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FOR
VOLUME 2
February 6-7, 2008

U. T. System: Update on implementation of the U. T. System Strategic Plan

Planning framework. At its August 2006 meeting, the U. T. System Board of Regents adopted a new strategic plan for the period 2016-2005. This ambitious planning framework aligns institution, System, and state goals and depends on shared responsibilities for the System and the 15 institutions.

The progress and impact of the System's strategic investments and initiatives are monitored through the annual accountability and performance report, together with regular and special reports to the Board of Regents on specific initiatives. For the institutions, planning tools include: a flexible schedule for individual institution strategic or long-range plans, institution Compacts, and the presidents' work plans.

Externally, plans for institutions and the System are part of the planning process of the Legislative Budget Board and the Texas Higher Education Coordinating Board, Closing the Gaps goals, as well as regional and specialized accreditation studies.

Progress update. Since the completion of the Board's strategic plan 18 months ago, the critical issues that the U. T. System and institutions face persist:

- Funding and resources
- Educational pipeline, diversity, alignment, student success
- Mission focus and selective excellence
- Health issues
- Globalization and competition for talent
- Collaborations and partnerships
- Economic and science/engineering impact of System
- Interdisciplinary programs and research
- Leadership development
- Value-added, efficiency, use of technology
- System messages
- Measurement systems and accountability
- Strategic planning and governance

The U. T. System has addressed each of these issues in its pursuit of the six themes, specific goals, and initiatives laid out in the strategic plan. Focus and alignment with this framework are clear in the agendas of Board meetings, the campus strategic plans and compacts, in the workplans for System administrative offices, and in the progress on specific indicators that is already being achieved.

This report summarizes progress to date by focusing on two topics:

1. The progress overview of the strategic plan as a whole (pp. 2 – 7), reflects progress made in the previous year on the key metrics established in the plan. This information is a synopsis; detail and data about each initiative is provided in special reports, and is pursued in the work of System-wide task forces, advisory groups, and System administration. Items are checked if an action has taken place, or if data indicate that positive change is occurring. Absence of a check can mean that an activity has not yet been addressed (e.g., the impact of arts on the community); that work is underway but change has not yet been observed consistently (e.g., increase in spin-off companies); or that data do not exist to assess progress (e.g., citations of faculty publications). System administrators and presidents work together to address these gaps.

2. The new campus strategic plans overview (pp. 8 – 10) documents the completion over the past two years of new or updated strategic plans for 10 of the 15 UT System institutions. Plans for the remaining five are in development, and are expected to be completed by Fall 2008. These plans align with, but need not duplicate in every detail, the UT System's overall strategic plan.

The UT System Strategic Plan 2006-2015: Progress on Goals and Initiatives

Initiative	***Impact Indicators*** *(Tracking is ongoing, with annual Accountability Report or special reports)*	***Progress*** *2007*
STUDENT SUCCESS		
Improving undergraduate success Include more representative data and alternative measures	▪ Increase 4, 5, 6 year grad rates	✓
	▪ Increase transfer student grad rates	✓
	▪ Learning outcomes	✓
	▪ K-12 collaborations	✓
	▪ Dual enrollment programs; use of AP	
	▪ Decrease in developmental SCHs	✓
Enrollment Management – admission standards, tuition modeling, financial aid	▪ Use degree-checking software	✓
	▪ Increase in full-time enrollment	✓
	▪ Decrease in stopouts/dropouts	
	▪ Improved space/time utilization	
	▪ Revised admission standards	✓
	▪ Campus plans completed	✓
Strategic use of financial aid	▪ Increase in continuous enrollment of students receiving aid	
	▪ Use of guaranteed tuition plans	✓
	▪ Increase in participation in study abroad, UG research, internships, service learning	
	▪ Increase in degrees to financial aid recipients	
Increasing undergraduate STEM majors	▪ Increase in STEM majors	✓
	▪ Increase in STEM degrees	✓
	▪ Increase in teachers certified to teach math and science	
Community College initiative	▪ Form advisory group	✓
	▪ Identify leadership	✓
	▪ Increase community college partnerships	✓
Doctoral/Postdoctoral experience	▪ Recommendations from task force	✓
	▪ Grad student recruiting success	✓
	▪ Redesign of doctoral programs	✓
Global Initiative	▪ Inventory existing programs (UTS "global footprint," gaps, and overlaps)	✓
	▪ Increased # study abroad students	
	▪ Increased UTS presence abroad	
	▪ Shared resources across campuses	
	▪ Develop 10-year strategy	
Academic Leadership Development	▪ Inventory existing programs	✓
	▪ Identify priorities for program development and participation	✓
	▪ Establish institute and conduct programs	
	▪ Track participation and impact on participants and institutions	

Initiative	***Impact Indicators*** *(Tracking is ongoing, with annual Accountability Report or special reports)*	***Progress*** *2007*
IMPROVING HEALTH IN TEXAS		
Create new knowledge to improve health	▪ Increase research space by 30% over the next five years	✓
	▪ Achieve annual research growth of 3% or more above the growth rate of NIH funding	✓
	▪ Aspire to 5-8% annual increases in philanthropic support for research	✓
	▪ Increase the number of predoctoral research candidates by 15% over the next five years	unknown
	▪ Increase the number of M.D./Ph.D.'s by 20% over the next five years	✓
Prepare diverse, high-quality health professionals	▪ By 2012, increase the number of medical students enrolled by 20% over the baseline number in 2004	✓
	▪ Increase the number of nursing students enrolled by 40% over the next nine years	
	▪ Increase the number of dental students by 20% over the next seven years	✓
	▪ Increase the number of public health professional graduates or those certified by 15% over the next five years [includes efforts at academic institutions]	✓
	▪ Increase the number of allied health students graduated by 20% over the next five years	
	▪ By 2012, a two-fold increase in the percentage of Latinos in medical and dental classes	
Recruit and develop outstanding faculty	▪ Support of the Academy of Medicine, Engineering and Science of Texas	✓
	▪ Statewide scientific symposia, with national representation, supported by UT System	✓
	▪ Vigorous efforts to recruit and retain individuals who are members or strong candidates for the National Academies of Science and Engineering and the Institute of Medicine	✓
	▪ Board investments, through programs like STARS and LERR in public health and nursing, to help recruit outstanding faculty members	✓
Provide highest quality therapeutic measures	▪ Increase core product lines to attract insured; decrease emergency room use and hospitalization for those who could be managed on an ambulatory basis; improve funding for the uninsured	✓
	▪ Through expanded community-based ambulatory care programs	TBD

Initiative	***Impact Indicators*** *(Tracking is ongoing, with annual Accountability Report or special reports)*	***Progress*** *2007*
Facilitate translation of research to health applications	▪ Development of new products, devices, and clinical practices and the continuing education of health professionals	TBD
	▪ Patents resulting from research performed at the six health institutions will increase 10% a year over the next eight years	
	▪ Licenses from patented intellectual property will increase 8% annually over the next ten years	
Manage health institution efficiently	▪ By December 31, 2007, complete programs to substantially increase efficiency in reimbursement for patient care	
	▪ By December 31, 2007, complete analysis of potential business services, such as payroll, including potential for central services	✓
	▪ By June 30, 2007, establish mechanisms for purchasing of equipment, services, and supplies to maximize the overall purchasing power of the UT System health institutions	✓
	▪ By July 31, 2007, complete a strategic plan for managing deferred maintenance and equipment replacement	TBD
	▪ By 2011, make each UT System health science center an "employer of choice"	
Academic Leadership Development	▪ Survey results illustrate needs and priorities	✓
	▪ Establish institute and conduct programs	
Achieve growth in private support	▪ By December 31, 2006, in collaboration with the UT System Office of External Relations, establish institution goals in specific areas of fund raising	✓
	▪ By December 31, 2007, develop fully comprehensive fund-raising programs: annual giving, alumni giving, planned giving, major gifts acquisition, corporate giving, donor cultivation, and donor databanks available to all the health institutions	✓
	▪ By 2012, achieve annual philanthropic growth of 8% per year overall for the health institutions	✓
Increase public awareness	▪ Implement a three- to five- year communication plan	
	▪ Make the expertise of health institutions available for rational and effective public policies	✓
Encourage K-12 and college students to pursue health careers	▪ Raise additional public and private funds for the Joint Admissions Medical Program (JAMP) by July 1, 2007	✓
	▪ Continue to expand and extend campus outreach programs to high schools and colleges	
	▪ Support the 2006-2007 effort by the Academy of Medicine, Engineering and Science of Texas to enhance K-12 math and science in Texas	✓
Business Planning Workshop		

Initiative	***Impact Indicators*** *(Tracking is ongoing, with annual Accountability Report or special reports)*	***Progress*** *2007*
GLOBAL COMPETITIVENESS, RESEARCH, AND TECHNOLOGY TRANSFER		
Competitiveness: Pursue topics for potential System – wide centers (e.g., nano, energy, bioinformatics, drug development, drug development, security)	▪ # large-scale, cross-institution partnerships formed	✓
	▪ Nano-electronics initiative formed and funded	
	▪ Texas selected for major corporate and federal investments with UTS assistance	
	▪ increase in # / $ ETF partnerships	✓
Enhance research	▪ Increase sponsored expenditures	✓
	▪ Increase # and % faculty applying for and receiving grants	✓
	▪ Increase # national academy members	✓
Research support and compliance services	▪ Impact on federal research policy issues	✓
	▪ System symposia on critical issues	
	▪ Shared grant proposal development software	✓
Research collaborations	▪ Increase in research collaborations	
Increase technology transfer	▪ Increase in patents	✓
	▪ Increase in IP licenses	✓
	▪ Increase tech transfer revenue	✓
	▪ Increase # spin-off companies	
Technology transfer information and services	▪ Shared services in San Antonio established	✓
	▪ Spring 2007 technology showcase	✓
	▪ Develop IP database	
Workforce development	▪ Proportion of graduates employed in Texas	✓
	▪ Increase in # STEM degree- holders employed in Texas	
Developing top-tier universities and areas of strength	▪ Increase proportion of faculty with peer reviewed publications	
	▪ Increase proportion of faculty with external grants	
	▪ Increase proportion of UGs participating in research projects	
	▪ Increase grad/professional enrollments	✓
	▪ Increase number doctoral degrees	✓
	▪ Increased research collaborations within and among campuses	✓

Initiative	***Impact Indicators*** *(Tracked in annual Accountability Report or special reports)*	***Progress*** *2007*
ENRICHING SOCIETY THROUGH ARTS AND CULTURAL CONTRIBUTIONS		
Arts programs (examples; patterns; impact)	▪ Numbers/examples of public performances/exhibits	
	▪ Examples: student opportunities for nonprofessional experiences	
	▪ # people attending events/exhibits	
	▪ Examples of major artistic awards/recognition	
	▪ Increase in private support for arts	

IMPROVING PRODUCTIVITY AND EFFICIENCY		
Bearing Point shared services:	▪ Shared services initiative established	✓
	▪ Arlington Shared Data Center	✓
	▪ Houston Shared Data Center (opens April ’08)	
	▪ Regional Technology Transfer Office	✓
	▪ Share on-line effort reporting	
	▪ Supply chain (joint purchasing) initiative	✓
Development of five-year campus financial plans	▪ Develop/acquire financial modeling software for campuses	✓
	▪ Campuses utilizing FuturePerfect (1 in use, 1 near completion, 3 training in winter ’08)	✓
	▪ Complete campus financial plans (7)	✓
Revenue enhancement Consider new combinations/ sources	▪ Centralized investment of operating funds	✓
	▪ Training and support for campus development efforts	✓
	▪ Recovery of UPL revenue	✓
Efficiency strategies Consider new combinations/ tactics	▪ Energy task force and conservation initiatives	✓
	▪ Chart of accounts consolidation	
	▪ Joint Student Information Systems implementation	✓
	▪ Consolidated digital library	✓
	▪ Consolidated insurance coverage	✓
	▪ Consolidated banking services contracts	✓
	▪ System-wide site license for ERP software	
	▪ Debt refinancing	✓
Using technology to enhance efficiency and productivity in the classroom	▪ Course redesign pilot projects	✓
	▪ Increase in SCHs in on-line courses	✓
	▪ Increase in # hybrid courses	
	▪ Increase in # graduates completing at least 4 online courses	✓
	▪ Increase in # collaborative core courses	✓
	▪ Increase in # fully online courses assessed for quality	✓
	▪ Increase to 100% student services provided online	

Initiative	***Impact Indicators*** *(Tracked in annual Accountability Report or special reports)*	***Progress*** *2007*
ASSURING INTEGRITY, ACCOUNTABILITY, AND PUBLIC TRUST		
Enhancing compliance	▪ Medical billing error rate under 5%	✓
	▪ No significant time/effort report issues	✓
	▪ Accreditation for human, animal subjects; biosafety	✓
	▪ No significant regulator audit findings	✓
	▪ No major NCAA violations	✓
Computer security	▪ Information security plans in place on all campuses	✓
Development operations Endowment accountability	▪ Assurances to donors and public – contributions comply with donor requests	✓
UT System communication impact	▪ TV series completed 2007; extended 2008	✓
	▪ Substantial, regular positive earned media placements	✓
	▪ Positive changes in public perception (poll)	
	▪ Legislative appropriations increase	✓
	▪ Retain authority for deregulated tuition	✓
Campus strategic planning	▪ Revise Compact guidelines for 2008	✓
	▪ Complete campus plans	✓
Track progress of UTS strategic plan	▪ Value-added assessment	
Accountability and Performance	▪ Align Accountability Report with strategic framework	✓
	▪ Productivity ratios and cross-tab analyses	

New Campus Strategic Plans
Overview

Institution	Plan	Completion date
UT Arlington	*Mavericks on the Move, Strategic Plan 2006-2010* http://www.uta.edu/mavericksonthemove/index.html	Spring 2006
UT Austin	New plan in development	Fall 2008
UT Brownsville	New plan development	Spring 2008
UT Dallas	*UT Dallas Strategic Plan, Creating the Future: Our Plan* http://www.utdallas.edu/strategicplan/pdf/Creating%20the%20Future,%20Our%20Plan.pdf	Winter 2006
	Implementation plan	July 2007
UT El Paso	*The 2006-2015 Strategic Plan*	December 2007
UT Pan American	*UTPA 2012: Strategic Plan* http://ie.utpa.edu/ODPs/main/UTPA_ODP_MAP.ppt	June 2006
UT Permian Basin	New plan in development	Spring 2008
UT San Antonio	*A Shared Vision, UTSA 2016* http://www.utsa.edu/StrategicPlan/docs/2016StrategicPlan.pdf	Fall 2007
UT Tyler	New plan in development	Fall 2008
UT Southwestern	6-Year Plan, updated every two years	March 2006
UT Medical Branch	In development	Fall 2008
UT HSC-Houston	*Strategic Directions 2007-2013* http://www.uth.tmc.edu/spia/planindex.htm	Fall 2007
UT HSC-San Antonio	*Strategic Plan 2007-2012* http://www.uthscsa.edu/vpaa/docs/StrategicPlan2007-2012.pdf	February 2007
UT M. D. Anderson	*Strategic Vision 2005-2010* http://www.mdanderson.org/about_mda/mendelsohn/dIndex.cfm?pn=3E2F3F37-1DFE-4AEB-BC02E23B98DAD4BE	Spring 2006
UT Health Center-Tyler	New plan in development	Fall 2008

Additional notes from institutional compacts:

UT Austin – The strategic plan of The University of Texas at Austin is in its formative phase. The elements of the plan are mostly in place and the process reflects the planning methodologies of the Commission of Colleges of the Southern Association of Colleges and Schools (SACS-COC), the University of Michigan, and the Pennsylvania State University. Combining the SACS-COC (1996) planning and evaluation steps with those of the University of Michigan and Penn State, the steps for The University of Texas at Austin planning and evaluation process are: 1) develop a clearly defined statement of institutional purpose through statements of mission, vision, core purpose, core values, and strategic intent; 2) formulate goals that embrace the institution's mission and the environment in which it finds itself; 3) develop procedures for evaluating the extent to which those goals are being achieved; and 4) use evaluation results to improve educational programs and other elements of the institution's mission as well as its services and operations.

UT Brownsville – The campus strategic plan is being developed with campus and community members, under the leadership of the Provost. The Institutional Effectiveness Plan supports the foundation of the strategic plan, which will be aligned with the System's strategic plan, the state's Closing the Gaps plan, and the University's Futures Commission Report.

UT Dallas – After a lengthy development process and alignment with UT System's strategic plan, the campus master plan was finalized and sent to UT System for review.

UT El Paso – Two years of extensive planning activities have produced UTEP's 2006-2015 Strategic Plan. During this process, we revised our mission and vision, and restated our goals and objectives. There was extensive campus and community involvement in the planning process. We are now in the process of implementing the strategic plan and developing a Web-based system to review and update the plans annually. We are currently developing materials for print and online publication and communication.

UT Pan American – UTPA uses "Outcome Directed Planning" to develop simple maps in divisions/colleges/departments that display objectives/strategies supporting institutional goals. Hundreds of faculty and staff developed 112 long-range maps that are used to write unit annual action plans, which are evaluated via annual assessment reports. An annual Presidential retreat is held with 150 leaders to discuss planning progress. Future improvements: assessment, campus-wide plan alignment, communication.

Institutional Effectiveness website: http://ie.utpa.edu/

Specifically for planning and assessment: http://ie.utpa.edu/planningandassessment.htm

UT Permian Basin – The institution has recommendations from the Group of Thirty on the higher education needs of the region. The budget and planning committee has also completed its review of national and state factors impacting the strategic plan and looked at the issues of strategic alignment. The committee has also developed basic strategic initiatives. A draft strategic plan for 2008-2018 should be ready for campus community discussion in the early fall of 2007.

UT San Antonio – The Strategic Plan, UTSA 2016, was completed (May 2007) and sent to UT System. The primary goal of the University's strategic planning process was to create a shared vision by involving as many stakeholders as possible in the development of the plan. Through this collaborative effort, the Strategic Plan, UTSA 2016, will serve as a foundation that is integrated into management, operations, and decision making that guides the future progress of the University.

UT Tyler – President Rod Mabry charged a strategic plan review committee in March to update the 2002 UT Tyler New Millennium Vision. Various groups on campus are reviewing the document and making suggestions for revisions or modifications of goals, objectives, and strategies. Revisions should be completed by mid-July and will be submitted to Faculty Senate in fall.

UT Southwestern Medical Center – The Six Year Plan, strategic planning document, is updated every two years with an update in odd number years. The next Six-Year Plan cycle (2008-2014) will begin in September 2007, when committees begin meeting, and will be completed in April 2008. The last Mid-term review was in February 2007.

UT Medical Branch – Institutional entities and other administrative support offices have completed entity-level planning processes. The entity plans will be used to develop mission specific plans which will serve as the institutional strategic plan. The new campus strategic plan will be developed under the direction of the new president during fall 2007. The institutional strategic plan will be the foundation for updates to the UTMB Compact.

UT Health Science Center-Houston – In February 2007, HSC Houston leaders embarked on an effort to enhance the institutional planning process and develop necessary links between planning, financial decision-making, and outcomes assessment. Updates to the current plan through FY 2013 will occur during summer and early fall 2007 with budget alignment to follow. Once complete, the plan will serve as a springboard for future Compacts and will include an institutional "report card" designed to measure and assess progress.

UT Health Science Center-San Antonio – The UTHSCSA Strategic Plan was finalized and approved by the Executive Committee in February 2007. The website link to the plan is http://sacs.uthscsa.edu/docs-univ/STRATEGICPLANFY2006-2011DRA.pdf

UT M. D. Anderson – Strategic Vision for Making Cancer History, 2005-2010, is on track. The 7 strategic goals have become part of the institutional culture and are referenced and linked to projects, e.g., institutional policies must be associated with one or more goals. The "I Am MD Anderson" initiative combines the goals and the core values in a campus-wide campaign. The strategic vision is accessible to all employees at
http://inside.mdanderson.org/about-mdacc/strategic-vision-2005-2010/index.html

UT Health Center-Tyler – Under initial development stage.

3. U. T. System: Report on development of major investment impact metrics

The University of Texas System
Implementation of Investment Impact Metrics Process

The U. T. System has established a process to assess and communicate to the Board of Regents the specific results and impact of major capital and "talent" investments. This framework will, over time, document the results of Board investments in major capital projects and in talent through initiatives such as the new Ignition Fund, GRAD PLUS, and the new Development Fund, and the various STARS programs. Specific metrics are identified at the point of program approval, and the progress will be monitored and reported annually as the projects get underway.

- Definition of metrics. These metrics are proposed by a president in the capital project approval request letter to the appropriate Executive Vice Chancellor, and are customized to the specific project, in consultation with Academic or Health Affairs, and Facilities Planning and Construction. For talent investments, System executives propose metrics to the Chancellor.

- In agenda materials. At the Board of Regents' request, specific, operational impact metrics are supplied in agenda materials for all major new capital projects including projects that campuses will list in the next "two-year" capital planning lists (August 2009). It excludes fire/life/safety, non-programmatic repair and rehabilitation, and minor projects. Metrics are also stipulated in proposals for "talent" investment funds (Ignition Fund, Development Fund, STARS, STARS PLUS, GRAD PLUS), beginning in May 2007.

- Collection of metrics. Following Board action, proposed metrics are recorded in a System database. The Office of Strategic Management has created and will maintain a list of projects and metrics. Updates as projects move forward are possible, in consultation with appropriate offices.

- Reporting schedule. Annual impact data will be requested from campuses beginning in summer 2008-09. Since the capital investments are to build buildings, we estimate that there may be a lag of approximately 3 years from initial approval to the "substantial completion" stage, after which the campuses will begin to use the facility. OFPC will send OAA, OHA, and OSM a notice that a project has reached this status, which will be the notification to begin collecting data on the impact measures. The investment impact database includes triggers for annual collection of impact data, no earlier than one year after the scheduled completion of projects. OSM will collaborate with OAA and OHA to collect the data.

- Special reports. Academic and Health Affairs will continue to report annually in detail on talent investments through the STARS, and STARS-PLUS reports.

The System offices of Facilities Planning and Construction, Academic Affairs, and Health Affairs are responsible for working with campuses to identify appropriate metrics for projects. The Office of Finance is responsible for collecting the metrics at the point of project approval, and the Office of Strategic Management is responsible for updating and tracking and collecting the data on these results.

Attached is a current list of the metrics identified to date, by campus and project. This list will be updated as projects are approved by the Board.

CAPITAL INVESTMENT METRICS

	BOR Approval	First Report
UTA		
Civil Engineering Laboratory Building	11/9/2007	2009
Graduate student enrollment will increase from 206 to over 300 students by Year 5		
Undergraduate enrollment will grow from 280 to over 400 by Year 5		
Increased (enrollment and) graduation rates in Civil and Environmental Engineering		
Increase research funding by $1.0 million annually by Year 5		
Increase research funding by $2.0 million annually by Year 10		
Increase research funding by $3.0 million annually thereafter (Year 11+)		
UT Austin		
Computer Sciences Building	11/9/2007	2013
Will enhance Computer Sciences (CS) retention and recruitment efforts by 2012		
Will provide needed space for CS research labs, offices, classrooms, lecture halls, and social meeting/study spaces by 2012		
Will facilitate efforts to enhance the stature of the CS department by 2012		
E. P. Schoch Building Renovation	11/9/2007	2010
Will enhance retention and recruitment effort by 2009/10		
Will provide needed space for research labs, faculty offices, and classrooms by 2009/10		
Will facilitate efforts to enhance the stature of the Jackson School of Geosciences by 2009/10		
Houston Research Center Warehouse Addition	11/9/2007	2009
House 200,000 additional geological research drilling core storage boxes by 2008/09		
Increased research resource by 2008/09		
Library and Artifact High-Density Repository	11/9/2007	2010
Utilization/Assignable square footage (ASF)		
Will facilitate vacating +60,000 square feet at the Collection Deposit Library		
Provide long-term storage and preservation for approximately 1.6 million print volumes by 2009/10		
Student Activity Center	11/9/2007	2011
Add 40,000 square feet for a Liberal Arts component that will vacate a nearby building for other uses by 2010		
Add much needed meeting rooms of various sizes primarily reserved for student groups		
Increase study and lounge space for students in the core of campus, some of which will be open very late by 2010		
The Dell Pediatric Research Institute	8/23/2007	2009
TBD		
UT Dallas		
Student Housing Living/Learning Center	11/9/2007	2010
Economic impact of the project		
On-campus housing and food service for 400 students		
UT El Paso		
The Paul Foster and Jeff Stevens Basketball Complex	5/10/2007	2008
Days of utilization/calendar year		
University Bookstore	8/23/2007	2010
Utilization/Gross square feet (GSF)		
Economic Impact of the project		
Will facilitate efforts to enhance the stature of the Jackson School of Geosciences by 2009/10		
UT Permian Basin		
Science and Technology Center	8/23/2007	2011
Utilization/GSF		
Semester classroom hours delivered/gross square feet (GSF)		

Student Multipurpose Center	5/10/2007	2011

Utilization/Assignable square footage (ASF)

UT Southwestern Medical Center

Biotechnology Development Complex - Phase I Finish Out	11/9/2007	2011

Occupy/lease 1/3 of the space by 2010
Occupy/lease 2/3 of the space by 2012
Occupy/lease all space by 2014
At least 1 biotech tenant by 2010
At least 2 biotech tenants by 2012 (1/3 space)
At least 4 biotech tenants by 2014 (2/3 space)

North Campus Phase 5	8/23/2007	2011

Recruitment of new chairs in cell biology, pathology, and radiology, and new pediatric research institute director
Increase in size of NIH grants
Increase in number of NIH grants
Growth in research funding/Assignable square footage research space
Increase in number of faculty

UTHSCH

Center for Clinical and Translational Science	11/9/2007	2009

Predoctoral - 15-20 per year
Annual growth rate in total sponsored research funding for clinical and translational research - 5% per year
Postdoctoral and junior faculty - 12-14 per year by 4th quarter 2008
Number of clinical and translational research projects supported by the components of the CCTS - 150 by 2009
Number of clinical researchers (faculty, staff and trainees housed) within the CCTS - 40 by 4th quarter 2008

UT Research Park Complex	8/23/2007	2011

Semester classroom hours delivered/assignable square footage (ASF) classroom and class lab ASF
Research expenditures/ASF research space
Economic Impact of the project

UTHSCSA

South Texas Research Facility	8/23/2007	2011

New potential research expenditure based on added space for investigators
Wet lab space/percent of assignable square footage (ASF)
Economic Impact of the project
Number of principle investigators (PIs) to be recruited based on new available space
Percent efficiency of the building

UTMDA

Alkek Expansion	8/23/2007	2014

Admissions
Patient days
Economic Impact of the project
Number of inpatient beds in operation

Center for Targeted Therapy Research Building	11/9/2007	2011

45% growth in graduate students by 2015
50% growth in new extramural research funding by 2015
House 50 principle investigators by 2011
Establish RNAi Molecular Biology Screening Program by 2011

(more)

TALENT INVESTMENT METRICS

Ignition Fund
Amount of external funding received
Extramural research grant awards
Angel investments
Venture capital investments
Protection of intellectual property
Patent applications
Patents issued
Copyright applications
Copyright registrations
Commercialization activities
Number of licenses executed
Number of startup companies formed
Income generated from royalties, milestones, upfront payments, equity, and other instruments

STARS
Research/grants received ($) sponsored funding, private donors, corporate support

Patents issued and pending
Graduate and post-doctoral students sponsored
Professional recognition (publication, national awards, external collaborations, national scholarly boards, national academies)

STARS PLUS
GRAD PLUS

4. U. T. System: Annual accountability and performance report of campus development offices

Annual Accountability and Performance Report of Institutional Development Offices

Executive Summary

THE UNIVERSITY *of* TEXAS SYSTEM

Nine Universities. Six Health Institutions. Unlimited Possibilities.

Meeting of the U. T. System Board of Regents

February 7, 2008

THE UNIVERSITY of TEXAS SYSTEM
Nine Universities. Six Health Institutions. Unlimited Possibilities.

Total Giving (FY 2007)

FY 2001	$479,779,000
FY 2002	$485,200,000
FY 2003	$585,624,000
FY 2004	$649,493,000
FY 2005	$488,515,043
FY 2006	$566,265,105
FY 2007	**$760,947,868**

- **FY 2007 saw a 34.3% increase in total giving over previous year**
- **FY 2007 was the best fund-raising year in U. T. System history**
- **Three institutions (UT Austin-26th, UTSWMC-38th, UTMDACC-45th) ranked in the top 50 institutions nationally for FY 2007 total giving, and these three institutions accounted for 70% of total giving to the U. T. System**

THE UNIVERSITY of TEXAS SYSTEM
Nine Universities. Six Health Institutions. Unlimited Possibilities.

How U. T. Fared on a National Scale (FY 2007)

1	University of California System	$1,277,267,031
2	Stanford University	832,344,862
3	UNIVERSITY OF TEXAS SYSTEM	760,947,868
4	Harvard University	613,985,000
5	University of Southern California	469,646,622
6	Johns Hopkins University	430,455,336
7	Columbia University	423,849,107
8	Cornell University	406,925,075
9	University of Pennsylvania	395,420,770
10	Yale University	391,315,420
29	Texas A&M University System	206,366,657
31	University of Illinois System	187,198,779

THE UNIVERSITY of TEXAS SYSTEM
Nine Universities. Six Health Institutions. Unlimited Possibilities.

Performance Indicator: Private Giving as a Percentage of E&G Expenditures

Ranked by Total Giving as a Percentage of E&G for FY2007		Expenditures	Total Giving FY2007	Total Giving as a % of E&G FY2007	Rank
UT Arlington	$	324,680,039	4,964,630	1.5%	14
UT Austin	$	1,563,495,821	228,785,603	15%	2
UT Brownsville	$	134,017,680	1,001,058	0.07%	15
UT Dallas	$	238,906,619	33,593,412	14%	3
UT El Paso	$	235,162,693	16,738,416	7%	8
UT Pan American	$	203,497,914	6,612,350	3.2%	12
UT Permian Basin	$	33,391,513	2,613,158	8%	7
UTSA	$	298,513,524	9,831,198	3.3%	11
UT Tyler	$	64,716,066	2,011,310	3.1%	13
UTSWMC	$	986,799,004	166,325,550	17%	1
UTMB	$	544,896,095	50,266,482	9.2%	6
UTHSC - H	$	597,840,460	37,659,903	6%	9
UTHSC - SA	$	567,886,972	55,204,648	9.7%	5
UTMDACC	$	1,049,814,464	142,313,280	13.5%	4
UTHC - Tyler	$	37,626,585	1,479,667	4%	10

Improvement in Total Giving from FY2006

4

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Performance Indicator: Alumni Donors as a Percentage of Alumni of Record

UT Arlington	110,765	4,097	3.7%	$ 764,118
UT Austin	393,267	58,746	**14.9%**	**$ 64,551,719**
UT Brownsville	7,000	182	**2.6%**	$ 55,614
UT Dallas	47,651	3,616	**7.6%**	**$ 1,178,298**
UT El Paso	84,177	4,878	5.8%	**$ 2,129,797**
UT Pan American	36,484	780	**2.1%**	$ 87,714
UT Permian Basin	15,788	116	0.7%	$ 54,349
UT San Antonio	65,129	1,809	**2.8%**	**$ 301,624**
UT Tyler	21,756	116	0.5%	**$ 61,155**
UTSWMC	15,645	1,283	8.2%	**$ 1,264,145**
UTMB	22,835	2,025	**8.9%**	$ 2,524,836
UTHSC - Houston	21,619	318	**1.5%**	**$ 242,349**
UTHSC - San Antonio	23,004	389	**1.7%**	**$ 239,488**
UTMDACC	n/a	n/a	n/a	n/a
UTHC - Tyler	n/a	n/a	n/a	na/

Improvement from FY2006

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Alumni Giving

- Alumni participation on a national level (now at 11.9 percent) experienced a slight decline
- Alumni giving is often considered the most important barometer of institutional maturity
- Alumni participation is sometimes used as a factor in university ranking and in grants awarded by foundations.
- U. T. institutions' alumni participation rates continue to be lower than those of their select peer and aspirant institutions; may be attributed to how data is reported.

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Realized Bequests

Ranked by Number of Bequests in FY2007		Number of Bequests FY2007	Amount from Bequests FY2007
1	**UT Austin**	27	$ 6,346,918
2	**UTMDACC**	55	$ 8,572,492
3	**UTSWMC**	10	$ 4,799,333
4	**UT El Paso**	5	$ 48,553
5	**UTMB**	14	$ 2,036,443
6	**UTHSC - Houston**	2	$ 70,635
7	**UTHSC - San Antonio**	2	$ 258,393
8	**UT Arlington**	2	$ 206,597
9	**UT San Antonio**	14	$ 1,450,759
10	**UT - Pan American**	1	$ 200,000
11	**UT Tyler**	0	$ -
12	**UTHC - Tyler**	0	$ -
13	**UT Permian Basin**	1	$ 122,537
14	**UT Brownsville**	0	$ -
15	**UT Dallas**	0	$ -
	FY2007	**133**	**$24,112,660**

On a national average, realized bequests accounted for 18 percent of all gifts from individuals to higher education last year

U.T. System avg. = 11 percent ($24 million / $212 million)

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Planned Giving

- Institutions that historically receive a higher percentage of gift totals from alumni are also steady beneficiaries of planned gifts
- Planned gifts are critical in building an institutional endowment; nearly all unrestricted endowments come to institutions through bequests
- For the past 20 years, realized bequests have represented between 18-25 percent of all individual giving to U.S. higher education
- U. T. institutions must make investments in planned giving expertise; planned giving remains the most underdeveloped and underutilized area of fundraising across the U. T. System.

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U.T. Academic Institutions' Gift Totals as a Percentage of Their Respective Peer and Aspirant Institutions' Ave. Totals

Institution	Peer	Aspirant
UT Arlington	16%	2%
UT Austin	92%	None Reported
UT Brownsville	5%	None Reported
UT Dallas	150%	79%
UT El Paso	84%	44%
UT Pan Am	60%	26%
UT Permian Basin	92%	25%
UT San Antonio	53%	39%
UT Tyler	36%	19%

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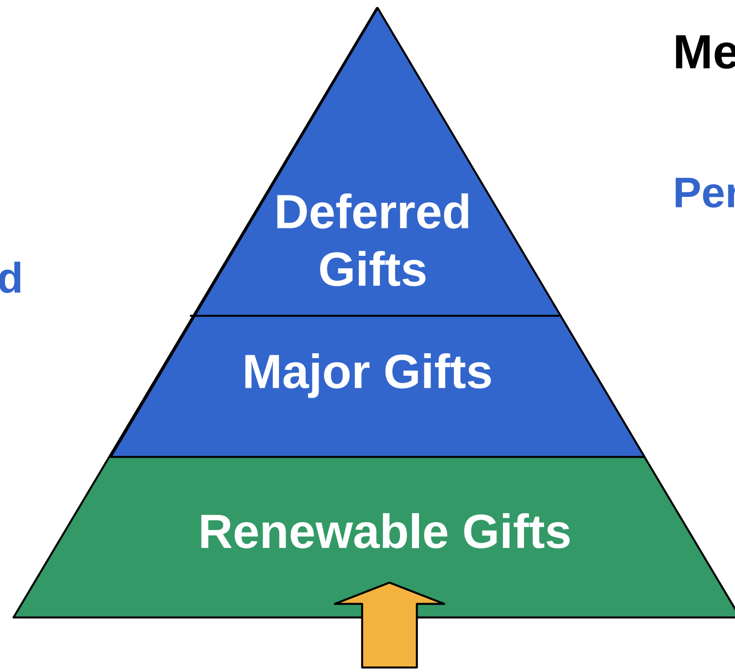
The Balanced Fund-Raising Model

Amount Raised

70-90% of private funds from deferred and major gifts

10-30% of private funds from annual, recurring support



Methods of Solicitation

Personal visits

Direct mail
Phone programs

The Prospect Pool: individuals with shared values (alumni and non-alumni), foundations, corporations, parents, board members and other volunteers, faculty, staff, patients, other entities

Only five U. T. institutions (two academic and three health institutions) have a balanced fundraising model, with predictable, recurring support in the three major areas

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Why Measure?

- Private support must be a predictable and sustainable part of an institution's revenue stream – it continues to play an increasingly critical role in an institution's ability to meet its teaching, research and service missions

- The BOR, Chancellor and U.T. Presidents have a strong stake in determining the effectiveness of development / advancement programs on an institution's ability to fully fund endowments, building projects, research programs, and other strategic initiatives

- This data, along with other feasibility study information, is used to determine if a campus is ready to launch a capital campaign

- This is a "value-added" service offered by the U. T. System in an effort to support continuous improvement on campuses

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Why Measure? (cont.)

- The information allows presidents and chief development officers (CDOs) to objectively evaluate their development programs, to align philanthropic resources to institutional compacts and the U. T. System's ten year strategic plan, and to support other special campaign initiatives

- This project is a sub-report of the U. T. System's comprehensive accountability and performance program

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Program Challenges

- Competition for senior leadership
- Talent recruitment and retention at all levels
- Training
- Funding
- Managing Expectations

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Progress

- Collected and analyzed three years of development performance data. Assessment findings and recommendations are made available to presidents and chief development officers

- High receptivity to U. T. System recommendations and immediate action already taken by presidents to make changes. (Ten of fifteen institutions have made significant changes in development leadership, structure, and/or operations, although it takes up to two years afterward to experience maximum effects)

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Progress (cont.)

- Fourth year planned giving counsel services offered by U. T. System
- Implementation of U. T. System Development Leadership and Consulting Program in Spring ‘08
- Integration of development into institutional strategic plans has occurred on all fifteen campuses, although some are more aligned, more mature than others

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Progress (cont.)

- Implementation of New “Strength in Numbers” grants from U. T. System to campuses that demonstrate sound plans to increase private gift support and donor participation

- Funding needs also addressed through increased allocation of endowment compliance funds to eligible campuses

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Progress (cont.)

- High level of consultation with campuses between VC for External Relations and EVC for Academic or Health Affairs to authorize capital campaigns (ensuring appropriate goal levels and capacity to achieve them)

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Conclusions

- Total giving represented a record year for the U. T. System, and with significant rebuilding of development operations and the recruitment of new leadership still underway at one-third of all institutions, the trend should continue
- Development programs still vary by size, structure, maturity and performance
- Alumni giving and planned giving must improve on all campuses; comparison rates remain below national averages

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Conclusions

- Sound infrastructural components, like prospect research, planned giving, corporate and foundation relations, alumni relations, and annual and major gifts, are still under development and in their infancy stages at most institutions involved in reorganizations; improved results may take two years

- New funding and training support made available through the BOR and Chancellor should be instrumental in facilitating increased private support on campuses

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1. Title

Guidelines for the Santa Rita Award

2. Rule and Regulation

Sec. 1 Standards. A System-wide award that may be made annually to an individual who has made valuable contributions over an extended period to The University of Texas System in its developmental efforts. An individual is defined as a person, as opposed to a corporation, charitable trust, foundation, and like entities. The recipient may be judged on the basis of a broad list of criteria, primary among which will be a demonstrated concern for the principles of higher education generally, as well as deep commitment to the furtherance of the purposes and objectives of The University of Texas System specifically.

1.1 Participation by the recipient in the affairs of the U. T. System shall be of such character and purpose to serve as a high example of selfless and public-spirited service. Of particular interest will be the effect that such individual activity may have engendered similar motivation from other public and private areas toward the U. T. System.

Sec. 2 General Conditions. The following general conditions apply to the award:

2.1 The award, to be known as the “Santa Rita Award,” will consist of a medallion to be presented no more frequently than annually.

2.2 The award shall be made on behalf of the Board of Regents of The University of Texas System.

2.3 An individual may receive the award only once.

2.4 Posthumous awards may be given.

2.5 No member of the Board of Regents shall be eligible to receive the Santa Rita Award until the termination of the member’s service.

Sec. 3 Nominations for Awards. Nominations for the award shall be forwarded to the Chairman of the Board of Regents or the

General Counsel to the Board (Office of the Board of Regents, The University of Texas System, 201 West Seventh Street, Suite 820, Austin, Texas 78701-2981). The nominator shall provide such supporting information and documentation as may be requested by the Chairman or the General Counsel to the Board.

Sec. 4 Selection of Awardees. Awards shall be made, upon recommendation of the Chairman of the Board following consultation with others including the Chancellor and other appropriate U. T. System officials, by a majority vote of members present at a Board of Regents' meeting at which a quorum is present.

6. U. T. System: Preliminary report on initiatives in health professional education

Update on Initiatives in Health Professional Education

John D. Stobo, M.D.
John P. McGovern Distinguished Chair in Oslerian Medicine
Executive Director for Academic Programs,
U. T. System Office of Health Affairs

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U.T. System Board of Regents' Meeting

February 6, 2008

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Changes in Health Education

- The learners
- The learning environment
- The practice of medicine
- Societal expectations
- Technology

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Observations from Campus Visits

- There is much creativity in health professional education
- Duplication and redundancies exist
- Interest in:
  - A centralized catalogue of educational tools
  - Sharing information and infrastructure
  - Education for the educators
  - Educating teams of health professionals
  - Support for educational innovation

3

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Fiscal Year 2008: Initiatives in Health Professional Education

- Provide support for shared infrastructure
- Support degree/certificate programs for educators
- Support for educational innovations
- Central catalogue of shared educational material
- Convene course directions from health campuses to facilitate sharing of information

4

2. U. T. El Paso: Approval of acceptance of gift of outdoor art

3. U. T. Permian Basin: Approval of acceptance of gift of outdoor art

4. U. T. System: Report on enrollment management plans

Enrollment Management Presentation

General U. T. System enrollment and summaries of campus plans

Dr. David Prior

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Academic Affairs Committee

February 2008

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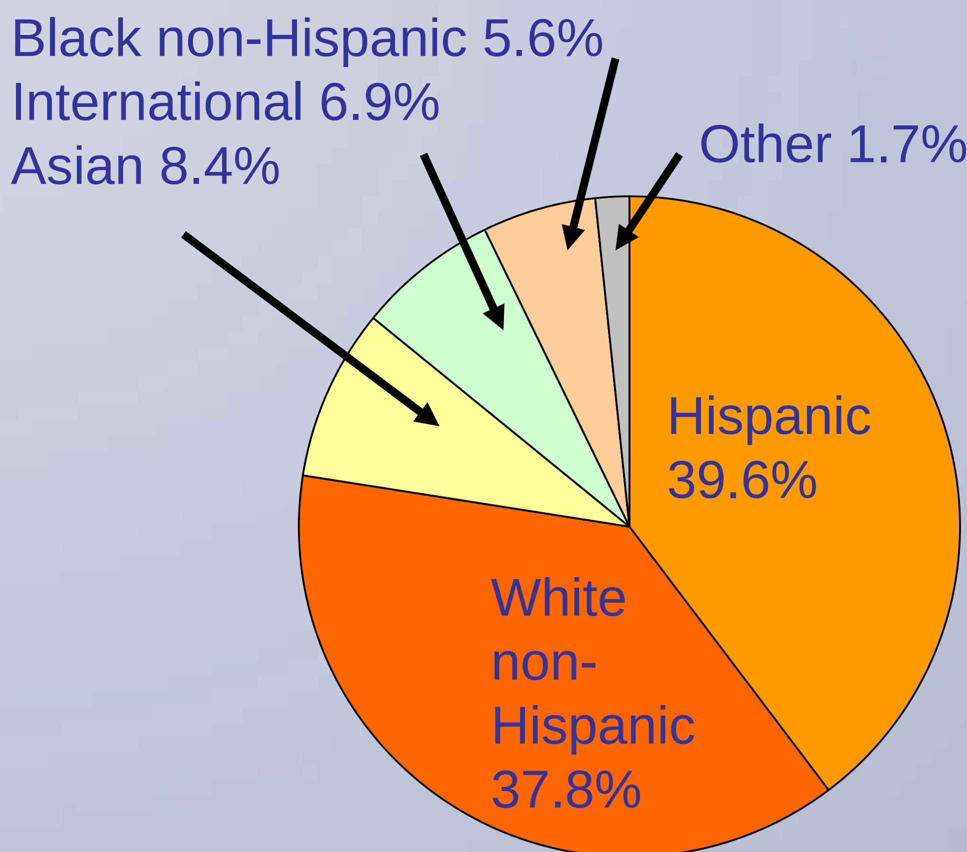
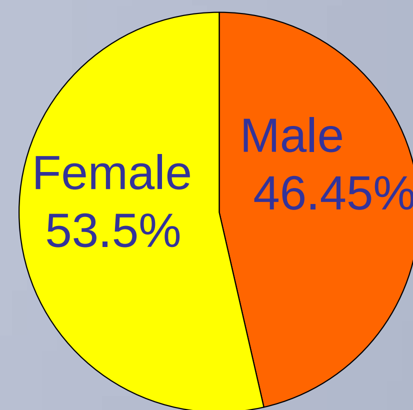
U. T. System Enrollment Academic Institutions Fall 2007





Undergraduate 81.1%
Graduate 18.9%

2

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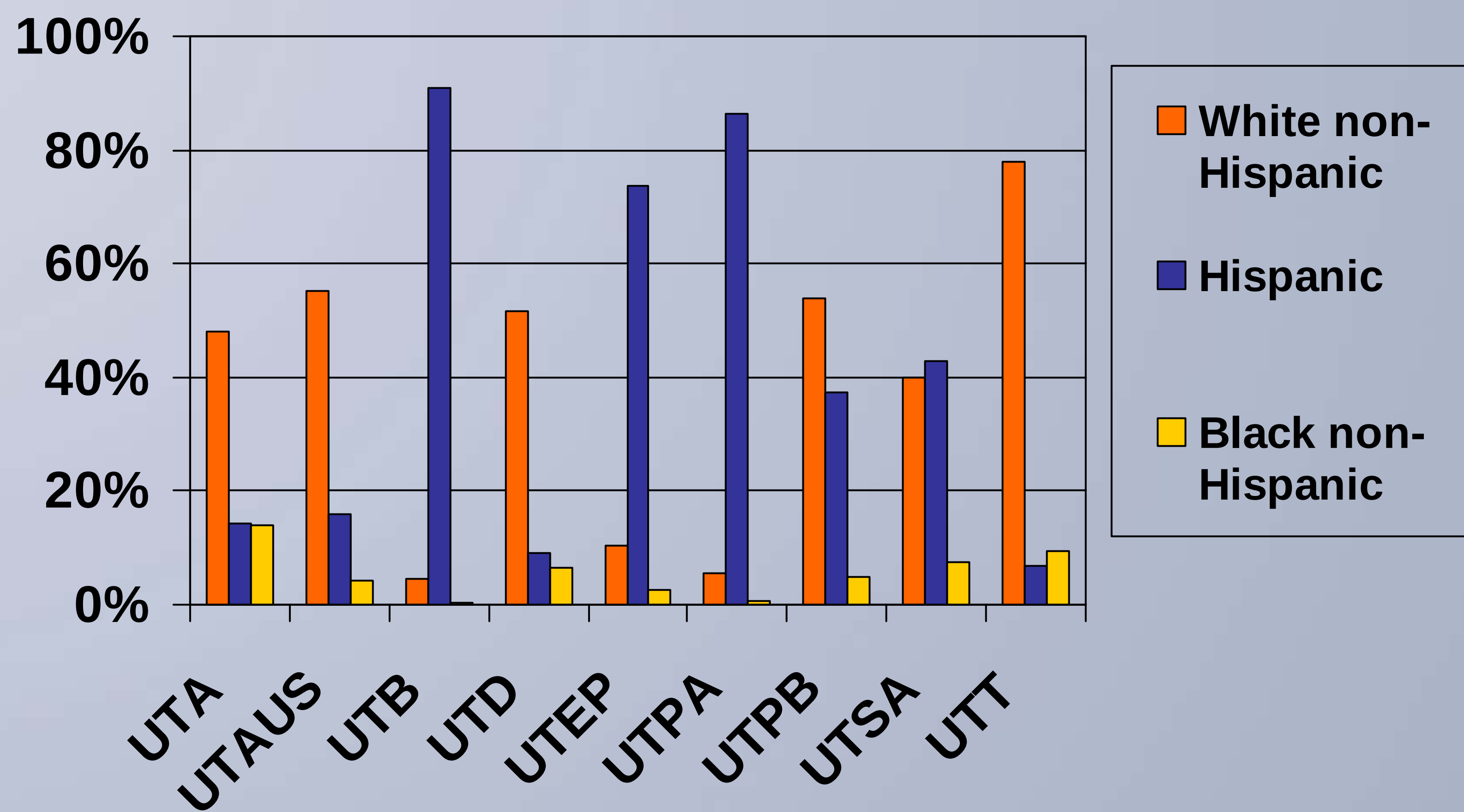
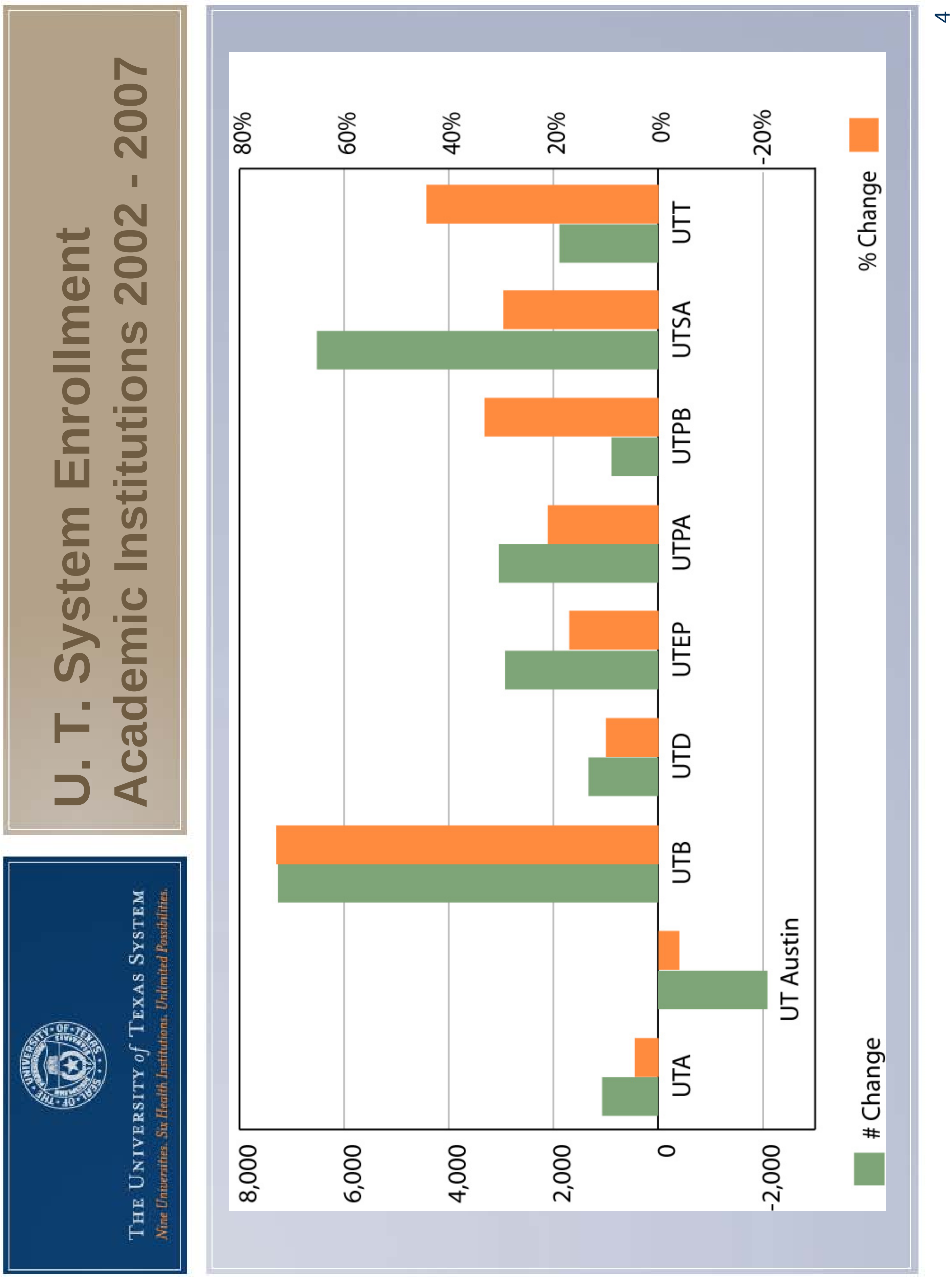
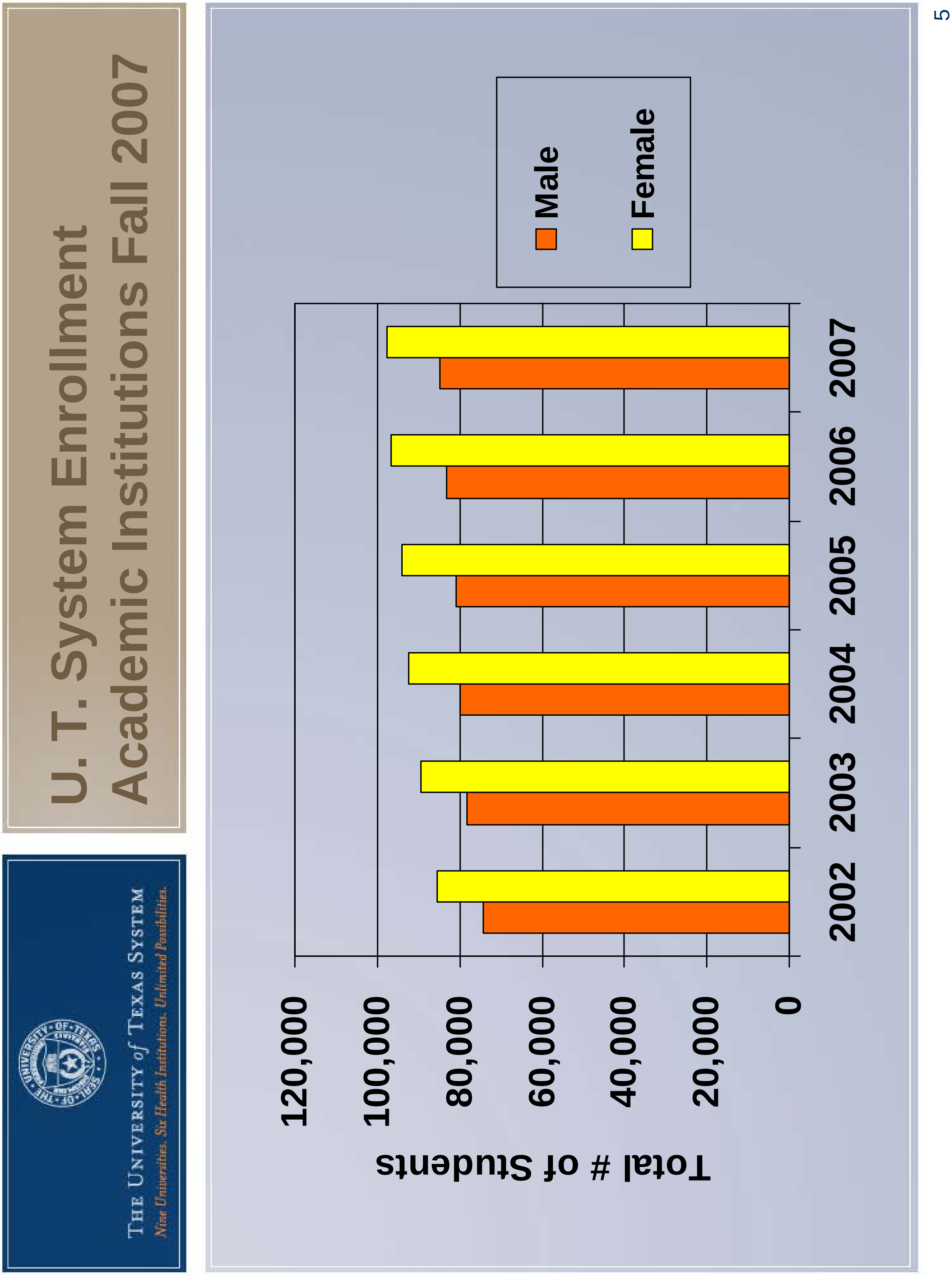
U. T. System Enrollment Academic Institutions Fall 2007 (cont.)



3

4. U. T. System: Report on enrollment management plans (cont.)




U. T. System Enrollment
Academic Institutions Fall 2007
The University of Texas System
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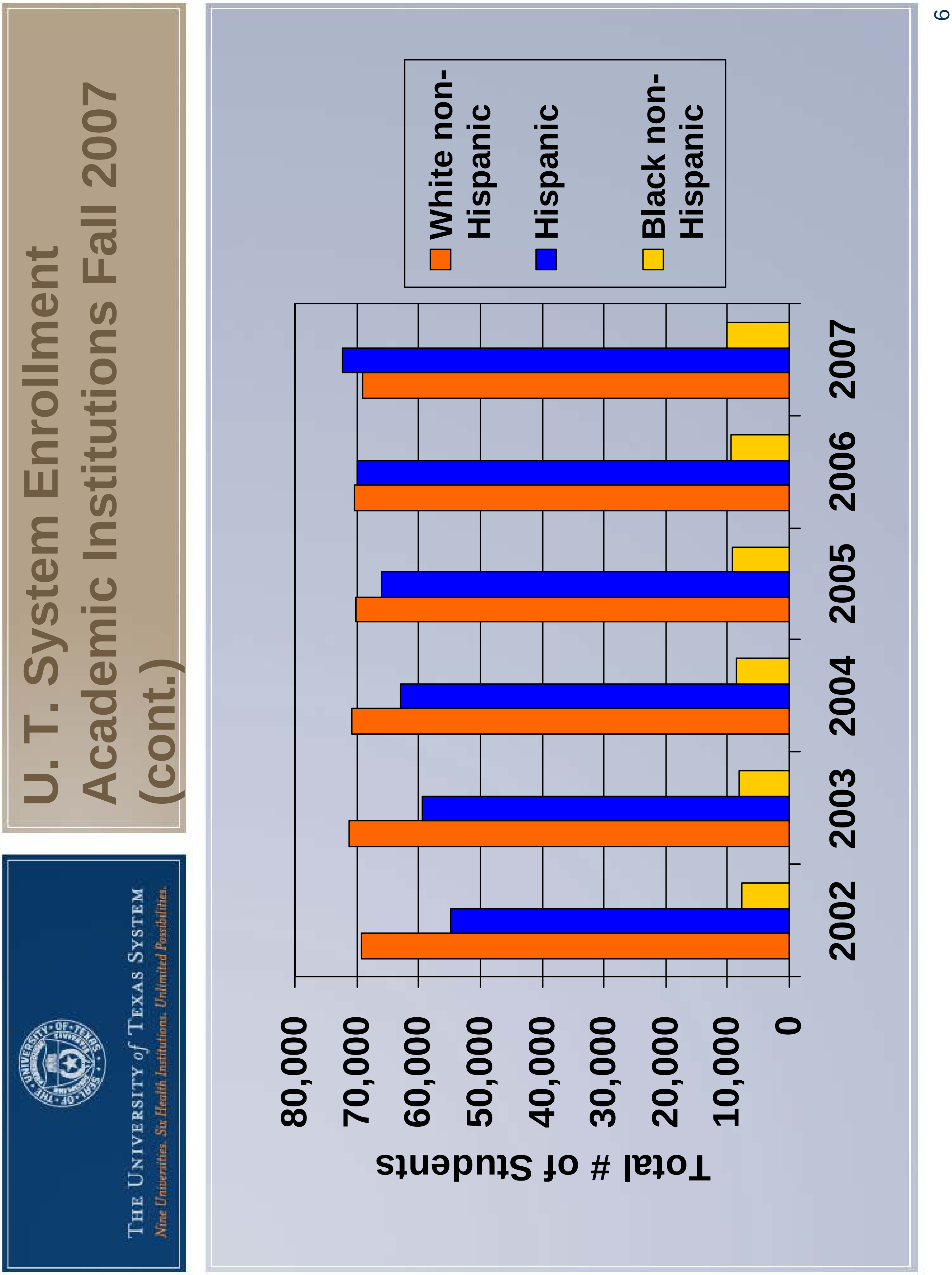
Total # of Students
120,000
100,000
80,000
60,000
40,000
20,000
0
2002
2003
2004
2005
2006
2007
Male
Female
5


U. T. System Enrollment
Academic Institutions Fall 2007
(cont.)
The University of Texas System
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Total # of Students
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
2002
2003
2004
2005
2006
2007
White non-Hispanic
Hispanic
Black non-Hispanic
9

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Enrollment Management

- Long-term, early strategic forecasts
- Based on campus Strategic Plan
- Balancing admission, retention, and graduation
- Anticipating student needs and priorities
- First approximation of resources and challenges
- Each of the nine academic institutions
  - different missions, goals, and management plans
- Resource estimations need further refinement
- Evolving ideas, contexts, successes
- Future monitoring, reviews, and modifications

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Enrollment Management
All plans should address:

- Total enrollment
- Distribution
  - Freshman, transfer
  - Graduate
- Diversity
- Out-of-state
- First generation
- Academic programs
  - Managing increases/decreases
  - Enrollment caps
  - Interdisciplinary
- Recruiting targets
- Retention targets
- Graduation targets
- Faculty capacity
  - Tenure/tenure-track
- Classroom capacity
  - Lecture theaters
  - Laboratories
- Residence hall capacity
- Ancillary facilities
  - Recreation
  - Parking
- Revenue and pricing
  - Formula funding
  - Tuition

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Enrollment Management U. T. Arlington 2007- 2015

- Total enrollment: 24,888 → 28,000
  - Increase size of student body by 2% per year
  - Increase doctoral completions from 130/yr in 2010 to 145/yr in 2015
  - Increase international graduate student enrollment
- Academic program focus
  - High demand programs
    - Nursing
    - Engineering
    - Visual Arts
    - Urban Planning & Public Affairs
    - Business
    - Criminal Justice
  - Expand distance education
  - Grow Ft. Worth campus
- Recruitment
  - Increase Tarrant County Community College partnerships
  - Expand recruitment area
  - Expand graduate student tuition remission programs to recruit Science, Technology, Engineering, and Mathematics (STEM) PhD students
- Retention efforts
  - Expand 1st Yr Experience Program
  - Expand supplemental instruction
  - Advising degree audit software
  - Freshman learning communities
  - Freshman Success Seminar
  - Continue to develop tuition policies to encourage on-time graduation
- Graduation targets
  - 6-year: 40% → 53%

- New faculty, staff, and student support: $23.7M
- New and renovated facilities: $120M

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Enrollment Management
U. T. Brownsville 2008 - 2013

- Total enrollment: 17,208 → 20,000 (2020)
  - Enrollment growth: +4.4% per year
  - Graduate enrollment: +5% per year
  - Transfers: +2% per year
- Academic program enrollments
  - Education: +3.7% per year
  - STEM/Health Science: +5% per year
- Retention target: 70% → 75%
  - Develop semester long university experience course for new students
  - New student academic progress policy
  - Dual enrollment: +3.7% per year
- Graduation targets
  - 6-year: 53% (2015)

- Increase financial aid
  - Undergraduate/Graduate scholarships: $2.1M
  - Scorpion Scholarships: $1.06M
  - Expand student employment program: $250,000
- Estimated recruitment and retention costs
  - Program improvements: $240,500
  - Additional staff: $1.2M
- Faculty capacity by 2012
  - New faculty: 28
  - Estimated cost: $443,716 per year
- Space need
  - Increase classroom capacity by 1,865 seats
  - Residence halls: 400 new beds

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Enrollment Management
U. T. Dallas 2007 - 2017

- Total enrollment: 14,556 → 21,873
  - Increase undergrad and master's enrollment by 4% per year
- Academic programs
  - New programs/majors
    - Marketing
    - Mechanical Engineering
    - Emerging Media
    - Bioengineering
  - Increase enrollments
    - STEM: Physics, Chemistry, Mathematics
    - History, Political Science, Economics
- Recruitment efforts
  - Expand marketing and communication program
  - Improve efficiency of financial aid operations
- Retention efforts
  - Living Learning communities
  - Improve social environment
  - Improve academic advising
  - Restructure/realign courses
- Graduation targets
  - Freshmen, 6-yr: 57% → 72%
  - Doctoral degrees: 100 → 300 per year

- Faculty capacity
  - New faculty: 228
  - Estimated cost: $80M
- Retention cost
  - Estimated cost $107.9M (includes financial aid)
- Space needs
  - Additional space needed
    - Mechanical Engineering
    - Management
    - Neuroscience
  - New freshman housing

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Enrollment Management
U. T. El Paso 2007 - 2015

- Total enrollment: 20,155 → 25,889
  - Increase freshmen 2% per year
  - Increase transfers 2% per year
- Degree production – per year
  - Bachelors, Associates, Certificates: 2,394 → 3,464 (+45%)
  - Doctoral degrees: 42 → 67 (+60%)
  - Health-related degree programs
- Recruitment
  - Develop market-driven recruitment approach
  - Increase out-of-state transfers by 2%
  - Fort Bliss recruitment
- Retention target: 67.3% → 73% by 2015
- Graduation targets
  - 6-year: 28% → 53%

- Improving student success
  - Course redesign
  - College Readiness Initiative
  - Academic & Career Advising
  - Technology upgrades

- New faculty: 373
  - Improve student/faculty ratio and build research capacity
- 2015 Space need
  - 1.2 million gross sq. ft.
  - 5,734 new parking spaces
- Total estimated cost
  - Capital: $444M
  - Faculty: $37M
- Estimated revenue
  - Tuition & Fee: $15M
  - General Revenue: $22M

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Enrollment Management
U. T. Pan American 2007 - 2010

- Total enrollment: 17,435 → 20,000
- Academic programs (increase in degrees awarded)
  - STEM: 166 → 209 (+26%)
  - Allied Health/Nursing: 241 → 260 (+8%)
  - Certified Teachers: 548 → 700 (+28%)
- Recruitment
  - P-16 strategies
    - Increase concurrent enrollment to 300 each fall semester
    - Create a cohort of potential college-bound students
    - Engage academic colleges in access efforts
  - Increase freshmen: 2,850 → 2,900 by 2010 (higher admission standards)
  - Increase transfers: 846 → 996 by 2010
  - Increase proportion of graduate enrollment: 13.0% → 17.5%
- Retention target: 68.2% → 75% by 2010
  - Sophomore persistence: 59.3% → 70% by 2010
  - Develop student engagement initiatives
  - Assist students in improving academic skills
  - Decrease attrition rate of graduate students
- Graduation target
  - 6-year: 30% → 53% (2015)

- Faculty capacity
  - New faculty: 119
  - Estimated cost: $11.2M
- Space need
  - Classroom and lab space
  - Promote off-peak enrollment
  - New faculty space cost: $2.6M

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Enrollment Management
U. T. Permian Basin 2007 - 2018

- **Total enrollment: 3,557 → 7,000**
  - Increase freshmen to 950 by 2012
  - Increase transfers to 350 by 2012
  - Increase international students to 100 by 2012
- **Maintain current diversity**
  - African American: 5%
  - Hispanic: 37%
  - White: 55%
- **Academic programs**
  - New programs
    - Chemical Engineering
    - Manufacturing Engineering
    - Petroleum Engineering
    - Physics
    - Nursing
    - Masters in Health Services Admin
    - Doctoral in Ed Leadership
  - New online programs
    - Child & Family Studies
  - Redesign majors in Leadership Studies and Environmental Science
- **Recruitment**
  - Focus on community college graduates and honor students
  - Increase admissions standards
  - New internet marketing strategies
- **Retention**
  - Target: Increase by 5% per year
  - Early alert program, increased advising, tutorials, mentor program, freshman seminar
  - Nonmajor biology and chemistry courses
  - Estimated cost: $300,000 per year
- **Graduation targets**
  - 6-year: 35% → 53%

- **Faculty capacity**
  - New faculty: 50
- **Space need**
  - New student center
  - Science & Tech Center (funded)
  - Performing Arts Center (funded)
  - Residence hall: 400 new beds

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Enrollment Management
U. T. San Antonio 2007 - 2016

- **Total enrollment: 28,533 → 32,875**
  - Undergraduate: 87.7% → 86%
  - Graduate: 12.3% → 14%
- **Diversity**
  - African American: 7.6% → 9.5%
  - Hispanic: 42.9% → 45%
  - International: 3.3% → 5%
  - White: 39.8% → 36.5%
  - Other: 6.4% → 4%
- **Academic programs**
  - Doctoral programs in Psychology, Interdisciplinary Learning & Teaching, Mechanical Engineering, Child & Adolescent Development
  - Masters programs in Health & Kinesiology, Construction Management & Science
- **2016 Retention target: 66.1% → 79%**
- **Graduation targets**
  - Freshmen, 6-yr: 31.3% → 53%
  - Transfer, 4-yr: 45% → 60%

- **Faculty capacity**
  - Assuming no improvement to faculty/student ratio
  - New faculty/staff
    - Faculty: 353
    - Staff: 180
  - Estimated cost
    - Faculty: $39.5M
    - Staff: $11.1M
  - Estimated revenue
    - Designated Tuition: $11.6M
    - Statutory Tuition: $2.5M
- **Space need: 390,150 sq. ft.**
  - Assuming no improvement to space/student ratio
  - On campus housing: 12.75% → 20% of total student body
  - Estimated cost: $121.7M (not including housing)

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Enrollment Management U. T. Tyler 2007 - 2017

- Total enrollment: 6,150 → 8,200
  - Undergraduate: 80% → 75%
  - Graduate: 20% → 25%
- Diversity
  - African American: 9.3% → 11.9%
  - Hispanic: 6.7% → 10.3%
  - International: 1.1% → 4.9%
  - White: 78% → 72.9%
- Academic program focus
  - Undergraduate
    - Construction Management
    - Media Technology/Graphic Design
    - Religious Studies
    - Chemical Engineering
    - Environmental Studies
  - Graduate
    - MA in Chemistry
    - MS in Chemical Engineering

- Recruitment efforts
  - Pathway to Success program
  - New community service office to increase off-campus student engagement
  - New student housing
- Retention target: 64% → 68%
- Graduation targets
  - Freshmen, 6-yr: 42% → 55%
  - Transfer, 4-yr: 65% → 69%

- Faculty capacity
  - New full-time faculty: 120
  - New part-time faculty: 30
  - Estimated cost: $10M
- Space need: 333,000 sq. ft.
  - Estimated cost: $80M

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Enrollment Management

- First approximations
- Next steps
  - Refinement of plans
  - More attention to resource forecasting
  - Monitoring admissions, retention, graduation progress – successes/challenges
  - Assess and reflect contextual changes
    - Community college transfer rates
    - Trends in appropriations and tuition

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THE UNIVERSITY OF TEXAS SYSTEM
OFFICE OF THE CONTROLLER

MONTHLY FINANCIAL REPORT

(unaudited)

DECEMBER 2007

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THE UNIVERSITY OF TEXAS SYSTEM

MONTHLY FINANCIAL REPORT

(Unaudited)

FOR THE FOUR MONTHS ENDING

DECEMBER 31, 2007

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.

UNAUDITED

The University of Texas System
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2007

	December Year-to-Date FY 2008	December Year-to-Date FY 2007	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 468,069,455	$ 436,556,674	$ 31,512,781	7.2%
Sponsored Programs	792,006,687	757,017,710	34,988,977	4.6%
Net Sales and Services of Educational Activities	89,533,423	91,055,923	(1,522,500)	-1.7%
Net Sales and Services of Hospitals	947,560,486	869,791,329	77,769,157	8.9%
Net Professional Fees	296,361,841	261,508,218	34,853,623	13.3%
Net Auxiliary Enterprises	132,430,525	129,779,090	2,651,435	2.0%
Other Operating Revenues	43,547,270	57,102,644	(13,555,374)	-23.7%
Total Operating Revenues	**2,769,509,687**	**2,602,811,588**	**166,698,099**	**6.4%**
Operating Expenses				
Salaries and Wages	1,714,405,777	1,600,026,476	114,379,301	7.1%
Payroll Related Costs	418,828,013	385,526,612	33,301,401	8.6%
Professional Fees and Contracted Services	93,557,568	87,932,602	5,624,966	6.4%
Other Contracted Services	131,624,077	121,799,460	9,824,617	8.1%
Scholarships and Fellowships	220,833,909	209,376,861	11,457,048	5.5%
Travel	37,322,162	32,788,262	4,533,900	13.8%
Materials and Supplies	365,143,962	351,461,505	13,682,457	3.9%
Utilities	89,453,181	79,498,727	9,954,454	12.5%
Telecommunications	31,585,851	21,764,241	9,821,610	45.1%
Repairs and Maintenance	57,793,558	48,008,516	9,785,042	20.4%
Rentals and Leases	40,858,125	34,462,164	6,395,961	18.6%
Printing and Reproduction	8,666,705	8,588,597	78,108	0.9%
Bad Debt Expense	18,393	315,268	(296,875)	-94.2%
Claims and Losses	15,755,534	11,948,248	3,807,286	31.9%
Federal Sponsored Programs Pass-Throughs	9,422,129	9,577,352	(155,223)	-1.6%
Depreciation and Amortization	227,590,750	207,246,779	20,343,971	9.8%
Other Operating Expenses	122,128,569	128,895,653	(6,767,084)	-5.3%
Total Operating Expenses	**3,584,988,263**	**3,339,217,323**	**245,770,940**	**7.4%**
Operating Loss	**(815,478,576)**	**(736,405,735)**	**(79,072,841)**	**-10.7%**
Other Nonoperating Adjustments				
State Appropriations	652,200,673	589,878,262	62,322,411	10.6%
Gift Contributions for Operations	121,161,964	88,842,474	32,319,490	36.4%
Net Investment Income	200,488,481	164,571,478	35,917,003	21.8%
Long Term Fund Distribution	69,383,653	64,696,662	4,686,991	7.2%
Interest Expense on Capital Asset Financings	(61,528,835)	(55,451,080)	(6,077,755)	-11.0%
Net Other Nonoperating Adjustments	**981,705,936**	**852,537,796**	**129,168,140**	**15.2%**
Adjusted Income (Loss) including Depreciation	**166,227,360**	**116,132,061**	**50,095,299**	**43.1%**
Adjusted Margin (as a percentage) including Depreciation	**4.4%**	**3.3%**		
Investment Gains (Losses)	695,459,588	930,758,940	(235,299,352)	-25.3%
Adj. Inc. (Loss) with Investment Gains (Losses)	**$ 861,686,948**	**$ 1,046,891,001**	**$ (185,204,053)**	**-17.7%**
Adj. Margin % with Investment Gains (Losses)	**19.1%**	**23.6%**		
Adjusted Income (Loss) with Investment Gains (Losses) excluding Depreciation	**1,089,277,698**	**1,254,137,780**	**(164,860,082)**	**-13.1%**
Adjusted Margin (as a percentage) with Investment Gains (Losses) excluding Depreciation	**24.2%**	**28.2%**		

The University of Texas System
Comparison of Adjusted Income (Loss)
For the Four Months Ending December 31, 2007

	Including Depreciation and Amortization Expense						
	December Year-to-Date FY 2008		December Year-to-Date FY 2007	Variance		Fluctuation Percentage
UT System Administration	$ 77,020,975		$ 80,095,997	$ (3,075,022)		-3.8%
UT Arlington	6,154,431		4,968,796	1,185,635		23.9%
UT Austin	44,213,514		44,458,020	(244,506)		-0.5%
UT Brownsville	106,157		(286,458)	392,615	(1)	137.1%
UT Dallas	834,934		(2,298,202)	3,133,136	(2)	136.3%
UT El Paso	2,061,956		999,633	1,062,323	(3)	106.3%
UT Pan American	593,173		880,205	(287,032)		-32.6%
UT Permian Basin	3,844,531		404,403	3,440,128	(4)	850.7%
UT San Antonio	12,954,837		11,356,119	1,598,718		14.1%
UT Tyler	2,689,824		1,141,961	1,547,863	(5)	135.5%
UT Southwestern Medical Center - Dallas	14,649,746		(8,558,214)	23,207,960	(6)	271.2%
UT Medical Branch - Galveston	(9,605,377)	(7)	(14,250,896)	4,645,519		32.6%
UT Health Science Center - Houston	11,106,860		4,801,732	6,305,128	(8)	131.3%
UT Health Science Center - San Antonio	3,347,167		(2,426,987)	5,774,154	(9)	237.9%
UT M. D. Anderson Cancer Center	45,458,740		38,936,325	6,522,415		16.8%
UT Health Center - Tyler	(1,337,441)	(10)	(1,570,373)	232,932		14.8%
Elimination of AUF Transfer	(47,866,667)		(42,520,000)	(5,346,667)		-12.6%
Total Adjusted Income (Loss)	166,227,360		116,132,061	50,095,299		43.1%
Investment Gains (Losses)	695,459,588		930,758,940	(235,299,352)	(11)	-25.3%
Total Adjusted Income (Loss) with Investment Gains (Losses) Including Depreciation and Amortization	**$ 861,686,948**		**$ 1,046,891,001**	**$ (185,204,053)**		**-17.7%**

	Excluding Depreciation and Amortization Expense			
	December Year-to-Date FY 2008	December Year-to-Date FY 2007	Variance	Fluctuation Percentage
UT System Administration	$ 78,829,951	$ 81,881,022	$ (3,051,071)	-3.7%
UT Arlington	12,980,160	12,000,394	979,766	8.2%
UT Austin	97,403,109	89,533,948	7,869,161	8.8%
UT Brownsville	2,074,905	1,514,484	560,421	37.0%
UT Dallas	7,175,125	4,078,417	3,096,708	75.9%
UT El Paso	6,963,573	5,577,458	1,386,115	24.9%
UT Pan American	5,961,369	6,211,652	(250,283)	-4.0%
UT Permian Basin	5,061,198	1,490,292	3,570,906	239.6%
UT San Antonio	22,184,304	19,368,984	2,815,320	14.5%
UT Tyler	5,143,728	3,411,011	1,732,717	50.8%
UT Southwestern Medical Center - Dallas	38,486,582	12,837,417	25,649,165	199.8%
UT Medical Branch - Galveston	11,063,479	3,927,660	7,135,819	181.7%
UT Health Science Center - Houston	22,130,351	15,790,338	6,340,013	40.2%
UT Health Science Center - San Antonio	12,013,834	5,174,633	6,839,201	132.2%
UT M. D. Anderson Cancer Center	113,395,302	102,547,912	10,847,390	10.6%
UT Health Center - Tyler	817,807	553,218	264,589	47.8%
Elimination of AUF Transfer	(47,866,667)	(42,520,000)	(5,346,667)	-12.6%
Total Adjusted Income (Loss)	393,818,110	323,378,840	70,439,270	21.8%
Investment Gains (Losses)	695,459,588	930,758,940	(235,299,352)	-25.3%
Total Adjusted Income (Loss) with Investment Gains (Losses) Excluding Depreciation and Amortization	**$ 1,089,277,698**	**$ 1,254,137,780**	**$ (164,860,082)**	**-13.1%**

THE UNIVERSITY OF TEXAS SYSTEM
EXPLANATION OF VARIANCES ON THE MONTHLY FINANCIAL REPORT
For the Four Months Ending December 31, 2007

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 Brownsville* - The $393,000 (137.1%) increase in adjusted income over the same period last year was primarily due to increased state appropriations including increased formula funding and increased Tuition Revenue Bonds (TRBs). *UT Brownsville's* adjusted income excluding depreciation expense was $2.1 million or 3.8%. UT Brownsville projects a year-end loss of approximately $1.9 million, which represents -1.3 million of projected revenues. This forecast includes $5.9 million of depreciation expense.

(2) *UT Dallas* – The $3.1 million (136.3%) increase in adjusted income over the same period last year was primarily due to increased state appropriations including increased formula funding and increased TRBs. Excluding depreciation expense, *UT Dallas'* adjusted income was $7.2 million or 7.2%.

(3) *UT El Paso* – The $1.1 million (106.3%) increase in adjusted income over the same period last year was primarily due to increased state appropriations including increased formula funding and increased TRBs. Excluding depreciation expense, *UT El Paso's* adjusted income was $7 million or 6.5%.

(4) *UT Permian Basin* - The $3.4 million (850.7%) increase in adjusted income over the same period last year was primarily due to increased state appropriations including increased formula funding and increased TRBs. Excluding depreciation expense, *UT Permian Basin's* adjusted income was $5.1 million or 25%.

(5) *UT Tyler* – The $1.5 million (135.5%) increase in adjusted income over the same period last year was primarily due to increased state appropriations including increased formula funding and increased TRBs. Excluding depreciation expense, *UT Tyler's* adjusted income was $5.1 million or 17.3%.

(6) *UT Southwestern Medical Center at Dallas* – The $23.2 million (271.2%) increase in adjusted income over the same period last year was primarily due to an increase in gift contributions for operations and increased state appropriations. Gift contributions increased due to a gift of $2.5 million from COAM Company for cancer research, a $5.5 million gift for the Neuroscience Support Fund, and $2.7 million in gifts from various donors. State appropriations increased as a result of a special item appropriation for Obesity, Diabetes, and Metabolism. Excluding depreciation expense, *UT Southwestern's* adjusted income was $38.5 million or 8.3%.

(7) *UT Medical Branch - Galveston* – *UTMB* currently reflects a negative margin of $9.6 million. Operating expenses increased $26.9 million corresponding to the increased patient care activity and growth in research related programs. Market adjustments for nursing salaries related to UTMB Hospitals and Clinics and Correctional Managed Care have been a significant factor contributing to the increase in personnel costs. Excluding depreciation expense, *UTMB's* adjusted income was $11.1 million or 2.3%. *UTMB* projects a year-end loss of approximately $15 million, which represents -1% of projected revenues. This forecast includes $64.6 million of depreciation expense.

(8) *UT Health Science Center – Houston* – The $6.3 million (131.3%) increase in adjusted income over the same period as last year was primarily due to an increase in gift contributions for operations and increased state appropriations including increased formula funding and increased TRBs. Gift contributions increased $2.8 million due to private gift pledges received. Excluding depreciation expense, *UTHSC-Houston's* adjusted income was $22.1 million or 8.6%.

(9) *UT Health Science Center – San Antonio* – The $5.8 million (237.9%) increase in adjusted income over the same period last year was primarily due to an increase in gift contributions for operations and increased state appropriations including increased formula funding and increased TRBs. Gift contributions increased due to a gift of $10.5 million from the Cancer Therapy and Research Center (CTRC) Foundation to support operations resulting from the acquisition of the CTRC. Excluding depreciation expense, *UTHSC-San Antonio's* adjusted income was $12 million or 6.1%. *UTHSC-San Antonio* projects a year-end loss of approximately 11.7 million, including $31.2 million of depreciation expense, which represents -1.8% of projected revenues. The projection includes a loss of $7.5 million related to the acquisition of CTRC, $5.2 million of which is depreciation. *UTHSC-San Antonio* is currently looking at ways to mitigate the $2.3 CTRC loss exclusive of depreciation.

(10) *UT Health Center – Tyler* – The $1.3 million year-to-date loss was the result of an 18% decrease in inpatient admissions as well as a 30% increase over budget in utility

expenses. Excluding depreciation expense, *UTHC–Tyler's* adjusted income was $818,000 or 2.3%. *UTHC-Tyler* projects year-end income of approximately $1.6 million, which represents 1.3% of projected revenues. This forecast includes $6.5 million of depreciation expense.

(11) *Investment Gains (Losses)* - The majority of the $235.3 million (25.3%) decrease in investment gains relates to the Permanent University Fund of $167 million, the Long Term Fund of $67.7 million, and the Permanent Health Fund of $16 million.

GLOSSARY OF TERMS

OPERATING REVENUES:

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

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

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

NET SALES AND SERVICES OF HOSPITALS – Revenues (net of discounts, allowances, and bad debt expense) generated from 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 non profit healthcare company revenues, donated drugs, interest on student loans, etc.)

OPERATING EXPENSES:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DEPRECIATION AND AMORTIZATION – 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.

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 can not be used to support current operations. Endowment gifts must be held in perpetuity and can not 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, The Short Term Fund, the Intermediate 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 less Long Term Fund transfers so as not to overstate investment Income. This line item also includes the Available University Fund surface income, oil and gas royalties, and mineral lease bonus sales.

LONG TERM FUND DISTRIBUTION – At the institutional level, includes Long Term Fund fixed payouts approved by the Board of Regents. Investment income for System Administration and the consolidated sheet has been reduced for the amount of any Long Term Fund distribution so as not to overstate investment income system-wide.

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 – Total operating revenues less total operating expenses including depreciation expense plus net other nonoperating adjustments.

ADJUSTED MARGIN (as a percentage) including Depreciation – Percentage of Adjusted Income (Loss) including depreciation 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 – Total operating revenues less total operating expenses excluding depreciation expense plus net other nonoperating adjustments.

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

UNAUDITED

The University of Texas System Administration
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2007

	December Year-to-Date FY 2008	December Year-to-Date FY 2007	Variance	Fluctuation Percentage
Operating Revenues				
Sponsored Programs	$ 9,756,470	$ 12,072,376	$ (2,315,906)	-19.2%
Net Sales and Services of Educational Activities	4,699,784	7,518,392	(2,818,608)	-37.5%
Other Operating Revenues	(3,657,540)	8,132,938	(11,790,478)	-145.0%
Total Operating Revenues	**10,798,714**	**27,723,706**	**(16,924,992)**	**-61.0%**
Operating Expenses				
Salaries and Wages	13,014,725	10,455,760	2,558,965	24.5%
Employee Benefits and Related Costs	2,555,353	2,080,165	475,188	22.8%
Professional Fees and Contracted Services	223,844	1,920,251	(1,696,407)	-88.3%
Other Contracted Services	6,652,861	3,073,384	3,579,477	116.5%
Scholarships and Fellowships	400,900	106,300	294,600	277.1%
Travel	603,686	610,083	(6,397)	-1.0%
Materials and Supplies	1,233,862	750,670	483,192	64.4%
Utilities	119,729	221,464	(101,735)	-45.9%
Telecommunications	350,624	900,901	(550,277)	-61.1%
Repairs and Maintenance	244,147	560,991	(316,844)	-56.5%
Rentals and Leases	2,660,574	541,605	2,118,969	391.2%
Printing and Reproduction	98,304	77,465	20,839	26.9%
Claims and Losses	15,755,534	11,948,248	3,807,286	31.9%
Depreciation and Amortization	1,808,976	1,785,025	23,951	1.3%
Other Operating Expenses	1,512,465	1,112,081	400,384	36.0%
Total Operating Expenses	**47,235,584**	**36,144,393**	**11,091,191**	**30.7%**
Operating Loss	**(36,436,870)**	**(8,420,687)**	**(28,016,183)**	**-332.7%**
Other Nonoperating Adjustments				
State Appropriations	307,343	305,918	1,425	0.5%
Gift Contributions for Operations	260,023	288,899	(28,876)	-10.0%
Net Investment Income	115,897,310	91,788,062	24,109,248	26.3%
Long Term Fund Distribution	559,869	449,162	110,707	24.6%
Interest Expense on Capital Asset Financings	(14,980,183)	(14,982,468)	2,285	0.0%
Net Other Nonoperating Adjustments	**102,044,362**	**77,849,573**	**24,194,789**	**31.1%**
Adjusted Income (Loss) including Depreciation	**65,607,492**	**69,428,886**	**(3,821,394)**	**-5.5%**
Adjusted Margin (as a percentage) including Depreciation	**51.3%**	**57.6%**		
Available University Fund Transfer	11,413,483	10,667,111	746,372	7.0%
Adjusted Income (Loss) with AUF Transfer	**77,020,975**	**80,095,997**	**(3,075,022)**	**-3.8%**
Adjusted Margin % with AUF Transfer	**55.3%**	**61.0%**		
Investment Gains (Losses)	565,557,144	814,028,032	(248,470,888)	-30.5%
Adj. Inc. (Loss) with AUF Transfer & Invest. Gains (Losses)	**$ 642,578,119**	**$ 894,124,029**	**$ (251,545,910)**	**-28.1%**
Adj. Margin % with AUF Transfer & Invest. Gains (Losses)	**91.2%**	**94.6%**		
Adjusted Income (Loss) with AUF Transfer excluding Depreciation	**78,829,951**	**81,881,022**	**(3,051,071)**	**-3.7%**
Adjusted Margin (as a percentage) with AUF Transfer excluding Depreciation	**56.6%**	**62.4%**		

UNAUDITED

The University of Texas at Arlington
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2007

	December Year-to-Date FY 2008	December Year-to-Date FY 2007	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 56,850,213	$ 55,161,172	$ 1,689,041	3.1%
Sponsored Programs	20,305,362	17,901,114	2,404,248	13.4%
Net Sales and Services of Educational Activities	4,213,887	3,747,605	466,282	12.4%
Net Auxiliary Enterprises	11,585,549	8,151,568	3,433,981	42.1%
Other Operating Revenues	1,952,822	2,298,184	(345,362)	-15.0%
Total Operating Revenues	**94,907,833**	**87,259,643**	**7,648,190**	**8.8%**
Operating Expenses				
Salaries and Wages	60,154,219	55,496,760	4,657,459	8.4%
Employee Benefits and Related Costs	12,986,935	11,933,637	1,053,298	8.8%
Professional Fees and Contracted Services	1,126,876	1,606,606	(479,730)	-29.9%
Other Contracted Services	3,255,157	3,129,717	125,440	4.0%
Scholarships and Fellowships	20,816,283	18,401,010	2,415,273	13.1%
Travel	1,451,247	1,232,537	218,710	17.7%
Materials and Supplies	5,871,148	5,698,913	172,235	3.0%
Utilities	4,158,010	3,454,232	703,778	20.4%
Telecommunications	1,705,537	2,480,211	(774,674)	-31.2%
Repairs and Maintenance	2,285,935	1,862,052	423,883	22.8%
Rentals and Leases	3,110,807	769,624	2,341,183	304.2%
Printing and Reproduction	741,890	678,832	63,058	9.3%
Federal Sponsored Programs Pass-Thrus	712,356	526,154	186,202	35.4%
Depreciation and Amortization	6,825,729	7,031,598	(205,869)	-2.9%
Other Operating Expenses	2,245,733	3,921,454	(1,675,721)	-42.7%
Total Operating Expenses	**127,447,862**	**118,223,337**	**9,224,525**	**7.8%**
Operating Loss	**(32,540,029)**	**(30,963,694)**	**(1,576,335)**	**-5.1%**
Other Nonoperating Adjustments				
State Appropriations	36,990,361	35,148,379	1,841,982	5.2%
Gift Contributions for Operations	870,411	722,151	148,260	20.5%
Net Investment Income	2,473,511	1,380,991	1,092,520	79.1%
Long Term Fund Distribution	798,893	757,747	41,146	5.4%
Interest Expense on Capital Asset Financings	(2,438,716)	(2,076,778)	(361,938)	-17.4%
Net Other Nonoperating Adjustments	**38,694,460**	**35,932,490**	**2,761,970**	**7.7%**
Adjusted Income (Loss) including Depreciation	**6,154,431**	**4,968,796**	**1,185,635**	**23.9%**
Adjusted Margin (as a percentage) including Depreciation	**4.5%**	**4.0%**		
Investment Gains (Losses)	6,544,768	4,382,051	2,162,717	49.4%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 12,699,199**	**$ 9,350,847**	**$ 3,348,352**	**35.8%**
Adjusted Margin % with Investment Gains (Losses)	**8.9%**	**7.2%**		
Adjusted Income (Loss) excluding Depreciation	**12,980,160**	**12,000,394**	**979,766**	**8.2%**
Adjusted Margin (as a percentage) excluding Depreciation	**9.5%**	**9.6%**		

UNAUDITED

The University of Texas at Austin
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2007

	December Year-to-Date FY 2008	December Year-to-Date FY 2007	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 197,523,808	$ 183,696,415	$ 13,827,393	7.5%
Sponsored Programs	153,313,054	147,944,435	5,368,619	3.6%
Net Sales and Services of Educational Activities	46,242,194	45,181,267	1,060,927	2.3%
Net Auxiliary Enterprises	73,408,553	74,628,845	(1,220,292)	-1.6%
Other Operating Revenues	1,937,021	6,769,884	(4,832,863)	-71.4%
Total Operating Revenues	**472,424,630**	**458,220,846**	**14,203,784**	**3.1%**
Operating Expenses				
Salaries and Wages	304,953,567	295,432,798	9,520,769	3.2%
Employee Benefits and Related Costs	67,862,128	65,720,691	2,141,437	3.3%
Professional Fees and Contracted Services	7,574,439	7,520,030	54,409	0.7%
Other Contracted Services	21,716,011	23,325,976	(1,609,965)	-6.9%
Scholarships and Fellowships	74,025,956	71,556,998	2,468,958	3.5%
Travel	12,828,025	10,904,289	1,923,736	17.6%
Materials and Supplies	35,443,634	34,365,045	1,078,589	3.1%
Utilities	22,846,452	21,156,850	1,689,602	8.0%
Telecommunications	13,765,562	4,936,569	8,828,993	178.8%
Repairs and Maintenance	9,649,028	6,940,967	2,708,061	39.0%
Rentals and Leases	5,409,356	4,958,388	450,968	9.1%
Printing and Reproduction	3,056,070	3,075,033	(18,963)	-0.6%
Federal Sponsored Programs Pass-Thrus	1,380,374	2,113,431	(733,057)	-34.7%
Depreciation and Amortization	53,189,595	45,075,928	8,113,667	18.0%
Other Operating Expenses	26,042,924	29,421,061	(3,378,137)	-11.5%
Total Operating Expenses	**659,743,121**	**626,504,054**	**33,239,067**	**5.3%**
Operating Loss	**(187,318,491)**	**(168,283,208)**	**(19,035,283)**	**-11.3%**
Other Nonoperating Adjustments				
State Appropriations	113,747,586	105,628,759	8,118,827	7.7%
Gift Contributions for Operations	31,047,948	30,077,470	970,478	3.2%
Net Investment Income	13,700,675	10,442,098	3,258,577	31.2%
Long Term Fund Distribution	35,660,515	33,616,876	2,043,639	6.1%
Interest Expense on Capital Asset Financings	(10,491,386)	(9,543,975)	(947,411)	-9.9%
Net Other Nonoperating Adjustments	**183,665,338**	**170,221,228**	**13,444,110**	**7.9%**
Adjusted Income (Loss) including Depreciation	**(3,653,153)**	**1,938,020**	**(5,591,173)**	**-288.5%**
Adjusted Margin (as a percentage) including Depreciation	**-0.5%**	**0.3%**		
Available University Fund Transfer	47,866,667	42,520,000	5,346,667	12.6%
Adjusted Income (Loss) with AUF Transfer	**44,213,514**	**44,458,020**	**(244,506)**	**-0.5%**
Adjusted Margin % with AUF Transfer	**6.2%**	**6.5%**		
Investment Gains (Losses)	24,924,023	23,207,115	1,716,908	7.4%
Adj. Inc. (Loss) with AUF Transfer & Invest. Gains (Losses)	**$ 69,137,537**	**$ 67,665,135**	**$ 1,472,402**	**2.2%**
Adj. Margin % with AUF Transfer & Invest. Gains (Losses)	**9.4%**	**9.6%**		
Adjusted Income (Loss) with AUF Transfer excluding Depreciation	**97,403,109**	**89,533,948**	**7,869,161**	**8.8%**
Adjusted Margin (as a percentage) with AUF Transfer excluding Depreciation	**13.6%**	**13.2%**		

UNAUDITED

The University of Texas at Brownsville
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2007

	December Year-to-Date FY 2008	December Year-to-Date FY 2007	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 5,866,737	$ 4,204,062	$ 1,662,675	39.5%
Sponsored Programs	34,434,958	34,216,834	218,124	0.6%
Net Sales and Services of Educational Activities	395,113	301,820	93,293	30.9%
Net Auxiliary Enterprises	852,599	381,314	471,285	123.6%
Other Operating Revenues	21,958	3,222	18,736	581.5%
Total Operating Revenues	**41,571,365**	**39,107,252**	**2,464,113**	**6.3%**
Operating Expenses				
Salaries and Wages	20,353,856	18,230,756	2,123,100	11.6%
Employee Benefits and Related Costs	4,757,761	4,430,391	327,370	7.4%
Professional Fees and Contracted Services	621,742	778,653	(156,911)	-20.2%
Scholarships and Fellowships	18,741,790	17,095,157	1,646,633	9.6%
Travel	358,147	333,616	24,531	7.4%
Materials and Supplies	1,468,650	1,460,229	8,421	0.6%
Utilities	1,164,686	1,302,789	(138,103)	-10.6%
Telecommunications	590,347	443,295	147,052	33.2%
Repairs and Maintenance	427,455	334,645	92,810	27.7%
Rentals and Leases	590,377	583,987	6,390	1.1%
Printing and Reproduction	119,471	119,140	331	0.3%
Bad Debt Expense	14,393	8,566	5,827	68.0%
Federal Sponsored Programs Pass-Thrus	5,118	5,977	(859)	-14.4%
Depreciation and Amortization	1,968,748	1,800,942	167,806	9.3%
Other Operating Expenses	2,114,533	2,010,525	104,008	5.2%
Total Operating Expenses	**53,297,074**	**48,938,668**	**4,358,406**	**8.9%**
Operating Loss	**(11,725,709)**	**(9,831,416)**	**(1,894,293)**	**-19.3%**
Other Nonoperating Adjustments				
State Appropriations	11,750,071	9,530,679	2,219,392	23.3%
Gift Contributions for Operations	162,853	129,136	33,717	26.1%
Net Investment Income	400,251	345,969	54,282	15.7%
Long Term Fund Distribution	104,679	98,250	6,429	6.5%
Interest Expense on Capital Asset Financings	(585,988)	(559,076)	(26,912)	-4.8%
Net Other Nonoperating Adjustments	**11,831,866**	**9,544,958**	**2,286,908**	**24.0%**
Adjusted Income (Loss) including Depreciation	**106,157**	**(286,458)**	**392,615**	**137.1%**
Adjusted Margin (as a percentage) including Depreciation	**0.2%**	**-0.6%**		
Investment Gains (Losses)	880,732	864,443	16,289	1.9%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 986,889**	**$ 577,985**	**$ 408,904**	**70.7%**
Adjusted Margin % with Investment Gains (Losses)	**1.8%**	**1.2%**		
Adjusted Income (Loss) excluding Depreciation	**2,074,905**	**1,514,484**	**560,421**	**37.0%**
Adjusted Margin (as a percentage) excluding Depreciation	**3.8%**	**3.1%**		

UNAUDITED

The University of Texas at Dallas

Comparison of Operating Results and Margin

For the Four Months Ending December 31, 2007

	December Year-to-Date FY 2008	December Year-to-Date FY 2007	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 42,921,652	$ 40,313,072	$ 2,608,580	6.5%
Sponsored Programs	13,577,518	13,093,818	483,700	3.7%
Net Sales and Services of Educational Activities	2,107,100	1,805,594	301,506	16.7%
Net Auxiliary Enterprises	1,542,411	1,974,383	(431,972)	-21.9%
Other Operating Revenues	3,013,615	1,989,020	1,024,595	51.5%
Total Operating Revenues	**63,162,296**	**59,175,887**	**3,986,409**	**6.7%**
Operating Expenses				
Salaries and Wages	49,047,750	45,703,508	3,344,242	7.3%
Employee Benefits and Related Costs	9,854,891	9,107,551	747,340	8.2%
Professional Fees and Contracted Services	857,771	792,476	65,295	8.2%
Other Contracted Services	3,630,222	2,789,564	840,658	30.1%
Scholarships and Fellowships	12,131,581	14,638,744	(2,507,163)	-17.1%
Travel	1,053,937	938,417	115,520	12.3%
Materials and Supplies	5,384,131	4,678,076	706,055	15.1%
Utilities	1,856,179	2,056,127	(199,948)	-9.7%
Telecommunications	447,447	388,278	59,169	15.2%
Repairs and Maintenance	1,438,462	1,040,929	397,533	38.2%
Rentals and Leases	449,092	404,391	44,701	11.1%
Printing and Reproduction	449,748	450,736	(988)	-0.2%
Federal Sponsored Programs Pass-Thrus	81,644	23,855	57,789	242.3%
Depreciation and Amortization	6,340,191	6,376,619	(36,428)	-0.6%
Other Operating Expenses	3,600,355	3,039,120	561,235	18.5%
Total Operating Expenses	**96,623,401**	**92,428,391**	**4,195,010**	**4.5%**
Operating Loss	**(33,461,105)**	**(33,252,504)**	**(208,601)**	**-0.6%**
Other Nonoperating Adjustments				
State Appropriations	30,867,586	25,241,440	5,626,146	22.3%
Gift Contributions for Operations	1,369,431	4,180,131	(2,810,700)	-67.2%
Net Investment Income	1,648,729	1,043,004	605,725	58.1%
Long Term Fund Distribution	2,734,377	2,557,291	177,086	6.9%
Interest Expense on Capital Asset Financings	(2,324,084)	(2,067,564)	(256,520)	-12.4%
Net Other Nonoperating Adjustments	**34,296,039**	**30,954,302**	**3,341,737**	**10.8%**
Adjusted Income (Loss) including Depreciation	**834,934**	**(2,298,202)**	**3,133,136**	**136.3%**
Adjusted Margin (as a percentage) including Depreciation	**0.8%**	**-2.5%**		
Investment Gains (Losses)	3,700,513	3,466,348	234,165	6.8%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 4,535,447**	**$ 1,168,146**	**$ 3,367,301**	**288.3%**
Adjusted Margin % with Investment Gains (Losses)	**4.4%**	**1.2%**		
Adjusted Income (Loss) excluding Depreciation	**7,175,125**	**4,078,417**	**3,096,708**	**75.9%**
Adjusted Margin (as a percentage) excluding Depreciation	**7.2%**	**4.4%**		

UNAUDITED

The University of Texas at El Paso
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2007

	December Year-to-Date FY 2008	December Year-to-Date FY 2007	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 31,380,148	$ 28,650,456	$ 2,729,692	9.5%
Sponsored Programs	29,809,130	29,116,032	693,098	2.4%
Net Sales and Services of Educational Activities	1,274,712	1,249,996	24,716	2.0%
Net Auxiliary Enterprises	9,229,202	11,301,927	(2,072,725)	-18.3%
Other Operating Revenues	307,825	5,784	302,041	5,222.0%
Total Operating Revenues	**72,001,017**	**70,324,195**	**1,676,822**	**2.4%**
Operating Expenses				
Salaries and Wages	43,425,775	40,839,031	2,586,744	6.3%
Employee Benefits and Related Costs	10,507,176	9,957,587	549,589	5.5%
Professional Fees and Contracted Services	2,196,855	3,432,363	(1,235,508)	-36.0%
Other Contracted Services	4,680,034	4,685,100	(5,066)	-0.1%
Scholarships and Fellowships	21,697,751	20,700,840	996,911	4.8%
Travel	1,914,451	1,574,524	339,927	21.6%
Materials and Supplies	7,212,450	7,997,477	(785,027)	-9.8%
Utilities	2,169,815	2,291,086	(121,271)	-5.3%
Telecommunications	278,322	150,830	127,492	84.5%
Repairs and Maintenance	1,667,352	1,263,828	403,524	31.9%
Rentals and Leases	1,161,513	1,317,931	(156,418)	-11.9%
Printing and Reproduction	307,687	192,629	115,058	59.7%
Federal Sponsored Programs Pass-Thrus	20,683	62,499	(41,816)	-66.9%
Depreciation and Amortization	4,901,617	4,577,825	323,792	7.1%
Other Operating Expenses	2,113,304	1,946,259	167,045	8.6%
Total Operating Expenses	**104,254,785**	**100,989,809**	**3,264,976**	**3.2%**
Operating Loss	**(32,253,768)**	**(30,665,614)**	**(1,588,154)**	**-5.2%**
Other Nonoperating Adjustments				
State Appropriations	30,385,236	26,573,756	3,811,480	14.3%
Gift Contributions for Operations	2,153,699	3,056,735	(903,036)	-29.5%
Net Investment Income	1,656,720	1,513,719	143,001	9.4%
Long Term Fund Distribution	1,576,161	1,512,971	63,190	4.2%
Interest Expense on Capital Asset Financings	(1,456,092)	(991,934)	(464,158)	-46.8%
Net Other Nonoperating Adjustments	**34,315,724**	**31,665,247**	**2,650,477**	**8.4%**
Adjusted Income (Loss) including Depreciation	**2,061,956**	**999,633**	**1,062,323**	**106.3%**
Adjusted Margin (as a percentage) including Depreciation	**1.9%**	**1.0%**		
Investment Gains (Losses)	2,010,200	1,972,099	38,101	1.9%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 4,072,156**	**$ 2,971,732**	**$ 1,100,424**	**37.0%**
Adjusted Margin % with Investment Gains (Losses)	**3.7%**	**2.8%**		
Adjusted Income (Loss) excluding Depreciation	**6,963,573**	**5,577,458**	**1,386,115**	**24.9%**
Adjusted Margin (as a percentage) excluding Depreciation	**6.5%**	**5.4%**		

UNAUDITED

The University of Texas-Pan American
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2007

	December Year-to-Date FY 2008	December Year-to-Date FY 2007	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 25,540,288	$ 22,815,708	$ 2,724,580	11.9%
Sponsored Programs	31,125,984	29,415,930	1,710,054	5.8%
Net Sales and Services of Educational Activities	2,432,168	2,589,877	(157,709)	-6.1%
Net Auxiliary Enterprises	1,285,901	1,376,716	(90,815)	-6.6%
Other Operating Revenues	324,426	155,020	169,406	109.3%
Total Operating Revenues	**60,708,767**	**56,353,251**	**4,355,516**	**7.7%**
Operating Expenses				
Salaries and Wages	31,503,861	29,221,261	2,282,600	7.8%
Employee Benefits and Related Costs	7,185,753	6,659,195	526,558	7.9%
Professional Fees and Contracted Services	717,762	448,696	269,066	60.0%
Other Contracted Services	2,190,176	1,002,224	1,187,952	118.5%
Scholarships and Fellowships	28,121,322	25,986,538	2,134,784	8.2%
Travel	1,077,604	898,120	179,484	20.0%
Materials and Supplies	4,549,089	6,141,207	(1,592,118)	-25.9%
Utilities	1,899,930	1,248,026	651,904	52.2%
Telecommunications	173,292	151,474	21,818	14.4%
Repairs and Maintenance	821,548	902,914	(81,366)	-9.0%
Rentals and Leases	235,977	212,769	23,208	10.9%
Printing and Reproduction	79,640	56,825	22,815	40.1%
Bad Debt Expense	4,000	306,702	(302,702)	-98.7%
Federal Sponsored Programs Pass-Thrus	28,615	72	28,543	39,643.1%
Depreciation and Amortization	5,368,196	5,331,447	36,749	0.7%
Other Operating Expenses	1,654,257	1,246,721	407,536	32.7%
Total Operating Expenses	**85,611,022**	**79,814,191**	**5,796,831**	**7.3%**
Operating Loss	**(24,902,255)**	**(23,460,940)**	**(1,441,315)**	**-6.1%**
Other Nonoperating Adjustments				
State Appropriations	25,122,328	23,625,976	1,496,352	6.3%
Gift Contributions for Operations	602,091	845,175	(243,084)	-28.8%
Net Investment Income	677,655	600,684	76,971	12.8%
Long Term Fund Distribution	406,082	358,680	47,402	13.2%
Interest Expense on Capital Asset Financings	(1,312,728)	(1,089,370)	(223,358)	-20.5%
Net Other Nonoperating Adjustments	**25,495,428**	**24,341,145**	**1,154,283**	**4.7%**
Adjusted Income (Loss) including Depreciation	**593,173**	**880,205**	**(287,032)**	**-32.6%**
Adjusted Margin (as a percentage) including Depreciation	**0.7%**	**1.1%**		
Investment Gains (Losses)	1,612,349	1,545,220	67,129	4.3%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 2,205,522**	**$ 2,425,425**	**$ (219,903)**	**-9.1%**
Adjusted Margin % with Investment Gains (Losses)	**2.5%**	**2.9%**		
Adjusted Income (Loss) excluding Depreciation	**5,961,369**	**6,211,652**	**(250,283)**	**-4.0%**
Adjusted Margin (as a percentage) excluding Depreciation	**6.8%**	**7.6%**		

UNAUDITED

The University of Texas of the Permian Basin
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2007

	December Year-to-Date FY 2008	December Year-to-Date FY 2007	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 4,903,168	$ 4,617,355	$ 285,813	6.2%
Sponsored Programs	2,492,620	2,274,146	218,474	9.6%
Net Sales and Services of Educational Activities	121,578	86,182	35,396	41.1%
Net Auxiliary Enterprises	1,162,994	795,171	367,823	46.3%
Other Operating Revenues	153,839	26,832	127,007	473.3%
Total Operating Revenues	**8,834,199**	**7,799,686**	**1,034,513**	**13.3%**
Operating Expenses				
Salaries and Wages	5,865,412	5,546,700	318,712	5.7%
Employee Benefits and Related Costs	1,322,943	1,242,986	79,957	6.4%
Professional Fees and Contracted Services	1,465,106	484,962	980,144	202.1%
Other Contracted Services	395,600	228,500	167,100	73.1%
Scholarships and Fellowships	2,685,899	2,542,287	143,612	5.6%
Travel	185,444	223,614	(38,170)	-17.1%
Materials and Supplies	1,095,455	561,015	534,440	95.3%
Utilities	583,227	620,968	(37,741)	-6.1%
Telecommunications	168,122	202,905	(34,783)	-17.1%
Repairs and Maintenance	274,979	216,200	58,779	27.2%
Rentals and Leases	149,095	130,079	19,016	14.6%
Printing and Reproduction	52,577	66,995	(14,418)	-21.5%
Depreciation and Amortization	1,216,667	1,085,889	130,778	12.0%
Other Operating Expenses	372,545	284,047	88,498	31.2%
Total Operating Expenses	**15,833,071**	**13,437,147**	**2,395,924**	**17.8%**
Operating Loss	**(6,998,872)**	**(5,637,461)**	**(1,361,411)**	**-24.1%**
Other Nonoperating Adjustments				
State Appropriations	10,535,316	5,736,172	4,799,144	83.7%
Gift Contributions for Operations	488,966	476,647	12,319	2.6%
Net Investment Income	136,259	144,104	(7,845)	-5.4%
Long Term Fund Distribution	237,246	226,429	10,817	4.8%
Interest Expense on Capital Asset Financings	(554,384)	(541,488)	(12,896)	-2.4%
Net Other Nonoperating Adjustments	**10,843,403**	**6,041,864**	**4,801,539**	**79.5%**
Adjusted Income (Loss) including Depreciation	**3,844,531**	**404,403**	**3,440,128**	**850.7%**
Adjusted Margin (as a percentage) including Depreciation	**19.0%**	**2.8%**		
Investment Gains (Losses)	181,181	202,494	(21,313)	-10.5%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 4,025,712**	**$ 606,897**	**$ 3,418,815**	**563.3%**
Adjusted Margin % with Investment Gains (Losses)	**19.7%**	**4.2%**		
Adjusted Income (Loss) excluding Depreciation	**5,061,198**	**1,490,292**	**3,570,906**	**239.6%**
Adjusted Margin (as a percentage) excluding Depreciation	**25.0%**	**10.4%**		

UNAUDITED

The University of Texas at San Antonio
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2007

	December Year-to-Date FY 2008	December Year-to-Date FY 2007	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 60,569,040	$ 57,963,798	$ 2,605,242	4.5%
Sponsored Programs	30,586,854	26,843,467	3,743,387	13.9%
Net Sales and Services of Educational Activities	1,652,073	1,455,595	196,478	13.5%
Net Auxiliary Enterprises	5,411,140	4,953,129	458,011	9.2%
Other Operating Revenues	797,308	533,500	263,808	49.4%
Total Operating Revenues	**99,016,415**	**91,749,489**	**7,266,926**	**7.9%**
Operating Expenses				
Salaries and Wages	55,213,078	50,868,448	4,344,630	8.5%
Employee Benefits and Related Costs	13,726,100	12,301,453	1,424,647	11.6%
Professional Fees and Contracted Services	1,023,178	1,140,957	(117,779)	-10.3%
Other Contracted Services	2,446,892	1,466,807	980,085	66.8%
Scholarships and Fellowships	26,579,339	24,133,740	2,445,599	10.1%
Travel	1,822,806	1,592,644	230,162	14.5%
Materials and Supplies	5,761,973	5,216,100	545,873	10.5%
Utilities	4,155,626	3,289,658	865,968	26.3%
Telecommunications	1,086,033	686,224	399,809	58.3%
Repairs and Maintenance	2,076,870	1,893,763	183,107	9.7%
Rentals and Leases	811,990	733,177	78,813	10.7%
Printing and Reproduction	318,379	361,896	(43,517)	-12.0%
Federal Sponsored Programs Pass-Thrus	700,638	701,729	(1,091)	-0.2%
Depreciation and Amortization	9,229,467	8,012,865	1,216,602	15.2%
Other Operating Expenses	1,965,048	1,936,704	28,344	1.5%
Total Operating Expenses	**126,917,417**	**114,336,165**	**12,581,252**	**11.0%**
Operating Loss	**(27,901,002)**	**(22,586,676)**	**(5,314,326)**	**-23.5%**
Other Nonoperating Adjustments				
State Appropriations	38,486,197	32,524,007	5,962,190	18.3%
Gift Contributions for Operations	3,451,040	1,272,564	2,178,476	171.2%
Net Investment Income	1,916,650	1,455,089	461,561	31.7%
Long Term Fund Distribution	717,056	638,460	78,596	12.3%
Interest Expense on Capital Asset Financings	(3,715,104)	(1,947,325)	(1,767,779)	-90.8%
Net Other Nonoperating Adjustments	**40,855,839**	**33,942,795**	**6,913,044**	**20.4%**
Adjusted Income (Loss) including Depreciation	**12,954,837**	**11,356,119**	**1,598,718**	**14.1%**
Adjusted Margin (as a percentage) including Depreciation	**9.0%**	**8.9%**		
Investment Gains (Losses)	5,485,801	5,915,672	(429,871)	-7.3%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 18,440,638**	**$ 17,271,791**	**$ 1,168,847**	**6.8%**
Adjusted Margin % with Investment Gains (Losses)	**12.4%**	**12.9%**		
Adjusted Income (Loss) excluding Depreciation	**22,184,304**	**19,368,984**	**2,815,320**	**14.5%**
Adjusted Margin (as a percentage) excluding Depreciation	**15.5%**	**15.2%**		

UNAUDITED

The University of Texas at Tyler
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2007

	December Year-to-Date FY 2008	December Year-to-Date FY 2007	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 10,000,668	$ 8,838,076	$ 1,162,592	13.2%
Sponsored Programs	4,208,937	3,747,305	461,632	12.3%
Net Sales and Services of Educational Activities	423,693	358,727	64,966	18.1%
Net Auxiliary Enterprises	1,478,122	1,403,471	74,651	5.3%
Other Operating Revenues	25,537	25,491	46	0.2%
Total Operating Revenues	**16,136,957**	**14,373,070**	**1,763,887**	**12.3%**
Operating Expenses				
Salaries and Wages	10,737,581	9,965,341	772,240	7.7%
Employee Benefits and Related Costs	2,742,561	2,504,783	237,778	9.5%
Professional Fees and Contracted Services	520,621	443,212	77,409	17.5%
Other Contracted Services	1,015,673	1,036,338	(20,665)	-2.0%
Scholarships and Fellowships	4,324,124	4,128,629	195,495	4.7%
Travel	459,276	313,593	145,683	46.5%
Materials and Supplies	1,763,780	1,879,805	(116,025)	-6.2%
Utilities	545,125	365,496	179,629	49.1%
Telecommunications	188,799	181,814	6,985	3.8%
Repairs and Maintenance	484,389	377,881	106,508	28.2%
Rentals and Leases	120,948	115,014	5,934	5.2%
Printing and Reproduction	194,241	256,925	(62,684)	-24.4%
Depreciation and Amortization	2,453,904	2,269,050	184,854	8.1%
Other Operating Expenses	533,587	447,099	86,488	19.3%
Total Operating Expenses	**26,084,609**	**24,284,980**	**1,799,629**	**7.4%**
Operating Loss	**(9,947,652)**	**(9,911,910)**	**(35,742)**	**-0.4%**
Other Nonoperating Adjustments				
State Appropriations	12,109,252	10,036,395	2,072,857	20.7%
Gift Contributions for Operations	205,580	629,959	(424,379)	-67.4%
Net Investment Income	333,716	274,581	59,135	21.5%
Long Term Fund Distribution	875,436	835,079	40,357	4.8%
Interest Expense on Capital Asset Financings	(886,508)	(722,143)	(164,365)	-22.8%
Net Other Nonoperating Adjustments	**12,637,476**	**11,053,871**	**1,583,605**	**14.3%**
Adjusted Income (Loss) including Depreciation	**2,689,824**	**1,141,961**	**1,547,863**	**135.5%**
Adjusted Margin (as a percentage) including Depreciation	**9.1%**	**4.4%**		
Investment Gains (Losses)	880,118	759,919	120,199	15.8%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 3,569,942**	**$ 1,901,880**	**$ 1,668,062**	**87.7%**
Adjusted Margin % with Investment Gains (Losses)	**11.7%**	**7.1%**		
Adjusted Income (Loss) excluding Depreciation	**5,143,728**	**3,411,011**	**1,732,717**	**50.8%**
Adjusted Margin (as a percentage) excluding Depreciation	**17.3%**	**13.0%**		

UNAUDITED

The University of Texas Southwestern Medical Center at Dallas

Comparison of Operating Results and Margin

For the Four Months Ending December 31, 2007

	December Year-to-Date FY 2008	December Year-to-Date FY 2007	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 9,434,153	$ 8,697,904	$ 736,249	8.5%
Sponsored Programs	136,447,314	131,854,989	4,592,325	3.5%
Net Sales and Services of Educational Activities	2,274,391	2,112,367	162,024	7.7%
Net Sales and Services of Hospitals	104,772,322	92,064,726	12,707,596	13.8%
Net Professional Fees	103,086,698	86,356,456	16,730,242	19.4%
Net Auxiliary Enterprises	5,878,396	5,814,061	64,335	1.1%
Other Operating Revenues	2,019,153	1,677,175	341,978	20.4%
Total Operating Revenues	**363,912,427**	**328,577,678**	**35,334,749**	**10.8%**
Operating Expenses				
Salaries and Wages	224,841,981	206,984,638	17,857,343	8.6%
Employee Benefits and Related Costs	61,577,241	55,616,723	5,960,518	10.7%
Professional Fees and Contracted Services	6,738,145	3,756,023	2,982,122	79.4%
Other Contracted Services	25,849,943	23,715,697	2,134,246	9.0%
Scholarships and Fellowships	5,612,759	6,057,783	(445,024)	-7.3%
Travel	2,845,784	2,740,121	105,663	3.9%
Materials and Supplies	56,368,708	56,898,648	(529,940)	-0.9%
Utilities	10,374,944	6,773,954	3,600,990	53.2%
Telecommunications	2,027,490	1,662,558	364,932	22.0%
Repairs and Maintenance	4,390,414	3,697,369	693,045	18.7%
Rentals and Leases	3,202,546	3,692,084	(489,538)	-13.3%
Printing and Reproduction	799,862	872,858	(72,996)	-8.4%
Federal Sponsored Programs Pass-Thrus	107,244	116,147	(8,903)	-7.7%
Depreciation and Amortization	23,836,836	21,395,631	2,441,205	11.4%
Other Operating Expenses	15,634,441	18,479,258	(2,844,817)	-15.4%
Total Operating Expenses	**444,208,338**	**412,459,492**	**31,748,846**	**7.7%**
Operating Loss	**(80,295,911)**	**(83,881,814)**	**3,585,903**	**4.3%**
Other Nonoperating Adjustments				
State Appropriations	58,519,092	50,973,346	7,545,746	14.8%
Gift Contributions for Operations	18,907,889	7,989,840	10,918,049	136.6%
Net Investment Income	13,326,513	13,167,248	159,265	1.2%
Long Term Fund Distribution	10,840,075	10,013,404	826,671	8.3%
Interest Expense on Capital Asset Financings	(6,647,912)	(6,820,238)	172,326	2.5%
Net Other Nonoperating Adjustments	**94,945,657**	**75,323,600**	**19,622,057**	**26.1%**
Adjusted Income (Loss) including Depreciation	**14,649,746**	**(8,558,214)**	**23,207,960**	**271.2%**
Adjusted Margin (as a percentage) including Depreciation	**3.1%**	**-2.1%**		
Investment Gains (Losses)	23,088,948	18,243,491	4,845,457	26.6%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 37,738,694**	**$ 9,685,277**	**$ 28,053,417**	**289.7%**
Adjusted Margin % with Investment Gains (Losses)	**7.7%**	**2.3%**		
Adjusted Income (Loss) excluding Depreciation	**38,486,582**	**12,837,417**	**25,649,165**	**199.8%**
Adjusted Margin (as a percentage) excluding Depreciation	**8.3%**	**3.1%**		

UNAUDITED

The University of Texas Medical Branch at Galveston
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2007

	December Year-to-Date FY 2008	December Year-to-Date FY 2007	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 5,725,972	$ 5,112,992	$ 612,980	12.0%
Sponsored Programs	83,360,055	76,282,643	7,077,412	9.3%
Net Sales and Services of Hospitals	235,942,512	224,306,988	11,635,524	5.2%
Net Professional Fees	40,251,779	34,467,105	5,784,674	16.8%
Net Auxiliary Enterprises	2,957,795	2,745,507	212,288	7.7%
Other Operating Revenues	5,001,439	5,587,345	(585,906)	-10.5%
Total Operating Revenues	**373,239,552**	**348,502,580**	**24,736,972**	**7.1%**
Operating Expenses				
Salaries and Wages	265,305,730	250,365,645	14,940,085	6.0%
Employee Benefits and Related Costs	61,677,716	56,624,928	5,052,788	8.9%
Professional Fees and Contracted Services	7,036,525	13,088,499	(6,051,974)	-46.2%
Other Contracted Services	17,826,128	14,098,623	3,727,505	26.4%
Scholarships and Fellowships	2,715,128	1,915,937	799,191	41.7%
Travel	2,683,167	2,133,509	549,658	25.8%
Materials and Supplies	59,943,492	56,154,705	3,788,787	6.7%
Utilities	10,945,292	9,113,073	1,832,219	20.1%
Telecommunications	4,601,019	4,647,266	(46,247)	-1.0%
Repairs and Maintenance	11,086,405	9,781,764	1,304,641	13.3%
Rentals and Leases	6,229,720	4,849,951	1,379,769	28.4%
Printing and Reproduction	703,785	632,413	71,372	11.3%
Federal Sponsored Programs Pass-Thrus	3,896,153	4,075,591	(179,438)	-4.4%
Depreciation and Amortization	20,668,856	18,178,556	2,490,300	13.7%
Other Operating Expenses	22,080,186	24,812,116	(2,731,930)	-11.0%
Total Operating Expenses	**497,399,302**	**470,472,576**	**26,926,726**	**5.7%**
Operating Loss	**(124,159,750)**	**(121,969,996)**	**(2,189,754)**	**-1.8%**
Other Nonoperating Adjustments				
State Appropriations	102,134,610	96,561,557	5,573,053	5.8%
Gift Contributions for Operations	2,909,947	2,937,671	(27,724)	-0.9%
Net Investment Income	5,506,320	5,361,467	144,853	2.7%
Long Term Fund Distribution	6,017,970	5,554,053	463,917	8.4%
Interest Expense on Capital Asset Financings	(2,014,474)	(2,695,648)	681,174	25.3%
Net Other Nonoperating Adjustments	**114,554,373**	**107,719,100**	**6,835,273**	**6.3%**
Adjusted Income (Loss) including Depreciation	**(9,605,377)**	**(14,250,896)**	**4,645,519**	**32.6%**
Adjusted Margin (as a percentage) including Depreciation	**-2.0%**	**-3.1%**		
Investment Gains (Losses)	6,451,601	6,449,159	2,442	0.0%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ (3,153,776)**	**$ (7,801,737)**	**$ 4,647,961**	**59.6%**
Adjusted Margin % with Investment Gains (Losses)	**-0.6%**	**-1.7%**		
Adjusted Income (Loss) excluding Depreciation	**11,063,479**	**3,927,660**	**7,135,819**	**181.7%**
Adjusted Margin (as a percentage) excluding Depreciation	**2.3%**	**0.9%**		

UNAUDITED

The University of Texas Health Science Center at Houston
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2007

	December Year-to-Date FY 2008	December Year-to-Date FY 2007	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 8,854,628	$ 8,635,231	$ 219,397	2.5%
Sponsored Programs	96,406,239	95,403,182	1,003,057	1.1%
Net Sales and Services of Educational Activities	11,340,332	11,804,470	(464,138)	-3.9%
Net Sales and Services of Hospitals	10,623,050	10,483,143	139,907	1.3%
Net Professional Fees	38,122,541	32,636,237	5,486,304	16.8%
Net Auxiliary Enterprises	7,159,617	7,237,937	(78,320)	-1.1%
Other Operating Revenues	12,576,350	10,997,764	1,578,586	14.4%
Total Operating Revenues	**185,082,757**	**177,197,964**	**7,884,793**	**4.4%**
Operating Expenses				
Salaries and Wages	115,111,003	108,831,658	6,279,345	5.8%
Employee Benefits and Related Costs	26,851,595	24,446,000	2,405,595	9.8%
Professional Fees and Contracted Services	20,700,424	19,211,112	1,489,312	7.8%
Other Contracted Services	11,936,148	14,012,545	(2,076,397)	-14.8%
Scholarships and Fellowships	1,778,902	931,632	847,270	90.9%
Travel	1,874,267	1,850,860	23,407	1.3%
Materials and Supplies	20,130,404	19,208,172	922,232	4.8%
Utilities	5,700,611	5,523,887	176,724	3.2%
Telecommunications	926,788	747,630	179,158	24.0%
Repairs and Maintenance	1,983,303	2,238,595	(255,292)	-11.4%
Rentals and Leases	4,358,002	5,279,012	(921,010)	-17.4%
Printing and Reproduction	1,229,244	1,270,684	(41,440)	-3.3%
Federal Sponsored Programs Pass-Thrus	2,492,253	1,756,214	736,039	41.9%
Depreciation and Amortization	11,023,491	10,988,606	34,885	0.3%
Other Operating Expenses	17,224,512	17,248,458	(23,946)	-0.1%
Total Operating Expenses	**243,320,947**	**233,545,065**	**9,775,882**	**4.2%**
Operating Loss	**(58,238,190)**	**(56,347,101)**	**(1,891,089)**	**-3.4%**
Other Nonoperating Adjustments				
State Appropriations	55,439,951	51,264,552	4,175,399	8.1%
Gift Contributions for Operations	7,937,178	5,142,583	2,794,595	54.3%
Net Investment Income	7,008,785	5,387,805	1,620,980	30.1%
Long Term Fund Distribution	1,849,092	1,655,985	193,107	11.7%
Interest Expense on Capital Asset Financings	(2,889,956)	(2,302,092)	(587,864)	-25.5%
Net Other Nonoperating Adjustments	**69,345,050**	**61,148,833**	**8,196,217**	**13.4%**
Adjusted Income (Loss) including Depreciation	**11,106,860**	**4,801,732**	**6,305,128**	**131.3%**
Adjusted Margin (as a percentage) including Depreciation	**4.3%**	**2.0%**		
Investment Gains (Losses)	7,769,298	6,240,000	1,529,298	24.5%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 18,876,158**	**$ 11,041,732**	**$ 7,834,426**	**71.0%**
Adjusted Margin % with Investment Gains (Losses)	**7.1%**	**4.5%**		
Adjusted Income (Loss) excluding Depreciation	**22,130,351**	**15,790,338**	**6,340,013**	**40.2%**
Adjusted Margin (as a percentage) excluding Depreciation	**8.6%**	**6.6%**		

UNAUDITED

The University of Texas Health Science Center at San Antonio
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2007

	December Year-to-Date FY 2008	December Year-to-Date FY 2007	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 8,333,333	$ 7,733,333	$ 600,000	7.8%
Sponsored Programs	63,552,495	60,909,706	2,642,789	4.3%
Net Sales and Services of Educational Activities	11,180,571	11,554,434	(373,863)	-3.2%
Net Professional Fees	26,259,304	26,187,446	71,858	0.3%
Net Auxiliary Enterprises	1,392,030	943,063	448,967	47.6%
Other Operating Revenues	4,833,204	5,288,946	(455,742)	-8.6%
Total Operating Revenues	**115,550,937**	**112,616,928**	**2,934,009**	**2.6%**
Operating Expenses				
Salaries and Wages	102,365,374	95,522,881	6,842,493	7.2%
Employee Benefits and Related Costs	25,469,147	23,812,342	1,656,805	7.0%
Professional Fees and Contracted Services	2,929,774	3,322,010	(392,236)	-11.8%
Other Contracted Services	5,792,133	5,574,179	217,954	3.9%
Scholarships and Fellowships	1,202,175	1,181,266	20,909	1.8%
Travel	1,667,495	1,319,265	348,230	26.4%
Materials and Supplies	10,494,599	10,345,922	148,677	1.4%
Utilities	4,333,333	4,333,333	-	0.0%
Telecommunications	2,239,081	1,911,661	327,420	17.1%
Repairs and Maintenance	839,785	1,149,269	(309,484)	-26.9%
Rentals and Leases	759,701	697,355	62,346	8.9%
Printing and Reproduction	506,815	468,734	38,081	8.1%
Federal Sponsored Programs Pass-Thrus	200,000	208,333	(8,333)	-4.0%
Depreciation and Amortization	8,666,667	7,601,620	1,065,047	14.0%
Other Operating Expenses	22,987,711	21,251,411	1,736,300	8.2%
Total Operating Expenses	**190,453,790**	**178,699,581**	**11,754,209**	**6.6%**
Operating Loss	**(74,902,853)**	**(66,082,653)**	**(8,820,200)**	**-13.3%**
Other Nonoperating Adjustments				
State Appropriations	56,702,894	50,660,997	6,041,897	11.9%
Gift Contributions for Operations	13,188,206	4,608,715	8,579,491	186.2%
Net Investment Income	8,430,613	7,178,775	1,251,838	17.4%
Long Term Fund Distribution	1,857,975	1,524,992	332,983	21.8%
Interest Expense on Capital Asset Financings	(1,929,668)	(317,813)	(1,611,855)	-507.2%
Net Other Nonoperating Adjustments	**78,250,020**	**63,655,666**	**14,594,354**	**22.9%**
Adjusted Income (Loss) including Depreciation	**3,347,167**	**(2,426,987)**	**5,774,154**	**237.9%**
Adjusted Margin (as a percentage) including Depreciation	**1.7%**	**-1.4%**		
Investment Gains (Losses)	6,164,880	5,047,523	1,117,357	22.1%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 9,512,047**	**$ 2,620,536**	**$ 6,891,511**	**263.0%**
Adjusted Margin % with Investment Gains (Losses)	**4.7%**	**1.4%**		
Adjusted Income (Loss) excluding Depreciation	**12,013,834**	**5,174,633**	**6,839,201**	**132.2%**
Adjusted Margin (as a percentage) excluding Depreciation	**6.1%**	**2.9%**		

UNAUDITED

The University of Texas M. D. Anderson Cancer Center
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2007

	December Year-to-Date FY 2008	December Year-to-Date FY 2007	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 165,647	$ 117,100	$ 48,547	41.5%
Sponsored Programs	78,651,167	71,069,760	7,581,407	10.7%
Net Sales and Services of Educational Activities	887,542	1,125,940	(238,398)	-21.2%
Net Sales and Services of Hospitals	584,649,089	530,944,324	53,704,765	10.1%
Net Professional Fees	84,865,615	78,475,175	6,390,440	8.1%
Net Auxiliary Enterprises	9,033,734	8,004,149	1,029,585	12.9%
Other Operating Revenues	13,785,832	13,102,598	683,234	5.2%
Total Operating Revenues	**772,038,626**	**702,839,046**	**69,199,580**	**9.8%**
Operating Expenses				
Salaries and Wages	394,827,650	359,085,422	35,742,228	10.0%
Employee Benefits and Related Costs	104,873,747	94,584,352	10,289,395	10.9%
Professional Fees and Contracted Services	38,185,698	28,429,583	9,756,115	34.3%
Other Contracted Services	21,740,211	21,206,512	533,699	2.5%
Travel	6,357,754	5,959,181	398,573	6.7%
Materials and Supplies	144,648,114	135,942,659	8,705,455	6.4%
Utilities	17,555,658	16,811,736	743,922	4.4%
Telecommunications	2,719,594	2,027,197	692,397	34.2%
Repairs and Maintenance	18,990,718	14,586,714	4,404,004	30.2%
Rentals and Leases	11,307,419	9,657,082	1,650,337	17.1%
Federal Sponsored Programs Pass-Thrus	(252,100)	(174,215)	(77,885)	-44.7%
Depreciation and Amortization	67,936,562	63,611,587	4,324,975	6.8%
Other Operating Expenses	1,314,873	837,025	477,848	57.1%
Total Operating Expenses	**830,205,898**	**752,564,835**	**77,641,063**	**10.3%**
Operating Loss	**(58,167,272)**	**(49,725,789)**	**(8,441,483)**	**-17.0%**
Other Nonoperating Adjustments				
State Appropriations	56,036,743	53,597,484	2,439,259	4.6%
Gift Contributions for Operations	36,882,318	26,221,537	10,660,781	40.7%
Net Investment Income	14,759,499	12,616,267	2,143,232	17.0%
Long Term Fund Distribution	5,004,080	4,765,072	239,008	5.0%
Interest Expense on Capital Asset Financings	(9,056,628)	(8,538,246)	(518,382)	-6.1%
Net Other Nonoperating Adjustments	**103,626,012**	**88,662,114**	**14,963,898**	**16.9%**
Adjusted Income (Loss) including Depreciation	**45,458,740**	**38,936,325**	**6,522,415**	**16.8%**
Adjusted Margin (as a percentage) including Depreciation	**5.1%**	**4.9%**		
Investment Gains (Losses)	39,965,691	38,435,374	1,530,317	4.0%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 85,424,431**	**$ 77,371,699**	**$ 8,052,732**	**10.4%**
Adjusted Margin % with Investment Gains (Losses)	**9.2%**	**9.2%**		
Adjusted Income (Loss) excluding Depreciation	**113,395,302**	**102,547,912**	**10,847,390**	**10.6%**
Adjusted Margin (as a percentage) excluding Depreciation	**12.8%**	**12.8%**		

UNAUDITED

The University of Texas Health Center at Tyler
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2007

	December Year-to-Date FY 2008	December Year-to-Date FY 2007	Variance	Fluctuation Percentage
Operating Revenues				
Sponsored Programs	$ 3,978,530	$ 4,871,973	$ (893,443)	-18.3%
Net Sales and Services of Educational Activities	288,285	163,657	124,628	76.2%
Net Sales and Services of Hospitals	11,573,513	11,992,148	(418,635)	-3.5%
Net Professional Fees	3,775,904	3,385,799	390,105	11.5%
Net Auxiliary Enterprises	52,482	67,849	(15,367)	-22.6%
Other Operating Revenues	454,481	508,941	(54,460)	-10.7%
Total Operating Revenues	**20,123,195**	**20,990,367**	**(867,172)**	**-4.1%**
Operating Expenses				
Salaries and Wages	17,684,215	17,475,869	208,346	1.2%
Employee Benefits and Related Costs	4,876,966	4,503,828	373,138	8.3%
Professional Fees and Contracted Services	1,638,808	1,557,169	81,639	5.2%
Other Contracted Services	2,496,888	2,454,294	42,594	1.7%
Travel	139,072	163,889	(24,817)	-15.1%
Materials and Supplies	3,774,473	4,162,862	(388,389)	-9.3%
Utilities	1,044,564	936,048	108,516	11.6%
Telecommunications	317,794	245,428	72,366	29.5%
Repairs and Maintenance	1,132,768	1,160,635	(27,867)	-2.4%
Rentals and Leases	301,008	519,715	(218,707)	-42.1%
Printing and Reproduction	8,992	7,432	1,560	21.0%
Federal Sponsored Programs Pass-Thrus	49,151	161,565	(112,414)	-69.6%
Depreciation and Amortization	2,155,248	2,123,591	31,657	1.5%
Other Operating Expenses	732,095	902,314	(170,219)	-18.9%
Total Operating Expenses	**36,352,042**	**36,374,639**	**(22,597)**	**-0.1%**
Operating Loss	**(16,228,847)**	**(15,384,272)**	**(844,575)**	**-5.5%**
Other Nonoperating Adjustments				
State Appropriations	13,066,107	12,468,845	597,262	4.8%
Gift Contributions for Operations	724,384	263,261	461,123	175.2%
Net Investment Income	1,201,792	1,204,504	(2,712)	-0.2%
Long Term Fund Distribution	144,147	132,211	11,936	9.0%
Interest Expense on Capital Asset Financings	(245,024)	(254,922)	9,898	3.9%
Net Other Nonoperating Adjustments	**14,891,406**	**13,813,899**	**1,077,507**	**7.8%**
Adjusted Income (Loss) including Depreciation	**(1,337,441)**	**(1,570,373)**	**232,932**	**14.8%**
Adjusted Margin (as a percentage) including Depreciation	**-3.8%**	**-4.5%**		
Investment Gains (Losses)	242,341	-	242,341	100.0%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ (1,095,100)**	**$ (1,570,373)**	**$ 475,273**	**30.3%**
Adjusted Margin % with Investment Gains (Losses)	**-3.1%**	**-4.5%**		
Adjusted Income (Loss) excluding Depreciation	**817,807**	**553,218**	**264,589**	**47.8%**
Adjusted Margin (as a percentage) excluding Depreciation	**2.3%**	**1.6%**		

2007 Analysis of Financial Condition

February 2008

The University of Texas System
2007 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 of 4.5% of the prior year's ending total cash and investments. This calculation is used by the Office of Finance, and in order to be consistent with their calculation of the debt service coverage ratio, normalized investment income was used as defined above for this ratio only.
- *Full-time Equivalent (FTE) Student Enrollment* – calculates total semester credit hours taken by students during the fall semester, divided by factors of 15 for undergraduate students, 12 for graduate and special professional students, and 9 for doctoral students to arrive at the FTE students represented by the course hours taken.

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. 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.

Executive Summary

Institutions Rated "Watch"

UT Permian Basin The institution's financial condition was maintained as "Watch" for 2007. The composite financial index (CFI) increased to 2.0 primarily as a result of a reduction in operating expenses. The operating expense coverage ratio decreased by 0.5 months to 0.7 months in 2007, which was significantly below the benchmark of 2 months and the lowest of all UT institutions. The decline in this ratio was attributable to a decrease in total unrestricted net assets which was attributable to a reduction in operating revenues. The operating revenues decreased primarily due to gift contributions received in 2006 for the High-Temperature Teaching and Test Reactor (HT3R) pre-conceptual design phase with no comparable gifts in 2007 and a decrease in net tuition and fees resulting from a decline in summer enrollment. The annual operating deficit improved $0.9 million to a deficit of $0.9 million due to a larger reduction in operating expenses as compared to the reduction in operating revenues. The operating deficit for 2007 includes $0.5 million of expenses related to the HT3R pre-conceptual design phase for which the revenue was reported in 2006. The expendable resources to debt ratio decreased slightly from 0.6 in 2006 to 0.5 in 2007 which was attributable to the reduction in total unrestricted net assets. This ratio remained below the median of 0.7 and is the lowest of any UT institution. The debt burden ratio increased from 8.0% in 2006 to 8.3% in 2007, which exceeded the median of 4.3% and remained the highest debt burden ratio of any UT institution. The debt service coverage ratio decreased from 1.2 in 2006 to 0.8 in 2007, which was below the median of 2.4 and was the lowest debt service coverage ratio of any UT institution. The full-time equivalent student enrollment remained flat.

UTMB The institution's financial condition was maintained as "Watch" for 2007. The CFI increased from 3.2 in 2006 to 5.1 in 2007 primarily due to an increase in the fair value of investments, as well as an improvement in operating performance. The operating expense coverage ratio increased by 0.2 months to 1.4 months as a result of an increase in unrestricted net assets, but still remained below the benchmark of 2 months. The increase in unrestricted net assets was primarily due to $35 million of revenue recorded for the Texas Physician Upper Payment Limit (UPL) reimbursements. The UPL reimbursements had the greatest impact in 2007 as retroactive adjustments from May 2004 through August 2007 were recorded. While the annual operating margin improved $28.9 million resulting in a positive margin of $3.4 million, the improvement was largely due to the $35 million of UPL reimbursements and $13.1 million of special funding received from the Texas State Legislature for Hurricane *Rita* relief. The expendable resources to debt ratio increased from 2.5 in 2006 to 3.3 in 2007 as a result of increases in unrestricted net assets and restricted expendable net assets, as well as a decrease in the amount of debt outstanding. Although the debt burden ratio increased from 1.2% in 2006 to 1.9% in 2007, it still remained extremely low and was the lowest debt burden ratio of all the UT institutions. The debt service coverage ratio increased from 1.9 in 2006 to 2.3 in 2007 as a result of the improved operating performance.

Institutions Rated "Satisfactory"

UT Arlington The CFI increased from 2.9 in 2006 to 3.6 in 2007 largely due to an increase in the fair value of investments and an improvement in the operating performance. The operating expense coverage ratio increased by 0.7 months to 4.6 months as a result of an increase in total unrestricted net assets. The increase in unrestricted net assets was primarily due to increases in the following: net tuition and fees resulting from the new utility fee and new flat rate tuition; net sales and services of educational activities due to increased revenue in the College of Business Executive Master of Business Administration Program, Continuing Education for the TX DOT training, the Career Development Program and the Texas Commission for Environmental Quality Programs; and other operating revenues as a result of a patent settlement received in August 2007. The annual operating margin increased $5.6 million primarily due to the factors previously mentioned. The expendable resources to debt ratio changed slightly from 0.9 in 2006 to 1.0 in 2007 due to increases in unrestricted net assets and restricted expendable net assets. The debt burden ratio decreased from 5.1% in 2006 to 4.9% in 2007 as a result of increased operating expenses. The debt service coverage ratio increased slightly from 2.5 in 2006 to 2.7 in 2007 due to the improvement in the annual operating margin. Full-time equivalent student enrollment decreased slightly as a result of higher enrollment standards and increased tuition costs.

UT Austin The CFI increased from 6.9 in 2006 to 7.6 in 2007 primarily as a result of an increase in the fair value of investments. UT Austin maintained the highest CFI of any UT institution. The operating expense coverage ratio increased by 0.2 months to 3.0 months due to an increase in total unrestricted net assets. Total unrestricted net assets increased largely due to increases in the following: net tuition and fees as a result of flat rate tuition and an energy fee that was added in 2007; net sales and services of educational activities; and net auxiliary enterprises. The annual operating margin decreased $4.7 million due to the growth in operating expenses outpacing the growth in operating revenues. The expendable resources to debt ratio decreased from 3.3 in 2006 to 2.9 in 2007 as a result of an increase in the amount of debt outstanding. The debt burden ratio changed slightly from 2.8% in 2006 to 2.7% in 2007 due to the increase in operating expenses. The increase in the debt service coverage ratio from 4.4 in 2006 to 4.9 in 2007 was largely attributable to the increase in depreciation expense, which is excluded from operating expenses in the calculation of this ratio. Depreciation expense increased due to the completion of several major capital projects. Full-time equivalent student enrollment increased slightly primarily due to a 1% increase in enrollment and an increase in overall average course loads.

UT Brownsville The CFI increased from 0.6 in 2006 to 1.7 in 2007 as a result of improved operating performance. The operating expense coverage ratio remained unchanged at 2.2 months due to an increase in total unrestricted net assets, which was offset by an increase in operating expenses. The improvement in the annual operating deficit from $5.1 million for 2006 to $1.4 million for 2007 was attributable to the growth in operating revenues exceeding the growth in operating expenses. Operating revenues increased primarily due to increases in net tuition and fees and State appropriations, as well as an increase in sponsored program revenue. Operating expenses increased largely due to higher salaries and payroll related costs, and an increase in scholarships and fellowships. The expendable resources to debt ratio increased slightly from 0.8 in 2006 to 0.9 in 2007 as a result of increases in both unrestricted net assets and restricted expendable net assets. The small decrease in the debt burden ratio from 4.3% in 2006 to 4.2% in 2007 was due to the increase in operating expenses. The debt service coverage ratio increased from 0.6 in 2006 to 1.5 in 2007 due to the improvement in operating performance. Full-time equivalent student enrollment continued its upward trend as a result of increased student enrollment in school district initiatives.

Institutions Rated "Satisfactory" (Continued)

UT Dallas

The CFI increased from 5.3 in 2006 to 6.0 in 2007 primarily due to an improvement in the operating performance. The operating expense coverage ratio increased by 0.4 months to 3.0 months as a result of an increase in total unrestricted net assets. The increase in total unrestricted net assets was largely due to an increase in net tuition and fees resulting from higher rates and a slight increase in enrollment. The annual operating deficit decreased from $3.9 million for 2006 to $0.3 million for 2007, which was an improvement of $3.6 million. The improvement in the annual operating deficit was attributable to the growth in operating revenues outpacing the growth in operating expenses. Operating revenues increased largely as a result of an increase in net tuition and fees, as well as an increase in gifts for operations. The expendable resources to debt ratio increased from 1.9 in 2006 to 2.1 in 2007 due to increases in both unrestricted net assets and restricted expendable net assets. The debt burden ratio increased to 4.5% in 2007 from 3.3% in 2006 as a result of an increase in debt service payments. The debt service coverage ratio increased slightly from 2.5 in 2006 to 2.7 in 2007 due to the improvement in operating performance. Full-time equivalent student enrollment remained relatively stable.

UT El Paso

The CFI increased from 3.6 in 2006 to 4.1 in 2007 due to an improvement in operating performance, as well as increases in both unrestricted net assets and restricted expendable net assets. The operating expense coverage ratio increased by 0.4 months to 1.9 months due to an increase in total unrestricted net assets. The increase in total unrestricted net assets was primarily attributable to increases in the following: net tuition and fees resulting from enrollment growth and higher rates, State appropriations and investment income. The annual operating margin increased $3.2 million as a result of the growth in operating revenues exceeding the growth in operating expenses. Operating revenues increased primarily due to the factors previously mentioned, as well as an increase in gifts for operations. The expendable resources to debt ratio increased slightly from 1.4 in 2006 to 1.5 in 2007 as a result of increases in the unrestricted net assets and restricted expendable net assets. The debt burden ratio of 4.2% for 2007 was slightly higher than the 2006 ratio of 4.1%. The small increase in this ratio was primarily due to an increase in debt service payments. The increase in the debt service coverage ratio from 2.0 in 2006 to 2.3 in 2007 was attributable to the improvement in the annual operating margin. Full-time equivalent student enrollment increased as a result of an increase in enrollment.

UT Pan American

The CFI decreased slightly from 1.9 in 2006 to 1.8 in 2007 largely due to a continued decline in operating performance, as well as an increase in the amount of debt outstanding. The operating expense coverage ratio increased by 0.2 months to 3.2 months in 2007 primarily as a result of an increase in unrestricted net assets. The increase in total unrestricted net assets was largely attributable to an increase in net tuition and fees. The annual operating deficit grew by $2.2 million for a total deficit of $7.9 million. The operating deficit continued its downward trend due to the growth in operating expenses outpacing the growth in operating revenues. The increase in operating expenses was largely due to increased salaries and wages and payroll related costs attributable to new faculty and staff positions, merit increases and the filling of vacant positions; and increased depreciation expense as a result of new buildings placed into service at the end of 2006. The expendable resources to debt ratio decreased slightly from 1.0 in 2006 to 0.9 in 2007 due to an increase in the amount of debt outstanding. The debt burden ratio increased from 4.0% in 2006 to 4.6% in 2007 as a result of an increase in debt service payments. The debt service coverage ratio of 1.5 in 2007 was lower than the 2006 ratio of 1.8 due to the decline in operating performance and increased debt service payments. The continued growth in full-time equivalent student enrollment resulted from undergraduate students taking increased semester credit hour loads to ensure timely graduation.

Institutions Rated "Satisfactory" (Continued)

UT San Antonio

The CFI increased from 3.6 in 2006 to 4.4 in 2007 primarily due to increases in interest income and appreciation on investments, as well as higher net operating income. The operating expense coverage ratio increased by 0.8 months to 5.0 months for 2007 as a result of an increase in total unrestricted net assets. UT San Antonio maintained the highest operating expense coverage of any UT institution. The increase in total unrestricted net assets was largely attributable to an increase in net tuition and fees resulting from enrollment growth and rate increases. The annual operating margin grew by $10.8 million due to a greater increase in operating revenues as compared to operating expenses. The primary contributor to the increase in operating revenues was the increase in net tuition and fees. UT San Antonio also maintained the highest annual operating margin ratio of any UT institution. The expendable resources to debt ratio changed slightly from 0.7 in 2006 to 0.6 in 2007 due to a reduction in restricted expendable net assets resulting from the completion of capital improvement projects. The debt burden ratio increased from 5.9% in 2006 to 6.6% in 2007 due to an increase in debt service payments. The debt service coverage ratio changed slightly from 3.0 in 2006 to 3.1 in 2007. The full-time equivalent student enrollment continued its upward trend as a result of an increase in first-time freshmen and a slight improvement in retention.

UT Tyler

The CFI increased from 4.0 in 2006 to 4.7 in 2007 largely due to an increase in the appreciation on investments. The operating expense coverage ratio increased by 0.7 months to 3.7 months resulting from growth in total unrestricted net assets. The increase in total unrestricted net assets was primarily due to increases in the following: net tuition and fees resulting from enrollment growth, rate increases, a new student medical fee and a new student union fee; net auxiliary enterprises revenue attributable to an increase in housing revenue; and State appropriations. The annual operating deficit improved by $1.4 million to a deficit of $0.4 million for 2007. The improvement in operating performance was attributable to the growth in operating revenues outpacing the growth in operating expenses. Operating revenues increased primarily due to the factors mentioned above. The expendable resources to debt ratio changed slightly from 1.2 in 2006 to 1.3 in 2007 due to increases in both unrestricted net assets and restricted expendable net assets. The debt burden ratio of 6.0% in 2007 was slightly higher than the 2006 ratio of 5.9% as a result of an increase in debt service payments. The debt service coverage ratio increased from 1.9 in 2006 to 2.2 in 2007 primarily due to the improved operating performance. Full-time equivalent student enrollment continued to trend upward and reached an all-time high.

Southwestern

The CFI increased from 4.8 in 2006 to 6.6 in 2007 largely due to an increase in the fair value investments and strong operating performance. The operating expense coverage ratio increased by 1.0 month to 4.2 months as a result of an increase in total unrestricted net assets. The increase in total unrestricted net assets was primarily due to an increase in net professional fees attributable to the revenue recorded for the UPL reimbursements, as well as higher patient volumes and increases in fee schedules. The annual operating margin increased $76.2 million due to the growth in operating revenues far exceeding the growth in operating expenses. The expendable resources to debt ratio increased from 2.2 in 2006 to 2.6 in 2007 as a result of increases in both unrestricted net assets and restricted expendable net assets. The debt burden ratio increased from 3.3% in 2006 to 4.0% in 2007 due to an increase in debt service payments. The debt service coverage ratio of 3.6 in 2007 was an increase from the 2006 ratio of 2.3 and was attributable to the strong operating performance in 2007.

UTHSC-Houston

The CFI increased from 4.0 in 2006 to 5.1 in 2007 largely due to increases in unrestricted net assets, appreciation on investments and restricted expendable net assets for capital projects. The operating expense coverage ratio increased by 0.8 months to 3.6 months in 2007 as a result of an increase in unrestricted net assets primarily due to the revenue recorded for the UPL reimbursements. The annual operating margin decreased $2.6 million. Although UTHSC-Houston recorded the UPL reimbursements in 2007, the operating expenses still grew by more than the operating revenues. The growth in operating expenses was primarily attributable to increases in salaries and wages and payroll related costs, other operating expenses, depreciation expense and utilities. The expendable resources to debt ratio increased from 1.7 in 2006 to 2.1 in 2007 due to increases in both unrestricted net assets and restricted expendable net assets. The debt burden ratio remained unchanged at 2.6%. The debt service coverage ratio decreased slightly from 3.6 in 2006 to 3.5 in 2007 due to the decrease in the annual operating margin.

Institutions Rated "Satisfactory" (Continued)

UTHSC-San Antonio

The CFI increased from 4.2 in 2006 to 6.1 in 2007 primarily due to an improvement in operating performance, an increase in the fair value of investments, and an increase in additions to permanent endowments. The operating expense coverage ratio increased by 0.3 months to 3.0 months in 2007 largely due to an increase in unrestricted net assets primarily resulting from the revenue recorded for the UPL reimbursements and an increase in net tuition and fees. The annual operating margin improved $37.1 million increasing from a deficit of $9.1 million in 2006 to a positive $28.1 million due to the factors previously mentioned, as well as the receipt of several large gifts for operations. The expendable resources to debt ratio decreased from 3.0 in 2006 to 2.4 in 2007 as a result of an increase in the amount of debt outstanding. The debt burden ratio changed slightly from 2.2% in 2006 to 2.1% in 2007. The debt service coverage ratio increased from 1.4 in 2006 to 4.2 in 2007 due to the significant improvement in the operating margin.

M. D. Anderson

The CFI increased from 3.8 in 2006 to 4.9 in 2007 primarily due to a significant increase in operating performance, as well as an increase in the fair value of investments. The operating expense coverage ratio increased by 0.7 months to 3.6 months in 2007 due to an increase in total unrestricted net assets largely attributable to increases in net sales and service of hospitals and the fair value of unrestricted investments. Net sales and services of hospital increased as a result of increases in billed procedures, bone marrow transplants, surgery hours and billable visits. The annual operating margin increased $80.8 million due to the growth in operating revenues outpacing the growth in operating expenses. In addition to the increase in net sales and service of hospitals previously mentioned, the increase in operating revenues was driven by an increase in net professional fees primarily attributable to the revenue recorded for the UPL reimbursements, as well as the affects of Hurricane *Rita* in the first quarter of 2006. The expendable resources to debt ratio increased from 1.5 in 2006 to 1.8 in 2007 due to increases in unrestricted net assets and restricted expendable net assets. The debt burden ratio increased slightly from 3.2% in 2006 to 3.3% in 2007 as a result of an increase in debt service payments. The debt service coverage ratio increased from 4.5 in 2006 to 5.2 in 2007 due to the strong operating performance.

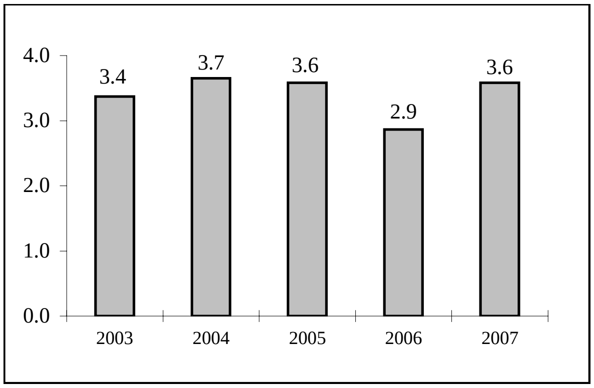
UTHC-Tyler

The institution's financial condition was upgraded from "Watch" for 2006 to "Satisfactory" for 2007. The CFI increased from 2.6 in 2006 to 4.8 in 2007 largely due to improved operating performance. The operating expense coverage ratio increased by 1.3 months to 2.6 months in 2007 primarily due to a reduction in operating expenses. The decrease in operating expenses was largely the result of the elimination of over 200 full-time positions and a new faculty incentive plan where 70% of clinical faculty salaries are contingent upon productivity, both of which caused a reduction in salaries and wages. In addition, a reduction in indigent patients resulted in the need for fewer supplies, which lowered the expenses for materials and supplies. The annual operating margin improved $7.3 million in 2007 not only as a result of the reduction in operating expenses previously mentioned, but also as a result of the revenue recorded for the UPL reimbursements. The expendable resources to debt ratio increased from 1.7 in 2006 to 2.3 in 2007 due to increases in both unrestricted net assets and restricted expendable net assets. The debt burden ratio increased from 1.6% in 2006 to 2.0% in 2007 primarily due to an increase in debt service payments, as well as the reduction in operating expenses previously mentioned. The debt service coverage ratio increased from 3.2 in 2006 to 6.1 in 2007 as a result of the improved operating margin.

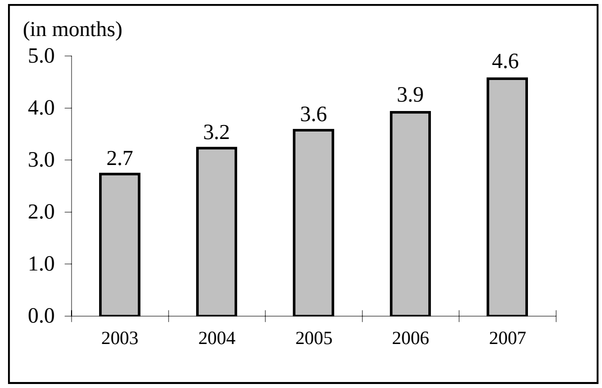
The University of Texas at Arlington
2007 Summary of Financial Condition

Financial Condition: **Satisfactory**

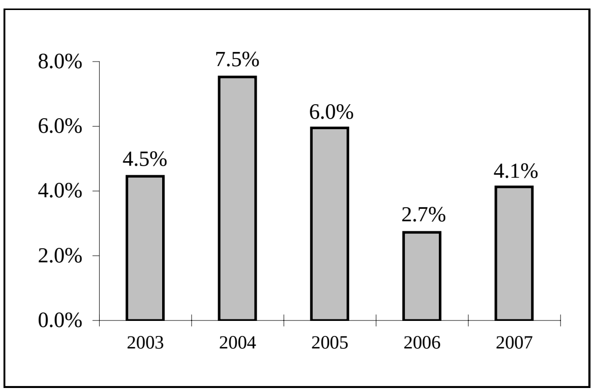
Composite Financial Index



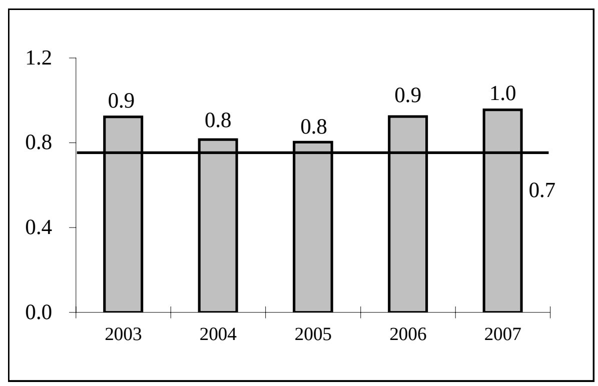
Operating Expense Coverage Ratio



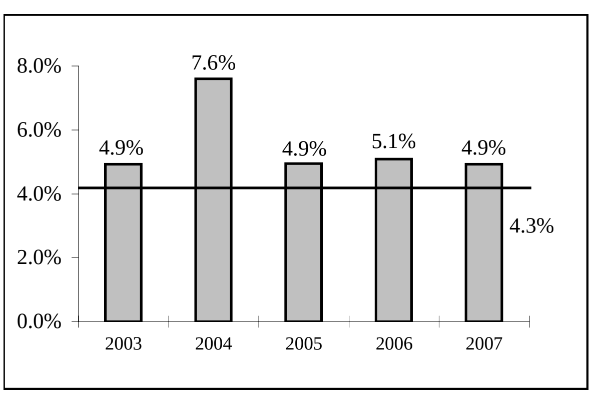
Annual Operating Margin Ratio



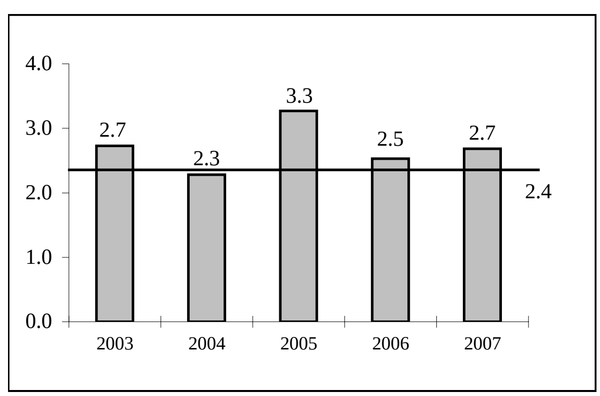
Expendable Resources to Debt Ratio



Debt Burden Ratio

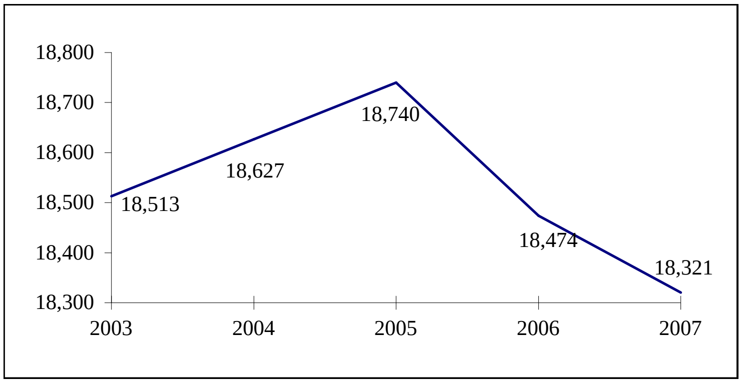


Debt Service Coverage Ratio



The University of Texas at Arlington
2007 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT Arlington's CFI increased from 2.9 in 2006 to 3.6 in 2007 largely due to an increase in the fair value of investments of $10.4 million and the improvement in operating performance as discussed further in the operating expense coverage ratio and the annual operating margin ratio below.

Operating Expense Coverage Ratio - UT Arlington's operating expense coverage ratio increased from 3.9 months in 2006 to 4.6 months in 2007 due to a $24.5 million increase in total unrestricted net assets. Total unrestricted net assets increased primarily due to the following: a $12.2 million increase in net tuition and fees resulting from the new utility fee and new flat rate tuition; a $5.3 million increase in net sales and services of educational activities due to increased revenue in the College of Business Executive Master of Business Administration Program, Continuing Education for the TX DOT training, the Career Development Program and the Texas Commission for Environmental Quality Programs; and a $3.4 million increase in other operating revenues as a result of a patent settlement received in August 2007.

Annual Operating Margin Ratio - UT Arlington's annual operating margin ratio increased from 2.7% for 2006 to 4.1% for 2007 due to the increase in operating revenues outpacing the increase in operating expenses. Total revenues increased $26.2 million while total expenses increased $20.6 million. In addition to the factors mentioned above in the operating expense coverage ratio, the revenues increased due to a $1.6 million increase in investment income.

Expendable Resources to Debt Ratio - UT Arlington's expendable resources to debt ratio increased slightly from 0.9 in 2006 to 1.0 in 2007 primarily due to the increase in unrestricted net assets as previously discussed, as well as an increase in the fair value of investments of $10.4 million.

Debt Burden Ratio - UT Arlington's debt burden ratio of 4.9% in 2007 was slightly lower than the ratio in 2006 of 5.1% as a result of the increase in operating expenses.

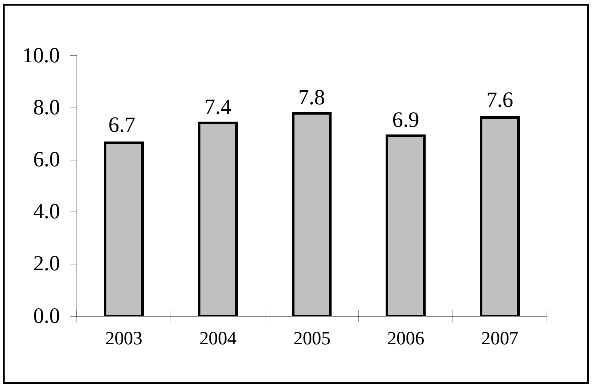
Debt Service Coverage Ratio - UT Arlington's debt service coverage ratio increased slightly from 2.5 in 2006 to 2.7 in 2007 largely due to the improvement in the annual operating margin discussed above.

Full-Time Equivalent (FTE) Student Enrollment - UT Arlington's FTE student enrollment decreased slightly from 18,474 for the fall of 2006 to 18,321 for the fall of 2007 due to higher enrollment standards implemented in 2006 and increased tuition costs.

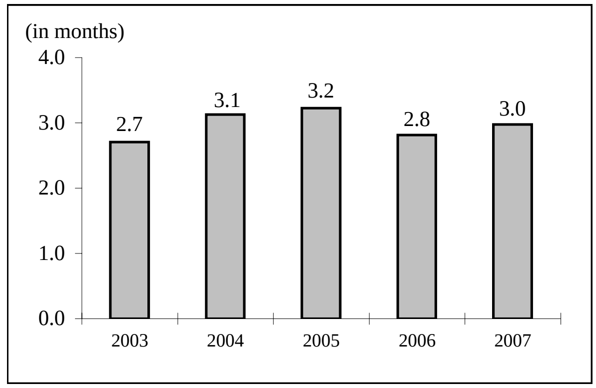
The University of Texas at Austin
2007 Summary of Financial Condition

Financial Condition: **Satisfactory**

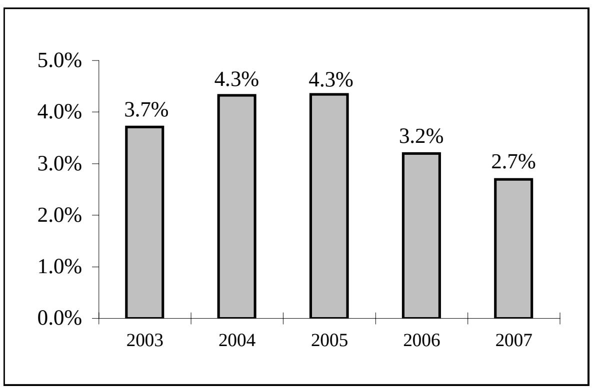
Composite Financial Index



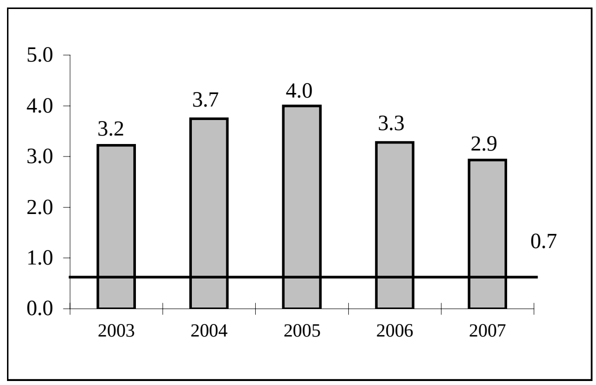
Operating Expense Coverage Ratio



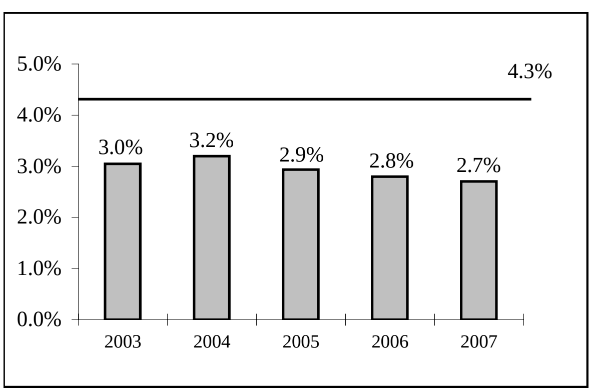
Annual Operating Margin Ratio



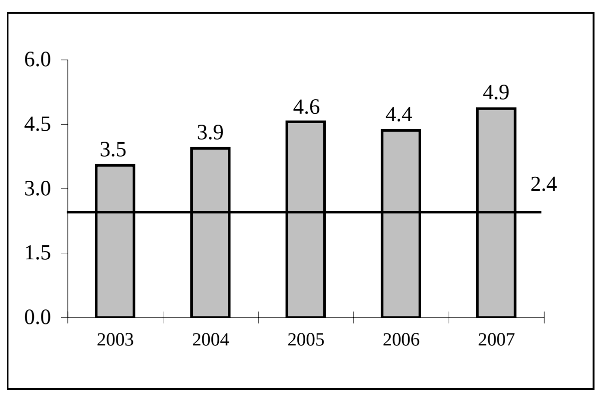
Expendable Resources to Debt Ratio



Debt Burden Ratio

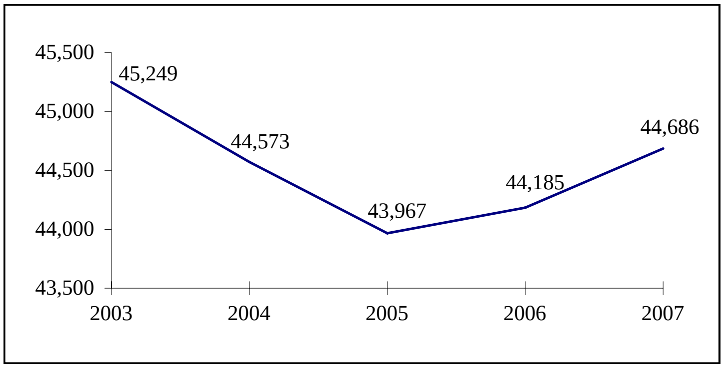


Debt Service Coverage Ratio



The University of Texas at Austin
2007 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT Austin's CFI increased from 6.9 in 2006 to 7.6 in 2007. The increase in the CFI was primarily attributable to an increase in the return on net assets ratio which was primarily driven by a $208.5 million increase in the fair value of investments.

Operating Expense Coverage Ratio - UT Austin's operating expense coverage ratio increased slightly from 2.8 months in 2006 to 3.0 months in 2007 due to an increase in unrestricted net assets of $56.8 million. Total unrestricted net assets increased largely due to the following: an increase of $35.9 million in net tuition and fees resulting from an increase in flat rate tuition, including an energy fee that was added in 2007 to recoup some of the unexpected utility expenses incurred in 2006 as a result of Hurricane *Katrina*; an increase of $23.2 million in net sales and services of educational activities primarily due to growth in the various Executive MBA Programs and the Executive Development Program, an increase in ticket sales for special events resulting from an eight week Broadway Season versus four weeks in 2006, an increase in conference registration fees and an increase in funding from the Texas Education Agency for the expansion of the University Charter Schools; and an increase of $21.0 million in net auxiliary enterprises largely due to an increase in football ticket sales resulting from the ongoing expansion of the Darrell K. Royal Memorial Stadium and additional income generated as a result of the new Almetris Duren Residence Hall.

Annual Operating Margin Ratio - UT Austin's annual operating margin ratio decreased from 3.2% for 2006 to 2.7% for 2007. Total operating revenues increased $136.8 million while total operating expenses increased $141.5 million. The increase in total operating expenses was primarily attributable to the following factors: a $74.5 million increase in salaries, wages and payroll related costs attributable to annual merit increases, higher group insurance premiums and the addition of new faculty members; an increase of $29.9 million in other operating expenses as a result of an increase in performers fees paid by the Performing Arts Center, an increase in educational program support for the fall Austin Intensive Texas MBA Program at Dallas and Houston and an increase in performer fees paid by the Frank Erwin Center; a $26.3 million increase in depreciation expense primarily attributable to the completion of Phase II of Darrell K. Royal Memorial Stadium expansion, the Almetris Duren Residence Hall, the Research Office Complex and Support Building, and the UT Administration Building and Garage; and a $16.2 million increase in scholarships and fellowships largely due to an increase in financial aid scholarship awards from the Academic Sustainability Tuition and an increase in Texas Public Education Grant Program scholarships for resident students.

Expendable Resources to Debt Ratio - UT Austin's expendable resources to debt ratio decreased from 3.3 in 2006 to 2.9 in 2007 due to an increase in the amount of debt outstanding.

Debt Burden Ratio - UT Austin's debt burden ratio decreased slightly from 2.8% in 2006 to 2.7% in 2007 as a result of the increase in operating expenses discussed above.

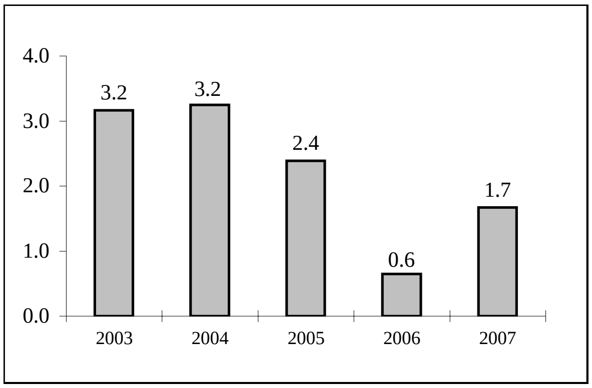
Debt Service Coverage Ratio - UT Austin's debt service coverage ratio increased from 4.4 in 2006 to 4.9 in 2007 due to the increase in depreciation expense previously discussed, which is excluded from operating expenses in the calculation of this ratio.

Full-Time Equivalent (FTE) Student Enrollment - UT Austin's FTE student enrollment increased 1.1%, primarily due to an increase in enrollment (1%) and also a slight increase in overall average course loads.

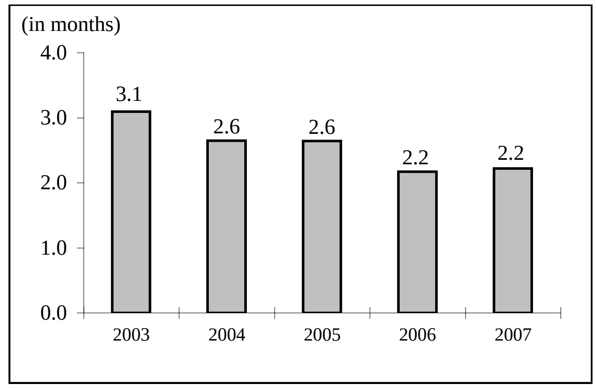
The University of Texas at Brownsville
2007 Summary of Financial Condition

Financial Condition: **Satisfactory**

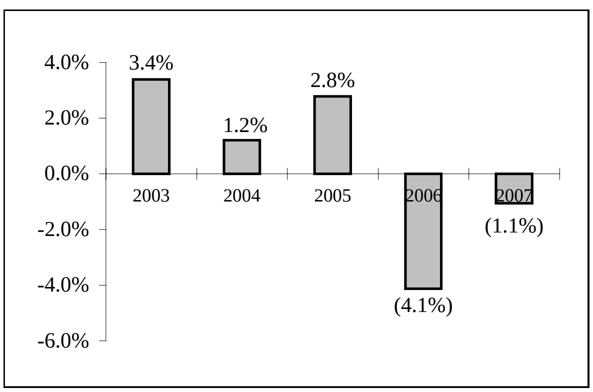
Composite Financial Index



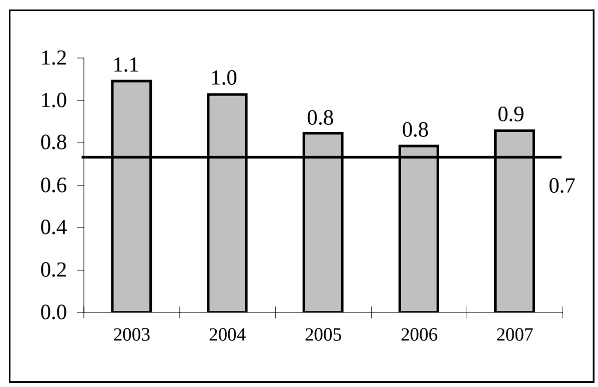
Operating Expense Coverage Ratio



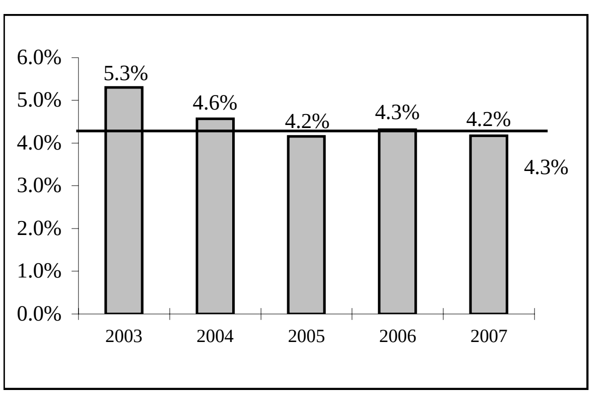
Annual Operating Margin Ratio



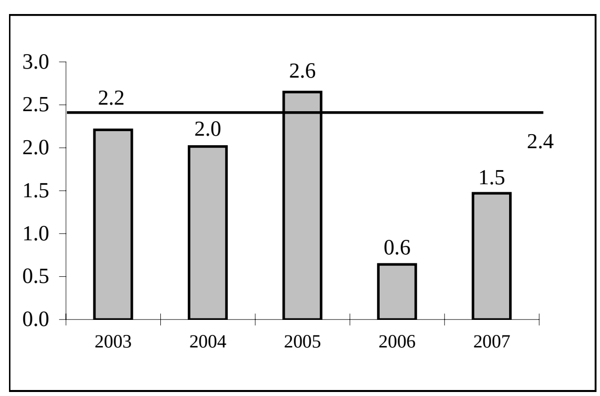
Expendable Resources to Debt Ratio



Debt Burden Ratio

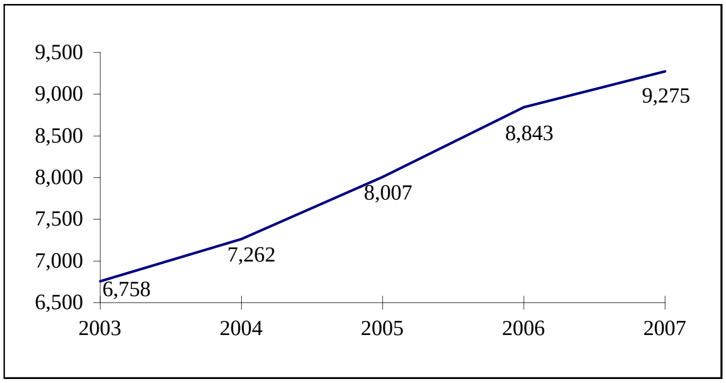


Debt Service Coverage Ratio



The University of Texas at Brownsville
2007 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT Brownsville's CFI improved from 0.6 in 2006 to 1.7 in 2007 as a result of the improvement in operating performance as discussed in the annual operating margin ratio.

Operating Expense Coverage Ratio - UT Brownsville's operating expense coverage ratio remained unchanged at 2.2 months in 2007 due to an increase in total unrestricted net assets offset by an increase in total operating expenses. Total unrestricted net assets increased $2.0 million primarily due to a $1.1 million increase in net tuition and fees resulting from rate increases and a $1.1 million increase in State appropriations. The increase in total operating expenses is discussed below.

Annual Operating Margin Ratio - UT Brownsville's annual operating margin ratio improved from a deficit of (4.1%) for 2006 to a deficit of (1.1%) for 2007. The reduction in the deficit was due to a smaller increase in operating expenses of $7.9 million as compared to the increase in operating revenues of $11.5 million. In addition to the increases in net tuition and fees and State appropriations mentioned above, revenues also increased as a result of a $9.0 million increase in sponsored program revenue related to increases in the contract with Texas Southmost College (TSC) and increases in Pell Grant revenue. Total operating expenses increased primarily due to the following: a $4.1 million increase in salaries and wages and a $1.2 million increase in payroll related costs resulting from annual merit increases, higher group insurance premiums, and the addition of 10 new faculty lines to address enrollment growth; and a $7.6 million increase in scholarships and fellowships primarily due to an increase in financial aid disbursements through Federal and State grants and TSC contract scholarships.

Expendable Resources to Debt Ratio - UT Brownsville's expendable resources to debt ratio increased slightly from 0.8 in 2006 to 0.9 in 2007 due to increases in both unrestricted net assets, as discussed above, and restricted expendable net assets. Restricted expendable net assets increased as a result of the increased sponsored program revenue previously mentioned, as well as an increase in the appreciation on permanent endowments.

Debt Burden Ratio - UT Brownsville's debt burden ratio decreased slightly from 4.3% in 2006 to 4.2% in 2007 due to the increase in operating expenses discussed in the annual operating margin ratio.

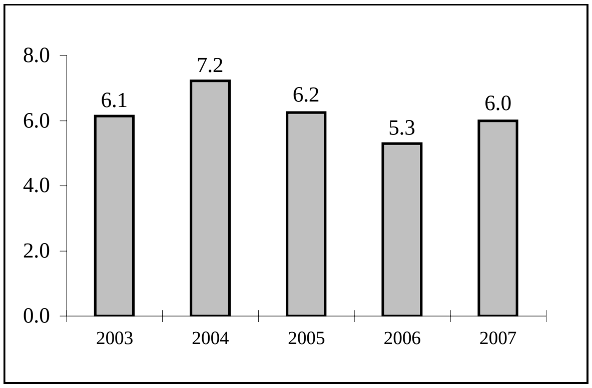
Debt Service Coverage Ratio - UT Brownsville's debt service coverage ratio more than doubled from 0.6 in 2006 to 1.5 in 2007 as a result of the improvement in operating performance previously discussed.

Full-Time Equivalent (FTE) Student Enrollment - UT Brownsville's FTE student enrollment for the 2007 fall semester increased 4.9% to 9,275 FTEs. The increase was a result of increased student enrollment in school district initiatives.

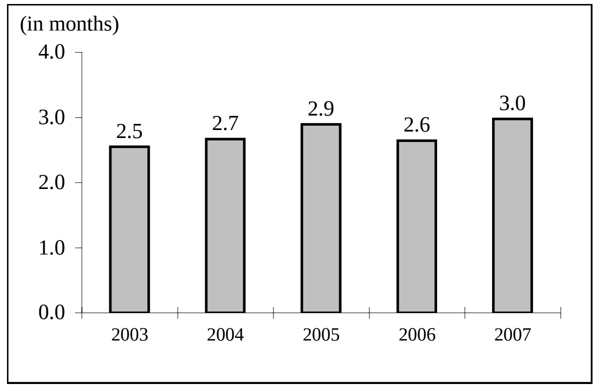
The University of Texas at Dallas
2007 Summary of Financial Condition

Financial Condition: **Satisfactory**

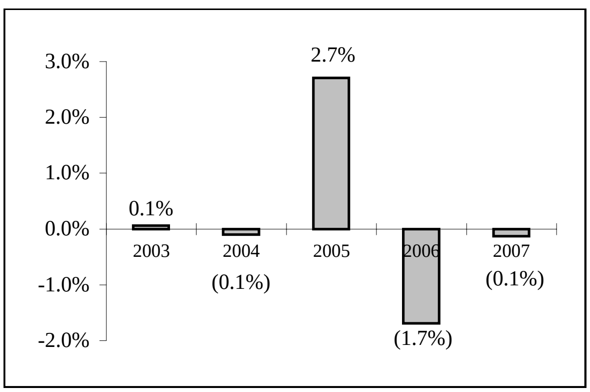
Composite Financial Index



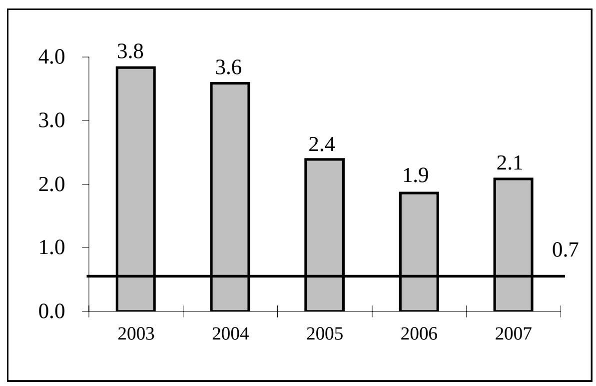
Operating Expense Coverage Ratio



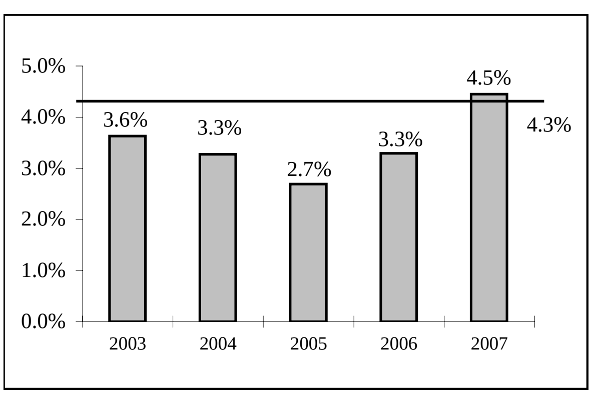
Annual Operating Margin Ratio



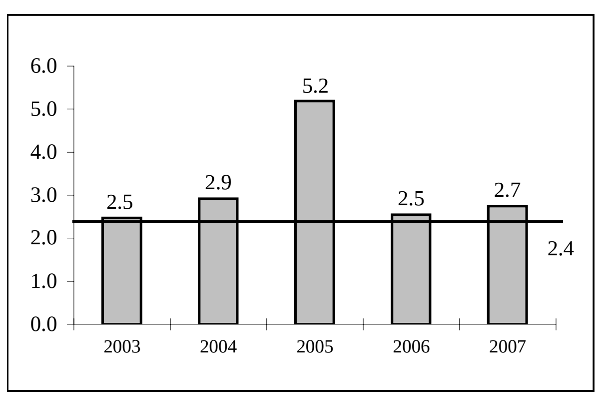
Expendable Resources to Debt Ratio



Debt Burden Ratio

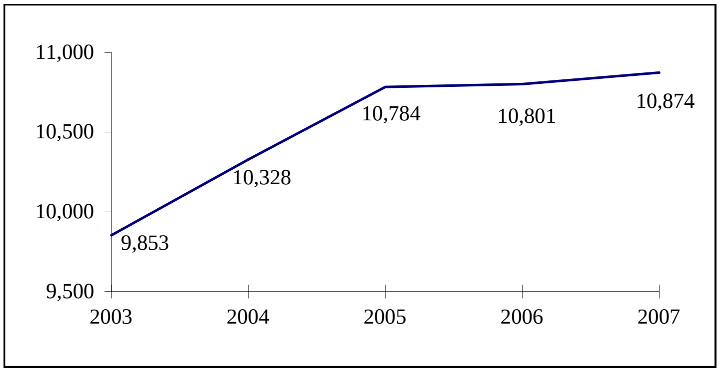


Debt Service Coverage Ratio



The University of Texas at Dallas
2007 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT Dallas' CFI increased from 5.3 in 2006 to 6.0 in 2007 primarily due to the improved operating performance as discussed in the annual operating margin below and an increase in the fair value of investments of $16.1 million.

Operating Expense Coverage Ratio - UT Dallas' operating expense coverage ratio increased from 2.6 months in 2006 to 3.0 months in 2007 as a result of a $10.5 million increase in total unrestricted net assets. The increase in total unrestricted net assets was largely attributable to a $15.2 million increase in net tuition and fees resulting from higher rates and a slight increase in enrollment.

Annual Operating Margin Ratio - UT Dallas' annual operating margin ratio improved from (1.7%) for 2006 to (0.1%) for 2007 due to the growth in total operating revenues of $19.5 million exceeding the growth in total operating expenses of $15.9 million. In addition to the increase in net tuition and fees mentioned above, the growth in total operating revenues was also generated by an increase in gifts for operations of $2.7 million. Total operating expenses increased primarily as a result of the following: a $9.1 million increase in salaries and wages and a $1.9 million increase in payroll related costs. These increases were due to annual merit increases, the addition of 14 tenure-track faculty and other staff, and higher group insurance premiums; a $4.6 million increase in depreciation expense largely attributable to the Natural Science and Engineering Research building (NSERB) and the Brain Health Frances and Mildred Goad building, which were placed into service in 2007, as well as new equipment purchases.

Expendable Resources to Debt Ratio - UT Dallas' expendable resources to debt ratio increased from 1.9 in 2006 to 2.1 in 2007 due to the increase in total unrestricted net assets, as mentioned above, as well as an increase in restricted expendable net assets. A majority of the increase in restricted expendable net assets was attributable to the increase in the appreciation on permanent endowments of $10.8 million.

Debt Burden Ratio - UT Dallas' debt burden ratio increased from 3.3% in 2006 to 4.5% in 2007 primarily due to an increase in debt service payments of $3.3 million related to the NSERB, the Brain Health Frances and Mildred Goad building, the 911 System Housing and the Physical Plant building.

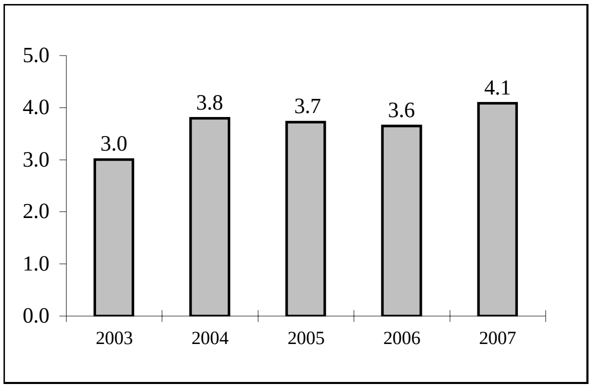
Debt Service Coverage Ratio - UT Dallas' debt service coverage ratio of 2.7 in 2007 was higher than the 2006 ratio of 2.5. The increase in this ratio resulted from the improvement in operating performance as previously discussed.

Full-Time Equivalent (FTE) Student Enrollment - UT Dallas' FTE student enrollment remained relatively stable, increasing slightly in both undergraduate and graduate levels.

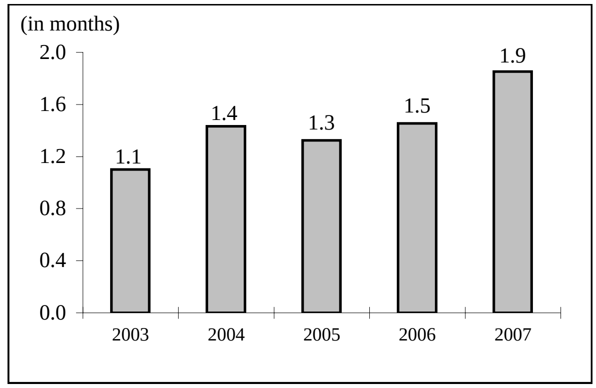
The University of Texas at El Paso
2007 Summary of Financial Condition

Financial Condition: **Satisfactory**

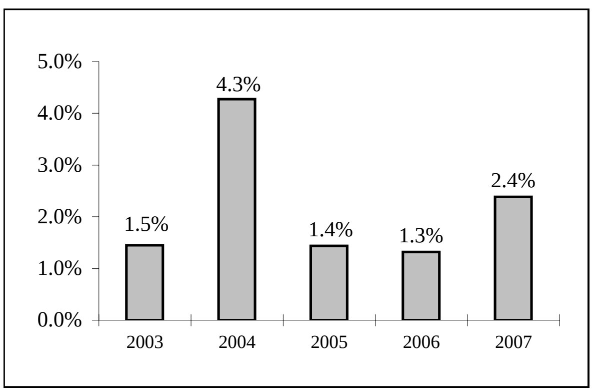
Composite Financial Index



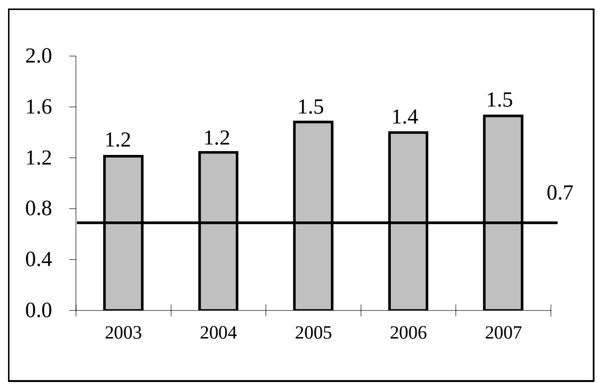
Operating Expense Coverage Ratio



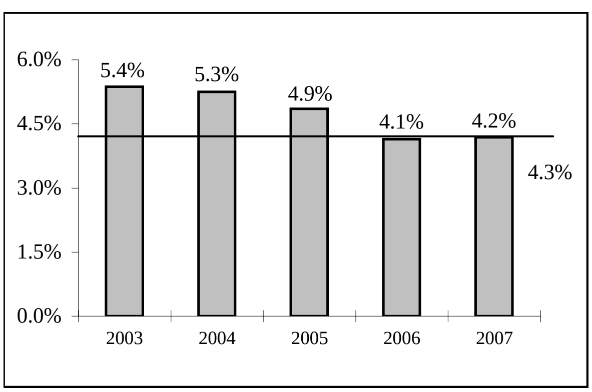
Annual Operating Margin Ratio



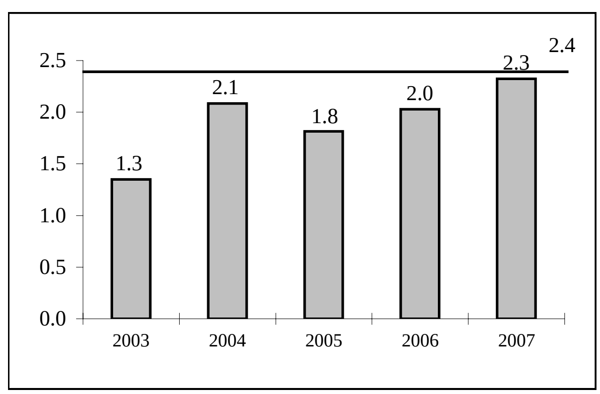
Expendable Resources to Debt Ratio



Debt Burden Ratio

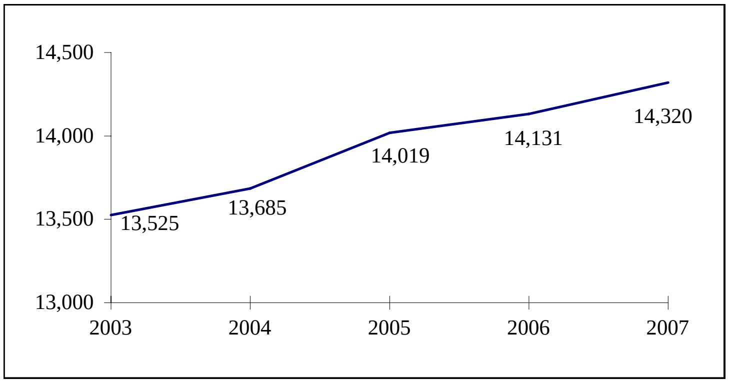


Debt Service Coverage Ratio



The University of Texas at El Paso
2007 Summary of Financial Condition

Full-time Equivalent Student Enrollment - Fall



Composite Financial Index (CFI) - UT El Paso's CFI increased from 3.6 in 2006 to 4.1 in 2007. The increase in the CFI was attributable to the improved operating performance, as well as increases in total unrestricted net assets and restricted expendable net assets, which are discussed further below.

Operating Expense Coverage Ratio - UT El Paso's operating expense coverage ratio increased from 1.5 months in 2006 to 1.9 months in 2007 due to a $10.6 million increase in total unrestricted net assets. Total unrestricted net assets increased primarily due to an increase in net tuition and fees of $7.8 million resulting from enrollment growth and higher tuition rates, increased State appropriations of $1 million and increased investment income of $1 million.

Annual Operating Margin Ratio - UT El Paso's annual operating margin ratio increased from 1.3% for 2006 to 2.4% for 2007. The improvement in operating performance was attributable to the growth in operating revenues of $15 million outpacing the growth in operating expenses of $11.7 million. In addition to the increase in net tuition and fees, State appropriations and investment income, total operating revenues increased due to a $1 million increase in gifts for operations as a result of larger gift commitments as compared to the prior year.

Expendable Resources to Debt Ratio - UT El Paso's expendable resources to debt ratio increased slightly from 1.4 in 2006 to 1.5 in 2007 as a result of the increase in total unrestricted net assets, discussed above, as well as an increase in restricted expendable net assets attributable to the increase in appreciation on permanent endowments of $7.4 million.

Debt Burden Ratio - UT El Paso's debt burden ratio of 4.2% in 2007 was slightly higher than the 2006 ratio of 4.1%. The small increase in this ratio was primarily due to an increase in debt service payments.

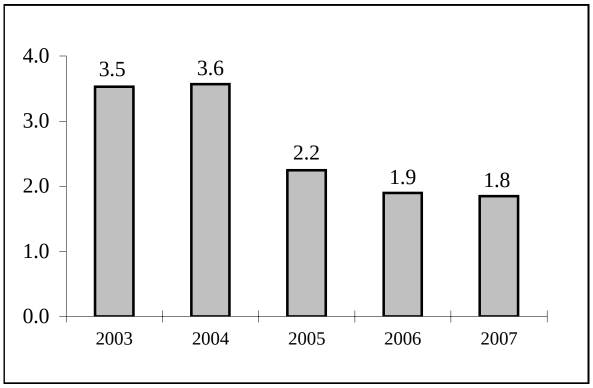
Debt Service Coverage Ratio - UT El Paso's debt service coverage ratio increased from 2.0 in 2006 to 2.3 in 2007 as a result of the improvement in the operating margin discussed above.

Full-Time Equivalent (FTE) Student Enrollment - UT El Paso's FTE student enrollment increased due to an overall enrollment increase of 1.8% as compared to the previous year.

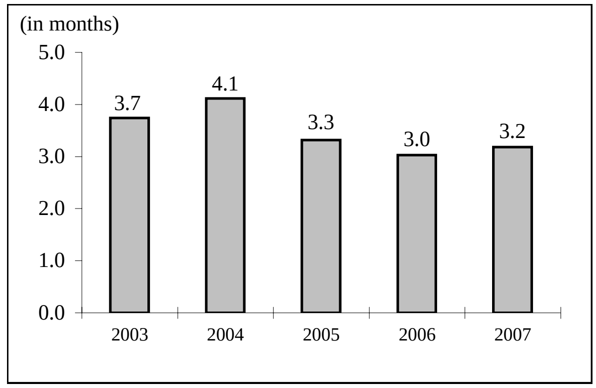
The University of Texas - Pan American
2007 Summary of Financial Condition

Financial Condition: **Satisfactory**

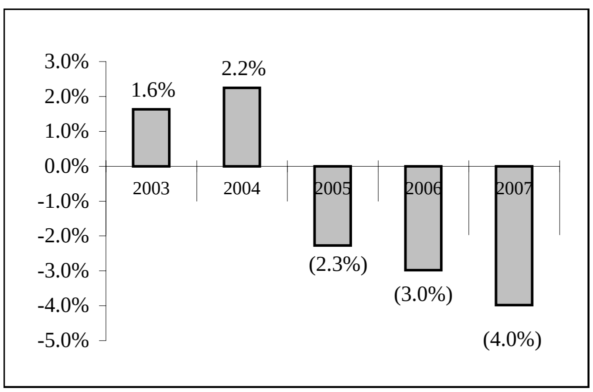
Composite Financial Index



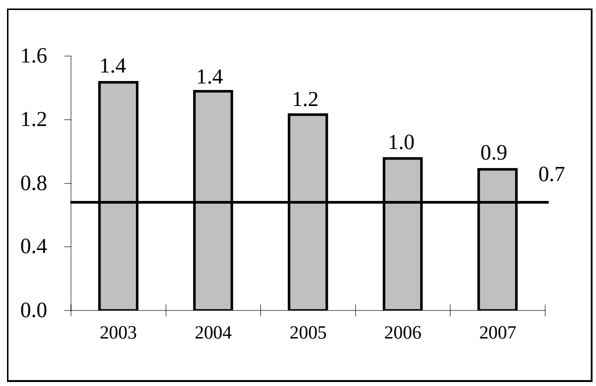
Operating Expense Coverage Ratio



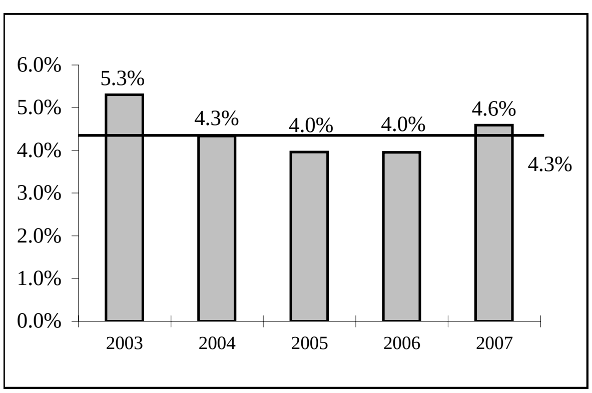
Annual Operating Margin Ratio



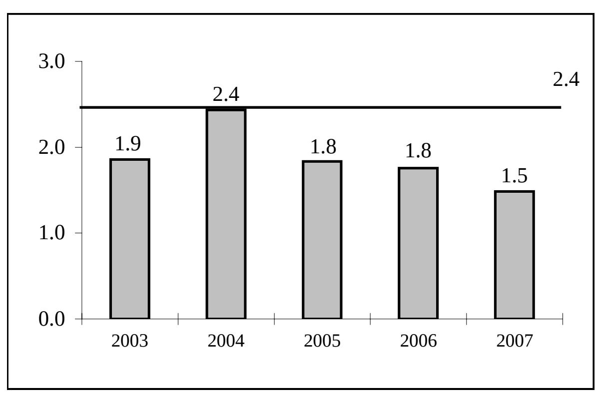
Expendable Resources to Debt Ratio



Debt Burden Ratio

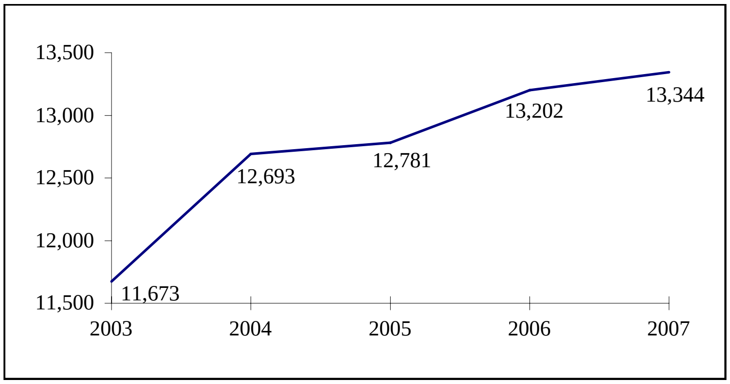


Debt Service Coverage Ratio



The University of Texas - Pan American
2007 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT Pan American's CFI declined slightly from 1.9 in 2006 to 1.8 in 2007 primarily as a result of the decline in the operating performance and increase in debt outstanding, which are discussed in the ratios below.

Operating Expense Coverage Ratio - UT Pan American's operating expense coverage ratio increased from 3.0 months in 2006 to 3.2 months in 2007 primarily due to an increase in total unrestricted net assets of $5.2 million. Total unrestricted net assets increased largely due to a $4.8 million increase in net tuition and fees resulting from a 37% increase in the designated tuition rate, an 8% increase in the student services fee, and a new mandatory utility fee and excess credit hour fee implemented in 2007.

Annual Operating Margin Ratio - UT Pan American's annual operating margin ratio declined from (3.0%) for 2006 to (4.0%) for 2007. While total operating revenues increased $7.8 million in 2007, this increase was not enough to compensate for the growth in total operating expenses of $10 million. In addition to the increase in net tuition and fees discussed above, a $2.3 million increase in investment income and a $1.4 million increase in gifts for operations contributed to the increase in total operating revenues. A gift from the UT Pan American Foundation to fund scholarships for the Baylor Premedical Honors Program and endowments for faculty development and initiatives contributed to the increase in gifts for operations. Total operating expenses increased primarily due to the following: a $5.8 million increase in salaries and wages and a $1.7 million increase in payroll related costs, and an increase of $1.7 million in depreciation expense. The increases in salaries and wages and payroll related costs were due to new faculty to accommodate enrollment growth and faculty workload reduction, new staff positions primarily in the department of information technology as a result of the Oracle software conversion, merit increases, and the filling of vacant positions. Depreciation expense increased as a result of several new buildings that were placed into service at the end of 2006, including the Education Complex and Unity Hall.

Expendable Resources to Debt Ratio - UT Pan American's expendable resources to debt ratio of 0.9 for 2007 was slightly lower than the 2006 ratio of 1.0 as a result of an increase in the amount of debt outstanding. The outstanding debt increased primarily due to additional debt issued for the Wellness and Recreation Sports Center, Student Housing Phase II, equipment purchases and two land purchases.

Debt Burden Ratio - UT Pan American's debt burden ratio increased from 4.0% in 2006 to 4.6% in 2007 due to an increase in debt service payments for the debt mentioned above.

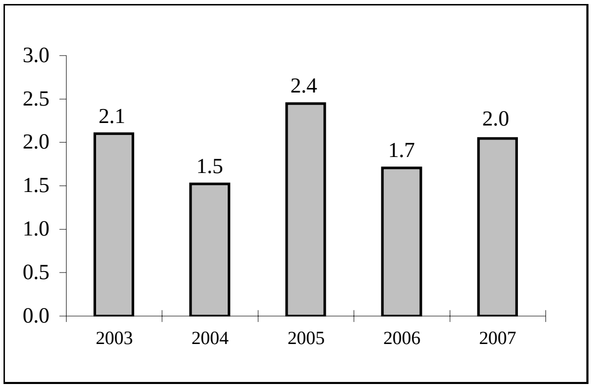
Debt Service Coverage Ratio - UT Pan American's debt service coverage ratio decreased from 1.8 in 2006 to 1.5 in 2007 as a result of the decline in the operating performance discussed above, as well as the increase in debt service payments.

Full-Time Equivalent (FTE) Student Enrollment - UT Pan American's headcount enrollment increased 0.1% from Fall 2006 to Fall 2007; however, the FTE student enrollment increased 1.1% from 13,202 to 13,344. Student advisement improved due to a new student advisement process which started in the Fall of 2005. As a result, undergraduate students are taking increased semester credit hour loads to ensure timely graduation. Also, UT Pan American instituted a required minimum ACT score, which is attracting higher caliber students to the university.

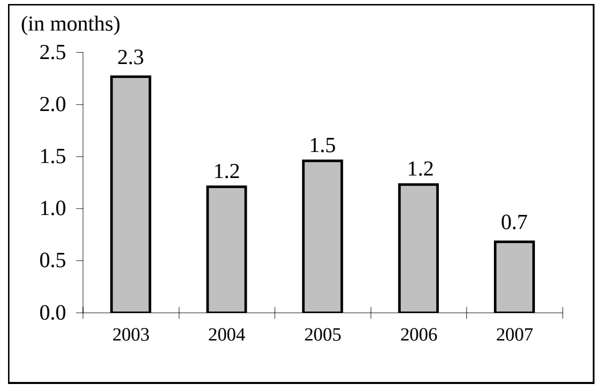
The University of Texas of the Permian Basin
2007 Summary of Financial Condition

Financial Condition: **Watch**

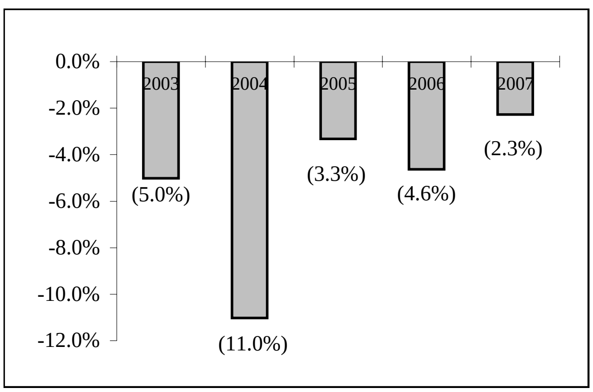
Composite Financial Index



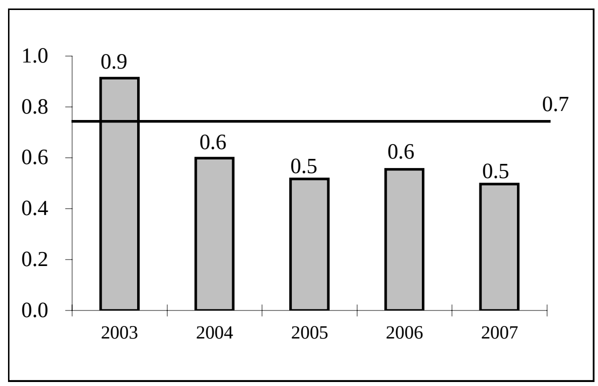
Operating Expense Coverage Ratio



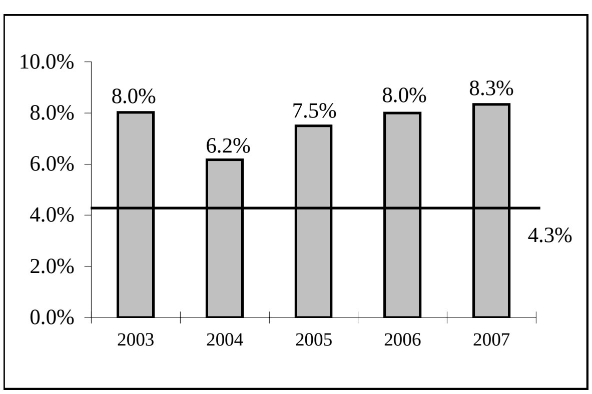
Annual Operating Margin Ratio



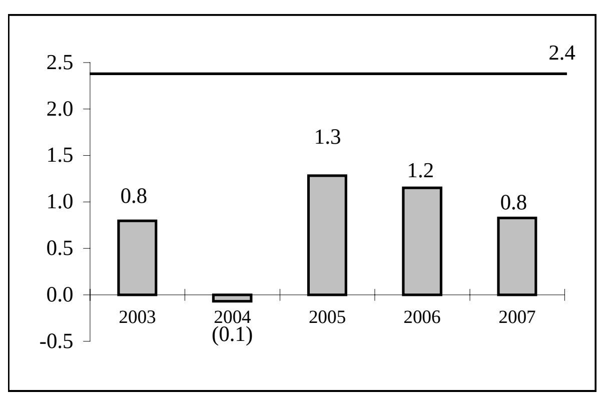
Expendable Resources to Debt Ratio



Debt Burden Ratio

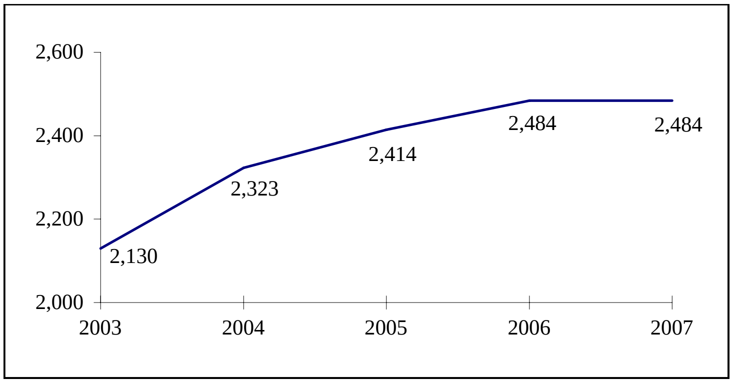


Debt Service Coverage Ratio



The University of Texas of the Permian Basin
2007 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT Permian Basin's CFI increased from 1.7 in 2006 to 2.0 in 2007 primarily due to the improved operating performance as a result of a reduction in operating expenses discussed in the annual operating margin below.

Operating Expense Coverage Ratio - UT Permian Basin's operating expense coverage ratio decreased from 1.2 months in 2006 to 0.7 months in 2007 due to a decrease in total unrestricted net assets of $2.0 million. Total unrestricted net assets decreased due to a reduction in total operating revenues as discussed in the annual operating margin below.

A*nnual Operating Margin Ratio* - UT Permian Basin's annual operating margin ratio improved from (4.6%) for 2006 to (2.3%) for 2007 due to a reduction in total operating expenses of $1.8 million as compared to the reduction in total operating revenues of $900,000. The reduction in total operating expenses was primarily attributable to the following: a decrease of $900,000 in professional fees and services due to a decrease in expenses incurred for the High-Temperature Teaching and Test Reactor (HT3R) pre-conceptual design phase; a $700,000 decrease in scholarships and fellowships as a result of reductions in Texas Public Education Grant resident scholarships and Pell Grants; and a $600,000 decrease in materials and supplies due to decreased furniture, equipment, and computer expenses. Total operating revenues decreased primarily due to $3 million of gift contributions reported in 2006 for the HT3R with no comparable gifts received in 2007 and a decrease of $700,000 in net tuition and fees due to a decrease in summer enrollment of approximately 1,739 semester credit hours. The decrease in gift contributions and tuition and fees was slightly offset with an increase in investment income of $1.9 million. The $858,000 loss includes $540,000 of expenses related to HT3R pre-conceptual design phase for which the revenue was reported in 2006.

Expendable Resources to Debt Ratio - UT Permian Basin's expendable resources to debt ratio decreased slightly from 0.6 in 2006 to 0.5 in 2007 primarily due to the reduction in unrestricted net assets mentioned above.

Debt Burden Ratio - UT Permian Basin's debt burden ratio increased from 8.0% in 2006 to 8.3% in 2007 as a result of the reduction in total operating expenses previously discussed.

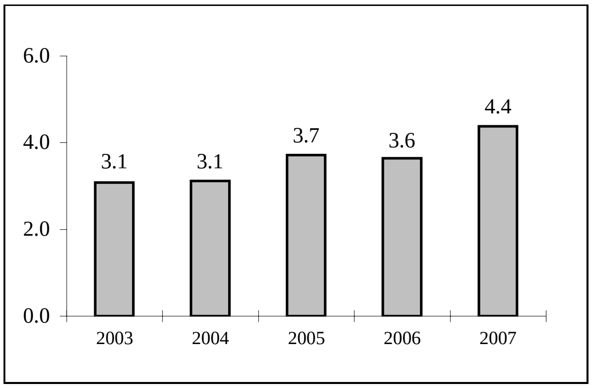
Debt Service Coverage Ratio - UT Permian Basin's debt service coverage ratio declined from 1.2 in 2006 to 0.8 in 2007 due to investment income in the annual operating margin ratio being replaced with normalized investment income for this ratio, computed as 4.5% of prior year's ending cash and investments, as well as an increase in debt service payments.

Full-Time Equivalent (FTE) Student Enrollment - UT Permian Basin's FTE student enrollment was level from 2006 to 2007. Enrollment totals continue to reflect the exceptional Permian Basin oil industry demand and high wages for oil field workers.

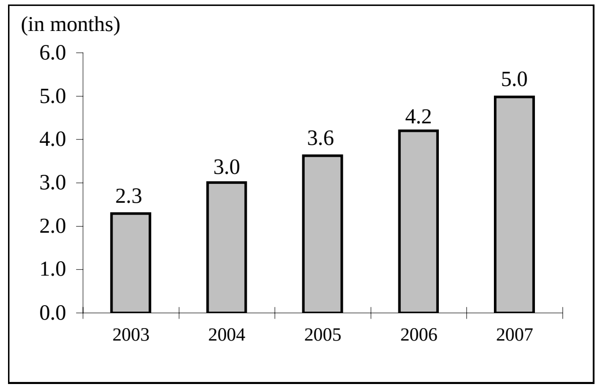
The University of Texas at San Antonio
2007 Summary of Financial Condition

Financial Condition: **Satisfactory**

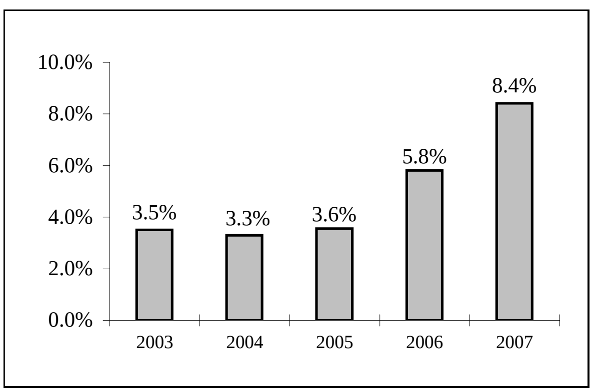
Composite Financial Index



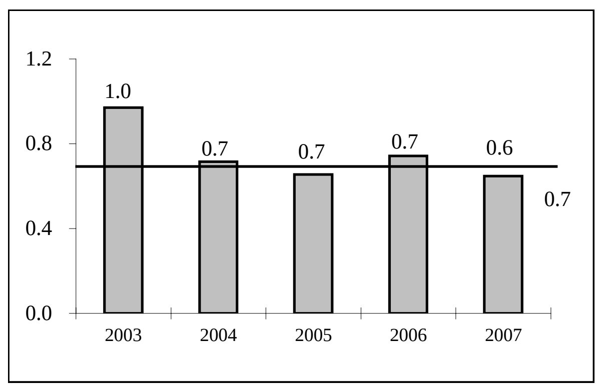
Operating Expense Coverage Ratio



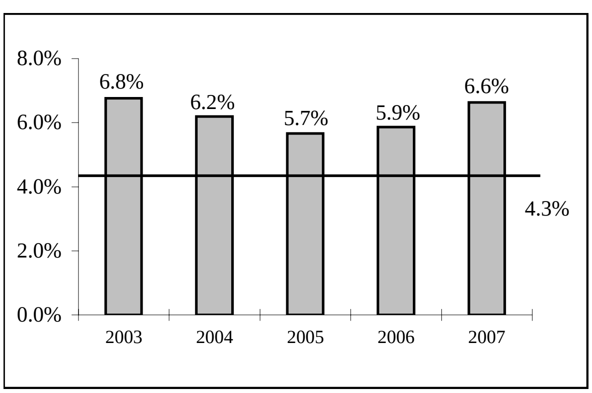
Annual Operating Margin Ratio



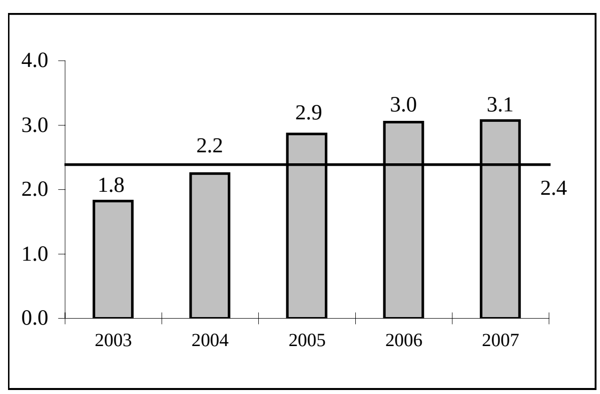
Expendable Resources to Debt Ratio



Debt Burden Ratio

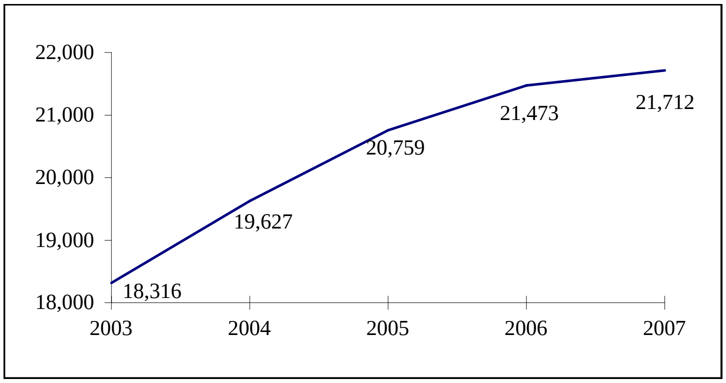


Debt Service Coverage Ratio



The University of Texas at San Antonio
2007 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT San Antonio's CFI increased from 3.6 in 2006 to 4.4 in 2007 primarily due to increases in interest earnings and appreciation on investments, as well as higher net operating income as discussed in the annual operating margin ratio below.

Operating Expense Coverage Ratio - UT San Antonio's operating expense coverage ratio increased from 4.2 months in 2006 to 5.0 months in 2007 due to a $27.0 million increase in total unrestricted net assets. The increase in total unrestricted net assets was primarily due to an increase in net tuition and fees of $24.8 million attributable to enrollment growth and rate increases.

Annual Operating Margin Ratio - UT San Antonio's annual operating margin ratio increased significantly from 5.8% for 2006 to 8.4% for 2007 due to an increase in total operating revenues of $28.2 million as compared to an increase of $17.4 million in total operating expenses. The majority of the increase in operating revenues was attributable to the increase in net tuition and fees discussed above. Total operating expenses increased primarily as a result of the following: a $15.5 million increase in salaries and wages and payroll related costs due to new faculty and staff positions to accommodate enrollment growth, merit increases, and the cost of employee benefits; a $3.5 million increase in scholarships and fellowships due to an increase in financial aid scholarship awards; and a $3.4 million increase in depreciation expense due to the completion of various capital projects. The operating margin ratio achieved this year is not sustainable. UT San Antonio expects the future rate of expenditures to exceed revenue growth as new faculty positions and other infrastructure are needed to meet the growth demands anticipated in the future.

Expendable Resources to Debt Ratio - UT San Antonio's expendable resources to debt ratio changed slightly from 0.7 in 2006 to 0.6 in 2007. The small decrease in this ratio was primarily due to a decrease in expendable net assets restricted for capital projects as a result of completion of capital improvement projects.

Debt Burden Ratio - UT San Antonio's debt burden ratio increased from 5.9% in 2006 to 6.6% in 2007 as a result of a major capital improvements program resulting in increase in debt service payments of $3.1 million.

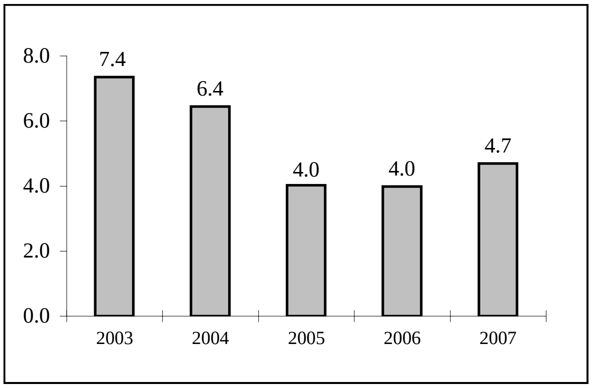
Debt Service Coverage Ratio - UT San Antonio's debt service coverage ratio of 3.1 for 2007 was slightly higher than the 2006 ratio of 3.0. This slight change was attributable to the increased operating performance, as discussed above, which was partially offset by the increase in debt service payments as a result of completion of capital projects.

Full-Time Equivalent (FTE) Student Enrollment - UT San Antonio's FTE student enrollment increase in 2007 was due to enrollment growth of first-time freshmen over the previous year and a slight improvement in retention. Average unit load per student remained relatively flat.

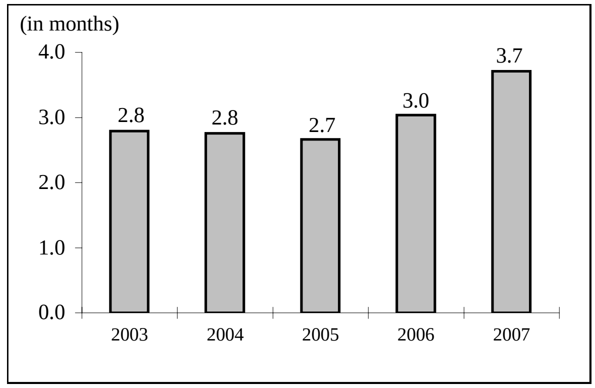
The University of Texas at Tyler
2007 Summary of Financial Condition

Financial Condition: **Satisfactory**

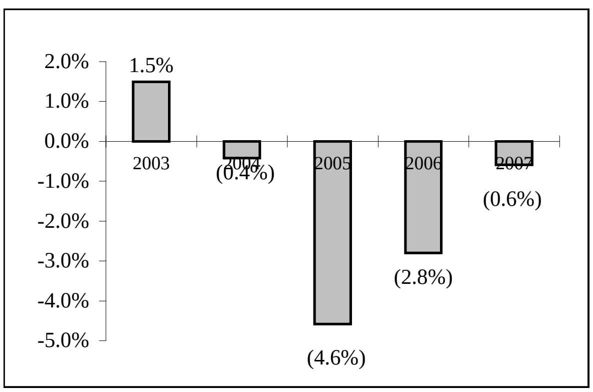
Composite Financial Index



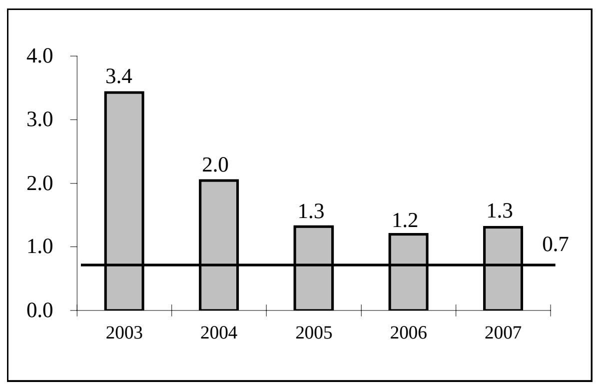
Operating Expense Coverage Ratio



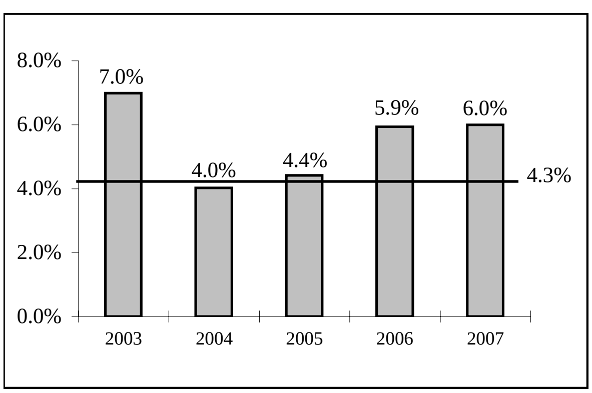
Annual Operating Margin Ratio



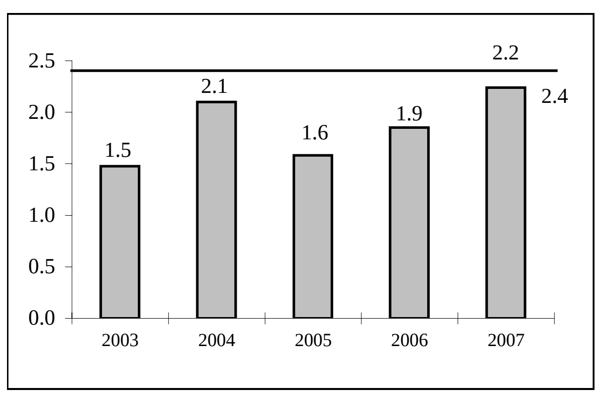
Expendable Resources to Debt Ratio



Debt Burden Ratio

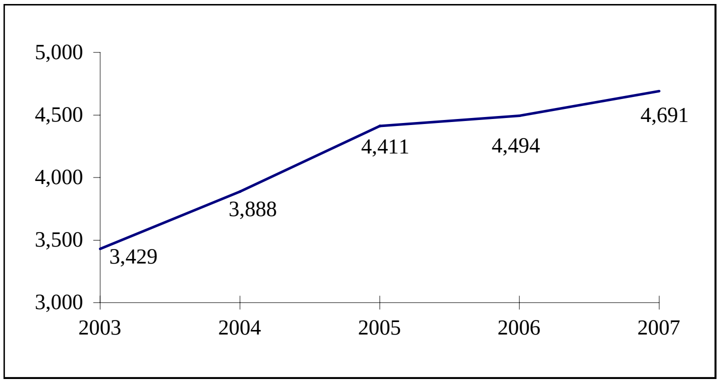


Debt Service Coverage Ratio



The University of Texas at Tyler
2007 Summary of Financial Condition

Full-time Equivalent Student Enrollment - Fall



Composite Financial Index (CFI) - UT Tyler's CFI increased from 4.0 in 2006 to 4.7 in 2007. This increase in the CFI was due to increased appreciation on investments of $4.3 million.

Operating Expense Coverage Ratio - UT Tyler's operating expense coverage ratio increased from 3.0 months in 2006 to 3.7 months in 2007 a result of a $5.5 million increase in total unrestricted net assets. The increase in total unrestricted net assets was primarily due to the following: a $4.4 million increase in net tuition and fees attributable to enrollment growth, rate increases, a new student medical fee and a new student union fee; a $600,000 increase in net auxiliary enterprises revenue as a result of an increase in housing revenue; and a $500,000 increase in State appropriations.

Annual Operating Margin Ratio - UT Tyler's annual operating margin ratio improved from (2.8%) for 2006 to (0.6%) for 2007. The improvement in this ratio was due to the growth in total operating revenues of $7.3 million exceeding the growth in total operating expenses of $6 million. In addition to the increases in net tuition and fees, auxiliary enterprises revenue and State appropriations discussed above, sponsored program revenue contributed to the overall increase in total operating revenues with an increase of $1.8 million. Sponsored program revenue increased due to an increase in funding from the Texas Higher Education Coordinating Board for the nursing shortage of $300,000, as well as various new grants, and an increase in Pell awards of $300,000. Total operating expenses increased primarily due to the following: a $2.6 million increase in salaries and wages and a $900,000 increase in payroll related costs as a result of new faculty and staff positions, merit increases and related increases in staff benefits, and higher group insurance premiums; a $1.1 million increase in other expenses due to an increase of contracted services for the medical service center of $400,000 and an increase in federal grant expenses of $500,000; and a $700,000 increase in depreciation expense resulting from several buildings which were placed into service at the end of 2006 and therefore, did not reflect a full year of depreciation expense until 2007. These buildings include the Ornelas Residence Hall, the North Power Plant, and the Ratliff Engineering and Sciences Complex.

Expendable Resources to Debt Ratio - UT Tyler's expendable resources to debt ratio increased slightly from 1.2 in 2006 to 1.3 in 2007 due to an increase in total unrestricted net assets, as previously discussed, and an increase in restricted other expendable net assets as a result of the increase in the appreciation on permanent endowments.

Debt Burden Ratio - UT Tyler's debt burden ratio of 6.0% in 2007 was slightly higher than the 2006 ratio of 5.9%. The small increase in this ratio was largely attributable to a $400,000 increase in debt service payments.

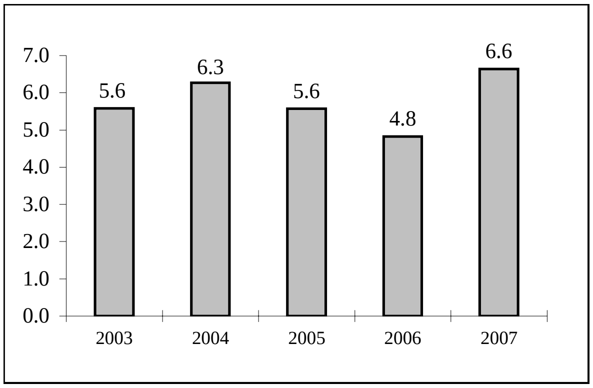
Debt Service Coverage Ratio - UT Tyler's debt service coverage ratio increased from 1.9 in 2006 to 2.2 in 2007 primarily due to the improvement in the operating performance as discussed in the annual operating margin ratio.

Full-Time Equivalent (FTE) Student Enrollment - UT Tyler's FTE student enrollment increased slightly from 4,494 to 4,691. Fall enrollment at UT Tyler reached 6,150 students, which is the largest enrollment in the university’s history. This growth is due to the atmosphere of quality that attracts highly competent students and the exceptional faculty who nurture those students in a culture of excellence.

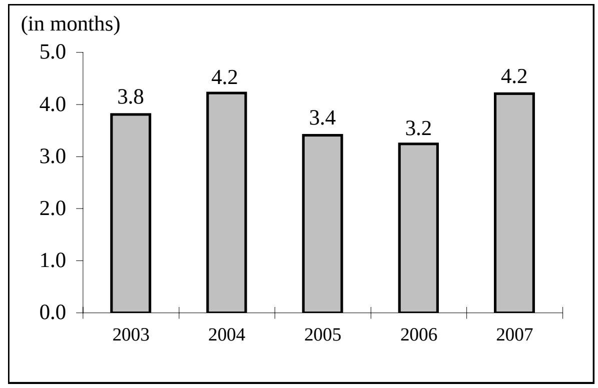
The University of Texas Southwestern Medical Center at Dallas
2007 Summary of Financial Condition

Financial Condition: **Satisfactory**

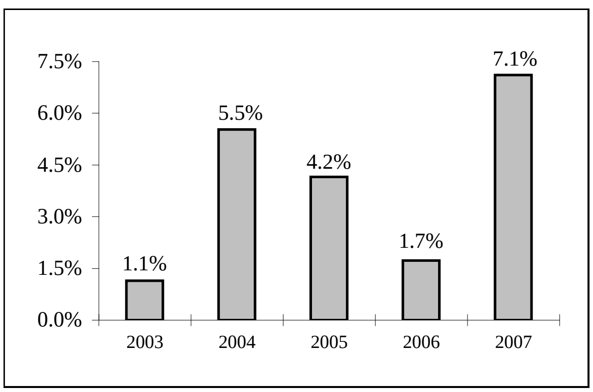
Composite Financial Index



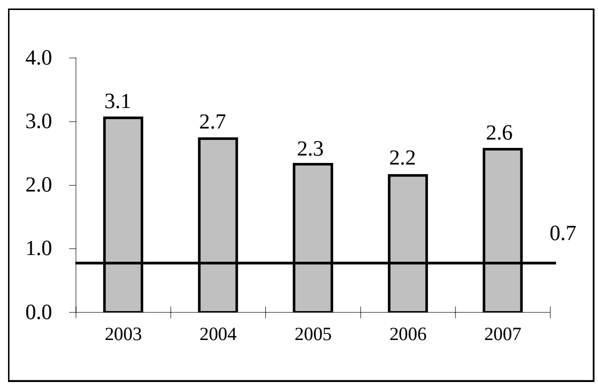
Operating Expense Coverage Ratio



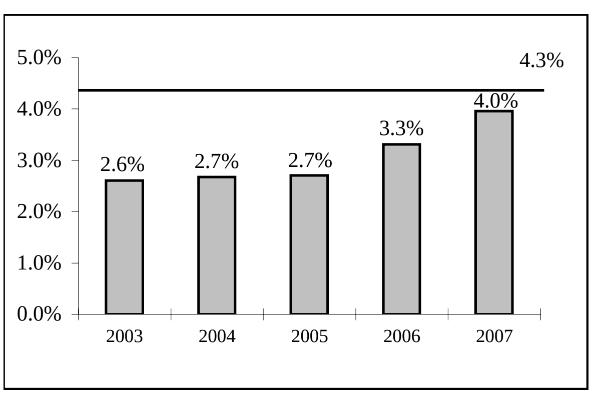
Annual Operating Margin Ratio



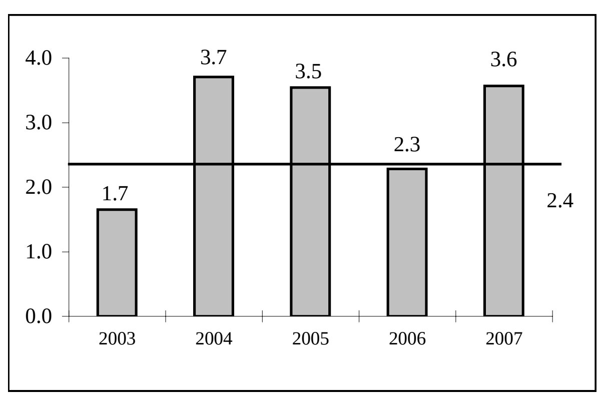
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Southwestern Medical Center at Dallas
2007 Summary of Financial Condition

Composite Financial Index (CFI) - UT Southwestern Medical Center - Dallas' (Southwestern) CFI increased from 4.8 in 2006 to 6.6 in 2007 primarily due to increased appreciation on investments of $69.6 million and the strong operating performance in 2007 as discussed in further detail below.

Operating Expense Coverage Ratio - Southwestern's operating expense coverage ratio increased from 3.2 months in 2006 to 4.2 months in 2007 due to an increase in total unrestricted net assets of $115.7 million. Total unrestricted net assets increased primarily as a result of a $105.2 million increase in net professional fees due to $75.8 million of revenue recorded for the Texas Physician Upper Payment Limit (UPL) reimbursements, as well as higher patient volumes and increases in fee schedules. UPL had the largest impact in 2007 as retroactive adjustments from May 2004 through August 2007 were reported. Now that UPL reimbursements are current, only current year reimbursements will be reported going forward.

Annual Operating Margin Ratio - Southwestern's annual operating margin ratio increased significantly from 1.7% for 2006 to 7.1% for 2007. The growth in total operating revenues of $125.0 million far exceeded the growth in total operating expenses of $48.8 million. The primary driving force behind the substantial increase in operating revenues was the increase in net professional fees as a result of the UPL reimbursements, as well as higher patient volumes and increases in fee schedules mentioned above. Total operating expenses increased largely due to the following: a $40.6 million increase in salaries and wages and an $8.4 million increase in payroll related costs resulting from the addition of new staff positions and annual merit increases; a $7.2 million increase in depreciation expense due to the completion of the Outpatient Ambulatory Center and Garage and the North Campus Advanced Imaging Center, as well as the addition of a new MRI Imaging System and a telecommunications upgrade; and a $4.9 million increase in utilities attributable to a 20% increase in electric utility rates and an increase in consumption due to the occupancy of the Outpatient Ambulatory Center and the North Campus Advanced Imaging Center.

Expendable Resources to Debt Ratio - Southwestern's expendable resources to debt ratio of 2.6 in 2007 was higher than the 2006 ratio of 2.2. The increase in this ratio resulted primarily from the increase in total unrestricted net assets, as well as an increase in the appreciation on permanent endowments.

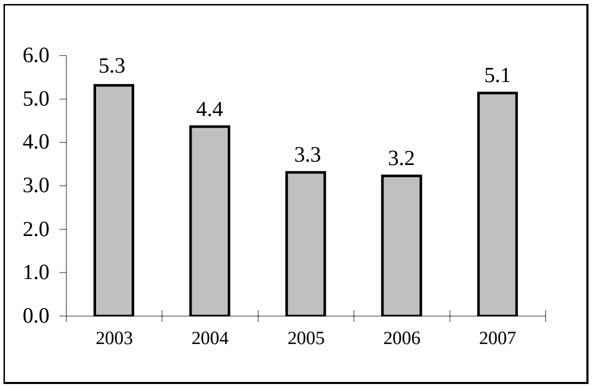
Debt Burden Ratio - Southwestern's debt burden ratio increased from 3.3% in 2006 to 4.0% in 2007 due to an increase of $9.9 million in debt service payments due to the North Campus Advanced Imaging Center, Outpatient Ambulatory Center and Garage, new MRI Imaging System, a telecommunications upgrade, and the Enterprise Resource Planning System purchase.

Debt Service Coverage Ratio - Southwestern's debt service coverage ratio increased from 2.3 in 2006 to 3.6 in 2007 as a result of the strong operating performance as discussed in the annual operating margin ratio.

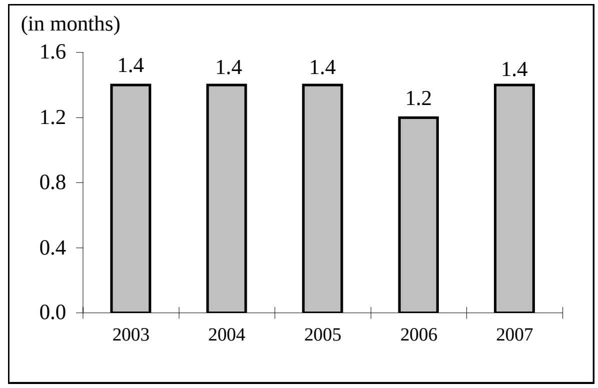
The University of Texas Medical Branch at Galveston
2007 Summary of Financial Condition

Financial Condition: **Watch**

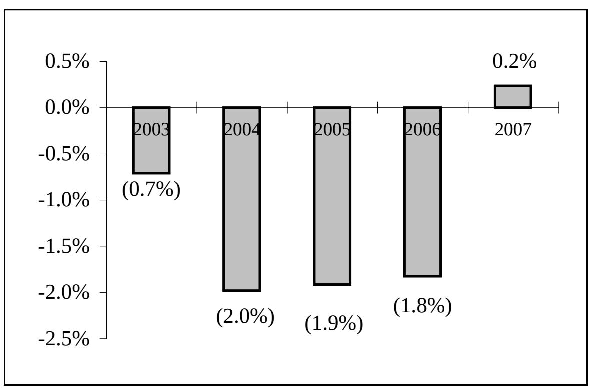
Composite Financial Index



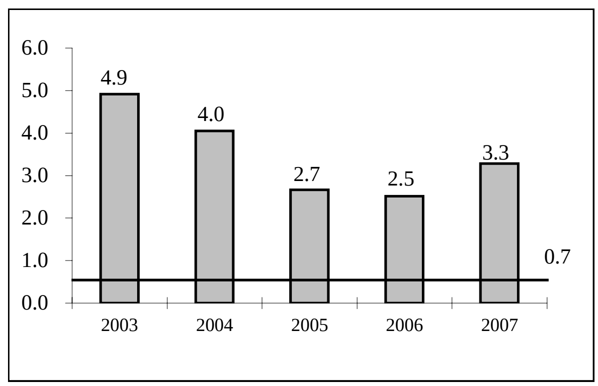
Operating Expense Coverage Ratio



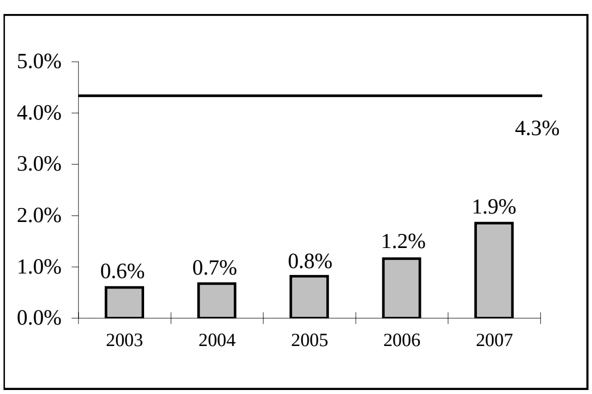
Annual Operating Margin Ratio



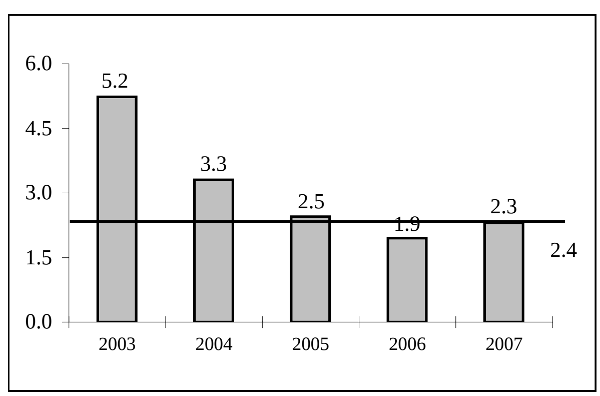
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Medical Branch at Galveston
2007 Summary of Financial Condition

Composite Financial Index (CFI) - UT Medical Branch - Galveston's (UTMB) CFI increased from 3.2 in 2006 to 5.1 in 2007 primarily due to increased appreciation on investments of $48.6 million and the improvement in operating results discussed in the ratios below.

Operating Expense Coverage Ratio - UTMB's operating expense coverage ratio increased from 1.2 months in 2006 to 1.4 months in 2007 primarily due to an increase in total unrestricted net assets of $16.4 million. The increase in total unrestricted net assets was largely attributable to an increase in net professional fees of $35.8 million primarily due to $35 million of revenue recorded for the Texas Physician Upper Payment Limit (UPL) reimbursements. UPL had the largest impact in 2007 as retroactive adjustments from May 2004 through August 2007 were reported. Now that UPL reimbursements are current, only current year reimbursements will be reported going forward. The increase in net professional fees was partially offset by a decrease of $12 million in net sales and services of hospitals. The decline in revenue from net sales and services of hospitals was due to declines and shift in patient volumes in 2007. Overall, patient volumes were down by 2.2% and Medicare volume was down by 11.2%. The hospitals and clinics continued to operate in a challenging environment where revenue increases, particularly in government sponsored programs, fall short of healthcare expense inflation.

Annual Operating Margin Ratio - UTMB's annual operating margin ratio improved substantially from (1.8%) for 2006 to 0.2% for 2007. The increase in total operating revenues of $46.3 million far exceeded the increase in total operating expenses of $17.5 million. The UPL reimbursements mentioned above contributed significantly to the improvement in operating revenues. Additionally, UTMB received $13.1 million of special funding from the Texas State Legislature for Hurricane *Rita* relief, which also was a factor in the improved operating results.

Expendable Resources to Debt Ratio - UTMB's expendable resources to debt ratio increased from 2.5 in 2006 to 3.3 in 2007. The increase in this ratio was the result of an increase in the appreciation on permanent endowments and the increase in unrestricted net assets discussed above. A decrease in the amount of debt outstanding also contributed to the increase in this ratio.

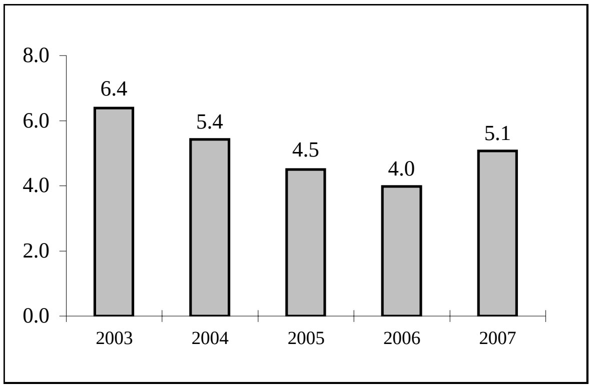
Debt Burden Ratio - UTMB's debt burden ratio increased from 1.2% in 2006 to 1.9% in 2007 due to an increase in debt service payments of $10.1 million. Approximately $8.7 million of the $10.1 million was outstanding equipment debt that was scheduled to be paid in 2008, but was paid down early. UTMB's debt burden ratio still remains extremely low.

Debt Service Coverage Ratio - UTMB's debt service coverage ratio increased from 1.9 in 2006 to 2.3 in 2007 as a result of the improved operating performance previously discussed.

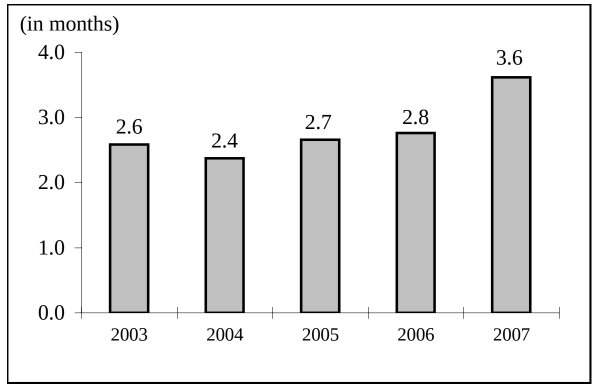
The University of Texas Health Science Center at Houston
2007 Summary of Financial Condition

Financial Condition: **Satisfactory**

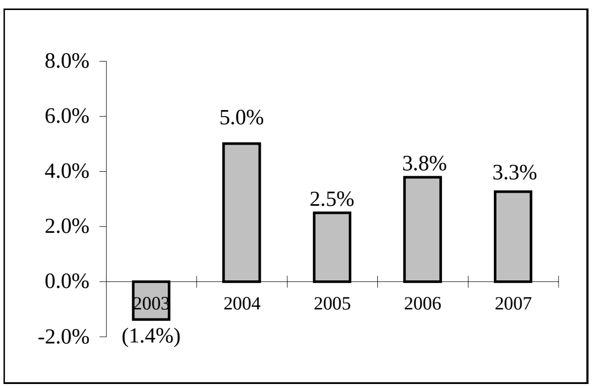
Composite Financial Index



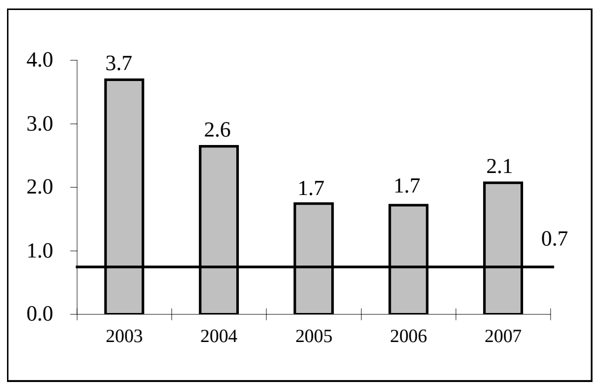
Operating Expense Coverage Ratio



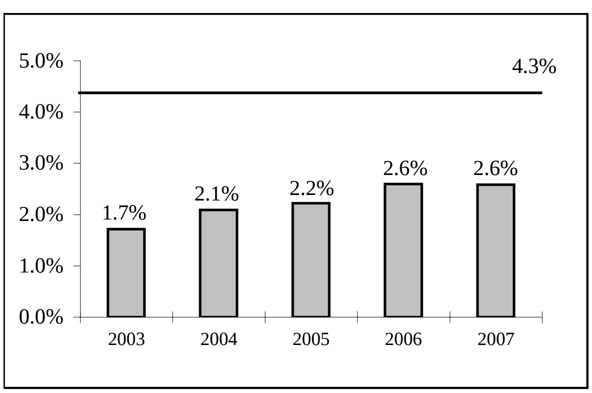
Annual Operating Margin Ratio



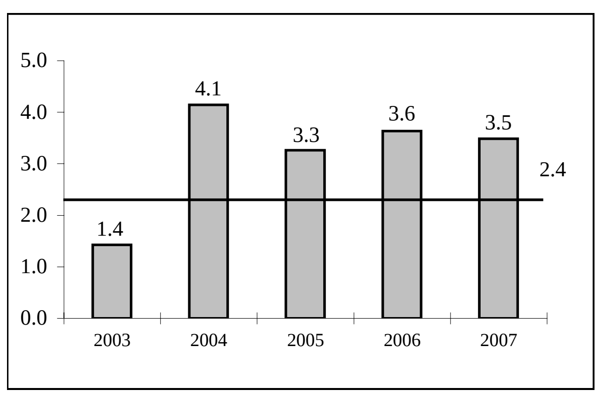
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Health Science Center at Houston
2007 Summary of Financial Condition

Composite Financial Index (CFI) - UT Health Science Center - Houston's (UTHSC-Houston) CFI increased from 4.0 in 2006 to 5.1 in 2007. The improvement in the CFI was primarily due to the increase in unrestricted net assets discussed below, increased appreciation on investments of $22.5 million and an increase in restricted expendable net assets for capital projects as a result of the replacement research facility currently under construction.

Operating Expense Coverage Ratio - UTHSC-Houston's operating expense coverage ratio increased from 2.8 months in 2006 to 3.6 months in 2007 due to a $56.2 million increase in total unrestricted net assets. The increase in total unrestricted net assets was primarily attributable to a $22.8 million increase in net professional fees due to $25.9 million of revenue recorded for the Texas Physician Upper Payment Limit (UPL) reimbursements and increases in fair value on unrestricted investments. UPL had the largest impact in 2007 as retroactive adjustments from May 2004 through August 2007 were reported. Now that UPL reimbursements are current, only current year reimbursements will be reported going forward.

Annual Operating Margin Ratio - UTHSC-Houston's annual operating margin ratio decreased from 3.8% for 2006 to 3.3% for 2007 due to the growth in total operating expenses of $31.6 million outpacing the growth in total operating revenues of $29.0 million. The increase in total operating expenses was primarily a result of the following: a $9.2 million increase in salaries and wages and a $4.3 million increase in payroll related costs due to merit increases and higher group insurance premiums; a $7.2 million increase in other operating expenses resulting from escalations in purchased contract services costs; a $5.5 million increase in depreciation expense attributable to the completion of the Institute of Molecular Medicine (IMM) Research building in June 2006; and a $2.5 million increase in utilities due to an increase in electric utility rates, as well as an increase in thermal energy charges resulting from the occupancy of the IMM Research building. The growth in operating revenues included the $25.9 million of UPL reimbursements.

Expendable Resources to Debt Ratio - UTHSC-Houston's expendable resources to debt ratio increased from 1.7 in 2006 to 2.1 in 2007 due to increases in both total unrestricted net assets and restricted expendable net assets discussed above.

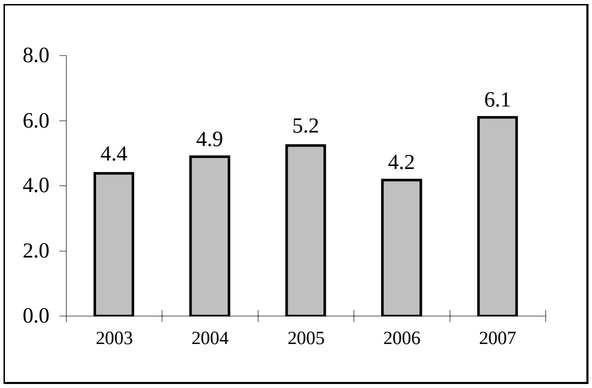
Debt Burden Ratio - UTHSC-Houston's debt burden ratio remained unchanged at 2.6% for 2007. The stability of this ratio was attributable to an increase in debt service payments offset by an increase in total operating expenses previously mentioned.

Debt Service Coverage Ratio - UTHSC-Houston's debt service coverage ratio decreased slightly from 3.6 in 2006 to 3.5 in 2007. The slight decline in this ratio was due to the decrease in operating performance as discussed in the annual operating margin ratio above.

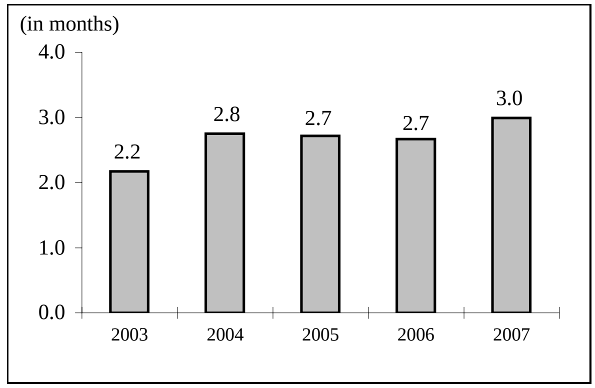
The University of Texas Health Science Center at San Antonio
2007 Summary of Financial Condition

Financial Condition: **Satisfactory**

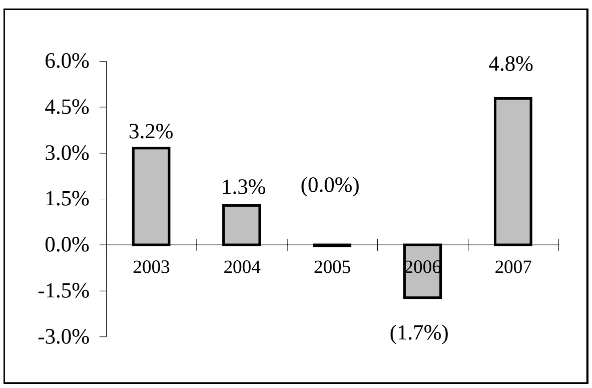
Composite Financial Index



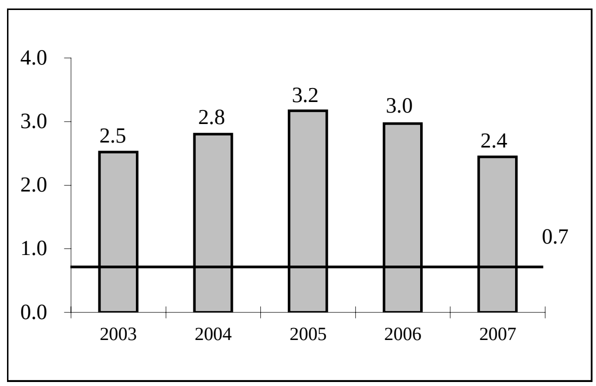
Operating Expense Coverage Ratio



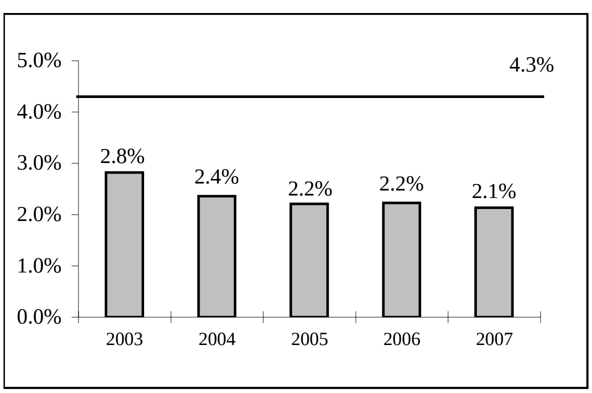
Annual Operating Margin Ratio



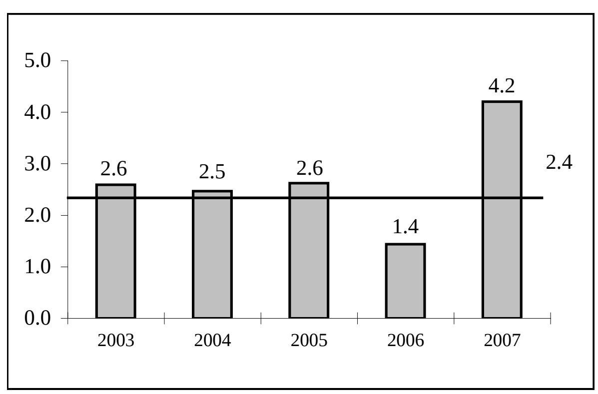
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Health Science Center at San Antonio
2007 Summary of Financial Condition

Composite Financial Index (CFI) - UT Health Science Center - San Antonio's (UTHSC-San Antonio) CFI increased from 4.2 in 2006 to 6.1 in 2007. The increase in the CFI was primarily attributable to the improvement in operating performance as discussed below. Additionally, the increase of $27.3 million in the fair value of investments and an increase in the additions to permanent endowments of $13.6 million, of which $13.0 million came from the Greehey Foundation, were large contributors to the change in the CFI.

Operating Expense Coverage Ratio - UTHSC-San Antonio's operating expense coverage ratio increased from 2.7months in 2006 to 3.0 months in 2007 primarily due to an increase in total unrestricted net assets of $19.8 million. The increase in total unrestricted net assets was largely attributable to the following: a $14.6 million increase in net professional fees primarily due to $14.8 million of revenue recorded for the Texas Upper Payment Limit (UPL) reimbursements; and a $3.1 million increase in net tuition and fees resulting from enrollment growth and increased tuition rates promulgated by House Bill 3015. UPL had the largest impact in 2007 as retroactive adjustments from May 2004 through August 2007 were reported. Now that UPL reimbursements are current, only current year reimbursements will be reported going forward.

Annual Operating Margin Ratio - UTHSC-San Antonio's annual operating margin ratio improved significantly from (1.7%) for 2006 to 4.8% for 2007. The improvement in operating performance was attributable to the growth in total operating revenues of $57.9 million far exceeding the growth in total operating expenses of $20.8 million. In addition to the UPL revenue and the increase in net tuition and fees mentioned above, gifts for operations increased $20.5 million. In 2007 UTHSC-San Antonio received the following large gifts for operations: $12.0 million from the Greehey Foundation, $5.0 million from Valero, $1.0 million from HEB, and $1.0 million from the Center of Excellence in Cardiology. The increase in total operating expenses was primarily due to the following: a $17.4 million increase in salaries and wages attributable to a 1.5% merit increase for faculty and staff, as well as the recruitment of new research and clinical faculty; and a $10.1 million increase in other operating expenses as a result of increased payments to subrecipients for research activities, for purchased contracted services associated with temporary employment, and for the remodeling of institutional laboratory and office space.

Expendable Resources to Debt Ratio - UTHSC-San Antonio's expendable resources to debt ratio decreased from 3.0 in 2006 to 2.4 in 2007 due to an increase in the amount of debt outstanding. The increase in the amount of debt outstanding was primarily related to debt issued for the Medical Arts Research Center, the Regional Academic Health Center Teaching and Learning Lab, and the South Texas Research Facility.

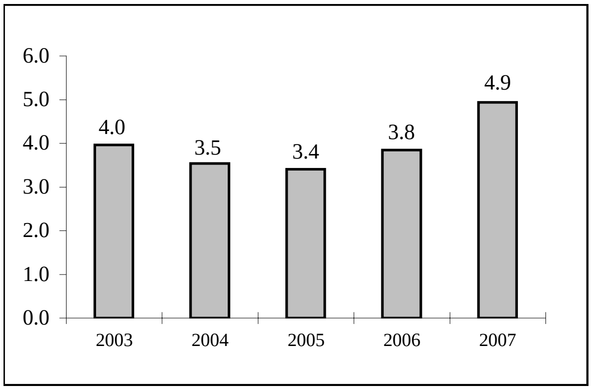
Debt Burden Ratio - UTHSC-San Antonio's debt burden ratio decreased slightly from 2.2% in 2006 to 2.1% in 2007. The slight decrease in this ratio was attributable to the increase in total operating expenses discussed above.

Debt Service Coverage Ratio - UTHSC-San Antonio's debt service coverage ratio increased from 1.4 in 2006 to 4.2 in 2007 as a result of the significant increase in operating performance discussed in the annual operating margin ratio.

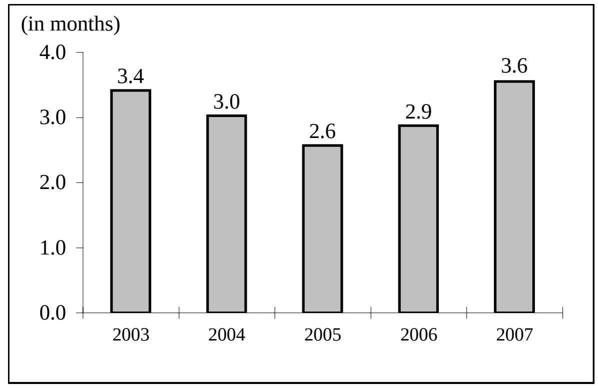
The University of Texas M. D. Anderson Cancer Center
2007 Summary of Financial Condition

Financial Condition: **Satisfactory**

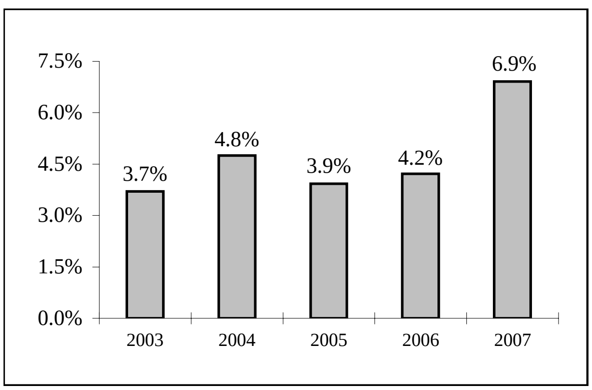
Composite Financial Index



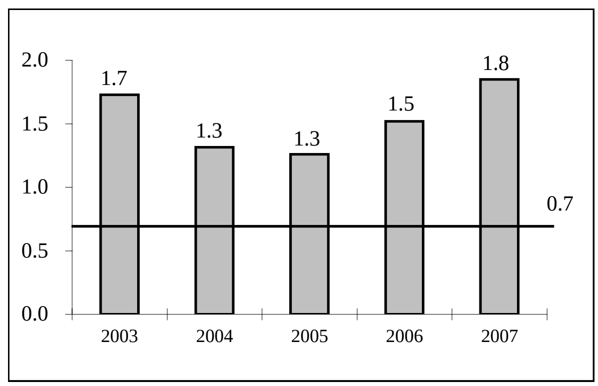
Operating Expense Coverage Ratio



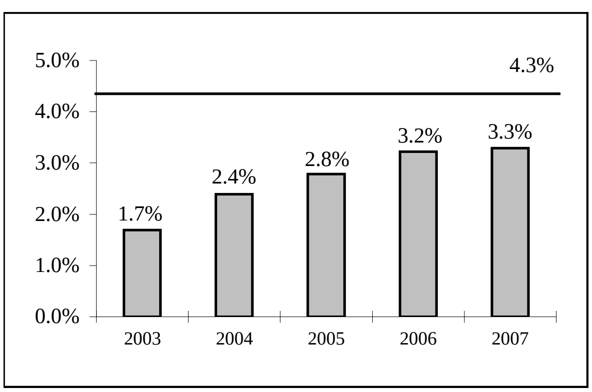
Annual Operating Margin Ratio



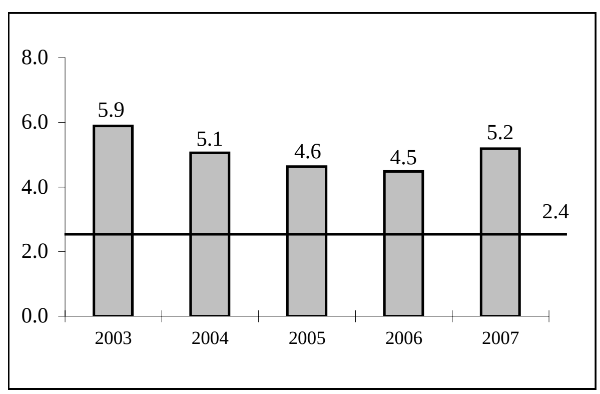
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas M. D. Anderson Cancer Center
2007 Summary of Financial Condition

Composite Financial Index (CFI) - UT M. D. Anderson Cancer Center's (M. D. Anderson) CFI increased from 3.8 in 2006 to 4.9 in 2007 largely as a result of the significant increase in operating performance discussed below, as well as increased appreciation on investments of $56.3 million.

Operating Expense Coverage Ratio - M. D. Anderson's operating expense coverage ratio increased from 2.9 months in 2006 to 3.6 months in 2007 due to a $181.1 million increase in total unrestricted net assets. The increase in total unrestricted net assets was primarily due to an increase in sales and services of hospitals of $192.3 million resulting from increases in billed procedures, bone marrow transplants, surgery hours and billable visits. Additionally, the increase in the fair value of unrestricted investments contributed to the increase in unrestricted net assets.

Annual Operating Margin Ratio - M. D. Anderson's annual operating margin ratio increased from 4.2% for 2006 to 6.9% for 2007. The growth in total operating revenues of $272.3 million continued to outpace the growth in total operating expenses of $191.5 million. In addition to the increase in sales and services of hospitals discussed above, the increase in total operating revenues was also driven by a $36.2 million increase in net professional fees due to $14.1 million of revenue recorded for the Texas Physician Upper Payment Limit (UPL) reimbursements, as well as the affects of Hurricane *Rita* in the first quarter of the prior year. UPL had the largest impact in 2007 as retroactive adjustments from May 2004 through August 2007 were reported. Now that UPL reimbursements are current, only current year reimbursements will be reported going forward.

Total operating expenses increased due to the following: a $96.0 million increase in salaries and wages and a $25.0 million increase in payroll related costs resulting from merit increases, growth in full-time equivalents and higher group insurance premiums; a $48.6 million increase in materials and supplies due to an increase in patient drugs and medical supplies as a result of the increase in hospital sales and services; a $22.1 million increase in professional fees and services as a result of increased contracted services in the areas of facility maintenance/management, information technology, and office and hospital administration resulting from structural and clinical operation expansion; and a $12.0 million increase in depreciation expense primarily due to the depreciation of the following: a) additional software and equipment purchased; b) new additions to existing buildings; and c) Pawnee and UT Research Park storage buildings.

Expendable Resources to Debt Ratio - M. D. Anderson's expendable resources to debt ratio increased from 1.5 in 2006 to 1.8 in 2007. The increase in this ratio was due to the increase in total unrestricted net assets and increased appreciation on permanent endowments.

Debt Burden Ratio - M. D. Anderson's debt burden ratio increased slightly from 3.2% in 2006 to 3.3% in 2007 due to an increase in debt service payments of $7.8 million, which was partially offset by the increase in total operating expenses discussed above.

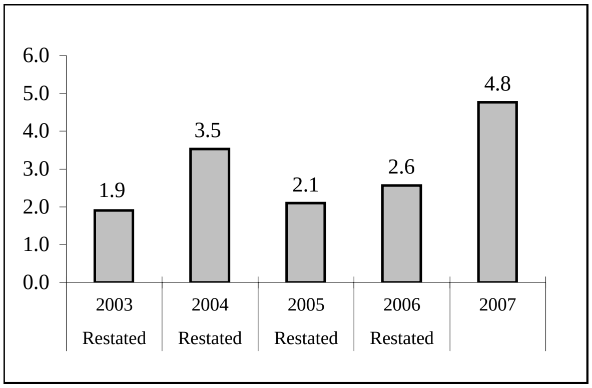
Debt Service Coverage Ratio - M. D. Anderson's debt service coverage ratio increased from 4.5 in 2006 to 5.2 in 2007 due to the strong operating performance discussed in the annual operating margin ratio.

The University of Texas Health Center at Tyler

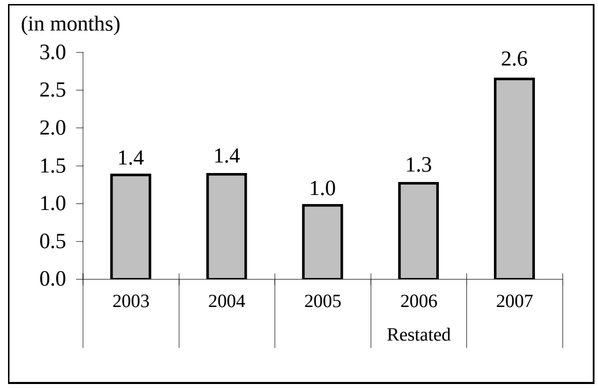
2007 Summary of Financial Condition

Financial Condition: **Satisfactory**

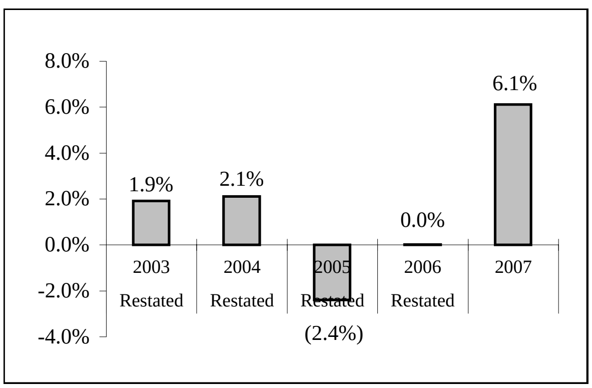
Composite Financial Index



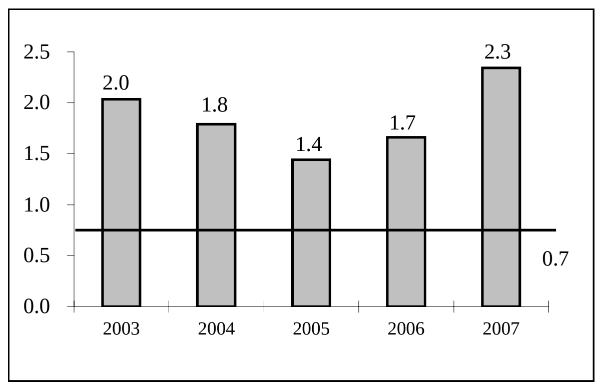
Operating Expense Coverage Ratio



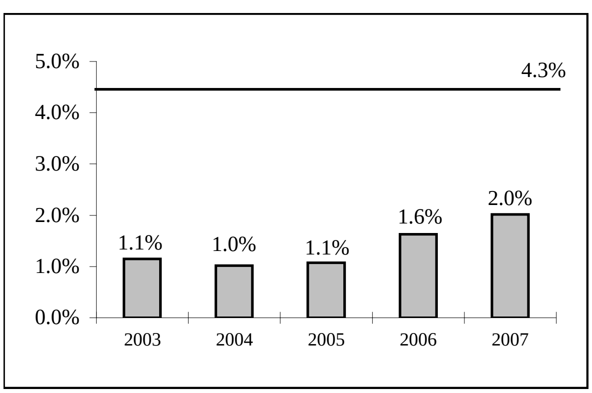
Annual Operating Margin Ratio



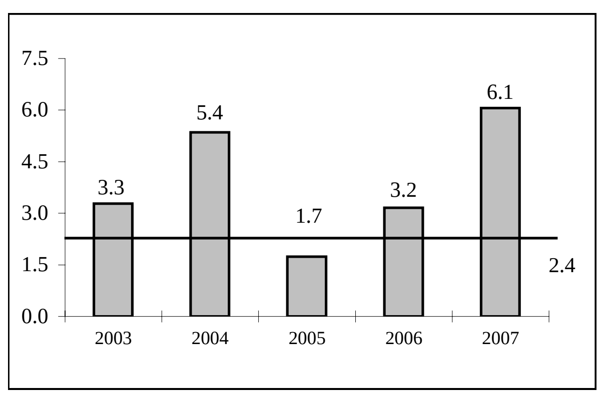
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Health Center at Tyler
2007 Summary of Financial Condition

Composite Financial Index (CFI) - UT Health Center - Tyler's (UTHC-Tyler) CFI increased from 2.6 in 2006 to 4.8 in 2007 largely due to the improved operating performance discussed in further detail below.

Operating Expense Coverage Ratio - UTHC-Tyler's operating expense coverage ratio increased from 1.3 months in 2006 to 2.6 months in 2007 primarily due to an $8.1 million decrease in total operating expenses, which also had a favorable impact on unrestricted net assets. The reduction in total operating expenses was primarily attributable to the following: a $6.9 million decrease in salaries and wages as a result of the elimination of over 200 full-time positions and a new faculty incentive plan where 70% of clinical faculty salaries are contingent upon productivity; and a $2.1 million decrease in materials and supplies attributable to a reduction in indigent patients which resulted in the need for fewer supplies.

Annual Operating Margin Ratio - UTHC-Tyler's annual operating margin ratio increased significantly from break-even for 2006 to 6.1% for 2007, as a result of the reduction in total operating expenses discussed above. UTHC-Tyler also recorded $4.9 million of revenue for the Texas Physician Upper Payment Limit (UPL) reimbursements which almost offset the reduction in operating revenues which resulted form the reduction in force. UPL had the largest impact in 2007 as retroactive adjustments from May 2004 through August 2007 were reported. Now that UPL reimbursements are current, only current year reimbursements will be reported going forward.

UTHC-Tyler's financial statements include the financial structure of the Northeast Texas Consortium (NETnet), which is a network of K-12, community colleges, universities, and health institutions linked together allowing the sharing of classrooms, students, teachers, and professors throughout northeast Texas. Since NETnet is a shared network and not exclusively for UTHC-Tyler's use, the decision was made to exclude NETnet depreciation from this analysis to more accurately reflect the operations of UTHC-Tyler. This decision was made because when it is time to replace the NETnet infrastructure, it will not be UTHC-Tyler's responsibility. Prior year amounts have been restated to make comparisons appropriate.

Expendable Resources to Debt Ratio - UTHC-Tyler's expendable resources to debt ratio increased from 1.7 in 2006 to 2.3 in 2007 primarily due to increases in both total unrestricted net assets and expendable net assets. The reduction in total operating expenses contributed to the growth of total unrestricted net assets. An increase in the appreciation on investments of $2.4 million contributed to the increase in expendable net assets.

Debt Burden Ratio - UTHC-Tyler's debt burden ratio increased from 1.6% in 2006 to 2.0% in 2007. The increase in this ratio was attributable to an increase in debt service payments of $300,000, as well as the reduction in operating expenses previously discussed.

Debt Service Coverage Ratio - UTHC-Tyler's debt service coverage ratio increased from 3.2 in 2006 to 6.1 in 2007 primarily due to the improvement in operating performance as discussed in the annual operating margin ratio above.

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.

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

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

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

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. As published in Moody's Investors Service (Moody's) *Public College and University Medians 2007,* the median for A2 rated institutions is 0.7.

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

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. As published in Moody's *Public College and University Medians 2007,* the median for A2 rated institutions is 4.3%.

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

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 of 4.5% of the prior year's ending total cash and investments. This is the calculation used by Moody's. Therefore, in order to be consistent with the Office of Finance's calculation of the debt service coverage ratio, we used normalized investment income as defined above for this ratio <u>only</u>. As published in Moody's *Public College and University Medians 2007,* the median for A2 rated institutions is 2.4.

$$\textbf{Formula} = \frac{\text{Op. Rev. + Approp. + Op. Gifts + }\overset{\text{Norm.}}{\text{Inv. Inc.}}\text{ + }\overset{\text{RAHC}}{\text{Transfer}}\text{ + }\overset{\text{AUF}}{\text{Transfer}}\text{ +/- }\overset{\text{Texas}}{\text{Ent. Fund}}\text{ – Op. Exp. + Depr. Exp.}}{\text{Debt Service Transfers}}$$

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.

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

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.

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

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 Moody's 2007 A2 medians of 0.7 and 2.4, respectively, while the debt burden ratio should fall below Moody's 2007 A2 median of 4.3%. 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, 2007

UT Arlington

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.55	/	0.133	=	4.15	x	35.0%	=	1.45
Annual Operating Margin	4.13%	/	1.3%	=	3.17	x	10.0%	=	0.32
Return on Net Assets	10.11%	/	2.0%	=	5.06	x	20.0%	=	1.01
Expendable Resources to Debt	0.96	/	0.417	=	2.29	x	35.0%	=	0.80
							CFI		3.6

UT Austin

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	1.38	/	0.133	=	10.37	x	35.0%	=	3.63
Annual Operating Margin	2.70%	/	1.3%	=	2.07	x	10.0%	=	0.21
Return on Net Assets	13.30%	/	2.0%	=	6.65	x	20.0%	=	1.33
Expendable Resources to Debt	2.93	/	0.417	=	7.03	x	35.0%	=	2.46
							CFI		7.6

UT Brownsville

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.24	/	0.133	=	1.82	x	35.0%	=	0.64
Annual Operating Margin	-1.06%	/	1.3%	=	-0.81	x	10.0%	=	-0.08
Return on Net Assets	3.95%	/	2.0%	=	1.98	x	20.0%	=	0.40
Expendable Resources to Debt	0.86	/	0.417	=	2.05	x	35.0%	=	0.72
							CFI		1.7

UT Dallas

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	1.24	/	0.133	=	9.30	x	35.0%	=	3.25
Annual Operating Margin	-0.13%	/	1.3%	=	-0.10	x	10.0%	=	-0.01
Return on Net Assets	10.06%	/	2.0%	=	5.03	x	20.0%	=	1.01
Expendable Resources to Debt	2.08	/	0.417	=	4.99	x	35.0%	=	1.75
							CFI		6.0

UT El Paso

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.59	/	0.133	=	4.44	x	35.0%	=	1.56
Annual Operating Margin	2.39%	/	1.3%	=	1.84	x	10.0%	=	0.18
Return on Net Assets	10.65%	/	2.0%	=	5.32	x	20.0%	=	1.06
Expendable Resources to Debt	1.53	/	0.417	=	3.67	x	35.0%	=	1.28
							CFI		4.1

Appendix B - Calculation of Composite Financial Index
Academic Institutions
As of August 31, 2007
(continued)

UT Pan American

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.39	/	0.133	=	2.90	x	35.0%	=	1.02
Annual Operating Margin	-3.98%	/	1.3%	=	-3.06	x	10.0%	=	-0.31
Return on Net Assets	3.92%	/	2.0%	=	1.96	x	20.0%	=	0.39
Expendable Resources to Debt	0.89	/	0.417	=	2.13	x	35.0%	=	0.74
							CFI		1.8

UT Permian Basin

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.48	/	0.133	=	3.62	x	35.0%	=	1.27
Annual Operating Margin	-2.28%	/	1.3%	=	-1.75	x	10.0%	=	-0.18
Return on Net Assets	5.37%	/	2.0%	=	2.69	x	20.0%	=	0.54
Expendable Resources to Debt	0.50	/	0.417	=	1.19	x	35.0%	=	0.42
							CFI		2.0

UT San Antonio

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.57	/	0.133	=	4.29	x	35.0%	=	1.50
Annual Operating Margin	8.42%	/	1.3%	=	6.47	x	10.0%	=	0.65
Return on Net Assets	16.88%	/	2.0%	=	8.44	x	20.0%	=	1.69
Expendable Resources to Debt	0.65	/	0.417	=	1.55	x	35.0%	=	0.54
							CFI		4.4

UT Tyler

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.95	/	0.133	=	7.16	x	35.0%	=	2.51
Annual Operating Margin	-0.59%	/	1.3%	=	-0.45	x	10.0%	=	-0.05
Return on Net Assets	11.37%	/	2.0%	=	5.68	x	20.0%	=	1.14
Expendable Resources to Debt	1.31	/	0.417	=	3.13	x	35.0%	=	1.10
							CFI		4.7

Appendix B - Calculation of Composite Financial Index
Health Institutions
As of August 31, 2007

Southwestern

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.98	/	0.133	=	7.40	x	35.0%	=	2.59
Annual Operating Margin	7.11%	/	1.3%	=	5.47	x	10.0%	=	0.55
Return on Net Assets	13.47%	/	2.0%	=	6.73	x	20.0%	=	1.35
Expendable Resources to Debt	2.56	/	0.417	=	6.15	x	35.0%	=	2.15
							CFI		6.6

UTMB

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.30	/	0.133	=	2.24	x	35.0%	=	0.78
Annual Operating Margin	0.24%	/	1.3%	=	0.18	x	10.0%	=	0.02
Return on Net Assets	15.79%	/	2.0%	=	7.89	x	20.0%	=	1.58
Expendable Resources to Debt	3.28	/	0.417	=	7.86	x	35.0%	=	2.75
							CFI		5.1

UTHSC-Houston

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.60	/	0.133	=	4.49	x	35.0%	=	1.57
Annual Operating Margin	3.27%	/	1.3%	=	2.52	x	10.0%	=	0.25
Return on Net Assets	15.08%	/	2.0%	=	7.54	x	20.0%	=	1.51
Expendable Resources to Debt	2.07	/	0.417	=	4.97	x	35.0%	=	1.74
							CFI		5.1

UTHSC-San Antonio

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.84	/	0.133	=	6.28	x	35.0%	=	2.20
Annual Operating Margin	4.78%	/	1.3%	=	3.68	x	10.0%	=	0.37
Return on Net Assets	14.81%	/	2.0%	=	7.41	x	20.0%	=	1.48
Expendable Resources to Debt	2.45	/	0.417	=	5.87	x	35.0%	=	2.05
							CFI		6.1

M. D. Anderson

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.54	/	0.133	=	4.06	x	35.0%	=	1.42
Annual Operating Margin	6.91%	/	1.3%	=	5.31	x	10.0%	=	0.53
Return on Net Assets	14.35%	/	2.0%	=	7.18	x	20.0%	=	1.44
Expendable Resources to Debt	1.85	/	0.417	=	4.43	x	35.0%	=	1.55
							CFI		4.9

UTHC-Tyler

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.41	/	0.133	=	3.07	x	35.0%	=	1.07
Annual Operating Margin	6.11%	/	1.3%	=	4.70	x	10.0%	=	0.47
Return on Net Assets	12.53%	/	2.0%	=	6.26	x	20.0%	=	1.25
Expendable Resources to Debt	2.34	/	0.417	=	5.62	x	35.0%	=	1.97
							CFI		4.8

Appendix C - Calculation of Expendable Net Assets
Academic Institutions
As of August 31, 2007
(In Millions)

Institution	Restricted Expendable Net Assets: Capital Projects	Restricted Expendable Net Assets: Funds Functioning Restricted	Restricted Expendable Net Assets: Other Expendable	Restricted Expendable Net Assets: Total	Total Unrestricted Net Assets	Total Expendable Net Assets
UT Arlington	$ 7.7	2.3	46.7	56.7	125.8	182.5
UT Austin	183.7	122.9	1,702.0	2,008.6	440.0	2,448.6
UT Brownsville	1.2	-	6.5	7.7	25.1	32.8
UT Dallas	28.5	4.9	214.0	247.4	62.1	309.5
UT El Paso	9.8	6.3	104.7	120.8	42.8	163.6
UT Pan American	0.4	1.3	23.3	25.0	54.6	79.6
UT Permian Basin	0.7	-	15.6	16.4	2.2	18.5
UT San Antonio	8.2	0.7	41.0	50.0	133.5	183.4
UT Tyler	4.1	0.4	41.6	46.1	22.1	68.2

Appendix C - Calculation of Expendable Net Assets
Health Institutions
As of August 31, 2007
(In Millions)

Institution	Restricted Expendable Net Assets: Capital Projects	Restricted Expendable Net Assets: Funds Functioning Restricted	Restricted Expendable Net Assets: Other Expendable	Restricted Expendable Net Assets: Total	Total Unrestricted Net Assets	Total Expendable Net Assets
Southwestern	$ 23.8	25.2	759.6	808.6	447.4	1,256.0
UTMB	19.1	19.7	225.6	264.5	164.3	428.8
UTHSC-Houston	37.0	9.9	156.4	203.4	206.9	410.3
UTHSC-San Antonio	77.2	6.6	243.1	326.9	139.3	466.3
M. D. Anderson	138.5	27.9	419.6	586.0	708.9	1,294.9
UTHC-Tyler	1.4	0.8	19.7	21.9	24.7	46.7

Appendix D - Calculation of Annual Operating Margin
Academic Institutions
As of August 31, 2007
(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	$ 35.5	-	-	(0.1)	15.1	20.5	-	-	-	-	-	(6.2)	14.2
UT Austin	314.3	6.2	(2.5)	(7.1)	363.5	(45.8)	5.5	127.6	-	-	-	(27.1)	49.2
UT Brownsville	1.7	-	-	-	2.2	(0.5)	0.2	-	-	-	0.9	(1.7)	(1.4)
UT Dallas	34.1	-	-	(0.3)	28.1	6.4	0.4	-	4.1	(4.2)	-	(6.2)	(0.3)
UT El Paso	29.1	-	-	-	18.0	11.2	1.4	-	-	-	-	(3.0)	6.8
UT Pan American	0.4	-	-	-	5.6	(5.7)	0.8	-	-	-	1.9	(3.3)	(7.9)
UT Permian Basin	1.4	-	-	-	0.6	0.9	0.1	-	-	-	-	(1.6)	(0.9)
UT San Antonio	50.1	-	-	(0.1)	12.5	37.7	2.4	-	-	-	-	(5.8)	29.5
UT Tyler	9.8	-	-	-	8.1	1.7	-	-	-	-	-	(2.2)	(0.4)

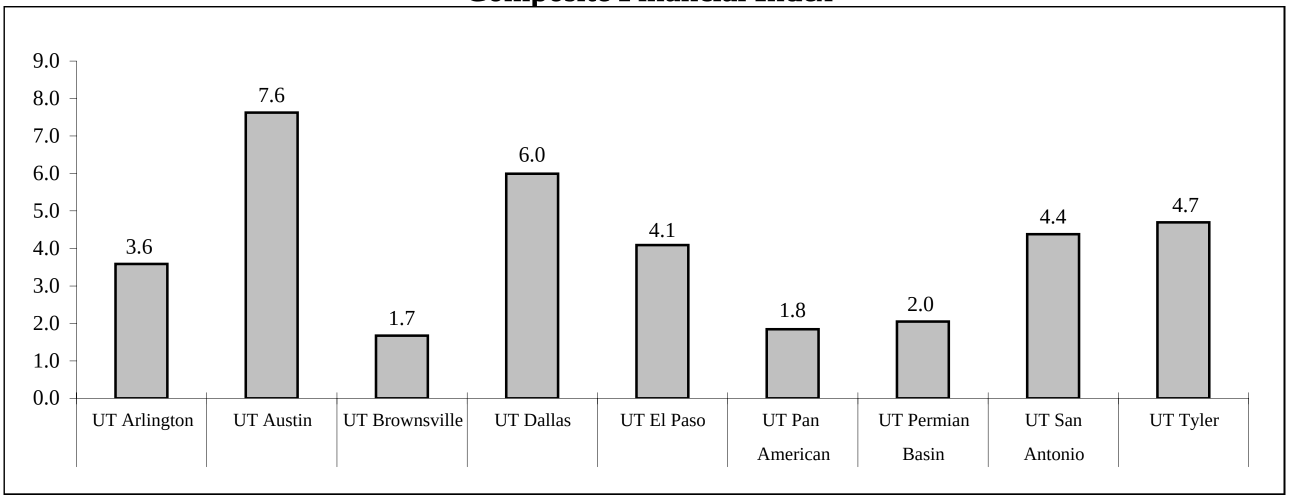
Appendix D - Calculation of Annual Operating Margin
Health Institutions
As of August 31, 2007
(In Millions)

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	Plus: Interest Expense	Annual Operating Margin
Southwestern	$ 251.3	0.9	-	(2.7)	134.0	119.0	0.8	-	-	(20.5)	97.7
UTMB	76.1	0.4	(0.1)	(0.8)	61.6	15.1	7.0	-	-	(4.7)	3.4
UTHSC-Houston	71.9	4.4	(0.3)	1.6	32.6	33.7	4.1	-	0.6	(6.9)	23.2
UTHSC-San Antonio	78.0	-	-	(1.3)	49.7	29.6	1.2	-	0.6	(1.0)	28.1
M. D. Anderson	310.2	0.3	-	(1.0)	107.3	203.5	0.2	-	-	(25.6)	177.8
UTHC-Tyler	10.6	-	-	-	4.9	5.7	-	2.4	-	(0.8)	7.3

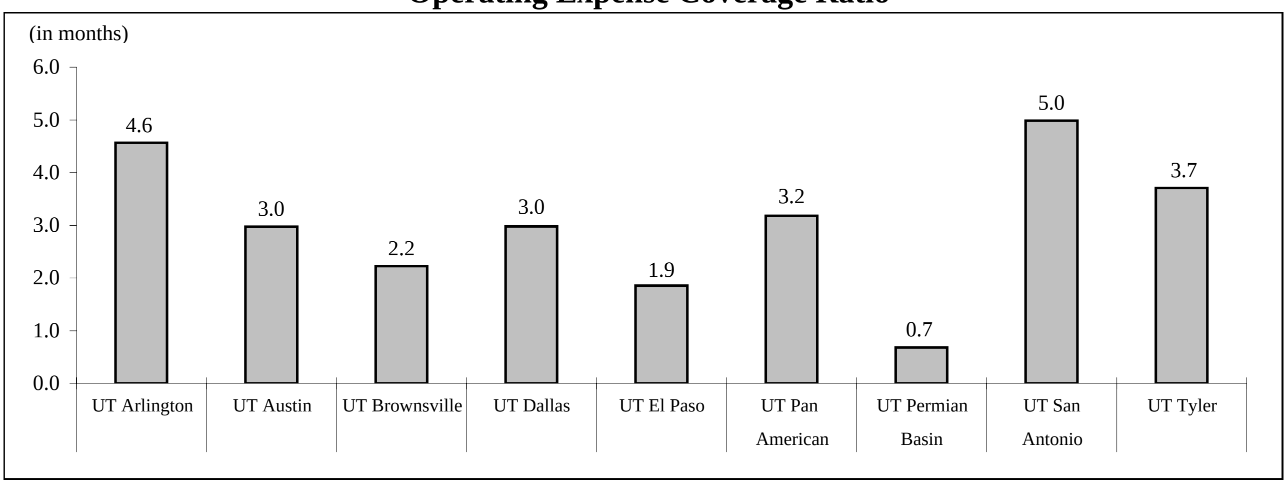
Appendix E - Academic Institutions' Evaluation Factors

2007 Analysis of Financial Condition

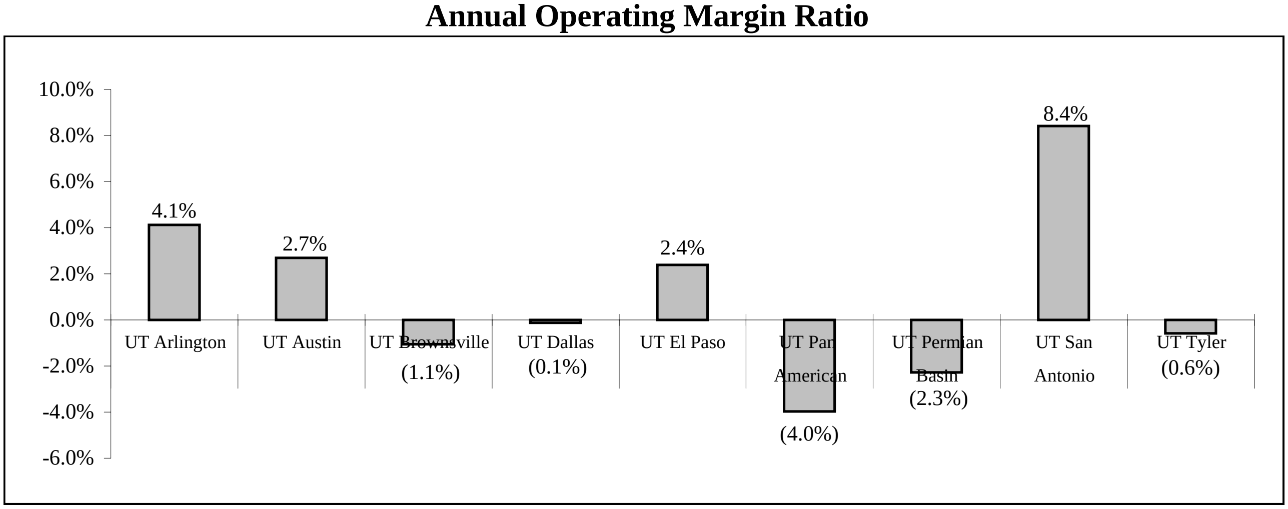
Composite Financial Index



Operating Expense Coverage Ratio

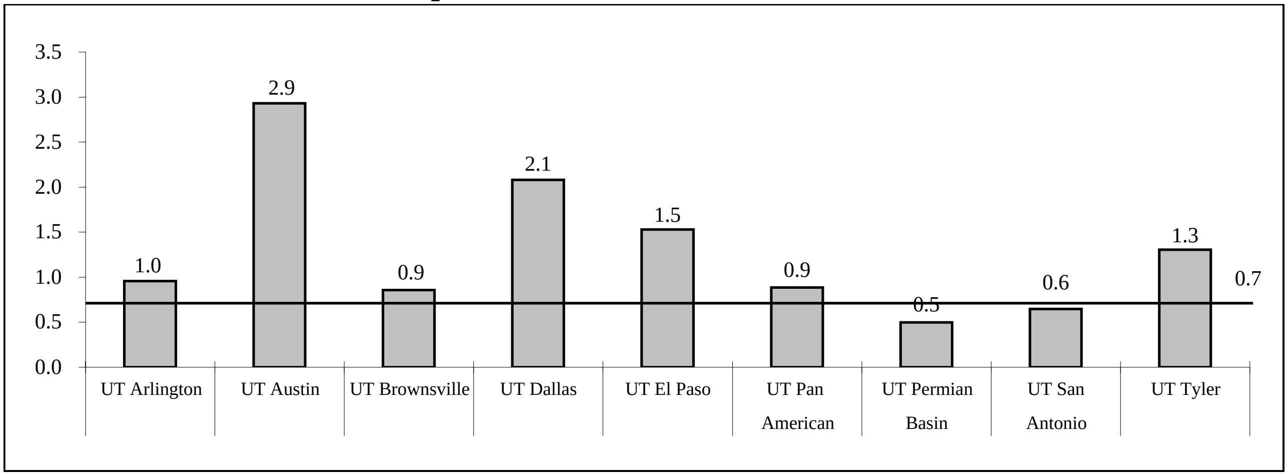


Annual Operating Margin Ratio

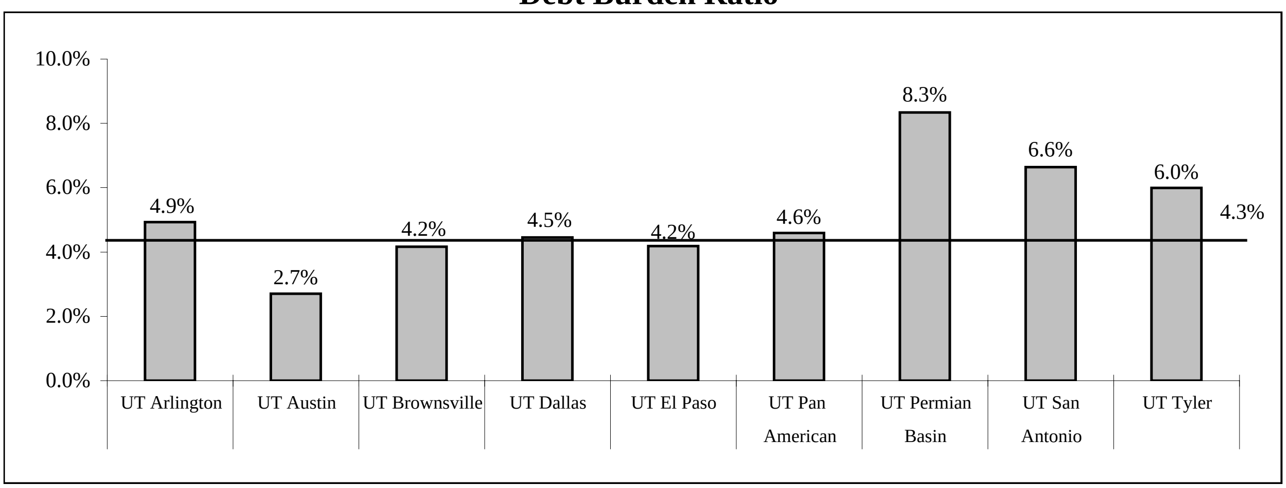


Appendix E - Academic Institutions' Evaluation Factors
2007 Analysis of Financial Condition

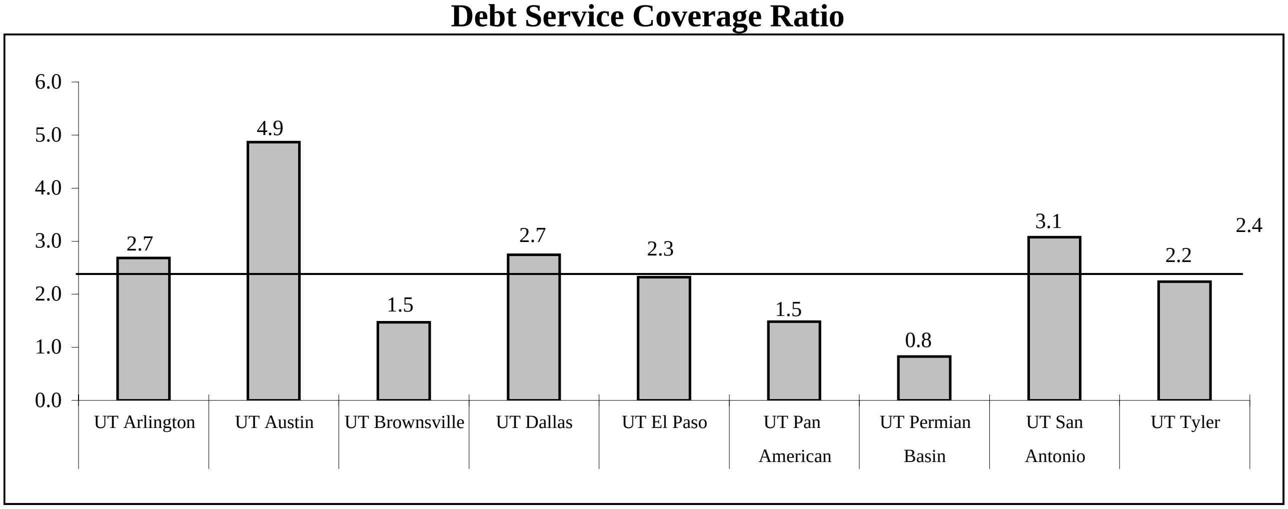
Expendable Resources to Debt Ratio



Debt Burden Ratio

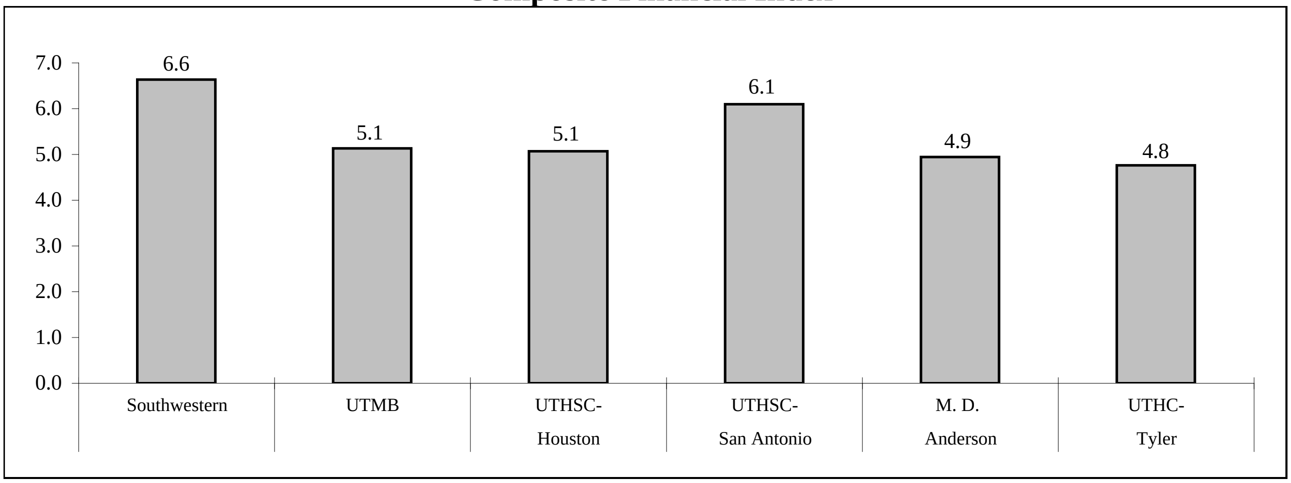


Debt Service Coverage Ratio

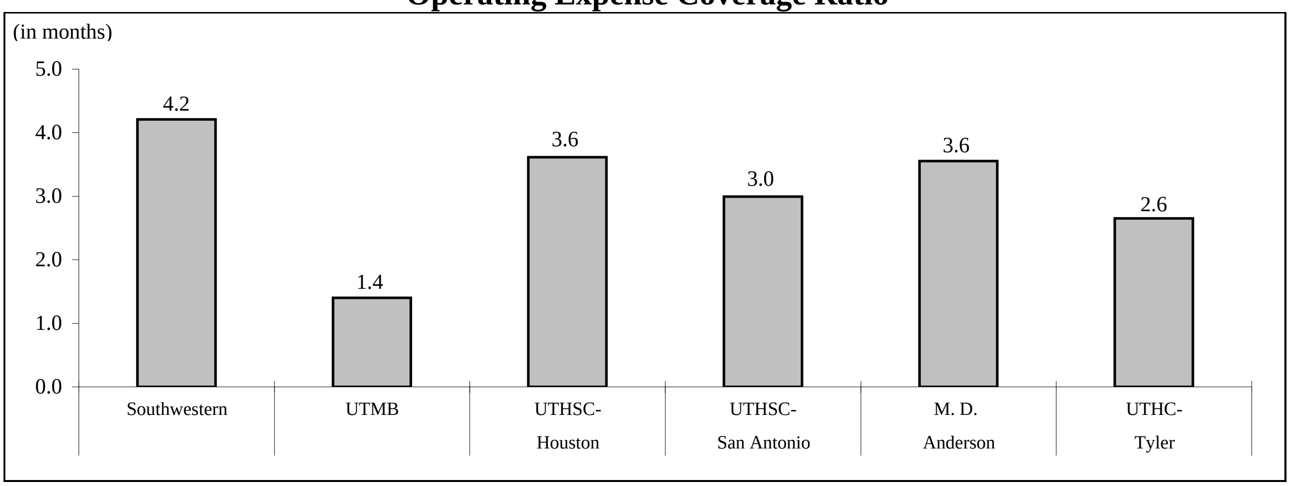


Appendix E - Health Institutions' Evaluation Factors
2007 Analysis of Financial Condition

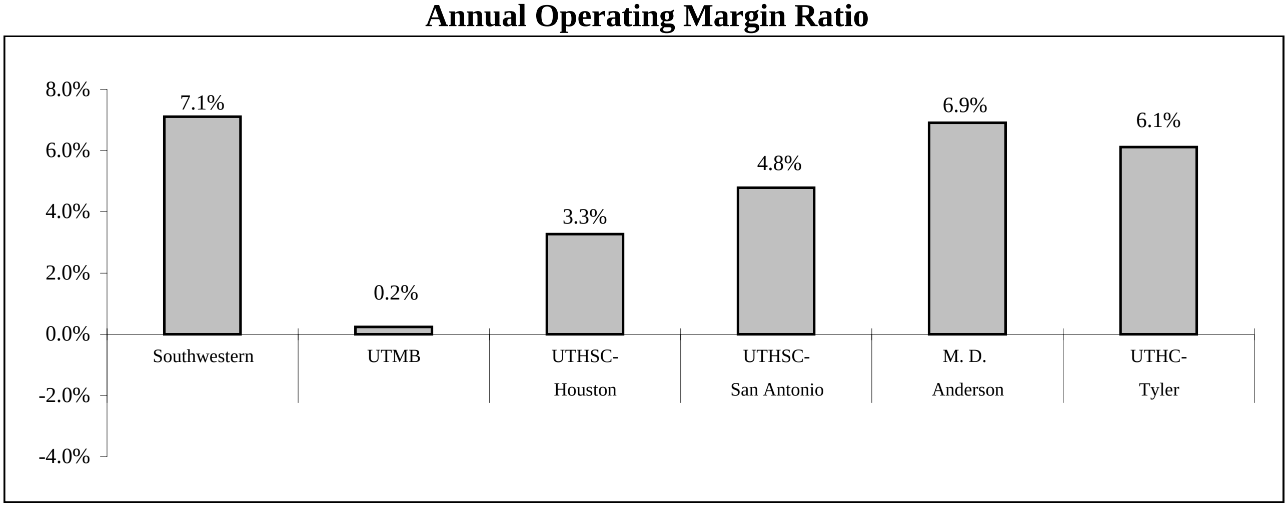
Composite Financial Index



Operating Expense Coverage Ratio

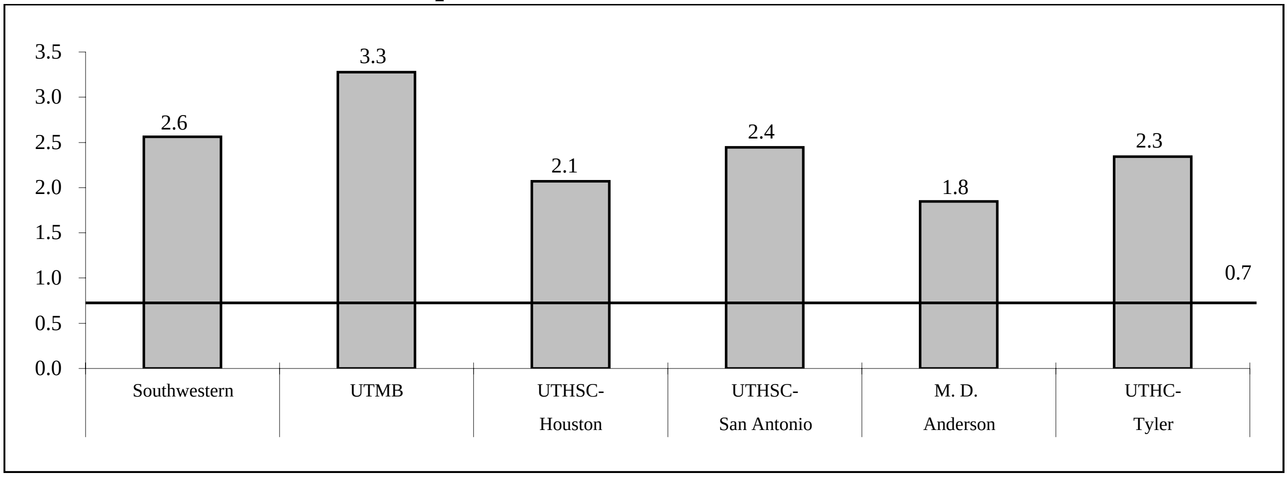


Annual Operating Margin Ratio

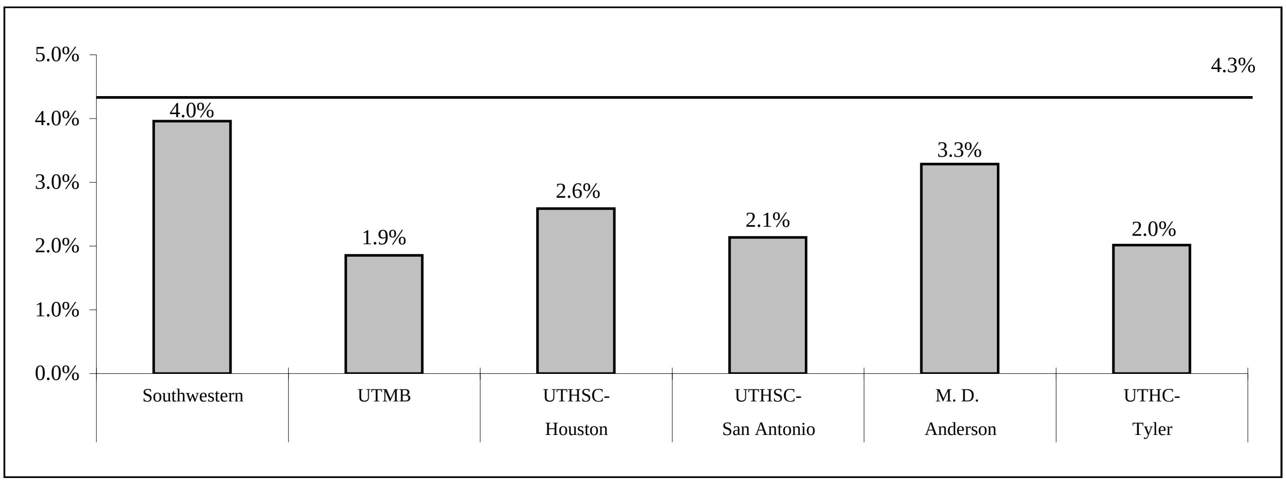


Appendix E - Health Institutions' Evaluation Factors
2007 Analysis of Financial Condition

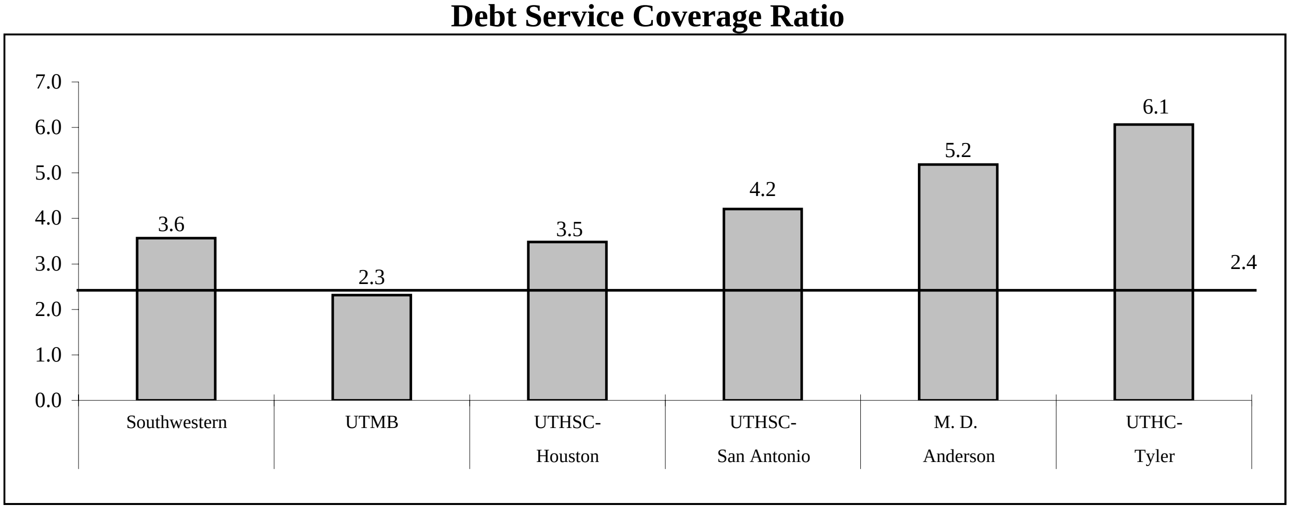
Expendable Resources to Debt Ratio



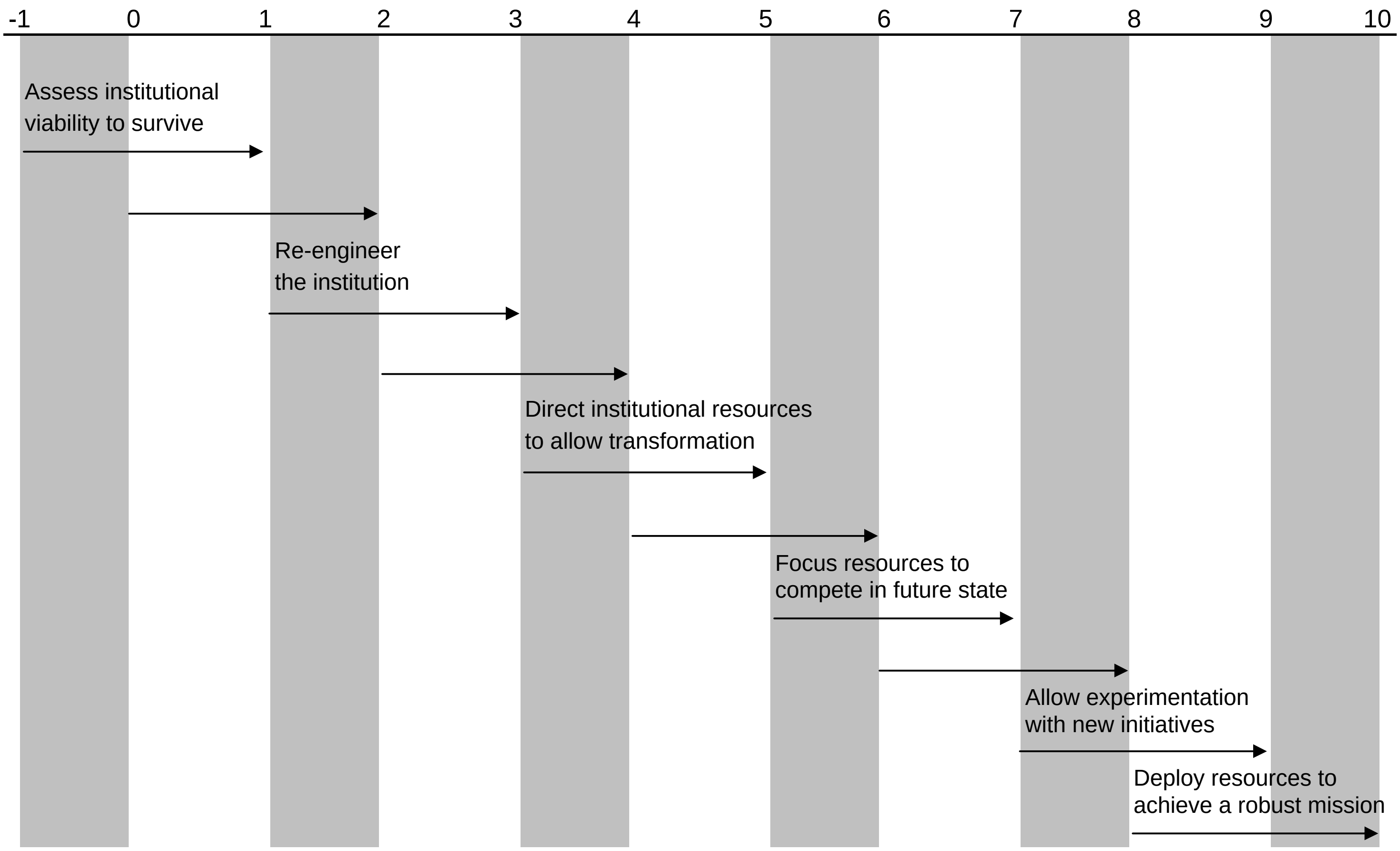
Debt Burden Ratio



Debt Service Coverage Ratio



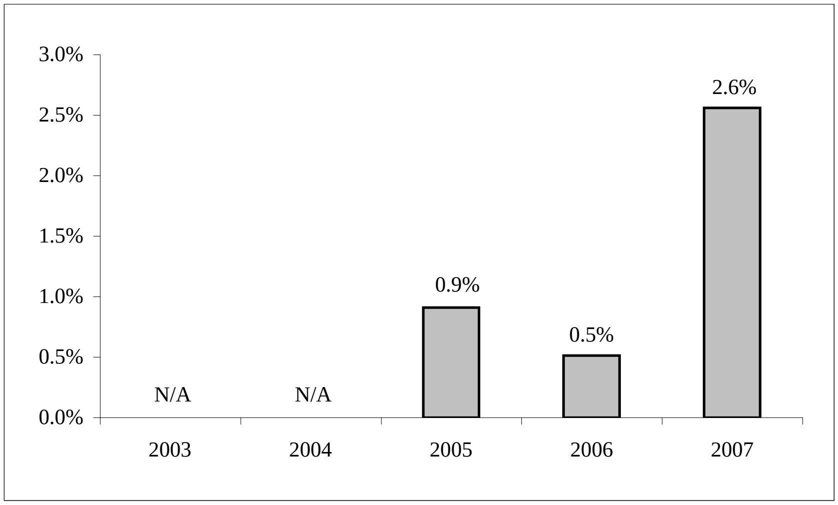
Appendix F - Scale for Charting CFI Performance



Appendix G - Key Hospital Operating Factors

The University of Texas Southwestern Medical Center at Dallas

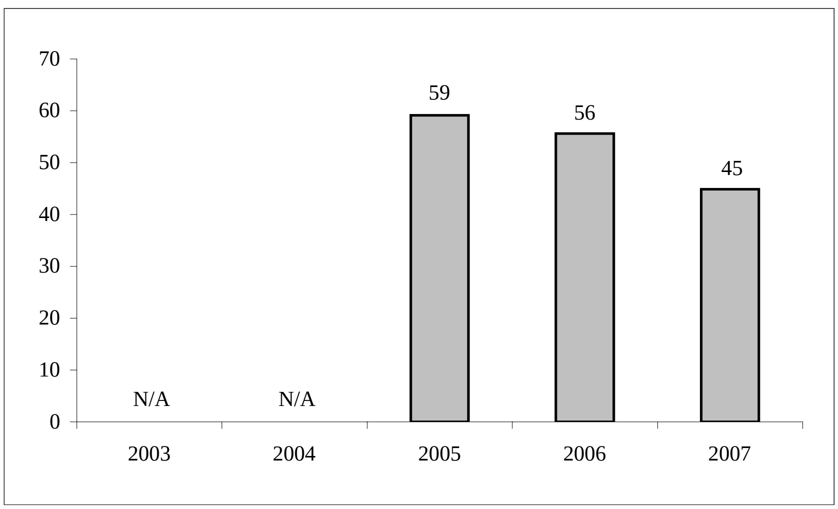
Annual Operating Margin Ratio



The 2007 operating margin includes a $1.2 million increase in the Zale Lipshy University Hospital charity settlement as compared to 2006. The operating margin for 2007 also includes $1.6 million in operating gifts.

Net revenue increased as a result of increased admissions (496), increased surgeries (571) and increased outpatient visits (8,084) in 2007. In addition, charges increased 6%.

Net Accounts Receivable (in days)

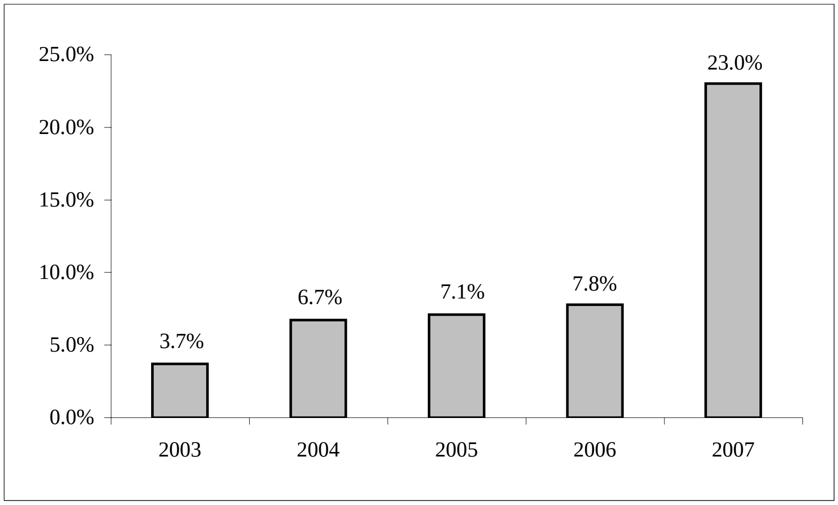


The decrease in net accounts receivable days was due to a $15.0 million increase in cash collections, as well as an increase in the commercial payor mix.

Appendix G - Key MSRDP & NPHC Operating Factors

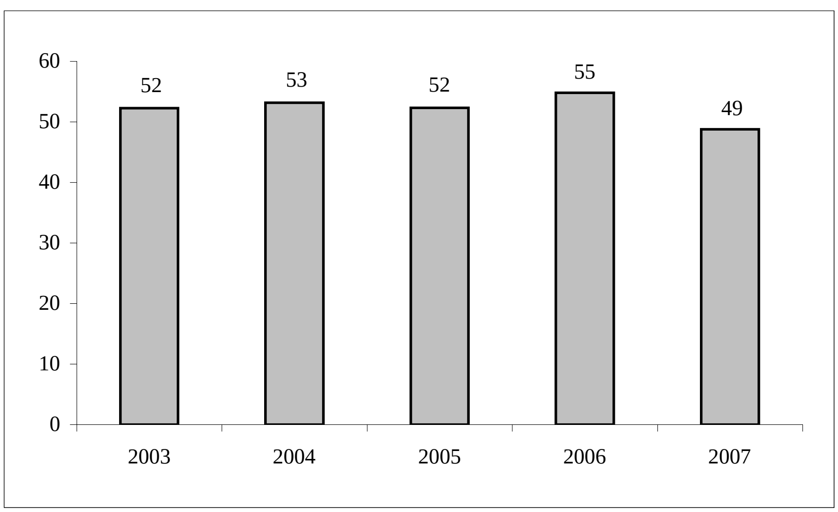
The University of Texas Southwestern Medical Center at Dallas

Annual Operating Margin Ratio



The annual operating margin increased from 7.8% for 2006 to 23.0% for 2007 primarily due to revenue of $75.8 million recorded for the Texas Physician Upper Payment Limit (UPL) reimbursements. UPL had the largest impact in 2007 as retroactive adjustments from May 2004 through August 2007 were reported. Now that UPL reimbursements are current, only current year reimbursements will be reported going forward. Additionally, contractual revenues increased $14.4 million as a result of increases in the contracts with the Children's Medical Center and Parkland Hospital. In 2007 Southwestern also received a professional liability insurance (PLI) rebate of $5.0 million, which was $1.6 million more than the PLI rebate in 2006.

Net Accounts Receivable (in days)

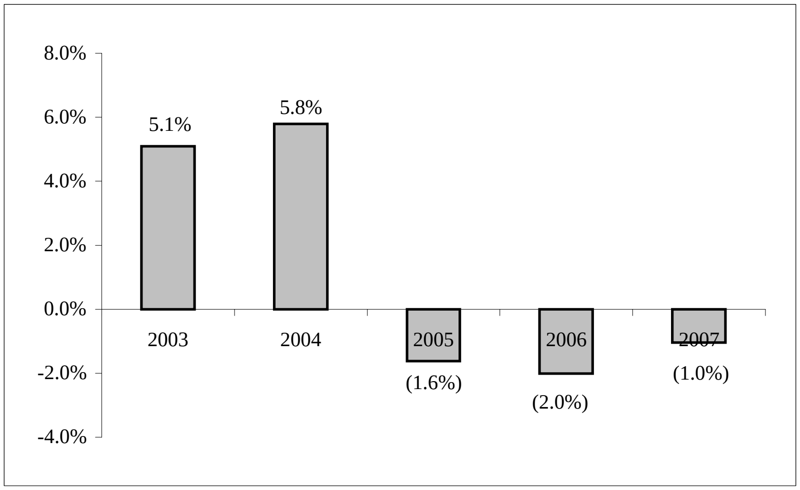


The decrease in net accounts receivable days was due to the increase in net revenue caused by the UPL reimbursements which were recorded as a reduction of charitable allowances.

Appendix G - Key Hospital Operating Factors

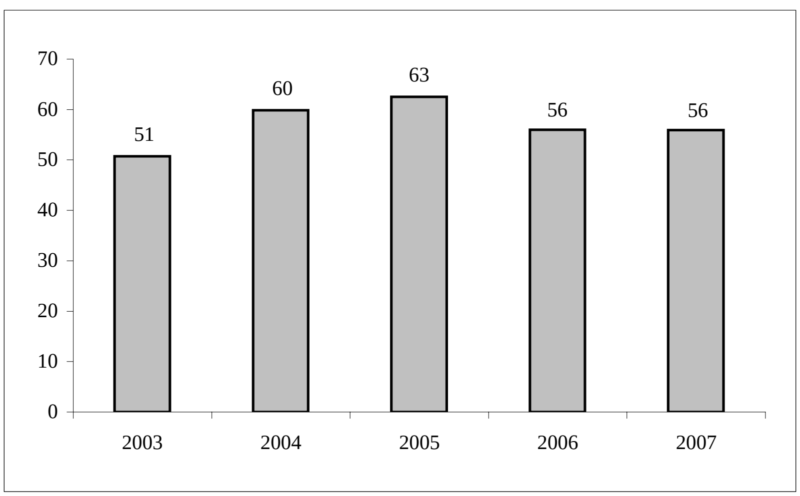
The University of Texas Medical Branch at Galveston

Annual Operating Margin Ratio



UTMB Hospitals and Clinics' operating margin increased by 1.0% between years. In 2007, the Hospitals and Clinics received $9.8 million from the Texas State Legislature as compensation for costs incurred in 2006 due to Hurricane *Rita*. The Hurricane *Rita* relief of $13.1 million was shared between the hospital and the School of Medicine. After adjusting for the Hurricane *Rita* relief and the hurricane loss in 2006, the margin declined by 2.9% between years. The annual operating margins after the above adjustments would have been (2.7%) in 2007 compared to 0.2% in 2006. The Hospitals and Clinics experienced a significant decline and shift in patient volumes in 2007, which adversely impacted patient care revenue and operating margins by $14.2 million. Overall, patient volumes were down by 2.2% and Medicare volume (one of UTMB's better payors) was down by 11.2%. The Hospitals and Clinics continued to operate in a challenging environment where revenue increases, particularly in government sponsored programs, fall short of healthcare expense inflation.

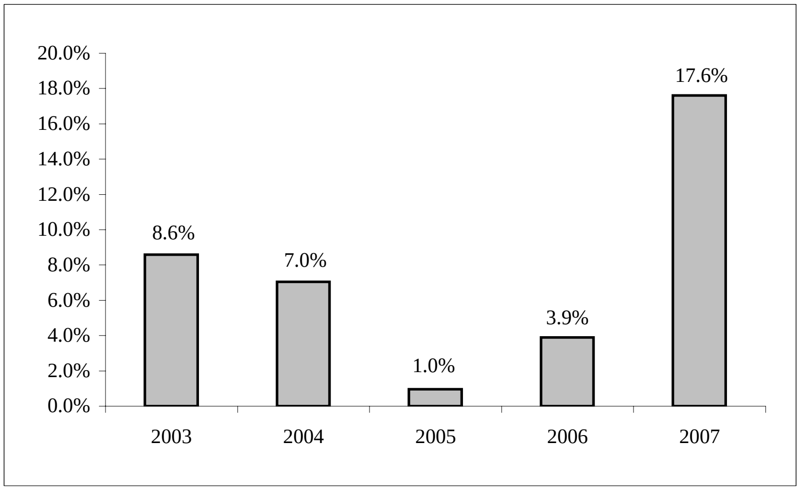
Net Accounts Receivable (in days)



The net accounts receivable days remained unchanged in 2007. UTMB Hospitals and Clinics were able to maintain the 2006 improvements in collection processes. UTMB Hospitals and Clinics continually strive to implement strategies to enhance collection efforts and improve the overall quality of outstanding accounts receivable.

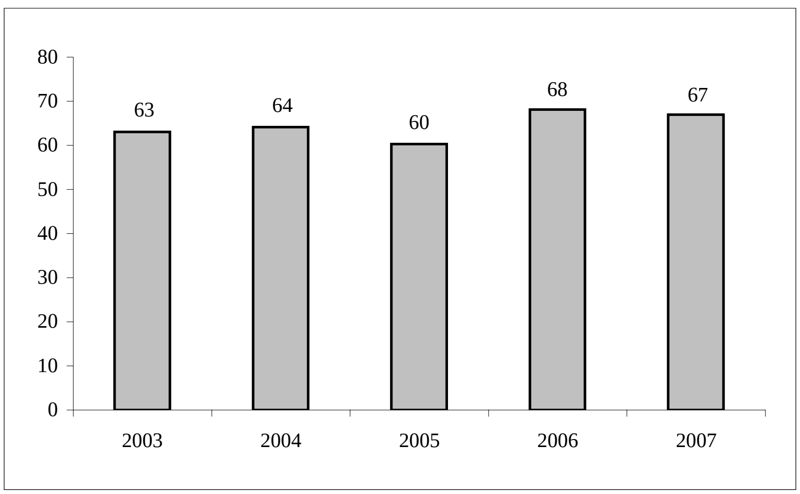
Appendix G - Key MSRDP & NPHC Operating Factors
The University of Texas Medical Branch at Galveston

Annual Operating Margin Ratio



The significant improvement in the annual operating margin from 3.9% in 2006 to 17.6% in 2007 was primarily attributable to revenue of $35 million recorded for the Texas Physician Upper Payment Limit (UPL) reimbursements. UPL had the largest impact in 2007 as retroactive adjustments from May 2004 through August 2007 were reported. Now that UPL reimbursements are current, only current year reimbursements will be reported going forward. In addition, UTMB received a professional liability insurance (PLI) rebate of $6.8 million in 2007, which was $2.1 million more than the PLI rebate received in 2006.

Net Accounts Receivable (in days)

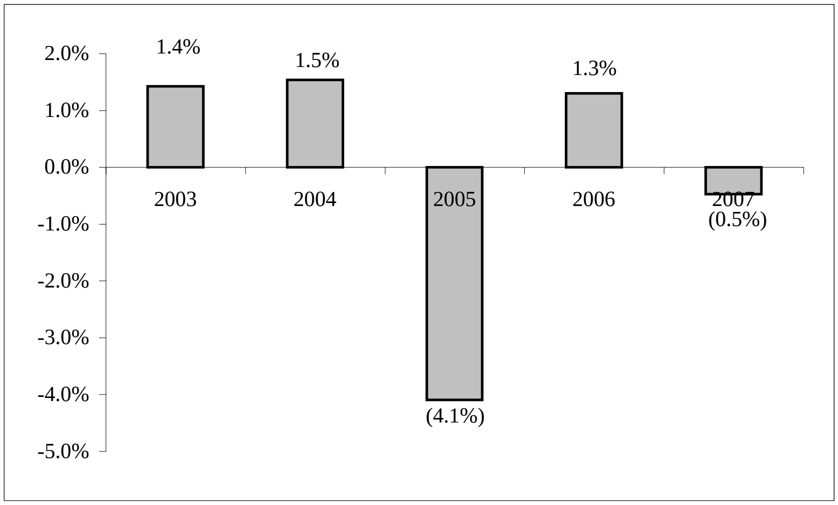


Net accounts receivable (in days) declined slightly from 68 days to 67 days in 2007 as revenue cycle improvements were implemented.

Appendix G - Key Hospital Operating Factors

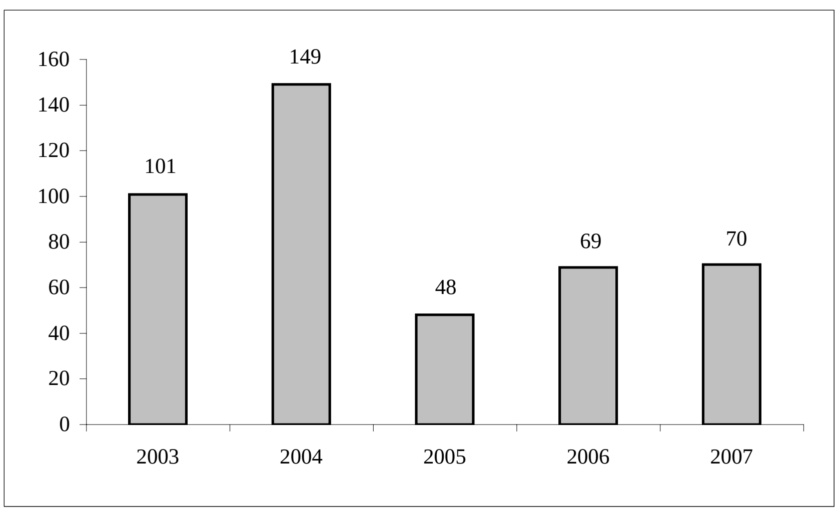
The University of Texas Health Science Center at Houston

Annual Operating Margin Ratio



The operating deficit of $0.2 million reflects the impact of the nationwide suspension of Psychiatric Medicare payments during a portion of 2007. The federal government has now resumed payment of these charges.

Net Accounts Receivable (in days)

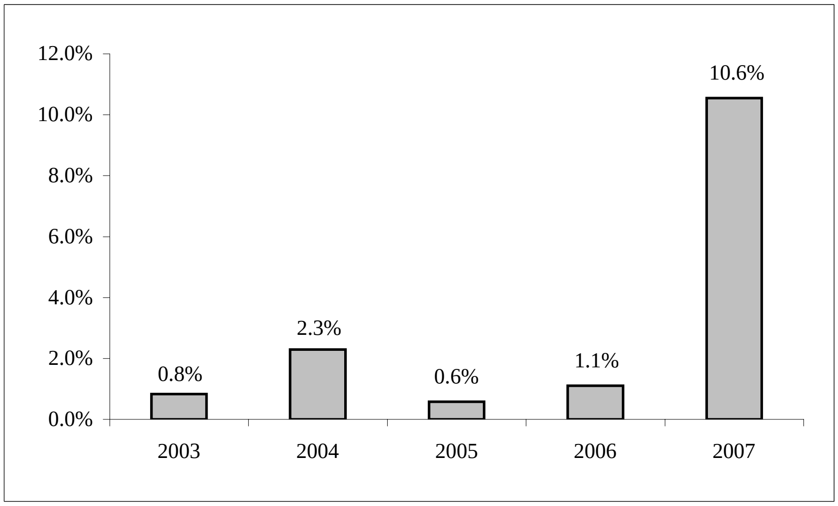


The days in net accounts receivable in 2007 illustrates the continuance of a three year trend of more aggressive accounts receivable management.

Appendix G - Key MSRDP & NPHC Operating Factors

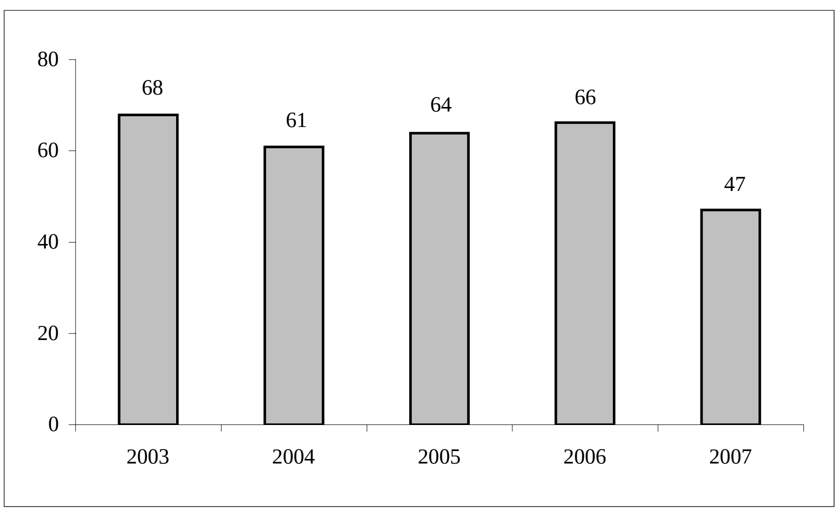
The University of Texas Health Science Center at Houston

Annual Operating Margin Ratio



The increase in the annual operating margin ratio from 1.1% for 2006 to 10.6% for 2007 was due to $25.9 million of revenue recorded for the Texas Physician Upper Payment Limit (UPL). UPL had the largest impact in 2007 as retroactive adjustments from May 2004 through August 2007 were reported. Now that UPL reimbursements are current, only current year reimbursements will be reported going forward. UTHSC-Houston also received a professional liability insurance (PLI) rebate of $5.0 million in 2007 as compared to $3.6 million in 2006. Without the UPL revenue and the PLI rebate, the practice plan would have reported an operating deficit of $8.0 million or (4.2%). The operating deficit, excluding the UPL revenue and PLI rebate, was attributable to the declining payor mix and the departure of a number of faculty in several departments, including Surgery, Neurosurgery, Otolaryngology, and Orthopaedics. Recruitment for faculty in these areas has occurred or is underway.

Net Accounts Receivable (in days)

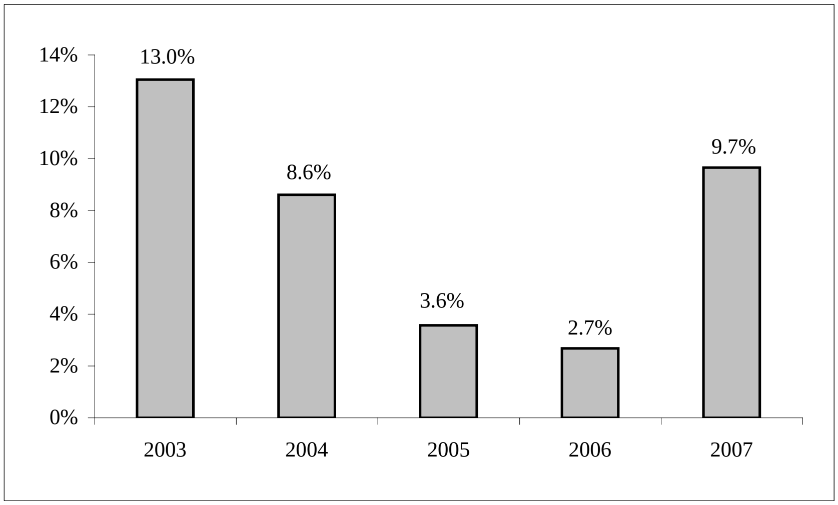


The decrease in the net accounts receivable (in days) was due to the recognition of $25.9 million in UPL revenue, as discussed in the annual operating margin ratio above. Without the UPL revenue, the net accounts receivable would be approximately 59 days. The decline was the result of a lower net accounts receivable value. The accounts receivable value decreased due to lower charge volumes resulting from the departure of some faculty in 2007 and due to the declining payor mix.

Appendix G - Key MSRDP & NPHC Operating Factors

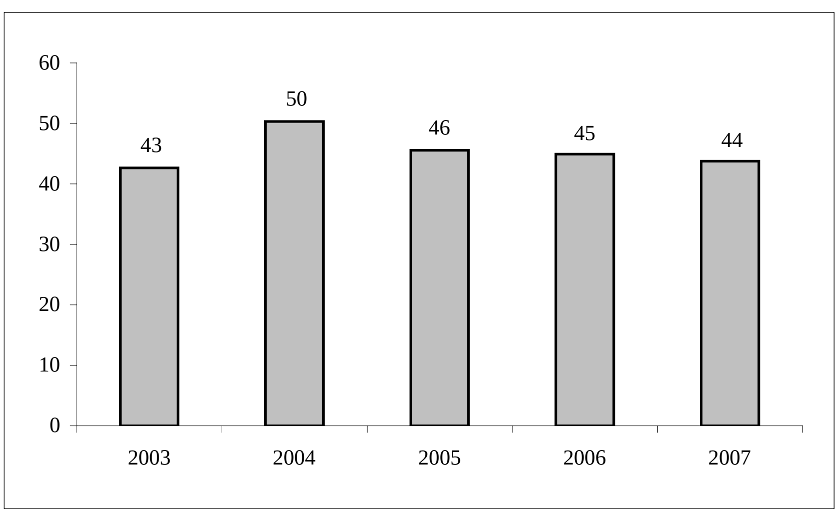
The University of Texas Health Science Center at San Antonio

Annual Operating Margin Ratio



UTHSC-San Antonio recorded revenue of $14.8 million for the Texas Physician Upper Payment Limit (UPL) in 2007 to defray costs associated with providing uncompensated health care. UPL had the largest impact in 2007 as retroactive adjustments from May 2004 through August 2007 were reported. Now that UPL reimbursements are current, only current year reimbursements will be reported going forward. In 2007 UTHSC-San Antonio also received a professional liability insurance (PLI) rebate of $4.6 million which was $1.5 million higher than the prior year. UTHSC-San Antonio continues to reinvest incremental revenues towards recruitment efforts of new faculty and chairs, addressing faculty compensation issues, fulfilling increases in service contract requirements, and the expansion of programs and departments including start-up costs associated with the new ambulatory clinic. This investment is anticipated to increase future operations.

Net Accounts Receivable (in days)

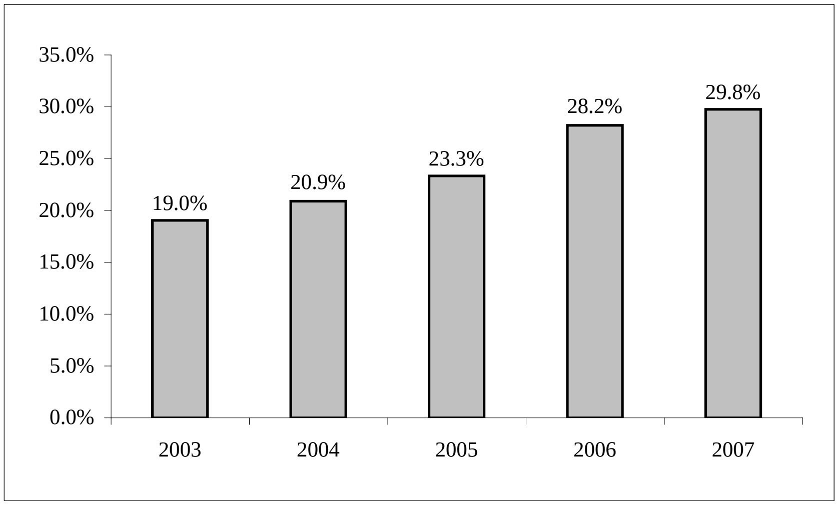


The billing function within UTHSC-San Antonio's nonprofit healthcare corporation, UT Medicine-San Antonio, continues to improve collection efforts and efficieincies through electronic front-end verifictation processes and claims software resulting in lower denial rates and faster payments.

Appendix G - Key Hospital Operating Factors

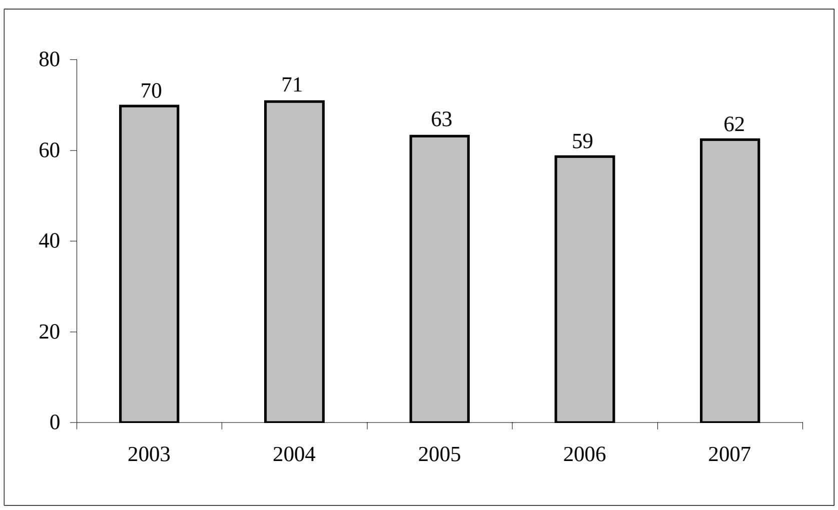
The University of Texas M. D. Anderson Cancer Center

Annual Operating Margin Ratio



The increase in the annual operating margin of 1.6% from prior year was the result of continued growth in patient volumes and the overall increase in the number of billable procedures in 2007.

Net Accounts Receivable (in days)

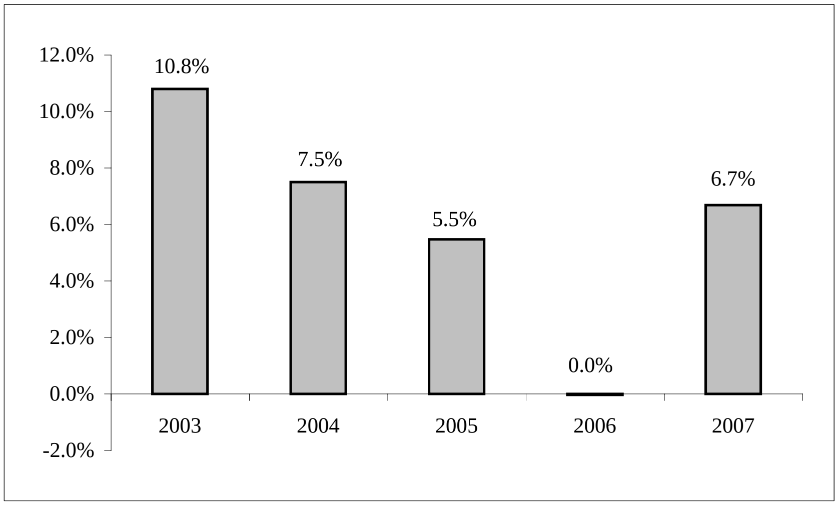


The increase in days in accounts receivable was attributed to a rate increase of nearly 5% and the elimination of insurance recovery services, which saved commission rate payments for external collections, but caused accounts receivable to increase slightly during the transition period in the fourth quarter of 2007.

Appendix G - Key MSRDP & NPHC Operating Factors

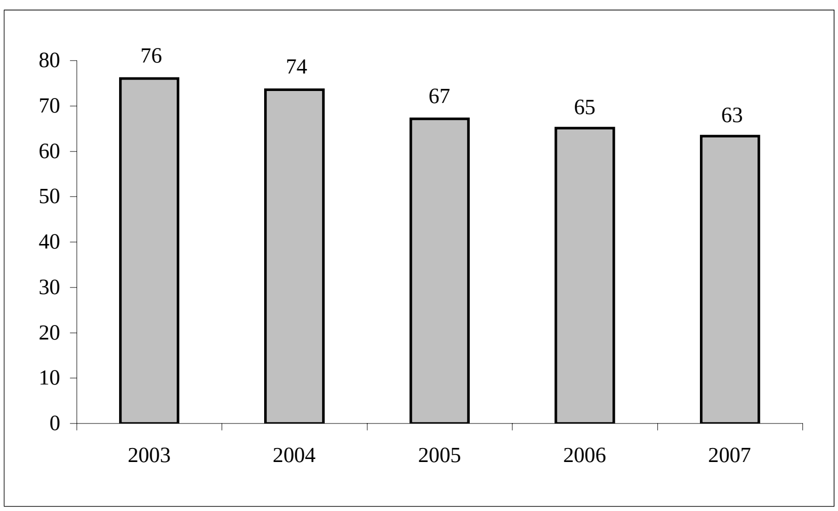
The University of Texas M. D. Anderson Cancer Center

Annual Operating Margin Ratio



The 6.7% increase in the 2007 annual operating margin ratio was attributable to an overall increase in patient activity and volumes from 2006, as well as the affects of Hurricane Rita in the first quarter of the prior year. M. D. Anderson also recorded revenue of $14.1 million for the Texas Physician Upper Payment Limit (UPL) reimbursements in 2007. UPL had the largest impact in 2007 as retroactive adjustments from May 2004 through August 2007 were reported. Now that UPL reimbursements are current, only current year reimbursements will be reported going forward. Additionally, M. D. Anderson received a professional liability insurance (PLI) rebate of $3.2 million in 2007, which was $1.2 million greater than the PLI rebate received in 2006.

Net Accounts Receivable (in days)

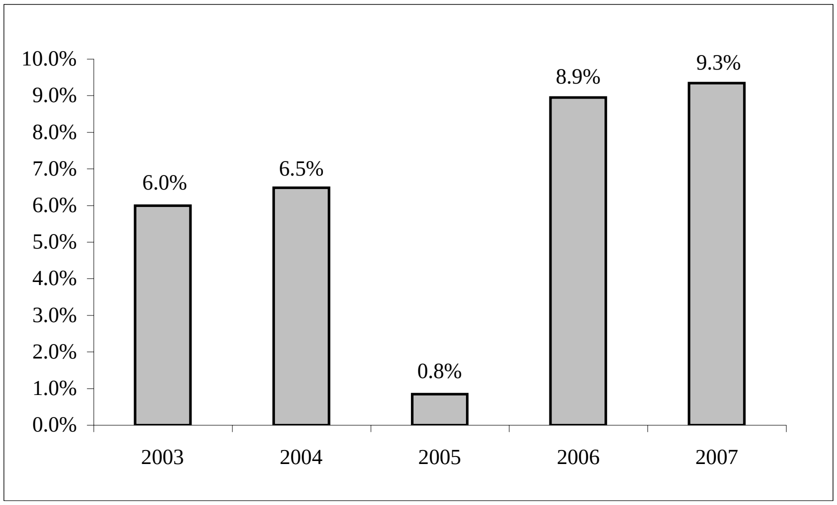


Days in net accounts receivable decreased between 2006 and 2007 from 65 days to 63 days. This downward trend continued due to improved business office operations and record collections in 2007.

Appendix G - Key Hospital Operating Factors

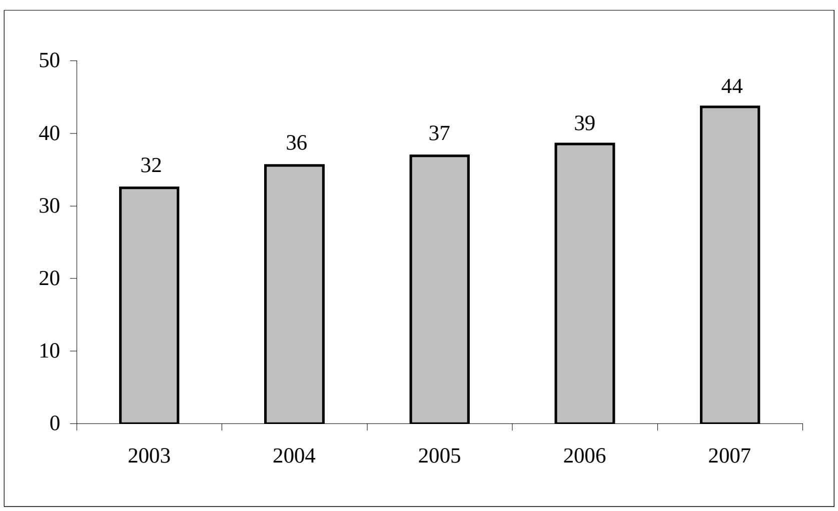
The University of Texas Health Center at Tyler

Annual Operating Margin Ratio



The annual operating margin ratio increased from 8.9% in 2006 to 9.3% in 2007 as a result of a reduction in operating expenses of 3.4%. The largest reductions in operating expenses occurred in salaries and wages and payroll related costs.

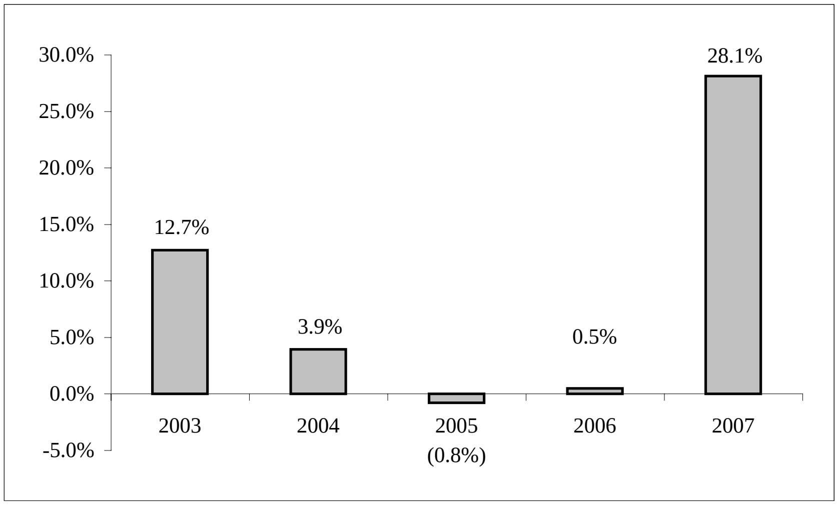
Net Accounts Receivable (in days)



The days in net accounts receivable increased from 39 in 2006 to 44 in 2007. Net account receivable increased 8.1% while net patient charges decreased 4.5% from the prior year.

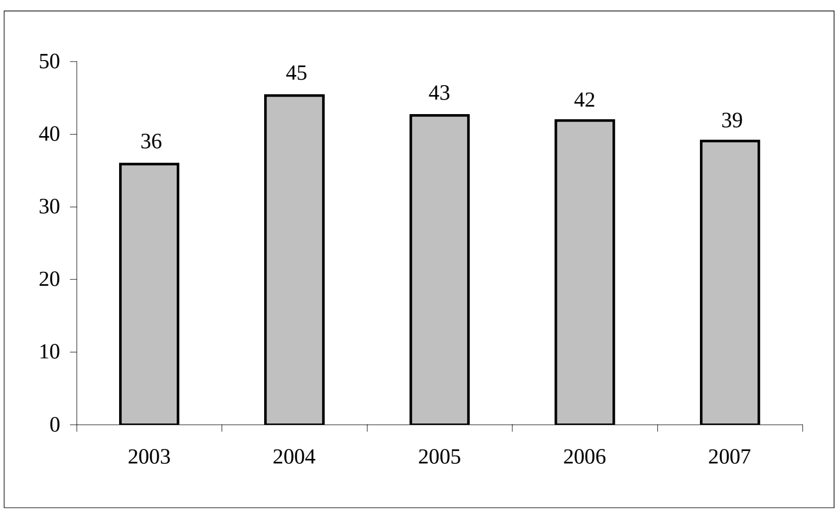
Appendix G - Key MSRDP & NPHC Operating Factors
The University of Texas Health Center at Tyler

Annual Operating Margin Ratio



The annual operating margin increased from 0.5% in 2006 to 28.1% in 2007 primarily due to $4.9 million of revenue recorded for the Texas Physician Upper Payment Limit (UPL) reimbursements. UPL had the largest impact in 2007 as retroactive adjustments from May 2004 through August 2007 were reported. Now that UPL reimbursements are current, only current year reimbursements will be reported going forward. Operating expenses also decreased in the same period by a total of $2.3 million (15.1%) due to major staffing reductions which trimmed wage related costs by 19.5%. Contract expenses with outside physician groups decreased by 2.4%. In addition, UTHC-Tyler received a professional liability insurance (PLI) rebate of $0.3 million, which was $43,000 higher than the PLI rebate received in 2006.

Net Accounts Receivable (in days)



Net accounts receivable days decreased 7.1% due to the increased net revenue produced by the UPL reimbursements even though net accounts receivable was 33.3% higher than the prior year.

10. U. T. System: Report on the Supply Chain Alliance Strategic Initiative

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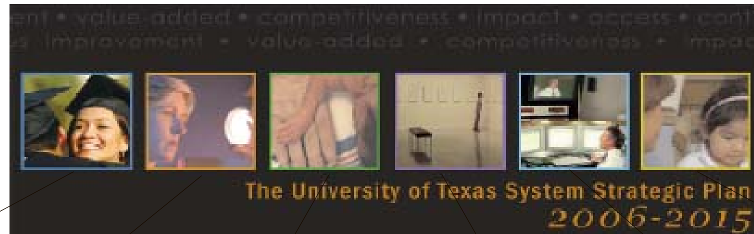
Board of Regents 2006 -2015 Strategic Plan



1 — Enhancing Student Success

2 — Increasing Research, Global Competitiveness, and Technology Transfer

3 — **Improving Health in Texas**

4 — Enriching society through arts and cultural contributions

5 — **Improving productivity an efficiency**

6 — Assuring integrity, accountability, and public trust

"Expanded Use of Joint Purchasing – The System will continue to explore new opportunities to leverage the collective size and strength of our campuses through joint purchasing agreements."

" By June 30, 2007, have in place a framework that is supported by mechanisms for purchasing of equipment, services, and supplies (e.g., research supplies and equipment, office supplies and equipment, and clinical materials for ambulatory programs) in order to maximize the overall purchasing power of the UT System health institutions. This will include UT System supply chain activities as well as purchasing by specific institutions to serve multiple campuses, when cost effective."

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Vision and Mission

Vision: To be a leader in the delivery of world-class supply chain services in the healthcare industry.

Mission: To provide reliable, sustainable solutions for the purchase and delivery of equipment, services, and supplies to support the core missions of education, patient care, and research at the U. T. System health institutions. Through collaborative and shared efforts and adoption of best practices, we will improve customer satisfaction, reduce cost, and create value.

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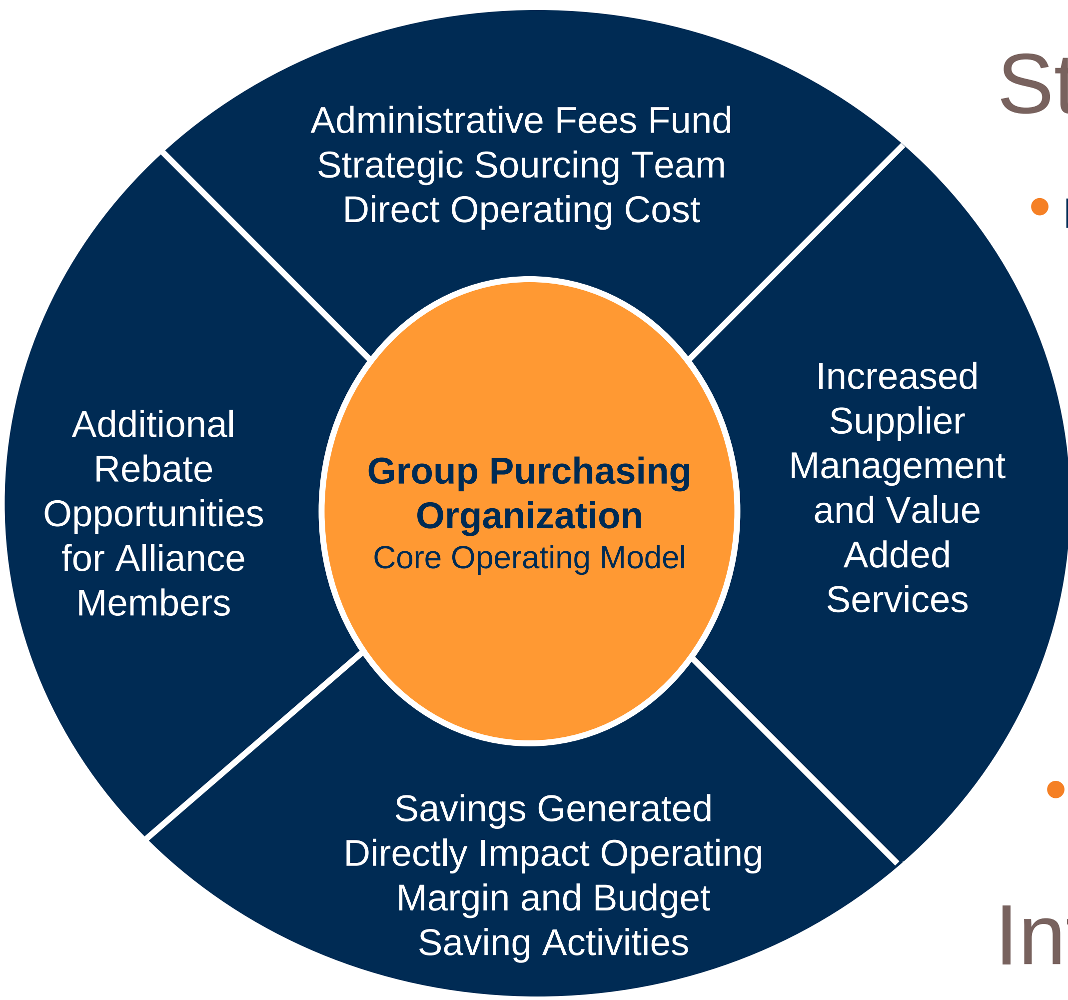
Supply Chain Alliance Business Model



Strategic Sourcing

- Dedicated Sourcing Professionals
- Data Driven Analysis
- Aggregated Purchasing Leverage
- Long-term Cost Savings
- Improve Benchmarking
- Technology Driven Synergy
- Information Sharing & Collaboration
- Supplier Relationship Management

Integration of HUB

4

Strategic Sourcing Process

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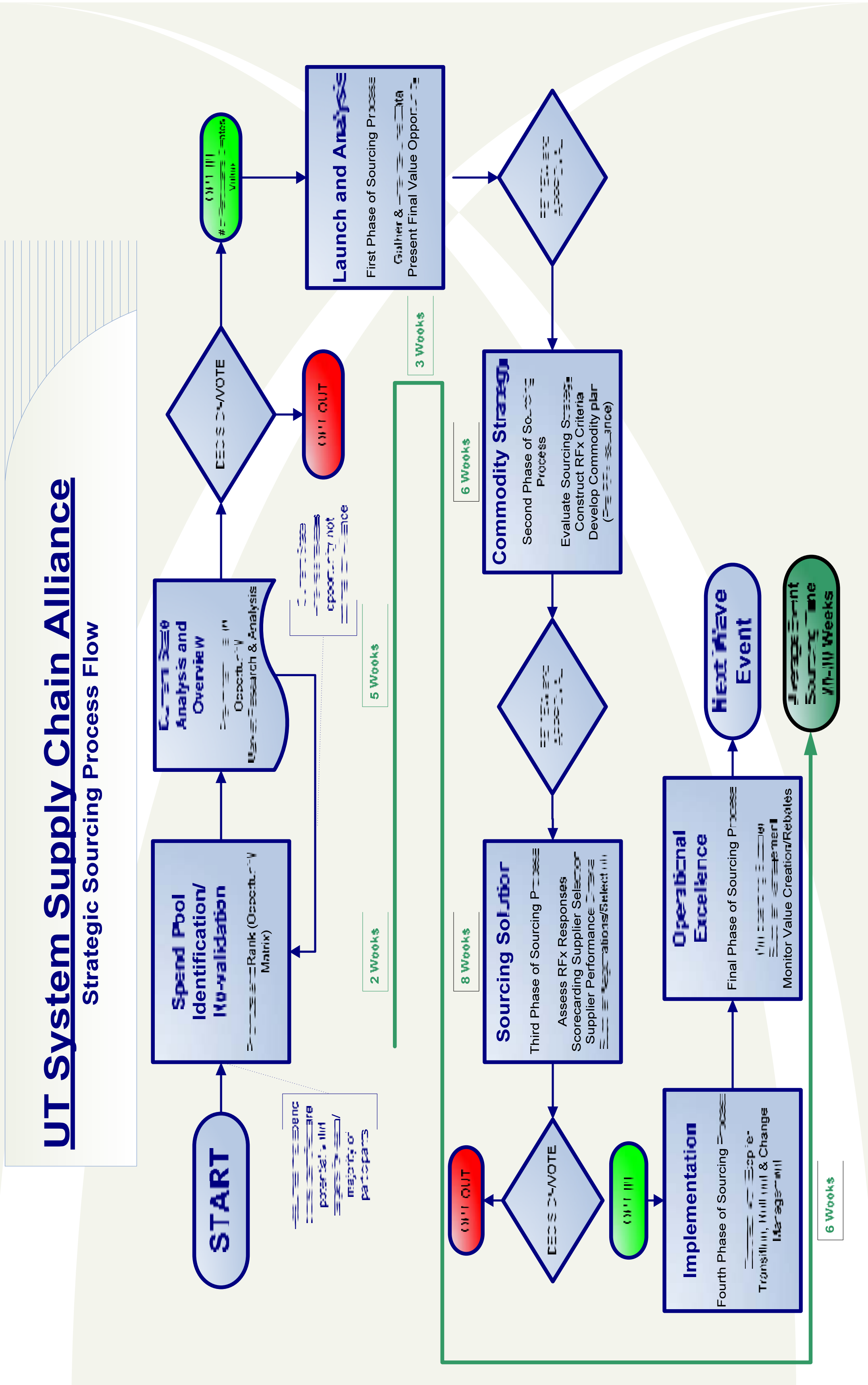

5

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Budget and Financial Plan

- **Expenses (current and anticipated)**
  - $30,000 per month growing to $60,000 per month
  - 3.5 full time employees (FTEs) growing to 6 FTEs
- **Funded through an administrative fee of 1% to 2% paid by the suppliers**
  - Break even in 12 months
  - U. T. System providing $600,000 in seed money
  - $450,000 of seed money to be repaid to U. T. System within 24 months

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Budget and Financial Plan (continued)

- Following repayment of $450,000 in seed money, there will be additional rebate opportunities for the participating institutions
- Targeted cash savings for campuses of >5% on all savings events
- Spending pools totaling over $600 million are being targeted

7

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Today's Successes

- Core Lab
- Laboratory Supply and Distribution

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Fisher Scientific

- Highlights of contract
  - Core List Pricing fixed for 12 months on 8,200 commonly purchased items
  - Price increase capped at 5% per year
  - No shipping and delivery charges
- Average savings
  - 1% rebate to Supply Chain Alliance
    - $150,000 to $200,000 annually
  - $17 million spend pool
  - Average savings – 16%
    - 8.5% to 39%
- Annual savings for health institutions of >$2.5 million

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Upcoming Sourcing Targets

- Office Supplies
- Information Technology – PCs and Networking Devices
- Housekeeping Services
- Facilities Categories – Specific spend pools under evaluation
- Additional Research Categories
- Others as Determined by Spend Councils

The University of Texas System
Supply Chain Alliance

Fisher Scientific Contract Highlights

Contract Start – November 1, 2007

PROCESS HIGHLIGHTS

- U. T. M. D. Anderson Cancer Center competitively bid laboratory distribution in 2006, with an option to offer contract terms to other U. T. System campuses.
- Negotiations with Fisher to extend the competitively bid contract were completed in October 2007.
- The Fisher Scientific contract start date was November 1, 2007.
- Contract duration – up to six years.

CONTRACTUAL HIGHLIGHTS

- Firm fixed pricing for 12 months
- Fisher to extend lowest price paid by any Alliance member or State of Texas contract to all participants
- Core List established consisting of 8,200 commonly purchased items
- Core List adjusted annually to incorporate or delete items
- Non-Core List items Discounted (remainder of Fisher catalog) 2% - 77% off list price
- Price increases are capped at 5% annually per item
- No shipping and delivery charges
- Return fees waived for many items
- Electronic order transmittal rebate paid directly to each participant
  - .50% > 75% of lines submitted electronically
  - .75% > 90% of lines submitted electronically
- Early payment rebate based on Daily Sales Outstanding (DSO) paid directly to each participant
  - DSO less than 20 days .30% of sales
  - DSO less than 10 days .50% of sales
- U. T. System to receive a 1% administrative fee on all sales to cover direct operational cost for the Sourcing Team
- Additional sales volume rebates paid to U. T. System for sales growth
  - $22M - $25M + 3%
  - $25M - $27.5M = 4%
  - $27.5M or greater = 5%

COST SAVINGS

- Projected annual cost savings based on estimated sales of $17M for the six U. T. System health institutions
  - Average savings per U. T. System health institution – 16%
  - Range of savings from 8.5% - 39% based on institution size and historical purchase volume
  - Total projected annual savings = $2M
- Saving estimates are "hard dollar" savings based upon historical price paid less negotiated price

OTHER CONTRACTUAL HIGHLIGHTS

- Ability to more accurately forecast and manage research budgets year over year.
- Improved ordering and delivery processes
- Contract requires each campus to assist in promoting the Fisher/U. T. System partnership
- Fisher designated as "Preferred Primary" supplier for laboratory supply distribution

RISK

Minimal to no risk associated with this contract. Each campus is not committed to any spending level/amount or volumes.

Prepared by the Office of Business Affairs
January 16, 2008

11. U. T. System: Report on the Fiscal Year 2007 Annual Financial Report, including the report on the U. T. System Financial Statement audit work performed by institutional and U. T. System Administration internal audit

Annual Financial Report Highlights Fiscal Year 2007

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Presented to:

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

By Mr. Randy Wallace

February 6, 2008

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Objectives

- Discuss fiscal year 2007 financial highlights of the System's Annual Financial Report (AFR) by examining a three-year trend of changes in line items on:
  - *Balance Sheet*
  - *Statement of Revenues, Expenses and Changes in Net Assets (SRECNA)*
  - *Statement of Cash Flows*
- Identify the factors that contributed to these changes

2

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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*
  - *SRECNA*
  - *Statement of Cash Flows*

3

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Management's Discussion and Analysis

- **This year's financial position of the System improved as a result of the year's operations due to:**
  - ***Favorable returns on investments***
  - ***Increases in patient revenues and Medicaid reimbursements***
  - ***Increases in tuition and fees***

4

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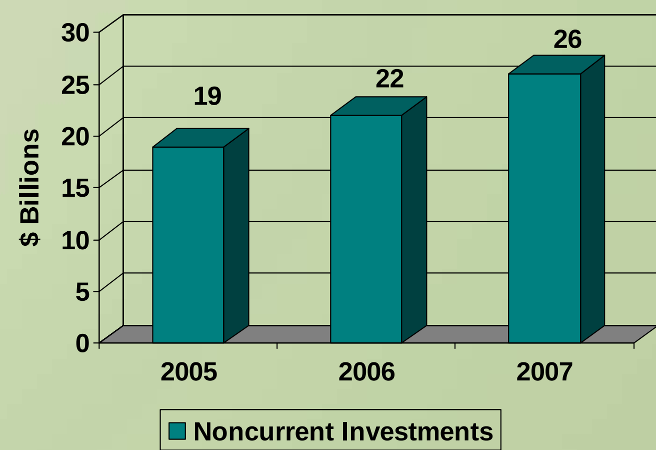
Balance Sheet

The University of Texas System

($ in millions)		2005	2006	2007
Assets:				
Current Assets	$	6,010.7	5,783.4	6,205.6
Noncurrent Investments		18,635.8	22,249.7	25,865.3
Other Noncurrent Assets		211.2	225.8	226.8
Capital Assets, net		7,054.7	7,578.2	8,321.0
Total Assets	$	***31,912.4***	***35,837.1***	***40,618.7***
Liabilities:				
Current Liabilities	$	5,046.6	6,291.3	7,135.8
Noncurrent Liabilities		4,000.9	4,770.4	5,133.3
Total Liabilities		***9,047.5***	***11,061.7***	***12,269.1***
Net Assets:				
Invested in Capital Assets Net of Related Debt		3,610.7	3,807.1	4,061.5
Restricted		17,007.2	18,515.6	21,165.6
Unrestricted		2,247.0	2,452.7	3,122.5
Total Net Assets		***22,864.9***	***24,775.4***	***28,349.6***
Liabilities and Net Assets	$	***31,912.4***	***35,837.1***	***40,618.7***

The three-year trend of significant items on the Balance Sheet include:



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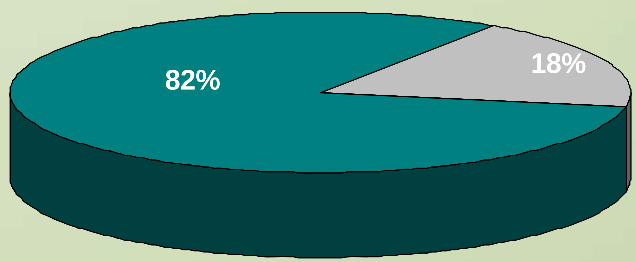
Total Noncurrent Investments

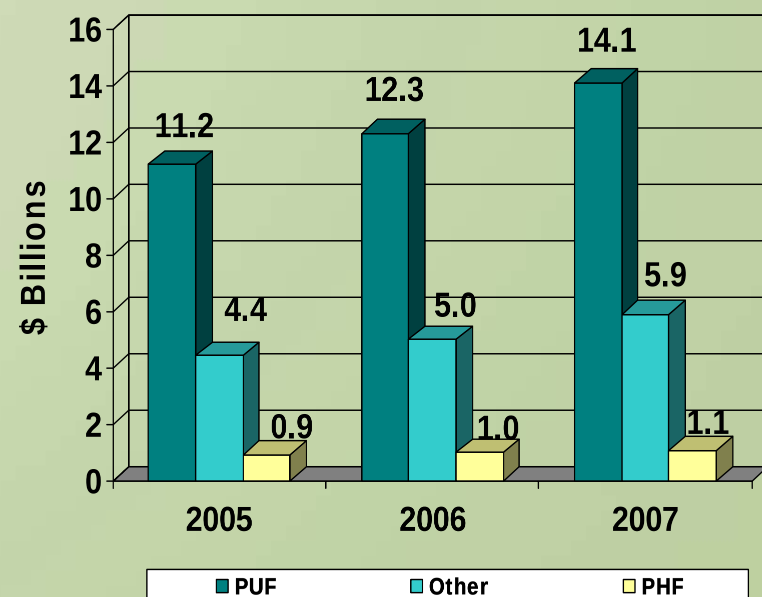
Noncurrent Investments - $25.8 billion

Other Noncurrent Investments $4.7 billion



Endowment Noncurrent Investments $21.1 billion

Endowment Investments FY 2005 - 2007



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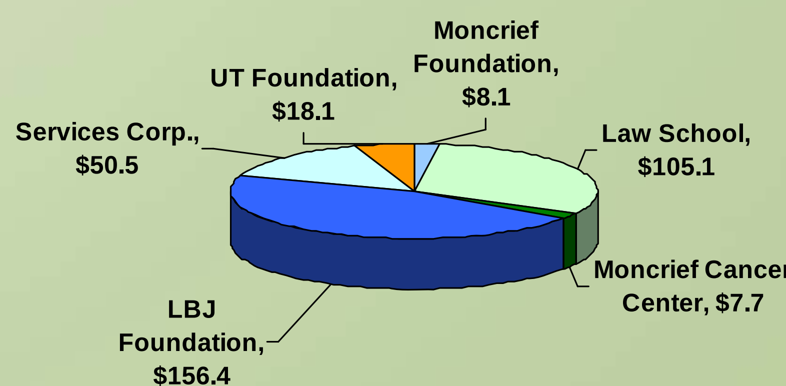
Balance Sheet

Increase in noncurrent investments due in part to affiliated organizations investing funds with UTIMCO.

Affiliated Organizations Funds Invested with UTIMCO
FY 2007
(in millions)



Total Invested: $345.9 million

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Balance Sheet (cont.)

The University of Texas System				
($ in millions)		**2005**	**2006**	**2007**
Assets:				
Current Assets	$	6,010.7	5,783.4	6,205.6
Noncurrent Investments		18,635.8	22,249.7	25,865.3
Other Noncurrent Assets		211.2	225.8	226.8
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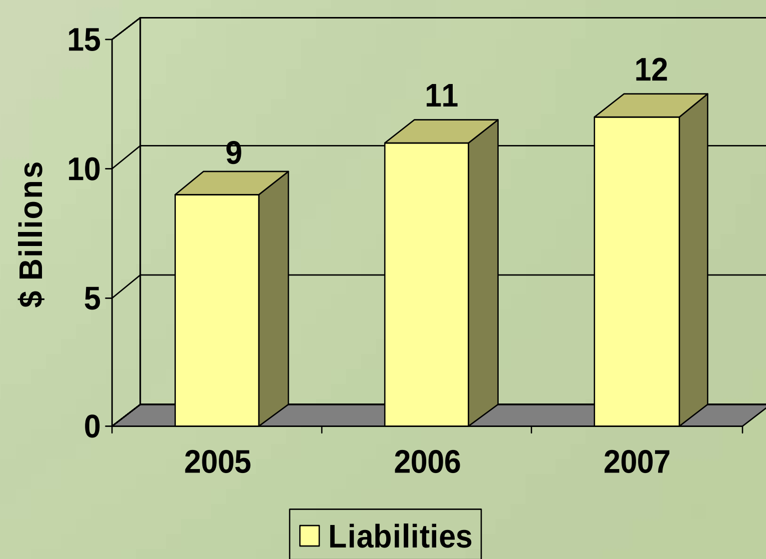

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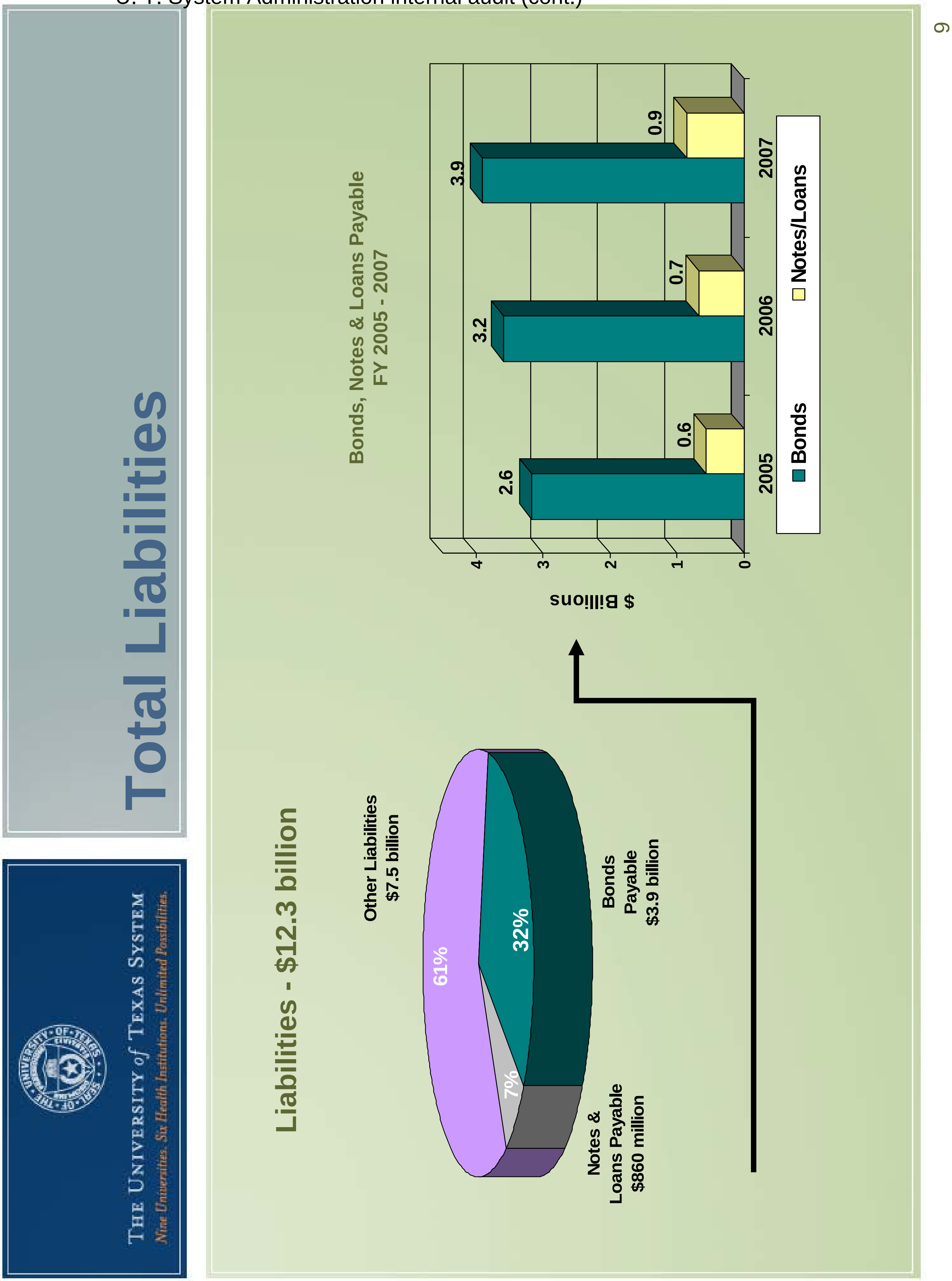

THE UNIVERSITY of TEXAS SYSTEM
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Balance Sheet

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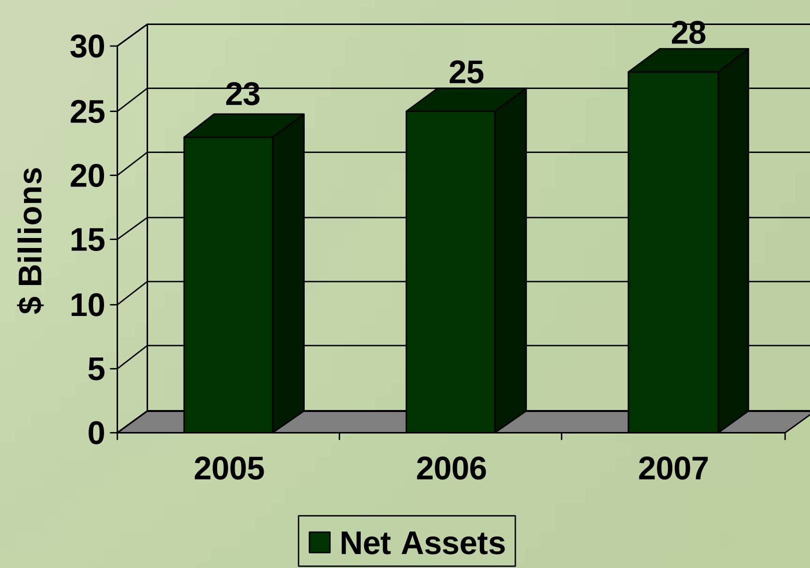

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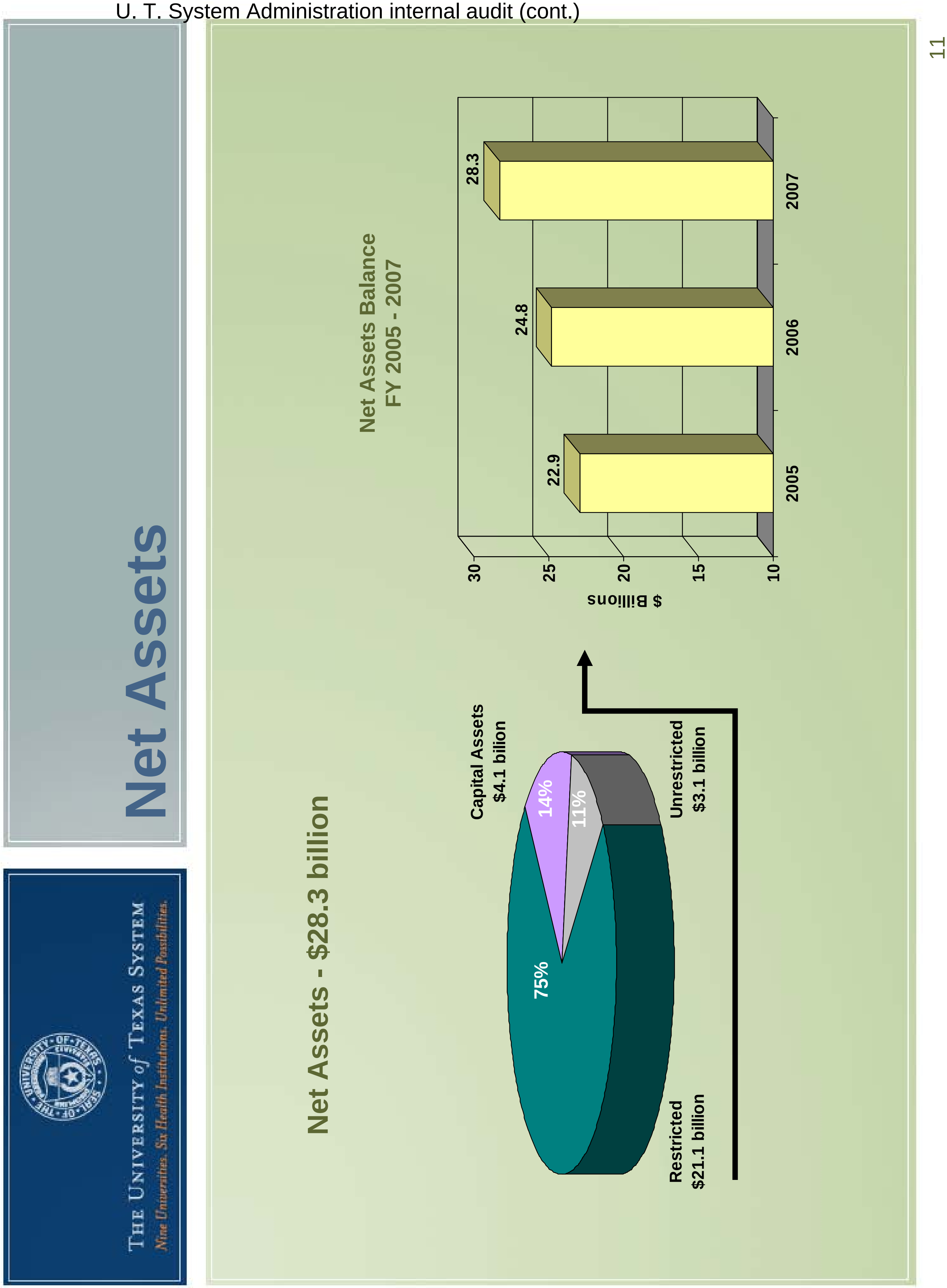

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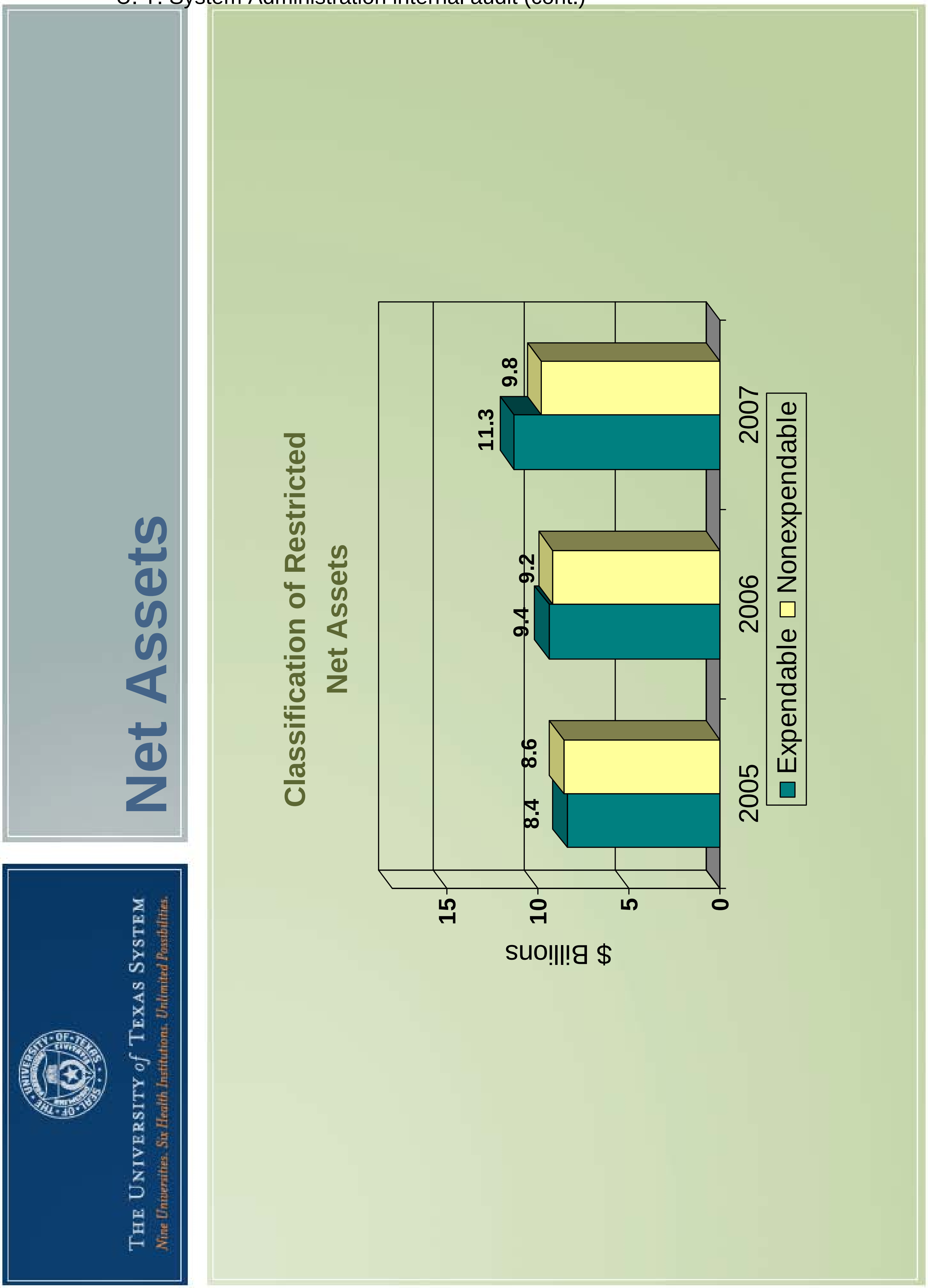

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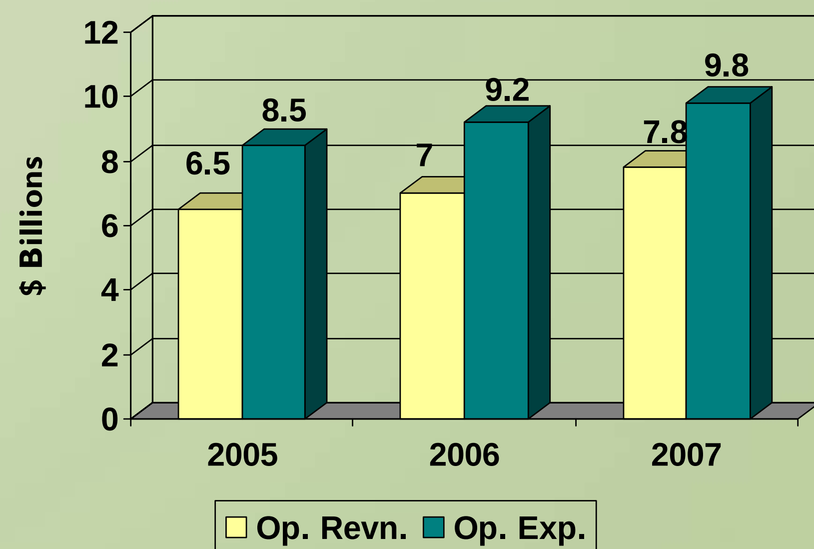
Statement of Revenues, Expenses, and Changes in Net Assets

The University of Texas System

($ in millions)		**2005**	**2006**	**2007**
Operating Revenues	$	6,467.5	7,021.6	7,773.9
Operating Expenses		(8,488.1)	(9,221.9)	(9,779.3)
Operating Loss		***(2,020.6)***	***(2,200.3)***	***(2,005.4)***
State Appropriations		1,557.5	1,735.8	1,760.7
Gift Contributions		265.8	254.8	284.5
Net Investment Income		1,922.3	1,601.9	1,833.7
Net Increase in Fair Val. Investmt.		1,338.2	703.2	1,628.8
Interest Expense		(135.0)	(170.5)	(158.0)
Other Nonoperating Rev. (Exp.)		(8.6)	(30.0)	(3.4)
HEAF, Gifts for Endowments & Cap.		226.9	261.2	353.9
Transfers and Other		(146.4)	(245.6)	(120.6)
Change in Net Assets		***3,000.1***	***1,910.5***	***3,574.2***
Net Assets, Beginning		19,864.8	22,864.9	24,775.4
Net Assets, Ending	***$***	***22,864.9***	***24,775.4***	***28,349.6***

The three-year trend of significant items on the SRECNA include:



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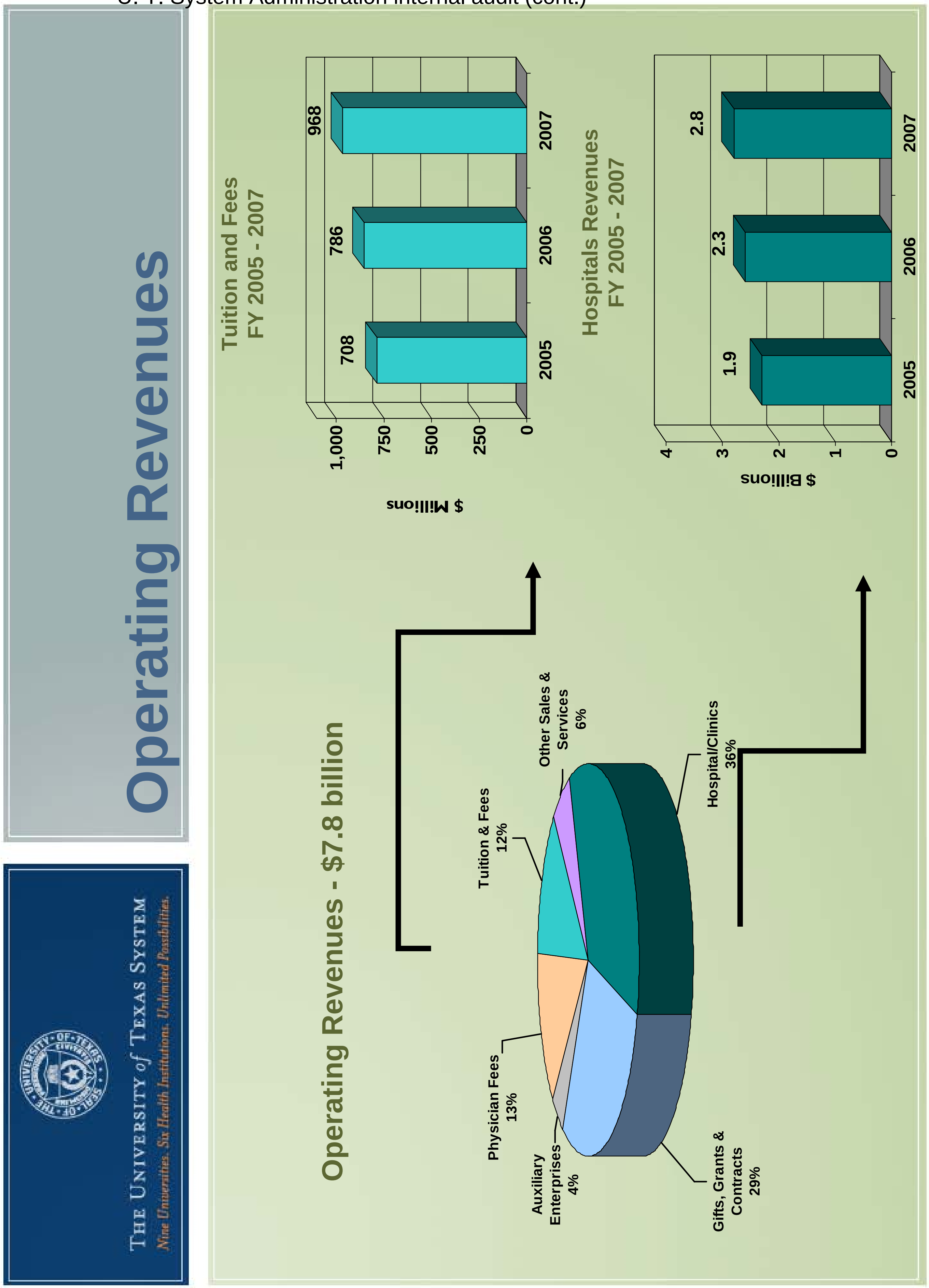

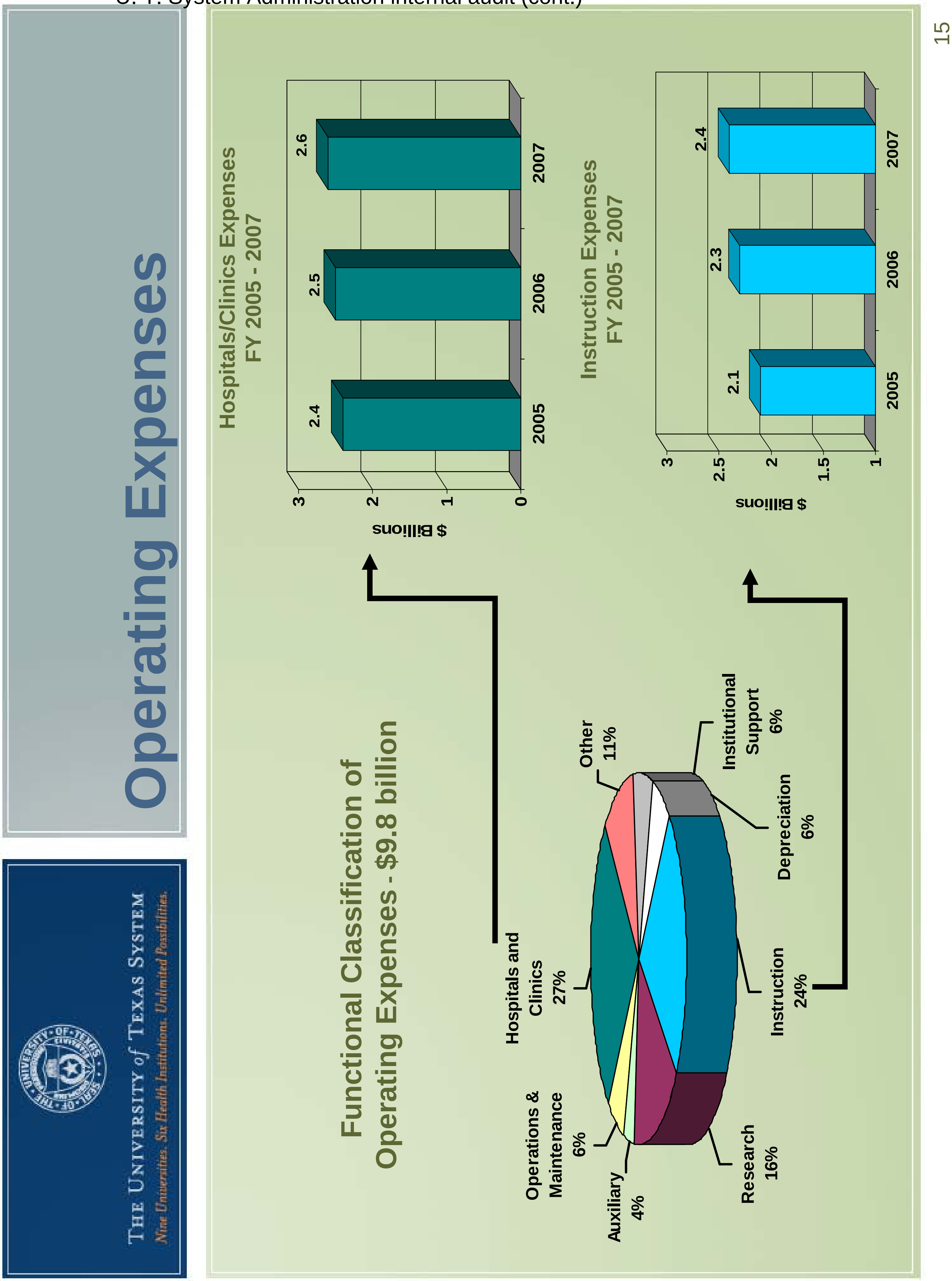
THE UNIVERSITY of TEXAS SYSTEM
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Operating Expenses
15
Functional Classification of
Operating Expenses - $9.8 billion
Hospitals and Clinics 27%
Operations & Maintenance 6%
Auxiliary 4%
Research 16%
Instruction 24%
Depreciation 6%
Institutional Support 6%
Other 11%
Hospitals/Clinics Expenses
FY 2005 - 2007
$ Billions
2005 2.4
2006 2.5
2007 2.6
Instruction Expenses
FY 2005 - 2007
$ Billions
2005 2.1
2006 2.3
2007 2.4

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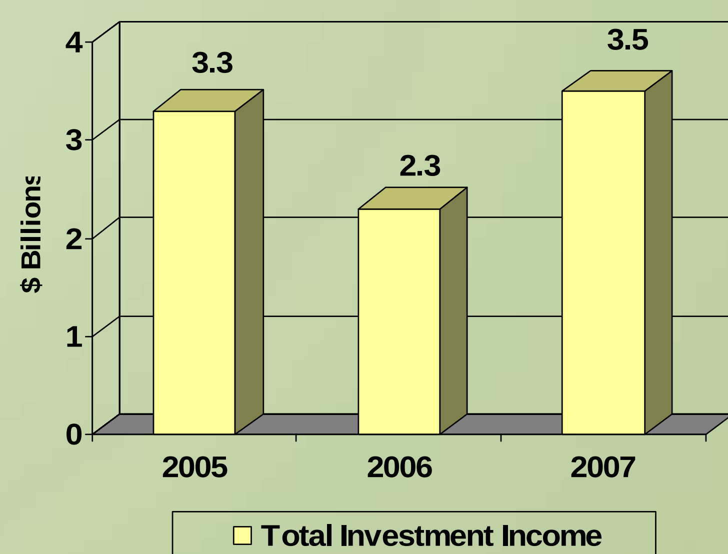
Statement of Revenues, Expenses, and Changes in Net Assets

The University of Texas System

($ in millions)		**2005**	**2006**	**2007**
Operating Revenues	$	6,467.5	7,021.6	7,773.9
Operating Expenses		(8,488.1)	(9,221.9)	(9,779.3)
Operating Loss		***(2,020.6)***	***(2,200.3)***	***(2,005.4)***
State Appropriations		1,557.5	1,735.8	1,760.7
Gift Contributions		265.8	254.8	284.5
Net Investment Income		1,922.3	1,601.9	1,833.7
Net Increase in Fair Value Investment		1,338.2	703.2	1,628.8
Interest Expense		(135.0)	(170.5)	(158.0)
Other Nonoperating Rev. (Exp.)		(8.6)	(30.0)	(3.4)
HEAF, Gifts for Endowments & Capital		226.9	261.2	353.9
Transfers and Other		(146.4)	(245.6)	(120.6)
Change in Net Assets		***3,000.1***	***1,910.5***	***3,574.2***
Net Assets, Beginning		19,864.8	22,864.9	24,775.4
Net Assets, Ending	***$***	***22,864.9***	***24,775.4***	***28,349.6***

The three-year trend of significant items on the SRECNA include:



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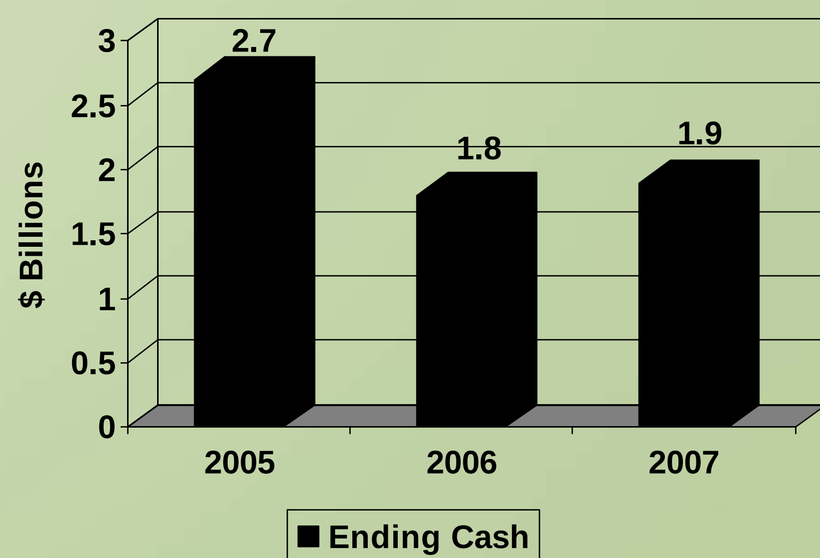
Cash Flows

The University of Texas System

($ in millions)		2005	2006	2007
Cash Flows:				
Cash Received from operations	$	6,601.2	7,227.3	7,855.8
Cash expended for operations		(7,994.6)	(8,786.2)	(9,235.5)
Cash used for operating activities		***(1,393.4)***	***(1,558.9)***	***(1,379.7)***
Cash provided by noncapital financing activities		1,718.1	2,108.2	2,137.3
Cash used in capital & related financing activities		(746.3)	(553.7)	(833.6)
Cash provided by/(used in) investing activities		704.8	(965.1)	184.6
Net increase (decrease) in cash & cash equivalents		***283.2***	***(969.5)***	***108.6***
Cash & cash equivalents, Beginning of the year		2,459.3	2,742.5	1,773.0
Cash & Cash equivalents, End of the year	***$***	***2,742.5***	***1,773.0***	***1,881.6***

The three-year trend of ending cash & cash equivalents Statement of Cash Flows:



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Upcoming Changes

- In FY 2008, the System will start complying with GASB Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*
- This statement requires the System to measure and disclose the estimated cost of providing medical and dental coverage to its employees and its retirees in the future
- The estimated liability for these expected costs will be added to the System's balance sheet over the next 30 years
- System's actuaries are currently gathering data for the estimate of these costs, which are expected to be significant

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Results of the U. T. System Financial Statement Audit Work
Fiscal Year Ended August 31, 2007

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 Finance and Planning and Audit, Compliance, and Management Review Committees
February 2008

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Background

- Resulted from Board of Regents' decision not to continue financial statement audit of U. T. System.
- Coordinated and directed by U. T. System Audit Office.
- Additional procedures performed at institutions as part of accreditation reporting requirements.
- Individual institution reports due in January 2008.
- Final report made to ACMRC in February 2008.

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11. U. T. System: Report on the Fiscal Year 2007 Annual Financial Report, including the report on the U. T. System Financial Statement audit work performed by institutional and U. T. System Administration internal audit (cont.)

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Approach and Scope

- To identify and test key controls over financial reporting, including information technology controls and the financial certification process, and
- To perform risk-based procedures on financial information composing the Annual Financial Reports (AFRs).

Scope: Fiscal year ended August 31, 2007

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Internal Audit Hours

- Approximately **17,000** hours were spent by internal audit System-wide on the financial audit work conducted at the 15 institutions, U. T. System Administration (including the financial statement consolidation), and UTIMCO.

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Financial Audit Work Procedures

- Agreed financial statements to the general ledgers without material exception;
- Tested and found the year-end cash reconciliations performed by general accounting adequate;
- Tested income statement items to ensure adequate support;
- Reviewed Statements of Cash Flows, noted tie-out to other financial statements and appear to be accurately calculated;

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Financial Audit Work Procedures (continued)

- Assessed reasonableness of year-end journal entries;
- Performed fluctuation analysis to look for unusual trends;
- Verified that financial data used in consolidation of institutions agreed to audited data and that consolidation methodology was consistent with the prior year; and
- Reviewed footnotes for completeness and accuracy.

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Financial Audit Work Results

- Noted certain exceptions meeting institution-established materiality:
  - One receivable accrual not made;
  - Certain federal expenditures and related receivables not recorded at year-end;
  - One uncollectible pledge required an allowance to write it down to zero;
  - Real estate valued at fair value instead of cost; and
  - Other miscellaneous exceptions to be communicated by auditors at the institutions.

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Certification Process

- Audited financial certification process at each institution.
- Exceptions noted at several institutions:
  - Incomplete forms submitted or not completed at all until requested by internal audit;
  - Forms not completed timely to support certification to U. T. System; and
  - Forms do not request all of the information necessary for proper financial certification.

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Future Financial Audit Work

- Discussion of plan for financial audit work for Fiscal Year 2008

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Office of the Controller
201 West Seventh Street, ASH 5th Floor, Austin, Texas 78701-2981
Phone: (512) 499-4527 Fax: (512) 499-4322

November 20, 2007

Mark G. Yudof
Chancellor
The University of Texas System
Austin, Texas

Dear Chancellor Yudof:

Submitted herein are the combined primary financial statements of The University of Texas System for the fiscal year ended August 31, 2007. Also presented are the primary financial statements of System Administration and the institutions of The University of Texas System for the same period.

The financial statements in this report have been prepared in compliance with the Texas Government Code, Ann. §2101.011 and in accordance with the requirements established by the State Comptroller of Public Accounts. The Annual Financial Report will be considered for audit by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report; therefore, an opinion has not been expressed on the statements and related information contained in this report.

If you have any questions regarding this report, please contact me at 499-4527.

Respectfully Submitted,	**Approved:**
Debbie L. Frederick	Randy Wallace
Debbie L. Frederick, CPA	Randy Wallace
Financial Reports and Investment Accounting Manager	Associate Vice Chancellor - Controller and Chief Budget Officer

DLF/ts

Enclosure

THE UNIVERSITY OF TEXAS SYSTEM

Management's Discussion and Analysis

For the Year Ended August 31, 2007

(Unaudited)

INTRODUCTION

The University of Texas System (the System) was established by the Texas Constitution of 1876. In 1881, Austin was designated the site of the main academic campus and Galveston as the location of the medical branch. The University of Texas (UT) at Austin opened in 1883, and eight years later, the John Sealy Hospital in Galveston (now a part of the Medical Branch at Galveston) established a program for university-trained medical professionals. In addition to the original academic campus located in Austin, the System now includes eight additional academic campuses in Arlington, Dallas, El Paso, Odessa, San Antonio, Tyler, Brownsville and Edinburg. Health institutions for medical education and research have expanded beyond the original Galveston medical campus to include M. D. Anderson Cancer Center, Southwestern Medical Center at Dallas, Health Science Centers at Houston and San Antonio and the Health Center at Tyler.

The System's fifteen institutions are, collectively, one of the nation's largest educational enterprises. They provide instruction and learning opportunities to almost 191,000 undergraduate, graduate and professional school students from a wide range of social, ethnic, cultural and economic backgrounds. The System is governed by a nine-member Board of Regents appointed by the Governor of Texas and confirmed by the Texas Senate. Three members are appointed every odd-numbered year for six year terms.

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The objective of Management's Discussion and Analysis (MD&A) is to provide an overview of the financial position and activities of the System for the year ended August 31, 2007, with selected comparative information for the years ended August 31, 2006 and 2005. The MD&A was prepared by management and should be read in conjunction with the accompanying financial statements and notes. The emphasis of discussion about these financial statements will focus on the current year data. Unless otherwise indicated, years in this MD&A refer to the fiscal years ended August 31. The System's consolidated financial report includes three primary financial statements: the balance sheet; the statement of revenues, expenses and changes in net assets; and the statement of cash flows. The financial statements were prepared in accordance with Governmental Accounting Standards Board (GASB) pronouncements.

FINANCIAL HIGHLIGHTS

- In the fall of 2006, the System's enrollment increased 2.7% to 190,903 students. Although small, this growth rate is more than double the statewide trend where, overall, enrollments increased only 1.3%. The System's academic institutions enroll 35.5% of the State's public college students, and the System's health-related institutions enroll 69.7% of the students attending the State's public health institutions. Net tuition and fees increased $113.8 million in 2007, or 13.3%, as a result of tuition and fee increases and a 1.7% increase in student semester credit hours at the academic institutions.

- In March 2006, the System's Board of Regents approved additional tuition and fee increases for 2007 and 2008 for the nine academic institutions. The plans approved by the System's Board of Regents include setting aside the statutorily required portion of at least 20% of new tuition revenues for financial aid programs, as well as a variety of ways that students can take advantage of special discounts in tuition rates. The approved plans also include pricing incentives to encourage students to graduate on time by taking more semester credit hours in each term they are enrolled.

- Net patient care revenues increased $407.7 million in 2007, or 12.1%, as a result of an increase in patient volumes and higher rates. The Texas Physician Upper Payment Limit (UPL) supplemental payments contributed $170.6 million of increased Medicaid reimbursements from the federal government. The supplemental payments enabled certain physician's plans to obtain increased Medicaid reimbursement rates for qualifying physicians' services. UPL had the largest impact in 2007 as retroactive reimbursements from May 2004 through August 2007 were reported. Now that UPL reimbursements are current, only current year reimbursements will be reported annually.

- Net investment income, excluding the change in fair value of investments, totaled $1.8 billion in 2007, which increased from $1.6 billion in 2006. The net increase in fair value of investments was $1.6 billion in 2007, as compared to $0.7 billion in 2006. Both components of investment income represented 26.1% of total revenues and were the largest contributors to the total increase in net assets of $3.6 billion during 2007.

- Investments in capital asset additions were $1.4 billion in 2007, of which $959.9 million consisted of new projects under construction. Major capital projects completed in 2007 include:

    - The Natural Science and Engineering Research Building at UT Dallas with a project cost of $71.9 million;
    - the Almetris Duren Residence Hall at UT Austin with a project cost of $46.8 million;
    - the Recreational Center, Phase II, at UT San Antonio with a project cost of $39.8 million;
    - the Research Office Complex at UT Austin with a project cost of $30.7 million; and
    - the Student Housing Expansion Project, Phase II, at UT San Antonio with a project cost of $23.3 million.

The Balance Sheet

The balance sheet presents the assets, liabilities and net assets of the System as of the end of the year. This is a point-in-time financial presentation of the financial status as of August 31, 2007, with comparative information for the previous years. The balance sheet presents information in current and noncurrent format for both assets and liabilities. The net assets section presents assets less liabilities. Over time, increases or decreases in net assets are one indicator of the improvement or decline of the System's financial health when considered with nonfinancial factors such as enrollment, patient levels and the condition of facilities. A summarized comparison of the System's balance sheets at August 31, 2007, 2006 and 2005 follows:

		2007	2006	2005
Assets:			($ in millions)	
Current assets	$	6,205.6	5,783.4	6,010.7
Noncurrent investments		25,865.3	22,249.7	18,635.8
Other noncurrent assets		226.8	225.8	211.2
Capital assets, net		8,321.0	7,578.2	7,054.7
Total assets		40,618.7	35,837.1	31,912.4
Liabilities:				
Current liabilities		7,135.8	6,291.3	5,046.6
Noncurrent liabilities		5,133.3	4,770.4	4,000.9
Total liabilities		12,269.1	11,061.7	9,047.5
Net assets:				
Invested in capital assets, net of related debt		4,061.5	3,807.1	3,610.7
Restricted		21,165.6	18,515.6	17,007.2
Unrestricted		3,122.5	2,452.7	2,247.0
Net assets		28,349.6	24,775.4	22,864.9
Liabilities and net assets	$	40,618.7	35,837.1	31,912.4

Assets increased $4.8 billion in 2007, primarily due to financial market conditions resulting in gains in the System's investments, and capital asset additions. Liabilities increased $1.2 billion, largely due to an increase in payables for investment securities purchased at the end of the fiscal year, as well as debt issuances used to fund construction and renovation of facilities.

Current Assets and Current Liabilities

Current assets consist primarily of cash and cash equivalents; securities lending collateral; various student, patient, gift and investment trades receivables; and student notes receivable. The System's current assets increased $422.2 million in 2007; receivables for investment securities sold at the end of the year account for $313.6 million of the increase.

Current liabilities consist primarily of accounts payable and accrued liabilities, investment trades payable, securities lending obligations, deferred revenues, commercial paper notes and the current portion of bonds payable. The System's current liabilities increased $844.5 million in 2007.

Noncurrent Investments

Noncurrent investments include permanent endowments, funds functioning as endowments, life income funds and other investments. These assets grew by $3.6 billion in 2007 due to increases in the fair value of investments, increased investment income and gifts received to establish new endowment funds.

Capital Assets and Related Debt Activities

The development and renewal of its capital assets is one of the critical factors in continuing the System's quality academic, health and research programs. The System continues to implement its $7.7 billion capital improvement program, planned for fiscal years 2008 through 2013, to upgrade its facilities. This capital improvement program is balanced between new construction to deal with space deficiencies and planned growth in patient care and student enrollment. Capital additions totaled $1.4 billion in 2007, of which $959.9 million consisted of new projects under construction. These capital additions were comprised of replacement, renovation, and new construction of academic, research and health care facilities, as well as significant investments in equipment.

Bonds payable relating to financing of current and prior years' construction needs were the largest portion of the System's liabilities and totaled $3.9 billion and $3.6 billion at August 31, 2007 and 2006, respectively. All bonds continue to reflect the highest uninsured "Aaa" and "AAA" credit ratings from the three major bond-rating agencies. During 2007, the System issued par value of $1.3 billion of new bonds of which $310.4 million was used to current refund outstanding Permanent University Fund (PUF) bonds and $518.6 million was used to current refund outstanding Revenue Financing System (RFS) bonds. Additionally, $4.6 million of RFS bonds were optionally redeemed and $9 million of RFS bonds were legally defeased.

Notes and loans payable remained constant at $100 million of outstanding PUF flexible rate notes. Commercial paper notes outstanding increased by $165.6 million. These notes are issued periodically to provide interim financing for capital improvements and to finance the acquisition of capital equipment. The System typically refunds a portion of these outstanding notes through the issuance of fixed-rate debt to provide long-term financing for projects financed on an interim basis.

For additional information concerning capital assets and related debt activities, see Notes 5, 8, 9, 10 and 12 to the consolidated financial statements.

Other significant liabilities for the System include securities lending obligations of $1.6 billion and $2 billion for 2007 and 2006, respectively, and payables related to investment trades of $1.8 billion and $1 billion for the same two periods.

Net Assets

Net assets represent the residual interest in the System's assets, after liabilities are deducted. The following table summarizes the composition of net assets at August 31, 2007, 2006 and 2005:

		2007	2006	2005
Net assets:			($ in millions)	
Invested in capital assets, net of related debt	$	4,061.5	3,807.1	3,610.7
Restricted:				
Nonexpendable		9,788.9	9,159.6	8,596.2
Expendable		11,376.7	9,356.0	8,411.0
Total restricted		21,165.6	18,515.6	17,007.2
Unrestricted		3,122.5	2,452.7	2,247.0
Total net assets	$	28,349.6	24,775.4	22,864.9

Net assets invested in capital assets, net of related debt represents the System's capital assets, net of accumulated depreciation and outstanding debt obligations attributable to the acquisition, construction or improvement of those assets. The $254.3 million increase in capital assets, net of related debt, in 2007 resulted from a net change in capital assets of $1.3 billion offset by an increase in related debt of $483.3 million and an increase in accumulated depreciation of $514 million.

Restricted net assets primarily include the System's permanent endowment funds subject to externally imposed restrictions governing their use. The System's permanent endowment funds include the PUF, which supports both the System and the Texas A&M University System. Per the Texas Constitution, distributions from the PUF must be not less than the amount needed to pay the principal and interest due on PUF bonds and notes. The System's permanent endowment funds also include the Permanent Health Fund Endowments (PHF) established in 1999 from tobacco-related litigation funds received from the Texas State Legislature. A portion of the PHF was established for the benefit of the System's health-related institutions, as well as for the Texas A&M University Health Science Center, the University of North Texas Health Science Center at Fort Worth, the Texas Tech University Health Science Center and Baylor College of Medicine. The corpus of the PHF is restricted by statute to remain intact, and the earnings from the funds are required to be utilized for public health activities such as medical research, health education and treatment programs. The final component of the System's endowment funds includes donor restricted endowments, the income of which is used to fund various academic endeavors in accordance with the donors' wishes. These funds may be invested in the System's Long Term Fund or they may be separately invested (see Note 4 to the consolidated financial statements for additional information).

As of August 31, 2007 and 2006, restricted nonexpendable net assets include $6.4 billion and $5.9 billion respectively, of the PUF corpus, $820 million and $820 million, respectively, of the PHF corpus, and $2.6 billion and $2.5 billion, respectively, of other endowments' corpus. As of August 31, 2007 and 2006, restricted expendable net assets include $6.9 billion and $5.7 billion, respectively, of the PUF appreciation, $280.1 million and $167 million, respectively, of the PHF appreciation, and $2.4 billion and $1.9 billion, respectively, of other endowments' appreciation.

PUF appreciation consists of the market value of all investments in excess of the corpus, which is made up of all oil and gas revenue and future reserves. Although appreciation related to the PUF is included in the restricted, expendable line item, it should be noted that the UT System Board of Regents determines the amount of distributions to the Available University Fund (AUF), and it may not exceed an amount equal to 7% of the average net fair value of investment assets, except as necessary to pay debt service on PUF bonds and notes. Additionally, the UT System Board of Regents determines the amount of distributions to the AUF in a manner intended to provide the AUF with a stable and predictable stream of annual distributions and to maintain, over time, the purchasing power of PUF investments and annual distributions to the AUF. Therefore, although technically the appreciation attributable to the PUF is expendable, the UT System Board of Regent's must adhere to State statutes as discussed further in Note 4 to the consolidated financial statements.

Restricted nonexpendable net assets increased by $629 million to $9.8 billion in 2007, resulting from new gifts, increases in investment income and the valuation of the PUF lands. Restricted expendable net assets of $11.4 billion primarily include appreciation on endowment funds of $9.6 billion, restricted contract and grant and loan funds of $1.4 billion, funds restricted for capital projects of $60.3 million, funds restricted to support cancer treatment and programs that benefit public health of $100.2 million, debt service of $8.4 million, and $229 million of funds functioning as endowments.

Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the System's unrestricted net assets have been committed for various future operating budgets related to academic, patient, and research programs and initiatives, as well as capital projects. Unrestricted net assets also include funds functioning as endowments of $209.5 million.

<u>2006 Highlights - Balance Sheet</u>

In 2006 total assets increased $3.9 billion over 2005 primarily due to financial market conditions, which resulted in gains in the System's investments, and capital asset additions. Noncurrent investments increased by $3.6 billion as a result of increases in the fair values of these investments, higher investment income and additional gifts received for endowments. In 2006 System's capital assets, net of related debt, increased $196.4 million due to $1.1 billion of additions to capital assets, which were offset by a $532.3 million increase in related debt and an increase in accumulated depreciation of $448.2 million. Bonds payable increased $420.5 million, and commercial paper notes and PUF flexible rate notes outstanding increased $114.3 million. The financial market conditions resulted in a $1.9 billion increase in net assets in 2006.

The Statement of Revenues, Expenses and Changes in Net Assets

The statement of revenues, expenses and changes in net assets details the changes in total net assets as presented on the balance sheet. The statement presents both operating and nonoperating revenues and expenses for the System. The following table summarizes the System's revenues, expenses and changes in net assets for the years ended August 31, 2007, 2006 and 2005:

	2007	2006	2005
Operating revenues:		($ in millions)	
Net student tuition and fees	$ 968.3	854.5	786.5
Grants and contracts	2,246.6	2,136.7	1,974.8
Net patient care revenues	3,775.9	3,368.2	3,074.9
Net auxiliary enterprises	327.4	299.9	287.1
Other	455.7	362.3	344.2
Total operating revenues	7,773.9	7,021.6	6,467.5
Total operating expenses	(9,779.3)	(9,221.9)	(8,488.1)
Operating loss	(2,005.4)	(2,200.3)	(2,020.6)
Nonoperating revenues (expenses):			
State appropriations	1,760.7	1,735.8	1,557.5
Gift contributions for operations	284.5	254.8	265.8
Net investment income excluding the change in fair value of investments	1,833.7	1,601.9	1,922.3
Net increase in fair value of investments	1,628.8	703.2	1,338.2
Interest expense on capital asset financings	(158.0)	(170.5)	(135.0)
Net other nonoperating revenues (expenses)	(3.4)	(30.0)	(8.6)
Income before other revenues, expenses, gains or losses	3,340.9	1,894.9	2,919.6
Capital appropriations – Higher Education Assistance Fund (HEAF)	11.4	11.4	7.1
Capital gifts and grants, additions to permanent endowments and extraordinary items	342.5	249.8	219.8
Net Transfers to other State entities	(120.6)	(245.6)	(146.4)
Change in net assets	3,574.2	1,910.5	3,000.1
Net assets, beginning of the year	24,775.4	22,864.9	19,864.8
Net assets, end of the year	$ 28,349.6	24,775.4	22,864.9

Operating Revenues

Student tuition and fees, a primary source of funding for the System's academic programs, are reflected net of associated discounts and allowances. Net student tuition and fees increased $113.8 million, or 13.3%, as a result of tuition and fee increases and a 1.7% increase in student semester credit hours at the academic institutions. Enrollment at the health institutions increased 2.4% in the fall of 2006.

Grant and contract revenues are primarily from governmental and private sources and are related to research programs that normally provide for the recovery of direct and indirect costs. Governmental grants include grants from the federal government such as the National Institutes of Health (NIH). Other grants and contracts include student financial aid and contracts with affiliated hospitals for clinical activities. These revenues increased $109.9 million in 2007 largely due to increased contractual revenue from affiliated hospitals, and increased federal and state-based financial aid programs. Although the flattening of the NIH budget in the coming year will make access to federal research funding more competitive, recent investments in research infrastructure have well-positioned the System's institutions to compete for these federal funds and other funding opportunities.

Patient care revenues are principally generated within the System's hospitals and physicians' practice plans under contractual arrangements with governmental payors and private insurers. These revenues are reported net of unreimbursed charges to financially or medically indigent patients, which are considered unsponsored charity care. Net patient care revenues increased $407.7 million in 2007, as a result of an increase in patient volumes, higher rates and the UPL supplemental payments. As currently reported, the System's health-related institutions calculate the amount of unsponsored charity care on the basis of what is "charged" for those services. The System is working with the health-related institutions to report the amount of unsponsored charity care on the basis of the "cost" to provide the services. Auxiliary enterprise revenues, which increased $27.5 million, were earned from a host of activities such as athletics, housing and food service, bookstores, parking, student health and other activities.

Operating Expenses

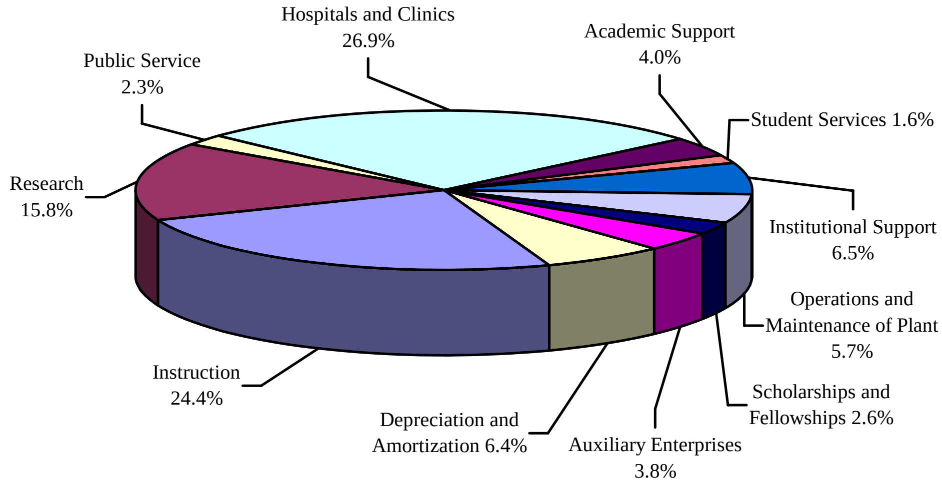
The following data summarizes the composition of operating expenses by programmatic function for the years ended August 31, 2007, 2006 and 2005:

		2007	2006	2005
Functional classification of operating expenses:			($ in millions)	
Instruction	$	2,384.3	2,257.1	2,110.0
Research		1,542.9	1,435.3	1,317.8
Public service		222.1	223.4	216.7
Hospitals and clinics		2,635.2	2,512.9	2,371.8
Academic support		390.4	353.5	276.4
Student services		157.4	146.1	133.0
Institutional support		634.6	623.7	580.9
Operations and maintenance of plant		554.6	537.4	467.5
Scholarships and fellowships		257.3	223.1	208.8
Auxiliary enterprises		373.6	351.7	327.4
Depreciation and amortization		626.9	557.7	477.8
Total operating expenses	$	9,779.3	9,221.9	8,488.1

The operating expenses reflect the System's commitment to promoting instruction, research, patient care, public service and student support. Total operating expenses increased $557.4 million, or 6%, in 2007 in response to growing student enrollment, research, and patient care activities. The System's full-time equivalent employees increased 1.6% from 75,672 in 2006 to 76,940 in 2007. Employee-related costs increased due to salary increases and higher medical costs.

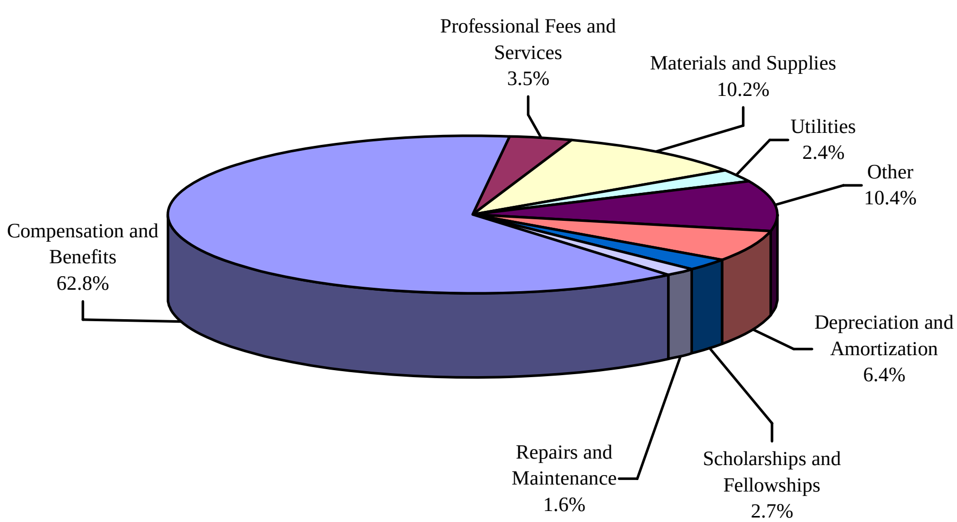
The following is a graphic illustration of operating expenses by their functional classification for the year ended August 31, 2007.

Functional Classification of Operating Expenses ($9,779.3 million)



In addition to programmatic (functional) classification of operating expenses, the following graph also illustrates the System's operating expenses by natural classification for the year ended August 31, 2007.

Natural Classification of Operating Expenses ($9,779.3 million)



<u>Nonoperating Revenues and Expenses</u>

Certain significant recurring revenues are considered nonoperating, as required by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. State appropriations increased $25 million, a modest 1.4%. Typically, state appropriations do not change substantially in the second year of the biennium, as was fiscal year 2007. Gift contributions for operations of $284.5 million, an increase of $29.7 million from 2006, were received from private sources and used to support the educational and health care mission of the institutions. Net investment income excluding the change in the fair value of investments increased $231.8 million from $1.6 billion in 2006 to $1.8 billion in 2007. The change in the fair value of the System's investments increased $925.6 million primarily due to favorable market conditions, as well as a $198.8 million increase in the value of the PUF lands. The fair value of the PUF lands' interest in oil and gas is based on an estimate of the present value of future royalty cash flows using a 10% discount rate. Future royalty cash flow projections from oil and gas are based on the price of oil and gas on the last day of the fiscal year. Finally, interest expense on capital asset financings decreased from $170.5 million in 2006 to $158 million in 2007.

Income Before Other Revenues, Expenses, Gains or Losses

Income before other revenues, expenses, gains or losses, is the sum of the operating loss plus nonoperating revenues (expenses). It is an indication of recurring revenues and expenses for the System and does not take into account capital and endowment-related additions and transfers. The income before other revenues, expenses, gains or losses totaled $3.3 billion in 2007, an increase of $1.4 billion over 2006. This increase is largely a result of greater net investment income and a significant increase in the fair value of investments, or unrealized gains, as compared to the prior year. The System measures its operating results by considering operating activities, including certain significant recurring nonoperating revenues and expenses. The following table summarizes the System's view of its operating results for 2007, 2006 and 2005:

		2007	2006	2005
Operating results:			($ in millions)	
Operating loss	$	(2,005.4)	(2,200.3)	(2,020.6)
State appropriations		1,760.7	1,735.8	1,557.5
Gift contributions for operations		284.5	254.8	265.8
Net investment income		1,833.7	1,601.9	1,922.3
Interest expense on capital asset financings		(158.0)	(170.5)	(135.0)
Net operating results	$	1,715.5	1,221.7	1,590.0

Capital Appropriations, Capital Gifts and Grants, Additions to Permanent Endowments and Extraordinary Items

Capital appropriations, capital gifts and grants, additions to permanent endowments, and extraordinary items totaled $353.9 million for the year ended August 31, 2007, an increase of $92.7 million over 2006 primarily due to a $50 million gift UT M. D. Anderson Cancer Center received and invested in an endowment. Under the terms of the gift, UT M. D. Anderson Cancer Center has 25 years to grow the donation to $500 million, after which time they may use the earnings on the funds as they wish. The System continues its fundraising efforts to address facilities expansion and renovation, and the establishment of endowments for instruction, research and patient care activities

Extraordinary Items

In late July and early August 2006, the city of El Paso received a tremendous amount of rain, which caused significant water damage to some of UT El Paso's buildings and infrastructure. As a result of the flooding, UT El Paso incurred significant costs related to clean-up and repair from the flooding subsequent to year-end. UT El Paso was able to reasonably estimate the receipt of commercial insurance and United States Federal Emergency Management Agency (FEMA) proceeds due to the storm at that time. Due to the infrequency of significant rainfall in the El Paso area, the additional expenses of $504,812 related to the clean-up, net of the estimated insurance recoveries, were recognized as extraordinary losses for the year ended August 31, 2006. The insurance proceeds received in 2007 of $320,938 were recognized as extraordinary income for the year-ended August 31, 2007. None of the damage caused impairment of UT El Paso's assets.

Transfers

Transfers to other State agencies include $133.6 million and $119.1 million for 2007 and 2006, respectively, for the AUF distributed to Texas A&M University System for its annual one-third participation in the PUF endowment. In accordance with tuition set-asides required by Section 61.539, Section 61.910, Section 61.9660, Section 61.9731, Section 56.095 and Section 56.465 of the Texas Education Code, the institutions transferred tuition revenues of $9.3 million in 2007 and $7.2 million in 2006 to the Texas Higher Education Coordinating Board.

Change in Net Assets

The change in net assets results from all revenues, expenses, gains, losses, gifts and transfers that occurred during the accounting period. It is an overall indication of the improvement or decline between the prior and current year's balance sheet. Net assets increased $3.6 billion and $1.9 billion for the years ended August 31, 2007 and August 31, 2006, respectively, primarily due to the increase in net investment income including the change in fair value of investments.

2006 Highlights - Statement of Revenues, Expenses and Changes in Net Assets

In 2006 the System's net tuition and fees increased $68 million over 2005 due to increases in tuition and fee rates, as well as continued increases in semester credit hours. Contract and grant revenue from governmental and private sources increased $161.9 million primarily attributable to increased contractual revenue from affiliated hospitals and increased financial aid programs. Patient care revenues grew by $293.3 million due to higher patient volumes and rates. The growth in student enrollment, research and patient care activities resulted in an increase in total operating expenses of $733.8 million.

Net investment income, excluding the change in the fair value of investments, decreased $320.4 million between 2006 and 2005 primarily due to less favorable market conditions. The fair value of investments decreased $635 million. Both of these components of investment income were the largest contributors to the $1.9 billion increase in net assets.

The Statement of Cash Flows

The statement of cash flows provides additional information about the System's financial results by reporting the major sources and uses of cash. The statement provides an assessment of the System's financial flexibility and liquidity to meet obligations as they come due and the need for external financing. The following table summarizes cash flows for the years ended August 31, 2007, 2006 and 2005:

		2007	2006	2005
Cash flows:			($ in millions)	
Cash received from operations	$	7,855.8	7,227.3	6,601.2
Cash expended for operations		(9,235.5)	(8,786.2)	(7,994.6)
Net cash used in operating activities		(1,379.7)	(1,558.9)	(1,393.4)
Net cash provided by noncapital financing activities		2,137.3	2,108.2	1,718.1
Net cash used in capital and related financing activities		(833.6)	(553.7)	(746.3)
Net cash (used in)/provided by investing activities		184.6	(965.1)	704.8
Net (decrease)/increase in cash and cash equivalents		108.6	(969.5)	283.2
Cash and cash equivalents, beginning of year		1,773.0	2,742.5	2,459.3
Cash and cash equivalents, end of year	$	1,881.6	1,773.0	2,742.5

State appropriations and gift contributions for operations are significant sources of recurring revenues in support of operating expenses but are required to be classified as noncapital financing activities. Therefore, when considering cash flows related to operating activities, it is important to consider these noncapital financing activities which support operating expenses. The System's cash and cash equivalents increased $108.6 million during 2007 compared to a decrease of $969.5 million in 2006, which was the year that the System invested significant amounts of money market funds into a new investment fund, the Intermediate Term Fund.

Economic Outlook

The System remains committed to the strengthening of the entire educational enterprise from pre-kindergarten through post-graduate studies. The mission of the System is to provide high-quality educational opportunities for the enhancement of the human resources of Texas, the nation and the world through intellectual and personal growth. Management regards the System as well-positioned to maintain its solid financial foundation and continue its service to students, patients, the research community, citizens of Texas and the nation. The achievement of the System's mission is dependent upon the ability to attract and support dedicated students from many cultures; acquire and retain the highest quality diverse faculty; recruit and appropriately recognize exemplary administrators and staff members; create and sustain physical environments that enhance and complement educational goals; and encourage ongoing public and private sector support of higher education. Philanthropic donations from the private sector provide valuable support for endowed faculty positions, student fellowships and scholarships, special facilities, enhancement of academic programs, and many other needs.

In November 2007, the State of Texas passed Proposition 15 to establish the Cancer Prevention and Research Institute of Texas (Texas Cancer Institute) funded by $3 billion of State of Texas general obligation bond issuances. The Texas Cancer Institute will award up to $300 million per year in grants for the next 10 years to investigate cancer causes, cures and treatment. For every dollar received from the Cancer Institute, recipient organizations must match fifty cents. With two of the three National Cancer Institute's designated Cancer Centers in the State of Texas - UT M. D. Anderson Cancer Center and the San Antonio Cancer Institute, a partnership between UT Health Science Center at San Antonio and the Cancer Therapy and Research Center - it is anticipated that the Texas Cancer Institute will further solidify the System's role as a leader in cancer research and treatment.

The System continues to face the challenge of funding its healthcare and dental benefits costs for its 92,845 employees and retirees, which costs continue to escalate. These costs include providing postemployment health and dental benefits to eligible employees. The System currently does not record a liability for postemployment benefits. In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the System in fiscal year 2008. GASB Statement No. 45 requires accrual-based measurement, recognition and disclosure of other postemployment benefits expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. This postemployment benefits liability will likely have a significant impact on the System's consolidated financial statements and potentially the benefits offered to its employees and retirees. The System and its actuaries are evaluating the effect that GASB Statement No. 45 will have on the consolidated financial statements.

UNAUDITED

THE UNIVERSITY OF TEXAS SYSTEM
EXHIBIT A - CONSOLIDATED BALANCE SHEET
As of August 31, 2007

		Current Year Totals	Prior Year Totals
ASSETS			
Current Assets:			
Cash & Cash Equivalents (Notes 2 & 3)	$	1,539,820,915	1,386,868,062
Restricted Cash & Cash Equivalents (Notes 2 & 3)		341,051,755	386,048,681
Balance in State Appropriations		65,966,506	72,823,205
Securities Lending Collateral (Notes 2 & 3)		1,566,422,753	1,951,568,127
Accounts Receivable, Net:			
Federal (allowances of $13,208,745 in '07 & $12,382,180 in '06)		195,234,682	171,953,451
Other Intergov. (allowances of $15 in '07 & $0 in '06)		31,507,258	27,596,139
Student (allowances of $7,386,036 in '07 & $5,724,036 in '06)		194,125,755	204,301,280
Patient (allow. of $946,938,246 in '07 & $846,295,471 in '06)		556,652,952	495,854,744
Interest and Dividends		61,798,055	61,102,409
Contributions (allow. of $5,297,184 in '07 & $3,557,628 in '06)		45,891,112	55,507,086
Investment Trades		760,703,637	447,141,307
Other (allow. of $7,398,631 in '07 & $6,446,773 in '06) (Note 22)		480,492,095	198,434,415
Due From Other Funds		113,086,970	89,211,509
Due From Other Agencies		5,045,810	7,176,780
Inventories		66,890,314	68,919,565
Loans & Contracts (allow. of $6,791,051 in '07 & $6,407,529 in '06)		43,296,887	43,841,438
Other Current Assets (Note 2)		137,602,428	115,048,340
Total Current Assets		6,205,589,884	5,783,396,538
Noncurrent Assets:			
Restricted:			
Cash & Cash Equivalents (Notes 2 & 3)		764,179	45,805
Investments (Notes 2 & 3)		22,598,520,376	19,642,198,671
Loans & Contracts (allow. of $12,605,703 in '07 & $12,208,658 in '06)		88,078,219	84,171,437
Contributions Rec. (allow. of $8,525,525 in '07 & $6,956,810 in '06)		105,465,157	113,291,142
Investments (Notes 2 & 3)		3,266,769,883	2,607,510,145
Other Noncurrent Assets/Held in Trust (Note 2)		32,559,586	28,251,924
Capital Assets (Note 5)		13,548,368,014	12,291,575,826
Less Accumulated Depreciation (Note 5)		(5,227,367,474)	(4,713,357,523)
Total Noncurrent Assets		34,413,157,940	30,053,687,427
TOTAL ASSETS	$	40,618,747,824	35,837,083,965
LIABILITIES			
Current Liabilities:			
Accounts Payable and Accrued Liabilities	$	1,005,399,149	857,684,338
Federal Payables		48,731,927	44,038,577
Other Intergovernmental Payables		11,170	13,323
Investment Trades Payable		1,790,172,228	1,020,457,037
Incurred But Not Reported Self-Insurance Claims (Note 6)		79,468,898	80,336,078
Securities Lending Obligations (Notes 2 & 3)		1,566,422,753	1,951,568,127
Due to Other Funds		113,086,970	89,211,509
Due to Other Agencies		9,688,954	9,800,625
Interfund Payable		24,213,277	23,793,277
Deferred Revenue		884,904,899	827,509,522
Employees' Compensable Leave (Note 8)		243,534,822	213,218,659
Notes, Loans & Leases Payable (Notes 8, 10 & 11)		825,886,590	659,133,894
Payable From Restricted Assets		300,237,217	296,425,572
Revenue Bonds Payable (Notes 8 & 9)		179,065,650	159,685,000
Assets Held for Others		16,261,352	19,495,816
Other Current Liabilities		48,753,953	38,984,819
Total Current Liabilities		7,135,839,809	6,291,356,173
Noncurrent Liabilities:			
Incurred But Not Reported Self-Insurance Claims (Note 6)		38,879,279	78,875,389
Employees' Compensable Leave (Note 8)		141,545,025	146,805,951
Assets Held for Others (Note 2)		762,448,293	650,828,296
Liability to Beneficiaries (Note 2)		17,812,533	17,846,695
Notes, Loans and Leases Payable (Notes 8, 10 & 11)		34,588,199	25,181,016
Revenue Bonds Payable (Notes 8 & 9)		3,745,749,301	3,435,167,686
Interfund Payable		388,051,029	412,065,726
Other Noncurrent Liabilities		4,245,252	3,586,891
Total Noncurrent Liabilities		5,133,318,911	4,770,357,650
TOTAL LIABILITIES		12,269,158,720	11,061,713,823
NET ASSETS (Note 13)			
Invested in Capital Assets, Net of Related Debt		4,061,462,641	3,807,124,215
Restricted for:			
Nonexpendable			
Permanent University Fund Endowment (Note 4)		6,375,985,758	5,889,253,513
Perm. Health, True & Term Endowments, & Annuities (Note 4)		3,412,915,421	3,270,386,250
Expendable			
Capital Projects		46,302,776	22,393,335
Debt Service		8,393,813	5,809,770
Funds Functioning as Endowment - Restricted		229,032,999	212,603,907
Other Expendable		11,093,026,180	9,115,170,371
Unrestricted		3,122,469,516	2,452,628,781
TOTAL NET ASSETS		28,349,589,104	24,775,370,142
TOTAL LIABILITIES AND NET ASSETS	$	40,618,747,824	35,837,083,965

UNAUDITED

THE UNIVERSITY OF TEXAS SYSTEM
EXHIBIT B - CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended August 31, 2007

		Current Year Totals	Prior Year Totals
Operating Revenues:			
Student Tuition and Fees	$	1,210,079,469	1,083,323,330
Discounts and Allowances		(241,783,307)	(228,862,360)
Federal Sponsored Programs		1,327,738,165	1,320,196,744
Federal Sponsored Programs Pass-Through from Other St. Agencies		78,026,752	58,632,450
State Sponsored Programs		76,644,402	66,257,240
State Sponsored Programs Pass-Through from Other St. Agencies		105,326,214	114,121,073
Local Sponsored Programs		352,670,209	323,030,328
Private Sponsored Programs		306,153,069	254,508,476
Sales and Services of Educational Activities		308,817,311	252,774,489
Discounts and Allowances		(343,916)	(280,660)
Sales and Services of Hospitals		5,737,391,731	5,311,045,947
Discounts and Allowances		(2,973,832,279)	(2,736,196,077)
Professional Fees		2,929,659,773	2,768,399,797
Discounts and Allowances		(1,917,248,492)	(1,975,088,694)
Auxiliary Enterprises		336,169,217	306,386,864
Discounts and Allowances		(8,747,512)	(6,466,209)
Other Operating Revenues		147,186,519	109,848,420
Total Operating Revenues		7,773,907,325	7,021,631,158
Operating Expenses: (Note 14 for Natural Classification of Expenses)			
Instruction		2,384,322,684	2,257,108,665
Research		1,542,919,588	1,435,285,596
Public Service		222,109,069	223,373,359
Hospitals and Clinics		2,635,148,711	2,512,901,960
Academic Support		390,408,835	353,540,922
Student Services		157,349,985	146,053,074
Institutional Support		634,649,281	623,715,087
Operations and Maintenance of Plant		554,597,692	537,415,131
Scholarships and Fellowships		257,277,074	223,085,099
Auxiliary Enterprises		373,633,751	351,665,417
Depreciation and Amortization		626,913,140	557,751,455
Total Operating Expenses		9,779,329,810	9,221,895,765
Operating Loss		(2,005,422,485)	(2,200,264,607)
Nonoperating Revenues (Expenses):			
State Appropriations		1,760,723,326	1,735,758,424
Gift Contributions for Operations		284,498,251	254,782,172
Net Investment Income		1,833,672,688	1,601,941,153
Net Increase (Decrease) in Fair Value of Investments		1,628,788,483	703,193,671
Interest and Other Expenses on Capital Asset Financings		(157,987,169)	(170,567,855)
Gain/(Loss) on Sale of Capital Assets		(12,254,043)	(24,730,981)
Other Nonoperating Revenues		9,434,226	2,139,252
Other Nonoperating Expenses		(559,454)	(7,389,753)
Net Nonoperating Revenues (Expenses)		5,346,316,308	4,095,126,083
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers		3,340,893,823	1,894,861,476
Capital Appropriations - HEAF		11,379,426	11,379,426
Gifts and Sponsored Programs for Capital Acquisitions		178,289,409	147,939,549
Additions to Permanent Endowments		163,901,286	102,351,214
Extraordinary Items (Note 26)		320,938	(504,812)
Transfers From Other State Agencies		206,332,052	147,095,046
Transfers to Other State Agencies		(326,897,778)	(392,678,018)
Legislative Appropriations Lapsed		(194)	
Change in Net Assets		3,574,218,962	1,910,443,881
Beginning Net Assets		24,775,370,142	22,864,926,261
Ending Net Assets	$	28,349,589,104	24,775,370,142

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

UNAUDITED

THE UNIVERSITY OF TEXAS SYSTEM
EXHIBIT C - CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2007

	Current Year Totals	Prior Year Totals
Cash Flows from Operating Activities:		
Proceeds from Tuition and Fees	$ 979,653,431	870,624,973
Proceeds from Patients and Customers	3,719,289,032	3,353,384,334
Proceeds from Sponsored Programs	2,311,440,274	2,120,629,186
Proceeds from Auxiliaries	335,258,943	301,506,418
Proceeds from Other Revenues	415,143,395	480,105,886
Payments to Suppliers	(2,991,672,901)	(2,905,981,399)
Payments to Employees	(6,143,580,393)	(5,775,388,423)
Payments for Loans Provided	(100,238,699)	(104,676,524)
Proceeds from Loan Programs	95,057,304	101,007,058
Payments for Other Expenses	(75,470)	(127,673)
Net Cash Provided (Used) by Operating Activities	(1,379,725,084)	(1,558,916,164)
Cash Flows from Noncapital Financing Activities:		
Proceeds from State Appropriations	1,767,783,769	1,715,807,482
Proceeds from Operating Gifts	299,805,665	224,880,902
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	383,126,451	60,374,098
Proceeds from Other Nonoperating Revenues	21,103,918	9,684,674
Payments/Receipts for Transfers to/from Other Agencies	(331,737,312)	101,445,890
Payments for Other Uses	(2,728,199)	(4,057,376)
Net Cash Provided (Used) by Noncapital Financing Activities	2,137,354,292	2,108,135,670
Cash Flows from Capital and Related Financing Activities:		
Proceeds from Issuance of Capital Debt	2,166,693,972	1,235,255,403
Payments of Other Costs on Debt Issuance	(59,781,450)	(4,138,894)
Proceeds from Capital Appropriations, Grants and Gifts	139,891,442	156,672,097
Proceeds from Sale of Capital Assets	5,249,848	10,384,360
Payments for Additions to Capital Assets	(1,333,045,488)	(1,082,784,169)
Payments of Principal on Capital Related Debt	(1,588,195,563)	(693,462,322)
Payments of Interest on Capital Related Debt	(164,395,826)	(175,619,876)
Net Cash Provided (Used) by Capital & Related Financing Activities	(833,583,065)	(553,693,401)
Cash Flows from Investing Activities:		
Proceeds from Sales of Investments	28,102,687,826	30,139,391,473
Proceeds from Interest and Investment Income	948,799,819	804,035,851
Payments to Acquire Investments	(28,866,859,487)	(31,908,481,325)
Net Cash Provided (Used) by Investing Activities	184,628,158	(965,054,001)
Net Increase (Decrease) in Cash	108,674,301	(969,527,896)
Cash & Cash Equivalents - Beginning of the Year	1,772,962,548	2,742,490,444
Cash & Cash Equivalents - End of the Year (Note 2)	$ 1,881,636,849	1,772,962,548
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:		
Operating Loss	$ (2,005,422,485)	(2,200,264,607)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	626,913,140	557,751,455
Bad Debt Expense	219,728,924	232,505,361
Changes in Assets and Liabilities:		
Receivables	(293,949,195)	(264,601,096)
Inventories	2,029,251	2,820,350
Loans and Contracts	(5,194,944)	(3,669,466)
Other Assets	(15,548,468)	61,329,637
Payables	1,854,960	22,061,652
Deferred Income	55,080,473	(1,026,704)
Deposits Held for Others	(4,351,605)	9,769,923
Compensated Absence Liability	25,055,237	22,965,573
Other Liabilities	14,079,628	1,441,758
Total Adjustments	625,697,401	641,348,443
Net Cash Provided (Used) by Operating Activities:	$ (1,379,725,084)	(1,558,916,164)
Noncash Transactions		
Net Increase (Decrease) in Fair Value of Investments	1,628,788,483	703,193,671
Donated Capital Assets	38,805,220	34,917,862
Capital Assets Acquired Under Capital Lease Purchases	755,624	543,840
Miscellaneous Noncash Transactions	(16,285,263)	(15,043,345)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended August 31, 2007
(Unaudited)

1. The Financial Reporting Entity

The financial records of The University of Texas System (the System), reported as a business-type activity in the State of Texas' Comprehensive Annual Financial Report, reflect compliance with applicable State statutes and Governmental Accounting Standards Board (GASB) pronouncements. The significant accounting policies followed by the System in maintaining accounts and in the preparation of the consolidated financial statements are in accordance with the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements.

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

The System is composed of nine academic and six health-related institutions of higher education, as well as the System administrative offices. The fifteen institutions are as follows: the University of Texas at Arlington, the University of Texas at Austin, the University of Texas at Brownsville, the University of Texas at Dallas, the University of Texas at El Paso, the University of Texas – Pan American, the University of Texas of the Permian Basin, the University of Texas at San Antonio, the University of Texas at Tyler, the University of Texas Southwestern Medical Center at Dallas, the University of Texas Medical Branch at Galveston, the University of Texas Health Science Center at Houston, the University of Texas Health Science Center at San Antonio, the University of Texas M. D. Anderson Cancer Center, and the University of Texas Health Center at Tyler. The System is governed by a nine-member Board of Regents appointed by the Governor.

Blended Component Units
The following component units are included in the consolidated financial statements because the System appoints a voting majority of the component units' boards and the System is able to impose its will on the component units. The net assets of the blended component units are insignificant to the System. Blended financial information is available upon request.

UT Southwestern Health Systems, 1301 Elmbrook, Dallas, Texas 75390, is governed by a three-member board appointed by the University of Texas (UT) Southwestern Medical Center at Dallas. The corporation's fiscal year end is August 31.

The National Pediatric Infectious Diseases Foundation, 4712 Wildwood Drive, Dallas, Texas 75209, is governed by a three-member board appointed by UT Southwestern Medical Center at Dallas. The foundation's fiscal year end is August 31.

UT Southwestern Moncrief Cancer Center, 1701 River Run, Suite 500, Fort Worth, Texas 76107, is governed by a five-member board appointed by the president of UT Southwestern Medical Center at Dallas. The corporation's fiscal year end is August 31.

UTMB Healthcare Systems, Inc., 301 University Boulevard, Galveston, Texas 77555, is governed by an eight-member board appointed by UT Medical Branch at Galveston. The corporation's fiscal year end is August 31.

UT Physicians, P. O. Box 20627, Houston, Texas 77225, is governed by a three-member board appointed by UT Health Science Center at Houston. The corporation's fiscal year end is August 31.

UT Medicine, 6126 Wurzbach Road, San Antonio, Texas 78238, is governed by a twenty-five member board appointed by UT Health Science Center at San Antonio. The corporation's fiscal year end is August 31.

M. D. Anderson Physician's Network, 7505 South Main, Suite 500, Houston, Texas 77030, is governed by a four-member board appointed by UT M. D. Anderson Cancer Center. The corporation's fiscal year end is August 31.

M. D. Anderson Services Corporation, 7505 South Main, Suite 500, Houston, Texas 77030, is governed by a seven-member board appointed by the president of UT M. D. Anderson Cancer Center and the UT System Board of Regents. The corporation's fiscal year end is August 31.

East Texas Quality Care Network, Inc., P. O. Box 6053, Tyler, Texas 75711-6053, is governed by a three-member board appointed by UT Health Center at Tyler. The corporation's fiscal year end is August 31.

University of Texas Investment Management Company (UTIMCO), 401 Congress Avenue, Suite 2800, Austin, Texas 78701, is governed by a nine-member board appointed by the UT System Board of Regents. The corporation's fiscal year end is August 31.

The University of Texas Fine Arts Foundation, UT Austin, Main Building, P. O. Box T, Austin, Texas 78713 is governed by a three-member board appointed by UT Austin. The foundation's fiscal year end is December 31.

2. Summary of Significant Accounting Policies

BASIS OF ACCOUNTING

The financial statements of the System have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. The System reports as a business type activity, as defined by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

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

CASH AND CASH EQUIVALENTS

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

BALANCE IN STATE APPROPRIATIONS

This item represents the balance of General Revenue funds at August 31 as calculated in the Texas State Comptroller's General Revenue Reconciliation.

INVESTMENTS

Investments of the System, except for PUF lands, are managed by the University of Texas Investment Management Company (UTIMCO), a private investment corporation that provides services entirely to the System. All investments are reported as noncurrent as these funds have an investment horizon extending beyond one year. The System's investments are primarily valued on the basis of market valuations provided by independent pricing services.

Fixed income securities held directly by the System are valued based upon prices supplied by Merrill Lynch Securities Pricing Service and other major fixed income pricing services, external broker quotes and internal pricing matrices.

Equity security market values are based on the New York Stock Exchange composite closing prices, if available. If not available, the market value is based on the closing price on the primary exchange on which the security is traded (if a closing price is not available, the average of the last reported bid and ask price is used).

Private market investments and certain other equity securities are fair valued by management. The fair values of these investments are estimated by management using the partnership's capital account balance at the closest available reporting period, as communicated by the general partner, adjusted for contributions and withdrawals subsequent to the latest available reporting period as well as consideration of any other information, which has been provided by the partnership or other source. In rare cases the private market funds are valued at cost, but only when management feels this is the best approximation of value.

Securities held by the System in index and exchange traded funds are generally valued as follows:

- Long and short stock positions traded on security exchanges are valued at closing market prices on the valuation date.

- Long and short stock positions traded on the over-the-counter (OTC) market are valued at the last reported bid price, except for National Market System OTC stocks, which are valued at their closing market prices.

- Fixed income securities are valued based upon bid quotations obtained from major market makers or security exchanges.

Marketable alternative, U.S. equity, non-U.S. developed equity, emerging market and fixed income investment funds and certain other investment funds are fair valued by management on net asset value information provided by the investment company.

The audited financial statements of the funds managed by UTIMCO may be found on UTIMCO's website and inquiries may be directed to UTIMCO via www.utimco.org.

The fair value of the PUF Land's interest in oil and gas is based on an estimate of the present value of future royalty cash flows using a 10 percent discount rate. Future royalty cash flow projections from oil and gas are based on the price of oil and gas on August 31, 2007, and estimates of future production from existing wells. The estimate of future production is based on calculated production rates, derived from royalty income, reduced to account for estimated net depletion. Nonproducing proven reserves of oil and gas are not included in the estimate. The PUF lands' surface interests are reported at their appraised value as of January 1, 2007. Other real estate holdings are reported by one of the following methods of valuation: the latest available appraised amount as determined by an independent State certified or other licensed appraiser, or by any other generally accepted industry standard, including tax assessments.

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

CONTRIBUTIONS RECEIVABLE
Current and noncurrent contributions receivable are amounts pledged to the university by donors, net of allowances.

INVENTORIES
Inventories, consisting primarily of supplies and merchandise for resale, are valued at cost, typically based on the specific identification, weighted average or first-in, first-out methods, which are not in excess of net realizable value.

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

LOANS AND CONTRACTS
Current and noncurrent loans and contracts are receivables, net of allowances, related to student loans.

SECURITIES LENDING COLLATERAL AND OBLIGATIONS
The collateral secured for securities lent are reported as an asset on the balance sheet. The obligations for securities lent are reported as a liability on the balance sheet that directly offsets the cash collateral received from brokers or dealers in exchange for securities loaned. The costs of securities lending transactions are reported as expenses in the statement of revenues, expenses and changes in net assets. See Note 3 for details regarding the securities lending program.

CAPITAL ASSETS

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation in the case of gifts. The System follows the State's capitalization policy with a cost equal to or greater than $5,000 for equipment items, $100,000 for buildings, building improvements and improvements other than buildings, and $500,000 for infrastructure items, and an estimated useful life of greater than one year. Purchases of library books are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Outlays for construction in progress are capitalized as incurred. Interest expense related to construction is capitalized net of interest income earned on the resources reserved for this purpose (see Note 8).

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

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

OTHER ASSETS

Included in other current assets are prepaid expenses and lease receivables due within one year. Included in the other noncurrent assets are unamortized bond issuance costs and lease receivables that will be realized beyond one year. Unamortized bond issuance costs are amortized over the life of the related bonds using the straight-line method, which approximates the effective interest method. The unamortized bond issuance costs as of August 31, 2007 and 2006 were $10,087,124 and $13,481,017, respectively.

ASSETS HELD BY AFFILIATED ORGANIZATIONS

GASB Statement number 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*, provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship to the primary government, the System. GASB 39 states that a legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if *all* of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government is entitled to, or has the ability to otherwise access a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The System has defined significance as 5% of net assets. As of August 31, 2007, none of the System's potential component units meet the criteria for inclusion in the System's financial statements. See Note 23, Affiliated Organizations, for more information.

DEFERRED REVENUE

Deferred revenue represents revenues such as tuition recorded in August for the fall semester and payments received in advance for sponsored programs.

ASSETS HELD FOR OTHERS – CURRENT AND NONCURRENT

Assets held for others represent funds held by the System as custodial or fiscal agent for students, faculty members, foundations, and others. Included in assets held for others as of August 31, 2007 and 2006 is $403,243,053 and $357,512,161, respectively, for the Physician's Referral Service Supplemental Retirement Plan/Retirement Benefit Plan at UT M. D. Anderson Cancer Center. As of August 31, 2007 and 2006, assets held for others also included $345,965,925 and $232,774,091, respectively, from foundations that invest their assets with UTIMCO.

LIABILITY TO BENEFICIARIES

The System holds numerous irrevocable charitable remainder trusts and a pooled income fund. Together, these assets are reflected in the accompanying consolidated financial statements within restricted investments.

The charitable remainder trusts designate the UT System Board of Regents as both trustee and remainder beneficiary. The System is required to pay to the donors (or other donor-designated income beneficiaries) either a fixed amount or the lesser of a fixed percentage of the fair value of the trusts' assets or the trusts' income during the beneficiaries' lives. Trust assets are measured at fair value when received and monthly thereafter. A corresponding liability to beneficiaries is measured at the present value of expected future cash flows to be paid to the beneficiaries based upon the applicable federal rate on the gift date. Upon death of the income beneficiaries, substantially all of the principal balance passes to the System to be used in accordance with the donors' wishes.

The pooled income fund was formed with contributions from several donors. The contributed assets are invested and managed by UTIMCO. Donors (or designated beneficiaries) periodically receive, during their lives, a share of the income earned on the fund proportionate to the value of their contributions to the fund. Upon death of the income beneficiaries, substantially all of the principal balance passes to the System to be used in accordance with the donors' wishes. Contribution revenue is measured at the fair value of the assets received, discounted for a term equal to the life expectancies of the beneficiaries.

REFUNDING AND DEFEASANCE OF DEBT

For debt refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as a deduction from or an addition to the debt liability. The gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, in the statement of revenues, expenses and changes in net assets as a component of interest expense.

NET ASSETS

The System has classified resources into the following three net asset categories:

Invested in Capital Assets, Net of Related Debt

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

Restricted:

Nonexpendable

Net assets subject to externally imposed stipulations that require the amounts be maintained in perpetuity by the System. Such assets include the System's permanent endowment funds.

Expendable

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

Unrestricted

Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for special purposes by action of management or the UT System Board of Regents. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital programs (see Note 13 for details on unrestricted net assets).

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

REVENUES AND EXPENSES

Operating revenues include activities such as student tuition and fees, net of scholarship allowances; sales and services of auxiliary enterprises; most federal, state and local grants and contracts and federal appropriations; and interest on student loans. Operating expenses include salaries and wages, payroll related costs, materials and supplies, depreciation, scholarships and fellowships, and impairment losses and insurance recoveries received in the same year as the associated loss in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. In addition, all changes to incurred but not reported liabilities related to insurance programs are reflected as operating.

Nonoperating revenues include activities such as gifts and contributions, insurance recoveries received in years subsequent to the associated loss, State appropriations, investment income and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, GASB Statement No. 34, and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Nonoperating expenses include activities such as interest expense on capital asset financings, and other expenses that are defined as nonoperating expenses by GASB Statement Nos. 9, 34 and 42.

SCHOLARSHIP ALLOWANCES AND STUDENT AID

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

STATEWIDE INTERFUND TRANSFERS AND INTERFUND PAYABLES

In accordance with the provisions set forth in Article 7, Section 18 of the Texas Constitution, the System transfers one-third of the annual earnings of the PUF investments and lands to the Texas A&M University System (TAMUS). In addition to the transfer of the current year earnings in 2007 and 2006 of $133,561,868 and $119,112,418, respectively, the System recorded a liability of $405,970,000 and $428,890,000 at August 31, 2007 and 2006, respectively, for future amounts due to TAMUS from the PUF to cover principal and interest on outstanding PUF bonds issued by TAMUS. This liability is reported as current and noncurrent interfund payable on the balance sheet. Additional details related to the operations of the PUF can be found in Note 4. Also included in interfund payables as of August 31, 2007 and 2006 is $6,294,306 and $6,969,003, respectively, related to the Loan Star program that is administered by the Texas Governor's Office.

In accordance with tuition set-asides required by Section 61.539, Section 61.910, Section 61.9660, Section 61.9731, Section 56.095 and Section 56.465 of the Texas Education Code, the institutions transferred tuition revenues of $9,313,217 in 2007 and $7,218,410 in 2006 to the Texas Higher Education Coordinating Board.

CHARITY CARE

The System's health-related institutions provide charity care to patients who meet certain criteria under their charity care policies without charge or at amounts less than its established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care charges amounted to approximately $1,016,978,970 and $1,125,921,878 for 2007 and 2006, respectively.

NET PATIENT SERVICE REVENUE

The System's health-related institutions have agreements with third-party payors that provide for payments to these institutions at amounts different from their established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

UT Southwestern Medical Center at Dallas' and UT Medical Branch at Galveston's inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are reimbursed under a prospective reimbursement methodology. Also, additional reimbursement is received for graduate medical education, disproportionate share, bad debts and other reimbursable costs, as defined, under a variety of payment methodologies.

UT M. D. Anderson Cancer Center's inpatient acute care services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology that is limited by a facility-specific amount per discharge. The final reimbursement also includes a calculation of an incentive or relief payment determined through a comparison of the facilities current year cost to the facility-specific cost per discharge. Certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. Effective August 1, 2000, the Medicare program implemented a prospective payment system for outpatient services. However, as UT M. D. Anderson Cancer Center is designated as a cancer hospital, the Medicare program provides for a "hold-harmless" payment that is equal to the difference between the prospectively determined amounts and the current year adjusted cost (i.e., the current year adjusted cost is determined through application of a payment to cost ratio, which is derived from a previous Medicare cost report, to the current year actual cost). UT M. D. Anderson Cancer Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by UT M. D. Anderson Cancer Center and audits thereof by the Medicare fiscal intermediary.

Medicaid
Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective reimbursement methodology. Certain outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement cost methodology. The System's health-related institutions are reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the System's health-related institutions and audits thereof by the Medicaid fiscal intermediary.

The System's health-related institutions have also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System's health-related institutions under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. The System's health-related institutions recognized bad debt expense of $217,413,541 and $229,389,510 in 2007 and 2006, respectively.

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

3. Deposits, Investments and Repurchase Agreements

DEPOSITS OF CASH IN BANK
As of August 31, 2007 and 2006, the carrying amount of deposits was $30,005,247 and $25,519,893, respectively, as presented below:

		2007	2006
Cash and cash equivalents per statement of cash flows	$	1,881,636,849	1,772,962,548
Less: Certificates of deposits		4,521,221	4,516,220
Cash in State Treasury		339,962,902	314,212,984
Cash equivalent investments in money market funds		1,498,524,971	1,418,186,879
Other		8,622,508	10,526,572
Deposits of cash in bank	$	30,005,247	25,519,893

Deficit demand account balances of $120,066,078 and $110,743,865 are reported as payables at year end 2007 and 2006, respectively. As of August 31, 2007 and 2006, the total bank balances were $46,577,807 and $62,304,727, respectively.

DEPOSIT RISKS
Custodial Credit Risk
Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The System maintains depository relationships with various banking institutions. The System's policy is that all deposits are governed by a bank depository agreement between the System and the respective banking institution. This agreement provides that the System's deposits, to the extent such deposits exceed the maximum insured limit under deposit insurance provided by the Federal Deposit Insurance Corporation, shall at all times be collateralized with either government securities or a surety bond issued by an insurer rated "AAA" or its equivalent by a nationally recognized rating organization or a combination thereof.

As of August 31, 2007 and 2006, UT Southwestern Medical Center at Dallas' blended component units, UT Southwestern Moncrief Cancer Center (Moncrief) and UT Southwestern Health Systems (UTSHS), and UT Health Center at Tyler's blended component unit, East Texas Quality Care Network (ETQCN), held deposits that were exposed to custodial credit risk. Moncrief, UTSHS and ETQCN have no policies regarding these deposits. The bank balances that were exposed to custodial credit risk as of August 31, 2007 and 2006 are as follows:

		2007	2006
Uninsured and uncollateralized	$	696,042	1,828,917

INVESTMENT RISKS

The investment risk disclosure that follows relates to the System's investments. Securities lending transactions are discussed in a separate section of this note.

As of August 31, 2007 and 2006, the investments including securities lending collateral were as follows:

Type of Security		2007 Fair Value	2006 Fair Value
U.S. Government:			
U.S. Treasury Securities	$	455,874,680	647,926,995
U.S. Treasury Strips		11,295,312	11,636,249
U.S. Treasury TIPS		946,118,436	1,373,641,306
U.S. Government Agency Obligations		1,445,076,492	832,589,505
Corporate Obligations		307,911,864	279,773,029
Corporate Asset and Mortgage Backed Securities		255,765,192	206,642,377
Equity		2,201,034,724	2,017,359,573
International Obligations (Government and Corporate)		341,919,437	312,766,085
International Equity		994,266,787	954,143,692
Repurchase Agreements		8,500,000	-
Fixed Income Money Market and Bond Mutual Fund		3,313,956,712	2,604,409,597
Other Commingled Funds		86,737,368	51,420,883
International Other Commingled Funds		22,961,521	-
Commercial Paper		176,198,636	661,138,316
PUF Lands		1,922,204,827	1,723,435,031
Other Real Estate		222,360,375	144,164,937
Investment Funds:			
U.S. Equity		1,668,034,624	1,849,437,530
Non-U.S. Developed Equity		909,210,357	609,214,366
Emerging Markets		1,538,063,096	962,727,801
Fixed Income		459,776,754	354,866,927
Alternative Investments:			
Absolute Return Strategies		3,878,025,515	3,153,465,948
Directional Equity		2,230,291,897	1,621,043,399
Limited Partnerships (Private Market)		2,181,579,566	1,560,241,470
Miscellaneous (guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)		288,126,087	317,663,800
Total securities		25,865,290,259	22,249,708,816
Securities Lending Collateral Investment Pool		1,566,422,753	1,951,568,127
TOTAL	$	27,431,713,012	24,201,276,943

(A) *Credit Risk* - Article VII, Section 11b of the Texas Constitution authorizes the UT System Board of Regents, subject to procedures and restrictions it establishes, to invest System funds 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 UT System 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 of the assets of the fund rather than a single investment.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The System's investment policies limit investments in U.S. Domestic bonds and non-dollar denominated bond investments to those that are rated investment grade, Baa3 or better by Moody's Investor Services, BBB- or better by Standard &

Poor's Corporation, or BBB- or better by Fitch Investors Service at the time of acquisition. This requirement does not apply to investment managers that are authorized by the terms of an investment advisory agreement to invest in below investment grade bonds. Per GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following tables present each applicable investment type grouped by rating as of August 31, 2007 and 2006:

	August 31, 2007					
	MOODY'S		STANDARD & POOR'S		FITCH	
Investment Type	**Fair Value**	**Rating**	**Fair Value**	**Rating**	**Fair Value**	**Rating**
U.S. Government Agency Obligations	$ 1,422,561,851	Aaa	1,426,233,759	AAA	21,446,625	AAA
	199,876	Aa	199,876	AA	1,404,987,011	NR
	3,671,908	Unrated	-	-	-	-
Corporate Obligations	12,000,695	Aaa	10,916,099	AAA	2,565,235	AAA
	78,555,926	Aa	78,027,991	AA	70,345,070	AA
	82,560,040	A	107,105,519	A	85,796,703	A
	65,218,026	Baa	70,473,747	BBB	50,475,870	BBB
	21,026,847	Ba	16,974,947	BB	18,631,367	BB
	10,254,283	B	11,592,304	B	6,890,706	B
	3,845,288	Caa	2,420,721	CCC	62,806,377	NR
	24,050,222	Unrated	-	-	-	-
Corporate Asset and Mortgage Backed Securities	218,888,318	Aaa	247,476,006	AAA	4,782,790	AAA
	2,878,237	Aa	6,526,814	A	250,982,402	NR
	2,160,901	A	1,762,371	BB	-	-
	1,679,232	Ba	-	-	-	-
	28,670,827	Unrated	-	-	-	-
International Obligations (Government and Corporate)	214,436,601	Aaa	208,715,603	AAA	196,206,757	AAA
	39,370,830	Aa	24,027,239	AA	44,368,922	AA
	27,250,530	A	66,321,703	A	26,925,655	A
	22,089,807	Baa	42,603,291	BBB	16,632,495	BBB
	3,037,238	Ba	251,600	B	251,600	B
	251,600	B	-	-	57,534,007	NR
	35,482,831	Unrated	-	-	-	-
Repurchase Agreements	8,500,000	Unrated	8,500,000	AAA	8,500,000	NR
Fixed Income Money Market and Bond Mutual Fund	62,407,986	Aa	3,197,682,026	AAA	3,319,493,338	NR
	3,257,085,352	Unrated	77,209,017	Aa	-	-
	-	-	44,602,295	Unrated	-	-
Miscellaneous	5,325,907	Aaa	92,742,284	AAA	5,754,210	AAA
	23,059,013	Aa	104,051,693	AA	2,163,744	AA
	1,387,474	Baa	265,040,230	A	520,455	A
	466,751,194	Unrated	1,387,474	BBB	738,826	BBB
	-	-	13,713,706	BB	487,346,351	NR
	-	-	18,834,406	B	-	-
	-	-	753,795	NR	-	-
Commercial Paper	67,556,776	Prime-1	38,645,082	AAA	176,198,636	NR
	110,129,536	NR	11,457,786	A-1	-	-
	-	-	126,095,768	P	-	-
	$ 6,322,345,152		6,322,345,152		6,322,345,152	

		August 31, 2006					
		MOODY'S		STANDARD & POOR'S		FITCH	
Investment Type		**Fair Value**	**Rating**	**Fair Value**	**Rating**	**Fair Value**	**Rating**
U.S. Government Agency Obligations	$	810,021,395	Aaa	808,319,706	AAA	55,384,626	AAA
		196,938	Aa	196,938	AA	196,938	AA
		2,401,340	Unrated	4,103,029	NR	757,038,109	NR
Corporate Obligations		126,413,167	Aaa	126,854,770	AAA	4,633,141	AAA
		127,583,312	Aa	112,638,583	AA	36,164,247	AA
		81,965,817	A	98,054,776	A	66,649,532	A
		80,970,380	Baa	82,091,077	BBB	76,172,876	BBB
		27,924,667	Ba	13,842,848	BB	20,823,304	BB
		14,865,606	B	16,587,541	B	13,008,456	B
		829,125	Caa	777,100	CCC	253,703,061	NR
		10,602,543	Unrated	20,307,922	NR	-	-
Corporate Asset and Mortgage Backed Securities		168,478,338	Aaa	192,597,585	AAA	21,367,530	AAA
		2,014,615	Aa	3,521,385	A	186,952,920	NR
		1,531,746	A	104,000	BBB	-	-
		2,395,340	B	2,395,340	B	-	-
		33,900,411	Unrated	9,702,140	NR	-	-
International Obligations (Government and Corporate)		196,611,309	Aaa	183,164,676	AAA	182,773,084	AAA
		26,683,187	Aa	43,743,739	AA	42,615,362	AA
		32,453,031	A	32,778,047	A	15,676,145	A
		22,925,539	Baa	27,989,580	BBB	12,121,907	BBB
		3,059,375	Ba	285,600	B	285,600	B
		285,600	B	24,804,443	NR	59,293,987	NR
		30,748,044	Unrated	-	-	-	-
Repurchase Agreements		710,498,581	Unrated	710,498,581	NR	710,498,581	NR
Fixed Income Money Market and Bond Mutual Fund		156,008,053	Aaa	2,619,852,567	AAA	2,948,394,469	NR
		196,037,440	Aa	196,037,440	Aa	-	-
		12,539,408	Ba	12,539,408	BB	-	-
		2,583,809,568	Unrated	119,965,054	Unrated	-	-
Miscellaneous		7,456,800	Aaa	7,342,414	AAA	6,002,285	AAA
		1,318,918	Aa	1,318,918	AA	2,260,008	AA
		10,848,815	Baa	10,358,240	BBB	9,332,217	BBB
		1,120,141	Unrated	1,725,102	NR	3,150,164	NR
Commercial Paper		1,369,495,252	Prime-1	1,260,356,543	A-1	180,520,538	F-1
		47,498,470	Prime-2	47,498,470	A-2	1,528,627,659	NR
		292,154,475	NR	401,293,184	NR	-	-
	$	7,193,646,746		7,193,646,746		7,193,646,746	

(B) *Concentrations of Credit Risk* – The System's investment policy statements contain the limitation that no more than five percent of the market value of domestic fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2007 and 2006, the System did not hold any direct investments in any one issuer of corporate or municipal bonds that were five percent or more of the market value of the System's domestic fixed income investments.

(C) *Custodial Credit Risk* – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the System's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2007 and 2006, the System did not have any deposits or investments that are exposed to custodial credit risk.

(D) *Interest Rate Risk* – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the System investments is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the System's investments to changes in interest rates. The System has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the System's modified duration by investment type as of August 31, 2007 and 2006:

		August 31, 2007		August 31, 2006	
Investment Type		**Fair Value**	**Modified Duration**	**Fair Value**	**Modified Duration**
Investments in Securities:					
U.S. Government Guaranteed:					
U.S. Treasury Bonds and Notes	$	296,311,887	7.20	486,031,661	7.20
U.S. Treasury Strips		11,295,313	4.05	11,636,249	5.07
U.S. Treasury Bills		22,684,687	0.04	14,636,846	0.04
U.S. Treasury Inflation Protected		946,118,436	8.73	1,372,489,290	7.89
U.S. Agency Asset Backed		18,642,856	6.82	19,969,831	5.69
Total U.S. Government Guaranteed		1,295,053,179		1,904,763,877	
U.S. Government Non-Guaranteed:					
U.S. Agency		70,907,545	1.38	71,594,838	1.76
U.S. Agency Asset Backed		1,355,526,091	5.03	741,024,835	5.32
Total U.S. Government Non-Guaranteed		1,426,433,636		812,619,673	
Total U.S. Government		2,721,486,815		2,717,383,550	
Corporate Obligations:					
Domestic		553,276,517	3.86	486,415,402	3.62
Commercial Paper		176,198,636	0.13	661,138,316	0.07
Foreign		107,567,451	6.88	88,832,942	12.32
Total Corporate Obligations		837,042,604		1,236,386,660	
Foreign Government and Provincial Obligations		234,351,985	5.45	223,933,143	6.85
Other Debt Securities		10,390,283	10.16	20,138,662	11.36
Total Debt Securities		244,742,268		4,197,842,015	
Other Investment Funds - Debt		459,776,754	3.73	354,866,927	3.72
Fixed Income Money Market Funds		3,240,094,802	0.11	2,570,152,968	0.27
Repurchase Agreements		8,500,000	-	-	-
Certificates of Deposit		25,602,755	0.94	-	-
Total	$	7,537,245,998		7,122,861,910	
Deposit with Brokers for Derivative Contracts:					
U.S. Government Guaranteed:					
U.S. Treasury Bills	$	136,878,106	0.14	147,258,502	0.14
U.S. Treasury Inflation Protected		-	-	1,152,017	0.36
Total U.S. Government Guaranteed		136,878,106		148,410,519	
Cash		6,371,967	-	65,628,880	-
Total Deposit with Brokers for Derivative Contracts	$	143,250,073		214,039,399	

(E) *Investments with Fair Values That Are Highly Sensitive to Interest Rate Changes* – In accordance with the System's investment policy statements, the System may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The System also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped Treasury and Agency securities created from coupon securities. No percentage of holdings limitations are specified in the investment policy statements regarding these types of securities. As of August 31, 2007 and 2006, the System's investments included the following investments that are highly sensitive to interest rate changes:

- Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. As of August 31, 2007 and 2006, these securities amounted to $392,563,747 and $172,275,247, respectively.

- Mortgage backed securities which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. As of August 31, 2007 and 2006, these securities amounted to $1,146,918,202 and $690,018,485, respectively.

- Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. As of August 31, 2007 and 2006 these securities amounted to $93,567,699 and $110,254,288, respectively.

- Step-up notes that grant the issuer the option to call the note on certain specified dates. At each call date, should the issuer not call the note, the coupon rate of the note increases (steps up) by an amount specified at the inception of the note. The call feature embedded within a step-up note causes the fair value of the instrument to be considered highly sensitive to interest rate changes. As of August 31, 2007 and 2006, these securities amounted to $8,513,212 and $5,920,091, respectively.

(F) *Foreign Currency Risk* – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the System's non-U.S. dollar investments. The System's investment policy statement limits investments in non-U.S. denominated bonds to 50 percent of the System's total fixed income exposure. The following tables summarize the System's non-U.S. dollar investments by asset type as of August 31, 2007 and 2006.

Investment Type		2007 Fair Value
Domestic Common Stock:		
British Pound	$	66,172
Canadian Dollar		92,144
Total Domestic Common Stock		158,316
Foreign Common Stock:		
Australian Dollar		32,764,414
British Pound		123,423,957
Canadian Dollar		113,772,134
Danish Krone		4,766,105
Euro		85,966,708
Hong Kong Dollar		39,230,792
Japanese Yen		341,822,358
Norwegian Krone		21,176,551
Singapore Dollar		6,627,229
Swedish Krona		16,844,803
Swiss Franc		17,769,924
Total Foreign Common Stock		804,164,975
Foreign Government and Provincial Obligations:		
Canadian Dollar		5,663,901
British Pound		23,011,243
Danish Krone		3,057,639
Euro		175,428,931
Japanese Yen		10,636,164
New Zealand Dollar		347,060
Polish Zloty		5,326,292
Total Foreign Government and Provincial		223,471,230
Corporate Obligations:		
British Pound		8,012,239
Canadian Dollar		947,730
Danish Krone		5,575,625
Euro		42,501,702
Japanese Yen		14,477,746
Total Corporate Obligations		71,515,042

Investment Type		2007 Fair Value
Purchased Options:		
British Pound	$	98,567
Euro		892,545
Total Purchased Options		991,112
Private Market Investments:		
British Pound		3,170,703
Euro		268,628,900
Total Private Market Investments		271,799,603
Cash and Cash Equivalents:		
Australian Dollar		390,669
British Pound		4,544,174
Canadian Dollar		3,497,713
Danish Krone		172,667
Euro		9,751,677
Hong Kong Dollar		32,020
Hungarian Forint		3,663
Japanese Yen		13,530,075
Mexican Peso		29,020
New Zealand Dollar		610,106
Norwegian Krone		556,022
Polish Zloty		269,166
Swiss Franc		799,333
Swedish Krona		511,089
Singapore Dollar		298,606
Taiwan Dollar		991,606
Total Cash and Cash Equivalents		35,987,606
Total	$	1,408,087,884

Investment Type	2006 Fair Value	Investment Type	2006 Fair Value
Foreign Common Stock:		Purchased Options:	
Australian Dollar	$ 27,161,690	Canadian Dollar	$ 103,644
Canadian Dollar	117,656,452	Euro	1,694,483
Danish Krone	5,968,494	Japanese Yen	4,819,459
Euro	72,381,628	UK Pound	281,746
Hong Kong Dollar	41,431,989	Total Purchased Options	6,899,332
Japanese Yen	371,216,732	Private Market Investments:	
New Zealand Dollar	1,126,338	Euro	156,320,133
Norwegian Krone	9,485,210	UK Pound	9,421,397
Singapore Dollar	17,168,044	Total Private Market Investments	165,741,530
South Korean Won	9,616,557	Cash and Cash Equivalents:	
Swedish Krona	11,898,472	Australian Dollar	330,400
Swiss Franc	16,575,921	Canadian Dollar	2,155,741
UK Pound	92,673,059	Danish Krone	62,902
Total Foreign Common Stock	794,360,586	Euro	4,469,259
Other – Equity Securities:		UK Pound	1,240,240
Canadian Dollar	74	Hong Kong Dollar	371,093
Foreign Government and Provincial Obligations:		Japanese Yen	16,897,585
Canadian Dollar	5,480,774	New Zealand Dollar	660,421
Danish Krone	2,966,147	Norwegian Krone	110,689
Euro	160,494,777	Polish Zloty	558,073
Japanese Yen	6,697,028	Swiss Franc	169,395
New Zealand Dollar	336,342	Swedish Krona	277,118
Polish Zloty	4,904,063	Singapore Dollar	431,032
UK Pound	19,971,176	Taiwan Dollar	992,991
Total Foreign Government and Provincial	200,850,307	Total Cash and Cash Equivalents	28,726,939
Corporate Obligations:			
Euro	42,660,616		
Japanese Yen	10,926,110		
UK Pound	4,078,356		
Total Corporate Obligations	57,665,082	Total	$ 1,254,243,850

SECURITIES LENDING

In accordance with the prudent investor investment standards, the System participates in a securities lending program. The System began the program, under a contract with the System's lending agent, on September 1, 1995. The lending agent is authorized to lend any securities held by the System's custodian except those securities, which the policy guidelines prohibits lending. At August 31, 2007 and 2006, there were a total of $1,737,430,786 and $1,957,947,964, respectively, of securities out on loan to brokers/dealers. This consisted of $1,623,727,557 domestic and $113,703,229 international loans at August 31, 2007 and $1,831,902,043 domestic and $126,045,921 international loans at August 31, 2006. The value of collateral held for these securities consisted of $1,566,422,752 cash and $210,212,031 noncash collateral at August 31, 2007 and $1,951,568,127 cash and $52,365,762 noncash collateral at August 31, 2006. Investments received as collateral for securities lending activities are not recorded as assets because the investments remain under the control of the transferor, except in the event of default.

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

Cash collateral received by the lending agent on behalf of the System is invested and reinvested in a non-commingled pool exclusively for the benefit of the System. The pool is managed in accordance with investment guidelines established by the System and is stated in the security lending contract. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar weighted average maturity of 60 days and an overnight liquidity of 20 percent. On August 31, 2007 and 2006, the System was collateralized 102 percent for securities on loan collateralized by cash. The System's collateral pool investments, rating by NRSRO, and weighted average maturity as of August 31, 2007 and 2006, are shown in the following table:

		August 31, 2007			August 31, 2006		
Description		**Fair Value**	**Rating**	**Weighted Average**	**Fair Value**	**Rating**	**Weighted Average**
Repurchase Agreements	$	509,478,566	No Rating	4	710,498,581	No Rating	14
Commercial Paper		429,576,458	P	38	848,689,813	P	26
Floating Rate Notes		112,806,968	AAA		111,381,593	AAA	
Floating Rate Notes		320,812,034	AA		80,000,000	AA	
Total Floating Rate Notes		433,619,002		13	191,381,593		69
Fixed Rate Notes		4,994,336	AAA	105	-		
Certificates of Deposit		-			244,179,640	P	67
Asset Backed Securities		191,395,929	AAA		3,500,000	AAA	11
Asset Backed Securities		2,000,000	P		-		
Total Asset Backed Securities		193,395,929		32	3,500,000		-
Other Receivables/Payables		(4,641,538)	Not Rated	-	(46,681,500)	Not Rated	-
Total Collateral Pool Investment	$	1,566,422,753		20	1,951,568,127		31

Collateral pool investments are uninsured and are held by the securities lending agent, in its name, on behalf of the System, except for the investments in repurchase agreements, which are held in the securities lending agent's name by a third party custodian not affiliated with the System or the borrower of the associated loaned securities. Therefore, the collateral pool is not exposed to custodial credit risk, because the pool investments are not held by counterparties to the lending transactions or a counterparties' trust department or agent.

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

Loans that are collateralized with securities generate income when the borrower pays a "loan premium or fee" for the securities loan. This income is split with the same ratio as the earnings for cash collateral. The collateral pledged to the System by the borrower is custodied by the lending agent or through a third party arrangement. These securities held as collateral are not available to the System for selling or pledging unless the borrower is in default of the loan. On August 31, 2007, the System was collateralized 102 percent for securities on loan which were collateralized by securities. On August 31, 2006, the System was collateralized 103 percent for securities on loan which were collateralized by securities.

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

For non-United States issuers, the collateral should remain at 105 percent of the fair value of the loaned securities at the close of any business day. If it falls below 105 percent, the borrower must deliver additional collateral by the close of the following business day. On August 31, 2007 and 2006, the System was collateralized 105 percent for international loans.

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

At August 31, 2007 and 2006, the System had no credit risk exposure to borrowers because the amounts the System owed to borrowers exceeded the amounts the borrowers owed the System.

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

(A) *Mortgage Derivatives* – Mortgage derivatives are used to manage portfolio duration and to enhance portfolio yield and are influenced by changes in interest rates, the current economic climate and the geographic make-up of underlying mortgage loans. There are varying degrees of risk associated with mortgage derivatives. For example, certain Collateralized Mortgage Obligations (CMOs) such as Planned Amortization Class (PACs) are considered a more conservative lower risk investment. In contrast, principal only and interest only strips are considered higher risk investments. The System’s investment in CMOs, which was comprised almost exclusively of the lower risk investment class, was 1.5 percent of total investments with a fair value of $392,563,747 at August 31, 2007 and 0.8 percent of total investments with a fair value of $172,275,247 at August 31, 2006.

(B) *Futures Contracts* – Futures contracts are used to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes. The net liability is included in payables from restricted assets. Futures contracts are marked to market daily; that is, they are valued at the close of business each day and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss difference is referred to as the daily variation margin, which is settled in cash with the broker each morning for the amount of the previous day’s mark to market. The amount that is settled in cash with the broker each morning is the carrying and fair value of the futures contracts. The amount of the net realized gain on the futures contracts was $37,121,227 for the year ended August 31, 2007. The amount of the net realized loss on the futures contracts was $18,378,163 for the year ended August 31, 2006. The System executes such contracts either on major exchanges or with major international financial institutions and minimizes market and credit risk associated with these contracts through the manager’s various trading and credit monitoring techniques.

The following discloses the notional, carrying and fair values of futures contracts at August 31, 2007.

	Notional Value at August 31, 2007		Carrying and Fair Value at August 31, 2007	
	Long	Short	Assets	Liabilities
Domestic Equity Futures	$ 1,940,752,975	654,756,240	19,845,175	8,402,760
International Equity Futures	470,607,474	-	6,670,389	-
Commodity Futures	584,634,926	-	5,113,425	-
Domestic Fixed Income Futures	28,868,624	332,187,984	877,087	96,436
International Fixed Income Futures	1,146,037,283	203,362,013	238,848	908,802
Totals	$ 4,170,901,282	1,190,306,237	32,744,924	9,407,998

The following discloses the notional, carrying and fair values of futures contracts at August 31, 2006.

	Notional Value at August 31, 2006		Carrying and Fair Value at August 31, 2006	
	Long	Short	Assets	Liabilities
Domestic Equity Futures	$ 2,932,919,910	1,974,726,210	2,169,526	-
International Equity Futures	436,584,201	4,920,748	167,724	2,807,381
Commodity Futures	572,248,000	-	2,210,400	-
Domestic Fixed Income Futures	249,572,766	68,368,281	421,620	232,798
International Fixed Income Futures	741,081,030	2,305,158	1,529,600	9,281
Totals	$ 4,932,405,907	2,050,320,397	6,498,870	3,049,460

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

The tables below summarize, by currency, the contractual amounts of the System's foreign exchange contracts at August 31, 2007 and 2006. Foreign currency amounts are translated at exchange rates as of August 31, 2007 and 2006. The "Net Buy" amounts represent the U. S. dollar equivalent of net commitments to purchase foreign currencies and the "Net Sell" amounts represent the U. S. dollar equivalent of net commitments to sell foreign currencies.

Currency		Net Buy August 31, 2007	Net Sell August 31, 2007	Unrealized Gains on Foreign Exchange Contracts August 31, 2007	Unrealized Losses on Foreign Exchange Contracts August 31, 2007
Australian Dollar	$	23,889,553	-	767,376	1,934,408
Brazilian Real		12,615,299	-	276,007	390,810
British Pound		242,163,443	-	8,115,745	1,458,138
Canadian Dollar		26,545,938	2,167,685	743,644	124,176
Chilean Peso		448,317	-	15,382	-
Chinese Yuan Renminibi		74,659,449	-	991,548	684,259
Czech Koruna		-	282,248	80,180	21,056
Danish Krone		-	6,171,400	375	46,498
Euro Currency		374,837,317	-	9,385,160	1,610,427
Hungarian Forint		-	584,255	50,816	108,508
Indian Rupee		4,816,829	-	-	24,052
Japanese Yen		-	102,639,268	11,360,698	8,376,437
Malaysian Ringgit		10,922,481	-	16,950	465,907
Mexican Peso		13,875,927	-	136,680	313,433
New Zealand Dollar		-	10,167,602	422,623	452,546
Norwegian Krone		4,875,276	-	99,919	3,016
Polish Zloty		863,388	1,307,298	275,505	365,477
Russian Rouble		19,902,538	-	233,839	40,422
Singapore Dollar		3,395,887	-	749	38,406
Slovak Koruna		-	-	-	-
South African Rand		1,906,135	-	149,059	104,522
South Korean Won		22,552,406	-	50,343	400,353
Swedish Krona		10,875,829	-	150,129	239,198
Swiss Franc		20,382,710	163,800	546,551	268,998
Taiwan Dollar		7,514,623	-	20,439	96,814
TOTAL	$	877,043,345	123,483,556	33,889,717	17,567,861

Currency	Net Buy August 31, 2006	Net Sell August 31, 2006	Unrealized Gains on Foreign Exchange Contracts August 31, 2006	Unrealized Losses on Foreign Exchange Contracts August 31, 2006
Australian Dollar	$ 24,330,367	-	498,810	103,352
Canadian Dollar	-	7,249,151	476,467	715,737
Chilean Peso	434,505	-	717	-
Chinese Yuan Renminibi	48,866,896	-	298,641	1,137,650
Czech Koruna	814,261	-	15,377	115,703
Danish Krone	1,266,566	1,072,066	8,075	9,240
Euro Currency	532,473	49,539,666	3,138,133	1,609,397
Hungarian Forint	-	706,244	62,222	141,542
Indian Rupee	90,823	-	172	-
Japanese Yen	468,869,380	-	3,748,326	19,470,115
Mexican New Peso	11,426,343	-	562,953	717,864
New Taiwan Dollar	14,735,740	-	172,691	635,702
New Zealand Dollar	-	9,504,750	487,896	522,593
Norwegian Krone	912,894	-	688	45,866
Polish Zloty	1,486,995	-	102,308	361,604
New Russian Rubel	554,900	-	3,408	-
Singapore Dollar	19,823,265	-	161,953	1,657
Slovak Koruna	-	-	9,282	7,631
South African Comm Rand	4,394,288	-	179,233	773,246
South Korean Won	11,725,288	-	166,912	429,160
Swedish Krona	11,926,168	-	67,068	110,280
Swiss Franc	21,744,020	-	198,098	789,655
UK Pound	301,618,137	-	9,324,975	2,412,310
TOTAL	$ 945,553,309	68,071,877	19,684,405	30,110,304

(D) *Written Options* – Written options are used to alter the market (systematic) exposure without trading the underlying cash market securities, and to hedge and control risks, so that the actual risk/return profile is more closely aligned with the target risk/return profile. They are included in payables from restricted assets. During the year, call options were written on Treasury Bond and equity index futures. Transactions in call options written during the year ended August 31, 2007 were as follows:

	Number of Contracts		Premiums Received
Call Options Outstanding at August 31, 2006	5,106,100	$	12,753,758
Options Written	628,631		11,554,971
Options Expired	(297,355)		(3,396,580)
Options Exercised	(79,824)		(3,384,978)
Options Terminated in Closing Purchase Transactions	(4,384,782)		(9,577,619)
Call Options Outstanding at August 31, 2007	972,770		7,949,552

	Number of Contracts		Premiums Received
Put Options Outstanding at August 31, 2006	5,862,765	$	10,349,814
Options Written	14,558,582		5,862,051
Options Expired	(14,714,340)		(5,778,289)
Options Exercised	(40,071)		(1,280,998)
Options Terminated in Closing Purchase Transactions	(5,207,283)		(8,839,173)
Put Options Outstanding at August 31, 2007	459,653		313,405

Transactions in call options written during the year ended August 31, 2006 were as follows:

	Number of Contracts		Premiums Received
Call Options Outstanding at August 31, 2005	2,266,225	$	7,718,819
Options Written	3,652,768		15,295,696
Options Expired	(771,465)		(8,598,325)
Options Exercised	(2,800)		(468,994)
Options Terminated in Closing Purchase Transactions	(38,628)		(1,193,438)
Call Options Outstanding at August 31, 2006	5,106,100	$	12,753,758

	Number of Contracts		Premiums Received
Put Options Outstanding at August 31, 2005	1,892,678	$	533,294
Options Written	5,176,054		21,127,493
Options Expired	(476,302)		(1,942,170)
Options Exercised	(365,518)		(890,244)
Options Terminated in Closing Purchase Transactions	(364,147)		(8,478,559)
Put Options Outstanding at August 31, 2006	5,862,765	$	10,349,814

(E) *Swaps* – Swaps are used to adjust interest rate and yield curve exposures. During the year, the System entered into interest rate, inflation, credit default, total return and commodity swap contracts. They are included in other receivables and payables from restricted assets. The following discloses the notional amount, the coupon rate and the fair values of the outstanding swap contracts as of August 31, 2007:

				Fair Value at August 31, 2007	
Currency	Coupon	Notional Value	Maturity Date	Assets	Liabilities
Interest Rate Swaps:					
Australian Dollar					
	6.000%	42,400,000	6/15/2010	$ -	$ 774,390
	6.000%	25,600,000	6/15/2015	898,891	-
	6.500%	46,380,000	1/15/2009	-	112,135
	6.500%	9,900,000	1/15/2010	-	56,016
	6.750%	400,000	12/15/2017	-	2,602
	7.000%	3,000,000	12/15/2009	2,102	-
	7.000%	88,300,000	6/15/2010	126,799	-
Brazilian Real					
	10.680%	4,300,000	1/02/2012	-	69,108
British Pound					
	0.670%	-	9/20/2014	-	15,088
	3.500%	7,800,000	12/17/2037	70,070	-
	4.000%	28,800,000	12/15/2035	2,213,426	-
	4.250%	900,000	6/12/2036	68,995	-
	4.500%	80,500,000	9/15/2017	1,038,645	-
	5.000%	3,000,000	6/15/2008	-	66,663
	5.000%	11,800,000	6/15/2009	-	228,578
	5.000%	34,400,000	9/15/2010	-	2,229,543
	5.000%	27,900,000	9/15/2015	-	2,714,168
	5.000%	2,100,000	3/20/2018	367,804	-
	5.322%	20,000,000	9/14/2009	595,785	-
	5.500%	200,000	2/15/2036	-	30,573
	6.000%	2,300,000	6/19/2009	1,993	-
	6.000%	47,700,000	9/20/2012	413,333	-
Canadian Dollar					
	5.000%	3,100,000	6/15/2015	23,746	-
	5.000%	17,000,000	6/20/2017	-	38,332
	5.500%	25,200,000	6/20/2017	-	577,261
Euro					
	0.000%	1,400,000	3/15/2012	-	13,186
	0.158%	1,500,000	12/15/2011	205	-
	1.948%	800,000	3/15/2012	-	4,564
	1.950%	900,000	3/30/2012	-	4,603
	1.955%	1,300,000	3/28/2012	-	5,980
	1.960%	600,0000	3/30/2012	-	2,380
	1.960%	200,000	4/05/2012	-	949
	1.965%	500,0000	3/15/2012	-	518
	1.988%	2,200,000	12/15/2011	1,378	-
	1.995%	9,300,000	3/15/2012	-	3,569
	2.028%	1,600,000	10/15/2011	14,560	-
	2.040%	3,300,000	2/21/2011	42,920	-
	2.095%	4,200,000	10/15/2011	67,854	-
	2.103%	6,000,000	10/15/2010	124,293	-
	2.146%	1,300,000	10/15/2010	30,819	-
	2.261%	2,100,000	7/14/2011	53,190	-
	2.275%	1,600,000	10/15/2016	7,281	-
	2.350%	1,600,000	10/15/2016	3,592	-
	2.353%	1,400,000	10/15/2016	4,395	-
	4.000%	10,600,000	9/19/2009	-	155,676
	4.000%	9,360,000	6/17/2010	160,624	-
	4.000%	20,700,000	12/15/2011	705,194	-
	4.000%	-	9/19/2012	424,544	-
	4.000%	32,980,000	6/16/2014	1,381,872	-
	4.000%	21,800000	10/30/2014	972,016	-
	4.000%	8,700,000	12/15/2014	164,975	-
	4.000%	12,600,000	6/15/2017	824,259	-
	4.000%	6,200,000	6/21/2036	-	1,025,254
	4.435%	9,900,000	6/18/2015	636,293	-

(Continued)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2007 Assets	Liabilities
Interest Rate Swaps:					
Euro					
	4.500%	500,000	6/18/2034	-	387,287
	5.000%	39,900,000	12/15/2011	-	668,328
	5.000%	56,900,000	9/19/2012	1,659,005	-
	5.000%	3,400,000	6/16/2014	132,643	-
	5.000%	200,000	3/19/2018	-	15,820
	5.000%	9,300,000	3/19/2038	-	432,312
	6.000%	1,200,000	3/15/2032	109,260	-
	6.000%	8,100,000	6/18/2034	-	1,075,812
Japanese Yen					
	0.000%	31,860,000,000	9/10/2009	274,856,570	-
	0.800%	1,120,000,000	3/30/2012	230,941	-
	1.000%	11,120,000,000	9/18/2008	36,807	-
	1.000%	45,690,000,000	3/18/2009	-	498,692
	1.500%	15,340,000,000	3/20/2011	-	248,598
	1.500%	4,320,000,000	6/20/2012	279,066	-
	1.980%	1,900,000,000	6/27/2016	-	423,426
	2.000%	3,700,000,000	6/20/2010	-	458,748
	2.000%	800,000,000	6/15/2012	-	220,187
	2.000%	3,455,000,000	12/20/2013	-	957,773
	2.000%	10,980,000,000	12/20/2016	-	1,659,470
	2.500%	2,950,000,000	12/15/2035	301,726	-
	3.000%	840,000,000	6/20/2036	-	769,634
Mexican Peso					
	8.170%	54,800,000	11/4/2016	-	44,551
	8.330%	32,300,000	2/14/2017	3,435	-
	8.840%	28,000,000	9/23/2016	89,004	-
	8.720%	10,500,000	9/05/2016	26,564	-
South Korean Won					
	4.765%	1,050,700,000	2/03/2009	-	7,767
	4.800%	2,508,300,000	2/01/2009	-	17,263
	4.965%	525,400,000	2/03/2011	-	4,538
	4.990%	650,500,000	2/01/2011	-	5,054
	5.000%	543,300,000	2/01/2011	-	4,036
U. S. Dollar					
	0.000%	111,100,000	6/18/2009	355,575	-
	0.000%	270,000,000	9/10/2009	-	270,000,000
	0.000%	6,200,000	12/07/2007	161,426	-
	0.700%	4,100,000	9/20/2008	585	-
	4.000%	-	8/31/2007	73,808	-
	4.000%	27,600,000	12/15/2008	-	419,318
	4.500%	-	8/31/2007	-	448,648
	5.000%	-	8/31/2007	17,920	-
	5.000%	124,300,000	12/19/2008	280,669	-
	5.000%	87,100,000	6/18/2009	278,764	-
	5.000%	9,800,000	12/17/2009	45,983	-
	5.000%	92,300,000	12/19/2009	433,090	-
	5.000%	117,600,000	12/19/2012	342,344	-
	5.000%	1,900,000	12/21/2013	9,732	-
	5.000%	34,800,000	12/19/2014	137,672	-
	5.000%	131,900,000	12/19/2017	2,224,995	-
	5.000%	200,000	12/20/2026	10,412	-
	5.000%	1,500,000	6/20/2027	-	79,288
	5.000%	21,700,000	12/19/2037	-	1,410,218
	6.000%	-	8/31/2007	111,872	-
				293,651,721	288,387,904
Commodity:					
U. S. Dollar					
	TBill + 22 Basis Points	246,890,0000	9/26/2007	1,697,949	-
	TBill + 25 Basis Points	16,460,000	9/26/2007	140,642	-
	TBill + 28 Basis Points	164,070,000	9/26/2007	1,128,088	-
	Fixed	164,290,000	9/26/2007	-	1,131,860
				2,966,679	1,131,860

(Continued)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2007 Assets	Liabilities
Credit Default:					
Brazilian Real					
	10.575%	1,600,000	1/02/2012	-	27,706
Euro					
	0.000%	-	12/20/2016	3,918	-
	0.210%	-	6/20/2012	2	-
	0.235%	-	6/20/2012	1,404	-
	0.250%	-	6/20/2012	2,816	-
	0.290%	-	6/20/2012	-	832
	0.340%	-	6/20/2012	-	2,522
	0.365%	-	6/20/2012	-	2,476
	0.390%	-	6/20/2012	-	532
	0.450%	-	9/20/2012	20,389	-
	0.460%	-	9/20/2012	-	207
	0.470%	-	9/20/2012	-	69,440
	0.490%	-	9/20/2012	-	9
	0.850%	-	9/20/2012	34,641	-
	1.958%	4,700,000	4/10/2012	-	37,809
U. S. Dollar					
	0.000%	-	6/20/2012	-	5,960
	0.050%	-	9/20/2009	392	-
	0.070%	3,000,000	12/20/2007	-	3,747
	0.070%	3,600,000	6/20/2008	-	7,145
	0.089%	-	6/20/2012	3,453	-
	0.090%	-	6/20/2012	6,068	-
	0.100%	-	6/20/2012	5,555	-
	0.110%	-	6/20/2010	1,518	-
	0.120%	1,500,000	6/20/2008	-	3,025
	0.120%	-	6/20/2012	1,338	-
	0.135%	1,400,000	6/20/2008	-	3,895
	0.135%	-	3/20/2015	1,398	-
	0.140%	-	3/20/2011	891	-
	0.150%	3,600,000	6/20/2008	-	16,653
	0.150%	-	6/20/2017	1,512	-
	0.160%	5,500,000	6/20/2008	-	35,842
	0.160%	-	3/20/2011	-	170
	0.160%	-	12/20/2011	2,571	-
	0.160%	-	6/20/2012	33,369	-
	0.165%	-	3/20/2011	2,324	-
	0.165%	-	12/20/2013	4,739	-
	0.170%	-	6/20/2010	31,250	-
	0.180%	-	3/20/2012	5,072	-
	0.200%	-	6/20/2009	537	-
	0.210%	-	6/20/2011	733	-
	0.210%	-	9/20/2011	2,362	-
	0.210%	-	6/20/2012	5,142	-
	0.210%	-	12/20/2016	7,187	-
	0.220%	-	9/20/2009	-	1,464
	0.220%	-	9/20/2011	2,689	-
	0.230%	-	6/20/2009	862	-
	0.230%	-	3/20/2012	2,407	-
	0.240%	700,000	2/20/2008	-	768
	0.240%	-	3/20/2011	-	511
	0.245%	200,000	6/20/2008	-	382
	0.290%	-	6/20/2011	1,712	-
	0.310%	-	12/20/2011	650	-
	0.320%	-	6/20/2010	-	1,024
	0.340%	-	12/20/2016	14,310	-
	0.350%	-	8/31/2007	-	927,952
	0.350%	-	9/20/2011	-	2,569
	0.350%	37,480,000	6/20/2012	184,310	-
	0.390%	-	6/20/2010	-	1,702
	0.395%	-	9/20/2011	6,453	-
	0.400%	-	6/20/2014	-	391
	0.452%	-	6/20/2012	-	2,500

(Continued)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2007 Assets	Liabilities
Credit Default:					
U. S. Dollar					
	0.455%	-	6/20/2012	-	15,120
	0.459%	-	6/20/2012	-	1,902
	0.460%	-	9/20/2011	9,036	-
	0.460%	-	3/20/2012	-	58
	0.460%	-	12/20/2016	1,321	-
	0.462%	-	6/20/2012	-	1,412
	0.470%	-	6/20/2011	-	563
	0.495%	-	6/20/2017	-	354
	0.510%	-	6/20/2011	22,092	-
	0.519%	-	6/20/2012	-	8,019
	0.520%	-	6/20/2012	-	8,250
	0.530%	-	6/20/2012	-	1,204
	0.539%	-	6/20/2017	3,702	-
	0.542%	-	6/20/2012	-	683
	0.550%	-	9/20/2011	6,960	-
	0.600%	-	8/31/2007	-	140,594
	0.600%	-	6/20/2017	74,026	-
	0.610%	200,000	5/20/2012	-	3,675
	0.650%	-	12/20/2016	483,029	-
	0.660%	400,000	9/20/2012	-	10,732
	0.670%	1,400,000	1/20/2017	-	4,778
	0.670%	-	6/20/2017	14,561	-
	0.675%	-	6/20/2017	3,976	-
	0.700%	400,000	6/20/2012	-	31,926
	0.700%	300,000	9/20/2012	-	7,545
	0.700%	-	6/20/2017	8,145	-
	0.710%	100,000	9/20/2012	-	2,470
	0.720%	400,000	9/20/2012	-	10,533
	0.750%	600,000	9/20/2012	114	-
	0.770%	-	3/20/2012	-	10,323
	0.800%	200,000	9/20/2012	522	-
	0.820%	200.000	5/20/2012	-	5,614
	0.840%	200,000	6/20/2012	968	-
	0.850%	-	3/20/2008	59,058	-
	0.895%	-	6/20/2017	5,697	-
	0.898%	-	6/20/2017	7,543	-
	0.990%	-	6/20/2017	5,980	-
	1.010%	400,000	6/20/2012	-	12,112
	1.040%	-	6/20/2017	3,528	-
	1.080%	-	6/20/2017	7,791	-
	1.190%	-	6/20/2017	39,296	-
	1.200%	2,240,000	6/20/2012	-	110,059
	1.200%	-	6/20/2017	19,484	-
	1.290%	-	6/20/2011	-	3,346
	1.300%	-	6/20/2017	135,227	-
	1.330%	-	6/20/2017	19,618	-
	1.540%	-	6/20/2017	26,333	-
	1.600%	-	6/20/2017	25,528	-
	1.630%	-	6/20/2017	12,602	-
	2.750%	-	8/31/2007	311,085	-
	2.750%	3,930,000	6/20/2012	-	194,835
	3.050%	400,000	9/20/2012	-	34,175
	3.800%	300,000	9/20/2012	-	13,674
	3.850%	100,000	9/20/2012	-	4,390
	4.300%	1,000,000	6/20/2010	-	11,761
	4.850%	-	9/20/2012	10,218	-
	5.200%	-	8/31/2007	-	924
	5.200%	-	9/20/2008	9,132	-
	5.400%	900,000	9/20/2012	-	16,080
	5.450%	900,000	9/20/2012	-	14,745
	6.850%	100,000	6/20/2012	2,454	-
	7.000%	300,000	9/20/2012	8,774	-
				1,731,774	1,839,089

(Continued)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2007 Assets	Liabilities
Equity:					
U. S. Dollar					
	Emerging	58,799,807	9/29/2007	2,522,876	-
	Emerging	95,949,739	11/16/2007	13,561,869	-
	Domestic	8,370,312	10/30/2007	-	1,078,164
				16,084,745	1,078,164
Inflation:					
British Pound					
	3.381%	1,000,000	6/14/2027	-	4,886
Euro	1.940%	1,500,000	4/10/2012	-	10,370
	1.980%	900,000	4/30/2012	-	4,610
	2.080%	5,500,000	6/15/2012	4,485	-
	2.238%	3,500,000	6/20/2012	38,082	-
				42,567	19,866
Total				$ 314,477,486	$ 292,456,883

The following discloses the notional amount, the coupon rate, and the fair values of the outstanding swap contracts as of August 31, 2006:

				Fair Value at August 31, 2006	
Currency	Coupon	Notional Value	Maturity Date	Assets	Liabilities
Interest Rate Swaps:					
Australian Dollar					
	6.000%	$ 4,000,000	6/20/2009	$ -	$ 13,805
	6.000%	52,600,000	6/15/2010	-	330,761
	6.000%	30,100,000	6/15/2015	262,815	-
British Pound					
	0.670%	930,000	9/20/2014	-	1,123
	4.000%	1,500,000	12/15/2035	21,232	-
	4.250%	7,500,000	6/12/2036	513,543	-
	4.500%	45,200,000	9/15/2017	70,801	-
	5.000%	-	9/7/2006	-	5,706
	5.000%	-	9/8/2006	-	31,956
	5.000%	5,000,000	6/15/2008	-	19,472
	5.000%	37,000,000	6/15/2009	-	348,792
	5.000%	61,300,000	9/15/2010	-	505,144
	5.000%	2,400,000	9/15/2015	-	18,534
	5.000%	1,100,000	6/18/2034	158,856	-
Canadian Dollar					
	5.000%	4,600,000	6/15/2015	163,207	-
	5.500%	-	8/24/2006	-	61,683
	5.500%	-	8/31/2006	-	194,302
	5.500%	-	9/8/2006	-	58,599
Euro					
	2.040%	3,300,000	2/21/2011	-	16,236
	2.103%	6,000,000	10/15/2010	8,347	-
	2.146%	1,300,000	10/15/2010	6,071	-
	4.000%	9,360,000	6/17/2010	-	121,811
	4.000%	21,000,000	12/15/2011	-	187,728
	4.000%	32,980,000	6/16/2014	-	323,904
	4.000%	5,100,000	12/15/2014	-	16,746
	4.500%	13,000,000	6/17/2015	-	710,812
	5.000%	3,400,000	6/16/2014	330,501	-
	5.000%	400,000	6/17/2015	41,149	-
	6.000%	1,200,000	3/15/2032	156,376	-
	6.000%	5,400,000	6/18/2034	993,027	-
Japanese Yen					
	0.800%	1,120,000,000	3/30/2012	243,204	-
	1.000%	1,100,000,000	9/18/2008	22,311	-
	2.000%	-	9/4/2006	-	297,929
	2.000%	3,700,000,000	6/20/2010	-	385,057
	2.000%	800,000,000	6/15/2012	-	266,115
	2.000%	5,565,000,000	12/20/2013	-	2,560,703
	2.000%	15,990,000,000	12/15/2015	-	2,212,758
	2.500%	3,300,000,000	12/15/2035	-	329,531
	5.000%	7,400,000,000	3/18/2008	140,846	-
South Korean Won					
	4.765%	1,050,700,000	2/3/2009	4,644	-
	4.800%	2,508,300,000	2/1/2009	13,252	-
	4.965%	525,400,000	2/3/2011	7,288	-
	4.990%	650,500,000	2/1/2011	9,721	-
	5.000%	543,300,000	2/1/2011	8,349	-
U. S. Dollar					
	4.000%	24,600,000	6/21/2007	-	343,710
	4.000%	32,900,000	12/15/2008	-	930,766
	5.000%	139,000,000	12/15/2007	-	340,207
	5.000%	23,000,000	12/20/2008	-	59,195
	5.000%	112,000,000	6/18/2009	-	17,898
	5.000%	47,900,000	12/20/2011	342,334	4,343
	5.000%	54,400,000	12/20/2013	685,797	-
	5.000%	83,200,000	12/20/2016	1,804,517	-
	5.000%	200,000	12/20/2026	9,616	-
	5.000%	21,900,000	12/20/2036	-	1,296,718
	5.500%	2,200,000	12/16/2014	13,286	-
				6,031,090	12,012,044

(Continued)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2006 Assets	Liabilities
Commodity:					
U. S. Dollar					
	TBill + 23 Basis Points	66,100,000	9/26/2006	16,590	3,814,754
	TBill + 24 Basis Points	27,180,000	9/26/2006	-	1,495,264
	TBill + 27 Basis Points	66,750,000	9/26/2006	-	3,998,063
				16,590	9,308,081
Credit Default:					
U. S. Dollar					
	0.410%	2,100,000	6/20/2007	4,054	-
	1.800%	100,000	9/20/2006	446	-
	3.650%	200,000	6/20/2011	14,214	-
	4.300%	1,000,000	6/20/2010	45,949	-
	4.550%	700,000	6/20/2007	23,580	-
	4.600%	600,000	6/20/2007	20,509	-
				108,752	-
Structured:					
U. S. Dollar					
	Emerging	50,000,000	4/7/2007	-	1,125,354
	Emerging	60,000,000	4/13/2007	-	1,035,349
	Emerging	40,000,000	4/20/2007	-	501,712
	Emerging	50,000,000	4/27/2007	-	507,024
	Emerging	50,000,000	5/4/2007	-	970,800
	Emerging	25,000,000	5/11/2007	-	584,251
	Emerging	92,000,000	5/18/2007	-	2,214,789
	Emerging	45,000,000	5/25/2007	-	2,767,810
	Emerging	75,000,000	6/4/2007	-	6,075,431
	TOPIX	43,000,000	4/7/2007	166,782	-
	TOPIX	25,000,000	4/8/2007	491,666	-
	TOPIX	50,000,000	4/9/2007	1,025,435	-
	TOPIX	12,000,000	4/15/2007	-	27,526
	TOPIX	47,000,000	5/4/2007	-	2,579,084
				1,683,883	18,389,130
Total				$ 7,840,315	$ 39,709,255

(F) *Investment Funds* – The System's investment funds include exchange traded funds, index funds, Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships and corporate structures, which are generally unrated and may be unregulated.

Marketable alternatives investment pools are invested in private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios.

Private market funds are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments, domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk and investment manager risk. The System had committed $2,045,612,860 and $1,639,100,238 of future funding to various private market investments as of August 31, 2007 and 2006, respectively.

Public market funds are invested in exchange traded funds, index funds and private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the funds. Some of these investment managers may invest in both long and short securities and may utilize modest leverage in their portfolios. There are certain risks associated with these investments, some of which are investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios.

Marketable alternative, private market and public market funds include investments in private placement vehicles that are subject to risk, which could result in the loss of invested capital. The risks include the following:

- *Non-regulation risk* – Some of these funds are not registered with the Securities and Exchange Commission, and therefore are not subject to regulatory controls.
- *Key personnel risk* – The success of certain funds is substantially dependent upon key investment managers and the loss of those individuals may adversely impact the fund's performance.
- *Liquidity risk* – Many of the System's investment funds may impose lock-up periods, which would cause the System to incur penalties to redeem its units or prevent the System from redeeming its shares until a certain period of time has elapsed.
- *Limited transparency* – As private placement investment vehicles, these funds may not disclose the holdings of their portfolios.
- *Investment strategy risk* – These funds often employ sophisticated investment strategies and may use leverage, which could result in the loss of invested capital.

The fair values of these various investment funds as of August 31, 2007 and 2006 were $12,864,981,809 and $10,083,099,095, respectively.

(G) *Securities Sold Short* – The System may sell securities it does not own in anticipation of a decline in the fair value of that security or as means to adjust the duration of certain fixed income portfolios. When the System sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale as collateral for its obligation to deliver the security upon conclusion of the sale. The market value of securities sold short as of August 31, 2007 and 2006 were $35,097,262 and $14,913,501, respectively. The securities sold short as of August 31, 2007, are commitments to sell U.S. Treasury securities that do not require cash deposit. As of August 31, 2007 there was no Deposit with Broker for Securities Sold Short. As of August 31, 2006, Deposit with Broker for Securities Sold short was $11,811,105. The System must pay dividends or interest on the securities sold short. Until the System covers it shorts sales, it is exposed to market risk to the extent that subsequent market fluctuations may require purchasing securities sold short at prices, which may be significantly higher than the market value reflected in the statements of fiduciary net assets.

4. Endowments

Restricted investments include $21,142,156,442 and $18,428,254,099 of endowment funds as of August 31, 2007 and 2006, respectively. The net asset classifications on the balance sheet related to endowment funds as of August 31, 2007 and 2006 are as follows:

Net Asset Classification of Endowments		2007	2006
Restricted, nonexpendable	$	9,788,901,179	9,159,639,763
Restricted, expendable:			
Net Appreciation		9,628,291,659	7,823,724,551
Funds Functioning as Endowments		229,032,999	212,603,907
Unrestricted:			
Funds Functioning as Endowments		209,547,195	178,593,695
Total	$	19,855,773,032	17,374,561,916

In the table above, amounts reported as "Net Appreciation" represent net appreciation on investments of donor or constitutionally restricted endowments that are available for authorization for expenditure by the UT System Board of Regents. For donor restricted endowments, pursuant to the Uniform Management of Institutional Funds Act, as adopted by Texas, the UT System Board of Regents may distribute net appreciation, realized and unrealized, in the fair market value of the assets of endowment holdings over the historic dollar value of the gifts, to the extent prudent. The System's policy is to retain all undistributed net realized and unrealized appreciation within the endowment funds. The System's endowment distribution policy is further discussed below.

ENDOWMENTS AND SIMILAR FUNDS – STATE

These endowments are comprised of: the Permanent University Fund (PUF) and the Permanent Health Fund for Higher Education (PHF). The PUF was established for the benefit of the System and the Texas A&M University System. A portion of the PHF was established for the benefit of the System's health-related institutions, as well as for the Texas A&M University Health Science Center, the University of North Texas Health Science Center at Fort Worth, the Texas Tech University Health Science Center and Baylor College of Medicine.

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

The UT System Board of Regents manages certain permanent funds for health-related institutions of higher education as more fully described in Chapter 63 of the Texas Education Code. Certain funds created by this statute were transferred to the UT System Board of Regents on August 30, 1999, to be managed and invested in the same manner as the UT System Board of Regents manages and invests other endowment funds. The PHF as defined in the statute is classified as Endowment and Similar Funds – State. These endowments provide support for programs that benefit medical research, health education or treatment at health-related institutions. The UT System Board of Regents determines the amount of distributions to support the programs based on the PHF's investment policy.

The investment policy provides that the annual payout will be adjusted by the average consumer price index of the previous twelve quarters. However, if this inflationary increase results in a distribution rate below 3.5%, the UTIMCO Board may recommend an increase in the distribution amount as long as such increase does not result in a distribution rate of more than 5.5%. If the distribution rate exceeds 5.5%, the board may recommend a reduction in the per unit distribution amount. Notwithstanding any of the forgoing provisions, the UT System Board of Regents may approve a per unit distribution amount that, in their judgment, would be more appropriate than the rate calculated by the policy provisions.

The General Endowment Fund (GEF), created March 1, 2001, is a pooled fund established for the collective investment of long-term funds under the control and management of the UT System Board of Regents. The GEF is organized as a pooled investment and has two participants, the PHF and the Long Term Fund (LTF). The PHF and LTF initially purchased units of the GEF on March 1, 2001, in exchange for the contribution of their investment assets. The GEF provides for greater diversification of investments than would be possible if each account were managed separately. As provided in the LTF investment policy, distributions from the LTF are determined in the same manner as the PHF described above.

ENDOWMENT AND SIMILAR FUNDS - OTHER THAN STATE

Funds subject to restrictions of endowment and trust instruments, requiring that the principal be maintained and that only the income be utilized. Funds may include Endowments, Term Endowments and Funds Functioning as Endowments. Funds Functioning as Endowments consist of amounts that have been internally dedicated by the System for long-term investment purposes. Funds with external donor restrictions are classified as Funds Functioning as Endowments – Restricted. If no external restriction exists, the funds are classified as Funds Functioning as Endowments – Unrestricted. Endowment and Term Endowment holdings may be invested in the LTF, or may be separately invested based upon the following three factors: (i) there are investment restrictions incorporated into the trust or endowment document; (ii) the inability to sell the gifted investment asset; or (iii) they are holdings being migrated upon liquidation into the LTF. Distributions are based upon the actual income received from the separately invested holdings.

ANNUITY AND LIFE INCOME FUNDS

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

AVAILABLE UNIVERSITY FUND

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

5. Capital Assets

A summary of changes in the capital assets for the year ended August 31, 2007, is presented below.

	Balance 09/01/06	Adjustments	Reclassifications Completed CIP
Nondepreciable Assets:			
Land and Land Improvements	$ 284,302,557	-	1,481,026
Construction in Progress (CIP)	870,148,110	(2,423,742)	(817,101,766)
Other Capital Assets	202,856,865	-	-
Total Nondepreciable Assets	1,357,307,532	(2,423,742)	(815,620,740)
Depreciable Assets:			
Buildings and Building Improvements	7,610,553,921	11,697,382	593,587,577
Infrastructure	177,396,342	(650,000)	28,153,171
Facilities and Other Improvements	382,313,220	(11,171,213)	111,972,835
Furniture and Equipment	2,189,906,859	7,548	70,616,326
Vehicles, Boats and Aircraft	48,132,822	(25,769)	-
Other Capital Assets (including Library Books)	525,965,130	-	11,290,831
Total Depreciable Assets at Historical Cost	10,934,268,294	(142,052)	815,620,740
Less Accumulated Depreciation for:			
Buildings and Building Improvements	(2,723,455,699)	-	-
Infrastructure	(93,204,725)	-	-
Facilities and Other Improvements	(152,478,082)	-	-
Furniture and Equipment	(1,354,526,238)	(116,972)	-
Vehicles, Boats and Aircraft	(35,696,434)	116,972	-
Other Capital Assets (including Library Books)	(353,996,345)	-	-
Total Accumulated Depreciation	(4,713,357,523)	-	-
Depreciable Assets, net	6,220,910,771	(142,052)	815,620,740
Capital Assets, net	$ 7,578,218,303	(2,565,794)	-

A summary of changes in the capital assets for the year ended August 31, 2006, is presented below.

	Balance 09/01/05	Adjustments	Reclassifications Completed CIP
Nondepreciable Assets:			
Land and Land Improvements	$ 250,285,276	-	22,093
Construction in Progress (CIP)	1,028,068,222	(2,272,875)	(826,833,146)
Other Capital Assets	197,094,828	(520)	-
Total Nondepreciable Assets	1,475,448,326	(2,273,395)	(826,811,053)
Depreciable Assets:			
Buildings and Building Improvements	6,796,384,300	-	699,864,984
Infrastructure	161,960,076	-	8,740,300
Facilities and Other Improvements	346,622,458	-	30,987,886
Furniture and Equipment	2,005,812,262	1,144,944	84,937,369
Vehicles, Boats and Aircraft	45,497,595	-	-
Other Capital Assets (including Library Books)	488,127,805	-	2,280,514
Total Depreciable Assets at Historical Cost	9,844,404,496	1,144,944	826,811,053
Less Accumulated Depreciation for:			
Buildings and Building Improvements	(2,449,293,537)	(913,951)	-
Infrastructure	(84,554,471)	-	-
Facilities and Other Improvements	(137,913,800)	-	-
Furniture and Equipment	(1,226,191,359)	184,978	-
Vehicles, Boats and Aircraft	(33,991,599)	(59,052)	-
Other Capital Assets (including Library Books)	(333,182,868)	788,025	-
Total Accumulated Depreciation	(4,265,127,634)	-	-
Depreciable Assets, net	5,579,276,862	1,144,944	826,811,053
Capital Assets, net	$ 7,054,725,188	(1,128,451)	-

Reclassifications Interagency Transfers - In	Reclassifications Interagency Transfers - Out	Additions	Deletions	Balance 08/31/07
-	-	64,208,363	(2,234,996)	347,756,950
-	-	959,859,560	-	1,010,482,162
-	-	8,547,685	(428,037)	210,976,513
-	-	1,032,615,608	(2,663,033)	1,569,215,625
-	-	75,103,274	(3,087,100)	8,287,855,054
-	-	170,502	-	205,070,015
-	-	1,266,900	-	484,381,742
1,112,489	(1,413,892)	259,390,361	(121,270,446)	2,398,349,245
54,422	(88,496)	5,565,599	(2,560,782)	51,077,796
2,414,525	(2,414,525)	19,228,926	(4,066,350)	552,418,537
3,581,436	(3,916,913)	360,725,562	(130,984,678)	11,979,152,389
-	-	(324,711,680)	1,364,482	(3,046,802,897)
-	-	(5,678,022)	-	(98,882,747)
-	-	(17,185,998)	-	(169,664,080)
(831,366)	886,410	(247,484,842)	105,304,143	(1,496,768,865)
(40,381)	88,496	(3,887,383)	2,345,990	(37,072,740)
-	-	(27,965,215)	3,785,415	(378,176,145)
(871,747)	974,906	(626,913,140)	112,800,030	(5,227,367,474)
2,709,689	(2,942,007)	(266,187,578)	(18,184,648)	6,751,784,915
2,709,689	(2,942,007)	766,428,030	(20,847,681)	8,321,000,540

Reclassifications Interagency Transfers - In	Reclassifications Interagency Transfers - Out	Additions	Deletions	Balance 08/31/06
653,400	(653,400)	35,720,242	(1,725,054)	284,302,557
-	-	671,185,909	-	870,148,110
-	-	5,934,579	(172,022)	202,856,865
653,400	(653,400)	712,840,730	(1,897,076)	1,357,307,532
7,915,431	(7,791,600)	117,504,688	(3,323,882)	7,610,553,921
-	-	6,695,966	-	177,396,342
-	-	4,988,390	(285,514)	382,313,220
3,285,032	(744,782)	238,241,909	(142,769,875)	2,189,906,859
85,995	-	4,812,596	(2,263,364)	48,132,822
2,962,749	(2,962,749)	37,934,800	(2,377,989)	525,965,130
14,249,207	(11,499,131)	410,178,349	(151,020,624)	10,934,268,294
-	-	(274,722,622)	1,474,411	(2,723,455,699)
-	-	(8,650,254)	-	(93,204,725)
-	-	(14,564,282)	-	(152,478,082)
(2,442,455)	195,002	(230,964,021)	104,691,617	(1,354,526,238)
-	-	(3,754,440)	2,108,657	(35,696,434)
-	-	(23,965,766)	2,364,264	(353,996,345)
(2,442,455)	195,002	(556,621,385)	110,638,949	(4,713,357,523)
11,806,752	(11,304,129)	(146,443,036)	(40,381,675)	6,220,910,771
12,460,152	(11,957,529)	566,397,694	(42,278,751)	7,578,218,303

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*, requires the disclosure of impairment losses and associated insurance recoveries. The System did not have any impairment losses to report for the years ended August 31, 2007 and 2006.

6. Risk Financing and Related Insurance

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

EMPLOYEE AND RETIREE INSURANCE BENEFITS

The UT System Employee Benefits program provides health insurance, dental insurance, vision insurance, life insurance, long-term disability, short-term disability, long-term care and flexible spending account coverage to all benefits-eligible employees and retirees of the System and its fifteen institutions. These insurance benefits are provided through both self-funded and fully-insured arrangements. A portion of the System's cost of providing group health and basic life insurance coverage is paid by the State as specified in the General Appropriations Act. The System's Office of Employee Benefits (OEB) is responsible for the overall administration of the insurance plans. OEB was established by Chapter 1601 (formerly Article 3.50-3) of the *Texas Insurance Code* and complies with State laws and statues pertinent to employee benefits for the System.

Effective January 1, 2006, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries under Medicare Part D. Medicare Part D provides sponsors of postemployment healthcare plans up to 28 percent of the amount of eligible prescription drug benefit costs of retirees who are eligible for, but not enrolled in, Medicare Part D, if the sponsor's plan provides a prescription drug benefit that is actuarially equivalent to the Medicare Part D benefit. The System reported $7,811,223 and $6,900,000 of Medicare Part D payments from the federal government in 2007 and 2006, respectively.

UNEMPLOYMENT COMPENSATION INSURANCE

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

WORKERS' COMPENSATION INSURANCE

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

PROFESSIONAL MEDICAL LIABILITY BENEFIT PLAN

The coverage provided under the Professional Medical Liability Benefit Plan (Plan) is on an occurrence basis; thus, a participant is covered by the Plan for claims and lawsuits relating to events that occurred while enrolled in the Plan, including those filed after the participant has left the System's employment or training. The Plan covers all of the System staff physicians, dentists, residents, fellows, and medical students who have been enrolled. The limits of liability of the Plan include an annual policy aggregate of $30,000,000, an annual aggregate of $1,500,000 for each staff physician ($500,000 per claim), an annual aggregate of $300,000 for each resident or fellow ($100,000 per claim) and a $75,000 annual aggregate for each medical student ($25,000 per claim). Other coverage is available for medical student externships outside of Texas and for approved international activities.

Liability is limited to $2,000,000 per incident, regardless of the number of claimants or physicians involved in an incident. As of September 1, 2003, the limits of liability are prescribed by law as $100,000 per claim per physician. Also effective September 1, 2003, UT institutions are covered under the Plan for actions that could have been brought against an individual plan participant. The liability of a UT institution is limited by law to $250,000 per claimant and $500,000 per occurrence for bodily injury or death.

COMPREHENSIVE PROPERTY PROTECTION PROGRAM

The property protection plan consists of two programs. The first covers fire and other perils and includes commercial coverage for claims exceeding a per occurrence deductible of $7.5 million or an annual aggregate deductible of $20 million. The policy covers all UT System buildings, personal property and business income reported by the institutions. The maximum reimbursement under this policy is $1 billion per occurrence.

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

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

DIRECTORS AND OFFICERS/EMPLOYMENT PRACTICES LIABILITY SELF-INSURANCE PLAN

The Directors and Officers Liability (D&O) and Employment Practices Liability (EPL) Self-insurance Plan (the "Plan") provides coverage for claims arising from actual or alleged wrongful acts performed by the plan beneficiaries. The plan also provides coverage for EPL claims, such as wrongful termination, failure to promote and wrongful discipline. In 2003, the UT System Board of Regents allocated $3.7 million from the Available University Fund to establish the D&O/EPL loss reserve fund. Institutions make annual premium contributions to this fund.

Coverage applies to individual board members, employees, faculty, etc., as well as to the System itself. The limit of liability is a $10 million annual aggregate (Coverages A, B and C combined), except for $5 million annual aggregate sublimit for Coverage C. Coverage A applies to individuals and it has no deductible. Coverage B applies to a UT institution that is required to indemnify a covered individual with deductibles of $100,000 per individual and $300,000 per occurrence. Coverage C applies to a UT institution and related entities with a $300,000 deductible. An excess coverage commercial insurance policy provides $10 million of excess coverage after the Plan's liability limits have been exhausted.

ROLLING OWNER CONTROLLED INSURANCE PROGRAM

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

INCURRED BUT NOT REPORTED SELF-INSURANCE CLAIMS

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

In 2003, the Texas Legislature passed House Bill 4 which limits the award for non-economic damages in medical malpractice cases. Claims costs have continued to decline resulting in a significant reduction in the IBNR for professional medical liability in 2007.

Changes in the System's claims liabilities for the various self-insurance plans during fiscal years 2007 and 2006 were as follows:

Fiscal Year 2007 Plan		IBNR Liability 09/01/06	Current Year Claims and Changes in Estimates	Claims Payments	IBNR Liability 08/31/07
Employee Health and Dental	$	49,400,000	508,055,101	(499,255,101)	58,200,000
Workers' Compensation		15,901,000	2,001,248	(4,606,248)	13,296,000
Medical Professional Liability		82,298,019	(41,693,002)	(4,926,320)	35,678,697
Property Protection		1,736,416	(1,263,005)	493,589	967,000
Directors and Officers/EPL		3,369,378	(299,846)	-	3,069,532
ROCIP I, II, III and IV		6,506,654	2,273,609	(1,643,315)	7,136,948
TOTAL	$	159,211,467	469,074,105	(509,937,395)	118,348,177

Fiscal Year 2006 Plan		IBNR Liability 09/01/05	Current Year Claims and Changes in Estimates	Claims Payments	IBNR Liability 08/31/06
Employee Health and Dental	$	42,200,000	431,893,298	(424,693,298)	49,400,000
Workers' Compensation		17,137,000	3,989,048	(5,225,048)	15,901,000
Medical Professional Liability		91,595,578	1,516,143	(10,813,702)	82,298,019
Property Protection		28,694	3,279,139	(1,571,417)	1,736,416
Directors and Officers/EPL		2,868,686	500,692	-	3,369,378
ROCIP I, II, III and IV		7,126,437	2,252,250	(2,872,033)	6,506,654
TOTAL	$	160,956,395	443,430,570	(445,175,498)	159,211,467

7. Postemployment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health and life insurance benefits for retired employees, in accordance with State statutes. Many employees may become eligible for the health and life insurance benefits as a retired employee if they meet certain age and service requirements as defined by the State. Similar benefits for active employees are provided through the same self-funded plan and fully-insured plans. For the years ended August 31, 2007 and 2006, the contributions for the self-funded plan by the State per full-time retired employee are shown in the following table. The retiree contributes any premium over and above the State contributions.

Level of Coverage		**2007**		**2006**
Retiree Only	$	348.35	$	330.30
Retiree/Spouse		530.82		503.26
Retiree/Children		465.09		440.96
Retiree/Family		648.65		614.95

The monthly contribution per full-time retiree participating in the fully-insured programs (HMO's) ranged from $339.21 to $746.06 in 2007 and $322.52 to $682.24 in 2006 depending upon the region and level of coverage selected.

The State recognizes the cost of providing these benefits to eligible retired employees. The cost of retired employee benefits is recognized when paid. The number of system-wide retired employees who were eligible for these benefits, as well as the cost of providing the benefits for the years ended August 31, 2007 and 2006 are provided in the following table.

		2007		**2006**
Number of Retirees		15,905		14,747
Cost	$	73,712,737	$	66,098,044

See Note 27 for information on GASB Statement No. 45, which will be implemented in 2008 and will impact the System's accounting for these postemployment benefits.

8. Summary of Long-Term Liabilities

Long-term liability activity for the year ended August 31, 2007, is summarized as follows:

	Balance 09/01/06	Additions	Reductions	Balance 08/31/07	Amounts due within one year
Bonds Payable:					
Permanent University Fund:					
Bonds Series 1997	11,875,000	-	5,785,000	6,090,000	6,090,000
Refunding Bonds Series 2002A	57,650,000	-	13,370,000	44,280,000	14,040,000
Bonds Series 2002B	85,545,000	-	85,545,000	-	-
Refunding Bonds Series 2004A	59,920,000	-	-	59,920,000	-
Bonds Series 2004B	396,520,000	-	172,985,000	223,535,000	-
Refunding Bonds Series 2005A	100,345,000	-	-	100,345,000	-
Bonds Series 2005B	124,625,000	-	51,905,000	72,720,000	-
Refunding Bonds Series 2006A	96,380,000	-	22,465,000	73,915,000	23,515,000
Refunding Bonds Series 2006B	-	284,065,000	-	284,065,000	-
Bonds Series 2006C	-	97,755,000	-	97,755,000	-
Revenue Financing System:					
Bonds Series 1995A	3,180,000	-	3,180,000	-	-
Bonds Series 1998A	4,090,000	-	4,090,000	-	-
Bonds Series 1998B	61,270,000	-	5,085,000	56,185,000	5,355,000
Bonds Series 1998C	7,335,000	-	7,335,000	-	-
Bonds Series 1998D	8,640,000	-	4,215,000	4,425,000	4,425,000
Bonds Series 1999A	12,680,000	-	4,015,000	8,665,000	4,215,000
Bonds Series 1999B	22,500,000	-	7,115,000	15,385,000	7,485,000
Refunding Bonds Series 2001A	28,365,000	-	4,600,000	23,765,000	23,765,000
Bonds Series 2001B	75,920,000	-	46,290,000	29,630,000	6,890,000
Bonds Series 2001C	35,700,000	-	21,825,000	13,875,000	3,205,000
Refunding Bonds Series 2002A	52,855,000	-	330,000	52,525,000	340,000
Refunding Bonds Series 2002B	105,785,000	-	645,000	105,140,000	660,000
Bonds Series 2003A	101,350,000	-	68,220,000	33,130,000	4,125,000
Bonds Series 2003B	450,965,000	-	204,485,000	246,480,000	11,545,000
Refunding Bonds Series 2004A	136,910,000	-	1,735,000	135,175,000	5,505,000
Refunding Bonds Series 2004B	300,330,000	-	11,560,000	288,770,000	11,565,000
Bonds Series 2004C	210,125,000	-	101,775,000	108,350,000	7,350,000
Bonds Series 2004D	345,420,000	-	116,690,000	228,730,000	9,600,000
Bond Series 2006A	20,315,000	-	2,210,000	18,105,000	2,240,000
Bonds Series 2006B	540,570,000	-	6,465,000	534,105,000	11,035,000
Refunding Bonds Series 2006C	-	175,115,000	-	175,115,000	375,000
Refunding Bonds Series 2006D	-	346,840,000	6,490,000	340,350,000	260,000
Bonds Series 2006E	-	55,985,000	-	55,985,000	2,055,000
Bonds Series 2006F	-	318,525,000	-	318,525,000	3,520,000
Subtotal Bonds Payable – Par	3,457,165,000	1,278,285,000	980,410,000	3,755,040,000	169,160,000
Unamortized Net Premiums	181,598,420	105,292,458	85,413,531	201,477,347	13,832,112
Unamortized Net (Losses)	(43,910,734)	23,555,427	11,347,089	(31,702,396)	(3,926,462)
Total Bonds Payable	3,594,852,686	1,407,132,885	1,077,170,620	3,924,814,951	179,065,650

Notes & Loans Payable:					
Permanent University Fund					
Flexible Rate Notes, Series A	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
Revenue Financing System					
Commercial Paper Notes, Series A	540,454,000	654,902,000	500,725,000	694,631,000	694,631,000
Taxable Commercial Paper Notes, Series B	14,932,000	16,800,000	5,419,000	26,313,000	26,313,000
Other Notes and Loans	26,461,965	11,297,312	1,052,393	36,706,884	3,753,063
Subtotal Notes & Loans Payable – Par	681,847,965	782,999,312	607,196,393	857,650,884	824,697,063
Unamortized Net Premiums	-	170,000	3,696	166,304	166,304
Total Notes and Loans Payable	681,847,965	783,169,312	607,200,089	857,817,188	824,863,367
Leases Payable:					
Lease Obligations	2,466,945	779,826	589,170	2,657,601	1,023,223
Total Notes, Loans and Leases Payable	684,314,910	783,949,138	607,789,259	860,474,789	825,886,590
Employee Compensable Leave	360,024,610	122,994,786	97,939,549	385,079,847	243,534,822
Total Bonds, Notes, Loans, Leases, and Compensable Leave Payable	$ 4,639,192,206	2,314,076,809	1,782,899,428	5,170,369,587	1,248,487,062

Long-term liability activity for the year ended August 31, 2006, is summarized as follows:

	Balance 09/01/05	Additions	Reductions	Balance 08/31/06	Amounts due within one year
Bonds Payable:					
Permanent University Fund:					
Refunding Bonds Series 1996	$ 118,855,000	-	118,855,000	-	-
Bonds Series 1997	17,370,000	-	5,495,000	11,875,000	5,785,000
Refunding Bonds Series 2002A	70,380,000	-	12,730,000	57,650,000	13,370,000
Bonds Series 2002B	85,545,000	-	-	85,545,000	-
Refunding Bonds Series 2004A	59,920,000	-	-	59,920,000	-
Bonds Series 2004B	396,520,000	-	-	396,520,000	-
Refunding Bonds Series 2005A	100,345,000	-	-	100,345,000	-
Bonds Series 2005B	124,625,000	-	-	124,625,000	-
Refunding Bonds Series 2006A	-	96,380,000	-	96,380,000	22,465,000
Revenue Financing System:					
Bonds Series 1995A	8,985,000	-	5,805,000	3,180,000	3,180,000
Bonds Series 1996A	27,855,000	-	27,855,000	-	-
Bonds Series 1996B	13,040,000	-	13,040,000	-	-
Bonds Series 1998A	4,550,000	-	460,000	4,090,000	485,000
Bonds Series 1998B	66,105,000	-	4,835,000	61,270,000	5,085,000
Bonds Series 1998C	9,205,000	-	1,870,000	7,335,000	1,945,000
Bonds Series 1998D	12,685,000	-	4,045,000	8,640,000	4,215,000
Bonds Series 1999A	16,495,000	-	3,815,000	12,680,000	4,015,000
Bonds Series 1999B	29,275,000	-	6,775,000	22,500,000	7,115,000
Refunding Bonds Series 2001A	36,665,000	-	8,300,000	28,365,000	28,365,000
Bonds Series 2001B	82,170,000	-	6,250,000	75,920,000	6,565,000
Bonds Series 2001C	38,610,000	-	2,910,000	35,700,000	3,055,000
Refunding Bonds Series 2002A	53,180,000	-	325,000	52,855,000	330,000
Refunding Bonds Series 2002B	106,415,000	-	630,000	105,785,000	645,000
Bonds Series 2003A	105,090,000	-	3,740,000	101,350,000	3,925,000
Bonds Series 2003B	461,490,000	-	10,525,000	450,965,000	10,995,000
Refunding Bonds Series 2004A	137,165,000	-	255,000	136,910,000	1,735,000
Refunding Bonds Series 2004B	300,330,000	-	-	300,330,000	11,560,000
Bonds Series 2004C	216,850,000	-	6,725,000	210,125,000	7,005,000
Bonds Series 2004D	352,170,000	-	6,750,000	345,420,000	9,170,000
Bond Series 2006A	-	20,315,000	-	20,315,000	2,210,000
Bonds Series 2006B	-	540,570,000	-	540,570,000	6,465,000
Subtotal Bonds Payable – Par Value	3,051,890,000	657,265,000	251,990,000	3,457,165,000	159,685,000
Unamortized Net Premiums	171,935,132	25,714,214	16,050,926	181,598,420	-
Unamortized Net (Losses)	(49,438,780)	5,878,368	350,322	(43,910,734)	-
Total Bonds Payable	3,174,386,352	688,857,582	268,391,248	3,594,852,686	159,685,000

Notes and Loans Payable:					
Permanent University Fund					
Flexible Rate Notes, Series A	-	100,000,000	-	100,000,000	100,000,000
Revenue Financing System					
Commercial Paper Notes, Series A	530,722,000	446,985,000	437,253,000	540,454,000	540,454,000
Taxable Commercial Paper Notes, Series B	10,342,000	5,000,000	410,000	14,932,000	14,932,000
Other Notes and Loans	28,949,287	291,190	2,778,512	26,461,965	3,153,099
Total Notes and Loans Payable	570,013,287	552,276,190	440,441,512	681,847,965	658,539,099
Leases Payable:					
Lease Obligations	2,953,915	584,417	1,071,387	2,466,945	594,795
Total Notes, Loans and Leases Payable	572,967,202	552,860,607	441,512,899	684,314,910	659,133,894
Employee Compensable Leave	337,059,037	110,068,443	87,102,870	360,024,610	213,218,659
Total Bonds, Notes, Loans, Leases, and Compensable Leave Payable	$ 4,084,412,591	1,351,786,632	797,007,017	4,639,192,206	1,032,037,553

The consolidated balance sheets at August 31, 2007 and 2006 do not include $1,482,379,000 and $666,289,000, respectively, of revenue bonds payable, which were fully defeased in prior fiscal years. Direct obligations of the United States of America and noncallable obligations of an agency or instrumentality of the United States of America, including obligations unconditionally guaranteed by the United States of America, rated not less than AAA or its equivalent, in amounts, maturities, and bearing interest at rates sufficient to provide funds to pay in full principal, redemption premium, if any, and interest to maturity or redemption on the defeased bonds, are being held by escrow agents.

PROJECTED BOND DEBT SERVICE REQUIREMENTS

Bond obligations are due in annual installments varying from $352,979,931 in fiscal year 2008 to $9,817,775 in fiscal year 2038. The requirements in fiscal year 2007 reflect the Revenue Financing System Refunding Bonds, Series 2001A, which are variable rate demand bonds. Annual debt service requirements for such variable rate bonds are reflected at the System's effective borrowing rate at August 31, 2007, of 3.94 percent on a principal amount of $23,765,000 with an option to tender on seven days notice. The interest rates on fixed rate bonds range from 2.00 percent to 6.00 percent, with the final installment due in 2038. The principal and interest expense for the next five years and beyond are projected below for bonds issued and outstanding:

Fiscal Year	Principal	Interest	Total
2008	$ 169,160,000	183,819,931	352,979,931
2009	158,370,000	177,080,136	335,450,136
2010	166,065,000	169,410,489	335,475,489
2011	141,535,000	161,361,376	302,896,376
2012	148,135,000	154,217,851	302,352,851
2013 – 2017	815,640,000	652,915,432	1,468,555,432
2018 – 2022	757,870,000	451,735,409	1,209,605,409
2023 – 2027	572,620,000	279,601,416	852,221,416
2028 – 2032	493,360,000	153,676,850	647,036,850
2033 – 2037	322,890,000	37,294,800	360,184,800
2038 – 2042	9,395,000	422,775	9,817,775
Total Requirements	$ 3,755,040,000	2,421,536,465	6,176,576,465

Total interest expense for the years ended August 31, 2007 and 2006 was $195,653,316 and $180,133,746, respectively. Interest expense of $32,667,611 and $2,159,838 associated with financing projects during the construction phase was capitalized during the years ended August 31, 2007 and 2006, respectively. Interest expense was also adjusted $4,998,536 and $7,406,053 for the amortization of premiums, issuance costs, and deferred losses on refundings for the years ended August 31, 2007 and 2006, respectively. The remaining amounts of $157,987,169 in 2007 and $170,567,855 in 2006 were reported as interest expense.

Notes and loans payable obligations are due in annual installments through 2018. General information related to notes and loans payable at August 31, 2007, which in substance are not bonds, is summarized as follows:

Fiscal Year	Principal	Interest	Total
2008	$ 824,697,063	8,405,422	833,102,485
2009	2,945,898	1,276,543	4,222,441
2010	2,479,611	1,575,732	4,055,343
2011	2,524,680	1,435,576	3,960,256
2012	2,570,784	1,294,873	3,865,657
2013 – 2017	21,826,214	4,062,138	25,888,352
2018 – 2022	606,634	6,411	613,045
Total Requirements	$ 857,650,884	18,056,695	875,707,579

EMPLOYEES' COMPENSABLE LEAVE

Substantially all full-time System employees earn annual leave from eight to twenty-one hours per month depending upon the respective employee's years of State employment. State law permits employees to carry accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours up to 532 for those employees with 35 or more years of State service. Eligible part-time employees' annual leave accrual rate and maximum carryover are proportional to the number of hours appointed to work. Employees with at least six months of State service who terminate their employment are entitled to payment for all accumulated annual leave. Both an expense and a liability are recorded as the benefits accrue to employees. Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is off due to illness or to the estate of an employee in the event of his/her death. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated sick leave or 336 hours, whichever is less. The System's policy is to recognize the cost of sick leave when paid, and the liability is not shown in the consolidated financial statements since experience indicates the expense for sick leave to be minimal. Eligible part-time employees' sick leave accrual rate is proportional to the number of hours appointed to work. This obligation is usually paid from the same funding source(s) as the employee's salary or wage compensation.

9. Bonded Indebtedness

At August 31, 2007 and 2006, the System had outstanding bonds payable of $3,755,040,000 and $3,457,165,000, respectively. All bonds issued by the System are defined as revenue bonds. Segment information requirements are not applicable, due to the bond indentures' lack of specifically identifiable activities and external party imposed separate accounting requirements. General information related to bonds outstanding as of August 31, 2007, is summarized in the following table:

Bond Series	Purpose	Issue Date	Amount Authorized	
Permanent University Fund:				
Bonds Series 1997	To refund $78,000,000 principal amount of Permanent University Fund Variable Rate Notes, Series A, and to provide new money	January 6, 1998	130,000,000	
Refunding Bonds Series 2002A	To refund $108,515,000 principal amount of Permanent University Fund Refunding Bonds, Series 1992A, maturing on July 1 in the years 2003 through 2007, both inclusive, and in the years 2009 and 2013	April 2, 2002	115,000,000	
Refunding Bonds Series 2004A	To refund $61,495,000 principal amount of Permanent University Fund Bonds, Series 1997, maturing on July 1 in the years 2009 through 2016, both inclusive	April 6, 2004	500,000,000	1
Bonds Series 2004B	To refund $400,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A	April 6, 2004	439,335,000	1
Refunding Bonds Series 2005A	To refund $102,670,000 principal amount of Permanent University Fund Bonds, Series 2002B, maturing on July 1 in the years 2012 through 2019, both inclusive	April 5, 2005	375,000,000	2
Bonds Series 2005B	To refund $125,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A	July 7, 2005	274,655,000	2
Refunding Bonds Series 2006A	To refund $97,395,000 principal amount of Permanent University Fund Refunding Bonds, Series 1996, maturing on July 1 in the years 2007 through 2010, both inclusive	April 4, 2006	300,000,000	3
Refunding Bonds Series 2006B	To refund $85,545,000 principal amount of Permanent University Fund Bonds, Series 2002B, maturing on July 1 in the years 2020 through 2022, both inclusive; to refund $172,985,000 principal amount of Permanent University Fund Bonds, Series 2004B, maturing on July 1 in the years 2023, 2026 and 2028 through 2030, both inclusive; to refund $51,905,000 principal amount of Permanent University Fund Bonds, Series 2005B, maturing on July 1 in the year 2035	January 24, 2007	400,000,000	4
Bonds Series 2006C	To refund $100,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A	January 24, 2007	115,935,000	4
Revenue Financing System:				
Bonds Series 1995A	To refund $34,833,000 of Revenue Financing System Commercial Paper Notes, to refund $4,525,000 of UT Pan American Tuition Revenue Refunding Bonds, Series 1986 and to provide new money of $35,167,000	July 12, 1995	232,000,000	
Bonds Series 1998B	To refund $109,504,000 principal of Revenue Financing System Commercial Paper Notes, Series A and to pay the cost of issuance	February 11, 1998	115,500,000	
Bonds Series 1998D	To refund $91,163,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $10,549,000 and pay the cost of issuance	October 15, 1998	111,820,000	
Bonds Series 1999A	To refund $32,723,000 principal of Revenue Financing System Commercial Paper Notes, Series A issued pursuant to Sections 55.1714 and 55.1722 of the Texas Education Code, provide new money of $70,027,000 and pay the cost of issuance	September 21, 1999	102,750,000	

Amount Issued	Interest Rates	Maturity Dates	Source of Revenue For Debt Service
130,000,000	4.75%-5.25%	1999-2018	Available University Fund
105,290,000	3.00%-5.00%	2003-2010	Available University Fund
60,665,000	3.00%-5.00%	2004-2016	Available University Fund
396,520,000	4.50%-5.00%	2023-2033	Available University Fund
100,345,000	5.00%-5.25%	2011-2019	Available University Fund
124,625,000	4.25%-5.00%	2018, 2019 and 2035	Available University Fund
96,380,000	4.00%-5.00%	2007-2010	Available University Fund
284,065,000	5.00%-5.25%	2020-2023, 2026, 2028-2030, and 2034-2035	Available University Fund
97,755,000	4.00%-5.00%	2011-2035	Available University Fund
74,945,000	4.00%-6.00%	1996-2017	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
111,915,000	3.75%-5.25%	1999-2018	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
100,185,000	3.80%-5.13%	2000-2019	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
101,745,000	4.50%-5.75%	2001-2020	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt

(Continued)

Bond Series	Purpose	Issue Date	Amount Authorized	
Revenue Financing System: (continued)				
Bonds Series 1999B	To refund $82,490,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $99,050,000 and pay the cost of issuance	September 21, 1999	193,000,000	
Bonds Series 2001B	To refund $110,070,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $76,000,000 and pay the cost of issuance	October 2, 2001	580,000,000	5
Bonds Series 2001C	To refund $503,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $87,800,000 and pay the cost of issuance.	October 2, 2001	400,390,000	5
Refunding Bonds Series 2002A	To advance refund $54,575,000 principal amount of Revenue Financing System Bonds, Series 1999A maturing from 2010-2016 and 2020 to achieve debt service savings and pay the cost of issuance	September 27, 2002	215,000,000	6
Refunding Bonds Series 2002B	To advance refund $109,240,000 principal amount of Revenue Financing System Bonds, Series 1999B maturing from 2010-2017 and 2020 to achieve debt service savings and pay the cost of issuance	September 27, 2002	160,570,000	6
Bonds Series 2003A	To refund $39,050,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $80,798,250 and pay the cost of issuance	January 23, 2003	635,000,000	7
Bonds Series 2003B	To refund $201,039,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $296,078,000 and pay the cost of issuance	January 23, 2003	522,960,000	7
Refunding Bonds Series 2004A	To refund $143,155,000 principal amount of portions of Revenue Financing System Bonds, Series 1995A, 1996A, 1998A, 1998C, 1999A and 2001C, and pay the cost of issuance	March 9, 2004	496,000,000	8
Refunding Bonds Series 2004B	To refund $310,460,000 principal amount of portions of Revenue Financing System Bonds, Series 1996B, 1998B, 1998D, 1999B and 2001B, and pay the cost of issuance	March 9, 2004	358,085,000	8
Bonds Series 2004C	To refund $147,012,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $88,800,000 and pay the cost of issuance	November 4, 2004	650,000,000	9
Bonds Series 2004D	To refund $201,512,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $172,544,000 and pay the cost of issuance	November 4, 2004	431,390,000	9
Bonds Series 2006A	To refund $24,485,000 principal amount of Revenue Financing System Bonds, Series 1996A, and pay the cost of issuance	May 17, 2006	600,000,000	10

Amount Issued	Interest Rates	Maturity Dates	Source of Revenue For Debt Service
180,830,000	4.50%-5.75%	2001-2020	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
179,610,000	3.25%-5.38%	2003-2022	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
84,590,000	4.00%-5.38%	2003-2022	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
54,430,000	2.00%-5.25%	2003-2020	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
108,855,000	2.00%-5.25%	2003-2020	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
112,040,000	3.00%-5.38%	2004-2023	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
481,060,000	2.00%-5.38%	2004-2033	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
137,915,000	2.00%-5.25%	2004-2018	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
300,330,000	4.50%-5.25%	2007-2019	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
218,610,000	4.00%-5.25%	2005-2023	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
352,170,000	3.00%-5.25%	2006-2034	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
20,315,000	4.00%-4.50%	2007-2015	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt

(Continued)

Bond Series	Purpose	Issue Date	Amount Authorized	
Bonds Series 2006B	To refund $413,161,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $147,764,140 and pay the cost of issuance	May 10, 2006	579,685,000	10
Refunding Bonds Series 2006C	To refund $177,835,000 principal amount of portions of Revenue Financing System Bonds, 2001C, 2003A and 2004C and pay the cost of issuance	January 4, 2007	900,000,000	11
Refunding Bonds Series 2006D	To refund $340,735,000 principal amount of portions of Revenue Financing System Bonds, 2001B, 2003B and 2004D and pay the cost of issuance	January 4, 2007	724,885,000	11
Bonds Series 2006E	To refund $58,300,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and pay the cost of issuance	January 4, 2007	378,045,000	11
Bonds Series 2006F	To refund $330,187,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and pay the cost of issuance	January 4, 2007	322,060,000	11

Amount Issued	Interest Rates	Maturity Dates	Source of Revenue For Debt Service
540,570,000	4.00%-5.00%	2007-2037	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
175,115,000	3.50%-5.00%	2008-2023	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
346,840,000	4.00%-5.00%	2007-2026	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
55,985,000	3.50%-5.00%	2008-2023	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
318,525,000	4.00%-5.00%	2008-2038	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt

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

[2]The Permanent University Fund Bonds, Series 2005A and B were authorized pursuant to an aggregate issuance and delivery of up to $375 million in multiple installments starting March 10, 2005 and ending December 31, 2005. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments.

[3]The Permanent University Fund Refunding Bonds, Series 2006A were authorized pursuant to an aggregate issuance and delivery of up to $300 million in multiple installments starting August 11, 2005 and ending December 31, 2006. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments. There are no planned additional issuances pursuant to this authority.

[4]The Permanent University Fund Refunding Bonds, Series 2006B and C were authorized pursuant to an aggregate issuance and delivery of up to $400 million in multiple installments starting September 1, 2006 and ending August 31, 2007. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments. There are no planned additional issuances pursuant to this authority.

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

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

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

[8]The Revenue Financing System Bonds, Series 2004A and B were authorized pursuant to an aggregate issuance and delivery of up to $496 million in multiple installments starting November 13, 2003 and ending November 1, 2004. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments.

[9]The Revenue Financing System Bonds, Series 2004C and D were authorized pursuant to an aggregate issuance and delivery of up to $650 million in multiple installments starting August 12, 2004 and ending November 1, 2005. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments.

[10]The Revenue Financing System Bonds, Series 2006A and B were authorized pursuant to an aggregate issuance and delivery of up to $600 million in multiple installments starting August 11, 2005 and ending August 31, 2006. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments.

[11]The Revenue Financing System Bonds, Series 2006C, D, E and F were authorized pursuant to an aggregate issuance and delivery of up to $900 million in multiple installments starting November 16, 2006 and ending August 31, 2007. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments.

General information related to bonds outstanding retired in 2007 is summarized as follows:

- Permanent University Fund Bonds, Series 2002B
  Purpose: To refund $191,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A.
  Issue Date: April 2, 2002
  Authorized: $205,000,000 Issued: $188,215,000
  Interest Rates: 5.00–5.38% Maturity Dates: 2012 – 2022
  Source of Revenue for Debt Service: Available University Fund

- Revenue Financing System Bonds, Series 1998A
  Purpose: To refund $10,455,000 principal of Revenue Financing System Commercial Paper Notes, Series A issued pursuant to Section 55.1714 of the Texas Education Code
  Issue Date: February 11, 1998
  Authorized: $11,500,000 Issued: $10,690,000
  Interest Rates: 4.13%-5.00% Maturity Dates: 1999-2018
  Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt

- Revenue Financing System Bonds, Series 1998C

  Purpose: To refund $22,441,000 principal of Revenue Financing System Commercial Paper Notes, Series A issued pursuant to Sections 55.1714 and 55.1722 of the Texas Education Code, provide new money of $21,584,000 and pay the cost of issuance

  Issue Date: October 15, 1998

  Authorized: $46,680,000 Issued: $45,175,000

  Interest Rates: 3.65%-5.00% Maturity Dates: 2000-2019

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

DEMAND BONDS

Revenue Financing System Refunding Bonds, Series 2001A, are demand bonds. The System has entered into corresponding interest rate swap agreements to effectively convert the System's interest rate exposure to a fixed rate. The Revenue Financing System Refunding Bonds, Series 2001A and the corresponding swap agreements extend to August 15, 2013; however there is an option to tender on seven days notice. General information related to these demand bonds is summarized below:

- Revenue Financing System Refunding Bonds, Series 2001A

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

  Issue Date: May 17, 2001

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

  Interest Rates: Variable Maturity Date: 2013

  Interest Rate Terms: Interest rates are established by the respective dealer/remarketing agent based on prevailing market conditions.

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

EARLY EXTINGUISHMENTS IN FISCAL YEAR 2007

Permanent University Fund Refunding Bonds, Series 2006B were issued January 24, 2007 to advance refund $85,545,000 principal amount of Permanent University Fund Bonds, Series 2002B, maturing on July 1 in the years 2020 through 2022, to advance refund $172,985,000 principal amount of Permanent University Fund Bonds, Series 2004B, maturing on July 1 in the years 2023, 2026 and 2030, to advance refund $51,905,000 principal amount of Permanent University Fund Bonds, Series 2005B, maturing on July 1, 2035, and to pay the costs of issuance related thereof.

- Net proceeds from the refunding series (including a premium of $41,960,948) were $325,015,885 – after the payment of $1,010,063 in underwriting fees. The net proceeds were used to pay cost of issuance of $204,794 and purchase $324,811,091 of eligible defeasance securities. These securities were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded bonds.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- The advance refunding resulted in gross debt service savings through 2035 of $34,315,075.
- An accounting loss of $11,237,438 resulted from the transaction as the net carrying amount of $310,435,000 par value, $5,675,030 of unamortized premiums, and $(2,536,377) of unamortized bond issuance costs, exceeded the reacquisition price of $324,811,091.
- An economic gain from the transaction resulted in a net present value savings of $17,293,990 between the old and new debt service payments.

Permanent University Fund Bonds, Series 2006C were issued January 24, 2007 to current refund $100,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A and to pay the costs of issuance related thereof.

- Net proceeds from the refunding series (including a premium of $3,110,233) were $100,514,247 – after the payment of $350,986 in underwriting fees. The net proceeds were used to pay cost of issuance of $71,248 and purchase $100,442,999 of eligible defeasance securities. These securities were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded notes.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- An accounting loss of $365,999 resulted from the transaction as the net carrying amount of $100,000,000 par value and $77,000 of unamortized premiums exceeded the reacquisition price of $100,442,999.

Revenue Financing System Refunding Bonds, Series 2006C were issued January 4, 2007 to advance refund $18,770,000 principal amount of Revenue Financing System Bonds, Series 2001C, maturing on August 15 in the years 2020 through 2022, to advance refund $64,295,000 principal amount of Revenue Financing System Bonds, Series 2003A, maturing on August 15 in the years 2015 through 2023, to advance refund $94,770,000 principal amount of Revenue Financing System Bonds, Series 2004C, maturing in the years 2015 through 2021, and to pay the costs of issuance related thereof.

- Net proceeds from the refunding series (including a premium of $18,881,661) were $193,339,610 – after the payment of $657,051 in underwriting fees. The net proceeds were used to pay cost of issuance of $105,230, purchase $193,234,374 of eligible defeasance securities, and deposit $6 with the escrow agent. These securities were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded bonds.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- The advance refunding resulted in gross debt service savings through 2023 of $13,246,487.
- An accounting gain of $8,882,845 resulted from the transaction as the net carrying amount of $177,835,000 par value, $25,635,223 of unamortized premiums, and $(1,353,003) of unamortized bond issuance costs, exceeded the reacquisition price of $193,234,374.
- An economic gain from the transaction resulted in a net present value savings of $8,983,541 between the old and new debt service payments.

Revenue Financing System Refunding Bonds, Series 2006D were issued January 4, 2007 to advance refund $39,725,000 principal amount of Revenue Financing System Bonds, Series 2001B, maturing on August 15 in the years 2020 through 2022, to advance refund $193,490,000 principal amount of Revenue Financing System Bonds, Series 2003B, maturing on August 15 in the years 2014 through 2026, to advance refund $107,520,000 principal amount of Revenue Financing System Bonds, Series 2004D, maturing in the years 2015 through 2021, and to pay the costs of issuance related thereof.

- Net proceeds from the refunding series (including a premium of $24,201,106) were $369,761,850 – after the payment of $1,279,256 in underwriting fees. The net proceeds were used to pay cost of issuance of $202,158, purchase $369,559,686 of eligible defeasance securities, and deposit $6 with the escrow agent. These securities were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded bonds.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- The advance refunding resulted in gross debt service savings through 2026 of $15,939,915.
- An accounting gain of $10,594,573 resulted from the transaction as the net carrying amount of $340,735,000 par value, $42,760,023 of unamortized premiums, and $(3,340,764) of unamortized bond issuance costs, exceeded the reacquisition price of $369,559,686.
- An economic gain from the transaction resulted in a net present value savings of $11,356,655 between the old and new debt service payments.

Revenue Financing System Bonds, Series 2006E were issued January 4, 2007 to current refund $58,300,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and to pay the costs of issuance related thereof.

- Net proceeds from the refunding series (including a premium of $3,000,929) were $58,784,119 – after the payment of $201,810 in underwriting fees. The net proceeds were used to pay cost of issuance of $34,150, purchase $58,749,525 of eligible defeasance securities, and deposit $444 with the escrow agent. These securities were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded notes.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- An accounting loss of $449,525 resulted from the transaction as the net carrying amount of $58,300,000 par value exceeded the reacquisition price of $58,749,525.

Revenue Financing System Bonds, Series 2006F were issued January 4, 2007 to current refund $330,187,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and to pay the costs of issuance related thereof.

- Net proceeds from the refunding series (including a premium of $14,137,580) were $331,496,078 – after the payment of $1,166,502 in underwriting fees. The net proceeds were used to pay cost of issuance of $184,142 and purchase $331,311,936 of eligible defeasance securities. These securities were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded notes.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- An accounting loss of $1,124,936 resulted from the transaction as the net carrying amount of $330,187,000 par value exceeded the reacquisition price of $331,311,936.

On August 1, 2007, $4,600,000 of outstanding Revenue Financing System Bonds, Series 2001A were optionally redeemed. The liability for these obligations has been removed from the consolidated balance sheet. No accounting gain or loss resulted from the transaction.

On August 24, 2007, $3,605,000 of outstanding Revenue Financing System Bonds, Series 1998A were legally defeased. Eligible defeasance securities were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the defeased bonds.

- The defeased debt is considered legally defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- An accounting loss of $49,345 resulted from the transaction as the net carrying amount of $3,605,000 par value, $(45,027) of unamortized issuance costs, and $(40,423) of unamortized discounts exceeded the reacquisition price of $3,568,895.

On August 24, 2007, $5,390,000 of outstanding Revenue Financing System Bonds, Series 1998C were legally defeased. Eligible defeasance securities were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the defeased bonds.

- The defeased debt is considered legally defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- An accounting loss of $73,775 resulted from the transaction as the net carrying amount of $5,390,000 par value, and $(64,623) of unamortized issuance costs, exceeded the reacquisition price of $5,399,152.

EARLY EXTINGUISHMENTS IN FISCAL YEAR 2006

Permanent University Fund Refunding Bonds, Series 2006A were issued April 4, 2006, to current refund $97,395,000 principal amount of Permanent University Fund Refunding Bonds, Series 1996, maturing on July 1 in the years 2007 through 2010, and to pay the costs of issuance related thereof.

- Net proceeds from the refunding series (including a premium of $2,556,585) were $98,685,785 – after the payment of $250,800 in underwriting fees. The net proceeds were used to pay cost of issuance of $148,559 and purchase $98,537,226 of eligible defeasance securities. These securities were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded bonds.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- The current refunding resulted in gross debt service savings through 2010 of $2,723,400.
- An accounting gain of $1,373,472 resulted from the transaction as the net carrying amount of $97,395,000 par value, $3,166,471 of unamortized premiums, and $(650,773) of unamortized bond issuance costs, exceeded the reacquisition price of $98,537,226.
- An economic gain from the transaction resulted in a net present value savings of $2,579,712 between the old and new debt service payments.

Revenue Financing System Bonds, Series 2006A were issued May 17, 2006, to current refund $24,485,000 principal amount of Revenue Financing System Bonds, Series 1996A, maturing on August 15 in the years 2007 through 2016, and to pay the costs of issuance related thereof.

- Net proceeds from the refunding series (including a premium of $154,524) were $20,415,608 – after the payment of $53,916 in underwriting fees. The net proceeds along with $4,890,000 of funds were used to pay cost of issuance of $14,440 and purchase $25,291,168 of eligible defeasance securities. These securities were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded bonds.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- The current refunding resulted in gross debt service savings through 2016 of $2,789,257.
- An accounting loss of $350,322 resulted from the transaction as the reacquisition price of $25,290,500 exceeded the net carrying amount of $24,485,000 par value, $630,360 of unamortized premiums, and $(175,182) of unamortized bond issuance costs.
- An economic gain from the transaction resulted in a net present value savings of $650,782 between the old and new debt service payments.

Revenue Financing System Bonds, Series 2006B were issued May 10, 2006, to current refund $413,161,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, to provide $147,764,140 to fund eligible capital projects and to pay the costs of issuance related thereof.

- Net proceeds from the bonds (including a premium of $22,926,105) were $561,613,915 – after the payment of $1,882,190 in underwriting fees. Of the net proceeds, $147,764,140 was deposited into a construction fund and $346,298 was used to pay cost of issuance. The remaining $413,503,477 was deposited with the paying agent to provide for all future debt service payments on the refunded notes.
- The refunded debt was paid off and the liability for these obligations has been removed from the consolidated balance sheet.
- An accounting loss of $341,743 resulted from the transaction as the reacquisition price of $413,502,743 exceeded the net carrying amount of $413,161,000.
- No economic gain resulted from this transaction.

On September 15, 2005, $2,805,000 of outstanding Revenue Financing System Bonds, Series 1995A were optionally redeemed. The liability for these obligations has been removed from the consolidated balance sheet. An accounting loss of $56,100 resulted from the transaction as the reacquisition price of $2,861,100 exceeded the net carrying amount of $2,805,000. No economic gain resulted from this transaction.

On August 1, 2006, $8,300,000 of outstanding Revenue Financing System Bonds, Series 2001A were optionally redeemed. The liability for these obligations has been removed from the consolidated balance sheet. No accounting gain or loss resulted from the transaction.

SWAP AGREEMENTS

Forward Floating-to-Fixed Interest Rate Swaps:

Objective of the interest rate swap: In June 1999, the System executed forward-starting, floating-to-fixed rate interest rate swap agreements ("Swap Agreements") with Morgan Guaranty Trust Company of New York, now J.P. Morgan Chase Bank ("Morgan"), and Goldman Sachs Mitsui Marine Derivative Products, L.P. ("Goldman"). The Swap Agreements were used to create a synthetic fixed-rate refunding of $80,530,000 of the Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1991A and 1991B ("Refunded Bonds") on their optional redemption date of August 15, 2001 to achieve debt service savings. On May 17, 2001, the UT System Board of Regents issued its Revenue Financing System Refunding Bonds, Series 2001A, in the form of variable rate demand bonds. The Swap Agreements effectively change the UT System Board of Regents' interest rate on the Series 2001A Bonds, subject to some basis risk discussed below, to a fixed rate of 4.633%. The difference between the swap rate and the rates on the Refunded Bonds called August 15, 2001, resulted in estimated present value debt service savings of approximately $5.6 million.

Terms: Pursuant to the terms of the Swap Agreements, the UT System Board of Regents has agreed to pay interest on a notional amount of $80,530,000 at a fixed rate of 4.633% per annum, with such obligation commencing on August 15, 2001. In consideration of receiving the payments from the UT System Board of Regents, Morgan and Goldman agreed to pay to the UT System Board of Regents a variable rate equal to 67% of the one-month London Interbank Offered Rate ("LIBOR"). The Morgan Swap Agreement was for 60% of the notional amount and the Goldman Swap Agreement was for 40% of the notional amount. On February 6, 2007, the Goldman Swap Agreement was ended and the Morgan Swap Agreement was increased to 100% of the notional amount. The Series 2001A Bonds are scheduled to mature and the Swap Agreements are scheduled to terminate on August 15, 2013. As of August 31, 2007, there was $23,765,000 of the Series 2001A Bonds outstanding and the notional amount of the Morgan Swap Agreement was $23,445,000. As of August 31, 2006, there was $28,365,000 of the Series 2001A Bonds outstanding and the notional amount of the Swap Agreements was $27,930,000.

Fair Value: Because interest rates have declined since the execution of the Swap Agreements, the Swap Agreements had a negative fair value of $969,804 as of August 31, 2007 and a negative fair value of $1,135,523 as of August 31, 2006. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

Basis and Termination Risk: The Morgan Swap Agreement exposes the UT System Board of Regents to basis risk as the variable rate received under the Morgan Swap Agreement does not perfectly match the variable rate paid on the Series 2001A Bonds. The Morgan Swap Agreement may be terminated if Morgan does not maintain a credit rating of at least Aa3 by Moody's Investors Service ("Moody's") or AA- by Standard & Poor's Corporation ("S&P"). As of August 31, 2007, Morgan's ratings by Moody's/S&P were Aaa/AA. As of August 31, 2006, the swap providers' respective ratings by Moody's/S&P were as follows: J.P. Morgan Chase Bank, Aa2/AA- and Goldman Sachs Mitsui Marine Derivative Products, L.P., Aaa/AA+. The Morgan Swap Agreement may also be terminated by Morgan if the UT System Board of Regents does not maintain a credit rating of at least Aa3 by Moody's or AA- by S&P. As of August 31, 2007 and 2006, the UT System Board of Regents Revenue Financing System obligations were rated Aaa by Moody's and AAA by S&P.

Objective of the interest rate swap: In March 2007, the System executed forward-starting, floating-to-fixed rate interest rate swap agreements ("2007 Swap Agreements") with J.P. Morgan Chase Bank ("Morgan"), and Morgan Stanley Capital Services, Inc. ("MSCS"). The 2007 Swap Agreements are being used to hedge interest rate risk on Revenue Financing System Bonds expected to be issued in February 2008.

Terms: Pursuant to the terms of the Swap Agreements, the UT System Board of Regents has agreed to pay interest on a notional amount of $310,000,000 at a fixed rate of 3.840% per annum, with such obligation commencing on February 15, 2008. In consideration of receiving the payments from the UT System Board of Regents, Morgan and MSCS agreed to pay to the UT System Board of Regents a variable rate based on the BMA Municipal Swap Index. The Morgan Swap Agreement was for 50% of the notional amount and the MSCS Swap Agreement was for 50% of the notional amount. The 2007 Swap Agreements are scheduled to terminate on August 15, 2036.

Fair Value: The 2007 Swap Agreements had a positive fair value of $6,760,124 as of August 31, 2007. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

Termination Risk: The 2007 Swap Agreements expose the UT System Board of Regents to termination risk. Each 2007 Swap Agreement may be terminated if the respective counterparty does not maintain a credit rating of at least Baa2 by Moody's Investors Service ("Moody's") or BBB by Standard & Poor's Corporation ("S&P"). As of August 31, 2007, the swap providers' respective ratings by Moody's/S&P are as follows: Morgan, Aaa/AA and MSCS, Aa3/A+. The 2007 Swap Agreements may also be terminated by Morgan or MSCS, respectively, if the UT System Board of Regents Revenue Financing System obligations are not rated at least Baa2 by Moody's or BBB by S&P. As of August 31, 2007, the UT System Board of Regents Revenue Financing System obligations were rated Aaa by Moody's and AAA by S&P.

As of August 31, 2007

Fiscal Year		Associated Variable Rate Bonds Principal[1]	Associated Variable Rate Bonds Interest[2]	Pay-Fixed Receive-Variable Interest Rate Swaps[3]	Total
2008	$	3,800,000	936,341	204,783	4,941,124
2009		4,000,000	786,621	172,203	4,958,824
2010		4,300,000	629,021	137,483	5,066,504
2011		4,600,000	459,601	100,361	5,159,962
2012		3,400,000	278,361	60,749	3,739,110
2013		3,665,000	144,401	31,357	3,840,758

As of August 31, 2006

Fiscal Year		Associated Variable Rate Bonds Principal[1]	Associated Variable Rate Bonds Interest[2]	Pay-Fixed Receive-Variable Interest Rate Swaps[3]	Total
2007	$	4,600,000	972,920	296,589	5,869,509
2008		3,800,000	815,140	248,962	4,864,102
2009		4,000,000	684,800	209,354	4,894,154
2010		4,300,000	547,600	167,143	5,014,743
2011		4,600,000	400,110	122,012	5,122,122
2012		3,400,000	242,330	73,855	3,716,185
2013		3,665,000	125,710	38,122	3,828,832

[1]Reflects planned amortization of RFS Bonds, Series 2001A to be optionally redeemed in the fiscal years reflected.

[2]As required by GASB Statement No. 38, annual debt service requirements are computed using the System's effective rate of 3.43% on a par amount of $28,365,000.

[3]Reflects net payments on pay-fixed rate of 4.633% less receive-variable rate of 3.7595% and 3.5711% in effect at August 31, 2007 and 2006, respectively, applied on aggregate notional amount of the swaps through the termination date.

Basis Swaps:
Objective of the interest rate swap: In May 2006, the System executed basis swap agreements ("Basis Swaps") with Merrill Lynch Capital Services ("Merrill Lynch"), and Bank of America N.A. ("Bank of America"). The Basis Swaps were associated with the $540,570,000 Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 2006B ("Series 2006B Bonds") to lower the net cost of borrowing.

Terms: Pursuant to the terms of the Basis Swaps, the UT System Board of Regents has agreed to pay interest on a notional amount of $540,570,000 at a variable rate equal to the Bond Market Association Municipal Swap Index. In consideration of receiving the payments from the UT System Board of Regents, Merrill Lynch and Bank of America have agreed to pay to the UT System Board of Regents interest on a notional amount of $540,570,000 at a variable rate equal to 67% of the five-year London Interbank Offered Rate ("LIBOR") plus a fixed spread of 22.1 basis points. The Merrill Lynch Basis Swap was for 60% of the notional amount and the Bank of America Basis Swap was for 40% of the notional amount. The Series 2006B Bonds are scheduled to mature and the Basis Swaps were scheduled to terminate on August 15, 2037. On February 27, 2007, the System terminated both Basis Swaps and received an aggregate termination payment of $5,250,000 from Merrill Lynch and Bank of America. As of August 31, 2006, there was $540,570,000 of the Series 2006B Bonds outstanding and the notional amount of the Basis Swaps was $540,570,000.

Fair Value: As of August 31, 2006, the Basis Swaps had a fair value of $27,286. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

Basis and Termination Risk: The Basis Swaps expose the UT System Board of Regents to basis risk as the variable rate received is not expected to perfectly match the variable rate paid on the Basis Swaps. Each Basis Swap may be terminated if the respective counterparty does not maintain a credit rating of at least Baa2 by Moody's Investors Service ("Moody's") or BBB by Standard & Poor's Corporation ("S&P"). As of August 31, 2006, the swap providers' respective ratings by Moody's/S&P are as follows: Merrill Lynch, Aa2/AA- and Bank of America, Aa1/AA+. The Basis Swaps may also be terminated by Merrill Lynch or Bank of America, respectively, if the UT System Board of Regents Revenue Financing System obligations are not rated at least Baa2 by Moody's or BBB by S&P. As of August 31, 2006, the UT System Board of Regents Revenue Financing System obligations were rated Aaa by Moody's and AAA by S&P.

As of August 31, 2006

Fiscal Year	Associated Fixed Rate Bonds[1] Principal	Interest	Basis Swaps[2]	Total
2007	$ 6,465,000	26,774,500	(1,674,145)	31,565,355
2008	11,035,000	26,451,250	(1,654,123)	35,832,127
2009	13,735,000	26,009,850	(1,619,948)	38,124,902
2010	14,390,000	25,352,600	(1,577,410)	38,165,190
2011	15,095,000	24,633,100	(1,532,845)	38,195,255
2012	15,845,000	23,878,350	(1,486,095)	38,237,255
2013	16,640,000	23,086,100	(1,437,023)	38,289,077
2014	17,450,000	22,284,100	(1,385,489)	38,348,611
2015	18,305,000	21,428,100	(1,331,447)	38,401,653
2016	19,200,000	20,538,163	(1,274,756)	38,463,407
2017	20,130,000	19,608,575	(1,215,294)	38,523,281
2018	21,140,000	18,602,075	(1,152,951)	38,589,124
2019	22,175,000	17,545,075	(1,087,481)	38,632,594
2020	23,300,000	16,436,325	(1,018,805)	38,717,520
2021	24,460,000	15,271,325	(946,645)	38,784,680
2022	25,675,000	14,048,325	(870,892)	38,852,433
2023	26,985,000	12,764,575	(791,376)	38,958,199
2024	28,320,000	11,415,325	(707,804)	39,027,521
2025	29,740,000	9,999,325	(620,097)	39,119,228
2026	31,225,000	8,512,325	(527,992)	39,209,333
2027	19,935,000	6,963,000	(431,288)	26,466,712
2028	14,380,000	5,966,250	(369,550)	19,976,700
2029	10,110,000	5,247,250	(325,015)	15,032,235
2030	10,615,000	4,741,750	(293,704)	15,063,046
2031	11,150,000	4,211,000	(260,829)	15,100,171
2032	11,710,000	3,653,500	(226,298)	15,137,202
2033	12,285,000	3,068,000	(190,032)	15,162,968
2034	12,905,000	2,453,750	(151,985)	15,206,765
2035	13,550,000	1,808,500	(112,018)	15,246,482
2036	14,045,000	1,131,000	(70,054)	15,105,946
2037	8,575,000	428,750	(26,557)	8,977,193

[1]Reflects scheduled principal and interest payments of RFS Bonds, Series 2006B.

[2]Reflects net payments based on pay-variable rate of 3.41% in effect at August 31, 2006, less receive-variable rate of 3.7197% in effect at August 31, 2006, applied on the aggregate notional amount of the basis swaps through the termination date.

10. Note Indebtedness

General information related to notes and loans payable at August 31, 2007, which in substance are not bonds, is summarized as follows:

- Note or loan payable issue name: Permanent University Fund Flexible Rate Notes, Series A
  Purpose: To provide new money
  Issue Date: December 6, 2005
  Authorized Amount: Aggregate principal amount not to exceed $400 million
  Source of revenue for debt service: Available University Fund
  Terms: Interest payable in periodic installments not to exceed 270 days at a flexible rate

- Note or loan payable issue name: Revenue Financing System (RFS) Commercial Paper Notes, Series A
  Purpose: To provide new money
  Issue Date: September 1, 2005 through August 31, 2006
  Authorized Amount: Aggregate principal amount not to exceed $750 million
  Source of revenue for debt service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
  Terms: Interest payable in periodic installments not to exceed 270 days at a variable rate

- Note or loan payable issue name: Revenue Financing System (RFS) Taxable Commercial Paper Notes, Series B
  Purpose: To provide new money
  Issue Date: September 1, 2005 through August 31, 2006
  Authorized Amount: Aggregate principal amount not to exceed $50 million
  Source of revenue for debt service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
  Terms: Interest payable in periodic installments not to exceed 270 days at a variable rate

Other Notes Payable includes:

- Note or loan payable issue name: University Hospital
  Purpose: Reimburse University Hospital for clinical practice expenses under terms of a mediator-negotiated contractual settlement
  Institution: UT Health Science Center at San Antonio
  Issue Date: April 1, 2001
  Authorized Amount: $2,862,717
  Source of revenue for debt service: Patient service revenue from MSRDP Designated funds collected by University Physicians Group
  Terms: January 1, 2002 through January 1, 2009. Interest is computed at five percent (5%) annually.

- Note or loan payable issue name: Frost Bank
  Purpose: Remodel/renovation-UPG Administrative Service Building
  Institution: UT Health Science Center at San Antonio
  Issue Date: January 31, 2004
  Authorized Amount: $1,334,799
  Source of revenue for debt service: Patient service revenue from MSRDP Designated funds collected by University Physicians Group
  Terms: January 31, 2004 through November 7, 2008

- Note or loan payable issue name: Charitable Remainder Trust
  Purpose: Fine Arts Foundation (a blended component unit) purchase of the Suida Manning Art Collection
  Component Unit: UT Austin's Blended Component Unit
  Issue Date: January 4, 1999
  Authorized Amount: $12,000,000
  Source of revenue for debt service: Gift
  Terms: January 4, 1999 through April 17, 2016

- Note or loan payable issue name: Charitable Lead Trust
  Purpose: Fine Arts Foundation (a blended component unit) purchase of the Suida Manning Art Collection
  Component Unit: UT Austin's Blended Component Unit
  Issue Date: January 4, 1999
  Authorized Amount: $10,713,200
  Source of revenue for debt service: Gift
  Terms: January 4, 1999 through April 17, 2016

- Note or loan payable issue name: Memorial Hermann Hospital System
  Purpose: Reimburse Memorial Hermann Hospital System for equipment purchased and operating funds advanced in association with the transfer of clinics from Memorial Hermann Hospital System to UT Physicians
  Component Unit: UT Health Science Center at Houston's Blended Component Unit
  Issue Date: July 10, 2000
  Authorized Amount: $7,000,000
  Source of revenue for debt service: Debt and interest to be forgiven upon attainment of specified performance goals.
  Terms: July 2000 through June 2012

- Note or loan payable issue name: Premier Purchasing Partners L.P.
  Purpose: To purchase an ownership stake in this limited partnership
  Institution: UT Southwestern Medical Center at Dallas
  Issue Date: September 1, 2005
  Authorized Amount: $369,190
  Source of revenue for debt service: Rebates earned
  Terms: Payment time as well as payment amount is dependent on calculation of rebates which is based on the purchasing volume of the medical center.

- Note or loan payable issue name: City of Shavano Park Health Facilities Development Corporation
  Purpose: Purchase EPIC Patient and Sales Tracking Software Package
  Institution: UT Health Science Center at San Antonio
  Issue Date: December 1, 2006
  Authorized Amount: $9,000,000
  Source of revenue for debt service: Patient service from MSRDP Designated Funds collected by UT Medicine San Antonio
  Terms: February 1, 2007 through January 1, 2018. Interest is computed at 4.13% annually.

- Note or loan payable issue name: City of Shavano Park Health Facilities Development Corporation
  Purpose: Purchase EPIC Patient and Sales Tracking Software Package
  Institution: UT Health Science Center at San Antonio
  Issue Date: January 1, 2007
  Authorized Amount: $3,000,000
  Source of revenue for debt service: Patient service from MSRDP Designated Funds collected by UT Medicine San Antonio
  Terms: February 1, 2007 through January 1, 2018. Interest is computed at 4.15% annually.

General information related to notes and loans payable retired in 2007 is summarized as follows:

- Note or loan payable issue name: LaSalle National Bank
  Purpose: To purchase Oracle software site license
  Institution: UT El Paso
  Issue Date: September 1, 2002
  Authorized Amount: $580,641
  Source of revenue for debt service: Designated funds
  Terms: September 1, 2002 through September 1, 2006

11. Capital Leases

Certain leases to finance the purchase of property are capitalized at the present value of future minimum lease payments. The original capitalized cost of all such property under capital lease as of August 31, 2007 and 2006, is as follows:

Assets Under Capital Lease		2007	2006
Furniture and Equipment	$	468,010	418,094
Less: Accumulated Depreciation		(156,354)	(86,673)
Museums and Art Collections		2,742,808	4,152,652
Total	$	3,054,464	4,484,073

Capital lease obligations are due in annual installments through 2011. The following is a schedule of the future minimum lease payments for leased property and the present value of the net minimum lease payments at August 31, 2007.

Fiscal Year		Principal	Interest	Total
2008	$	1,023,223	87,293	1,110,516
2009		718,940	58,347	777,287
2010		491,938	34,885	526,823
2011		423,500	15,000	438,500
Total Minimum Lease Payments		2,657,601	195,525	2,853,126
			Less: Interest	(195,525)
Present Value of Net Minimum Lease Payments				2,657,601

12. Short-Term Debt

The System had RFS Commercial Paper Notes, Series A, RFS Taxable Commercial Paper Notes, Series B, and PUF Flexible Rate Notes, Series A, outstanding at August 31, 2007 and 2006. The notes are issued to provide interim financing for capital improvements and to finance equipment purchases. While the interest is payable on these notes in periodic installments not to exceed 270 days, they are generally intended to be refinanced with long-term debt. Information pertaining to the balances and activity of these notes is reflected in Note 8.

13. Net Assets

The System's net assets at August 31, 2007 and 2006, were comprised of the following:

	2007	2006
Invested in capital assets, net of related debt	$ 4,061,462,641	3,807,124,215
Restricted		
Nonexpendable	9,788,901,179	9,159,639,763
Expendable	11,376,755,768	9,355,977,383
Total restricted	21,165,656,947	18,515,617,146
Unrestricted net assets:		
Unrestricted		
Reserved		
Encumbrances	419,529,674	234,596,154
Accounts receivable (less deferred revenue portion)	697,592,239	642,620,188
Inventories	66,875,848	72,929,165
Self-insurance plans	313,753,697	229,914,222
Higher Education Assistance Fund (HEAF)	4,559,962	3,827,277
Other specific purposes:		
Advanced Research/Advanced Technology Programs	3,563,553	5,571,876
Deposits	2,536,581	3,895,754
Prepaid expenses	73,346,594	66,109,328
Deferred charges	6,349,565	4,947,100
Imprest funds	1,015,149	1,174,393
Travel advances	273,660	179,200
Unreserved		
Allocated		
Funds functioning as endowment-unrestricted	209,547,195	178,593,695
Provision for 2008 & 2007 operating budgets	86,049,659	66,008,898
Capital projects	59,332,759	158,048,157
Debt service	120,685,314	69,239,565
Start-up/matching	28,991,302	36,148,291
Utilities reserve	18,552,999	15,552,795
Research enhancement and support	81,334,214	70,613,761
Market adjustments	38,197,876	6,743,994
Student fees	65,425,239	60,873,883
Texas Tomorrow Fund shortfall	8,985,495	7,913,053
Instructional program support	104,719,916	74,633,620
Dean and chair recruitment packages	40,320,282	19,245,731
Self-supporting enterprises	107,654,382	82,917,753
Patient care support	118,398,693	84,852,844
Practice plan minimum operating reserve of 90 days	338,386,085	172,493,247
Uncompensated Patient Care	4,656,247	-
Unallocated	101,835,337	82,984,837
Total unrestricted	3,122,469,516	2,452,628,781
Total net assets	$ 28,349,589,104	24,775,370,142

As of August 31, 2007 and 2006, restricted nonexpendable net assets include $6,375,985,758 and $5,889,253,513, respectively, of the Permanent University Fund corpus, and $820,000,000 and $819,999,983, respectively, of the Permanent Health Fund corpus. These funds are restricted by enabling legislation. As of August 31, 2007 and 2006, restricted expendable net assets include $6,927,947,062 and $5,748,416,503, respectively, of the Permanent University Fund appreciation, and $280,055,768 and $167,028,260, respectively, of the Permanent Health Fund appreciation. These funds are also restricted by enabling legislation.

Unrestricted net assets, detailed in the table above, are not subject to externally imposed stipulations. Unrestricted net assets may be designated for special purposes by actions of the Texas Legislature, internal management, and the UT System Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic programs, patient care, research programs and initiatives, and capital programs.

14. Matrix of Operating Expenses Reported by Function

For the year ended August 31, 2007, the following table represents operating expenses for both natural and functional classifications for the System:

Operating Expenses	Instruction	Research	Hospitals and Clinics	Public Service	Academic Support
Cost of Goods Sold	$ 20,365,243	3,976	67,477,794	711,502	691
Salaries and Wages	1,597,471,448	841,629,228	1,244,187,159	116,682,599	220,527,737
Payroll Related Costs	376,881,656	191,557,436	324,756,352	26,503,986	51,450,385
Professional Fees and Services	32,014,655	65,896,906	123,970,723	13,210,982	15,257,093
Scholarships and Fellowships	6,308,741	20,069,083	137,667	1,863,669	1,251,800
Travel	28,012,782	33,442,484	9,719,608	5,164,708	7,408,874
Materials and Supplies	95,983,652	164,292,135	548,448,636	18,321,540	35,119,318
Utilities	10,584,294	1,611,449	6,156,149	939,189	118,275
Communications	18,002,931	6,808,400	12,576,725	1,941,183	12,779,253
Repairs and Maintenance	8,335,008	9,374,827	44,087,658	1,233,895	5,677,551
Rentals and Leases	13,268,219	7,246,199	29,217,412	3,422,383	4,772,731
Printing and Reproduction	6,019,126	3,920,531	1,426,774	3,086,401	3,025,623
Depreciation and Amortization	-	-	-	-	-
Bad Debt Expense	5,389	3,299	-	3,274	69,187
Claims and Losses	-	-	-	-	-
Other Operating Expenses	169,708,420	187,034,131	222,986,054	27,840,219	32,950,317
Federal Sponsored Pass-through to State Agencies	1,368,935	9,927,519	-	1,183,539	-
State Sponsored Pass-through to State Agencies	(7,815)	101,985	-	-	-
Total Operating Expenses	$ 2,384,322,684	1,542,919,588	2,635,148,711	222,109,069	390,408,835

Student Services	Institutional Support	Operations and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total Expenses
84,938	1,608,769	53,049	-	10,223,880	-	100,529,842
91,953,318	483,477,804	177,753,329	28,763,791	132,714,287	-	4,935,160,700
21,022,285	142,127,825	42,058,151	4,943,113	30,831,356	-	1,212,132,545
2,348,936	41,850,316	27,039,046	461,867	18,880,711	-	340,931,235
3,595,771	413,695	1,709	219,295,123	7,713,771	-	260,651,029
2,878,160	11,142,037	1,593,148	650,190	14,817,634	-	114,829,625
11,263,847	32,553,283	51,981,475	740,339	43,442,030	-	1,002,146,255
801,892	(23,499,305)	212,972,296	364	27,279,640	-	236,964,243
1,681,281	(6,437,485)	2,181,021	14,670	4,634,954	-	54,182,933
3,172,149	19,163,064	49,652,617	51,164	11,897,708	-	152,645,641
3,496,381	8,483,678	21,150,290	52,957	8,548,163	-	99,658,413
2,432,922	(4,125,336)	283,369	76,625	4,725,991	-	20,872,026
-	-	-	-	-	626,913,140	626,913,140
1,835,595	384,319	-	8,697	5,623	-	2,315,383
-	10,104,830	-	-	-	-	10,104,830
10,782,510	(82,598,213)	(32,121,808)	2,138,952	57,918,003	-	596,638,586
-	-	-	79,222	-	-	12,559,215
-	-	-	-	-	-	94,170
157,349,985	634,649,281	554,597,692	257,277,074	373,633,751	626,913,140	9,779,329,810

For the year ended August 31, 2006, the following table represents operating expenses for both natural and functional classifications for the System:

Operating Expenses		Instruction	Research	Hospitals and Clinics	Public Service	Academic Support
Cost of Goods Sold	$	20,308,503	228	59,888,534	225,673	-
Salaries and Wages		1,505,162,710	794,893,142	1,174,337,122	119,517,650	196,558,547
Payroll Related Costs		373,348,307	178,971,174	307,340,484	26,721,895	45,348,900
Professional Fees and Services		32,986,882	60,370,983	123,239,645	12,143,242	15,920,833
Scholarships and Fellowships		10,848,720	17,753,485	151,403	1,957,099	1,350,704
Travel		27,102,879	31,932,738	7,376,454	3,903,081	6,219,216
Materials and Supplies		92,699,684	156,340,113	505,702,922	20,438,880	35,958,422
Utilities		1,484,824	1,049,661	5,896,464	859,203	104,413
Communications		18,528,402	7,249,978	12,571,167	1,782,717	11,506,805
Repairs and Maintenance		8,091,298	10,865,343	42,535,661	811,388	4,943,184
Rentals and Leases		14,919,227	6,695,692	20,756,228	3,592,087	3,927,077
Printing and Reproduction		6,330,925	3,541,526	1,112,735	3,561,163	2,893,669
Depreciation and Amortization		-	-	-	-	-
Bad Debt Expense		183,809	15,605	38,823	4,185	15,901
Claims and Losses		-	-	16,821	-	-
Other Operating Expenses		142,864,849	159,013,470	251,937,497	26,716,385	28,793,251
Federal Sponsored Pass-through to State Agencies		2,247,646	6,538,073	-	1,138,711	-
State Sponsored Pass-through to State Agencies		-	54,385	-	-	-
Total Operating Expenses	$	2,257,108,665	1,435,285,596	2,512,901,960	223,373,359	353,540,922

Student Services	Institutional Support	Operations and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total Expenses
71,985	628,147	225	-	19,069,465	-	100,192,760
84,267,322	488,317,711	142,784,600	24,288,960	126,820,591	-	4,656,948,355
19,461,696	121,627,096	34,905,827	3,475,896	29,142,147	-	1,140,343,422
2,035,636	52,479,261	17,648,700	387,089	16,667,710	-	333,879,981
3,188,134	643,847	200	188,343,957	5,893,585	-	230,131,134
2,493,189	12,093,092	938,416	623,466	14,467,925	-	107,150,456
10,215,419	38,189,818	52,325,920	824,976	32,041,701	-	944,737,855
641,185	(14,379,541)	226,562,482	(14)	29,197,888	-	251,416,565
1,562,029	(2,466,546)	1,532,741	(215,141)	4,036,854	-	56,089,006
2,812,357	14,537,963	64,942,234	34,219	11,678,763	-	161,252,410
3,387,347	16,952,846	19,781,812	58,657	5,959,113	-	96,030,086
2,600,349	(3,749,353)	156,768	74,049	4,947,556	-	21,469,387
-	-	-	-	-	557,751,455	557,751,455
2,800,937	59,318	-	(7,077)	4,350	-	3,115,851
-	20,845,186	-	-	-	-	20,862,007
10,515,489	(122,063,758)	(24,164,794)	5,004,102	51,737,769	-	530,354,260
-	-	-	191,960	-	-	10,116,390
-	-	-	-	-	-	54,385
146,053,074	623,715,087	537,415,131	223,085,099	351,665,417	557,751,455	9,221,895,765

15. Commitments and Contingent Liabilities

On August 31, 2007, various lawsuits and claims involving the System were pending. After conferring with legal counsel concerning pending litigation and claims, the System's management believes that the outcome of pending litigation should not have a material adverse effect on the financial statements of the System.

The System continues to implement its $7.7 billion capital improvement program, planned for fiscal years 2008 through 2013, to upgrade facilities. Contracts have been entered into for the construction and renovation of various facilities. These projects are in various stages of completion.

The System receives grants and other forms of reimbursement from various federal and state agencies. These activities are subject to audit by agents of the funding authority, the purpose of which is to ensure compliance with conditions precedent to providing such funds. The System believes that the liability, if any, for reimbursement which may arise as the result of audits, would not be material.

The System has invested in certain private market investment funds. These agreements commit the System to future capital contributions amounting to $2,045,612,860 as of August 31, 2007 and $1,652,553,433 as of August 31, 2006.

16. Operating Lease Obligations

The System has entered into various operating leases for buildings, equipment and land. Rental expenses for operating leases were $62,544,551 in 2007 and $61,192,684 in 2006. Future minimum lease rental payments under noncancelable operating leases having an initial term in excess of one year as of August 31, 2007, were as follows:

Fiscal Year		Lease Payments
2008	$	55,340,495
2009		52,553,068
2010		44,198,396
2011		37,143,673
2012		28,982,948
2013 – 2017		45,956,038
2018 – 2022		1,414,347
2023 – 2027		1,511,694
2028 – 2032		1,370,436
2033 – 2037		732,504
Total Minimum Future Payments	$	269,203,599

The System has also leased buildings, equipment and land to outside parties under various operating leases. The cost, carrying value and accumulated depreciation of these leased assets as of August 31, 2007 and 2006 were as follows:

Assets Leased		2007	2006
Buildings:			
Cost	$	75,683,614	73,120,057
Less: Accumulated Depreciation		(18,534,859)	(16,258,144)
Carrying Value of Buildings		57,148,755	56,861,913
Land		3,251,387	2,902,826
Total Carrying Value	$	60,400,142	59,764,739

Minimum future lease rental income under noncancelable operating leases as of August 31, 2007, was as follows:

Fiscal Year		Lease Income
2008	$	20,700,400
2009		17,377,087
2010		15,944,121
2011		14,934,902
2012		9,052,888
2013 – 2017		5,302,948
2018 – 2022		159,270
2023 – 2027		46,407
2028 – 2032		42,241
2033 – 2037		88,799
Total	$	83,649,063

17. Employees' Retirement Plans

TEACHER RETIREMENT SYSTEM (TRS)

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

All System personnel employed in a position on a half time or greater basis for at least 4½ months or more are eligible for membership in the TRS retirement plan. However, students employed in positions that require student status as a condition of employment do not participate. Members with at least five years of service at age 65 or any combination of age plus years of service, which equals 80, have a vested right to retirement benefits. Additionally, reduced benefits are available at age 55 with at least five years of service or at any age below 50 with 30 years of service. Members are fully vested after five years of service and are entitled to any benefits for which the eligibility requirements have been met.

TRS contribution rates for both employers and employees are not actuarially determined but are legally established by the State Legislature. Contributions by employees are 6.4 percent of gross earnings. Depending upon the source of funding for the employee's compensation, the State or the System contributes a percentage of participant salaries totaling 6 percent of annual compensation. The System's contributions to TRS for the years ended August 31, 2007, 2006 and 2005, were $124,742,870, $117,951,564 and $104,801,254, respectively, which equaled the amounts of the required contributions for those years.

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

OPTIONAL RETIREMENT PROGRAM (ORP)

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

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

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

The funding policy requires monthly contributions by both the State and employees. For the biennium beginning September 1, 2005, the required contribution for both the State and employees is 6 percent of pay.

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

THE UNIVERSITY OF TEXAS SYSTEM GOVERNMENTAL RETIREMENT ARRANGEMENT (UTGRA)
The University of Texas System Governmental Retirement Arrangement (UTGRA) is a defined contribution pension plan established by the System to provide certain participants in the ORP that portion of their benefits that would otherwise be payable under the ORP except for the $45,000 limit on contributions imposed by Section 415 of the Internal Revenue Code (IRC). At August 31, 2007 and 2006, there were 653 and 643 plan members, respectively. Persons employed by the System prior to September 1, 1996, whose compensation exceeds the limit set by IRC Section 401(a)(17) and whose ORP contribution is limited by the $45,000 cap under IRC Section 415(c), defer 6.65 percent of their excess compensation while the System contributes between 6 percent and 8.5 percent depending upon the institution and the date of employment. The System contributed $4,031,748 for the year ended August 31, 2007 and $3,873,180 for the year ended August 31, 2006. Plan provisions are established and may be amended at any time by the UT System Board of Regents.

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

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

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

18. Voluntary Retirement Plans

DEFERRED COMPENSATION-457(b)
The System employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in the TEX. GOV'T. CODE ANN., Sec. 609.001.

The System administers the UTSaver Deferred Compensation Program (DCP), created in accordance with IRC Section 457(b). All employees are eligible to participate. Deductions, purchased investments and earnings attributed to the UTSaver DCP are the property of the System subject only to the claims of the System's general creditors. Participants' rights under the plan are equal to those of the general creditors of the System in an amount equal to the fair market value of the UTSaver DCP account for each participant. The System has no liability under the UTSaver DCP and it is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.

In addition, some employees contribute to a deferred compensation plan administered by the State, through ERS. The State's 457 plan complies with the IRC Section 457. This State plan is referred to as the Texa$aver Deferred Compensation Plan and is only available to employees who were contributing prior to the establishment of the UTSaver DCP. Deductions, purchased investments and earnings attributed to the 457 plan are the property of the State subject only to the claims of the State's general creditors. Participants' rights under the plan are equal to those of the general creditors of the State in an amount equal to the fair value of the 457 account for each participant. The State has no liability under the 457 plan and it is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.

TAX SHELTERED ANNUITY-403(b)

The System also administers the UTSaver Tax-Sheltered Annuity Program (TSA), created in accordance with IRC Section 403(b). All employees are eligible to participate. The UTSaver TSA is a private plan, and the deductions, purchased investments and earnings attributed to each employee's 403(b) plan are held by vendors chosen by the employee. The vendors may be insurance companies, banks or approved non-bank trustees such as mutual fund companies. The assets of this plan do not belong to the System or the State. Therefore, neither the System nor the State has a liability related to this plan.

19. Subsequent Events

On November 6, 2007, the UT System Board of Regents issued $150 million of PUF Flexible Rate Notes, Series A.

20. Related Parties

Through the normal course of operations, the System both receives funds from and provides funds to other State agencies in support of sponsored research programs. Funds received and provided during the year ended August 31, 2007, related to pass-through grants were $183,352,966 and $12,653,385, respectively. Funds received and provided during the year ended August 31, 2006, related to pass-through grants were $172,753,523 and $10,170,775, respectively.

Other related-party transactions identified in the financial statements include Due From/To Other State Agencies, State Appropriations, Capital Appropriations and Transfers From/To Other State Agencies.

21. Stewardship, Compliance and Accountability

The System had no significant violations of bond or note covenants. Per State law, the System cannot spend amounts in excess of appropriations granted by the Texas Legislature. There are no deficits reported in net assets.

22. Disaggregation of Other Receivable Balances

Net other receivables at August 31, 2007 and 2006 are detailed by type as follows:

Net Other Receivables		2007	2006
Receivables related to investments	$	348,418,645	62,560,206
Receivables related to healthcare		39,047,178	51,402,349
Receivables related to gifts, grants and sponsored programs		38,607,802	41,382,113
Receivables related to external parties/other companies		24,371,549	11,401,427
Receivables related to auxiliary enterprises		7,077,599	8,004,617
Receivables related to facilities/construction projects		-	2,213,121
Receivables related to payroll		6,019,554	5,825,098
Receivables related to patents		1,821,737	3,937,023
Receivables related to travel		1,000,689	891,569
Receivables related to loan funds and financial aid		1,947,923	1,659,301
Receivables related to agency funds		1,728,438	2,329,910
Receivables related to other various activities		10,450,981	6,827,681
Total	$	480,492,095	198,434,415

23. Affiliated Organizations

The balances, or transactions, of funds held by others on behalf of the System are not reflected in the financial statements. Based upon the most recent available information, the net assets of these funds are reported by the organizations at values totaling $1,770,212,547 at August 31, 2007 and $1,352,064,750 at August 31, 2006. See Note 2, Summary of Significant Accounting Policies, Assets Held by Affiliated Organizations for more information.

24. Joint Ventures

UT Southwestern Health Systems (UTSHS), a blended component unit UT Southwestern Medical Center at Dallas (UTSWMC), is a participating member of UT Southwestern DVA Healthcare, LLP (DVA). DVA is a joint venture between UTSHS and Davita Inc. to provide care for dialysis patients in the Dallas-Fort Worth area. UTSHS's equity interest in DVA at August 31, 2007 and 2006 was $4,209,227.73 and $4,141,979.00 respectively, or 49%. Separate financial statements for DaVita may be obtained at DaVita Inc., 601 Hawaii Street, El Segundo, CA 90245 or www.davita.com.

UT Health Science Center at Houston's blended component unit, UT Physicians, is a participating member of Physician's Dialysis of Houston. Physician's Dialysis of Houston is a joint venture entered into by UT Physicians and DaVita, Inc. UT Physician's equity interest in Physician's Dialysis of Houston at August 31, 2007 and 2006 was $935,587.08 and $432,176, respectively, or 35% and 60%. Separate financial statements for Physician's Dialysis of Houston may be obtained at Physician's Dialysis of Houston, Attention: Marie Sinfield, 1423 Pacific Avenue, Tacoma, Washington 98402.

UT Health Science Center at Houston's blended component unit, UT Physicians, is a participating member of UT Imaging. UT Imaging is a Limited Liability Partnership entered into by UT Physicians, Outpatient Imaging Affiliates, LLC, and Memorial Hermann Hospital System. UT Physician's equity interest in UT Imaging at August 31, 2007 and 2006 was $127,468.91and $102,629, respectively, or 56.7% and 56.7%. Separate financial statements for UT Imaging may be obtained at Outpatient Imaging Affiliates, LLC, Attention: Laura Cottingham, 840 Crescent Center Drive, Suite 200, Franklin, Tennessee 37067.

UTMDA is a participating member of the Texas Medical Center Hospital Laundry Cooperative Association (the Association). The Association was established on April 30, 1971, for the purpose of acquiring, owning, and operating a laundry system on a cooperative basis solely for the benefit of members of the Association. Net earnings of the Association may be refunded to the members on a patronage basis or retained by the Association as equity allocated to the members. UTMDA's equity interest in the Association at August 31, 2007 and 2006 was $619,456 and $477,423, respectively, or 40% and 40%. Separate financial statements for the Association may be obtained at 1601 Braeswood Boulevard, Houston, Texas 77030.

UTMDA is a participating member of the Texas Medical Center Central Heating and Cooling Services Cooperative Association (TECO). TECO was incorporated on October 2, 1975, for the purpose of operating a central heating and cooling services facility on a cooperative basis solely for the benefit of eligible institutions. On June 1, 2003, TECO transferred substantially all of its assets and operations to TECO Corporation and TECO Corporation assumed the liabilities and obligations of TECO. TECO still renders services to member and non-member patrons at cost. Savings or margins are refunded to the member and non-member patrons on a patronage basis in the form of cash or equity by TECO. UTMDA's equity interest in TECO at August 31, 2007 and 2006 was $21,075,510 and $16,271,110, respectively, or 39% and 39%. Separate financial statements for TECO may be obtained at Thermal Energy Corporation 1615 Braeswood Boulevard, Houston, Texas 77030.

UTMDA is a participating member of P.E.T. Net Houston, LLC (PETNet). PETNet is a joint venture entered into by UTMDA and P.E.T. Pharmaceuticals, Inc. to lease and operate a facility located on UTMDA's campus to produce positron radiopharmaceuticals and isotopes. Construction of the facility commenced in 2003. UTMDA's equity interest in PETNet at August 31, 2007 and 2006 was $2,808,419 and $2,556,398, respectively, or 49% and 49%. Separate financial statements for PETNet may be obtained at Siemens Medical Solutions USA, Inc., 51 Valley Stream Parkway, Malvern, Pennsylvania 19355.

UTMDA entered into a limited partnership agreement on December 19, 2002 with PTC-Houston Management, L.P. and PTC-Houston Investors, LLC to create The Proton Therapy Center-Houston LTD., L.L.P. (PTC Partnership). PTC Partnership was established to develop and operate a proton therapy facility, which will provide cancer treatment to patients utilizing proton therapy technology. Under the Staffing and Operations Agreement between UTMDA and PTC Partnership, UTMDA shall be the exclusive supplier of all technical and operational services to support PTC Partnership operations, and for which, UTMDA will be reimbursed on a monthly basis. Under a separate agreement, the Professional Services Agreement, UTMDA shall provide services of physicians, medical physicists and medical dosimetrists to PTC Partnership, for which, UTMDA shall bill patients and retain all professional fees associated with such services. The initial capital contribution of UTMDA will be determined by the general partner in order to fund the obtaining of licenses for intellectual property deemed necessary to operate the facility, and costs directly related thereto, unless otherwise agreed to in writing by UTMDA. As of August 31, 2007, the general partner had not required UTMDA to make any payments related to the initial capital contribution. However, at the time the contract was executed, the value of the intellectual property was estimated to be $3,000,000, which equates to an approximate 8.95% interest. The investment has not been recorded on the balance sheet of the UTMDA.

UTMDA entered into a limited liability company agreement on December 19, 2002 to form PTC-Houston Investors, L.L.C (Investors). Investors was established to invest in and be a limited partner in the PTC Partnership. Investors entered into a ground lease with UTMDA on December 19, 2002 to lease approximately four acres on UTMDA's property for an initial term of sixty years. UTMDA's initial capital contribution of $2,500,000 to Investors was provided through the ground lease. UTMDA's equity interest in Investors at August 31, 2007 and 2006 was $2,500,000 and $2,500,000, respectively, or approximately 8.2% and 8.2%. Separate financial statements for PTC may be obtained at 1840 Old Spanish Trail, Houston, Texas 77030.

UTMDA entered into a limited partnership agreement on January 10, 1990, with Premier Purchasing Partners, L.P. (Premier). The principal business of Premier is to operate and manage healthcare-related programs and investments for the benefit of its partners including UTMDA and to otherwise assist the partners in providing superior healthcare services in their communities. Premier negotiates and executes reduced cost purchase contracts between its partners and vendors of healthcare products and services by leveraging the aggregated demand of its partners and to operate group purchasing and other programs to increase both individual participant and aggregate purchasing volumes. As of August 31, 2007 and 2006, UTMDA's investment in Premier was $4,080,000 and $3,913,260, respectively, or 1.45% and 1.41%. Separate financial statements for Premier may be obtained at Premier, Inc., 12225 El Camino Real, San Diego, California 92130 or www.premierinc.com.

25. Termination Benefits

In 2007, UT Medical Branch at Galveston implemented a reduction in force effective September 2006. The benefits package provided to the 159 terminated employees consisted of normal benefits and salaries with no special benefits or severance packages offered.

Healthcare continuation under the Consolidated Omnibus Budget Reconciliation Act (COBRA) is provided for both voluntary and involuntary terminations. The COBRA members are eligible to remain in the group benefits program for 18 months or 29 months, if disabled. Dependents are eligible to remain in the program for 36 months. COBRA benefits for the terminated employees for the year ended August 31, 2007 are provided below:

		2007
Number of Participants[1]		5
Premium Revenue	$	16,673
2% Administrative Fee Revenue[2]		333
Total Revenue for COBRA		17,006
Less Claims Paid		(3,472)
Cost to State[3]	$	None

[1]The participants above are for the self-insured program. There were no participants in the fully-insured program (HMO) as the HMO was not available to the employees at UT Medical Branch at Galveston.
[2]The 2 percent administrative fee is not retained by the System but is passed to the carrier.
[3]Since the revenues for COBRA exceeded the claims there was no cost to the State.

There were no other nonroutine, widespread voluntary or involuntary termination arrangements that involved a substantial number of individual employees or group of employees meeting the criteria for liability recognition.

26. Extraordinary Items

In late July and early August 2006, the city of El Paso received a tremendous amount of rain, which caused significant water damage to some of UT El Paso's buildings and infrastructure. As a result of the flooding, UT El Paso incurred significant costs related to clean-up and repair from the flooding subsequent to year-end. UT El Paso was able to reasonably estimate the receipt of commercial insurance and United States Federal Emergency Management Agency (FEMA) proceeds due to the storm at that time. Due to the infrequency of significant rainfall in the El Paso area, the additional expenses of $504,812 related to the clean-up, net of the estimated insurance recoveries, were recognized as extraordinary losses for the year ended August 31, 2006. The insurance proceeds received in 2007 of $320,938 were recognized as extraordinary income for the year-ended August 31, 2007. None of the damage caused impairment of UT El Paso's assets.

27. New Accounting Pronouncements

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the System in fiscal year 2008. GASB Statement No. 45 requires accrual-based measurement, recognition and disclosure of other postemployment benefits (OPEB) expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. For the System, this will result in increased expenses and a related liability which will likely be significant. The System and its actuaries are evaluating the effect that GASB Statement No. 45 will have on the consolidated financial statements.

4. U. T. Brownsville: Report on the Internal Audit Department, including the Student Health Services Audit

The University of Texas at Brownsville

Office of Internal Audits

Ms. Norma Ramos

Director of Internal Audits

U. T. Brownsville

U. T. System Board of Regents

Audit, Compliance, and Management Review Committee

February 2008

Internal Audit Committee

- Dr. Juliet V. García , President (Chair)
- Dr. Jose Martin, Provost
- Dr. Charles Dameron, Vice President for Academic Affairs
- Dr. Antonio Zavaleta, Vice President for External Affairs
- Dr. Hilda Silva, Vice President for Student Affairs
- Ms. Rosemary Martinez, Vice President for Business Affairs
- Dr. Ruth Ann Ragland, Vice President for Institutional Advancement
- Dr. David Pearson, Vice President for Partnership Affairs
- Mr. Jonathon Rebello, Executive Vice President, Texas State Bank

➢ Meets quarterly with last meeting held on November 28, 2007

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Internal Audit Department Staffing & Reporting Structure

- **Norma Ramos, CIA, CGAP, Director**
- **Cecilia Sanchez, CIA, CGAP, Internal Auditor II**
- **Susana Rodriguez, CPA, CIA, CISA, Internal Auditor**
- **Angelica Hernandez, Internal Auditor**

- **11 Reports issued in FY 2007**
- **Internal Audit Director reports administratively to the President and functionally to the Internal Audit Committee.**

3

High Risk Areas to be Audited in FY 2008

Institutional high risks areas:
- **Student Fees**
- **Physical Plant**
- **Outreach Programs**
- **Compliance: Contracts & Grants--Allowable Costs**

IT high risk areas:
- **IT Systems Change Management Audit General Controls Review**
- **UTS165 (Information Resources Security and Use Policy)**
- **Physical Plant TMA software-Electronic Work Orders**
- **Protecting the Confidentiality & Integrity of Digital Research Data**

Research high risk areas:
- **IRB**
- **Effort Reporting**

4

Peer Review

Overall, the Office of Internal Audits was found to be in compliance with Internal Auditing Standards.

Recommendations for continued improvement:

- Expand entity risk assessment process to include input from General Counsel and the operations of Texas Southmost College.
- Refine engagement risk assessment process during planning phase of audits to focus on highest risk area.
- Develop specialized auditing skills in entity's high risk areas.

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Peer Review (cont.)

- Restructure audit report format and enhance report content to better communicate audit issues and observations.
- Provide Internal Audit Director additional performance feedback.
- Improve internal quality assurance review process.

A Peer Review Follow-up is scheduled for January 2008.

6

Student Health Services Audit

Reason for audit:

- Part of FY 2007 Annual Audit Plan and subsequently a special request audit from the Provost.

Audit Objectives:

- Provide assurance that Student Health Services (SHS) was in compliance with policies, procedures, laws, and regulations that could have a significant impact on operations.
- Review the internal controls over SHS to provide reasonable assurance that existing internal controls in the department are adequate.

7

Student Health Services Audit Results and Current Status

Audit Results:

- Significant compliance issues with several regulations applicable to SHS were identified.
- Significant internal control deficiencies were found in various financial, operational and administrative processes.

Current Status:

- Interim SHS Director has implemented new policies & procedures and improved controls over medical, pharmacy and financial records to ensure compliance with applicable regulations and to correct internal control deficiencies.
- SHS has contracted with a new Doctor and Pharmacist.
- U. T. Brownsville Internal Audit Director is assisting other U. T. academic institutions in conducting student health center audits.

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6. U. T. System: Report on System-wide institutional compliance activities, including the Institutional Compliance Advisory Council, and Institutional Compliance Program report for U. T. Pan American

The University of Texas Pan American Institutional Compliance Program

Mr. James Langabeer
Vice President for Business Affairs
Institutional Compliance Officer

U. T. System Board of Regents Meeting
Audit, Compliance, and Management Review Committee

February 2008

Executive Compliance Committee

- President – Chair
- Provost/Vice President for Academic Affairs
- Senior Vice Provost for Undergraduate Studies
- Vice President for Business Affairs – Institutional Compliance Officer
- Vice President for Community Engagement
- Vice President for Enrollment and Student Services
- Vice President for Information Technology
- Vice President for University Advancement
- Ex officio members:
  - Assistant to President
  - Director of Internal Audit
  - Compliance Coordinator
  - Compliance Specialist

The ECC meets quarterly with the last meeting held November 19, 2007

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Top "A" High Risk Areas

1. Facilities Safety
2. Personal Information Security
3. Laboratory Safety/Use of Hazardous Materials
4. Sponsored Projects – Time and Effort
5. Export Controls
6. Environmental Quality (storm water regulations)

3

Top "B" High Risk Areas

1. Student Health Services
2. Sponsored Projects – Human Subjects, Pre Award, Post Award
3. Stewardship – Expenditure of Endowed Funds
4. NCAA Athletics
5. Environmental Quality – Hazardous Waste Disposal, Indoor Air Quality
6. Stewardship – Departments
7. Child Development Center

4

General Compliance Training Requirements

- In Person Introduction of the Compliance Program is provided at New Employee Orientation sessions
- Online Standards of Conduct Guide Training for new employees; refresher every two years for all employees
  - 88% complete as of December 7, 2007 for scheduled employees
  - Refresher scheduled for FY 2008 including updates to UT System Model Standards of Conduct Guide
- In Person Compliance Training for Supervisors
  - 100% complete

5

Mandatory Compliance Training Modules
HOP 2.4.1

- Introduction to the UTPA Compliance Program
- Personal Safety of Students, Employees, and the Public
- Fair Treatment of Employees
- Information Resources and Security
- University Contracts and Agreements
- Other Issues in Public Trust

6

Other Training Modules

- Job Specific Training-Generated Courses:
  - Account Manager Training
  - Time Reporting Course for Research Grants
  - Grant and Contract Management for Principle Investigators
  - Account Reconciliation Training
  - Ergonomics in the Work Place
  - Endowed Scholarships
  - Departmental Account Reconciliations
  - Research and Intellectual Endeavors
  - Protecting the Confidentiality of SSNs

7

Triage Process - Reports of Noncompliance

- UTPA utilizes several options for employees to raise compliance questions:
  1. Higher level manager in chain of command
  2. Institutional Compliance Officer
  3. Anonymous Compliance Hotline
  4. Compliance Support Services
- Reports are handled by a triage team which consist of:
  1. Institutional Compliance Officer
  2. Compliance Coordinator
  3. Director of Internal Audits

8

Overview of the Institutional Compliance Advisory Council for The University of Texas System Institutions

Karen K. Parsons
Director, Institutional Compliance
The University of Texas Health Science Center at Houston
Chair, U. T. Institutional Compliance Advisory Council

THE UNIVERSITY *of* TEXAS SYSTEM
Nine Universities. Six Health Institutions. Unlimited Possibilities.

U. T. System Board of Regents

Audit, Compliance, and Management Review Committee

February 2008

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Objectives

- Briefly discuss the charge for institutional compliance programs
- Describe how the institutional compliance programs collaborate to collectively reduce risk
- Discuss next steps for compliance program collaborations

2

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Compliance Program Charges

- Compliance risk assessments
- Risk management plans for institutional critical risks
- Monitoring the effectiveness of those plans
- General compliance training
- Reporting on compliance activities
- Assessing the compliance function

3

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Institutional Compliance Advisory Council (ICAC)

- Established in 2005
- Membership consists of compliance office representatives from the U.T. institutions, System Administration and UTIMCO
- Quarterly meetings
- Enhance communication
- Share best practices
- Pursue collaborative efforts
- Four advisory Standing Committees

4

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ICAC Executive Committee

- Chair: Karen Parsons - Director of Institutional Compliance, The University of Texas Health Science Center at Houston
- Jennifer Chapman – Compliance Officer, The University of Texas at Arlington
- Terry Reeves – Compliance Officer, The University of Texas Medical Branch at Galveston
- Dale Sump – Compliance Officer, The University of Texas System Administration
- Sandy Vasquez – Director of Institutional Compliance, The University of Texas at El Paso
- Charlie Chaffin – System-wide Compliance Officer, The University of Texas System Administration

5

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Collaborative Risk Reduction

- ICAC Standing Committees
  - Risk Assessment and Monitoring Plans
  - Training and Education
  - Reporting
  - Peer Review and Assurance Strategies
- Accomplishments
  - Draft policies developed
  - Cross-institutional compliance risks identified
  - Compliance training reference tool created
  - Compliance program self-assessment

6

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ICAC Next Steps

- Next Steps
  - Finalize draft compliance policies
  - Update Institutional Compliance Program System-wide policy
  - Provide training, share best practices
  - Continue identifying, evaluating, and recommending institutional compliance program initiatives and strategies

7

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Summary

- Certain risks are inherent to excellence in higher education
- The institutional compliance programs play a vital role in appropriately managing these risks
- The Institutional Compliance Advisory Council will continue to advance the effectiveness of compliance programs

8

The University of Texas System
Institutional Compliance Program Report Summary
1st Quarter, Fiscal Year 2008

Background

The University of Texas (U. T.) System-wide Institutional Compliance Program (Program) was established in 1998 to ensure that the entire U. T. System, including its 15 institutions, System Administration and UTIMCO, operates in compliance with all applicable laws, policies, and regulations governing higher education institutions. The responsibilities for the Program are outlined in the *Action Plan to Ensure Institutional Compliance* (Action Plan) approved by the Board of Regents in 1998 and updated in 2003. The Action Plan delegates to the System-wide Compliance Officer the responsibility for apprising the Chancellor and the Board of Regents of the compliance programs and activities at System Administration and at each of the institutions. The System-wide Compliance Officer position is currently held by Mr. Charles G. Chaffin, who has the additional responsibility of serving as the Chief Audit Executive. In an effort to place a concentrated focus on institutional compliance activities, a decision was made to hire a full-time compliance officer to oversee System-wide compliance activities. A job description has been finalized and will be posted in January 2008.

System-wide Program Activity

During the 1st Quarter of Fiscal Year (FY) 2008, the System-wide program focused its efforts in the following areas:

1. **Facilitating the sharing of best practices by coordinating the activities of the Institutional Compliance Advisory Council and standing committees.**
   The Institutional Compliance Advisory Council (ICAC) is a self-governing body comprised of the compliance officer and key compliance staff of each U. T. System institution. The ICAC meets quarterly at rotating institutions. During the 1st Quarter FY 2008, the ICAC meeting was held at U. T. Southwestern Medical Center – Dallas. The agenda for the meeting included presentations on Conflict of Interest, Research Compliance, Environmental Health and Safety, and Information Technology Security.

   The four standing committees of the ICAC (Peer Review, Risk Assessment & Monitoring Plans, Training & Education, and Reporting) have made significant progress toward achieving their objectives. The Peer Review Committee worked to develop formal standards for conducting peer reviews of institutional compliance programs and to provide recommendations for the most effective ways to perform assurance activities for specific high-risk areas. Draft policies on Peer Reviews and Assurance Activities were distributed to the ICAC members at the quarterly meeting as was a draft Peer Review Self-assessment Tool. The Risk Assessment & Monitoring Plans Committee has developed a draft policy establishing expectations and best practices for assessing and prioritizing institutional risks. The Training & Education Committee reviewed current required and recommended general compliance training courses and discussed elements of a proposed training policy. The Reporting Committee created a database of best practice templates for capturing high-risk area compliance reporting and distributed a draft System-wide reporting policy.

2. **Conducting Institutional Compliance Program Inspections.**
The System-wide Compliance Office began conducting on-site inspections for each of the compliance programs to evaluate the effectiveness of several key program elements: General Compliance Training, Standards of Conduct Guides, and Hotline Activity Reporting. In addition, inspections during the quarter included a review of the institution's risk assessment and monitoring processes and reporting practices. Recommendations from these inspections are intended to enhance the institutions' compliance programs and ensure that they meet the standards outlined in the SMS report. During the 1st Quarter FY 2008, inspections were conducted at U. T. Medical Branch, U. T. Health Science Center - Houston, U. T. Pan American, and U. T. San Antonio. The inspections revealed that the institutions had largely done a good job of conducting general compliance training, maintaining and updating a detailed Standards of Conduct Guide, and managing and resolving hotline calls in a timely manner. Identified opportunities for improvement include ensuring that risk management plans are in place for all institutionally significant risks and that responsible party monitoring and compliance office-driven assurance activities are performed regularly.

3. **Coordinating the System-wide Information Security Initiative.**
During the quarter, the System-wide Compliance Office drafted a new bulletin that specifies elements, metrics, and reporting requirements for institutional Security Programs. Minimum required elements are specified to minimize the risk of significant information security failures and to enhance compliance. The Information Security Officers met and discussed the implementation of that Information Security Practice Bulletin #2 - The Baseline Standard Information Security Program.
Other accomplishments during the quarter include completion and distribution of UTS 165 Policy-training modules for users and IT employees, a review of SANS training for departmental Information Security Administrators and the Risk Assessment Tool currently under development. The working group for Configuration Management Software has established a calendar for issuance of the RFP and receipt of bids. Security Program updates were provided to the Institutional Compliance Advisory Council and the Internal Audit Council. Campus visits were made to U. T. Dallas and U. T. Austin to discuss information security program progress and barriers. The Chief Information Security Officer filled the Information Security Architect position.

4. **Other activities during the quarter included:**
   - Participating on the Chancellor's Conflict of Interest Task Force
   - Facilitating a discussion between the institutional compliance officers and the U.T. System Office of General Counsel (represented by Karen Lundquist, Senior Attorney) regarding the System-wide implementation of the model Conflict of Interest Policy
   - Monitoring the implementation of Huron Consulting's Time & Effort Certification software at U. T. M. D. Anderson Cancer Center, U. T. Medical Branch, and U. T. Austin

- Participating in high-risk area advisory groups, including Medical Billing, Environmental Health and Safety, and Information Security
- Reviewing the institutional Standards of Conduct Guides
- Attending Executive Compliance Committee meetings at a majority of the institutions
- Representing the U. T. System at national conferences
- Planning for the 6th Conference for Effective Compliance Systems in Higher Education
- Attending the inaugural meeting of UTSCORE (U. T. System Committee on Research Enterprise)
- Identifying and highlighting emerging compliance issues through “In the News” email publication

Institutional Program Activity[1]

The following is a summary of institutional progress in implementing these elements of an effective compliance program, as outlined in the U. T. System Action Plan:

Executive Compliance Committees
Each institution has an ECC that meets at least quarterly to oversee the institutional compliance program. Quarterly meetings were held at each institution. In addition, U. T. Austin and U. T. Health Science Center – Houston continue to hold monthly meetings. During the period, the System-wide Compliance Office liaisons attended many institutional ECC meetings, and continue to support the compliance officers in enhancing the ECC role.

Training and Awareness
General compliance training is conducted using a variety of formats including online, classroom, and written materials. Employees are typically scheduled to receive general compliance training during new employee orientation and refresher training on an annual or biannual basis, thereafter. Compliance Officers have been effective at ensuring that General Compliance Training and Codes of Conduct guides are delivered to the appropriate personnel in a timely manner.

Risk Assessments
ECCs review their institution’s identified risks and approve the designation of "institutionally significant" compliance risks – risks that, if realized, would have a significant impact on the ability to achieve the goals and objectives of the institution.
The majority of institutions have identified between eight and fifteen institutionally significant areas of high risk, with multiple high-risk exposures within those areas. Common risk areas of focus during the 1st Quarter FY 2008 include the following: Information Security, Research Time and Effort, Environmental Health & Safety, Medical Billing, Endowments, Human Subjects Research, Animal Care, and Select Agents.

[1] Details regarding activities at the institutional level are published in the *Institutional Compliance Program 1st Quarter Status Report for Fiscal Year 2008.*

Specialized Training
During the quarter, institutions conducted specialized training in many high-risk areas, including: Information Technology, Information Security, Human Subject Protection, Effort Reporting, Athletics, NCAA, Endowments, Export Control, Hazardous Chemicals, Student Financial Aid, HIPAA, FERPA, OSHA, Fire Safety, Technology Transfer, Billing Compliance, Records Retention, and Select Agents.

Monitoring Activities
Each compliance high-risk area has designated an individual to act as the responsible party. A primary responsibility of the designated responsible party is to verify the performance of monitoring activities, in accordance with their pre-established monitoring plan. Both internal and external inspections and reviews were conducted in many of the high-risk areas during the 1st Quarter FY 2008. Identified instances of noncompliance have resulted in the revision of monitoring plans as well as recommending corrective action, as appropriate.

Confidential Reporting
Each institution has a confidential reporting mechanism with standardized review, resolution, and reporting procedures. On a monthly basis, institutions are required to report to the System-wide Compliance Officer regarding any significant reports of noncompliance. At the end of the year, institutions are required to report on the total number of calls received through their respective hotlines.

Compliance Program Reporting
Reporting continues to be an area of emphasis during 1st Quarter FY 2008. All programs are required to report to the System-wide Compliance Officer and Board of Regents and are utilizing the standardized reporting format developed by the System-wide Compliance Office.

Institutional Organizational Matters
U. T. Arlington, U. T. San Antonio, and U. T. Southwestern have hired compliance personnel during the quarter. UTIMCO is currently recruiting for an independent compliance officer.

Institutional Action Plan Activities
At the beginning of each fiscal year, institutional compliance officers are required to submit an Action Plan. Typically organized by quarter, the action plans identify areas in which the compliance office will focus their attention and activities. During the 1st Quarter FY 2008, action plan activities included the following: Quality Assessment Reviews, Executive Compliance Committee training, inspections of high-risk areas, Implementation of Enterprise Risk Management, Compliance Awareness surveys, Compliance Committee self-evaluations, Updating the Management Responsibilities handbook, Faculty Credentialing reviews, assisting in the development of a Campus Emergency Operations Plan, Information Security and Social Security Number risk management plan, Records Retention schedule updates, updating institutional compliance manuals, publishing institutional compliance newsletters, and maintaining institutional compliance websites.

UT System Administration Policy Library – Policy INT160

Conflicts of Interest Policy

Responsible Officer: Barry Burgdorf
Sponsoring Office: Office of General Counsel
Effective Date: November 27, 2007
Last Reviewed: November 27, 2007
Next Scheduled Review: November 22, 2011
Errors or changes to: policyoffice@utsystem.edu

Exempted from Standard Policy Development Process
By: Tonya Brown
Date: November 27, 2007

CONTENTS

Special Instructions for Initial Implementation

Forms Tools/Online Processes

Appendix

POLICY STATEMENT

Conflicts of Interest Policy: The mission of The University of Texas System Administration is to lead and serve The University of Texas System academic and health institutions to create and sustain excellence in educational opportunities, research, and health care. In support of that mission, we value and are committed to maintaining high standards of excellence, integrity, and accountability in our conduct. This conflicts of interest policy is intended to enhance the ability of the employees of UT System Administration to act ethically in accordance with those values and with the law, and to fulfill our obligation to be good stewards of the resources that have been entrusted to us. This policy provides an executive summary of conflict of interest laws, rules, and policies, all of which are intended to preserve the public trust in our integrity by preventing bias or the appearance of bias in our decision-making.

Other Information on Ethical Behavior: This policy addresses *only* conflicts of interest. Other ethical issues may arise, such as issues related to the use of government resources, sexual harassment, political activities, legislative lobbying, and the use of confidential information. Those issues are fully discussed in the UT System Standards of Conduct Guide. Additional information may be found on the website of the Office of General Counsel at www.utsystem.edu/ogc/ethics.

RATIONALE

This policy was initially recommended by The UT System Administration Conflicts of Interest Task Force, which was formed at the direction of Chancellor Yudof in June 2007. It is adopted pursuant to the recommendation of the Task Force and also pursuant to Section 572.051, Government Code (Standards of Conduct; State Agency Ethics Policy).

SCOPE

This policy applies to all employees of UT System Administration.

WEBSITE ADDRESS FOR THIS POLICY

http://www.utsystem.edu/policy/ov/int160.html

RELATED STATUTES, POLICIES, REQUIREMENTS OR STANDARDS

UT System Administration Policies & Standards	Other Policies & Standards
o Regents' *Rules and Regulations,* Series 30103 (Standards of Conduct) o Regents' *Rules and Regulations,* Series 30104 (Conflict of Interest) o UTS 109, *Chancellor and Presidents of The University of Texas System: Financial Disclosure and Conflict of Interest Statement* o *UTS 110, Employees of The University of Texas System: Financial Disclosure and Conflict of Interest Statement* o UTS 123, *Policy on Service on Outside Boards* o UTS 131, *Protection from Retaliation for Reporting Suspected Wrongdoing* o UTS 134, *Code of Ethics for Financial Officers and Employees* o UTS 159, *Purchasing* o INT 129, *Outside Employment*	o Chapter 572, Government Code (Personal Financial Disclosure, Standards of Conduct, and Conflict of Interest), particularly Section 572.051 (Standards of Conduct; State Agency Ethics Policy) o Chapter 36, Penal Code (Bribery and Corrupt Influence) o Section 2113.014, Government Code (Employee Standards of Conduct) o Chapter 305, Government Code (Registration of Lobbyists)

CONTACTS

If you have any questions about UT System Administration Policy INT160 Policy Name, contact the following office(s):

Subject	Office Name (not individual name)	Telephone Number (use this format)	Email/URL
	Office of General Counsel	512-499-4462	www.utsystem.edu/ogc/

DEFINITIONS

What is a Conflict of Interest? A conflict of interest exists when you owe a professional obligation to UT System that is or might be compromised by the pursuit of outside interests. Outside interests, such as professional activities, personal financial interests, or the acceptance of gifts from third parties, can create conflicts between the interests of UT System and your private interests and may prevent you from making decisions that are in the best interest of UT System. Even if those outside interests do not actually impair your ability to act in the best interest of UT System, it may appear to the public that your independence of judgment has been affected.

RESPONSIBILITIES

All employees of UT System Administration

Act ethically and in accordance with high standards of excellence, integrity, and accountability

Abide by the terms of this policy

Sign an acknowledgment that the employee has received and read this policy and agrees to abide by its terms

Office of Employee Services

Distribute a copy of this policy, Subchapter C, Chapter 572, Government Code, and Sections 556.004, 556.005, 556.006, 556.007, and 556.008, Government Code, to each new employee by the third business day after beginning employment, and to each new officer by the third business day after qualifying for office

Ensure that each employee acknowledges this policy and the laws referenced above upon employment and thereafter by September 30 of each odd-numbered year

PROCEDURES

Prohibitions on Activities Constituting a Conflict of Interest:

Gifts

Outside Employment or Compensation

Outside Board Service

Honoraria

Personal Investments

Self-dealing/Transactions with Employees

Benefits for Performing Official Duties

Gifts: There are two standards under Texas law governing gifts – (1) a general standard of conduct that applies to all employees and (2) a criminal standard that applies only to those persons who make recommendations or decisions about contracts and other financial transactions.

Under the general standard, you should not accept or solicit any gift, favor, or service that might reasonably tend to influence you in the discharge of official duties or that you know or should know is being offered with the intent to influence official conduct. This standard applies even though the donor is not asking you to do something in exchange for the gift. A gift is *anything of value*, and includes tickets to entertainment or sporting events, expenses for a trip, and food. Acceptance or solicitation of a gift in violation of this standard is not a criminal offense, but is grounds for discipline, including termination.

Criminal penalties may apply to persons who make recommendations or decisions about UT System's financial transactions. If those are your job duties, you may not accept a gift from an individual or entity that is interested in or likely to become interested in that transaction, with limited exceptions. Under those exceptions, it is not a criminal offense to accept the following type of gift if the gift is not given in exchange for your official action (it is *never* lawful to accept a gift in exchange for official action):

- Non-cash items worth less than $50.
- A gift from a person such as a relative, friend, or business associate with whom you have a relationship independent of your official status, if the gift is given on account of that relationship rather than your official status.
- Food, lodging, transportation, or entertainment in any amount if you accept them as a "guest," which means the donor must be present.[1]

[1] The law provides additional prohibitions if the donor is a lobbyist registered with the Texas Ethics Commission. It is advisable to consult the Office of General Counsel before accepting a gift from a lobbyist.

Note that even though you may accept a gift described above without committing a crime, acceptance of the gift may still violate the general standard of conduct and constitute grounds for discipline.

Additional restrictions apply if the gift is from a student loan lender. The definition of "student loan lender" is very broad and covers entities that may not traditionally be thought of as student loan lenders. You should consult UT System's Office of General Counsel to determine if the proposed gift from the student loan lender is permissible under the Texas Higher Education Fair Lending Practices Agreement.

It is important to remember that even though the acceptance of a gift may not constitute a crime, it may appear to the public that a gift has influenced you in performing your job. You should not accept any gift that could appear to influence your official conduct, even if the gift is technically legal.

> **Summary: Do not accept any gift that could appear to influence your official conduct.**

Outside Employment or Compensation: You should not accept other employment or compensation that could reasonably be expected to impair your independence of judgment in performing your official duties. Your primary responsibility is the accomplishment of the duties and responsibilities assigned to your position at UT System Administration. External consulting or outside employment that interferes with those duties and responsibilities should not be accepted. Any outside employment, including self-employment or employment by another state agency, must first be approved by your department head. You must request approval by filing a form with your department head that describes the nature and extent of the outside employment. Your department head will then determine whether the contemplated employment would create a conflict of interest or the appearance of a conflict of interest between your outside commitments and your responsibilities to UT System.

Additionally, you should not accept other employment or engage in a business or professional activity that you might reasonably expect would require or induce you to disclose confidential information acquired through your official position.

> **Summary: Do not accept outside employment that interferes with your responsibilities to UT System. Any outside employment must first be approved by your department head.**

Outside Board Service: Outside board service is generally deemed to be in the best interest of UT System because it broadens the experience of the individuals involved and exposes UT System to a larger audience of business, civic, professional, and social leaders. However, recognizing that your primary duty is the performance of your job at UT System, the position may not create a conflict of interest and may not impose an unreasonable time requirement. You must request a conflict of interest evaluation from the Vice Chancellor and General Counsel and must also obtain approval from your direct supervisor before accepting a position on an outside board covered by the Policy on

Outside Board Service. The Chancellor and executive officers are subject to certain additional provisions, including the requirement to file a report on outside board service with the Vice Chancellor for Administration in September of each year.

> **Summary: Do not accept a position on an outside board that creates a conflict of interest or that imposes an unreasonable time commitment. Any outside board service covered by the Policy on Outside Board Service must first be evaluated by the Vice Chancellor and General Counsel for conflicts of interest and then approved by your direct supervisor.**

Honoraria: You may not accept an honorarium for services you would not have been asked to provide but for your official status. For example, you may not accept a gift or payment for giving a speech if you would not have been asked to provide the speech but for your official position. However, you may accept meals, transportation, and lodging in connection with your services as long as the services are more than merely perfunctory or superficial. Also, you may accept a gift of very minimal value, such as a plaque or coffee cup.

> **Summary: Do not accept an honorarium for services you would not have been asked to provide but for your official position.**

Personal Investments: You should not make personal investments that could reasonably be expected to create a substantial conflict between your private interest and the public interest. This means that you should not have a direct or indirect financial interest in a business that conflicts with UT System's interests or that might influence how you do your job. Some financial interests may be so indirect or so minimal that they do not create conflicts of interest, such as ownership of a minimal amount of stock in a company or an investment in a publicly traded mutual fund in which you do not exercise discretion regarding the investment of the assets of the fund. If you are not sure whether a particular investment creates a conflict of interest, you should ask your supervisor or consult with the Office of General Counsel.

If you do have an interest in a business that you think might constitute a conflict of interest, disclose that interest to your supervisor. In some cases, you may be able to cure the conflict by not participating in any decision concerning that business. However, if the conflict is significant, you may be required to divest yourself of the interest that causes the conflict.

> **Summary: Do not make personal investments that create a substantial conflict between your private interest and the public interest.**

Self-dealing/Transactions with Employees: You may not transact any business in an official capacity with any business entity of which you are an officer, agent, or member, or in which you own a substantial interest.

Additionally, before UT System may purchase any supplies, materials, services, equipment, or property from you, the Chancellor must approve the purchase, and the purchase may be made only if the cost is less than from any other known source.

> **Summary: Do not transact public business with your private business. The Chancellor must approve any purchases from you, and the purchase may be made only if the cost is less than from any other known source.**

Benefits for Performing Official Duties: You should not intentionally or knowingly solicit, accept, or agree to accept any benefit for having exercised your official powers or for having performed your official duties in favor of another. If the benefit was given in exchange for an official act, it could constitute the criminal offense of bribery.

> **Summary: Do not accept a benefit for having done your job in favor of another.**

Making Required Disclosures:

Familiarize yourself with any disclosures required by law, rule, or policy. Your position with UT System and your contemplated activity will determine which disclosure statements are required. **Complete and file any required disclosure statements in a timely fashion. If you have any questions regarding disclosure requirements, contact your supervisor.**

Consequences for Violations:

There are consequences for failing to comply with conflict of interest laws, rules, or policies. The law provides that appropriated money may not be used to compensate an employee who violates the standards of conduct. Failure to comply is grounds for disciplinary action by UT System, including termination of employment. Additionally, civil and criminal penalties may apply under certain circumstances.

> **Summary: You may be subject to disciplinary action or civil or criminal penalties for violating a conflict of interest law, rule, or policy.**

Application of Other Conflict of Interest Policies, Contract Provisions, Agreements, Laws, or Rules:

This policy does not rescind any policy provided by System Administration, any departmental policy, any contract provision, any agreement with the Texas Attorney General, or any law or rule that is more specific or more restrictive concerning conflicts of interest. You are required to comply with the more specific or restrictive policy, contract provision, agreement, law, or rule.

Raising Questions or Reporting Violations of this Policy:

If you have questions about an actual or potential conflict of interest, you may ask your supervisor. Additionally, you may always contact the Office of General Counsel with any conflict of interest questions at 1-512-499-4462.

You should report any suspected wrongdoing to your department head or to the UT System Administration Compliance Officer, the compliance coordinator, or a compliance committee member. You may also report suspected violations on a toll-free hotline (1-877-217-2426). You may not be retaliated against for a good-faith report of suspected wrongdoing. Detailed information on reporting possible violations may be found in the UT System Standards of Conduct Guide.

Acknowledging this Policy:
You must acknowledge this policy upon initial receipt of the policy and thereafter by September 30 of each odd-numbered year. You will be notified of your acknowledgment requirement.

Distribution of this Policy to UT System Administration Employees:
The Office of Employee Services must distribute a copy of this policy, a copy of Subchapter C, Chapter 572, Government Code, and a copy of Sections 556.004, 556.005, 556.006, 556.007, and 556.008, Government Code, to each new employee by the third business day after beginning employment, and to each new officer by the third business day after qualifying for office.

The Office of Employee Services must also distribute the copies referenced immediately above to each employee by September 1 of each odd-numbered year.

The Office of Employee Services must ensure that each employee acknowledges receipt of this policy and the laws referenced immediately above within a reasonable time after each distribution. The form of the acknowledgment that must be used is attached in the Appendix to this policy.

SPECIAL INSTRUCTIONS FOR INITIAL IMPLEMENTATION

The Office of Employee Services must distribute a copy of this policy, a copy of Subchapter C, Chapter 572, Government Code, and a copy of Sections 556.004, 556.005, 556.006, 556.007, and 556.008, Government Code, to each UT System Administration employee by January 1, 2008, and must require each employee to acknowledge receipt within a reasonable time after distribution.

FORMS AND TOOLS/ONLINE PROCESSES

None

APPENDIX

Acknowledgment:

I acknowledge that I have received and read and agree to abide by this conflicts of interest policy, INT160.

I also acknowledge that I have received and read a copy of Subchapter C, Chapter 572, Government Code, and a copy of Sections 556.004, 556.005, 556.006, 556.007, and 556.008, Government Code.

_____________________________ _________________

Name Date

1. U. T. Pan American: Overview of the Institution

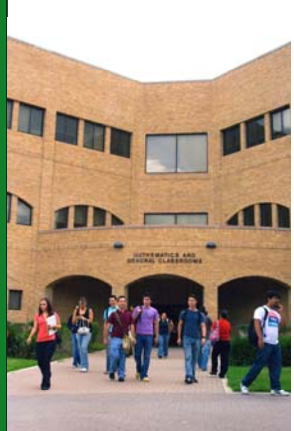
UTPA CELEBRATING 80 YEARS OF EXCELLENCE

Presentation to the U.T. System Board of Regents

Dr. Blandina Cárdenas
President
The University of Texas-Pan American
February 2008

1

Outline



- **UTPA's Strategic Goals and their alignment with UT System Goals & Initiatives**
- **Building Excellence Across the Board**
- **Three exciting initiatives:**
  - **Building capacity in Science, Technology, Engineering & Mathematics Program (STEM) fields**
  - **Center for Academic Excellence**
  - **The Workforce Innovations in Regional Economic Development (WIRED) project**

2

UTPA CELEBRATING 80 YEARS OF EXCELLENCE

Alignment of UTPA Goals with U.T. System Strategic Directions & Initiatives

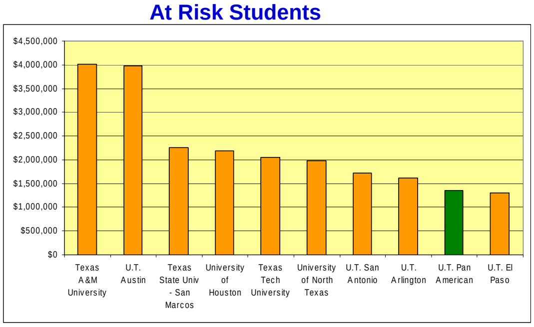
U.T. System Strategic Directions and Initiatives	UTPA Goals
Enhancing Student Success	Provide students a quality educational experience that enables them to complete their educational goals in a timely fashion. Collaborate with K-12 schools to enlarge the pool of applicants who are personally prepared and academically qualified for higher education.
Increasing Research, Global Competitiveness And Technology Transfer	Become an outstanding research institution, emphasizing collaborative partnerships and entrepreneurship. Interfuse Inter-American and global perspectives throughout the University community.
Enriching Society through the Arts and Cultural Contributions	Enhance UTPA's engagement with the community to meet challenges and maximize opportunities.
Improving Productivity and Efficiency Assuring Integrity, Accountability, Public Trust	Optimize institutional effectiveness and efficiency consistent with high quality organizational standards.

3

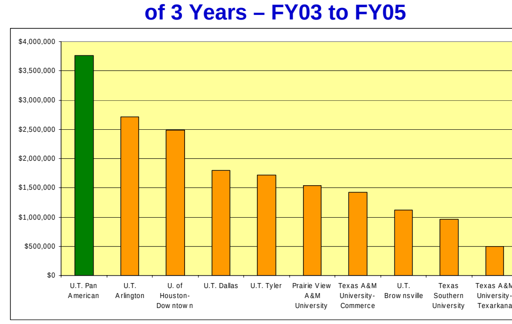
1. U. T. Pan American: Overview of the Institution (cont.)

Incentive Funding Simulation (2007)

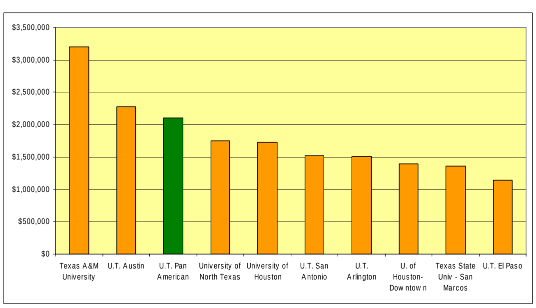
3 Year Average Undergraduate Degrees Awarded, Weighted for Critical Fields and At Risk Students



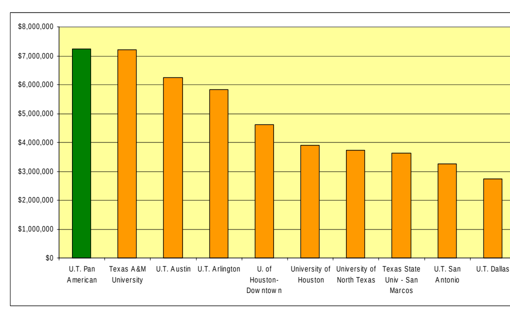
Increase in % of Degrees Awarded in FY 2006 Over Base of 3 Years – FY03 to FY05



One Year Increase in Graduates



Total Funding

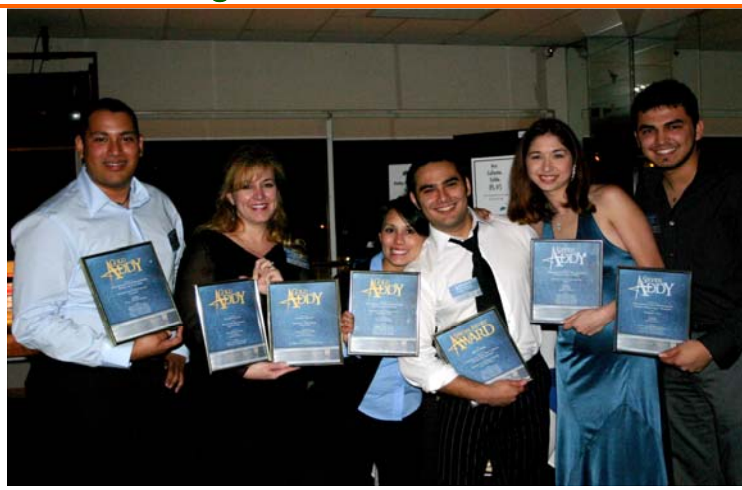


4

UTPA CELEBRATING 80 YEARS OF EXCELLENCE

1. U. T. Pan American: Overview of the Institution (cont.)

Building Excellence Across the Board
College of Arts & Humanities



UTPA Advertising Students
Addy Awards

5

Building Excellence Across the Board
College of Business Administration

2007 Masterminds
Tax Challenge Champions

6

1. U. T. Pan American: Overview of the Institution (cont.)

Building Excellence Across the Board
College of Education

Barbara L. Jackson Scholars
University Council for Educational Administration

7

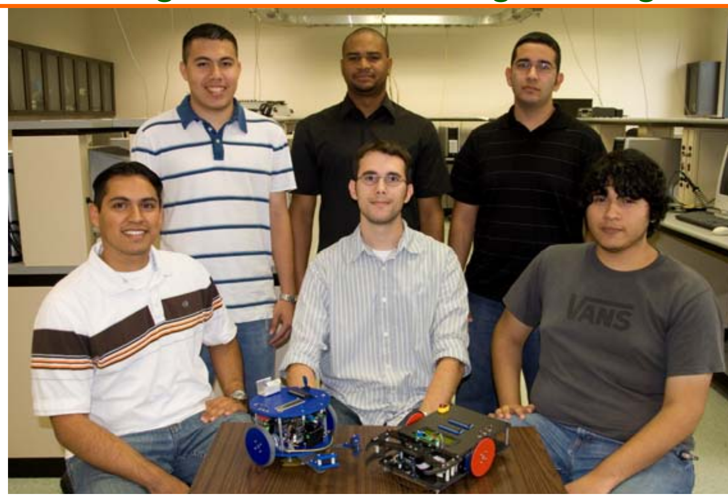
Building Excellence Across the Board
College of Health Sciences & Human Services

UTPA Physician Assistant Studies
1st Place - State Medical Challenge Bowl

8

1. U. T. Pan American: Overview of the Institution (cont.)

Building Excellence Across the Board
College of Science & Engineering



Engineering Students
1^{st} and 2^{nd} Place
Regional Robotics Competition

9

Building Excellence Across the Board
College of Social & Behavioral Sciences

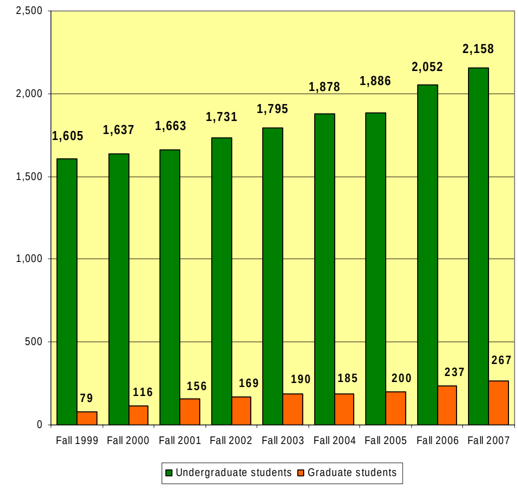
95% of students in the UTPA Law School Preparation Institute who have applied to law school have been accepted to at least one

10

1. U. T. Pan American: Overview of the Institution (cont.)

Increased Enrollment in STEM Fields

STEM Majors
Fall 1999 to Fall 2007

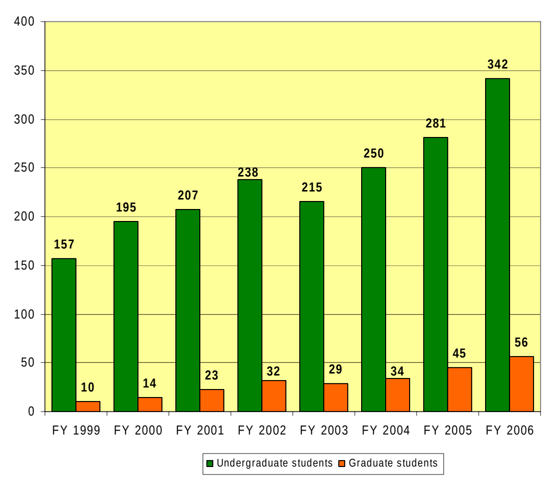


11

UTPA CELEBRATING 80 YEARS OF EXCELLENCE

Increased Graduation in STEM Fields

STEM Graduates
FY 1999 to FY 2006



12

UTPA CELEBRATING 80 YEARS OF EXCELLENCE

1. U. T. Pan American: Overview of the Institution (cont.)

Engagement of our Students in STEM Fields

Nationally Acclaimed Hispanic Engineering, Science & Technology Conference (HESTEC) brought over 75,000 children, students and their families HESTEC VIDEO

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Engagement of our Students in Research

All our strategies in the STEM areas are showing considerable results as reflected in our enrollment and graduation numbers, in addition:

- **69 students in the College of Science & Engineering have articles published in various publications or journals**
- **484 students have participated in professional conferences**
- **37 of our graduate students have presented at conferences**
- **Over 23 of our students have received awards for their various works**

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Engagement of our Students in Research

Our faculty involve our students in their research from nano-technology to cancer studies. This email is from one of Dr. Banik's students who recently completed a summer at Harvard……

> I am doing great here at Harvard. Last week, I had an oral presentation about my research and the faculty members asked me if I had only worked on my project at Harvard Medical School for the last 2-3 weeks or for two years. It seems that I was able to impress the faculty with the breadth of knowledge and style of presentation about my research project. I would like to thank you for having prepared me so well to be able to talk confidently about science. I have so far heard from multiple individuals here at Harvard that I have a very good chance of being accepted either for the MD or MD/PhD program. Being here has truly boosted my confidence.
>
> Thank you very much for everything.
>
> Best,
> Isabella

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Pre-Professional Health Programs

Pre Professional Health Program	Total Participants	Matriculated to Professional Schools	Current Participants
Baylor Premedical Honors Program since 1994	231	120	54
UTMB-Galveston Early Medical School Acceptance Program since 1999	67	22	34
UT School of Medicine - San Antonio Medical School Early Acceptance Program since 2003	32	5	26
All Texas Med Schools Joint Admission Medical Program since 2001-02	16	2	11
UT School of Dentistry - San Antonio Dental Early Acceptance Program since 1989	29	6	16
UT Dental Branch -Houston Early Dental School Acceptance Program since 2000	17	7	7
Baylor Dentistry Dental Dual Degree Program since 2001	4	0	4
Cooperative Degree in Pharmacy since 2001	119	80	11

- **301 students have matriculated to 25 different Medical Schools.**
- **61 students have matriculated to 6 different Dental Schools.**
- **8 students have matriculated to 2 different Optometry Schools.**

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Growth in Externally Funded Research

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Center for Academic Excellence

$2.5 Million funding over 5 years engaging all 6 UTPA Colleges. Supervised by Dean Van Reidhead.

Goal: The Center for Academic Excellence (CAE) is focused on preparing the next generation of leaders for the global economy. The students of the CAE are devoted to mastering critical skills, research expertise, team communication skills, and global knowledge necessary to lead community, government, business, and non profit teams that will thrive in the marketplace of an integrated world.

Major accomplishments include:

- 12 UTPA students representing every college of the University completed a month-long cultural immersion program in China organized by the IC Center of Academic Excellence and the Office of International Studies. **Student's experience (Video)**
- 20 high school students participated in the inaugural "Got Intelligence?" 2007 Summer Institute which included hands-on activities.
- 5 UTPA students participated in the IC CAE Leadership Academy in Washington, D.C., including participation in the Intelligence Community Summer Academic Seminar, an invitation-only event for faculty and students attended by 50 faculty and leaders, and their students.

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The WIRED Project

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The WIRED Project

- **Goal One:** Strengthen competitiveness of North American Manufacturing and the regional advanced technology base creating Rapid Response Manufacturing system through university research and development and talent development while targeting RRM based industries to sustain economic growth and prosperity.
- **Goal Two:** Develop a globally competitive manufacturing workforce through a regional customized manufacturing training system that uses innovative curricula to credential the skills and knowledge needed to compete in a global economy in a sustainable manner.
- **Goal Three:** The Rio South Texas Region will collaborate with **Region One Education Service Center's T-STEM Center, El Centro Del Futuro** to meet the statewide T-STEM goal of developing the nation's leading innovation economy workforce by aligning high school, post secondary education and economic development activities.

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Voluntary System of Accountability (VSA^{SM})

Participation Agreement

The institution, as a member of AASCU or NASULGC, hereby agrees to become a participant in the Voluntary System of Accountability and to utilize the *College Portrait* web reporting template. As a VSA participant, the institution agrees that it will abide by the following conditions, reporting requirements, and timelines.

Display of *College Portrait* template

1) The institution will generate the *College Portrait* template using the tools and specifications provided and display the resulting template on the institution website without altering its form or content.
   a) A supplemental page can be included with the *College Portrait* template if it is clearly labeled as a page added by the institution. The supplemental page must be added after the last page of the *College Portrait*.
2) The institution will include the *College Portrait/VSA* icon on the institution home page or no more than one click away from the home page on another appropriate page (e.g., admissions page) and maintain an active link from the icon directly to the *College Portrait*.

Reporting of Consumer Information

3) Report data that is available through the Common Data Set (CDS) and Integrated Postsecondary Education Data System (IPEDS) within three months of becoming a VSA participant.
4) Link to supplemental information as required by the VSA program including out-of-state tuition costs, listings of undergraduate, and graduate degree programs, and the Clery Report on campus crime statistics within three months of becoming a VSA participant.
5) Add text descriptions of institution mission, the campus community, and campus safety. Select information that will be linked to the “campus community” buttons. Link to supplemental institutional data as desired by using the “MORE” links.

Measurement and Reporting of Undergraduate Success and Progress Rates

6) Utilize National Student Clearinghouse StudentTracker tool to report the Student Success and Progress Rates on the template within one year of becoming a VSA participant.
7) Link to the detailed success and progress tables generated by the National Student Clearinghouse as part of the VSA program within one year of becoming a VSA participant.
8) If the institution has not been submitting enrollment and graduation data to the Clearinghouse, submit back files from Fall 2000 to the present within six months of becoming a VSA participant.

College Cost Calculator

9) Include a link on *College Portrait* to the college cost calculator provided as part of VSA or link to another tool to estimate net costs for prospective students based on a student’s individual circumstances.

Future Plans of Bachelor's Degree Recipients

10) Administer a common survey question provided by the VSA to graduating seniors using an appropriate delivery method (e.g., add the question to an existing senior survey, incorporate into application for degree process, etc)
11) Report the survey results on the *College Portrait* template no later than two years after becoming a VSA participant and update results at least every three years.
12) Provide a link to information on the survey question administration, sample, and response rate.

Measurement and Reporting of Student Experiences and Perceptions

13) Link to institution-specific data on the student experience within three months.
14) Administer either the CSEQ, CSS, NSSE or UCUES survey to a random sample of seniors as soon as feasible.
15) Report the survey results on the *College Portrait* template no later than two years after becoming a VSA participant and update results at least every three years.
16) Provide a link to information on the survey administration, sample, and response rate.

Measurement and Reporting of Student Learning Outcomes

17) Link to institution-specific learning outcomes data within three months. The choice of what data to report is at the institution's discretion and may include reports on program assessments, employer satisfaction with graduates, licensing exam pass rates, etc.
18) As soon as feasible begin trial measurement of student learning gains using either the CAAP critical thinking and writing essay components, MAPP scores for the critical thinking and written communication, or the CLA instrument to random samples of freshmen and seniors following the directions of the test maker in selecting the sample. (Optional: Institutions may chose to measure student learning gains for incoming transfer students and seniors who entered as transfers)
19) Report student learning gains on the template no more than four years after becoming a VSA participant and update results at least every three years.
20) Provide a link to information on the test administration, sample, and response rate.

Conditions of Participation

21) The institution acknowledges that it is receiving value in the form of access to and use of the *College Portrait* report generator, the College Report logo, the VSA cost calculator, software administrative tools and documentation and in return VSA is receiving value in the form of the institution's participation and compliance with this agreement.
22) An institution may withdraw from VSA participation at any time if it chooses not to report the data elements outlined in the VSA Reporting Timetable for *College Portrait* Data Elements included as *Attachment 1* in this document. If an institution chooses to end their participation in VSA, the institution will voluntarily remove the *College Portrait* template from their website.
23) When a senior official of a participating institution learns that their institution fails to meet the conditions outlined in this document as determined by the VSA Oversight Board and does not bring the institution into compliance within three months the institution will voluntarily remove the *College Portrait* template from their website.
24) If an institution is unable to meet the conditions outlined in this document due to unusual or extraordinary circumstances and does not wish to end participation in VSA, the institution

may petition the VSA Oversight Board for an appropriate remedy. The resulting decision of the VSA Oversight Board will be final.

25) The institution warrants that that it is responsible for the accuracy of the data that appears on its *College Portrait* template.

Additional Conditions of Using the VSA Cost Calculator

a) The use of the VSA cost calculator is optional. If a participating institution uses the VSA calculator it agrees to leave intact the warnings that accompany the cost calculator to the effect that the calculator provides estimates, not guarantees, and students must apply for admission to a specific institution and complete all required applications for financial aid eligibility to receive final and certain aid packages and cost of attendance figures. Further, the institution electing to use the VSA calculator acknowledges that estimates generated by the VSA calculator are intended only as a first estimate of potential affordability of the institution to the user and, as such, are to prompt users of the calculator to follow procedures provided by the institution, lenders and the U.S. Department of Education to obtain financial figures on which they can rely.

b) Participation in VSA is a voluntary activity. The institution understands and agrees that AASCU and NASULGC, their officers, employees, and board members, the VSA Oversight Board officers and members, the template contractors, and the VSA calculator contractor have supplied VSA as a service to participating institutions and bear no responsibility for any errors of fact that appear on a participating institution's template or any data errors supplied or entered by the institution in its template or calculator. Further, estimates generated by the VSA calculator are intended only as a first estimate of potential affordability of the institution to the user and are intended only to prompt the user to follow routes provided by the institution, lenders and the U.S. Department of Education to obtain financial figures on which they can rely.

c) The institution may not remove or obscure any copyright notices or any other indications of ownership on the VSA calculator, nor may the institution create any derivative works of, or otherwise modify, the VSA calculator.

All of the above terms and conditions constitute an agreement by and between the institution and the National Association of State Universities and Land-Grant Colleges (NASULGC), the American Association of State Colleges and Universities (AASCU), and the VSA Oversight Board.

Note: In early 2008, the VSA Oversight Board will consider whether universities that are not members of AASCU or NASULGC may become VSA participants. In the interim, expressions of interest in participation from nonmembers should be directed to VSA Executive Director Christine Keller. (11/26/2007)

ATTACHMENT 1

VSA Reporting Timetable for College Portrait Data Elements

	Within Three Months	Within Six Months	Within One Year	Within Two Years	Within Four Years
Consumer Info					
CDS/IPEDS data	X				
Supplemental data links	X				
Text and Links	X				
Success/Progress Rate					
Data to Clearinghouse		X			
Report rate			X		
Link to detail tables			X		
Link to College Cost Calculator	X				
Report *Future Plans* Survey Results				X	
Student Experiences and Perceptions					
Link to institution-specific data		X			
Report results of CSEQ, CSS, NSSE or UCUES				X	
Student Learning Outcomes					
Link to institution-specific data		X			
Report results of CAAP, CLA, or MAPP					X

3. U. T. System: Report on the National Survey of Student Engagement (NSSE)

National Survey of Student Engagement 2007 Results

Dr. Edward Baldwin
February 2008

THE UNIVERSITY *of* TEXAS SYSTEM
Nine Universities. Six Health Institutions. Unlimited Possibilities.

Presented to:

Student, Faculty, and Staff Campus Life Committee

February 2008

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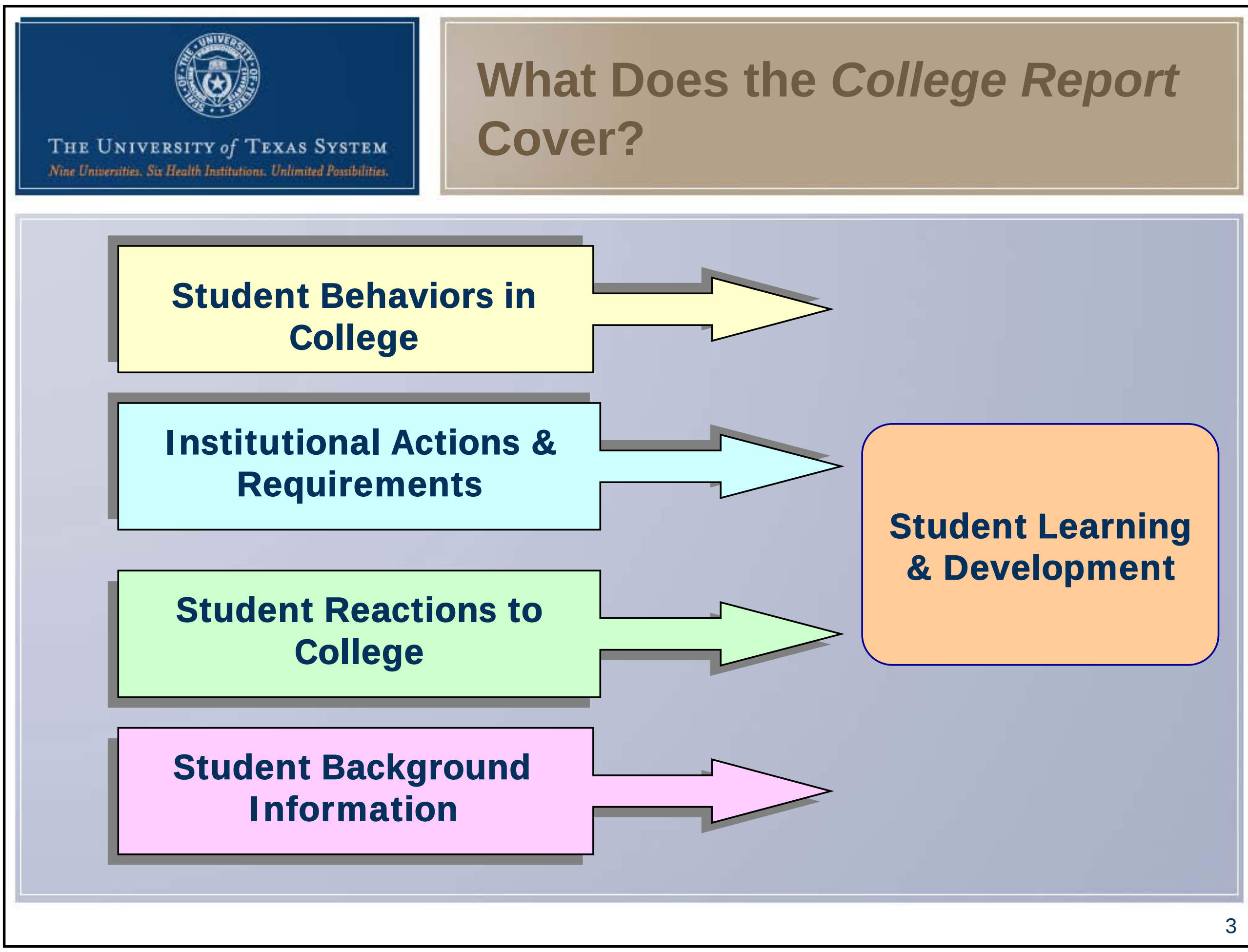
What is NSSE?

- A national survey, administered to a random sample of first-year and senior-year students.
- Assesses the extent to which first-year and senior-year students engage in educational practices associated with high levels of learning and development.

2

3. U. T. System: Report on the National Survey of Student Engagement (NSSE) (cont.)



3. U. T. System: Report on the National Survey of Student Engagement (NSSE) (cont.)

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Using NSSE

- Inform the Texas Legislature, the Board of Regents, U. T. System Faculty Advisory Council and the Student Advisory Council, and the general public
  - National Voluntary System of Accountability
  - U. T. System Accountability Report
  - Legislatively mandated Consumer Satisfaction requirements
- Connect to strategic objectives
- Accreditation
  - U. T. Arlington Quality Enhancement Plan
- Benchmarking

4

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Why We Benchmark

- Research shows that the core benchmarks are strongly correlated with student success.
- Benchmarking gives us continuing, consistent sources of national comparisons to gauge U. T. System progress.

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3. U. T. System: Report on the National Survey of Student Engagement (NSSE) (cont.)

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Level of Academic Challenge

Conditions that foster engagement:

- Class preparation
- Number of assigned textbooks and other reading materials
- The extent that course work emphasizes
  - Analysis of ideas and the synthesis of ideas into new, more complex interpretations and relationships,
  - Making judgments about the value of information or methods
  - Application of theories or concepts to practical problems in new situations
- Working harder than you thought you could to meet an instructor's standards or expectations
- Campus environment emphasizing time studying and academic work

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3. U. T. System: Report on the National Survey of Student Engagement (NSSE) (cont.)

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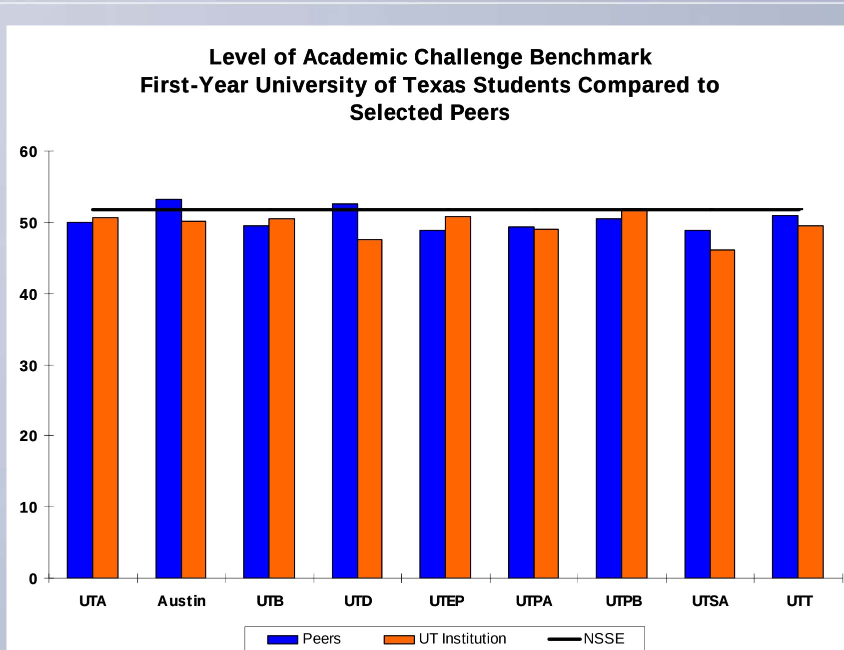
Level of Academic Challenge (continued)



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3. U. T. System: Report on the National Survey of Student Engagement (NSSE) (cont.)

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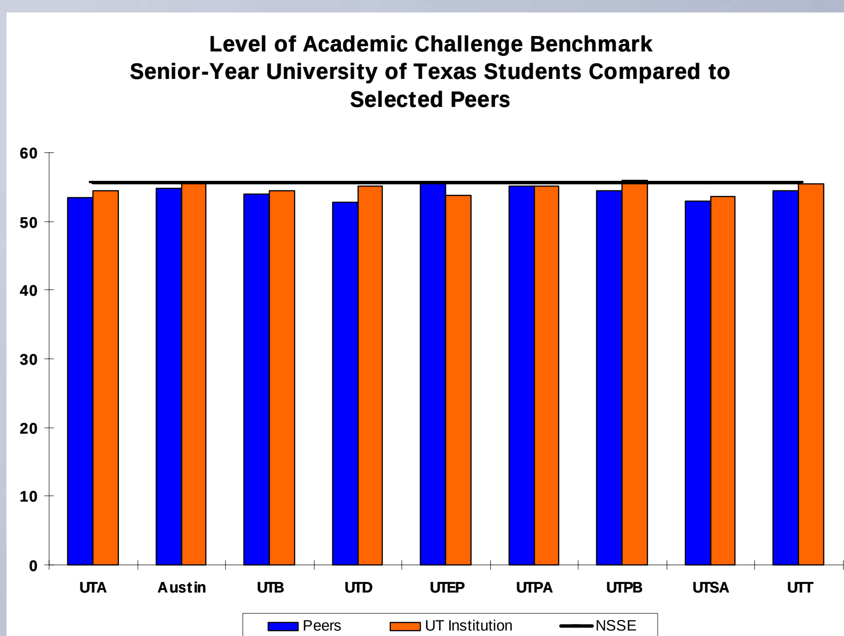
Level of Academic Challenge (continued)



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Active and Collaborative Learning

Conditions that foster engagement:

- Asking questions in class or contributing to a class discussion
- Making a class presentation
- Working with other students on projects during class
- Working with classmates outside of class to prepare class assignments
- Tutoring or teaching other students
- Participating in a community-based project as part of a regular course
- Discussing ideas from readings or classes with others outside of class

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3. U. T. System: Report on the National Survey of Student Engagement (NSSE) (cont.)

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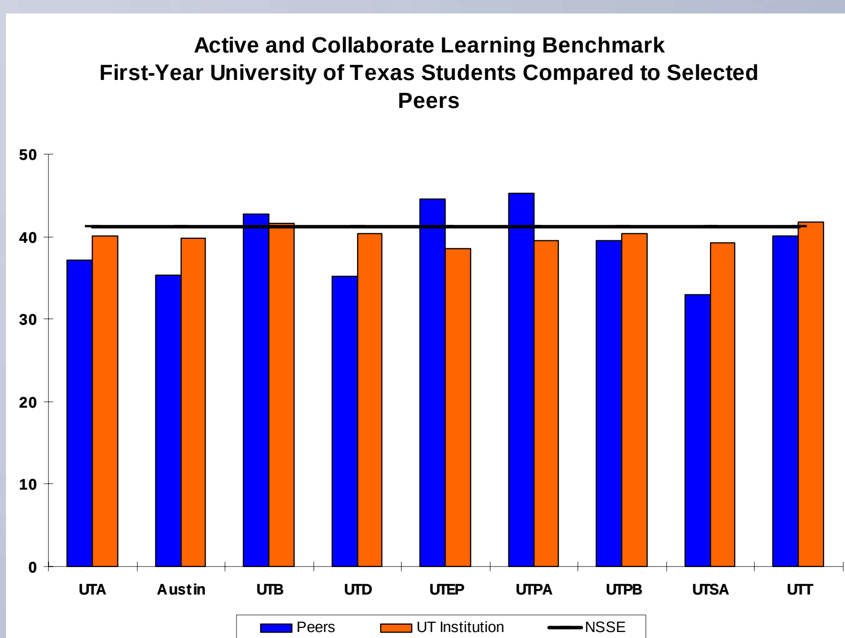
Active and Collaborative Learning (continued)



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3. U. T. System: Report on the National Survey of Student Engagement (NSSE) (cont.)

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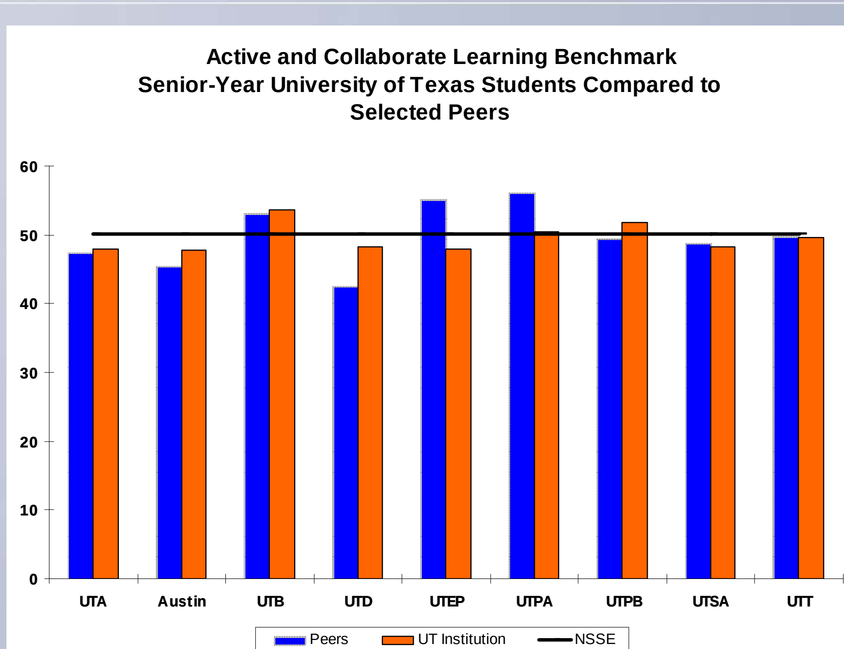
Active and Collaborative Learning (continued)



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Student-Faculty Interaction

Conditions that foster engagement:

- Discussing grade assignments with an instructor
- Talking about career plans with a faculty member or advisor
- Discussing ideas about your readings or classes with faculty members outside class
- Working with faculty members on activities other than coursework
- Receiving prompt written or oral feedback from faculty on academic performance
- Working with faculty members on a research project outside of course or program requirements

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3. U. T. System: Report on the National Survey of Student Engagement (NSSE) (cont.)

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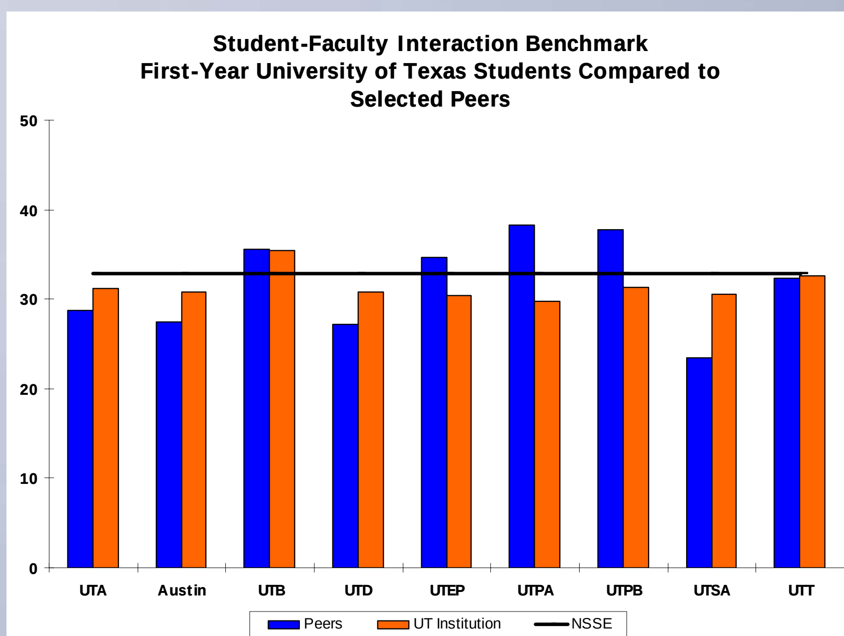
Student-Faculty Interaction (continued)



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3. U. T. System: Report on the National Survey of Student Engagement (NSSE) (cont.)

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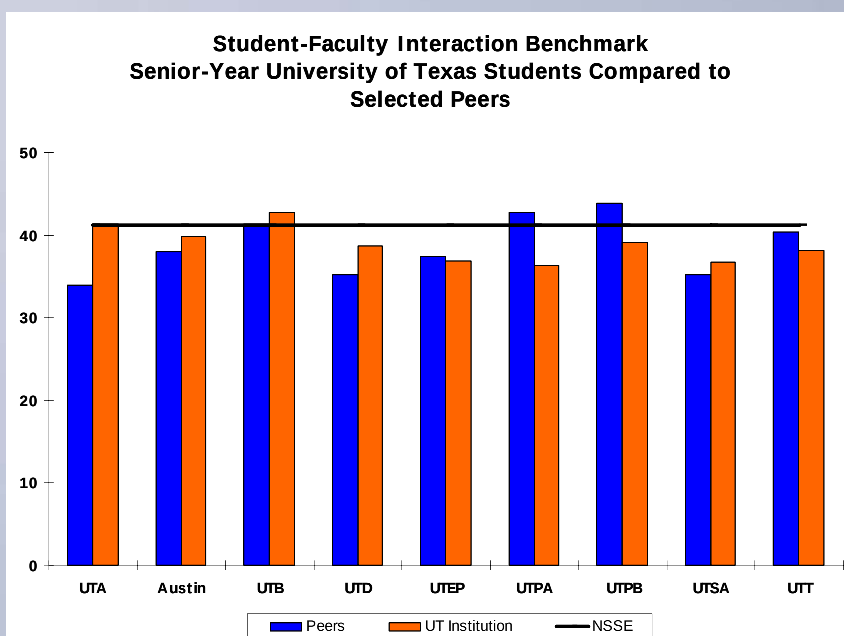
Student-Faculty Interaction (continued)



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Enriching Educational Experiences

Conditions that foster engagement:

- Participating in a co-curricular activity
- Internship
- Community service or volunteer work
- Independent study or self-designed major
- Culminating senior experience (capstone course, senior project or thesis)
- Participating in a learning community
- Using electronic technology to complete an assignment
- Campus environment encouraging contact among students from different economic, social, racial or ethnic backgrounds

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3. U. T. System: Report on the National Survey of Student Engagement (NSSE) (cont.)

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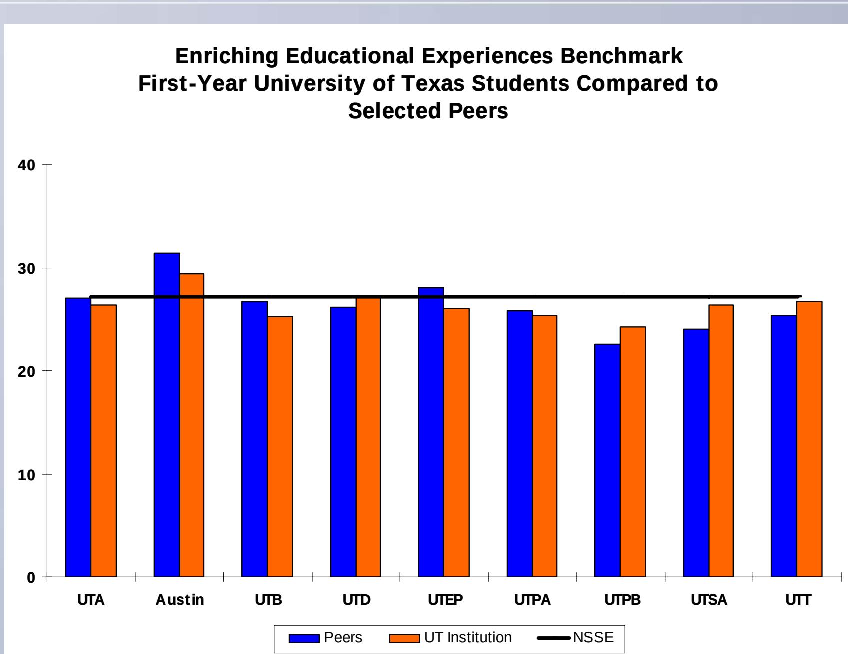
Enriching Educational Experiences (continued)



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3. U. T. System: Report on the National Survey of Student Engagement (NSSE) (cont.)

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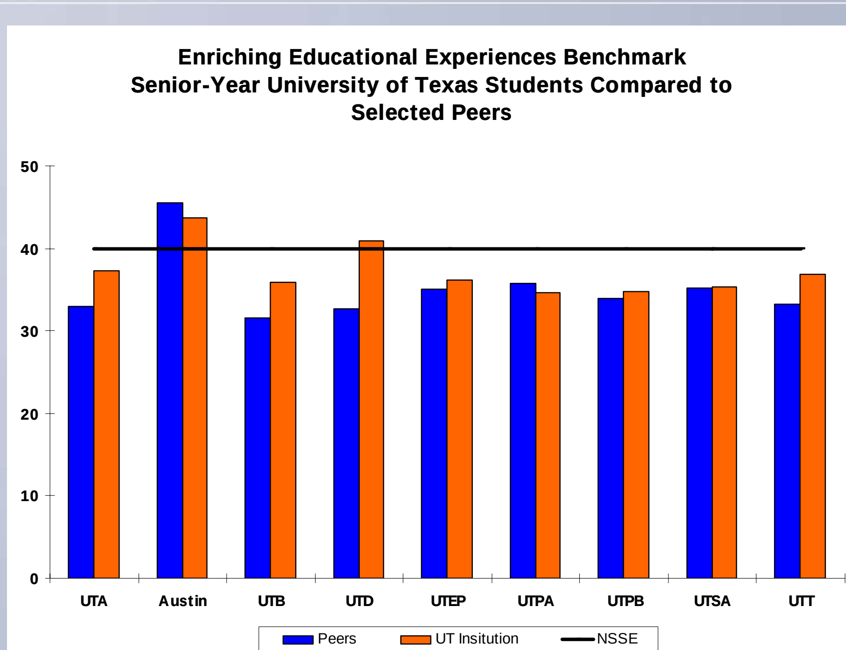
Enriching Educational Experiences (continued)



17

3. U. T. System: Report on the National Survey of Student Engagement (NSSE) (cont.)

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Supportive Campus Environment

Conditions that foster engagement:

- Campus environment provides the support needed to help succeed academically
- Campus environment helps cope with nonacademic responsibilities (work and family)
- Campus environment provides the support to survive socially
- Quality of relationships with other students
- Quality of relationships with faculty members
- Quality of relations with administrative personnel and offices

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3. U. T. System: Report on the National Survey of Student Engagement (NSSE) (cont.)

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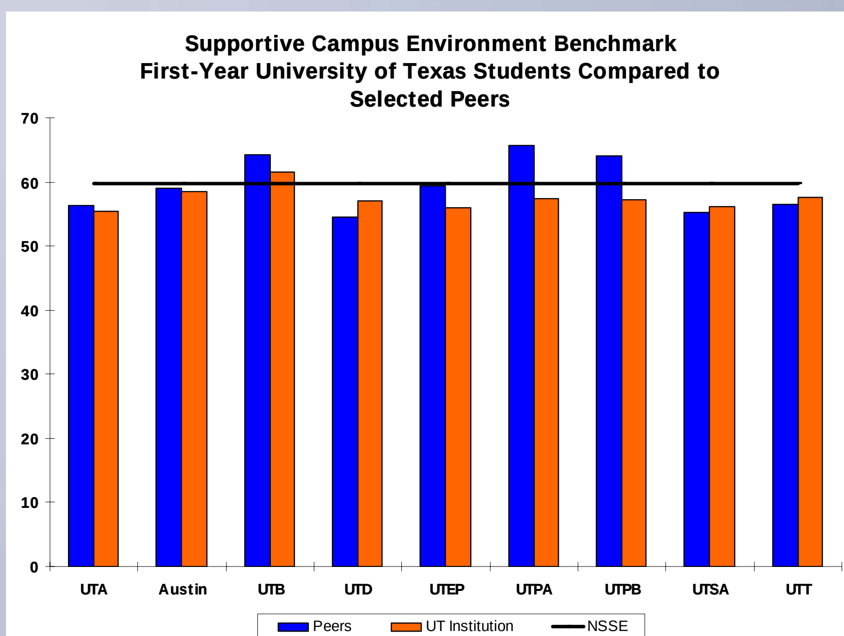
Supportive Campus Environment (continued)



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3. U. T. System: Report on the National Survey of Student Engagement (NSSE) (cont.)

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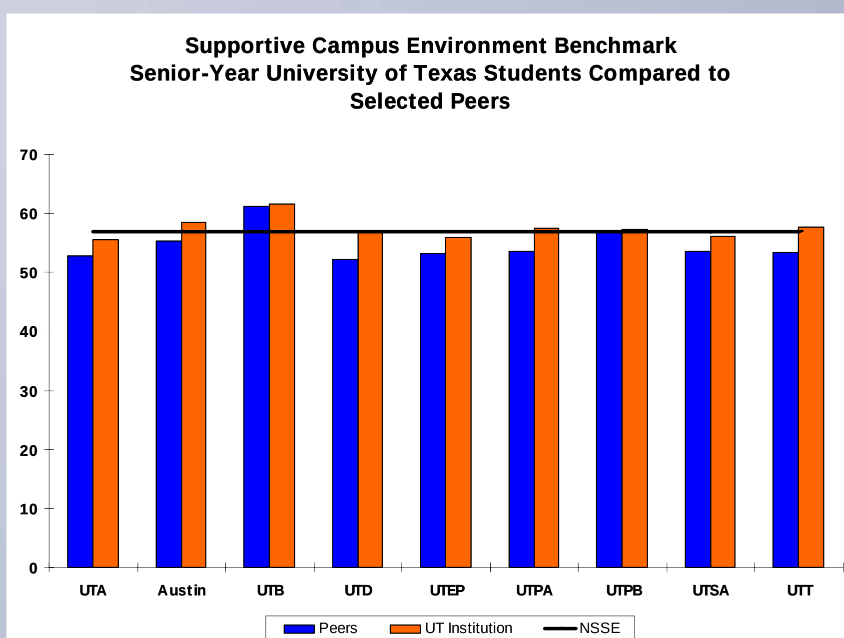
Supportive Campus Environment (continued)



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Key Points

- Research shows that the core benchmarks are strongly correlated with student success.
- Benchmarking provides continuing, consistent sources of national comparisons to gauge U. T. System progress.
- U. T. System institutions tend to meet, and in some cases exceed, their peer comparison group on specific benchmarks.
- Where significant differences occur, institutions can look at individual components of a benchmark to identify areas of improvement.

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