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FOR
FINANCE AND PLANNING COMMITTEE

Committee Meeting: 2/17/2011

Board Meeting: 2/18/2011
Austin, Texas

1. U. T. System Board of Regents: Discussion and appropriate action related to approval of *Docket No. 145*

RECOMMENDATION

It is recommended that *Docket No. 145* be approved. The Docket is behind the Docket tab.

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.

2. U. T. System: Key Financial Indicators Report and Monthly Financial Report

REPORT

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will discuss the Key Financial Indicators Report, as set forth on Pages 79 - 86, and the December Monthly Financial Report on Pages 87 - 111. The reports represent the consolidated and individual operating results of the U. T. System institutions.

The Key Financial Indicators Report compares the Systemwide quarterly results of operations, key revenues and expenses, reserves, and key financial ratios in a graphical presentation from Fiscal Year 2007 through November 2010. Ratios requiring balance sheet data are provided for Fiscal Year 2006 through Fiscal Year 2010.

The Monthly Financial Report includes the detailed numbers behind the Operating Margin by Institution graph as well as detail for each individual institution as of December 2010.

THE UNIVERSITY OF TEXAS SYSTEM

KEY FINANCIAL INDICATORS REPORT

1ST QUARTER FY 2011

KEY

Actual Annual Amounts
(SOURCE: Annual Financial Reports)

Adjustment to Actual Annual Amounts to exclude the Increase in Net OPEB Obligation
(SOURCE: Annual Financial Reports)

Budget amounts
(SOURCE: Operating Budget Summary)

Projected Amounts based on the average change of the previous three years of data

Monthly Financial Report Year-to-Date Amounts

Annual State Net Revenue Collections
(SOURCE: Texas Revenue History by Source and Texas Net Revenue by Source, State Comptroller's Office)

Year-to-Date State Net Revenue Collections
(SOURCE: State Comptroller's Office)

Estimated State Revenue Collections
(SOURCE: Biennial Revenue Estimate, State Comptroller's Office)

Annual and Quarterly Average of FTEs
(SOURCE: State Auditor's Office Quarterly FTE Report)

Year-to-Date Margin
(SOURCE: Monthly Financial Report)

Projected Amounts based on Monthly Financial Report

Year-to-Date Margin
(SOURCE: Monthly Financial Report)

Target Normalized Rates

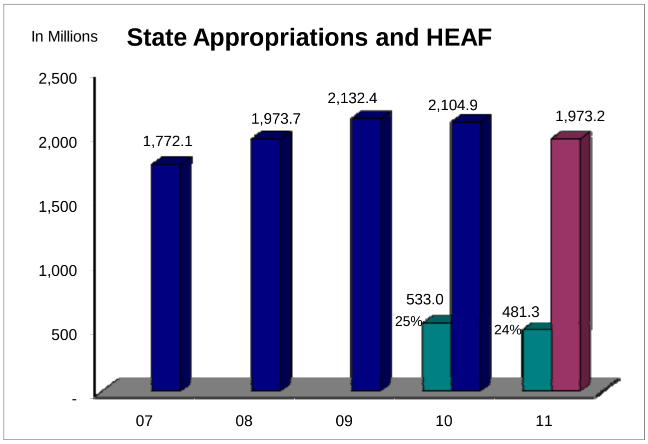
Aaa Median
(SOURCE: Moody's)

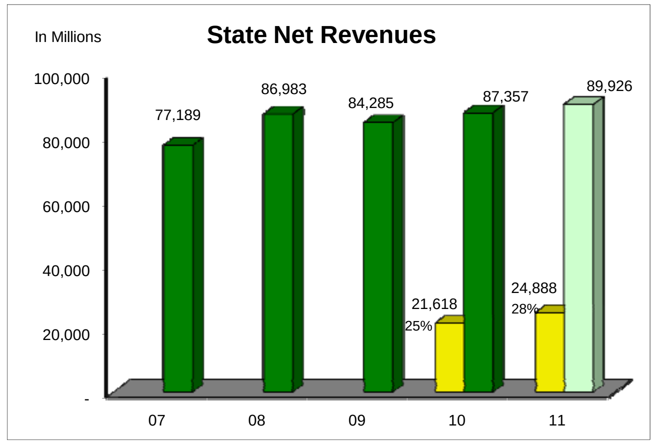
A2 Median
(SOURCE: Moody's)

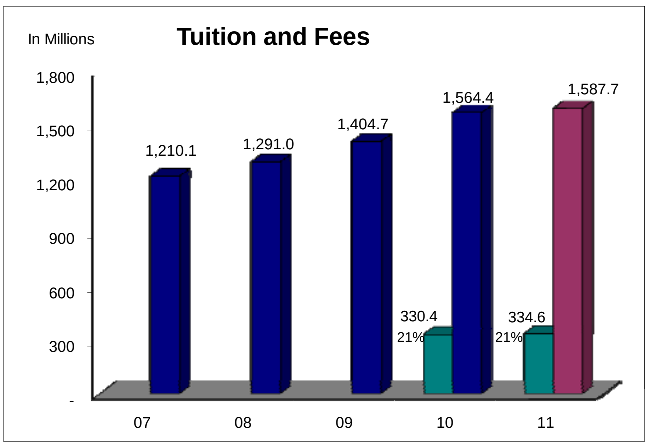
Good Facilities Condition Index (Below 5%)

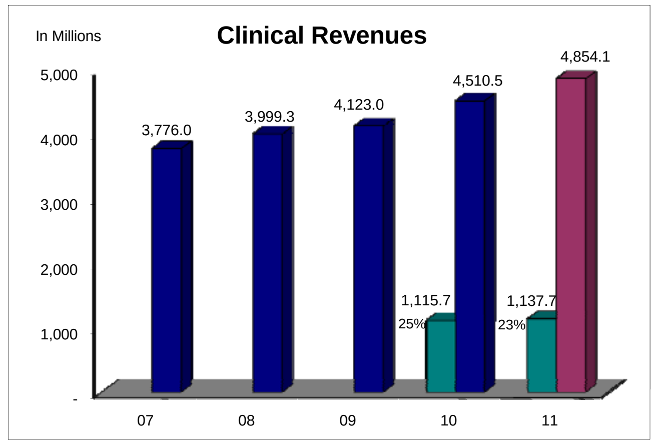
Fair Facilities Condition Index (5% - 10%)

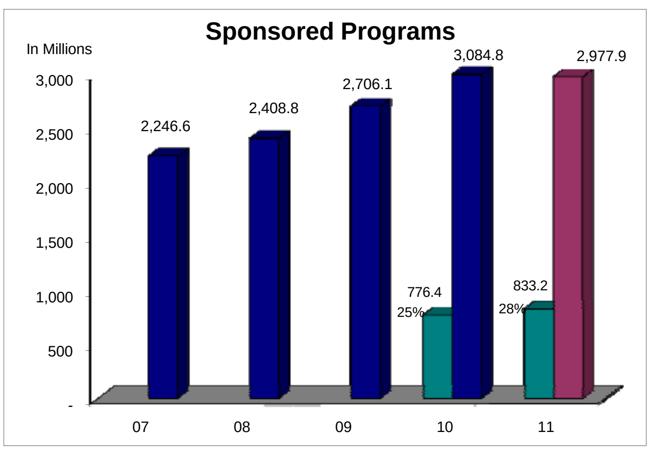
KEY INDICATORS OF REVENUES
ACTUAL 2007 THROUGH 2010
PROJECTED 2011
YEAR-TO-DATE 2010 AND 2011 FROM NOVEMBER MONTHLY FINANCIAL REPORT

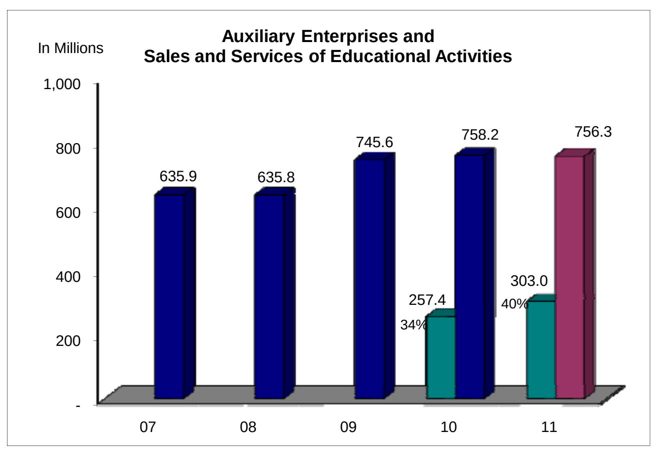


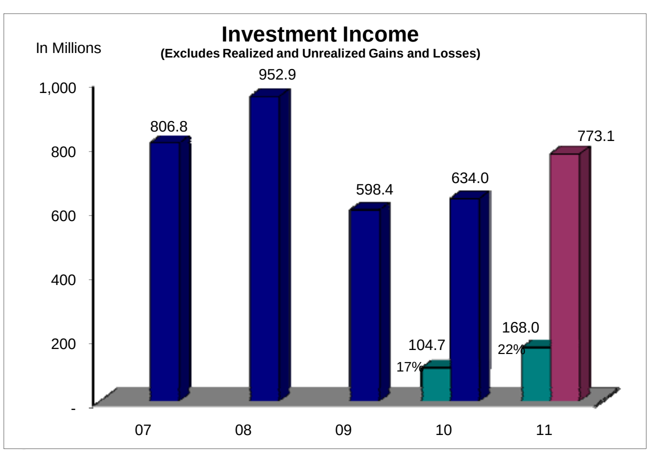


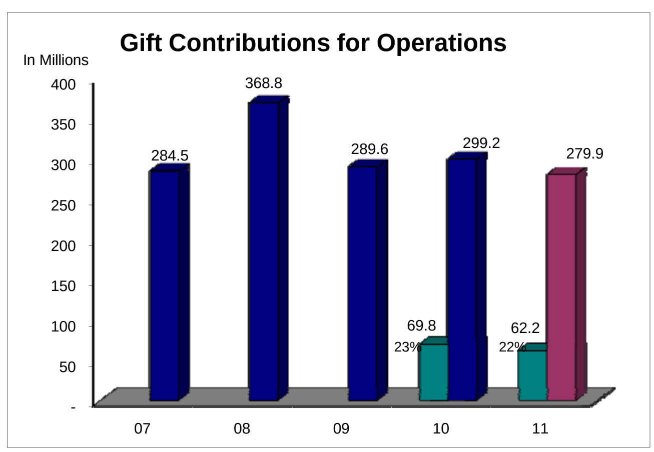




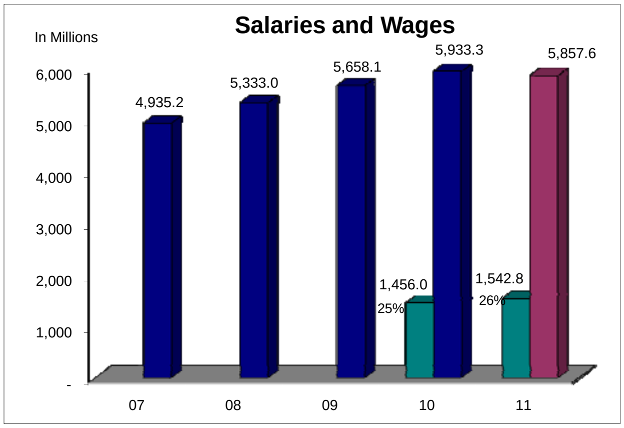


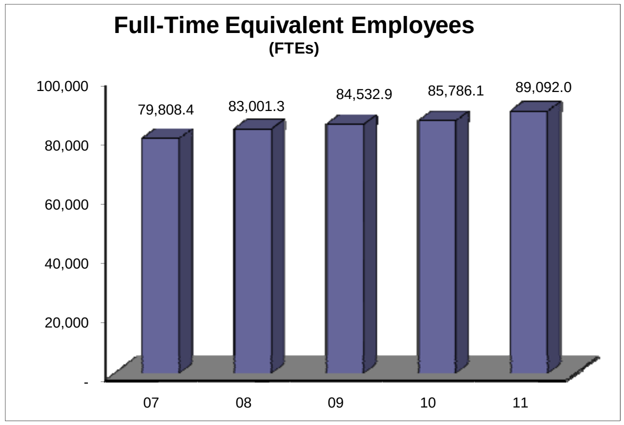


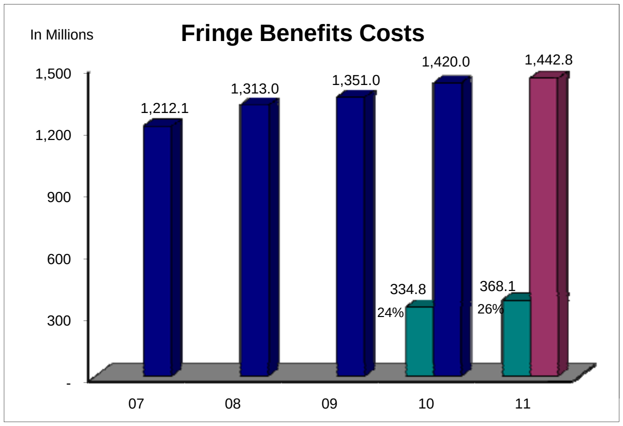


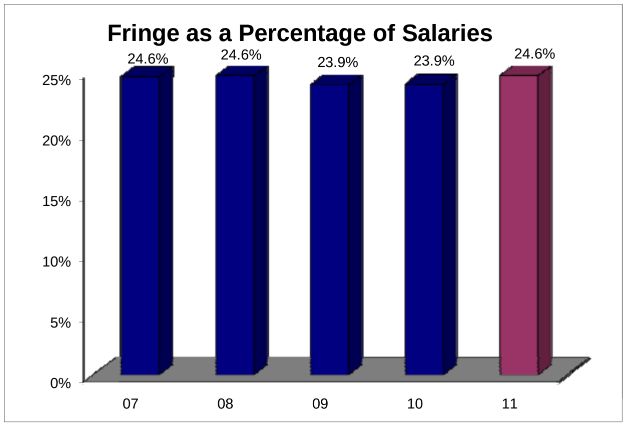


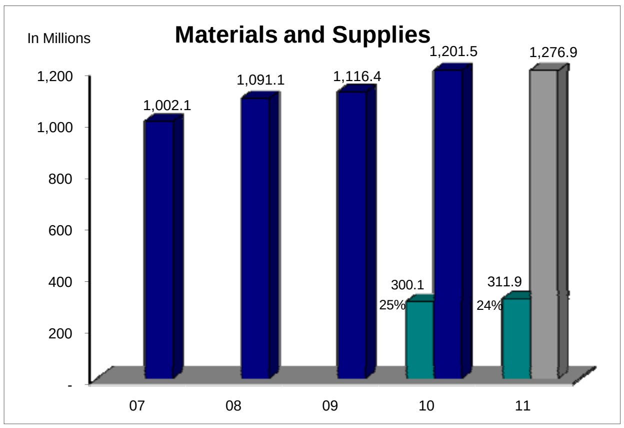
KEY INDICATORS OF EXPENSES
ACTUAL 2007 THROUGH 2010
PROJECTED 2011
YEAR-TO-DATE 2010 AND 2011 FROM NOVEMBER MONTHLY FINANCIAL REPORT

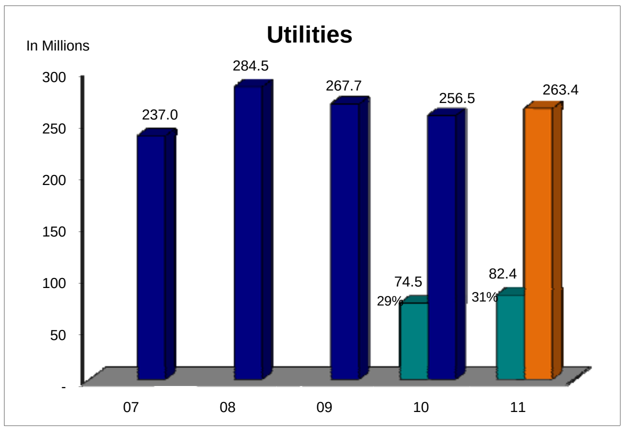


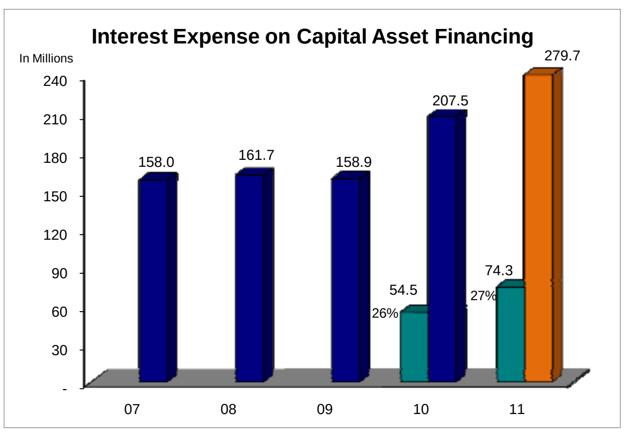


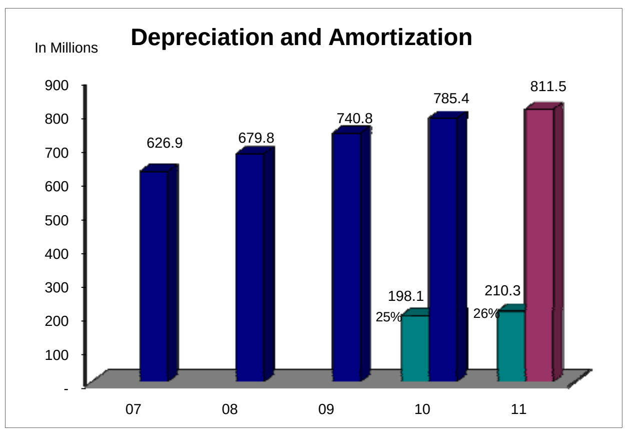




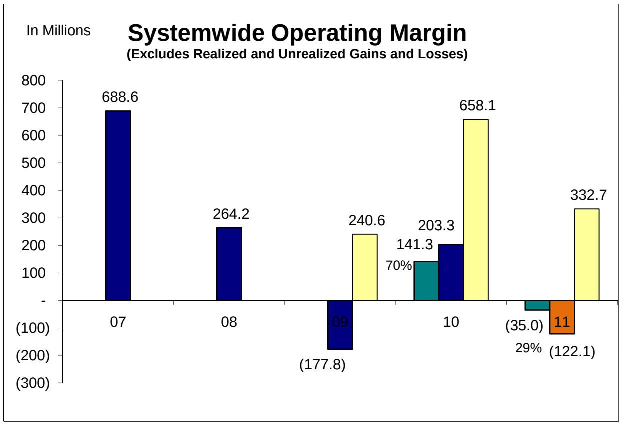


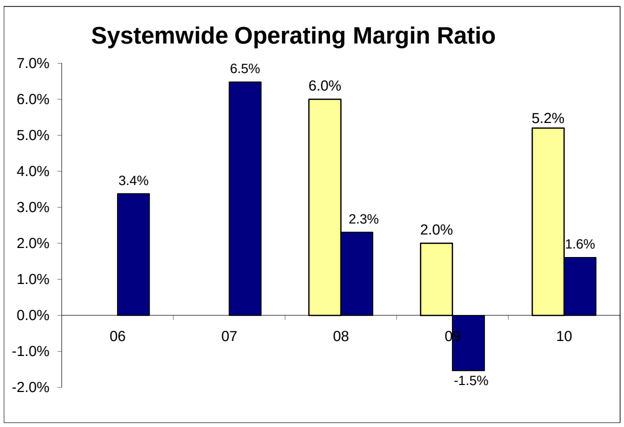


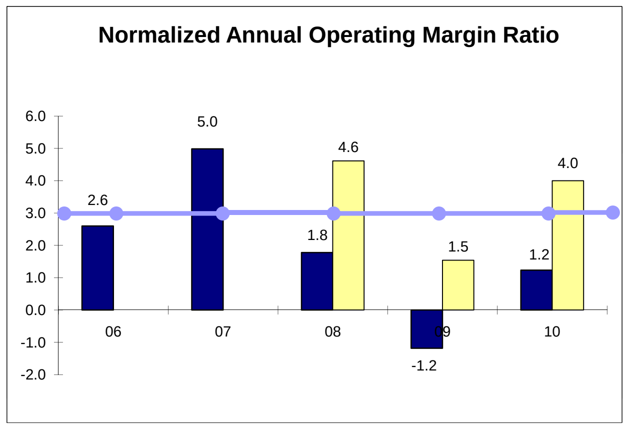


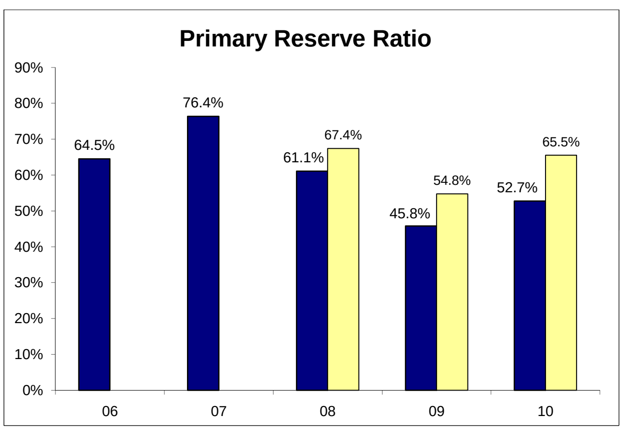


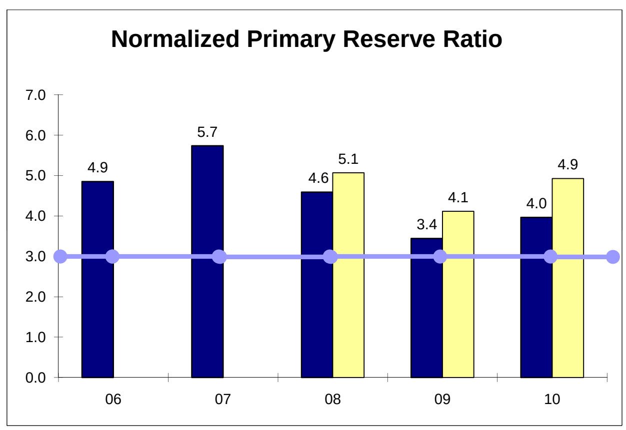
KEY INDICATORS OF RESERVES
ACTUAL 2006 THROUGH 2010
PROJECTED 2011
YEAR-TO-DATE 2010 AND 2011 FROM NOVEMBER MONTHLY FINANCIAL REPORT

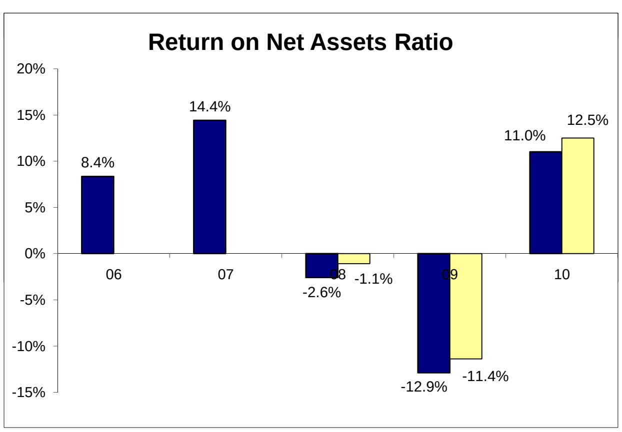


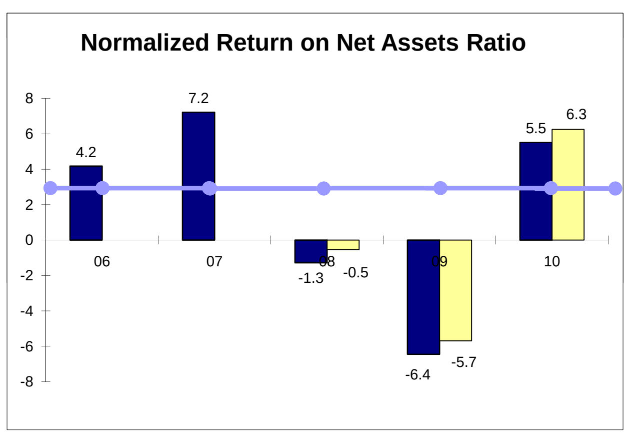




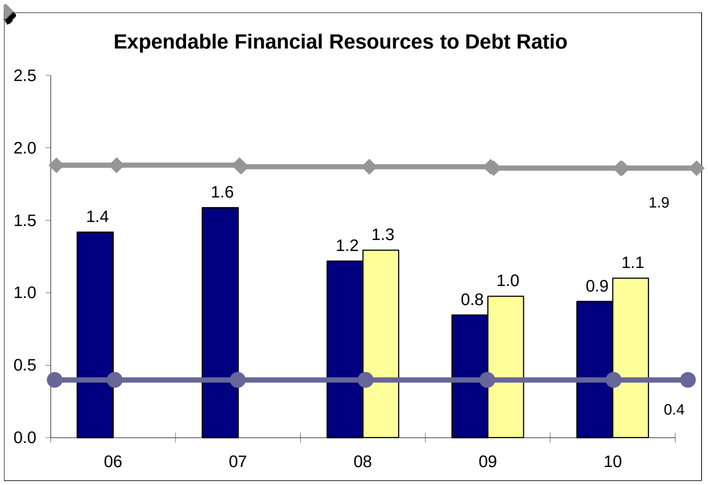


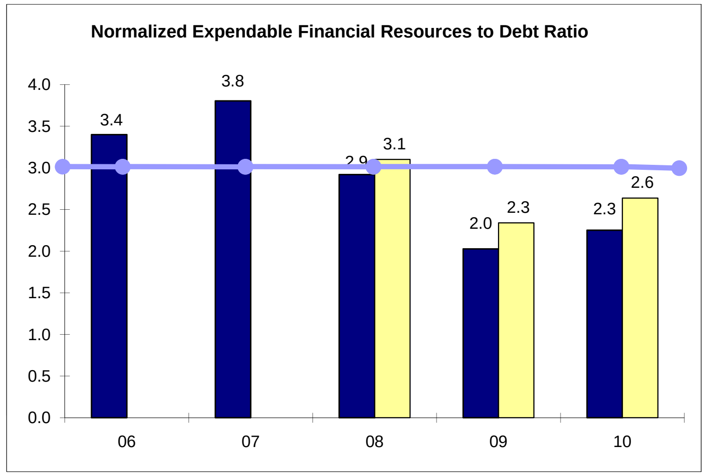


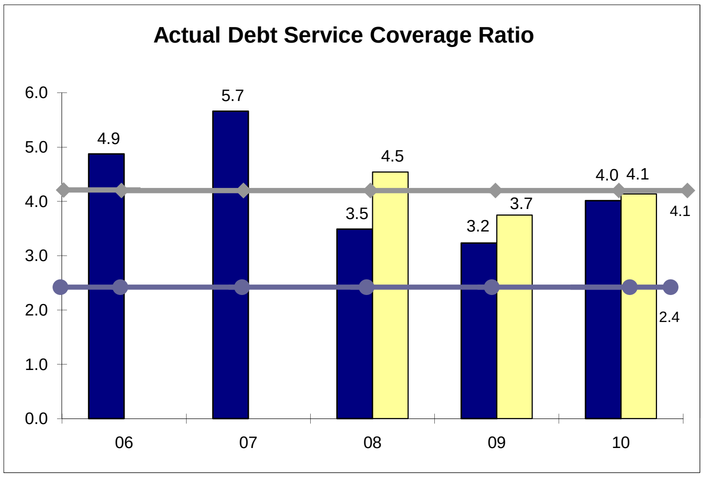


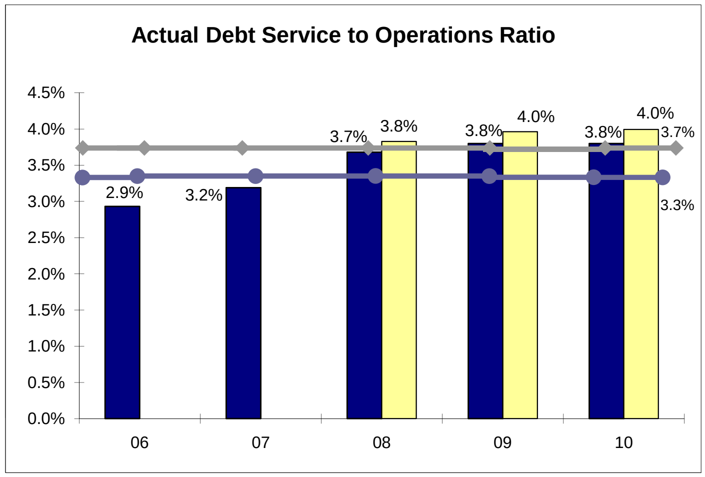


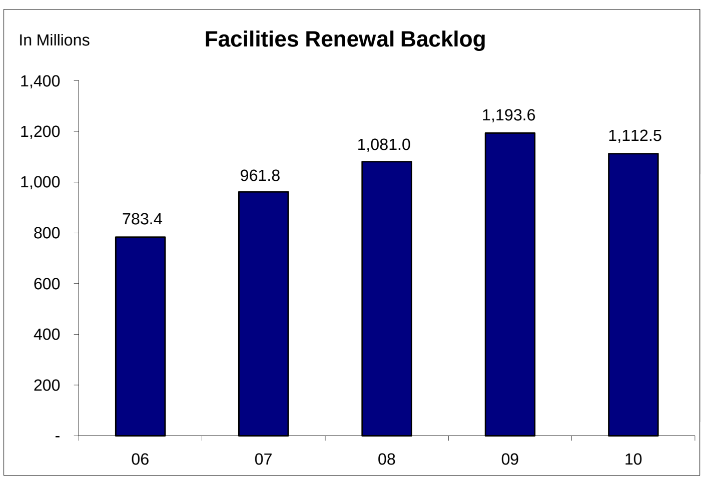
KEY INDICATORS OF CAPITAL NEEDS AND CAPACITY
2006 THROUGH 2010

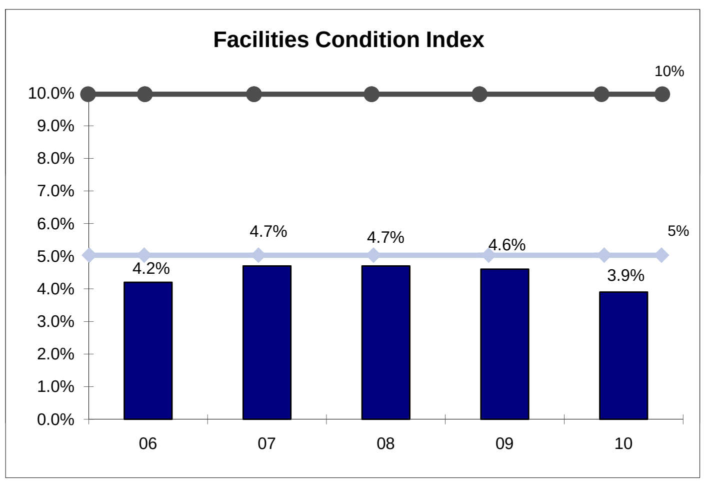




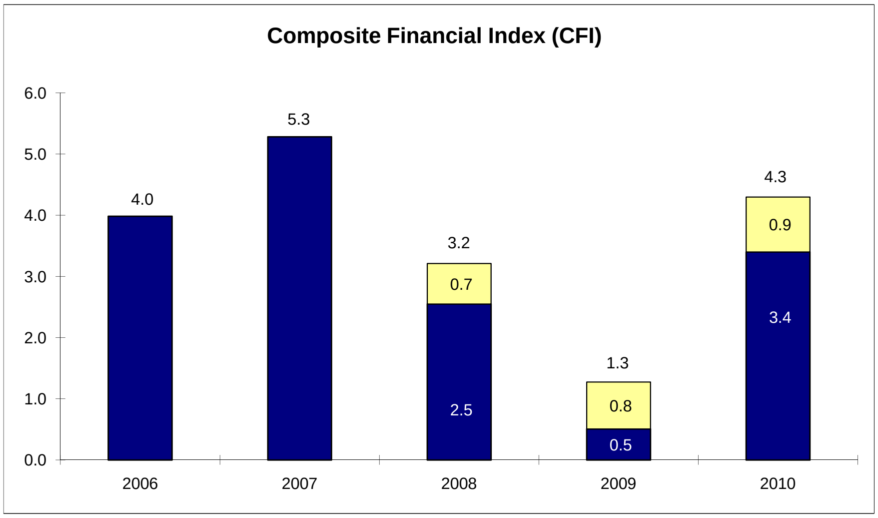




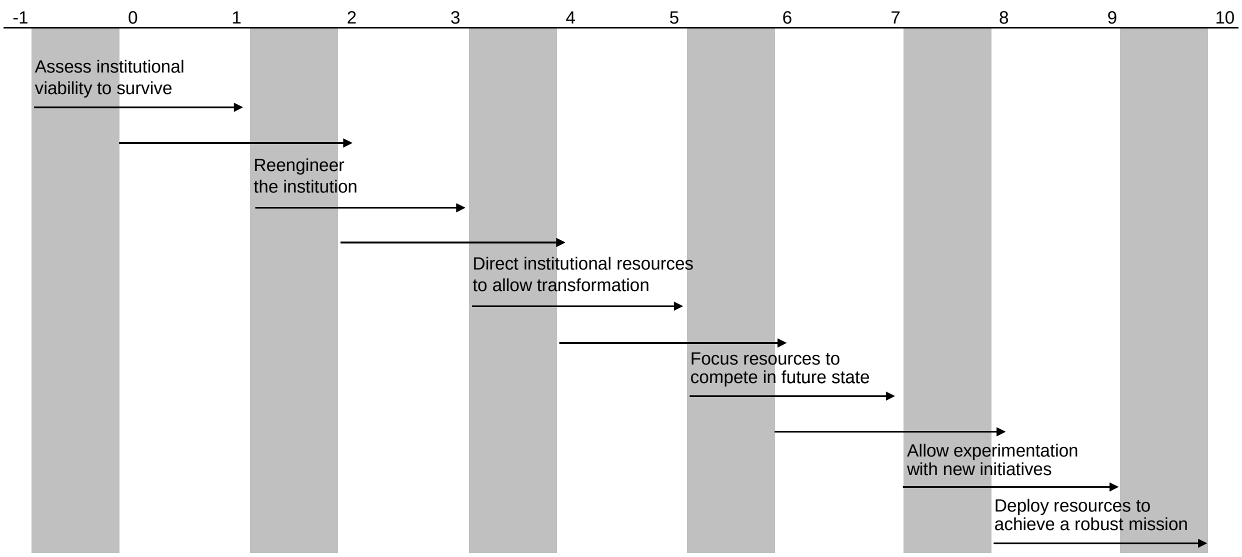




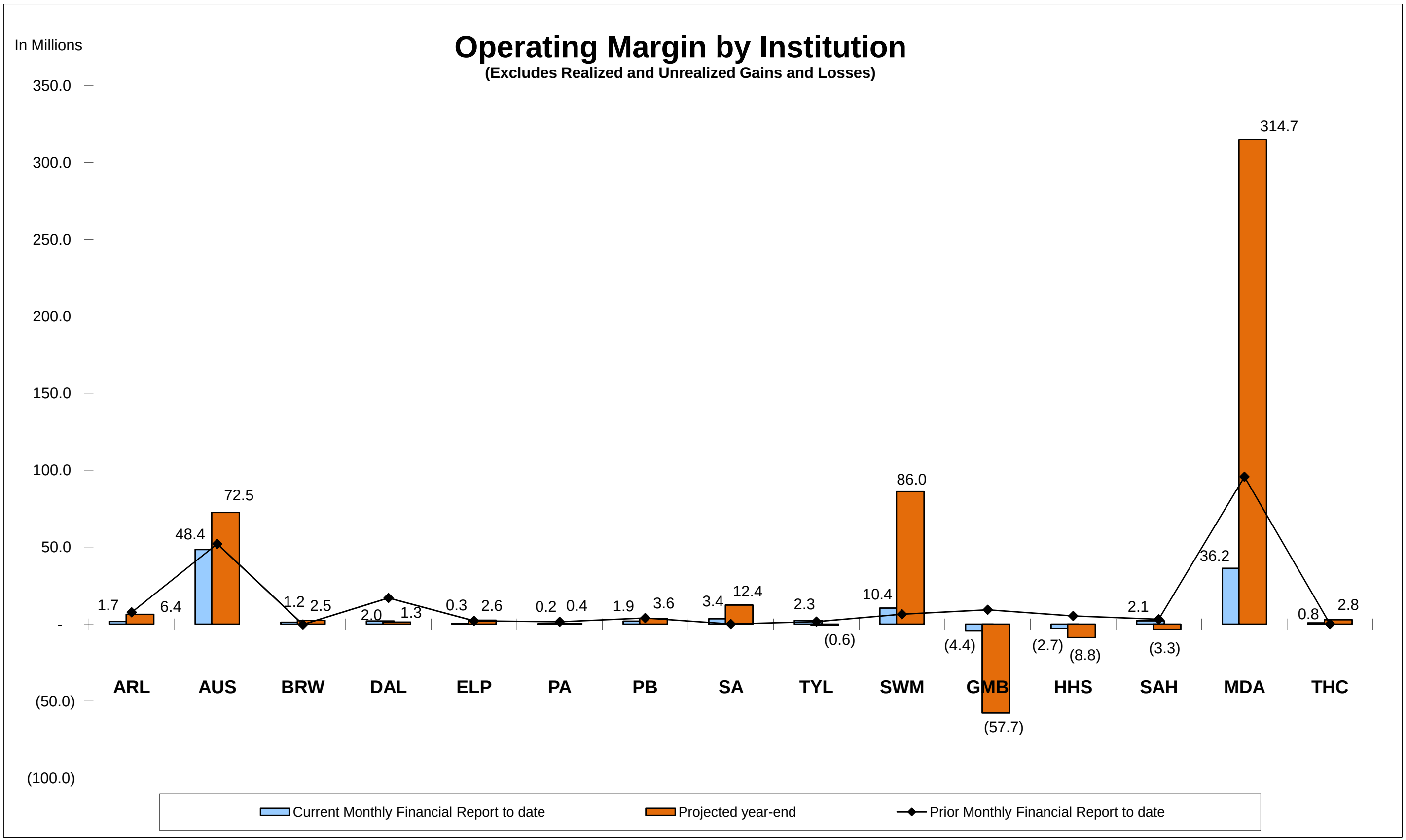
KEY INDICATORS OF FINANCIAL HEALTH
2006 THROUGH 2010

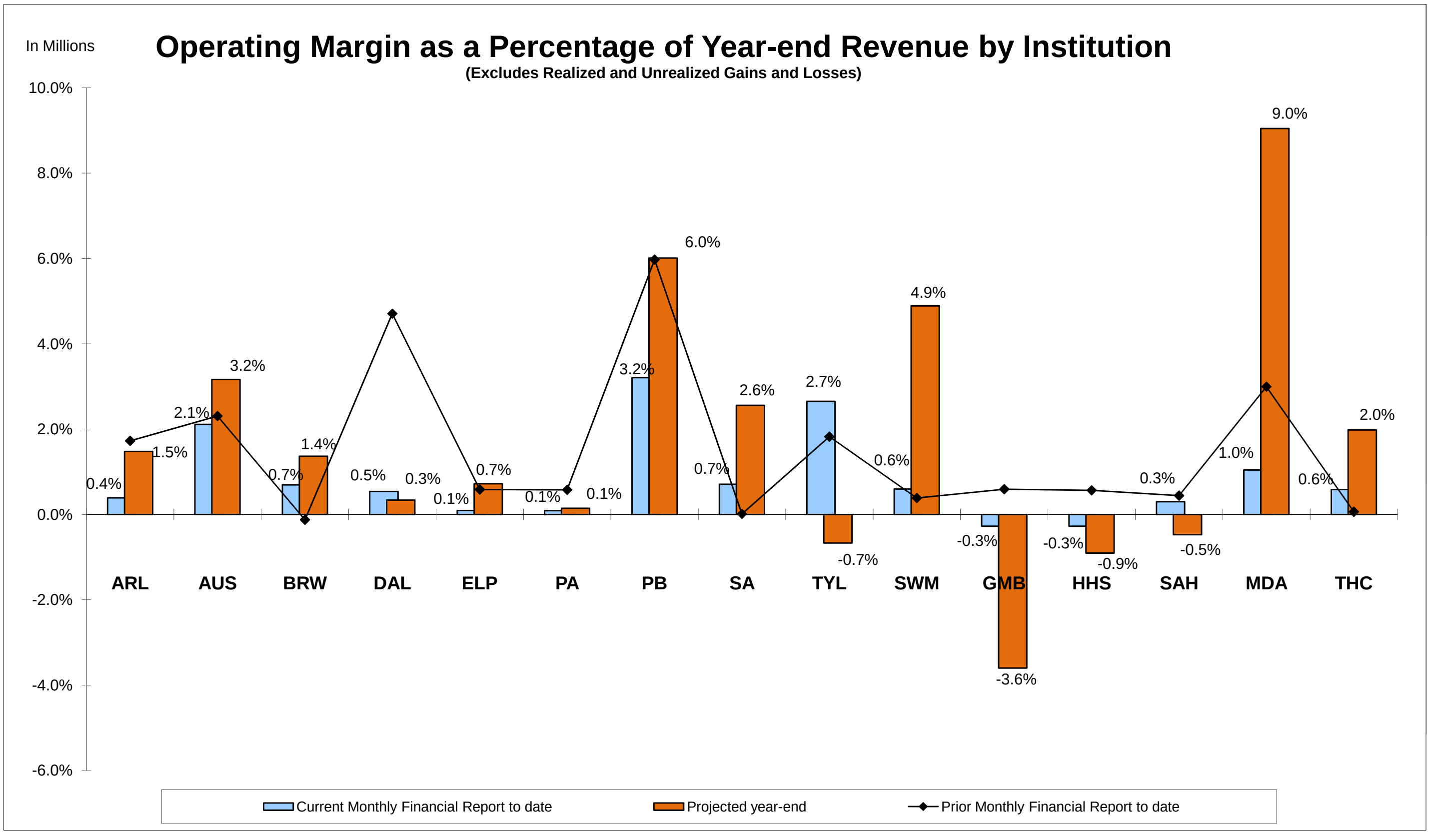


Scale for Charting CFI Performance



KEY INDICATORS OF RESERVES
YEAR-TO-DATE 2010 AND 2011 FROM NOVEMBER MONTHLY FINANCIAL REPORT
PROJECTED 2011 YEAR-END MARGIN





THE UNIVERSITY OF TEXAS SYSTEM
OFFICE OF THE CONTROLLER

MONTHLY FINANCIAL REPORT

(unaudited)

DECEMBER 2010

201 Seventh Street, ASH 5th Floor
Austin, Texas 78701
512.499.4527
www.utsystem.edu/cont

THE UNIVERSITY OF TEXAS SYSTEM
MONTHLY FINANCIAL REPORT
(Unaudited)
FOR THE FOUR MONTHS ENDING
DECEMBER 31, 2010

The University of Texas System
Monthly Financial Report

Foreword

The Monthly Financial Report (MFR) 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.

The University of Texas System Consolidated
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending December 31, 2010

	December Year-to-Date FY 2011	December Year-to-Date FY 2010	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	448,847,199.34	443,551,855.55	5,295,343.79	1.2%
Sponsored Programs	935,233,026.03	879,130,306.28	56,102,719.75	6.4%
Net Sales and Services of Educational Activities	209,089,079.79	189,044,194.36	20,044,885.43	10.6%
Net Sales and Services of Hospitals	1,155,798,345.82	1,137,239,211.59	18,559,134.23	1.6%
Net Professional Fees	378,141,328.76	357,297,898.77	20,843,429.99	5.8%
Net Auxiliary Enterprises	162,614,423.03	155,053,865.78	7,560,557.25	4.9%
Other Operating Revenues	46,692,769.02	50,256,926.65	(3,564,157.63)	-7.1%
Total Operating Revenues	**3,336,416,171.79**	**3,211,574,258.98**	**124,841,912.81**	**3.9%**
Operating Expenses				
Salaries and Wages	2,063,172,294.76	1,941,578,230.80	121,594,063.96	6.3%
Payroll Related Costs	501,236,202.08	455,733,144.36	45,503,057.72	10.0%
Cost of Goods Sold	31,101,519.25	31,438,304.95	(336,785.70)	-1.1%
Professional Fees and Services	134,648,413.87	121,779,702.67	12,868,711.20	10.6%
Travel	39,783,879.96	37,809,876.84	1,974,003.12	5.2%
Materials and Supplies	416,934,619.96	397,390,845.37	19,543,774.59	4.9%
Utilities	104,757,931.35	96,773,207.86	7,984,723.49	8.3%
Communications	45,041,692.54	42,603,803.35	2,437,889.19	5.7%
Repairs and Maintenance	79,269,541.81	75,935,861.43	3,333,680.38	4.4%
Rentals and Leases	46,548,047.77	46,164,168.62	383,879.15	0.8%
Printing and Reproduction	10,056,178.97	10,086,276.09	(30,097.12)	-0.3%
Bad Debt Expense	25,208.96	(7,288.28)	32,497.24	445.9%
Claims and Losses	5,505,410.48	19,757,299.16	(14,251,888.68)	-72.1%
Increase in Net OPEB Obligation	151,579,271.33	-	151,579,271.33	100.0%
Scholarships and Fellowships	180,621,019.47	192,026,212.37	(11,405,192.90)	-5.9%
Depreciation and Amortization	279,982,622.97	260,875,672.29	19,106,950.68	7.3%
Federal Sponsored Program Pass-Through to Other State Agencies	7,026,972.68	6,976,419.90	50,552.78	0.7%
State Sponsored Program Pass-Through to Other State Agencies	1,090,550.87	-	1,090,550.87	100.0%
Other Operating Expenses	273,960,811.87	271,045,039.81	2,915,772.06	1.1%
Total Operating Expenses	**4,372,342,190.95**	**4,007,966,777.59**	**364,375,413.36**	**9.1%**
Operating Loss	**(1,035,926,019.16)**	**(796,392,518.61)**	**(239,533,500.55)**	**-30.1%**
Other Nonoperating Adjustments				
State Appropriations	641,502,731.71	716,895,601.61	(75,392,869.90)	-10.5%
Nonexchange Sponsored Programs	133,654,269.04	96,900,558.37	36,753,710.67	37.9%
Gift Contributions for Operations	118,141,539.35	122,613,188.84	(4,471,649.49)	-3.6%
Net Investment Income	196,442,478.11	158,518,708.49	37,923,769.62	23.9%
Interest Expense on Capital Asset Financings	(95,689,169.11)	(69,667,969.24)	(26,021,199.87)	-37.4%
Net Other Nonoperating Adjustments	**994,051,849.10**	**1,025,260,088.07**	**(31,208,238.97)**	**-3.0%**
Adjusted Income (Loss) including Depreciation & Amortization	**(41,874,170.06)**	**228,867,569.46**	**(270,741,739.52)**	**-118.3%**
Adjusted Margin % including Depreciation & Amortization	**-0.9%**	**5.3%**		
Investment Gain (Losses)	2,187,716,447.82	1,467,585,082.00	720,131,365.82	49.1%
Adj. Inc. (Loss) with Investment Gains (Losses)	**2,145,842,277.76**	**1,696,452,651.46**	**449,389,626.30**	**26.5%**
Adj. Margin % with Investment Gains (Losses)	**32.4%**	**29.4%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**238,108,452.91**	**489,743,241.75**	**(251,634,788.84)**	**-51.4%**
Adjusted Margin % excluding Depreciation & Amortization	**5.4%**	**11.4%**		

The University of Texas System
Comparison of Adjusted Income (Loss)
For the Four Months Ending December 31, 2010

	Including Depreciation and Amortization Expense				
	December Year-to-Date FY 2011	**December Year-to-Date FY 2010**	**Variance**		**Fluctuation Percentage**
UT System Administration	$ (133,668,363.34)	$ (19,527,570.29)	$ (114,140,793.05)	(1)	-584.5%
UT Arlington	2,024,943.80	7,197,315.00	(5,172,371.20)	(2)	-71.9%
UT Austin	45,597,128.75	87,545,309.65	(41,948,180.90)	(3)	-47.9%
UT Brownsville	2,128,748.02	(93,399.33)	2,222,147.35	(4)	2,379.2%
UT Dallas	2,052,381.44	17,638,731.00	(15,586,349.56)	(5)	-88.4%
UT El Paso	962,043.77	3,952,396.36	(2,990,352.59)	(6)	-75.7%
UT Pan American	525,753.64	2,046,208.14	(1,520,454.50)	(7)	-74.3%
UT Permian Basin	1,673,677.26	4,256,095.77	(2,582,418.51)	(8)	-60.7%
UT San Antonio	3,943,898.91	25,722.00	3,918,176.91	(9)	15,232.8%
UT Tyler	2,345,973.10	2,159,548.38	186,424.72		8.6%
UT Southwestern Medical Center - Dallas	18,884,267.61	13,438,822.94	5,445,444.67		40.5%
UT Medical Branch - Galveston	(4,844,822.50)	11,597,042.92	(16,441,865.42)	(10)	-141.8%
UT Health Science Center - Houston	(3,828,945.64)	9,372,518.41	(13,201,464.05)	(11)	-140.9%
UT Health Science Center - San Antonio	2,059,691.93	(86,522.87)	2,146,214.80	(12)	2,480.5%
UT M. D. Anderson Cancer Center	76,845,092.44	145,816,041.00	(68,970,948.56)	(13)	-47.3%
UT Health Science Center - Tyler	634,360.75	112,643.71	521,717.04	(14)	463.2%
Elimination of AUF Transfer	(59,210,000.00)	(56,583,333.33)	(2,626,666.67)		-4.6%
Total Adjusted Income (Loss)	(41,874,170.06)	228,867,569.46	(270,741,739.52)		-118.3%
Investment Gains (Losses)	2,187,716,447.82	1,467,585,082.00	720,131,365.82		49.1%
Total Adjusted Income (Loss) with Investment Gains (Losses) Including Depreciation and Amortization	**$ 2,145,842,277.76**	**$ 1,696,452,651.46**	**$ 449,389,626.30**		**26.5%**

	Excluding Depreciation and Amortization Expense			
	December Year-to-Date FY 2011	**December Year-to-Date FY 2010**	**Variance**	**Fluctuation Percentage**
UT System Administration	$ (129,690,690.88)	$ (15,909,541.37)	$ (113,781,149.51)	-715.2%
UT Arlington	11,234,713.94	15,858,283.00	(4,623,569.06)	-29.2%
UT Austin	109,791,731.98	143,542,418.02	(33,750,686.04)	-23.5%
UT Brownsville	4,049,739.05	1,796,853.41	2,252,885.64	125.4%
UT Dallas	12,692,698.38	26,399,131.00	(13,706,432.62)	-51.9%
UT El Paso	7,271,092.11	9,976,206.33	(2,705,114.22)	-27.1%
UT Pan American	5,266,449.07	6,477,351.14	(1,210,902.07)	-18.7%
UT Permian Basin	3,542,448.15	5,621,092.10	(2,078,643.95)	-37.0%
UT San Antonio	16,746,773.71	12,369,062.00	4,377,711.71	35.4%
UT Tyler	5,996,613.37	4,959,276.38	1,037,336.99	20.9%
UT Southwestern Medical Center - Dallas	46,973,205.30	39,486,296.94	7,486,908.36	19.0%
UT Medical Branch - Galveston	21,271,365.56	36,815,070.22	(15,543,704.66)	-42.2%
UT Health Science Center - Houston	12,457,773.36	22,239,700.54	(9,781,927.18)	-44.0%
UT Health Science Center - San Antonio	14,159,691.93	10,580,143.80	3,579,548.13	33.8%
UT M. D. Anderson Cancer Center	152,597,554.17	223,613,129.00	(71,015,574.83)	-31.8%
UT Health Science Center - Tyler	2,957,293.71	2,502,102.57	455,191.14	18.2%
Elimination of AUF Transfer	(59,210,000.00)	(56,583,333.33)	(2,626,666.67)	-4.6%
Total Adjusted Income (Loss)	238,108,452.91	489,743,241.75	(251,634,788.84)	-51.4%
Total Adjusted Income (Loss) Excluding Depreciation and Amortization	**$ 238,108,452.91**	**$ 489,743,241.75**	**$ (251,634,788.84)**	**-51.4%**

THE UNIVERSITY OF TEXAS SYSTEM
EXPLANATION OF VARIANCES ON THE MONTHLY FINANCIAL REPORT
For the Four Months Ending December 31, 2010

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) *UT System Administration* – The $114.1 million (584.5%) increase in adjusted loss over the same period last year was primarily due to a change in the monthly financial reporting process to include an accrual for the other post employment benefits (OPEB) expense for the entire *UT System* in 2011. As a result, *UT System Administration* experienced a $133.7 million loss and anticipates ending the year with a $401.0 million loss which represents -196.1% of projected revenues and includes $454.7 million of OPEB expense and $11.9 million of depreciation and amortization expense. *UT System Administration's* adjusted loss was $129.7 million or -190.3% excluding depreciation and amortization expense.

(2) *UT Arlington* – The $5.2 million (71.9%) decrease in adjusted income over the same period last year was due to mandated decreases in state appropriations as a result of state-wide budget cuts by the state's leadership and an increase in interest expense. Excluding depreciation and amortization expense, *UT Arlington's* adjusted income was $11.2 million or 7.6%.

(3) *UT Austin* – The $41.9 million (47.9%) decrease in adjusted income over the same period last year was due to mandated decreases in state appropriations as a result of state-wide budget cuts by the state's leadership. Salaries and wages and payroll related costs also increased due to one-time merit increases in 2011. Excluding depreciation and amortization expense, *UT Austin's* adjusted income was $109.8 or 12.9%.

(4) *UT Brownsville* – The $2.2 million (2,379.2%) increase in adjusted income over the same period last year was primarily attributable to an increase in nonexchange sponsored programs due to an increase in federal funds for the Pell Grant Program. Excluding depreciation and amortization expense, *UT Brownsville's* adjusted income was $4.0 million or 5.7%.

(5) *UT Dallas* – The $15.6 million (88.4%) decrease in adjusted income over the same period last year was due to a decrease in gift contributions for operations as a result of a one-time gift of $7.3 million received in September 2009, as well as efforts in 2010 to raise funds eligible for Texas Research Incentive Programs (TRIP) matching. In 2011 TRIP matching gifts are being used to establish endowments, and thus, are not recorded in gift contributions for operations. State appropriations also decreased as a result of the state-wide budget cuts mandated by the state's leadership. Additionally, materials and supplies increased due to furniture and equipment purchases for the Founders Hall renovations. Excluding depreciation and amortization expense, *UT Dallas'* adjusted income was $12.7 million or 10%.

(6) *UT El Paso* – The $3 million (75.7%) decrease in adjusted income over the same period last year was primarily due to a decrease in state appropriations as a result of state-wide budget cuts mandated by the state's leadership and an increase in interest expense. Excluding depreciation and amortization expense, *UT El Paso's* adjusted income was $7.3 million or 5.4%.

(7) *UT Pan American* – The $1.5 million (74.3%) decrease in adjusted income over the same period last year was due to mandated decreases in state appropriations as a result of state-wide budget cuts by the state's leadership. Excluding depreciation and amortization expense, *UT Pan American's* adjusted income was $5.3 million or 5.4%.

(8) *UT Permian Basin* – The $2.6 million (60.7%) decrease in adjusted income over the same period last year was due to a decrease in state appropriations as a result of state-wide budget cuts mandated by the state's leadership and an increase in interest expense. Excluding depreciation and amortization expense, *UT Permian Basin's* adjusted income was $3.5 million or 16.5%.

(9) *UT San Antonio* – The $3.9 million (15,232.8%) increase in adjusted income over the same period last year was due to an increase in nonexchange sponsored programs as a result of increased federal funds for the Pell Grant Program. Excluding depreciation and amortization expense, *UT San Antonio's* adjusted income was $16.7 million or 10.6%.

(10) *UT Medical Branch - Galveston* – The $16.4 million (141.8%) decrease in adjusted income over the same period last year was primarily due to mandated decreases in state appropriations as a result of the state-wide budget cuts by the state's leadership.

Correctional Managed Care (CMC) also incurred a year-to-date loss of $4.6 million. As a result of these factors, *UTMB* experienced a $4.8 million year-to-date loss. Excluding depreciation and amortization expense, *UTMB's* adjusted income was $21.3 million or 4.2%. *UTMB* is forecasting a year-end loss of $57.7 million which represents -3.6% of projected revenues of which $44.9 million is attributable to CMC. This forecast includes $80.8 million of depreciation and amortization expense.

(11) *UT Health Science Center – Houston* – The $13.2 million (140.9%) decrease in adjusted income over the same period last year was primarily attributable to a decrease in state appropriations as a result of the state-wide budget cuts mandated by the state's leadership. Salaries and wages and payroll related costs also increased due to the blending in of the UT System Medical Foundation which occurred at the end of 2010. There was also an increase in the premium sharing rate. As a result, *UTHSC-Houston* experienced a $3.8 million year-to-date loss. *UTHSC-Houston* anticipates ending the year with a $10.0 million loss which represents -1.0% of projected revenues and includes $48.8 million of depreciation and amortization expense. Excluding depreciation and amortization expense, *UTHSC-Houston's* adjusted income was $12.5 million or 3.8%.

(12) *UT Health Science Center – San Antonio* – The $2.1 million (2,480.5%) increase in adjusted income over the same period last year was primarily due to an increase in net professional fees as a result of increased patient volume and a gross charge unit fee increase. Excluding depreciation and amortization expense, *UTHSC-San Antonio's* adjusted income was $14.2 million or 6.1%. Although *UTHSC-San Antonio* is currently reporting a positive margin, they anticipate ending the year with a $3.3 million loss which represents -0.5% of projected revenues and includes $36.3 million of depreciation and amortization expense. The projected loss is the result of the reduction in state appropriations due to the state-wide budget cuts.

(13) *UT M. D. Anderson Cancer Center* – The $69.0 million (47.3%) decrease in adjusted income over the same period last year was primarily due to an overall increase in operating expenses of $69.0 million. Salaries and wages and payroll related costs increased as a result of full-time employee growth and an increase in rates for group insurance. Professional fees and services increased due to the integration of a new Enterprise Resource Planning (ERP) System and upgrade of the clinical coding software application. Repairs and maintenance increased as a result of increases in accruals for hardware and equipment maintenance for the Radiology and Oncology Treatment Center and for information security and risk management. Travel also increased due to travel restrictions that were in effect for 2010. Excluding depreciation and amortization expense, *M. D. Anderson's* adjusted income was $152.6 million or 14.2%.

(14) *UT Health Science Center – Tyler* – The $522,000 (463.2%) increase in adjusted income over the same period last year was due to an increase in net professional fees due to the installation of the Electronic Medical Records (EMR) software system that caused a temporary backlog of entering charges in 2010. Net professional fees also increased as a result of the change in physician commercial billing from a physician based clinic setting to a provider based setting resulting in a reduction in write-offs on the commercial accounts in the physician practice plan. Additionally, materials and supplies decreased due to a lower volume of ancillary services using medical supplies. Excluding depreciation and amortization expense, *UTHSC-Tyler's* adjusted income was $3.0 million or 7.3%.

GLOSSARY OF TERMS

OPERATING REVENUES:

NET STUDENT TUITION – All student tuition and fee revenues earned at the UT institution for educational purposes, net of tuition discounting.

SPONSORED PROGRAMS – Funding received from local, state and federal governments or private agencies, organizations or individuals, excluding Federal Pell Grant Program which is reported as nonoperating. 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 UT 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 UT 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 nonprofit 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. Includes faculty incentive payments and supplemental retirement annuities.

COST OF GOODS SOLD – Purchases of goods for resale and raw materials purchased for use in the manufacture of products intended for sale to others.

PROFESSIONAL FEES AND 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.

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.

COMMUNICATIONS - 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 other operating expenses.

INCREASE IN NET OPEB OBLIGATION – The change in the actuarially estimated liability of the cost of providing healthcare benefits to UT System's employees after they separate from employment (retire).

SCHOLARSHIPS AND FELLOWSHIPS – Payments made for scholarship grants to students authorized by law, net of tuition discounting.

FEDERAL SPONSORED PROGRAM PASS-THROUGHS TO OTHER STATE AGENCIES – Pass-throughs to other Texas state agencies, including other universities, of federal grants and contracts.

STATE SPONSORED PROGRAM PASS-THROUGHS TO OTHER STATE AGENCIES – Pass-throughs to other Texas state agencies, including Texas universities.

DEPRECIATION AND AMORTIZATION – Depreciation on capital assets and amortization expense on intangible assets.

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 UT institutional revenue in meeting operating expenses, such as faculty salaries, utilities, and institutional support.

NONEXCHANGE SPONSORED PROGRAMS – Federal funding received for the Federal Pell Grant Program.

GIFT CONTRIBUTIONS FOR OPERATIONS – Consist of gifts from donors received for use in current operations, excluding gifts for capital acquisition and endowment gifts. Gifts for capital acquisition which can only be used to build or buy capital assets are excluded because they cannot be used to support current operations. Endowment gifts must be held in perpetuity and cannot be spent. The distributed income from endowment gifts must be spent according to the donor's stipulations.

NET INVESTMENT INCOME (on institutions' sheets) – Interest and dividend income on treasury balances, bank accounts, Short Term Fund, Intermediate Term Fund and Long Term Fund. It also includes distributed earnings from the Permanent Health Fund and patent and royalty income.

NET INVESTMENT INCOME (on the consolidated sheet) – Interest and dividend earnings of the Permanent University Fund, Short Term Fund, Intermediate Term Fund, Long Term Fund and Permanent Health Fund. This line item also includes the Available University Fund surface income, oil and gas royalties, and mineral lease bonus sales.

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) including Depreciation and Amortization – Total operating revenues less total operating expenses including depreciation and amortization expense plus net other nonoperating adjustments.

ADJUSTED MARGIN % including Depreciation and Amortization – Percentage of Adjusted Income (Loss) including depreciation and amortization expense 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 UT 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.

ADJUSTED INCOME (LOSS) excluding Depreciation and Amortization – Total operating revenues less total operating expenses excluding depreciation and amortization expense plus net other nonoperating adjustments.

ADJUSTED MARGIN % excluding Depreciation and Amortization – Percentage of Adjusted Income (Loss) excluding depreciation and amortization expense divided by Total Operating Revenues plus Net Nonoperating Adjustments less Interest Expense on Capital Asset Financings.

The University of Texas System Administration
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending December 31, 2010

	December Year-to-Date FY 2011	December Year-to-Date FY 2010	Variance	Fluctuation Percentage
Operating Revenues				
Sponsored Programs	5,636,735.54	13,812,778.18	(8,176,042.64)	-59.2%
Net Sales and Services of Educational Activities	17,706,702.69	19,776,723.59	(2,070,020.90)	-10.5%
Other Operating Revenues	5,624,423.92	(2,963,712.70)	8,588,136.62	289.8%
Total Operating Revenues	**28,967,862.15**	**30,625,789.07**	**(1,657,926.92)**	**-5.4%**
Operating Expenses				
Salaries and Wages	7,916,928.83	10,033,908.97	(2,116,980.14)	-21.1%
Payroll Related Costs	1,731,074.25	2,069,949.19	(338,874.94)	-16.4%
Professional Fees and Services	207,325.88	599,258.96	(391,933.08)	-65.4%
Travel	326,173.95	595,372.84	(269,198.89)	-45.2%
Materials and Supplies	1,165,021.90	1,117,274.99	47,746.91	4.3%
Utilities	113,615.03	53,352.17	60,262.86	113.0%
Communications	1,730,581.72	2,328,871.98	(598,290.26)	-25.7%
Repairs and Maintenance	339,148.26	1,407,099.37	(1,067,951.11)	-75.9%
Rentals and Leases	269,402.54	266,530.58	2,871.96	1.1%
Printing and Reproduction	66,778.26	142,876.10	(76,097.84)	-53.3%
Claims and Losses	5,505,410.48	19,757,299.16	(14,251,888.68)	-72.1%
Increase in Net OPEB Obligation	151,579,271.33	-	151,579,271.33	100.0%
Scholarships and Fellowships	362,750.00	300.00	362,450.00	120,816.7%
Depreciation and Amortization	3,977,672.46	3,618,028.92	359,643.54	9.9%
State Sponsored Program Pass-Through to Other State Agencies	1,080,212.37	-	1,080,212.37	100.0%
Other Operating Expenses	6,059,469.90	9,471,634.87	(3,412,164.97)	-36.0%
Total Operating Expenses	**182,430,837.16**	**51,461,758.10**	**130,969,079.06**	**254.5%**
Operating Loss	**(153,462,975.01)**	**(20,835,969.03)**	**(132,627,005.98)**	**-636.5%**
Other Nonoperating Adjustments				
State Appropriations	679,165.20	716,667.00	(37,501.80)	-5.2%
Nonexchange Sponsored Programs	2,302,125.00	-	2,302,125.00	100.0%
Gift Contributions for Operations	312,679.69	270,628.96	42,050.73	15.5%
Net Investment Income	25,421,043.66	1,796,132.63	23,624,911.03	1,315.3%
Interest Expense on Capital Asset Financings	(19,387,278.21)	(12,486,321.85)	(6,900,956.36)	-55.3%
Net Other Nonoperating Adjustments	**9,327,735.34**	**(9,702,893.26)**	**19,030,628.60**	**196.1%**
Adjusted Income (Loss) including Depreciation & Amortization	**(144,135,239.67)**	**(30,538,862.29)**	**(113,596,377.38)**	**-372.0%**
Adjusted Margin % including Depreciation & Amortization	**-249.9%**	**-91.4%**		
Available University Fund Transfer	10,466,876.33	11,011,292.00	(544,415.67)	-4.9%
Adjusted Income (Loss) with AUF Transfer	**(133,668,363.34)**	**(19,527,570.29)**	**(114,140,793.05)**	**-584.5%**
Adjusted Margin % with AUF Transfer	**-196.1%**	**-44.0%**		
Investment Gain (Losses)	1,734,182,384.53	1,260,632,643.92	473,549,740.61	37.6%
Adj. Inc. (Loss) with AUF Transfer & Invest. Gains (Losses)	**$1,600,514,021.19**	**$1,241,105,073.63**	**$359,408,947.56**	**29.0%**
Adj. Margin % with AUF Transfer & Invest. Gains (Losses)	**88.8%**	**95.1%**		
Adjusted Income (Loss) with AUF Transfer excluding Depreciation & Amortization	**(129,690,690.88)**	**(15,909,541.37)**	**(113,781,149.51)**	**-715.2%**
Adjusted Margin % with AUF Transfer excluding Depreciation & Amortization	**-190.3%**	**-35.8%**		

The University of Texas at Arlington
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending December 31, 2010

	December Year-to-Date FY 2011	December Year-to-Date FY 2010	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	56,110,042.64	51,147,535.00	4,962,507.64	9.7%
Sponsored Programs	21,673,545.99	27,492,313.00	(5,818,767.01)	-21.2%
Net Sales and Services of Educational Activities	4,602,581.65	4,671,244.00	(68,662.35)	-1.5%
Net Auxiliary Enterprises	8,950,066.04	9,207,408.00	(257,341.96)	-2.8%
Other Operating Revenues	1,157,146.08	3,904,572.00	(2,747,425.92)	-70.4%
Total Operating Revenues	**92,493,382.40**	**96,423,072.00**	**(3,929,689.60)**	**-4.1%**
Operating Expenses				
Salaries and Wages	72,828,419.22	70,291,190.00	2,537,229.22	3.6%
Payroll Related Costs	16,982,504.27	15,414,269.00	1,568,235.27	10.2%
Professional Fees and Services	1,857,212.11	1,372,624.00	484,588.11	35.3%
Travel	1,969,783.46	1,886,937.00	82,846.46	4.4%
Materials and Supplies	7,045,450.25	6,816,427.00	229,023.25	3.4%
Utilities	3,590,419.05	3,462,974.00	127,445.05	3.7%
Communications	2,115,684.38	2,275,667.00	(159,982.62)	-7.0%
Repairs and Maintenance	2,911,157.77	2,666,933.00	244,224.77	9.2%
Rentals and Leases	1,150,776.96	1,254,366.00	(103,589.04)	-8.3%
Printing and Reproduction	950,313.10	872,084.00	78,229.10	9.0%
Scholarships and Fellowships	10,790,574.55	17,115,970.00	(6,325,395.45)	-37.0%
Depreciation and Amortization	9,209,770.14	8,660,968.00	548,802.14	6.3%
Federal Sponsored Program Pass-Through to Other State Agencies	336,248.96	423,779.00	(87,530.04)	-20.7%
State Sponsored Program Pass-Through to Other State Agencies	10,338.50	-	10,338.50	100.0%
Other Operating Expenses	9,891,731.84	7,344,944.00	2,546,787.84	34.7%
Total Operating Expenses	**141,640,384.56**	**139,859,132.00**	**1,781,252.56**	**1.3%**
Operating Loss	**(49,147,002.16)**	**(43,436,060.00)**	**(5,710,942.16)**	**-13.1%**
Other Nonoperating Adjustments				
State Appropriations	34,641,217.67	39,031,871.00	(4,390,653.33)	-11.2%
Nonexchange Sponsored Programs	15,487,162.67	9,666,667.00	5,820,495.67	60.2%
Gift Contributions for Operations	1,243,231.96	1,390,008.00	(146,776.04)	-10.6%
Net Investment Income	4,136,069.46	3,609,753.00	526,316.46	14.6%
Interest Expense on Capital Asset Financings	(4,335,735.80)	(3,064,924.00)	(1,270,811.80)	-41.5%
Net Other Nonoperating Adjustments	**51,171,945.96**	**50,633,375.00**	**538,570.96**	**1.1%**
Adjusted Income (Loss) including Depreciation & Amortization	**2,024,943.80**	**7,197,315.00**	**(5,172,371.20)**	**-71.9%**
Adjusted Margin % including Depreciation & Amortization	**1.4%**	**4.8%**		
Investment Gain (Losses)	8,669,002.73	9,680,686.00	(1,011,683.27)	-10.5%
Adj. Inc. (Loss) with Investment Gains (Losses)	**10,693,946.53**	**16,878,001.00**	**(6,184,054.47)**	**-36.6%**
Adj. Margin % with Investment Gains (Losses)	**6.8%**	**10.6%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**11,234,713.94**	**15,858,283.00**	**(4,623,569.06)**	**-29.2%**
Adjusted Margin % excluding Depreciation & Amortization	**7.6%**	**10.6%**		

The University of Texas at Austin
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending December 31, 2010

	December Year-to-Date FY 2011	December Year-to-Date FY 2010	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	161,666,666.67	179,252,901.56	(17,586,234.89)	-9.8%
Sponsored Programs	189,553,457.79	186,704,136.55	2,849,321.24	1.5%
Net Sales and Services of Educational Activities	133,500,238.52	111,041,297.52	22,458,941.00	20.2%
Net Auxiliary Enterprises	97,281,340.38	94,758,493.16	2,522,847.22	2.7%
Other Operating Revenues	1,669,504.85	2,009,605.95	(340,101.10)	-16.9%
Total Operating Revenues	**583,671,208.21**	**573,766,434.74**	**9,904,773.47**	**1.7%**
Operating Expenses				
Salaries and Wages	374,386,179.09	355,602,302.37	18,783,876.72	5.3%
Payroll Related Costs	86,810,154.44	80,245,452.05	6,564,702.39	8.2%
Professional Fees and Services	8,802,024.36	8,421,264.80	380,759.56	4.5%
Travel	13,842,264.31	13,766,905.92	75,358.39	0.5%
Materials and Supplies	46,158,141.33	41,428,732.52	4,729,408.81	11.4%
Utilities	36,736,983.52	29,741,372.28	6,995,611.24	23.5%
Communications	22,247,250.50	20,486,424.44	1,760,826.06	8.6%
Repairs and Maintenance	16,450,199.26	13,874,911.69	2,575,287.57	18.6%
Rentals and Leases	7,043,556.02	8,314,930.76	(1,271,374.74)	-15.3%
Printing and Reproduction	3,438,740.88	3,820,465.97	(381,725.09)	-10.0%
Scholarships and Fellowships	42,128,014.00	56,323,638.54	(14,195,624.54)	-25.2%
Depreciation and Amortization	64,194,603.23	55,997,108.37	8,197,494.86	14.6%
Federal Sponsored Program Pass-Through to Other State Agencies	926,319.41	1,202,437.49	(276,118.08)	-23.0%
Other Operating Expenses	66,875,867.67	58,431,044.01	8,444,823.66	14.5%
Total Operating Expenses	**790,040,298.02**	**747,656,991.21**	**42,383,306.81**	**5.7%**
Operating Loss	**(206,369,089.81)**	**(173,890,556.47)**	**(32,478,533.34)**	**-18.7%**
Other Nonoperating Adjustments				
State Appropriations	100,285,038.95	118,369,100.27	(18,084,061.32)	-15.3%
Nonexchange Sponsored Programs	8,566,303.85	9,016,603.85	(450,300.00)	-5.0%
Gift Contributions for Operations	41,713,308.45	34,831,986.63	6,881,321.82	19.8%
Net Investment Income	59,250,804.55	56,299,842.04	2,950,962.51	5.2%
Interest Expense on Capital Asset Financings	(17,059,237.24)	(13,665,000.00)	(3,394,237.24)	-24.8%
Net Other Nonoperating Adjustments	**192,756,218.56**	**204,852,532.79**	**(12,096,314.23)**	**-5.9%**
Adjusted Income (Loss) including Depreciation & Amortization	**(13,612,871.25)**	**30,961,976.32**	**(44,574,847.57)**	**-144.0%**
Adjusted Margin % including Depreciation & Amortization	**-1.7%**	**3.9%**		
Available University Fund Transfer	59,210,000.00	56,583,333.33	2,626,666.67	4.6%
Adjusted Income (Loss) with AUF Transfer	**45,597,128.75**	**87,545,309.65**	**(41,948,180.90)**	**-47.9%**
Adjusted Margin % with AUF Transfer	**5.3%**	**10.3%**		
Investment Gain (Losses)	186,613,053.15	45,195,928.26	141,417,124.89	312.9%
Adj. Inc. (Loss) with AUF Transfer & Invest. Gains (Losses)	**$232,210,181.90**	**$132,741,237.91**	**$99,468,943.99**	**74.9%**
Adj. Margin % with AUF Transfer & Invest. Gains (Losses)	**22.3%**	**14.8%**		
Adjusted Income (Loss) with AUF Transfer excluding Depreciation & Amortization	**109,791,731.98**	**143,542,418.02**	**(33,750,686.04)**	**-23.5%**
Adjusted Margin % with AUF Transfer excluding Depreciation & Amortization	**12.9%**	**16.9%**		

The University of Texas at Brownsville
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending December 31, 2010

	December Year-to-Date FY 2011	December Year-to-Date FY 2010	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	7,916,931.07	6,856,680.87	1,060,250.20	15.5%
Sponsored Programs	30,172,516.65	28,496,194.56	1,676,322.09	5.9%
Net Sales and Services of Educational Activities	789,620.58	569,856.95	219,763.63	38.6%
Net Auxiliary Enterprises	473,086.68	481,147.59	(8,060.91)	-1.7%
Other Operating Revenues	17,815.89	5,493.03	12,322.86	224.3%
Total Operating Revenues	**39,369,970.87**	**36,409,373.00**	**2,960,597.87**	**8.1%**
Operating Expenses				
Salaries and Wages	24,883,173.24	23,213,569.80	1,669,603.44	7.2%
Payroll Related Costs	6,677,409.43	5,948,905.67	728,503.76	12.2%
Professional Fees and Services	164,688.95	618,337.01	(453,648.06)	-73.4%
Travel	300,449.09	318,860.73	(18,411.64)	-5.8%
Materials and Supplies	1,522,317.09	1,833,114.42	(310,797.33)	-17.0%
Utilities	1,246,675.90	1,380,550.22	(133,874.32)	-9.7%
Communications	409,072.38	419,803.00	(10,730.62)	-2.6%
Repairs and Maintenance	604,573.30	392,706.02	211,867.28	54.0%
Rentals and Leases	669,542.66	612,698.60	56,844.06	9.3%
Printing and Reproduction	114,081.61	78,599.52	35,482.09	45.1%
Bad Debt Expense	-	13,404.88	(13,404.88)	-100.0%
Scholarships and Fellowships	27,093,013.08	25,962,972.77	1,130,040.31	4.4%
Depreciation and Amortization	1,920,991.03	1,890,252.74	30,738.29	1.6%
Federal Sponsored Program Pass-Through to Other State Agencies	1,365.21	1,365.21	-	-
Other Operating Expenses	2,416,739.74	2,268,876.22	147,863.52	6.5%
Total Operating Expenses	**68,024,092.71**	**64,954,016.81**	**3,070,075.90**	**4.7%**
Operating Loss	**(28,654,121.84)**	**(28,544,643.81)**	**(109,478.03)**	**-0.4%**
Other Nonoperating Adjustments				
State Appropriations	13,566,797.53	13,624,455.47	(57,657.94)	-0.4%
Nonexchange Sponsored Programs	17,573,714.01	14,933,449.67	2,640,264.34	17.7%
Gift Contributions for Operations	109,155.48	145,452.50	(36,297.02)	-25.0%
Net Investment Income	419,432.44	378,814.84	40,617.60	10.7%
Interest Expense on Capital Asset Financings	(886,229.60)	(630,928.00)	(255,301.60)	-40.5%
Net Other Nonoperating Adjustments	**30,782,869.86**	**28,451,244.48**	**2,331,625.38**	**8.2%**
Adjusted Income (Loss) including Depreciation & Amortization	**2,128,748.02**	**(93,399.33)**	**2,222,147.35**	**2,379.2%**
Adjusted Margin % including Depreciation & Amortization	**3.0%**	**-0.1%**		
Investment Gain (Losses)	2,213,576.44	1,240,719.60	972,856.84	78.4%
Adj. Inc. (Loss) with Investment Gains (Losses)	**4,342,324.46**	**1,147,320.27**	**3,195,004.19**	**278.5%**
Adj. Margin % with Investment Gains (Losses)	**5.9%**	**1.7%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**4,049,739.05**	**1,796,853.41**	**2,252,885.64**	**125.4%**
Adjusted Margin % excluding Depreciation & Amortization	**5.7%**	**2.7%**		

The University of Texas at Dallas
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending December 31, 2010

	December Year-to-Date FY 2011	December Year-to-Date FY 2010	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	52,342,525.86	46,313,211.00	6,029,314.86	13.0%
Sponsored Programs	11,376,408.02	14,237,063.00	(2,860,654.98)	-20.1%
Net Sales and Services of Educational Activities	5,009,224.48	3,277,957.00	1,731,267.48	52.8%
Net Auxiliary Enterprises	2,854,409.56	2,672,014.00	182,395.56	6.8%
Other Operating Revenues	612,892.06	1,206,500.00	(593,607.94)	-49.2%
Total Operating Revenues	**72,195,459.98**	**67,706,745.00**	**4,488,714.98**	**6.6%**
Operating Expenses				
Salaries and Wages	60,430,402.54	58,320,511.00	2,109,891.54	3.6%
Payroll Related Costs	13,733,718.83	11,981,482.00	1,752,236.83	14.6%
Professional Fees and Services	2,597,871.27	2,036,785.00	561,086.27	27.5%
Travel	1,585,994.17	1,207,889.00	378,105.17	31.3%
Materials and Supplies	8,666,258.27	5,341,396.00	3,324,862.27	62.2%
Utilities	2,491,905.04	2,496,039.00	(4,133.96)	-0.2%
Communications	198,797.47	142,024.00	56,773.47	40.0%
Repairs and Maintenance	964,708.18	812,824.00	151,884.18	18.7%
Rentals and Leases	697,383.29	758,810.00	(61,426.71)	-8.1%
Printing and Reproduction	505,513.63	494,839.00	10,674.63	2.2%
Scholarships and Fellowships	10,397,860.29	6,286,013.00	4,111,847.29	65.4%
Depreciation and Amortization	10,640,316.94	8,760,400.00	1,879,916.94	21.5%
Federal Sponsored Program Pass-Through to Other State Agencies	103,628.72	13,944.00	89,684.72	643.2%
Other Operating Expenses	8,188,573.55	7,317,104.00	871,469.55	11.9%
Total Operating Expenses	**121,202,932.19**	**105,970,060.00**	**15,232,872.19**	**14.4%**
Operating Loss	**(49,007,472.21)**	**(38,263,315.00)**	**(10,744,157.21)**	**-28.1%**
Other Nonoperating Adjustments				
State Appropriations	34,959,607.79	37,845,835.00	(2,886,227.21)	-7.6%
Nonexchange Sponsored Programs	12,309,091.38	2,986,815.00	9,322,276.38	312.1%
Gift Contributions for Operations	2,680,054.53	13,549,261.00	(10,869,206.47)	-80.2%
Net Investment Income	4,950,956.75	4,377,379.00	573,577.75	13.1%
Interest Expense on Capital Asset Financings	(3,839,856.80)	(2,857,244.00)	(982,612.80)	-34.4%
Net Other Nonoperating Adjustments	**51,059,853.65**	**55,902,046.00**	**(4,842,192.35)**	**-8.7%**
Adjusted Income (Loss) including Depreciation & Amortization	**2,052,381.44**	**17,638,731.00**	**(15,586,349.56)**	**-88.4%**
Adjusted Margin % including Depreciation & Amortization	**1.6%**	**13.9%**		
Investment Gain (Losses)	10,147,506.52	7,193,790.00	2,953,716.52	41.1%
Adj. Inc. (Loss) with Investment Gains (Losses)	**12,199,887.96**	**24,832,521.00**	**(12,632,633.04)**	**-50.9%**
Adj. Margin % with Investment Gains (Losses)	**8.9%**	**18.6%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**12,692,698.38**	**26,399,131.00**	**(13,706,432.62)**	**-51.9%**
Adjusted Margin % excluding Depreciation & Amortization	**10.0%**	**20.9%**		

The University of Texas at El Paso
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending December 31, 2010

	December Year-to-Date FY 2011	December Year-to-Date FY 2010	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	35,233,702.67	31,150,408.33	4,083,294.34	13.1%
Sponsored Programs	23,684,528.76	22,112,375.38	1,572,153.38	7.1%
Net Sales and Services of Educational Activities	1,710,835.79	1,465,124.82	245,710.97	16.8%
Net Auxiliary Enterprises	10,147,630.92	8,725,872.95	1,421,757.97	16.3%
Other Operating Revenues	41,438.07	258.67	41,179.40	15,919.7%
Total Operating Revenues	**70,818,136.21**	**63,454,040.15**	**7,364,096.06**	**11.6%**
Operating Expenses				
Salaries and Wages	51,789,098.09	49,886,978.72	1,902,119.37	3.8%
Payroll Related Costs	12,955,853.92	11,983,968.14	971,885.78	8.1%
Professional Fees and Services	366,688.87	323,620.43	43,068.44	13.3%
Travel	2,192,556.79	1,904,101.02	288,455.77	15.1%
Materials and Supplies	8,442,912.71	7,562,059.86	880,852.85	11.6%
Utilities	2,163,267.28	2,142,029.10	21,238.18	1.0%
Communications	277,657.90	244,261.02	33,396.88	13.7%
Repairs and Maintenance	2,279,073.99	1,986,249.11	292,824.88	14.7%
Rentals and Leases	1,597,305.98	1,483,834.72	113,471.26	7.6%
Printing and Reproduction	350,032.20	303,882.63	46,149.57	15.2%
Scholarships and Fellowships	31,126,674.68	25,269,887.84	5,856,786.84	23.2%
Depreciation and Amortization	6,309,048.34	6,023,809.97	285,238.37	4.7%
Federal Sponsored Program Pass-Through to Other State Agencies	314,159.77	309,423.40	4,736.37	1.5%
Other Operating Expenses	9,761,787.50	8,908,763.16	853,024.34	9.6%
Total Operating Expenses	**129,926,118.02**	**118,332,869.12**	**11,593,248.90**	**9.8%**
Operating Loss	**(59,107,981.81)**	**(54,878,828.97)**	**(4,229,152.84)**	**-7.7%**
Other Nonoperating Adjustments				
State Appropriations	31,545,396.00	33,691,024.00	(2,145,628.00)	-6.4%
Nonexchange Sponsored Programs	24,781,204.89	19,117,262.55	5,663,942.34	29.6%
Gift Contributions for Operations	2,884,254.04	4,172,331.03	(1,288,076.99)	-30.9%
Net Investment Income	3,860,914.69	3,451,659.75	409,254.94	11.9%
Interest Expense on Capital Asset Financings	(3,001,744.04)	(1,601,052.00)	(1,400,692.04)	-87.5%
Net Other Nonoperating Adjustments	**60,070,025.58**	**58,831,225.33**	**1,238,800.25**	**2.1%**
Adjusted Income (Loss) including Depreciation & Amortization	**962,043.77**	**3,952,396.36**	**(2,990,352.59)**	**-75.7%**
Adjusted Margin % including Depreciation & Amortization	**0.7%**	**3.2%**		
Investment Gain (Losses)	11,809,780.03	4,260,430.20	7,549,349.83	177.2%
Adj. Inc. (Loss) with Investment Gains (Losses)	**12,771,823.80**	**8,212,826.56**	**4,558,997.24**	**55.5%**
Adj. Margin % with Investment Gains (Losses)	**8.8%**	**6.4%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**7,271,092.11**	**9,976,206.33**	**(2,705,114.22)**	**-27.1%**
Adjusted Margin % excluding Depreciation & Amortization	**5.4%**	**8.1%**		

The University of Texas - Pan American
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending December 31, 2010

	December Year-to-Date FY 2011	December Year-to-Date FY 2010	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	17,608,556.00	21,747,733.39	(4,139,177.39)	-19.0%
Sponsored Programs	24,762,824.81	21,920,069.05	2,842,755.76	13.0%
Net Sales and Services of Educational Activities	2,160,458.05	2,104,386.03	56,072.02	2.7%
Net Auxiliary Enterprises	3,195,009.59	2,162,944.43	1,032,065.16	47.7%
Other Operating Revenues	654,642.77	405,070.62	249,572.15	61.6%
Total Operating Revenues	**48,381,491.22**	**48,340,203.52**	**41,287.70**	**0.1%**
Operating Expenses				
Salaries and Wages	36,623,488.37	35,845,665.43	777,822.94	2.2%
Payroll Related Costs	9,732,955.49	8,947,599.83	785,355.66	8.8%
Cost of Goods Sold	192,325.49	0.45	192,325.04	42,738,897.8%
Professional Fees and Services	448,263.98	516,296.53	(68,032.55)	-13.2%
Travel	1,206,192.02	1,359,091.61	(152,899.59)	-11.3%
Materials and Supplies	4,286,272.76	4,956,123.05	(669,850.29)	-13.5%
Utilities	1,707,082.34	2,253,150.40	(546,068.06)	-24.2%
Communications	143,001.09	101,968.03	41,033.06	40.2%
Repairs and Maintenance	1,881,511.68	1,799,984.97	81,526.71	4.5%
Rentals and Leases	417,603.65	357,889.99	59,713.66	16.7%
Printing and Reproduction	120,170.93	156,966.07	(36,795.14)	-23.4%
Bad Debt Expense	24,968.96	(37,412.00)	62,380.96	166.7%
Scholarships and Fellowships	29,983,979.71	30,969,092.64	(985,112.93)	-3.2%
Depreciation and Amortization	4,740,695.43	4,431,143.00	309,552.43	7.0%
Federal Sponsored Program Pass-Through to Other State Agencies	58,418.73	66,901.12	(8,482.39)	-12.7%
Other Operating Expenses	4,686,344.48	3,865,079.60	821,264.88	21.2%
Total Operating Expenses	**96,253,275.11**	**95,589,540.72**	**663,734.39**	**0.7%**
Operating Loss	**(47,871,783.89)**	**(47,249,337.20)**	**(622,446.69)**	**-1.3%**
Other Nonoperating Adjustments				
State Appropriations	24,122,619.47	27,107,180.12	(2,984,560.65)	-11.0%
Nonexchange Sponsored Programs	23,915,956.57	21,888,649.28	2,027,307.29	9.3%
Gift Contributions for Operations	492,891.50	575,618.64	(82,727.14)	-14.4%
Net Investment Income	1,196,275.39	1,066,221.30	130,054.09	12.2%
Interest Expense on Capital Asset Financings	(1,330,205.40)	(1,342,124.00)	11,918.60	0.9%
Net Other Nonoperating Adjustments	**48,397,537.53**	**49,295,545.34**	**(898,007.81)**	**-1.8%**
Adjusted Income (Loss) including Depreciation & Amortization	**525,753.64**	**2,046,208.14**	**(1,520,454.50)**	**-74.3%**
Adjusted Margin % including Depreciation & Amortization	**0.5%**	**2.1%**		
Investment Gain (Losses)	4,777,502.02	2,833,506.00	1,943,996.02	68.6%
Adj. Inc. (Loss) with Investment Gains (Losses)	**5,303,255.66**	**4,879,714.14**	**423,541.52**	**8.7%**
Adj. Margin % with Investment Gains (Losses)	**5.2%**	**4.8%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**5,266,449.07**	**6,477,351.14**	**(1,210,902.07)**	**-18.7%**
Adjusted Margin % excluding Depreciation & Amortization	**5.4%**	**6.5%**		

The University of Texas of the Permian Basin
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending December 31, 2010

	December Year-to-Date FY 2011	December Year-to-Date FY 2010	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	5,073,290.71	3,992,316.55	1,080,974.16	27.1%
Sponsored Programs	1,545,993.98	1,620,387.40	(74,393.42)	-4.6%
Net Sales and Services of Educational Activities	71,568.01	177,980.07	(106,412.06)	-59.8%
Net Auxiliary Enterprises	1,329,954.98	1,235,587.09	94,367.89	7.6%
Other Operating Revenues	401,843.91	13,101.39	388,742.52	2,967.2%
Total Operating Revenues	**8,422,651.59**	**7,039,372.50**	**1,383,279.09**	**19.7%**
Operating Expenses				
Salaries and Wages	7,444,680.54	7,100,695.96	343,984.58	4.8%
Payroll Related Costs	1,821,629.41	1,625,020.76	196,608.65	12.1%
Professional Fees and Services	788,509.45	890,579.73	(102,070.28)	-11.5%
Travel	196,653.30	186,919.76	9,733.54	5.2%
Materials and Supplies	1,302,133.15	1,315,567.58	(13,434.43)	-1.0%
Utilities	661,591.96	867,008.61	(205,416.65)	-23.7%
Communications	258,782.21	164,847.28	93,934.93	57.0%
Repairs and Maintenance	324,700.94	607,189.76	(282,488.82)	-46.5%
Rentals and Leases	192,506.50	167,561.73	24,944.77	14.9%
Printing and Reproduction	76,324.09	60,870.76	15,453.33	25.4%
Scholarships and Fellowships	2,737,375.27	1,237,816.88	1,499,558.39	121.1%
Depreciation and Amortization	1,868,770.89	1,364,996.33	503,774.56	36.9%
Other Operating Expenses	299,009.09	494,724.19	(195,715.10)	-39.6%
Total Operating Expenses	**17,972,666.80**	**16,083,799.33**	**1,888,867.47**	**11.7%**
Operating Loss	**(9,550,015.21)**	**(9,044,426.83)**	**(505,588.38)**	**-5.6%**
Other Nonoperating Adjustments				
State Appropriations	8,620,344.33	10,689,775.00	(2,069,430.67)	-19.4%
Nonexchange Sponsored Programs	2,729,013.90	2,005,362.75	723,651.15	36.1%
Gift Contributions for Operations	580,578.13	303,126.92	277,451.21	91.5%
Net Investment Income	1,101,139.47	1,104,013.93	(2,874.46)	-0.3%
Interest Expense on Capital Asset Financings	(1,807,383.36)	(801,756.00)	(1,005,627.36)	-125.4%
Net Other Nonoperating Adjustments	**11,223,692.47**	**13,300,522.60**	**(2,076,830.13)**	**-15.6%**
Adjusted Income (Loss) including Depreciation & Amortization	**1,673,677.26**	**4,256,095.77**	**(2,582,418.51)**	**-60.7%**
Adjusted Margin % including Depreciation & Amortization	**7.8%**	**20.1%**		
Investment Gain (Losses)	1,737,920.89	1,403,150.73	334,770.16	23.9%
Adj. Inc. (Loss) with Investment Gains (Losses)	**3,411,598.15**	**5,659,246.50**	**(2,247,648.35)**	**-39.7%**
Adj. Margin % with Investment Gains (Losses)	**14.7%**	**25.1%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**3,542,448.15**	**5,621,092.10**	**(2,078,643.95)**	**-37.0%**
Adjusted Margin % excluding Depreciation & Amortization	**16.5%**	**26.6%**		

The University of Texas at San Antonio
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending December 31, 2010

	December Year-to-Date FY 2011	December Year-to-Date FY 2010	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	62,524,609.56	57,390,237.00	5,134,372.56	8.9%
Sponsored Programs	21,818,647.16	22,257,559.00	(438,911.84)	-2.0%
Net Sales and Services of Educational Activities	2,815,656.57	2,158,221.00	657,435.57	30.5%
Net Auxiliary Enterprises	8,634,053.07	7,593,108.00	1,040,945.07	13.7%
Other Operating Revenues	600,804.88	536,049.00	64,755.88	12.1%
Total Operating Revenues	**96,393,771.24**	**89,935,174.00**	**6,458,597.24**	**7.2%**
Operating Expenses				
Salaries and Wages	74,054,024.52	67,584,337.00	6,469,687.52	9.6%
Payroll Related Costs	18,150,664.12	16,172,442.00	1,978,222.12	12.2%
Professional Fees and Services	1,203,088.93	1,375,579.00	(172,490.07)	-12.5%
Travel	2,179,276.93	1,962,864.00	216,412.93	11.0%
Materials and Supplies	8,071,556.03	11,699,218.00	(3,627,661.97)	-31.0%
Utilities	3,758,458.33	3,633,333.00	125,125.33	3.4%
Communications	1,393,323.31	1,016,363.00	376,960.31	37.1%
Repairs and Maintenance	3,400,313.14	3,862,235.00	(461,921.86)	-12.0%
Rentals and Leases	1,349,511.83	1,046,254.00	303,257.83	29.0%
Printing and Reproduction	411,398.81	344,096.00	67,302.81	19.6%
Scholarships and Fellowships	12,946,336.35	14,421,420.00	(1,475,083.65)	-10.2%
Depreciation and Amortization	12,802,874.80	12,343,340.00	459,534.80	3.7%
Federal Sponsored Program Pass-Through to Other State Agencies	939,559.14	838,604.00	100,955.14	12.0%
Other Operating Expenses	7,921,787.18	8,849,652.00	(927,864.82)	-10.5%
Total Operating Expenses	**148,582,173.42**	**145,149,737.00**	**3,432,436.42**	**2.4%**
Operating Loss	**(52,188,402.18)**	**(55,214,563.00)**	**3,026,160.82**	**5.5%**
Other Nonoperating Adjustments				
State Appropriations	37,386,411.29	39,917,988.00	(2,531,576.71)	-6.3%
Nonexchange Sponsored Programs	17,645,634.55	13,377,739.00	4,267,895.55	31.9%
Gift Contributions for Operations	3,000,000.00	4,000,000.00	(1,000,000.00)	-25.0%
Net Investment Income	3,430,369.57	3,150,926.00	279,443.57	8.9%
Interest Expense on Capital Asset Financings	(5,330,114.32)	(5,206,368.00)	(123,746.32)	-2.4%
Net Other Nonoperating Adjustments	**56,132,301.09**	**55,240,285.00**	**892,016.09**	**1.6%**
Adjusted Income (Loss) including Depreciation & Amortization	**3,943,898.91**	**25,722.00**	**3,918,176.91**	**15,232.8%**
Adjusted Margin % including Depreciation & Amortization	**2.5%**	**-**		
Investment Gain (Losses)	19,395,389.09	10,870,934.00	8,524,455.09	78.4%
Adj. Inc. (Loss) with Investment Gains (Losses)	**23,339,288.00**	**10,896,656.00**	**12,442,632.00**	**114.2%**
Adj. Margin % with Investment Gains (Losses)	**13.2%**	**6.8%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**16,746,773.71**	**12,369,062.00**	**4,377,711.71**	**35.4%**
Adjusted Margin % excluding Depreciation & Amortization	**10.6%**	**8.2%**		

The University of Texas at Tyler
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending December 31, 2010

	December Year-to-Date FY 2011	December Year-to-Date FY 2010	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	8,600,000.00	8,739,799.31	(139,799.31)	-1.6%
Sponsored Programs	4,274,708.27	3,335,473.13	939,235.14	28.2%
Net Sales and Services of Educational Activities	1,156,885.39	692,130.01	464,755.38	67.1%
Net Auxiliary Enterprises	1,720,211.94	1,226,572.47	493,639.47	40.2%
Other Operating Revenues	55,262.43	63,444.80	(8,182.37)	-12.9%
Total Operating Revenues	**15,807,068.03**	**14,057,419.72**	**1,749,648.31**	**12.4%**
Operating Expenses				
Salaries and Wages	12,790,231.13	12,522,346.53	267,884.60	2.1%
Payroll Related Costs	3,483,486.60	3,194,099.08	289,387.52	9.1%
Cost of Goods Sold	7,139.67	30,037.61	(22,897.94)	-76.2%
Professional Fees and Services	714,969.61	340,078.09	374,891.52	110.2%
Travel	431,813.93	467,984.97	(36,171.04)	-7.7%
Materials and Supplies	1,623,191.62	1,339,202.75	283,988.87	21.2%
Utilities	497,542.59	612,472.72	(114,930.13)	-18.8%
Communications	417,830.89	374,969.60	42,861.29	11.4%
Repairs and Maintenance	461,297.60	383,139.57	78,158.03	20.4%
Rentals and Leases	102,632.52	96,379.01	6,253.51	6.5%
Printing and Reproduction	252,337.90	225,798.00	26,539.90	11.8%
Bad Debt Expense	-	416.00	(416.00)	-100.0%
Scholarships and Fellowships	2,233,333.33	3,680,117.77	(1,446,784.44)	-39.3%
Depreciation and Amortization	3,650,640.27	2,799,728.00	850,912.27	30.4%
Federal Sponsored Program Pass-Through to Other State Agencies	2,166.06	69,418.00	(67,251.94)	-96.9%
Other Operating Expenses	2,537,308.02	2,043,424.17	493,883.85	24.2%
Total Operating Expenses	**29,205,921.74**	**28,179,611.87**	**1,026,309.87**	**3.6%**
Operating Loss	**(13,398,853.71)**	**(14,122,192.15)**	**723,338.44**	**5.1%**
Other Nonoperating Adjustments				
State Appropriations	10,994,419.47	11,947,763.66	(953,344.19)	-8.0%
Nonexchange Sponsored Programs	4,088,568.00	3,399,301.00	689,267.00	20.3%
Gift Contributions for Operations	770,094.00	452,634.73	317,459.27	70.1%
Net Investment Income	1,251,571.50	1,463,509.14	(211,937.64)	-14.5%
Interest Expense on Capital Asset Financings	(1,359,826.16)	(981,468.00)	(378,358.16)	-38.6%
Net Other Nonoperating Adjustments	**15,744,826.81**	**16,281,740.53**	**(536,913.72)**	**-3.3%**
Adjusted Income (Loss) including Depreciation & Amortization	**2,345,973.10**	**2,159,548.38**	**186,424.72**	**8.6%**
Adjusted Margin % including Depreciation & Amortization	**7.1%**	**6.9%**		
Investment Gain (Losses)	6,401,306.54	1,810,814.95	4,590,491.59	253.5%
Adj. Inc. (Loss) with Investment Gains (Losses)	**8,747,279.64**	**3,970,363.33**	**4,776,916.31**	**120.3%**
Adj. Margin % with Investment Gains (Losses)	**22.3%**	**12.0%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**5,996,613.37**	**4,959,276.38**	**1,037,336.99**	**20.9%**
Adjusted Margin % excluding Depreciation & Amortization	**18.2%**	**15.8%**		

The University of Texas Southwestern Medical Center at Dallas
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending December 31, 2010

	December Year-to-Date FY 2011	December Year-to-Date FY 2010	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	9,047,715.53	8,640,806.72	406,908.81	4.7%
Sponsored Programs	158,505,835.61	145,118,509.00	13,387,326.61	9.2%
Net Sales and Services of Educational Activities	7,213,282.31	3,900,462.22	3,312,820.09	84.9%
Net Sales and Services of Hospitals	173,264,377.00	152,181,036.00	21,083,341.00	13.9%
Net Professional Fees	135,312,307.82	124,080,866.75	11,231,441.07	9.1%
Net Auxiliary Enterprises	5,906,740.64	5,902,718.35	4,022.29	0.1%
Other Operating Revenues	1,991,618.97	2,125,888.90	(134,269.93)	-6.3%
Total Operating Revenues	**491,241,877.88**	**441,950,287.94**	**49,291,589.94**	**11.2%**
Operating Expenses				
Salaries and Wages	296,508,096.99	270,392,715.00	26,115,381.99	9.7%
Payroll Related Costs	67,311,378.09	58,934,003.00	8,377,375.09	14.2%
Cost of Goods Sold	859,270.84	1,076,032.01	(216,761.17)	-20.1%
Professional Fees and Services	6,940,826.83	7,576,262.00	(635,435.17)	-8.4%
Travel	3,013,266.46	2,649,229.00	364,037.46	13.7%
Materials and Supplies	69,707,488.80	67,832,514.99	1,874,973.81	2.8%
Utilities	12,763,724.68	12,040,215.00	723,509.68	6.0%
Communications	2,291,302.18	2,174,148.00	117,154.18	5.4%
Repairs and Maintenance	5,245,654.82	4,887,914.00	357,740.82	7.3%
Rentals and Leases	2,081,176.51	2,247,164.00	(165,987.49)	-7.4%
Printing and Reproduction	894,908.25	1,083,410.00	(188,501.75)	-17.4%
Scholarships and Fellowships	5,918,884.47	5,797,982.00	120,902.47	2.1%
Depreciation and Amortization	28,088,937.69	26,047,474.00	2,041,463.69	7.8%
Federal Sponsored Program Pass-Through to Other State Agencies	41,926.55	402,677.00	(360,750.45)	-89.6%
Other Operating Expenses	50,401,221.11	52,651,838.00	(2,250,616.89)	-4.3%
Total Operating Expenses	**552,068,064.27**	**515,793,578.00**	**36,274,486.27**	**7.0%**
Operating Loss	**(60,826,186.39)**	**(73,843,290.06)**	**13,017,103.67**	**17.6%**
Other Nonoperating Adjustments				
State Appropriations	55,532,123.82	62,737,767.00	(7,205,643.18)	-11.5%
Nonexchange Sponsored Programs	1,363,580.00	43,108.00	1,320,472.00	3,063.2%
Gift Contributions for Operations	9,141,704.58	8,653,312.00	488,392.58	5.6%
Net Investment Income	25,781,371.20	23,209,074.00	2,572,297.20	11.1%
Interest Expense on Capital Asset Financings	(12,108,325.60)	(7,361,148.00)	(4,747,177.60)	-64.5%
Net Other Nonoperating Adjustments	**79,710,454.00**	**87,282,113.00**	**(7,571,659.00)**	**-8.7%**
Adjusted Income (Loss) including Depreciation & Amortization	**18,884,267.61**	**13,438,822.94**	**5,445,444.67**	**40.5%**
Adjusted Margin % including Depreciation & Amortization	**3.2%**	**2.5%**		
Investment Gain (Losses)	60,048,989.81	39,042,022.00	21,006,967.81	53.8%
Adj. Inc. (Loss) with Investment Gains (Losses)	**78,933,257.42**	**52,480,844.94**	**26,452,412.48**	**50.4%**
Adj. Margin % with Investment Gains (Losses)	**12.3%**	**9.1%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**46,973,205.30**	**39,486,296.94**	**7,486,908.36**	**19.0%**
Adjusted Margin % excluding Depreciation & Amortization	**8.1%**	**7.4%**		

The University of Texas Medical Branch at Galveston
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending December 31, 2010

	December Year-to-Date FY 2011	December Year-to-Date FY 2010	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	9,429,253.17	7,485,898.27	1,943,354.90	26.0%
Sponsored Programs	98,537,531.04	90,363,027.39	8,174,503.65	9.0%
Net Sales and Services of Educational Activities	4,819,786.81	11,463,353.56	(6,643,566.75)	-58.0%
Net Sales and Services of Hospitals	239,245,381.43	231,641,595.39	7,603,786.04	3.3%
Net Professional Fees	42,102,302.73	43,252,287.71	(1,149,984.98)	-2.7%
Net Auxiliary Enterprises	1,931,268.05	1,804,977.17	126,290.88	7.0%
Other Operating Revenues	(11,064,297.96)	3,528,974.19	(14,593,272.15)	-413.5%
Total Operating Revenues	**385,001,225.27**	**389,540,113.68**	**(4,538,888.41)**	**-1.2%**
Operating Expenses				
Salaries and Wages	266,219,346.66	261,227,272.23	4,992,074.43	1.9%
Payroll Related Costs	65,227,294.98	61,390,487.26	3,836,807.72	6.2%
Cost of Goods Sold	21,517,996.61	22,497,409.59	(979,412.98)	-4.4%
Professional Fees and Services	12,725,338.24	12,276,780.20	448,558.04	3.7%
Travel	2,185,908.34	2,076,420.56	109,487.78	5.3%
Materials and Supplies	41,086,070.19	38,245,704.09	2,840,366.10	7.4%
Utilities	10,121,416.22	8,791,335.05	1,330,081.17	15.1%
Communications	5,025,881.64	5,011,806.19	14,075.45	0.3%
Repairs and Maintenance	12,283,869.53	14,875,330.73	(2,591,461.20)	-17.4%
Rentals and Leases	7,274,361.00	7,986,538.19	(712,177.19)	-8.9%
Printing and Reproduction	482,708.29	403,171.02	79,537.27	19.7%
Bad Debt Expense	240.00	14,687.84	(14,447.84)	-98.4%
Scholarships and Fellowships	1,008,722.00	1,153,365.91	(144,643.91)	-12.5%
Depreciation and Amortization	26,116,188.06	25,218,027.30	898,160.76	3.6%
Federal Sponsored Program Pass-Through to Other State Agencies	933,958.65	1,031,914.10	(97,955.45)	-9.5%
Other Operating Expenses	41,878,515.19	51,575,732.42	(9,697,217.23)	-18.8%
Total Operating Expenses	**514,087,815.60**	**513,775,982.68**	**311,832.92**	**0.1%**
Operating Loss	**(129,086,590.33)**	**(124,235,869.00)**	**(4,850,721.33)**	**-3.9%**
Other Nonoperating Adjustments				
State Appropriations	112,412,434.14	123,485,822.29	(11,073,388.15)	-9.0%
Nonexchange Sponsored Programs	248,932.53	(1,183.00)	250,115.53	21,142.5%
Gift Contributions for Operations	3,976,201.17	4,063,536.49	(87,335.32)	-2.1%
Net Investment Income	10,372,415.69	10,491,711.53	(119,295.84)	-1.1%
Interest Expense on Capital Asset Financings	(2,768,215.70)	(2,206,975.39)	(561,240.31)	-25.4%
Net Other Nonoperating Adjustments	**124,241,767.83**	**135,832,911.92**	**(11,591,144.09)**	**-8.5%**
Adjusted Income (Loss) including Depreciation & Amortization	**(4,844,822.50)**	**11,597,042.92**	**(16,441,865.42)**	**-141.8%**
Adjusted Margin % including Depreciation & Amortization	**-0.9%**	**2.2%**		
Investment Gain (Losses)	9,746,977.51	6,971,607.67	2,775,369.84	39.8%
Adj. Inc. (Loss) with Investment Gains (Losses)	**4,902,155.01**	**18,568,650.59**	**(13,666,495.58)**	**-73.6%**
Adj. Margin % with Investment Gains (Losses)	**0.9%**	**3.5%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**21,271,365.56**	**36,815,070.22**	**(15,543,704.66)**	**-42.2%**
Adjusted Margin % excluding Depreciation & Amortization	**4.2%**	**7.0%**		

The University of Texas Health Science Center at Houston
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending December 31, 2010

	December Year-to-Date FY 2011	December Year-to-Date FY 2010	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	12,624,062.43	11,018,740.55	1,605,321.88	14.6%
Sponsored Programs	149,454,772.16	118,378,252.91	31,076,519.25	26.3%
Net Sales and Services of Educational Activities	15,257,358.71	13,522,685.73	1,734,672.98	12.8%
Net Sales and Services of Hospitals	13,111,420.35	12,688,133.13	423,287.22	3.3%
Net Professional Fees	47,384,911.20	44,392,733.50	2,992,177.70	6.7%
Net Auxiliary Enterprises	7,376,738.08	7,272,939.31	103,798.77	1.4%
Other Operating Revenues	18,125,627.97	15,752,248.92	2,373,379.05	15.1%
Total Operating Revenues	**263,334,890.90**	**223,025,734.05**	**40,309,156.85**	**18.1%**
Operating Expenses				
Salaries and Wages	167,272,725.34	144,178,117.87	23,094,607.47	16.0%
Payroll Related Costs	33,967,531.70	29,629,870.19	4,337,661.51	14.6%
Cost of Goods Sold	6,076,622.12	5,982,893.58	93,728.54	1.6%
Professional Fees and Services	29,344,951.46	26,648,128.89	2,696,822.57	10.1%
Travel	2,520,194.03	2,387,990.36	132,203.67	5.5%
Materials and Supplies	15,031,234.88	11,021,691.80	4,009,543.08	36.4%
Utilities	6,430,917.16	6,491,232.36	(60,315.20)	-0.9%
Communications	1,167,868.06	660,420.04	507,448.02	76.8%
Repairs and Maintenance	3,355,831.90	2,414,816.11	941,015.79	39.0%
Rentals and Leases	5,721,563.54	4,728,804.64	992,758.90	21.0%
Printing and Reproduction	1,803,141.11	1,357,641.36	445,499.75	32.8%
Bad Debt Expense	-	1,615.00	(1,615.00)	-100.0%
Scholarships and Fellowships	2,194,133.91	2,682,448.55	(488,314.64)	-18.2%
Depreciation and Amortization	16,286,719.00	12,867,182.13	3,419,536.87	26.6%
Federal Sponsored Program Pass-Through to Other State Agencies	2,825,450.07	2,177,816.83	647,633.24	29.7%
Other Operating Expenses	37,400,597.87	32,376,820.76	5,023,777.11	15.5%
Total Operating Expenses	**331,399,482.15**	**285,607,490.47**	**45,791,991.68**	**16.0%**
Operating Loss	**(68,064,591.25)**	**(62,581,756.42)**	**(5,482,834.83)**	**-8.8%**
Other Nonoperating Adjustments				
State Appropriations	53,196,739.74	60,550,404.61	(7,353,664.87)	-12.1%
Nonexchange Sponsored Programs	2,128,701.36	162,783.27	1,965,918.09	1,207.7%
Gift Contributions for Operations	3,824,735.38	6,424,273.07	(2,599,537.69)	-40.5%
Net Investment Income	9,534,526.57	7,819,997.88	1,714,528.69	21.9%
Interest Expense on Capital Asset Financings	(4,449,057.44)	(3,003,184.00)	(1,445,873.44)	-48.1%
Net Other Nonoperating Adjustments	**64,235,645.61**	**71,954,274.83**	**(7,718,629.22)**	**-10.7%**
Adjusted Income (Loss) including Depreciation & Amortization	**(3,828,945.64)**	**9,372,518.41**	**(13,201,464.05)**	**-140.9%**
Adjusted Margin % including Depreciation & Amortization	**-1.2%**	**3.1%**		
Investment Gain (Losses)	24,416,306.08	15,978,200.95	8,438,105.13	52.8%
Adj. Inc. (Loss) with Investment Gains (Losses)	**20,587,360.44**	**25,350,719.36**	**(4,763,358.92)**	**-18.8%**
Adj. Margin % with Investment Gains (Losses)	**5.8%**	**8.1%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**12,457,773.36**	**22,239,700.54**	**(9,781,927.18)**	**-44.0%**
Adjusted Margin % excluding Depreciation & Amortization	**3.8%**	**7.5%**		

The University of Texas Health Science Center at San Antonio
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending December 31, 2010

	December Year-to-Date FY 2011	December Year-to-Date FY 2010	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	9,844,746.00	9,133,159.00	711,587.00	7.8%
Sponsored Programs	86,356,016.65	83,856,917.10	2,499,099.55	3.0%
Net Sales and Services of Educational Activities	11,119,942.98	13,136,498.62	(2,016,555.64)	-15.4%
Net Professional Fees	44,550,221.78	39,456,175.27	5,094,046.51	12.9%
Net Auxiliary Enterprises	1,730,570.55	1,672,923.27	57,647.28	3.4%
Other Operating Revenues	4,882,953.96	4,599,031.78	283,922.18	6.2%
Total Operating Revenues	**158,484,451.92**	**151,854,705.04**	**6,629,746.88**	**4.4%**
Operating Expenses				
Salaries and Wages	129,717,016.78	128,043,516.76	1,673,500.02	1.3%
Payroll Related Costs	31,647,893.15	29,248,617.81	2,399,275.34	8.2%
Professional Fees and Services	3,867,706.00	4,824,416.61	(956,710.61)	-19.8%
Travel	1,304,051.41	1,768,935.86	(464,884.45)	-26.3%
Materials and Supplies	13,090,539.28	13,756,499.06	(665,959.78)	-4.8%
Utilities	5,432,936.00	5,557,481.33	(124,545.33)	-2.2%
Communications	4,161,728.38	3,622,985.94	538,742.44	14.9%
Repairs and Maintenance	1,785,048.16	2,115,165.06	(330,116.90)	-15.6%
Rentals and Leases	1,930,931.37	2,601,835.70	(670,904.33)	-25.8%
Printing and Reproduction	555,936.00	716,569.17	(160,633.17)	-22.4%
Scholarships and Fellowships	1,295,867.63	1,125,186.47	170,681.16	15.2%
Depreciation and Amortization	12,100,000.00	10,666,666.67	1,433,333.33	13.4%
Federal Sponsored Program Pass-Through to Other State Agencies	500,000.00	400,000.00	100,000.00	25.0%
Other Operating Expenses	19,820,754.65	20,647,555.73	(826,801.08)	-4.0%
Total Operating Expenses	**227,210,408.81**	**225,095,432.17**	**2,114,976.64**	**0.9%**
Operating Loss	**(68,725,956.89)**	**(73,240,727.13)**	**4,514,770.24**	**6.2%**
Other Nonoperating Adjustments				
State Appropriations	57,179,178.48	63,793,311.29	(6,614,132.81)	-10.4%
Nonexchange Sponsored Programs	333,333.33	304,000.00	29,333.33	9.6%
Gift Contributions for Operations	6,316,461.16	3,287,423.85	3,029,037.31	92.1%
Net Investment Income	10,532,505.53	8,669,633.12	1,862,872.41	21.5%
Interest Expense on Capital Asset Financings	(3,575,829.68)	(2,900,164.00)	(675,665.68)	-23.3%
Net Other Nonoperating Adjustments	**70,785,648.82**	**73,154,204.26**	**(2,368,555.44)**	**-3.2%**
Adjusted Income (Loss) including Depreciation & Amortization	**2,059,691.93**	**(86,522.87)**	**2,146,214.80**	**2,480.5%**
Adjusted Margin % including Depreciation & Amortization	**0.9%**	**-**		
Investment Gain (Losses)	15,887,281.71	12,234,950.34	3,652,331.37	29.9%
Adj. Inc. (Loss) with Investment Gains (Losses)	**17,946,973.64**	**12,148,427.47**	**5,798,546.17**	**47.7%**
Adj. Margin % with Investment Gains (Losses)	**7.2%**	**5.1%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**14,159,691.93**	**10,580,143.80**	**3,579,548.13**	**33.8%**
Adjusted Margin % excluding Depreciation & Amortization	**6.1%**	**4.6%**		

The University of Texas M. D. Anderson Cancer Center
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending December 31, 2010

	December Year-to-Date FY 2011	December Year-to-Date FY 2010	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	825,097.03	682,428.00	142,669.03	20.9%
Sponsored Programs	103,212,952.75	94,926,882.00	8,286,070.75	8.7%
Net Sales and Services of Educational Activities	654,988.40	581,690.00	73,298.40	12.6%
Net Sales and Services of Hospitals	712,645,974.30	724,159,312.00	(11,513,337.70)	-1.6%
Net Professional Fees	105,071,235.61	103,225,146.00	1,846,089.61	1.8%
Net Auxiliary Enterprises	11,005,566.18	10,262,902.00	742,664.18	7.2%
Other Operating Revenues	21,764,042.77	18,499,154.00	3,264,888.77	17.6%
Total Operating Revenues	**955,179,857.04**	**952,337,514.00**	**2,842,343.04**	**0.3%**
Operating Expenses				
Salaries and Wages	461,857,234.86	429,210,214.00	32,647,020.86	7.6%
Payroll Related Costs	125,784,218.70	114,240,144.00	11,544,074.70	10.1%
Cost of Goods Sold	2,438,220.14	1,841,637.52	596,582.62	32.4%
Professional Fees and Services	62,128,852.02	51,415,056.00	10,713,796.02	20.8%
Travel	6,327,440.42	5,124,149.00	1,203,291.42	23.5%
Materials and Supplies	185,470,127.44	177,868,143.48	7,601,983.96	4.3%
Utilities	15,916,025.09	15,982,340.00	(66,314.91)	-0.4%
Communications	2,897,380.78	3,119,406.00	(222,025.22)	-7.1%
Repairs and Maintenance	26,068,585.71	22,481,778.00	3,586,807.71	16.0%
Rentals and Leases	15,726,856.40	13,867,369.00	1,859,487.40	13.4%
Scholarships and Fellowships	396,039.00	-	396,039.00	100.0%
Depreciation and Amortization	75,752,461.73	77,797,088.00	(2,044,626.27)	-2.6%
Federal Sponsored Program Pass-Through to Other State Agencies	40,656.92	2,231.00	38,425.92	1,722.4%
Other Operating Expenses	2,276,854.30	1,119,262.00	1,157,592.30	103.4%
Total Operating Expenses	**983,080,953.51**	**914,068,818.00**	**69,012,135.51**	**7.5%**
Operating Loss	**(27,901,096.47)**	**38,268,696.00**	**(66,169,792.47)**	**-172.9%**
Other Nonoperating Adjustments				
State Appropriations	54,132,801.16	59,176,425.00	(5,043,623.84)	-8.5%
Nonexchange Sponsored Programs	180,947.00	-	180,947.00	100.0%
Gift Contributions for Operations	41,015,099.72	40,421,736.00	593,363.72	1.5%
Net Investment Income	23,377,833.27	19,310,108.00	4,067,725.27	21.1%
Interest Expense on Capital Asset Financings	(13,960,492.24)	(11,360,924.00)	(2,599,568.24)	-22.9%
Net Other Nonoperating Adjustments	**104,746,188.91**	**107,547,345.00**	**(2,801,156.09)**	**-2.6%**
Adjusted Income (Loss) including Depreciation & Amortization	**76,845,092.44**	**145,816,041.00**	**(68,970,948.56)**	**-47.3%**
Adjusted Margin % including Depreciation & Amortization	**7.2%**	**13.6%**		
Investment Gain (Losses)	87,925,711.72	47,049,011.00	40,876,700.72	86.9%
Adj. Inc. (Loss) with Investment Gains (Losses)	**164,770,804.16**	**192,865,052.00**	**(28,094,247.84)**	**-14.6%**
Adj. Margin % with Investment Gains (Losses)	**14.2%**	**17.2%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**152,597,554.17**	**223,613,129.00**	**(71,015,574.83)**	**-31.8%**
Adjusted Margin % excluding Depreciation & Amortization	**14.2%**	**20.9%**		

The University of Texas Health Science Center at Tyler
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending December 31, 2010

	December Year-to-Date FY 2011	December Year-to-Date FY 2010	Variance	Fluctuation Percentage
Operating Revenues				
Sponsored Programs	4,666,550.85	4,498,368.63	168,182.22	3.7%
Net Sales and Services of Educational Activities	499,948.85	504,583.24	(4,634.39)	-0.9%
Net Sales and Services of Hospitals	17,531,192.74	16,569,135.07	962,057.67	5.8%
Net Professional Fees	3,720,349.62	2,890,689.54	829,660.08	28.7%
Net Auxiliary Enterprises	77,776.37	74,257.99	3,518.38	4.7%
Other Operating Revenues	157,048.45	571,246.10	(414,197.65)	-72.5%
Total Operating Revenues	**26,652,866.88**	**25,108,280.57**	**1,544,586.31**	**6.2%**
Operating Expenses				
Salaries and Wages	18,451,248.56	18,124,889.16	326,359.40	1.8%
Payroll Related Costs	5,218,434.70	4,706,834.38	511,600.32	10.9%
Cost of Goods Sold	9,944.38	10,294.19	(349.81)	-3.4%
Professional Fees and Services	2,490,095.91	2,544,635.42	(54,539.51)	-2.1%
Travel	201,861.35	146,225.21	55,636.14	38.0%
Materials and Supplies	4,265,904.26	5,257,175.78	(991,271.52)	-18.9%
Utilities	1,125,371.16	1,268,322.62	(142,951.46)	-11.3%
Communications	305,549.65	459,837.83	(154,288.18)	-33.6%
Repairs and Maintenance	913,867.57	1,367,585.04	(453,717.47)	-33.2%
Rentals and Leases	322,937.00	373,201.70	(50,264.70)	-13.5%
Printing and Reproduction	33,793.91	25,006.49	8,787.42	35.1%
Scholarships and Fellowships	7,461.20	-	7,461.20	100.0%
Depreciation and Amortization	2,322,932.96	2,389,458.86	(66,525.90)	-2.8%
Federal Sponsored Program Pass-Through to Other State Agencies	3,114.49	35,908.75	(32,794.26)	-91.3%
Other Operating Expenses	3,544,249.78	3,678,584.68	(134,334.90)	-3.7%
Total Operating Expenses	**39,216,766.88**	**40,387,960.11**	**(1,171,193.23)**	**-2.9%**
Operating Loss	**(12,563,900.00)**	**(15,279,679.54)**	**2,715,779.54**	**17.8%**
Other Nonoperating Adjustments				
State Appropriations	12,248,436.67	14,210,211.90	(1,961,775.23)	-13.8%
Gift Contributions for Operations	81,089.56	71,859.02	9,230.54	12.8%
Net Investment Income	1,358,372.04	1,308,640.33	49,731.71	3.8%
Interest Expense on Capital Asset Financings	(489,637.52)	(198,388.00)	(291,249.52)	-146.8%
Net Other Nonoperating Adjustments	**13,198,260.75**	**15,392,323.25**	**(2,194,062.50)**	**-14.3%**
Adjusted Income (Loss) including Depreciation & Amortization	**634,360.75**	**112,643.71**	**521,717.04**	**463.2%**
Adjusted Margin % including Depreciation & Amortization	**1.6%**	**0.3%**		
Investment Gain (Losses)	3,743,759.05	1,186,686.38	2,557,072.67	215.5%
Adj. Inc. (Loss) with Investment Gains (Losses)	**4,378,119.80**	**1,299,330.09**	**3,078,789.71**	**237.0%**
Adj. Margin % with Investment Gains (Losses)	**9.9%**	**3.1%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**2,957,293.71**	**2,502,102.57**	**455,191.14**	**18.2%**
Adjusted Margin % excluding Depreciation & Amortization	**7.3%**	**6.1%**		

3. U. T. System: Report on the Analysis of Financial Condition for Fiscal Year 2010

REPORT

The Analysis of Financial Condition, which is set forth on Pages 113 - 176 that follow, is a broad annual financial evaluation that rates U. T. System institutions based on the factors analyzed as either "Satisfactory," "Watch," or "Unsatisfactory."

An Executive Summary of the report may be found on Pages 115 - 120. One institution has been upgraded to "Watch" and all other institution's ratings remained the same as Fiscal Year 2009.

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: Composite Financial Index, Operating Expense Coverage, Annual Operating Margin, Expendable Resources to Debt, Debt Burden, Debt Service Coverage, and Full-time Equivalent (FTE) 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. This analysis compares trends for Fiscal Year 2006 through Fiscal Year 2010.

2010 Analysis of Financial Condition

February 2011

The University of Texas System
2010 Analysis of Financial Condition

Foreword

The Analysis of Financial Condition (AFC) was performed from the Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets. Since 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 addition to using individual ratios a Composite Financial Index (CFI) is calculated using four commonly used ratios to form a composite score to help analyze the overall financial health of each institution. Use of a single score allows a weakness in a particular ratio to be offset by strength in another ratio. The four core ratios that make up the CFI are as follows:

- Composite Financial Index
    - *Primary Reserve Ratio* – measures the financial strength of the institution by comparing expendable net assets to total expenses (in days). This ratio provides a snapshot of financial strength and flexibility by indicating how long the institution could function by using its expendable reserves without relying on additional net assets generated by operations.
    - *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 Debt Ratio* – determines if an institution has the ability to fund outstanding debt with existing net asset balances should an emergency occur.

In addition to the CFI that includes the four core ratios mentioned above, the following ratios are presented:

- *Operating Expense Coverage Ratio* – measures an institution's ability to cover future operating expenses with available year-end balances (in months).
- *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. In years prior to 2009, Moody's calculation applied 4.5% of the prior year's ending total cash and investments. Beginning with fiscal year 2009, Moody's changed the methodology and now applies 5% of the average of the previous three years' market value of cash and investments to compute normalized investment income. 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 <u>only</u>.
- *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.

All of these ratios, including the CFI, 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. By policy, institutions rated "Unsatisfactory" are not permitted to invest in the Intermediate Term Fund. Progress towards the achievement of the plans will be periodically discussed with the Chief Business Officer and President, and representatives from the UT System Offices of Business, Academic and/or Health Affairs, as appropriate.

Institution Rated "Watch"

UTMB

The institution's financial condition was upgraded to "Watch" for 2010. The composite financial index (CFI) increased substantially from 0.7 in 2009 to 4.7 in 2010 primarily due to the recovery from the impact of Hurricane *Ike* in 2009 and the net increase in the fair value of investments. Although the operating expense coverage ratio increased by 0.9 months to 1.1 months in 2010, it still remained below the System's benchmark of 2 months and was also the lowest operating expense coverage ratio of all the UT institutions. The improvement in this ratio was attributable to both an increase in total unrestricted net assets and a decrease in total operating expenses as a result of the recovery from the business disruption in revenue generating activities and expenses related to Hurricane *Ike* in 2009. The annual operating margin increased by $177.5 million to a positive margin of $37.4 million or 2.4% for 2010, including depreciation expense. UTMB received $150 million of Federal Emergency Management Agency (FEMA) matching funds from the State in the form of a special appropriation in 2009. These funds are restricted for FEMA qualified capital project matching and are not intended for operating expenses, with the exception of FEMA clean-up expenses. The entire $150 million was excluded from the 2009 margin calculation since none of these funds were used for clean-up expenses in 2009. However, the 2010 margin includes $1.5 million of the FEMA State matching funds that were used in 2010 for capital outlay that fell below the capitalization threshold. UTMB also received $97 million of additional general revenue in 2010 for recovery from Hurricane *Ike.* In order to more appropriately match revenues with expenses, this additional appropriation will be spread evenly in the 2010 and 2011 Analysis of Financial Condition. Thus, $48.5 million was excluded from the annual operating margin for 2010. The expendable resources to debt ratio increased from 1.8 in 2009 to 2.3 in 2010 due to the increase in total unrestricted net assets. The debt burden ratio increased slightly from 1.4% in 2009 to 1.6% in 2010 as a result of the decrease in total operating expenses but remains the lowest debt burden of all the UT institutions. The debt service coverage ratio increased significantly from (2.8) in 2009 to 4.7 in 2010 due to the dramatic improvement in operating performance.

Institutions Rated "Satisfactory"

UT Arlington

The CFI increased from 3.5 in 2009 to 4.0 in 2010 primarily due to the net increase in the fair value of investments and a decrease in the amount of debt outstanding. The operating expense coverage ratio decreased by 0.1 months to 4.7 months in 2010 as a result of an increase in total operating expenses, which was partially offset by an increase in total unrestricted net assets. The majority of the increase in total operating expenses was attributable to increases in salaries and payroll related costs, scholarships and fellowships, other operating expenses and depreciation expense. The increase in total unrestricted net assets was primarily due to funding received from the Texas Higher Education Coordinating Board (THECB) for the Nursing Regional Education Center and Advance Research Programs, an increase in quasi-endowments and an increase in unrestricted net assets for capital projects. The annual operating margin increased $4.0 million to $26.2 million or 5.9% for 2010 largely due to increases in sponsored programs revenue (including nonexchange sponsored programs) and net tuition and fees. The expendable resources to debt ratio remained unchanged at 0.9 in 2010. The stability of this ratio was a result of a decrease in restricted expendable net assets due to fewer funds restricted for capital projects, offset by a decrease in the amount of debt outstanding. The debt burden ratio declined from 7.6% in 2009 to 6.9% in 2010 due to the increase in operating expenses. The debt service coverage ratio increased from 1.9 in 2009 to 2.4 in 2010 as a result of the improvement in operating performance. Full-time equivalent (FTE) student enrollment increased due to an increase in scholarship awards and the Academic Partnership Program.

UT Austin

The CFI increased from 3.1 in 2009 to 6.4 in 2010 due to the net increase in the fair value of investments and enhanced operating performance. The operating expense coverage ratio increased by 1.3 months to 3.6 months in 2010 as a result of the increase in total unrestricted net assets which was attributable to an increase in the transfer from the Available University Fund (AUF), the net increase in the fair value of investments allocated to unrestricted current funds, and an improvement in operating performance. The annual operating margin increased by $109.5 million to $158.4 million or 7.0% for 2010 as a result of the increase in operating revenues. The increase in operating revenues was primarily attributable to increases in sponsored programs revenue (including nonexchange sponsored programs), AUF funding, and net tuition and fees. The expendable resources to debt ratio increased from 1.6 in 2009 to 2.0 in 2010 due to increases in both total unrestricted net assets and restricted expendable net assets. The increase in restricted expendable net assets was driven by the improved market conditions which caused an increase in the market value of the endowment funds. The debt burden ratio increased slightly from 4.2% in 2009 to 4.4% in 2010 as a result of an increase in debt service payments. The debt service coverage ratio increased from 3.2 in 2009 to 4.3 in 2010. The increase in this ratio was due to the improved operating performance. FTE student enrollment increased overall by 0.3% primarily due to increases in the Master's/Special Professional hours.

UT Brownsville

The CFI increased from 1.8 in 2009 to 3.4 in 2010 as a result of the net increase in the fair value of investments and an increase in the bond proceeds transferred from System. The operating expense coverage ratio increased by 0.1 months to 2.1 months in 2010 due to an increase in total unrestricted net assets, which was largely offset by an increase in total operating expenses. The increase in total unrestricted net assets was primarily attributable to an improvement in operating performance. Total operating expenses increased primarily due to increases in scholarships and fellowships, and salaries and payroll related costs. The annual operating margin increased by $3.9 million to $5.9 million or 3.3% for 2010 as a result of the growth in total operating revenues. The increase in total operating revenues was primarily due to an increase in sponsored programs revenue (including nonexchange sponsored programs) and an increase in the contract with Texas Southmost College. The expendable resources to debt ratio remained unchanged at 1.0 in 2010. The stability of this ratio was attributable to increases in both total unrestricted net assets and restricted expendable net assets, which were offset by an increase in the amount of debt outstanding. The increase in restricted expendable net assets was primarily due to an increase in funds restricted for capital projects resulting from additional construction costs to complete the Science and Technology Learning Center. The increase in the debt was also attributable to the Science and Technology Learning Center. The debt burden ratio decreased from 6.3% in 2009 to 6.0% in 2010 due to the increase in total operating expenses. The debt service coverage ratio increased from 1.4 in 2009 to 1.9 in 2010 as a result of the improvement in the operating margin. FTE student enrollment decreased slightly as a direct result of the planned reduction to the dual enrollment program.

UT Dallas The CFI increased from 2.5 in 2009 to 4.4 in 2010 largely due to the net increase in fair value of investments, an increase in bond proceeds transferred from System and an increase in permanent endowments. The operating expense coverage ratio increased by 0.4 months to 3.3 months in 2010 as a result of an increase in total unrestricted net assets, which was partially offset by an increase in total operating expenses. Total unrestricted net assets increased due to the net increase in the fair value of investments allocated to designated funds and an increase in unexpended plant funds related to new capital projects. Total operating expenses increased primarily due to increases in salaries and payroll related costs, scholarships and fellowships, depreciation expense, other operating expenses, professional fees and services, interest expense, materials and supplies, and utilities. The annual operating margin increased by $2.7 million to $12.0 million or 3.3% for 2010. The improvement in the annual operating margin was largely attributable to the growth in operating revenues primarily driven by increases in sponsored programs revenue (including nonexchange sponsored programs), net tuition and fees, auxiliary enterprises, net sales and services of educational activities, and investment income (excluding realized gains and losses). The expendable resources to debt ratio decreased from 1.1 in 2009 to 1.0 in 2010 due to the increase in total unrestricted net assets, which was largely offset by an increase in the debt outstanding. The debt burden ratio increased from 5.8% in 2009 to 5.9% in 2010 due to the increase in debt service payments, which was largely offset by the increase in operating expenses. The debt service coverage ratio of 2.8 in 2010 was a slight increase from the 2009 ratio of 2.7 and was a result of the improved annual operating margin. FTE student enrollment continued the upward trend and increased 10% between the fall of 2009 and the fall of 2010. This upward trend reflects the effects of UT Dallas' guaranteed tuition plan, which encourages full-time status, federal and state eligibility requirements for aid for domestic students, and visa requirements for international students.

UT El Paso The CFI increased from 3.9 in 2009 to 5.2 in 2010 primarily due to the net increase in the fair value of investments and an improvement in operating performance. The operating expense coverage ratio increased by 0.2 months to 2.1 months in 2010 as a result of an increase in total unrestricted net assets, which was partially offset by an increase in total operating expenses. The growth in total unrestricted net assets was primarily due to an improvement in operating performance. The increase in total operating expenses was primarily attributable to increases in scholarships and fellowships, salaries and payroll related costs, interest expense, and materials and supplies. The annual operating margin increased by $6.0 million to $20.9 million or 5.8% for 2010 primarily due to the increase in total operating revenues resulting from increases in sponsored programs revenue (including nonexchange sponsored programs), gifts for operations, and net tuition and fees. The expendable resources to debt ratio decreased from 1.3 in 2009 to 1.2 in 2010 as a result of an increase in the debt outstanding, which was partially offset by increases in total unrestricted net assets and restricted expendable net assets. The increase in restricted expendable net assets was primarily attributable to an increase in the appreciation on endowment funds and an increase in funds restricted for capital projects. The debt burden ratio decreased from 6.7% in 2009 to 5.9% in 2010 as a result of the increase in total operating expenses. The debt service coverage ratio increased from 2.0 in 2009 to 2.7 in 2010 due to the improved annual operating margin. FTE student enrollment continued to increase as a result of increased retention efforts of students currently enrolled, as well as continued efforts to recruit local high school students.

UT Pan American The CFI increased from 2.0 in 2009 to 3.4 in 2010 primarily due to the net increase in the fair value of investments. The operating expense coverage ratio increased by 0.6 months to 3.7 months in 2010 as a result of an increase in total unrestricted net assets largely driven by an improvement in operating performance, and the net increase in the fair value of investments allocated to unrestricted current funds. The annual operating margin increased by $6.7 million to $8.9 million or 3.4% for 2010. The improvement in the annual operating margin was primarily due to the growth in operating revenues, which was partially offset by the growth in operating expenses. The increase in operating revenues was primarily attributable to an increase in sponsored programs revenue (including nonexchange sponsored programs). The operating expenses increased primarily as a result of increases in salaries and payroll related costs, and scholarships and fellowships. The expendable resources to debt ratio increased from 1.0 in 2009 to 1.2 in 2010 due to the increase in total unrestricted net assets and a decrease in the debt outstanding. The debt burden ratio decreased from 6.4% in 2009 to 6.0% in 2010 as a result of the increase in operating expenses. The debt service coverage ratio increased from 1.7 in 2009 to 2.2 in 2010 due to the improvement in the annual operating margin. FTE student enrollment increased 2.3% between the fall of 2009 and the fall of 2010. The increase was attributable to a quality advisement program and the implementation of a required minimum ACT score.

UT Permian Basin The CFI decreased from 10.2 in 2009 to 7.6 in 2010 attributable to the $7.5 million received from the Texas Department of Transportation (TxDOT) in 2009 for capital projects with no such comparable funding in 2010. The operating expense coverage ratio decreased by 0.3 months to 2.5 months in 2010 primarily due to an increase in operating expenses. The increase in operating expenses was largely driven by increases in scholarships and fellowships, salaries and payroll related costs, interest expense, and materials and supplies. Although the annual operating margin decreased from 16.9% for 2009 to 15.8% for 2010, the annual operating margin actually increased by $1.0 million as a result of the growth in operating revenues. The increase in operating revenues was primarily due to increases in sponsored programs revenue (including nonexchange sponsored programs) and net tuition and fees. The expendable resources to debt ratio decreased from 0.8 in 2009 to 0.6 in 2010 as a result of a decrease in restricted expendable net assets and an increase in the debt outstanding. The decrease in restricted expendable net assets was attributable to the funding received from TxDOT in 2009 mentioned above. The debt burden ratio decreased from 27.4% in 2009 to 23.6% in 2010 due to the increase in operating expenses, but remained the highest debt burden of all the UT institutions. The debt service coverage ratio increased from 1.2 in 2009 to 1.5 in 2010 as a result of the increase in the annual operating margin. FTE student increased significantly due to successful recruiting and retention efforts.

UT San Antonio The CFI increased from 2.0 in 2009 to 3.3 in 2010 primarily due to the net increase in the fair value of investments. The operating expense coverage ratio remained unchanged at 4.2 months in 2010. The stability of this ratio was attributable to increases in both total unrestricted net assets and total operating expenses. Total unrestricted net assets increased primarily due to the net increase in the fair value of investments allocated to designated funds and auxiliary enterprises. The increase in operating expenses was primarily attributable to increases in salaries and payroll related costs, scholarships and fellowships, depreciation expense, repairs and maintenance, materials and supplies, and travel. Although the annual operating margin ratio decreased from 4.0% for 2009 to 3.7% for 2010, the annual operating margin increased slightly by $0.1 million. The small change in the annual operating margin was attributable to consistent growth in both the operating revenues and operating expenses. The increase in operating revenues was primarily due to increases in sponsored programs revenue (including nonexchange sponsored programs), net tuition and fees, State appropriations, auxiliary enterprises, gifts for operations, and investment income (excluding realized gains and losses). The expendable resources to debt ratio increased from 0.5 in 2009 to 0.6 in 2010 as a result of increases in both unrestricted net assets and restricted expendable net assets. The increase in restricted expendable net assets was due to funding for the North Paseo Building. The debt burden ratio decreased from 8.6% in 2009 to 7.8% in 2010 due to a small decrease in debt service payments and the increase in operating expenses. The debt service coverage ratio increased from 2.1 in 2009 to 2.4 in 2010 as a result of the increase in operating revenues combined with the decrease in debt service payments. FTE student enrollment increased 4.7% between the fall of 2009 and the fall of 2010.

UT Tyler The CFI increased from 2.4 in 2009 to 4.1 in 2010 as a result of the net increase in the fair value of investments and increases in both unrestricted net assets and restricted expendable net assets. The operating expense coverage ratio increased by 1.2 months to 4.7 months in 2010 due to the increase in unrestricted net assets, which was partially offset by an increase in total operating expenses. Total unrestricted net assets increased primarily due to the net increase in the fair value of investments allocated to designated funds and an increase in the transfers from restricted funds to unrestricted current funds as a result of a change in the method of tuition discounting. The increase in operating expenses primarily resulted from increases in salaries and payroll related costs, and depreciation expense. The annual operating margin decreased by $1.7 million to $2.7 million or 3.0% for 2010. The reduction in the annual operating margin was attributable to the growth in operating expenses. The expendable resources to debt ratio increased from 0.7 in 2009 to 0.9 in 2010 as a result of increases in unrestricted net assets and restricted expendable net assets. The increase in restricted expendable net assets was attributable to increases in the amount of funds restricted for capital projects and the increase in the appreciation on endowment funds. The debt burden ratio decreased from 11.4% in 2009 to 10.3% in 2010 due to a decrease in debt service payments and the increase in operating expenses. The debt service coverage ratio increased from 1.8 in 2009 to 2.0 in 2010. The increase in this ratio was attributable to the increase in depreciation expense which is excluded from operating expenses for purposes of this calculation. FTE student enrollment increased due to an extensive recruiting effort by Enrollment Management.

Southwestern

The CFI increased significantly from 2.7 in 2009 to 5.6 in 2010 as a result of the net increase in the fair value of investments and improved operating performance. The operating expense coverage ratio increased by 0.7 months to 4.4 months in 2010 primarily due to an increase in total unrestricted net assets, which was partially offset by an increase in operating expenses. The increase in unrestricted net assets was primarily driven by the net increase in the fair value of investments allocated to unrestricted current funds and an improvement in operating performance. The operating expenses increased primarily due to increases in salaries and payroll related costs, materials and supplies, other operating expenses, depreciation expense, and interest expense. The annual operating margin increased by $110.5 million to $131.6 million or 7.8% for 2010. The significant increase in the annual operating margin was attributable to the growth in operating revenues. The increase in operating revenues was generated by increases in net sales and services of hospitals, sponsored programs revenue (including nonexchange sponsored programs), net professional fees, State appropriations, net sales and services of educational activities, and investment income (excluding realized gains and losses). The expendable resources to debt ratio increased from 1.7 in 2009 to 1.9 in 2010 due to increases in unrestricted net assets and restricted expendable net assets. The increase in restricted expendable net assets was primarily a result of the net increase in the fair value of investments in endowment funds and an increase in funds restricted for capital projects due to the construction of North Campus Phase V. The debt burden ratio increased from 4.4% in 2009 to 4.6% in 2010 due to an increase in debt service payments. The debt service coverage ratio increased from 2.0 in 2009 to 3.5 in 2010 as a result of the improvement in the annual operating margin.

UTHSC-Houston

The CFI increased from 2.7 in 2009 to 3.6 in 2010 as a result of the net increase in the fair value of investments and increases in bond proceeds due from System and transferred from System. The operating expense coverage ratio increased by 0.3 months to 3.6 months in 2010 primarily due to an increase in total unrestricted net assets, which was partially offset by an increase in total operating expenses. The increase in unrestricted net assets was primarily attributable to the net increase in the fair value of investments allocated to designated funds and an increase in unrestricted net assets in unexpended plant funds for the South Campus expansion. Operating expenses increased primarily as a result of increases in salaries and payroll related costs, materials and supplies, depreciation expense, and printing and reproduction. The annual operating margin increased by $1.1 million to $4.2 million or 0.5% for 2010. This increase was due to the growth in operating revenues. The operating revenues increased primarily as a result of increases in sponsored programs revenue (including nonexchange sponsored programs), net sales and services of educational activities, net professional fees, investment income (excluding realized gains and losses), and net sales and services of hospitals. The expendable resources to debt ratio decreased from 1.9 in 2009 to 1.6 in 2010 due to an increase in the debt outstanding. The debt burden ratio decreased from 2.8% in 2009 to 2.6% in 2010 as a result of the increase in operating expenses. The debt service coverage ratio remained unchanged at 2.4 in 2010 due to the improvement in operating performance which was largely offset by an increase in debt service payments.

UTHSC-San Antonio

The CFI increased from 1.7 in 2009 to 3.4 in 2010 primarily as a result of the net increase in the fair value of investments. The operating expense coverage ratio increased by 0.5 months to 2.6 months in 2010 primarily due to an increase in unrestricted net assets, which was partially offset by an increase in operating expenses. The increase in unrestricted net assets was primarily attributable to the net increase in the fair value of investments allocated to designated funds and an improvement in operating performance. The increase in operating expenses was largely due to increases in salaries and payroll related costs, interest expense, utilities, and depreciation expense. The annual operating margin increased by $5.8 million to $9.8 million or 1.4% for 2010. The improvement in the annual operating margin was primarily a result of the growth in total operating revenues. The increase in operating revenues was primarily driven by increases in sponsored programs revenue (including nonexchange sponsored programs) and net professional fees. The expendable resources to debt ratio increased from 1.3 in 2009 to 1.4 in 2010 due to increases in unrestricted net assets and restricted expendable net assets, which were largely offset by an increase in the debt outstanding. The increase in restricted expendable net assets was primarily attributable to the net increase in the fair value of investments in endowment funds. The debt burden ratio decreased from 3.2% in 2009 to 3.1% in 2010 due to debt service payments remaining relatively flat along with the increase in operating expenses. The debt service coverage ratio increased from 1.9 in 2009 to 2.5 in 2010 as a result of the improvement in the annual operating margin.

Institutions Rated “Satisfactory” (Continued)

M. D. Anderson

The CFI increased from 3.2 in 2009 to 5.4 in 2010 primarily due to the net increase in the fair value of investments. The operating expense coverage ratio increased by 1.8 months to 5.7 months, the highest of all the UT institutions, in 2010 as a result of an increase in unrestricted net assets. The increase in unrestricted net assets was attributable to a significant increase in operating performance and the transfer of the remaining unrestricted funds necessary to match the T. Boone Pickens gift. The annual operating margin increased by $127.5 million to $350.5 million or 11.0% for 2010. The significant increase in the annual operating margin was largely a result of the recovery from the business disruption in revenue generating activities related to Hurricane *Ike*, as evidenced by the sizeable growth in operating revenues. The increase in operating revenues was primarily driven by increases in net sales and services of hospitals, gifts for operations, net professional fees, sponsored programs revenue (including nonexchange sponsored programs), State appropriations, and investment income (excluding realized gains and losses). The operating expenses increased at a much slower pace than the operating revenues. The increase in operating expenses was primarily attributable to increases in materials and supplies, interest expense, salaries and payroll related costs, repairs and maintenance, and rentals and leases. The expendable resources to debt ratio increased from 1.3 in 2009 to 1.6 in 2010 due to the increase in unrestricted net assets. The debt burden ratio remained unchanged at 3.3% in 2010. The stability of this ratio was attributable to an increase in debt service payments which was offset by the increase in operating expenses. The debt service coverage ratio increased from 5.5 in 2009 to 6.8 in 2010, the highest of all the UT institutions, as a result of the dramatic improvement in the annual operating margin.

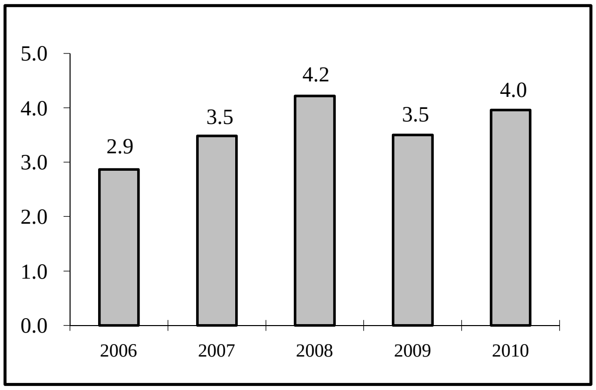
UTHSC-Tyler

The CFI increased from 2.8 in 2009 to 4.0 in 2010 primarily due to the net increase in the fair value of investments. The operating expense coverage ratio increased by 0.5 months to 2.9 months in 2010 as a result of an increase in unrestricted net assets and a decrease in total operating expenses. The increase in unrestricted net assets was primarily attributable to the net increase in fair value of investments allocated to educational and general funds and designated funds. The decrease in operating expenses was largely driven by decreases in professional fees and services, other operating expenses, and materials and supplies. The annual operating margin decreased by $1.6 million to $1.9 million or 1.5% for 2010 due to a reduction in operating revenues. The decrease in operating revenues was primarily attributable to decreases in net sales and services of hospitals and net professional fees. The expendable resources to debt ratio decreased from 1.9 in 2009 to 1.7 in 2010 as a result of an increase in the debt outstanding. The debt burden ratio increased from 3.5% in 2009 to 3.7% in 2010 due to the reduction in operating expenses. The debt service coverage ratio decreased from 2.5 in 2009 to 2.1 in 2010 due to the decrease in the annual operating margin.

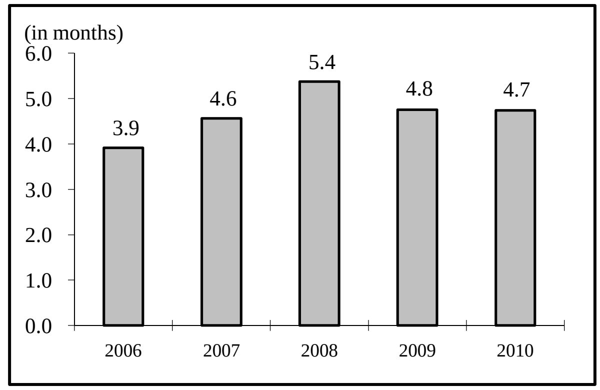
The University of Texas at Arlington
2010 Summary of Financial Condition

Financial Condition: **Satisfactory**

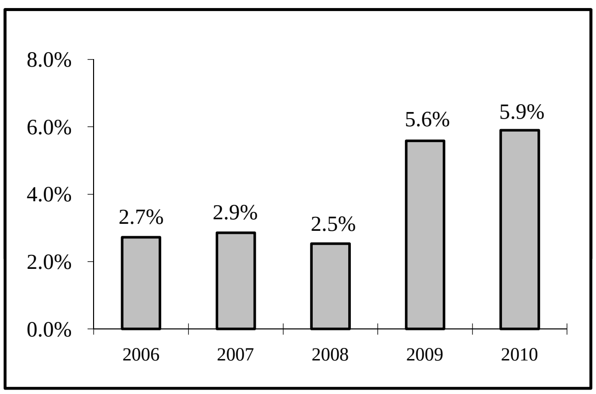
Composite Financial Index



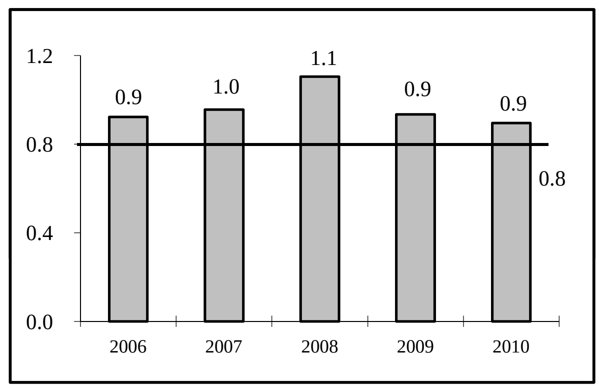
Operating Expense Coverage Ratio



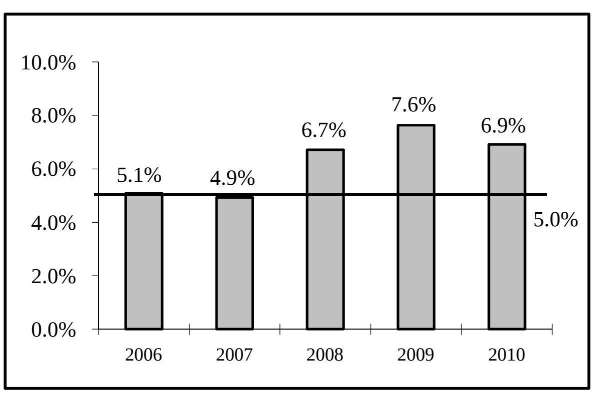
Annual Operating Margin Ratio



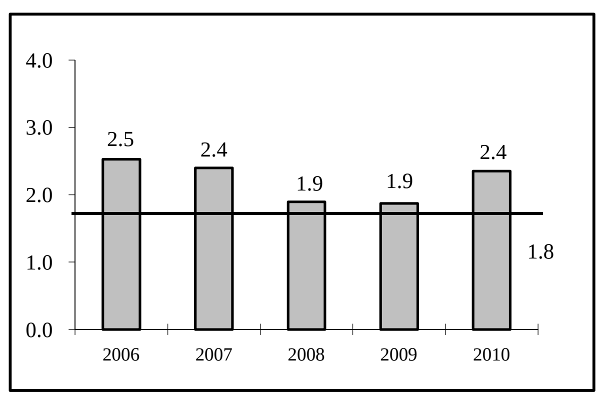
Expendable Resources to Debt Ratio



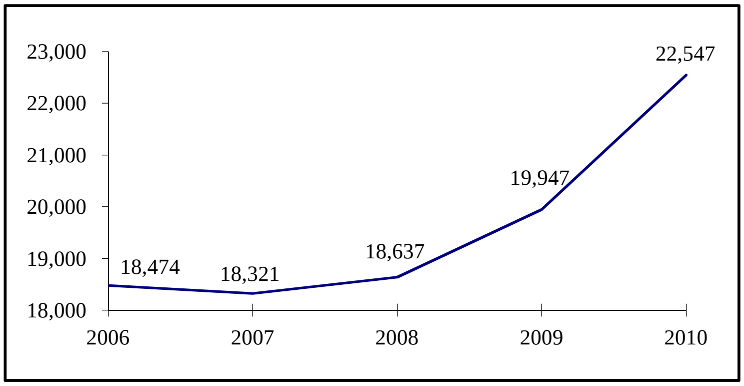
Debt Burden Ratio



Debt Service Coverage Ratio



Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT Arlington's CFI increased from 3.5 in 2009 to 4.0 in 2010 primarily due to an increase in the return on net assets which was largely driven by a $3.9 million increase in the fair value of investments in 2010 as compared to a decrease in the fair value of investments $27.7 million in 2009 for a total increase between years of $31.6 million. Additionally, the decrease in the debt outstanding, discussed below, contributed to the improvement in the return on net assets ratio.

Operating Expense Coverage Ratio - UT Arlington's operating expense coverage ratio decreased slightly from 4.8 months in 2009 to 4.7 months in 2010 as a result of an increase in total operating expenses (including interest expense) of $43.2 million, which was partially offset by an increase in total unrestricted net assets of $16.7 million. The majority of the increase in total operating expenses was due to the following: a $17.9 million increase in salaries and payroll related costs as a result of annual merit increases, new faculty positions, and termination benefits related to a reduction in force for 59 employees who voluntarily separated and received payment of one-half of a year's salary or a minimum of $20,000 which amounted to $1.6 million; a $9.5 million increase in scholarships and fellowships due to an increase in financial aid disbursements through Pell Grants, merit-based scholarships, tuition set-aside and Texas Grant Programs; a $5.6 million increase in other operating expenses attributable to the Academic Partnership Program; and an increase in depreciation expense due to new asset additions in 2010. The increase in total unrestricted net assets was primarily attributable to the funding received from the Texas Higher Education Coordinating Board (THECB) for the Nursing Regional Education Center and Advanced Research Programs, an increase in unrestricted quasi-endowments and an increase in unrestricted net assets for capital projects.

Annual Operating Margin Ratio - UT Arlington's annual operating margin ratio increased from 5.6% for 2009 to 5.9% for 2010 as a result of an increase in total operating revenues of $47.3 million primarily attributable to the following: an increase of $32.4 million in sponsored program revenue (including nonexchange sponsored programs) resulting from the continued support of research faculty in an effort to achieve the status of a nationally recognized research institution, as well as the new ARRA funding received from THECB; and an increase in net tuition and fees of $14.7 million due to increased tuition and flat fee rates combined with increased enrollment. Partially offsetting the increase in operating revenues was the increase in total operating expenses discussed above.

Expendable Resources to Debt Ratio - UT Arlington's expendable resources to debt ratio remained unchanged at 0.9 in 2010. The stability of this ratio was primarily attributable to a decrease in restricted expendable net assets offset by a decrease in the amount of debt outstanding. Restricted expendable net assets decreased due to less funds restricted for capital projects as the Engineering Research Complex nears completion.

Debt Burden Ratio - UT Arlington's debt burden ratio declined from 7.6% in 2009 to 6.9% in 2010 due to the increase in operating expenses discussed above.

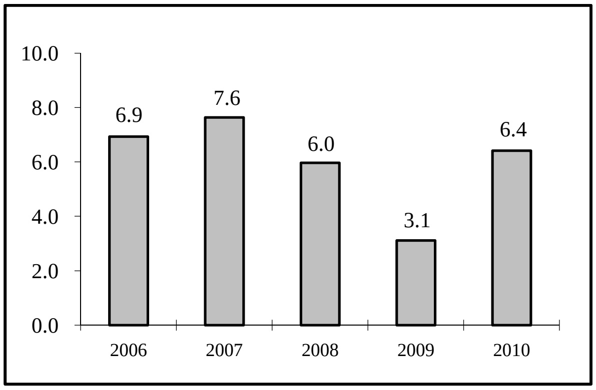
Debt Service Coverage Ratio - UT Arlington's debt service coverage ratio increased from 1.9 in 2009 to 2.4 in 2010 due to the improvement in operating performance previously discussed.

Full-Time Equivalent (FTE) Student Enrollment - UT Arlington's FTE student enrollment increased due to an increase in scholarship awards and the Academic Partnership Program.

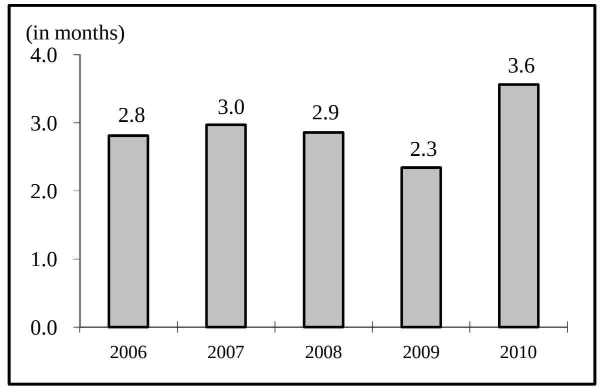
The University of Texas at Austin
2010 Summary of Financial Condition

Financial Condition: **Satisfactory**

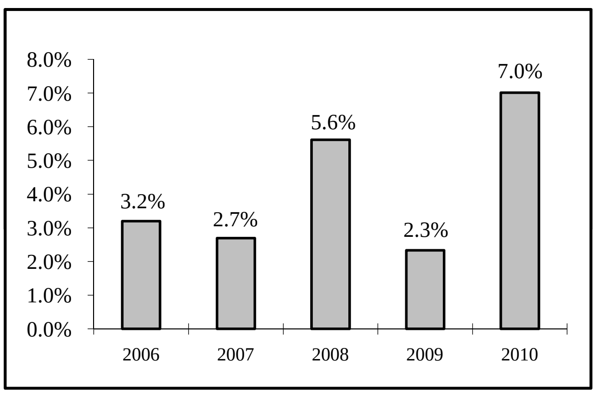
Composite Financial Index



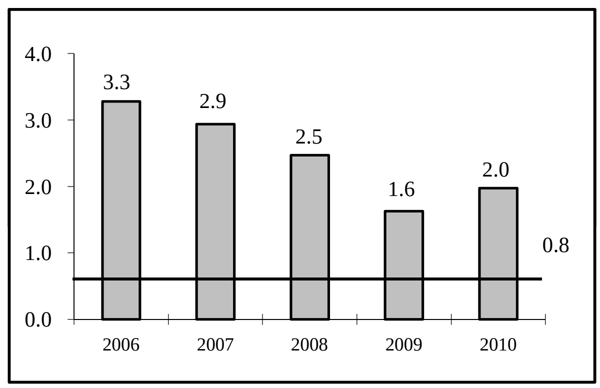
Operating Expense Coverage Ratio



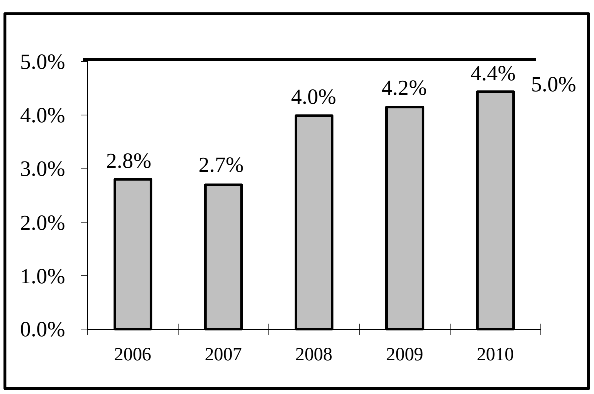
Annual Operating Margin Ratio



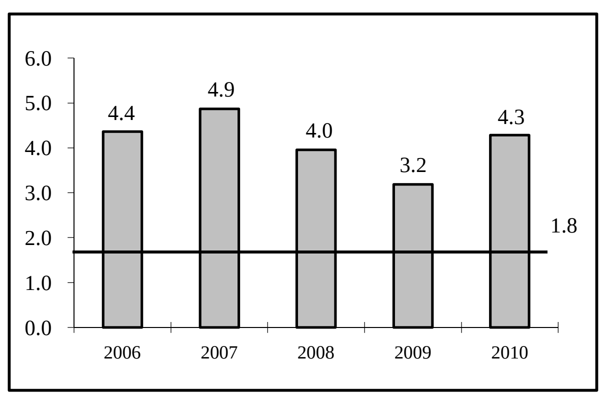
Expendable Resources to Debt Ratio



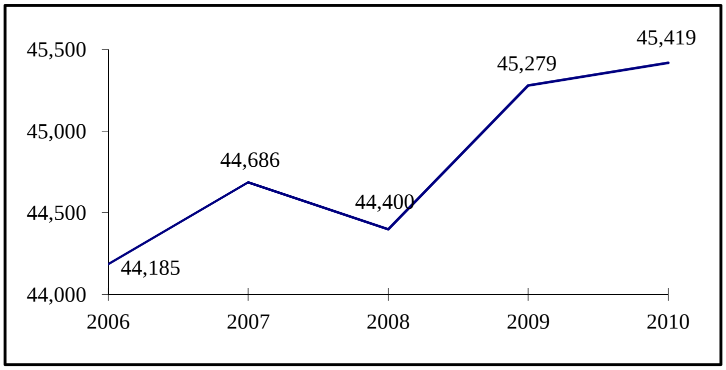
Debt Burden Ratio



Debt Service Coverage Ratio



Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT Austin's CFI increased substantially from 3.1 in 2009 to 6.4 in 2010 primarily due to an increase in the return on net assets ratio. The increase in the return on net assets ratio was largely driven by a $212.2 million increase in the fair value of investments in 2010 as compared to a decrease of $552.3 million in 2009, for a total increase between years of $764.5 million. The enhanced operating performance, as discussed in further detail below, also contributed to the increase in the CFI.

Operating Expense Coverage Ratio - UT Austin's operating expense coverage ratio increased from 2.3 months in 2009 to 3.6 months in 2010 due to an increase in total unrestricted net assets of $224.0 million. The increase in total unrestricted net assets was primarily attributable to the following: an increase of $74.9 million in the transfer from the Available University Fund (AUF) due to additional funds authorized by the Board of Regents; the net increase in the fair value of investments allocated to educational and general funds, designated funds and auxiliary enterprises, which resulted in an increase between 2009 and 2010 of $75.8 million; and an improvement in operating performance as discussed below.

Annual Operating Margin Ratio - UT Austin's annual operating margin ratio increased significantly from 2.3% for 2009 to 7.0% for 2010. The large increase in the annual operating margin ratio was due to the growth in total operating revenues of $162.4 million, which was more than double the growth in total operating expenses (including interest expense) of $52.9 million. The increase in total operating revenues was primarily a result of the following: an $80.0 million increase in sponsored program revenues (including nonexchange sponsored programs) due to increased funding from notable sponsors such as Southern States Energy Board, Research Partnership to Secure Energy, Pecan Street Project, Inc., and the American Society of Heat, Refrigeration, & Air Conditioning Engineering, Inc., as well as an increase in the Pell Grant maximum allowance and new American Recovery and Reinvestment Act (ARRA) funding; the $74.9 million increase in AUF funding mentioned above; and a $30.0 million increase in net tuition and fees attributable to an increase in flat rate tuition. The increase in total operating expenses was primarily due to the following: a $39.5 million increase in salaries and payroll related costs as a result of faculty salary increases and increases in benefits; a $14.9 million increase in scholarships and fellowships due to an increase in Pell Grants and the Top 10% Scholarship (the Byrd Program), which was new in 2010; a $9.7 million increase in depreciation expense due to buildings and other improvements placed into service; a $9.6 million increase in other operating expenses attributable to a $6 million increase in other pass-through expense (non-federal and non-state), and a $3.5 million increase primarily due to labor costs attributed to the AT&T Conference Center, which opened in August 2009; and a $6.5 million increase in interest expense.

Expendable Resources to Debt Ratio - UT Austin's expendable resources to debt ratio increased from 1.6 in 2009 to 2.0 in 2010 as a result of increases in total unrestricted net assets (as discussed above) and restricted expendable net assets. The increase in restricted expendable net assets was primarily attributable to an increase in the appreciation on the permanent endowment funds due to improved market conditions.

Debt Burden Ratio - UT Austin's debt burden ratio increased slightly from 4.2% in 2009 to 4.4% in 2010 due to an increase in debt service payments of $7.1 million.

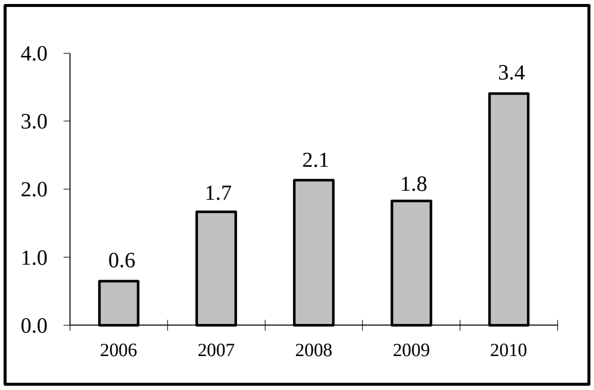
Debt Service Coverage Ratio - UT Austin's debt service coverage ratio increased from 3.2 in 2009 to 4.3 in 2010 as a result of the improved operating performance previously discussed.

Full-Time Equivalent (FTE) Student Enrollment - UT Austin's FTE student enrollment increased overall by 0.3% primarily due to increases in Master's/Special Professional hours (1.2%).

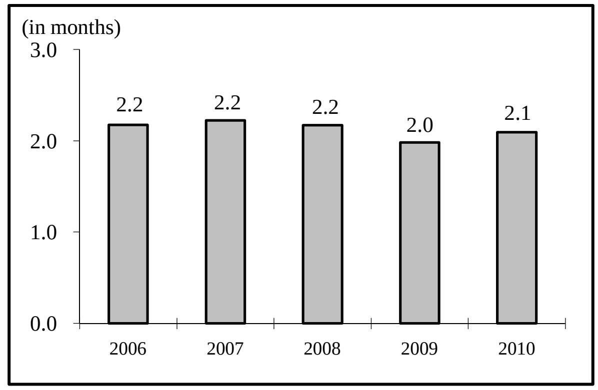
The University of Texas at Brownsville
2010 Summary of Financial Condition

Financial Condition: **Satisfactory**

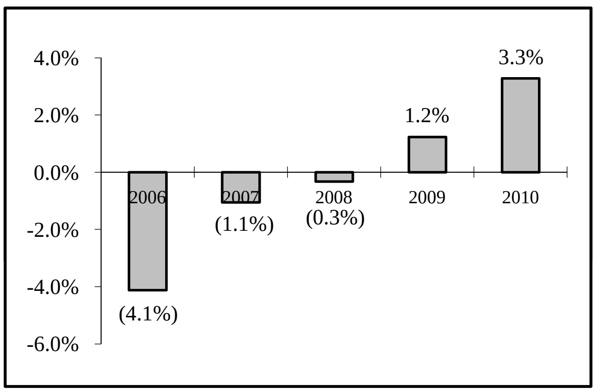
Composite Financial Index



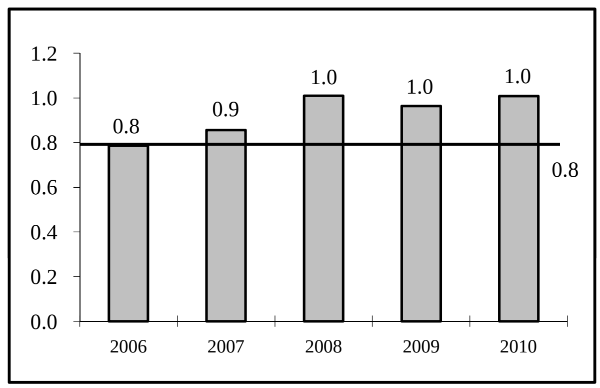
Operating Expense Coverage Ratio



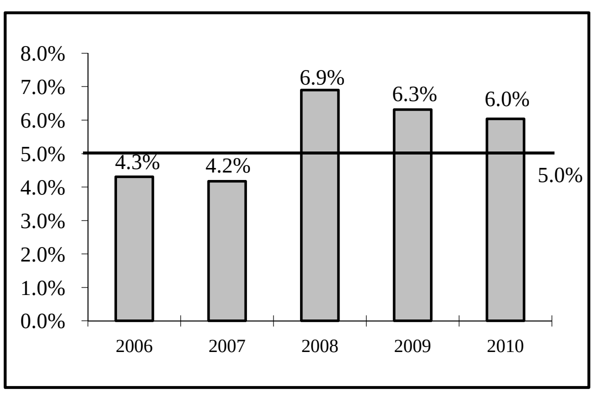
Annual Operating Margin Ratio



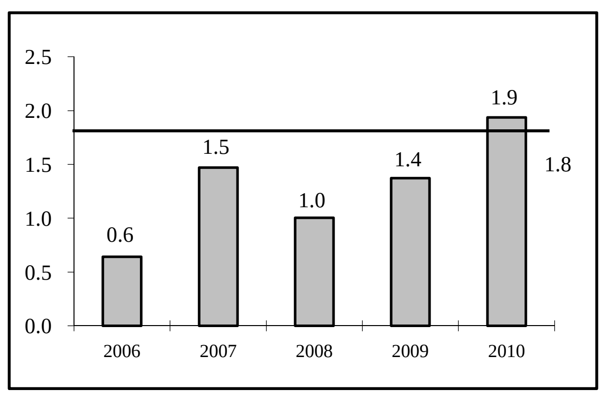
Expendable Resources to Debt Ratio



Debt Burden Ratio

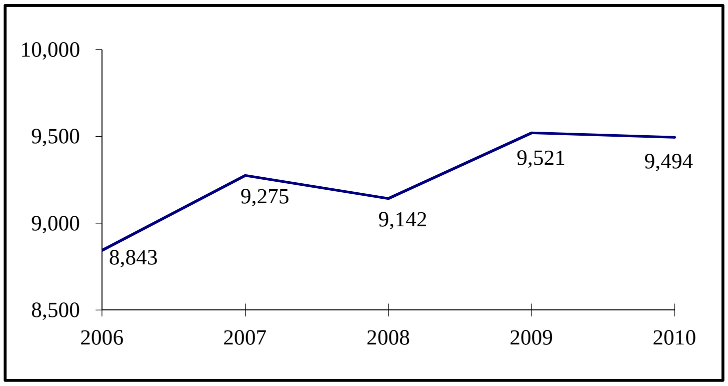


Debt Service Coverage Ratio



The University of Texas at Brownsville
2010 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT Brownsville's CFI increased significantly from 1.8 in 2009 to 3.4 in 2010 primarily as a result of an increase in the return on net assets ratio. The major driving forces behind the increase in the return on net assets ratio were an increase in the fair value of investments of $2.0 million in 2010 as compared to a decrease of $4.1 million in 2009 for a total increase between years of $6.1 million, and an increase in bond proceeds transferred from System in 2010.

Operating Expense Coverage Ratio - UT Brownsville's operating expense coverage ratio changed slightly from 2.0 months in 2009 to 2.1 months in 2010 due to an increase of $4.5 million in total unrestricted net assets, which was largely offset by an increase in total operating expenses (including interest expense) of $17.4 million. The increase in total unrestricted net assets was driven by the improvement in operating performance as discussed in more detail below. The increase in total operating expenses was primarily attributable to the following: a $12.4 million increase in scholarships and fellowships as a result of the new year round Pell Grant program, which allowed more eligible students to receive Pell Grant awards in the summer sessions, and the increase in the maximum yearly Pell Grant award; and a $6.6 million increase in salaries and payroll related costs due to new positions, merit increases and market adjustments.

Annual Operating Margin Ratio - UT Brownsville's annual operating margin ratio increased from 1.2% for 2009 to 3.3% for 2010. The improvement in operating performance was attributable to the growth in total operating revenues of $21.3 million outpacing the growth in total operating expenses of $17.4 million discussed above. The increase in total operating revenues was primarily due to an increase in sponsored programs revenue (including nonexchange sponsored programs) of $19.6 million resulting from increases in Pell Grants, the new American Recovery and Reinvestment Act (ARRA) funding, a 22% increase in the summer semester credit hour count and an increase in the contract with Texas Southmost College (TSC). In addition, cost containment initiatives totaling $3.0 million implemented in the second half of the year were a major factor in keeping operating expenses low. The savings contributed to increases in the annual operating margin ratio and included $1.2 million reductions in office expenses, $0.9 million reductions in utility expenses, $0.8 million reductions in computer related purchases and $0.2 million cost avoidance through the use of technology for workflow processes.

Expendable Resources to Debt Ratio - UT Brownsville's expendable resources to debt ratio remained unchanged at 1.0 in 2010. The stability of this ratio was a result of increases in both restricted expendable net assets and total unrestricted net assets, which were offset by an increase in the amount of debt outstanding. Restricted expendable net assets increased primarily due to an increase in funds restricted for capital projects resulting from additional construction costs to complete the Science and Technology Learning Center. The increase in the debt outstanding was also attributable to the Science and Technology Learning Center.

Debt Burden Ratio - UT Brownsville's debt burden ratio decreased from 6.3% in 2009 to 6.0% in 2010. The reduction in this ratio was due to the increase in total operating expenses discussed above.

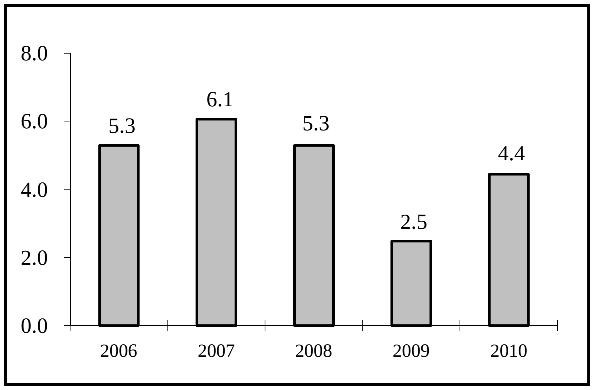
Debt Service Coverage Ratio - UT Brownsville's debt service coverage ratio increased from 1.4 in 2009 to 1.9 in 2010 as a result of the improvement in operating performance previously discussed.

Full-Time Equivalent (FTE) Student Enrollment - UT Brownsville's FTE student enrollment decreased slightly as a direct result of the planned reduction to the dual enrollment program. The number of dual enrollment semester credit hours (SCH) decreased by approximately 9,990 while non-dual enrollment SCHs increased by approximately 9,960. Non-dual enrollment registrations were expected to increase by 5%; however, actual enrollment increased by 7%.

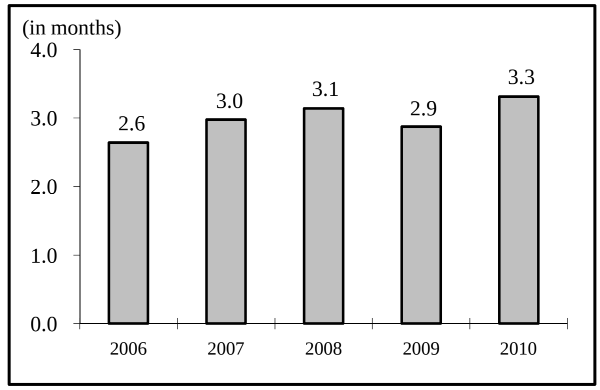
The University of Texas at Dallas
2010 Summary of Financial Condition

Financial Condition: **Satisfactory**

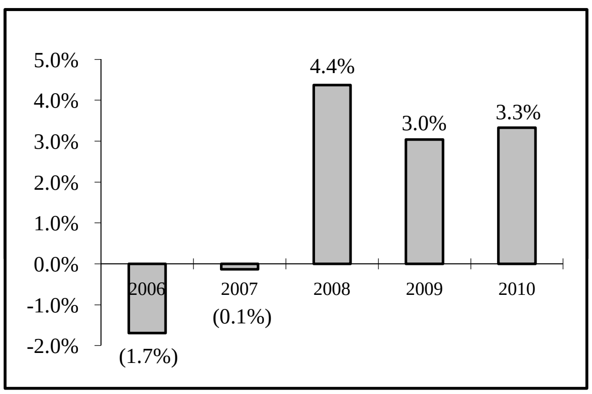
Composite Financial Index



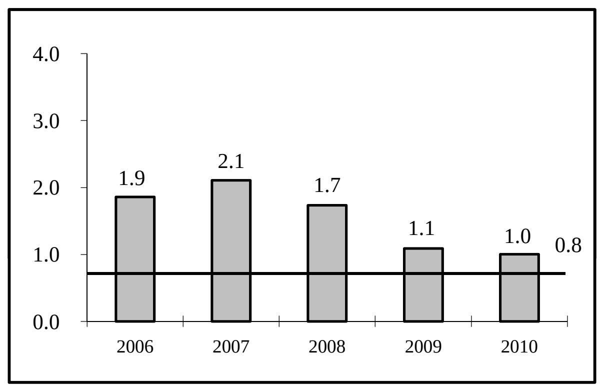
Operating Expense Coverage Ratio



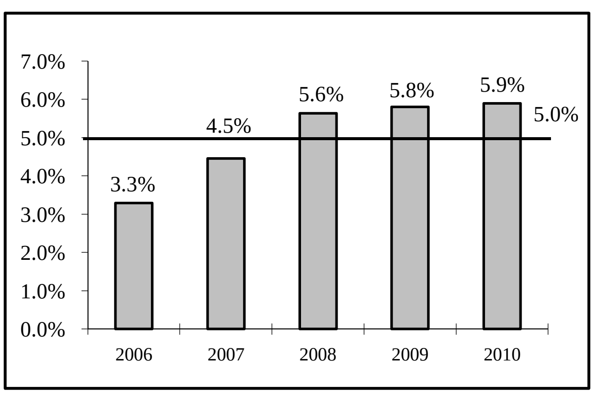
Annual Operating Margin Ratio



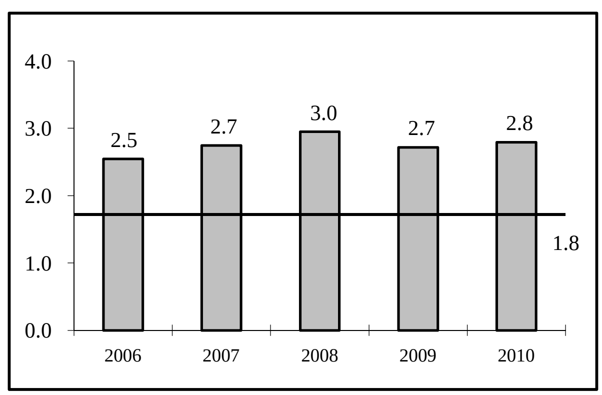
Expendable Resources to Debt Ratio



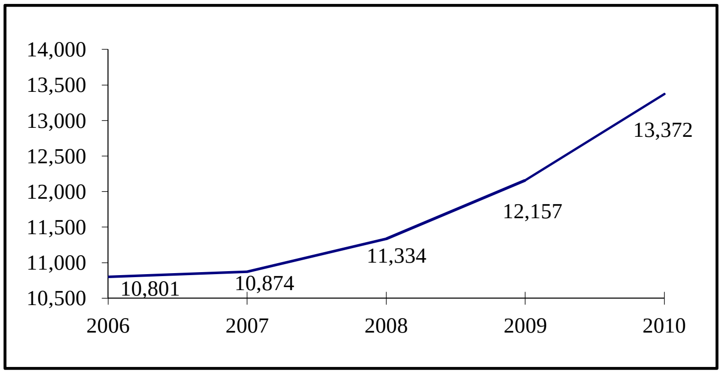
Debt Burden Ratio



Debt Service Coverage Ratio



Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT Dallas' CFI increased from 2.5 in 2009 to 4.4 in 2010, which was primarily attributable to an increase in the return on net assets ratio. The increase in the return on net assets ratio was largely driven by the following: the net increase in the fair value of investments of $20.6 million in 2010 as compared to a net decrease in 2009 of $71.1 million for a total increase between years of $91.8 million; a $33.1 million increase in bond proceeds transferred from System, the majority of which was for funding of the Student Housing II project; and a $16.1 million increase in additions to permanent endowments.

Operating Expense Coverage Ratio - UT Dallas' operating expense coverage ratio increased from 2.9 months in 2009 to 3.3 months in 2010 due to a $25.4 million increase in total unrestricted net assets, which was partially offset by an increase in total operating expenses of $52.4 million. The increase in total unrestricted net assets was primarily attributable to the net increase in the fair value of investments allocated to designated funds of $9.9 million, an overall increase between years of $19.6 million, and an increase in unrestricted net assets in unexpended plant funds related to new capital projects. The increase in total operating expenses was largely due to the following: an $18.1 million increase in salaries and payroll related costs as a result of merit increases, additional full-time equivalents and higher insurance premiums; a $9.9 million increase in scholarships and fellowships due to an increase in Pell Grant awards and other types of financial aid; a $4.9 million increase in depreciation expense resulting from capital projects that were completed and placed into service in 2010, as well as recognition of the first full year of depreciation on capital assets placed into service in the prior year; a $4.9 million increase in other operating expenses due to an increase in service center operations; a $3.9 million increase in professional fees and services as a result of increased expenses in the Texas Analog Center and increased expenses in research and related subcontracts; a $3.2 million increase in interest expense; a $2.0 million increase in material and supplies due to an increase in research related activities; and a $1.3 million increase in utilities primarily resulting from the first full year of operations for the new dining hall and the new student housing facility.

Annual Operating Margin Ratio - UT Dallas' annual operating margin ratio increased from 3.0% for 2009 to 3.3% for 2010 due to the growth in total operating revenues of $55.1 million outpacing the growth in total operating expenses. The increase in total operating revenues was primarily attributable to the following: a $26.3 million increase in sponsored programs revenue (including nonexchange sponsored programs) due to the new American Recovery and Reinvestment Act (ARRA) funding, the Texas Research Incentive Program (TRIP) funding and the Enrollment Growth Supplement received in 2010, as well as new federal and private awards; a $16.8 million increase in net tuition and fees as a result of enrollment growth and rate increases; a $2.3 million increase in auxiliary enterprises due to an increase in housing and food driven by the enrollment growth, as well as the opening of the new dining facility on campus; a $2.1 million increase in net sales and services of educational activities primarily due to increased patient fees at the Callier Center; and a $1.0 million increase in investment income (excluding realized gains and losses).

Expendable Resources to Debt Ratio - UT Dallas' expendable resources to debt ratio decreased slightly from 1.1 in 2009 to 1.0 in 2010. The small change in this ratio was due to the increase in total unrestricted net assets, which was offset by an increase of $43.2 million in the amount of debt outstanding was related to the 17217 Waterview Parkway Renovation and the Student Living/Learning Center.

Debt Burden Ratio - UT Dallas' debt burden ratio changed slightly from 5.8% in 2009 to 5.9% in 2010 as a result of an increase in debt service payments of $2.9 million, which was largely offset by the increase in operating expenses previously discussed.

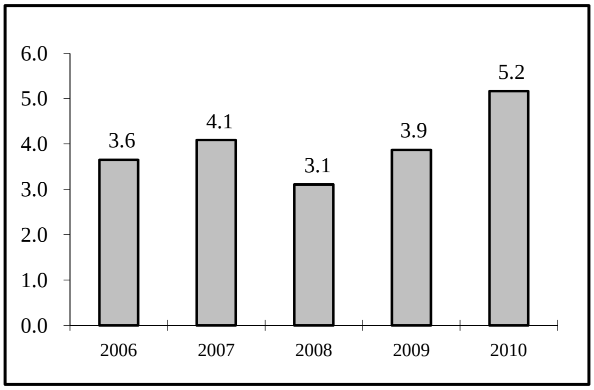
Debt Service Coverage Ratio - UT Dallas' debt service coverage ratio increased from 2.7 in 2009 to 2.8 in 2010 attributable to the improvement in operating performance as discussed in the annual operating margin ratio above.

Full-Time Equivalent (FTE) Student Enrollment - UT Dallas' overall enrollment increased from 2009 to 2010 by 8.5% and FTE student enrollment increased 10%. The upward trend in FTE student enrollment relative to gross enrollment reflects the effects of the university's guaranteed tuition plan, which encourages full-time status, federal and state eligibility requirements for aid for domestic students and visa requirements for international students. In the fall of 2010 the number of undergraduate students taking 15 or more semester credit hours (SCH) rose to over 4,300 students. The undergraduate FTEs rose 10% over the fall of 2009, and the masters' FTEs (students taking 12 or more SCH) increased 15% from 2009 to 2010.

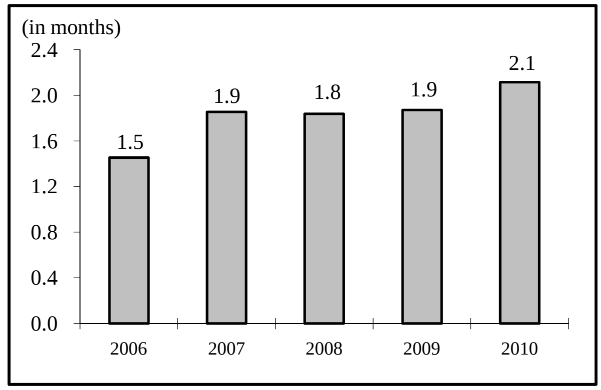
The University of Texas at El Paso
2010 Summary of Financial Condition

Financial Condition: **Satisfactory**

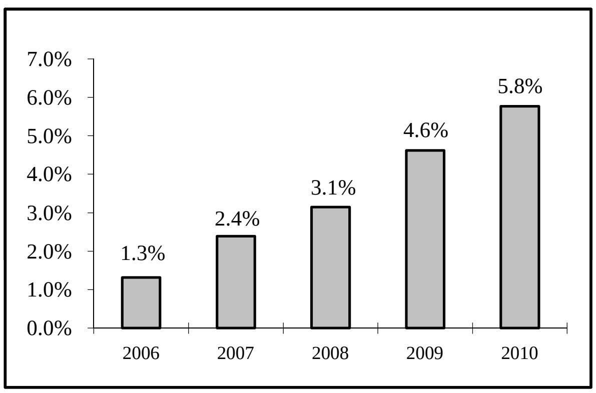
Composite Financial Index



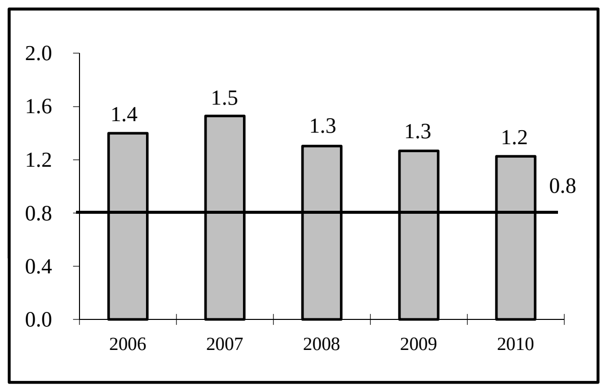
Operating Expense Coverage Ratio



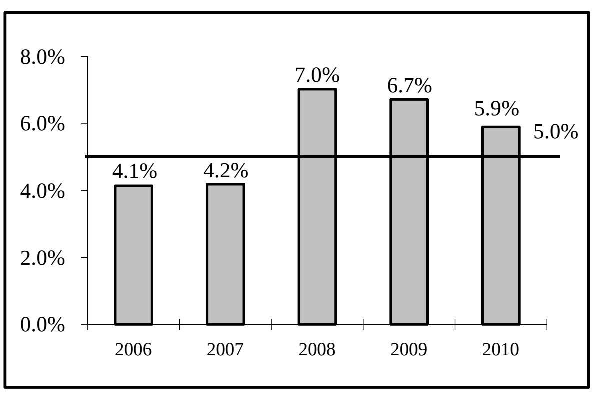
Annual Operating Margin Ratio



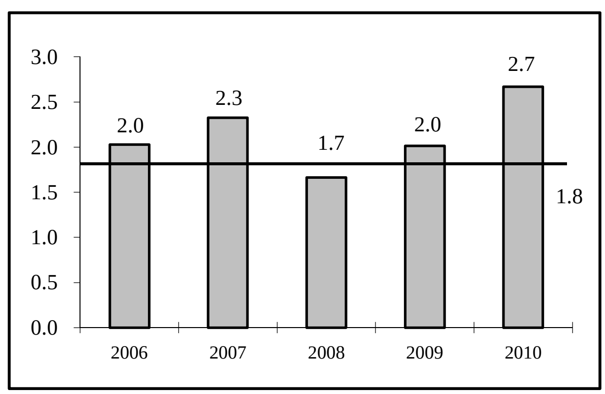
Expendable Resources to Debt Ratio



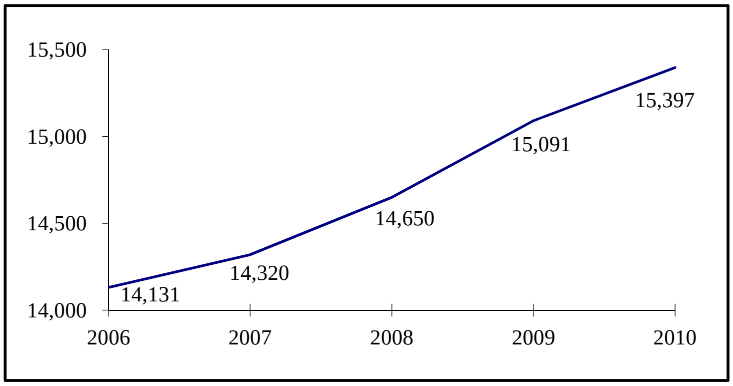
Debt Burden Ratio



Debt Service Coverage Ratio



Full-time Equivalent Student Enrollment - Fall



Composite Financial Index (CFI) - UT El Paso's CFI increased significantly from 3.9 in 2009 to 5.2 in 2010 primarily due to increases in the return on net assets ratio and the primary reserve ratio. One of the major contributors to the increase in these two ratios was the increase in the fair value of investments of $14.8 million in 2010 as compared to a decrease in 2009 of $27.9 million for a total increase between years of $42.6 million. Also contributing to the increase in these two ratios was the improvement in the annual operating margin discussed in more detail below.

Operating Expense Coverage Ratio - UT El Paso's operating expense coverage ratio increased from 1.9 months in 2009 to 2.1 months in 2010 as a result of an increase in total unrestricted net assets of $12.1 million, which was partially offset by an increase in total operating expenses (including interest expense) of $33.3 million. The increase in unrestricted net assets was primarily due to an improvement in operating performance as discussed in more detail below. Total operating expenses increased primarily due to the following: a $15.0 million increase in scholarships and fellowships due to increases in financial aid under Pell Grants, Tuition Assistance Grants and the Teach Grant Program; a $12.2 million increase in salaries and payroll related costs attributable to merit increases and increases in the associated benefits; a $2.7 million increase in interest expense; and a $1.9 million increase in materials and supplies as a result of increases in library subscriptions, computer purchases, and plant fund expenses not capitalized.

Annual Operating Margin Ratio - UT El Paso's annual operating margin ratio increased from 4.6% for 2009 to 5.8% for 2010 due to the growth in total operating revenues of $39.3 million exceeding the growth in total operating expenses. Total operating revenues increased primarily due to the following: a $29.5 million increase in sponsored program revenue (including nonexchange sponsored programs) as a result of increases in research awards and public service awards along with the new American Recovery and Reinvestment Act (ARRA) funding, and the Texas Research Incentive Program (TRIP) funding received in 2010; a $6.0 million increase in gift contributions for operations due to new pledge commitments as part of the Centennial Campaign; and a $3.4 million increase in net tuition and fees attributable to enrollment growth and increased designated tuition and fees. Additionally, UT El Paso implemented cost reduction strategies in response to the State mandated funding reductions. The cost savings achieved are included in the current year margin and will be used to offset the actual funding reductions when the funds are returned to the State in 2011.

Expendable Resources to Debt Ratio - UT El Paso's expendable resources to debt ratio decreased slightly from 1.3 in 2009 to 1.2 in 2010. The small reduction in this ratio was due to an increase of $65.3 million in the amount of debt outstanding, which was partially offset by increases in total unrestricted net assets of $12.1 million (as discussed above) and restricted expendable net assets of $62.5 million. The debt outstanding increased due to construction of the Physical Sciences/Engineering Core Facility, the addition to the Swimming and Fitness Center, and the Miner Heights University Housing Expansion. Restricted expendable net assets increased as a result of an increase in the appreciation on the permanent endowment funds due to improved market conditions and an increase in funds restricted for capital projects due to the construction projects previously mentioned.

Debt Burden Ratio - UT El Paso's debt burden ratio decreased from 6.7% in 2009 to 5.9% in 2010 due to the increase in total operating expenses discussed above.

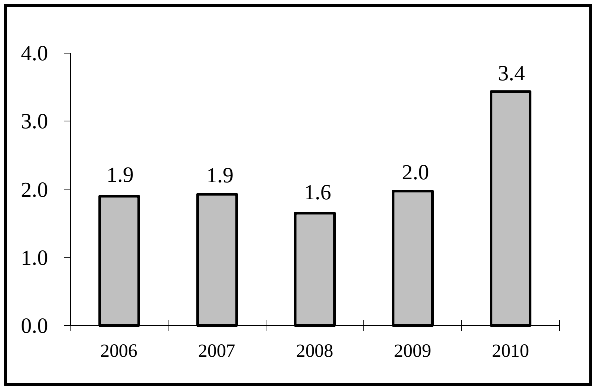
Debt Service Coverage Ratio - UT El Paso's debt service coverage ratio increased from 2.0 in 2009 to 2.7 in 2010 as a result of the improvement in operating performance.

Full-Time Equivalent (FTE) Student Enrollment - UT El Paso's FTE student enrollment continued to increase at approximately 3% due to increased retention efforts of students already enrolled, as well as continued efforts to recruit students from local high schools.

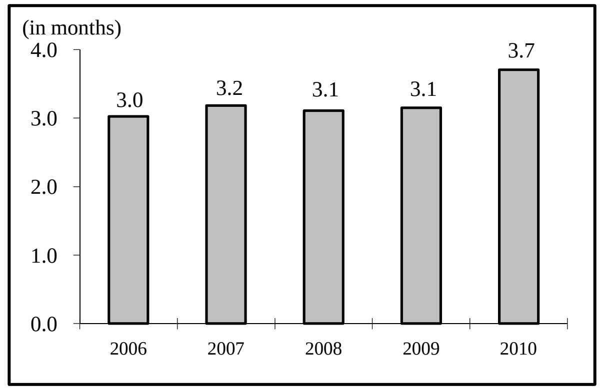
The University of Texas - Pan American
2010 Summary of Financial Condition

Financial Condition: **Satisfactory**

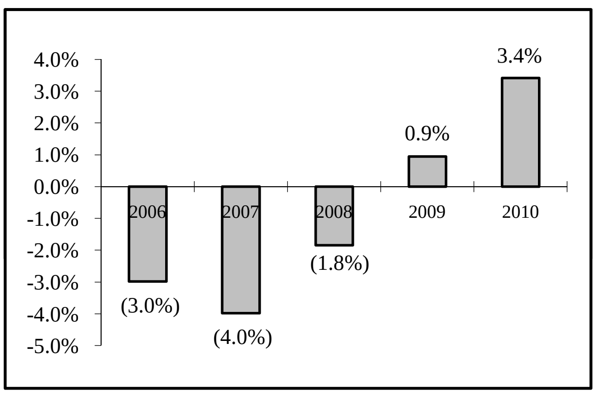
Composite Financial Index



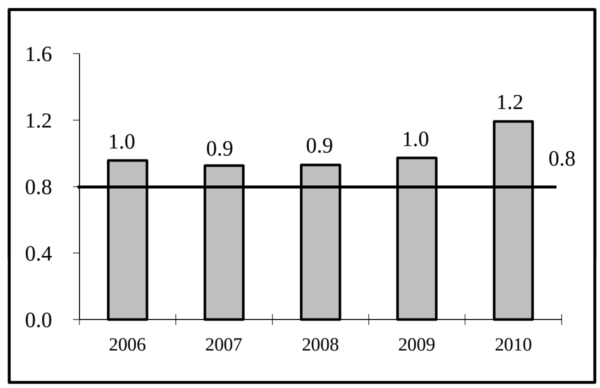
Operating Expense Coverage Ratio



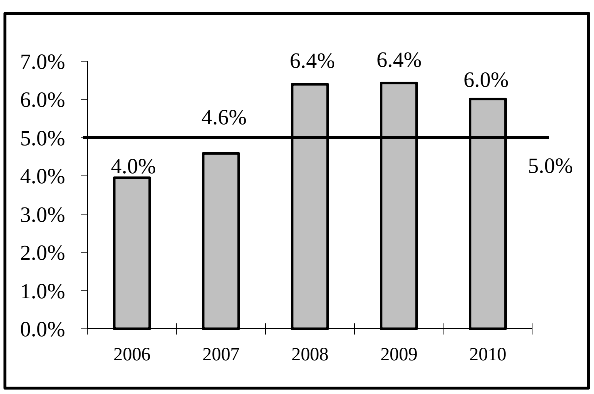
Annual Operating Margin Ratio



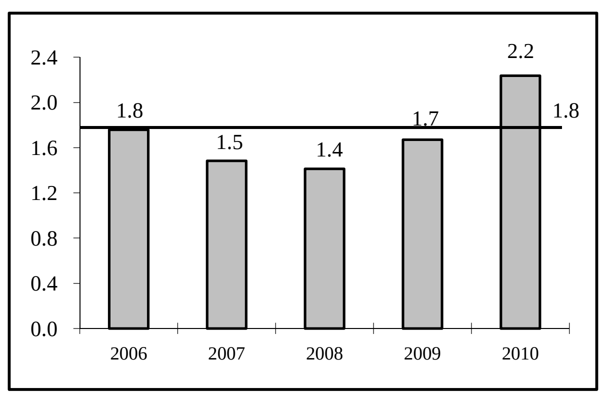
Expendable Resources to Debt Ratio



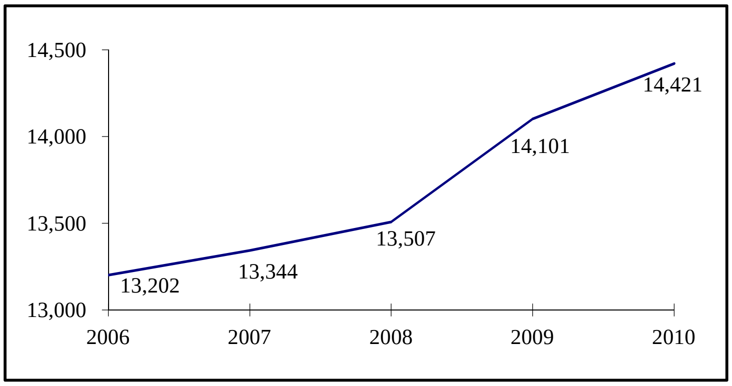
Debt Burden Ratio



Debt Service Coverage Ratio



Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT Pan American's CFI increased significantly from 2.0 in 2009 to 3.4 in 2010 primarily due to an improvement in the return on net assets ratio. The increase in the return on net assets ratio was largely driven by the increase in the fair value of investments of $5.4 million in 2010 as compared to a decrease of $8.5 million in 2009 for a total increase between years of $13.9 million.

Operating Expense Coverage Ratio - UT Pan American's operating expense coverage ratio increased from 3.1 months in 2009 to 3.7 months in 2010 primarily due to a $17.3 million increase in total unrestricted net assets. The increase in total unrestricted net assets was primarily attributable to an improvement in operating performance, as discussed below, and the net increase in the fair value of investments allocated to educational and general funds, designated funds and auxiliary enterprises, which resulted in an increase between 2009 and 2010 of $6.8 million.

Annual Operating Margin Ratio - UT Pan American's annual operating margin ratio increased from 0.9% for 2009 to 3.4% for 2010 as a result of the growth in total operating revenues of $28.0 million exceeding the growth in total operating expenses (including interest expense) of $21.3 million. The increase in total operating revenues was primarily due an increase of $24.5 million in sponsored program revenue (including nonexchange sponsored programs) as a result of an increase in Pell Grant awards which were awarded for the first time during the summer sessions and the increase in the maximum yearly Pell Grant award, the new American Recovery and Reinvestment Act (ARRA) funding received in 2010, and the receipt of several new federal grants in 2010. An increase in investment income (excluding realized gains and losses) of $1.5 million also contributed to the improvement in the operating margin. Total operating expenses increased primarily due to the following: a $10.4 million increase in salaries and payroll related costs attributable to annual merit increases and salary adjustments; and a $9.2 million increase in scholarships and fellowships due to increased awards to students for Pell Grants and the Texas Grant program.

Expendable Resources to Debt Ratio - UT Pan American's expendable resources to debt ratio increased from 1.0 in 2009 to 1.2 in 2010. The increase in this ratio was due to the increase of 17.3 million in total unrestricted net assets, as discussed above, and a decrease of $5.4 million in the amount of debt outstanding.

Debt Burden Ratio - UT Pan American's debt burden ratio decreased from 6.4% in 2009 to 6.0% in 2010 as a result of the increase in total operating expenses previously discussed.

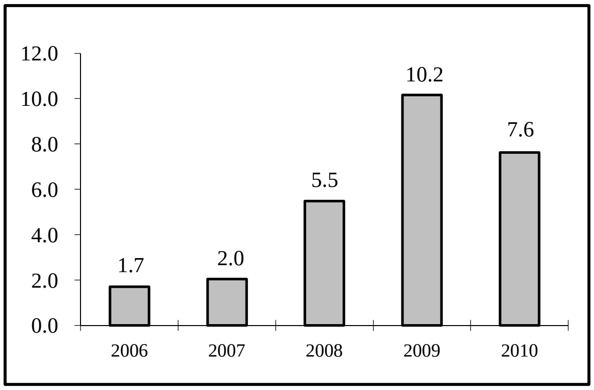
Debt Service Coverage Ratio - UT Pan American's debt service coverage ratio increased from 1.7 in 2009 to 2.2 in 2010. The increase in this ratio was attributable to the improvement in operating performance as mentioned in the annual operating margin ratio above.

Full-Time Equivalent (FTE) Student Enrollment - UT Pan American's headcount enrollment went up from 18,337 in the fall of 2009 to 18,744 in the fall of 2010, which was a 2.2% increase. The FTE student enrollment increased by 2.3%. This increase was due to a quality advisement program which is helping student retention and timely graduation. Also, UT Pan American instituted a required minimum ACT score, which is attracting higher caliber students to the university.

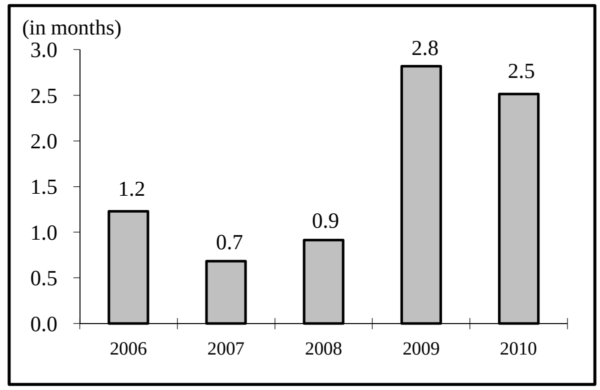
The University of Texas of the Permian Basin
2010 Summary of Financial Condition

Financial Condition: **Satisfactory**

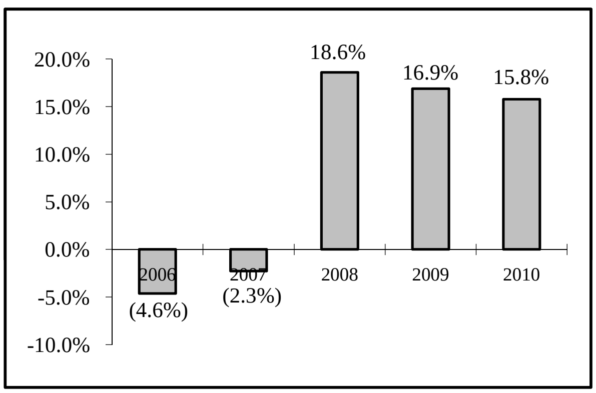
Composite Financial Index



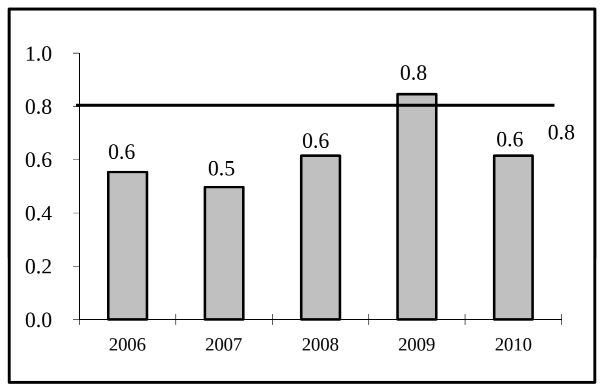
Operating Expense Coverage Ratio



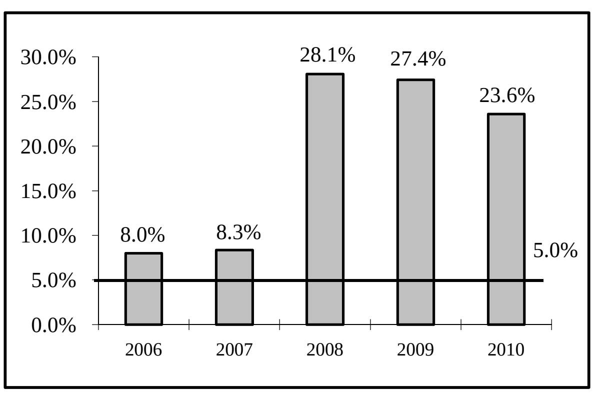
Annual Operating Margin Ratio



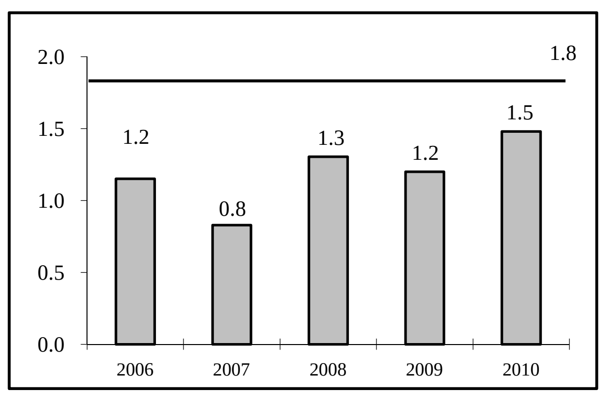
Expendable Resources to Debt Ratio



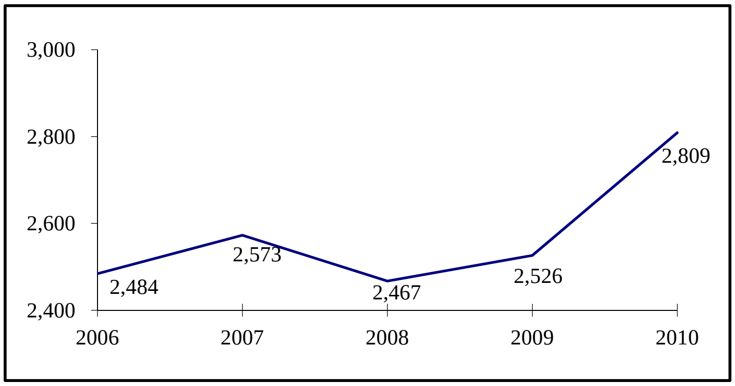
Debt Burden Ratio



Debt Service Coverage Ratio



Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT Permian Basin's CFI decreased from 10.2 in 2009 to 7.6 in 2010. The decrease in the CFI was mostly due to decreases in the return on net assets ratio and the primary reserve ratio, which were primarily driven by $7.5 million received from the Texas Department of Transportation in 2009 for capital projects with no such comparable funding in 2010.

Operating Expense Coverage Ratio - UT Permian Basin's operating expense coverage ratio decreased from 2.8 months in 2009 to 2.5 months in 2010 primarily due to a $9.2 million increase in total operating expenses (including interest expense). The increase in total operating expenses was primarily attributable to the following: a $4.0 million increase in scholarships and fellowships as a result of increased Pell Grant awards to eligible students; a $2.4 million increase in salaries and payroll related costs due to merit increases and the addition of staff and faculty full-time equivalents; a $1.2 million increase in interest expense; and a $0.6 million increase in materials and supplies due to the Hispanic Serving Institutions (HSI) grant purchases of specialized equipment.

A*nnual Operating Margin Ratio* - Although UT Permian Basin's annual operating margin ratio decreased from 16.9% for 2009 to 15.8% for 2010, the operating margin actually increased by $1.0 million. The increase in the operating margin was a result of the growth in operating revenues of $10.2 million outpacing the growth in operating expenses of $9.2 million. Total operating revenues increased primarily due to the following: a $5.0 million increase in sponsored programs revenue (including nonexchange sponsored programs) attributable to an increase in Pell Grant awards and new federal awards received in 2010; and a $4.1 million increase in net tuition and fees resulting from increased enrollment.

Expendable Resources to Debt Ratio - UT Permian Basin's expendable resources to debt ratio decreased from 0.8 in 2009 to 0.6 in 2010. The decrease in this ratio was due to a decrease in restricted expendable net assets of $3.3 million and an increase of $28.3 million in the amount of debt outstanding. The amount of net assets restricted for capital projects decreased due to $7.5 million received from the Texas Department of Transportation in 2009 for capital projects with no such comparable funding in 2010. The increase in the debt outstanding was related to the Wagner Noel Performing Arts Center, the Science and Technology Complex, and the Student Multipurpose Center.

Debt Burden Ratio - UT Permian Basin's debt burden ratio decreased from 27.4% in 2009 to 23.6% in 2010 as a result of the increase in total operating expenses discussed above.

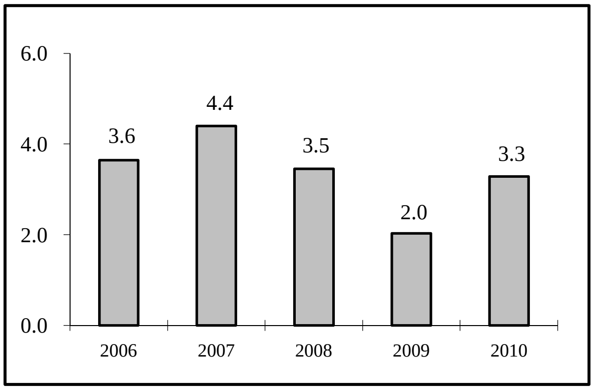
Debt Service Coverage Ratio - UT Permian Basin's debt service coverage ratio increased from 1.2 in 2009 to 1.5 in 2010. The increase in this ratio was attributable to the $1.0 million increase in the operating margin previously discussed.

Full-Time Equivalent (FTE) Student Enrollment - UT Permian Basin's FTE student enrollment increased significantly due to successful recruiting and retention efforts as evidenced by a 7.0% increase in freshmen, a 22.0% increase in transfer students, a 13.0% increase in graduate students, and a 62.0% increase in online course enrollment.

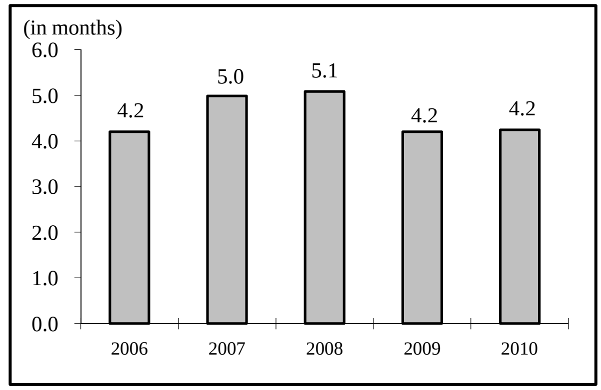
The University of Texas at San Antonio
2010 Summary of Financial Condition

Financial Condition: **Satisfactory**

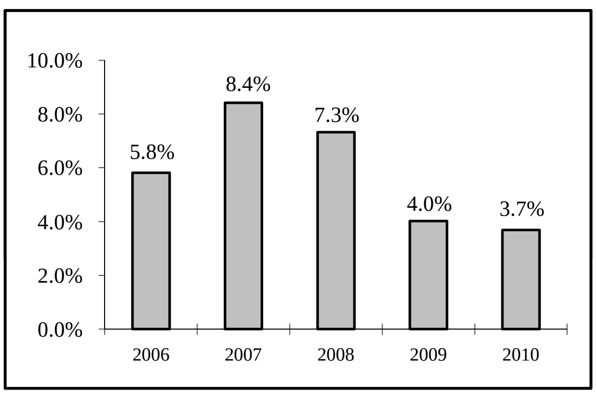
Composite Financial Index



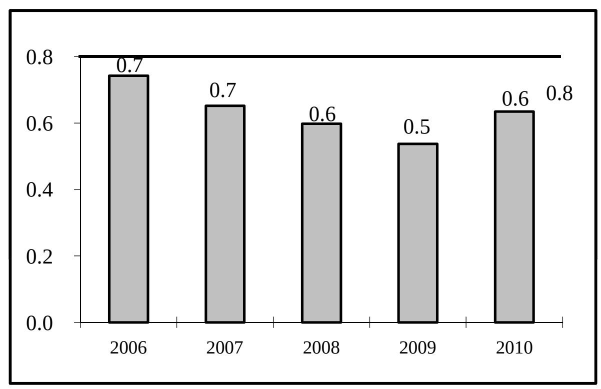
Operating Expense Coverage Ratio



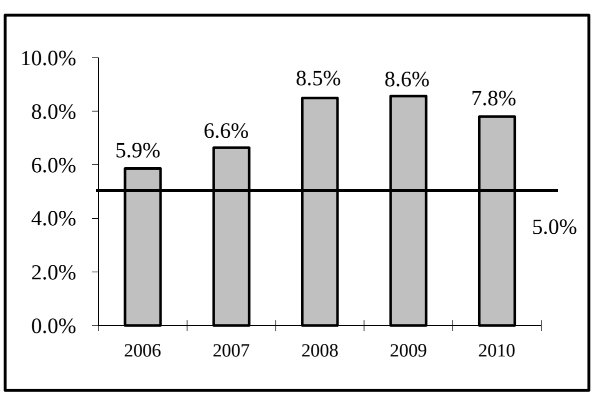
Annual Operating Margin Ratio



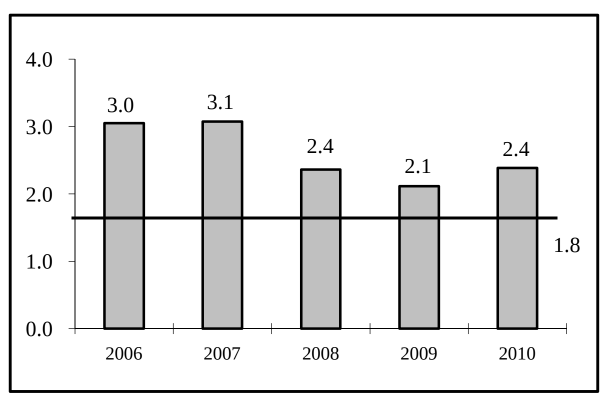
Expendable Resources to Debt Ratio



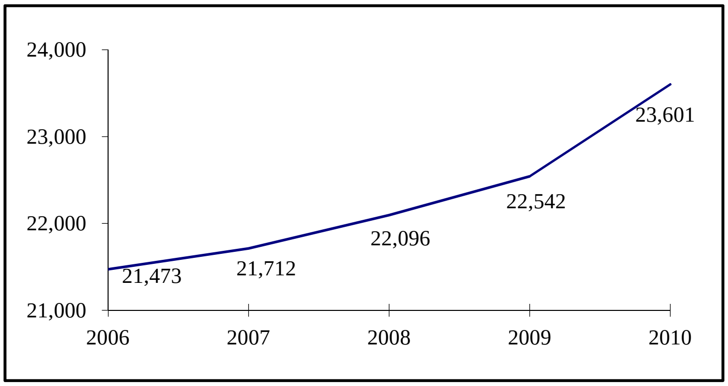
Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas at San Antonio
2010 Summary of Financial Condition
Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT San Antonio's CFI increased from 2.0 in 2009 to 3.3 in 2010 primarily due to an increase in the return on net assets ratio. The increase in the return on net assets ratio was largely driven by the net increase in the fair value of investments of $17.7 million in 2010 as compared to a net decrease in 2009 of $28.2 million, which resulted in an increase between years of $45.9 million.

Operating Expense Coverage Ratio - UT San Antonio's operating expense coverage ratio remained unchanged at 4.2 months in 2010. The stability of this ratio was attributable to increases in both total unrestricted net assets of $16.2 million and total operating expenses (including interest expense) of $42.0 million. The increase in total unrestricted net assets was primarily due to the net increase in the fair value of investments allocated to designated funds and auxiliary enterprises, which resulted in an overall increase between 2009 and 2010 of $26.9 million. The increase in total operating expenses was largely attributable to the following: a $20.2 million increase in salaries and payroll related costs as a result of merit increases, promotions and salary adjustments; a $9.7 million increase in scholarships and fellowships due to increased Pell Grant awards and Texas Grant Program awards; a $5.0 million increase in depreciation expense attributable to the recognition of the first full year of depreciation expense on the Applied Engineering & Technology Building that was placed into service in 2009, as well as depreciation expense on additions/renovations to the University Center, the Monterrey Building, Sombrilla and parking lots; a $1.5 million increase in repairs and maintenance due to expenses incurred for fire and life safety improvements, emergency generators, and classroom and building repairs; a $1.3 million increase in materials and supplies primarily due to furniture and equipment purchases for the Applied Engineering & Technology Building; and a $1.1 million increase in travel largely resulting from increased athletic team and recruitment travel, as well as increased student and foreign travel.

Annual Operating Margin Ratio - Although UT San Antonio's annual operating margin ratio decreased from 4.0% for 2009 to 3.7% for 2010, the operating margin increased slightly by $0.1 million. The relative stability in the operating margin was attributable to consistent growth in both total operating revenues of $42.1 million and total operating expenses of $42.0 million. Total operating revenues increased primarily due to the following: a $21.6 million increase in sponsored programs revenue (including nonexchange sponsored programs) attributable to an increase in Pell Grant funding, the new American Recovery and Reinvestment Act (ARRA) funding, and the Texas Research Incentive Program (TRIP) funding; a $9.0 million increase in net tuition and fees as a result of higher tuition and fee rates, as well as an increase in semester credit hours; a $5.9 million increase in State appropriations; a $2.4 million increase in auxiliary enterprises due to increased revenues from housing, meal plans and parking; a $2.3 million increase in gifts for operations; and a $1.1 million increase in investment income (excluding realized gains and losses).

Expendable Resources to Debt Ratio - UT San Antonio's expendable resources to debt ratio increased slightly from 0.5 in 2009 to 0.6 in 2010. The small increase in this ratio was attributable to increases in both total unrestricted net assets of $16.2 million, as discussed above, and restricted expendable net assets of $7.4 million due to funding for the North Paseo Building.

Debt Burden Ratio - UT San Antonio's debt burden ratio decreased from 8.6% in 2009 to 7.8% in 2010. The decrease in this ratio was due to a small decrease in debt service payments of $0.3 million and an increase in total operating expenses, as previously discussed.

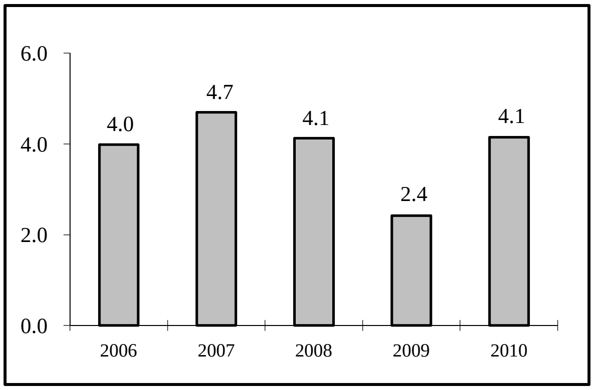
Debt Service Coverage Ratio - UT San Antonio's debt service coverage ratio increased from 2.1 in 2009 to 2.4 in 2010 as a result of the increase in operating revenues as discussed in the annual operating margin ratio, combined with the decrease in debt service payments.

Full-Time Equivalent (FTE) Student Enrollment - UT San Antonio's student headcount and the number of semester credit hours both increased from the prior fall, resulting in an increase in the number of FTE students of 4.7%.

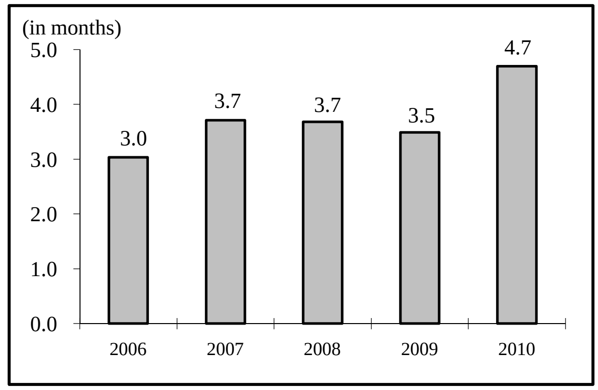
The University of Texas at Tyler
2010 Summary of Financial Condition

Financial Condition: **Satisfactory**

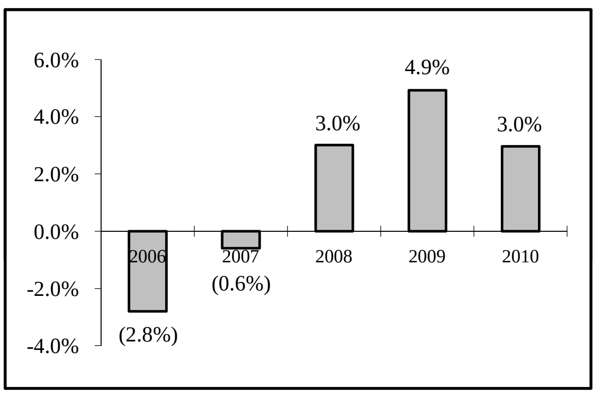
Composite Financial Index



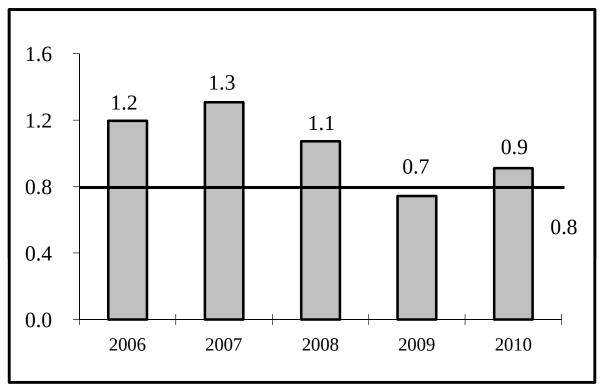
Operating Expense Coverage Ratio



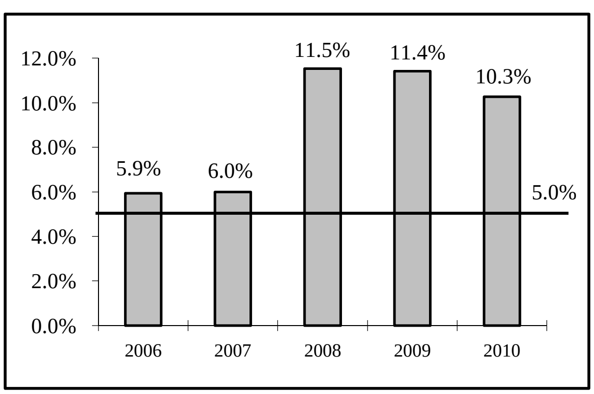
Annual Operating Margin Ratio



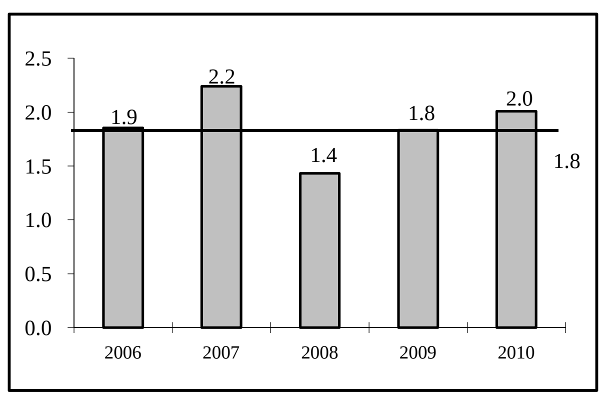
Expendable Resources to Debt Ratio



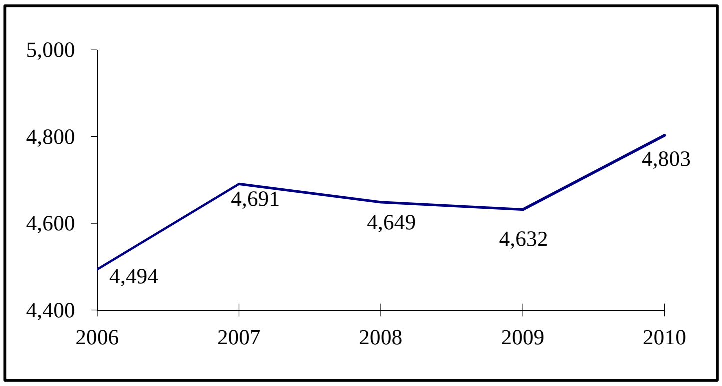
Debt Burden Ratio



Debt Service Coverage Ratio



Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT Tyler's CFI increased from 2.4 in 2009 to 4.1 in 2010 primarily due to increases in the return on net assets ratio and the primary reserve ratio. The major driving force behind the increase in the return on net assets ratio was the net increase in the fair value of investments of $6.5 million as compared to a net decrease in 2009 of $15.0 million for a total increase between years of $21.5 million. The primary reserve ratio increased due to increases in total unrestricted net assets and restricted expendable net assets which are discussed in more detail below.

Operating Expense Coverage Ratio - UT Tyler's operating expense coverage ratio increased from 3.5 months in 2009 to 4.7 months in 2010 due to a $9.4 million increase in total unrestricted net assets, which was partially offset by a $2.5 million increase in total operating expenses (including interest expense). The increase in total unrestricted net assets was primarily attributable to the net increase in the fair value of investments allocated to designated funds of $2.5 million as compared to a net decrease in 2009 of $3.4 million for a total increase between years of $5.9 million; and an increase in transfers from restricted funds of $5.2 million to educational and general funds, designated funds and auxiliary enterprises as a result of a change in the method of tuition discounting whereby scholarships, which are primarily recorded in restricted funds, pay first. Total operating expenses increased due to the following: a $1.8 million increase in salaries and payroll related costs resulting from merit increases; and a $1.4 million increase in depreciation expense attributable to the University Center renovation and expansion Project, the Art Building project and the Palestine Expansion project which were completed and placed into service in 2010.

Annual Operating Margin Ratio - UT Tyler's annual operating margin ratio decreased from 4.9% for 2009 to 3.0% for 2010 due to the growth in total operating expenses of $2.5 million outpacing the growth in total operating revenues of $0.8 million. The increase in total operating revenues was primarily a result of the following: a $4.2 million increase in sponsored programs revenue (including nonexchange sponsored programs) attributable to an increase in Pell Grant funding and the new American Recovery and Reinvestment Act (ARRA) funding received in 2010; a $0.5 million increase in auxiliary enterprise revenue due to a $0.3 million increase in housing and a $0.2 million increase in Fine and Performing Arts Center revenue; and a $0.3 million increase in investment income (excluding realized gains and losses). The increases in these revenues were largely offset by a decrease in net tuition and fees of $4.1 million resulting from a change in the calculation of tuition discounting.

Expendable Resources to Debt Ratio - UT Tyler's expendable resources to debt ratio increased from 0.7 in 2009 to 0.9 in 2010. The increase in this ratio was a result of increases in total unrestricted net assets of $9.4 million, as discussed above, and restricted expendable net assets of $9.6 million, which were partially offset by the increase in total operating expenses of $2.5 million previously discussed. The increase in restricted expendable net assets was attributable to an increase of $5.3 million in funds restricted for capital projects, as well as an increase in the appreciation on permanent endowment funds.

Debt Burden Ratio - UT Tyler's debt burden ratio decreased from 11.4% in 2009 to 10.3% in 2010 due to a decrease in debt service payments of $0.3 million and the increase in total operating expenses.

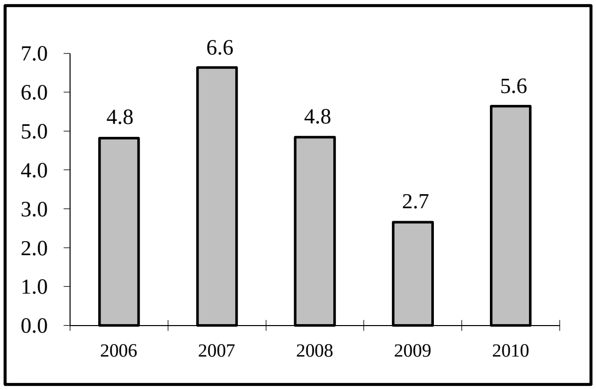
Debt Service Coverage Ratio - UT Tyler's debt service coverage ratio increased from 1.8 in 2009 to 2.0 in 2010. The increase in this ratio was attributable to the increase in depreciation expense which is excluded from total operating expenses for purposes of this calculation.

Full-Time Equivalent (FTE) Student Enrollment - UT Tyler's FTE student enrollment increased by 171 (3.7%). This increase was due to an extensive recruiting effort by Enrollment Management.

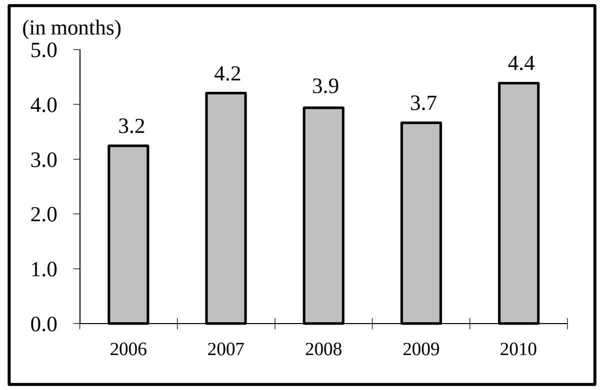
The University of Texas Southwestern Medical Center at Dallas
2010 Summary of Financial Condition

Financial Condition: **Satisfactory**

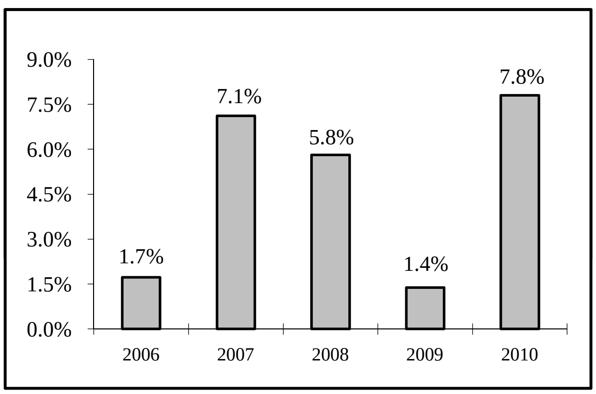
Composite Financial Index



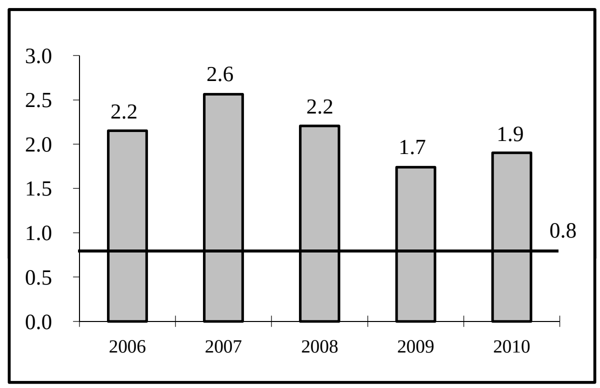
Operating Expense Coverage Ratio



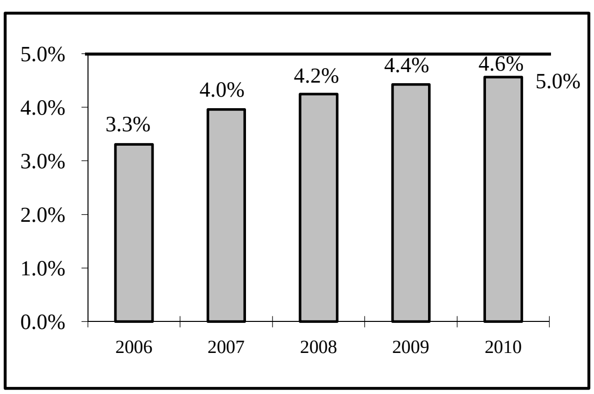
Annual Operating Margin Ratio



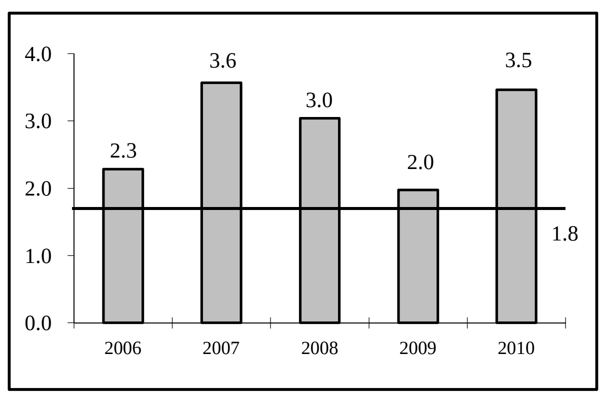
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Southwestern Medical Center at Dallas
2010 Summary of Financial Condition

Composite Financial Index (CFI) - UT Southwestern Medical Center - Dallas' (Southwestern) CFI increased substantially from 2.7 in 2009 to 5.6 in 2010 largely due to an increase in the return on net assets ratio. The major driving forces behind the increase in the return on net assets ratio were the net increase in the fair value of investments in 2010 of $101.3 million as compared to a net decrease in 2009 of $220.5 million for a total increase between years of $321.8 million, and the improvement in operating performance as discussed in further detail below.

Operating Expense Coverage Ratio - Southwestern's operating expense coverage ratio increased from 3.7 months in 2009 to 4.4 months in 2010 due to a $111.1 million increase in total unrestricted net assets, which was partially offset by a $55.9 million increase in total operating expenses (including interest expense). The increase in total unrestricted net assets was primarily attributable to the following: the net increase in the fair value of investments allocated to educational and general funds, designated funds and auxiliary enterprises of $34.4 million for a total increase between years of $84.4 million; and an improvement in operating performance as discussed in further detail in the annual operating margin ratio below. The increase in total operating expenses was largely due to the following: a $47.9 million increase in salaries and payroll related costs as a result of low employee turnover and new faculty positions to support the expanding clinical programs and research programs; a $6.2 million increase in materials and supplies attributable to increased purchases of laboratory and medical supplies; a $5.5 million increase in other operating expenses primarily due to an increase in vendor labor and material contracts, and service and maintenance contracts for computer software; a $4.7 million increase in depreciation expense due to a full year of depreciation expense for the Outpatient Building finish-out projects and the Laboratory Research and Support Building which were placed into service in 2009, as well as the Biocenter at Southwestern Medical District and renovations to the Paul M. Bass Center which were placed into service in 2010, additional medical equipment purchased in 2010, and major software development projects (EPIC) placed into service; and a $2.3 million increase in interest expense. The increases in these expenses were partially offset by decreases in various other expenses as part of Southwestern's efforts to maintain expenses close to 2009 levels.

Annual Operating Margin Ratio - Southwestern's annual operating margin ratio increased significantly from 1.4% for 2009 to 7.8% for 2010 as a result of the growth in total operating revenues of $166.5 million far exceeding the growth in total operating expenses of $55.9 million. The increase in total operating revenues was primarily due to the following: a $72.7 million increase in net sales and services of hospitals attributable to increased inpatient visits, increased outpatient revenues due to the transfer of the Simmons Cancer Center to the hospital, as well as increases in outpatient visits, outpatient surgeries and emergency room visits; a $51.6 million increase in sponsored programs revenue (including nonexchange sponsored programs) resulting from increases in federal grants, the receipt of the $25.0 million grant for the COAM Cancer Center, and the new American Recovery and Reinvestment Act (ARRA) funding received in 2010; a $23.1 million increase in net professional fees due to a reduction in discounts and allowances driven by an improved payor mix and a 22.0% increase in relative value unit (RVU) payments received from affiliated hospitals; a $7.8 million increase in State appropriations; a $4.0 million increase in net sales and services of educational activities as a result of grants received from the Texas Council on Alzheimer's and Cancer Prevention & Research; and a $3.9 million increase in investment income (excluding realized gains and losses).

Expendable Resources to Debt Ratio - Southwestern's expendable resources to debt ratio increased from 1.7 in 2009 to 1.9 in 2010. The increase in this ratio was attributable to the increases in total unrestricted net assets of $111.1 million, as discussed above, and restricted expendable net assets of $151.1 million. The increase in restricted expendable net assets was primarily due to the net increase in the fair value of investments in endowment funds of $48.3 million in 2010 as opposed to a net decrease in 2009 of $148.4 million for a total increase between years of $196.7 million; and an increase in restricted expendable funds for capital projects of $63.3 million due to the construction of North Campus Phase V.

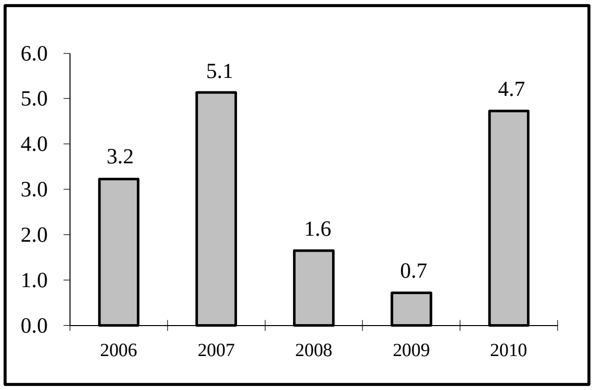
Debt Burden Ratio - Southwestern's debt burden ratio increased from 4.4% in 2009 to 4.6% in 2010 as a result of the increase in debt service payments of $4.6 million attributable to new equipment financing, the new Enterprise Resource Planning and Academic Information Systems, and the Paul M. Bass and North Campus Phase V expansions.

Debt Service Coverage Ratio - Southwestern's debt service coverage ratio increased substantially from 2.0 in 2009 to 3.5 in 2010. The increase in this ratio was a result of the improved operating performance as previously discussed in the annual operating margin ratio.

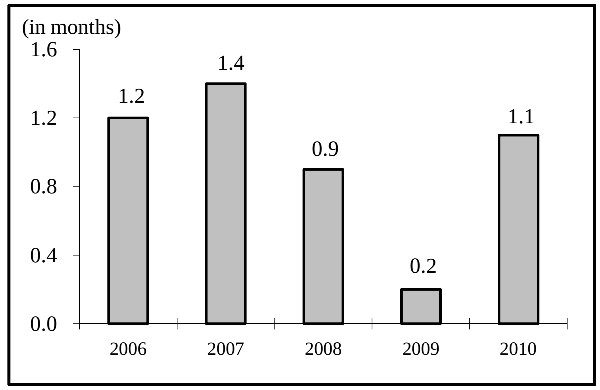
The University of Texas Medical Branch at Galveston
2010 Summary of Financial Condition

Financial Condition: **Watch**

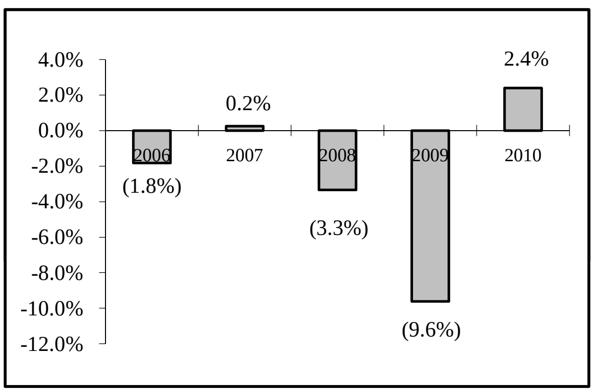
Composite Financial Index



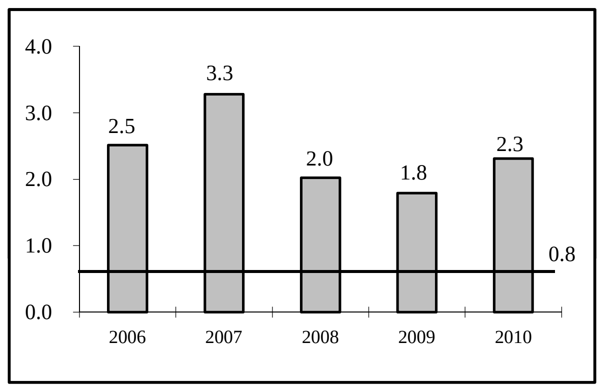
Operating Expense Coverage Ratio



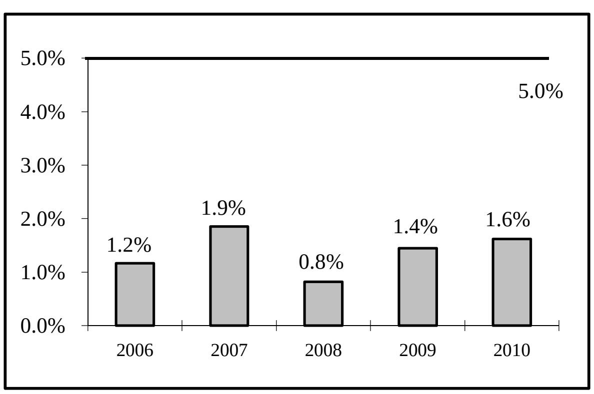
Annual Operating Margin Ratio



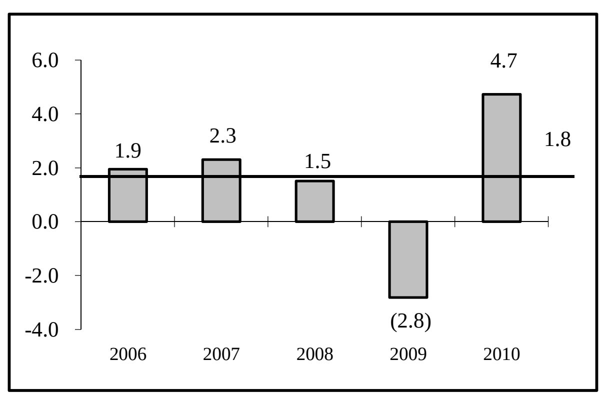
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Medical Branch at Galveston
2010 Summary of Financial Condition

Composite Financial Index (CFI) - UT Medical Branch - Galveston's (UTMB) CFI increased substantially from 0.7 in 2009 to 4.7 in 2010 primarily due to improvements in the return on net assets ratio and the annual operating margin ratio. The major contributing factors to the change in these two ratios were the increase in patient care activity in 2010 as UTMB recovered from the impact of Hurricane *Ike* and the significant reduction in operating expenses between the two years largely attributable to the $137.5 million in Hurricane *Ike* emergency clean-up and repair expenses that were incurred in 2009. Also contributing to the increase in the return on net assets ratio was a net increase in the fair value of investments of $36.3 million in 2010 as compared to a net decrease in 2009 of $98.7 million for a total increase between years of $135.0 million.

Operating Expense Coverage Ratio - UTMB's operating expense coverage ratio improved from 0.2 months in 2009 to 1.1 months in 2010 due to an increase in total unrestricted net assets of $118.4 million and a decrease in total operating expenses (including interest expense) of $66.1 million. The increase in total unrestricted net assets and decrease in total operating expenses were both primarily attributable to improved operating performance in 2010 due to the recovery from the business disruption in revenue generating activities and expenses related to Hurricane *Ike* in 2009.

Annual Operating Margin Ratio - UTMB's annual operating margin ratio changed positively from the prior year to the current year increasing from (9.6%) in 2009 to 2.4% in 2010. The favorable change in this ratio mirrors UTMB's favorable operating results in 2010 as compared to the $140.2 million loss reported in 2009. Total operating revenues increased by $93.7 million primarily due to disruption in revenue generating activities in 2009. The increase in operating revenue in 2010 was driven by increases in admissions of 43%, patient days of 65%, and clinic visits of 10%. Total operating expenses decreased in 2010 primarily as a result of less Hurricane *Ike* related expenses, cost reduction efforts, and delays in filling vacant positions which was partially offset by increased costs associated with patient volume increases.

An important factor that impacted the operating margin in 2010 was a Correctional Managed Care (CMC) loss of $11.4 million which was comprised of the following: a Texas Department of Criminal Justice (TDCJ) contract loss of $18.9 million; other CMC contracts posted gains of $4.3 million; and $3.2 million of one-time Social Service Block Grant funding to mitigate CMC losses incurred in 2009.

UTMB's management continues to monitor financial performance and take necessary steps to plan for the challenge of a $31.4 million reduction in general revenue in 2011. Cash flow continues to be closely monitored as campus rebuilding activities commenced in January 2010.

Expendable Resources to Debt Ratio - UTMB's expendable resources to debt ratio increased from 1.8 in 2009 to 2.3 in 2010. The increase in this ratio was attributable to the growth in total unrestricted net assets as previously discussed.

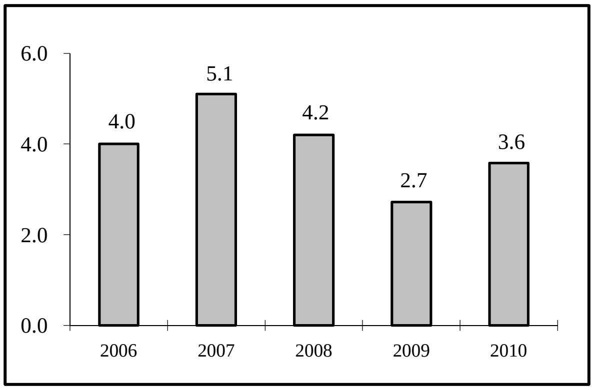
Debt Burden Ratio - While UTMB's debt burden ratio remained low, the ratio increased from 1.4% in 2009 to 1.6% in 2010 primarily due to the decrease in total operating expenses discussed above.

Debt Service Coverage Ratio - UTMB's debt service coverage ratio increased substantially from (2.8) in 2009 to 4.7 in 2010. The favorable change in this ratio was caused by the dramatic improvement in operating performance as mentioned above.

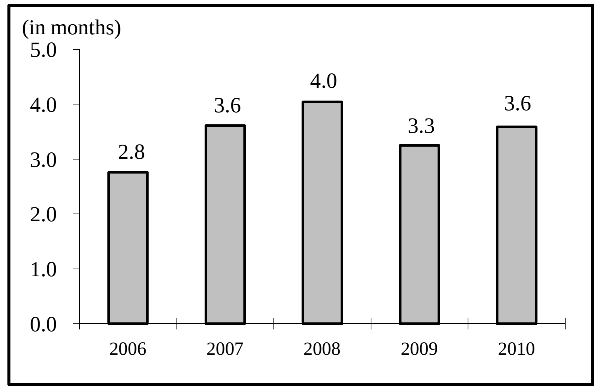
The University of Texas Health Science Center at Houston
2010 Summary of Financial Condition

Financial Condition: **Satisfactory**

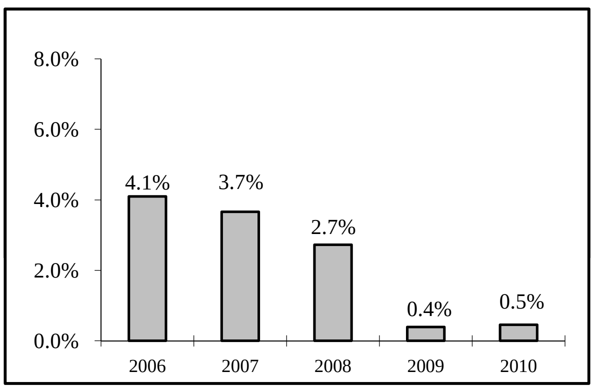
Composite Financial Index



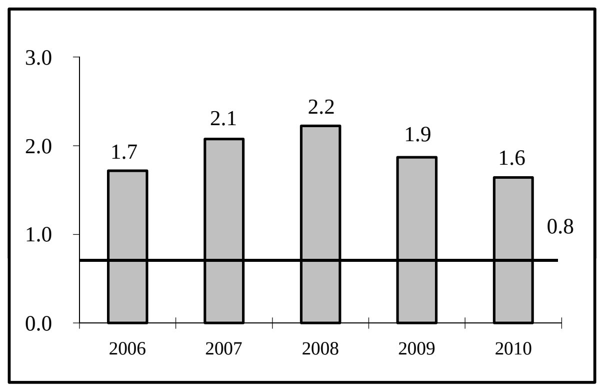
Operating Expense Coverage Ratio



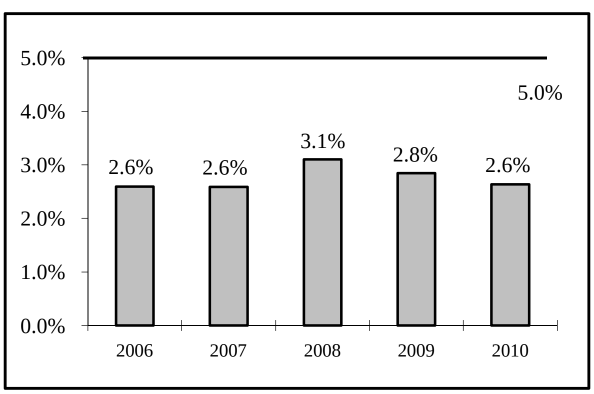
Annual Operating Margin Ratio



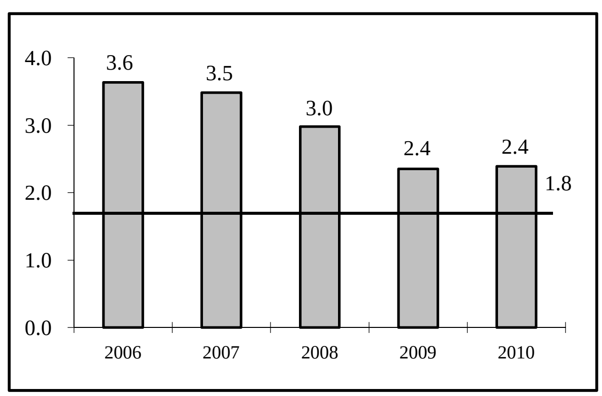
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Health Science Center at Houston
2010 Summary of Financial Condition

Composite Financial Index (CFI) - UT Health Science Center - Houston's (UTHSC-Houston) CFI increased from 2.7 in 2009 to 3.6 in 2010 primarily as a result of an increase in the return on net assets ratio. The major factors contributing to the increase in the return on net assets ratio were the net increase in the fair value of investments of $31.6 million in 2010 as compared to a net decrease of $57.9 million in 2009 for a total increase between years of $89.5 million, and increases in bond proceeds due from System and transferred from System for the UT Dental Branch replacement building.

Operating Expense Coverage Ratio - UTHSC-Houston's operating expense coverage ratio increased from 3.3 months in 2009 to 3.6 months in 2010 due to a $61.5 million increase in total unrestricted net assets, which was partially offset by the increase in total operating expenses (including interest expense) of $129.8 million. The increase in total unrestricted net assets was primarily attributable to the net increase in the fair value of investments allocated to designated funds of $21.1 million in 2010 and a $10.7 million increase in unrestricted net assets in unexpended plant funds for the South Campus expansion. The remaining increase was due to a number of smaller net asset additions/revenue enhancements such as the physician practice plan of $6.5 million, the UT System Medical Foundation of $5.4 million, investment income of $3.7 million (excluding realized gains and losses), and an increase in indirect cost recovery of $7.0 million.

Annual Operating Margin Ratio - UTHSC-Houston's annual operating margin ratio increased slightly from 0.4% for 2009 to 0.5% for 2010 due to the growth in total operating revenues of $130.9 million exceeding the growth in total operating expenses of $129.8 million. The increase in total operating revenues was largely attributable to the following: an $87.2 million increase in sponsored programs revenue (including nonexchange sponsored programs) as a result of the blending in of the UT System Medical Foundation in 2010, improved collection efforts and an increase in services provided at Memorial Hermann Hospital and Harris County Hospital District (HCHD), growth in the research and clinical enterprise, new and expanded contracts with the Department of Defense, and the new American Recovery and Reinvestment Act (ARRA) funding received in 2010; a $17.2 million increase in net sales and services of educational activities due to grants from the Texas Education Agency, Texas School Ready, Texas Early Childhood Education, Texas Higher Education Coordinating Board, and School Readiness Certification; a $15.6 million increase in net professional fees attributable to an increase in the Memorial Hermann Hospital and HCHD contracts, an increase in services provided at Memorial Hermann Hospital and HCHD, increased overall clinical productivity, and an increase in the average patient revenue collection percent; a $3.7 million increase in investment income (excluding realized gains and losses); and a $3.4 million increase in net sales and services of hospitals due to a $4.3 million increase in appropriated Mental Health and Mental Retardation (MHMR) funding the Harris County Psychiatric Center (HCPC) received in 2010 to expand bed capacity for MHMR sponsored patients.

The increase in total operating expenses was primarily a result of the following: a $105.0 million increase in salaries and payroll related costs due to the blending in of the UT System Medical Foundation, expanded Medical School clinical practice, growth in the number of faculty, salary adjustments related to productivity, growth in contract and grant activity, and increases at HCPC; an $11.1 million increase in materials and supplies as a result of the increase in research related expenses and purchase of furnishings and equipment for the South Campus expansion; a $4.2 million increase in depreciation expense due to the completion of the Behavioral and Biomedical Sciences Building and the Central Power Plant, as well as the Center for Advanced Biomedical Imaging Research leasehold improvements; and a $3.4 million increase in printing and reproduction as a result of printing materials for the Development Pediatrics Texas Education Agency state contract.

Expendable Resources to Debt Ratio - UTHSC-Houston's expendable resources to debt ratio decreased from 1.9 in 2009 to 1.6 in 2010. The reduction in this ratio was attributable to the $104.1 million increase in the amount of debt outstanding. The increase in debt was related to the UT Research Park Complex (the replacement building for the UT Dental Branch at Houston) and the Research Park Complex Parking Lot Phase I.

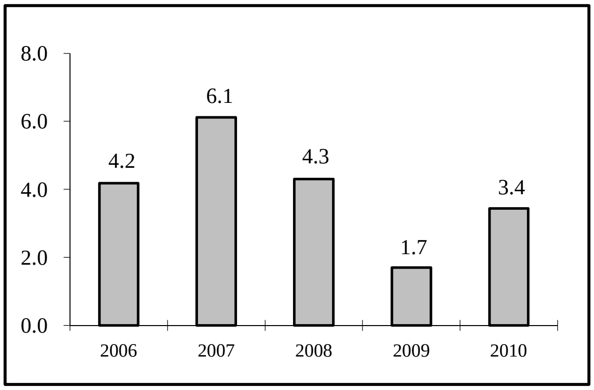
Debt Burden Ratio - UTHSC-Houston's debt burden ratio decreased from 2.8% in 2009 to 2.6% in 2010 as a result of the increase in total operating expenses previously discussed.

Debt Service Coverage Ratio - UTHSC-Houston's debt service coverage ratio remained unchanged at 2.4 in 2010. The stability of this ratio was due to the slight improvement in operating performance offset by an increase in debt service payments of $1.7 million.

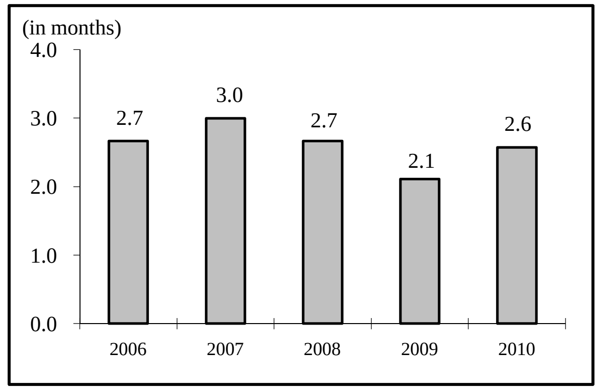
The University of Texas Health Science Center at San Antonio
2010 Summary of Financial Condition

Financial Condition: **Satisfactory**

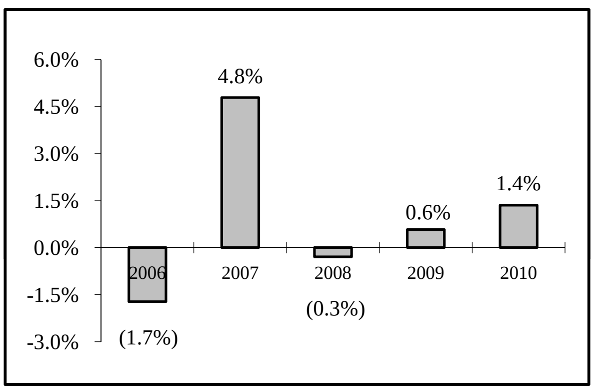
Composite Financial Index



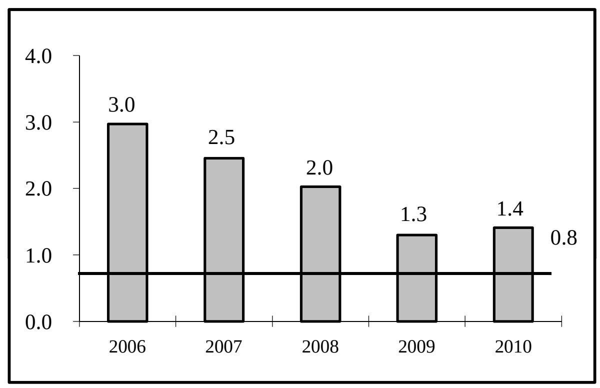
Operating Expense Coverage Ratio



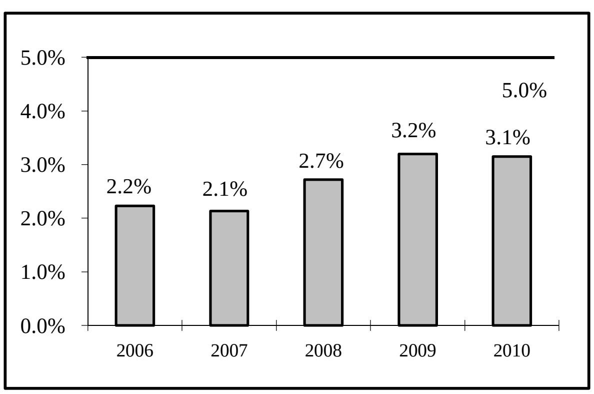
Annual Operating Margin Ratio



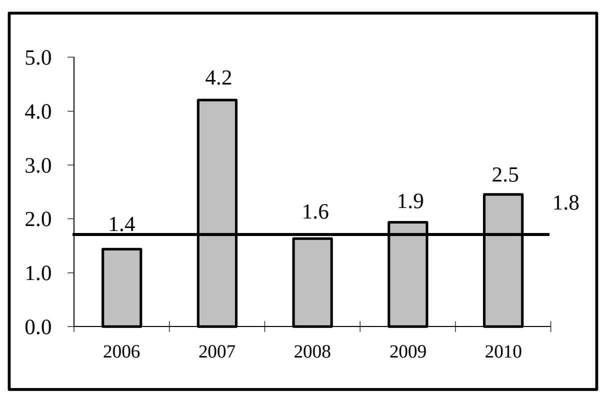
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Health Science Center at San Antonio
2010 Summary of Financial Condition

Composite Financial Index (CFI) - UT Health Science Center - San Antonio's (UTHSC-San Antonio) CFI increased from 1.7 in 2009 to 3.4 in 2010 primarily as a result of an increase in the return on net assets ratio. The major driving force behind the increase in the return on net assets ratio was the net increase in the fair value of investments in 2010 of $39.5 million as compared to a net decrease in 2009 of $93.9 million for a total increase between years of $133.4 million.

Operating Expense Coverage Ratio - UTHSC-San Antonio's operating expense coverage ratio increased from 2.1 months in 2009 to 2.6 months in 2010 due to a $30.0 million increase in total unrestricted net assets, which was partially offset by a $15.6 million increase in total operating expenses (including interest expense). The increase in total unrestricted net assets was primarily attributable to the net increase in the fair value of investments allocated to designated funds of $13.7 million for a total increase between years of $28.4 million, and an improvement in operating performance as discussed in further detail in the annual operating margin ratio below. The increase in total operating expenses was largely due to the following: a $26.5 million increase in salaries and payroll related costs resulting from merit increases, increases in incentive pay, an increase in lump sum payments for terminated employees, an increase in employer-paid costs for group insurance and other matching benefits as a result of integrating UT Medicine staff as state employees of UTHSC-San Antonio, and the expansion of clinical services attributable to the Medical Arts and Research Center (MARC) which opened in the fall of 2009; a $3.9 million increase in interest expense; a $2.1 million increase in utilities mostly due to higher utility rates and additional operating square footage with the opening of the MARC; and a $1.8 million increase in depreciation expense largely attributable to the MARC which was placed into service in 2010 and capital equipment purchases made by the MARC and the Cancer Therapy and Research Center (CTRC). The increases in these expenses were partially offset by a 5% budget reduction imposed by the State of Texas whereby departments were held to budgeted amounts and were required to reduce expenses in order to cover salary or other expense increases. Additionally, professional fees and services decreased by $5.7 million as the Southwest Oncology Group program was transferred to the University of Michigan.

Annual Operating Margin Ratio - UTHSC-San Antonio's annual operating margin ratio increased from 0.6% for 2009 to 1.4% for 2010 as a result of the growth in total operating revenues of $21.4 million outpacing the growth in total operating expenses. The increase in total operating revenues was primarily attributable to the following: an $18.0 million increase in sponsored programs revenue (including nonexchange sponsored programs) due to the new American Recovery and Reinvestment Act (ARRA) funding received in 2010 and an increase in contracts with area hospitals; and a $10.6 million increase in net professional fees resulting from increased services provided through the MARC.

UTHSC-San Antonio continues to reinvest incremental revenues from prior years towards recruitment and retention efforts of new faculty and chairs, addressing faculty compensation issues, and expanding programs and departments. Investments made in 2010 included start-up costs associated with the MARC and the recruitment of a new dean of the School of Medicine. These planned investments are anticipated to continue to increase future operations.

Expendable Resources to Debt Ratio - UTHSC-San Antonio's expendable resources to debt ratio increased slightly from 1.3 in 2009 to 1.4 in 2010. The small increase in this ratio was a result of increases in total unrestricted net assets of $30.0 million, as previously discussed, and total restricted expendable net assets of $4.5 million, which were mostly offset by an increase in the debt outstanding of $5.8 million. Total restricted expendable net assets increased primarily due to the net increase in the fair value of investments in endowment funds. The increase in the debt outstanding was related to the South Texas Research Facility.

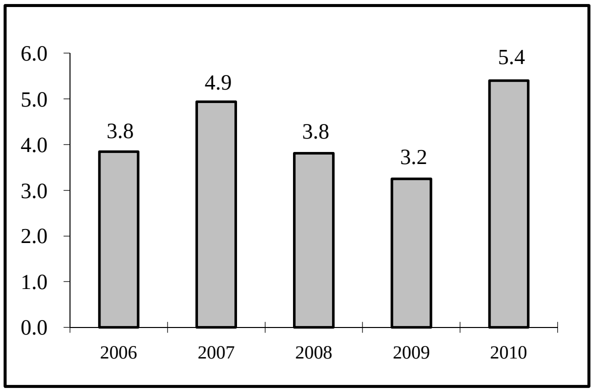
Debt Burden Ratio - UTHSC-San Antonio's debt burden ratio decreased from 3.2% to 3.1% due to debt service payments remaining relatively flat from the prior year along with the increase in operating expenses as discussed above.

Debt Service Coverage Ratio - UTHSC-San Antonio's debt service coverage ratio increased from 1.9 in 2009 to 2.5 in 2010 as a result of the improvement in operating performance as discussed in the annual operating margin ratio above.

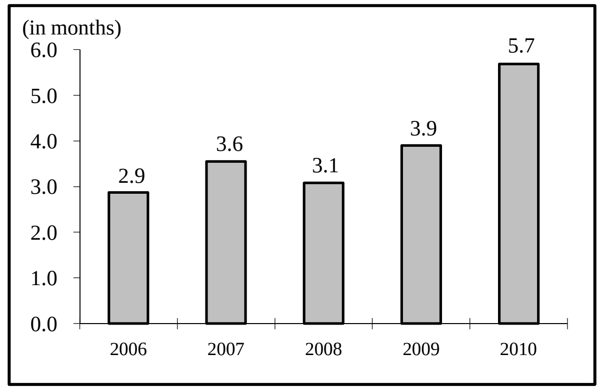
The University of Texas M. D. Anderson Cancer Center
2010 Summary of Financial Condition

Financial Condition: **Satisfactory**

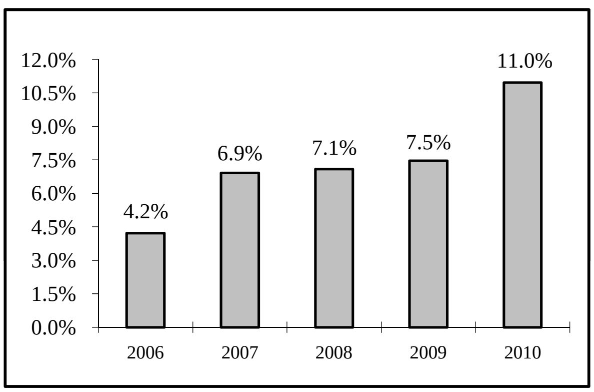
Composite Financial Index



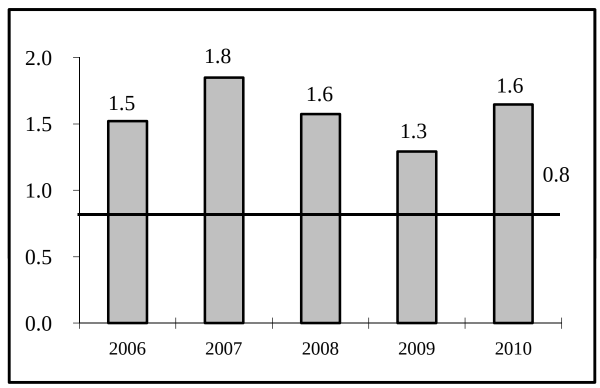
Operating Expense Coverage Ratio



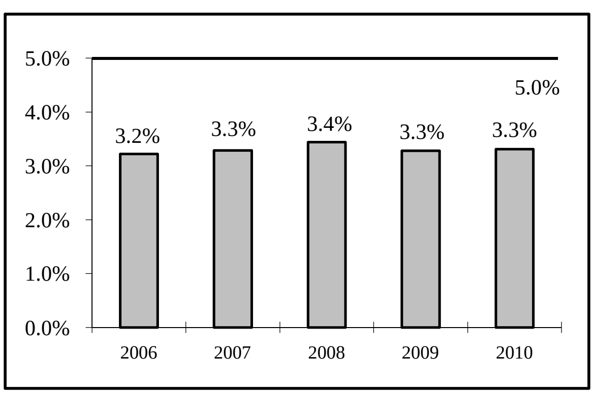
Annual Operating Margin Ratio



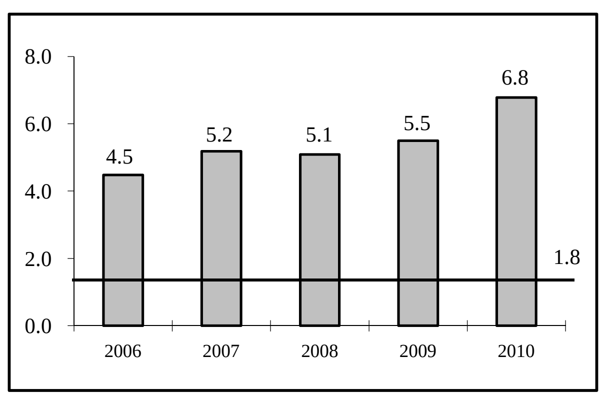
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas M. D. Anderson Cancer Center
2010 Summary of Financial Condition

Composite Financial Index (CFI) - UT M. D. Anderson Cancer Center's (M. D. Anderson) CFI increased from 3.2 in 2009 to 5.4 in 2010 primarily due to an increase in the return on net assets ratio. The major contributor to the increase in the return on net assets ratio was the net increase in the fair value of investments of $107.8 million in 2010 as compared to a net decrease of $160.2 million in 2009 for a total increase between years of $268.0 million.

Operating Expense Coverage Ratio - M. D. Anderson's operating expense coverage ratio increased from 3.9 months in 2009 to 5.7 months in 2010 due to a $449.6 million increase in total unrestricted net assets. The increase in total unrestricted net assets was primarily due to generating $350.5 million of operating margin in 2010, as discussed in further detail below, and due to transferring the remaining unrestricted funds necessary to match the T. Boone Pickens gift. In 2007 M. D. Anderson received $50.0 million from T. Boone Pickens with the stipulation that M. D. Anderson had 25 years to grow the funds to $500.0 million. In 2010, M. D. Anderson transferred the remaining funds necessary to match the gift and created a quasi-endowment.

Annual Operating Margin Ratio - M. D. Anderson's annual operating margin ratio increased from 7.5 % for 2009 to 11.0% for 2010 as the growth in total operating revenues of $208.1 million far exceeded the growth in total operating expenses (including interest expense) of $80.5 million. The significant improvement in operating performance was largely a result of the recovery from the business disruption in revenue generating activities related to Hurricane *Ike*. The increase in total operating revenues was primarily due to the following: a $104.3 million increase in net sales and services of hospitals as a result of higher patient volumes; a $42.7 million increase in gifts for operations due to large gifts received from Ross Perot, Sr., HEB, the Kleberg Foundation, and the John Arnold Foundation, as well as various miscellaneous cash gifts; a $28.2 million increase in net professional fees due to an overall increase in patient activity and volumes; a $12.7 million increase in sponsored programs revenue (including nonexchange sponsored programs) related to the growth of M. D. Anderson and a concerted effort and emphasis on research; an $8.6 million increase in State appropriations; and a $7.9 million increase in investment income (excluding realized gains and losses).

The majority of the increase in total operating expenses was due to the following: a $52.8 million increase in materials and supplies attributable to an increase in patient medications directly related to the increase in patient activity and volumes; a $15.1 million increase in interest expense; an $11.2 million increase in salaries and payroll related costs due to merit increases and salary adjustments; a $7.0 million increase in repairs and maintenance as a result of additional buildings and equipment being utilized, as well as additional computer software and hardware service maintenance contracts and the extension of existing service agreements; and a $3.8 million increase in rentals and leases due to additional leased space for new satellite clinics, as well as a rate increase for existing satellite clinics.

Expendable Resources to Debt Ratio - M. D. Anderson's expendable resources to debt ratio increased from 1.3 in 2009 to 1.6 in 2010. The increase in this ratio was primarily due to the $449.6 million growth in total unrestricted net assets previously discussed.

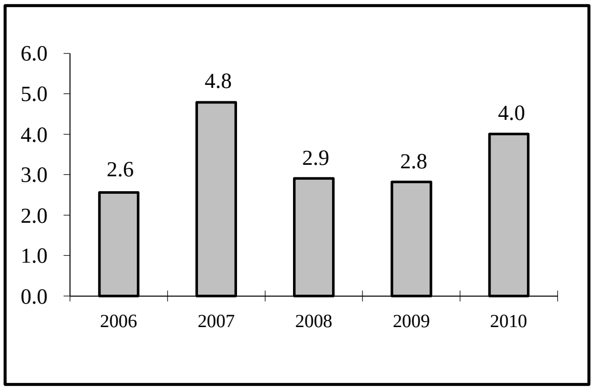
Debt Burden Ratio - M. D. Anderson's debt burden ratio remained unchanged at 3.3% in 2010. The stability of this ratio was attributable to an increase in debt service payments of $3.6 million which was offset by the increase in total operating expenses discussed above.

Debt Service Coverage Ratio - M. D. Anderson's debt service coverage ratio increased from 5.5 in 2009 to 6.8 in 2010 as a result of the improvement in operating performance discussed in the annual operating margin ratio.

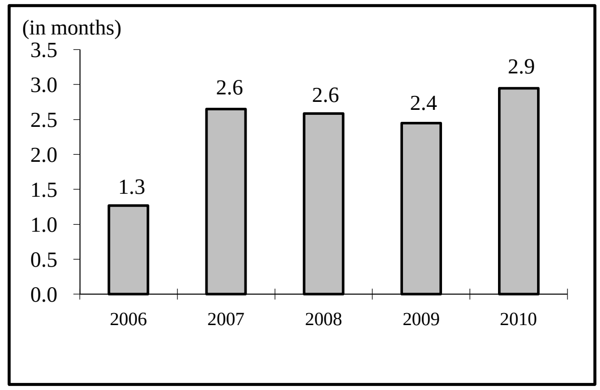
The University of Texas Health Science Center at Tyler
2010 Summary of Financial Condition

Financial Condition: **Satisfactory**

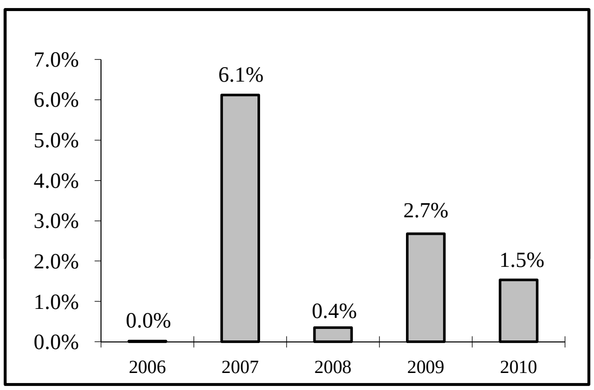
Composite Financial Index



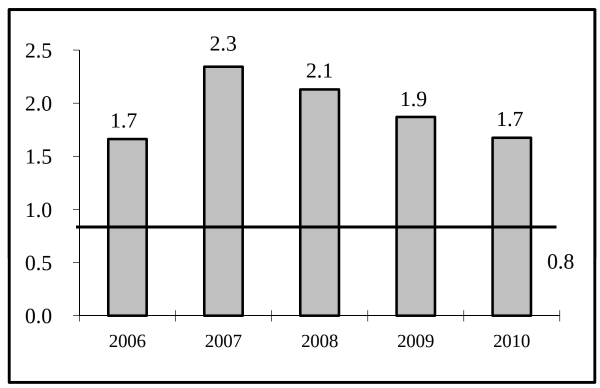
Operating Expense Coverage Ratio



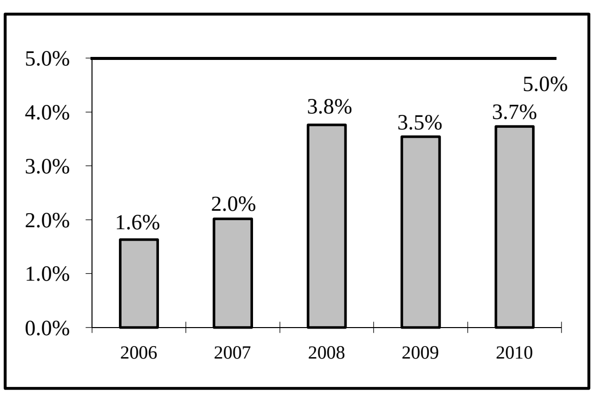
Annual Operating Margin Ratio



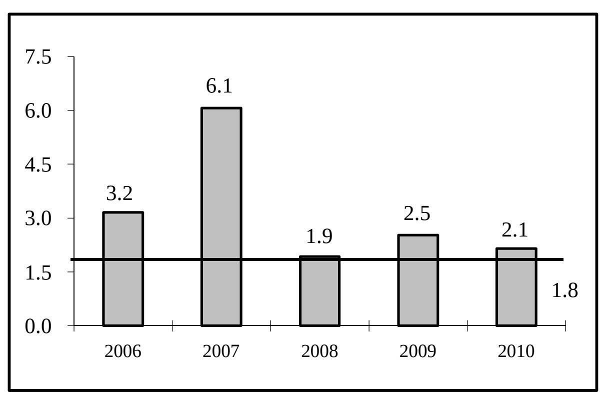
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Health Science Center at Tyler
2010 Summary of Financial Condition

Composite Financial Index (CFI) - UT Health Science Center - Tyler's (UTHSC-Tyler) CFI increased from 2.8 in 2009 to 4.0 in 2010 primarily due to an increase in the return on net assets. The largest contributor to the increase in the return on net assets ratio was the net increase in the fair value of investments of $4.1 million in 2010 as compared to a net decrease of $9.5 million in 2009 for a total increase between years of $13.7 million.

Operating Expense Coverage Ratio - UTHSC-Tyler's operating expense coverage ratio increased from 2.4 months in 2009 to 2.9 months in 2010 due to an increase in total unrestricted net assets of $4.0 million and a decrease in total operating expenses (including interest expense) of $4.8 million. The increase in total unrestricted net assets was primarily a result of the net increase in the fair value of net assets allocated to educational and general funds and designated funds of $1.5 million as compared to a net decrease of $2.1 million in 2009 for a total increase between years of $3.6 million. The decrease in total operating expenses was largely attributable to the following: a $2.0 million decrease in professional fees and services due to the loss of UTMB's Correctional Managed Care (CMC) patients in 2010, which were patients UTHSC-Tyler received in 2009 as a result of Hurricane *Ike*; a $1.6 million decrease in other operating expenses due to decreased marketing services and decreased food services contract, an increase in the professional liability insurance rebate of $0.2 million which was recorded as a negative expense, and a reduction in pathology associates costs; and a $1.5 million decrease in materials and supplies attributable to UTMB's CMC patients reverting back to UTMB in 2010.

Annual Operating Margin Ratio - UTHSC-Tyler's annual operating margin ratio decreased from 2.7% for 2009 to 1.5% for 2010 due to a greater decrease in total operating revenues ($6.4 million) as compared to the reduction in total operating expenses ($4.8 million). The decrease in total operating revenues was primarily due to a $6.0 million decrease in net sales and services of hospitals and a decrease of $1.9 million in net professional fees resulting from the loss of UTMB's CMC patients in 2010. Net professional fees were further negatively impacted by a reduction of two physicians in the cardiology staff.

Expendable Resources to Debt Ratio - UTHSC-Tyler's expendable resources to debt ratio decreased from 1.9 in 2009 to 1.7 in 2010. The decrease in this ratio was the result of an increase in the debt outstanding of $11.8 million was related to the Academic Center.

Debt Burden Ratio - UTHSC-Tyler's debt burden ratio increased from 3.5% in 2009 to 3.7% in 2010 due to the reduction in total operating expenses as previously discussed.

Debt Service Coverage Ratio -UTHSC-Tyler's debt service coverage ratio decreased from 2.5 in 2009 to 2.1 in 2010. The decrease in this ratio was attributable to the decrease in operating performance as discussed in the annual operating margin ratio.

Appendix A - Definitions of Evaluation Factors

1. **Composite Financial Index (CFI)** – The CFI measures the overall financial health of an institution by combining four core ratios into a single score. The four core ratios used to compute the CFI are as follows: primary reserve ratio, expendable resources to debt ratio, return on net assets ratio, and annual operating margin ratio.

Core Ratio Values		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	/	0.133	=	Strength Factor	x	35.0%	=	Score
Annual Operating Margin	/	1.3%	=	Strength Factor	x	10.0%	=	Score
Return on Net Assets	/	2.0%	=	Strength Factor	x	20.0%	=	Score
Expendable Resources to Debt	/	0.417	=	Strength Factor	x	35.0%	=	Score
						CFI	=	Total Score

2. **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.

$$\frac{\text{Total Unrestricted Net Assets}}{\text{Total Operating Expenses + Interest Expense on Debt}} * 12$$

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

$$\frac{\text{Op Rev +GR+Op Gifts+NonexchSP+Inv Inc+RAHC \& AUF Trans+/-TX Ent Fund+NSERB Approp+HEAF for Op Exp+/-UTMB Ike–Op \& Int Exp}}{\text{Op Rev+GR+Op Gifts+NonexchSP+Inv Inc+RAHC \& AUF Trans+/-TX Ent Fund+NSERB Approp+HEAF for Op Exp+/-UTMB Ike}}$$

4. **Expendable Resources to Debt Ratio** – This ratio measures an institution's ability to fund outstanding debt with existing net asset balances should an emergency occur. Debt capacity thresholds are provided by the Office of Finance and are based on formulas used by Moody's Investors Service. An institution's debt capacity is largely determined by its ability to meet at least two of three minimum standards for debt service coverage, debt burden, and expendable resources to debt. The minimum expendable resources to debt ratio is 0.8 times.

$$\frac{\text{Expendable Net Assets + Unrestricted Net Assets}}{\text{Debt not on Institution's Books}}$$

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. Debt capacity thresholds are provided by the Office of Finance and are based on formulas used by Moody's Investors Service. An institution's debt capacity is largely determined by its ability to meet at least two of three minimum standards for debt service coverage, debt burden, and expendable resources to debt. The maximum debt burden ratio is 5.0%.

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

Appendix A - Definitions of Evaluation Factors (Continued)

6. **Debt Service Coverage Ratio –** This ratio measures the actual margin of protection provided to investors by annual operations. Moody's excludes actual investment income from its calculation of total operating revenue and instead uses a normalized investment income. Prior to fiscal year 2009, Moody's utilized a rate of 4.5% of the prior year's ending total cash and investments to compute normalized investment income for public universities. Beginning with fiscal year 2009, Moody's changed the methodology and now applies 5% of the average of the previous three years' market value of cash and investments. 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. Debt capacity thresholds are provided by the Office of Finance and are based on formulas used by Moody's Investors Service. An institution's debt capacity is largely determined by its ability to meet at least two of three minimum standards for debt service coverage, debt burden, and expendable resources to debt. The minimum debt service coverage ratio is 1.8 times.

$$\frac{\text{Op Rev+GR+Op Gifts+ NonexchSP+Norm Inv Inc+RAHC\&AUF Trans+/-TX Ent Fund+NSERB Approp+HEAF for Op Exp+/-UTMB Ike–Op Exp+Depr}}{\text{Debt Service Transfers}}$$

7. **Primary Reserve Ratio** - This ratio measures the financial strength of an institution by comparing expendable net assets to total expenses. This ratio provides a snapshot of financial strength and flexibility by indicating how long the institution could function using its expendable reserves without relying on additional net assets generated by operations.

$$\frac{\text{Expendable Net Assets + Unrestricted Net Assets}}{\text{Total Operating Expenses + Interest Expense on Debt}}$$

8. **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.

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

9. **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 CFI remains relatively stable within the trend period. However, the CFI can fluctuate depending upon the underlying factors contributing to the fluctuation with respect to the overall mission of an institution. The CFI must be analyzed in conjunction with the trends in the other ratios analyzed. 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 Office of Finance uses the expendable resources to debt ratio, 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 additional debt capacity or has assumed more debt than it can afford to service. In general, an institution's expendable resources to debt and debt service coverage ratios should exceed the Office of Finance's standards of 0.8 times and 1.8 times, respectively, while the debt burden ratio should fall below the Office of Finance's standard of 5.0%. 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 the overall financial health of an institution.

Watch – an institution assigned this assessment exhibits a history of relatively unstable or declining financial ratios. The CFI is less stable and/or the fluctuations are not expected given the mission of an institution. 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. Trends in the expendable resources to debt ratio, debt burden ratio and debt service coverage ratio can help determine if an institution has additional debt capacity or 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 the overall financial health of an institution.

Unsatisfactory – an institution assigned this assessment exhibits a history of relatively unstable financial ratios. The CFI is very volatile and does not support the mission of an institution. 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. Trends in the expendable resources to debt ratio, debt burden ratio and debt service coverage ratio can help determine if an institution has additional debt capacity or 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 the overall financial health of an institution. 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 UT System Offices of Business, Academic and/or Health Affairs, as appropriate.

Appendix B - Calculation of Composite Financial Index
Academic Institutions
As of August 31, 2010

UT Arlington

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.53	/	0.133	=	4.02	x	35.0%	=	1.41
Annual Operating Margin	5.89%	/	1.3%	=	4.53	x	10.0%	=	0.45
Return on Net Assets	13.47%	/	2.0%	=	6.74	x	20.0%	=	1.35
Expendable Resources to Debt	0.89	/	0.417	=	2.15	x	35.0%	=	0.75
							CFI		4.0

UT Austin

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	1.06	/	0.133	=	7.99	x	35.0%	=	2.80
Annual Operating Margin	7.01%	/	1.3%	=	5.39	x	10.0%	=	0.54
Return on Net Assets	14.24%	/	2.0%	=	7.12	x	20.0%	=	1.42
Expendable Resources to Debt	1.98	/	0.417	=	4.74	x	35.0%	=	1.66
							CFI		6.4

UT Brownsville

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.31	/	0.133	=	2.34	x	35.0%	=	0.82
Annual Operating Margin	3.28%	/	1.3%	=	2.52	x	10.0%	=	0.25
Return on Net Assets	14.85%	/	2.0%	=	7.43	x	20.0%	=	1.49
Expendable Resources to Debt	1.01	/	0.417	=	2.42	x	35.0%	=	0.85
							CFI		3.4

UT Dallas

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.74	/	0.133	=	5.59	x	35.0%	=	1.96
Annual Operating Margin	3.33%	/	1.3%	=	2.56	x	10.0%	=	0.26
Return on Net Assets	13.87%	/	2.0%	=	6.93	x	20.0%	=	1.39
Expendable Resources to Debt	1.00	/	0.417	=	2.41	x	35.0%	=	0.84
							CFI		4.4

UT El Paso

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.71	/	0.133	=	5.34	x	35.0%	=	1.87
Annual Operating Margin	5.77%	/	1.3%	=	4.44	x	10.0%	=	0.44
Return on Net Assets	18.24%	/	2.0%	=	9.12	x	20.0%	=	1.82
Expendable Resources to Debt	1.22	/	0.417	=	2.94	x	35.0%	=	1.03
							CFI		5.2

Appendix B - Calculation of Composite Financial Index
Academic Institutions
As of August 31, 2010
(continued)

UT Pan American

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.39	/	0.133	=	2.95	x	35.0%	=	1.03
Annual Operating Margin	3.41%	/	1.3%	=	2.63	x	10.0%	=	0.26
Return on Net Assets	11.37%	/	2.0%	=	5.69	x	20.0%	=	1.14
Expendable Resources to Debt	1.19	/	0.417	=	2.86	x	35.0%	=	1.00
							CFI		3.4

UT Permian Basin

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	1.26	/	0.133	=	9.49	x	35.0%	=	3.32
Annual Operating Margin	15.76%	/	1.3%	=	12.13	x	10.0%	=	1.21
Return on Net Assets	25.75%	/	2.0%	=	12.88	x	20.0%	=	2.58
Expendable Resources to Debt	0.62	/	0.417	=	1.48	x	35.0%	=	0.52
							CFI		7.6

UT San Antonio

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.50	/	0.133	=	3.75	x	35.0%	=	1.31
Annual Operating Margin	3.69%	/	1.3%	=	2.84	x	10.0%	=	0.28
Return on Net Assets	11.53%	/	2.0%	=	5.77	x	20.0%	=	1.15
Expendable Resources to Debt	0.63	/	0.417	=	1.52	x	35.0%	=	0.53
							CFI		3.3

UT Tyler

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.88	/	0.133	=	6.62	x	35.0%	=	2.32
Annual Operating Margin	2.97%	/	1.3%	=	2.28	x	10.0%	=	0.23
Return on Net Assets	8.35%	/	2.0%	=	4.18	x	20.0%	=	0.84
Expendable Resources to Debt	0.91	/	0.417	=	2.18	x	35.0%	=	0.76
							CFI		4.1

Appendix B - Calculation of Composite Financial Index
Health Institutions
As of August 31, 2010

Southwestern

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.83	/	0.133	=	6.23	x	35.0%	=	2.18
Annual Operating Margin	7.80%	/	1.3%	=	6.00	x	10.0%	=	0.60
Return on Net Assets	12.58%	/	2.0%	=	6.29	x	20.0%	=	1.26
Expendable Resources to Debt	1.90	/	0.417	=	4.56	x	35.0%	=	1.60
							CFI		5.6

UTMB

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.32	/	0.133	=	2.42	x	35.0%	=	0.85
Annual Operating Margin	2.38%	/	1.3%	=	1.83	x	10.0%	=	0.18
Return on Net Assets	17.62%	/	2.0%	=	8.81	x	20.0%	=	1.76
Expendable Resources to Debt	2.31	/	0.417	=	5.54	x	35.0%	=	1.94
							CFI		4.7

UTHSC-Houston

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.54	/	0.133	=	4.07	x	35.0%	=	1.43
Annual Operating Margin	0.45%	/	1.3%	=	0.35	x	10.0%	=	0.03
Return on Net Assets	7.39%	/	2.0%	=	3.69	x	20.0%	=	0.74
Expendable Resources to Debt	1.64	/	0.417	=	3.93	x	35.0%	=	1.38
							CFI		3.6

UTHSC-San Antonio

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.47	/	0.133	=	3.56	x	35.0%	=	1.25
Annual Operating Margin	1.36%	/	1.3%	=	1.04	x	10.0%	=	0.10
Return on Net Assets	9.07%	/	2.0%	=	4.54	x	20.0%	=	0.91
Expendable Resources to Debt	1.41	/	0.417	=	3.39	x	35.0%	=	1.18
							CFI		3.4

M. D. Anderson

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.60	/	0.133	=	4.51	x	35.0%	=	1.58
Annual Operating Margin	10.96%	/	1.3%	=	8.43	x	10.0%	=	0.84
Return on Net Assets	16.00%	/	2.0%	=	8.00	x	20.0%	=	1.60
Expendable Resources to Debt	1.65	/	0.417	=	3.95	x	35.0%	=	1.38
							CFI		5.4

UTHSC-Tyler

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.49	/	0.133	=	3.69	x	35.0%	=	1.29
Annual Operating Margin	1.54%	/	1.3%	=	1.18	x	10.0%	=	0.12
Return on Net Assets	11.87%	/	2.0%	=	5.93	x	20.0%	=	1.19
Expendable Resources to Debt	1.67	/	0.417	=	4.01	x	35.0%	=	1.40
							CFI		4.0

Appendix C - Calculation of Expendable Net Assets
Academic Institutions
As of August 31, 2010
(In Millions)

Institution	Restricted Expendable Net Assets				Total Unrestricted Net Assets	Total Expendable Net Assets
	Capital Projects	Funds Functioning Restricted	Other Expendable	Total		
UT Arlington	$ 14.8	2.1	41.3	58.3	165.3	223.5
UT Austin	122.1	126.9	1,361.1	1,610.1	624.3	2,234.4
UT Brownsville	18.2	-	5.5	23.7	30.2	53.9
UT Dallas	30.7	5.3	126.9	162.9	96.4	259.4
UT El Paso	79.9	14.6	87.6	182.1	60.1	242.2
UT Pan American	0.1	1.2	19.7	21.0	77.9	98.9
UT Permian Basin	46.4	0.1	12.5	59.0	11.7	70.7
UT San Antonio	25.2	0.7	38.5	64.4	156.7	221.1
UT Tyler	10.5	0.3	31.7	42.5	34.0	76.4

Appendix C - Calculation of Expendable Net Assets
Health Institutions
As of August 31, 2010
(In Millions)

Institution	Restricted Expendable Net Assets				Total	Total
	Capital Projects	Funds Functioning Restricted	Other Expendable	Total	Unrestricted Net Assets	Expendable Net Assets
Southwestern	$ 79.8	23.1	616.6	719.6	568.7	1,288.2
UTMB	164.8	20.5	160.5	345.8	146.5	492.3
UTHSC-Houston	79.1	10.4	136.3	225.8	278.3	504.1
UTHSC-San Antonio	18.1	7.3	158.8	184.3	152.1	336.4
M. D. Anderson	(43.7)	24.4	380.1	360.8	1,347.9	1,708.7
UTHSC-Tyler	15.6	0.7	13.0	29.3	29.3	58.5

Appendix D - Calculation of Annual Operating Margin
Academic Institutions
As of August 31, 2010
(In Millions)

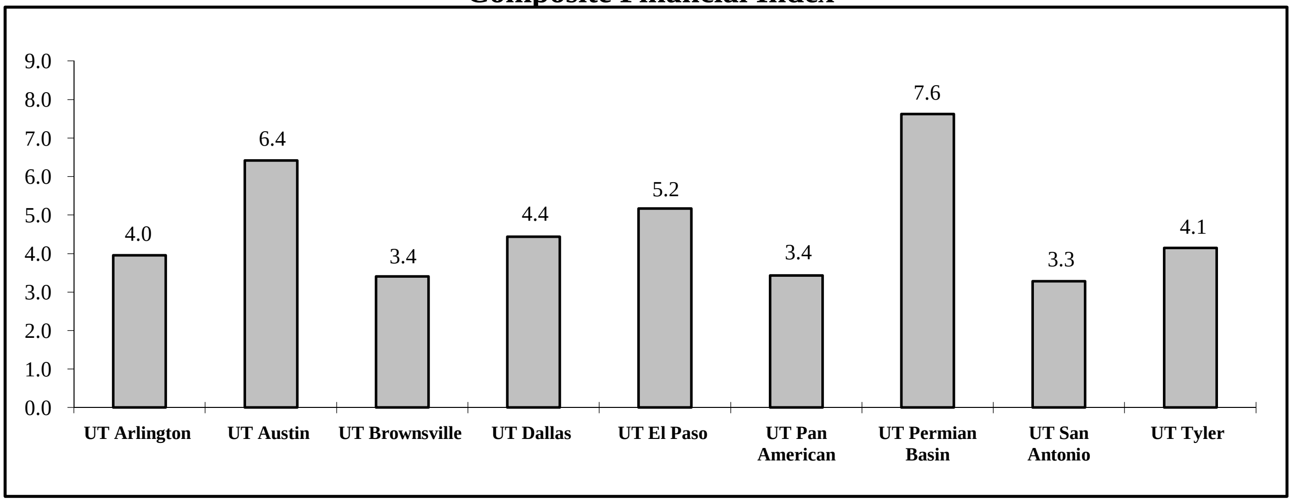
Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items: Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments: Minus: Realized Gains/ (Losses)	Plus: AUF Transfer	Plus: NSERB	Plus: Texas Enterprise Fund	Plus: HEAF for Op. Exp.	Plus: Interest Expense	Annual Operating Margin
UT Arlington	$ 38.0	-	(0.3)	0.2	3.9	34.2	-	-	-	-	-	(8.0)	26.2
UT Austin	165.6	10.4	(0.5)	(7.1)	212.2	(49.3)	(0.4)	246.8	-	-	-	(39.4)	158.4
UT Brownsville	6.6	-	-	(0.1)	2.1	4.6	-	-	-	-	2.9	(1.6)	5.9
UT Dallas	33.5	0.1	-	(0.7)	20.6	13.5	1.8	-	6.5	2.4	-	(8.6)	12.0
UT El Paso	41.0	-	-	0.1	14.8	26.1	(0.1)	-	-	-	-	(5.4)	20.9
UT Pan American	15.4	0.1	(0.2)	(0.1)	5.4	10.2	-	-	-	-	2.8	(4.0)	8.9
UT Permian Basin	14.9	-	-	-	2.6	12.3	-	-	-	-	-	(1.8)	10.5
UT San Antonio	49.7	-	(0.1)	(0.2)	17.7	32.3	-	-	-	-	-	(15.4)	17.0
UT Tyler	12.1	-	(0.1)	-	6.5	5.8	-	-	-	-	-	(3.2)	2.7

Appendix D - Calculation of Annual Operating Margin
Health Institutions
As of August 31, 2010
(In Millions)

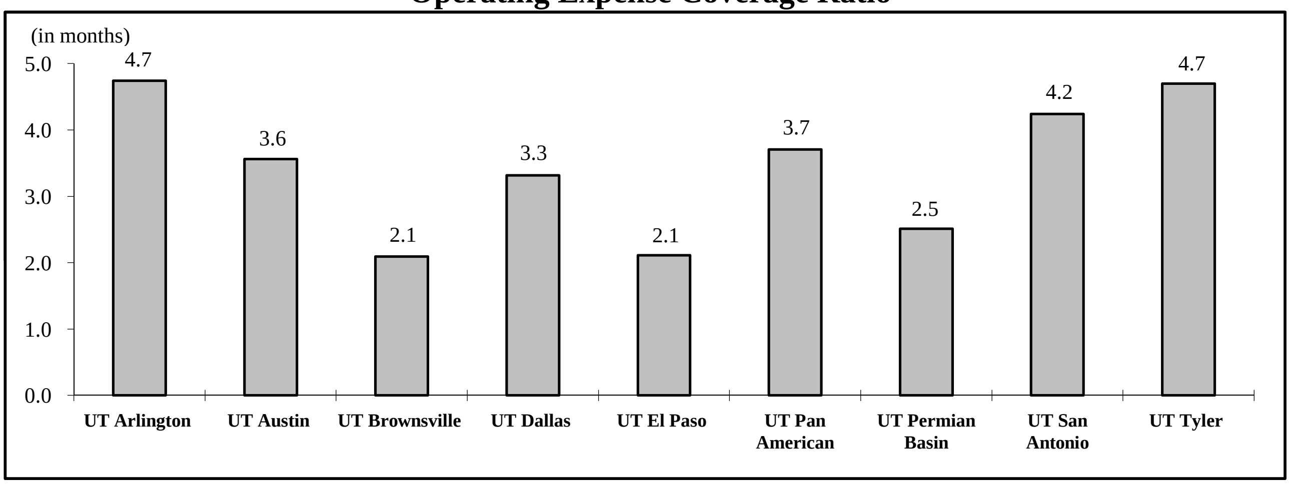
Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items: Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments: Minus: Realized Gains/ (Losses)	Plus: Exclude NETnet Depr. Exp.	Plus: RAHC Transfer	Minus: Ike Funding*	Plus: Interest Expense	Annual Operating Margin
Southwestern	$ 252.2	0.6	(0.7)	(2.7)	101.3	153.8	(0.3)	-	-	-	(22.5)	131.6
UTMB	129.8	2.5	-	(1.0)	36.3	91.9	0.3	-	-	(47.0)	(7.3)	37.4
UTHSC-Houston	44.1	(0.5)	-	(0.3)	31.6	13.3	0.4	-	0.6	-	(9.2)	4.2
UTHSC-San Antonio	56.9	-	-	(0.5)	39.5	17.9	(0.1)	-	0.6	-	(8.8)	9.8
M. D. Anderson	488.2	0.1	-	(0.1)	107.8	380.3	(0.1)	-	-	-	(29.9)	350.5
UTHSC-Tyler	6.3	-	-	-	4.1	2.2	-	0.4	-	-	(0.7)	1.9

*UTMB was appropriated $150 million in FEMA State Matching funds that was recognized in general revenue in 2009 and was excluded from the Annual Operating Margin calculation in 2009. In 2010, UTMB spent $4.1 million of the FEMA State Matching funds of which $1.5 million was operating in nature; therefore, UTMB's Annual Operating Margin for 2010 was adjusted to include the $1.5 million. UTMB also received $97 million of additional general revenue in 2010 for recovery from Hurricane *Ike*. To more appropriately match revenues with expenses, this additional appropriation will be spread evenly in 2010 and 2011. Thus, $48.5 million was excluded from the Annual Operating Margin for 2010.

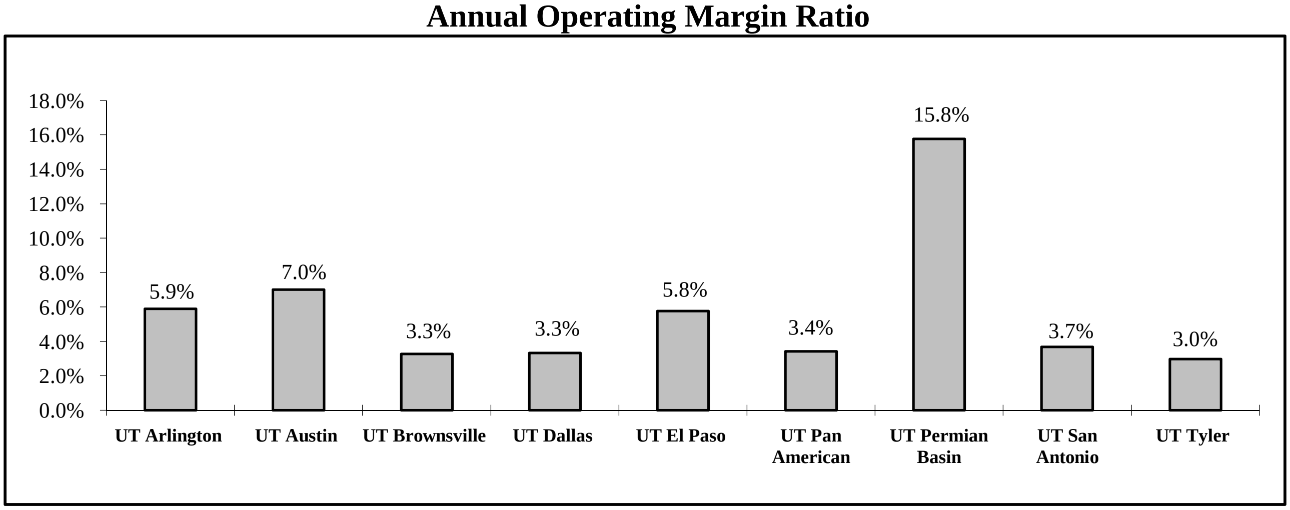
Composite Financial Index



Operating Expense Coverage Ratio

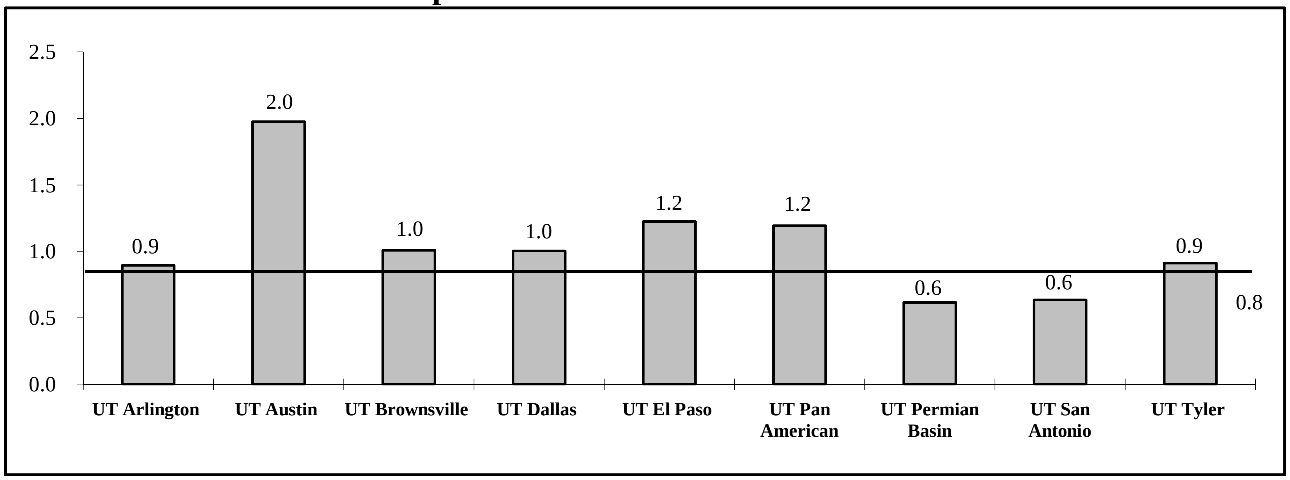


Annual Operating Margin Ratio

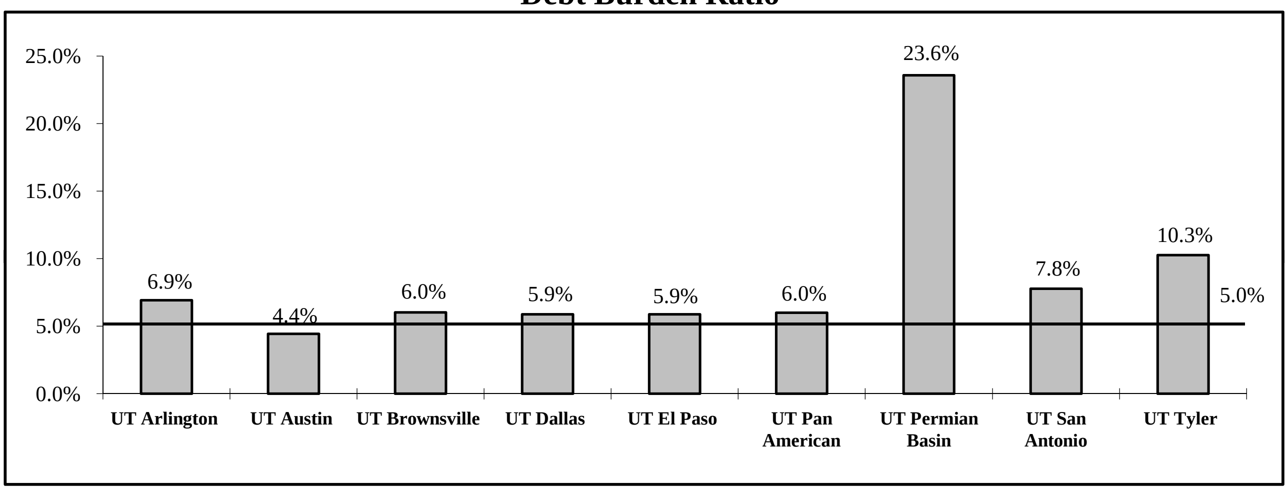


Appendix E - Academic Institutions' Evaluation Factors
2010 Analysis of Financial Condition

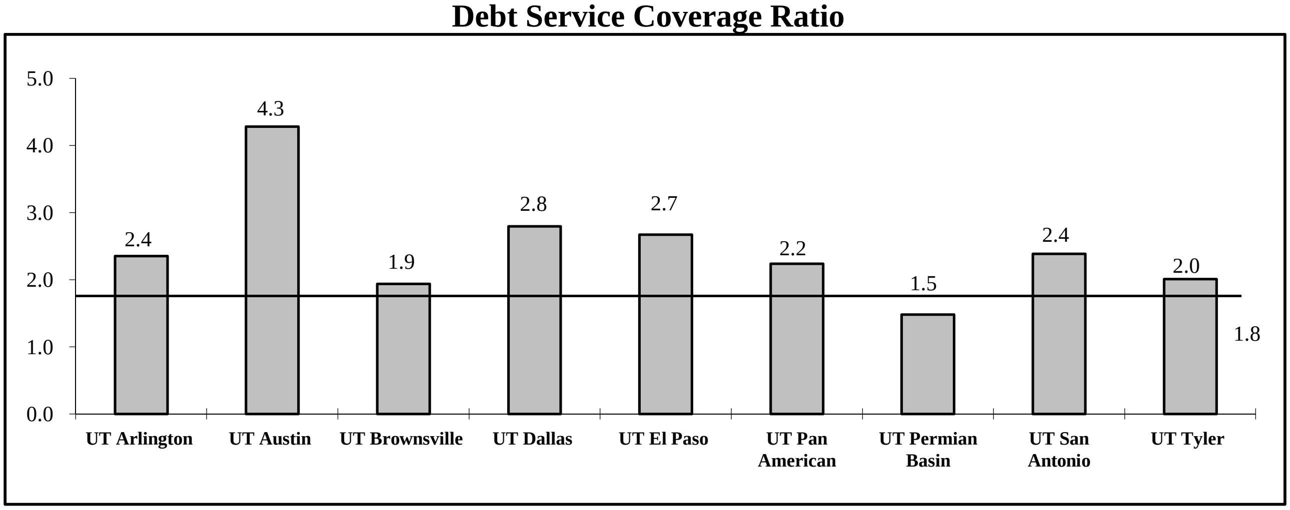
Expendable Resources to Debt Ratio



Debt Burden Ratio

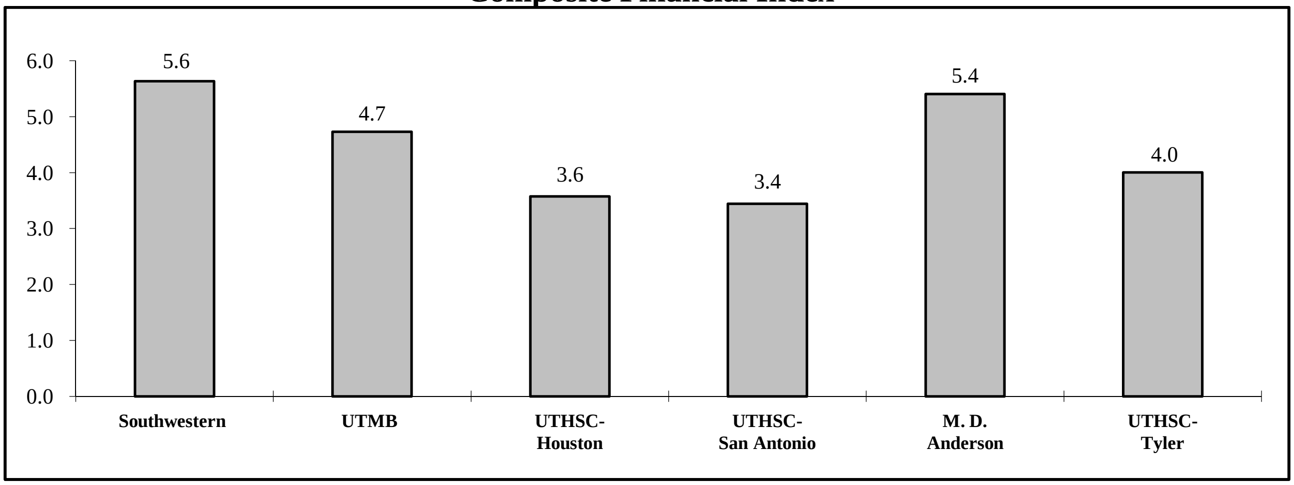


Debt Service Coverage Ratio

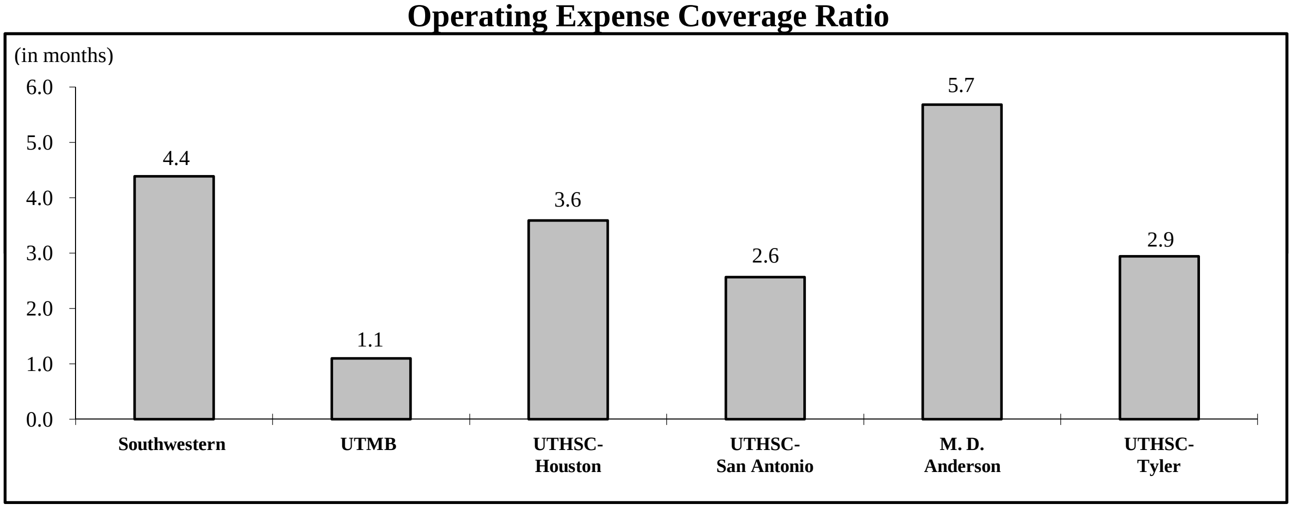


Appendix E - Health Institutions' Evaluation Factors
2010 Analysis of Financial Condition

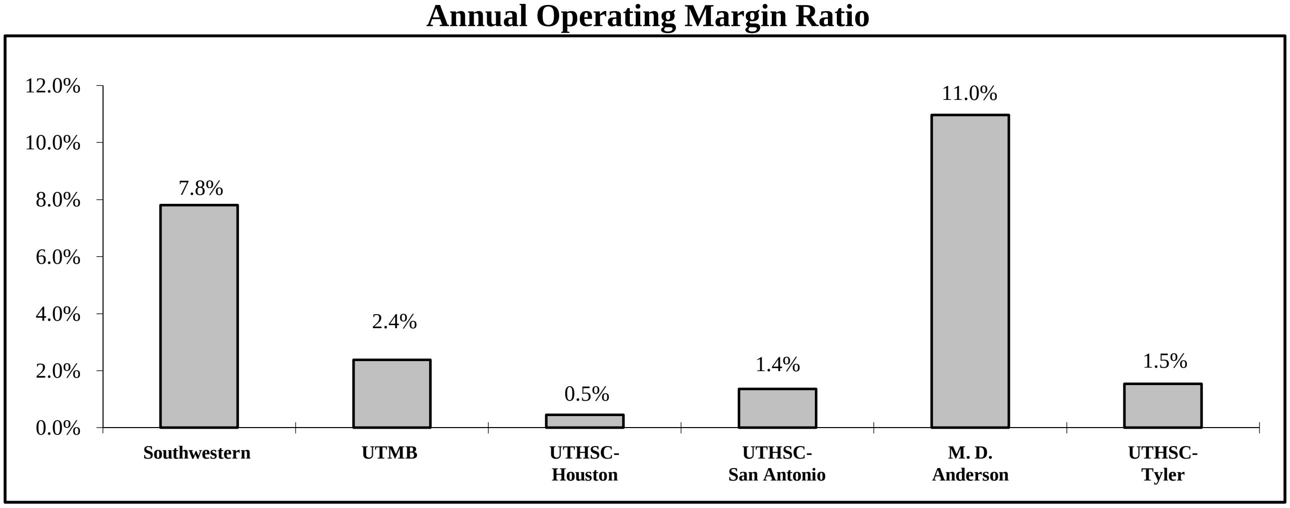
Composite Financial Index



Operating Expense Coverage Ratio

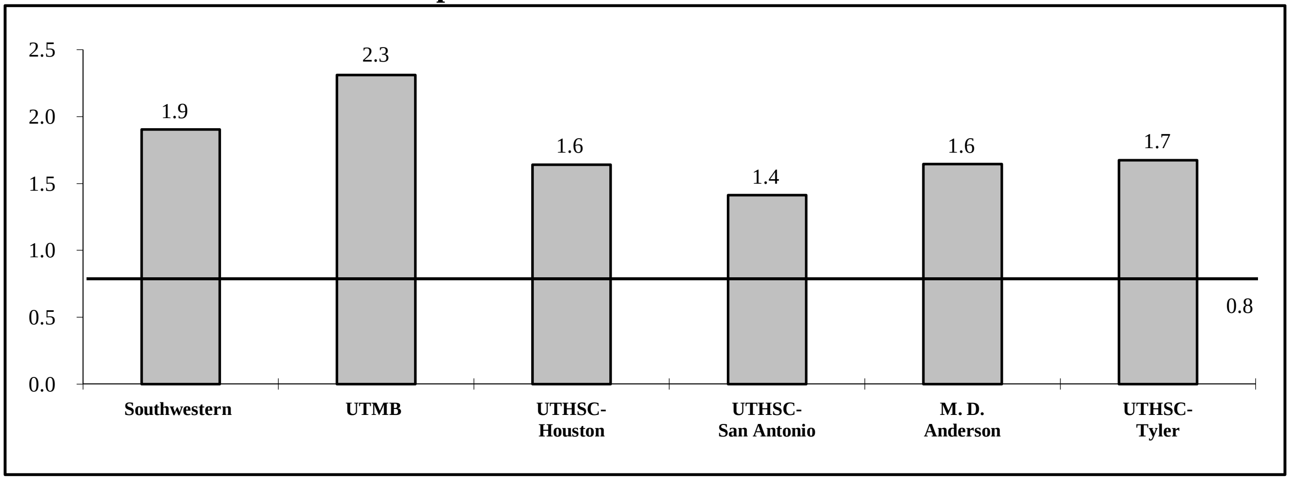


Annual Operating Margin Ratio

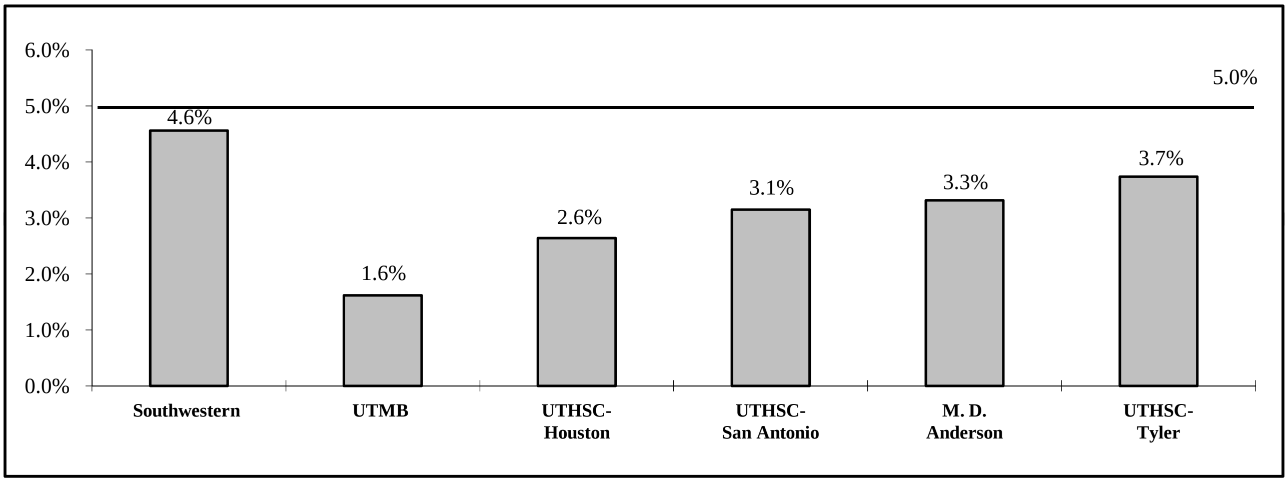


Appendix E - Health Institutions' Evaluation Factors
2010 Analysis of Financial Condition

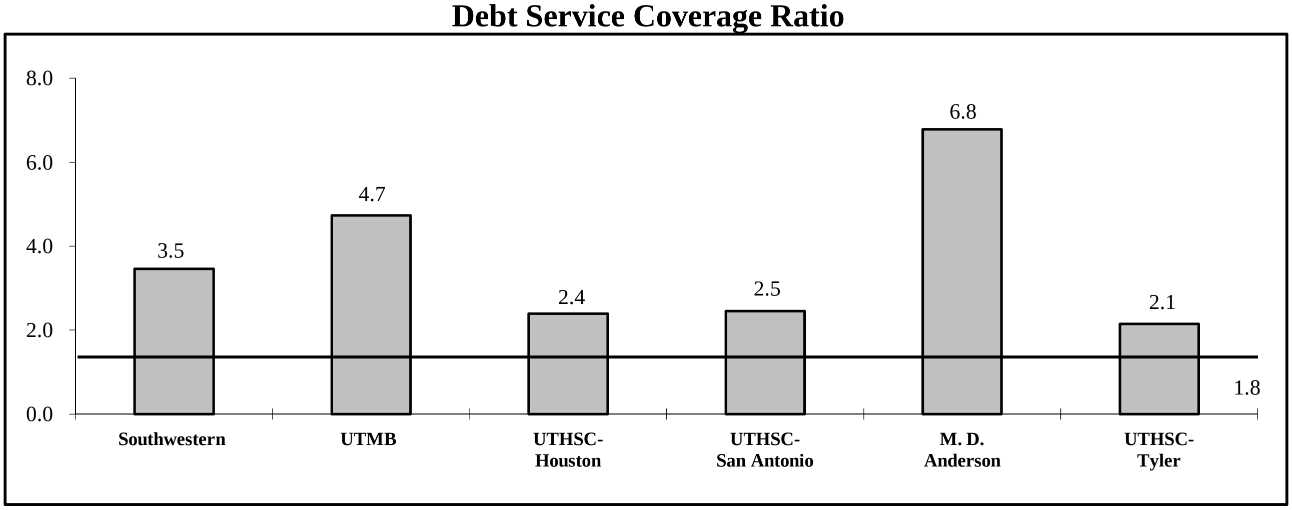
Expendable Resources to Debt Ratio



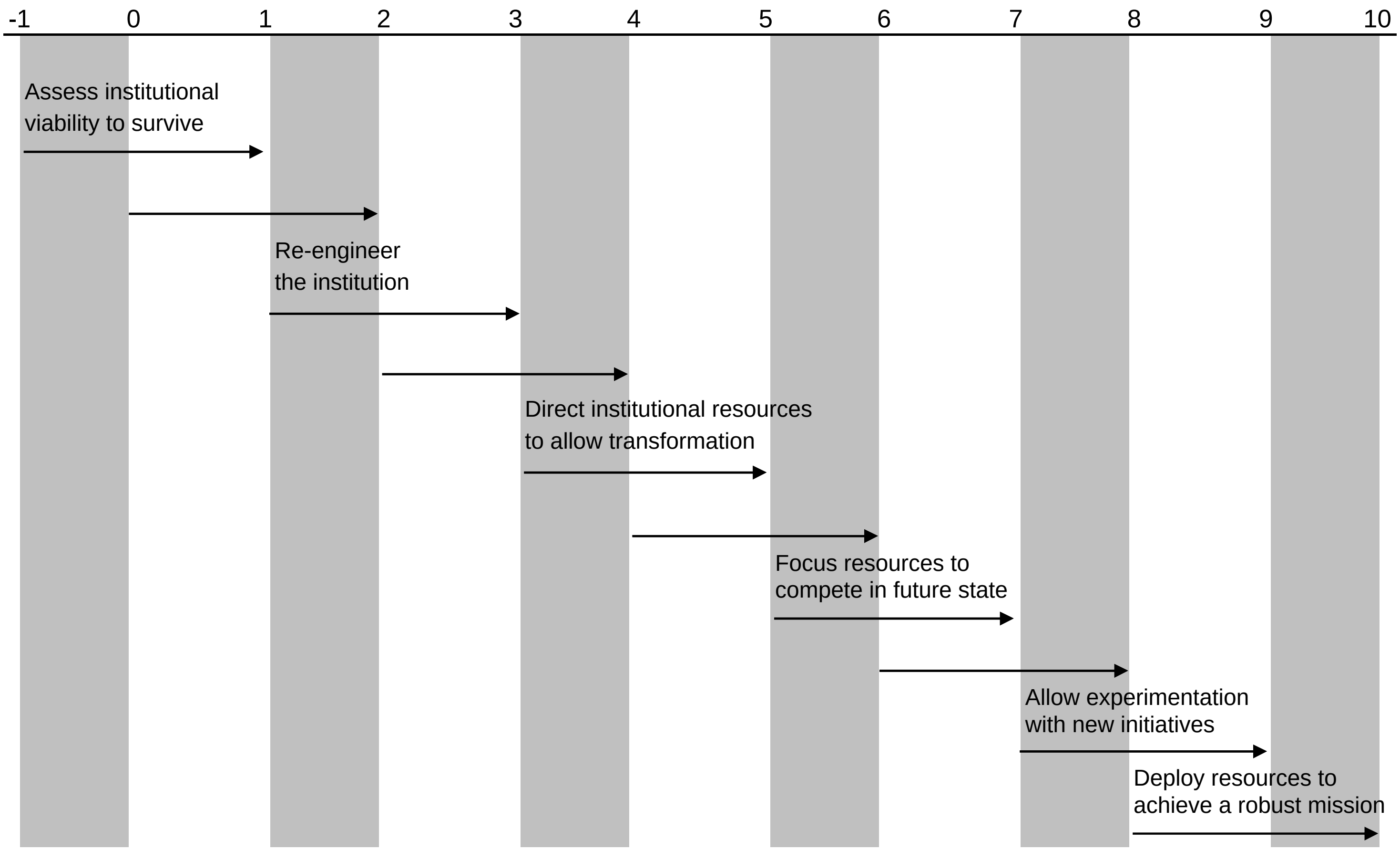
Debt Burden Ratio



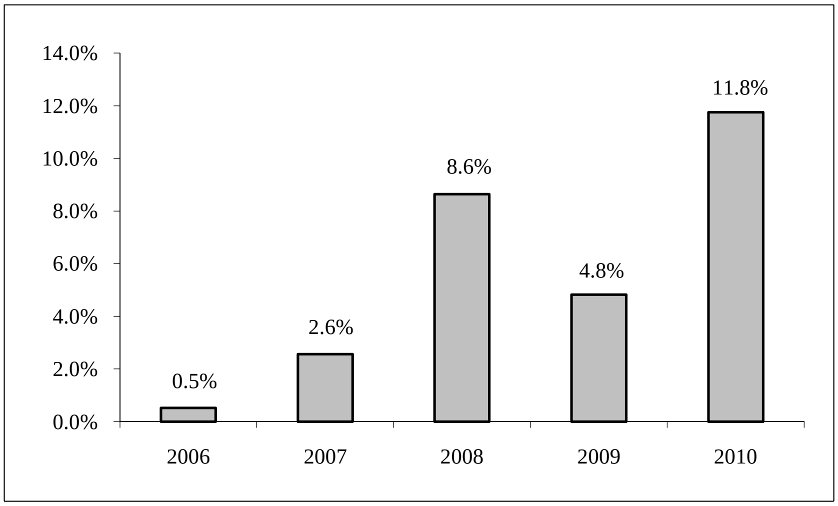
Debt Service Coverage Ratio



Appendix F - Scale for Charting CFI Performance

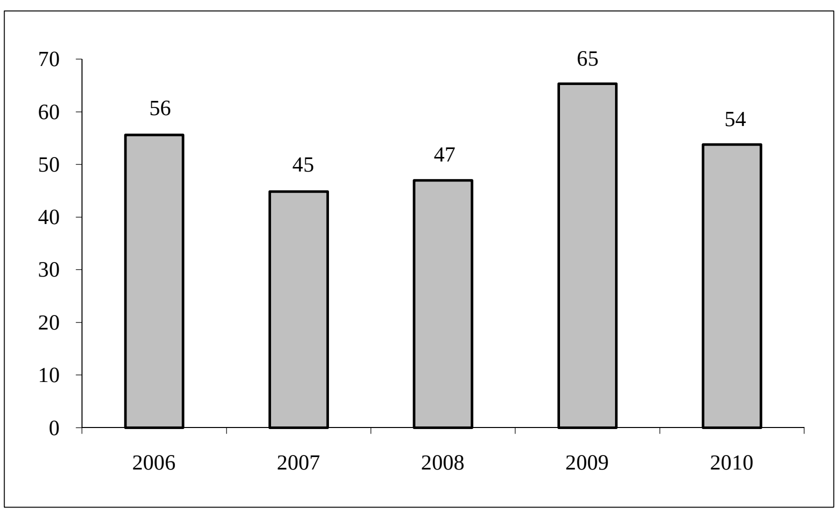


Annual Operating Margin Ratio



The annual operating margin ratio increased from 4.8% for 2009 to 11.8% for 2010 due to a 16.6% increase in revenue per patient day, a 51.0% increase in outpatient ancillary revenue resulting from a full year of Simmons Cancer Center operations, an 18.1% increase in hospital outpatient visits, a 20.6% increase in outpatient surgical cases and a 4.7% increase in emergency room visits. In addition, there was a 24.0% increase in 3rd party revenue.

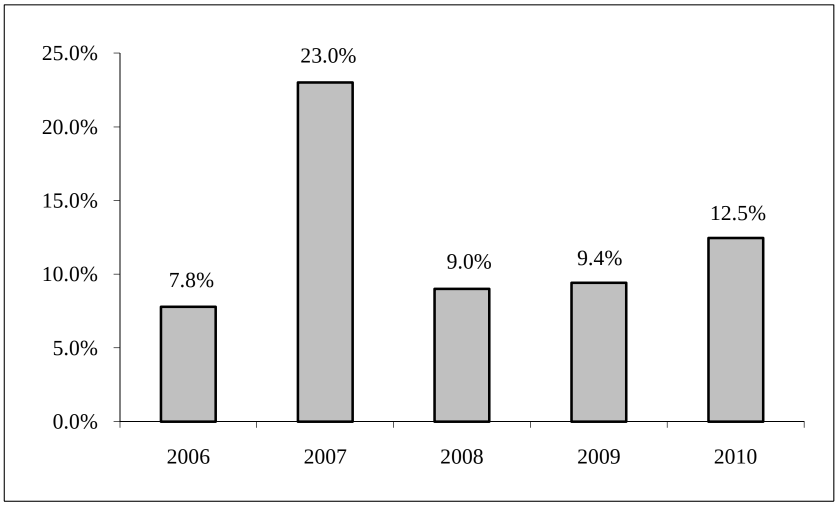
Net Accounts Receivable (in days)



The net accounts receivable days decreased due to a 23.6% increase in collection rates as compared to 2009. In addition, the transitional billing issues that were experienced during the last quarter of 2009 related to the transfer of the Simmons Cancer Center to hospital based billing were resolved during 2010 resulting in normalized billing and collections.

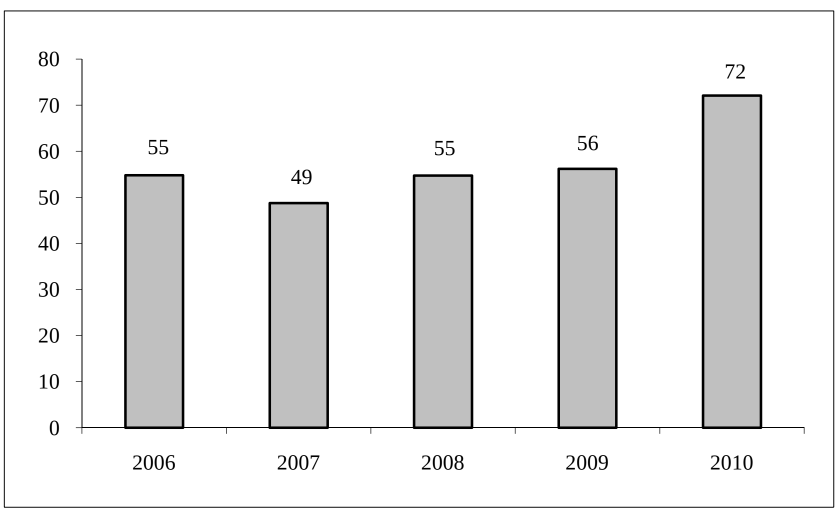
Appendix G - Key MSRDP & NPHC Operating Factors
The University of Texas Southwestern Medical Center at Dallas

Annual Operating Margin Ratio



The annual operating margin ratio increased from 9.4% for 2009 to 12.5% for 2010 as a result of a decrease in total discounts and allowances from 70.5% to 68.5% due to an improved payor mix. Contributing to the decrease in the discounts and allowances was a 22.0% increase in relative value unit (RVU) payments received from affiliated hospitals. The practice plan also experienced only a modest increase in total operating expenses of 1.0%. Southwestern also received a professional liability insurance (PLI) rebate of $3.7 million in 2010 as compared to $1.7 million in 2009, which was an increase of $2.0 million.

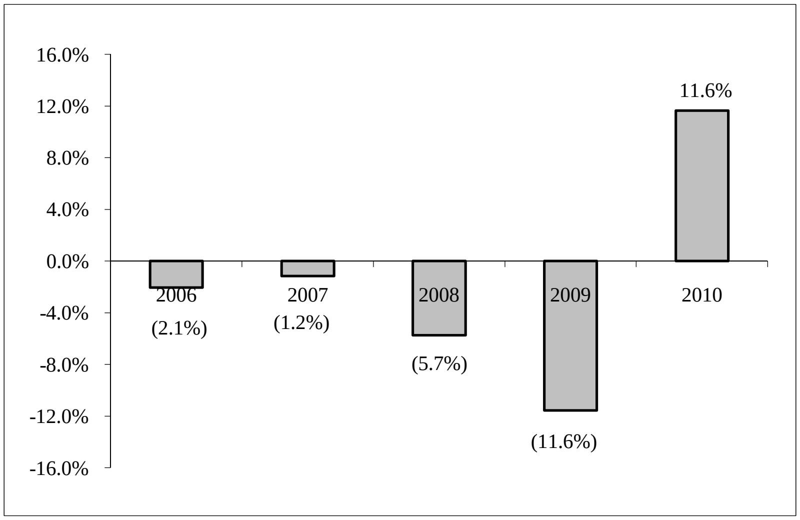
Net Accounts Receivable (in days)



The net accounts receivable days increased due to a reclassification of affiliated hospital RVU billings from local sponsored contractual income to patient accounts receivable. In addition, the allowance and discounts decreased from 70.5% to 68.5% as mentioned above.

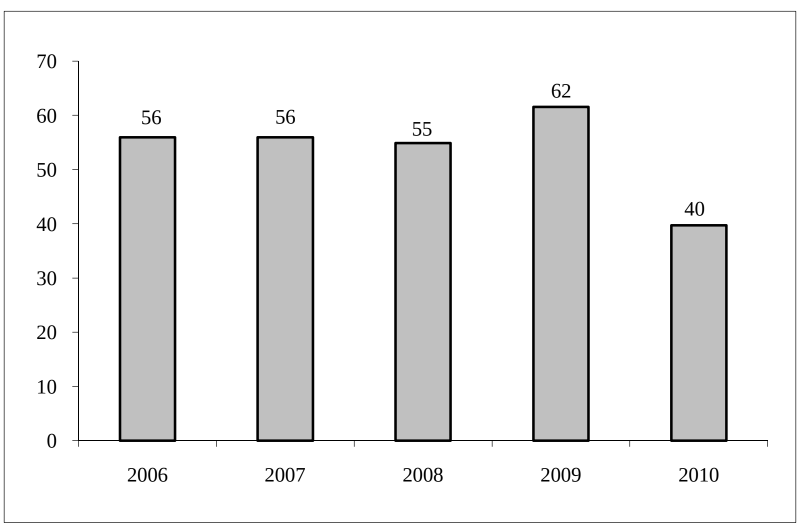
Appendix G - Key Hospital Operating Factors
The University of Texas Medical Branch at Galveston

Annual Operating Margin Ratio



UTMB Hospitals and Clinics' operating margin ratio increased to a profit of 11.6% in 2010. The Hospitals and Clinics experienced an increase in patient volumes and revenue in 2010 as beds reopened and hospital functions were restored following Hurricane *Ike*. Overall, patient volumes increased 14.8%, contributing to a 50% increase in revenue. Expenses increased by 19% between years. With volume increases and implementation of additional expense controls, Hospitals and Clinics have been able to maintain and improve on the positive margin from the last half of 2009.

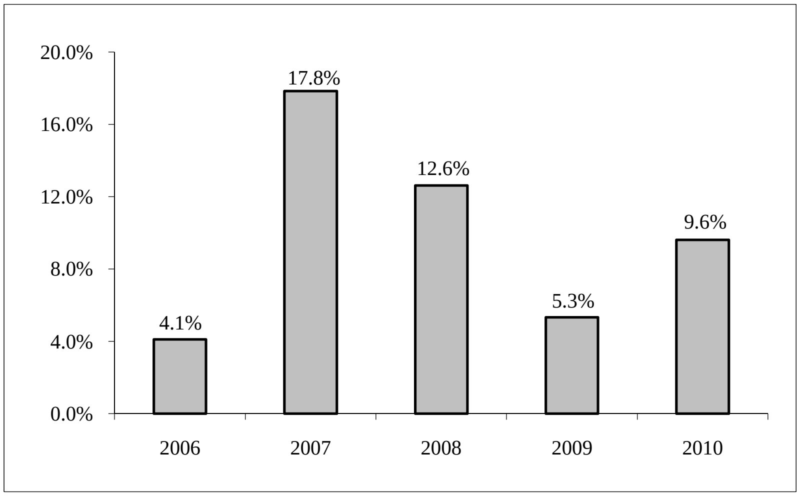
Net Accounts Receivable (in days)



While the net accounts receivable days decreased by 22 days in 2010, the net accounts receivable days in 2009 were distorted by the closure and reopening of the hospital following Hurricane *Ike*. Net accounts receivable days at year-end were 38.9 compared to 2009 days of 48.8, using a last 3 month revenue average (an industry standard calculation). The quality of Hospital and Clinics net accounts receivable remains good, even as volumes have increased.

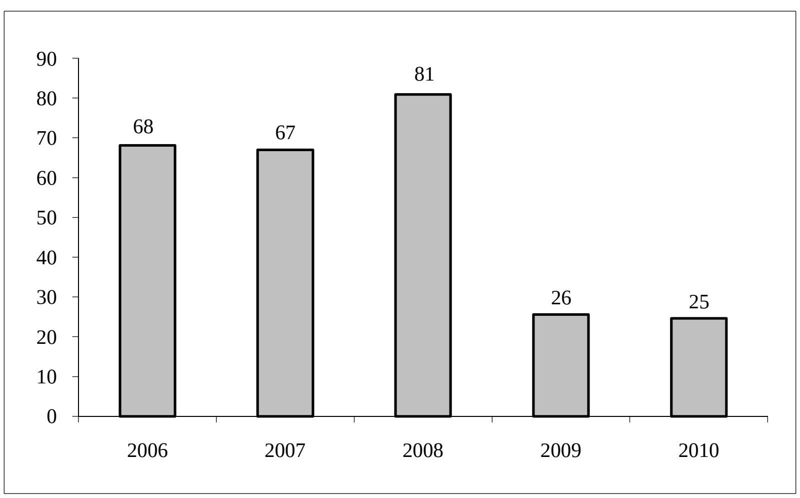
Appendix G - Key MSRDP & NPHC Operating Factors
The University of Texas Medical Branch at Galveston

Annual Operating Margin Ratio



The annual operating margin ratio increased from 5.3% for 2009 to 9.6% for 2010. The physician practice plan experienced an increase in patient volumes and revenue in 2010 as beds reopened and hospital functions were restored following Hurricane *Ike*. Additionally, UTMB received a professional liability insurance (PLI) rebate of $8.3 million in 2010, which was $4.8 million more than the PLI rebate received in 2009.

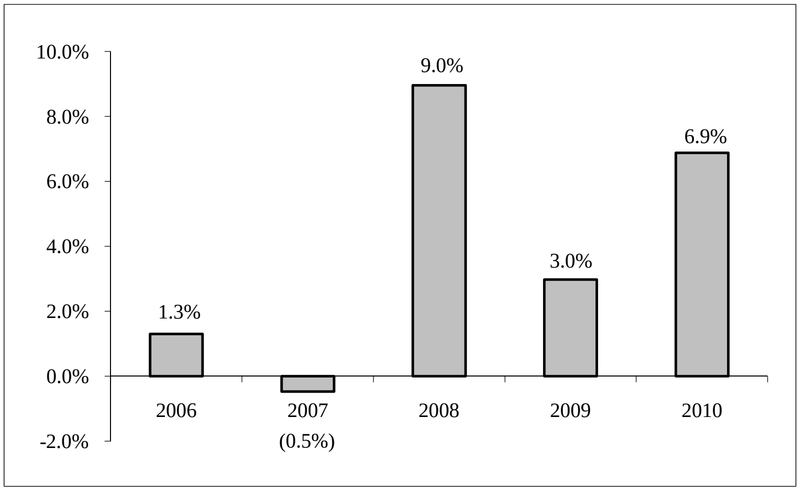
Net Accounts Receivable (in days)



Net accounts receivable in days remained almost unchanged between 2009 and 2010. In 2009 the accounts receivable balance decreased due to a reduction in the patient billing backlog and the correction of the prior years overstatement of patient receivables.

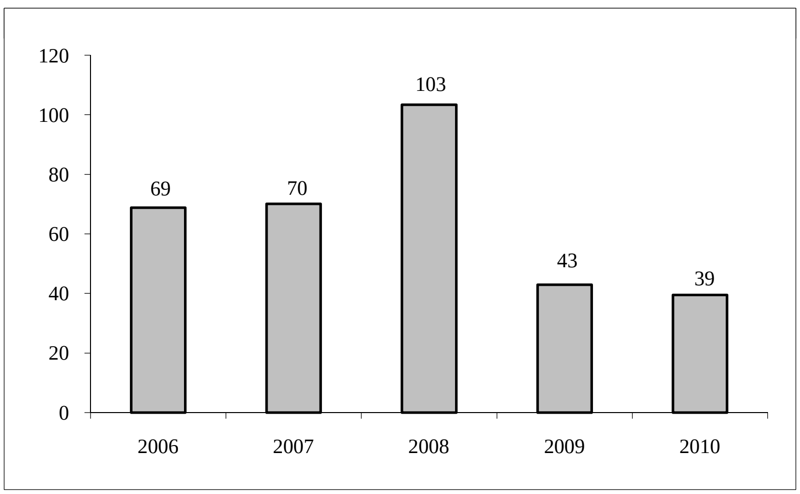
Appendix G - Key Hospital Operating Factors
The University of Texas Health Science Center at Houston

Annual Operating Margin Ratio



The annual operating margin ratio increased from 3.0% for 2009 to 6.9% for 2010. Harris County Psychiatric Center (HCPC) received an additional $4.25 million per year for the 2010-2011 biennium to expand the bed capacity for Mental Health and Mental Retardation Authority sponsored patients. HCPC began increasing staff in 2009 in preparation for the increased bed availability at the start of the 2010.

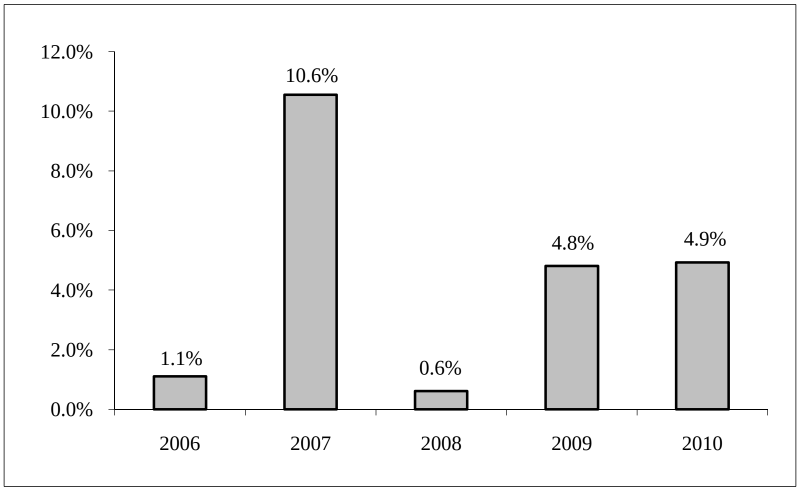
Net Accounts Receivable (in days)



HCPC moved its inpatient billing in-house beginning in 2010 in order to enhance its collection rate. HCPC is methodically reviewing all components of the revenue cycle, and until the process is complete has elected to take a very conservative approach in its accounts receivable valuation, thus driving net accounts receivable down.

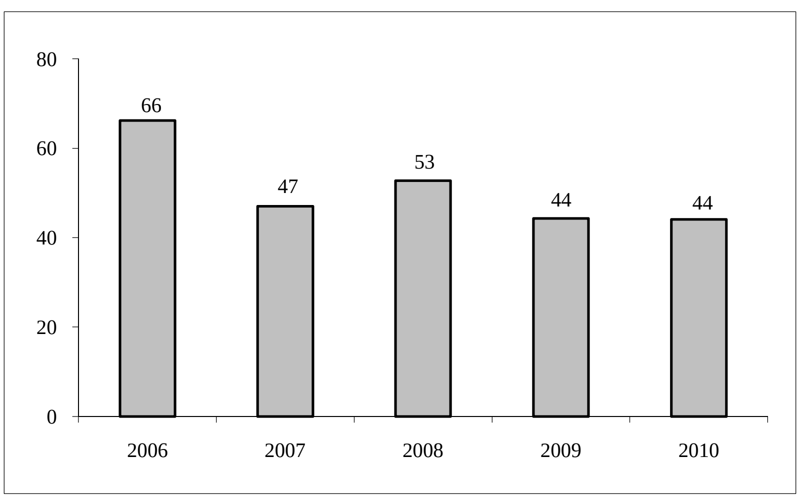
Appendix G - Key MSRDP & NPHC Operating Factors
The University of Texas Health Science Center at Houston

Annual Operating Margin Ratio



The annual operating margin ratio increased slightly from 4.8% for 2009 to 4.9% for 2010. While expenses increased significantly, mainly due to the recruitment of faculty, physician assistants, and nurse practitioners, revenues also followed a similar trend. Patient revenue increased 12% primarily due to the faculty recruitment, but also as a result of improved collection efforts. Contractual revenue increased 15% mostly due to improved contractual terms and an increase in services provided at Memorial Hermann Hospital and at the Harris County Hospital District. Investment income more than doubled due to improved interest rates and increased balances. Additionally, UTHSC-Houston received a professional liability insurance (PLI) rebate of $1.5 million in 2010 as compared to $0.8 million in 2009, which was an increase of $0.7 million.

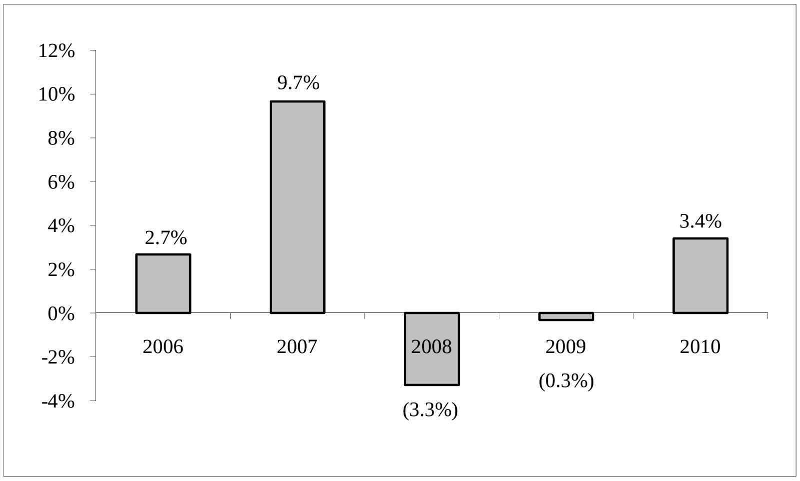
Net Accounts Receivable (in days)



The net accounts receivable days remained unchanged between 2009 and 2010. Though the payor mix declined over the last few years, efforts to improve the collection rate have offset this trend during the past fiscal year.

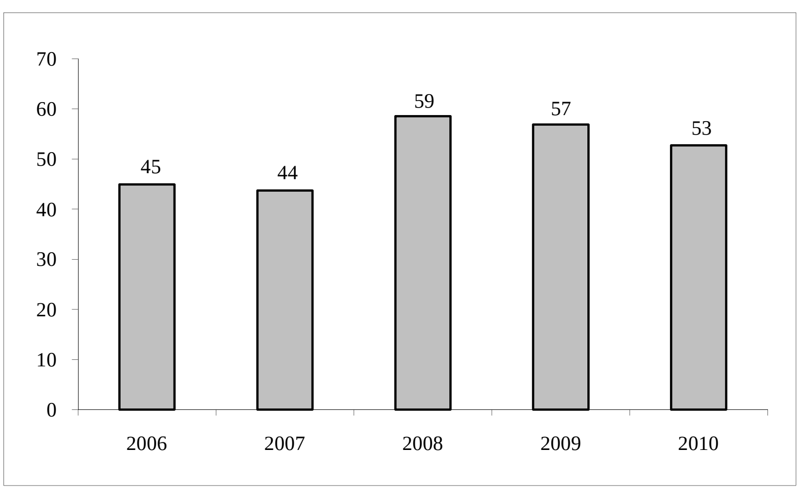
Appendix G - Key MSRDP & NPHC Operating Factors
The University of Texas Health Science Center at San Antonio

Annual Operating Margin Ratio



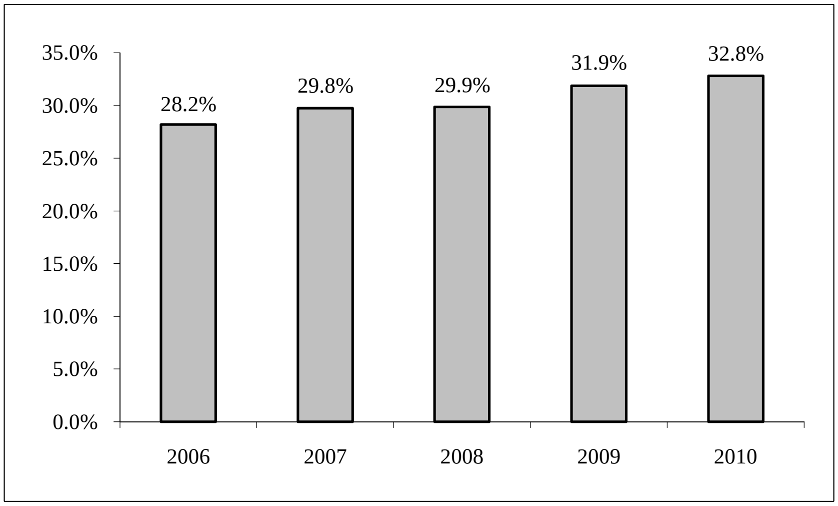
The annual operating margin is comprised of all medical clinical operations, including patient activities provided through the Cancer Therapy and Research Center (CTRC). The increase in the annual operating margin ratio was primarily attributable to enhanced revenues stemming from increased services provided through the Medical Arts and Research Center (MARC), which opened in the fall of 2009. The margin also improved due to cost containment efforts. Contract and clinical revenues from University Hospital System and CTRC increased by $19.5 million while overall operating expenses increased by only $11.2 million. In addition, UTHSC-San Antonio received a professional liability insurance (PLI) rebate of $5.0 million in 2010 which was $3.5 million higher than 2009. UTHSC-San Antonio continues to reinvest incremental revenues towards recruitment efforts, addressing faculty compensation issues, and expanding programs and departments. Investments made in 2010 included start-up costs associated with the MARC and the recruitment of a new dean of the School of Medicine. These investments are anticipated to continue to increase future operations.

Net Accounts Receivable (in days)



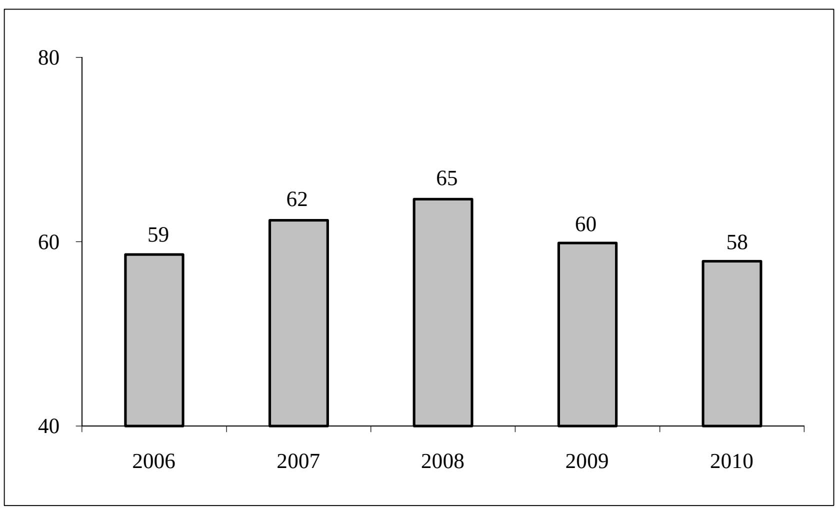
The decrease in days outstanding of net receivables was attributable to more aggressive tactics implemented by UT Medicine-San Antonio that served to accelerate the identification of bad debts during the collection cycle. Since the prior year, management entered into new collection and pre-collection agency contracts and also accelerated the write-off of accounts to bad debt from 150 days to 120 days.

Annual Operating Margin Ratio



The increase in the annual operating margin ratio was directly related to increased patient volumes, as well as continued efforts to keep the growth in operating expenses from exceeding the growth in operating revenues.

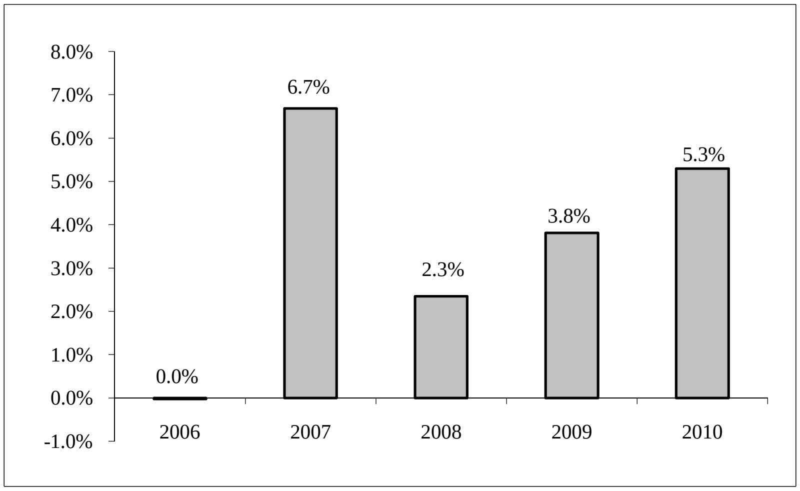
Net Accounts Receivable (in days)



The continued reduction in net accounts receivable days for 2010 was directly attributable to sustained efforts to collect and process as many patient receivables as possible through the business office in an attempt to generate additional positive cash flow for M. D. Anderson.

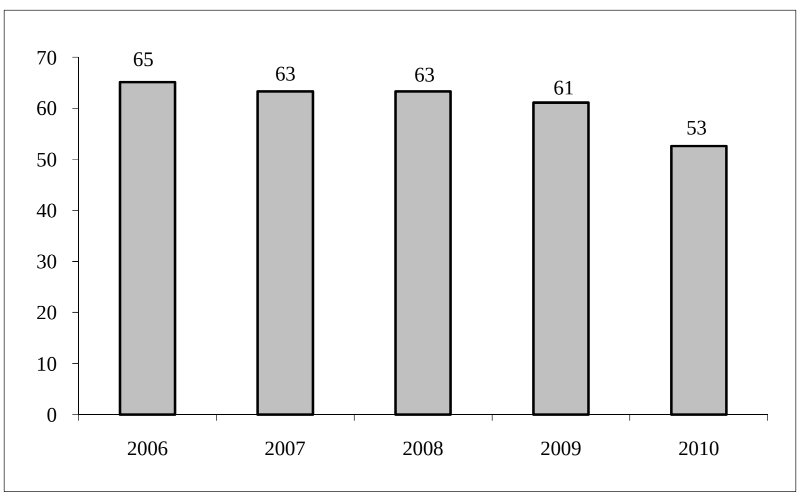
Appendix G - Key MSRDP & NPHC Operating Factors
The University of Texas M. D. Anderson Cancer Center

Annual Operating Margin Ratio



The annual operating margin ratio increased from 3.8% for 2009 to 5.3% for 2010. The increase in this ratio was attributable to an overall increase in patient activity and volumes from 2009, as well as maintaining a slower growth rate in expenses due to the economic downturn. In addition, M. D. Anderson received a professional liability insurance (PLI) rebate of $3.2 million in 2010 as compared to $1.8 million in 2009.

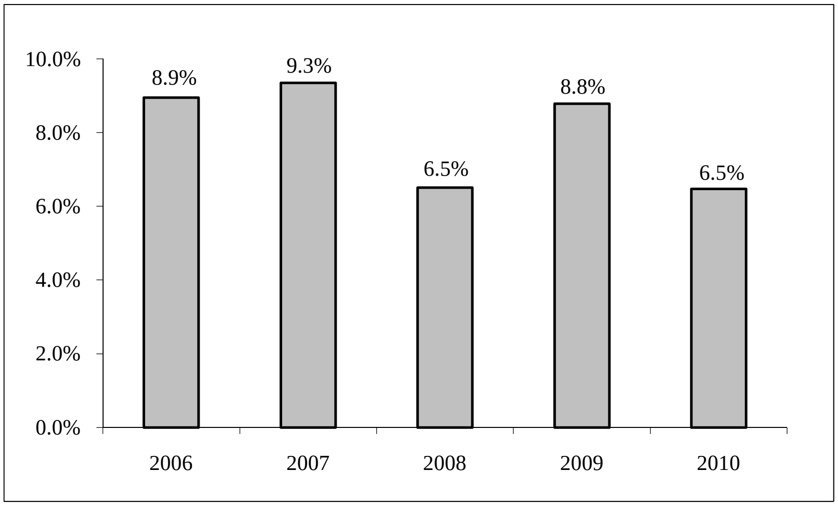
Net Accounts Receivable (in days)



Days in net accounts receivable decreased between 2009 and 2010 from 61 days to 53 days due to sustained efforts to collect and process as many patient receivables as possible through the business office in an attempt to generate additional positive cash flow for M. D. Anderson, as well as record collections in 2010.

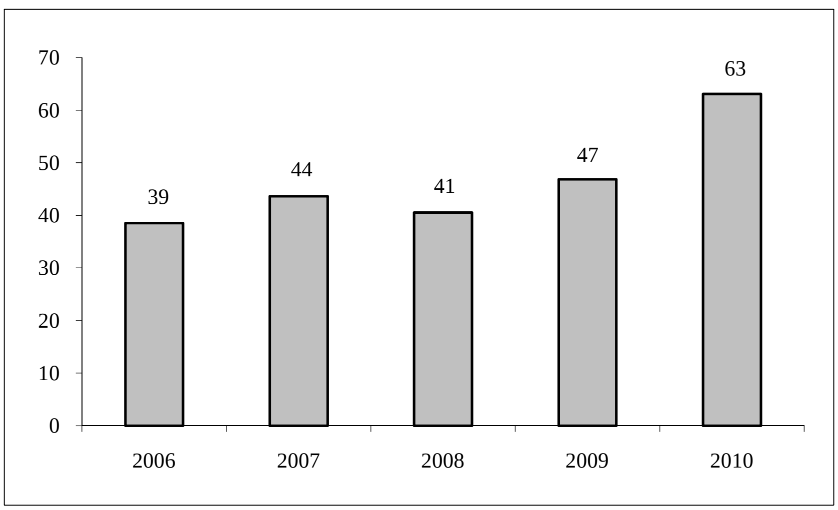
Appendix G - Key Hospital Operating Factors
The University of Texas Health Science Center at Tyler

Annual Operating Margin Ratio



The annual operating margin ratio decreased from 8.8% for 2009 to 6.5% for 2010. The decrease in this ratio was due to the absence of UTMB's CMC patients during 2010. All inpatient and outpatient volumes during 2010 were similar to 2008 volumes.

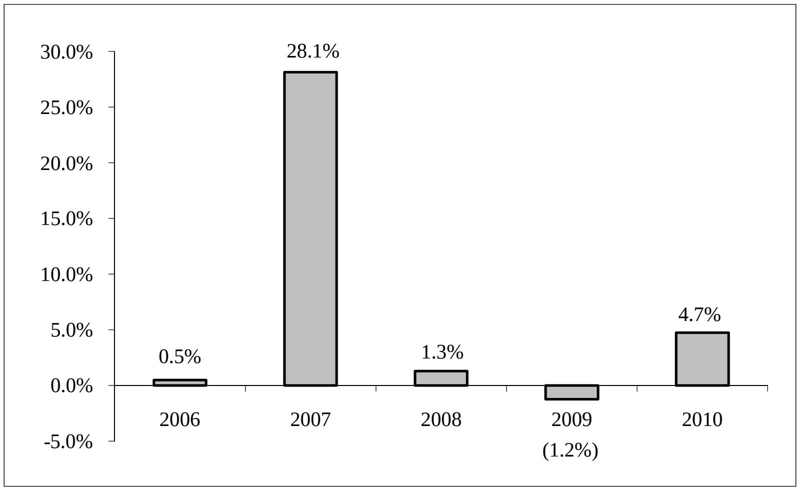
Net Accounts Receivable (in days)



The accounts receivable balances that were greater than 90 days old were reduced during the year by 40%. Additionally, bad debt expense was reduced by 20% from the previous year. These two factors resulted in decreased reserves and a higher net accounts receivable balance. Self-pay accounts receivable balances also decreased by 31% during the year. All of these reductions were a result of contracting with a new extended business office vendor and new self-pay collection agencies.

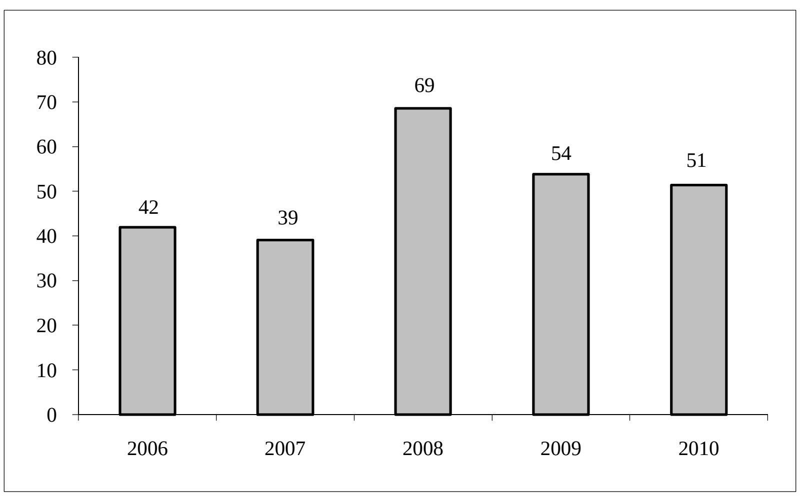
Appendix G - Key MSRDP & NPHC Operating Factors
The University of Texas Health Science Center at Tyler

Annual Operating Margin Ratio



The annual operating margin ratio increased from (1.2%) for 2009 to 4.7% for 2010 due to a decrease of $0.9 million in purchased services expense. The decrease in expenses was due to the lack of UTMB's CMC patients and the associated expenses. Although gross revenues decreased due to the loss of UTMB's CMC patients, the practice plan achieved higher collection percentages from the Medicare patients, which resulted in proportionally higher net revenues. UTHSC-Tyler received a professional liability insurance (PLI) rebate of $0.5 million in 2010, which was slightly higher than the PLI rebate received in 2009 of $0.2 million.

Net Accounts Receivable (in days)



Self-pay accounts receivable balances increased by 13.5% during 2010. As a result, accounts receivable balances that were greater than 90 days old increased by 25% during 2010. Therefore, greater reserves were needed and the net accounts receivable in days decreased.

4. U. T. System: Approval of additional aggregate amount of $9,558,000 of Revenue Financing System Equipment Financing for Fiscal Year 2011 and resolution regarding parity debt

RECOMMENDATION

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

a. approve an additional aggregate amount of $9,558,000 of Revenue Financing System Equipment Financing for Fiscal Year 2011 as allocated to those U. T. System institutions set out on Page 179; 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. System Board of Regents relating to the Financing System;

- the U. T. System 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. System Board of Regents of tax-exempt parity debt in the aggregate amount of $9,558,000 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 U. T. System Board of Regents' intention to reimburse project expenditures with bond proceeds.

BACKGROUND INFORMATION

On April 14, 1994, the U. T. System 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.

On August 11, 2010, the U. T. System Board of Regents approved $157,373,000 for equipment financing in Fiscal Year 2011. This agenda item requests approval of an additional aggregate amount of $9,558,000 for equipment financing for Fiscal Year 2011.

Further details on the equipment to be financed and debt service coverage ratios for individual institutions can be found on Page 179.

APPROVAL OF U. T. SYSTEM EQUIPMENT FINANCING
FY 2011 (February)

Institution	$ Amount of Request	Description of Equipment Purchases	DSC*
U. T. Dallas	$2,000,000	PeopleSoft ERP implementation	2.3x
U. T. El Paso	1,118,000	PeopleSoft ERP implementation, vehicle replacement, office equipment	2.1x
U. T. San Antonio	2,440,000	PeopleSoft ERP implementation	1.9x
U. T. Health Science Center - Tyler	4,000,000	Clinical and laboratory equipment	1.8x

Total	$9,558,000

* Debt Service Coverage ("DSC") based on six-year forecasted Statement of Revenues, Expenses, and Changes in Net Assets ("SRECNA") for FY2011 – FY2016.

5. U. T. System Board of Regents: Approval of a new investment strategy for debt proceeds, including amendments to the Separately Invested Funds Investment Policy Statement

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs recommend that the U. T. System Board of Regents approve a new investment strategy for debt proceeds and proposed amendments to the Separately Invested Funds (SIF) Investment Policy Statement as presented on Pages 182 -189.

BACKGROUND INFORMATION

On July 8, 2005, the U. T. System Board of Regents (Board) authorized the centralized management of U. T. System operating reserves. Pursuant to the policies approved by the Board, debt proceeds are not permitted to be invested in the Intermediate Term Fund (ITF) due to the risk of loss of principal. Therefore, debt proceeds are invested in the Short Term Fund (STF). The STF is 100% invested in the Dreyfus Institutional Preferred Money Market Fund, a low-cost, AAA-rated, institutional money market fund that provides daily liquidity. The current annualized yield of the STF is 0.23%.

The U. T. System Office of Finance manages one of the largest municipal debt portfolios in the world and currently has $1.1 billion of debt proceeds on hand. All of the debt proceeds are invested in the STF and are scheduled to be spent for capital construction over the next several years. The U. T. System Office of Finance recommends that a portion of the debt proceeds be invested in U.S. Treasury and Agency securities with a longer time horizon. This change in strategy will result in a higher than expected investment return and diversification away from a single money market fund, while maintaining adequate protection of principal and liquidity.

U. T. System staff have collaborated with The University of Texas Investment Management Company (UTIMCO) staff for the purposes of creating a laddered Treasury and Agency investment portfolio. The laddered portfolio will be invested by UTIMCO's internal portfolio managers and UTIMCO's back office staff will provide the accounting services. The SIF Investment Policy Statement will need to be amended to allow for the investment of these funds by UTIMCO and to provide appropriate investment guidelines for the funds. The amendments to the SIF Investment Policy Statement have previously been approved by the UTIMCO Board.

Mr. Philip Aldridge, Vice Chancellor for Finance and Business Development, will discuss the investment of U. T. System Debt Proceeds using the PowerPoint presentation on Pages 190 - 194.

Upon Board approval, the Investment Policy Statement for the SIF will be amended effective March 1, 2011, to allow for the investment of U. T. System debt proceeds. A summary of the proposed amendments is as follows:

- Page 1, Purpose: added debt proceeds as Accounts that are subject to this policy.

- Page 1, Investment Management, last paragraph: changed to reference the possibility of restrictions on the investment of the Debt Proceeds Accounts and Other Accounts.

- Page 2, Investment Objectives: added the investment objective for the debt proceeds.

- Page 3, Other Accounts: changed to state that these accounts do not include Debt Proceeds Accounts.

- Page 3, Asset Class Allocation, second paragraph: changed to recognize the possibility of restrictions on the investment of the Accounts.

- Page 4, Asset Class Allocation Policy: language changed from "other Account" to "trust" document and "trust or endowment" deleted so as to include Debt Proceeds Accounts; also amended to add that Asset Class allocation policy and ranges for the Debt Proceeds and other Accounts will be determined by the terms and conditions of any applicable documents.

- Page 5, Investment Grade Fixed Income: "Taxable Municipal securities" changed to "Municipal securities."

- Page 6, Real Estate, Natural resources, last paragraph: changed to allow for "other controlling" document to limit the Account's allowable investments.

- Page 7, Distributions, "to the beneficiaries" deleted.

- Page 8, Effective Date; changed to March 1, 2011.

THE UNIVERSITY OF TEXAS SYSTEM
SEPARATELY INVESTED FUNDS INVESTMENT POLICY STATEMENT

Purpose

The Separately Invested Funds (the "Accounts") include the Endowment, Trust, Debt Proceeds, and Other Accounts established in the name of the Board of Regents of The University of Texas System (the "Board of Regents"), ~~as trustee,~~ and are Accounts which are not solely invested in one of the pooled investment vehicles. These Accounts are not invested in the pooled investment vehicle because: a) they are charitable trusts; b) of investment restrictions incorporated into the trust/endowment document; c) of the inability to sell the gifted investment asset; d) they are assets being migrated upon liquidation into a pooled investment vehicle; e) they are debt proceeds with a short-intermediate investment horizon; or ~~e~~f) they are assets held by The University of Texas Investment Management Company ("UTIMCO") at the request of a University of Texas System institution for which UTIMCO does not have investment discretion (for example, tech stock). This policy covers the Accounts collectively. However, specific guidelines are applied to each individual account. Specific Account restrictions may not fall within the guidelines established in this policy.

Investment Management

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the *Texas Education Code*, the Board of Regents has elected the PUF prudent investor standard to govern its management of the Accounts.

Ultimate fiduciary responsibility for the Accounts rests with the Board of Regents. Section 66.08, *Texas Education Code*, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents. The applicable trust/endowment document will apply to the management of each trust or endowment. The restrictions set forth in this policy and in any separate writing applicable to the Debt Proceeds Accounts and the Other Accounts will apply to the management of those Accounts.

Pursuant to an Investment Management Services Agreement between the Board of Regents and UTIMCO, the assets for the Accounts shall be managed by UTIMCO, which shall: a) recommend investment policy for the Accounts, b) determine specific Asset Class allocation targets, ranges and performance benchmarks consistent with the Accounts objectives, and if appropriate c) monitor the Accounts' performance against Accounts objectives. UTIMCO shall invest the Accounts' assets in conformity with this Policy Statement.

UTIMCO may select and terminate unaffiliated investment managers subject to any limitations stated herein. Managers shall be monitored for performance and adherence to investment disciplines.

Accounts Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of assets in the Accounts shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Investment Objectives

Endowment Accounts - The primary investment objective shall be to invest the Accounts in assets that comply with the terms of the applicable trust/endowment document, taking into consideration the investment time horizon of the Accounts.

Trust Accounts - Trust Accounts are defined as either Foundation Accounts or Charitable Trusts ((Charitable Remainder Unitrusts (CRUT), Charitable Remainder Annuity Trusts (CRAT), Pooled Income Funds (PIF), or Charitable Trusts (CT)). The Board of Regents recognizes that the investment objective of a trust is dependent on the terms and conditions as defined in the trust document of each trust. The conditions that will affect the investment strategy are a) the trust payout provisions; b) the ages of the income beneficiaries; c) the ability to sell the gifted assets that were contributed to the trust; and d) consideration to investment preferences of the income beneficiaries. Taking these conditions into consideration, the fundamental investment objectives of the trust are to generate a low to moderate growth in trust principal and to provide adequate liquidity in order to meet the payout provisions of the trust.

Debt Proceeds Accounts – The primary investment objective shall be safety of principal and ~~to provi~~maintenance of~~de~~ adequate liquidity ~~in order~~sufficient to meet the spend-out schedules of each Account, as provided by the U. T. System Office of Finance. Debt Proceeds Accounts, other than investments in ~~approved money market funds~~ cash as defined in the Liquidity Policy, will be invested in U.S.

government obligations, including obligations of an agency or instrumentality of the United States, taking into consideration the spending needs of the Accounts.

Other Accounts – These are all accounts which are not Endowment Accounts, ~~or~~ Trust Accounts, or Debt Proceeds Accounts that hold assets not invested in one of the pooled investment vehicles. These accounts include agency funds, institution current purpose accounts, and tech stock accounts.

Asset Class Allocation

Asset Class allocation is the primary determinant of the volatility of investment return and subject to the Asset Class allocation ranges specified herein, is the responsibility of UTIMCO. Specific Asset Class allocation positions may be changed from time to time based on the economic and investment outlook.

Unless otherwise restricted herein, ~~T~~the Accounts' assets shall be allocated among the following broad Asset Classes based upon their individual return/risk characteristics and relationships to other Asset Classes:

Asset Classes:

Investment Grade Fixed Income – Investment Grade Fixed Income represents ownership of fixed income instruments, including real and nominal, US and non-US, and across all maturities that are rated investment grade, including cash as defined in the Liquidity Policy.

Credit-Related Fixed Income – Credit-Related Fixed Income represents ownership of fixed income instruments, including real and nominal, US and non-US, and across all maturities that are rated below investment grade.

Natural Resources - Natural Resources represents ownership directly or in securities, the value of which are directly or indirectly tied to natural resources including, but not limited to, energy, metals and minerals, agriculture, livestock, and timber.

Real Estate - Real Estate represents primarily equity ownership in real property including public and private securities.

Developed Country Equity – Developed Country Equity represents ownership in companies domiciled in developed countries as defined by the composition of the MSCI World Index.

Emerging Markets Equity – Emerging Markets Equity represents ownership in companies domiciled in emerging economies as defined by the composition of the MSCI Emerging Markets Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI

Emerging Markets Index qualification status (either through financial or qualitative measures).

In addition, life insurance and variable annuities may be acceptable investments.

Asset Class Allocation Policy

The Asset Class allocation policy and ranges for the Endowment and Trust Accounts are dependent on the terms and conditions of the applicable trust/endowment or trust ~~other Account~~ document. The Asset Class allocation policy and ranges for the Debt Proceeds and Other Accounts will be determined by the terms and conditions of any applicable documents. If possible, the Accounts' assets shall be diversified among different types of assets whose returns are not closely correlated in order to enhance the return/risk profile of the Accounts.

The Board of Regents delegates authority to UTIMCO to establish specific Asset Class allocation targets and ranges for each ~~trust or endowment~~ Account. UTIMCO may establish specific Asset Class allocation targets and ranges for or within the Asset Classes listed above as well as the specific performance benchmarks for each Asset Class.

Performance Measurement

The investment performance of the actively managed Accounts, where cost effective, will be calculated and evaluated quarterly.

Investment Guidelines

The Accounts must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

- Investment guidelines for index, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.

- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO's Chief Investment Officer prior to investment of SIF assets in such investments.

- All investments will be U.S. dollar denominated assets unless held by an internal or external portfolio manager with the authority to invest in foreign currency denominated securities.

- No securities may be purchased or held which would jeopardize, if applicable, the Account's tax-exempt status.

- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.

- No internal investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.

The Account may utilize derivatives only in accordance with the Derivative Investment Policy.

Investment Grade Fixed Income

Permissible securities for investment include the securities within the component categories of the Barclays Aggregate Bond Index (BAGG). These component categories include investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific sub-sectors:

1) Government: Treasury and Agency;
2) Corporate: Industrial, Finance, Utility, and Yankee;
3) Mortgage-backed securities: GNMA, FHLMC, and FNMA;
4) Asset-backed securities;
5) ~~Taxable~~ Municipal securities; and
6) Commercial Mortgage-backed securities.

In addition to the permissible securities listed above, the following securities shall be permissible:

a) Floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the BAGG as issuers of fixed rate securities;
b) Medium term notes issued by investment grade corporations;
c) Zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and
d) Structured notes issued by BAGG qualified entities.

- U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or BBB- or better by Fitch Investors Service at the time of acquisition.

- Not more than 35% of the Account's fixed income portfolio may be invested in non-U.S. dollar bonds. Not more than 15% of the Account's fixed income portfolio may be invested in bonds denominated in any one currency other than U.S. dollar.

- Non-dollar bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio.

- Not more than 7.5% of the Account's fixed income portfolio may be invested in Emerging Market debt.

- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

- Permissible securities for investment include Fixed Income Mutual Funds and Debt Index Funds as approved by UTIMCO's Chief Investment Officer.

- Permissible securities for investment include Fixed Income Variable Annuity Contracts as approved by UTIMCO's Chief Investment Officer.

Credit-Related Fixed Income

Not more than 5% of the market value of fixed income securities may be invested in corporate and municipal bonds of a single issuer.

Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets Equity

- Not more than 25% of the market of equity securities may be invested in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at cost.

- Not more than 5% of the market value of equity securities may be invested in the securities of one corporation at cost.

- Not more than 7.5% of the market value of equity and fixed income securities taken together may be invested in one corporation at cost.

The provisions concerning investment in Investment Grade Fixed Income, Credit-Related Fixed Income, and Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets Equity shall not apply to Accounts when expressly prohibited by the terms and conditions of the applicable trust/endowment, ~~or~~ trust or other controlling document. To the extent determined practical by the U. T. System Office of Development and Gift Planning Services, donor preferences will be considered in determining whether gifts of securities are held or sold.

Distributions

Distributions of income or amounts from the Accounts ~~to the beneficiaries~~ shall be made as soon as practicable, either: a) based on the terms of the applicable trust instrument; b) following the fiscal quarter end for endowments; or c) based on specific requirements for other accounts.

Accounting

The fiscal year of the Accounts shall begin on September 1st and end on August 31st. Trusts will also have a tax year end which may be different than August 31st. Market value of the Accounts shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles ("GAAP"), Governmental Accounting Standards Board Statements, industry guidelines, or federal income tax laws, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be "other than temporarily impaired" as defined by GAAP shall be written off and reported to UTIMCO's Chief Investment Officer and the UTIMCO Board when material.

Valuation of Assets

As of the close of business for each month, UTIMCO shall determine the fair market value of all assets in the Accounts. Such valuation of assets shall be based on the bank trust custody agreement in effect or other external source if not held in the bank custody account at the date of valuation. The final determination of the Accounts net assets for a month end close shall normally be completed within ten business days but determination may be longer under certain circumstances.

Compliance

Compliance with this Policy will be monitored by UTIMCO's Chief Compliance Officer. UTIMCO's Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO's compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO's Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO's Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the noncompliant activity within this Policy.

Securities Lending

The Accounts may participate in a securities lending contract with a bank or nonbank security lending agent for purposes of realizing additional income. Loans of securities by the Accounts shall be collateralized by cash, letters of credit or securities issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the lending agent shall be reviewed by UTIMCO staff to insure compliance with contract provisions.

Investor Responsibility

As a shareholder, the Accounts have the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the Accounts. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the Accounts solely in the interest of the beneficiaries, in compliance with the Proxy Voting Policy then in effect, and shall not invest the Accounts so as to achieve temporal benefits for any purpose, including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend this Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be ~~September~~ March 1~~1~~, ~~2010~~2011.

Investment of U. T. System Debt Proceeds

Philip Aldridge
Vice Chancellor for Finance and Business Development

U. T. System Board of Regents' Meeting
Finance and Planning Committee
February 2011

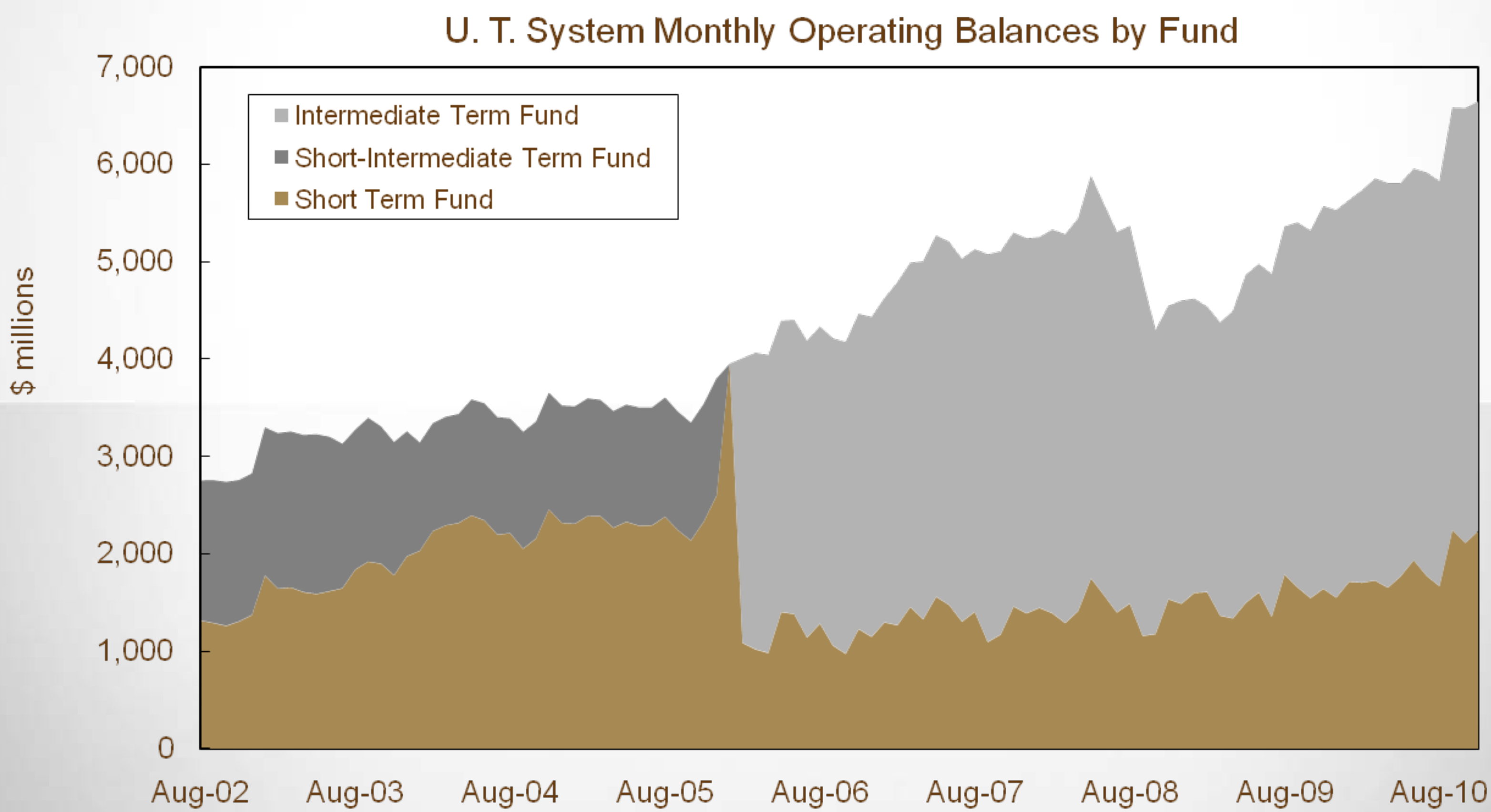
Summary of Proposed Changes to Investment of the System's Debt Proceeds

- Invest a portion of the System's debt proceeds in a ladder of U.S. government securities

- The recommendations are designed to:
  - Improve the expected investment return on debt proceeds
  - Diversify the risk of concentrating the System's liquidity in a single fund
  - Improve asset/liability matching by more closely matching the investment horizon of debt proceeds with the timing of when these funds will be needed
  - Address rating agency concerns regarding the System's self-liquidity support of the System's variable rate debt programs
  - Minimize the amount of excess liquidity maintained by the System

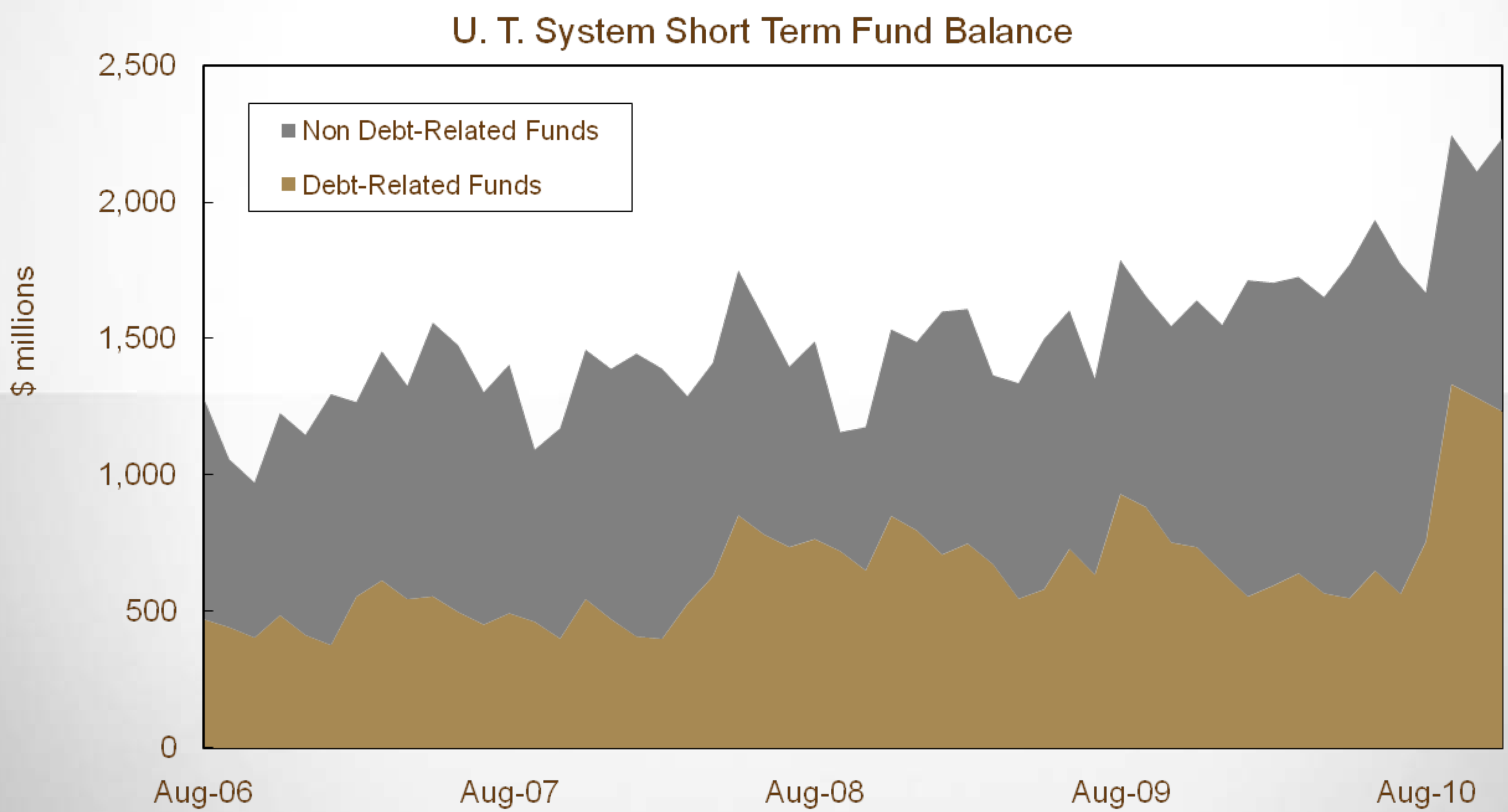
U. T. System Operating Funds

- The U. T. System has significantly reduced the amount of excess liquidity over time resulting in enhanced investment returns



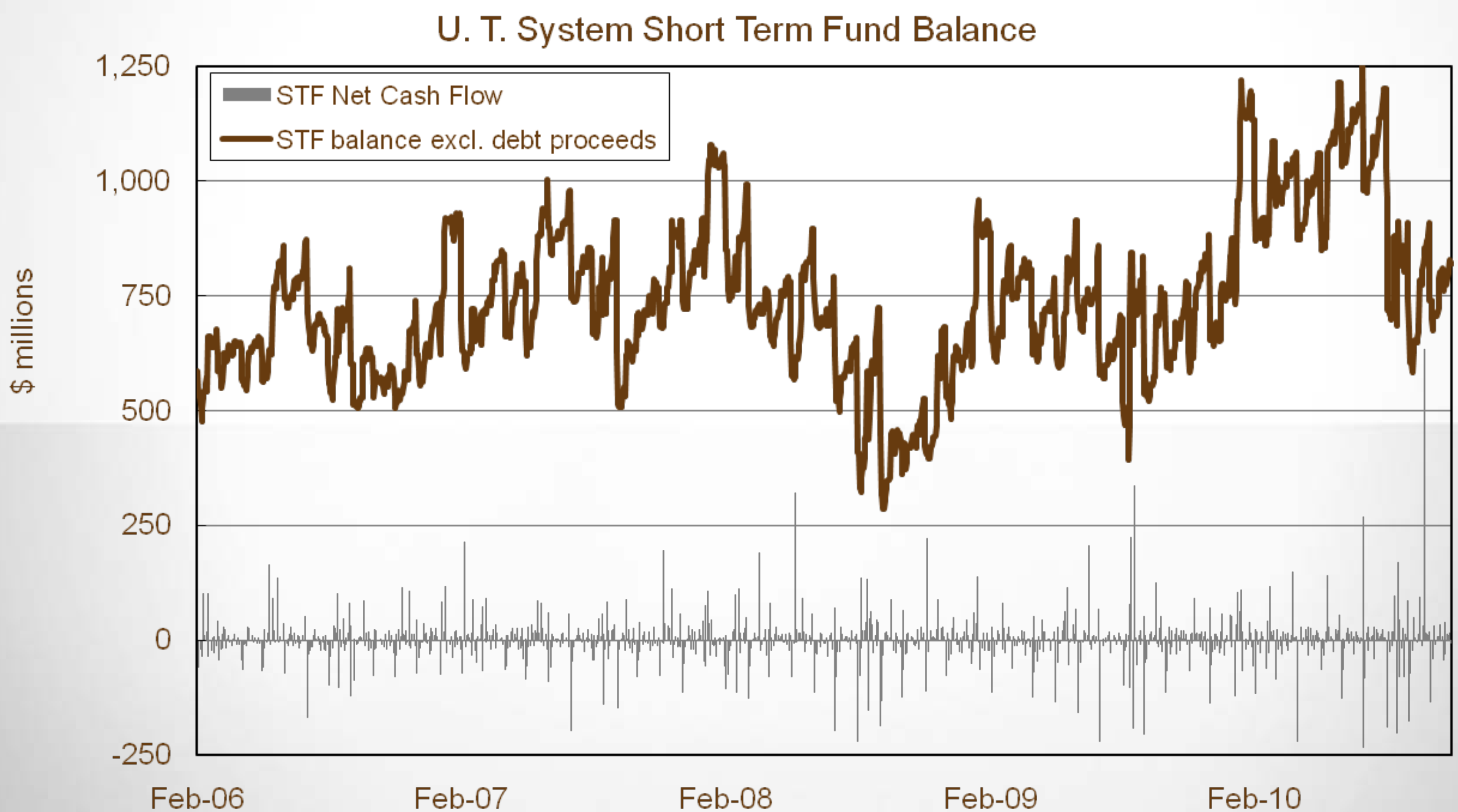
U. T. System Short Term Fund

- A majority of the System’s short term investments represent debt proceeds that will be expended over the short-intermediate term on approved capital projects, including the New University Hospital



U. T. System Short Term Fund Net Cash Flows

- Remaining Short Term Fund balances will be more than sufficient to cover largest expected outflows



6. U. T. System Board of Regents: The University of Texas Investment Management Company (UTIMCO) Performance Summary Report and Investment Reports for the quarter ended November 30, 2010

REPORT

The November 30, 2010 UTIMCO Performance Summary Report is attached on Page 196.

The Investment Reports for the quarter ended November 30, 2010, are set forth on Pages 197 - 200.

Item I on Page 197 reports activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the quarter was 6.78% versus its composite benchmark return of 5.94%. The PUF's net asset value increased during quarter to $11,620 million. The increase was due to $295 million PUF Land receipts, net investment return of $727 million, less the quarterly distribution to the Available University Fund (AUF) of $127 million.

Item II on Page 198 reports activity for the General Endowment Fund (GEF) investments. The GEF's net investment return for the quarter was 6.80% versus its composite benchmark return of 5.94%. The GEF's net asset value increased by $464 million during the quarter to $6,499 million.

Item III on Page 199 reports activity for the Intermediate Term Fund (ITF). The ITF's net investment return for the quarter was 5.56% versus its composite benchmark return of 4.66%. The net asset value increased during the quarter to $4,411 million due to net investment return of $232 million, net contributions of $56 million, less distributions of $33 million.

All exposures were within their asset class and investment type ranges except ITF, which was 6 basis points out of range for one day. Liquidity was within policy.

Item IV on Page 200 presents book and market values 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 $467 million to $2,457 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: $24 million versus $24 million at the beginning of the period; equities: $49 million versus $43 million at the beginning of the period; and other investments: $5 million versus $7 million at the beginning of the period.

UTIMCO Performance Summary

November 30, 2010

	Net Asset Value 11/30/2010 (in Millions)	Periods Ended November 30, 2010 (Returns for Periods Longer Than One Year are Annualized)							
		Short Term		Year to Date		Historic Returns			
ENDOWMENT FUNDS		1 Mo	3 Mos	Fiscal	Calendar	1 Yr	3 Yrs	5 Yrs	10 Yrs
Permanent University Fund	$ 11,620	(0.02%)	6.78%	6.78%	11.02%	12.21%	(0.76%)	5.03%	6.02%
General Endowment Fund		0.02	6.80	6.80	11.03	12.26	(0.79)	5.14	N/A
Permanent Health Fund	955	0.01	6.78	6.78	10.99	12.12	(0.86)	5.07	N/A
Long Term Fund	5,543	0.02	6.78	6.78	10.99	12.12	(0.86)	5.07	6.14
Separately Invested Funds	306	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Endowment Funds	18,424								
OPERATING FUNDS									
Short Term Fund	2,233	0.02	0.07	0.07	0.22	0.23	1.38	2.88	2.64
Intermediate Term Fund	4,411	(1.13)	5.56	5.56	9.42	9.66	1.23	N/A	N/A
Total Operating Funds	6,644								
Total Investments	$ 25,068								
VALUE ADDED (Percent)									
Permanent University Fund		1.14%	0.84%	0.84%	3.53%	3.12%	3.00%	2.17%	2.15%
General Endowment Fund		1.18	0.86	0.86	3.54	3.17	2.97	2.28	N/A
Short Term Fund		0.01	0.04	0.04	0.11	0.12	0.50	0.39	0.20
Intermediate Term Fund		0.87	0.90	0.90	4.32	4.62	2.87	N/A	N/A
VALUE ADDED ($ IN MILLIONS)									
Permanent University Fund		$ 133	$ 93	$ 93	$ 370	$ 324	$ 1,030	$ 1,167	$ 2,274
General Endowment Fund		77	53	53	208	184	572	685	N/A
Intermediate Term Fund		39	38	38	174	186	355	N/A	N/A
Total Value Added		$ 249	$ 184	$ 184	$ 752	$ 694	$ 1,957	$ 1,852	$ 2,274

Footnotes available upon request.

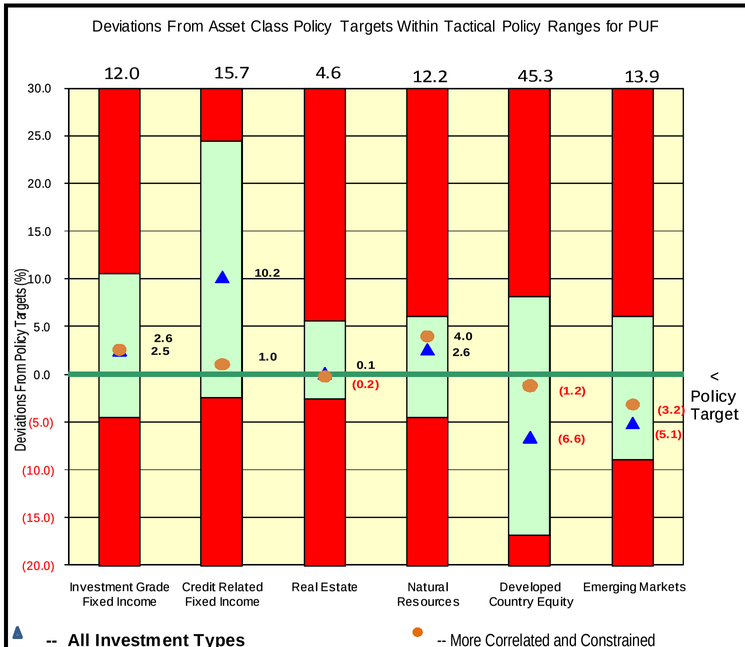
I. PERMANENT UNIVERSITY FUND
Investment Reports for Periods Ended November 30, 2010

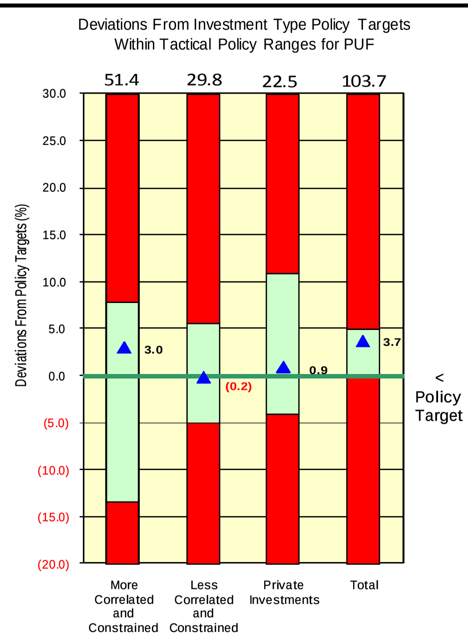
Prepared in accordance with *Texas Education Code* Sec. 51.0032

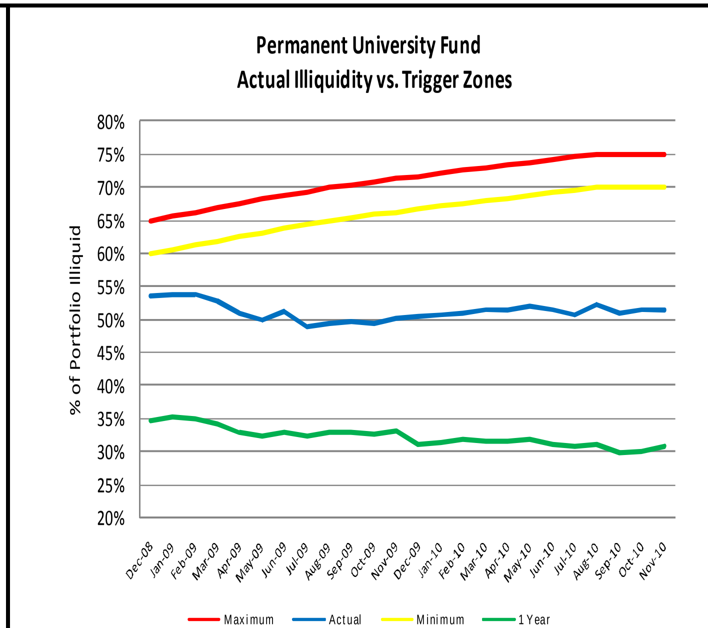
Summary of Capital Flows

($ millions)	Fiscal Year Ended August 31, 2010	Quarter Ended November 30, 2010	Fiscal Year to Date November 30, 2010
Beginning Net Assets	$ 9,674	$ 10,725	$ 10,725
PUF Lands Receipts	338	295	295
Investment Return (Net of Expenses)	1,229	727	727
Distributions to AUF	(516)	(127)	(127)
Ending Net Assets	$ 10,725	$ 11,620	$ 11,620

	Fiscal Year to Date				
	Returns		Value Added		
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
More Correlated and Constrained:					
Investment Grade	-0.08%	-0.31%	-0.31%	0.02%	-0.29%
Credit-Related	5.28%	4.00%	-0.01%	0.00%	-0.01%
Real Estate	9.25%	8.49%	-0.02%	0.03%	0.01%
Natural Resources	15.76%	14.96%	0.31%	0.05%	0.36%
Developed Country	11.26%	10.95%	-0.34%	0.05%	-0.29%
Emerging Markets	11.30%	11.32%	-0.20%	-0.01%	-0.21%
Total More Correlated and Constrained	**8.78%**	**9.59%**	**-0.57%**	**0.14%**	**-0.43%**
Less Correlated and Constrained	**4.95%**	**3.76%**	**-0.05%**	**0.41%**	**0.36%**
Private Investments	**4.96%**	**0.68%**	**-0.08%**	**0.99%**	**0.91%**
Total	**6.78%**	**5.94%**	**-0.70%**	**1.54%**	**0.84%**







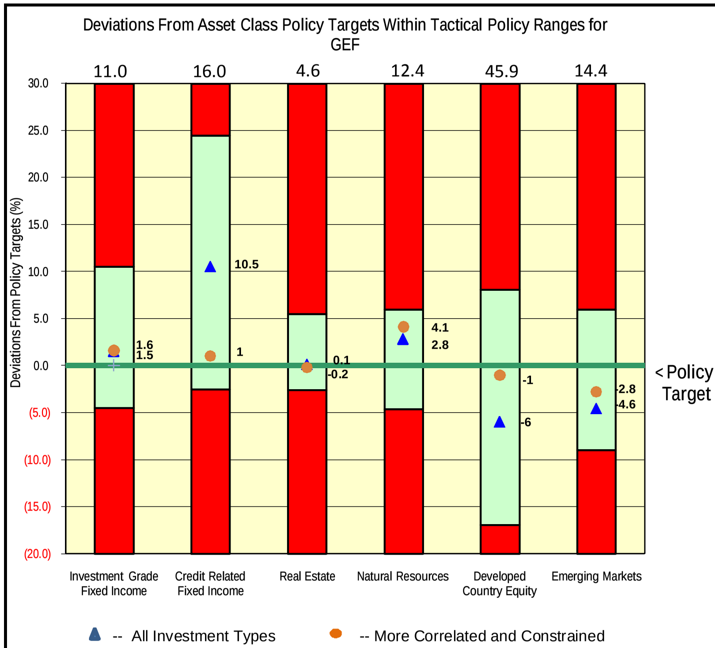
UTIMCO 12/30/2010

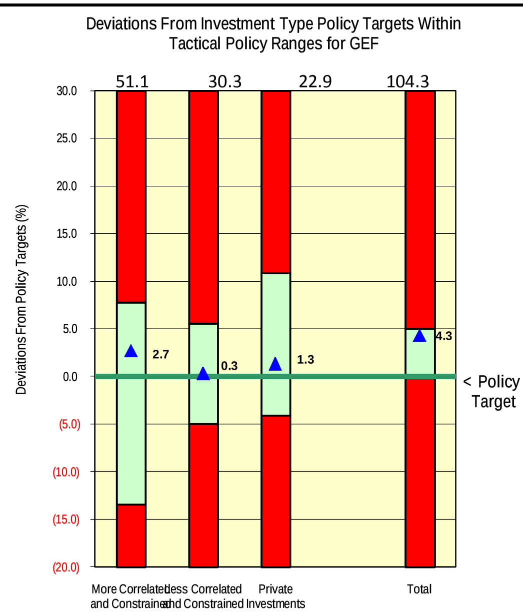
II. GENERAL ENDOWMENT FUND
Investment Reports for Periods Ended November 30, 2010
Prepared in accordance with *Texas Education Code* Sec. 51.0032

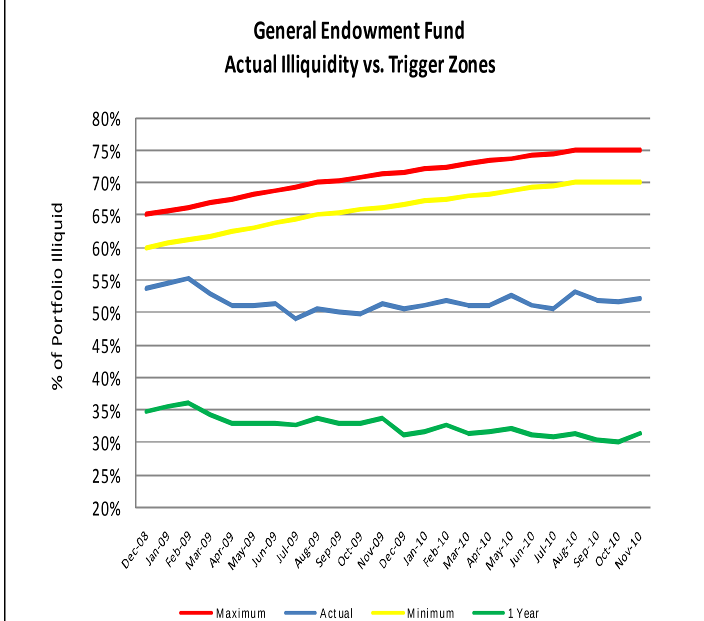
Summary of Capital Flows

($ millions)	Fiscal Year Ended August 31, 2010	Quarter Ended November 30, 2010	Fiscal Year to Date November 30, 2010
Beginning Net Assets	$ 5,359	$ 6,035	$ 6,035
Contributions	285	129	129
Withdrawals	(11)	(5)	(5)
Distributions	(298)	(80)	(80)
Investment Return (Net of Expenses)	700	420	420
Ending Net Assets	$ 6,035	$ 6,499	$ 6,499

	Fiscal Year to Date				
	Returns		Value Added		
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
More Correlated and Constrained:					
Investment Grade	0.03%	-0.31%	-0.30%	0.03%	-0.27%
Credit-Related	5.27%	4.00%	-0.01%	0.00%	-0.01%
Real Estate	9.24%	8.49%	-0.03%	0.03%	0.00%
Natural Resources	15.73%	14.96%	0.30%	0.04%	0.34%
Developed Country	11.33%	10.95%	-0.36%	0.08%	-0.28%
Emerging Markets	11.33%	11.32%	-0.19%	-0.01%	-0.20%
Total More Correlated and Constrained	**8.84%**	**9.59%**	**-0.59%**	**0.17%**	**-0.42%**
Less Correlated and Constrained	**4.95%**	**3.76%**	**-0.03%**	**0.39%**	**0.36%**
Private Investments	**4.96%**	**0.68%**	**-0.07%**	**0.99%**	**0.92%**
Total	**6.80%**	**5.94%**	**-0.69%**	**1.55%**	**0.86%**





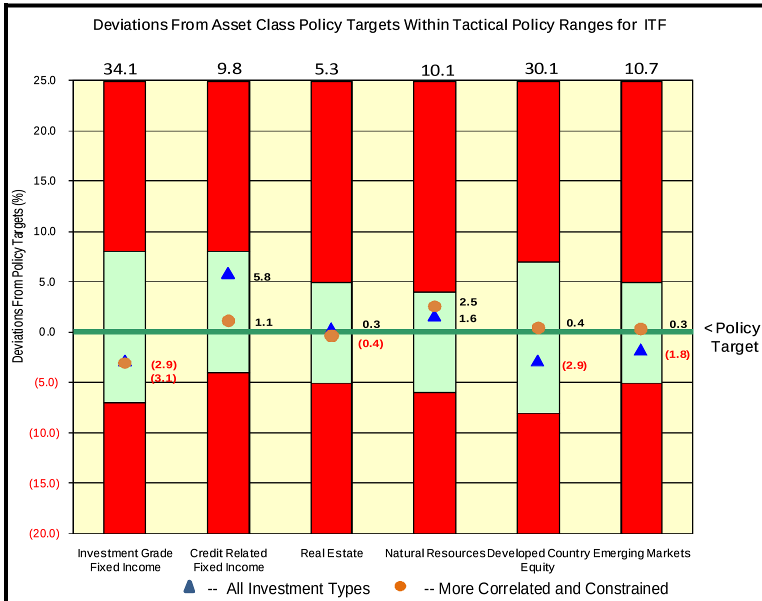


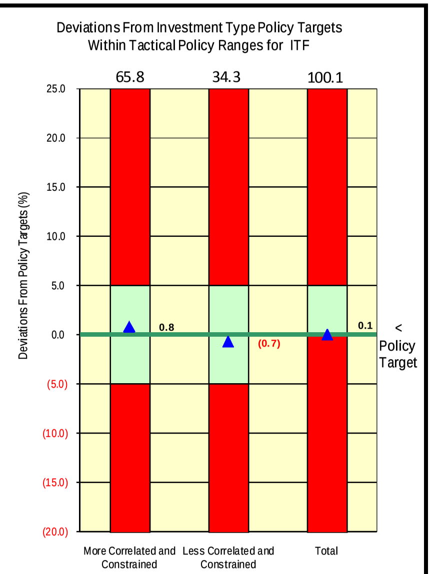
III. INTERMEDIATE TERM FUND
Investment Reports for Periods Ended November 30, 2010
Prepared in accordance with *Texas Education Code* Sec. 51.0032

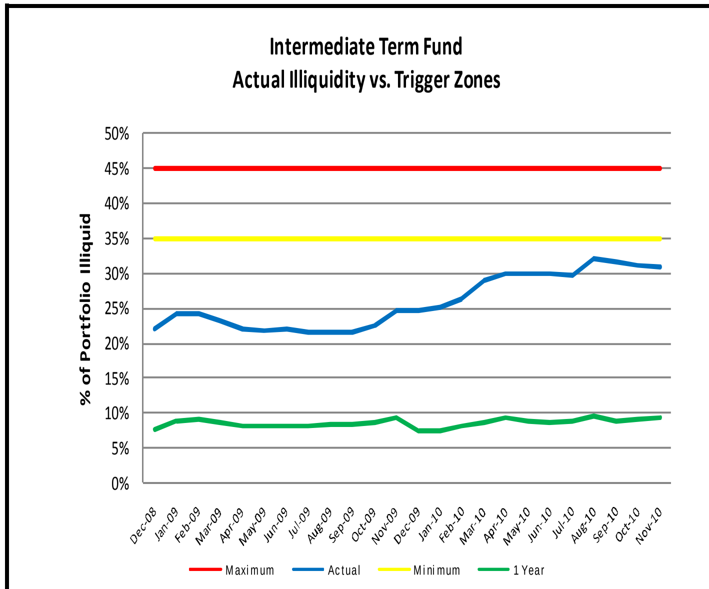
Summary of Capital Flows

($ millions)	Fiscal Year Ended August 31, 2010	Quarter Ended November 30, 2010	Fiscal Year to Date November 30, 2010
Beginning Net Assets	$ 3,572	$ 4,156	$ 4,156
Contributions	409	79	79
Withdrawals	(112)	(23)	(23)
Distributions	(119)	(33)	(33)
Investment Return (Net of Expenses)	406	232	232
Ending Net Assets	$ 4,156	$ 4,411	$ 4,411

	Fiscal Year to Date				
	Returns		Value Added		
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
More Correlated and Constrained:					
Investment Grade	0.32%	-0.31%	0.06%	0.22%	0.28%
Credit-Related	6.65%	4.00%	0.01%	0.00%	0.01%
Real Estate	9.21%	8.49%	-0.02%	0.02%	0.00%
Natural Resources	15.09%	14.96%	0.16%	0.03%	0.19%
Developed Country	11.24%	10.95%	0.01%	0.02%	0.03%
Emerging Markets	11.06%	11.32%	-0.01%	-0.01%	-0.02%
Total More Correlated and Constrained	**5.89%**	**5.12%**	**0.21%**	**0.28%**	**0.49%**
Less Correlated and Constrained	**4.95%**	**3.76%**	**-0.06%**	**0.47%**	**0.41%**
Private Investments	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Total	**5.56%**	**4.66%**	**0.15%**	**0.75%**	**0.90%**







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IV. SEPARATELY INVESTED ASSETS

Summary Investment Report at November 30, 2010

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

($ thousands)

	FUND TYPE															
	CURRENT PURPOSE				ENDOWMENT &		ANNUITY & LIFE				TOTAL EXCLUDING		OPERATING FUNDS			
	DESIGNATED		RESTRICTED		SIMILAR FUNDS		INCOME FUNDS		AGENCY FUNDS		OPERATING FUNDS		(SHORT TERM FUND)		TOTAL	
ASSET TYPES																
Cash & Equivalents:	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET
Beginning value 08/31/10	-	-	1,778	1,778	42,912	42,912	1,120	1,120	276,601	276,601	322,411	322,411	1,667,382	1,667,382	1,989,793	1,989,793
Increase/(Decrease)	-	-	152	152	(5,206)	(5,206)	124	124	(93,237)	(93,237)	(98,167)	(98,167)	565,240	565,240	467,073	467,073
Ending value 11/30/10	-	-	1,930	1,930	37,706	37,706	1,244	1,244	183,364	183,364	224,244	224,244	2,232,622	2,232,622	2,456,866	2,456,866
Debt Securities:																
Beginning value 08/31/10	-	-	306	306	10,932	12,075	10,330	11,273	-	-	21,568	23,654	-	-	21,568	23,654
Increase/(Decrease)	-	-	(155)	(155)	(35)	(152)	1,021	948	-	-	831	641	-	-	831	641
Ending value 11/30/10	-	-	151	151	10,897	11,923	11,351	12,221	-	-	22,399	24,295	-	-	22,399	24,295
Equity Securities:																
Beginning value 08/31/10	147	3,774	488	452	30,118	28,056	12,814	11,144	-	-	43,567	43,426	-	-	43,567	43,426
Increase/(Decrease)	-	(616)	(184)	(179)	(213)	3,477	1,387	2,543	-	-	990	5,225	-	-	990	5,225
Ending value 11/30/10	147	3,158	304	273	29,905	31,533	14,201	13,687	-	-	44,557	48,651	-	-	44,557	48,651
Other:																
Beginning value 08/31/10	-	-	4,843	4,843	-	-	386	137	1,846	1,846	7,075	6,826	-	-	7,075	6,826
Increase/(Decrease)	-	-	(1,289)	(1,289)	-	-	-	-	(746)	(746)	(2,035)	(2,035)	-	-	(2,035)	(2,035)
Ending value 11/30/10	-	-	3,554	3,554	-	-	386	137	1,100	1,100	5,040	4,791	-	-	5,040	4,791
Total Assets:																
Beginning value 08/31/10	147	3,774	7,415	7,379	83,962	83,043	24,650	23,674	278,447	278,447	394,621	396,317	1,667,382	1,667,382	2,062,003	2,063,699
Increase/(Decrease)	-	(616)	(1,476)	(1,471)	(5,454)	(1,881)	2,532	3,615	(93,983)	(93,983)	(98,381)	(94,336)	565,240	565,240	466,859	470,904
Ending value 11/30/10	147	3,158	5,939	5,908	78,508	81,162	27,182	27,289	184,464	184,464	296,240	301,981	2,232,622	2,232,622	2,528,862	2,534,603

Details of individual assets by account furnished upon request.

7. **U. T. System: Report on the Fiscal Year 2010 Annual Financial Report, including the report on the U. T. System Annual Financial Report Audit**

REPORT

Mr. Randy Wallace, Associate Vice Chancellor, Controller and Chief Budget Officer, will discuss the 2010 Annual Financial Report (AFR) highlights using the PowerPoint presentation on Pages 202 - 215. The AFR was mailed to all Regents in advance of the meeting and is available upon request.

The U. T. System Consolidated Financial Statements for the Years Ended August 31, 2010 and 2009 includes the Management's Discussion and Analysis that provides an overview of the financial position and activities of the U. T. System for the year ended August 31, 2010.

Mr. Charles Chaffin, Chief Audit Executive, will report on the internal audits performed of the institutional, U. T. System Administration, and U. T. System Consolidated AFRs for the fiscal year ended August 31, 2010, using a PowerPoint presentation on Pages 216 - 228. These audits were performed by internal audit at the institutions and U. T. System Administration with direction from the System Audit Office. An executive summary of the internal audit results is included on Pages 229 - 231. The issued internal audit reports are available upon request.

BACKGROUND INFORMATION

The Annual Financial Report is required to be filed with the State Comptroller of Public Accounts annually on November 20 and is prepared in compliance with *Texas Government Code* Section 2101.011, regarding requirements established by the State Comptroller of Public Accounts and Governmental Accounting Standards Board pronouncements.

The internal audits of the institutional, U. T. System Administration, and U. T. System Consolidated AFRs were performed for the benefit of management as requested by the U. T. System Board of Regents and are not intended to provide assurance for any purpose to readers of the reports outside of U. T. System.

Annual Financial Report Highlights Fiscal Year 2010

Mr. Randy Wallace
Associate Vice Chancellor – Controller and Chief Budget Officer

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U. T. System Board of Regents'
Joint Meeting of the Finance and Planning and
Audit, Compliance, and Management Review Committee

February 2011

Required in the Annual Financial Report

- **Required supplemental information and financial statements include:**
  - ***Management's Discussion and Analysis (MD&A)***
  - ***Notes to the Financial Statements***
  - ***Balance Sheet***
  - ***Statement of Revenues, Expenses, and Cash Net Assets (SRECNA)***
  - ***Statement of Cash Flows***

Financial Position FY 2010

- **Balance sheet still strong**
  - **Assets over $40 billion**
  - **Net Assets over $26 billion**
  - **Operating results increased**
  - **Cash position increased slightly**
- **MD&A must provide an objective overview**
- **U. T. System's financial position for FY 2010 increased as a result of current year operations primarily due to:**
  - **Improved financial market conditions and strong investment performance at The University of Texas Investment Management Company**
    - **resulting in significant realized and unrealized gains in U. T. System's investments**

New in FY 2010

U. T. System implemented the following in FY 2010:

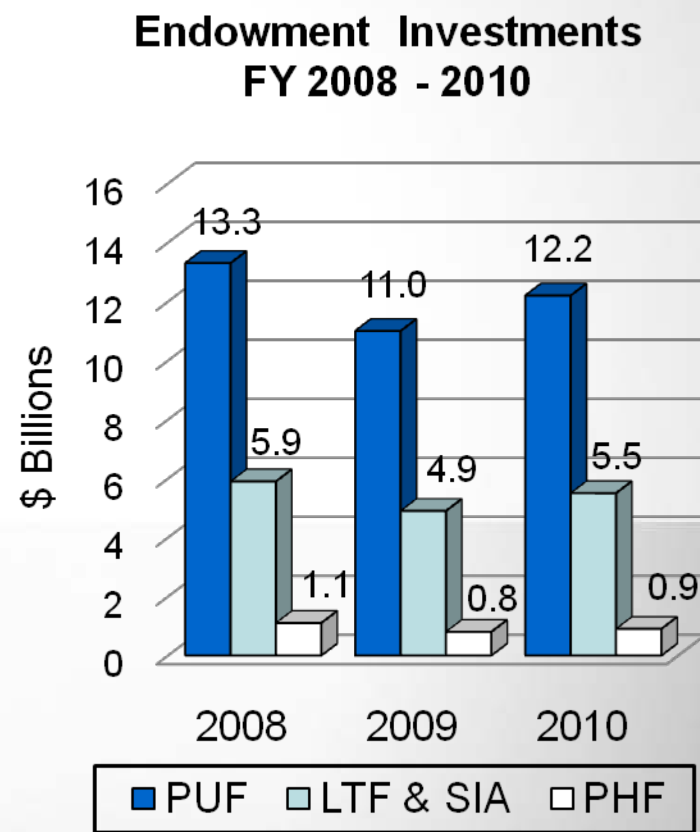
- Financial Consolidation and Reporting System (FCRS) systemwide

- Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*
  - No significant impact to net assets

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*
  - Provisions of this statement were applied retroactively, resulting in the following restatements to FY 2009:
    - $93 million hedging derivative liability and offsetting deferred outflows, with no net asset impact, and
    - $30 million increase to investment derivative instruments, with a corresponding increase in fair value of investments as of August 31, 2009

Balance Sheet

The University of Texas System				
($ in millions)		**2008**	**2009**	**2010**
Assets and Deferred Outflows:				
Current Assets	$	5,260.7	5,005.2	5,576.6
Noncurrent Investments		25,127.9	20,920.6	23,356.5
Other Noncurrent Assets and Deferred Outflows		281.9	360.5	477.6
Capital Assets, net		9,300.1	10,130.7	11,008.0
Total Assets and Deferred Outflows	**$**	***39,970.6***	***36,417.0***	***40,418.7***
Liabilities and Deferred Inflows:				
Current Liabilities	$	7,405.7	6,112.4	5,903.6
Noncurrent Liabilities and Deferred Inflows		4,947.3	6,248.9	7,808.1
Total Liabilities and Deferred Inflows		***12,353.0***	***12,361.3***	***13,711.7***
Net Assets:				
Invested in Capital Assets, Net of Related Debt		4,492.6	4,475.10	4,630.8
Restricted		20,377.6	17,197.0	19,119.0
Unrestricted		2,747.4	2,383.6	2,957.2
Total Net Assets		***27,617.6***	***24,055.7***	***26,707.0***
Liabilities, Deferred Inflows, and Net Assets	***$***	***39,970.6***	***36,417.0***	***40,418.7***



Balance Sheet (cont.)

The University of Texas System				
($ in millions)		2008	2009	2010
Assets and Deferred Outflows:				
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Noncurrent Investments		25,127.9	20,890.2	23,356.5
Other Noncurrent Assets and Deferred Outflows		281.9	266.9	477.6
Capital Assets, net		9,300.1	10,130.7	11,008.0
Total Assets and Deferred Outflows	$	***39,970.6***	***36,293.0***	***40,418.7***
Liabilities and Deferred Inflows:				
Current Liabilities	$	7,405.7	6,112.4	5,903.6
Noncurrent Liabilities and Deferred Inflows		4,947.3	6,155.3	7,808.1
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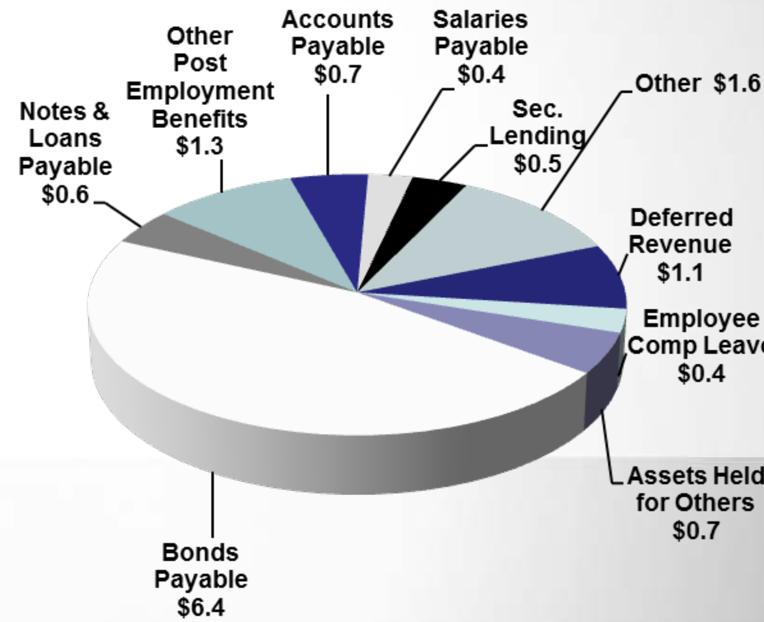
Total Net Assets		***27,617.6***	***24,025.3***	***26,707.0***
Liabilities, Deferred Inflows, and Net Assets	$	***39,970.6***	***36,293.0***	***40,418.7***

Liabilities and Deferred Inflows - $13.7 billion
(in billions)



Balance Sheet (cont.)

The University of Texas System				
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Total Net Assets		***27,617.6***	***24,025.3***	***26,707.0***
Liabilities, Deferred Inflows, and Net Assets	***$***	***39,970.6***	***36,293.0***	***40,418.7***

Net Assets - $26.7 billion

Statement of Revenues, Expenses, and Changes in Net Assets

The University of Texas System

($ in millions)		2008	2009	2010
Operating Revenues	$	8,163.3	8,564.2	9,241.7
Operating Expenses		(11,015.7)	(11,775.2)	(12,248.2)
Operating Loss		***(2,852.4)***	***(3,211.0)***	***(3,006.5)***
State Appropriations		1,956.7	2,115.0	2,087.5
Gifts & Nonexchange Grants		368.8	478.7	695.9
Net Investment Income		1,648.3	(1,304.9)	1,431.4
Net Incr./(Decr.) in Fair Value of Investments		(1,880.6)	(1,302.5)	1,522.1
Interest Expense		(161.7)	(158.9)	(207.5)
Net Other Nonop. Rev. (Exp.)		(28.9)	26.9	(0.8)
Income (Loss) Before Other Rev. Exp. Gains/(Losses) & Transfers		**(949.8)**	**(3,356.7)**	**2,522.1**
HEAF/Gifts for Endow.& Capital		355.8	182.9	353.1
Transfers and Other		(138.0)	(388.1)	(223.9)
Change in Net Assets		***(732.0)***	***(3,561.9)***	***2,651.3***
Net Assets, Beginning		28,349.6	27,617.6	24,055.7
Net Assets, Ending	***$***	***27,617.6***	***24,055.7***	***26,707.0***

Operating Revenues - $9.2 billion

Auxiliary Enterprises 4 %
Physician Fees 12 %
Tuition & Fees 13 %
Other Sales & Services 5 %
Sponsored Programs 29 %
Hospitals/ Clinics 37 %

Operating Expenses - $12.2 billion

Operations & Maintenance 6%
Hospitals & Clinics 26%
Academic Support 4%
Student Services 1%
Scholarships & Fellowships 3%
Public Service 2%
Auxiliary 4%
Institutional Support 10%
Research 15%
Instruction 23%
Depreciation & Amortization 6%

Statement of Revenues, Expenses, and Changes in Net Assets (cont.)

The University of Texas System

($ in millions)		2008	2009	2010
Operating Revenues	$	8,163.3	8,564.2	9,241.7
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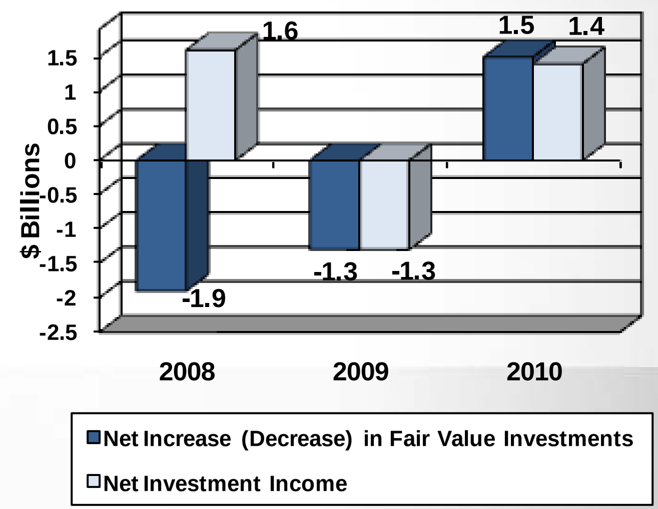
Change in Net Assets		***(732.0)***	***(3,561.9)***	***2,651.3***
Net Assets, Beginning		28,349.6	27,617.6	24,055.7
Net Assets, Ending	***$***	***27,617.6***	***24,055.7***	***26,707.0***



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Statement of Revenues, Expenses, and Changes in Net Assets (cont.)

Operating Results
FY 2008 - 2010

		2008	2009	2010
			($ in millions)	
Income (loss) before other revenue, expenses, gains/(losses) and transfers	$	(949.8)	(3,356.7)	2,522.1
Remove nonoperating items:				
Net (incr.)/decr. in fair value of investments		1,880.6	1,302.5	(1,522.1)
Loss on sale of capital assets		25.3	6.9	12.6
Other nonoperating (income)/expense		3.6	(33.8)	(11.8)
Realized (gains)/losses on investments		(695.5)	1,903.3	(797.4)
Net operating results	$	264.2	(177.8)	203.4

Cash Flows

The University of Texas System				
($ in millions)		**2008**	**2009**	**2010**
Cash Flows:				
Cash received from operations	$	8,237.9	8,816.8	9,398.3
Cash expended for operations		(9,940.5)	(10,731.3)	(11,089.0)
Cash used for operating activities		***(1,702.6)***	***(1,914.5)***	***(1,690.7)***
Cash provided by noncapital financing activities		2,067.3	2,398.8	2,726.9
Cash used in capital & related financing activities		(758.0)	(790.3)	(1,141.5)
Cash provided by/(used in) investing activities		456.0	706.4	323.2
Net increase (decrease) in cash & cash equivalents		***62.7***	***400.4***	***217.9***
Cash & cash equivalents, Beginning of the year		1,881.6	1,944.3	2,344.7
Cash & Cash equivalents, End of the year	*$*	***1,944.3***	***2,344.7***	***2,562.6***

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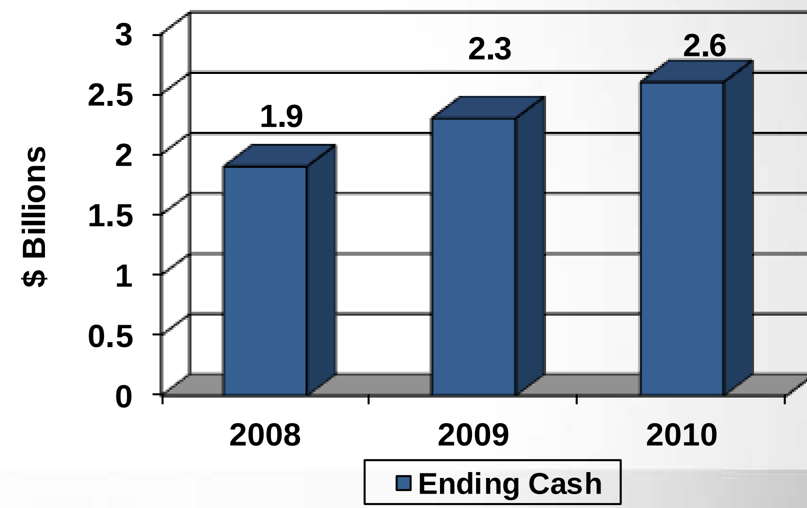
The three-year trend of ending cash and cash equivalents



Permanent University Fund (PUF) Lands

PUF lands are considered an investment by U. T. System

- Fair Value (FV) of PUF lands is based on a third party reserve study of proved reserves. Probable and possible reserves of oil and gas are not included in FV estimate.

- PUF lands' surface interests reported at appraised value

- Other real estate holdings are reported by:
  - Latest available appraised amount by State certified or licensed appraiser, or
  - Any other generally accepted industry standard

PUF Land Valuation

- According to GASB 52, “land and other real estate held as investments by endowments should be reported at fair value at the reporting date.”
- PUF lands being reported at fair value was challenged by State Comptroller in January 2010 due to the exception in GASB 52, “This Statement does not apply to lands granted by the Federal government in connection with a state being admitted to the United States.”
- U. T. System wrote a letter to GASB in March 2010
  - Stating our position and requesting that the GASB Board expedite a review of the scope of GASB 52
  - Still awaiting response
- PUF lands Fair Value = \$1.5 billion, Cost = \$10 million

Looking Forward to FY 2011

- 5% reduction in State appropriations for the 2010-2011 biennium was announced in January
  - Reduction of approximately $175 million to be recognized in 2011
- OPEB will continue to place a strain on net assets
- The Patient Protection and Affordable Care Act and Health Care and Education Reconciliation Act of 2010 health care reform will likely affect the medical centers
  - Some provisions of the health care reform legislation are effective immediately; others will be phased in through 2014
  - The impact of this legislation will likely affect the medical centers, the effect of the changes that will be required in future years are not determinable at this time
- External Audit – FY 2011 (Deloitte & Touche)
  - Experiencing significant time pull of staff resources

U. T. System Annual Financial Report (AFR) Audit

Fiscal Year Ended August 31, 2010

Mr. Charles Chaffin
Chief Audit Executive
U. T. System Audit Office

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U. T. System Board of Regents'

Joint Meeting of the Audit, Compliance, and Management Review and Finance and Planning Committees

February 2011

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Background

- The internal audits of the fiscal year (FY) 2010 institutional, U. T. System Administration, and U. T. System Consolidated Annual Financial Reports (AFRs) were performed for the benefit of the U. T. System Board of Regents, U. T. System Administration management, and U. T. System institutional management.
- The internal audits were coordinated and directed by the U. T. System Audit Office.
- Collectively, this is the largest coordinated activity of the Systemwide internal audit function.

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Scope of Work

- The audit scope was determined through risk assessments performed with guidance from the U. T. System Audit Office.
- The financial statement audits of U. T. M. D. Anderson Cancer Center and the UTIMCO funds and corporation were performed by independent external auditors.
- The remaining institutional and U. T. System Administration AFRs were audited by the internal auditors using a materiality level based upon the size of each institution.

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Additional Assurance Provided in the FY 2010 AFR Audit

- Updated our understanding of key internal controls over financial reporting.
- Performed limited testing of the key internal controls to provide assurance that these controls are in place and working as intended.
- Reviewed implementation of Governmental Accounting Standards Board Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*, which became effective for FY 2010 and requires derivative instruments to be reported at fair value.

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Oversight Provided by the U. T. System Audit Office

- Conducted recurrent teleconferences with institutional internal auditors to assess progress made and share common issues.
- Provided standard report template, which was customized by the institutions.
- Reviewed institutional draft audit reports and provided feedback.
- Provided ongoing guidance, addressed issues, and answered questions in a consistent manner.

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U. T. System Administration AFR – Areas of Audit Focus

- Bond liability and expenses
- Reporting of bond-related interest rate swaps
- Permanent University Fund land valuation and revenue
- Real estate valuation
- Cash
- Self-insurance liabilities and expenses
- Reporting of Other Post Employment Benefits
- Capital assets, including internally developed software considered to be intangible assets

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U. T. Institutional AFRs – Areas of Audit Focus

- Tuition and fees
- Physician & hospital billing
- Auxiliary enterprises
- Sponsored programs
- Pledges & contributions
- Sales & services of hospitals/educational activities
- Purchasing & expenditures
- Salaries & wages
- Cash & cash equivalents
- Capital assets & intangible assets
- Certification process
- IT controls
- State appropriations
- Journal entries
- Financial statement notes
- Recalculation of the Statement of Cash Flows

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U. T. System Consolidated AFR – Areas of Audit Focus

- Training and information provided to institutional financial reporting staff
- Process to review each institutional AFR
- Combination and elimination entries made to consolidate financial information
- Footnote and Management's Discussion and Analysis (MD&A) information
- Financial Statement Certifications as required by UTS142.1, *Policy on the Annual Financial Report*
- Validation of the new Financial Consolidation Reporting System implemented in FY 2010

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U. T. Institutional AFRs – Audit Results

- The individual internal audits resulted in the identification of no material misstatements to the U. T. System Administration AFR and the institutional AFRs.
- The following control deficiencies were deemed significant but did not require an AFR adjustment due to immateriality:
  - The U. T. Harris County Psychiatric Center at U. T. Health Science Center – Houston did not appropriately update its accounts receivable and the allowance of doubtful accounts and had other internal control deficiencies.
  - U. T. Pan American did not adequately reconcile their contracts and grants receivables balances.
  - U. T. Permian Basin recorded several manual journal entries directly to its general ledger in order to balance funds or correct errors.
  - U. T. Tyler did not reconcile a student billing clearing account.

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U. T. Institutional AFRs – Audit Results (cont.)

- Systemwide, 43 recommendations were made to address control deficiencies that were neither material nor significant in nature, identified in the following areas:
  - Account reconciliations, segregation of duties, & monitoring plans (10)
  - Accounts/pledges receivables & accounts payable (11)
  - Capital assets & inventory (8)
  - Payroll/time reporting (1)
  - Financial reporting (1)
  - IT access controls & change management (6)
  - Business continuity plan (2)
  - Accounting & reporting of derivative instruments (1)
  - Policies, procedures, & controls documentation (2)
  - Manual Excel spreadsheets (1)
- No material weaknesses in internal controls were discovered.

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U. T. System Consolidated AFR – Audit Results

- Accurately incorporated the externally and internally audited financial information submitted by the U. T. institutions.
- Presented in accordance with the accounting and financial reporting requirements for the AFR as promulgated by U. T. System policy, the Texas Comptroller of Public Accounts, and generally accepted accounting principles.
- No Systemwide internal control deficiencies, material or significant in nature, were found.

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Follow Up Status on Prior Year's AFR Audit Results

- The recommendations made to address the two Systemwide internal control deficiencies and the three institutional significant control deficiencies from the prior year's AFR audits were determined to be implemented.

Future Financial Audit Work

- The U. T. System Audit Office kept the external auditor informed about the internal audit of the FY 2010 AFR and continues ongoing communication with Deloitte & Touche to assist in planning for the FY 2011 external financial audit.

Background

After The University of Texas (UT) System Board of Regents (Board) elected not to renew the contract for the independent financial audit in April 2007, the Board requested that the internal auditors from across UT System perform financial auditing work at each institution and UT System Administration for fiscal year (FY) 2007, with overall guidance from the UT System Audit Office (System Audit). FY 2010 marks the fourth year that internal auditors performed financial auditing work at UT System Administration, four of the large health institutions, and UT Austin; and it is the sixth year that internal audit has performed financial auditing work at the eight smaller academic institutions and UT Health Science Center –Tyler. Collectively, our financial audit work has been the largest coordinated activity of the internal audit function within UT System, representing the dedication of scores of staff and thousands of hours of work. System Audit is responsible for coordinating these engagements, which have a firm November deadline that is ostensibly set by the Texas State Comptroller of Public Accounts.

Additional Assurance for FY 2010

Each year, we have strived to improve the efficiency and value of our audits. To enhance consistency in the procedures performed, System Audit updated a common, standardized audit program that was used by the internal auditors Systemwide. This effort reduced variations in the type and extent of testing conducted as part of the audits. System Audit also updated the report template to ensure that we uniformly report the results of our work. To provide consistent and ongoing guidance, System Audit conducted recurrent teleconferences with institutional auditors to assess progress made. In keeping with work performed for FY 2009, we performed additional assurance work for FY 2010. This year, we updated our understanding of key internal controls and performed limited internal control testing over several key areas, such as capital assets, accounts receivable, accounts payable, sponsored programs, and information technology. We believe that this additional audit work provides the Board and executive management assurance that certain key controls over financial reporting are in place and working as intended.

UT System Annual Financial Reporting Process

UT System's Consolidated Annual Financial Report (AFR) includes financial information from the Balance Sheets; the Statements of Revenues, Expenses, and Changes in Nets Assets (SRECNA); the Statements of Cash Flows; and footnote information from the nine academic and six health-related institutions and UT System Administration. Financial reporting officers at the institutions and UT System Administration prepare AFRs in accordance with accounting and financial reporting requirements promulgated by UT System policy and the Texas Comptroller of Public Accounts. UT System Administration's Office of the Controller consolidates the institutional AFRs with the UT System Administration AFR and prepares footnotes and other related disclosures so that the UT System Consolidated AFR (Consolidated AFR) is prepared in accordance with generally accepted accounting principles.

Audit Objectives, Scope, and Methodology

As in previous years, UT M. D. Anderson Cancer Center (UTMDACC) elected to have an external audit of its financial statements, and the funds managed by The University of Texas Investment Management Company (UTIMCO) were audited, as required by statute, by an external auditor. Internal auditors at the remaining 14 institutions and UT System Administration performed financial audit work for their respective AFRs (*Note:* the funds managed by UTIMCO are included in the UT System Administration AFR). System Audit also performed an audit of the processes used by the Office of the Controller at UT System Administration to prepare the Consolidated AFR and related footnotes for FY 2010, including assessing the sufficiency of the footnote disclosures based on requirements from the Texas Comptroller of Public Accounts and generally accepted accounting principles. Additionally, the internal auditors at the 14 institutions and UT System Administration identified and tested certain key controls over the processes used to prepare the institutional AFRs, UT System Administration AFR, and the Consolidated AFR. The internal audits were performed in accordance with the guidelines set forth in the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Results

The external auditor provided unqualified audit opinions on the financial statements for the funds managed by UTIMCO and the UTMDACC financial statements. Based on work performed, internal audit at the 14 institutions and UT System Administration reported to their respective members of management that the information included in the AFRs and related footnote information accurately presents, in all material respects, the financial position, results of operations and changes in net assets, and cash flows as of August 31, 2010, and for the year then ended. The formal reports were issued in December 2010.

System Audit performed an audit of the consolidation processes, the Consolidated AFR, and related footnotes to determine whether the financial and footnote information submitted by the institutions properly reflect UT System's financial position, results of operations and changes in net assets, and cash flows as of August 31, 2010 and for the year then ended. Based on work performed, we found that the consolidated AFR is presented in accordance with accounting and financial reporting requirements as promulgated by UT System policy, the Texas Comptroller of Public Accounts, and generally accepted accounting principles. The formal report was issued in December 2010.

The UT System Chief Audit Executive reported the results of our collective audit work at the institutions and UT System Administration to the UT System Administration Internal Audit Committee at its November 30, 2010 meeting.

Internal Controls

Our identification and limited testing of key internal controls were performed to determine whether these controls may be relied upon to detect and correct potential material misstatements that may be caused by errors or fraud. Testing was limited to controls specifically identified in the institutional, UT System Administration, and the Consolidated AFR reports**.** There may be additional internal controls that we did not identify and test as part of our audits. Consequently, we did not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

In performing the internal audits of the institutional AFRs, UT System Administration AFR, and Consolidated AFR, no material control deficiencies were identified. However, four institutions identified the following significant control deficiencies, none of which had a material impact on the institutional or consolidated financial statements.

> **UT Health Science Center – Houston:** The UT Harris County Psychiatric Center (UT HCPC) has been operating under interim financial management since April 2010. Internal audit found that both accounts receivable and the allowance for doubtful accounts (an estimate of receivables that may go uncollected) for UT HCPC were not appropriately updated. Internal audit also noted inadequate review and approval of expenses, and inadequate separation of duties in financial operations at UT HCPC. To address these issues, UT HCPC has made significant upgrades to positions and personnel in financial operations. Control processes have been and are continuing to be developed and implemented. The newly created position of Chief Financial Officer was filled and in place in December 2010.

UT Pan American: Internal audit determined that the month-end closing process of generating invoices for all expenses and revenues posted to the general ledger was not completed for contracts and grants. Additionally, reconciliation of the Federal Receivables, Other Intergovernmental Receivables, and Other Receivables related to grants and contracts to the general ledger was not performed regularly or at year end. Management has investigated and resolved an immaterial unreconciled difference between the general ledger and subsidiary ledger. Management will, on a go forward basis, ensure that the subsidiary ledger is reconciled monthly and at year end.

UT Permian Basin: Internal audit discovered that the Office of Accounting personnel processed multiple manual journal entries directly to the general ledger in order to balance funds or correct errors on the institution's AFR, specifically as related to direct student loans as well as emergency and book loans. Management is taking steps to ensure that these loan funds are appropriately recorded in the future. They also agreed that the accounting staff needs additional financial reporting training and that direct manual journal entries to the general ledger should be minimized.

UT Tyler: Internal audit found that a clearing account in the student billing system was not being reconciled throughout the year or at year end resulting in an immaterial unreconciled difference between the student financial aid system and the general ledger. Management has taken action to resolve the unreconciled difference and will ensure that the reconciliation between the billing system and the general ledger occur monthly and at year end.

Other Control Deficiencies

Internal auditors at UT System Administration and the institutions reported upon various internal control deficiencies that are neither material nor significant in nature. We believe that the related recommendations will enhance the ability of management or employees, in the normal course of performing their assigned functions, to detect or prevent errors or misstatements in a timely manner.

Monitoring Plans

Last year we identified opportunities to enhance controls related to monitoring plans over account reconciliation and separation of duties. We are pleased to report that our institutions, with the assistance of UT System Administration's Office of the Controller, have made significant progress in this area.

GASB 53

GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, which became effective for FY 2010, require derivative instruments to be reported at fair value. UT System has 12 derivatives instruments that are primarily associated with variable rate demand bonds. Changes in fair value for effective hedges that are achieved with derivative instruments are to be reported as deferrals in the statement of net assets. Derivative instruments that either do not meet the criteria for an effective hedge or are associated with investments that are already reported at fair value are to be classified as investment derivative instruments. Changes in fair value for investment derivative instruments are reported as investment revenue. With the assistance from System Audit and the external auditor, management determined that five of the 12 derivative instruments were not effective and that hedge accounting did not apply. The appropriate changes were made to the Balance Sheet and SRECNA. The financial reporting for derivative instruments illustrates the value of having an external auditor and its national resources for handling new GASB pronouncements and complex accounting issues.