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**Committee Meeting:** 2/9/2005  
Austin, Texas  
**Board Meeting:** 2/10/2005  
Austin, Texas

Woody L. Hunt, *Chairman*  
John W. Barnhill, Jr.  
H. Scott Caven, Jr.  
Cyndi Taylor Krier  
Robert B. Rowling

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
<b>Convene</b>	11:00 a.m. <i>Chairman Hunt</i>		
1. <b>U. T. System: Approval of <i>Docket No. 120</i></b>	Not on Agenda	<b>Action</b>	<b>34</b>
2. <b>U. T. System: Presentation of Monthly Financial Report</b>	11:00 a.m. <b>Report</b> <i>Mr. Wallace</i>	Not on Agenda	<b>34</b>
3. <b>U. T. System: Fiscal Year 2004 Annual Financial Report</b>	11:05 a.m. <b>Report</b> <i>Mr. Wallace</i>	Not on Agenda	<b>35</b>
4. <b>U. T. System: Report on the Analysis of Financial Condition for Fiscal Year 2004</b>	11:10 a.m. <b>Report</b> <i>Mr. Wallace</i>	Not on Agenda	<b>36</b>
5. <b>U. T. System: Approval of additional amount of equipment financing for Fiscal Year 2005 and resolution of parity debt</b>	11:20 a.m. <b>Action</b> <i>Mr. Aldridge</i>	<b>Action</b>	<b>37</b>
6. <b>U. T. System: Permanent University Fund quarterly update</b>	11:25 a.m. <b>Report</b> <i>Mr. Aldridge</i>	Not on Agenda	<b>40</b>
7. <b>U. T. System: Report on Revenue Financing System debt capacity</b>	11:30 a.m. <b>Report</b> <i>Mr. Aldridge</i>	Not on Agenda	<b>41</b>
8. <b>U. T. Board of Regents: Report on Investments for quarter ended November 30, 2004, Liquidity Profile, and Performance Report by Ennis Knupp + Associates</b>	11:50 a.m. <b>Report</b> <i>Mr. Boldt</i> <i>Mr. Michael Sebastian</i>	<b>Report</b>	<b>42</b>
<b>Adjourn</b>	12:00 p.m.		

1. **U. T. System: Approval of Docket No. 120**

RECOMMENDATION

It is recommended that *Docket No. 120*, printed on green paper at the back of the Agenda Book beginning on Page Docket - 1, be approved.

It is also recommended that the Board confirm that authority to execute contracts, documents, or instruments approved therein has been delegated to appropriate officials of the respective institution involved.

Fees, which are usually considered at the regularly scheduled Board meeting in February each year, will be submitted for Docket consideration at the special called meeting of the Board on March 10, 2005, to consider tuition and fee proposals.

2. **U. T. System: Presentation of Monthly Financial Report**

REPORT

Mr. Randy Wallace, Associate Vice Chancellor - Controller and Chief Budget Officer, will present the December Monthly Financial Report (MFR), representing the operating results of the institutions, as follows on Pages 34.1 - 34.27.

The MFR, prepared since 1990 to track the financial results of the U. T. System institutions, compares the results of operations between the current year-to-date cumulative amounts and the prior year-to-date cumulative amounts. Explanations are provided for institutions having the largest variances in Adjusted Income (Loss) year-to-date as compared to the prior year both in terms of dollars and percentages.



# Monthly Financial Report

## (Unaudited)

**System Office:**

*The University of Texas  
System Administration*

**Academic Institutions:**

*The University of Texas  
at Arlington*

*The University of Texas  
at Austin*

*The University of Texas  
at Brownsville*

*The University of Texas  
at Dallas*

*The University of Texas  
at El Paso*

*The University of Texas –  
Pan American*

*The University of Texas  
of the Permian Basin*

*The University of Texas  
at San Antonio*

*The University of Texas  
at Tyler*

**Health Institutions:**

*The University of Texas  
Southwestern Medical Center  
at Dallas*

*The University of Texas  
Medical Branch at Galveston*

*The University of Texas Health  
Science Center at Houston*

*The University of Texas Health  
Science Center at San Antonio*

*The University of Texas  
M.D. Anderson Cancer Center*

*The University of Texas Health  
Center at Tyler*

## *December 2004*

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**THE UNIVERSITY OF TEXAS SYSTEM**  
**MONTHLY FINANCIAL REPORT**  
**(Unaudited)**  
**FOR THE FOUR MONTHS ENDING**  
**DECEMBER 31, 2004**

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**The University of Texas System  
Monthly Financial Report**

**Foreword**

The Monthly Financial Report (MFR) for 2005 compares the results of operations between the current year-to-date cumulative amounts and the prior year-to-date cumulative amounts. Explanations are provided for institutions having the largest variances in Adjusted Income (Loss) year-to-date as compared to the prior year, both in terms of dollars and percentages. In addition, although no significant variance may exist, institutions with losses may be discussed.

The data is reported in three sections: (1) Operating Revenues, (2) Operating Expenses and (3) Other Nonoperating Adjustments. Presentation of state appropriation revenues are required under GASB 35 to be reflected as nonoperating revenues, so all institutions will report an Operating Loss prior to this adjustment. The MFR provides an Adjusted Income (Loss), which takes into account the nonoperating adjustments associated with core operating activities. An Adjusted Margin (as a percentage of operating and nonoperating revenue adjustments) is calculated for each period and is intended to reflect relative operating contributions to financial health.

**UNAUDITED**  
**The University of Texas System**  
**Comparison of Operating Results and Margin**  
**For the Four Months Ending December 31, 2004**

	<b>December Year-to-Date FY 2005</b>	<b>December Year-to-Date FY 2004 (Restated)</b>	<b>Variance</b>	<b>Fluctuation Percentage</b>
<b>Operating Revenues</b>				
Student Tuition and Fees	\$372,472,452	\$298,703,939	\$73,768,513	24.7%
Sponsored Programs	667,400,243	619,896,818	47,503,425	7.7%
Net Sales and Services of Educational Activities	59,901,657	41,187,271	18,714,386	45.4%
Net Sales and Services of Hospitals	654,591,776	588,751,133	65,840,643	11.2%
Net Professional Fees	248,387,295	228,214,904	20,172,391	8.8%
Net Auxiliary Enterprises	110,298,988	90,021,629	20,277,359	22.5%
Other Operating Revenues	68,853,330	65,347,791	3,505,539	5.4%
<b>Total Operating Revenues</b>	<b>2,181,905,741</b>	<b>1,932,123,485</b>	<b>249,782,256</b>	<b>12.9%</b>
<b>Operating Expenses</b>				
Salaries and Wages	1,398,955,292	1,274,067,127	124,888,165	9.8%
Payroll Related Costs	331,697,665	298,835,625	32,862,040	11.0%
Professional Fees and Contracted Services	77,117,713	73,339,794	3,777,919	5.2%
Other Contracted Services	96,423,826	86,109,988	10,313,838	12.0%
Scholarships and Fellowships	183,731,392	159,461,577	24,269,815	15.2%
Travel	29,424,348	24,944,122	4,480,226	18.0%
Materials and Supplies	286,786,703	258,863,874	27,922,829	10.8%
Utilities	57,020,995	51,036,780	5,984,215	11.7%
Telecommunications	20,416,453	19,776,359	640,094	3.2%
Repairs and Maintenance	40,191,886	38,195,276	1,996,610	5.2%
Rentals and Leases	30,269,053	24,022,714	6,246,339	26.0%
Printing and Reproduction	10,491,993	10,272,967	219,026	2.1%
Bad Debt Expense	4,089	4,089	0	0.0%
Federal Sponsored Programs Pass-Throughs	6,231,415	4,792,402	1,439,013	30.0%
Depreciation and Amortization	128,390,665	113,454,038	14,936,627	13.2%
Other Operating Expenses	128,632,301	127,008,964	1,623,337	1.3%
<b>Total Operating Expenses</b>	<b>2,825,785,789</b>	<b>2,564,185,696</b>	<b>261,600,093</b>	<b>10.2%</b>
<b>Operating Loss</b>	<b>(643,880,048)</b>	<b>(632,062,211)</b>	<b>(11,817,837)</b>	<b>-1.9%</b>
<b>Other Nonoperating Adjustments</b>				
State Appropriations	549,402,753	540,451,295	8,951,458	1.7%
Gift Contributions for Operations	70,745,914	57,985,735	12,760,179	22.0%
Net Investment Income	148,702,831	71,533,726	77,169,105	107.9%
Long Term Fund Distribution	56,980,706	54,503,648	2,477,058	4.5%
Interest Expense on Capital Asset Financings	(44,748,709)	(31,557,548)	(13,191,161)	-41.8%
<b>Net Other Nonoperating Adjustments</b>	<b>781,083,495</b>	<b>692,916,856</b>	<b>88,166,639</b>	<b>12.7%</b>
<b>Adjusted Income (Loss)</b>	<b>137,203,447</b>	<b>60,854,645</b>	<b>76,348,802</b>	<b>125.5%</b>
<b>Adjusted Margin (as a percentage)</b>	<b>4.6%</b>	<b>2.3%</b>		
Available University Fund Transfer	0	0	0	0.0%
Investment Gains (Losses)	1,127,515,449	1,100,062,012	27,453,437	2.5%
<b>Adj. Inc. (Loss) with Investment Gains (Losses)</b>	<b>\$1,264,718,896</b>	<b>\$1,160,916,657</b>	<b>\$103,802,239</b>	<b>8.9%</b>
<b>Adj. Margin % with Investment Gains (Losses)</b>	<b>30.6%</b>	<b>30.9%</b>		



**The University of Texas System**  
**Comparison of Year-to-Date FY 2005 Adjusted Income (Loss)**  
**to Year-to-Date FY 2004 Adjusted Income (Loss)**  
**For the Four Months Ending December 31, 2004**

	<b>Year-to-Date FY2005 Adjusted Income (Loss)</b>	<b>Year-to-Date FY2004 Adjusted Income (Loss) (Restated)</b>	<b>Variance of Current Year-to-Date to Prior Year-to-Date</b>	<b>Fluctuation Percentage</b>
U. T. System Administration	\$ 93,862,172	\$ 26,632,194	\$ 67,229,978	252.4% (1)
U. T. Arlington	6,777,747	2,771,817	4,005,930	144.5% (2)
U. T. Austin	43,624,094	46,375,408	(2,751,314)	-5.9%
U. T. Brownsville	1,450,886	226,104	1,224,782	541.7% (3)
U. T. Dallas	1,877,541	2,077,086	(199,545)	-9.6%
U. T. El Paso	1,376,919	1,069,151	307,768	28.8%
U. T. Pan American	2,355,288	2,825,617	(470,329)	-16.6%
U. T. Permian Basin	(551,953) (4)	(799,424)	247,471	31.0%
U. T. San Antonio	9,994,673	4,931,949	5,062,724	102.7% (5)
U. T. Tyler	(733,830) (6)	(725,247)	(8,583)	-1.2%
U. T. Southwestern Medical Center - Dallas	2,434,700	6,747,288	(4,312,588)	-63.9% (7)
U. T. Medical Branch - Galveston	(20,857,834)	(11,056,770)	(9,801,064)	-88.6% (8)
U. T. Health Science Center - Houston	1,020,571	4,848,590	(3,828,019)	-79.0% (9)
U. T. Health Science Center - San Antonio	5,842,959	3,306,010	2,536,949	76.7% (10)
U. T. M. D. Anderson Cancer Center	22,664,901	6,768,183	15,896,718	234.9% (11)
U. T. Health Center - Tyler	1,509,613	1,310,022	199,591	15.2%
Elimination of AUF Transfer	(35,445,000)	(36,453,333)	1,008,333	2.8%
Total Adjusted Income (Loss)	<u>137,203,447</u>	<u>60,854,645</u>	<u>76,348,802</u>	<u>125.5%</u>
Investment Gains (Losses)	1,127,515,449	1,100,062,012	27,453,437	2.5% (12)
<b>Total Adjusted Income (Loss) with Investment Gains (Losses)</b>	<b><u><u>\$ 1,264,718,896</u></u></b>	<b><u><u>\$ 1,160,916,657</u></u></b>	<b><u><u>\$ 103,802,239</u></u></b>	<b><u><u>8.9%</u></u></b>

THE UNIVERSITY OF TEXAS SYSTEM  
EXPLANATION OF VARIANCES ON THE MONTHLY FINANCIAL REPORT  
For the Four Months Ending December 31, 2004

Explanations are provided for institutions having the largest variances in adjusted income (loss) year-to-date as compared to the prior year, both in terms of dollars and percentages. Explanations are also provided for institutions with a current year-to-date adjusted loss.

- (1) U. T. System Administration – The \$67.2 million (252.4%) increase in adjusted income over the same period last year was primarily due to an increase in net investment income due to improved financial market conditions and a mineral rights lease sale. Due to the elevated price of oil, the lease sale netted a higher than normal sale bonus.
- (2) U. T. Arlington – The \$4 million (144.5%) increase in adjusted income over the same period last year was primarily due to an increase in designated tuition rates. Designated tuition increased from \$46 per semester credit hour in the fall of 2003 to \$73 per semester credit hour in the fall of 2004.
- (3) U. T. Brownsville – The \$1.2 million (541.7%) increase in adjusted income over the same period last year was primarily due to increases in the Texas Southmost College contract.
- (4) U. T. Permian Basin – The \$552,000 year-to-date net loss was primarily due to additional faculty hired to accommodate the increased student enrollment. This loss represents 1.6% of budgeted revenues. *UT Permian Basin* is anticipating ending the year with a \$1.7 million negative margin.
- (5) U. T. San Antonio – The \$5.1 million (102.7%) increase in adjusted income over the same period last year was primarily due to increased tuition and fees and increased net auxiliary enterprise revenue. Tuition and fees increased due to a 6% increase in enrollment as well as an increase in tuition and fees of 17%. The net auxiliary enterprise revenue increase is due to the new student housing and meal plans for 2005.
- (6) U. T. Tyler – The \$734,000 year-to-date net loss was primarily due to increased salaries and wages as well as increases in depreciation expense and interest expense related to three new capital projects. This loss represents 1.4% of budgeted revenues. *U. T. Tyler* is anticipating ending the year with a \$1.7 million negative margin.
- (7) U. T. Southwestern Medical Center – Dallas – The \$4.3 million (63.9%) decrease in adjusted income over the same period last year was primarily due to a prior year correction of indirect cost revenue and a decrease in gift contributions. The adjustment to prior year overhead had a negative impact on the December year-to-date margin of \$1.8 million. The reduction of gift contributions of \$3.4 million was due to a large donation in 2004 for the clinical transformation initiative project that did not recur.
- (8) U. T. Medical Branch – Galveston – The \$9.8 million (88.6%) increase in adjusted loss over the same period last year was primarily due to *UTMB Galveston's* Correctional Managed Health Care (CMHC) operations. *UTMB Galveston* has experienced multiple years of CMHC funding decreases despite increasing inmate populations, aging of the inmate population, increased incidences of inmate chronic diseases and other inflationary expense factors. *UTMB Galveston* has implemented significant cost and operational improvements in CMHC over the last several years, but is now facing a situation where CMHC is not adequately funded. Cost and operational improvement opportunities are becoming limited. *UTMB Galveston* is pursuing funding increases for CMHC and is implementing additional cost saving measures. CMHC represents approximately one-fourth of *UTMB Galveston's* budget.  
  
*UTMB Galveston's* net loss of \$20.9 million represents 1.7% of budgeted revenues. *UTMB Galveston's* management is projecting a negative margin of \$19.5 million for 2005. This projected loss includes \$49.5 million in noncash depreciation expense; therefore, cash flow from operations is projected to be a positive \$30 million. Additionally, the \$19.5 million loss does not include nonoperating revenue for capital gifts from the Sealy and Smith Foundation of \$20.7 million. *UTMB Galveston* is the sole beneficiary of the Sealy and Smith Foundation, and these gifts are integral to *UTMB Galveston's* financial success. *UTMB Galveston* will continue to have narrow margins as over 80% of clinical revenues are generated from government payors whose rate increases are not keeping pace with inflation. *UTMB Galveston* will continue to modify revenue enhancement and cost reduction plans as necessary to achieve financial goals for 2005.

- (9) U. T. Health Science Center – Houston – The \$3.8 million (79%) decrease in adjusted income over the same period last year was primarily due to increases in rentals and leases as well as increased contracted services. While the John Freeman building is being demolished and the new facility is being constructed, personnel who were displaced are being housed in rental space, which contributes to the increased rental expense in 2005. Other contracted services increased due to additional management fees and cleaning costs for the Hermann Professional building and increased expenses related to new software to track resident activity.
- (10) U. T. Health Science Center – San Antonio – The \$2.5 million (76.7%) increase in adjusted income over the same period last year was primarily due to increased professional fees of \$2.5 million and increased gift contributions of \$3 million. Gifts include \$1.6 million for the Research Imaging Center, \$750,000 for the San Antonio Cancer Institute and \$450,000 for Center of Excellence in Cardiology.
- (11) U. T. M. D. Anderson Cancer Center – The \$15.9 million (234.9%) increase in adjusted income over the same period last year was primarily due to increased investment income of \$7.4 million due to improved financial market conditions and an increase in gifts of \$5.7 million.
- (12) Investment Gains (Losses) – The \$27.5 million (2.5%) improvement in investment gains over the same period last year was due to improved financial market conditions. The majority of the year-to-date gains relate to the Permanent University Fund (PUF) for \$727.6 million, the Long Term Fund (LTF) for \$314.6 million and the Permanent Health Fund (PHF) for \$74.6 million.

## GLOSSARY OF TERMS

### **OPERATING REVENUES:**

STUDENT TUITION AND FEES – All student tuition and fee revenues earned at the U.T. institution for educational purposes.

SPONSORED PROGRAMS – Funding received from local, state and federal governments or private agencies, organizations or individuals. Includes amounts received for services performed on grants, contracts, and agreements from these entities for current operations. This also includes indirect cost recoveries and pass-through federal and state grants.

NET SALES AND SERVICES OF EDUCATIONAL ACTIVITIES – Revenues that are related to the conduct of instruction, research, and public service and revenues from activities that exist to provide an instructional and laboratory experience for students that create goods and services that may be sold.

NET SALES AND SERVICES OF HOSPITALS – Revenues (net of discounts, allowances, and bad debt expense) generated from U.T. health institution's daily patient care, special or other services, as well as revenues from health clinics that are part of a hospital.

NET PROFESSIONAL FEES – Revenues (net of discounts, allowances, and bad debt expense) derived from the fees charged by the professional staffs at U.T. health institutions as part of the Medical Practice Plans. These revenues are also identified as Practice Plan income. Examples of such fees include doctor's fees for clinic visits, medical and dental procedures, professional opinions, and anatomical procedures, such as analysis of specimens after a surgical procedure, etc.

NET AUXILIARY ENTERPRISES – Revenues derived from a service to students, faculty, or staff in which a fee is charged that is directly related to, although not necessarily equal to the cost of the service (e.g., bookstores, dormitories, dining halls, snack bars, inter-collegiate athletic programs, etc.).

OTHER OPERATING REVENUES – Other revenues generated from sales or services provided to meet current fiscal year operating expenses, which are not included in the preceding categories (e.g., certified non profit healthcare company revenues, donated drugs, interest on student loans, etc.)

### **OPERATING EXPENSES:**

SALARIES AND WAGES – Expenses for all salaries and wages of individuals employed by the institution including full-time, part-time, longevity, hourly, seasonal, etc.

PAYROLL RELATED COSTS – Expenses for all employee benefits paid by the institution or paid by the state on behalf of the institution.

PROFESSIONAL FEES AND CONTRACTED SERVICES – Payments for services rendered on a fee, contract, or other basis by a person, firm, corporation, or company recognized as possessing a high degree of learning and responsibility. Includes such items as services of a consultant, legal counsel, financial or audit fees, medical contracted services, guest lecturers (not employees) and expert witnesses.

OTHER CONTRACTED SERVICES – Payments for services rendered on a contractual basis by a person, firm, corporation or company that possess a lesser degree of learning and responsibility than that required for Professional Fees and Contracted Services. Includes such items as temporary employment expenses, fully insured medical plans expenses, janitorial services, dry cleaning services, etc.

SCHOLARSHIPS AND FELLOWSHIPS – Payments made for scholarship grants to students authorized by law.

TRAVEL – Payments for travel costs incurred during travel by employees, board or commission members and elected/appointed officials on state business.

MATERIALS AND SUPPLIES – Payments for consumable items. Includes, but is not limited to: computer consumables, office supplies, paper products, soap, lights, plants, fuels and lubricants, chemicals and gasses, medical supplies and copier supplies. Also includes postal services, and subscriptions and other publications not for permanent retention.

UTILITIES – Payments for the purchase of electricity, natural gas, water, thermal energy and waste disposal.

TELECOMMUNICATIONS - Electronically transmitted communications services (telephone, internet, computation center services, etc.).

REPAIRS AND MAINTENANCE – Payments for the maintenance and repair of equipment, furnishings, motor vehicles, buildings and other plant facilities. Includes, but is not limited to repair and maintenance to copy machines, furnishings, equipment – including medical and laboratory equipment, office equipment and aircraft.

RENTALS AND LEASES – Payments for rentals or leases of furnishings and equipment, vehicles, land and office buildings (all rental of space).

PRINTING AND REPRODUCTION – Printing and reproduction costs associated with the printing/copying of the institution's documents and publications.

BAD DEBT EXPENSE – Expenses incurred by the university related to nonrevenue receivables such as non-payment of student loans.

CLAIMS AND LOSSES – Payments for claims from self-insurance programs. Other claims for settlements and judgments are considered nonoperating expenses.

FEDERAL SPONSORED PROGRAMS PASS-THROUGHS – Pass-throughs to other Texas state agencies, including other universities, of federal grants and contracts.

STATE SPONSORED PROGRAMS PASS-THROUGHS – Pass-throughs to other Texas state agencies, including Texas universities.

DEPRECIATION AND AMORTIZATION – Estimated depreciation and amortization expense.

OTHER OPERATING EXPENSES – Other operating expenses not identified in other line items above (e.g., certified non profit healthcare company expenses, property taxes, insurance premiums, credit card fees, hazardous waste disposal expenses, meetings and conferences, etc.).

**OPERATING LOSS** – Total operating revenues less total operating expenses before other nonoperating adjustments like state appropriations.

**OTHER NONOPERATING ADJUSTMENTS:**

STATE APPROPRIATIONS – Appropriations from the State General Revenue fund, which supplement the U.T. institutional revenue in meeting operating expenses, such as faculty salaries, utilities, and institutional support.

GIFT CONTRIBUTIONS FOR OPERATIONS – Consist of public and private gifts used in current operations, excluding gifts for capital acquisition and endowment gifts.

NET INVESTMENT INCOME – Interest and dividend income, Permanent Health Fund distributions and patent and royalty income.

LONG TERM FUND DISTRIBUTION – At the institutional level, includes Long Term Fund fixed payouts approved by the Board of Regents. On the MFR, investment income for System Administration has been reduced for the amount of any transfers so as not to overstate investment income.

INTEREST EXPENSE ON CAPITAL ASSET FINANCINGS – Interest expenses associated with bond and note borrowings utilized to finance capital improvement projects by an institution. This consists of the interest portion of mandatory debt service transfers under the Revenue Financing System, Tuition Revenue bond and Permanent University Fund (PUF) bond programs. PUF interest expense is reported on System Administration as the debt legally belongs to the Board of Regents.

**ADJUSTED INCOME (LOSS)** – Total operating revenues less total operating expenses plus net other nonoperating adjustments.

**ADJUSTED MARGIN (as a percentage)** – Percentage of Adjusted Income (Loss) divided by Total Operating Revenues plus Net Nonoperating Adjustments less Interest Expense on Capital Asset Financings.

AVAILABLE UNIVERSITY FUND TRANSFER – Includes Available University Fund (AUF) transfer to System Administration for Educational and General operations and to U.T. Austin for Excellence Funding. These transfers are funded by investment earnings from the Permanent University Fund (PUF), which are required by law to be reported in the PUF at System Administration. On the MFR, investment income for System Administration has been reduced for the amount of the System Administration transfer so as not to overstate investment income for System Administration. The AUF transfers are eliminated at the consolidated level to avoid overstating System-wide revenues, as the amounts will be reflected as transfers at year-end.

INVESTMENT GAINS (LOSSES) – Realized and unrealized gains and losses on investments.

**UNAUDITED**  
**The University of Texas System Administration**  
**Comparison of Operating Results and Margin**  
**For the Four Months Ending December 31, 2004**

	<b>December Year-to-Date <u>FY 2005</u></b>	<b>December Year-to-Date <u>FY 2004</u></b>	<b><u>Variance</u></b>	<b><u>Fluctuation Percentage</u></b>
<b>Operating Revenues</b>				
Sponsored Programs	\$2,622,391	\$2,490,000	\$132,391	5.3%
Net Sales and Services of Educational Activities	3,554,504	(36,359)	3,590,863	9,876.1%
Other Operating Revenues	10,515,774	10,705,026	(189,252)	-1.8%
<b>Total Operating Revenues</b>	<b><u>16,692,669</u></b>	<b><u>13,158,667</u></b>	<b><u>3,534,002</u></b>	<b><u>26.9%</u></b>
<b>Operating Expenses</b>				
Salaries and Wages	7,256,198	6,290,734	965,464	15.3%
Employee Benefits and Related Costs	1,641,323	1,283,230	358,093	27.9%
Professional Fees and Contracted Services	729,291	838,507	(109,216)	-13.0%
Other Contracted Services	1,764,086	3,043,859	(1,279,773)	-42.0%
Travel	468,050	201,429	266,621	132.4%
Materials and Supplies	955,820	1,556,338	(600,518)	-38.6%
Utilities	12,520	9,524	2,996	31.5%
Telecommunications	298,040	330,181	(32,141)	-9.7%
Repairs and Maintenance	518,061	382,776	135,285	35.3%
Rentals and Leases	114,553	162,889	(48,336)	-29.7%
Printing and Reproduction	61,760	41,813	19,947	47.7%
Depreciation and Amortization	535,796	500,116	35,680	7.1%
Other Operating Expenses	3,037,194	1,138,457	1,898,737	166.8%
<b>Total Operating Expenses</b>	<b><u>17,496,692</u></b>	<b><u>15,848,853</u></b>	<b><u>1,647,839</u></b>	<b><u>10.4%</u></b>
<b>Operating Loss</b>	<b><u>(804,023)</u></b>	<b><u>(2,690,186)</u></b>	<b><u>1,886,163</u></b>	<b><u>70.1%</u></b>
<b>Other Nonoperating Adjustments</b>				
State Appropriations	332,994	332,995	(1)	0.0%
Gift Contributions for Operations	801,780	130,182	671,598	515.9%
Net Investment Income	93,854,226	27,190,002	66,664,224	245.2%
Long Term Fund Distribution	1,668,934	2,176,708	(507,774)	-23.3%
Interest Expense on Capital Asset Financings	(11,238,212)	(9,813,080)	(1,425,132)	-14.5%
<b>Net Other Nonoperating Adjustments</b>	<b><u>85,419,722</u></b>	<b><u>20,016,807</u></b>	<b><u>65,402,915</u></b>	<b><u>326.7%</u></b>
<b>Adjusted Income (Loss)</b>	<b>84,615,699</b>	<b>17,326,621</b>	<b>67,289,078</b>	<b>388.4%</b>
<b>Adjusted Margin (as a percentage)</b>	<b>74.6%</b>	<b>40.3%</b>		
Available University Fund Transfer	9,246,473	9,305,573	(59,100)	-0.6%
<b>Adjusted Income (Loss) with AUF Transfer</b>	<b>93,862,172</b>	<b>26,632,194</b>	<b>67,229,978</b>	<b>252.4%</b>
<b>Adjusted Margin % with AUF Transfer</b>	<b>76.6%</b>	<b>50.9%</b>		
Investment Gains (Losses)	1,118,392,393	1,077,630,728	40,761,665	3.8%
<b>Adj. Inc. (Loss) with AUF Transfer &amp; Invest. Gains (Losses)</b>	<b>\$1,212,254,565</b>	<b>\$1,104,262,922</b>	<b>\$107,991,643</b>	<b>9.8%</b>
<b>Adj. Margin % with AUF Transfer &amp; Invest. Gains (Losses)</b>	<b>98.4%</b>	<b>98.5%</b>		

**UNAUDITED**  
**The University of Texas at Arlington**  
**Comparison of Operating Results and Margin**  
**For the Four Months Ending December 31, 2004**

	<b>December Year-to-Date FY 2005</b>	<b>December Year-to-Date FY 2004</b>	<b>Variance</b>	<b>Fluctuation Percentage</b>
<b>Operating Revenues</b>				
Student Tuition and Fees	\$46,656,972	\$34,931,584	\$11,725,388	33.6%
Sponsored Programs	15,729,710	15,753,044	(23,334)	-0.1%
Net Sales and Services of Educational Activities	1,504,833	1,399,494	105,339	7.5%
Net Auxiliary Enterprises	8,582,507	6,947,171	1,635,336	23.5%
Other Operating Revenues	1,744,835	1,375,445	369,390	26.9%
<b>Total Operating Revenues</b>	<b>74,218,857</b>	<b>60,406,738</b>	<b>13,812,119</b>	<b>22.9%</b>
<b>Operating Expenses</b>				
Salaries and Wages	48,323,009	43,895,744	4,427,265	10.1%
Employee Benefits and Related Costs	10,163,705	9,784,593	379,112	3.9%
Professional Fees and Contracted Services	940,565	713,736	226,829	31.8%
Other Contracted Services	2,400,153	1,906,008	494,145	25.9%
Scholarships and Fellowships	16,610,178	14,610,701	1,999,477	13.7%
Travel	1,081,279	876,035	205,244	23.4%
Materials and Supplies	5,566,376	5,966,757	(400,381)	-6.7%
Utilities	2,178,275	1,897,384	280,891	14.8%
Telecommunications	939,775	951,934	(12,159)	-1.3%
Repairs and Maintenance	2,571,735	2,666,296	(94,561)	-3.5%
Rentals and Leases	930,331	610,751	319,580	52.3%
Printing and Reproduction	621,198	732,728	(111,530)	-15.2%
Depreciation and Amortization	4,418,505	3,422,376	996,129	29.1%
Other Operating Expenses	2,472,821	1,806,757	666,064	36.9%
<b>Total Operating Expenses</b>	<b>99,217,905</b>	<b>89,841,800</b>	<b>9,376,105</b>	<b>10.4%</b>
<b>Operating Loss</b>	<b>(24,999,048)</b>	<b>(29,435,062)</b>	<b>4,436,014</b>	<b>15.1%</b>
<b>Other Nonoperating Adjustments</b>				
State Appropriations	32,771,277	32,255,544	515,733	1.6%
Gift Contributions for Operations	584,090	484,182	99,908	20.6%
Net Investment Income	509,218	519,554	(10,336)	-2.0%
Long Term Fund Distribution	473,886	608,444	(134,558)	-22.1%
Interest Expense on Capital Asset Financings	(2,561,676)	(1,660,845)	(900,831)	-54.2%
<b>Net Other Nonoperating Adjustments</b>	<b>31,776,795</b>	<b>32,206,879</b>	<b>(430,084)</b>	<b>-1.3%</b>
<b>Adjusted Income (Loss)</b>	<b>6,777,747</b>	<b>2,771,817</b>	<b>4,005,930</b>	<b>144.5%</b>
<b>Adjusted Margin (as a percentage)</b>	<b>6.2%</b>	<b>2.9%</b>		
Investment Gains (Losses)	(24,776)	48,203	(72,979)	-151.4%
<b>Adj. Inc. (Loss) with Investment Gains (Losses)</b>	<b>\$6,752,971</b>	<b>\$2,820,020</b>	<b>\$3,932,951</b>	<b>139.5%</b>
<b>Adj. Margin % with Investment Gains (Losses)</b>	<b>6.2%</b>	<b>3.0%</b>		

**UNAUDITED**  
**The University of Texas at Austin**  
**Comparison of Operating Results and Margin**  
**For the Four Months Ending December 31, 2004**

	<b>December Year-to-Date FY 2005</b>	<b>December Year-to-Date FY 2004</b>	<b>Variance</b>	<b>Fluctuation Percentage</b>
<b>Operating Revenues</b>				
Student Tuition and Fees	\$168,407,267	\$134,764,069	\$33,643,198	25.0%
Sponsored Programs	129,849,641	119,985,258	9,864,383	8.2%
Net Sales and Services of Educational Activities	28,753,868	21,899,588	6,854,280	31.3%
Net Auxiliary Enterprises	60,391,943	53,206,442	7,185,501	13.5%
Other Operating Revenues	2,005,994	1,554,916	451,078	29.0%
<b>Total Operating Revenues</b>	<b>389,408,713</b>	<b>331,410,273</b>	<b>57,998,440</b>	<b>17.5%</b>
<b>Operating Expenses</b>				
Salaries and Wages	266,311,729	241,688,436	24,623,293	10.2%
Employee Benefits and Related Costs	57,181,690	50,998,323	6,183,367	12.1%
Professional Fees and Contracted Services	8,803,331	8,097,989	705,342	8.7%
Other Contracted Services	19,911,431	15,044,132	4,867,299	32.4%
Scholarships and Fellowships	57,321,966	48,370,386	8,951,580	18.5%
Travel	9,967,141	8,266,688	1,700,453	20.6%
Materials and Supplies	33,008,999	28,400,029	4,608,970	16.2%
Utilities	18,008,862	14,245,404	3,763,458	26.4%
Telecommunications	4,197,238	4,034,969	162,269	4.0%
Repairs and Maintenance	6,711,937	5,914,141	797,796	13.5%
Rentals and Leases	5,115,765	4,327,129	788,636	18.2%
Printing and Reproduction	2,903,732	3,083,419	(179,687)	-5.8%
Federal Sponsored Programs Pass-Thrus	1,830,819	586,733	1,244,086	212.0%
Depreciation and Amortization	27,552,536	26,060,195	1,492,341	5.7%
Other Operating Expenses	17,325,357	16,843,494	481,863	2.9%
<b>Total Operating Expenses</b>	<b>536,152,533</b>	<b>475,961,467</b>	<b>60,191,066</b>	<b>12.6%</b>
<b>Operating Loss</b>	<b>(146,743,820)</b>	<b>(144,551,194)</b>	<b>(2,192,626)</b>	<b>-1.5%</b>
<b>Other Nonoperating Adjustments</b>				
State Appropriations	106,765,662	106,929,927	(164,265)	-0.2%
Gift Contributions for Operations	19,701,806	19,945,399	(243,593)	-1.2%
Net Investment Income	5,085,842	4,105,963	979,879	23.9%
Long Term Fund Distribution	30,533,874	28,889,688	1,644,186	5.7%
Interest Expense on Capital Asset Financings	(7,164,270)	(5,397,708)	(1,766,562)	-32.7%
<b>Net Other Nonoperating Adjustments</b>	<b>154,922,914</b>	<b>154,473,269</b>	<b>449,645</b>	<b>0.3%</b>
<b>Adjusted Income (Loss)</b>	<b>8,179,094</b>	<b>9,922,075</b>	<b>(1,742,981)</b>	<b>-17.6%</b>
<b>Adjusted Margin (as a percentage)</b>	<b>1.5%</b>	<b>2.0%</b>		
Available University Fund Transfer	35,445,000	36,453,333	(1,008,333)	-2.8%
<b>Adjusted Income (Loss) with AUF Transfer</b>	<b>43,624,094</b>	<b>46,375,408</b>	<b>(\$2,751,314)</b>	<b>-5.9%</b>
<b>Adjusted Margin % with AUF Transfer</b>	<b>7.4%</b>	<b>8.8%</b>		
Investment Gains (Losses)	(48,856)	(206,947)	158,091	76.4%
<b>Adj. Inc. (Loss) with AUF Transfer &amp; Invest. Gains (Losses)</b>	<b>\$43,575,238</b>	<b>\$46,168,461</b>	<b>(\$2,593,223)</b>	<b>-5.6%</b>
<b>Adj. Margin % with AUF Transfer &amp; Invest. Gains (Losses)</b>	<b>7.9%</b>	<b>9.4%</b>		



**UNAUDITED**  
**The University of Texas at Brownsville**  
**Comparison of Operating Results and Margin**  
**For the Four Months Ending December 31, 2004**

	<b>December Year-to-Date FY 2005</b>	<b>December Year-to-Date FY 2004</b>	<b>Variance</b>	<b>Fluctuation Percentage</b>
<b>Operating Revenues</b>				
Student Tuition and Fees	\$2,926,229	\$2,409,006	\$517,223	21.5%
Sponsored Programs	36,275,265	30,343,712	5,931,553	19.5%
Net Sales and Services of Educational Activities	456,439	604,787	(148,348)	-24.5%
Net Auxiliary Enterprises	318,563	221,223	97,340	44.0%
Other Operating Revenues	4,339	973	3,366	345.9%
<b>Total Operating Revenues</b>	<b>39,980,835</b>	<b>33,579,701</b>	<b>6,401,134</b>	<b>19.1%</b>
<b>Operating Expenses</b>				
Salaries and Wages	14,594,352	13,643,283	951,069	7.0%
Employee Benefits and Related Costs	3,351,901	3,313,232	38,669	1.2%
Professional Fees and Contracted Services	577,315	533,127	44,188	8.3%
Scholarships and Fellowships	19,701,263	16,076,598	3,624,665	22.5%
Travel	236,403	200,023	36,380	18.2%
Materials and Supplies	1,413,668	1,239,004	174,664	14.1%
Utilities	896,217	714,062	182,155	25.5%
Telecommunications	493,954	495,318	(1,364)	-0.3%
Repairs and Maintenance	267,467	282,842	(15,375)	-5.4%
Rentals and Leases	670,983	617,069	53,914	8.7%
Printing and Reproduction	118,425	106,536	11,889	11.2%
Bad Debt Expense	4,089	4,089	0	0.0%
Federal Sponsored Programs Pass-Thrus	8,566	0	8,566	100.0%
Depreciation and Amortization	950,343	961,568	(11,225)	-1.2%
Other Operating Expenses	3,046,626	2,504,615	542,011	21.6%
<b>Total Operating Expenses</b>	<b>46,331,572</b>	<b>40,691,366</b>	<b>5,640,206</b>	<b>13.9%</b>
<b>Operating Loss</b>	<b>(6,350,737)</b>	<b>(7,111,665)</b>	<b>760,928</b>	<b>10.7%</b>
<b>Other Nonoperating Adjustments</b>				
State Appropriations	8,201,431	7,763,174	438,257	5.6%
Gift Contributions for Operations	57,538	120,045	(62,507)	-52.1%
Net Investment Income	115,495	90,661	24,834	27.4%
Long Term Fund Distribution	82,722	71,400	11,322	15.9%
Interest Expense on Capital Asset Financings	(655,563)	(707,511)	51,948	7.3%
<b>Net Other Nonoperating Adjustments</b>	<b>7,801,623</b>	<b>7,337,769</b>	<b>463,854</b>	<b>6.3%</b>
<b>Adjusted Income (Loss)</b>	<b>1,450,886</b>	<b>226,104</b>	<b>1,224,782</b>	<b>541.7%</b>
<b>Adjusted Margin (as a percentage)</b>	<b>3.0%</b>	<b>0.5%</b>		
Investment Gains (Losses)	19,362	11,947	7,415	62.1%
<b>Adj. Inc. (Loss) with Investment Gains (Losses)</b>	<b>\$1,470,248</b>	<b>\$238,051</b>	<b>\$1,232,197</b>	<b>517.6%</b>
<b>Adj. Margin % with Investment Gains (Losses)</b>	<b>3.0%</b>	<b>0.6%</b>		

**UNAUDITED**  
**The University of Texas at Dallas**  
**Comparison of Operating Results and Margin**  
**For the Four Months Ending December 31, 2004**

	<b>December Year-to-Date FY 2005</b>	<b>December Year-to-Date FY 2004</b>	<b>Variance</b>	<b>Fluctuation Percentage</b>
<b>Operating Revenues</b>				
Student Tuition and Fees	\$33,329,623	\$28,142,990	\$5,186,633	18.4%
Sponsored Programs	11,992,864	11,126,018	866,846	7.8%
Net Sales and Services of Educational Activities	1,623,694	1,355,765	267,929	19.8%
Net Auxiliary Enterprises	2,090,768	1,652,684	438,084	26.5%
Other Operating Revenues	2,025,179	684,520	1,340,659	195.9%
<b>Total Operating Revenues</b>	<b>51,062,128</b>	<b>42,961,977</b>	<b>8,100,151</b>	<b>18.9%</b>
<b>Operating Expenses</b>				
Salaries and Wages	37,574,489	33,951,762	3,622,727	10.7%
Employee Benefits and Related Costs	7,205,614	6,351,012	854,602	13.5%
Professional Fees and Contracted Services	1,259,570	534,733	724,837	135.6%
Other Contracted Services	1,922,606	1,586,429	336,177	21.2%
Scholarships and Fellowships	12,900,201	11,019,339	1,880,862	17.1%
Travel	985,197	827,378	157,819	19.1%
Materials and Supplies	4,803,528	3,773,653	1,029,875	27.3%
Utilities	1,790,932	1,471,156	319,776	21.7%
Telecommunications	498,148	490,871	7,277	1.5%
Repairs and Maintenance	1,324,369	771,125	553,244	71.7%
Rentals and Leases	374,251	258,635	115,616	44.7%
Printing and Reproduction	390,194	305,700	84,494	27.6%
Federal Sponsored Programs Pass-Thrus	33,000	77,378	(44,378)	-57.4%
Depreciation and Amortization	4,122,621	3,650,000	472,621	12.9%
Other Operating Expenses	2,198,822	1,593,007	605,815	38.0%
<b>Total Operating Expenses</b>	<b>77,383,542</b>	<b>66,662,178</b>	<b>10,721,364</b>	<b>16.1%</b>
<b>Operating Loss</b>	<b>(26,321,414)</b>	<b>(23,700,201)</b>	<b>(2,621,213)</b>	<b>-11.1%</b>
<b>Other Nonoperating Adjustments</b>				
State Appropriations	23,822,990	22,445,304	1,377,686	6.1%
Gift Contributions for Operations	2,307,353	1,643,603	663,750	40.4%
Net Investment Income	853,148	626,640	226,508	36.1%
Long Term Fund Distribution	2,278,315	2,094,456	183,859	8.8%
Interest Expense on Capital Asset Financings	(1,062,851)	(1,032,716)	(30,135)	-2.9%
<b>Net Other Nonoperating Adjustments</b>	<b>28,198,955</b>	<b>25,777,287</b>	<b>2,421,668</b>	<b>9.4%</b>
<b>Adjusted Income (Loss)</b>	<b>1,877,541</b>	<b>2,077,086</b>	<b>(199,545)</b>	<b>-9.6%</b>
<b>Adjusted Margin (as a percentage)</b>	<b>2.3%</b>	<b>3.0%</b>		
Investment Gains (Losses)	(35,560)	346,811	(382,371)	-110.3%
<b>Adj. Inc. (Loss) with Investment Gains (Losses)</b>	<b>\$1,841,981</b>	<b>\$2,423,897</b>	<b>(\$581,916)</b>	<b>-24.0%</b>
<b>Adj. Margin % with Investment Gains (Losses)</b>	<b>2.3%</b>	<b>3.5%</b>		

**UNAUDITED**  
**The University of Texas at El Paso**  
**Comparison of Operating Results and Margin**  
**For the Four Months Ending December 31, 2004**

	<b>December Year-to-Date FY 2005</b>	<b>December Year-to-Date FY 2004</b>	<b>Variance</b>	<b>Fluctuation Percentage</b>
<b>Operating Revenues</b>				
Student Tuition and Fees	\$24,604,164	\$19,869,296	\$4,734,868	23.8%
Sponsored Programs	26,121,985	25,280,884	841,101	3.3%
Net Sales and Services of Educational Activities	994,897	1,111,036	(116,139)	-10.5%
Net Auxiliary Enterprises	8,190,809	6,802,598	1,388,211	20.4%
Other Operating Revenues	4,798	66,636	(61,838)	-92.8%
<b>Total Operating Revenues</b>	<b>59,916,653</b>	<b>53,130,450</b>	<b>6,786,203</b>	<b>12.8%</b>
<b>Operating Expenses</b>				
Salaries and Wages	37,208,670	33,943,739	3,264,931	9.6%
Employee Benefits and Related Costs	8,225,430	7,651,636	573,794	7.5%
Professional Fees and Contracted Services	1,327,495	1,063,085	264,410	24.9%
Other Contracted Services	3,506,180	2,826,851	679,329	24.0%
Scholarships and Fellowships	19,857,084	18,071,132	1,785,952	9.9%
Travel	1,751,348	1,681,472	69,876	4.2%
Materials and Supplies	6,269,908	5,301,204	968,704	18.3%
Utilities	1,823,643	1,719,636	104,007	6.0%
Telecommunications	429,418	309,258	120,160	38.9%
Repairs and Maintenance	1,340,208	1,208,327	131,881	10.9%
Rentals and Leases	577,692	416,600	161,092	38.7%
Printing and Reproduction	324,685	227,985	96,700	42.4%
Federal Sponsored Programs Pass-Thrus	91,282	89,992	1,290	1.4%
Depreciation and Amortization	3,109,755	2,983,131	126,624	4.2%
Other Operating Expenses	1,606,679	2,081,817	(475,138)	-22.8%
<b>Total Operating Expenses</b>	<b>87,449,477</b>	<b>79,575,865</b>	<b>7,873,612</b>	<b>9.9%</b>
<b>Operating Loss</b>	<b>(27,532,824)</b>	<b>(26,445,415)</b>	<b>(1,087,409)</b>	<b>-4.1%</b>
<b>Other Nonoperating Adjustments</b>				
State Appropriations	25,826,697	24,654,052	1,172,645	4.8%
Gift Contributions for Operations	2,071,087	1,835,514	235,573	12.8%
Net Investment Income	916,753	694,563	222,190	32.0%
Long Term Fund Distribution	1,381,158	1,339,812	41,346	3.1%
Interest Expense on Capital Asset Financings	(1,285,952)	(1,009,375)	(276,577)	-27.4%
<b>Net Other Nonoperating Adjustments</b>	<b>28,909,743</b>	<b>27,514,566</b>	<b>1,395,177</b>	<b>5.1%</b>
<b>Adjusted Income (Loss)</b>	<b>1,376,919</b>	<b>1,069,151</b>	<b>307,768</b>	<b>28.8%</b>
<b>Adjusted Margin (as a percentage)</b>	<b>1.5%</b>	<b>1.3%</b>		
Investment Gains (Losses)	(10,998)	42,209	(53,207)	-126.1%
<b>Adj. Inc. (Loss) with Investment Gains (Losses)</b>	<b>\$1,365,921</b>	<b>\$1,111,360</b>	<b>\$254,561</b>	<b>22.9%</b>
<b>Adj. Margin % with Investment Gains (Losses)</b>	<b>1.5%</b>	<b>1.4%</b>		

**UNAUDITED**  
**The University of Texas-Pan American**  
**Comparison of Operating Results and Margin**  
**For the Four Months Ending December 31, 2004**

	<b>December Year-to-Date FY 2005</b>	<b>December Year-to-Date FY 2004</b>	<b>Variance</b>	<b>Fluctuation Percentage</b>
<b>Operating Revenues</b>				
Student Tuition and Fees	\$19,538,274	\$17,013,796	\$2,524,478	14.8%
Sponsored Programs	25,007,240	22,998,746	2,008,494	8.7%
Net Sales and Services of Educational Activities	1,807,050	1,543,214	263,836	17.1%
Net Auxiliary Enterprises	2,505,520	2,504,864	656	0.0%
Other Operating Revenues	382,820	483,562	(100,742)	-20.8%
<b>Total Operating Revenues</b>	<b>49,240,904</b>	<b>44,544,182</b>	<b>4,696,722</b>	<b>10.5%</b>
<b>Operating Expenses</b>				
Salaries and Wages	25,644,260	23,067,890	2,576,370	11.2%
Employee Benefits and Related Costs	5,725,142	5,325,394	399,748	7.5%
Professional Fees and Contracted Services	296,679	256,270	40,409	15.8%
Other Contracted Services	1,320,071	1,304,612	15,459	1.2%
Scholarships and Fellowships	22,649,653	20,009,739	2,639,914	13.2%
Travel	598,907	737,513	(138,606)	-18.8%
Materials and Supplies	3,735,879	4,382,715	(646,836)	-14.8%
Utilities	1,611,963	1,471,389	140,574	9.6%
Telecommunications	331,711	225,587	106,124	47.0%
Repairs and Maintenance	453,564	604,331	(150,767)	-24.9%
Rentals and Leases	185,984	138,082	47,902	34.7%
Printing and Reproduction	260,239	268,890	(8,651)	-3.2%
Federal Sponsored Programs Pass-Thrus	2,883	-	2,883	100.0%
Depreciation and Amortization	2,570,676	2,224,895	345,781	15.5%
Other Operating Expenses	1,856,907	1,402,705	454,202	32.4%
<b>Total Operating Expenses</b>	<b>67,244,518</b>	<b>61,420,012</b>	<b>5,824,506</b>	<b>9.5%</b>
<b>Operating Loss</b>	<b>(18,003,614)</b>	<b>(16,875,830)</b>	<b>(1,127,784)</b>	<b>-6.7%</b>
<b>Other Nonoperating Adjustments</b>				
State Appropriations	19,613,826	19,216,044	397,782	2.1%
Gift Contributions for Operations	789,538	733,828	55,710	7.6%
Net Investment Income	553,427	411,755	141,672	34.4%
Long Term Fund Distribution	227,743	313,012	(85,269)	-27.2%
Interest Expense on Capital Asset Financings	(825,632)	(973,192)	147,560	15.2%
<b>Net Other Nonoperating Adjustments</b>	<b>20,358,902</b>	<b>19,701,447</b>	<b>657,455</b>	<b>3.3%</b>
<b>Adjusted Income (Loss)</b>	<b>2,355,288</b>	<b>2,825,617</b>	<b>(470,329)</b>	<b>-16.6%</b>
<b>Adjusted Margin (as a percentage)</b>	<b>3.3%</b>	<b>4.3%</b>		
Investment Gains (Losses)	201,945	452,621	(250,676)	-55.4%
<b>Adj. Inc. (Loss) with Investment Gains (Losses)</b>	<b>\$2,557,233</b>	<b>\$3,278,238</b>	<b>(\$721,005)</b>	<b>-22.0%</b>
<b>Adj. Margin % with Investment Gains (Losses)</b>	<b>3.6%</b>	<b>5.0%</b>		

**UNAUDITED**  
**The University of Texas of the Permian Basin**  
**Comparison of Operating Results and Margin**  
**For the Four Months Ending December 31, 2004**

	<b>December Year-to-Date <u>FY 2005</u></b>	<b>December Year-to-Date <u>FY 2004</u></b>	<b><u>Variance</u></b>	<b><u>Fluctuation Percentage</u></b>
<b>Operating Revenues</b>				
Student Tuition and Fees	\$3,061,489	\$2,454,744	\$606,745	24.7%
Sponsored Programs	2,094,687	2,073,219	21,468	1.0%
Net Sales and Services of Educational Activities	115,800	122,938	(7,138)	-5.8%
Net Auxiliary Enterprises	595,182	369,743	225,439	61.0%
Other Operating Revenues	45,578	52,869	(7,291)	-13.8%
<b>Total Operating Revenues</b>	<b><u>5,912,736</u></b>	<b><u>5,073,513</u></b>	<b><u>839,223</u></b>	<b><u>16.5%</u></b>
<b>Operating Expenses</b>				
Salaries and Wages	4,975,389	4,416,784	558,605	12.6%
Employee Benefits and Related Costs	1,043,177	946,212	96,965	10.2%
Professional Fees and Contracted Services	349,580	412,630	(63,050)	-15.3%
Other Contracted Services	245,099	315,489	(70,390)	-22.3%
Scholarships and Fellowships	2,166,110	1,913,106	253,004	13.2%
Travel	182,899	223,003	(40,104)	-18.0%
Materials and Supplies	769,201	955,682	(186,481)	-19.5%
Utilities	486,213	532,791	(46,578)	-8.7%
Telecommunications	172,694	143,895	28,799	20.0%
Repairs and Maintenance	148,604	101,104	47,500	47.0%
Rentals and Leases	91,470	131,426	(39,956)	-30.4%
Printing and Reproduction	93,627	130,265	(36,638)	-28.1%
Depreciation and Amortization	818,576	728,820	89,756	12.3%
Other Operating Expenses	231,002	308,710	(77,708)	-25.2%
<b>Total Operating Expenses</b>	<b><u>11,773,641</u></b>	<b><u>11,259,917</u></b>	<b><u>513,724</u></b>	<b><u>4.6%</u></b>
<b>Operating Loss</b>	<b><u>(5,860,905)</u></b>	<b><u>(6,186,404)</u></b>	<b><u>325,499</u></b>	<b><u>5.3%</u></b>
<b>Other Nonoperating Adjustments</b>				
State Appropriations	5,222,188	5,205,844	16,344	0.3%
Gift Contributions for Operations	448,738	353,109	95,629	27.1%
Net Investment Income	32,710	28,770	3,940	13.7%
Long Term Fund Distribution	194,000	186,454	7,546	4.0%
Interest Expense on Capital Asset Financings	(588,684)	(387,197)	(201,487)	-52.0%
<b>Net Other Nonoperating Adjustments</b>	<b><u>5,308,952</u></b>	<b><u>5,386,980</u></b>	<b><u>(78,028)</u></b>	<b><u>-1.4%</u></b>
<b>Adjusted Income (Loss)</b>	<b>(551,953)</b>	<b>(799,424)</b>	<b>247,471</b>	<b>31.0%</b>
<b>Adjusted Margin (as a percentage)</b>	<b>-4.7%</b>	<b>-7.4%</b>		
Investment Gains (Losses)	42,826	45,133	(2,307)	-5.1%
<b>Adj. Inc. (Loss) with Investment Gains (Losses)</b>	<b>(\$509,127)</b>	<b>(\$754,291)</b>	<b>\$245,164</b>	<b>32.5%</b>
<b>Adj. Margin % with Investment Gains (Losses)</b>	<b>-4.3%</b>	<b>-6.9%</b>		

**UNAUDITED**  
**The University of Texas at San Antonio**  
**Comparison of Operating Results and Margin**  
**For the Four Months Ending December 31, 2004**

	<b>December Year-to-Date FY 2005</b>	<b>December Year-to-Date FY 2004</b>	<b>Variance</b>	<b>Fluctuation Percentage</b>
<b>Operating Revenues</b>				
Student Tuition and Fees	\$45,714,570	\$34,044,697	\$11,669,873	34.3%
Sponsored Programs	24,011,125	21,982,853	2,028,272	9.2%
Net Sales and Services of Educational Activities	1,518,902	1,298,709	220,193	17.0%
Net Auxiliary Enterprises	7,254,312	1,901,417	5,352,895	281.5%
Other Operating Revenues	328,354	172,999	155,355	89.8%
<b>Total Operating Revenues</b>	<b>78,827,263</b>	<b>59,400,675</b>	<b>19,426,588</b>	<b>32.7%</b>
<b>Operating Expenses</b>				
Salaries and Wages	42,692,983	37,632,507	5,060,476	13.4%
Employee Benefits and Related Costs	9,693,715	8,307,723	1,385,992	16.7%
Professional Fees and Contracted Services	876,480	788,431	88,049	11.2%
Other Contracted Services	939,524	445,761	493,763	110.8%
Scholarships and Fellowships	21,641,626	18,508,619	3,133,007	16.9%
Travel	1,090,654	958,695	131,959	13.8%
Materials and Supplies	6,444,154	3,970,915	2,473,239	62.3%
Utilities	1,840,766	1,906,667	(65,901)	-3.5%
Telecommunications	1,088,370	728,013	360,357	49.5%
Repairs and Maintenance	1,828,496	1,582,107	246,389	15.6%
Rentals and Leases	977,125	832,025	145,100	17.4%
Printing and Reproduction	499,601	377,426	122,175	32.4%
Federal Sponsored Programs Pass-Thrus	1,289,606	1,107,240	182,366	16.5%
Depreciation and Amortization	3,408,167	3,515,100	(106,933)	-3.0%
Other Operating Expenses	1,131,265	1,360,984	(229,719)	-16.9%
<b>Total Operating Expenses</b>	<b>95,442,532</b>	<b>82,022,213</b>	<b>13,420,319</b>	<b>16.4%</b>
<b>Operating Loss</b>	<b>(16,615,269)</b>	<b>(22,621,538)</b>	<b>6,006,269</b>	<b>26.6%</b>
<b>Other Nonoperating Adjustments</b>				
State Appropriations	27,276,534	27,408,725	(132,191)	-0.5%
Gift Contributions for Operations	1,299,796	939,895	359,901	38.3%
Net Investment Income	635,948	475,440	160,508	33.8%
Long Term Fund Distribution	494,651	450,651	44,000	9.8%
Interest Expense on Capital Asset Financings	(3,096,987)	(1,721,224)	(1,375,763)	-79.9%
<b>Net Other Nonoperating Adjustments</b>	<b>26,609,942</b>	<b>27,553,487</b>	<b>(943,545)</b>	<b>-3.4%</b>
<b>Adjusted Income (Loss)</b>	<b>9,994,673</b>	<b>4,931,949</b>	<b>5,062,724</b>	<b>102.7%</b>
<b>Adjusted Margin (as a percentage)</b>	<b>9.2%</b>	<b>5.6%</b>		
Investment Gains (Losses)	46,326	228,110	(181,784)	-79.7%
<b>Adj. Inc. (Loss) with Investment Gains (Losses)</b>	<b>\$10,040,999</b>	<b>\$5,160,059</b>	<b>\$4,880,940</b>	<b>94.6%</b>
<b>Adj. Margin % with Investment Gains (Losses)</b>	<b>9.2%</b>	<b>5.8%</b>		

**UNAUDITED**  
**The University of Texas at Tyler**  
**Comparison of Operating Results and Margin**  
**For the Four Months Ending December 31, 2004**

	<b>December Year-to-Date FY 2005</b>	<b>December Year-to-Date FY 2004</b>	<b>Variance</b>	<b>Fluctuation Percentage</b>
<b>Operating Revenues</b>				
Student Tuition and Fees	\$6,267,436	\$4,861,176	\$1,406,260	28.9%
Sponsored Programs	3,097,305	3,038,515	58,790	1.9%
Net Sales and Services of Educational Activities	329,258	156,098	173,160	110.9%
Net Auxiliary Enterprises	956,763	457,371	499,392	109.2%
Other Operating Revenues	37,847	76,092	(38,245)	-50.3%
<b>Total Operating Revenues</b>	<b>10,688,609</b>	<b>8,589,252</b>	<b>2,099,357</b>	<b>24.4%</b>
<b>Operating Expenses</b>				
Salaries and Wages	8,781,621	7,300,188	1,481,433	20.3%
Employee Benefits and Related Costs	1,965,360	1,698,533	266,827	15.7%
Professional Fees and Contracted Services	525,714	557,384	(31,670)	-5.7%
Other Contracted Services	832,502	742,424	90,078	12.1%
Scholarships and Fellowships	3,618,401	3,399,090	219,311	6.5%
Travel	277,842	260,045	17,797	6.8%
Materials and Supplies	1,666,249	2,166,663	(500,414)	-23.1%
Utilities	306,863	354,431	(47,568)	-13.4%
Telecommunications	151,297	143,855	7,442	5.2%
Repairs and Maintenance	395,407	347,344	48,063	13.8%
Rentals and Leases	153,052	44,058	108,994	247.4%
Printing and Reproduction	191,503	167,729	23,774	14.2%
Depreciation and Amortization	1,522,555	1,300,000	222,555	17.1%
Other Operating Expenses	293,494	339,690	(46,196)	-13.6%
<b>Total Operating Expenses</b>	<b>20,681,860</b>	<b>18,821,434</b>	<b>1,860,426</b>	<b>9.9%</b>
<b>Operating Loss</b>	<b>(9,993,251)</b>	<b>(10,232,182)</b>	<b>238,931</b>	<b>2.3%</b>
<b>Other Nonoperating Adjustments</b>				
State Appropriations	8,601,014	8,708,328	(107,314)	-1.2%
Gift Contributions for Operations	361,406	364,902	(3,496)	-1.0%
Net Investment Income	161,755	101,666	60,089	59.1%
Long Term Fund Distribution	739,308	674,980	64,328	9.5%
Interest Expense on Capital Asset Financings	(604,062)	(342,941)	(261,121)	-76.1%
<b>Net Other Nonoperating Adjustments</b>	<b>9,259,421</b>	<b>9,506,935</b>	<b>(247,514)</b>	<b>-2.6%</b>
<b>Adjusted Income (Loss)</b>	<b>(733,830)</b>	<b>(725,247)</b>	<b>(8,583)</b>	<b>-1.2%</b>
<b>Adjusted Margin (as a percentage)</b>	<b>-3.6%</b>	<b>-3.9%</b>		
Investment Gains (Losses)	(178)	2,142	(2,320)	-108.3%
<b>Adj. Inc. (Loss) with Investment Gains (Losses)</b>	<b>(\$734,008)</b>	<b>(\$723,105)</b>	<b>(\$10,903)</b>	<b>-1.5%</b>
<b>Adj. Margin % with Investment Gains (Losses)</b>	<b>-3.6%</b>	<b>-3.9%</b>		

**UNAUDITED**  
**The University of Texas Southwestern Medical Center at Dallas**  
**Comparison of Operating Results and Margin**  
**For the Four Months Ending December 31, 2004**

	<b>December Year-to-Date <u>FY 2005</u></b>	<b>December Year-to-Date <u>FY 2004</u></b>	<b><u>Variance</u></b>	<b><u>Fluctuation Percentage</u></b>
<b>Operating Revenues</b>				
Student Tuition and Fees	\$6,797,458	\$6,560,227	\$237,231	3.6%
Sponsored Programs	125,992,090	115,475,987	10,516,103	9.1%
Net Sales and Services of Educational Activities	6,381,034	6,700,645	(319,611)	-4.8%
Net Professional Fees	77,427,137	67,026,456	10,400,681	15.5%
Net Auxiliary Enterprises	3,995,550	3,854,704	140,846	3.7%
Other Operating Revenues	2,929,701	3,143,319	(213,618)	-6.8%
<b>Total Operating Revenues</b>	<b><u>223,522,970</u></b>	<b><u>202,761,338</u></b>	<b><u>20,761,632</u></b>	<b><u>10.2%</u></b>
<b>Operating Expenses</b>				
Salaries and Wages	147,040,075	135,220,838	11,819,237	8.7%
Employee Benefits and Related Costs	40,668,251	37,860,755	2,807,496	7.4%
Professional Fees and Contracted Services	3,093,908	4,265,872	(1,171,964)	-27.5%
Other Contracted Services	19,169,112	17,673,688	1,495,424	8.5%
Scholarships and Fellowships	4,206,599	3,751,396	455,203	12.1%
Travel	2,450,806	2,402,016	48,790	2.0%
Materials and Supplies	29,673,469	27,218,916	2,454,553	9.0%
Utilities	5,310,024	5,813,158	(503,134)	-8.7%
Telecommunications	2,008,172	1,756,772	251,400	14.3%
Repairs and Maintenance	2,317,241	1,660,731	656,510	39.5%
Rentals and Leases	2,412,763	2,005,236	407,527	20.3%
Printing and Reproduction	790,241	758,844	31,397	4.1%
Federal Sponsored Programs Pass-Thrus	98,297	50,674	47,623	94.0%
Depreciation and Amortization	11,900,820	11,136,080	764,740	6.9%
Other Operating Expenses	10,371,231	9,944,195	427,036	4.3%
<b>Total Operating Expenses</b>	<b><u>281,511,009</u></b>	<b><u>261,519,171</u></b>	<b><u>19,991,838</u></b>	<b><u>7.6%</u></b>
<b>Operating Loss</b>	<b><u>(57,988,039)</u></b>	<b><u>(58,757,833)</u></b>	<b><u>769,794</u></b>	<b><u>1.3%</u></b>
<b>Other Nonoperating Adjustments</b>				
State Appropriations	38,951,632	38,810,774	140,858	0.4%
Gift Contributions for Operations	8,428,534	11,790,309	(3,361,775)	-28.5%
Net Investment Income	9,667,600	9,970,814	(303,214)	-3.0%
Long Term Fund Distribution	8,278,087	7,530,905	747,182	9.9%
Interest Expense on Capital Asset Financings	(4,903,114)	(2,597,681)	(2,305,433)	-88.7%
<b>Net Other Nonoperating Adjustments</b>	<b><u>60,422,739</u></b>	<b><u>65,505,121</u></b>	<b><u>(5,082,382)</u></b>	<b><u>-7.8%</u></b>
<b>Adjusted Income (Loss)</b>	<b>2,434,700</b>	<b>6,747,288</b>	<b>(4,312,588)</b>	<b>-63.9%</b>
<b>Adjusted Margin (as a percentage)</b>	<b>0.8%</b>	<b>2.5%</b>		
Investment Gains (Losses)	4,814,630	7,359,116	(2,544,486)	-34.6%
<b>Adj. Inc. (Loss) with Investment Gains (Losses)</b>	<b>\$7,249,330</b>	<b>\$14,106,404</b>	<b>(\$6,857,074)</b>	<b>-48.6%</b>
<b>Adj. Margin % with Investment Gains (Losses)</b>	<b>2.5%</b>	<b>5.1%</b>		



**UNAUDITED**  
**The University of Texas Medical Branch at Galveston**  
**Comparison of Operating Results and Margin**  
**For the Four Months Ending December 31, 2004**

	<b>December Year-to-Date <u>FY 2005</u></b>	<b>December Year-to-Date <u>FY 2004</u></b>	<b><u>Variance</u></b>	<b><u>Fluctuation Percentage</u></b>
<b>Operating Revenues</b>				
Student Tuition and Fees	\$4,252,614	\$3,626,666	\$625,948	17.3%
Sponsored Programs	60,308,439	53,629,966	6,678,473	12.5%
Net Sales and Services of Hospitals	223,696,291	221,856,907	1,839,384	0.8%
Net Professional Fees	34,581,217	31,697,653	2,883,564	9.1%
Net Auxiliary Enterprises	2,679,078	2,365,221	313,857	13.3%
Other Operating Revenues	9,366,739	9,056,612	310,127	3.4%
<b>Total Operating Revenues</b>	<b><u>334,884,378</u></b>	<b><u>322,233,025</u></b>	<b><u>12,651,353</u></b>	<b><u>3.9%</u></b>
<b>Operating Expenses</b>				
Salaries and Wages	239,853,451	224,999,401	14,854,050	6.6%
Employee Benefits and Related Costs	55,934,652	50,436,136	5,498,516	10.9%
Professional Fees and Contracted Services	13,088,941	11,036,323	2,052,618	18.6%
Other Contracted Services	20,035,677	20,029,057	6,620	0.0%
Scholarships and Fellowships	1,364,887	1,382,840	(17,953)	-1.3%
Travel	2,106,417	1,536,774	569,643	37.1%
Materials and Supplies	56,910,188	49,614,923	7,295,265	14.7%
Utilities	7,741,646	6,893,416	848,230	12.3%
Telecommunications	3,912,503	3,745,138	167,365	4.5%
Repairs and Maintenance	8,659,215	10,689,944	(2,030,729)	-19.0%
Rentals and Leases	3,478,644	3,540,121	(61,477)	-1.7%
Printing and Reproduction	522,590	947,405	(424,815)	-44.8%
Federal Sponsored Programs Pass-Thrus	772,591	602,102	170,489	28.3%
Depreciation and Amortization	16,459,651	15,718,762	740,889	4.7%
Other Operating Expenses	27,556,579	30,896,944	(3,340,365)	-10.8%
<b>Total Operating Expenses</b>	<b><u>458,397,632</u></b>	<b><u>432,069,286</u></b>	<b><u>26,328,346</u></b>	<b><u>6.1%</u></b>
<b>Operating Loss</b>	<b><u>(123,513,254)</u></b>	<b><u>(109,836,261)</u></b>	<b><u>(13,676,993)</u></b>	<b><u>-12.5%</u></b>
<b>Other Nonoperating Adjustments</b>				
State Appropriations	93,270,450	91,504,507	1,765,943	1.9%
Gift Contributions for Operations	1,064,958	1,312,737	(247,779)	-18.9%
Net Investment Income	5,695,538	2,632,879	3,062,659	116.3%
Long Term Fund Distribution	4,260,788	4,349,873	(89,085)	-2.0%
Interest Expense on Capital Asset Financings	(1,636,314)	(1,020,505)	(615,809)	-60.3%
<b>Net Other Nonoperating Adjustments</b>	<b><u>102,655,420</u></b>	<b><u>98,779,491</u></b>	<b><u>3,875,929</u></b>	<b><u>3.9%</u></b>
<b>Adjusted Income (Loss)</b>	<b>(20,857,834)</b>	<b>(11,056,770)</b>	<b>(9,801,064)</b>	<b>-88.6%</b>
<b>Adjusted Margin (as a percentage)</b>	<b>-4.7%</b>	<b>-2.6%</b>		
Investment Gains (Losses)	(56,526)	411,401	(467,927)	-113.7%
<b>Adj. Inc. (Loss) with Investment Gains (Losses)</b>	<b>(\$20,914,360)</b>	<b>(\$10,645,369)</b>	<b>(\$10,268,991)</b>	<b>-96.5%</b>
<b>Adj. Margin % with Investment Gains (Losses)</b>	<b>-4.8%</b>	<b>-2.5%</b>		

**UNAUDITED**  
**The University of Texas Health Science Center at Houston**  
**Comparison of Operating Results and Margin**  
**For the Four Months Ending December 31, 2004**

	<b>December Year-to-Date <u>FY 2005</u></b>	<b>December Year-to-Date <u>FY 2004</u></b>	<b><u>Variance</u></b>	<b><u>Fluctuation Percentage</u></b>
<b>Operating Revenues</b>				
Student Tuition and Fees	\$5,007,300	\$4,684,898	\$322,402	6.9%
Sponsored Programs	75,713,918	74,875,510	838,408	1.1%
Net Sales and Services of Educational Activities	10,160,683	3,199,459	6,961,224	217.6%
Net Sales and Services of Hospitals	10,639,301	10,647,979	(8,678)	-0.1%
Net Professional Fees	34,337,672	33,215,872	1,121,800	3.4%
Net Auxiliary Enterprises	5,586,224	3,597,082	1,989,142	55.3%
Other Operating Revenues	11,230,834	11,939,160	(708,326)	-5.9%
<b>Total Operating Revenues</b>	<b><u>152,675,932</u></b>	<b><u>142,159,960</u></b>	<b><u>10,515,972</u></b>	<b><u>7.4%</u></b>
<b>Operating Expenses</b>				
Salaries and Wages	101,746,053	102,055,899	(309,846)	-0.3%
Employee Benefits and Related Costs	23,775,078	21,886,827	1,888,251	8.6%
Professional Fees and Contracted Services	18,451,636	17,565,794	885,842	5.0%
Other Contracted Services	10,963,748	8,772,423	2,191,325	25.0%
Scholarships and Fellowships	856,833	949,933	(93,100)	-9.8%
Travel	1,689,614	926,217	763,397	82.4%
Materials and Supplies	12,075,871	7,275,549	4,800,322	66.0%
Utilities	2,715,516	2,317,044	398,472	17.2%
Telecommunications	1,008,117	952,761	55,356	5.8%
Repairs and Maintenance	1,132,719	1,002,394	130,325	13.0%
Rentals and Leases	5,001,980	2,296,546	2,705,434	117.8%
Printing and Reproduction	1,953,633	1,347,589	606,044	45.0%
Federal Sponsored Programs Pass-Thrus	1,531,786	1,436,947	94,839	6.6%
Depreciation and Amortization	5,803,341	5,137,809	665,532	13.0%
Other Operating Expenses	16,546,847	14,657,121	1,889,726	12.9%
<b>Total Operating Expenses</b>	<b><u>205,252,772</u></b>	<b><u>188,580,853</u></b>	<b><u>16,671,919</u></b>	<b><u>8.8%</u></b>
<b>Operating Loss</b>	<b><u>(52,576,840)</u></b>	<b><u>(46,420,893)</u></b>	<b><u>(6,155,947)</u></b>	<b><u>-13.3%</u></b>
<b>Other Nonoperating Adjustments</b>				
State Appropriations	48,343,367	45,917,847	2,425,520	5.3%
Gift Contributions for Operations	4,970,022	2,150,914	2,819,108	131.1%
Net Investment Income	2,464,816	3,268,951	(804,135)	-24.6%
Long Term Fund Distribution	973,963	1,133,917	(159,954)	-14.1%
Interest Expense on Capital Asset Financings	(3,154,757)	(1,202,146)	(1,952,611)	-162.4%
<b>Net Other Nonoperating Adjustments</b>	<b><u>53,597,411</u></b>	<b><u>51,269,483</u></b>	<b><u>2,327,928</u></b>	<b><u>4.5%</u></b>
<b>Adjusted Income (Loss)</b>	<b>1,020,571</b>	<b>4,848,590</b>	<b>(3,828,019)</b>	<b>-79.0%</b>
<b>Adjusted Margin (as a percentage)</b>	<b>0.5%</b>	<b>2.5%</b>		
Investment Gains (Losses)	(187,240)	343,881	(531,121)	-154.4%
<b>Adj. Inc. (Loss) with Investment Gains (Losses)</b>	<b>\$833,331</b>	<b>\$5,192,471</b>	<b>(\$4,359,140)</b>	<b>-84.0%</b>
<b>Adj. Margin % with Investment Gains (Losses)</b>	<b>0.4%</b>	<b>2.7%</b>		

**UNAUDITED**  
**The University of Texas Health Science Center at San Antonio**  
**Comparison of Operating Results and Margin**  
**For the Four Months Ending December 31, 2004**

	<b>December Year-to-Date FY 2005</b>	<b>December Year-to-Date FY 2004</b>	<b>Variance</b>	<b>Fluctuation Percentage</b>
<b>Operating Revenues</b>				
Student Tuition and Fees	\$5,833,333	\$5,239,310	\$594,023	11.3%
Sponsored Programs	59,446,472	57,218,273	2,228,199	3.9%
Net Sales and Services of Educational Activities	1,345,380	913,353	432,027	47.3%
Net Professional Fees	26,323,373	23,856,747	2,466,626	10.3%
Net Auxiliary Enterprises	967,715	620,628	347,087	55.9%
Other Operating Revenues	14,862,867	16,266,662	(1,403,795)	-8.6%
<b>Total Operating Revenues</b>	<b>108,779,140</b>	<b>104,114,973</b>	<b>4,664,167</b>	<b>4.5%</b>
<b>Operating Expenses</b>				
Salaries and Wages	84,182,930	77,706,952	6,475,978	8.3%
Employee Benefits and Related Costs	22,184,459	20,601,443	1,583,016	7.7%
Professional Fees and Contracted Services	3,466,545	3,934,445	(467,900)	-11.9%
Other Contracted Services	3,121,271	3,512,897	(391,626)	-11.1%
Scholarships and Fellowships	732,591	1,329,698	(597,107)	-44.9%
Travel	1,483,093	1,360,716	122,377	9.0%
Materials and Supplies	7,238,345	6,763,171	475,174	7.0%
Utilities	2,186,955	1,989,335	197,620	9.9%
Telecommunications	2,762,808	2,905,612	(142,804)	-4.9%
Repairs and Maintenance	837,147	506,864	330,283	65.2%
Rentals and Leases	808,322	436,099	372,223	85.4%
Printing and Reproduction	476,198	378,374	97,824	25.9%
Federal Sponsored Programs Pass-Thrus	134,091	254,576	(120,485)	-47.3%
Depreciation and Amortization	6,166,667	6,146,000	20,667	0.3%
Other Operating Expenses	27,647,941	30,663,272	(3,015,331)	-9.8%
<b>Total Operating Expenses</b>	<b>163,429,363</b>	<b>158,489,454</b>	<b>4,939,909</b>	<b>3.1%</b>
<b>Operating Loss</b>	<b>(54,650,223)</b>	<b>(54,374,481)</b>	<b>(275,742)</b>	<b>-0.5%</b>
<b>Other Nonoperating Adjustments</b>				
State Appropriations	48,682,885	47,434,556	1,248,329	2.6%
Gift Contributions for Operations	6,846,243	3,866,467	2,979,776	77.1%
Net Investment Income	6,036,110	6,676,786	(640,676)	-9.6%
Long Term Fund Distribution	1,220,292	1,133,633	86,659	7.6%
Interest Expense on Capital Asset Financings	(2,292,348)	(1,430,951)	(861,397)	-60.2%
<b>Net Other Nonoperating Adjustments</b>	<b>60,493,182</b>	<b>57,680,491</b>	<b>2,812,691</b>	<b>4.9%</b>
<b>Adjusted Income (Loss)</b>	<b>5,842,959</b>	<b>3,306,010</b>	<b>2,536,949</b>	<b>76.7%</b>
<b>Adjusted Margin (as a percentage)</b>	<b>3.4%</b>	<b>2.0%</b>		
Investment Gains (Losses)	267,415	2,031,738	(1,764,323)	-86.8%
<b>Adj. Inc. (Loss) with Investment Gains (Losses)</b>	<b>\$6,110,374</b>	<b>\$5,337,748</b>	<b>\$772,626</b>	<b>14.5%</b>
<b>Adj. Margin % with Investment Gains (Losses)</b>	<b>3.6%</b>	<b>3.2%</b>		

**UNAUDITED**  
**The University of Texas M. D. Anderson Cancer Center**  
**Comparison of Operating Results and Margin**  
**For the Four Months Ending December 31, 2004**

	<b>December Year-to-Date FY 2005</b>	<b>December Year-to-Date FY 2004</b>	<b>Variance</b>	<b>Fluctuation Percentage</b>
<b>Operating Revenues</b>				
Student Tuition and Fees	\$75,723	\$101,480	(\$25,757)	-25.4%
Sponsored Programs	66,101,384	60,838,202	5,263,182	8.7%
Net Sales and Services of Educational Activities	930,765	522,911	407,854	78.0%
Net Sales and Services of Hospitals	403,961,122	339,313,488	64,647,634	19.1%
Net Professional Fees	72,184,672	67,670,886	4,513,786	6.7%
Net Auxiliary Enterprises	5,955,932	5,241,941	713,991	13.6%
Other Operating Revenues	11,913,627	8,907,017	3,006,610	33.8%
<b>Total Operating Revenues</b>	<b>561,123,225</b>	<b>482,595,925</b>	<b>78,527,300</b>	<b>16.3%</b>
<b>Operating Expenses</b>				
Salaries and Wages	312,356,235	268,468,583	43,887,652	16.3%
Employee Benefits and Related Costs	77,835,860	67,297,206	10,538,654	15.7%
Professional Fees and Contracted Services	21,094,502	21,110,368	(15,866)	-0.1%
Other Contracted Services	7,831,554	7,276,635	554,919	7.6%
Travel	4,816,999	4,327,443	489,556	11.3%
Materials and Supplies	110,849,281	104,845,259	6,004,022	5.7%
Utilities	9,463,449	9,075,810	387,639	4.3%
Telecommunications	1,933,110	2,355,121	(422,011)	-17.9%
Repairs and Maintenance	10,926,983	9,890,163	1,036,820	10.5%
Rentals and Leases	8,924,504	7,552,509	1,371,995	18.2%
Printing and Reproduction	1,004,589	1,097,929	(93,340)	-8.5%
Federal Sponsored Programs Pass-Thrus	305,577	382,327	(76,750)	-20.1%
Depreciation and Amortization	36,736,741	28,081,976	8,654,765	30.8%
Other Operating Expenses	12,284,386	10,607,935	1,676,451	15.8%
<b>Total Operating Expenses</b>	<b>616,363,770</b>	<b>542,369,264</b>	<b>73,994,506</b>	<b>13.6%</b>
<b>Operating Loss</b>	<b>(55,240,545)</b>	<b>(59,773,339)</b>	<b>4,532,794</b>	<b>7.6%</b>
<b>Other Nonoperating Adjustments</b>				
State Appropriations	48,604,845	49,662,149	(1,057,304)	-2.1%
Gift Contributions for Operations	16,834,550	11,181,599	5,652,951	50.6%
Net Investment Income	11,906,151	4,500,008	7,406,143	164.6%
Long Term Fund Distribution	4,106,577	3,458,242	648,335	18.7%
Interest Expense on Capital Asset Financings	(3,546,677)	(2,260,476)	(1,286,201)	-56.9%
<b>Net Other Nonoperating Adjustments</b>	<b>77,905,446</b>	<b>66,541,522</b>	<b>11,363,924</b>	<b>17.1%</b>
<b>Adjusted Income (Loss)</b>	<b>22,664,901</b>	<b>6,768,183</b>	<b>15,896,718</b>	<b>234.9%</b>
<b>Adjusted Margin (as a percentage)</b>	<b>3.5%</b>	<b>1.2%</b>		
Investment Gains (Losses)	4,060,659	11,265,965	(7,205,306)	-64.0%
<b>Adj. Inc. (Loss) with Investment Gains (Losses)</b>	<b>\$26,725,560</b>	<b>\$18,034,148</b>	<b>\$8,691,412</b>	<b>48.2%</b>
<b>Adj. Margin % with Investment Gains (Losses)</b>	<b>4.1%</b>	<b>3.2%</b>		

**UNAUDITED**  
**The University of Texas Health Center at Tyler**  
**Comparison of Operating Results and Margin**  
**For the Four Months Ending December 31, 2004**

	<b>December Year-to-Date FY 2005</b>	<b>December Year-to-Date FY 2004</b>	<b>Variance</b>	<b>Fluctuation Percentage</b>
<b>Operating Revenues</b>				
Sponsored Programs	\$3,035,727	\$2,786,631	\$249,096	8.9%
Net Sales and Services of Educational Activities	424,550	395,633	28,917	7.3%
Net Sales and Services of Hospitals	16,295,062	16,932,759	(637,697)	-3.8%
Net Professional Fees	3,533,224	4,747,290	(1,214,066)	-25.6%
Net Auxiliary Enterprises	228,122	278,540	(50,418)	-18.1%
Other Operating Revenues	1,454,044	861,983	592,061	68.7%
<b>Total Operating Revenues</b>	<b>24,970,729</b>	<b>26,002,836</b>	<b>(1,032,107)</b>	<b>-4.0%</b>
<b>Operating Expenses</b>				
Salaries and Wages	20,413,848	19,784,387	629,461	3.2%
Employee Benefits and Related Costs	5,102,308	5,093,370	8,938	0.2%
Professional Fees and Contracted Services	2,236,161	1,631,100	605,061	37.1%
Other Contracted Services	2,460,812	1,629,723	831,089	51.0%
Travel	237,699	158,675	79,024	49.8%
Materials and Supplies	5,405,767	5,433,096	(27,329)	-0.5%
Utilities	647,151	625,573	21,578	3.4%
Telecommunications	191,098	207,074	(15,976)	-7.7%
Repairs and Maintenance	758,733	584,787	173,946	29.7%
Rentals and Leases	451,634	653,539	(201,905)	-30.9%
Printing and Reproduction	279,778	300,335	(20,557)	-6.8%
Federal Sponsored Programs Pass-Thrus	132,917	204,433	(71,516)	-35.0%
Depreciation and Amortization	2,313,915	1,887,210	426,705	22.6%
Other Operating Expenses	1,025,150	859,261	165,889	19.3%
<b>Total Operating Expenses</b>	<b>41,656,971</b>	<b>39,052,563</b>	<b>2,604,408</b>	<b>6.7%</b>
<b>Operating Loss</b>	<b>(16,686,242)</b>	<b>(13,049,727)</b>	<b>(3,636,515)</b>	<b>-27.9%</b>
<b>Other Nonoperating Adjustments</b>				
State Appropriations	13,114,961	12,201,525	913,436	7.5%
Gift Contributions for Operations	4,178,475	1,133,050	3,045,425	268.8%
Net Investment Income	967,621	933,701	33,920	3.6%
Long Term Fund Distribution	66,408	91,473	(25,065)	-27.4%
Interest Expense on Capital Asset Financings	(131,610)	0	(131,610)	100.0%
<b>Net Other Nonoperating Adjustments</b>	<b>18,195,855</b>	<b>14,359,749</b>	<b>3,836,106</b>	<b>26.7%</b>
<b>Adjusted Income (Loss)</b>	<b>1,509,613</b>	<b>1,310,022</b>	<b>199,591</b>	<b>15.2%</b>
<b>Adjusted Margin (as a percentage)</b>	<b>3.5%</b>	<b>3.2%</b>		
Investment Gains (Losses)	34,027	48,954	(14,927)	-30.5%
<b>Adj. Inc. (Loss) with Investment Gains (Losses)</b>	<b>\$1,543,640</b>	<b>\$1,358,976</b>	<b>\$184,664</b>	<b>13.6%</b>
<b>Adj. Margin % with Investment Gains (Losses)</b>	<b>3.6%</b>	<b>3.4%</b>		

**3. U. T. System: Fiscal Year 2004 Annual Financial Report**

REPORT

Mr. Randy Wallace, Associate Vice Chancellor - Controller and Chief Budget Officer, will present the unaudited Annual Financial Report (AFR) for Fiscal Year 2004 for the U. T. System, as found on Pages 35.1 - 35.101. The Report includes Management's discussion and analysis that provides an overview of the financial position and activities of the U. T. System for the year.

The AFR is prepared in compliance with *Texas Government Code* Section 2101.011 and in accordance with the requirements established by the State Comptroller of Public Accounts, including filing annually by November 20.

**System Office:**

*The University of Texas  
System Administration*

**Academic Components:**

*The University of Texas  
at Arlington*

*The University of Texas  
at Austin*

*The University of Texas  
at Brownsville*

*The University of Texas  
at Dallas*

*The University of Texas  
at El Paso*

*The University of Texas –  
Pan American*

*The University of Texas  
of the Permian Basin*

*The University of Texas  
at San Antonio*

*The University of Texas  
at Tyler*

**Health Components:**

*The University of Texas  
Southwestern Medical Center  
at Dallas*

*The University of Texas  
Medical Branch at Galveston*

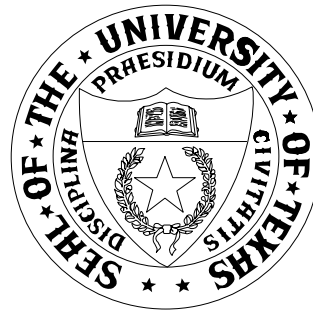
*The University of Texas Health  
Science Center at Houston*

*The University of Texas Health  
Science Center at San Antonio*

*The University of Texas  
M.D. Anderson Cancer Center*

*The University of Texas Health  
Center at Tyler*

# *2004 Annual Report*



## **The University of Texas System**

### *Primary Financial Statements Including Management's Discussion and Analysis*

UNAUDITED

**THE UNIVERSITY OF TEXAS SYSTEM**  
**BOARD OF REGENTS**  
**As of August 31, 2004**

**Officers**

James R. Huffines, Chairman  
Rita C. Clements, Vice-Chairman  
Woody L. Hunt, Vice-Chairman  
Cyndi Taylor Krier, Vice-Chairman  
Francie A. Frederick, Counsel and Secretary

**Members**

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*Terms Expire February 1, 2005*

Robert A. Estrada	Dallas
Woody L. Hunt	El Paso
Robert B. Rowling	Dallas

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*Terms Expire February 1, 2007*

Rita C. Clements	Dallas
Judith L. Craven, M.D.	Houston
Cyndi Taylor Krier	San Antonio

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*Terms Expire February 1, 2009*

John W. Barnhill, Jr.	Brenham
H. Scott Caven, Jr.	Houston
James R. Huffines	Austin

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**THE UNIVERSITY OF TEXAS SYSTEM  
SENIOR ADMINISTRATIVE OFFICIALS**

As of August 31, 2004

\*\*\*\*\*

Mark G. Yudof, Chancellor

Kenneth I. Shine, M.D., Executive Vice Chancellor for Health Affairs

Scott C. Kelley, Executive Vice Chancellor for Business Affairs

Teresa A. Sullivan, Executive Vice Chancellor for Academic Affairs

Cullen M. Godfrey, Vice Chancellor and General Counsel

E. Ashley Smith, Vice Chancellor for Governmental Relations and Policy

Randa Safady, Vice Chancellor for External Relations

William H. Shute, Vice Chancellor for Federal Relations

John De La Garza, Jr., Vice Chancellor for Community Relations

Tonya Moten Brown, Vice Chancellor for Administration

Bob Boldt, President, Chief Executive Officer and Chief Investment Officer – UTIMCO

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THE UNIVERSITY OF TEXAS SYSTEM  
**Management's Discussion and Analysis (Unaudited)**  
For the Year Ended August 31, 2004

**INTRODUCTION**

The University of Texas System (the System) was established by the Texas Constitution of 1876. In 1881, Austin was designated the site of the main academic campus and Galveston as the location of the medical branch. The University of Texas at Austin opened in 1883, and eight years later, the John Sealy Hospital in Galveston (now a part of the Medical Branch at Galveston) established a program for university-trained medical professionals. In addition to the original academic campus located in Austin, the System now includes eight additional academic campuses in Arlington, Dallas, El Paso, Odessa, San Antonio, Tyler, Brownsville and Edinburg. Health institutions for medical education and research have expanded beyond the original Galveston medical campus to include M. D. Anderson Cancer Center, Southwestern Medical Center at Dallas, Health Science Centers at Houston and San Antonio and the Health Center at Tyler. The System's fifteen institutions are, collectively, one of the nation's largest educational enterprises. Many of the System's programs in natural science, engineering, business, medicine, law, liberal arts and humanities rank among the best in the country.

**OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS**

The System presents its financial statements for the year ended August 31, 2004, with data for the year ended August 31, 2003, provided for comparative purposes. The emphasis of discussion about these financial statements will focus on the primary university's current year data. The System's combined financial report includes three financial statements: the Balance Sheet; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. The financial statements were prepared in accordance with Governmental Accounting Standards Board (GASB) principles. This discussion and analysis of the System's financial statements provides an overview of the financial activities for the year. It has been prepared by management and should be read in conjunction with the accompanying financial statements and notes.

**FINANCIAL HIGHLIGHTS**

- In the fall of 2003, the System's enrollment increased 4.8% to 177,676 students. This increase was due in part to the state's demographics combined with the current labor market. The System's academic institutions enroll 34.0% of the state's public college students, and the System's health institutions enroll 75.2% of the state's public college medical and dental professional students. Net tuition and fees increased \$82.1 million in 2004, or 13.8%, as a result of tuition and fee increases and a 4.3% increase in student semester credit hours at the academic institutions. Additionally, net patient care revenues increased \$265.4 million in 2004, as a result of an increase in patient volumes and higher rates.
- While state appropriations have been reduced in the last couple of years, the State Legislature delegated to governing boards the authority to set tuition. This allowed university presidents, in broad consultation with their campuses, to recommend flexible rates of tuition to the Board of Regents as a means to achieve many strategic goals. The Board of Regents approved plans that include setting aside at least 20.0% of new tuition revenues for financial aid programs as well as a variety of ways that students can take advantage of special discounts in tuition rates. The System institutions remain some of the best values in higher education in the nation, even with the increases in tuition. The most recent ratings released by *U.S. News & World Report* cited U. T. Austin as a "best value" based on its relatively low cost and the quality of its programs. *The Times of London* has also ranked U. T. Austin as one of the best universities in the world.

- Net investment income totaled \$1.6 billion in 2004, which was a significant increase from the 2003 net investment income of \$354.9 million. The net increase in fair value of investments was \$147.6 million in 2004, as compared to \$1.2 billion in 2003. The increase in investment income was the largest contributor to the increase in net assets of \$1.8 billion during 2004.
- Investments in capital asset additions were \$1.3 billion in 2004, of which \$913.3 million consisted of new projects under construction.

### **The Balance Sheet**

The Balance Sheet presents the assets, liabilities and net assets of the System as of the end of the year. This is a point-in-time financial presentation of the financial status as of August 31, 2004 with comparative information for the previous year. The Balance Sheet presents information in current and noncurrent format for both assets and liabilities. The net assets section presents assets less liabilities. A summarized comparison of the System's balance sheet at August 31, 2004 and 2003 follows:

(\$ in millions)	2004	2003
<b>Assets:</b>		
Current Assets	\$ 5,264.8	3,826.5
Noncurrent Investments	15,703.9	14,807.1
Other Noncurrent Assets	262.0	246.1
Capital Assets, net	6,521.6	5,682.8
Total Assets	27,752.3	24,562.5
<b>Liabilities:</b>		
Current Liabilities	4,348.5	3,201.0
Noncurrent Liabilities	3,010.1	2,742.5
Total Liabilities	7,358.6	5,943.5
<b>Net Assets:</b>		
Invested in Capital Assets,		
Net of Related Debt	3,738.3	3,310.7
Restricted	13,716.7	12,570.1
Unrestricted	2,938.7	2,738.2
Net Assets	20,393.7	18,619.0
Liabilities and Net Assets	\$ 27,752.3	24,562.5

Assets increased \$3.2 billion since 2003, primarily due to financial market conditions resulting in gains in the System's investments, and also due to capital asset increases in 2004. Liabilities increased \$1.4 billion, largely due to increased securities lending, as well as debt issuances needed to fund construction and renovation of facilities.

### **Current Assets and Current Liabilities**

Current assets consist primarily of cash and cash equivalents; securities lending collateral; various student, patient, gift and investment trades receivables; and student notes receivable. Current liabilities consist primarily of accounts payable and accrued liabilities, investment trades payable, securities lending obligations, deferred revenues, commercial paper notes and the current portion of bonds payable. The System's current ratio (current assets to current liabilities) of 1.2 times reflects adequate liquidity and sufficient short-term ability to meet its upcoming obligations.

### Noncurrent Investments

Noncurrent investments include permanent endowments, funds functioning as endowments, life income funds and other investments. These assets grew \$896.8 million in 2004 due to increases in fair value of investments, increased investment income and gifts received to establish new endowment funds.

### Capital Assets and Related Debt Activities

The development and renewal of its capital assets is one of the critical factors in continuing the System's quality academic, health and research programs. The System continues to implement its \$5 billion capital improvement program, planned for fiscal years 2004 through 2009, to upgrade its facilities and address fire and life safety needs. Capital additions totaled \$1.3 billion in 2004, of which \$913.3 million consisted of new projects under construction. These capital additions were comprised of replacement, renovation, and new construction of academic, research and health care facilities, as well as significant investments in equipment.

Bonds payable relating to financing of current and prior years' construction needs totaled \$2.5 billion and \$2.3 billion at August 31, 2004 and 2003, respectively. All long-term bonds continue to reflect the highest uninsured "Aaa" and "AAA" credit ratings from the three major bond-rating agencies.

### Net Assets

Net assets represent the residual interest in the System's assets, after liabilities are deducted. The following table summarizes the composition of net assets at August 31, 2004 and 2003:

(\$ in millions)	2004	2003
<b>Net Assets:</b>		
Invested in Capital Assets, Net of Related Debt	\$ 3,738.3	3,310.7
Restricted:		
Nonexpendable	12,411.3	11,150.0
Expendable	1,305.4	1,420.1
Unrestricted	2,938.7	2,738.2
<b>Total Net Assets</b>	\$ 20,393.7	18,619.0

Net assets invested in capital assets, net of related debt, represents the System's capital assets net of accumulated depreciation and outstanding debt obligations attributable to the acquisition, construction or improvement of those assets. The \$427.6 million increase in capital assets, net of related debt, since August 31, 2003, resulted from the additions to capital assets during 2004.

Restricted nonexpendable net assets primarily include the System's permanent endowment funds and are subject to externally imposed restrictions governing their use. The System's permanent endowment funds include the Permanent University Fund, which was established for the benefit of the System and the Texas A&M University System. These net assets increased \$1.3 billion to \$12.4 billion in 2004, resulting from increases in the fair value of investments, increases in investment income and new gifts. Restricted expendable net assets primarily include restricted contract and grant and loan funds of \$1.0 billion, funds restricted for capital projects of \$91.1 million, and \$176.0 million of funds functioning as endowments.

Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the System's unrestricted net assets have been committed for various future operating budgets related to academic, patient, and research programs and initiatives, as well as capital projects. In addition, unrestricted net assets include Permanent Health Fund Endowments of \$814.4 million established in 1999 from tobacco-related litigation funds received from the State Legislature. A portion of the Permanent Health Fund was established for the benefit of the System's health-related institutions, as well as for the Texas A&M University Health Science Center, the University of North Texas Health Science Center at

Fort Worth, the Texas Tech University Health Science Center and Baylor College of Medicine. The corpus of these funds is restricted by statute to remain intact and the earnings from the funds are required to be utilized for public health activities such as medical research, health education and treatment programs. Unrestricted net assets also include funds functioning as endowments of \$145.9 million.

### **The Statement of Revenues, Expenses and Changes in Net Assets**

The Statement of Revenues, Expenses and Changes in Net Assets details the changes in total net assets as presented on the Balance Sheet. The Statement presents both operating and nonoperating revenues and expenses for the System. The following table summarizes the System's revenues, expenses and changes in net assets for the years ended August 31, 2004 and 2003:

(\$ in millions)	2004	2003
<b>Operating Revenues:</b>		
Net Student Tuition and Fees	\$ 675.1	593.0
Sponsored Programs	1,916.8	1,778.1
Net Patient Care Revenues	2,590.5	2,325.1
Net Auxiliary Enterprises	244.6	243.6
Other	293.4	264.6
<b>Total Operating Revenues</b>	5,720.4	5,204.4
<b>Total Operating Expenses</b>	(7,593.2)	(7,187.7)
<b>Operating Loss</b>	(1,872.8)	(1,983.3)
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	1,578.1	1,585.6
Gift Contributions	181.9	193.9
Net Investment Income (Loss)	1,639.3	354.9
Net Increase (Decrease) in Fair Value of		
Investments	147.6	1,243.4
Interest Expense	(90.9)	(89.7)
Net Other Nonoperating Revenues	26.0	6.0
<b>Income (Loss) Before Other Revenues, Expenses, Gains or Losses</b>	1,609.2	1,310.8
Capital Appropriations – HEAF	7.1	7.1
Capital Gift Contributions and Additions to		
Permanent Endowments	298.4	292.9
Extraordinary Items	(13.4)	36.5
Transfers From (To) Other State Entities	(107.4)	(103.2)
<b>Change in Net Assets</b>	1,793.9	1,544.1
<b>Net Assets, Beginning of the Year</b>	18,619.0	17,119.6
Restatements	(19.2)	(44.7)
Restated Net Assets, Beginning of the Year	18,599.8	17,074.9
<b>Net Assets, End of the Year</b>	\$ 20,393.7	18,619.0

### **Operating Revenues**

Student tuition and fees, a primary source of funding for the System's academic programs, are reflected net of associated discounts and allowances. Net student tuition and fees increased \$82.1 million, or 13.8%, as a result of tuition and fee increases and a 4.3% increase in student semester credit hours at the academic institutions. Enrollment at the health institutions increased 4.3% in the fall of 2003.

Sponsored program revenues are primarily from governmental and private sources and are related to research programs that normally provide for the recovery of direct and indirect costs. Other sponsored

programs include student financial aid and contracts with affiliated hospitals for clinical activities. These revenues increased \$138.7 million in 2004 due largely to funding from the Texas Enterprise Fund for the Natural Science and Engineering Research building at U. T. Dallas; funding for education initiatives, such as *Reading First* and the new U. T. Austin charter elementary school; increased contractual revenue from affiliated entities; and increased federal and state-based financial aid programs.

Patient care revenues are principally generated within the System's hospitals and physicians' practice plans under contractual arrangements with governmental payors and private insurers. Net patient care revenues increased \$265.4 million in 2004, as a result of an increase in patient volumes and higher rates. Auxiliary enterprise revenues were earned from a host of activities such as athletics, housing and food service, bookstores, parking and traffic, student health and other activities.

#### Operating Expenses

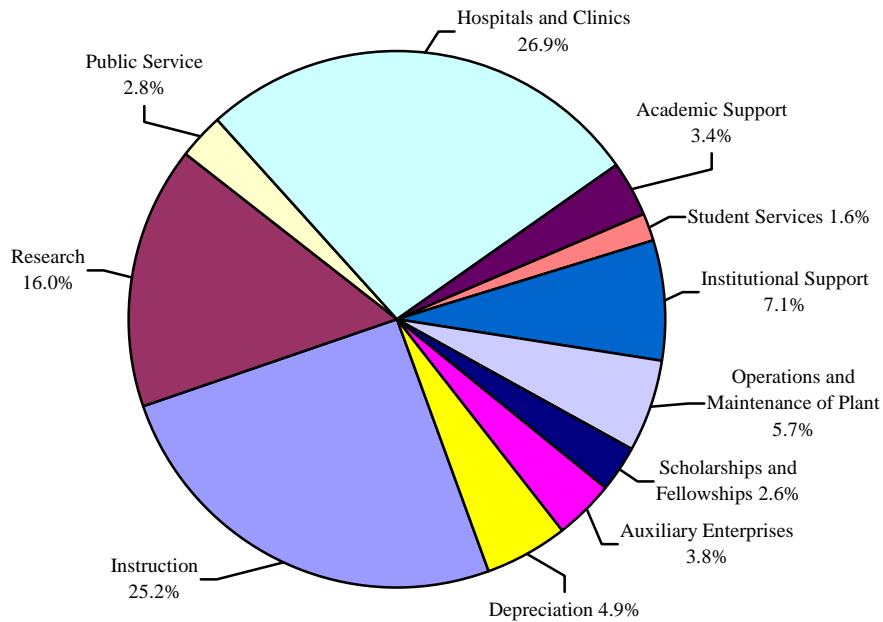
The following data summarizes the composition of operating expenses by programmatic function for the years ended August 31, 2004 and 2003:

(\$ in millions)	2004	2003
<b>Functional Classification of Operating Expenses:</b>		
Instruction	\$ 1,909.5	1,848.4
Research	1,216.1	1,141.1
Public Service	209.1	199.3
Hospitals and Clinics	2,044.8	1,894.8
Academic Support	255.8	247.2
Student Services	123.3	113.4
Institutional Support	539.0	529.7
Operations and Maintenance of Plant	432.9	407.3
Scholarships and Fellowships	200.0	184.0
Auxiliary Enterprises	289.9	289.2
Depreciation and Amortization	372.8	333.4
<b>Total Operating Expenses</b>	<b>\$ 7,593.2</b>	<b>7,187.8</b>

The operating expenses reflect the System's commitment to promoting instruction, research, patient care, public service and student support. Total operating expenses increased \$405.4 million in 2004 in response to growing student enrollment, research, and patient care activities. The System's full-time equivalent employees increased 8.2% from 66,845 in 2003 to 72,337 in 2004. Employee-related costs increased due to salary increases and higher medical insurance premium costs.

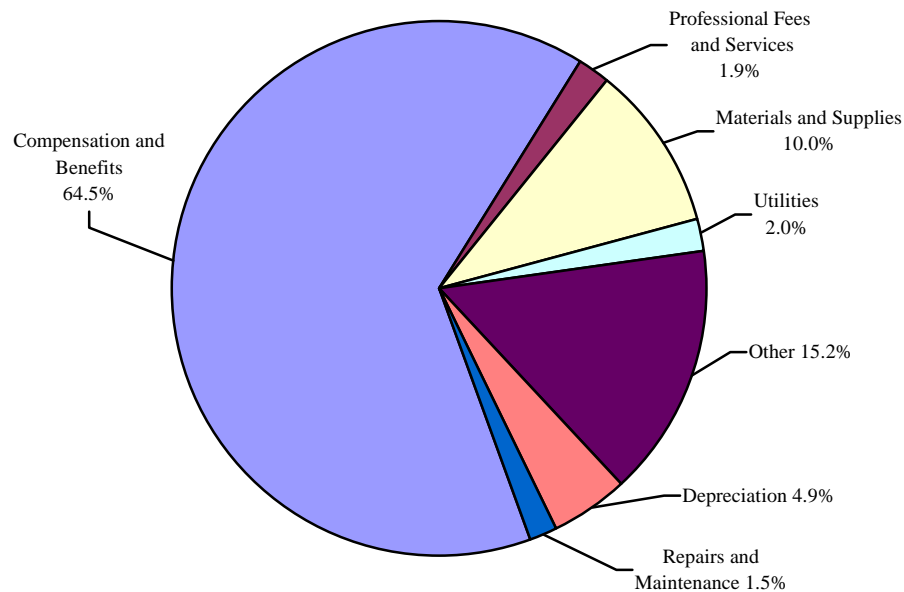
The following is a graphic illustration of operating expenses by their functional classification for the year ended August 31, 2004.

**Functional Classification of Operating Expenses (\$7,593.2 million)**



In addition to programmatic (functional) classification of operating expenses, the following graph also illustrates the System's operating expenses by natural classification for the year ended August 31, 2004.

**Natural Classification of Operating Expenses (\$7,593.2 million)**



Nonoperating Revenues and Expenses

Significant recurring revenues are considered nonoperating, as required by GASB Statement No. 35. State appropriations decreased \$7.6 million primarily due to reductions in general revenue mandated by the State Legislature. Gift contributions for operations of \$181.9 million, a decrease of \$12 million from

2003, were received from private sources and used to support the educational and health care mission of the institutions. Net investment income, including realized gains and losses, increased from \$354.9 million in 2003 to \$1.6 billion in 2004. Interest expense on capital asset financings increased from \$89.7 million in 2003 to \$90.9 million in 2004.

#### Income (Loss) Before Other Revenues, Expenses, Gains or Losses

Income (Loss) Before Other Revenues, Expenses, Gains or Losses, is the sum of the Operating Loss plus Nonoperating Revenues (Expenses). It is an indication of recurring revenues and expenses for the System and does not take into account capital and endowment-related additions, extraordinary items and transfers. The Income Before Other Revenues, Expenses, Gains or Losses totaled \$1.6 billion in 2004, an increase of \$298.4 million over 2003. This gain is largely a result of the increase in net investment income. The System measures its operating results by considering operating activities, including certain significant recurring nonoperating revenues and expenses. The following table summarizes the System's view of its operating results for 2004 and 2003:

(\$ in millions)	2004	2003
<b>Operating Results:</b>		
Operating Loss	\$ (1,872.8)	(1,983.3)
State Appropriations	1,578.1	1,585.6
Gift Contributions for Operations	181.9	193.9
Net Investment Income (Loss)	1,639.3	354.9
Interest Expense on Debt Financings	(90.9)	(89.7)
<b>Net Operating Results</b>	<b>\$ 1,435.6</b>	<b>61.4</b>

#### Capital Gift Contributions and Additions to Permanent Endowments

Capital appropriations, capital gifts and additions to permanent endowments totaled \$305.5 million for the period ended August 31, 2004, an increase of \$5.5 million over 2003. The increase resulted primarily from capital campaign efforts to address facilities expansion and renovation and the establishment of endowments for instruction, research and patient care activities. U. T. Austin completed its \$1 billion capital campaign in 2004 with a total raised of \$1.6 billion. Other institutions with large, multi-year fundraising campaigns underway include: U. T. Southwestern Medical Center at Dallas (\$500 million goal), U. T. Medical Branch at Galveston (\$250 million goal), U. T. Health Science Center at Houston (\$200 million goal) and U. T. Health Science Center at San Antonio (\$200 million goal).

#### Extraordinary Items

Extraordinary items result from unusual and infrequent events. Extraordinary expenditures totaled \$13.4 million in 2004. The majority of these extraordinary expenditures consisted of net extraordinary expenditures of \$13.1 million incurred by U. T. Health Science Center at Houston as a result of costs associated with debris removal, emergency protective measures and replacement supplies relating to property and equipment damage sustained during Tropical Storm *Allison* in June 2001. U. T. Health Science Center at Houston anticipates receiving a final insurance payment of \$0.2 million and a final payment from the United States Federal Emergency Management Agency (FEMA) of approximately \$22 million in fiscal year 2005. U. T. Arlington also incurred net extraordinary expenditures of \$0.3 million as a result of fire damage to the Central Utility Plant. There will be no additional costs associated with the fire.

#### Transfers and Other

Transfers to other state agencies include \$116 million in Available University Funds distributed to Texas A&M University System for its annual one-third participation in the Permanent University Fund endowment. Transfers from other state agencies include \$9 million distributed from the Texas Enterprise Fund to U. T. Health Science Center at San Antonio for the Regional Academic Health Center.



### Change in Net Assets

The change in net assets results from all revenues, expenses, gains, losses, gifts and transfers that occurred during the accounting period. It is an overall indication of the improvement or decline between the prior and current year's balance sheet. Net assets increased \$1.8 billion for the year ending August 31, 2004, primarily due to net investment income and net increases in the fair value of investments.

### The Statement of Cash Flows

The Statement of Cash Flows provides additional information about the System's financial results by reporting the major sources and uses of cash. The statement provides an assessment of the System's financial flexibility and liquidity to meet obligations as they come due and the need for external financing. The following table summarizes cash flows for the years ended August 31, 2004 and 2003:

(\$ in millions)	2004	2003
<b>Cash Flows:</b>		
Cash received from operations	\$ 5,897.9	5,510.2
Cash expended for operations	(7,358.0)	(6,913.0)
Net cash used in operating activities	(1,460.1)	(1,402.8)
Net cash provided by noncapital financing activities	1,828.6	1,727.5
Net cash used in capital and related financing activities	(811.9)	(552.9)
Net cash provided by investing activities	804.2	727.2
Net increase in cash and cash equivalents	360.8	499.0
Cash and cash equivalents, beginning of the year	2,070.9	1,571.9
Restatements to beginning cash and cash equivalents	5.4	-
Cash and cash equivalents, end of the year	\$ 2,437.1	2,070.9

State appropriations and gift contributions for operations are significant sources of recurring revenues in support of operating expenses, but are required to be classified as noncapital financing activities under GASB Statement No. 35. Therefore, when considering cash flows related to operating activities, it is important to consider these noncapital financing activities which support operating expenses. The System's cash and cash equivalents increased \$360.8 million during 2004 due to positive flow of funds provided by noncapital financing and investing activities.

### Economic Outlook

The System is well positioned to maintain its solid financial foundation and continue its service to students, patients, the research community, citizens of Texas and the nation. Future successes are largely dependent upon cost containment; the ability to recruit and retain the highest quality students, faculty and staff; the capacity to create and sustain physical environments conducive to learning; and ongoing financial and political support from the State Legislature, as well as from the public and private sectors.

The System faces the challenge of funding its healthcare and dental benefits costs for its 85,518 employees and retirees, which costs continue to escalate. These costs include providing post-employment health and dental benefits to eligible employees. The System currently does not record a liability for post-employment benefits. Future changes in governmental accounting standards will require the recognition of the liability in the financial statements. This post-employment benefits liability will have a significant impact on the System's financial statements.

## UNAUDITED

THE UNIVERSITY OF TEXAS SYSTEM  
EXHIBIT A - COMBINED BALANCE SHEET  
As of August 31, 2004

	Current Year Totals		Prior Year Totals	
	Primary University	Component Unit	Primary University	Component Unit
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash & Cash Equivalents (Notes 1 & 2)	\$ 1,962,058,511	5,952,943	1,776,663,690	12,729,569
Restricted Cash & Cash Equivalents (Notes 1 & 2)	474,704,738		294,006,781	28,850
Balance in State Appropriations	70,142,578		48,902,446	
Securities Lending Collateral (Notes 1 & 2)	1,060,976,669		247,392,402	
Accounts Receivable, Net:				
Federal (allowances of \$11,534,509 in '04 & \$0 in '03)	160,106,317		147,657,832	
Other Intergov. (allowances of \$102 in '04 & \$46,044 in '03)	16,006,276		17,239,891	
Student (allowances of \$5,226,442 in '04 & \$6,634,822 in '03)	172,147,495		147,752,919	
Patient (allow. of \$735,403,671 in '04 & \$557,360,431 in '03)	418,158,321	1,193,389	364,438,082	1,109,494
Interest and Dividends	19,609,182		38,407,237	1,601
Contributions (allow. of \$4,947,722 in '04 & \$2,631,086 in '03)	46,750,031	1,252,358	45,969,939	1,607,220
Investment Trades	359,797,585		231,691,829	
Other (allow. of \$1,353,726 in '04 & \$16,137,262 in '03) (Note 24)	146,133,443	49,905	153,607,652	624,692
Due From Other Funds	100,925,995		116,017,133	
Due From Other Agencies	6,773,018		3,615,300	
Inventories	44,618,481		39,924,923	
Loans & Contracts (allow. of \$5,596,718 in '04 & \$2,355,490 in '03)	39,154,796		42,114,283	
Other Current Assets	166,698,426	217,187	111,104,777	337,221
<b>Total Current Assets</b>	<b>5,264,761,862</b>	<b>8,665,782</b>	<b>3,826,507,116</b>	<b>16,438,647</b>
<b>Non-Current Assets:</b>				
Restricted:				
Cash & Cash Equivalents (Notes 1 & 2)	307,484		187,437	
Investments (Note 2)	13,600,488,054	36,801,074	12,556,872,579	36,203,864
Loans & Contracts(allow. of \$10,173,801 in '04 & \$12,039,175 in '03)	88,318,581		75,969,284	
Funds Held by Sealy & Smith Foundation	56,075,691		51,364,721	
Contributions Rec. (allow. of \$5,502,829 in '04 & \$3,196,350 in '03)	94,071,942		103,133,849	
Investments (Note 2)	2,103,419,037		2,250,203,446	
Other Non-Current Assets/Held in Trust	23,235,724		15,498,004	408,203
Capital Assets (Note 4)	10,149,246,989	27,525,181	9,014,688,009	25,909,333
Less Accumulated Depreciation	(3,627,666,273)	(8,057,286)	(3,331,876,171)	(7,511,523)
<b>Total Non-Current Assets</b>	<b>22,487,497,229</b>	<b>56,268,969</b>	<b>20,736,041,158</b>	<b>55,009,877</b>
<b>TOTAL ASSETS</b>	<b>\$ 27,752,259,091</b>	<b>64,934,751</b>	<b>24,562,548,274</b>	<b>71,448,524</b>
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Accounts Payable and Accrued Liabilities	\$ 570,492,715	443,870	709,298,890	885,600
Federal Payables	62,371,450		57,974,188	
Other Intergovernmental Payables	11,720		399,381	
Investment Trades Payable	675,938,464		488,113,044	
Self-Insurance Claims IBNR (Note 5)	164,236,886		151,741,949	
Securities Lending Obligations (Note 2)	1,060,976,669		247,392,402	
Due to Other Funds	100,925,998		116,017,133	
Due to Other Agencies	8,887,885		6,576,593	
Deferred Revenue	792,378,818		609,000,738	2,777
Employees' Compensable Leave-Current Portion (Note 11)	23,782,226	181,052	24,583,704	146,570
Notes, Loans & Leases Payable-Current Portion (Notes 8, 9 & 11)	638,604,779	464,648	521,069,868	434,311
Payable From Restricted Assets-Current Portion	86,292,863		80,874,490	
Revenue Bonds Payable-Current Portion (Notes 7 & 11)	100,810,000		97,835,000	
HEAF Bonds Payable-Current Portion (Notes 7 & 11)	3,140,000		2,995,000	
Funds Held for Others	9,474,069		11,880,806	
Other Current Liabilities	50,161,311		75,259,957	1,209
<b>Total Current Liabilities</b>	<b>4,348,485,853</b>	<b>1,089,570</b>	<b>3,201,013,143</b>	<b>1,470,467</b>
<b>Non-Current Liabilities:</b>				
Employees' Compensable Leave (Note 11)	278,264,866	142,255	235,809,492	115,163
Assets Held for Others	330,704,019		312,884,185	
Notes, Loans and Leases Payable (Notes 8, 9 & 11)	23,215,014	1,414,488	28,179,175	1,809,016
Payable From Restricted Assets	2,997			
Revenue Bonds Payable (Notes 7 & 11)	2,369,470,000		2,161,495,000	
HEAF Bonds Payable (Notes 7 & 11)			3,140,000	
Other Non-Current Liabilities	8,394,148	691	1,019,664	179,767
<b>Total Non-Current Liabilities</b>	<b>3,010,051,044</b>	<b>1,557,434</b>	<b>2,742,527,516</b>	<b>2,103,946</b>
<b>TOTAL LIABILITIES</b>	<b>7,358,536,897</b>	<b>2,647,004</b>	<b>5,943,540,659</b>	<b>3,574,413</b>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	3,738,317,885	17,588,759	3,310,704,646	16,154,483
Restricted for:				
Nonexpendable				
Permanent University Fund Endowment (Note 3)	8,973,941,700		8,231,079,481	
True and Term Endowments, and Annuities (Note 3)	3,437,354,604		2,918,916,507	
Expendable				
Capital Projects	91,124,230		125,522,374	219,864
Debt Service	4,760,508		6,102,912	
Funds Functioning as Endowment - Restricted	175,994,921		209,874,185	
Other Expendable	1,033,573,090	36,801,174	1,078,633,275	34,892,353
Unrestricted (Note 12)	2,938,655,256	7,897,814	2,738,174,235	16,607,411
<b>TOTAL NET ASSETS</b>	<b>20,393,722,194</b>	<b>62,287,747</b>	<b>18,619,007,615</b>	<b>67,874,111</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 27,752,259,091</b>	<b>64,934,751</b>	<b>24,562,548,274</b>	<b>71,448,524</b>

The accompanying Notes to the Combined Financial Statements are an integral part of the financial statements.

UNAUDITED

THE UNIVERSITY OF TEXAS SYSTEM  
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Year Ended August 31, 2004

	Current Year Totals		Prior Year Totals	
	Primary University	Component Units	Primary University	Component Units
<b>Operating Revenues:</b>				
Student Tuition and Fees	\$ 841,763,477		727,399,126	
Discounts and Allowances	(166,656,131)		(134,388,596)	
Federal Sponsored Programs	1,197,444,941		1,098,371,277	
Federal Sponsored Programs Pass-Through from Other St. Agencies	41,198,300		35,690,229	
State Sponsored Programs	47,104,081	6,123	73,012,286	18,491,917
State Sponsored Programs Pass-Through from Other St. Agencies	110,615,793		85,731,336	
Local Sponsored Programs	267,088,786		232,403,500	
Private Sponsored Programs	253,348,547		252,901,878	1,124,533
Sales and Services of Educational Activities	224,367,067		172,228,325	
Discounts and Allowances	(89,439)		(331,248)	
Sales and Services of Hospitals	3,807,056,258	31,148,336	3,288,944,886	28,461,130
Discounts and Allowances	(1,917,701,406)	(19,619,791)	(1,619,564,801)	(18,325,184)
Professional Fees	2,330,323,450		2,065,141,170	
Discounts and Allowances	(1,629,206,161)		(1,409,416,474)	
Auxiliary Enterprises	252,114,401		249,770,053	
Discounts and Allowances	(7,471,685)		(6,183,426)	
Other Operating Revenues	69,133,593	102,949	92,708,334	739,706
Total Operating Revenues	<u>5,720,433,872</u>	<u>11,637,617</u>	<u>5,204,417,855</u>	<u>30,492,102</u>
<b>Operating Expenses: (Note 13 for Natural Classification of Expenses)</b>				
Instruction	1,909,495,081		1,848,432,811	
Research	1,216,146,781		1,141,080,742	
Public Service	209,084,466		199,278,287	
Hospitals and Clinics	2,044,783,157	9,925,926	1,894,748,085	28,641,447
Academic Support	255,753,380		247,225,954	
Student Services	123,292,366		113,441,627	
Institutional Support	538,978,113		529,726,646	
Operations and Maintenance of Plant	432,901,316	297,424	407,257,477	261,922
Scholarships and Fellowships	200,033,858		184,003,072	
Auxiliary Enterprises	289,905,834		289,146,928	
Depreciation and Amortization	372,830,151	2,577,271	333,414,734	2,381,096
Total Operating Expenses	<u>7,593,204,503</u>	<u>12,800,621</u>	<u>7,187,756,363</u>	<u>31,284,465</u>
Operating Loss	<u>(1,872,770,631)</u>	<u>(1,163,004)</u>	<u>(1,983,338,508)</u>	<u>(792,363)</u>
<b>Nonoperating Revenues (Expenses):</b>				
State Appropriations	1,578,061,771		1,585,646,151	
Gift Contributions for Operations	181,915,115	516,101	193,936,439	
Net Investment Income	1,639,331,944	35,944	354,884,884	162,284
Net Increase (Decrease) in Fair Value of Investments	147,641,257	1,937,571	1,243,364,408	4,286,587
Interest Expense on Capital Asset Financings	(90,945,331)	(67,659)	(89,697,527)	(14,037)
Gain/(Loss) on Sale of Capital Assets	(20,521,103)	(50,426)	(18,407,295)	77,875
Other Nonoperating Revenues	114,594,505	47,931	95,680,827	47,936
Other Nonoperating Expenses	(68,063,052)	(426,431)	(71,234,490)	(19,565)
Net Nonoperating Revenues (Expenses)	<u>3,482,015,106</u>	<u>1,993,031</u>	<u>3,294,173,397</u>	<u>4,541,080</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	1,609,244,475	830,027	1,310,834,889	3,748,717
Return of Capital Contributions		(1,168,117)		
Capital Appropriations - HEAF	7,131,692		7,131,692	
Gifts and Sponsored Programs for Capital Acquisitions	84,099,471	1,274,172	70,916,346	1,159,902
Additions to Permanent Endowments	214,313,362		221,972,663	
Extraordinary Items (Note 19)	(13,400,548)		36,512,522	
Transfers From Other State Agencies	332,228,760		214,404,601	
Transfers to Other State Agencies	(439,604,393)		(317,549,024)	
Legislative Appropriations Lapsed	(63,171)		(141,274)	
Change in Net Assets	<u>1,793,949,648</u>	<u>936,082</u>	<u>1,544,082,415</u>	<u>4,908,619</u>
Beginning Net Assets - As Previously Reported	18,619,007,615	67,874,111	17,119,586,112	32,598,503
Restatements (Note 14)	(19,235,069)	(6,522,446)	(44,660,912)	30,366,989
Beginning Net Assets - As Restated	<u>18,599,772,546</u>	<u>61,351,665</u>	<u>17,074,925,200</u>	<u>62,965,492</u>
<b>Ending Net Assets</b>	<u>\$ 20,393,722,194</u>	<u>62,287,747</u>	<u>18,619,007,615</u>	<u>67,874,111</u>

The accompanying Notes to the Combined Financial Statements are an integral part of the financial statements.

THE UNIVERSITY OF TEXAS SYSTEM  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2004

	Current Year Totals		Prior Year Totals	
	Primary University	Component Units	Primary University	Component Units
<b>Cash Flows from Operating Activities:</b>				
Proceeds from Tuition and Fees	\$ 757,752,159		612,946,628	
Proceeds from Patients and Customers	2,553,189,542	11,461,341	2,384,402,478	36,142,371
Proceeds from Sponsored Programs	1,929,712,194		1,810,180,802	
Proceeds from Auxiliaries	246,360,971		247,303,600	
Proceeds from Other Revenues	319,759,381	203,527	375,949,541	789,698
Payments to Suppliers	(2,342,195,616)	(4,442,253)	(2,163,220,066)	(29,640,706)
Payments to Employees	(4,877,889,503)	(5,664,313)	(4,656,949,314)	(5,663,210)
Payments for Loans Provided	(101,165,528)		(81,138,650)	
Proceeds from Loan Programs	91,087,832		79,397,781	
Payments for Other Expenses	(36,733,050)		(11,676,611)	
Net Cash Provided (Used) by Operating Activities	<u>(1,460,121,618)</u>	<u>1,558,302</u>	<u>(1,402,803,811)</u>	<u>1,628,153</u>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Return of Capital Contributions		(1,168,117)		
Proceeds from State Appropriations	1,553,121,033		1,620,129,219	
Proceeds from Operating Gifts	177,330,414	326,392	229,062,919	
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	206,240,559		172,465,762	
Proceeds from Other Nonoperating Revenues	44,190,461	47,931	108,318,675	47,936
Payments/Receipts for Transfers to/from Other Agencies	(120,602,402)		(337,513,743)	
Payments for Other Uses	(31,675,536)	(444,795)	(64,985,814)	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>1,828,604,529</u>	<u>(1,238,589)</u>	<u>1,727,477,018</u>	<u>47,936</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Proceeds from Issuance of Capital Debt	1,525,004,266	440,000	1,099,220,658	1,803,328
Payments of Other Costs on Debt Issuance	(49,787,095)		(17,567,242)	
Proceeds from Capital Appropriations, Grants and Gifts	90,115,397	1,690,316	69,850,405	
Proceeds from Sale of Capital Assets	1,034,810	2,505	340,266	220,000
Payments for Additions to Capital Assets	(1,154,674,248)	(3,735,703)	(1,070,954,389)	(4,511,449)
Payments of Principal on Capital Related Debt	(1,134,568,110)	(364,191)	(545,040,439)	(27,091)
Payments of Interest on Capital Related Debt	(89,012,935)	(67,659)	(88,791,892)	(14,037)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(811,887,915)</u>	<u>(2,034,732)</u>	<u>(552,942,633)</u>	<u>(2,529,249)</u>
<b>Cash Flows from Investing Activities:</b>				
Proceeds from Sales of Investments	18,388,479,093	250,000	12,724,026,697	15,380
Proceeds from Interest and Investment Income	512,533,489	37,545	465,094,154	84,346
Payments to Acquire Investments	(18,096,794,800)		(12,461,895,931)	(736,841)
Net Cash Provided (Used) by Investing Activities	<u>804,217,782</u>	<u>287,545</u>	<u>727,224,920</u>	<u>(637,115)</u>
<b>Net Increase (Decrease) in Cash</b>	<b>360,812,778</b>	<b>(1,427,474)</b>	<b>498,955,494</b>	<b>(1,490,275)</b>
Cash & Cash Equivalents - Beginning of the Year	2,070,857,908	12,758,419	1,571,902,414	14,248,694
Restatements to Beginning Cash and Cash Equivalents	5,400,047	(5,378,002)		
<b>Cash &amp; Cash Equivalents - End of the Year (Note 1)</b>	<b>\$ 2,437,070,733</b>	<b>5,952,943</b>	<b>2,070,857,908</b>	<b>12,758,419</b>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>				
Operating Loss	\$ (1,872,770,631)	(1,163,004)	(1,983,338,508)	(792,363)
Adjustments to Reconcile Operating Loss to Net Cash:				
Depreciation and Amortization Expense	372,830,151	2,577,271	333,414,734	2,381,096
Loss on Asset Disposition		28,744		27,911
Bad Debt Expense	1,422,839		905,532	
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables	(111,946,821)	27,952	80,730,769	4,568,988
(Increase) Decrease in Inventories	(4,693,558)		1,869,708	
(Increase) Decrease in Loans and Contracts	(10,077,696)		1,032,773	
(Increase) Decrease in Other Assets	(59,356,951)	12,918	(356,383)	(14,538)
Increase (Decrease) in Payables	26,686,501	16,142	44,947,472	(4,577,432)
Increase (Decrease) in Deferred Income	157,375,334	(2,777)	53,791,315	(95)
Increase (Decrease) in Deposits Held for Others	(3,014,416)	(518)	(14,903,691)	(13,384)
Increase (Decrease) in Compensated Absence Liability	41,653,896	61,574	30,399,227	33,408
Increase (Decrease) in Other Liabilities	1,769,734		48,703,241	14,562
Total Adjustments	<u>412,649,013</u>	<u>2,721,306</u>	<u>580,534,697</u>	<u>2,420,516</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (1,460,121,618)</u>	<u>1,558,302</u>	<u>(1,402,803,811)</u>	<u>1,628,153</u>
<b>Noncash Transactions</b>				
Net Increase (Decrease) in Fair Value of Investments	147,641,257	1,937,571	1,243,364,408	4,286,587
Donated Capital Assets	22,029,637		8,877,516	
Capital Assets Acquired Under Capital Lease Purchases	615,578		638,318	
Miscellaneous Noncash Transactions	272,937	(40,352)	594,659	

The accompanying Notes to the Combined Financial Statements are an integral part of the financial statements.

**NOTES TO THE COMBINED FINANCIAL STATEMENTS**  
**For the Year Ended August 31, 2004**  
**(Unaudited)**

**GENERAL INTRODUCTION**

The financial records of The University of Texas System (the System), an agency of the State of Texas, reflect compliance with applicable State statutes and Governmental Accounting Standards Board (GASB) regulations.

The significant accounting policies followed by the System in maintaining accounts and in the preparation of the combined financial statements are in accordance with the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements. As an agency of the State of Texas, the System was required to adopt GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and GASB Statement No. 35, (GASB 35), *Basic Financial Statements – Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures*. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the System's assets, liabilities and net assets, revenues, expenses and changes in net assets, and cash flows, and replaces the fund group perspective that was previously required.

The combined financial statements include System Administration and all institutions of the System. Amounts due between institutions, amounts held for institutions by System Administration, and other duplications in reporting are eliminated in combining the individual financial statements.

**1. Summary of Significant Accounting Policies**

**BASIS OF ACCOUNTING**

The combined financial statements of the System have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. The System reports as a Business Type Activity, as defined by GASB 35. Business Type Activities are those that are financed in whole or in part by fees charged to external parties for goods or services. GASB 35 requires that the statements of net assets, revenues, expenses and changes in net assets, and cash flows be reported on a consolidated basis. Revenues associated with the few class days of the fall semester occurring prior to August 31, 2004, are considered immaterial and reported as deferred revenues.

The combined financial statements of the System are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. The System applies all applicable GASB pronouncements and Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

**CASH AND CASH EQUIVALENTS**

Short-term, highly liquid investments with maturities of three months or less at the time of purchase are generally considered cash and cash equivalents. It is the policy of the System to exclude items that meet this definition if they are part of an investment pool which has an investment horizon of one year or greater. Therefore, highly liquid investments that are part of the Short/Intermediate Term Fund and the Long Term Fund are not considered cash and cash equivalents. Additionally, Funds Functioning as Endowment invested in money market accounts are also excluded from Cash and Cash Equivalents as it is management's intent to invest these funds for more than one year. Cash held in the State treasury for the Permanent University Fund (PUF), the Permanent Health Fund (PHF) and the Available University Fund (AUF) are considered cash and cash equivalents. Other highly liquid investments of these major funds invested with custodians are not considered cash and cash equivalents according to the investment policies of the System.

**SECURITIES LENDING COLLATERAL**

The collateral secured for securities lent are reported as an asset on the balance sheet. The costs of securities lending transactions are reported as expenses in the Statement of Revenues, Expenses and Changes in Net Assets. See Note 2 for details regarding the securities lending program.

### RESTRICTED ASSETS

Restricted assets include funds restricted by legal or contractual requirements including those related to sponsored programs, donors, constitutional restrictions, bond covenants, and loan agreements.

### CAPITAL ASSETS

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The System follows the State's capitalization policy generally with a cost equal to or greater than \$1,000 or \$5,000 for equipment items, \$100,000 for buildings, building improvements and improvements other than buildings, and \$500,000 for infrastructure items, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements that increase the value by at least twenty-five percent or extend the useful life by at least twenty-five percent of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Outlays for construction in progress are capitalized as incurred. Interest expense related to construction is capitalized net of interest income earned on the resources reserved for this purpose.

The System capitalizes, but does not depreciate library books, works of art and historical treasures that are held for exhibition, education, research and public service. These collections are protected and preserved.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally two to fifteen years for equipment items, ten to fifty years for buildings and their components and fifteen to forty years for infrastructure elements.

### NET ASSETS

GASB 35 also establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following four net asset categories:

#### *Invested in Capital Assets, Net of Related Debt*

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

#### *Restricted-Nonexpendable*

Net assets subject to externally imposed stipulations that they be maintained permanently by the System. Such assets include the System's permanent endowment funds.

#### *Restricted-Expendable*

Net assets whose use by the System is subject to externally imposed stipulations that can be fulfilled by actions of the System pursuant to those stipulations or that expire with the passage of time.

#### *Unrestricted*

Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for special purposes by action of management or the U. T. System Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital programs (See Note 12 for details on Unrestricted Net Assets).

When an expense is incurred that can be paid using either restricted or unrestricted resources, the System addresses each situation on a case-by-case basis prior to determining the resources to be used to satisfy the obligation. Generally, the System's policy is to first apply the expense towards restricted resources and then towards unrestricted resources.

### OPERATING AND NONOPERATING REVENUES

Operating revenues include activities such as student tuition and fees, net of scholarship allowances; sales and services of auxiliary enterprises; most Federal, State and Local grants and contracts and Federal appropriations; and interest on student loans. As defined by GASB Statement No. 34, all operating revenues are considered program revenues since they are charges for services provided and program-specific operating grants and contributions.

Nonoperating revenues include activities such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as State appropriations and investment income. As defined by GASB Statement No. 34, nonoperating revenues are comprised of general revenues and program-specific capital grants and contributions.

### SCHOLARSHIP ALLOWANCES AND STUDENT AID

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid (student loans, funds provided to students as awarded by third parties and Federal Direct Lending) is accounted for as third party payments (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expense or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on an entity-wide basis by allocating cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

### STATEWIDE INTERFUND TRANSFERS

In accordance with provisions set forth in Article 7, Section 18 of the Texas Constitution, the System transfers one-third of the annual earnings of the Permanent University Fund (PUF) investments and lands to the Texas A&M University System. Additional details related to the operations of the PUF can be found in note three.

In accordance with the 78<sup>th</sup> Legislature, Regular Session, House Bill No. 1, Article IX, Section 11.33, \$9 million was transferred to U. T. Health Science Center at San Antonio for the Regional Academic Health Center from the Texas Enterprise Fund during the 2004-05 biennium.

### RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with current year presentations.

## 2. Deposits, Investments and Repurchase Agreements

### DEPOSITS OF CASH IN BANK

The carrying amount of \$(58,574,902) Cash in Bank (including restricted assets) is presented below.

The bank balance of the System has been classified according to the following risk categories.

- Category 1:** Insured or collateralized with securities held by the governmental entity or by its agent in the name of the governmental entity
- Category 2:** Collateralized with securities held by the pledging financial 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 institutions or by its trust department or agent but not in the governmental entity's name)

Deposits for the Reporting Entity are:

	Carrying Amount	Bank Balance	Category		
			1	2	3
Primary University	\$ (61,367,806)	66,308,896	66,308,896	-	-
Discretely Presented Component Units	2,792,904	3,346,125	-	-	3,346,125
Reporting Entity	\$ (58,574,902)	69,655,021	66,308,896	-	3,346,125

Deposits of Cash in Bank	Primary University	Component Units	Reporting Entity
Cash in Bank			
Demand Deposits	\$ (64,884,027)	2,792,904	(62,091,123)
Time Deposits	3,516,221	-	3,516,221
Total Deposits Carrying Amounts	\$ (61,367,806)	2,792,904	(58,574,902)

## AUTHORIZED INVESTMENTS

The System is authorized to invest funds, as provided in Section 51.0031 of the Texas Higher Education Code and the Constitution of the State of Texas, under prudent investor investment standards. Such investments include various fixed income and equity type securities. The investments of the System are governed by various investment policies approved by the U. T. System Board of Regents.

## INVESTMENTS

Investments include State and Other-than-State permanent endowments, funds functioning as endowments, life income funds and other investments. Permanent endowments are those funds received from the State or from donors with the stipulation that the corpus remain intact and invested in perpetuity to produce income which is to be expended for specified purposes. Funds functioning as endowments consist of amounts (restricted gifts or unrestricted funds) that have been internally dedicated by the System for long-term investment purposes. Programs supported by the endowments include scholarships, fellowships, professorships, research efforts and other important programmatic activities.

Investments of the System, except for PUF lands, are managed by the University of Texas Investment Management Company (UTIMCO), a private investment corporation that provides services entirely to the System. The System's investments are valued at fair value. The audited annual financial reports of the funds managed by UTIMCO disclose the valuation of these assets. The PUF lands' mineral interests are valued in accordance with Financial Accounting Standards Board Statement No. 69 – *Disclosures about Oil and Gas Producing Activities*, by calculating the future net cash flows and applying a ten percent discount rate per year. The PUF lands' surface interests are reported at their appraised value as of January 1, 2004. Other real estate holdings are reported by one of the following methods of valuation: the latest available appraised amount as determined by an independent state certified or other licensed appraiser, or by any other generally accepted industry standard, including tax assessments.

To comply with the reporting requirements of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, the System's investments are categorized in the tabulation titled "Investment Categories" to give an indication of credit risk assumed by the System at fiscal year-end.

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

The following categories of credit risk are included:

- Category 1:** Investments that are insured or registered or for which the governmental entity or its agent in the governmental entity's name holds the securities
- Category 2:** Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the governmental entity'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 governmental entity's name



**Investments-Primary University**

Type of Security	Category			Fair Value
	1	2	3	
U.S. Government & Agency	\$ 1,071,624,061	-	-	1,071,624,061
U.S. Government Agency Mortgage Obligations	516,954,292	-	-	516,954,292
Collateralized Mortgage Obligations	25,181,752	-	-	25,181,752
Corporate Obligations	282,045,559	-	-	282,045,559
Foreign Obligations	262,589,994	-	-	262,589,994
Political Subdivision Obligations	13,187,977	-	-	13,187,977
Commercial Paper	153,335,372	-	-	153,335,372
Corporate Stock	1,724,589,015	-	-	1,724,589,015
Foreign Stock	528,556,805	-	-	528,556,805
<b>TOTAL</b>	<b>\$ 4,578,064,827</b>	<b>-</b>	<b>-</b>	

**Uncategorized Investments:**

Mutual Funds	3,585,906,124
Money Market Cash Equivalents	2,243,209,535
Mineral Interests	98,092,624
Real Estate and Mortgages	1,025,752,072
Private Placement for Venture Capital	1,180,237,416
Other Investments	4,190,233,508
Securities Lending-Short-term Collateral	1,060,976,669
Investments Held by Broker/Dealers Under Securities Lending Agreements:	
U.S. Government and Agency Obligations	607,538,928
Corporate Obligations	27,489,525
Corporate Stock	51,276,142
Foreign Stock	65,959,106
Mutual Funds	293,356,819
<b>TOTAL INVESTMENTS &amp; CASH EQUIVALENT INVESTMENTS</b>	<b>\$ 19,008,093,295</b>

## Investments consist of the following:

Noncurrent, Restricted Investments	\$ 13,600,488,054
Noncurrent, Unrestricted Investments	2,103,419,037
Securities Lending Collateral	1,060,976,669
Money Market Cash Equivalents	2,243,209,535
<b>TOTAL INVESTMENTS &amp; CASH EQUIVALENT INVESTMENTS</b>	<b>\$ 19,008,093,295</b>

**Investments – Discretely Presented Component Units****Uncategorized Investments:**

	Fair Value
Other Investments	\$ 36,801,074
Money Market Cash Equivalents	3,159,289
<b>TOTAL INVESTMENTS &amp; CASH EQUIVALENT INVESTMENTS</b>	<b>39,960,363</b>

## Investments consist of the following:

Noncurrent, Restricted Investments	36,801,074
Money Market Cash Equivalents	3,159,289
<b>TOTAL INVESTMENTS &amp; CASH EQUIVALENT INVESTMENTS</b>	<b>\$ 39,960,363</b>

### REPURCHASE AGREEMENTS

The System, by statute, is authorized to enter into repurchase agreements. A repurchase agreement is when a holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate the buyer for this. During the year ended August 31, 2004, the System participated in Repurchase Agreements. The System earned income of \$7,431. At August 31, 2004, there were no Repurchase Agreements outstanding.

### REVERSE REPURCHASE AGREEMENTS

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

### SECURITIES LENDING

In accordance with the prudent investor investment standards, the System participates in a securities lending program. The System began the program, under a contract with the System’s lending agent, on September 1, 1995. The lending agent is authorized to lend any securities held by the System’s custodian except those securities which the policy guidelines prohibits lending. There was a total of \$1,045,626,082 of securities out on loan to brokers/dealers at August 31, 2004. This consisted of \$973,948,099 domestic and \$71,677,983 international loans. These securities on loan are presented as unclassified in the preceding schedule of custodial credit risk.

In security lending transactions, the System transfers its securities to brokers/dealers for collateral, which may be cash, securities issued or guaranteed by the United States government or its agencies, and irrevocable bank letters of credit, and simultaneously agrees to return the collateral for the same securities in the future.

Cash collateral received by the lending agent on behalf of the System is invested and reinvested in a non-commingled pool exclusively for the benefit of the System. The pool is managed in accordance with investment guidelines established by the System and is stated in the security lending contract. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar weighted average maturity of 60 days and an overnight liquidity of 20 percent. On August 31, 2004, the System was collateralized 102 percent for securities on loan collateralized by cash.

Lending income is earned if the returns on those investments exceed the “rebate” paid to borrowers of the securities. The income is then shared with the lending agent based on a contractually negotiated rate split. However, if the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss of principal, part of the payment to the borrower would come from the System’s resources and the lending agent based on the rate split.

Loans that are collateralized with securities generate income when the borrower pays a “loan premium or fee” for the securities loan. This income is split with the same ratio as the earnings for cash collateral. The collateral pledged to the System by the borrower is custodied by the lending agent or through a third party arrangement. These securities held as collateral are not available to the System for selling or pledging unless the borrower is in default of the loan. On August 31, 2004, the System was collateralized 117 percent for securities on loan collateralized by securities.

The collateral received will have a market value of 102 percent of the loaned securities of United States issuers. If the market value of the collateral held in connection with loans of securities of United States issuers is less than 100 percent at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102 percent of the market value.

For non-United States issuers, the collateral should remain at 105 percent of the market value of the loaned securities at the close of any business day. If it falls below 105 percent, the borrower must deliver additional collateral by the close of the following business day. On August 31, 2004, the System was collateralized 105 percent for international loans.

In the event of default, where the borrower is unable to return the securities loaned, the System has authorized the lending agent to seize the collateral held. The collateral is then used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities cannot be replaced. If the collateral is insufficient to replace the securities, the lending agent has indemnified the System from any loss due to borrower default.

At year-end the System had no credit risk exposure to borrowers because the amounts the System owed to borrowers exceeded the amounts the borrowers owed the System.

There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior period losses during the year.

#### DERIVATIVE INVESTING

Derivatives are financial instruments (securities or contracts) whose value is linked to, or “derived” from, changes in interest rates, currency rates, and stock and commodity prices. Derivatives cover a broad range of financial instruments, such as forwards, futures, options, swaps, and mortgage derivatives.

(A) *Mortgage Derivatives* – Mortgage derivatives are influenced by changes in interest rates, the current economic climate, and the geographic make-up of underlying mortgage loans. There are varying degrees of risk associated with mortgage derivatives. For example, certain Collateralized Mortgage Obligations (CMOs) such as Planned Amortization Class (PACs) are considered a more conservative lower risk investment. In contrast, principal only and interest only strips are considered higher risk investments. The System’s investment in CMOs at August 31, 2004, which was comprised exclusively of the lower risk investment class, was 0.6 percent of total investments with a market value of \$108,253,266.

(B) *Futures Contracts* – Futures contracts are used to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes. Futures contracts are marked to market daily; that is, they are valued at the close of business each day, and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss difference is referred to as the daily variation margin, which is settled in cash with the broker each morning for the amount of the previous day’s mark to market. The amount that is settled in cash with the broker each morning is the carrying and fair value of the futures contracts. The amount of the net realized gain on the futures contracts was \$95,888,305 for the year ended August 31, 2004. The System executes such contracts either on major exchanges or with major international financial institutions and minimizes market and credit risk associated with these contracts through the manager’s various trading and credit monitoring techniques.

The following discloses the notional, carrying and fair values of futures contracts at August 31, 2004.

	Notional Value at August 31, 2004		Carrying and Fair Value at August 31, 2004	
	Long	Short	Assets	Liabilities
Domestic				
Equity Futures	\$ 1,419,961,810	952,391,780	6,620,674	7,336,768
International				
Equity Futures	587,287,998	251,902,046	948,582	2,834,306
Commodity				
Futures	371,155,050	-	376,425	-
Domestic Fixed				
Income Futures	140,391,843	2,700,750	454,819	17,250
International				
Fixed Income				
Futures	324,117,152	31,486,904	899,825	81,660

(C) *Foreign Currency Exchange Contracts* – The System enters into forward foreign currency exchange contracts to hedge against foreign currency exchange rate risks on its non-U.S. dollar denominated investment securities and to facilitate trading strategies primarily as a tool to increase or decrease market exposure to various foreign currencies. When entering into a forward currency contract, the System agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are valued daily and the System’s net equity therein (representing unrealized gain or loss on the contracts, as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date) is included in the Combined Balance Sheet. Realized and unrealized gains and losses are included in the Combined Statement of Revenues, Expenses and Changes in Net Assets. These instruments involve market and/or credit risk in excess of the amount recognized in the Combined Balance Sheet. Risks arise from the possible inability of counter-parties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

The table below summarizes by currency the contractual amounts of the System’s foreign exchange contracts at August 31, 2004. Foreign currency amounts are translated at exchange rates as of August 31, 2004. The “Net Buy” amounts represent the U. S. dollar equivalent of net commitments to purchase foreign currencies and the “Net Sell” amounts represent the U. S. dollar equivalent of net commitments to sell foreign currencies.

Currency	Net Buy	Net Sell	Unrealized Gains on Foreign Exchange Contracts	Unrealized Losses on Foreign Exchange Contracts
Australian Dollar	\$ 3,511,311	-	35,504	12,461
Canadian Dollar	-	15,689,221	12,592	53,314
Danish Krone	-	1,277,998	10,314	-
Euro Currency	-	38,549,406	682,051	117,132
Japanese Yen	113,240,882	-	294,044	410,348
New Zealand Dollar	388,479	480,388	41,617	7,165
Norwegian Krone	-	13,176,329	484,696	292,896
Singapore Dollar	-	3,865,598	34,148	20,440
Slovak Koruna	341,648	-	-	3,983
South Korean Won	3,271,946	-	47,134	-
Swedish Krona	-	4,180,306	44,259	1,794
Swiss Franc	-	1,503,731	28,449	55,213
UK Pound	27,575,791	-	1,066,089	1,014,162
<b>TOTAL</b>	<b>\$ 148,330,057</b>	<b>78,722,977</b>	<b>2,780,897</b>	<b>1,988,908</b>

D) *Written Options* – During the year, call options were written on Treasury Bond and equity index futures. Transactions in call options written during the year ended August 31, 2004 were as follows:

	Number of Contracts	Premiums Received
Call Options Outstanding at August 31, 2003	-	\$ -
Options Written	187,088	4,916,185
Options Expired	(1,064)	(1,103,097)
Options Exercised	(185,949)	(3,772,353)
Call Options Outstanding at August 31, 2004	<u>75</u>	<u>\$ 40,735</u>

E) *Swaps* –During the year, the System entered into interest rate, total return and commodity swap contracts. The following discloses the notional amount, the coupon rate, and the fair values of the outstanding swap contracts as of August 31, 2004:

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2004	
				Assets	Liabilities
<b>Interest Rate Swaps:</b>					
UK Pound					
	5.000%	\$ 9,800,000	6/15/2008	\$ -	\$ 103,355
	5.000%	7,300,000	3/20/2013	57,472	-
	5.000%	23,000,000	3/15/2032	-	783,001
	5.250%	5,300,000	9/17/2018	-	31,511
Euro					
	4.000%	29,600,000	3/15/2007	712,507	-
	4.000%	35,150,000	3/15/2007	846,102	-
	4.000%	4,800,000	6/17/2010	52,502	-
	4.000%	17,260,000	6/17/2010	-	188,788
	4.000%	8,380,000	6/16/2014	92,069	-
	4.000%	45,800,000	6/16/2014	503,193	-
	5.000%	3,400,000	6/16/2014	296,929	-
	5.750%	3,300,000	9/17/2018	43,883	-
	6.000%	19,000,000	3/15/2006	-	3,318,909
	6.000%	8,700,000	3/20/2018	210,839	-
	6.000%	10,300,000	3/15/2032	407,494	-
	6.000%	19,000,000	3/15/2032	4,070,596	-
Japanese Yen					
	0.800%	1,120,000,000	3/30/2012	353,955	-
	2.000%	800,000,000	6/15/2012	-	266,002
	2.000%	1,415,000,000	12/20/2013	-	451,079
Swedish Krona					
	4.500%	66,300,000	6/17/2008	79,654	-
	4.500%	59,000,000	6/17/2008	70,884	-
	4.500%	58,600,000	6/17/2008	70,404	-
U. S. Dollar					
	4.000%	36,500,000	12/15/2009	-	60,313
	4.000%	3,500,000	12/15/2009	-	5,783
	5.000%	59,300,000	12/15/2014	-	1,370,898
	5.000%	9,800,000	12/15/2014	-	226,556
	5.000%	1,400,000	12/15/2014	-	32,365
	6.000%	12,400,000	12/15/2024	-	1,111,975
	6.000%	29,000,000	12/18/2033	219,798	-
	6.000%	14,800,000	12/18/2033	112,173	-
				<u>8,200,454</u>	<u>7,950,535</u>
<b>Total Return Swap:</b>					
U. S. Dollar					
	-	1,000,000	9/30/2004	23,921	-
	-	1,100,000	11/1/2004	24,585	-
				<u>48,506</u>	<u>-</u>
<b>Commodity Swap:</b>					
U. S. Dollar					
	TBill + 45 Basis Points	53,600,000	9/30/2004	-	-
	TBill + 45 Basis Points	18,200,000	9/30/2004	-	-
	TBill + 45 Basis Points	-	8/31/2004	-	1,673,113
	TBill + 45 Basis Points	-	8/31/2004	-	1,108,727
	TBill + 45 Basis Points	-	8/31/2004	-	338,291
	TBill + 45 Basis Points	-	8/31/2004	-	1,095,170
				<u>-</u>	<u>4,215,301</u>
<b>Total</b>				<u>\$ 8,248,960</u>	<u>12,165,836</u>

(F) *Other* – The System has investments in index funds, included in the investment category of corporate stocks and mutual funds, which are authorized to use derivatives. The trustee of the index funds may invest a portion of the funds in stock index futures contracts for the purpose of acting as a temporary substitute for investment in common stocks. The market value of these index funds as of August 31, 2004 was \$1,732,730,824. Of this amount, index funds with a market value of \$1,723,730,824 had investments in derivative instruments as of August 31, 2004.

The System also has investments in hedge, commingled and other funds, included in the investment category of mutual funds and other investments, which are authorized to use derivatives. The market value of these funds as of August 31, 2004, was \$3,230,489,866.

### **3. Endowments**

Distributions that are reinvested in endowments become permanent additions to the principal of the endowments; therefore, there is no amount of net appreciation on investments of donor-restricted endowments available for authorization of expenditures. This provision is outlined in the endowment agreements with donors.

The System's endowments are used to support operations, which require the simultaneous achievement of two contradictory objectives of generating a predictable stream of annual revenue at a rate at least equal to the average rate of inflation for current needs and to increase the purchasing power of the funds (after annual distributions) at a rate at least equal to the average rate of inflation for future periods.

#### ENDOWMENTS AND SIMILAR FUNDS – STATE

These endowments are comprised of: the Permanent University Fund (PUF) and the Permanent Health Fund for Higher Education (PHF).

The PUF was established by the Texas Constitution of 1876 through the appropriation of land grants. Amendments to the Constitution, approved by voters in 1999, were related to the investment of the PUF and the distributions from the PUF to the Available University Fund (AUF). The Constitution, as amended, is summarized as follows: (i) The U. T. System Board of Regents is held to a “prudent investor” rather than a “prudent person” standard; (ii) distributions to the AUF are made from the total return on all PUF investment assets; (iii) the U. T. System Board of Regents determines the amount of distributions to the AUF, which may not exceed an amount equal to seven percent of the average net fair market value of investment assets, except as necessary to pay debt service on PUF bonds and notes; (iv) the U. T. System Board of Regents determines the amount of distributions to the AUF in a manner intended to provide the AUF with a stable and predictable stream of annual distributions and to maintain, over time, the purchasing power of PUF investments and annual distributions to the AUF; and (v) the expenses of managing PUF land and investments are paid by the PUF.

The U. T. System Board of Regents manages certain permanent funds for health-related institutions of higher education as more fully described in Chapter 63 of the Texas Higher Education Code. Certain funds created by this statute were transferred to the U. T. System Board of Regents on August 30, 1999, to be managed and invested in the same manner as the U. T. System Board of Regents manages and invests other endowment funds. The PHF as defined in the statute is classified as Endowment and Similar Funds – State. These endowments provide support for programs that benefit medical research, health education or treatment at health-related institutions. The U. T. System Board of Regents determines the amount of distributions to support the programs based on the PHF's investment policy. The investment policy provides that the annual payout will be adjusted by the average consumer price index of the prior 36 months including August 31, subject to a maximum distribution of 5.5 percent of this fund's average market value and a minimum distribution of 3.5 percent of this fund's average market value.

The University of Texas System General Endowment Fund (Fund), created March 1, 2001, is a pooled fund established for the collective investment of long-term funds under the control and management of the U. T. System Board of Regents. The Fund is organized as a mutual fund and has two participants, the PHF and The University of Texas System Long Term Fund (LTF). The PHF and LTF initially purchased units of the Fund on March 1, 2001, in exchange for the contribution of their investment assets. The Fund provides for greater diversification of investments than would be possible if each account were managed separately.

#### ENDOWMENT AND SIMILAR FUNDS - OTHER THAN STATE

Funds subject to restrictions of endowment and trust instruments, requiring that principal be maintained and that only the income be utilized. Funds may include Endowments, Term Endowments and Funds Functioning as Endowments.

#### ANNUITY AND LIFE INCOME FUNDS

The Annuity Funds consist of funds donated to an institution on the condition that the institution pay a stipulated amount of the funds to the donor or designated individual for a specified time or until the time of death of the annuitant. The Life Income Funds consist of funds contributed to an institution subject to the requirement that the institution periodically pay the income earned on the assets (less management expenses) to designated beneficiaries.

#### AVAILABLE UNIVERSITY FUND

The AUF consists of distributions made to it from the total return on the PUF investment assets and surface income from PUF lands. All surface income from the PUF lands (i.e., grazing leases and land easements) is deposited to the AUF. The AUF must be used first to pay debt service on the PUF bonds and notes. After debt service requirements are met, under present Legislative authority, the AUF may be appropriated for the support and maintenance of The University of Texas at Austin and The University of Texas System Administration.

#### 4. Capital Assets

A summary of changes in the capital assets for the year ended August 31, 2004, is presented below.

	Balance 09/01/03	Adjustments	Reclassifications Completed CIP
<b>Primary University</b>			
<u>Non-depreciable Assets:</u>			
Land & Land Improvements	\$ 218,710,126	(74,843)	447,753
Construction in Progress (CIP)	1,175,982,712	(4,011,263)	(572,181,857)
Other Capital Assets	631,582,566	(24,595,767)	-
Total Non-depreciable Assets	<u>2,026,275,404</u>	<u>(28,681,873)</u>	<u>(571,734,104)</u>
<u>Depreciable Assets:</u>			
Buildings & Building Improvements	4,819,536,348	(3,396,305)	483,778,324
Infrastructure	139,758,938	1,854,055	10,727,930
Facilities and Other Improvements	344,921,631	(41,918,021)	10,094,281
Furniture and Equipment	1,634,450,357	176,037	61,859,287
Vehicles, Boats and Aircraft	42,273,318	(339,895)	-
Other Capital Assets	7,472,013	45,691,177	5,274,282
Total Depreciable Assets at Historical Cost	<u>6,988,412,605</u>	<u>2,067,048</u>	<u>571,734,104</u>
Less Accumulated Depreciation for:			
Buildings & Building Improvements	(2,066,086,889)	330,771	-
Infrastructure	(77,313,432)	724,710	-
Facilities and Other Improvements	(134,207,928)	20,186,179	-
Furniture and Equipment	(1,021,449,334)	1,863,129	-
Vehicles, Boats and Aircraft	(30,885,612)	(437,179)	-
Other Capital Assets	(1,932,976)	(23,376,627)	-
Total Accumulated Depreciation	<u>(3,331,876,171)</u>	<u>(709,017)</u>	<u>-</u>
Depreciable Assets, net	<u>3,656,536,434</u>	<u>1,358,031</u>	<u>571,734,104</u>
Primary University Capital Assets, net	<u>\$ 5,682,811,838</u>	<u>(27,323,842)</u>	<u>-</u>

	Balance 09/01/03	Adjustments	Reclassifications Completed CIP
<b>Component Units</b>			
<u>Non-depreciable Assets:</u>			
Land & Land Improvements	\$ 53,932	-	-
Construction in Progress (CIP)	3,097,585	-	(4,239,692)
Total Non-depreciable Assets	<u>3,151,517</u>	<u>-</u>	<u>(4,239,692)</u>
<u>Depreciable Assets:</u>			
Buildings & Building Improvements	12,210,628	-	-
Furniture and Equipment	9,053,043	(462,668)	3,642,388
Vehicles, Boats and Aircraft	41,315	-	-
Other Capital Assets	1,452,830	-	597,304
Total Depreciable Assets at Historical Cost	<u>22,757,816</u>	<u>(462,668)</u>	<u>4,239,692</u>
Less Accumulated Depreciation for:			
Buildings & Building Improvements	(1,763,659)	-	-
Furniture and Equipment	(5,191,284)	441,211	-
Vehicles, Boats and Aircraft	(35,283)	-	-
Other Capital Assets	(521,297)	-	-
Total Accumulated Depreciation	<u>(7,511,523)</u>	<u>441,211</u>	<u>-</u>
Depreciable Assets, net	<u>15,246,293</u>	<u>(21,457)</u>	<u>4,239,692</u>
Component Units Capital Assets, net	<u>\$ 18,397,810</u>	<u>(21,457)</u>	<u>-</u>



Reclassifications Interagency Transfers - In	Reclassifications Interagency Transfers - Out	Additions	Deletions	Balance 08/31/04
-	-	13,053,019	(784,392)	231,351,663
-	-	913,348,434	-	1,513,138,026
-	-	46,483,356	(3,392,673)	650,077,482
-	-	972,884,809	(4,177,065)	2,394,567,171
-	-	91,185,739	(3,372,767)	5,387,731,339
-	-	3,283,861	(1,854,055)	153,770,729
-	-	2,265,153	-	315,363,044
1,092,619	(483,386)	185,613,957	(88,145,251)	1,794,563,620
32,632	(13,399)	3,216,326	(1,860,532)	43,308,450
-	-	1,505,164	-	59,942,636
1,125,251	(496,785)	287,070,200	(95,232,605)	7,754,679,818
-	-	(169,581,901)	2,347,961	(2,232,990,058)
-	-	(4,422,031)	1,325,173	(79,685,580)
-	-	(10,597,102)	-	(124,618,851)
(357,873)	253,182	(179,262,901)	72,442,263	(1,126,511,534)
-	-	(3,452,665)	1,738,360	(33,037,096)
-	-	(5,513,551)	-	(30,823,154)
(357,873)	253,182	(372,830,151)	77,853,757	(3,627,666,273)
767,378	(243,603)	(85,759,951)	(17,378,848)	4,127,013,545
767,378	(243,603)	887,124,858	(21,555,913)	6,521,580,716

Reclassifications Interagency Transfers - In	Reclassifications Interagency Transfers - Out	Additions	Deletions	Balance 08/31/04
-	-	-	-	53,932
-	-	3,280,944	-	2,138,837
-	-	3,280,944	-	2,192,769
-	-	30,437	(811)	12,240,254
-	-	414,010	(1,479,475)	11,167,298
-	-	-	-	41,315
-	-	25,099	(191,688)	1,883,545
-	-	469,546	(1,671,974)	25,332,412
-	-	(497,110)	811	(2,259,958)
-	-	(1,796,308)	1,443,242	(5,103,139)
-	-	(10,329)	-	(45,612)
-	-	(273,524)	146,244	(648,577)
-	-	(2,577,271)	1,590,297	(8,057,286)
-	-	(2,107,725)	(81,677)	17,275,126
-	-	1,173,219	(81,677)	19,467,895

## 5. Risk Financing and Related Insurance

The System has seven funded self-insurance plans providing coverage in the following areas: employee health and dental, unemployment compensation, workers' compensation, medical professional liability, property protection, directors and officers/employment practices liability, and construction contractor insurance.

### EMPLOYEE AND RETIREE INSURANCE BENEFITS

The U. T. System Employee Group Insurance program provides health, dental, vision, life insurance, long term disability, short term disability, long term care and flexible spending account coverage to all benefits-eligible employees and retirees of the System and its fifteen institutions. These insurance benefits are provided through both self-funded and fully-insured arrangements. A portion of an individual's group health insurance premium is paid by the state as specified in the General Appropriations Act. The System's Office of Employee Group Insurance (EGI) is responsible for the overall administration of the insurance plans. EGI was established by Chapter 1601 (formerly Article 3.50-3) of the *Texas Insurance Code* and complies with state laws and statutes pertinent to employee benefits for the System.

### UNEMPLOYMENT COMPENSATION INSURANCE

The current General Appropriations Act requires System to reimburse the Texas Workforce Commission (TWC) for 50% of the unemployment benefits paid to former employees that were paid from appropriated funds. The System reimburses the TWC 100% of the unemployment benefits paid to former employees that were paid from local funds.

### WORKERS' COMPENSATION INSURANCE

The University of Texas System Workers' Compensation Insurance (WCI) program provides coverage to all employees of the System and its fifteen institutions. Under the oversight of the System's Office of Risk Management (ORM), the System self-insures and administers the program. The WCI staff is responsible for administering all aspects of the System-wide program, which provides income and medical benefits to all employees who have sustained job-related injuries or occupational diseases. The program's statutory authority is embodied in Chapter 503 of the *Texas Labor Code*.

### PROFESSIONAL MEDICAL LIABILITY BENEFIT PLAN

The coverage provided under The Professional Medical Liability Benefit Plan (Plan) is on an occurrence basis; thus, a participant is covered by the Plan for all claims and lawsuits relating to events that occurred while enrolled in the Plan, including those filed after the participant has left the System's employment or training. The Plan covers all of the System staff physicians, dentists, residents, fellows, and medical students who have been enrolled. The limits of liability of the Plan include an annual policy aggregate of \$30,000,000, an annual aggregate of \$1,500,000 for each staff physician (\$500,000 per claim), an annual aggregate of \$300,000 for each resident or fellow (\$100,000 per claim) and a \$75,000 annual aggregate for each medical student (\$25,000 per claim). Liability is limited to \$2,000,000 per incident, regardless of the number of claimants or physicians involved in an incident. As of September 1, 2003, the limits of liability are prescribed by law as \$100,000 per claim per physician.

### COMPREHENSIVE PROPERTY PROTECTION PROGRAM

The property protection plan consists of two programs. The first provides coverage for physical damage resulting from Named Windstorms and catastrophic flood losses up to \$50 million. Insurance policies providing relatively low limits (\$1-2 million per building and contents) are purchased through the Texas Windstorm Insurance Association and the National Flood Insurance Program on several facilities in the Tier 1 wind zone and/or Flood Zone A to provide a primary layer of insurance. The self-insurance component of the program participates in losses that exceed the coverage available under these primary policies or in cases where there is no underlying insurance.

The second program covers fire and other perils and includes commercial reinsurance for claims exceeding a per occurrence deductible of \$7.5 million or an annual aggregate deductible of \$25 million. The policy covers \$13.2 billion in building and content values and \$3.2 billion in business income. The maximum annual reimbursement under this policy is \$500 million per occurrence.

To fund the self-insurance portion of both property programs, the institutions will make annual contributions to the loss reserve funds in addition to paying insurance premiums.

### DIRECTORS & OFFICERS/EMPLOYMENT PRACTICES LIABILITY SELF-INSURANCE PLAN

The Directors & Officers Liability (D&O) and Employment Practices Liability Self-insurance Plan provides coverage for claims arising from actual or alleged wrongful acts performed by the plan beneficiaries. The plan also provides

coverage for employment practices liability (EPL) claims, such as wrongful termination, failure to promote and wrongful discipline.

Coverage applies to individual board members, employees, faculty, etc., as well as to the System itself. The limit of liability is a \$10 million annual aggregate (Coverages A, B and C combined), except for \$5 million annual aggregate sublimit for Coverage C. There is no deductible for Coverage A (individuals), a \$100,000 deductible per director or officer with a \$300,000 maximum deductible per loss for Coverage B. The deductible for Coverage C is \$300,000. In 2003, the U. T. System Board of Regents allocated \$3.7 million from the Available University Fund to establish the D&O/EPL loss reserve fund. Institutions make annual premium contributions to this fund as well.

#### ROLLING OWNER CONTROLLED INSURANCE PROGRAM

A Rolling Owner Controlled Insurance Program (ROCIP) is established for the centralized purchase of construction contractor insurance on various capital projects. This program provides workers' compensation and general liability insurance for all contractors enrolled on projects participating in the program. The insurance carries a \$250,000 per occurrence basket deductible, which is paid through the program's self-insurance fund.

#### INCURRED BUT NOT REPORTED (IBNR)

Insurance claims that were Incurred But Not Reported (IBNR) were actuarially determined for the employee's health and dental, workers' compensation, professional medical liability, directors & officers/employment practices liability, and rolling owner controlled self-insurance plans. IBNR figures for the workers' compensation, professional medical liability, directors & officers/employment practices liability, and rolling owner controlled self-insurance plans include liabilities for unpaid reported claims. The IBNR liability for the property protection self-insurance plan is not actuarially determined but rather estimated based on unpaid reported claims. Since an annual accrual is recorded for the third quarter TWC billing, no IBNR liability is recorded for Unemployment Compensation Insurance.

Changes in the System's claims liabilities for the various self-insurance plans during fiscal year 2004 and 2003 were as follows:

<u>Fiscal Year 2004</u> Plan	IBNR Liability 09/01/03	Current Year Claims and Changes in Estimates	Claims Payments	IBNR Liability 08/31/04
Employee Health and Dental	\$ 31,350,000	286,729,663	(281,579,663)	36,500,000
Workers' Compensation	20,154,000	4,814,327	(5,612,327)	19,356,000
Medical Professional Liability	93,205,925	21,633,938	(18,531,885)	96,307,978
Property Protection	498,792	1,747,700	(543,392)	1,703,100
Directors & Officers/EPL	2,704,053	300,894	-	3,004,947
ROCIP I, II, III & IV	3,829,179	6,578,189	(3,042,507)	7,364,861
TOTAL	\$ 151,741,949	321,804,711	(309,309,774)	164,236,886

<u>Fiscal Year 2003</u> Plan	IBNR Liability 09/01/02	Current Year Claims and Changes in Estimates	Claims Payments	IBNR Liability 08/31/03
Employee Health and Dental	\$ 54,550,000	233,409,176	(256,609,176)	31,350,000
Workers' Compensation	21,732,000	5,167,106	(6,745,106)	20,154,000
Medical Professional Liability	84,607,321	22,077,831	(13,479,227)	93,205,925
Property Protection	-	502,756	(3,964)	498,792
Directors & Officers/EPL	-	2,704,053	-	2,704,053
ROCIP I, II & III	924,220	4,350,575	(1,445,616)	3,829,179
TOTAL	\$ 161,813,541	268,211,497	(278,283,089)	151,741,949

## 6. Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the state provided certain health and life insurance benefits for retired employees, in accordance with state statutes. Substantially all of the employees may become eligible for the health and life insurance benefits if they reach normal retirement age while working for the state. Currently there are 13,181 system-wide retirees who are eligible for these benefits. Similar benefits for active employees are provided through self-funded plans and fully-insured plans. Depending upon the status of the employee at the time of retirement, the state or the System recognizes the cost of providing these benefits by expensing the annual insurance premiums. For the fiscal year ended August 31, 2004, the monthly contribution by the State or the System per full-time employee/retiree ranged from \$288.50 to \$590.55 depending upon the plan and level of coverage selected. This contribution paid all of the “employee/retiree only” premiums and a portion of the premiums for those employees/retirees selecting dependent coverage. The employee/retiree was required to pay a portion of the cost of dependent coverage. For the fiscal year ended August 31, 2004, the cost of providing those benefits for the retirees was \$26,556,729 for the state and \$24,709,502 for the System.

## 7. Bonded Indebtedness

At August 31, 2004, the System had outstanding bonds payable of \$2,473,420,000. All bonds issued by the System are defined as revenue bonds. Segment information requirements are not applicable, due to the bond indentures’ lack of specifically identifiable activities and external party imposed separate accounting requirements. General information related to bonds outstanding is summarized below:

- Permanent University Fund Refunding Bonds, Series 1996
  - Purpose: To refund \$246,185,000 principal amount of Permanent University Fund Refunding Bonds, Series 1988, 1991 and 1992B, maturing on July 1 in the years 1999 - 2013.
  - Issue Date: March 7, 1996
  - Authorized: \$280,000,000 Issued: \$263,945,000
  - Interest Rates: 4.00–6.00% Maturity Dates: 1996 – 2013
  - Source of Revenue for Debt Service: Available University Fund
  
- Permanent University Fund Bonds, Series 1997
  - Purpose: To refund \$78,000,000 principal amount of Permanent University Fund Variable Rate Notes, Series A, and to provide new money.
  - Issue Date: January 6, 1998
  - Authorized: \$130,000,000 Issued: \$130,000,000 –All authorized amounts have been issued.
  - Interest Rates: 4.75–5.25% Maturity Dates: 1999 – 2018
  - Source of Revenue for Debt Service: Available University Fund
  
- Permanent University Fund Refunding Bonds, Series 2002A
  - Purpose: To refund \$108,515,000 principal amount of Permanent University Fund Refunding Bonds, Series 1992A, maturing on July 1 in the years 2003 through 2007, both inclusive, and in the years 2009 and 2013.
  - Issue Date: April 2, 2002
  - Authorized: \$115,000,000 Issued: \$105,290,000
  - Interest Rates: 3.00–5.00% Maturity Dates: 2003 – 2010
  - Source of Revenue for Debt Service: Available University Fund
  
- Permanent University Fund Bonds, Series 2002B
  - Purpose: To refund \$191,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A.
  - Issue Date: April 2, 2002
  - Authorized: \$205,000,000 Issued: \$188,215,000
  - Interest Rates: 5.00–5.38% Maturity Dates: 2012 – 2022
  - Source of Revenue for Debt Service: Available University Fund

- Permanent University Fund Refunding Bonds, Series 2004A  
 Purpose: To refund \$61,495,000 principal amount of Permanent University Fund Bonds, Series 1997, maturing on July 1 in the years 2009 through 2016, both inclusive.  
 Issue Date: April 6, 2004  
 Authorized: \$500,000,000<sup>1</sup> Issued: \$60,665,000  
 Interest Rates: 3.00–5.00% Maturity Dates: 2004 – 2016  
 Source of Revenue for Debt Service: Available University Fund
- Permanent University Fund Bonds, Series 2004B  
 Purpose: To refund \$400,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A.  
 Issue Date: April 6, 2004  
 Authorized: \$439,335,000<sup>1</sup> Issued: \$396,520,000  
 Interest Rates: 4.50–5.00% Maturity Dates: 2023 – 2033  
 Source of Revenue for Debt Service: Available University Fund

<sup>1</sup>The Permanent University Fund Bonds, Series 2004 A&B were authorized pursuant to an aggregate issuance and delivery of up to \$500 million in multiple installments starting March 11, 2004 and ending December 31, 2004. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments.

- Revenue Financing System Bonds, Series 1995A  
 Purpose: To refund \$34,833,000 of Revenue Financing System Commercial Paper Notes, to refund \$4,525,000 of U. T. Pan American Tuition Revenue Refunding Bonds, Series 1986 and to provide new money of \$35,167,000.  
 Issue Date: July 12, 1995  
 Authorized: \$232,000,000 Issued: \$74,945,000  
 Interest Rates: 4.00–6.00% Maturity Dates: 1996 – 2017  
 Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
- Revenue Financing System Bonds, Series 1996A  
 Purpose: To provide new money.  
 Issue Date: February 29, 1996  
 Authorized: \$78,125,000 Issued: \$72,600,000  
 Interest Rates: 4.70–6.00% Maturity Dates: 1997 – 2016  
 Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
- Revenue Financing System Bonds, Series 1996B  
 Purpose: To refund a \$18,355,000 portion of the Revenue Financing System Refunding Bonds, Series 1991A, to refund a \$20,035,000 portion of the Revenue Financing System Refunding Bonds, Series 1991B, to refund \$106,855,000 of Revenue Financing System Commercial Paper Notes, Series A and to provide new money of \$88,400,000.  
 Issue Date: February 29, 1996  
 Interest Rates: 4.70–6.00% Maturity Dates: 1997 – 2016  
 Authorized: \$271,875,000 Issued: \$232,135,000  
 Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

- Revenue Financing System Bonds, Series 1998A
  - Purpose: To refund \$10,455,000 principal of Revenue Financing System Commercial Paper Notes, Series A issued pursuant to Section 55.1714 of the Texas Education Code.
  - Issue Date: February 11, 1998
  - Authorized: \$11,500,000 Issued: \$10,690,000
  - Interest Rates: 4.13–5.00% Maturity Dates: 1999 – 2018
  - Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
  
- Revenue Financing System Bonds, Series 1998B
  - Purpose: To refund \$109,504,000 principal of Revenue Financing System Commercial Paper Notes, Series A and to pay the cost of issuance.
  - Issue Date: February 11, 1998
  - Authorized: \$115,500,000 Issued: \$111,915,000
  - Interest Rates: 3.75–5.25% Maturity Dates: 1999 – 2018
  - Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
  
- Revenue Financing System Bonds, Series 1998C
  - Purpose: To refund \$22,441,000 principal of Revenue Financing System Commercial Paper Notes, Series A issued pursuant to Sections 55.1714 and 55.1722 of the Texas Education Code, provide new money of \$21,584,000 and pay the cost of issuance.
  - Issue Date: October 15, 1998
  - Authorized: \$46,680,000 Issued: \$45,175,000
  - Interest Rates: 3.65–5.00% Maturity Dates: 2000 – 2019
  - Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
  
- Revenue Financing System Bonds, Series 1998D
  - Purpose: To refund \$91,163,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$10,549,000 and pay the cost of issuance.
  - Issue Date: October 15, 1998
  - Authorized: \$111,820,000 Issued: \$100,185,000
  - Interest Rates: 3.80–5.13% Maturity Dates: 2000 – 2019
  - Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
  
- Revenue Financing System Bonds, Series 1999A
  - Purpose: To refund \$32,723,000 principal of Revenue Financing System Commercial Paper Notes, Series A issued pursuant to Sections 55.1714 and 55.1722 of the Texas Education Code, provide new money of \$70,027,000 and pay the cost of issuance.
  - Issue Date: September 21, 1999
  - Authorized: \$102,750,000 Issued: \$101,745,000
  - Interest Rates: 4.50–5.75% Maturity Dates: 2001 – 2020
  - Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

- Revenue Financing System Bonds, Series 1999B

Purpose: To refund \$82,490,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$99,050,000 and pay the cost of issuance.

Issue Date: September 21, 1999

Authorized: \$193,000,000 Issued: \$180,830,000

Interest Rates: 4.50–5.75% Maturity Dates: 2001 – 2020

Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
- Revenue Financing System Refunding Bonds, Series 2001A

Purpose: To refund \$38,500,000 of Revenue Financing System Refunding Bonds, Series 1991A and \$42,030,000 of Revenue Financing System Refunding Bonds, Series 1991B, and pay costs of issuance.

Issue Date: May 17, 2001

Authorized: \$85,000,000 Issued: \$81,665,000

Interest Rates: Variable Maturity Date: 2013

Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
- Revenue Financing System Bonds, Series 2001B

Purpose: To refund \$110,070,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$76,000,000 and pay the cost of issuance.

Issue Date: October 2, 2001

Authorized: \$580,000,000<sup>2</sup> Issued: \$179,610,000

Interest Rates: 3.25–5.38% Maturity Dates: 2003 – 2022

Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
- Revenue Financing System Bonds, Series 2001C

Purpose: To refund \$503,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$87,800,000 and pay the cost of issuance.

Issue Date: October 2, 2001

Authorized: \$400,390,000<sup>2</sup> Issued: \$84,590,000

Interest Rates: 4.00–5.38% Maturity Dates: 2003 – 2022

Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

<sup>2</sup>The Revenue Financing System Bonds, Series 2001B & C were authorized pursuant to an aggregate issuance and delivery of up to \$580 million in multiple installments starting August 9, 2001 and ending August 31, 2002. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments.

- Revenue Financing System Refunding Bonds, Series 2002A
  - Purpose: To advance refund \$54,575,000 principal amount of Revenue Financing System Bonds, Series 1999A maturing from 2010-2016 and 2020 to achieve debt service savings and pay the cost of issuance.
  - Issue Date: September 27, 2002
  - Authorized: \$215,000,000<sup>3</sup> Issued: \$54,430,000
  - Interest Rates: 2.00–5.25% Maturity Dates: 2003 – 2020
  - Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
- Revenue Financing System Refunding Bonds, Series 2002B
  - Purpose: To advance refund \$109,240,000 principal amount of Revenue Financing System Bonds, Series 1999B maturing from 2010-2017 and 2020 to achieve debt service savings and pay the cost of issuance.
  - Issue Date: September 27, 2002
  - Authorized: \$160,570,000<sup>3</sup> Issued: \$108,855,000
  - Interest Rates: 2.00–5.25% Maturity Dates: 2003 – 2020
  - Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

<sup>3</sup>The Revenue Financing System Refunding Bonds, Series 2002A & B were authorized pursuant to an aggregate issuance and delivery of up to \$215 million in multiple installments starting August 8, 2002 and ending August 31, 2003. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments.

- Revenue Financing System Bonds, Series 2003A
  - Purpose: To refund \$39,050,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$80,798,250 and pay the cost of issuance.
  - Issue Date: January 23, 2003
  - Authorized: \$635,000,000<sup>4</sup> Issued: \$112,040,000
  - Interest Rates: 3.00–5.38% Maturity Dates: 2004 – 2023
  - Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
- Revenue Financing System Bonds, Series 2003B
  - Purpose: To refund \$201,039,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$296,078,000 and pay the cost of issuance.
  - Issue Date: January 23, 2003
  - Authorized: \$522,960,000<sup>4</sup> Issued: \$481,060,000
  - Interest Rates: 2.00–5.38% Maturity Dates: 2004 – 2033
  - Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

<sup>4</sup>The Revenue Financing System Bonds, Series 2003A & B were authorized pursuant to an aggregate issuance and delivery of up to \$635 million in multiple installments starting November 13, 2002 and ending November 30, 2003. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments.



- Revenue Financing System Refunding Bonds, Series 2004A  
 Purpose: To refund \$143,155,000 principal amount of portions of Revenue Financing System Bonds, Series 1995A, 1996A, 1998A, 1998C, 1999A and 2001C, and pay cost of issuance.  
 Issue Date: March 9, 2004  
 Authorized: \$496,000,000<sup>5</sup> Issued: \$137,915,000  
 Interest Rates: 2.00–5.25% Maturity Dates: 2004 – 2018  
 Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
  - Revenue Financing System Refunding Bonds, Series 2004B  
 Purpose: To refund \$310,460,000 principal amount of portions of Revenue Financing System Bonds, Series 1996B, 1998B, 1998D, 1999B and 2001B, and pay cost of issuance.  
 Issue Date: March 9, 2004  
 Authorized: \$358,085,000<sup>5</sup> Issued: \$300,330,000  
 Interest Rates: 4.50–5.25% Maturity Dates: 2007 – 2019  
 Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
- <sup>5</sup>The Revenue Financing System Bonds, Series 2004A & B were authorized pursuant to an aggregate issuance and delivery of up to \$496 million in multiple installments starting November 13, 2003 and ending November 1, 2004. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments. There are no planned additional issuances of bonds pursuant to this authority.
- Constitutional Appropriation Bonds (The University of Texas - Pan American), Series 1995  
 Purpose: To provide new money.  
 Issue Date: January 10, 1996  
 Authorized: \$26,000,000 Issued: \$26,000,000—All authorized amounts have been issued.  
 Interest Rates: 4.00–6.00% Maturity Dates: 1996 – 2005  
 Source of Revenue for Debt Service: Pledged Revenues consist of up to 50% of the money allocated annually to the Board for The University of Texas - Pan American from the total amount appropriated annually by Article VII, Section 17 of the Texas Constitution and Chapter 62, Texas Education Code, out of the first money coming into the State Treasury not otherwise appropriated by the Texas Constitution, during a ten-year period starting with fiscal year that began September 1, 1995 and ending with the fiscal year that ends on August 31, 2005.

#### EARLY EXTINGUISHMENT

Revenue Financing System Refunding Bonds, Series 2004A were issued March 9, 2004, to advance refund \$40,090,000 principal amount of Revenue Financing System Bonds, Series 1995A, maturing on August 15 in the years 2008 through 2017, \$21,465,000 principal amount of Revenue Financing System Bonds, Series 1996A, maturing on August 15 in the years 2007 through 2016, \$3,405,000 principal amount of Revenue Financing System Bonds, Series 1998A, maturing on August 15 in the years 2008 through 2013, \$26,155,000 principal amount of Revenue Financing System Bonds, Series 1998C, maturing on August 15 in the years 2009 through 2018, \$14,130,000 principal amount of Revenue Financing System Bonds, Series 1999A, maturing on August 15 in the years 2017 through 2018, \$37,910,000 principal amount of Revenue Financing System Bonds, Series 2001C, maturing on August 15 in the years 2012 through 2019, and to pay the costs of issuance related thereof.

- Net proceeds from the refunding series (including a premium of \$17,958,642) were \$155,853,398 – after the payment of \$493,729 in underwriting fees. The net proceeds were used to pay cost of issuance of \$110,998 and purchase \$155,268,834 of eligible defeasance securities. These securities, and \$81 in residual proceeds were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded bonds. The remaining net proceeds of \$473,485 were applied to debt service on the Revenue Financing System Refunding Bonds, Series 2004A.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the Combined Balance Sheet.
- The advance refunding resulted in gross debt service savings through 2019 of \$11,414,196.

- The transaction resulted in an accounting loss of \$1,231,100 due to the difference between the amount paid to optionally redeem the refunded debt (\$144,386,100) and the net carrying amount of the debt of \$143,155,000.
- An economic gain from the transaction resulted in a net present value savings of \$6,876,652 between the old and new debt service payments.

Revenue Financing System Refunding Bonds, Series 2004B were issued March 9, 2004, to advance refund \$133,460,000 principal amount of Revenue Financing System Bonds, Series 1996B, maturing on August 15 in the years 2007 through 2016, \$17,475,000 principal amount of Revenue Financing System Bonds, Series 1998B, maturing on August 15 in the years 2009 through 2013, \$66,400,000 principal amount of Revenue Financing System Bonds, Series 1998D, maturing on August 15 in the years 2009 through 2019, \$12,895,000 principal amount of Revenue Financing System Bonds, Series 1999B, maturing on August 15 in the year 2018, \$80,230,000 principal amount of Revenue Financing System Bonds, Series 2001B, maturing on August 15 in the years 2012 through 2019, and to pay the costs of issuance related thereof.

- Net proceeds from the refunding series (including a premium of \$39,198,859) were \$339,568,672 – after the payment of \$996,159 in underwriting fees. The net proceeds were used to pay cost of issuance of \$248,069 and purchase \$338,284,280 of eligible defeasance securities. These securities, and \$351 in residual proceeds were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded bonds. The remaining net proceeds of \$1,035,972 were applied to debt service on the Revenue Financing System Refunding Bonds, Series 2004B.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the Combined Balance Sheet.
- The advance refunding resulted in gross debt service savings through 2019 of \$14,135,708.
- The transaction resulted in an accounting loss of \$2,669,200 due to the difference between the amount paid to optionally redeem the refunded debt (\$313,129,200) and the net carrying amount of the debt of \$310,460,000.
- An economic gain from the transaction resulted in a net present value savings of \$10,529,933 between the old and new debt service payments.

Permanent University Fund Refunding Bonds, Series 2004A were issued April 6, 2004, to advance refund \$61,495,000 principal amount of Permanent University Fund Bonds, Series 1997, maturing on August 15 in the years 2009 through 2016, and to pay the costs of issuance related thereof.

- Net proceeds from the refunding series (including a premium of \$7,736,052) were \$68,238,200 – after the payment of \$204,774 in underwriting fees. The net proceeds were used to pay cost of issuance of \$42,613 and purchase \$68,153,665 of eligible defeasance securities. These securities were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded bonds. The remaining net proceeds of \$41,922 were applied to debt service on the Permanent University Fund Refunding Bonds, Series 2004A.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the Combined Balance Sheet.
- The advance refunding resulted in gross debt service savings through 2016 of \$2,740,447.
- No accounting gain or loss resulted from the transaction as no difference existed between the amount paid to optionally redeem the refunded debt (\$61,495,000 called at par) and the net carrying amount of the debt of \$61,495,000.
- An economic gain from the transaction resulted in a net present value savings of \$2,028,672 between the old and new debt service payments.

Permanent University Fund Bonds, Series 2004B were issued April 6, 2004, to current refund \$400,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A and to pay the costs of issuance related thereof.

- Net proceeds from the refunding series (including a premium of \$5,632,431) were \$400,992,142 – after the payment of \$1,417,412 in underwriting fees. The net proceeds were used to pay cost of issuance of \$256,056 and purchase \$400,477,462 of eligible defeasance securities. These securities and \$1,500 in residual proceeds were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded notes. The remaining net proceeds of \$257,124 were applied to debt service on the Permanent University Fund Bonds, Series 2004B.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the Combined Balance Sheet.
- No accounting gain or loss resulted from the transaction as no difference existed between the amount paid to optionally redeem the refunded debt (\$400,000,000 called at par) and the net carrying amount of the debt of \$400,000,000.

On August 2, 2004, \$12,500,000 of outstanding Revenue Financing System Refunding Bonds, Series 2001A were optionally redeemed. The liability for these obligations has been removed from the Combined Balance Sheet. No accounting gain or loss resulted from the transaction.

On August 26, 2004, the Board of Regents of The University of Texas System defeased \$38,265,000 of Permanent University Fund Refunding Bonds, Series 1996 maturing in 2011-2013, both inclusive, and \$19,525,000 of Permanent University Fund Bonds, Series 1997 maturing 2017-2018, both inclusive. The defeasance involved using Available University Fund balances to purchase \$60,492,252 par amount of direct obligations of the United States of America, which were deposited along with \$0.96 in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the defeased bonds. These bonds are considered fully defeased and the liability for these obligations has been removed from the Combined Balance Sheet. No accounting gain or loss resulted from the transaction.

#### BOND ENHANCEMENT AGREEMENTS

##### Forward Floating-to-Fixed Interest Rate Swaps:

*Objective of the interest rate swap:* In June 1999, the System executed forward-starting, floating-to-fixed rate interest rate swap agreements (“Swap Agreements”) with Morgan Guaranty Trust Company of New York, now J.P. Morgan Chase Bank (“Morgan”), and Goldman Sachs Mitsui Marine Derivative Products, L.P. (“Goldman”). The Swap Agreements were used to create a synthetic fixed-rate refunding of \$80,530,000 of the Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1991A and 1991B (“Refunded Bonds”) on their optional redemption date of August 15, 2001 to achieve debt service savings. On May 17, 2001, the U. T. System Board of Regents issued its Revenue Financing System Refunding Bonds, Series 2001A, in the form of variable rate demand bonds. The Swap Agreements effectively change the U. T. System Board of Regent’s interest rate on the Series 2001A Bonds, subject to some basis risk discussed below, to a fixed rate of 4.633%. The difference between the swap rate and the rates on the Refunded Bonds called August 15, 2001, resulted in estimated present value debt service savings of approximately \$5.6 million.

*Terms:* Pursuant to the terms of the Swap Agreements, the U. T. System Board of Regents has agreed to pay interest on a notional amount of \$80,530,000 at a fixed rate of 4.633% per annum, with such obligation commencing on August 15, 2001. In consideration of receiving the payments from the U. T. System Board of Regents, Morgan and Goldman have agreed to pay to the U. T. System Board of Regents a variable rate equal to 67% of the one-month London Interbank Offered Rate (“LIBOR”). The Morgan Swap Agreement is for 60% of the notional amount and the Goldman Swap Agreement is for 40% of the notional amount. The Series 2001A Bonds are scheduled to mature and the Swap Agreements are scheduled to terminate on August 15, 2013. As of August 31, 2004, there was \$45,565,000 of the Series 2001A Bonds outstanding and the notional amount of the Swap Agreements was \$44,910,000.

*Fair Value:* Because interest rates have declined since the execution of the Swap Agreements, the Swap Agreements have a negative fair value of \$3,626,746 as of August 31, 2004. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

*Basis and Termination Risk:* The Swap Agreements expose the U. T. System Board of Regents to basis risk as the variable rate received under the Swap Agreements does not perfectly match the variable rate paid on the Series 2001A Bonds. Each Swap Agreement may be terminated if the respective counterparty does not maintain a credit rating of at least Aa3 by Moody’s Investors Service (“Moody’s”) or AA- by Standard & Poor’s Corporation (“S&P”). As of August 31, 2004, the swap providers’ respective ratings by Moody’s/S&P are as follows: J.P. Morgan Chase Bank, Aa2/AA- and Goldman Sachs Mitsui Marine Derivative Products, L.P., Aaa/AA+. The Swap Agreements may also be terminated by Morgan or Goldman, respectively, if the U. T. System Board of Regents does not maintain a credit rating of at least Aa3 by Moody’s or AA- by S&P.

## 8. Note Indebtedness

General information related to notes and loans payable at August 31, 2004, which in substance are not bonds, is summarized as follows:

- Note or loan payable issue name: Revenue Financing System (RFS) Commercial Paper Notes, Series A  
Purpose: To provide new money  
Issue Date: September 1, 2003 through August 31, 2004  
Authorized Amount: Aggregate principal amount not to exceed \$750 million  
Source of revenue for debt service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.  
Terms: Interest payable in periodic installments not to exceed 270 days at a variable rate

Other Notes Payable includes:

- Note or loan payable issue name: University Hospital  
Purpose: Reimburse University Hospital for clinical practice expenses under terms of a mediator-negotiated contractual settlement  
Institution: U. T. Health Science Center - San Antonio  
Issue Date: April 1, 2001  
Amount: \$2,862,717  
Source of revenue for debt service: Patient service revenue from MSRDP Designated funds collected by University Physicians Group, Inc.  
Terms: January 1, 2002 through January 1, 2009. Interest is computed at five percent (5%) annually.
- Note or loan payable issue name: Frost Bank  
Purpose: Remodel/renovation-UPG Administrative Service Building  
Issue Date: January 31, 2004  
Authorized Amount: \$1,334,799  
Source of revenue for debt service: Patient service revenue from MSRDP Designated funds collected by University Physicians Group, Inc.  
Terms: January 31, 2004 through November 7, 2008
- Note or loan payable issue name: LaSalle National Bank  
Purpose: To purchase Oracle software site license  
Institution: U. T. El Paso  
Issue Date: September 1, 2002  
Authorized Amount: \$580,641  
Source of revenue for debt service: Designated funds  
Terms: September 1, 2002 through September 1, 2006
- Note or loan payable issue name: Academic Capital Government Finance, Inc.  
Purpose: To purchase PeopleSoft  
Institution: U. T. Medical Branch - Galveston  
Issue Date: December 20, 2000  
Authorized Amount: \$5,720,708  
Source of revenue for debt service: Patient income  
Terms: February 28, 2001 through September 1, 2004
- Note or loan payable issue name: Charitable Remainder Trust  
Purpose: Fine Arts Foundation (a blended component unit) purchase of the Suida Manning Art Collection  
Institution: U. T. Austin  
Issue Date: January 4, 1999  
Authorized Amount: \$12,000,000  
Source of revenue for debt service: Gift  
Terms: January 4, 1999 through April 17, 2016

- Note or loan payable issue name: Charitable Lead Trust  
 Purpose: Fine Arts Foundation (a blended component unit) purchase of the Suida Manning Art Collection  
 Component Unit: U. T. Austin's Blended Component Unit  
 Issue Date: January 4, 1999  
 Authorized Amount: \$10,713,200  
 Source of revenue for debt service: Gift  
 Terms: January 4, 1999 through April 17, 2016
- Note or loan payable issue name: J. P. Morgan Leasing, Inc.  
 Purpose: To purchase the PET/CT Discovery ST  
 Component Unit: U. T. Southwestern Medical Center – Dallas' Component Unit  
 Issue Date: August 22, 2003  
 Authorized Amount: \$2,200,000  
 Source of revenue for debt service: Operations  
 Terms: September 22, 2003 through August 22, 2008

General information related to notes and loans payable retired in 2004 is summarized as follows:

- Note or loan payable issue name: Permanent University Fund Flexible Rate Notes, Series A  
 Purpose: To provide new money  
 Issue Date: March 4, 2004  
 Authorized Amount: Aggregate principal amount not to exceed \$400 million  
 Source of revenue for debt service: Available University Fund  
 Terms: Interest payable in periodic installments not to exceed 270 days at a flexible rate
- Note or loan payable issue name: Sealy & Smith Foundation, Inc.  
 Purpose: To finance leasehold improvements to the Primary Care Pavilion  
 Institution: U. T. Medical Branch - Galveston  
 Issue Date: January 1, 1997  
 Authorized Amount: \$12,484,642  
 Source of revenue for debt service: Patient income  
 Terms: January 1, 1997 through December 31, 2006
- Note or loan payable issue name: Benjamin R. Beall, II  
 Purpose: To purchase Mineola Medical and Surgical Clinic  
 Institution: U. T. Health Center - Tyler  
 Issue Date: September 1, 1999  
 Authorized Amount: \$425,000  
 Source of revenue for debt service: Patient Income  
 Terms: September 1, 1999 through September 1, 2003

## 9. Capital Leases

Certain leases to finance the purchase of property are capitalized at the present value of future minimum lease payments. The original capitalized cost of all such property under capital lease as of August 31, 2004, is as follows:

Assets Under Capital Lease	Original Capitalized Cost		
	Primary University	Component Unit	Total
Furniture and Equipment	\$ 1,520,558	186,369	1,706,927
Less: Accumulated Depreciation	(377,591)	(80,455)	(458,046)
Vehicles	21,651	-	21,651
Less: Accumulated Depreciation	(5,250)	-	(5,250)
Museums & Art Collections	1,375,375	-	1,375,375
Total	\$ 2,534,743	105,914	2,640,657

Capital lease obligations are due in annual installments through 2008. The following is a schedule of the future minimum lease payments for leased property and the present value of the net minimum lease payments at August 31, 2004.

Fiscal Year	Primary University	Component Unit	Total
2005	\$ 907,606	42,236	949,842
2006	455,289	19,336	474,625
2007	-	19,336	19,336
2008	-	19,336	19,336
Total Minimum Lease Payments	1,362,895	100,244	1,463,139
Less: Interest	(78,274)	(7,922)	(86,196)
Present Value of Net Minimum Lease Payments	\$ 1,284,621	92,322	1,376,943

## 10. Short-Term Debt

The System had Revenue Financing System (RFS) Commercial Paper Notes, Series A, and RFS Taxable Commercial Paper Notes, Series B outstanding at August 31, 2004. While the interest is payable on these notes in periodic installments not to exceed 270 days, they are generally intended to be refinanced with long-term debt. Information pertaining to the balances and activity of these notes is reflected in the Summary of Long-Term Liabilities note that follows.

## 11. Summary of Long-Term Liabilities

Long-term liability activity for the year ended August 31, 2004, is summarized as follows:

Primary University	Balance 09/01/03	Additions	Reductions	Balance 08/31/04	Amounts due within one year
<b>Bonds Payable:</b>					
Permanent University Fund:					
Refunding Bonds Series 1996	\$ 196,640,000	-	57,545,000	139,095,000	20,240,000
Bonds Series 1997	108,570,000	-	85,980,000	22,590,000	5,220,000
Refunding Bonds Series 2002A	94,050,000	-	11,570,000	82,480,000	12,100,000
Bonds Series 2002B	188,215,000	-	-	188,215,000	-
Refunding Bonds Series 2004A	-	60,665,000	745,000	59,920,000	-
Bonds Series 2004B	-	396,520,000	-	396,520,000	-
Revenue Financing System:					
Bonds Series 1995A	54,575,000	-	42,760,000	11,815,000	2,830,000
Bonds Series 1996A	55,520,000	-	24,485,000	31,035,000	3,180,000
Bonds Series 1996B	173,550,000	-	147,655,000	25,895,000	12,855,000
Bonds Series 1998A	8,815,000	-	3,825,000	4,990,000	440,000
Bonds Series 1998B	92,575,000	-	21,880,000	70,695,000	4,590,000
Bonds Series 1998C	38,880,000	-	27,880,000	11,000,000	1,795,000
Bonds Series 1998D	86,690,000	-	70,115,000	16,575,000	3,890,000
Bonds Series 1999A	37,720,000	-	17,590,000	20,130,000	3,635,000
Bonds Series 1999B	54,765,000	-	19,040,000	35,725,000	6,450,000
Refunding Bonds Series 2001A	58,065,000	-	12,500,000	45,565,000	-
Bonds Series 2001B	174,150,000	-	85,960,000	88,190,000	6,020,000
Bonds Series 2001C	82,005,000	-	40,600,000	41,405,000	2,795,000
Refunding Bonds Series 2002A	53,810,000	-	310,000	53,500,000	320,000
Refunding Bonds Series 2002B	107,635,000	-	605,000	107,030,000	615,000
Bonds Series 2003A	112,040,000	-	3,390,000	108,650,000	3,560,000
Bonds Series 2003B	481,060,000	-	9,545,000	471,515,000	10,025,000
Refunding Bonds Series 2004A	-	137,915,000	500,000	137,415,000	250,000
Refunding Bonds Series 2004B	-	300,330,000	-	300,330,000	-
Constitutional Appropriation:					
Bonds Series 1995	6,135,000	-	2,995,000	3,140,000	3,140,000
<b>Total Bonds Payable</b>	<b>2,265,465,000</b>	<b>895,430,000</b>	<b>687,475,000</b>	<b>2,473,420,000</b>	<b>103,950,000</b>
<b>Notes and Loans Payable:</b>					
Permanent University Fund					
Flexible Rate Notes, Series A	300,000,000	100,000,000	400,000,000	-	-
Revenue Financing System					
Commercial Paper Notes, Series A	216,286,000	458,044,000	39,364,000	634,966,000	634,966,000
Other Notes and Loans	31,489,193	1,004,282	6,924,303	25,569,172	2,794,040
<b>Total Notes and Loans Payable</b>	<b>547,775,193</b>	<b>559,048,282</b>	<b>446,288,303</b>	<b>660,535,172</b>	<b>637,760,040</b>
<b>Leases Payable:</b>					
Lease Obligations	1,473,850	615,578	804,807	1,284,621	844,739
<b>Total Notes, Loans and Leases Payable</b>	<b>549,249,043</b>	<b>559,663,860</b>	<b>447,093,110</b>	<b>661,819,793</b>	<b>638,604,779</b>
Employee Compensable Leave	260,393,196	86,229,725	44,575,829	302,047,092	23,782,226
<b>Total Bonds, Notes, Loans, Leases, and Compensable Leave Payables for Primary University</b>	<b>\$ 3,075,107,239</b>	<b>1,541,323,585</b>	<b>1,179,143,939</b>	<b>3,437,286,885</b>	<b>766,331,849</b>

<b>Component Unit</b>	<b>Balance 09/01/03</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance 08/31/04</b>	<b>Amounts due within one year</b>
<u>Notes and Loans Payable:</u>					
Other Notes and Loans	\$ 2,200,000	-	413,186	1,786,814	426,178
Total Notes and Loans Payable	2,200,000	-	413,186	1,786,814	426,178
<u>Leases Payable:</u>					
Lease Obligations	43,327	85,613	36,618	92,322	38,470
Total Notes, Loans and Leases Payable	2,243,327	85,613	449,804	1,879,136	464,648
Employee Compensable Leave	261,733	492,247	430,673	323,307	181,052
Total Notes, Loans, Leases, and Compensable Leave Payables for Component Unit	\$ 2,505,060	577,860	880,477	2,202,443	645,700

The Combined Balance Sheet at August 31, 2004, does not include \$811,605,000 of revenue bonds payable, which were fully defeased in prior fiscal years. Direct obligations of the United States of America, including obligations unconditionally guaranteed by the United States of America, in amounts, maturities, and bearing interest at rates sufficient to provide funds to pay in full principal, redemption premium, if any, and interest to maturity or redemption on the defeased bonds, are being held by escrow agents.

#### PROJECTED BOND DEBT SERVICE REQUIREMENTS

Bond obligations are due in annual installments varying from \$73,961,188 in fiscal year 2029 to \$225,338,896 in fiscal year 2013. The requirements in fiscal year 2013 reflect the Revenue Financing System Refunding Bonds, Series 2001A, which are currently variable rate bonds. As required by GASB Statement No. 38, annual debt service requirements for such variable rate bonds are reflected at the System's effective borrowing rate at August 31, 2004, of 1.33 percent on a principal amount of \$45,565,000 with interest only until final maturity in 2013. The interest on the variable rate bonds and notes will fluctuate based upon current market conditions. The interest rates on fixed rate bonds range from 2.00 percent to 6.00 percent, with the final installment due in 2033. The principal and interest expense for the next five years and beyond are projected below for bonds issued:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 103,950,000	122,184,290	226,134,290
2006	105,530,000	116,725,172	222,255,172
2007	108,845,000	111,148,322	219,993,322
2008	113,590,000	105,886,362	219,476,362
2009	118,275,000	100,588,870	218,863,870
2010 – 2014	559,755,000	419,783,725	979,538,725
2015 – 2019	506,970,000	282,604,155	789,574,155
2020 – 2024	324,805,000	171,339,475	496,144,475
2025 - 2029	267,535,000	102,321,425	369,856,425
2030 – 2034	264,165,000	31,736,600	295,901,600
Total Requirements	\$ 2,473,420,000	1,564,318,396	4,037,738,396



Notes and loans payable obligations are due in annual installments through 2019. General information related to notes and loans payable at August 31, 2004, which in substance are not bonds, is summarized as follows:

Fiscal Year	Primary University		Component Unit		Total
	Principal	Interest	Principal	Interest	
2005	\$ 637,760,040	3,069,997	426,178	49,370	641,305,585
2006	1,635,111	1,244,264	439,577	35,969	3,354,921
2007	1,676,528	1,219,836	453,401	22,147	3,371,912
2008	1,590,363	1,175,022	467,658	7,890	3,240,933
2009	1,359,374	1,092,453	-	-	2,451,827
2010-2014	3,887,240	4,622,347	-	-	8,509,587
2015-2019	12,626,516	1,511,012	-	-	14,137,528
Total	\$ 660,535,172	13,934,931	1,786,814	115,376	676,372,293

#### COMPENSATED ABSENCES

Full-time state employees earn annual leave from eight to twenty-one hours per month depending upon the respective employees' years of state employment. The state's policy is that an employee may carry his/her accrued leave forward from one fiscal year to another fiscal year, with a maximum number of hours up to 532 for those employees with 35 or more years of state service. 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. Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is off due to illness or to the estate of an employee in the event of his/her death. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The System's policy is to recognize the cost of sick leave when paid, and the liability is not shown in the combined financial statements since experience indicates the expense for sick leave to be minimal.

## 12. Unrestricted Net Assets

Unrestricted net assets, detailed in the table below, are not subject to externally imposed stipulations. Unrestricted net assets may be designated for special purposes by actions of the Texas Legislature, internal management, and the U. T. System Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic programs, patient care, research programs and initiatives, and capital programs. The earnings from the investments of the Permanent Health Fund endowment, which can only be used for certain tobacco related research and education, are restricted to this use by the Texas Legislature. Therefore, these funds are considered unrestricted since the System is considered a component of the state of Texas, and the legislature could redirect the use of these funds.

	<u>Primary University</u>	<u>Component Unit</u>
Unrestricted Net Assets:		
Unrestricted		
Reserved		
Encumbrances	\$ 283,183,075	-
Accounts Receivable (less deferred revenue portion)	525,637,886	2,495,652
Inventories	44,592,175	-
Self-Insurance Plans	195,481,184	-
Higher Education Assistance Fund (HEAF)	3,983,581	-
Permanent Health Fund Endowments	814,424,383	-
Other Specific Purposes:		
Advanced Research/Advanced Technology Programs	8,056,779	-
Notes Receivable	10,998,451	-
Deposits	3,968,245	-
Prepaid Expenses	56,688,046	217,187
Deferred Charges	9,614,092	-
Imprest Funds	1,196,987	750
Travel Advances	332,130	-
Unreserved		
Allocated:		
Funds Functioning as Endowment-Unrestricted	145,865,491	-
Provision for FY 2005 Operating Budgets	54,341,895	-
Provision for Capital Projects	209,067,126	294,416
Unallocated	571,223,730	4,889,809
Total Unrestricted Net Assets	<u>\$ 2,938,655,256</u>	<u>7,897,814</u>

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### 13. Matrix of Operating Expenses Reported by Function

For the year ended August 31, 2004, the following table represents operating expenses for both natural and functional classifications for the primary university:

Operating Expenses	Instruction	Research	Hospitals and Clinics	Public Service	Academic Support
Cost of Good Sold	\$ 17,395,104	1,794	62,069,844	57,253	815
Salaries and Wages	1,306,520,141	672,234,444	1,012,489,767	105,010,265	143,626,473
Payroll Related Costs	337,100,740	142,722,297	247,969,178	22,482,887	34,637,861
Professional Fees and Services	24,626,968	21,837,263	36,474,396	10,250,054	7,490,755
Scholarships and Fellowships	7,971,267	13,245,532	33,280	1,431,519	803,309
Travel	21,440,825	25,483,212	9,139,523	3,532,950	3,946,253
Materials and Supplies	76,729,953	148,665,997	376,110,259	22,141,780	25,208,390
Utilities	1,946,708	367,258	10,542,619	703,534	89,446
Communications	15,818,299	7,231,789	13,178,731	3,264,687	6,571,538
Repairs and Maintenance	6,941,641	8,748,176	36,184,542	864,854	2,962,045
Rentals and Leases	9,185,414	5,398,745	16,948,332	5,484,590	2,805,701
Printing and Reproduction	6,811,418	4,488,542	4,258,214	3,509,426	2,347,135
Depreciation and Amortization	-	-	-	-	-
Bad Debt Expense	(10,309)	-	-	2,505	(122,678)
Claims and Losses	(1,206)	-	-	-	-
Other Operating Expenses	75,623,875	163,089,127	219,384,472	29,219,419	25,386,337
Federal Sponsored Prog. Pass-through Expense	1,394,243	2,632,605	-	1,128,743	-
<b>Total Operating Expenses</b>	<b>\$ <u>1,909,495,081</u></b>	<b><u>1,216,146,781</u></b>	<b><u>2,044,783,157</u></b>	<b><u>209,084,466</u></b>	<b><u>255,753,380</u></b>

<u>Student Services</u>	<u>Institutional Support</u>	<u>Operations and Maintenance of Plant</u>	<u>Scholarships and Fellowships</u>	<u>Auxiliary Enterprises</u>	<u>Depreciation and Amortization</u>	<u>Total Expenses</u>
58,674	498,191	-	-	19,070,601	-	99,152,276
69,392,946	394,931,728	130,877,862	18,975,959	108,628,126	-	3,962,687,711
15,881,337	77,588,833	32,272,156	3,045,962	25,018,330	-	938,719,581
2,142,865	15,013,273	12,576,479	357,179	12,494,870	-	143,264,102
2,383,566	(590,713)	(88)	169,931,429	5,280,563	-	200,489,664
1,840,661	7,404,185	683,982	781,395	10,822,968	-	85,075,954
10,043,242	28,562,666	43,335,999	1,577,207	25,814,237	-	758,189,730
378,460	(12,665,399)	130,998,297	1,470	19,708,810	-	152,071,203
1,289,667	(723,504)	1,311,283	77,868	4,058,913	-	52,079,271
1,724,740	10,556,736	39,053,253	30,430	9,296,294	-	116,362,711
1,904,760	13,388,900	19,733,266	113,928	5,031,320	-	79,994,956
2,840,919	(697,050)	249,866	151,348	5,282,388	-	29,242,206
-	-	-	-	-	372,830,151	372,830,151
705,311	751,483	-	37,324	59,203	-	1,422,839
-	4,353,967	(256)	-	-	-	4,352,505
12,705,218	604,817	21,693,518	4,938,334	39,339,211	-	591,984,328
-	-	115,699	14,025	-	-	5,285,315
<u>123,292,366</u>	<u>538,978,113</u>	<u>432,901,316</u>	<u>200,033,858</u>	<u>289,905,834</u>	<u>372,830,151</u>	<u>7,593,204,503</u>

## 14. Restatement of Net Assets

Balances as of September 1, 2003, were restated as follows:

	<u>Primary University</u>	<u>Component Units</u>
Capital Assets	\$ (20,577,363)	-
Retainage Payable	22,835,590	-
Audit Adjustments	(10,808,471)	-
Contracts and Grants	(16,051,739)	-
Accounting Errors	(1,177,603)	-
Component Units	6,544,491	(6,522,446)
Total Restatements	<u>\$ (19,235,095)</u>	<u>(6,522,446)</u>

Capital Assets: Restatement is the result of three types of adjustments: assets that did not meet the standard capitalization thresholds established by the State Comptroller of Public Accounts, \$(20,835,708); adjustments to accumulated depreciation, \$526,226; and corrections to previously reported values of capital assets, \$(267,881).

Retainage Payable: Restatement reflects the change in accounting treatment for the reporting of retainage payable. This change in accounting treatment was based on an external audit adjustment incorporated at one of the institutions.

Audit Adjustments: Restatements to U. T. M. D. Anderson Cancer Center's FY 2003 financial statements as a result of an audit conducted by Deloitte and Touche, LLP. The audit resulted in an unqualified opinion.

Contracts and Grants: Restatement of funds that were reported in net assets in FY 2003 that were deemed to be unearned or which were subsequently refunded to grantors. Restatement is also the result of an overstatement of Federal receivables in FY 2003.

Accounting Errors: Restatements due to an expense that was not properly recorded in FY 2003, as well as other miscellaneous accounting errors.

Component Units: Restatement to move U. T. M. D. Anderson Cancer Center's discretely present component unit to a blended component unit as a result of the audit by Deloitte and Touche, LLP. Restatement also reflects an audit adjustment to U. T. Health Center at Tyler's blended component unit.

## 15. Contingent Liabilities

### PENDING LAWSUITS AND CLAIMS

On August 31, 2004, various lawsuits and claims involving the System were pending. None of these suits has the potential to exceed the materiality level of \$10 million established by the State Auditor.

The ultimate liability with respect to litigation and other claims asserted against the System cannot be reasonably estimated at this time. Such liability is not likely to have a material effect on the System accounts to the extent not provided for by insurance or otherwise.

### PARTNERSHIPS

The System has invested in certain limited partnerships. The partnership agreements commit the System to possible future capital contributions amounting to \$932,699,158 as of August 31, 2004.

## 16. Operating Lease Obligations

Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2004, were as follows:

Fiscal Year	Minimum Future Lease Rental Payments		
	Primary University	Component Units	Total
2005	\$ 31,546,749	364,151	31,910,900
2006	26,070,526	365,730	26,436,256
2007	20,645,846	326,799	20,972,645
2008	16,324,847	305,039	16,629,886
2009	8,621,881	300,323	8,922,204
2010-2014	8,844,159	919,996	9,764,155
2015-2019	36,000	-	36,000
Total Minimum Future Payments	\$ 112,090,008	2,582,038	114,672,046

## 17. Employees' Retirement Plans

### TEACHER RETIREMENT SYSTEM (TRS)

The State of Texas has joint contributory retirement plans for substantially all its employees. One of the primary plans in which the System participates is a cost-sharing multi-employer public employee retirement system administered by the Teacher Retirement System of Texas. TRS is primarily funded through state and employee contributions. Depending upon the source of funding for a participant's salary, the System may be required to make contributions in lieu of the state.

All System personnel employed in a position on a half time or greater basis for at least 4½ months or more are eligible for membership in the TRS retirement plan. Members with at least five years of service at age 65 or any combination of age plus years of service, which equals 80, have a vested right to retirement benefits. Additionally, reduced benefits are available at age 55 with at least five years of service or at any age below 50 with 30 years of service. Members are fully vested after five years of service and are entitled to any benefits for which the eligibility requirements have been met.

TRS contribution rates for both employers and employees are not actuarially determined but are legally established by the State Legislature. Depending upon the source of funding for the employee's compensation, the state or the System contributes a percentage of participant salaries totaling 6 percent of annual compensation. Contributions by employees are 6.4 percent of gross earnings.

TRS does not separately account for each of its component government agencies since the Retirement System itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. Further information regarding actuarial assumptions and conclusions, together with audited financial statements are included in the Retirement System's annual financial report.

### OPTIONAL RETIREMENT PROGRAM (ORP)

The state has also established an optional retirement program for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS. The ORP provides for the purchase of annuity contracts and mutual funds. Participants are vested in the employer contributions after one year and one day of service. The contributory percentages of participant salaries currently provided by the state and each participant are 6 percent and 6.65 percent, respectively. Depending upon the source of funding for the employee's compensation, the System may be required to make the employer contributions in lieu of the state. Additionally, the state or the System must make additional contributions above 6 percent depending upon the employee's date of hire. Since these are individual annuity contracts, the state and the System have no additional or unfunded liability for this program.

### EMPLOYEES RETIREMENT SYSTEM (ERS)

Certain employees at U. T. Medical Branch at Galveston participate in the Employees Retirement System of Texas. The Board of Trustees of the Employees Retirement System of Texas is the administrator of the ERS, which is considered to be a single employer defined benefit pension plan. ERS covers the System employees who are not covered by the TRS or the ORP. Benefits vest after five years of credited service. Employees may retire at age 60 with five years of service or any combination of age plus years of service that equals 80.

The ERS plan provides a standard monthly benefit in a life annuity at retirement as well as death and disability benefits for members. Additional payment options are available. The benefit and contribution provisions are authorized by state law and may be amended by the Texas Legislature. Contribution requirements are not actuarially determined. The ERS contribution requirement, calculated using entry age normal actuarial cost method, is established through state statute.

The funding policy requires monthly contributions by both the state and employees. For the biennium beginning September 1, 2003, the required contribution for both the state and employees is 6 percent of pay.

Additional information can be obtained from the separately issued ERS *Comprehensive Annual Financial Report*.

#### THE UNIVERSITY OF TEXAS SYSTEM GOVERNMENTAL RETIREMENT ARRANGEMENT (UTGRA)

The University of Texas System Governmental Retirement Arrangement (UTGRA) is a defined contribution pension plan established by the System to provide certain participants in the ORP that portion of their benefits that would otherwise be payable under the ORP except for the \$41,000 limit on contributions imposed by Section 415 of the Internal Revenue Code (IRC). At August 31, 2004, there were 662 plan members. Persons employed by the System prior to September 1, 1996 whose compensation exceeds the limit set by IRC Section 401(a)(17) and whose ORP contribution is limited by the \$41,000 cap under IRC Section 415(c), defer 6.65 percent of their excess compensation while the System contributes either 6 percent or 8.5 percent depending upon date of employment. Plan provisions are established and may be amended at any time by the U. T. System Board of Regents.

UTGRA is reported on the accrual basis of accounting as an Agency Fund. Plan assets are valued at fair market value and are invested in contracts and accounts in a similar manner to the ORP. Participants are immediately vested in the plan, both for the employee deferrals and the employer contributions. However, deferrals, contributions, purchased investments and earnings attributable to the plan are the property of the System and subject only to the claims of the System's general creditors. Participant's rights under the plan are equal to those of the general creditors of the System in an amount equal to the fair market value of the participant's account balance. The System has no liability under the UTGRA that would exceed the aggregate value of the investments, and it is unlikely that any of UTGRA's assets will be used to satisfy the claims of general creditors in the future.

#### PHYSICIANS REFERRAL SERVICE SUPPLEMENTAL RETIREMENT PLAN (SRP)/RETIREMENT BENEFIT PLAN (RBP)

U. T. M. D. Anderson Cancer Center (the Cancer Center) has established, primarily for the physicians of its Physicians Referral Service, the Physicians Referral Service Supplemental Retirement Plan (SRP)/Retirement Benefit Plan (RBP) of the Anderson Hospital (collectively "the Plan"). The Plan is a non-qualified plan described by Section 457(f) of the Internal Revenue Code of 1986, as amended. The Plan is reported on the accrual basis of accounting. Assets of the Plan remain subject to the claims of the general creditors of the Cancer Center.

In general, only physicians hired before July 1, 1986, participate in the SRP. The remainder of eligible employees participates in the RBP. Retirement benefits are available to persons who have reached the normal retirement age (55 for the RBP, 65 for the SRP) with five years of service. Early retirement benefits are available under the SRP. Additional information can be obtained from the separately issued financial statements of the Plan.

### **18. Deferred Compensation**

The System employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in the TEX. GOV'T. CODE ANN., Sec. 609.001. The deferred compensation plan is administered by the ERS.

The state's 457 plan complies with the IRC Sec. 457. Deductions, purchased investments, and earnings attributed to the 457 plan are the property of the state subject only to the claims of the state's general creditors. Participants' rights under the plan are equal to those of the general creditors of the state in an amount equal to the fair market value of the 457 account for each participant. The state has no liability under the 457 plan and it is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.



## 19. Extraordinary Items

Net extraordinary expenditures of \$296,155 were incurred as a result of fire damage to the Central Utility Plant at U. T. Arlington. The total expenditures related to the fire were \$2,046,155. A receivable was established for the negotiated insurance settlement of \$1,750,000. There will be no additional costs associated with the fire.

Net extraordinary expenditures totaling \$13,104,393, which consisted of extraordinary revenues of \$244,365 and extraordinary expenditures of \$13,348,758, were incurred during fiscal year 2004. These net extraordinary expenditures were a result of U. T. Health Science Center at Houston's continued reimbursement of costs associated with debris removal, emergency protective measures and replacement supplies relating to property and equipment damage sustained during Tropical Storm *Allison* in June 2001. Since *Allison*, receipts have been realized from commercial insurance coverage and from the United States Federal Emergency Management Agency (FEMA). U. T. Health Science Center at Houston anticipates receiving a final insurance payment of \$225,000 and a final FEMA payment of approximately \$22,000,000 in fiscal year 2005.

## 20. Subsequent Events

On September 1, 2004, the System issued \$8,633,000 in Revenue Financing System Taxable Commercial Paper Notes, Series B to finance the costs of campus improvements.

On November 12, 2004, the System issued Revenue Financing System Bonds, Series 2004C in the amount of \$218,610,000 and Revenue Financing System Bonds, Series 2004D in the amount of \$352,170,000. The purposes for issuing the bonds were to refund \$348,524,000 of outstanding Revenue Financing Commercial Paper Notes, Series A, provide new money for construction projects, and pay costs related to the issuance of the bonds. Interest rates on the bonds range from 3.00% to 5.25% and the first call date is August 15, 2014. As a result of these transactions, the System had Revenue Financing System Bonds outstanding of \$2,152,240,000, Revenue Financing System Commercial Paper Notes, Series A of \$286,442,000 and \$8,633,000 Revenue Financing System Taxable Commercial Paper Notes, Series B on November 12, 2004.

## 21. Related Parties

There were no material related party transactions during fiscal year 2004.

## 22. Stewardship, Compliance and Accountability

The System had no significant violations of bond or note covenants. Per state law, the System cannot spend amounts in excess of appropriations granted by the Texas Legislature. There are no deficits reported in net assets. Further required disclosures are discussed in other notes to the financial statements.

## 23. The Financial Reporting Entity

The System is composed of nine academic and six health-related institutions of higher education, as well as the System administrative offices. The System is governed by a nine-member board appointed by the Governor. As required by generally accepted accounting principles, the financial statements present the System and its component units. The component units discussed in this note are included in the System's reporting entity because of the significance of their operational or financial relationship with the System.

### *Blended Component Units*

The following blended component units were deemed immaterial by the System as their total net assets are insignificant to the total net assets of the institutions. Blended financial information is available upon request. If any of the blended component units become material in the future, then the System will provide additional information.

U. T. Southwestern Health Systems, Inc., 1301 Elmbrook, Dallas, Texas 75390, is governed by a three-member board appointed by U. T. Southwestern Medical Center. Although it is legally separate from the university, U. T. Southwestern Health Systems, Inc. is reported as if it were part of U. T. Southwestern Medical Center because its primary purpose is to perform services as an integral part of the institution. The corporation's fiscal year end is August 31, 2004.

The National Pediatric Infectious Diseases Foundation, 4712 Wildwood Drive, Dallas, Texas 75209, is governed by a three-member board appointed by U. T. Southwestern Medical Center. The Foundation supports educational, clinical and scientific activities and programs in the area of infectious diseases in infants and children. Although it is legally separate from the university, the National Pediatric Infectious Diseases Foundation is reported as if it were part of U. T. Southwestern Medical Center because it provides grants to the University and its board is appointed by the university. The Foundation's fiscal year end is August 31, 2004.

U.T.M.B. Healthcare Systems, Inc., 301 University Boulevard, Galveston, Texas 77555, is governed by an eight-member board appointed by U. T. Medical Branch at Galveston. Although it is legally separate from the university, U.T.M.B. Healthcare Systems, Inc. is reported as if it were part of U. T. Medical Branch at Galveston because its primary purpose is to perform services as an integral part of the institution. The corporation's fiscal year end is August 31, 2004.

U. T. Physicians, Inc., P. O. Box 20627, Houston, Texas 77225, is governed by a three-member board appointed by U. T. Health Science Center at Houston. Although it is legally separate from the university, U. T. Physicians, Inc. is reported as if it were part of U. T. Health Science Center at Houston because its primary purpose is to perform services as an integral part of the institution. The corporation's fiscal year end is August 31, 2004.

University Physicians Group, Inc., 7410 John Smith Drive, Suite 10, San Antonio, Texas 78229, is governed by a ten-member board appointed by U. T. Health Science Center at San Antonio. Although it is legally separate from the university, University Physicians Group, Inc. is reported as if it were part of the U. T. Health Science Center at San Antonio because its primary purpose is to perform services as an integral part of the institution. The corporation's fiscal year end is August 31, 2004.

M. D. Anderson Physician's Network, Inc., 7505 South Main, Suite 500, Houston, Texas 77030, is governed by a four-member board appointed by U. T. M. D. Anderson Cancer Center. Although it is legally separate from the university, M. D. Anderson Physician's Network, Inc. is reported as if it were part of U. T. M. D. Anderson Cancer Center because its primary purpose is to perform services as an integral part of the institution. The corporation's fiscal year end is August 31, 2004.

M. D. Anderson Services Corporation, 811 Dallas Avenue, Houston, Texas 77002, is governed by a board appointed by the president of U. T. M. D. Anderson Cancer Center. Although it is legally separate from the university, M. D. Anderson Services Corporation is reported as if it were part of U. T. M. D. Anderson Cancer Center because its primary purpose is to perform services as an integral part of the institution. The corporation's fiscal year end is August 31, 2004.

East Texas Quality Care Network, Inc., P. O. Box 6053, Tyler, Texas 75711-6053, is governed by a three-member board appointed by U. T. Health Center at Tyler. Although it is legally separate from the university, East Texas Quality Care Network, Inc. is reported as if it were part of U. T. Health Center at Tyler because its primary purpose is to perform services as an integral part of the institution. The corporation's fiscal year end is August 31, 2004.

University of Texas Investment Management Company (UTIMCO), 221 West 6<sup>th</sup> Street, Suite 1700, Austin, Texas 78701, is governed by a nine-member board appointed by the U. T. System Board of Regents. Although it is legally separate from the entity, UTIMCO is reported as if it were part of U. T. System Administration because it provides services entirely to the entity. The corporation's fiscal year end is August 31, 2004.

Law Publications, Inc., 727 East Dean Keeton, Austin, Texas 78705, is governed by a three-member board appointed by U. T. Austin. Although it is legally separate from the university, Law Publications, Inc. is reported as if it were part of U. T. Austin because it provides services almost entirely to the university. The Law Publications, Inc. fiscal year end is August 31, 2004.

Continuing Legal Education, Inc., 727 East Dean Keeton, Austin, Texas 78705, is governed by a three-member board appointed by U. T. Austin. Although it is legally separate from the university, Continuing Legal Education, Inc. is reported as if it were part of U. T. Austin because it provides services almost entirely to the university. The Continuing Legal Education, Inc. fiscal year end is August 31, 2004.

The University of Texas Fine Arts Foundation, the University of Texas at Austin, Main Building, P. O. Box T, Austin, Texas 78713 is governed by a three-member board appointed by U. T. Austin. Although it is legally separate from the university, the University of Texas Fine Arts Foundation is reported as if it were a part of U. T. Austin because the benefits of the Foundation's fine art acquisitions accrue to the university. The Foundation's fiscal year end is December 31, 2003.

*Discrete Component Units*

The component unit column in the combined financial statements includes the financial data of the Texas Universities Health Plan, Inc. (TUHP) and the U. T. Southwestern Moncrief Cancer Center (Moncrief).

The governing body of TUHP is appointed by the System. TUHP is a nonprofit corporation organized and administered solely for the purpose of aiding, assisting, supporting, and acting on behalf of the System in the performance of its essential governmental function of providing higher education by securing a certificate of authority and operating a health maintenance organization. TUHP's fiscal year end was December 31, 2003. TUHP was dissolved on December 30, 2003.

The address of TUHP is: 701 Brazos Street, Suite 500  
Austin, Texas 78701

Moncrief is a nonprofit corporation governed by a four-member board appointed by the President of the U. T. Southwestern Medical Center. Moncrief exists for charitable, educational and scientific purposes, and provides radiation oncology treatment services at three facilities. Moncrief's fiscal year end is August 31, 2004.

The address of Moncrief is: 1450 Eighth Avenue  
Fort Worth, Texas 76104

Complete financial statements may be obtained by contacting TUHP's or Moncrief's administrative offices.

**24. Disaggregation of Other Receivable Balances**

Other receivables as reported on Exhibit A are detailed by type as follows:

<b><u>Other Receivables:</u></b>	
Receivables related to Healthcare	\$ 54,963,125
Receivables related to Gifts, Grants & Sponsored Programs	46,657,632
Receivables related to External Parties/Other Companies	10,559,113
Receivables related to Investments	8,132,571
Receivables related to Auxiliary Enterprises	6,767,916
Receivables related to Payroll	3,573,061
Receivables related to Patents	3,365,711
Receivables related to Insurance Proceeds for Fire Damage	1,750,000
Receivables related to Travel	1,231,433
Receivables related to Facilities	889,649
Receivables related to Loan Funds & Financial Aid	495,614
Receivables related to Agency funds	480,058
Receivables related to Other Various Activities	7,267,560
Total	<u>\$ 146,133,443</u>

**25. Funds Held in Trust by Others**

The balances, or transactions, of funds held in trust by others on behalf of the System, including Charitable Lead Trusts, are not reflected in the financial statements. As of August 31, 2004, there were 887 such funds for the benefit of the System. Based upon the most recent available information, the assets of these funds are reported by the trustees at values totaling approximately \$1,067,106,455.

## UNAUDITED

THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION  
EXHIBIT A - BALANCE SHEET  
As of August 31, 2004

	Current Year Totals		Prior Year Totals	
	Primary University	Component Unit	Primary University	Component Unit
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash & Cash Equivalents	\$ 579,507,263		749,489,636	1,896,050
Restricted Cash & Cash Equivalents	10,699,192		9,068,608	
Securities Lending Collateral	1,060,976,669		247,392,402	
Accounts Receivable, Net:				
Federal (allowances of \$0 in '04 & \$0 in '03)	1,470			
Interest and Dividends	14,296,792		31,815,695	1,601
Investment Trades	359,797,585		231,691,829	
Other (allowances of \$0 in '04 & \$0 in '03)	13,716,303		14,210,077	121,754
Due From Other Funds	44,394,480		63,168,307	
Due From Other Institutions	43,719,314		41,316,826	
Due From Other Agencies	893,571			
Other Current Assets	3,121,192		343,133	33,199
Total Current Assets	<u>2,131,123,831</u>		<u>1,388,496,513</u>	<u>2,052,604</u>
<b>Non-Current Assets:</b>				
<b>Restricted:</b>				
Cash & Cash Equivalents	307,484		107,437	
Investments	12,897,296,454		11,767,416,994	250,000
Investments	2,237,548,987		2,356,544,992	
Other Non-Current Assets	1,475,000			
Capital Assets	3,135,288,910		2,788,577,522	120,283
Less Accumulated Depreciation	(24,954,178)		(23,790,949)	(68,577)
Total Non-Current Assets	<u>18,246,962,657</u>		<u>16,888,855,996</u>	<u>301,706</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>20,378,086,488</u></b>		<b><u>18,277,352,509</u></b>	<b><u>2,354,310</u></b>
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Accounts Payable and Accrued Liabilities	\$ 32,928,718		239,555,872	15,483
Investment Trades Payable	675,938,464		488,113,044	
Self-Insurance Claims IBNR	164,236,886		151,741,949	
Securities Lending Obligations	1,060,976,669		247,392,402	
Due to Other Funds	44,394,480		63,168,307	
Due to Other Institutions	439,989,293		581,575,741	
Due to Other Agencies	8,530,163		6,544,475	
Deferred Revenue	505		2,613	
Employees' Compensable Leave-Current Portion	780,201		711,874	
Notes, Loans and Leases Payable-Current Portion	634,966,000		516,286,000	
Payable From Restricted Assets-Current Portion	20,036,135		25,764,088	
Revenue Bonds Payable-Current Portion	100,810,000		97,835,000	
Other Current Liabilities	897,000		164,000	
Total Current Liabilities	<u>3,184,484,514</u>		<u>2,418,855,365</u>	<u>15,483</u>
<b>Non-Current Liabilities:</b>				
Employees' Compensable Leave	2,238,848		2,118,252	
Assets Held for Others	999,397,517		1,209,870,927	
Revenue Bonds Payable	2,369,470,000		2,161,495,000	
Other Non-Current Liabilities	494,000			
Total Non-Current Liabilities	<u>3,371,600,365</u>		<u>3,373,484,179</u>	
<b>TOTAL LIABILITIES</b>	<b><u>6,556,084,879</u></b>		<b><u>5,792,339,544</u></b>	<b><u>15,483</u></b>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	6,546,034		(9,447,549)	51,706
<b>Restricted for:</b>				
<b>Nonexpendable</b>				
Permanent University Fund Endowment	8,973,941,700		8,231,079,481	
True and Term Endowments, and Annuities	12,939,003		12,251,595	
True and Term Endowments Held for Institutions	3,679,853,298		3,126,243,819	
<b>Expendable</b>				
Capital Projects	4,678,723		440,762	
Debt Service	4,760,508		6,102,912	
Funds Functioning as Endowment - Restricted			35	
Other Expendable	1,562,718		2,741,068	
Unrestricted	1,137,719,625		1,115,600,842	2,287,121
<b>TOTAL NET ASSETS</b>	<b><u>13,822,001,609</u></b>		<b><u>12,485,012,965</u></b>	<b><u>2,338,827</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>20,378,086,488</u></b>		<b><u>18,277,352,509</u></b>	<b><u>2,354,310</u></b>

UNAUDITED

THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION  
 EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 For the Year Ended August 31, 2004

	Current Year Totals		Prior Year Totals	
	Primary University	Component Unit	Primary University	Component Unit
<b>Operating Revenues:</b>				
Federal Sponsored Programs	\$ 53,300			
Federal Sponsored Programs Pass-Through from Other St. Agencies	3,489,190			
State Sponsored Programs	3,490,900	6,123		18,491,917
State Sponsored Programs Pass-Through from Other St. Agencies	270,688			
Private Sponsored Programs	1,151,500		1,812,000	
Sales and Services of Educational Activities	4,728,244		6,114,654	
Discounts and Allowances (none)				
Other Operating Revenues	(17,183,903)	595	32,143,377	500,139
Total Operating Revenues	<u>(4,000,081)</u>	<u>6,718</u>	<u>40,070,031</u>	<u>18,992,056</u>
<b>Operating Expenses:</b>				
Instruction	4,023,189			
Hospitals and Clinics		740,916		19,549,622
Institutional Support	45,764,054		47,328,622	
Depreciation and Amortization	1,607,386	10,382	1,500,349	24,872
Total Operating Expenses	<u>51,394,629</u>	<u>751,298</u>	<u>48,828,971</u>	<u>19,574,494</u>
Operating Loss	<u>(55,394,710)</u>	<u>(744,580)</u>	<u>(8,758,940)</u>	<u>(582,438)</u>
<b>Nonoperating Revenues (Expenses):</b>				
State Appropriations	6,057,411		8,288,165	
Gift Contributions for Operations	1,141,315		1,160,003	
Net Investment Income	1,348,033,989	10,375	158,756,726	30,543
Net Increase (Decrease) in Fair Value of Investments	122,533,786		1,254,851,739	
Interest Expense on Capital Asset Financings	(88,898,802)		(87,527,873)	
Gain/(Loss) on Sale of Capital Assets	(17,948)	(10,074)	(99,554)	
Other Nonoperating Revenues	74,053,858		45,312,790	
Other Nonoperating Expenses	(53,707,034)	(426,431)	(21,997,601)	
Net Nonoperating Revenues (Expenses)	<u>1,409,196,575</u>	<u>(426,130)</u>	<u>1,358,744,395</u>	<u>30,543</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	1,353,801,865	(1,170,710)	1,349,985,455	(551,895)
Return of Capital Contributions		(1,168,117)		
Additions to Permanent Endowments	204,133,255		222,092,663	
Reclass from / (to) Other Institutions	145,950,567		(127,393,191)	
Proceeds of Bonds Payable Invested in Plant of Institutions	343,838,251		512,328,219	
Transfers Between Institutions & System-Debt Service-Mandatory	200,563,416		173,553,303	
Transfers Between Institutions & System Admin. - Nonmandatory	(795,705,831)		(762,253,456)	
Transfers From Other State Agencies	418,313			
Transfers to Other State Agencies	(116,011,192)		(121,007,348)	
Change in Net Assets	<u>1,336,988,644</u>	<u>(2,338,827)</u>	<u>1,247,305,645</u>	<u>(551,895)</u>
Beginning Net Assets - As Previously Reported	12,485,012,965	2,338,827	11,238,194,563	2,890,722
Restatements			(487,243)	
Beginning Net Assets - As Restated	<u>12,485,012,965</u>	<u>2,338,827</u>	<u>11,237,707,320</u>	<u>2,890,722</u>
<b>Ending Net Assets</b>	<u>\$ 13,822,001,609</u>	<u></u>	<u>12,485,012,965</u>	<u>2,338,827</u>

THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2004

	Current Year Totals		Prior Year Totals	
	Primary University	Component Unit	Primary University	Component Unit
<b>Cash Flows from Operating Activities:</b>				
Proceeds from Patients and Customers	\$	16,691		22,719,499
Proceeds from Sponsored Programs		7,560,537	1,812,000	
Proceeds from Other Revenues		3,271,673	40,995,257	500,000
Payments to Suppliers		(36,960,737)	(39,618,097)	(22,636,534)
Payments to Employees		(23,851,713)	(23,981,989)	(745,220)
Payments for Other Expenses			(492)	
Net Cash Provided (Used) by Operating Activities		<u>(49,980,240)</u>	<u>(20,793,321)</u>	<u>(162,255)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Return of Capital Contributions		(1,168,117)		
Proceeds from State Appropriations		6,057,411	8,288,165	
Proceeds from Operating Gifts		1,141,315	1,160,003	
Proceeds from Private Gifts for Endowment and Annuity Life Purposes		196,060,452	172,585,762	
Proceeds from Other Nonoperating Revenues		3,562,877	608,435	
Payments/Receipts for Transfers to/from System or Oth. Agencies		(609,222,267)	(690,316,400)	
Payments for Other Uses		(3,919,939)	(4,430,359)	
Net Cash Provided (Used) by Noncapital Financing Activities		<u>(406,320,151)</u>	<u>(512,104,394)</u>	
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Proceeds from Issuance of Capital Debt		1,523,999,984	1,099,220,658	
Proceeds from Capital Debt Transferred to Institutions		(736,998,531)	(593,546,970)	
Payments of Other Costs on Debt Issuance		(49,787,095)	(17,567,242)	
Proceeds from Sale of Capital Assets		30,504	2,505	
Payments for Additions to Capital Assets		(3,552,731)	(6,157,388)	
Payments of Principal on Capital Related Debt		(1,123,844,000)	(538,427,000)	
Mandatory Transfers to System for Capital Related Debt		200,563,416	173,553,303	
Payments of Interest on Capital Related Debt		(86,958,919)	(86,615,087)	
Net Cash Provided (Used) by Capital & Related Financing Activities		<u>(276,547,372)</u>	<u>30,460,274</u>	
<b>Cash Flows from Investing Activities:</b>				
Proceeds from Sales of Investments		18,229,701,669	12,571,113,786	15,380
Proceeds from Interest and Investment Income		329,329,997	342,570,763	30,543
Payments to Acquire Investments		(17,994,335,645)	(12,301,324,697)	
Net Cash Provided (Used) by Investing Activities		<u>564,696,021</u>	<u>612,359,852</u>	<u>45,923</u>
<b>Net Increase (Decrease) in Cash</b>		<b>(168,151,742)</b>	<b>109,922,411</b>	<b>(116,332)</b>
Cash & Cash Equivalents - Beginning of the Year		758,665,681	648,743,270	2,012,382
<b>Cash &amp; Cash Equivalents - End of the Year</b>	\$	<b><u>590,513,939</u></b>	<b><u>758,665,681</u></b>	<b><u>1,896,050</u></b>
<b>Reconciliation of Net Operating Revenues (Expenses) to</b>				
<b>Net Cash Provided (Used) by Operating Activities:</b>				
Operating Loss	\$	(55,394,710)	(8,758,940)	(582,438)
Adjustments to Reconcile Operating Loss to Net Cash:				
Depreciation and Amortization Expense		1,607,386	1,500,349	24,872
Loss on Asset Disposition			28,744	27,911
Bad Debt Expense				
Op. Income & Cash Flow Categories Classification Differences				
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables		249,456	1,266,065	4,716,142
(Increase) Decrease in Other Assets		(5,143,472)	35,764	23,765
Increase (Decrease) in Payables		8,372,079	(10,978,619)	(4,354,160)
Increase (Decrease) in Due to System		(2,402,488)	(5,698,399)	
Increase (Decrease) in Deferred Income		(2,108)	(2,497,387)	
Increase (Decrease) in Deposits Held for Others		1,317,694	3,968,056	
Increase (Decrease) in Compensated Absence Liability		188,923	405,554	
Increase (Decrease) in Other Liabilities		1,227,000		(18,347)
Total Adjustments		<u>5,414,470</u>	<u>(12,034,381)</u>	<u>420,183</u>
Net Cash Provided (Used) by Operating Activities:	\$	<u>(49,980,240)</u>	<u>(20,793,321)</u>	<u>(162,255)</u>
<b>Noncash Transactions</b>				
Net Increase (Decrease) in Fair Value of Investments		122,533,786	1,254,851,739	
Miscellaneous Noncash Transactions		(30,504)	-	

## UNAUDITED

THE UNIVERSITY OF TEXAS AT ARLINGTON  
EXHIBIT A - BALANCE SHEET  
As of August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 103,513,674	83,377,940
Restricted Cash & Cash Equivalents	3,956,573	3,015,824
Balance in State Appropriations	1,889,217	2,293,662
Accounts Receivable, Net:		
Federal (allowances of \$0 in '04 & \$0 in '03)	1,241,598	2,822,650
Other Intergov. (allowances of \$0 in '04 & \$0 in '03)	1,579,888	1,218,881
Student (allowances of \$642,824 in '04 & \$644,361 in '03)	26,777,814	23,659,368
Interest and Dividends	168,168	
Contributions (allowances of \$2,147 in '04 & \$6,976 in '03)	133,602	132,554
Other (allowances of \$0 in '04 & \$0 in '03)	1,898,199	89,553
Due From System Administration	43,883,854	28,007,316
Due From Other Agencies	91,765	1,059,463
Inventories	329,781	325,796
Loans & Contracts (allow. of \$80,584 in '04 & \$93,765 in '03)	3,092,515	3,259,724
Other Current Assets	14,391,348	12,091,610
Total Current Assets	<u>202,947,996</u>	<u>161,354,341</u>
Non-Current Assets:		
Restricted:		
Investments	677,061	541,794
Loans & Contracts (allow. of \$8,954 in '04 & \$10,418 in '03)	343,613	362,192
Funds Held by System Administration	38,678,592	34,854,512
Contributions Rec. (allowances of \$4,492 in '04 & \$7,807 in '03)	85,340	148,333
Investments	15,642,127	15,761,393
Capital Assets	500,715,081	438,563,044
Less Accumulated Depreciation	(136,101,904)	(125,281,700)
Total Non-Current Assets	<u>420,039,910</u>	<u>364,949,568</u>
<b>TOTAL ASSETS</b>	<u>\$ 622,987,906</u>	<u>526,303,909</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 17,075,634	13,990,585
Due to System Administration	1,551,828	1,794,060
Deferred Revenue	75,934,941	63,496,807
Employees' Compensable Leave-Current Portion	521,482	504,099
Payable From Restricted Assets-Current Portion	1,508,515	1,162,285
Other Current Liabilities	433,372	680,472
Total Current Liabilities	<u>97,025,772</u>	<u>81,628,308</u>
Non-Current Liabilities:		
Employees' Compensable Leave	4,212,205	3,764,934
Assets Held for Others	1,955,366	1,767,140
Other Non-Current Liabilities	899,334	455,971
Total Non-Current Liabilities	<u>7,066,905</u>	<u>5,988,045</u>
<b>TOTAL LIABILITIES</b>	<u>104,092,677</u>	<u>87,616,353</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	364,613,177	313,281,344
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	35,419,342	32,508,138
Expendable		
Capital Projects	32,200,918	18,931,018
Funds Functioning as Endowment - Restricted	1,500,749	2,346,374
Other Expendable	18,340,394	16,752,728
Unrestricted	66,820,649	54,867,954
<b>TOTAL NET ASSETS</b>	<u>518,895,229</u>	<u>438,687,556</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 622,987,906</u>	<u>526,303,909</u>

UNAUDITED

THE UNIVERSITY OF TEXAS AT ARLINGTON  
 EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 116,339,014	99,073,079
Discounts and Allowances	(19,032,964)	(17,243,469)
Federal Sponsored Programs	29,274,213	25,088,455
Federal Sponsored Programs Pass-Through from Other St. Agencies	1,819,406	3,001,978
State Sponsored Programs	1,508,872	2,895,530
State Sponsored Programs Pass-Through from Other St. Agencies	5,096,435	5,079,407
Local Sponsored Programs	248,755	1,391,572
Private Sponsored Programs	3,568,691	890,861
Sales and Services of Educational Activities	5,814,417	5,570,468
Discounts and Allowances (none)		
Auxiliary Enterprises	18,593,924	15,704,590
Discounts and Allowances (none)		
Other Operating Revenues	4,813,593	5,024,084
Total Operating Revenues	<u>168,044,356</u>	<u>146,476,555</u>
<b>Operating Expenses:</b>		
Instruction	88,789,529	85,387,967
Research	16,860,274	19,226,359
Public Service	8,377,464	10,126,370
Academic Support	21,177,608	20,355,018
Student Services	16,470,736	13,668,617
Institutional Support	20,054,177	21,525,229
Operations and Maintenance of Plant	20,591,937	17,756,274
Scholarships and Fellowships	11,514,045	10,891,333
Auxiliary Enterprises	28,186,221	24,412,419
Depreciation and Amortization	12,150,617	9,587,269
Total Operating Expenses	<u>244,172,608</u>	<u>232,936,855</u>
Operating Loss	<u>(76,128,252)</u>	<u>(86,460,300)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	96,766,632	95,979,038
Gift Contributions for Operations	1,898,447	1,334,117
Net Investment Income	3,626,176	2,169,845
Net Increase (Decrease) in Fair Value of Investments	3,215,570	1,852,698
Gain/(Loss) on Sale of Capital Assets	(415,626)	(626,897)
Other Nonoperating Revenues	313,261	457,729
Other Nonoperating Expenses	(550,152)	(2,188,615)
Net Nonoperating Revenues (Expenses)	<u>104,854,308</u>	<u>98,977,915</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	28,726,056	12,517,615
Gifts and Sponsored Programs for Capital Acquisitions	294,796	367,292
Additions to Permanent Endowments	527,978	2,400,609
Extraordinary Items	(296,155)	
Reclass from / (to) Other Institutions	29,733,835	(41,026,666)
Transfers Between Institutions & System-Debt Service-Mandatory	(18,424,762)	(11,339,899)
Transfers Between Institutions & System Admin. - Nonmandatory	39,312,079	90,656,550
Transfers From Other State Agencies	4,419	5,318,479
Transfers to Other State Agencies	(238,900)	
Change in Net Assets	<u>79,639,346</u>	<u>58,893,980</u>
Beginning Net Assets - As Previously Reported	438,687,556	379,793,576
Restatements	568,327	
Beginning Net Assets - As Restated	<u>439,255,883</u>	<u>379,793,576</u>
<b>Ending Net Assets</b>	<u>\$ 518,895,229</u>	<u>438,687,556</u>



THE UNIVERSITY OF TEXAS AT ARLINGTON  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 104,111,439	85,207,516
Proceeds from Sponsored Programs	43,314,769	43,087,362
Proceeds from Auxiliaries	21,483,633	18,060,388
Proceeds from Other Revenues	8,664,196	9,692,911
Payments to Suppliers	(70,280,220)	(62,803,835)
Payments to Employees	(162,360,750)	(159,773,495)
Payments for Loans Provided	(1,827,367)	(2,704,779)
Proceeds from Loan Programs	1,930,093	1,870,191
Net Cash Provided (Used) by Operating Activities	<u>(54,964,207)</u>	<u>(67,363,741)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	97,171,077	104,886,863
Proceeds from Operating Gifts	1,989,694	1,375,944
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	527,978	2,400,609
Proceeds from Other Nonoperating Revenues	2,138,868	408,524
Payments/Receipts for Transfers to/from System or Oth. Agencies	(158,145)	6,120,604
Payments for Other Uses	(2,596,307)	(2,882,619)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>99,073,165</u>	<u>112,309,925</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Capital Debt Transferred from System (nonmandatory)	53,087,075	30,052,904
Proceeds from Capital Appropriations, Grants and Gifts	64,551	255,877
Payments for Additions to Capital Assets	(60,602,656)	(45,316,326)
Mandatory Transfers to System for Capital Related Debt	(18,424,762)	(11,339,899)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(25,875,792)</u>	<u>(26,347,444)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Interest and Investment Income	802,858	1,129,385
Proceeds from Interest and Investment Income Held by System	2,664,970	1,156,961
Payments to Acquire Investments Held by System	(624,511)	(3,778,428)
Net Cash Provided (Used) by Investing Activities	<u>2,843,317</u>	<u>(1,492,082)</u>
<b>Net Increase (Decrease) in Cash</b>	21,076,483	17,106,658
Cash & Cash Equivalents - Beginning of the Year	86,393,764	69,287,106
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 107,470,247</u>	<u>86,393,764</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (76,128,252)	(86,460,300)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	12,150,617	9,587,269
Bad Debt Expense	83,062	143,031
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	(2,739,349)	167,060
(Increase) Decrease in Inventories	(3,985)	(54,863)
(Increase) Decrease in Loans and Contracts	102,726	(691,309)
(Increase) Decrease in Other Assets	(2,299,738)	740,465
Increase (Decrease) in Payables	829,522	(23,855)
Increase (Decrease) in Due to System	(242,232)	255,154
Increase (Decrease) in Deferred Income	12,438,134	9,575,201
Increase (Decrease) in Deposits Held for Others	184,371	(1,020,175)
Increase (Decrease) in Compensated Absence Liability	464,654	309,510
Increase (Decrease) in Other Liabilities	196,263	109,071
Total Adjustments	<u>21,164,045</u>	<u>19,096,559</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (54,964,207)</u>	<u>(67,363,741)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	3,215,570	1,852,698
Donated Capital Assets	200,943	111,415

## UNAUDITED

THE UNIVERSITY OF TEXAS AT AUSTIN  
EXHIBIT A - BALANCE SHEET  
As of August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 550,473,592	418,623,479
Restricted Cash & Cash Equivalents	169,031,450	161,625,862
Balance in State Appropriations	5,345,216	5,442,811
Funds Held by System Administration - Current	307,175	(326,246)
Accounts Receivable, Net:		
Federal (allowances of \$0 in '04 & \$0 in '03)	52,989,344	36,251,007
Student (allowances of \$841,367 in '04 & \$1,871,495 in '03)	88,767,978	76,606,616
Interest and Dividends	3,466,949	3,911,542
Contributions (allowances of \$315,593 in '04 & \$533,913 in '03)	5,275,035	10,111,119
Other (allowances of \$431,206 in '04 & \$820,158 in '03)	18,971,070	19,109,024
Due From Other Funds	5,055,870	
Due From System Administration	68,148,637	113,708,780
Due From Other Agencies	1,027,698	443,604
Inventories	7,597,815	8,462,592
Loans & Contracts (allow. of \$1,037,773 in '04 & \$0 in '03)	8,414,741	9,822,783
Other Current Assets	47,663,281	37,507,771
Total Current Assets	<u>1,032,535,851</u>	<u>901,300,744</u>
Non-Current Assets:		
Restricted:		
Investments	15,000	31,682,995
Loans & Contracts (allow. of \$6,277,362 in '04 & \$7,108,729 in '03)	50,899,747	43,742,743
Funds Held by System Administration	1,975,066,738	1,661,747,765
Contributions Rec. (allowances of \$1,066,424 in '04 & \$841,005 in '03)	17,824,945	15,926,760
Investments		71,790,182
Other Non-Current Assets/Held in Trust	1,297,583	
Capital Assets	2,621,064,650	2,492,091,092
Less Accumulated Depreciation	<u>(1,124,878,550)</u>	<u>(1,066,339,460)</u>
Total Non-Current Assets	<u>3,541,290,113</u>	<u>3,250,642,077</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>4,573,825,964</u></b>	<b><u>4,151,942,821</u></b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 53,254,349	50,737,475
Due to Other Funds	5,055,870	
Due to System Administration	9,388,308	9,065,009
Due to Other Agencies	220,735	
Deferred Revenue	336,493,413	270,943,529
Employees' Compensable Leave-Current Portion	3,544,597	3,197,718
Notes, Loans and Leases Payable-Current Portion	1,262,724	896,563
Payable From Restricted Assets-Current Portion	16,230,268	14,615,977
Funds Held for Others	1,297,583	1,290,813
Other Current Liabilities	13,069,664	11,846,395
Total Current Liabilities	<u>439,817,511</u>	<u>362,593,479</u>
Non-Current Liabilities:		
Employees' Compensable Leave	32,489,101	30,063,706
Assets Held for Others	6,843,537	9,195,113
Notes, Loans and Leases Payable	20,239,881	20,343,682
Total Non-Current Liabilities	<u>59,572,519</u>	<u>59,602,501</u>
<b>TOTAL LIABILITIES</b>	<b><u>499,390,030</u></b>	<b><u>422,195,980</u></b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	1,474,683,495	1,403,220,574
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	1,841,064,703	1,574,829,182
Expendable		
Capital Projects	42,557,469	113,697,528
Funds Functioning as Endowment - Restricted	103,118,206	65,619,562
Other Expendable	244,527,876	263,043,701
Unrestricted	368,484,185	309,336,294
<b>TOTAL NET ASSETS</b>	<b><u>4,074,435,934</u></b>	<b><u>3,729,746,841</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>4,573,825,964</u></b>	<b><u>4,151,942,821</u></b>

UNAUDITED

THE UNIVERSITY OF TEXAS AT AUSTIN  
 EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 335,856,989	306,241,690
Discounts and Allowances	(58,920,487)	(47,305,781)
Federal Sponsored Programs	273,723,919	265,034,189
Federal Sponsored Programs Pass-Through from Other St. Agencies	14,246,743	9,586,854
State Sponsored Programs	8,163,104	25,555,486
State Sponsored Programs Pass-Through from Other St. Agencies	30,636,594	15,309,799
Local Sponsored Programs	2,240,341	2,790,969
Private Sponsored Programs	54,621,114	51,001,277
Sales and Services of Educational Activities	107,061,346	89,281,221
Discounts and Allowances	(37,396)	(288,240)
Auxiliary Enterprises	140,321,384	137,257,640
Discounts and Allowances	(6,900,251)	(5,692,958)
Other Operating Revenues	2,728,166	2,911,691
Total Operating Revenues	<u>903,741,566</u>	<u>851,683,837</u>
<b>Operating Expenses:</b>		
Instruction	411,589,496	416,336,999
Research	309,125,593	303,255,633
Public Service	42,409,204	33,053,275
Academic Support	96,914,316	91,157,163
Student Services	37,207,803	36,283,002
Institutional Support	71,634,766	76,159,238
Operations and Maintenance of Plant	108,868,297	106,407,515
Scholarships and Fellowships	67,592,680	62,500,849
Auxiliary Enterprises	148,979,168	151,195,395
Depreciation and Amortization	82,601,677	79,967,533
Total Operating Expenses	<u>1,376,923,000</u>	<u>1,356,316,602</u>
Operating Loss	<u>(473,181,434)</u>	<u>(504,632,765)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	287,669,299	286,447,699
Gift Contributions for Operations	60,116,905	73,550,685
Net Investment Income	100,105,905	52,333,214
Net Increase (Decrease) in Fair Value of Investments	146,536,199	89,974,761
Interest Expense on Capital Asset Financings	(1,612,994)	(1,637,104)
Gain/(Loss) on Sale of Capital Assets	(2,329,627)	(2,284,535)
Other Nonoperating Revenues	8,359,001	1,148,543
Other Nonoperating Expenses	(4,495,836)	(9,769,352)
Net Nonoperating Revenues (Expenses)	<u>594,348,852</u>	<u>489,763,911</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	121,167,418	(14,868,854)
Gifts and Sponsored Programs for Capital Acquisitions	19,983,346	4,476,405
Additions to Permanent Endowments	122,176,232	190,813,290
Reclass from / (to) Other Institutions	(73,918,048)	27,769,736
Transfers Between Institutions & System-Debt Service-Mandatory	(42,842,090)	(39,851,309)
Transfers Between Institutions & System Admin. - Nonmandatory	217,465,763	240,945,717
Transfers From Other State Agencies	499,596	
Transfers to Other State Agencies	(91,564)	
Change in Net Assets	<u>364,440,653</u>	<u>409,284,985</u>
Beginning Net Assets - As Previously Reported	3,729,746,841	3,351,890,377
Restatements	(19,751,560)	(31,428,521)
Beginning Net Assets - As Restated	<u>3,709,995,281</u>	<u>3,320,461,856</u>
<b>Ending Net Assets</b>	<u>\$ 4,074,435,934</u>	<u>3,729,746,841</u>

## UNAUDITED

THE UNIVERSITY OF TEXAS AT AUSTIN  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 312,928,489	259,313,217
Proceeds from Sponsored Programs	387,231,070	385,492,572
Proceeds from Auxiliaries	130,803,480	130,794,591
Proceeds from Other Revenues	112,691,795	94,089,304
Payments to Suppliers	(402,890,979)	(359,210,726)
Payments to Employees	(901,442,498)	(908,317,491)
Payments for Loans Provided	(43,844,723)	(36,309,539)
Proceeds from Loan Programs	38,038,017	35,781,282
Payments for Other Expenses	(2,283,325)	1,294,451
Net Cash Provided (Used) by Operating Activities	<u>(368,768,674)</u>	<u>(397,072,339)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	287,766,894	292,418,783
Proceeds from Operating Gifts	63,054,804	90,083,076
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	122,176,232	190,813,290
Proceeds from Other Nonoperating Revenues	7,950,969	6,737,241
Payments/Receipts for Transfers to/from System or Oth. Agencies	106,837,457	163,127,599
Payments for Other Uses	(4,502,606)	(9,769,352)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>583,283,750</u>	<u>733,410,637</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Capital Debt Transferred from System (nonmandatory)	87,043,783	73,977,919
Proceeds from Capital Appropriations, Grants and Gifts	1,456,478	
Proceeds from Sale of Capital Assets	125,749	
Payments for Additions to Capital Assets	(151,174,692)	(152,540,074)
Payments of Principal on Capital Related Debt	(353,218)	(495,842)
Mandatory Transfers to System for Capital Related Debt	(42,842,090)	(39,851,309)
Payments of Interest on Capital Related Debt	(1,612,994)	(1,637,104)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(107,356,984)</u>	<u>(120,546,410)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Sales of Investments	103,473,706	152,912,911
Proceeds from Interest and Investment Income	100,479,197	51,951,642
Proceeds from Interest and Investment Income Held by System	(4,423,570)	1,032,935
Payments to Acquire Investments		(54,000,000)
Payments to Acquire Investments Held by System	(166,798,303)	(142,801,145)
Net Cash Provided (Used) by Investing Activities	<u>32,731,030</u>	<u>9,096,343</u>
<b>Net Increase (Decrease) in Cash</b>	139,889,122	224,888,231
Cash & Cash Equivalents - Beginning of the Year	579,923,095	355,034,864
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 719,812,217</u>	<u>579,923,095</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (473,181,434)	(504,632,765)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	82,601,677	79,967,533
Bad Debt Expense	57,744	462,174
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	(29,277,799)	9,540,141
(Increase) Decrease in Inventories	864,777	1,047,896
(Increase) Decrease in Loans and Contracts	(5,806,706)	(8,041)
(Increase) Decrease in Other Assets	(10,155,510)	1,196,579
Increase (Decrease) in Payables	(1,543,238)	3,669,635
Increase (Decrease) in Due to System	323,299	1,114,498
Increase (Decrease) in Deferred Income	65,549,884	7,128,213
Increase (Decrease) in Deposits Held for Others	(2,283,325)	(2,486,943)
Increase (Decrease) in Compensated Absence Liability	2,772,274	2,329,571
Increase (Decrease) in Other Liabilities	1,309,683	3,599,170
Total Adjustments	<u>104,412,760</u>	<u>107,560,426</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (368,768,674)</u>	<u>(397,072,339)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	146,536,199	89,974,761
Donated Capital Assets	18,526,868	4,476,405
Capital Assets Acquired Under Capital Lease Purchases	615,578	

UNAUDITED

THE UNIVERSITY OF TEXAS AT BROWNSVILLE  
 EXHIBIT A - BALANCE SHEET  
 As of August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 20,741,928	21,505,926
Restricted Cash & Cash Equivalents	1,780,099	4,702,316
Balance in State Appropriations	4,377,284	6,635,856
Accounts Receivable, Net:		
Federal (allowances of \$1,974 in '04 & \$0 in '03)	7,568,521	3,197,443
Other Intergov. (allowances of \$102 in '04 & \$46,044 in '03)	244,777	360,547
Student (allowances of \$767,904 in '04 & \$621,536 in '03)	3,027,312	2,767,498
Interest and Dividends	12,516	21,341
Other (allowances of \$22,822 in '04 & \$61,257 in '03)	1,473,623	1,150,657
Due From Other Funds	8,967,904	10,878,319
Due From System Administration	14,531,512	23,490,549
Due From Other Agencies	730	400
Inventories		33,266
Loans & Contracts (allowances of \$0 in '04 & \$29,411 in '03)	1,213,254	1,250,165
Other Current Assets	1,941,582	1,150,407
Total Current Assets	<u>65,881,042</u>	<u>77,144,690</u>
Non-Current Assets:		
Restricted:		
Cash & Cash Equivalents		80,000
Loans & Contracts (allow. of \$353,373 in '04 & \$215,681 in '03)	186,561	367,447
Funds Held by System Administration	4,829,229	3,903,532
Investments	7,441,463	3,462,854
Capital Assets	77,874,822	63,182,358
Less Accumulated Depreciation	(13,820,609)	(10,863,382)
Total Non-Current Assets	<u>76,511,466</u>	<u>60,132,809</u>
<b>TOTAL ASSETS</b>	<u>\$ 142,392,508</u>	<u>137,277,499</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 16,132,845	13,660,927
Federal Payables	94,356	16,963
Due to Other Funds	8,967,904	10,878,319
Due to System Administration	476,786	489,353
Deferred Revenue	4,523,057	3,441,566
Employees' Compensable Leave-Current Portion	132,843	91,952
Payable From Restricted Assets-Current Portion	862,299	409,786
Funds Held for Others	346,481	567,747
Total Current Liabilities	<u>31,536,571</u>	<u>29,556,613</u>
Non-Current Liabilities:		
Employees' Compensable Leave	1,685,355	1,597,106
Total Non-Current Liabilities	<u>1,685,355</u>	<u>1,597,106</u>
<b>TOTAL LIABILITIES</b>	<u>33,221,926</u>	<u>31,153,719</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	64,054,213	52,318,976
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	4,608,728	3,983,532
Expendable		
Capital Projects	13,800,568	22,194,291
Other Expendable	4,327,021	3,666,745
Unrestricted	22,380,052	23,960,236
<b>TOTAL NET ASSETS</b>	<u>109,170,582</u>	<u>106,123,780</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 142,392,508</u>	<u>137,277,499</u>

## UNAUDITED

THE UNIVERSITY OF TEXAS AT BROWNSVILLE  
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 8,547,115	7,324,791
Discounts and Allowances	(2,275,599)	(3,467,980)
Federal Sponsored Programs	28,251,771	24,156,009
Federal Sponsored Programs Pass-Through from Other St. Agencies	341,663	694,896
State Sponsored Programs	718,723	1,339,098
State Sponsored Programs Pass-Through from Other St. Agencies	1,370,777	1,708,792
Local Sponsored Programs	36,101,197	31,109,058
Private Sponsored Programs	789,905	440,027
Sales and Services of Educational Activities	1,642,038	5,011,114
Discounts and Allowances (none)		
Auxiliary Enterprises	686,004	2,380,070
Discounts and Allowances	(111,822)	
Other Operating Revenues	17,089	11,934
Total Operating Revenues	<u>76,078,861</u>	<u>70,707,809</u>
<b>Operating Expenses:</b>		
Instruction	29,943,673	29,895,536
Research	2,325,249	1,297,299
Public Service	3,514,744	3,219,225
Academic Support	7,556,430	8,565,152
Student Services	6,758,620	6,351,775
Institutional Support	9,714,786	9,358,052
Operations and Maintenance of Plant	7,512,685	7,466,678
Scholarships and Fellowships	23,840,948	19,200,319
Auxiliary Enterprises	3,522,603	3,206,880
Depreciation and Amortization	2,932,649	3,017,770
Total Operating Expenses	<u>97,622,387</u>	<u>91,578,686</u>
Operating Loss	<u>(21,543,526)</u>	<u>(20,870,877)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	23,626,487	24,648,119
Gift Contributions for Operations	70,900	221,489
Net Investment Income	845,000	141,573
Net Increase (Decrease) in Fair Value of Investments	467,730	215,728
Gain/(Loss) on Sale of Capital Assets	(4,412)	
Other Nonoperating Revenues		107,764
Other Nonoperating Expenses		(2,061,959)
Net Nonoperating Revenues (Expenses)	<u>25,005,705</u>	<u>23,272,714</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	3,462,179	2,401,837
Capital Appropriations - HEAF	1,050,580	1,050,580
Gifts and Sponsored Programs for Capital Acquisitions	359,891	88,800
Additions to Permanent Endowments	520,760	655,813
Reclass from / (to) Other Institutions		21,510,000
Transfers Between Institutions & System-Debt Service-Mandatory	(3,511,911)	(3,912,145)
Transfers Between Institutions & System Admin. - Nonmandatory	1,132,289	648,257
Transfers From Other State Agencies	886	34,445
Change in Net Assets	<u>3,014,674</u>	<u>22,477,587</u>
Beginning Net Assets - As Previously Reported	106,123,780	84,113,701
Restatements	32,128	(467,508)
Beginning Net Assets - As Restated	<u>106,155,908</u>	<u>83,646,193</u>
<b>Ending Net Assets</b>	<u>\$ 109,170,582</u>	<u>106,123,780</u>

THE UNIVERSITY OF TEXAS AT BROWNSVILLE  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 6,994,441	4,479,105
Proceeds from Sponsored Programs	62,944,242	59,492,750
Proceeds from Auxiliaries	506,738	2,604,816
Proceeds from Other Revenues	851,249	5,369,954
Payments to Suppliers	(38,910,287)	(34,033,646)
Payments to Employees	(52,198,136)	(51,831,027)
Payments for Loans Provided	(2,144,139)	(892,866)
Proceeds from Loan Programs	2,191,156	130,150
Payments for Other Expenses	(221,266)	(61,493)
Net Cash Provided (Used) by Operating Activities	<u>(19,986,002)</u>	<u>(14,742,257)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	23,606,504	24,174,880
Proceeds from Operating Gifts	70,900	221,489
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	520,760	655,813
Proceeds from Other Nonoperating Revenues		107,764
Payments/Receipts for Transfers to/from System or Oth. Agencies	62,657	212,288
Payments for Other Uses	46,301	(2,061,959)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>24,307,122</u>	<u>23,310,275</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Issuance of Capital Debt		
Proceeds from Capital Debt Transferred from System (nonmandatory)	10,028,761	2,885,363
Proceeds from Capital Appropriations, Grants and Gifts	3,329,135	1,050,580
Payments for Additions to Capital Assets	(14,350,477)	(3,847,576)
Mandatory Transfers to System for Capital Related Debt	(3,511,911)	(3,912,145)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(4,504,492)</u>	<u>(3,823,778)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Interest and Investment Income	668,254	34,333
Proceeds from Interest and Investment Income Held by System	185,479	88,786
Payments to Acquire Investments Held by System	(4,436,576)	(4,085,792)
Net Cash Provided (Used) by Investing Activities	<u>(3,582,843)</u>	<u>(3,962,673)</u>
<b>Net Increase (Decrease) in Cash</b>	(3,766,215)	781,567
Cash & Cash Equivalents - Beginning of the Year	26,288,242	25,506,675
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 22,522,027</u>	<u>26,288,242</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (21,543,526)	(20,870,877)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	2,932,649	3,017,770
Bad Debt Expense	358,568	181,041
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	(5,026,206)	334,580
(Increase) Decrease in Inventories	33,266	15,443
(Increase) Decrease in Loans and Contracts	47,017	(581,675)
(Increase) Decrease in Other Assets	(791,175)	(300)
Increase (Decrease) in Payables	3,072,908	2,011,211
Increase (Decrease) in Due to System	(12,567)	76,099
Increase (Decrease) in Deferred Income	1,035,190	498,047
Increase (Decrease) in Deposits Held for Others	(221,266)	344,996
Increase (Decrease) in Compensated Absence Liability	129,140	231,408
Total Adjustments	<u>1,557,524</u>	<u>6,128,620</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (19,986,002)</u>	<u>(14,742,257)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	467,730	215,728
Donated Capital Assets	359,891	88,800
Miscellaneous Noncash Transactions	886	

## UNAUDITED

THE UNIVERSITY OF TEXAS AT DALLAS  
EXHIBIT A - BALANCE SHEET  
As of August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 17,351,397	14,770,471
Restricted Cash & Cash Equivalents	7,398,772	4,443,238
Balance in State Appropriations	768,527	1,675,285
Accounts Receivable, Net:		
Federal (allowances of \$0 in '04 & \$0 in '03)	2,891,096	2,914,005
Other Intergov. (allowances of \$0 in '04 & \$0 in '03)	66,495	36,447
Student (allowances of \$427,257 in '04 & \$521,581 in '03)	5,583,908	5,724,087
Interest and Dividends	145,583	122,783
Contributions (allowances of \$854,188 in '04 & \$875,068 in '03)	577,482	995,259
Other (allowances of \$140,560 in '04 & \$489,198 in '03)	1,502,618	2,098,993
Due From Other Funds	1,611,691	34,900,473
Due From System Administration	34,008,998	19,452,741
Due From Other Agencies		140,485
Inventories	424,905	459,346
Loans & Contracts (allow. of \$235,652 in '04 & \$90,783 in '03)	3,078,696	2,467,059
Other Current Assets	22,394,785	19,038,723
Total Current Assets	<u>97,804,953</u>	<u>109,239,395</u>
Non-Current Assets:		
Restricted:		
Investments	33,987,285	
Loans & Contracts (allow. of \$1,148,970 in '04 & \$1,194,703 in '03)	482,097	519,520
Funds Held by System Administration	195,714,133	181,753,351
Contributions Rec. (allow. of \$88,367 in '04 & \$375,987 in '03)	1,621,818	922,821
Investments	52,568,235	63,308,634
Capital Assets	345,638,619	314,276,464
Less Accumulated Depreciation	<u>(113,933,281)</u>	<u>(103,919,693)</u>
Total Non-Current Assets	<u>516,078,906</u>	<u>456,861,097</u>
<b>TOTAL ASSETS</b>	<u>\$ 613,883,859</u>	<u>566,100,492</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 9,691,193	10,779,723
Due to Other Funds	1,611,691	34,900,473
Due to System Administration	830,748	1,003,244
Deferred Revenue	57,168,969	45,823,752
Employees' Compensable Leave-Current Portion	218,901	222,594
Notes, Loans and Leases Payable-Current Portion	354,337	354,337
Payable From Restricted Assets-Current Portion	91,440	38,623
Funds Held for Others	535,301	420,194
Other Current Liabilities	299,291	190,830
Total Current Liabilities	<u>70,801,871</u>	<u>93,733,770</u>
Non-Current Liabilities:		
Employees' Compensable Leave	3,146,810	2,669,200
Notes, Loans and Leases Payable	32,865	369,898
Total Non-Current Liabilities	<u>3,179,675</u>	<u>3,039,098</u>
<b>TOTAL LIABILITIES</b>	<u>73,981,546</u>	<u>96,772,868</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	231,318,136	209,632,536
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	187,761,011	176,244,569
Expendable		
Capital Projects	16,918,951	735,983
Funds Functioning as Endowment - Restricted	3,466,727	5,448,282
Other Expendable	58,424,506	39,738,001
Unrestricted	42,012,982	37,528,253
<b>TOTAL NET ASSETS</b>	<u>539,902,313</u>	<u>469,327,624</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 613,883,859</u>	<u>566,100,492</u>



## UNAUDITED

THE UNIVERSITY OF TEXAS AT DALLAS  
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 83,056,170	70,919,523
Discounts and Allowances	(19,895,343)	(11,682,170)
Federal Sponsored Programs	20,325,152	18,272,614
Federal Sponsored Programs Pass-Through from Other St. Agencies	1,832,426	1,698,764
State Sponsored Programs	212,546	453,767
State Sponsored Programs Pass-Through from Other St. Agencies	24,461,213	2,475,562
Local Sponsored Programs	586,486	334,476
Private Sponsored Programs	3,142,199	2,327,061
Sales and Services of Educational Activities	4,413,113	4,218,283
Discounts and Allowances	(29,943)	(24,110)
Auxiliary Enterprises	5,008,535	4,586,580
Discounts and Allowances (none)		
Other Operating Revenues	2,295,113	1,835,803
Total Operating Revenues	<u>125,407,667</u>	<u>95,416,153</u>
<b>Operating Expenses:</b>		
Instruction	70,865,373	67,781,172
Research	25,409,681	26,419,446
Public Service	5,084,647	4,465,393
Academic Support	15,692,955	12,993,798
Student Services	6,461,627	5,839,670
Institutional Support	13,447,260	14,439,466
Operations and Maintenance of Plant	12,073,990	12,090,539
Scholarships and Fellowships	10,714,849	11,667,006
Auxiliary Enterprises	10,818,372	9,368,716
Depreciation and Amortization	11,841,243	9,600,682
Total Operating Expenses	<u>182,409,997</u>	<u>174,665,888</u>
Operating Loss	<u>(57,002,330)</u>	<u>(79,249,735)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	63,902,158	61,558,326
Gift Contributions for Operations	5,164,398	5,467,361
Net Investment Income	8,672,228	5,734,806
Net Increase (Decrease) in Fair Value of Investments	11,283,141	6,448,476
Gain/(Loss) on Sale of Capital Assets	(895,154)	(2,531,294)
Other Nonoperating Revenues	741,494	240,411
Other Nonoperating Expenses	(503,842)	(722,075)
Net Nonoperating Revenues (Expenses)	<u>88,364,423</u>	<u>76,196,011</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	31,362,093	(3,053,724)
Gifts and Sponsored Programs for Capital Acquisitions	5,204,255	41,397
Additions to Permanent Endowments	1,762,990	1,009,500
Reclass from / (to) Other Institutions	(99,328,580)	12,886,013
Transfers Between Institutions & System-Debt Service-Mandatory	(5,777,142)	(5,989,656)
Transfers Between Institutions & System Admin. - Nonmandatory	134,557,954	6,552,891
Transfers From Other State Agencies	50,000	5,912,588
Transfers to Other State Agencies	(129,572)	
Change in Net Assets	<u>67,701,998</u>	<u>17,359,009</u>
Beginning Net Assets - As Previously Reported	469,327,624	455,771,961
Restatements	2,872,691	(3,803,346)
Beginning Net Assets - As Restated	<u>472,200,315</u>	<u>451,968,615</u>
<b>Ending Net Assets</b>	<u>\$ 539,902,313</u>	<u>469,327,624</u>

THE UNIVERSITY OF TEXAS AT DALLAS  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 69,238,550	61,681,173
Proceeds from Sponsored Programs	55,173,083	30,292,696
Proceeds from Auxiliaries	5,044,140	5,134,567
Proceeds from Other Revenues	6,922,747	6,361,121
Payments to Suppliers	(51,100,090)	(51,635,573)
Payments to Employees	(120,076,377)	(117,619,756)
Payments for Loans Provided	(10,953,272)	(7,270,965)
Proceeds from Loan Programs	10,279,205	7,067,711
Payments for Other Expenses	(3,408,958)	(1,151,868)
Net Cash Provided (Used) by Operating Activities	<u>(38,880,972)</u>	<u>(67,140,894)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	64,808,916	65,499,079
Proceeds from Operating Gifts	4,841,781	5,705,793
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	1,762,990	1,009,500
Proceeds from Other Nonoperating Revenues	496,840	151,092
Payments/Receipts for Transfers to/from System or Oth. Agencies	(11,105)	9,900,331
Payments for Other Uses	1,016,886	1,922,994
Net Cash Provided (Used) by Noncapital Financing Activities	<u>72,916,308</u>	<u>84,188,789</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Issuance of Capital Debt		
Proceeds from Capital Debt Transferred from System (nonmandatory)	20,606,251	28,292,741
Proceeds from Capital Appropriations, Grants and Gifts	5,082,078	
Payments for Additions to Capital Assets	(30,796,330)	(43,570,981)
Payments of Principal on Capital Related Debt	(337,033)	
Mandatory Transfers to System for Capital Related Debt	(5,777,142)	(5,989,656)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(11,222,176)</u>	<u>(21,267,896)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Interest and Investment Income	126,786	189,790
Proceeds from Interest and Investment Income Held by System	8,521,041	5,578,035
Payments to Acquire Investments Held by System	(25,924,527)	(26,470,638)
Net Cash Provided (Used) by Investing Activities	<u>(17,276,700)</u>	<u>(20,702,813)</u>
<b>Net Increase (Decrease) in Cash</b>	5,536,460	(24,922,814)
Cash & Cash Equivalents - Beginning of the Year	19,213,709	44,136,523
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 24,750,169</u>	<u>19,213,709</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to</b>		
<b>Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (57,002,330)	(79,249,735)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	11,841,243	9,600,682
Bad Debt Expense	99,853	89,845
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	869,900	1,234,865
(Increase) Decrease in Inventories	34,441	(94,594)
(Increase) Decrease in Loans and Contracts	(674,067)	(101,998)
(Increase) Decrease in Other Assets	(3,356,062)	251,284
Increase (Decrease) in Payables	(1,043,428)	(256,710)
Increase (Decrease) in Due to System	(172,496)	144,517
Increase (Decrease) in Deferred Income	9,824,489	6,072,432
Increase (Decrease) in Deposits Held for Others	115,107	(5,223,973)
Increase (Decrease) in Compensated Absence Liability	473,917	376,459
Increase (Decrease) in Other Liabilities	108,461	16,032
Total Adjustments	<u>18,121,358</u>	<u>12,108,841</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (38,880,972)</u>	<u>(67,140,894)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	11,283,141	6,448,476
Donated Capital Assets	163,574	
Capital Assets Acquired Under Capital Lease Purchases		638,318

## UNAUDITED

THE UNIVERSITY OF TEXAS AT EL PASO  
EXHIBIT A - BALANCE SHEET  
As of August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 30,931,652	28,989,799
Restricted Cash & Cash Equivalents	4,842,425	3,836,852
Balance in State Appropriations	305,466	287,474
Accounts Receivable, Net:		
Federal (allowances of \$0 in '04 & \$0 in '03)	3,887,738	5,388,483
Student (allow. of \$1,075,166 in '04 & \$1,851,807 in '03)	9,186,531	6,092,341
Interest and Dividends	46,022	27,138
Contributions (allowances of \$121,940 in '04 & \$51,106 in '03)	1,439,233	301,998
Other (allowances of \$329,936 in '04 & \$188,396 in '03)	7,236,300	5,775,282
Due From System Administration	7,637,712	22,964,680
Due From Other Agencies	182,958	570,840
Inventories	2,405,340	2,269,597
Loans & Contracts (allowances of \$1,520,806 in '04 & \$0 in '03)	6,302,633	2,360,421
Other Current Assets	17,708,224	15,979,635
Total Current Assets	<u>92,112,234</u>	<u>94,844,540</u>
Non-Current Assets:		
Restricted:		
Investments	3,522,878	1,748,663
Loans & Contracts (allow. of \$0 in '04 & \$1,580,917 in '03)		3,754,229
Funds Held by System Administration	92,733,371	84,295,574
Funds Held by System - Permanent Health Fund	24,830,000	22,712,225
Contributions Rec. (allowances of \$129,091 in '04 & \$142,000 in '03)	1,809,860	3,288,547
Investments	20,884,915	12,243,986
Other Non-Current Assets	3,225,000	1,093,688
Capital Assets	334,416,940	299,225,196
Less Accumulated Depreciation	<u>(103,396,874)</u>	<u>(95,153,438)</u>
Total Non-Current Assets	<u>378,026,090</u>	<u>333,208,670</u>
<b>TOTAL ASSETS</b>	<u>\$ 470,138,324</u>	<u>428,053,210</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 10,301,510	7,045,743
Due to System Administration	1,282,875	1,539,141
Deferred Revenue	48,249,257	34,373,733
Employees' Compensable Leave-Current Portion	506,268	445,288
Notes, Loans and Leases Payable-Current Portion	112,754	107,598
Payable From Restricted Assets-Current Portion	3,108,968	2,933,754
Funds Held for Others	1,343,404	1,037,771
Other Current Liabilities	343,176	102,763
Total Current Liabilities	<u>65,248,212</u>	<u>47,585,791</u>
Non-Current Liabilities:		
Employees' Compensable Leave	3,184,896	3,283,160
Notes, Loans and Leases Payable	241,973	354,727
Other Non-Current Liabilities	<u>381,578</u>	<u>385,394</u>
Total Non-Current Liabilities	<u>3,808,447</u>	<u>4,023,281</u>
<b>TOTAL LIABILITIES</b>	<u>69,056,659</u>	<u>51,609,072</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	231,020,066	204,071,758
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	87,937,215	80,064,163
Expendable		
Capital Projects	7,926,940	22,046,993
Funds Functioning as Endowment - Restricted	4,517,953	3,747,052
Other Expendable	19,228,901	23,226,519
Unrestricted	<u>50,450,590</u>	<u>43,287,653</u>
<b>TOTAL NET ASSETS</b>	<u>401,081,665</u>	<u>376,444,138</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 470,138,324</u>	<u>428,053,210</u>

UNAUDITED

THE UNIVERSITY OF TEXAS AT EL PASO  
 EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 61,687,690	51,474,765
Discounts and Allowances	(13,016,409)	(11,599,491)
Federal Sponsored Programs	58,285,733	53,501,276
Federal Sponsored Programs Pass-Through from Other St. Agencies	1,655,824	2,325,315
State Sponsored Programs	1,329,234	1,824,893
State Sponsored Programs Pass-Through from Other St. Agencies	7,087,304	7,198,234
Local Sponsored Programs	918,513	1,005,883
Private Sponsored Programs	4,177,626	2,855,208
Sales and Services of Educational Activities	3,116,658	3,285,612
Discounts and Allowances (none)		
Auxiliary Enterprises	20,747,242	23,388,508
Discounts and Allowances (none)		
Other Operating Revenues	7,545	703,186
Total Operating Revenues	<u>145,996,960</u>	<u>135,963,389</u>
<b>Operating Expenses:</b>		
Instruction	65,324,771	65,328,141
Research	28,458,337	25,644,741
Public Service	7,759,117	8,989,100
Academic Support	8,263,198	9,013,338
Student Services	9,966,298	9,264,413
Institutional Support	17,335,381	20,757,090
Operations and Maintenance of Plant	16,744,197	17,552,287
Scholarships and Fellowships	23,497,082	21,468,811
Auxiliary Enterprises	30,689,597	31,407,260
Depreciation and Amortization	9,111,482	8,357,963
Total Operating Expenses	<u>217,149,460</u>	<u>217,783,144</u>
Operating Loss	<u>(71,152,500)</u>	<u>(81,819,755)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	70,534,690	71,893,724
Gift Contributions for Operations	6,157,593	5,670,126
Net Investment Income	6,647,759	3,848,797
Net Increase (Decrease) in Fair Value of Investments	9,478,969	6,534,154
Gain/(Loss) on Sale of Capital Assets	(55,893)	(245,003)
Other Nonoperating Revenues	10,180	
Other Nonoperating Expenses		326,747
Net Nonoperating Revenues (Expenses)	<u>92,773,298</u>	<u>88,028,545</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	21,620,798	6,208,790
Gifts and Sponsored Programs for Capital Acquisitions	5,833,715	2,063,368
Additions to Permanent Endowments	1,063,956	1,514,417
Reclass from / (to) Other Institutions	(475,659)	9,188,353
Transfers Between Institutions & System-Debt Service-Mandatory	(10,350,540)	(10,686,587)
Transfers Between Institutions & System Admin. - Nonmandatory	11,706,730	14,849,388
Transfers From Other State Agencies		3,596,247
Transfers to Other State Agencies	(193,525)	
Change in Net Assets	<u>29,205,475</u>	<u>26,733,976</u>
Beginning Net Assets - As Previously Reported	376,444,138	362,990,427
Restatements	(4,567,948)	(13,280,265)
Beginning Net Assets - As Restated	<u>371,876,190</u>	<u>349,710,162</u>
<b>Ending Net Assets</b>	<u>\$ 401,081,665</u>	<u>376,444,138</u>

Note: The amounts reported as Restricted Research expenses do not adhere to the Texas Education Coordinating Board's definition of restricted research. The amount not meeting the definition is \$3.3 million.

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THE UNIVERSITY OF TEXAS AT EL PASO  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 53,370,992	41,800,278
Proceeds from Sponsored Programs	75,642,391	74,211,084
Proceeds from Auxiliaries	21,523,845	23,065,292
Proceeds from Other Revenues	1,735,983	1,768,417
Payments to Suppliers	(83,062,197)	(79,920,070)
Payments to Employees	(124,746,465)	(130,065,060)
Payments for Loans Provided	(6,958,532)	(5,238,568)
Proceeds from Loan Programs	6,770,549	4,598,545
Net Cash Provided (Used) by Operating Activities	<u>(55,723,434)</u>	<u>(69,780,082)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	70,516,698	72,448,686
Proceeds from Operating Gifts	6,577,390	6,099,335
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	1,063,956	1,514,417
Payments/Receipts for Transfers to/from System or Oth. Agencies	(483,935)	5,775,749
Payments for Other Uses		233,472
Net Cash Provided (Used) by Noncapital Financing Activities	<u>77,674,109</u>	<u>86,071,659</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Capital Debt Transferred from System (nonmandatory)	26,697,653	8,387,929
Proceeds from Capital Appropriations, Grants and Gifts	1,926,392	1,102,829
Payments for Additions to Capital Assets	(32,457,080)	(15,996,413)
Payments of Principal on Capital Related Debt	(107,598)	
Mandatory Transfers to System for Capital Related Debt	(10,350,540)	(10,686,587)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(14,291,173)</u>	<u>(17,192,242)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Interest and Investment Income	344,446	460,710
Proceeds from Interest and Investment Income Held by System	6,435,225	3,270,280
Payments to Acquire Investments Held by System	(11,491,747)	(2,266,463)
Net Cash Provided (Used) by Investing Activities	<u>(4,712,076)</u>	<u>1,464,527</u>
<b>Net Increase (Decrease) in Cash</b>	2,947,426	563,862
Cash & Cash Equivalents - Beginning of the Year	32,826,651	32,262,789
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 35,774,077</u>	<u>32,826,651</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (71,152,500)	(81,819,755)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	9,111,482	8,357,963
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	(2,666,581)	(3,094,866)
(Increase) Decrease in Inventories	(135,743)	30,587
(Increase) Decrease in Loans and Contracts	(187,983)	(348,540)
(Increase) Decrease in Other Assets	(810,537)	866,851
Increase (Decrease) in Payables	658,609	(1,419,433)
Increase (Decrease) in Due to System	(256,266)	235,178
Increase (Decrease) in Deferred Income	9,211,139	8,715,429
Increase (Decrease) in Deposits Held for Others	305,633	(1,319,698)
Increase (Decrease) in Compensated Absence Liability	(37,284)	302,236
Increase (Decrease) in Other Liabilities	236,597	(286,034)
Total Adjustments	<u>15,429,066</u>	<u>12,039,673</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (55,723,434)</u>	<u>(69,780,082)</u>
Noncash Transactions		
Net Increase (Decrease) in Fair Value of Investments	9,478,969	6,534,154
Donated Capital Assets	779,614	10,540

## UNAUDITED

THE UNIVERSITY OF TEXAS - PAN AMERICAN  
EXHIBIT A - BALANCE SHEET  
As of August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 7,596,040	11,381,362
Restricted Cash & Cash Equivalents	3,943,144	2,403,432
Balance in State Appropriations	3,527,400	5,196,874
Accounts Receivable, Net:		
Federal (allowances of \$0 in '04 & \$0 in '03)	2,864,208	2,742,625
Student (allowances of \$261,302 in '04 & \$265,785 in '03)	20,402,155	17,224,564
Interest and Dividends	90,626	93,534
Contributions (allowances of \$0 in '04 & \$0 in '03)	8,685	51,327
Other (allowances of \$49,274 in '04 & \$69,579 in '03)	1,845,232	2,067,138
Due From Other Funds	155,932	170,873
Due From System Administration	14,885,699	9,658,123
Due From Other Agencies	159,019	176,415
Inventories	2,697,152	2,678,872
Loans & Contracts (allow. of \$1,412,009 in '04 & \$1,079,060 in '03)	743,900	658,471
Total Current Assets	<u>58,919,192</u>	<u>54,503,610</u>
Non-Current Assets:		
Restricted:		
Investments	1,824,998	1,778,243
Loans & Contracts (allow. of \$886,955 in '04 & \$979,688 in '03)	6,706,931	6,346,203
Funds Held by System Administration	22,713,577	20,556,153
Contributions Rec. (allowances of \$849 in '04 & \$1,283 in '03)	47,110	75,722
Investments	47,776,053	44,281,673
Capital Assets	259,558,282	238,612,522
Less Accumulated Depreciation	(108,033,564)	(100,574,474)
Total Non-Current Assets	<u>230,593,387</u>	<u>211,076,042</u>
<b>TOTAL ASSETS</b>	<u>\$ 289,512,579</u>	<u>265,579,652</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 9,112,310	8,524,095
Federal Payables	883,878	827,028
Due to Other Funds	155,932	170,873
Due to System Administration	824,672	902,061
Due to Other Agencies	6,353	32,118
Deferred Revenue	24,884,000	21,679,938
Employees' Compensable Leave-Current Portion	218,970	171,048
Payable From Restricted Assets-Current Portion	153,217	166,656
HEAF Bonds Payable-Current Portion	3,140,000	2,995,000
Other Current Liabilities	516,329	432,583
Total Current Liabilities	<u>39,895,661</u>	<u>35,901,400</u>
Non-Current Liabilities:		
Employees' Compensable Leave	2,526,249	2,101,958
Assets Held for Others	597,278	362,231
HEAF Bonds Payable		3,140,000
Total Non-Current Liabilities	<u>3,123,527</u>	<u>5,604,189</u>
<b>TOTAL LIABILITIES</b>	<u>43,019,188</u>	<u>41,505,589</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	148,384,718	131,903,048
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	14,774,670	13,226,566
Expendable		
Capital Projects	12,194,700	9,301,763
Funds Functioning as Endowment - Restricted	729,726	7,329,587
Other Expendable	14,628,265	13,113,495
Unrestricted	55,781,312	49,199,604
<b>TOTAL NET ASSETS</b>	<u>246,493,391</u>	<u>224,074,063</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 289,512,579</u>	<u>265,579,652</u>

UNAUDITED

THE UNIVERSITY OF TEXAS - PAN AMERICAN  
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 47,197,244	39,733,416
Discounts and Allowances	(18,315,287)	(13,385,617)
Federal Sponsored Programs	42,815,818	40,100,993
Federal Sponsored Programs Pass-Through from Other St. Agencies	1,236,228	1,231,040
State Sponsored Programs	341,201	800,753
State Sponsored Programs Pass-Through from Other St. Agencies	10,769,111	13,807,031
Local Sponsored Programs	18,051	22,170
Private Sponsored Programs	1,717,626	737,226
Sales and Services of Educational Activities	5,467,271	5,963,722
Discounts and Allowances	(22,100)	(18,898)
Auxiliary Enterprises	7,499,670	7,514,594
Discounts and Allowances	1,982	(2,663)
Other Operating Revenues	1,701,305	1,173,838
Total Operating Revenues	<u>100,428,120</u>	<u>97,677,605</u>
<b>Operating Expenses:</b>		
Instruction	58,775,077	56,298,911
Research	3,874,764	2,855,266
Public Service	7,787,773	7,716,049
Academic Support	8,057,755	8,150,115
Student Services	11,763,484	11,468,324
Institutional Support	13,228,926	12,650,850
Operations and Maintenance of Plant	10,898,930	9,819,983
Scholarships and Fellowships	23,769,315	27,974,007
Auxiliary Enterprises	11,689,140	11,655,885
Depreciation and Amortization	7,712,019	6,686,949
Total Operating Expenses	<u>157,557,183</u>	<u>155,276,339</u>
Operating Loss	<u>(57,129,063)</u>	<u>(57,598,734)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	58,790,831	58,020,020
Gift Contributions for Operations	1,311,400	1,269,350
Net Investment Income	2,907,838	1,955,764
Net Increase (Decrease) in Fair Value of Investments	2,213,753	928,729
Interest Expense on Capital Asset Financings	(360,613)	(532,550)
Gain/(Loss) on Sale of Capital Assets	(309,322)	(88,362)
Other Nonoperating Revenues	150,207	71,643
Other Nonoperating Expenses	(118,964)	50,709
Net Nonoperating Revenues (Expenses)	<u>64,585,130</u>	<u>61,675,303</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	7,456,067	4,076,569
Capital Appropriations - HEAF	6,081,112	6,081,112
Gifts and Sponsored Programs for Capital Acquisitions	58,429	627,531
Additions to Permanent Endowments	88,195	353,900
Reclass from / (to) Other Institutions	14,200,000	(11,925,000)
Transfers Between Institutions & System-Debt Service-Mandatory	(5,974,271)	(6,882,205)
Transfers Between Institutions & System Admin. - Nonmandatory	538,392	23,102,411
Transfers From Other State Agencies		119,002
Transfers to Other State Agencies	(2,096)	
Change in Net Assets	<u>22,445,828</u>	<u>15,553,320</u>
Beginning Net Assets - As Previously Reported	224,074,063	209,083,734
Restatements	(26,500)	(562,991)
Beginning Net Assets - As Restated	<u>224,047,563</u>	<u>208,520,743</u>
<b>Ending Net Assets</b>	<u>\$ 246,493,391</u>	<u>224,074,063</u>

UNAUDITED

THE UNIVERSITY OF TEXAS - PAN AMERICAN  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 28,610,315	25,776,720
Proceeds from Sponsored Programs	56,409,380	56,653,864
Proceeds from Auxiliaries	7,611,106	8,335,035
Proceeds from Other Revenues	8,521,337	7,178,909
Payments to Suppliers	(58,801,623)	(61,752,246)
Payments to Employees	(91,101,601)	(85,977,610)
Payments for Loans Provided	(5,955,959)	(8,363,310)
Proceeds from Loan Programs	5,272,756	6,959,449
Net Cash Provided (Used) by Operating Activities	<u>(49,434,289)</u>	<u>(51,189,189)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	59,101,425	60,895,720
Proceeds from Operating Gifts	1,382,654	1,303,963
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	88,195	353,900
Proceeds from Other Nonoperating Revenues	111,384	312,584
Payments/Receipts for Transfers to/from System or Oth. Agencies	375,154	1,098,825
Payments for Other Uses	(118,964)	(705,580)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>60,939,848</u>	<u>63,259,412</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Capital Debt Transferred from System (nonmandatory)	9,033,499	4,850,940
Proceeds from Capital Appropriations, Grants and Gifts	7,439,992	6,081,112
Payments for Additions to Capital Assets	(20,413,296)	(16,533,949)
Payments of Principal on Capital Related Debt	(2,995,000)	(2,860,000)
Mandatory Transfers to System for Capital Related Debt	(5,974,271)	(6,882,205)
Payments of Interest on Capital Related Debt	(368,100)	(539,701)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(13,277,176)</u>	<u>(15,883,803)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Interest and Investment Income	870,525	180,028
Proceeds from Interest and Investment Income Held by System	2,140,288	1,731,334
Payments to Acquire Investments		(311)
Payments to Acquire Investments Held by System	(3,484,806)	(3,946,176)
Net Cash Provided (Used) by Investing Activities	<u>(473,993)</u>	<u>(2,035,125)</u>
<b>Net Increase (Decrease) in Cash</b>	(2,245,610)	(5,848,705)
Cash & Cash Equivalents - Beginning of the Year	13,784,794	19,633,499
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 11,539,184</u>	<u>13,784,794</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to</b>		
<b>Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (57,129,063)	(57,598,734)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	7,712,019	6,686,949
Bad Debt Expense	237,046	(176,766)
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	(3,021,049)	(3,315,939)
(Increase) Decrease in Inventories	(18,280)	(307,360)
(Increase) Decrease in Loans and Contracts	(683,203)	(26,390)
(Increase) Decrease in Other Assets		(52,326)
Increase (Decrease) in Payables	(449,438)	(385,489)
Increase (Decrease) in Due to System	(77,389)	150,890
Increase (Decrease) in Deferred Income	3,204,062	3,599,479
Increase (Decrease) in Deposits Held for Others	235,047	(47,638)
Increase (Decrease) in Compensated Absence Liability	472,213	200,788
Increase (Decrease) in Other Liabilities	83,746	83,347
Total Adjustments	<u>7,694,774</u>	<u>6,409,545</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (49,434,289)</u>	<u>(51,189,189)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	2,213,753	928,729
Donated Capital Assets	58,429	627,531



## UNAUDITED

THE UNIVERSITY OF TEXAS OF THE PERMIAN BASIN  
EXHIBIT A - BALANCE SHEET  
As of August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 5,765,036	7,037,777
Restricted Cash & Cash Equivalents	1,675,323	1,969,665
Balance in State Appropriations	1,339,176	1,087,481
Accounts Receivable, Net:		
Federal (allowances of \$0 in '04 & \$0 in '03)	243,243	104,535
Contributions (allowances of \$25,844 in '04 & \$18,416 in '03)	222,638	184,163
Other (allowances of \$0 in '04 & \$0 in '03)	339,834	250,474
Due From System Administration	8,430,029	2,746,174
Due From Other Agencies	3,858	250,000
Inventories	119,153	122,924
Loans & Contracts (allowances of \$265,688 in '04 & \$0 in '03)	298,419	235,608
Other Current Assets	2,672,731	2,046,879
Total Current Assets	<u>21,109,440</u>	<u>16,035,680</u>
Non-Current Assets:		
Restricted:		
Investments	575,688	565,618
Funds Held by System Administration	13,147,128	10,582,253
Contributions Rec. (allowances of \$9,955 in '04 & \$11,747 in '03)	99,549	117,466
Investments	1,501,834	1,432,201
Capital Assets	82,722,974	69,625,186
Less Accumulated Depreciation	(32,895,738)	(30,762,657)
Total Non-Current Assets	<u>65,151,435</u>	<u>51,560,067</u>
<b>TOTAL ASSETS</b>	<u>\$ 86,260,875</u>	<u>67,595,747</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 3,253,879	1,385,213
Due to System Administration	164,208	168,474
Deferred Revenue	3,996,523	3,067,218
Employees' Compensable Leave-Current Portion	33,077	8,075
Payable From Restricted Assets-Current Portion	98,232	116,567
Funds Held for Others	328,156	280,150
Other Current Liabilities	134,669	
Total Current Liabilities	<u>8,008,744</u>	<u>5,025,697</u>
Non-Current Liabilities:		
Employees' Compensable Leave	484,092	386,753
Total Non-Current Liabilities	<u>484,092</u>	<u>386,753</u>
<b>TOTAL LIABILITIES</b>	<u>8,492,836</u>	<u>5,412,450</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	49,827,236	38,862,529
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	13,722,816	11,147,871
Expendable		
Capital Projects	6,022,307	2,404,918
Other Expendable	4,984,709	4,257,011
Unrestricted	3,210,971	5,510,968
<b>TOTAL NET ASSETS</b>	<u>77,768,039</u>	<u>62,183,297</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 86,260,875</u>	<u>67,595,747</u>

UNAUDITED

THE UNIVERSITY OF TEXAS OF THE PERMIAN BASIN  
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 7,948,463	7,421,927
Discounts and Allowances	(2,605,945)	(2,294,210)
Federal Sponsored Programs	4,400,138	3,611,436
Federal Sponsored Programs Pass-Through from Other St. Agencies	132,595	191,403
State Sponsored Programs	142,685	244,140
State Sponsored Programs Pass-Through from Other St. Agencies	280,877	469,024
Local Sponsored Programs	26,467	104,176
Private Sponsored Programs	79,033	79,808
Sales and Services of Educational Activities	313,039	318,152
Discounts and Allowances (none)		
Auxiliary Enterprises	755,397	369,444
Discounts and Allowances (none)		
Other Operating Revenues	236,837	80,369
Total Operating Revenues	<u>11,709,586</u>	<u>10,595,669</u>
<b>Operating Expenses:</b>		
Instruction	9,170,453	8,897,607
Research	1,808,967	1,086,170
Public Service	1,369,084	1,360,010
Academic Support	3,824,985	3,087,880
Student Services	1,758,819	1,194,629
Institutional Support	2,786,030	3,189,259
Operations and Maintenance of Plant	4,176,641	3,565,394
Scholarships and Fellowships	3,301,630	2,192,271
Auxiliary Enterprises	2,287,457	1,731,055
Depreciation and Amortization	2,155,730	2,076,393
Total Operating Expenses	<u>32,639,796</u>	<u>28,380,668</u>
Operating Loss	<u>(20,930,210)</u>	<u>(17,784,999)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	15,617,533	15,704,733
Gift Contributions for Operations	993,686	551,866
Net Investment Income	726,696	335,220
Net Increase (Decrease) in Fair Value of Investments	1,028,646	701,236
Gain/(Loss) on Sale of Capital Assets	(13,716)	
Other Nonoperating Revenues		105,527
Other Nonoperating Expenses		47,441
Net Nonoperating Revenues (Expenses)	<u>18,352,845</u>	<u>17,446,023</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	(2,577,365)	(338,976)
Gifts and Sponsored Programs for Capital Acquisitions		5,000
Additions to Permanent Endowments	1,569,116	155,180
Reclass from / (to) Other Institutions	(878,476)	(6,119,606)
Transfers Between Institutions & System-Debt Service-Mandatory	(1,882,023)	(2,164,986)
Transfers Between Institutions & System Admin. - Nonmandatory	18,106,243	10,911,739
Transfers From Other State Agencies		250,000
Change in Net Assets	<u>14,337,495</u>	<u>2,698,351</u>
Beginning Net Assets - As Previously Reported	62,183,297	59,497,308
Restatements	1,247,247	(12,362)
Beginning Net Assets - As Restated	<u>63,430,544</u>	<u>59,484,946</u>
<b>Ending Net Assets</b>	<u>\$ 77,768,039</u>	<u>62,183,297</u>

THE UNIVERSITY OF TEXAS OF THE PERMIAN BASIN  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 6,086,676	5,562,589
Proceeds from Sponsored Programs	5,169,783	4,702,240
Proceeds from Auxiliaries	941,112	576,890
Proceeds from Other Revenues	16,217	441,520
Payments to Suppliers	(11,616,288)	(10,484,028)
Payments to Employees	(17,003,772)	(15,801,478)
Payments for Loans Provided	(2,740,891)	(537,145)
Proceeds from Loan Programs	2,678,080	424,127
Net Cash Provided (Used) by Operating Activities	<u>(16,469,083)</u>	<u>(15,115,285)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	15,365,838	15,844,391
Proceeds from Operating Gifts	973,128	536,885
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	1,569,116	155,180
Proceeds from Other Nonoperating Revenues		105,527
Payments/Receipts for Transfers to/from System or Oth. Agencies	34,262	626,760
Payments for Other Uses		47,441
Net Cash Provided (Used) by Noncapital Financing Activities	<u>17,942,344</u>	<u>17,316,184</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Capital Debt Transferred from System (nonmandatory)	11,511,077	3,353,663
Payments for Additions to Capital Assets	(11,778,735)	(3,683,050)
Mandatory Transfers to System for Capital Related Debt	(1,882,023)	(2,164,986)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(2,149,681)</u>	<u>(2,494,373)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Interest and Investment Income	261,611	121,629
Proceeds from Interest and Investment Income Held by System	463,658	472,908
Payments to Acquire Investments Held by System	(1,615,932)	(299,833)
Net Cash Provided (Used) by Investing Activities	<u>(890,663)</u>	<u>294,704</u>
<b>Net Increase (Decrease) in Cash</b>	(1,567,083)	1,230
Cash & Cash Equivalents - Beginning of the Year	9,007,442	9,006,212
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 7,440,359</u>	<u>9,007,442</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to</b>		
<b>Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (20,930,210)	(17,784,999)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	2,155,730	2,076,393
<b>Changes in Assets and Liabilities:</b>		
(Increase) Decrease in Receivables	18,074	277,408
(Increase) Decrease in Inventories	3,771	3,190
(Increase) Decrease in Loans and Contracts	(62,811)	(107,538)
(Increase) Decrease in Other Assets	(625,852)	(250,000)
Increase (Decrease) in Payables	1,742,160	(45,964)
Increase (Decrease) in Due to System	(4,266)	23,282
Increase (Decrease) in Deferred Income	929,305	641,901
Increase (Decrease) in Deposits Held for Others	48,006	18,261
Increase (Decrease) in Compensated Absence Liability	122,341	32,781
Increase (Decrease) in Other Liabilities	134,669	
Total Adjustments	<u>4,461,127</u>	<u>2,669,714</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (16,469,083)</u>	<u>(15,115,285)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	1,028,646	701,236
Donated Capital Assets		5,000

UNAUDITED

THE UNIVERSITY OF TEXAS AT SAN ANTONIO  
 EXHIBIT A - BALANCE SHEET  
 As of August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 61,531,663	34,551,217
Restricted Cash & Cash Equivalents	3,440,587	5,057,113
Balance in State Appropriations	5,336,912	3,480,111
Accounts Receivable, Net:		
Federal (allowances of \$0 in '04 & \$0 in '03)	12,869,127	14,967,797
Student (allow. of \$478,000 in '04 & \$322,000 in '03)	13,334,957	10,604,515
Interest and Dividends	71,452	80,758
Contributions (allowances of \$12,140 in '04 & \$56,187 in '03)	563,942	593,839
Other (allowances of \$33,828 in '04 & \$30,600 in '03)	2,087,735	1,905,788
Due From Other Funds	15,776,543	19,313,932
Due From System Administration	43,111,660	74,428,025
Due From Other Agencies	482,013	752,575
Inventories	889,870	920,995
Loans & Contracts (allow. of \$411,813 in '04 & \$521,475 in '03)	7,210,724	5,270,061
Other Current Assets	18,649,831	11,766,089
Total Current Assets	<u>185,357,016</u>	<u>183,692,815</u>
Non-Current Assets:		
Restricted:		
Loans & Contracts (allow. of \$189,998 in '04 & \$174,739 in '03)	2,237,809	2,247,054
Funds Held by System Administration	30,568,448	25,474,675
Contributions Rec. (allow. of \$28,078 in '04 & \$175,453 in '03)	1,304,315	1,854,669
Investments	42,660,927	41,640,297
Capital Assets	489,675,897	394,621,973
Less Accumulated Depreciation	(112,804,279)	(103,624,435)
Total Non-Current Assets	<u>453,643,117</u>	<u>362,214,233</u>
<b>TOTAL ASSETS</b>	<u>\$ 639,000,133</u>	<u>545,907,048</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 28,817,564	14,894,333
Due to Other Funds	15,776,543	19,313,932
Due to System Administration	1,362,133	1,247,190
Deferred Revenue	80,493,815	52,777,608
Employees' Compensable Leave-Current Portion	581,582	468,112
Payable From Restricted Assets-Current Portion	1,694,757	1,494,597
Funds Held for Others	3,347,825	3,578,949
Other Current Liabilities	926,395	704,770
Total Current Liabilities	<u>133,000,614</u>	<u>94,479,491</u>
Non-Current Liabilities:		
Employees' Compensable Leave	3,943,412	3,498,944
Total Non-Current Liabilities	<u>3,943,412</u>	<u>3,498,944</u>
<b>TOTAL LIABILITIES</b>	<u>136,944,026</u>	<u>97,978,435</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	376,871,618	290,997,538
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	20,269,832	23,660,133
Expendable		
Capital Projects	22,057,630	70,441,554
Funds Functioning as Endowment - Restricted	480,029	404,322
Other Expendable	25,413,188	22,266,745
Unrestricted	56,963,810	40,158,321
<b>TOTAL NET ASSETS</b>	<u>502,056,107</u>	<u>447,928,613</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 639,000,133</u>	<u>545,907,048</u>

UNAUDITED

THE UNIVERSITY OF TEXAS AT SAN ANTONIO  
 EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 111,988,072	82,642,787
Discounts and Allowances	(23,740,189)	(20,223,607)
Federal Sponsored Programs	46,800,731	42,385,802
Federal Sponsored Programs Pass-Through from Other St. Agencies	697,792	789,485
State Sponsored Programs	1,291,615	1,915,418
State Sponsored Programs Pass-Through from Other St. Agencies	6,118,854	6,850,725
Local Sponsored Programs	476,261	539,674
Private Sponsored Programs	1,445,881	1,317,308
Sales and Services of Educational Activities	4,982,364	4,466,574
Discounts and Allowances (none)		
Auxiliary Enterprises	4,439,350	5,341,759
Discounts and Allowances (none)		
Other Operating Revenues	1,975,002	1,528,955
Total Operating Revenues	<u>156,475,733</u>	<u>127,554,880</u>
<b>Operating Expenses:</b>		
Instruction	76,612,800	69,368,240
Research	12,865,558	11,520,298
Public Service	15,249,367	16,855,255
Academic Support	15,425,990	15,129,779
Student Services	16,208,601	14,781,539
Institutional Support	26,510,996	22,926,370
Operations and Maintenance of Plant	20,460,316	19,407,797
Scholarships and Fellowships	21,199,945	16,375,506
Auxiliary Enterprises	8,816,470	8,316,524
Depreciation and Amortization	11,443,698	11,020,609
Total Operating Expenses	<u>224,793,741</u>	<u>205,701,917</u>
Operating Loss	<u>(68,318,008)</u>	<u>(78,147,037)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	80,227,084	79,352,241
Gift Contributions for Operations	2,420,809	4,584,346
Net Investment Income	4,374,236	3,037,466
Net Increase (Decrease) in Fair Value of Investments	2,317,139	886,603
Gain/(Loss) on Sale of Capital Assets	(58,273)	(1,691,086)
Other Nonoperating Revenues	13,612	405,591
Other Nonoperating Expenses	(2,192,043)	(485,141)
Net Nonoperating Revenues (Expenses)	<u>87,102,564</u>	<u>86,090,020</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	18,784,556	7,942,983
Gifts and Sponsored Programs for Capital Acquisitions	863,476	39,938
Additions to Permanent Endowments	1,721,407	1,342,421
Reclass from / (to) Other Institutions	270,777	4,861,144
Transfers Between Institutions & System-Debt Service-Mandatory	(13,447,190)	(13,091,510)
Transfers Between Institutions & System Admin. - Nonmandatory	44,727,636	29,866,719
Transfers From Other State Agencies	98,540	2,388,514
Transfers to Other State Agencies	(292,321)	
Change in Net Assets	<u>52,726,881</u>	<u>33,350,209</u>
Beginning Net Assets - As Previously Reported	447,928,613	433,553,625
Restatements	1,400,613	(18,975,221)
Beginning Net Assets - As Restated	<u>449,329,226</u>	<u>414,578,404</u>
<b>Ending Net Assets</b>	<u>\$ 502,056,107</u>	<u>447,928,613</u>

## UNAUDITED

THE UNIVERSITY OF TEXAS AT SAN ANTONIO  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 108,702,136	68,689,415
Proceeds from Sponsored Programs	64,547,619	53,083,456
Proceeds from Auxiliaries	4,484,974	5,899,803
Proceeds from Other Revenues	6,396,041	4,836,348
Payments to Suppliers	(69,400,996)	(64,266,256)
Payments to Employees	(141,155,903)	(130,228,785)
Payments for Loans Provided	(15,179,280)	(12,743,302)
Proceeds from Loan Programs	13,342,276	13,273,524
Payments for Other Expenses	(6,883,742)	(4,081,792)
Net Cash Provided (Used) by Operating Activities	<u>(35,146,875)</u>	<u>(65,537,589)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	78,370,283	77,840,002
Proceeds from Operating Gifts	3,001,060	3,075,214
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	1,721,407	1,342,421
Proceeds from Other Nonoperating Revenues	(51,445)	
Payments/Receipts for Transfers to/from System or Oth. Agencies	(363,049)	3,232,627
Payments for Other Uses	(2,192,043)	(520,638)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>80,486,213</u>	<u>84,969,626</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Capital Debt Transferred from System (nonmandatory)	76,486,890	36,164,110
Proceeds from Sale of Capital Assets	3,396	
Payments for Additions to Capital Assets	(83,613,537)	(43,082,704)
Mandatory Transfers to System for Capital Related Debt	(13,447,190)	(13,091,510)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(20,570,441)</u>	<u>(20,010,104)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Interest and Investment Income	1,599,800	592,966
Proceeds from Interest and Investment Income Held by System	2,792,487	2,449,946
Payments to Acquire Investments Held by System	(3,797,264)	(3,117,667)
Net Cash Provided (Used) by Investing Activities	<u>595,023</u>	<u>(74,755)</u>
<b>Net Increase (Decrease) in Cash</b>	25,363,920	(652,822)
Cash & Cash Equivalents - Beginning of the Year	39,608,330	40,261,152
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 64,972,250</u>	<u>39,608,330</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (68,318,008)	(78,147,037)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	11,443,698	11,020,609
Bad Debt Expense	306,305	(6,436)
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	(943,876)	(8,100,555)
(Increase) Decrease in Inventories	31,125	(17,785)
(Increase) Decrease in Loans and Contracts	(1,837,004)	647,200
(Increase) Decrease in Other Assets	(6,883,742)	(296,172)
Increase (Decrease) in Payables	2,686,627	(626,810)
Increase (Decrease) in Due to System	114,943	228,192
Increase (Decrease) in Deferred Income	27,716,207	14,522,632
Increase (Decrease) in Deposits Held for Others	(242,713)	(5,326,195)
Increase (Decrease) in Compensated Absence Liability	557,938	492,128
Increase (Decrease) in Other Liabilities	221,625	72,640
Total Adjustments	<u>33,171,133</u>	<u>12,609,448</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (35,146,875)</u>	<u>(65,537,589)</u>
Noncash Transactions		
Net Increase (Decrease) in Fair Value of Investments	2,317,139	886,603
Donated Capital Assets	863,476	39,938

UNAUDITED

THE UNIVERSITY OF TEXAS AT TYLER  
EXHIBIT A - BALANCE SHEET  
As of August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 18,415,217	18,848,358
Restricted Cash & Cash Equivalents	3,315,368	2,860,814
Balance in State Appropriations	1,282,485	1,511,587
Accounts Receivable, Net:		
Federal (allowances of \$0 in '04 & \$0 in '03)	512,747	371,181
Other Intergov. (allowances of \$0 in '04 & \$0 in '03)	23,022	
Student (allowances of \$271,109 in '04 & \$214,711 in '03)	73,975	82,879
Interest and Dividends	664	
Contributions (allowances of \$160,153 in '04 & \$15,989 in '03)	3,042,689	303,690
Other (allowances of \$0 in '04 & \$0 in '03)	443,986	182,654
Due From System Administration	29,328,948	11,087,406
Due From Other Agencies	31,427	49,574
Inventories	16,776	5,990
Loans & Contracts (allow. of \$440,793 in '04 & \$411,285 in '03)	251,831	327,238
Other Current Assets	1,745,564	1,062,073
Total Current Assets	<u>58,484,699</u>	<u>36,693,444</u>
Non-Current Assets:		
Restricted:		
Funds Held by System Administration	45,152,471	40,348,902
Contributions Rec. (allowances of \$1,247 in '04 & \$42,111 in '03)	23,761	799,865
Investments	394,722	385,279
Capital Assets	108,191,679	92,901,304
Less Accumulated Depreciation	(34,304,899)	(30,911,371)
Total Non-Current Assets	<u>119,457,734</u>	<u>103,523,979</u>
TOTAL ASSETS	<u>\$ 177,942,433</u>	<u>140,217,423</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 3,677,455	3,062,063
Due to System Administration	288,962	296,223
Deferred Revenue	7,120,878	5,193,294
Employees' Compensable Leave-Current Portion	45,067	39,912
Payable From Restricted Assets-Current Portion	125,803	96,221
Funds Held for Others	475,201	
Other Current Liabilities	4,126	700
Total Current Liabilities	<u>11,737,492</u>	<u>8,688,413</u>
Non-Current Liabilities:		
Employees' Compensable Leave	630,058	530,994
Assets Held for Others		357,270
Other Non-Current Liabilities	150,795	122,230
Total Non-Current Liabilities	<u>780,853</u>	<u>1,010,494</u>
TOTAL LIABILITIES	<u>12,518,345</u>	<u>9,698,907</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	73,886,780	61,989,933
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	44,627,636	40,112,040
Expendable		
Capital Projects	29,974,640	14,203,482
Funds Functioning as Endowment - Restricted	279,145	
Other Expendable	4,032,770	3,831,659
Unrestricted	12,623,117	10,381,402
TOTAL NET ASSETS	<u>165,424,088</u>	<u>130,518,516</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 177,942,433</u>	<u>140,217,423</u>

## UNAUDITED

THE UNIVERSITY OF TEXAS AT TYLER  
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 15,076,362	11,776,333
Discounts and Allowances	(3,588,068)	(3,183,466)
Federal Sponsored Programs	4,289,021	3,158,476
Federal Sponsored Programs Pass-Through from Other St. Agencies	535,452	744,722
State Sponsored Programs	144,957	194,682
State Sponsored Programs Pass-Through from Other St. Agencies	1,440,971	751,976
Local Sponsored Programs	8,549	8,300
Private Sponsored Programs	382,578	535,031
Sales and Services of Educational Activities	579,066	672,748
Discounts and Allowances (none)		
Auxiliary Enterprises	1,077,375	1,003,470
Discounts and Allowances (none)		
Other Operating Revenues	485,778	598,224
Total Operating Revenues	<u>20,432,041</u>	<u>16,260,496</u>
<b>Operating Expenses:</b>		
Instruction	17,964,854	18,289,940
Research	850,096	404,872
Public Service	261,434	155,171
Academic Support	4,213,198	4,538,544
Student Services	3,260,786	2,892,409
Institutional Support	7,787,714	7,001,676
Operations and Maintenance of Plant	3,936,757	2,589,883
Scholarships and Fellowships	4,715,486	3,728,083
Auxiliary Enterprises	2,496,292	1,716,572
Depreciation and Amortization	3,497,257	2,663,218
Total Operating Expenses	<u>48,983,874</u>	<u>43,980,368</u>
Operating Loss	<u>(28,551,833)</u>	<u>(27,719,872)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	26,104,375	25,429,160
Gift Contributions for Operations	679,825	911,560
Net Investment Income	2,695,446	1,106,608
Net Increase (Decrease) in Fair Value of Investments	3,711,976	2,567,806
Gain/(Loss) on Sale of Capital Assets	(496,596)	(18,669)
Other Nonoperating Revenues	6,923	37,012
Other Nonoperating Expenses		(3,424,919)
Net Nonoperating Revenues (Expenses)	<u>32,701,949</u>	<u>26,608,558</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	4,150,116	(1,111,314)
Gifts and Sponsored Programs for Capital Acquisitions	4,060,907	1,925,855
Additions to Permanent Endowments	880,837	258,821
Reclass from / (to) Other Institutions	(7,340,480)	(8,774,937)
Transfers Between Institutions & System-Debt Service-Mandatory	(1,839,006)	(2,855,182)
Transfers Between Institutions & System Admin. - Nonmandatory	34,040,260	26,853,950
Transfers From Other State Agencies	19,233	243,650
Transfers to Other State Agencies	(14,753)	
Change in Net Assets	<u>33,957,114</u>	<u>16,540,843</u>
Beginning Net Assets - As Previously Reported	130,518,516	113,972,674
Restatements	948,458	4,999
Beginning Net Assets - As Restated	<u>131,466,974</u>	<u>113,977,673</u>
<b>Ending Net Assets</b>	<u>\$ 165,424,088</u>	<u>130,518,516</u>



THE UNIVERSITY OF TEXAS AT TYLER  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 13,043,933	9,517,236
Proceeds from Sponsored Programs	6,565,163	5,432,666
Proceeds from Auxiliaries	1,459,865	1,085,254
Proceeds from Other Revenues	301,520	1,183,068
Payments to Suppliers	(16,909,739)	(13,501,893)
Payments to Employees	(28,041,134)	(27,599,814)
Payments for Loans Provided	(141,244)	(64,265)
Proceeds from Loan Programs	184,634	47,218
Net Cash Provided (Used) by Operating Activities	<u>(23,537,002)</u>	<u>(23,900,530)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	26,333,477	25,826,858
Proceeds from Operating Gifts	675,212	5,347,106
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	880,837	258,821
Proceeds from Other Nonoperating Revenues	(19,233)	2,613,315
Payments/Receipts for Transfers to/from System or Oth. Agencies	39,991	1,589,457
Payments for Other Uses		(3,431,055)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>27,910,284</u>	<u>32,204,502</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Capital Debt Transferred from System (nonmandatory)	8,423,275	11,018,370
Proceeds from Capital Appropriations, Grants and Gifts	1,476,225	867,248
Payments for Additions to Capital Assets	(14,005,561)	(18,238,075)
Mandatory Transfers to System for Capital Related Debt	(1,839,006)	(2,855,182)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(5,945,067)</u>	<u>(9,207,639)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Interest and Investment Income	235,387	315,340
Proceeds from Interest and Investment Income Held by System	2,458,847	793,488
Payments to Acquire Investments Held by System	(1,101,036)	(356,038)
Net Cash Provided (Used) by Investing Activities	<u>1,593,198</u>	<u>752,790</u>
<b>Net Increase (Decrease) in Cash</b>	21,413	(150,877)
Cash & Cash Equivalents - Beginning of the Year	21,709,172	21,860,049
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 21,730,585</u>	<u>21,709,172</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (28,551,833)	(27,719,872)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	3,497,257	2,663,218
Bad Debt Expense	88,723	
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	(455,575)	(216,093)
(Increase) Decrease in Inventories	(10,786)	357
(Increase) Decrease in Loans and Contracts	43,390	(17,047)
(Increase) Decrease in Other Assets	(683,491)	204,921
Increase (Decrease) in Payables	360,849	80,438
Increase (Decrease) in Due to System	(7,261)	39,371
Increase (Decrease) in Deferred Income	1,927,584	1,044,601
Increase (Decrease) in Deposits Held for Others	117,931	(198,631)
Increase (Decrease) in Compensated Absence Liability	104,219	95,277
Increase (Decrease) in Other Liabilities	31,991	122,930
Total Adjustments	<u>5,014,831</u>	<u>3,819,342</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (23,537,002)</u>	<u>(23,900,530)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	3,711,976	2,567,806
Donated Capital Assets	626,400	

UNAUDITED

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS  
 EXHIBIT A - BALANCE SHEET  
 As of August 31, 2004

	Current Year Totals		Prior Year Totals	
	Primary University	Component Unit	Primary University	Component Unit
<b>ASSETS</b>				
Current Assets:				
Cash & Cash Equivalents	\$ 100,612,234	5,952,943	45,987,104	5,455,517
Restricted Cash & Cash Equivalents	22,872,086		2,913,966	28,850
Balance in State Appropriations	2,724,089		4,082,607	
Accounts Receivable, Net:				
Federal (allowances of \$0 in '04 & \$0 in '03)	28,472,402		26,767,423	
Other Intergov. (allowances of \$0 in '04 & \$0 in '03)	1,945,728		2,282,018	
Student (allowances of \$0 in '04 & \$0 in '03)	129,917		85,975	
Patient (allowances of \$112,883,135 in '04 & \$78,669,700 in '03)	30,481,026	1,193,389	26,918,912	1,109,494
Interest and Dividends	581,294		654,244	
Contributions (allowances of \$229,667 in '04 & \$216,820 in '03)	4,842,732	1,252,358	6,287,325	1,607,220
Other (allowances of \$0 in '04 & \$14,447,566 in '03)	51,385,531	49,905	22,164,669	483,763
Due From System Administration	14,712,444		22,105,312	
Due From Other Agencies	248,057		36,345	
Inventories	1,635,453		1,562,796	
Loans & Contracts (allowances of \$41,938 in '04 & \$35,181 in '03)	2,222,520		2,058,359	
Other Current Assets	1,662,689	217,187	852,624	194,341
Total Current Assets	<u>264,528,202</u>	<u>8,665,782</u>	<u>164,759,679</u>	<u>8,879,185</u>
Non-Current Assets:				
Restricted:				
Investments	217,327,913	36,801,074	227,382,477	34,863,503
Loans & Contracts (allow. of \$105,144 in '04 & \$108,948 in '03)	5,572,125		6,374,342	
Funds Held by System Administration	546,527,674		469,807,991	
Funds Held by System - Permanent Health Fund	49,660,000		45,424,450	
Contributions Rec. (allow. of \$234,970 in '04 & \$264,200 in '03)	4,659,312		7,336,792	
Investments	182,985,717		210,979,785	
Other Non-Current Assets	12,007,432		13,526,782	
Capital Assets	1,092,686,713	27,525,181	949,177,238	25,326,382
Less Accumulated Depreciation	(301,632,128)	(8,057,286)	(274,724,872)	(7,001,735)
Total Non-Current Assets	<u>1,809,794,758</u>	<u>56,268,969</u>	<u>1,655,284,985</u>	<u>53,188,150</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>2,074,322,960</u></b>	<b><u>64,934,751</u></b>	<b><u>1,820,044,664</u></b>	<b><u>62,067,335</u></b>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	\$ 65,294,264	443,870	64,071,154	545,451
Due to System Administration	3,834,755		3,780,294	
Deferred Revenue	12,259,367		9,130,598	2,777
Employees' Compensable Leave-Current Portion	2,867,195	181,052	2,482,841	146,570
Notes, Loans and Leases Payable-Current Portion		464,648		434,311
Payable From Restricted Assets-Current Portion	16,859,774		6,045,211	
Funds Held for Others	501,609		446,579	
Other Current Liabilities	667,065		135,436	1,209
Total Current Liabilities	<u>102,284,029</u>	<u>1,089,570</u>	<u>86,092,113</u>	<u>1,130,318</u>
Non-Current Liabilities:				
Employees' Compensable Leave	31,906,865	142,255	28,645,091	115,163
Notes, Loans and Leases Payable		1,414,488		1,809,016
Other Non-Current Liabilities	550,000	691		
Total Non-Current Liabilities	<u>32,456,865</u>	<u>1,557,434</u>	<u>28,645,091</u>	<u>1,924,179</u>
<b>TOTAL LIABILITIES</b>	<b><u>134,740,894</u></b>	<b><u>2,647,004</u></b>	<b><u>114,737,204</u></b>	<b><u>3,054,497</u></b>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	791,054,585	17,588,759	674,452,366	16,081,319
Restricted for:				
Nonexpendable				
True and Term Endowments, and Annuities	512,203,722		444,309,397	
Expendable				
Capital Projects	26,126,177		9,644,800	219,864
Funds Functioning as Endowment - Restricted	18,230,704		14,462,934	
Other Expendable	248,740,561	36,801,174	274,270,281	34,892,353
Unrestricted	<u>343,226,317</u>	<u>7,897,814</u>	<u>288,167,682</u>	<u>7,819,302</u>
<b>TOTAL NET ASSETS</b>	<b><u>1,939,582,066</u></b>	<b><u>62,287,747</u></b>	<b><u>1,705,307,460</u></b>	<b><u>59,012,838</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>2,074,322,960</u></b>	<b><u>64,934,751</u></b>	<b><u>1,820,044,664</u></b>	<b><u>62,067,335</u></b>

## UNAUDITED

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS  
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Year Ended August 31, 2004

	Current Year Totals		Prior Year Totals	
	Primary University	Component Unit	Primary University	Component Unit
<b>Operating Revenues:</b>				
Student Tuition and Fees	\$ 11,050,022		9,316,658	
Discounts and Allowances	(1,004,232)		(19,477)	
Federal Sponsored Programs	204,989,664		178,083,153	
Federal Sponsored Programs Pass-Through from Other St. Agencies	2,757,224		3,270,435	
State Sponsored Programs	6,352,109		11,222,381	
State Sponsored Programs Pass-Through from Other St. Agencies	2,364,764		2,860,548	
Local Sponsored Programs	111,119,585		94,351,359	
Private Sponsored Programs	54,361,219		48,191,577	
Sales and Services of Educational Activities	24,340,872		12,717,971	
Discounts and Allowances (none)				
Sales and Services of Hospitals		31,148,336		28,461,130
Discounts and Allowances		(19,619,791)		(18,325,184)
Professional Fees	750,551,041		666,479,585	
Discounts and Allowances	(543,895,896)		(480,272,702)	
Auxiliary Enterprises	12,033,664		7,041,909	
Discounts and Allowances (none)				
Other Operating Revenues	23,868,400	102,354	12,498,069	239,567
Total Operating Revenues	<u>658,888,436</u>	<u>11,630,899</u>	<u>565,741,466</u>	<u>10,375,513</u>
<b>Operating Expenses:</b>				
Instruction	343,084,177		319,060,230	
Research	242,179,477		212,660,048	
Public Service	66,716,644		64,305,106	
Hospitals and Clinics		9,185,010		8,364,402
Academic Support	21,528,517		20,217,146	
Student Services	2,427,900		2,229,743	
Institutional Support	40,140,524		44,837,170	
Operations and Maintenance of Plant	41,870,027	297,424	43,577,618	261,922
Scholarships and Fellowships	1,944,491		1,476,090	
Auxiliary Enterprises	10,373,958		7,990,754	
Depreciation and Amortization	33,732,752	2,566,889	30,075,529	2,255,324
Total Operating Expenses	<u>803,998,467</u>	<u>12,049,323</u>	<u>746,429,434</u>	<u>10,881,648</u>
Operating Loss	<u>(145,110,031)</u>	<u>(418,424)</u>	<u>(180,687,968)</u>	<u>(506,135)</u>
<b>Nonoperating Revenues (Expenses):</b>				
State Appropriations	116,016,901		109,863,108	
Gift Contributions for Operations	39,191,590	516,101	30,385,581	
Net Investment Income	54,489,142	25,569	39,395,423	53,803
Net Increase (Decrease) in Fair Value of Investments	50,443,786	1,937,571	30,806,888	4,392,138
Interest Expense on Capital Asset Financings		(67,659)		(14,037)
Gain/(Loss) on Sale of Capital Assets	(2,677,603)	(40,352)	(3,325,597)	77,875
Other Nonoperating Revenues	2,853,485	47,931	9,580,771	47,936
Other Nonoperating Expenses	(811,750)		(6,506,021)	(19,565)
Net Nonoperating Revenues (Expenses)	<u>259,505,551</u>	<u>2,419,161</u>	<u>210,200,153</u>	<u>4,538,150</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	114,395,520	2,000,737	29,512,185	4,032,015
Gifts and Sponsored Programs for Capital Acquisitions	11,545,428	1,274,172	2,982,939	1,159,902
Additions to Permanent Endowments	26,392,789		3,456,103	
Reclass from / (to) Other Institutions	48,529,813		3,683,732	
Transfers Between Institutions & System-Debt Service-Mandatory	(22,192,400)		(19,634,702)	
Transfers Between Institutions & System Admin. - Nonmandatory	51,864,667		86,686,984	
Transfers to Other State Agencies	(114,401)			
Change in Net Assets	<u>230,421,416</u>	<u>3,274,909</u>	<u>106,687,241</u>	<u>5,191,917</u>
Beginning Net Assets - As Previously Reported	1,705,307,460	59,012,838	1,599,673,018	23,393,403
Restatements	3,853,190		(1,052,799)	30,427,518
Beginning Net Assets - As Restated	<u>1,709,160,650</u>	<u>59,012,838</u>	<u>1,598,620,219</u>	<u>53,820,921</u>
<b>Ending Net Assets</b>	<u>\$ 1,939,582,066</u>	<u>62,287,747</u>	<u>1,705,307,460</u>	<u>59,012,838</u>

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2004

	Current Year Totals		Prior Year Totals	
	Primary University	Component Unit	Primary University	Component Unit
<b>Cash Flows from Operating Activities:</b>				
Proceeds from Tuition and Fees	\$ 10,886,218		10,313,919	
Proceeds from Patients and Customers	200,899,509	11,444,650	190,739,502	9,910,953
Proceeds from Sponsored Programs	366,933,074		343,013,045	
Proceeds from Auxiliaries	11,944,510		6,868,969	
Proceeds from Other Revenues	42,478,260	93,435	19,798,888	317,311
Payments to Suppliers	(226,503,282)	(4,071,129)	(203,480,603)	(3,963,350)
Payments to Employees	(537,940,850)	(5,341,470)	(506,898,327)	(4,917,990)
Payments for Loans Provided	(1,616,906)		(1,657,423)	
Proceeds from Loan Programs	2,039,391		2,474,452	
Net Cash Provided (Used) by Operating Activities	<u>(130,880,076)</u>	<u>2,125,486</u>	<u>(138,827,578)</u>	<u>1,346,924</u>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Proceeds from State Appropriations	117,375,419		110,466,773	
Proceeds from Operating Gifts	39,819,789	326,392	37,283,180	
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	26,392,789		3,456,103	
Proceeds from Other Nonoperating Revenues	2,529,875	47,931	8,810,481	47,936
Payments/Receipts for Transfers to/from System or Oth. Agencies	(1,024,123)		14,269,205	
Payments for Other Uses	(811,750)	(19,565)	(6,506,021)	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>184,281,999</u>	<u>354,758</u>	<u>167,779,721</u>	<u>47,936</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Proceeds from Issuance of Capital Debt		440,000		1,803,328
Proceeds from Capital Debt Transferred from System (nonmandatory)	107,406,907		110,607,216	
Proceeds from Capital Appropriations, Grants and Gifts	14,588,704	1,690,316	5,492,968	
Proceeds from Sale of Capital Assets	87,015			220,000
Payments for Additions to Capital Assets	(140,523,574)	(3,735,703)	(144,587,090)	(4,508,962)
Payments of Principal on Capital Related Debt		(364,191)		(27,091)
Mandatory Transfers to System for Capital Related Debt	(22,192,400)		(19,634,702)	
Payments of Interest on Capital Related Debt		(67,659)		(14,037)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(40,633,348)</u>	<u>(2,037,237)</u>	<u>(48,121,608)</u>	<u>(2,526,762)</u>
<b>Cash Flows from Investing Activities:</b>				
Proceeds from Sales of Investments	55,303,718			
Proceeds from Interest and Investment Income	15,284,420	25,569	17,900,072	53,803
Proceeds from Interest and Investment Income Held by System	39,051,314		26,635,008	
Payments to Acquire Investments	(2,021,881)		(4,124,171)	
Payments to Acquire Investments Held by System	(45,802,896)		(20,790,484)	
Net Cash Provided (Used) by Investing Activities	<u>61,814,675</u>	<u>25,569</u>	<u>19,620,425</u>	<u>53,803</u>
<b>Net Increase (Decrease) in Cash</b>	<b>74,583,250</b>	<b>468,576</b>	<b>450,960</b>	<b>(1,078,099)</b>
Cash & Cash Equivalents - Beginning of the Year	48,901,070	5,484,367	48,450,110	6,562,466
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<b>\$ 123,484,320</b>	<b>5,952,943</b>	<b>48,901,070</b>	<b>5,484,367</b>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>				
Operating Loss	\$ (145,110,031)	(418,424)	(180,687,968)	(506,135)
Adjustments to Reconcile Operating Loss to Net Cash:				
Depreciation and Amortization Expense	33,732,752	2,566,889	30,075,529	2,255,324
Bad Debt Expense	215,571		78,096	
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables	(32,070,349)	(90,037)	9,110,653	(147,154)
(Increase) Decrease in Inventories	(72,657)		(317,290)	
(Increase) Decrease in Loans and Contracts	422,485		904,484	
(Increase) Decrease in Other Assets	709,285	(22,846)	(5,305,355)	(51,768)
Increase (Decrease) in Payables	3,326,851	31,625	1,663,862	(223,272)
Increase (Decrease) in Due to System	54,461		636,006	
Increase (Decrease) in Deferred Income	3,128,769	(2,777)	1,181,429	(95)
Increase (Decrease) in Deposits Held for Others	55,030	(518)	(352,056)	(13,384)
Increase (Decrease) in Compensated Absence Liability	3,646,128	61,574	4,171,980	33,408
Increase (Decrease) in Other Liabilities	1,081,629		13,052	
Total Adjustments	<u>14,229,955</u>	<u>2,543,910</u>	<u>41,860,390</u>	<u>1,853,059</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (130,880,076)</u>	<u>2,125,486</u>	<u>(138,827,578)</u>	<u>1,346,924</u>
<b>Noncash Transactions</b>				
Net Increase (Decrease) in Fair Value of Investments	50,443,786	1,937,571	30,806,888	4,392,138
Donated Capital Assets	410,742		416,734	
Miscellaneous Noncash Transactions	323,610	(40,352)	770,290	77,875

UNAUDITED

THE UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON  
EXHIBIT A - BALANCE SHEET  
As of August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash & Cash Equivalents	\$ 125,874,366	141,197,761
Restricted Cash & Cash Equivalents	30,557,128	45,300,346
Balance in State Appropriations	3,604,458	2,727,813
Accounts Receivable, Net:		
Federal (allowances of \$11,400,000 in '04 & \$0 in '03)	13,960,265	13,533,419
Other Intergov. (allowances of \$0 in '04 & \$0 in '03)	3,404,791	3,878,600
Student (allowances of \$129,374 in '04 & \$57,060 in '03)	4,067,558	3,396,726
Patient (allow. of \$112,099,801 in '04 & \$127,489,689 in '03)	84,753,128	70,823,206
Interest and Dividends	57,937	216,755
Contributions (allowances of \$45,014 in '04 & \$88,865 in '03)	455,949	588,780
Other (allowances of \$0 in '04 & \$0 in '03)	6,771,836	3,293,156
Due From Other Funds	543,068	578,356
Due From System Administration	29,880,575	26,802,172
Due From Other Agencies	260,513	
Inventories	10,805,048	9,503,415
Loans & Contracts (allowances of \$0 in '04 & \$0 in '03)	1,886,893	453,798
Other Current Assets	4,893,693	4,854,784
<b>Total Current Assets</b>	<b>321,777,206</b>	<b>327,149,087</b>
<b>Non-Current Assets:</b>		
Restricted:		
Investments	26,393,958	18,780,199
Loans & Contracts (allow. of \$586,549 in '04 & \$473,429 in '03)	4,712,022	6,354,215
Funds Held by System Administration	276,712,063	237,622,052
Funds Held by System - Permanent Health Fund	24,830,000	22,712,225
Funds Held by Sealy & Smith Foundation	56,075,691	51,364,721
Contributions Rec. (allowances of \$0 in '04 & \$0 in '03)	492,794	1,382,122
Investments	100,047,870	57,119,196
Other Non-Current Assets	306,383	643,523
Capital Assets	977,778,527	925,509,027
Less Accumulated Depreciation	(550,568,282)	(512,141,515)
<b>Total Non-Current Assets</b>	<b>916,781,026</b>	<b>809,345,765</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,238,558,232</b>	<b>1,136,494,852</b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable and Accrued Liabilities	\$ 108,964,335	86,524,056
Other Intergovernmental Payables		362,307
Due to Other Funds	543,068	578,356
Due to System Administration	7,351,385	7,343,109
Deferred Revenue	47,751,266	27,846,695
Employees' Compensable Leave-Current Portion	6,263,684	6,783,767
Notes, Loans and Leases Payable-Current Portion	1,198,257	2,580,141
Payable From Restricted Assets-Current Portion	6,280,925	4,680,888
Funds Held for Others	980,608	3,770,850
<b>Total Current Liabilities</b>	<b>179,333,528</b>	<b>140,470,169</b>
<b>Non-Current Liabilities:</b>		
Employees' Compensable Leave	53,035,729	45,399,050
Notes, Loans and Leases Payable		5,034,665
Other Non-Current Liabilities	53,552	47,994
<b>Total Non-Current Liabilities</b>	<b>53,089,281</b>	<b>50,481,709</b>
<b>TOTAL LIABILITIES</b>	<b>232,422,809</b>	<b>190,951,878</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	427,210,245	413,367,512
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	307,554,001	268,014,218
Expendable		
Capital Projects	37,706,103	10,014,166
Funds Functioning as Endowment - Restricted	13,644,940	12,307,060
Other Expendable	46,469,467	72,960,220
Unrestricted	173,550,667	168,879,798
<b>TOTAL NET ASSETS</b>	<b>1,006,135,423</b>	<b>945,542,974</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,238,558,232</b>	<b>1,136,494,852</b>

## UNAUDITED

THE UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON  
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 11,425,839	9,457,661
Discounts and Allowances	(1,625,101)	(1,536,228)
Federal Sponsored Programs	105,127,687	94,436,003
Federal Sponsored Programs Pass-Through from Other St. Agencies	1,719,395	1,606,846
State Sponsored Programs	17,005,070	17,747,702
State Sponsored Programs Pass-Through from Other St. Agencies	12,326,494	22,416,609
Local Sponsored Programs	1,075,340	1,598,454
Private Sponsored Programs	36,840,331	45,325,260
Sales and Services of Educational Activities	3,137,193	1,322,292
Discounts and Allowances (none)		
Sales and Services of Hospitals	1,585,453,421	1,402,350,674
Discounts and Allowances (none)	(914,938,747)	(759,146,723)
Professional Fees	341,683,801	317,006,008
Discounts and Allowances	(243,555,703)	(222,789,892)
Auxiliary Enterprises	7,933,336	7,261,280
Discounts and Allowances (none)		
Other Operating Revenues	17,800,223	19,279,167
Total Operating Revenues	<u>981,408,579</u>	<u>956,335,113</u>
<b>Operating Expenses:</b>		
Instruction	214,981,734	211,038,823
Research	106,956,956	99,273,036
Public Service	7,926,994	8,075,883
Hospitals and Clinics	814,918,328	801,730,271
Academic Support	12,070,000	12,581,430
Student Services	4,079,779	3,992,655
Institutional Support	63,407,969	55,620,635
Operations and Maintenance of Plant	26,633,887	27,551,427
Scholarships and Fellowships	3,171,613	2,257,840
Auxiliary Enterprises	5,930,426	5,637,831
Depreciation and Amortization	47,512,380	47,454,832
Total Operating Expenses	<u>1,307,590,066</u>	<u>1,275,214,663</u>
Operating Loss	<u>(326,181,487)</u>	<u>(318,879,550)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	275,443,694	284,362,123
Gift Contributions for Operations	5,234,846	3,858,977
Net Investment Income	24,488,805	16,819,485
Net Increase (Decrease) in Fair Value of Investments	27,489,610	13,993,932
Gain/(Loss) on Sale of Capital Assets	(731,276)	(4,493,380)
Other Nonoperating Revenues	468,600	4,737,858
Other Nonoperating Expenses	(2,389,572)	(4,053,869)
Net Nonoperating Revenues (Expenses)	<u>330,004,707</u>	<u>315,225,126</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	3,823,220	(3,654,424)
Gifts and Sponsored Programs for Capital Acquisitions	12,451,387	27,521,164
Additions to Permanent Endowments	15,296,788	5,785,724
Reclass from / (to) Other Institutions	(2,875,189)	(23,740,817)
Transfers Between Institutions & System-Debt Service-Mandatory	(8,787,307)	(7,613,390)
Transfers Between Institutions & System Admin. - Nonmandatory	40,791,526	72,204,036
Transfers From Other State Agencies	154,458,505	88,992,600
Transfers to Other State Agencies	(154,566,481)	(88,992,600)
Change in Net Assets	<u>60,592,449</u>	<u>70,502,293</u>
Beginning Net Assets - As Previously Reported	945,542,974	890,694,882
Restatements		(15,654,201)
Beginning Net Assets - As Restated	<u>945,542,974</u>	<u>875,040,681</u>
<b>Ending Net Assets</b>	<u>\$ 1,006,135,423</u>	<u>945,542,974</u>

THE UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 11,296,858	10,985,454
Proceeds from Patients and Customers	773,844,012	762,260,564
Proceeds from Sponsored Programs	177,316,273	184,453,398
Proceeds from Auxiliaries	7,955,985	7,266,107
Proceeds from Other Revenues	20,624,593	22,083,316
Payments to Suppliers	(407,342,889)	(385,999,052)
Payments to Employees	(845,098,410)	(826,194,391)
Payments for Loans Provided	(1,264,688)	(1,465,026)
Proceeds from Loan Programs	1,473,786	1,963,630
Payments for Other Expenses	(2,790,242)	(7,675,417)
Net Cash Provided (Used) by Operating Activities	<u>(263,984,722)</u>	<u>(232,321,417)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	274,567,049	282,339,551
Proceeds from Operating Gifts	6,070,479	3,386,332
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	15,296,788	5,785,724
Proceeds from Other Nonoperating Revenues	489,655	3,698,437
Payments/Receipts for Transfers to/from System or Oth. Agencies	2,025,889	7,613,735
Payments for Other Uses	(2,392,987)	(3,935,755)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>296,056,873</u>	<u>298,888,024</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Capital Debt Transferred from System (nonmandatory)	32,702,409	19,298,780
Proceeds from Capital Appropriations, Grants and Gifts	23,754,425	20,396,227
Proceeds from Sale of Capital Assets	352,112	294,696
Payments for Additions to Capital Assets	(59,421,558)	(65,305,561)
Payments of Principal on Capital Related Debt	(6,416,549)	(2,416,564)
Mandatory Transfers to System for Capital Related Debt	(8,787,307)	(7,613,390)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(17,816,468)</u>	<u>(35,345,812)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Interest and Investment Income	7,899,754	10,069,697
Proceeds from Interest and Investment Income Held by System	16,749,529	6,844,505
Payments to Acquire Investments		(477,289)
Payments to Acquire Investments Held by System	(68,971,579)	(7,405,123)
Net Cash Provided (Used) by Investing Activities	<u>(44,322,296)</u>	<u>9,031,790</u>
<b>Net Increase (Decrease) in Cash</b>	(30,066,613)	40,252,585
Cash & Cash Equivalents - Beginning of the Year	186,498,107	146,245,522
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 156,431,494</u>	<u>186,498,107</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (326,181,487)	(318,879,550)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	47,512,380	47,454,832
Bad Debt Expense	72,315	149,645
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	(20,246,339)	24,167,171
(Increase) Decrease in Inventories	(1,301,633)	799,573
(Increase) Decrease in Loans and Contracts	209,098	363,905
(Increase) Decrease in Other Assets	298,231	1,950,797
Increase (Decrease) in Payables	1,740,833	11,695,342
Increase (Decrease) in Due to System	8,276	745,173
Increase (Decrease) in Deferred Income	10,440,530	4,897,325
Increase (Decrease) in Deposits Held for Others	(2,790,242)	(7,985,653)
Increase (Decrease) in Compensated Absence Liability	7,116,596	2,311,354
Increase (Decrease) in Other Liabilities	19,136,720	8,669
Total Adjustments	<u>62,196,765</u>	<u>86,558,133</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (263,984,722)</u>	<u>(232,321,417)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	27,489,610	13,993,932
Miscellaneous Noncash Transactions	(21,055)	(230,301)

## UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT HOUSTON  
 EXHIBIT A - BALANCE SHEET  
 As of August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash & Cash Equivalents	\$ 42,471,080	49,855,529
Restricted Cash & Cash Equivalents	19,447,894	15,387,022
Balance in State Appropriations	3,744,053	1,720,803
Accounts Receivable, Net:		
Federal (allowances of \$132,535 in '04 & \$0 in '03)	9,468,009	7,643,279
Other Intergov. (allowances of \$0 in '04 & \$0 in '03)	6,056,141	4,845,144
Student (allowances of \$332,139 in '04 & \$264,486 in '03)	332,139	1,425,858
Patient (allow. of \$114,936,861 in '04 & \$5,005,062 in '03)	23,455,412	23,259,539
Interest and Dividends	207,033	221,096
Contributions (allow. of \$306,068 in '04 & \$213,472 in '03)	15,303,372	10,460,463
Other (allowances of \$146,357 in '04 & \$13,822 in '03)	18,111,478	20,263,308
Due From Other Funds	4,000,000	4,000,000
Due From System Administration	67,561,699	48,632,487
Due From Other Agencies	910,056	135,599
Inventories	1,941,056	1,027,034
Loans & Contracts (allowances of \$41,604 in '04 & \$0 in '03)	1,090,232	10,977,742
Other Current Assets	94,852	330,455
<b>Total Current Assets</b>	<b>214,194,506</b>	<b>200,185,358</b>
<b>Non-Current Assets:</b>		
Restricted:		
Investments	45,834,126	36,190,732
Loans & Contracts (allowances of \$401,938 in '04 & \$0 in '03)	10,530,777	
Funds Held by System Administration	88,629,258	76,426,418
Funds Held by System - Permanent Health Fund	24,830,000	22,712,225
Contributions Rec. (allow. of \$843,724 in '04 & \$447,500 in '03)	41,036,418	21,927,151
Investments	76,043,455	77,827,128
Other Non-Current Assets	31,667	31,667
Capital Assets	483,517,956	411,682,978
Less Accumulated Depreciation	(216,089,196)	(202,950,102)
<b>Total Non-Current Assets</b>	<b>554,364,461</b>	<b>443,848,197</b>
<b>TOTAL ASSETS</b>	<b>\$ 768,558,967</b>	<b>644,033,555</b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable and Accrued Liabilities	\$ 28,632,196	16,672,166
Due to Other Funds	4,000,000	4,000,000
Due to System Administration	5,247,449	2,933,692
Due to Other Institutions	721,168	
Due to Other Agencies	130,634	
Deferred Revenue	9,304,775	9,866,360
Employees' Compensable Leave-Current Portion	2,372,528	2,961,394
Notes, Loans and Leases Payable-Current Portion	77,678	99,834
Payable From Restricted Assets-Current Portion	3,949,735	2,728,604
Other Current Liabilities	147,856	139,283
<b>Total Current Liabilities</b>	<b>54,584,019</b>	<b>39,401,333</b>
<b>Non-Current Liabilities:</b>		
Employees' Compensable Leave	21,198,377	20,920,813
Assets Held for Others	844,174	530,011
Notes, Loans and Leases Payable	80,892	158,570
Other Non-Current Liabilities	5,810,251	
<b>Total Non-Current Liabilities</b>	<b>27,933,694</b>	<b>21,609,394</b>
<b>TOTAL LIABILITIES</b>	<b>82,517,713</b>	<b>61,010,727</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	260,931,734	208,474,472
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	77,507,973	31,884,249
Expendable		
Capital Projects	104,298,122	92,320,657
Funds Functioning as Endowment - Restricted	4,373,974	30,007,166
Other Expendable	110,863,680	72,101,373
Unrestricted	128,065,771	148,234,911
<b>TOTAL NET ASSETS</b>	<b>686,041,254</b>	<b>583,022,828</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 768,558,967</b>	<b>644,033,555</b>



## UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT HOUSTON  
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 14,584,369	13,728,766
Discounts and Allowances	(70,118)	(83,433)
Federal Sponsored Programs	118,968,648	119,562,477
Federal Sponsored Programs Pass-Through from Other St. Agencies	14,853,830	15,720,633
State Sponsored Programs	4,605,450	5,082,510
State Sponsored Programs Pass-Through from Other St. Agencies	6,026,994	4,264,967
Local Sponsored Programs	69,845,376	60,054,713
Private Sponsored Programs	21,142,200	23,936,894
Sales and Services of Educational Activities	33,790,496	19,499,839
Discounts and Allowances (none)		
Sales and Services of Hospitals	29,835,775	65,442,813
Discounts and Allowances	(132,535)	(30,292,352)
Professional Fees	415,973,738	316,317,764
Discounts and Allowances	(316,153,498)	(223,159,019)
Auxiliary Enterprises	13,162,050	13,339,872
Discounts and Allowances (none)		
Other Operating Revenues	33,706,014	8,389,684
Total Operating Revenues	<u>460,138,789</u>	<u>411,806,128</u>
<b>Operating Expenses:</b>		
Instruction	246,576,557	224,179,029
Research	115,660,457	115,870,536
Public Service	18,166,290	18,225,566
Hospitals and Clinics	65,558,429	74,988,156
Academic Support	18,644,779	21,367,045
Student Services	3,927,311	3,181,513
Institutional Support	56,214,668	58,362,886
Operations and Maintenance of Plant	18,562,487	22,993,223
Scholarships and Fellowships	3,398,621	3,317,388
Auxiliary Enterprises	10,724,945	11,623,563
Depreciation and Amortization	16,576,488	18,944,339
Total Operating Expenses	<u>574,011,032</u>	<u>573,053,244</u>
Operating Loss	<u>(113,872,243)</u>	<u>(161,247,116)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	137,829,853	145,596,984
Gift Contributions for Operations	7,720,179	6,946,266
Net Investment Income	10,415,730	8,553,353
Net Increase (Decrease) in Fair Value of Investments	11,372,468	6,206,637
Gain/(Loss) on Sale of Capital Assets	(1,873,913)	305,404
Other Nonoperating Revenues	518,430	4,812,632
Other Nonoperating Expenses	(2,450,596)	(8,692,524)
Net Nonoperating Revenues (Expenses)	<u>163,532,151</u>	<u>163,728,752</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	49,659,908	2,481,636
Gifts and Sponsored Programs for Capital Acquisitions	12,035,320	9,404,302
Additions to Permanent Endowments	3,069,388	1,435,807
Extraordinary Items	(13,104,393)	36,512,522
Reclass from / (to) Other Institutions	(19,044,781)	(23,795,549)
Transfers Between Institutions & System-Debt Service-Mandatory	(12,030,159)	(9,821,709)
Transfers Between Institutions & System Admin. - Nonmandatory	81,008,350	56,981,743
Transfers to Other State Agencies	(116,406)	
Legislative Appropriations Lapsed	(63,171)	(111,521)
Change in Net Assets	<u>101,414,056</u>	<u>73,087,231</u>
Beginning Net Assets - As Previously Reported	583,022,828	470,683,535
Restatements	1,604,370	39,252,062
Beginning Net Assets - As Restated	<u>584,627,198</u>	<u>509,935,597</u>
<b>Ending Net Assets</b>	<u>\$ 686,041,254</u>	<u>583,022,828</u>

THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT HOUSTON  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 15,816,852	14,223,509
Proceeds from Patients and Customers	129,327,607	125,255,384
Proceeds from Sponsored Programs	214,838,782	223,999,184
Proceeds from Auxiliaries	13,191,391	13,353,944
Proceeds from Other Revenues	73,869,569	28,827,965
Payments to Suppliers	(143,740,119)	(159,705,093)
Payments to Employees	(385,774,382)	(394,063,039)
Payments for Loans Provided	(4,051,881)	(3,663,027)
Proceeds from Loan Programs	3,558,577	3,893,381
Net Cash Provided (Used) by Operating Activities	<u>(82,963,604)</u>	<u>(147,877,792)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	135,743,432	152,545,134
Proceeds from Operating Gifts	(13,651,086)	19,054,294
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	3,069,388	1,435,807
Proceeds from Other Nonoperating Revenues	446,603	55,594,479
Payments/Receipts for Transfers to/from System or Oth. Agencies	4,122,934	3,224,914
Payments for Other Uses	(15,360,868)	(21,188,864)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>114,370,403</u>	<u>210,665,764</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Capital Debt Transferred from System (nonmandatory)	38,133,695	26,586,697
Proceeds from Capital Appropriations, Grants and Gifts	9,454,409	(2,784,887)
Proceeds from Sale of Capital Assets	370,956	
Payments for Additions to Capital Assets	(70,842,690)	(51,723,106)
Payments of Principal on Capital Related Debt	(99,834)	(117,288)
Mandatory Transfers to System for Capital Related Debt	(12,030,159)	(9,821,709)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(35,013,623)</u>	<u>(37,860,293)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Interest and Investment Income	14,063	135,710
Proceeds from Interest and Investment Income Held by System	11,077,052	8,518,045
Payments to Acquire Investments Held by System	(10,807,868)	(6,972,160)
Net Cash Provided (Used) by Investing Activities	<u>283,247</u>	<u>1,681,595</u>
<b>Net Increase (Decrease) in Cash</b>	(3,323,577)	26,609,274
Cash & Cash Equivalents - Beginning of the Year	65,242,551	38,633,277
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 61,918,974</u>	<u>65,242,551</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to</b>		
<b>Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (113,872,243)	(161,247,116)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	16,576,488	18,944,339
Bad Debt Expense	(132,538)	5,800
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	(461,367)	(7,612,313)
(Increase) Decrease in Inventories	(914,022)	167,596
(Increase) Decrease in Loans and Contracts	(493,304)	334,267
(Increase) Decrease in Other Assets	235,603	(47,418)
Increase (Decrease) in Payables	8,587,409	(2,728,252)
Increase (Decrease) in Due to System	2,313,757	400,052
Increase (Decrease) in Deferred Income	(625,072)	80,685
Increase (Decrease) in Deposits Held for Others	314,163	173,474
Increase (Decrease) in Compensated Absence Liability	(311,302)	3,699,270
Increase (Decrease) in Other Liabilities	5,818,824	(48,176)
Total Adjustments	<u>30,908,639</u>	<u>13,369,324</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (82,963,604)</u>	<u>(147,877,792)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	11,372,468	6,206,637
Donated Capital Assets		1,653,985
Miscellaneous Noncash Transactions		(117,288)

## UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT SAN ANTONIO  
EXHIBIT A - BALANCE SHEET  
As of August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 41,681,942	36,046,374
Restricted Cash & Cash Equivalents	5,744,490	3,636,033
Balance in State Appropriations	33,144,481	9,846,865
Accounts Receivable, Net:		
Federal (allowances of \$0 in '04 & \$0 in '03)	9,714,586	22,054,223
Other Intergov. (allowances of \$0 in '04 & \$0 in '03)	2,493,469	4,356,940
Student (allowances of \$0 in '04 & \$0 in '04)	463,251	82,492
Patient (allowances of \$28,756,456 in '04 & \$26,221,343 in '03)	9,271,038	17,865,759
Interest and Dividends	464,146	463,456
Contributions (allowances of \$0 in '04 & \$0 in '03)	2,357,500	2,754,863
Other (allowances of \$0 in '04 & \$0 in '03)	4,745,375	12,096,306
Due From Other Funds	17,355,748	6,000
Due From System Administration	24,397,213	44,641,075
Due From Other Agencies	250,285	
Inventories	1,623,745	1,565,007
Loans & Contracts (allowances of \$108,058 in '04 & \$94,530 in '03)	3,348,438	2,972,854
Other Current Assets	8,048,270	477,756
Total Current Assets	<u>165,103,977</u>	<u>158,866,003</u>
Non-Current Assets:		
Restricted:		
Investments	57,618,471	53,441,862
Loans & Contracts (allow. of \$214,558 in '04 & \$191,923 in '03)	6,646,899	5,901,339
Funds Held by System Administration	80,866,106	65,921,565
Funds Held by System - Permanent Health Fund	198,640,000	181,697,800
Contributions Rec. (allowances of \$0 in '04 & \$0 in '03)	5,108,186	6,978,494
Investments	89,359,010	82,744,244
Other Non-Current Assets	4,062,510	8,714
Capital Assets	498,675,701	451,815,384
Less Accumulated Depreciation	(222,833,137)	(209,287,775)
Total Non-Current Assets	<u>718,143,746</u>	<u>639,221,627</u>
<b>TOTAL ASSETS</b>	<u>\$ 883,247,723</u>	<u>798,087,630</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 33,391,020	23,829,379
Due to Other Funds	17,355,748	6,000
Due to System Administration	2,390,400	2,515,080
Deferred Revenue	21,800,165	10,856,892
Employees' Compensable Leave-Current Portion	2,724,481	3,341,242
Notes, Loans and Leases Payable-Current Portion	633,029	651,895
Payable From Restricted Assets-Current Portion	8,467,253	11,811,320
Funds Held for Others	317,901	487,753
Other Current Liabilities	1,114,207	
Total Current Liabilities	<u>88,194,204</u>	<u>53,499,561</u>
Non-Current Liabilities:		
Employees' Compensable Leave	20,561,702	17,842,524
Notes, Loans and Leases Payable	2,619,403	1,917,633
Other Non-Current Liabilities	54,638	
Total Non-Current Liabilities	<u>23,235,743</u>	<u>19,760,157</u>
<b>TOTAL LIABILITIES</b>	<u>111,429,947</u>	<u>73,259,718</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	275,842,564	242,206,231
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	70,149,759	58,997,496
Expendable		
Capital Projects	10,328,220	37,556,763
Funds Functioning as Endowment - Restricted	4,251,220	3,990,570
Other Expendable	79,527,489	94,792,333
Unrestricted	331,718,524	287,284,519
<b>TOTAL NET ASSETS</b>	<u>771,817,776</u>	<u>724,827,912</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 883,247,723</u>	<u>798,087,630</u>

UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT SAN ANTONIO  
 EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 16,772,707	18,149,177
Discounts and Allowances	(2,566,389)	(2,283,260)
Federal Sponsored Programs	104,469,930	100,342,072
Federal Sponsored Programs Pass-Through from Other St. Agencies	1,572,336	1,406,975
State Sponsored Programs	1,711,268	2,502,494
State Sponsored Programs Pass-Through from Other St. Agencies	1,050,018	2,258,328
Local Sponsored Programs	39,756,101	34,950,075
Private Sponsored Programs	14,696,189	20,877,611
Sales and Services of Educational Activities	19,845,594	6,384,148
Discounts and Allowances (none)		
Professional Fees	213,381,117	207,751,254
Discounts and Allowances	(143,806,341)	(131,699,155)
Auxiliary Enterprises	2,507,468	2,257,114
Discounts and Allowances (none)		
Other Operating Revenues	20,094,867	29,336,558
<b>Total Operating Revenues</b>	<b>289,484,865</b>	<b>292,233,391</b>
<b>Operating Expenses:</b>		
Instruction	198,890,750	188,780,648
Research	99,160,824	94,097,906
Public Service	19,658,603	21,425,383
Hospitals and Clinics	45,215,000	57,264,512
Academic Support	22,383,649	20,069,546
Student Services	3,000,602	2,293,338
Institutional Support	27,933,742	22,943,428
Operations and Maintenance of Plant	20,762,572	20,310,162
Scholarships and Fellowships	1,228,648	919,895
Auxiliary Enterprises	2,596,657	2,284,713
Depreciation and Amortization	17,752,769	18,436,026
<b>Total Operating Expenses</b>	<b>458,583,816</b>	<b>448,825,557</b>
<b>Operating Loss</b>	<b>(169,098,951)</b>	<b>(156,592,166)</b>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	134,065,569	133,172,157
Gift Contributions for Operations	14,922,914	13,553,549
Net Investment Income	17,860,572	18,052,747
Net Increase (Decrease) in Fair Value of Investments	33,171,082	16,145,932
Gain/(Loss) on Sale of Capital Assets	(561,192)	(1,653,059)
Other Nonoperating Revenues	168,770	38,068
Other Nonoperating Expenses		(1,287,264)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>199,627,715</b>	<b>178,022,130</b>
<b>Income/(Loss) Before Other Rev., Exp., Gains/(Losses) &amp; Transfers</b>	<b>30,528,764</b>	<b>21,429,964</b>
Gifts and Sponsored Programs for Capital Acquisitions	2,094,359	2,308,180
Additions to Permanent Endowments	5,440,275	3,526,086
Reclass from / (to) Other Institutions	(17,693,611)	10,333,098
Transfers Between Institutions & System-Debt Service-Mandatory	(10,874,447)	(12,690,281)
Transfers Between Institutions & System Admin. - Nonmandatory	38,326,498	20,313,442
Transfers From Other State Agencies	9,000,000	
Transfers to Other State Agencies	(149,963)	
Legislative Appropriations Lapsed		(29,753)
<b>Change in Net Assets</b>	<b>56,671,875</b>	<b>45,190,736</b>
Beginning Net Assets - As Previously Reported	724,827,912	675,219,119
Restatements	(9,682,011)	4,418,057
Beginning Net Assets - As Restated	715,145,901	679,637,176
<b>Ending Net Assets</b>	<b>\$ 771,817,776</b>	<b>724,827,912</b>

UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT SAN ANTONIO  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 15,431,839	15,338,351
Proceeds from Patients and Customers	78,169,497	66,554,028
Proceeds from Sponsored Programs	181,760,425	156,742,418
Proceeds from Auxiliaries	2,532,175	2,257,043
Proceeds from Other Revenues	30,199,549	35,664,159
Payments to Suppliers	(105,486,718)	(126,092,886)
Payments to Employees	(330,254,819)	(297,367,482)
Payments for Loans Provided	(4,486,646)	(228,435)
Proceeds from Loan Programs	3,329,312	914,121
Net Cash Provided (Used) by Operating Activities	<u>(128,805,386)</u>	<u>(146,218,683)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	110,767,953	139,525,743
Proceeds from Operating Gifts	17,190,585	15,406,977
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	5,440,275	3,526,086
Proceeds from Other Nonoperating Revenues	168,770	38,068
Payments/Receipts for Transfers to/from System or Oth. Agencies	15,239,223	8,440,142
Payments for Other Uses	(1,287,264)	(1,287,264)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>148,806,806</u>	<u>165,649,752</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Issuance of Capital Debt	1,004,282	-
Proceeds from Capital Debt Transferred from System (nonmandatory)	34,327,918	34,211,754
Proceeds from Capital Appropriations, Grants and Gifts	2,054,659	861,155
Payments for Additions to Capital Assets	(46,800,620)	(46,824,799)
Payments of Principal on Capital Related Debt	(321,378)	(636,156)
Mandatory Transfers to System for Capital Related Debt	(10,874,447)	(12,690,281)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(20,609,586)</u>	<u>(25,078,327)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Interest and Investment Income	180,625	721,402
Proceeds from Interest and Investment Income Held by System	17,678,600	17,674,366
Payments to Acquire Investments Held by System	(9,507,034)	(2,752,521)
Net Cash Provided (Used) by Investing Activities	<u>8,352,191</u>	<u>15,643,247</u>
<b>Net Increase (Decrease) in Cash</b>	7,744,025	9,995,989
Cash & Cash Equivalents - Beginning of the Year	39,682,407	29,686,418
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 47,426,432</u>	<u>39,682,407</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to</b>		
<b>Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (169,098,951)	(156,592,166)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	17,752,769	18,436,026
Bad Debt Expense	36,190	(20,898)
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	25,776,172	(14,889,620)
(Increase) Decrease in Inventories	(58,738)	(312,678)
(Increase) Decrease in Loans and Contracts	(1,157,334)	665,455
(Increase) Decrease in Other Assets	(11,624,310)	(8,714)
Increase (Decrease) in Payables	3,134,321	3,909,403
Increase (Decrease) in Due to System	(124,680)	283,541
Increase (Decrease) in Deferred Income	3,457,765	(1,117,160)
Increase (Decrease) in Deposits Held for Others	(169,852)	374,014
Increase (Decrease) in Compensated Absence Liability	2,102,417	3,090,026
Increase (Decrease) in Other Liabilities	1,168,845	(35,912)
Total Adjustments	<u>40,293,565</u>	<u>10,373,483</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (128,805,386)</u>	<u>(146,218,683)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	33,171,082	16,145,932
Donated Capital Assets	39,700	1,447,025

## UNAUDITED

THE UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER  
EXHIBIT A - BALANCE SHEET  
As of August 31, 2004

	Current Year Totals		Prior Year Totals	
	Primary University	Component Unit	Primary University	Component Unit
<b>ASSETS</b>				
Current Assets:				
Cash & Cash Equivalents	\$ 245,441,961		104,149,329	5,378,002
Restricted Cash & Cash Equivalents	179,869,263		25,206,484	
Balance in State Appropriations	2,504,519		2,801,911	
Accounts Receivable, Net:				
Federal (allowances of \$0 in '04 & \$0 in '03)	12,875,358		8,200,998	
Patient (allow. of \$316,439,411 in '04 & \$284,956,199 in '03)	263,492,576		219,674,455	
Interest and Dividends			778,895	
Contributions (allow. of \$2,874,968 in '04 & \$554,274 in '03)	12,527,172		13,204,559	
Other (allowances of \$199,743 in '04 & \$16,686 in '03)	21,376,066		48,151,390	19,175
Due From Other Funds			40,327,342	
Due From System Administration	31,149,203		121,695,077	
Due From Other Institutions	721,168			
Due From Other Agencies	2,031,283			
Inventories	11,450,390		8,313,562	
Other Current Assets	20,341,045		3,497,642	109,681
Total Current Assets	<u>803,780,004</u>		<u>596,001,644</u>	<u>5,506,858</u>
Non-Current Assets:				
Restricted:				
Investments	315,414,224		417,343,002	1,090,361
Funds Held by System Administration	260,744,747		207,120,284	
Funds Held by System - Permanent Health Fund	99,320,000		90,848,900	
Contributions Rec. (allow. of \$3,095,632 in '04 & \$887,257 in '03)	19,958,534		42,375,107	
Investments	195,400,596		389,318,445	
Other Non-Current Assets	830,149		193,630	408,203
Capital Assets	2,095,374,885		1,708,990,032	462,668
Less Accumulated Depreciation	(475,269,010)		(388,544,962)	(441,211)
Total Non-Current Assets	<u>2,511,774,125</u>		<u>2,467,644,438</u>	<u>1,520,021</u>
TOTAL ASSETS	<u>\$ 3,315,554,129</u>		<u>3,063,646,082</u>	<u>7,026,879</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	\$ 136,905,891		142,649,455	324,666
Federal Payables	61,393,216		57,130,197	
Other Intergovernmental Payables	11,720		37,074	
Due to Other Funds			40,327,342	
Due to System Administration	7,914,613		7,391,580	
Deferred Revenue	61,322,144		50,029,772	
Employees' Compensable Leave-Current Portion	2,366,166		2,548,768	
Payable From Restricted Assets-Current Portion	6,348,421		7,940,588	
Other Current Liabilities	31,608,161		60,847,494	
Total Current Liabilities	<u>307,870,332</u>		<u>368,902,270</u>	<u>324,666</u>
Non-Current Liabilities:				
Employees' Compensable Leave	93,136,136		69,583,604	
Assets Held for Others	296,868,170		278,394,695	
Payable From Restricted Assets	2,997			
Other Non-Current Liabilities			8,075	179,767
Total Non-Current Liabilities	<u>390,007,303</u>		<u>347,986,374</u>	<u>179,767</u>
TOTAL LIABILITIES	<u>697,877,635</u>		<u>716,888,644</u>	<u>504,433</u>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	1,620,105,875		1,320,445,070	21,458
Restricted for:				
Nonexpendable				
True and Term Endowments, and Annuities	200,176,335		141,629,223	
Expendable				
Capital Projects	77,323,862		122,515,776	
Funds Functioning as Endowment - Restricted	20,802,451		64,110,338	
Other Expendable	146,945,188		169,459,411	
Unrestricted	552,322,783		528,597,620	6,500,988
TOTAL NET ASSETS	<u>2,617,676,494</u>		<u>2,346,757,438</u>	<u>6,522,446</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,315,554,129</u>		<u>3,063,646,082</u>	<u>7,026,879</u>

UNAUDITED

THE UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER  
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Year Ended August 31, 2004

	Current Year Totals		Prior Year Totals	
	Primary University	Component Unit	Primary University	Component Unit
<b>Operating Revenues:</b>				
Student Tuition and Fees	\$ 233,421		138,553	
Discounts and Allowances			(80,407)	
Federal Sponsored Programs	152,785,012		126,665,951	
Federal Sponsored Programs Pass-Through from Other St. Agencies	4,115,921		2,881,748	
State Sponsored Programs Pass-Through from Other St. Agencies	339,218		(118,928)	
Private Sponsored Programs	54,201,851		51,072,920	1,124,533
Sales and Services of Educational Activities	1,989,696		4,050,095	
Discounts and Allowances (none)				
Sales and Services of Hospitals	2,017,416,902		1,675,474,400	
Discounts and Allowances	(880,356,751)		(737,190,790)	
Professional Fees	569,948,191		521,100,687	
Discounts and Allowances	(356,129,176)		(327,215,457)	
Auxiliary Enterprises	15,936,074		21,072,981	
Discounts and Allowances (none)				
Other Operating Revenues	12,937,563		6,144,607	
<b>Total Operating Revenues</b>	<b>1,593,417,922</b>		<b>1,343,996,360</b>	<b>1,124,533</b>
<b>Operating Expenses:</b>				
Instruction	63,214,309		77,119,683	
Research	257,627,595		233,414,434	
Public Service	4,669,171		1,209,125	
Hospitals and Clinics	1,034,302,015		879,311,600	727,423
Institutional Support	150,186,779		132,828,514	
Operations and Maintenance of Plant	114,679,794		91,000,092	
Scholarships and Fellowships	144,505		33,674	
Auxiliary Enterprises	11,791,064		17,890,030	
Depreciation and Amortization	105,714,441		78,569,595	100,900
<b>Total Operating Expenses</b>	<b>1,742,329,673</b>		<b>1,511,376,747</b>	<b>828,323</b>
<b>Operating Loss</b>	<b>(148,911,751)</b>		<b>(167,380,387)</b>	<b>296,210</b>
<b>Nonoperating Revenues (Expenses):</b>				
State Appropriations	147,941,738		148,758,986	
Gift Contributions for Operations	32,854,186		44,101,110	
Net Investment Income	51,820,525		34,105,758	77,938
Net Increase (Decrease) in Fair Value of Investments	30,037,582		18,143,194	(105,551)
Interest Expense on Capital Asset Financings	(72,922)			
Gain/(Loss) on Sale of Capital Assets	(8,840,339)		(894,904)	
Other Nonoperating Revenues	26,691,899		27,699,629	
Other Nonoperating Expenses	(833,259)		(10,328,302)	
<b>Net Nonoperating Revenues (Expenses)</b>	<b>279,599,410</b>		<b>261,585,471</b>	<b>(27,613)</b>
<b>Income/(Loss) Before Other Rev., Exp., Gains/(Losses) &amp; Transfers</b>	<b>130,687,659</b>		<b>94,205,084</b>	<b>268,597</b>
Gifts and Sponsored Programs for Capital Acquisitions	7,198,250		19,064,032	
Additions to Permanent Endowments	32,482,652		8,652,259	
Reclass from / (to) Other Institutions	72,060,222		167,495,205	
Transfers Between Institutions & System-Debt Service-Mandatory	(41,400,394)		(25,694,051)	
Transfers Between Institutions & System Admin. - Nonmandatory	67,449,677		78,922,414	
Transfers From Other State Agencies	139,865,202		88,760,364	
Transfers to Other State Agencies	(139,869,153)		(88,760,364)	
<b>Change in Net Assets</b>	<b>268,474,115</b>		<b>342,644,943</b>	<b>268,597</b>
Beginning Net Assets - As Previously Reported	2,346,757,438	6,522,446	2,007,131,366	6,314,378
Restatements	2,444,941	(6,522,446)	(3,018,871)	(60,529)
<b>Beginning Net Assets - As Restated</b>	<b>2,349,202,379</b>		<b>2,004,112,495</b>	<b>6,253,849</b>
<b>Ending Net Assets</b>	<b>\$ 2,617,676,494</b>		<b>2,346,757,438</b>	<b>6,522,446</b>

THE UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2004

	Current Year Totals		Prior Year Totals	
	Primary University	Component Unit	Primary University	Component Unit
<b>Cash Flows from Operating Activities:</b>				
Proceeds from Tuition and Fees	\$ 1,233,421		58,146	
Proceeds from Patients and Customers	1,306,561,045		1,171,436,952	3,511,919
Proceeds from Sponsored Programs	211,956,480		175,870,431	
Proceeds from Auxiliaries	15,956,316		21,094,203	
Proceeds from Other Revenues			93,262,439	(27,613)
Payments to Suppliers	(578,961,836)		(476,959,374)	(3,040,822)
Payments to Employees	(1,041,608,210)		(906,877,096)	
Payments for Other Expenses	(20,961,278)			
Net Cash Provided (Used) by Operating Activities	<u>(105,824,062)</u>		<u>77,885,701</u>	<u>443,484</u>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Proceeds from State Appropriations	148,239,130		149,988,356	
Proceeds from Operating Gifts	42,156,587		38,603,546	
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	32,482,652		8,652,259	
Proceeds from Other Nonoperating Revenues	26,120,513		28,207,869	
Payments/Receipts for Transfers to/from System or Oth. Agencies	3,014,921		6,067,000	
Payments for Other Uses	(833,259)		(10,328,302)	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>251,180,544</u>		<u>221,190,728</u>	
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Proceeds from Capital Debt Transferred from System (nonmandatory)	227,102,797		198,697,966	
Proceeds from Capital Appropriations, Grants and Gifts	17,372,437		36,527,296	
Proceeds from Sale of Capital Assets	61,978		37,959	
Payments for Additions to Capital Assets	(396,228,975)		(400,790,600)	(2,487)
Mandatory Transfers to System for Capital Related Debt	(41,400,394)		(25,694,051)	
Payments of Interest on Capital Related Debt	(72,922)			
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(193,165,079)</u>		<u>(191,221,430)</u>	<u>(2,487)</u>
<b>Cash Flows from Investing Activities:</b>				
Proceeds from Sales of Investments Held by System	429,911,844		75,222,969	
Proceeds from Interest and Investment Income	54,294,250		38,720,687	
Proceeds from Interest and Investment Income Held by System	16,712,749		21,606,014	
Payments to Acquire Investments	(100,437,274)		(101,969,463)	(736,841)
Payments to Acquire Investments Held by System	(62,095,563)		(47,122,244)	
Net Cash Provided (Used) by Investing Activities	<u>338,386,006</u>		<u>(13,542,037)</u>	<u>(736,841)</u>
<b>Net Increase (Decrease) in Cash</b>	290,577,409		94,312,962	(295,844)
Cash & Cash Equivalents - Beginning of the Year	129,355,813	5,378,002	35,042,851	5,673,846
Restatements to Beginning Cash and Cash Equivalents	5,378,002	(5,378,002)		
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 425,311,224</u>		<u>129,355,813</u>	<u>5,378,002</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>				
Operating Loss	\$ (148,911,751)		(167,380,387)	296,210
Adjustments to Reconcile Operating Loss to Net Cash:				
Depreciation and Amortization Expense	105,714,441		78,569,595	100,900
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables	(41,247,534)		69,169,801	
(Increase) Decrease in Inventories	(3,136,828)		1,347,450	
(Increase) Decrease in Other Assets	(16,962,038)		204,005	13,465
Increase (Decrease) in Payables	(4,736,303)		34,357,869	
Increase (Decrease) in Due to System	523,033		1,270,779	
Increase (Decrease) in Deferred Income	8,534,076		(1,012,253)	
Increase (Decrease) in Deposits Held for Others			4,282,858	
Increase (Decrease) in Compensated Absence Liability	23,369,930		12,027,824	
Increase (Decrease) in Other Liabilities	(28,971,088)		45,048,160	32,909
Total Adjustments	<u>43,087,689</u>		<u>245,266,088</u>	<u>147,274</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (105,824,062)</u>		<u>77,885,701</u>	<u>443,484</u>
<b>Noncash Transactions</b>				
Net Increase (Decrease) in Fair Value of Investments	30,037,582		18,143,194	(105,551)
Miscellaneous Noncash Transactions			171,958	



UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH CENTER AT TYLER  
 EXHIBIT A - BALANCE SHEET  
 As of August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 10,149,466	10,851,628
Restricted Cash & Cash Equivalents	6,130,944	2,579,206
Balance in State Appropriations	249,295	111,306
Accounts Receivable, Net:		
Federal (allowances of \$0 in '04 & \$0 in '03)	546,605	698,764
Other Intergov. (allowances of \$0 in '04 & \$0 in '03)	191,965	261,314
Patient (allow. of \$50,288,007 in '04 & \$35,018,438 in '03)	6,705,141	5,896,211
Other (allowances of \$0 in '04 & \$0 in '03)	978,256	799,181
Due From Other Funds	588,318	
Due From System Administration	8,321,108	12,155,825
Due From Other Agencies	199,785	
Inventories	2,681,997	2,673,731
Other Current Assets	1,369,339	105,196
Total Current Assets	<u>38,112,219</u>	<u>36,132,362</u>
Non-Current Assets:		
Restricted:		
Funds Held by System Administration	7,462,591	6,155,039
Funds Held by System - Permanent Health Fund	24,830,000	22,712,225
Investments	8,965,149	8,956,359
Capital Assets	128,371,030	114,304,115
Less Accumulated Depreciation	(56,150,644)	(53,005,386)
Total Non-Current Assets	<u>113,478,126</u>	<u>99,122,352</u>
<b>TOTAL ASSETS</b>	<u>\$ 151,590,345</u>	<u>135,254,714</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 13,059,552	11,916,651
Due to Other Funds	588,318	
Due to System Administration	810,193	848,315
Deferred Revenue	1,075,743	470,363
Employees' Compensable Leave-Current Portion	605,184	605,020
Notes, Loans and Leases Payable-Current Portion		93,500
Payable From Restricted Assets-Current Portion	477,121	869,325
Other Current Liabilities		15,231
Total Current Liabilities	<u>16,616,111</u>	<u>14,818,405</u>
Non-Current Liabilities:		
Employees' Compensable Leave	3,885,031	3,403,403
Total Non-Current Liabilities	<u>3,885,031</u>	<u>3,403,403</u>
<b>TOTAL LIABILITIES</b>	<u>20,501,142</u>	<u>18,221,808</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	72,220,386	61,298,729
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	6,637,863	6,054,136
Expendable		
Capital Projects	5,811,599	11,168,925
Funds Functioning as Endowment - Restricted	599,097	100,903
Other Expendable	5,556,357	2,411,985
Unrestricted	40,263,901	35,998,228
<b>TOTAL NET ASSETS</b>	<u>131,089,203</u>	<u>117,032,906</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 151,590,345</u>	<u>135,254,714</u>

UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH CENTER AT TYLER  
 EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Operating Revenues:</b>		
Federal Sponsored Programs	\$ 2,884,204	3,972,371
Federal Sponsored Programs Pass-Through from Other St. Agencies	1,835,446	648,525
State Sponsored Programs	86,347	1,233,432
State Sponsored Programs Pass-Through from Other St. Agencies	975,481	399,262
Local Sponsored Programs	4,667,764	4,142,621
Private Sponsored Programs	1,030,604	1,501,809
Sales and Services of Educational Activities	3,145,660	3,351,432
Discounts and Allowances (none)		
Sales and Services of Hospitals	174,350,160	145,676,999
Discounts and Allowances	(122,273,373)	(92,934,936)
Professional Fees	38,785,562	36,485,872
Discounts and Allowances	(25,665,547)	(24,280,249)
Auxiliary Enterprises	1,412,928	1,250,242
Discounts and Allowances	(461,594)	(487,805)
Other Operating Revenues	1,268,368	1,090,701
<b>Total Operating Revenues</b>	<b>82,042,010</b>	<b>82,050,276</b>
<b>Operating Expenses:</b>		
Instruction	6,508,441	6,674,349
Research	7,939,952	8,257,000
Hospitals and Clinics	84,789,385	81,453,546
Institutional Support	10,448,708	9,840,074
Operations and Maintenance of Plant	5,128,799	5,168,605
Auxiliary Enterprises	1,003,464	709,331
Depreciation and Amortization	6,487,563	5,455,678
<b>Total Operating Expenses</b>	<b>122,306,312</b>	<b>117,558,583</b>
Operating Loss	(40,264,302)	(35,508,307)
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	37,467,516	36,571,568
Gift Contributions for Operations	2,036,122	370,053
Net Investment Income	2,985,690	2,968,227
Net Increase (Decrease) in Fair Value of Investments	2,783,458	1,644,979
Gain/(Loss) on Sale of Capital Assets	(1,240,213)	(760,359)
Other Nonoperating Revenues	244,785	924,859
Other Nonoperating Expenses	(10,000)	(141,953)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>44,267,358</b>	<b>41,577,374</b>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	4,003,056	6,069,067
Gifts and Sponsored Programs for Capital Acquisitions	2,115,912	143
Additions to Permanent Endowments	297,825	307,001
Reclass from / (to) Other Institutions	(5,629,470)	12,145,056
Transfers Between Institutions & System-Debt Service-Mandatory	(1,229,778)	(1,325,688)
Transfers Between Institutions & System Admin. - Nonmandatory	14,677,767	2,757,422
Transfers From Other State Agencies	27,814,066	18,788,712
Transfers to Other State Agencies	(27,814,066)	(18,788,712)
<b>Change in Net Assets</b>	<b>14,235,312</b>	<b>19,953,001</b>
Beginning Net Assets - As Previously Reported	117,032,906	96,672,605
Restatements	(179,015)	407,300
<b>Beginning Net Assets - As Restated</b>	<b>116,853,891</b>	<b>97,079,905</b>
<b>Ending Net Assets</b>	<b>\$ 131,089,203</b>	<b>117,032,906</b>

THE UNIVERSITY OF TEXAS HEALTH CENTER AT TYLER  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2004

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Patients and Customers	\$ 64,387,872	68,156,048
Proceeds from Sponsored Programs	12,349,123	11,841,636
Proceeds from Auxiliaries	921,701	906,698
Proceeds from Other Revenues	3,214,652	4,395,965
Payments to Suppliers	(40,227,616)	(33,756,688)
Payments to Employees	(75,234,483)	(74,352,474)
Payments for Other Expenses	(184,239)	
Net Cash Provided (Used) by Operating Activities	<u>(34,772,990)</u>	<u>(22,808,815)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	37,329,527	37,140,235
Proceeds from Operating Gifts	2,036,122	419,782
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	297,825	307,001
Proceeds from Other Nonoperating Revenues	244,785	924,859
Payments/Receipts for Transfers to/from System or Oth. Agencies	2,360,093	215,792
Payments for Other Uses	(10,000)	(141,953)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>42,258,352</u>	<u>38,865,716</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Capital Debt Transferred from System (nonmandatory)	10,323,494	4,809,372
Proceeds from Capital Appropriations, Grants and Gifts	2,115,912	
Proceeds from Sale of Capital Assets	3,100	7,611
Payments for Additions to Capital Assets	(18,111,732)	(12,756,700)
Payments of Principal on Capital Related Debt	(93,500)	(87,589)
Mandatory Transfers to System for Capital Related Debt	(1,229,778)	(1,325,688)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(6,992,504)</u>	<u>(9,352,994)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Interest and Investment Income	141,516	
Proceeds from Interest and Investment Income Held by System	2,843,816	2,980,822
Payments to Acquire Investments Held by System	(650,659)	(4,365,992)
Net Cash Provided (Used) by Investing Activities	<u>2,334,673</u>	<u>(1,385,170)</u>
<b>Net Increase (Decrease) in Cash</b>	2,827,531	5,318,737
Cash & Cash Equivalents - Beginning of the Year	13,430,834	8,112,097
Restatements to Beginning Cash and Cash Equivalents	22,045	
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 16,280,410</u>	<u>13,430,834</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (40,264,302)	(35,508,307)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	6,487,563	5,455,678
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	(704,399)	2,692,411
(Increase) Decrease in Inventories	(8,266)	(437,814)
(Increase) Decrease in Other Assets	(1,264,143)	189,000
Increase (Decrease) in Payables	(53,262)	4,024,845
Increase (Decrease) in Due to System	(38,122)	95,666
Increase (Decrease) in Deferred Income	605,380	460,741
Increase (Decrease) in Deposits Held for Others		(104,388)
Increase (Decrease) in Compensated Absence Liability	481,792	323,061
Increase (Decrease) in Other Liabilities	(15,231)	292
Total Adjustments	<u>5,491,312</u>	<u>12,699,492</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (34,772,990)</u>	<u>(22,808,815)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	2,783,458	1,644,979
Donated Capital Assets		143

4. **U. T. System: Report on the Analysis of Financial Condition for Fiscal Year 2004**

REPORT

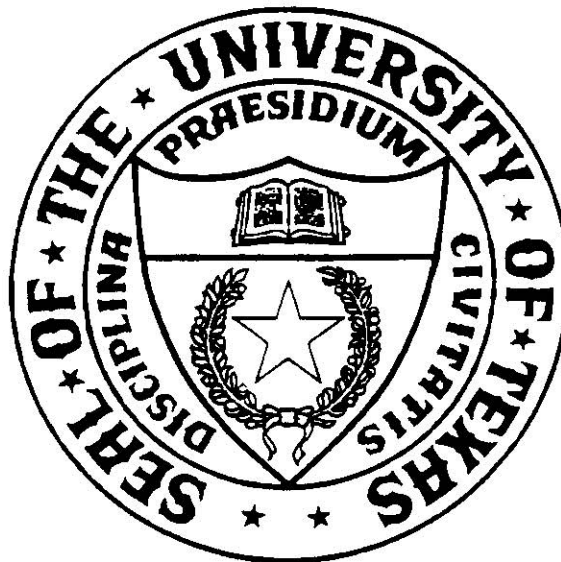
The Analysis of Financial Condition is a broad annual financial evaluation that rates institutions based on the factors analyzed as either "Satisfactory", "Watch", or "Unsatisfactory". The 2004 Analysis of Financial Condition that follows on Pages 36.1 - 36.57 includes an Executive Summary that may be found on Pages 36.3 - 36.7. No institutions were rated as "Unsatisfactory" and four were rated as "Watch".

A financial analysis is performed from each institution's Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets. The ratios presented in this report are ratios commonly used by bond rating agencies, public accounting firms, and consulting firms. The following ratios were analyzed: Operating Expense Coverage, Annual Operating Margin, Return on Net Assets, Expendable Resources to Total Net Assets, Debt Burden, Debt Service Coverage, and Full-time Equivalent Student Enrollment (academic institutions only).

The Analysis of Financial Condition has been prepared since 1995 to track financial ratios to determine if the financial condition of the institutions is improving or declining. Due to the implementation of Governmental Accounting Standards Board (GASB) Statements No. 34 and No. 35 in 2002, the basis of accounting and presentation of financial statements changed, making comparable information unavailable for periods prior to 2002. This analysis compares trends for Fiscal Years 2002 through 2004.

# 2004 Analysis of Financial Condition

February 2005



# The University of Texas System 2004 Analysis of Financial Condition

## Foreword

Due to the implementation of Governmental Accounting Standards Board (GASB) 34/35 in 2002, the basis of accounting and presentation of the financial statements changed, making comparable information unavailable for periods prior to 2002. As a result, the 2004 Analysis of Financial Condition presents only three years of trends.

The analysis was performed from the Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets. Since the debt is reported at the System level and not on the individual institutions' books, debt was allocated to the appropriate institution, as provided by the Office of Finance. The ratios presented in this report are ratios commonly used by bond rating agencies, public accounting firms and consulting firms. In order to be more consistent with information provided to the legislature, the Primary Reserve Ratio was replaced with the Operating Expense Coverage Ratio. The following are the ratios analyzed:

- *Operating Expense Coverage Ratio* – measures an institution's ability to cover future operating expenses with available year-end balances (in months). Although the Texas State Comptroller required the Permanent Health Fund (PHF) to be reported as unrestricted, UT System considers the PHF to be nonexpendable. Therefore, the PHF was excluded from expendable net assets for UT El Paso and the six UT health institutions.
- *Annual Operating Margin Ratio* – indicates whether the institution has balanced annual operating expenses with revenues. Depreciation expense is included, as it is believed that inclusion of depreciation reflects a more complete picture of operating performance as it reflects use of physical assets.
- *Return on Net Assets Ratio* – determines whether the institution is financially better off than in previous years by measuring economic return. As mentioned above, the debt reported at the system level was allocated to each institution in the calculation of this ratio. A temporary decline in this ratio may be appropriate and even warranted if it reflects a strategy to better fulfill the institution's mission. On the other hand, an improving trend in this ratio indicates that the institution is increasing its net assets and is likely to be able to set aside financial resources to strengthen its future financial flexibility.
- *Expendable Resources to Total Net Assets* – measures the amount of an institution's total net assets that are expendable. The PHF was excluded from expendable net assets, and total net assets were adjusted for the debt allocated to each institution.
- *Debt Burden Ratio* – examines the institution's dependence on borrowed funds as a source of financing and the cost of borrowing relative to overall expenses.
- *Debt Service Coverage Ratio* – measures the actual margin of protection provided to investors by annual operations. *Moody's Investors Service* excludes actual investment income from its calculation of total operating revenue and instead, uses a normalized investment income of 4.5% of the prior year's ending total cash and investments. This calculation is used by the Office of Finance, and in order to be consistent with their calculation of the debt service coverage ratio, normalized investment income was used as defined above for this ratio only.
- *Full-time Equivalent (FTE) Student Enrollment* – calculates total semester credit hours taken by students during the fall semester, divided by factors of 15 for undergraduate students, 12 for graduate and special professional students, and 9 for doctoral students to arrive at the FTE students represented by the course hours taken.

These ratios only deal with the financial aspects of the institution and must be considered with key performance indicators in academics, infrastructure, and student and faculty satisfaction to understand a more complete measure of total institutional strength.

This report is meant to be a broad annual financial evaluation that rates the institutions as either "Satisfactory," "Watch" or "Unsatisfactory" based upon the factors analyzed. (See Appendix A – Definitions of Evaluation Factors). For institutions rated "Unsatisfactory," the Chancellor and the appropriate Executive Vice Chancellors will request the institutions to develop a specific financial plan of action to improve the institution's financial condition. Progress towards the achievement of the plans will be periodically discussed with the Chief Business Officer and President, and representatives from the U. T. System Offices of Business, Academic and/or Health Affairs, as appropriate.

## Executive Summary

### Institutions Rated “Watch”

- UT Permian Basin** The institution’s financial condition was downgraded from “Satisfactory” to “Watch” in 2004. Both the operating expense coverage ratio and annual operating margin ratio have continued on a downward trend since 2002. The operating expense coverage ratio dropped by 1.2 months to 1.1 months in 2004, which is below the 2 month benchmark. This ratio decreased due to a decrease in unrestricted net assets of \$2.3 million, as well as an increase in operating expenses of \$4.3 million. While it was management’s intent to spend down balances and make investments in the infrastructure to keep pace with the increased student enrollment, UT Permian Basin now has the lowest operating expense coverage ratio of the System. UT Permian Basin is also transforming itself from a returning adult student commuter campus to a more traditional, residential undergraduate campus. The institution anticipates improvements in the operating expense coverage ratio in future years. The operating deficit of \$4.8 million was a \$3.4 million decline from the 2003 operating deficit, resulting in an annual operating margin ratio of negative 16.4%, also the lowest in the System. The operating deficit was due to the infrastructure investments mentioned above. However, the return on net assets ratio increased from 3.4% in 2003 to 15.7% in 2004 due to an increase in the amount of bond proceeds transferred to UT Permian Basin, as well as an increase in the gifts for permanent endowments. The expendable resources to total net assets ratio remained relatively stable at 26.4%. The debt burden ratio decreased from 8.0% in 2003 to 6.2% in 2004, while the debt service coverage ratio decreased from 0.8x in 2003 to negative 0.6x in 2004, as a result of the increased operating expenses noted above. Full-time equivalent student enrollment continued to grow due to increased recruiting and retention efforts.
- UTMB Galveston** The institution’s financial condition was maintained as “Watch” for 2004. The operating expense coverage ratio remained unchanged at 1.4 months, which is below the 2 month benchmark. The operating deficit of \$24.0 million was a \$14.7 million decline from the operating deficit in 2003 and resulted in an annual operating margin ratio of negative 1.9%. UTMB Galveston was adversely impacted by an \$8.9 million reduction in state appropriations and a \$10.0 million reduction in the Indigent Care Fund. The return on net assets decreased from 7.8% in 2003 to 5.2% in 2004 primarily due to the larger operating deficit discussed above. The expendable resources to total net assets ratio decreased slightly from 26.8% in 2003 to 26.0% in 2004 due to an increase in total net assets resulting from the increase in the fair market value of investments. The debt burden ratio increased slightly from 0.6% in 2003 to 0.7% in 2004 due to an increase in debt. The debt service coverage ratio decreased from 5.2x in 2003 to 3.2x in 2004 as a result of the larger operating deficit, as well as the increase in debt.
- UTHSC-Houston** The institution’s financial condition was maintained as “Watch” for 2004. The operating expense coverage ratio decreased by 0.5 months to 2.1 months due to a decrease in unrestricted net assets primarily attributable to expenses related to Tropical Storm Allison exceeding the proceeds received in 2004. However, the operating margin increased \$40.5 million primarily due to a large gift pledge received in 2004, as well an increase in operating revenues generated by the practice plan. The return on net assets ratio increased from 13.7% in 2003 to 16.3% in 2004 largely due to the significant improvement in the operating margin mentioned above, as well as an increase in the amount of bond proceeds transferred to UTHSC-Houston for capital projects. The expendable resources to total net assets ratio decreased from 62.1% in 2003 to 53.7% in 2004 due to the increase in total net assets discussed previously. The debt burden ratio increased from 1.7% in 2003 to 2.1% in 2004 due to an increase in debt service, and the debt service coverage ratio increased from 1.4x in 2003 to 4.5x in 2004 due to the improvement in the operating margin.

## Institutions Rated “Watch” (Continued)

### UTHC-Tyler

The institution’s financial condition was maintained as “Watch” for 2004. The operating expense coverage ratio increased by 0.1 months to 1.5 months but is still below the 2 month benchmark. The operating margin increased by \$1.9 million largely due to the North East Texas Initiative (NETI) funding being available for current operations, rather than for capital expenditures and a large gift received in 2004. The return on net assets ratio decreased from 19.6% in 2003 to 6.8% in 2004 due to the increased use of debt to purchase assets rather than leasing the assets. The expendable resources to total net assets ratio decreased from 23.4% in 2003 to 22.3% in 2004 primarily due to a decrease in expendable net assets restricted for capital projects. The debt burden ratio decreased slightly from 1.1% in 2003 to 1.0% in 2004 due to an increase in operating expenses. The debt service coverage ratio increased from 3.3x in 2003 to 6.5x in 2004 as a result of the improvement in the operating margin discussed above.

## Institutions Rated “Satisfactory”

### UT Arlington

The operating expense coverage ratio increased by 0.4 months to 3.2 months and the operating margin increased \$4.8 million due to increased tuition and fee revenue. The return on net assets ratio decreased from 16.2% in 2003 to 13.5% in 2004 due to an increase in debt outstanding and proceeds received for capital projects. The expendable resources to total net assets ratio increased from 26.8% in 2003 to 30.2% in 2004 as a result of an increase in expendable net assets restricted for capital projects, as well as the increase in unrestricted net assets noted above. The debt burden ratio increased from 5.0% in 2003 to 7.7% in 2004 due to the early repayment of \$5 million in debt as well as aggressive housing construction. The debt service coverage ratio decreased from 2.7x in 2003 to 2.2x in 2004 due to the increase in debt service. Full-time equivalent student enrollment continued to grow as a result of new and on-going academic programs, as well as the availability of on-campus housing.

### UT Austin

The operating expense coverage ratio increased by 0.5 months to 3.2 months due to an increase in unrestricted net assets of \$59.1 million (19.1%). The operating margin increased \$18.3 million largely due to increases in net tuition, sales and services of educational activities, and investment income, which were partially offset by an increase in operating expenses. The return on net assets ratio decreased from 12.6% in 2003 to 10.2% in 2004 primarily due to a decrease in gifts for permanent endowments. The expendable resources to total net assets ratio decreased from 22.3% in 2003 to 20.5% in 2004 due to an increase in endowment net assets, which are almost entirely nonexpendable. The debt burden ratio increased slightly from 3.0% in 2003 to 3.2% in 2004 due to an increase in debt service. The debt service coverage ratio also increased from 3.5x in 2003 to 4.0x in 2004 due to the improvement in the operating margin. Full-time equivalent student enrollment continued to decrease due to efforts to reduce enrollment.



## Institutions Rated “Satisfactory” (Continued)

- UT Brownsville** The operating expense coverage ratio decreased 0.4 months to 2.7 months due to an increase in operating expenses resulting from the continued enrollment growth. The operating margin decreased by \$1.8 million due to a reduction in state appropriations and the increase in operating expenses mentioned above. The return on net assets ratio dropped from 36.4% in 2003 to negative 0.1% in 2004 due to the issuance of the remainder of the debt appropriated for the Business and Education Complex. The expendable resources to total net assets ratio decreased from 59.4% in 2003 to 48.3% in 2004 due to a decrease in expendable net assets restricted for capital projects. The debt burden ratio decreased from 5.3% in 2003 to 4.6% for 2004 as a result of a reduction in debt service, as well as increased operating expenses and interest expense. The debt service coverage ratio also decreased from 2.1x in 2003 to 1.9x in 2004 due to the increased operating expenses previously mentioned. Full-time equivalent student enrollment continued an upward trend with student headcount reaching an all-time high.
- UT Dallas** The operating expense coverage ratio increased by 0.2 months to 2.7 months due to an increase in unrestricted net assets related to the reclassification of three quasi endowments from restricted to unrestricted. The operating margin decreased by \$1.3 million largely due to the elimination of the appropriation for the University Research Fund in 2004. The return on net assets ratio increased from 4.7% in 2003 to 14.5% in 2004 primarily due to Texas Enterprise Funds received in 2004, increased gifts for capital acquisitions and an increase in the fair market value of investments. The expendable resources to total net assets ratio increased from 19.6% in 2003 to 24.5% in 2004 primarily due to funding received for the Natural Science and Engineering Research building, as well as funds reserved for other new buildings, renovations and infrastructure improvements. The debt burden ratio decreased from 3.6% in 2003 to 3.3% in 2004 due to both an increase in operating expenses and a decrease in debt service. The debt service coverage ratio increased from 2.5x in 2003 to 2.8x in 2004 due to an increase in depreciation expense and the decrease in debt service. Full-time equivalent student enrollment continued to grow in accordance with U. T. Dallas’ mission.
- UT El Paso** The operating expense coverage ratio increased by 0.3 months to 1.4 months due to an increase in unrestricted net assets driven by enrollment and tuition rate increases, as well as a reduction in operating expense resulting from cost savings measures and a decrease in interest expense. The operating margin increased by \$6.3 million due to the reduction in operating expenses previously discussed along with increases in gifts and investment income. The return on net assets ratio decreased from 11.6% in 2003 to 7.5% in 2004 primarily due to an increase in debt. The expendable resources to total net assets ratio decreased from 22.5% in 2003 to 17.5% in 2004 due to a decrease in expendable net assets restricted for capital projects. The debt burden ratio decreased slightly from 5.4% in 2003 to 5.3% in 2004 due to a reduction in debt service. The debt service coverage ratio increased from 1.3x in 2003 to 2.1x in 2004 due to the reduction in debt service and the increase in the operating margin discussed above. Full-time equivalent student enrollment continued to trend upward.

## Institutions Rated “Satisfactory” (Continued)

- UT Pan American** The operating expense coverage ratio increased by 0.4 months to 4.1 months due to an increase in unrestricted net assets related to the reclassification of a quasi endowment from restricted to unrestricted. The operating margin decreased by \$0.2 million primarily due to increased interest expense. The return on net assets ratio decreased from 11.1% in 2003 to 9.6% in 2004 largely due to a reduction in the amount of bond proceeds transferred from U.T. System Administration. The expendable resources to total net assets ratio decreased from 43.5% in 2003 to 41.9% in 2004 due to an increase in total net assets primarily resulting from capital asset purchases. The debt burden ratio decreased from 5.3% in 2003 to 4.3% in 2004, and the debt service coverage ratio increased from 1.8x in 2003 to 2.4x in 2004. The changes in both debt ratios were the result of a decrease in debt service. Full-time equivalent student enrollment continued to grow as a result of recruitment efforts in support of *Closing the Gaps by 2015*, as well as increased demand for higher education in the rapidly growing surrounding community.
- UT San Antonio** The operating expense coverage ratio increased by 0.7 months to 3.0 months primarily due to continued enrollment growth and designated tuition rate increases. The operating margin increased \$5.8 million due to revenue growth outpacing growth in expenses. The return on net assets ratio decreased from 5.1% in 2003 to 4.4% in 2004 primarily due to an increase in debt outstanding. The expendable resources to total net assets decreased from 39.4% in 2003 to 29.6% in 2004 due to the increase in debt outstanding and an increase in capital assets. The debt burden ratio decreased from 6.7% in 2003 to 6.4% in 2004 due to an increase in operating expenses. The debt service coverage ratio increased from 1.8x in 2003 to 2.3x in 2004 due to the increase in the operating margin as mentioned above. Full-time equivalent student enrollment continued to increase as a result of recruitment and retention efforts, as well as increases in the Graduate programs and enrollment caps at U. T. Austin.
- UT Tyler** The operating expense coverage ratio increased by 0.2 months to 3.0 months largely due to an increase in unrestricted net assets related to increased tuition and fees. The operating margin decreased \$0.9 million as a result of an increase in interest expense, as well as the elimination of the appropriation for the University Research Fund in 2004. The return on net assets ratio decreased from 25.2% in 2003 to 22.8% in 2004 primarily due to an increase in debt outstanding. The expendable resources to total net assets ratio increased from 22.5% in 2003 to 30.0% in 2004 due to an increase in expendable net assets restricted for capital projects. The debt burden ratio decreased from 7.0% in 2003 to 4.0% in 2004, while the debt service coverage ratio increased from 1.5x in 2003 to 2.5x in 2004. The changes in both of the debt ratios were primarily due to a decrease in debt service. Full-time equivalent student enrollment continued to trend upward as a result of recruitment and retention efforts.

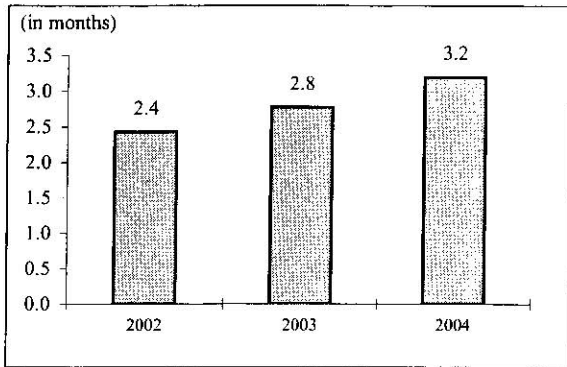
## Institutions Rated "Satisfactory" (Continued)

<b>Southwestern</b>	<p>The operating expense coverage ratio increased by 0.4 months to 4.3 months largely due to growth in unrestricted net assets resulting from revenue growth. The operating margin increased \$48.5 million primarily due to increases in net professional fees, contractual revenues, indirect cost recoveries and gifts for operations. The return on net assets ratio improved from 5.1% in 2003 to 10.0% in 2004 due to the increase in unrestricted net assets mentioned above, as well as increases in investments in capital assets and endowments and annuities. The expendable resources to total net assets ratio decreased from 36.1% in 2003 to 35.5% in 2004 due to the increase in nonexpendable endowments and annuities and investments in capital assets. The debt burden ratio changed slightly from 2.6% in 2003 to 2.7% in 2004 due to an increase in debt service. The debt service coverage ratio increased from 1.7x in 2003 to 4.0x in 2004 due to the growth in the operating margin discussed previously.</p>
<b>UTHSC- San Antonio</b>	<p>The operating expense coverage ratio increased by 0.6 months to 3.4 months due to an increase in unrestricted net assets resulting from increases in practice plan operations, the sale of Ilex stock, Children's Cancer Research Institute, indirect cost recoveries and state funds. The operating margin decreased \$12.2 million primarily due to an increase in practice plan expenses in the Department of Surgery. The return on net assets ratio increased from 3.9% in 2003 to 7.6% in 2004 due to the growth in unrestricted net assets mentioned above. The expendable resources to total net assets ratio decreased from 37.0% in 2003 to 32.8% in 2004 due to expenditures that have occurred related to several large capital projects. The debt burden ratio decreased from 2.8% in 2003 to 2.3% in 2004 as a result of a reduction in debt service. The debt service coverage ratio decreased slightly from 2.6x in 2003 to 2.4x in 2004 due the reduction in the operating margin discussed previously.</p>
<b>M. D. Anderson</b>	<p>The operating expense coverage ratio decreased by 0.3 months to 3.1 months due to increased operating expenses to support increased patient volumes. The operating margin increased \$5.7 million due to revenue growth outpacing the growth in expenses. The return on net assets ratio decreased from 9.6% in 2003 to 4.0% in 2004 due to a greater increase in debt outstanding in 2003 as compared to 2004. The expendable resources to total net assets ratio decreased from 40.1% in 2003 to 33.8% in 2004 due to several large construction projects nearing completion resulting in a decrease in the amount of expendable net assets restricted for capital projects. The debt burden ratio increased from 1.7% in 2003 to 2.3% in 2004, while the debt service coverage ratio decreased from 5.9x in 2003 to 4.7x in 2004. The changes in both debt ratio were due to an increase in debt service.</p>

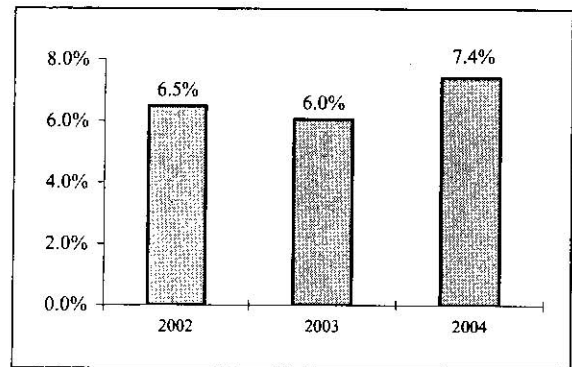
The University of Texas at Arlington  
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

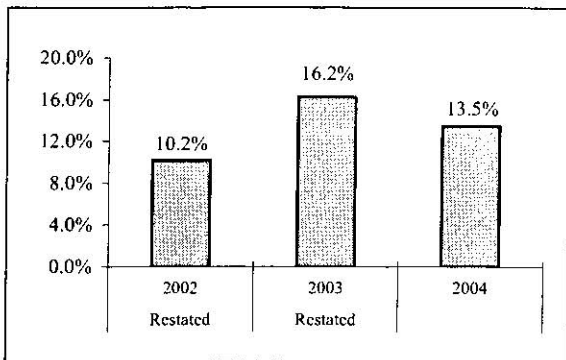
**Operating Expense Coverage Ratio**



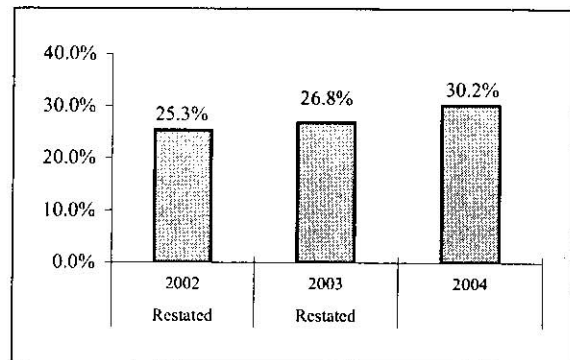
**Annual Operating Margin Ratio**



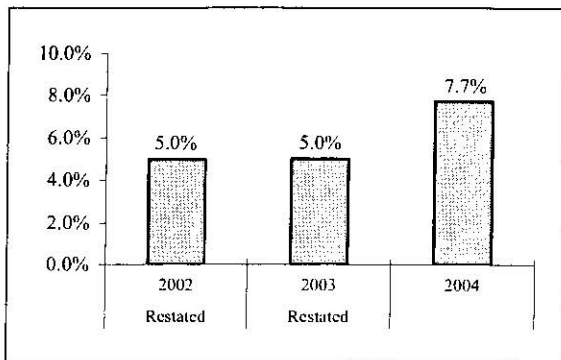
**Return on Net Assets Ratio**



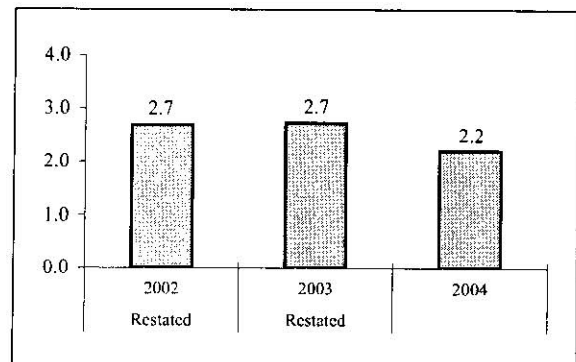
**Expendable Resources to Total Net Assets Ratio**



**Debt Burden Ratio**

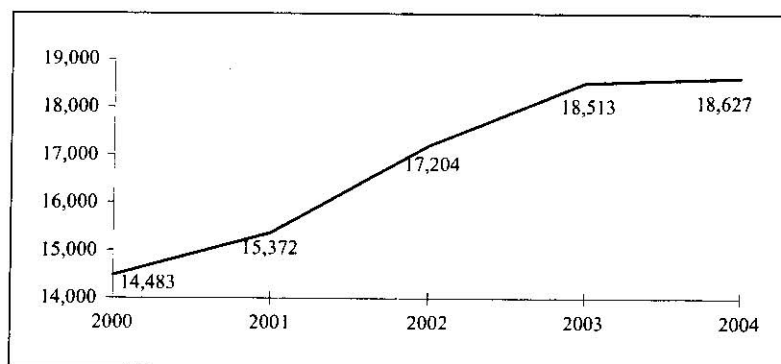


**Debt Service Coverage Ratio**



## The University of Texas at Arlington 2004 Summary of Financial Condition

### Full-time Equivalent Student Enrollment - Fall



*Operating Expense Coverage Ratio* - UT Arlington's operating expense coverage ratio increased from 2.8 months in 2003 to 3.2 months in 2004 due to a \$12 million increase in unrestricted net assets. Net tuition and fees increased \$15.5 million due to tuition increases implemented in 2004, which contributed to the increase in unrestricted net assets.

*Annual Operating Margin Ratio* - UT Arlington's annual operating margin ratio increased from 6% for 2003 to 7.4% for 2004 primarily due to the increase in tuition and fee revenue.

*Return on Net Assets Ratio* - UT Arlington's return on net assets ratio decreased from 16.2% in 2003 to 13.5% in 2004 due to an increase in debt outstanding and proceeds received for capital projects.

*Expendable Resources to Total Net Assets Ratio* - UT Arlington's expendable resources to total net assets ratio increased from 26.8% in 2003 to 30.2% in 2004 due to an increase in expendable net assets restricted for capital projects and unrestricted net assets. The increase in expendable net assets restricted for capital projects was attributable to the following major capital projects: the Chemistry and Physics Building, the Silverstone Apartments, Meadow Run Apartments and the University Village Apartments.

*Debt Burden Ratio* - UT Arlington's debt burden ratio increased from 5% to 7.7% due to a decision to pay \$5 million in debt early, as well as aggressive housing construction.

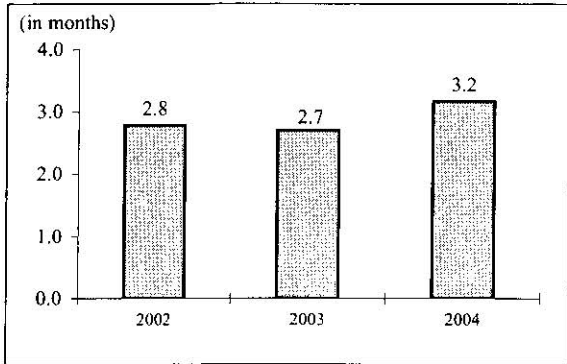
*Debt Service Coverage Ratio* - UT Arlington's debt service coverage ratio decreased from 2.7x in 2003 to 2.2x in 2004 due to an increase in debt service payments resulting from the construction mentioned above.

*Full-Time Equivalent (FTE) Student Enrollment* - Full-time equivalent student enrollment continued to grow as a result of new and on-going academic programs and the availability of on-campus housing.

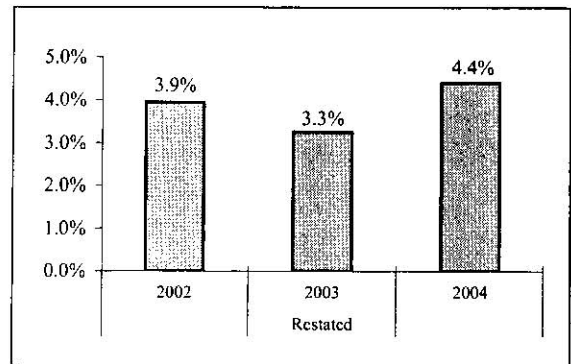
The University of Texas at Austin  
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

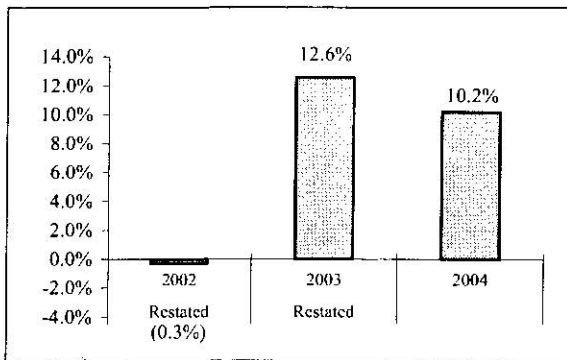
**Operating Expense Coverage Ratio**



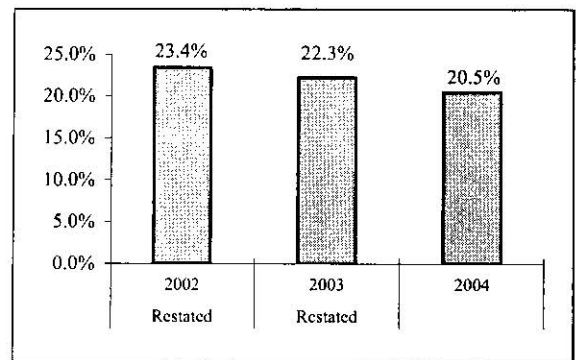
**Annual Operating Margin Ratio**



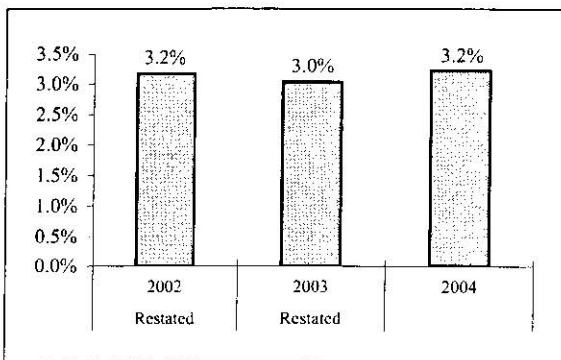
**Return on Net Assets Ratio**



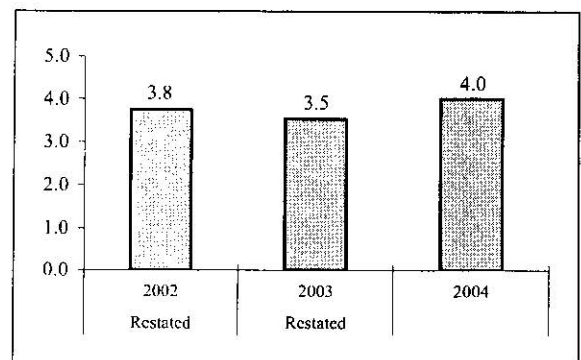
**Expendable Resources to Total Net Assets Ratio**



**Debt Burden Ratio**

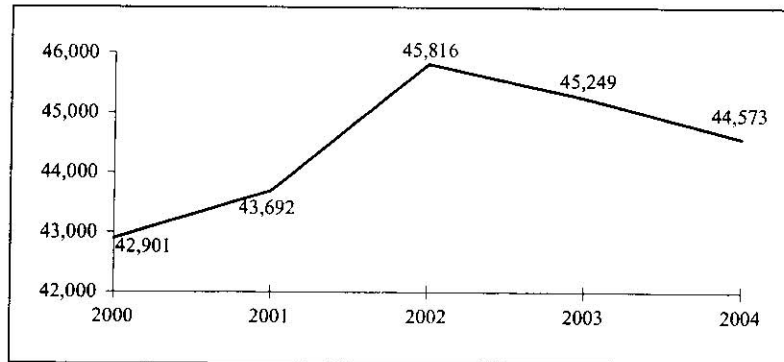


**Debt Service Coverage Ratio**



The University of Texas at Austin  
2004 Summary of Financial Condition

Full-time Equivalent  
Student Enrollment - Fall



*Operating Expense Coverage Ratio* - UT Austin's operating expense coverage ratio increased from 2.7 months in 2003 to 3.2 months in 2004 due to an increase in unrestricted net assets of \$59.1 million (19.1%). The increase in unrestricted net assets was due to the following factors: (1) a \$26.2 million increase in Unexpended Plant funds primarily due to an increase in unrestricted sources used for capital projects; (2) a \$16.9 million increase in Designated funds driven by an increase in tuition and fee revenue; and (3) a \$10.2 million increase in Endowments related to a reclassification of prior year quasi endowments of \$6 million from restricted to unrestricted coupled with an increase in investment income on unrestricted funds.

*Annual Operating Margin Ratio* - UT Austin's annual operating margin ratio increased to 4.4% in 2004 as compared to 3.3% in 2003. This increase can be attributed to income increasing at a higher rate (6.1%) than operating expenses (1.5%). Specifically, an \$18 million increase in net tuition, an \$18 million increase in sales and services of educational activities, and an increase in investment income were only partially offset by an increase of \$20.6 million in operating expenses.

*Return on Net Assets Ratio* - UT Austin's return on net assets ratio declined from 12.6% in 2003 to 10.2% in 2004. The change in total net assets decreased due to a \$68.6 million decrease in additions to permanent endowments partially offset by an increase in revenue from tuition, sales and services of educational activities and investment income. Additions to permanent endowments decreased due to a large gift given by John A. Jackson in 2003 with no comparable gift received in 2004.

*Expendable Resources to Total Net Assets Ratio* - UT Austin's expendable portion of total net assets decreased from 22.3% to 20.5% because endowment net assets increased as a percent of total net assets. Endowment net assets are almost entirely nonexpendable. Endowment net assets increased primarily due to new gifts received and increases in the fair value of investments.

*Debt Burden Ratio* - UT Austin's debt burden ratio increased slightly from 3.0% in 2003 to 3.2% in 2004 due to a \$3.0 million (or 7.5%) increase in debt service in 2004.

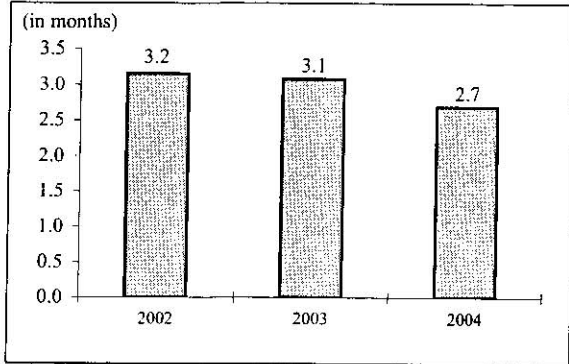
*Debt Service Coverage Ratio* - UT Austin's debt service coverage ratio increased from 3.5x in 2003 to 4.0x in 2004 due to an increase in the annual operating margin, as discussed above.

*Full-Time Equivalent (FTE) Student Enrollment* - UT Austin's FTE student enrollment declined modestly from 45,249 to 44,573, consistent with the change from fall 2002 to fall 2003. Efforts have been made to reduce enrollment in order to maintain the quality of education provided.

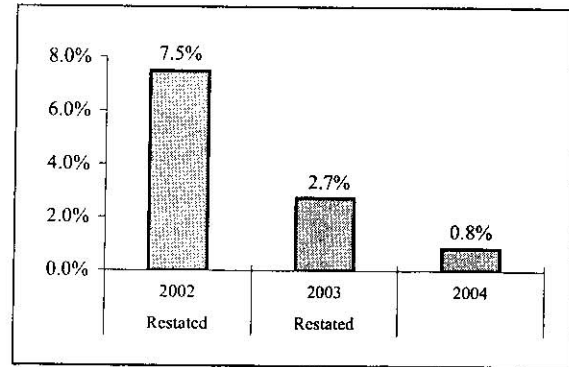
The University of Texas at Brownsville  
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

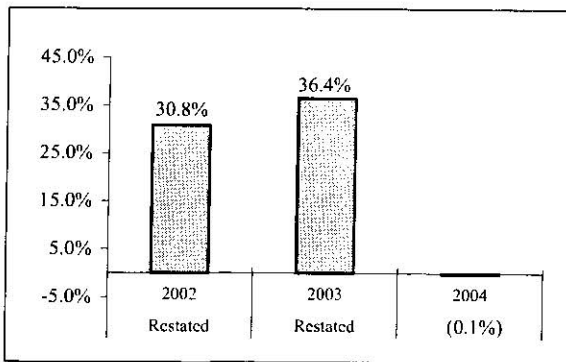
**Operating Expense Coverage Ratio**



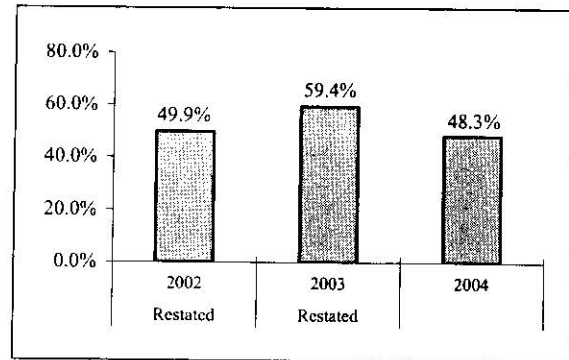
**Annual Operating Margin Ratio**



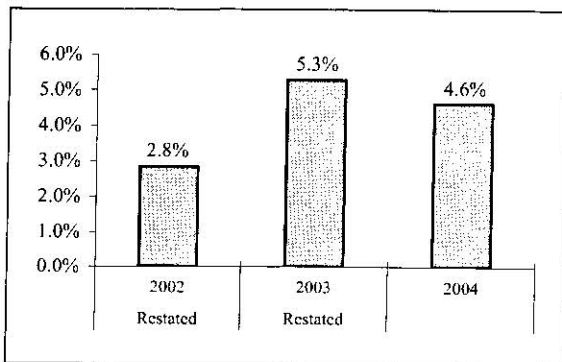
**Return on Net Assets Ratio**



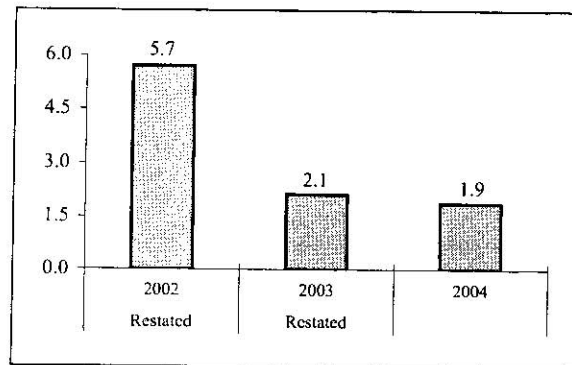
**Expendable Resources to Total Net Assets Ratio**



**Debt Burden Ratio**



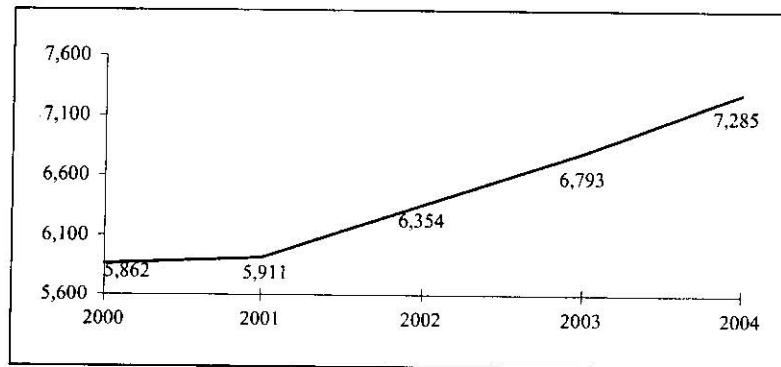
**Debt Service Coverage Ratio**





The University of Texas at Brownsville  
2004 Summary of Financial Condition

Full-time Equivalent  
Student Enrollment - Fall



*Operating Expense Coverage Ratio* - UT Brownsville's operating expense coverage ratio decreased from 3.1 months in 2003 to 2.7 months in 2004 as a result of an increase in operating expenses. In order to accommodate a continuously growing student population, management made a strategic decision to expend fund balance on faculty overloads and non capital equipment expenses necessary to improve the technological support of academic programs, to support newly approved academic programs, and to improve services in the enrollment management areas. In addition, scholarships and fellowships expense increased \$4.6 million due to the increase in student enrollment and students eligible for federally funded grants.

*Annual Operating Margin Ratio* - UT Brownsville's annual operating margin ratio decreased from 2.7% in 2003 to 0.8% in 2004 primarily due to the increase in total operating expenses discussed above and reductions in state appropriations of \$1 million.

*Return on Net Assets Ratio* - UT Brownsville's return on net assets ratio decreased from 36.4% in 2003 to (0.1%) in 2004 due to the issuance of the remainder of the debt appropriated for the Business and Education Complex (BEC), which will be completed in 2005.

*Expendable Resources to Total Net Assets Ratio* - UT Brownsville's expendable resources to total net assets ratio decreased from 59.4% in 2003 to 48.3% in 2004 primarily due to an \$8.4 million decrease in expendable net assets restricted for capital projects. The amount restricted for capital projects decreased due to expenditures that have occurred related to the BEC.

*Debt Burden Ratio* - UT Brownsville's debt burden ratio decreased from 5.3% for 2003 to 4.6% for 2004 due to a reduction in debt service and an increase in both operating expenses and interest expense.

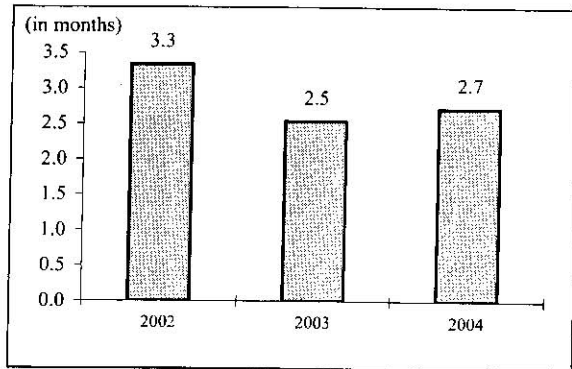
*Debt Service Coverage Ratio* - UT Brownsville's debt service coverage ratio decreased slightly from 2.1x in 2003 to 1.9x in 2004 due to an increase in operating expenses previously discussed.

*Full-Time Equivalent (FTE) Student Enrollment* - In 2004 UT Brownsville's FTE student enrollment continued to increase by 492 FTEs. The fall 2004 student headcount was the highest in UT Brownsville's short history. This trend is predicted to increase at a higher pace, and total student population is expected to be 20,000 students by the year 2010.

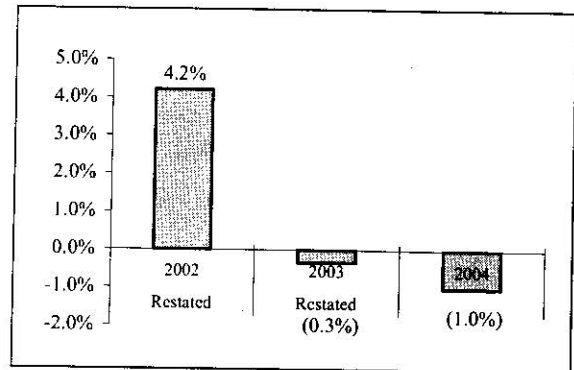
The University of Texas at Dallas  
2004 Summary of Financial Condition

Financial Condition: Satisfactory

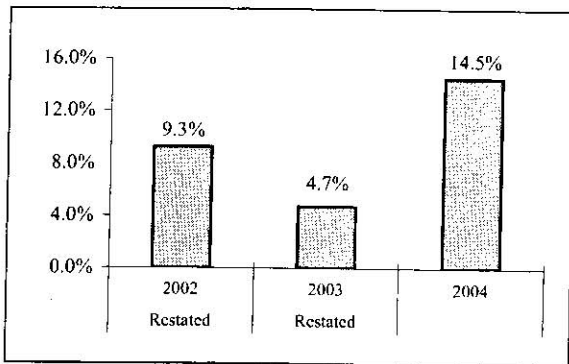
**Operating Expense Coverage Ratio**



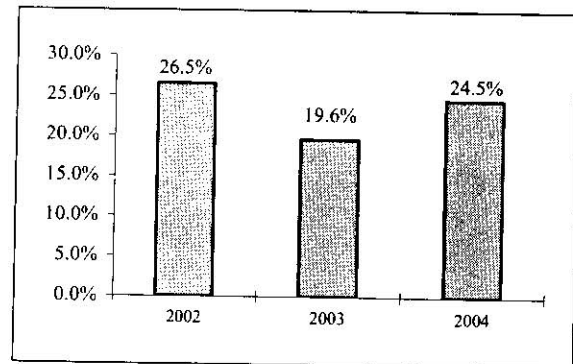
**Annual Operating Margin Ratio**



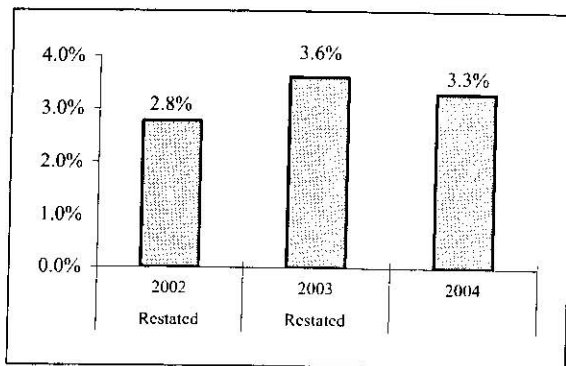
**Return on Net Assets Ratio**



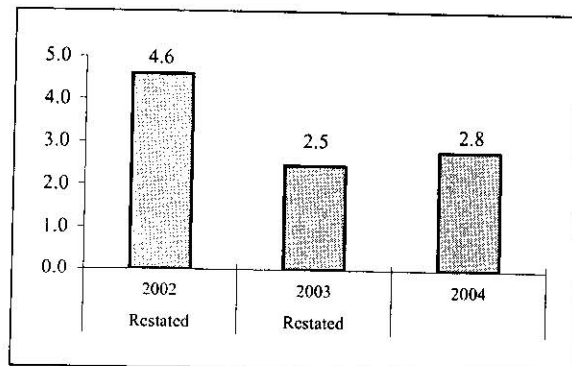
**Expendable Resources to Total Net Assets Ratio**



**Debt Burden Ratio**

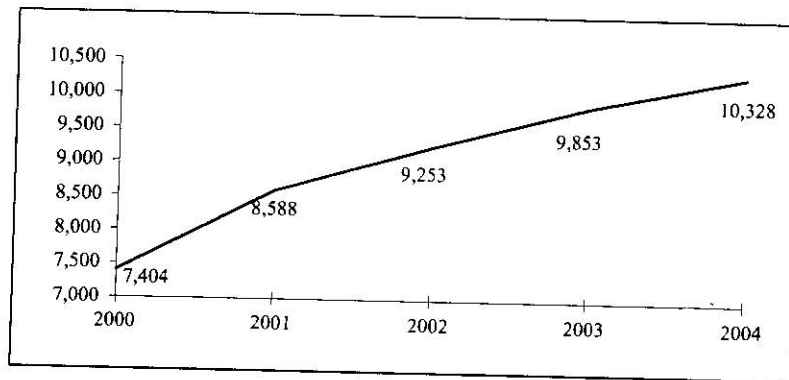


**Debt Service Coverage Ratio**



**The University of Texas at Dallas  
2004 Summary of Financial Condition**

**Full-time Equivalent  
Student Enrollment - Fall**



*Operating Expense Coverage Ratio* - UT Dallas' operating expense coverage ratio increased slightly from 2.5 months in 2003 to 2.7 months in 2004 due to a \$4.5 million increase in unrestricted net assets. The primary factor contributing to the increase in unrestricted net assets was the reclassification of three quasi endowments from restricted, as they were reported in prior years, to unrestricted. This discrepancy was discovered during a UT System Administration initiated review of endowment data reported on the Annual Financial Report as compared to UTIMCO's records.

*Annual Operating Margin Ratio* - UT Dallas' annual operating margin ratio declined from (0.3%) in 2003 to (1.0%) in 2004 primarily due to the loss of \$5.9 million in excellence funding (University Research Fund). The appropriation for the University Research Fund was eliminated in 2004, but has been restored for 2005.

*Return on Net Assets Ratio* - UT Dallas' return on net assets ratio increased significantly from 4.7% in 2003 to 14.5% in 2004. The substantial improvement in this ratio is due to the receipt of \$21.5 million in funding from the Texas Enterprise Fund, an increase of \$5.2 million in gifts for capital acquisitions due to a major gift received for the acquisition of the Center for Brain Health building and a \$4.8 million increase in the fair value of investments. The ratio also increased as a result of the increase in nonmandatory transfers from UT System Administration of PUF bond proceeds for the construction of the Natural Science and Engineering Research building.

*Expendable Resources to Total Net Assets Ratio* - UT Dallas' expendable resources to total net assets ratio increased from 19.6% in 2003 to 24.5% in 2004 primarily due to the funding received for the Natural Science and Engineering Research building, as well as funds reserved for new buildings, renovations and other infrastructure improvements.

*Debt Burden Ratio* - UT Dallas' debt burden ratio decreased slightly from 3.6% in 2003 to 3.3% in 2004 due to a 4.4% increase in total operating expenses, as well as a decrease in debt service.

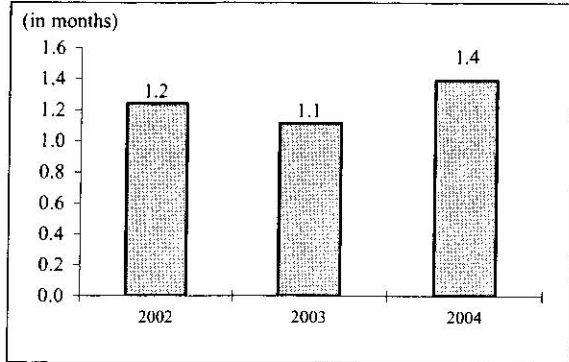
*Debt Service Coverage Ratio* - UT Dallas' debt service coverage ratio increased slightly from 2.5x to 2.8x due to an increase in depreciation expense of \$2.2 million, which is excluded from the operating expenses for purposes of this ratio, and due to a decrease in debt service as noted above.

*Full-Time Equivalent (FTE) Student Enrollment* - The FTE student enrollment continues to increase in accordance with UT Dallas' mission to keep attracting high quality students and increasing graduation rates.

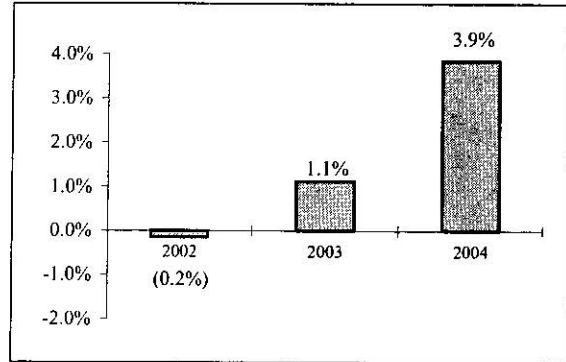
The University of Texas at El Paso  
2004 Summary of Financial Condition

Financial Condition: Satisfactory

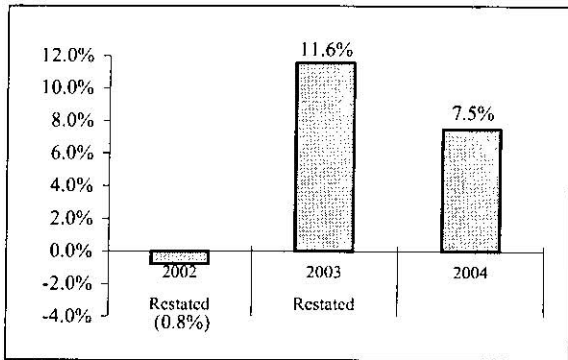
**Operating Expense Coverage Ratio**



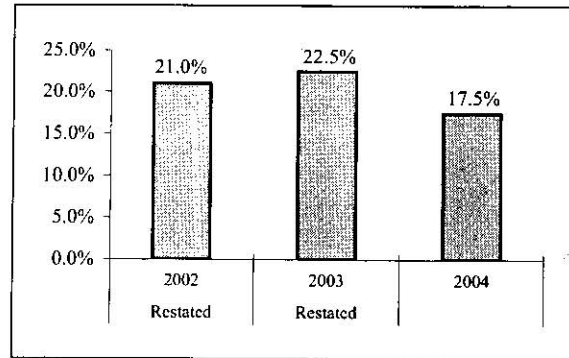
**Annual Operating Margin Ratio**



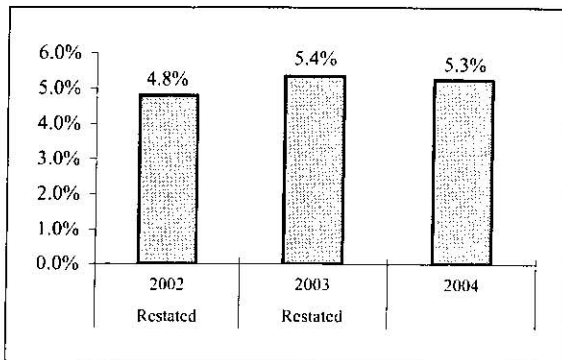
**Return on Net Assets Ratio**



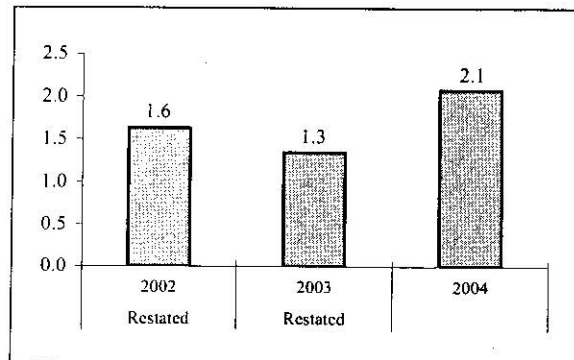
**Expendable Resources to Total Net Assets Ratio**



**Debt Burden Ratio**

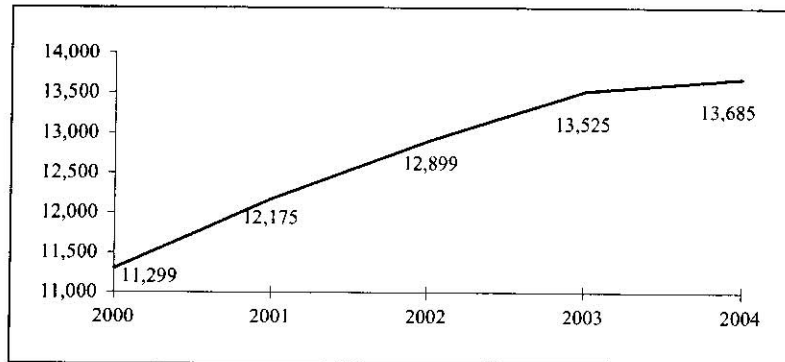


**Debt Service Coverage Ratio**



**The University of Texas at El Paso  
2004 Summary of Financial Condition**

**Full-time Equivalent  
Student Enrollment - Fall**



*Operating Expense Coverage Ratio* - UT El Paso's operating expense coverage ratio increased from 1.1 months in 2003 to 1.4 months in 2004 primarily due to a \$5 million increase in unrestricted net assets driven by enrollment and designated tuition rate increases; cost savings measures, including reductions in force, that contributed to a decrease in operating expenses; and a decrease in interest expense for capital asset financing.

*Annual Operating Margin Ratio* - UT El Paso's annual operating margin ratio increased from 1.1% in 2003 to 3.9% in 2004. This improvement was primarily driven by the factors mentioned above in the operating expense coverage ratio, as well as increases in gifts for operations of 8.6% and investment income (excluding realized gains and losses) increases of 70.9%.

*Return on Net Assets Ratio* - UT El Paso's return on net assets ratio decreased from 11.6% in 2003 to 7.5% in 2004. The decrease in this ratio was primarily attributable to an increase in debt related to the Bio-Sciences Building construction project.

*Expendable Resources to Total Net Assets Ratio* - UT El Paso's expendable resources to total net assets ratio decreased from 22.5% in 2003 to 17.5% in 2004 as a result of a decrease in expendable net assets. Plant fund net assets restricted for capital projects decreased by \$14.1 million due to expenditures that have occurred related to the Bio-Sciences facility, the Engineering/Science Complex, and the Academic Services building.

*Debt Burden Ratio* - UT El Paso's debt burden ratio decreased slightly from 5.4% in 2003 to 5.3% in 2004. The decrease was attributable to a decrease of \$336,000 in debt service transfer requirements.

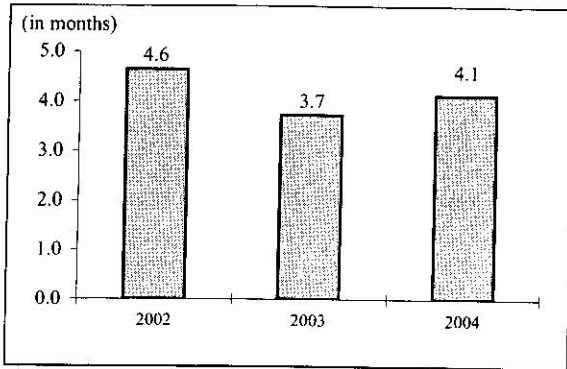
*Debt Service Coverage Ratio* - UT El Paso's debt service coverage ratio increased from 1.3x in 2003 to 2.1x in 2004 primarily due to the increase in the annual operating margin and the reduction in debt service transfers.

*Full-Time Equivalent (FTE) Student Enrollment* - Total enrollment increased 2% and FTE student enrollment increased 1.2% in 2004. UT El Paso's enrollment trends are consistent with trends experienced by other public universities. UT El Paso continues to evaluate and enhance programs that were established to ensure that the *Closing the Gaps by 2015* enrollment targets are met.

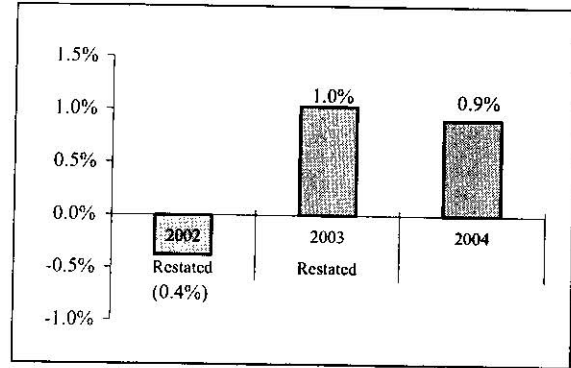
The University of Texas - Pan American  
2004 Summary of Financial Condition

Financial Condition: Satisfactory

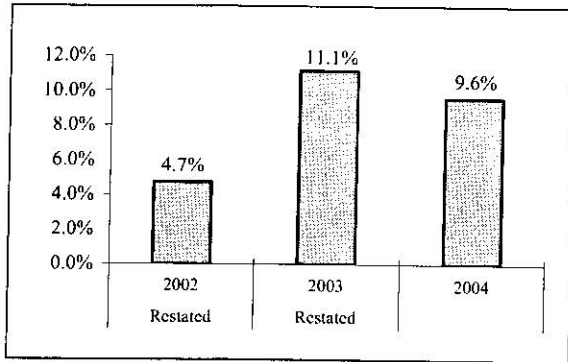
**Operating Expense Coverage Ratio**



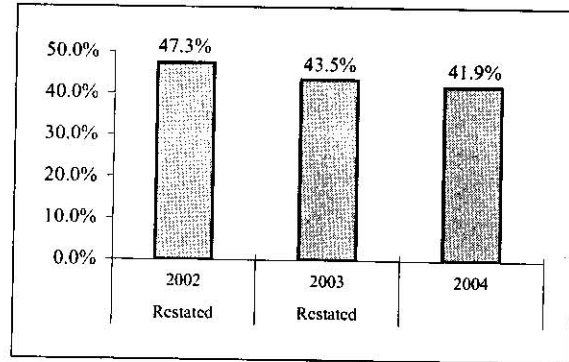
**Annual Operating Margin Ratio**



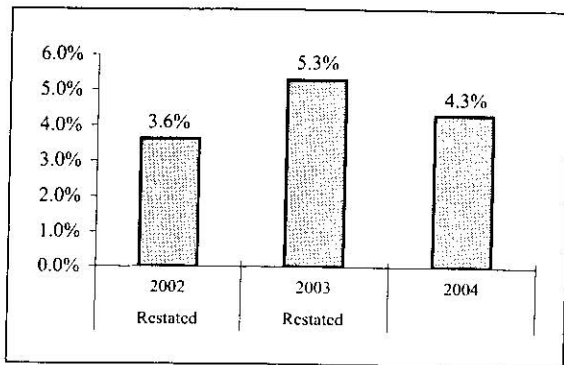
**Return on Net Assets Ratio**



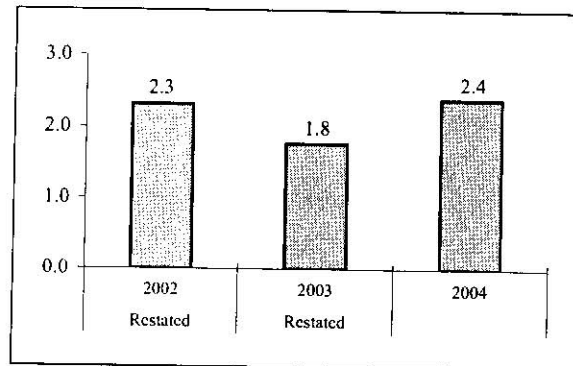
**Expendable Resources to Total Net Assets Ratio**



**Debt Burden Ratio**

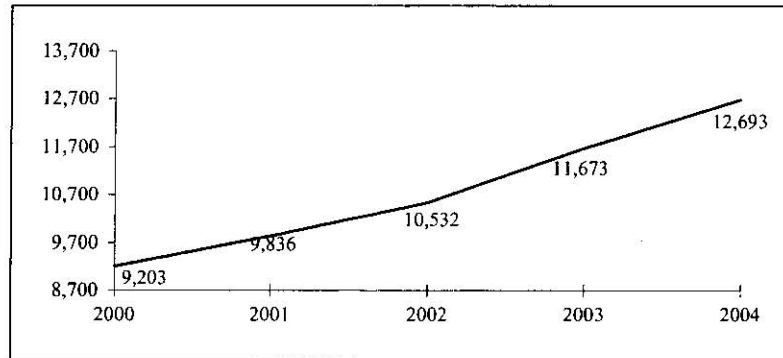


**Debt Service Coverage Ratio**



**The University of Texas - Pan American  
2004 Summary of Financial Condition**

**Full-time Equivalent  
Student Enrollment - Fall**



*Operating Expense Coverage Ratio* - UT Pan American's operating expense coverage ratio increased from 3.7 months in 2003 to 4.1 months in 2004 due to an increase in unrestricted net assets of \$6.6 million. The primary factor contributing to the increase in unrestricted net assets was the reclassification of the E&G Excellence Fund quasi endowments from restricted, as it had been reported in prior years, to unrestricted. This discrepancy was discovered during a UT System Administration initiated review of endowment data reported on the Annual Financial Report as compared to UTIMCO's records.

*Annual Operating Margin Ratio* - UT Pan American's annual operating margin ratio decreased slightly from 1% for 2003 to 0.9% for 2004. The slight decline in the margin was largely a result of the increase in interest expense.

*Return on Net Assets Ratio* - UT Pan American's return on net assets ratio was 9.6% for 2004, which was a decrease from the 2003 ratio of 11.1%. The decrease in the return on net assets ratio was primarily due to a reduction in bond proceeds transferred from UT System Administration.

*Expendable Resources to Total Net Assets Ratio* - UT Pan American's expendable resources to total net assets ratio decreased from 43.5% in 2003 to 41.9% in 2004. Total net assets increased largely as a result of capital asset purchases, such as the Oracle Software System, resulting in a slight reduction in expendable resources to total net assets ratio.

*Debt Burden Ratio* - UT Pan American's debt burden ratio of 4.3% for 2004 was a decrease from the 2003 ratio of 5.3%. The decrease in this ratio from the previous year was attributable to a reduction in transfers for debt service.

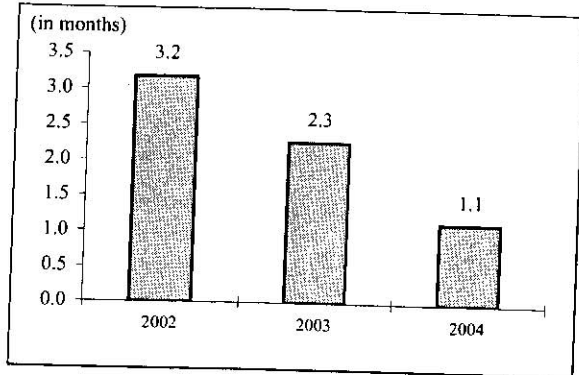
*Debt Service Coverage Ratio* - UT Pan American's debt service coverage ratio increased from 1.8x in 2003 to 2.4x in 2004. The improvement over the previous year reflects the reduction in transfers for debt service.

*Full-Time Equivalent (FTE) Student Enrollment* - FTE student enrollment has increased by an average of 8.4% per year over the last four years. Fall 2004 FTE enrollment is 8.7% greater than that of the previous fall semester. This trend is partly attributed to recruiting efforts in support of the THECB's *Closing the Gaps by 2015* plan. An increased demand for higher education in the rapidly growing surrounding area has also contributed to this trend.

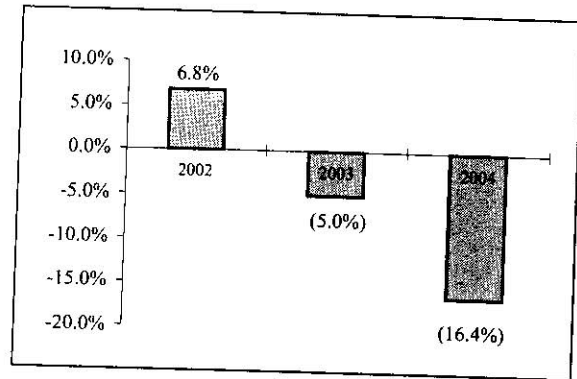
The University of Texas of the Permian Basin  
2004 Summary of Financial Condition

Financial Condition: **Watch**

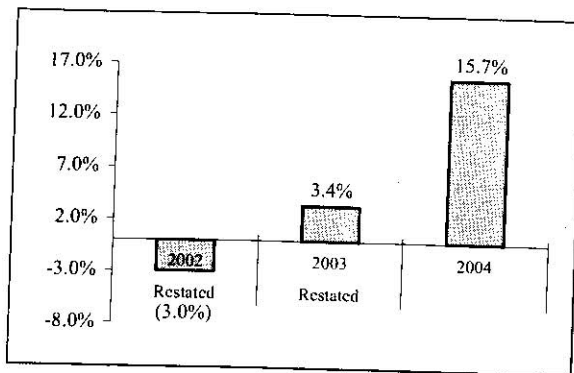
**Operating Expense Coverage Ratio**



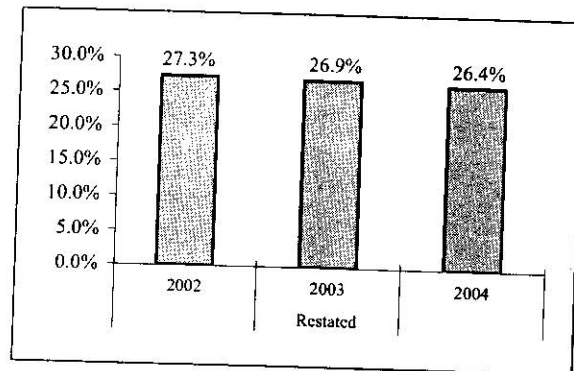
**Annual Operating Margin Ratio**



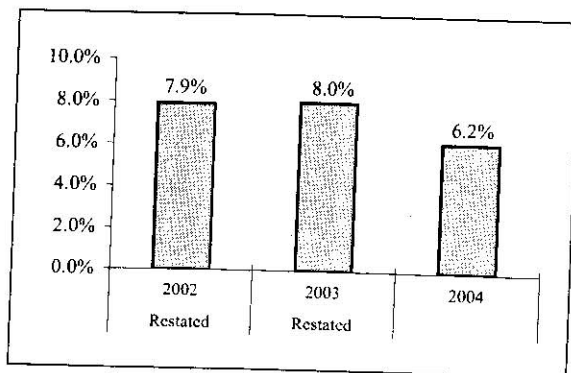
**Return on Net Assets Ratio**



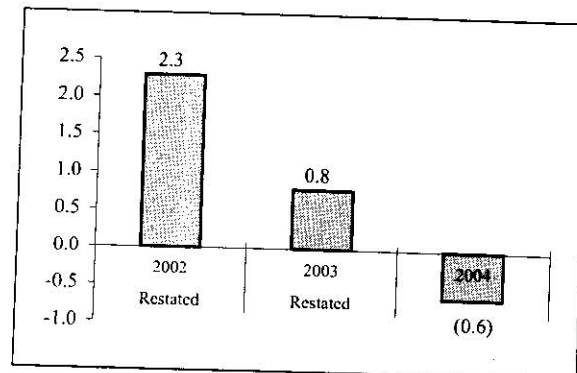
**Expendable Resources to Total Net Assets Ratio**



**Debt Burden Ratio**



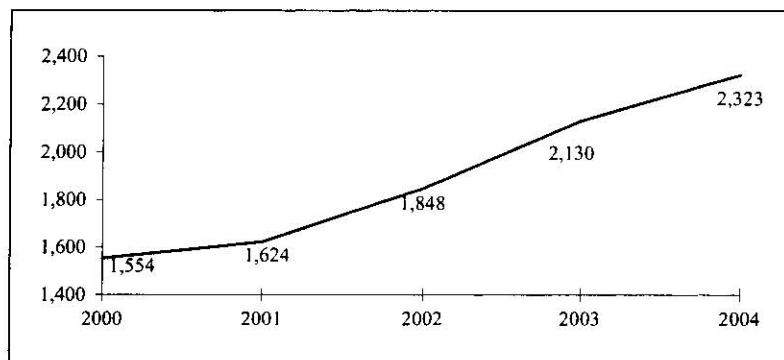
**Debt Service Coverage Ratio**





## The University of Texas of the Permian Basin 2004 Summary of Financial Condition

### Full-time Equivalent Student Enrollment - Fall



*Operating Expense Coverage Ratio* - UT Permian Basin's operating expense coverage ratio decreased from 2.3 months in 2003 to 1.1 months in 2004 primarily due to a \$2.3 million decrease in unrestricted net assets, as well as a \$4.3 million increase in operating expenses. UT Permian Basin continued to make infrastructure investments to accommodate increased student enrollment. UT Permian Basin is also transforming itself from a returning adult student commuter campus to a more traditional, residential undergraduate campus. Management intentionally spent down balances (reserves) to invest primarily in the infrastructure necessary to accommodate additional students. The campus anticipates improvements in the ratio in future years.

*Annual Operating Margin Ratio* - UT Permian Basin's annual operating margin ratio declined significantly from (5%) for 2003 to (16.4%) for 2004. The planned reduction in reserve balances and the planned infrastructure investments led to the decrease in this ratio.

*Return on Net Assets Ratio* - UT Permian Basin's return on net assets ratio improved from 3.4% in 2003 to 15.7% in 2004 largely due to a \$7.5 million increase in the amount of bond proceeds transferred to UT Permian Basin in 2004, as well as a \$1.4 million increase in gifts for permanent endowments. UT Permian Basin added to its outstanding debt to continue a major renovation project for the original campus buildings and to construct student housing.

*Expendable Resources to Total Net Assets Ratio* - UT Permian Basin's expendable resources to total net assets ratio remained relatively stable at 26.4%.

*Debt Burden Ratio* - UT Permian Basin's debt burden ratio decreased from 8% in 2003 to 6.2% in 2004 primarily due to increased operating expenses related to growth, as discussed above.

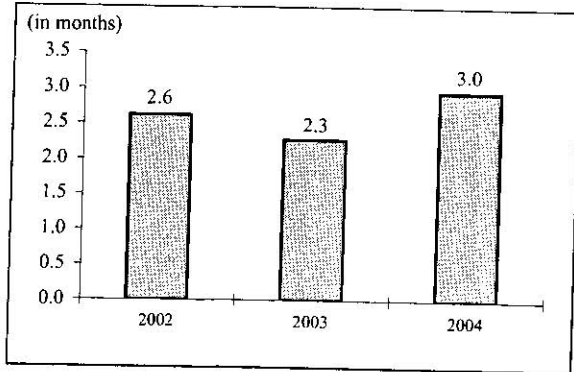
*Debt Service Coverage Ratio* - UT Permian Basin's debt service coverage ratio decreased from 0.8x in 2003 to (0.6x) in 2004 as a result of the reduction in the annual operating margin discussed above.

*Full-Time Equivalent (FTE) Student Enrollment* - UT Permian Basin continues its active pursuit of the goals of transformation and growth in the student body. These goals have resulted in increased recruiting and retention efforts which continue to be successful.

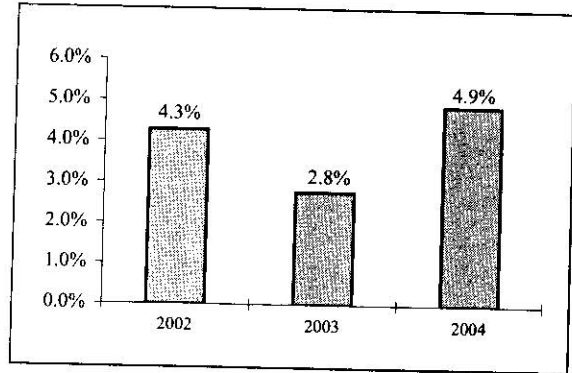
The University of Texas at San Antonio  
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

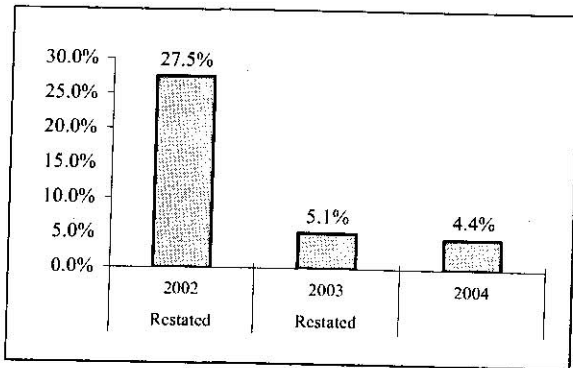
**Operating Expense Coverage Ratio**



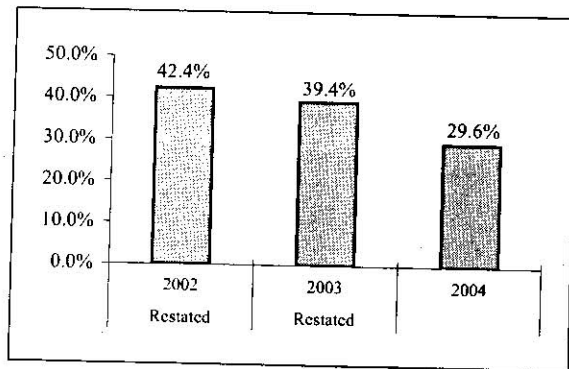
**Annual Operating Margin Ratio**



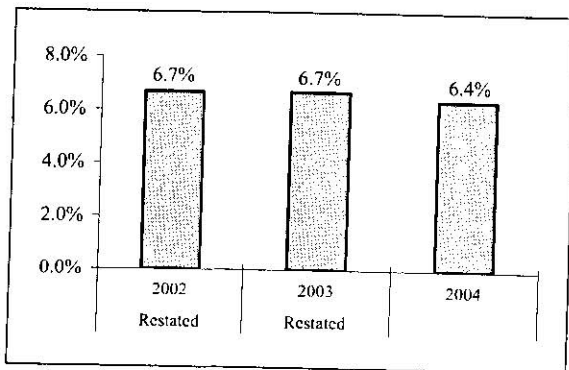
**Return on Net Assets Ratio**



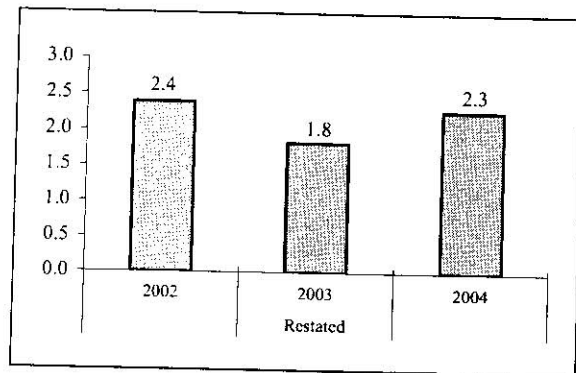
**Expendable Resources to Total Net Assets Ratio**



**Debt Burden Ratio**

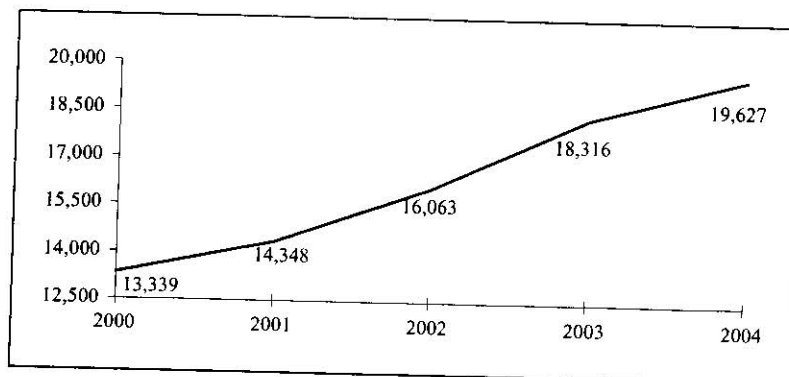


**Debt Service Coverage Ratio**



## The University of Texas at San Antonio 2004 Summary of Financial Condition

### Full-time Equivalent Student Enrollment - Fall



*Operating Expense Coverage Ratio* - UT San Antonio's operating expense coverage ratio increased from 2.3 months in 2003 to 3.0 months in 2004. This is attributable to a continued increase in enrollment and an increase in the Designated tuition rate from fall to spring. Also, the increase in operating expenses was only 9.3% in 2004 compared to a 16.2% increase in 2003.

*Annual Operating Margin Ratio* - UT San Antonio's annual operating margin ratio of 4.9% in 2004 increased significantly over the 2.8% ratio in 2003. Operating revenues increased \$28.9 million, while operating expenses increased only \$19.1 million. The increase in operating revenues is attributable to a 12.3% increase in enrollment and a 24.5% increase in the Designated tuition in the spring.

*Return on Net Assets Ratio* - UT San Antonio's return on net assets ratio of 4.4% in 2004 decreased slightly from 5.1% in 2003. The decrease is primarily attributable to an increase in debt. Although there was an increase in the proceeds received from UT System Administration for capital projects, the overall debt continued to increase.

*Expendable Resources to Total Net Assets Ratio* - UT San Antonio's expendable resources to total net assets ratio decreased from 39.4% in 2003 to 29.6% in 2004. The decrease is attributable to an increase in capital assets of 29.5% and an increase in debt of 12.7%. During 2004, the Main Building, Student Housing, Physical Plant Facility and Downtown Campus Phase III addition were completed. Additionally, work continued on the Bioscience building and commenced on the Student Housing Dining Hall, Academic Garage Building and East Campus Parking and Infrastructure.

*Debt Burden Ratio* - UT San Antonio's debt burden ratio declined slightly to 6.4% in 2004 compared to 6.7% in 2003. With the debt service transfers only increasing by \$356,000 in 2004 and the operating expenses increasing by \$19.1 million, the debt burden ratio decreased.

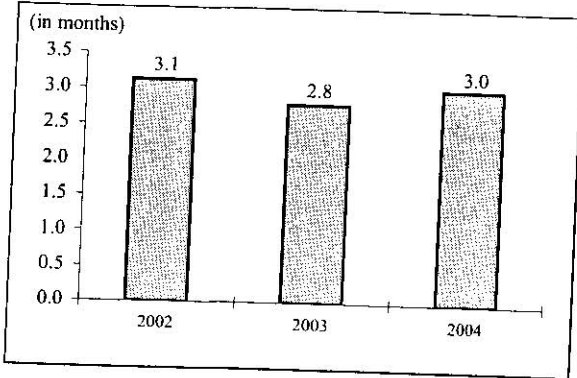
*Debt Service Coverage Ratio* - UT San Antonio's debt service coverage ratio increased from 1.8x in 2003 to 2.3x in 2004. Although there was a 2.7% increase in the debt service from 2003, the annual operating margin increased in 2004 as discussed above.

*Full-Time Equivalent (FTE) Student Enrollment* - UT San Antonio's FTE student enrollment continues to increase in 2004. Recruitment and retention efforts continue to increase enrollment. Enrollment increases are also attributable to the increases in the Graduate Programs and enrollment caps at UT Austin.

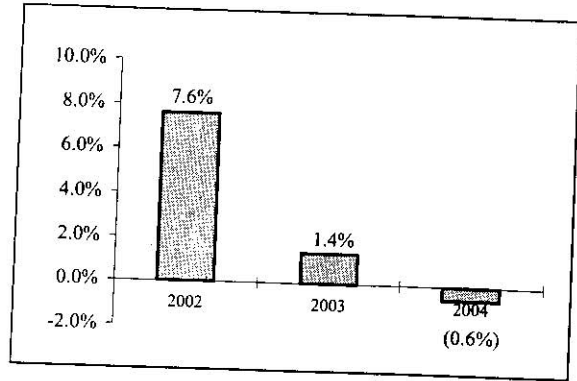
The University of Texas at Tyler  
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

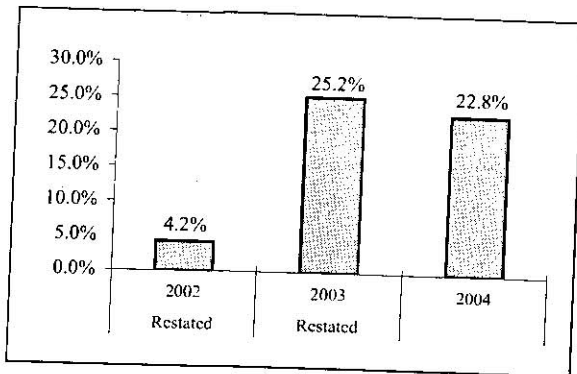
**Operating Expense Coverage Ratio**



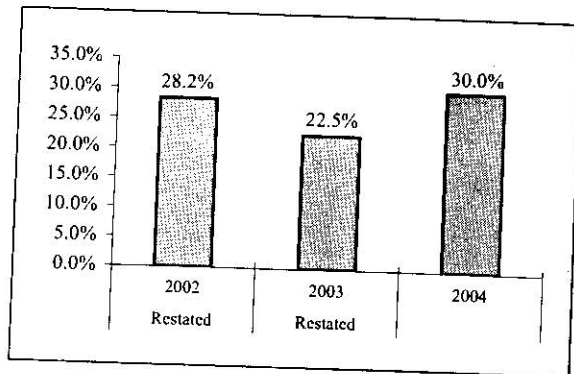
**Annual Operating Margin Ratio**



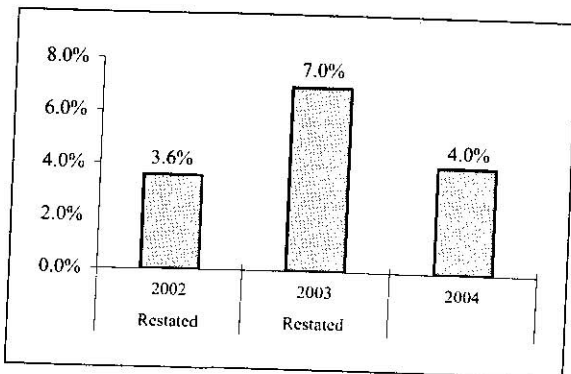
**Return on Net Assets Ratio**



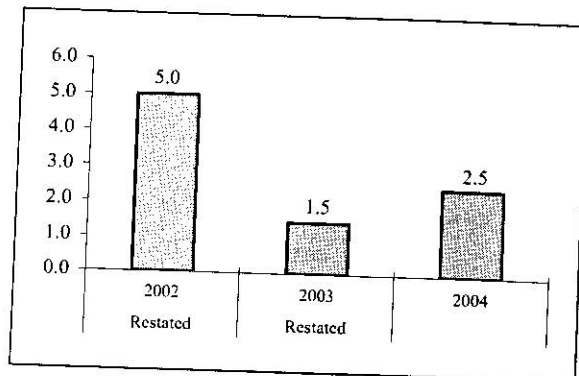
**Expendable Resources to Total Net Assets Ratio**



**Debt Burden Ratio**

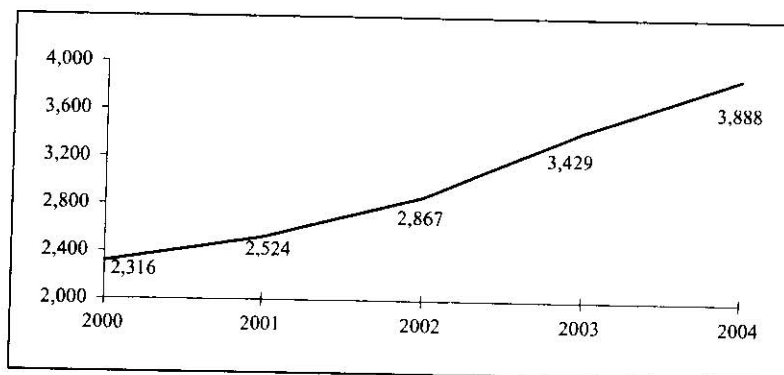


**Debt Service Coverage Ratio**



**The University of Texas at Tyler  
2004 Summary of Financial Condition**

**Full-time Equivalent  
Student Enrollment - Fall**



*Operating Expense Coverage Ratio* - UT Tyler's operating expense coverage ratio increased from 2.8 months in 2003 to 3.0 months in 2004 due to an increase in unrestricted net assets. The major factor for this rise was a \$2.9 million increase in tuition and fees (net of tuition discounting). Enrollment growth contributed to the increase in tuition and fees.

*Annual Operating Margin Ratio* - UT Tyler's annual operating margin ratio decreased from 1.4% in 2003 to (0.6%) in 2004 due to an increase in interest expense of \$0.6 million and the loss of \$0.3 million in excellence funding (University Research Fund). The appropriation for the University Research Fund was eliminated in 2004, but has been restored for 2005.

*Return on Net Assets Ratio* - UT Tyler's return on net assets ratio declined from 25.2% in 2003 to 22.8% in 2004 due to an increase in debt acquired for construction of the Engineering, Science and Technology Building, the Student Dormitory and Excellence Center, and the Patriot Village Apartments.

*Expendable Resources to Total Net Assets Ratio* - UT Tyler's expendable resources to total net assets ratio increased from 22.5% in 2003 to 30.0% in 2004 due to an increase in expendable capital projects mentioned above of \$15.7 million.

*Debt Burden Ratio* - UT Tyler's debt burden ratio decreased from 7.0% in 2003 to 4.0% in 2004 due to a decrease of \$1 million in debt service transfers.

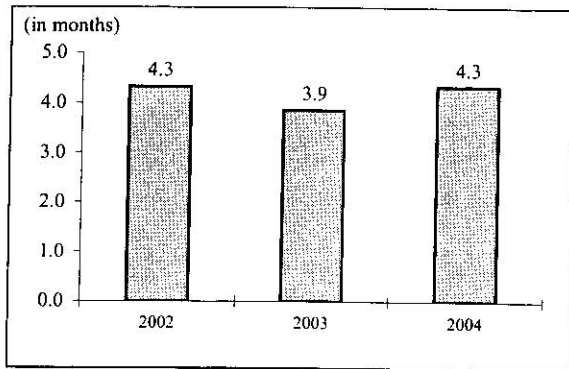
*Debt Service Coverage Ratio* - UT Tyler's debt service coverage ratio increased from 1.5x in 2003 to 2.5x in 2004 due to a larger decrease in debt service transfers as compared to the decrease in the operating margin.

*Full-Time Equivalent (FTE) Student Enrollment* - UT Tyler's FTE student enrollment gains continued due to recruitment and retention efforts.

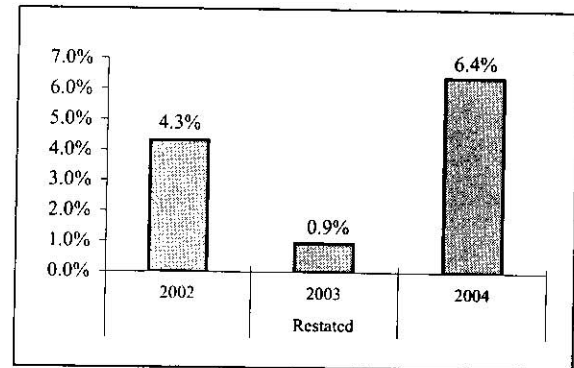
The University of Texas Southwestern Medical Center at Dallas  
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

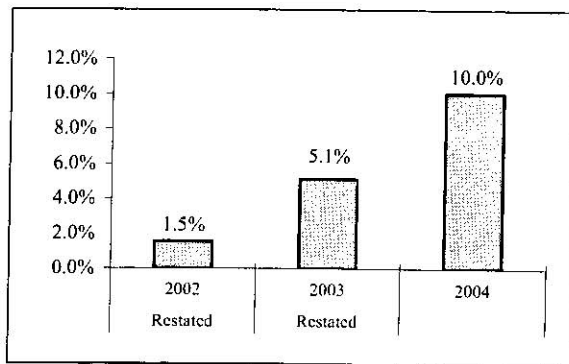
**Operating Expense Coverage Ratio**



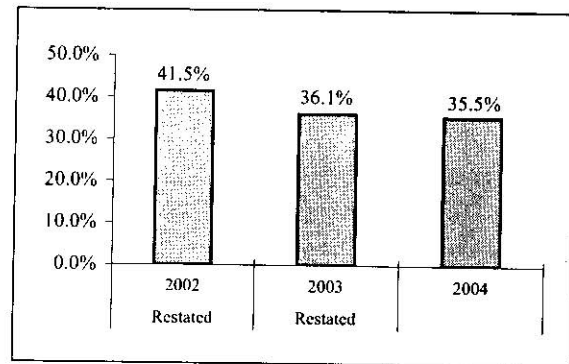
**Annual Operating Margin Ratio**



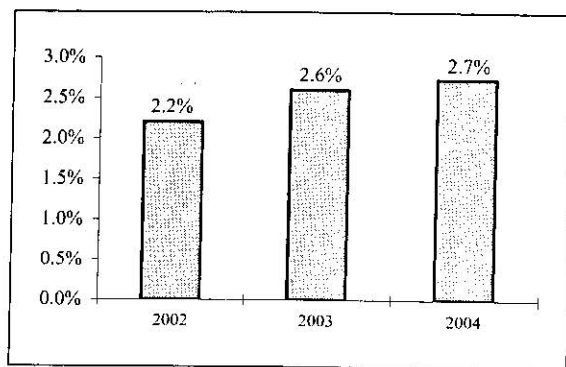
**Return on Net Assets Ratio**



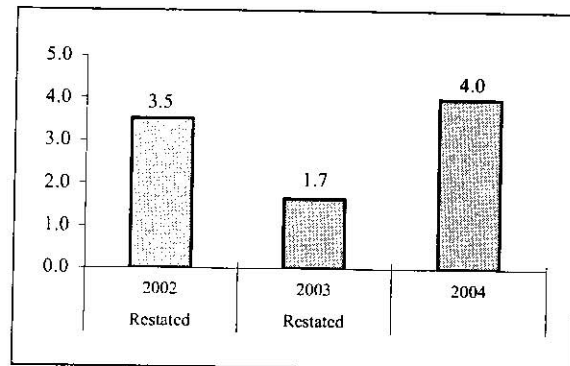
**Expendable Resources to Total Net Assets Ratio**



**Debt Burden Ratio**



**Debt Service Coverage Ratio**



## The University of Texas Southwestern Medical Center at Dallas 2004 Summary of Financial Condition

*Operating Expense Coverage Ratio* - UT Southwestern Medical Center - Dallas' (Southwestern) operating expense coverage ratio improved from 3.9 months in 2003 to 4.3 months in 2004 as unrestricted net assets increased 20.9% while operating expenses increased only 7.7%. The substantial increase in unrestricted net assets is primarily the result of revenue growth. Practice plan operating revenues increased 13.7% primarily from higher net patient revenue and contractual income from affiliated hospitals. The increase in net patient revenue is substantially attributable to patient volume. Indirect cost recovery earned on sponsored programs increased 12.8% as a result of double-digit growth in research expenditures. Other factors that contributed significantly to the increase in unrestricted net assets include an increase in gift contributions for operations of 29.0%, and the reversal of a reserve established in 2003 for uncollectible receivables for services provided to St. Paul University Hospital, Zale Lipshy University Hospital and University Medical Center. The hospital receivables will be collected with the acquisition transaction in 2005.

*Annual Operating Margin Ratio* - Southwestern's annual operating margin ratio increased substantially from 0.9% in 2003 to 6.4% in 2004. The principal factors contributing to this improvement are the revenue increases discussed in the operating expense coverage ratio, as well as an increase in investment income.

*Return on Net Assets Ratio* - Southwestern's return on net assets improved from 5.1% in 2003 to 10.0% in 2004. In addition to the increase in unrestricted net assets discussed in the operating expense coverage ratio, this performance measure was impacted by increases in investments in capital assets net of related debt and investments in endowments and annuities. The total increase in investments in capital assets was \$116.6 million and associated capital debt increased \$79.4 million. This increase is substantially attributable to expenditures of \$98.3 million on the North Campus IV project, including the fourth research building and expansion of the Rogers Magnetic Resonance Imaging Building. The growth in endowments and annuities was largely attributable to an increase in gifts of \$22.1 million and an increase in market value of \$8.8 million.

*Expendable Resources to Total Net Assets Ratio* - Southwestern's expendable resources to total net assets ratio decreased slightly from 36.1% in 2003 to 35.5% in 2004. The slight deterioration in this ratio is primarily a result of the increase in the ending value of nonexpendable endowments and annuities and investments in capital assets as discussed in the return on net assets ratio.

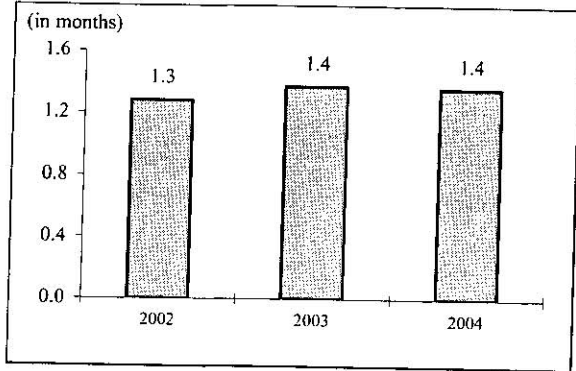
*Debt Burden Ratio* - Southwestern's debt burden ratio remained relatively unchanged at 2.7% in 2004. The slight increase is a result of a \$2.6 million increase in debt service payments.

*Debt Service Coverage Ratio* - Southwestern's debt service coverage ratio increased from 1.7x to 4.0x due to growth in the annual operating margin discussed previously.

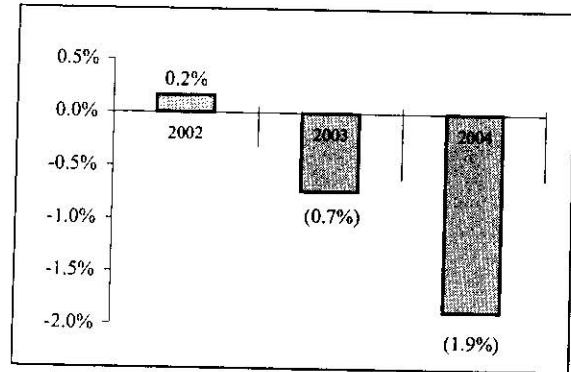
The University of Texas Medical Branch at Galveston  
2004 Summary of Financial Condition

Financial Condition: **Watch**

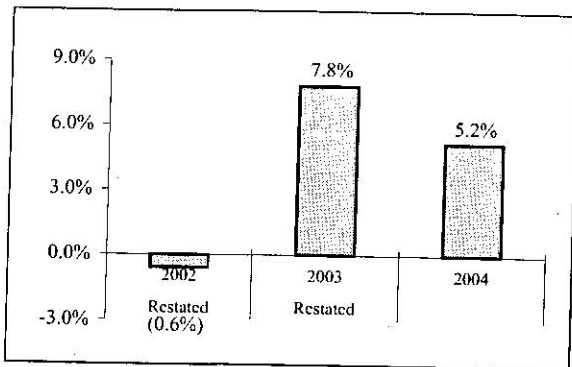
**Operating Expense Coverage Ratio**



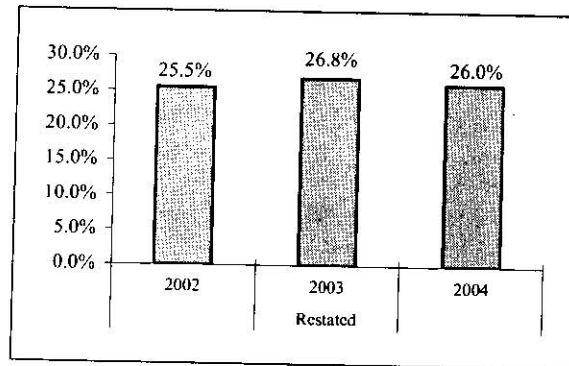
**Annual Operating Margin Ratio**



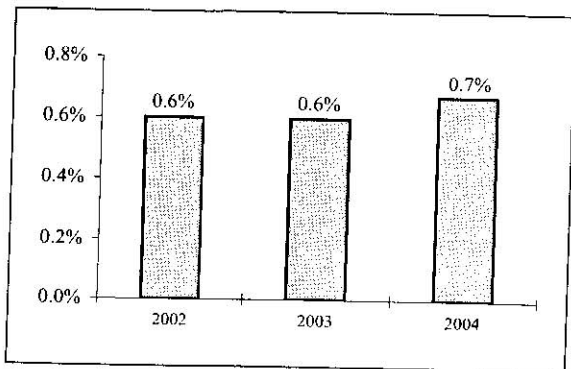
**Return on Net Assets Ratio**



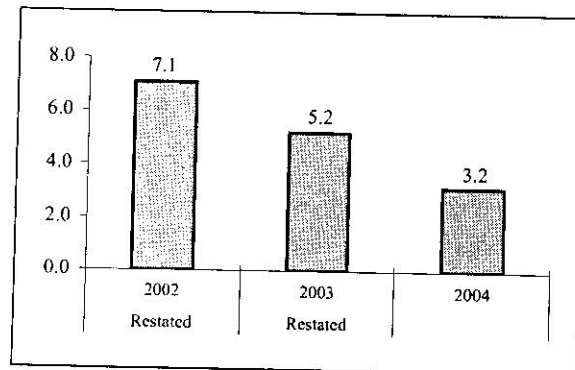
**Expendable Resources to Total Net Assets Ratio**



**Debt Burden Ratio**



**Debt Service Coverage Ratio**





## The University of Texas Medical Branch at Galveston 2004 Summary of Financial Condition

*Operating Expense Coverage Ratio* - UT Medical Branch - Galveston's (UTMB Galveston) operating expense coverage ratio was unchanged between years at 1.4 months. Unrestricted net assets increased between years by 1.7%; however, that increase was offset by a 2.5% increase in operating expenses. The growth in expenses was largely due to an 8.3% increase in patient volumes and inflation, offset by cost reductions and efficiency gains during the year. UTMB Galveston continues to be significantly impacted by the effects of healthcare inflation, which is outpacing general market inflation.

*Annual Operating Margin Ratio* - UTMB Galveston's annual operating margin ratio decreased from (0.7%) in 2003 to (1.9%) in 2004. Operating revenues increased by 2.6% or \$25.1 million, largely due to patient care volume increases, patient care revenue enhancement initiatives, and growth in research related revenue. However, UTMB Galveston's operating margin was adversely impacted by an \$8.9 million reduction in state appropriations and a \$10.0 million reduction in the Indigent Care Fund between years. Additionally, operating expenses increased 2.5% or \$32.4 million, largely due to patient care volume increases and the impact of inflation discussed above. After adjusting for patient care volume increases and the impact of inflation, expenses have actually been reduced in 2004 through a combination of efficiency gains, reductions in discretionary spending, and process and other improvements. Also in 2004, UTMB planned for an \$8.6 million expenditure of fund balances, reducing margins between years. The fund balance spending was necessary to provide transition funding as financial improvement plans were being implemented in response to state revenue reductions, and to comply with donor's intentions on restricted gifts.

The annual operating margin ratio includes depreciation expense (a non-cash expense) and excludes gifts for capital acquisition (primarily from the Sealy Smith Foundation for which UTMB Galveston is the sole beneficiary). After adjusting for these items, UTMB Galveston's cash flow available for capital in 2004 was \$35.9 million.

*Return on Net Assets Ratio* - UTMB Galveston's return on net assets ratio declined from 7.8% in 2003 to 5.2% in 2004. The decrease in return on net assets ratio between years was mostly due to a reduction in operating margin of \$14.7 million discussed above and a reduction in gifts for capital acquisitions of \$15.1 million, offset by increases in fair market value of investments of \$13.5 million and endowment additions of \$9.5 million. The reduction in gifts for capital acquisitions was largely due to timing.

*Expendable Resources to Total Net Assets Ratio* - UTMB Galveston's expendable resources to total net assets ratio decreased slightly from 26.8% in 2003 to 26.0% in 2004. Although expendable resources increased by 2.7% between the years, total net assets increased by 6.4%, resulting in a reduction in the expendable resources to total net assets ratio. The fair market value increase in endowments largely contributed to the growth in total net assets exceeding the growth in expendable net assets.

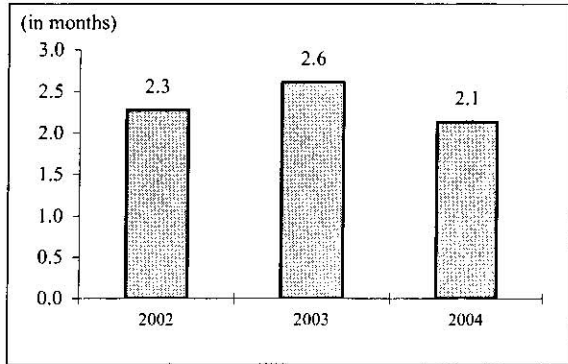
*Debt Burden Ratio* - UTMB Galveston's debt burden ratio increased slightly from 0.6% in 2003 to 0.7% in 2004 as a result of increased debt between the years to support UTMB Galveston's approved facility expansion plan. UTMB Galveston's debt burden ratio remains extremely low.

*Debt Service Coverage Ratio* - UTMB Galveston's debt service coverage ratio decreased from 5.2x in 2003 to 3.2x in 2004 as a result of the decline in the annual operating margin ratio and increase in debt discussed above.

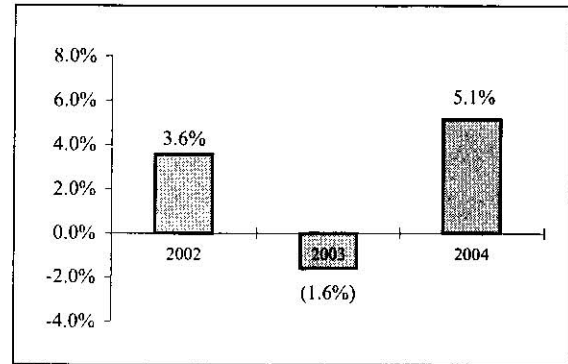
The University of Texas Health Science Center at Houston  
2004 Summary of Financial Condition

Financial Condition: **Watch**

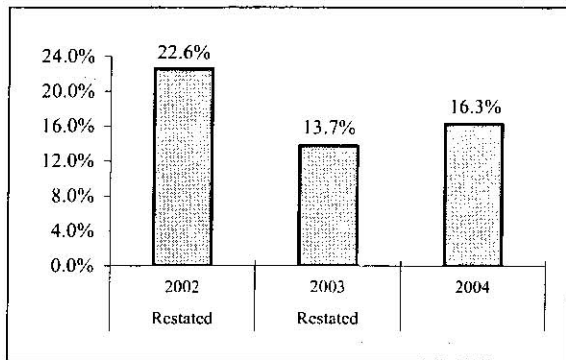
**Operating Expense Coverage Ratio**



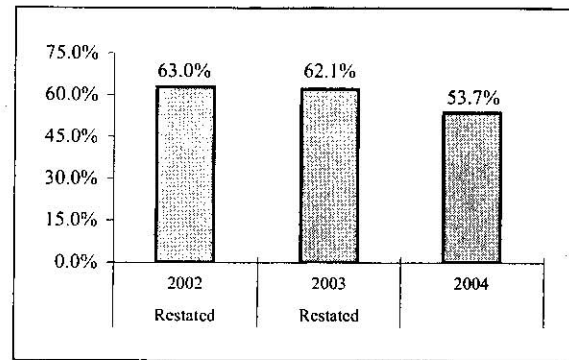
**Annual Operating Margin Ratio**



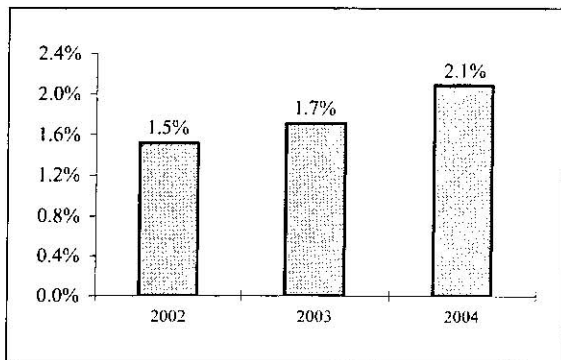
**Return on Net Assets Ratio**



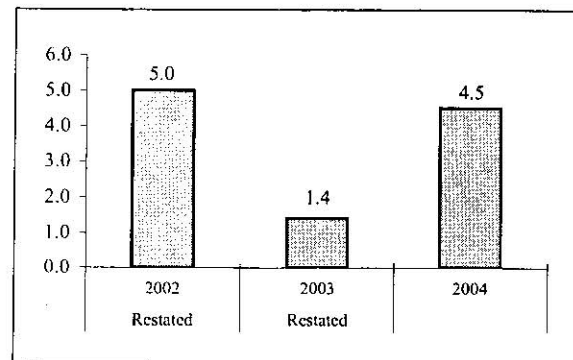
**Expendable Resources to Total Net Assets Ratio**



**Debt Burden Ratio**



**Debt Service Coverage Ratio**



**The University of Texas Health Science Center at Houston  
2004 Summary of Financial Condition**

*Operating Expense Coverage Ratio* - UT Health Science Center - Houston's (UTHSC-Houston) operating expense coverage ratio decreased from 2.6 months in 2003 to 2.1 months in 2004. While operating expenses remained essentially unchanged from 2003, total unrestricted net assets decreased by \$20 million. In 2003 the receipt of commercial insurance and FEMA proceeds related to Tropical Storm Allison substantially exceeded the expenses. However, the reverse occurred in 2004 as UTHSC-Houston expended the proceeds on recovery efforts.

*Annual Operating Margin Ratio* - UTHSC-Houston's annual operating margin ratio increased significantly from (1.6%) in 2003 to 5.1% in 2004. Operating revenues increased \$48.3 million, while operating expenses increased only \$1 million. Net professional fees increased \$6.7 million due to a higher fee schedule implemented in September 2003, as well as an increase in faculty productivity and slightly improved collection efforts. Local sponsored programs increased \$9.8 million as a result of increases in contractual income from Memorial Hermann Hospital, Harris County Hospital District and UT M. D. Anderson Cancer Center. Gift pledges of \$25.2 million for operations of the Institute of Molecular Medicine also contributed to the increase in the annual operating margin.

*Return on Net Assets Ratio* - UTHSC-Houston's return on net assets ratio of 16.3% for 2004 was higher than the 2003 ratio of 13.7%. UTHSC-Houston's net assets increased largely due to the significant improvement in the annual operating margin as discussed above. Another large contributing factor to the growth in net assets was the \$24 million increase in nonmandatory transfers from UT System Administration of bond proceeds for capital projects.

*Expendable Resources to Total Net Assets Ratio* - UTHSC-Houston's expendable resources to total net assets ratio decreased from 62.1% in 2003 to 53.7% in 2004 as a result of the \$103 million increase in total net assets as discussed in the return on net assets ratio.

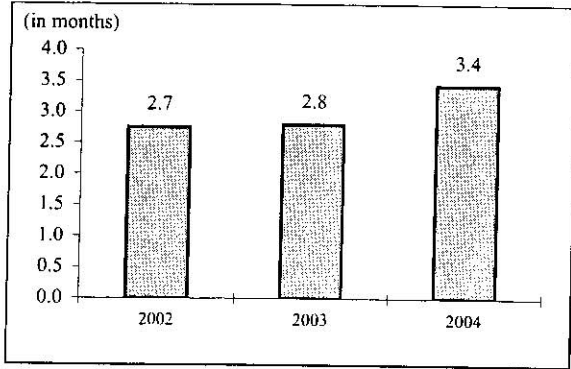
*Debt Burden Ratio* - UTHSC-Houston's debt burden ratio increased from 1.7% in 2003 to 2.1% in 2004. The increase in this ratio is attributable to the \$2.2 million increase in debt service transfers. A full year of debt service was incurred for the Nursing and Student Community Center Building.

*Debt Service Coverage Ratio* - UTHSC-Houston's debt service coverage ratio of 4.5x in 2004 was a substantial increase from the 2003 ratio of 1.4x. The increase in this ratio is attributable to the significant improvement in the annual operating margin discussed previously.

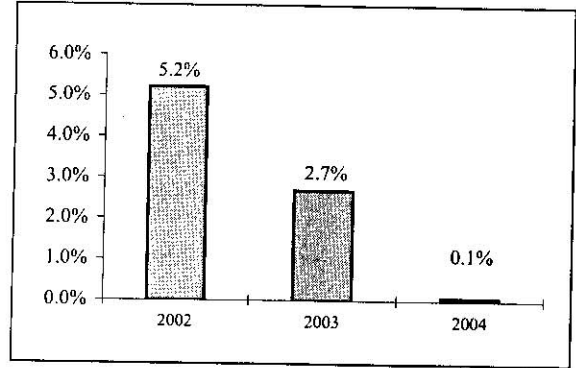
The University of Texas Health Science Center at San Antonio  
2004 Summary of Financial Condition

Financial Condition: Satisfactory

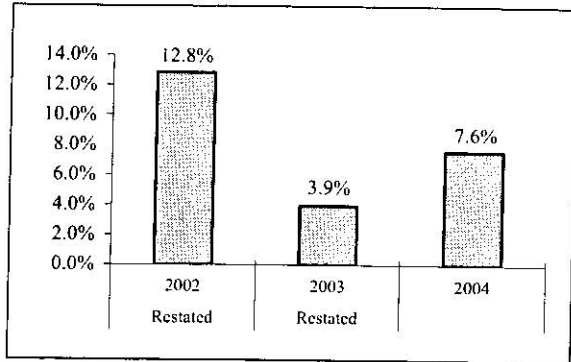
**Operating Expense Coverage Ratio**



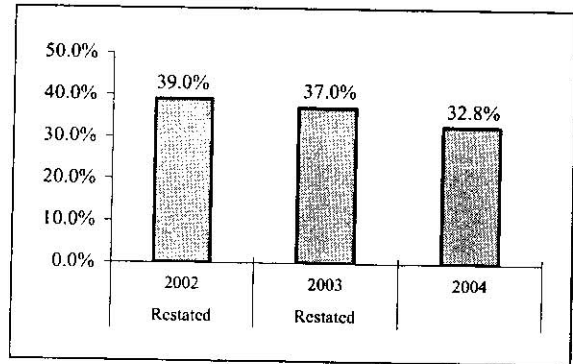
**Annual Operating Margin Ratio**



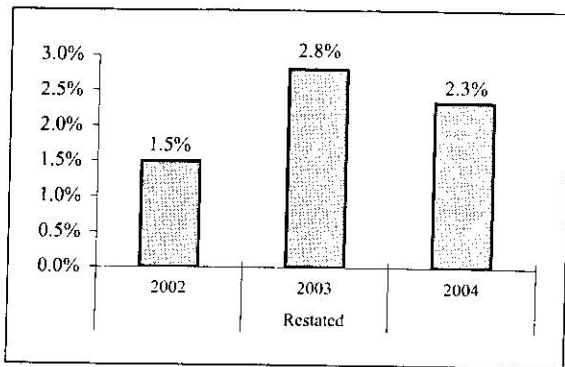
**Return on Net Assets Ratio**



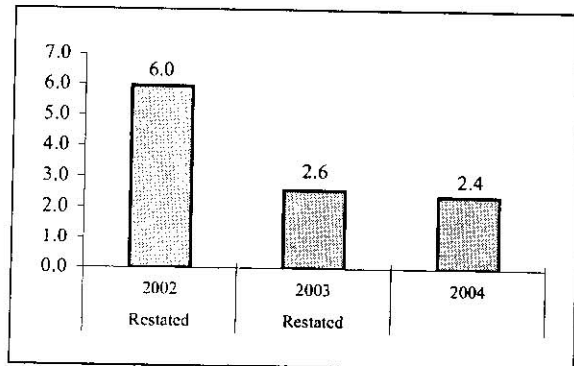
**Expendable Resources to Total Net Assets Ratio**



**Debt Burden Ratio**



**Debt Service Coverage Ratio**



**The University of Texas Health Science Center at San Antonio**  
**2004 Summary of Financial Condition**

*Operating Expense Coverage Ratio* - UT Health Science Center - San Antonio's (UTHSC-San Antonio) operating expense coverage ratio improved from 2.8 months in 2003 to 3.4 months in 2004 as a result of a \$27.5 million or 26% increase in unrestricted net assets. Total unrestricted net asset increases are largely due to increases in practice plan operations of \$8.9 million, the sale of Ilex stock of \$3.4 million, Children's Cancer Research Institute of \$1.8 million, indirect cost recoveries of \$1.0 million and state funds of \$2.4 million. State funds include carryforward funds of approximately \$4.5 million for the Regional Academic Health Center (RAHC), which will be expended in 2005.

*Annual Operating Margin Ratio* - UTHSC-San Antonio's annual operating margin ratio dropped from 2.7% in 2003 to 0.1% in 2004. The decrease in annual operating margin ratio was due to revenues remaining relatively flat, while operating expenses increased \$9.8 million or 2.2% and interest expense increased \$2.7 million. An increase in practice plan expenses of \$9.5 million accounted for most of the increase in operating expenses of which a significant portion of this increase pertained to the Department of Surgery. The increase in expenses in the Department of Surgery related to the recruitment of a chairman and the hiring of faculty in Neurosurgery and Plastic Surgery, as well as the expansion of Urology from a division to a department status.

*Return on Net Assets Ratio* - UTHSC-San Antonio's return on net assets ratio improved from 3.9% in 2003 to 7.6% in 2004. The improvement can primarily be attributed to the 26% growth in total unrestricted net assets of \$27.5 million, as discussed above in the operating expense coverage ratio.

*Expendable Resources to Total Net Assets Ratio* - UTHSC-San Antonio's expendable resources to total net assets ratio decreased from 37% in 2003 to 32.8% in 2004 primarily due to expenditures that have occurred related to the Children's Cancer Research Institute (North Campus), Sam and Ann Barshop Institute for Longevity and Aging (Texas Research Park Campus), Student Services Building (Central Campus) and the RAHC Medical Research Building in Edinburg.

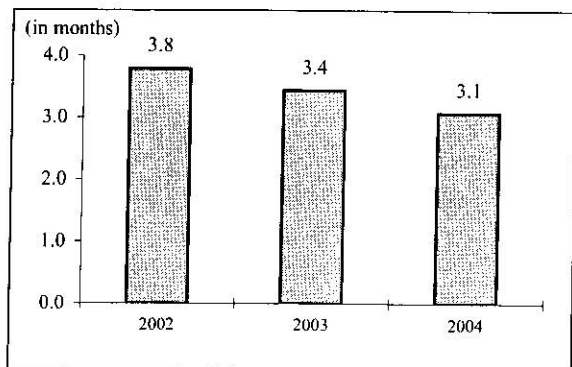
*Debt Burden Ratio* - UTHSC-San Antonio's debt burden ratio decreased from 2.8% in 2003 to 2.3% in 2004. Debt service transfers to UT System Administration dropped from \$12.7 million in 2003 to \$10.9 million in 2004.

*Debt Service Coverage Ratio* - UTHSC-San Antonio's debt service coverage ratio reflected a slight decrease from 2.6x in 2003 to 2.4x in 2004 due to the decline in the annual operating margin as discussed above.

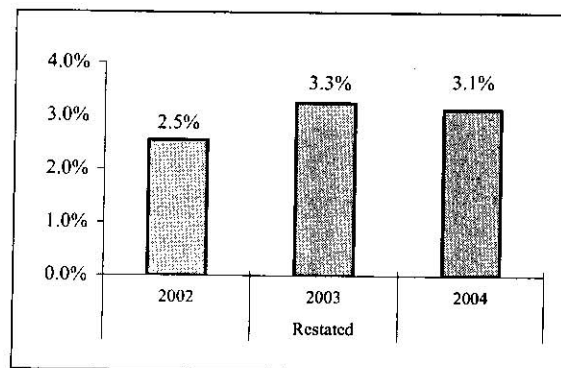
The University of Texas M. D. Anderson Cancer Center  
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

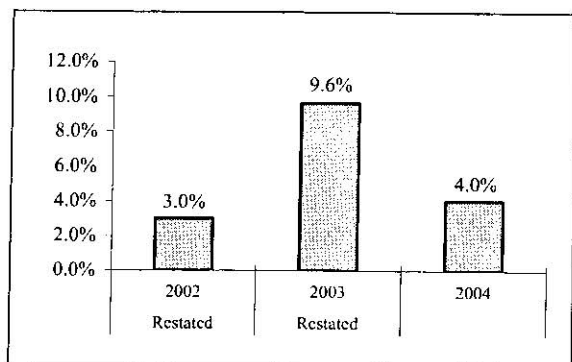
**Operating Expense Coverage Ratio**



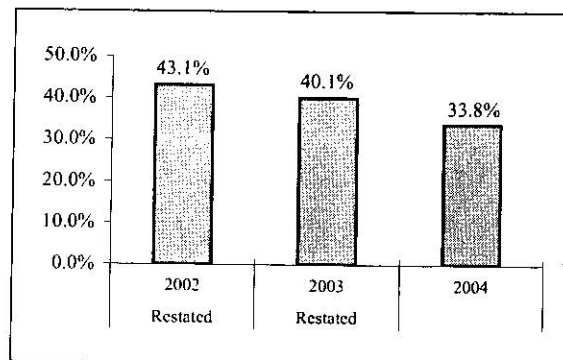
**Annual Operating Margin Ratio**



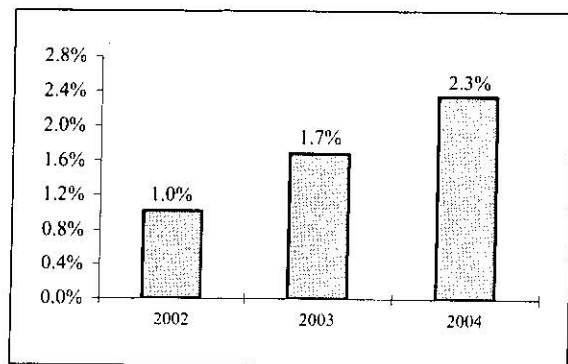
**Return on Net Assets Ratio**



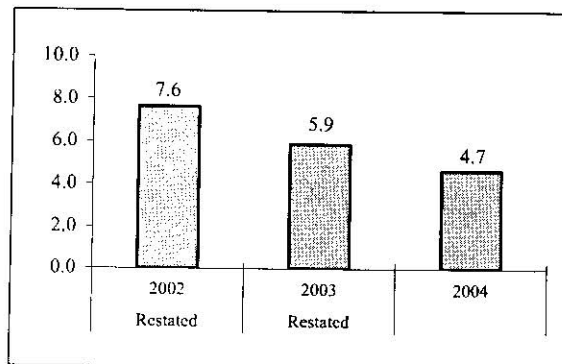
**Expendable Resources to Total Net Assets Ratio**



**Debt Burden Ratio**



**Debt Service Coverage Ratio**



**The University of Texas M. D. Anderson Cancer Center**  
**2004 Summary of Financial Condition**

*Operating Expense Coverage Ratio* - UT M. D. Anderson Cancer Center's (M. D. Anderson) operating expense coverage ratio decreased from 3.4 months in 2003 to 3.1 months in 2004. Increased operating expenses to support increased patient volumes caused the minor decrease in this ratio. The greatest increases in operating expenses occurred in materials and supplies and salaries and wages. These increases are directly attributable to an overall increase of approximately 17% in hospital and clinics related activities.

*Annual Operating Margin Ratio* - M. D. Anderson's annual operating margin ratio was 3.1% for 2004, which was a slight decrease from the 2003 ratio of 3.3%. While the annual operating margin increased \$5.7 million, the margin ratio decreased due to revenue growth outpacing the growth in margin.

*Return on Net Assets Ratio* - M. D. Anderson's return on net assets ratio dropped from 9.6% in 2003 to 4% in 2004. The decrease was primarily due to the level of construction. During 2003 M. D. Anderson's debt outstanding increased approximately \$210 million due to construction of the Ambulatory Clinic Building and Cancer Prevention Building, which was significantly more than the increase in debt during 2004.

*Expendable Resources to Total Net Assets Ratio* - M. D. Anderson's expendable resources to total net assets ratio was 33.8% for 2004 which was a decrease from the ratio for 2003 of 40.1%. Due to several large construction projects coming to the end of their building cycle, the amount of expendable net assets reserved for capital purposes decreased by \$45.2 million in 2004.

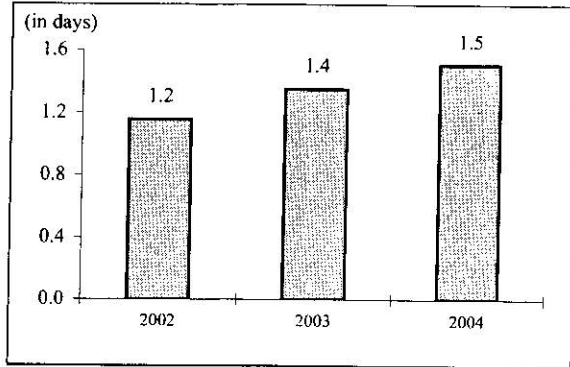
*Debt Burden Ratio* - M. D. Anderson's debt burden ratio increased from 1.7% in 2003 to 2.3% in 2004 due to an increase in debt service of \$15.7 million. While debt has increased due to several large construction projects, M. D. Anderson continues to have positive operating results driven by patient care related activities. The additional buildings supported by the debt are expected to allow for continued positive operating results to support the increased debt.

*Debt Service Coverage Ratio* - M. D. Anderson's debt service coverage ratio declined from 5.9x in 2003 to 4.7x in 2004 primarily due to the increase in debt service. M. D. Anderson continues to be able to cover its debt service requirements related to providing a greater level of patient care during a period of continued growth.

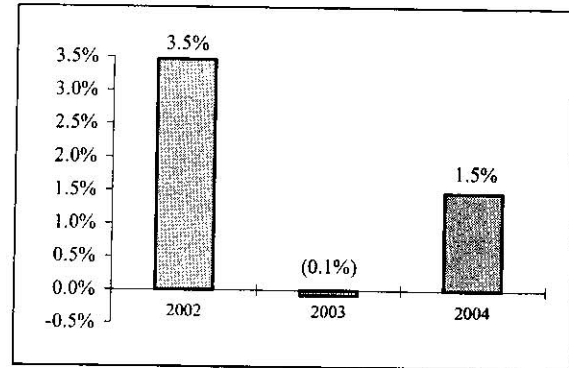
The University of Texas Health Center at Tyler  
2004 Summary of Financial Condition

Financial Condition: **Watch**

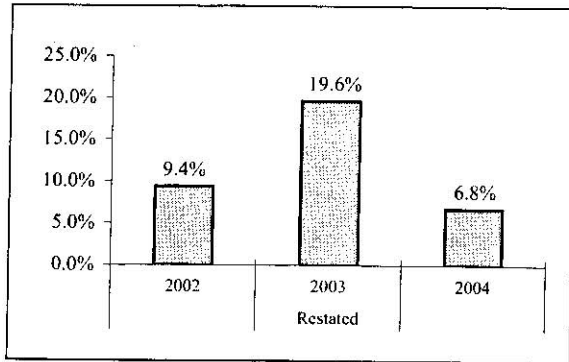
**Operating Expense Coverage Ratio**



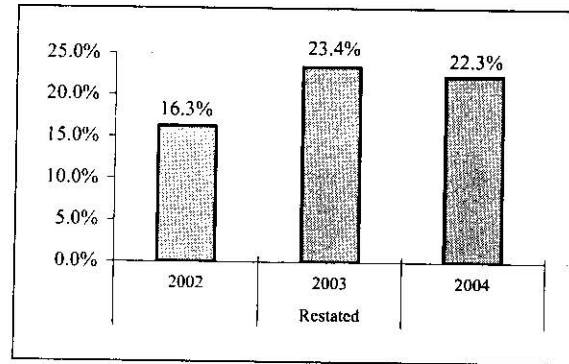
**Annual Operating Margin Ratio**



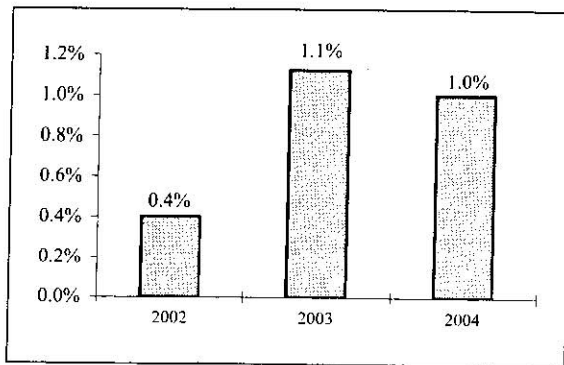
**Return on Net Assets Ratio**



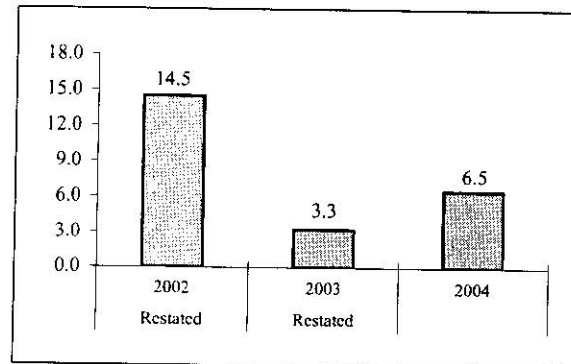
**Expendable Resources to Total Net Assets Ratio**



**Debt Burden Ratio**



**Debt Service Coverage Ratio**





**The University of Texas Health Center at Tyler  
2004 Summary of Financial Condition**

*Operating Expense Coverage Ratio* - UT Health Center - Tyler's (UTHC-Tyler) operating expense coverage ratio remained relatively stable at 1.5 months. Unrestricted net assets increased \$2.1 million, while operating expenses increased by \$4.7 million.

*Annual Operating Margin Ratio* - UTHC-Tyler's annual operating margin ratio increased significantly from (0.1%) in 2003 to 1.5% in 2004 largely due to the North East Texas Initiative (NETI) funding available for current operations in 2004, rather than restricted for capital expenditures as it was in 2002 and 2003. Additionally, UTHC-Tyler's gifts for operations increased \$1.7 million or 450.2% primarily due to a large gift from the Emaline Chamblee Estate.

*Return on Net Assets Ratio* - UTHC-Tyler's return on net assets ratio declined from 19.6% in 2003 to 6.8% in 2004 as a result of the increased use of debt to purchase assets rather than leasing the assets. By purchasing assets, UTHC-Tyler has increased total net assets. However, the increase in net assets did not keep pace with the increase in debt.

*Expendable Resources to Total Net Assets Ratio* - UTHC-Tyler's expendable resources to total net assets ratio decreased slightly from 23.4% in 2003 to 22.3% in 2004 primarily due to the \$5.4 million decrease in expendable net assets reserved for capital projects.

*Debt Burden Ratio* - UTHC-Tyler's debt burden ratio decreased slightly from 1.1% in 2003 to 1% in 2004 due to the \$4.7 million (4%) increase in total operating expenses.

*Debt Service Coverage Ratio* - UTHC-Tyler's debt service coverage ratio increased from 3.3x in 2003 to 6.5x in 2004 due to the increase in the annual operating margin discussed above, as well as relatively stable debt service costs.

## Appendix A - Definitions of Evaluation Factors

1. **Operating Expense Coverage Ratio** – This ratio measures an institution’s ability to cover future operating expenses with available year-end balances. This ratio is expressed in number of months coverage. Although the Texas State Comptroller required the Permanent Health Fund (PHF) to be reported as unrestricted, U.T. System considers the PHF to be nonexpendable. Therefore, the PHF was subtracted from unrestricted net assets for U.T. El Paso and the six U.T. health-related institutions.

$$\text{Formula} = \left( \frac{\text{Total Unrestricted Net Assets} - \text{Permanent Health Fund}}{\text{Total Operating Expenses} + \text{Interest Expense on Debt}} \right) * 12$$

2. **Annual Operating Margin Ratio** – This ratio indicates whether an institution is living within its available resources.

$$\text{Formula} = \frac{\text{Operating Rev.} + \text{Approp.} + \text{Op. Gifts} + \text{Inv. Inc.} + \text{Transfer} + \text{Transfer} \pm \text{Ent. Fund} - \text{Operating Exp.} - \text{Interest Exp.}}{\text{Op. Rev.} + \text{Approp.} + \text{RAHC Transfer} + \text{Op. Gifts} + \text{Inv. Inc.} + \text{AUF Transfer} \pm \text{Texas Ent. Fund}}$$

3. **Return on Net Assets Ratio** – This ratio determines whether the institution is financially better off than in previous years by measuring total economic return. An improving trend indicates that the institution is increasing its net assets and is likely to be able to set aside financial resources to strengthen its future financial flexibility.

$$\text{Formula} = \frac{\text{Change in Net Assets (Adjusted for Change in Debt not on Institution's Books)}}{\text{Beginning Restated Net Assets} - \text{Debt not on Institution's Books}}$$

4. **Expendable Resources to Total Net Assets Ratio** – This ratio measures the amount of an institution’s total net assets that are expendable.

$$\text{Formula} = \frac{\text{Expendable Net Assets} + \text{Unrestricted Net Assets} - \text{PHF}}{\text{Total Net Assets} - \text{Debt not on Institution's Books}}$$

5. **Debt Burden Ratio** – This ratio examines the institution’s dependence on borrowed funds as a source of financing and the cost of borrowing relative to overall expenses.

$$\text{Formula} = \frac{\text{Debt Service Transfers}}{\text{Operating Exp. (excluding Scholarships Exp.)} + \text{Interest Exp.}}$$

6. **Debt Service Coverage Ratio** – This ratio measures the actual margin of protection provided to investors by annual operations. *Moodys Investors Service* excludes actual investment income from its calculation of total operating revenue and instead, uses a normalized investment income of 4.5% of the prior year’s ending total cash and investments. This is the calculation used by the Office of Finance. Therefore, in order to be consistent with the Office of Finance’s calculation of the debt service coverage ratio, we used normalized investment income as defined above for this ratio only.

$$\text{Formula} = \frac{\text{Op. Rev.} + \text{Approp.} + \text{Op. Gifts} + \text{Inv. Inc.} + \text{Transfer} + \text{Transfer} \pm \text{Ent. Fund} - \text{Op. Exp.} + \text{Depr. Exp.}}{\text{Debt Service Transfers}}$$

7. **Full-Time Equivalent (FTE) Student Enrollment** - Total semester credit hours taken by students during the fall semester, divided by factors of 15 for undergraduate students, 12 for graduate and special professional students, and 9 for doctoral students to arrive at the full-time equivalent (FTE) students represented by the course hours taken.

## Appendix A - Definitions of Evaluation Factors (Continued)

The categories, which are utilized to indicate the assessment of an institution's financial condition, are "Satisfactory," "Watch" and "Unsatisfactory." In most cases the rating is based upon the trends of the financial ratios unless isolated financial difficulties in particular areas are material enough to threaten the overall financial results.

**Satisfactory** – an institution assigned this assessment exhibits a general history of relatively stable or increasing financial ratios. The operating expense coverage ratio should be at or above a two-month benchmark and should be stable or improving. The annual operating margin ratio could be both positive and negative during the trend period due to nonrecurring items. Some of these items include unexpected reductions in external sources of income, such as state appropriations, gifts and investment income, all of which are unpredictable and subject to economic conditions. The return on net assets ratio may vary widely due to single-year events, such as a substantial gift or changes in investment performance. The causes of the swings in this ratio should not threaten the overall financial stability of the institution, and the ratio should not be negative. The expendable resources to total net assets ratio should generally increase or remain stable over time. The Office of Finance uses the debt burden ratio and debt service coverage ratio, which are the same ratios the bond rating agencies calculate for the System. Trends in these ratios can help determine if an institution has assumed more debt than it can afford to service. Full-time equivalent (FTE) student enrollment must be relatively stable or increasing. Isolated financial difficulties in particular areas may be evident, but must not be material enough to threaten overall financial results.

**Watch** – an institution assigned this assessment exhibits a history of relatively unstable or declining financial ratios. The operating expense coverage ratio can be at or above a two-month benchmark, but typically shows a declining trend. Annual operating margin ratio is negative or near break-even during the trend period due to recurring items, material operating difficulties or uncertainties caused by either internal management decisions or external factors. The return on net assets ratio may vary widely due to single-year events, such as a substantial gift or changes in investment performance. Low expendable net assets in relation to operating size may signal a weak financial condition. The expendable resources to total net assets ratio could be decreasing or could be temporarily inflated for capital projects. Trends in the debt burden ratio and debt service coverage ratios can help determine if an institution has assumed more debt than it can afford to service. FTE student enrollment can be stable or declining, depending upon competitive alternatives or recruitment and retention efforts. Isolated financial difficulties in particular areas may be evident and can be material enough to threaten overall financial results.

**Unsatisfactory** – an institution assigned this assessment exhibits a history of relatively unstable financial ratios. The operating expense coverage ratio may be below a two-month benchmark and shows a declining trend. The annual operating margin ratio is predominately volatile or negative during the trend period due to material operating difficulties or uncertainties caused by either internal management decisions or external factors. The causes of the fluctuations in the return on net assets ratio are considered a threat to the overall financial stability of the institution and recur during the trend period. This ratio may also be negative in one or more of the years analyzed. The expendable resources to total net assets ratio could be decreasing or could be temporarily inflated for capital projects. Trends in the debt burden ratio and debt service coverage ratios can help determine if an institution has assumed more debt than it can afford to service. The FTE student enrollment can be stable or declining, depending upon competitive alternatives or recruitment and retention efforts. Widespread financial difficulties in key areas are evident and are material enough to further threaten overall financial results. Generally a business plan exists to address corrective actions of improving the financial condition.

**Appendix B - Calculation of Expendable Net Assets  
Academic Institutions  
As of August 31, 2004  
(In Millions)**

Institution	Restricted Expendable Net Assets				Total Unrestricted Net Assets	Less: PHF*	Total Expendable Net Assets
	Capital Projects	Funds Functioning Restricted	Other Expendable	Total			
Arlington	\$ 32.2	1.5	18.3	52.0	66.8	-	118.9
Austin	42.6	103.1	244.5	390.2	368.5	-	758.7
Brownsville	13.8	-	4.3	18.1	22.4	-	40.5
Dallas	16.9	3.5	58.4	78.8	42.0	-	120.8
El Paso	7.9	4.5	19.2	31.7	50.5	(24.8)	57.3
Pan American	12.2	0.7	14.6	27.6	55.8	-	83.3
Permian Basin	6.0	-	5.0	11.0	3.2	-	14.2
San Antonio	22.1	0.5	25.4	48.0	57.0	-	104.9
Tyler	30.0	0.3	4.0	34.3	12.6	-	46.9

\*Although the Texas State Comptroller required the Permanent Health Fund (PHF) to be reported as unrestricted, UT System considers the PHF to be nonexpendable. Therefore, the PHF is subtracted from expendable net assets.

**Appendix B - Calculation of Expendable Net Assets  
Health Institutions  
As of August 31, 2004  
(In Millions)**

Institution	Restricted Expendable Net Assets				Total Unrestricted Net Assets	Less: PHF*	Total Expendable Net Assets
	Capital Projects	Funds Functioning Restricted	Other Expendable	Total			
Southwestern	\$ 26.1	18.2	248.7	293.1	343.2	(49.7)	586.7
UTMB Galveston	37.7	13.6	46.5	97.8	173.6	(24.8)	246.5
UTHSC-Houston	104.3	4.4	110.9	219.5	128.1	(24.8)	322.8
UTHSC-San Antonio	10.3	4.3	79.5	94.1	331.7	(198.6)	227.2
M. D. Anderson	77.3	20.8	146.9	245.1	552.3	(99.3)	698.1
UTHC-Tyler	5.8	0.6	5.6	12.0	40.3	(24.8)	27.4

\*Although the Texas State Comptroller required the Permanent Health Fund (PHF) to be reported as unrestricted, UT System considers the PHF to be nonexpendable. Therefore, the PHF is subtracted from expendable net assets.

**Appendix C - Calculation of Annual Operating Margin  
Academic Institutions  
As of August 31, 2004  
(In Millions)**

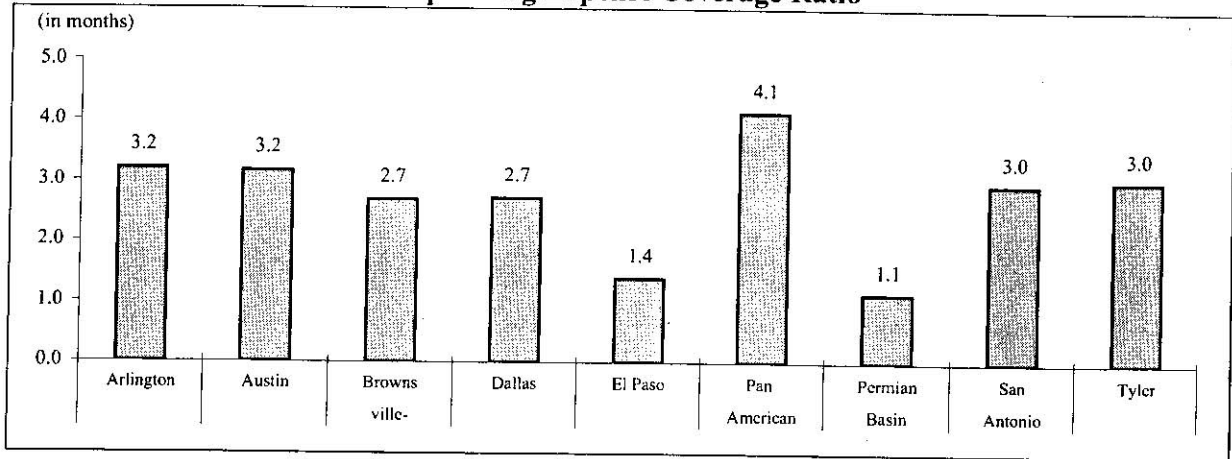
Institution	Income/(Loss) Bcfore Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items				Margin From SRECNA	Other Adjustments				Annual Operating Margin
		Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.		Realized Gains/ Losses	AUF Transfer	Texas Enterprise Fund	Interest Expense	
Arlington	\$ 28.7	0.3	(0.6)	(0.4)	3.2	26.2	-	-	-	(6.1)	20.1
Austin	121.2	8.4	(4.5)	(2.3)	146.5	(26.9)	(0.4)	109.4	-	(18.3)	64.5
Brownsville	3.5	-	-	-	0.5	3.0	0.1	-	-	(2.0)	0.8
Dallas	31.4	0.7	(0.5)	(0.9)	11.3	20.7	-	-	(19.5)	(3.1)	(1.8)
El Paso	21.6	-	-	(0.1)	9.5	12.2	-	-	-	(3.3)	8.8
Pan American	7.5	0.2	(0.1)	(0.3)	2.2	5.5	-	-	-	(4.1)	1.5
Permian Basin	(2.6)	-	-	-	1.0	(3.6)	-	-	-	(1.2)	(4.8)
San Antonio	18.8	-	(2.2)	-	2.3	18.7	-	-	-	(6.8)	11.9
Tyler	4.2	-	-	-	3.7	0.9	-	-	-	(1.2)	(0.3)

**Appendix C - Calculation of Annual Operating Margin  
Health Institutions  
As of August 31, 2004  
(In Millions)**

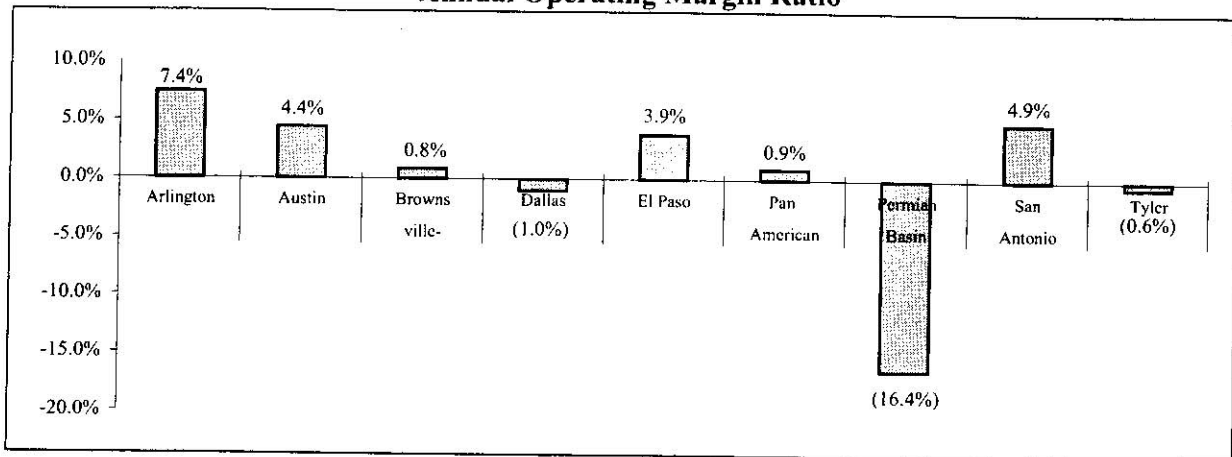
Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items				Margin From SRECNA	Other Adjustments				Annual Operating Margin
		Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.		Realized Gains/ Losses	Texas Enterprise Fund & RAHC Transfer FEMA	Interest Expense		
Southwestern	\$ 114.4	2.9	(0.8)	(2.7)	50.4	64.6	(0.9)	-	-	(9.8)	55.7
UTMB Galveston	3.8	0.5	(2.4)	(0.7)	27.5	(21.0)	0.3	-	-	(2.8)	(24.0)
UTHSC-Houston	49.7	0.5	(2.5)	(1.9)	11.4	42.1	(1.9)	1.5	(7.8)	(6.2)	31.5
UTHSC-San Antonio	30.5	-	-	(0.6)	33.2	(2.2)	0.0	5.0	4.5	(6.9)	0.3
M. D. Anderson	130.7	26.7	(0.8)	(8.8)	30.0	83.6	6.0	-	-	(20.6)	57.0
UTHC-Tyler	4.0	0.2	-	(1.2)	2.8	2.2	-	-	-	(0.4)	1.8

**Appendix D - Academic Institutions' Evaluation Factors  
2004 Analysis of Financial Condition**

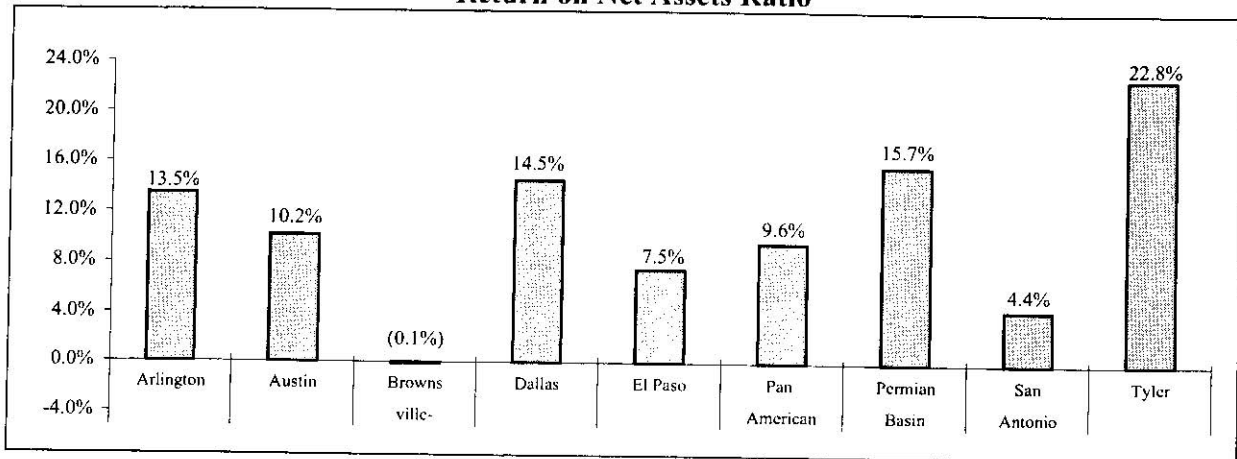
**Operating Expense Coverage Ratio**



**Annual Operating Margin Ratio**



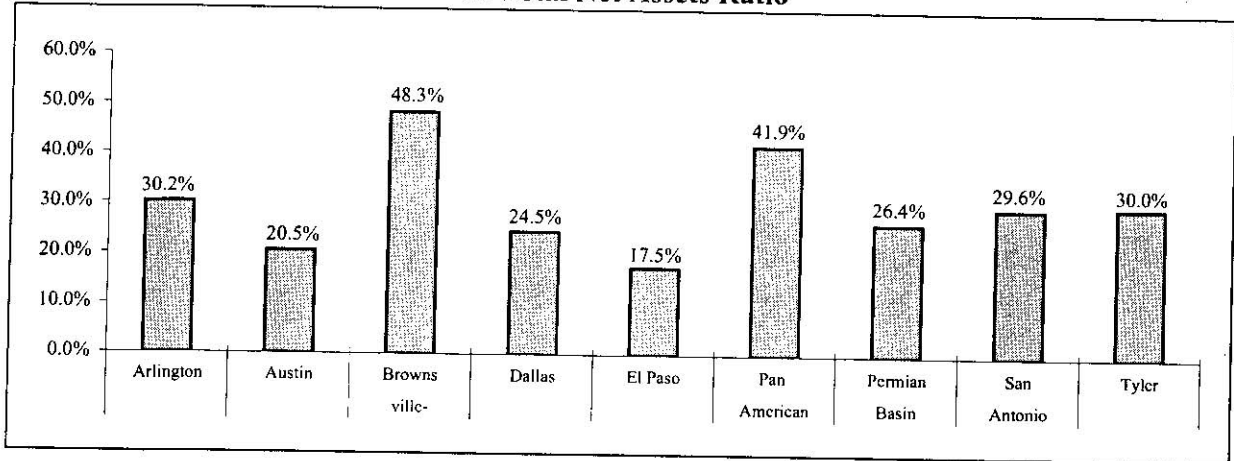
**Return on Net Assets Ratio**



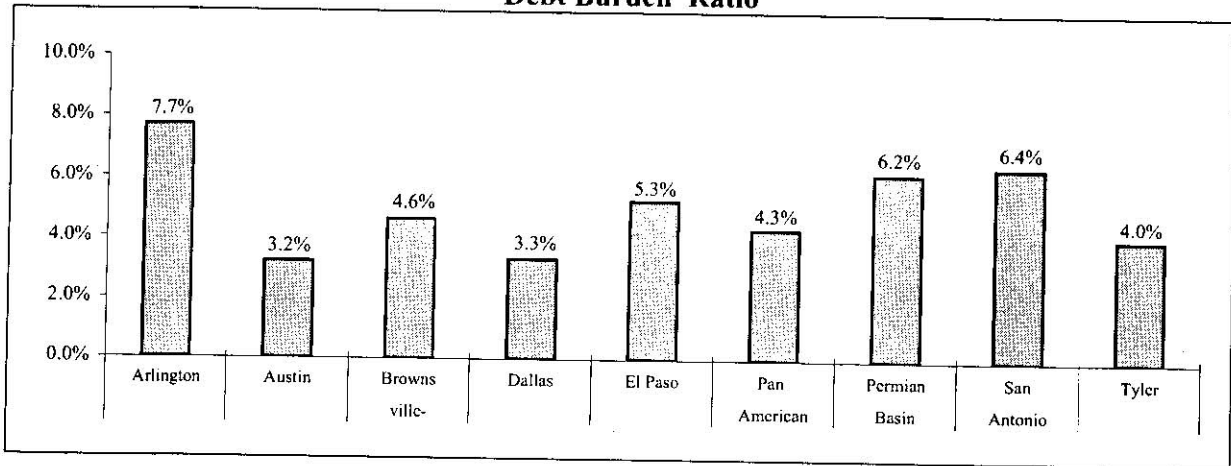


**Appendix D - Academic Institutions' Evaluation Factors  
2004 Analysis of Financial Condition**

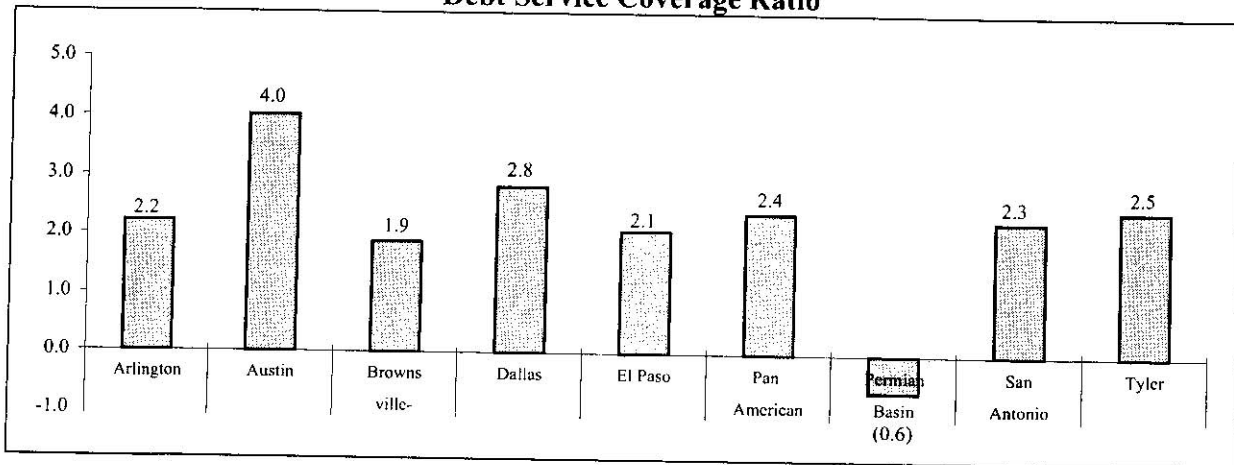
**Expendable Resources  
to Total Net Assets Ratio**



**Debt Burden Ratio**

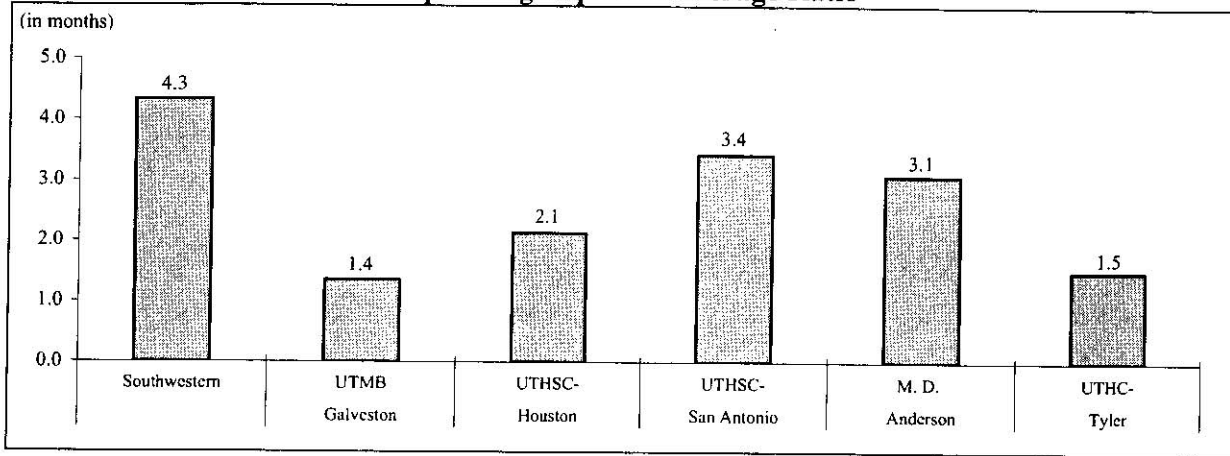


**Debt Service Coverage Ratio**

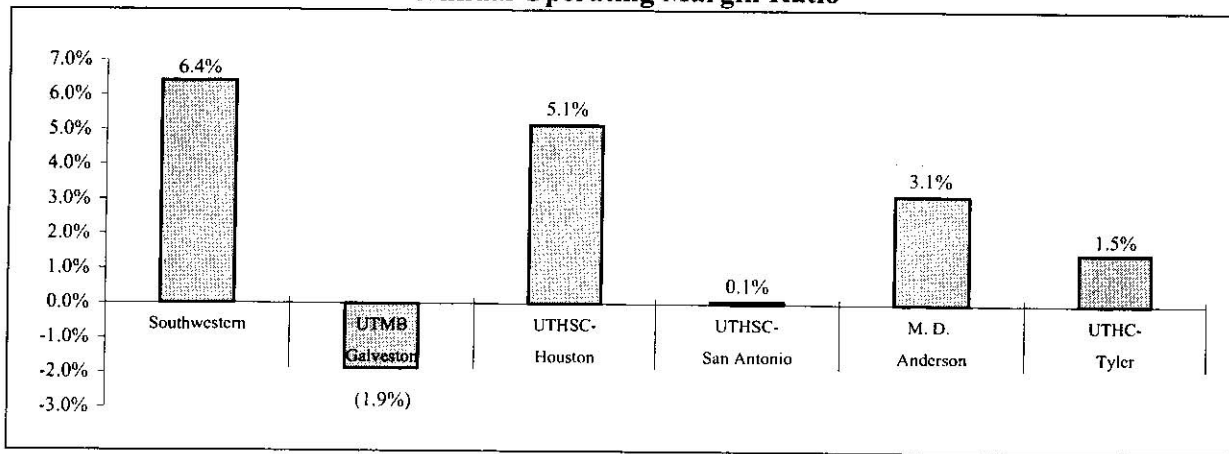


**Appendix D - Health Institutions' Evaluation Factors  
2004 Analysis of Financial Condition**

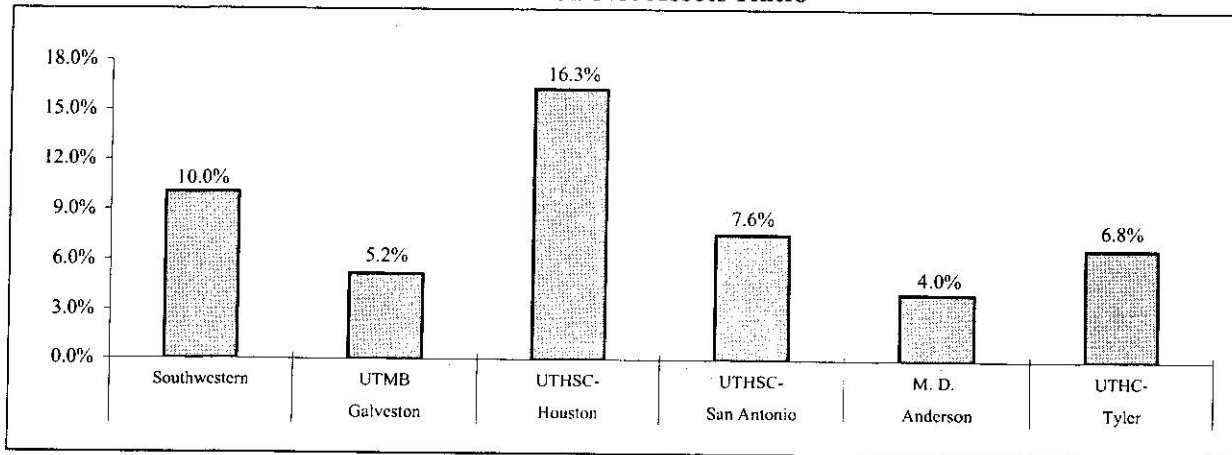
**Operating Expense Coverage Ratio**



**Annual Operating Margin Ratio**

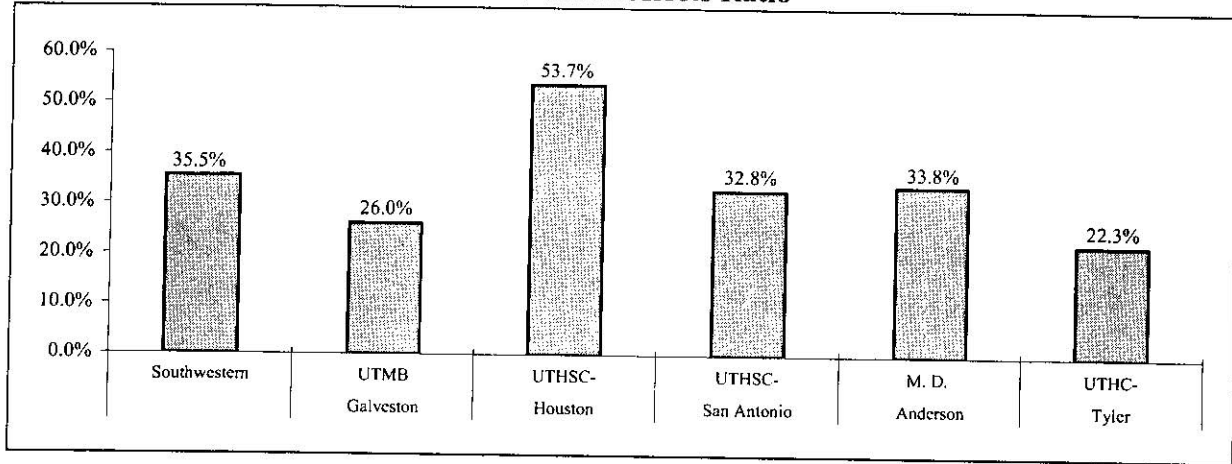


**Return on Net Assets Ratio**

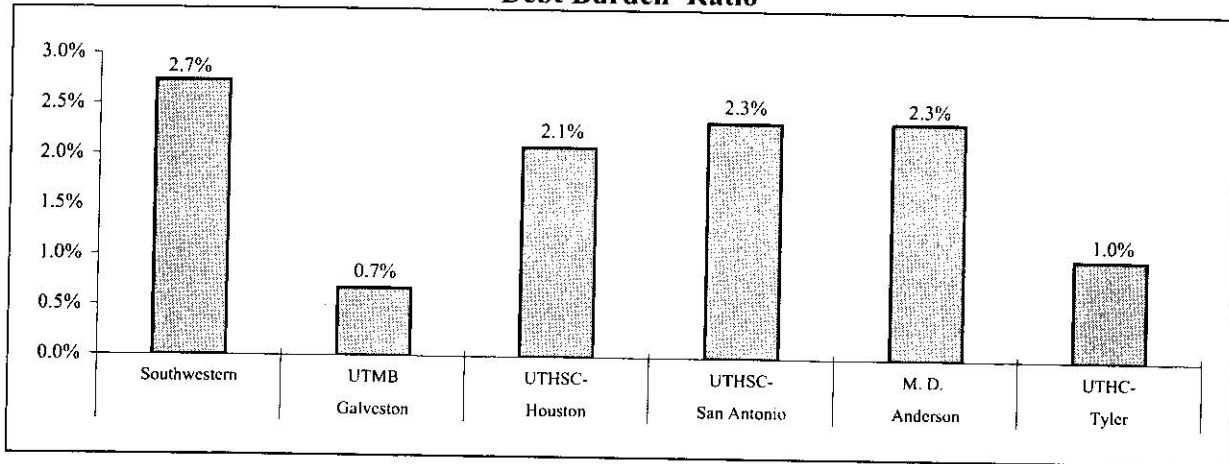


**Appendix D - Health Institutions' Evaluation Factors  
2004 Analysis of Financial Condition**

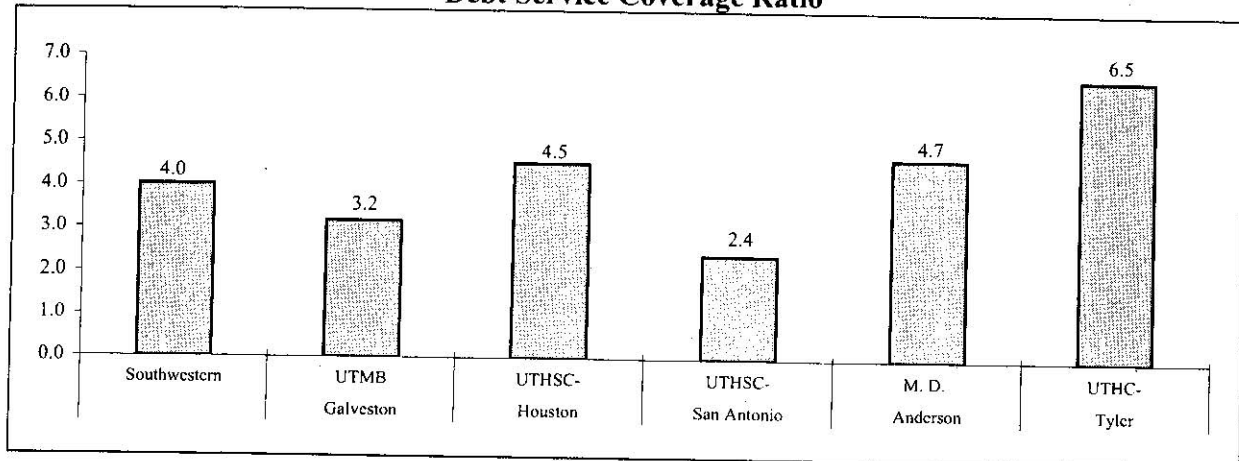
**Expendable Resources  
to Total Net Assets Ratio**



**Debt Burden Ratio**

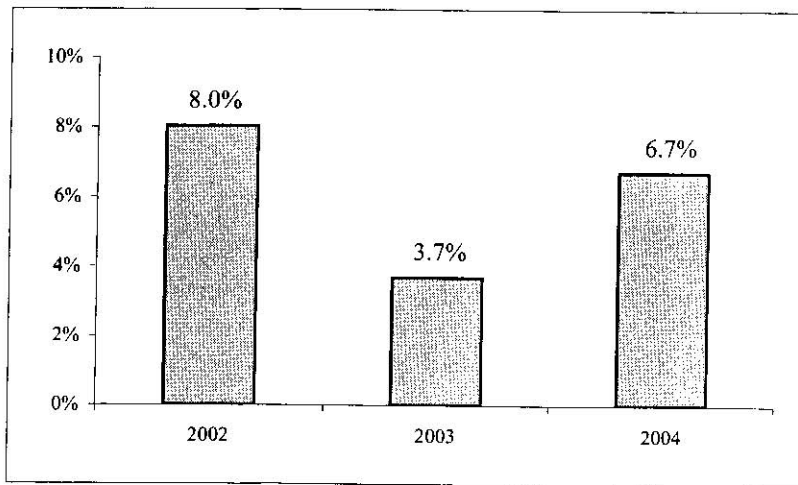


**Debt Service Coverage Ratio**



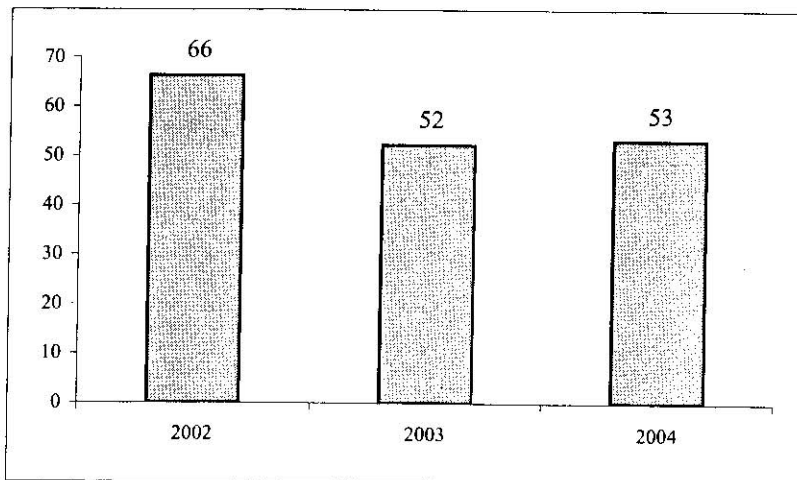
**Appendix E - Key MSRDP & NPHC Operating Factors**  
**The University of Texas Southwestern Medical Center at Dallas**

**Annual Operating Margin Ratio**



MSRDP operating revenue increased by 13.7%. Approximately half of the increase was due to higher net patient revenue, of which 79% was a result of growth in patient volume and 21% was a result of increases in fee schedules. The remaining increase was substantially due to higher contractual revenue from affiliated hospitals. Expenses increased by 9.9% predominantly due to the opening of the Radiation Oncology Center, the Clinical Transformation Initiative project, personnel added to handle patient volume, and increased drug costs.

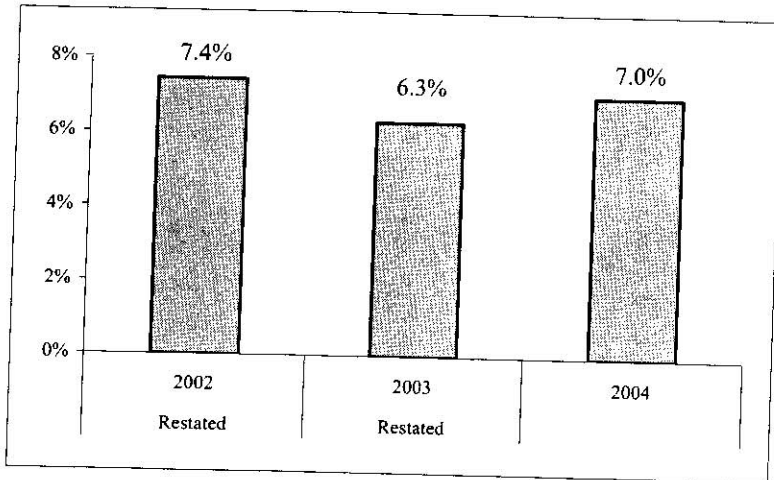
**Net Accounts Receivable (in days)**



Net accounts receivable (in days) remained relatively stable between 2003 and 2004.

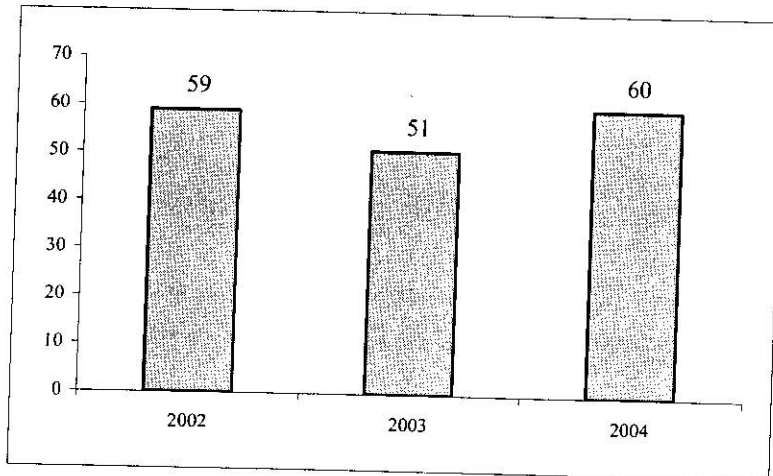
**Appendix E - Key Hospital Operating Factors  
The University of Texas Medical Branch at Galveston**

**Annual Operating Margin Ratio**



UTMB Hospital and Clinics margin increased \$6.2 million between years, favorably impacting the annual operating margin ratio. Total revenues increased by 5.5%, offset by increases in total expenses of 4.7%. Total patient volumes increased by 8.3%. Revenue increases did not keep pace with patient volumes due to state imposed reductions in State Appropriations, Medicaid reimbursement and the Indigent Care Fund, and increases in unsponsored patients. Through cost reduction efforts, expense increases were well below increases in patient volumes, despite the impact of healthcare inflation, which is outpacing general market inflation.

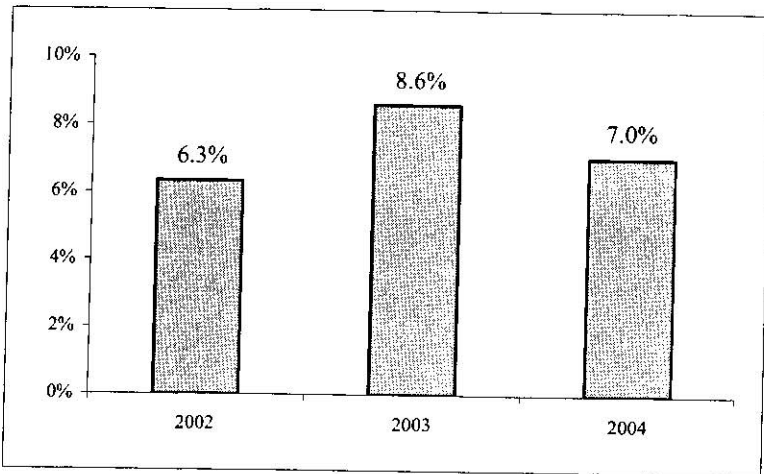
**Net Accounts Receivable (in days)**



Days in net accounts receivable increased as a result of the following factors: 1) the HIPPA compliant billing transition in October 2003; 2) a change in Medicaid intermediaries, which has resulted in a temporary claims backlog that should be resolved by December 2004; and 3) temporary delays in Respiratory Therapy billings due to changes in the Respiratory Therapy charge capture process and review.

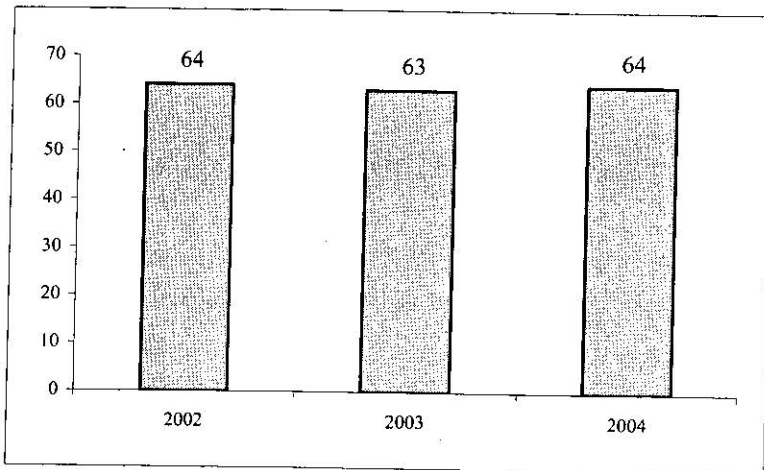
**Appendix E - Key MSRDP & NPHC Operating Factors**  
**The University of Texas Medical Branch at Galveston**

**Annual Operating Margin Ratio**



The decline in the annual operating margin ratio between years is due to a decrease in operating margin of \$3.2 million. A reduction of \$1.8 million in malpractice premium rebates received between the years contributed to the decrease in the margin. Also, growth in Faculty Group Practice faculty salaries and benefits outpaced revenue growth. Faculty Group Practice revenue grew by 4% between years, despite imposed reductions in Medicare and Medicaid reimbursement.

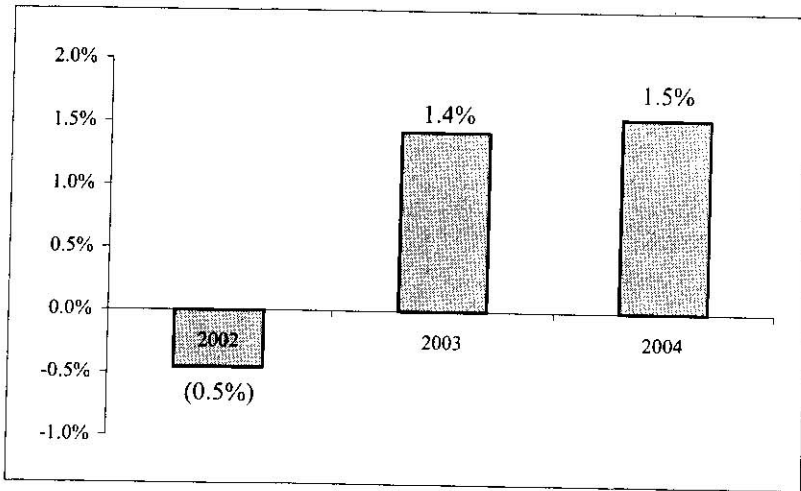
**Net Accounts Receivable (in days)**



Days in net accounts receivable is a measure, expressed in a number of days, of how quickly the charges generated by UTMB Faculty Group Practice physicians are being converted into cash. Each area that impacts billing can cause this number to rise or fall. The increase between years is largely due to a change in Medicaid intermediaries, which has resulted in a temporary backlog in claims.

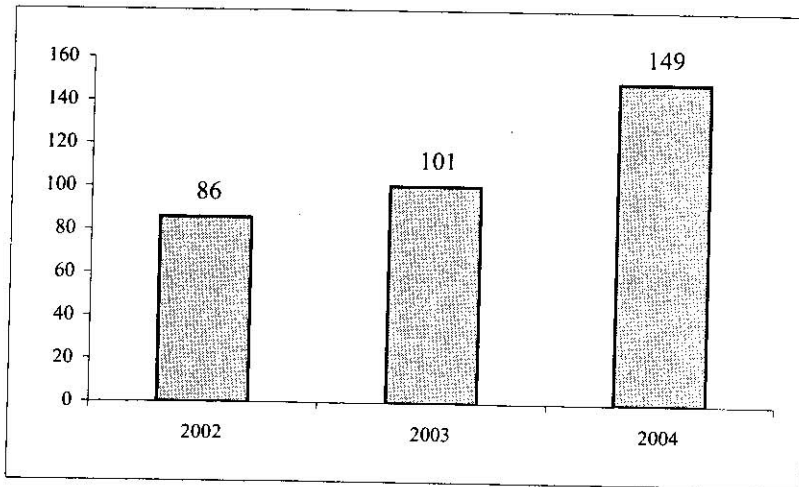
**Appendix E - Key Hospital Operating Factors**  
**The University of Texas Health Science Center at Houston**

**Annual Operating Margin Ratio**



The annual operating margin ratio remained relatively stable due to a reduction in both operating revenues and operating expenses. An agreement with the local mental health authority to reduce the number of funded beds with a corresponding closure of a treatment unit reduced both revenues and expenses in 2004.

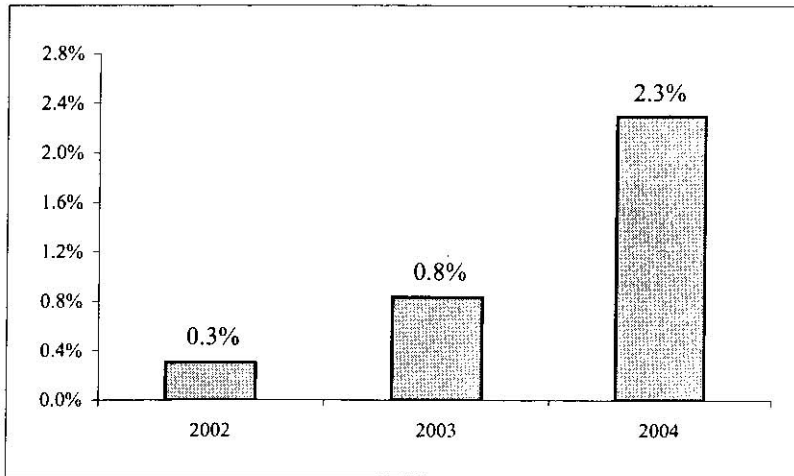
**Net Accounts Receivable (in days)**



Non-performance of the billing and collection vendor contributed to the increase in days in net accounts receivable. A Request for Proposal was released in January 2004 and a final contract was awarded to a new vendor in September 2004. The "go live" date will be in April or May of 2005.

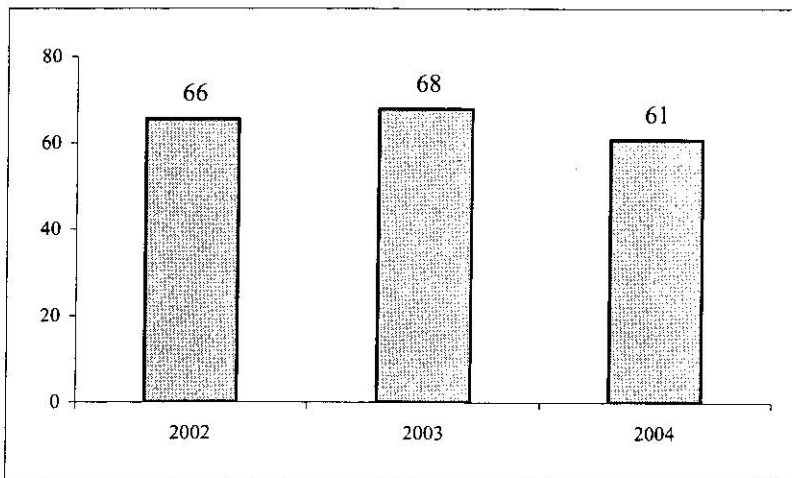
**Appendix E - Key MSRDP & NPHC Operating Factors**  
**The University of Texas Health Science Center at Houston**

**Annual Operating Margin Ratio**



During 2004, professional fee revenue increased over 7% and contractual revenues increased 16.6%. Professional fee revenue increased due to a higher fee schedule implemented in September 2003, as well as an increase in faculty productivity and slightly improved collection efforts. Contractual revenues increased due to higher contractual rates and increased services provided by UTHSC-Houston's faculty. Total operating expenses increased only 8% due to increased financial monitoring and the implementation of some cost-cutting measures. Practice plan (MSRDP) expenses were curtailed primarily in professional fees and services, excluding the increase due to the billing and collection contract entered into with Per-Se on February 9, 2004. Nonprofit healthcare corporation (NPHC) expenses also decreased by about 8% primarily due to a reduction in the number of FTEs.

**Net Accounts Receivable (in days)**

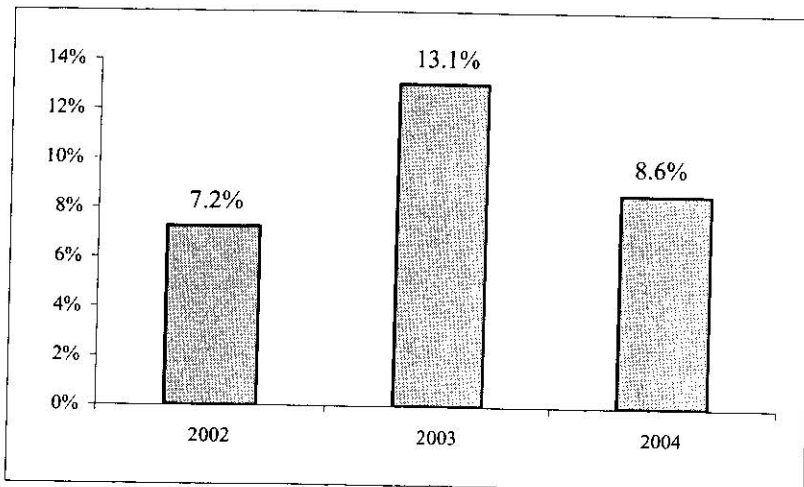


Due to a slight refinement of the method used for accounts receivable valuation, the 2004 net accounts receivable value decreased slightly (4%) compared to the 2003 net accounts receivable value despite higher levels of gross charges in accounts receivable. In addition, collections in 2004 increased 7% due to expected growth and a slight improvement in the billing/collecting efforts. The result was a decrease in the net accounts receivable days.



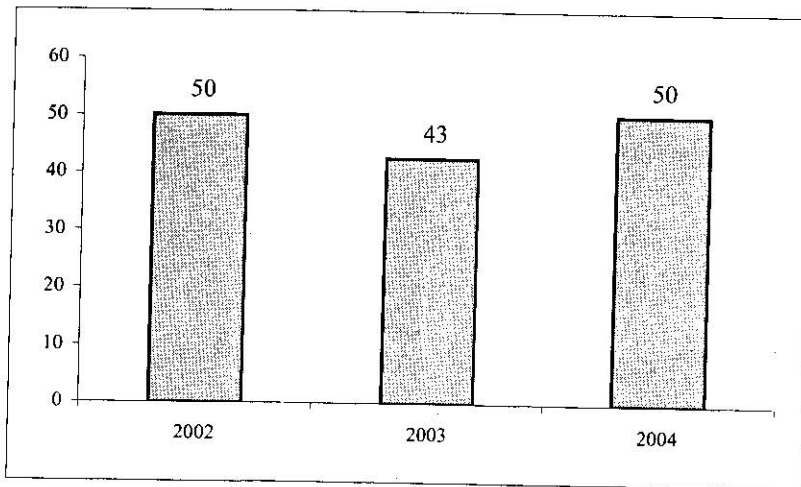
**Appendix E - Key MSRDP & NPHC Operating Factors**  
**The University of Texas Health Science Center at San Antonio**

**Annual Operating Margin Ratio**



The decrease in the annual operating margin ratio can be attributed primarily to the \$9.5 million increase in operating expenses. Most of the increase in expenses occurred in the Department of Surgery related to the recruitment of a chairman, the hiring of faculty in Neurosurgery and Plastic Surgery and the expansion of Urology from a division to a department status. In addition, the professional liability rebate, which is recorded as a negative expense, decreased in 2004. The professional liability rebate was \$9.1 million in 2003, which was almost twice the amount of the rebate received in 2004 of \$4.8 million.

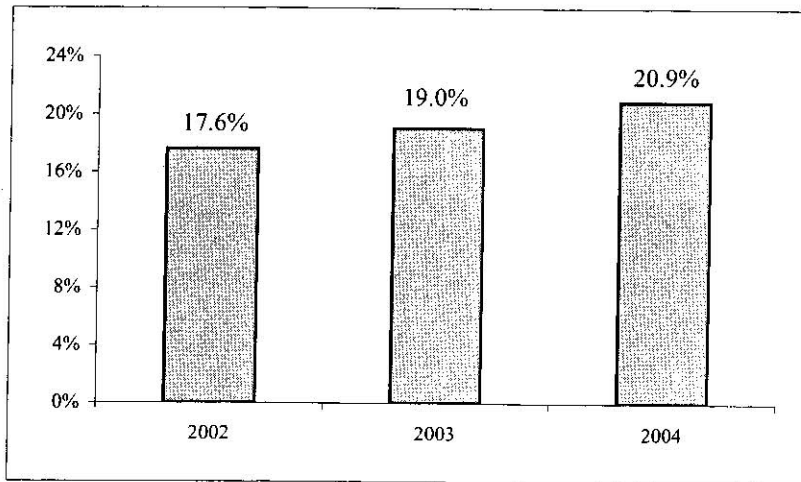
**Net Accounts Receivable (in days)**



The increase in the days in accounts receivable was due to the new Medicaid carrier's (TMHP) difficulties processing claims, providing adequate electronic explanation of denials, and processing appeals. As of the end of 2004, there was a 12 to 14 week turnaround time before TMHP would process an appeal. Medicaid and self-pay financial classes were the primary drivers of the increase in the days in accounts receivable.

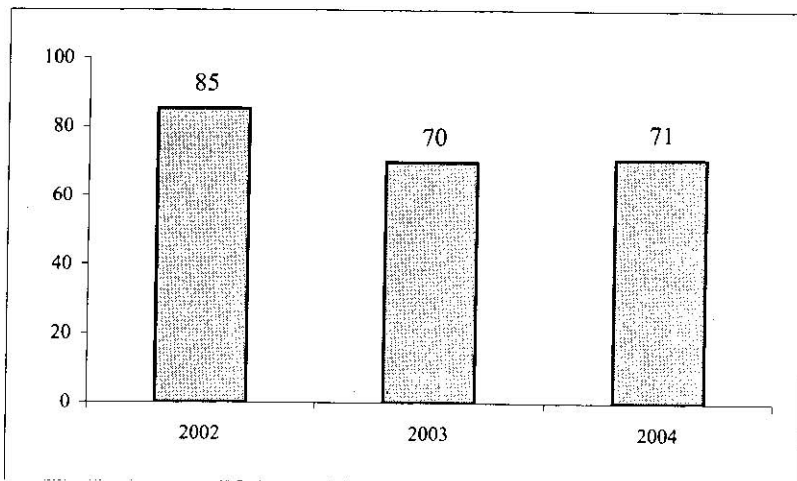
**Appendix E - Key Hospital Operating Factors**  
**The University of Texas M. D. Anderson Cancer Center**

**Annual Operating Margin Ratio**



The increase in the annual operating margin ratio from 19% in 2003 to 20.9% in 2004 was a result of the continued growth in patient volumes and the overall increase in the number of billable procedures during 2004.

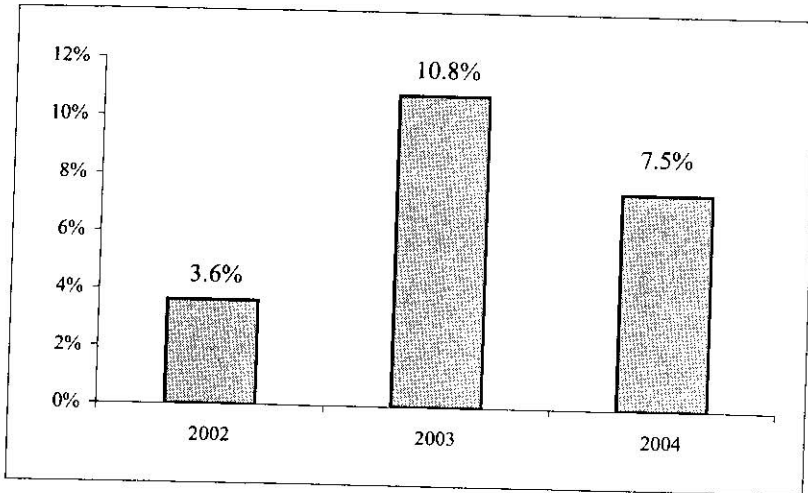
**Net Accounts Receivable (in days)**



The number of days in net accounts receivable continues to be stable and is expected to remain consistent in future periods.

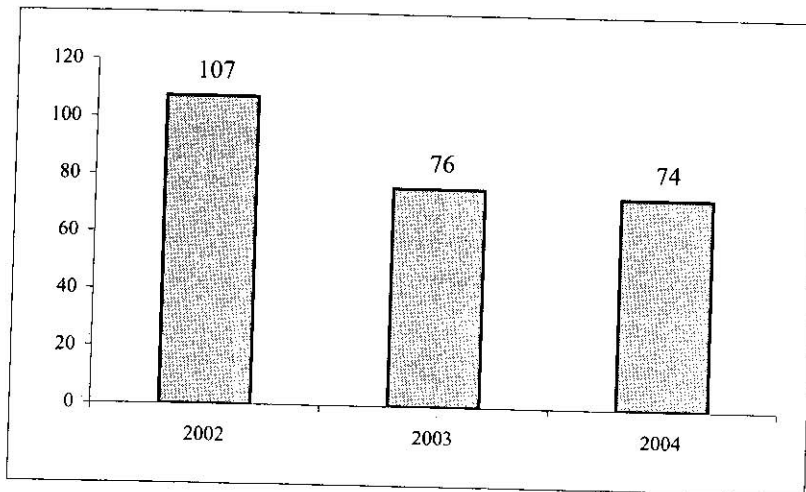
**Appendix E - Key MSRDP & NPHC Operating Factors**  
**The University of Texas M. D. Anderson Cancer Center**

**Annual Operating Margin Ratio**



The decrease in the annual operating margin ratio from 10.8% in 2003 to 7.5% in 2004 is attributable to higher personnel costs to accommodate the growth in patient volumes and activities.

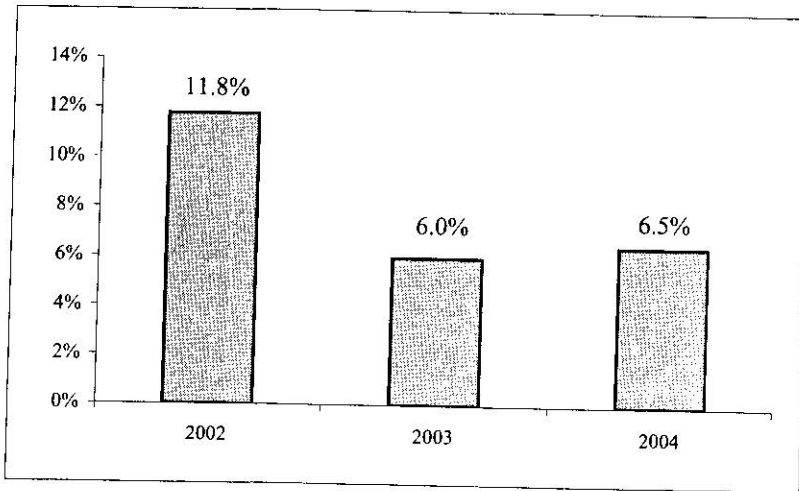
**Net Accounts Receivable (in days)**



The number of days in net accounts receivable decreased between 2003 and 2004 from 76 days to 74 days. This improvement continues due to improved operations in the Patient Business Services Department with record collections and improved managed care contracts.

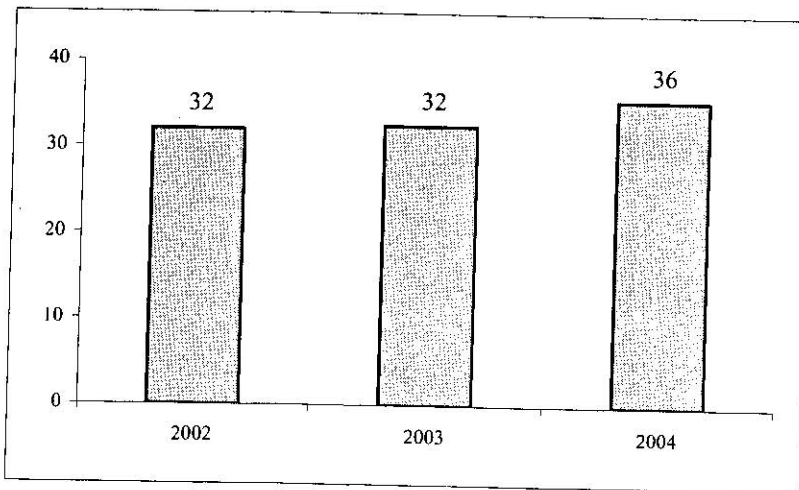
**Appendix E - Key Hospital Operating Factors**  
**The University of Texas Health Center at Tyler**

**Annual Operating Margin Ratio**



The annual operating margin ratio improved slightly from 2003. Operating revenues were up 0.3% due to rate increases, which were in effect for the entire year. Expenses were down 0.2% due to a decrease in contract labor usage as a result of new nursing hires and better management of agency temporaries and a decrease in leases and rentals. Leases and rentals decreased due to the purchasing of the assets at lower interest rates to replace leased assets at higher interest rates.

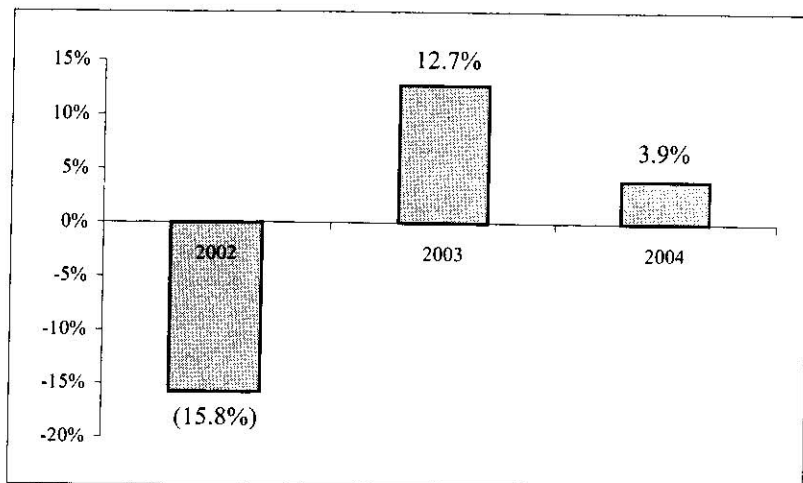
**Net Accounts Receivable (in days)**



Accounts receivable days increased primarily due to the conversion to a new patient information system in March 2004. Now that the substantial part of the learning curve is complete on the new system, accounts receivable days are expected to decrease to previous levels.

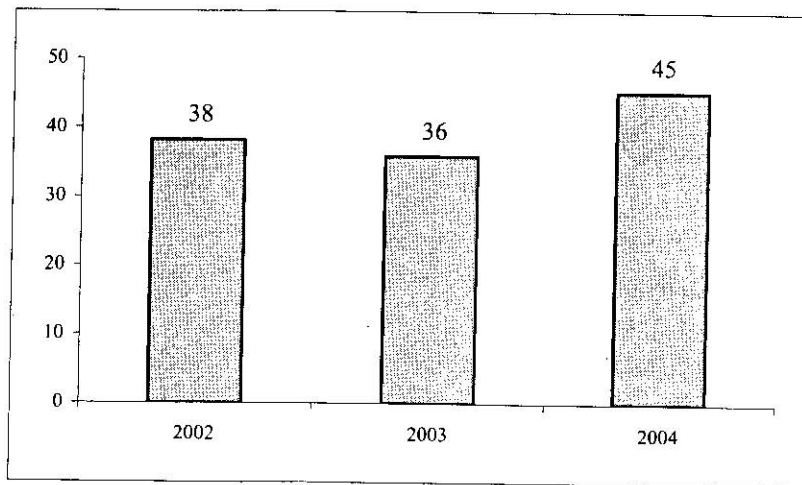
**Appendix E - Key MSRDP & NPHC Operating Factors**  
**The University of Texas Health Center at Tyler**

**Annual Operating Margin Ratio**



The annual operating margin ratio decreased from 12.7% in 2003 to 3.9% in 2004. While operating revenues increased 11.5% due to \$1.8 million received for professional services provided to the hospital by MSRDP staff, expenses increased 22.7%. Salaries expense increased 12.8% due to market forces, and contract services increased 143% due to the outsourcing of Anesthesiology and Cardiovascular Surgery and consultants for information systems. In addition, the malpractice insurance rebate decreased \$584,418 from 2003.

**Net Accounts Receivable (in days)**



Accounts receivable days increased primarily due to the conversion to a new patient information system in March 2004. Now that the substantial part of the learning curve is complete on the new system, accounts receivable days are expected to decrease to previous levels.

5. **U. T. System: Approval of additional amount of equipment financing for Fiscal Year 2005 and resolution of parity debt**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. Board of Regents

- a. approve an additional aggregate amount of \$23,400,000 of Revenue Financing System Equipment Financing for Fiscal Year 2005 as allocated to those U. T. System institutions set out on Page 39; and
- b. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
  - parity debt shall be issued to pay the cost of equipment including costs incurred prior to the issuance of such parity debt;
  - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System;
  - the institutions and U. T. System Administration, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt parity debt in the aggregate amount of \$23,400,000 for the purchase of equipment; and
  - this resolution satisfies the official intent requirements set forth in Section 1.150-2 of the *Code of Federal Regulations*, that evidences the Board's intention to reimburse project expenditures with bond proceeds.

BACKGROUND INFORMATION

In 1994, the U. T. Board of Regents approved the use of Revenue Financing System debt for equipment purchases in accordance with the Guidelines Governing Administration of the Revenue Financing System. Equipment financing is used for the

purchase of equipment in lieu of more costly vendor financing. The Guidelines specify that the equipment to be financed must have a useful life of at least three years. The debt is amortized twice a year with full amortization not to exceed 10 years.

At the August 12, 2004 meeting, the Board of Regents approved \$86,360,000 for equipment financing in FY 2005. This agenda item requests approval of an additional aggregate amount of \$23,400,000 for equipment financing.

Further details on the equipment to be financed and debt coverage ratios for individual institutions may be found on Page 39.

APPROVAL OF U. T. SYSTEM EQUIPMENT FINANCING  
FY 2005 (February)

Institution	\$ Amount of Request	Description of Equipment Purchases	DSC*
U. T. Arlington	\$4,200,000	Student information system computer, elevator modernization, HVAC equipment replacement, lighting upgrades, and utility infrastructure	2.2
U. T. Brownsville	700,000	Upgrade for integrated financial/student system	1.9
U. T. Dallas	5,000,000	Enterprise Resource Planning software	2.8
U. T. Medical Branch - Galveston	10,000,000	Clinical and information technology equipment	3.2
U. T. Pan American	2,500,000	Information technology equipment	2.4
U. T. Health Center - Tyler	1,000,000	Clinical equipment	6.5
<b>Total</b>	<b>\$23,400,000</b>		

\* Debt Service Coverage ("DSC") is the sum of operating surplus plus depreciation plus interest expense divided by debt service for FY 2004.

U. T. System Office of Finance, January 3, 2005



## **6. U. T. System: Permanent University Fund quarterly update**

Mr. Philip R. Aldridge, Associate Vice Chancellor for Finance, will update the Committee on changes in the forecasted distributions from the Permanent University Fund (PUF) to the Available University Fund (AUF) and the resulting impact on remaining PUF debt capacity, U. T. Austin Excellence Funds, and the AUF balance.

### REPORT

A summary of the assumptions used in calculating the PUF debt capacity is provided on Page 40.1. As of November 30, 2004, the market value of the PUF was \$8.6 billion compared to \$8.1 billion as of August 31, 2004 (Figure A on Page 40.2). During Fiscal Year 2005, \$341.2 million will be distributed to the AUF, compared to \$348 million in Fiscal Year 2004 (Figure B on Page 40.3). PUF distributions to the AUF are projected to steadily increase beginning in Fiscal Year 2006 and are not projected to be capped due to constitutional purchasing power restrictions.

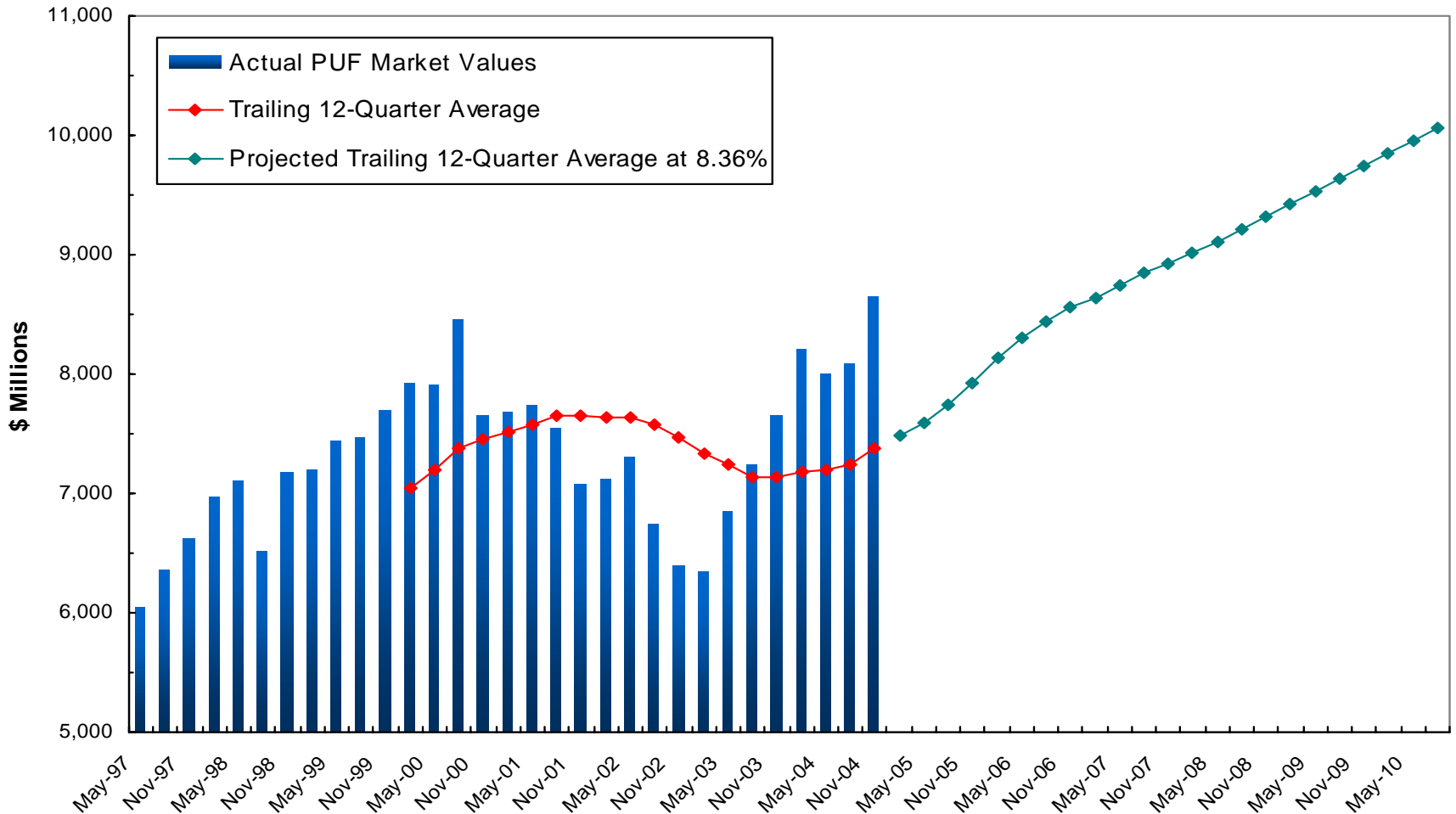
There is an estimated \$334 million of additional debt capacity through Fiscal Year 2010 beyond the PUF projects currently approved, assuming a 8.36% investment return (Figure C on Page 40.4). This PUF debt capacity incorporates the \$100 million Library, Equipment, Repair and Rehabilitation (LERR) appropriation for Fiscal Year 2005. PUF debt capacity is affected by various factors, some of which are determined by the Board while others are dependent on future market conditions (Figure D on Page 40.5).

# PUF Debt Capacity Base Case Assumptions

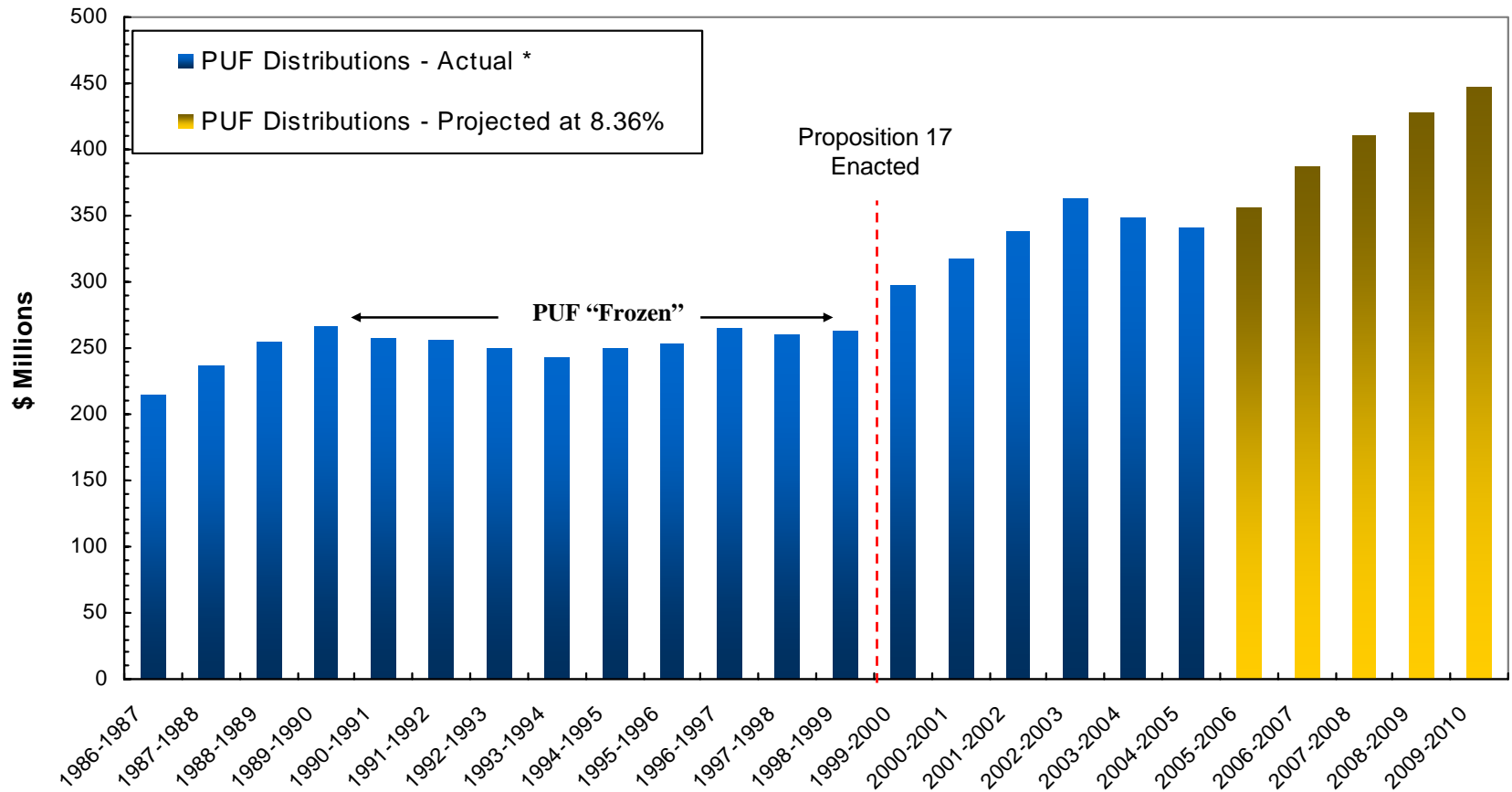
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- PUF Distribution equals 4.75% of the average PUF net asset value for the trailing 12 quarters, unless restricted by Constitutional purchasing power requirements.
- U. T. Austin Excellence Funds equal 45% of the income available to U. T. System.
- Includes all PUF projects approved through November 2004.
- Forecasted PUF distribution amounts provided by UTIMCO based on long-term expected average annual rate of return of 8.36% starting from the PUF market value as of November 30, 2004.
- Annual LERR appropriations of \$30 million are projected to continue from FY 2006 through FY 2010, along with an additional \$10 million LERR appropriation to U. T. Dallas projected in FY 2006 associated with Project Emmitt.
- New PUF debt service structured as 20-year, tax-exempt debt with level debt service.

# Projected Trailing 12-Quarter PUF Market Value Average



# Permanent University Fund Distributions



\* Effective September 1, 1997, a statutory amendment changed the distribution of income from cash to an accrual basis, resulting in a one-time distribution adjustment to the AUF of \$47.3 million that is not reflected.

# PUF Debt Capacity-Base Case at 8.36%

	Actual	Projected					
Available University Fund Operating Statement Forecast Data (\$ Millions)	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FYE 10
Additional PUF Debt Capacity (\$333.9 Million)		\$201.6	\$0.0	\$0.0	\$40.2	\$45.2	\$46.9
Cumulative Additional PUF Debt Capacity		\$201.6	\$201.6	\$201.6	\$241.7	\$287.0	\$333.9
PUF Distribution Amount	\$348.0	\$341.2	\$355.8	\$386.2	\$410.2	\$428.2	\$447.7
Surface & Other Income	7.6	6.4	6.4	6.7	6.7	6.7	6.7
Divisible Income	355.6	347.6	362.2	392.9	416.9	434.9	454.5
UT System Share (2/3)	237.1	231.7	241.5	261.9	277.9	289.9	303.0
AUF Interest Income	3.0	2.2	3.2	3.6	3.9	4.3	4.8
Income Available to U.T.	240.1	233.9	244.7	265.5	281.8	294.2	307.8
TRANSFERS:							
UT Austin Excellence Funds (45%)	(108.3)	(105.3)	(110.1)	(119.5)	(126.8)	(132.4)	(138.5)
PUF Debt Service on Approved Projects	(71.6)	(80.7)	(99.6)	(102.7)	(105.2)	(107.5)	(110.2)
PUF Cash Defeasance	(60.0)	-	-	-	-	-	-
PUF Debt Service on Add. Debt Capacity	-	(7.8)	(15.6)	(15.6)	(18.8)	(22.6)	(26.5)
System Administration	(27.9)	(27.7)	(28.4)	(29.1)	(29.9)	(30.6)	(31.4)
Other	(4.5)	(1.1)	(1.1)	(1.1)	(1.1)	(1.2)	(1.2)
Debt Service (Bldg Rev)	(3.4)	-	-	-	-	-	-
Net Surplus/(Deficit)	(35.7)	11.3	(10.1)	(2.6)	0.0	0.0	0.0
Ending AUF Balance - System	46.3	57.7	47.6	45.0	45.0	45.0	45.0
PUF Debt Service Coverage	3.35:1	2.64:1	2.12:1	2.24:1	2.27:1	2.26:1	2.25:1

40.4

# PUF Debt Capacity Sensitivities at 8.36%

	Board-Determined	Board-Determined	Board-Determined	Market-Dependent	Market-Dependent	Additional Debt Capacity (\$ Millions)						TOTAL	Projected PUF
	Annual LERR	U.T. Austin Excellence	PUF Distribution Rate	PUF Investment Return	Change in Tax-Exempt Rates	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY 2005- FY 2010	Market Value in FY 2030
	\$30 Million	45.0%	4.75%	8.36%	NA	201.6	0.0	0.0	40.2	45.2	46.9	333.9	21,990,652,536
40.5	<b>\$30 Million</b>	45.0%	4.75%	8.36%	NA	201.6	0.0	0.0	40.2	45.2	46.9	333.9	21,990,652,536
	<b>\$20 Million</b>	45.0%	4.75%	8.36%	NA	211.6	10.0	10.0	50.2	55.2	56.9	393.9	21,990,652,536
	<b>\$10 Million</b>	45.0%	4.75%	8.36%	NA	221.6	20.0	20.0	60.2	65.2	66.9	453.9	21,990,652,536
	<b>None</b>	45.0%	4.75%	8.36%	NA	231.6	30.0	30.0	70.2	75.2	76.9	513.9	21,990,652,536
	\$30 Million	<b>40.0%</b>	4.75%	8.36%	NA	327.9	0.0	11.5	82.2	52.7	55.1	529.4	21,990,652,536
	\$30 Million	<b>45.0%</b>	4.75%	8.36%	NA	201.6	0.0	0.0	40.2	45.2	46.9	333.9	21,990,652,536
	\$30 Million	<b>50.0%</b>	4.75%	8.36%	NA	67.9	0.0	0.0	0.0	31.6	38.8	138.3	21,990,652,536
	\$30 Million	45.0%	<b>4.50%</b>	8.36%	NA	127.2	0.0	0.0	14.5	44.1	46.9	232.6	23,371,990,846
	\$30 Million	45.0%	<b>4.75%</b>	8.36%	NA	201.6	0.0	0.0	40.2	45.2	46.9	333.9	21,990,652,536
	\$30 Million	45.0%	<b>5.00%</b>	8.36%	NA	275.9	0.0	0.0	65.7	46.1	46.6	434.3	20,677,846,366
	\$30 Million	45.0%	4.75%	<b>7.36%</b>	NA	198.6	0.0	0.0	23.2	25.8	26.0	273.6	17,041,790,783
	\$30 Million	45.0%	4.75%	<b>8.36%</b>	NA	201.6	0.0	0.0	40.2	45.2	46.9	333.9	21,990,652,536
	\$30 Million	45.0%	4.75%	<b>9.36%</b>	NA	204.6	0.0	0.0	57.2	64.9	68.5	395.2	28,260,582,016
	\$30 Million	45.0%	4.75%	8.36%	<b>+ 50 bps</b>	184.2	0.0	0.0	36.4	42.2	44.2	307.0	21,990,652,536
	\$30 Million	45.0%	4.75%	8.36%	<b>NA</b>	201.6	0.0	0.0	40.2	45.2	46.9	333.9	21,990,652,536
	\$30 Million	45.0%	4.75%	8.36%	<b>-50 bps</b>	220.2	0.0	0.0	44.1	48.4	50.0	362.7	21,990,652,536

7. **U. T. System: Report on Revenue Financing System debt capacity**

REPORT

Following the PowerPoint presentation on Pages 41.1 - 41.25, Mr. Philip R. Aldridge, Associate Vice Chancellor for Finance, will update the Committee on the status of Revenue Financing System debt capacity, including proposed changes to the minimum credit standards for accessing Revenue Financing System debt.



# The University of Texas System

## Revenue Financing System Debt Capacity Update

Finance and Planning Committee Meeting

February 9, 2005





# Revenue Financing System

- The Revenue Financing System (RFS) is a cost-effective debt program secured by a System-wide pledge of all legally available revenues for debt issued on behalf of all 15 institutions and System Administration.
- RFS debt is currently rated Aaa, AAA, and AAA by Moody's, Standard & Poor's, and Fitch, respectively.
- As of December 31, 2004, there was \$2.47 billion of RFS debt outstanding, including \$639 million of Tuition Revenue Bond (TRB) debt.



## Revenue Financing System (continued)

- The Master Resolution establishing the Revenue Financing System requires that before any parity debt is issued, the Board of Regents (Board) makes a determination that
  - the Board will have sufficient “Pledged Revenues” to meet all financial obligations relating to the Revenue Financing System, and;
  - the Members on whose behalf the debt is issued possess the financial capacity to satisfy their direct obligations.

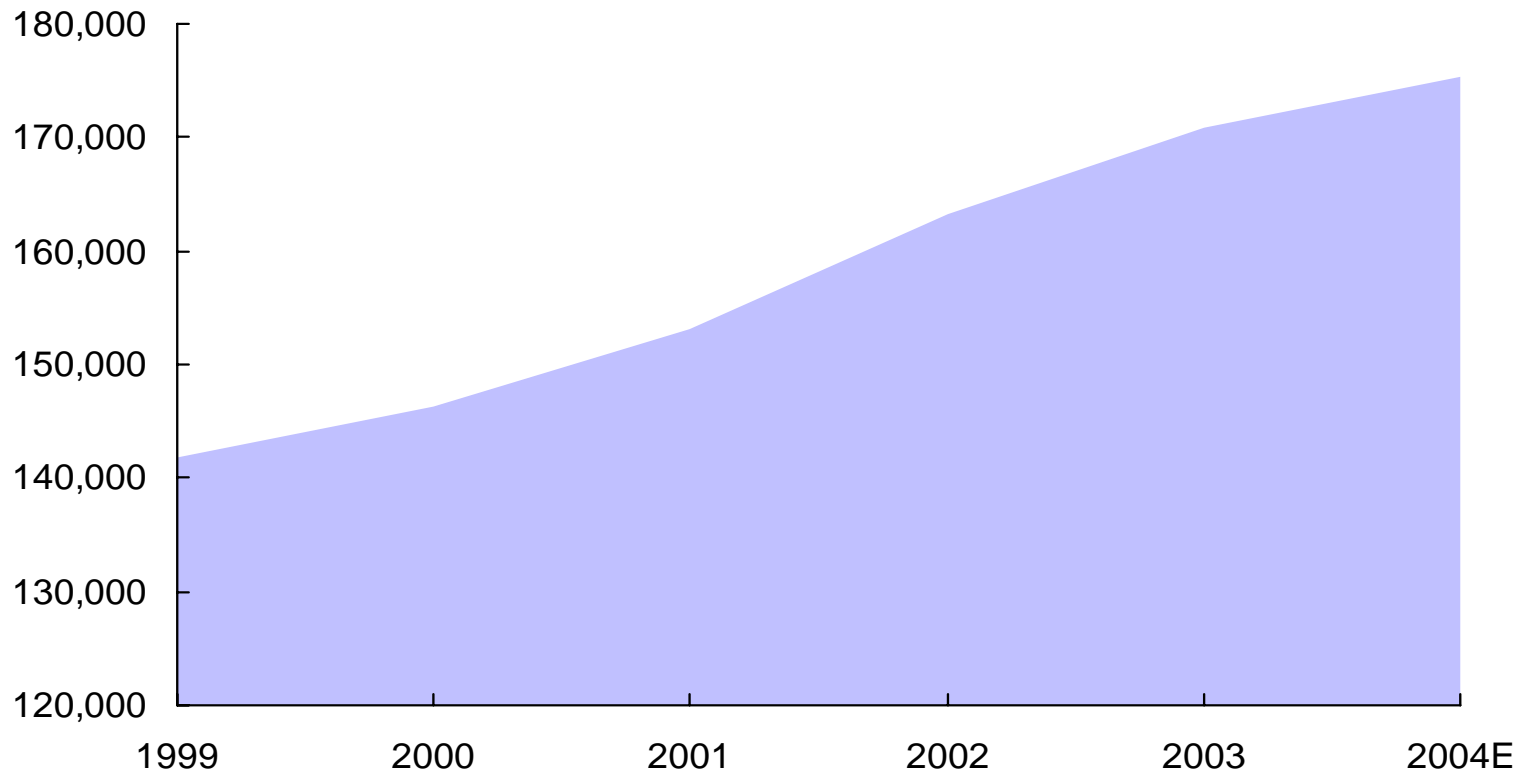


## **U. T. System Credit Strengths and Risks**



# Strength # 1: Strong Student Demand

Total U. T. System Fall Enrollment

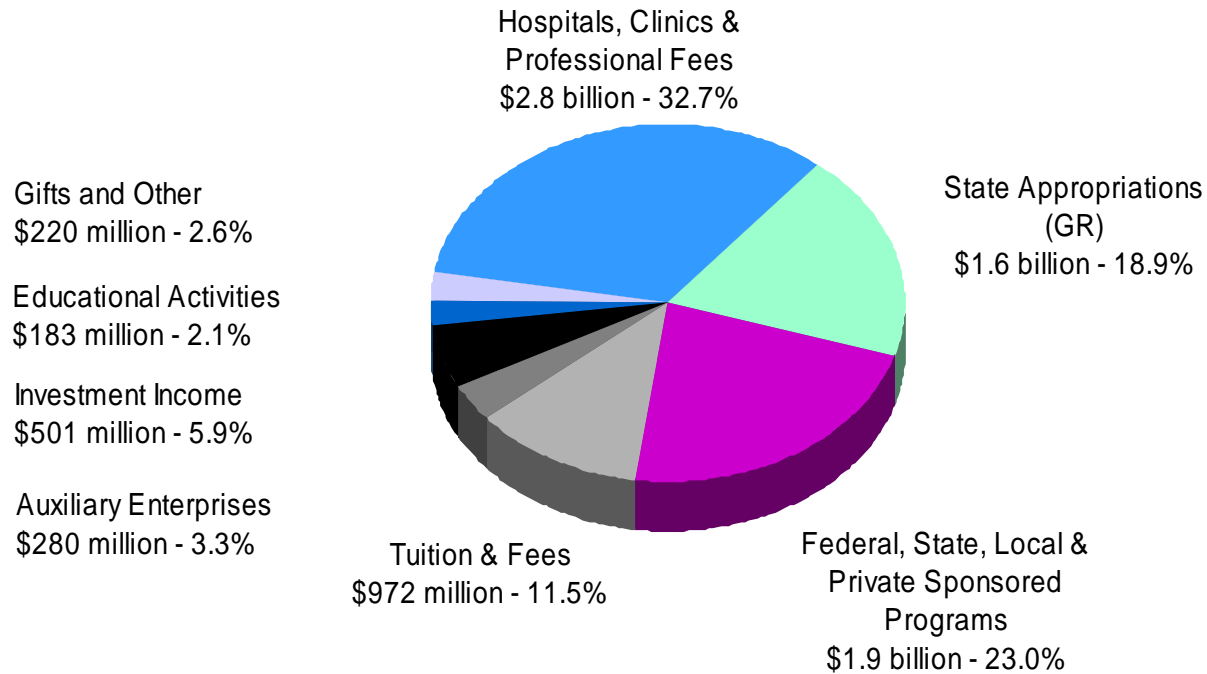


Source: Headcount as reported by the Texas Higher Education Coordinating Board



# Strength # 2: Diversified Revenue Stream

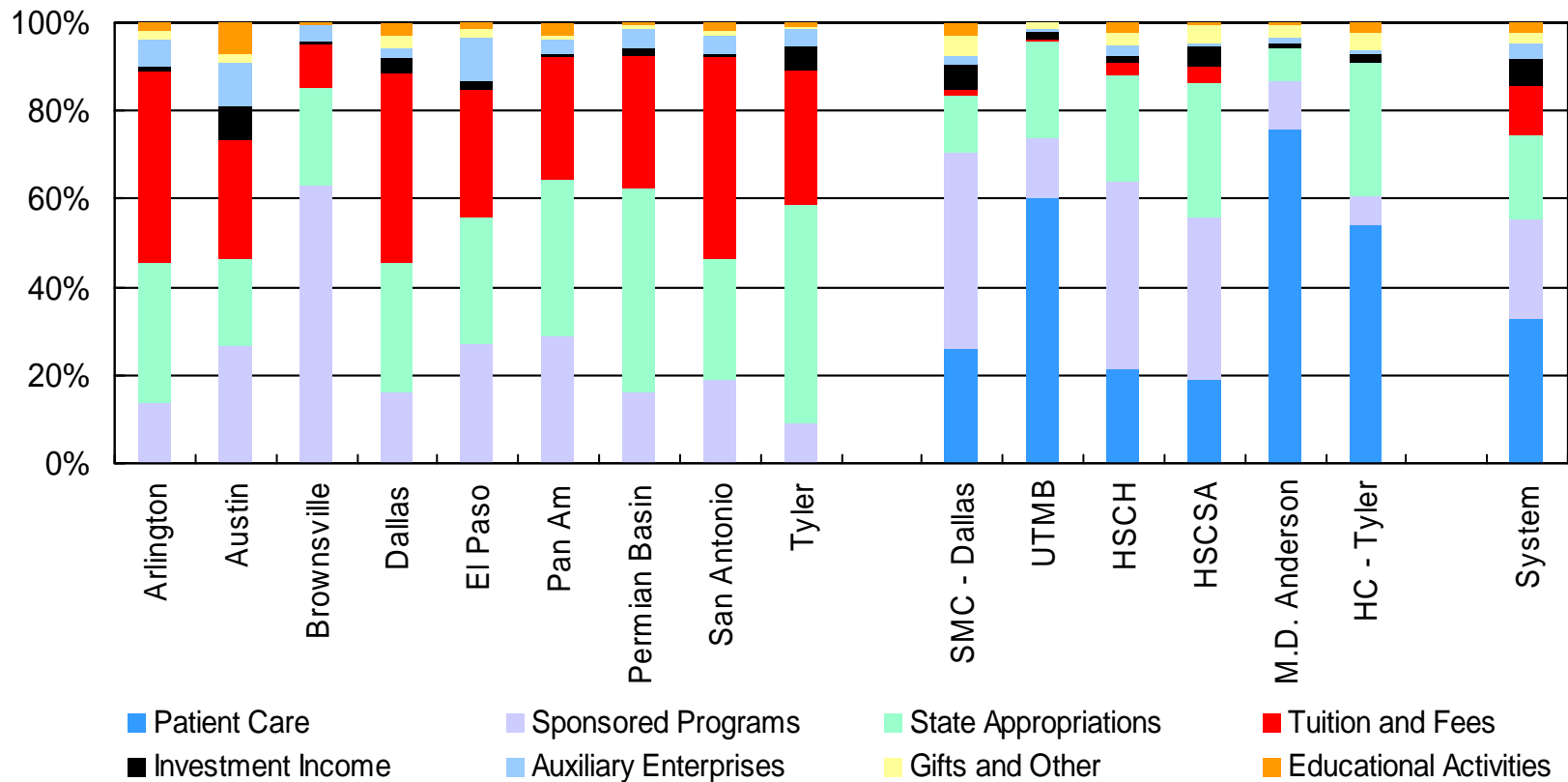
Contribution to Revenues (Fiscal Year 2005 Budget)





# Revenue Diversity Varies by Institution

Comparison of Revenue Sources (Fiscal Year 2005 Budget)

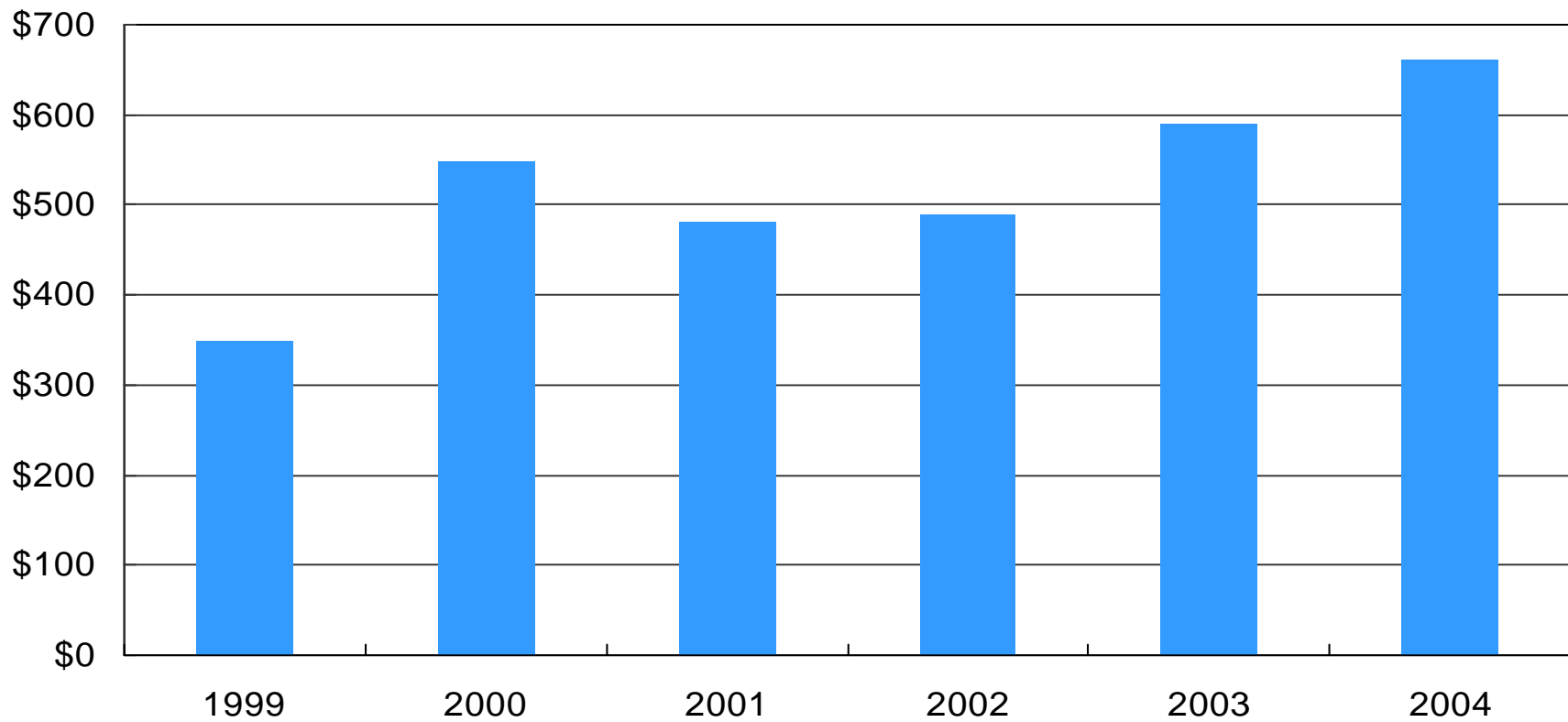


41.7



## Strength # 3: Strong Private Sector Support

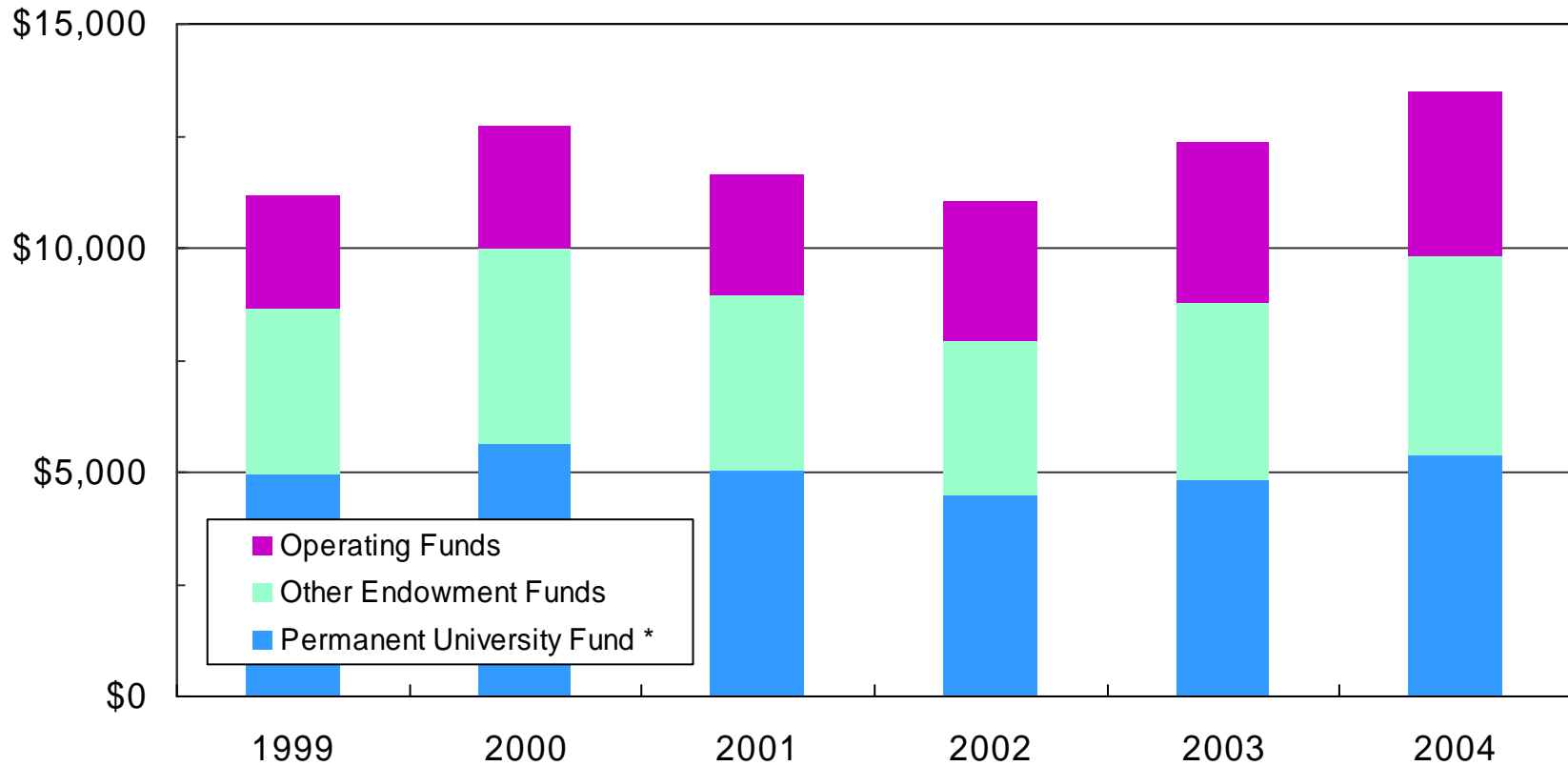
Millions by Fiscal Year





# Strength # 4: Strong Financial Resource Base

Millions by Fiscal Year



\* Represents U. T. System's two-thirds share of the PUF.

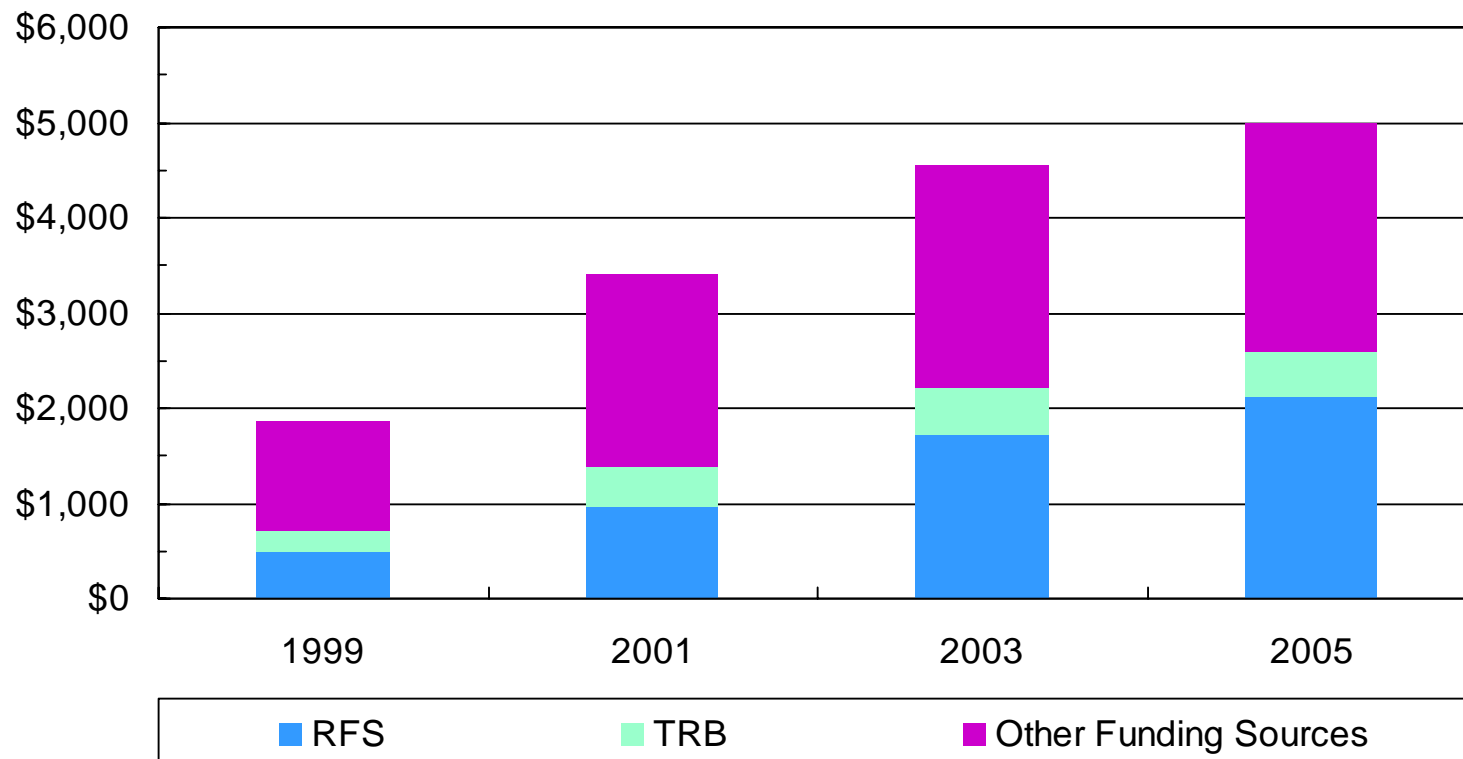




# Risk # 1: Large and Growing Capital Program

U. T. System Six-Year Capital Improvement Program by Funding Source

Millions by Fiscal Year

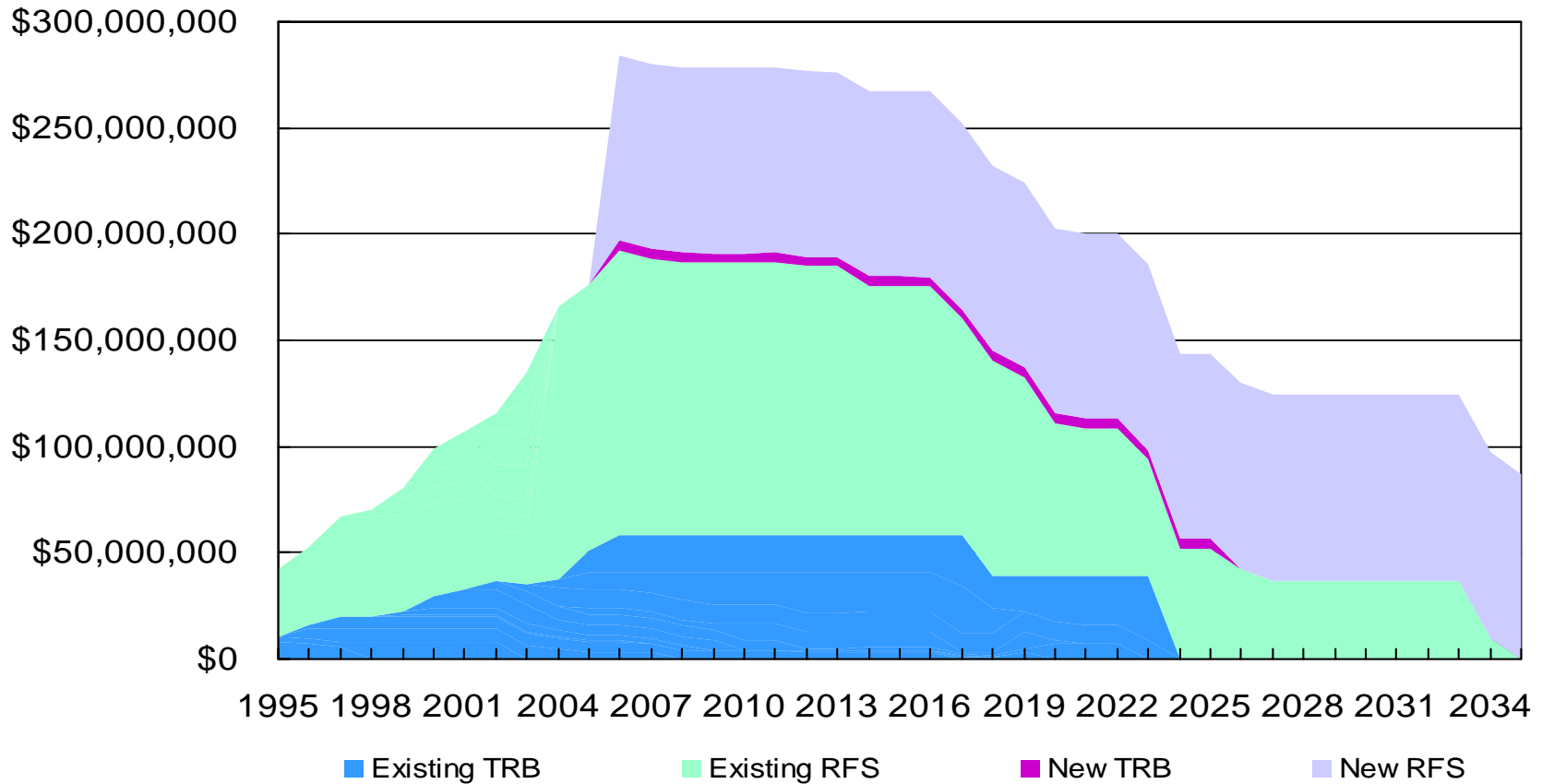


41.10



# Risk # 2: Growing Debt Usage

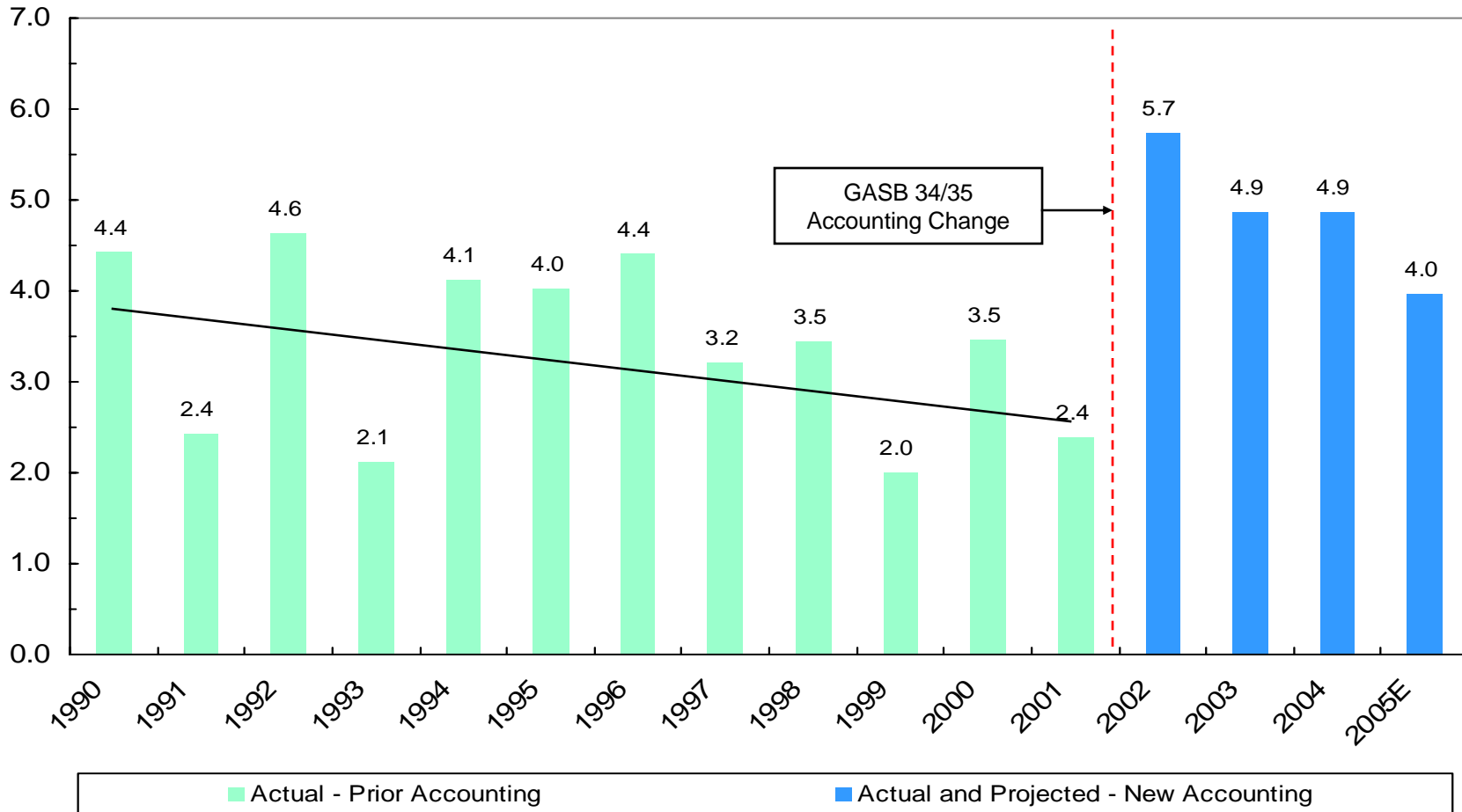
Annual RFS Debt Service by Type by Fiscal Year



41.11



# Risk # 3: Declining Debt Service Coverage



\* Per discussions with Moody's, these ratios include amounts associated with the AUF and H.B. 1839 excellence funds that appear as transfers in the Statement of Revenues, Expenses and Change in Net Assets.



## Steps Taken to Mitigate Negative Credit Trends

- The Office of Finance has taken advantage of lower interest rates to refund \$698 million of relatively high-cost RFS debt since 2001, thereby reducing future debt service by \$33.5 million (present value).
- Internal credit standards were toughened in FY 2002, making it slightly more difficult for U. T. System institutions to access RFS debt.
- The Office of Finance has improved asset/liability matching by extending the average maturity of its debt and making greater use of lower-cost variable rate debt.

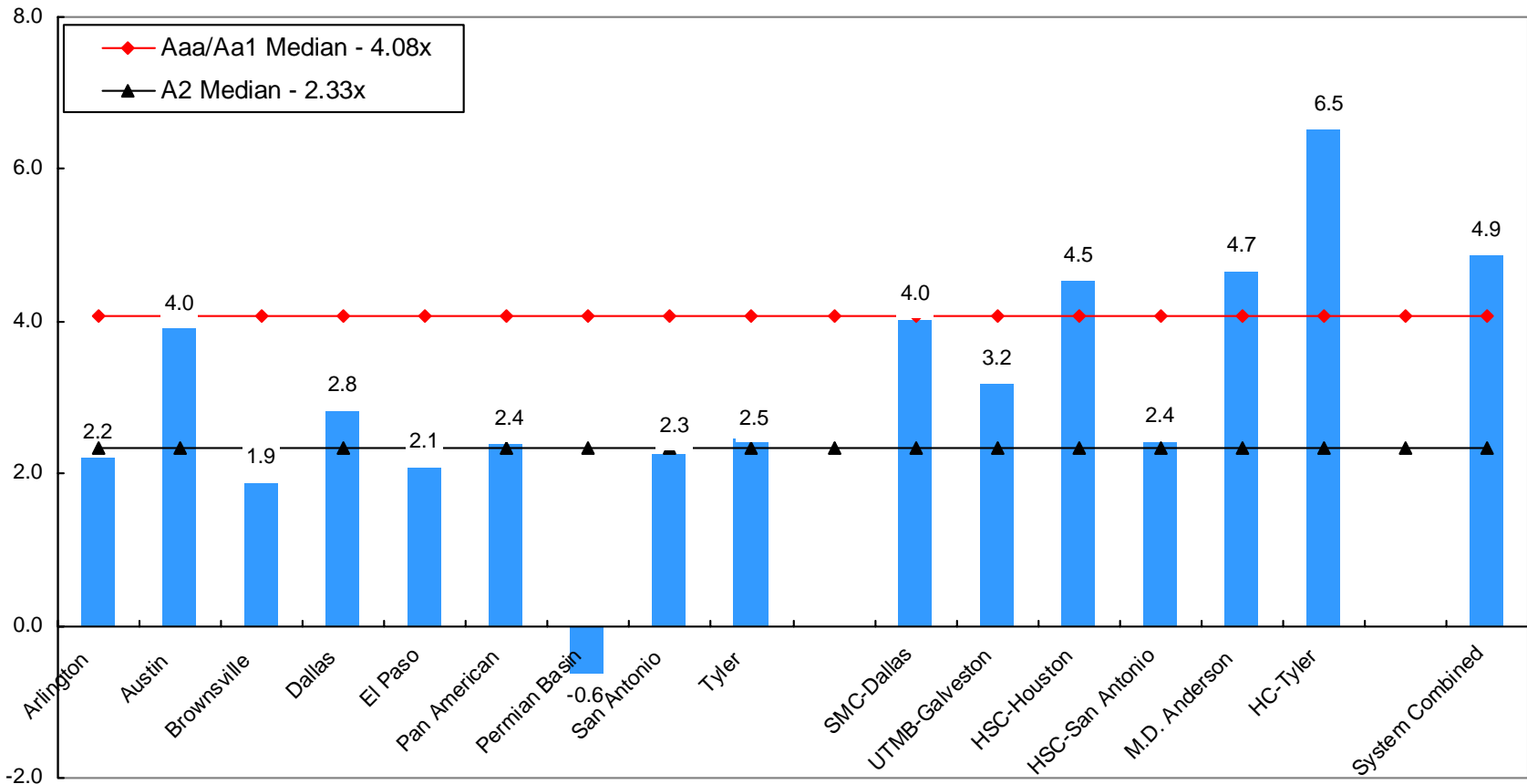


# Credit Statistics



# Actual Debt Service Coverage - FY 2004

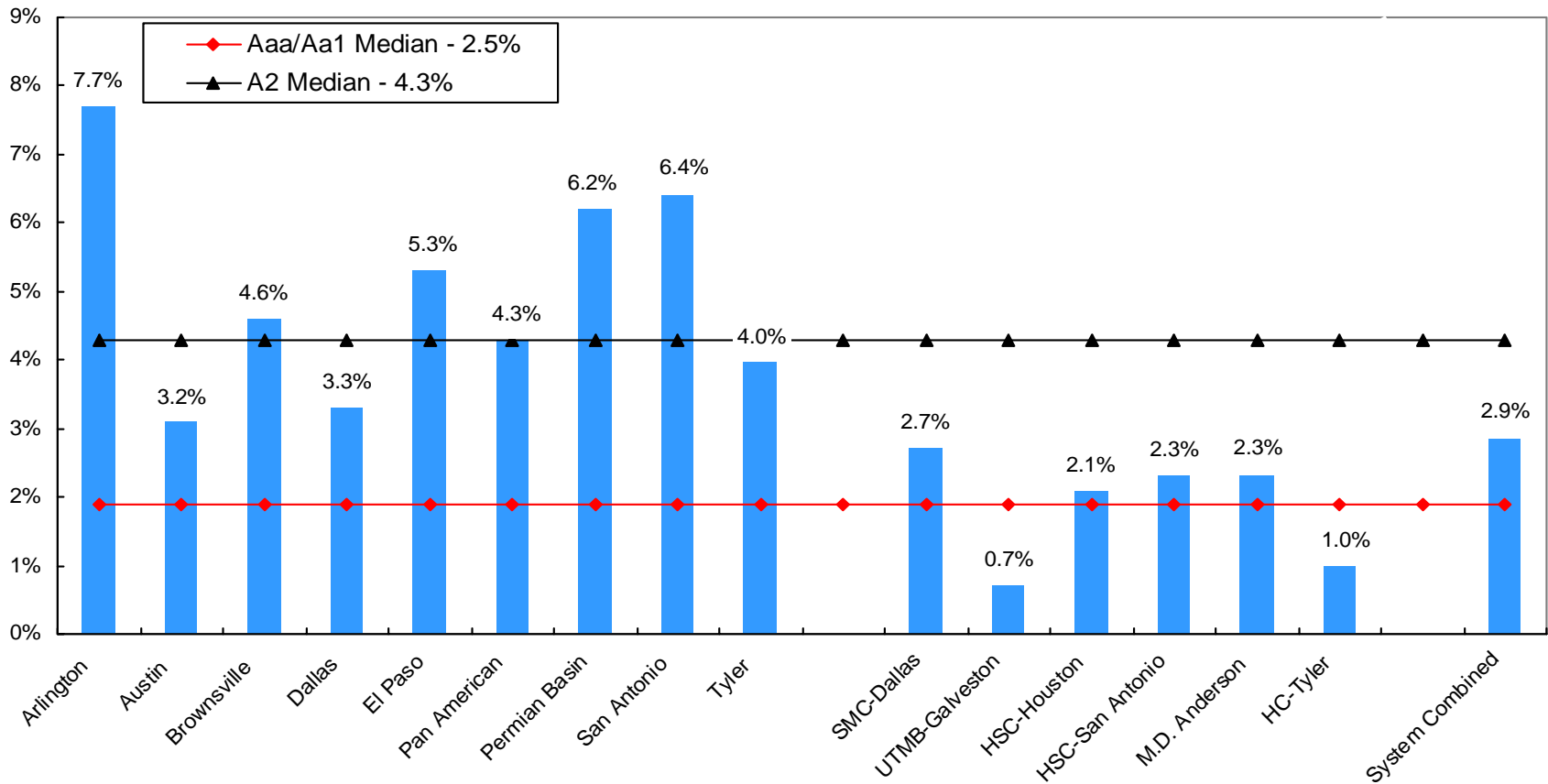
$$\text{Actual Debt Service Coverage} = \frac{\text{Operating Surplus} + \text{Depreciation} + \text{Interest Expense}}{\text{Total Principal and Interest Payments}}$$





# Actual Debt Service to Operations (Debt Burden) - FY 2004

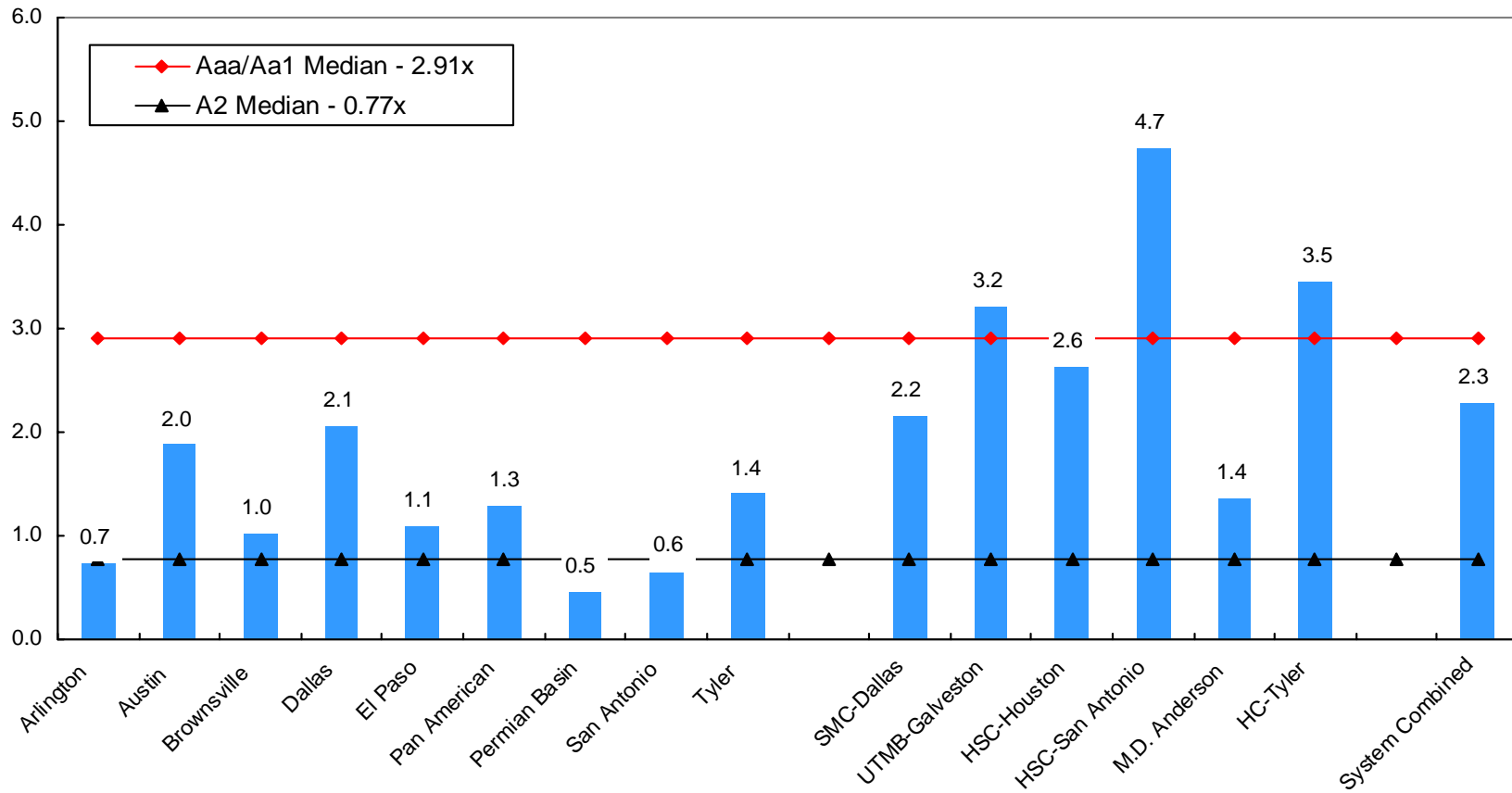
$$\text{Actual Debt Service to Operations} = \frac{\text{Annual Debt Service}}{\text{Total Operating Expenses}}$$





# Expendable Financial Resources to Debt - FY 2004

$$\text{Expendable Financial Resources to Debt} = \frac{\text{Unrestricted Net Assets} + \text{Restricted Expendable Net Assets}}{\text{Direct Debt}}$$







# Proposed Credit Standards

- The Office of Finance proposes that RFS debt capacity be based on an institution's six-year forecast meeting or exceeding at least two of the three following credit ratios as calculated by Moody's:
  1. A minimum Actual Debt Service Coverage ratio of 1.80 times;
  2. A maximum Actual Debt Service to Operations (Debt Burden) of 5.0%;
  3. A minimum Expendable Financial Resources to Debt ratio of 1.0 times.
  
- Moody's and the Office of Finance believe that debt capacity is a strategic concept and cannot be determined by formulas and ratios alone. However, these standards will serve as the foundation for determining access to RFS debt.



## Proposed Credit Standards, Cont.

- The minimum credit standards are intended to approximate a very low investment grade credit rating on a stand-alone basis.
- All ratios are calculated with TRB debt service and appropriations. See the Appendix to this presentation for ratios that exclude TRBs.
- For FY 2004, one institution did not meet the minimum Actual Debt Service Coverage ratio, four exceeded the maximum Actual Debt Service to Operations ratio, and three were below the minimum Expendable Financial Resources to Debt ratio.
- Based on these standards alone, three institutions would not have access to additional RFS debt with the exception of TRB projects and self-supporting projects that generate a minimum 1.30 times debt service coverage (exclusive of depreciation and interest income).



# Observations

- The U. T. System is a strong credit and has additional RFS debt capacity; however, based on current trends, the U. T. System is steadily using up its RFS debt capacity at the Aaa/AAA credit level.
  - The current \$4.98 billion CIP has more than doubled in size since 2000.
  - The Office of Finance expects to issue almost \$1 billion of new revenue debt over the next 24 months.
  - Annual RFS debt service is projected to increase from approximately \$100 million in FY 2000 to approximately \$250 million in FY 2005.
  - The institutions have identified an additional \$5.2 billion of capital projects on the “futures list”.
  
- Large capital needs and low interest rates continue to make RFS debt an attractive source of funding.



## Observations, cont.

- The System's credit deterioration has been caused primarily by greater utilization of RFS debt, including TRBs, rather than a general decline in operating performance.
- As a minimum standard, the RFS Master Resolution only requires the Board to certify that an institution can meet its debt service obligations. It does not require that it be met at an Aaa/AAA standard.
- The Office of Finance's internal credit standards are set at a very low investment grade level.
- Nevertheless, most institutions have little or no RFS debt capacity. Those with no debt capacity can still access RFS debt to fund TRB projects and strong revenue-generating projects (on a case-by-case basis).



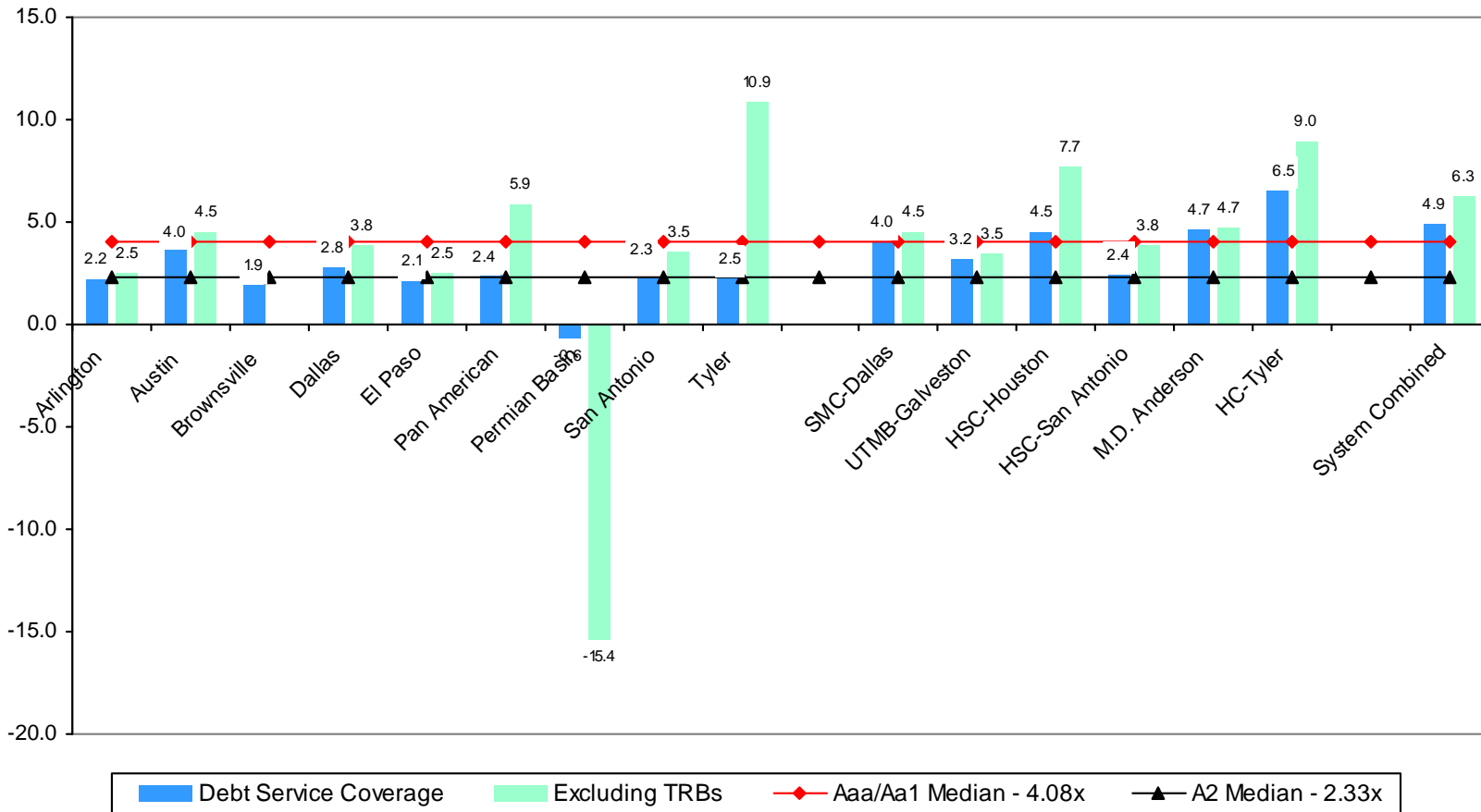
## **Appendix**

### **Credit Ratios with and without Tuition Revenue Bonds**



# Actual Debt Service Coverage - FY 2004

$$\text{Actual Debt Service Coverage} = \frac{\text{Operating Surplus} + \text{Depreciation} + \text{Interest Expense}}{\text{Total Principal and Interest Payments}}$$

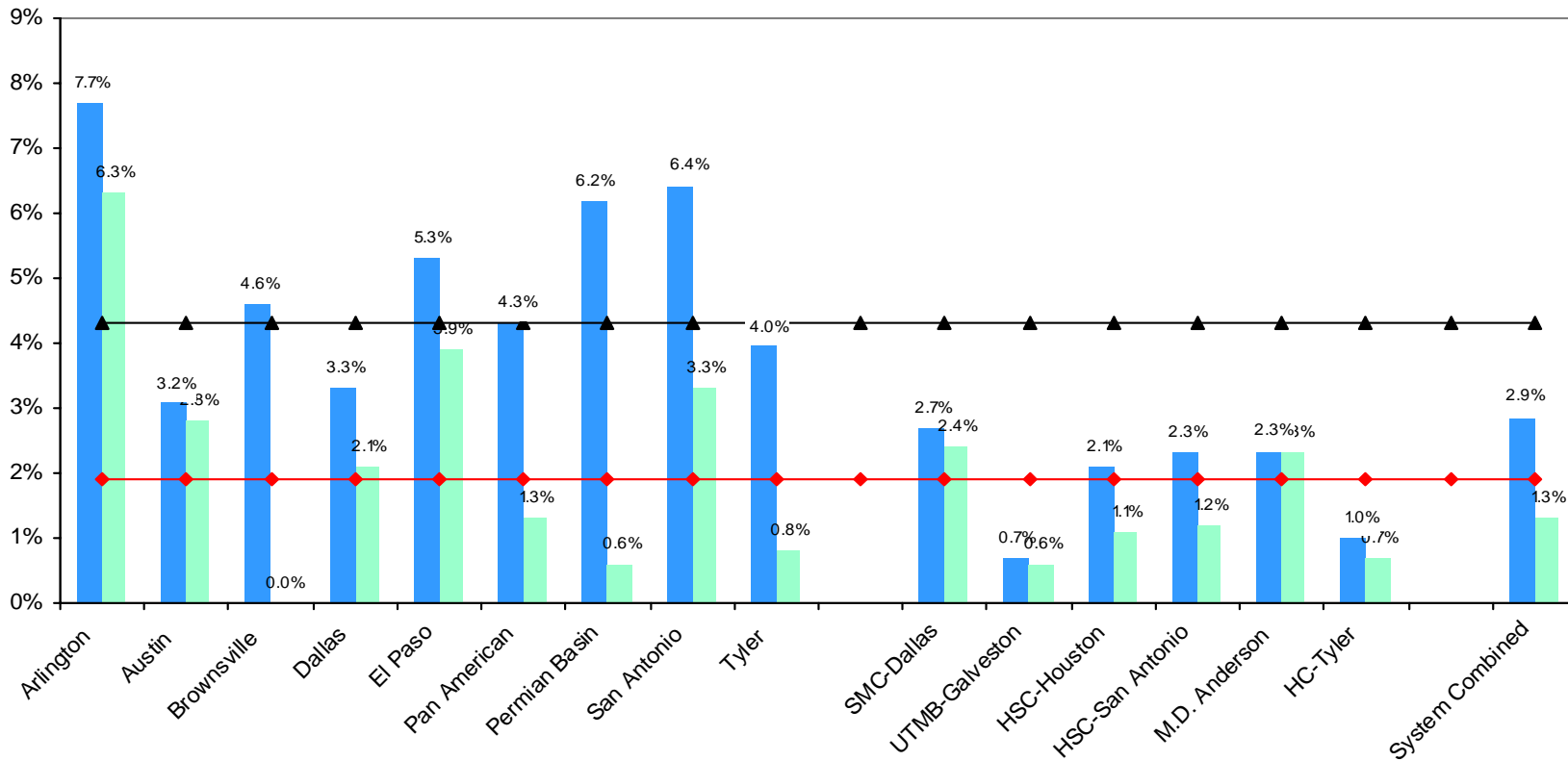


41.23



# Actual Debt Service to Operations (Debt Burden) - FY 2004

$$\text{Actual Debt Service to Operations} = \frac{\text{Annual Debt Service}}{\text{Total Operating Expenses}}$$

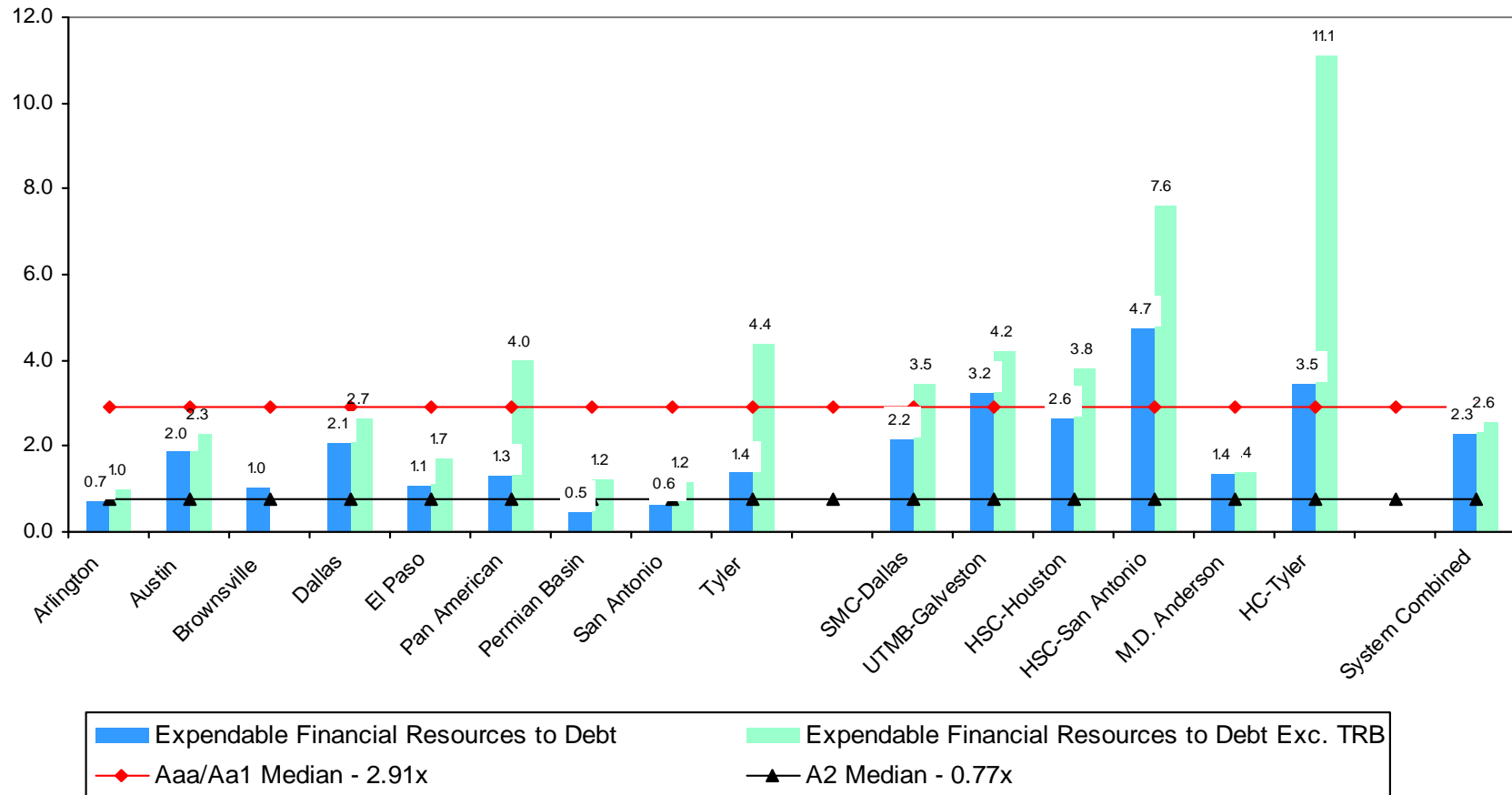


■ Debt Burden 
 ■ Debt Burden Ex. TRB 
 ◆ Aaa/Aa1 Median - 2.5% 
 ▲ A2 Median - 4.3%



# Expendable Financial Resources to Debt - FY 2004

$$\text{Expendable Financial Resources to Debt} = \frac{\text{Unrestricted Net Assets} + \text{Restricted Expendable Net Assets}}{\text{Direct Debt}}$$





8. **U. T. Board of Regents: Report on Investments for quarter ended November 30, 2004, Liquidity Profile, and Performance Report by Ennis Knupp + Associates**

REPORTS

Pages 42.1 - 42.7 contain the Summary Reports on Investments for the three months ended November 30, 2004.

Item I on Pages 42.1 - 42.2 reports summary activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the three months was 7.23% versus its composite benchmark return of 5.58%. The PUF's net asset value increased by \$560.3 million since the beginning of the quarter to \$8,648.2 million. This change in net asset value includes increases due to contributions from PUF land receipts and net investment return.

Item II on Pages 42.3 - 42.5 reports summary activity for the General Endowment Fund (GEF), the Permanent Health Fund (PHF), and Long Term Fund (LTF). The GEF's net investment return for the three months was 7.39% versus its composite benchmark return of 5.58%. The GEF's net asset value increased \$296.1 million since the beginning of the quarter to \$4,503.7 million.

Item III on Page 42.6 reports summary activity for the Short Intermediate Term Fund (SITF). Total net investment return on the SITF was .34% for the three months versus the SITF's performance benchmark of negative .28%. The SITF's net asset value increased by \$21.0 million since the beginning of the quarter to \$1,199.0 million. This increase in net asset value was due to net contributions to the SITF.

Item IV on Page 42.7 presents book and market value of cash, debt, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of institutional operating funds held in the Dreyfus money market fund, increased by \$225.1 million to \$2,518.9 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: \$56.6 million versus \$56.1 million at the beginning of the period; equities: \$217.3 million versus \$325.0 million at the beginning of the period; and other investments: \$.1 million versus \$16.1 million at the beginning of the period.

The November 30, 2004, PUF and GEF Combined Liquidity Profile is attached on Page 42.8.

An Executive Summary of the Performance Report on investments for the quarter ended November 30, 2004, as prepared by Ennis Knupp + Associates is attached on Pages 42.9 - 42.16.

I. PERMANENT UNIVERSITY FUND (1)

a.) Summary Investment Report at November 30, 2004 (2)

(\$ millions)

	FY03-04 <u>Full Year</u>	FY04-05 <u>1st Qtr</u>
Beginning Net Assets	7,244.8	8,087.9
PUF Lands Receipts (3)	146.7	67.7
Investment Return	1,070.2	583.9
Expenses	(25.8)	(6.0)
Distributions to AUF	(348.0)	(85.3)
Ending Net Assets	<u>8,087.9</u>	<u>8,648.2</u>
AUF Distribution:		
From PUF Investments	348.0	85.3
From Surface Income	7.6	1.0
Total	<u>355.6</u>	<u>86.3</u>
 Total Net Investment Return	 14.73%	 7.23%

(1) Report prepared in accordance with *Texas Education Code* Sec. 51.0032.

(2) General - The Investment Summary Report excludes PUF Lands mineral and surface interests with estimated August 31, 2004 values of \$722.1 million and \$164.0 million, respectively.

(3) PUF Land Receipts - As of November 30, 2004: 1,138,179 acres under lease; 511,597 producing acres; 3,139 active leases; and 2,064 producing leases.

I. PERMANENT UNIVERSITY FUND (continued)

b.) Comparison of Asset Allocation Versus Endowment Neutral Policy Portfolio and Net Investment Return for the three months ended November 30, 2004

	Asset Allocation	Endowment Neutral Policy Portfolio	Actual Net Investment Return	Endowment Neutral Policy Portfolio Return (1)	Benchmark
Cash and Cash Equivalents	1.6%	0.0%	0.41%	0.39%	90 Day T-Bills Average Yield
U.S. Equities	27.6%	25.0%	9.17%	8.45%	80% Russell 3000 Index plus 20% Dow Jones Wilshire Real Estate Securities Index
Global Equities	20.7%	17.0%	11.56%	14.22%	Morgan Stanley Capital International - All Country World Free ex U.S.
Equity Hedge Funds	8.1%	10.0%	3.65%	1.40%	90 Day T-Bills Average Yield plus 4%
Absolute Return Hedge Funds	13.5%	15.0%	4.99%	1.15%	90 Day T-Bills Average Yield plus 3%
Commodities	5.0%	3.0%	10.24%	11.34%	Goldman Sachs Commodity Index minus 100 basis points
Fixed Income	14.2%	15.0%	2.39%	0.52%	66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Index Treasury Inflation Protected Securities
<b>Total Marketable Securities</b>	<b>90.7%</b>	<b>85.0%</b>	<b>7.41%</b>	<b>6.14%</b>	
<b>Private Capital</b>	<b>9.3%</b>	<b>15.0%</b>	<b>5.44%</b>	<b>2.40%</b>	Venture Economics' Periodic IRR Index
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>7.23%</b>	<b>5.58%</b>	

(1) The benchmark return for the endowment neutral policy portfolio is calculated by summing the neutrally weighted index return (% weight for the asset class multiplied by the benchmark return for the asset class) for the various asset classes in the endowment portfolio for the period reported.

II. GENERAL ENDOWMENT FUND (1) (2)

a.) Summary Investment Report at November 30, 2004

(\$ millions)

	FY03-04		FY04-05	
	Full Year		1st Qtr	
Beginning Net Assets	3,584.8		4,207.6	
Net Contributions	559.5		95.5	
Investment Return	559.0		315.0	
Expenses	(9.6)		(1.8)	
Allocations (3)	(486.1)		(112.6)	
Ending Net Assets	4,207.6		4,503.7	
Net Asset Value per Unit	117.595		126.278	
Units and Percentage Ownership (End of Period):				
PHF	6,923,785	19.4%	6,846,092	19.2%
LTF	28,857,142	80.6%	28,818,941	80.8%
Total	35,780,927	100.0%	35,665,033	100.0%
Total Net Investment Return	14.77%		7.39%	

(1) Report prepared in accordance with *Texas Education Code* Sec. 51.0032.

(2) On March 1, 2001, the Permanent Health Fund (PHF) and Long Term Fund (LTF) purchased units in the newly created General Endowment Fund (GEF). The initial number of units was based on the PHF's and LTF's contribution of its net values as of February 28, 2001.

(3) The GEF allocates its net investment income and realized gain (loss) to its unit holders based on their ownership of GEF units at month end. The allocated amounts are reinvested as GEF contributions. The allocation is proportional to the percentage of ownership by the unit holders, and therefore, no additional units are purchased.

II. GENERAL ENDOWMENT FUND (continued)

b.) Unit Holders' Summary Investment Report at November 30, 2004 (1)

(\$ millions)

	<u>FY03-04</u>	<u>FY04-05</u>
	Full Year	1st Qtr
<u>PERMANENT HEALTH FUND</u>		
Beginning Net Assets	745.0	814.4
Investment Return	108.6	60.1
Expenses	(0.7)	(0.2)
Distributions (Payout)	<u>(38.5)</u>	<u>(9.6)</u>
Ending Net Assets	814.4	864.7
Net Asset Value per Unit (2)	0.993200	1.054513
No. of Units (End of Period)	820,000,000	820,000,000
Distribution Rate per Unit	0.04700	0.01175
Total Net Investment Return	14.60%	7.36%
<u>LONG TERM FUND</u>		
Beginning Net Assets	2,839.8	3,393.3
Net Contributions	276.5	37.7
Investment Return	441.1	253.1
Expenses	(6.1)	(3.7)
Distributions (Payout)	<u>(158.0)</u>	<u>(41.4)</u>
Ending Net Assets	3,393.3	3,639.0
Net Asset Value per Unit (2)	5.585	5.923
No. of Units (End of Period)	607,622,749	614,379,162
Distribution Rate per Unit	0.264500	0.067425
Total Net Investment Return	14.59%	7.36%

(1) The Permanent Health Fund (PHF) and Long Term Fund (LTF) are internal mutual funds for the pooled investment of endowment funds. The PHF is comprised of endowments for health-related institutions of higher education and the LTF is comprised of privately raised endowments and other long-term funds of U.T. System components.

(2) The asset allocation of the PHF and LTF is representative of the asset allocation for the GEF. A nominal amount of cash is held in PHF and LTF to pay expenses incurred separately by these funds.

II. GENERAL ENDOWMENT FUND (continued)

c.) Comparison of Asset Allocation Versus Endowment Neutral Policy Portfolio and Net Investment Return for the three months ended November 30, 2004

	Asset Allocation	Endowment Neutral Policy Portfolio	Actual Net Investment Return	Endowment Neutral Policy Portfolio Return (1)	Benchmark
Cash and Cash Equivalents	0.1%	0.0%	0.41%	0.39%	90 Day T-Bills Average Yield
U.S. Equities	26.9%	25.0%	9.21%	8.45%	80% Russell 3000 Index plus 20% Dow Jones Wilshire Real Estate Securities Index
Global Equities	21.3%	17.0%	11.90%	14.22%	Morgan Stanley Capital International - All Country World Free ex U.S.
Equity Hedge Funds	8.3%	10.0%	3.65%	1.40%	90 Day T-Bills Average Yield plus 4%
Absolute Return Hedge Funds	14.0%	15.0%	5.06%	1.15%	90 Day T-Bills Average Yield plus 3%
Commodities	5.1%	3.0%	10.31%	11.34%	Goldman Sachs Commodity Index minus 100 basis points
Fixed Income	14.6%	15.0%	2.56%	0.52%	66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Index Treasury Inflation Protected Securities
<b>Total Marketable Securities</b>	<b>90.3%</b>	<b>85.0%</b>	<b>7.54%</b>	<b>6.14%</b>	
<b>Private Capital</b>	<b>9.7%</b>	<b>15.0%</b>	<b>6.01%</b>	<b>2.40%</b>	Venture Economics' Periodic IRR Index
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>7.39%</b>	<b>5.58%</b>	

(1) The benchmark return for the endowment neutral policy portfolio is calculated by summing the neutrally weighted index return (% weight for the asset class multiplied by the benchmark return for the asset class) for the various asset classes in the endowment portfolio for the period reported.

III. SHORT INTERMEDIATE TERM FUND (1)

Summary Investment Report at November 30, 2004

(\$ millions)

	<u>FY03-04</u> <u>Full Year</u>	<u>FY04-05</u> <u>1st Qtr</u>
Beginning Net Assets	1,435.3	1,178.0
Net Contributions (Withdrawals)	(261.3)	22.8
Investment Return	33.2	4.3
Expenses	(0.6)	(0.2)
Distributions of Income	<u>(28.6)</u>	<u>(5.9)</u>
Ending Net Assets	1,178.0	1,199.0
Net Asset Value per Unit	9.927	9.911
No. of Units (End of Period)	118,671,708	120,971,065
Total Net Investment Return	2.49%	0.34%

(1) Report prepared in accordance with *Texas Education Code* Sec. 51.0032.

IV. SEPARATELY INVESTED ASSETS

Summary Investment Report at November 30, 2004

(\$ thousands)

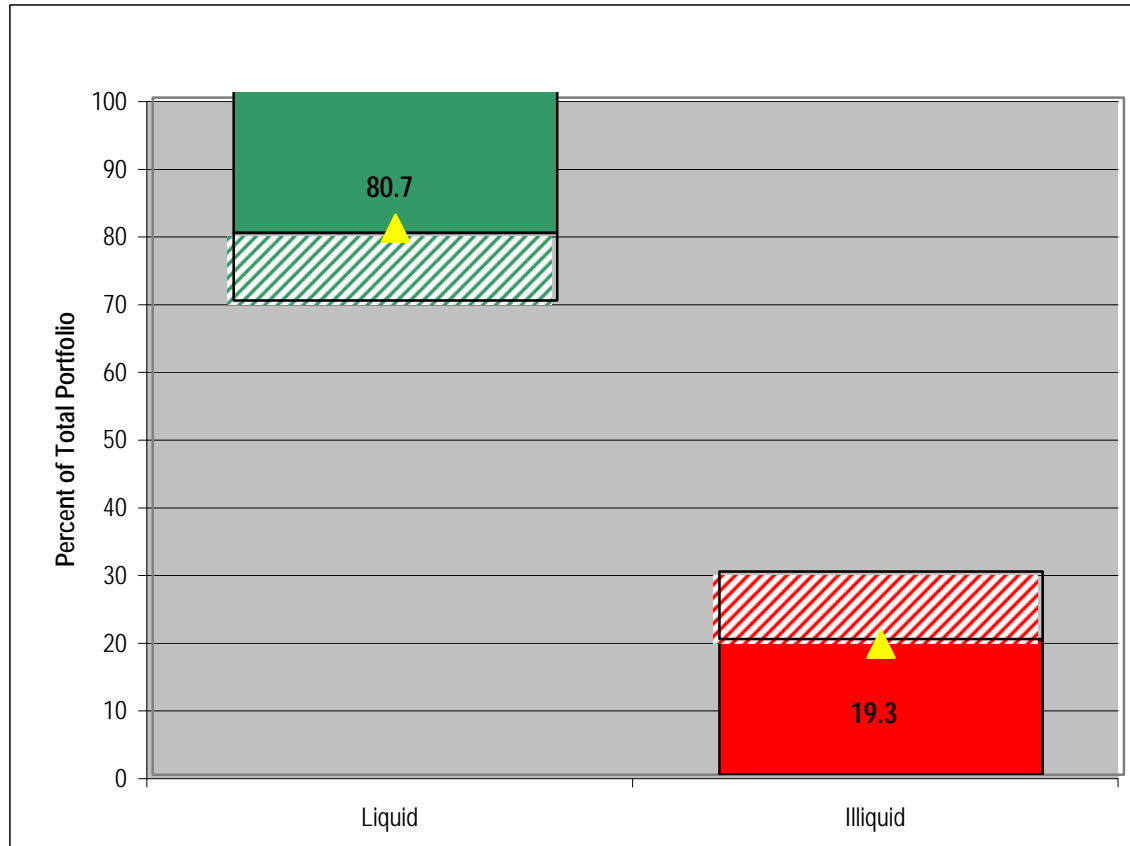
ASSET TYPES	FUND TYPE													
	CURRENT PURPOSE				ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		OPERATING FUNDS		TOTAL	
	DESIGNATED		RESTRICTED		BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET
<b>Cash &amp; Equivalents:</b>	<u>BOOK</u>	<u>MARKET</u>	<u>BOOK</u>	<u>MARKET</u>	<u>BOOK</u>	<u>MARKET</u>	<u>BOOK</u>	<u>MARKET</u>	<u>BOOK</u>	<u>MARKET</u>	<u>BOOK</u>	<u>MARKET</u>	<u>BOOK</u>	<u>MARKET</u>
Beginning value 08/31/04	3,046	3,046	5,924	5,924	73,824	73,824	539	539	-	-	2,210,400	2,210,400	2,293,733	2,293,733
Increase/(Decrease)	1,165	1,165	(3,665)	(3,665)	(16,807)	(16,807)	22	22	-	-	244,405	244,405	225,120	225,120
Ending value 11/30/04	4,211	4,211	2,259	2,259	57,017	57,017	561	561	-	-	2,454,805	2,454,805	2,518,853	2,518,853
<b>Debt Securities:</b>														
Beginning value 08/31/04	-	-	263	207	39,050	39,904	15,232	16,005	-	-	-	-	54,545	56,116
Increase/(Decrease)	-	-	-	(1)	1,060	454	94	78	-	-	-	-	1,154	531
Ending value 11/30/04	-	-	263	206	40,110	40,358	15,326	16,083	-	-	-	-	55,699	56,647
<b>Equity Securities:</b>														
Beginning value 08/31/04	46	8,608	1,907	1,296	39,159	40,813	20,841	21,360	-	-	286,322	252,958	348,275	325,035
Increase/(Decrease)	-	492	49	302	401	3,716	(21)	1,921	-	-	(113,029)	(114,167)	(112,600)	(107,736)
Ending value 11/30/04	46	9,100	1,956	1,598	39,560	44,529	20,820	23,281	-	-	173,293	138,791	235,675	217,299
<b>Other:</b>														
Beginning value 08/31/04	15,000	15,000	1,002	1,002	3	3	190	63	-	-	-	-	16,195	16,068
Increase/(Decrease)	(15,000)	(15,000)	(978)	(978)	6	6	12	1	-	-	-	-	(15,960)	(15,971)
Ending value 11/30/04	-	-	24	24	9	9	202	64	-	-	-	-	235	97

Report prepared in accordance with *Texas Education Code* Sec. 51.0032.

Details of individual assets by account furnished upon request.



## PUF and GEF Combined Liquidity Profile November 30, 2004



The green bar indicates the Policy range for investments categorized as “liquid”. The red bar indicates the Policy range for investments categorized as “illiquid”. The shaded sections of the green and red bars indicate trigger zones requiring special action by the UTIMCO Board or the Liquidity Committee. For example, the allowable range for illiquid investments is 0% to 30% of the total portfolio. However, any illiquid investments made in the 20% to 30% trigger zone requires prior approval by the Liquidity Committee or the UTIMCO Board.

U.T. System Board of Regents  
Report on Investments

Quarter Ending  
November 30, 2004

As of November 30, 2004

CHANGE IN MARKET VALUE  
(\$ in millions)

	PUF	GEF	Total Endowments (PUF + GEF)	Operating Funds	Total
Beginning Market Value (8/31/04)	\$8,088	\$4,208	\$12,296	\$3,641	\$15,937
Contributions	+68	+34	+102	+322	+424
Distributions & Withdrawals	-91	-53	-144	-186	-330
Changes due to Transfers:	-24	-19	-43	+136	+93
Income	+48	+26	+74	+7	+81
Appreciation/Depreciation	+536	+289	+825	+8	+833
Changes from Investment Activities:	+584	+315	+899	+15	+914
Ending Market Value (11/30/04)	\$8,648	\$4,504	\$13,152	\$3,793	\$16,945
Change in Market Value	\$560	\$296	\$856	\$152	\$1,008

- As illustrated above, the PUF (\$560 million) and GEF (\$296 million) both saw increases in market value during the first fiscal quarter, as did the Operating Funds (\$152 million).

## RETURN SUMMARY

ENDING 11/30/04<sup>1</sup>

	Quarter Ending 11/30/2004	1 Year Ending 11/30/2004	3 Years Ending 11/30/2004	5 Years Ending 11/30/2004
<b>Permanent University Fund</b>	<b>7.2%</b>	<b>15.4%</b>	<b>9.2%</b>	<b>5.6%</b>
Endowment Performance Benchmark <sup>2</sup>	5.6	15.2	8.8	4.7
<b>Long Term Fund</b>	<b>7.4</b>	<b>15.2</b>	<b>9.4</b>	<b>6.0</b>
Endowment Performance Benchmark <sup>2</sup>	5.6	15.2	8.8	4.7
<b>Permanent Health Fund</b>	<b>7.4</b>	<b>15.3</b>	<b>9.4</b>	<b>5.4</b>
Endowment Performance Benchmark <sup>2</sup>	5.6	15.2	8.8	4.7
<b>Short Term Fund</b>	<b>0.4</b>	<b>1.2</b>	<b>1.4</b>	<b>3.1</b>
ML 90-day T-Bill	0.4	1.2	1.4	3.0
<b>Short Intermediate Term Fund</b>	<b>0.3</b>	<b>1.9</b>	<b>2.2</b>	<b>4.4</b>
Performance Benchmark	-0.3	1.4	2.9	5.0
<b>BGI U.S. Debt Index Fund</b>	<b>0.3</b>	<b>4.4</b>	<b>5.7</b>	<b>7.5</b>
LB Aggregate Bond Index	0.3	4.4	5.6	7.4
<b>BGI Equity Index Fund</b>	<b>6.8</b>	<b>12.9</b>	<b>2.8</b>	<b>-1.8</b>
S&P 500 Index	6.8	12.8	2.7	-1.8

- The Permanent University Fund, Long Term Fund, and Permanent Health Fund all outperformed the Endowment Performance Benchmark during the first fiscal quarter, and have posted above benchmark trailing 1, 3, and 5 year returns.

<sup>1</sup> Rates of return greater than one year are annualized. UTIMCO reports its performance data net of all costs.

<sup>2</sup> Reflects the U.T. System Board of Regents approved asset allocation policy targets and benchmarks beginning January 1, 2004. Performance prior to January 1, 2004, represents historical endowment policy portfolio data provided by UTIMCO. The Endowment Performance Benchmark shown here does not agree with benchmark data shown in UTIMCO reports. UTIMCO made certain retroactive changes in its benchmark reporting that have not been approved by the Board of Regents.

As of November 30, 2004

PUF POLICY COMPLIANCE  
 ASSET ALLOCATION AS OF 11/30/04  
 (\$ in millions)

	Total	Percent Of Total	Policy	Policy Ranges	In Compliance?
Traditional US Equities	\$1,918	22.2%	20%	15-45%	Yes
REITs	472	5.5	5%	0-10	Yes
<b>U.S. Equity</b>	<b>\$2,390</b>	<b>27.6 %</b>	<b>25%</b>	<b>15-45%</b>	<b>Yes</b>
Non-U.S. Developed Equity	\$1,475	17.1%	10%	5-15%	No
Emerging Markets Equity	315	3.6	7%	0-10	Yes
<b>Global ex-U.S. Equity</b>	<b>\$1,790</b>	<b>20.7%</b>	<b>17%</b>	<b>5-25%</b>	<b>Yes</b>
<b>Total Traditional Equity</b>	<b>\$4,180</b>	<b>48.3%</b>	<b>42%</b>	<b>20-60%</b>	<b>Yes</b>
Equity Hedge Funds	\$698	8.1%	10%	5-15%	Yes
Absolute Return Hedge Funds	1,168	13.5	15%	10-20	Yes
<b>Total Hedge Funds</b>	<b>\$1,866</b>	<b>21.6%</b>	<b>25%</b>	<b>5-25%</b>	<b>Yes</b>
Private Equity	\$689	8.0%	9%	0-10%	Yes
Venture Capital	118	1.4	6%	5-15	No
<b>Total Private Capital</b>	<b>\$807</b>	<b>9.3%</b>	<b>15%</b>	<b>5-15%</b>	<b>Yes</b>
<b>Commodities</b>	<b>\$431</b>	<b>5.0%</b>	<b>3%</b>	<b>0-5%</b>	<b>Yes</b>
Traditional Fixed Income	\$834	9.6%	10%	10-30%	No
TIPS	390	4.5	5%	0-10	Yes
<b>Total Fixed Income</b>	<b>\$1,224</b>	<b>14.2%</b>	<b>15%</b>	<b>10-30%</b>	<b>Yes</b>
Cash	\$140	1.6%	--	0-5%	Yes
<b>Total Permanent University Fund</b>	<b>\$8,648</b>	<b>100.0%</b>	<b>100%</b>		
<b>Liquidity Requirement</b>					<b>Yes</b>

- During the quarter, the PUF's allocation to equities increased while the allocation to fixed income decreased, largely due to market movements. The allocation to traditional fixed income is now below the allowable minimum. Though still underweighted relative to policy, emerging markets equity exposure was increased significantly from the previous quarter due to the removal of the emerging markets futures short position. The allocation to venture capital remained below the allowable minimum, and the allocation to non-U.S. developed equity exceeded the allowable maximum.

As of November 30, 2004

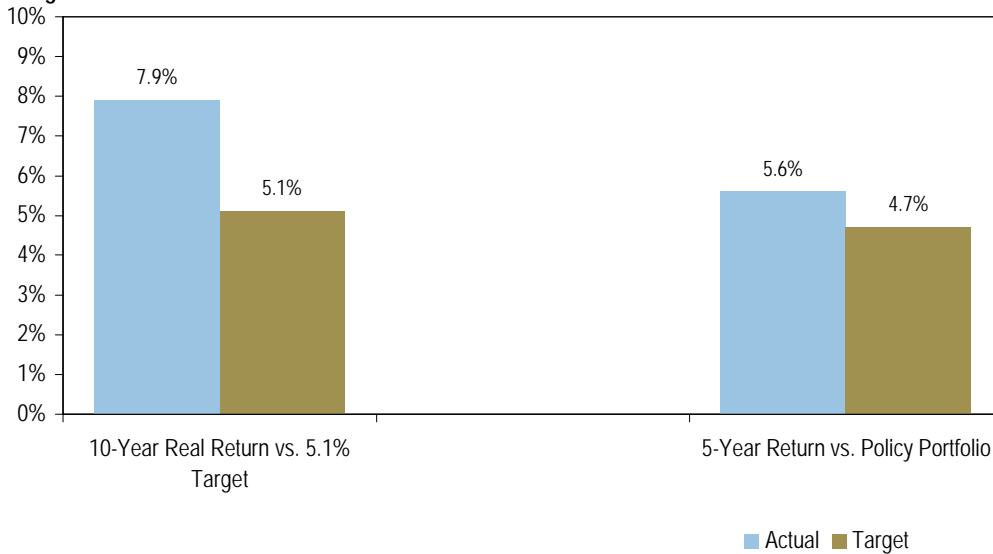
GEF POLICY COMPLIANCE  
 ASSET ALLOCATION AS OF 11/30/04  
 (\$ in millions)

	Total	Percent Of Total	Policy	Policy Ranges	In Compliance?
Traditional US Equities	\$965	21.4%	20%	15-45%	Yes
REITs	244	5.4	5%	0-10	Yes
<b>U.S. Equity</b>	<b>\$1,209</b>	<b>26.8%</b>	<b>25%</b>	<b>15-45%</b>	<b>Yes</b>
Non-U.S. Developed Equity	\$780	17.3%	10%	5-15%	No
Emerging Markets Equity	177	3.9	7%	0-10	Yes
<b>Global ex-U.S. Equity</b>	<b>\$957</b>	<b>21.3%</b>	<b>17%</b>	<b>5-25%</b>	<b>Yes</b>
<b>Total Traditional Equity</b>	<b>\$2,166</b>	<b>48.1%</b>	<b>42%</b>	<b>20-60%</b>	<b>Yes</b>
Equity Hedge Funds	\$376	8.3%	10%	5-15%	Yes
Absolute Return Hedge Funds	631	14.0	15%	10-20	Yes
<b>Total Hedge Funds</b>	<b>\$1,007</b>	<b>22.4%</b>	<b>25%</b>	<b>15-25%</b>	<b>Yes</b>
Private Equity	\$361	8.0%	9%	0-10%	Yes
Venture Capital	77	1.7	6%	5-15	No
<b>Total Private Capital</b>	<b>\$438</b>	<b>9.7%</b>	<b>15%</b>	<b>5-15%</b>	<b>Yes</b>
<b>Commodities</b>	<b>\$230</b>	<b>5.1%</b>	<b>3%</b>	<b>0-5%</b>	<b>No</b>
Traditional Fixed Income	\$449	10.0%	10%	10-30%	Yes
TIPS	208	4.6	5%	0-10	Yes
<b>Total Fixed Income</b>	<b>\$657</b>	<b>14.6%</b>	<b>15%</b>	<b>10-30%</b>	<b>Yes</b>
Cash	\$5	0.1%	--	0-5%	Yes
<b>Total General Endowment Fund</b>	<b>\$4,504</b>	<b>100.0%</b>	<b>100%</b>		
<b>Liquidity Requirement</b>					<b>Yes</b>

- During the quarter, the GEF's allocation to equities increased while the allocation to fixed income decreased, largely due to market movements. Though still underweighted relative to policy, emerging markets equity exposure was increased significantly from the previous quarter due to the removal of the emerging markets futures short position. The allocation to venture capital remained below the allowable minimum, and the allocation to non-U.S. developed equity exceeded the allowable maximum. As of quarter end, the allocation to commodities also exceeded the allowable maximum.

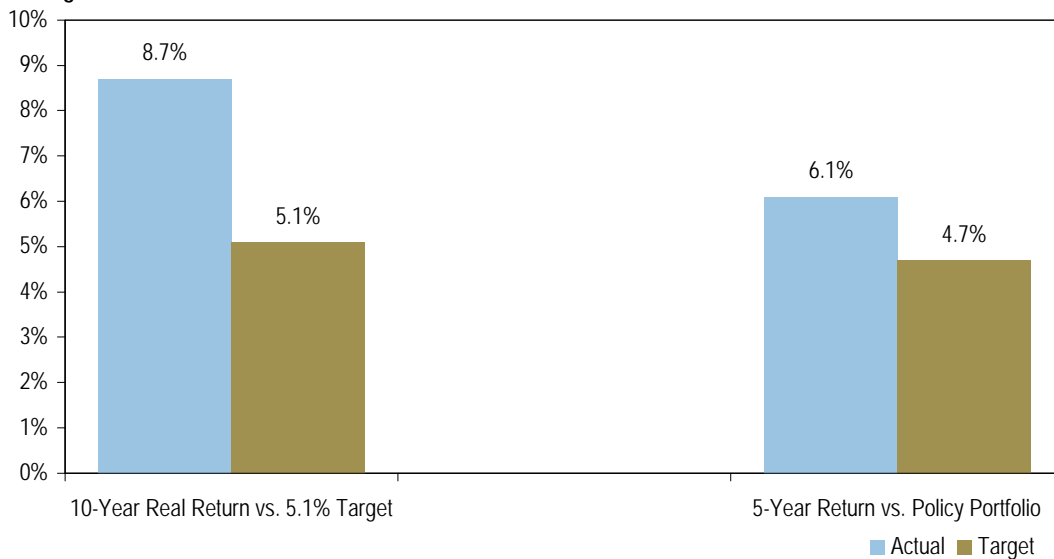
As of November 30, 2004

**Permanent University Fund  
Analysis of Investment Objectives  
Ending 11/30/04**



- The primary investment objective of the PUF and GEF is to preserve the purchasing power of their respective assets and annual distributions by earning an average annual real return of 5.1% over rolling ten-year periods or longer. The secondary fund objective is to generate a fund return in excess of the Policy Portfolio benchmark over rolling five-year periods or longer. These objectives have been met over the periods analyzed.

**General Endowment Fund  
Analysis of Investment Objectives  
Ending 11/30/04**



An additional objective of the PUF and the GEF is to outperform the median fund in a universe of similar endowments over rolling five-year periods or longer. Over the five years ending 9/30/2004 (the most recent date for which peer data is available), both the PUF and the GEF have achieved that objective.

As of November 30, 2004

## Permanent University Fund

## RETURN SUMMARY

ENDING 11/30/04

	Quarter Ending 11/30/2004	1 Year Ending 11/30/2004	3 Years Ending 11/30/2004	5 Years Ending 11/30/2004	Since Inception	Inception Date
<b>Permanent University Fund</b>	<b>7.2%</b>	<b>15.4%</b>	<b>9.2%</b>	<b>5.6%</b>	<b>9.8%</b>	<b>8/31/1991</b>
Endowment Performance Benchmark <sup>1</sup>	5.6	15.2	8.8	4.7	11.2	
<b>U.S. Equity</b>	<b>9.2</b>	<b>16.2</b>	<b>6.7</b>	<b>3.5</b>	<b>11.0</b>	<b>8/31/1991</b>
U.S. Equity Performance Benchmark	8.4	17.1	5.9	-0.1	11.0	
<b>Global Ex U.S. Equity</b>	<b>11.6</b>	<b>20.8</b>	<b>12.8</b>	<b>-0.6</b>	<b>6.8</b>	<b>3/31/1993</b>
MSCI AC World Ex-U.S. Free Index	14.2	25.2	12.5	1.0	7.1	
<b>Equity Hedge Funds</b>	<b>3.6</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>8.1</b>	<b>12/31/2003</b>
90-Day T-Bill + 4%	1.4	--	--	--	4.9	
<b>Absolute Return Hedge Funds</b>	<b>5.0</b>	<b>12.5</b>	<b>11.1</b>	<b>--</b>	<b>12.7</b>	<b>2/29/2000</b>
Absolute Return Benchmark	1.1	4.3	5.2	--	6.9	
<b>Private Capital<sup>2</sup></b>	<b>5.4</b>	<b>17.2</b>	<b>1.7</b>	<b>2.1</b>	<b>9.9</b>	<b>1/31/1989</b>
Private Capital Benchmark	2.4	20.8	9.9	3.8	16.0	
<b>Commodities</b>	<b>10.2</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>23.1</b>	<b>12/31/2003</b>
Goldman Sachs Commodity Index - 1%	11.3	--	--	--	29.1	
<b>Total Fixed Income</b>	<b>2.4</b>	<b>7.8</b>	<b>8.0</b>	<b>8.0</b>	<b>9.1</b>	<b>8/31/1985</b>
Fixed Income Benchmark	0.5	5.5	6.0	7.6	8.5	

- The Permanent University Fund outperformed the Endowment Performance Benchmark by 1.6 percentage points in the fiscal quarter ending November 30, 2004. US equities, equity hedge funds, absolute return hedge funds, private capital, and fixed income all added value during the quarter, while global ex US equities and commodities were detractors.
- Over the one-year period, the Permanent University Fund added 0.2 percentage points of value over its benchmark. Asset class results were mixed, with absolute return hedge funds and fixed income adding substantial value, and US equities, global ex US equities, and private capital detracting from overall performance.

<sup>1</sup> Reflects the U.T. System Board of Regents approved asset allocation policy targets and benchmarks beginning January 1, 2004. Performance prior to January 1, 2004, represents historical endowment policy portfolio data provided by UTIMCO.

<sup>2</sup> Actual returns for the private capital component are presented on a time-weighted basis. The Private Capital Benchmark represents the Venture Economics Private Capital Benchmark beginning January 1, 2004; returns through December 31, 2003 represent the Dow Jones Wilshire 5000 +4%.

As of November 30, 2004

## General Endowment Fund

## RETURN SUMMARY

ENDING 11/30/04

	Quarter Ending 11/30/2004	1 Year Ending 11/30/2004	3 Years Ending 11/30/2004	5 Years Ending 11/30/2004	Since Inception	Inception Date
<b>General Endowment Fund</b>	<b>7.4%</b>	<b>15.4%</b>	<b>9.5%</b>	<b>6.1%</b>	<b>10.4%</b>	<b>8/31/1991</b>
Endowment Performance Benchmark <sup>1</sup>	5.6	15.2	8.8	4.7	11.2	
<b>U.S. Equity</b>	<b>9.2</b>	<b>15.9</b>	<b>6.8</b>	<b>3.1</b>	<b>11.0</b>	<b>8/31/1991</b>
U.S. Equity Performance Benchmark	8.4	17.1	5.9	-0.1	11.0	
<b>Global Ex U.S. Equity</b>	<b>11.9</b>	<b>21.1</b>	<b>13.0</b>	<b>0.1</b>	<b>6.1</b>	<b>3/31/1993</b>
MSCI AC World Ex-U.S. Free Index	14.2	25.2	12.5	1.0	7.1	
<b>Equity Hedge Funds</b>	<b>3.6</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>8.1</b>	<b>12/31/2003</b>
90-Day T-Bill + 4%	1.4	--	--	--	4.9	
<b>Absolute Return Hedge Funds</b>	<b>5.1</b>	<b>12.5</b>	<b>11.2</b>	<b>13.3</b>	<b>11.2</b>	<b>7/31/1998</b>
Absolute Return Benchmark	1.1	4.3	5.2	7.0	7.4	
<b>Private Capital<sup>2</sup></b>	<b>6.0</b>	<b>16.2</b>	<b>0.6</b>	<b>1.8</b>	<b>9.9</b>	<b>11/30/1986</b>
Private Capital Benchmark	2.4	20.8	9.9	3.8	16.0	
<b>Commodities</b>	<b>10.3</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>23.3</b>	<b>12/31/2003</b>
Goldman Sachs Commodity Index - 1%	11.3	--	--	--	29.1	
<b>Total Fixed Income</b>	<b>2.6</b>	<b>7.9</b>	<b>8.1</b>	<b>8.3</b>	<b>11.1</b>	<b>8/31/1981</b>
Fixed Income Benchmark	0.5	5.5	6.0	7.6	10.4	

- The General Endowment Fund outperformed the Endowment Performance Benchmark by 1.8 percentage points in the fiscal quarter ending November 30, 2004. US equities, equity hedge funds, absolute return hedge funds, private capital, and fixed income all added value during the quarter, while global ex US equities and commodities were detractors.
- Over the one-year period, the General Endowment Fund added 0.2 percentage points of value over its benchmark. Asset class results were mixed, with absolute return hedge funds and fixed income adding substantial value, and US equities, global ex US equities, and private capital detracting from overall performance.

<sup>1</sup> Reflects the U.T. System Board of Regents approved asset allocation policy targets and benchmarks beginning January 1, 2004. Performance prior to January 1, 2004, represents historical endowment policy portfolio data provided by UTIMCO.

<sup>2</sup> Actual returns for the private capital component are presented on a time-weighted basis. The Private Capital Benchmark represents the Venture Economics Private Capital Benchmark beginning January 1, 2004; returns through December 31, 2003 represent the Dow Jones Wilshire 5000 +4%.



As of November 30, 2004

## Operating Funds

## RETURN SUMMARY

ENDING 11/30/04

	Quarter Ending 11/30/2004	1 Year Ending 11/30/2004	3 Years Ending 11/30/2004	5 Years Ending 11/30/2004	Since Inception	Inception Date
<b>Short Term Fund</b>	0.4%	1.2%	1.4%	3.1%	4.2%	8/31/1992
ML 90-day T-Bill	0.4	1.2	1.4	3.0	4.1	
<b>Short Intermediate Term Fund</b>	0.3	1.9	2.2	4.4	5.0	2/28/1993
Performance Benchmark <sup>1</sup>	-0.3	1.4	2.9	5.0	5.2	
<b>BGI U.S. Debt Index Fund</b>	0.3	4.4	5.7	7.5	6.9	5/31/1999
LB Aggregate Bond Index	0.3	4.4	5.6	7.4	6.9	
<b>BGI Equity Index Fund</b>	6.8	12.9	2.8	-1.8	-0.4	5/31/1999
S&P 500 Index	6.8	12.8	2.7	-1.8	-0.4	

- The Short Term Fund approximated the performance of the benchmark during the periods shown above.
- The Short Intermediate Term Fund outperformed the Index during the fiscal quarter and trailing one-year period. Longer term performance is below-benchmark
- The BGI U.S. Debt Index approximated the performance of the benchmark during the periods shown above. Participants investing in the BGI U.S. Debt Index liquidated their positions during April of 2004.
- The BGI Equity Index Fund approximated the performance of its benchmark during the periods shown above.

<sup>1</sup> Returns for this benchmark from inception through July 31, 2004 have been supplied by UTIMCO. The composition of the benchmark is understood as including six government bond components obtained from Bloomberg in a weighted average composite. Beginning August 1, 2004 returns are those of the Merrill Lynch 1-3 Year Treasury Index.