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**A SPECIAL REPORT FOR
THE SOUTHERN ASSOCIATION OF COLLEGES AND SCHOOLS ON
UNIVERSITY OF HOUSTON - CLEAR LAKE
APRIL 1997**

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State Auditor's Report

April 23, 1997

Dr. William Staples, President
University of Houston - Clear Lake
2700 Bay Area Boulevard
Houston, Texas 77058-1098

Dear Dr. Staples:

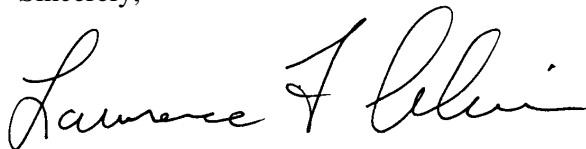
We have applied certain agreed-upon procedures (as discussed on page 3) to the Current Funds Balance Sheet of the University of Houston - Clear Lake (University) as of August 31, 1996, and August 31, 1995; the Statement of Current Funds Expenditures for the years then ended; and the related Notes (Financial Statements). The procedures were performed on behalf of the Southern Association of Colleges and Schools (Southern Association) in accordance with applicable Statements on Auditing Standards. All information in the above-mentioned items is the representation of the management of the University.

We applied these agreed-upon procedures to the Current Funds Balance Sheet of the University as of August 31, 1996, and August 31, 1995; the Statement of Current Funds Expenditures for the years then ended; and the related Notes solely to assist the Southern Association in connection with its review of the University for accreditation purposes.

No matters came to our attention that caused us to believe that accounts or items should be adjusted. Because the procedures do not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on any of the accounts or items referred to above. Had we performed additional procedures or had we conducted an audit of the financial statements in accordance with generally accepted auditing standards, matters might have come to our attention that would have been reported to you. This report relates only to the Current Funds Balance Sheet, the Statement of Current Funds Expenditures, and the related Notes, and does not extend to any financial statements of the University taken as a whole. These Financial Statements are not intended to be a complete presentation of the financial position and results of operations of the University of Houston - Clear Lake.

This report is intended for use of the Board of Regents of the University of Houston System, management of the University, and the Southern Association. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,



Lawrence F. Alwin, CPA
State Auditor

Agreed-Upon Procedures University of Houston - Clear Lake

We performed agreed-upon procedures for the Southern Association of Colleges and Schools for its accreditation review of the University of Houston - Clear Lake (University) for fiscal years 1996 and 1995. The agreed-upon procedures, applied to the Current Funds Balance Sheet of the University as of August 31, 1996, and August 31, 1995; the Statement of Current Funds Expenditures for the years then ended; and the related Notes (Financial Statements), are detailed as follows:

- a. We compiled the accompanying Current Funds Balance Sheet, the Statement of Current Funds Expenditures, and the related Notes to present the financial position and expenditures by function of the University's Current Funds as of August 31, 1996, and August 31, 1995. These statements are prepared pursuant to criteria of the Southern Association for supplementary special reports by institutions in states which conduct statewide audits.
- b. We performed analytical procedures including ratio analyses designed to identify relationships and individual items that appeared to be unusual. We obtained and verified management's explanations for significant fluctuations in accounts for the Current Funds Balance Sheet and the related Statement of Current Funds Expenditures at August 31, 1996, and August 31, 1995, respectively, and confirmed the validity of such explanations as considered necessary.
- c. We reviewed the Financial Statements to determine whether they appeared to conform with applicable requirements described in the *Annual Reporting Requirements for Colleges and Universities* (AFR Requirements) for 1996 and 1995 published by the Texas Comptroller of Public Accounts.
- d. We agreed balances identified as significant per our materiality threshold to the supporting general ledger, and we reviewed significant accounting adjustments made in the current and preceding years by the University or its System Offices.
- e. For the accounts included in Cash and Temporary Investments, Balance in State Appropriations, and Investments, we reviewed year-end reconciliations, agreed them to the respective bank, Comptroller of Public Accounts, or custodian statements, and traced material/significant or unusual items to subsequent clearing. We inquired as to whether appropriate cutoff of transactions was made (for the current and preceding year) and, additionally for Investments, we inquired as to whether appropriate consideration had been given to the allocation of investments between Current Funds and noncurrent funds.
- f. We reviewed, verified, and modified the Notes to the Financial Statements prepared by the University to ensure they were accurate and complete, that they disclosed all necessary items, and that they were in conformity with the AFR Requirements.
- g. We inquired of persons having responsibility for financial accounting matters concerning questions which have arisen in the course of applying the foregoing procedures, changes in the University's activities, accounting principles and practices, accounting systems, computer systems, key personnel, and events subsequent to the date of the Financial Statements that would have a material effect on them.
- h. We reviewed board minutes for actions that may affect the Financial Statements.

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Current Funds Balance Sheet at August 31, 1996

	Total Current Funds
<u>Assets</u>	
Cash and Temporary Investments	\$ 6,409,679
Balance in State Appropriations	1,869,993
Accounts Receivable	846,252
Due from Other Agencies	31,534
Due from Other Components	126,715
Investments	5,535,176
Accrued Interest Receivable	89,594
Prepaid Expenses	30,150
Federal Receivables	821,786
Consumable Inventories	46,183
TOTAL ASSETS	<u>\$ 15,807,062</u>
 <u>Liabilities and Fund Balances</u>	
Liabilities	
Accounts Payable	\$ 841,252
Accrued Liabilities	1,583,989
Deposits Payable	220,199
Deferred Revenues	5,233,893
Accrued Compensable Absences Payable	760,673
Total Liabilities	<u>\$ 8,640,006</u>
 Fund Balances	
Unrestricted	
Reserved for	
Encumbrances	\$ 753,330
Accounts and Notes Receivable	588,943
Inventories	46,183
Self-Insured Plans	379,991
Other Specific Purposes	64,550
Unreserved	
Allocated	2,702,315
Unallocated	1,924,550
Restricted	
Restricted - Encumbrances	20,605
Restricted - Other	686,589
Total Fund Balances	<u>\$ 7,167,056</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 15,807,062</u>

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

	Total Current Funds
Educational and General Expenditures	
Instruction	\$ 17,247,164
Research	3,340,194
Public Service	165,835
Academic Support	4,880,289
Student Services	1,301,536
Institutional Support	6,113,263
Operation and Maintenance of Plant	3,909,959
Scholarships and Fellowships	<u>1,972,086</u>
Total Educational and General Expenditures	\$ 38,930,326
 Auxiliary Enterprises Expenditures	 <u>3,550,366</u>
 TOTAL CURRENT FUNDS EXPENDITURES	 <u>\$ 42,480,692</u>

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

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

General Introduction

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

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

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

The significant accounting policies followed by the System and its components in maintaining accounts and in preparing financial statements are in accordance with the *1996 Annual Financial Reporting Requirements for Colleges and Universities* of the Texas Comptroller of Public Accounts. These requirements follow, as nearly as practicable:

- The American Institute of Certified Public Accountants (AICPA) Industry Audit Guide, *Audits of Colleges and Universities*, 1973 Edition, as amended by AICPA Statement of Position (SOP) 74-8
- *Financial Accounting and Reporting by Colleges and Universities*, as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989
- Modifications resulting from applicable Governmental Accounting Standards Boards (GASB) pronouncements cited in Codification Section Co5, "Colleges and Universities"

The requirements are also in substantial conformity with the *Financial Accounting and Reporting Manual for Higher Education* published by the National Association of College and University Business Officers (NACUBO).

Summary of Significant Accounting Policies

Basis of Accounting

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

Fund Accounting

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

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

- **Educational and General** - Funds for administration, institutional expense, instruction and departmental research, physical plant operation, libraries, and other items relating to the primary function of the institution.
- **Designated** - Funds arising from sources that have been designated by the Board of Regents or management to be used for special purposes. This fund distinguishes such internally designated funds from externally restricted funds as well as other current funds. Service department funds and revolving and clearing accounts are also included in this fund group.
- **Auxiliary Enterprises** - Funds for activities which furnish a service to students, faculty, staff, or the public for which charges are made that are directly related to, although not necessarily equal to, the cost of the service, such as residence halls, food services, bookstores, and athletics.
- **Restricted** - Funds available for current purposes, the use of which has been restricted by outside agencies or persons. Revenues are reported only to the extent of expenditures for the current year.

Other fund groups used by the University of Houston - Clear Lake, but not included in these specific Financial Statements because they are (1) for noncurrent purposes or (2) funds held in custody for others, are as follows:

- **Loan Funds** - Funds available for loans to students.
- **Endowment Funds** - Funds subject to restrictions of endowment and trust instruments requiring that principal be maintained and that only the income be used.
- **Plant Funds** - Plant Funds are segregated into the following balanced fund groups:
 - **Unexpended Plant Funds** - Funds to be used for construction, rehabilitation, and acquisition of physical properties for institutional purposes.
 - **Renewals and Replacements** - Funds to be used for renewal and replacement of existing physical properties for institutional purposes.
 - **Retirement of Indebtedness** - Funds accumulated for payment of interest on debt and retirement of the principal indebtedness on physical properties.
 - **Investment in Plant** - Funds already expended for plant properties. Physical properties are stated at cost at date of acquisition or estimated fair market value at date of donation in the case of gifts, without provisions in the accounts for depreciation.
- **Agency Funds** - Funds held by the University as custodial or fiscal agent for students, faculty members, and others.
- **Encumbrances** - Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

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

- **Unrestricted Fund Balances** - These represent the net accumulation of the excess revenues, other additions, and net transfers-in over expenditures, other deductions, and transfers-out for specific fund groups. As a general rule, they

are available for future operating purposes and their use is determined by the Board of Regents.

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

- **Reserved** - That portion of the unrestricted fund balances that is allocated for third-party claims against resources that have not materialized as of balance sheet date. Assets identified as reserved are of a nonmonetary nature or lack liquidity; therefore, they are not available for current appropriations or expenditure.
- **Unreserved** - All unrestricted fund balances that are not reserved. Unreserved fund balances are classified as allocated or unallocated as follows:
 - Allocated - That portion of the unrestricted fund balances that has been identified for specific future use by the Board or institutional management.

Also classified as allocated are unencumbered balances of legislative appropriations from the State's general revenue that have been reappropriated to the System for use in the subsequent year.
 - Unallocated - Fund balances that are available for future operating purposes as determined by subsequent Board or institutional management directives.

Financing of Plant Assets

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

Other Significant Accounting Policies

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

Note 1: Authorized Investments

The University of Houston System is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act of 1995 (Government Code, Chapter 2256). Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies,

(3) obligations of political subdivisions rated not less than A by a national investment rating firm, (4) certificates of deposit, and (5) other instruments and obligations authorized by statute.

Note 2: Deposits and Investments

DEPOSITS OF CASH IN BANK

The carrying amount of \$49,147 for Cash in Bank (including restricted assets) is presented in Exhibit A below.

The bank balance of the University of Houston - Clear Lake has been classified according to the following risk categories as defined by the Governmental Accounting Standards Board (GASB):

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

Exhibit A

<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
\$ 49,147	\$ 134,543	\$ 134,543		

At August 31, 1996, the carrying amount of the University of Houston - Clear Lake's Current Funds deposits was \$49,147. This relatively low balance reflects disbursement amounts that had cleared the University's books at fiscal year end, but had not yet cleared the bank. As part of its cash management process, which is designed to maximize investment income, the University liquidates Temporary Investments as needed to meet expenditure requirements. Temporary Investments at fiscal year end totaled \$5,521,650.

Total bank balances equaled \$134,543, which was covered by collateral pledged in the University of Houston System's name and held in the safekeeping departments of unrelated banks which act as the pledging bank's agent (GASB risk category 1). Cash and deposits included in the Current Funds Balance Sheet consist of the items reported below:

Cash and Deposits

Bank Deposits		
Demand Deposits	\$	49,147
Cash and Cash Equivalents		
Petty Cash	\$	34,400
Local Funds in State Treasury		789,592
Reimbursements in Transit		<u>14,890</u>
Total Cash and Cash Equivalents		<u>838,882</u>
Total Current Funds Cash and Deposits	\$	<u>888,029</u>

INVESTMENTS

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

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

The following categories of risk as defined by GASB are included:

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

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

Investment Categories					
Type of Security	Category			Carrying Amount	Market Value
	1	2	3		
<u>Categorized Investments</u>					
U.S. Treasury Bills and Notes		\$ 3,912,349		\$ 3,912,349	\$ 3,878,880
Federal Agency Obligations					
Municipal Bonds		1,622,828		1,622,828	1,590,034
Corporate Bonds					
Corporate Stocks					
Repurchase Agreements					
Commercial Paper					
TOTALS		<u>\$ 5,535,177</u>		<u>\$ 5,535,177</u>	<u>\$ 5,468,914</u>
<u>Uncategorized Investments</u>					
Money Market Funds				<u>5,521,650</u>	<u>5,521,650</u>
TOTAL INVESTMENTS				<u>\$ 11,056,827</u>	<u>\$ 10,990,564</u>
Total Cash and Deposits				\$ 888,029	
Total Investments				<u>11,056,827</u>	
TOTAL DEPOSITS AND INVESTMENTS				<u>\$ 11,944,856</u>	
<u>Balance Sheet Presentation</u>					
Cash and Temporary Investments				\$ 6,409,679	
Investments				<u>5,535,177</u>	
TOTAL DEPOSITS AND INVESTMENTS				<u>\$ 11,944,856</u>	

Note 3: Employee Benefits

A. Employees' Retirement Plan

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

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

TRS does not account for each of its component governmental agencies, since TRS itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. According to an independent actuarial evaluation as of August 31, 1996, the present value of TRS's actual and projected liabilities, including projected benefits payable to its retired and active members and their beneficiaries, was in excess of the assets of TRS. However, the actuary projected that such assets, augmented by projected future contributions and earnings, would be sufficient to amortize the unfunded difference over a period of 14 years assuming payroll growth of 4.25 percent. Further information regarding actuarial assumptions and conclusions, together with audited Financial Statements, is included in TRS's annual financial report.

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

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

The University's retirement expense for the fiscal year ended August 31, 1996, was \$1,054,026, which is included in the Statement of Current Funds Expenditures. Of this amount, contributions of \$788,936 were made by the State, and contributions of \$265,089 were made by the University.

B. Employee's Health Care, Life, and Other Insurance Plans

The University provides group health, life, and other insurance to eligible employees and dependents. Those benefits are provided through an insurance company whose premiums are based on benefits paid during the previous year. The programs were funded by monthly payments made by the State of Texas and by participants' payments and were administered by the Employees Retirement System of Texas (ERS). During fiscal year 1996, the State paid \$186 per eligible person for employee-only coverage, \$257 per eligible person for employee-plus-child coverage, \$292 for employee-plus-spouse coverage, and \$363 for employee-plus-family coverage. Information regarding the State's contribution, the number of participants, and the cost of providing benefits is included in the notes to the annual financial report of ERS. The State recognizes the cost of providing these benefits by expensing the annual insurance premiums. These expenditures are included in the Statement of Current Funds Expenditures as are the expenditures for insurance for retirees discussed below.

The University's expense for group insurance for active and retired employees (discussed below) was \$1,659,723 for the fiscal year ended August 31, 1996. Of this amount, contributions of \$1,045,323 were made by the State, and contributions of \$614,400 were made by the University.

C. Post-Employment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provided certain health care and life insurance benefits for retired employees, in accordance with state statutes. Substantially all employees may become eligible for health care and life insurance benefits if they reach normal retirement age while working for the University of Houston System. The University participates in the ERS insurance plans. These programs are funded by the State of Texas and by retiree payments. During fiscal year 1996, amounts funded by the State for each employee were the same as for active employees, discussed above. Information regarding the cost of providing benefits for retirees, the State's contribution, and the number of participants is included in the notes to the ERS annual financial report.

D. Federal Insurance Contributions Act (FICA) Payments

The FICA paid by the State and the University on employees' payroll includes the employer's 7.65 percent portion and 5.85 percent of an employee's pay not to exceed \$965. This latter benefit was replaced by the Benefit Replacement Pay Program at the end of the 1995 calendar year, December 31, 1995. The University's FICA expense for the fiscal year ended August 31, 1996, was \$1,654,666, which is included in the Statement of Current Funds Expenditures. Of this amount, contributions of \$1,092,275 were made by the State, and contributions of \$562,391 were made by the University.

E. State of Texas Employee Benefit Payments

Funds paid by the State of Texas directly into retirement funds and for group insurance and for matching FICA for the benefit of employees of the University are recorded and reported as revenues and expenditures in unrestricted Current Funds and are included, as stated above, on the Statement of Current Funds Expenditures.

F. Deferred Compensation and Tax-Deferred Investment Programs

Active benefits-eligible employees may elect, for federal income tax purposes, to defer a portion of their earnings in a qualified state-deferred compensation plan which complies with Internal Revenue Code 457. These employees may also purchase qualified tax-deferred investments with a portion of their earnings in order to supplement either of the two retirement programs offered by the State, discussed above, in which the employees participate. For the year ended August 31, 1996, no employees participated in the deferred compensation plans. However, 150 employees invested \$543,630 in tax-deferred investments during the year via payroll deductions. Since these are individually-owned annuity contracts and other investment instruments, the State has no additional or unfunded liability for this program.

The State also administers another plan, "TexaSaver," created in accordance with Internal Revenue Code Section 401(k). However, the assets of this plan do not belong to the State, nor does the State have a liability related to this plan.

Note 4: Compensated Absences

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

The State's policy is that an employee may carry his or her accrued leave forward from one fiscal year to another fiscal year with a maximum of 376 hours for those employees with 20 or more years of state service. Accrued leave in excess of the allowable maximum for an employee was converted to sick leave at the conclusion of fiscal year 1996. Employees with at least six months of state service who terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed.

The University recognizes and reports the accrued liability for the unpaid annual leave in unrestricted Current Funds, and it appears on the Current Funds Balance Sheet. Estimated accrued compensable absences payable on August 31, 1996, were \$760,673, an increase of \$63,570 from August 31, 1995.

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

Note 5: Allowances for Doubtful Accounts

Allowances are recorded for certain accounts receivable. Net change for the year is recorded in expenditures and other deductions from fund balances. Accounts receivable are written off if more than two years past due. Accounts receivable as of August 31, 1996, are shown below. The amounts of net accounts receivable are reported on the Current Funds Balance Sheet.

	Gross Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
Federal Receivables	\$ 821,786	\$ 0	\$ 821,786
Non-Federal Receivables	<u>856,000</u>	<u>9,747</u>	<u>846,253</u>
Total Accounts Receivable	<u>\$ 1,677,786</u>	<u>\$ 9,747</u>	<u>\$ 1,668,039</u>

Note 6: Operating Lease Obligations and Rental Agreements

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

<u>Fund Group</u>	<u>Amount</u>
Educational and General	\$ 111,563
Designated	80,462
Auxiliary	64,949
Restricted	<u>11,097</u>
Total	<u>\$ 268,071</u>

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

Future Commitments

<u>Fiscal Year</u>	<u>Minimum Lease Payment</u>
1997	\$ 149,348
1998	112,011
1999	74,674
2000	37,337
2001	18,668
2002 and beyond	<u>9,334</u>
Total	<u>\$ 401,372</u>

Note 7: Risk Financing and Related Insurance

The University of Houston System has self-insurance arrangements or plans for coverage in the areas of workers' compensation and unemployment compensation for employees of the University. These self-insurance plans are funded by monthly charges to the University's accounts which are included as expenditures on the Statement of Current Funds Expenditures. Self-insurance plans are reported in Designated Funds within unrestricted Current Funds of the University. These plans or pools are reported as components of the fund balance reported on the Current Funds Balance Sheet, the contributions to the pools are reflected as additions to this fund balance, and current year claims paid are reflected as expenditures which are included on the Statement of Current Funds. Claims on these self-insurance plans, which were incurred but not paid, were insignificant and therefore not reported as a liability on the Current Funds Balance Sheet.

Note 8: Contract and Grant Awards

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

For federal and non-federal contract and grant awards, funds expended but not collected are reported as Federal Receivables and Accounts Receivable in the Current Funds Balance Sheet. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the Financial Statements. Contract and grant award funds already committed, including multi-year awards and funds awarded during fiscal year 1996 for which monies have not been received or funds expended totaled \$2,742,216. The amounts of these contract and grant awards are shown below:

<u>Contract and Grant Category</u>	<u>Amount</u>
Federal	\$ 2,555,619
State	126,461
Local	0
Private	<u>60,136</u>
Total Contracts and Grants Awarded	<u>\$ 2,742,216</u>

Note 9: Pending Lawsuits and Claims

At August 31, 1996, various lawsuits and claims involving the University of Houston - Clear Lake were pending. While the ultimate liability with respect to litigation and other claims asserted against the University cannot be reasonably estimated at this time, such liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the University.

Note 10: Related Parties

The stated purpose of the University of Houston - Clear Lake Alumni Association (Association) is to promote the educational programs and objectives of the University by providing former students with current information and opportunities to remain involved with their alma mater. The Association's Board of Trustees consists of 4 officers and 18 directors, none of whom are members of the Board of Regents of the System or employees of the System. The Association remitted gifts of approximately \$30,000 to the University during the fiscal year ended August 31, 1996. During this same period, the University did not provide services to the Association.

Current Funds Balance Sheet at August 31, 1995

	Total Current Funds
<u>Assets</u>	
Cash and Temporary Investments	\$ 6,299,751
Balance in State Appropriations	321,996
Accounts Receivable	937,565
Due from Other Funds	9,144
Due from Other Components	104,722
Investments	4,379,019
Accrued Interest Receivable	45,733
Prepaid Expenses	39,529
Federal Receivables	1,099,519
Inventories, At Cost	642,135
TOTAL ASSETS	<u>\$ 13,879,113</u>
<u>Liabilities and Fund Balances</u>	
<u>Liabilities</u>	
Accounts Payable	\$ 689,018
Accrued Liabilities	1,520,882
Deposits Payable	208,694
Due to Other Funds	9,144
Due to Other Components	1,362
Deferred Revenues	4,819,625
Accrued Compensable Absences Payable	697,103
Total Liabilities	<u>\$ 7,945,828</u>
<u>Fund Balances</u>	
Unrestricted	
Reserved for	
Encumbrances	\$ 384,919
Accounts and Notes Receivable	656,501
Inventories	642,135
Other Specific Purposes	82,079
Unreserved	
Allocated	2,014,864
Unallocated	1,334,882
Restricted	
Orders and Contracts Outstanding	51,212
Other	766,693
Total Fund Balances	<u>\$ 5,933,285</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 13,879,113</u>

Statement of Current Funds Expenditures for the Fiscal Year Ended August 31, 1995

	Total Current <u>Funds</u>
Educational and General Expenditures	
Instruction	\$ 16,691,521
Research	4,809,666
Public Service	118,477
Academic Support	4,114,695
Student Services	1,157,023
Institutional Support	5,577,759
Operation and Maintenance of Plant	3,649,905
Scholarships and Fellowships	<u>2,067,422</u>
Total Educational and General Expenditures	\$ 38,186,468
 Auxiliary Enterprises Expenditures	 <u>4,619,016</u>
TOTAL CURRENT FUNDS EXPENDITURES	<u><u>\$ 42,805,484</u></u>

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

Notes to the Financial Statements for the Fiscal Year Ended August 31, 1995

General Introduction

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

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

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

The significant accounting policies followed by the System and its components in maintaining accounts and preparing financial statements are in accordance with the *1995 Annual Financial Reporting Requirements for Colleges and Universities* of the Texas Comptroller of Public Accounts. These requirements follow, as nearly as practicable:

- The American Institute of Certified Public Accountants (AICPA) Industry Audit Guide, *Audits of Colleges and Universities*, 1973 Edition, as amended by AICPA Statement of Position (SOP) 74-8
- *Financial Accounting and Reporting by Colleges and Universities*, as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989
- Modifications resulting from applicable Governmental Accounting Standards Boards (GASB) pronouncements cited in Codification Section Co5, "Colleges and Universities"

The requirements are also in substantial conformity with the *Financial Accounting and Reporting Manual for Higher Education* published by the National Association of College and University Business Officers (NACUBO).

Summary of Significant Accounting Policies

Basis of Accounting

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

Fund Accounting

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

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

- **Educational and General** - Funds for administration, institutional expense, instruction and departmental research, physical plant operation, libraries, and other items relating to the primary function of the institution.
- **Designated** - Funds arising from sources that have been designated by the Board of Regents or management to be used for special purposes. This fund distinguishes such internally designated funds from externally restricted funds as well as other current funds. Service department funds and revolving and clearing accounts are also included in this fund group.
- **Auxiliary Enterprises** - Funds for activities which furnish a service to students, faculty, staff, or the public for which charges are made that are directly related to, although not necessarily equal to, the cost of the service, such as residence halls, food services, bookstores, and athletics.
- **Restricted** - Funds available for current purposes, the use of which has been restricted by outside agencies or persons. Revenues are reported only to the extent of expenditures for the current year.

Other fund groups used by the University of Houston - Clear Lake, but not included in these specific Financial Statements because they are (1) for noncurrent purposes or (2) funds held in custody for others, are as follows:

- **Loan Funds** - Funds available for loans to students.
- **Endowment Funds** - Funds subject to restrictions of endowment and trust instruments requiring that principal be maintained and that only the income be used.
- **Plant Funds** - Plant Funds are segregated into the following balanced fund groups:
 - **Unexpended Plant Funds** - Funds to be used for construction, rehabilitation, and acquisition of physical properties for institutional purposes.
 - **Renewals and Replacements** - Funds to be used for renewal and replacement of existing physical properties for institutional purposes.
 - **Retirement of Indebtedness** - Funds accumulated for payment of interest on debt and retirement of the principal indebtedness on physical properties.
 - **Investment in Plant** - Funds already expended for plant properties. Physical properties are stated at cost at date of acquisition or estimated fair market value at date of donation in the case of gifts, without provisions in the accounts for depreciation.
- **Agency Funds** - Funds held by the University as custodial or fiscal agent for students, faculty members, and others.
- **Encumbrances** - Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

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

- **Unrestricted Fund Balances** - These represent the net accumulation of the excess revenues, other additions, and net transfers-in over expenditures, other deductions, and transfers-out for specific fund groups. As a general rule, they

are available for future operating purposes and their use is determined by the Board of Regents.

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

- **Reserved** - That portion of the unrestricted fund balances that is allocated for third-party claims against resources that have not materialized as of the balance sheet date. Assets identified as reserved are of a nonmonetary nature or lack liquidity; therefore, they are not available for current appropriations or expenditure.
- **Unreserved** - All unrestricted fund balances that are not reserved. Unreserved fund balances are classified as allocated or unallocated as follows:
 - Allocated - That portion of the unrestricted fund balances that has been identified for specific future use by the Board or institutional management.

Also classified as allocated are unencumbered balances of legislative appropriations from the State's general revenue that have been reappropriated to the System for use in the subsequent year.
 - Unallocated - Fund balances that are available for future operating purposes as determined by subsequent Board or institutional management directives.

Financing of Plant Assets

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

Other Significant Accounting Policies

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

Note 1: Authorized Investments

The University of Houston System is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act of 1995 (Government Code, Chapter 2256). Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) obligations

of political subdivisions rated not less than A by a national investment rating firm, (4) certificates of deposit, and (5) other instruments and obligations authorized by statute.

Note 2: Deposits and Investments

DEPOSITS OF CASH IN BANK

The carrying amount of \$(1,165) for Cash in Bank (including restricted assets) is presented in Exhibit A below.

The bank balance of the University of Houston - Clear Lake has been classified according to the following risk categories as defined by the Governmental Accounting Standards Board (GASB):

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

Exhibit A

<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
\$(1,165)	\$ 100,839	\$ 100,839		

At August 31, 1995, the carrying amount of the University of Houston - Clear Lake's Current Funds deposits was \$(1,165), which reflects disbursement amounts that had cleared the University's books at fiscal year end, but had not yet cleared the bank. As part of its cash management process, which is designed to maximize investment income, the University liquidates Temporary Investments as needed to meet expenditure requirements. Temporary Investments at fiscal year end totaled \$5,245,561.

Total bank balances equaled \$100,839, which was covered by collateral pledged in the University of Houston System's name and held in the safekeeping departments of unrelated banks which act as the pledging bank's agent (GASB risk category 1). Cash and deposits included in the Current Funds Balance Sheet consist of the items reported below:

Cash and Deposits

Bank Deposits		
Demand Deposits		\$ (1,165)
Cash and Cash Equivalents		
Petty Cash	\$ 42,550	
Local Funds in State Treasury	1,012,805	
Reimbursements in Transit	<u>0</u>	
Total Cash and Cash Equivalents		<u>1,055,355</u>
Total Current Funds Cash and Deposits		<u>\$1,054,190</u>

INVESTMENTS

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

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

The following categories of risk as defined by GASB are included:

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

At August 31, 1995, all of the University of Houston - Clear Lake's categorized investments in Current Funds were uninsured and unregistered for which the securities were held in the name of the System by an institution related to the investment manager (GASB risk category 2), and these are summarized below. Certain other investments cannot be categorized because they are not evidenced in physical or book entry form, and these are included in the summary below:

Investment Categories					
Type of Security	Category			Carrying Amount	Market Value
	1	2	3		
<u>Categorized Investments</u>					
U.S. Treasury Bills and Notes		\$ 4,227,013		\$ 4,227,013	\$ 4,306,574
Federal Agency Obligations					
Municipal Bonds		745,660		745,660	743,893
Corporate Bonds					
Corporate Stocks					
Repurchase Agreements					
Commercial Paper					
TOTALS		<u>\$ 4,972,673</u>		<u>\$ 4,972,673</u>	<u>\$ 5,050,467</u>
<u>Uncategorized Investments</u>					
Money Market Funds				<u>4,651,907</u>	<u>4,651,907</u>
TOTAL INVESTMENTS				<u>\$ 9,624,580</u>	<u>\$ 9,702,374</u>
Total Cash and Deposits				\$ 1,054,190	
Total Investments (long-term)				<u>9,624,580</u>	
TOTAL DEPOSITS AND INVESTMENTS				<u>\$ 10,678,770</u>	
Cash and Temporary Investments				\$ 6,299,751	
Investments				<u>4,379,019</u>	
TOTAL DEPOSITS AND INVESTMENTS				<u>\$ 10,678,770</u>	

Note 3: Employee Benefits

A. Employees' Retirement Plan

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

One of the primary plans in which the System participates is administered by the Teacher Retirement System of Texas (TRS). The contributory percentages of participant salaries by the State and by each participant were 7.31 percent and 6.4 percent, respectively, of annual compensation.

TRS does not account for each of its component governmental agencies, since TRS itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. According to an independent actuarial evaluation as of August 31, 1994, the present value of TRS's actual and projected liabilities, including projected benefits payable to its retired and active members and their beneficiaries, was in excess of the assets of TRS. However, the actuary projected that such assets, augmented by projected future contributions and earnings, would be sufficient to amortize the unfunded difference over a period of 30 years assuming payroll growth of 6.00 percent. Further information regarding actuarial assumptions and conclusions, together with audited Financial Statements, is included in TRS's annual financial report.

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

The contributory percentages of participant salaries provided by the State and by each participant was 8.50 (1.19 percent from local funding sources available to the System and 7.31 percent from the State General Revenue funds) and 6.65 percent, respectively, of annual compensation. Since these are individual investment product contracts, the State has no additional or unfunded liability for this program.

The University's retirement expense for the fiscal year ended August 31, 1995, was \$1,317,279, which is included in the Statement of Current Funds Expenditures. Of this amount, contributions of \$1,192,488 were made by the State, and contributions of \$124,791 were made by the University.

B. Employee's Health Care, Life, and Other Insurance Plans

The University provides group health, life, and other insurance to eligible employees and dependents. Those benefits are provided through an insurance company whose premiums are based on benefits paid during the previous year. The programs were funded by monthly payments made by the State of Texas and by participants' payments and were administered by the Employees Retirement System of Texas (ERS). During fiscal year 1995, the State paid \$215 per eligible person for employee-only coverage, \$297 per eligible person for employee-plus-child coverage, \$338 for employee-plus-spouse coverage, and \$420 for employee-plus-family coverage. Information regarding the State's contribution, the number of participants, and the cost of providing benefits is included in the notes to the annual financial report of ERS. The State recognizes the cost of providing these benefits by expensing the annual insurance premiums. These expenditures are included in the Statement of Current Funds Expenditures as are the expenditures for insurance for retirees discussed below.

The University's expense for group insurance for active and retired employees (discussed below) was \$1,578,106 for the fiscal year ended August 31, 1995. Of this amount, contributions of \$976,337 were made by the State, and contributions of \$601,769 were made by the University.

C. Post-Employment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provided certain health care and life insurance benefits for retired employees, in accordance with state statutes. Substantially all employees may become eligible for health care and life insurance benefits if they reach normal retirement age while working for the University of Houston System. The University participates in the ERS insurance plans. These programs are funded by the State of Texas and by retiree payments. During fiscal year 1995, amounts funded by the State for each employee were the same as for active employees, discussed above. Information regarding the cost of providing benefits for retirees, the State's contribution, and the number of participants is included in the notes to the ERS annual financial report.

D. Federal Insurance Contributions Act (FICA) Payments

The FICA paid by the State and the University on employees' payroll includes the employer's 7.65 percent portion and 5.85 percent of an employee's pay not to exceed \$965. The University's FICA expense for the fiscal year ended August 31, 1995, was \$2,057,231, which is included in the Statement of Current Funds Expenditures. Of this amount, contributions of \$1,398,951 were made by the State, and contributions of \$658,280 were made by the University.

E. State of Texas Employee Benefit Payments

Funds paid by the State of Texas directly into retirement funds and for group insurance and for matching FICA for the benefit of employees of the University are recorded and reported as revenues and expenditures in unrestricted Current Funds and are included, as stated above, on the Statement of Current Funds Expenditures.

F. Deferred Compensation and Tax-Deferred Investment Programs

Active benefits-eligible employees may elect, for federal income tax purposes, to defer a portion of their earnings in a qualified state-deferred compensation plan which complies with Internal Revenue Code 457. These employees may also purchase qualified tax-deferred investments with a portion of their earnings in order to supplement either of the two retirement programs offered by the State, discussed above, in which the employees participate. For the year ended August 31, 1995, no employees participated in the deferred compensation plans. However, 154 employees invested \$567,643 in tax-deferred investments during the year via payroll deductions. Since these are individually-owned annuity contracts and other investment instruments, the State has no additional or unfunded liability for this program.

The State also administers another plan, "TexaSaver," created in accordance with Internal Revenue Code Section 401(k). However, the assets of this plan do not belong to the State, nor does the State have a liability related to this plan.

Note 4: Compensated Absences

The University of Houston - Clear Lake records a liability for accrued, unused annual leave. Full-time state employees earn annual leave from 7 to 14 hours per month depending on the respective employee's years of state-employed service. The State's policy is that an employee may carry his or her accrued leave forward from one fiscal year to another fiscal year with a maximum of 376 hours for those employees with 20 or more years of state service. Accrued leave in excess of the allowable maximum for an employee was converted to sick leave at the conclusion of fiscal year 1995. Employees with at least six months of state service who terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed.

The University recognizes and reports the accrued liability for the unpaid annual leave in unrestricted Current Funds, and it appears on the Current Funds Balance Sheet. Estimated accrued compensable absences payable on August 31, 1995, were \$697,103, a decrease of \$74,141 from August 31, 1994.

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

Note 5: Allowances for Doubtful Accounts

Allowances are recorded for certain accounts receivable. Net change for the year is recorded in expenditures and other deductions from fund balances. Accounts receivable are written off if more than one year past due. Accounts receivable as of August 31, 1995, are shown below. The amounts of net accounts receivable are reported on the Current Funds Balance Sheet.

	Gross Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
Federal Receivables	\$ 1,099,519	\$ 0	\$ 1,099,519
Non-Federal Receivables	<u>937,565</u>	<u>0</u>	<u>937,565</u>
Total Accounts Receivable	<u>\$ 2,037,084</u>	<u>\$ 0</u>	<u>\$ 2,037,084</u>

Note 6: Operating Lease Obligations and Rental Agreements

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

<u>Fund Group</u>	<u>Amount</u>
Educational and General	\$ 101,518
Designated	48,066
Auxiliary	57,865
Restricted	<u>2,038</u>
Total	<u>\$ 209,487</u>

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

Future Commitments

<u>Fiscal Year</u>	<u>Minimum Lease Payment</u>
1996	\$ 140,017
1997	105,012
1998	70,008
1999	35,004
2000	17,502
2001 and beyond	<u>8,751</u>
Total	<u>\$ 376,294</u>

Note 7: Risk Financing and Related Insurance

The University of Houston System has self-insurance arrangements or plans for coverage in the areas of workers' compensation and unemployment compensation for employees of the University. These self-insurance plans are funded by monthly charges to the University's accounts which are included as expenditures on the Statement of Current Funds Expenditures. Self-insurance plans are included as fund balances in Designated Funds within unrestricted Current Funds of the System. Claims on these self-insurance plans, which were incurred but not yet paid, were insignificant and therefore not reported as a liability on the Current Funds Balance Sheet.

Note 8: Contract and Grant Awards

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

For federal and non-federal contract and grant awards, funds expended but not collected are reported as Federal Receivables and Accounts Receivable in the Current Funds Balance Sheet. Contract and grant awards that are not yet funded and for which

the institution has not yet performed services are not included in the Financial Statements. Contract and grant award funds already committed, including multi-year awards and funds awarded during fiscal year 1995 for which monies have not been received or funds expended totaled \$2,741,440. The amounts of these contract and grant awards are shown below:

<u>Contract and Grant Category</u>	<u>Amount</u>
Federal	\$ 2,571,718
State	55,700
Local	0
Private	<u>114,022</u>
Total Contracts and Grants Awarded	<u>\$ 2,741,440</u>

Note 9: Pending Lawsuits and Claims

At August 31, 1995, various lawsuits and claims involving the University of Houston - Clear Lake were pending. While the ultimate liability with respect to litigation and other claims asserted against the University cannot be reasonably estimated at this time, such liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the University.

Note 10: Related Parties

The stated purpose of the University of Houston - Clear Lake Alumni Association (Association) is to promote the educational programs and objectives of the University by providing former students with current information and opportunities to remain involved with their alma mater. The Association's Board of Trustees consists of 4 officers and 18 directors, none of whom are members of the Board of Regents of the System or employees of the System. The Association remitted gifts of approximately \$25,000 to the University during the fiscal year ended August 31, 1995. During this same period, the University did not provide services to the Association.