THE UNIVERSITY OF TEXAS SYSTEM

Accountability and Performance Report

February 2006

Use of Our Accountability Reports

- Policy decisions: provides reference material, supplements annual statistical handbook
  - Compacts
  - Presidential and campus evaluations
- Special reports: Learning outcomes; graduation rates; research and tech transfer trends; development benchmarking; HR data
- Influence on state and national accountability public policy: National Commission on the Future of Higher Education

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Framework

- **Scope**
  - 72 measures for all academic institutions
  - 52 measures for all health institutions
  - 15 measures for the U. T. System as a whole
  - 5-year longitudinal trends
  - Institutional peer comparisons (10-15 selected indicators)
  - Implications for future planning

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Enhancements for 2005-06

- **New in 2005-06:**
  - Student Access, Success, and <u>Outcomes</u>
  - Multiple measures of student outcomes, including learning assessment and post-graduate experience
  - Economic impact trends
  - Distance education/UT TeleCampus trends
  - Enhanced section on national rankings of degrees awarded to minority students

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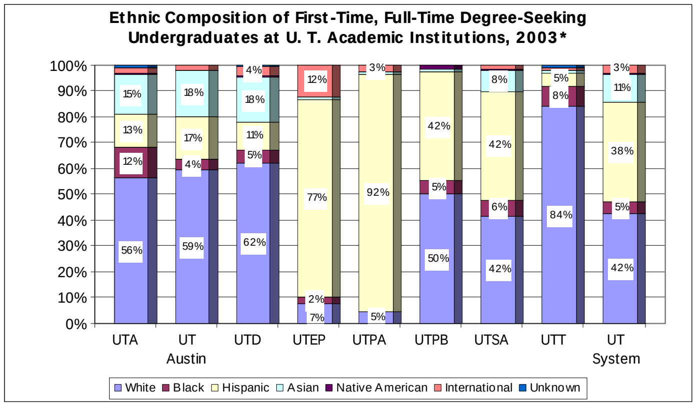
Student Access, Success, and Outcomes

Diversity



The proportion of Hispanic freshmen at U.T. System academic institutions (38%) exceeded the proportion of Hispanic students in statewide high school graduating class (35%)

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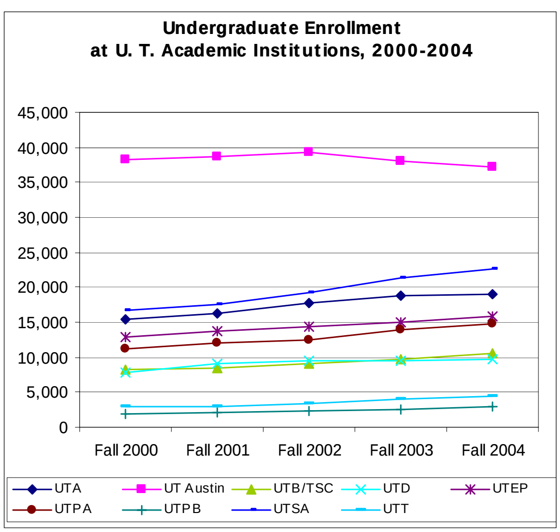
Student Access, Success, and Outcomes

Growth



For academic institutions, undergraduate enrollment growth averaged 20 percent from 2000 to 2004

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Student Access, Success, and Outcomes

Affordability

Non-Loan Financial Aid Awards and Total Tuition and Fees at U. T. Academic Institutions FY 2004-2005

	Total Non-Loan Financial Aid Awards	Total Tuition and Fee Charges
Arlington	$35,832,205	$87,210,000
Austin	133,579,288	216,481,000
Brownsville/TSC	24,351,930	7,576,000
Dallas	12,665,754	45,676,000
El Paso	44,381,609	50,504,000
Pan American	57,237,432	28,661,000
Permian Basin	4,878,162	7,243,000
San Antonio	47,837,907	92,460,000
Tyler	8,670,266	9,956,000
Total	**$369,434,553**	**$545,767,000**

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Student Access, Success, and Outcomes

Affordability

Undergraduate Tuition, Required Fees, and Scholarship Aid at U. T. Academic Institutions, 2004-2005

	Tuition and Fees Per SCH	Discounted Amount Based on Financial Aid	Average Discounted Tuition & Fees	Percent Discount
Arlington	$177	$53	$124	30%
Austin	234	76	158	32
Dallas	212	52	160	25
El Paso	155	80	75	52
Pan American	105	60	45	57
Permian Basin	129	55	74	43
San Antonio	176	67	109	38
Tyler	135	54	81	40
Average	**$165**	**$62**	**$103**	**38%**

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Student Access, Success, and Outcomes

Outcomes: Using Multiple Measures

- Student experience: NSSE survey
- Student learning outcomes: CLA results
- Licensure exam pass rates
- Postgraduation employment or study

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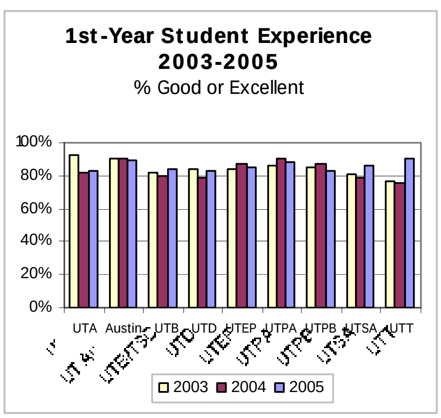
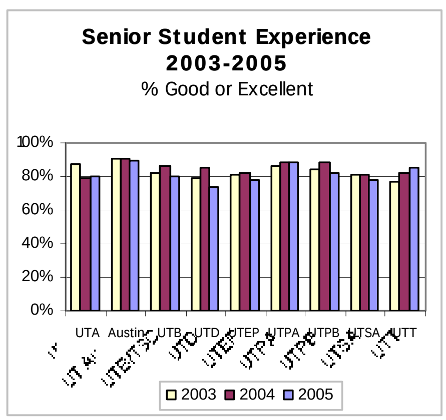
Student Access, Success, and Outcomes

Outcomes: Student Experience





Nationally, 87 percent of students rate their experience as good or excellent.

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Student Access, Success, and Outcomes

Outcomes: Health Institutions

- Medical student satisfaction
  - 80 to over 90 percent of undergraduates were satisfied with their education
- Postgraduation employment or study
  - Between 90 and 100 percent of health-related institution undergraduates in all fields continue in graduate or professional school or are employed within one year after graduation in Texas

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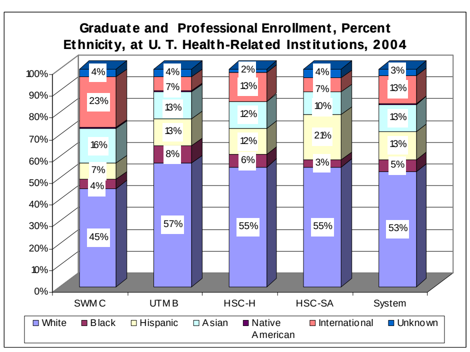
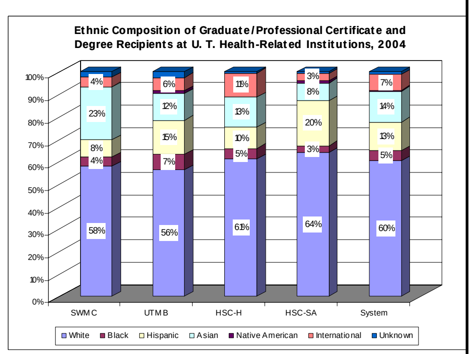
Student Access, Success, and Outcomes

Health-Related Institution Enrollments and Degree Recipients



8,678 graduate/professional students enrolled in 2004



1,860 graduate/professional degrees awarded in 2004

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Student Access, Success, and Outcomes

Health-Related Institutions: Student Diversity

- **National ranking – diversity of degree recipients**
  - Professional/clinical sciences master's degrees to Hispanic students
    - 5th – UT HSC-Houston
    - 10th – UT HSC-San Antonio
  - Medical degrees to Hispanic students
    - 3rd – UT Medical Branch
    - 5th – UT HSC-San Antonio
  - Medical degrees to all minority students
    - 4th – UT Southwestern Medical Center
  - Biology doctoral degrees to Hispanic students
    - 5th – UT HSC-Houston
  - Dental doctoral degrees to African-Americans
    - 9th – UT HSC-Houston

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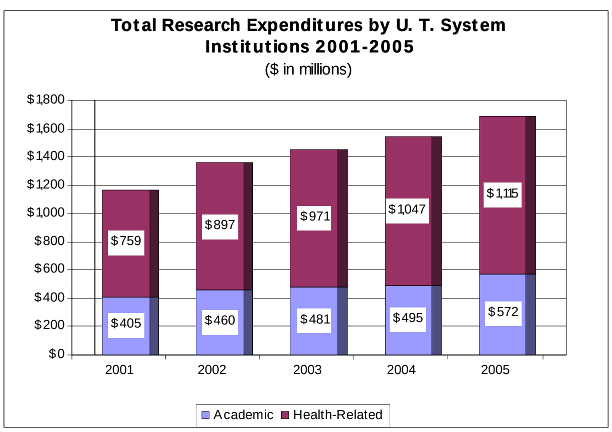
Teaching, Research, Health Care Excellence

Research Funding Trends



- Total research expenditures exceeded $1.6 billion in FY 2005
- 44% increase between 2001 and 2005

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Teaching, Research, Health Care Excellence

State Research Funding Trends

Top Texas Public Institutions in Research and Research-Related Expenditures, FY 2004

Texas A&M	1*
UT Austin	2
UT Southwestern	3
UT M. D. Anderson	4
UT HSC-Houston	5
UT Medical Branch	6
UT HSC-San Antonio	7
University of Houston	8
Texas A&M University System HSC	9
Texas Tech University	10
UT El Paso	11
UT Dallas	12
UT Arlington	13

* Expenditures reported includes Texas A&M Extension Services.

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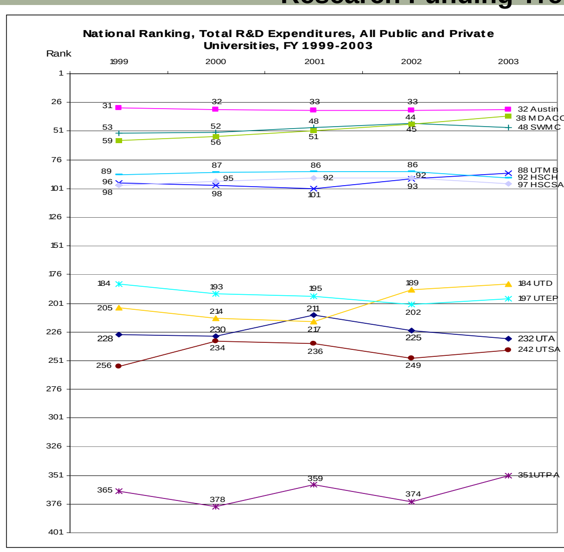
Teaching, Research, Health Care Excellence

Research Funding Trends



UT System institutions continue to rank among top universities in the country in terms of R&D expenditures (of 617 total)

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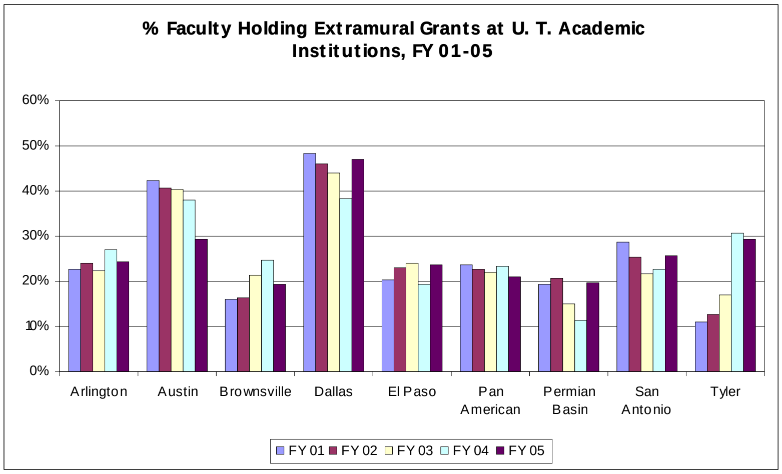
Teaching, Research, Health Care Excellence

Faculty Grants



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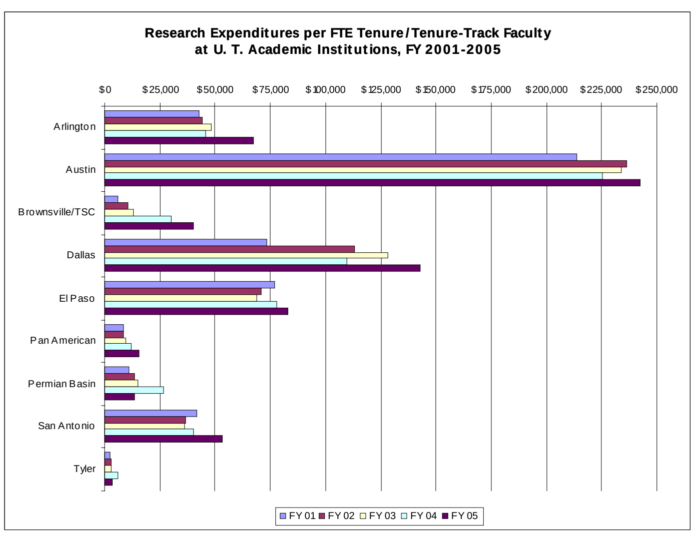
Teaching, Research, Health Care Excellence

Faculty Grants



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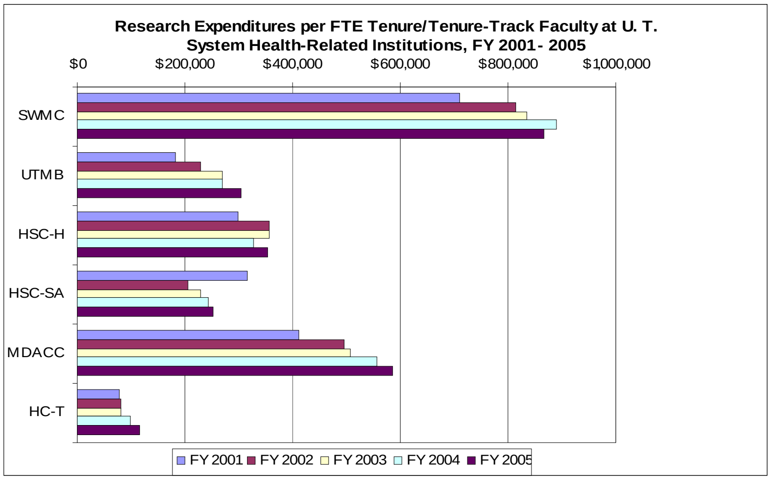
Teaching, Research, Health Care Excellence

Faculty Grants



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Collaborations

Examples

- **Educational Collaborations**
  - UT Brownsville/TSC, UT El Paso, UT HSC-Houston– Public Health programs
  - UT HSC-Houston and UT M. D. Anderson – Graduate School of Biomedical Sciences
- **Research Collaborations**
  - UT San Antonio and UT HSC-San Antonio – SALSI
  - UT Medical Branch – Biodefense and Emerging Infectious Disease Center
- **K-12 Collaborations**
  - UT Arlington et al – Texas Science Careers Consortium
  - UT Medical Branch – Outreach Programs for Students and Educators
- **Business/Community Collaborations**
  - UT Pan American – Center for Border Economic Studies
  - UT Southwestern Medical Center – Biotech Startup Initiative

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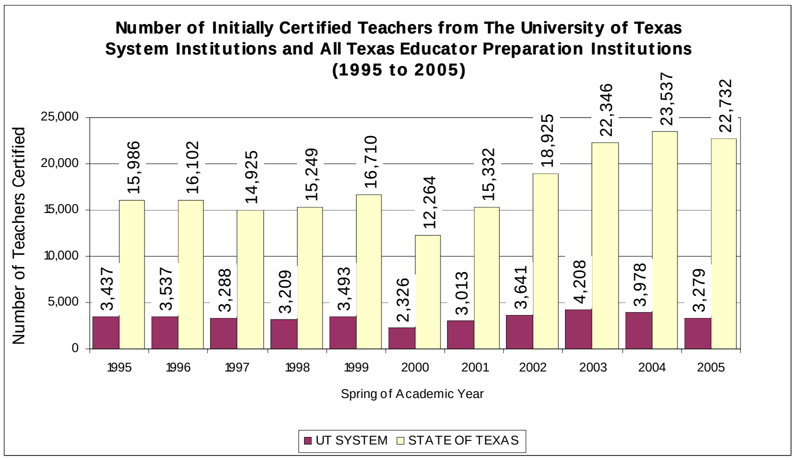
Collaborations with and Service to Communities

Teaching



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Collaborations with and Service to Communities

Economic Impact

The U. T. System Annual Impact on Regional Economies

	Initial Direct Spending	Output Impact [Initial+Recirculated]	Personal Income Impact	Employment Impact
Total Expenditures	**$8,704,000,000**	**$12,809,000,000**	**$4,013,000,000**	**215,700**

Milken Institute's Best Performing Cities with U. T. System Institutions

City	U. T. System Institution	Rank of city 2003	Rank of city 2004
Arlington	UT Arlington	33	95
Austin	UT Austin	59	64
Brownsville	UT Brownsville	8	24
Dallas*	UT Dallas, UT Southwestern	78	114
El Paso	UT El Paso	174	118
Galveston	UT Medical Branch	164	145
Houston*	UT HSC-Houston, UT M. D. Anderson	25	104
McAllen-Edinburg	UT Pan American	9	18
Midland-Odessa	UT Permian Basin	79	85
San Antonio	UT San Antonio, UT HSC-San Antonio	78	78
Tyler**	UT Tyler, UT HC-Tyler	2	11

* Among the 10 largest cities, Dallas ranked 5th and Houston 4th.
** Ranking among 118 small cities.

Source: Milken Institute, Best Performing Cities, November 2004

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Collaborations with and Service to Communities

UT TeleCampus Distance Education Trends

Number of Course Registrations through the UT TeleCampus

	2001-02	2002-03	2003-04	2004-05	% Change 01-02 to 04-05
Academic					
Arlington	2,449	2,745	3,197	3,424	39.8%
Austin	148	76	59	25	-83.1
Brownsville/TSC	512	686	927	1,052	105.5
Dallas	614	637	528	283	-53.9
El Paso	256	239	630	961	275.4
Pan American	281	376	509	493	75.4
Permian Basin	801	1,012	1,674	2,137	166.8
San Antonio	76	134	187	247	225.0
Tyler	483	348	446	622	28.8
Total Academic Institutions	**5,620**	**6,253**	**8,157**	**9,244**	**64.5%**
Health-Related					
SWMC-Dallas*	0	28	52	52	85.7%
UTMB-Galveston	21	67	50	52	147.6
HSC-San Antonio	35	53	51	49	40.0
Total Health-Related Institutions	**56**	**148**	**153**	**153**	**173.2%**
Total U. T. System	**5,676**	**6,401**	**8,310**	**9,397**	**65.6%**

* % Change for SWMC-Dallas course registrations was calculated from the 2002-03 year.

Source: UT TeleCampus

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Organizational Efficiency and Productivity

Patient Care

Total U. T. System Patient Care Revenue at U. T. Health-Related Institutions
($ in thousands)

	FY 00	FY 01	FY 02	FY 03	FY 04
Total Patient Care Revenue	**$1,421,189**	**$1,611,051**	**$1,781,070**	**$2,010,777**	**$2,296,107**

Total Charges for Un-Sponsored Charity Care by Faculty in State-Owned and Affiliated Facilities at U. T. Health-Related Institutions

	FY 00*	FY 01	FY 02	FY 03	FY 04
SWMC	$211,953,613	$234,938,900	$256,968,945	$281,998,363	$312,465,011
UTMB	61,596,586	66,908,903	85,982,833	97,724,989	108,498,329
HSC-H	82,152,677	90,024,051	103,279,853	107,326,617	139,031,049
HSC-SA	60,729,594	60,602,900	70,149,189	77,586,366	85,647,220
MDACC	25,524,441	30,773,351	35,310,300	43,427,477	51,164,780
HC-T	3,261,170	4,992,457	5,405,720	6,814,083	7,008,950
Total Health-Related Institutions	**$445,218,081**	**$488,240,562**	**$557,096,840**	**$614,877,895**	**$703,815,339**

*Figures represent the amount reported in the AFR and care provided by institution faculty as part of University Care Plus.

Source: Institutions' Annual Financial Reports

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Institutional Profiles

- National and program rankings and analysis
- Institution award highlights
- Institution mission statements
- Peer comparisons
- Centers of Excellence

Institutional Profiles

Peer Comparisons: UT San Antonio

Institution	FTE Students 2000	FTE Students 2004	% Change FTE Students	Operating Expenditures 2000	Operating Expenditures 2004	% Change Operating Expenditures	Operating Expenditures per FTE Student 2000	Operating Expenditures per FTE Student 2004	% Change Operating Expenditures per FTE Student	6-yr Grad Rate 1994 Cohort	6-yr Grad Rate 1998 Cohort	Change 6-yr Grad Rate
Aspirational Peers												
Univ. Nevada – Las Vegas	15,686	21,488	37.0%	$238,686,000	$351,762,000	47.8%	$15,216	$16,370	7.6%	35.4%	41.5%	6.1%
Univ. Wisconsin - Milwaukee	18,994	22,627	19.1%	$290,831,192	$349,427,129	20.2%	$15,312	$15,443	0.9%	38.1%	37.1%	-1.0%
Univ. of Memphis	15,831	16,536	4.5%	$232,844,433	$290,536,293	24.8%	$14,708	$17,570	19.5%	33.3%	35.7%	2.4%
Cleveland State	11,000	11,348	3.2%	183,155,100	$225,941,451	23.4%	$16,650	$19,910	19.6%	26.9%	27.0%	0.1%
Univ. of New Orleans	12,442	13,594	9.3%	$147,394,623	$188,588,774	28.0%	$11,487	$13,873	17.1%	22.3%	24.5%	2.2%
Mean:	**14,791**	**17,119**	**14.6%**	**$218,582,270**	**$281,251,129**	**28.7%**	**$14,747**	**$16,633**	**12.9%**	**31.2%**	**33.2%**	**2.0%**
UTSA	**14,495**	**22,586**	**55.8%**	**$175,789,176**	**$224,793,741**	**27.9%**	**$12,128**	**$9,953**	**-17.9%**	**23.2%**	**29.1%**	**5.9%**
Texas Emerging Research Institutions												
UT Dallas	7,695	10,714	39.2%	$126,099,130	$182,409,997	44.7%	$16,387	$17,025	3.9%	51.0%	56.1%	5.1%
Texas Tech	22,439	25,880	15.3%	$392,938,191	$425,826,150	8.4%	$17,511	$16,454	-6.0%	47.7%	54.4%	6.7%
UNT	21,673	25,228	16.4%	$266,650,173	$320,907,894	20.4%	$12,303	$12,720	3.4%	36.2%	39.6%	3.4%
Univ. Houston – Univ. Park	25,479	28,381	11.4%	$429,934,215	$499,548,076	16.2%	$16,874	$17,601	4.3%	34.9%	38.7%	3.8%
UTA	15,467	19,943	28.9%	$201,126,757	$244,172,608	21.4%	$13,004	$12,244	-5.9%	30.7%	37.6%	6.9%
UTEP	12,071	14,668	21.5%	$192,329,703	$217,149,460	12.9%	$15,933	$14,804	-7.1%	23.5%	27.2%	3.7%
Mean:	**19,426**	**22,820**	**18.7%**	**$296,595,808**	**$341,520,838**	**15.8%**	**$15,335**	**$15,141**	**1.2%**	**37.3%**	**39.5%**	**4.9%**
UTSA	**14,495**	**22,586**	**55.8%**	**$175,789,176**	**$224,793,741**	**27.9%**	**$12,128**	**$9,953**	**-17.9%**	**23.2%**	**29.1%**	**5.9%**
Out-of-State Peers												
Cal State – Fresno	16,035	17,488	9.1%	$262,284,871	$233,817,153	-10.9%	$16,357	$13,370	-18.3%	40.3%	45.8%	5.5%
E. Michigan Univ.	17,476	17,860	2.2%	$227,720,472	$261,441,395	14.8%	$13,030	$14,638	12.3%	33.8%	41.0%	7.2%
San Francisco State	21,373	23,809	11.4%	$321,215,251	$347,770,160	8.3%	$15,029	$14,607	-2.8%	32.1%	40.3%	8.2%
Univ. North Carolina - Charlotte	13,706	16,090	17.4%	$206,923,641	$224,827,269	8.7%	$15,097	13,973	-7.5%	50.5%	46.6%	-3.9%
Boise State	12,033	13,923	15.7%	$162,571,472	$194,333,981	19.5%	$13,510	$13,958	3.3%	27.8%	30.2%	2.4%
Mean:	**16,125**	**17,834**	**11.2%**	**$236,143,141**	**$236,143,141**	**8.1%**	**$14,605**	**$14,109**	**-2.6%**	**36.9%**	**40.8%**	**3.9%**
UTSA	**14,495**	**22,586**	**55.8%**	**$175,789,176**	**$224,793,741**	**27.9%**	**$12,128**	**$9,953**	**-17.9%**	**23.2%**	**29.1%**	**5.9%**

Practicing Accountability

- **UT System directions**
  - Special studies: graduation rates, learning outcomes, development benchmarking
  - Streamline financial and efficiency metrics
  - Align with Board's strategic plan
- **National directions**
  - Emphasis on learning outcomes
  - Interest in value added and return on investment for individual, institution, business, society
  - Concern with availability of data to track all students

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THE UNIVERSITY OF TEXAS SYSTEM

For complete data sets, more extensive analysis, and more information about the UT System's accountability and institutional improvement initiatives, visit:

http://www.utsystem.edu/ipa/accountability.htm.

THE UNIVERSITY OF TEXAS SYSTEM

College Readiness
College Access

February 9, 2006

The Institute for Public School Initiatives (IPSI)

Update on Every Child, Every Advantage 2001

- **TRACK**
  70,000 users in 2005
- **U. T. Elementary School**
  179 students in grades PK-3; first TAKS test in 2006
- **Teacher Accountability Research**
  recent approval by U. T. Austin Institutional Review Board for new design

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IPSI Mission and Goals

Mission

To improve the quality of academic outcomes for public education in Texas by building awareness of the need to better align P-12 and higher education and developing innovative approaches and tools for students, teachers, and administrators to improve student college readiness and access.

Key Goal

To increase student college participation and success rates.

Objective

25% more college graduates in 5 years.

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IPSI Initiatives

Six Key Areas for Initiatives

- Strengthen University Research Centers
- Develop Model Schools
- Implement Research-based Literacy, Math and Science Initiatives
- Develop Educator Quality Initiatives
- Develop College Transition Initiatives
- Develop College Access Initiatives

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University Research Centers

- Strategic plans for Vaughn Gross Center for Reading and Language Arts at U. T. Austin, Children's Learning Institute at U. T. Health Science Center - Houston
- Copyright/licensing capacity at IPSI
- Development of an Adult Literacy Research Center at U. T. El Paso

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New School Models

- Three Early College High Schools in partnership with U. T. San Antonio
- Two Early College High Schools in partnership with U. T. Pan American
- Science and Math Academies in partnership with U. T. Austin and U. T. Brownsville

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Literacy Initiatives

- Reading First – impacting 207 school districts and 500,000 students in grades K-3 per year
- Pilot to test efficacy of writing programs using educational technology such as MY Access!

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Educator Quality Initiatives

- Project CORE
- New Teacher Project and Teacher Advancement Program
- Education Leadership Academies at U. T. Institutions funded by Texas High School Project
- Texas P-16 Council Subcommittee on Educator Quality
- Proposed research project: Analysis of teacher preparation and induction programs in Texas

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College Transition Initiatives

Science and Math Initiatives

Dr. Marigold Linton, Director for Math & Science Initiatives and the President of the Society for the Advancement of Chicanos and Native Americans in Science, will be working with U. T. institutions to develop college-level opportunities in science and math for underrepresented students through training grants.

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THE UNIVERSITY OF TEXAS SYSTEM

Texas College Money

February 9, 2006

Dr. Larry Burt, Associate Vice President for Student Affairs,
The University of Texas at Austin
Larry.burt@austin.utexas.edu

Rationale

- **Harris Interactive Survey** (attached)
  - Low awareness among low-income parents
  - Desire for more information
  - Low awareness of grant aid
  - Better and more information can make a difference
  - Texas faces special challenges

- "Students and parents who can **least afford** college and who would be **most affected** by the financial burden were also the **least aware** of how much it costs to attend."

- "Recent media attention on rising college costs combined with a general lack of knowledge about the affordability of many colleges may **unnecessarily discourage** some students and parents from preparing for college."

  -Department of Education, 2003

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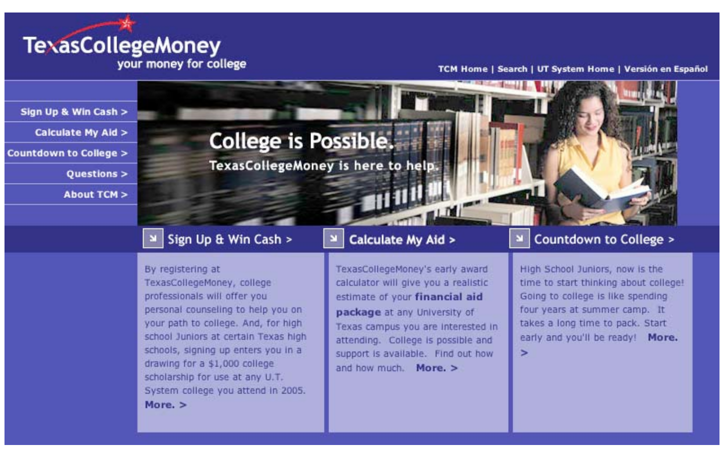
College is Possible



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Support is Available

- **TexasCollegeMoney.org provides:**
  - On-line financial aid award estimates for all nine U. T. campuses.
  - Countdown to College:
    - ✓ *High school to college transition assistance*
  - $1,000 scholarship opportunities
  - Invest in College:
    - ✓ *Loan comparison calculator*
  - Increased College Opportunity
    - ✓ *Improves high school graduation*
  - Outreach and recruitment support for nine U. T. campuses.

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Building Relationships

- Personal financial aid counseling for 130 schools
- Texas Outreach Project
- Direct family engagement
- Counselor training assistance
- Community/Church outreach
- Business/Foundation partnerships
- Research and development

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Past, Present

- ♦Early Award Estimates
  - ✓U. T. Austin
  - ✓Nine U. T. Academic Campuses

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Future Expansion

- ♦Fall 2006 Early Aid Estimates
  - ✓150 plus Texas colleges
    - •Public
    - •Independent
    - •Community
  - ✓Aid assistance for all Texans

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THE UNIVERSITY OF TEXAS SYSTEM

Thank You

Texas College Money Contact
Matt Orem, Program Coordinator
Morem@utsystem.edu
512.499.4266

The University of Texas Investment Management Company

Reports by UTIMCO Management & Ernst & Young, L.L.P.

The University of Texas Investment Management Company's Internal Control over Financial Reporting

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ERNST & YOUNG

Ernst & Young LLP
Suite 1400
700 Lavaca
Austin, Texas 78701

Phone: (512) 478-9881
Fax: (512) 473-3499
www.ey.com

Report of Independent Accountants

The Board of Directors
The University of Texas Investment Management Company

We have examined management's assertion, included in the accompanying Report of Management on The University of Texas Investment Management Company's Internal Control Over Financial Reporting, that The University of Texas Investment Management Company (the Company) maintained effective internal control over financial reporting as of August 31, 2005, based on criteria established in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of internal control over financial reporting, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion, that the Company maintained effective internal control over financial reporting as of August 31, 2005, is fairly stated, in all material respects, based on criteria established in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Ernst & Young LLP

January 10, 2006

UTIMCO
1996

Report by Management
The University of Texas Investment Management Company's
Internal Control over Financial Reporting

January 10, 2006

The University of Texas Investment Management Company (UTIMCO) is responsible for the preparation, integrity, and fair presentation of its published financial statements as of August 31, 2005, and for the twelve months then ended. The financial statements of the Company have been prepared in accordance with generally accepted accounting principles and, as such, include some amounts that are based on judgments and estimates of management.

INTERNAL CONTROL OVER FINANCIAL REPORTING

We, as members of management of UTIMCO, are responsible for establishing and maintaining effective internal control over financial reporting as it relates to its financial statements presented in conformity with generally accepted accounting principles. Internal control is designed to provide reasonable assurance to the UTIMCO management and board of directors regarding the preparation of reliable published financial statements. Internal control over financial reporting includes self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Because of inherent limitations in any internal control, no matter how well designed, misstatements due to error or fraud may occur and not be detected, including the possibility of the circumvention or overriding of controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

Management has assessed UTIMCO internal control over financial reporting as it relates to its financial statements presented in conformity with generally accepted accounting principles as of August 31, 2005. This assessment was based on criteria for effective internal control over financial reporting described in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we assert that UTIMCO maintained effective internal control over financial reporting as it relates to its financial statements presented

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in conformity with generally accepted accounting as of August 31, 2005, based on the specified criteria outlined in this integrated framework.

The University of Texas Investment Management Company

Bob L. Boldt, CFA President, Chief Executive Officer, and Chief Investment Officer	Joan Moeller, CPA Secretary / Treasurer

The University of Texas Investment Management Company

Reports by UTIMCO Management & Ernst & Young, L.L.P.

The Permanent University Fund's Internal Control over Financial Reporting

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ERNST & YOUNG

Ernst & Young LLP
Suite 1400
700 Lavaca
Austin, Texas 78701

Phone: (512) 478-9881
Fax: (512) 473-3499
www.ey.com

Report of Independent Accountants

The Board of Regents of The University of Texas System
The Board of Directors of The University of Texas Investment Management Company

We have examined management's assertion, included in the accompanying Report of Management on the Permanent University Fund's Internal Control Over Financial Reporting, that the Permanent University Fund maintained effective internal control over financial reporting as of August 31, 2005, based on criteria established in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Permanent University Fund's management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of internal control over financial reporting, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion, that the Permanent University Fund maintained effective internal control over financial reporting as of August 31, 2005, is fairly stated, in all material respects, based on criteria established in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Ernst & Young LLP

January 10, 2006

Report by Management
The Permanent University Fund's
Internal Control over Financial Reporting

January 10, 2006

The University of Texas Investment Management Company (UTIMCO) is responsible for the preparation, integrity, and fair presentation of the published financial statements of the Permanent University Fund (PUF) as of August 31, 2005, and for the twelve months then ended. The financial statements of the PUF have been prepared in accordance with generally accepted accounting principles and, as such, include some amounts that are based on judgments and estimates of management.

INTERNAL CONTROL OVER FINANCIAL REPORTING

We, as members of management of UTIMCO, are responsible for establishing and maintaining effective internal control over financial reporting as it relates to its financial statements presented in conformity with generally accepted accounting principles. Internal control is designed to provide reasonable assurance to PUF management and board of directors regarding the preparation of reliable published financial statements. Internal control over financial reporting includes self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Because of inherent limitations in any internal control, no matter how well designed, misstatements due to error or fraud may occur and not be detected, including the possibility of the circumvention or overriding of controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

Management has assessed the PUF's internal control over financial reporting as it relates to its financial statements presented in conformity with generally accepted accounting principles as of August 31, 2005. This assessment was based on criteria for effective internal control over financial reporting described in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we assert that the PUF maintained effective internal control over financial reporting as it relates to its financial statements presented

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THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

in conformity with generally accepted accounting as of August 31, 2005, based on the specified criteria outlined in this integrated framework.

The University of Texas Investment Management Company

Bob L. Boldt, CFA
President, Chief Executive Officer, and
Chief Investment Officer

Joan Moeller, CPA
Secretary / Treasurer

Audit, Compliance, and Management Review Committee Charter of the Board of Regents of The University of Texas System

Role

The Audit, Compliance, and Management Review Committee ("the Committee") of the Board of Regents ("the Board") of The University of Texas ("U. T.") System assists the Board in fulfilling its responsibilities for:

- Oversight of the quality and integrity of the accounting and financial reporting practices, including the annual financial statements, and the system of internal controls;
- Oversight and direction of the internal auditing function, any external auditors whom the Committee may employ, and engagements with the State Auditor;
- Oversight and direction for the System-wide compliance function;
- Oversight of the review of effective institutional management practices at all U. T. System ~~components~~ institutions; and
- Other duties as directed by the Board.

The Committee's role includes a particular focus on U. T. System's processes to manage business and financial risk, and for compliance with significant applicable legal, ethical, and regulatory requirements.

Membership

The membership of the Committee shall consist of at least four Board members, appointed by the Chairman of the Board, who shall be free of any relationship that would interfere with his or her individual exercise of independent judgment. Applicable laws and regulations shall be followed in evaluating a member's independence.

Reporting

The Chief Audit Executive, System-wide Compliance Officer, and executive management shall provide periodic reports related to audit, compliance, and management review to the Committee. Any public accounting firm employed by the Committee shall report directly to the Committee. The State Auditor's reports will be submitted to this committee. The Committee is expected to maintain free and open communications, which shall include private executive sessions, at least annually, with these parties, as it deems appropriate and is permitted by law.

The Committee chairperson shall regularly report Audit, Compliance, and Management Review Committee activities to the full Board of Regents, particularly with respect to:

(i.) any issues that arise regarding compliance with legal or regulatory requirements and the performance and independence of internal and external auditing and assurance functions; and

(ii.) such other matters as are relevant to the Committee's discharge of its responsibilities.

Education

U. T. System executive management is responsible for providing the Committee with educational resources related to accounting principles and procedures, risk management, and other information that may be requested by the Committee. U. T. System executive management shall assist the Committee in maintaining appropriate financial and compliance literacy.

Authority

The Committee, in discharging its oversight role, is empowered to study or investigate any matter related to audit, compliance, and management of interest or concern that the Committee, in its sole discretion, deems appropriate for study or investigation by the Committee. The Committee shall be given full access to all U. T. System employees and operations as necessary to carry out this authority.

Responsibilities

The Committee's specific responsibilities in carrying out its oversight role are delineated in the Audit, Compliance, and Management Review Committee Responsibilities Checklist. The responsibilities checklist will be updated annually by the Committee to reflect changes in regulatory requirements, authoritative guidance, and evolving oversight practices. As the compendium of Committee responsibilities, the most recently updated responsibilities checklist will be considered to be an addendum to this charter.

The Committee relies on the expertise and knowledge of management, the internal auditors, the State Auditor, and any public accounting firm they may employ in carrying out its oversight responsibilities. U. T. System executive management is responsible for preparing complete and accurate financial statements and for monitoring internal controls and compliance with all applicable laws, regulations, and internal policies and procedures. Any public accounting firm hired by the Committee is responsible for performing the services specified in the hiring contract.

Responsibilities Checklist
for the
Audit, Compliance, and Management Review Committee
of the
Board of Regents of The University of Texas System

1. The Committee will perform such other functions as assigned by law or the Board of Regents of The University of Texas System ("the Board").

2. The Committee shall meet four times per year or more frequently as circumstances require. The Committee may ask members of management or others to attend the meeting and provide pertinent information as necessary.

3. The agenda for Committee meetings will be prepared in consultation between the Committee chairman (with input from the Committee members), U. T. System executive management, the Chief Audit Executive, and the System-wide Compliance Officer.

4. The Committee shall verify that its membership is familiar with the Committee's Charter, goals, and objectives.

5. The Committee shall review the independence of each Committee member based on applicable independence laws and regulations.

6. The Committee shall review and approve the appointment or change in the Chief Audit Executive.

7. The Committee shall have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities.

8. The Committee shall provide an open avenue of communication between the State Auditor, internal auditors, any public accounting firm employed, executive management, and the Board. The Committee chairperson shall report Committee actions to the Board with such recommendations as the Committee may deem appropriate.

9. For the purpose of preparing or issuing an audit report or related work, the Committee shall be directly responsible for the appointment, compensation, and oversight of the work of any employed public accounting firm (including the resolution of disagreements between management and the auditor regarding financial reporting). This does not preclude an individual ~~component~~ institution from hiring a public accounting firm to perform work at the ~~component~~institutional level.

10. The Chief Audit Executive has responsibility for ensuring that no conflicts of interest exist between public accounting firms performing consulting services and firms conducting financial statement audits. The Chief Audit Executive shall report annually on the status and integrity of U. T. System's engagements with public accounting firms.

11. The Committee shall review with executive management, the Chief Audit Executive, the System-wide Compliance Officer, the State Auditor, and any employed public accounting firm the coordination of efforts to assure completeness of coverage, reduction of redundant efforts, and the effective use of resources.

12. The Committee shall inquire of executive management, the Chief Audit Executive, the System-wide Compliance Officer, and any employed public accounting firm about significant risks or exposures and assess the steps management has taken to minimize such risk to U. T. System.

13. The Committee shall consider and review with the Chief Audit Executive, the System-wide Compliance Officer, the State Auditor, and any employed public accounting firm:

a. The adequacy of U. T. System's internal controls including computerized information system controls and security;
b. The adequacy and efficiency of senior-level management with respect to fiscal operations and compliance functions at all ~~component~~ institutions;
c. Any related significant findings and recommendations of the State Auditor, independent public accountants, and internal audit together with management's responses thereto.

14. Regarding the U. T. System's financial statements, the Committee shall review with executive management and/or the Chief Audit Executive:

    a. U. T. System's annual financial statements and related footnotes;
    b. Any audit and assurance work performed on components of the annual financial statements;
    c. Any significant changes to the financial statements requested by the State Auditor, internal audit, or any independent public accountants;
    d. Any serious difficulties or disputes with management encountered during assurance work on components of the financial statements;
    e. Other matters related to the conduct of assurance services that are to be communicated to the Committee under generally accepted government auditing standards.

15. The Committee shall require the U. T. System Chief Financial Officer certify the annual financial statements for the U. T. System as a whole, and that each ~~component~~institutional Chief Financial Officer certify the annual financial statements for their respective ~~component~~ institution.

16. The Committee shall review legal and regulatory matters that may have a material impact on the financial statements, internal auditing and/or compliance activities.

17. The Committee shall at least annually

    a. review with executive management and the Chief Audit Executive the U. T. System's critical accounting policies, including any significant changes to Generally Accepted Accounting Procedures (GAAP), Regents' Rules and Regulations, and/or operating policies or standards;

    b. engage executive management and the external audit firm in the discussion of off-balance sheet transactions/arrangements that have, or are reasonably likely to have, a current or future effect on the System's or any of the institution's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to users of the financial statements. The discussion should include the extent of the off-balance sheet transactions/arrangements and whether GAAP or other regulations results in the financial statements reflecting the economics of such transactions/arrangements.

18. On an annual basis, the Committee shall review, recommend, and approve the annual audit plan, including the allocation of audit hours.

19. Regarding audits, the Committee shall consider and review with executive management and the Chief Audit Executive:

    a. Significant findings during the year and management's responses thereto;
    b. Any difficulties encountered in the course of the audits, including any restrictions on the scope of work or access to required information;
    c. Any changes required in the planned scope of the audit plan.

20. The Committee shall conduct an annual performance review and evaluation of the Chief Audit Executive. The Committee may delegate responsibility for the performance review to the Chancellor, in which case the Chancellor would provide a recommendation and supporting documentation to the Committee as a basis for their evaluation.

21. The Committee shall ensure procedures are established for the receipt, retention, and treatment of complaints received regarding internal controls or auditing matters; and the confidential anonymous submission by employees of concerns regarding questionable auditing matters.

22. The Committee shall monitor The University of Texas System Institutional Compliance Program and review with executive management and the System-wide Compliance Officer the status of the program and the results of its activities, including:

    a. Significant institutional risks identified during the year and mitigating actions taken;
    b. Significant findings during the year and management's responses thereto;
    c. Any difficulties encountered in the course of inspections or assurance activities, including any restrictions on the scope of work or access to required information;
    d. Any changes required in planned scope of the compliance action plan.

23. The Committee shall ensure procedures are established for the receipt, retention, and treatment of complaints received regarding compliance issues and the confidential anonymous submission by employees of concerns regarding ethically or legally questionable matters.

24. The Committee shall meet with the Chief Audit Executive, the System-wide Compliance Officer, executive management, or any employed external auditors in executive session to discuss any matters that the Committee or the before named believe should be discussed privately with the Committee, to the extent permitted by applicable law.

25. The Committee shall review and update the Audit, Compliance, and Management Review Committee Responsibilities Checklist annually.

The University of Texas System
Institutional Compliance Program
1st Quarter Report Summary, FY 2006

Program Executive Summary

The University of Texas System Institutional Compliance Program was established 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. In order to achieve this assurance, the institutional compliance offices at System Administration and each institution:

- Appoint a compliance officer and establish an appropriate reporting mechanism for program activities, using Compliance Committees that meet at least quarterly
- Perform annual compliance risk assessments
- Provide campus-wide compliance training and promote compliance awareness
- Provide specialized training for high-risk compliance areas
- Continuously monitor and inspect the institution's high-risk compliance activities
- Manage the institution's confidential reporting mechanisms (hotline, etc.)
- Report compliance activities and significant compliance issues to executive management

The System-wide Compliance Officer, Mr. Charles Chaffin, is responsible for apprising the Chancellor and Board of Regents of the status and activities of the institutional compliance function.

System-wide Program Activity

The System-wide Compliance Office provided oversight and support to the Institutional Compliance Program during the 1st Quarter of FY 2006 through the following activities:

- **Facilitated U. T. Permian Basin compliance program peer review -** Mary Barr, Director of Institutional Compliance at U. T. Tyler led the review which included Debra Harrison, Assistant Director of Institutional Compliance at U. T. Arlington. Eric Polonski, Audit Supervisor in the System Audit Office served as facilitator. The review team noted that U. T. Permian Basin had strong executive support and best practices including weekly meetings with the President and compliance committees that include all the executive officers. Identified opportunities for improvement included adding staff, distributing a compliance newsletter, implementing Quality Assurance Reviews, conducting compliance awareness surveys, and updating the compliance manual.

  Note that the following institutions received peer reviews during FY2005:

U. T. Arlington	U. T. Brownsville	U. T. Southwestern
U. T. HSC San Antonio	U. T. M. D. Anderson Cancer Center	

  The following institutions received peer reviews during FY2004:

U. T. Dallas	U. T. El Paso	U. T. San Antonio
U. T. Pan American	U. T. HSC Houston	U. T. System Administration
U. T. Tyler	U. T. HSC San Antonio	U. T. HC Tyler

U. T. Austin is scheduled to conduct their peer review in January 2006, U. T. M. B. is scheduled to receive their review in February 2006. The scheduling of the System-wide Compliance Program and UTIMCO peer reviews are pending.

- **Collaborated with the Institutional Compliance Officers in conducting the initial meeting of the Institutional Compliance Advisory Council (ICAC),** a self governing committee of the institutional compliance officers. Biweekly Executive Committee meetings were hosted and three Standing Committees were formed to review, evaluate, and recommend best practices and strategies around Risk Assessment and Monitoring Plans, Peer Reviews, and Compliance Training.

- **Negotiating the hotline contract renewal with The Network**, which will be effective January 1, 2006 through August 31, 2006. The Network provides all of the institutions, UTIMCO, and System Administration with a mechanism for confidential reporting via third-party serviced telephone hotlines.

- **Promoting the U. T. System compliance program at a national level and furthering institutional compliance in higher education** through hosting a Spring Compliance Conference and coordinating a compliance track at the National Association of College and University Auditors. Convention space has been contracted and tracks, topics and prospective speakers have been identified for the Spring Conference (to be held March 28-30, 2006 in Austin). Additionally, the System-wide compliance function provided information on U. T. System program to the compliance programs at Michigan State and Texas A&M.

Institutional Program Activity[1]

During the 1st Quarter of FY 2006, all of the institutional and System Administration Compliance Committees reported that they met. Additionally, the following significant **organizational changes** occurred this quarter: U. T. Brownsville hired a new Compliance Manager; U. T. Dallas hired a new Compliance Officer and has a new person responsible for Endowment Compliance and a new Director of Research Administration; U. T. Pan American hired a new compliance coordinator; U. T. Southwestern hired a compliance director for the UMC hospitals (St. Paul and Zale Lipshy); U. T.M.B. filled their Compliance Auditor position; U. T. HSC at Houston hired a Director of Institutional Compliance but still has three vacant positions (Research Compliance Manager, Manager of Medical Billing Compliance and Manager of Health Care Billing Compliance); and U. T. HC at Tyler appointed a new compliance Officer.

Risk Assessment and Monitoring Activities

Common significant institutional risk areas the Institutional Compliance Offices focused on during the 1st Quarter of FY 2006 included:

- **Asset Management** – (safeguarding of physical and financial assets.) Monitoring activities were performed in the areas of equipment inventory, procurement card activity and account reconciliation completion.

- **Clinical Billing** – (medical billing that is not appropriately documented and coded.) Activities included the review of inpatient and outpatient charges, facility charges, and identifying/resubmitting uncoded charts.

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[1] Details regarding activities at the institutional level are published in the *Institutional Compliance Program 1st Quarter Status Report for Fiscal Year 2006*.

- **Endowments** – (adherence to terms of endowment agreement.) Monitoring occurred in areas such as ensuring distributions are used, and used per the endowment agreement.

- **Environmental Health & Safety** – (proper use and handling of dangerous materials, lab safety, and fire safety.) The following areas were reviewed during the quarter by many institutions: chemical waste management, fire and disaster drills, radiation safety, lab safety, certification of hazardous materials and chemicals, asbestos abatement projects, and life safety inspections.

- **Human Resources** – (adherence to applicable rules, regulations and laws including equal opportunity/affirmative action, leave administration, and fair hiring practices.) Monitoring occurred in areas including EEO, sexual harassment certifications, and the processing of I9 forms.

- **Information Resources/Security** – (systems integrity/continuity/availability, security regulations, and external access.) Monitoring activities included intrusion prevention/detection, firewall rule sets, anti-spam solutions, system risk rating, and mock disaster drills.

- **Intercollegiate Athletics** – (adherence to the rules and regulations of the NCAA.) Activities included reviewing eligibility documentation and completion of transfer forms.

- **Research –** (research not conducted in accordance with approved protocol or federal regulations.) Activities included monitoring research compliance requirements related to human subjects research, animal research, biosafety programs, research conflict of interest, and animal facility inspections.

- **Contract Administration / Effort Reporting –** (improper effort reporting on federal grants, unallowable costs.) Monitoring activities included reporting requirements, unallowable expenditures, nonperformance, and cost sharing.

- **Privacy (HIPAA, FERPA, Graham-Leach-Bliley) –** (improper disclosure of private/sensitive/protected information.)

Assurance Activities and Significant Findings
The following types of assurance activities were performed at the institutions during the 1st Quarter of FY 2006:

- **Inspections** – Sampling and observation to ensure that mitigating activities defined in the monitoring plan are being appropriately performed for all high-risk areas.

- **Certifications** – Several institutions require high risk area certifications from budget heads or area responsible parties as to their compliance with laws, rules, and policies and the existence of sound internal controls in their departments.

- **Audits** – Internal and external audits were performed for high-risk areas based on priority risks, audit cycles, or the perceived readiness of high-risk areas for which compliance plan objectives had been accomplished.

- **Peer Reviews** – Peer reviews are conducted by area experts and serve to validate the existence of sound practices and controls within specialized functional areas such as Environmental Health and Safety, Medical Billing and Financial Aid. In addition, an internal review of the overall compliance program infrastructure and activities were completed for U. T. Permian Basin in the 1st Quarter of FY 2006.

Training Activities
General compliance training was conducted using a variety of formats including web-based, classroom, and written materials. Additionally, specialized training activities during the quarter included: Blood borne Pathogens, Infectious Substance Shipping, Fire Life Safety training, Radiation Safety, Practical Research Methodology courses on animal care, Emergency Response training, Chemical Waste Disposal, Hazard Communications, Lab safety, Institutional Review Board NIH training, Medical billing coder training, Physician billing compliance training, Patient Financial Services billing compliance, Export Controls workshop, Research conflicts of interest, Equal Employment Opportunity training, I-9 form training, Account Reconciliation training, Records Retention, Information Security Awareness and endowment compliance training.

Also of note, U. T. Arlington began using Macromedia Breeze training software during the quarter and U. T. Dallas is in the process of migrating to Macromedia Breeze.

Action Plan Activities
A majority of the Action Plans established by each institution for FY 2006 are underway and focused on activities including: enhancement of general compliance and specialized training, updating compliance risk assessments to include new risks, revisions to the Standards of Conduct Guide and Management Responsibilities Handbook, publishing compliance newsletters, conducting and/or facilitating inspections/audits/peer reviews, driving certification processes, Enterprise Risk Management, facilitating control self assessments, Macromedia Breeze implementations, hiring compliance staff and updating compliance websites.

THE UNIVERSITY OF TEXAS SYSTEM

Annual Financial Report Highlights
Audit, Compliance and Management Review and Finance and Planning Committees

Prepared by The Office of the Controller

February 8, 2006

Objectives:

- Discuss FY 2005 financial highlights of the System's Annual Financial Report:
  - Significant changes on the Balance Sheet
  - What contributed to those changes from the Statement of Revenues, Expenses and Changes in Net Assets, or "SRECNA"
  - Significant changes on the Statement of Cash Flows

2

Required in the AFR:

- Required Supplemental Information and financial statements include:
  - Management's Discussion and Analysis
  - Notes to the Financial Statements
  - Balance Sheet
  - Statement of Revenue, Expenses, and Changes in Net Assets (SRECNA)
  - Statement of Cash Flows

3

MD&A:

- 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
  - Increases in contract and grant revenues

4

Balance Sheet

Significant changes on the consolidated Balance Sheet:

Noncurrent investments increased $2.8 billion, 17.7%

Total liabilities increased $1.3 billion, 17.1%

Net Assets increased $3 billion, 15.1%

The University of Texas System – Balance Sheet			
($ in millions)		**2005**	**2004**
Assets:			
Current Assets	$	6,010.7	5,297.7
Noncurrent Investments		18,635.8	15,836.9
Other Noncurrent Assets		211.2	207.3
Capital Assets, net		7,054.7	6,251.0
Total Assets	$	31,912.4	27,592.9
Liabilities:			
Current Liabilities	$	5,046.6	4,329.1
Noncurrent Liabilities		4,000.9	3,399.0
Total Liabilities		9,047.5	7,728.1
Net Assets:			
Invested in Capital Assets, Net of Related Debt		3,610.7	3,391.4
Restricted		17,007.2	14,385.3
Unrestricted		2,247.0	2,088.1
Net Assets		22,864.9	19,864.8
Liabilities and Net Assets	$	31,912.4	27,592.9

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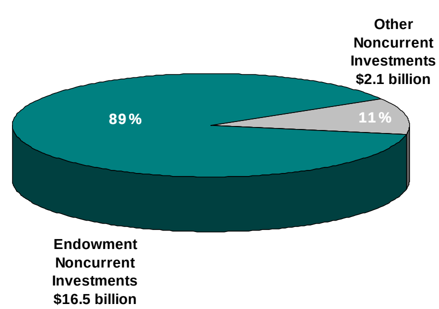
Total Noncurrent Investments

Noncurrent Investments - $18.6 billion



- **Endowment related investments include the PUF, LTF, Permanent Health Fund, and Separately Invested Assets**
- **Other investments include the Short Intermediate Term Fund and limited investments held outside of UTIMCO**

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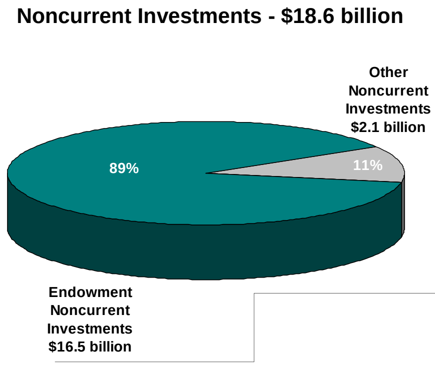
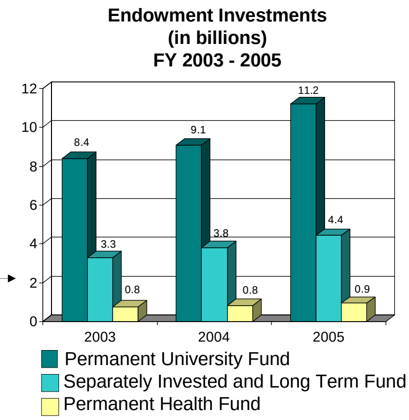
Total Noncurrent Investments





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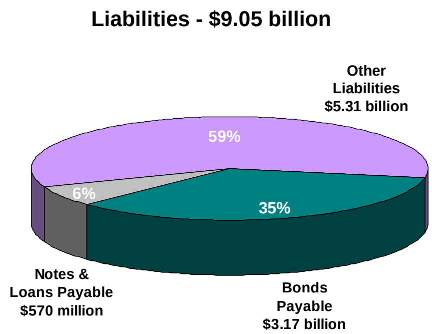
Total Liabilities

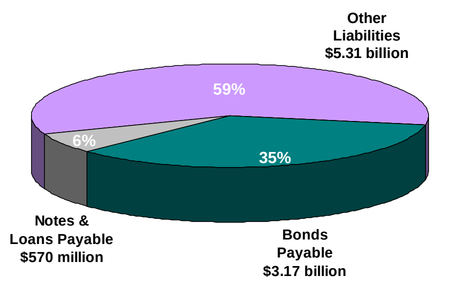


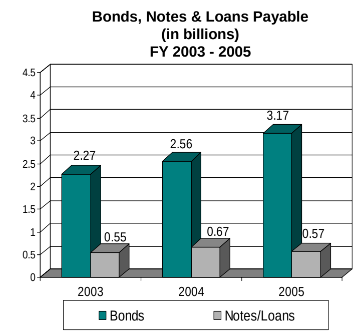
- **Total liabilities, including debt, IBNR and Securities Lending obligations increased $1.3 billion**
- **The increase in bonds, notes and loans accounted for $522 million of this increase**

8

Total Liabilities

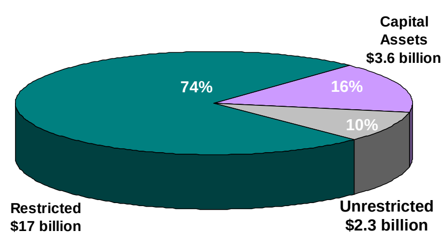
Liabilities - $9.05 billion





Net Assets

Net Assets - $22.9 billion

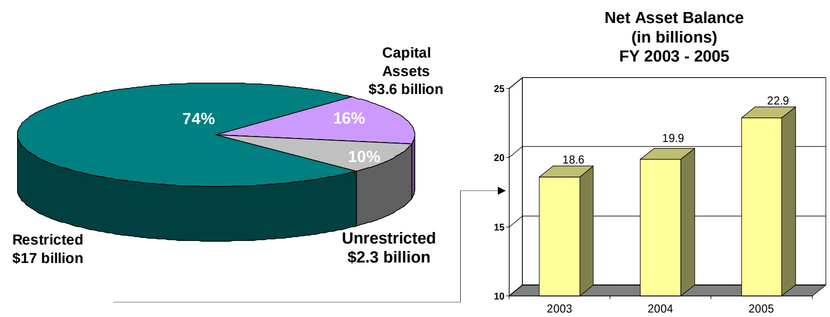


- **Net assets are reported in three categories:**
  - **- Restricted (by donors or grantors)**
  - **- Unrestricted**
  - **- Capital Assets such as land, buildings, equipment, etc.**

- **Because of the large endowment balances, the largest category is Restricted.**

Net Assets

Net Assets - $22.9 billion



SRECNA

Net Assets increased by $3 billion

The driving force behind this increase was larger returns on investments.

Net Investment Income reports land income, interest, dividends, and net realized gains/losses on sales of securities.

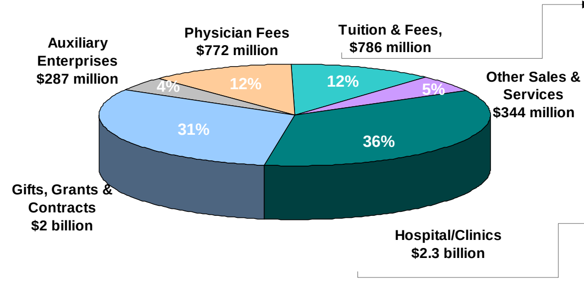
Net Increase in Fair Value of Investments reports unrealized gains/losses on investments we own.

Compared to last year the unrealized gains increased significantly. This is where the $600 million increase in value of PUF Lands is reported.

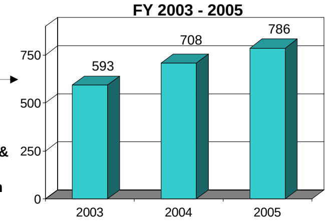
The University of Texas System Consolidated SRECNA				
($ in millions)		**2005**		**2004**
Total Operating Revenues	$	6,467.5		5,758.3
Total Operating Expenses		(8,488.1)		(7,640.8)
Operating Loss		(2,020.6)		(1,882.5)
Nonoperating Revenues (Expenses):				
State Appropriations		1,557.5		1,578.1
Gift Contributions		265.8		179.8
Net Investment Income		1,922.3		1,652.7
Net Increase in Fair Value of Investments		1,338.2		191.0
Interest Expense		(135.0)		(90.9)
Net Other Nonoperating Revenues		(8.6)		3.1
Income (Loss) Before Other Revenues, Expenses, Gains or Losses		2,919.6		1,631.3
Gifts for Endowments and Capital		226.9		306.8
Transfers and Other		(146.4)		(101.8)
Change in Net Assets		3,000.1		1,836.3
Net Assets, Beginning of the Year		20,393.7		18,619.0
Restatements		(528.9)		(590.5)
Restated Net Assets, Beginning of the Year		19,864.8		18,028.5
Net Assets, End of the Year	$	22,864.9		19,864.8

Operating Revenues

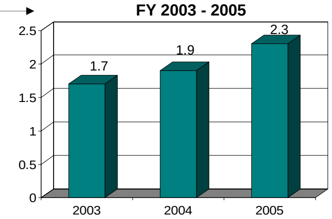
Operating Revenues - $6.5 billion



Tuition and Fees (in millions) FY 2003 - 2005



Hospitals Revenues (in billions) FY 2003 - 2005



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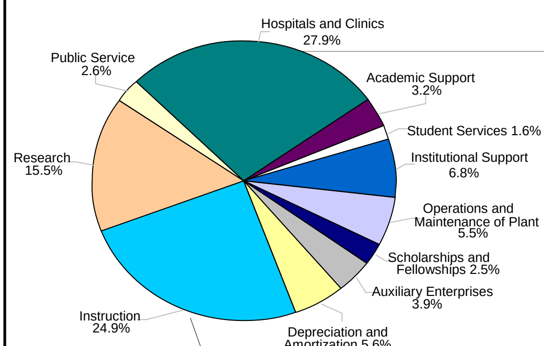
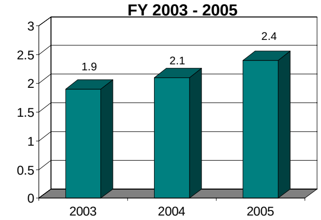
Operating Expenses

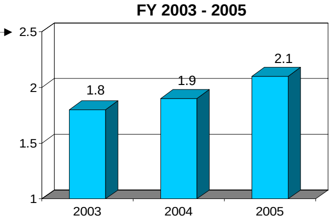
Functional Classification of Operating Expenses - $8.5 billion



Hospital/Clinics Expenses (in billions) FY 2003 - 2005



Instruction Expenses (in billions) FY 2003 - 2005



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Stmt. of Cash Flows

System's cash position increased over last year by $283.2 million, 11.5%

The University of Texas System Consolidated Statement of Cash Flows				
($ in millions)		**2005**		**2004**
Cash Flows:				
Cash received from operations	$	6,601.2		5,928.5
Cash expended for operations		(7,994.6)		(7,386.5)
Net cash used in operating activities		(1,393.4)		(1,458.0)
Net cash provided by noncapital financing activities		1,718.1		1,829.0
Net cash used in capital and related financing activities		(746.3)		(813.9)
Net cash provided by investing activities		704.8		804.2
Net decrease in cash and cash equivalents		283.2		361.3
Cash & cash equivalents, beginning of year		2,459.3		2,098.0
Cash & cash equivalents, end of year	$	2,742.5		2,459.3

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Conclusion:

- The Annual Financial Report represents a consolidation of the 15 institutions and System Administration that make up the UT System.
- Representations were made to Deloitte and to the State Auditor by the Chancellor, Controller, and Controller Office staff that the statements were materially correct and that none were aware of any fraud.
- Similar representations were made to the Controller by the institutions' presidents, chief business officers, financial reporting officers and internal auditors.
- A Code of Ethics was signed off on by the financial reporting officers.

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Deloitte.

2005 Report to the Audit, Compliance and Management Review Committee

Rodney Lenfant
Deloitte & Touche LLP
December 20, 2005

Audit.Tax.Consulting.Financial Advisory.

Agenda

- Audit status
- Audit scope
- Management judgments and accounting estimates
- Audit adjustments
- Accounting policies and practices
- Additional matters

This report is intended solely for the information and use of the Audit Committee of the Board of Directors, management, and others within the Company and is not intended and should not be used by anyone other than these specified parties.

 1

Audit Status

- We have completed our audit of the consolidated financial statements of The University of Texas System (the “System”) for the year ended August 31, 2005 and have rendered our report thereon dated December 20, 2005.
- We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the System is responsible.

Audit Scope

- Our audit scope was outlined in our Client Service Plan presented to the ACMR Committee at its February 2005 meeting and was not restricted in any manner.
- No significant scope changes resulted from the execution of the Client Service Plan.
- Our auditing procedures addressed the risks identified in our Client Service Plan; no new risk areas were identified during the course of our audit.

Management Judgments and Accounting Estimates

- Significant accounting estimates reflected in the System's 2005 consolidated financial statements include:
  - Allowances for doubtful accounts and discounts
  - Depreciation expense and accumulated depreciation
  - Fair value of alternative investments
  - Fair value of Permanent University Fund (PUF) lands
  - Liabilities for medical malpractice, workers' compensation and other self-insured risks
  - Medicare and Medicaid settlements
  - Deferred revenue
  - Liability to beneficiaries

Audit Adjustments

- Our audit was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. All proposed audit adjustments (whether recorded or not recorded) were reviewed with management and were determined, individually or in the aggregate, not to have a significant effect on the financial reporting process. A summary of the significant audit adjustments we proposed and which were recorded by management is included herein at Appendix A.
- In addition, a schedule of passed adjustments (regardless of whether they have a significant effect on the financial reporting process) is included herein at Appendix B. Management of the System has concluded that these proposed audit adjustments are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Accounting Policies and Practices
Significant Accounting Policies

- The System's significant accounting policies, as determined by management, are set forth in Note 2 to the System's 2005 financial statements. During the year ended August 31, 2005, there were no significant changes in previously adopted accounting policies or their application, except for the change to record depreciation expense on library books.

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Accounting Policies and Practices
Alternative Accounting Treatments

- We had no discussions with management regarding alternative accounting treatments related to material transactions or general accounting policies related to the year ended August 31, 2005, except as follows:
  - The valuation of PUF lands
  - The proper exclusion of certain Foundations in accordance with GASB Statement No. 39

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Additional Matters

- Generally accepted auditing standards require that certain additional matters be communicated to an entity's audit committee in connection with the performance of an audit:
  - Auditors' responsibility under generally accepted auditing standards and *Government Auditing Standards*
  - Disagreements with management
  - Difficulties in performing the audit
  - Consultation with other accountants
  - Major issues discussed with management
  - Other information in documents containing audited financial statements
  - Material written communications with management

Additional Matters (continued)

Auditors' Responsibility

- Our responsibility under generally accepted auditing standards and *Government Auditing Standards* has been described to you in our audit contract effective August 30, 2004. As described in that contract, those standards require, among other things, that we obtain an understanding of the System's internal control sufficient to plan the audit and determine the nature, timing, and extent of audit procedures to be performed.

Additional Matters (continued)

Disagreements with Management

- We have not had any disagreements with management related to matters that are material to the System's 2005 consolidated financial statements

Difficulties Encountered in Performing the Audit

- In our judgment, we received the full cooperation of the System's management and staff and had unrestricted access to the System's senior management in the performance of our audit

Additional Matters (continued)

Consultation with Other Accountants

- We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2005.

Major Issues Discussed with Management Prior to Retention

- Throughout the year, routine discussions regarding the application of accounting principles or auditing standards were held with management in connection with transactions that occurred, transactions that were contemplated, or reassessment of current circumstances. In our judgment, such discussions were not held in connection with our retention as auditors.

Additional Matters (continued)

Use of Specialists – as planned, specialists assisted in the audit to the extent we considered necessary:

- **Computer assurance specialists** participated in the evaluation of internal controls and in the use of our computerized audit applications
- **Actuarial specialists** participated in the assessment of reserves and claims and the significant assumptions related to the self-insurance liabilities
- **Financial instruments specialists** assisted in our testing of hedge fund transactions
- **Reimbursement specialists** participated in the assessment of health care institutions' reserves for open cost reports

Additional Matters (continued)

Other Material Written Communications with Management

	Date of Communication
Professional services contract	August 30, 2004
Management representation letter	December 20, 2005
Reports to management (including management report letters to each individual institution)	December 20, 2005
Independence letter	November 18, 2005
Working paper access letter	December 9, 2005

Management Comments - Financial

- Federal and non-federal research grants
- Financial reporting
- Centralized policies
- Valuation methodology for fair value of PUF lands
- IBNR estimate methodology
- Accounts payable process

Management Comments – Information Technology

- Change management controls
- Centralization of policies, standards and procedures
- Information systems security

Appendix A
Audit Adjustments Recorded

- Beginning balance (August 31, 2004):
  - Increase liabilities by $233 million for PUF liability to TAMU System
  - Decrease assets by $279 million for accumulated depreciation on library books
  - Decrease liabilities by $33 million to recognize deferred tuition for class days prior to year end

Appendix A (continued)
Audit Adjustments Recorded

- Year end (August 31, 2005):
  - Decrease assets by $12 million to correctly state pledges receivable
  - Increase liabilities by $24 million for architectural services performed prior to year end
  - Decrease revenues and expenses by $32 million to eliminate intercompany balances
  - Reclassify $161 million of accrued compensable absence liability from non-current to current

Appendix B
Passed Adjustments

- Year end (August 31, 2005):
  - Understated liabilities by $16 million for grants and contracts expenses incurred prior to year end
  - Overstated liabilities by $6.6 million for over-reserve for Medicare and Medicaid settlement
  - Reclassify $6.6 million between accounts receivable and the allowance for doubtful accounts receivable
  - Reclassify $4.6 million from other long term assets to capital assets

THE UNIVERSITY OF TEXAS SYSTEM

Internal Audit's Role in the Annual Financial Audit
Audit, Compliance, and Management Review
and
Finance and Planning
Committees

February 8, 2006

Prepared by The System Audit Office

Audit Oversight

- The System Audit Office assisted Deloitte & Touche LLP in the completion of the audit by overseeing the audits of the following institutions:
  - U. T. Arlington – Jennifer Chapman
  - U. T. Brownsville – Norma Ramos
  - U. T. Dallas – Toni Messer
  - U. T. El Paso – Bill Peters
  - U. T. Pan American – Mike Chrissinger
  - U. T. Permian Basin – Narita Holmes
  - U. T. San Antonio – Dick Dawson
  - U. T. Tyler – Kathy Kapka
  - U. T. Health Center – Tyler – Gail Lewis

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Role of the System Audit Office

- Audits coordinated by Assistant Directors Amy Barrett and Kimberly Hagara
- Held weekly conference calls with audit directors and Deloitte & Touche to discuss accounting and auditing issues
- Assigned managers and staff to almost all institutions for about four weeks
- Conducted final review of working papers and reports

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System Audit Office Assistance

- The System Audit Office personnel were onsite at the following institutions during the engagement to provide assistance:
  - U. T. Arlington – Kimberly Hagara & Harold Rogers
  - U. T. El Paso – Paige Buechley & Paul Hernandez
  - U. T. Pan American – Miles Ragland
  - U. T. Permian Basin – Eric Polonski & Catalina Padilla
  - U. T. San Antonio – Amy Barrett
  - U. T. Health Center – Tyler – Charles Chaffin, Moshmee Kalamkar, & Julie Anderson
  - U. T. System Administration – Jackie Cabaniss
  - UTIMCO – Jane Bebar

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Procedure Performed

- The procedures performed typically included a combination of analytics and testing of significant account balances including:
  - Interviews of key financial personnel
  - Agreement of the financial information provided to U. T. System for preparation of the Annual Financial Report to the institutions' records
  - Analysis of various line items of the financial statements
  - Testing of manual adjustment and unusual transactions
  - Testing of accounts payable
  - Testing of capital assets

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Hours Incurred for Year End Work

Institution	Hours
U. T. Arlington	392
U. T. Brownsville	293
U. T. Dallas	615
U. T. El Paso	480
U. T. Pan American	520
U. T. Permian Basin	86
U. T. San Antonio	531
U. T. Tyler	303
U. T. Health Center – Tyler	721
U. T. System	1,720
Total	5,661

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Results

- The purpose of the procedures was to identify misstated items of $4 million and report these exceptions to Deloitte & Touche LLP for disposition.
- Each of the nine institutions concluded that there were no material unadjusted differences meeting the $4 million threshold for reporting to Deloitte & Touche LLP.

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Opportunities for Value-Added Services

- Individual reports were issued at each institution
- Three themes related to financial reporting emerged at the institutions and provide an opportunity for U. T. System to provide value-added services of guidance, education, and support:
  - Accounting for unusual one-time transactions
  - Allowance estimation process
  - Classification and mapping of assets and liabilities from the general ledger to the Annual Financial Report.

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Benefits of the Financial Audit

- The following comments were received regarding the experience of the System-wide Financial Audit:
  - *"Working with System Audit provided for a smooth process. Internal Audit at our institution received timely support and guidance, making the year-end fieldwork process manageable."*
  - *"System Audit was able to provide on-the-job training and guidance to staff on performing financial audits."*
  - *"I was able to learn more about my own institution even though I have worked here for years. I learned how financial information is accumulated and how the closing process works."*
  - *"Relationships between Internal Audit and the Business Office improved as each office got to know one another and developed professional respect for the other. Now when Internal Audit needs information from the Business Office, we receive it timely with little hesitation."*

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Benefits of the Financial Audit (con't)

- *"Internal auditors at our institution perform many types of operational audits crossing all elements of the campus. Performing work on the external audit work brought the focus back to financial audits, which had not received much attention lately."*
- *"The external financial audit provided us with assurance that the information reported by the institution was okay and the institution was not operating in a vacuum."*
- *"The institution became more accountable in preparing our annual financial report."*

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THE UNIVERSITY OF TEXAS SYSTEM

Consolidated Financial Statements for the Year Ended August 31, 2005 and Independent Auditors' Report

THE UNIVERSITY OF TEXAS SYSTEM

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Deloitte & Touche LLP
Suite 1700
400 West 15th Street
Austin, TX 78701-1648
USA

Tel: +1 512 691 2300
Fax: +1 512 708 1035
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

The Members of the Board of Regents
The University of Texas System

We have audited the accompanying consolidated balance sheet of The University of Texas System (the "System") as of August 31, 2005, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements of the System are intended to present the financial position, and the changes in net assets and cash flows for only that portion of the funds of the State of Texas which are attributable to the transactions of The University of Texas System. They do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2005, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the System as of August 31, 2005, and its changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Deloitte + Touche LLP

December 20, 2005

THE UNIVERSITY OF TEXAS SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2005
(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. Many of the System's programs in natural science, engineering, business, medicine, law, liberal arts and humanities rank among the best in the country.

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The System presents its financial statements for the year ended August 31, 2005, with data for the year ended August 31, 2004 provided for comparative purposes. The emphasis of discussion about these financial statements will focus on the current year data. The System's consolidated financial report includes three financial statements: the balance sheet; the statement of revenues, expenses and changes in net assets; and the statement of cash flows. The financial statements were prepared in accordance with Governmental Accounting Standards Board (GASB) pronouncements. This discussion and analysis of the System's financial statements provides an overview of the financial activities for the year. It has been prepared by management and should be read in conjunction with the accompanying financial statements and notes.

FINANCIAL HIGHLIGHTS

- In the fall of 2004, the System's enrollment increased 2.9% to 182,752 students. This increase was due in part to the State's demographics combined with the current labor market. The System's academic institutions enroll 34.1% of the State's public college students, and the System's health-related institutions enroll 70.8% of the State's public college medical and dental students. Net tuition and fees increased $78.8 million in 2005, or 11.1%, as a result of tuition and fee increases and a 2.6% increase in student semester credit hours at the academic institutions.

- Net patient care revenues increased $475 million in 2005, as a result of an increase in patient volumes and higher rates. The increase in patient care revenues was also driven by UT Southwestern Medical Center at Dallas' acquisition of Zale Lipshy University Hospital, Inc. and its subsidiary (Zale) and St. Paul University Hospital (St. Paul) effective January 1, 2005.

- In 2003 the State Legislature delegated to governing boards the authority to set tuition. This allowed university presidents, in broad consultation with their campuses, to recommend flexible rates of tuition to the Board of Regents as a means to achieve many strategic goals. The Board of Regents approved tuition plans for its educational institutions that include setting aside a statutorily required portion of 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. Tuition rates were adjusted under this authority beginning mid-year in 2004. A full year's fiscal impact was realized for the first time in 2005.

- Net investment income, excluding the change in fair value of investments, totaled $1.9 billion in 2005, which increased from $1.7 billion in 2004. The net increase in fair value of investments was $1.3 billion in 2005, as compared to $191 million in 2004. Both components of investment income represented 28.2% of total revenues and were the largest contributors to the total increase in net assets of $3 billion during 2005. Additionally, investment income, including the change in fair value of investments, exceeded State appropriations by $1.7 billion.

- Investments in capital asset additions were $1.3 billion in 2005, of which $844.3 million consisted of new projects under construction.

The Balance Sheet

The balance sheet presents the assets, liabilities and net assets of the System as of the end of the year. This is a point-in-time financial presentation of the financial status as of August 31, 2005, with comparative information for the previous year. The balance sheet presents information in current and noncurrent format for both assets and liabilities. The net assets section presents assets less liabilities. A summarized comparison of the System's balance sheets at August 31, 2005 and 2004 follows:

($ in millions)	2005	2004
Assets:		
Current assets	$ 6,010.7	5,297.7
Noncurrent investments	18,635.8	15,836.9
Other noncurrent assets	211.2	207.3
Capital assets, net	7,054.7	6,251.0
Total assets	31,912.4	27,592.9
Liabilities:		
Current liabilities	5,046.6	4,329.1
Noncurrent liabilities	4,000.9	3,399.0
Total liabilities	9,047.5	7,728.1
Net assets:		
Invested in capital assets, net of related debt	3,610.7	3,391.4
Restricted	17,007.2	14,385.3
Unrestricted	2,247.0	2,088.1
Net assets	22,864.9	19,864.8
Liabilities and net assets	$ 31,912.4	27,592.9

Assets increased $4.3 billion in 2005, primarily due to financial market conditions resulting in gains in the System's investments, and also due to capital asset additions. Liabilities increased $1.3 billion, largely due to increased securities lending, 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. Current liabilities consist primarily of accounts payable and accrued liabilities, investment trades payable, securities lending obligations, deferred revenues, commercial paper notes and the current portion of bonds payable. The System's current ratio (current assets to current liabilities) of 1.2 times reflects adequate operating liquidity and sufficient ability to meet its upcoming obligations.

Noncurrent Investments

Noncurrent investments include permanent endowments, funds functioning as endowments, life income funds and other investments. These assets grew by $2.8 billion in 2005 due to increases in fair value of investments, increased investment income and gifts received to establish new endowment funds.

Capital Assets and Related Debt Activities

The development and renewal of its capital assets is one of the critical factors in continuing the System's quality academic, health and research programs. The System continues to implement its $4.1 billion capital improvement program, planned for fiscal years 2006 through 2011, to upgrade its facilities. Capital additions totaled $1.3 billion in 2005, of which $844.3 million consisted of new projects under construction. These capital additions were comprised of replacement, renovation, and new construction of academic, research and health care facilities, as well as significant investments in equipment.

Bonds payable relating to financing of current and prior years' construction needs totaled $3.2 billion and $2.6 billion at August 31, 2005 and 2004, respectively. All bonds continue to reflect the highest uninsured "Aaa" and "AAA" credit ratings from the three major bond-rating agencies. During 2005, the System issued $795.8 million of new bonds of which $102.7 million was used to advance refund outstanding Permanent University Fund (PUF) bonds. Additionally, $8.9 million of refunding bonds were optionally redeemed. Commercial paper notes outstanding decreased by $94 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 the outstanding commercial paper notes through the issuance of fixed-rate debt to provide long-term financing for projects financed on an interim basis with commercial paper notes.

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

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, 2005 and 2004:

($ in millions)		2005	2004
Net assets:			
Invested in capital assets, net of related debt	$	3,610.7	3,391.4
Restricted:			
Nonexpendable		15,560.6	13,020.4
Expendable		1,446.6	1,364.9
Total restricted		17,007.2	14,385.3
Unrestricted		2,247.0	2,088.1
Total net assets	$	22,864.9	19,864.8

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 $219.3 million increase in capital assets, net of related debt, in 2005, resulted from the additions to capital assets of $803.8 million during 2005 offset by an increase in related debt of $584.5 million.

Restricted nonexpendable net assets primarily include the System's permanent endowment funds and are subject to externally imposed restrictions governing their use. The System's permanent endowment funds include the 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. Restricted nonexpendable net assets have been decreased for the System, and increased for the Texas A&M University System accordingly. In addition, the System's permanent endowment funds include the Permanent Health Fund Endowments (PHF) of $925.9 million established in 1999 from tobacco-related litigation funds received from the 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. Restricted nonexpendable net assets increased by $2.5 billion to $15.6 billion in 2005, resulting from increases in the fair value of investments, increases in investment income and new gifts. Restricted expendable net assets of $1.4 billion primarily include restricted contract and grant and loan funds of $1.1 billion, funds restricted for capital projects of $51.9 million, funds restricted to support cancer treatment and programs that benefit public health of $87.2 million, debt service of $5.2 million, and $187.1 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 $166.8 million.

The Statement of Revenues, Expenses and Changes in Net Assets

The statement of revenues, expenses and changes in net assets details the changes in total net assets as presented on the balance sheet. The statement presents both operating and nonoperating revenues and expenses for the System. The following table summarizes the System's revenues, expenses and changes in net assets for the years ended August 31, 2005 and 2004:

($ in millions)	2005	2004
Operating revenues:		
Net student tuition and fees	$ 786.5	707.7
Grants and contracts	1,974.8	1,905.6
Net patient care revenues	3,074.9	2,599.9
Net auxiliary enterprises	287.1	244.5
Other	344.2	300.6
Total operating revenues	6,467.5	5,758.3
Total operating expenses	(8,488.1)	(7,640.8)
Operating loss	(2,020.6)	(1,882.5)
Nonoperating revenues (expenses):		
State appropriations	1,557.5	1,578.1
Gift contributions for operations	265.8	179.8
Net investment income excluding the change in fair value of investments	1,922.3	1,652.7
Net increase in fair value of investments	1,338.2	191.0
Interest expense on capital asset financings	(135.0)	(90.9)
Net other nonoperating revenues (expenses)	(8.6)	3.1
Income before other revenues, expenses, gains or losses	2,919.6	1,631.3
Capital appropriations – Higher Education Assistance Fund (HEAF)	7.1	7.1
Capital gifts and grants, and additions to permanent endowments	219.8	299.7
Transfers to other State entities	(146.4)	(101.8)
Change in net assets	3,000.1	1,836.3
Net assets, beginning of the year	19,864.8	18,028.5
Net assets, end of the year	$ 22,864.9	19,864.8

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 $78.8 million, or 11.1%, as a result of tuition and fee increases and a 2.6% increase in student semester credit hours at the academic institutions. Enrollment at the health institutions increased 6.6% in the fall of 2004.

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. Other grants and contracts include student financial aid and contracts with affiliated hospitals for clinical activities. These revenues increased $69.2 million in 2005 due largely to funding for educational initiatives, such as *Reading First*; increased contractual revenue from affiliated hospitals; and increased federal and state-based financial aid programs.

Patient care revenues are principally generated within the System's hospitals and physicians' practice plans under contractual arrangements with governmental payors and private insurers. Net patient care revenues increased $475 million in 2005, as a result of an increase in patient volumes and higher rates. The increase in patient care revenues was also driven by UT Southwestern Medical Center at Dallas' acquisition of Zale and St. Paul effective January 1, 2005, which contributed $178.5 million to the overall increase. See note 24 of the consolidated financial statements for more information on the acquisition of Zale and St. Paul. Auxiliary enterprise revenues were earned from a host of activities such as athletics, housing and food service, bookstores, parking, student health and other activities.

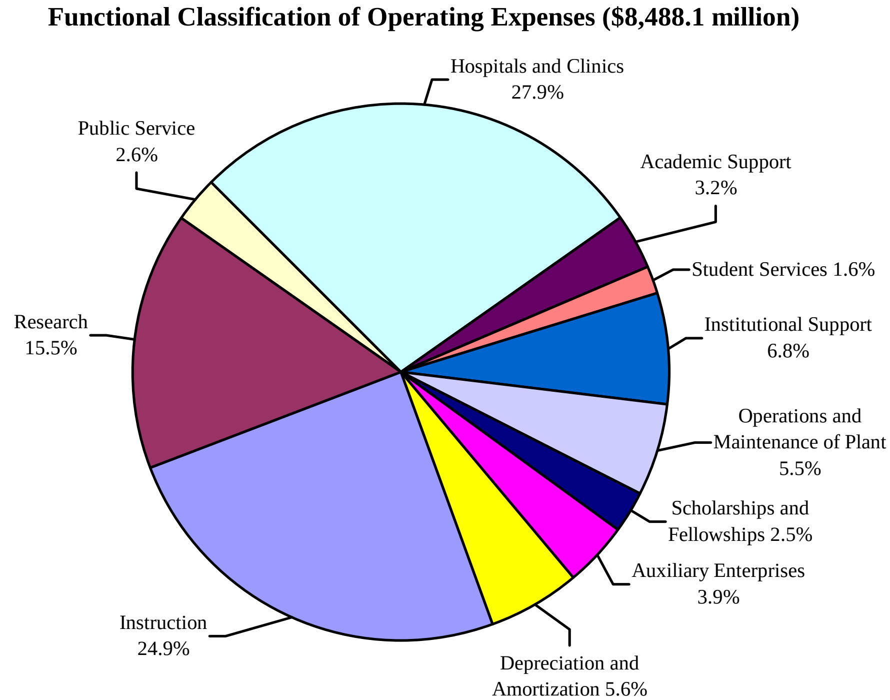
Operating Expenses

The following data summarizes the composition of operating expenses by programmatic function for the years ended August 31, 2005 and 2004:

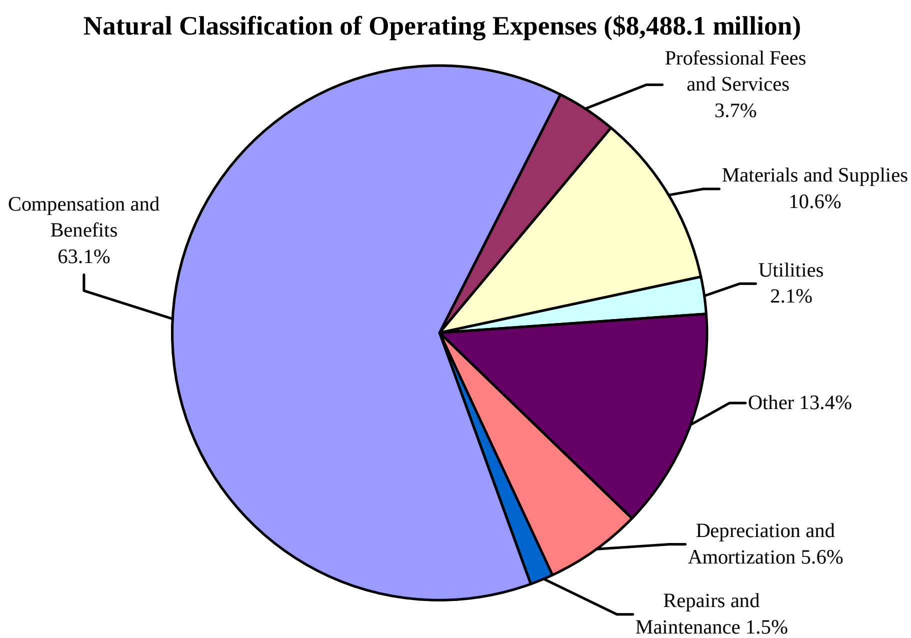
($ in millions)	2005	2004
Functional classification of operating expenses:		
Instruction	$ 2,110.0	1,927.9
Research	1,317.8	1,216.8
Public service	216.7	211.0
Hospitals and clinics	2,371.8	2,052.7
Academic support	276.4	258.7
Student services	133.0	124.0
Institutional support	580.9	533.3
Operations and maintenance of plant	467.5	438.4
Scholarships and fellowships	208.8	203.0
Auxiliary enterprises	327.4	292.4
Depreciation and amortization	477.8	382.6
Total operating expenses	$ 8,488.1	7,640.8

The operating expenses reflect the System's commitment to promoting instruction, research, patient care, public service and student support. Total operating expenses increased $847.3 million in 2005 in response to growing student enrollment, research, and patient care activities. The System's full-time equivalent employees increased 1.4% from 72,337 in 2004 to 73,329 in 2005. Employee-related costs increased due to salary increases and higher medical insurance premium costs.

The following is a graphic illustration of operating expenses by their functional classification for the year ended August 31, 2005.



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, 2005.



<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 decreased $20.6 million primarily due to reductions in general revenue directly appropriated by the State Legislature. A portion of actual State appropriations was recorded as a transfer in the consolidated financial statements due to the timing of the appropriation and the related appropriation process. If these transfers were included in State Appropriations, the amount within State appropriations would have remained relatively flat. Gift contributions for operations of $265.8 million, an increase of $86 million from 2004, 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 from $1.7 billion in 2004 to $1.9 billion in 2005. The fair value of investments increased $1.1 billion primarily due to an increase in the calculated value of PUF lands, which increased $599.6 million in 2005. 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 percent 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. Compared to last year, the price per barrel of oil increased from $38.75 to $65.75, and the price per million British thermal units of gas increased from $5.05 to $10.19. Interest expense on capital asset financings increased from $90.9 million in 2004 to $135 million in 2005.

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 $2.9 billion in 2005, an increase of $1.3 billion over 2004. This gain is largely a result of the increase in net investment income and net increases in fair value of investments, or unrealized gains. 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 2005 and 2004:

($ in millions)		2005	2004
Operating results:			
Operating loss	$	(2,020.6)	(1,882.5)
State appropriations		1,557.5	1,578.1
Gift contributions for operations		265.8	179.8
Net investment income		1,922.3	1,652.7
Interest expense on capital asset financings		(135.0)	(90.9)
Net operating results	$	1,590.0	1,437.2

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

Capital appropriations, capital gifts and grants, and additions to permanent endowments totaled $226.9 million for the year ended August 31, 2005, a decrease of $79.9 million over 2004 due primarily to an $80.2 million one-time gift received in 2004. The System continues its capital campaign efforts to address facilities expansion and renovation and the establishment of endowments for instruction, research and patient care activities. The institutions with large, multi-year fundraising campaigns still underway include: UT Southwestern Medical Center at Dallas ($500 million goal), UT Medical Branch at Galveston ($250 million goal), UT Health Science Center at Houston ($200 million goal) and UT Health Science Center at San Antonio ($200 million goal).

Transfers

Transfers to other State agencies include $113.7 million in Available University Funds distributed to Texas A&M University System for its annual one-third participation in the PUF endowment. Transfers from other State agencies include $38.4 million of State-appropriated fiscal relief funds transferred to the System's six health-related institutions. Additionally, $11.4 million was received from the State to promote advancements in research and academic excellence.

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 billion for the year ended August 31, 2005, primarily due to the increase in net investment income including the change in fair value of investments.

The Statement of Cash Flows

The statement of cash flows provides additional information about the System's financial results by reporting the major sources and uses of cash. The statement provides an assessment of the System's financial flexibility and liquidity to meet obligations as they come due and the need for external financing. The following table summarizes cash flows for the years ended August 31, 2005 and 2004:

($ in millions)	2005	2004
Cash flows:		
Cash received from operations	$ 6,601.2	5,928.5
Cash expended for operations	(7,994.6)	(7,386.5)
Net cash used in operating activities	(1,393.4)	(1,458.0)
Net cash provided by noncapital financing activities	1,718.1	1,829.0
Net cash used in capital and related financing activities	(746.3)	(813.9)
Net cash provided by investing activities	704.8	804.2
Net increase in cash and cash equivalents	283.2	361.3
Cash and cash equivalents, beginning of year	2,459.3	2,098.0
Cash and cash equivalents, end of year	$ 2,742.5	2,459.3

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 $283.2 million during 2005 due to positive flow of funds provided by noncapital financing and investing activities.

On November 10, 2005, the Board of Regents revised its investment policies for operating funds and other short and intermediate term funds of the System. As a result of these revisions, the System plans to reduce the amount of highly liquid investments it holds by investing a portion of these funds in a newly-created Intermediate Term Fund (ITF) expected to be established on February 1, 2006. It is expected that the ITF will employ a diversified asset allocation with a longer-term investment horizon. The goal of the revised investment policies is to enhance investment returns through more efficient management and investment of funds under control of the Board of Regents while maintaining sufficient system-wide liquidity.

Economic Outlook

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

The System faces the challenge of funding its healthcare and dental benefits costs for its 87,773 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.

Two natural disasters may potentially adversely impact the System's future financial statements. On August 29, 2005, Hurricane *Katrina* struck the Louisiana and Mississippi coastal borders. Approximately 900 students who were displaced by the hurricane were admitted to thirteen different UT institutions across the state at in-state rates, with many of the displaced students receiving a rebate if the tuition was paid previously in Louisiana or Mississippi. Texas has provided for the needs of more than 400,000 *Katrina* evacuees many of whom still reside in the state. It is anticipated that providing for the needs of *Katrina* evacuees will have an adverse effect on the Texas economy, especially when combined with the increase in crude oil and natural gas prices. The System is directly affected by the Texas economy as less State appropriations are available when the Texas economy is weakened.

East Texas cities, UT Medical Branch at Galveston, UT Health Science Center at Houston and UT M. D. Anderson Cancer Center are recovering from the impact of Hurricane *Rita*, which made landfall at Sabine Pass, Texas near the Louisiana border on September 24, 2005. The long-term economic impact of these hurricanes on Texas and on the System is unknown. See note 19 of the consolidated financial statements for more information on the economic impact of Hurricane *Rita*.

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED BALANCE SHEET
AUGUST 31, 2005

ASSETS

CURRENT ASSETS		
Cash and cash equivalents	$	2,136,909,390
Restricted cash and cash equivalents		605,300,842
Balance in State appropriations		52,092,009
Accounts receivable, net:		
Federal, net of allowances of $12,204,384		152,585,454
Other intergovernmental		32,636,248
Student, net of allowances of $6,132,323		196,927,087
Patient, net of allowances of $719,985,354		483,345,625
Interest and dividends		44,280,711
Contributions – current portion, net of allowances of $3,980,588		65,959,703
Investment trades		312,903,168
Other, net of allowances of $2,498,749		200,970,778
Due from other agencies		22,171,291
Inventories		71,739,915
Restricted loans and contracts - current portion, net of allowances of $4,955,020		36,417,536
Securities lending collateral		1,420,107,142
Other current assets		176,335,450
Total current assets		6,010,682,349
NONCURRENT ASSETS		
Restricted:		
Cash and cash equivalents		280,212
Investments		17,432,258,468
Loans and contracts, net of allowances of $11,629,666		90,726,810
Contributions receivable, net of allowances of $5,467,371		95,009,889
Investments		1,203,544,637
Other noncurrent assets/held in trust		25,152,030
Capital assets		11,319,852,822
Less accumulated depreciation		(4,265,127,634)
Net capital assets		7,054,725,188
Total noncurrent assets		25,901,697,234
TOTAL ASSETS	$	31,912,379,583

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable and accrued liabilities	$ 857,218,076
Investment trades payable	718,557,708
Incurred but not reported self-insurance claims – current portion	75,111,546
Securities lending obligations	1,420,107,142
Due to other agencies	12,887,702
Deferred revenue	740,637,546
Employees' compensable leave – current portion	186,174,856
Notes, loans and leases payable – current portion	544,954,806
Payable from restricted assets	191,343,178
Bonds payable – current portion	155,670,000
Assets held for others	16,197,009
Other current liabilities	127,734,722
Total current liabilities	5,046,594,291
NONCURRENT LIABILITIES	
Incurred but not reported self-insurance claims	85,844,849
Employees' compensable leave	150,884,181
Assets held for others	383,107,922
Liability to beneficiaries	18,692,215
Notes, loans and leases payable	28,012,396
Bonds payable	3,018,716,352
Due to other agencies	304,625,000
Other noncurrent liabilities	10,976,116
Total noncurrent liabilities	4,000,859,031
TOTAL LIABILITIES	9,047,453,322
NET ASSETS	
Invested in capital assets, net of related debt	3,610,694,832
Restricted:	
Nonexpendable	15,560,609,991
Expendable	1,446,651,039
Total Restricted	17,007,261,030
Unrestricted	2,246,970,399
TOTAL NET ASSETS	22,864,926,261
TOTAL LIABILITIES AND NET ASSETS	$ 31,912,379,583

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED AUGUST 31, 2005

OPERATING REVENUES	
Net student tuition and fees, net of discounts and allowances of $204,551,068	$ 786,460,554
Grants and contracts	1,974,794,057
Net sales and services of educational activities, net of discounts and allowances of $96,630	247,278,733
Net patient service revenues, net of discounts and allowances of $2,417,977,048	2,302,552,035
Net professional fees, net of discounts and allowances of $1,817,697,261	772,365,651
Net auxiliary enterprises, net of discounts and allowances of $7,570,201	287,052,106
Other	97,008,405
Total operating revenues	6,467,511,541
OPERATING EXPENSES	
Instruction	2,110,017,334
Research	1,317,751,307
Public service	216,724,397
Hospitals and clinics	2,371,851,180
Academic support	276,398,709
Student services	133,023,496
Institutional support	580,866,749
Operations and maintenance of plant	467,531,452
Scholarships and fellowships	208,767,543
Auxiliary enterprises	327,378,075
Depreciation and amortization	477,825,099
Total operating expenses	8,488,135,341
Operating loss	(2,020,623,800)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	1,557,538,258
Gift contributions for operations	265,764,609
Net investment income	3,256,615,800
Securities lending income, net of expenses of $32,281,078	3,915,386
Interest expense on capital asset financings	(135,004,773)
Loss on sale of capital assets	(11,005,079)
Other	2,429,500
Net nonoperating revenues	4,940,253,701
Income before other changes in net assets	2,919,629,901
OTHER CHANGES IN NET ASSETS	
Capital appropriations – Higher Education Assistance Fund (HEAF)	7,131,692
Capital gifts and grants	125,424,289
Additions to permanent endowments	94,389,392
Transfers to other State agencies	(145,625,747)
Legislative appropriations lapsed	(802,426)
Change in net assets	3,000,147,101
NET ASSETS	
Net assets, beginning of year	19,864,779,160
Net assets, end of year	$ 22,864,926,261

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED AUGUST 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES	
Proceeds from tuition and fees	$ 813,451,959
Proceeds from patients and customers	2,991,805,950
Proceeds from sponsored programs	2,056,362,687
Proceeds from auxiliaries	301,170,581
Proceeds from other revenues	344,357,100
Payments to suppliers	(2,558,409,877)
Payments to employees	(5,327,350,588)
Payments for loans provided	(93,904,473)
Proceeds from loan programs	94,069,255
Payments for other expenses – acquisition of hospitals	(11,878,139)
Payments for other expenses	(3,051,700)
Net cash used in operating activities	(1,393,377,245)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from State appropriations	1,570,814,238
Proceeds from gifts	201,457,591
Proceeds from private gifts for endowment and annuity life purposes	133,435,951
Proceeds from other nonoperating revenues	19,441,017
Receipts for transfers from other agencies	355,633,400
Payments for transfers to other agencies	(533,609,326)
Payments for other uses	(29,055,396)
Net cash provided by noncapital financing activities	1,718,117,475
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from issuance of capital debt	1,220,641,136
Proceeds from issuance of capital debt for acquisition of hospitals	52,000,000
Payments of other costs on debt issuance	(8,628,120)
Proceeds from capital appropriations, grants and gifts	138,664,059
Proceeds from sale of capital assets	3,319,438
Payments for additions to capital assets	(1,219,386,219)
Payments for acquisition of capital assets of hospitals	(67,152,642)
Payments of principal on capital related debt	(739,414,019)
Payments of interest on capital related debt	(126,421,409)
Net cash used in capital and related financing activities	(746,377,776)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales of investments	17,889,983,449
Proceeds from interest and investment income	730,633,425
Payments to acquire investments	(17,915,787,122)
Net cash provided by investing activities	704,829,752
NET INCREASE IN CASH	283,192,206
Cash and cash equivalents, beginning of year	2,459,298,238
Cash and Cash equivalents, end of year	$ 2,742,490,444

See accompanying notes to consolidated financial statements (Continued)

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
YEAR ENDED AUGUST 31, 2005

RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	$ (2,020,623,800)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization expense	477,825,099
Bad debt expense	187,253,969
Changes in assets and liabilities:	
Accounts receivable	(286,074,332)
Inventories	(27,133,826)
Loans and contracts	178,331
Other current and noncurrent assets	(5,071,225)
Accounts payable	171,622,087
Deferred revenue	89,729,778
Assets held for others	9,380,830
Employees' compensable leave	31,879,348
Other current and noncurrent liabilities	(22,343,504)
Total adjustments	627,246,555
Net cash used in operating activities	$ (1,393,377,245)
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION	
Net increase in fair value of investments	1,338,188,213
Donated capital assets	14,632,252
Capital assets acquired under capital lease purchases	2,208,320
Miscellaneous noncash transactions	6,028,985

See accompanying notes to consolidated financial statements (Concluded)

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 supports educational, clinical and scientific activities and programs in the area of infectious diseases in infants and children. The foundation's fiscal year end is August 31.

UT Southwestern Moncrief Cancer Center, 1450 Eighth Avenue, Fort Worth, Texas 76104, is governed by a four-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.

University Physicians Group, 6126 Wurzbach Road, San Antonio, Texas 78238, is governed by a twenty-four 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 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), 221 West 6th Street, Suite 1700, 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.

Law Publications, Inc., 727 East Dean Keeton, Austin, Texas 78705, is governed by a three-member board appointed by UT Austin. The Law Publications, Inc. fiscal year end is August 31.

Continuing Legal Education, Inc., 727 East Dean Keeton, Austin, Texas 78705, is governed by a three-member board appointed by UT Austin. The Continuing Legal Education, Inc. 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 Short/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

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).

Limited partnerships and other equity securities are valued based on the equity method which approximates fair value. Limited partnerships are valued using the partnership's capital account balance at the closest available reporting period (usually June 30), as communicated by the general partner, adjusted for contributions and withdrawals subsequent to the latest available reporting period. In the rare case when no ascertainable value is available, the limited partnership is valued at cost.

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

- Stocks traded on security exchanges are valued at closing market prices on the valuation date.

- Stocks 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.

Hedge funds and certain other investment funds are valued based on the equity method which approximates fair value.

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, 2005, 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, 2005. 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. Renovations to buildings, infrastructure and land improvements that increase the value by at least twenty-five percent or extend the useful life by at least twenty-five percent of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Outlays for construction in progress are capitalized as incurred. Interest expense related to construction is capitalized net of interest income earned on the resources reserved for this purpose (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 prepaid expenses, and lease receivables that will be realized beyond one year. Prepaid expenses include the costs of $14,234,685 associated with issuing long-term bonds payable that are deferred and amortized over the life of the related bonds using the straight-line method, which approximates the effective interest method. Accumulated amortization as of August 31 was $987,895 resulting in a net prepaid asset of $13,246,790.

DEFERRED REVENUE

Deferred revenue represents revenues collected but not earned as of August 31, such as tuition receipts from students received 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, and others. Included in assets held for others is $334,156,368 for the Physician's Referral Service Supplemental Retirement Plan/Retirement Benefit Plan at UT M. D. Anderson Cancer Center.

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 to 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 or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital programs (see Note 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. As defined by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* all operating revenues are considered program revenues since they are charges for services provided and program-specific operating grants and contributions. Operating expenses include salaries and wages, payroll related costs, materials and supplies, depreciation and scholarships and fellowships.

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

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

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 of $113,724,757, the System recorded a liability of $308,935,000 at August 31, 2005 for future amounts due to TAMUS from the PUF to cover principal and interest on outstanding PUF bonds issued by TAMUS. Additional details related to the operations of the PUF can be found in Note 4.

In accordance with the provisions set forth in the Texas Education Code, Subchapters C and D and appropriated through a budget execution order authorized by the Legislative Budget Board, the System received transfers of $11,404,072 for research and excellence funding from the Texas Comptroller of Public Accounts.

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 $5,993,184 to the Texas Higher Education Coordinating Board.

In accordance with the provisions set forth in House Bill No. 1, Article III, Special Provisions Relating Only to State Agencies and Higher Education, Section 56, State fiscal relief funds of $38,445,702 were allocated and transferred to the health-related institutions from the Texas Comptroller of Public Accounts.

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 $1,137,579,355 for 2005.

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 $185,830,375 in 2005.

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 prudent and conservative 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, 2005, the carrying amount of deposits was $24,952,000 as presented below:

Cash and cash equivalents per statement of cash flows	$	2,742,490,444
Less: Certificates of deposits		3,516,221
Cash in State Treasury		271,256,144
Cash equivalent investments in money market funds		2,438,958,419
Other		3,807,660
Deposits of cash in bank	$	24,952,000

Deficit demand account balances of $105,974,783 are reported as payables at year end. As of August 31, 2005, the total bank balance was $60,182,190.

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, 2005, 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 are as follows:

Uninsured and uncollateralized	Uninsured and collateralized with securities held by the pledging financial institution	Uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name
$1,256,961	-	-

INVESTMENT RISKS

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

As of August 31, 2005, the investments including securities lending collateral were as follows:

Type of Security		**Fair Value**
U.S. Government:		
U.S. Treasury Securities	$	1,320,174,876
U.S. Treasury Strips		11,697,173
U.S. Treasury TIPS		823,204,846
U.S. Government Agency Obligations		959,825,425
Corporate Obligations		268,100,913
Corporate Asset and Mortgage Backed Securities		84,276,148
Equity		2,284,526,284
International Obligations (Government and Corporate)		273,167,002
International Equity		795,036,947
Fixed Income Money Market and Bond Mutual Fund		2,197,823,298
Other Commingled Funds		2,833,178,331
Commercial Paper		82,153,644
PUF Lands		1,515,578,395
Other Real Estate		142,051,589
Hedge Funds		3,434,279,360
Limited Partnerships		1,334,628,874
Miscellaneous (guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)		276,100,000
Total securities		18,635,803,105
Securities Lending Collateral Investment Pool		1,420,107,142
TOTAL	$	20,055,910,247

(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 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 an equivalent rating by a NRSRO 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. The following table presents each applicable investment type grouped by rating as of August 31, 2005:

Investment Type		MOODYS Fair Value	MOODYS Rating	STANDARD & POORS Fair Value	STANDARD & POORS Rating	FITCH Fair Value	FITCH Rating
U.S. Government Agency Obligations	$	936,141,667	Aaa	917,393,133	AAA	141,787,960	AAA
		100,688	Aa	100,688	AA	797,501,442	NR
		3,047,045	Unrated	10,459,800	A	-	-
		-	-	54,245	NR	-	-
Corporate Obligations		67,701,223	Aaa	50,980,235	AAA	4,793,240	AAA
		167,549,540	Aa	161,736,620	AA	27,582,518	AA
		104,533,252	A	121,668,593	A	77,392,107	A
		84,547,293	Baa	67,850,306	BBB	69,335,864	BBB
		19,531,489	Ba	21,690,030	BB	15,725,607	BB
		5,907,410	B	3,732,909	B	6,154,546	B
		867,113	Caa	797,413	CCC	258,687,407	NR
		786,126	Ca	28,780,151	NR	-	-
		6,997,814	Unrated	-	-	-	-
Corporate Asset and Mortgage Backed Securities		40,216,995	Aaa	44,036,466	AAA	50,834,012	NR
		2,132,250	Aa	2,132,250	A	-	-
		47,734	A	4,665,295	NR	-	-
		8,437,033	Unrated	-	-	-	-
International Obligations (Government and Corporate)		205,039,175	Aaa	204,558,484	AAA	203,281,808	AAA
		17,141,495	Aa	30,820,059	AA	25,580,257	AA
		4,623,563	A	6,605,678	A	5,050,110	A
		14,288,567	Baa	23,291,842	BBB	22,432,177	BBB
		9,531,525	Ba	1,180,000	BB	1,180,000	BB
		2,568,388	B	6,710,938	NR	15,642,651	NR
		19,974,289	Unrated	-	-	-	-
Repurchase Agreement		669,216,958	Unrated	669,216,958	NR	669,216,958	NR
Fixed Income Money Market and Bond Mutual Fund		16,046,658	Aaa	2,046,660,701	AAA	2,046,660,701	NR
		2,030,614,043	Unrated	-	-	-	-
Miscellaneous		13,754,756	Aaa	13,245,201	AAA	10,684,261	AAA
		2,426,524	Aa	2,639,782	AA	2,943,109	AA
		213,258	A	3,450,000	A	213,258	A
		10,916,323	Baa	10,815,635	BBB	10,808,305	BBB
		41,413,053	Unrated	38,573,302	NR	60,435,752	NR
Commercial Paper		676,165,618	Prime-1	633,382,228	A-1	1,185,000	F-1
		-	-	55,249,923	NR	657,369,815	NR
	$	5,182,478,865		5,182,478,865		5,182,478,865	

(B) *Concentrations of Credit Risk* – The System's investment policy statements contain the limitation that no more than 5% 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, 2005, the System does not hold any direct investments in any one issuer that represents five percent or more of total 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, 2005, the System does 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, 2005:

Investment Type	Fair Value	Modified Duration
Investments in Securities:		
U.S. Government Guaranteed:		
U.S. Treasury Bonds and Notes	$ 1,217,701,377	3.12
U.S. Treasury Strips	11,697,173	6.07
U.S. Treasury Bills	20,644,600	0.14
U.S. Treasury Inflation Protected	822,059,343	8.04
U.S. Agency Asset Backed	20,536,024	5.03
Total U.S. Government Guaranteed	2,092,638,517	5.06
U.S. Government Non-Guaranteed:		
U.S. Agency	310,385,252	3.01
U.S. Agency Asset Backed	628,904,149	3.72
Total U.S. Government Non-Guaranteed	939,289,401	3.48
Total U.S. Government	3,031,927,918	4.57
Corporate Obligations:		
Domestic	352,377,059	4.95
Commercial Paper	82,153,644	0.22
Foreign	31,302,407	5.58
Total Corporate Obligations	465,833,110	4.16
Foreign Government and Provincial Obligations	241,864,594	7.27
Other Debt Securities	31,281,515	10.24
Total Debt Securities	$ 3,770,907,137	4.73
Other Investment Funds - Debt	52,898,924	5.50
Fixed Income Money Market Funds	2,030,614,001	0.08
Other	30,686,537	-
Total	$ 5,885,106,599	3.11
Deposit with Brokers for Derivative Contracts:		
U.S. Government Guaranteed:		
U.S. Treasury Bonds and Notes	$ 313,655	0.41
U.S. Treasury Bills	81,515,258	0.21
U.S. Treasury Inflation Protected	1,145,504	1.33
Total U.S. Government Guaranteed	82,974,417	0.23
Cash	11,618,653	-
Total Deposit with Brokers for Derivative Contracts	$ 94,593,070	0.20

(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. As of August 31, 2005, the System's investments include 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, 2005, these securities amounted to $164,281,892.

- 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, 2005, these securities amounted to $252,654,331.

- 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, 2005 these securities amounted to $32,282,621.

- 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, 2005, these securities amounted to $12,907,985.

(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% of the System's total fixed income exposure. The table below summarizes the System's non-U.S. dollar investments by asset type as of August 31, 2005.

Investment Type	Fair Value	Investment Type	Fair Value
Foreign Common Stock:		Purchased Options:	
Australian Dollar	$ 29,810,455	Canadian Dollar	$ 1,934,175
Canadian Dollar	106,652,066	Euro	76,885
Danish Krone	6,181,200	Total Purchased Options	2,011,060
Euro	184,925,515	Limited Partnerships:	
Hong Kong Dollar	11,389,477	Euro	126,464,819
Japanese Yen	302,038,040	UK Pound	14,950,672
Norwegian Krone	27,983,077	Total Limited Partnerships	141,415,491
Singapore Dollar	16,947,800	Cash and Cash Equivalents:	
South Korean Won	4,635,613	Australian Dollar	187,051
Swedish Krona	12,175,462	Canadian Dollar	9,463,523
Swiss Franc	24,125,038	Danish Krone	48,329
UK Pound	61,957,117	Euro	3,391,764
Total Foreign Common Stock	788,820,860	UK Pound	(13,729)
Foreign Government and Provincial Obligations:		Hong Kong Dollar	28,251
Australian Dollar	1,335,092	Japanese Yen	33,594,682
Canadian Dollar	1,078,839	Mexican New Peso	177
Danish Krone	3,021,168	New Zealand Dollar	8,230
Euro	188,040,046	Norwegian Krone	18,477
New Zealand Dollar	810,244	Polish Zloty	253,353
Polish Zloty	4,402,400	Swiss Franc	163,847
UK Pound	14,806,311	Swedish Krona	42,758
Total Foreign Government and Provincial Obligations	213,494,100	Singapore Dollar	119,254
Corporate Obligations:		Taiwan Dollar	996,584
Euro	22,854,267	Total Cash and Cash Equivalents	48,302,551
UK Pound	4,036,400		
Total Corporate Obligations	26,890,667	Total	$ 1,220,934,729

REPURCHASE AGREEMENTS

The System, by statute, is authorized to enter into repurchase agreements. A repurchase agreement is when a holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the buyer for this. During the year ended August 31, 2005, the System participated in Repurchase Agreements. The System earned income of $4,886. At August 31, 2005, there were no Repurchase Agreements outstanding.

SECURITIES LENDING

In accordance with the prudent investor investment standards, the System participates in a securities lending program. The System began the program, under a contract with the System's lending agent, on September 1, 1995. The lending agent is authorized to lend any securities held by the System's custodian except those securities which the policy guidelines prohibits lending. There was a total of $1,425,933,126 of securities out on loan to brokers/dealers at August 31, 2005. This consisted of $1,306,287,139 domestic and $119,645,987 international loans. The value of collateral held for these securities consisted of $1,420,107,142 cash and $33,560,882 noncash collateral. 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, 2005, 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, 2005, is shown in the following table:

Description		Fair Value	Rating	Weighted Average
Repurchase Agreements	$	669,216,958	No Rating	1
Commercial Paper		575,190,511	P	36
Floating Rate Notes		12,999,360	AAA	
Floating Rate Notes		145,467,529	AA	
Total Floating Rate Notes		158,466,889		37
Certificates of Deposit		21,388,733	P	50
Asset Backed Securities		810,653	AAA	168
Other Receivables/Payables		(4,966,602)	Not Rated	-
Total Collateral Pool Investment	$	1,420,107,142		20

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, 2005, the System was collateralized 106 percent for securities on loan which were collateralized by securities.

The collateral received will 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, 2005, the System was collateralized 105 percent for international loans.

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

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

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

DERIVATIVE 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 at August 31, 2005, which was comprised exclusively of the lower risk investment class, was 0.9 percent of total investments with a fair value of $164,281,892.

(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 $151,298,329 for the year ended August 31, 2005. 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, 2005.

	Notional Value at August 31, 2005		Carrying and Fair Value at August 31, 2005	
	Long	Short	Assets	Liabilities
Domestic Equity Futures	$ 1,402,268,080	905,899,435	14,560,525	17,751,480
International Equity Futures	510,885,981	62,495,407	2,615,247	92,773
Commodity Futures	511,438,200	-	-	3,195,800
Domestic Fixed Income Futures	135,378,719	35,287,875	480,108	136,202
International Fixed Income Futures	327,694,664	-	715,502	-
Totals	$ 2,887,665,644	1,003,682,717	18,371,382	21,176,255

(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 table below summarizes by currency the contractual amounts of the System's foreign exchange contracts at August 31, 2005. Foreign currency amounts are translated at exchange rates as of August 31, 2005. The "Net Buy" amounts represent the U. S. dollar equivalent of net commitments to purchase foreign currencies and the "Net Sell" amounts represent the U. S. dollar equivalent of net commitments to sell foreign currencies.

Currency		Net Buy	Net Sell	Unrealized Gains on Foreign Exchange Contracts	Unrealized Losses on Foreign Exchange Contracts
Australian Dollar	$	32,248,100	-	210,938	294,971
Canadian Dollar		-	67,973,679	238,939	956,034
Chilean Peso		322,782	-	5,799	-
Chinese Yuan Renminibi		36,525,639	-	579	554,212
Czech Koruna		3,415,364	-	72,108	8,930
Danish Krone		-	1,787,247	6,211	-
Euro Currency		-	95,117,262	5,586,988	1,668,897
Hong Kong Dollar		7,154,726	-	409	1,710
Hungarian Forint		1,625,534	-	73,726	28,166
Indonesian Rupian		692,939	-	49,939	-
Japanese Yen		207,929,539	-	1,214,441	4,635,729
Mexican New Peso		12,950,854	-	289,211	44,314
New Zealand Dollar		-	3,043,946	48,829	44,650
New Taiwan Dollar		32,585,397	-	47,004	1,118,593
Norwegian Krone		-	18,355,749	73,192	105,086
Polish Zloty		509,025	-	562,469	54,334
New Russian Rubel		348,325	-	200	2,174
Singapore Dollar		5,150,417	-	145,742	137,297
Slovak Koruna		726,296	-	86	8,707
South African Comm Rand		8,523,022	-	276,151	17,822
South Korean Won		16,642,283	-	132,659	511,922
Swedish Krona		7,397,589	-	263,418	291,901
Swiss Franc		10,274,812	-	41,294	578,501
UK Pound		266,553,996	-	7,153,807	2,067,942
TOTAL	$	651,576,639	186,277,883	16,494,139	13,131,892

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, 2005 were as follows:

	Number of Contracts		Premiums Received
Call Options Outstanding at August 31, 2004	75	$	40,735
Options Written	2,269,036		8,713,070
Options Expired	(2,811)		(994,251)
Options Exercised	(75)		(40,735)
Call Options Outstanding at August 31, 2005	2,266,225	$	7,718,819

	Number of Contracts		Premiums Received
Put Options Outstanding at August 31, 2004	-	$	-
Options Written	2,148,969		2,269,780
Options Expired	(255,901)		(1,624,556)
Options Exercised	(390)		(111,930)
Put Options Outstanding at August 31, 2005	1,892,678	$	533,294

E) *Swaps* – Swaps are used to adjust interest rate and yield curve exposures. During the year, the System entered into interest rate, 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, 2005:

				Fair Value at August 31, 2005	
Currency	Coupon	Notional Value	Maturity Date	Assets	Liabilities
Interest Rate Swaps:					
Australian Dollar					
	6.000%	$ 29,000,000	6/15/2010	$ 490,963	$ -
	6.000%	23,600,000	6/15/2010	399,542	-
	6.000%	16,600,000	6/15/2015	-	451,554
	6.000%	13,500,000	6/15/2015	-	368,646
UK Pound					
	5.000%	26,900,000	9/15/2010	1,269,513	-
	5.000%	12,000,000	9/15/2010	566,325	-
	5.000%	9,000,000	9/15/2010	424,744	-
	5.000%	4,400,000	9/15/2010	207,652	-
	5.000%	2,000,000	6/18/2034	204,592	-
	5.000%	2,500,000	9/15/2010	117,984	-
	5.000%	5,000,000	6/15/2008	103,912	-
	5.000%	600,000	9/15/2010	28,316	-
	5.000%	200,000	9/15/2010	9,439	-
	5.000%	2,100,000	6/18/2034	-	216,462
	5.000%	2,500,000	9/15/2015	-	194,315
	5.000%	1,200,000	6/18/2034	-	123,692
	5.000%	500,000	9/15/2015	-	38,863
	5.000%	300,000	9/15/2015	-	23,318
Canadian Dollar					
	4.500%	900,000	6/15/2025	-	564
	5.500%	4,900,000	12/16/2014	-	159,981
	5.500%	2,200,000	12/16/2010	-	71,828
	5.500%	2,100,000	12/16/2014	-	68,777
	5.500%	2,000,000	12/16/2014	-	65,298
	6.000%	700,000	12/16/2019	15,379	-
Euro					
	4.000%	4,800,000	6/17/2010	350,898	-
	4.000%	2,400,000	6/17/2010	175,421	-
	4.000%	54,180,000	6/16/2014	-	4,695,829
	4.000%	11,760,000	6/17/2010	-	859,563
	4.000%	5,100,000	12/15/2014	-	405,907
	4.000%	1,400,000	12/15/2014	-	111,425
	4.500%	7,400,000	6/17/2015	-	1,010,965
	4.500%	5,600,000	6/17/2015	-	765,054
	5.000%	3,400,000	6/16/2014	616,443	-
	5.000%	400,000	6/17/2015	75,370	-
	6.000%	3,600,000	3/15/2032	594,854	-
Japanese Yen					
	0.800%	1,120,000,000	3/30/2012	68,953	-
	1.000%	1,200,000,000	3/20/2009	76,428	-
	2.000%	1,415,000,000	12/20/2013	-	839,438
	2.000%	800,000,000	6/15/2012	-	504,002
	2.000%	110,000,000	12/20/2013	-	65,257

(Continued)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2005 Assets	Liabilities
U. S. Dollar					
	3.000%	131,600,000	6/15/2006	-	1,066,728
	3.000%	5,000,000	6/15/2006	-	40,529
	4.000%	37,200,000	12/15/2010	486,535	-
	4.000%	32,300,000	12/15/2010	459,959	-
	4.000%	57,200,000	12/15/2007	277,166	-
	4.000%	11,000,000	12/15/2010	156,642	-
	4.000%	5,700,000	12/15/2010	81,169	-
	4.000%	5,000,000	12/15/2010	71,201	-
	4.000%	2,500,000	12/15/2007	12,114	-
	4.000%	24,600,000	6/21/2007	-	84,553
	4.000%	500,000	12/15/2007	-	2,423
	4.000%	300,000	12/15/2007	-	1,454
	5.000%	70,000,000	12/15/2015	-	2,889,543
	5.000%	48,800,000	12/15/2012	-	1,763,660
	5.000%	39,500,000	12/15/2015	-	1,630,528
	5.000%	8,200,000	12/15/2015	-	338,489
	5.000%	5,400,000	12/15/2015	-	222,908
	5.000%	1,100,000	12/15/2012	-	39,755
	5.000%	200,000	12/15/2025	-	8,328
	5.500%	3,800,000	12/16/2014	126,215	-
	5.500%	2,300,000	12/16/2014	76,393	-
	5.500%	2,300,000	12/16/2014	76,393	-
	5.500%	1,600,000	12/16/2014	53,143	-
				7,673,658	19,129,636
Credit Default:					
U. S. Dollar					
	2.450%	500,000	9/20/07	-	1,210
	3.000%	800,000	6/20/2006	9,837	-
	3.200%	700,000	6/20/2006	9,720	-
	3.500%	2,000,000	6/20/2006	32,537	-
	4.300%	1,000,000	6/20/2010	9,397	-
	4.550%	700,000	6/20/2007	29,054	-
	4.600%	600,000	6/20/2007	25,417	-
				115,962	1,210
Commodity Swap:					
U. S. Dollar					
	TBill + 36.5 Basis Points	121,618,981	9/23/2005	4,597,198	-
	TBill + 45 Basis Points	129,600,000	9/23/2005	4,898,880	-
				9,496,078	-
Total				$ 17,285,698	$ 19,130,846

(F) *Other* – The System has investments in index funds, included in the investment category of corporate stocks and mutual funds, which are authorized to use derivatives. The trustee of the index funds may invest a portion of the funds in stock index futures contracts for the purpose of acting as a temporary substitute for investment in common stocks. The fair value of these index funds as of August 31, 2005 was $1,409,737,173, all of which had investments in derivative instruments.

The System also has investments in commingled and other funds, included in the investment category of mutual funds and other investments, which are authorized to use derivatives. Additionally, the System invests in hedge funds which are broadly defined to include nontraditional investment strategies whereby the majority of the underlying securities are traded on public exchanges or are otherwise readily marketable. Equity hedge fund investments include U.S. and international long/short equity strategies. These strategies attempt to exploit profits from stock selection skills by taking long and short positions in various equity securities and can be directional biased to the equity market. Equity hedge fund investments are made through private placement agreements. Absolute return hedge fund investments include arbitrage and event oriented strategies. Arbitrage strategies attempt to exploit pricing discrepancies between closely related securities, utilizing a variety of different tactics primarily within equity, fixed income and convertible securities markets. Event oriented strategies attempt to exploit discreet events or anticipated events such as bankruptcies, mergers, takeovers, spinoffs and recapitalizations in equity and debt securities. Absolute return hedge funds investments are also made through private placement agreements. Market risk is generally hedged. The fair value of these various investments as of August 31, 2005, was $4,420,976,818.

4. Endowments

Restricted investments include $16,641,819,213 of endowment funds. The net assets related to endowment funds include $15,747,756,768 of restricted and $166,846,257 of unrestricted funds functioning as endowments balances.

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

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

ENDOWMENTS AND SIMILAR FUNDS – STATE

These endowments are comprised of: the Permanent University Fund (PUF) and the Permanent Health Fund for Higher Education (PHF). The PUF was established 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 prior 36 months including August 31, subject to a maximum distribution of 5.5 percent of this fund's average fair value and a minimum distribution of 3.5 percent of this fund's average fair value.

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 mutual fund 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.

ENDOWMENT AND SIMILAR FUNDS - OTHER THAN STATE

Funds subject to restrictions of endowment and trust instruments, requiring that principal be maintained and that only the income be utilized. Funds may include Endowments, Term Endowments and Funds Functioning as Endowments. Funds Functioning as Endowments consist of amounts that have been internally dedicated by the System for long-term investment purposes.

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, 2005, is presented below.

		Balance 09/01/04	Adjustments(1)	Reclassifications Completed CIP
Nondepreciable Assets:				
Land and Land Improvements	$	231,521,776	-	627,634
Construction in Progress (CIP)		1,519,731,354	(5,205,540)	(1,330,730,584)
Other Capital Assets		190,075,847	-	-
Total Nondepreciable Assets		1,941,328,977	(5,205,540)	(1,330,102,950)
Depreciable Assets:				
Buildings and Building Improvements		5,441,065,979	(21,733)	1,203,777,398
Infrastructure		153,770,730	-	5,753,440
Facilities and Other Improvements		317,753,832	-	19,642,138
Furniture and Equipment		1,759,841,270	(98,666)	98,830,397
Vehicles, Boats and Aircraft		43,352,771	-	40,308
Other Capital Assets (including Library Books)		471,535,896	(13,257)	2,059,269
Total Depreciable Assets at Historical Cost		8,187,320,478	(133,656)	1,330,102,950
Less Accumulated Depreciation for:				
Buildings and Building Improvements		(2,241,263,202)	-	-
Infrastructure		(79,685,580)	-	-
Facilities and Other Improvements		(125,817,477)	-	-
Furniture and Equipment		(1,087,700,221)	-	-
Vehicles, Boats and Aircraft		(32,899,084)	-	-
Other Capital Assets (including Library Books)		(310,312,979)	-	-
Total Accumulated Depreciation		(3,877,678,543)	-	-
Depreciable Assets, net		4,309,641,935	(133,656)	1,330,102,950
Capital Assets, net	$	6,250,970,912	(5,339,196)	-

(1) Adjustments include write-offs of amounts previously capitalized.

Reclassifications Interagency Transfers - In	Reclassifications Interagency Transfers - Out	Additions	Deletions	Balance 08/31/05
-	-	18,914,320	(778,454)	250,285,276
-	-	844,276,742	(3,750)	1,028,068,222
-	-	13,687,777	(6,668,796)	197,094,828
-	-	876,878,839	(7,451,000)	1,475,448,326
-	-	169,122,926	(17,560,270)	6,796,384,300
-	-	2,435,906	-	161,960,076
-	-	9,226,488	-	346,622,458
868,317	(1,168,721)	230,309,058	(82,769,393)	2,005,812,262
18,661	-	4,470,279	(2,384,424)	45,497,595
-	-	19,450,349	(4,904,452)	488,127,805
886,978	(1,168,721)	435,015,006	(107,618,539)	9,844,404,496
-	-	(221,559,151)	13,528,816	(2,449,293,537)
-	-	(4,868,891)	-	(84,554,471)
-	-	(12,096,323)	-	(137,913,800)
(489,433)	824,381	(207,866,882)	69,040,796	(1,226,191,359)
-	-	(3,392,997)	2,300,482	(33,991,599)
-	-	(27,052,960)	4,183,071	(333,182,868)
(489,433)	824,381	(476,837,204)	89,053,165	(4,265,127,634)
397,545	(344,340)	(41,822,198)	(18,565,374)	5,579,276,862
397,545	(344,340)	835,056,641	(26,016,374)	7,054,725,188

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, dental, vision, life insurance, long term disability, short term disability, long term care and flexible spending account coverage to all benefits-eligible employees and retirees of the System and its fifteen institutions. These insurance benefits are provided through both self-funded and fully-insured arrangements. A portion of an individual's group health insurance premium is paid by the State as specified in the General Appropriations Act. The System's Office of Employee 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.

UNEMPLOYMENT COMPENSATION INSURANCE
The current 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 appropriated funds. The System reimburses the TWC 100% of the unemployment benefits paid to former employees that were paid from local funds.

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

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

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 limitation coverage for institutional liability is set by law at $250,000 per occurrence.

COMPREHENSIVE PROPERTY PROTECTION PROGRAM
The property protection plan consists of two programs. The first provides coverage for physical damage resulting from Named Windstorms and catastrophic flood losses up to $50 million. Insurance policies providing relatively low limits ($1-2 million per building and contents) are purchased through the Texas Windstorm Insurance Association and the National Flood Insurance Program on several facilities in the Tier 1 wind zone and 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.

The second program covers fire and other perils and includes commercial reinsurance for claims exceeding a per occurrence deductible of $7.5 million or an annual aggregate deductible of $25 million. The policy covers $15.9 billion in building and content values and $3.8 billion in business income. The maximum annual reimbursement under this policy is $1 billion per occurrence.

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 Self-insurance Plan provides coverage for claims arising from actual or alleged wrongful acts performed by the plan beneficiaries. The plan also provides coverage for employment practices liability (EPL) claims, such as wrongful termination, failure to promote and wrongful discipline.

Coverage applies to individual board members, employees, faculty, etc., as well as to the System itself. The limit of liability is a $10 million annual aggregate (Coverages A, B and C combined), except for $5 million annual aggregate sublimit for Coverage C. There is no deductible for Coverage A (individuals), a $100,000 deductible per director or officer with a $300,000 maximum deductible per loss for Coverage B. The deductible for Coverage C is $300,000. In 2003, the 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 as well.

ROLLING OWNER CONTROLLED INSURANCE PROGRAM

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

INCURRED BUT NOT REPORTED 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. 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.

Changes in the System's claims liabilities for the various self-insurance plans during fiscal years 2005 and 2004 were as follows:

Fiscal Year 2005 Plan		IBNR Liability 09/01/04	Current Year Claims and Changes in Estimates	Claims Payments	IBNR Liability 08/31/05
Employee Health and Dental	$	36,500,000	357,318,024	(351,618,024)	42,200,000
Workers' Compensation		19,356,000	3,098,106	(5,317,106)	17,137,000
Medical Professional Liability		96,307,978	13,386,662	(18,099,062)	91,595,578
Property Protection		1,703,100	351,377	(2,025,783)	28,694
Directors and Officers/EPL		3,004,947	(136,261)	-	2,868,686
ROCIP I, II, III and IV		7,364,861	2,962,354	(3,200,778)	7,126,437
TOTAL	$	164,236,886	376,980,262	(380,260,753)	160,956,395

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

7. Post-Retirement 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. Substantially all of the employees may become eligible for the health and life insurance benefits if they reach normal retirement age while working for the State. Currently, there are 14,444 system-wide retirees who are eligible for these benefits. Similar benefits for active employees are provided through self-funded plan and fully-insured plans. Depending upon the status of the employee at the time of retirement, the State or the System recognizes the cost of providing these benefits. The cost of retiree post-employment benefits is recognized when paid. For the self-funded plan, the contribution by the State or the System per full-time employee/retiree was $301.83 per month for “employee/retiree only,” $459.78 per month for “employee/retiree and spouse,” $402.89 per month for “employee/retiree and children” and $561.78 per month for “employee/retiree and family.” This contribution paid all of the “employee/retiree only” premiums and a portion of the premiums for those employees/retirees selecting dependent coverage. The employee/retiree was required to pay a portion of the cost of dependent coverage. For the fiscal year ended August 31, 2005, the cost of providing those benefits for the retirees was $30,799,837 for the State and $26,577,342 for the System. See Note 25 for information on GASB Statement No. 45, which will impact the System’s accounting for these postemployment benefits in the future.

8. Summary of Long-Term Liabilities

Long-term liability activity for the year ended August 31, 2005, is summarized as follows:

	Balance 09/01/04	Additions	Reductions	Balance 08/31/05	Amounts due within one year
Bonds Payable:					
Permanent University Fund:					
Refunding Bonds Series 1996	$ 139,095,000	-	20,240,000	118,855,000	21,460,000
Bonds Series 1997	22,590,000	-	5,220,000	17,370,000	5,495,000
Refunding Bonds Series 2002A	82,480,000	-	12,100,000	70,380,000	12,730,000
Bonds Series 2002B	188,215,000	-	102,670,000	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	-
Revenue Financing System:					
Bonds Series 1995A	11,815,000	-	2,830,000	8,985,000	3,000,000
Bonds Series 1996A	31,035,000	-	3,180,000	27,855,000	3,370,000
Bonds Series 1996B	25,895,000	-	12,855,000	13,040,000	13,040,000
Bonds Series 1998A	4,990,000	-	440,000	4,550,000	460,000
Bonds Series 1998B	70,695,000	-	4,590,000	66,105,000	4,835,000
Bonds Series 1998C	11,000,000	-	1,795,000	9,205,000	1,870,000
Bonds Series 1998D	16,575,000	-	3,890,000	12,685,000	4,045,000
Bonds Series 1999A	20,130,000	-	3,635,000	16,495,000	3,815,000
Bonds Series 1999B	35,725,000	-	6,450,000	29,275,000	6,775,000
Refunding Bonds Series 2001A	45,565,000	-	8,900,000	36,665,000	36,665,000
Bonds Series 2001B	88,190,000	-	6,020,000	82,170,000	6,250,000
Bonds Series 2001C	41,405,000	-	2,795,000	38,610,000	2,910,000
Refunding Bonds Series 2002A	53,500,000	-	320,000	53,180,000	325,000
Refunding Bonds Series 2002B	107,030,000	-	615,000	106,415,000	630,000
Bonds Series 2003A	108,650,000	-	3,560,000	105,090,000	3,740,000
Bonds Series 2003B	471,515,000	-	10,025,000	461,490,000	10,525,000
Refunding Bonds Series 2004A	137,415,000	-	250,000	137,165,000	255,000
Refunding Bonds Series 2004B	300,330,000	-	-	300,330,000	-
Bonds Series 2004C	-	218,610,000	1,760,000	216,850,000	6,725,000
Bonds Series 2004D	-	352,170,000	-	352,170,000	6,750,000
Constitutional Appropriation:					
Bonds Series 1995	3,140,000	-	3,140,000	-	-
Subtotal Bonds Payable – Par Value	2,473,420,000	795,750,000	217,280,000	3,051,890,000	155,670,000
Unamortized Net Premiums	134,871,344	52,328,994	15,265,206	171,935,132	-
Unamortized Net (Losses)	(52,674,685)	(1,372,206)	(4,608,111)	(49,438,780)	-
Total Bonds Payable	2,555,616,659	846,706,788	227,937,095	3,174,386,352	155,670,000

Notes and Loans Payable:					
Permanent University Fund					
Flexible Rate Notes, Series A	-	125,000,000	125,000,000	-	-
Revenue Financing System					
Commercial Paper Notes, Series A	634,966,000	287,118,000	391,362,000	530,722,000	530,722,000
Taxable Commercial Paper Notes, Series B	-	10,342,000	-	10,342,000	10,342,000
Other Notes and Loans	31,987,816	1,878,282	4,916,811	28,949,287	2,910,580
Total Notes and Loans Payable	666,953,816	424,338,282	521,278,811	570,013,287	543,974,580
Leases Payable:					
Lease Obligations	1,376,943	2,432,180	855,208	2,953,915	980,226
Total Notes, Loans and Leases Payable	668,330,759	426,770,462	522,134,019	572,967,202	544,954,806
Employee Compensable Leave	305,179,689	112,313,587	80,434,239	337,059,037	186,174,856
Total Bonds, Notes, Loans, Leases, and Compensable Leave Payables	$ 3,529,127,107	1,385,790,837	830,505,353	4,084,412,591	886,799,662

The Consolidated Balance Sheet at August 31, 2005, does not include $902,013,000 of revenue bonds payable, which were fully defeased in prior fiscal years. Direct obligations of the United States of America, including obligations unconditionally guaranteed by the United States of America, in amounts, maturities, and bearing interest at rates sufficient to provide funds to pay in full principal, redemption premium, if any, and interest to maturity or redemption on the defeased bonds, are being held by escrow agents.

PROJECTED BOND DEBT SERVICE REQUIREMENTS

Bond obligations are due in annual installments varying from $305,815,222 in fiscal year 2006 to $51,702,000 in fiscal year 2035. The requirements in fiscal year 2006 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, 2005, of 2.38 percent on a principal amount of $36,665,000 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 2035. 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
2006	$ 155,670,000	150,145,222	305,815,222
2007	125,020,000	144,180,429	269,200,429
2008	130,540,000	138,136,220	268,676,220
2009	136,040,000	132,023,228	268,063,228
2010	142,780,000	125,320,266	268,100,266
2011 – 2015	626,510,000	529,209,922	1,155,719,922
2016 – 2020	621,275,000	361,646,482	982,921,482
2021 – 2025	459,535,000	219,366,325	678,901,325
2026 - 2030	320,800,000	127,895,850	448,695,850
2031 – 2035	333,720,000	45,431,450	379,151,450
Total Requirements	$ 3,051,890,000	1,973,355,394	5,025,245,394

Total interest expense for the year ended August 31, 2005 was $156,346,866. Interest expense of $16,465,443 associated with financing projects during the construction phase was capitalized during the year ended August 31, 2005. Interest expense was also reduced $4,876,650 million for the amortization of premiums and deferred losses on refundings. The remaining $135,004,773 in 2005 was reported as interest expense in the statement of revenues, expenses and changes in net assets.

Notes and loans payable obligations are due in annual installments through 2020. General information related to notes and loans payable at August 31, 2005, which in substance are not bonds, is summarized as follows:

Fiscal Year		Principal	Interest	Total
2006	$	543,974,580	4,298,656	548,273,236
2007		2,704,929	1,517,983	4,222,912
2008		2,633,020	1,412,913	4,045,933
2009		1,934,504	1,276,453	3,210,957
2010		1,425,000	1,159,056	2,584,056
2011 – 2015		4,215,091	4,574,423	8,789,514
2016 – 2020		13,126,163	675,880	13,802,043
Total Requirements	$	570,013,287	14,915,364	584,928,651

COMPENSATED ABSENCES

Substantially all full-time System employees earn annual leave from eight to twenty-one hours per month depending upon the respective employees' 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. Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is off due to illness or to the estate of an employee in the event of his/her death. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The System's policy is to recognize the cost of sick leave when paid, and the liability is not shown in the 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.

9. Bonded Indebtedness

At August 31, 2005, the System had outstanding bonds payable of $3,051,890,000. All bonds issued by the System are defined as revenue bonds. Segment information requirements are not applicable, due to the bond indentures' lack of specifically identifiable activities and external party imposed separate accounting requirements. General information related to bonds outstanding is summarized below:

- Permanent University Fund Refunding Bonds, Series 1996

  Purpose: To refund $246,185,000 principal amount of Permanent University Fund Refunding Bonds, Series 1988, 1991 and 1992B, maturing on July 1 in the years 1999 - 2013.
  Issue Date: March 7, 1996
  Authorized: $280,000,000 Issued: $263,945,000
  Interest Rates: 4.00–6.00% Maturity Dates: 1996 – 2013
  Source of Revenue for Debt Service: Available University Fund

- Permanent University Fund Bonds, Series 1997

  Purpose: To refund $78,000,000 principal amount of Permanent University Fund Variable Rate Notes, Series A, and to provide new money.
  Issue Date: January 6, 1998
  Authorized: $130,000,000 Issued: $130,000,000 –All authorized amounts have been issued.
  Interest Rates: 4.75–5.25% Maturity Dates: 1999 – 2018
  Source of Revenue for Debt Service: Available University Fund

- Permanent University Fund Refunding Bonds, Series 2002A

  Purpose: To refund $108,515,000 principal amount of Permanent University Fund Refunding Bonds, Series 1992A, maturing on July 1 in the years 2003 through 2007, both inclusive, and in the years 2009 and 2013.

  Issue Date: April 2, 2002

  Authorized: $115,000,000 Issued: $105,290,000

  Interest Rates: 3.00–5.00% Maturity Dates: 2003 – 2010

  Source of Revenue for Debt Service: Available University Fund

- Permanent University Fund Bonds, Series 2002B

  Purpose: To refund $191,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A.

  Issue Date: April 2, 2002

  Authorized: $205,000,000 Issued: $188,215,000

  Interest Rates: 5.00–5.38% Maturity Dates: 2012 – 2022

  Source of Revenue for Debt Service: Available University Fund

- Permanent University Fund Refunding Bonds, Series 2004A

  Purpose: To refund $61,495,000 principal amount of Permanent University Fund Bonds, Series 1997, maturing on July 1 in the years 2009 through 2016, both inclusive.

  Issue Date: April 6, 2004

  Authorized: $500,000,000[1] Issued: $60,665,000

  Interest Rates: 3.00–5.00% Maturity Dates: 2004 – 2016

  Source of Revenue for Debt Service: Available University Fund

- Permanent University Fund Bonds, Series 2004B

  Purpose: To refund $400,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A.

  Issue Date: April 6, 2004

  Authorized: $439,335,000[1] Issued: $396,520,000

  Interest Rates: 4.50–5.00% Maturity Dates: 2023 – 2033

  Source of Revenue for Debt Service: Available University Fund

  [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.

- Permanent University Fund Refunding Bonds, Series 2005A

  Purpose: 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.

  Issue Date: April 5, 2005

  Authorized: $375,000,000[2] Issued: $100,345,000

  Interest Rates: 5.00–5.25% Maturity Dates: 2011 – 2019

  Source of Revenue for Debt Service: Available University Fund

- Permanent University Fund Bonds, Series 2005B

  Purpose: To refund $125,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A.

  Issue Date: July 7, 2005

  Authorized: $274,655,000[2] Issued: $124,625,000

  Interest Rates: 4.25–5.00% Maturity Dates: 2018, 2019 and 2035

  Source of Revenue for Debt Service: Available University Fund

  [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.

- Revenue Financing System Bonds, Series 1995A

  Purpose: To refund $34,833,000 of Revenue Financing System Commercial Paper Notes, to refund $4,525,000 of UT Pan American Tuition Revenue Refunding Bonds, Series 1986 and to provide new money of $35,167,000.

  Issue Date: July 12, 1995

  Authorized: $232,000,000 Issued: $74,945,000

  Interest Rates: 4.00–6.00% Maturity Dates: 1996 – 2017

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

- Revenue Financing System Bonds, Series 1996A

  Purpose: To provide new money.

  Issue Date: February 29, 1996

  Authorized: $78,125,000 Issued: $72,600,000

  Interest Rates: 4.70–6.00% Maturity Dates: 1997 – 2016

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

- Revenue Financing System Bonds, Series 1996B

  Purpose: To refund a $18,355,000 portion of the Revenue Financing System Refunding Bonds, Series 1991A, to refund a $20,035,000 portion of the Revenue Financing System Refunding Bonds, Series 1991B, to refund $106,855,000 of Revenue Financing System Commercial Paper Notes, Series A and to provide new money of $88,400,000.

  Issue Date: February 29, 1996

  Interest Rates: 4.70–6.00% Maturity Dates: 1997 – 2016

  Authorized: $271,875,000 Issued: $232,135,000

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

- Revenue Financing System Bonds, Series 1998A

  Purpose: To refund $10,455,000 principal of Revenue Financing System Commercial Paper Notes, Series A issued pursuant to Section 55.1714 of the Texas Education Code.

  Issue Date: February 11, 1998

  Authorized: $11,500,000 Issued: $10,690,000

  Interest Rates: 4.13–5.00% Maturity Dates: 1999 – 2018

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

- Revenue Financing System Bonds, Series 1998B

  Purpose: To refund $109,504,000 principal of Revenue Financing System Commercial Paper Notes, Series A and to pay the cost of issuance.

  Issue Date: February 11, 1998

  Authorized: $115,500,000 Issued: $111,915,000

  Interest Rates: 3.75–5.25% Maturity Dates: 1999 – 2018

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

- Revenue Financing System Bonds, Series 1998C

  Purpose: To refund $22,441,000 principal of Revenue Financing System Commercial Paper Notes, Series A issued pursuant to Sections 55.1714 and 55.1722 of the Texas Education Code, provide new money of $21,584,000 and pay the cost of issuance.
  Issue Date: October 15, 1998
  Authorized: $46,680,000 Issued: $45,175,000
  Interest Rates: 3.65–5.00% Maturity Dates: 2000 – 2019
  Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

- Revenue Financing System Bonds, Series 1998D

  Purpose: To refund $91,163,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $10,549,000 and pay the cost of issuance.
  Issue Date: October 15, 1998
  Authorized: $111,820,000 Issued: $100,185,000
  Interest Rates: 3.80–5.13% Maturity Dates: 2000 – 2019
  Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

- Revenue Financing System Bonds, Series 1999A

  Purpose: To refund $32,723,000 principal of Revenue Financing System Commercial Paper Notes, Series A issued pursuant to Sections 55.1714 and 55.1722 of the Texas Education Code, provide new money of $70,027,000 and pay the cost of issuance.
  Issue Date: September 21, 1999
  Authorized: $102,750,000 Issued: $101,745,000
  Interest Rates: 4.50–5.75% Maturity Dates: 2001 – 2020
  Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

- Revenue Financing System Bonds, Series 1999B

  Purpose: To refund $82,490,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $99,050,000 and pay the cost of issuance.
  Issue Date: September 21, 1999
  Authorized: $193,000,000 Issued: $180,830,000
  Interest Rates: 4.50–5.75% Maturity Dates: 2001 – 2020
  Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

- Revenue Financing System Bonds, Series 2001B

  Purpose: To refund $110,070,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $76,000,000 and pay the cost of issuance.
  Issue Date: October 2, 2001
  Authorized: $580,000,000[3] Issued: $179,610,000
  Interest Rates: 3.25–5.38% Maturity Dates: 2003 – 2022
  Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

- Revenue Financing System Bonds, Series 2001C

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

  Issue Date: October 2, 2001

  Authorized: $400,390,000[3] Issued: $84,590,000

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

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

  [3]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.

- Revenue Financing System Refunding Bonds, Series 2002A

  Purpose: To advance refund $54,575,000 principal amount of Revenue Financing System Bonds, Series 1999A maturing from 2010-2016 and 2020 to achieve debt service savings and pay the cost of issuance.

  Issue Date: September 27, 2002

  Authorized: $215,000,000[4] Issued: $54,430,000

  Interest Rates: 2.00–5.25% Maturity Dates: 2003 – 2020

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

- Revenue Financing System Refunding Bonds, Series 2002B

  Purpose: To advance refund $109,240,000 principal amount of Revenue Financing System Bonds, Series 1999B maturing from 2010-2017 and 2020 to achieve debt service savings and pay the cost of issuance.

  Issue Date: September 27, 2002

  Authorized: $160,570,000[4] Issued: $108,855,000

  Interest Rates: 2.00–5.25% Maturity Dates: 2003 – 2020

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

  [4]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.

- Revenue Financing System Bonds, Series 2003A

  Purpose: To refund $39,050,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $80,798,250 and pay the cost of issuance.

  Issue Date: January 23, 2003

  Authorized: $635,000,000[5] Issued: $112,040,000

  Interest Rates: 3.00–5.38% Maturity Dates: 2004 – 2023

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

- Revenue Financing System Bonds, Series 2003B

  Purpose: To refund $201,039,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $296,078,000 and pay the cost of issuance.

  Issue Date: January 23, 2003

  Authorized: $522,960,000[5] Issued: $481,060,000

  Interest Rates: 2.00–5.38% Maturity Dates: 2004 – 2033

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

  [5]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.

- Revenue Financing System Refunding Bonds, Series 2004A

  Purpose: To refund $143,155,000 principal amount of portions of Revenue Financing System Bonds, Series 1995A, 1996A, 1998A, 1998C, 1999A and 2001C, and pay cost of issuance.

  Issue Date: March 9, 2004

  Authorized: $496,000,000[6] Issued: $137,915,000

  Interest Rates: 2.00–5.25% Maturity Dates: 2004 – 2018

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

- Revenue Financing System Refunding Bonds, Series 2004B

  Purpose: To refund $310,460,000 principal amount of portions of Revenue Financing System Bonds, Series 1996B, 1998B, 1998D, 1999B and 2001B, and pay cost of issuance.

  Issue Date: March 9, 2004

  Authorized: $358,085,000[6] Issued: $300,330,000

  Interest Rates: 4.50–5.25% Maturity Dates: 2007 – 2019

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

  [6]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. There are no planned additional issuances of bonds pursuant to this authority.

- Revenue Financing System Bonds, Series 2004C

  Purpose: 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.

  Issue Date: November 4, 2004

  Authorized: $650,000,000[7] Issued: $218,610,000

  Interest Rates: 4.00–5.25% Maturity Dates: 2005 – 2023

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

- Revenue Financing System Bonds, Series 2004D

  Purpose: 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.
  Issue Date: November 4, 2004
  Authorized: $431,390,000[7] Issued: $352,170,000
  Interest Rates: 3.00–5.25% Maturity Dates: 2006 – 2034
  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.

  [7]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.

General information related to bonds outstanding retired in 2005 is summarized as follows:

- Constitutional Appropriation Bonds (The University of Texas - Pan American), Series 1995

  Purpose: To provide new money.
  Issue Date: January 10, 1996
  Authorized: $26,000,000 Issued: $26,000,000–All authorized amounts have been issued.
  Interest Rates: 4.00–6.00% Maturity Dates: 1996 – 2005
  Source of Revenue for Debt Service: Pledged Revenues consist of up to 50% of the money allocated annually to the Board for The University of Texas - Pan American from the total amount appropriated annually by Article VII, Section 17 of the Texas Constitution and Chapter 62, Texas Education Code, out of the first money coming into the State Treasury not otherwise appropriated by the Texas Constitution, during a ten-year period starting with fiscal year that began September 1, 1995 and ending with the fiscal year that ends on August 31, 2005.

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

Revenue Financing System Bonds, Series 2004C and D were issued November 4, 2004, to current refund $348,524,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, to provide $261,344,000 to fund eligible capital projects and to pay the costs of issuance related thereof.

- Net proceeds from the bonds (including a premium of $42,871,322) were $611,561,027 – after the payment of $2,090,295 in underwriting fees. Of the net proceeds, $261,344,000 was deposited into a construction fund and $343,486 was used to pay cost of issuance. The remaining $349,873,540 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 $1,349,540 resulted from the transaction as the reacquisition price of $349,873,540 exceeded the net carrying amount of $348,524,000.
- No economic gain resulted from this transaction.

Permanent University Fund Refunding Bonds, Series 2005A were issued April 5, 2005, to advance refund $102,670,000 principal amount of Permanent University Fund Bonds, Series 2002B, maturing on July 1 in the years 2012 through 2019, and to pay the costs of issuance related thereof.

- Net proceeds from the refunding series (including a premium of $8,292,607) were $108,251,928 – after the payment of $385,679 in underwriting fees. The net proceeds were used to pay cost of issuance of $103,248 and purchase $108,148,679 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 2019 of $14,572,017.
- An accounting loss of $1,372,206 resulted from the transaction as the reacquisition price of $108,148,679 exceeded the net carrying amount of $106,776,476.
- An economic gain from the transaction resulted in a net present value savings of $6,431,715 between the old and new debt service payments.

Permanent University Fund Bonds, Series 2005B were issued July 7, 2005, to current refund $125,000,000 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 $1,165,066) were $125,124,129 – after the payment of $665,937 in underwriting fees. The net proceeds along with a contribution of $1,874,625 were used to pay cost of issuance of $123,073 and purchase $126,875,023 of eligible defeasance securities. These securities and $658 in residual proceeds were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded notes.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the Consolidated Balance Sheet.
- An accounting loss of $680,181 resulted from the transaction as the reacquisition price of $126,875,681 exceeded the net carrying amount of $126,195,500.
- No economic gain resulted from this transaction.

On August 1, 2005, $8,900,000 of outstanding Revenue Financing System Refunding 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.

BOND ENHANCEMENT AGREEMENTS

Forward Floating-to-Fixed Interest Rate Swaps:

Objective of the interest rate swap: In June 1999, the System executed forward-starting, floating-to-fixed rate interest rate swap agreements ("Swap Agreements") with Morgan Guaranty Trust Company of New York, now J.P. Morgan Chase Bank ("Morgan"), and Goldman Sachs Mitsui Marine Derivative Products, L.P. ("Goldman"). The Swap Agreements were used to create a synthetic fixed-rate refunding of $80,530,000 of the Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1991A and 1991B ("Refunded Bonds") on their optional redemption date of August 15, 2001 to achieve debt service savings. On May 17, 2001, the 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 have 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 is for 60% of the notional amount and the Goldman Swap Agreement is for 40% of the notional amount. The Series 2001A Bonds are scheduled to mature and the Swap Agreements are scheduled to terminate on August 15, 2013. As of August 31, 2005, there was $36,665,000 of the Series 2001A Bonds outstanding and the notional amount of the Swap Agreements was $36,115,000.

Fair Value: Because interest rates have declined since the execution of the Swap Agreements, the Swap Agreements have a negative fair value of $2,303,815 as of August 31, 2005. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

Basis and Termination Risk: The Swap Agreements expose the UT System Board of Regents to basis risk as the variable rate received under the Swap Agreements does not perfectly match the variable rate paid on the Series 2001A Bonds. Each Swap Agreement may be terminated if the respective counterparty does not maintain a credit rating of at least Aa3 by Moody's Investors Service ("Moody's") or AA- by Standard & Poor's Corporation ("S&P"). As of August 31, 2005, the swap providers' respective ratings by Moody's/S&P are as follows: J.P. Morgan Chase Bank, Aa2/AA- and Goldman Sachs Mitsui Marine Derivative Products, L.P., Aaa/AA+. The Swap Agreements may also be terminated by Morgan or Goldman, respectively, if the UT System Board of Regents does not maintain a credit rating of at least Aa3 by Moody's or AA- by S&P.

10. Note Indebtedness

General information related to notes and loans payable at August 31, 2005, which in substance are not bonds, is summarized as follows:

- Note or loan payable issue name: Revenue Financing System (RFS) Commercial Paper Notes, Series A
  Purpose: To provide new money
  Issue Date: September 1, 2004 through August 31, 2005
  Authorized Amount: Aggregate principal amount not to exceed $750 million
  Source of revenue for debt service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
  Terms: Interest payable in periodic installments not to exceed 270 days at a variable rate

Other Notes Payable includes:

- Note or loan payable issue name: University Hospital
  Purpose: Reimburse University Hospital for clinical practice expenses under terms of a mediator-negotiated contractual settlement
  Institution: UT Health Science Center at San Antonio
  Issue Date: April 1, 2001
  Amount: $2,862,717
  Source of revenue for debt service: Patient service revenue from MSRDP Designated funds collected by University Physicians Group
  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: 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

- Note or loan payable issue name: Charitable Remainder Trust
  Purpose: Fine Arts Foundation (a blended component unit) purchase of the Suida Manning Art Collection
  Institution: UT Austin
  Issue Date: January 4, 1999
  Authorized Amount: $12,000,000
  Source of revenue for debt service: Gift
  Terms: January 4, 1999 through April 17, 2016

- Note or loan payable issue name: Charitable Lead Trust
  Purpose: Fine Arts Foundation (a blended component unit) purchase of the Suida Manning Art Collection
  Component Unit: 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: J. P. Morgan Leasing, Inc.
  Purpose: To purchase the PET/CT Discovery ST
  Component Unit: UT Southwestern Medical Center at Dallas' Blended Component Unit
  Issue Date: August 22, 2003
  Authorized Amount: $2,200,000
  Source of revenue for debt service: Operations
  Terms: September 22, 2003 through August 22, 2008

- 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

General information related to notes and loans payable retired in 2005 is summarized as follows:

- Note or loan payable issue name: Academic Capital Government Finance, Inc.
  Purpose: To purchase PeopleSoft
  Institution: UT Medical Branch at Galveston
  Issue Date: December 20, 2000
  Authorized Amount: $5,720,708
  Source of revenue for debt service: Patient income
  Terms: February 28, 2001 through September 1, 2004

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, 2005, is as follows:

Assets Under Capital Lease		
Furniture and Equipment	$	1,786,623
Less: Accumulated Depreciation		(553,866)
Museums and Art Collections		3,984,375
Total	$	5,217,132

Capital lease obligations are due in annual installments through 2015. 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, 2005.

Fiscal Year		Principal	Interest	Total
2006	$	980,226	196,941	1,177,167
2007		439,859	123,795	563,654
2008		423,830	73,339	497,169
2009		355,000	45,000	400,000
2010		370,000	30,000	400,000
2011 – 2015		385,000	15,000	400,000
Total Minimum Lease Payments	$	2,953,915	484,075	3,437,990
			Less: Interest	(484,075)
Present Value of Net Minimum Lease Payments				2,953,915

12. Commercial Paper

The System had Revenue Financing System (RFS) Commercial Paper Notes, Series A, and RFS Taxable Commercial Paper Notes, Series B outstanding at August 31, 2005. 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 the Summary of Long-Term Liabilities Note 8.

13. Net Assets

The System's net assets at August 31, 2005, were comprised of the following:

Invested in capital assets, net of related debt	$ 3,610,694,832
Restricted	
Nonexpendable	15,560,609,991
Expendable	1,446,651,039
Total restricted	17,007,261,030
Unrestricted net assets:	
Unrestricted	
Reserved	
Encumbrances	229,475,394
Accounts receivable (less deferred revenue portion)	436,287,812
Inventories	64,152,450
Self-insurance plans	208,798,054
Higher Education Assistance Fund (HEAF)	2,932,702
Other specific purposes:	
Advanced Research/Advanced Technology Programs	5,196,261
Deposits	3,923,382
Prepaid expenses	64,503,689
Deferred charges	13,135,148
Imprest funds	1,198,918
Travel advances	179,388
Unreserved	
Allocated	
Funds functioning as endowment-unrestricted	166,846,257
Provision for FY 2006 operating budgets	87,761,181
Capital projects	235,489,576
Debt service	71,000,047
Start-up/matching	30,299,492
Utilities reserve	27,083,088
Research enhancement and support	38,497,079
Market adjustments	907,624
Student fees	45,569,158
Texas Tomorrow Fund shortfall	5,781,603
Instructional program support	54,547,422
Dean and chair recruitment packages	13,186,182
Self-supporting enterprises	71,672,628
Patient care support	88,389,843
Practice plan minimum operating reserve of 90 days	226,056,173
Unallocated	54,099,848
Total unrestricted	2,246,970,399
Total net assets	$ 22,864,926,261

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, 2005, the following table represents operating expenses for both natural and functional classifications for the primary university:

Operating Expenses		Instruction	Research	Hospitals and Clinics	Public Service	Academic Support
Cost of Good Sold	$	17,163,111	87	63,999,484	42,995	-
Salaries and Wages		1,393,982,256	731,065,531	1,139,622,217	111,812,267	155,292,961
Payroll Related Costs		331,286,880	162,428,774	298,231,082	23,543,126	35,767,373
Professional Fees and Services		42,937,341	54,624,943	102,858,962	11,275,738	5,345,354
Scholarships and Fellowships		9,609,358	16,289,095	121,054	1,707,046	1,020,510
Travel		23,518,567	28,067,550	10,982,490	3,901,374	4,895,006
Materials and Supplies		91,502,910	162,105,321	454,740,491	25,031,392	30,809,027
Utilities		1,507,409	346,952	4,176,574	757,251	122,311
Communications		17,300,229	7,456,947	13,640,725	2,674,287	9,429,971
Repairs and Maintenance		7,171,841	9,315,822	36,769,883	728,694	3,401,661
Rentals and Leases		11,452,624	5,734,617	19,683,806	4,205,292	3,612,582
Printing and Reproduction		6,209,549	3,997,891	1,410,623	3,067,891	2,879,397
Depreciation and Amortization		-	-	-	-	-
Bad Debt Expense		11,318	1,235	-	380	4,236
Claims and Losses		268	-	-	-	1,252
Other Operating Expenses		153,973,819	132,975,322	225,613,789	26,849,579	23,817,068
Federal Sponsored Program Pass-through Expense		2,389,854	3,336,650	-	1,127,085	-
State Sponsored Program Pass-through Expense		-	4,570	-	-	-
Total Operating Expenses	$	2,110,017,334	1,317,751,307	2,371,851,180	216,724,397	276,398,709

Student Services	Institutional Support	Operations and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total Expenses
63,653	698,261	90,074	-	21,492,255	-	103,549,920
78,035,001	426,241,742	141,250,132	22,031,072	117,757,777	-	4,317,090,956
16,435,792	114,650,289	31,051,636	1,515,417	27,521,849	-	1,042,432,218
2,037,120	58,102,341	18,795,261	399,985	12,913,230	-	309,290,275
2,709,591	2,237,838	192	179,298,611	5,993,825	-	218,987,120
2,199,788	8,589,376	876,893	653,277	14,235,577	-	97,919,898
10,673,910	34,884,525	55,555,182	875,543	30,819,629	-	896,997,930
543,339	(17,685,399)	169,056,248	350	22,965,546	-	181,790,581
1,250,716	3,855,641	1,648,482	21,063	4,434,175	-	61,712,236
2,200,653	17,059,804	41,162,595	58,685	9,950,838	-	127,820,476
2,935,734	17,537,496	20,894,055	161,195	6,062,627	-	92,280,028
2,251,777	(1,442,170)	105,269	110,375	5,198,667	-	23,789,269
-	-	-	-	-	477,825,099	477,825,099
744,659	621,295	251	7,567	32,653	-	1,423,594
-	13,392,674	-	-	-	-	13,394,194
10,941,763	(97,876,964)	(12,954,818)	3,472,767	47,999,427	-	514,811,752
-	-	-	161,636	-	-	7,015,225
-	-	-	-	-	-	4,570
133,023,496	580,866,749	467,531,452	208,767,543	327,378,075	477,825,099	8,488,135,341

15. Commitments and Contingent Liabilities

On August 31, 2005, 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 $4,106,443,627 capital improvement program, planned for fiscal years 2006 through 2011, 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 limited partnerships. The partnership agreements commit the System to future capital contributions amounting to $1,138,399,396 as of August 31, 2005.

16. Operating Lease Obligations

The System has entered into various operating leases for buildings, equipment and land. Rental expenses for operating leases were $62,590,794 in 2005. Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2005, were as follows:

Fiscal Year		Lease Payments
2006	$	34,122,693
2007		27,774,117
2008		20,919,610
2009		12,111,326
2010		7,552,559
2011-2015		15,597,544
2016-2020		4,482,161
Total Minimum Future Payments	$	122,560,010

17. Employees' Retirement Plans

TEACHER RETIREMENT SYSTEM (TRS)

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

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

TRS contribution rates for both employers and employees are not actuarially determined but are legally established by the State Legislature. 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 year ended August 31, 2005, were $104,801,254, which equaled the amount of the required contributions for the year.

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. 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 System employees who are not covered by the TRS or the ORP. Benefits vest after five years of credited service. Employees may retire at age 60 with five years of service or any combination of age plus years of service that equals 80.

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

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

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

THE UNIVERSITY OF TEXAS SYSTEM GOVERNMENTAL RETIREMENT ARRANGEMENT (UTGRA)

The University of Texas System Governmental Retirement Arrangement (UTGRA) is a defined contribution pension plan established by the System to provide certain participants in the ORP that portion of their benefits that would otherwise be payable under the ORP except for the $42,000 limit on contributions imposed by Section 415 of the Internal Revenue Code (IRC). At August 31, 2005, there were 658 plan members. Persons employed by the System prior to September 1, 1996 whose compensation exceeds the limit set by IRC Section 401(a)(17) and whose ORP contribution is limited by the $42,000 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 $3,571,070 for the year ended August 31, 2005. 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. Deferred Compensation

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

The State's 457 plan complies with the IRC Section 457. This State plan is referred to as the Texa$aver Deferred Compensation Plan and is available to all employees. 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.

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 September 15, 2005, the System optionally redeemed $2,805,000 of outstanding Revenue Financing System Bonds, Series 1995A.

In early December, 2005, the System issued $100 million of PUF Flexible Rate Notes, Series A, to finance costs of various campus improvements.

On September 24, 2005, Hurricane *Rita* made landfall at Sabine Pass, Texas resulting in temporary closures of UT Medical Branch at Galveston, UT Health Science Center at Houston and UT M. D. Anderson Cancer Center. The physical structures at these institutions sustained property damage of approximately $2.3 million. The System maintains property insurance coverage through its self-funded comprehensive property protection program as discussed in Note 6 and this is a covered event. Preliminary estimates for loss of revenue resulting from the storm approximate $42 million. While the System maintains business interruption insurance, this incident is not covered. FEMA has indicated the availability of funds to pay for damages caused by Hurricane *Rita*; however, at this time, management is unable to estimate the total amount of insurance and FEMA proceeds that will ultimately be received.

On December 6, 2005, UT Medical Branch at Galveston advised the National Institutes of Health (NIH) of certain grants administration compliance issues. These issues include billings to sponsoring agencies, the process for allocating costs to sponsored programs, and certain overcharges related to the NIH salary cap. Management of the System and UT Medical Branch at Galveston continue to assess the effects of these issues; however, management of the System believes that the outcome of these issues will not have a significant impact on the System's financial statements.

UT Southwestern Moncrief Cancer Center, a 501c(3) corporation and blended component unit of UT Southwestern Medical Center at Dallas, has entered into negotiations for the sale of approximately $8 million of operating assets and sublease of the majority of space in its three facilities. It is anticipated that there will be no significant loss on the book value of the assets sold. UT Southwestern Moncrief Cancer Center expects to complete this transaction during the first half of fiscal year 2006. There can be no assurance that the sale will be consummated.

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, 2005, related to pass-through grants were $162,687,654 and $7,019,795, 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, 2005 are detailed by type as follows:

Net Other Receivables		
Receivables related to investments	$	55,839,413
Receivables related to healthcare		46,498,278
Receivables related to gifts, grants and sponsored programs		42,873,217
Receivables related to external parties/other companies		14,803,817
Receivables related to auxiliary enterprises		8,335,941
Receivables related to facilities/construction projects		7,247,733
Receivables related to payroll		4,398,123
Receivables related to patents		3,351,230
Receivables related to hospital acquisition		2,903,564
Receivables related to travel		1,221,747
Receivables related to loan funds and financial aid		1,008,560
Receivables related to agency funds		869,159
Receivables related to other various activities		11,619,996
Total	$	200,970,778

23. Funds Held in Trust by Others

The balances, or transactions, of funds held in trust by others on behalf of the System, including Charitable Lead Trusts, are not reflected in the financial statements. As of August 31, 2005, there were 886 such funds for the benefit of the System. Based upon the most recent available information, the assets of these funds are reported by the trustees at values totaling approximately $1,118,445,340.

24. Acquisition of Hospitals

Effective January 1, 2005, UT Southwestern Medical Center at Dallas acquired all of the assets and assumed certain liabilities of Zale Lipshy University Hospital, Inc. and its subsidiary (Zale) and St. Paul University Hospital (St. Paul) in cash transactions. The acquisitions have been accounted for as purchases, and accordingly, the assets and liabilities have been recorded based on their estimated fair values at the date of acquisition. UT Southwestern Medical Center at Dallas acquired the assets and assumed certain liabilities from Zale for $88.7 million and from St. Paul for $71.6 million (the Transactions). The net disbursements to the hospitals for the Transactions were $63.5 million to Zale and $15.5 million to St. Paul. The liabilities assumed from the Transactions totaled $1.5 million for Zale and $4.6 million for St. Paul and were related to employees' accrued compensable absences and accrued bonus payments. These acquisitions were financed through $27 million of available cash and $52 million from proceeds of UT System Revenue Financing System bonds. The operations of the hospitals are in the names UT Southwestern University Hospital – Zale Lipshy and UT Southwestern University Hospital – St. Paul.

25. 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.

2005 Analysis of Financial Condition

February 2006

The University of Texas System
2005 Analysis of Financial Condition

Foreword

The analysis 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 order to be more consistent with the ratios analyzed by the Office of Finance, the Expendable Resources to Total Net Assets Ratio was replaced with the Expendable Resources to Debt Ratio. The following are the ratios analyzed:

- *Operating Expense Coverage Ratio* – measures an institution's ability to cover future operating expenses with available year-end balances (in months).
- *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.
- *Debt Burden Ratio* – examines the institution's dependence on borrowed funds as a source of financing and the cost of borrowing relative to overall expenses.
- *Debt Service Coverage Ratio* – measures the actual margin of protection provided to investors by annual operations. *Moody's Investors Service* excludes actual investment income from its calculation of total operating revenue and instead, uses a normalized investment income of 4.5% of the prior year's ending total cash and investments. This calculation is used by the Office of Finance, and in order to be consistent with their calculation of the debt service coverage ratio, normalized investment income was used as defined above for this ratio only.
- *Full-time Equivalent (FTE) Student Enrollment* – calculates total semester credit hours taken by students during the fall semester, divided by factors of 15 for undergraduate students, 12 for graduate and special professional students, and 9 for doctoral students to arrive at the FTE students represented by the course hours taken.

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

This report is meant to be a broad annual financial evaluation that rates the institutions as either "Satisfactory," "Watch" or "Unsatisfactory" based upon the factors analyzed. (See Appendix A – Definitions of Evaluation Factors). For institutions rated "Unsatisfactory," the Chancellor and the appropriate Executive Vice Chancellors will request the institutions to develop a specific financial plan of action to improve the institution's financial condition. Progress towards the achievement of the plans will be periodically discussed with the Chief Business Officer and President, and representatives from the UT System Offices of Business, Academic and/or Health Affairs, as appropriate.

Executive Summary

Institutions Rated Other Than "Satisfactory"

UTHC-Tyler The institution's financial condition was downgraded from "Watch" for 2004 to "Unsatisfactory" for 2005. The operating expense coverage ratio decreased by 0.4 months to 1.0 month, which was below the 2 month benchmark. The decrease in this ratio was attributable to a decrease in unrestricted net assets and an increase in operating expenses. The operating margin declined by $4.9 million resulting in a deficit of $4.7 million. The operating deficit was primarily a result of a reduction in operating revenues and an increase in operating expenses. The expenses increased due to an increase in contracted services and repairs and maintenance expenses. The return on net assets ratio decreased significantly from 8.9% in 2004 to 2.4% in 2005 due to an increase in the amount of debt outstanding. The expendable resources to debt ratio decreased from 1.7x in 2004 to 1.2x in 2005 primarily due to decreases in unrestricted net assets and expendable net assets restricted for capital projects. The increase in debt outstanding also contributed to the decline in this ratio. The debt burden ratio increased slightly from 1.0% in 2004 to 1.1% in 2005 due to an increase in debt service payments. The debt service coverage ratio decreased from 5.4x in 2004 to 1.7x in 2005 as a result of both the operating deficit and the increase in debt service payments.

UTMB Galveston The institution's financial condition was maintained as "Watch" for 2005. The operating expense coverage ratio remained unchanged at 1.4 months, which is below the 2 month benchmark. The annual operating margin ratio changed slightly from negative 2.0% for 2004 to a negative 1.9% for 2005. Medicaid reimbursement rates decreased and payment increases from Medicare, commercial insurance and other payors were nominal. UTMB Galveston continued to face severe inflationary pressures on nursing and other patient care provider salaries as a result of national shortages of these positions. The return on net assets increased from 4.3% in 2004 to 5.4% in 2005 primarily due to an increase in gifts and sponsored programs for capital acquisitions, an increase in funding related to capital and bond proceeds from UT System Administration and the receipt of State fiscal relief funds (Section 56 funds). The expendable resources to debt ratio decreased from 2.9x in 2004 to 1.8x in 2005 largely due to an increase in the amount of debt outstanding. The debt burden ratio increased slightly from 0.7% in 2004 to 0.8% in 2005 and the debt service coverage ratio decreased from 3.3x in 2004 to 2.5x in 2005 as a result of an increase in debt service.

Institutions Rated “Satisfactory”

UT Arlington The operating expense coverage ratio increased by 0.4 months to 3.6 months due to a $16.9 million increase in unrestricted net assets. The annual operating margin decreased $2.5 million largely due to increases in salaries and wages, expenditures related to research awards, rental and maintenance expenses, expenditures for the Executive MBA and Continuing Education programs, depreciation expense for library books, and the implementation of a new student system. The return on net assets ratio increased from 10.2% in 2004 to 12.8% in 2005 due to a reduction in the amount of debt outstanding. The expendable resources to debt ratio remained unchanged at 0.7x in 2005. The debt burden ratio decreased from 7.6% in 2004 to 4.9% in 2005 due to the early repayment of $5 million in debt in 2004 resulting in lower debt service payments in 2005, as well as an increase in operating expenses. The debt service coverage ratio increased from 2.3x in 2004 to 3.3x in 2005 due to the decrease in debt service payments. Full-time equivalent student enrollment continued to grow as a result of new and on-going academic programs, additional availability of on-campus housing and students displaced by Hurricane Katrina.

UT Austin The operating expense coverage ratio increased by 0.1 months to 3.2 months due to an increase in unrestricted net assets of $38.3 million. The annual operating margin ratio remained unchanged at 4.3% for 2005 due to consistent growth in both revenues and expenses. The return on net assets ratio decreased from 12.2% in 2004 to 11.0% in 2005 primarily due to an increase in the amount of debt outstanding. The expendable resources to debt ratio changed slightly from 1.9x in 2004 to 1.8x in 2005 due to an increase in the amount of debt outstanding. The debt burden ratio decreased from 3.2% in 2004 to 2.9% in 2005 due an increase in operating expenses and interest expense. The debt service coverage ratio increased from 3.9x in 2004 to 4.6x in 2005 largely due to an increase in the normalized investment income used in this calculation. Full-time equivalent student enrollment continued to decrease due to efforts to reduce enrollment.

UT Brownsville The operating expense coverage ratio remained at 2.6 months due to an increase in both unrestricted net assets and operating expenses. The annual operating margin improved by $2.1 million primarily due to an increase in State appropriations. The return on net assets ratio decreased from 12.3% in 2004 to 6.9% in 2005 due to a decrease in the amount of debt outstanding for the Business and Education Complex in the previous year. The expendable resources to debt ratio decreased from 1.0x in 2004 to 0.8x in 2005 due to a reduction in expendable net assets restricted for capital projects. The debt burden ratio decreased from 4.6% in 2004 to 4.2% in 2005 as a result of increased operating expenses and interest expense. The debt service coverage ratio increased from 1.7x in 2004 to 2.4x in 2005 due to the improvement in the annual operating margin discussed above. Full-time equivalent student enrollment continued an upward trend with student headcount reaching an all-time high.

UT Dallas The operating expense coverage ratio increased by 0.2 months to 2.9 months due to an increase in unrestricted net assets. The annual operating margin increased by $6.1 million largely due the distribution from the University Research Fund (URF), as well as an increase in net investment income. The return on net assets ratio decreased from 12.7% in 2004 to 7.9% in 2005 as a result of an increase in the amount of debt outstanding. The expendable resources to debt ratio decreased from 2.0x in 2004 to 1.4x in 2005 also due to the increase in the amount of debt outstanding. The debt burden ratio decreased from 3.3% in 2004 to 2.7% in 2005 due to increases in both operating expenses and interest expense. The debt service coverage ratio increased from 2.9x in 2004 to 5.2x in 2005 due to the improvement in the annual operating margin. Full-time equivalent student enrollment continued to grow in accordance with UT Dallas’ mission.

Institutions Rated "Satisfactory" (Continued)

UT El Paso The operating expense coverage ratio decreased by 0.1 months to 1.3 months due to an increase in operating expenses. The annual operating margin decreased by $6.2 million due to the increase in operating expenses. The return on net assets ratio decreased from 13.0% in 2004 to 11.5% in 2005 primarily due to a decrease in the amount of debt outstanding in the previous year. The expendable resources to debt ratio remained unchanged at 0.8x largely due to increases in both expendable net assets and the amount of debt outstanding. The debt burden ratio decreased from 5.3% in 2004 to 4.9% in 2005 due to the increase in operating expenses. The debt service coverage ratio also decreased from 2.1x in 2004 to 1.8x in 2005 due to the reduction in the annual operating margin discussed above. Full-time equivalent student enrollment continued to trend upward.

UT Pan American The operating expense coverage ratio decreased by 0.8 months to 3.3 months due to a reduction in unrestricted net assets and an increase in operating expenses. The annual operating margin decreased by $9.5 million primarily due to the increase in operating expenses outpacing the growth in operating revenues. The return on net assets ratio decreased from 7.8% in 2004 to 3.2% in 2005 largely due to decreases in both unrestricted net assets and expendable net assets restricted for capital projects. The expendable resources to debt ratio decreased from 1.3x in 2004 to 1.1x in 2005 due to decreases in unrestricted net assets and expendable net assets restricted for capital projects as previously mentioned. The debt burden ratio decreased from 4.3% in 2004 to 4.0% in 2005 due to the increase in operating expenses and interest expense. The debt service coverage ratio decreased from 2.3x in 2004 to 1.4x in 2005 due to the reduction in the annual operating margin discussed above. The growth in full-time equivalent student enrollment increased slightly in Fall 2005 partially as a result of a required minimum ACT score instituted by UT Pan American.

UT Permian Basin The institution's financial condition was upgraded from "Watch" for 2004 to "Satisfactory" for 2005. Both the operating expense coverage ratio and annual operating margin ratio improved in 2005. The operating expense coverage ratio increased by 0.3 months to 1.5 months in 2005. This ratio improved due to an increase in unrestricted net assets primarily driven by increased enrollment and tuition rates. The operating deficit of $1.1 million was a $2.3 million improvement from the 2004 operating deficit. This improvement was attributable to increases in enrollment and tuition rates, State appropriations, and gifts for operations, as well as the receipt of a distribution from the University Research Fund. The return on net assets ratio increased from 4.4% in 2004 to 9.1% in 2005 due to an increase in the amount of debt outstanding in the previous year. The expendable resources to debt ratio decreased from 0.5x in 2004 to 0.3x in 2005 as a result of a decrease in expendable net assets restricted for capital projects. The debt burden ratio increased from 6.2% in 2004 to 7.5% in 2005 due to an increase in debt service payments. The debt service coverage ratio increased from (0.1x) in 2004 to 1.3x in 2005 as a result of the improvement in the annual operating margin. Full-time equivalent student enrollment continued to grow due to planned recruiting and retention efforts.

Institutions Rated "Satisfactory" (Continued)

UT San Antonio The operating expense coverage ratio increased by 0.6 months to 3.6 months due to an increase in unrestricted net assets primarily attributable to continued enrollment growth and higher tuition rates, as well as revenue generated from new student housing and meal plans. The annual operating margin increased $2.1 million due to increase in revenues mentioned above. The return on net assets ratio increased from 9.8% in 2004 to 16.6% in 2005 primarily due to an increase in the amount of bond proceeds received from UT System Administration. The expendable resources to debt ratio decreased slightly from 0.7x in 2004 to 0.6x in 2005 due to an increase in the amount of debt outstanding. The debt burden ratio decreased from 6.2% in 2004 to 5.7% in 2005 due to an increase in operating expenses. The debt service coverage ratio increased from 2.2x in 2004 to 2.9x in 2005 due to the improvement in the annual operating margin as discussed above. Full-time equivalent student enrollment continued to increase as a result of recruitment and retention efforts, as well as increases in the graduate programs and enrollment caps at UT Austin.

UT Tyler The operating expense coverage ratio decreased by 0.1 months to 2.7 months due to an increase in both operating expenses and interest expense. The annual operating deficit increased by $2.3 million for a total deficit of $2.5 million for 2005. The increase in the deficit was attributable to the increase in expenses mentioned above. The return on net assets ratio decreased from 12.9% in 2004 to 6.9% in 2005 primarily due to a reduction in the amount of bond proceeds received from UT System Administration. The expendable resources to debt ratio decreased from 1.4x in 2004 to 0.6x in 2005 due to a decrease in expendable net assets restricted for capital projects. The debt burden ratio increased from 4.0% in 2004 to 4.4% in 2005 as a result of an increase in debt service payments. The debt service coverage ratio decreased from 2.1x in 2004 to 1.6x in 2005 due to the increase in the operating deficit and the increase in debt service payments. Full-time equivalent student enrollment continued to trend upward as a result of recruitment and retention efforts.

Southwestern The operating expense coverage ratio decreased by 0.8 months to 3.4 months due to increased operating expenses and interest expense primarily resulting from the acquisition of Zale Lipshy University Hospital and St. Paul University Hospital. The annual operating margin decreased $2.5 million primarily due to the increase in operating expenses discussed above. The return on net assets ratio changed slightly from 10.0% in 2004 to 9.9% in 2005. The expendable resources to debt ratio decreased from 2.1x in 2004 to 1.7x in 2005 due to an increase in the amount of debt outstanding. The debt burden ratio remained unchanged at 2.7%. The debt service coverage ratio decreased from 3.7x in 2004 to 3.5x in 2005 due to the decline in the annual operating margin discussed previously, as well as an increase in debt service payments.

UTHSC-Houston The institution's financial condition was upgraded from "Watch" for 2004 to "Satisfactory" for 2005. The operating expense coverage ratio increased by 0.3 months to 2.7 months due to an increase in unrestricted net assets primarily attributable to additional revenue generated from the UT Professional Building and Garage purchased in 2005, the receipt of proceeds from the United States Federal Emergency Management Agency (FEMA) and the receipt of State fiscal relief funds. The annual operating margin decreased $14.9 million primarily due to an increase in operating expenses and interest expense. The return on net assets ratio increased from 12.2% in 2004 to 14.0% in 2005 largely due to an increase in gifts for operations and an increase in additions to permanent endowments. The expendable resources to debt ratio decreased from 2.5x in 2004 to 1.6x in 2005 due to a decrease in expendable net assets restricted for capital projects and an increase in the amount of debt outstanding. The debt burden ratio increased slightly from 2.1% in 2004 to 2.2% in 2005 due to an increase in debt service payments. The debt service coverage ratio decreased from 4.1x in 2004 to 3.3x in 2005 due to the decrease in the annual operating margin mentioned above.

Institutions Rated "Satisfactory" (Continued)

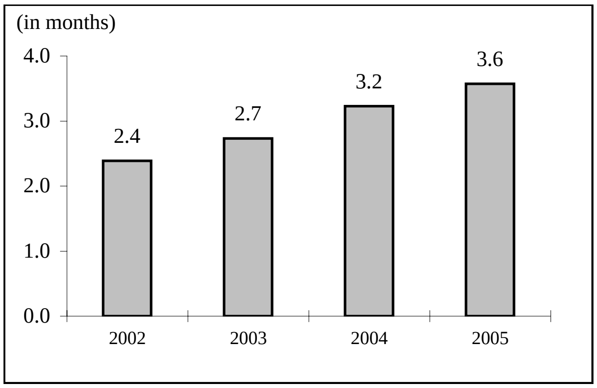
UTHSC-San Antonio The operating expense coverage ratio decreased by 0.1 months to 2.7 months due to an increase in operating expenses, including depreciation and interest expense. The annual operating margin decreased $6.2 million primarily due growth in expenses outpacing the growth in revenues. The return on net assets ratio decreased from 10.1% in 2004 to 9.4% in 2005 due to an increase in the amount of debt outstanding. The expendable resources to debt ratio remained stable at 2.6x in 2005. The debt burden ratio decreased from 2.4% in 2004 to 2.2% in 2005 as a result of the increase in expenses as discussed above. The debt service coverage ratio increased slightly from 2.5x in 2004 to 2.6x in 2005.

M. D. Anderson The operating expense coverage ratio decreased by 0.4 months to 2.6 months due to a reduction in unrestricted net assets and an increase in operating expenses to support increased patient volumes. The annual operating margin decreased $5.9 million due to expense growth outpacing the growth in revenues. The return on net assets ratio increased from 9.0% in 2004 to 10.0% in 2005 due to a smaller increase in the amount of debt outstanding in 2005 as compared to the increase in 2004. The expendable resources to debt ratio decreased slightly from 1.2x in 2004 to 1.1x in 2005 due to the decrease in unrestricted net assets and increase in the debt outstanding. The debt burden ratio increased from 2.4% in 2004 to 2.8% in 2005, while the debt service coverage ratio decreased from 5.1x in 2004 to 4.6x in 2005. The changes in both debt ratios were due to an increase in debt service payments. In addition, the decline in the annual operating margin contributed to the decrease in the debt service coverage ratio.

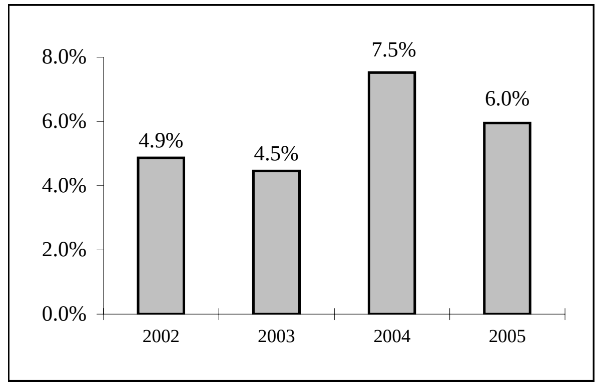
The University of Texas at Arlington
2005 Summary of Financial Condition

Financial Condition: **Satisfactory**

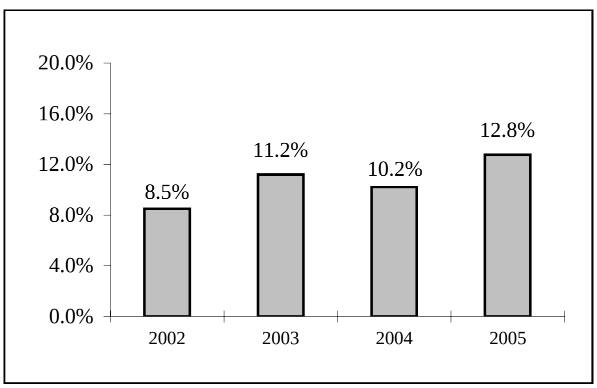
Operating Expense Coverage Ratio



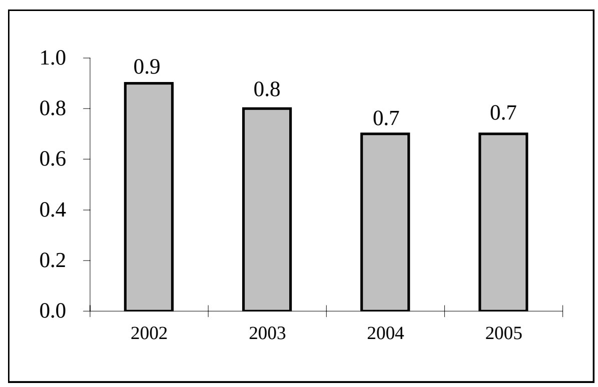
Annual Operating Margin Ratio



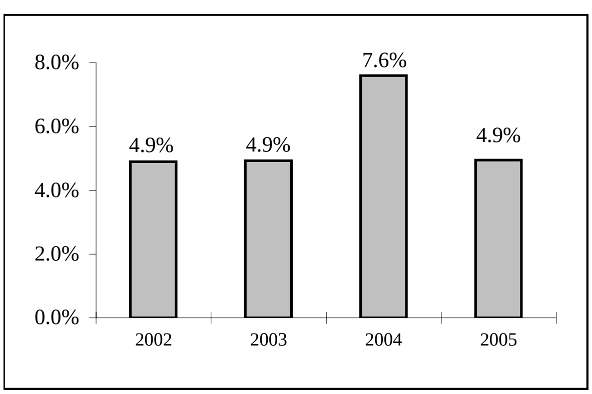
Return on Net Assets Ratio



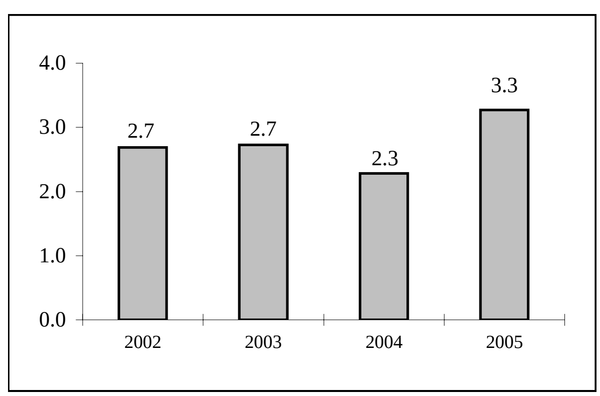
Expendable Resources to Debt Ratio



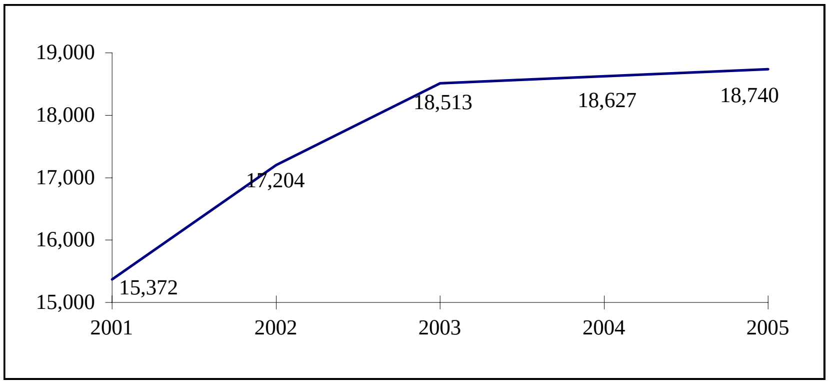
Debt Burden Ratio



Debt Service Coverage Ratio



Full-time Equivalent
Student Enrollment - Fall



Operating Expense Coverage Ratio - UT Arlington's operating expense coverage ratio increased from 3.2 months in 2004 to 3.6 months in 2005 due to a $16.9 million increase in total unrestricted net assets. Total unrestricted net assets increased due to the following: net tuition and fees increased $7.6 million due to enrollment and rate increases; a distribution from the University Research Fund of $3.5 million, which was restored in 2005; net auxiliary enterprises increased $3.2 million due to revenue generated from new apartments and residence halls; other operating revenues increased $2.0 million as a result of increases in credit card fees, billing and collection fees and rental income; and sales and services of educational activities increased $1.2 million due to an increase in the Executive MBA (EMBA) program revenue.

Annual Operating Margin Ratio - UT Arlington's annual operating margin ratio decreased from 7.5% for 2004 to 6.0% for 2005 primarily due to the increase in operating expenses outpacing the increase in operating revenues. Total operating expenses increased $32.1 while total operating revenues increased $26.2 million. Operating expenses increased primarily due to the following: an increase in salaries and wages resulting from the hiring of new faculty to accommodate enrollment increases; an increase in awards for research as well as increased expenditures for equipment; an increase in rental expenses and maintenance on the new Office of Information Technology building in Fort Worth; the implementation of a new student system; increased expenditures for the EMBA and Continuing Education programs; and an increase in the depreciation of library books which were previously considered nondepreciable.

Return on Net Assets Ratio - UT Arlington's return on net assets ratio increased to 12.8% in 2005 from 10.2% in 2004 primarily due to a reduction in the amount of debt outstanding as a result of the early repayment of $5 million in debt in 2004 for the Clay Gould Field improvements.

Expendable Resources to Debt Ratio - UT Arlington's expendable resources to debt ratio remained unchanged at 0.7x in 2005. The reduction in the amount of debt outstanding was offset by a decrease in expendable resources for capital projects due to the completion of the University Village West Apartments and $26.1 million expended in 2005 on the Chemistry and Physics building.

Debt Burden Ratio - UT Arlington's debt burden ratio decreased significantly from 7.6% in 2004 to 4.9% in 2005 as a result of the early repayment of $5 million in debt in 2004 and the increase in operating expenses discussed above.

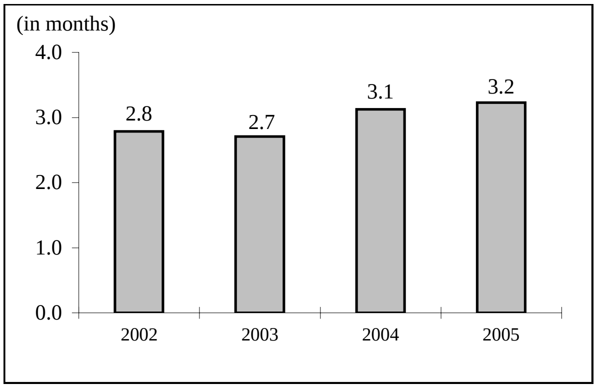
Debt Service Coverage Ratio - UT Arlington's debt service coverage ratio of 3.3x in 2005 was higher than the 2004 ratio of 2.3x due to the decrease in debt service payments resulting from the early repayment of debt as noted above.

Full-Time Equivalent (FTE) Student Enrollment - UT Arlington's FTE student enrollment continued to grow as a result of new and on-going academic programs, additional availability of on-campus housing and students displaced by the Hurricane Katrina disaster.

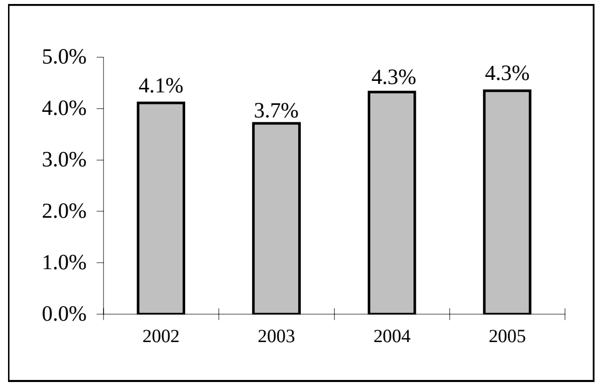
The University of Texas at Austin
2005 Summary of Financial Condition

Financial Condition: **Satisfactory**

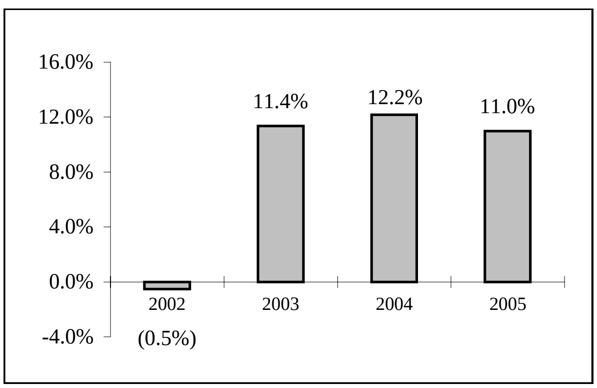
Operating Expense Coverage Ratio



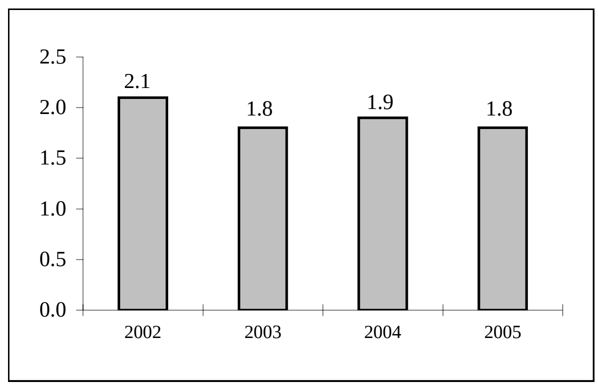
Annual Operating Margin Ratio



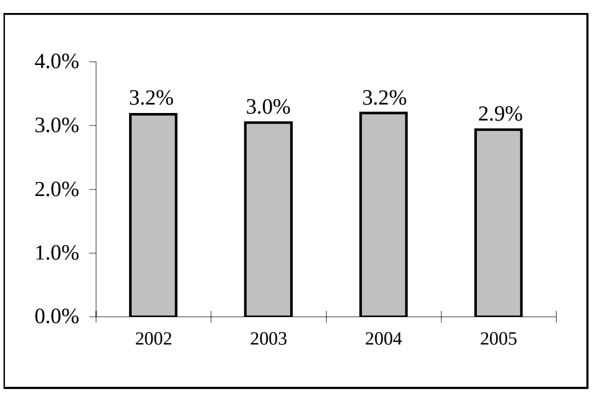
Return on Net Assets Ratio



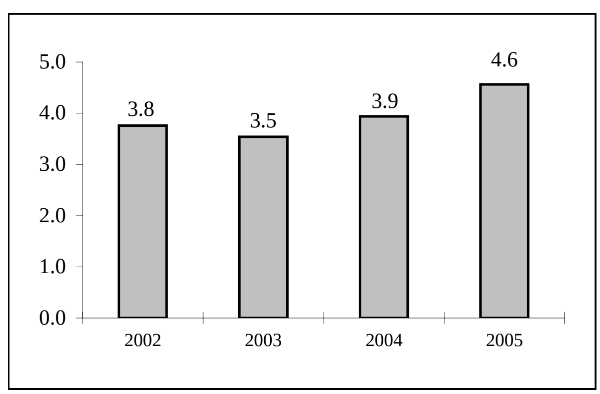
Expendable Resources to Debt Ratio



Debt Burden Ratio

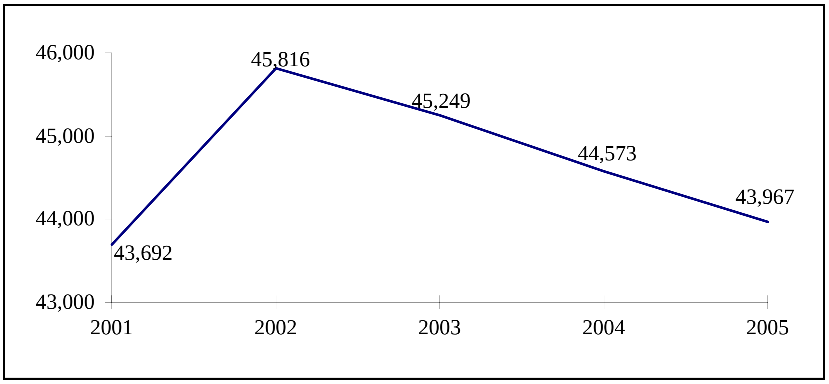


Debt Service Coverage Ratio



The University of Texas at Austin
2005 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Operating Expense Coverage Ratio - UT Austin's operating expense coverage ratio increased slightly from 3.1 months in 2004 to 3.2 months in 2005 due to an increase in unrestricted net assets of $38.3 million. The increase in unrestricted net assets was largely due to the following: an increase in net tuition and fees of $20.9 million; and an increase in sales and services of educational activities of $19.3 million due to an increase from the Texas Education Agency to fund expenses related to growth and expansion of the University Charter School, an increase in intellectual property income and an increase in income for the Houston Executive MBA program, Texas Evening MBA program and the Texas Executive MBA program.

Annual Operating Margin Ratio - UT Austin's annual operating margin ratio remained unchanged at 4.3% for 2005. The stability of this ratio is attributable to consistent growth in both revenues and expenses.

Return on Net Assets Ratio - UT Austin's return on net assets ratio decreased from 12.2% in 2004 to 11.0% in 2005 primarily due to an increase in the amount of debt outstanding. Outstanding debt increased in 2005 primarily due to bonds issued for the Jack Blanton Museum and the renovation of the Benedict, Mezes and Batts buildings.

Expendable Resources to Debt Ratio - UT Austin's expendable resources to debt ratio of 1.8x in 2005 was slightly lower than the 2004 ratio of 1.9x. This slight decrease is due to the increase in debt outstanding discussed above.

Debt Burden Ratio - UT Austin's debt burden ratio decreased from 3.2% in 2004 to 2.9% in 2005 due to a relatively small decrease in debt service of $636,000 compared to an increase in operating expenses and interest expense of $99.0 million.

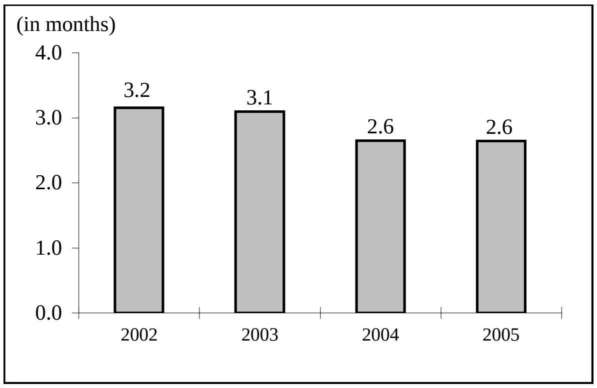
Debt Service Coverage Ratio - UT Austin's debt service coverage ratio increased from 3.9x in 2004 to 4.6x in 2005 largely due to an increase in normalized investment income used in this calculation. Normalized investment income increased due to a large gift from the Jackson Endowment Fund received in 2004.

Full-Time Equivalent (FTE) Student Enrollment - UT Austin's FTE student enrollment declined 1% from 44,573 in Fall 2004 to 43,967 in Fall 2005 consistent with the 1% decrease in enrollment from both Fall 2002 to Fall 2003 and from Fall 2003 to Fall 2004. Efforts have been made to reduce enrollment in order to maintain the quality of education provided.

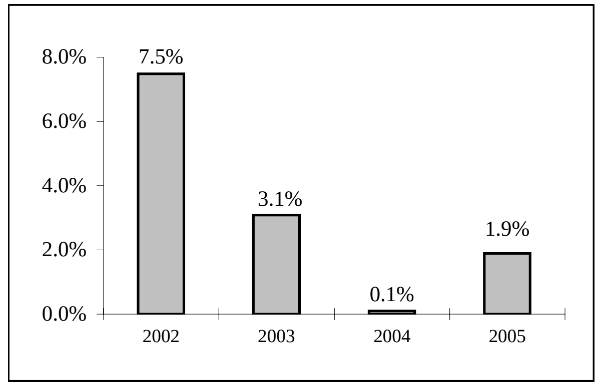
The University of Texas at Brownsville
2005 Summary of Financial Condition

Financial Condition: **Satisfactory**

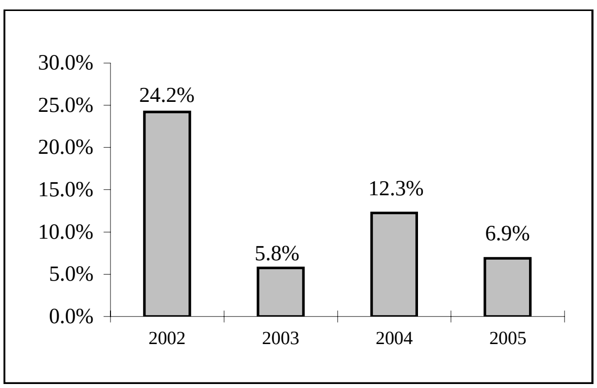
Operating Expense Coverage Ratio



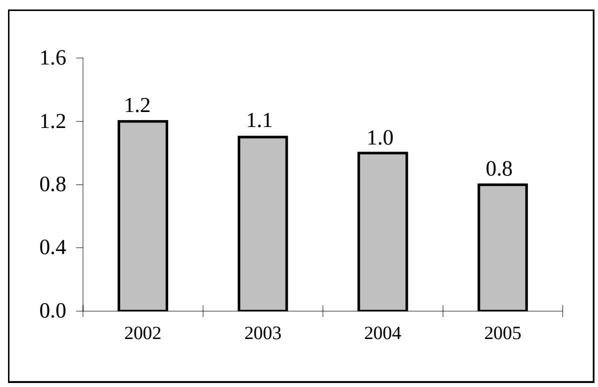
Annual Operating Margin Ratio



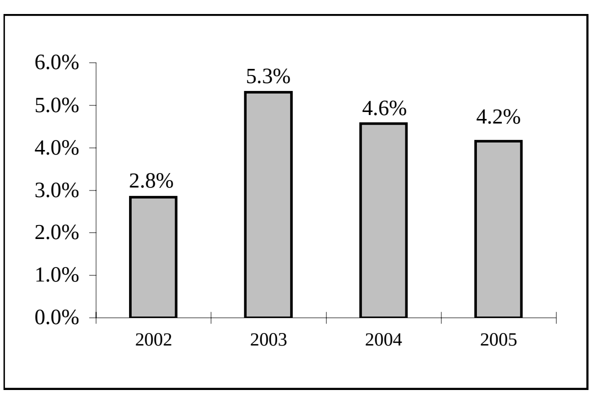
Return on Net Assets Ratio



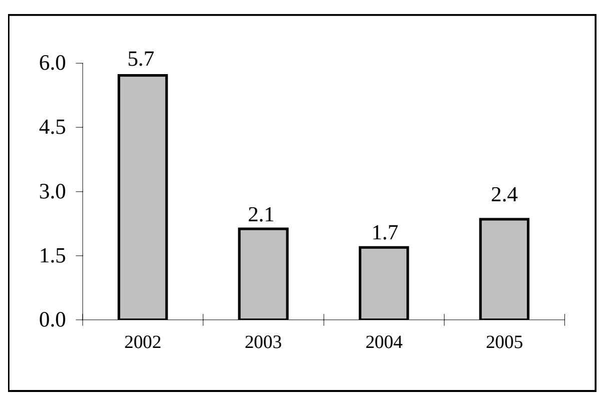
Expendable Resources to Debt Ratio



Debt Burden Ratio

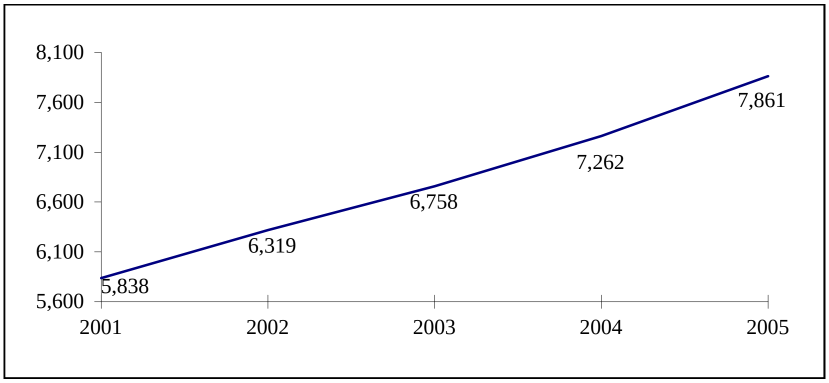


Debt Service Coverage Ratio



The University of Texas at Brownsville
2005 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Operating Expense Coverage Ratio - UT Brownsville's operating expense coverage ratio remained stable at 2.6 months in 2005. Although UT Brownsville's unrestricted net assets increased by $2.5 million, total operating expenses and interest expense increased as well. Operating expenses increased primarily due to: increased salaries and wages resulting from the hiring of new faculty to accommodate enrollment increases; increased scholarship expenses due to the increase in enrollment and students eligible for grants; and additional expenses related to the new Business and Education Complex (BEC), including interest expense, which was placed into service in 2005. Additionally, operating expenses increased a as a result of several new grants received in 2005.

Annual Operating Margin Ratio - UT Brownsville's annual operating margin ratio improved from 0.1% for 2004 to 1.9% for 2005 primarily due to an increase in State appropriations of $3 million.

Return on Net Assets Ratio - UT Brownsville's return on net assets ratio decreased from 12.3% in 2004 to 6.9% in 2005 due to a $6.1 million decrease in the amount of debt outstanding for the BEC in the previous year.

Expendable Resources to Debt Ratio - UT Brownsville's expendable resources to debt ratio decreased from 1.0x in 2004 to 0.8x in 2005 due to a reduction in expendable net assets restricted for capital projects. The amount restricted for capital projects decreased as a result of the completion of the BEC.

Debt Burden Ratio - UT Brownsville's debt burden ratio decreased from 4.6% in 2004 to 4.2% in 2005 due to an increase in both operating expenses and interest expense as previously discussed.

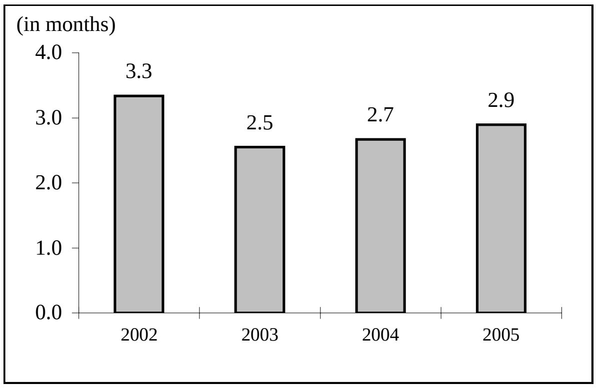
Debt Service Coverage Ratio - UT Brownsville's debt service coverage ratio increased from 1.7x in 2004 to 2.4x in 2005 as a result of the increase in the annual operating margin as mentioned above.

Full-Time Equivalent (FTE) Student Enrollment - UT Brownsville's FTE student enrollment increased from 7,262 for Fall 2004 to 7,861 for Fall 2005. The Fall 2005 student headcount was the highest in UT Brownsville's history. This trend is predicted to continue at the same pace, and total student population is expected to be 20,000 by the year 2010.

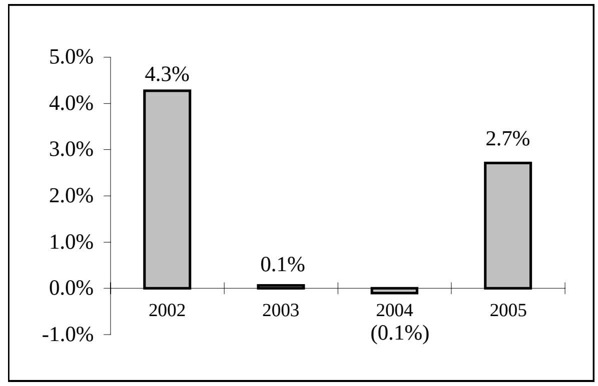
The University of Texas at Dallas
2005 Summary of Financial Condition

Financial Condition: **Satisfactory**

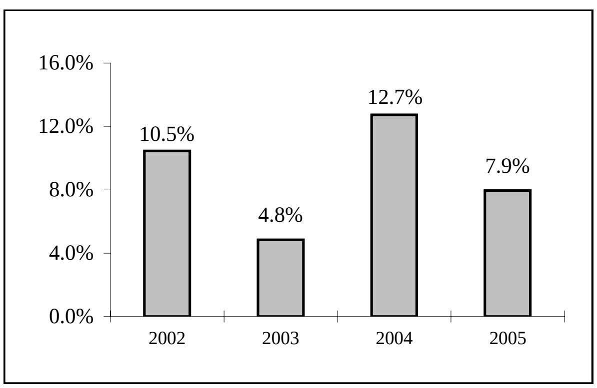
Operating Expense Coverage Ratio



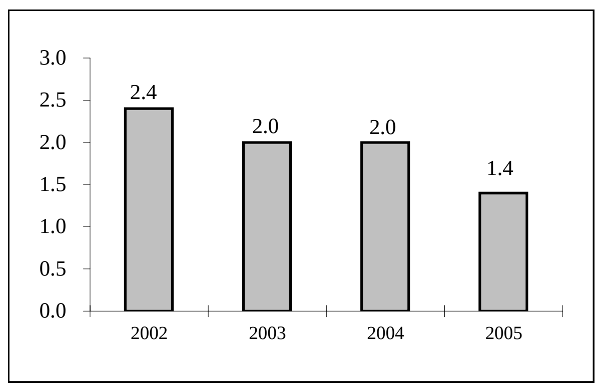
Annual Operating Margin Ratio



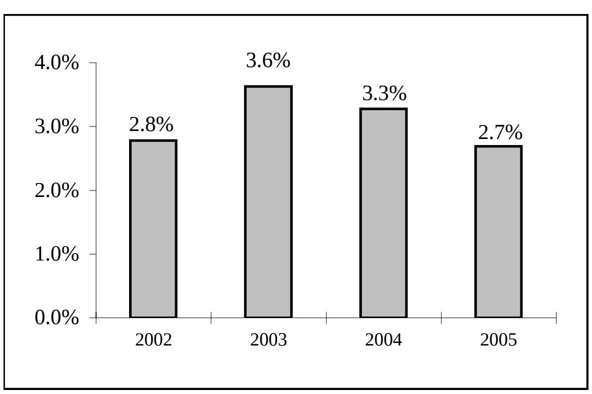
Return on Net Assets Ratio



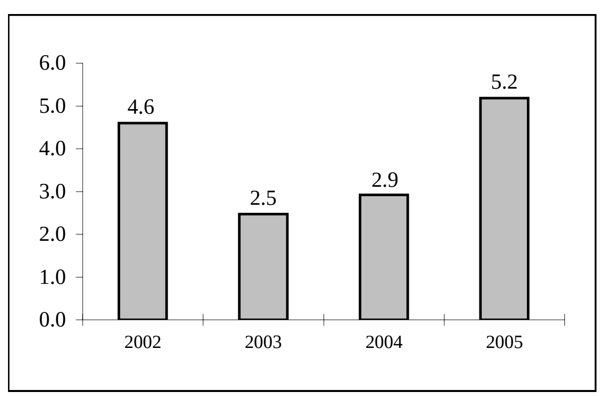
Expendable Resources to Debt Ratio



Debt Burden Ratio

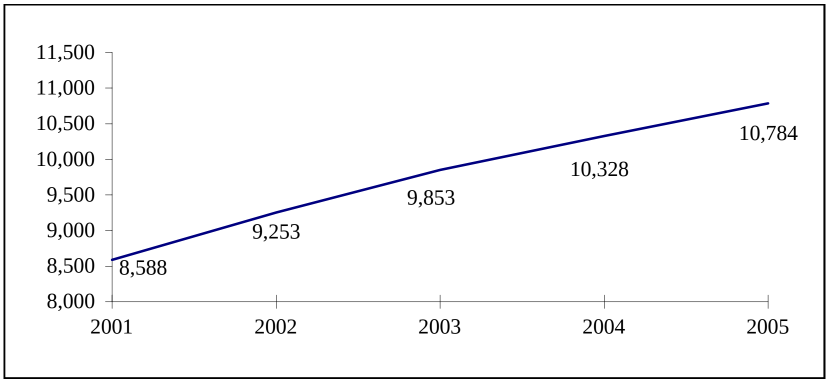


Debt Service Coverage Ratio



The University of Texas at Dallas
2005 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Operating Expense Coverage Ratio - UT Dallas' operating expense coverage ratio increased slightly from 2.7 months in 2004 to 2.9 months in 2005 due to a $9.1 million increase in unrestricted net assets. Total unrestricted net assets increased as a result of $3.5 million from the settlement of a suit and $700,000 from insurance proceeds for repair expenses which were incurred in the previous fiscal year. In addition, the unrestricted net asset balance increased due to a $2.5 million reclassification of unrestricted Excellence in Education funding which was previously reported in restricted net assets.

Annual Operating Margin Ratio - UT Dallas' annual operating margin ratio improved significantly from (0.1%) for 2004 to 2.7% for 2005. The improvement in the annual operating margin was due to the distribution from the University Research Fund (URF) as well as a $1.2 million increase in net investment income.

Return on Net Assets Ratio - UT Dallas' return on net assets ratio decreased from 12.7% in 2004 to 7.9% in 2005 as a result of an increase of $50.2 million in the amount of debt outstanding related to the Natural Science and Engineering Research Building (NSERB).

Expendable Resources to Debt Ratio - UT Dallas' expendable resources to debt ratio of 1.4x in 2005 was lower than the ratio in 2004 of 2.0x. The decline in this ratio can also be attributed to the increase in the amount of debt outstanding.

Debt Burden Ratio - UT Dallas' debt burden ratio decreased from 3.3% in 2004 to 2.7% in 2005 due to an increase in both total operating expenses and interest expense related to NSERB. Operating expenses increased $21.8 million primarily due to: an increase in salaries and wages resulting from the hiring of new teaching faculty to accommodate enrollment increases and research faculty and associated supporting expenses for the Texas Enterprise Fund (TEF) grant; an increase in research expenses as a result of the TEF; and an increase in the depreciation expense of library books which were previously considered nondepreciable.

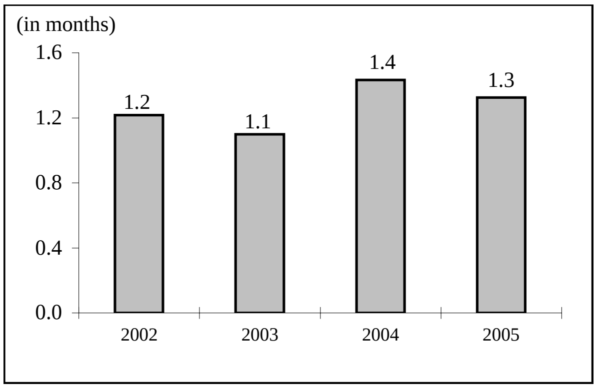
Debt Service Coverage Ratio - UT Dallas' debt service coverage ratio increased from 2.9x in 2004 to 5.2x in 2005 as a result of the improvement in the annual operating margin as discussed above.

Full-Time Equivalent (FTE) Student Enrollment - In accordance with its mission to grow the student body while maintaining a high quality of education, UT Dallas' FTE student enrollment increased by 4.4% to 10,784. The majority of the increase occurred in the schools of Arts and Humanities, School of Management and Social Sciences.

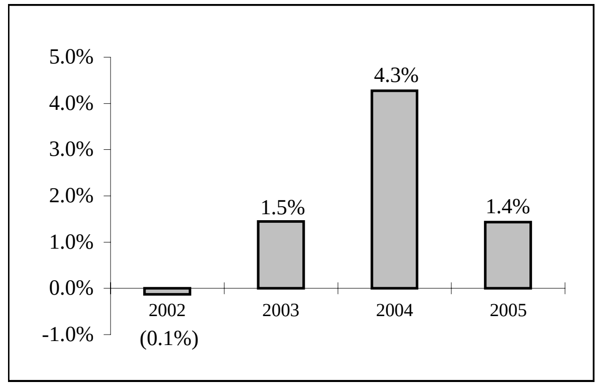
The University of Texas at El Paso
2005 Summary of Financial Condition

Financial Condition: **Satisfactory**

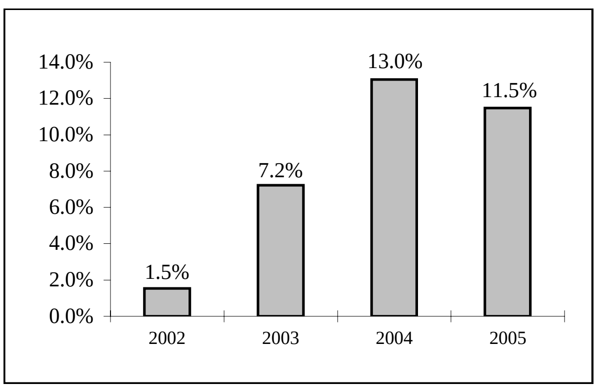
Operating Expense Coverage Ratio



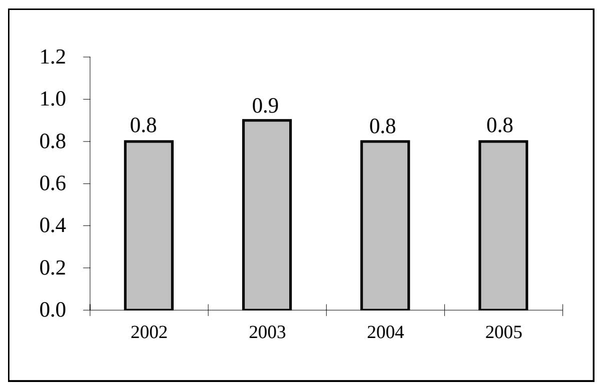
Annual Operating Margin Ratio



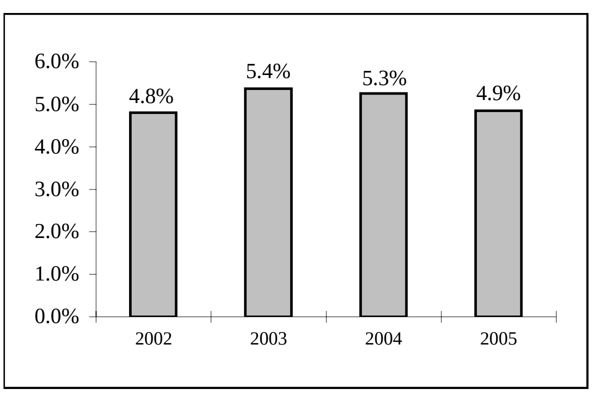
Return on Net Assets Ratio



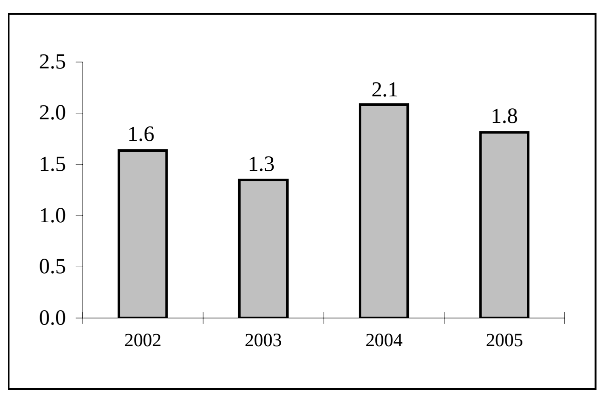
Expendable Resources to Debt Ratio



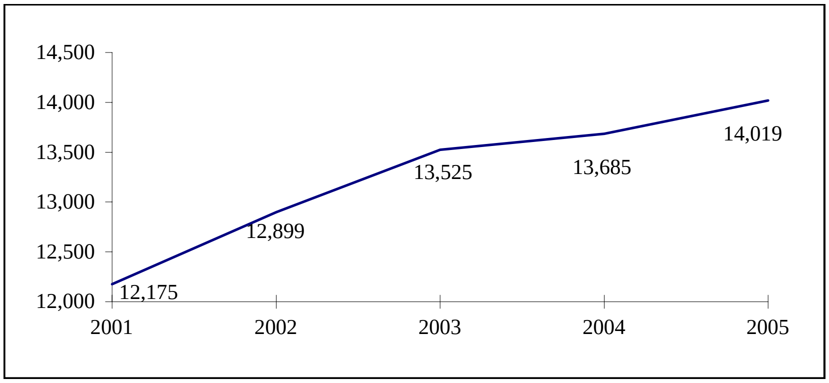
Debt Burden Ratio



Debt Service Coverage Ratio



Full-time Equivalent Student Enrollment - Fall



Operating Expense Coverage Ratio - UT El Paso's operating expense coverage ratio decreased slightly from 1.4 months in 2004 to 1.3 months in 2005 due to an increase of $23.1 million in total operating expenses. Expenses increased primarily as a result of increases in salaries and wages and related payroll benefits resulting from the hiring of new faculty to accommodate enrollment increases along with merit increases awarded, and also due to a significant increase in depreciation from the prior year. The increase in depreciation was related to library books, which were considered nondepreciable in previous years. Additionally, new start-up faculty equipment purchases and campus-wide computer replacement costs contributed to higher expenses.

Annual Operating Margin Ratio - UT El Paso's annual operating margin ratio decreased from 4.3% for 2004 to 1.4% for 2005 due to the increase in operating expenses of $23.1 million, as discussed above, outpacing the increase in operating revenues of $15.3 million.

Return on Net Assets Ratio - UT El Paso's return on net assets ratio of 11.5% in 2005 was lower than the ratio in 2004 of 13.0% due to a $4.7 million decrease in the amount of debt outstanding primarily related to the Larry K. Durham project in the previous year.

Expendable Resources to Debt Ratio - UT El Paso's expendable resources to debt ratio remained stable at 0.8x in 2005 due to increases in expendable net assets and the amount of debt outstanding.

Debt Burden Ratio - UT El Paso's debt burden ratio of 4.9% in 2005 was lower than the ratio in 2004 of 5.3%. The decrease was attributable to the increase in operating expenses as previously discussed.

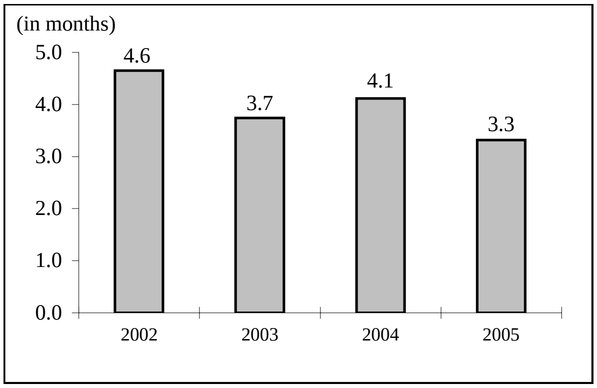
Debt Service Coverage Ratio - UT El Paso's debt service coverage ratio decreased from 2.1x in 2004 to 1.8x in 2005 as a result of the reduction in the annual operating margin.

Full-Time Equivalent (FTE) Student Enrollment - UT El Paso's FTE student enrollment increased 2.4% between Fall 2004 and Fall 2005. UT El Paso's enrollment trends are consistent with trends experienced in prior years and by other public universities. UT El Paso continues to evaluate and enhance programs that were established to ensure that enrollment increases steadily and the needs of the community are met.

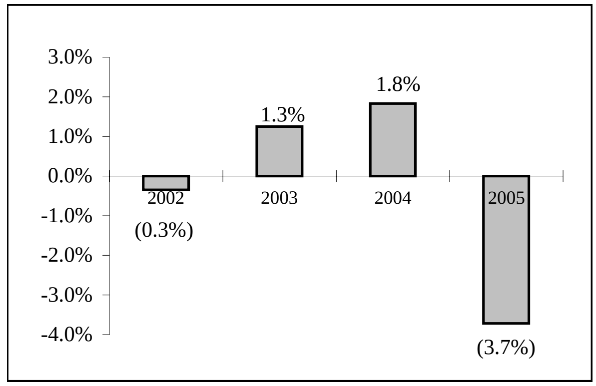
The University of Texas - Pan American
2005 Summary of Financial Condition

Financial Condition: **Satisfactory**

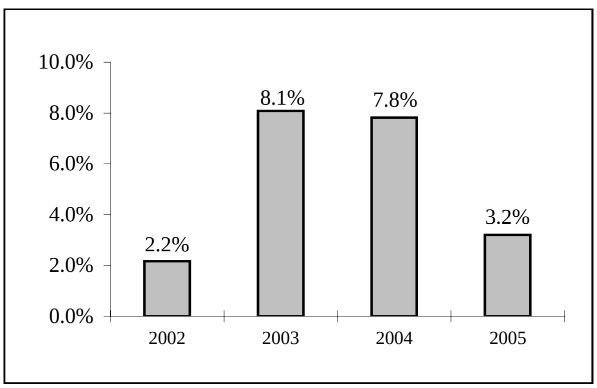
Operating Expense Coverage Ratio



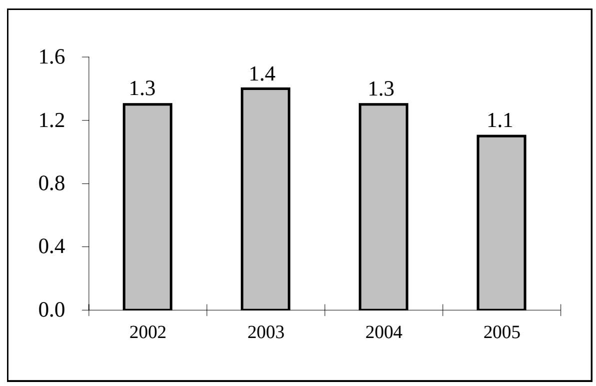
Annual Operating Margin Ratio



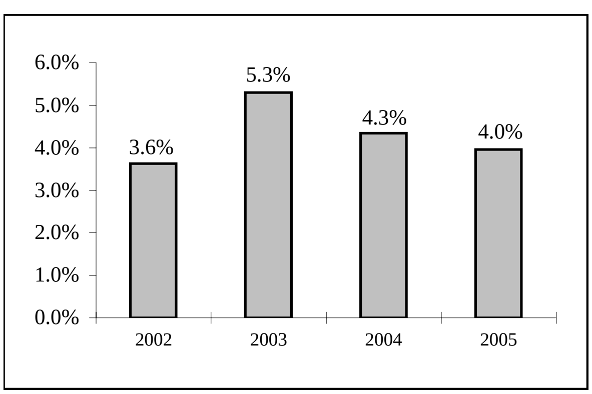
Return on Net Assets Ratio



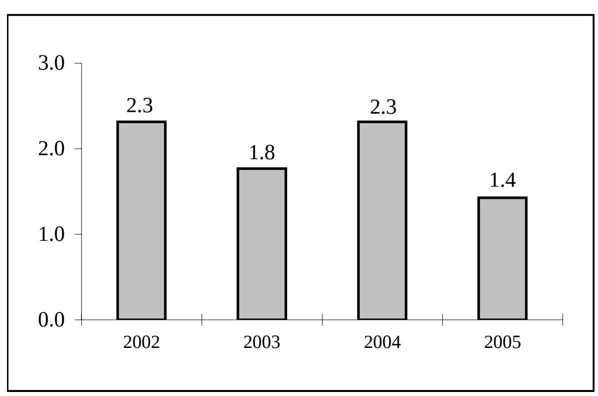
Expendable Resources to Debt Ratio



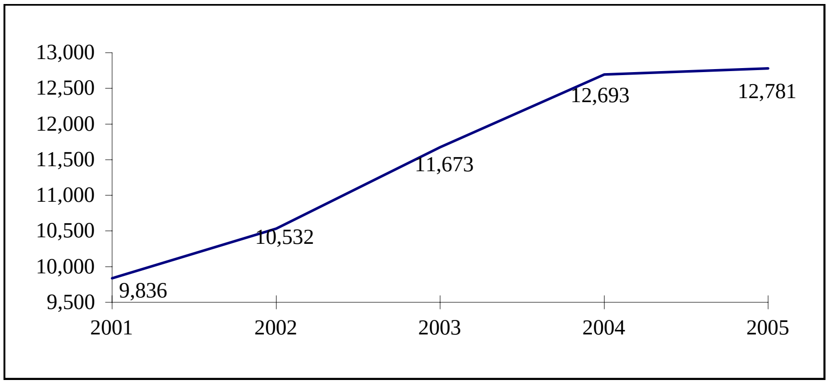
Debt Burden Ratio



Debt Service Coverage Ratio



Full-time Equivalent
Student Enrollment - Fall



Operating Expense Coverage Ratio - UT Pan American's operating expense coverage ratio decreased from 4.1 months in 2004 to 3.3 months in 2005 due to a reduction in unrestricted net assets of $5.9 million and an increase in operating expenses of $17.1 million. Operating expenses increased due to the following: the hiring of additional faculty and staff to accommodate increased student enrollment which resulted in higher salaries and wages expenses; the receipt of over twenty new research awards which contributed to an increase in research expenses; an increase in Texas Grants and in the number of students qualifying for grants which resulted in an increase in scholarship expenses; an increase in the depreciation expense of library books which were previously considered nondepreciable; and an increase in purchases for information technology related to the Oracle project implemented in 2004. The overall increase in operating expenses contributed to the reduction in unrestricted net assets.

Annual Operating Margin Ratio - UT Pan American's annual operating margin ratio declined significantly from 1.8% for 2004 to (3.7%) for 2005 due to the increase in operating expenses of $17.1 million outpacing the increase in operating revenues of $8 million. Total operating revenues increased primarily due an increase in tuition and fee revenue resulting from increased enrollment and rates, as well as an increase in funds received for the Texas Grants Program. However, these increases were offset by the increase in total operating expenses as discussed above in the operating expense coverage ratio.

Return on Net Assets Ratio - UT Pan American's return on net assets ratio decreased from 7.8% in 2004 to 3.2% in 2005 largely due to the reduction in unrestricted net assets discussed above and a decrease in expendable net assets for capital projects. Expendable net assets decreased $8.9 million due to the approval of the Wellness and Recreation Sports Center, Student Housing Phase II and Social and Behavioral Science building for which the debt was not yet issued.

Expendable Resources to Debt Ratio - UT Pan American's expendable resources to debt ratio decreased slightly from 1.3x in 2004 to 1.1x in 2005 due to the decreases in expendable net assets restricted for capital projects and unrestricted net assets discussed previously.

Debt Burden Ratio - UT Pan American's debt burden ratio of 4.0% in 2005 was slightly lower than the 2004 ratio of 4.3% due to the increase in total operating expenses and increase in interest expense.

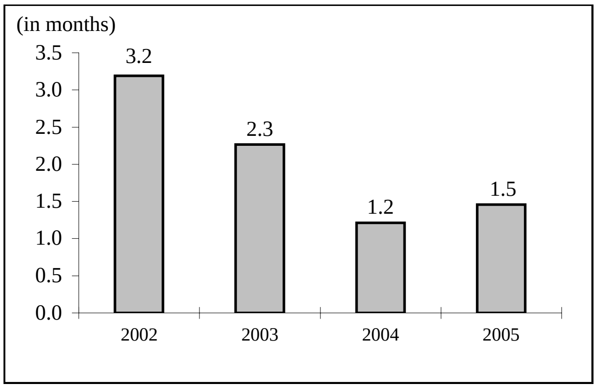
Debt Service Coverage Ratio - UT Pan American's debt service coverage ratio decreased from 2.3x in 2004 to 1.4x in 2005 due to the reduction in the annual operating margin as discussed above.

Full-Time Equivalent (FTE) Student Enrollment - UT Pan American's FTE student enrollment of 12,781 for Fall 2005 was a slight increase from Fall 2004 of 0.7%. UT Pan American instituted a required minimum ACT score. As a result, approximately 400 new freshmen who did not meet the new admission requirement were not accepted.

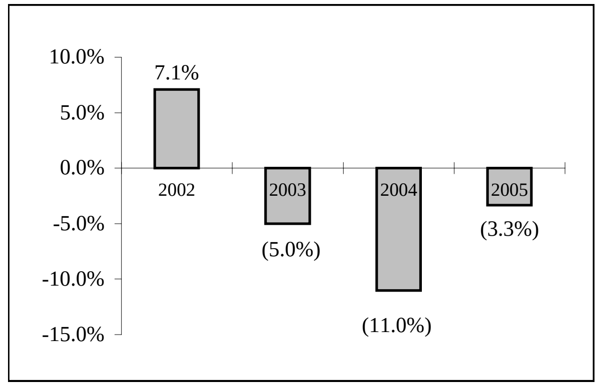
The University of Texas of the Permian Basin
2005 Summary of Financial Condition

Financial Condition: **Satisfactory**

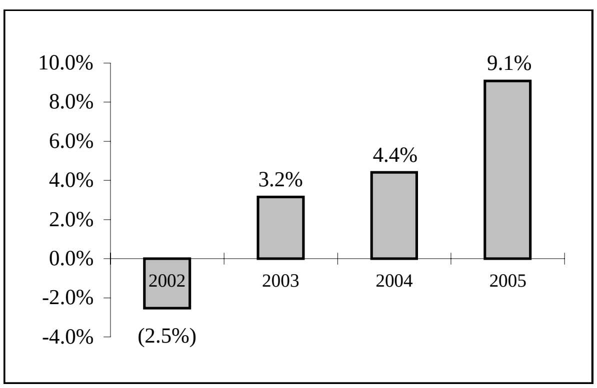
Operating Expense Coverage Ratio



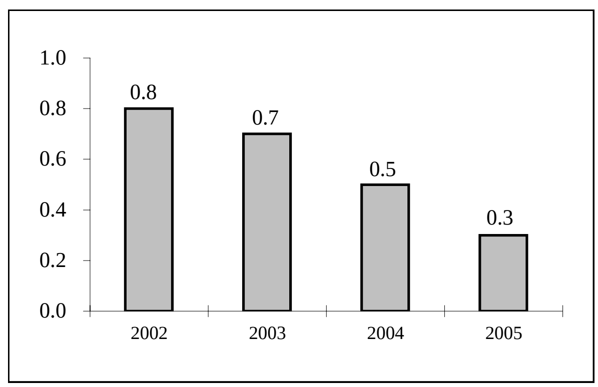
Annual Operating Margin Ratio



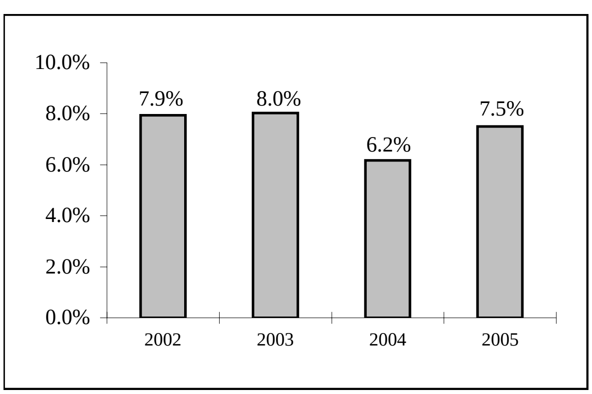
Return on Net Assets Ratio



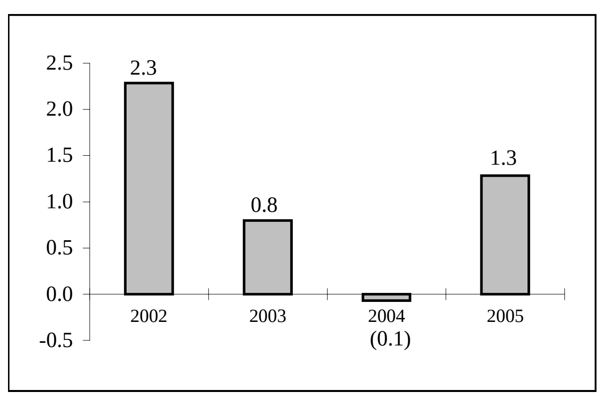
Expendable Resources to Debt Ratio



Debt Burden Ratio

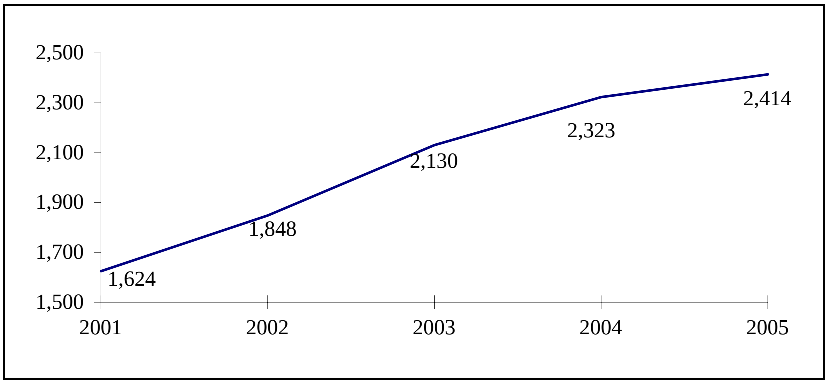


Debt Service Coverage Ratio



The University of Texas of the Permian Basin
2005 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Operating Expense Coverage Ratio - UT Permian Basin's operating expense coverage ratio increased from 1.2 months in 2004 to 1.5 months in 2005 due to an increase of $760,000 in unrestricted net assets primarily driven by increased enrollment and tuition rates.

A*nnual Operating Margin Ratio* - UT Permian Basin's annual operating margin ratio improved from (11.0%) for 2004 to (3.3%) for 2005. UT Permian Basin's operating revenues increased by $2.6 million while operating expenses decreased by $137,000. Enrollment and tuition rate increases contributed $1.1 million to the increase in operating revenues. State appropriations and gifts for operations also increased by $273,000 and $317,000, respectively. Additionally, UT Permian Basin received a distribution from the University Research Fund of $250,000 which was restored in 2005. All of these factors contributed to the improvement in the annual operating margin ratio. Although the annual operating margin ratio improved significantly, UT Permian Basin still ended 2005 with a deficit.

Return on Net Assets Ratio - UT Permian Basin's return on net assets ratio increased from 4.4% in 2004 to 9.1% in 2005 due to a $13.8 million increase in the amount of debt outstanding in the previous year related to the Student Housing Phase II and Phase III and the Mesa building.

Expendable Resources to Debt Ratio - UT Permian Basin's expendable resources to debt ratio of 0.3x in 2005 was lower than the 2004 ratio of 0.5x. The decrease in this ratio was attributable to a $3.4 million decrease in expendable net assets restricted for capital projects due to the completion of the Student Housing Phase II and Phase III.

Debt Burden Ratio - UT Permian Basin's debt burden ratio increased from 6.2% in 2004 to 7.5% in 2005 primarily due to an increase of $445,000 in debt service payments.

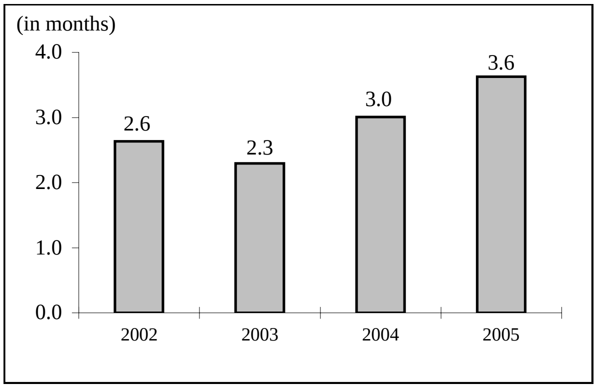
Debt Service Coverage Ratio - UT Permian Basin's debt service coverage ratio increased from (0.1x) in 2004 to 1.3x in 2005 as a result of the improvement in the annual operating margin as discussed above.

Full-Time Equivalent (FTE) Student Enrollment - UT Permian Basin's FTE student enrollment increased due to planned recruiting and retention efforts. UT Permian Basin is actively pursuing development and transformation of the student body into one of a traditional campus.

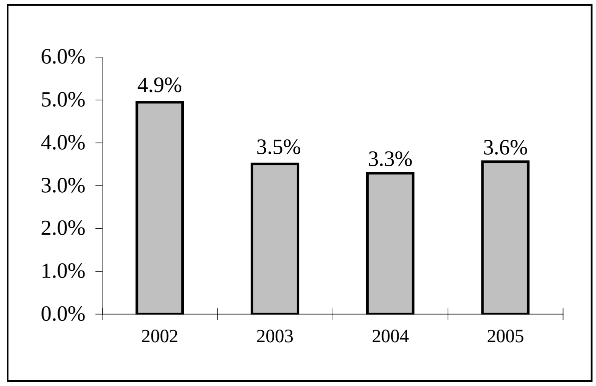
The University of Texas at San Antonio
2005 Summary of Financial Condition

Financial Condition: **Satisfactory**

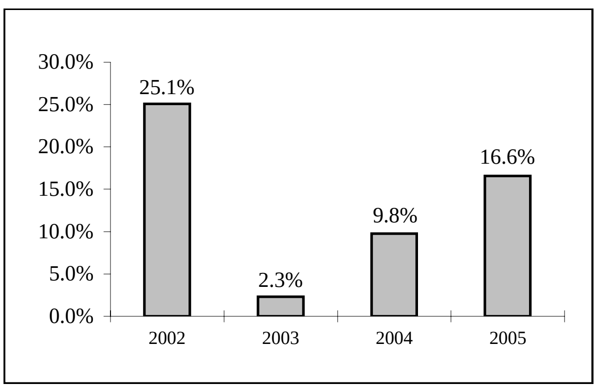
Operating Expense Coverage Ratio



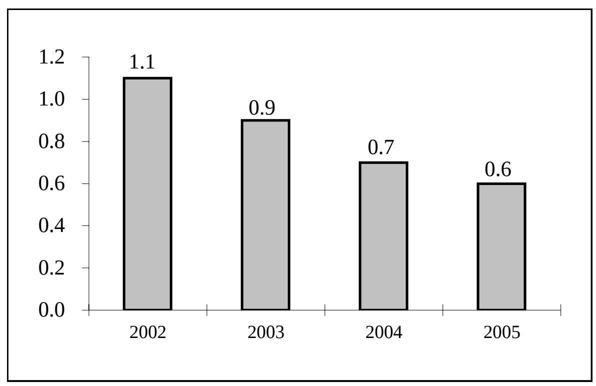
Annual Operating Margin Ratio



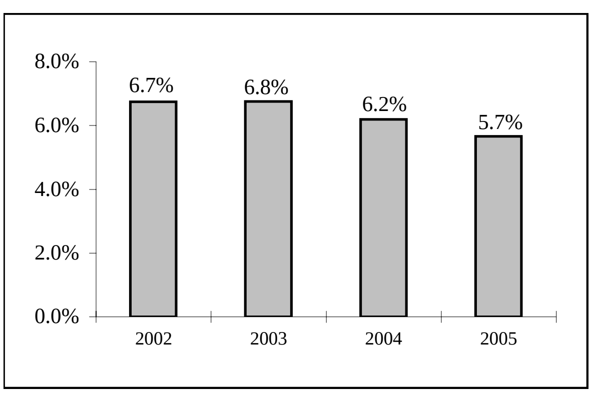
Return on Net Assets Ratio



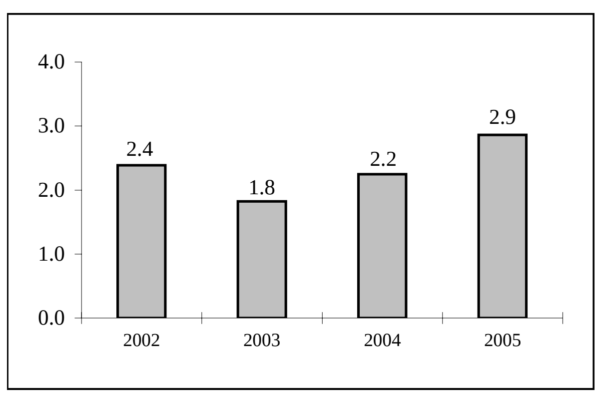
Expendable Resources to Debt Ratio



Debt Burden Ratio

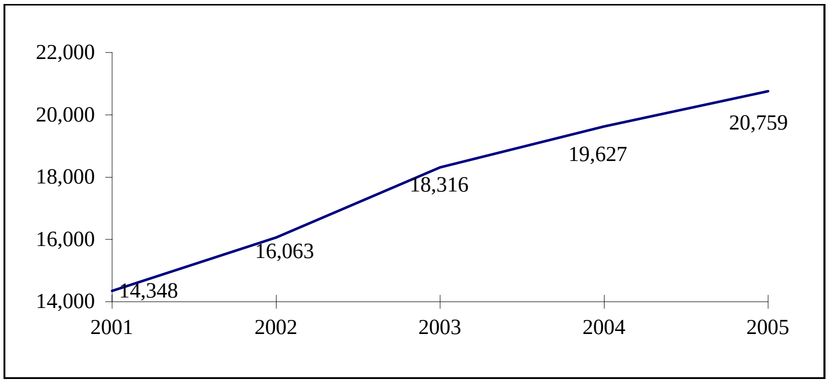


Debt Service Coverage Ratio



The University of Texas at San Antonio
2005 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Operating Expense Coverage Ratio - UT San Antonio's operating expense coverage ratio increased from 3.0 months in 2004 to 3.6 months in 2005 due to a $24.0 million increase in total unrestricted net assets. A portion of the increase in unrestricted net assets was attributable to increased tuition and fees of $18.4 million resulting from higher rates as well as enrollment growth of approximately 6.0%. Revenue generated from new student housing and new meal plans also contributed to the increase.

Annual Operating Margin Ratio - UT San Antonio's annual operating margin ratio increased from 3.3% for 2004 to 3.6% for 2005. The revenue increases mentioned above contributed to the improvement in the annual operating margin ratio. In addition, State appropriations and gifts for operations each increased by $1.3 million compared to 2004.

Return on Net Assets Ratio - UT San Antonio's return on net assets ratio of 16.6% in 2005 was significantly higher than the 2004 ratio of 9.8% primarily due to an increase in the amount of bond proceeds received from UT System Administration for the Biotechnology Science and Engineering building, Student Housing Expansion Phase I, Academic Building Phase III, Business Technology Center Renovation, and the Academic Building Parking Garage.

Expendable Resources to Debt Ratio - UT San Antonio's expendable resources to debt ratio decreased slightly from 0.7x in 2004 to 0.6x in 2005 due to an increase in the amount of debt outstanding for the Student Housing Expansion Phase I and the Academic Building Parking Garage and the purchase of the Business Technology Center.

Debt Burden Ratio - UT San Antonio's debt burden ratio decreased from 6.2% in 2004 to 5.7% in 2005 as a result of increased operating expenses. Salaries and wages and related payroll costs increased due to merit increases and the hiring of new faculty to accommodate the continued enrollment growth. Expenses also increased as a result of upgrades in the student labs and classrooms as well as costs associated with the wireless network. The Student Housing Expansion Phase I Dining Hall and the Academic Building Parking Garage were also placed into service in 2005 which created additional operating expenses and depreciation expense.

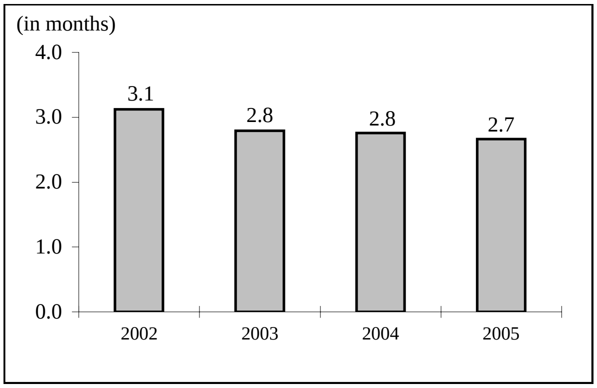
Debt Service Coverage Ratio - UT San Antonio's debt service coverage ratio increased from 2.2x in 2004 to 2.9x in 2005 due to the improvement in the annual operating margin ratio as discussed above.

Full-Time Equivalent (FTE) Student Enrollment - UT San Antonio's FTE student enrollment continued to increase in 2005. Enrollment increases are attributable to improved recruitment and retention efforts, increases in Graduate Programs, and enrollment caps at other universities such as UT Austin.

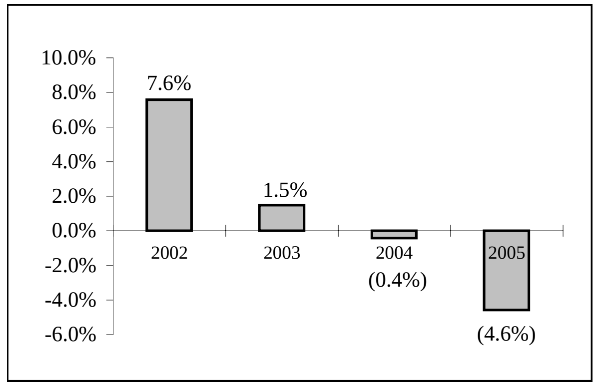
The University of Texas at Tyler
2005 Summary of Financial Condition

Financial Condition: **Satisfactory**

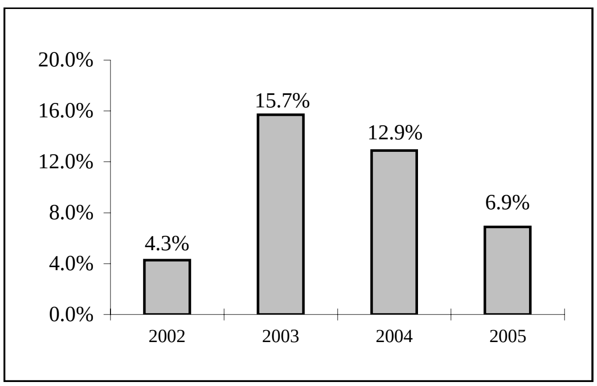
Operating Expense Coverage Ratio



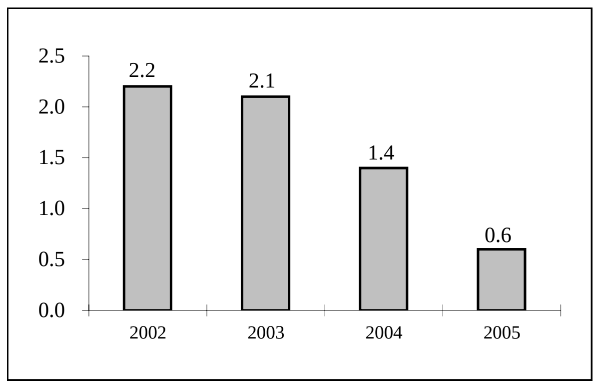
Annual Operating Margin Ratio



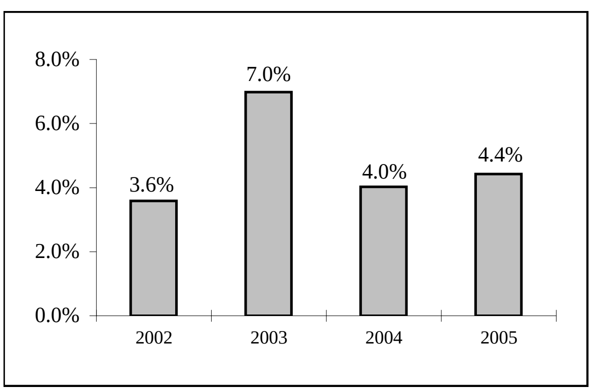
Return on Net Assets Ratio



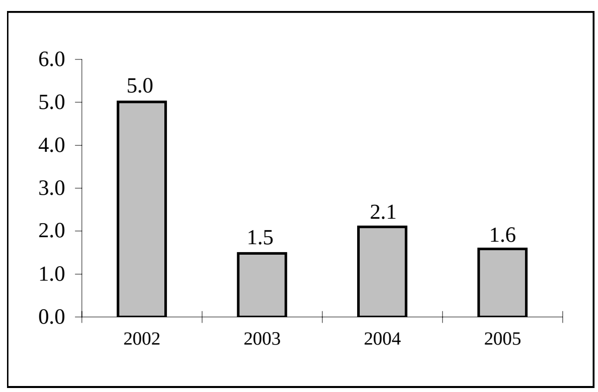
Expendable Resources to Debt Ratio



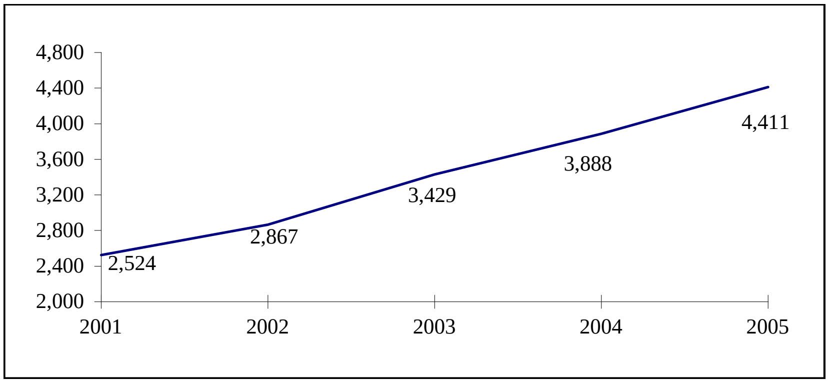
Debt Burden Ratio



Debt Service Coverage Ratio



Full-time Equivalent Student Enrollment - Fall



Operating Expense Coverage Ratio - UT Tyler's operating expense coverage ratio decreased slightly from 2.8 months in 2004 to 2.7 months in 2005 due to increased operating expenses and interest expense. Operating expenses increased largely as a result of higher salaries and wages and payroll related costs attributable to merit increases. Additionally, depreciation expense and interest expense increased due to three new capital projects placed into service in 2005: Patriot Village Apartments; the soccer field; and the baseball and softball fields. UT Tyler planned to draw upon prior year net assets to transform from a two-year upper level commuter campus to a full four-year comprehensive university. Expansion is essential in all areas, including additional faculty, leasing of temporary classrooms, construction of new facilities, expanded student services, and creation of athletic programs and facilities.

Annual Operating Margin Ratio - UT Tyler's annual operating margin ratio dropped significantly from (0.4%) for 2004 to (4.6%) for 2005, which was attributable to the increase in operating expenses as mentioned above.

Return on Net Assets Ratio - UT Tyler's return on net assets ratio decreased from 12.9% in 2004 to 6.9% in 2005 due to a reduction in the amount of bond proceeds received from UT System Administration because of the completion of several major capital projects in 2005 as noted in the operating expense coverage ratio.

Expendable Resources to Debt Ratio - UT Tyler's expendable resources to debt ratio decreased from 1.4x in 2004 to 0.6x in 2005 due to a reduction in the amount of net assets expendable for capital projects as well as an increase in the amount of debt outstanding.

Debt Burden Ratio - UT Tyler's debt burden ratio increased from 4.0% in 2004 to 4.4% in 2005. The increase in this ratio was attributable to an increase in debt service payments for the completed projects discussed above.

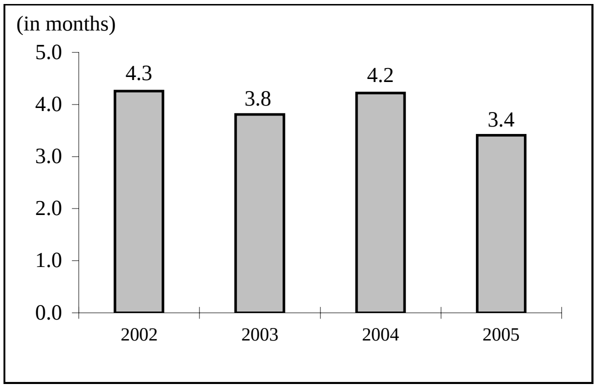
Debt Service Coverage Ratio - UT Tyler's debt service coverage ratio decreased from 2.1x in 2004 to 1.6x in 2005 as a result of the decrease in the annual operating margin ratio and the increase in debt service payments as previously discussed.

Full-Time Equivalent (FTE) Student Enrollment - UT Tyler's FTE student enrollment increased to 4,411 for the Fall 2005 semester, up from 3,888 for the Fall 2004 semester. Successful recruitment efforts contributed greatly to a student increase of almost 30% from the Dallas/Ft. Worth and Houston areas.

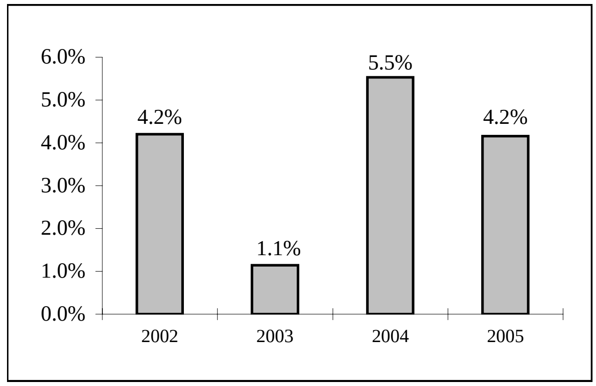
The University of Texas Southwestern Medical Center at Dallas
2005 Summary of Financial Condition

Financial Condition: **Satisfactory**

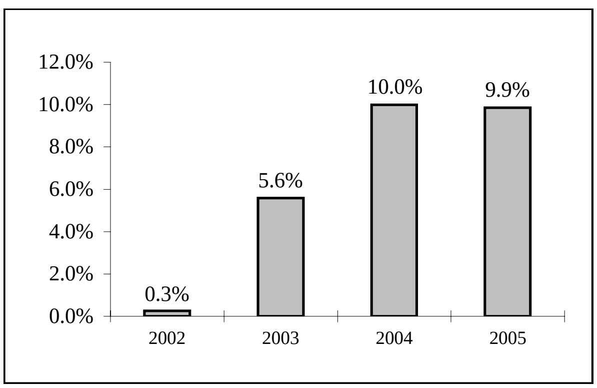
Operating Expense Coverage Ratio



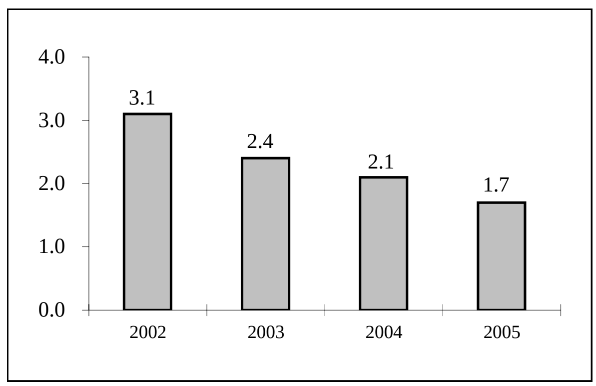
Annual Operating Margin Ratio



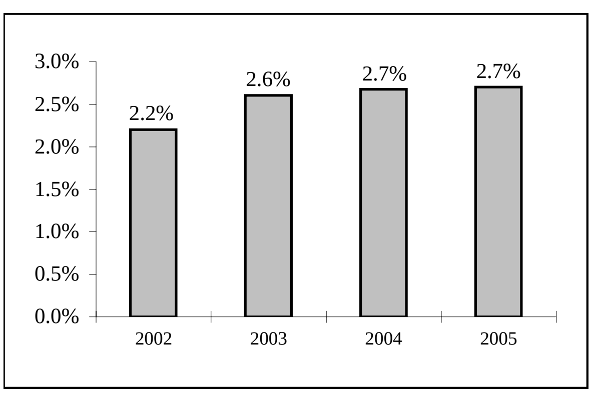
Return on Net Assets Ratio



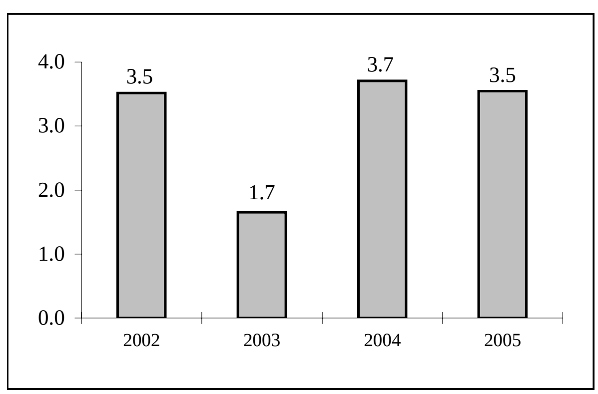
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



Operating Expense Coverage Ratio - UT Southwestern Medical Center - Dallas' (Southwestern's) operating expense coverage ratio decreased from 4.2 months in 2004 to 3.4 months in 2005 due to increased operating expenses and interest expense primarily resulting from the acquisition of Zale Lipshy University Hospital (Zale) and St. Paul University Hospital (St. Paul) effective January 1, 2005. Salaries and wages and related payroll costs increased not only due to the acquisition of Zale and St. Paul and regularly scheduled pay increases, but also due to the hiring of additional staff to meet growing patient volumes primarily in the departments of Pediatrics, Radiation Oncology, Pathology, Internal Medicine, Anesthesiology, Dermatology and Radiology. Noncapital expenditures also increased to furnish the North Campus IV research building.

Annual Operating Margin Ratio - Southwestern's annual operating margin ratio decreased from 5.5% for 2004 to 4.2% for 2005 primarily due to the increase in operating expenses discussed above and an increase in revenues, the denominator in this ratio. Sales and Services of Hospitals increased due to the acquisition of Zale and St. Paul. Professional Fees increased due to higher patient volumes primarily in the departments of Obstetrics/Gynecology, Anesthesiology, Internal Medicine, Pathology, and Radiology. Rate increases and increased contractual revenue from affiliated hospitals also contributed to the higher net professional fees and local sponsored programs revenue, respectively.

Return on Net Assets Ratio - Southwestern's return on net assets ratio changed slightly from 10.0% in 2004 to 9.9% in 2005. Although the change in net assets was $47.1 million greater in 2005 as compared to 2004, the amount of debt outstanding increased $106.7 million; therefore, the ratio remained relatively stable. The increase in the amount of debt outstanding is primarily related to the North Campus Phase IV and Ambulatory Surgical Center construction projects, the acquisition of the hospitals, and equipment purchases for the hospitals.

Expendable Resources to Debt Ratio - Southwestern's expendable resources to debt ratio decreased from 2.1x in 2004 to 1.7x in 2005 as a result of the increase in the amount of debt outstanding as noted above.

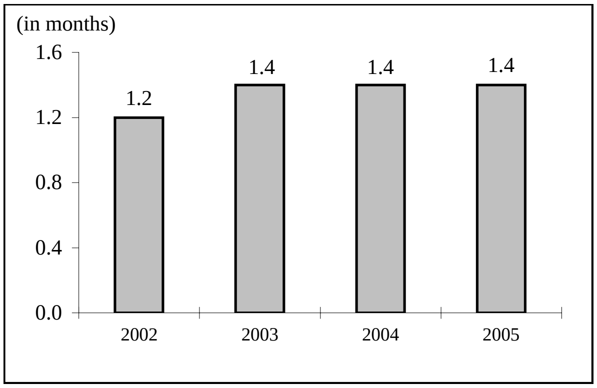
Debt Burden Ratio - Southwestern's debt burden ratio remained unchanged at 2.7% in 2005. The increase in debt service payments was offset by the increase in expenses.

Debt Service Coverage Ratio - Southwestern's debt service coverage ratio decreased from 3.7x in 2004 to 3.5x in 2005 due to the decline in the annual operating margin and increase in debt service payments previously discussed.

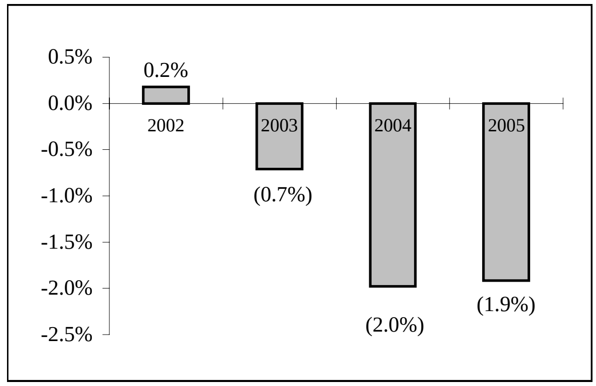
The University of Texas Medical Branch at Galveston
2005 Summary of Financial Condition

Financial Condition: **Watch**

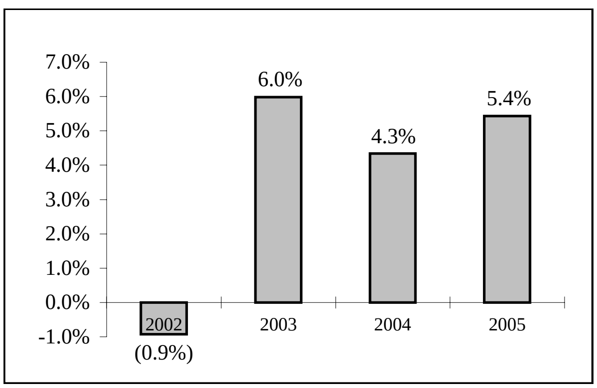
Operating Expense Coverage Ratio



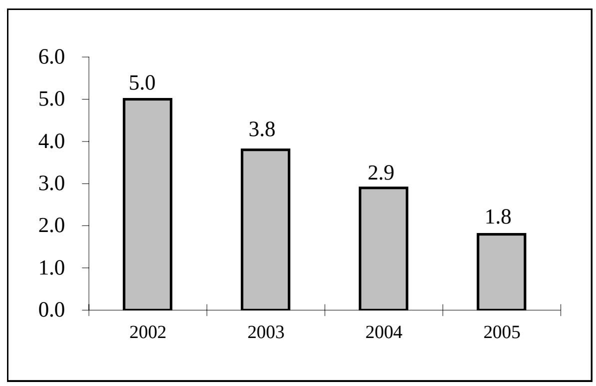
Annual Operating Margin Ratio



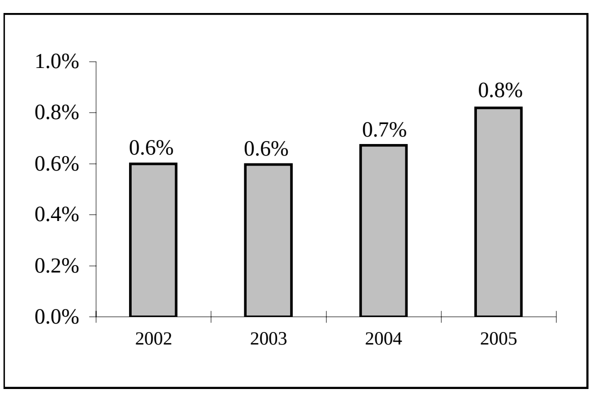
Return on Net Assets Ratio



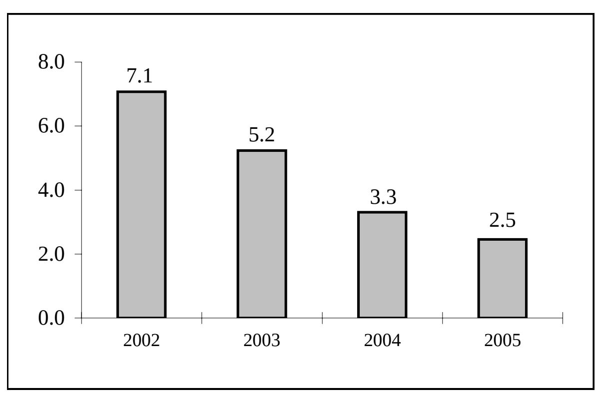
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Medical Branch at Galveston
2005 Summary of Financial Condition

Operating Expense Coverage Ratio - UT Medical Branch - Galveston's (UTMB Galveston) operating expense coverage ratio remained at 1.4 months in 2005. Unrestricted net assets increased between the years by 12.3%; however, that increase was offset by a 7.1% increase in operating expenses. The growth in expenses was largely due to a 5% increase in patient volumes, increase in consulting fees related to system upgrades and process improvement activities, a receipt of professional liability insurance rebate in 2004 that did not occur in 2005, increases in free world expenses mainly due to 3,870 additional lives in the TDCJ population and increase in emergency visits and related ambulance transport costs, increase in salaries and benefits due to annual salary administration and increases to employer health insurance rates, and inflation. UTMB Galveston is committed to enhancing financial performance and is in the continual process of implementing revenue enhancements, cost reduction, and growth strategies.

Annual Operating Margin Ratio - UTMB Galveston's annual operating margin ratio changed only slightly from (2.0%) for 2004 to (1.9%) for 2005. Revenues increased by 7.2% or $93.1 million largely due to patient care volume increases, growth in research related revenue, and the recognition of $30.4 million in supplemental funding for the Correctional Health Care Program. UTMB Galveston received a reduction in Medicaid reimbursement rates and nominal payment increases from Medicare, commercial and other payors. UTMB Galveston has been facing severe inflationary pressures on nursing and other patient care provider salaries due to national shortages of these positions. Operating expenses, including interest expense, increased by 7.2% or $94.1 million largely due to the increases discussed above.

The annual operating margin ratio includes depreciation expense (a non-cash expense) and excludes gifts for capital acquisition (primarily from the Sealy and Smith Foundation for which UTMB Galveston is the sole beneficiary). After adjusting for these items, UTMB Galveston's cash flow available for capital in 2005 was $39.7 million.

Return on Net Assets Ratio - UTMB Galveston's return on net assets ratio increased from 4.3% in 2004 to 5.4% in 2005. The change in net assets was $42.1 million greater in 2005 as compared to 2004 primarily due to an increase in gifts and sponsored programs for capital acquisitions of $11.4 million, an increase in transactions related to capital and debt with UT System Administration of $30.8 million, and the receipt of State fiscal relief funds (Section 56 funds).

Expendable Resources to Debt Ratio - UTMB Galveston's expendable resources to debt ratio decreased from 2.9x in 2004 to 1.8x in 2005 largely as a result of an increase of $51.4 million in the amount of debt outstanding. The increase in the amount of debt outstanding primarily related to the Galveston National Laboratory, the Research Facilities Expansion, the University Plaza Development project and the Daycare Center.

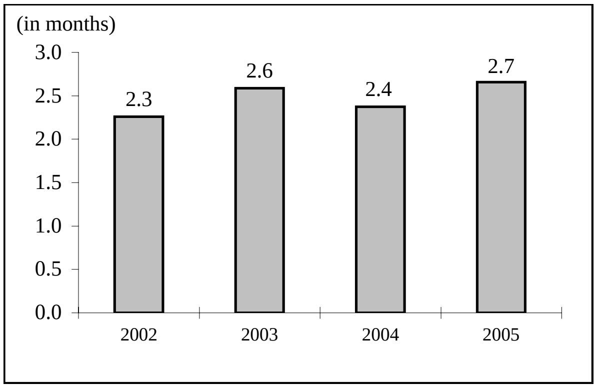
Debt Burden Ratio - UTMB Galveston's debt burden ratio of 0.8% in 2005 was slightly higher than the 2004 ratio of 0.7%. The slight increase in this ratio was attributable to increased debt service between the years to support the projects discussed above. UTMB Galveston's debt burden ratio still remains extremely low.

Debt Service Coverage Ratio - UTMB Galveston's debt service coverage ratio decreased from 3.3x in 2004 to 2.5x in 2005 as a result of the increase in debt service discussed above.

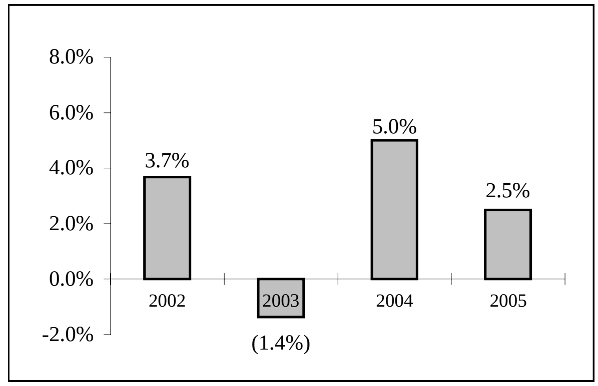
The University of Texas Health Science Center at Houston
2005 Summary of Financial Condition

Financial Condition: **Satisfactory**

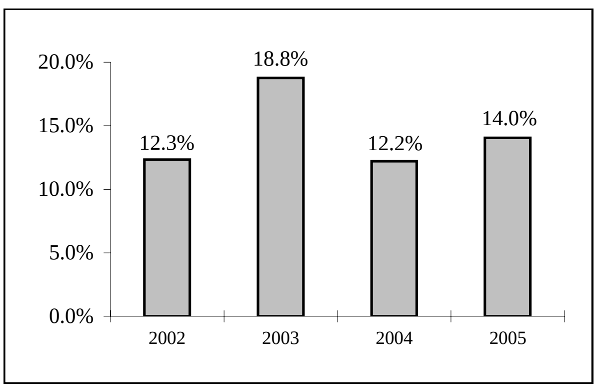
Operating Expense Coverage Ratio



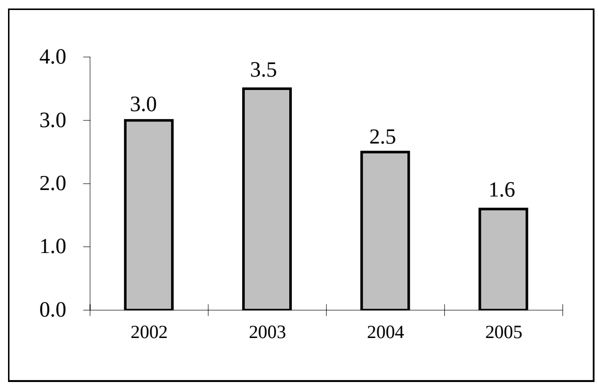
Annual Operating Margin Ratio



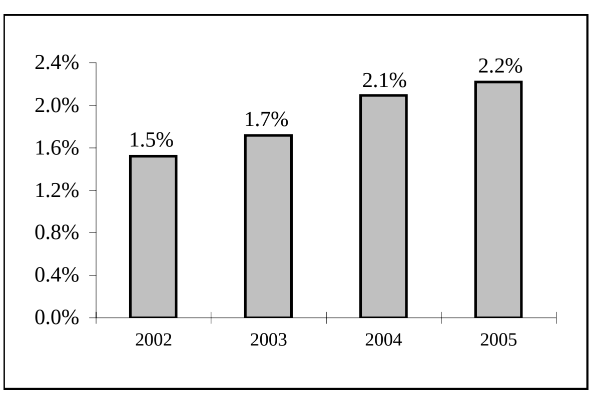
Return on Net Assets Ratio



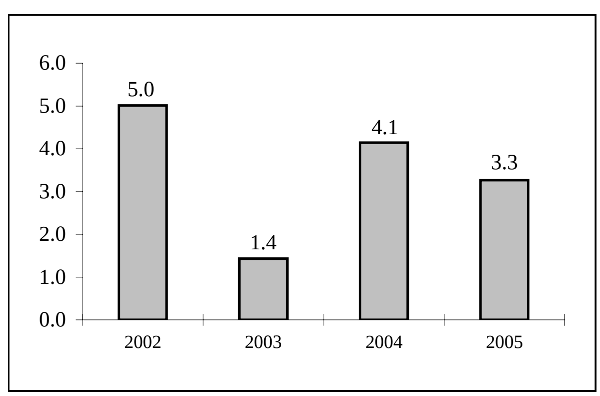
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Health Science Center at Houston
2005 Summary of Financial Condition

Operating Expense Coverage Ratio - UT Health Science Center - Houston's (UTHSC-Houston) operating expense coverage ratio increased from 2.4x in 2004 to 2.7x in 2005 due to a $20.9 million increase in total unrestricted net assets. The increase in unrestricted net assets was largely driven by the following factors: a $7.5 million increase in net auxiliary enterprises revenue generated from the UT Professional Building and Garage purchased in 2005; the receipt of $5.1 million from the United States Federal Emergency Management Agency (FEMA) for Houston’s continued reimbursement of costs associated with Tropical Storm Allison in June 2001; and the receipt of $6.3 million in State fiscal relief funds transferred from the Texas State Comptroller.

Annual Operating Margin Ratio - UTHSC-Houston's annual operating margin ratio decreased from 5.0% for 2004 to 2.5% for 2005 due to an overall decrease in operating revenues and an increase in operating expenses. UTHSC-Houston's operating revenues, excluding the $6.3 million transfer of State fiscal relief funds, decreased by $4.4 million (1.0%) while operating expenses increased $25.7 million (4.5%). Although the purchase of the UT Professional Building and Garage generated additional revenues, it also resulted in additional expenses, such as costs for professional management, cleaning, utilities and depreciation expense. Utilities and depreciation expense also increased as a result of the addition of the Nursing School building. Interest expense increased $5.3 million due to the acquisition of the UT Professional Building and Garage and the construction of new student apartments.

Return on Net Assets Ratio - UTHSC-Houston's return on net assets ratio increased from 12.2% in 2004 to 14.0% in 2005. The increase in this ratio was primarily attributable to an increase in gifts for operations of $12.8 million, an increase in additions to permanent endowments of $10.3 million and an increase in debt. Private gifts primarily in support of the Institute for Molecular Medicine contributed to the increase in gifts for operations. Permanent Endowments increased due to the receipt of $11.5 million in new quasi and true instructional endowments and $800,000 in new scholarship endowments. The amount of debt outstanding increased due to the Research Expansion Project, the purchase of the UT Professional Building and Garage, the repair of the Medical School Building Phase I and the expansion of student housing.

Expendable Resources to Debt Ratio - UTHSC-Houston's expendable resources to debt ratio decreased from 2.5x in 2004 to 1.6x in 2005. The amount of expendable net assets restricted for capital projects decreased $36.3 million due to the purchase of the UT Professional Building and Garage and the completion of student housing. Additionally, the amount of debt outstanding increased as discussed above.

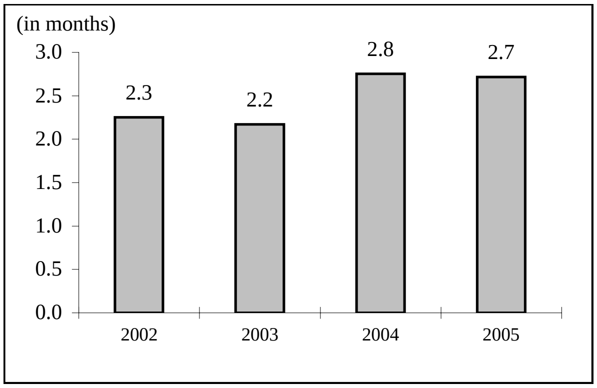
Debt Burden Ratio - UTHSC-Houston's debt burden ratio changed slightly from 2.1% in 2004 to 2.2% in 2005 due to a $1.4 million increase in debt service payments related to the projects discussed above.

Debt Service Coverage Ratio - UTHSC-Houston's debt service coverage ratio decreased from 4.1x in 2004 to 3.3x in 2005 as a result of the decrease in the annual operating margin previously discussed.

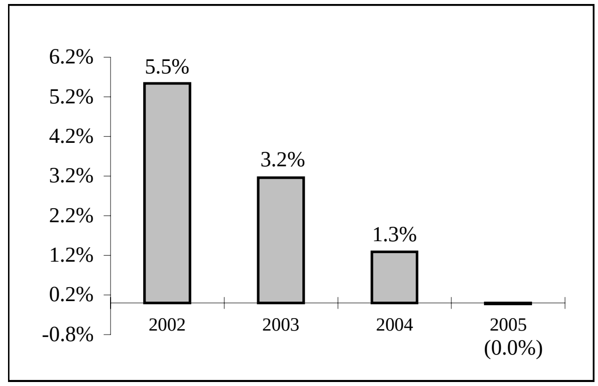
The University of Texas Health Science Center at San Antonio
2005 Summary of Financial Condition

Financial Condition: **Satisfactory**

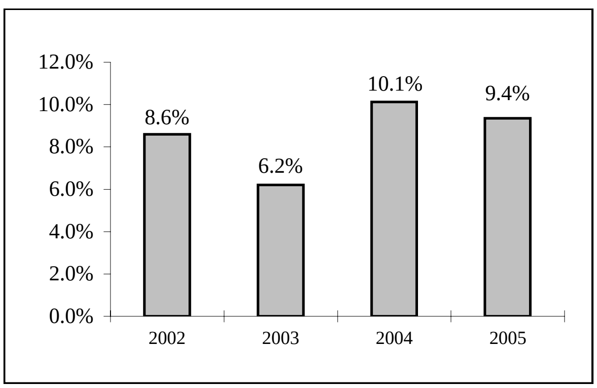
Operating Expense Coverage Ratio



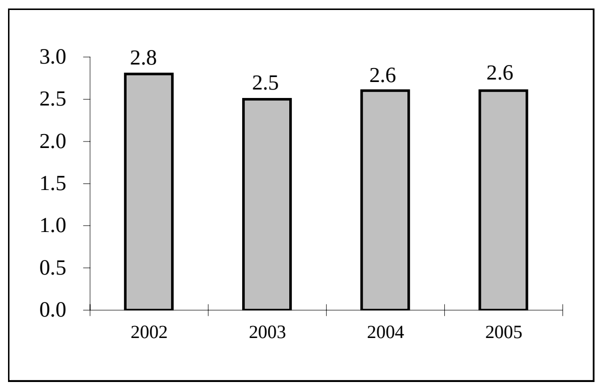
Annual Operating Margin Ratio



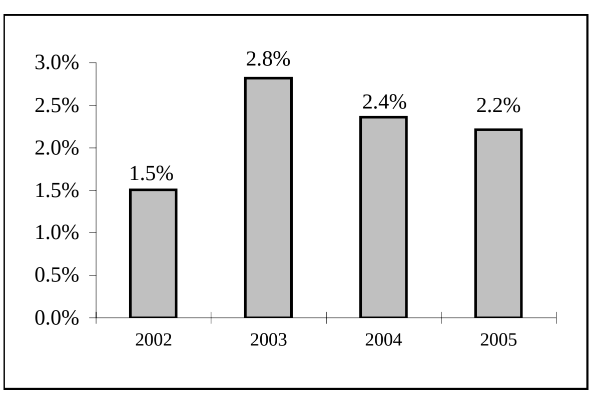
Return on Net Assets Ratio



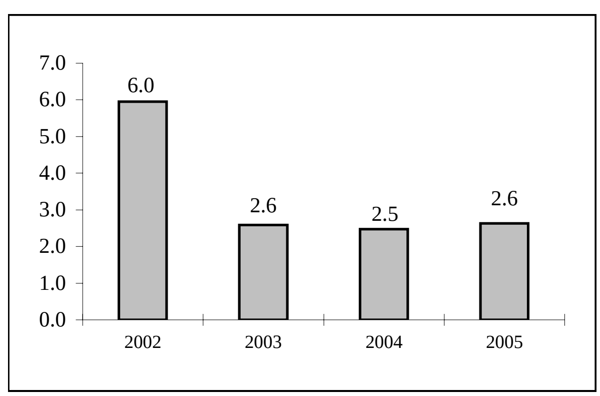
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Health Science Center at San Antonio
2005 Summary of Financial Condition

Operating Expense Coverage Ratio - UT Health Science Center - San Antonio's (UTHSC-San Antonio) operating expense coverage ratio decreased slightly from 2.8x in 2004 to 2.7x in 2005 as a result of an increase in operating expenses, including depreciation and interest expense, of $37.1 million. Operating expenses increased due to additional expenses associated with the South Texas programs which include the South Texas Border Initiative, the Regional Academic Health Center (RAHC) and the Laredo campus. Approximately $3.4 million of the funding received from the State in 2004 for these programs was not expended. UTHSC-San Antonio spent these funds in 2005 with no corresponding revenue, as the related revenue was recognized in 2004. Investments within the physician practice plan, including recruitment efforts, faculty compensation, and department/program expansion, as well as growth among research initiatives also contributed to the increase in operating expenses. Depreciation expense increased due to the Sam and Ann Barshop Center for Longevity and the Academic and Administration building which were placed in service in 2005. Interest expense increased due to the debt associated with the RAHC Teaching/Learning Lab and the Academic and Administration building.

Annual Operating Margin Ratio - UTHSC-San Antonio's annual operating margin ratio decreased from 1.3% for 2004 to breakeven for 2005 due to the growth in expenses of $37.1 million outpacing the growth in revenues of $31.0 million. Expenses increased due to the factors discussed above. The increase in revenues was primarily due to the following: the receipt of $7.2 million in State fiscal relief funds transferred from the Texas State Comptroller; a $6.5 million increase in Federal sponsored programs; a $4.9 million increase in net tuition and fees as a result of higher rates; a $4.6 million increase in professional fees attributable to increased productivity and higher rates; and a $3.0 million increase in gifts for operations.

Return on Net Assets Ratio - UTHSC-San Antonio's return on net assets ratio of 9.4% in 2005 was lower than the 2004 ratio of 10.1%. The decrease in this ratio was due to a $9.0 million increase in the amount of debt outstanding related to the RAHC Teaching/Learning Lab in Harlingen and the Academic and Administration building located on the main campus.

Expendable Resources to Debt Ratio - UTHSC-San Antonio's expendable resources to debt ratio remained unchanged at 2.6x in 2005 with increases in expendable net assets and the debt outstanding noted above. UTHSC-San Antonio continues to retain excess debt capacity.

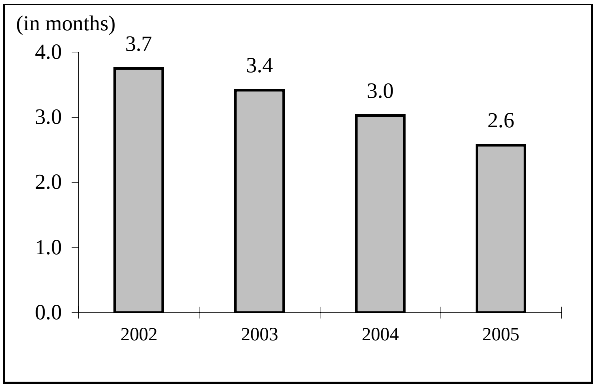
Debt Burden Ratio - UTHSC-San Antonio's debt burden ratio decreased slightly from 2.4% in 2004 to 2.2% in 2005 as a result of the increase in expenses previously discussed.

Debt Service Coverage Ratio - UTHSC-San Antonio's debt service coverage ratio increased slightly from 2.5x in 2004 to 2.6x in 2005 primarily due to the exclusion of depreciation expense for this ratio, but continues its ability to soundly cover current debt service requirements from current operating revenue streams.

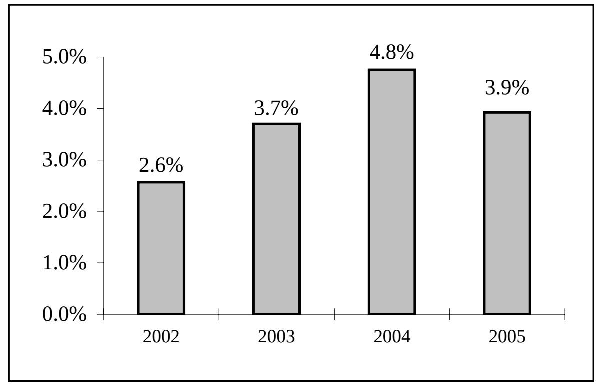
The University of Texas M. D. Anderson Cancer Center
2005 Summary of Financial Condition

Financial Condition: **Satisfactory**

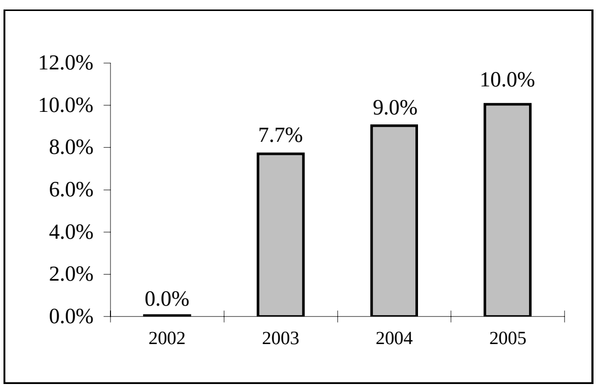
Operating Expense Coverage Ratio



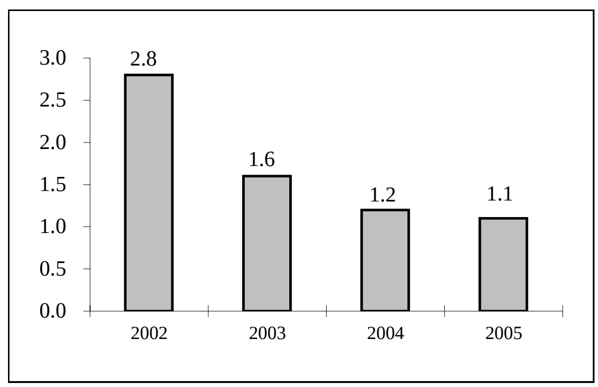
Annual Operating Margin Ratio



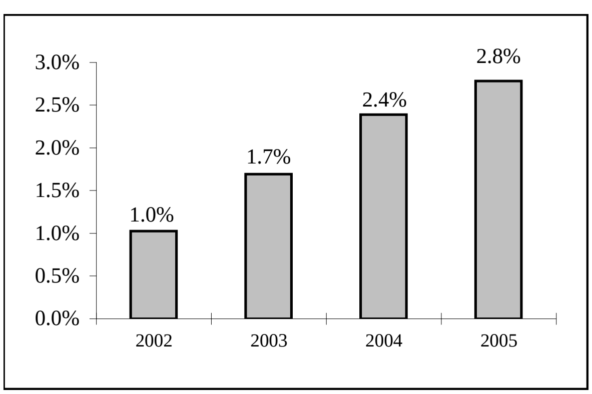
Return on Net Assets Ratio



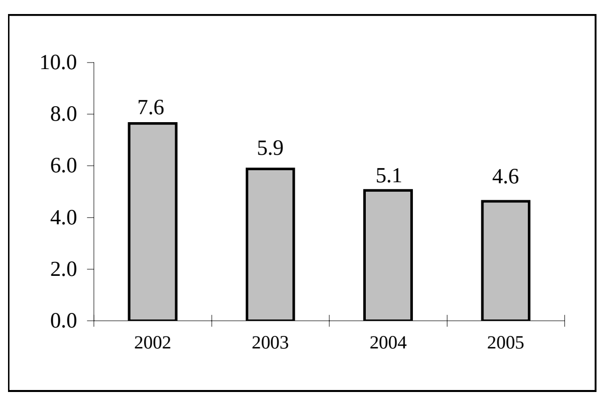
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas M. D. Anderson Cancer Center
2005 Summary of Financial Condition

Operating Expense Coverage Ratio - UT M. D. Anderson Cancer Center's (M. D. Anderson) operating expense coverage ratio decreased from 3.0 months in 2004 to 2.6 months in 2005 due to a reduction in unrestricted net assets of $15.2 million and an increase in operating expenses of $222.5 million. The reduction in unrestricted net assets was attributable to transfers to unexpended plant funds for the construction of the South Campus Research Building 2. Operating expenses increased primarily due to the following: an increase of $113.1 million in salaries and wages and payroll related costs resulting from the hiring of new staff, as well as merit increases and increased rates for group insurance; a $34.7 million increase in depreciation expense due to the recognition of a full year of depreciation expense on capital assets placed into service in 2004, as well as depreciation expense for the Ambulatory Clinical Building, the Cancer Prevention Building, the Basic Science Research Building, and the South Campus Research Building 2 and all of the related equipment which were placed into service in 2005; an increase of $31.8 million in materials and supplies to support increased hospital and clinic activities; a $13.9 million increase in utilities largely due to the opening of the new buildings mentioned above, as well as utility rate changes; and a $12.7 million increase in professional fees and services related to data management, computer services, and other professional and medical services. Interest expense also increased $15.1 million due to additional debt issued for infrastructure improvements and equipment purchases.

Annual Operating Margin Ratio - M. D. Anderson's annual operating margin ratio decreased from 4.8% for 2004 to 3.9% for 2005 due to expense growth outpacing the growth in revenues during a year of major facilities expansion. While expenses, including interest expense, increased $237.6 million, revenues increased $231.6 million. The increase in revenues was primarily attributable to a $188.5 million increase in net sales and services of hospitals due to an increase in volumes in hospital and clinic activities, and a $20.1 million increase in net professional fees due to increased charges, patient volumes and activity levels. Gifts for operations also increased $18.5 million due to a bequest received from the Mary Hicks estate for $2.8 million, a $5.0 million pledge form Helen and Robert Keberg for research, and two additional research pledges totaling $4.0 million from Mrs. Charles Dauphin and Mr. Charif Souki. These pledges, along with a general increase in donor gifts under $100,000 accounts for the increase in operating gifts. Additionally, M. D. Anderson received $5.6 million in State fiscal relief funds from the Texas State Comptroller. The increase in expenses is discussed above.

Return on Net Assets Ratio - M. D. Anderson's return on net assets ratio improved from 9.0% in 2004 to 10.0% in 2005 due to a smaller increase in the amount of debt outstanding in 2005 as compared to the increase in 2004.

Expendable Resources to Debt Ratio - M. D. Anderson's expendable resources to debt ratio decreased slightly from 1.2x in 2004 to 1.1x in 2005 due to the decrease in unrestricted net assets and increase in debt outstanding discussed above.

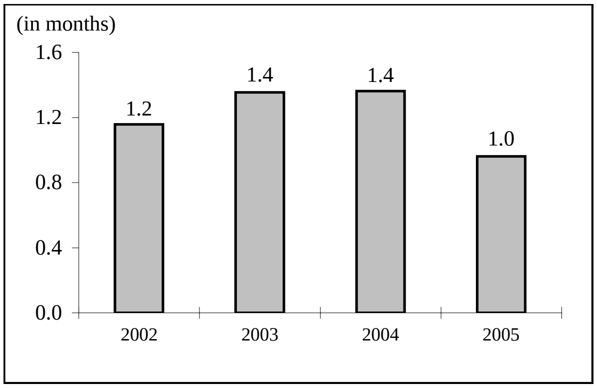
Debt Burden Ratio - M. D. Anderson's debt burden ratio improved from 2.4% in 2004 to 2.8% in 2005 due to an increase of $13.4 million in debt service payments.

Debt Service Coverage Ratio - M. D. Anderson's debt service coverage ratio decreased from 5.1x in 2004 to 4.6x in 2005 as a result of the decrease in the annual operating margin and the increase in debt service payments mentioned above.

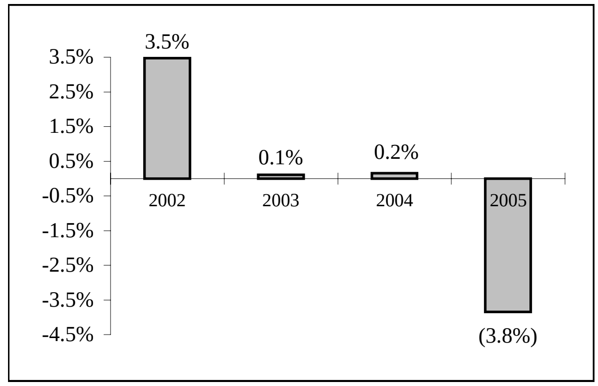
The University of Texas Health Center at Tyler
2005 Summary of Financial Condition

Financial Condition: **Unsatisfactory**

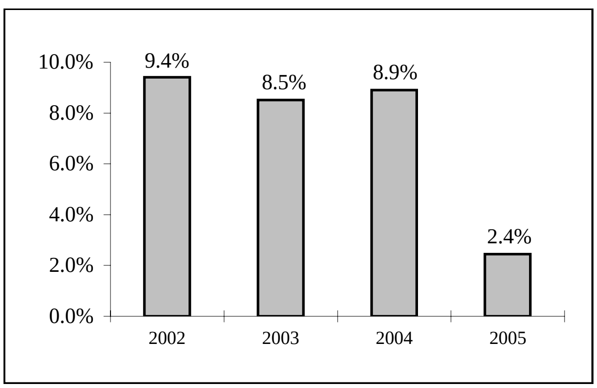
Operating Expense Coverage Ratio



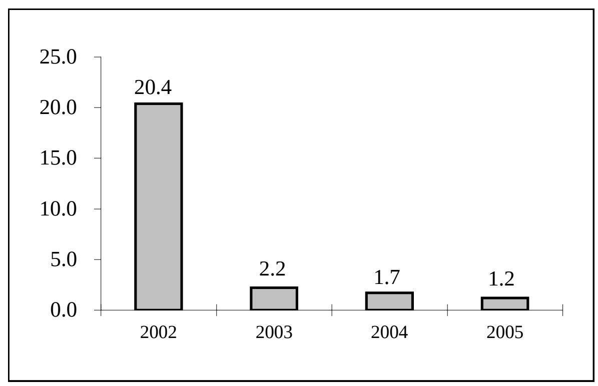
Annual Operating Margin Ratio



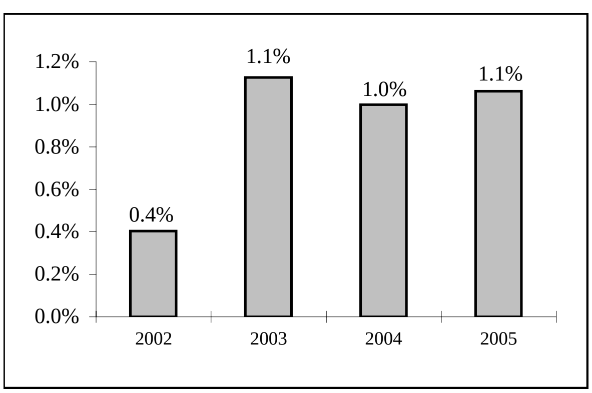
Return on Net Assets Ratio



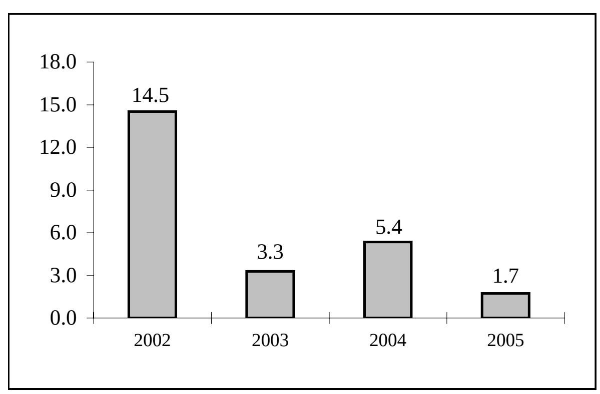
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Health Center at Tyler
2005 Summary of Financial Condition

Operating Expense Coverage Ratio - UT Health Center - Tyler's (UTHC-Tyler) operating expense coverage ratio decreased from 1.4 months in 2004 to 1.0 month in 2005 due to a $3.8 million decrease in total unrestricted net assets and a $3.5 million increase in operating expenses. Net sales and services of hospitals decreased $3.5 million as a result of decreases in admissions, inpatient days and inpatient surgeries. These decreases are due to more aggressive marketing and capital investments by other local hospitals, as well as the age of UTHC-Tyler's facilities as compared to the newer hospitals in Tyler. Net professional fees also decreased $1.9 million. As with the hospital, a decrease in surgical and inpatient volumes contributed to this loss. These reductions in revenue contributed to the decrease in total unrestricted net assets. Operating expense increases are discussed below.

Annual Operating Margin Ratio - UTHC-Tyler's annual operating margin ratio declined significantly from 0.2% for 2004 to (3.8%) for 2005 as a result of the reduction in revenues of $1.4 million and an increase in expenses of $3.5 million. In addition to the decreases in revenues discussed above, UTHC-Tyler's State appropriations decreased $2.8 million. However, some of the decrease in revenues was partially offset by an increase in gifts for operations of $3.1 million, primarily for the Center for Healthy Aging and a new program for the Institute for Lung Injury, and the receipt of $1.6 million in State fiscal relief funds transferred from the Texas State Comptroller. UTHC-Tyler's expenses increased due to an increase in contracted services and repairs and maintenance expenses. Depreciation expense also increased due to the following major capital projects that were completed and placed into service in 2005: the Biomedical Research Wing, the Ambulatory Care Center Phase II, the ACC parking lot and the PeopleSoft 8.8 upgrade.

Return on Net Assets Ratio - UTHC-Tyler's return on net assets ratio dropped from 8.9% in 2004 to 2.4% in 2005 due to the increase in the amount of debt outstanding related to the Ambulatory Care Center - Phase II. Additionally, UTHC Tyler had a smaller increase in net assets as compared to 2004 as a result of the decline in the annual operating margin as discussed above.

Expendable Resources to Debt Ratio - UTHC-Tyler's expendable resources to debt ratio decreased from 1.7x in 2004 to 1.2x in 2005 as a result of the decrease in unrestricted net assets discussed above and a decrease in expendable net assets for capital projects. The reduction in expendable net assets was attributable to the completion of the major capital projects listed above. Also contributing to the decline in this ratio was the increase in the amount of debt outstanding.

Debt Burden Ratio - UTHC-Tyler's debt burden ratio increased slightly from 1.0% in 2004 to 1.1% in 2005. The small increase in this ratio was due to the $115,000 increase in debt service payments.

Debt Service Coverage Ratio - UTHC-Tyler's debt service coverage ratio decreased from 5.4x in 2004 to 1.7x in 2005 as a result of both the decrease in the annual operating margin and the increase in debt service payments previously discussed.

Appendix A - Definitions of Evaluation Factors

1. **Operating Expense Coverage Ratio** – This ratio measures an institution's ability to cover future operating expenses with available year-end balances. This ratio is expressed in number of months coverage.

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

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

$$\textbf{Formula} = \frac{\text{Op. Rev. + Approp. + Op. Gifts + Inv. Inc.} + \overset{\text{RAHC}}{\text{Transfer}} + \overset{\text{AUF}}{\text{Transfer}} +/- \overset{\text{Texas}}{\text{Ent. Fund}} + \overset{\text{URF/ Excellence}}{\text{Funding}} + \overset{\text{Sec. 56}}{\text{Transfer}} \text{ – Operating Exp. – Interest Exp.}}{\text{Op. Rev. + Approp. + Op. Gifts + Inv. Inc. + RAHC Trans. + AUF Trans. +/- Texas Ent. Fund + URF/Excellence + Sec. 56 Trans.}}$$

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

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

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.

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

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.

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

6. **Debt Service Coverage Ratio** – This ratio measures the actual margin of protection provided to investors by annual operations. *Moody's Investors Service* excludes actual investment income from its calculation of total operating revenue and instead, uses a normalized investment income of 4.5% of the prior year's ending total cash and investments. This is the calculation used by Moody's Investors Service. 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>.

$$\textbf{Formula} = \frac{\text{Op. Rev. + Approp. + Op. Gifts} + \overset{\text{Norm.}}{\text{Inv. Inc.}} + \overset{\text{RAHC}}{\text{Transfer}} + \overset{\text{AUF}}{\text{Transfer}} +/- \overset{\text{Texas}}{\text{Ent. Fund}} + \overset{\text{URF/ Excellence}}{\text{Funding}} + \overset{\text{Sec. 56}}{\text{Transfer}} \text{– Op. Exp. + Depr. Exp.}}{\text{Debt Service Transfers}}$$

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

Appendix A - Definitions of Evaluation Factors (Continued)

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

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

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

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

Appendix B - Calculation of Expendable Net Assets
Academic Institutions
As of August 31, 2005
(In Millions)

	Restricted Expendable Net Assets					
Institution	Capital Projects	Funds Functioning Restricted	Other Expendable	Total	Total Unrestricted Net Assets	Total Expendable Net Assets
Arlington	$ 2.8	1.8	20.5	25.1	85.5	110.7
Austin	25.4	103.0	262.0	390.4	405.3	795.7
Brownsville	3.1	-	4.1	7.2	24.7	31.9
Dallas	47.8	4.0	50.0	101.8	51.1	152.9
El Paso	10.1	5.2	22.3	37.6	26.8	64.4
Pan American	3.3	0.8	13.5	17.7	49.6	67.3
Permian Basin	2.6	-	4.9	7.5	4.2	11.7
San Antonio	11.0	0.6	27.1	38.8	84.0	122.7
Tyler	10.9	0.3	3.8	15.0	12.7	27.7

Appendix B - Calculation of Expendable Net Assets
Health Institutions
As of August 31, 2005
(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	$ 40.5	20.7	326.2	387.4	302.2	689.6
UTMB Galveston	8.1	16.7	49.1	73.8	165.8	239.6
UTHSC-Houston	66.4	4.8	93.5	164.7	136.8	301.5
UTHSC-San Antonio	23.4	5.0	114.1	142.5	113.1	255.6
M. D. Anderson	43.8	23.6	193.0	260.5	421.8	682.3
UTHC-Tyler	2.0	0.7	9.8	12.6	10.2	22.7

Appendix C - Calculation of Annual Operating Margin
Academic Institutions
As of August 31, 2005
(In Millions)

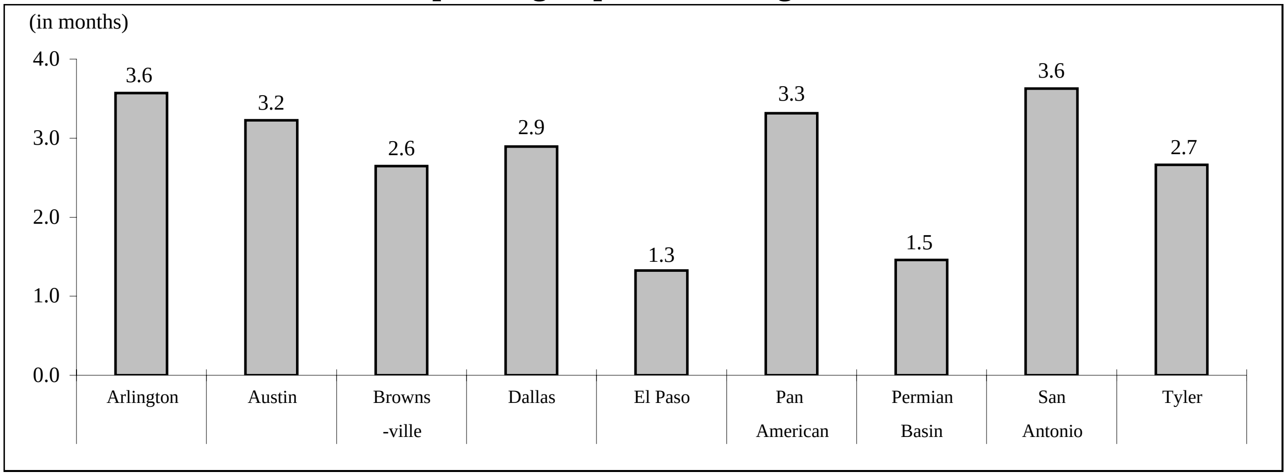
Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items — Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments — Realized Gains/ Losses	AUF Transfer	University Research/ Excellence Funding	Texas Enterprise Fund	Interest Expense	Annual Operating Margin
Arlington	$ 26.7	-	-	(0.1)	5.3	21.5	-	-	3.5	-	(6.8)	18.2
Austin	239.0	-	(0.1)	(2.9)	262.7	(20.7)	0.1	106.3	-	-	(17.0)	68.5
Brownsville	4.8	-	-	-	0.7	4.1	0.1	-	0.1	-	(2.0)	2.2
Dallas	17.1	-	-	(1.1)	18.2	0.1	-	-	3.3	5.6	(3.1)	5.9
El Paso	19.0	-	-	(0.6)	15.3	4.3	-	-	2.5	-	(3.2)	3.5
Pan American	(0.8)	-	-	(0.2)	3.2	(3.8)	-	-	0.1	-	(2.8)	(6.4)
Permian Basin	1.7	-	-	-	1.5	0.2	-	-	0.3	-	(1.5)	(1.1)
San Antonio	22.8	-	-	2.0	4.1	16.7	-	-	1.3	-	(7.8)	10.2
Tyler	4.9	-	-	-	6.1	(1.2)	-	-	0.3	-	(1.5)	(2.5)

Appendix C - Calculation of Annual Operating Margin
Health Institutions
As of August 31, 2005
(In Millions)

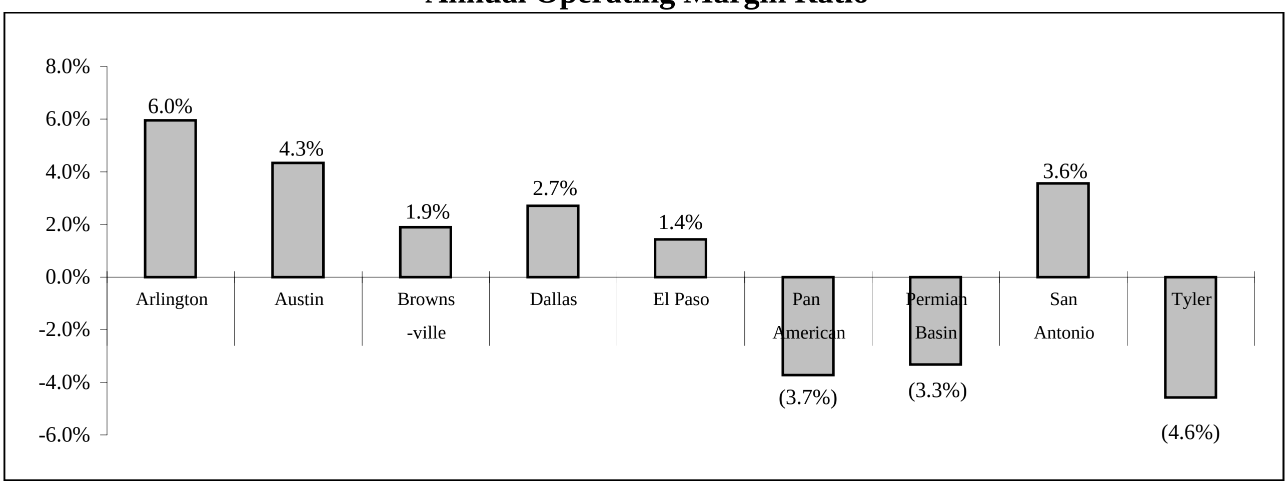
Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items: Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments: Realized Gains/ Losses	Section 56 Transfer	RAHC Transfer	Texas Enterprise Fund & FEMA	Interest Expense	Annual Operating Margin
Southwestern	$ 139.7	0.3	-	(2.0)	76.3	65.0	9.7	4.5	-	-	(13.7)	46.1
UTMB Galveston	0.3	0.8	(1.8)	(2.9)	39.4	(35.2)	1.1	13.2	-	-	(3.3)	(26.4)
UTHSC-Houston	39.8	-	(0.7)	(0.6)	14.1	26.9	2.7	6.3	1.5	(8.5)	(7.9)	15.6
UTHSC-San Antonio	26.4	-	-	(0.4)	36.7	(9.9)	1.9	7.2	5.0	4.5	(5.0)	(0.1)
M. D. Anderson	158.1	8.5	(1.3)	(1.4)	48.7	103.7	6.4	5.6	-	-	(22.4)	80.6
UTHC-Tyler	(1.8)	-	-	-	4.5	(6.2)	-	1.6	-	-	-	(4.7)

Appendix D - Academic Institutions' Evaluation Factors
2005 Analysis of Financial Condition

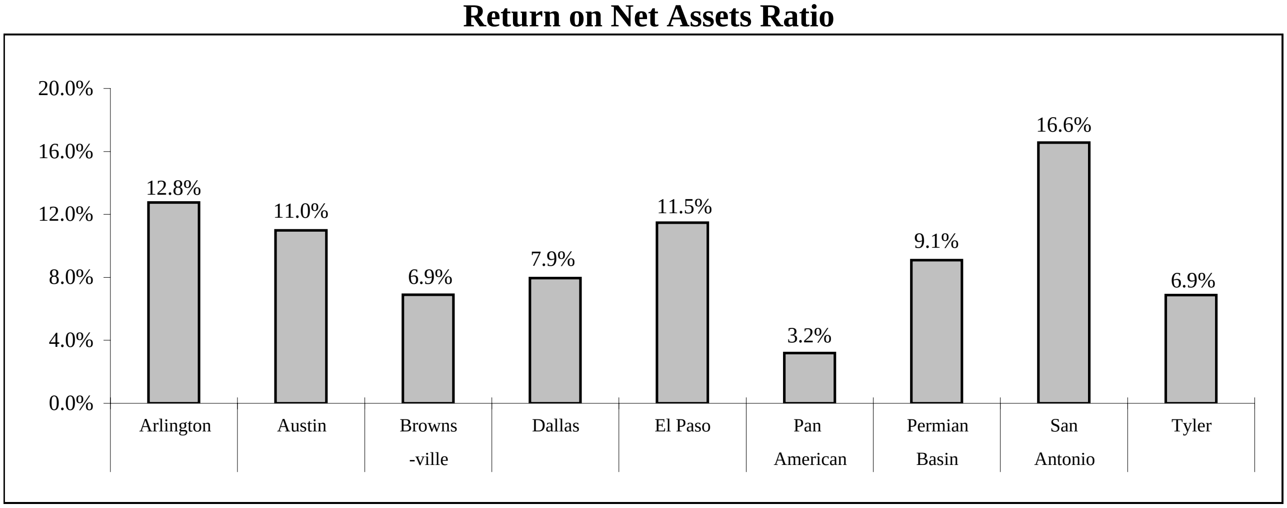
Operating Expense Coverage Ratio



Annual Operating Margin Ratio

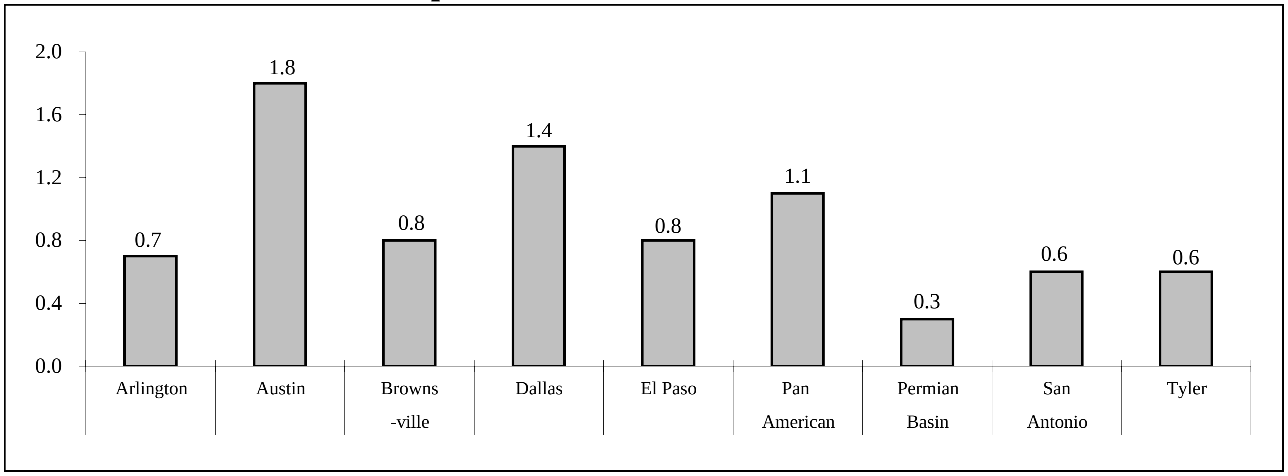


Return on Net Assets Ratio

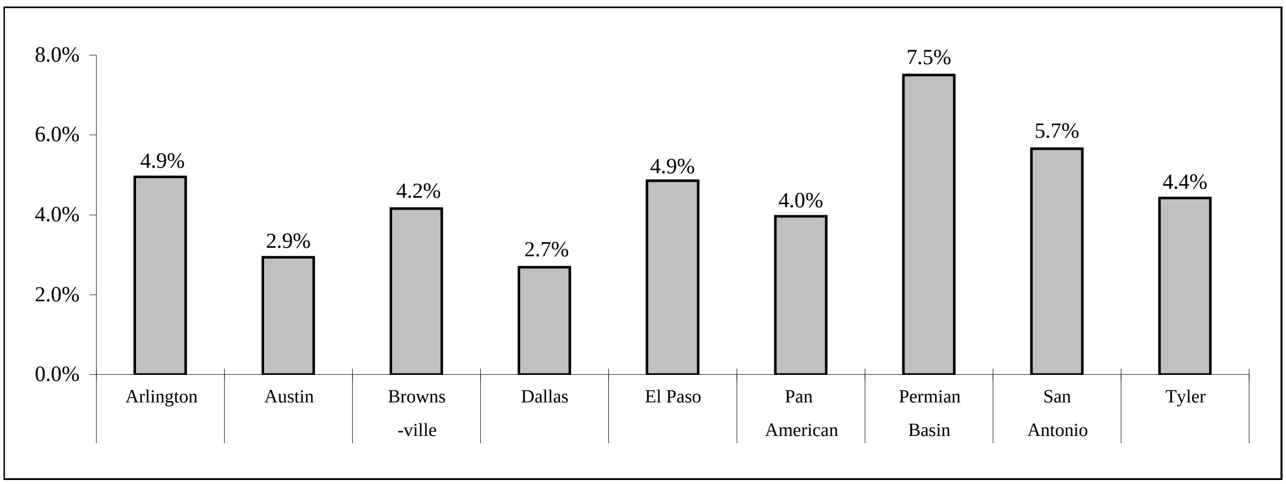


Appendix D - Academic Institutions' Evaluation Factors
2005 Analysis of Financial Condition

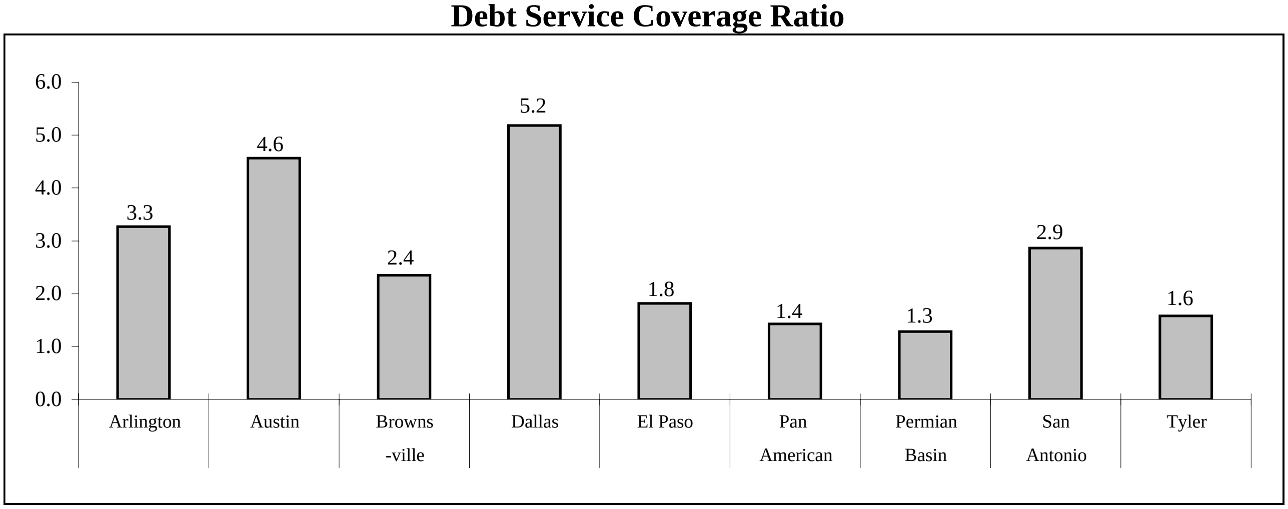
Expendable Resources to Debt Ratio



Debt Burden Ratio

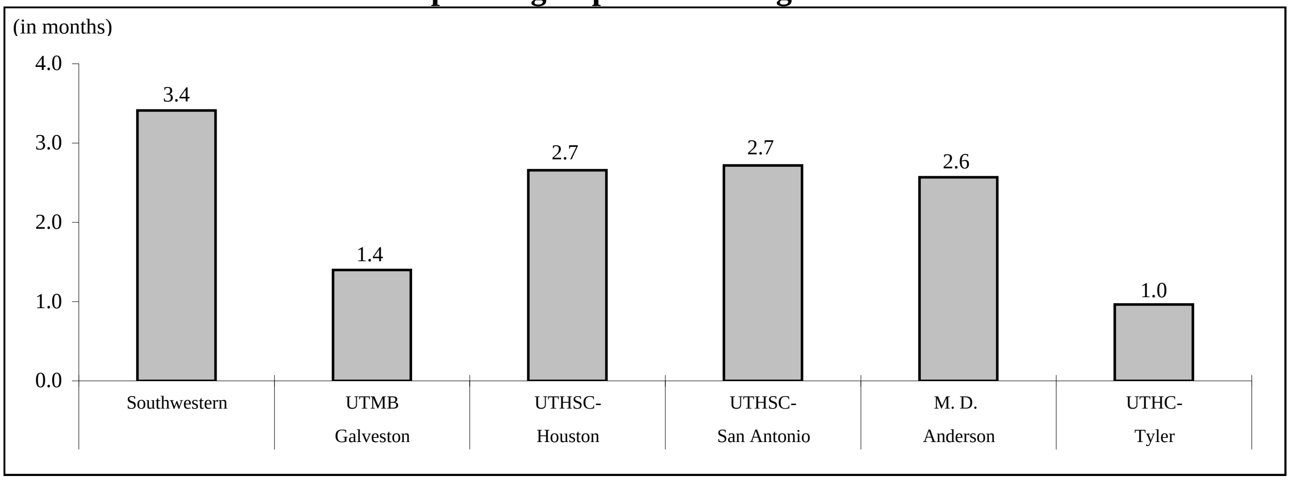


Debt Service Coverage Ratio

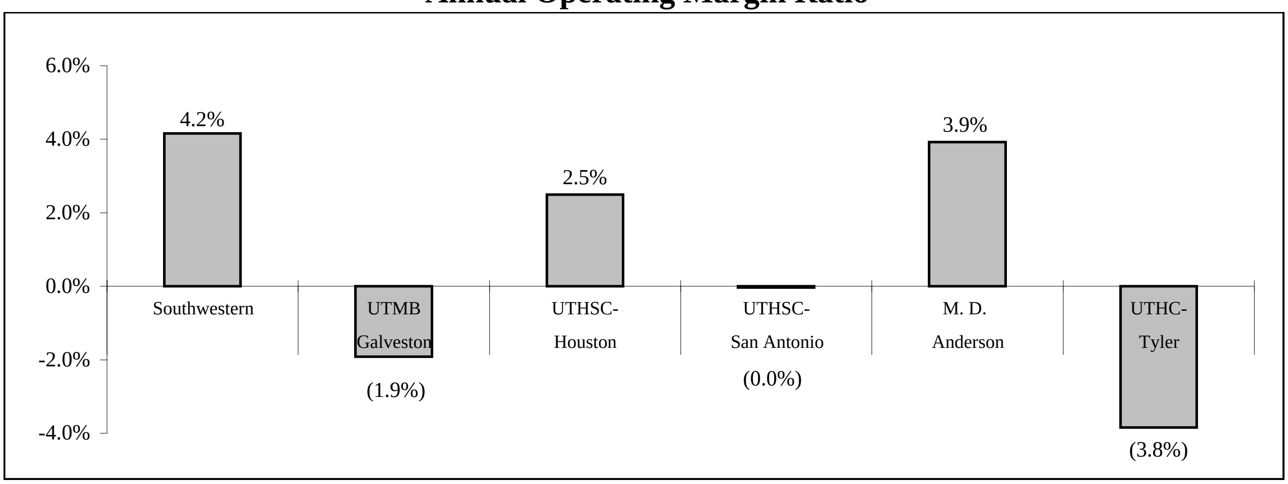


Appendix D - Health Institutions' Evaluation Factors
2005 Analysis of Financial Condition

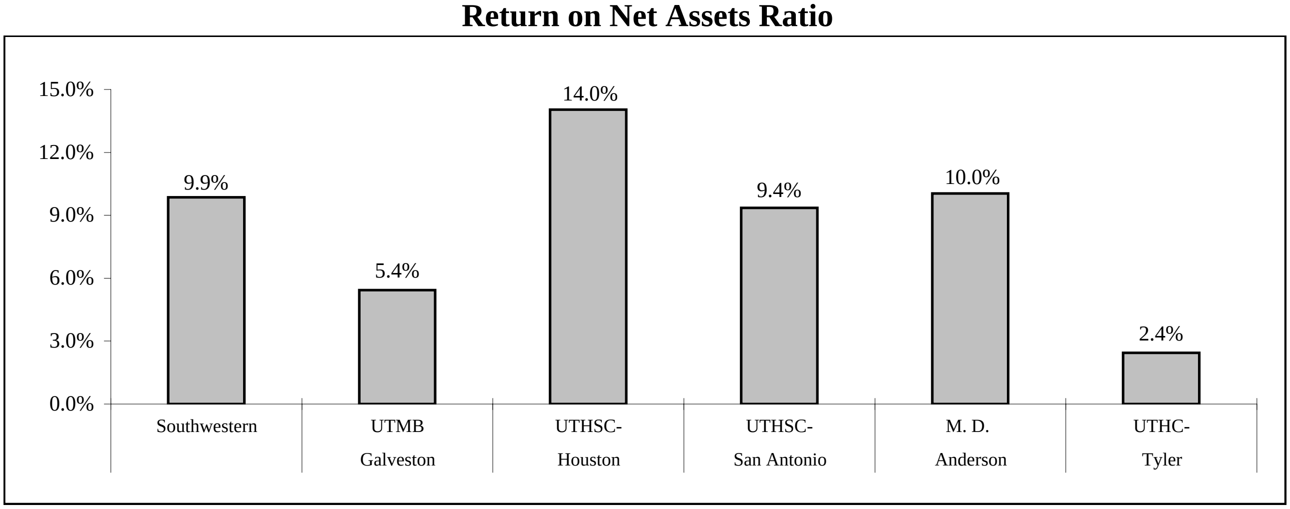
Operating Expense Coverage Ratio



Annual Operating Margin Ratio

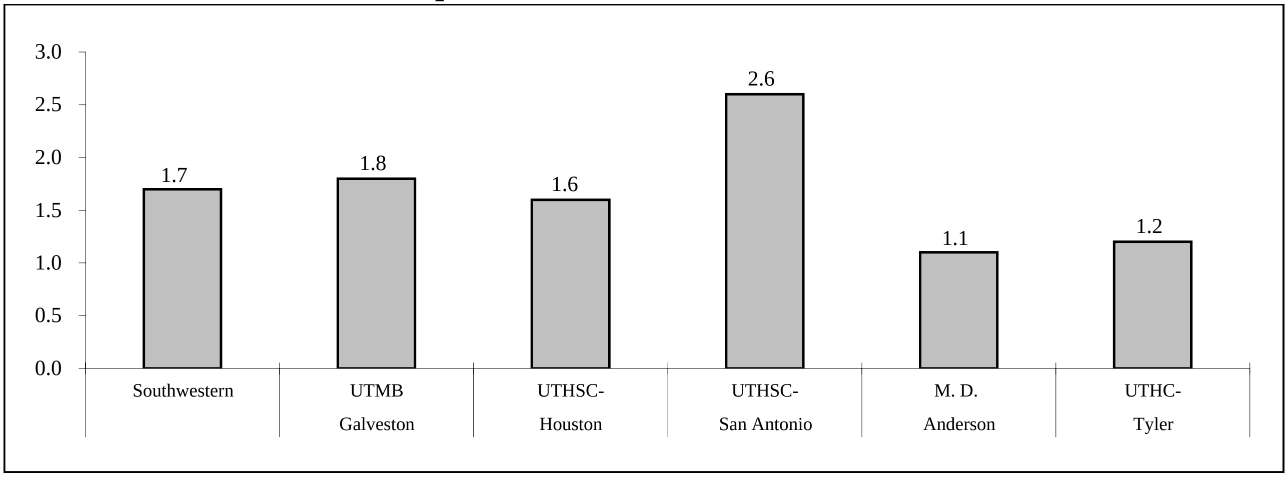


Return on Net Assets Ratio

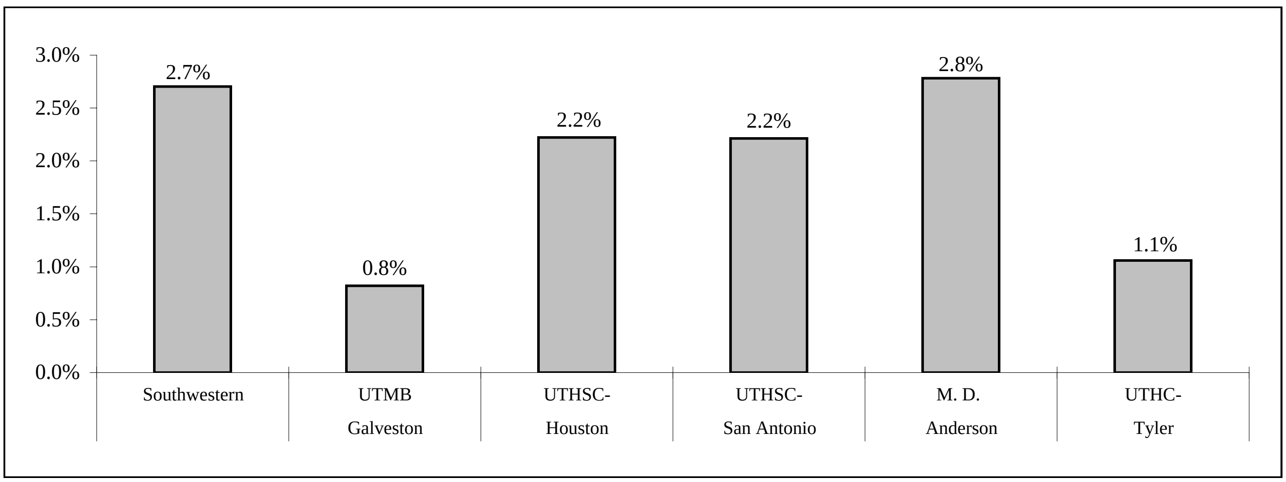


Appendix D - Health Institutions' Evaluation Factors
2005 Analysis of Financial Condition

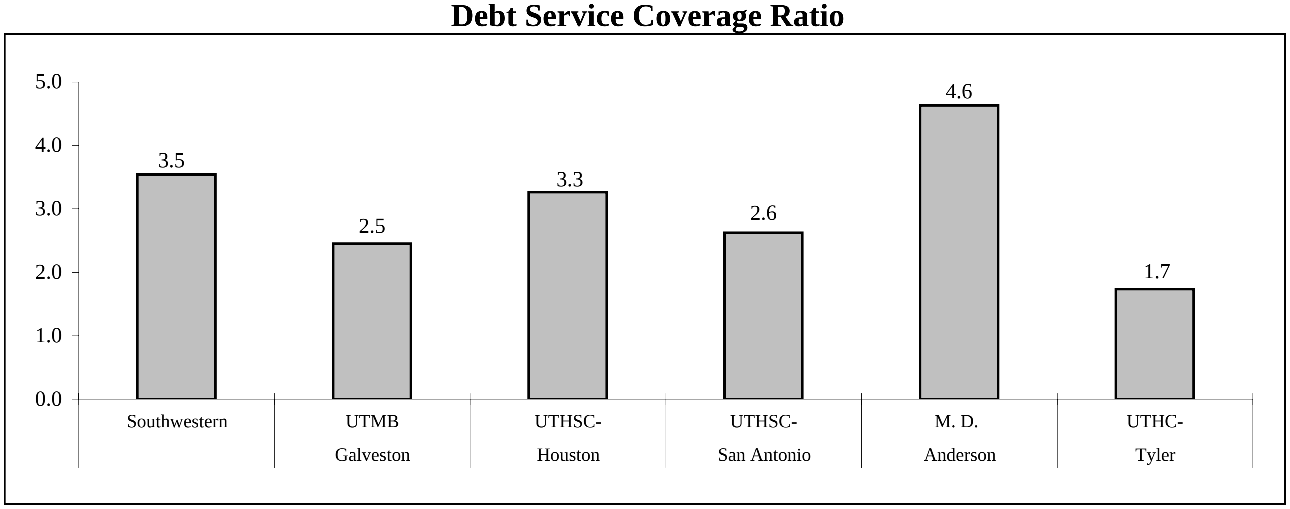
Expendable Resources to Debt Ratio



Debt Burden Ratio

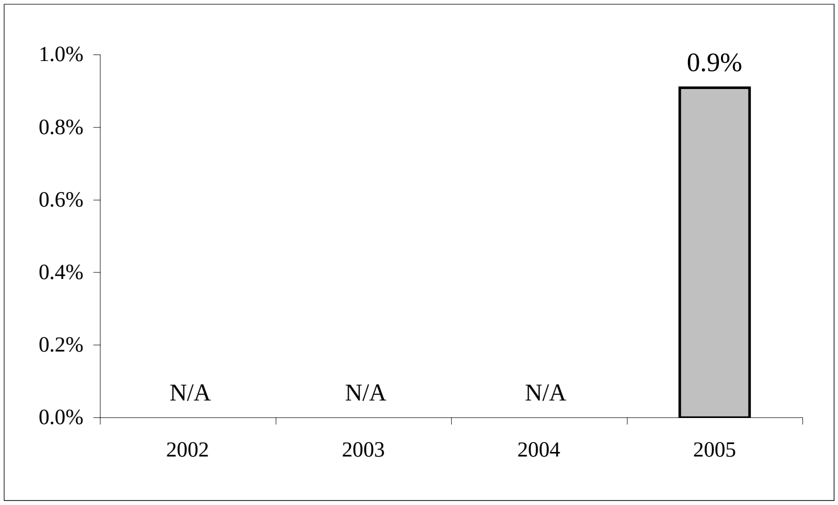


Debt Service Coverage Ratio



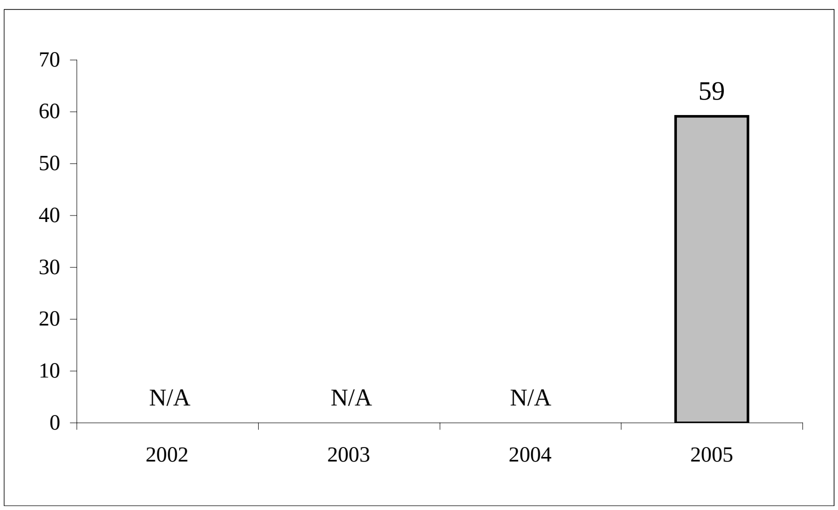
Appendix E - Key Hospital Operating Factors
The University of Texas Southwestern Medical Center at Dallas

Annual Operating Margin Ratio



The operating margin for the two hospitals acquired January 1, 2005 was $1.7 million. This was $1.0 million less than budget due to a one-time write-off of non-capital equipment acquired in the acquisition of $1.6 million.

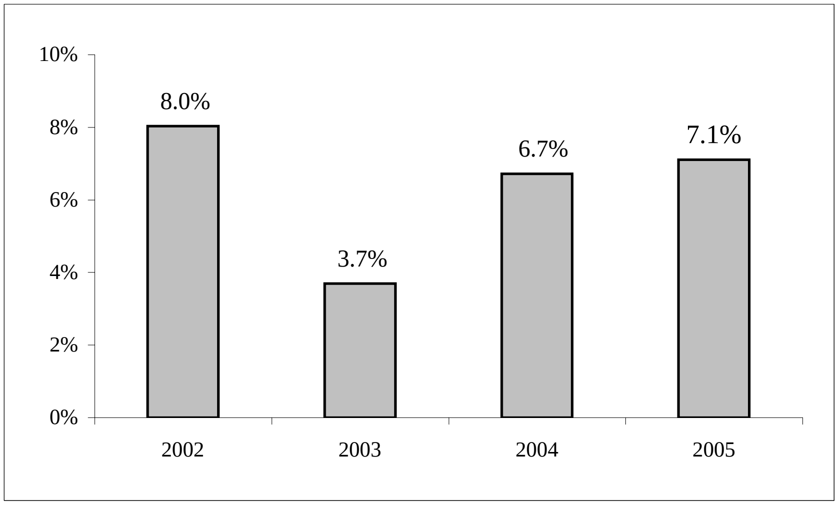
Net Accounts Receivable (in days)



Fifty-nine days in receivables is regarded as reasonable for the current payor mix of the hospitals.

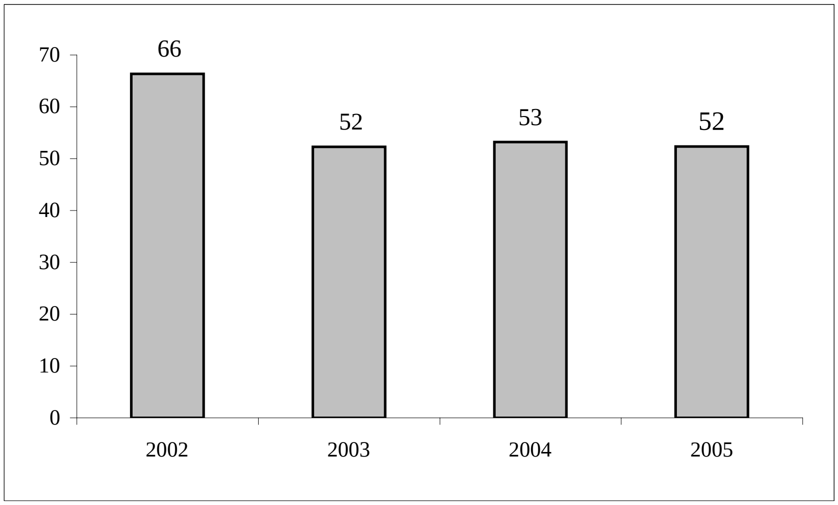
Appendix E - Key MSRDP & NPHC Operating Factors
The University of Texas Southwestern Medical Center at Dallas

Annual Operating Margin Ratio



The growth in the MSRDP operating revenues of 12.7% exceeded a 12.2% increase in operating expenses. Net professional fees increased 16.0% primarily as a result of higher patient volumes with the most substantial increases in Obstetrics/Gynecology, Pathology, Radiology, Anesthesiology, and Internal Medicine. Contractual revenue from affiliated hospitals also increased 6.5%. Professional liability insurance (PLI) expense increased due to a $5.5 million rebate in 2004, which was not received in 2005. The PLI rebate was reported as a reduction to PLI expense in 2004.

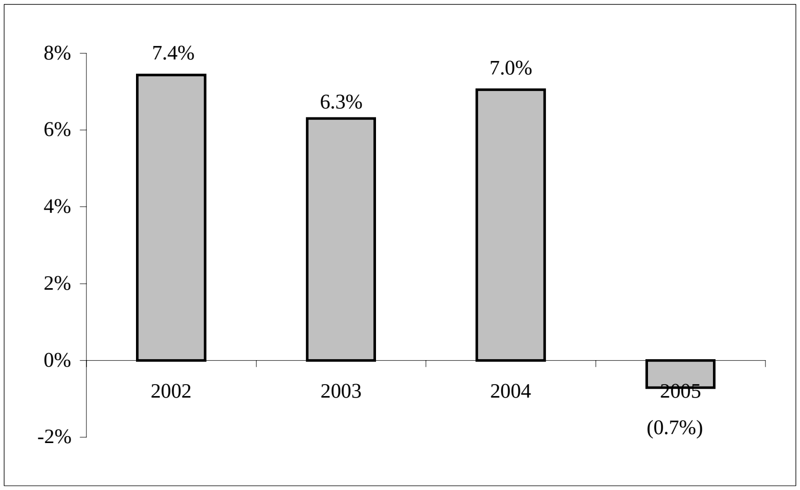
Net Accounts Receivable (in days)



Net accounts receivable (in days) remained relatively stable between 2004 and 2005.

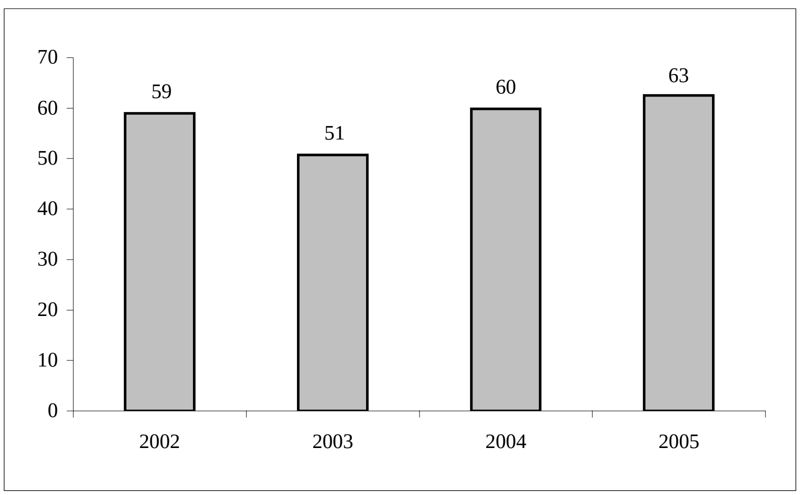
Appendix E - Key Hospital Operating Factors
The University of Texas Medical Branch at Galveston

Annual Operating Margin Ratio



UTMB Galveston's hospitals and clinics annual operating margin declined by $45 million between years. Changes in accounting practices at UTMB Galveston in 2005 resulted in an additional $42 million of intercompany expenses being charged to the hospitals and clinics. After adjusting for this accounting change, margins declined by $3 million between years, and the 2005 annual operating margin ratio, stated on a consistent basis with 2004, would have been 6.1% versus (0.7%), as reported. The hospitals and clinics continue to operate in a challenging environment where revenue increases, particularly in government sponsored programs (Medicare, Medicaid, general revenue), fall well short of healthcare expense inflation. UTMB Galveston's hospitals and clinics are committed to enhancing financial performance and are in a continual process of implementing revenue enhancement, cost reduction and growth strategies.

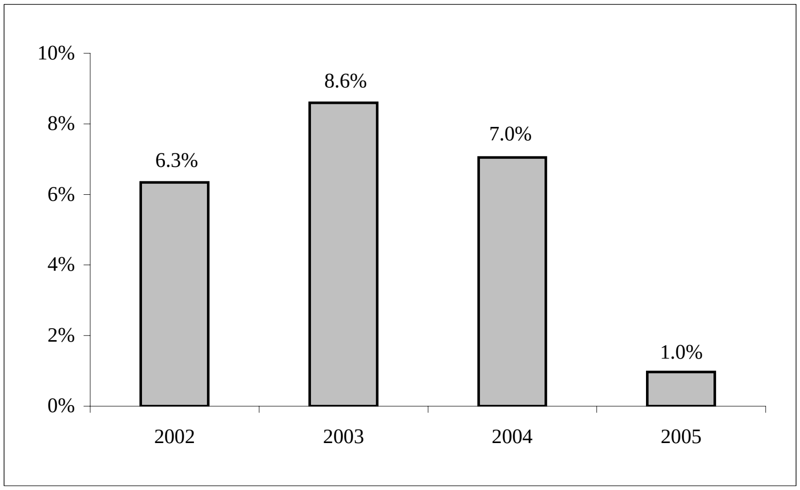
Net Accounts Receivable (in days)



In 2005 receivables with credit balances were excluded from net accounts receivable, which increased the days in net accounts receivable. When adjusted for this accounting change between years and stating days on a consistent basis with 2004, the 2005 days would have been 59 versus 63 as reported, for a decline of 1 day between years. UTMB Galveston's hospitals and clinics are continually implementing strategies to enhance collection efforts and improve the overall quality of outstanding accounts receivable.

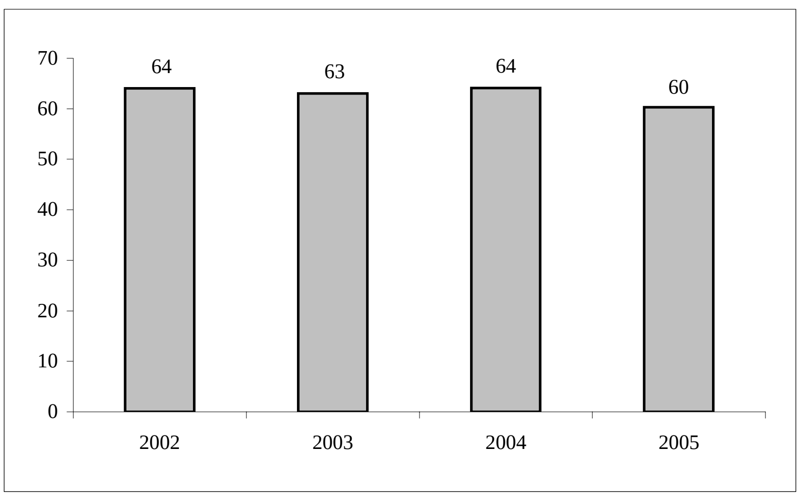
Appendix E - Key MSRDP & NPHC Operating Factors
The University of Texas Medical Branch at Galveston

Annual Operating Margin Ratio



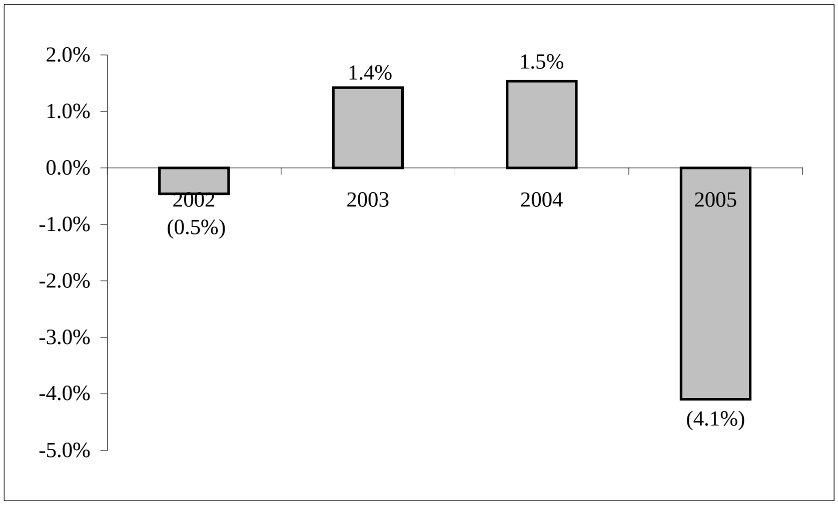
In 2004 UTMB Galveston received a professional liability insurance (PLI) rebate in the amount of $8.7 million that was not received in 2005. The PLI rebate was reported as a reduction to PLI expense in 2004. Also, beginning in 2005, operating revenue was assessed a 5% charge to cover institutional support expenses. These two factors are the primary contributors to the change in the practice plan (MSRDP) portion of the ratio. For the nonprofit healthcare corporation, there was a $2.8 million decline as the result of a decrease in the CHIP membership due to eligibility changes enacted by the State Legislature.

Net Accounts Receivable (in days)



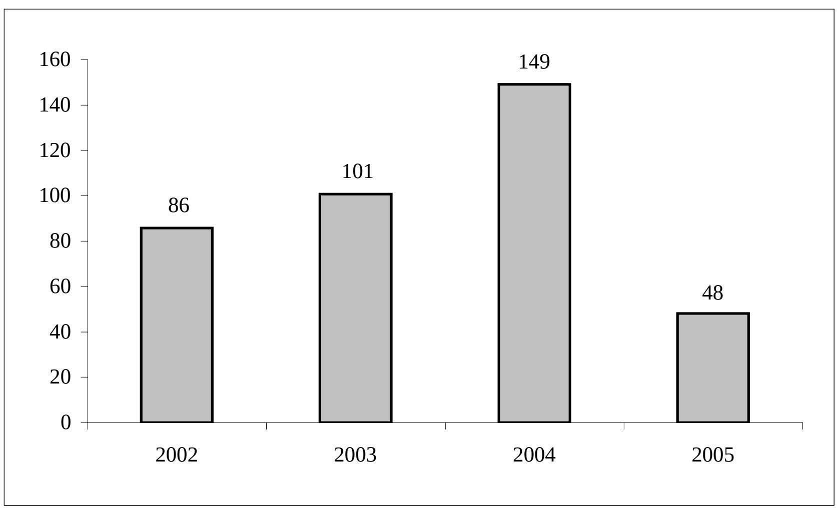
Gross charges for the year increased 5% and collections increased 9%. Although there was an increase in the gross accounts receivable, the proportion increase in net charges was greater, partly due to improved collections in contracted care, TDCJ and patients.

Annual Operating Margin Ratio



Harris County Psychiatric Center (HCPC) re-valued its accounts receivable in 2005 as very little bad debt was written off in 2004. As a result a $2.1 million prior period adjustment was processed in 2005 which restated the accounts receivable to the net realizable value. This adjustment resulted in a substantial decrease in the annual operating margin.

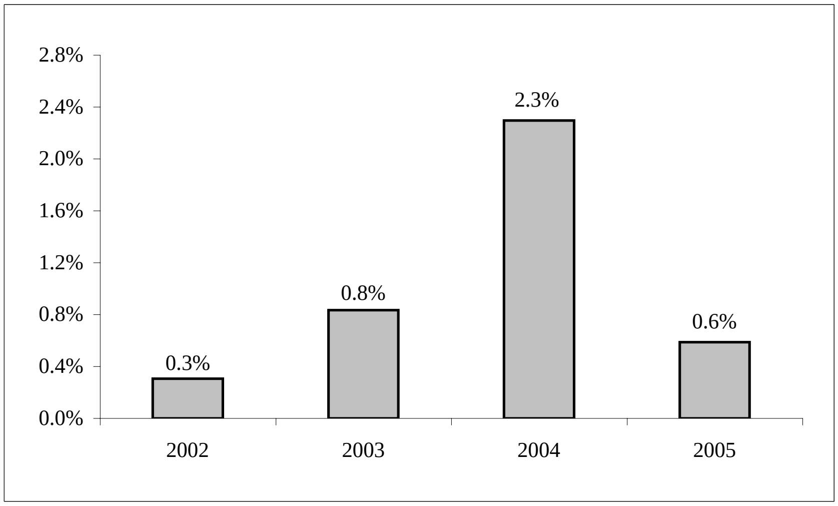
Net Accounts Receivable (in days)



As a result of the prior period adjustment discussed above, the net days in accounts receivable decreased significantly.

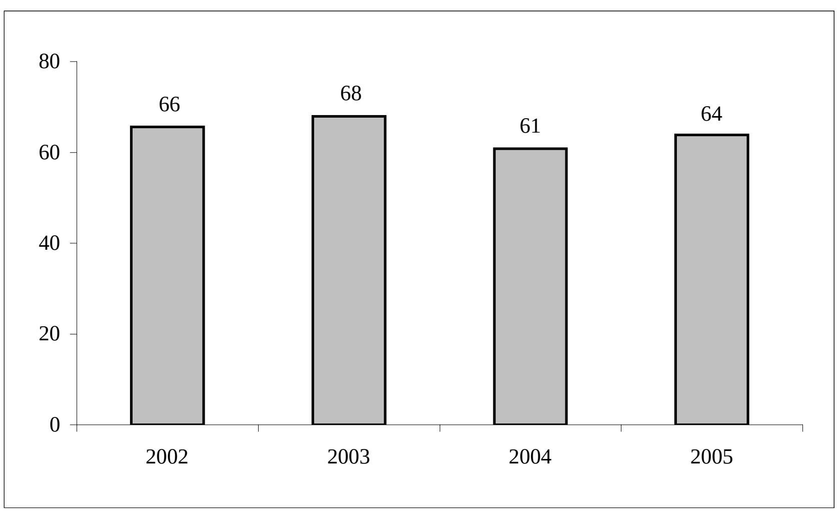
Appendix E - Key MSRDP & NPHC Operating Factors
The University of Texas Health Science Center at Houston

Annual Operating Margin Ratio



Professional fee revenue increased over 7% due to an increase in physician productivity and improved collection efforts. Contractual revenue increased almost 7% largely due to an increase in the Harris County Hospital District contractual income. The increase in operating revenues was offset by a greater increase in operating expenses. Faculty salaries increased due to a slightly higher number of faculty FTEs, as well as merit increases, market adjustments and promotions. Professional liability insurance (PLI) increased significantly due to a $4.3 million PLI rebate received in 2004, which was not received in 2005. The PLI rebate was reported as a reduction to PLI expense in 2004.

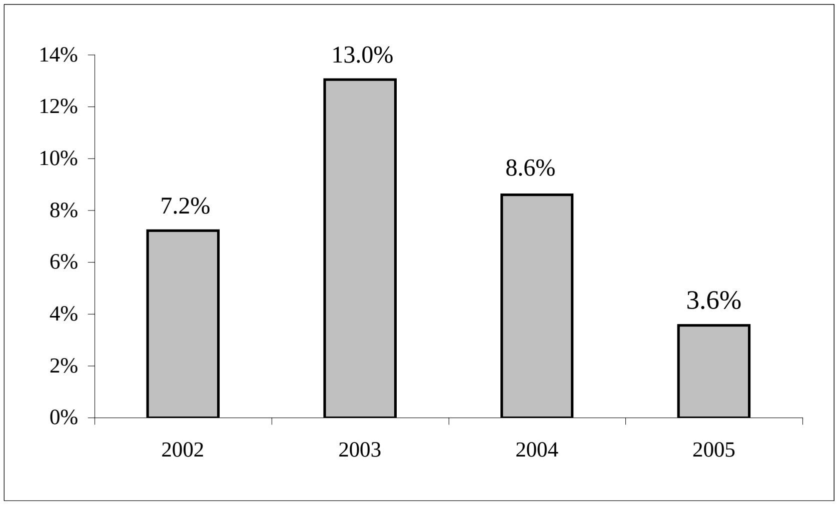
Net Accounts Receivable (in days)



The 2005 accounts receivable value increased by $3.7 million mainly due to the accrual for unbilled charges. This increase in net accounts receivable was partially offset by a $1.7 million estimated reserve (liability) for refunds. In addition, the 2005 net charges increased almost 8% due to expected growth and a slight improvement in the billing and collection efforts. The result was a 5.1% increase in the net accounts receivable days.

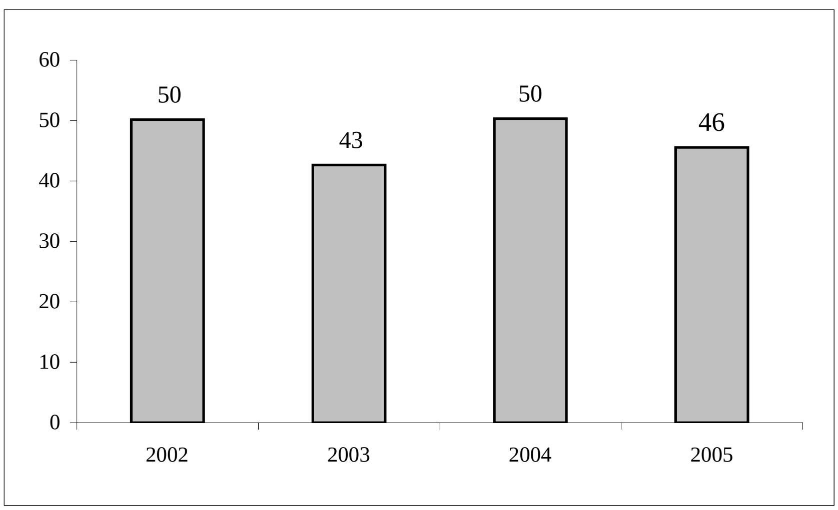
Appendix E - Key MSRDP & NPHC Operating Factors
The University of Texas Health Science Center at San Antonio

Annual Operating Margin Ratio



In 2004 UTHSC-San Antonio received a professional liability insurance (PLI) rebate in the amount of $5.6 million that was not received in 2005. The PLI rebate was reported as a reduction to PLI expense in 2004. UTHSC-San Antonio has positioned itself to invest incremental growth from the past several years into the physician practice plan. This investment is anticipated to increase future operations and includes recruitment efforts for new faculty and chairs, addressing faculty compensation issues, the expansion of programs and departments, and fulfilling increased service contract requirements.

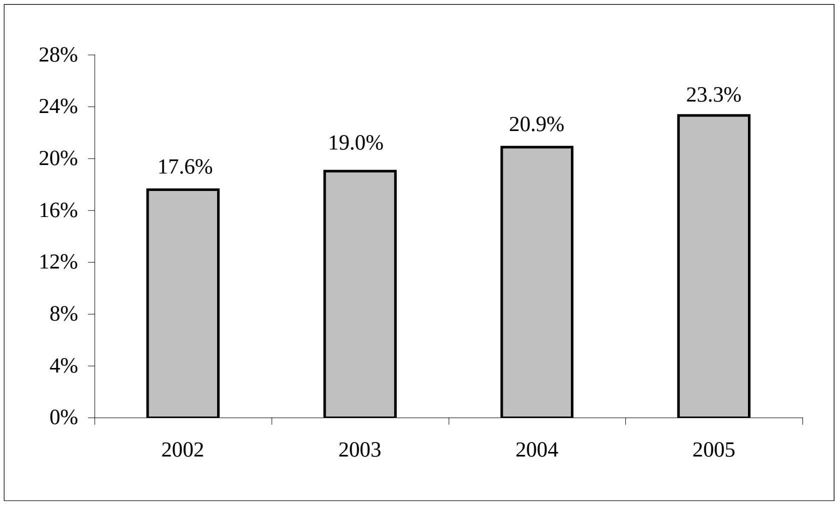
Net Accounts Receivable (in days)



The billing function within UTHSC-San Antonio's nonprofit healthcare corporation, University Physicians Group, continues to improve collection efforts and efficiencies. Improved front-end processes with new electronic eligibility capabilities provides better funding verification of all patient encounters. Also, better utilization of a claims scrubbing software resulted in lower denial rates and faster payments. Additionally, delinquent collections increased due to changes among collection agency vendors.

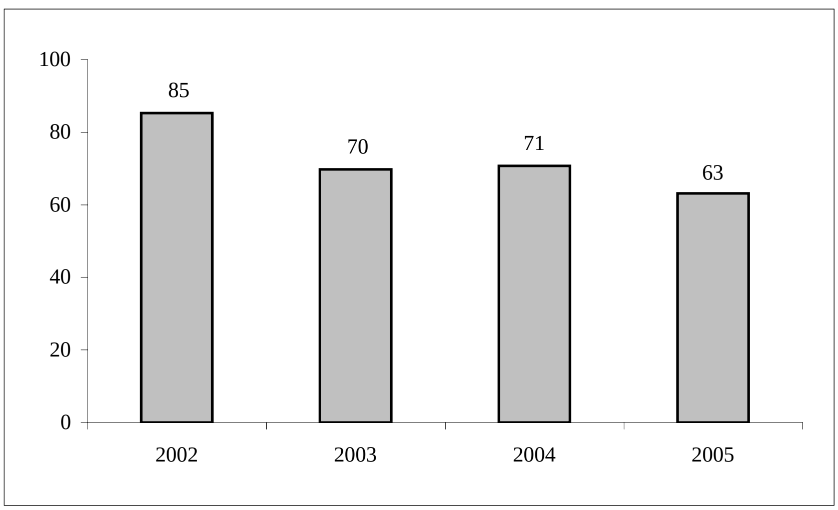
Appendix E - Key Hospital Operating Factors
The University of Texas M. D. Anderson Cancer Center

Annual Operating Margin Ratio



The increase in the annual operating margin ratio of 2.4% from the prior year was the result of continued growth in patient volumes and the overall increase in the number of billable procedures throughout 2005.

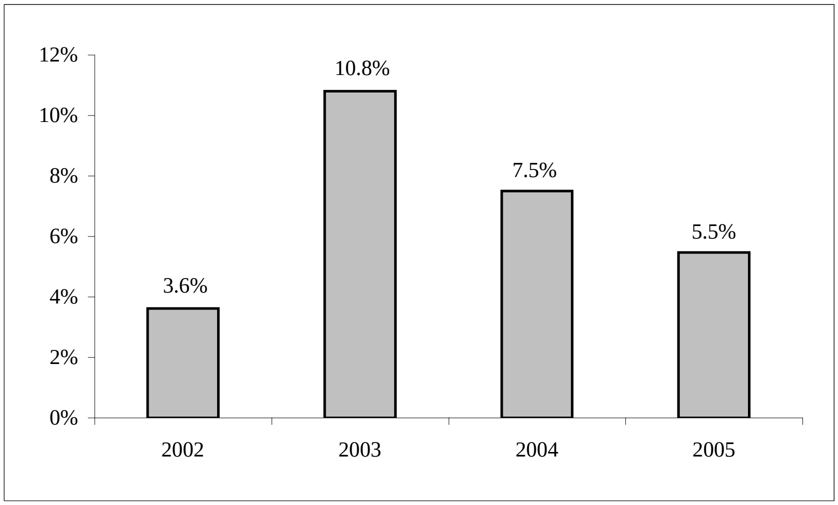
Net Accounts Receivable (in days)



The decrease in days in net accounts receivable was the result of continued improvements in collection practices within patient business services during 2005.

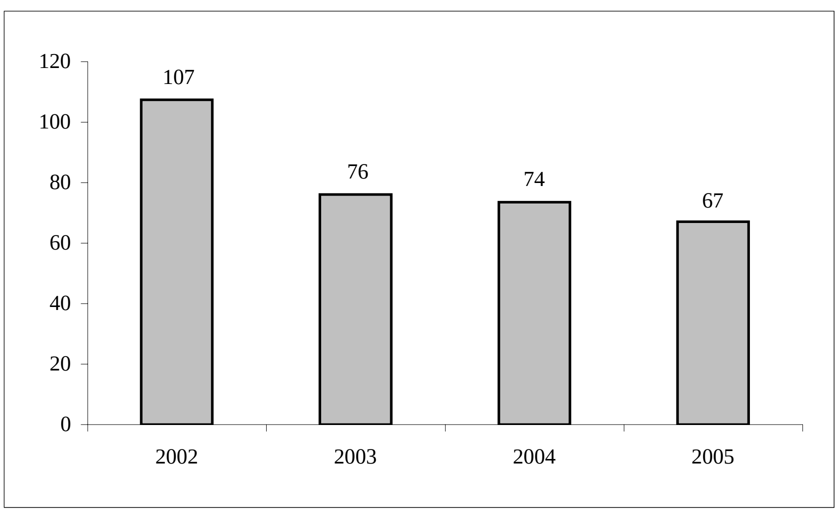
Appendix E - Key MSRDP & NPHC Operating Factors
The University of Texas M. D. Anderson Cancer Center

Annual Operating Margin Ratio



The annual operating margin ratio decreased 2% from 2004 to 2005 due to higher personnel costs resulting from growth in patient volumes and activities and increased professional liability insurance (PLI). PLI increased due to a $3.4 million PLI rebate received in 2004, which was not received in 2005. The PLI rebate was reported as a reduction to PLI expense in 2004.

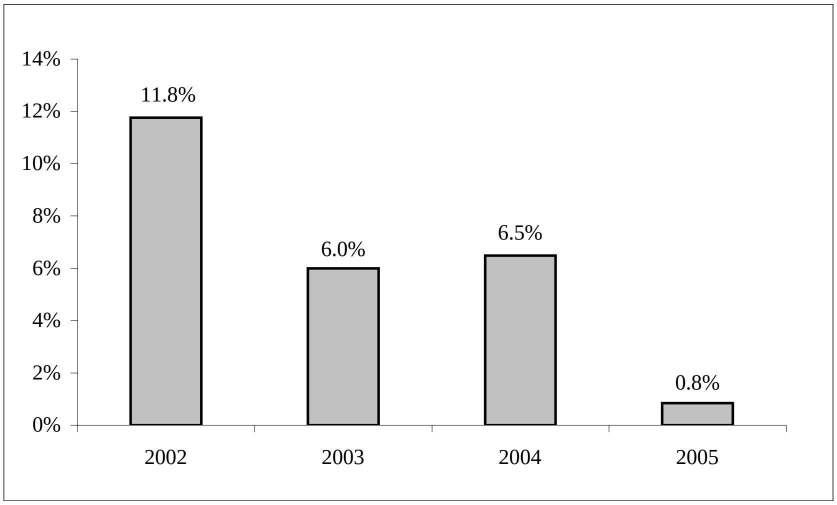
Net Accounts Receivable (in days)



Due to the continued efforts in the business office for the last three years, days in net accounts receivable decreased between 2004 and 2005 from 74 days to 67 days.

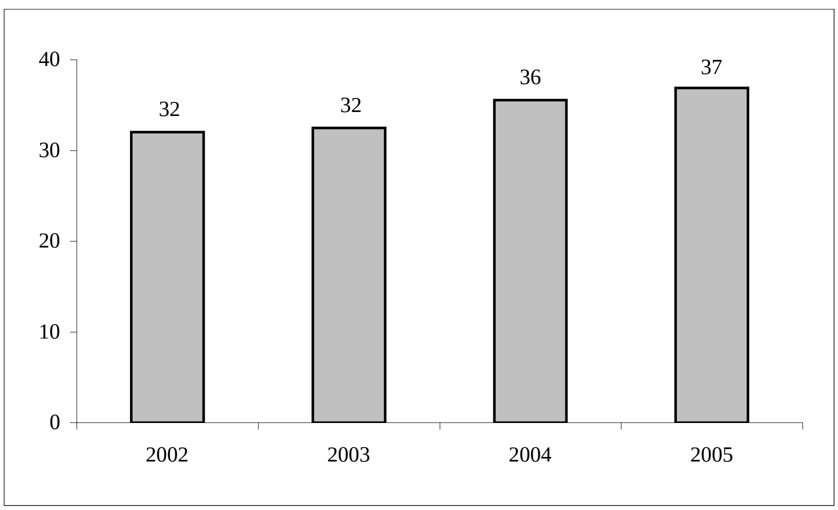
Appendix E - Key Hospital Operating Factors
The University of Texas Health Center at Tyler

Annual Operating Margin Ratio



The annual operating margin ratio decreased from 6.5% for 2004 to 0.8% for 2005 as a result of a greater decline in revenues as compared to the reduction in expenses. Revenues were down 8% from 2004. The principle reason for this decrease was a reduction in inpatient volumes. Expenses were down 2.4%. The decrease in inpatient volumes resulted in a reduction in supplies expense.

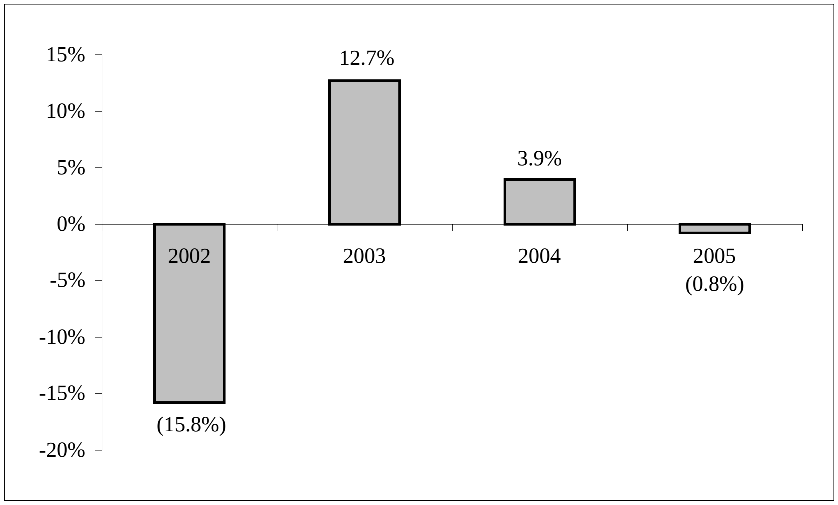
Net Accounts Receivable (in days)



The days in net accounts receivable remained relatively consistent between 2004 and 2005.

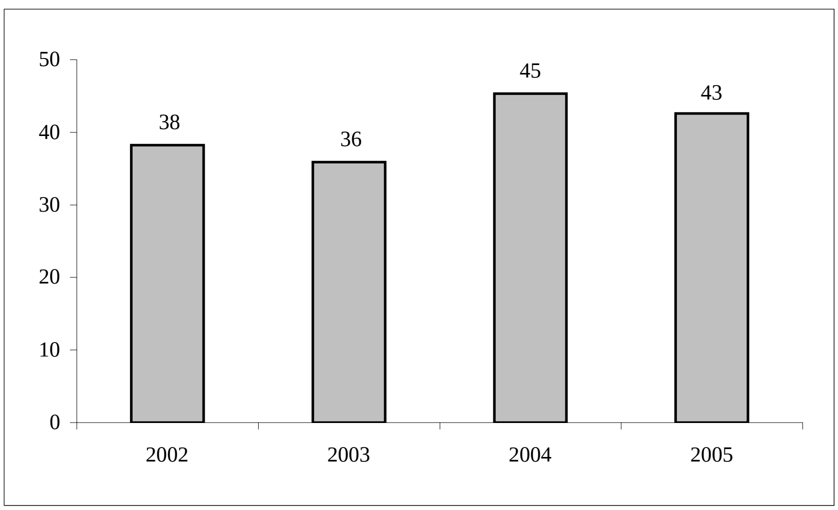
Appendix E - Key MSRDP & NPHC Operating Factors
The University of Texas Health Center at Tyler

Annual Operating Margin Ratio



The annual operating margin ratio decreased from 3.9% for 2004 to (0.8%) for 2005. Revenues remained relatively flat between 2004 and 2005. Expenses were higher for contracted services, supplies and professional liability insurance (PLI), while salaries decreased. The contracted services expense increased due to the outsourcing of anesthesiology, cardiovascular, and thoracic surgery services. PLI increased due to a $547,000 PLI rebate received in 2004, which was not received in 2005. The PLI rebate was reported as a reduction to PLI expense in 2004.

Net Accounts Receivable (in days)



Improved collection percentages and an improved bad debt reserve contributed to the reduction in the number of days in net accounts receivable.

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THE UNIVERSITY OF TEXAS SYSTEM

Results of the 2004-2005 Collegiate Learning Assessment

Prepared by the Office of Academic Affairs

February 8, 2006

U. T. System Policy Goals for Student Learning Assessment

- **Improve curriculum and instruction**
- **Set goals for student learning**
- **Benchmark student learning performance**
- **Communicate student learning goals and results**
- **Essential component of our accountability program**
- **National Interest – Commission on the Future of Higher Education**

2

Collegiate Learning Assessment: Direct Measure of Student Learning

- Critical Thinking
- Analytic Reasoning
- Written Communication

3

Why Focus on CLA Measures?

- Employers value the development of these broad skills
- These skills are central to most college mission statements
- CLA measures are consistent with general education requirements of many institutions

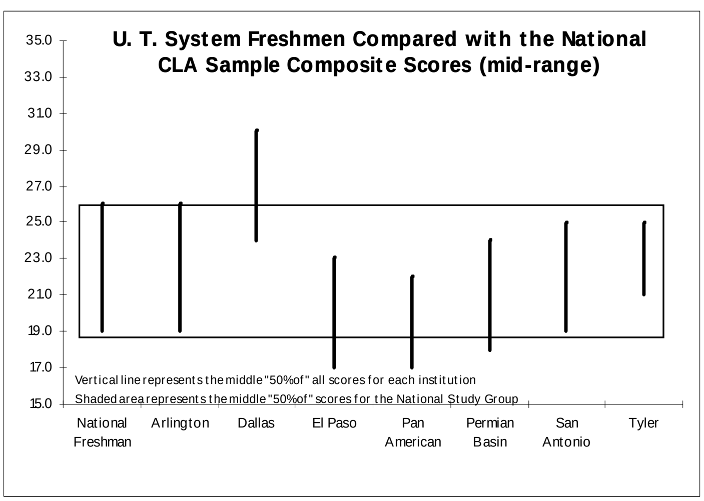
4

Methodological Concerns

- **Snapshot of current student population**
- **Small sample in some cases**
- **Do it year after year – follow student cohorts**
- **Follow cohorts to understand "value-added"**

5

U. T. System Institutions versus National Sample: Freshmen



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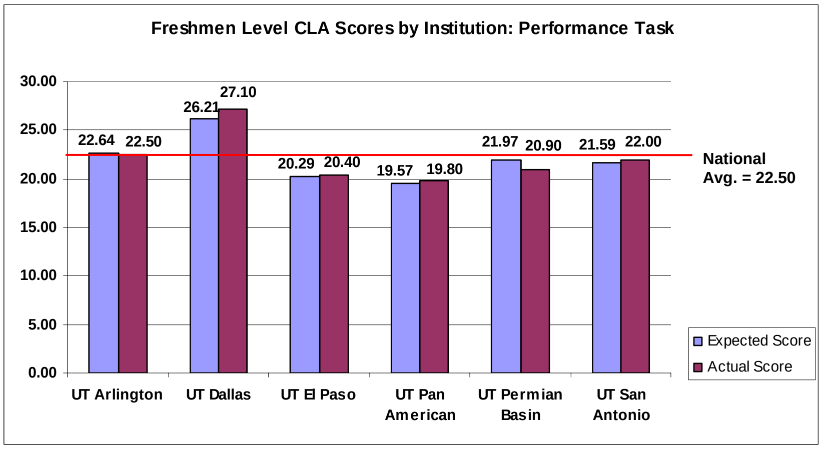
U. T. System Institutions versus National Sample: Freshmen



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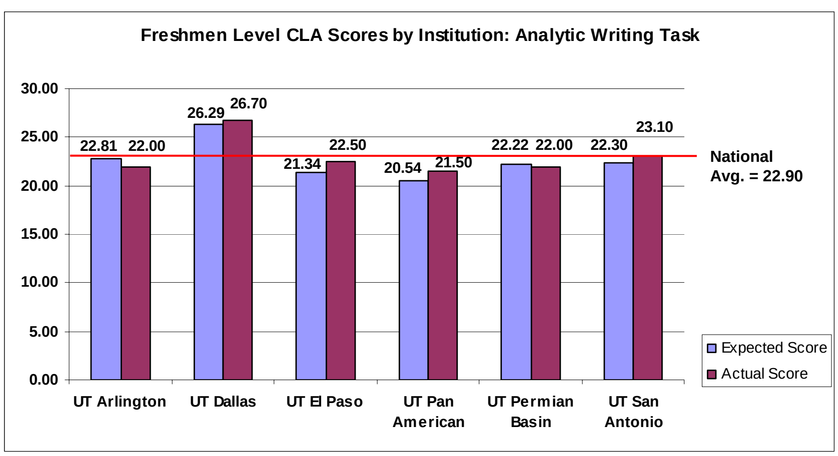
U. T. System Institutions versus National Sample: Freshmen



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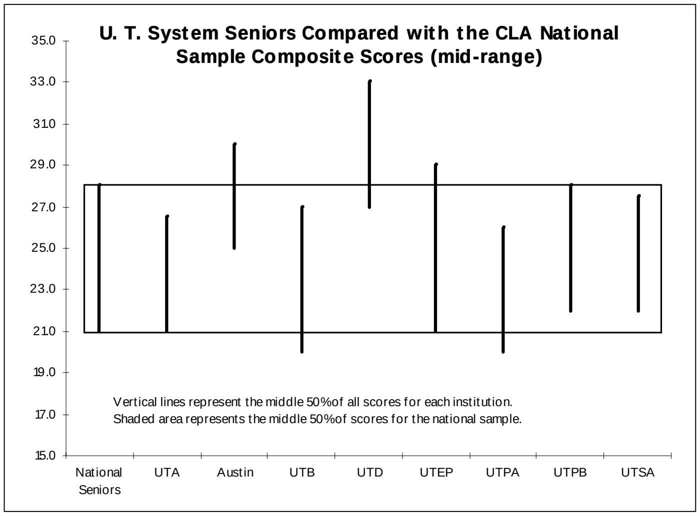
U. T. System Institutions versus National Sample: Seniors



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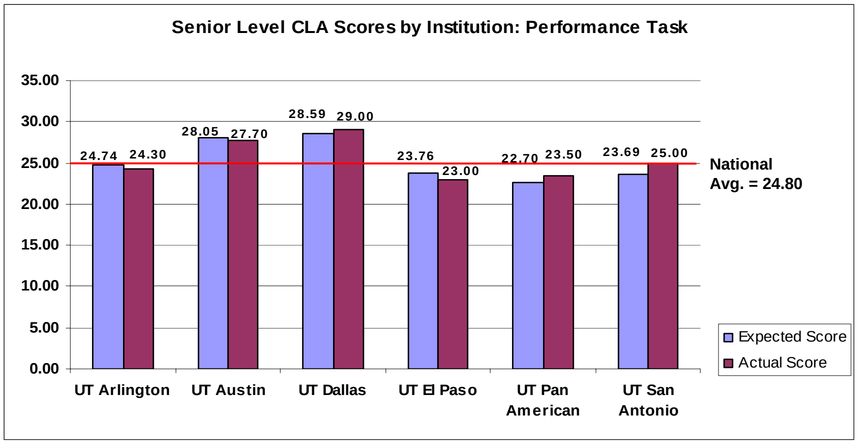
U. T. System Institutions versus National Sample: Seniors



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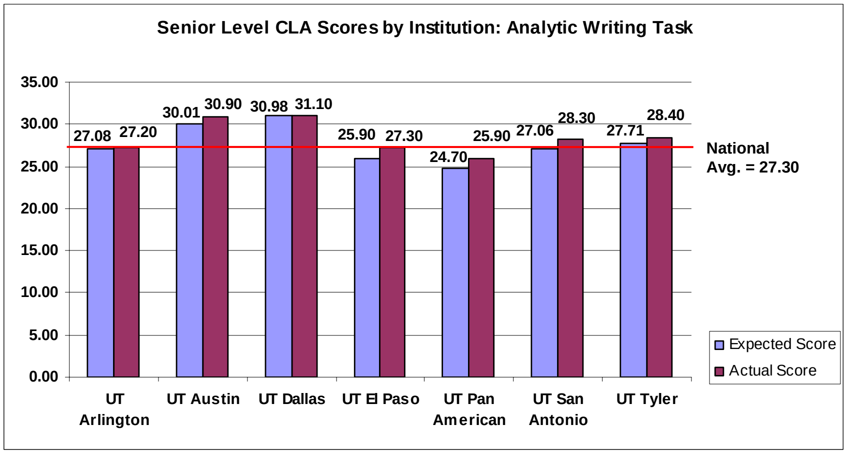
U. T. System Institutions versus National Sample: Seniors



11

Conclusions

- **Our institutions are doing as well or better than the national sample**
- **Some of our institutions add significant value to student learning**
- **First snapshot – benchmark – continuing measures to assess value added**
- **Inform best practice within our system**
- **Area of national concern and interest**
- **UT System – most comprehensive learning assessment program in the state and the nation**
- **National model for large and complex university systems in student learning assessment**

12

The Philosophy Behind Student Learning Assessment:

The starting point for this assessment is that conceptions of university quality should be influenced by improvements in student learning. Although educational quality is often based upon such indirect measures as the test scores of entering students, opinion polls of experts, or available financial resources, the Collegiate Learning Assessment (CLA) bases its assessment on students' demonstrated abilities.

The CLA data are compared with the student's starting point. This study uses entrance examination scores as a measure of a student's "starting point" in college. Even though the entrance exam scores are not a sufficient measure of preparation, the scores can be taken as a proxy for how well prepared a student is for college study. This is an important starting point, because a school whose students have very high entry credentials is limited in the value it can add, because the students are already near the top of the measuring scale. In the UT System, both UT Austin and UT Dallas have freshman classes with high entry credentials. By contrast, a school whose students have low entry credentials can add a great deal of value. Even if such students later score at only at the national average, their college attendance will have added substantial value. In the UT System, UT San Antonio is an example of this pattern.

The "expected" scores are statistical projections based upon the score a student would be expected to earn given entrance exam scores. These expected data can then be compared with students' actual scores.

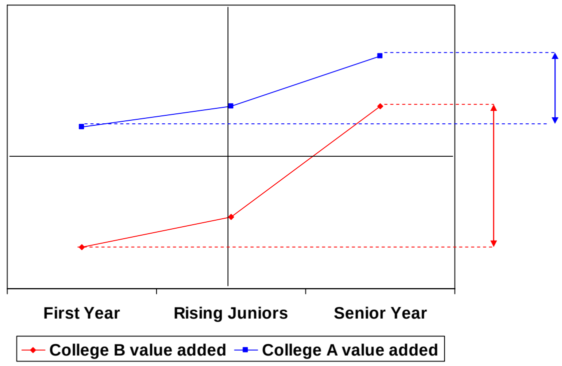
The CLA data for seniors are also compared with the CLA data for freshman students.

INSTITUTION – The primary unit of analysis is the institution. This means that the focus is on how the institution as a whole contributes to student development. Thus, we aggregate the information to understand better the institution's role in promoting learning.

VALUE ADDED – The CLA assessment focuses on the value added by colleges and universities. When institutional quality is based solely on students' scores on entrance examinations, there is no way to know what was learned after they matriculated; again, when student ability is only measured upon graduation, there is no way to determine the students' relative growth without knowing their starting point. It is only by comparing what students know when they start college with what they know when they finish that it is possible to assess the learning that actually occurred while in college.

COMPARISONS – This approach to assessment also allows for inter-institutional comparisons of overall value added. For example, the figure on the following page shows how College A and College B added value to student learning both in terms of absolute scores and in terms of the difference in adding value given their respective student populations.

Figure I. Possible Comparisons of Institution's Value Added



What does the test measure?

The CLA uses various types of performance and analytic writing tasks, all of which require open-ended responses. There are no multiple-choice questions. There are two sections to this test: 1) the performance task; and 2) the analytic writing task.

Performance tasks require students to use an integrated set of critical thinking, analytic reasoning, problem solving, and written communication skills to answer several open-ended questions about a hypothetical, but realistic, situation. Students are provided with a document library for each task, which includes a range of information sources such as letters, newspaper articles, and diagrams, to use in preparing their answers. All of the CLA performance tasks require students to present their ideas clearly, including justifying the basis for their points of view.

Analytic writing tasks require students to write answers to two types of essay prompts: "Make-an-Argument" and "Critique-an-Argument." A "Make-an-Argument" question asks students to support or reject a position on a particular issue. A "Critique-an-Argument" question asks students to evaluate the validity of an argument made by someone else. Both tasks measure a student's ability to articulate complex ideas, examine claims and evidence, support ideas with relevant reasons and examples, sustain a coherent discussion, and use standard written English.

How to interpret the scores

This study helps answer several important questions. First, how well do the learning outcomes of students enrolled in UT System institutions compare to students from other institutions? Second, do students at UT System institutions, relative to students from other institutions, perform above, at, or below 'expected' levels based on their entering admissions test scores? Third, have the institutions added value as indicated by seniors showing levels of learning higher than expected relative to that expected of freshmen?

To facilitate reporting results across institutions, the CLA scores were converted to the same scale (1 to 36) of measurement used to report ACT scores. The ACT scale has a mean of 20 and a standard deviation of 5. The CLA scale has the same properties. Roughly two-thirds of all students will score between 15 and 25. About one-sixth of all students will score below 15, and about one-sixth will score above 25. Caution should be used in interpreting relatively small differences (say, 20.5 versus 21) because those differences might not be statistically significant due to chance variation.

Key Findings

1. Our freshmen perform on the CLA Tests as well as other institutions in the national sample.

Two tests are being reported: the performance task, which involves synthesizing and integrating materials to produce a document, and the analytic writing task. The analytic writing task requires students to write two essays, one that criticizes an argument and another one that makes an argument. The focus of the analytical writing test is on examinees' critical thinking and analytical writing skills, such as the ability to: 1) articulate complex ideas clearly and effectively; 2) examine claims and accompanying evidence; 3) support ideas with relevant reasons and examples; 4) sustain a well-focused, coherent discussion; and 5) control the elements of Standard English.

For the nation as a whole, the expected score on the performance task scale, which is predicted from ACT scores, would be 22.5 for the Performance Task and 22.9 for the Analytic Writing task. The national expected scores are the same for each institution. The institutional expected scores vary because of differences in the ACT scores of students from each institution.

In summary, Table 1 shows the comparison of freshman CLA average scores for UT System institutions with the national study group sample. It shows that UT Dallas freshmen scored well above the average of the national sample in both the performance task and the analytic writing tests. This table also shows that UT Arlington, UT Permian Basin, UT San Antonio, UT El Paso and UT Pan American freshmen scored about the same as other freshmen in the national sample. UT Austin, UT Tyler, and UT Brownsville did not have enough freshmen in the sample for this analysis.

Table 1
University of Texas System
Freshman-Level CLA Scores by Institution

Institution	Measure	National Expected Score	Expected Institution Score	Actual Institution Score	National Comparison
Arlington	Performance Task	22.5	22.64	22.5	As expected
	Analytic Writing Task	22.9	22.81	22.0	As expected
Dallas	Performance Task	22.5	26.21	27.1	As expected
	Analytic Writing Task	22.9	26.29	26.7	As expected
El Paso	Performance Task	22.5	20.29	20.4	As expected
	Analytic Writing Task	22.9	21.34	22.5	As expected
Pan American	Performance Task	22.5	19.57	19.8	As expected
	Analytic Writing Task	22.9	20.54	21.5	As expected
Permian Basin	Performance Task	22.5	21.97	20.9	As expected
	Analytic Writing Task	22.9	22.22	22.0	As expected
San Antonio	Performance Task	22.5	21.59	22.0	As expected
	Analytic Writing Task	22.9	22.30	23.1	As expected

Note: Freshman level data were not available for U. T. Austin, U. T. Brownsville, and U. T. Tyler

Within Institution Freshmen Results

UT Arlington

At UTA, the expected Performance Task score was 22.64; the actual score was 22.5, which did not differ in a statistically significant way from the expected score. The actual score was consistent with what one would expect given the national norms and the composition of the UTA student body. The actual UTA analytic writing scale scores were nearly identical to their expected scores (22.81 v. 22.90).

UT Dallas

In the performance task scale of the test, the freshmen from UT Dallas outperform the national sample and their expected scores. Their performance task scale score was 27.1, while their analytic writing task score was (26.7) which are higher that what would be expected of these students (26.21 and 26.3) and higher than the national sample. The UT Dallas freshmen outscored the national sample schools by more than a standard deviation in both sections of the test.

UT El Paso

The freshman students at this institution scored below the national sample on the performance task score. The national sample scored 22.5 and the UTEP sample scored 20.4. However, given their ACT scores, the freshmen scored as expected. The expectation was that UTEP students would score at 20.29; the actual score in this section of the test was 20.4. On the analytic writing task scale, the freshmen did as well as the national sample. Yet, the actual score was higher than the expected score for these students. However, there are no statistical differences in either set of scale scores. The UTEP students did not differ from the national sample in any significant way.

UT Pan American

The freshmen for this institution scored lower than the national sample as a whole in both the performance task and analytical writing task scale scores. At UTPA the score for the performance task scale was 19.8, which is significantly below the national sample's average score of 22.5. However, the expected score in the performance task scale, given the students' preparation, was similar to the actual score. On the other hand, while the students' score in the analytical writing task scale was lower than the national sample score of 22.5, the UTPA freshman students scored better than expected. Yet, the difference between the expected and actual scores was not statistically different.

UT Permian Basin

The sample of freshman students in this institution scored below the national sample scores in the performance task scale. The UTPB student average score for this section of the test was 20.9. The national sample score was 22.5. Yet, the expected score which is based on the students ACT scores, was 21.97. Their actual scale score was 20.9. The differences between the actual and expected scores do not differ significantly. On the other hand, the scores for the national sample, the expected score, and the actual score were similar at 22.9, 22.2, and 22.0 respectively. The students are performing as expected and similar ways when compared with the national sample.

UT San Antonio

The data for the sample at UTSA show that the freshman students are performing at the same level as the national sample as well as how they are expected to perform, given the students' academic preparation. The average scale score for the national sample was 22.5; the expected average score is 21.59; and the actual score in the performance task was 22.0. These scores do not differ statistically in any significant way from each other. In other words, the freshman students are doing as well as expected at UTSA and in relation to the national sample. Concerning freshmen performance on the analytic writing scale, the freshmen sample scores at the same level as the national sample, the expected scores, and the actual scores.

2. Our seniors from two institutions (UT Austin and UT Dallas) outperform the national sample.

In summary, Table 2 shows the comparison of senior CLA score ranges for UT System institutions with the national sample group. This table indicates that senior students at UT System institutions perform as well as or better than other institutions in the national sample. UT Austin and UT Dallas are performing better than the national group in absolute scores in both tests.

Regarding student growth on the analytical writing test, UT San Antonio, UT Pan American, UT El Paso, and UT Austin add significant value to student learning in this area. UT Arlington, UT Dallas, and UT Tyler did as well as other institutions around the nation.

Concerning the Performance Task test scores, UT San Antonio and UT Pan American are adding significant value to student development in this area. The rest of our institutions, UT Arlington, Austin, Dallas, and El Paso, perform within expected levels given the academic preparation of their students. Senior level data were not available for UT Permian Basin, UT Tyler, and UT Brownsville.

Table 2
University of Texas System
Senior-Level CLA Scores by Institution

Institution	Measure	National Sample Average Score	Average Expected Institution Score	Actual Average Institution Score	Actual Senior Performance Relative to Expected Performance	National Comparison
Arlington	Performance Task	24.8	24.74	24.3	-0.44	As expected
	Analytic Writing Task	27.3	27.08	27.2	-0.06	As expected
Austin	Performance Task	24.8	28.05	27.7	-0.35	As expected
	Analytic Writing Task	27.3	30.01	30.9	0.89	As expected
Dallas	Performance Task	24.8	28.59	29.0	0.41	As expected
	Analytic Writing Task	27.3	30.98	31.1	0.12	As expected
El Paso	Performance Task	24.8	23.76	23.0	-0.76	As expected
	Analytic Writing Task	27.3	25.90	27.3	1.40	Above expected
Pan American	Performance Task	24.8	22.70	23.5	0.80	As expected
	Analytic Writing Task	27.3	24.70	25.9	1.20	Above expected
San Antonio	Performance Task	24.8	23.69	25.0	1.31	Above expected
	Analytic Writing Task	27.3	27.06	28.3	1.24	Above expected
Tyler	Performance Task	NA	NA	NA	NA	Not available
	Analytic Writing Task	27.3	27.71	28.4	0.69	As expected

Note: Senior level data were not available for U. T. Brownsville and U. T. Permian Basin

Within-Institution Senior Analysis

The information that follows shows the statistics related to seniors presented in Table 2. Additionally, this section provides the institution's context concerning total enrollment, income, and student characteristics such as enrollment status, and the proportion of students receiving financial aid.

UT Arlington

The University of Texas at Arlington enrolls 25,297 students[1]. In fall 2004, there were 2,072 first-time undergraduate students[2]. The average SAT score of entering students in fall 2004 was 1072. Tarrant County, in which UT Arlington is located, has a median family income of $47,660. Twenty-eight percent of the student body is part-time[3], and 30% of the undergraduate student body received need-based financial aid in 2004[4].

UTA seniors did as well as the national sample of seniors in the performance task scale of the test. The national expected score was 24.74, while the senior actual test-score (24.3) was at the same level as the national score. Similarly the expected score and the actual score were at the same level. This means that senior students at UTA are doing as well as expected when compared with the national sample and their expected scores. Concerning the difference between the expected and the actual scores, there is a slight nonsignificant difference. On the other hand, the senior scores in the analytical writing test are all similar among the national sample average score, the expected average score and the actual average test score.

UT Austin

The University of Texas at Austin enrolls 50,377 students. In fall 2004, there were 6,782 first-time undergraduate students. The average SAT score of entering students in fall 2004 was 1230. Travis County, in which UT Austin is located, has a median family income of $45,245. Nine percent of the student body is part-time, and 33% of the student body received need-based financial aid.

The seniors outperformed the national sample in the performance task test. The national average score was 24.8, while the senior actual average test score was 27.7. Yet when one compares the expected score, which is based on students' academic preparation (ACT scores), against the actual score, the seniors underperformed slightly. Those differences, however, are not statistically significant. On the other hand, the seniors outperformed in a significant way the national group in the analytical writing test. The national sample average score was 27.3, while the seniors' actual performance in the writing test was 30.9. Moreover, the difference between the expected against the actual scores is slightly positive.

UT Brownsville

The University of Texas at Brownsville/Texas Southmost College enrolls 11,546 students. Cameron County, in which UT Brownsville is located, has a median family income of $26,330. Fifty-two percent of the student body is part-time, and nearly 70% of the undergraduate student body received need-based financial aid in 2004[5].

UT Brownsville did not have enough data for this analysis.

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[1] The University of Texas System Accountability and Performance Report 2004-2005, Office of Institutional Planning and Accountability, http://www.utsystem.edu/IPA/acctrpt/2004/studentaccess.pdf

[2] Statistical Handbook 2005, Office of Institutional Studies and Policy Analysis, http://www.utsystem.edu/isp/StatHndbk/2005/Students.pdf

[3] Part-time status calculated by the Office of Academic Affairs based on data obtained for the Statistical Handbook 2005 prepared by the Office of Institutional Studies and Policy Analysis, http://www.utsystem.edu/isp/StatHndbk/2005/Students.pdf

[4] Data obtained from the Office of Institutional Studies and Policy Analysis

[5] Data on financial aid obtained for the institution's Institutional Compact, FY 2006-2007, http://www.utsystem.edu/IPA/compacts/2005/UTB-TSC06-07Compact.pdf

UT Dallas

The University of Texas at Dallas enrolls 14,092 students. In fall 2004, there were 1,167 first-time undergraduate students. The average SAT score of entering students in fall 2004 was 1235. Dallas County, in which UT Dallas is located, has a median family income of $41,147. Thirty-four percent of the student body is part-time, and 34% of the undergraduate student body received need-based financial aid in 2004.

The seniors at this institution outperformed in a significant way the national sample scores in the performance task test. The national average score was 24.8; while the seniors at UT Dallas scores 29.0. This is a statistically significant difference between those two sample scores. Similarly, the seniors outperformed their expected score which was 28.59; while, the actual score was 29.0. This means that seniors did better than expected; this may be related to their growth in this area. The same is the case when one analyzes the analytic writing test scores. The UTD seniors outperformed the national sample score which was 27.3; while the UTD senior average score was 31.1. The seniors also performed as well as they were expected, given their academic preparation.

UT El Paso

The University of Texas at El Paso enrolls 18,918 students. In fall 2004, there were 4,060 first-time undergraduate students. The average SAT score of entering students in fall 2004 was 916. El Paso County, in which UT El Paso is located, has a median family income of $31,086. Thirty-one percent of the student body is part-time, and 51% of the undergraduate student body received need-based financial aid in 2004.

The seniors at UTEP scored lower than the national sample on the performance task scale. The national sample scored 24.8, while the UTEP sample of seniors scored 23.0. Yet, the seniors scored as well when one compares the expected score against the actual score on the performance task scale. There is a slight variation between those two scores; yet, such variation is not statistically significant. On the other hand, UTEP seniors scored at the same level as the national sample on the analytic writing scale (27.3). When one analyzes the expected versus the actual scores, however, UTEP seniors performed above expected scores. The deviation score was greater than expected. That means that seniors at UTEP have achieved higher scores in writing than two-thirds of the seniors nationally.

UT Pan American

The University of Texas - Pan American enrolls 17,030 students. In fall 2004, there were 2,823 first-time undergraduate students. The average SAT score of entering students in fall 2004 was 805. Hidalgo County, in which UT Pan American is located, has a median family income of $25,894. Twenty-eight percent of the student body is part-time, and 57% of the undergraduate student body received need-based financial aid in 2004.

The seniors at UTPA scored below the national sample on the performance task scale. The national average score was 24.8; while the score for UTPA is 23.5. The differences, however, are not significant in any way. However, there is a difference between the expected scores in this area and the actual score on the performance task scale. The expected score, which is based on the students ACT scores, is 22.70; while, the actual scale score is 23.5. That means that seniors have done better than expected on the performance task test. Similarly, on the analytic writing scale, the national group outperformed UTPA seniors. The national group scale score is 27.3; while UTPA's sample of students is 25.9. More important, the seniors outperformed their expected scores in this scale by a significant difference. The expected scale score is 24.7; while their actual score is 25.9. The seniors scored above expectations in the analytic writing test. That indicates that significant change has taken place in student learning in this area.

UT Permian Basin

The University of Texas of the Permian Basin enrolls 3,291 students. In fall 2004, there were 265 first-time undergraduate students. The average ACT (SAT) score of entering students in fall 2004 was 996. Ector County, in which UT Permian Basin is located, has a median family income of $33,045. Thirty-seven percent of the student body is part-time, and 43% of the undergraduate student body received need-based financial aid in 2004.

UT Permian Basin did not have enough seniors in the data sample to calculate their scores.

UT San Antonio

The University of Texas at San Antonio enrolls 26,175 students. In fall 2004, there were 4,421 first-time undergraduate students. The average SAT score of entering students in fall 2004 was 1006. Bexar County, in which UT San Antonio is located, has a median family income of $38,521. Twenty-five of the student body is part-time, and 38% of the undergraduate student body received need-based financial aid in 2004.

The seniors at UTSA performed better than the national sample on the performance task scale. The national average score is 24.8 while the sample at UTSA scores 25.0. These are not significant differences; however, when one compares the expected score and the actual score for UTSA seniors, they outscored their expected performance by a significant portion. The expected score is 23.69 and their actual score is 25.0. This means that UTSA seniors added significant analytic writing skills to their knowledge while in UTSA. The same is the case when one analyzes their analytic writing scale scores. UTSA seniors outperformed their national peers 28.3 against 27.3. Moreover, UTSA seniors scored significantly better than their expected scores. UTSA seniors scored above expected in the writing skills test.

UT Tyler

The University of Texas at Tyler enrolls 5,326 students. In fall 2004, there were 521 first-time undergraduate students. The average SAT score of entering students in fall 2004 was 1068 [THECB data appear to be incorrect also, so I can't verify this statistic]. Smith County, in which UT Tyler is located, has a median family income of $38,561. Thirty-six percent of the student body is part-time, and 40% of the undergraduate student body received need-based financial aid in 2004.

UT Tyler seniors only had enough data in the test of writing skills. The seniors outperformed the national sample, although the difference is not significant (28.4 versus 27.3). The seniors also outperformed their expected scores in the analytic writing test. That means that there is positive growth in student development in the writing achievement.

Summary

UT System academic institutions do as well or better than the national sample in terms of the how seniors and freshmen perform in the CLA performance task, which measures problem solving, critical thinking, and analytical reasoning. Seniors from UT San Antonio, Pan American, and Dallas do particularly well when compared with the national sample. On the other hand, when assessing the analytic writing task scores, seniors at El Paso, San Antonio, Pan American, Austin, Tyler, Dallas, and Arlington, do as well or better than the national sample. Finally, it is quite clear that Permian Basin, San Antonio, Pan American, and Arlington add significant value to their senior students when freshmen and senior score differences are taken into consideration.

How Will Test Results be Used

Chief academic officers may use the test results to address weaknesses in their general curriculum or to build opportunities to improve skills critical thinking, problem solving, analytical reasoning, and writing skills in the overall undergraduate preparation program. Chief academic officers may also use these test results for benchmarking academic performance of their students against national peers and setting targets for improvement.

Furthermore, chief academic officers may use these results to provide information to the public, funding organizations, policymakers, and parents on how their students perform academically in relationship to a national standard.

The University of Texas at Dallas

Compact with The University of Texas System
FY 2006 through FY 2007

I. Introduction: Institution Mission and Goals

The mission of The University of Texas at Dallas is to provide Texas and the nation with the benefits of educational and research programs of the highest quality. These programs address the multi-dimensional needs of a dynamic, modern society driven by the development, diffusion, understanding and management of advanced technology.

The strategic intent of the university is to be a nationally recognized top-tier university sculpted within a model of focused excellence. The university emphasizes education and research in engineering, the sciences, technology and management while maintaining programs of focused excellence in other academic areas. Within the context of this mission, the goals of the university are as follows:

- To provide able, ambitious students with a high-quality, cost-effective education that combines the nurturing environment of a liberal arts college with the intellectual rigor and depth of a major research university.
- To discover new knowledge and to create new art that enriches civilization at large and contributes significantly to economic and social programs.
- To enhance the productivity of business and government with strategically designed, responsively executed programs of research, service and education.

The university intends to achieve these objectives by investing in excellent students and faculty, building upon its core programs, policies and operations and enhancing institutional character and excellence in education. The university is committed to enhancing the quality of its students' learning experiences and its employees' work environment. The university intends to expand and intensify partnerships and relations with business, governmental and educational neighbors and actively pursue external support of and funding for the ambitious academic and service programs integral to its mission.

The university will serve its multiple constituencies (students, industry, and community) in an ethical, attentive and efficient manner with the highest standards of community service. The University of Texas at Dallas strives to set an example as a public higher education institution. When the public thinks of The University of Texas at Dallas, it is our desire to be recognized as one of Texas' premier universities and an excellent investment in the future of the state.

The University of Texas at Dallas' compact with the citizens of Texas is to sustain the course that has brought the university to the nationally emergent position that it now has. This pledge is made in the context that over 33 percent of the Texas gross state product is produced in the university's service area, and that the future economic viability of Texas hinges on the development of nationally prominent research oriented universities that can drive economic development and provide Texas' students with top-tier education—now essentially capped at UT Austin and Texas A&M. The university's compact with the citizens is to seize our opportunities and overcome the challenges that face the university in the coming years.

II. Major Ongoing Priorities and Initiatives

The University's strategy is to focus on the new knowledge bases that will drive the 21^{st} century and the new Texas economy and provide students with an excellent education. The strategy is aligned with the needs of North Texas industry, the needs of the new Texas economy, and with demographic change in the university's service area. For the continued vibrancy of the emerging new economy, highly educated employees are required. Over its history, UTD has concentrated its resources to meet these requirements.

The major ongoing priorities noted last year remain unchanged. In addition, the university is initiating the reaffirmation process with regard to accreditation by the Southern Association of Colleges and Schools (SACS) under the new presidential leadership of Dr. David E. Daniel.

1. Allocate existing resources to preserve quality in teaching and research programs.

Objective: UTD's dominating priority for the next year is to reallocate existing resources for FY 05 and FY 06 to minimize the damage to our teaching and research programs that occurred as a consequence of the 10 percent reduction in the university's aggregate funding per weighted student credit hour (WSCH) in the last biennium. The university needs to extract maximum efficiency from academic and non-academic budgets.

Strategies:

- Examine and streamline curriculum and class scheduling without sacrificing student access and timely degree completion.
- Increase the percentage of semester credit hours taught by tenured and tenure-track faculty by increasing the numbers of tenured and tenured track faculty and reducing the reliance on part-time lecturers.
- Examine the totality of university activities to identify activities in all areas for reduction and reallocate funding to teaching and research.

Resources: There has been a massive resource shift from state, research funded and teaching formula funded appropriations to tuition and fees with the net result being a constriction of financial resources. At the same time, university enrollments and semester credit hour production are increasing, as are the research needs that are drivers of the new Texas economy. The financing reality is that significant resource reallocation must occur for at least the short term.

Progress Measures:

- With regard to the strategy of curriculum, two measures of progress will be the number of class offerings rescheduled and the volume of programmatic streamlining. Between fall 2003 and fall 2004, the number of organized classes grew by only 4 percent in spite of enrollment growth. The growth of organized sections occurred in lower division and at the master's level. Lower division courses grew by 4.7 percent and masters courses grew by 12 percent. At the upper division and doctoral levels there was virtually no growth in sections, which reflects the redirection of resources. In terms of rescheduling courses, the university significantly shifted lower division coursework from the evening to the day with a 13 percent reduction in lower division evening courses and a 10 percent increase in day sections. At the master's level, there was a 2 percent reduction in evening sections and 45 percent increase in day sections, which reflect the shift to full-time masters programs.
- In addition, we will measure the number of course offerings reduced while maintaining course quality, enrollments, and student quality. As noted above, the university experienced only a modest growth in course sections. However, there was a considerable shift in the scheduling and timing of courses. The number of sections taught Monday-Wednesday-Friday doubled and the number of exclusive courses taught on Fridays increased 21 percent, which reflects not only a more efficient utilization of facilities but also a more robust menu of choices for students.
- We will measure the percentage of semester credit hours generated by tenured and tenure-track faculty and the relative research productivity of the faculty. The number of courses offered by the faculty that are tenured or on tenure-track increased 7.4 percent and the percentage of semester credit hours generated increased by 5.6 percent. This is in contrast with the increase in SCH taught by non-tenure track faculty (+1.3%). Total research expenditures between FY 03 and FY 04 increased 8.3 percent to over $36 million while restricted R&D increased over 17 percent to $22.4 million.[1]

[1] These data come from the Annual Financial Statements, Office of the Controller, The University of Texas at Dallas.

Restricted research expenditures increased from $58,305 per tenured and tenure-track faculty to $66,159 from 03 to 04.[2] Federal R&D funds account for 78 percent of the total expenditures.

Major Obstacles: There is a continuing lag in adding adequate, aggregate space to match our growth in research funding and activity. In addition, the available research space in many productive fields is dated and in need of immediate renovation. The lack of adequate research space causes a lag in the onset of research projects and also places the university at a disadvantage when competing for specific projects. In many research fields, reallocation of specialized laboratory space is not a viable option because that space would require extensive renovations. A similar situation exists for many of the older teaching facilities, which are in a deteriorated state and technologically out-of-date.

2. Protect enrollment gains, access, and student quality achieved over the last decade as part of moving toward a "first tier" institution.

Objective: Within the context of available financial resources, protect and enhance student quality and access to excellent education. Continue significant but controlled growth in freshman enrollment and diversity while maintaining academic qualifications at their current high levels.

Strategies:
- Sustain the freshmen recruitment, retention, and diversity initiatives with a consistent focus on maintaining a highly talented and qualified student body.
- Sustain academic excellence through merit-based scholarship programs.
- Synergistically combine forms of merit and need-based financial aid.
- Continue to focus resources in areas of core competency to the university and areas with transdisciplinary importance that will provide students with career opportunities in the new Texas economy (e.g., audiology and hearing science, brain science, neuroscience, nanotechnology, materials science, bioinformatics, biomedical engineering and imaging science, digital art and technology, management science, and socially relevant social science programs).
- During the 2005-06 academic year, work with students, UT System Administration, and key political leaders to restore UTD funding per WSCH to at least the level of 2001-2003.
- Continue to examine with students, faculty, and key stakeholders the funding mix between state appropriations and tuition/fees to enable quality growth.

Resources: The resource shift from state (research funded and teaching formula funded) appropriations to tuition and fees poses a unique challenge. Both enrollment of excellent students and semester credit hour production are increasing while resources available are constricting. The university has achieved and will continue to achieve its participation objectives to "close the gaps." Because of the focused, but not narrow, range of university programs, efforts can be concentrated at producing graduates who will drive the new Texas economy. Even with a vigorous increase in gifts, the financing reality is that resources have to be reallocated. The university deferred the purchases of business and student information systems and deferred the hiring of back-up personnel in critical non-academic support areas. Some budgets in non-academic areas have been frozen and new resources have been reallocated to academic areas. Furthermore, it is clear that without reestablishing the resource base of the university (as discussed above), some areas may have to be compromised.

Progress Measures:
- Increases in freshmen enrollment and diversity while sustaining student quality as measured by competitive achievement tests. According to the Office of Undergraduate Education, the fall 2004 freshman class (including the summer enrollees) numbered 1,265 students whose average SAT score was 1239. This can be compared to the fall 2003 class of 1,200 students with an average SAT of

[2] Tenured and Tenure-track faculty is based on the CBM008, excluding senior administrators, who have tenure, above the level of Dean.

1225. The fall 2004 class contained 38 National Merit Scholars. The fall 2004 class was comprised of students who self-identified as 9 percent Hispanic, 6 percent African-American, 21 percent Asian American, 60 percent Anglo, and 4 percent other. Current fall 2005 admissions data indicate that the university will enroll approximately 1,300 new freshmen (+3% over 2004) with an average SAT of 1240. Eleven percent of these students self-identify as Hispanic, 6 percent African American, 23 percent Asian American, 57 percent Anglo, and 3 percent other.

- Increase in six-year graduation rates and decreases in time-to-degree for transfer students. The university's six-year graduation rate for the 1997 cohort, according to the THECB,[3] was 62.9 percent, fourth highest for pubic universities. The five-year rate for the 1998 cohort is 57.2 percent, which is the third highest in the state.
- Increases in enrollment and majors in core programs of the university. Between fall 2003 and fall 2004, enrollments in the sciences increased dramatically. Biology increased 8.5 percent, Chemistry 13.4 percent, and Bio-chemistry 71.2 percent. Neuroscience and Cognitive Science increased 37.8 percent, Audiology increased 17.9 percent, Physics increased 14.3 percent, and Mathematics and Statistics 48 percent. In spite of the economic downturn, electrical engineering experienced a 1.8 percent rise in majors; however, the downturn continues to drag on computer science, which experienced a 20 percent decline in majors.

Major Obstacles: The merit and need-based funds needed to recruit and enable students to complete degrees in a timely fashions lag behind real needs. An additional challenge stems from the shifting economics and demographics of technologically oriented graduate students. The continued economic churn has led to a flattening in applications and hence enrollments of professionally oriented masters students.

3. Sustain the university's progress over the last decade in moving toward a first tier institution in terms of programs, research, and faculty quality.

Objective: Within the fiscal context protect the fruits of UTD's progress during the last ten years while simultaneously initiating the enhancements of our engineering, brain and behavioral sciences, and physical science programs. Key achievements of the last decade that must be protected include:

- Sustaining the rapid growth in externally funded research programs;
- Continued enhancement of current collaborative programs with UT Southwestern and UT Arlington, particularly in the areas of imaging science, brain health, neuroscience, and nanotechnology; and
- Consolidating major strategic initiatives such as those in audiology and hearing science, brain science, digital art and technology, materials science, management science, neuroscience, nanotechnology, and socially relevant graduate social science programs.

Strategies:

- Sustain the current research thrusts in our centers of excellence (Disease-Centric Science and Technology, Advance Materials and Instrumentation, and Information Transmission and Processing) while also encouraging focused initiatives in other related areas (e.g., arts and technology, digital forensics).
- Continue to implement targeted faculty hiring in university core competency areas and research areas with transdisciplinary importance (e.g., neuroscience, nanotechnology, materials science, bioinformatics, biomedical engineering and imaging science).

Resources: The resource shift from state (research funded and teaching formula funded) appropriations to tuition and fees poses a unique challenge. The university has achieved great success in boosting its externally generated R&D funds as part of the excellence effort to "close the gaps." The university's efforts are aimed at producing research that will drive the new Texas economy. Furthermore,

[3] http://www.thecb.state.tx.us/AccountabilitySystem/UnivMeasRank.xls

it is clear that without establishing the resource and infrastructure base of the university (as discussed above), some areas of progress will have to be compromised.

Progress Measures:

- Increases in externally funded research and development. Using Standards and Accounting Methods (SAM) data submitted to the Texas Higher Education Coordinating Board (THECB), the university's FY 04 R&D expenditures were $22.4 million. FY 05 data submitted to the THECB using the same SAM for the university indicate expenditures of $37.3 million or an increase of 66 percent.
- Increases in the depth and range of collaborative efforts with sister UT institutions in areas of core competence. The university collaborates with UT Southwestern Medical Center in the Metroplex Imaging Center and is attempting to collaborate with UT Arlington in the areas of materials science and engineering. UTD is collaborating with UT Southwestern in the area of biomedical engineering.
- Targeted faculty hiring in areas of concentration. Twenty new faculty in engineering and the sciences have been hired for fall 2005. Additional offers are pending.
- Development of funds for endowed research professorships.
- Stabilization of the oscillations in graduate enrollments in light of shifting local, regional, and global economic and political conditions, and student demographics in areas of concentration. Overall graduate admissions have increased 4 percent over last year.

Major Obstacles: The funds needed to recruit talented faculty in high-demand research areas lag behind real opportunities. The university is committed to increasing the number of endowed, research-oriented professorships in areas of core relevance. This is particularly salient to the rapid enhancement of engineering and physical science promised as the university's share of the multiparty agreement that convinced Texas Instruments to locate its new $3 billion wafer fabrication plant in Richardson, Texas, nearby the campus. The university will need to successfully mount a significant capital campaign to support these areas. In terms of infrastructure, there is a continuing lag in adding adequate, aggregate space to match our growth in research funding and activity. In addition, the available research space in many productive fields are dated and in need of immediate renovation.

An additional challenge stems from the shifting economics and demographics of technologically oriented graduate students. The economic churn and global uncertainties have led to a flattening in applications and hence enrollments of professionally oriented masters students.

4. Enhance research, graduate education and technology-driven economic development.

Objective: Initiate rapid enhancements of the university's engineering and physical science programs that constitute UTD's share of the multiparty agreement that convinced Texas Instruments to locate its new $3 billion wafer fabrication plant in Richardson, close to the UTD campus.

Strategies:

- UTD is committed to an aggressive program of targeted hiring in the areas of engineering, physics, chemistry, mathematical and computational science, biomedical engineering, molecular biology, and neuroscience. The phased development of these faculties includes a UTD commitment to the development and implementation of a major fund raising effort to create up to forty endowed professorships for the areas targeted above as well as additional hiring of research oriented faculty of the appropriate high qualifications. UTD purchased an off campus facility and is renovating existing science facilities in order that new researchers can be added and existing researchers can be provided the needed space to perform their functions.
- Secondly, the university is constructing a new 200,000 square foot research facility for Engineering and Natural Sciences with completion sometime around mid-2006.

Progress Measures:

- The rapidity with which the university can fully fund and fill the research positions is a critical measure of progress. Our critical challenge during the next 18 months is therefore to recruit engineering and science faculty of the appropriate high qualifications and to identify the required additional faculty salary funding. Over 44 percent of all new tenured and tenure-track hires from fall 2004 to fall 2005 are in targeted areas. Forty-seven percent of these new hires are in engineering and computer science, 37 percent in the natural sciences, and the remainder in behavioral and brain science. Seventy-five percent of the outstanding offers to new faculty are in engineering, computer science, or physics.
- The funding of the capital investments is materializing. Funding committed for equipment and start-up costs for new research programs is adequate for the next several years. With the arrival of President David E. Daniel, UTD has entered a strategic planning process that includes a communications and development plan to enhance endowment aimed at research professorships.
- We will measure the increase in external research funding in relevant research areas. As noted above, using SAM data submitted to the THECB, the university's FY 04 R&D expenditures were $22.4 million. FY 05 data submitted to the THECB using the same SAM for the university indicate expenditures of $37.3 million or an increase of 66 percent.
- Increases in the national rankings of the university in federal R&D and elevation of UTD's Jonsson School of Engineering in national rankings.
- In terms of infrastructure, acquisition of new research space and completion of required renovations and the planning and construction of the new research facility for Engineering and Natural Sciences are significant measures of progress. Construction of the new science research building proceeds on pace. UTD purchased and improved the Waterview Science and Technology Center, which expands the campus across Waterview Parkway, and provides research space while the renovations of the Founders building continues.

Major Obstacles: While UTD has been provided with a very enviable opportunity, it also has a tremendous challenge in addressing the logistical obstacles and financial demands posed. This is especially so in the current climate of resource shifting and constriction. As noted above, the first step is to purchase a facility and then make timely renovations once the building is attained. Secondly, while not a major obstacle, the planning, coordination, and construction of the new research facility for Engineering and Natural Sciences will be challenging given the time frame involved.

While perhaps not a major obstacle, the renovation of the old science facility is logistically difficult. Practically, there is a need to vacate faculty and staff from the building in order to gut it and rebuild the interior into the needed facilities. However, much of the important federally funded ongoing research at the university is taking place in this building and, in addition, important laboratory teaching space is housed in this building. Even though much of this space is no longer adequate, there must be immediate replacement space available. Simultaneously, the university needs to continue to hire additional highly qualified and research productive faculty and equip their labs. Accomplishing such a significant renovation project efficiently and optimally will be challenging. However, the additional research space that will result will adequately address near-term needs for additional space. Funding committed for equipment and start-up costs for new research programs is also sufficient for the next several years.

III. Future Initiatives of High Strategic Importance

As the recent report from the Washington Advisory Group noted, UTD must continue to address its structural issues and resource needs over the next decade. The university must double the size of its research faculty and increase the external funding efficiencies of current faculty. UTD must also improve the quality of its graduate students and expand its partnerships with UTSWMC and UTA.[4] Thus, UTD's

[4] Washington Advisory Group, pg. 52.

future initiatives of high strategic importance are bounded by and remain unchanged from those of the present.

As the Washington Advisory Group noted, the university "has been given a five year fundraising head start in its march towards Tier 1 status with Project Emmitt."[5] Thus, the dominant initiative for the 2007-2009 biennium will be the fulfillment of most of the commitments of the Engineering and Science Research Enhancement Initiative, "Project Emmitt." The university must increase in numbers of faculty members and graduate students in these areas. Importantly, UTD is also committed to a major capital campaign with a five-year goal of $100 million. The major focus for the campaign is the creation of endowed chairs and graduate fellowships that are crucial to the recruitment of excellent, research active faculty and students that achievement of our goals requires.

This same period will see completion and occupancy of a major new facility for experimental research in engineering and science and a renovation of Founders Hall that will address urgent space needs for student services and undergraduate laboratory instruction. Concurrently, older classrooms should be renovated and outfitted with modern instructional equipment and a general enhancement of the functionality and appearance of the campus completed. Fundamentally, the bundle of opportunities and challenges for the entire next five years are substantially the same ones that the university faces now. The university must establish a funding base that is adequate to build the faculty, student body and the university in the 21st century milieu that is Texas. Thus, the three major initiatives of high strategic importance are:

1. Fulfill the commitments of the Engineering and Science Research Enhancement Initiative.

Objectives: There are three interrelated commitments. First, the university is committed to increase the numbers of faculty members and graduate students in engineering, physical sciences, and technology. Secondly, the university is committed to a major capital campaign with a five-year goal of $100 million that is directed to the creation of endowed chairs and graduate fellowships in engineering and the physical sciences. Third, the university is committed to the completion and occupancy of a major new facility for experimental research in engineering and science and a renovation of Founders Hall.

Strategies:

- As noted earlier, UTD is committed to and will, as a strategy, stay committed to an aggressive program of enhancing the numbers and quality of faculty, through targeted hiring of faculty members and targeted recruitment of graduate students in the areas of engineering, physics, chemistry, mathematical and computational science, biomedical engineering, molecular biology, and neuroscience.
- Secondly, as called for in the Washington Advisory Group's report, the university will build on its research strengths in advanced materials and instrumentation and information technology.
- Third, it will also expand engineering programs that "underpin Project Emmitt."[6]
- Fourth, it will expand underpinning programs in the schools of Natural Sciences and Mathematics and Behavioral and Brain Sciences.
- Fifth, the university will leverage research and programmatic collaborations (e.g., biomedical engineering, applied organic chemistry, nanotechnology) with area institutions.
- Sixth, the university will critically reexamine current resource commitments and explore all available means to enhance its resource base to accomplish it objectives.

Progress Measures:

- The rapidity with which the university can fully fund and fill the research positions is a critical measure of progress. Our critical challenge will be to recruit engineering and science faculty of the appropriate high qualifications and to identify the required additional faculty salary funding. Even with optimal

[5] Ibid.
[6] Op. cit., pg. 53.

facilities and funding packages, recruitment of 20 active research faculty (with junior faculty and post-docs, graduate students, etc.), per year will be an enormous undertaking in the current fiscal environment.[7]
- We will measure the increase in external research funding in relevant research areas.
- Progress can be measured in the increases in the national rankings of the university in federal R&D and the elevation of UTD's Jonsson School of Engineering in national rankings.
- In terms of infrastructure, completion of required renovations and the planning and construction of the new research facility for Engineering and Natural Sciences are significant measures of progress.
- The success of the capital campaign will be measured by the number of endowed chairs and graduate fellowships created and by the total contributions made toward the university's goal.

Major Obstacles: Achievement levels in sources of funds other than tuition/fees and state funding is currently inadequate to be of significant help to the university in meeting its commitments to the Engineering and Science Research Enhancement Initiative. Furthermore, the dilution of the weighted semester credit hour formula funding for a tuition form of funding poses new challenges for science and engineering oriented universities. Weighted funding formulas explicitly recognized the differential costs associated with science, health science, and engineering preparation and instruction. The funding formulas provided a state assisted base to ensure adequate supplies of new scientists to fuel the technological developments necessary in a brain-based economy. These costs cannot be shifted to students on the basis of a uniform cost per credit hour because the differential tuition rates necessary would create effective barriers to entry into scientific and engineering careers for many young people. Moreover, passing on to students the true costs of instruction is myopic and competitively unsound. Texas and the nation have extremely critical needs for scientists and engineers. Thus, the university must, during the time it solves it funding base issues, also aggressively recruit engineering and science faculty of the appropriate high qualifications and to identify the required additional faculty salary funding. Needless to say, this will be tricky.

2. Continue a strategy of controlled growth as a means to sustain academic excellence, further enhance the student experience, and meet ambitious graduation rates in engineering and science.

Objectives: UTD's objective is controlled enrollment expansion while maintaining the approximately 60 percent undergraduate to 40 percent graduate mix and the highest academic standards. Significantly improve the quality of UTD's graduate students.[8] Enhance student diversity and increase retention and graduation rates. Expand degree profile and depth within the core competencies of the university.

Strategies:
- Continue expansion but at a controlled pace (4-5% per year) that preserves the current student-faculty ratio and aims to lower it toward a goal of 17/1. To do so, the university will commit to a higher growth rate in faculty in targeted areas, which will enhance both the pedagogical objectives and research objectives of the university.
- The university will streamline its academic offerings by engaging in critical path analysis of all of its academic degree programs. It will teach approximately 1,550 sections or classes per semester at optimal times for timely degree completion which directly contribute to 40 baccalaureate degree programs, 42 master's degree programs, and 21 doctoral degree programs.
- The university will expand degree programs in its focal areas, especially programs beneficial to the physical and economic well being of Texas citizens.
- The university will plan and tightly direct institutional resources toward fulfilling the university educational and research missions, while sustaining access to and retention in academic programs for students and staff.

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[7] Op. cit., pg 54.
[8] Op. Cit, pg. 56.

Progress Measures:

- Progress will be measured by the targeted hiring of faculty in areas of focused excellence, enrollments in these areas, and improvements in retention and graduation rates.
- The university's progress in sustaining the excellence of its students and increasing university diversity will be measured.
- The student-to-faculty ratio, particularly in critical areas for the university, will be measured.
- While it may not be possible in some non-core academic areas to significantly reduce the student-to-faculty ratio, the university will aim to make significant progress in its core areas. We will monitor the number of course sections and their timing to ensure that students can graduate in a timely fashion.

Resources: At the university's current level of full-time equivalent (FTE) students[9] and FTE faculty, the university is, right now, 90 faculty members short. Thus, while the university is committed to a 4 percent per academic year student growth rate (or almost 15,300 by fall 2006), it must also be committed to a higher growth rate in faculty, especially if both the pedagogical objectives and research objectives of the university are not to be compromised.

Major Obstacles: The decline in state funding, which began in the 1980s, has shifted revenue from weighted formula funding to tuition based funding. The weighted formula recognized the higher costs associated with nation-critical engineering and science education. Recent shifts in funding have diluted the impact of this formula. The university's mission, programs, and student mix pose unique challenges under this reality. The resources needed to hire and retain faculty and train students in research and scientifically intensive fields will be ongoing. Practically, university funding (income) originates from a delimited number of sources. The historical trends of declining federal and state support will be most difficult to reverse. Concurrently, there are limits to which the costs of high quality education can be shifted to families and students without restricting access with serious consequences for Texas and American society. The deep discounting available to richly endowed private institutions is not an option for the university. The cost-shifting to families and students at some point will change the landscape of higher education. At the same time, the knowledge explosion makes it more expensive to educate citizens in market critical skills. The university will need to sustain a tight focus on its programmatic intentions.

IV. Other Critical Issues Related to Institutional Priorities

A. Impact of Initiatives

The mission and strategic intent of the university is to be a research-oriented university with focused areas of excellence in contrast to a large, diffuse, comprehensive megaversity on one hand, and a technological institute on the other. The university does not aim to be narrow and fixed in convention; rather it intends to be agile and sustain its high fidelity to the emerging scientific, technological, managerial, and social trends that affect society.

Growth in Enrollment

Enrollment planning for the university on a controlled growth model (a modest 4 to 5% per academic year) indicates that enrollment will be over 20,000 in less than ten years. A top priority, as the university grows, is to sustain access for a highly talented and qualified student body and increase campus diversity within the design limits of the university's mission and strategic intent. During the same time frame, research-planning calls for externally funded research to, at least, exceed $70 million per year. How these expansions in access and enrollment and research are to be accomplished, at least for the short term, in a financially constricted environment will be challenging.

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[9] Based on the commonly used standard of undergraduates taking 15 semester credit hours, master's students taking 12 SCH and doctoral students 9 SCH.

The university's rapid growth in enrollment (36%) during the last five years has stretched the university's human resources and facilities. The ratio of students-to-faculty has risen, as has class size. Most importantly, the student-to-faculty ratio in engineering and computer science has risen. While the university's intent is to lower the student-to-faculty ratio progressively toward 17/1,[10] the next 18-36 months will test the university greatly. Over the next ten years, to meet the pedagogical goal of 17/1, the university will need to have an FTE faculty of 1150-1200 as compared to a current faculty FTE of 496. As noted earlier, to meet community expectations in graduation rates in engineering and science and levels of research output, the university must commit to a controlled student growth rate and an even higher growth rate in faculty especially if both the pedagogical objectives and research objectives of the university are not to be compromised.

Growth in Research and Research Funding

With the increase in research awards at the university, facilities and other infrastructure needs are also on the rise. Support staff in Contracts and Grants Accounting will be stretched beyond their capacity to manage pre-award and post-award issues. In addition, there are increasing bio-safety, lab safety, and EPA compliance issues that demand new policies and procedures and monitoring by our small Environmental Health and Safety staff. Laboratory space is currently limited and the demand for new labs and renovations to existing labs will increase. Managing these issues will be critical to achieving the expectations of the larger business and economic community that is the university's constituency.

Library

Library acquisitions (books, periodicals, electronic subscriptions) are in adequate equilibrium with UTD's programmatic breadth and depth and enrollment. Funding for acquisitions will scale with enrollment, since a student fee supports this vital component of library operations. Shelf space and study space have fallen behind materials and enrollment growth, however. Plans for relocation of Information Resources and Student Affairs from the Library to renovated space elsewhere on campus will solve these capacity problems, but capital funding for renovations of the vacated space in the amount of $4 million will be required. When these renovations are completed, the McDermott Library will be in good shape to serve a growing UTD for the next ten years at least.

Infrastructure Needs to Support Growth

As the University's enrollment continues to climb, attention must be focused on the infrastructure needs to support the growth. Managing the increase in the university's infrastructure and facilities accordingly will be a major focus for the university over the next five years. Generally, the campus utilities and infrastructure are at capacity, and expansion of the thermal energy plan, utility lines, roads, and buildings is necessary to achieve the university's goals. The UT System Board of Regents at its November 12, 2003, meeting approved the new Campus Master Plan. The Plan targets certain goals such as:

- Accommodating a doubling of the present enrollment by 2027 and allowing for future growth beyond that time,
- Incorporating DART and City of Richardson transportation planning,
- Providing for transformation of existing housing,
- Expanding the open space and landscaping, and
- Developing visibility to the community on all sides.

Given the dynamic growth of the student body, identifying funding to construct the first phase of the campus loop road to alleviate the horrendous traffic problems in the campus interior is one of the first

[10] Georgia Tech has a student to faculty ratio of 14/1, and UC Santa Barbara is 17/1. See The University of Texas System, Board of Regents, Accountability and Performance Report, 2003-2004, Section V. Institution Profiles.

priorities. The campus loop road, when completed, will enhance the campus malls for pedestrian traffic and better control vehicular traffic.

The Student Activity Center will significantly expand in size and functionality with construction that will occur in the coming year. Activity Center fees will fund this addition. The Activity Center construction has been completed; however, at current rates of use and with the expansion of the student body, the current facility will become obsolete within the next three to five years.

Additional student housing is scheduled for construction in the coming year. The resulting buildings (constructed by August 2004) will house 216 additional UTD students, but demand for on-campus housing will not abate. Students also desire a new leasing center (construction underway), which will enhance resident services and provide opportunities for utilization of the current facility (perhaps a convenience store function as has been requested by UTD students).

Parking has become a serious issue. A parking garage will be constructed in the next few years to alleviate the parking capacity challenges experienced due to the campus enrollment growth. The garage is planned be built near the School of Management and Bookstore buildings at the south end of the campus and will house 550-600 vehicles. Parking permit fees will provide funding.

Renovations must occur in academic buildings across the campus in the coming years in order to provide the improvements in technology necessary for many of the University classrooms and labs. Lecture halls in the older buildings are in need of fundamental renovations to allow students and instructors to use the technological advances made in instructional tools. In addition, laboratory equipment, writing surfaces, and carpeting, will need replacement.

External relations and university advancement

Given its young age and history, the university has historically had to rely on corporate gifts more so than is typical of older, more established universities. With the engineering and science initiative, and with the university's growth, there will be a need for a new continuing capital campaign. The university will need to improve its attractiveness to alumni, community leaders, philanthropists, and corporations. Increasing external, non-governmental, support will be a high priority. Every avenue for strengthening UTD in this area must be creatively pursued. A greater involvement of academic faculty and administrators will be essential in this effort.

Information Technology

The university currently utilizes SCT's Plus product for its campus-wide administrative systems (Financial, Human Resources, Payroll and Student systems). As enrollment has grown, the SCT product is reaching its capacity to meet the University's growing information technology needs. While a committee has been formed to determine an appropriate replacement for the legacy system and a decision target date of April or May 2004 has been set, it has become clear that given the current fiscal environment, the university will not be able to proceed until the funding base for the university has been stabilized. It is estimated that the project cost will be $5 to $7 million. Funding for this project will come from dedicated student fees over a five to seven year period. Implementation of the project currently was scheduled to begin in September 2004 with a go-live date for the financial system of September 2005 and for human resources/payroll system of January 2006. The student system would be implemented in stages over a 2-year period between 2006 and 2007. Implementation of this project will not be possible without additional staff in component areas: Information Resources, Controller's Office, Procurement Management, Budget Office, Human Resources, Payroll, Records, Admissions, Financial Aid, and Bursar. Given the financial constrictions the university faces in the next 12-18 months, it is not clear how adequate staffing funds will be available.

Financial and Market Issues

Funding of operations at a per capita level competitive with the median funding of the nation's leading 100 research universities is essential if UTD is to be able to contribute the educational, research, and economic benefits that Texas vitally needs from research institutions of high caliber. The Higher Education Funding Formula does not provide this level of support to any public Texas university. The shortfall, relative to national standards, is at least 30 percent.[11] At the university's current level of operations, this amounts to an annual budget shortfall of approximately $15 million.

The university and the state, for the long term, will have to address this resource issue. There are several possible income streams. First, additional income from recovery of indirect costs on an expanded funded research base is not a practical solution to this problem, since such an expansion would inevitably correlate with an expanded base of operational obligations and a consequent limit on the gain in per capita funding. Second, an expanded base of private support is not a viable solution short of a truly exceptional and highly improbable windfall. A $500 million increment in endowment would be required to yield income at the current unmet need of $15 million. In addition, further growth in enrollment and faculty numbers will proportionately reduce the value of endowment income in terms of per capita operational funding. Third, the remaining possible sources of the additional revenue are some innovative form of local supplemental funding and/or significantly higher tuition and fees charged to students. These require legislative action. Unless the appropriations picture changes dramatically and reverses its almost two-decade trend, only higher tuition is a practical possibility in the near term.

B. Use of New Tuition Revenue for New Faculty Positions

Twenty faculty searches are underway in 2004-05 and forty are planned for 2005-06. Fields of focus for 2004-05 were:

- Behavioral and Brain Science, in the specialties of neuroscience and speech communication disorders (four new faculty were hired);
- Physics and Chemistry, in the specialties of Space Science and Materials Science (five new faculty were hired and three offers are outstanding);
- Management, in the specialties of Accounting and Information Systems (two new faculty were hired in accounting, three in finance and economics);
- Electrical Engineering, in the specialties of Systems Security, Materials Science, Biomedical Engineering, and Analog and Digital Processing (five new faculty were hired); and
- Computer Science, in the specialties of Natural Language Processing and Graphical Design and Animation (six new faculty were hired and two offers are outstanding).

These searches all address current core competencies of UTD and active and prospective areas of collaboration with UT Arlington and UT Southwestern.

For 2005-06, approximately twice as many searches are planned, with an even greater emphasis of Project Emmitt goals, principally in terms of strengthening the Jonsson School in its current areas of excellence and, complementarily, consistent with the WAG recommendations, of broadening its areas of expertise to Biomedical Engineering, Chemical Engineering, and Mechanical Engineering.

V. System and State Priorities

UTD Collaborations

The university has meaningful and productive collaborations with UT Southwestern Medical Center and with other UT institutions. The principle collaborations with UTSWMC are: Cochlear Implant Program;

[11] The shift in funding from the weighted SCH formula to a great reliance on fixed tuition has a doubly diluting impact on funding of engineering and the sciences especially at the graduate levels.

Brain Plasticity research; Sickle Cell Disease research; Advanced Brain Mapping; Medical Imaging research; Molecular and Cell Biology and Biochemistry research; and an MBA in Medical Management specifically designed for practicing physicians. In addition, UTD and UTSWMC are developing a joint Ph.D. program in Clinical Psychology

UTD is also a main partner in SPRING (Strategic Partnership for Research in Nanotechnology), which is a program where scientists from four universities – UT Austin, UT Dallas, Rice University and UT Arlington – and the Materials and Manufacturing Directorate of the Air Force Research Laboratory at Wright Patterson Air Force Base in Dayton, Ohio, initiated a Nanotechnology research and development excellence program. A "spin-off" collaboration was also initiated by the inclusion of two UT System campuses near the border: UT Brownsville and UT Pan American. This project is called NANO@BORDER.

UTD (with UT Arlington) is working on research collaborations with Sandia National Laboratories.

The Erik Jonsson School's Digital Forensics and Emergency Preparedness Institute (in collaboration with Greater Dallas Crime Commission) works with the National White Collar Crime Center to develop, teach, and implement solutions to the rapidly growing Homeland Security problems in cyber-crime, information assurance, and emergency preparedness.

VI. Compact Development Process

The university's consultative process was a one in which all the academic Deans and all Directors of major business and student services units were asked to examine their ongoing priorities and initiatives within the framework of the university's mission. The President has directed the Vice-Presidents to develop their own strategic plans, consistent with the mission and long-range intentions of the university and ensure that their line directors and their staff had opportunities for participation. Each major unit is examining its short- and long-term priorities and critical issues and will describe actions they believe are necessary to achieve stated objectives. Academic deans were explicitly instructed to engage their faculty in the process of school compact and strategic plan development. This extensive process is ongoing and will be completed this fall. The President meets with various faculty and staff committees involved, with the academic senate to discuss the compact and the strategic planning processes. The Office of Strategic Planning has posted the compact on its website for faculty, staff, and students to view and to provide feedback.

VII. System Contributions

- Support for state funding (Governmental Relations, Academic Affairs)
- Facilities expansion (Facilities Planning and Construction)
- Research infrastructure development (Academic Affairs)
- Development (to create 40 new endowed chairs and capital campaign) (External Relations and Development)

VIII. Appendices

A. Budget Summary

The University of Texas at Dallas
Operating Budget
Fiscal Year Ending August 31, 2005

	FY 2004 Adjusted Budget	FY 2005 Operating Budget	Budget Increases (Decreases) From 2004 to 2005	
			Amount	Percent
Operating Revenues:				
Tuition and Fees	$ 76,214,987	94,293,843	18,078,856	23.7%
Federal Sponsored Programs	17,218,659	24,443,984	7,225,325	42.0%
State Sponsored Programs	2,879,588	6,608,237	3,728,649	129.5%
Local and Private Sponsored Programs	5,405,556	4,372,152	(1,033,404)	-19.1%
Net Sales and Services of Educational Activities	5,284,210	6,617,265	1,333,055	25.2%
Net Sales and Services of Hospital and Clinics	-	-	-	-
Net Professional Fees	-	-	-	-
Net Auxiliary Enterprises	4,450,100	5,553,100	1,103,000	24.8%
Other Operating Revenues	1,673,425	2,174,991	501,566	30.0%
Total Operating Revenues	113,126,525	144,063,572	30,937,047	27.3%
Operating Expenses:				
Instruction	74,537,270	82,450,638	7,913,368	10.6%
Academic Support	18,730,407	19,059,366	328,959	1.8%
Research	30,329,177	40,759,564	10,430,387	34.4%
Public Service	3,131,353	4,659,039	1,527,686	48.8%
Hospitals and Clinics	-	-	-	-
Institutional Support	16,304,709	17,325,093	1,020,384	6.3%
Student Services	6,329,904	7,606,075	1,276,171	20.2%
Operations and Maintenance of Plant	12,191,172	13,039,858	848,686	7.0%
Scholarships and Fellowships	16,180,224	28,723,766	12,543,542	77.5%
Auxiliary Enterprises	10,827,081	11,846,519	1,019,438	9.4%
Total Operating Expenses	188,561,297	225,469,918	36,908,621	19.6%
Operating Surplus/Deficit	(75,434,772)	(81,406,346)	(5,971,574)	7.9%
Nonoperating Revenues (Expenses):				
State Appropriations & HEAF	65,124,869	65,390,384	265,515	0.4%
Gifts in Support of Operations	2,386,709	3,443,405	1,056,696	44.3%
Net Investment Income	8,478,420	7,831,236	(647,184)	-7.6%
Other Non-Operating Revenue	-	-	-	-
Other Non-Operating (Expenses)	-	-	-	-
Net Non-Operating Revenue/(Expenses)	75,989,998	76,665,025	675,027	0.9%
Transfers and Other:				
AUF Transfers Received	-	-	-	-
AUF Transfers (Made)	-	-	-	-
Transfers From (To) Unexpended Plant	-	-	-	-
Transfers for Debt Service	(5,387,104)	(6,311,169)	(924,065)	17.2%
Other Additions and Transfers	3,187,264	7,695,461	4,508,197	141.4%
Other Deductions and Transfers	(3,385,264)	(7,916,461)	(4,531,197)	133.9%
Total Transfers and Other	(5,585,104)	(6,532,169)	(947,065)	17.0%
Surplus/(Deficit)	$ (5,029,878)	(11,273,490)	(6,243,612)	124.1%
Total Revenues	$ 189,116,523	220,728,597	31,612,074	16.7%
Total Expenses and Debt Service Transfers	(193,948,401)	(231,781,087)	(37,832,686)	19.5%
Surplus (Deficit)	$ (4,831,878)	(11,052,490)	(6,220,612)	

Note: Operating Budget Highlights with a glossary of terms are included on Page 1.

The FY 05 budget is known to close approximation, barring dramatic unforeseen circumstances. State appropriations are known, enrollment projections appear to be well founded, and tuition and fee rates are fixed. The levels of external research funding and private giving are unlikely to change enough to affect aggregate funding of annual unrestricted operations significantly, either positively or negatively. In this context, the FY 05 budget cannot fund any enhancements of teaching or research unless funds that can be reallocated are reallocated from other components of the university. The academic funding shortfall relative to what is needed to reestablish the FY 01 level of support per SCH is approximately $10 million, and this does not address shortages in areas that provide core functions that support teaching and research.

Of this amount, $2 million is required to cover the operating deficit of FY 04 and $8 million is needed to address the impact of three years of significant increases in enrollment combined with decreased funding for instruction, instructional support, and research. The funding needed to bring the number of Teaching Assistants per SCH back up to its 2001 level is $750,000. Departmental operations budgets have lagged behind enrollment growth even more, and require an aggregate increment of $1 million. Engineering and Science faculty additions necessary to keep the Engineering and Science Research Enhancement Initiative on its projected track will cost $1.7 million. Concurrently, faculty attrition in the tenure ranks over the last several years in other teaching units will require $1.1 million to repair. These instructional costs amount to $4.55 million.

Maintaining and enhancing still further the university's current high levels of academic achievement and racial and geographic diversity in our undergraduate student body will require supplementary investments in the merit scholarship program, as our enrollment continues to increase in line with the university's commitment to *Closing the Gaps*. At next year's tuition and fee levels, maintaining the same percentage of the freshman class on merit scholarships as the class size increases will require an added $700,000.

While we have gained a significant number of new, state-of-the-art classrooms, the majority of the rooms in which we teach students are quite shabby and lack modern instructional equipment. A multi-year program to bring these facilities up to current standards will require $1.8 million per year. Finally, our ability to support and stimulate more research productivity has been stifled for lack of seed funding, as we have strived to maintain instructional productivity in the face of funding decreases. We need to recreate a fund for research start-ups and new initiatives at the level of $1 million per year.

The ability to reallocate even a fraction of this needed $10 million will be extremely difficult since almost all elements of the university have been operating on lean budgets for several years. Hence it is only realistic to contemplate that we will enter FY 06 with much of this agenda still unfulfilled. In FY 06 and following years, we plan on enrollment growth at the rate of 4 to 5 percent annually. In order to keep pace with this growth and an assumed inflation rate of 3 percent, academic operations will require annual increases at the level of $4 million just to maintain constant funding per unit of effort. In addition, the Engineering and Science Research Enhancement Initiative commitments will require incrementing the budget by an additional $2 million each year for three more years.

B. Statistical Profile

UT Dallas

fall	2000	2001	2002	2003	2004
Undergraduate headcount	7,807	9,009	9,482	9,523	9,782
Graduate and professional headcount	3,138	3,446	3,747	4,195	4,310
Total enrollment	10,945	12,455	13,229	13,718	14,092

yr of matriculation	1999	2000	2001	2002	2003
1st year persistence	77.7%	78.0%	79.4%	83.8%	80.0%

yr of matriculation	1995	1996	1997	1998	1999
4-year graduation rate	32.0%	30.3%	31.7%	37.7%	29.6%
5-year graduation rate	48.3%	46.0%	51.5%	50.9%	
6-year graduation rate	55.2%	51.8%	56.2%	55.9%	

academic year	99-00	00-01	01-02	02-03	03-04
Baccalaureate degrees awarded	1,303	1,386	1,537	1,605	1,823
Master's degrees	1,077	1,129	1,172	1,299	1,363
Doctorate degrees	64	69	58	70	50
Professional degrees	0	0	0	0	4

fall	2000	2001	2002	2003	2004
All instructional staff	596	655	716	743	774
Classified employees	1,084	813	858	875	906
Administrative/professional employees	388	507	577	591	600
Student employees	52	426	888	981	1,051

academic year	99-00	00-01	01-02	02-03	03-04
FTE student / FTE faculty ratio	19 to 1	20 to 1	22 to 1	22 to 1	21 to 1

fiscal year	2000	2001	2002	2003	2004
Federal research expenditures	$7,049,617	$8,781,295	$11,815,490	$14,432,841	$15,733,571

fiscal year	2000	2001	2002	2003	2004
Revenue/FTE student (nearest thousand)	$14,000	$15,000	$13,000	$13,000	$13,000

as of	8/31/99				8/31/04
Endowment total value	$136,778,000				$195,714,000

- Over the five-year period, 1999-2003, enrollment for the university grew 36 percent, from 10,101 to 13,718 as certified by the Texas Higher Education Coordinating Board.

- In 1999, 41.8 percent of the student body was either post-baccalaureate, masters or doctoral students and the remainder, 58.2 percent, were undergraduates. By fall 2003, the percentage of students who enrolled as post-baccalaureate, masters or doctoral students dropped to 37.9 percent with a consequent rise in the undergraduate (and residential) population.

- The fall 2003 retention rate for the university was 84 percent and the six-year graduation rate was 56 percent.

- Forty-three percent of all degrees the university awarded were in Science, Engineering and Technology. This is twice the average for all other doctoral granting institutions in the state. UTD is a focused, but not narrow, university.

- Last year, the university conferred 2,974 degrees. Bachelor of Arts degrees comprised only 554 or 18.6 percent of the total. Bachelor of Science degrees numbered 1,051 or 35.3 percent of the total. The relative percentage of B.S. to B.A. degrees is an indication of the unique thrust of the university in comparison to other UT components. Master's degrees numbered 1,299 and of these, 68 percent were Masters of Science. The university awarded 70 doctoral degrees.

- In the fall 2003 the university had 486 FTE Faculty.[12] Of these 416 were full time faculty, and of these 308 were tenured or tenure-track. The university's staff FTE was 1,213.[13]

- The university's instructional expenditures per FTE student for fall 2003 was $10,464.[14]

- As of August 31, 2004, the market value of the university's total endowment was $195,714,000.

- The university's Office of Strategic Planning and Analysis provides additional university data on its website: http://www.utdallas.edu/ospa/enrollment_stats/index.htm.

[12] Calculated using the CUPA formula, which counts all part-time faculty as equal to 1/3 full time faculty.
[13] Staff FTE formula based on IPEDS. There were 987 full time staff and 678 part-time staff in the fall, 2003.
[14] Based on the university's annual financial report and FTE as reported to Peterson's Survey of Undergraduate Institutions, fiscal year 2003.

UTD's Compact and Strategic Plan

1

Major Priorities:

1. Reallocate resources to preserve quality
2. Protect gains in enrollment, access, and student quality
3. Sustain UTD's progress over the past decade in moving toward a first-tier institution
4. Enhance research and economic development

2

High-Priority Initiatives:

1. Continue Engineering and Science Initiative ("Project Emmitt" or "Invent Tomorrow" campaign)
2. Continue a strategy of controlled growth to sustain academic excellence
   A. Gradually increase enrollment
   B. Increase research
   C. Increase number of faculty
3. Address Infrastructure needs
4. Raise private money
5. Collaborate with UT Southwestern and UT Arlington

3

Draft Strategic Plan: ***"Creating the Future"***

Current Vision Statement:

- To be a nationally recognized top-tier university sculpted within a model of focused excellence

Proposed Vision Statement (Draft):

- To be one of the nation's best public research universities and one of the great universities of the world.

4

Current Mission Statement:

- To provide Texas and the nation with the benefits of educational and research programs of the highest quality. These programs address the multidimensional needs of a dynamic, modern society driven by the development, diffusion, understanding, and management of advanced technology.

5

Proposed Mission Statement (Draft):

- The University of Texas at Dallas serves the Metroplex and the State of Texas as a global leader in innovative, high-quality science, engineering, business education and research.
- The University is committed to (1) producing engaged graduates prepared for life, work, and leadership in a constantly changing world, (2) advancing excellent educational and research programs in the natural and human sciences, in engineering and technology, in management, and in the liberal and practical arts, and (3) transforming ideas into actions that directly benefit the personal, economic, social, and cultural lives of the citizens of Texas.

6

Rationale:

1. Dallas and Texas need great universities:
   - Texas is the 3rd most economically productive state
   - DFW is the 6th most productive metropolitan area
   - Texas has only 3 Association of American Universities (AAU) members - California has 9 and New York has 7. By population proportion to California, DFW Metroplex should have 6.
   - Of the 20 largest metropolitan areas, the DFW Metroplex is the only one without an AAU university. (New York has 3, Los Angeles has 4, Chicago has 2, Boston has 3, Baltimore-Washington has 2)
   - The Metroplex needs great universities to succeed in tomorrow's global, knowledge-based economy

7

Rationale:

2. UTD is well positioned to become a great university:
   - Quality of undergraduate students (freshman profile is better than 7 schools in the Big Ten, the majority of schools in the Pac 10, and all but two schools in the Big 12)
   - Quality of faculty (Nobel laureates, elected members of the National Academy of Sciences and the National Academy of Engineering)
   - Focus on science, engineering, and business (about 80% of our faculty and degrees)
   - Project Emmitt ("Invent Tomorrow")

8

Rationale:

3. All the necessary ingredients for success are in place:
    - Location (major city, globally connected airports, huge business base, very strong technology base, and numerous amenities in DFW)
    - Resources (land, wealth in North Dallas, industrial support aligns well with areas of strong programs)
    - Partnership opportunities (UT Southwestern Medical Center, UT Arlington, industrial partnerships, partnerships in the arts, K-12 partnering opportunities, etc.)
    - UT System

9

Strategic Initiatives:

- Discovering Tomorrow's Inventions Today
- Managing Change in a Constantly Changing Society
- Securing the Safety of the Future
- Improving the Health and Quality of Life of Individuals and Society
- Preparing Students for Tomorrow's Challenges
- Making a Great City Even Greater

10

1. Discovering Tomorrow's Inventions Today:

Action 1.1 Research Enterprise Initiative (Inventing Tomorrow)
Action 1.2 The BioWorld
Action 1.3 Nanotechnology

2. Managing Change in a Constantly Changing Society:

Action 2.1 Dynamic Change Management
Action 2.2 Innovative Centers and Institutes

11

3. Securing the Safety of the Future:

Action 3.1 National and Global Security
Action 3.2 Energy and the Environment

4. Improving the Health and Quality of Life of Individuals and Society:

Action 4.1 Enhanced Quality of Life
Action 4.2 Life Science Health Collaborations

12

5. Preparing Students for Tomorrow's Challenges:

Action 5.1 The Education of Leaders
Action 5.2 Living-Learning Communities
Action 5.3 Investment in People
Action 5.4 Enhancement of Diversity

6. Making a Great City Even Greater

Action 6.1 K-16 Education
Action 6.2 The Arts
Action 6.3 Business Leadership
Action 6.4 Community Outreach
Action 6.5 University Village

13

Quantitative Targets:

- Double the size of the faculty (400 now, 500 in 5 years, 600-700 in 10 years, and 800 in 10-20 years)
- Add additional students (add 1,500 in 5 years, 3,000 in 10 years, and eventually increase by 4,000 FTE students)
- Increase research funding (now $42M, increase to $60M in 5 years and $100M in 10 years)
- Tell UTD's story better (metrics to be established)
- Improve annual giving and endowment (metrics established)
- Increase PhDs granted (metrics established)
- Enhance graduation rates (metrics established)

14

UTD

Other:

- We won't be adding new schools or wholly new programs – we will build on what we already have
- We will stay at Division III for athletics, at least for now
- We see ourselves in 20 years as a university of about 25,000 students, with 1,000 to 1,200 faculty, and ranked in in the top 20 or so among public research universities
- We will develop and maintain a business plan consistent with strategic goals
- We will continue to update this "living" plan
- We will circulate a draft of this plan for broad input.

15

The University of Texas M. D. Anderson Cancer Center

Compact with The University of Texas System
FY 2006 through FY 2007

I. Institutional Overview

Mission: The mission of The University of Texas M. D. Anderson Cancer Center is: To eliminate cancer in Texas, the nation and the world through outstanding programs that integrate patient care, research and prevention, and through education for undergraduate and graduate students, trainees, professionals, employees and the public.

Vision: We shall be the premier cancer center in the world, based on the excellence of our people, our research-driven patient care and our science. We are Making Cancer History®.

Background: The Texas Legislature created M. D. Anderson Cancer Center (UTMDACC) in 1941 as a component of The University of Texas dedicated to the treatment and study of cancer. There are currently 935 faculty, both M.D. and Ph.D. UTMDACC is one of the nation's original three Comprehensive Cancer Centers designated by the National Cancer Act of 1971 and is one of 39 such centers today. UTMDACC has ranked among the nation's top two cancer hospitals in *U.S. News & World Report's* "America's Best Hospitals" survey since its inception 13 years ago, and achieved a number one ranking in four of the past six years.

Since 1944, more than 600,000 patients have turned to UTMDACC for cancer care in the form of surgery, chemotherapy, radiation therapy, immunotherapy, or combinations of these and other treatments. This multidisciplinary approach to treating cancer was pioneered here. In 2004, 70,960 patients received care at UTMDACC, and 26,000 of them were new. About one-third of these patients were Texans from outside Houston and another third came from outside Texas, seeking the research-based care that has made UTMDACC so widely respected. UTMDACC consistently sees approximately 22 percent of the cancer cases in Harris County, 10 percent of the cases in Texas, and 1 percent of the cases in the U.S.A.

At UTMDACC, scientific knowledge gained in the laboratory is rapidly translated into clinical care through research trials. During 2004, more than 11,000 patients participated in clinical trials exploring novel therapies, the largest such program in the nation. The results of a number of trials with UTMDACC clinical investigators as leaders or leading contributors have become standards of care for cancer treatment. Examples include fludarabine and Campath® for chronic lymphocytic leukemia, Gleevec® for chronic myelogenous leukemia, Iressa® for lung cancer, and Tamoxifin® as chemoprevention for breast cancer.

In 2004, the institution spent more than $314 million in research, and now ranks first in both the number of grants and total dollars awarded by the National Cancer Institute. The research budget has doubled over the past five years. UTMDACC holds nine NCI Specialized Programs of Research Excellence (SPORE) grants in lung, bladder, prostate, ovarian, head and neck, pancreatic, and endometrial cancers, melanoma, and leukemia. Expanded research efforts in epidemiology and behavioral sciences complement achievements made in the clinical cancer arena. Cancer prevention services are offered in individual and corporate programs, from personalized risk assessment to screening and genetic counseling.

More than 3,600 students take part in educational programs each year, including physicians, scientists, nurses, and other health professionals. UTMDACC offers bachelor's degrees in seven allied health disciplines. Several hundred residents and fellows come to UTMDACC each year to receive specialized training, and 466 graduate students are enrolled in 21 areas of study in the graduate School of Biomedical Sciences, run jointly with the UT Health Science Center – Houston (UTHSC-H). More than 1,000 research fellows are being trained in UTMDACC's laboratories. UTMDACC provides public education programs to teach health individuals about cancer symptoms and risk factors, and how to make critical health care decisions when necessary.

During the past five years UTMDACC has experienced tremendous growth in each of its four mission areas. The number of patients served has increased 40 percent. There has been a corresponding increase in faculty and staff, as well as facilities. Between 2003 and 2005, the institution is opening 1.9 million square feet of new space for clinical, research, education, and prevention programs. This includes creation of a new University of Texas Research Park, 1.5 miles south of the campus, in collaboration with UTHSC-H.

The increases in our mission-driven activities fulfill our Strategic Vision for 2000-2005, which states, "We will aim to increase our research and patient care activities by up to 50% over the next five years." This record of unparalleled growth has been made possible by the collaborative and coordinated planning efforts of many leaders on the faculty and administrative staff, along with financial support from operating margins, philanthropy, the state of Texas and the UT System. M. D. Anderson is now moving forward to achieve its new strategic vision and goals. The priorities of the compact are all contained within the Strategic Vision 2005-2010.

II. Major Ongoing Priorities and Initiatives

II. A. Immediate Priorities and Initiatives

Priority #1. We will enhance the excellence, quality, and safety of clinical care; increase productivity and efficiency; and reduce costs.

Objectives

- Encourage and enable patients who will best benefit from our services and those who are candidates for our clinical protocols to select UTMDACC as their first choice for cancer care.
- Increase productivity and improve utilization in our clinics and inpatient units.
- Renew our national status as a Magnet Hospital.
- Develop a non-punitive culture to encourage learning from errors and close calls in order to identify areas of greatest vulnerability.
- Continue to make breakthrough improvements in patient safety and quality of care.
- Align operational goals, strategies, and action plans of the operating units with those of the institution.

Strategies

- Retain, recruit, and reward the best clinical faculty, nursing, support, and administrative staff to provide the care and infrastructure to achieve our mission.
- Participate in the Institute of Healthcare Excellence IMPACT program to improve clinical outcomes in the intensive care units.
- Measure the utilization of space in the clinics and perioperative units and establish improvement interventions to optimize use.
- Develop and implement a system-wide, web-based mechanism for reporting close calls; initiate improvement interventions based on these data.
- Implement initiatives necessary to ensure a smooth transition into the new Ambulatory Clinical Building and Cancer Prevention Building, including the integration of support services for the two buildings. Update: Completed.

- Redesign and relocate the Emergency Center and renovate existing building entrances to provide enhanced patient-centered services. Update: Clinic lobby completed; new clinic entrance completed; Emergency Center relocation has begun.

Resources

- The relocation and expansion of the Emergency Center into the first and second floors of the Lutheran Pavilion is a $20 million project, with $12 million requested as M. D. Anderson's top priority for Tuition Revenue Bond Projects for the 2006-2007 Biennium.
- The resources to support the remaining strategies are included within the annual operating budget.

Progress Measures

- Number of improvement interventions adopted.
- Continuation of Magnet Nursing Service certification.
  In process; site visit being scheduled.
- Successful JCAHO accreditation.
  Achieved.
- Positive patient satisfaction surveys.
  4000 patients surveyed; 45% response rate. UTMDACC uses Problem Scores system, where the higher the score, the larger the problem. Consolidated data from surveys indicate areas most needing attention: 32% inpatients felt more information/communication needed on discharge and continuity, while 26% of outpatients expressed unhappiness with wait times or time spent with provider.
- Positive referring physicians satisfaction surveys.
  Overall satisfaction has improved from 72% (2000) to 78.4% in 2005. 82.5% respondents will continue to refer; 79.6% would recommend that colleagues refer to UTMDACC; 85.1% indicated quality of care very good to excellent. Areas for improvement include referral process (66.3% very or completely satisfied); physician to physician communications (62.9% very or completely satisfied) and follow-up communication (67.3% very or completely satisfied.)
- Productivity in clinics, clinical departments, support departments, and inpatient units.
  Clinical Operations is instituting a clinical productivity model for FY06.
- Number of close calls reported and associated interventions.
  UTMDACC part of UT System program (UTCCRS). UTMDACC close calls reported in FY04 = 69, and in FY05 = 49. (Note: an event may be reported in more than one category.) This represents 5 pilot units, and the program will go throughout the hospital and clinics in FY06.

Priority #2. Advance M. D. Anderson as an employer of choice in health care and biomedical research.

Objectives

- We will foster an employee-focused culture that will enhance our ability to recruit, retain, reward, and empower an excellent and diverse staff and faculty committed to achieving our mission.
- Establish a work environment with meaningful rewards based on individual and team performance.
- Create a caring environment of the utmost dignity and respect for every employee (as we do for our patients) through frequent, open and honest communications from a visibly accessible senior leadership and by ensuring faculty and staff responsibility and accountability.
- Provide employees with opportunities for new learning and new responsibilities and for horizontal and upward mobility.
- Increase the diversity of faculty and senior administrative staff.

- Instill cultural sensitivity and a spirit of inclusion in the workforce through diversity training.

Strategies

- Make a public and known commitment to mentoring at all levels of the organization.
- Incorporate activities of the Institute for Healthcare Excellence, Human Resources, Internal Communications, and the Office of Institutional Diversity to create a comprehensive approach to becoming the employer of choice. Update: A special Cultural Change Initiative Committee, chaired by the President, has been working with these departments and others to determine the culture we seek, particularly the caring core value. Discussions are beginning on implementation.
- Promote employee health, well-being, and a balanced work and life situation through wellness programs, accessible employee amenities, and flexible work schedules. Update: Employee Health & Well-Being department now has 26 employees, and the Wellness Coach is highly visible throughout the institution.
- Provide leadership training for faculty and administrative staff.
- Increase awareness of the Ombuds Program and the Faculty Health Program. Update: Search for recruitment of full-time Ombuds Director to replace part-time faculty member underway.

Resources

- The resources to support the above strategies are included within the annual operating budget.

Progress Measures

- Incorporation of unit responses to Employee Opinion Survey into practice.
  This process tied to the first Employee Opinion Survey largely completed; focus is shifting to the next survey, fall 2005.
- Follow-up survey to the Employee Opinion Survey.
  Scheduled for fall 2005
- Feedback from and enrollment in Faculty Leadership Academy.
  133 faculty have completed the program and are extremely enthusiastic. There is now a waiting list for the program. "Graduate" sessions have also been initiated to bring cohorts back together periodically.
- Feedback from and enrollment in Administrative Leadership Program.
  141 administrators have completed the program. Human Resources is redesigning the program to stratify participants with more senior personnel having studies more tailored to their management level.
- Decreased employee turnover.
  March 2003-March 2004: 11.6% turnover
  March 2004-March 2005: 12.8% turnover
- Increased percent of minorities in administrative staff and faculty ranks.
  Baseline using July 2005 data:
  Executive job group: 53 total, 4 minorities
  Administrative staff: 169 total, 25 minorities
  Faculty: 1263 total, 517 minorities

Priority #3. We will safeguard and enhance our resources.

Objectives

- Continuously improve our administrative infrastructure in human resources, finance, facilities, and information systems to support the efforts of all employees in achieving our mission and strategic goals.

- Review and prioritize proposed and existing programs to grow in appropriate areas and consolidate others.
- Maintain an operating margin required to continue investment in new people, resources, and facilities for our future.
- Create an organization and work environment that aligns individual and team performance with institutional values.
- Provide high-quality, reliable facilities for all mission areas and administrative functions.
- Provide accurate, collaborative, and timely budget forecasting and budget development processes and timely reporting to management of areas of financial concern.
- Deliver information technology solutions that increase the value and efficiency of our patient care, facilitate research, and streamline administrative functions.

Strategies

- Design innovative rewards and recognitions, pay, and benefit practices.
- Implement the Employee Service Center and HR portal. Update: Completed.
- Provide accurate, collaborative, and timely budget forecasting and development processes.
- Assist operating units in meeting the operating budget.
- Continually educate all appropriate employees on the patient care revenue cycle to maximize charge capture, reduce denials, and improve collections.
- Provide clear and concise productivity metrics to address capacity management; optimal utilization of resources; and employee recruitment, deployment, and development.
- Collaborate with the UT System and other UT System health institutions on business and finance and patient safety projects.
- Deliver information technology solutions that increase the value and efficiency of our patient care, facilitate research, and streamline administrative functions.
- Implement key components of the electronic medical record, including the clinical data repository, allied health documentation, nursing documentation, and a comprehensive clinical laboratory system.
- Foster a professional IT staff and provide development through formal training and certification programs to achieve employer of choice status in the local IT job market. Update: The new Chief Information Officer has made significant progress with the IT staff.

Resources

- The resources to support the above strategies are included within the annual operating budget.

Progress Measures

- Reduced employee turnover.
  March 2003-March 2004: 11.6% turnover
  March 2004-March 2005: 12.8% turnover
- Increased number of reward and recognition events/opportunities.
  Monthly outstanding employee award; highly publicized.
  2000 honorees per year for employee service awards.
  Performance recognition gift cards distributes up to $225,000 in spot gift cards of $25 and $50.
  Recognition leave program.
- Revisions to Economic Forecasting Model at regular intervals to assure accuracy and viability of the long-term capital plan, workforce, and space requirements.
  Ongoing. At the completion of the FY06 budget process, the Economic Forecasting Model will be updated, in consultation with the clinical leadership, for review by the Executive Committee. The model is then a tool used to asses space needs and balance sources and uses of funds in relation to the Long Term Capital Plan.

- Successful recruitment of a new VP and Chief Information Officer and restructuring of IS governance.
  Dr. Lynn Vogel has been recruited.
- Deployment of online clinical data reporting, structured nursing documentation, allied health documentation, and comprehensive clinical laboratory system.
  Update pending.
- Continue comprehensive, collaborative processes to assure completion and activation of the Ambulatory Clinical Building, George and Cynthia Mitchell Basic Sciences Research Building, Cancer Prevention Building, and South Campus II Building.
  Ambulatory Clinical Building, Cancer Prevention Building, and Mitchell building activated and occupied. South Campus II will begin move-ins late summer/early fall.
- Work with UT System, UTHSC-H, and local authorities in planning campus safety in the event of disaster (flooding, terrorism).
  Flood wall protection nearing completion, largely funded by FEMA.
- Develop a new five-year campus master plan.
  A Master Plan through 2015 has been approved.

Priority #4. We will create integrated programs and resources to support activities that promote technology development and commercialization.

Objectives

- Conversion of scientific discoveries into useful products and devices through enhanced technology development and transfer.
- Enhancement of technology transfer and support for commercialization.
- Create a prioritized pipeline of M. D. Anderson intellectual property. Expand screening and toxicology capabilities for drugs and biologicals.

Strategies

- Strengthen the existing infrastructure of:
  1) The Office of Technology Discovery (OTD), which advises faculty inventors on all aspects of developing their discoveries into useful commercializable products; reviews Concept Reports and Invention Disclosure Reports submitted by faculty; and triages these for action/refinement.
  2) The Office of Technology Commercialization (OTC), which evaluates Concept Reports and Invention Disclosure Reports forwarded by OTD to determine the institution's interest in applying for patents, submitting patent applications, and/or developing business plans for licensing or for new start-up companies.
  3) The Technology Review Committee, which undertakes peer review of research and funds projects leading to commercialization of discoveries.
- Recruit new VP for Technology Transfer.
- Utilize expertise of UTMDACC Board of Visitors special committee on research development. Upate: A subcommittee of the Institutional Initiatives Committee of the Board of Visitors is addressing research issues, including gap funding, and technology development.
- Recruit corporations to collaborate and build in The University of Texas Research Park.
- Collaborations with UTHSC-H, other UT System institutions, Rice, Baylor, etc., on projects of mutual interest.

Resources

- UT M. D. Anderson and UT Health Science Center - Houston are seeking philanthropy for their portion of the match ($25 million) to the Texas Enterprise Fund for development of the Center for Advanced Diagnostic Imaging on the UT Research Park.
- The resources in support of the remaining strategies are included within the annual operating budget.

Progress Measures

- Successful recruitment of VP for Technology Transfer.
  Dr. Christopher Capelli has been recruited.
- Number of patents issued.
  FY00: 25, FY01: 27, FY02: 36, FY03: 32, FY04: 36
- Number of licenses/options granted to UTMDACC for intellectual property.
  FY00: 12, FY01: 10, FY02: 22, FY03: 24, FY04: 33
- Number of venture companies formed based on UTMDACC intellectual property.
  Number of portfolio companies (UTMDACC has equity) is 22. These have increased by about two-to three per year since FY98, except for an increase of 10 from FY01 to FY02.
- Number of biotech companies represented at UT Research Park.
  Two companies: Hitachi and General Electric Healthcare.

II. B. Longer Term Priorities and Initiatives

Priority #1. We will improve the quality of existing research programs and develop priority programs for the future.

Objectives

- Strengthen the quality and impact of our basic, translational, clinical, and population-based research through superior leadership, infrastructure, resources, and efficiencies.
- Support clinical trial recruitment through interdisciplinary collaborative communications and education efforts.
- Enhance our clinical research infrastructure.
- Improve the diagnosis and treatment of cancer by discovering, validating, and targeting specific genetic and molecular abnormalities; altering the organ microenvironment; and understanding the biology and chemistry of normal and malignant cells and tissues.
- Invest resources to seize emerging research opportunities and to reward excellence and innovation.
- Obtain increased funds from operating margins, grants/contracts, philanthropy, the state, and UT System to support outstanding research.
- Retain and recruit outstanding faculty and research leaders.
- Provide all investigators with research facilities and core support services that enable the most advanced scientific investigation.

Strategies

- Capture philanthropic support for a major funding initiative to support research for outstanding faculty and recruits. The George and Barbara Bush Endowment for Innovative Cancer Research. The goal is $50 million, and we aim to achieve this amount in contributions and pledges by June 2004.
- Strengthen existing departments and create new ones that are central to our strategic research goals, e.g., molecular epidemiology, molecular diagnostics, molecular imaging, health disparities research, veterinary medicine.

- Continue collaborations in bioengineering, structural biology, informatics, and other areas with UTHSC-H, other UT System institutions, other academic institutions, and industry.
- Provide peer-reviewed, intramural start-up funding for innovative research in targeted areas.
- Provide seed funding and infrastructure support for clinical trials. Update: The VP for Clinical Research has been allotted $3 million for these purposes.
- Improve processes for prioritizing and supporting clinical trials and for monitoring patient accrual status, completion of studies, and publication of results.
- Expand Phase I Trials program.

Resources

- LERR Funds for the recruitment and retention of distinguished faculty will be a UTMDACC priority.
- The resources in support of the remaining strategies are included within the annual operating budget.

Progress Measures

- Amount of grant and contract support for research from government and public entities.
  UTMDACC receives more awards (235) and dollars ($107 million) from the National Cancer Institute than any other institution. Research expenditures in FY 04 were $314 million, a five year increase of 100%.
- Amount of contract support for research from pharmaceutical and biotech companies.
  Sponsored Research Agreements in FY 04: 231 ($36 million direct and $6.9 million indirect)
  First six months of FY 05: 125 ($18.5 million direct and $4 million indirect)
- Number of SPOREs, program project and other collaborative grants.
  9 SPORE grants (plus 1 jointly with UT Southwestern Medical Center), more than any other institution.
- Number of peer-reviewed publications.
  1998: approximately 900; 2000: approximately 1,100; 2002: approximately 1,600.
- Number of memberships in selective national organizations (e.g., IOM, ASCI).
- Successful high impact clinical research leading to FDA approval of a therapy or setting the standard of clinical practice.
- Number of patients entered on Phase I clinical trials.
  UTMDACC has established a Phase I Clinical Trials program and a Center for New Therapy. In FY04, 1,762 patients registered on Phase I trials at UTMDACC (1,310 under age 65).
- Number of clinical trials.
  FY03: 1,035 active trials with patients registered; FY04: 1,072 active trials with patients registered.
- Funding of the Bush Endowment.
  Achieved with $50 million in cash and pledges.
- Yearly philanthropic contributions.
  FY04 philanthropy raised or committed was $103 million in cash and pledges. Year-to-date for FY05 is $103 million (July)

Priority #2. We will expand addressing risk assessment, prevention, and early detection of cancer and develop strategies to disseminate these findings.

Objectives

- Integrate research on risk assessment, prevention, and early diagnosis into each of our multidisciplinary clinical programs (breast, lung, etc.).
- Promote research to identify predictive markers of an individual's cancer risk and of the appropriate treatment or intervention to prevent cancer.

- Investigate therapeutic agents and behavioral and dietary interventions that can prevent cancer or reverse pre-cancerous conditions and early cancers.

Strategies

- Promote research to identify predictive markers of an individual's cancer risk and of the appropriate treatment or intervention to prevent cancer.
- Provide education and risk assessment tools for application to patients and the public through integration of expertise in cancer, internal medicine, genetics, behavioral science, laboratory medicine, and communication.
- Creation of a Department of Health Disparities Research.
- Clinical trials of agents preventing cancer or reversing pre-cancer.
- Sponsor research and educational programs on health disparities, especially in minority and medically underserved populations in which the burden of cancer is excessive.

Resources

- The resources in support of these strategies are included within the annual operating budget.

Progress Measures

- Grant support for prevention and population sciences.
  1999: $8.8 million, 2004-05: $20.3 million
- Number of patients seen in consultation for risk assessment, and genetic or behavioral counseling.
  Genetic counseling: FY04: 1,078. FY05 (thru August): 1,054
- Validation of new markers predicting risk or presence of cancer.
- Successful recruitment of a chair for the Department of Health Disparities Research.
  Dr. David Wetter has been appointed.
- Successful activation of the Cancer Prevention Building.
  Achieved.

Priority #3. We will develop our capabilities as a learning and mentoring organization for all students, trainees, employees and volunteers and create educational programs that prepare outstanding professionals for assuming responsibility and accountability.

Objectives

- Enhance the quality and outcomes of our undergraduate and graduate degree-granting programs and our post-doctoral training programs.
- Bring renewed emphasis to the education mission so that it touches all areas of the institution.
- Advance the Graduate School of Biomedical Sciences (GSBS).
- Enhance the School of Health Sciences.
- Be recognized for outstanding oncology training for health-care providers.
- Provide continuing education and personal growth opportunities for all employees and volunteers
- Be the provider of the best cancer information to patients and the public.
- Provide opportunities for all students to develop cultural sensitivity and an understanding of, and appreciation for, a professional code of conduct.

Strategies

- We will provide educational and training experiences to effectively prepare our graduate students for the range of scientific careers that will be available to them in a rapidly evolving scientific and technological environment.
- Broaden the diversity of the GSBS and rise to a national ranking in the top 20 of graduate schools of its class.
- Strengthen physician-scientist training through new programs and enhancement to our current MD/PhD program.
- Continue new cohorts in the Faculty Leadership Academy.
- Continue new cohorts in the Administrative Leadership Program.
- Explore new initiatives in distance learning.
- Expand and publicize the activities of the Education Council.
- Increase enrollment/GPA at the School of Health Sciences.
- Increase training of advanced-level physicians and nurses through Sister Institution and other collaborations.
- Increase placement of post-doctoral trainees in high quality career opportunities.
- Increase employee enrollment in skill improvement and personal growth courses offered by HR.

Resources

- The resources in support of these strategies are included within the annual operating budget.

Progress Measures

- GSBS admissions data (e.g., GPA, ethnicity).
  GPA of admissions steady at 3.4
  Ethnicity: 2001: 130 total admissions (Asian 15, African American 3, Caucasian 90, Hispanic 17, unknown 5); 2004: 147 total admissions (Amer Indian 1, Asian 20, African American 12, Caucasian 90, Hispanic 18, unknown 6)
- National rankings.
- School of Health Sciences admission and graduation data.
  GPA of admissions average 3.4.
  Degrees and certificates awarded in 2003: 39 and in 2004: 75.
- Achieve School of Health Sciences accreditation.
  SACS accreditation visit is July 2005
- Number of users of Learning Centers and other educational programs for public and patients.
  A third Learning Center opened in the Ambulatory Clinical Building in 2005, and the Rotary House Learning Center was closed for renovation for four months. In FY04, 23,660 visits were made to two Learning Centers; and in FY05, 17,349 visits were made in the first nine months.
- Number of UTMDACC-sponsored conferences and number of attendees.
  FY04: 51 conferences for which UTMDACC awarded CME were offered with attendance of 7,650.
  FY05: 58 conferences for which UTMDACC awarded CME were offered with attendance of 9,880.
- Number of employees enrolled in HR educational courses.
  FY03: 8,240 employees participated in HR training. FY05: 12,298 employees participated in HR training, through July.
- Hits to UTMDACC web site (number of web pages viewed by all site visitors)
  FY04: 55,733,284 total hits (16,326,074 internal and 39,407,210 external; of the external, 1,726,814 were unique visitors)
  FY05 (through June) 35,495,339 (9,302,127 internal and 26,193,212 external; of the external, 1,571,398 were unique visitors)

Priority #4. We will improve our information systems, bioinformatics, and computational capabilities to enable us to collect, integrate, and analyze large clinical and research databases, and to generate knowledge.

Objectives

- Create seamless exchange between research and clinical databases.
- Secure information technology solutions that allow appropriate access to all clinical and research data.
- Expanded IS support to the institutional needs in research.

Strategies

- Implement new governance and planning structure for IS.
- Recruit new VP and Chief Information Officer.
- Expand bioinformatics and research computing activities through faculty recruitment and educational programs.
- Integrate tissue, molecular, and clinical information on patients.
- Implement key components of the electronic medical record, including the clinical data repository, allied health documentation, and nursing documentation.

Resources

- A number of the above strategies are dependent upon the development of the Clinical Research Information System and the General Laboratory Software Project. These projects are the top two priorities on M. D. Anderson's FY 05 LERR request.
- The resources in support of the remaining strategies are included within the annual operating budget.

Progress Measures (these are all under development)

- Integration of clinical and research data.
- Faculty acceptance of central data warehouses.
- Increased sharing of data and tissues across departments.
- Number of patients on clinical trials contributing data to a centralized, queriable system.
- Recruitment of new VP and CIO.
  Dr. Lynn Vogel has been recruited.

III. Future Initiatives of High Strategic Importance – Next Ten Years

Priority #1. We will increase our mission-driven collaborations and outreach.

Objectives

- Leverage the skills and strengths of UTMDACC faculty.
- Promote and reward interdisciplinary research to enhance the discovery of new knowledge and to hasten the translation of discoveries into clinical trials and clinical practice.
- Develop and facilitate more effective collaborations and share knowledge with physicians, extramural researchers, academic institutions, industry, and organizations involved in comprehensive cancer control initiatives.
- Obtain the intellectual and technical resources required for cutting-edge, innovative biomedical investigation.

Strategies

- Provide seed funds for SPORES, PO1s, and other targeted collaborations.
- Improved partnerships with community oncologists, statewide and nationwide, and strategies for the transfer of more long-term care to them.
- Expand telemedicine programs.
- Increase collaborations in bioengineering, structural biology, informatics, and other areas with UTHSC-H, other UT System institutions, the Gulf Coast Consortia (UTMDACC, UTHSC-H, UTMB, Rice, Baylor, TAMU), other academic institutions, and industry.
- Build mutually beneficial collaborations with pharmaceutical and biotechnology companies.
- Continue to expand collaborations with our Science Park Research Division in Smithville and our Department of Veterinary Sciences in Bastrop.

Resources

- The resources in support of these strategies are included within the annual operating budget.

Progress Measures

- Number of extramurally-funded collaborative research programs within UTMDACC.
- Number of collaborative research programs with other academic institutions.
- Number of research contracts and collaborative agreements with companies.
- Amount of research dollars from companies.
- Positive referring physician satisfaction survey.

Priority #2. We will be leaders in sharing information on cancer care and prevention and on key issues in cancer research with health-care professionals, leaders responsible for health-care policy, the media, and the public.

Objectives

- Disseminate to oncologists and health professionals worldwide the unique expertise of UTMDACC clinicians, researchers, and nurses in order to achieve our mission.
- Secure "top of mind" recognition of UTMDACC for the media seeking information on cancer.
- Secure recognition of the role and value of UTMDACC and UT System with state and federal policymakers.
- Expand programs and technologies to educate the public, and patients, about cancer.

Strategies

- Implement Sister Institution agreements (formalizing exchange of research, trainees, and medical practice strategies). Update: Physicians, scientists, and administrators from sister institutions and other collaborating centers will visit campus in May 2005 for the first UTMDACC Sister Institution Conference.
- Assist with promoting the new Texas Academy of Science, Engineering, and Medicine.
- Increase UTMDACC members in the Institute of Medicine and other organizations that recognize excellence and set public policy.
- Expand UTMDACC media programs to involve additional national and international venues.
- Participation by faculty as leaders/officers in national professional societies.
- Support the UTMDACC volunteers and Anderson Network with learning opportunities.
- Expand public education, outreach, community programs, and web site content.

Resources

- The resources in support of these strategies are included within the annual operating budget.

Progress Measures

- Ranking of UTMDACC in significant surveys.
  For the 16th consecutive year, UTMDACC again ranked as one of the top two cancer hospitals "U.S. News & World Report."
- Number of trainees and faculty exchanges resulting from Sister Institutions and other collaborative agreements.
- Number of faculty elected into leading selective organizations, e.g., the Institute of Medicine and the National Academy of Science.
- Number of faculty chosen as leaders of significant national professional organizations, or as editors of professional research journals.
  UTMDACC faculty are leading the three major research oncology and clinical oncology societies (surgery, oncology, and radiation therapy).
- Number of interviews and news articles referring to UTMDACC in major print and broadcast news media, including the international press.
  Approximately 2000 print and broadcast stories in major news media, September 2004 – May 2005.
- Hits on UTMDACC web site.
  Reported in Priority 3
- Number of attendees at Anderson Network conference.
  Location of the conference in far west Houston has caused a decline in attendance from 673 in 2002 to 551 in 2004. The meeting is returning to downtown Houston to remedy this.

IV. Other Critical Issues/Impact of Initiatives

IV. A. Impact of Initiatives

Enrollment Management

Several initiatives will have an impact on students and trainees. Efforts to enhance the Graduate School of Biomedical Sciences (joint program with UTHSC-H), and the School of Health Sciences will be directed at seeking the best candidates for enrollment. UTMDACC's highly competitive fellowship and postdoctoral training programs will grow, and graduates who leave the institution help advance our mission and initiatives aimed at dissemination of knowledge.

Diversity of Faculty and Staff

Initiatives related to becoming the employer of choice in healthcare and biomedical research, educational programs, and learning and mentoring all have strong diversity components. The Office of Institutional Diversity (OID) will become more involved with candidate searches. OID hosts frequent informal seminars for employees. The faculty and administrative leadership programs contain a diversity module. The new Department of Health Disparities Research will have an impact throughout UTMDACC, particularly with minority enrollment in clinical trials, educational programs, and community outreach.

Community and Institutional Relations

With nearly 14,000 employees, UTMDACC is important to the city's workforce, and Houston should benefit from our employer of choice initiatives. Certainly, the excellent clinical care provided at

UTMDACC is a benefit to Houston and Texas. Initiatives aimed at technology development and commercialization hold economic benefits for Houston. For example, successful development of The University of Texas Research Park will bring biotech companies to Houston, in turn providing jobs and adding to the tax base.

Outreach programs from initiatives addressing minority health, screening, and prevention will bring great benefit to the community. Initiatives related to sharing knowledge are directed to the public and patients.

With 1,400 community volunteers, and a goal to add 325 more in FY05, UTMDACC has the largest hospital-based volunteer program in the nation.

UTMDACC intends to continue to allocate unbilled charges for the care of indigent Texans at a level of 10 percent of the operating budget.

Relationships with UTMDACC donors will be impacted by efforts to secure funding for the Bush endowment, multidisciplinary research programs, and capital projects. The UTMDACC Development Office has an outstanding record and will be instrumental in balancing the many philanthropic needs.

Finances

UTMDACC has been able to sustain positive margins and an ambitious Long-Term Capital Plan, but we are always mindful that external factors could have consequences. Prioritization of programs and facilities will have to be part of the initiatives in the Compact and the Strategic Goals. Initiatives directed at maintaining our Economic Forecasting Model, improving infrastructure, productivity, and efficiency will all affect the finances of the institution. Initiatives aimed at educating state and national policy makers are critical to our finances. Third party reimbursement, managed care contracting, and legislative and regulatory directives can all have serious and immediate impact, and efforts to shield the institution from adverse consequences are imperative.

Strategies to increase grant and contract dollars and for collaboration with other institutions and industry should have positive financial implications.

Facilities

Several progress measures are keyed to facilities (e.g., successful activation of the Mitchell Basic Sciences Research Building, Ambulatory Clinical, and Cancer Prevention Buildings). The Proton Therapy Center will be one of only three such facilities in the nation, clearly linked to UTMDACC's national ranking and reputation. Development of The University of Texas Research Park has an impact on facilities, and partnerships with industry will be sought to offset these costs.

Other Infrastructure Issues

Information systems, bioinformatics, and computational science are at the core of several initiatives: improving productivity and efficiency, development of integrated clinical and research databases, development of an electronic medical record, and clinical trial design. Enormous patient databases will be needed for wide-scale prevention trials. The re-engineering of the UTMDACC Information Services department, including recruitment of a new VP and Chief Information Officer, must be successfully achieved. IS activities are extremely expensive, and appropriate prioritization and faculty involvement will be critical to success in these initiatives.

Highly specialized equipment for proteomics, genomics, and molecular imaging will be required for initiatives aimed at detecting and treating cancer by discovering and targeting genetic and molecular abnormalities.

IV. B. Unexpected Opportunities or Crisis

Access to the Governor's Texas Enterprise Fund and the proposal for a molecular imaging building, planned jointly by UTMDACC, UTHSC-H and GE Medical Systems, is an example of an unexpected opportunity. This project ($80 million research program and facility) will be an outstanding example of private-public partnership and become the anchor of the UT Research Park. The presence of GE Medical Systems will bring jobs to Houston. Attracting pharmaceutical and biotech companies, as well as medical instrument and equipment companies, to the UT Research Park will be a major initiative during the next five years.

The war on terrorism has had a negative impact on the ability of international patients to come to UTMDACC. Patients from outside the U.S. now comprise only 3 percent of all patients and like all self-pay patients they contribute importantly to institutional margins. Efforts with Sister Institutions and the establishment of information offices in other countries are two strategies to address our desire to return international patients to about 4 percent of total patient volume, which is still below the pre-9/11 level. A shift in marketing to Mexico and South America is also underway. Marketing is also planned in the U.S. outside of Texas to help bring more self-pay and managed care patients to UTMDACC.

V. System and State Priorities

Collaborations with UT System institutions, working with government, increasing external research funding, and enhancing academic and clinical excellence are discussed throughout Sections II-IV.

VI. Compact Development Process

The Compact has been developed in tandem with a review and revision of UTMDACC's Strategic Vision and Goals. Beginning in December 2002, a series of meetings were held with clinical and research faculty leaders, the chair of the Faculty Senate, and senior management. These sessions addressed the future direction of research, the clinical enterprise, infrastructure, and other initiatives. In the fall of 2003, concurrent with the beginning of the Compact process, the recommendations from all these meetings were distilled and various drafts of the initiatives were reviewed by the senior leadership, the Research Council (clinical division heads and basic science chairs), the External Advisory Board (distinguished scientists from peer institutions), and the President's Advisory Board (clinical division heads, vice presidents, Faculty Senate chair, two clinical department chairs). The Executive Committee of the Faculty Senate (ECFS) reviewed the entire draft submitted to UT System, and the President met with the ECFS to discuss the Compact and the Strategic Goals. We made modifications after each of these discussions, and the priorities contained in the current version of the Compact and Strategic Goals are the result. All of the initiatives contained in the Strategic Vision and Goals are also in the Compact.

Other institutional groups reviewing the Strategic Vision and Goals include the Diversity Council and the members of the Leadership Forum (approximately 150 faculty and administrative staff).

VII. System Contributions

- Resource support (Health Affairs; Governmental Relations; Federal Relations)
- Development of collaborations (Health Affairs)

VIII. Appendices

A. Budget Summary

The University of Texas M. D. Anderson Cancer Center
Operating Budget
Fiscal Year Ending August 31, 2005

		FY 2004 Adjusted Budget	FY 2005 Operating Budget	Budget Increases (Decreases) From 2004 to 2005 Amount	Percent
Operating Revenues:					
Tuition and Fees	$	267,000	464,176	197,176	73.8%
Federal Sponsored Programs		135,494,512	162,161,916	26,667,404	19.7%
State Sponsored Programs		555,496	292,374	(263,122)	-47.4%
Local and Private Sponsored Programs		36,928,676	46,937,470	10,008,794	27.1%
Net Sales and Services of Educational Activities		11,803,237	5,760,669	(6,042,568)	-51.2%
Net Sales and Services of Hospital and Clinics		1,088,823,441	1,251,096,392	162,272,951	14.9%
Net Professional Fees		205,306,145	237,188,914	31,882,769	15.5%
Net Auxiliary Enterprises		23,911,115	25,699,183	1,788,068	7.5%
Other Operating Revenues		20,561,791	22,755,208	2,193,417	10.7%
Total Operating Revenues		1,523,651,413	1,752,356,302	228,704,889	15.0%
Operating Expenses:					
Instruction		198,196,155	231,120,977	32,924,822	16.6%
Academic Support		-	-	-	-
Research		249,059,823	245,353,559	(3,706,264)	-1.5%
Public Service		1,323,261	4,497,317	3,174,056	239.9%
Hospitals and Clinics		889,659,155	1,036,234,935	146,575,780	16.5%
Institutional Support		103,422,950	117,963,480	14,540,530	14.1%
Student Services			-	-	-
Operations and Maintenance of Plant		281,818,360	266,166,430	(15,651,930)	-5.6%
Scholarships and Fellowships			11,431	11,431	-
Auxiliary Enterprises		18,213,060	18,114,268	(98,792)	-0.5%
Total Operating Expenses		1,741,692,764	1,919,462,397	177,769,633	10.2%
Operating Surplus/Deficit		(218,041,351)	(167,106,095)	50,935,256	-23.4%
Nonoperating Revenues (Expenses):					
State Appropriations & HEAF		148,762,704	148,087,074	(675,630)	-0.5%
Gifts in Support of Operations		44,474,778	37,143,555	(7,331,223)	-16.5%
Net Investment Income		23,167,048	23,828,579	661,531	2.9%
Other Non-Operating Revenue		11,920,032	-	(11,920,032)	-100.0%
Other Non-Operating (Expenses)		-	-	-	-
Net Non-Operating Revenue/(Expenses)		228,324,562	209,059,208	(19,265,354)	-8.4%
Transfers and Other:					
AUF Transfers Received		-	-	-	-
AUF Transfers (Made)		-	-	-	-
Transfers From (To) Unexpended Plant		(18,000,000)	(18,000,000)	-	0.0%
Transfers for Debt Service		(39,202,627)	(68,083,420)	(28,880,793)	73.7%
Other Additions and Transfers		-	-	-	-
Other Deductions and Transfers		-	-	-	-
Total Transfers and Other		(57,202,627)	(86,083,420)	(28,880,793)	50.5%
Surplus/(Deficit)	$	(46,919,416)	(44,130,307)	2,789,109	-5.9%
Total Revenues	$	1,751,975,975	1,961,415,510	209,439,535	12.0%
Total Expenses and Debt Service Transfers		(1,780,895,391)	(1,987,545,817)	(206,650,426)	11.6%
Surplus (Deficit)	$	(28,919,416)	(26,130,307)	2,789,109	

Note: Operating Budget Highlights with a glossary of terms are included on Page 1.

B. Statistical Profile

UT M. D. Anderson Cancer Center

fall	2000	2001	2002	2003	2004
Undergraduate headcount	40	48	59	75	70

academic year	99-00	00-01	01-02	02-03	03-04
Health sciences certificates	0	26	34	32	45
Health sciences baccalaureate degrees	0	13	10	20	30

academic year				02-03	03-04
Accredited GME resident programs				12	14
# of residents in accredited programs				100	103

fiscal year	2000	2001	2002	2003	2004
Federal research expenditures	$81,871,561	$91,543,036	$117,633,074	$122,868,912	$150,528,694

fall	2000	2001	2002	2003	2004
All instructional staff	911	1,017	1,071	1,133	1,190
Classified employees	8,722	9,452	10,066	10,918	11,775
Administrative/professional employees	869	886	927	929	947
Student employees	219	249	277	312	349

fiscal year	1999	2000	2001	2002	2003
Hospital admissions	16,499	17,497	18,604	18,781	19,430
Hospital days	126,803	131,788	137,204	137,207	146,673
Clinic visits	409,443	448,690	469,068	471,728	537,822

fiscal year	1999	2000	2001	2002	2003
Unsponsored charity care	$19,717,163	$25,524,441	$30,773,351	$35,310,300	$43,427,477

as of	8/31/99				8/31/04
Endowment total value	$256,739,000				$357,890,000

C. Institution-Specific Information

- For the third time in four years, UTMDACC is ranked the nation's top cancer hospital in *U.S. News and World Report's* "America's Best Hospitals Survey."
  - In addition to the number one ranking in cancer, several UTMDACC specialties were ranked among the nation's best, including gynecology (4), ENT (10), and urology (13).
  - UTMDACC has ranked as the number one or two hospital in cancer since the magazine began its annual survey 14 years ago.
- UTMDACC ranked number six in the nation by *The Scientist's* "Best Places for Postdocs" 2004 survey. This is based on information from 91 institutions in the U.S. and Canada.
- The JCAHO survey resulted in Accreditation without Type I Recommendation – the highest possible rating. UTMDACC received a 98 out of possible 100 in the final report and ranked 1 in 40 or 44 categories rated by the surveyors.
- UTMDACC is a World Health Organization Collaborating Center in Supportive Care. This Center helps to develop research and professional education programs in supportive care for countries in all stages of development, particularly in Latin America and Asia.
- UTMDACC received international recognition with the Magnet Nursing Services Recognition. Fewer than 45 hospitals in the world have received this highest honor in health care for nursing.
- UTMDACC ranks first in both the number of grants (208) and total dollars awarded ($98.4 million) by the National Cancer Institute.
- UTMDACC holds nine NCI Specialized Programs of Research Excellence (SPORE) grants in lung, bladder, prostate, ovarian, head and neck, pancreatic and endometrial cancers, melanoma and leukemia. This is more than any other cancer center and totals more than $88 million in grant funding.
- UTMDACC was awarded First Place in the Better Business Bureau award for Quality in Healthcare.
- UTMDACC was one of the first three health-care institutions in the U.S. to be awarded ISO 14001 (International Organization for Standardization) certification, an international distinction that recognizes environmental management.
- UTMDACC's TV production department won the Silver Telly award, the highest level of recognition for non-network programming. The award was for the program *Children's Art Project: Making Life Better for children with Cancer.* They won the second highest award, the bronze, for *M. D. Anderson Cancer Center: 60 Years of Making Cancer History.*

The University of Texas M. D. Anderson Cancer Center

Compact with U. T. System

John Mendelsohn, M.D.

President

1

Immediate Priority 1: Enhance the excellence, quality, and safety of clinical care, increase productivity/efficiency and reduce costs.

Initiatives selected by the EVP and Physician in Chief

- Prevention of Ventilator Associated Pneumonia: Aim to decrease by 50%/12 mos. (#cases/1000 ventilator days)
  - 12-month reduction from 30 cases to 12
- Prevention of Catheter Related Blood Infections: Aim to decrease by 50%/12mos. (infections/1000 line days)
  - 12-month reduction from 26 to 16
- Reduction in non-ICU cardiac arrests by 10%/12 mos., by creation of a rapid response team (#arrests/1000 patient days and #calls to response team)
  - The response team was called 555 times and more than 50% patients stayed on units/did not go to ICU

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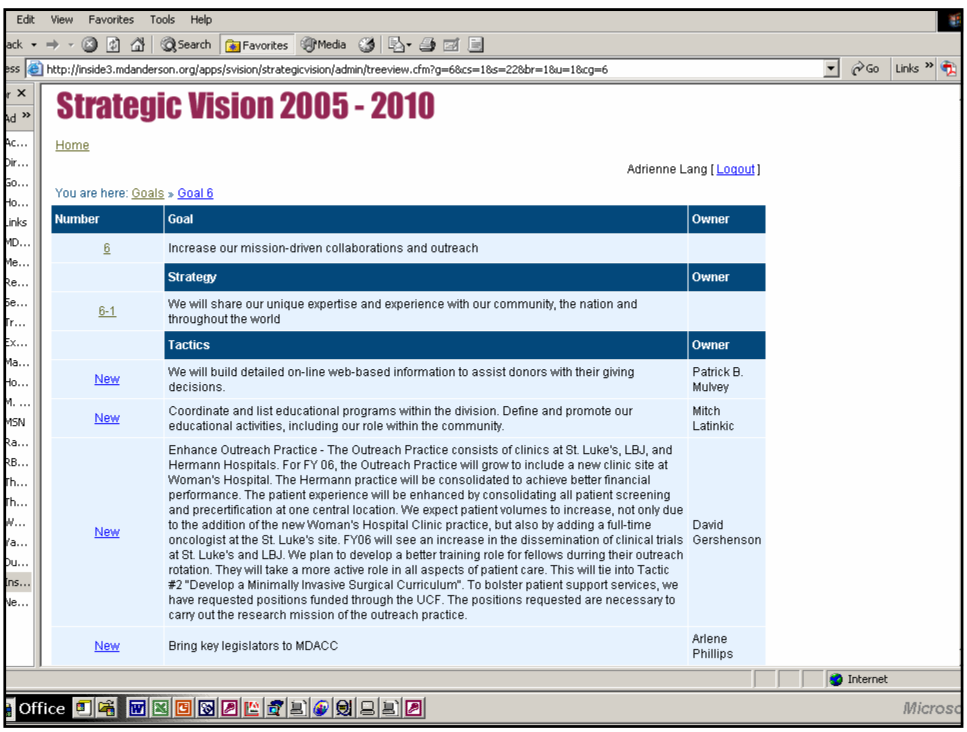
Immediate Priority 1, Patient Care, cont.

- Magnet Nursing Recognition
- myMDAnderson.org: Patients now have a personal website to view appointments, order presciptions, view lab results, interact with caregivers
- myMDAnderson for physicians: Referring physicians now have a website for referral, patient data, secure communication with physicians
- Nonpunitive reporting of close calls
  49 reported in FY05 pilot; institution-wide in FY06
- Counseling has registered 1753 patients on Medicaid who would otherwise be indigent

3


http://inside3.mdanderson.org/apps/svision/strategicvision/admin/treeview.cfm?g=6&cs=1&s=22&br=1&u=1&cg=6

Strategic Vision 2005 - 2010

Home

Adrienne Lang [Logout]

You are here: Goals » Goal 6

Number	Goal	Owner
6	Increase our mission-driven collaborations and outreach	
	Strategy	**Owner**
6-1	We will share our unique expertise and experience with our community, the nation and throughout the world	
	Tactics	**Owner**
New	We will build detailed on-line web-based information to assist donors with their giving decisions.	Patrick B. Mulvey
New	Coordinate and list educational programs within the division. Define and promote our educational activities, including our role within the community.	Mitch Latinkic
New	Enhance Outreach Practice - The Outreach Practice consists of clinics at St. Luke's, LBJ, and Hermann Hospitals. For FY 06, the Outreach Practice will grow to include a new clinic site at Woman's Hospital. The Hermann practice will be consolidated to achieve better financial performance. The patient experience will be enhanced by consolidating all patient screening and precertification at one central location. We expect patient volumes to increase, not only due to the addition of the new Woman's Hospital Clinic practice, but also by adding a full-time oncologist at the St. Luke's site. FY06 will see an increase in the dissemination of clinical trials at St. Luke's and LBJ. We plan to develop a better training role for fellows durring their outreach rotation. They will take a more active role in all aspects of patient care. This will tie into Tactic #2 "Develop a Minimally Invasive Surgical Curriculum". To bolster patient support services, we have requested positions funded through the UCF. The positions requested are necessary to carry out the research mission of the outreach practice.	David Gershenson
New	Bring key legislators to MDACC	Arlene Phillips

Immediate Priority 1, Patient Care, cont.

Example:

Tactic entered on Strategic Goals website by Chair, Pathology and Lab Medicine:

- We will establish an assessment team to evaluate processes and identify priorities for implementing improved specimen identification and tracking system

Measures of Success

- Complete workflow study to outline current processes
- Identify and prioritize areas for implementation of new system

5

Immediate Priority 2: Advance MDACC as an employer of choice

- Faculty Leadership Academy:
  133 completed; waiting list for program
- Administrative Leadership Program:
  141 completed. New modules will allow more participants.
- 2nd Employee Opinion Survey completed with improvements in employee's views of management, hiring the right people, empowerment, and communications with workforce.
- Ombuds program expanded from faculty to all employees. New Ombuds, Dr. Anu Rao, recruited.

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Immediate Priority 2, Employer of Choice, cont.

Our Values Guide Our Actions

Caring – By our words and actions we create a caring environment for everyone.

- We are sensitive to the concerns of our patients and our coworkers.
- We are respectful and courteous to each other at all times.
- We promote and reward teamwork and inclusiveness.

7

Immediate Priority 2, Employer of Choice, cont.

Our Values Guide Our Actions

Integrity – We work together to merit the trust of our colleagues and those we serve.

- We hold ourselves and each other accountable for practicing our values.
- We communicate frequently, honestly, and openly.
- By our actions, we create an environment of trust.

8

Immediate Priority 2, Employer of Choice, cont.

Our Values Guide Our Actions

Discovery – We embrace creativity and seek new knowledge.

- We help each other to identify and solve problems.
- We seek personal growth and enable others to do so.
- We encourage learning, creativity and new ideas.

9

Immediate Priority 2, Employer of Choice, cont.

We Are
M. D. Anderson
Initiative

Longer Term Priority 1: Improve the quality of existing research programs and develop priority programs for the future.

Leadership Recruitments and Appointments:

- Christian Abee, D.V.M., Chair, Veterinary Sciences
- David Brown, M.D., Chair, Anesthesiology
- Juri Gelovani, M.D., Ph.D., Chair, Experimental Diagnostic Imaging
- Scott Lippman, M.D., Chair, Head and Neck Thoracic Medical Oncology
- Garth Powis, Ph.D., Chair, Experimental Therapeutics

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Longer Term Priority 1, Research, cont.

- The Children's Cancer Hospital at MDACC: 10 recruitments of new clinical faculty with varied research interests.
- New Division planned: Division of Quantitative Sciences combining Bioinformatics, Biomathematics, Computational Biology.

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Longer Term Priority 1, Research, cont.

- New Centers of Excellence: McCombs Institute for the Early Detection and Treatment of Cancer
  - ♦ Cancer Metastasis Research Center
  - ♦ Center for Cancer Immunology Research
  - ♦ Kleberg Center for Molecular Markers
  - ♦ Proton Therapy Center
  - ♦ Center for Advance Biomedical Imaging Research (with UTHSC-H)
  - ♦ Center for Targeted Therapy

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Longer Term Priority 1, Research, cont.

Institutional Funding

• Institutional Research Grants (FY05)*	$ 500,000
• Technology Review Committee Grants (FY05)*	$ 300,000
• Bridge funds (FY04-FY05)	$ 2,800,000
• Clinical Trials infrastructure (FY05-FY06)	$ 6,000,000

*internally peer-reviewed

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Phase I Program First-in-Human Trials

Drug	Target	PI
XL184	Met kinase/VEGFR	Kurzrock
NPI-0052	Proteosome Inhibitor	Kurzrock
RO4858696	IGR-1R Antagonist	Kurzrock
MPC-6827	Beta tubulin	Kurzrock
Zio-101	Organic arsenic	Camacho
AMG706	VEGFR	Herbst
TRAIL	Death receptor	Herbst
AMG386	Angiopoietin	Herbst
AMG655	Binds TRAIL receptor	Herbst

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Future Initiative 1: Increase our mission-driven collaborations and outreach.

Local research collaborations:

- Gulf Coast Consortia (UTMDACC, UTHSC-H, UTMB, Rice, Baylor, TAMU)
- Center for Biomedical Engineering (UT Austin, UTMDACC, UTHSC-H)
- Alliance for Nanotechnology (UTMDACC, UTHSC-H, UTMB, Rice, Baylor, Univ. of Houston, TAMU)
- Baylor: Cancer genome research, joint Dept. of Neurosurgery, Bone Disease Program of Texas

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Future Initiative 1, Collaborations, cont.

International:

- MD Anderson Espana saw 6,714 patients in 2005; clinical trials have begun
- Nine Sister Institutions in China, Chile, England, France, Brazil, Japan, and India

Private Sector

- Molecular Diagnostics (U Cal, U of Washington, Affimetrix, Agilent, Sequenom)
- Big Pharma collaborations have yielded $3.5M
- General Electric HealthCare, with Biomedical Imaging
- Hitachi and investors in the Proton Therapy Center

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The University of Texas M. D. Anderson Cancer Center

OFFICE OF THE PRESIDENT

THE UNIVERSITY OF TEXAS AT AUSTIN

P.O. Box T • Austin, TX 78713-8920
(512) 471-1232 • Fax: (512) 471-8102

December 13, 2005

Dr. Teresa A. Sullivan
Executive Vice Chancellor for Academic Affairs
The University of Texas System
OHH 305 (P4300)

Dear Terry:

I request that an agenda item be placed on the February 2006 Board of Regents' meeting relating to two gifts of outdoor works of art for the Jack S. Blanton Museum of Art:

1. The Blanton Museum of Art has received a work by sculptor Richard Long as a gift honoring Jack S. Blanton from his children. Richard Long is a world-renowned British artist whose sculptures - often circles of rocks - commemorate long walks that he has taken in the British countryside. Based on a long artistic tradition of inspirational landscape artwork, Mr. Long's works are meant to provide occasions for contemplation and appreciation of nature in contrast to the hurried pace of modern urban life. The work is sited by landscape architect Peter Walker amidst a grove of flowering trees in the southeast corner of the Blanton landscaping. The cost of installing and maintaining the work will be minimal.

2. The Museum received a second donation of an important outdoor work by Meg Webster from Blanton major patrons, Jeanne and Michael Klein. Ms. Webster is a renowned artist whose landscape sculptures create subtle opportunities for reflection and contemplation of the natural world. The proposed work is a gentle conical depression in the ground lined with native plants. These plants, as well as the work's placement amidst a grove of flowering trees, have been chosen by landscape architect Peter Walker. The site is on the grounds of the Blanton, adjacent to the Richard Long sculpture. All costs of its installation will be paid by the Kleins. Maintenance costs, which are minimal, will be borne by the Museum.

The following background materials are provided for reference:

- Description of *Summer Circle*
- Résumé of Richard Long
- Photograph of *Summer Circle*, 1991, London, England

- Résumé of Meg Webster
- Description of *Conical Depression*
- Representative photographs of similar works by artist

- Site maps
- Illustrator's rendering of artwork in place
- Support letter from Peter Walker
- Support letter from Kenneth Hale

Your assistance in presenting these agenda items is greatly appreciated.

Sincerely,

Larry R. Faulkner
President

Enclosures

cc: Dr. Pat Clubb
Ms. Jessie Hite
Ms. Marla Martinez
Ms. Patti Ohlendorf
Mr. John Rishling

December 12, 2005

Jessie Otto Hite
Jack S. Blanton Museum of Art
University of Texas
23rd and San Jacinto
Austin, TX 78712
jesseottohite@mail.utexas.edu

Project: Blanton Museum of Art Landscape

Project No.: BOO-301

Subject: Richard Long and Meg Webster Sculptures

Dear Jessie:

I am writing to express my enthusiastic support for the addition of the Richard Long and Meg Webster sculptures to the landscape surrounding the Jack S. Blanton Museum of Art.

The east side of the Phase 1 building is the most fitting location for both the Richard Long piece and the Meg Webster piece. This area, to be planted with a grove of flowering plum and native redbud trees, is an important element of the front door of the campus. It is the first area that visitors and members of the campus community will see when arriving by car at Brazos Extension. At the same time the grove, set off from the drive on a grassy rise, will provide a peaceful setting for visitors to stroll and to sit away from the primary flow of campus foot traffic.

It would be our wish that the donation of a Richard Long and other world renown artists' work for the Blanton landscape will be the beginning of a long tradition of placing significant works of art in the landscape around the museum.

Sincerely,

PETER WALKER AND PARTNERS

Peter Walker

Peter Walker

cc:
jobfile: docs/boo/301/L PW JH 01

DEPARTMENT OF ART AND ART HISTORY

THE UNIVERSITY OF TEXAS AT AUSTIN

College of Fine Arts • 23rd & San Jacinto • Austin, Texas 78712-1104 • (UT Mail code D1300)
Office of the Chair • Room 3.434 • (512) 471-3382 • Fax (512) 471-7801 • www.utexas.edu/cofa/a_ah

Office of the Vice President for
Employee and Campus Services
The University of Texas at Austin

DEC 12 2005

Mail Log 007596
Refer to
File

December 6, 2005

Patricia L Clubb, Vice President for Employee & Campus Services, PHD
MAI 303
The University of Texas at Austin
G5100
Austin TX 78713-8180

Dear Dr. Clubb,

I am writing to you as the Chair of the Subcommittee for the Review of Art (SRA) to voice the committee's support for the Blanton Museum's proposed outdoor installations of the Richard Long and Meg Webster sculptures recently acquired for the collection.

Richard Long and Meg Webster are world-renowned installation artists who utilize environmental elements as their primary palette. Their works are beautiful and contemplative. As the University moves towards incorporating art as part of the campus environment, with the proposed Peter Walker landscape design for Speedway and the East/West campus corridor, it is exciting to think of having major works by significant artists such as Long and Webster added to the campus art experience.

The Blanton Museum of Art has, with these two acquisitions, made a significant and bold statement for the integration of exciting artistic experiences into the physical space and the cultural life of the University and the surrounding community.

We look forward to the opportunity to view and live with these new works.

Sincerely,

Kenneth J. Hale

Kenneth J. Hale, Chair of the Sub-committee for the Review of Art
Marguerite Fairchild Professor of Art

Dixon, David

From: Frederick R Steiner [fsteiner@austin.utexas.edu]
Sent: Tuesday, January 10, 2006 1:34 PM
To: Dixon, David
Subject: Proposed Outdoor Sculptures --- Blanton Museum

Dear Dave,

I am pleased to enthusiastically endorse the installation of two outdoor sculptures at the Jack S. Blanton Museum of Art. Richard Long's rock circle, "Summer Circle," is a gift honoring Jack Blanton from his children. Meg Webster's landscape sculpture, "Gentle Conical Depression," is a gift from Jeanne and Michael Klein. These important works will enhance the museum's sculpture collection and advance outdoor art on campus.

The placement of these works is consistent with Peter Walker's landscape plan for the Blanton Museum. Peter Walker is one of the nation's foremost landscape architects. His Blanton design will do much to improve the urbanity and quality of the southern edge of our campus. "Summer Circle" and "Gentle Conical depression" will contribute to this improvement.

The installations by Meg Webster and Richard Long will become destination points for visitors to the Blanton Museum of Art and the UT Austin campus. I look forward to the value that these works will contribute to our University.

Sincerely,

Fritz

Frederick Steiner
Dean, School of Architecture
Henry M. Rockwell Chair in Architecture
Goldsmith Hall
University of Texas at Austin
Austin, Texas 78712-1160
fsteiner@austin.utexas.edu

THE UNIVERSITY OF TEXAS SYSTEM

Construction Cost Forecasting

Impact of Hurricanes Katrina & Rita

February 8, 2006

Stan Scott, Architect
Associate Director of Program Services
Office of Facilities Planning and Construction

Overview

- **Current value of CIP projects: $4.153 Billion**
  - ***Value of Projects in Pipeline: $2.819 Billion***
- **Hurricanes Katrina & Rita are impacting the construction industry, but not significantly**
  - ***What is likely impact on UT System construction costs?***
- **What does OFPC do to track and predict project costs?**
  - ***What can be done to mitigate impacts on U. T. System CIP projects?***

Impact on UT System projects

- **Direct impacts to construction cost are minimal**
- **Primary impact of the hurricane events is to volatility in energy/fuel costs, insurance rates**
- **OFPC is using an 8% escalation factor for 2006**
  - ***4% to account for contractor fear and risk avoidance in response to the hurricanes***
  - ***4% to account for anticipated inflation based on industry indices***

- **Recognized construction cost indices are trending downward**
  - ***Costs are still rising, but at a reduced rate***
  - ***Hurricane events likely minimized this trend***
  - ***Elevated material prices from the past two years are easing in spite of the hurricanes***
- **Labor cost indices are trending flat**
  - ***About 4% higher for 2006 (same as 2005)***

Putting Impacts in Perspective

- Construction costs have multiple components
- Other issues impact construction cost more than a regional disaster
- Rebuilding of New Orleans and the Gulf Coast not occurring as fast as initially thought
  - *Predominately residential & light commercial*
  - *Local firms and local labor pools to perform the bulk of the rebuilding*

OFPC Cost Modeling Program

- OFPC tracks actual project costs in database
  - *Contractors' schedule of values (SOV)*
  - *Fees & general conditions costs*
  - *Dollars grouped by 16 CSI Division categories, RS Means "Assemblies" (similar to GASB reporting)*
- Database includes adjustment factors
  - *RS Means location factors for U. T. System cities*
  - *RS Means & ENR cost normalizing factors for current year*
- Database includes forecast of % change
  - *Based on recognized industry publications*
  - *Adjusted to reflect actual costs & contractor feedback*

Industry Cost Indices: ENR

Engineering News Record

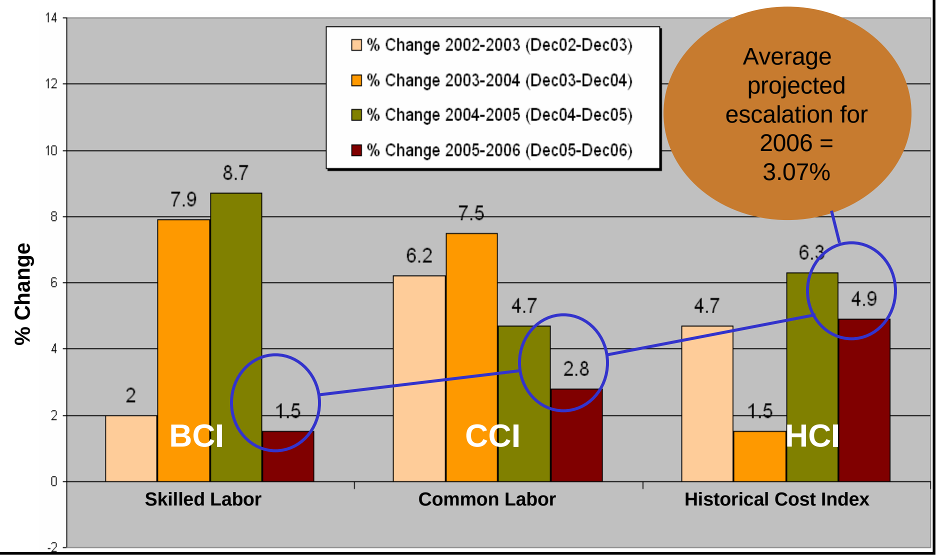
- **Building Cost Index**
  - *(BCI) 3 materials + skilled labor for 20 US cities*
- **Construction Cost Index**
  - *(CCI) 3 materials + common labor for same 20 US cities*
- **Materials Cost Index**
  - *(MCI) selected materials for same 20 US cities*
- **Labor Wage Index**
  - *Selected work trades for same 20 US cities*
- **Aggregate costs for materials and/or wages, averaged across the 20 cities, determines each index**
  - *ENR forecasts annualized % change for each index*

Industry Cost Indices: RS Means

RS Means Historical Cost Index (HCI)

- **Construction Material, Equipment & Labor**
  - *Mix of selected materials, typical equipment, and selected labor classifications reported yearly for 30 cities*
  - *Includes six (6) Texas cities with U. T. System Institutions*
- **Estimated index for new year and an updated actual index for prior years for each city**
- **Updated annually**

Change in Cost Indices *(2006 Projected)*



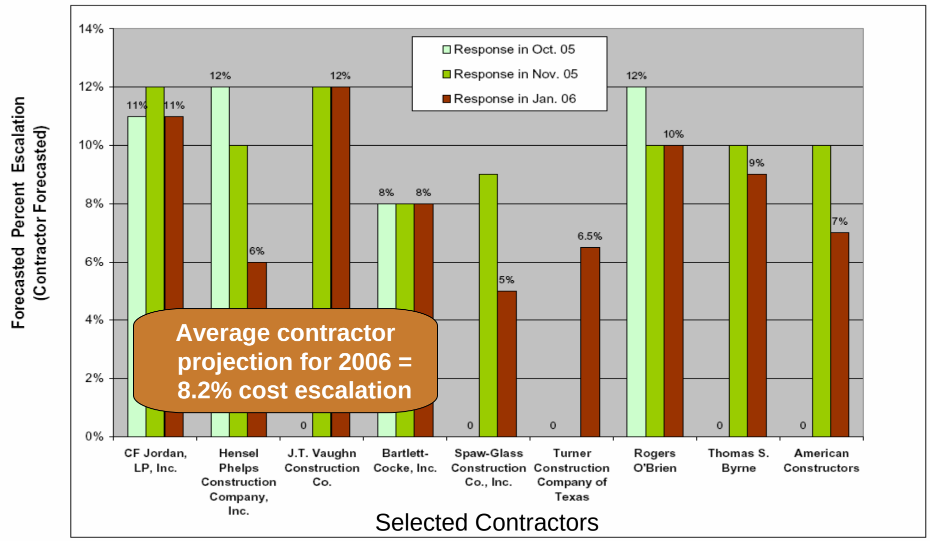
Cost Change for Index Components

ENR's Summary for 2005 & Forecast for 2006

- **Cement**
  - ***Up 5.5% in 2005***
  - ***Predict 0.8% in 2006***
- **Lumber**
  - ***Up 8.0% in 2005***
  - ***Predict -2.6% in 2006***
- **Steel**
  - ***Up 1.6% in 2005***
  - ***Predict -0.3% in 2006***
- **Common labor**
  - ***Up 4.2% in 2005***
  - ***Predict 4.4% in 2006***
- **Skilled labor**
  - ***Up 4.2% in 2005***
  - ***Predict 4.3% in 2006***
- **Diesel fuel**
  - ***Up 51% in 2005***
  - ***2006 prediction not available***

Source: ENR Magazine, Dec 19, 2005 (Global Insight, Inc)

Contractor Cost Projections for 2006



OFPC Cost Forecasting

- **Construction cost indices drive OFPC forecasts**
  - ***OFPC projection = average forecasted RS Means index (6 Texas cities) + BCI and CCI forecasts***
  - ***Single projection of change averaged for all 3 indices***
- **Feedback from contractors and actual cost experience used to adjust the projection**
- **Change forecast (8% FY2006) incorporated in cost database for initial estimate of future project costs**

OFPC Cost Modeling Example

- **Project: Estimate cost for a 100,000 SF research facility in Dallas scheduled to start in 2007 and complete in 2009**
  - ***Database query suggests average total project cost for similar OFPC-managed projects is $317/GSF***
  - ***Apply RS Means location factors to each queried project to adjust to Dallas cost***
  - ***Converting each project to 2005 dollars equals $356/GSF***
  - ***Adjust the result by escalation factor used for 2006-2011***
  - ***Report the forecasted cost to Project Management***

Mitigating Impact of Cost Escalation

- **Use "top tier" contractors with national buying power and aggressive cost control methodology**
- **Time material procurement with market conditions**
- **Base design on material availability**
- **Lock in space at mills and fabrication shops early**
- **"Guaranteed Maximum Price Type" in lieu of "Lump Sum" subcontracts**
- **Increase contingency accounts in initial budgets**

Summary

- **OFPC gives weighted consideration to contractor feedback in developing forecasts**
- **National indices are indicators only**
- **OFPC will use 8% escalation factor to start 2006**
  - ***Reevaluate escalation factor at mid-year***
- **Primary impact of hurricanes is to a limited range of materials, fuel and contractor fears**

The University of Texas System Honors Programs

The University of Texas at Arlington

Honors College

The Honors College is a community of scholars which strives to maintain a supportive, educationally and culturally diverse environment in which students achieve excellence in academics, research, service, and personal development, leading to success in their careers and fulfillment in their personal lives. The Honors College contributes in significant ways to the University's mission. By creating a center for academic excellence within the University, the Honors College improves the level of learning for all students. Honors students are also encouraged to be student leaders who offer distinguished service to the University and the larger community.

Students in the Honors College are provided with smaller class sizes and courses taught by award-winning faculty. There are opportunities available to participate in honors study abroad programs, paid undergraduate research assistantships, and honors internships. Special academic and social events are also held. Honors students are offered "fast-track" admission to the university's graduate programs.

The University of Texas at Austin

Plan II

Since 1935, Plan II has been one of the most respected honors programs in the country, with a national reputation for academic excellence. Plan II is a selective four-year interdisciplinary arts and sciences major that leads from a broad and strenuous core curriculum in the early college years to a student's own choice of coursework in the later ones. Classes are pitched at a level to challenge students entering from the top five percent of their graduating class and with average combined SAT scores well over 1400. The Plan II major consists of a core curriculum including humanities, social sciences, fine arts and natural sciences, with the result that Plan II graduates have a fine general education on topics ranging from Greek Philosophy and world literature to quantum mechanics and the structure of DNA. In the end, their research and writing skills are put to the test in an exacting senior thesis requirement. Although the Plan II major consists of a general core curriculum, many Plan II students specialize by using their electives to complete the equivalent of a second major in a particular subject area. Each year a number of students complete the premed curriculum in conjunction with their Plan II major, while others earn second degrees in such areas as business, engineering, English, and architecture.

Business Honors Program

The Business Honors Program (BHP) is an innovative degree program within one of the nation's top business schools, the McCombs School of Business. BHP is designed to provide intellectual challenge and professional development. BHP core courses are accelerated and modeled after those taught in the MBA program. BHP courses are taught by some of the McCombs School's most experienced faculty. Emphasis is placed on class discussion and presentations, case study analysis, and the research of actual business decisions. Enrollment in BHP classes is restricted to students in the program, and the small class size (generally 30-45 students) facilitates interaction among students and faculty.

Engineering Honors Program

The College of Engineering has an Honors program designed for outstanding students. Opportunities for selected students include Honors classes, opportunities for research activities, Honors academic advising, membership in the Engineering Honors Council, special seminars, and Honors social and cultural events. Up to 10 percent of entering first year students are accepted into the Engineering Honors Program.

Dean's Scholars Honors Program in Natural Sciences

The Dean's Scholars Honors Program offers exceptional science and mathematics majors a unique opportunity to enrich their undergraduate education in the College of Natural Sciences. Throughout their undergraduate career, students participate in small sections of courses in mathematics, physics, biology, chemistry, research, and scientific computing. Each Dean's Scholar takes these courses while pursuing an option in any major offered in the College of Natural Sciences. During their senior year, students produce a research-based thesis under the direction of a faculty committee.

Liberal Arts Freshmen Honors Program

The Liberal Arts Freshmen Honors Program seeks to create an honors community with the atmosphere of a small liberal arts college while simultaneously participating in the unparalleled resources of a large university. Students are offered special opportunities for enriched learning and recognition at every level of their academic career. The program gives new students the opportunity to enroll in a variety of academically advanced introductory level courses. The independent departmental honors curriculum is supplemented with special workshops and presentations.

Turing Scholars Honors Program in Computer Sciences

Launched in 2002, the Turing Scholars Program is an honors program for outstanding undergraduates in Computer Sciences. It is designed to develop the academic and industrial leaders of tomorrow by offering an intensive, accelerated path through the core curriculum within the freshman year. The sophomore curriculum exposes students to significant concepts that are often not encountered until graduate school. Many upper-division classes offer special honors sections. A special sophomore class introduces students to the department's research activities, and opportunities to get involved in research are offered as early as the junior year. About 50 incoming freshmen students are admitted to the program each fall.

Prepared by Roberta Rincon
Office of Academic Affairs
January 2006

The University of Texas at Dallas

The School of Management Undergraduate Honors Program

The mission of the Management Honors Program is to provide an intellectual community of motivated and interested School of Management students seeking an enhanced educational experience. The program is built around the promotion of networking, intellectually stimulating honors courses, closer interaction with faculty members and the development of relationships with the Dallas business sector.

School of Behavioral and Brain Sciences School Honors Program

The School Honors Program in the School of Behavioral and Brain Sciences provides eligible students with opportunities for in-depth experience in research and writing, while working individually with members of the faculty. These opportunities enhance preparation for graduate school and employment in the student's chosen field. Depending on their major, students will attain School Honors in Psychology, Cognitive Science, Neuroscience, or Speech-Language Pathology and Audiology. In order to be awarded School Honors by the School of Behavioral and Brain Sciences, undergraduates must complete an honors thesis. The thesis may take the form of either a research project or a literature review.

The University of Texas at El Paso

Honors Program

The University Honors Program is designed for the academically motivated student who seeks an intellectual challenge and a more personal focus in his or her education. The Program provides an environment conducive to intellectual growth through Honors courses, group activities, and interaction.

Honors classes are small, with enrollment limited to 20 students. Creative thinking, writing, verbal, and reading skills are emphasized. Each semester a variety of Honors sections are offered at the undergraduate level. These courses can be used to meet requirements for the Bachelor's Degree as well as the University Honors Degree or Certificate.

The University of Texas-Pan American

University Honors Program

Through its University Honors Program, The University of Texas-Pan American demonstrates a sincere commitment to provide an exceptional educational experience for academically talented undergraduate students. Small classes, innovative teaching techniques, individualized instruction, research opportunities, academic recognition and a wide variety of extracurricular activities are offered.

The University of Texas at San Antonio

Honors College

Established in 2001, the mission of the Honors College is to provide enhanced educational opportunities for selected, motivated, enthusiastic, diverse, and inquisitive students and to foster the pursuit of excellence in undergraduate, higher education. The underlying philosophy of the program is that well-educated individuals should understand broad, interdisciplinary perspectives while demonstrating expertise in their chosen field. The Honors College is open to students from all academic disciplines. Members of the Honors College pursue a rigorous academic program which satisfies all requirements of their academic departments and Colleges and goes beyond those requirements to provide the basis for outstanding achievement and appropriate recognition for that achievement. The Honors College offers small classes with greater opportunities for student participation, increased student-faculty contact, greater individual attention, lively discussions of important issues, special interdisciplinary seminars, community service opportunities, and supervised research experiences, all designed to challenge talented students.

THE UNIVERSITY OF TEXAS SYSTEM

Overview of U. T. System Academic Institutional Honors Programs

Prepared by the Office of Academic Affairs

February 9, 2006

Honors Programs

- **Honors Programs**
  - *U. T. Austin*
  - *U. T. Dallas*
  - *U. T. El Paso*
  - *U. T. Pan American*
- **Honors College**
  - *U. T. Arlington*
  - *U. T. San Antonio*
- **In development**
  - *U. T. Permian Basin*
  - *U. T. Tyler*

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Honors Programs, cont.

- **U. T. Austin**
  - *Plan II*
  - *Business Honors Program*
  - *Engineering Honors Program*
- **U. T. Dallas**
  - *School of Management Honors Program*
  - *School of Behavioral and Brain Sciences Honors Program*

3

Student Benefits

- **Honors courses**
- **Honors degrees**
- **Honors programming in residence halls**
- **Honor societies**
- **Undergraduate research**
- **Study abroad, exchanges, semesters away**
- **Peer services (tutoring, advising)**

4

Faculty Benefits

- **Experimenting with new subject matter and teaching techniques**
- **Leading student/faculty teams to conduct research or undertake special projects**
- **Working with smaller classes and classes of especially high-ability students**

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Fall 2005 Entering Class

	U. T. Arlington	U. T. Austin Plan II	U. T. Austin Business	U. T. El Paso	U. T. San Antonio
% Admitted	80%	44%	31%	99%	82%
Enrolled	161	181	100	183	180
Top 10%	66	149	98	175	88
Valedictorians	N/A	22	18	10	6
Average SAT	1220	1444	1451	1023	1186
Average ACT	N/A	31	31	22	25

Source: U. T. System Institutions

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Fall 2005 Entering Class, cont.

	U. T. Arlington	U. T. Austin Plan II	U. T. Austin Business	U. T. El Paso	U. T. San Antonio
Male	48%	39%	41%	34%	42%
Female	52%	61%	59%	66%	58%
Texas Residents	N/A	92%	92%	98%	94%

Source: U. T. System Institutions

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Fall 2005 Entering Class, cont.

Fall 2005 Entering Class

Admissions

	U. T. Arlington	U. T. Austin Plan II	U. T. Austin Business	U. T. El Paso
% Admitted	80%	44%	31%	99%
Enrolled	161	181	100	183
Top 10%	66	149	98	175
Valedictorians	N/A	22	18	10
Average SAT	1220	1444	1451	1023
Average ACT	N/A	31	31	22

Fall 2005 Graduation Data

Source: U. T. System Institutions

8

U. T. Austin Plan II
2005 Graduating Class

- **Graduation rates (based on Fall 1999 entering class)**
  - *Four year: 51%*
  - *Five year: 84%*
  - *Six year: 88%*
- **Many students graduate with dual degrees**
- **36% plan to enter graduate, law, or medical school after graduation**

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2005 Graduating Class

	U. T. Austin Business	U. T. El Paso	U. T. San Antonio
No. of Graduates	117	66	67
Four years or less	81%	50%	61%
Five years or less	100%	97%	93%
Six years or less	100%	99%	100%
Grad/Law/Med School Plans	10% (medical and law)	N/A	27%

Source: U. T. System Institutions

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Conclusion

Benefits of Honors Programs:

- *Attract talented students*
- *Retain talented faculty*
- *Supply strong graduate programs*

Honors programs add value for the whole university

11

THE UNIVERSITY OF TEXAS SYSTEM

The University of Texas System National Survey of Student Engagement 2005 Results

February 2006

Program Overview

- What We Know about College Student Engagement and Why is Engagement Important?
- What is NSSE?
- NSSE 2005 Survey Administration
- University of Texas System Data
- Using NSSE Data
- Questions and Discussion

2

What Do We Know About College Student Engagement?

What percent of U. T. students spent more than 26 hours per week preparing for class?

First-Year	**Seniors**
Slightly more than 9 %	**Approximately 11 %**

What Do We Know About College Student Engagement?

What percent of U. T. students participated in a community-based project as a part of a regular course?

First-Year	**Seniors**
29 %	**43 %**

What Do We Know About College Student Engagement?

What percent of U. T. students spent more than 5 hours per week participating in co-curricular activities?

First-Year	Seniors
23%	**33%**

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What is NSSE?

(pronounced "nessie")

- A national survey, administered to a random sample of first year and senior year students.
- Assesses the extent to which first-year and senior students engage in educational practices associated with high levels of learning and development.
- Co-sponsored by The Carnegie Foundation for the Advancement of Teaching and the Pew Forum on Undergraduate Learning and;
- Supported by grants from Lumina Foundation for Education and the Center of Inquiry in the Liberal Arts at Wabash College.

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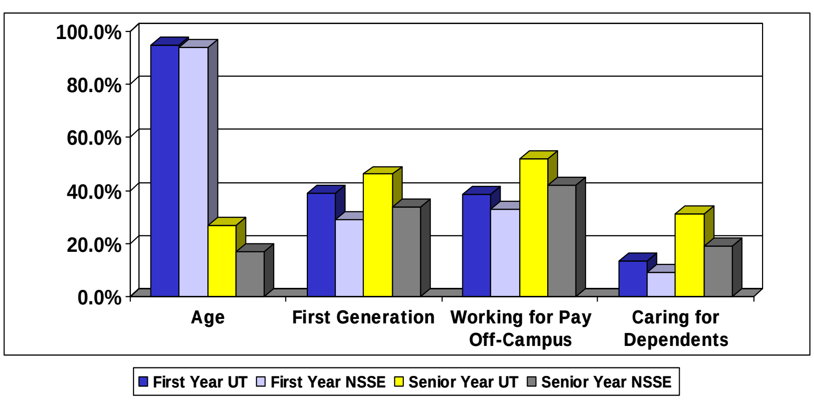
NSSE Project Scope

- Almost a thousand different colleges/universities
- 50 states, Puerto Rico & Canada
- Data from more than 880,000 students
- Institutions include Historically Black Colleges and Universities, Hispanic Serving Institutions, Tribal Colleges, and all female and all male colleges
- NSSE 2005 schools closely resemble the national profile of four-year colleges and universities in all areas.

Year	Colleges/ Universities
2001	321
2002	366
2003	437
2004	473
2005	529

7

Student Characteristics 2005
U. T. System Students versus the National Sample

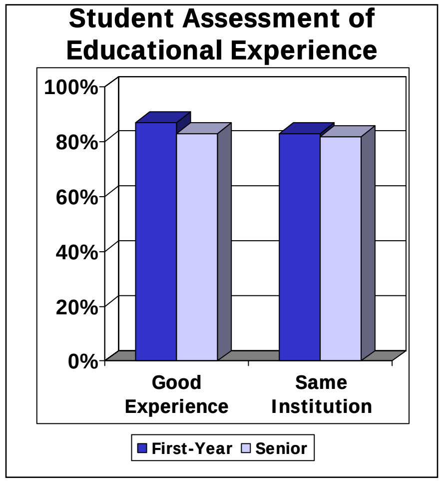


Age: First Year % less than 24 years old, Senior Year % 30 years or older,
First Generation: Either parent attending or graduating from college
Working for Pay Off-Campus: 11 or more hours per week
Caring for Dependents: Caring for spouse, parents or children 11 or more hours per week

8

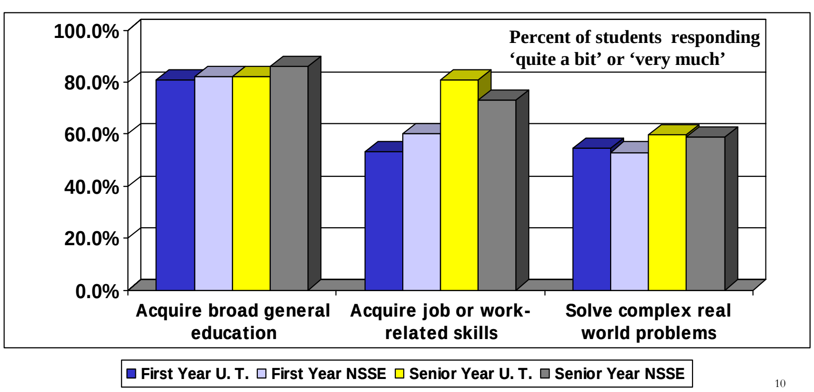
Student Assessment of Educational Experience

- A significant number of both first-year and senior students had a good educational experience while attending a System school (87% first-year students, 83% senior year students).
- The majority of those students surveyed would attend their respective schools if they had to start over (83% first-year students, 82% senior-year students).



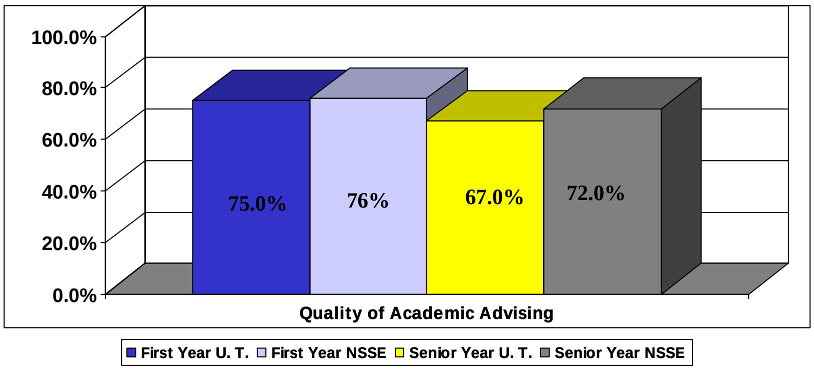
Student Assessment-Skills and Personal Development

To what extent has your experience at this institution contributed to your knowledge, skills and personal development?



10

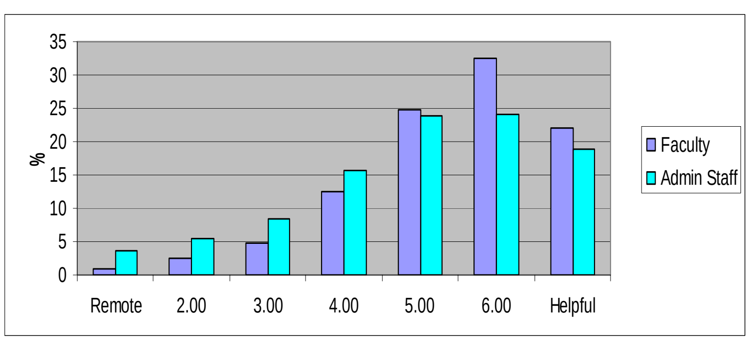
Student Assessment-Interaction with Faculty and Administrative Staff Quality of Advising



11

Student Assessment-Interaction with Faculty and Administrative Staff

Thinking about your overall experience at this institution, how would you rate the quality of relationships with faculty and administrative personnel and offices?



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Using NSSE

- Use with legislative agencies, board, faculty groups, student groups
  - Legislative mandate
  - System Accountability Report
  - Results of the survey continue to be shared with both the Student and Faculty Advisory Councils
- Accreditation self-study
- Benchmarking and national comparisons
- Strategy – Connect to strategic objectives, promote strengths, target areas for improvement
  - Institutional Compacts [U. T. Tyler]
  - DEEP (Documenting Effective Educational Practice) [U. T. El Paso]
  - BEAMS (Building Engagement and Attainment of Minority Students) [3 U. T. System Schools, U. T. Pan American, U. T. San Antonio and U. T. Permian Basin]

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Institutional Compact U. T. Tyler

Goal

Superior Campus Life, Student Engagement, and Community Service

A superior student life exists when students feel safe and welcome, have a real sense of belonging, and are actively engaged in several activities out of a wide range of available activities they deem to be meaningful, educational, and/or fun.

Greater engagement and ensuing higher satisfaction will, ultimately, increase retention and make recruiting that much easier. Another objective of more student engagement, particularly through off-campus activities, is to increase the visibility of our students in the community and increase community satisfaction with them and the University.

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Institutional Compact
U. T. Tyler

Objective

Increase the amount and quality of student life on and off campus in order to increase student satisfaction.

Student life – which includes all aspects of living, eating, working, and playing together on campus – helps students gel into a cohesive unit and increases their level of satisfaction. Active student engagement, both on and off campus, increases satisfaction markedly, causing everything about their education to proceed more easily and successfully – including learning.

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Institutional Compact
U. T. Tyler

Strategies:

Develop a full program of activities that engage students in and outside the classroom

- Develop a full program of community service opportunities to engage students beyond the classroom
- expand intramural sports
- create special traditions around matriculation and graduation
- plan and allow the Greek system to develop
- develop a significant array of student housing-freshmen-oriented residence halls, apartments and honors houses
- expand concept of learning communities
- expand dining service

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Building Engagement and Attainment of Minority Students

- The Building Engagement and Attainment of Minority Students project (BEAMS) is a 5-year initiative to improve retention, achievement, and institutional effectiveness at Minority-Serving Institutions (MSIs) that are members of the Alliance for Equity in Higher Education.
- BEAMS is a partnership between AIHEC and NSSE and is funded by the Lumina Foundation for Education.
- Participating institutions include Historically Black Colleges and Universities (HBCUs), Hispanic-Serving Institutions (HSIs), and Tribal Colleges and Universities.
- Through evidence from NSSE and other sources, each institution commits to analyzing the scope and character of students' engagement in their learning and to implementing well-designed action plans to improve engagement, learning, persistence, and success.

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Documenting Effective Educational Practice

- NSSE and the American Association for Higher Education (AAHE) collaborated on Project DEEP. With support from Lumina Foundation for Education and the Center of Inquiry in the Liberal Arts at Wabash College.
- In Fall 2002, a NSSE Institute research team launched the project by conducting case studies of 20 high-performing colleges and universities, including large, small, urban, and special mission institutions.
- Selection criterion included schools that had higher-than-predicted graduation rates and higher than-predicted scores on the five NSSE clusters of effective educational practice: level of academic challenge, active and collaborative learning, student interaction with faculty members, enriching educational experiences, and supportive campus environment.

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Other NSSE Initiatives and U. T. System Participation

- The Faculty Survey of Student Engagement (FSSE) is designed to parallel the NSSE. The faculty version focuses on faculty perceptions of how often their students engage in different activities, the importance faculty place on various areas of learning and development, the nature and frequency of faculty-student interactions and how faculty members organize class time.
- Community College Survey of Student Engagement (CCSSE) was established in 2001 as a project of the Community College Leadership Program at The University of Texas at Austin. The survey, administered to community college students, asks questions that assess institutional practices and student behaviors that are correlated highly with student learning and student retention.

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NSSE Acknowledgement of U. T. System Assessment and Strategic Planning Initiatives

- The NSSE Institute is gathering information on system participation in the National Survey of Student Engagement to showcase effective strategies and examples of using NSSE results in strategic planning, assessment initiatives, accreditation efforts, research projects, and public relations and marketing campaigns.
- The University of Texas System *Accountability and Performance Report 2005* and the *U. T. Tyler Compact 2006-2007* are particularly useful examples of how NSSE data can be integrated into system analysis and planning. Our efforts will be cited and linked to the NSSE Web site and possibly included in a resource kit for other systems.

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