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Westin La Cantera Resort Hotel, San Antonio
Board Meeting: 8/7/2003
U. T. Health Science Center - San Antonio

Woody L. Hunt, Chairman
H. Scott Caven, Jr.
James Richard Huffines
Cyndi Taylor Krier
A. W. "Dub" Riter, Jr.

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Adjourn

1. **U. T. System: Approval of Docket No. 114**

RECOMMENDATION

It is recommended that Docket No. 114 as attached beginning on Page Docket - 1 be approved.

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

2. **U. T. System: Approval of transfer of funds between Legislative Appropriation items during the biennium beginning September 1, 2003**

RECOMMENDATION

The Chancellor, with the concurrence of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Acting Executive Vice Chancellor for Health Affairs and presidents of the U. T. System component institutions, recommends that the U. T. Board of Regents adopt the resolution which follows to provide for the most effective utilization of the General Revenue Appropriations during the biennium beginning September 1, 2003.

RESOLUTION

Pursuant to the appropriate transfer provisions of the General Appropriations Act of the 78th Legislature, it is hereby resolved that the State Comptroller be requested to make necessary transfers within the Legislative Appropriations (and/or Cost Centers) from the General Revenue Fund as authorized by the Chief Financial Officer of each entity 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
The University of Texas Health Center at Tyler
The University of Texas System Administration

BACKGROUND INFORMATION

This resolution is a standard action by the U. T. Board of Regents at the beginning of each biennium and is pursuant to provisions of the General Appropriations Act, Article III, Section 4, passed by the 78th Texas Legislature.

3. **U. T. System: Approval to exceed the full-time equivalent limitation on employees paid from appropriated funds**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Acting Executive Vice Chancellor for Health Affairs, and the presidents of the affected U. T. System component institutions that the U. T. Board of Regents approve allowing those institutions, as set forth in the table on Page 146, to exceed the number of full-time equivalent (FTE) employees for Fiscal Year 2004 that are authorized in Article III of the General Appropriations Act. Also, as required by Article IX, Section 6.14 of the General Appropriations Act, it is recommended that the U. T. Board of Regents submit a request to the Governor's Office and the Legislative Budget Board to grant approval for these institutions to exceed the authorized number of FTE employees paid from appropriated funds.

BACKGROUND INFORMATION

The General Appropriations Act places a limit on the number of FTE employees paid from appropriated funds that an institution may employ without written approval of the Governor and the Legislative Budget Board. In order to exceed the FTE limitation, a request must be submitted by the governing board and must include the date on which the board approved the request, a statement justifying the need to exceed the limitation, the source of funds to be used to pay the salaries, and an explanation as to why the functions of the proposed additional FTEs cannot be performed within current staffing levels. U. T. System Administration will be under the FTE limitation and will not be requesting to exceed the full-time equivalent limitation.

**The University of Texas System
EXPLANATION OF REQUESTS TO EXCEED
FULL-TIME EQUIVALENT LIMITATION
Fiscal Year 2004**

Component	Requested FTE Increase*	Major Reasons for Request
U. T. Arlington	58.34	To achieve goals outlined in the Texas Higher Education Coordinating Board's Closing the Gaps program.
U. T. Brownsville	469.88	The FTE cap in the Appropriations Bill does not include staff associated with Texas Southmost College. This request is a technical adjustment to the Appropriations Bill.
U. T. El Paso	60.00	To meet demand of enrollment growth.
U. T. Pan American	123.32	To meet demand of enrollment growth and the expansion of academic programs.
U. T. Permian Basin	16.00	To meet enrollment goals and growth.
U. T. San Antonio	91.00	To meet demand of enrollment growth and continue efforts to increase total semester credit hours taught by tenured faculty.
U. T. Health Science Center - San Antonio	137.00	The Appropriations Bill was funded near "current services" level. The FTE cap was set at a level far below current FTEs. This request restores the FTEs to a level required to maintain current services.
U. T. M. D. Anderson Cancer Center	480.00	To continue to provide the standard of care and services to an increasing number of patients and improve the capacity to deliver cancer care. To provide research programs with financial support and resources to grow and prosper.

*Educational and General Funds are the source of funding for these increases.
U. T. M. D. Anderson will also use Patient Income as a source of funds.

4. **U. T. System: Approval of a new Regental Policy on Presidential Cash Compensation**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Acting Executive Vice Chancellor for Health Affairs, and the Vice Chancellor and General Counsel that the U. T. System Board of Regents approve a new Regental Policy entitled U. T. System Presidential Cash Compensation Policy, substantially in the form on Pages 148 - 152.

BACKGROUND INFORMATION

Subsequent to the August 2002 U. T. Board of Regents' Executive Session where presidents' compensation was considered, the U. T. System Administration staff was requested to review the various elements comprising the institutional presidents' compensation for opportunities to simplify the compensation structure and recommend appropriate and consistent System-wide policies. The staff recommended a simplified compensation structure including a consistent methodology for the valuation of the presidents' salary supplements, known as 'housing allowances' prior to 2000. The staff report and compensation charts reflecting the simplified compensation structure were sent to all Board members for their review and comments in April 2003.

The proposed U. T. System Presidential Cash Compensation Policy includes the various staff recommendations indicated in the previously disseminated staff report. The policy, with its simplified compensation structure and valuation methodologies, should be a great assistance to the Board in the determination of appropriate compensation for the U. T. System presidents.

Upon adoption of the policy by the Board of Regents, the policy will be implemented in stages.

U. T. System Presidential Cash Compensation Policy

1. Purpose
2. Policy
3. Procedures
 - 3.1 Base Salary
 - 3.2 Practice Plan Supplement
 - 3.3 Salary Supplement
 - 3.4 No Car Allowance
 - 3.5 Institutionally-Provided Property and Services
4. Authority
5. Applicability
6. Interpretation
7. Approval and Revisions

1. Purpose

This Policy sets forth the cash compensation structure that is authorized for presidents of the component institutions of The University of Texas System. It is prospective in nature and application and is not intended to be applied retroactively. It does not pertain to, nor affect, benefit programs such as insurance, retirement, and deferred compensation, which may also be a part of a president's overall compensation package.

2. Policy

In order to attract and retain effective, highly skilled, and committed presidents of the component institutions of The University of Texas System and recognize their professional achievements, it is the policy of The University of Texas System to offer competitive levels of cash compensation within a compensation structure that is applied consistently. This Policy establishes and defines the various elements for the cash compensation portion of the presidential compensation package. Compensation packages for the presidents are recommended by the appropriate Executive Vice Chancellor to the Chancellor, and then by the Chancellor to the Board for approval.

3. Procedures

3.1 Base Salary

- 3.1.1 The base salary rate for each president shall be set by The University of Texas System based on a review of state and national compensation survey data for respective peer institutions. Comparable salaries are reported in surveys by the College and

University Personnel Association and other nationally recognized organizations. These surveys typically exclude allowances such as car, housing, and housekeeping, and retirement plans and other fringe benefits.

3.1.2 In addition to the base salary rate, each president shall receive as part of his or her base salary the market value of one half-time housekeeper. The market value shall be calculated by taking 65% of the average mid-point salary of the housekeeper positions included in The University of Texas System Classified Pay Plan; that calculation is intended to establish a market value that reflects the salary and benefits of a half-time housekeeping position. Each president, at his or her option, may privately employ a housekeeper, in which event the president shall be responsible for the tax-related implications and expenses associated with the employment of the housekeeper, or the president may elect to use the services of the institution's housekeeping staff, in which event the president shall reimburse the institution for the salary and benefits associated with that use. Each institution, at the institution's expense, shall provide appropriate housekeeping and other support services for business-related functions held at the president's residence.

3.2 Practice Plan Supplement

The bylaws of the physician practice plans provide that the compensation for the presidents of the health component institutions may be supplemented by up to 30% of the president's salary from practice plan funds. The supplement is contingent on availability of funds in the practice plan. Practice plan supplements are included in national surveys of chief executive compensation. The practice plan salary supplement is not a part of the base salary and shall be reported as a separate element of the health presidents' cash compensation because of the special nature of the source of funding. Practice plan supplements are not eligible for Teacher Retirement System and Optional Retirement Program retirement benefits or other retirement benefits and no employer matching contributions may be made with respect to practice plan supplements.

3.3 Salary Supplement

3.3.1 The salary supplement shall be paid in lieu of a housing allowance to all presidents, including those who are provided a residence owned by The University of Texas System. It is intended to cover the hypothetical cost of a model residence, as described below. The salary supplement shall be eligible for retirement benefits but is not a part of the base salary.

- 3.3.2** The amount of the salary supplement shall be calculated by determining the fair market rental value of a standardized model residence containing 4,100 square feet of improvements and located where the president owns or leases his or her personal residence. In the case of a president who is provided a residence owned by The University of Texas System, the 4,100 square feet model residence shall be valued as if situated where the institutionally-owned residence is located.
- 3.3.3** When a new president takes office, he or she shall initially receive a salary supplement equal to the most recent fair market rental value determined for the location of his or her predecessor's residence until such time as he or she obtains permanent housing. It is anticipated that the new president will obtain permanent housing within one year of hire date. If, after one year, the president has not obtained permanent housing, the value of the salary supplement shall be calculated based on the fair market rental value of the 4,100 square feet model residence located at the president's current residence location.
- 3.3.4** In no event may the amount of the salary supplement exceed the fair market rental value of the 4,100 square feet model residence calculated at the location of the Bauer House.
- 3.3.5** No separate allowance for maintenance, utilities, landscaping, or other expenses attributable to the president's residence may be paid. All personal expenses associated with a president's residence are intended to be covered by the salary supplement.
- 3.3.6** Except as provided in the following sentence, each president of a component institution for which a residence owned by The University of Texas System is available shall have the option of leasing from The University of Texas System the institutionally-owned residence or acquiring a personal residence. If, however, the Board makes arrangements with the president that require the president to reside in the institutionally-owned residence or if covenants, conditions, or restrictions applicable to the institutionally-owned residence require occupancy by the president, then the president shall reside in the institutionally-owned residence.
- 3.3.7** Those presidents who either elect to or are required, as provided in Section 3.3.6, to reside in an institutionally-owned residence shall enter into a lease of the residence with The University of Texas System. The rental rate to be paid by the president under the lease

shall be based on the current fair market rental value of that portion of the residence that is used as the president's private residence.

3.4 No Car Allowance

No separate car allowance may be provided to presidents of the component institutions. A component institution may reimburse a president for business use of the president's personal vehicle in accordance with the latest published Internal Revenue Service guidelines, the State Travel Regulations Act (Texas Government Code Chapter 660), and applicable institutional policies.

3.5 Institutionally-Provided Property and Services

3.5.1 Institutionally-provided property and services, such as club memberships, shall not be considered elements of a president's cash compensation. Such property and services shall be subject to appropriate authorization and approval and monitoring of personal use and business use.

3.5.2 No tax equity adjustments may be paid to a president. Tax equity adjustments are cash compensation to the president for the federal income tax consequences to the president arising out of the president's personal use of institutionally-provided property or services. Rather, each president shall reimburse the institution for his or her personal use of institutionally-provided property and services at appropriate rates as determined by the institution in accordance with Internal Revenue Service guidelines and applicable institutional policies.

4. AUTHORITY

The statutory authority for this Policy is provided by Texas Education Code Section 65.31, General Powers and Duties.

5. APPLICABILITY

This Policy is applicable to each component institution of The University of Texas System (each referred to herein as an "institution" or "component institution").

6. INTERPRETATION

The Counsel and Secretary to the Board of Regents officially interprets this Policy and is responsible for proposing revisions to the Board of Regents as necessary to meet the changing needs of The University of Texas System and statutory and regulatory requirements.

7. APPROVAL AND REVISIONS

The policy reflects the recommendations of a review team that was established following the August 7, 2002, Executive Session of the Board of Regents at which presidential compensation was considered. The Board requested that U. T. System Administration staff review each of the cash and non-cash elements comprising the institutional presidents' compensation for opportunities to simplify the compensation structure and provide appropriate and consistent System-wide policies. The compensation structure, as it then existed, had developed over the years and had been administered in the absence of a formal policy, resulting in inconsistent applications and some confusion as to the varying elements of compensation. The review team consisted of representatives from the Office of Business Affairs, Office of the Board of Regents, Controller's Office, Real Estate Office, Office of General Counsel, Office of Health Affairs, and Office of Academic Affairs.

Approved _____, 2003, by the Board of Regents of The University of Texas System.

5. **U. T. System: Approval of Second Amended and Restated Investment Management Services Agreement with The University of Texas Investment Management Company**

RECOMMENDATION

The Chancellor, the Executive Vice Chancellor for Business Affairs, and the Vice Chancellor and General Counsel concur in the recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) that the U. T. Board of Regents approve the Second Amended and Restated Investment Management Services Agreement effective August 7, 2003, as set forth in congressional style on Pages 155 - 169, which amends and restates the Amended and Restated Investment Management Services Agreement, effective November 16, 2000, as amended by a first amendment effective March 1, 2001.

BACKGROUND INFORMATION

The amendments add and revise certain sections in the Amended and Restated Investment Management Services Agreement to accomplish the following:

- a. Clarify the role of the U. T. Board of Regents, the Chancellor, and the President of UTIMCO related to matters of public policy (Section 2).
- b. Require an annual review of the Investment Policy Statements of the U. T. System Funds under UTIMCO's management by UTIMCO and System Administration staff (Section 3a).
- c. Institute reporting requirements by UTIMCO to provide quarterly compliance reports to the U. T. Board of Regents or its designee and to certify reports in a manner consistent with standards set forth in the Sarbanes-Oxley Act of 2002 (Section 3f).
- d. Add Disclosure of Information section regarding private investments (Section 3g).
- e. Clarify that UTIMCO is subject to the Texas Open Meetings Act, Chapter 551 of the Texas Government Code (Section 12). With limited exceptions, the Texas Legislature codified UTIMCO's prior practice of observation of the provisions of the Texas Open Meetings Act effective September 1, 2002.

- f. Delete outdated language on confidentiality to be consistent with other wording in the agreement (Section 21), delete unnecessary or ambiguous language (Sections 7(a), 8, 18, and 22), and add clarifying language (Section 4).
- g. Amend the termination provisions to require 90 days' notice before UTIMCO may terminate the agreement (Section 15).

The proposed Second Amended and Restated Agreement was reviewed by UTIMCO's outside legal counsel, Vinson & Elkins, and the Office of General Counsel of the U. T. System. It was approved by the UTIMCO Board on June 26, 2003, with the exception of the deletion of Section 21, which was determined by counsel for the System and UTIMCO to be inconsistent with other approved wording in the agreement. Counsel for both parties recommend this minor editorial change as consistent with the intent of the parties.

See related revisions to the UTIMCO Bylaws (Pages 170 - 171) and to the Regents' Rules and Regulations (Pages 210 - 212).

SECOND AMENDED AND RESTATED INVESTMENT MANAGEMENT SERVICES AGREEMENT

This Second Amended and Restated Investment Management Services Agreement (this "Agreement") by and between the Board of Regents (the "U. T. Board") of The University of Texas System (the "U. T. System") and The University of Texas Investment Management Company ("UTIMCO"), a Texas nonprofit corporation, is effective August 7, 2003 ~~November 16, 2000~~, (the "Effective Date"), and amends and restates that certain Amended and Restated Investment Management Agreement by and between the U. T. Board and UTIMCO, effective November 16, 2000, as amended by the first amendment effective March 1, 2001, which amends and restates that certain Investment Management Services Agreement by and between the U. T. Board and UTIMCO, effective March 1, 1996, as amended by the first amendment effective June 2, 1997, the second amendment effective November 12, 1998, and the third amendment effective September 1, 1999.

RECITALS

WHEREAS, the U. T. Board, pursuant to the Constitution and statutes of the State of Texas, is responsible for the investment of the Permanent University Fund, the local and institutional funds of the U. T. System and the funds of various trusts and foundations for which it serves as trustee, all of which funds are under the control and management of the U. T. Board; and

WHEREAS, Section 66.08, Texas Education Code, as amended, authorizes the U. T. Board, subject to certain conditions, to enter into a contract with a nonprofit corporation for the corporation to invest funds under the control and management of the U. T. Board, as designated by the U. T. Board; and

WHEREAS, UTIMCO has been organized under the laws of the State of Texas, including the Texas Nonprofit Corporation Act, Article 1396-1.01 et seq., Vernon's Texas Civil Statutes, for the express purpose of investing funds under the control and management of the U. T. Board, as designated by the U. T. Board, in accordance with the laws of the State of Texas; and

WHEREAS, the U. T. Board desires to enter into this Agreement with UTIMCO in order to provide for UTIMCO to invest certain designated funds under the control and management of the U. T. Board; and

WHEREAS, UTIMCO desires to enter into this Agreement with the U. T. Board and to invest certain designated funds under the control and management of the U. T. Board; and

WHEREAS, all conditions precedent to the execution and delivery of this Agreement have been fully satisfied and fulfilled, including, without limitations, the conditions established by Section 66.08, Texas Education Code, as amended;

NOW THEREFORE, for and in consideration of the premises and the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

AGREEMENT

Section 1. Definitions.

Accounts shall mean those funds for which the U. T. Board has responsibility, namely (a) the Permanent University Fund, excluding PUF Lands, (b) the Permanent Health Fund, (c) the U. T. Board Accounts and (d) the U. T. Board Trust Accounts.

Available University Fund or AUF shall mean the fund that consists of the distributions made to it from the total return on all investment assets of the Permanent University Fund, including the net income attributable to the surface of PUF Lands, all as provided by Article VII, Section 18 of the Texas Constitution.

Affiliate shall mean an entity directly or indirectly controlling, controlled by, or under common control with UTIMCO, including an entity with whom UTIMCO has an express or implied agreement regarding the direct or indirect purchase of investments by each from the other.

Claims shall mean all claims, lawsuits, causes of action and other legal actions and proceedings of whatever nature brought against (whether by way of direct action, counter claim, cross action, or impleader) any Indemnified Party and all requests or demands for indemnification made by any third party upon any Indemnified Party, even if groundless, false or fraudulent, so long as the claim, lawsuit, cause of action, other legal action or proceeding, request or demand is alleged or determined, directly or indirectly, to arise out of, result from, relate to or be based upon, in whole or in part, the duties, activities, acts or omissions of any person arising under this Agreement.

Custodian or Custodians shall mean a commercial bank, trust company or other entity selected by UTIMCO to hold and safekeep physical securities representing investment assets of any Account and to perform the other functions listed in Section 5 hereof. The primary Custodian as of the effective date of this Agreement is Mellon Trust of Everett Medford, Massachusetts. Substitute or additional Custodians may be appointed by UTIMCO from time to time.

General Endowment Fund or **GEF** shall mean the pooled fund for the collective investment of long-term funds under the control and management of the U. T. Board. The PUF, PHF, LTF or other long-term funds may invest in the GEF as authorized by the U. T. Board in each fund's investment policy statement.

Indemnified Parties shall mean UTIMCO and any of its officers, directors, employees and agents.

Investment Policies shall mean the written investment policies determined and approved by the U. T. Board relating to the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, Separately Invested Funds, Short Intermediate Term Fund and the Short Term Fund, ~~which~~ Amendments may be presented amended from time to time by UTIMCO to the U. T. Board for review with the consent and approval of the U. T. Board.

Long Term Fund or **LTF** shall mean the long-term pooled investment fund previously established by the U. T. Board for the collective investment of all endowment and other long-term funds of component institutions of the U. T. System.

Losses shall mean losses, costs, damages, expenses, judgments and liabilities of whatever nature (including, but not limited to, attorneys', accountants' and other professionals' fees, litigation and court costs and expenses, amounts paid in settlement, amounts paid to discharge judgments and amounts payable by an Indemnified Party to any other person under any arrangement providing for indemnification of that person) directly or indirectly resulting from, arising out of or relating to one or more Claims.

Permanent Health Fund or **PHF** shall mean collectively the permanent funds for health-related institutions established pursuant to Chapter 63, Texas Education Code, for which the U. T. Board is an administrator.

Permanent University Fund or **PUF** shall mean the constitutional fund known by that name and established pursuant to Article VII, Section 11 of the Texas Constitution.

Permanent University Fund Lands or **PUF Lands** shall mean approximately 2.1 million acres of land located in 24 Texas counties, primarily in West Texas, and constituting a part of the Permanent University Fund.

Separately Invested Funds or **SIFs** shall mean U. T. System Funds or U. T. Board Trust accounts which, by election of the U. T. Board or by requirement of the trust indenture or donative instrument, are invested separately and apart from other U. T. System Funds and the PUF.

Short Intermediate Term Fund or SITF shall mean the short intermediate term pooled investment fund previously established by the U. T. Board for the collective investment of funds (other than endowment and other long-term funds, including the Permanent University Fund) of the component institutions of the U. T. System.

Short Term Fund or STF shall mean the money market mutual fund or funds approved by UTIMCO from time to time as an investment for U. T. System Funds.

U. T. Board Accounts shall mean the investment assets of the General Endowment Fund and U. T. System Funds.

U. T. Board Trust Accounts shall mean the assets of charitable remainder trusts, foundations and other separately invested funds for which the U. T. Board serves as trustee on behalf of itself and other co-beneficiaries.

U. T. System Funds shall mean all funds under the control and management of the U. T. Board, other than the Permanent University Fund, the Permanent Health Fund and the U. T. Board Trust Accounts.

Section 2. Delegation of Investment Authority; Retention of Policy Setting Authority.

The U. T. Board hereby appoints UTIMCO as its investment manager with complete authority to act for the Board in the investment of the Accounts, subject, however, to such limitations and restrictions as are set forth in the Investment Policies. UTIMCO shall furnish the U. T. Board with continuous investment management services and shall invest and reinvest the assets of the Accounts in such ways and at such times as are believed by UTIMCO to be consistent with the Investment Policies and Section 4 hereof. UTIMCO shall be responsible for overall management of the U. T. Board's investment affairs as covered by this Agreement and shall manage each Account as a discretionary account.

The U. T. Board, as ultimate fiduciary for the Accounts, retains policy setting authority. Unless otherwise provided in writing by the U. T. Board, UTIMCO is authorized to look to the Chancellor to provide primary oversight and management concerning matters other than the core investment duties delegated above, including relations with the media, legal issues (such as public disclosure of information), intergovernmental relations, and policy issues other than those associated with investment allocation and/or return. The Board of UTIMCO and the President of UTIMCO shall be responsible for implementing the investment policy of the U. T. Board and performing those core investment duties delegated above. It shall be the responsibility of the President of UTIMCO to inform the Chancellor of unresolved policy issues not governed by the Investment Policies immediately so that appropriate oversight and management can be provided by the Chancellor. UTIMCO hereby agrees to abide by such oversight and management decisions made by the Chancellor.

Section 3. Description of Investment Management Services.

During the term of this Agreement, UTIMCO shall provide the following services in conjunction with the investment of the Accounts:

- a) **Investment Policies:**
UTIMCO shall review current investment policies for each Account at least annually and recommend any amendments for approval by the U. T. Board. Such review shall include distribution (spending) guidelines, long-term investment return expectations and expected risk levels, asset allocation targets and ranges for each eligible asset class, expected returns for each asset class and fund, and designated performance benchmarks for each asset class. After UTIMCO completes its assessment, it shall forward any recommended changes to U. T. System staff for review prior to being submitted to the U. T. Board for approval.
- b) **Investment Management:**
UTIMCO shall oversee the investment management process. Such oversight shall include the development of an investment outlook based on global economic and capital market forecasts, the rebalancing of allocations to each asset class within ranges in response to changes in the investment outlook, and the selection of a combination of portfolio managers to construct portfolios designed to generate the expected returns of each asset class.
- c) **Investment Performance:**
UTIMCO shall monitor and report on investment performance for the PUF, PHF and U. T. Board accounts. Such responsibilities shall include the calculation and evaluation of performance of asset classes and individual portfolios, against established benchmarks over various periods of time, the periodic review of performance benchmarks, the reporting of investment performance of Separately Invested Assets and U. T. Board Trust Accounts as requested by the U. T. Board, and the reporting to regulatory agencies and others regarding investments under management to the extent required by applicable law.
- d) **Operations:**
UTIMCO shall execute such operational responsibilities as the purchase and sale of investments, the settlement of all trades (to the extent such trades are not settled by the Custodian or brokers), the accounting for all transactions at the portfolio level in accordance with generally accepted accounting principles, the preparation and delivery of periodic financial reports on all funds, and the maintenance of complete books and records (internally or through contract with the designated Custodian for the assets under management) reflecting transactions and balances of the Accounts.
- e) **Books and Records:**
UTIMCO shall maintain the books and records for each Account on the basis of a fiscal year ending August 31st (or such other fiscal year as the U. T. Board may

establish from time to time), and shall keep full separate records of all transactions with respect to each Account. The books and records of the Accounts and all records concerning UTIMCO's operations shall be available during normal business hours for inspection by an authorized representative of U. T. System. UTIMCO shall provide full audit access to auditors representing the U. T. Board or the State Auditor, including access to any and all information concerning the operations of UTIMCO.

f) **Reporting:**

In connection with the annual audited financial statements of UTIMCO, effective with the August 31, 2004 financial statements, the chief executive officer and the chief financial officer of UTIMCO shall provide certifications similar to those required by Section 302 of the Sarbanes-Oxley Act of 2002, Corporate Responsibility for Financial Reports. In addition, UTIMCO will begin following the U. T. System compliance guidelines as outlined in the Action Plan to Enhance Institutional Compliance, including providing the U. T. Board or its designee quarterly compliance reports.

g) **Disclosure of Information:**

The U. T. Board is committed to a policy of full and fair disclosure to the public. As part of that commitment with respect to private investments in the Accounts, the following information shall be disclosed to the public with respect to such private investments ("private investment information"): the name and purpose of each private investment entity; the names of the individual principals managing such private investment; the amount invested by UTIMCO in such private investments; the investment returns for such private investment, including internal rates of return; and remaining value information. UTIMCO shall make no private investment with an entity unless the U. T. Board and UTIMCO has clear and unequivocal authority to disclose to the public the private investment information, described immediately above, relating to such investment.

Before UTIMCO declines to disclose any information it has collected, assembled or maintained in its role as investment manager for the U. T. Board that is requested under the Texas Public Information Act, the President of UTIMCO shall consult with the U. T. System Vice Chancellor and General Counsel. UTIMCO shall disclose the information unless the Vice Chancellor and General Counsel, after consultation with the Chancellor, approves a Public Information Act request to the Attorney General.

f)h) **Other Services:**

UTIMCO shall perform other investment management services to include attending meetings of the U. T. Board and making such reports as the U. T. Board may request from time to time, rendering services to promoters of private equity investments in which UTIMCO has decided to invest, attending meetings of governing bodies of companies in which UTIMCO's managed Accounts have invested, voting of

securities (or proxies with respect thereto) held as investments of the Accounts according to written policies of the U. T. Board; providing U. T. System component institutions with annual endowment reports reflecting, among other things, changes in the investment value of such component's endowment and distributions made to such component to support the activities for which the endowment was established; providing charitable trust administration services such as portfolio management, annual tax return preparation, annual trust reporting to donors and remittance of quarterly distributions; providing annual reporting of investment transactions and balances and distributing funds to authorized beneficiaries on foundation accounts; effecting distributions directly or through the Custodian to U. T. System component institutions or other named beneficiaries from the Accounts; supporting and maintaining on-line account information system for endowment accounts; and any other services necessary to provide investment management of the Accounts.

Section 4. Investment Manager as Fiduciary.

UTIMCO acknowledges that it will be acting as a fiduciary with respect to managing the investments of the Accounts subject to the Investment Policies and applicable law. The U. T. Board recognizes that all individual investment transactions involve a variety of significant potential risks, including, without limitation, market risk, liquidity risk, credit risk, cash flow risk, operational risk and counterparty risk, although taken as a whole these transactions are also expected to manage risk. The U. T. Board agrees that (i) UTIMCO will not be liable for any losses incurred in the Accounts as a result of investments made pursuant to the Investment Policies, and (ii) UTIMCO will not be liable for actions of co-fiduciaries. The Board also acknowledges that UTIMCO shall not be liable for, and, to the fullest extent authorized by the Constitution and laws of the State of Texas, agrees to hold UTIMCO harmless from the consequences of any action taken or omitted to be taken by the U. T. System or any of its employees or agents prior to March 1, 1996.

Section 5. Custody of Assets.

UTIMCO shall use custodians for safekeeping, settlement of security purchases, sales, collection of income and other duties as more fully described in the existing custody agreement between ~~UTIMCO the U. T. Board~~ and the Custodian, which agreement, together with the U. T. Board's rights, duties and obligations thereunder, has been assigned to UTIMCO. In addition, UTIMCO may from time to time use a brokerage firm to settle security sales on behalf of the U. T. Board and may invest in a regulated mutual fund, externally managed commingled funds, or other investments in which assets are held outside of the bank custody relationship. Any physical certificates not held in safekeeping with a Custodian shall be held in safekeeping at a local bank as designated by UTIMCO.

Section 6. Use of Unaffiliated Investment Managers.

UTIMCO shall be entitled to use unaffiliated investment advisors to invest all or part of the Accounts and to perform other duties as more fully described in existing investment

advisory agreements between UTIMCO ~~the U. T. Board~~ and such investment advisors, which agreements, together with the U. T. Board's rights, duties and obligations thereunder, have been assigned to UTIMCO.

Section 7. Investment Management Fees; Direct Expenses.

For services performed hereunder, UTIMCO shall be compensated in the amounts and in the manner set forth below:

a) **Annual Budget and Management Fee:**

UTIMCO shall submit to the U. T. Board its proposed annual budget for the following fiscal year (an "Annual Budget") within the time frame specified by the Board. The Annual Budget shall include all estimated expenses associated with the management of the Accounts. The Annual Budget shall also include an annual UTIMCO management fee (an "Annual UTIMCO Management Fee") which shall include all operating expenses associated with the general management of the Accounts, including, without limitation, salaries, benefits and performance compensation of portfolio management and support personnel, expenses for consulting services, office space lease expenses, office furniture and equipment expenses, professional, legal, payroll, and other general services expenses, travel, insurance, capital expenditures, and other miscellaneous expenses incurred by UTIMCO in connection with the performance of its obligations hereunder.

At the same time that UTIMCO submits its Annual Budget, it shall also submit to the U. T. Board an allocation formula for charging the Annual Budget to the Accounts. The Annual Budget and the allocation formula shall be approved or disapproved by the U. T. Board at its next regular meeting. ~~The U. T. Board will not unreasonably withhold approval of the Annual Budget or the allocation formula.~~ Any such Budget or formula that is disapproved shall be promptly revised by UTIMCO and resubmitted to the U. T. Board for approval.

On or before the first day of each fiscal quarter, UTIMCO shall be entitled to charge each Account with its allocable share (determined in accordance with the allocation formula then in effect) of one-fourth of the amount of the Annual UTIMCO Management Fee to pay UTIMCO's operating expenses for the succeeding fiscal quarter. UTIMCO shall be entitled, with the approval of the U. T. Board, to revise the Annual UTIMCO Management Fee and allocation formula at any time during a fiscal year. Any statements for partial quarters at the beginning or end of this Agreement shall be prorated to reflect the actual time services were rendered during such partial quarters.

UTIMCO is hereby authorized to pay from each Account direct expenses incurred for portfolio management, custodian, auditing, and other services which are performed by external vendors specifically for each Account.

b) **Directors Fees:**

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested Account assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and considered a part of UTIMCO's fee income. Furthermore, UTIMCO Board approval of UTIMCO management's services as directors of investee companies shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's services as directors of investee companies.

c) **Fees for Services Rendered:**

Members of UTIMCO management may perform services for which UTIMCO receives a fee ("Service Fees") from investment promoters or investee companies in consideration of the UTIMCO staff's private investment activities and/or investment origination activities. Such Service Fees shall be considered additional fee income to UTIMCO. UTIMCO may also receive commitment fees, standby fees and other similar fees ("Capital Fees") accruing or inuring to the capital invested on behalf of the Accounts managed by UTIMCO. Such Capital Fees shall be credited to the Accounts from which such investments are funded.

d) **Miscellaneous Fees:**

UTIMCO management may perform specialized services for accounts that are separately invested for which UTIMCO receives a fee from the account. These fees primarily relate to maintenance of computer programs for the separately invested accounts. Such Miscellaneous Fees shall be considered additional fee income to UTIMCO.

Section 8. Brokerage Commissions.

The U. T. Board acknowledges and agrees that the investment management fees provided for in Section 6 are in addition to any compensation that may be due to a broker or dealer in effecting and executing transactions on behalf of UTIMCO. UTIMCO is hereby authorized and empowered, with full ~~and absolute~~ discretion, to issue instructions in accordance with the Investment Policies to such unaffiliated brokerage firms as may be selected by UTIMCO for the execution of orders for the purchase, sale, exchange and general investment of the Accounts; provided that UTIMCO shall not select a brokerage firm that is an Affiliate of UTIMCO. All orders for Account transactions shall be placed in such markets and through such brokers as UTIMCO determines will offer the most favorable price, execution and commission cost of each order. The U. T. Board acknowledges and agrees that UTIMCO, from time to time and in accordance with applicable law, may pay commissions to brokers that are higher than those that might be obtainable elsewhere in order to obtain from such brokers research and other services expected to enhance the long-term value of the Accounts.

Section 9. Valuation of Account Assets.

The valuation of the account shall be determined in accordance with the investment Policies approved by the U. T. Board for the account.

Section 10. Representations and Warranties of Parties.

U. T. Board.

- A. The U. T. Board (a) is duly established and validly existing under the laws of the State of Texas and is an agency of the State of Texas, (b) has all power and authority and all material government licenses, authorizations, consents and approvals required to carry on its business as now conducted, and (c) has full power and authority to execute, deliver and perform this Agreement.
- B. The execution, delivery and performance by the U. T. Board of this Agreement have been duly authorized by all necessary action and do not contravene, or result in the violation of or constitute a default under, any provision of applicable law or regulation, or any order, rule or regulation of any court, governmental agency or instrumentality or any agreement, resolution or instrument to which the U. T. Board is a party or by which it or any of its property is bound.
- C. No authorization, consent, approval, permit, license, or exemption of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality that has not been obtained or issued is or will be necessary for the valid execution, delivery or performance by the U. T. Board of this Agreement.
- D. This Agreement constitutes a valid and binding agreement of the U. T. Board.
- E. There is no action, suit or proceeding pending or, to the knowledge of the U. T. Board, threatened against or affecting the U. T. Board or the U. T. System, or relating to this Agreement, in any court or before or by any governmental department, agency or instrumentality which, if adversely determined, would materially affect the ability or authority of the U. T. Board to enter into, and perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.
- F. The U. T. Board has approved:
 - (1) the Articles of Incorporation and Bylaws of UTIMCO;
 - (2) the Investment Policies;
 - (3) the Audit and Ethics committee of UTIMCO; and
 - (4) the Code of Ethics of UTIMCO.

- G. The U. T. Board has been provided with the opportunity to ask questions of, and it has received answers thereto satisfactory to it from, UTIMCO and its representatives regarding this Agreement and has obtained all additional information requested by it of UTIMCO and its representatives prior to entering into this Agreement.

UTIMCO.

- A. UTIMCO (a) is duly organized and validly existing as a Texas nonprofit corporation under the laws of the State of Texas, particularly the Texas Nonprofit Corporation Act, Article 1396-1.01 et seq., Vernon's Texas Civil Statutes, (b) has all corporate power and authority and all material government licenses, authorizations, consents and approvals required to carry on its business as now conducted, and (c) has full power and authority to execute, deliver and perform this Agreement.
- B. The execution, delivery and performance by UTIMCO of this Agreement have been duly authorized by all necessary action by UTIMCO and do not contravene, or result in the violation of or constitute a default under, any provision of applicable law or regulation, or any order, rule or regulation of any court, governmental agency or instrumentality or any agreement, resolution or instrument to which UTIMCO is a party or by which it or any of its property is bound.
- C. No authorization, consent, approval, permit, license, or exemption of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality that has not been obtained or issued is or will be necessary for the valid execution, delivery or performance by UTIMCO of this Agreement.
- D. This Agreement constitutes a valid and binding agreement of UTIMCO.
- E. There is no action, suit or proceeding pending or, to the knowledge of UTIMCO, threatened against or affecting UTIMCO, or relating to this Agreement in any court or before or by any governmental department, agency or instrumentality which, if adversely determined, would materially affect the ability or authority of UTIMCO to enter into, and to perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.

Section 11. UTIMCO's Code of Ethics.

Consistent with the requirements of Section 66.08, Texas Education Code, UTIMCO's Directors, and Employees shall abide by UTIMCO's Code of Ethics as approved by the U. T. Board.

Section 12. UTIMCO's Open Meeting Policy.

Except as otherwise provided in Section 66.08, Texas Education Code, UTIMCO shall comply with the Texas Open Meetings Act, Chapter 551 of the Texas Government Code, provisions of its Open Meeting Policy as approved by the U. T. Board.

Section 13. Prohibition Against Service to Other Clients.

In accordance with Section 66.08, Texas Education Code, UTIMCO shall not engage in any business other than managing the Accounts under this Agreement.

Section 14. Investment Company Act.

UTIMCO shall not be required to register as an "investment company" under Section 80a-8 of Title 15 of the United States Code (the Investment Company Act of 1940), as amended.

Section 15. Termination.

The U. T. Board may terminate this Agreement at any time by written notice to UTIMCO, effective immediately upon receipt of such notice by UTIMCO, subject to reasonable allowance for settlement of pending trades. UTIMCO may terminate this Agreement upon ninety (90) ~~thirty (30)~~ days' written notice to the U. T. Board. There shall be no penalty for termination; however, UTIMCO shall be entitled to all compensation and benefits earned prior to termination.

Section 16. Amendments.

No amendment hereto shall be effective unless executed in the same manner as this Agreement.

Section 17. Notices.

All notices or communications hereunder shall be in writing and shall not be effective until hand delivered and receipted to the other party, or sent by overnight delivery, or sent by United States Certified or Registered Mail, postage prepaid, to the addressed party. The following are the designated addresses for such notices or communications and may only be changed by communication in the manner required by this paragraph:

To U. T. Board:

Board of Regents of The University of Texas System
Attn: Counsel and Secretary
201 West Seventh Street, Suite 820
Austin, Texas 78701
Tel. (512) 499-4402
Fax. (512) 499-4425

To UTIMCO:

The University of Texas Investment Management Company
Attn: President and CEO
221 West Sixth St., Suite 1700
Austin, Texas 78701
Tel. (512) 225-1600
Fax. (512) 225-1660

Section 18. Non-Assignability.

No Assignment of this Agreement by UTIMCO shall be made without having obtained the prior written consent of the U. T. Board nor is the Agreement assignable by the U. T. Board ~~without prior written consent of UTIMCO.~~

Section 19. No Waiver of Breach.

A waiver of a breach of any provision of this Agreement shall not constitute a waiver of any subsequent breach of that provision or a breach of any provision hereof. Failure of either party to enforce at any time or from time to time any provision of this Agreement shall not be construed as a waiver thereof.

Section 20. Indemnification.

a) **Agreements to Indemnify:**

To the fullest extent authorized by the Constitution and laws of the State of Texas, the U. T. Board shall indemnify and hold harmless each of the Indemnified Parties against any and all Losses, including Losses resulting from the negligence of the Indemnified Party claiming indemnification; provided, however, the U. T. Board shall not be obligated to indemnify an Indemnified Party against Losses to the extent such Losses are caused by (i) an act or omission that involves intentional misconduct or a knowing violation of law by the Indemnified Party claiming indemnification, (ii) a transaction from which the Indemnified Party claiming indemnification received an improper benefit, (iii) an act or omission for which the liability of the Indemnified Party claiming indemnification is expressly provided by an applicable statute, or (iv) an act or omission constituting gross negligence by the Indemnified Party claiming indemnification; provided further that indemnification payments by the U. T. Board shall be paid from the same sources as the Annual Fee pursuant to Section 7.

b) **Reimbursement:**

Each Indemnified Party shall reimburse the U. T. Board for payments made by the U. T. Board pursuant to this Section to the extent of any proceeds, net of all expenses of collection, actually received by it from any insurance with respect to any

Loss. At the request and expense of the U. T. Board, each Indemnified Party shall have the duty to claim any such insurance proceeds and such Indemnified Party shall assign its rights to such proceeds, to the extent of such required reimbursement, to the U. T. Board.

c) **Notice:**

In case any Claim shall be brought or, to the knowledge of any Indemnified Party, threatened against any Indemnified Party in respect of which indemnity may be sought against the U. T. Board, such Indemnified Party shall promptly notify the U. T. Board in writing; provided, however, that any failure so to notify shall not relieve the U. T. Board of its obligations under this Section.

d) **Defense:**

The U. T. Board shall have the right to assume the investigation and defense of all Claims, including the employment of counsel and the payment of all expenses. Each Indemnified Party shall have the right to employ separate counsel in any such action and participate in the investigation and defense thereof, but the fees and expenses of such counsel shall be paid by such Indemnified Party unless (i) the employment of such counsel has been specifically authorized by the U. T. Board, in writing, (ii) the U. T. Board has failed to assume the defense and to employ counsel, or (iii) the named parties to any such action (including any impleaded parties) include both an Indemnified Party and the U. T. Board, and such Indemnified Party shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the U. T. Board (in which case, if such Indemnified Party notifies the U. T. Board in writing that it elects to employ separate counsel at the U. T. Board's expense, the U. T. Board shall not have the right to assume the defense of the action on behalf of such Indemnified Party; provided, however, that the U. T. Board shall not, in connection with any one action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegation or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys for the Indemnified Parties, which firm shall be designated in writing by such Indemnified Parties).

e) **Cooperation; Settlement:**

Each Indemnified Party shall use reasonable efforts to cooperate with the U. T. Board in the defense of any action or Claim. The U. T. Board shall not be liable for any settlement of any action or Claim without its consent but, if any such action or Claim is settled with the consent of the U. T. Board or there be final judgment for the plaintiff in any such action or with respect to any such Claim, the U. T. Board shall indemnify and hold harmless the Indemnified Parties from and against any Loss by reason of such settlement or judgment as provided in Subsection (a) of this Section.

f) **Survival; Right to Enforce:**

The provisions of this Section shall survive the termination of this Agreement, and the obligations of the U. T. Board hereunder shall apply to Losses or Claims whether asserted prior to or after the termination of this Agreement. In the event of failure by the U. T. Board to observe the covenants, conditions and agreements contained in this Section, any Indemnified Party may take any action at law or in equity to collect amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the U. T. Board under this Section.

Section 21. Confidential Relationships.

~~Except as otherwise required by law, all information and recommendations furnished by UTIMCO shall be regarded as confidential by the U. T. Board. Each party shall regard as confidential all information concerning the affairs of the other party or the Accounts. Each party shall take all steps as are reasonably necessary to ensure compliance with this Section.~~

Section 22. Entire Agreement; Miscellaneous.

~~This Agreement contains the entire agreement between the parties and all representation with respect to the subject matter thereof. Headings in the Agreement are for purposes of reference only and shall not limit or otherwise effect the meaning hereof. Any capitalized term used in an Exhibit to this Agreement shall have the meaning designated herein, unless otherwise defined in the Exhibit itself.~~

Section 23. Governing Law.

This Agreement and all matters arising under it shall be governed by the Constitution and laws of the State of Texas. Venue for any action brought by any party hereto concerning the subject matter of this Investment Management Agreement shall be in Travis County, Texas.

**BOARD OF REGENTS OF THE
UNIVERSITY OF TEXAS SYSTEM**

Date: _____

By _____
Charles Miller
Chairman

**THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY**

Date: _____

By _____
Bob Boldt
President and Chief Executive Officer

6. **U. T. Board of Regents: Approval to amend The University of Texas Investment Management Company Bylaws**

RECOMMENDATION

The Chancellor, the Executive Vice Chancellor for Business Affairs, and the Vice Chancellor and General Counsel concur in the recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO), that the U. T. Board of Regents approve the amendments to the UTIMCO Bylaws as set forth below in congressional style:

- a. Amend Article III, relating to Board of Directors, as follows:

ARTICLE III
BOARD OF DIRECTORS

...

Section 3. Appointment and Term. Except for those Directors named in the Articles of Incorporation, Directors shall be appointed by the Board of Regents, except that the Chancellor of the System shall serve as a Director so long as he remains Chancellor of the System. Until otherwise changed by the Board of Regents in compliance with applicable law, the members of the Board of Directors shall include (i) the Chancellor of the System, (ii) at least three (3) persons then serving as members of the Board of Regents ("Regental Directors"), and (iii) one or more persons selected by the Board of Regents from a list of candidates with substantial background and expertise in investments that is submitted by the Board of Regents of The Texas A&M University System (together with the Chancellor of the System and the Regental Directors, the "Affiliated Directors"). The three (3) Regental Directors shall serve for two-year terms that expire on the first day of April of each odd-numbered year. The remaining Directors (other than the Chancellor of the System and the Regental Directors) shall serve three-year staggered terms that expire on the first day of April of the appropriate year. ~~except that the term of one of the current Directors shall end on April 1, 2001, the term of two (2) of the current Directors shall end on April 1, 2002, and the term of two (2) of the current Directors shall end on April 1, 2003.~~ No such Director (other than the Affiliated Directors) shall serve more than three (3) full three-year terms. Notwithstanding the foregoing, the Board of Regents may, from time to time, alter the terms of the Directors. Each person serving as a Director shall serve until the expiration of such Director's term, or until such Director's successor has been chosen and qualified, or until such Director's earlier death, resignation, or removal as provided in these Bylaws.

- b. Amend Article V, relating to officers, as follows:

ARTICLE V
OFFICERS

...

Section 6. Powers and Duties of the Vice Chairman for Policy.
The Chancellor of the System shall serve as Vice Chairman for Policy and shall coordinate those responsibilities, including the appropriate resolution of policy issues, assigned to UTIMCO and the System by the Rules and Regulations of the Board of Regents and the Investment Management Services Agreement in order to facilitate UTIMCO's performance of its core investment duties.

BACKGROUND INFORMATION

Section 66.08 of the Texas Education Code requires that the U. T. Board of Regents approve Bylaws of the corporation and any amendments thereto. New language regarding the powers and duties of a new position, Vice Chairman for Policy, to be held by the Chancellor, have been added in Article V, Section 6 of the UTIMCO Bylaws to codify within the Bylaws recommended revisions to the Regents' Rules and Regulations (see Pages 210 - 212) and the Investment Management Services Agreement (see Pages 153 - 169) regarding the retention of policy-making authority by the U. T. Board of Regents.

The UTIMCO Bylaws were initially approved by the Board of Regents on February 8, 1996, and amendments were approved in May 1997, November 1999, February 2000, and November 2001.

The proposed amendments to the Bylaws, with the exception of a minor edit to delete outdated reference to expiration of terms, were approved by the UTIMCO Board of Directors on June 26, 2003. Subsequent changes were reviewed by UTIMCO's outside legal counsel, Vinson & Elkins, and the Office of General Counsel of the U. T. System.

7. **U. T. Board of Regents: Approval to Amend the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, Short Intermediate Term Fund, Separately Invested Accounts, and Short Term Fund Investment Policy Statements**

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs concur in the recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) that the U. T. Board of Regents approve proposed amendments to the following Investment Policy Statements as outlined in the Background Information below:

- a. Permanent University Fund (PUF)
- b. General Endowment Fund (GEF)
- c. Permanent Health Fund (PHF)
- d. Long Term Fund (LTF)
- e. Short Intermediate Term Fund (SITF)
- f. Separately Invested Accounts (SIF)
- g. Short Term Fund (STF)

Complete amended Investment Policy Statements (congressional style) have been reviewed by the Executive Vice Chancellor for Business Affairs, the Vice Chancellor and General Counsel, and the Counsel and Secretary to the Board and are available upon request.

BACKGROUND INFORMATION

Section 3(a) of the Investment Management Services Agreement dated March 1, 1996, amended and restated effective March 1, 2001, between the Board of Regents of The University of Texas System and UTIMCO provides that UTIMCO shall review the investment policies of the assets under its management and recommend any changes of such policies for approval by the U. T. Board of Regents.

Proposed amendments are based upon recommendations from a Task Force comprised of U. T. System employees and UTIMCO representatives charged with reviewing the report submitted to the U. T. Board of Regents on February 12, 2003, by Baker Botts, LLP, and upon UTIMCO recommendations as summarized below:

AMENDMENTS BASED ON BAKER BOTTS TASK FORCE
RECOMMENDATIONS:

- In the PUF Investment Policy Statement, eliminate the terminology “prudent person investment standard” and replace with “prudent investor standard”. Article VII of the Texas Constitution authorizes the Board of Regents of The University of Texas System to acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. This differs from the less flexible prudent person standard, which requires the fiduciary to be primarily concerned with preserving capital rather than other considerations.
- In the SITF and STF Investment Policy Statements, eliminate the terminology “prudent person rule”. Add language to clarify that the primary and constant standard for making investment decisions for the SITF and STF is the investment standard set forth in the Uniform Management of Institutional Funds Act (Texas Property Code Section 163.007).
- Clarify in the PUF, GEF, PHF, and LTF Investment Policy Statements that the independent accounting firm to audit the funds will be selected by the U. T. Board of Regents rather than the UTIMCO Board of Directors.

Section 66.08 of the Texas Education Code states that the Board of Regents shall provide for an annual financial audit of the PUF. By agreement between the Board of Regents and the UTIMCO Board, the independent auditors for the GEF, PHF, LTF and SITF will also be selected by the Board of Regents. New language was added to the SITF Investment Policy Statement concerning selection of the independent auditor by the Board of Regents. The SITF Statement did not contain any reference to the selection of an independent auditor.

AMENDMENTS BASED ON UTIMCO RECOMMENDATIONS:

- Amend performance measurement sections of the PUF, GEF, PHF, LTF, and SITF policies to clarify that investment performance is routinely measured by the Fund's custodian, which is an unaffiliated organization with recognized expertise in this field and reporting responsibility to the UTIMCO Board of Directors.
- In the PHF Investment Policy Statement, modify the purpose language to clarify which of the permanent health funds created by Chapter 63 of the Texas Education Code are invested in the PHF. Certain funds previously invested in the PHF are now managed by the Comptroller of Public Accounts.
- Also in the PHF Investment Policy Statement, eliminate reference to the permanent health funds that are managed by the Comptroller of Public Accounts.
- In the LTF Investment Policy Statement, clarify that the Uniform Management of Institutional Funds Act allows the LTF to distribute unrealized appreciation in the fair market value of the assets of the LTF as well as realized appreciation as follows:

Pursuant to the Uniform Management of Institutional Funds Act ("Act"), a governing board may distribute, for the uses and purposes for which the fund is established, the net ~~realized~~ appreciation, realized and unrealized, in the fair market value of the assets of an endowment fund over the historic dollar value of the fund to the extent prudent under the standard provided by the Act. In addition, income may be distributed for the purposes associated with the endowments/foundations.

- In the PUF and GEF Investment Policy Statements, replace detailed references to Derivative Securities with references to the Derivative Investment Policy approved by the UTIMCO Board of Directors on October 31, 2002, using the following language:

The GEF Fund may utilize Derivative Securities ~~with the approval of the UTIMCO Board to:~~ a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) index or to hedge risks associated with GEF Fund investments; or f) adjust the market exposure of the asset allocation, including long and short strategies and other strategies provided that the GEF's use of derivatives complies with the Derivative Investment Policy approved by the UTIMCO Board. The Derivative

~~Investment Policy shall serve the purpose of defining the permitted applications under which derivative securities can be used, which applications are prohibited, and the requirements for the reporting and oversight of their use. The objective of the Derivative Investment Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.; provided that leverage is not employed in the implementation of such Derivative purchases or sales. Leverage occurs when the notional value of the futures contracts exceeds the value of cash assets allocated to those contracts by more than 2%. The cash assets allocated to futures contracts is the sum of the value of the initial margin deposit, the daily variation margin and dedicated cash balances. This prohibition against leverage shall not apply where cash is received within 1 business day following the day the leverage occurs. UTIMCO's Derivatives Guidelines shall be used to monitor compliance with this policy. Notwithstanding the above, leverage strategies are permissible within the alternative equities investment class with the approval of the UTIMCO Board, if the investment strategy is uncorrelated to the Fund as a whole, the manager has demonstrated skill in the strategy, and the strategy implements systematic risk control techniques, value at risk measures, and predefined risk parameters.~~

The Derivative Investment Policy is set forth on Pages 176 - 179 for information.

- Make minor editorial changes to assure that terminology in all investment policies is consistent.

The UTIMCO Board of Directors approved the proposed amendments to the Investment Policy Statements for the PUF, GEF, PHF, LTF, SITF, SIF and STF on June 26, 2003.

The University of Texas Investment Management Company

Derivative Investment Policy

Effective Date of Policy: October 31, 2002

Date Approved by UTIMCO Board: October 31, 2002

Purpose:

The purpose of the Derivative Investment Policy is to enumerate the applications, documentation and limitations for investment in derivative securities in the Permanent University Fund (PUF) and the General Endowment Fund (GEF), hereinafter referred to as the Funds. The Board of Regents approved investment policy guidelines for the Funds allow for investment in derivative securities provided that their use is in compliance with UTIMCO's Board approved Derivative Investment Policy. The Derivative Investment Policy supplements the Investment Policy Statement for the Funds.

Objective:

The objective of investing in derivative securities is to facilitate risk management and provide efficiency in the implementation of various investment strategies for the Funds. Through the use of derivatives, the complex risks that are bound together in traditional cash market investments can be separated and managed independently. Derivatives provide the Funds with the most economical means to improve the Funds risk/return profile.

Scope:

This Policy applies to internal management of derivatives at UTIMCO only. Derivatives policies for external managers are established on a case by case basis with each external manager. This Policy Statement applies to both exchange traded and over the counter derivative instruments. This Policy shall not be construed to apply to index or other common or commingled funds in which the Funds typically invest. These commingled investment vehicles are governed by separate investment policy statements.

Definition of Derivatives:

Derivatives are financial instruments whose value is derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets (such as a bonds, stocks, commodities, and currencies). For the purposes of this Policy derivatives shall include futures, forwards, swaps and all forms of options, but shall not include a broader range of securities including mortgage backed securities, structured notes and convertible bonds. (Refer to attached exhibit for glossary of terms)

Permitted Derivative Applications:

Derivatives may be used:

- To implement investment strategies in a low cost and efficient manner,
- To alter the Funds market (systematic) exposure without trading the underlying cash market securities,
- To construct portfolios with risk and return characteristics that could not be created with cash market securities,
- To hedge and control risks so that the Funds' risk/return profile is more closely aligned with the Funds' targeted risk/return profile,
- To facilitate transition trading,
- By managers of public markets investments employed by UTIMCO. An external investment manager may engage in derivative security transactions only if the transactions are consistent with the overall investment objectives of the account. Derivative applications shall be approved only with investment managers that demonstrate investment expertise in their use, and have appropriate risk management policies and procedures to effectively monitor and control their use. Disclosure of permitted derivative applications with external investment managers shall be made to UTIMCO's Board prior to investment.

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- By managers of alternative marketable equities employed by UTIMCO. The due diligence process in the selection of these managers requires a clear understanding of the managers use of derivatives, particularly as it relates to various risk controls and leverage. UTIMCO will invest in such strategies exclusively through limited partnership agreements, offshore corporations or other legal entities that limit the Funds' exposure to its investment in the strategy. Disclosure of derivative applications with alternative marketable equity managers shall be made to UTIMCO's Board prior to investment.

The primary intent of derivative security transactions should be to hedge risk in portfolios or to implement investment strategies more effectively and at a lower cost than would be possible in the cash market.

Derivative Applications Not Permitted:

Derivative Applications shall not be used to invest in asset classes that are not consistent with the Funds policy asset categories, implementation strategies and risk/return characteristics. Only the above derivative applications are permitted until such time as this policy is amended and approved by UTIMCO's Board.

Documentation and Controls:

Prior to the implementation of a new derivative application, UTIMCO shall document the purpose, justification, baseline portfolio, derivative application portfolio, risks (including at a minimum modeling, pricing, liquidity and legal risks), the expected increase or reduction in systematic and specific risk resulting from the application, the acceptable criteria for counterparties in over the counter derivative applications, and the procedures in place to monitor and manage the derivative exposure. Internal control procedures to properly account and value the Funds' exposure to the derivative application shall be fully documented. The Chief Investment Officer shall recommend and the UTIMCO Board approve any new derivative applications prior to implementation, after fully considering the permissibility, merits, and compliance with all documentation and controls requirements of the application. UTIMCO shall establish an appropriate risk management procedure to monitor compliance and will take corrective action if necessary. UTIMCO shall make a comprehensive report of all derivative applications to the UTIMCO Board on at least a quarterly basis.

Limitations:

Leverage is inherent in derivative securities since only a small cash deposit is required to establish a much larger economic impact position. Thus, relative to the cash markets, where in most cases the cash outlay is equal to the asset acquired, derivatives applications offer the possibility of establishing substantially larger market risk exposures with the same amount of cash as a traditional cash market portfolio. Therefore risk management and control processes must focus on the total risk assumed in a derivatives application, which is the sum of the application-specific risk and the market (systematic) risk established by the derivative application. In order to control and limit the leverage risk, each derivative application must specify a baseline portfolio, and risk measures such as Value at Risk (VAR) will be employed to assure that the total economic impact risk of the derivative application portfolio relative to the baseline portfolio will not exceed 20% of the underlying value of the baseline portfolio. The total relative economic impact risk of each derivative application will be monitored on a daily basis by the most appropriate risk management tools for the particular derivatives application.

As an additional global limitation, the total gross value (without netting counter positions) of all derivatives positions, including both internal and external managers, in the Funds shall not exceed 50% of the net asset value of the Funds.

In order to limit the financial risks associated with derivative applications, rigorous counterparty selection criteria and netting agreements shall be required to minimize counterparty risk for over the counter derivatives. The counterparty must be an investment grade credit and the agreement must be marked to market no less frequently than monthly.

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Derivative Investment Policy**

**Derivative Investment Policy Exhibit
Glossary of Terms**

Application Specific Risk – The portion of total risk in a derivatives application which is due to factors unique to the application as opposed to more systematic, market-related factors. For example, in an option on a specific stock, the risk associated with the specific business results of the company which issued the stock underlying the option would be Application Specific Risk, as opposed to the overall risk of the stock market which would be Systematic Risk.

Baseline Portfolio – The cash-market based portfolio which will serve as the basis for calculating the relative risk level of an equivalent derivatives application.

Cash Equivalents – Includes cash, short term fixed income instruments, accruals, variation margin and one day deposits in transit to the account.

Cash Market - The physical market for a commodity or financial instrument.

Counterparty - The offsetting party in an exchange agreement.

Derivative Application – A definition of the intended use of a derivative-based position such as replication or enhancing index returns, asset allocation or completion fund strategies, and various alpha transport strategies.

Derivative Application Portfolio – The portfolio including derivative instruments, cash equivalents, and other cash market assets established to replicate a specified baseline portfolio.

Economic Exposure - The total effective exposure of a derivative position. The economic exposure is the product of the dollar value of the exposure and the market or systematic risk level of the exposure. A common method of measuring economic exposure is with risk management tools such as “value at risk.”

Exchange Traded Derivatives - Derivative instruments traded on an established national or international exchange. These instruments “settle” daily in that cash exchanges are made between the exchange and parties to the contracts consistent with the change in price of the instrument. Fulfillment of the contract is guaranteed by the exchange on which the instruments are traded. Examples include S&P 500 futures contracts and Goldman Sachs Commodities Index futures contracts.

Forward Contract - A non-standardized contract for the physical or electronic (through a bookkeeping entry) delivery of a commodity or financial instrument at a specified price at some point in the future.

Futures Contract - A standardized contract for either the physical delivery of a commodity or instrument at a specified price at some point in the future, or a financial settlement derived from the change in market price of the commodity or financial instrument during the term of the contract.

Option - An instrument that conveys the right but not the obligation to buy or deliver the subject financial instrument at a specified price, at a specified future date.

Over the Counter Derivatives - Derivative instruments which result from direct negotiation between a buyer and a counterparty. The terms of such instruments are non-standard and are the result of specific negotiations. Settlement occurs at the negotiated termination date, although the terms may include interim

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cash payments under certain conditions. Examples include currency swaps and forward contracts, interest rate swaps, and collars.

Swap - A contract whereby the parties agree to exchange cash flows of defined investment assets in amounts and times specified by the contract.

Systematic Risk - The non-diversifiable risks associated with an investment in a particular asset market. For example the financial, political, and other risks associated with a portfolio of common stocks are known as "market" or systematic risks.

Value at Risk (VAR) - An established method of measuring economic exposure risk. The measure conveys the maximum potential loss (in dollars or percent of total assets) for a particular investment position, for a particular period of time, for a particular level of confidence.

8. **U. T. Board of Regents: Approval of amendments to The University of Texas Investment Management Company Code of Ethics Policy**

RECOMMENDATION

The Chancellor, the Executive Vice Chancellor for Business Affairs, and the Vice Chancellor and General Counsel concur in the recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) that the U. T. Board of Regents approve amendments to the Definitions, and Article III, Sections A and D of The University of Texas Investment Management Company (UTIMCO) Code of Ethics Policy as set forth below in congressional style:

- a. Amend Specific Policy Statement, relating to Definitions, as follows:

Definitions

...

- (3) “Chief Compliance Officer” means the person designated from time to time as the Chairman of the Employee Ethics and Compliance Committee. ~~As of the date of adoption of this Code of Ethics, the Chief Compliance Officer is Cathy A. Iberg.~~

...

- (9) “General Counsel” means the lawyer or firm of lawyers designated from time to time as the General Counsel of UTIMCO; provided that when the General Counsel is a firm of lawyers, one principal within that firm shall be identified to receive all written and oral communications hereunder. ~~As of the date of adoption of this Code of Ethics, the General Counsel is Vinson & Elkins L.L.P. and the principal identified to receive all such communications is Jerry E. Turner.~~

- b. Amend Article III, Section A, relating to investments, and Section D, relating to employees:

III. Prohibited Transactions and Interests

- A. *UTIMCO*: Agreements or Transactions. *UTIMCO* and *UTIMCO* entities may not enter into an agreement or transaction with:

- (1) a director or employee acting in other than an official capacity on behalf of *UTIMCO*;

- (2) a director entity, employee entity or other business entity (including an investment fund) in which a director or employee has any pecuniary interest;
- (3) a former director or employee, an investment fund or other entity controlled by a former director or employee (with control being determined in the manner specified in the definition of “director entity” above), or a business entity in which a former director or employee has a pecuniary interest, on or before the first anniversary of the date the person ceased to be a director or employee; or
- (4) an investment fund or account (other than the Accounts) managed by a director, director entity, employee or employee entity as a fiduciary or agent for compensation.

Except as provided below, a person shall be deemed to have a pecuniary interest in a business entity if the person:

- (i) owns five percent or more of the voting stock or shares of the business entity; or
- (ii) owns five percent or more of the fair market value of the business entity; or
- (iii) received more than five percent of his or her gross income for the preceding calendar year from the business entity;

provided that any private investment by a person in a business entity (including an investment fund) controlled by such person shall constitute a pecuniary interest in that business entity. For purposes of the foregoing, control of a business entity shall be determined in the manner specified in the definition of “director entity” above.

Investments. Without limiting the foregoing, UTIMCO and UTIMCO entities [will implement procedures and safeguards to insure that none of the Accounts is invested may not invest](#) in the publicly traded securities of a publicly traded company in which a director, director entity, employee or employee entity has any pecuniary interest (as described above). Further, UTIMCO and UTIMCO entities may not (i) invest in the private investments of a business entity if a

director, director entity, employee or employee entity then owns a private investment in the same business entity or (ii) co-invest with a director, director entity, employee or employee entity in the private investments of the same business entity.

Prior to consideration by the Board of an agreement or transaction with a business entity or investment in a business entity, each director and key employee shall certify that he or she does not have any pecuniary interest in the associated business entity.

...

D. *Employees:* No employee or employee entity may:

- (1) engage in outside employment, business, or other activities which detract from the ability to fulfill the full-time responsibilities to UTIMCO;

(Key employees must obtain advance written approval from the President for any outside employment or business, including service as director, officer, or investment consultant or manager for another person or entity. Any outside employment by the President must be approved in advance by the Board.

Employees, with the prior approval of the Board, may serve as directors of companies in which UTIMCO has directly invested Account assets. In such event, any and all compensation paid to employees for their services as directors shall be endorsed to UTIMCO and applied against UTIMCO's fees. Furthermore, Board approval of any employee's service as a director of an investee company shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to the employee's service as a director of the investee company.)

- (2) engage in a personal securities transaction without obtaining preclearance for each such transaction with the Chief Compliance Officer; or

[The Chief Compliance Officer shall verify that no buy/sell order has been placed by a UTIMCO internal manager [for securities of the same class](#). If [such a](#)

buy/sell order has been placed, no employee may conduct a personal securities transaction [for such securities](#) until one trading day after the buy/sell order has been completed or canceled. Preclearances will be documented by the Chief Compliance Officer in a personal securities transaction log for each employee, which will provide a record of all requests and approvals or denials of preclearances for personal securities transactions. Preclearance for personal securities transactions is effective for one trading day only.

An employee who engages in personal securities transaction must also provide transactional disclosure for each such transaction. Transactional disclosure forms must be completed for all personal securities transactions and given to the Chief Compliance Officer within ten calendar days of the trade date. The transactional disclosure form must contain the following information: name and amount of the security involved, date and nature of the transaction, price at which the transaction was effected, and name of the broker through whom the transaction was effected.

The preclearance and transactional disclosure requirements for personal securities transactions apply only to equity or equity-related transactions, including stocks, convertibles, preferreds, options on securities, warrants, rights, etc., for domestic and foreign securities, whether publicly traded or privately placed. The preclearance and transactional disclosure requirements do not apply to bonds (with the exception of convertible bonds), mutual funds, co-mingled trust funds, financial futures, and options on futures.]

- (3) (a) invest in the private investments of a business entity if UTIMCO, a UTIMCO entity, a director or a director entity then owns a private investment in the same business entity or (b) a co-invest with UTIMCO, a UTIMCO entity, a director or director entity in the private investments of the same business entity.

BACKGROUND INFORMATION

Section 66.08 of the Texas Education Code requires that the U. T. Board of Regents approve the UTIMCO Code of Ethics (the Code) and any amendments thereto. The amendments to the Code are in response to recommendations from Baker Botts, LLP, as outside counsel to the U. T. Board of Regents and to make minor editorial changes identified during an annual review of the Bylaws by UTIMCO management and Vinson & Elkins, counsel for UTIMCO.

Attorneys with Baker Botts, LLP, noted that Texas law and the Code were not clear if external managers investing funds under UTIMCO's management were prohibited from investing in the publicly traded securities of a publicly traded company in which a director, director entity, employee or employee entity has any pecuniary interest. Article III of the Code will be amended to include all accounts under UTIMCO's management.

The amendments to the Code were reviewed by Vinson & Elkins and by the Office of General Counsel of the U. T. System. The proposed amendments were approved by the UTIMCO Board of Directors on June 26, 2003. Subsequent changes were reviewed by UTIMCO's outside legal counsel, Vinson & Elkins, and the Office of General Counsel.

9. **U. T. Board of Regents: Approval of the Annual Budget and Management Fee Schedule for The University of Texas Investment Management Company**

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs concur in the recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) that the U. T. Board of Regents approve UTIMCO's Annual Budget and Management Fee Schedule for the fiscal year ending August 31, 2004, as set forth on Pages 186 - 190, subject to final review and approval of amendments to investment policy statements at a later meeting of the Board.

BACKGROUND INFORMATION

The Investment Management Services Agreement between the U. T. Board of Regents and UTIMCO requires that UTIMCO submit its annual budget and management fee schedule to the Board of Regents for approval. The annual budget consists of UTIMCO's management fee and a budget for direct expenses of the funds managed by UTIMCO.

The total budget for the fiscal year ending August 31, 2004, is \$30,874,512, a decrease of \$2,445,520 or 7.34% from the 2003 budget. UTIMCO's management fee for the fiscal year ending August 31, 2004, will decrease \$90,728 (1%) from \$9,602,501 to \$9,511,773. Budgeted direct expenses will decrease \$2,354,792 (10%) from \$23,717,531 to \$21,362,739. The UTIMCO Board of Directors approved the proposed budget and management fees on June 26, 2003.



2004 Operating Budget

	8/31/02		8/31/03		8/31/04	Increase (Decrease)	%
	Budget	Actual	Budget	Projected			
UTIMCO Services							
Total Compensation	3,790,306	2,526,949	5,935,110	5,217,712	6,008,455	53,345	1%
Total Payroll taxes	188,021	145,492	249,743	196,312	270,688	20,945	8%
Employee Benefits	373,523	314,450	545,188	450,238	648,854	103,668	19%
Total General Operating	960,900	620,092	1,371,806	1,188,163	1,101,000	(270,600)	-20%
Total Lease Expense	613,000	604,683	623,010	615,502	623,010	0	0%
Total Professional Fees	310,000	249,358	360,000	428,864	285,000	(75,000)	-21%
Total Insurance	180,935	197,535	211,853	215,244	280,524	68,872	20%
Depreciation of Equipment	281,592	271,692	266,200	291,079	294,243	8,043	3%
Total UTIMCO Services	\$ 6,698,276	\$ 4,965,184	\$ 9,802,501	\$ 8,563,113	\$ 9,511,773	(90,728)	-1%

Direct Costs to Funds							
External Management Fees	20,188,427	14,868,430	26,116,831	18,167,200	17,948,739	(2,167,292)	-11%
Custodian and Analytical Costs	1,902,243	1,902,243	1,883,883	1,768,243	1,959,630	75,767	4%
Other Directs Total	3,179,901	3,395,536	1,717,887	2,227,334	1,454,370	(263,267)	-15%
Total Direct Costs to Funds	25,270,571	20,102,705	23,717,531	19,162,862	21,362,739	(2,354,792)	-10%
Grand Total	31,968,847	25,067,889	33,320,032	27,765,975	30,874,512	(2,445,520)	-7.34%

**Cost Comparison
UTIMCO Budget vs Cambridge Mean**

	2003		
	UTIMCO Budget (2)	Cambridge Group Mean (3)	UTIMCO versus Cambridge Mean
Internal Investment Supervision (1)	0.045%	0.045%	0.000%
External Investment Supervision			
Performance Measurement and Subscriptions	0.005%		
Consulting Expenses (Private Equity)	0.010%		
Total External Supervision	0.015%	0.010%	0.005%
Custodian Fees and Other Direct Investment Costs	0.011%	0.018%	-0.007%
Total Investment Costs	0.071%	0.073%	-0.002%
Legal Expenses			
Accounting, IT, and Administration	0.003%	0.002%	0.001%
Direct	0.003%		
Indirect (Accounting & IT Expenses)	0.026%		
Total Accounting, IT, and Administration	0.029%	0.008%	0.021%
Total Non-Investment Costs	0.032%	0.010%	0.022%
Total Costs	0.103%	0.083%	0.020%

	2004		
	UTIMCO Budget (2)	Cambridge Group Mean (3)	UTIMCO versus Cambridge Mean
	0.047%	0.045%	0.002%
	0.006%		
	0.007%		
	0.013%	0.010%	0.003%
	0.009%	0.018%	-0.009%
	0.069%	0.073%	-0.004%
	0.002%	0.002%	0.000%
	0.002%		
	0.020%		
	0.022%	0.008%	0.014%
	0.024%	0.010%	0.014%
	0.093%	0.083%	0.010%

(1) For appropriate comparison to Cambridge Mean, investment supervision costs include salary, benefits and overhead costs for CEO, Managing Directors, analysts, and Risk Manager. Funds participating in the Cambridge Mean did not have internal management efforts. Therefore, all costs of external management were excluded from the "Total Investment Cost" figures shown for the Cambridge Mean. To provide comparable results for UTIMCO, since the internal management could be done externally at high costs to UTIMCO, the internal manager expenses are removed from the "Internal Investment Supervision" totals.

(2) UTIMCO cost figures are based on the FY03 and FY04 budgets, using 6/30/99 and 6/30/00 market values to facilitate comparisons to the Cambridge Mean.

(3) Cambridge Mean based on data from 15 endowments with assets of \$500 million or more. Based on average endowment assets at 6/30/99 and 6/30/00. The data in the report from Cambridge was captured in July 2001. The report was issued in the Spring 2002.

**Investment Oversight Expenditures
High Equity Allocation (High Complexity) Funds**

Costs in Basis Points	Asset Size of Fund					
	\$20 billion	\$10 billion	\$5 billion	\$1 billion	\$500 million	\$100 million
1	2 M	1 M	500 K	100 K	50 K	10 K
2	4 M	2 M	1 M	200 K	100 K	20 K
4	8 M	4 M	2 M	400 K	200 K	40 K
6	12 M	UTIMCO	3 M	600 K	300 K	60 K
8	16 M	8 M	4 M	800 K	400 K	80 K
10	20 M	10 M	5 M	1 M	500 K	100 K
15	30 M	15 M	7.5 M	1.5 M	750 K	150 K
20	40 M	20 M	10 M	2 M	1 M	200 K
25	50 M	25 M	12.5 M	2.5 M	1.25 M	250 K
30	60 M	30 M	15 M	3 M	1.5 M	300 K

Spending Too Little
Reasonable Spending Range
Spending Too Much

Source: "An Overview of Endowment Management Costs" by Cambridge Associates

UTIMCO Fee and Direct Budgeted Investment Expenses
Annual Fee and Allocation Schedule
 For the fiscal year ending August 31, 2004

Proposed Budget

	The Permanent University Fund (PUF)	The Permanent Health Fund (PHF)	The University of Texas Long Term Fund (LTF)	General Endowment Fund (GEF)	The University of Texas System Intermediate Term Fund (SITF)	Short Term Fund (STF)	Separately Invested Endowments and Charitable Trust Accounts	Total
Market Value 2/28/03 (\$ millions)	6,300.0	667.3	2,542.5	3,209.8	1,594.7	1641.8	151.1	12,897.4
UTIMCO Services(1)	5,360,677	621,526	2,990,223		539,348			9,511,773
Direct Expenses of the Fund								
External Management Fees	6,234,803			3,290,296		N/A (2)		9,525,099
External Management Fees - Performance Based	5,399,717			3,023,924				8,423,640
Other Direct Costs	1,769,946	23,313	56,493	1,440,046	124,202			3,414,000
Total Direct Expenses of the Fund	13,404,465	23,313	56,493	7,754,266	124,202		0	21,362,739
TOTAL	18,765,143	644,839	3,046,716	7,754,266	663,550	N/A (2)	0	30,874,512
Percentage of Market Value								
UTIMCO Services	0.085%	0.093%	0.118%	0.000%	0.034%	0.000%	0.000%	0.074%
Direct Expenses of the Fund	0.213%	0.003%	0.002%	0.242%	0.008%	0.000%	0.000%	0.166%
TOTAL	0.298%	0.097%	0.120%	0.242%	0.042%	0.000%	0.000%	0.239%

(1) Allocation Ratio: PUF-56%, Health Fund-7%, LTF-32%, SITF-5%

(2) Income is net of fees (amounts may not foot due to rounding adjustments)

Fee Analysis
For the fiscal year ending August 31, 2004

	The Permanent University Fund (PUF)	The Permanent Health Fund (PHF)	The University of Texas System Long Term Fund (LTF)	General Endowment Fund (GEF)	The University of Texas System Short Intermediate Term Fund (SITF)	Short Term Fund (STF)	Separately Invested Endowments and Charitable Trust Accounts	Total
Market Value 2/28/03 (\$ millions)	6,300.0	667.3	2,542.5	3,209.8	1,594.7	1641.8	151.1	12,897.4
Market Value 2/28/02 (\$ millions)	7,114.0	848.7	2,784.6	3,633.3	1,451.9	1257.1	171.9	13,628.2
Change in Portfolio Value	-814.0	-181.4	-242.1	-423.5	142.8	384.7	-20.8	-730.8
2004 Management Fees								
UTIMCO Services	0.085%	0.093%	0.118%	0.000%	0.034%	0.000%	0.000%	0.074%
Direct Expenses of the Fund	0.213%	0.002%	0.002%	0.242%	0.008%	0.000%	0.000%	0.166%
TOTAL	0.298%	0.097%	0.120%	0.242%	0.042%	0.000%	0.000%	0.239%
2003 Management Fees								
UTIMCO Services	0.073%	0.080%	0.113%	0.000%	0.042%	0.000%	0.000%	0.070%
Direct Expenses of the Fund	0.216%	0.003%	0.002%	0.224%	0.008%	0.000%	0.003%	0.174%
TOTAL	0.289%	0.082%	0.115%	0.224%	0.050%	0.000%	0.003%	0.244%
Change in Fees	0.009%	0.014%	0.005%	0.018%	-0.008%	0.000%	-0.003%	-0.005%
Due to Market Decline	0.020%	0.015%	0.001%	0.018%	-0.009%	0.000%	0.000%	-0.001%
Budget Actions by UTIMCO	-0.011%	0.000%	0.004%	0.000%	0.001%	0.000%	-0.003%	-0.004%
	0.009%	0.014%	0.005%	0.018%	-0.008%	0.000%	-0.003%	-0.005%

10. **U. T. Board of Regents: Approval of The University of Texas Investment Management Company Liquidity Policy**

RECOMMENDATION

The Chancellor, the Executive Vice Chancellor for Business Affairs, and the Vice Chancellor and General Counsel concur in the recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) that the U. T. Board of Regents approve the proposed UTIMCO Liquidity Policy, as set out on Pages 192 - 194, subject to final review and approval of amendments to investment policy statements at a later meeting of the Board.

BACKGROUND INFORMATION

The purpose of the Liquidity Policy is to establish limits on the overall liquidity profile of investments in the Permanent University Fund (PUF) and General Endowment Fund (GEF). The established liquidity profile limits will act in conjunction with, but do not supercede, the Investment Policies established by the UTIMCO Board and approved by the U. T. Board of Regents.

Liquidity risk can be defined as the uncertainty in the value of an investment position that exists because the position cannot be readily converted to cash or cash equivalents. Because liquidity risk is an important element of the total investment risks affecting the PUF and GEF, this Policy establishes strategic limits on acceptable liquidity risk, yet provides liquidity ranges to allow UTIMCO to make tactical decisions as expected returns for assuming liquidity risk change in investment markets.

The Liquidity Policy was approved by the UTIMCO Board of Directors on June 26, 2003, and the Policy was reviewed by the Office of General Counsel.

The University of Texas Investment Management Company

Liquidity Policy

Effective Date of Policy: August 7, 2003

Date Approved by UTIMCO Board: June 26, 2003

Purpose:

The purpose of the Liquidity Policy is to establish limits on the overall liquidity profile of investments in the Permanent University Fund (PUF) and the General Endowment Fund (GEF), hereinafter referred to as the Funds. For the purposes of this policy, "liquidity" is defined as a measure of the ability of an investment position to be converted into a cash position. The established liquidity profile limits will act in conjunction with, but do not supercede, the Investment Policy established by the UTIMCO Board and approved by the U. T. System Board of Regents.

Objective:

The objective of the Liquidity Policy is to control the element of total risk exposure of the PUF and GEF funds stemming from the uncertainties associated with the ability to convert longer term investments to cash to meet immediate needs or to change investment strategy, and to the potential cost of that conversion. This element of total risk is referred to as 'Liquidity Risk' in this Policy.

Scope:

This Policy applies to all PUF and GEF investments made by UTIMCO, both by internal and by external managers. Policy implementation will be managed at the aggregate UTIMCO Level and will not be a responsibility of individual internal or external managers managing a portion of the aggregate assets.

Definition of Liquidity Risk:

Liquidity Risk is defined as that element of total risk resulting from the uncertainty associated with both the cost and time period necessary to convert existing investment positions to cash (or cash equivalents). Liquidity risk can result in lower than expected returns and reduced opportunity to make changes in investment positions to respond to changes in capital market conditions. Modern finance theory asserts that liquidity risk is a systematic risk factor that is incorporated into asset prices such that future longer-term returns will be higher for assets with higher liquidity risk, although that may not be the case in the short term.

Liquidity Risk Measurement-The Liquidity Profile:

Capital market theory does not provide a precise technique to measure liquidity risk. For the purposes of this Liquidity Policy, potential liquidity risk will be defined and monitored by measuring the aggregate liquidity profile of the PUF and GEF. All individual investments within the PUF and GEF will be segregated into four categories:

- **Highly Liquid:** Investments that could be readily converted to cash within 1 day to 4 weeks, at a discount of 5% or less from current value.
- **Liquid:** Investments that could be converted to cash within a period of 1 month to 3 months in an orderly market at minimal discount or in a shorter time period by accepting a discount of 20% or less.
- **Moderately Illiquid:** Investments that could be converted to cash within a period of 3 months to 12 months in an orderly market at minimal discount or in a shorter time period by accepting a discount of 30% or less.
- **Illiquid:** Investments that could be converted to cash over a period of 1 year or more in an orderly market at minimal discount or in a shorter time period by accepting a discount of more than 30%.

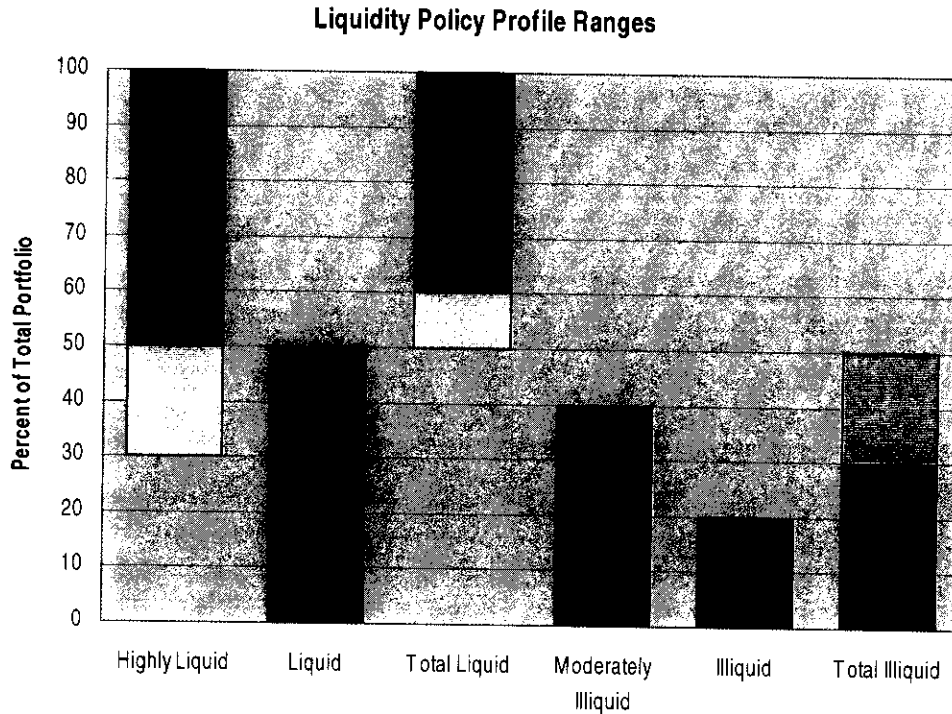
The measurements necessary to segregate all investments into one of the four categories assume normally functioning capital markets and cash market transactions, excluding swap or other derivatives transactions which could be utilized in actual emergency situations to create liquidity.

**The University of Texas Investment Management Company
Liquidity Policy**

The result of this liquidity risk measurement process will be a liquidity profile for the PUF and GEF which indicates the percentage of the total portfolio assets within each liquidity category. This Liquidity Policy defines the acceptable range of percentage of total assets within each liquidity category, specifies "trigger zones" requiring special review by UTIMCO staff and Board, and specifies the method of monitoring and presenting actual versus policy liquidity profiles.

Liquidity Policy Profile:

The current Liquidity Policy Profile ranges and trigger zones are defined by the chart below:



The green bars indicate the Policy ranges for investments categorized as "liquid", including subtotals for "Highly Liquid" and "Liquid" categories as well as the total for all liquid categories. The shaded portions of the green bars indicate trigger zones requiring special action by UTIMCO staff and Board. For example, the allowable range for "Highly Liquid" investments is currently 30% to 100% of total assets, while Total Liquid asset must comprise at least 50% of the total portfolio to as much as 100% of the portfolio. However, should actual Highly Liquid investments fall below 50% of total portfolio assets into the defined trigger zone, special review and action would be required by the UTIMCO Board as specified in the Documentation and Control section of this Policy. Likewise, the red bars illustrate the allowable range for "Illiquid" investments, 0% to 20%, while Total Illiquid assets may not comprise more than 50% of total assets. The trigger zone for Total Illiquid assets is 30% or more of the total portfolio.

Documentation and Controls:

Managing Directors responsible for each asset class are responsible for determining the liquidity category for each investment in that class. These classifications will be reviewed by the Risk Manager and must receive final approval from the Chief Investment Officer. Classifications and weights within each liquidity category will be updated and reported on a monthly basis. All new investments considered will be categorized by liquidity category and a statement regarding the effect on overall liquidity of the addition of the new investment must be an element of the due diligence process and will be a part of all recommendation reports to the UTIMCO Board.

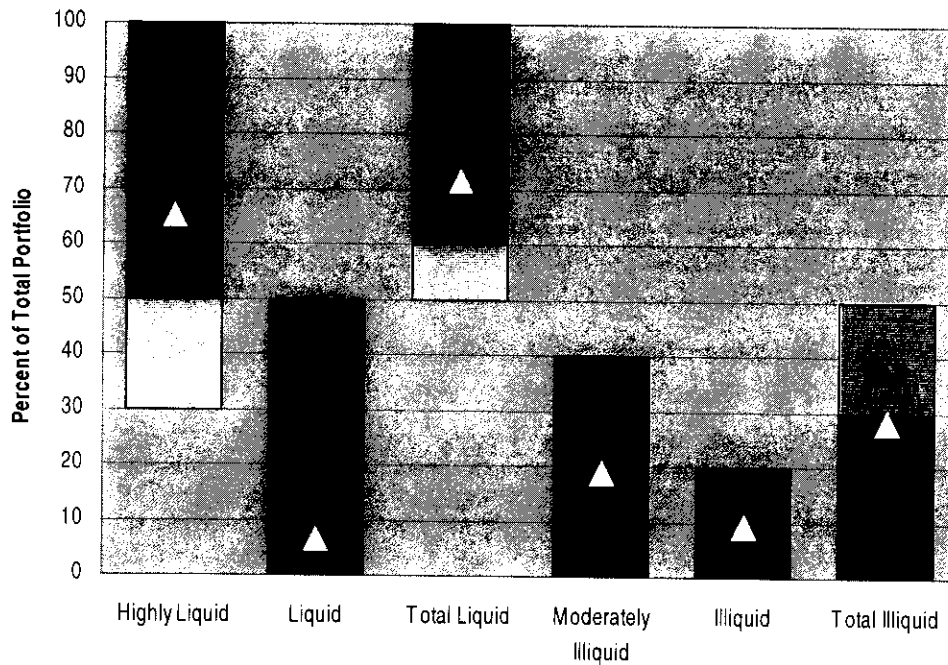
The University of Texas Investment Management Company Liquidity Policy

As additional safeguards, trigger zones have been established as indicated above to trigger required review and action by the UTIMCO Board in the event any investment action would cause any liquidity measure to enter any of the designated trigger zones, or in the event market actions caused measures to move into trigger zones. In addition, any proposed investment actions which would change any single liquidity category percentage by 10% or more would also require UTIMCO Board review and action prior to the change. Any actual positions in any trigger zones or outside the policy ranges will be communicated to the Chief Investment Officer immediately. The Chief Investment Officer will then determine the process to be used to eliminate the exception and report promptly to the UTIMCO Board the circumstances of the deviation from Policy and the remedy to the situation.

Reporting:

The actual Liquidity Profile of the Funds and compliance with the Liquidity Policy will be reported to the UTIMCO Board on at least a quarterly basis. Any exception to the Policy and actions taken to remedy the exception will be reported promptly. An example of the method of reporting is shown below where the yellow points and number labels indicate current actual exposure levels within each Liquidity Policy Range (numbers shown are examples only). For example, in this illustration the current exposure to "Highly Liquid" investments is 65.1%, while exposure to "Illiquid" investments is 9.4% and both are within their respective allowable policy ranges and not in defined trigger zones.

Liquidity Policy Profile Ranges



11. **U. T. System: Report on Investments for the nine months ended May 31, 2003**

RECOMMENDATION

Pages 196 - 204 contain the Summary Reports on Investments for the nine months ended May 31, 2003.

Item I on Pages 196 - 198 reports summary activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the nine months was 6.28%. The PUF's net investment return for marketable securities for the nine months was 8.85% versus its composite benchmark return of 7.16%. The PUF's net asset value increased by \$112.6 million since the beginning of the year to \$6,850.9 million. This change in net asset value includes increases due to contributions from PUF land receipts and net investment return, and a decrease from the annual distribution to the AUF made in September 2002 for \$363.0 million.

Item II on Pages 199 - 202 reports summary activity for the General Endowment Fund (GEF), the Permanent Health Fund (PHF), and Long Term Fund (LTF). The GEF's net investment return for the nine months was 6.98%. The GEF's net investment return for marketable securities for the nine months was 9.06% versus its composite benchmark return of 7.16%. The GEF's net asset value increased \$170.8 million since the beginning of the year to \$3,464.0 million.

Item III on Page 203 reports summary activity for the Short Intermediate Term Fund (SITF). Total net investment return on the SITF was 1.94% for the nine months versus the SITF's performance benchmark of 3.25%. The SITF's net asset value increased by \$202.4 million since the beginning of the year to \$1,638.3 million.

Item IV on Page 204 presents book and market value of cash, fixed income, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of component operating funds held in the Dreyfus money market fund, decreased by \$184,655 thousand to \$1,613,256 thousand during the four months since the last reporting period. Market values for the remaining asset types were fixed income securities: \$321,821 thousand versus \$315,453 thousand at the beginning of the period; equities: \$211,361 thousand versus \$186,523 thousand at the beginning of the period; and other investments: \$10,226 thousand versus \$43 thousand at the beginning of the period.

I. PERMANENT UNIVERSITY FUND (1)

a.) Summary Investment Report at May 31, 2003 (2)

(\$ millions)

	FY01-02 Full Year	FY02-03			Year-to-Date
		1st Qtr	2nd Qtr	3rd Qtr	
Beginning Net Assets	7,540.1	6,738.3	6,397.1	6,300.0	6,738.3
PUF Lands Receipts (3)	80.5	22.2	23.6	31.3	77.1
Investment Return	(522.9)	4.3	(115.7)	524.8	413.4
Expenses	(21.0)	(4.7)	(5.0)	(5.2)	(14.9)
Distributions to AUJ	(338.4)	(363.0)	-	-	(363.0)
Ending Net Assets	6,738.3	6,397.1	6,300.0	6,850.9	6,850.9
AUF Distribution:					
From PUF Investments	338.4	363.0	-	-	363.0
From Surface Income	8.1	0.8	2.1	0.9	3.8
Total	346.5	363.8	2.1	0.9	366.8

Total Net Investment Return -7.35% 0.06% -1.86% 8.23% 6.28%

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

(2) General - The Investment Summary Report excludes PUF Lands mineral and surface interests with estimated August 31, 2002 values of \$639.8 million and \$161.1 million, respectively.

(3) PUF Land Receipts - As of May 31, 2003: 1,163,590 acres under lease; 522,070 producing acres; 3,152 active leases; and 2,081 producing leases.

I. PERMANENT UNIVERSITY FUND (continued)

b.) Comparison of Asset Allocation Versus Endowment Neutral Policy Portfolio and Net Investment Return for the nine months ended May 31, 2003
(Asset Allocation and Benchmarks Approved by the UTIMCO Board)

	Asset Allocation	Endowment Neutral Policy Portfolio	Actual Net Investment Return	Endowment Neutral Policy Portfolio Return (1)	Benchmark
Cash and Cash Equivalents	0.2%	0.0%	1.07%	1.09%	90 Day T-Bills Average Yield
Domestic Public Equities					
Passive Management	16.6%		6.44%	7.94%	Wilshire 5000 U.S. Equities Index
Active Management	11.8%		9.10%	7.94%	
Hedge and Structured Active Management	7.0%		5.23%	7.94%	
Total Domestic Public Equities	35.4%	31.0%	6.85%	7.94%	
International Public Equities					Morgan Stanley Capital International - All Country World Free ex U.S.
Passive Management	7.9%		2.77%	3.29%	
Active Management	9.0%		5.76%	3.29%	
Hedge and Structured Active Management	1.0%		6.02%	3.29%	
Total International Public Equities	17.9%	19.0%	4.50%	3.29%	
Absolute Return	9.4%	10.0%	15.95%	4.15%	90 Day T-Bills Average Yield plus 4%
Inflation Hedging	7.9%	10.0%	11.93%	10.35%	25%(Goldman Sachs Commodity Index minus 100 basis points) plus 25%(Treasury Inflation Protected Securities) plus 25%(National Commercial Real Estate Index Fund) plus 25%(Wilshire Associates Real Estate Securities Index)
Fixed Income	17.0%	15.0%	9.82%	7.45%	33%(Lehman Brothers Aggregate Bond Index ex U.S. Governments) plus 67%(Lehman Brothers Government Bond Index)
Total Marketable Securities	87.8%	85.0%	8.85%	7.16%	
Private Capital	12.2%	15.0%	-8.81%	11.17%	Wilshire 5000 U.S. Equities Index plus 4% (2)
Total	100.0%	100.0%	6.28%	7.81%	

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

(2) Due to valuation and liquidity characteristics associated with Private Capital, short-term benchmark comparisons are not appropriate.

1. PERMANENT UNIVERSITY FUND (continued)

c.) Comparison of Asset Allocation Versus Endowment Neutral Policy Portfolio and Net Investment Return for the nine months ended May 31, 2003 (Prior Asset Allocation)

	Asset Allocation	Endowment Neutral Policy Portfolio	Endowment Neutral Policy Portfolio Return (1)	Benchmark
Cash	0.2%	0.0%	1.09%	90 Day T-Bills Average Yield
Domestic Common Stocks:				
Large/Medium Capitalization Equities	20.0%	25.0%	6.66%	Standard and Poor's 500 Index
Small Capitalization Equities	8.4%	7.5%	14.09%	Russell 2000 Index
Total Domestic Common Stocks	28.4%	32.5%		
International Common Stocks:				
Established Markets	10.6%	12.0%	1.57%	Morgan Stanley Capital International Europe, Asia, Far East Index (net)
Emerging Markets	6.3%	3.0%	5.54%	Morgan Stanley Capital International Emerging Markets Free
Total International Common Stocks	16.9%	15.0%		
Inflation Hedging	7.9%	7.5%	9.14%	33% (Goldman Sachs Commodity Index minus 100 basis points) plus 67% (National Commercial Real Estate Index Fund)
Fixed Income:				
Domestic	12.3%	15.0%	7.49%	Lehman Brothers Aggregate Bond Index
International	4.7%	5.0%	17.56%	Salomon Non-U.S. World Government Bond Index, Unhedged
Total Fixed Income	17.0%	20.0%		
Marketable Alternative Equities	17.4%	10.0%	6.52%	90 Day T-Bills Average Yield plus 7%
Total Marketable Securities	87.8%	85.0%	8.08%	
Nonmarketable Alternative Equities	12.2%	15.0%	11.17%	Wilshire 5000 U.S. Equities Index plus 4%
Total	100.0%	100.0%	8.60%	

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

II. GENERAL ENDOWMENT FUND (1)(12)

a.) Summary Investment Report at May 31, 2003

(\$ millions)

	FY01-02		FY02-03			Year-to-Date
	Full Year	1st Qtr	2nd Qtr	3rd Qtr		
Beginning Net Assets	3,723.9	3,293.2	3,287.7	3,209.8	3,209.8	3,293.2
Net Contributions	(230.7)	(47.4)	(12.5)	(21.6)	(21.6)	(81.5)
Investment Return	(245.3)	9.3	(61.2)	284.5	284.5	232.6
Expenses	(7.2)	(1.2)	(1.4)	(1.5)	(1.5)	(4.1)
Allocations (3)	52.5	33.8	(2.8)	(7.2)	(7.2)	23.8
Ending Net Assets	3,293.2	3,287.7	3,209.8	3,464.0	3,464.0	3,464.0
Net Asset Value per Unit	90.932	91.154	89.433	97.253	97.253	97.253
Units and Percentage Ownership (End of Period):						
PHF	7,676,762	7,569,273	7,459,839	7,358,938	7,358,938	7,358,938
LTF	28,539,389	28,498,629	28,430,265	28,259,455	28,259,455	28,259,455
Total	36,216,151	36,067,902	35,890,104	35,618,393	35,618,393	35,618,393
		21.2%	21.0%	20.8%	20.7%	20.7%
		78.8%	79.0%	79.2%	79.3%	79.3%
		100.0%	100.0%	100.0%	100.0%	100.0%
Total Net Investment Return	-6.96%	0.27%	-1.88%	8.73%	8.73%	6.98%

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

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

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

II. GENERAL ENDOWMENT FUND (continued)

b.) Unit Holders' Summary Investment Report at May 31, 2003 (1)

(\$ millions)

	FY02-03				Year-to-Date
	FY01-02 Full Year	1st Qtr	2nd Qtr	3rd Qtr	
PERMANENT HEALTH FUND					
Beginning Net Assets	881.4	698.2	690.2	667.3	698.2
Withdrawals	(88.2)	-	-	-	-
Investment Return	(52.6)	1.7	(13.0)	58.4	47.1
Expenses	(0.6)	(0.1)	(0.2)	(0.2)	(0.5)
Distributions (Payout)	(41.8)	(9.6)	(9.7)	(9.6)	(28.9)
Ending Net Assets	698.2	690.2	667.3	715.9	715.9
Net Asset Value per Unit (2)	0.851524	0.841653	0.813836	0.873014	0.873014
No. of Units (End of Period)	820,000,000	820,000,000	820,000,000	820,000,000	820,000,000
Distribution Rate per Unit	0.04700	0.01175	0.01175	0.01175	0.03525
Total Net Investment Return	-7.05%	0.22%	-1.91%	8.72%	6.88%
LONG TERM FUND					
Beginning Net Assets	2,843.3	2,595.1	2,597.6	2,542.5	2,595.1
Net Contributions	89.3	34.1	30.5	17.2	81.8
Investment Return	(199.7)	6.4	(49.6)	224.9	181.7
Expenses	(3.0)	(2.6)	(0.1)	(0.2)	(2.9)
Distributions (Payout)	(134.8)	(35.4)	(35.9)	(36.2)	(107.5)
Ending Net Assets	2,595.1	2,597.6	2,542.5	2,748.2	2,748.2
Net Asset Value per Unit (2)	4.788	4.730	4.576	4.912	4.912
No. of Units (End of Period)	542,049,359	549,178,011	555,609,797	559,537,648	559,537,648
Distribution Rate per Unit	0.25100	0.06450	0.06450	0.06450	0.19350
Total Net Investment Return	-6.97%	0.27%	-1.89%	8.79%	7.02%

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

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

II. GENERAL ENDOWMENT FUND (continued)

c.) Comparison of Asset Allocation Versus Endowment Neutral Policy Portfolio and Net Investment Return for the nine months ended May 31, 2003
(Asset Allocation and Benchmarks Approved by the UTIMCO Board)

	Asset Allocation	Endowment Neutral Policy Portfolio	Actual Net Investment Return	Endowment Neutral Policy Portfolio Return (1)	Benchmark
Cash and Cash Equivalents	0.2%	0.0%	1.07%	1.09%	90 Day T-Bills Average Yield
Domestic Public Equities					
Passive Management	16.2%		6.73%	7.94%	Wilshire 5000 U.S. Equities Index
Active Management	12.0%		8.49%	7.94%	
Hedge and Structured Active Management	7.5%		5.24%	7.94%	
Total Domestic Public Equities	35.7%	31.0%	6.80%	7.94%	
International Public Equities					
Passive Management	8.8%		2.90%	3.29%	Morgan Stanley Capital International - All Country World Free ex U.S.
Active Management	9.0%		5.77%	3.29%	
Hedge and Structured Active Management	1.0%		6.02%	3.29%	
Total International Public Equities	18.8%	19.0%	4.47%	3.29%	
Absolute Return	10.2%	10.0%	15.92%	4.15%	90 Day T-Bills Average Yield plus 4%
Inflation Hedging	8.2%	10.0%	11.95%	10.35%	25%(Goldman Sachs Commodity Index minus 100 basis points) plus 25%(Treasury Inflation Protected Securities) plus 25%(National Commercial Real Estate Index Fund) plus 25%(Wilshire Associates Real Estate Securities Index)
Fixed Income	16.3%	15.0%	10.35%	7.45%	33%(Lehman Brothers Aggregate Bond Index ex U.S. Governments) plus 67%(Lehman Brothers Government Bond Index)
Total Marketable Securities	89.4%	85.0%	9.06%	7.16%	
Private Capital	10.6%	15.0%	-8.05%	11.17%	Wilshire 5000 U.S. Equities Index plus 4% (2)
Total	100.0%	100.0%	6.98%	7.81%	

(1) The benchmark return for the endowment neutral policy portfolio is calculated by summing the neutrally weighted index return (% weight for the asset class multiplied by the benchmark return for the asset class) for the various asset classes in the endowment portfolio for the period reported.
(2) Due to valuation and liquidity characteristics associated with Private Capital, short-term benchmark comparisons are not appropriate.

II. GENERAL ENDOWMENT FUND (continued)

d.) Comparison of Asset Allocation Versus Endowment Neutral Policy Portfolio and Net Investment Return for the nine months ended May 31, 2003 (Prior Asset Allocation)

	Asset Allocation	Endowment Neutral Policy Portfolio	Endowment Neutral Policy Portfolio Return (1)	Benchmark
Cash	0.2%	0.0%	1.09%	90 Day T-Bills Average Yield
Domestic Common Stocks:				
Large/Medium Capitalization Equities	19.7%	25.0%	6.66%	Standard and Poor's 500 Index
Small Capitalization Equities	8.4%	7.5%	14.09%	Russell 2000 Index
Total Domestic Common Stocks	28.1%	32.5%		
International Common Stocks:				
Established Markets	11.1%	12.0%	1.57%	Morgan Stanley Capital International Europe, Asia, Far East Index (net)
Emerging Markets	6.7%	3.0%	5.54%	Morgan Stanley Capital International Emerging Markets Free
Total International Common Stocks	17.8%	15.0%		
Inflation Hedging	8.2%	7.5%	9.14%	33% (Goldman Sachs Commodity Index minus 100 basis points) plus 67% (National Commercial Real Estate Index Fund)
Fixed Income:				
Domestic	11.1%	15.0%	7.49%	Lehman Brothers Aggregate Bond Index
International	5.2%	5.0%	17.56%	Salomon Non-U.S. World Government Bond Index, Unhedged
Total Fixed Income	16.3%	20.0%		
Marketable Alternative Equities	18.8%	10.0%	6.52%	90 Day T-Bills Average Yield + 7%
Total Marketable Securities	89.4%	85.0%	8.08%	
Nonmarketable Alternative Equities	10.6%	15.0%	11.17%	Wilshire 5000 U.S. Equities Index + 4%
Total	100.0%	100.0%	8.60%	

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

III. SHORT INTERMEDIATE TERM FUND (1)

Summary Investment Report at May 31, 2003

(\$ millions)

	FY01-02	FY02-03			Year-to-Date
	Full Year	1st Qtr	2nd Qtr	3rd Qtr	
Beginning Net Assets	1,704.6	1,435.9	1,449.7	1,594.7	1,435.9
Net Contributions	(261.0)	26.4	143.2	46.2	215.8
Investment Return	60.3	2.5	17.4	10.3	30.2
Expenses	(0.7)	(0.2)	(0.2)	(0.2)	(0.6)
Distributions of Income	(67.3)	(14.9)	(15.4)	(12.7)	(43.0)
Ending Net Assets	1,435.9	1,449.7	1,594.7	1,638.3	1,638.3
Net Asset Value per Unit	10.099	10.013	10.025	10.008	10.008
No. of Units (End of Period)	142,184,975	144,787,656	159,078,135	163,697,013	163,697,013
Total Net Investment Return	3.75%	0.17%	1.14%	0.62%	1.94%

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

IV. SEPARATELY INVESTED ASSETS

Summary Investment Report at May 31, 2003

(\$ thousands)

ASSET TYPES	FUND TYPE																							
	CURRENT PURPOSE DESIGNATED		RESTRICTED				ENDOWMENT & SIMILAR FUNDS				ANNUITY & LIFE INCOME FUNDS				AGENCY FUNDS				OPERATING FUNDS				TOTAL	
	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET		
Cash & Equivalents:																								
Beginning value 01/31/03	1,682	1,682	2,312	2,312	17,892	17,892	206	206	206	206	79	79	79	79	1,775,740	1,775,740	1,797,911	1,797,911	1,797,911	1,797,911	1,797,911	1,797,911		
Increase/(Decrease)	2,054	2,054	266	266	2,075	2,075	269	269	269	269	-	-	-	-	(189,319)	(189,319)	(184,655)	(184,655)	(184,655)	(184,655)	(184,655)	(184,655)		
Ending value 05/31/03	3,736	3,736	2,578	2,578	19,967	19,967	475	475	475	475	79	79	79	79	1,586,421	1,586,421	1,613,256	1,613,256	1,613,256	1,613,256	1,613,256	1,613,256		
Debt Securities:																								
Beginning value 01/31/03	-	-	263	192	39,178	41,779	14,717	15,374	14,717	15,374	-	-	-	-	257,284	258,108	311,442	315,453	311,442	315,453	311,442	315,453		
Increase/(Decrease)	-	-	-	14	(496)	113	(1,198)	(808)	(1,198)	(808)	-	-	-	-	7,380	7,049	5,686	6,368	5,686	6,368	5,686	6,368		
Ending value 05/31/03	-	-	263	206	38,682	41,892	13,519	14,566	13,519	14,566	-	-	-	-	264,664	265,157	317,128	321,821	317,128	321,821	317,128	321,821		
Equity Securities:																								
Beginning value 01/31/03	40	4,511	1,996	1,653	38,130	36,738	23,794	16,537	23,794	16,537	-	-	-	-	185,783	127,084	249,743	186,523	249,743	186,523	249,743	186,523		
Increase/(Decrease)	-	2,322	(16)	(11)	(48)	3,048	(145)	2,849	(145)	2,849	-	-	-	-	(259)	16,630	(468)	24,838	(468)	24,838	(468)	24,838		
Ending value 05/31/03	40	6,833	1,980	1,642	38,082	39,786	23,649	19,386	23,649	19,386	-	-	-	-	185,524	143,714	249,275	211,361	249,275	211,361	249,275	211,361		
Other:																								
Beginning value 01/31/03	-	-	-	-	-	-	141	43	141	43	-	-	-	-	-	-	141	43	141	43	141	43		
Increase/(Decrease)	7,500	7,500	1,899	1,899	784	784	12	-	12	-	-	-	-	-	-	-	10,195	10,183	10,195	10,183	10,195	10,183		
Ending value 05/31/03	7,500	7,500	1,899	1,899	784	784	153	43	153	43	-	-	-	-	-	-	10,336	10,226	10,336	10,226	10,336	10,226		

Report prepared in accordance with Texas Education Code Sec. 51.0032. Details of individual assets by account furnished upon request.

12. **U. T. Board of Regents: Appointment of members to the Board of Directors of The University of Texas Investment Management Company**

RECOMMENDATION

The Board of Directors of The University of Texas Investment Management Company (UTIMCO) recommends that the following individuals be appointed to the UTIMCO Board of Directors to serve until the expiration of their terms, or until their successors are chosen and qualify, or until their earlier death, resignation or removal:

Mr. J. Philip Ferguson and Mr. I. Craig Hester for appointment until the expiration of terms ending April 1, 2006.

BACKGROUND INFORMATION

Section 66.08 of the Texas Education Code requires that the U. T. Board of Regents appoint all members of the Board of Directors of UTIMCO. The proposed Board of Director nominees, who represent non-U. T. Regent directors from the investment and business community, were approved by the UTIMCO Board of Directors on July 21, 2003.

Mr. J. Philip Ferguson is the Senior Investment Officer of AIM Capital Management, Inc. He is also a former Managing Partner of Beutel, Goodman Capital Management, Senior Vice President of Lehman Brothers, Inc., and Vice President of Goldman, Sachs & Co. Mr. Ferguson holds a B.B.A. degree from Texas Christian University and a J.D. degree from The University of Texas School of Law. He currently serves on the board of various organizations and is also a volunteer at various organizations

Mr. I. Craig Hester is the founder of Hester Capital Management, L.L.C. Mr. Hester has been actively involved in professional investment management since 1972. Mr. Hester holds B.B.A. and M.B.A. degrees from The University of Texas at Austin and is a CFA and CIC. He is the past president of the Austin Investment Association and a member and past president of the Austin and San Antonio Societies of Financial Analysts. He currently serves on the board of the U. T. Austin Ex-Students' Association, on the advisory council of the KMFA Capitol Broadcasting Association, and as a Junior League of Austin Community Advisor. He is the 2003 Chair-elect of the Foundation for SafePlace and also serves on various investment committees.

The positions to be filled were previously held by Mr. John McStay and Mr. L. Lowry Mays and are not "affiliated Director" positions.

13. **U. T. Board of Regents: Amendment of the Regents' Rules and Regulations in response to recommendations from Baker Botts Task Force (Part Two, Chapter IX, Sections 1, 2, and 5)**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs and the Vice Chancellor and General Counsel that the Regents' Rules and Regulations, Part Two, Chapter IX, Sections 1, 2, and 5, be amended as set forth in congressional style:

- a. Amend Section 1, Subsection 1.8, relating to other assets, as follows:

Sec. 1. Authority Regarding Assets

...

1.8 Other Assets

Assets that are not a part of the Permanent University Fund, an endowment fund, a fund functioning as an endowment, a life income or annuity fund, or consolidated System funds shall be managed as set forth in this Subsection:

1.81 Tangible personal property shall be managed by the component institution president.

1.82 Intangible personal property consisting of securities, interests in businesses, and equity interests in technology transfer firms as set out in the Regents' Intellectual Property Policy shall be managed by the component institution president or by UTIMCO, as determined by the component institution president. UTIMCO shall hold all stock certificates of securities managed by, or held on behalf of, the component institution president and shall assign, transfer, or sell such securities, as directed by the component institution president or his or her designees, in accordance with Section 2 of this Chapter. Other intangible personal property shall be managed by the component institution president.

1.83 The component institution president may designate in writing one or more committees, employees, officers, or other agents of the institution, or one or more outside managers to

manage any or all of the assets described in Subdivisions 1.81 or 1.82 of this Chapter on behalf of the component institution president.

- b. Amend Section 2, Subsection 2.5, relating to authority to receive and collect money or property, as follows:

Sec. 2. Authorizations Regarding Sales, Assignments, Conveyances, Receipt of Property, and Proxies

...

2.5 Authority to Receive and Collect Money or Property

2.51 UTIMCO is authorized and empowered to seek, demand, collect, recover, and receive any and all sums of money, debts, dues, rights, property, effects, or demands due, payable, or belonging, or that may become due, payable, or belonging to the PUF or the Board from any person or persons as a result of any investment transaction and to execute any and all necessary or proper receipts, releases, and discharges therefor and any other instruments as may be necessary or appropriate from time to time relating to the handling, management, control, and disposition of any investment. The authority granted in this Subdivision does not include the authority to institute litigation on behalf of the Board or to settle contested claims or litigation that may result in UTIMCO receiving less than full value for the claim or the payment of damages or awards. The settlement of any contested claim or litigation for less than full value requires the prior approval of the U. T. System Vice Chancellor and General Counsel and appropriate System officials, as set out in Part Two, Chapter XI, Section 3 of these Rules and Regulations.

.....

- c. Amend Section 5, Subsections 5.1 and 5.2, relating to investment and management of endowment, trust, and other accounts, as follows:

Sec. 5. Policy for Investment and Management of Endowment, Trust, and Other Accounts Invested Through or Separate from U. T. Investment Pools

5.1 Management of Endowments

Endowment funds and funds functioning as endowments will be managed in a manner consistent with the U. T. System Gift Acceptance Procedures, ~~and the prudent person~~-investment standards, ~~set forth in~~ and the Uniform Management of Institutional Funds Act (Texas Property Code Chapter 163 et seq.). These funds will be managed separately and not commingled with the Long Term Fund if the terms of the instrument by which the fund was created preclude investment through the Long Term Fund. In addition, nonmarketable securities held by an endowment fund may be recorded as separately invested. All other endowment funds and funds functioning as endowments will be invested through the Long Term Fund.

5.2 Trust Fund and Life Income Accounts

Trust funds and other life income accounts will be invested and administered consistent with The University of Texas System Separately Invested Endowment, Trust, and Other Accounts Investment Policy Statement, U. T. System Gift Acceptance Procedures, ~~and the prudent person~~-investment standards, ~~and set forth in~~ the Texas Trust Code (Texas Property Code Section 111.001 et seq.).

BACKGROUND INFORMATION

The amendments to the Regents' Rules and Regulations are proposed in response to recommendations from the Baker Botts report dated February 12, 2003, to the U. T. Board of Regents regarding the relationship with The University of Texas Investment Management Company (UTIMCO).

The amendment to Section 1, Subsection 1.8, Subdivision 1.82 permits the president of a component institution to determine whether the president or UTIMCO will manage securities, interests in businesses, and equity interests in technology firms, thus allowing the president to determine how the asset can best be managed to maximize its value. The amendment also clarifies that, notwithstanding that such securities may be institutionally managed, the stock certificates will be held by UTIMCO, and sold and transferred by UTIMCO as directed by the president.

The addition of Subdivision 1.83 permits the president to designate an officer or employee of the institution or an outside manager to manage such assets. The ability to designate an outside manager will provide the component institution with a means for managing institutional conflicts of interest.

The amendment to Section 2, Subsection 2.5, Subdivision 2.51 clarifies the language concerning UTIMCO's role in settlements. The original language is ambiguous and could be read to give UTIMCO unlimited authority to settle contested matters. The amendment provides that settlement delegation to UTIMCO is subject to the same oversight and limitations applicable to The University of Texas System. Those oversight requirements in Part Two, Chapter XI, Section 3, Subsection 3.2 of the Regents' Rules and Regulations are as follows:

- a. settlements of \$150,000 or less may be settled by the Vice Chancellor and General Counsel and require no additional approval;
- b. settlements greater than \$150,000 to \$500,000 require approval by the Chancellor or appropriate Executive Vice Chancellor (which in this case would be the Executive Vice Chancellor for Business Affairs); and
- c. settlements greater than \$500,000 require approval by the U. T. Board of Regents, the Executive Committee, or the appropriate standing committee of the Board (which in this case would be the Finance and Planning Committee).

The amendments to Section 5, Subsections 5.1 and 5.2, reflect the correct investment standard. The U. T. Board of Regents, under the Texas Constitution, may acquire or retain 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 assets of the fund rather than a single investment. This differs from the less flexible prudent person standard, which requires the fiduciary to be primarily concerned with preserving capital rather than other considerations.

14. **U. T. Board of Regents: Amendment of Regents' Rules and Regulations regarding oversight of The University of Texas Investment Management Company (Part One, Chapter II, Sections 3, 5, and 12)**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs and the Vice Chancellor and General Counsel that the Regents' Rules and Regulations, Part One, Chapter II, Sections 3, 5, and 12, regarding oversight of The University of Texas Investment Management Company (UTIMCO), be amended as set forth in congressional style as follows.

Sec. 3. Chancellor

...

3.2 Primary Duties and Responsibilities of the Chancellor

...

3.2(12) Serving on the Board of Directors of The University of Texas Investment Management Company (UTIMCO). Generally overseeing the operations of UTIMCO and coordinating interaction between the System and UTIMCO. Ensuring that UTIMCO implements the core investment functions delegated to it in conformance with these Rules and Regulations, the Investment Management Services Agreement, and the Investment Policy Statements adopted by the Board. Directing UTIMCO in areas other than core investment functions, such as relations with the media, intergovernmental relations, and public disclosure issues.

...

3.4 Institutional Compliance

The Chancellor, as chief executive officer of the System, is responsible for ensuring the implementation of a an institutional compliance program for the System. Accordingly, the System-wide Compliance Officer prepares an executive summary of all institutional compliance activity of the component institutions, UTIMCO, and System Administration.

3.41 System-Wide Compliance Officer

The System-wide Compliance Officer is responsible, and will be held accountable for, apprising the Chancellor and the Internal Audit, and Compliance,

and Management Review Committee Subcommittee of the institutional compliance functions and activities at System Administration, UTIMCO, and at each of the component institutions as set out in Subparagraph 3.412 of this Chapter. The System-wide Compliance Officer provides institutional compliance assistance to the Chancellor, the Executive Vice Chancellors, ~~and~~ the Vice Chancellors, and the Chief Compliance Officer of UTIMCO in the exercise of their responsibilities.

3.411 Appointment

The System-wide Compliance Officer shall be appointed by the Chancellor. The System-wide Compliance Officer is the senior compliance official of The University of Texas System; provides assistance and advice covering all component, UTIMCO, and System Administration compliance programs; and shall hold office without fixed term, subject to the pleasure of the Chancellor.

3.412 Duties and Responsibilities

The primary responsibilities of the System-wide Compliance Officer include developing an infrastructure for the effective operation of The University of Texas System Institutional Compliance Program; chairing the System-wide Compliance Committee and the Compliance Officers Council; and prescribing the format for the annual risk based compliance plan and the quarterly compliance status reports to be submitted by each component institution, UTIMCO, and System Administration.

...

Sec. 5. Executive Vice Chancellor for Business Affairs

...

5.2 Duties and Responsibilities

5.2(24) Designating and supervising the System liaison to UTIMCO, overseeing audits and investment

performance assessments of UTIMCO, and reviewing budgetary and investment reports submitted by UTIMCO.

5.2(25) Performing such other duties as may be assigned by the Chancellor.

...

Sec. 12. Vice Chancellor and General Counsel

...

12.2 Duties and Responsibilities

...

12.2(18) Overseeing legal services provided to UTIMCO by outside legal counsel, consistent with the requirements of the Texas Disciplinary Rules of Professional Conduct, and providing counsel, advice, and legal interpretations to the Board, the Chancellor, and other System officials concerning UTIMCO-related issues.

12.2(19) Performing such other duties as may be assigned by the Chancellor.

BACKGROUND INFORMATION

Proposed amendments to the Regents' Rules and Regulations will clarify the responsibilities of the Chancellor, System-wide Compliance Officer, Executive Vice Chancellor for Business Affairs, and the Vice Chancellor and General Counsel concerning oversight of UTIMCO. The Baker Botts report prepared for the Board in February 2003 confirmed that policy-making is reserved to the U. T. Board of Regents and that UTIMCO has been delegated responsibility for core investment functions and the implementation of the investment policies set by the Board. The Chancellor and other U. T. System officials must oversee UTIMCO's activities and ensure that UTIMCO complies with the Investment Management Services Agreement and the investment policies established by the Board as set out in approved Investment Policy Statements. The Chancellor retains management authority in areas such as intergovernmental relations and public information disclosure that have significant implications for U. T. System that are not part of the core investment responsibilities delegated to UTIMCO. The amendments to the Regents' Rules make this division of responsibilities more explicit.

See related revisions to the Investment Management Services Agreement (Pages 153 - 169) and to the UTIMCO Bylaws (Pages 170 - 171).

15. **U. T. System: Approval of aggregate amount of equipment financing for Fiscal Year 2004**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. Board of Regents approve an aggregate amount of \$80,929,000 in equipment to be purchased in Fiscal Year 2004 under the Revenue Financing System Equipment Financing Program as allocated to those U. T. System component institutions set out on Page 215.

The Chancellor also concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that, in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993 and August 14, 1997, and based in part upon the delivery of the Certificate of an Authorized Representative as required by Section 5 of the Master Resolution, the U. T. Board of Regents resolves that:

- a. Parity Debt shall be issued to pay the cost of equipment including costs incurred prior to the issuance of such Parity Debt
- b. Sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the Board relating to the Financing System
- c. The component institutions and U. T. System Administration, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt in the aggregate amount of \$80,929,000 for the purchase of equipment
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the Code of Federal Regulations.

BACKGROUND INFORMATION

At the April 14, 1994 meeting, the U. T. Board of Regents approved the use of Revenue Financing System debt for equipment purchases in accordance with the Guidelines Governing Administration of the Revenue Financing System. The guidelines specify that the equipment to be financed must have a useful life of at least three years. The debt is amortized twice a year with full amortization not to exceed 10 years.

This agenda item requests approval of an aggregate amount of \$80,929,000 for equipment financing for Fiscal Year 2004, of which \$1,431,000 represents the carryover of equipment authorized for purchase during FY 2003 by U. T. El Paso.

The Board approved \$50,066,000 of equipment financing in Fiscal Year 2003, of which \$22,244,000 has been issued as of June 13, 2003. An additional \$21,300,000 is expected to be issued by the end of the fiscal year.

Further details on the equipment to be financed and debt coverage ratios for individual components can be found on Page 215.

APPROVAL OF U. T. SYSTEM EQUIPMENT FINANCING
FY 2004

Component	\$ Amount of Request	Description of Equipment Purchases	Source of Funds		DSC*	
			Funds		Min	Max
U. T. Arlington	\$5,000,000	Utilities, physical plant vehicles and equipment, teaching/research equip	Designated tuition		1.81	3.51
U. T. Austin	1,000,000	IT hardware/networking, research	Designated tuition		1.29	1.88
U. T. El Paso	2,431,000	Network system upgrades (switches, routers, & fiber)	Designated tuition		1.82	2.87
U. T. San Antonio	4,150,000	Computer equipment & software, scientific & lab equipment	Designated tuition & fee income		1.77	2.21
U. T. Southwestern Medical Center - Dallas	3,000,000	Breast MRI machine, CT scanner	Patient income		1.40	1.61
U. T. Medical Branch - Galveston	10,000,000	Clinical & info technology equipment	Clinical income		1.81	3.27
U. T. M. D. Anderson Cancer Center	50,000,000	Diagnostic imaging, radiation and research equipment	Patient income		4.25	6.12
U. T. Health Center - Tyler	5,148,000	Surgery, research, and radiology equipment	Patient income		2.89	5.28
U. T. System Administration	200,000	Office equipment	Available University Fund and departmental funds		2.77	3.66

Total **\$80,929,000**

* Debt Service Coverage ("DSC") is net revenue divided by debt service.

U. T. System Office of Finance, July 15, 2003

16. **U. T. Board of Regents: Approval of dissolution of Quasi-Endowment for Investment Excellence and authorization to expend remaining balance for educational purposes**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs and the Vice Chancellor and General Counsel that the Quasi-Endowment for Investment Excellence established by the Board in 1988 be dissolved and that the remaining balance in the Fund be used for educational purposes as authorized by Texas Education Code Section 65.37.

BACKGROUND INFORMATION

In December 1988, the Board of Regents authorized the assessment of an investment fee against all endowments and trusts managed by the Office of Asset Management. The fee was authorized at an annual rate equal to one-tenth of one percent of the Funds' market value and was to be used to fund the "Quasi-Endowment for Investment Excellence". The Board further authorized use of the income from the Quasi-Endowment to provide performance compensation for investment professionals employed by the Office of Asset Management.

On August 10, 1995, the Board took the following actions, effective for FY 1995-1996:

- a. maintained the assessment of the investment fee at one-tenth of one percent of the market value of the Long Term Fund (LTF);
- b. discontinued the use of the fee to fund the Quasi-Endowment;
- c. authorized the use of the fee to fund educational purposes at U. T. System Administration in an amount equal to four-hundredths of one percent of the market value of the LTF; and
- d. authorized use of the fee to fund expenses related to management of endowments and trusts in an amount equal to six-hundredths of one percent.

On August 14, 1997, the Board took the following actions, effective September 1, 1997:

- a. reduced the LTF fee for investment management to 0%;
- b. authorized reimbursement of the LTF management fees from the Endowment Investment Fee Management Expense account as well as the Quasi-Endowment account;
- c. reduced the Administrative Charge to Trust Funds from \$300,000/year to \$0; and
- d. reduced the current assessment of the LTF fee for educational purposes from four-hundredths to two-hundredths of one percent.

In the material provided to the Board in 1997, the staff projected that the Quasi-Endowment Fund balance would be drawn down by 2002 and that, beginning in 2003, the management fees would be paid directly from the LTF itself. Those projections were conservative, and the Fund currently has a balance of approximately \$3.8 million.

The proposed changes will further simplify use of the remaining Fund balance consistent with U. T. System priorities and as authorized by state law.

Timing of the dissolution of the quasi-endowment would be accomplished by withdrawals of the invested funds as needed and as best timed to maximize income generation and preservation of the Fund balance.

17. **U. T. System: Discussion of revenue debt capacity**

PURPOSE

The purpose of this item is to discuss the Revenue Financing System (RFS), review the primary credit strengths and risks of the U. T. System, and discuss issues related to RFS debt capacity as they relate to the Capital Improvement Program.

KEY POINTS/ POLICY ISSUES

The Board of Regents is being asked to approve the Capital Improvement Program (CIP) (Pages 7 - 37) totaling \$4.53 billion, representing an increase of 20.3% in one year. Approximately 48% of the CIP is to be funded with

RFS debt, making it the largest source of funding for the CIP. Although the RFS debt program is rated Aaa/AAA/AAA by the three major credit rating agencies, the credit profile of the U. T. System has been generally declining since 1996, as measured by the Debt Service Coverage ratio, among other credit statistics. This credit deterioration has been caused primarily by greater utilization of RFS debt including Tuition Revenue Bonds, rather than a general decline in operating performance. The Office of Finance monitors the debt capacity of each RFS member institution and is responsible for ensuring that each institution has the ability to repay its debt pursuant to the requirement in the RFS Master Resolution. Although the planned level of debt issuance associated with the Fiscal Year 2004-2009 CIP could put a stress on the System's credit ratings, the Office of Finance believes that each institution has the ability to repay that institution's individual debt from institutional resources.

BACKGROUND INFORMATION

In January 2002, the Office of Finance made a presentation to the Finance and Planning Committee of the Board of Regents outlining the status of the RFS. The presentation included a review of the primary credit strengths and risks of the U. T. System and a discussion of issues related to RFS debt capacity. Issues were raised at that time regarding the sustainability of the U. T. System's Aaa/AAA/AAA credit ratings in light of the rapid growth in the CIP and the resulting increase in the utilization of RFS debt as a funding source. Subsequent to that meeting, the Office of Finance was asked by the Board to quantify the cost of a credit downgrade from Aaa to Aa. The cost was determined to be 5-10 basis points, or \$500 to \$1,000 in higher annual debt service for each \$1 million of debt issued. As a follow-up to that presentation, the Office of Finance made a second presentation to the Finance and Planning Committee in April 2002, focusing entirely on RFS debt capacity. The primary conclusion was that the U. T. System was steadily depleting its debt capacity at the Aaa/AAA/AAA level. As a result, the Board authorized the Office of Finance to increase the minimum debt service coverage ratio used to help determine available debt capacity at each institution.

18. **U. T. System: Discussion of Quarterly Permanent University Fund update**

PURPOSE

Mr. Philip R. Aldridge, Associate Vice Chancellor for Finance, will update the Finance and Planning Committee on a quarterly basis regarding the projected amount of remaining PUF debt capacity and the projected levels of income and expenditures of the AUF, using a PowerPoint presentation (Pages 220 - 229).

KEY POINTS/ POLICY ISSUES

In September 2003, \$348 million will be distributed to the AUF compared to \$363 million distributed in September 2002. The \$348 million to be distributed represents 5.1% of the May 31, 2003, market value of the PUF.

Based on current assumptions and anticipated Library, Equipment, Repair and Rehabilitation ("LERR") allocations, there is an additional \$73-\$121 million of PUF debt capacity beyond the PUF projects currently approved, assuming a 7.40% (UTIMCO-approved Asset Allocation) or 9.35% (Prior Asset Allocation) investment return, respectively.

PUF distributions are projected to decline through FY 2006 and to be capped for a period of time because the purchasing power of the PUF will not have been maintained, as required by the Texas Constitution.

Under the 9.35% scenario, the PUF distribution is projected to be capped at \$364.3 million from FY 2008 through FY 2012.

Under the 7.40% scenario the PUF distribution is projected to be capped at \$348.4 million from FY 2008 through FY 2012.

BACKGROUND INFORMATION

The AUF forecast is based on an updated forecast of future PUF distributions provided by UTIMCO. UTIMCO updates the forecasted PUF distributions based on actual investment performance of the PUF through the most recent quarter.

The amount distributed to the AUF is equal to 4.75% of the average net asset value of the PUF for the trailing 12 fiscal quarters, calculated as of the fiscal quarter ending on the last day of February of each year.

The amount of remaining PUF debt capacity is calculated based on the AUF spending policy and a list of assumptions that has previously been discussed with the Finance and Planning Committee. The AUF spending policy approved by the Board requires:

- a. The forecasted AUF expenditures for program enrichment at U. T. Austin to be an amount at least equal to 45% of the sum of the projected U. T. System share of the net divisible AUF annual income and interest income on AUF balances (subject to the limits imposed by b. and c. below);
- b. Debt service coverage to be at least 1.50:1.00; and
- c. The forecasted end of year AUF balance to be at least \$30 million.

**The University of Texas System
Office of Finance**



**Quarterly Permanent University Fund
Update
Finance and Planning Committee**

August 6, 2003

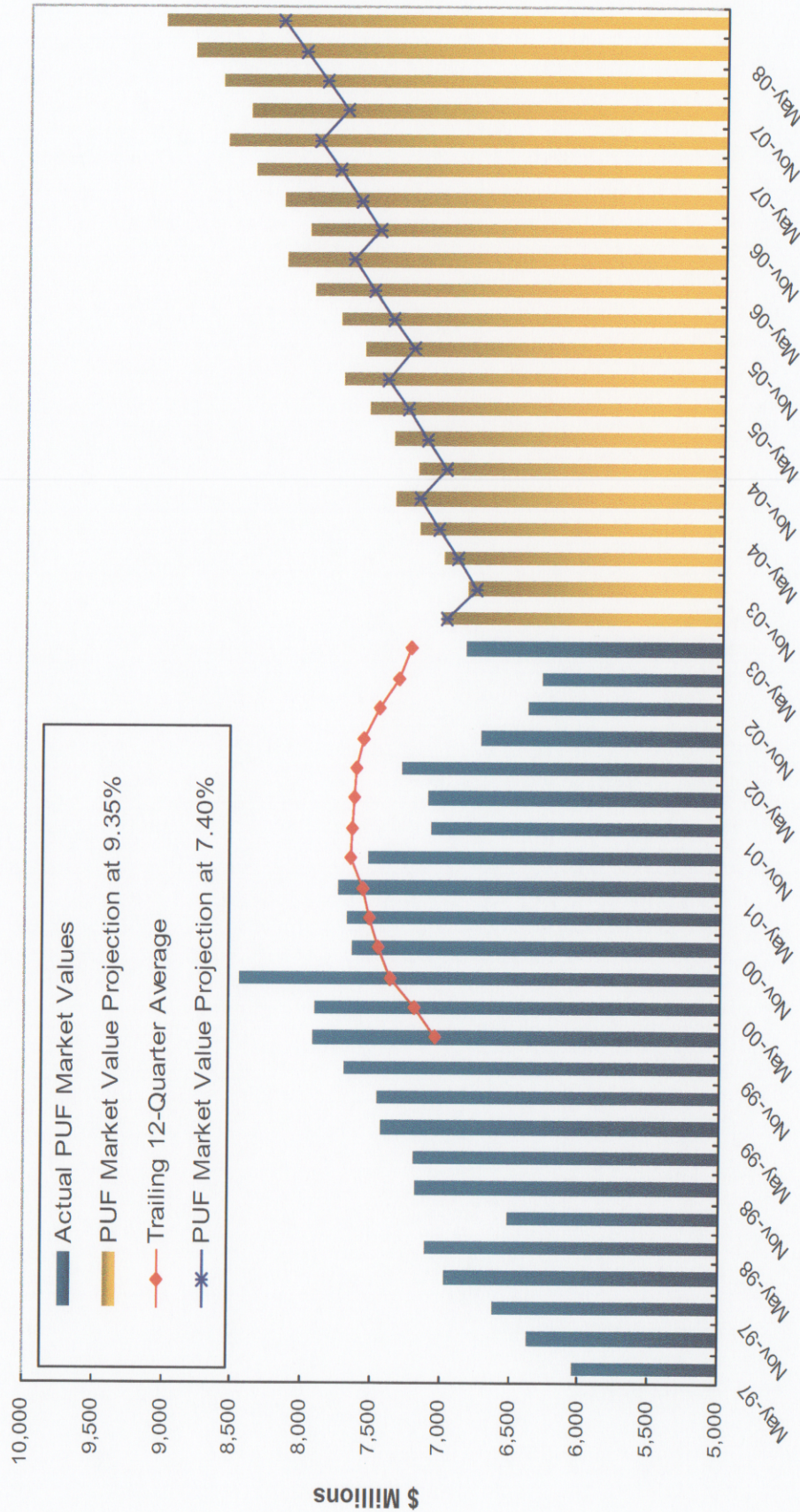
Executive Summary

- As of May 31, 2003, the market value of the PUF was \$6.85 billion, compared to \$6.3 billion on February 28, 2003.
- In September, 2003, \$348.0 million will be distributed to the AUF, representing 5.1% of the May 31st PUF market value.
- The debt capacity analyses are based on expected average annual rates of return on PUF investments of 9.35% (Prior Asset Allocation) and 7.40% through FY 2009 and 9.35% beginning FY 2010 (UTIMCO-approved Asset Allocation).
- Based on the current assumptions and anticipated LERR allocations, there is an additional \$73-\$121 million of PUF debt capacity beyond the PUF projects currently approved, assuming a 7.40% or 9.35% investment return, respectively.

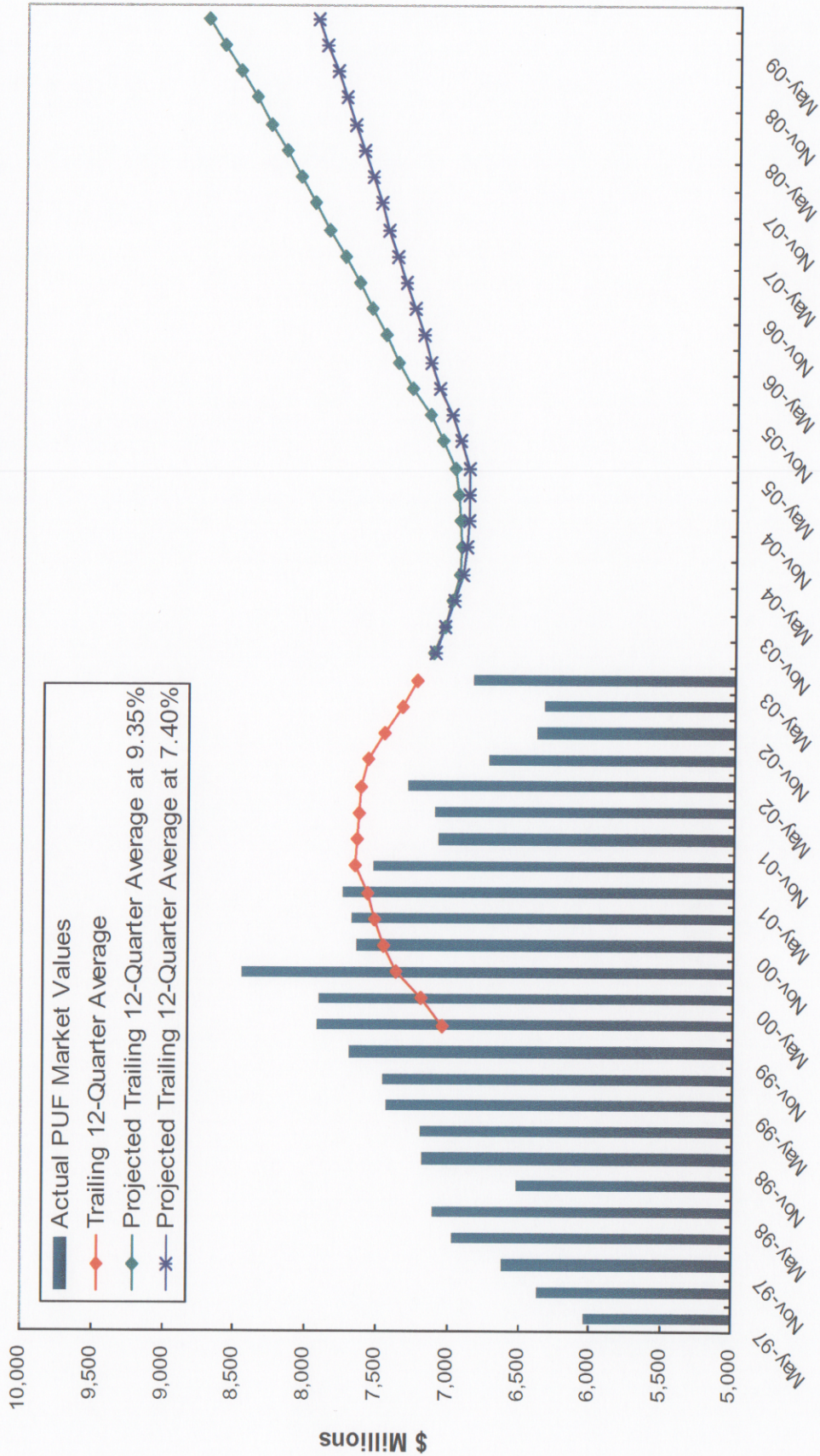
Executive Summary, Cont.

- PUF distributions are projected to decline through FY 2006 and to be capped for a period of time because the purchasing power of the PUF will not have been maintained, as required by the Texas Constitution.
- Under the 9.35% scenario, the PUF distribution is capped at \$364.3 million from FY 2008 through FY 2012.
- Under the 7.40% scenario the PUF distribution is capped at \$348.4 million from FY 2008 through FY 2012.

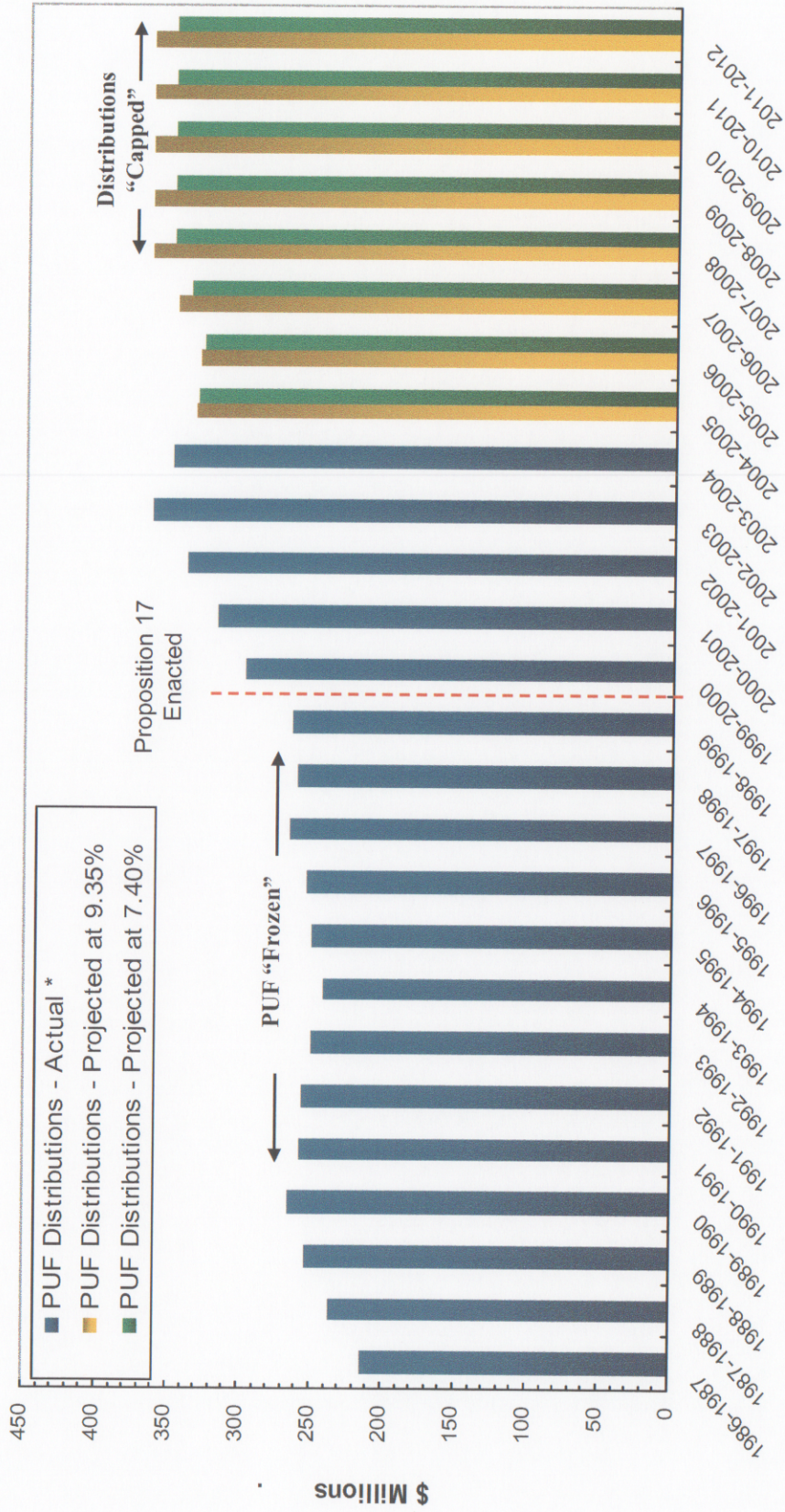
PUF Market Value Through May 31, 2003



Comparison of Projected Trailing 12Q Market Averages



Permanent University Fund Distributions



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

PUF Debt Capacity Base Case Assumptions

- The assumptions are the same for both cases except for the projected PUF annual rate of return, assuming either 9.35% or 7.40%, starting from the PUF market value as of May 31, 2003.
 - PUF Distribution equals 4.75% of the average PUF net asset value for the trailing 12 quarters, unless restricted by Constitutional purchasing power requirements.
 - U.T. Austin Excellence Funds equal 45% of the income available to U.T. System.
 - Includes all PUF projects approved through May 2003.
 - Annual LERR appropriations of \$30 million are projected to continue from FY 2005 through FY 2009. For FY 2004, the annual LERR appropriation is projected at \$40 million.
 - New PUF debt service structured as 20-year, tax-exempt debt with level debt service.

PUF Debt Capacity-Base Case at 9.35%

	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	
Additional PUF Debt Capacity (\$121.2 Million)	\$121.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	
Cumulative Additional PUF Debt Capacity	\$121.2	\$121.2	\$121.2	\$121.2	\$121.2	\$121.2	\$121.2	\$121.2	\$121.2	
Available University Fund Operating Statement Forecast Data (\$ Millions)										
PUF Distribution Amount	\$338.4	\$363.0	\$348.0	\$332.3	\$330.8	\$346.2	\$364.3	\$364.3	\$364.3	
Surface & Other Income	8.1	6.0	6.6	6.6	6.6	6.7	6.7	6.7	6.7	
Divisible Income	346.5	369.0	354.6	338.9	337.4	352.9	371.0	371.0	371.0	
UT System Share (2/3)	231.0	246.0	236.4	225.9	224.9	235.3	247.3	247.3	247.3	
AUF Interest Income	8.4	4.7	4.3	4.8	6.5	8.5	10.6	10.7	10.3	
Income Available to U.T.	239.4	250.7	240.7	230.8	231.4	243.8	257.9	258.0	257.6	
TRANSFERS:										
UT Austin Excellence Funds (45%)	(107.2)	(114.8)	(108.3)	(103.8)	(104.2)	(109.7)	(116.1)	(116.1)	(115.9)	
PUF Debt Service on Approved Projects	(68.1)	(69.3)	(78.3)	(96.0)	(101.7)	(105.0)	(108.4)	(111.1)	(114.0)	
PUF Cash Defeasance/Insurance Funding	(59.0)	-	-	-	-	-	-	-	-	
PUF Debt Service on Add. Debt Capacity	-	-	-	(9.5)	(9.5)	(9.5)	(9.5)	(9.5)	(9.5)	
System Administration	(25.7)	(29.6)	(28.1)	(28.1)	(28.1)	(28.1)	(28.1)	(28.1)	(28.1)	
Other	(3.0)	(4.5)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	
Debt Service (Bldg Rev)	(3.4)	(3.4)	(3.4)	-	-	-	-	-	-	
Net Surplus/(Deficit)	(27.0)	29.1	21.4	(7.8)	(13.1)	(9.6)	(5.3)	(7.9)	(11.0)	
Ending AUF Balance - System	49.2	78.3	99.7	91.9	78.8	69.2	63.9	56.0	45.0	
PUF Debt Service Coverage	3.11:1	3.62:1	3.07:1	2.19:1	2.08:1	2.13:1	2.19:1	2.14:1	2.09:1	

PUF Debt Capacity-Base Case at 7.40%

	Actual FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	
										Projected
Additional PUF Debt Capacity (\$73.5 Million)			\$73.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	
Cumulative Additional PUF Debt Capacity			\$73.5	\$73.5	\$73.5	\$73.5	\$73.5	\$73.5	\$73.5	
Available University Fund Operating Statement Forecast Data (\$ Millions)										
PUF Distribution Amount	\$338.4	\$363.0	\$348.0	\$331.5	\$327.1	\$337.4	\$348.4	\$348.4	\$348.4	
Surface & Other Income	8.1	6.0	6.6	6.6	6.6	6.7	6.7	6.7	6.7	
Divisible Income	346.5	369.0	354.6	338.1	333.8	344.1	355.1	355.1	355.1	
UT System Share (2/3)	231.0	246.0	236.4	225.4	222.5	229.4	236.7	236.7	236.7	
AUF Interest Income	8.4	4.7	4.3	4.9	6.6	8.6	10.5	10.5	10.0	
Income Available to U.T.	239.4	250.7	240.7	230.3	229.1	237.9	247.2	247.3	246.8	
TRANSFERS:										
UT Austin Excellence Funds (45%)	(107.2)	(114.8)	(108.3)	(103.6)	(103.1)	(107.1)	(111.3)	(111.3)	(111.1)	
PUF Debt Service on Approved Projects	(68.1)	(69.3)	(78.3)	(96.0)	(101.7)	(105.0)	(108.4)	(111.1)	(114.0)	
PUF Cash Defeasance/Insurance Funding	(59.0)	-	-	-	-	-	-	-	-	
PUF Debt Service on Add. Debt Capacity	-	-	-	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	
System Administration	(25.7)	(29.6)	(28.1)	(28.1)	(28.1)	(28.1)	(28.1)	(28.1)	(28.1)	
Other	(3.0)	(4.5)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	
Debt Service (Bldg Rev)	(3.4)	(3.4)	(3.4)	-	-	-	-	-	-	
Net Surplus/(Deficit)	(27.0)	29.1	21.4	(4.3)	(10.7)	(9.1)	(7.4)	(10.1)	(13.2)	
Ending AUF Balance - System	49.2	78.3	99.7	95.4	84.8	75.7	68.3	58.2	45.0	
PUF Debt Service Coverage	3.11:1	3.62:1	3.07:1	2.26:1	2.13:1	2.15:1	2.17:1	2.12:1	2.06:1	

PUF Debt Capacity Sensitivities at 9.35%

Board-Determined	Board-Determined	Board-Determined	Board-Determined	Market-Dependent	Market-Dependent	Market-Dependent	Projected Available University Fund Balance (\$ Millions)						Add. Debt Capacity	Projected PUF Market Value in FY 2030
							U.T. Austin Excellence	PUF Distribution Rate	PUF Investment Return	Change in Tax-Exempt Rates	FY2004	FY2005		
\$30 Million	45.0%	4.75%	9.35%	NA	99.7	91.9	78.8	69.2	63.9	56.0	45.0	121.2	25,286,641,963	
\$30 Million	45.0%	4.75%	9.35%	NA	99.7	91.9	78.8	69.2	63.9	56.0	45.0	121.2	25,286,641,963	
\$20 Million	45.0%	4.75%	9.35%	NA	99.7	89.9	75.6	65.5	60.6	54.0	45.0	153.8	25,286,641,963	
\$10 Million	45.0%	4.75%	9.35%	NA	99.7	88.0	72.4	62.0	57.5	52.1	45.0	185.8	25,286,641,963	
None	45.0%	4.75%	9.35%	NA	99.7	85.9	69.2	58.3	54.2	50.1	45.0	218.4	25,286,641,963	
\$30 Million	40.0%	4.75%	9.35%	NA	99.7	91.1	77.3	67.5	62.8	55.4	45.0	277.7	25,286,641,963	
\$30 Million	45.0%	4.75%	9.35%	NA	99.7	91.9	78.8	69.2	63.9	56.0	45.0	121.2	25,286,641,963	
\$30 Million	50.0%	4.75%	9.35%	NA	99.7	90.0	74.7	62.4	53.6	42.0	27.3	0.0	25,286,641,963	
\$30 Million	45.0%	4.50%	9.35%	NA	99.7	92.1	79.2	69.6	64.2	56.1	45.0	36.7	26,868,455,885	
\$30 Million	45.0%	4.75%	9.35%	NA	99.7	91.9	78.8	69.2	63.9	56.0	45.0	121.2	25,286,641,963	
\$30 Million	45.0%	5.00%	9.35%	NA	99.7	91.8	78.6	69.0	63.8	55.9	45.0	205.0	23,729,106,286	
\$30 Million	45.0%	4.75%	8.35%	NA	99.7	93.6	81.6	72.4	66.0	57.1	45.0	99.6	19,494,866,919	
\$30 Million	45.0%	4.75%	9.35%	NA	99.7	91.9	78.8	69.2	63.9	56.0	45.0	121.2	25,286,641,963	
\$30 Million	45.0%	4.75%	10.35%	NA	99.7	90.3	75.9	66.0	61.8	54.9	45.0	143.0	32,447,640,064	
\$30 Million	45.0%	4.75%	9.35%	+ 50 bps	98.8	91.2	78.4	69.1	63.9	56.0	45.0	92.9	25,286,641,963	
\$30 Million	45.0%	4.75%	9.35%	NA	99.7	91.9	78.8	69.2	63.9	56.0	45.0	121.2	25,286,641,963	
\$30 Million	45.0%	4.75%	9.35%	-50 bps	100.7	92.7	79.2	69.4	63.9	56.0	45.0	151.5	25,286,641,963	

19. **U. T. System: Discussion of proposed issuance of \$125,000,000 of Permanent University Fund Flexible Rate Notes, Series A**

PURPOSE

The purpose of this item is to inform the Finance and Planning Committee of a proposed issuance of \$125,000,000 of Permanent University Fund Flexible Rate Notes, Series A.

KEY POINTS/ POLICY ISSUES

The Board has previously authorized the Permanent University Fund Flexible Rate Notes, Series A interim financing program pursuant to which Notes may be issued up to a maximum of \$400,000,000 outstanding at any one time.

No Board action is necessary for the issuance of this installment of Notes. In accordance with the Texas Constitution, the Notes will be sold through a competitive sale, scheduled for August 2003.

There are \$175,000,000 of Notes currently outstanding. This proposed installment of \$125,000,000 will increase the aggregate amount of Notes outstanding under the program to \$300,000,000.

Proceeds from the Notes will be used to fund capital costs of projects that have been previously approved by the Board to be funded with PUF debt.

BACKGROUND INFORMATION

The Board established the PUF Flexible Rate Note program in 1985. The program has been amended periodically since 1985.

In November 2002, the Board expanded the program authorization from \$250,000,000 to \$400,000,000 to accommodate growth in the Capital Improvement Program.

20. **U. T. System: Discussion of Monthly Financial Report**

PURPOSE

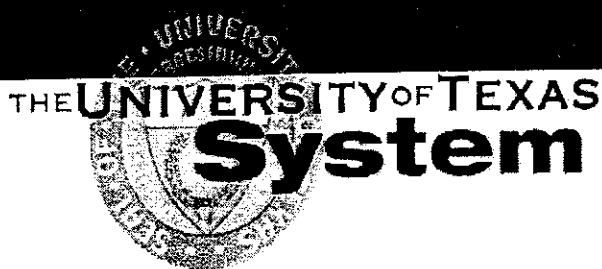
The purpose of this item is to discuss the April Monthly Financial Report (MFR), as set out on Pages 232 - 256, which provides operating results of the U. T. component institutions.

KEY POINTS/ POLICY ISSUES

The MFR for April 2003 compares the results of operations between the current year-to-date cumulative amounts and the prior year-to-date cumulative amounts. Explanations are provided for institutions having the largest variances in Adjusted Income (Loss) year-to-date as compared to the prior year both in terms of dollars and percentages. In addition, although no significant variance may exist, institutions with losses may be discussed.

BACKGROUND INFORMATION

A Monthly Financial Report has been prepared to track the financial results of the institutions since 1990.



Monthly Financial Report

(Unaudited)

System Office:

*The University of Texas
System Administration*

Academic Components:

*The University of Texas
at Arlington*

*The University of Texas
at Austin*

*The University of Texas
at Brownsville*

*The University of Texas
at Dallas*

*The University of Texas
at El Paso*

*The University of Texas –
Pan American*

*The University of Texas
of the Permian Basin*

*The University of Texas
at San Antonio*

*The University of Texas
at Tyler*

Health Components:

*The University of Texas
Southwestern Medical Center
at Dallas*

*The University of Texas
Medical Branch at Galveston*

*The University of Texas Health
Science Center at Houston*

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

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

*The University of Texas Health
Center at Tyler*

April 2003

THE UNIVERSITY OF TEXAS SYSTEM
MONTHLY FINANCIAL REPORT
(Unaudited)
FOR THE EIGHT MONTHS ENDING
APRIL 30, 2003

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

Foreword

The Monthly Financial Report (MFR) for 2003 compares the results of operations between the current year-to-date cumulative amounts and the prior year-to-date cumulative amounts. Explanations are provided for institutions having the largest variances in Adjusted Income (Loss) year-to-date as compared to the prior year, both in terms of dollars and percentages. In addition, although no significant variance may exist, institutions with losses may be discussed.

A significant change for 2003 is inclusion of the endowment funds realized gains and losses in System Administration's operating results. In the past, these amounts have not been included as the focus has been on results from operations. However, since realized gains and losses are included at year-end in determining the System-wide operating margin, we have begun including these realized gains and losses for 2003 at the System Administration level.

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

UNAUDITED
The University of Texas System
Comparison of Operating Results and Margin
For the Eight Months Ending April 30, 2003

	April Year-to-Date <u>FY 2003</u>	April Year-to-Date FY 2002 (Restated)	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$533,801,075	\$466,245,467	\$67,555,608	14.49%
Sponsored Programs	1,150,086,530	1,035,780,282	114,306,248	11.04%
Net Sales and Services of Educational Activities	146,465,458	95,424,316	51,041,142	53.49%
Net Sales and Services of Hospitals	1,036,043,611	926,667,960	109,375,651	11.80%
Net Professional Fees	476,432,685	437,817,632	38,615,053	8.82%
Net Auxiliary Enterprises	162,135,190	148,503,241	13,631,949	9.18%
Other Operating Revenues	144,204,891	153,566,376	(9,361,485)	-6.10%
Total Operating Revenues	<u>3,649,169,440</u>	<u>3,264,005,274</u>	<u>385,164,166</u>	<u>11.80%</u>
Operating Expenses				
Salaries and Wages	2,435,419,883	2,243,020,370	192,399,513	8.58%
Payroll Related Costs	632,829,452	567,399,039	65,430,413	11.53%
Professional Fees and Contracted Services	109,400,724	104,139,341	5,261,383	5.05%
Other Contracted Services	192,425,101	185,039,555	7,385,546	3.99%
Scholarships and Fellowships	301,426,413	245,306,277	56,120,136	22.88%
Travel	51,046,348	45,356,638	5,689,710	12.54%
Materials and Supplies	494,220,366	471,203,350	23,017,016	4.88%
Utilities	100,239,316	94,066,564	6,172,752	6.56%
Telecommunications	37,768,567	34,870,248	2,898,319	8.31%
Repairs and Maintenance	65,642,992	65,864,473	(221,481)	-0.34%
Rentals and Leases	46,824,200	39,487,618	7,336,582	18.58%
Printing and Reproduction	23,335,879	23,985,404	(649,525)	-2.71%
Bad Debt Expense	3,572	4,132	(560)	-13.55%
Claims and Losses	0	5,882,130	(5,882,130)	-100.00%
Federal Sponsored Programs Pass-Throughs	20,401,819	16,722,782	3,679,037	22.00%
State Sponsored Programs Pass-Throughs	2,058,737	922,283	1,136,454	123.22%
Depreciation and Amortization	206,623,136	201,937,808	4,685,328	2.32%
Other Operating Expenses	263,690,444	272,535,336	(8,844,892)	-3.25%
Total Operating Expenses	<u>4,983,356,949</u>	<u>4,617,743,348</u>	<u>365,613,601</u>	<u>7.92%</u>
Operating Loss	<u>(1,334,187,509)</u>	<u>(1,353,738,074)</u>	<u>19,550,565</u>	<u>1.44%</u>
Other Nonoperating Adjustments				
State Appropriations	1,096,404,398	1,114,767,539	(18,363,141)	-1.65%
Gift Contributions for Operations	140,511,769	132,941,589	7,570,180	5.69%
Net Investment Income	269,047,053	265,066,086	3,980,967	1.50%
Interest Expense on Capital Asset Financings	(71,829,516)	(69,995,337)	(1,834,179)	-2.62%
Net Other Nonoperating Adjustments	<u>1,434,133,704</u>	<u>1,442,779,877</u>	<u>(8,646,173)</u>	<u>-0.60%</u>
Adjusted Income (Loss)	99,946,195	89,041,803	10,904,392	12.25%
Adjusted Margin (as a percentage)	1.94%	1.86%		
Long Term Fund Transfer	0	0	0	0.00%
Available University Fund Transfer	0	0	0	0.00%
Realized Investment Gains (Losses)	(284,476,387)	(227,901,250)	(56,575,137)	-24.82%
Adjusted Income (Loss) with Transfers and Realized (Losses)	(\$184,530,192)	(\$138,859,447)	(\$45,670,745)	-32.89%
Adjusted Margin % with Transfers and Realized (Losses)	-3.79%	-3.05%		

**The University of Texas System
 Comparison of Year-to-Date FY 2003 Adjusted Income (Loss)
 to Year-to-Date FY 2002 Adjusted Income (Loss)
 For the Eight Months Ending April 30, 2003**

	Year-to-Date FY 2003 Adjusted Income (Loss)	Year-to-Date FY 2002 Adjusted Income (Loss) (Restated)	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
U. T. System Administration	\$147,457,316	\$98,092,518	\$49,364,798	50.33%
U. T. Arlington	4,618,162	4,102,468	515,694	12.57%
U. T. Austin	57,768,477	65,149,224	(7,380,747)	-11.33%
U. T. Brownsville	1,283,212	3,026,881	(1,743,669)	-57.61%
U. T. Dallas	3,062,134	3,227,166	(165,032)	-5.11%
U. T. El Paso	1,042,309	736,079	306,230	41.60%
U. T. Pan American	4,357,098	2,903,352	1,453,746	50.07%
U. T. Permian Basin	214,684	292,886	(78,202)	-26.70%
U. T. San Antonio	3,379,253	2,695,070	684,183	25.39%
U. T. Tyler	1,804,915	2,903,829	(1,098,914)	-37.84%
U. T. Southwestern Medical Center - Dallas	14,822,177	14,633,637	188,540	1.29%
U. T. Medical Branch - Galveston	(27,005,575) (3)	(23,052,062)	(3,953,513)	-17.15%
U. T. Health Science Center - Houston	(33,183,013)	(6,019,801)	(27,163,212)	-81.99%
U. T. Health Science Center - San Antonio	6,661,223	15,315,324	(8,654,101)	-56.45%
U. T. M. D. Anderson Cancer Center	47,690,423	29,749,910	17,940,513	60.37%
U. T. Health Center - Tyler	(1,659,660)	(193,160)	(1,466,500)	-73.22%
Elimination of L.F. and AUP transfer	(137,677,490)	(124,160,563)	(13,516,927)	-10.89%
Total Adjusted Income (Loss)	100,946,195	89,372,758	11,573,437	12.95%
Realized Investment Gains (Losses)	(284,476,387)	(227,901,250)	(56,575,137)	-24.82%
Total Adjusted Income (Loss) with Transfers and Realized Gains (Losses)	<u>(\$183,530,192)</u>	<u>(\$138,528,492)</u>	<u>(\$45,001,700)</u>	<u>-32.49%</u>

THE UNIVERSITY OF TEXAS SYSTEM
EXPLANATION OF VARIANCES ON THE MONTHLY FINANCIAL REPORT
For the Eight Months Ending April 30, 2003

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

- (1) U. T. System Administration – The \$49.4 million (50.3%) increase in adjusted income over the same period last year was primarily due to Employee Group Insurance premiums exceeding claims.
- (2) U. T. Southwestern Medical Center – Dallas – The \$13.5 million (92.3%) decrease in adjusted income over the same period last year was primarily due to \$7.8 million of increased expenses in the physician practice plan, a \$1.3 million increase in interest expense for construction, lower gift contributions of \$3.3 million and a \$1.3 million decrease in investment income. Salaries, wages and fringe benefits in the physician practice plan increased as a result of the creation of new positions in Obstetrics-Gynecology, Internal Medicine and Cardiothoracic Surgery, as well as annual salary increases. Pharmaceutical expenses also increased by \$1.4 million due to price increases.
- (3) U. T. Medical Branch – Galveston – The \$27 million year-to-date net loss is primarily due to expenses outpacing revenue growth. While hospital and clinic volumes continue to grow, the legislative reductions of state appropriations and Correctional Managed Care have decreased revenues approximately \$12.7 million year-to-date. *UTMB Galveston* anticipates ending the year with a \$28.5 million loss. The year-end estimate includes expense reductions associated with the 7% reduction in state appropriations.
- (4) U. T. Health Science Center – Houston – The \$7.2 million (119%) increase in adjusted loss over the same period last year was primarily due to increased salaries and benefits expense and the state appropriation reduction. As a result of the increased expenses and decreased state appropriations, *UTHSC - Houston* has a year-to-date net loss of \$13.2 million. The loss was primarily due to a year-to-date net loss of \$7.1 million in the physician practice plan. Typically, professional fees are higher in the second half of the year due to more clinical days. Another factor contributing to lower professional fees are unexpected faculty vacancies in several areas, which normally have high dollar charge rates. A higher percentage of self-pay and indigent patients has also resulted in fewer collections. State appropriation reductions are contributing \$4.4 million to the loss. Information systems upgrade expenses, mandated by the State Auditor, have also contributed to *UTHSC - Houston's* deficit. *UTHSC - Houston* is anticipating ending the year with an \$8.5 million loss. The year-end estimate includes expense reductions associated with the 7% reduction in state appropriations and cost savings measures in the physician practice plan operation.
- (5) U. T. Health Science Center – San Antonio – The \$8.7 million (56.5%) decrease in adjusted income over the same period last year was primarily due to \$3.6 million in state appropriation reductions, faculty merit salary increase of \$1.7 million (2.5%), \$1.2 million in faculty incentive payments and \$1.1 million in increased staff group insurance premium costs. The faculty incentive payments are expected to be repaid with incremental Practice Plan contract revenues anticipated to be collected before the end of the fiscal year. As a result of general revenue reductions, *UTHSC – San Antonio* has implemented a cost cutting strategy among unrestricted funds in order to keep overall expenditures within revised funding levels. *UTHSC – San Antonio's* expenditure reductions will occur between February and August to offset the seven percent general revenue reduction. As this occurs, the decline in *UTHSC – San Antonio's* margin between 2002 and 2003 will progressively diminish.
- (6) U. T. M. D. Anderson Cancer Center – The \$18 million (60.5%) increase in adjusted income over the same period last year was primarily due to increased operating revenues of \$113.9 million versus increased operating expenses of \$85.3 million. Following the events of September 11, 2001, *M. D. Anderson* experienced a decline in the number of clinical visits which, combined with a decrease in the number of international patients, caused revenues to be reduced in the first part of 2002. Increased patient volumes in the current year, combined with improved collections and better managed care contract management have increased hospital revenues by \$86.4 million and professional fees by \$19.3 million. The largest increase in expense is related to salaries and wages, which have increased \$44 million or 10.5% compared to the prior year. Included in the operating results is an \$11.5

million decrease in state appropriations. Interest expense on capital asset financing has increased \$4.7 million due to five additional debt financed capital projects in 2003.

(7) U. T. Health Center – Tyler – The \$1.5 million (759.2%) decrease in adjusted income over the same period last year was primarily due to a change in the payor mix. While Medicaid patients are increasing due to an onsite Medicaid qualifier, more profitable private pay and commercial insurance patients are decreasing. Increased Medicaid contractual adjustments are placing pressure on adjusted income. Length of stay increases for Medicaid patients have also contributed to a rise in contractual adjustments. Salaries and wages have increased due to merit increases and professional fee expenses were \$1.9 million higher due to the severe nursing shortage. As a result of the reduced revenues and increased expenses, *UTHC - Tyler* has a year-to-date net loss of \$1.7 million. *UTHC - Tyler's* management is in the process of changing the physician incentive plans to be based on net collections and plans to increase co-pays for the hospital. *UTHC - Tyler* is currently anticipating ending the year with a \$1 million profit. The year-end estimate includes expense reductions associated with the 7% reduction in state appropriations and \$4 million in anticipated Medicare cost recoveries.

(8) Elimination of LTF and AUF Transfers – The \$13.6 million (11%) increase in the elimination of the Long Term Fund (LTF) transfer and Available University Fund (AUF) transfer amount is due to an increase in distributions for both funds. The LTF payout consists of current year investment earnings and transfers from prior period earnings. The LTF transfer increased \$7.2 million over last year due to three factors: (1) slightly less current year earnings available for distribution in FY 2003; (2) the payout per LTF unit increased from 25.1 cents per unit to 25.8 cents per unit between the two years; and (3) the number of units in the fund increased due to new endowment gifts.

The AUF distribution increased \$6.4 million or 7.3% over last year due to a 0.25% increase in the AUF distribution rate approved by the Board of Regents.

(9) Realized Investment Gains (Losses) – The \$56.6 million (24.8%) increase in realized investment losses over the same period last year was due to losses for the endowment funds. Of the \$284.5 million year-to-date loss, \$191.9 million related to the Permanent University Fund (PUF), \$73.2 million related to the LTF and \$19.4 million related to the Permanent Health Fund (PHF). The additional decline from prior year to current year was due to worsening financial market conditions.

GLOSSARY OF TERMS

OPERATING REVENUES:

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

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

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

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

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

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

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

TOTAL OPERATING REVENUES – *U.T. component institutionally generated funding needed to meet current fiscal year operating expenses.*

OPERATING EXPENSES:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DEPRECIATION AND AMORTIZATION – *Estimated depreciation and amortization expense.*

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

TOTAL OPERATING EXPENSES – *Total operating expenses for U.T. System component institution.*

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

OTHER NONOPERATING ADJUSTMENTS:

STATE APPROPRIATIONS – *Appropriations from the State General Revenue fund, which supplement the U.T. component institutional revenue in meeting operating expenses, such as faculty salaries, utilities, and institutional support. Also includes Higher Education Assistance Funds (HEAF), which is a source of state appropriated general revenue to U.T. Brownsville and U.T. Pan American. HEAF funds are appropriated for construction, library and equipment expenses for Texas public universities that do not benefit from the Permanent University Fund (PUF) bond proceeds.*

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

NET INVESTMENT INCOME – *Interest and dividend income, Long Term Fund and Permanent Health Fund distributions paid from current year income and patent and royalty income.*

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

NET OTHER NONOPERATING ADJUSTMENTS – *Sum of the other nonoperating adjustments.*

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

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

LONG TERM FUND TRANSFER – *At the institutional level, includes Long Term Fund fixed payouts approved by the Board of Regents less amounts reported as Net Investment Income. Investment income and realized gains and losses are recognized by System Administration when earned; however, the institutions do not recognize the income until their fixed payout is received. This portion of the fixed payouts is eliminated at the consolidated level to avoid overstating System-wide revenues, as the amounts will be reflected as transfers at year-end.*

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

REALIZED INVESTMENT GAINS (LOSSES) – *Realized gains and losses on endowment funds managed by UTIMCO.*

TOTAL ADJUSTED INCOME (LOSS) WITH TRANSFERS AND REALIZED GAINS (LOSSES) – *Total Adjusted Income including LTF and AUF Transfers and Realized Gains (Losses).*

UNAUDITED
The University of Texas System Administration
Comparison of Operating Results and Margin
For the Eight Months Ending April 30, 2003

	April Year-to-Date <u>FY 2003</u>	April Year-to-Date <u>FY 2002</u>	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Net Sales and Services of Educational Activities	\$60,957,332	\$14,299,098	\$46,658,234	326.30%
Other Operating Revenues	3,700,163	2,554,160	1,146,003	44.87%
Total Operating Revenues	<u>64,657,495</u>	<u>16,853,258</u>	<u>47,804,237</u>	<u>283.65%</u>
Operating Expenses				
Salaries and Wages	11,056,783	4,822,732	6,234,051	129.26%
Employee Benefits and Related Costs	4,727,888	3,881,101	846,787	21.82%
Professional Fees and Contracted Services	6,842,243	5,869,912	972,331	16.56%
Other Contracted Services	7,142,293	801,479	6,340,814	791.14%
Travel	917,373	824,266	93,107	11.30%
Materials and Supplies	1,498,952	1,272,762	226,190	17.77%
Utilities	19,544	20,532	(988)	-4.81%
Telecommunications	331,224	928,310	(597,086)	-64.32%
Repairs and Maintenance	375,025	434,702	(59,677)	-13.73%
Rentals and Leases	675,047	312,851	362,196	115.77%
Printing and Reproduction	295,459	290,260	5,199	1.79%
Claims and Losses	0	5,882,130	(5,882,130)	-100.00%
Depreciation and Amortization	1,058,264	793,608	264,656	33.35%
Other Operating Expenses	5,597,917	1,570,071	4,027,846	256.54%
Total Operating Expenses	<u>40,538,012</u>	<u>27,704,716</u>	<u>12,833,296</u>	<u>46.32%</u>
Operating Loss	<u>24,119,483</u>	<u>(10,851,458)</u>	<u>34,970,941</u>	<u>322.27%</u>
Other Nonoperating Adjustments				
State Appropriations	610,914	583,808	27,106	4.64%
Gift Contributions for Operations	1,011,027	303,680	707,347	232.93%
Net Investment Income	120,624,893	111,095,179	9,529,714	8.58%
Interest Expense on Capital Asset Financings	(20,806,403)	(23,486,935)	2,680,532	11.41%
Net Other Nonoperating Adjustments	<u>101,440,431</u>	<u>88,495,732</u>	<u>12,944,699</u>	<u>14.63%</u>
Adjusted Income (Loss)	125,559,914	77,644,274	47,915,640	61.71%
Adjusted Margin (as a percentage)	67.18%	60.27%		
Long Term Fund Transfer	3,371,214	3,308,209	63,005	1.90%
Available University Fund Transfer	17,526,688	16,809,080	717,608	4.27%
Adjusted Income (Loss) with Transfers	146,457,816	97,761,563	\$48,696,253	49.81%
Adjusted Margin % with Transfers	70.48%	65.63%		
Realized Investment Gains (Losses)	(284,476,387)	(227,901,250)		
Adjusted Income (Loss) with Transfers and Realized (Losses)	(\$138,018,571)	(\$130,139,687)	(\$7,878,884)	-6.05%
Adjusted Margin % with Transfers and Realized (Losses)	-180.01%	-164.84%		

UNAUDITED
The University of Texas at Arlington
Comparison of Operating Results and Margin
For the Eight Months Ending April 30, 2003

	April Year-to-Date <u>FY 2003</u>	April Year-to-Date <u>FY 2002</u>	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$61,280,932	\$51,366,876	\$9,914,056	19.30%
Sponsored Programs	29,184,044	22,908,588	6,275,456	27.39%
Net Sales and Services of Educational Activities	3,793,474	3,174,508	618,966	19.50%
Net Auxiliary Enterprises	10,943,897	9,198,870	1,745,027	18.97%
Other Operating Revenues	3,062,772	2,244,828	817,944	36.44%
Total Operating Revenues	<u>108,265,119</u>	<u>88,893,670</u>	<u>19,371,449</u>	<u>21.79%</u>
Operating Expenses				
Salaries and Wages	86,846,196	79,760,000	7,086,196	8.88%
Employee Benefits and Related Costs	21,969,177	19,522,455	2,446,722	12.53%
Professional Fees and Contracted Services	1,337,795	1,058,190	279,605	26.42%
Other Contracted Services	3,499,913	2,818,184	681,729	24.19%
Scholarships and Fellowships	26,088,070	19,666,183	6,421,887	32.65%
Travel	2,029,584	1,763,040	266,544	15.12%
Materials and Supplies	9,542,626	9,438,832	103,794	1.10%
Utilities	4,139,309	4,292,675	(153,366)	-3.57%
Telecommunications	1,381,005	1,264,529	116,476	9.21%
Repairs and Maintenance	3,850,034	3,642,859	207,175	5.69%
Rentals and Leases	1,148,421	833,804	314,617	37.73%
Printing and Reproduction	1,501,253	1,433,447	67,806	4.73%
Federal Sponsored Programs Pass-Thrus	45,503	32,352	13,151	40.65%
Depreciation and Amortization	5,704,934	5,007,624	697,310	13.92%
Other Operating Expenses	3,319,287	3,309,483	9,804	0.30%
Total Operating Expenses	<u>172,403,107</u>	<u>153,843,657</u>	<u>18,559,450</u>	<u>12.06%</u>
Operating Loss	<u>(64,137,988)</u>	<u>(64,949,987)</u>	<u>811,999</u>	<u>1.25%</u>
Other Nonoperating Adjustments				
State Appropriations	69,242,590	69,094,886	147,704	0.21%
Gift Contributions for Operations	1,000,430	1,010,831	(10,401)	-1.03%
Net Investment Income	897,344	1,312,533	(415,189)	-31.63%
Interest Expense on Capital Asset Financings	(3,074,896)	(2,964,896)	(110,000)	-3.71%
Net Other Nonoperating Adjustments	<u>68,065,468</u>	<u>68,453,354</u>	<u>(387,886)</u>	<u>-0.57%</u>
Adjusted Income (Loss)	3,927,480	3,503,367	424,113	12.11%
Adjusted Margin (as a percentage)	2.19%	2.19%		
Long Term Fund Transfer	690,682	599,101	91,581	15.29%
Adjusted Income (Loss) with Transfers	\$4,618,162	\$4,102,468	\$515,694	12.57%
Adjusted Margin % with Transfers	2.56%	2.55%		

UNAUDITED
The University of Texas at Austin
Comparison of Operating Results and Margin
For the Eight Months Ending April 30, 2003

	April Year-to-Date <u>FY 2003</u>	April Year-to-Date <u>FY 2002</u>	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$250,413,535	\$224,094,746	\$26,318,789	11.74%
Sponsored Programs	232,112,168	213,149,094	18,963,074	8.90%
Net Sales and Services of Educational Activities	45,705,732	41,445,776	4,259,956	10.28%
Net Auxiliary Enterprises	94,426,762	89,078,577	5,348,185	6.00%
Other Operating Revenues	8,341,036	7,084,535	1,256,501	17.74%
Total Operating Revenues	<u>630,999,233</u>	<u>574,852,728</u>	<u>56,146,505</u>	<u>9.77%</u>
Operating Expenses				
Salaries and Wages	489,794,436	458,670,186	31,124,250	6.79%
Employee Benefits and Related Costs	114,744,136	102,698,640	12,045,496	11.73%
Professional Fees and Contracted Services	17,168,359	17,397,517	(229,158)	-1.32%
Other Contracted Services	27,275,462	25,929,100	1,346,362	5.19%
Scholarships and Fellowships	99,867,233	84,565,007	15,302,226	18.10%
Travel	15,918,288	14,254,376	1,663,912	11.67%
Materials and Supplies	59,012,518	59,035,196	(22,678)	-0.04%
Utilities	28,452,675	26,482,330	1,970,345	7.44%
Telecommunications	7,782,022	7,650,635	131,387	1.72%
Repairs and Maintenance	15,530,145	15,952,908	(422,763)	-2.65%
Rentals and Leases	7,959,301	8,151,057	(191,756)	-2.35%
Printing and Reproduction	6,962,651	7,593,932	(631,281)	-8.31%
Federal Sponsored Programs Pass-Thrus	8,347,420	6,159,279	2,188,141	35.53%
State Sponsored Programs Pass-Thrus	2,045,988	922,283	1,123,705	121.84%
Depreciation and Amortization	47,228,043	43,656,021	3,572,022	8.18%
Other Operating Expenses	20,721,921	22,632,012	(1,910,091)	-8.44%
Total Operating Expenses	<u>968,810,598</u>	<u>901,750,479</u>	<u>67,060,119</u>	<u>7.44%</u>
Operating Loss	<u>(337,811,365)</u>	<u>(326,897,751)</u>	<u>(10,913,614)</u>	<u>-3.34%</u>
Other Nonoperating Adjustments				
State Appropriations	214,131,105	218,295,523	(4,164,418)	-1.91%
Gift Contributions for Operations	51,179,671	49,300,916	1,878,755	3.81%
Net Investment Income	31,936,091	35,939,050	(4,002,959)	-11.14%
Interest Expense on Capital Asset Financings	(11,547,768)	(11,403,475)	(144,293)	-1.27%
Net Other Nonoperating Adjustments	<u>285,699,099</u>	<u>292,132,014</u>	<u>(6,432,915)</u>	<u>-2.20%</u>
Adjusted Income (Loss)	(52,112,266)	(34,765,737)	(17,346,529)	-49.90%
Adjusted Margin (as a percentage)	-5.61%	-3.96%		
Long Term Fund Transfer	30,340,743	26,779,097	3,561,646	13.30%
Adjusted Income (Loss) with Transfers	\$57,768,477	\$65,149,224	(\$7,380,747)	-11.33%
Adjusted Margin % with Transfers	5.56%	6.66%		

UNAUDITED
The University of Texas at Brownsville
Comparison of Operating Results and Margin
For the Eight Months Ending April 30, 2003

	April Year-to-Date <u>FY 2003</u>	April Year-to-Date <u>FY 2002</u>	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$5,747,100	\$5,596,712	\$150,388	2.69%
Sponsored Programs	56,185,941	51,232,545	4,953,396	9.67%
Net Sales and Services of Educational Activities	3,507,423	2,902,067	605,356	20.86%
Net Auxiliary Enterprises	313,959	136,692	177,267	129.68%
Other Operating Revenues	8,476	12,538	(4,062)	-32.40%
Total Operating Revenues	<u>65,762,899</u>	<u>59,880,554</u>	<u>5,882,345</u>	<u>9.82%</u>
Operating Expenses				
Salaries and Wages	26,903,634	24,491,590	2,412,044	9.85%
Employee Benefits and Related Costs	5,427,012	4,786,161	640,851	13.39%
Professional Fees and Contracted Services	1,376,583	1,628,792	(252,209)	-15.48%
Scholarships and Fellowships	31,559,424	25,905,504	5,653,920	21.83%
Travel	457,752	508,135	(50,383)	-9.92%
Materials and Supplies	2,253,039	2,977,949	(724,910)	-24.34%
Utilities	1,222,302	677,192	545,110	80.50%
Telecommunications	688,867	583,529	105,338	18.05%
Repairs and Maintenance	449,818	309,414	140,404	45.38%
Rentals and Leases	1,609,105	1,521,593	87,512	5.75%
Printing and Reproduction	251,694	296,016	(44,322)	-14.97%
State Sponsored Programs Pass-Thrus	12,749	0	12,749	100.00%
Depreciation and Amortization	2,040,225	1,372,409	667,816	48.66%
Other Operating Expenses	4,877,303	5,385,150	(507,847)	-9.43%
Total Operating Expenses	<u>79,129,507</u>	<u>70,443,434</u>	<u>8,686,073</u>	<u>12.33%</u>
Operating Loss	<u>(13,366,608)</u>	<u>(10,562,880)</u>	<u>(2,803,728)</u>	<u>-26.54%</u>
Other Nonoperating Adjustments				
State Appropriations	15,318,098	14,158,751	1,159,347	8.19%
Gift Contributions for Operations	121,977	0	121,977	100.00%
Net Investment Income	269,935	255,540	14,395	5.63%
Interest Expense on Capital Asset Financings	(1,140,623)	(857,256)	(283,367)	-33.06%
Net Other Nonoperating Adjustments	<u>14,569,387</u>	<u>13,557,035</u>	<u>1,012,352</u>	<u>7.47%</u>
Adjusted Income (Loss)	1,202,779	2,994,155	(1,791,376)	-59.83%
Adjusted Margin (as a percentage)	1.48%	4.03%		
Long Term Fund Transfer	80,433	32,726	47,707	145.78%
Adjusted Income (Loss) with Transfers	<u>\$1,283,212</u>	<u>\$3,026,881</u>	<u>(\$1,743,669)</u>	<u>-57.61%</u>
Adjusted Margin % with Transfers	<u>1.57%</u>	<u>4.07%</u>		

UNAUDITED
The University of Texas at Dallas
Comparison of Operating Results and Margin
For the Eight Months Ending April 30, 2003

	April Year-to-Date <u>FY 2003</u>	April Year-to-Date <u>FY 2002</u>	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$49,176,351	\$43,975,443	\$5,200,908	11.83%
Sponsored Programs	18,691,036	14,438,925	4,252,111	29.45%
Net Sales and Services of Educational Activities	2,854,125	3,054,800	(200,675)	-6.57%
Net Auxiliary Enterprises	2,977,689	2,835,222	142,467	5.02%
Other Operating Revenues	1,471,605	1,212,326	259,279	21.39%
Total Operating Revenues	<u>75,170,806</u>	<u>65,516,716</u>	<u>9,654,090</u>	<u>14.74%</u>
Operating Expenses				
Salaries and Wages	65,337,195	58,099,686	7,237,509	12.46%
Employee Benefits and Related Costs	15,187,979	12,994,994	2,192,985	16.88%
Professional Fees and Contracted Services	1,309,055	977,349	331,706	33.94%
Other Contracted Services	3,247,489	2,559,259	688,230	26.89%
Scholarships and Fellowships	17,863,918	15,334,110	2,529,808	16.50%
Travel	1,381,572	1,435,632	(54,060)	-3.77%
Materials and Supplies	7,523,179	6,882,241	640,938	9.31%
Utilities	3,340,839	3,099,230	241,609	7.80%
Telecommunications	920,042	772,875	147,167	19.04%
Repairs and Maintenance	1,920,016	1,595,202	324,814	20.36%
Rentals and Leases	738,547	566,034	172,513	30.48%
Printing and Reproduction	604,373	642,581	(38,208)	-5.95%
Federal Sponsored Programs Pass-Thrus	277,700	50,220	227,480	452.97%
Depreciation and Amortization	5,628,000	5,056,938	571,062	11.29%
Other Operating Expenses	3,217,012	3,089,868	127,144	4.11%
Total Operating Expenses	<u>128,496,916</u>	<u>113,156,219</u>	<u>15,340,697</u>	<u>13.56%</u>
Operating Loss	<u>(53,326,110)</u>	<u>(47,639,503)</u>	<u>(5,686,607)</u>	<u>-11.94%</u>
Other Nonoperating Adjustments				
State Appropriations	48,988,432	44,673,303	4,315,129	9.66%
Gift Contributions for Operations	3,554,011	2,182,017	1,371,994	62.88%
Net Investment Income	2,995,210	3,270,944	(275,734)	-8.43%
Interest Expense on Capital Asset Financings	(1,782,064)	(1,616,832)	(165,232)	-10.22%
Net Other Nonoperating Adjustments	<u>53,755,589</u>	<u>48,509,432</u>	<u>5,246,157</u>	<u>10.81%</u>
Adjusted Income (Loss)	429,479	869,929	(440,450)	-50.63%
Adjusted Margin (as a percentage)	0.33%	0.75%		
Long Term Fund Transfer	2,632,655	2,357,237	275,418	11.68%
Adjusted Income (Loss) with Transfers	<u>\$3,062,134</u>	<u>\$3,227,166</u>	<u>(\$165,032)</u>	<u>-5.11%</u>
Adjusted Margin % with Transfers	2.30%	2.73%		

UNAUDITED
The University of Texas at El Paso
Comparison of Operating Results and Margin
For the Eight Months Ending April 30, 2003

	April Year-to-Date <u>FY 2003</u>	April Year-to-Date <u>FY 2002</u>	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$37,818,184	\$31,964,456	\$5,853,728	18.31%
Sponsored Programs	50,930,473	46,331,600	4,598,873	9.93%
Net Sales and Services of Educational Activities	2,388,651	2,823,297	(434,646)	-15.39%
Net Auxiliary Enterprises	15,869,905	12,257,851	3,612,054	29.47%
Other Operating Revenues	116,380	25,216	91,164	361.53%
Total Operating Revenues	<u>107,123,593</u>	<u>93,402,420</u>	<u>13,721,173</u>	<u>14.69%</u>
Operating Expenses				
Salaries and Wages	70,358,414	66,140,011	4,218,403	6.38%
Employee Benefits and Related Costs	18,015,929	15,861,542	2,154,387	13.58%
Professional Fees and Contracted Services	5,625,744	3,630,234	1,995,510	54.97%
Other Contracted Services	2,963,928	4,008,610	(1,044,682)	-26.06%
Scholarships and Fellowships	35,205,714	28,527,664	6,678,050	23.41%
Travel	3,460,692	3,230,690	230,002	7.12%
Materials and Supplies	11,109,107	8,623,326	2,485,781	28.83%
Utilities	3,557,873	3,127,304	430,569	13.77%
Telecommunications	721,786	682,904	38,882	5.69%
Repairs and Maintenance	1,882,395	1,898,127	(15,732)	-0.83%
Rentals and Leases	786,739	624,065	162,674	26.07%
Printing and Reproduction	495,186	628,019	(132,833)	-21.15%
Federal Sponsored Programs Pass-Thrus	3,169,340	3,391,200	(221,860)	-6.54%
Depreciation and Amortization	6,564,562	8,087,083	(1,522,521)	-18.83%
Other Operating Expenses	2,133,116	1,815,423	317,693	17.50%
Total Operating Expenses	<u>166,050,525</u>	<u>150,276,202</u>	<u>15,774,323</u>	<u>10.50%</u>
Operating Loss	<u>(58,926,932)</u>	<u>(56,873,782)</u>	<u>(2,053,150)</u>	<u>-3.61%</u>
Other Nonoperating Adjustments				
State Appropriations	55,134,308	52,837,480	2,296,828	4.35%
Gift Contributions for Operations	3,259,146	3,066,720	192,426	6.27%
Net Investment Income	2,221,553	2,642,740	(421,187)	-15.94%
Interest Expense on Capital Asset Financings	(2,297,040)	(2,409,624)	112,584	4.67%
Net Other Nonoperating Adjustments	<u>58,317,967</u>	<u>56,137,316</u>	<u>2,180,651</u>	<u>3.88%</u>
Adjusted Income (Loss)	<u>(608,965)</u>	<u>(736,466)</u>	<u>127,501</u>	<u>17.31%</u>
Adjusted Margin (as a percentage)	<u>-0.36%</u>	<u>-0.48%</u>		
Long Term Fund Transfer	1,651,274	1,472,545	178,729	12.14%
Adjusted Income (Loss) with Transfers	<u>\$1,042,309</u>	<u>\$736,079</u>	<u>\$306,230</u>	<u>41.60%</u>
Adjusted Margin % with Transfers	<u>0.62%</u>	<u>0.48%</u>		

UNAUDITED
The University of Texas-Pan American
Comparison of Operating Results and Margin
For the Eight Months Ending April 30, 2003

	April Year-to-Date <u>FY 2003</u>	April Year-to-Date <u>FY 2002</u>	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$28,124,472	\$24,148,136	\$3,976,336	16.47%
Sponsored Programs	44,545,089	34,951,385	9,593,704	27.45%
Net Sales and Services of Educational Activities	3,931,813	3,504,960	426,853	12.18%
Net Auxiliary Enterprises	4,347,504	3,596,264	751,240	20.89%
Other Operating Revenues	163,615	208,565	(44,950)	-21.55%
Total Operating Revenues	<u>81,112,493</u>	<u>66,409,310</u>	<u>14,703,183</u>	<u>22.14%</u>
Operating Expenses				
Salaries and Wages	44,417,123	41,023,384	3,393,739	8.27%
Employee Benefits and Related Costs	11,234,706	9,930,856	1,303,850	13.13%
Professional Fees and Contracted Services	447,854	246,127	201,727	81.96%
Other Contracted Services	2,740,165	1,744,411	995,754	57.08%
Scholarships and Fellowships	37,869,312	31,076,135	6,793,177	21.86%
Travel	1,535,498	1,210,170	325,328	26.88%
Materials and Supplies	6,865,880	6,854,216	11,664	0.17%
Utilities	2,564,092	2,857,790	(293,698)	-10.28%
Telecommunications	646,578	383,720	262,858	68.50%
Repairs and Maintenance	965,200	938,448	26,752	2.85%
Rentals and Leases	277,267	265,965	11,302	4.25%
Printing and Reproduction	488,724	356,289	132,435	37.17%
Federal Sponsored Programs Pass-Thrus	6,719	-	6,719	100.00%
Depreciation and Amortization	4,921,407	4,833,985	87,422	1.81%
Other Operating Expenses	2,701,790	2,586,870	114,920	4.44%
Total Operating Expenses	<u>117,682,315</u>	<u>104,308,366</u>	<u>13,373,949</u>	<u>12.82%</u>
Operating Loss	<u>(36,569,822)</u>	<u>(37,899,056)</u>	<u>1,329,234</u>	<u>3.51%</u>
Other Nonoperating Adjustments				
State Appropriations	40,472,073	40,285,783	186,290	0.46%
Gift Contributions for Operations	676,901	463,478	213,423	46.05%
Net Investment Income	1,496,308	1,791,707	(295,399)	-16.49%
Interest Expense on Capital Asset Financings	(2,099,037)	(2,080,558)	(18,479)	-0.89%
Net Other Nonoperating Adjustments	<u>40,546,245</u>	<u>40,460,410</u>	<u>85,835</u>	<u>0.21%</u>
Adjusted Income (Loss)	3,976,423	2,561,354	1,415,069	55.25%
Adjusted Margin (as a percentage)	3.21%	2.35%		
Long Term Fund Transfer	380,675	341,998	38,677	11.31%
Adjusted Income (Loss) with Transfers	\$4,357,098	\$2,903,352	\$1,453,746	50.07%
Adjusted Margin % with Transfers	3.51%	2.66%		

UNAUDITED
The University of Texas of the Permian Basin
Comparison of Operating Results and Margin
For the Eight Months Ending April 30, 2003

	April Year-to-Date <u>FY 2003</u>	April Year-to-Date <u>FY 2002</u>	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$5,598,444	\$4,548,948	\$1,049,496	23.07%
Sponsored Programs	3,453,485	3,142,007	311,478	9.91%
Net Sales and Services of Educational Activities	157,544	425,300	(267,756)	-62.96%
Net Auxiliary Enterprises	426,283	107,651	318,632	295.99%
Other Operating Revenues	86,268	126,526	(40,258)	-31.82%
Total Operating Revenues	<u>9,722,024</u>	<u>8,350,432</u>	<u>1,371,592</u>	<u>16.43%</u>
Operating Expenses				
Salaries and Wages	8,321,782	7,474,799	846,983	11.33%
Employee Benefits and Related Costs	1,973,692	1,788,708	184,984	10.34%
Professional Fees and Contracted Services	587,485	314,275	273,210	86.93%
Other Contracted Services	511,913	245,689	266,224	108.36%
Scholarships and Fellowships	3,938,597	3,159,562	779,035	24.66%
Travel	303,419	245,787	57,632	23.45%
Materials and Supplies	1,412,513	1,000,828	411,685	41.13%
Utilities	970,811	957,918	12,893	1.35%
Telecommunications	211,562	191,592	19,970	10.42%
Repairs and Maintenance	294,313	783,324	(489,011)	-62.43%
Rentals and Leases	131,861	104,988	26,873	25.60%
Printing and Reproduction	166,041	137,911	28,130	20.40%
Depreciation and Amortization	879,496	805,168	74,328	9.23%
Other Operating Expenses	391,097	434,870	(43,773)	-10.07%
Total Operating Expenses	<u>20,094,582</u>	<u>17,645,419</u>	<u>2,449,163</u>	<u>13.88%</u>
Operating Loss	<u>(10,372,558)</u>	<u>(9,294,987)</u>	<u>(1,077,571)</u>	<u>-11.59%</u>
Other Nonoperating Adjustments				
State Appropriations	10,250,752	9,342,160	908,592	9.73%
Gift Contributions for Operations	456,404	568,674	(112,270)	-19.74%
Net Investment Income	187,070	285,698	(98,628)	-34.52%
Interest Expense on Capital Asset Financings	(539,296)	(817,144)	277,848	34.00%
Net Other Nonoperating Adjustments	<u>10,354,930</u>	<u>9,379,388</u>	<u>975,542</u>	<u>10.40%</u>
Adjusted Income (Loss)	(17,628)	84,401	(102,029)	-120.89%
Adjusted Margin (as a percentage)	-0.09%	0.46%		
Long Term Fund Transfer	232,312	208,485	23,827	11.43%
Adjusted Income (Loss) with Transfers	\$214,684	\$292,886	(\$78,202)	-26.70%
Adjusted Margin % with Transfers	1.03%	1.56%		

UNAUDITED
The University of Texas at San Antonio
Comparison of Operating Results and Margin
For the Eight Months Ending April 30, 2003

	April Year-to-Date <u>FY 2003</u>	April Year-to-Date <u>FY 2002</u>	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$54,900,706	\$43,971,576	\$10,929,130	24.85%
Sponsored Programs	39,996,232	30,120,869	9,875,363	32.79%
Net Sales and Services of Educational Activities	1,681,732	1,297,356	384,376	29.63%
Net Auxiliary Enterprises	2,842,309	3,177,529	(335,220)	-10.55%
Other Operating Revenues	375,059	507,169	(132,110)	-26.05%
Total Operating Revenues	<u>99,796,038</u>	<u>79,074,499</u>	<u>(467,330)</u>	<u>-0.59%</u>
Operating Expenses				
Salaries and Wages	69,189,829	61,542,852	7,646,977	12.43%
Employee Benefits and Related Costs	14,068,405	11,949,189	2,119,216	17.74%
Professional Fees and Contracted Services	1,592,102	1,565,830	26,272	1.68%
Other Contracted Services	1,364,403	1,857,150	(492,747)	-26.53%
Scholarships and Fellowships	32,761,851	23,486,973	9,274,878	39.49%
Travel	2,109,627	1,891,603	218,024	11.53%
Materials and Supplies	7,999,420	4,558,108	3,441,312	75.50%
Utilities	2,890,315	2,695,336	194,979	7.23%
Telecommunications	1,352,475	1,214,081	138,394	11.40%
Repairs and Maintenance	2,636,407	3,354,114	(717,707)	-21.40%
Rentals and Leases	900,754	693,419	207,335	29.90%
Printing and Reproduction	898,042	819,722	78,320	9.55%
Federal Sponsored Programs Pass-Thrus	2,204,949	1,138,655	1,066,294	93.65%
Depreciation and Amortization	6,795,914	8,606,524	(1,810,610)	-21.04%
Other Operating Expenses	2,262,488	2,855,833	(593,345)	-20.78%
Total Operating Expenses	<u>149,026,981</u>	<u>128,229,389</u>	<u>20,797,592</u>	<u>16.22%</u>
Operating Loss	<u>(49,230,943)</u>	<u>(49,154,890)</u>	<u>(76,053)</u>	<u>-0.15%</u>
Other Nonoperating Adjustments				
State Appropriations	52,102,063	52,488,712	(386,649)	-0.74%
Gift Contributions for Operations	2,263,487	1,746,636	516,851	29.59%
Net Investment Income	1,849,034	1,554,824	294,210	18.92%
Interest Expense on Capital Asset Financings	(4,121,679)	(4,388,096)	266,417	6.07%
Net Other Nonoperating Adjustments	<u>52,092,905</u>	<u>51,402,076</u>	<u>690,829</u>	<u>1.34%</u>
Adjusted Income (Loss)	2,861,962	2,247,186	614,776	27.36%
Adjusted Margin (as a percentage)	1.83%	1.67%		
Long Term Fund Transfer	517,291	447,884	69,407	15.50%
Adjusted Income (Loss) with Transfers	\$3,379,253	\$2,695,070	\$684,183	25.39%
Adjusted Margin % with Transfers	2.16%	1.99%		

UNAUDITED
The University of Texas at Tyler
Comparison of Operating Results and Margin
For the Eight Months Ending April 30, 2003

	April Year-to-Date <u>FY 2003</u>	April Year-to-Date <u>FY 2002</u>	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$7,624,969	\$6,459,644	\$1,165,325	18.04%
Sponsored Programs	6,763,289	4,511,968	2,251,321	49.90%
Net Sales and Services of Educational Activities	214,911	172,556	42,355	24.55%
Net Auxiliary Enterprises	723,441	532,007	191,434	35.98%
Other Operating Revenues	278,131	133,051	145,080	109.04%
Total Operating Revenues	<u>15,604,741</u>	<u>11,809,226</u>	<u>3,795,515</u>	<u>32.14%</u>
Operating Expenses				
Salaries and Wages	14,818,658	13,393,082	1,425,576	10.64%
Employee Benefits and Related Costs	3,687,056	3,067,576	619,480	20.19%
Professional Fees and Contracted Services	693,028	545,784	147,244	26.98%
Other Contracted Services	1,198,657	922,265	276,392	29.97%
Scholarships and Fellowships	5,623,438	3,733,069	1,890,369	50.64%
Travel	404,456	423,661	(19,205)	-4.53%
Materials and Supplies	1,459,055	1,180,335	278,720	23.61%
Utilities	612,402	536,204	76,198	14.21%
Telecommunications	243,349	245,685	(2,336)	-0.95%
Repairs and Maintenance	487,669	648,379	(160,710)	-24.79%
Rentals and Leases	87,821	77,996	9,825	12.60%
Printing and Reproduction	390,395	326,146	64,249	19.70%
Bad Debt Expense	803	0	803	100.00%
Depreciation and Amortization	1,800,000	1,849,462	(49,462)	-2.67%
Other Operating Expenses	517,577	675,741	(158,164)	-23.41%
Total Operating Expenses	<u>32,024,364</u>	<u>27,625,385</u>	<u>4,398,979</u>	<u>15.92%</u>
Operating Loss	<u>(16,419,623)</u>	<u>(15,816,159)</u>	<u>(603,464)</u>	<u>-3.82%</u>
Other Nonoperating Adjustments				
State Appropriations	16,982,630	17,434,190	(451,560)	-2.59%
Gift Contributions for Operations	336,687	386,390	(49,703)	-12.86%
Net Investment Income	478,677	557,443	(78,766)	-14.13%
Interest Expense on Capital Asset Financings	(455,388)	(452,896)	(2,492)	-0.55%
Net Other Nonoperating Adjustments	<u>17,342,606</u>	<u>17,925,127</u>	<u>(582,521)</u>	<u>-3.25%</u>
Adjusted Income (Loss)	922,983	2,108,968	(1,185,985)	-56.24%
Adjusted Margin (as a percentage)	2.76%	6.99%		
Long Term Fund Transfer	881,932	794,861	87,071	10.95%
Adjusted Income (Loss) with Transfers	\$1,804,915	\$2,903,829	(\$1,098,914)	-37.84%
Adjusted Margin % with Transfers	5.26%	9.37%		

UNAUDITED
The University of Texas Southwestern Medical Center at Dallas
Comparison of Operating Results and Margin
For the Eight Months Ending April 30, 2003

	April Year-to-Date <u>FY 2003</u>	April Year-to-Date <u>FY 2002</u>	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$9,054,226	\$8,099,761	\$954,465	11.78%
Sponsored Programs	218,041,301	201,172,305	16,868,996	8.39%
Net Sales and Services of Educational Activities	10,998,544	12,409,755	(1,411,211)	-11.37%
Net Professional Fees	122,307,983	114,839,498	7,468,485	6.50%
Net Auxiliary Enterprises	4,704,941	4,259,800	445,141	10.45%
Other Operating Revenues	3,385,779	3,266,878	118,901	3.64%
Total Operating Revenues	<u>368,492,774</u>	<u>344,047,997</u>	<u>24,444,777</u>	<u>7.11%</u>
Operating Expenses				
Salaries and Wages	255,321,810	233,380,009	21,941,801	9.40%
Employee Benefits and Related Costs	73,566,908	66,182,709	7,384,199	11.16%
Professional Fees and Contracted Services	7,559,309	8,381,939	(822,630)	-9.81%
Other Contracted Services	29,160,492	28,396,733	763,759	2.69%
Scholarships and Fellowships	4,474,545	3,967,850	506,695	12.77%
Travel	4,647,054	3,894,129	752,925	19.33%
Materials and Supplies	54,382,980	50,943,551	3,439,429	6.75%
Utilities	10,868,496	10,807,481	61,015	0.56%
Telecommunications	3,394,828	3,132,457	262,371	8.38%
Repairs and Maintenance	3,121,775	3,356,217	(234,442)	-6.99%
Rentals and Leases	3,430,464	3,802,537	(372,073)	-9.78%
Printing and Reproduction	1,552,883	1,701,564	(148,681)	-8.74%
Federal Sponsored Programs Pass-Thrus	191,271	582,766	(391,495)	-67.18%
Depreciation and Amortization	19,373,353	18,488,952	884,401	4.78%
Other Operating Expenses	15,907,696	17,628,781	(1,721,085)	-9.76%
Total Operating Expenses	<u>486,953,864</u>	<u>454,647,675</u>	<u>32,306,189</u>	<u>7.11%</u>
Operating Loss	<u>(118,461,090)</u>	<u>(110,599,678)</u>	<u>(7,861,412)</u>	<u>-7.11%</u>
Other Nonoperating Adjustments				
State Appropriations	73,763,258	74,594,198	(830,940)	-1.11%
Gift Contributions for Operations	14,014,035	17,336,882	(3,322,847)	-19.17%
Net Investment Income	29,020,939	30,289,935	(1,268,996)	-4.19%
Interest Expense on Capital Asset Financings	(6,588,201)	(5,295,520)	(1,292,681)	-24.41%
Net Other Nonoperating Adjustments	<u>110,210,031</u>	<u>116,925,495</u>	<u>(6,715,464)</u>	<u>-5.74%</u>
Adjusted Income (Loss)	(8,251,059)	6,325,817	(14,576,876)	-230.43%
Adjusted Margin (as a percentage)	-1.70%	1.36%		
Long Term Fund Transfer	9,383,276	8,307,820	1,075,456	12.95%
Adjusted Income (Loss) with Transfers	\$1,132,217	\$14,633,637	(\$13,501,420)	-92.26%
Adjusted Margin % with Transfers	0.23%	3.08%		

UNAUDITED
The University of Texas Medical Branch at Galveston
Comparison of Operating Results and Margin
For the Eight Months Ending April 30, 2003

	April Year-to-Date <u>FY 2003</u>	April Year-to-Date <u>FY 2002</u>	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$5,982,365	\$5,341,226	\$641,139	12.00%
Sponsored Programs	98,662,280	92,568,756	6,093,524	6.58%
Net Sales and Services of Educational Activities	0	258,631	(258,631)	-100.00%
Net Sales and Services of Hospitals	388,092,058	366,989,526	21,102,532	5.75%
Net Professional Fees	83,822,794	81,084,272	2,738,522	3.38%
Net Auxiliary Enterprises	4,776,549	4,755,392	21,157	0.44%
Other Operating Revenues	47,229,427	53,316,464	(6,087,037)	-11.42%
Total Operating Revenues	<u>628,565,473</u>	<u>604,314,267</u>	<u>24,251,206</u>	<u>4.01%</u>
Operating Expenses				
Salaries and Wages	430,434,002	400,232,224	30,201,778	7.55%
Employee Benefits and Related Costs	113,545,774	105,936,538	7,609,236	7.18%
Professional Fees and Contracted Services	8,521,730	6,951,710	1,570,020	22.58%
Other Contracted Services	46,121,945	51,027,930	(4,905,985)	-9.61%
Scholarships and Fellowships	2,362,400	2,533,827	(171,427)	-6.77%
Travel	4,133,857	3,780,433	353,424	9.35%
Materials and Supplies	99,238,985	103,641,406	(4,402,421)	-4.25%
Utilities	14,485,311	13,533,286	952,025	7.03%
Telecommunications	6,633,324	6,241,692	391,632	6.27%
Repairs and Maintenance	17,916,725	15,525,749	2,390,976	15.40%
Rentals and Leases	6,392,021	6,059,170	332,851	5.49%
Printing and Reproduction	1,305,882	1,415,782	(109,900)	-7.76%
Federal Sponsored Programs Pass-Thru	885,443	810,992	74,451	9.18%
Depreciation and Amortization	32,394,092	34,011,091	(1,616,999)	-4.75%
Other Operating Expenses	80,108,645	89,034,961	(8,926,316)	-10.03%
Total Operating Expenses	<u>864,480,136</u>	<u>840,736,791</u>	<u>23,743,345</u>	<u>2.82%</u>
Operating Loss	<u>(235,914,663)</u>	<u>(236,422,524)</u>	<u>507,861</u>	<u>0.21%</u>
Other Nonoperating Adjustments				
State Appropriations	191,473,496	196,380,216	(4,906,720)	-2.50%
Gift Contributions for Operations	2,403,773	2,983,358	(579,585)	-19.43%
Net Investment Income	11,898,267	11,275,666	622,601	5.52%
Interest Expense on Capital Asset Financings	(1,390,671)	(1,212,040)	(178,631)	-14.74%
Net Other Nonoperating Adjustments	<u>204,384,865</u>	<u>209,427,200</u>	<u>(5,042,335)</u>	<u>-2.41%</u>
Adjusted Income (Loss)	<u>(31,529,798)</u>	<u>(26,995,324)</u>	<u>(4,534,474)</u>	<u>-16.80%</u>
Adjusted Margin (as a percentage)	<u>-3.78%</u>	<u>-3.31%</u>		
Long Term Fund Transfer	4,524,223	3,943,262	580,961	14.73%
Adjusted Income (Loss) with Transfers	<u>(\$27,005,575)</u>	<u>(\$23,052,062)</u>	<u>(\$3,953,513)</u>	<u>-17.15%</u>
Adjusted Margin % with Transfers	<u>-3.22%</u>	<u>-2.82%</u>		

UNAUDITED
The University of Texas Health Science Center at Houston
Comparison of Operating Results and Margin
For the Eight Months Ending April 30, 2003

	April Year-to-Date <u>FY 2003</u>	April Year-to-Date <u>FY 2002</u>	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$8,891,720	\$8,681,458	\$210,262	2.42%
Sponsored Programs	149,174,367	130,392,565	18,781,802	14.40%
Net Sales and Services of Educational Activities	6,335,341	6,124,161	211,180	3.45%
Net Sales and Services of Hospitals	22,214,668	22,200,024	14,644	0.07%
Net Professional Fees	60,253,307	56,256,672	3,996,635	7.10%
Net Auxiliary Enterprises	8,185,869	8,255,306	(69,437)	-0.84%
Other Operating Revenues	27,636,070	29,506,347	(1,870,277)	-6.34%
Total Operating Revenues	<u>282,691,342</u>	<u>261,416,533</u>	<u>21,274,809</u>	<u>8.14%</u>
Operating Expenses				
Salaries and Wages	205,800,967	189,639,808	16,161,159	8.52%
Employee Benefits and Related Costs	47,408,062	43,564,165	3,843,897	8.82%
Professional Fees and Contracted Services	32,417,086	32,589,679	(172,593)	-0.53%
Other Contracted Services	24,135,508	20,979,993	3,155,515	15.04%
Scholarships and Fellowships	1,833,448	1,600,679	232,769	14.54%
Travel	2,830,052	2,799,342	30,710	1.10%
Materials and Supplies	17,513,931	14,509,589	3,004,342	20.71%
Utilities	4,174,845	4,076,455	98,390	2.41%
Telecommunications	2,144,934	2,263,274	(118,340)	-5.23%
Repairs and Maintenance	3,118,713	4,466,047	(1,347,334)	-30.17%
Rentals and Leases	5,624,322	3,876,779	1,747,543	45.08%
Printing and Reproduction	3,413,114	3,507,599	(94,485)	-2.69%
Bad Debt Expense	2,769	4,132	(1,363)	-32.99%
Federal Sponsored Programs Pass-Thrus	3,519,778	2,212,327	1,307,451	59.10%
Depreciation and Amortization	11,843,653	11,588,153	255,500	2.20%
Other Operating Expenses	32,144,285	31,618,158	526,127	1.66%
Total Operating Expenses	<u>397,925,467</u>	<u>369,296,179</u>	<u>28,629,288</u>	<u>7.75%</u>
Operating Loss	<u>(115,234,125)</u>	<u>(107,879,646)</u>	<u>(7,354,479)</u>	<u>-6.82%</u>
Other Nonoperating Adjustments				
State Appropriations	96,709,148	98,432,046	(1,722,898)	-1.75%
Gift Contributions for Operations	721,036	218,090	502,946	230.61%
Net Investment Income	6,068,149	5,839,848	228,301	3.91%
Interest Expense on Capital Asset Financings	(2,810,621)	(3,740,208)	929,587	24.85%
Net Other Nonoperating Adjustments	<u>100,687,712</u>	<u>100,749,776</u>	<u>(62,064)</u>	<u>-0.06%</u>
Adjusted Income (Loss)	(14,546,413)	(7,129,870)	(7,416,543)	-104.02%
Adjusted Margin (as a percentage)	-3.77%	-1.95%		
Long Term Fund Transfer	1,363,400	1,110,069	253,331	22.82%
Adjusted Income (Loss) with Transfers	(\$13,183,013)	(\$6,019,801)	(\$7,163,212)	-118.99%
Adjusted Margin % with Transfers	-3.40%	-1.64%		

UNAUDITED
The University of Texas Health Science Center at San Antonio
Comparison of Operating Results and Margin
For the Eight Months Ending April 30, 2003

	April Year-to-Date <u>FY 2003</u>	April Year-to-Date <u>FY 2002</u>	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$9,101,333	\$7,902,672	\$1,198,661	15.17%
Sponsored Programs	89,592,595	86,888,761	2,703,834	3.11%
Net Sales and Services of Educational Activities	784,675	1,035,999	(251,324)	-24.26%
Net Professional Fees	78,056,555	73,337,407	4,719,148	6.43%
Net Auxiliary Enterprises	1,159,475	947,605	211,870	22.36%
Other Operating Revenues	32,252,366	35,759,008	(3,506,642)	-9.81%
Total Operating Revenues	<u>210,946,999</u>	<u>205,871,452</u>	<u>5,075,547</u>	<u>2.47%</u>
Operating Expenses				
Salaries and Wages	152,493,011	145,335,311	7,157,700	4.92%
Employee Benefits and Related Costs	40,791,425	37,678,603	3,112,822	8.26%
Professional Fees and Contracted Services	8,522,000	8,705,555	(183,555)	-2.11%
Other Contracted Services	8,942,676	9,119,365	(176,689)	-1.94%
Scholarships and Fellowships	1,978,463	1,749,714	228,749	13.07%
Travel	2,735,999	2,508,445	227,554	9.07%
Materials and Supplies	15,159,050	14,826,665	332,385	2.24%
Utilities	4,048,501	3,468,918	579,583	16.71%
Telecommunications	5,885,474	5,761,801	123,673	2.15%
Repairs and Maintenance	670,283	546,872	123,411	22.57%
Rentals and Leases	1,203,671	950,499	253,172	26.64%
Printing and Reproduction	1,182,675	1,290,422	(107,747)	-8.35%
Federal Sponsored Programs Pass-Thrus	780,126	674,091	106,035	15.73%
Depreciation and Amortization	9,733,333	9,717,301	16,032	0.16%
Other Operating Expenses	62,262,048	62,197,745	64,303	0.10%
Total Operating Expenses	<u>316,388,735</u>	<u>304,531,307</u>	<u>11,857,428</u>	<u>3.89%</u>
Operating Loss	<u>(105,441,736)</u>	<u>(98,659,855)</u>	<u>(6,781,881)</u>	<u>-6.87%</u>
Other Nonoperating Adjustments				
State Appropriations	94,977,233	98,530,968	(3,553,735)	-3.61%
Gift Contributions for Operations	5,736,890	5,359,710	377,180	7.04%
Net Investment Income	12,760,931	12,723,025	37,906	0.30%
Interest Expense on Capital Asset Financings	(2,711,690)	(3,784,824)	1,073,134	28.35%
Net Other Nonoperating Adjustments	<u>110,763,364</u>	<u>112,828,879</u>	<u>(2,065,515)</u>	<u>-1.83%</u>
Adjusted Income (Loss)	5,321,628	14,169,024	(8,847,396)	-62.44%
Adjusted Margin (as a percentage)	1.64%	4.39%		
Long Term Fund Transfer	1,339,600	1,146,300	193,300	16.86%
Adjusted Income (Loss) with Transfers	\$6,661,228	\$15,315,324	(\$8,654,096)	-56.51%
Adjusted Margin % with Transfers	2.04%	4.73%		

UNAUDITED
The University of Texas M. D. Anderson Cancer Center
Comparison of Operating Results and Margin
For the Eight Months Ending April 30, 2003

	April Year-to-Date <u>FY 2003</u>	April Year-to-Date <u>FY 2002</u>	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$86,738	\$93,813	(\$7,075)	-7.54%
Sponsored Programs	108,201,846	99,743,568	8,458,278	8.48%
Net Sales and Services of Educational Activities	2,324,035	1,745,322	578,713	33.16%
Net Sales and Services of Hospitals	590,662,136	504,302,597	86,359,539	17.12%
Net Professional Fees	123,244,921	103,915,556	19,329,365	18.60%
Net Auxiliary Enterprises	9,911,809	8,699,170	1,212,639	13.94%
Other Operating Revenues	<u>13,819,157</u>	<u>15,820,176</u>	<u>(2,001,019)</u>	<u>-12.65%</u>
Total Operating Revenues	<u>848,250,642</u>	<u>734,320,202</u>	<u>113,930,440</u>	<u>15.52%</u>
Operating Expenses				
Salaries and Wages	464,433,268	420,466,759	43,966,509	10.46%
Employee Benefits and Related Costs	136,053,086	118,194,342	17,858,744	15.11%
Professional Fees and Contracted Services	11,604,405	12,338,616	(734,211)	-5.95%
Other Contracted Services	31,481,460	32,237,967	(756,507)	-2.35%
Travel	7,834,954	6,229,527	1,605,427	25.77%
Materials and Supplies	189,294,251	175,168,256	14,125,995	8.06%
Utilities	17,696,739	16,199,225	1,497,514	9.24%
Telecommunications	4,978,830	3,231,447	1,747,383	54.07%
Repairs and Maintenance	11,184,362	11,416,265	(231,903)	-2.03%
Rentals and Leases	14,579,653	10,369,532	4,210,121	40.60%
Printing and Reproduction	3,204,260	2,978,000	226,260	7.60%
Federal Sponsored Programs Pass-Thrus	779,986	1,475,243	(695,257)	-47.13%
Depreciation and Amortization	48,371,678	45,380,535	2,991,143	6.59%
Other Operating Expenses	<u>24,551,505</u>	<u>25,013,908</u>	<u>(462,403)</u>	<u>-1.85%</u>
Total Operating Expenses	<u>966,048,437</u>	<u>880,699,622</u>	<u>85,348,815</u>	<u>9.69%</u>
Operating Loss	<u>(117,797,795)</u>	<u>(146,379,420)</u>	<u>28,581,625</u>	<u>19.53%</u>
Other Nonoperating Adjustments				
State Appropriations	94,383,198	105,932,299	(11,549,101)	-10.90%
Gift Contributions for Operations	53,656,609	47,941,228	5,715,381	11.92%
Net Investment Income	23,561,329	24,301,987	(740,658)	-3.05%
Interest Expense on Capital Asset Financings	<u>(10,118,383)</u>	<u>(5,458,425)</u>	<u>(4,659,958)</u>	<u>-85.37%</u>
Net Other Nonoperating Adjustments	<u>161,482,753</u>	<u>172,717,089</u>	<u>(11,234,336)</u>	<u>-6.50%</u>
Adjusted Income (Loss)	43,684,958	26,337,669	17,347,289	65.86%
Adjusted Margin (as a percentage)	4.28%	2.89%		
Long Term Fund Transfer	4,005,470	3,382,241	623,229	18.43%
Adjusted Income (Loss) with Transfers	<u>\$47,690,428</u>	<u>\$29,719,910</u>	<u>\$17,970,518</u>	<u>60.47%</u>
Adjusted Margin % with Transfers	4.66%	3.24%		

UNAUDITED
The University of Texas Health Center at Tyler
Comparison of Operating Results and Margin
For the Eight Months Ending April 30, 2003

	April Year-to-Date <u>FY 2003</u>	April Year-to-Date <u>FY 2002</u>	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Sponsored Programs	\$4,552,384	\$4,227,346	325,038	7.69%
Net Sales and Services of Educational Activities	830,126	750,730	79,396	10.58%
Net Sales and Services of Hospitals	35,074,749	33,175,813	1,898,936	5.72%
Net Professional Fees	8,747,125	8,384,227	362,898	4.33%
Net Auxiliary Enterprises	524,798	665,305	(140,507)	-21.12%
Other Operating Revenues	2,278,587	1,788,589	489,998	27.40%
Total Operating Revenues	<u>52,007,769</u>	<u>48,992,010</u>	<u>3,015,759</u>	<u>6.16%</u>
Operating Expenses				
Salaries and Wages	39,892,775	38,547,937	1,344,838	3.49%
Employee Benefits and Related Costs	10,428,217	9,361,460	1,066,757	11.40%
Professional Fees and Contracted Services	3,795,946	1,937,832	1,858,114	95.89%
Other Contracted Services	2,638,797	2,391,420	247,377	10.34%
Travel	346,171	357,402	(11,231)	-3.14%
Materials and Supplies	9,954,880	10,290,090	(335,210)	-3.26%
Utilities	1,195,262	1,234,688	(39,426)	-3.19%
Telecommunications	452,267	321,717	130,550	40.58%
Repairs and Maintenance	1,240,112	995,846	244,266	24.53%
Rentals and Leases	1,279,206	1,277,329	1,877	0.15%
Printing and Reproduction	623,247	567,714	55,533	9.78%
Federal Sponsored Programs Pass-Thrus	193,584	195,657	(2,073)	-1.06%
Depreciation and Amortization	2,286,182	2,682,954	(396,772)	-14.79%
Other Operating Expenses	2,976,757	2,686,462	290,295	10.81%
Total Operating Expenses	<u>77,303,403</u>	<u>72,848,508</u>	<u>4,454,895</u>	<u>6.12%</u>
Operating Loss	<u>(25,295,634)</u>	<u>(23,856,498)</u>	<u>(1,439,136)</u>	<u>-6.03%</u>
Other Nonoperating Adjustments				
State Appropriations	21,865,100	21,703,216	161,884	0.75%
Gift Contributions for Operations	119,685	72,979	46,706	64.00%
Net Investment Income	1,883,421	1,812,678	70,743	3.90%
Interest Expense on Capital Asset Financings	(345,756)	(26,608)	(319,148)	-1199.44%
Net Other Nonoperating Adjustments	<u>23,522,450</u>	<u>23,562,265</u>	<u>(39,815)</u>	<u>-0.17%</u>
Adjusted Income (Loss)	(1,773,184)	(294,233)	(1,478,951)	-502.65%
Adjusted Margin (as a percentage)	-2.34%	-0.41%		
Long Term Fund Transfer	113,524	101,073	12,451	12.32%
Adjusted Income (Loss) with Transfers	(\$1,659,660)	(\$193,160)	(\$1,466,500)	-759.22%
Adjusted Margin % with Transfers	-2.18%	-0.27%		