

Audit and Compliance Committee
Meeting
Thursday, February 24, 2022 10:00 AM

Hilton University of Houston Hotel, Conrad
Hilton Ballroom, Second Floor
4800 Calhoun Rd
Houston, TX 77204

Agenda

I. **Audit and Compliance Committee**

Presenter: Chair Jack Moore

I.A. Call to Order

Presenter: Chair Jack Moore

I.B. Approval of Committee Minutes

- December 2, 2021, Audit and Compliance Committee meeting

Action: Approval

Presenter: Chair Jack Moore

I.C. Report on University of Houston System, Institutional Compliance Hotline

Report for the three months ended January 31, 2022 and Training Statistics for
FY2022 - University of Houston System

Action: Information

Presenter: Susan Koch, System-wide Compliance Officer

I.D. Report on University of Houston System, Emergency Management/Safety and Security Audit 2021 - University of Houston System

Action: Information

Presenter: Phil Hurd, Chief Audit Executive

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

Action: Information

Presenter: Phil Hurd, Chief Audit Executive

I.F. Report on University of Houston System, FY2021 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 - University of Houston System

Action: Information

Presenter: Phil Hurd, Chief Audit Executive

I.G. Report on University of Houston System, UHS Financial Statements Certifications, FY2021 - University of Houston System.

Action: Information

Presenter: Phil Hurd, Chief Audit Executive

I.H. Report on University of Houston System, Internal Audit Reports - University of Houston System

Action: Information

Presenter: Phil Hurd, Chief Audit Executive

II. **Executive Session**

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.

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

Presenter: Chair Jack Moore

V. **Adjourn**

UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA

COMMITTEE: Audit and Compliance

ITEM: Report on University of Houston System, Institutional Compliance Hotline Report for the three months ended January 31, 2022 and Training Statistics for FY 2022

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

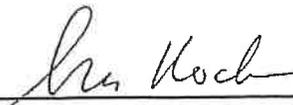
The Institutional Compliance Hotline Report summarizes the fraud and non-compliance hotline reports received for each institution during the applicable quarter, including the primary issue associated with the reports. The Training Statistics for FY 2022 details the percentage of employees completing mandatory compliance training.

SUPPORTING DOCUMENTATION: Institutional Compliance Hotline Report; Training Statistics for FY 2022

FISCAL NOTE:

RECOMMENDATION/
ACTION REQUESTED: Information

COMPONENT: University of Houston System



SYSTEM-WIDE COMPLIANCE OFFICER Susan Koch

1/21/2022
DATE



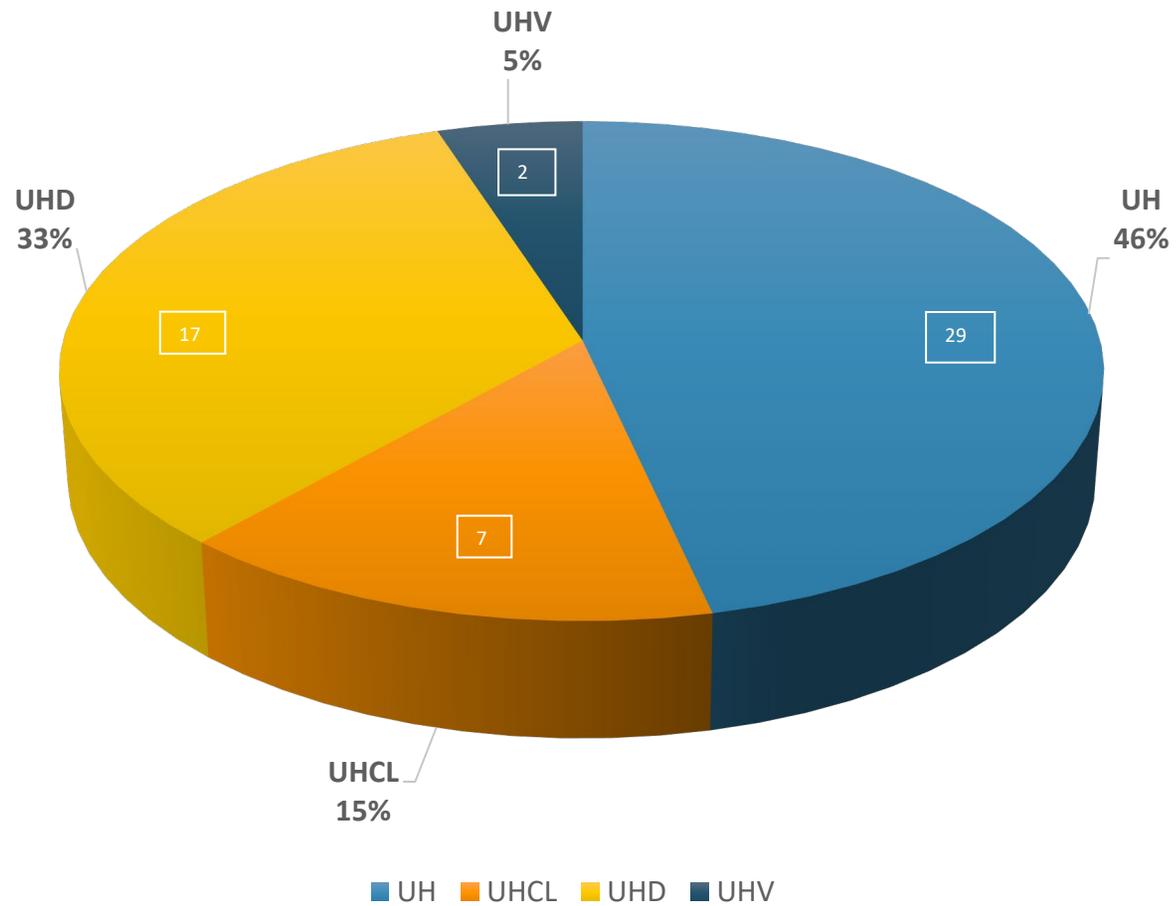
CHANCELLOR Renu Khator

2/17/2022
DATE

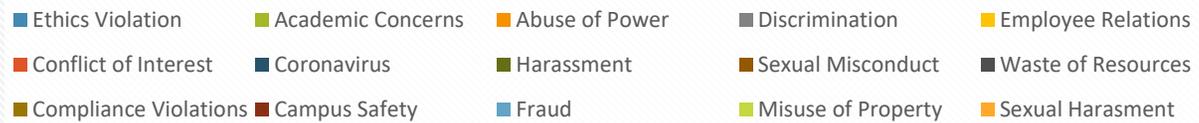
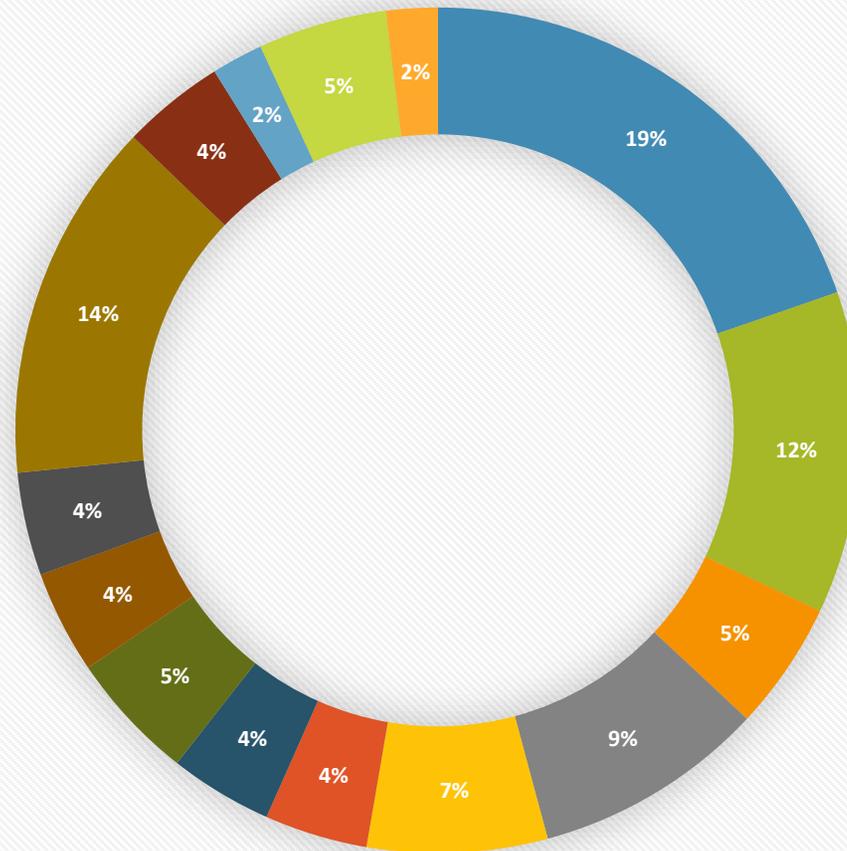
**UNIVERSITY OF HOUSTON SYSTEM
Institutional Compliance Hotline Report
for the three months ended January 31, 2022
and Training Statistics for FY 2022**

Hotline reports for all Universities

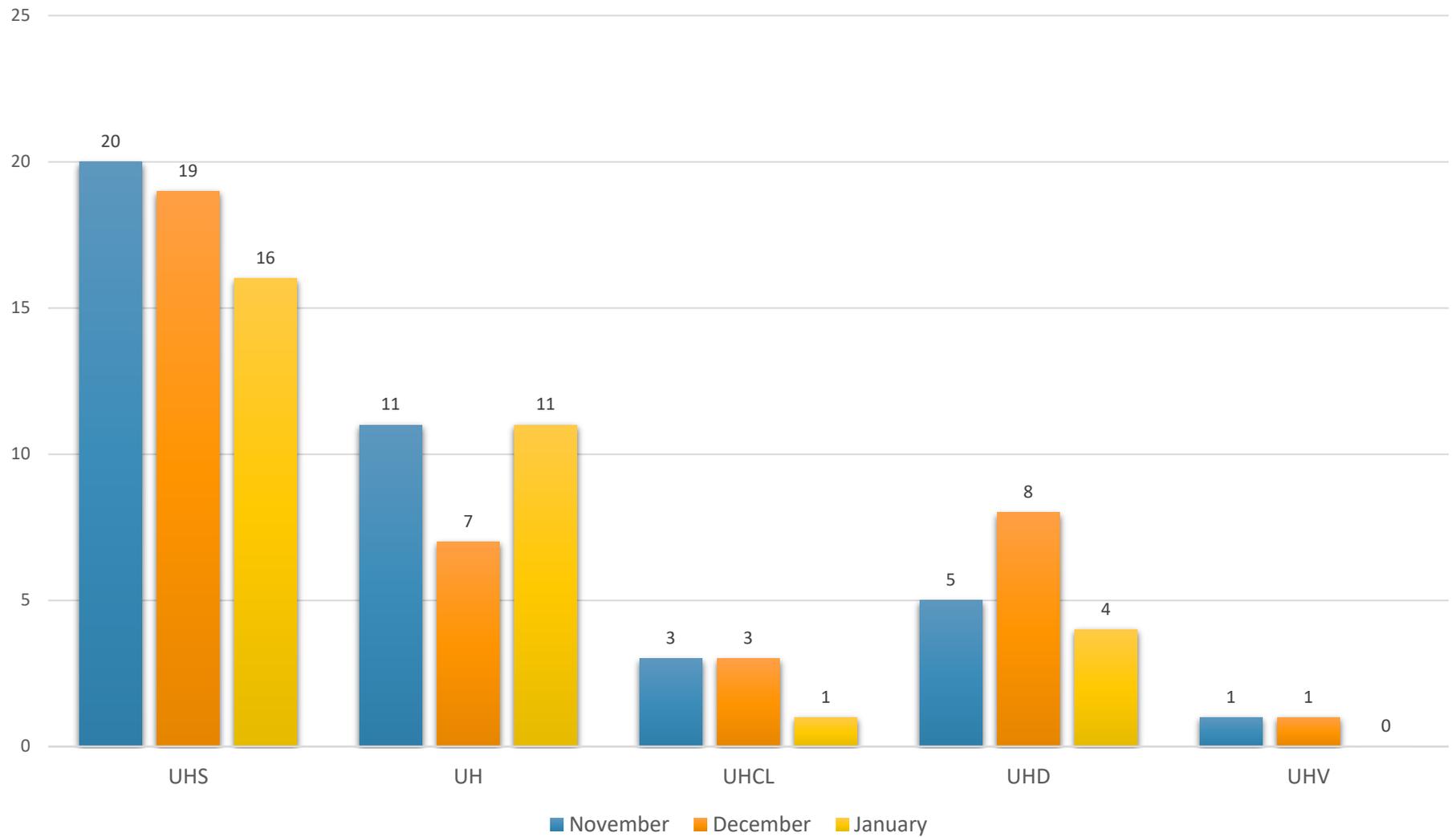
Issues Reported by Institution



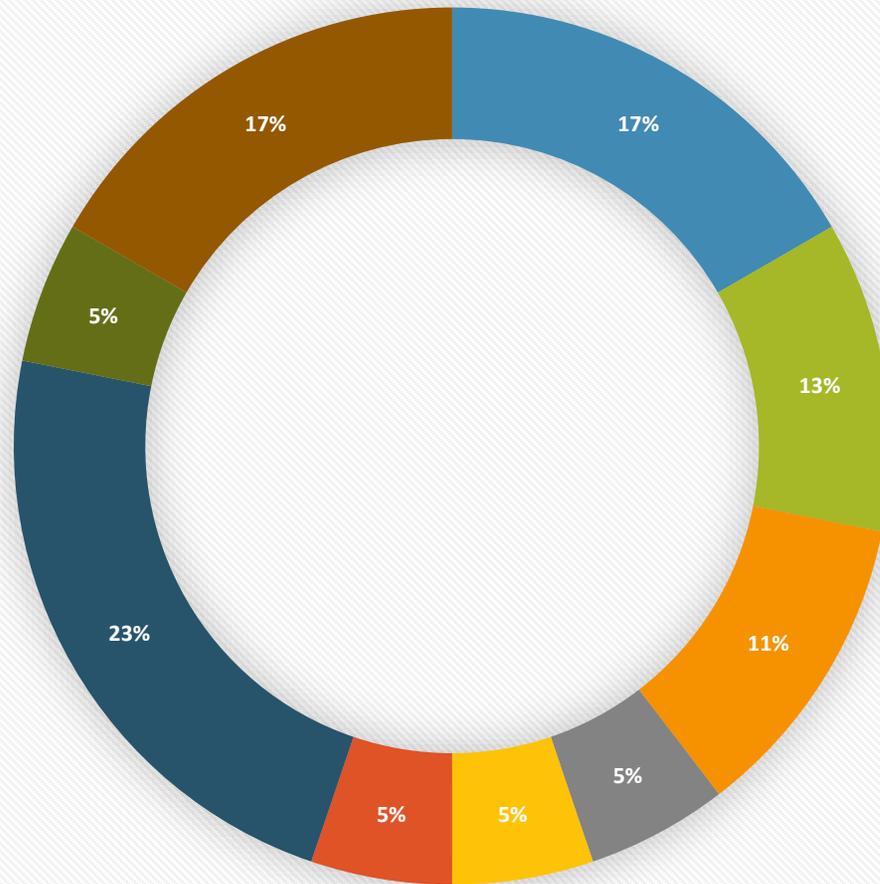
Reported Issues by Type Across UHS



Issues Reported by Month

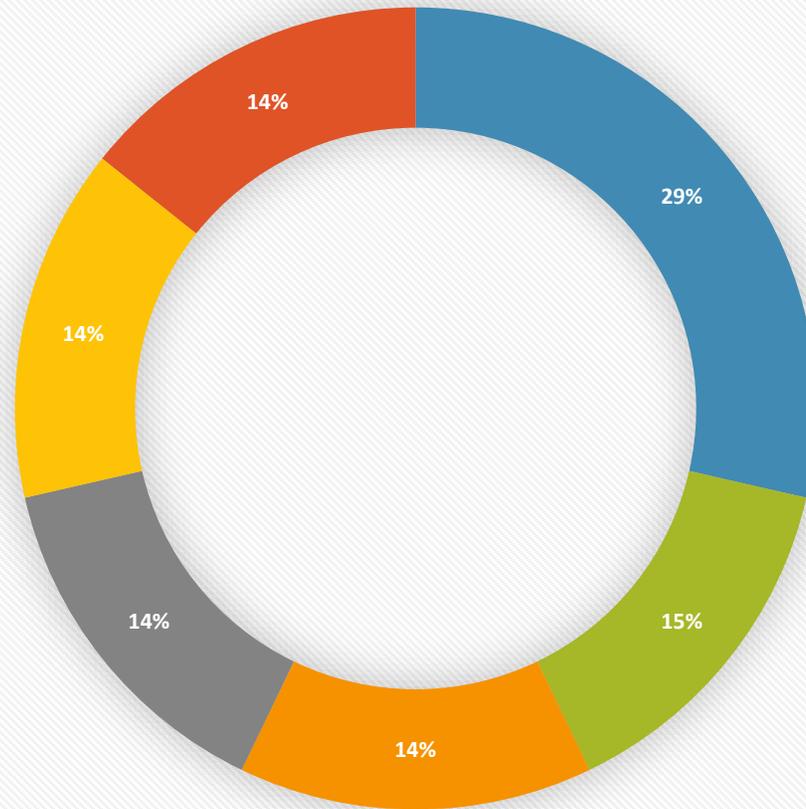


UH Case Breakdown



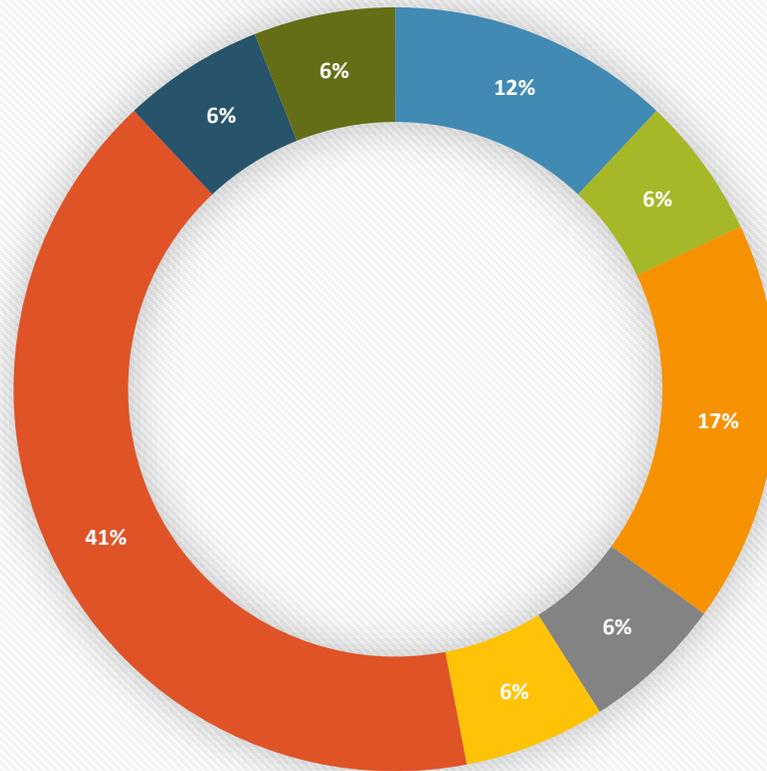
- Ethics Violation
- Discrimination
- Harassment
- Conflict of Interest
- Employee Relations
- Campus Safety
- Compliance Violations
- Misuse of Property
- Academic Concerns

UHCL Case Breakdown



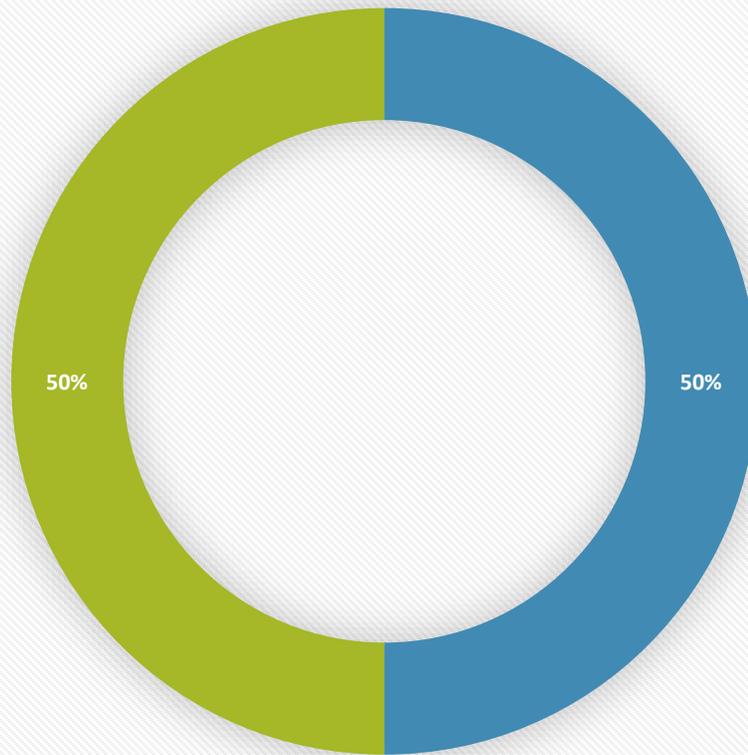
■ Employee Relations ■ Sexual Misconduct ■ Compliance Violations ■ Misuse of Property ■ Discrimination ■ Waste of Resources

UHD Case Breakdown



■ Abuse of Power ■ Employee Relations ■ Academic Concerns ■ Campus Safety ■ Discrimination ■ Ethics Violations ■ Harassment ■ Fraud ■

UHV Case Breakdown



■ Academic Concerns ■ Misuse of Property

Training Statistics for FY 2022 for Mandatory Compliance Training

| University | FY 2021 | FY 2022 |
|-------------------|----------------|----------------|
| UH | 98% | 98% |
| UHCL | 97% | 99% |
| UHD | 99% | 99% |
| UHV | 99% | 99% |
| UHS TOTAL | 98% | 98% |

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

COMMITTEE: Audit and Compliance

ITEM: Report on University of Houston System, Emergency Management/Safety and Security Audit 2021

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

The Texas Education Code § 51.217 requires each institution to adopt and implement a multihazard emergency operations plan and to conduct a safety and security audit at least once every three years. This report was last submitted February 28, 2019. Each institution is required to report the results of the audit to the Board of Regents and the Division of Emergency Management of the Office of the Governor. Each institution's audit was conducted by a team of peers. The attached report contains findings, recommendations, management's responses and action plans.

SUPPORTING DOCUMENTATION: Report on Emergency Management / Safety and Security Audit 2021

FISCAL NOTE:

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System



02-04-2022

CHIEF AUDIT EXECUTIVE

Phillip W. Hurd

DATE



CHANCELLOR

Renu Khator

DATE

2/14/2022



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

The University of Houston System Emergency Management/Safety
and Security

UNIVERSITY of **HOUSTON** SYSTEM

INTERNAL AUDITING DEPARTMENT

UNIVERSITY OF HOUSTON SYSTEM EMERGENCY MANAGEMENT / SAFETY AND SECURITY AUDIT 2021

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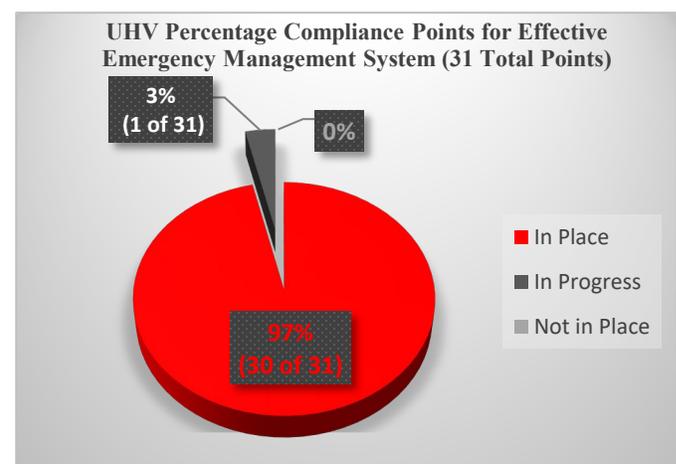
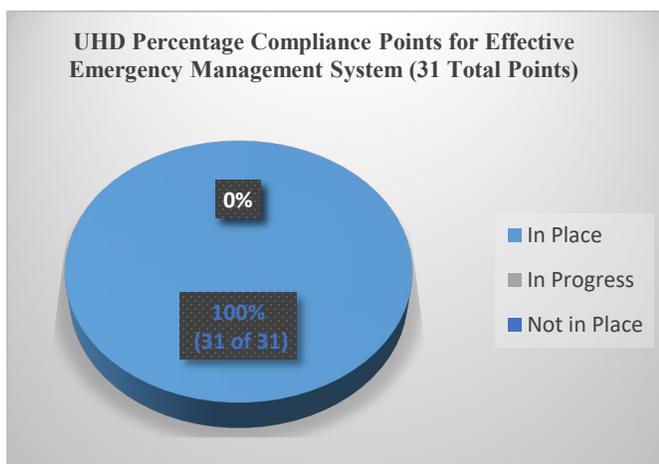
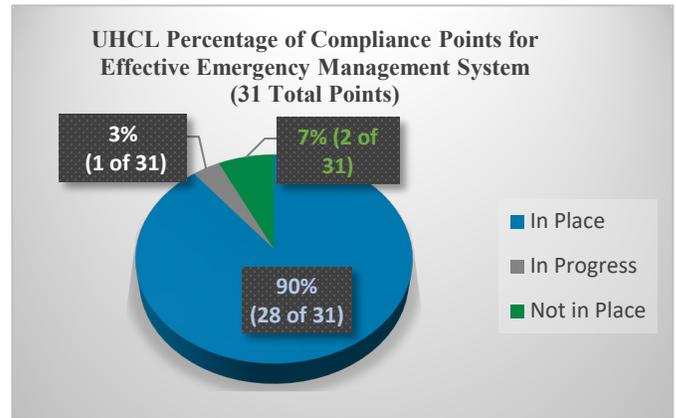
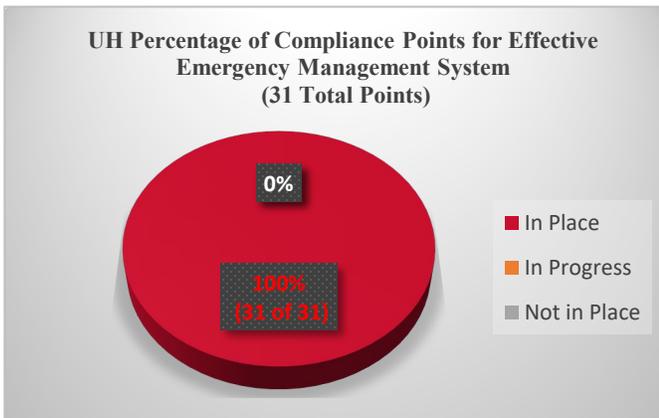
EXECUTIVE SUMMARY

OVERVIEW

The objective of the University of Houston System Emergency Management/Safety and Security audit was to ensure that all the universities within the University of Houston System were compliant with Texas Education Code §51.217 and §51.218, and the Texas State Agency Continuity Planning Policy Guidance. Under the direction of the University of Houston System Internal Auditing Department, the Office of Emergency Management of the University of Houston coordinated the peer reviews of the universities.

OBSERVATIONS AND OVERALL OPINION

During the audit, the Internal Auditing Department evaluated University of Houston System policies to determine if required policies and procedures had been established to ensure compliance with Texas Education Code §51.217 and §51.218, and the Texas State Agency Continuity Planning Policy Guidance. We found the University of Houston System has established policies and procedures to comply with the Texas Education Codes and Continuity Planning Policy Guidance. The graphs below represent the total number of compliance points that were in place, in progress, and not in place for each university, represented as a percentage as the total number of compliance points available.



Additionally, audit recommendations were provided to improve coordination across the University of Houston System universities and to provide dedicated staffing to the emergency management and fire safety functions.

UNIVERSITY OF HOUSTON SYSTEM EMERGENCY MANAGEMENT / SAFETY AND SECURITY AUDIT 2021

INTRODUCTION AND BACKGROUND

University of Houston System Emergency Management departments at each university supports each university campus through mitigation, preparedness, response and recovery from emergencies and disasters.

Texas Education Code §51.217 (Multihazard Emergency Operations Plans; Safety and Security Audit) requires institutions of higher education to adopt and implement a multihazard emergency operations plan for use at the institution. The plan must address mitigation, preparedness, response, and recovery that is regularly reviewed (every 12 months) and updated. The plan must also provide for employee training in responding to an emergency; mandatory drills to prepare students, faculty, and employees for responding to an emergency; measures to ensure coordination with the Department of State Health Services, local emergency management agencies, law enforcement, health departments, and fire departments in the event of an emergency. In addition, the code requires a Safety and Security audit every 3 years with the findings reported to the Institution's Board of Regents and the Texas Division of Emergency Management (TDEM).

Texas Education Code §51.218 (Emergency Alert System) requires an institution of higher education to establish an emergency alert system for the institution's students and staff, including faculty.

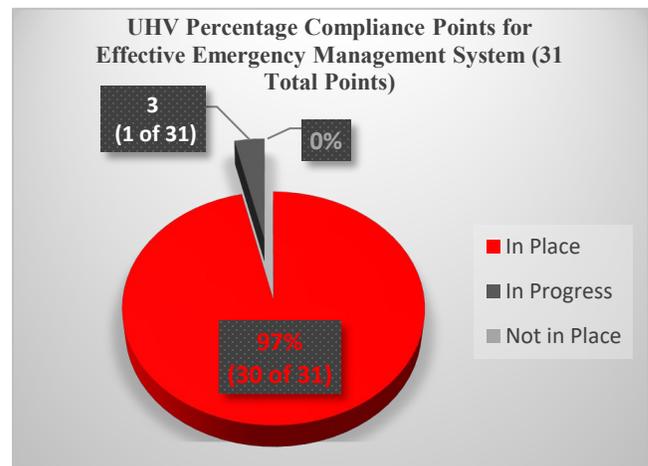
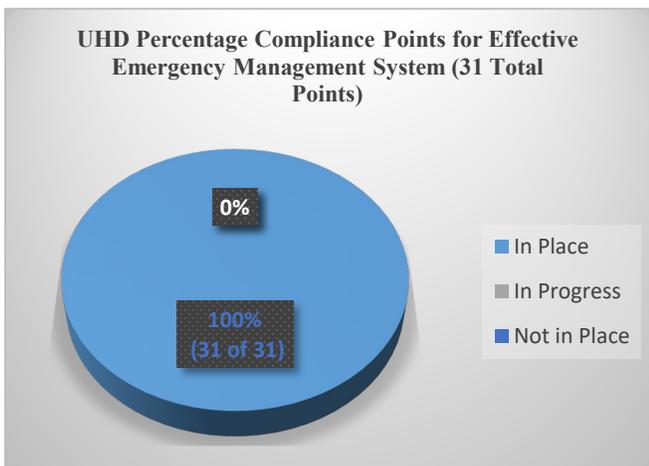
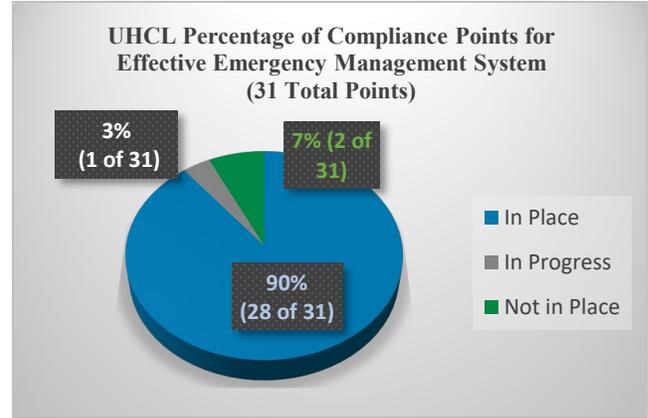
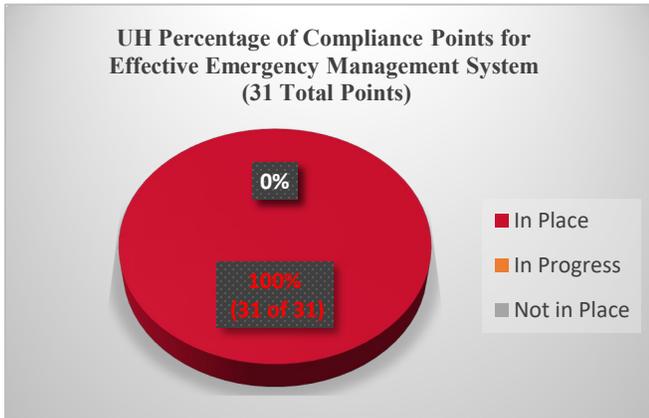
The Texas State Agency Continuity Planning Policy Guidance details the statutory, comprehensive Continuity Planning program for Texas State Agencies as implemented by the State Office of Risk Management.

OBJECTIVE AND SCOPE

The objective of the required Emergency Management/Safety and Security audit was to determine if each university was compliant with Texas Education Code §51.217 (Multihazard Emergency Operations Plan; Safety and Security) and Texas Education Code §51.218 (Emergency Alert System), and the Texas State Agency Continuity Planning Policy Guidance. The audit must be conducted every three years, and the results reported to the institution's governing board and to the Division of Emergency Management of the Office of Governor.

OBSERVATION

The Internal Auditing Department evaluated University of Houston System policies to determine if required policies and procedures had been established to ensure compliance with Texas Education Code §51.217 and §51.218, and the Texas State Agency Continuity Planning Policy Guidance. We found the University of Houston System has established policies and procedures to comply with Texas Education Codes and Continuity Planning Policy Guidance. The graphs below represent the total number of compliance points that were in place, in progress, and not in place for each university, represented as a percentage of the total number of compliance points reviewed.



The audit followed the best practices of other Texas universities where the audits are conducted through peer reviews. The University of Houston Office of Emergency Management coordinated peer review teams to conduct audits of each of the universities of the University of Houston System. The peer review teams included the University of Houston Internal Auditing Department and emergency management subject matter experts from the UHS universities (Appendix A). Each campus was rated individually and received a copy of the audit findings in order to develop an action plan and provide responses to recommendations of the peer review team (Appendices B, C, D, E & F). Lastly, audit recommendations were provided regarding the development of UHS policies and functions for emergency management and fire safety in order to promote standardization, collaboration, and to prevent duplication of effort. Additional recommendations included separating the duties of emergency management and fire safety by obtaining dedicated staff for both functions for UHCL, UHD, and UHV. (Appendix G).

The peer-review teams reviewed the campuses' compliance within four major categories including (listed below). Within each of these categories, various points of compliance were reviewed.

- Multihazard Emergency Operations Plan
- Safety and Security Audit
- Emergency Alert System
- Continuity of Operations Planning

Audit Peer Review Teams by University

The University of Houston System Emergency Management/Safety and Security Audit peer review teams reviewed the campuses' compliance with four major categories including the multihazard emergency operations plan, safety and security audit, emergency alert system, and continuity of operations planning. The peer-review teams were as follows:

University of Houston Peer Review Team

- Cynthia Vargas, UHD Emergency Management and Fire Safety
- Stuart Sherman, UHV Assistant Fire Marshal/Emergency Management
- Emily Tran, UHS Internal Audit

University of Houston Clear Lake Peer Review Team

- Ginger Walker, UH Emergency Management
- Cynthia Vargas, UHD Emergency Management and Fire Safety
- Emily Tran, UHS Internal Audit

University of Houston Downtown Peer Review Team

- Ginger Walker, UH Emergency Management
- Stuart Sherman, UHV Assistant Fire Marshal/Emergency Management
- Emily Tran, UHS Internal Audit

University of Houston Victoria Peer Review Team

- Ginger Walker, UH Emergency Management
- Albert Black, UHCL Environmental Health & Safety and Emergency Management
- Emily Tran, UHS Internal Audit

COMPLIANCE EXHIBITS

On the following pages are Compliance Exhibits representing the requirements of Texas Education Code §51.217 and §51.218, and the Texas State Agency Continuity Planning Policy Guidance and the policies and procedures implemented by the University of Houston System in response to the code.

COMPLIANCE EXHIBIT A

University of Houston – Audit Findings and Recommendations

| University of Houston | | | | |
|---|--|----------|-------------|--------------|
| Emergency Management/Safety and Security Audit Findings | | | | |
| Audit Date: 7/13/2021 | | | | |
| Multihazard Emergency Operations Plan | | In Place | In Progress | Not in Place |
| 1 | Multihazard emergency operations plan | X | | |
| 2 | Plan address mitigation, preparedness, response and recovery | X | | |
| 3 | Employee training in plan | X | | |
| 4 | Mandatory drills in plan | X | | |
| 5 | Coordination with external agencies in plan | X | | |
| Safety and Security Audit | | In Place | In Progress | Not in Place |
| 1 | Conduct audit every 3 years | X | | |
| 2 | Report results to Board of Regents | X | | |
| 3 | Report results to TDEM | X | | |
| 4 | Other agencies involved in developing a plan | X | | |
| 5 | Plan reviewed in last 12 months | X | | |
| 6 | Employee training conducted | X | | |
| 7 | Drills and Exercises conducted | X | | |
| 8 | Verification of last audit date, audit team, and results | X | | |
| 9 | Verification that campus has addressed any recommendations by the Board of Regents | X | | |
| Emergency Alert System | | In Place | In Progress | Not in Place |
| 1 | Campus Emergency Alert System | X | | |
| 2 | Alert system uses e-mail or telephone notifications | X | | |
| 3 | Campus obtains personal e-mail addresses or telephone numbers from students, faculty, and staff | X | | |
| 4 | Students/Faculty/Staff are registered in the alert system | X | | |
| 5 | Alert system opt-out procedures are in place and submissions to opt-out are renewed at the start of each academic year | X | | |
| 6 | Students/Faculty/Staff opt-out, does the institution provide the ability to renew elections annually. | X | | |

| | | | | |
|--|--|-----------------|--------------------|---------------------|
| 7 | Email addresses obtained for the purposes of the Alert System are held confidential (unable to be viewed by other departments, managers, etc.) | X | | |
| 8 | Personal e-mail addresses and telephone numbers are confidential and not subject to disclosure | X | | |
| Continuity Planning | | In Place | In Progress | Not in Place |
| 1 | Designation of campus Continuity Coordinator | X | | |
| 2 | Continuity Coordinator trained in appropriate courses | X | | |
| 3 | Continuity of Operations Plan | X | | |
| 4 | Review plan every even/odd year | X | | |
| 5 | Provide a copy of the plan to SORM every even/odd year | X | | |
| 6 | Conduct an exercise of the Continuity Plan | X | | |
| 7 | Exercise is in compliance with Homeland Security Exercise and Evaluation Program (HSEEP) standards | X | | |
| 8 | After Action Report completed for the exercise | X | | |
| 9 | Agency-level continuity training program | X | | |
| Audit Recommendations for University of Houston | | | | |
| 1 | Development of a UHS SAM with a new section under Emergency Management for the purposes of Emergency Management Planning and Continuity of Operations Planning. | | | |
| 2 | Creation of a System function for emergency management and fire safety under the AVC/AVP, Campus Safety. Additional benefits include standardization, shared planning, collaboration during emergencies, reduction in duplication of efforts, etc. | | | |

COMPLIANCE EXHIBIT B

University of Houston – Clear Lake Audit Findings and Recommendations

| University of Houston - Clear Lake | | | | | |
|---|--|----------|-------------|--------------|--|
| Emergency Management/Safety and Security Audit Findings | | | | | |
| Audit Date: 7/14/2021 | | | | | |
| Multihazard Emergency Operations Plan | | In Place | In Progress | Not in Place | |
| 1 | Multihazard emergency operations plan | X | | | |
| 2 | Plan address mitigation, preparedness, response, and recovery | X | | | |
| 3 | Employee training in plan | | | X | |
| 4 | Mandatory drills in plan | | | X | |
| 5 | Coordination with external agencies in plan | | X | | |
| Safety and Security Audit | | In Place | In Progress | Not in Place | |
| 1 | Conduct audit every 3 years | X | | | |
| 2 | Report results to Board of Regents | X | | | |
| 3 | Report results to TDEM | X | | | |
| 4 | Other agencies involved in developing a plan | X | | | |
| 5 | Plan reviewed in last 12 months | X | | | |
| 6 | Employee training conducted | X | | | |
| 7 | Drills and Exercises conducted | X | | | |
| 8 | Verification of last audit date, audit team, and results | X | | | |
| 9 | Verification that campus has addressed any recommendations by the Board of Regents | X | | | |
| Emergency Alert System | | In Place | In Progress | Not in Place | |
| 1 | Campus Emergency Alert System | X | | | |
| 2 | Alert system uses e-mail or telephone notifications | X | | | |
| 3 | Campus obtains personal e-mail addresses or telephone numbers from students, faculty, and staff | X | | | |
| 4 | Students/Faculty/Staff are registered in the alert system | X | | | |
| 5 | Alert system opt-out procedures are in place and submissions to opt-out are renewed at the start of each academic year | X | | | |
| 6 | Students/Faculty/Staff opt-out, does the institution provide the ability to renew elections annually. | X | | | |
| 7 | Email addresses obtained for the purposes of the Alert System are held confidential (unable to be viewed by other departments, managers, etc.) | X | | | |
| 8 | Personal e-mail addresses and telephone numbers are confidential and not subject to disclosure | X | | | |

| Continuity Planning | | In Place | In Progress | Not in Place |
|---|--|-----------------|--------------------|---------------------|
| 1 | Designation of campus Continuity Coordinator | X | | |
| 2 | Continuity Coordinator trained in appropriate courses | X | | |
| 3 | Continuity of Operations Plan | X | | |
| 4 | Review plan every even/odd year | X | | |
| 5 | Provide a copy of the plan to SORM every even/odd year | X | | |
| 6 | Conduct an exercise of the Continuity Plan | X | | |
| 7 | Exercise is in compliance with Homeland Security Exercise and Evaluation Program (HSEEP) standards | X | | |
| 8 | After Action Report completed for the exercise | X | | |
| 9 | Agency-level continuity training program | X | | |
| Audit Recommendations for University of Houston - Clear Lake | | | | |
| 1 | Development of a UHS SAM with a new section under Emergency Management for the purposes of Emergency Management Planning and Continuity of Operations Planning. | | | |
| 2 | Creation of a System function for emergency management and fire safety under the AVC/AVP, Campus Safety. Additional benefits include standardization, shared planning, collaboration during emergencies, reduction in duplication of efforts, etc. | | | |
| 3 | Separate the duties of Fire Marshal from the Emergency Management staff and office. Recommendation to hire one Assistant Fire Marshal reporting to the UH Fire Marshal's Office. Said Assistant Fire Marshal will split time between UHD and UHCL. | | | |
| 4 | Add a section to the Multi-Hazard Emergency Plan regarding training, drills, and exercises. | | | |

COMPLIANCE EXHIBIT C

University of Houston – Downtown Audit Findings and Recommendations

| University of Houston - Downtown | | | | | |
|---|--|----------|-------------|--------------|--|
| Emergency Management/Safety and Security Audit Findings | | | | | |
| Audit Date: 7/14/2021 | | | | | |
| Multihazard Emergency Operations Plan | | In Place | In Progress | Not in Place | |
| 1 | Multihazard emergency operations plan | X | | | |
| 2 | Plan address mitigation, preparedness, response, and recovery | X | | | |
| 3 | Employee training in plan | X | | | |
| 4 | Mandatory drills in plan | X | | | |
| 5 | Coordination with external agencies in plan | X | | | |
| Safety and Security Audit | | In Place | In Progress | Not in Place | |
| 1 | Conduct audit every 3 years | X | | | |
| 2 | Report results to Board of Regents | X | | | |
| 3 | Report results to TDEM | X | | | |
| 4 | Other agencies involved in developing a plan | X | | | |
| 5 | Plan reviewed in last 12 months | X | | | |
| 6 | Employee training conducted | X | | | |
| 7 | Drills and Exercises conducted | X | | | |
| 8 | Verification of last audit date, audit team, and results | X | | | |
| 9 | Verification that campus has addressed any recommendations by the Board of Regents | X | | | |
| Emergency Alert System | | In Place | In Progress | Not in Place | |
| 1 | Campus Emergency Alert System | X | | | |
| 2 | Alert system uses e-mail or telephone notifications | X | | | |
| 3 | Campus obtains personal e-mail addresses or telephone numbers from students, faculty, and staff | X | | | |
| 4 | Students/Faculty/Staff are registered in the alert system | X | | | |
| 5 | Alert system opt-out procedures are in place and submissions to opt-out are renewed at the start of each academic year | X | | | |
| 6 | Students/Faculty/Staff opt-out, does the institution provide the ability to renew elections annually. | X | | | |
| 7 | Email addresses obtained for the purposes of the Alert System are held confidential (unable to be viewed by other departments, managers, etc.) | X | | | |
| 8 | Personal e-mail addresses and telephone numbers are confidential and not subject to disclosure | X | | | |

| Continuity Planning | | In Place | In Progress | Not in Place |
|---|--|-----------------|--------------------|---------------------|
| 1 | Designation of campus Continuity Coordinator | X | | |
| 2 | Continuity Coordinator trained in appropriate courses | X | | |
| 3 | Continuity of Operations Plan | X | | |
| 4 | Review plan every even/odd year | X | | |
| 5 | Provide a copy of the plan to SORM every even/odd year | X | | |
| 6 | Conduct an exercise of the Continuity Plan | X | | |
| 7 | Exercise is in compliance with Homeland Security Exercise and Evaluation Program (HSEEP) standards | X | | |
| 8 | After Action Report completed for the exercise | X | | |
| 9 | Agency-level continuity training program | X | | |
| Audit Recommendations for University of Houston - Downtown | | | | |
| 1 | Development of a UHS SAM with a new section under Emergency Management for the purposes of Emergency Management Planning and Continuity of Operations Planning. | | | |
| 2 | Creation of a System function for emergency management and fire safety under the AVC/AVP, Campus Safety. Additional benefits include standardization, shared planning, collaboration during emergencies, reduction in duplication of efforts, etc. | | | |
| 3 | Separate the duties of Fire Marshal from the Emergency Management staff and office. Recommendation to hire one Assistant Fire Marshal reporting to the UH Fire Marshal's Office. Said Assistant Fire Marshal will split time between UHD and UHCL. | | | |

COMPLIANCE EXHIBIT D

University of Houston – Victoria Audit Findings and Recommendations

| University of Houston - Victoria | | | | |
|---|--|----------|-------------|--------------|
| Emergency Management/Safety and Security Audit Findings | | | | |
| Audit Date: 7/13/2021 | | | | |
| Multihazard Emergency Operations Plan | | In Place | In Progress | Not in Place |
| 1 | Multihazard emergency operations plan | X | | |
| 2 | Plan address mitigation, preparedness, response, and recovery | X | | |
| 3 | Employee training in plan | X | | |
| 4 | Mandatory drills in plan | X | | |
| 5 | Coordination with external agencies in plan | X | | |
| Safety and Security Audit | | In Place | In Progress | Not in Place |
| 1 | Conduct audit every 3 years | X | | |
| 2 | Report results to Board of Regents | X | | |
| 3 | Report results to TDEM | X | | |
| 4 | Other agencies involved in developing a plan | X | | |
| 5 | Plan reviewed in last 12 months | X | | |
| 6 | Employee training conducted | | X | |
| 7 | Drills and Exercises conducted | X | | |
| 8 | Verification of last audit date, audit team, & results | X | | |
| 9 | Verification that campus has addressed any recommendations by the Board of Regents | X | | |
| Emergency Alert System | | In Place | In Progress | Not in Place |
| 1 | Campus Emergency Alert System | X | | |
| 2 | Alert system uses e-mail or telephone notifications | X | | |
| 3 | Campus obtains personal e-mail addresses or telephone numbers from students, faculty, and staff | X | | |
| 4 | Students/Faculty/Staff are registered in the alert system | X | | |
| 5 | Alert system opt-out procedures are in place and submissions to opt-out are renewed at the start of each academic year | X | | |
| 6 | Students/Faculty/Staff opt-out, does the institution provide the ability to renew elections annually. | X | | |
| 7 | Email addresses obtained for the purposes of the Alert System are held confidential (unable to be viewed by other departments, managers, etc.) | X | | |
| 8 | Personal e-mail addresses and telephone numbers are confidential and not subject to disclosure | X | | |

| Continuity Planning | | In Place | In Progress | Not in Place |
|---|--|-----------------|--------------------|---------------------|
| 1 | Designation of campus Continuity Coordinator | X | | |
| 2 | Continuity Coordinator trained in appropriate courses | X | | |
| 3 | Continuity of Operations Plan | X | | |
| 4 | Review plan every even/odd year | X | | |
| 5 | Provide a copy of the plan to SORM every even/odd year | X | | |
| 6 | Conduct an exercise of the Continuity Plan | X | | |
| 7 | Exercise is in compliance with Homeland Security Exercise and Evaluation Program (HSEEP) standards | X | | |
| 8 | After Action Report completed for the exercise | X | | |
| 9 | Agency-level continuity training program | X | | |
| Audit Recommendations for University of Houston - Victoria | | | | |
| 1 | Development of a UHS SAM with a new section under Emergency Management for the purposes of Emergency Management Planning and Continuity of Operations Planning. | | | |
| 2 | Creation of a System function for emergency management and fire safety under the AVC/AVP, Campus Safety. Additional benefits include standardization, shared planning, collaboration during emergencies, reduction in duplication of efforts, etc. | | | |
| 3 | Split the duties of Fire Marshal from the Emergency Management staff and office. Recommendation to hire a Deputy Fire Marshal reporting to the UH Fire Marshal's Office. | | | |

COMPLIANCE EXHIBIT E

University of Houston System – Audit Findings Summary

| University of Houston System Emergency Management/Safety and Security Audit Findings | | | | |
|--|------------------|---|--------|--|
| Report Title | Est. Compl. Date | Responsibility For Action | | Audit Finding |
| | | Name/Title | Entity | |
| UHS Emergency Management/Safety and Security Audit | 6/1/2022 | Nathan Vessey Emergency Preparedness Coordinator | UHCL | Add a section within the Multi-Hazard Emergency Management Plan describing employee training, mandatory drills and exercises as listed in Texas Education Code 51.217.B, 1-2 (1 - employee training in responding to an emergency, and 2 - mandatory drills to prepare students, faculty, and employees for responding to an emergency). |
| UHS Emergency Management/Safety and Security Audit | 6/1/2022 | Nathan Vessey Emergency Preparedness Coordinator | UHCL | Include coordination efforts with external agencies within the Multi-Hazard Emergency Plan as listed in Texas Education Code 51.217.B.3 (measures to ensure coordination with the Department of State Health Services, local emergency management agencies, law enforcement, health departments, and fire departments in the event of an emergency). |
| UHS Emergency Management/Safety and Security Audit | 8/31/2022 | Stuart Sherman Emergency Management Director | UHV | Submit a record of key personnel trained to respond to an emergency on the campus of UHV as stated in Texas Education Code 51.217.F.4 (verify that institution employees have been trained to respond to an emergency and determine the types of training, the number of employees trained, and the person conducting the training). |

COMPLIANCE EXHIBIT F

University of Houston System – Audit Recommendations and Management Responses Summary

| University of Houston System Emergency Management/Safety and Security Audit Recommendation – Management Responses | | | | | |
|---|------------------|--|--------|--|--|
| Report Title | Est. Compl. Date | Responsibility For Action | | Recommendation | Management Response |
| | | Name/Title | Entity | | |
| UHS Emergency Management/Safety and Security Audit | 12/31/2022 | Kelly Boysen AVC/AVP, Campus Safety UHS/UH | UHS/UH | Development of a UHS SAM with a new section under Emergency Management for the purposes of Emergency Management Planning and Continuity of Operations Planning. | Management agrees with the recommendation and will develop a SAM with a new section under Emergency Management for the purposes of Emergency Management Planning and Continuity of Operations Planning. |
| UHS Emergency Management/Safety and Security Audit | 12/31/2022 | Kelly Boysen AVC/AVP, Campus Safety UHS/UH | UHS/UH | Creation of a System function for emergency management and fire safety under the AVC/AVP, Campus Safety. Additional benefits include standardization, shared planning, collaboration during emergencies, reduction in duplication of efforts, etc. | Management agrees with the recommendation and will create a System function for emergency management and fire safety under the AVC/AVP, Campus Safety. |
| UHS Emergency Management/Safety and Security Audit | 9/1/2023 | Wayne Beran VP for Administration and Finance | UHV | Split the duties of Fire Marshal from the Emergency Management staff and office. Recommendation to hire a Deputy Fire Marshal reporting to the UH Fire Marshal's Office. | UHV fully understands the importance of emergency management's role as a full-time employee and emergency management's response to emergency events and compliance with UHS, state, and national requirements. UHV currently employees two full-time and one part-time employee to assist in the duties of emergency management, fire safety, campus safety, investigation, and risk management. Compliance success is met through training, planning, reviewing plans, and updating the current plans as required through UHS internal audits. The emergency management director will peruse the separation of the roles of emergency manager and assistant fire marshal as independent positions. This will be done through a request for funding in the budget for Fiscal Year 2023. It is understood that budget proposals for the new position may be a challenge due to reduced funding from a decrease in enrollment. |

University of Houston System
Emergency Management/Safety and Security
Audit Recommendation – Management Responses

| Report Title | Est. Compl. Date | Responsibility For Action | | Recommendation | Management Response |
|--|------------------|---|------|--|--|
| UHS Emergency Management/Safety and Security Audit | 9/1/2022 | Albert Black Director, EHS and Emergency Management | UHCL | Separate the duties of Fire Marshal from the Emergency Management staff and office. Recommendation to hire one Assistant Fire Marshal reporting to the UH Fire Marshal's Office. Said Assistant Fire Marshal will split time between UHD and UHCL. | The separation of Fire Marshal duties from the Director of Emergency Management would allow the director to focus on the planning, management, and mitigations of emergencies. A large portion of the directors' time is dedicated to answering fire alarms, fire notification, and suppression systems maintenance and inspections as well as maintaining and inspecting fire extinguishers. By adding the maintenance duties under Facilities Management and Construction, and the fire alarm response to a Deputy Fire Marshal in Environmental Health and Safety would allow for more of the director's time to be focused on Emergency Management functions. |
| UHS Emergency Management/Safety and Security Audit | 9/1/2023 | Cynthia Vargas Director, Emergency Management and Fire Safety | UHD | Separate the duties of Fire Marshal from the Emergency Management staff and office. Recommendation to hire one Assistant Fire Marshal reporting to the UH Fire Marshal's Office. Said Assistant Fire Marshal will split time between UHD and UHCL. | Currently, the Director of Emergency Management & Fire Safety supervises one FTE (Full Time Employee), an Emergency Management and Fire Safety Specialist. UHD leadership agrees with the recommendation that Fire Marshal and Emergency Management responsibilities should be separated. Current and projected enrollment growth indicates that UHD should restructure the Office of Emergency Management to allow for a full-time FTE with Fire Marshal responsibilities that could include fire inspections, life safety system compliance, evacuation drills and fire training. UHD feels the Fire Marshal position needs to be solely dedicated to responsibilities at UHD as there is sufficient work for an FTE. Split responsibilities of this position between UHD and UHCL would not be in the best long-term interest of UHD. A proposal will be submitted to the Vice President of Administration & Finance for review and approval. |

* * * * *

The UHS Department of Internal Auditing would like to thank the UHS Emergency Management offices for their cooperation and assistance during this audit process.

Sincerely,

A handwritten signature in black ink, appearing to read "Phillip W. Hurd". The signature is fluid and cursive, with the first name being the most prominent.

Phillip W. Hurd
Chief Audit Executive
University of Houston System

Participating Auditors: Brandee O'Neal and Emily Tran

**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 Program

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 Program. There have been no suggested changes to the policies since they were reviewed by the Audit and Compliance Committee on February 25, 2021.

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

FISCAL NOTE:

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System



02-04-2022

CHIEF AUDIT EXECUTIVE

Phillip W. Hurd

DATE



CHANCELLOR

Renu Khator

DATE

2/17/2022

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 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 Executive; however, the Chancellor has the authority to make recommendations to the Board on the employment, evaluation, dismissal, and remuneration of the Chief Audit 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 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 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 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 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 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 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 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 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 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 ~~02/25/21~~ 02/24/22

Related Statutes, Policies, or Requirements

Texas Government Code § 321.0136 – *Investigation*

Texas Government Code, Chapter 2102 – *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 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 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 System-wide Compliance Officer provides institutional compliance assistance to the Chancellor and the Vice Chancellors in the exercise of their responsibilities.

A. Appointment: The System-wide Compliance Officer shall be appointed by the Chancellor. The 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 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 ~~02/25/21~~ 02/24/22

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 ~~02/25/21~~ 02/24/22

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 2021 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 2021
- UH Charter School, Audit Report and Financial Statements, FY 2021
- UHS Endowment Fund, Independent Auditor's Report and Basic Financial Statements, FY 2021 and 2020
- UH Cancer Prevention Research Institute of Texas Grant Awards, Independent Accountants' Report on Application of Agreed-Upon Procedures, FY 2021

FISCAL NOTE:

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System



CHIEF AUDIT EXECUTIVE

Phillip W. Hurd

02-04-2022

DATE



CHANCELLOR

Renu Khator

2/17/2022

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 | Name of Firm | Presenter | Page |
|--|----------------------------------|--|------|
| UH Athletics Department – Independent Accountants’ Report on the Application of Agreed-Upon Procedures, FY 2021 | James Moore & Co., P.L. | Katie Davis, CPA, LSS Certified Shane Metzler, CPA | 2 |
| UH Charter School, Audit Report and Financial Statements, FY 2021 | Belt Harris Pechacek, LLLP (BHP) | Robert Belt, CPA, CGMA | 24 |
| UHS Endowment Fund, Independent Auditor’s Report and Basic Financial Statements, FY 2021 and 2020 | BKD, LLP | Brian K. Krueger, CPA | 84 |
| UH Cancer Prevention Research Institute of Texas Grant Awards, Independent Accountants’ Report on Application of Agreed-Upon Procedures, FY 2021 | BKD, LLP | Shekita Rawls, CPA | 123 |

**UNIVERSITY OF HOUSTON
INTERCOLLEGIATE ATHLETICS PROGRAM
INDEPENDENT ACCOUNTANTS' REPORT ON THE
APPLICATION OF AGREED-UPON PROCEDURES
FOR THE YEAR ENDED AUGUST 31, 2021**

**UNIVERSITY OF HOUSTON
INTERCOLLEGIATE ATHLETICS PROGRAM
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AUGUST 31, 2021**

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| Exhibit I – Statement of Revenues and Expenses | 18 |
| Exhibit II – Notes to Statement of Revenues and Expenses | 19 |
| Exhibit III – Supplement to Statement of Revenues and Expenses | 20 |

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

Dr. Renu Khator, President,
University of Houston:

We have performed the procedures enumerated below on the accompanying Statement of Revenues and Expenses (the Statement, see Exhibit I) of the University of Houston (the University) Intercollegiate Athletics Program (the Program) in compliance with the National Collegiate Athletic Association's (NCAA) Bylaw 3.2.4.17 for the year ended August 31, 2021. The University's management is responsible for the accompanying Statement and the Statement's compliance with those requirements for the year ended August 31, 2021.

The University has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of evaluating whether the accompanying Statement is in compliance with the NCAA's Bylaw 3.2.4.17 for the year ended August 31, 2021. 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.

Exceptions totaling the lesser of \$100,000 or 10% of the line item total to which an agreed-upon procedure has been applied to, other than exceptions related to internal control procedures of the Program, for which there are no thresholds, have been reported. The procedures and the associated findings are as follows:

Agreed-Upon Procedures Related to the Statement of Revenues and Expenses

| Procedure | Finding |
|---|----------------------|
| All Revenue Categories | |
| <ul style="list-style-type: none"> Compare and agree each operating revenue category reported in the statement during the reporting period to supporting schedules provided by the Program. If a specific reporting category is less than 4.0% of the total revenues, no procedures are required for that specific category. | No exceptions noted. |
| <ul style="list-style-type: none"> Compare and agree a sample of operating revenue receipts obtained from the above operating revenue supporting schedules to adequate supporting documentation. | No exceptions noted. |

Procedure

- Compare each major revenue account over 10% of the total revenues to prior period amounts and budget estimates. Obtain and document an explanation of any variations greater than 10%. Report the analysis as a supplement to the final Agreed-Upon procedures report.

Ticket Sales

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

Student Fees

2. Compare and agree student fees reported by the Program in the statement for the reporting to student enrollments during the same reporting period and recalculate totals.
3. Obtain documentation of Institute's methodology for allocating student fees to intercollegiate athletics programs.
4. If the Program is reporting that an allocation of student fees should be countable as generated revenue, recalculate the totals of their methodology for supporting that they are able to count each sport. Tie the calculation to supporting documents such as seat manifests, ticket sales reports and student fee totals.

Direct State or Other Governmental Support

5. Compare direct state or other governmental support recorded by the Program during the reporting period with state appropriations, institutional authorizations and/or other corroborative supporting documentation and recalculate totals.

Direct Institutional Support

6. Compare the direct institutional support recorded by the Program during the reporting period with the institutional supporting budget transfers documentation and other corroborative supporting documentation and recalculate totals.

Finding

No exceptions noted and amounts and explanations for variations from the prior period are included in the supplement on page 20.

As ticket sales revenues for the year ended August 31, 2021 were below 4% of total revenues, this procedure was not performed.

We were unable to perform the procedure as outlined; however, we noted that the Student Fees Advisory Committee determines the amount of student fees the Program receives. We agreed the amount to support from the Committee and noted no exceptions.

An understanding of the University's methodology was gained, and we noted the allocation was in accordance with the University's methodology.

No exceptions noted.

As there was no direct state or other governmental support for the year ended August 31, 2021, this procedure was not performed.

No exceptions noted.

Procedure

Finding

Transfers Back to Institution

7. Compare the transfers back to the institution with permanent transfers back to the institution from the Program and recalculate totals.

As there were no transfers back to institution for the year ended August 31, 2021, this procedure was not performed.

Indirect Institutional Support

8. Compare the indirect institutional support recorded by the Program during the reporting period with expense payments, cost allocation detail and other corroborative supporting documentation and recalculate totals.

As there was no indirect institutional support for the year ended August 31, 2021, this procedure was not performed.

Guarantees

9. Select a sample of settlement reports for away games during the reporting period and agree each selection to the Program's general ledger and/or the statement and recalculate totals.
10. Select a sample of contractual agreements pertaining to revenues derived from guaranteed contests during the reporting period and compare and agree each selection to the Program's general ledger and/or the statement and recalculate totals.

As guarantees for the year ended August 31, 2021 were below 4% of total revenues, this procedure was not performed.

As guarantees for the year ended August 31, 2021 were below 4% of total revenues, this procedure was not performed.

Contributions

11. Any contributions of moneys, goods or services received directly by an intercollegiate athletics program from any affiliated or outside organization, agency or group of individuals (two or more) not included above (e.g., contributions by corporate sponsors) that constitutes 10 percent or more in aggregate for the reporting year of all contributions received for intercollegiate athletics during the reporting periods shall obtain and review supporting documentation for each contribution and recalculate totals.

No exceptions noted.

In-Kind

12. Compare the in-kind recorded by the Program during the reporting period with a schedule of in-kind donations and recalculate totals.

As there were no in-kind revenues for the year ended August 31, 2021, this procedure was not performed.

Procedure

Finding

Compensation and Benefits Provided by a Third-Party

13. Obtain the summary of revenues from affiliated and outside organizations (the "Summary") as of the end of the reporting period from the Program and select a sample of funds from the Summary and compare and agree each selection to supporting documentation, the Program's general ledger and/or the Summary and recalculate totals.

As there were no compensation and benefits provided by a third-party for the year ended August 31, 2021, this procedure was not performed.

Media Rights

14. Obtain and inspect agreements to understand the institution's total media (broadcast, television, radio) rights received by the Program or through their conference offices as reported in the statement.
15. Compare and agree the media right revenues to a summary statement of all media rights identified, if applicable, and the Program's general ledger and recalculate totals. Ledger totals may be different for total conference distributions if media rights are not broken out separately.

As there were no media rights revenues for the year ended August 31, 2021, this procedure was not performed.

As there were no media rights revenues for the year ended August 31, 2021, this procedure was not performed.

NCAA Distributions

16. Compare the amounts recorded in the revenue and expense reporting to general ledger detail for NCAA distributions and other corroborative supporting documents and recalculate totals.

As NCAA distributions for the year ended August 31, 2021 were below 4% of total revenues, this procedure was not performed.

Conference Distributions and Conference Distributions of Football Bowl Generated Revenue

17. Obtain and inspect agreements related to the Program's conference distributions and participation in revenues from tournaments during the reporting period for relevant terms and conditions.
18. Compare and agree the related revenues to the Program's general ledger, and/or the statement and recalculate totals.

No exceptions noted.

No exceptions noted.

Program Sales, Concessions, Novelty Sales and Parking

19. Compare the amount recorded in the revenue reporting category to a general ledger detail of program sales, concessions, novelty sales and parking as well as any other corroborative supporting documents and recalculate totals.

As program sales, concessions, novelty sales and parking for the year ended August 31, 2021 were below 4% of total revenues, this procedure was not performed

Procedure

Finding

Royalties, Licensing, Advertisements and Sponsorships

20. Obtain and inspect agreements related to the Program's participation in revenues from royalties, licensing, advertisements and sponsorships during the reporting period for relevant terms and conditions.

As royalties, licensing, advertisements and sponsorships for the year ended August 31, 2021 were below 4% of total revenues, this procedure was not performed

21. Compare and agree the related revenues to the Program's general ledger, and/or the statement and recalculate totals.

As royalties, licensing, advertisements and sponsorships for the year ended August 31, 2021 were below 4% of total revenues, this procedure was not performed.

Sports Camp Revenues

22. Inspect sports camp contract(s) between the institution and person(s) conducting institutional sports-camps or clinics during the reporting period to obtain documentation of the Program's methodology for recording revenues from sports- camps.

As sports camp revenues for the year ended August 31, 2021 were below 4% of total revenues, this procedure was not performed.

23. Obtain schedules of camp participants and select a sample of individual camp participant cash receipts from the schedule of sports-camp participants and agree each selection to the Program's general ledger, and/or the statement and recalculate totals.

As sports camp revenues for the year ended August 31, 2021 were below 4% of total revenues, this procedure was not performed.

Athletics Restricted Endowment and Investment Income

24. Obtain and inspect endowment agreements (if any) for relevant terms and conditions.

As athletics restricted endowments and investment income revenues for the year ended August 31, 2021 were below 4% of total revenues, this procedure was not performed.

25. Compare and agree the classification and use of endowment and investment income reported in the statement during the reporting period to the uses of income deferred within the related endowment agreement and recalculate totals.

As athletics restricted endowments and investment income revenues for the year ended August 31, 2021 were below 4% of total revenues, this procedure was not performed.

Other

26. Perform minimum agreed-upon procedures referenced for all revenue categories and recalculate totals.

As other revenues for the year ended August 31, 2021 were below 4% of total revenues, this procedure was not performed.

Procedure

Finding

Football Bowl Revenues

27. Obtain and inspect agreements related to the Program's revenues from post-season football bowl participation during the reporting period to gain an understanding of the relevant term and conditions.

As football bowl revenues for the year ended August 31, 2021 were below 4% of total revenues, this procedure was not performed.

28. Compare and agree the related revenues to the Program's general ledger, and or the statement and recalculate totals.

As football bowl revenues for the year ended August 31, 2021 were below 4% of total revenues, this procedure was not performed.

All Expense Categories

- Compare and agree each expense category reported in the statement during the reporting period to supporting schedules provided by the institution. If a specific reporting category is less than 4.0% of the total expenses, no procedures are required for that specific category.

No exceptions noted.

- Compare and agree a sample of expenses obtained from the above operating expense supporting schedules to adequate supporting documentation.

No exceptions noted.

- Compare each major expense account over 10% of the total expenses to prior period amounts and budget estimates. Obtain and document an explanation of any variations greater than 10%. Report the analysis as a supplement to the final Agreed-Upon procedures report.

No exceptions noted and amounts and explanations for variations from the prior period are included in the supplement on page 20.

Athletic Student Aid

29. Select a sample of students (10% of the total student-athletes for institutions who have used NCAA's Compliance Assistant (CA) software to prepare athletic aid detail, with a maximum sample size of 40, and 20% of total student-athletes for institutions who have not, with a maximum sample size of 60) from the listing of institutional student aid recipients during the reporting period. Data should be captured by the institution through the creation of a squad/eligibility list for each sponsored sport.

A sample of 38 student aid recipients was selected.

30. Obtain individual student account detail for each selection and compare total aid in the institution's student system to the student's detail in CA or the institution report that ties directly to the NCAA Membership Financial Reporting System.

No exceptions noted.

Procedure

Finding

31. **Division I Institutions Only:** Perform a check of each student selected to ensure their information was reported accurately in either the NCAA's CA software or entered directly into the NCAA Membership Financial Reporting System using the following criteria:
- The equivalency value for each student-athlete in all sports, including head-count sports, needs to be converted to a full-time equivalency value. The full-time equivalency value is calculated using the athletic grant amount reported on the Calculation of Revenue Distribution Equivalencies Report (CRDE) from CA as the numerator and the full grant amount which is the total cost for tuition, fees, required course-related books, room and board for an academic year as the denominator. If using the NCAA CA software, this equivalency value should already be calculated for you on the CRDE report labeled "Revenue Distribution Equivalent Award". No exceptions noted.
 - Grants-in-aid is calculated by using the revenue distribution equivalencies by sport and in aggregate. (Athletic grant amount divided by the full grant amount). No exceptions noted.
 - Other expenses related to attendance (also known as cost of attendance) should not be included in grants-in-aid revenue distribution equivalencies. Only tuition, fees, room, board and course related books are countable for grants-in-aid revenue distribution per Bylaw 20.02.07). Note: for compliance purposes equivalencies may include other expenses related to attendance per Bylaw 15.02.2, however these expenses are not allowed to be included for revenue distribution equivalencies. No exceptions noted.
 - Full grant amount should be entered as a full year of tuition, not a semester or quarter. No exceptions noted.
 - Student-athletes are to be counted once, regardless of multiple sport participation, and should not receive a revenue distribution equivalency greater than 1.00. No exceptions noted.
 - Athletic grants are valid for revenue distribution purposes only in sports in which the NCAA conducts championships competition, emerging sports for women and football bowl subdivision football. No exceptions noted.

| Procedure | Finding |
|--|--|
| <ul style="list-style-type: none"> Grants-in-aid are valid for revenue distribution purposes in NCAA sports that do not meet the minimum contests and participants' requirements of Bylaw 20.9.6.3. | No exceptions noted. |
| <ul style="list-style-type: none"> Institutions providing grants to student-athletes listed on the CRDE as "Exhausted Eligibility (fifth-year)" or "Medical" receive credit in the grants-in-aid component. | No exceptions noted. |
| <ul style="list-style-type: none"> The athletics aid equivalency cannot exceed maximum equivalency limits. However, the total revenue distribution equivalency can exceed maximum equivalency limits due to exhausted eligibility and medical equivalencies (reference Bylaw 15.5.3.1). | No exceptions noted. |
| <ul style="list-style-type: none"> If a sport is discontinued and the athletic grant(s) are still being honored by the institution, the grant(s) are included in student-athlete aid for revenue distribution purposes. | As there were no discontinued sports for the year ended August 31, 2021, this procedure was not performed. |
| <ul style="list-style-type: none"> All equivalency calculations should be rounded to two decimal places. | No exceptions noted. |
| <ul style="list-style-type: none"> If a selected student received a Pell Grant, ensure the value of the grant is not included in the calculation of equivalencies or the total dollar amount of student athletic aid expense for the institution. | No exceptions noted. |
| <ul style="list-style-type: none"> If a selected student received a Pell Grant, ensure the student's grant was included in the total number and total dollar value of Pell Grants reported for Revenue Distribution purposes in the NCAA Membership Financial Reporting System. | No exceptions noted. |
| 32. Recalculate totals for each sport and overall. | No exceptions noted. |

Guarantees

| | |
|--|---|
| 33. Obtain and inspect visiting institution's away-game settlement reports received by the institution during the reporting period and agree related expenses to the Program's general ledger and/or the statement and recalculate totals. | As guarantees for the year ended August 31, 2021 were below 4% of total expenses, this procedure was not performed. |
| 34. Obtain and inspect contractual agreements pertaining to expenses recorded by the Program from guaranteed contests during the reporting period. Compare and agree related amounts expensed by the institution during to the Program's general ledger and/or the statement and recalculate totals. | As guarantees for the year ended August 31, 2021 were below 4% of total expenses, this procedure was not performed. |

Procedure

Finding

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

- | | |
|---|---|
| 35. Obtain and inspect a listing of coaches employed by the Program and related entities during the reporting period. Select a sample of coaches' contracts that must include football, and men's and women's basketball from the listing. | A listing of all coaches employed by the Program was obtained. A sample of five coaches for two pay periods each was selected, including the men's and women's basketball head coach and the men's football head coach. |
| 36. Compare and agree the financial terms and conditions of each selection to the related coaching salaries, benefits, and bonuses recorded by the Program and related entities in the statement during the reporting period. | No exceptions noted. |
| 37. 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 the Program and related entities expense recorded by the Program in the statement during the reporting period. | No exceptions noted. |
| 38. Compare and agree the totals recorded to any employment contracts executed for the sample selected and recalculate totals. | No exceptions noted. |

Coaching Other Compensation and Benefits Paid by a Third-Party

- | | |
|--|---|
| 39. Obtain and inspect a listing of coaches employed by third parties during the reporting period. Select a sample of coaches' contracts that must include football, and men's and women's basketball from the listing. | As there were no coaching other compensation and benefits paid by a third-party for the year ended August 31, 2021, this procedure was not performed. |
| 40. Compare and agree the financial terms and conditions of each selection to the related coaching other compensation and benefits paid by a third party and recorded by the Program in the statement during the reporting period. | As there were no coaching other compensation and benefits paid by a third-party for the year ended August 31, 2021, this procedure was not performed. |
| 41. Obtain and inspect reporting period payroll summary registers for each selection. Compare and agree related payroll summary register to the coaching other compensation and benefits paid by a third-party expenses recorded by the institution in the statement during the reporting period and recalculate totals. | As there were no coaching other compensation and benefits paid by a third-party for the year ended August 31, 2021, this procedure was not performed. |

Procedure

Finding

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

42. Select a sample of support staff/administrative personnel employed by the Program and related entities during the reporting period.
43. 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 the Program and related entities expense recorded by the Program in the statement during the reporting period and recalculate totals.

A sample of five support staff/administrative personnel for two pay periods each was selected.

No exceptions noted.

Support Staff/Administrative Other Compensation and Benefits Paid by a Third-Party

44. Select a sample of support staff/administrative personnel employed by the third parties during the reporting period.
45. Obtain and inspect reporting period payroll summary registers for each selection. Compare and agree related payroll summary registers to the related support staff administrative other compensation and benefits expense recorded by the Program in the statement during the reporting period and recalculate totals.

As there were no support staff/administrative other compensation and benefits paid by a third-party for the year ended August 31, 2021, this procedure was not performed.

As there were no support staff/administrative other compensation and benefits paid by a third-party for the year ended August 31, 2021, this procedure was not performed.

Severance Payments

46. Select a sample of employees receiving severance payments by the institution during the reporting period and agree each severance payment to the related termination letter or employment contract and recalculate totals.

As there were no severance payments for the year ended August 31, 2021, this procedure was not performed.

Recruiting

47. Obtain documentation of the Program's recruiting expense policies.
48. Compare and agree to existing institutional- and NCAA-related policies.
49. Obtain general ledger detail and compare to the total expenses reported and recalculate totals.

As recruiting expenses for the year ended August 31, 2021 were below 4% of total expenses, this procedure was not performed.

As recruiting expenses for the year ended August 31, 2021 were below 4% of total expenses, this procedure was not performed.

As recruiting expenses for the year ended August 31, 2021 were below 4% of total expenses, this procedure was not performed.

| Procedure | Finding |
|---|---|
| Team Travel | |
| 50. Obtain documentation of the Program’s team travel policies. | We obtained and documented an understanding of the Program’s team travel policies. |
| 51. Compare and agree to existing institutional- and NCAA-related policies. | No exceptions noted and policies are consistent with institutional and NCAA-related policies. |
| 52. Obtain general ledger detail and compare to the total expenses reported and recalculate totals. | No exceptions noted. |
| Equipment, Uniforms and Supplies | |
| 53. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals. | As equipment, uniforms and supplies for the year ended August 31, 2021 were below 4% of total expenses, this procedure was not performed. |
| Game Expenses | |
| 54. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals. | As game expenses for the year ended August 31, 2021 were below 4% of total expenses, this procedure was not performed. |
| Fund Raising, Marketing and Promotion | |
| 55. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals. | As fund raising, marketing, and promotion for the year ended August 31, 2021 were below 4% of total expenses, this procedure was not performed. |
| Sports Camp Expenses | |
| 56. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals. | As there were no sports camp expenses for the year ended August 31, 2021, this procedure was not performed. |
| Spirit Groups | |
| 57. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals. | As there were no spirit groups’ expenses for the year ended August 31, 2021, this procedure was not performed. |

| Procedure | Finding |
|---|--|
| Athletic Facility Debt Service, Leases and Rental Fees | |
| 58. 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). | No exceptions noted. |
| 59. Compare amounts recorded to amounts listed in the general ledger detail and recalculate totals. | No exceptions noted. |
| Direct Overhead and Administrative Expenses | |
| 60. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals. | No exceptions noted. |
| Indirect Institutional Support | |
| 61. Tested with revenue section- Indirect Institutional Support. | As there was no indirect institutional support for the year ended August 31, 2021, this procedure was not performed. |
| Medical Expenses and Medical Insurance | |
| 62. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals. | No exceptions noted. |
| Memberships and Dues | |
| 63. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals. | As memberships and dues for the year ended August 31, 2021 were below 4% of total expenses, this procedure was not performed. |
| Other Operating Expenses and Transfers to Institution | |
| 64. Obtain general ledger detail and compare to the total expenses report. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals. | As other operating expenses and transfers to institution for the year ended August 31, 2021 were below 4% of total expenses, this procedure was not performed. |
| Student-Athlete Meals (non-travel) | |
| 65. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals. | As student-athlete meals (non-travel) for the year ended August 31, 2021 were below 4% of total expenses, this procedure was not performed. |

Procedure

Finding

Football Bowl Expenses

- | | |
|---|---|
| 66. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals. | As football bowl expenses for the year ended August 31, 2021 were below 4% of total expenses, this procedure was not performed. |
|---|---|

Minimum Agreed-Upon Procedures For Other Reporting Items**Excess Transfers to Institution and Conference Realignment Expenses**

- | | |
|---|---|
| 67. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals. | As there were no excess transfers to institution or conference realignment expenses for the year ended August 31, 2021, this procedure was not performed. |
|---|---|

Total Athletics Related Debt

- | | |
|---|----------------------|
| 68. Obtain repayment schedules for all outstanding intercollegiate athletics debt during the reporting period. Recalculate annual maturities (consisting of principal and interest) provided in the schedules obtained. | No exceptions noted. |
| 69. Agree the total annual maturities and total outstanding athletic related to supporting documentation and the institution's general ledger, if applicable. | No exceptions noted. |

Total Institutional Debt

- | | |
|---|----------------------|
| 70. Agree the total outstanding institutional debt to supporting documentation and the institution's audited financial statements, if available, or the institution's general ledger. | No exceptions noted. |
|---|----------------------|

Value of Athletics Dedicated Endowments

- | | |
|--|----------------------|
| 71. Obtain a schedule of all athletics dedicated endowments maintained by the Program, the institution, and affiliated organizations. Agree the fair market value in the schedule(s) to supporting documentations, the general ledger(s) and audited financial statements, if available. | No exceptions noted. |
|--|----------------------|

Value of Institutional Endowments

- | | |
|--|----------------------|
| 72. Agree the total fair market value of institutional endowments to supporting documentation, the institution's general ledger and/or audited financial statements, if available. | No exceptions noted. |
|--|----------------------|

Procedure

Finding

Total Athletics Related Capital Expenditures

- | | |
|---|----------------------|
| 73. Obtain a schedule of athletics related capital expenditures made by the Program, the institution, and affiliated organizations during the reporting period. | No exceptions noted. |
| 74. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals. | No exceptions noted. |

ADDITIONAL MINIMUM AGREED-UPON PROCEDURES

In order for the NCAA to place reliance on the Division I financial reporting to calculate the Division I NCAA revenue distributions, which is a financial benefit to the institution, the following procedures are required:

1. Grants-in-Aid:

- | | |
|---|---|
| a. Compare and agree the sports sponsored reported in the NCAA Membership Financial Reporting System to the Calculation of Revenue Distribution Equivalencies Report (CRDE) from Compliance Assistant (CA) or other report that supports the equivalency calculations from the institution between May and August. The NCAA Membership Financial Reporting System populates the sports from the NCAA Sports Sponsorship and Demographics Form as they are reported by the institution between May and August. If there is a discrepancy in the sports sponsored between the NCAA Membership Financial Reporting System and the CRDE or other report that supports the equivalency calculations, inquire about the discrepancy and report the justification in the AUP report. | No exceptions noted. |
| b. Compare current year Grants-in-Aid revenue distribution equivalencies to prior year reported equivalencies per the Membership Financial Report submission. Inquire and document an explanation for any variance greater than +/-4%. | We noted a 7.01% increase in reported equivalencies was related to an increase in the full grant amount (tuition, etc.) of roughly 3% for FY21, as well as in increase in the number of student athletes receiving aid due to the pandemic allowing an extra year of eligibility for super seniors. |

Procedure

Finding

2. Sports Sponsorship:

- a. Obtain the institution's Sports Sponsorship and Demographics Forms submitted to the NCAA for the reporting year between May and August. Validate that the countable NCAA sports reported by the institution met the minimum requirements, set forth in Bylaw 20.9.6.3, related to the number of contests and the number of participants. If the institution requested and/or received a waiver related to minimum contests or minimum participants for a sport, that sport would not qualify as a sponsored sport for the purposes of revenue distribution. Also, only sports in which the NCAA conducts championships competition, emerging sports for women and bowl subdivision football are eligible. Once countable sports have been validated, ensure that the institution has properly reported these sports as countable for revenue distribution purposes within the NCAA Membership Financial Reporting System. Note: Any discrepancies MUST be resolved within the NCAA Membership Financial Reporting System prior to the report being submitted to the NCAA. No exceptions noted.
- b. Compare current year number of Sports Sponsored to prior year reported total per the Membership Financial Report submission. Inquire and document an explanation for any variance. No exceptions noted.

*Note for 2020-21 reporting only: Sports an institution expected to sponsor in academic year 2020-21, as reported on the institution's 2020 Sports Sponsorship and Demographics form, would qualify as a sponsored sport for the purposes of revenue distribution. This exception is consistent with the intent of the Division I Council Coordination Committee's decision on March 25, 2020 to grant an extraordinary blanket waiver in light of the impact of the COVID-19 global pandemic.

3. For Pell Grants:

- a. Agree the total number of Division I student-athletes who, during the academic year, received a Pell Grant award (e.g. Pell Grant recipients on Full Athletic Aid, Pell Grant recipients on Partial Athletic Aid and Pell Grant recipients with no Athletic Aid) and the total dollar amount of these Pell Grants reported in the NCAA Membership Financial Reporting System to a report, generated out of the institution's financial aid records, of all student-athlete Pell Grants. Note 1: Only Pell Grants for sports in which the NCAA conducts championships competition, emerging sports for women and bowl subdivision football are countable. Note 2: Student-athletes should only be counted once even if the athlete participates in multiple sports. Note 3: Individual student-aid file testing in step 31 above should tie any selected student athletes who received Pell Grants back to the report of all student athlete Pell Grants to test the completeness and accuracy of the report. No exceptions noted.

Procedure

Finding

- | | |
|---|----------------------|
| b. Compare current year Pell Grants total to prior year reported total per the Membership Financial Report submission. Inquire and document an explanation for any variance greater than +/- 20 grants. | No exceptions noted. |
|---|----------------------|

Agreed-Upon Procedures Related to Affiliated and Outside Organizations**Procedure**

1. The Program shall identify all intercollegiate athletics-related affiliated and outside organizations and obtain those organizations' statements for the reporting period. Once the Program has made these statements available, the independent accountant shall agree the amounts reported in the statement to the organization's general ledger or, alternatively, confirm revenues and expenses directly with a responsible official of the organization. In addition, the Program shall prepare a summary of revenues and expenses for or on behalf of intercollegiate athletics programs affiliated and outside organizations to be included with the agreed-upon procedures report.

Results

The Program identified the University of Houston Foundation (the Foundation) as the only athletics-related affiliated and outside organization making expenditures for, or on behalf of the Program or its employees. The Foundation serves as the official legal conduit for the acceptance, investment, and distribution of private gifts in support of the activities and programs of Program. For the year ended August 31, 2021, the Foundation did not recognize revenues on behalf of the Program and recognized expenses of \$292,447 on behalf of the Program.

Finding

No exceptions noted.

Procedure

2. The independent accountant shall obtain and review the audited financial statements of the organization and any additional reports regarding internal control matters if the organization is audited independent of the agreed-upon procedures required by NCAA legislation. The Program's independent accountant shall also inquire of institutional and outside organization management as to corrective action taken in response to comments concerning internal control structure (if any).

Results

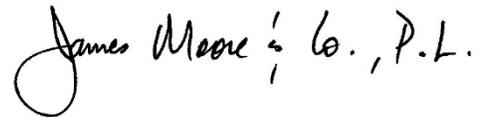
We noted that the audited financial statements of the Foundation for the year ended August 31, 2021 had not yet been released as of the date of the report; however, we obtained and read the audited financial statements of the Foundation for the year ended August 31, 2020. The results of this procedure disclosed that the independent auditors expressed an unmodified opinion on the financial statements of the Foundation.

Finding

No exceptions noted.

We were engaged by the University to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the AICPA. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the compliance of the accompanying Statement of Revenues and Expenses (Exhibit I) of the University and the accompanying notes to the Statement of Revenues and Expenses (Exhibit II). 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.

We are required to be independent of the University and to meet our ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

A handwritten signature in black ink that reads "James Moore & Co., P.L.". The signature is written in a cursive style with a large initial "J" and a stylized "M".

Gainesville, Florida
January 10, 2022

UNIVERSITY OF HOUSTON
INTERCOLLEGIATE ATHLETICS PROGRAM
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2021
(UNAUDITED - SEE ACCOMPANYING INDEPENDENT ACCOUNTANTS'
REPORT ON THE APPLICATION OF AGREED-UPON PROCEDURES)

| | Football | Men's Basketball | Women's Basketball | Other Sports | Nonprogram Specific | Total |
|--|------------------------|-----------------------|-----------------------|------------------------|------------------------|---------------------|
| Revenues | | | | | | |
| 1 Ticket sales | \$ 677,395 | \$ 518,249 | \$ 10,870 | \$ 42,432 | \$ 460,417 | \$ 1,709,363 |
| 2 Direct state or other governmental support | - | - | - | - | - | - |
| 3 Student fees | - | - | - | - | 8,461,285 | 8,461,285 |
| 4 Direct institutional support | - | - | - | - | 41,031,960 | 41,031,960 |
| 5 Transfers back to institution | - | - | - | - | - | - |
| 6 Indirect institutional support | - | - | - | - | - | - |
| 6A Indirect institutional support - athletic facilities debt service, lease and rental fees | - | - | - | - | - | - |
| 7 Guarantees | - | - | 20,000 | 2,000 | - | 22,000 |
| 8 Contributions | 539,317 | 500,804 | 8,660 | 591,308 | 2,184,635 | 3,824,724 |
| 9 In-kind | - | - | - | - | - | - |
| 10 Compensation and benefits provided by a third-party | - | - | - | - | - | - |
| 11 Media rights | - | - | - | - | - | - |
| 12 NCAA distributions | - | - | - | - | 1,260,622 | 1,260,622 |
| 13 Conference distributions (non media and non football bowl) | - | - | - | - | 6,707,058 | 6,707,058 |
| 13A Conference distributions of football bowl generated revenue | - | - | - | - | - | - |
| 14 Program, novelty, parking and concession sales | 15,882 | 2,570 | - | - | 36,215 | 54,667 |
| 15 Royalties, licensing, advertisement and sponsorships | - | - | - | 15,000 | 1,839,952 | 1,854,952 |
| 16 Sports camp revenues | 59,902 | 62,376 | 6,689 | 179,662 | - | 308,629 |
| 17 Athletics restricted endowment and investment income | 16,788 | 10,886 | - | 37,463 | 195,584 | 260,721 |
| 18 Other operating revenue | 1,787 | 35,000 | - | 116,035 | 824,774 | 977,596 |
| 19 Football bowl revenues | 350,000 | - | - | - | - | 350,000 |
| Total operating revenues | 1,661,071 | 1,129,885 | 46,219 | 983,900 | 63,002,502 | 66,823,577 |
| Expenses | | | | | | |
| 20 Athletic student aid | 3,401,589 | 500,673 | 575,981 | 4,441,729 | 95,601 | 9,015,573 |
| 21 Guarantees | 100,000 | 503,444 | 2,125 | 26,985 | - | 632,554 |
| 22 Coaching salaries, benefits and bonuses paid by the university and related entities | 6,836,858 | 4,341,560 | 717,756 | 3,269,554 | - | 15,165,728 |
| 23 Coaching salaries, benefits and bonuses paid by a third-party | - | - | - | - | - | - |
| 24 Support staff and administrative compensation, benefits and bonuses paid by the university and related entities | 1,751,801 | 1,094,589 | 226,499 | 516,853 | 8,232,408 | 11,822,150 |
| 25 Support staff and administrative compensation paid by a third-party | - | - | - | - | - | - |
| 26 Severance payments | - | - | - | - | - | - |
| 27 Recruiting | 25,056 | 47,900 | 20,977 | 107,319 | - | 201,252 |
| 28 Team travel | 539,310 | 606,497 | 464,503 | 1,164,639 | 35,628 | 2,810,577 |
| 29 Sports equipment, uniforms and supplies | 769,387 | 162,763 | 49,721 | 473,540 | 142,370 | 1,597,781 |
| 30 Game expenses | 417,838 | 199,159 | 55,780 | 363,829 | 170,496 | 1,207,102 |
| 31 Fund raising, marketing and promotion | 13,942 | 29,625 | 1,885 | 17,080 | 333,714 | 396,246 |
| 32 Sports camp expenses | 21,453 | 11,892 | 133 | 48,036 | - | 81,514 |
| 33 Spirit groups | - | - | - | - | - | - |
| 34 Athletic facilities debt service, leases and rental fee | - | - | - | - | 6,255,105 | 6,255,105 |
| 35 Direct overhead and administrative expenses | 527,774 | 276,003 | 129,997 | 468,818 | 9,555,786 | 10,958,378 |
| 36 Indirect institutional support | - | - | - | - | - | - |
| 37 Medical expenses and insurance | 11,200 | 4,710 | 500 | 12,033 | 4,037,483 | 4,065,926 |
| 38 Memberships and dues | 4,784 | - | 928 | 3,985 | 18,187 | 27,884 |
| 39 Student-athlete meals (non-travel) | 1,375,630 | 178,721 | 76,330 | 305,761 | 271,587 | 2,208,029 |
| 40 Other operating expenses | 7,710 | 6,398 | 6,866 | 108,211 | 285,640 | 414,825 |
| 41 Football bowl expenses | 279,638 | - | - | - | - | 279,638 |
| 41A Football bowl expenses - coaching compensation/bonuses | 55,826 | - | - | - | - | 55,826 |
| Total operating expenses | 16,139,796 | 7,963,934 | 2,329,981 | 11,328,372 | 29,434,005 | 67,196,088 |
| 50 Excess transfers to institution | - | - | - | - | - | - |
| Excess (deficiency) of revenues over (under) expenses (see Note 5) | <u>\$ (14,478,725)</u> | <u>\$ (6,834,049)</u> | <u>\$ (2,283,762)</u> | <u>\$ (10,344,472)</u> | <u>\$ 33,568,497</u> | <u>\$ (372,511)</u> |
| 51 Conference realignment expenses | - | - | - | - | - | \$ - |
| 52 Total athletics related debt | - | - | - | - | - | \$ 75,319,320 |
| 53 Total institutional debt | - | - | - | - | - | \$ 1,060,834,091 |
| 54 Value of athletics dedicated endowments | - | - | - | - | - | \$ 10,416,984 |
| 55 Value of institutional endowments | - | - | - | - | - | \$ 803,460,608 |
| 56 Total athletics related capital expenditures | - | - | - | - | - | \$ 54,623 |

See accompanying notes to Statement of Revenues and Expenses.

**UNIVERSITY OF HOUSTON
INTERCOLLEGIATE ATHLETICS PROGRAM
NOTES TO STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2021
(UNAUDITED – SEE ACCOMPANYING INDEPENDENT ACCOUNTANTS’
REPORT ON THE APPLICATION OF AGREED-UPON PROCEDURES)**

(1) Basis of Accounting:

The statement of revenues and expenses of the University of Houston Athletics (the University) Intercollegiate Athletics Program (the Program) has been prepared using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recognized when they are incurred.

(2) Capital Assets:

Capital assets purchased with an original cost of \$5,000 or more are recorded at cost and depreciated utilizing the straight-line method over the estimated useful lives of assets (generally ranging from 5 to 10 years). Costs to maintain or repair these assets are expensed as incurred. Costs incurred for the construction of buildings or other permanent facilities are not capitalized as part of the Program’s accounts, but are recorded by the University as assets of other funds.

(3) Contributions:

The University and the University of Houston Foundation (the Foundation) serves as the official legal conduits for the acceptance, investment, and distribution of private gifts in support of the activities and programs of the Program. There were no contributions recognized from the Foundation for the year ended August 31, 2021. There were no contributions exceeding 10% of total contributions, as reported in the statement of revenues and expenses, for the year ended August 31, 2021.

(4) Long-term Debt:

The following is a schedule of future principal and interest payments for long term debt as of August 31, 2021:

| Fiscal Year Ending August 31, | Long Term Debt | | Total Principal and Interest |
|--|-----------------------|----------------------|---|
| | Principal | Interest | |
| 2022 | \$ 2,324,695 | \$ 1,854,289 | \$ 4,178,984 |
| 2023 | 1,996,140 | 1,790,051 | 3,786,191 |
| 2024 | 4,399,585 | 1,713,669 | 6,113,254 |
| 2025 | 4,497,475 | 1,622,852 | 6,120,327 |
| 2026 | 4,628,920 | 1,538,559 | 6,167,479 |
| 2027-2031 | 24,127,505 | 6,186,117 | 30,313,622 |
| 2032-2036 | 24,145,000 | 3,087,019 | 27,232,019 |
| 2037-2040 | 9,200,000 | 395,698 | 9,595,698 |
| Total | <u>\$ 75,319,320</u> | <u>\$ 18,188,254</u> | <u>\$ 93,507,574</u> |

(5) Surplus/Deficit Allocations:

The Program is allowed to carry forward all available funds at the end of each fiscal year to the next fiscal year. Deficits are funded by the Program to the extent there is sufficient net position available. Sufficient fund balance was carried forward from the prior fiscal year to fund the expenditures that resulted in the deficiency of revenues under expenses of \$372,511 for the year ended August, 31, 2021.

UNIVERSITY OF HOUSTON INTERCOLLEGIATE ATHLETICS PROGRAM
SUPPLEMENT TO STATEMENT OF REVENUES AND EXPENSES
VARIATION ANALYSIS OF THE TOTAL REVENUES AND EXPENSES
TO PRIOR PERIOD AMOUNTS AND BUDGET ESTIMATES
FOR THE YEAR ENDED AUGUST 31, 2021
(UNAUDITED - SEE ACCOMPANYING INDEPENDENT ACCOUNTANTS'
REPORT ON APPLYING AGREED-UPON PROCEDURES)

| Revenues | 2021 | 2020 | \$ Variance | % Variance | Variation Explanation |
|---|--------------|--------------|--------------|------------|---|
| 13 Conference distributions (non media and non football bowl) | \$ 6,707,058 | \$ 4,956,868 | \$ 1,750,190 | 35.31% | The increase in FY2021 is related to three factors: 1) largest impact associated with the increase to Shared Revenue pool effected by the first year of the new American Conference television rights contract with ESPN 2) increased distribution to the NCAA Basketball Units 3) NCAA Final Four Incentive Bonus of \$650,000 per conference policy. |
| Expenses | | | | | |
| 20 Athletic student aid | \$ 9,015,573 | \$ 8,046,609 | \$ 968,964 | 12.04% | Contributing factors 1) average increase to Cost of Attendance was roughly 3% for FY21 2) due to pandemic and changes to NCAA eligibility policy, department saw increased scholarship counts "Super Seniors" 3) due to height of pandemic in Summer 2020, FY20 summer school costs were limited due to both health/safety and budget shortfall concerns. |

Note 1: The budget estimates for the University of Houston Intercollegiate Athletics Program generated by their ERP system are prepared in a format consistent with GAAP rather than in a format consistent with the revenue and expense categories specified by the NCAA. Thus, the variance analysis of total revenues and expenses to the budget estimates for the year ended August 31, 2021, was not be performed. However, management does perform budget to actual comparison and analysis on a variety of budgetary bases throughout the fiscal year.

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, 2021

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INTRODUCTORY SECTION

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, 2021 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, 2022.

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.

- 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 expired August 31, 2021

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

Member(s) with terms expired August 31, 2023

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

Member(s) with terms expired August 31, 2025

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

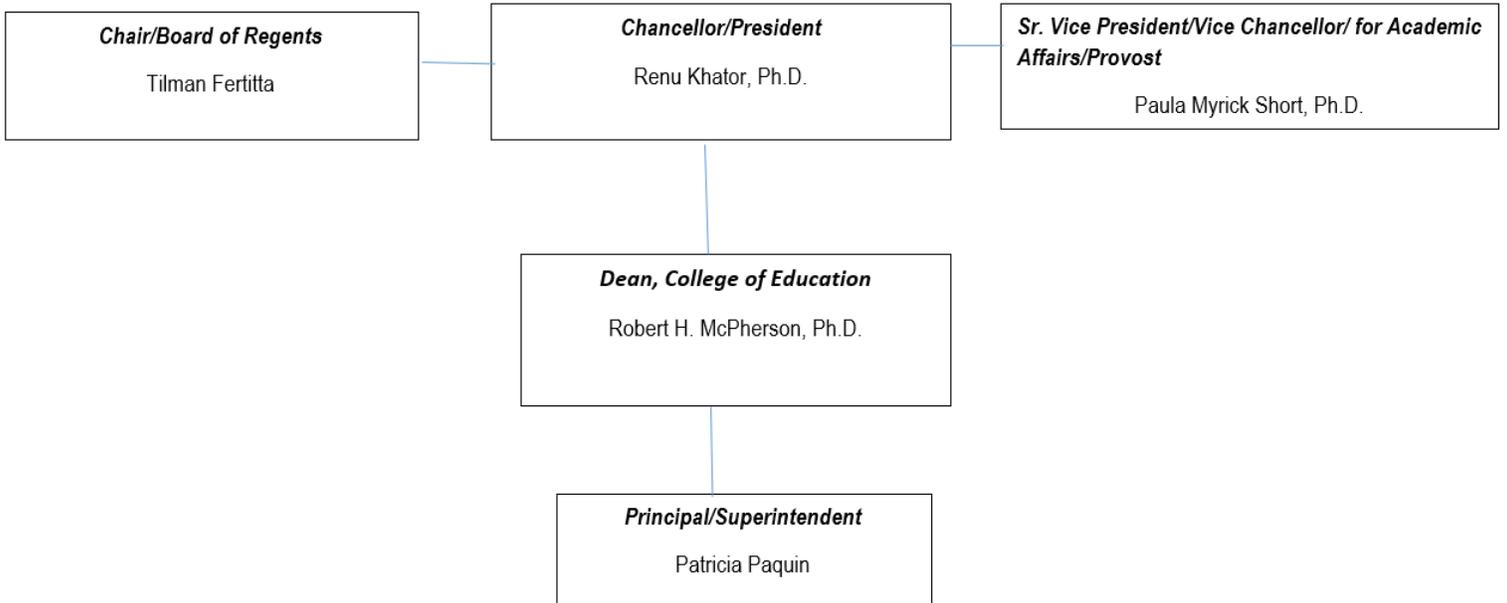
Member(s) with terms expired May 31, 2021

- Alvaro De la Cruz

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 (through July 31, 2021)

2020-2021 University of Houston Charter School Organizational Chart
As of August 31, 2021



FINANCIAL SECTION



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, 2021, 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.

AUDITING TEXAS GOVERNMENT'S WITH EXCELLENCE

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, 2021, 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

School Closure

The School permanently closed operations in August 2021. The closure is due to significant budgetary challenges involving the coronavirus pandemic, including enrollment and online learning. Final liquidation and settle-up based on source of funds and related restrictions will occur during the August 31, 2022 fiscal year. There is no gain or loss recognized or anticipated in connection with the closure as the School had no long-term assets. Our opinion is not modified with respect to this matter.

Reporting on Selected Transactions of School

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, 2021, 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, 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 12, 2022 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 12, 2022

Introduction

The discussion and analysis of the financial position of the University of Houston Charter School (the “School”) provides an overview of the activities for the fiscal years ended August 31, 2021 and 2020. 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 2021. 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 Annual Financial Report.

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>2021</u> | <u>2020</u> | <u>Change</u> |
|-------------------------------------|-------------------|-------------------|--------------------|
| Assets: | | | |
| Cash | \$ 360,350 | \$ 479,795 | \$ (119,445) |
| Due from other governments | 3,149 | 2,539 | 610 |
| Other receivables | 3,034 | 142 | 2,892 |
| Total assets | <u>366,533</u> | <u>482,476</u> | <u>(115,943)</u> |
| Liabilities: | | | |
| Accounts payable | 11,030 | 15,067 | (4,037) |
| Payroll deductions and withholdings | 5,263 | 23,959 | (18,696) |
| Accrued wages payable | 10,306 | 39,326 | (29,020) |
| Due to other governments | 144 | 420 | (276) |
| Total liabilities | <u>26,743</u> | <u>78,772</u> | <u>(52,029)</u> |
| Net Position: | | | |
| Restricted for various programs: | | | |
| Summer and camp construct programs | 15,944 | 21,530 | (5,586) |
| Other nonmajor funds | 17,222 | 20,800 | (3,578) |
| Unrestricted | 306,624 | 361,374 | (54,750) |
| Total net position | <u>\$ 339,790</u> | <u>\$ 403,704</u> | <u>\$ (63,914)</u> |

Cash represents 98% of the current assets held by the Charter School. Current assets decreased by \$115,943 or 24% and current liabilities decreased by \$52,029 or 66%.

Unrestricted net position decreased by \$54,750.

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.

| | <u>2021</u> | <u>2020</u> | <u>Change</u> |
|---|--------------------|-------------------|---------------------|
| Revenues: | | | |
| Charges for services | \$ 17,865 | \$ 77,706 | \$ (59,841) |
| Operating grants and contributions | 71,054 | 61,687 | 9,367 |
| Grants and general | 957,228 | 1,371,523 | (414,295) |
| | <u>1,046,147</u> | <u>1,510,916</u> | <u>(464,769)</u> |
| Expenses | | | |
| Current: | | | |
| Instruction | 714,131 | 977,190 | (263,059) |
| Curriculum and staff development | 39,440 | 100 | 39,340 |
| School leadership | 134,629 | 237,800 | (103,171) |
| Guidance, counseling, and evaluation services | 6,525 | 1,432 | 5,093 |
| Food services | 43,800 | 40,160 | 3,640 |
| General administration | 163,551 | 113,966 | 49,585 |
| Plant maintenance and operations | 7,983 | 16,303 | (8,320) |
| Community services | - | 1,367 | (1,367) |
| Total expenses | <u>1,110,059</u> | <u>1,388,318</u> | <u>(278,259)</u> |
| Excess of revenues over expenses | <u>\$ (63,912)</u> | <u>\$ 122,598</u> | <u>\$ (186,510)</u> |

In fiscal year 2021, charges for services decreased by \$59,841 due to a decrease in revenue for the breakfast and lunch local fund and Camp Construct revenue when compared to fiscal year 2020.

Operating grants and contributions revenue for fiscal year 2021 increased by \$9,367. This increase can be attributed to the change in revenue across several state and federal grant programs. There was an increase in Title II, Part A, Title IV, Part A funds received in fiscal year 2021, while there was a decrease in Foundation School Program and Title I funds as compared to fiscal year 2020.

In 2021, the general revenues of \$957,228 included \$794,716 in state program revenues as compared to 2020 where general revenues were \$1,341,953. This reflects an decrease in revenue of \$384,725 from 2020 to 2021.

The decrease in expenses in instruction and school leadership is primarily related to reduced teaching staff in fiscal year 2021 when compared to staffing in fiscal year 2020.

The increase in curriculum and staff development is related to professional fees in the current fiscal year.

The increase in general administration is related to increased salaries as compared to 2021.

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.

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 \$794,362 and \$1,190,249 for the years ended August 31, 2021 and 2020, respectively.

UH Allocation Fund – 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 \$108,000 for the year ended August 31, 2021, and \$106,153 for the year ended August 31, 2020.

Summer Camp/Camp Construct Programs Fund – 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 \$17,865 and \$96,307 for the years ended August 31, 2021 and 2020, 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 \$700,445 and actual expenditures were less than budgeted by \$640,480.

A budgetary comparison schedule has been provided to demonstrate compliance with this budget.

Capital Assets

As of the end of the fiscal year 2021, 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 (the "State"). 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 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.

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.

BASIC FINANCIAL STATEMENTS

UNIVERSITY OF HOUSTON CHARTER SCHOOL

STATEMENT OF NET POSITION - EXHIBIT A-1

August 31, 2021

| <u>Data Control Codes</u> | | <u>1 Governmental Activities</u> |
|-----------------------------------|-------------------------------------|--|
| | Assets: | |
| 1110 | Cash | \$ 360,350 |
| 1240 | Due from other governments | 3,149 |
| 1290 | Other receivables | 3,034 |
| 1000 | Total assets | <u>366,533</u> |
| | Liabilities: | |
| | Current liabilities: | |
| 2110 | Accounts payable | 11,030 |
| 2150 | Payroll deductions and withholdings | 5,263 |
| 2160 | Accrued wages payable | 10,306 |
| 2180 | Due to other governments | 144 |
| 2000 | Total current liabilities | <u>26,743</u> |
| | Net position: | |
| 3800 | Restricted for various programs: | |
| 3890 | Summer and camp construct programs | 15,944 |
| 3820 | Other nonmajor funds | 17,222 |
| 3900 | Unrestricted | 306,624 |
| 3000 | Total net position | <u>\$ 339,790</u> |

See accompanying notes to financial statements.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

STATEMENT OF ACTIVITIES - EXHIBIT B-1

For the Year Ended August 31, 2021

| 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 | \$ 714,131 | \$ - | \$ 27,939 | \$ (686,192) |
| 13 | Curriculum and staff development | 39,440 | - | - | (39,440) |
| 23 | School leadership | 134,629 | - | - | (134,629) |
| 31 | Guidance, counseling, and evaluation services | 6,525 | - | 6,739 | 214 |
| 35 | Food services | 43,800 | - | 36,376 | (7,424) |
| 41 | General administration | 163,551 | - | - | (163,551) |
| 51 | Plant maintenance and operations | 7,983 | - | - | (7,983) |
| 61 | Community services | - | 17,865 | - | 17,865 |
| TG | Total governmental activities | <u>\$ 1,110,059</u> | <u>\$ 17,865</u> | <u>\$ 71,054</u> | <u>(1,021,140)</u> |
| | General revenues: | | | | |
| GC | Grants and contribution not restricted to specific function | | | | <u>957,228</u> |
| CN | Change in net position | | | | <u>(63,912)</u> |
| NB | Net position, beginning of year | | | | <u>403,704</u> |
| NE | Net position, end of year | | | | <u>\$ 339,792</u> |

See accompanying notes to financial statements.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

BALANCE SHEET – GOVERNMENTAL FUNDS - EXHIBIT C-1

August 31, 2021

| <u>Data Control Codes</u> | 10 | UH | Summer Camp/Camp Construct |
|-----------------------------------|---|------------|----------------------------------|
| | General | Allocation | |
| Assets: | | | |
| 1110 | \$ 219,690 | \$ 111,560 | \$ 15,944 |
| 1240 | 119 | - | - |
| 1262 | 39 | - | - |
| 1290 | - | - | - |
| 1000 | \$ 219,848 | \$ 111,560 | \$ 15,944 |
| Liabilities: | | | |
| 2110 | \$ 9,970 | \$ 39 | - |
| 2150 | 5,263 | - | - |
| 2160 | 9,368 | - | - |
| 2170 | - | - | - |
| 2180 | 144 | - | - |
| 2000 | 24,745 | 39 | - |
| Fund balances: | | | |
| 3490 | - | - | 15,944 |
| 3490 | - | - | - |
| 3590 | - | 111,521 | - |
| 3600 | 195,103 | - | - |
| 3000 | 195,103 | 111,521 | 15,944 |
| 4000 | \$ 219,848 | \$ 111,560 | \$ 15,944 |
| | Net position, per statement of net position | | |

See accompanying notes to basic financial statements.

| 24 | | 98 | |
|----------------------------|---------------------------|---|--|
| Child Nutrition | Nonmajor Funds | Total Governmental Funds | |
| \$ - | \$ 13,156 | \$ 360,350 | |
| - | 3,030 | 3,149 | |
| - | - | 39 | |
| - | 3,034 | 3,034 | |
| <u>\$ -</u> | <u>\$ 19,220</u> | <u>\$ 366,572</u> | |
| \$ - | \$ 1,021 | \$ 11,030 | |
| - | - | 5,263 | |
| - | 938 | 10,306 | |
| - | 39 | 39 | |
| - | - | 144 | |
| <u>-</u> | <u>1,998</u> | <u>26,782</u> | |
| - | - | 15,944 | |
| - | 1,130 | 1,130 | |
| - | 16,092 | 127,613 | |
| - | - | 195,103 | |
| <u>-</u> | <u>17,222</u> | <u>339,790</u> | |
| <u>\$ -</u> | <u>\$ 19,220</u> | <u>\$ 366,572</u> | |
| | | <u>\$ 339,790</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, 2021

| Data Control Codes | | 10 | | |
|--------------------------|---|-------------------|-------------------|----------------------------------|
| | | General | UH Allocation | Summer Camp/Camp Construct |
| | Revenues: | | | |
| 5700 | Local and intermediate sources | \$ - | \$ 108,000 | \$ 17,865 |
| 5800 | State program revenues | 794,362 | - | - |
| 5900 | Federal program revenues | 17,209 | - | - |
| 5000 | Total revenues | <u>811,571</u> | <u>108,000</u> | <u>17,865</u> |
| | Expenditures: | | | |
| | Current: | | | |
| 0011 | Instruction | 632,458 | 3,506 | 9,929 |
| 0013 | Curriculum and staff development | 39,440 | - | - |
| 0023 | School leadership | 134,629 | - | - |
| 0031 | Guidance, counseling, and evaluation services | 680 | - | - |
| 0035 | Food services | - | - | - |
| 0041 | General administration | 90,250 | 59,779 | 13,522 |
| 0051 | Plant maintenance and operations | 7,983 | - | - |
| 6000 | Total expenditures | <u>905,440</u> | <u>63,285</u> | <u>23,451</u> |
| | Excess (deficiency) of revenues over (under) expenditures | (93,869) | 44,715 | (5,586) |
| | Other Financing Sources (Uses) | | | |
| 7900 | Transfers in | | | |
| 8900 | Transfers out | (5,596) | | |
| | Total other financing sources (uses) | <u>(5,596)</u> | <u>-</u> | <u>-</u> |
| | Net change in fund balances | (99,465) | 44,715 | (5,586) |
| | Fund balances, beginning of year | 294,568 | 66,806 | 21,530 |
| 3000 | Fund balances, end of year | <u>\$ 195,103</u> | <u>\$ 111,521</u> | <u>\$ 15,944</u> |
| | Change in net position, per statement of activities | | | |

See accompanying notes to basic financial statements.

| Nonmajor Funds | 98 Total Governmental Funds |
|---------------------------|--|
| \$ 3,769 | \$ 129,634 |
| 354 | 794,716 |
| 104,588 | 121,797 |
| <u>108,711</u> | <u>1,046,147</u> |
| 68,238 | 714,131 |
| - | 39,440 |
| - | 134,629 |
| 5,845 | 6,525 |
| 43,800 | 43,800 |
| - | 163,551 |
| - | 7,983 |
| <u>117,883</u> | <u>1,110,059</u> |
| (9,172) | (63,912) |
| 5,596 | 5,596 |
| - | (5,596) |
| <u>5,596</u> | <u>-</u> |
| (3,576) | (63,912) |
| 20,800 | 403,704 |
| <u>\$ 17,224</u> | <u>\$ 339,792</u> |
| | <u>\$ (63,912)</u> |

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(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 "State") 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.

(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.

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.

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 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, 2021. 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.

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 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. 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 ended August 31, 2021.

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.

Expenditures in Excess of Appropriations

For the year ended August 31, 2021, expenditures exceeded appropriations at the legal level of control as follows:

| | | |
|--|----|--------|
| General Fund: | | |
| Curriculum and instructional staff development | \$ | 38,940 |
| Guidance, counseling, and evaluation services | \$ | 680 |
| General administration | \$ | 10,250 |
| Transfers out | \$ | 5,596 |

(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 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 2021, 2020, and 2019 were \$70,332, \$118,846, and, \$107,040, 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 School participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teachers Retirement System (TRS). TRS's defined benefit pension plan is 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 TRS's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in the State who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by TRS.

Pension Plan Fiduciary Net Position

Detailed information about TRS's fiduciary net position is available in a separately issued Annual Comprehensive Financial Report that includes financial statements and Required Supplementary Information. That report may be obtained on the Internet at https://www.trs.texas.gov/TRS_Documents/popular_annual_financial_report_2020.pdf, selecting *About TRS*, then *Publications*, then *Financial Reports* or by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698.

Additional information regarding the University's proportional share of the obligation may be at https://uh.edu/finance/pages/AFR_HOU.htm.

(5) Postemployment Health Care and Life Insurance Benefits

Employees Retirement System

Plan Description and Fund Policy

The School participates in a cost-sharing, multiple-employer, other postemployment benefits 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 Annual Comprehensive 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>; by writing to ERS at 200 East 18th Street, Austin, TX 78701; or by calling (877) 275-4377. The fiduciary net position of GBP 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.

(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.

(b) 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.

(7) Restatement of Fund Balances and Net Position

The beginning fund balances and net position of the Charter School have been restated for revenues received in prior years that had not been previously recorded.

| | Nonmajor Special Revenue | Summer Camp/Camp Construct | Net Position |
|--|---|---|---------------------|
| Prior year ending fund balances/net position | \$ 18,969 | \$ 10,630 | \$ 390,973 |
| Restatement of reported revenues | 1,831 | 10,900 | 12,731 |
| Restated Beginning Fund Balances and Net Position | \$ 20,800 | \$ 21,530 | \$ 403,704 |

REQUIRED SUPPLEMENTARY INFORMATION

Unaudited

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UNIVERSITY OF HOUSTON CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - SCHEDULE G-1
For the Year Ended August 31, 2021

Unaudited

| Data Control Codes | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) | |
|---|--|-------------------|-------------------|---|--------------------|
| | Original | Final | Actual | | |
| Revenues: | | | | | |
| 5700 | Local and intermediate sources | - | - | - | - |
| 5800 | State program revenues | \$ 1,478,500 | \$ 1,512,016 | \$ 794,362 | \$ (717,654) |
| 5900 | Federal program revenues | - | - | 17,209 | 17,209 |
| 5000 | Total revenues | <u>1,478,500</u> | <u>1,512,016</u> | <u>811,571</u> | <u>(700,445)</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction and instruction related services: | | | | | |
| 0011 | Instruction | 919,000 | 954,211 | 632,458 | 321,753 |
| 0013 | Curriculum and instructional staff development | 500 | 500 | 39,440 | (38,940) * |
| | Total instruction and instruction related services | <u>919,500</u> | <u>954,711</u> | <u>671,898</u> | <u>282,813</u> |
| Instructional and school leadership: | | | | | |
| 0023 | School leadership | 300,000 | 300,000 | 134,629 | 165,371 |
| | Total instructional and school leadership | <u>300,000</u> | <u>300,000</u> | <u>134,629</u> | <u>165,371</u> |
| Support services student: | | | | | |
| 0031 | Guidance, counseling, and evaluation services | - | - | 680 | (680) * |
| | Total support services student | <u>-</u> | <u>-</u> | <u>680</u> | <u>(680)</u> |
| Administrative support services: | | | | | |
| 0041 | General administration | 80,000 | 80,000 | 90,250 | (10,250) * |
| | Total administrative support services | <u>80,000</u> | <u>80,000</u> | <u>90,250</u> | <u>(10,250)</u> |
| Support services nonstudent based: | | | | | |
| 0051 | Plant maintenance and operations | 135,000 | 211,209 | 7,983 | 203,226 |
| | Total support services nonstudent based | <u>135,000</u> | <u>211,209</u> | <u>7,983</u> | <u>203,226</u> |
| 6000 | Total expenditures | <u>1,434,500</u> | <u>1,545,920</u> | <u>905,440</u> | <u>640,480</u> |
| | Excess (deficiency) of revenues over (under) expenditures | <u>44,000</u> | <u>(33,904)</u> | <u>(93,869)</u> | <u>(59,965)</u> |
| Other Financing Sources (Uses): | | | | | |
| 8900 | Transfers out | - | - | (5,596) | (5,596) * |
| | Total other financing (uses) | <u>-</u> | <u>-</u> | <u>(5,596)</u> | <u>(5,596)</u> |
| | Net change in fund balance | <u>44,000</u> | <u>(33,904)</u> | <u>(99,465)</u> | <u>(65,561)</u> |
| | Fund balance, beginning of year | <u>294,568</u> | <u>294,568</u> | <u>294,568</u> | <u>-</u> |
| 3000 | Fund balance, end of year | <u>\$ 338,568</u> | <u>\$ 260,664</u> | <u>\$ 195,103</u> | <u>\$ (65,561)</u> |

Notes to Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. Expenditures exceeded appropriations at the legal level of control.

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***SUPPLEMENTARY
INFORMATION***

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UNIVERSITY OF HOUSTON CHARTER SCHOOL

SCHEDULE OF EXPENSES - EXHIBIT J-2

For the Year Ended August 31, 2021

| <u>Data Control Codes</u> | | <u>Amounts</u> |
|-----------------------------------|---------------------------------------|---------------------|
| | Expenses: | |
| 6100 | Payroll costs | \$ 739,155 |
| 6200 | Professional and contractual services | 219,385 |
| 6300 | Supplies and materials | 111,301 |
| 6400 | Other operating costs | 40,218 |
| | Total expenses | <u>\$ 1,110,059</u> |

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UNIVERSITY OF HOUSTON CHARTER SCHOOL

USE OF FUNDS REPORT

SELECT STATE ALLOTMENT PROGRAM- EXHIBIT J-4

For the Year Ended August 31, 2021

| <u>Data Control Codes</u> | | <u>Responses</u> |
|--|--|------------------|
| <u>Section A: Compensatory Education Programs</u> | | |
| AP1 | Did your District expend any state compensatory education program state allotment funds during the District's fiscal year? | Yes |
| AP2 | Does the District have written policies and procedures for its state compensatory education program? | Yes |
| AP3 | List the total state allotment funds received for state compensatory education programs during the District's fiscal year. | \$ 103,396 |
| AP4 | List the actual direct program expenditures for state compensatory education programs during the District's fiscal year. (PICs 24, 26, 28, 29, 30, 34) | \$ 101,775 |
| <u>Section B: Bilingual Education Programs</u> | | |
| AP5 | Did your District expend any biligual education program state allotment funds during the District's fiscal year? | No |
| AP6 | Does the District have written policies and procedures for biligual education program? | Yes |
| AP7 | List the total state allotment funds received for bilingual education programs during the District's fiscal year. | \$ - |
| AP8 | List the actual direct program expenditures for bilingual education programs during the District's fiscal year. (PICs 25, 35) | \$ - |

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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

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 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, 2021, 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 12, 2022.

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.

AUDITING TEXAS GOVERNMENTS WITH EXCELLENCE

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
January 12, 2022

UNIVERSITY OF HOUSTON CHARTER SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - SCHEDULE K-1

For the Year Ended August 31, 2021

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? | None reported |
| Noncompliance material to financial statements noted? | No |

II. FINDINGS - BASIC FINANCIAL STATEMENTS AUDIT

None identified.

III. FINDINGS - FEDERAL AWARDS

None identified.

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UNIVERSITY OF HOUSTON CHARTER SCHOOL

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

For the Year Ended August 31, 2021

A. Summary of Prior Year Audit Findings

No prior year findings.

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UNIVERSITY OF HOUSTON CHARTER SCHOOL

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

August 31, 2021

| Data Control Codes | | Responses |
|-----------------------------------|--|--------------------|
| 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? | Yes |
| SF9 | Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end. | \$ <u><u>-</u></u> |

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**University of Houston System
Endowment Fund**

Independent Auditor's Report and Basic Financial Statements

August 31, 2021 and 2020



**University of Houston System
Endowment Fund
August 31, 2021 and 2020**

Contents

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| Statements of Revenues, Expenses and Changes in Net Position..... | 12 |
| Statements of Cash Flows | 13 |
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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, 2021 and 2020, 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 opinion.

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, 2021 and 2020, 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, 2021 and 2020, 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, 2022

University of Houston System Endowment Fund

Management's Discussion and Analysis – (Unaudited) August 31, 2021

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, 2021, as compared to fiscal year ended August 31, 2020, with summary comparisons for the year ended August 31, 2019. 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 2021, 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 1,975 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 ninety-two 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:

| | 2021 | 2020 | 2019 |
|---|-------------|-------------|-------------|
| <u>Developed U.S. Equity</u> | | | |
| Northern Trust | 13% | 9% | 7% |
| Columbia Management | 7 | 7 | 5 |
| Vulcan Value Partners | 8 | 7 | 6 |
| Gotham | 0 | 5 | 4 |
| Cougar Investment Fund | <1 | <1 | <1 |
| Subtotal – developed U.S. equity | <u>28</u> | <u>29</u> | <u>22</u> |
| <u>Developed International Equity</u> | | | |
| William Blair | 7 | 7 | 5 |
| Silchester | 7 | 7 | 8 |
| Global Alpha | 3 | 3 | 3 |
| Subtotal – developed international equity | <u>17</u> | <u>17</u> | <u>16</u> |
| <u>Developing Markets</u> | | | |
| Doddington Emerging Markets | 1 | 1 | 1 |
| Somerset | 1 | 1 | 1 |
| Edgbaston Asian Equity | 1 | 1 | 1 |
| Subtotal – developing markets | <u>3</u> | <u>3</u> | <u>3</u> |
| <u>Absolute Return</u> | | | |
| Anchorage Capital Partners | 0 | 1 | 1 |
| HBK | 2 | 2 | 2 |
| Davidson Kempner | 2 | 2 | 3 |
| Whipporwill | <1 | <1 | <1 |
| Standard Life | <1 | <1 | 2 |
| ISAM | 0 | 0 | 2 |
| Subtotal – absolute return | <u>4</u> | <u>6</u> | <u>10</u> |
| <u>Hedged Equity</u> | | | |
| Highline Capital | 0 | <1 | <1 |
| AQR | 0 | 0 | 2 |
| Coatue | 0 | 0 | 3 |
| Lakewood | 1 | <1 | 2 |
| SRS Partners | 1 | 1 | 2 |
| Brahman | 0 | 0 | 2 |
| Subtotal – hedged equity | <u>2</u> | <u>2</u> | <u>11</u> |

| | 2021 | 2020 | 2019 |
|-------------------------------------|-------------|-------------|-------------|
| <u>Marketable Real Assets</u> | | | |
| Vanguard | 1% | 1% | 1% |
| T. Rowe Price | 1 | 1 | 2 |
| Subtotal – marketable real assets | 2 | 2 | 3 |
| <u>Fixed Income</u> | | | |
| Smith Graham | 6 | 12 | 10 |
| Loomis Sayles | 2 | 0 | 0 |
| PIMCO | 2 | 0 | 0 |
| Subtotal – fixed income | 10 | 12 | 10 |
| <u>Private Investments</u> | | | |
| Sustainable Woodlands Fund | 0 | <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 | 0 | <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 |
| Enervest Fund XIV-A | <1 | <1 | 1 |
| Advent International GPE VII | <1 | <1 | 1 |
| Advent International GPE VIII-B | <1 | <1 | 1 |
| Advent International GPE IX | <1 | <1 | 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 Fellows IV | 1 | <1 | 1 |
| TrueBridge – Kauffman Fellows V | <1 | <1 | <1 |
| TrueBridge – Kauffman Fellows VI | <1 | <1 | 0 |
| Dover Street VIII | <1 | <1 | <1 |
| Dover Street X | <1 | <1 | 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 | <1 | 0 |
| Mercury Fund IV | <1 | <1 | <1 |
| Penzance DC Real Estate Fund | <1 | <1 | <1 |
| Penzance DC Real Estate Fund II | <1 | <1 | 0 |
| Silver Lake Partners IV | <1 | <1 | 1 |

| | 2021 | 2020 | 2019 |
|--|--------------------|--------------------|--------------------|
| <u>Private Investments (Continued)</u> | | | |
| Acme Fund III | <1% | <1% | 0% |
| Silver Lake Partners VI | <1 | 0 | 0 |
| 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 | <1 | 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 |
| ASF VIII B | <1 | <1 | <1 |
| Vivo Capital Fund IX | <1 | <1 | <1 |
| US Venture Partners XII | <1 | <1 | 0 |
| Kelso X | <1 | <1 | <1 |
| Thoma Bravo XIII-A | <1 | <1 | <1 |
| Thoma Bravo XIV-A | <1 | <1 | 0 |
| Energy Spectrum VIII | <1 | <1 | <1 |
| Great Point Partners III | <1 | <1 | <1 |
| PeakSpan II | <1 | <1 | <1 |
| Clear Ventures II | <1 | <1 | <1 |
| Hastings IV-B | <1 | <1 | <1 |
| Lexington Capital VIII | <1 | <1 | 1 |
| Lexington Capital IX | <1 | <1 | 0 |
| LiveOak Venture II | <1 | <1 | <1 |
| Weathergage Venture IV | <1 | <1 | <1 |
| Blackstone Europe V | <1 | <1 | 1 |
| Blackstone Real Estate IX | <1 | <1 | 0 |
| Blackstone Real Estate Europe VI | <1 | <1 | 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 | <1 | 0 |
| Trident VII | 1 | <1 | 1 |
| Trident VIII | <1 | <1 | 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>31</u> | <u>28</u> | <u>23</u> |
| Cash and equivalents | <u>3</u> | <u>1</u> | <u>2</u> |
| Total | <u><u>100%</u></u> | <u><u>100%</u></u> | <u><u>100%</u></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, 2021, 2020 and 2019, was 4 percent of the average 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 2019 through 2021, endowment payouts to the beneficiary accounts, excluding distributed income returned to principal, in total and by the System's components were as follows:

| | 2021 | 2020 | 2019 |
|------------------------|----------------------|----------------------|----------------------|
| University of Houston | \$ 21,751,756 | \$ 19,950,305 | \$ 17,383,312 |
| UH – Clear Lake | 986,030 | 953,707 | 903,268 |
| UH – Downtown | 1,257,931 | 1,198,201 | 1,112,549 |
| UH – Victoria | 489,421 | 477,694 | 457,745 |
| System-wide endowments | <u>4,681,360</u> | <u>4,595,576</u> | <u>4,501,946</u> |
| Totals | <u>\$ 29,166,498</u> | <u>\$ 27,175,783</u> | <u>\$ 24,358,820</u> |

Overview of the Financial Statements

The financial statements for the fiscal year ended August 31, 2021, are presented comparatively to financial statements issued for the fiscal year ended August 31, 2020. 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, 2021, the Endowment Fund's assets totaled \$1.094 billion and liabilities totaled \$37 million, resulting in a net position of \$1.057 billion.

The net position of the Endowment Fund as contributed by the System's components as of August 31, 2021, compared to the corresponding values as of August 31, 2020, and August 31, 2019, were as follows:

| | 2021 | 2020 | 2019 |
|------------------------|-------------------------|-----------------------|-----------------------|
| University of Houston | \$ 803,460,608 | \$ 597,351,708 | \$ 543,252,533 |
| UH – Clear Lake | 33,945,631 | 26,214,690 | 24,499,798 |
| UH – Downtown | 46,824,868 | 35,323,895 | 32,093,306 |
| UH – Victoria | 16,592,608 | 12,927,860 | 12,088,263 |
| System-wide endowments | <u>156,218,276</u> | <u>121,982,504</u> | <u>115,240,781</u> |
| Totals | <u>\$ 1,057,041,991</u> | <u>\$ 793,800,657</u> | <u>\$ 727,124,681</u> |

Variance Analysis-Changes in the Statements of Net Position

| | 2021 | 2020 | Change 2021-2020 | 2019 |
|--------------------------------------|-------------------------|-----------------------|-----------------------------|-----------------------|
| Total assets | \$ 1,094,032,080 | \$ 828,430,533 | \$ 265,601,547 | \$ 758,219,559 |
| Total liabilities | 36,990,089 | 34,629,876 | 2,360,213 | 31,094,878 |
| Restricted, nonexpendable endowments | 735,191,126 | 544,197,392 | 190,993,734 | 495,948,109 |
| Restricted, expendable endowments | 67,632,780 | 52,757,644 | 14,875,136 | 47,941,171 |
| Unrestricted endowments | <u>254,218,085</u> | <u>196,845,621</u> | <u>57,372,464</u> | <u>183,235,401</u> |
| Net position | <u>\$ 1,057,041,991</u> | <u>\$ 793,800,657</u> | <u>\$ 263,241,334</u> | <u>\$ 727,124,681</u> |

- Total assets: The \$265.6 million increase in fiscal year 2021 is primarily attributable to an increase in the fair value of investments.
- Total liabilities: The \$2.4 million increase in liabilities is primarily attributable to an increase in amounts payable to other System components at fiscal year-end 2021.
- Restricted, nonexpendable endowments: The \$191.0 million increase in restricted nonexpendable endowments is primarily attributable to an increase in the fair value of investments.

- Restricted, expendable endowments: The \$14.9 million increase in restricted expendable endowments is primarily attributable to an increase in the fair value of investments.
- Unrestricted endowments: The \$57.3 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 2021, the Endowment Fund received \$34.3 million of gifts and other receipts, interest and investment income of \$13.5 million, and a \$259.5 million net increase in the fair value of investments. The Endowment Fund's total deductions for fiscal year 2021 were \$44.1 million, including \$29.2 million earmarked for distribution to the beneficiary endowment accounts under the planned payout policy and \$6.8 million for gift acquisition and fund raising efforts. As a result of these activities, the Endowment Fund realized an increase in net position of \$263.2 million for fiscal year 2021.

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

| | 2021 | 2020 | Change 2021-2020 | 2019 |
|--|-----------------------|----------------------|-----------------------------|----------------------|
| Contributions to endowments | \$ 34,349,600 | \$ 20,429,180 | \$ 13,920,420 | \$ 27,239,780 |
| Net realized and unrealized appreciation | 259,452,351 | 83,460,443 | 175,991,908 | 12,021,371 |
| Other non-operating expenses | (44,054,743) | (44,172,635) | 117,892 | (36,623,036) |
| Interest and investment income | 13,494,126 | 6,958,988 | 6,535,138 | 13,515,193 |
| Increase in net position | <u>\$ 263,241,334</u> | <u>\$ 66,675,976</u> | <u>\$ 196,565,358</u> | <u>\$ 16,153,308</u> |

- Contributions to endowments increased \$13.9 million in 2021 as compared to 2020,
- Changes in investment activities included an \$259.5 million net appreciation in the fair value of investments in fiscal year 2021 compared to \$83.5 million net appreciation in fiscal year 2020. This net change fiscal year-over-year is the result of the stock market increase in certain sectors in fiscal year 2021. Interest and investment income increased by \$6.5 million as compared to fiscal year 2020. Fund deductions decreased by \$117,892 from fiscal year 2020 to fiscal year 2021. 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 decreased by \$1.9 million in fiscal year 2021 compared to fiscal year 2020. 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

All sectors outperformed forecasted amounts in first quarter of 2021, the markets rebounded in an equally historic rally in the second quarter of 2021. U.S. equities outperformed broader developed markets. U.S. equities 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, 2021 and 2020**

| | 2021 | 2020 |
|---|------------------|----------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 33,497,641 | \$ 32,632,514 |
| Interest and dividends receivable | 585,650 | 656,976 |
| Receivables for investments sold | 561,742 | 1,070,758 |
| Total current assets | 34,645,033 | 34,360,248 |
| Noncurrent assets: | | |
| Investments | 1,059,387,047 | 794,070,285 |
| Total assets | 1,094,032,080 | 828,430,533 |
| Liabilities | | |
| Current liabilities: | | |
| Payable for investments purchased | 1,025,638 | 435,437 |
| Due to other components | 35,964,451 | 34,194,439 |
| Total liabilities | 36,990,089 | 34,629,876 |
| Net Position | | |
| Restricted for nonexpendable endowments | 735,191,126 | 544,197,392 |
| Restricted for expendable endowments | 67,632,780 | 52,757,644 |
| Unrestricted | 254,218,085 | 196,845,621 |
| Total net position | \$ 1,057,041,991 | \$ 793,800,657 |

University of Houston System Endowment Fund

Statements of Revenues, Expenses and Changes in Net Position Years Ended August 31, 2021 and 2020

| | 2021 | 2020 |
|--|------------------|----------------|
| Operating Revenues | \$ - | \$ - |
| Operating Expenses | - | - |
| Operating income | 0 | 0 |
| Nonoperating Revenues (Expenses) | | |
| Interest and investment income | 13,494,126 | 6,958,988 |
| Net realized and unrealized appreciation | 259,452,351 | 83,460,443 |
| Other nonoperating expenses | (44,054,743) | (44,172,635) |
| Total nonoperating revenues | 228,891,734 | 46,246,796 |
| Contributions to Endowments | 34,349,600 | 20,429,180 |
| Change in Net Position | 263,241,334 | 66,675,976 |
| Net Position, Beginning of Year | 793,800,657 | 727,124,681 |
| Net Position, End of Year | \$ 1,057,041,991 | \$ 793,800,657 |

**University of Houston System
Endowment Fund
Statements of Cash Flows
Years Ended August 31, 2021 and 2020**

| | 2021 | 2020 |
|--|----------------------|----------------------|
| Cash Flows From Operating Activities | \$ <u>0</u> | \$ <u>0</u> |
| Cash Flows From Noncapital and Related Financing Activities | | |
| Contributions to endowments | 34,349,600 | 20,429,180 |
| Increase in due to other components | <u>1,770,012</u> | <u>3,289,963</u> |
| Net cash provided by noncapital and related financing activities | <u>36,119,612</u> | <u>23,719,143</u> |
| Cash Flows From Capital and Related Financing Activities | <u>0</u> | <u>0</u> |
| Cash Flows From Investing Activities | | |
| Proceeds from sales and maturities of investments | 2,835,416,728 | 1,940,422,744 |
| Payments to purchase investments | (2,876,147,664) | (1,950,471,341) |
| Interest and dividends received on investments | 13,566,742 | 6,957,263 |
| Payments for asset management and stewardship | <u>(8,090,291)</u> | <u>(9,978,197)</u> |
| Net cash used in investing activities | <u>(35,254,485)</u> | <u>(13,069,531)</u> |
| Increase (Decrease) in Cash and Cash Equivalents | 865,127 | 10,649,612 |
| Cash and Cash Equivalents, Beginning of Year | <u>32,632,514</u> | <u>21,982,902</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 33,497,641</u> | <u>\$ 32,632,514</u> |

University of Houston System Endowment Fund

Notes to Basic Financial Statements August 31, 2021 and 2020

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, 2021 and 2020, 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 1,975 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, 2021 and 2020

(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.

University of Houston System Endowment Fund

Notes to Basic Financial Statements

August 31, 2021 and 2020

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.

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 2021 and 2020, 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

University of Houston System Endowment Fund

Notes to Basic Financial Statements August 31, 2021 and 2020

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.

(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 2021 and 2020, the assessment fee was 1.2 percent and 1.3 percent, respectively. 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, 2021 and 2020, was \$6,797,953 and \$7,018,656, 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.

(j) Reclassifications

Certain reclassifications have been made to the 2020 financial statements to conform to the 2021 financial statement presentation. These reclassifications had no effect on the change in net position.

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

University of Houston System Endowment Fund

Notes to Basic Financial Statements August 31, 2021 and 2020

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, 2021 or 2020, and held no direct derivative instruments at August 31, 2021 or 2020.

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 \$33,497,641 and \$32,632,514 at August 31, 2021 and 2020, 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:

| | 2021 | 2020 |
|---------------------------------|---------------|---------------|
| Cash | \$ 815,665 | \$ 4,010,518 |
| Money market funds | 32,681,976 | 28,621,996 |
| Total cash and cash equivalents | \$ 33,497,641 | \$ 32,632,514 |

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

Total cash and investments at August 31, 2021 and 2020, are as follows.

University of Houston System Endowment Fund

Notes to Basic Financial Statements August 31, 2021 and 2020

| Type of Security | Fair Value | |
|---|------------------|----------------|
| | 2021 | 2020 |
| Cash | \$ 815,665 | \$ 4,010,518 |
| Money market funds | 32,681,976 | 28,621,996 |
| U.S. Government obligations | 29,517,262 | 37,159,607 |
| U.S. Government agencies | 6,481,117 | 11,648,336 |
| Fixed income (non-government/agency) | 32,448,810 | 44,936,422 |
| U.S. equity securities | 257,949,088 | 179,809,680 |
| Global equities excluding U.S. | 198,737,787 | 152,069,650 |
| Hedged equity funds | 19,237,644 | 15,885,300 |
| Inflation hedge funds (including REITs) | 31,147,643 | 22,929,382 |
| Absolute return funds | 42,067,944 | 48,781,637 |
| Private equity investments | 441,799,752 | 280,775,271 |
| Real estate | - | 75,000 |
| Total investments | 1,092,884,688 | 826,702,799 |
| Less cash and cash equivalents | (33,497,641) | (32,632,514) |
| Total non-current investments | \$ 1,059,387,047 | \$ 794,070,285 |

(c) Investment Maturities

As of August 31, 2021 and 2020, the Endowment Fund had the following investments and weighted-average maturities:

| Investment Type | 2021 | | 2020 | |
|--|------------------|-----------------------------------|----------------|-----------------------------------|
| | Fair Value | Weighted-average Maturity (Years) | Fair Value | Weighted-average Maturity (Years) |
| U.S. Government obligations ⁽¹⁾ | \$ 29,517,262 | 2.54 | \$ 37,159,607 | 3.54 |
| U.S. Government agencies ⁽¹⁾ | 6,481,117 | 22.20 | 11,648,336 | 22.95 |
| U.S. fixed income (non-government/agency) ⁽¹⁾ | 32,448,810 | 11.41 | 44,936,422 | 7.85 |
| Equity, mutual funds, other investments | 1,024,437,499 | Untenured | 732,958,434 | Untenured |
| Total investments at fair value | \$ 1,092,884,688 | | \$ 826,702,799 | |
| Weighted-average maturity of tenured portfolio | | 8.6 | | 8.0 |

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

University of Houston System Endowment Fund

Notes to Basic Financial Statements August 31, 2021 and 2020

(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 52 percent and 55 percent of the overall investment portfolio (portfolio) at the end of fiscal years 2021 and 2020, respectively. Marketable alternative investments (*i.e.*, inflation hedge funds, commingled funds invested in marketable securities, absolute return and hedged-equity funds) represent 8 percent and 11 percent of the portfolio, and non-marketable alternative investments (*i.e.*, venture capital, private equity, real estate, natural resources, energy) constitute 40 percent and 34 percent of the portfolio on a funded basis at the end of the fiscal years ended 2021 and 2020, 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, 2021 and 2020, 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,

University of Houston System
Endowment Fund
Notes to Basic Financial Statements
August 31, 2021 and 2020

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, 2021 and 2020, the Endowment Fund's total investments at fair value under a master trust custodian agreement with a third-party financial institution was \$562,027,931 and \$402,803,326, respectively. The third-party custodian operates its business world-wide and, at August 31, 2021 and 2020, 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, 2021 and 2020, the Endowment Fund's investments at fair value not covered by the master trust custodian agreement were \$497,359,116 and \$391,266,959, respectively. These investments, excluding real estate valued at \$0 and \$75,000 at August 31, 2021 and 2020, respectively, were under various custodian agreements between the investment managers and the investment funds or limited partnerships in which the Endowment Fund is 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).

University of Houston System Endowment Fund

Notes to Basic Financial Statements August 31, 2021 and 2020

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 have an average portfolio credit quality of "AA" or better, although active managers may choose to hold select investment grade securities with lower ratings. Securities should be readily marketable and liquid. 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.

The credit quality (ratings) of tenured securities and concentration of credit exposure as a percentage of total investments as of August 31, 2021, are as follows:

| Issuer | Coupon Rate | Maturity Date | Fair Value | S&P Risk Rating | Concentration of Credit Exposure |
|---------------------|-------------|---------------|---------------|-----------------|----------------------------------|
| U S Treasury Note | 1.75% | 06/30/2022 | \$ 11,785,774 | NA | 1.08% |
| U S Treasury Note | 0.13% | 10/15/2023 | 448,978 | NA | 0.04% |
| U S Treasury Note | 0.13% | 01/15/2024 | 3,984,520 | NA | 0.36% |
| U S Treasury Note | 0.13% | 01/31/2023 | 6,148,586 | NA | 0.56% |
| U S Treasury Note | 0.38% | 01/31/2026 | 2,011,318 | NA | 0.18% |
| U S Treasury Note | 1.25% | 04/30/2028 | 506,955 | NA | 0.05% |
| U S Treasury Note | 1.63% | 05/15/2031 | 587,721 | NA | 0.05% |
| U S Treasury Note | 0.25% | 06/15/2024 | 1,704,784 | NA | 0.16% |
| U S Treasury Note | 1.25% | 08/15/2031 | 2,338,626 | NA | 0.21% |
| Fhlmc Pool #G0-1837 | 5.00% | 07/01/2035 | 19,064 | NA | 0.00% |
| Fhlmc Pool #G0-8588 | 4.00% | 05/01/2044 | 50,482 | NA | 0.00% |
| Fhlmc Pool #G0-8615 | 3.50% | 11/01/2044 | 20,129 | NA | 0.00% |
| Fhlmc Pool #G0-8667 | 3.50% | 09/01/2045 | 165,006 | NA | 0.02% |
| Fhlmc Pool #G0-8698 | 3.50% | 03/01/2046 | 99,414 | NA | 0.01% |

University of Houston System Endowment Fund

Notes to Basic Financial Statements August 31, 2021 and 2020

| Issuer | Coupon Rate | Maturity Date | Fair Value | S&P Risk Rating | Concentration of Credit Exposure |
|-----------------------|-------------|---------------|------------|-----------------|----------------------------------|
| Fhlmc Pool #G0-8699 | 4.00% | 03/01/2046 | \$ 169,567 | NA | 0.02% |
| Fhlmc Pool #G0-8681 | 3.50% | 12/01/2045 | 363,550 | NA | 0.03% |
| Fhlmc Pool #G0-8687 | 3.50% | 01/01/2046 | 533,760 | NA | 0.05% |
| Fhlmc Pool #G0-8732 | 3.00% | 11/01/2046 | 586,902 | NA | 0.05% |
| Fhlmc Pool #G0-8707 | 4.00% | 05/01/2046 | 240,665 | NA | 0.02% |
| Fhlmc Pool #G0-8747 | 3.00% | 02/01/2047 | 561,006 | NA | 0.05% |
| Fhlmc Pool #G1-8561 | 3.00% | 07/01/2030 | 8,695 | NA | 0.00% |
| Fhlmc Pool #G6-7702 | 4.00% | 01/01/2047 | 827,054 | NA | 0.08% |
| Fhlmc Pool #G6-0024 | 3.50% | 05/01/2043 | 89,862 | NA | 0.01% |
| Fnma Pool #0254903 | 5.00% | 10/01/2033 | 84,012 | NA | 0.01% |
| Fnma Pool #0555330 | 5.50% | 04/01/2033 | 51,575 | NA | 0.00% |
| Fnma Pool #0Ah3384 | 3.50% | 01/01/2041 | 450,801 | NA | 0.04% |
| Fnma Pool #0A10160 | 4.50% | 05/01/2041 | 101,456 | NA | 0.01% |
| Fnma Pool #0A11697 | 4.00% | 10/01/2041 | 11,531 | NA | 0.00% |
| Fnma Pool #0A13519 | 4.50% | 11/01/2041 | 14,261 | NA | 0.00% |
| Fnma Pool #0A13322 | 4.00% | 02/01/2043 | 15,785 | NA | 0.00% |
| Fnma Pool #0A13802 | 3.00% | 02/01/2028 | 100,017 | NA | 0.01% |
| Fnma Pool #0A14911 | 3.00% | 10/01/2027 | 44,287 | NA | 0.00% |
| Fnma Pool #0A17306 | 4.50% | 09/01/2042 | 55,094 | NA | 0.01% |
| Fnma Pool #0A17521 | 5.00% | 06/01/2039 | 359,365 | NA | 0.03% |
| Fnma Pool #0A17767 | 4.50% | 06/01/2044 | 174,825 | NA | 0.02% |
| Fnma Pool #0A19578 | 4.00% | 06/01/2045 | 22,958 | NA | 0.00% |
| Fnma Pool #0A18383 | 4.50% | 10/01/2045 | 28,084 | NA | 0.00% |
| Fnma Pool #0As5696 | 3.50% | 08/01/2045 | 38,490 | NA | 0.00% |
| Fnma Pool #0725231 | 5.00% | 02/01/2034 | 13,811 | NA | 0.00% |
| Fnma Pool #0725690 | 6.00% | 08/01/2034 | 24,758 | NA | 0.00% |
| Fnma Pool #0725704 | 6.00% | 08/01/2034 | 27,899 | NA | 0.00% |
| Fnma Pool #0725773 | 5.50% | 09/01/2034 | 89,636 | NA | 0.01% |
| Fnma Pool #0735925 | 5.00% | 10/01/2035 | 103,741 | NA | 0.01% |
| Fnma Pool #0745428 | 5.50% | 01/01/2036 | 59,111 | NA | 0.01% |
| Fnma Pool #0Bm1909 | 4.00% | 02/01/2045 | 318,417 | NA | 0.03% |
| Fnma Pool #0995112 | 5.50% | 07/01/2036 | 24,090 | NA | 0.00% |
| Fnma Pool #0Ma3088 | 4.00% | 07/01/2047 | 88,557 | NA | 0.01% |
| Fnma Pool #0Ad0198 | 5.50% | 09/01/2038 | 31,383 | NA | 0.00% |
| Fnma Pool #0Ad7128 | 4.50% | 07/01/2040 | 79,446 | NA | 0.01% |
| Fnma Pool #0Ae0698 | 4.50% | 12/01/2040 | 10,564 | NA | 0.00% |
| Fnma Pool #0Ae0949 | 4.00% | 02/01/2041 | 77,486 | NA | 0.01% |
| Gnma Ii Pool #0Ma3663 | 3.50% | 05/20/2046 | 175,762 | NA | 0.02% |
| Gnma Ii Pool #0005056 | 5.00% | 05/20/2041 | 43,539 | NA | 0.00% |

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Notes to Basic Financial Statements August 31, 2021 and 2020

| Issuer | Coupon Rate | Maturity Date | Fair Value | S&P Risk Rating | Concentration of Credit Exposure |
|---|-------------|---------------|------------|-----------------|----------------------------------|
| Gnma Ii Pool #0005116 | 5.00% | 07/20/2041 | \$ 25,220 | NA | 0.00% |
| Abbvie Inc | 2.85% | 05/14/2023 | 93,356 | BBB+ | 0.01% |
| Apple Inc | 0.70% | 02/08/2026 | 552,303 | AA+ | 0.05% |
| Baker Hughes A Ge Co Llc / Bak | 3.34% | 12/15/2027 | 314,446 | A- | 0.03% |
| Bank Of America Corp | 3.42% | 12/20/2028 | 1,103,972 | A- | 0.10% |
| Bank Of America Corp | 1.92% | 10/24/2031 | 607,532 | A- | 0.06% |
| Bank 2021-Bnk31 Bn31 A4 | 2.04% | 02/15/2054 | 646,854 | AAA | 0.06% |
| Bank 2018-Bnk12 Bn12 As | 4.49% | 05/15/2061 | 392,064 | AAA | 0.04% |
| Cvs Health Corp | 4.30% | 03/25/2028 | 237,232 | BBB | 0.02% |
| California St Capital One Prime Auto Re 1 A3 | 4.60% | 04/01/2038 | 440,265 | AA- | 0.04% |
| 2.51% | 11/15/2023 | 454,488 | AAA | 0.04% | |
| Carmax Auto Owner Trust 20 4 B | 2.46% | 08/15/2023 | 201,040 | AAA | 0.02% |
| Citigroup Inc | 3.98% | 03/20/2030 | 477,036 | BBB+ | 0.04% |
| Citigroup Inc | 3.35% | 04/24/2025 | 426,320 | BBB+ | 0.04% |
| Comm 2013-Lc6 Mortgage Lc6 A4 | 2.94% | 01/10/2046 | 313,535 | AAA | 0.03% |
| Costco Wholesale Corp | 1.60% | 04/20/2030 | 625,584 | A+ | 0.06% |
| Cummins Inc | 0.75% | 09/01/2025 | 557,850 | A+ | 0.05% |
| Dell International Llc / Emc C Eastern Energy Gas Holdings Ll | 4.90% | 10/01/2026 | 427,931 | BBB- | 0.04% |
| 2.50% | 11/15/2024 | 612,940 | A | 0.06% | |
| Expedia Group Inc | 2.95% | 03/15/2031 | 1,058,502 | BBB- | 0.10% |
| General Electric Co | 3.63% | 05/01/2030 | 730,905 | BBB+ | 0.07% |
| General Motors Financial Co In | 2.70% | 08/20/2027 | 699,634 | BBB | 0.06% |
| Gm Financial Consumer Aut 4 A3 | 3.21% | 10/16/2023 | 339,891 | AAA | 0.03% |
| Goldman Sachs Group Inc/The | 4.22% | 05/01/2029 | 526,760 | BBB+ | 0.05% |
| Goldman Sachs Group Inc/The | 2.60% | 02/07/2030 | 583,845 | BBB+ | 0.05% |
| Healthpeak Properties Inc | 2.88% | 01/15/2031 | 465,208 | BBB+ | 0.04% |
| Home Depot Inc/The | 0.90% | 03/15/2028 | 165,286 | A | 0.02% |
| Honda Auto Receivables 20 2 A3 | 2.52% | 06/21/2023 | 175,902 | NA | 0.02% |
| Hyundai Auto Receivables T B C | 2.44% | 05/15/2024 | 170,660 | AAA | 0.02% |
| Intel Corp | 1.60% | 08/12/2028 | 447,701 | NA | 0.04% |
| Jpmorgan Chase & Co | 4.01% | 04/23/2029 | 964,682 | A- | 0.09% |
| Jpmorgan Chase & Co | 2.07% | 06/01/2029 | 552,450 | A- | 0.05% |

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| Issuer | Coupon Rate | Maturity Date | Fair Value | S&P Risk Rating | Concentration of Credit Exposure |
|----------------------------------|-------------|---------------|--------------|-----------------|----------------------------------|
| Kohl'S Corp | 3.38% | 05/01/2031 | \$ 1,290,922 | BBB- | 0.12% |
| Marathon Oil Corp | 4.40% | 07/15/2027 | 1,028,691 | BBB- | 0.09% |
| Marriott International Inc/Md | 4.63% | 06/15/2030 | 1,333,350 | BBB- | 0.12% |
| Metlife Inc | 3.00% | 03/01/2025 | 460,883 | A- | 0.04% |
| Morgan Stanley Bank Of C32 A4 | 3.72% | 12/15/2049 | 1,402,657 | NA | 0.13% |
| Morgan Stanley Capital I L5 A4 | 2.73% | 05/15/2054 | 1,323,390 | AAA | 0.12% |
| Morgan Stanley | 3.63% | 01/20/2027 | 316,743 | BBB+ | 0.03% |
| Morgan Stanley Bank Of C29 A4 | 3.33% | 05/15/2049 | 701,103 | NA | 0.06% |
| New York City Ny Transitional | 3.55% | 08/01/2028 | 520,042 | AAA | 0.05% |
| Phillips 66 Partners Lp | 3.75% | 03/01/2028 | 218,540 | BBB | 0.02% |
| Simon Property Group Lp | 2.20% | 02/01/2031 | 698,110 | A- | 0.06% |
| Southern California Edison Co | 3.50% | 10/01/2023 | 110,704 | A- | 0.01% |
| Southern California Edison Co | 4.20% | 03/01/2029 | 130,335 | A- | 0.01% |
| Southwest Airlines Co | 5.13% | 06/15/2027 | 1,034,804 | BBB | 0.09% |
| Sysco Corp | 5.95% | 04/01/2030 | 696,163 | BBB- | 0.06% |
| Towd Point Mortgage 2 A1 144A | 3.25% | 03/25/2058 | 569,601 | NA | 0.05% |
| Toyota Auto Receivables 2 B A3 | 2.96% | 09/15/2022 | 50,187 | AAA | 0.00% |
| United Airlines 2018-1 Class A | 3.50% | 09/01/2031 | 140,955 | NA | 0.01% |
| United Airlines 2016-1 Class A | 3.10% | 01/07/2030 | 315,987 | NA | 0.03% |
| Viatis Inc 144A | 1.65% | 06/22/2025 | 137,182 | BBB- | 0.01% |
| Utah St | 4.55% | 07/01/2024 | 139,339 | AAA | 0.01% |
| Verizon Communications Inc | 1.50% | 09/18/2030 | 221,867 | BBB+ | 0.02% |
| Verizon Communications Inc | 2.55% | 03/21/2031 | 1,260,748 | BBB+ | 0.12% |
| Vmware Inc | 3.90% | 08/21/2027 | 1,042,204 | BBB- | 0.10% |
| Vornado Realty Lp | 2.15% | 06/01/2026 | 747,389 | BBB- | 0.07% |
| Wfrbs Commercial Mortgage C12 As | 3.56% | 03/15/2048 | 623,754 | AAA | 0.06% |
| Wfrbs Commercial Mortgage C13 As | 3.35% | 05/15/2045 | 51,677 | NA | 0.00% |
| Oracle Corp | 1.90% | 09/15/2021 | 515,309 | BBB+ | 0.05% |

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Notes to Basic Financial Statements August 31, 2021 and 2020

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 | 4.49% | 05/15/2061 | 397,038 | AAA | 0.05% |
| Bmw Vehicle Owner Trust 2 A A3 | 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% |
| Capital One Financial Corp | 3.20% | 01/30/2023 | 697,013 | BBB | 0.08% |

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Notes to Basic Financial Statements August 31, 2021 and 2020

| Issuer | Coupon Rate | Maturity Date | Fair Value | S&P Risk Rating | Concentration of Credit Exposure |
|--------------------------------|-------------|---------------|------------|-----------------|----------------------------------|
| 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 | 4.90% | 10/01/2026 | 650,843 | BBB- | 0.08% |
| Dominion Energy Gas Holdings L | 2.50% | 11/15/2024 | 968,721 | BBB+ | 0.12% |
| Exelon Generation Co Llc | 3.40% | 03/15/2022 | 265,473 | BBB+ | 0.03% |
| Ford Credit Auto Lease T A A2A | 2.84% | 09/15/2021 | 73,518 | AAA | 0.01% |
| Gm Financial Automobile Le 2 C | 3.50% | 04/20/2022 | 221,366 | AA+ | 0.03% |
| Gm Financial Consumer Aut 4 A3 | 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% |
| Goldman Sachs Group Inc/The | 2.91% | 07/24/2023 | 693,555 | BBB+ | 0.08% |
| Hewlett Packard Enterprise Co | 2.25% | 04/01/2023 | 828,528 | BBB | 0.10% |
| Honda Auto Receivables 20 1 A2 | 2.75% | 09/20/2021 | 165,344 | AAA | 0.02% |
| Honda Auto Receivables 20 2 A3 | 2.52% | 06/21/2023 | 312,951 | NA | 0.04% |
| Hyundai Auto Receivables B A3 | 1.77% | 01/18/2022 | 94,880 | NR | 0.01% |
| Hyundai Auto Receivables T B C | 2.44% | 05/15/2024 | 172,764 | AAA | 0.02% |
| Jpmorgan Chase & Co | 3.30% | 04/01/2026 | 847,737 | A- | 0.10% |
| Jpmorgan Chase & Co | 3.54% | 05/01/2028 | 1,479,239 | A- | 0.18% |
| Metlife Inc | 3.00% | 03/01/2025 | 737,472 | A- | 0.09% |
| Morgan Stanley Bank Of C32 A4 | 3.72% | 12/15/2049 | 1,410,721 | NA | 0.17% |
| Morgan Stanley | 3.63% | 01/20/2027 | 502,656 | BBB+ | 0.06% |

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Notes to Basic Financial Statements August 31, 2021 and 2020

| 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% |

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| 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% |

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| 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% |

(f) Alternative Investments

Investments reported at fair value of approximately \$497,356,890 and \$391,266,959, as of August 31, 2021 and 2020, 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, 2021, 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 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.

University of Houston System Endowment Fund

Notes to Basic Financial Statements August 31, 2021 and 2020

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.

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. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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.

University of Houston System Endowment Fund

Notes to Basic Financial Statements August 31, 2021 and 2020

Level 1 – Quoted prices in active markets for identical investments.

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, 2021 and 2020, were as follows:

| August 31, 2021 | | | | |
|---|-----------------------|----------------|----------------|-----------------------|
| Investment Category | Level 1 | Level 2 | Level 3 | Total |
| Equities | \$ 80,403,115 | \$ - | \$ - | \$ 80,403,115 |
| Externally managed domestic | 114,443,482 | - | - | 114,443,482 |
| Externally managed international | 15,648,623 | - | - | 15,648,623 |
| Fixed income – money market and bond mutual funds | 33,497,641 | - | - | 33,497,641 |
| Corporate obligations | 32,448,810 | - | - | 32,448,810 |
| U.S. Government agencies | 6,481,117 | - | - | 6,481,117 |
| U.S. Government obligations | <u>29,517,262</u> | <u>-</u> | <u>-</u> | <u>29,517,262</u> |
| Totals | <u>\$ 312,430,050</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 312,430,050</u> |

University of Houston System Endowment Fund

Notes to Basic Financial Statements August 31, 2021 and 2020

| August 31, 2020 | | | | |
|---|-----------------------|------------------|----------------|-----------------------|
| Category | Level 1 | Level 2 | Level 3 | Total |
| 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> |

Investments measured at NAV as of August 31, 2021 and 2020, were as follows:

| August 31, 2021 | | | | |
|----------------------------------|-----------------------|-----------------------------|-----------------------------|---------------------------------|
| Investment Category | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Equity funds | \$ 140,084,727 | \$ - | As needed | 30-60 days |
| Externally managed domestic | 183,616,211 | 62,658,387 | N/A | 30-60 days |
| Externally managed international | 256,094,093 | 61,374,600 | N/A | 30-60 days |
| International equities | 198,737,787 | - | As needed | 5 days |
| Other comingled funds | <u>1,921,820</u> | <u>-</u> | As needed | 3 days |
| Totals | <u>\$ 780,454,638</u> | <u>\$ 124,032,987</u> | | |

| August 31, 2020 | | | | |
|----------------------------------|-----------------------|-----------------------------|-----------------------------|---------------------------------|
| Investment Category | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| 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, 2021 and 2020

(a) *Equity Funds*

This type includes investments in one fund at August 31, 2021 and 2020, that invests primarily in U.S. equities. Managers have the ability to shift investments from small to large cap stocks and from a net long position to a net short position. 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 39 and 35 funds at August 31, 2021 and 2020, respectively, that invest in inflation hedges, oil and gas, real estate properties, renewable natural resources, public and private equities, health care, and venture capital. Managers have the ability to invest in natural resources, venture capital, private equity real estate, multi-strategy funds, and the secondary market. Managers have the ability to shift investments in the portfolio to gain the best advantage in the market. At August 31, 2021 and 2020, respectively, approximately 18 percent and 13 percent of this class is invested in natural resources, 44 percent and 32 percent in venture capital, 10 percent and 6 percent in real estate, 16 percent and 10 percent in private equity, and 12 percent and 39 percent in multi strategies. 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, but early redemption requires complete exit from the fund. Funds in this category have expected maturity dates that range from five to ten years.

(c) *Externally Managed International*

This type includes investments in 40 and 42 funds at August 31, 2021 and 2020, 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, alternative market equities, long and short equities, global secondary, and global venture capital. At August 31, 2021 and 2020, respectively, approximately 7 percent and 4 percent of the portfolio is invested in real estate, 47 percent and 28 percent in private equity, 21 percent and 36 percent in venture capital, 6 percent and 3 percent in the secondary market and 19 percent and 29 percent in public and private domestic and global equities. For those managers who invest in equities and real estate, they have the ability to shift investments from long to short term and international to domestic. 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, but early redemption requires complete exit from the fund. Funds in the category have expected maturity dates that range from five to ten years.

University of Houston System Endowment Fund

Notes to Basic Financial Statements August 31, 2021 and 2020

(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. Managers have the ability to shift investments. 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 funds at August 31, 2021 and 2020, that invest in international equities. The managers have the ability to shift investments to gain a more favorable outcome. The fair value of the investment in this type has been determined using the NAV per share of the investment. 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, 2021 and 2020, 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 second fund is a bond fund which comprises 95 percent of the this category. 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, 2021 and 2020, consists of the following:

| | 2021 | 2020 |
|---|---------------|---------------|
| Payable to System components under the income payout policy | \$ 29,166,498 | \$ 27,175,783 |
| Payable to System components for institutional advancement | 6,797,953 | 7,018,656 |
| Total due to other components | \$ 35,964,451 | \$ 34,194,439 |

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

University of Houston System
Endowment Fund
Notes to Basic Financial Statements
August 31, 2021 and 2020

supplies in the fiscal years ended August 31, 2021 and 2020. The total estimated value of these in-kind contributions received from the System was \$941,990 and \$505,508 for the fiscal years 2021 and 2020, respectively.

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, 2021 and 2020, were \$8,090,291 and \$9,978,197, 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 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, 2021 and 2020. 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, 2021, was \$38,730,868 (unaudited). As of that date, the Endowment Fund's total net position was \$1,095,772,860 (unaudited).

University of Houston

Independent Accountants' Report on Application of Agreed-upon Procedures

August 31, 2021



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 on the University of Houston's (the University) compliance with the requirements set forth in the Cancer Prevention and Research Institute of Texas's (CPRIT) *Grant Policies and Procedures Guide* updated June 2021, for the year ended August 31, 2021. 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 University has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of assessing the University's compliance with CPRIT's *Grant Policies and Procedures Guide* as of and for the year ended August 31, 2021. 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.

The procedures and the associated findings are described in the attachment to this report.

We were engaged by the University to perform this agreed-upon procedures engagement 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 examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on compliance with CPRIT's *Grant Policies and Procedures Guide*. 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.

We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

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 13, 2022

University of Houston
Agreed-upon Procedures
Year Ended August 31, 2021

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. Observe 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 determine 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. Determine, through comparison to the University's policies, 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 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 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, 2021

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 29 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, 2021

2. Inquire of management and/or those charged with grant oversight 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:

Three of the selected grants had matching funds requirements: RR170075, RP180466 and RP180863. 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 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. Observe physical or electronic evidence of approval to determine 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, 2021

- 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, observe physical or electronic evidence of approval to determine 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. Compare the purchase to the approved grant budget and assess whether the purchase was included in a category in the approved grant budget provided to CPRIT.
- i. Obtain supporting documentation that the transaction occurred during the period covered by the grant award.

Finding:

No exceptions noted. In Procedure 3, the sample was 53 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, observe 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.

University of Houston
Agreed-upon Procedures (Continued)
Year Ended August 31, 2021

- 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;
- b. Obtain 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 31 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. Observe 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.

University of Houston
Agreed-upon Procedures (Continued)
Year Ended August 31, 2021

- g. Obtain supporting documentation that the transaction occurred during the period covered by the grant award.

Finding:

No exceptions were noted. In Procedure 1, the sample was 3 items.

Revenue Sharing and Project Income

Procedures:

1. Inquire of management whether any revenue was 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, 2021

- b. **Annual** – Select the current years, Grant Progress Report and Project Data, 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. Obtain 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 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, 2021

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, two grant closures 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 |
| Greater than 52 transactions: | |
| Expenditures | Lesser of 10% or 60 |
| All other | Lesser of 10% or 25 |

University of Houston
Agreed-upon Procedures (Continued)
Year Ended August 31, 2021

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. RP180466: Integrated Single-Cell Biomarker of T-Cell Efficacy
3. RP180863: Chemoprevention of Colon Cancer Progression in FAP Children
4. PP200051: Education/Training Program Designed for Personnel Addressing Tobacco Control in Behavioral Health Settings

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

COMMITTEE: Audit and Compliance

ITEM: Report on University of Houston System, UHS Financial Statements
Certifications, FY 2021

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 2021 (all components) and
Financial Certification Process

FISCAL NOTE:

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System



CHIEF AUDIT EXECUTIVE

Phillip W. Hurd

02-04-2022

DATE



CHANCELLOR

Renu Khator

DATE

2/14/2022

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 135 departments completed the FY21 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 FY21 by UH/UHSA departments are true and correct.
- Usha Mathew (Assistant VP for Finance/Controller), Kevin Draper (Executive Director of Financial Reporting), Gretta McClain Gibbs (Director of Accounting Services), Karin Livingston (Associate VC/VP for Finance), 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 FY21 Annual Financial Report for UH, UHSA, and UH System Consolidated.
- The certification letters are presented at the February 24, 2022 Board of Regents meeting.

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

November 22, 2021

Mr. Jack B. Moore
Chair, Audit and Compliance Committee
UH System Board of Regents, 128 E Cullen Bldg.
4302 University Dr.
Houston, TX 77204-6001

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, 2021.

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, 2021 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.

Usha Mathew

12/13/2021

Ms. Usha Mathew

Assistant Vice President for Finance
and Controller, University of Houston

Date

Kevin L Draper

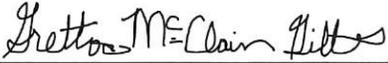
12/14/2021

Mr. Kevin Draper

Executive Director of Financial
Reporting, University of Houston

Date

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



Ms. Gretta McClain Gibbs

Director of Accounting Services,
University of Houston

12/14/2021

Date



Ms. Karin Livingston

Associate Vice Chancellor of Finance,
UH System

Senior Associate Vice President of
Finance, University of Houston

12/16/2021

Date



Mr. Raymond Bartlett

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

1/4/2022

Date



Dr. Renu Khator

Chancellor, UH System
President, University of Houston

01/10/2022

Date

UH-Clear Lake Certification Letter

November 22, 2021

Mr. Jack B. Moore
Chair, Audit and Compliance Committee
UH System Board of Regents, 128 E Cullen Bldg.
4302 University Dr.
Houston, TX 77204-6001

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, 2021.

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, 2021 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.

Krista Buckminster

12/03/2021

Ms. Krista Buckminster

Director General Accounting &
Financial Reporting, UH Clear Lake

Date

Mark Denney

12/06/21

Mr. Mark Denney

Vice President of Administration and
Finance, UH Clear Lake

Date

Richard Walker

12/7/2021

Dr. Richard Walker

Interim President, UH Clear Lake

Date

UH Downtown Certification Letter

November 21, 2021

Mr. Jack B. Moore
Chair, Audit and Compliance Committee
UH System Board of Regents, 128 E Cullen Bldg.
4302 University Dr.
Houston, TX 77204-6001

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, 2021.

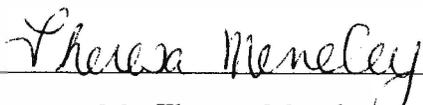
Management Representations Related to Financial Statements

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, 2021 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. Theresa Meneley

Interim Assistant Vice President of
Business Affairs, UH Downtown

11/29/21

Date



Mr. Martin Baylor

Interim Vice President of
Administration and Finance, UH
Downtown

12/6/21

Date



Dr. Loren Blanchard

President, UH Downtown

12/6/2021

Date

UH Victoria Certification Letter

November 21, 2021

Mr. Jack B. Moore
Chair, Audit and Compliance Committee
UH System Board of Regents, 128 E Cullen Bldg.
4302 University Dr.
Houston, TX 77204-6001

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, 2021.

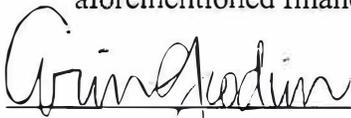
Management Representations Related to Financial Statements

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, 2021 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. Brin Goodwin

Senior Finance Director, UH
Victoria

11/21/2021
Date



Mr. Wayne Beran

Vice President of Administration and
Finance, UH Victoria

11-21-2021
Date



Dr. Robert K. Glenn

President, UH Victoria

11/21/21
Date

**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 FY 2022 Internal Audit Activity as of February 24, 2022 and Internal Audit Reports issued since the December 2, 2021 Audit & Compliance Committee meeting of the Board of Regents of the University of Houston System are provided.

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 Activity and Internal Audit Reports

FISCAL NOTE:

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System



02-04-2022

CHIEF AUDIT EXECUTIVE

Phillip W. Hurd

DATE

CHANCELLOR

Renu Khator

DATE

2/17/2022

Report to the Audit and Compliance Committee
of the University of Houston System
Board of Regents
February 24, 2022

UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT

FY22 INTERNAL AUDIT ACTIVITY
since December 2, 2021

and

INTERNAL AUDIT REPORTS

AR2022-10 Contracts Requiring Board of Regents' Approval
AR2022-11 UH Education Research Center

Note: This internal audit report is submitted to the Board of Regents and the Chancellor for their review in order to comply with the Board of Regents policy and the Texas Government Code, Section 2102.008. This internal audit report is also submitted to the Governor's Office of Budget, Planning, and Policy; the State Auditor; and the Legislative Budget Board in order to comply with the Texas Government Code, Section 2102.0091.

FY22 Internal Audit Activity

Since December 2, 2021 Board of Regents Meeting

Audits Completed

- Contracts Requiring Board of Regents Approval (UHS)
AR2022-01
AR2022-10
- Board of Regents Travel and Entertainment FY21
AR2022-02
- Chancellor/President's Travel and Entertainment FY21 (UHS/UH)
AR2022-03
- UHCL President's Travel and Entertainment FY21
AR2022-04
- UHD President's Travel and Entertainment FY21
AR2022-05
- UHV President's Travel and Entertainment FY21
AR2022-06
- UHV Joint Admission Medical Program FY21
AR2022-07
- UH Export Controls
AR2022-08
- UHS Compliance with Education Code 51.9337
AR2022-09
- Annual Procurement Report
- UH Education Research
AR2022-11
- UHS Emergency Management Safety & Security

Special Projects Completed

- UHS Institutional Compliance Fraud and Non-Compliance Hotline (~40 Reports)

Audits in Progress

- Research Governance and Process Overview (UH, UHD and UHCL)
- Intellectual Property, Oversight and Protection (UH)
- Compliance with Federal Sentencing Guidelines (UH, UHCL, UHD and UHV)
- Travel Expense (UH, UHCL, UHD and UHV)
- Board of Regents Travel and Entertainment FY22
- President's Travel and Entertainment FY22 (UH, UHCL, UHD and UHV)
- Contracts Requiring Board of Regents Approval (UHS)
- Procurement Card Management (UH, UHCL, UHD, and UHV)

Special Projects in Progress

- UHS Institutional Compliance Fraud and Non-Compliance Hotline (Varies per FY)
- UH Business School Contract Issue
- UHD/UH Formula Funding issue – referred by THECB

Audits in Planning

- UHS Payroll



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

CONTRACTS REQUIRING BOARD OF REGENTS APPROVAL
AR2022-10

UNIVERSITY of **HOUSTON** SYSTEM

INTERNAL AUDITING DEPARTMENT



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 Executive

DATE: January 19, 2022

SUBJ: Internal Audit Report – 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 contracts requiring Board of Regents approval covers the time period from October 1, 2021, through December 31, 2021. 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 24, 2022 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
Contracts Requiring Board of Regents Approval
October 1, 2021 through December 31, 2021

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, 2021 through December 31, 2021.

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 consider non-compliant with university policies and procedures or state statutes.



Phillip W. Hurd
Chief Audit Executive
December 31, 2021

Contracts Requiring Board of Regents Approval
Internal Audit Activity
October 1, 2021 to December 31, 2021

BOR Approval Internal Audit Review

BOR Approval

| <u>Project or Contract Description</u> | <u>Solicitation Type</u> | (\$ Millions) <u>Amount</u> | <u>BOR Approval</u> | | <u>Initiated</u> | <u>Completed</u> |
|--|--------------------------|-----------------------------------|--------------------------------|---------------------------------------|------------------|------------------|
| | | | <u>FCMP Comm. (Scope) Date</u> | <u>F&A Comm. (Financing) Date</u> | | |
| <u>Construction Projects \$10 Million and Over</u> | | | | | | |
| UH - John M. O'Quinn Law Building - FE | ITB | 1.5 | 8/22/2019 | 8/22/2019 | | |
| UHV - Health and Wellness Center - CSP | RFP | 16.0 | 8/20/2020 | 8/20/2020 | | |
| UH - Science, Engineering, & Research HVAC Upgrades and Roof Replacement - CSP | RFP | 13.5 | 8/20/2020 | 8/20/2020 | ✓ | ✓ |
| <u>Construction Projects Over \$1 Million and Under \$10 Million</u> | | | | | | |
| UHS - Road/Parking Maintenance (up to 3 awards at 2.5M/each) | RFP | 2.5 | N/A | 2/28/2019 | | |
| UH - Lighting & Security Upgrades | RFP | 3.8 | N/A | 8/20/2020 | | |
| UHS - Architectural Services Continuing Services Agreement (up to 10 awards) | RFP | 15.0 | N/A | 12/3/2020 | | |
| UH - Hyflex Classroom Design Upgrade | RFP | 2.6 | N/A | 8/26/2021 | ✓ | ✓ |
| UHCL - Hunter Hall Generator Installation | RFP | 1.4 | N/A | 12/2/2021 | ✓ | ✓ |
| <u>Non-Construction Contracts Over \$1 Million</u> | | | | | | |
| UH - Housing Access Control | RFP | 4.0 | N/A | 2/27/2020 | | |
| UH - Oil and Gas Analysis Equipment | SS | 1.1 | N/A | 2/25/2021 | | |
| UHS - Executive Search Firm | RFP | 2.6 | N/A | 5/20/2021 | ✓ | |
| UH - Custodial Services (up to 2 awards - 1 E&G and 1 Auxiliary) | RFP | 31.5 | N/A | 5/20/2021 | | |

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.

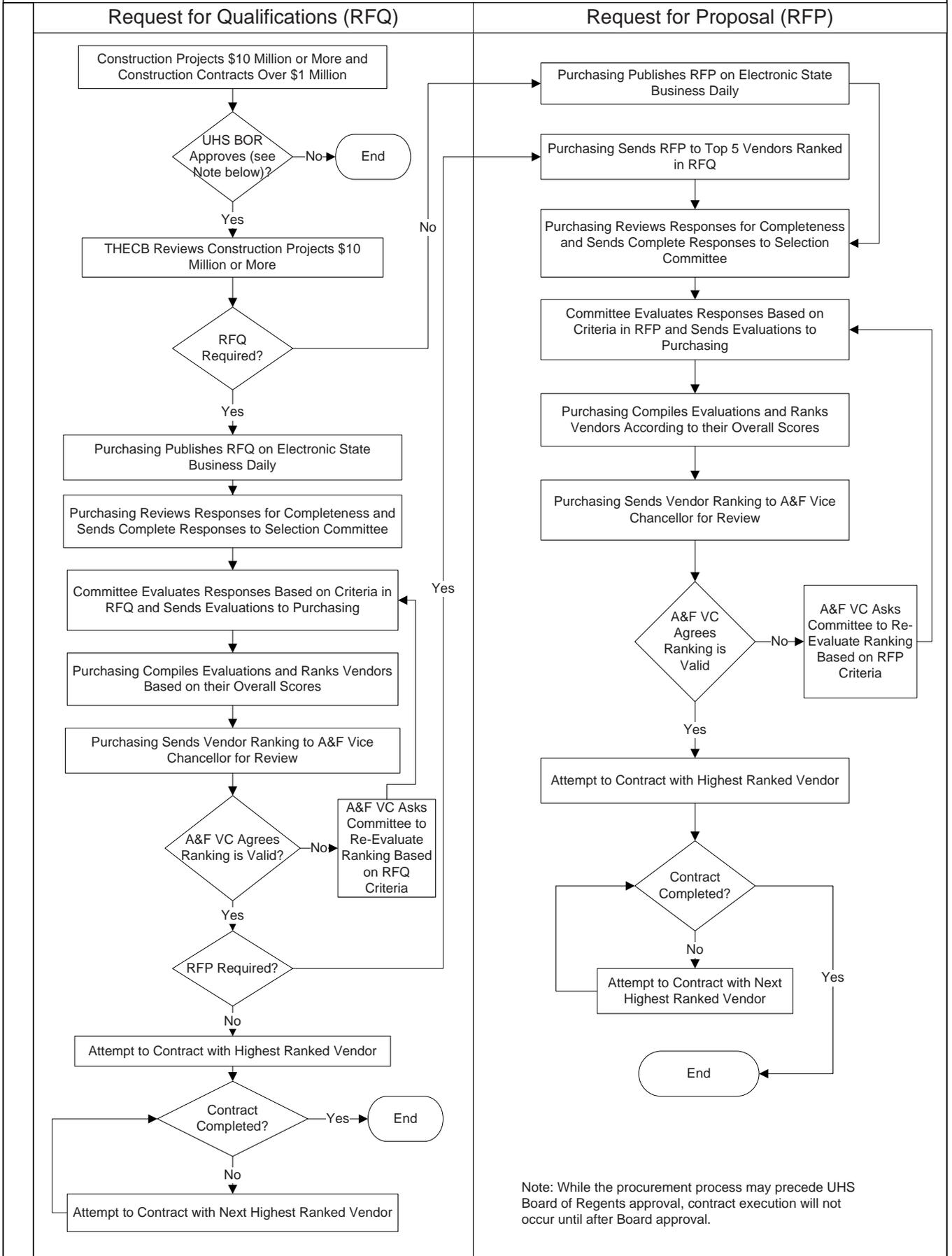
RFP - Request for Proposal

RFQ - Request for Qualifications

FE - Furnishings and Equipment

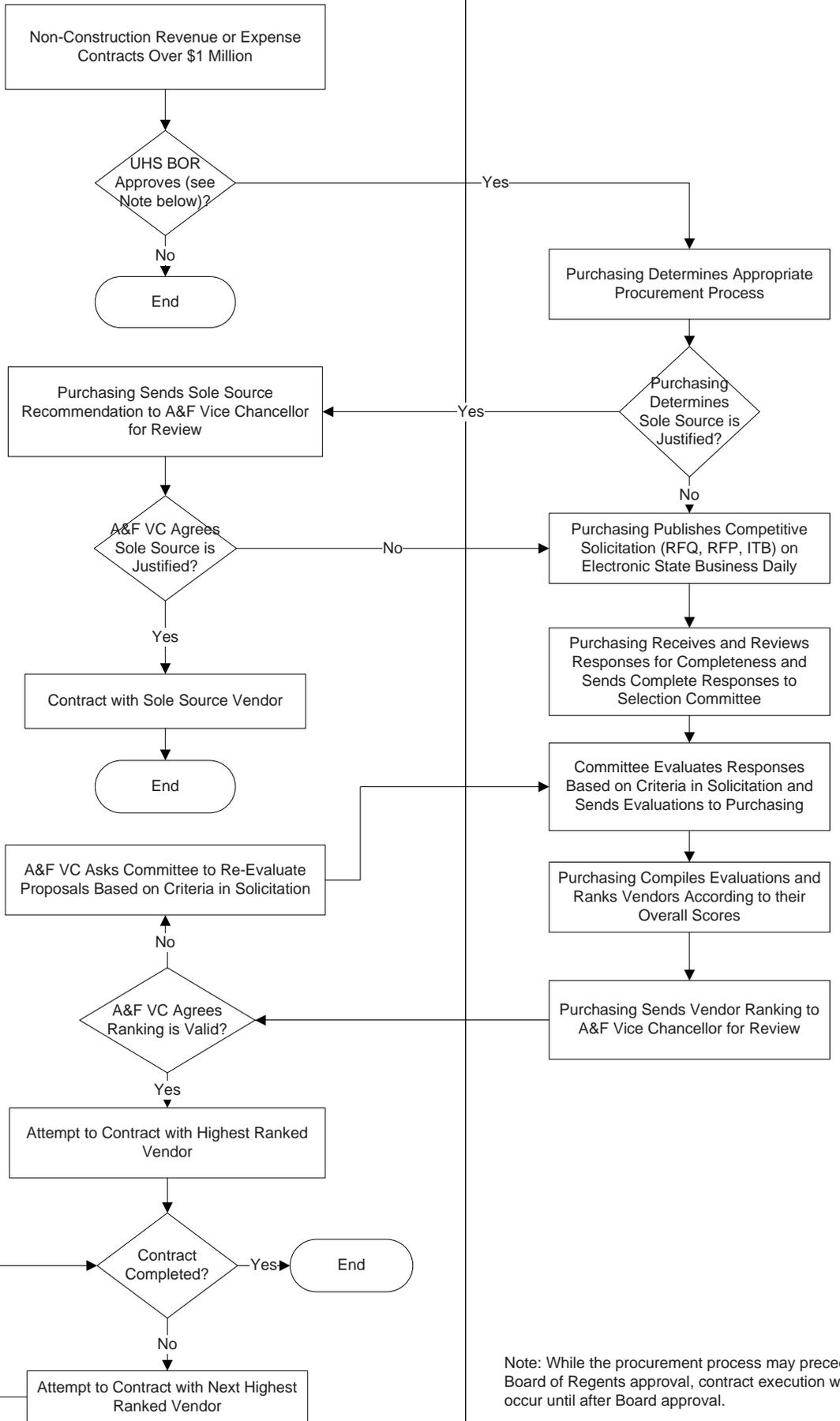
CSP - Competitive Sealed Proposal

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



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 Education Research Center
AR2022-11

UNIVERSITY of **HOUSTON** SYSTEM

INTERNAL AUDITING DEPARTMENT

UNIVERSITY OF HOUSTON EDUCATION RESEARCH CENTER MANAGEMENT ACTION BRIEFING

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EXECUTIVE SUMMARY

Overview and Scope Summary

In 2006, the Texas Legislature identified a need for longitudinal data repositories of information from the Texas Education Agency, the Texas Higher Education Coordinating Board (THECB), the Texas Workforce Commission (TWC), and other sources of educational information for the state of Texas. The information is to be used by researchers and policymakers to study and evaluate the impact of policies and programs; performance of educator preparation programs; public school finance; and best practices regarding education, school finance, and business practices for the benefit of the state.

The University of Houston Education Research Center (UH ERC) was established by an agreement between the Texas Higher Education Coordinating Board (THECB) and the University of Houston in 2017. The agreement sets forth specific compliance requirements. The THECB requires the UH ERC to be annually audited to ensure compliance with the terms and conditions of the agreement between the parties regarding the UH ERC. These requirements center upon the UH ERC establishing appropriate policies and procedures; information technology security measures for data protection; and data non-disclosure and confidentiality requirements.

Observations

During the audit, the Internal Auditing Department (IAD) focused on evaluating compliance with the requirements set forth in the agreement between the THECB and the UH ERC as well as applicable laws and regulations. IAD identified a control weakness that did not properly secure the data on one of the computer processing servers accessed through the VPN to prevent the data from being copied from a project folder to the local computer desktop. Management took immediate action and secured the logical limitations in place to ensure the data is secure prior to the completion of this audit. In addition, IAD identified the need to improve and develop policies and improve processes related to the Family Educational Rights and Privacy Act (FERPA) training to prevent violations that could result in unknowingly sharing private data and ultimately the loss of grant funds from the US Department of Education.

Overall Audit Opinion

The UH ERC was found to be generally compliant with the agreement between the THECB and UH ERC; however, non-compliance existed with two requirements of the agreement. The non-compliance points were related to baseline network logical controls to limit the ability to copy data, which was corrected during the audit, and the need for updated procedures related to FERPA training, which management is in the process of addressing.

Recommendations:

University of Houston System IAD recommends policies and procedures related to obtaining and maintaining current FERPA training completion certificates be updated and improved to prevent future non-compliance. In addition, policies and procedures should be established to temporarily restrict access to the UH ERC for researchers and staff that have not provided UH ERC with a current FERPA training completion certificate, meeting the annual training requirement.

ANALYSIS OF THE UNIVERSITY OF HOUSTON EDUCATION RESEARCH CENTER

INTRODUCTION

The Internal Auditing Department developed an annual audit plan based upon a system-wide risk assessment to identify significant areas of risk facing the System. Also included in the audit plan are legislatively and other required audits. 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

In 2006, the Texas Legislature identified a need for longitudinal data repositories of information from the Texas Education Agency, the Texas Higher Education Coordinating Board (THECB), the TWC, and other sources of educational information for the state of Texas. The information is to be used by researchers and policymakers to study and evaluate the impact of policies and programs; performance of educator preparation programs; public school finance; and best practices regarding education, school finance, and business practices for the benefit of the state.

The UH Education Research Center (UH ERC) was established by an agreement between the Texas Higher Education Coordinating Board and the University of Houston in 2017. The agreement sets forth specific compliance requirements. The Texas Higher Education Board requires the UH ERC to be annually audited to ensure compliance with the terms and conditions of the agreement between the parties. These requirements center upon the UH ERC establishing appropriate policies and procedures; information technology security measures for data protection; and data non-disclosure and confidentiality requirements.

The UH ERC serves as both a research center and as a site for the P-20/Workforce Data Repository, providing access to longitudinal, student-level data for scientific inquiry and policymaking purposes. Opened in 2017 with remote access added in January 2021, the UH ERC works to bridge the gap between theory and policy by providing a cooperative research environment for study by scholars and policy makers. As part of its mission, the UH ERC works with researchers, practitioners, state and federal agencies, and other policymakers to help inform upon critical issues relating to education today.

OBJECTIVE AND SCOPE

The objective of our audit was to determine compliance with the requirements set forth in the agreement between the THECB and the UH ERC as well as applicable laws and regulations.

The primary compliance areas of focus for the UH ERC audit were:

- Confidentiality/non-disclosure
- Policies and procedures
- Information technology security
- Information technology access
- Data storage
- Data transmission

Information relevant to this audit was obtained through:

- Interviewing UH ERC and other university personnel
- Reviewing laws, regulations, and other guidance
- Reviewing UH policies and procedures
- Reviewing information technology system data
- Reviewing UH Education Research Center records

Issue 1 – Baseline Network Controls

Objective: To determine if the UH ERC has appropriate access restrictions in place to prevent copy or export of student level data, as required by the agreement between THECB and the UH Education Research Center.

Criteria: The request for applications from THECB and the agreement between THECB and UH requires baseline network controls to prevent student-level data from being copied or removed from the secure servers housed at the UH ERC.

Risk: Establishing appropriate controls for the security of information prevents information subject to the Family Education Rights and Privacy Act (FERPA) or other federal laws from being copied or removed from secure servers. The copying or removal of such data can lead to fines, loss of research, and loss of confidence in the university and faculty members abilities to protect and secure data.

Observation: The UH ERC data is maintained on a secure data server with other servers accessing the data to process it. The data is accessed using a virtual private network (VPN). Limitations were placed on the information available to individuals based on their assigned project(s). However, one of the computer processing servers accessed through the VPN maintained the ability to copy data from a project folder to the local computer desktop and did not secure these logical limitations. One could copy data files without extraction of student level data prior to the copying of the data. Therefore, the risk of data leakage was not properly mitigated.

Conclusion: This issue was immediately brought to management’s attention. Management took immediate action and secured the logical limitations in place to ensure the data is secure.

Issue 2 – FERPA Training Requirements

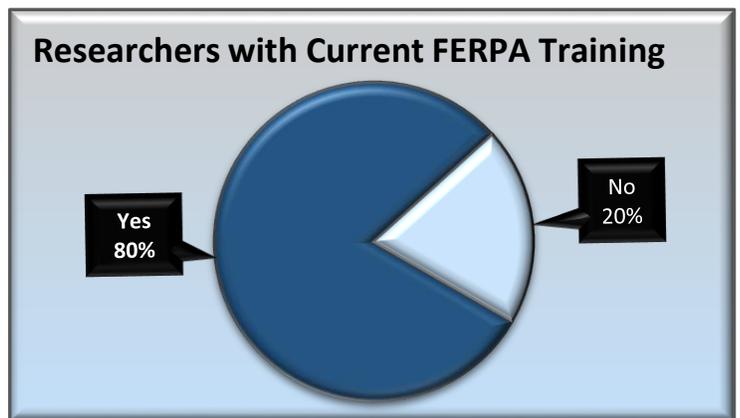
Objective: To determine if the UH Education Research Center complies with all requirements of FERPA including: training, accessing, releasing confidential information associated with research.

Criteria: The request for applications from THECB and the agreement between THECB and UH requires researchers or staff to sign an annual confidentiality statement and annually complete FERPA awareness training.

Risk: Many FERPA violations are due to lack of knowledge of the basic rules of FERPA. A general understanding of FERPA is important not to just protect the confidentiality of student data but also to ensure that information is shared when on when appropriate and necessary.

Observation: Researchers or staff who access student-level data will complete annual security awareness training regarding FERPA to gain an understanding of the basic rules of FERPA and help prevent violations from occurring. University of Houston (UH) offers FERPA training for researchers and staff affiliated with UH. Researchers affiliated with another university may submit proof of FERPA training from their home institution. All researchers are required to provide proof to the UH ERC that the FERPA training was completed.

We obtained a listing of UH ERC staff and researchers. The UH ERC staff listing consists of four staff members. All staff (100%) had current FERPA training. The researcher listing identified a total of 35 researchers. A sample size of 10 researchers representing 29% of the population was selected for testing. Copies of proof of FERPA training completion was requested for the sample of nine researchers selected for testing. Two of the ten (20%) researchers selected for testing who access student-level did not have current annual FERPA training certificates. One researcher having a FERPA training completion date of 06/27/2018 and the other having a FERPA training completion date of 10/20/2020. The access to data for these two researchers was removed in January 2021.



Conclusion: The UH ERC complies with the FERPA training requirements for staff. However, the UH ERC was not in compliance with FERPA training requirements for researchers. Two (20%) of the researcher’s FERPA training completion certificates were not in compliance because they did not meet the annual training requirement.

Recommendation:

The issues mentioned in this report reflect minor to moderate control weaknesses related to compliance with the requirements set forth in the agreement between THECB and UH ERC as well as applicable laws and regulations.

UHS IAD recommends policies and procedures related to obtaining and maintaining current FERPA training completion certificates be updated and improved to prevent future non-compliance. Policies and procedures should be established to temporarily restrict access to the UH ERC for researchers and staff that have not provided UH ERC with a current FERPA training completion certificate meeting the annual training requirement.

Management’s Response: ERC staff will update policies to reflect required provision of annual FERPA training documentation. Staff will also update the project master log to reflect new annual FERPA due dates. Finally, staff will ensure that all researchers’ FERPA documentation is up to date per this modification.

* * * * *

The UHS Department of Internal Auditing would like to thank the UH Education Research Center for its cooperation and assistance during this audit process.

Sincerely,

A handwritten signature in black ink, appearing to read "Phillip W. Hurd". The signature is fluid and cursive, with the first name being the most prominent.

Phillip W. Hurd
Chief Audit Executive
University of Houston System

PWH/pwh/AP Audit

Participating Auditors: Brandee O'Neal, Connie Applebach and Kim Gerry

UNIVERSITY of HOUSTON

INTERNAL AUDITING DEPARTMENT

| Action Item Number | Audit Area | University | Recommendation Summary | Task | Responsible Person | Target Date | Status |
|--------------------|-----------------------------|------------|---|--|---|-------------|--------|
| 1 | FERPA Training Requirements | UH | UHS IAD recommends policies and procedures related to obtaining and maintaining current FERPA training completion certificates be updated and improved to prevent future non-compliance. Policies and procedures should be established to temporarily restrict access to the UH ERC for researchers and staff that have not provided UH ERC with a current FERPA training completion certificate meeting the annual training requirement. | (1) Update policies to reflect required annual FERPA training documentation. (2) Update project master log to reflect annual FERPA due date. (3) Ensure all researchers have FERPA documentation that is up to date per this modification. | Cathy Horn, Director of ERC and Jeanette Narvaez, Director of Operations and Research Dissemination | 2/28/2022 | |