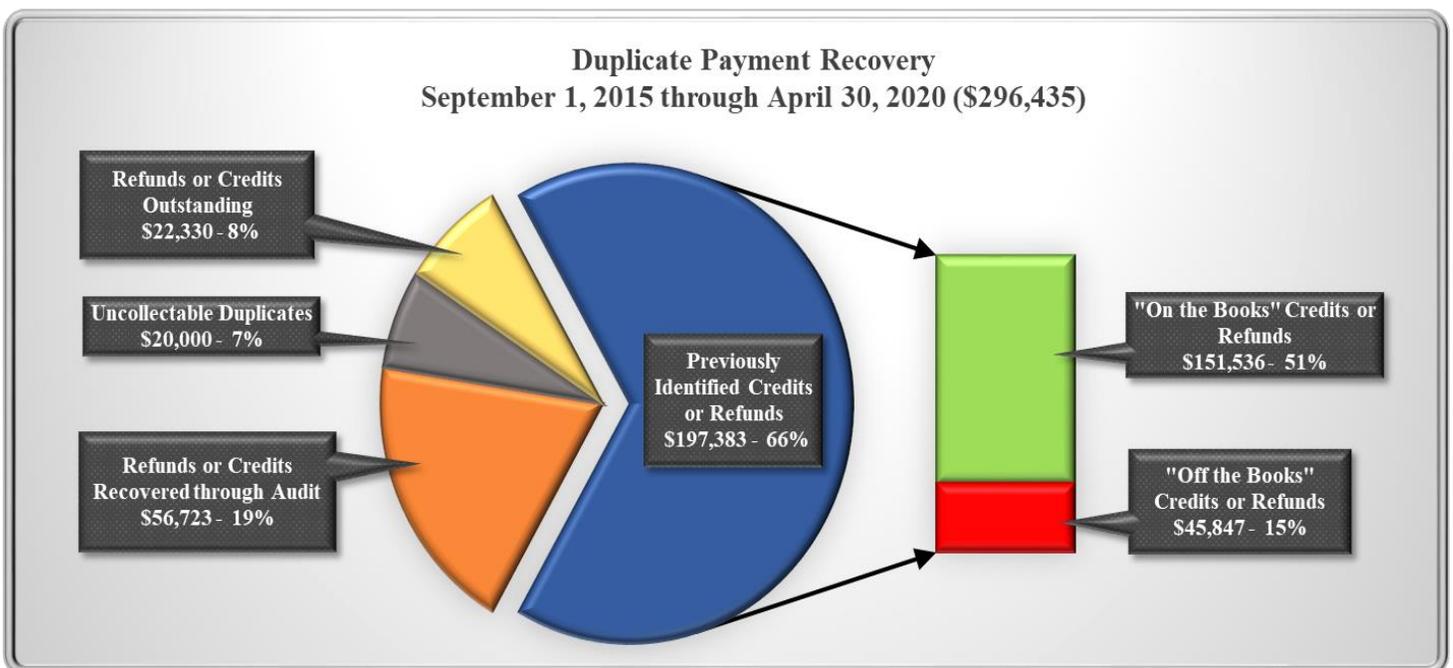
**Objective:** To assess the strength of procedures in place to ensure payables, to include refunds and credits, are being properly accounted for, paid, and recorded in the System's records.

**Criteria:** Best business practices and SAM 03.A.01 (Expenditure and Use of all Funds Administered by the University of Houston System).

**Risk:** If errors are made and go undetected, the University could be exposed to financial loss, adverse publicity, and loss of fiduciary trust from the public.

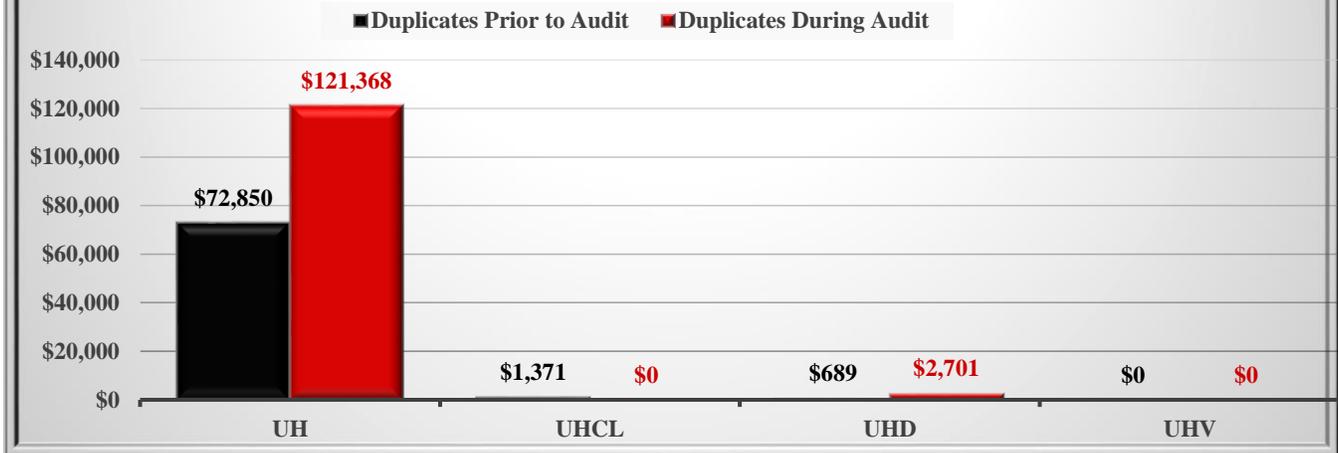
**Observation:**

IAD used Data Analytics to perform duplicate payment testing on a population of approximately \$3 Billion. Duplicate payment testing was performed on voucher payments made during fiscal years 2016 through 2020 (September 1, 2015 through April 30, 2020). We noted UHV had no duplicate payments. Duplicate payments identified for UH, UHCL, and UHD, combined, totaled \$296,435. The UHS received \$56,723 (19%) in refunds from vendors during the audit. The UHS had recovered approximately \$197,383 (66%) of the duplicate payments prior to the start of the audit. We noted that \$45,847 (15%) of the duplicate payments recovered prior to the audit were “off the books” credits or refunds and could only be discovered upon contacting the department and/or vendor (most records had to be researched by the vendor to provide documentation that previous credits and/or refunds had been provided). The records for these duplicate payments were maintained solely by the department or vendor. Of the \$197,383 previously identified duplicate credits or refunds, \$151,536 (51%) were “on the books” in the PeopleSoft Finance System. However, the process for booking these credits or refunds made it extremely difficult to locate the documentation indicating the credit or refund had been booked in the PeopleSoft Finance System. Extensive research had to be performed on the part of each department to determine the credit or refund had been booked and locate the documentation. It was undeterminable or unauditible by internal audit.



While the chart above provides a visual representation of total duplicates identified during the audit, the chart below provides an analysis of duplicate payments by University for the time reviewed.

## Duplicate Payments by University September 1, 2015 through April 30, 2020

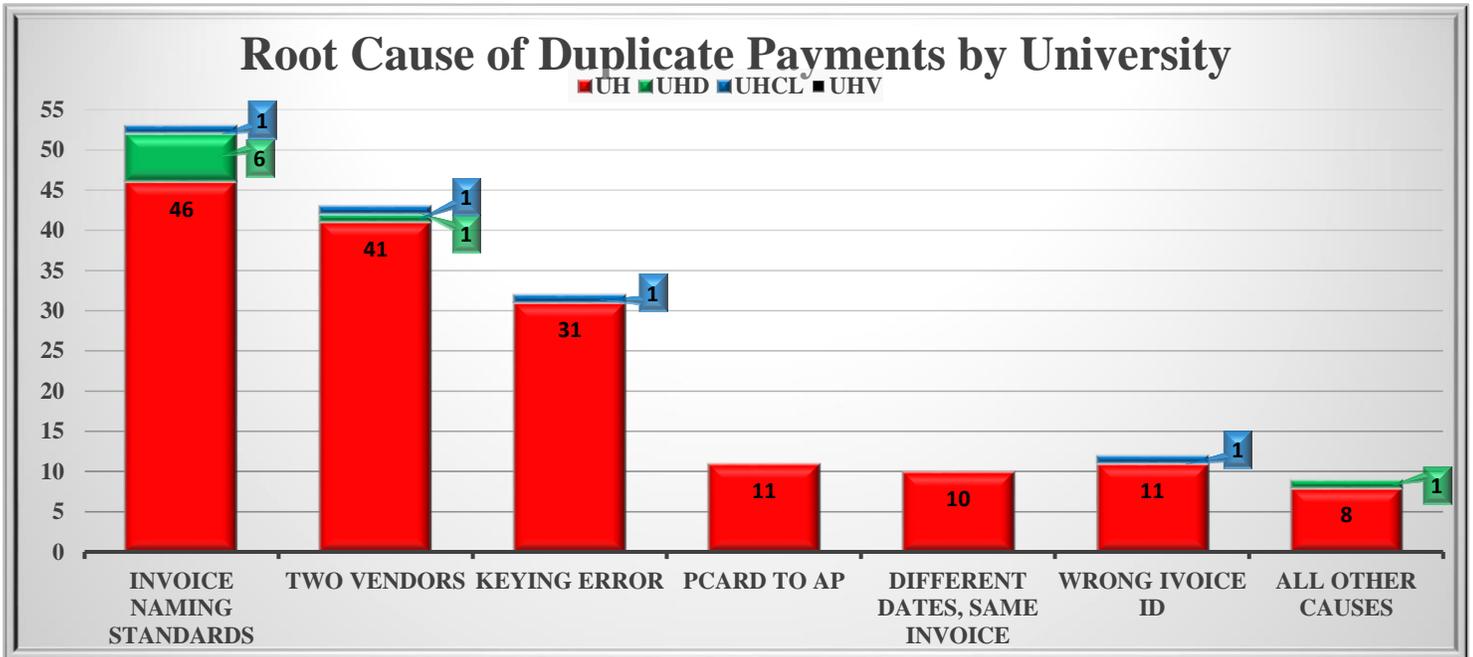


Factors contributing to duplicate payments include:

- The vendor master file contains vendors that appear to be similar in name and having similar addresses; however, each vendor may be represented by a different Tax Identification Number due to the nature of their business organization (ex. Cardinal Health vs. Cardinal Health Inc.). Departments order their supplies, materials, etc. and are the responsible party for receiving and creating vouchers from the invoices for payment in the financial system. This includes the selection of the proper vendor from the vendor master file. The department cannot see the information (Tax Identification Numbers are protected information) within the vendor master file that contains the vendor Tax Identification Number and/or it may not be provided on the invoice to be used to select the vendor when paying an invoice. Thus, the department must rely upon choosing a vendor based on the name and/or address. It can be difficult to choose the proper vendor when multiple vendors have the same and/or similar names/address within the vendor master file.
- Automated controls within the PeopleSoft Finance System and Concur (travel management system) may be ignored or circumvented and allow for duplication of payments. Both the PeopleSoft Finance System and Concur have a warning prompt to let the user know that a duplicate invoice or travel voucher is being entered and/or processed. Simply adding an additional character such as a period or a blank space to the invoice will prevent the duplicate invoice number control in PeopleSoft from functioning properly. Ignoring the prompt for the duplicate travel voucher in Concur will allow the duplicate to process and will prevent the controls from functioning properly. There is currently no policy that instructs the person entering an invoice to follow a standard protocol for data entry of an invoice System-wide.
- Insufficient invoice number data entry standards for entering data in the PeopleSoft Finance System. The invoice number field in the PeopleSoft Finance System allows for entry of

spaces and erroneous characters. For example, adding additional identifying information in the invoice number field such as date, account number or identifying cost center.

- Creating vouchers from multiple types of document (i.e., invoices vs. statements)
- Typographical errors



Additionally, our duplicate payment testing identified the following process and control weaknesses:

- Vendors issued credits for duplicate payments that were not recorded in the PeopleSoft Finance System
- Departmental record keeping procedures for vendor issued credits made it difficult to determine if duplicates had been previously identified and resolved.
- Vendor credits for duplicate payments were not appropriately applied to the initial cost center.

**Conclusion:** There are opportunities for improvement regarding the prevention, identification, resolution of duplication payments, and procedures for recording vendor refunds and credits.

**Cause:** Factors contributing to duplicate payments include:

- Similar vendor records in the vendor master file.
- Invoice number data entry standards and controls were insufficient to ensure duplicate invoices were not entered into the PeopleSoft Finance System.
- Creating vouchers from multiple types of document (i.e., invoices vs. statements).

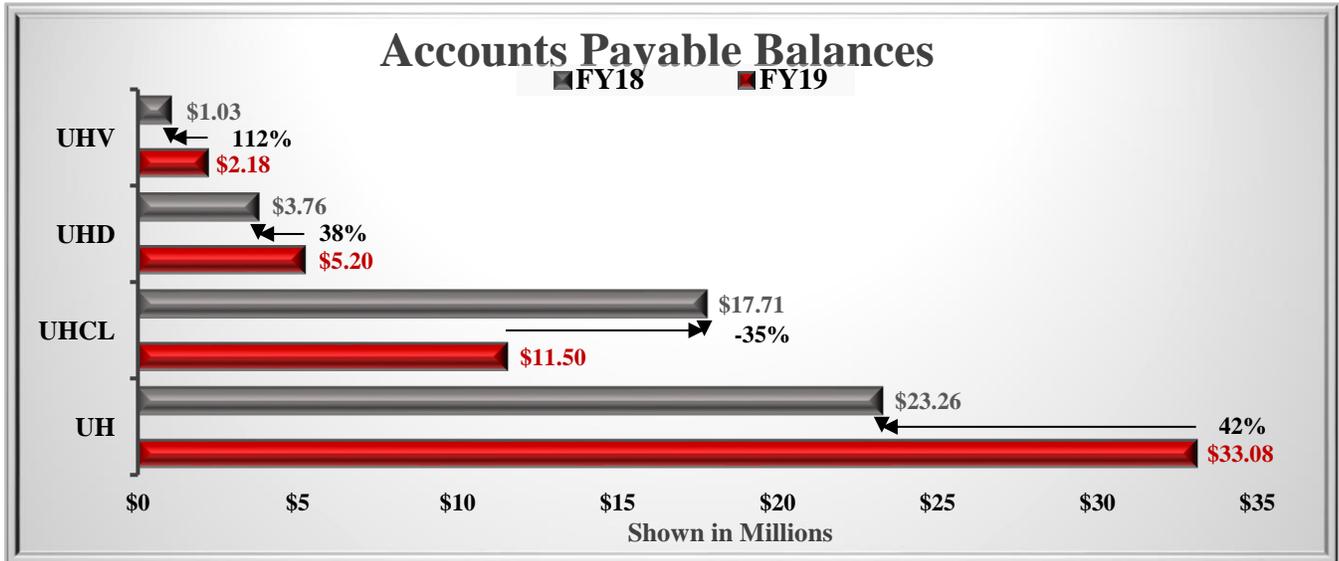
## Issue 4 – Compliance with the Prompt Payment Law

**Objective:** To compare line-item data from each University’s financial statements to reveal insights regarding balances, liquidity, compliance, and performance.

**Criteria:** Texas Government Code Sec. 2251 (i.e., the Prompt Payment Statute) and best business practices.

**Risk:** Severe fluctuations in accounts payable financial statement ratios could indicate underlying issues with the ability to timely pay creditors.

**Observation:** IAD performed a comparative analysis of the FY18 to FY19 Accounts Payable Balances for all Universities in the System. The accounts payable balances for FY19 increased for all universities except for the UHCL which decreased by 35%.

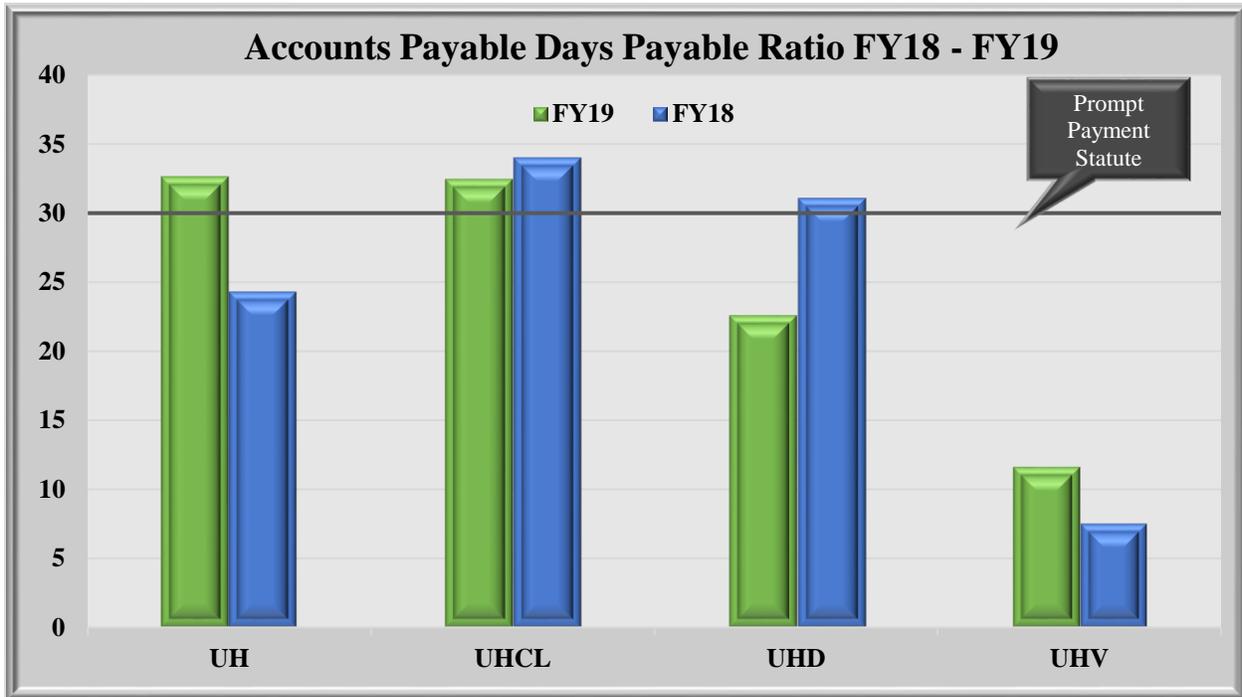


The accounts payable turnover ratio in days was calculated to provide high level analysis of the days it takes each University to pay its vendors to identify potential issues with the Texas Government Code Prompt Payment Statute

IAD calculated the Days Payable and Turnover ratio for all Universities in the System. The initial calculation of UHCL’s days payable outstanding was 278 days for FY18 and 348 days for FY19. This ratio did not appear reasonable because (1) it exceeded compliance with the Texas Government Code Prompt Payment Statute to pay invoices within 30 days and (2) the ratio far exceeded the ratio of other Universities in the System that are similar in size. Further investigation was necessary to identify the reason the ratio was an outlier. IAD’s investigation identified UHCL was the only University that included Title IV Credit Balance Refunds (FY18 \$6,581,159.48 and FY19 \$6,033,024.93) and Student Financial Clearing funds (FY18 \$2,333,332.64 and FY19 \$1,687,382.80) in their yearend accounts payable balance. This anomaly was presented to UHCL Financial Management and they have agreed to collaborate with the other Universities regarding the handling of the Title IV Credit Balance Refunds and Student Financial Clearing amounts. The investigation also identified repair expenditures that were re-classified as capital assets that that did not have a corresponding offsetting expense (FY18 \$7,098,036 and FY19 \$1,578,994). The ending accounts payable balance was adjusted accordingly, and the new ratio calculation appeared to be in line with the other component Universities of similar size.

Our analysis indicated the average across all Universities in the System for FY18 and FY19 was 24 and 25 days respectfully. The number of days to pay vendors in FY19 for UH and UHV increased slightly. The number of days to pay vendors in FY19 decreased slightly for UHCL and UHD. The day’s payable outstanding for all component Universities were closely aligned or exceeded the requirement of the 30

day to pay requirement of Texas Government Code Sec. 2251. This is further supported by the insignificant amount of late interest paid by all component Universities in the System.



**Conclusion:** There are consistency opportunities for improvement regarding the process for recording liabilities at year end. The controls related to Texas Government Code Sec. 2251 (Prompt Payment Law) are reasonably strong to ensure compliance with the law.

## Recommendations

All four issues mentioned in this report reflect only moderate to minor issues in the overall Accounts Payable process as it is now. However, the continued growth of each University of Houston System’s University will cause these areas to become unstable elements to the process and may have disruptive effects. To ensure a growth profile, relieve manual strain, improve efficiency, and reduce costs, the Department of Internal Auditing recommends the following:

1. UHS implement an artificial intelligence logic system that contains support of the following:
  - Automated risk management that supports exception resolution.
  - Anti-fraud controls utilizing the standard tests but is also tunable to the specific needs of the university/universities.
  - Automated supplier-risk profiling that supports identification of exceptions in supplier data.
  - Automatic systematic hygiene and maintenance of the master vendor file.
  - Actionable reporting and dashboards so trending issues may be identified quickly.
2. UHS implement logic safeguards to ensure duplicate invoices cannot be entered and controls not circumvented to allow replica information into the PeopleSoft Finance System and allow potential loss.

3. UHS develop and implement policies and procedures to ensure proper recording of refunds and credits in the PeopleSoft Finance System to help ensure accounting records are accurate and complete.

# Management Response:

## **Issue 1 – Artificial Intelligence Logic System**

The University of Houston System agrees that it will benefit from an automated system that supports vendor management and payment processes.

The University of Houston’s Division of Finance will work with the Information Technology and personnel from UH-Clear Lake, UH-Downtown, and UH-Victoria to solicit and implement a software system that will assist with vendor Master File management and review, provide anti-fraud controls, provide reporting and information on vendor Master File inconsistencies and risk, and provide early detection of potential issues. We estimate that this will be a long-term project, and will issue an RFP August 31, 2021 to solicit such software. We are unable to estimate the timeframe for implementation, so request that we use the selection of a vendor as the measure of substantial completeness.

Responsible Person: Usha Mathew, AVP Finance and Controller

## **Issue 2 – Finance System Logic Safeguards**

The University of Houston System agrees that it will benefit from additional controls regarding invoice data entry in the PeopleSoft Finance and Concur Systems, as well as additional user training.

The University of Houston’s Division of Finance will work with Information Technology and personnel from UH-Clear Lake, UH-Downtown, and UH-Victoria to modify invoice entry standards to: 1) provide edit checks on voucher dates entered and require additional explanation for dates outside of a reasonable time frame; 2) impose invoice number entry restrictions such as the disallowances of spaces or unusual characters and remove differentiation between upper and lower case text. We estimate that these changes can be made by December 31, 2021.

The University of Houston’s Division of Finance will discuss requested changes to invoice entry standards in the Concur Travel Management system with Concur Technologies to see if changes can be made; we estimate that this discussion can occur and we can have a response by May 31, 2021.

Note – Only UH currently uses Concur Travel Management.

The University of Houston’s Division of Finance will work with personnel from UH-Clear Lake, UH-Downtown, and UH-Victoria to develop training materials regarding invoice data entry that addresses the importance of date accuracy as well as invoice number accuracy. We estimate that these materials can be created and disseminated by September 30, 2021.

Responsible Person: Usha Mathew, AVP Finance and Controller

**Issue 3 – Refund and Credit Reporting**

The University of Houston System agrees that it will benefit from utilization of a central system to track vendor refunds and credits.

The University of Houston’s Division of Finance will work with Information Technology and personnel from UH-Clear Lake, UH-Downtown, and UH-Victoria to review available PeopleSoft Finance options, such as adjustment vouchers, to track vendor credit memos and refunds and implement the specific modules required. We estimate that this will be a long-term process, as it utilizes the same resources as all other findings and the implementation of a logic system and invoice entry controls will take precedence; as such we estimate that this can be substantially completed by December 31, 2022.

\* \* \* \* \*

The UHS Department of Internal Auditing would like to thank the office of Administration and Finance for their cooperation and assistance during this audit process.

Sincerely,



Phillip W. Hurd  
Chief Audit and Compliance Executive  
University of Houston System

PWH/pwh/AP Audit

Participating Auditors: Brandee O’Neal, Tamara Davis, Kim Gerry, Elias McClellan, Eric Porter, and Emily Tran

# UNIVERSITY of HOUSTON

## INTERNAL AUDITING DEPARTMENT

Action Item Number	Audit Area	University	Recommendation Summary	Task	Responsible Person	Targeted Date	Status
1	Vendor Management	UHS	<p>UHS implement an artificial intelligence logic system that contains support of the following:</p> <ul style="list-style-type: none"> <li>• Automated risk management that supports exception resolution.</li> <li>• Anti-fraud controls utilizing the standard tests but is also tunable to the specific needs of the university/universities.</li> <li>• Automated supplier-risk profiling that supports identification of exceptions in supplier data.</li> <li>• Automatic systematic hygiene and maintenance of the master vendor file.</li> <li>• Actionable reporting and dashboards so trending issues may be identified quickly.</li> </ul>	<p>The University of Houston System agrees that it will benefit from an automated system that supports vendor management and payment processes.</p> <p>The University of Houston’s Division of Finance will work with the Information Technology and personnel from UH-Clear Lake, UH-Downtown, and UH-Victoria to solicit and implement a software system that will assist with vendor Master File management and review, provide anti-fraud controls, provide reporting and information on vendor Master File inconsistencies and risk, and provide early detection of potential issues. We estimate that this will be a long-term project, and will issue an RFP by June 30, 2021 to solicit such software. We are unable to estimate the timeframe for implementation, so request that we use the selection of a vendor as the measure of substantial completeness.</p>	Usha Mathew, AVP Finance and Controller	8/30/2021	
2	Duplicate Payments	UHS	<p>All universities implement logic safeguards to ensure duplicate invoices cannot be entered and controls not circumvented to allow replica information into the PeopleSoft Finance System and allow potential loss.</p>	<p>The University of Houston System agrees that it will benefit from additional controls regarding invoice data entry in the PeopleSoft Finance and Concur Systems, as well as additional user training.</p> <p>The University of Houston’s Division of Finance will work with Information Technology and personnel from UH-Clear Lake, UH-Downtown, and UH-Victoria to modify invoice entry standards to: 1) provide edit checks on voucher dates entered and require additional explanation for dates outside of a reasonable timeframe; 2) impose invoice number entry restrictions such as the disallowances of spaces and/or unusual characters and remove differentiation between upper and lower case text. We estimate that these changes can be made by December 31, 2021.</p> <p>The University of Houston’s Division of Finance will discuss requested changes to invoice entry standards in the Concur Travel Management system with Concur Technologies to see if changes can be made; we estimate that this discussion can occur and we can have a response by March 31, 2021. Note – Only UH currently uses Concur Travel Management.</p> <p>The University of Houston’s Division of Finance will work with personnel from UH-Clear Lake, UH-Downtown, and UH-Victoria to develop training materials regarding invoice data entry that addresses the importance of date accuracy as well as invoice number accuracy. We estimate that these materials can be created and disseminated by September 30, 2021.</p>	Usha Mathew, AVP Finance and Controller	12/31/2021	

# UNIVERSITY of HOUSTON

## INTERNAL AUDITING DEPARTMENT

Action Item Number	Audit Area	University	Recommendation Summary	Task	Responsible Person	Targeted Date	Status
3	Duplicate Payments	UHS	All universities develop and implement policies and procedures to ensure proper recording of refunds and credits in the PeopleSoft Finance System to help ensure accounting records are accurate and complete.	The University of Houston System agrees that it will benefit from utilization of a central system to track vendor refunds and credits. The University of Houston's Division of Finance will work with Information Technology and personnel from UH-Clear Lake, UH-Downtown, and UH-Victoria to review available PeopleSoft Finance options, such as adjustment vouchers, to track vendor credit memos and refunds and implement the specific modules required. We estimate that this will be a long term process, as it utilizes the same resources as all other findings and the implementation of a logic system and invoice entry controls will take precedence; as such we estimate that this can be substantially completed by December 31, 2022.	Usha Mathew, AVP Finance and Controller	12/31/2022	

**UNIVERSITY OF HOUSTON SYSTEM  
BOARD OF REGENTS AGENDA**

**COMMITTEE:** Audit and Compliance

**ITEM:** Report on University of Houston System, UHS Financial Statements Certifications, FY 2020

**DATE PREVIOUSLY SUBMITTED:**

**SUMMARY:**

The Audit & Compliance Committee Planner, item number 3.13, requires that the UH System Chancellor and UH System Chief Financial Officer certify the annual financial statements for the UH System as a whole, and that each component President and Chief Financial Officer certify the annual financial statements for their respective component institution.

Included in the report are the following key points:

- Financial Certification Process
- University of Houston/University of Houston System Certification Letter
- University of Houston-Clear Lake Certification Letter
- University of Houston-Downtown Certification Letter
- University of Houston-Victoria Certification Letter

**SUPPORTING**

**DOCUMENTATION:** Financial Statements Certification Letters – FY 2020 (all components) and Financial Certification Process

**FISCAL NOTE:**

**RECOMMENDATION/  
ACTION REQUESTED:** Information

**COMPONENT:** University of Houston System

*Phillip W. Hurd*

*2-9-21*

\_\_\_\_\_  
CHIEF AUDIT AND COMPLIANCE EXECUTIVE Phillip W. Hurd

\_\_\_\_\_  
DATE

*Renu Khator*  
\_\_\_\_\_  
CHANCELLOR

Renu Khator

*2/22/2021*  
\_\_\_\_\_  
DATE

## Financial Certification Process

- UH-Clear Lake, UH-Downtown, and UH-Victoria Chief Accounting Officers, Chief Financial Officers, and Presidents certified that the financial reports for their campus are true and correct to the best of their knowledge.
- University of Houston and UH System Administration administrators and unit heads representing 133 departments completed the FY20 Department Fraud Risk Survey, which included questions about verifying cost center transactions, reporting instances of fraud and non-compliance, and other internal controls. According to the survey results, internal controls are adequate to ensure that the financial transactions created for FY20 by UH/UHSA departments are true and correct.
- Karin Livingston (Associate VC/VP for Finance), Kevin Draper (Executive Director of Financial Reporting), Gretta McClain Gibbs (Director of Accounting Services), Raymond Bartlett (Senior VC/VP of Administration and Finance), and Renu Khator (Chancellor/President) signed the Certification Letter for UH, UHSA, and UH System Consolidated based on:
  - Department surveys, which indicate internal controls are adequate within UH and UHSA departments to ensure correct financial transactions.
  - Certifications signed by UHCL, UHD, and UHV representatives.
  - Their knowledge and review of the FY20 Annual Financial Report for UH, UHSA, and UH System Consolidated.
- The certification letters are presented at the February 25, 2021 Board of Regents meeting.

# University of Houston, UH System Administration, and UH System Certification Letter

November 21, 2020

Mr. Jack B. Moore  
Chair, Audit and Compliance Committee  
UH System Board of Regents  
12019 Surrey Lane  
Houston, TX 77204

Pursuant to the UH System Board of Regents Audit Committee Charter and Checklist, the following representations are presented in connection with the preparation of financial statements and footnote information for the University of Houston, UH System Administration, and UH System as a whole for the period ended August 31, 2020.

## Management Representations Related to Financial Statements

I have reviewed the financial statements of the University of Houston, UH System Administration, and UH System as a whole and I confirm, to the best of my knowledge and belief, the following representations made to you relating to the preparation of these financial statements and footnote information.

1. To the best of my knowledge, the financial statements and footnote information are fairly presented in conformity with generally accepted accounting principles except where the State Comptroller's reporting requirements have instructed us to deviate.
2. University management is responsible for compliance with the state and federal laws and regulations, the State Comptroller's reporting requirements, and the University of Houston System reporting guidelines communicated by the Office of the Senior Vice Chancellor for Administration and Finance or designee.
3. University management is responsible for establishing and maintaining internal controls over financial reporting. Internal Control is a process, effected by the Board of Regents, administration and management, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.
4. To the best of my knowledge, all significant deficiencies in the design or operation of internal controls over financial reporting which could adversely affect UH System's ability to record, process, summarize, and report financial data and any material weaknesses in internal controls that have been identified for UH System have been appropriately reported and addressed.
5. To the best of my knowledge, there have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).

## University of Houston, UH System Administration, and UH System Certification Letter

6. To the best of my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
7. To the best of my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the University of Houston, UH System Administration, and UH System consolidated of, and for, the periods presented in this report. (Materiality is defined as a  $\pm 5\%$  or greater error on revenues, expenses, assets, liabilities, or net assets.)
8. To the best of my knowledge, there are no unasserted claims or assessments that the Office of General Counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).
9. To the best of my knowledge, there has been no –
  - a. Fraud, whether or not material, involving management or employees who have significant roles in internal control, that has not been appropriately reported and addressed; or
  - b. Fraud involving others that could have a material effect on the financial statements other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).
10. To the best of my knowledge, from August 31, 2020 through the date of this letter, there have been no subsequent events that have had or may have a material effect on the financial position or the revenues, expenses, and other changes in net assets as shown in the aforementioned financial statements.



Ms. Karin Livingston

Associate Vice Chancellor of Finance,  
UH System  
Associate Vice President of Finance,  
University of Houston

11/23/2020

Date



Mr. Kevin Draper

Executive Director of Financial  
Reporting, University of Houston

11/30/20

Date

University of Houston, UH System Administration, and UH System  
Certification Letter



Ms. Gretta McClain Gibbs

Director of Accounting Services,  
University of Houston

12/01/2020

Date



Mr. Raymond Bartlett

Senior Vice Chancellor of  
Administration & Finance, UH System  
Senior Vice President of  
Administration & Finance, University  
of Houston

12/9/2020

Date



Dr. Renu Khator

Chancellor, UH System  
President, University of Houston

12/14/2020

Date

# UH-Clear Lake Certification Letter

November 21, 2020

Mr. Jack B. Moore  
Chair, Audit and Compliance Committee  
UH System Board of Regents  
12019 Surrey Lane  
Houston, TX 77204

Pursuant to the UH System Board of Regents Audit Committee Charter and Checklist, the following representations are presented in connection with the preparation of UH-Clear Lake financial statements and footnote information for the period ended August 31, 2020.

## **Management Representations Related to Financial Statements**

I have reviewed the financial statements of UH-Clear Lake and I confirm, to the best of my knowledge and belief, the following representations made to you relating to the preparation of UH-Clear Lake financial statements and footnote information.

1. To the best of my knowledge, the financial statements and footnote information are fairly presented in conformity with generally accepted accounting principles except where the State Comptroller's reporting requirements have instructed us to deviate.
2. University management is responsible for compliance with the state and federal laws and regulations, the State Comptroller's reporting requirements, and the University of Houston System reporting guidelines communicated by the Office of the Senior Vice Chancellor for Administration and Finance or designee.
3. University management is responsible for establishing and maintaining internal controls over financial reporting. Internal Control is a process, effected by the Board of Regents, administration and management, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.
4. To the best of my knowledge, all significant deficiencies in the design or operation of internal controls over financial reporting which could adversely affect UH-Clear Lake's ability to record, process, summarize, and report financial data and any material weaknesses in internal controls that have been identified for UH-Clear Lake have been appropriately reported and addressed.
5. To the best of my knowledge, there have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).

## UH-Clear Lake Certification Letter

6. To the best of my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
7. To the best of my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of UH-Clear Lake as of, and for, the periods presented in this report. (Materiality is defined as a  $\pm 5\%$  or greater error on revenues, expenses, assets, liabilities, or net assets.)
8. To the best of my knowledge, there are no unasserted claims or assessments that the Office of General Counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).
9. To the best of my knowledge, there has been no –
  - a. Fraud, whether or not material, involving management or employees who have significant roles in internal control, that has not been appropriately reported and addressed; or
  - b. Fraud involving others that could have a material effect on the financial statements other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).
10. To the best of my knowledge, from August 31, 2020 through the date of this letter, there have been no subsequent events that have had or may have a material effect on the financial position or the revenues, expenses, and other changes in net assets as shown in the aforementioned financial statements.



12/04/2020

~~Ms. Usha Mathew~~  
Ms. Krista Buckminster

Associate Vice President of Finance,  
UH Clear Lake (Interim)

Date



12/4/2020

Mr. Mark Denney

Vice President of Administration and  
Finance, UH Clear Lake

Date



12/08/2020

Dr. Ira Blake

President, UH Clear Lake

Date

## UH Downtown Certification Letter

November 21, 2020

Mr. Jack B. Moore  
Chair, Audit and Compliance Committee  
UH System Board of Regents  
12019 Surrey Lane  
Houston, TX 77204

Pursuant to the UH System Board of Regents Audit Committee Charter and Checklist, the following representations are presented in connection with the preparation of UH Downtown's financial statements and footnote information for the period ended August 31, 2020.

### Management Representations Related to Financial Statements

I have reviewed the financial statements of UH Downtown and I confirm, to the best of my knowledge and belief, the following representations made to you relating to the preparation of the UH Downtown's financial statements and footnote information.

1. To the best of my knowledge, the financial statements and footnote information are fairly presented in conformity with generally accepted accounting principles except where the State Comptroller's reporting requirements have instructed us to deviate.
2. University management is responsible for compliance with the state and federal laws and regulations, the State Comptroller's reporting requirements, and the University of Houston System reporting guidelines communicated by the Office of the Senior Vice Chancellor for Administration and Finance or designee.
3. University management is responsible for establishing and maintaining internal controls over financial reporting. Internal Control is a process, effected by the Board of Regents, administration and management, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.
4. To the best of my knowledge, all significant deficiencies in the design or operation of internal controls over financial reporting which could adversely affect UH Downtown's ability to record, process, summarize, and report financial data and any material weaknesses in internal controls that have been identified for UH Downtown have been appropriately reported and addressed.
5. To the best of my knowledge, there have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).

## UH Downtown Certification Letter

6. To the best of my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
7. To the best of my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of UH Downtown as of, and for, the periods presented in this report. (Materiality is defined as a  $\pm 5\%$  or greater error on revenues, expenses, assets, liabilities, or net assets.)
8. To the best of my knowledge, there are no unasserted claims or assessments that the Office of General Counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).
9. To the best of my knowledge, there has been no –
  - a. Fraud, whether or not material, involving management or employees who have significant roles in internal control, that has not been appropriately reported and addressed; or
  - b. Fraud involving others that could have a material effect on the financial statements other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).
10. To the best of my knowledge, from August 31, 2020 through the date of this letter, there have been no subsequent events that have had or may have a material effect on the financial position or the revenues, expenses, and other changes in net assets as shown in the aforementioned financial statements.

Christina Ordonez-  
Campos, CPA

Digitally signed by Christina Ordonez-Campos, CPA  
DN: cn=Christina Ordonez-Campos, CPA, o=UHD,  
ou=Business Affairs,  
email=ordonezcampos@uhd.edu, c=US  
Date: 2020.12.01 07:15:48 -06'00'

12/01/2020

Ms. Christina Ordóñez-Campos

Assistant Vice President for  
Business Affairs, UH Downtown

Date



Digitally signed by David Bradley  
DN: cn=David Bradley, o=University  
of Houston - Downtown, ou=Vice  
President, Administration & Finance,  
email=bradleyd@uhd.edu, c=US  
Date: 2020.12.01 08:53:31 -06'00'

12/1/2020

Mr. David Bradley

Vice President for Administration  
and Finance, UH Downtown

Date

Antonio D. Tillis

Digitally signed by Antonio D. Tillis  
DN: cn=Antonio D. Tillis, o=University of  
Houston-Downtown, ou=President's  
Office, email=tillisa@uhd.edu, c=US  
Date: 2020.12.07 15:04:48 -06'00'

12/7/2020

Dr. Antonio D. Tillis

Interim President, UH Downtown

Date

# UH Victoria Certification Letter

November 21, 2020

Mr. Jack B. Moore  
Chair, Audit and Compliance Committee  
UH System Board of Regents  
12019 Surrey Lane  
Houston, TX 77204

Pursuant to the UH System Board of Regents Audit Committee Charter and Checklist, the following representations are presented in connection with the preparation of the UH Victoria's financial statements and footnote information for the period ended August 31, 2020.

## **Management Representations Related to Financial Statements**

I have reviewed the financial statements of UH Victoria and I confirm, to the best of my knowledge and belief, the following representations made to you relating to the preparation of the UH Victoria's financial statements and footnote information.

1. To the best of my knowledge, the financial statements and footnote information are fairly presented in conformity with generally accepted accounting principles except where the State Comptroller's reporting requirements have instructed us to deviate.
2. University management is responsible for compliance with the state and federal laws and regulations, the State Comptroller's reporting requirements, and the University of Houston System reporting guidelines communicated by the Office of the Senior Vice Chancellor for Administration and Finance or designee.
3. University management is responsible for establishing and maintaining internal controls over financial reporting. Internal Control is a process, effected by the Board of Regents, administration and management, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.
4. To the best of my knowledge, all significant deficiencies in the design or operation of internal controls over financial reporting which could adversely affect UH Victoria's ability to record, process, summarize, and report financial data and any material weaknesses in internal controls that have been identified for UH Victoria have been appropriately reported and addressed.
5. To the best of my knowledge, there have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).

## UH Victoria Certification Letter

6. To the best of my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
7. To the best of my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of UH Victoria as of, and for, the periods presented in this report. (Materiality is defined as a  $\pm 5\%$  or greater error on revenues, expenses, assets, liabilities, or net assets.)
8. To the best of my knowledge, there are no unasserted claims or assessments that the Office of General Counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).
9. To the best of my knowledge, there has been no –
  - a. Fraud, whether or not material, involving management or employees who have significant roles in internal control, that has not been appropriately reported and addressed; or
  - b. Fraud involving others that could have a material effect on the financial statements other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).
10. To the best of my knowledge, from August 31, 2020 through the date of this letter, there have been no subsequent events that have had or may have a material effect on the financial position or the revenues, expenses, and other changes in net assets as shown in the aforementioned financial statements.



Ms. Erin Goodwin

Senior Finance Director, UH  
Victoria

11/21/2020

Date



Mr. Wayne Beran

Vice President of Administration and  
Finance, UH Victoria

11/21/2020

Date



Dr. Robert K. Glenn

President, UH Victoria

11/30/20

Date