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FOR
MEETING OF THE BOARD

Board Meeting: 2/9-10/2005
Austin, Texas

	Board Meeting
<u>WEDNESDAY, FEBRUARY 9</u>	
COMMITTEE MEETINGS	*10:00 a.m. – 3:30 p.m.*
A. CONVENE IN OPEN SESSION	*3:30 p.m.* *Chairman Huffines*
B. RECESS TO EXECUTIVE SESSION PURSUANT TO *TEXAS GOVERNMENT CODE*, CHAPTER 551	
1. Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers – Section 551.071	
a. **U. T. System: Discussion and appropriate action regarding legal issues related to disclosure of private investment information under the *Texas Public Information Act* including pending litigation related to such disclosure**	*Mr. Collins* *Mr. Geoff Gannaway, Beck, Redden & Secrest, L.L.P.*
b. **U. T. Austin: Discussion and appropriate action regarding intellectual property lawsuit entitled Board of Regents of The University of Texas System, on behalf of The University of Texas at Austin, and Hydro Quebec v. Nippon Telegraph and Telephone Corporation**	*Ms. Ohlendorf* *Mr. Dan Perez, Winstead, Sechrest & Minick, P.C.*
c. **U. T. Arlington: Discussion and appropriate action regarding potential litigation involving patent infringement matter**	*Ms. Harper*
d. **U. T. System: Discussion and appropriate action regarding Environmental Protection Agency action concerning Gulf Nuclear Superfund Sites ID#s 06KN, 06MD and 06ME, Odessa, Ector County, Houston and Webster, Harris County, Texas**	*Mr. Phillips*
2. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees - Section 551.074	
a. **U. T. System: Consideration of individual personnel matters relating to evaluation of presidents, U. T. System officers and employees**	
b. **U. T. System: Consideration of individual personnel matters relating to appointment, employment, evaluation, compensation, assignment, and duties of presidents, U. T. System officers and employees**	*Dr. Sullivan* *Ms. Mayne*
C. RECONVENE IN OPEN SESSION AND CONSIDER ACTION, IF ANY, ON EXECUTIVE SESSION ITEMS AND RECESS	*5:00 p.m. approximately*

THURSDAY, FEBRUARY 10

		Board Meeting	Page
STUDENT, FACULTY, AND STAFF CAMPUS LIFE COMMITTEE MEETING		*9:00 a.m.*	
D.	RECONVENE MEETING OF THE BOARD	*9:30 a.m.*	
E.	**U. T. System: Annual Meeting with Officers of the U. T. System Faculty Advisory Council**	*9:30 a.m.* **Report** *Dr. Bartlett* *Dr. Nelsen* *Dr. Verklan*	**1**
F.	APPROVAL OF MINUTES		
G.	CONSIDER AGENDA ITEMS		
1.	**U. T. Board of Regents: Presentation of the Accountability and Performance Report for 2004-2005 and request to accept Report**	*10:30 a.m.* **Report** *Dr. Malandra*	**3**
2.	**U. T. Board of Regents: Discussion, recommendations, and appropriate action regarding Los Alamos National Laboratory**	*10:45 a.m.* **Action** *Chancellor Yudof*	**4**
3.	**U. T. System: Presentation and appropriate action regarding authorization to enter into a Memorandum of Understanding and future implementing agreements with Sandia Corporation, operator of Sandia National Laboratories, for an expanded and formalized relationship and increased interaction and collaboration in educational and research activities**	*11:00 a.m.* **Action** *Chancellor Yudof* *Mr. Smith* *Dr. Juan Sanchez* *Dr. Sullivan*	**4**
4.	**U. T. Board of Regents: Regents' *Rules and Regulations*, Series 30101 - Amendment to replace the U. T. System-wide Classified Personnel Pay Plan with plans at the institutional level**	*11:15 a.m.* **Action** *Ms. Brown*	**22**
5.	**U. T. Board of Regents: Regents' *Rules and Regulations*, Series 80601 - Amendment to increase delegated authority to accept settlement amounts for property and casualty insurance**	*11:20 a.m.* **Action** *Dr. Kelley*	**24**
6.	**U. T. Board of Regents: Proposed appointment of members to the Board of Directors of The University of Texas Investment Management Company (UTIMCO)**	*11:25 a.m.* **Action**	**26**
7.	**U. T. Board of Regents: Announcement of establishment of a special ad hoc committee**	*11:30 a.m.* **Report**	**27**
H.	RECESS FOR MEETINGS OF THE STANDING COMMITTEES	*11:35 a.m.*	
I.	RECESS TO EXECUTIVE SESSION PURSUANT TO *TEXAS GOVERNMENT CODE*, CHAPTER 551 (working lunch)	*12:00 noon*	
1.	Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers - Section 551.071		

THURSDAY, FEBRUARY 10

D. RECONVENE MEETING OF THE BOARD

E. **U. T. System: Annual Meeting with Officers of the U. T. System Faculty Advisory Council**

REPORT

The U. T. System Faculty Advisory Council will meet with the Board to discuss accomplishments of the Council and plans for the future according to the following agenda. Council members scheduled to attend are:

Chair: James Bartlett, Ph.D., U. T. Dallas

Faculty Quality Committee Co-Chair: Robert Nelsen, Ph.D., U. T. Dallas

Past Chair: Teresa Verklan, Ph.D., U. T. Health Science Center - Houston

AGENDA

1. Introductions

2. Chairperson's report and overview

3. Executive Committee and Standing Committee remarks and recommendations

   a. Bridge funding for "fundable", but non-funded research grants
   Dr. Bartlett's PowerPoint, *Seed Funding for Approved but Unfunded Research Grants*, is on Pages 2.1 – 2.5.

   b. Creation of a System-wide base of research background and research interests of faculty and graduate students
   Dr. Nelsen's PowerPoint, *Texas for Texans Data Base*, is on Pages 2.6 – 2.9.

   c. Issues concerning nursing education
   Dr. Verklan's PowerPoint, *Shortage of Nursing Faculty*, is on Pages 2.10 – 2.18.

BACKGROUND INFORMATION

The University of Texas System Faculty Advisory Council was established in 1989 to provide a forum for communicating ideas and information between and among faculty, the U. T. Board of Regents, and the Executive Officers of U. T. System. Council guidelines require that recommendations have a multi-institutional focus and that the Council explore individual campus issues with institutional administrators prior to any consideration. The Faculty Advisory Council consists of two faculty representatives from each U. T. System institution and meets quarterly, usually in Austin. The Standing Committees of the Council are: Academic Affairs, Faculty Quality, Governance, and Health Affairs.

Seed Funding for Approved but Unfunded Research Grants

A plan for enhancing research productivity throughout the U. T. System

James Bartlett, PhD

1

The Problem:

- Federal funding agencies can fund only a fraction of proposals approved as fundable by peer-review panels
- Many of the most innovative proposals are marked down in priority due to:
  - Insufficient pilot data
  - A limited track record of publication in the particular research area
- ***And yet it is difficult to meet these objections without first obtaining funding.***

2

A Solution:

- *Provide seed funds to initiate unfunded research projects while the proposals are being revised or reconsidered at an external funding agency.*

3

The Georgia Tech Program:

- *Focused on nanoscience/nanoengineering*
- *Proposals must have been reviewed and declined by an appropriate Federal Agency within the last 24 months.*
- *Copies of all reviews are part of the submission.*
- *Provides 1 year of start-up support ($50,000 maximum)*

4

The Georgia Tech Program (cont'd):

- Proposals are awarded by the Office of the Provost with advice from an *ad hoc* Faculty Review Committee based on:
  - *The external reviews from the external agency*
  - *Scholarly content*
  - *Scientific impact*
  - *Budget adequacy*

5

The Georgia Tech Program (cont'd):

- The P.I. of each supported project will provide an annual report including:
  - *A summary of activity/accomplishments*
  - *A list of relevant publications*
  - *A report on the re-submitted proposal and other awards received*
  - *A list of expenditures*

6

Suggested modifications of the Georgia Tech program:

Expand to cover more research areas

Expand across all U. T. System institutions

7

Benefits of the Program:

- *Efficiency:* Proposals can be generated with minimal extra time and effort by the P.I.
- *Quality:* Proposals will be judged in light of peer reviews received from the external agency
- *Accountability:* P.I.'s will produce annual reports
- *Innovation:* The program will encourage investigators to move into promising new fields of research
- *Strategic flexibility:* The program can be directed toward high-priority research areas

8

Costs:

- At up to $50,000 per award, the program is costly, ***but:***
  - – If the program is successful, the costs may be recouped.
    - *when funded, a million dollar proposal will generate over $400,000 in indirect costs*
  - – The costs are scalable: If only $250,000 is available, at least five proposals can be funded

9

Texas for Texans Data Base

Innovative electronic means for collaboration among U. T. System Institutions

Robert Nelsen, PhD

1

Background

- The WAG Report said that U. T. System institutions needed to improve the means for collaboration among institutions and to improve the quality and quantity of graduate students.
- As such, the FAC recommends that the following three data bases be established and maintained by U. T. System:

2

I. Graduate Student Recruitment Data Base

- To be used by various graduate programs to contact potential graduate students in the State
- To be created from data compiled by Undergraduate Deans and Deans of Students
- Data sorted by discipline on Juniors and Seniors considering going to graduate school

Student Information within Recruitment Data Base

- Brief one paragraph bio
- List of research interests
- Research experience
- Awards (e.g., Dean’s list)
- Email addresses and contact information

II. Research Data Base and Interactive Chat Room

- To be used by faculty seeking to collaborate with other faculty at other institutions
- To be compiled from data collected by Offices of Sponsored Projects and Research Vice-Presidents (or Provosts if institution has no Research Vice-President)
- To be sorted by key categories, fields, and areas used by researchers in publications and on grants

5

Research Data Base Content

- All current research grants (title, PI, and amount awarded)
- All submitted grants that are either pending or did not receive funding (title, PI, amount requested)
- Voluntary list of faculty with list of research interests and URL for faculty member's web page
- Interactive chat room that will allow real-time online communication and meetings as well as allowing faculty to post requests for information or potential collaboration projects

6

III. U. T. System Searchable Data Base

(for the future)

- A Google-like data base linking all U. T. System Institutions' Websites

7

Purposes of U. T. System Searchable Data Base

- Search tool (somewhat like Google) for high school and undergraduate students to find out about various institutions and their programs
- Recruiting tool for faculty
- Collaborative tool for faculty

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Presentation to the Board of Regents:

Shortage of Nursing Faculty

M. Terese Verklan, PhD, CCNS, RNC

February 2005

1

Acknowledgements

- Patricia L. Starck, DSN, RN, FAAN
  - Dean, School of Nursing, UT Health Science Center at Houston
  - Co-chair, Nursing Workforce Data Advisory Committee

2

Scope and Significance of Problem

- More than 1M vacant positions for RNs by 2010 due to ↑demand for healthcare and net replacements due to retirement
  - 39% of RNs employed in nursing hold BSN or MSN (TX: 23%)
  - >39,000 vacancies projected to require BSN/MSN

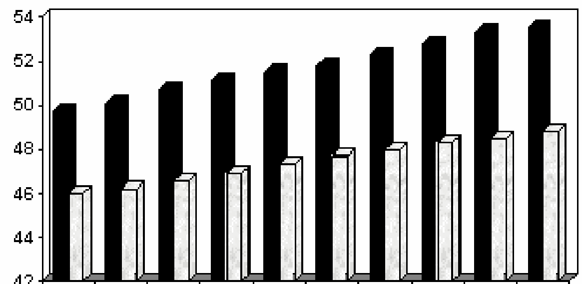
3

Scope and Significance of Problem (cont.)

- Intensifying the shortage is the ↑ deficit of masters and doctorally prepared faculty ➔ limits the number of students admitted
  - US Schools of Nursing declined ~ 16,000 qualified applicants
  - TX: 36—50% of qualified applicants not enrolled due to lack of educational capacity:
    - Lack of budgeted faculty positions
    - Lack of qualified faculty applicants
    - Lack of clinical sites

4

Contributing Factors: Faculty Age



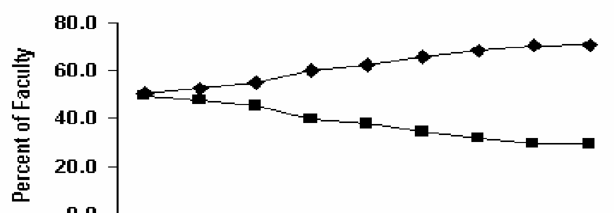
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
■ Doctoral	49.7	50.1	50.7	51.1	51.5	51.8	52.3	52.8	53.3	53.5
□ Master's	46.0	46.2	46.6	46.9	47.3	47.7	48.0	48.3	48.5	48.8

American Association of Colleges of Nursing

5

Contributing Factors: Faculty Age (cont.)

% of Full-Time Doctorally Prepared Faculty Over/Under Age 50



	93	94	95	97	98	99	00	01	02
50 & Over	50.7	52.5	54.9	60.1	62.3	65.7	68.3	70.3	70.7
Under 50	49.3	47.5	45.1	39.9	37.7	34.3	31.7	29.7	29.3

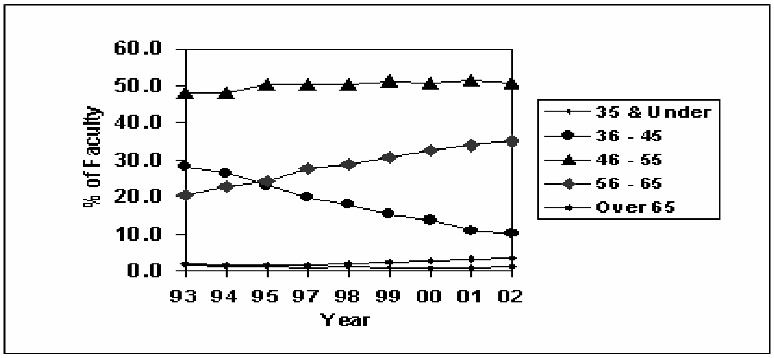
Year

American Association of Colleges of Nursing

6

Contributing Factors: Departure from Academic Life

- **↓ in 36-45 group
  - 43.8% left academia to assume private sector positions



American Association of Colleges of Nursing

7

Contributing Factors: Departure from Academic Life (cont.)

- Employment of Doctoral Graduates
  - 28.6% employed outside School of Nursing in 2002
  - % planning to be employed outside of School of Nursing ↑ by approximately 50% since 1980
  - Proportion of RNs with doctorates employed in School of Nursing with ≥ BSN decreased from 68% (1992) to 42% (2000).

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Contributing Factors: Salary Differentials

Instructional Faculty Position	Median	75th %ile
Associate Professor (Doctoral)	$ 74,556	$ 81,116
Associate Professor (Master's)	$ 60,556	$ 67,259
Assistant Professor (Doctoral)	$ 65,212	$ 67,259
Assistant Professor (Master's)	$ 55,262	$ 61,310

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Contributing Factors: Salary Differentials (cont.)

Clinical/Administrative Positions	Median	75%ile
Chief Nurse Anesthetist	$ 128,875	$ 139,625
VP for Nursing	$ 113,100	$ 134,122
Nurse Anesthetist	$ 105,890	$ 114,647
Nursing Director	$ 93,344	$ 103,083
Nurse Practitioner	$ 69,416	$ 76,407

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Faculty Workload & Role Expectation Issues

- Job Dissatisfaction
  - Overall satisfaction, job security, opportunity for advancement, workload, effectiveness of leadership, salary, benefits
  - Junior faculty > dissatisfaction than senior
    - Workload dissatisfaction 54.7% vs 29.5%

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Short-Term Strategies for Expanding Capacity of Current Faculty

- Faculty expanded in non-traditional ways with current resources
  - Change objection to use of expert non-nurse faculty
  - Creation of interprofessional core courses
  - Is a Master's degree in *nursing* essential for teaching?
    - Estimated 3000 Advanced Practice Nurses with doctoral degrees who do not have MSN→can't teach
    - Some BSN to PhD programs do not receive a MSN

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Short-Term Strategies (cont.)

- Sponsor educational sessions that emphasize academic careers (✓)
- Examine current curricula/programs and streamline to facilitate more timely program completion (✓)
- Attract more second degree students➔accelerated programs (✓)

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Short-Term Strategies (cont.)

- Examine retirement policies
  - Design phased retirement plans that support inclusion of productive retired faculty
- Recognize value of retired scholars
  - Emory U created Emeriti Center composed of retired professors across disciplines
  - USC Emeriti Center offers modest research stipends to retired faculty, recognizes them for continued scholarship and supports community lecture series

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Long-Term Strategies for Expanding the Future Pool of Nursing Faculty

- Recruitment
  - Develop a positive message
    - Nurses must be valued
  - Recruit at younger ages
    - Focus on decision-making process of middle and high school students
    - Johnson &Johnson's national Campaign for Nursing's Future
    - Partnerships between high-school districts and faculty

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Long-Term Strategies for Expanding the Future Pool of Nursing Faculty

- Recruitment (cont.)
  - Seamless basic and advanced nursing preparation
    - Streamline trajectory (accelerated programs)
  - Sources of financial aid
    - Remuneration for lost pay while attending school
    - Grants→loans that are later forgiven
  - Support students from admission to graduation
    - Use of aggressive mentoring programs for struggling students

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Long-Term Strategies (cont.)

- Retention
  - Enhance work environment
    - Provide better salaries, lower faculty/student ratios, more autonomy, and better merit system
    - Requires heavy support from state legislators
  - Support faculty
    - Formal development and mentorship programs—teaching, research

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Long-Term Strategies (cont.)

- Collaboration
  - Other disciplines
    - Most healthcare disciplines do not "mix"
    - Would develop attitudes and skills for effective communication/teamwork
  - Local Community
    - Legislative support essential (funding source)
    - Reconsider Nurse Practice Acts that limit creative approaches to current problems
    - Partnerships with private industry, healthcare institutions, etc

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F. APPROVAL OF MINUTES

G. CONSIDER AGENDA ITEMS

1. U. T. Board of Regents: Presentation of the Accountability and Performance Report for 2004-2005 and request to accept Report

REPORT

Dr. Geri H. Malandra, Associate Vice Chancellor for Accountability, will present the U. T. System Board of Regents' Accountability and Performance Report for 2004-2005 following the PowerPoint presentation attached on Pages 3.1 – 3.12. Following the presentation, the Board will be asked to accept the Report.

The Report, separately bound in a blue notebook, was mailed to the Board with this Agenda Book. Highlights of the Report may be found on the pages following the Highlights tab in the Report. Additional copies of the full Report will be available at the meeting.

THE UNIVERSITY OF TEXAS SYSTEM

Accountability and Performance Report

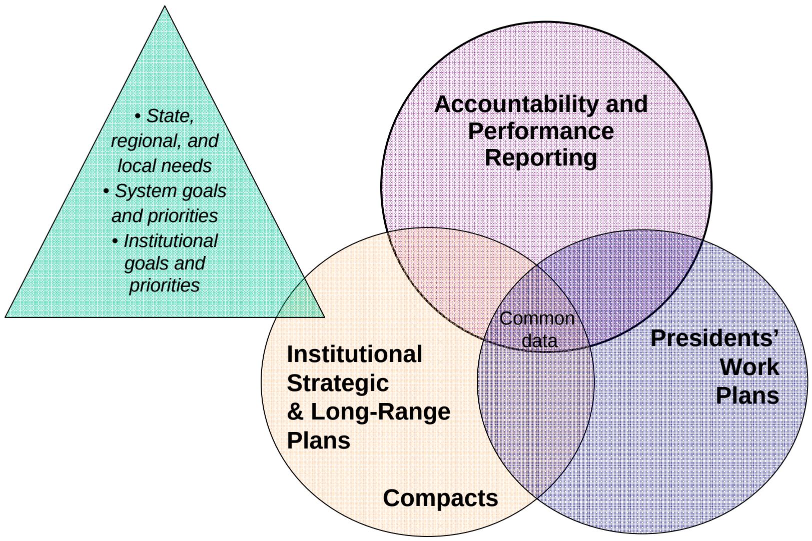
February 2005

Purpose

- Continuous improvement
- Sound management
- Operational transparency
- Communication with internal and external stakeholders
- Influence on state and national accountability public policy
- Annual report submitted for Board's Winter meeting

2

U. T. System Planning Context



3

Framework

- **Scope**
  - 70 measures for all academic institutions
  - 46 measures for all health institutions
  - 15 measures for the U. T. System as whole
  - 5-year longitudinal trends
  - Institutional peer comparisons (10-15 selected indicators)
  - Implications for future planning
- **Organizing Themes**
  - Linked to U. T. System's overarching missions, values, goals and priorities and Texas' *Closing the Gaps* goals
  - Students
  - Research and Health Care
  - Community Service and Collaborations
  - Efficiency and Productivity

4

Enhancements for 2004-05

- **Additions, based on recommended “measures for future development:”**
  - Trends in LSAT and GMAT entrance exam scores
  - Medical student satisfaction
  - Trends in sponsored revenues from all sources
  - Economic impact of capital expenditures
  - Refined methodology to report value of total endowments
  - Ratio of research expenditures to research space at academic institutions
  - Energy use
  - Small class trends
  - Expanded rankings to include national rankings of degrees awarded to minority students
  - Centers of Excellence listed and described for each institution

5

Dynamic Measures

Example: Student Access and Success

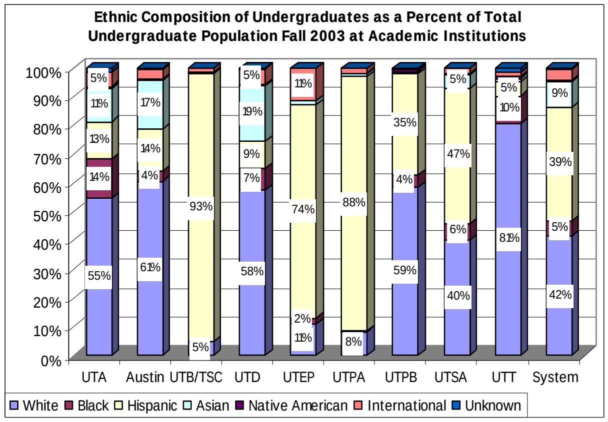
Context/Progress
 # and % increase of first-time, degree-seeking freshmen
 # students enrolled on 12th day
Financial aid
Persistence rates

Outcome/Impact
Graduation rates
Licensure test pass rates
 # degrees awarded
Diversity of graduates
Student experience
(for the future) **Student learning outcomes**
Post-graduation experience (employment)

6

Sample Findings: Student Access

Closing the Gaps Goals

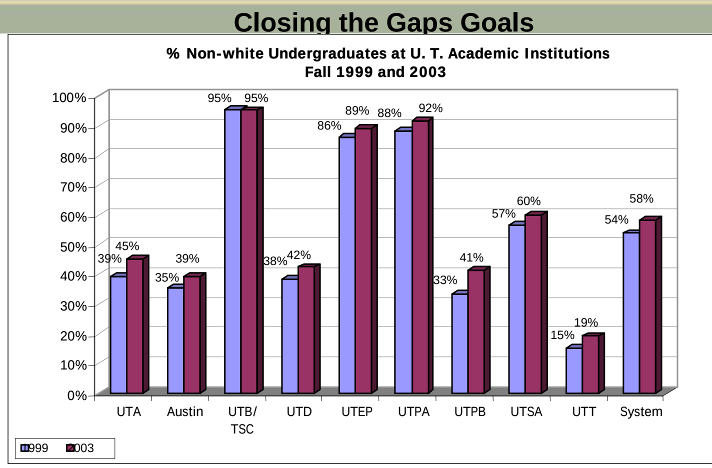


The proportion of Hispanic freshmen at U. T. academic institutions slightly exceeded proportion of Hispanic students in statewide high school graduating class (34%).

7

Sample Findings: Student Access

Closing the Gaps Goals

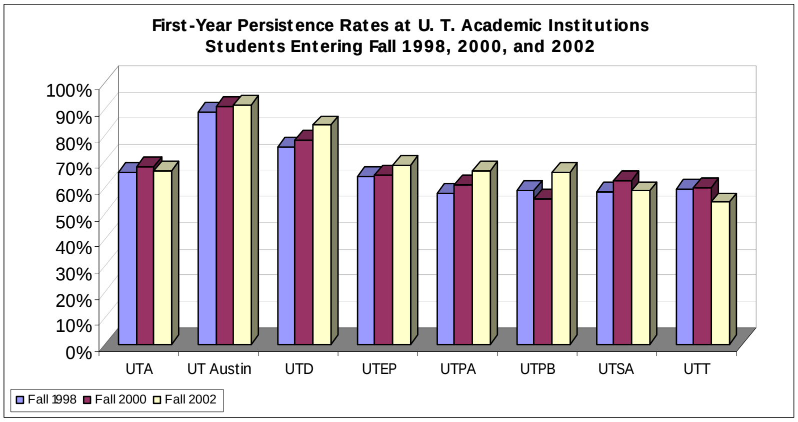


Overall minority enrollments continue to increase at most U. T. academic institutions.

8

Sample Findings: Student Success

Persistence



Over the past 3 years, 1-year persistence rates have increased at most U. T. academic institutions.

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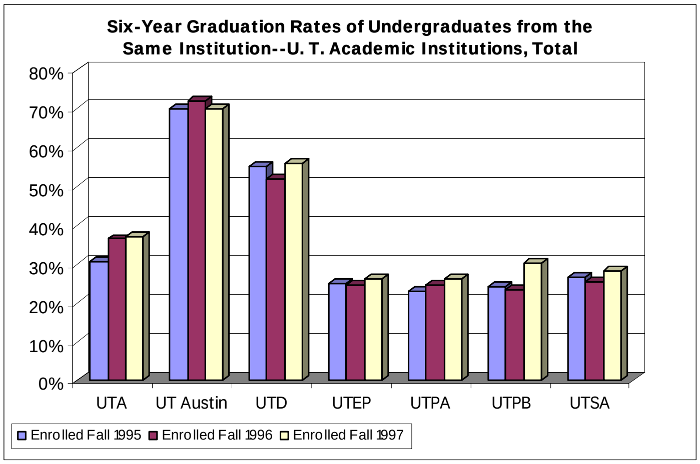
Sample Findings: Student Success

Graduation Rates



4-, 5- and 6-year graduation rates are increasing steadily at U. T. academic institutions.

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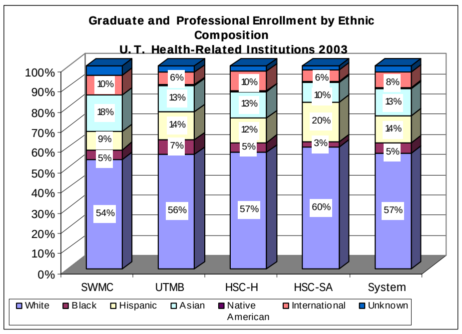
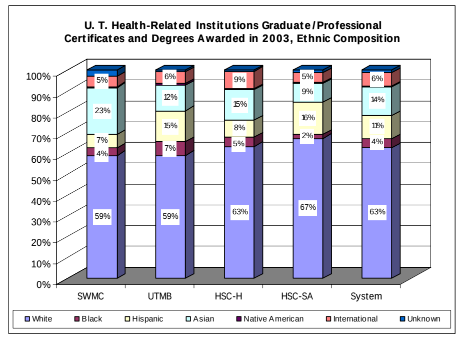
Sample Findings: Student Success

Health-Related Institution Enrollments and Degree Recipients





7,945 graduate/professional students enrolled in 2003

1,697 graduate/professional degrees awarded in 2003

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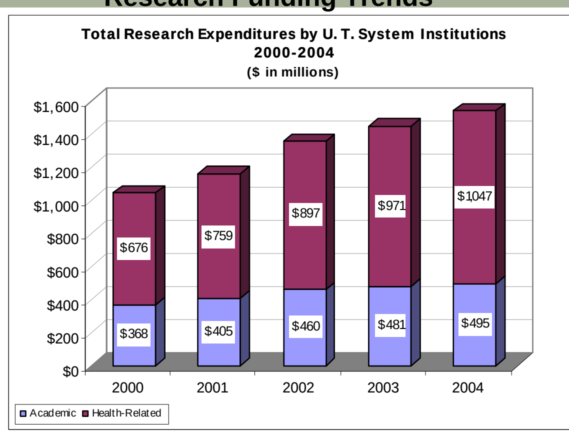
Sample Findings: Teaching, Research, Health Care Excellence

Research Funding Trends



- •Total research expenditures exceeded $1.5 billion in FY 2004
- •48% increase between 2000 and 2004
- •Sources: 63% federal; 22% private; 15% state

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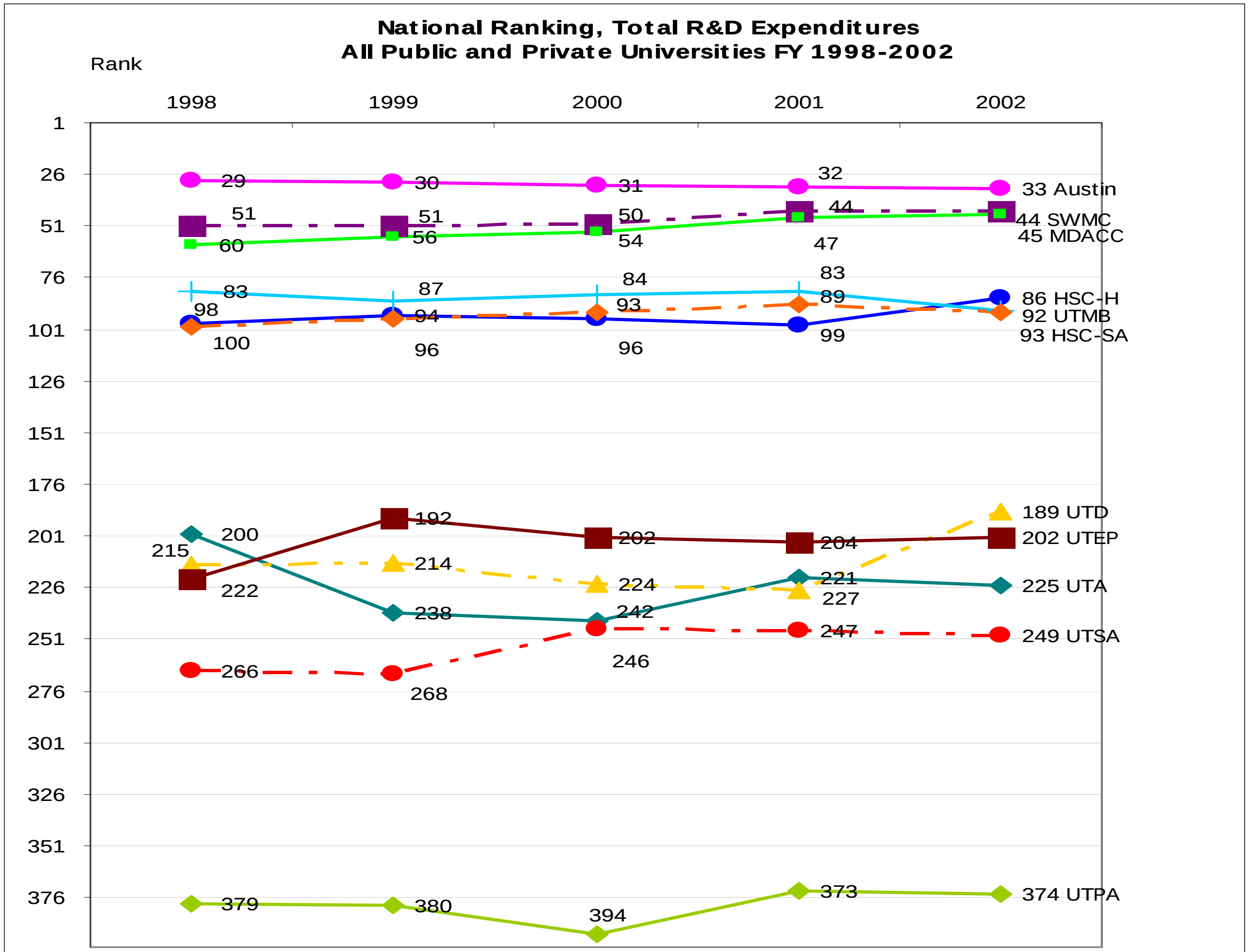
Sample Findings: Teaching, Research, Health Care Excellence

Rankings: Example

3.7



Source: National Science Foundation Survey of Academic Research and Development, 2004
http://www.nsf.gov/sbe/srs/nsf04330/pdf/sectb.pdf

Of 617 ranked institutions:

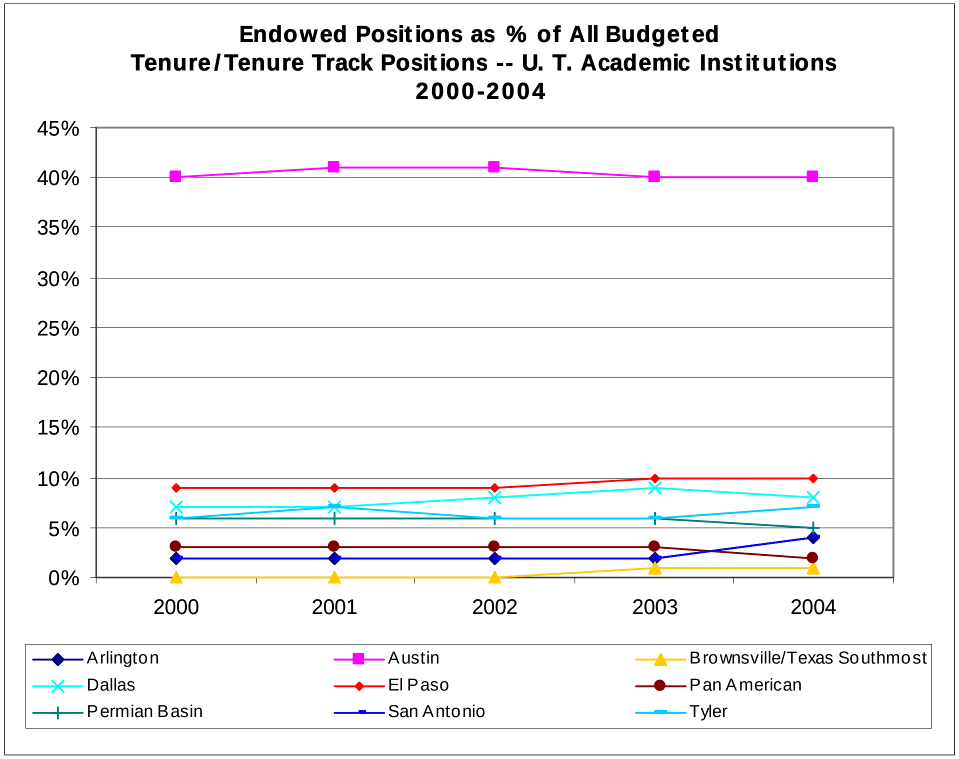
- 3 U. T. System institutions are in the top 50 of all public and private research universities in total research expenditures.
- 3 are in the top 51-100.
- 4 are in the top 204-250.
- 1 is in the top 375.

Sample Findings: Teaching, Research, Health Care Excellence

Endowed Faculty Positions

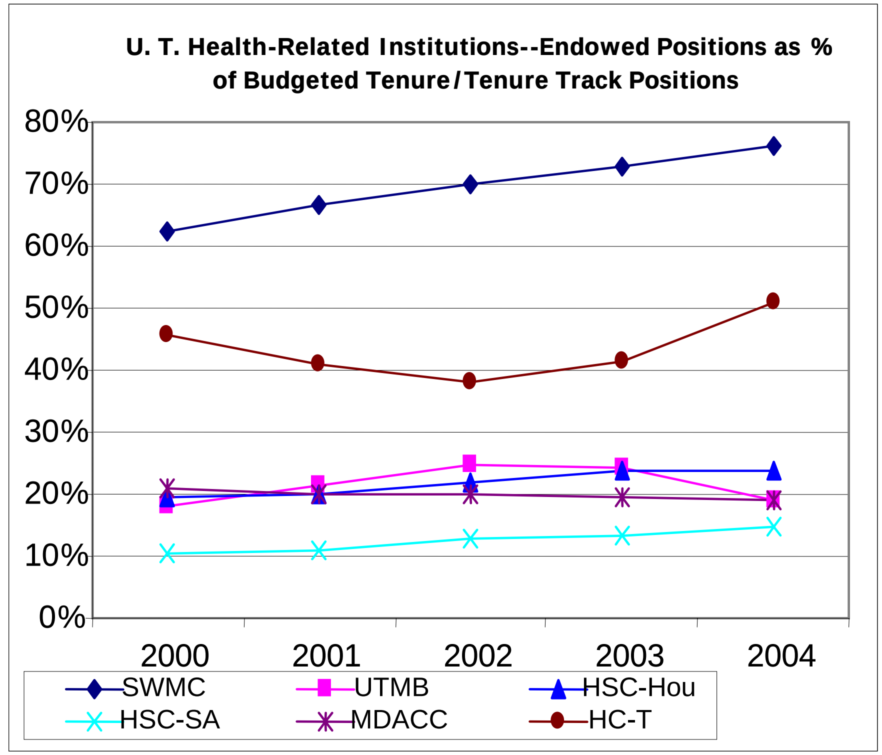
3.8

Academic



positions increased an average of 21% from 1999 to 2003

Health



positions increased an average of 27% from 1999 to 2003

Sample Findings: Teaching, Research, Health Care Excellence

Technology Transfer

Patents Issued by U. S. Patent and Trademark Office
Top-Ranked Universities
2002 and 2003

	2002		2003	
	Rank	# Patents	Rank	# Patents
University of California	1	431	1	439
MIT	2	135	3	127
California Institute of Technology	3	109	2	139
University of Texas System	**5**	**93**	**4**	**96**
Stanford University	4	104	5	85
Johns Hopkins University	6	81	7	70
University of Wisconsin System	6	81	6	84
University of Michigan	12	47	8	63
Columbia University	13	45	9	61
Cornell University	21	35	10	59
University of Florida	15	42	19	59

Source: Chronicle of Higher Education, March 5, 2004.

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Sample Findings: Collaborations

Examples

- **Educational Collaborations**
  - U. T. Medical Branch and U. T. Austin MD/PhD program
- **Research Collaborations**
  - U. T. San Antonio and U. T. HSC-San Antonio Life Sciences Institute
- **K-12 Collaborations**
  - U. T. El Paso Collaborative for Academic Excellence
- **Business and Community Collaborations**
  - U. T. Dallas Texas Instruments Semiconductor Plant

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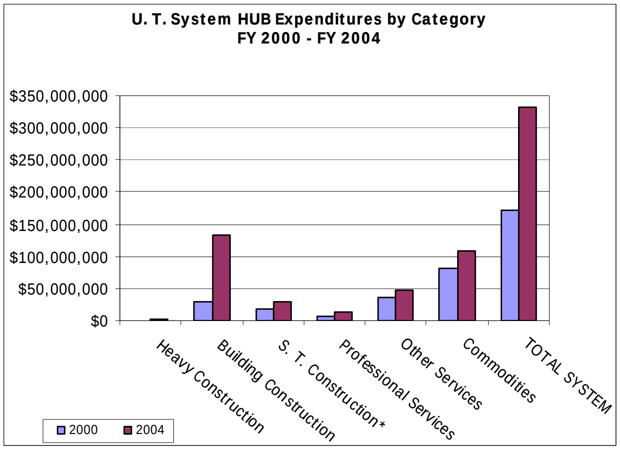
Sample Findings: Collaborations with and Service to Communities

Economic Impact: HUB Expenditures



U. T. System HUB expenditures have increased in every category over the past 5 years

*Special Trades Construction

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Key Findings: Organizational Efficiency and Productivity

Example: Endowments

U. T. System Endowments			
	Value 8/31/99	Value 8/1/04	% Change
Total Academic	$ 1.8 billion	$ 2.5 billion	40%
Total Health-Related	$ 1.5 billion	$ 1.9 billion	29%
System Administration	$ .14 billion	$ .17 billion	19%
Total U. T. System	$ 3.3 billion	$ 4.5 billion	35%

The total includes endowments managed by UTIMCO as well as those held in trust by other entities on behalf of U. T. System institutions.

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Institutional Profiles

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

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Practicing Accountability

- **Use of the report**
  - Almanac and ready reference
  - Highlight successes and key issues
  - Reflect major U. T. System initiatives: tuition deregulation, WAG report, efficiency studies, special investments
- **Set future goals**
  - Work with EVCs and presidents to analyze trend lines, use peer comparisons – do we need specific targets?
  - Align with institutional planning and Compacts
  - Align with State accountability framework
  - Basis for specialized, in-depth studies and cross-tabulation analysis

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THE UNIVERSITY OF TEXAS SYSTEM

For complete data sets, more extensive analysis, and more information about the U. T. System's accountability and institutional improvement initiatives, visit:

http://www.utsystem.edu/cha/Accountability.htm

2. U. T. Board of Regents: Discussion, recommendations, and appropriate action regarding Los Alamos National Laboratory

RECOMMENDATION

Chancellor Yudof will make a recommendation that the Board not pursue a bid for management and operation of Los Alamos National Laboratory.

BACKGROUND INFORMATION

On February 4, 2004, the Board authorized the Chancellor and other U. T. System officials, at his direction, to plan for a potential bid by taking all steps the Chancellor deems reasonable to proceed with the necessary preparation to compete for the management contract to operate the Los Alamos National Laboratory, with the understanding that this authorization includes approval to budget and expend funds of up to $500,000 for this purpose; to contract for needed services and supplies; to seek agreements with potential academic and industrial partners; and to utilize consultants, in conformance with State laws and Regental policy, as needed to assist in the U. T. System's preparation for participation in the bid process. At the July 16, 2004 meeting of the Board, Chancellor Yudof reported the U. T. System had registered interest in a potential bid with the Department of Energy for management and operation of Los Alamos National Laboratory.

3. U. T. System: Presentation and appropriate action regarding authorization to enter into a Memorandum of Understanding and future implementing agreements with Sandia Corporation, operator of Sandia National Laboratories, for an expanded and formalized relationship and increased interaction and collaboration in educational and research activities

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, the Vice Chancellor for Governmental Relations and Policy, and the Interim Vice Chancellor and General Counsel that authorization be given for the Chancellor to execute, on behalf of the Board, a Memorandum of Understanding with Sandia Corporation, operator of Sandia National Laboratories, in substantially the form attached on Pages 9 - 21, and the necessary implementing agreements, as outlined in the Memorandum to be finalized in the future, for an expanded and formalized relationship and increased interaction and collaboration in educational and research activities.

Vice Chancellor Smith will outline the proposed agreement and introduce U. T. faculty members who would be involved in the collaborative activities proposed.

BACKGROUND INFORMATION

The purpose of the proposed Memorandum is to provide the basis for implementing (1) an expanded and formalized relationship between Sandia and U. T. System that will assess and enhance performance excellence at Sandia National Laboratories, and (2) increased interactions and collaborations between individual staff, faculty, and students at Sandia and the institutions comprising U. T. System.

This Memorandum supplements the Memoranda of Understanding (MOU) entered into by The University of Texas at Austin (MOU #02-S-348) and by The University of Texas at Arlington, The University of Texas at Dallas, The University of Texas Southwestern Medical Center at Dallas, and The University of Texas System (MOU #03-S-386). These two Memoranda providing for collaborative research activities are incorporated into the new Memorandum by reference.

To further the expanded and formalized relationship between Sandia and U. T. System, the Sandia Board of Directors has elevated the Organizational Structure for Oversight of Science and Technology at Sandia through the following actions by resolution on January 26, 2005: The Sandia Board of Directors has established a designated U. T. System Director's position to be filled through election by the Board of Directors. That U. T. System Director will organize and lead technical peer reviews of Sandia's science and technology foundations, working through a newly formed Subcommittee of the Mission Committee of the Board of Directors.

A brief summary of the proposed agreement follows:

1. Peer Review and Scientific Accountability

   a. U. T. System agrees to develop, perform, and be accountable for the peer review process of the Sandia Assurance System for Science, Technology and Engineering. The review panels will be composed of appropriate nationally recognized leaders from leading universities, corporations, and agencies.

   b. Beginning October 1, 2005, U. T. System will provide advice and assessment of the state of health and planning related to Sandia's science, technology, and engineering capabilities.

c. U. T. System will maintain an office on site and staffed by qualified personnel from U. T. System institutions to provide oversight of the peer review process. Full staffing of the office will be completed by October 1, 2005.

d. Sandia will reimburse U. T. System, under a separate implementing agreement delineating the terms and conditions, for the reasonable and authorized costs of maintaining and staffing the office; salaries and Sandia work-related travel for the assigned staff; and authorized expenses related to the reviews.

2. Research Program Interfaces and Collaborations

a. In addition to the current and ongoing activities and organizational relationships detailed in the two existing MOUs referenced above, Sandia and U. T. System agree to undertake unclassified, joint research projects that take advantage of the complementary competencies of Sandia and U. T. System as illustrated below:

- **Simulation Engineering** provides real-time sensor updates to simulations. Two complementary approaches are worth pursuing: broadly applicable simulation-engineering research for the National Science Foundation and National Nuclear Security Administration/ Advanced Simulation and Computing Program, and potential first application to real-time updated simulation engineering of the Texas Power Grid (in preparation for extending the work to the U.S. power grid) for the Department of Energy and for the Department of Homeland Security to prevent cascading failures and to mitigate the effects of terrorist attacks on the power infrastructure.

- **UT-Sandia Petawatt High Energy Density Physics Capability** will leverage the unique 100 Joule petawatt laser at U. T. Austin and the unique 500 Joule petawatt and 2000 Joule terawatt lasers at Sandia for a combined regional capability in this emerging research area.

- **Sustainable Energy and Water Security and Sustainability** builds on the unique energy and geochemical expertise of the U. T. System and the Texas-based petrochemical industry and the Sandia expertise in energy and water-related science and engineering. This program will address the mid-term and long-term alternatives for a sustainable supply for mobile energy under sponsorship by an industry consortium, a petrochemical corporation after appropriate fairness-of-opportunity process, or the Department of Energy. The initial focus will be on energy and water resources and on dynamic modeling and simulation.

- **Joint U. T. System-Sandia Health Security Program** builds on the expertise in infectious diseases and radiological bioscience within the U. T. System, and the Sandia expertise in biomedical-related sensors, microsystems, nanotechnology, computational biology, measurement science, and proteomics to pursue major program opportunities. The initial focus will be on cell membrane biology, chemistry, and proteomics because of their importance to counterterrorism and health security. The program will seek to position itself to become a Department of Homeland Security Center of Excellence and to respond to a National Institutes of Health PO1 Research Program Project.

b. In undertaking the joint projects, the project-specific funding for joint research will be provided through the Principal Investigator to the participating institutions.

3. Educational Collaboration

a. Sandia and U. T. System agree to utilize joint appointments so that Sandia scientists can provide staff for graduate programs at U. T. System institutions and U. T. System personnel can engage in long-term involvement in Sandia research programs.

b. U. T. System agrees to provide on-site courses to Sandia personnel through the use of resident U. T. System professors and to provide distance learning opportunities. These offerings could include courses from continuing education programs throughout the U. T. System, such as those offered by the Center for Lifelong Engineering Education as well as specialty, topical research courses of mutual interest between Sandia and U. T. System. Sandia will pay for any courses provided to Sandia personnel under separate implementing agreements.

c. U. T. System agrees to explore opportunities for granting resident tuition status to Sandia personnel and families who are accepted to attend U. T. System institutions. Since legislation may be required to accomplish this, U. T. System cannot commit to the success of this endeavor at the time of the signing.

4. Term of the Agreement

The agreement will remain effective for five years, subject to either party withdrawing on 30 days' notice.

5. Future Implementing Agreements

   a. Peer Review. An implementing agreement providing for reimbursement of U. T. System costs will be executed prior to October 1, 2005.

   b. Educational Programs. Implementing agreements providing for reimbursement of instructional costs will be executed by the U. T. institution providing the courses.

   c. Research Programs. Implementing agreements providing for project-specific funding will be provided through the principal investigator to the participating institutions.

To assure accountability, annual reports will be prepared summarizing activity under the Memorandum of Understanding. On October 1 of each year, a report summarizing the results of the peer review process will be forwarded by the on-site coordinator to the Vice Chancellor for Research and Technology Transfer and to the Chancellor. On the same date, a report summarizing results of joint research activities will be forwarded by the participating institutions to the Vice Chancellor for Research and Technology Transfer and to the Chancellor, and a report summarizing results of the educational collaboration will be forwarded by the participating institutions to the Executive Vice Chancellor for Academic Affairs and to the Chancellor.

Following receipt of the reports on October 1, the Chancellor will prepare for the Board of Regents a summary of the preceding year's activities.

Memorandum of Understanding

Between

Sandia Corporation

and

The University of Texas System

This agreement is by and between Sandia Corporation ("Sandia"), operator of Sandia National Laboratories, with principal offices located in Albuquerque, New Mexico, and The University of Texas System ("UTS").

Purpose

The purpose of this agreement is to provide the basis for implementing (1) an expanded and formalized relationship between Sandia and UTS that will assess and enhance performance excellence at Sandia National Laboratories and (2) increased interactions and collaborations between individual staff, faculty and students at Sandia and the institutions comprising UTS.

Background

Sandia has a number of missions defined by National Nuclear Security Administration (NNSA), Department of Energy (DOE) and the Department of Homeland Security (DHS), among which are deterrence of attack with nuclear weapons, non-proliferation, energy, homeland security, research, work for other federal agencies, and the fostering of science and engineering education. Much of the work is funded in relatively large programs at the laboratory level and conducted by staff working in multidisciplinary teams under the direction of a project manager.

The University of Texas System's primary missions are education, research, health care and public service of regional, national and international significance. Research at the institutions of UTS is aimed at expanding the educational opportunities available to undergraduate and graduate students, at promoting scholarly inquiry and to the development of knowledge and understanding. UTS maintains strong and internationally recognized research programs in science and engineering that contribute to the academic achievement and stature of institutions and assist UTS in fulfilling its responsibilities to the state and the nation.

To further the expanded and formalized relationship between Sandia and UTS, the Sandia Board of Directors has elevated the Organizational Structure for Oversight of Science and Technology at Sandia through the following actions by resolution of the Board on January 26, 2005: The Sandia Board of Directors has established a designated UTS Director's position to be filled through the election by the Board of Directors. That UTS Director will organize and lead technical peer reviews of Sandia's science and technology foundations, working through a newly formed Subcommittee of the Mission Committee of the Board of Directors. The Subcommittee will be composed of at least two Board members including the Chair and at least two advisors from universities, two from industry, and two from government agencies and/or federal or national laboratories.

Mutual Commitments

1. This agreement supplements the Memoranda of Understanding entered into by The University of Texas at Austin (MOU# 02-S-348) and by The University of Texas at Arlington, The University of Texas at Dallas, The University of Texas Southwestern Medical Center at Dallas and The University of Texas System (MOU# 03-S-386). The two MOUs are hereby incorporated by reference.

2. Peer Review and Scientific Accountability.

   a. UTS agrees to develop, perform, and be accountable for the peer review process of the Sandia Assurance System for Science, Technology and Engineering. The review panels will be composed of appropriate nationally recognized leaders from the leading universities, corporations, and agencies.

   b. Beginning October 1, 2005, UTS will provide forthright and unfiltered advice and assessment of the state of health and planning related to Sandia's Science, Technology, and Engineering capabilities. The reviews will cover the integrated effectiveness of the science, technology, and engineering research and development performed under the Laboratory Directed Research and Development Program, the Research Foundations of the Nuclear Weapon Program, the research sponsored by the Office of Science, and other precompetitive foundational research from other sponsors. The scope does not include the programmatic deliverables to external customers.

   c. The opinions expressed represent the opinions of the committees and not that of the UTS.

   d. At least 50% initial composition of the review committees will be drawn from the current membership of Sandia's ST&E External Advisory Boards to ensure continuity of knowledgeable reviewers. The committee membership will evolve, consistent with and in accordance with the process developed by UTS. UTS or Sandia can disqualify chairs and members based on conflict of interest or exceptional bias that cannot be effectively mitigated. The chairs and membership of each board must be mutually acceptable to UTS and to Sandia.

e. UTS will maintain an office on site and staffed by qualified personnel from UTS institutions to provide oversight of the peer review process. Full staffing of the office will be completed by October 1, 2005.

f. UTS will provide to the Chief Technology Officer of Sandia quarterly reports detailing the results of the peer review oversight and the value added by the oversight process in accord with the best practices jointly derived by UTS and Sandia from relevant studies by National Academy of Sciences and from the Guidance of the DOE Office of Science and the Government Performance Research Act and from the UTS research on scientific accountability.

g. Sandia will reimburse UTS, under a separate implementing agreement delineating the terms and conditions, for the reasonable and authorized costs of maintaining and staffing the office, salaries and Sandia work-related travel for the assigned staff, and for the reasonable and authorized expenses related to the reviews.

h. Sandia and UTS agree to provide a screening mechanism so that UTS will not provide peer review or evaluation that would create a conflict of interest for UTS.

3. Research Program Interfaces and Collaborations

a. In addition to the current and ongoing activities and organizational relationships detailed in the two MOUs referenced above in Item 1, Sandia and UTS agree to undertake joint research projects that take advantage of the complementary competencies of Sandia and UTS as illustrated in Exhibit A.

b. In undertaking the joint projects, the project-specific funding for joint research will be provided through the Principal Investigator to the participating institutions. At the request of the participating scientist or engineer to his or her own department, proposal preparation will be provided by the participant's institution as in-kind contributions.

c. Funding pre-project expenses that go beyond reasonable in-kind contributions of personnel time will be the responsibility of the principal investigator.

4. Educational Collaboration

a. Sandia and UTS agree to utilize joint appointments so that Sandia scientists can serve as staff for graduate programs at UTS institutions and UTS personnel can engage in long-term involvement in Sandia research programs.

b. UTS agrees to provide on-site courses to Sandia personnel through the use of resident UTS professors and to provide distance learning opportunities, as described in Exhibit B. These offerings could include courses from continuing education courses throughout the UTS, such as those offered by the Center for Lifelong Engineering Education as well as specialty, topical research courses of mutual interest between Sandia and UTS. Sandia shall pay for any courses provided to Sandia personnel under separate implementing agreements.

c. UTS agrees to explore opportunities for granting tuition benefits to Sandia personnel and families who wish to attend UTS institutions. Since legislation may be required to accomplish this, UTS cannot commit to the success of this endeavor at the time of the signing. Further developments will be included in Exhibit C.

Patent, Technical Data and Works of Authorship

Patents, technical data, and works of authorship arising from the activities under this Agreement will be subject to the conditions set forth in Appendix A of this agreement.

Conditions for Sandia Participation

1. It is agreed and understood that any work done or actions taken by Sandia must be in accordance with the terms and conditions of the prime contract between Sandia Corporation and the DOE for the operation of Sandia National Laboratories; and, must be in accordance with any successor contracts for operation of Sandia National Laboratories. In case of any conflict between this Agreement and the prime contract for the operation of Sandia, the prime contract shall take precedence.

2. It is further agreed and understood that Sandia is required by the DOE to include certain terms and conditions in all implementing agreements it enters into with third parties. UTS and Sandia agree that, to the extent applicable to this Agreement, such terms and conditions shall be set forth in writing in such implementing agreements.

Conditions for UTS' Participation

It is agreed and understood that any work done or actions taken by UTS must be in accordance with the terms and conditions of the policies of the Board of Regents of the University of Texas System ("BOR'), particularly with respect to BOR Intellectual Property Policy, as set forth in The University of Texas System Regents' Rules and Regulations 90101 through 90106. In the case of any conflict between this Agreement and BOR Intellectual Property Policy, the latter shall take precedence.

Implementing Agreements

1. The details of the level of support to be furnished to one organization by the other with respect to funding will be developed in specific implementing agreements subject to availability of funds. Agreements or projects that set forth specific arrangements for program implementation shall be separately developed and agreed to in implementing agreements facilitated by this Agreement. Specific funding and tasking will be established under such implementing agreements. Appropriate patent and other intellectual property provisions shall be included in implementing agreements entered by the parties on a case by-case basis.

2. No claims for consequential damages, incidental damages, claims for lost profits, or other indirect damages arising out of or resulting from the work conducted under implementing agreements facilitated by this Agreement shall be allowed.

Duration

This Agreement shall remain in full force and effect for a period of five (5) years from the date this agreement is executed by all parties. Either party may withdraw from this agreement at its sole discretion upon thirty (30) days written notice to the other party. Any agreement reached by the parties to designate a Responsible Party according to the provisions set forth in Appendix A, shall survive the termination of this Agreement.

Entire Agreement

The foregoing supplements the previously referenced agreements (MOU# 02-S-348 and MOU# 03-S-386) which have been incorporated by reference and will continue to be in effect. The three MOUs compose the entire agreement and understanding between the parties, superseding any previous or contemporaneous understandings, commitments, or agreement, oral or written, with respect to the subject matter of these MOUs. If there is any conflict between this MOU and the previously referenced MOUs, the terms of this MOU shall control.

On Behalf of:

The University of Texas System	Sandia Corporation
Mark G. Yudof	Dr. Paul Robinson
Chancellor	President
The University of Texas System	Sandia National Laboratories
Date: ____________________	Date: _________________

Exhibit A: Program Areas Proposed for Initial Implementation of this MOU

Potential program areas are listed in Exhibit A to motivate the immediate implementation of this agreement and will be updated periodically as the projects will change over time.

1. Simulation Engineering provides real-time sensor updates to simulations. Two complementary approaches are worth pursuing: broadly applicable simulation-engineering research for the NSF and NNSA/ASC and potential first application to real-time updated simulation engineering of the Texas Power Grid (in preparation for extending the work to the US power grid) for the DOE and for DHS to prevent cascading failures and to mitigate the effects of terrorist attacks on the power infrastructure. The work at UT Arlington and at Sandia on understanding the Texas Power Grid and the work in the Center for Electromechanics, UT Austin, on the control of the power systems in the all electric ship may help illustrate, develop, and market this approach.

2. **UT-Sandia Petawatt High Energy Density Physics Capability** will leverage the unique 100 Joule petawatt laser at UT Austin and the unique 500 Joule petawatt and 2000 Joule terawatt lasers at Sandia for a combined regional capability in this emerging research area. We will continue to mutually support each other's pursuit of funding for each institution's petawatt lasers and strive to find a path to fund the required target chamber at Sandia. The proposal is sufficiently mature to seek funding but the challenge is to find funding that does not conflict with the Nuclear Weapon mission priorities or prior commitments.

3. **Sustainable Energy and Water Security and Sustainability** builds on the unique energy and geochemical expertise of the UTS and the Texas-based petrochemical industry and the Sandia expertise in energy and water-related science and engineering. The growing dependence on unconventional sources, including methane from coal, and the political uncertainties in the oil-rich regions of the world are motivating petroleum companies to seek near-term (< 5 year), mid-term (5 to 15 year), and long-tern (>15 year) alternatives. This program will address the mid-term and long-term alternatives for a sustainable supply for mobile energy under sponsorship by an industry consortium, a petrochemical corporation after appropriate fairness-of-opportunity process, or the DOE. The initial focus will be on energy and water resources and on dynamic modeling and simulation. Other promising areas include downstream fuels processing, nonconventional natural gas systems, carbon sequestration, and large-scale energy storage.

4. **Joint UTS-Sandia Health Security Program** builds on the UTS expertise in infectious diseases and radiological bioscience within the UTS and the Sandia expertise in biomedical-related sensors, microsystems, nanotechnology, computational biology, measurement science, and proteomics to pursue major program opportunities. The

initial focus will be on cell membrane biology, chemistry, and proteomics because of their importance to counterterrorism and health security. The program will seek to position itself to become a DHS Center of Excellence and respond to a NIH PO1 Research Program Project.

Exhibit B: Criteria for Courses and Associated Interactions

In addition to the already developed suite of courses offered by the Center for Lifelong Engineering Education under consideration, Sandia will initiate a summer program of educational and research interactions between the Sandia National Laboratories and the UT System. These interactions and the resulting courses are intended to provide Sandia access to world-class, unique educational opportunities that are the result of ongoing research at the University of Texas System campuses.

These topical research short courses are to be offered on-site at Sandia National Laboratories in conjunction with a summer research leave opportunity for a UT System faculty member and graduate student. Courses are to be based upon a joint proposal from a Sandia National Laboratories technical staff member and UT System faculty member and accepted by the Sandia ST&E Executive Council. Each proposal will consist of a white paper describing a research area of ongoing and mutual interest to both parties. The UT System faculty member and the Sandia Point of Contact will propose to the ST&E Executive Council a conceptual area for a research short course and a research area. The timetable for submission and consideration of proposals is to be determined. The courses would be presented throughout the summer.

Each course will be open to students across Sandia National Laboratories who are interested in the topical research area and who are approved by their Sandia manager to take the course. A Sandia National Laboratories staff member seeking a graduate degree must be admitted to the graduate program of the appropriate UTS institution. Sandia National Laboratories will provide suitable educational facilities for course delivery. Auditing will be at the discretion of the student's Sandia manager.

The UT System faculty and graduate student will be appropriately located within a research organization at Sandia National Laboratories. Research collaboration between the faculty and the research organization should culminate in joint proposals, refereed journal publications, patent disclosures, Doctoral Studies Program acceptances or other tangible outcomes. The UT System faculty will have access to Sandia National Laboratories' facilities (experimental and computational) during the course of the research leave. Sandia National Laboratories will pay for appropriate clearance (L or Q clearance) if location within a restricted technical area is required. The UT System faculty and graduate student must be US citizens.

This opportunity should increase the ongoing research collaborations between Sandia National Laboratories and the UT System. The UT System faculty will benefit from access to ongoing Sandia research as well as access to state-of-the-art facilities. Sandia will benefit through the educational opportunities for technical staff outside their current research assignments and collaboration on nascent research topics. Both organizations will benefit through increased creativity from collaborative research.

Exhibit C: Status of Initiative to Explore Opportunities for Granting Resident Tuition Status to Sandia Personnel and Families Who Are Accepted to Attend UTS Institutions

Action by UTS, the Regents of the UTS, and the Texas Legislature may be required to provide resident tuition status to Sandia Personnel and families who are accepted to attend the UTS Institutions. Such action will be explored after the MOU has been implemented and the benefit to the State of Texas of the expanded and formalized relationship between UTS and Sandia has been demonstrated. Exhibit C will be updated annually to record progress on this initiative.

Appendix A

Patent, Technical Data and Works of Authorship

1. Ownership rights to subject inventions and works of authorship arising under all funded or unfunded arrangements between UTS and Sandia shall be consistent with appropriate Sandia contractual obligations to the Department of Energy (DOE), any applicable federal statutes and the Intellectual Property Policy of The University of Texas System Board of Regents.

2. Ownership rights of UTS in subject inventions developed by UTS' employees, contractors, faculty or students, funded in whole or in part by Sandia, are governed by 35 USC 200 et seq., and by the Intellectual Property Policy of The University of Texas System Board of Regents.

3. Ownership rights of Sandia in subject inventions developed by Sandia employees or contractors, irrespective of the source of funding, shall be controlled by Sandia's contract with DOE and all class waivers applicable to such inventions granted to Sandia by DOE.

4. Ownership rights of copyrightable works of authorship either solely authored or co-authored by employees, contractors, faculty or students of UTS or Sandia shall be controlled by 17 USC 201 and by the Intellectual Property Policy of The University of Texas System Board of Regents; provided, however, that Universities' rights in such works that are funded in whole or in part by Sandia are governed by 48 CFR 52.227-14, with Alternates I, II, III and IV as appropriate.

5. Ownership rights in subject inventions and works of authorship created by part time Sandia/part time UTS' employees shall be consistent with Sandia's obligations to DOE and any applicable federal statutes and the Intellectual Property Policy of The University of Texas System Board of Regents.

6. Except as otherwise provided by 48 CFR 52.227-14 (g), and to the extent provided by 42 USC 5908 and 35 USC 202(c)(4), the United States Government shall retain a nonexclusive, nontransferable, irrevocable, paid up license to practice, or have practiced, throughout the world for, or on behalf of the United States, all works of authorship created and inventions conceived or first reduced to practice during the course of a government funded contract between Sandia and Universities.

7. It is explicitly understood that with respect to subject inventions and works of authorship arising under any research projects carried out under a separate agreement between Sandia and UTS such as a Visiting Scientist Agreement, Cooperative Research and Development Agreement, Work For Others Agreement, lease agreement for laboratory equipment, materials and facilities, that the terms of such agreements

relating to inventions and works of authorship shall, to the extent inconsistent herewith, supersede the terms herein; provided, however, such terms and conditions shall be negotiated and mutually acceptable to the parties.

8. The following categories of patents, technical data and works of authorship developed under this Agreement, irrespective of ownership, are subject to this agreement:

- subject inventions whose co-inventors and works of authorship whose co-authors include both Sandia and UTS' contractors, employees, faculty or students;

- subject inventions and works of authorship created by Sandia employees or contractors utilizing UTS' equipment, personnel or facilities on the premises of UTS for which UTS is not compensated by Sandia;

- subject inventions and works of authorship created by UTS' employees, contractors, faculty or students utilizing Sandia equipment, personnel or facilities on the premises of Sandia for which Sandia is not compensated by UTS.

9. Upon filing an invention disclosure at either Sandia or UTS relating to one or more of the above-enumerated categories, a copy thereof shall be sent by the filing party to designated representatives of the other party. The designated representatives of UTS and the Sandia Patent and Licensing Office shall agree within ninety (90) days after receipt thereof that either Sandia or UTS shall:

- Undertake patent or other protection of the subject invention disclosed;

- Undertake an analysis of the potential value of the subject invention which it shall share with the other party upon request; and

- Undertake licensing or other commercialization of the subject invention.

The party assuming responsibility for the above matters is referred herein as the Responsible Party.

10. Within such 90-days period, the parties shall also reach agreement as to how each shall share the proceeds of licensing such inventions. Such agreement shall be based on the parties' determination as to the value of the contribution of each party to such invention. In determining the value of the contribution of each party, consideration shall be given to, among other matters, the extent of the intellectual contribution of employees, contractors, faculty and students, as well as the value of the non-monetary support of each party to the invention. By the way of example, such non-monetary support includes the use of equipment or facilities of one party, which have not been otherwise expressly compensated for by the other party. Once made, such agreement shall be final unless otherwise agreed to by the parties.

11. If UTS and Sandia Patent and Licensing Office are unable to agree within such ninety (90) day period as to which of them shall be the Responsible Party for patenting and licensing of the technology or how the parties shall share in licensing proceeds, then such not agreed upon issues shall be resolved by the respective UTS designated representatives as reflected on the Attached Appendix E and the Sandia Vice President for Science, Technology and Partnerships. Their mutual decision shall be rendered within thirty- (30) days after referral to them and that decision shall be final.

12. If the Responsible Party should decide not to continue performance of the tasks described in paragraph 9 above with respect to any invention, it shall so advise the other party in a timely fashion so as to effectively allow the other party to assume such tasks if it so desires.

13. The Responsible Party shall be responsible for payment of all costs of patenting and commercialization. Such party should be entitled to reimbursement for the reasonable out-of-pocket and commercialization costs incurred by it from the proceeds of such commercialization before any such proceeds are shared between the parties. Documentation with respect to such costs shall be provided to the other party. No party shall be liable for the costs of foreign patent prosecutions or enforcement actions, and such costs may not be deducted from the proceeds of commercialization unless agreed by the parties.

14. The Responsible Party shall also have full authority, and the same is hereby granted, to represent the interests of the parties and shall make periodic reports and provide other information to the other parties regarding the commercialization of the technology, including patent status and the commercialization efforts made. The Responsible Party shall also make disbursements semi-annually to the other parties, beginning on the January 1 or July 1 following the first receipt of such proceeds.

15. The parties not responsible for patenting and commercialization of any invention shall cooperate with such efforts by making information and other internal resources reasonably available as appropriate and shall use reasonable efforts to promote the cooperation of its contractors or employees who are inventors. The parties not responsible for patenting and commercialization shall execute all documents necessary and appropriate to allow the Responsible Party to carry out patenting and commercialization responsibilities, including the execution of powers of attorney.

16. With respect to scholarly works of authorship created in the above apportionment situations, the parties agree to grant to each other a non-exclusive, paid-up and royalty-free license to exercise throughout the world all rights of whatever kind or nature now or hereafter protected by the Copyright Law of the United States (the "Copyright Law") in and to all scholarly works produced pursuant to this Agreement, including the rights to reproduce, distribute, prepare derivative works, distribute copies to the public, and perform publicly and display publicly, subject to any rights required to be assigned or granted in order to permit publication of such scholarly works. The management of

commercialization and sharing of commercialization proceeds of all other works of authorship or other copyrightable materials subject to this Agreement shall be handled in the manner set forth above for patentable inventions.

17. Each party represents that it has the full power and authority to agree with the other parties how inventions subject to this Agreement are protected and commercialized and how the income from licensing thereof shall be shared by the parties.

18. Nothing in this Agreement, expressed or implied, is intended to confer any right remedies, claims or interests upon a person not a party hereto.

4. U. T. Board of Regents: Regents' *Rules and Regulations*, Series 30101 - Amendment to replace the U. T. System-wide Classified Personnel Pay Plan with plans at the institutional level

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Vice Chancellor for Administration, and the Vice Chancellor and General Counsel that the Regents' *Rules and Regulations*, Series 30101 be amended as set forth below in congressional style to allow the U. T. System Classified Personnel Pay Plan to be replaced with plans at the institutional level:

1. Title

Classified Personnel Pay Plan

2. Rule and Regulation

Sec. 1 <u>Institutional Classified Personnel Pay Plan. The institutions of the U. T. System and System Administration shall adopt and maintain a classified personnel pay plan that conforms to the guidelines established by the Chancellor in a Business Procedures Memorandum. Each institution's president shall be responsible for the development and operation of the respective institution's classified personnel pay plan. The Chancellor shall be responsible for the development and operation of System Administration's classified pay plan.</u>

~~Sec. 2 Elements . . . .~~

BACKGROUND INFORMATION

At the November 2004 Board of Regents' meeting, several questions were raised concerning the recommended changes to the Regents' *Rules and Regulations* regarding the U. T. System Classified Personnel Pay Plan.

The provision of the Regents' *Rules* required U. T. System to maintain a centralized pay plan for classified employees and delegated authority to the Chancellor for approval of the pay plan. The proposed new provision would abolish the U. T. System Classified Pay Plan and replace it with institutional pay plans in compliance with a Business Procedures Memorandum (BPM), as outlined on Pages 23.1 – 23.5. The BPM provides guidelines for development of individual classified pay plans following elements currently contained in Section 2 of the rule proposed for amendment. The BPM is included for information only. The Board is not being asked to approve the BPM.

The BPM was developed with input from a System-wide Pay Plan Task Force comprised of members from the institutions and has been approved by the U. T. System Office of General Counsel.

The current U. T. System Classified Pay Plan is a compilation of each U. T. institution's classified personnel pay plan and provides for standardized job codes, job titles, and individual salary ranges. Under the current centralized process, each U. T. institution is required to submit any changes in these categories for approval by U. T. System Administration. During Fiscal Year 2004, over 900 such changes were forwarded to U. T. System for handling. However, the justifications for requested changes are unique to each of the U. T. institutions, as each must make local determinations of titles and salary ranges to be, and to remain, competitive within the respective service areas. U. T. System Administration is not in the best position to make these individual determinations on behalf of the 15 institutions.

At a time when the U. T. System continues to identify opportunities to improve operational efficiencies through deregulation, the System-wide Classified Personnel Pay Plan remains an internal constraint on efficient business operations. Human resource professionals at the U. T. institutions advise that significant institutional resources are expended following the current pay plan process. The institutions have requested the flexibility to make decisions regarding classified titles and pay ranges based on individual business needs. With the changes brought about by technology, the dynamic growth of and change in job titles, and rapid shifts in the labor market, requiring institutions to request centralized review of changes to their pay plans before implementation places undue constraints on the efficient operations of the U. T. System.

THE UNIVERSITY OF TEXAS SYSTEM

Business Procedures Memorandum
Classified Pay Plan

1. PURPOSE

This Business Procedures Memorandum requires that each University of Texas System institution and System Administration maintain a Classified Pay Plan in accordance with the standards set forth below.

2. POLICY

Each institutional Classified Pay Plan shall include a listing of job titles of all positions which do not entail significant instructional responsibilities or responsibilities for the administration of instructional or research organizations. The members of the Board have delegated to the President of each institution, or his or her delegate, the authority for the maintenance of an institutional Classified Pay Plan. Each delegate shall determine the inclusiveness of the Classified Pay Plan for the institution and have the responsibility to maintain the pay plan on an annual basis. Each delegate shall comply with all appropriate requests for institutional compensation information in a timely manner.

3. CLASSIFIED PAY PLAN STRUCTURE AND STANDARDS

3.1 Type of Plan

Each delegate may determine the Classified Pay Plan structure that most appropriately meets the needs of the institution and is in compliance with the standards set forth below.

3.2 Required Classified Pay Plan Elements

3.2.1 Job Titles

Descriptive job titles shall be used for positions that are similar in scope and function. Institutional pay plans shall have suitable descriptive titles.

3.2.2 Job Codes

A uniform job code system shall be used to designate job classes within each institutional Classified Pay Plan.

3.2.3 Salary Ranges

Each title in an institutional Classified Pay Plan shall have a minimum and maximum for each salary range. Each institution may base its Classified Pay Plan on those compensable factors it determines to be appropriate. Salary ranges for each job classification should reflect the competitive labor market environment applicable to each institution.

3.2.4 Job Descriptions

A standardized job description shall be developed and made available for each job title appearing in an institutional Classified Pay Plan. This job description should include at minimum: the job code; title; purpose of the job; required education and experience and any required certification, registration, or licensure; job functions; and supervisory responsibilities.

3.2.5 Fair Labor Standards Act (FLSA) Category

Each institutional Classified Pay Plan shall provide a reference to the appropriate overtime category under the FLSA.

3.2.6 Equal Employment Opportunity Code (EEO)

Each institutional Classified Pay Plan shall include the appropriate EEO code for each classified title.

3.2.7 Index

Each institutional Classified Pay Plan should include an index that includes all classified titles for each occupational job family included in the pay plan. Other indices may be included as determined by an institution.

3.2.8 Compensation Policies

Each institution should include relevant institutional compensation policies and appropriate statements of compensation philosophy in its Classified Pay Plan.

3.3 Pay Plan Accessibility

To facilitate sharing of knowledge and administrative resources, each institution shall make its Classified Pay Plan accessible on an internet or other site determined by The University of Texas System. This accessibility may be accomplished through linkage from the institutional Classified Pay Plan to the designated University of Texas System site. All of the essential institutional pay plan elements required in Section 3.2 above shall be included in the Classified Pay Plan that is linked to The University of Texas System site. Each institution is responsible for assuring that subsequent changes to the Classified Pay Plan are reflected on the linked site.

3.4 System-wide Pay Plan

The Classified Pay Plans of the institutions of The University of Texas System and System Administration shall be collectively deemed to be the System-wide Pay Plan.

4. DEFINITIONS

Classified Pay Plan

An institution structure for classifying positions into occupational families that do not have the assignment of significant instructional responsibilities or responsibilities for the administration of instructional or research organizations, which provides a framework for the assignment of job titles, job class codes, FLSA category, EEO codes, and salary grade or range.

Classified Positions

Positions with similar qualifications, requirements and level of responsibility that are grouped together in occupational job families which, when organized hierarchically, create a classified pay plan structure.

Classified Job Title

Job titles that are subject to the salary administration and classification guidelines of and included in the Classified Pay Plan. Titles are descriptive of the work performed and its relative level. Job titles may be generic or specific and can use numerical indicators, letter designations, or descriptive adjectives.

Compensation Policies

The general philosophy and principles of monetary rewards established by the institution that guide the compensation and related practices within fiscal resources. These principles and the policies on which they are based guide compensation program design, procedures and practices to: assure support for the mission of the institution; attract and retain a well-qualified workforce; provide equitable and fair compensation for similar qualifications and work; ensure compliance with applicable laws and regulations; recognize and reward superior performance; and pay at levels that are competitive within the relevant labor markets.

EEO Code

The numeric code assigned to each job title based on the Equal Employment Opportunity Commission (EEOC) job group definitions.

Fair Labor Standards Act (FLSA)

Federal legislation that sets minimum wage, overtime pay, equal pay, record keeping, and child labor standards for employees who are covered by the act and are not exempt from specific provisions.

FLSA Category

The designation of a job that indicates whether it is exempt from or subject to the overtime provisions of the Fair Labor Standards Act.

Job

The grouping of tasks, duties, and responsibilities assigned to one or more positions. A job refers to the tasks, duties, and responsibilities rather than how well the work is performed.

Job Code

The unique numeric or alpha-numeric designation that is assigned to a specific job title, occupational group, or title series within the occupational group to which the title is assigned.

Job Description

The summary of the major duties and critical tasks of a job that identifies the minimum qualifications such as education, experience and certification required for a classification. Preferred qualifications may also be included.

Salary Ranges

The span from minimum to maximum that constitutes a pay or salary grade or salary range established for a particular job or job grade. A salary range must include a minimum and maximum and may include midpoints.

5. AUTHORITY

The authority for this Business Procedures Memorandum is provided by: Regents' *Rules and Regulations*, Series 30101, Classified Personnel Pay Plan.

6. APPLICABILITY

This Business Procedures Memorandum is applicable to each institution of The University of Texas System and to System Administration.

7. INTERPRETATION

The Assistant Vice Chancellor for Employee Services officially interprets this Business Procedures Memorandum and is responsible for its revision as necessary to meet the changing needs of The University of Texas System and any subsequent statutory requirements.

8. APPROVAL AND REVISIONS

Month xx, 2005

5. **<u>U. T. Board of Regents: Regents' *Rules and Regulations*, Series 80601 - Amendment to increase delegated authority to accept settlement amounts for property and casualty insurance</u>**

<u>RECOMMENDATION</u>

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*, Series 80601, be amended as set forth below in congressional style to increase the settlement amount for property and casualty insurance and surety bond claims that may be approved by the Executive Vice Chancellor for Business Affairs. These settlements are for claims other than life, disability, and health claims for which the U. T. System is the claimant.

It is further recommended that the Board authorize the Executive Vice Chancellor for Business Affairs to approve all self-insurance settlement payments under the Comprehensive Property Protection Plan (CPPP), without regard to the dollar amount.

1. **Title**

Property and Casualty Insurance and Surety Bonds

2. **Rule and Regulation**

Sec. 1 Authority to Purchase. The terms of any insurance policies and surety bonds, other than life, disability, and health insurance policies for any U. T. System institution or for System Administration, shall be negotiated by the Director of Risk Management. The Executive Vice Chancellor for Business Affairs shall approve the purchase or renewal of policies with premiums in excess of $500,000.

Sec. 2 Notice of Loss and Approval of Claims. At the time a loss occurs applicable to either System-wide or individual insurance policies and surety bonds, the Director of Risk Management shall be notified by the chief business officer of the institution. For all claims, other than life, disability and health claims, in which the University is a claimant, the Director of Risk Management shall approve all loss claims and settlements under $250,000. The Executive Vice Chancellor for Business Affairs shall approve any settlement between $250,000 and ~~$500,000~~ <u>$1,000,000, and any settlements under the University's Comprehensive Property Protection Plan</u>. ~~Notification of the settlement will be given to the Board at the discretion of the Executive Vice Chancellor for Business Affairs. Settlements over $500,000 and up to $1 million shall be approved by the Executive Vice Chancellor for~~

~~Business Affairs and shall be reported to the Board for ratification.~~ Settlement of commercial insurance or surety bond claims in excess of $1,000,000 must have the approval of the Board of Regents.

Sec. 3 Settlement of Catastrophic Claims. In the case of a catastrophic occurrence where the loss is so extensive that partial commercial insurance payments in excess of $1,000,000 are necessary, the Chancellor is delegated authority to execute all documents related to the partial payment or adjustment. The Board of Regents will be notified by the Chancellor of all partial payments received in excess of $1,000,000. Final settlement of commercial insurance claims in excess of $1,000,000 will require approval by the Board.

BACKGROUND INFORMATION

Previously, the Regents' *Rules and Regulations* authorized the Executive Vice Chancellor for Business Affairs to approve any settlement not to exceed $500,000 with notification to be provided to the Board at his/her discretion. The Executive Vice Chancellor for Business Affairs could also approve settlements over $500,000 and up to $1,000,000, but those settlements required ratification by the Board. Settlements in excess of $1,000,000 required approval by the Board.

The proposed rule would allow the Executive Vice Chancellor for Business Affairs to approve commercial insurance settlements not to exceed $1,000,000, as well as all settlements made under the self-insurance portions of U. T. System's property insurance program.

Settlement of commercial insurance and surety bond claims in excess of $1,000,000 will still require approval of the Board. These settlements are made between the University and a commercial insurance company. It is recommended the threshold be at a level consistent with the authority of the Executive Vice Chancellor for Business Affairs to approve other transactions with outside parties.

U. T. System's property insurance program, known as the Comprehensive Property Protection Plan (CPPP), was originally established in November 1995, with approval of the Board. The CPPP was enhanced in 2003 when the Board approved and partially funded the revised self-insurance structure to specifically address named wind and flood exposures.

The CPPP is comprised of three different programs, two of which include self-insurance funds. The third program includes traditional insurance coverage for boiler and machinery losses and associated loss of income.

The self-insurance fund for the Fire and All Other Perils program covers up to $7.25 million per loss. This essentially funds the deductible on the commercial insurance policy. The self-insurance fund for the Named Wind and Flood program covers up to $50 million per loss. If a loss under this program exceeds the available balance in the self-insurance fund, debt may be issued to fulfill the obligation of the program. If that occurs, the debt issuance will require Board approval pursuant to the Regents' *Rules*.

Settlements within these self-insurance programs are guided by the terms and conditions of the insurance policy and the CPPP Plan Guides. Any large claim requires significant coordination and is thoroughly vetted with the U. T. institution that suffers the loss. Once the loss amount is established with the assistance of an independent adjusting firm, a settlement agreement is reached with the Chief Business Officer of the affected U. T. institution.

Since distributions from these funds are internal to the U. T. System, are time sensitive, and are directed by the policy and guide documents, it is most appropriate and efficient to allow the Executive Vice Chancellor for Business Affairs to approve CPPP self-insurance settlements.

In summary, the proposed rule allows for a more efficient claim settlement process for commercial insurance claims and claims funded through the property self-insurance funds. Board approval is still required on settlements over $1,000,000 involving recoveries from commercial insurance companies.

6. <u>U. T. Board of Regents: Proposed appointment of members to the Board of Directors of The University of Texas Investment Management Company (UTIMCO)</u>

<u>RECOMMENDATION</u>

In accordance with the requirements of the Regents' *Rules and Regulations*, Series 10402, Chairman Huffines requests approval of the proposed appointment of the following Regents to serve on The University of Texas Investment Management Company (UTIMCO) Board of Directors for terms ending April 1, 2007, or until the successor of each is chosen and qualifies, or until their earlier resignation or removal:

Regent Caven (to replace Regent Barnhill)
Regent Rowling (to replace Vice-Chairman Clements)

BACKGROUND INFORMATION

Pursuant to *Texas Education Code* Section 66.08, the Board of Regents shall appoint the nine directors of UTIMCO. At least three members of the U. T. System Board of Regents and the Chancellor shall be appointed to the UTIMCO Board of Directors by the Chairman of the Board of Regents, by and with the consent of the Board of Regents.

Vice-Chairman Clements has served on the UTIMCO Board of Directors since May 2001 and Regent Barnhill has served on the UTIMCO Board of Directors since July 2004.

The proposed appointments of Regent Caven and Regent Rowling have been reviewed by the Office of General Counsel and the Counsel and Secretary and were found to be consistent with State law and the provisions of the UTIMCO Code of Ethics.

7. U. T. Board of Regents: Announcement of establishment of a special ad hoc committee

H. RECESS FOR MEETINGS OF THE STANDING COMMITTEES AND COMMITTEE REPORTS TO THE BOARD

The Standing Committees of the Board of Regents of The University of Texas System will meet as set forth below to consider recommendations on those matters on the agenda for each Committee listed in the Agenda Book. At the conclusion of each Standing Committee meeting, the report of that Committee will be formally presented to the Board for consideration and action.

Audit, Compliance, and Management Review Committee: Chairman Estrada
Agenda Book Page 29

Finance and Planning Committee: Chairman Hunt
Agenda Book Page 34

Academic Affairs Committee: Chairman Krier
Agenda Book Page 43

Health Affairs Committee: Chairman Clements
Agenda Book Page 51

Facilities Planning and Construction Committee: Chairman Barnhill
Agenda Book Page 55

I. RECESS TO EXECUTIVE SESSION PURSUANT TO *TEXAS GOVERNMENT CODE*, CHAPTER 551

1. Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers - Section 551.071

2. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees - Section 551.074

   U. T. Dallas: Candidate interview, discussion, and appropriate action regarding personnel matters related to the possible selection and employment of a president

J. RECONVENE IN OPEN SESSION TO CONSIDER ACTION FROM EXECUTIVE SESSION

K. SPECIAL REPORT

U. T. Austin: Report of the Commission of 125

REPORT

The Commission of 125 is a group of citizens convened to express a vision of how The University of Texas at Austin can best serve Texas and the larger society during the next 25 years. The Commission was proposed during the 2001-2002 academic year, 125 years after the Constitution of 1876 mandated that Texas establish "a university of the first class". In the spirit of that mandate, the group was named the Commission of 125. Mr. Kenneth M. Jastrow, II, Chairman of the Commission and Chairman and CEO of Temple-Inland, will make a PowerPoint presentation set forth on Pages 28.1 – 28.8.

L. ADJOURN

THE UNIVERSITY OF TEXAS AT AUSTIN

The Commission of 125

PLANNING FOR THE FUTURE

The University of Texas System
Meeting of the Board of Regents
February 10, 2005
Presentation by Kenneth M. Jastrow, II, Chair
The Commission of 125

THE UNIVERSITY OF TEXAS AT AUSTIN

Commission Timeline

Commission Established
Fall 2002

Commission Meetings
2003-2004

Commission Report Delivered
September 2004

The Commission of 125
PLANNING FOR THE FUTURE

2

Commission Membership

128 Regular Members

90 Honorary Members

---

218 Total Members

Members chosen for occupational, geographic, and ethnic diversity.

THE UNIVERSITY OF TEXAS AT AUSTIN

Committees and Chairs

Character, Scale & Access	Cassandra Carr
Undergraduate Experience	Cappy McGarr
Graduate & Professional Education	Fred Hegi
Research	Steve McKnight
Libraries, Museums & Information Technology Resources	Prudence Mackintosh
Service to Society	Melinda Perrin
External Relationships	David Beck
Resources & Infrastructure	Jake Foley

Mission Statement

Through the work of the Commission of 125, citizens will express a vision of how The University can best serve Texas and the larger society during the next 25 years, determine what must occur to realize that vision, and recommend a course of action. In the process, the Commission will also determine what must occur for The University to be recognized consistently as one of the nation's top five public institutions.

Core Purpose

To transform lives for the benefit of society

Core Values

Learning – A caring community, all of us students, helping one another grow.

Discovery – Expanding knowledge and human understanding.

Freedom – To seek the truth and express it.

Leadership – The will to excel with integrity and the spirit that nothing is impossible.

Individual Opportunity – Many options, diverse people and ideas, one University.

Responsibility – To serve as a catalyst for positive change in Texas and beyond.

The Vision

The University of Texas will be the best in the world at creating a disciplined culture of excellence that generates intellectual excitement, transforms lives, and develops leaders. The University of Texas will define for the 21^{st} century what it means to be a university of the first class.

THE UNIVERSITY OF TEXAS AT AUSTIN

A Consensus

The Commission decided that all its recommendations fell under a single overarching imperative, to be supported by two strategic initiatives.

A Single Imperative

Create a Disciplined Culture of Excellence

…Supported by Two Strategic Initiatives

1. Develop a new undergraduate core curriculum to better prepare students for lives of accomplishment.

2. Establish a more demanding standard for leadership of academic departments and research centers, and give those leaders the authority and resources to succeed.

THE UNIVERSITY OF TEXAS AT AUSTIN

The imperative and strategic initiatives are supported by:

16 operational recommendations
grouped in four categories

The Commission of 125
PLANNING FOR THE FUTURE

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THE UNIVERSITY OF TEXAS AT AUSTIN

Operational Recommendation Groups

- Establishing an Environment that Promotes Excellence.
- Producing a Comprehensive Master Plan.
- Creating Life-Enhancing Student Learning Experiences.
- Serving Texas and the World and Strengthening The University's Engagement with Society.

The Commission of 125
PLANNING FOR THE FUTURE

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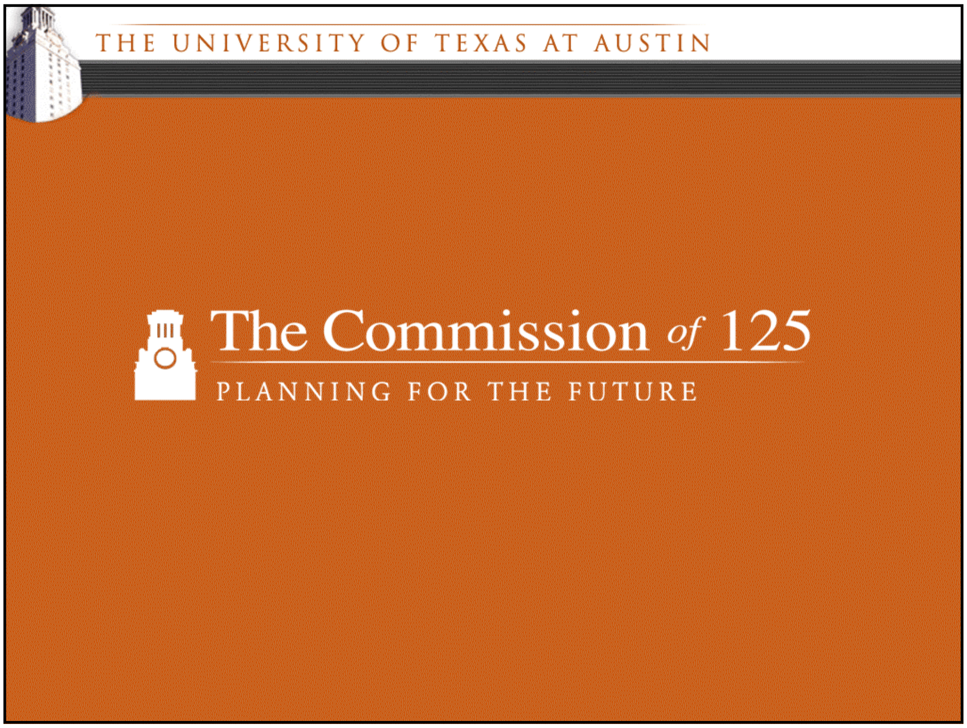
The Next Step

- Administration Reviews and Interprets Report and Plans Implementation.
- Interim Progress Reports to Commission Members from the President for Five Years.
- Commission Members Reconvene Annually for Five Years to be Informed of Progress.

THE UNIVERSITY OF TEXAS AT AUSTIN

The Commission of 125 firmly believes that The University of Texas can best serve society by fulfilling its aspiration to be the best public university.


THE UNIVERSITY OF TEXAS AT AUSTIN
The Commission of 125
PLANNING FOR THE FUTURE

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FOR
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW COMMITTEE

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

Robert A. Estrada, Chairman
Rita C. Clements
Judith L. Craven, M.D.
Woody L. Hunt
Cyndi Taylor Krier

1. **U. T. System: Approval to renew the contract with Ernst & Young, LLP, as the external auditor for 2005 audit of funds managed by The University of Texas Investment Management Company (UTIMCO), and to negotiate for additional audit services related to UTIMCO**

RECOMMENDATION

Chairman Estrada recommends approval to renew the auditing services contract with Ernst & Young, LLP, to perform audits for the fiscal year ending August 31, 2005, for funds managed by The University of Texas Investment Management Company (UTIMCO) as listed below:

a. Permanent University Fund (PUF)
b. The University of Texas System General Endowment Fund (GEF)
c. Permanent Health Fund (PHF)
d. The University of Texas System Long Term Fund (LTF)
e. The University of Texas Short Intermediate Term Fund (SITF)

Approval is also requested for U. T. staff to negotiate and enter into a contract with Ernst & Young, LLP, to provide additional audit services related to UTIMCO, including UTIMCO's voluntary implementation of the Sarbanes-Oxley Act of 2002.

BACKGROUND INFORMATION

Fiduciary responsibility for the PUF, GEF, PHF, LTF, and SITF rests with the U. T. Board of Regents. Section 66.08 of the *Texas Education Code* requires that U. T. System have an annual financial audit performed of the PUF.

A Request for Qualifications (RFQ) was distributed by U. T. System staff in April 2003. Four proposals were received. After a review of the proposals and firm interviews by Regent Estrada and U. T. System staff, the Board of Regents authorized U. T. System staff to negotiate and enter into an auditing services contract with Ernst & Young, LLP, at the July 7, 2003 Board of Regents' meeting. The contract was for one year with a right to renew in one-year increments for four years. The contract was renewed by the Board of Regents on February 4, 2004. The fiscal year ending August 31, 2005, is the second year this contract has been up for renewal.

2. U. T. System: Report on the Fiscal Year 2004 Annual Financial Report including beginning balance testing performed by Deloitte & Touche, LLP

REPORT

Mr. Randy Wallace, Associate Vice Chancellor - Controller and Chief Budget Officer, will discuss the overall process of the Annual Financial Report preparation and compilation, including certifications and representations made by the institutions.

Mr. Rodney Lenfant, Deloitte & Touche, LLP, will report on the work performed relating to financial statement line items that will be part of the beginning balances reported in the Fiscal Year 2005 financial statements. Additionally, he will report on the firm's plan for conducting the 2005 audit including methodology, staffing, training, and associated timelines.

The detailed Client Service Plan is attached on Pages 30.1 – 30.19. The Engagement Objectives and Audit Approach are set forth in Section II on Pages 30.5 – 30.6. The Audit Scope is set forth in Section III on Page 30.7.

BACKGROUND INFORMATION

In November 2003, the U. T. System Board of Regents approved an initiative to implement the "spirit" of the Sarbanes-Oxley Act as a good faith effort toward manifesting financial accountability and compliance in the public sector. As a result, in June 2004, the Board of Regents sought proposals for a comprehensive annual financial statement audit by an independent certified public accounting firm to obtain assurance that U. T. System has a sound financial base and adequate resources to support the mission of the organization and the scope of its programs and services.

A Request for Qualifications (RFQ) was distributed by U. T. System staff in June 2004. Two proposals were received. After a review of the proposals and firm interviews by Committee Chairman Estrada and U. T. System staff, the Board of Regents authorized U. T. System staff to negotiate and enter into an auditing services contract with Deloitte & Touche, LLP, at the July 16, 2004 Board of Regents' meeting. The contract, which terminates on April 1, 2006, provides U. T. System the option to renew for two additional one-year terms.

Deloitte.

Audit Services

2005 Client Service Plan.

The University of Texas System

February 2005

Audit. Tax. Consulting. Financial Advisory.

Hou10255 / 19

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February 2005

Audit, Compliance and Management Review Committee
The University of Texas System

Dear Members of the Audit, Compliance and Management Review Committee:

We are pleased to submit our client service plan setting forth the scope and approach for our audit of the financial statements of the University of Texas System (the "System") for the year ending August 31, 2005. We look forward to discussing our client service plan with you and answering any questions you may have.

We have designed our overall client service plan to meet the requirements of both the Audit, Compliance and Management Review (ACMR) Committee and management. Our client service plan has been designed to address the System as a whole, rather than each institution separately. It will remain flexible to accommodate future changes. We augment our client service team with deep specialist knowledge while attempting to maximize continuity of our most talented professionals to address your service needs.

Our client service plan for 2005 focuses on business risks and operating areas that could have an impact on external reporting. Our overall engagement goals are to:

- Perform a high quality audit of the System which meets or exceeds management's and the ACMR Committee's expectations,
- Provide both meaningful internal control and business oriented constructive service suggestions,
- Respond on a timely basis to management's needs and coordinate with management to ensure timely financial reporting,
- Continue to provide open, effective and ongoing communication with management and the ACMR Committee, and
- Work with you as a team to provide the high level of service you expect and deserve.

We feel we have developed a client service plan that is responsive to the System's needs and expectations. The System's vision for the future is challenging and exciting. We look forward to helping the System meet the challenges that lie ahead in an aggressive, energetic and forthright manner.

In addition to our firm's commitment, you have my personal commitment that we will work hard to ensure that our services will meet or exceed your expectations. Please call me at (713) 982-2621 if you have any questions at any time throughout the year regarding this client service plan or any aspect of our service to the University of Texas System.

Sincerely,

Rodney E. Lenfant

Rodney Lenfant
Lead Engagement Partner

Member of
Deloitte Touche Tohmatsu

2005 Client Service Plan.

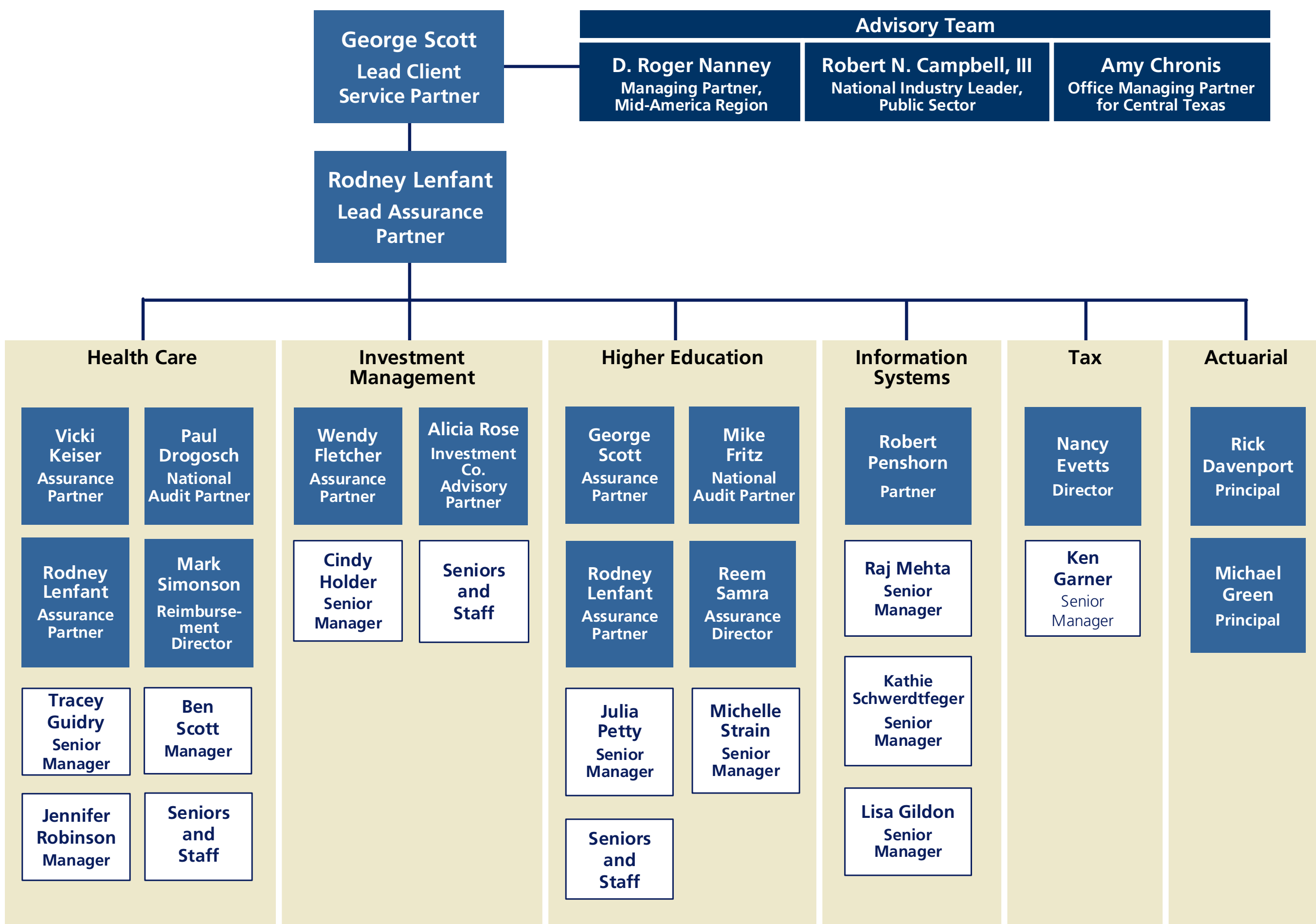
The University of Texas System

Submitted to ACMR Committee

February 2005

Client Service Team

The key to delivering an audit that adds value to your organization is ensuring the service team is comprised of experienced professionals who understand The University of Texas System's (the System's) operations and can overlay that with an in-depth knowledge of the public higher education, health care and investment management industry trends. As the organization chart shows, your service team is comprised of team members who have the required experience and stature, which results in the ability to deliver to the System a wealth of insight and the highest quality resources within Deloitte & Touche LLP.



Engagement Objectives and Audit Approach

The Deloitte & Touche Audit is grounded in an assessment of risk, and then tailored based on the risks identified and the effectiveness of internal controls. Our assessment of risk and the reliability of the System's internal controls have a significant bearing on the nature and depth of our audit procedures.

The purpose of our engagement to audit the consolidated financial statements of the System for the year ending August 31, 2005 is to evaluate, in all material respects, the fairness of presentation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and in conformity with the audit standards set forth in the *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. Our audit will also comply with generally accepted auditing standards (GAAS), the audit standards issued by the American Institute of Certified Public Accountants (AICPA).

Our audit of the System's consolidated financial statements for the year ending August 31, 2005 will be conducted in accordance with GAS and GAAS. We will plan and perform our audit to obtained reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether caused by error or fraud. However, because of the characteristics of fraud, particularly those involving concealment and falsified documentation (including forgery), a properly planned and performed audit may not detect a material misstatement. Therefore, an audit conducted in accordance with GAS and GAAS is designed to obtain reasonable, rather than absolute, assurance that the consolidated financial statements are free of material misstatement. An audit is not designed to detect error or fraud that is immaterial to the consolidated financial statements.

An audit includes obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing, and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or to identify reportable conditions. Our audit scope does not include providing an opinion on internal control.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

The objective of our audit is the expression of an opinion on the fairness of the presentation of System's consolidated financial statements in conformity GAS and GAAS, in all material respects. Our ability to express an opinion, and the wording of our opinion, will of course, be dependent on facts and circumstances at the date of our report. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue a report as a result of this engagement. If we are unable to complete our audit or if our auditors' report requires modification, the reasons therefore will be discuss with System's management and the Audit, Compliance and Management Review (ACMR) Committee.

Communications Resulting from the Audit

We have tailored our audit approach to focus on those attributes and risks that are important to achieving control and reporting objectives. We have the benefit of being objective outsiders in considering the information we gather. The result is that we are able to add the perspective of our experience and expertise to translate our audit findings into recommendations and insights concerning existing or potential problems. We accept the responsibility for keeping management and the ACMR Committee apprised of any significant matters that we believe warrant consideration whenever they come to our attention.

From time to time during the year as we become aware of issues, they will be reported and discussed with the appropriate levels of management at both the individual institutions and System Administration. These issues will be discussed with the respective institutions and System Administration, as well as presented, in writing to those parties, the ACMR Committee and the State Auditor's Office. Internal control matters, material internal control weaknesses and reportable conciliations, if any, will be summarized in a formal letter to the ACMR Committee.

Statement of Auditing Standards No. 61, *Communication with Audit Committees,* issued by the AICPA, requires independent auditors to communicate certain matters to the audit committees. Upon completion of our audit, we will communicate to you any of the following aspects that we consider to be significant:

- Changes in significant accounting policies
- Management judgments and accounting estimates
- Significant audit adjustments
- Significant uncorrected misstatements
- Significant disclosures not made
- Disagreements with management
- Consultation by management with other auditors on significant matters
- Major issues discussed with management prior to our retention as auditors
- Difficulties encountered in performing the audit
- Management consulting services provided by us
- Irregularities and illegal acts
- Fraud

Communication of Audit Adjustments

As we become aware of material or significant misstatements during our audit procedures, those misstatements will be promptly reported to the individual institution's management and to System Administration's management. All significant audit adjustments and significant uncorrected misstatements, if any, will be communicated in accordance with GAS and GAAS to the ACMR Committee and included as an attachment to the management representation letter.

Audit Scope

The scope of our audit has been designed to provide the coverage required to meet the engagement objectives as previously stated. Consideration will be given to accounting systems and internal controls in existence and the work of the System's and individual institutions' internal audit departments.

We will perform reviews of general computer controls of certain System institutions and will provide feedback to the appropriate levels of management or the ACMR Committee on our findings from this review. We will also perform reviews of various business cycles at all institutions.

At selected institutions, we will perform sufficient auditing procedures, including an evaluation of the internal control structure as well as substantive tests, to provide a reasonable basis to form conclusions about the significant assertions (existence or occurrence, completeness, rights and obligations, valuations or allocations, presentation an disclosure) embodied in the consolidated financial statements. Our Deloitte & Touche team will lead the fieldwork at these institutions; however, the engagement team will also consist of both internal audit and subcontractors at these sites.

Focused audit procedures will be performed for all remaining institutions in what are considered "high risk" areas or where added audit emphasis is considered necessary. For non-risk areas at these institutions, we will perform inquiries, analytic procedures and other limited audit procedures as deemed necessary to satisfy ourselves that such amounts are reasonably stated in relation to the consolidated financial statements taken as a whole. The fieldwork at these institutions will be performed by internal audit; however, a Deloitte & Touche manager and partner will be assigned to oversee all work performed by internal audit at these institutions.

We have not been engaged to audit the stand-alone financial statements of the University of Texas Investment Management Company (UTIMCO) for the year ended August 31, 2005. The assets and revenues of UTIMCO are material to the consolidated financial statements of the System. Because of the materiality of those items, auditing standards will require us to perform procedures at UTIMCO in order to gain sufficient evidence that the amounts are not materially misstated as they relate to the consolidated financial statements of the System, even if we do not serve as UTIMCO's auditors. If we do not perform the audit of the stand-alone financial statements of UTIMCO and another firm is chosen to do so, our procedures will need to be modified to take the procedures performed by the other firm into consideration.

Our audit plan by institution is included as Appendix A to this document.

Management's Responsibility

The consolidated financial statements are the responsibility of the System's management.

In this regard, management has the responsibility for, among other things:

- Establishing and maintaining effective internal control over consolidated financial reporting
- Identifying and ensuring that each institution within the System complies with the laws and regulations applicable to its activities
- Properly recording transactions in the accounting records
- Adjusting the consolidated financial statements to correct material misstatements
- Making appropriate accounting estimates
- Safeguarding assets

Management is responsible for the overall accuracy of each individual institution's financial statements and the overall consolidated financial statements and their conformity with GAS and GAAS, and for making all consolidated financial records and related information available to us.

Additionally, management is responsible for the design and implementation of programs and controls to prevent and detect fraud and for informing us about all known or suspected fraud involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the consolidated financial statements. Management is also responsible for informing us of its knowledge of any allegations of fraud or suspected fraud affecting the System received in communications from employees, former employees, regulators or others.

Internal Control/ Information Technology

Our audit approach allows us to continually update our understanding of the System's control environment. The control environment comprises the conditions under which the accounting processes and internal controls are designed, implemented and function.

This includes the overall attitude, awareness and actions of management and the Board of Regents, concerning the importance of internal controls. Our assessment of the control environment contributes to our risk identification process and is important in determining the extent to which we can rely on controls when we establish the level of our audit testing.

Our audit methodology integrates the evaluation and testing of information systems into all phases of the audit. Our IT specialists will focus on the System's computerized systems, determining risk and assessing the adequacy of the controls designed to mitigate those risks.

These specialists focus on key concerns related to information management, such as:

- Information resource strategy and planning
- Information system operations
- Relationships with outsourced vendors
- Information security
- Business continuity planning
- Application systems implementation and maintenance
- Database implementation and support
- System software and hardware support
- Network systems support

We anticipate performing detailed internal control and information technology procedures at UT Austin, the Health Science Centers in Houston and San Antonio, UTMB, UT MD Anderson (as a part of the audit of its stand-alone audit) and UT Southwestern. Due to this being an initial audit, we do not currently anticipate adopting a control reliance strategy across the System (i.e., we do not plan on relying on internal controls currently in place to reduce our audit tests). However, we will assess certain internal controls in place and advise the System regarding material weaknesses, reportable conditions or areas for improvement. Our audit scope does not include providing an opinion on internal control.

Coordination with Internal Audit and Subcontractors

Our coordination with internal audit has already begun. One of the first services provided to the System was a week-long training session for internal auditors from each institution, covering our audit approach and our proprietary audit software, AS/2. That session also provided Deloitte & Touche with additional insight into the processes and culture of the System and its institutions.

Internal audit provided a significant number of hours for the beginning balance testing, playing a key role in this testing at every institution. The System Administration internal audit group provided a periodic forum for the internal auditors of the various institutions to communicate status and questions with the Deloitte & Touche management team. Those forums were invaluable in keeping both the internal and external audit groups focused on the goals and deadlines; we anticipate continued use of those forums as the audit progresses.

The System expects to provide approximately 15,000 hours of internal audit time to support the financial statement audit; to date, approximately 6,500 of those hours have been used. We are currently working with the various internal audit groups to determine the most effective and efficient use of the remaining available hours.

Deloitte & Touche is also utilizing the services of the following historically underutilized business (HUB) subcontractors: McConnell & Jones; Mir, Fox & Rodriguez; Fernandez & Company; and Wiener Strickler. Based in Houston, Fort Worth, and El Paso, these firms represent the diversity of the state of Texas. We have worked with each of these HUB firms during previous projects. Their work is exemplary, and their staff is familiar with our audit approach. Our combined team is poised to serve the System seamlessly.

Certain of these subcontractors were involved with the beginning balance procedures. Our audit plan for the remaining audit work includes using subcontractors at UT-Austin, the Health Science Centers in Houston and San Antonio, UTMB, UT MD Anderson and UT-Southwestern. The subcontractor personnel will work as staff external auditors at those institutions, performing tests of cash, capital assets, accounts payable and other account balances. As prime contractor, Deloitte & Touche will remain ultimately responsible for the outcome and success of the project.

The integration of auditors from Deloitte & Touche, the System's internal audit groups, and our HUB partners will be key to the success of the audit of the System's 2005 financial statements. Our audit plan includes specific assignments for each group, constant coordination among the individuals assigned, and communication across all levels to ensure that resources are used effectively and that audit areas are appropriately addressed.

Preliminary Audit Risk Assessments

Our audit planning process includes a preliminary assessment of audit risk – which is the risk that an error has occurred in the financial statements. Our risk assessment classifies risk as either high or normal. Our risk assessment is relative within the System; therefore, it is not intended, even in a perfect control environment, that all audit risks should be considered "normal." We make risk designations solely for the purpose of allocating audit resources. An area may be designated as high risk because of its inherent nature (complex, nonroutine, necessity for estimations and judgments, etc.). Such designation does not imply inadequate financial control. Through both our preliminary planning and our audit procedures on beginning balances, we have identified the following as potential risk areas:

Preliminary Audit Risk Assessment – Academic Institutions and System Administration

Audit Area	Response
Student Accounts Receivable The management, accounting and reporting of accounts receivable are of major importance to the System. Management of accounts receivable involves the rendering and collection of student and grantor bills in a timely, efficient and accurate manner to expedite cash flow and minimize bad debt write-offs. Accounting and reporting of accounts receivable center around cut-off, valuation and realization.	• Review receivables performance on an annual basis. • Evaluate and test key elements of the accounting process. • Review the adequacy of the System's methodologies and procedures used to establish the cut-off of student accounts receivable and the allowance for doubtful accounts estimate. • Understand and document the control environment and processes for student accounts receivable collection, billing and write-offs. • Conclude as to the adequacy of doubtful accounts allowances through the review of collection and aging statistics.
Contributions, Grants and Contracts The System receives contributions from a diverse number of sources. Accounting and reporting of contributions, grants and contracts center around cut-off, valuation and realization.	• We will gain an in-depth understanding of the System's process for recording contributions, grants and contracts, and related deferred revenues and receivables. • Assess the adequacy of the documentation used to determine donor restrictions. • Review pledges receivable for collectibility and evaluate the appropriateness for the discount factor utilized for extended pledges. • Determine that grant requirements have been met for earning revenues.
Derivative Financial Instruments The System utilizes a broad array of investment vehicles, some of which are considered to be derivative financial instruments.	• Understand the use of derivative financial instruments and management's assessment of exposure to credit risk. • Evaluate the effectiveness of control procedures for identifying, valuing, recording and reporting derivative financial instruments

Preliminary Audit Risk Assessments

Audit Area	Response
Reserves for Self-Insured Risks The System estimates a range of loss for its professional, property and casualty, employee health and general liability claims based on its past experience, as well as its current operating environment. These estimates include reserves from known claims and unreported incidents. The vagaries of the estimation process and the magnitude of exposure require careful examination.	• Review the effectiveness of the risk management system. • Evaluate and test key elements in the incident reporting systems based on claims being evaluated or litigated. • Utilize firm actuarial specialists to review actuarial methodologies used to calculate incurred but not reported liability exposures. • Correspond with internal and external legal counsel regarding sufficiency of reserves set on known incidents.
Information Technology The System relies on computer-generated information to a large extent. This information is typically used by management to make critical management and operating decisions. Therefore, regardless of the level of our substantive tests, we will need assurance about the reliability of the systems that produce this information.	• Assign Deloitte & Touche Enterprise Risk Services (ERS) specialists to oversee and lend support to the review and evolution of computer-related controls. The review and evaluation process by such specialists will address: – Information security – System acquisition, development and maintenance – Computer operations Information systems support • ERS will also perform tests of selected business cycles.
Treasury The System utilizes a broad array of investment vehicles for funds not currently required for operations or capital expenditures.	• Include professionals with appropriate expertise and experience (such as managers and partners from our Financial Instruments Specialist group) to review methodologies, policies and procedures.
Statement on Audit Standards No. 99	• Hold an engagement team discussion of key risk factors. • Inquire of management as to the risk of fraud. • Document our understanding of related parties and test selected related party procedures and transactions. • Test journal entries and financial estimates, with a focus on unusual entries and management judgment. • Evaluate the appropriateness and consistency of the assumptions and methodologies used to develop significant estimates. Recalculate critical formulas where appropriate. Evaluate reasonableness of related disclosures. • Understand and evaluate conflict of interest policies followed by the System.

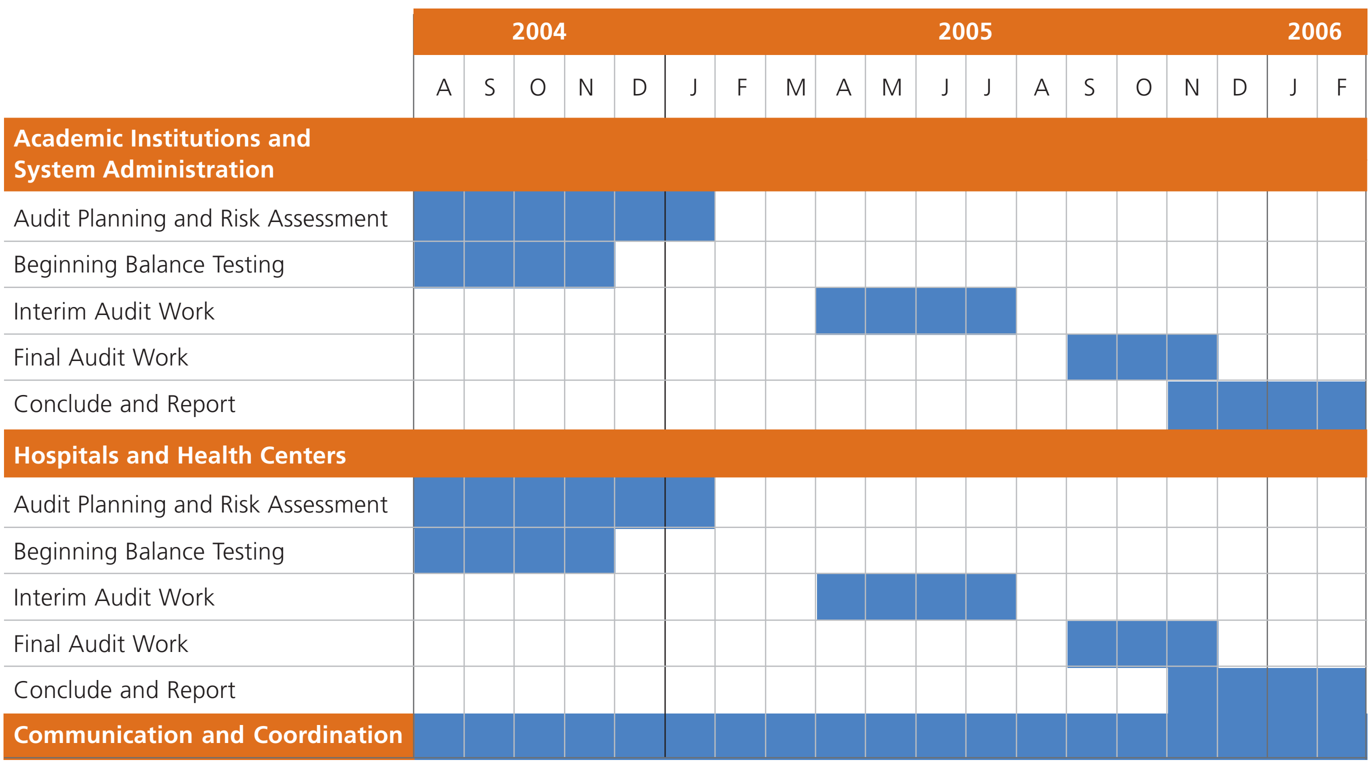
Preliminary Audit Risk Assessment – Hospitals and Health Centers

Audit Area	Response
Patient and Physician Accounts Receivable The management, accounting and reporting of patient accounts receivable are of major importance. Management of patient accounts receivable involves the rendering and collection of patient bills in a timely, efficient and accurate manner to expedite cash flow and minimize bad-debt write-offs. Accounting and reporting patient accounts receivable centers around validation and realization. Timing and cut-off of physician receivables is another area of focus for these institutions.	• Review patient receivables performance on an annual basis. • Evaluate and test key elements of patient accounting process. • Review the adequacy of methodologies and procedures used to establish the allowance for doubtful accounts estimate and contractual allowances. • Recompute contractual adjustments for each significant class of revenue/receivable for reasonableness. • Determine, when considered appropriate, whether consistent procedures and methodologies are used by the various institutions. • Conclude as to the adequacy of doubtful accounts allowances through the review of collection and aging statistics.
Estimated Third-Party Settlements Proper and consistent accounting for third-party receivables and settlement accounts is critical to a hospital's financial position. The quality and nature of the underlying financial information and systems affect the reasonableness of these amounts. Complex third-party payment arrangements and methodologies and changes in patient mix, service level and cost structure require extensive analysis of third-party settlement accounts.	• Utilize reimbursement specialists for detailed review. • Review impact of tentative and final settlements received. • Update settlement position for prior years, based on third-party clearings (charges, discharges, days, etc.). • Review allocated and unallocated reserves for adequacy against potential exposures.
Reserve for Self-Insurance These areas represent audit risk as the determination of such liabilities is difficult and requires accurate reporting and recording of claims data, and the application of management judgments as to the financial impact of changing trends, conditions, practice patterns, settlement/payment patterns, and changes in the business environment. These estimates include reserves for known claims and unreported incidents. The estimation process and the magnitude of exposure require careful examination.	• Review the effectiveness of the risk management system. • Evaluate and test key elements in the incident reporting systems based on claims being evaluated or litigated. • Utilize firm actuarial specialists to review actuarial methodologies and assumptions used to calculate incurred but not reporting liability exposures. • Correspond with internal and external counsel regarding sufficiency of reserves set on known incidents.
Compliance with Billing Regulations The federal government is becoming increasingly active and aggressive in pursuing what it perceives to be fraudulent billing practices. The System has developed its compliance program and is aware of the issues currently being pursued by the government in other areas of the country.	• Discuss controls and procedures with appropriate personnel. • Review institution responses to Deloitte & Touche compliance questionnaire with compliance officers

Audit Timeline

The following schedule illustrates our proposed timetable for services on a system-wide level. More precise timing will be discussed with management at each institution and is, of course, flexible.

Timing of our services will be adjusted throughout the course of our audit, as necessary, to facilitate an orderly close and to accommodate the timetable agreed to with management. Our final audit work procedures are scheduled to allow us the opportunity to identify all material adjustments by November 1, 2005. Our ability to meet that deadline assumes timely completion of the trial balances and supporting schedules by institution management.



Progress to Date

Our first services to the System were provided in the form of a week-long training session for selected internal auditors representing all institutions in the System. The training included hands-on simulations using Deloitte & Touche's proprietary audit software, AS/2.

Your internal audit personnel have access to AS/2 for use in support of the audit. The training also included details on the Deloitte & Touche audit approach, as well as specific training for the information technology specialists. We found that the training assisted the Deloitte & Touche team in learning about the individual institutions and the processes for working with them.

Because the System has not previously been subjected to a stand-alone audit, auditing standards require that we perform procedures on the beginning balances in order to determine that they are appropriate. We have completed the majority of the fieldwork for the beginning balance testing procedures. As a result of those procedures, the following items have been identified that may result in adjustments: depreciation of library books; recognition of tuition revenue for class days in August; accrual of contract salary expense for days worked in August; accurate cut-off of accruals for expenses and capital assets at year end; and recognition of revenues related to physician receivables. Additionally, we have identified areas of improvement to be addressed by management, the most important of which relates to the timeliness and effectiveness of account reconciliations and the financial close and reporting process.

Although outside the normal course of an audit, we proposed to the System a review of the closing processes at the institutions in order to provide feedback on efficiencies and areas for improvement. That review process is currently ongoing. We expect to provide feedback specific to the larger institutions within the next month.

Our contract with the System requires that we communicate with the Texas State Auditor's Office (SAO) regarding various meetings to be held in connection with the audit. Deloitte & Touche management and representatives from the Board of Regents, System Administration controller's office and internal audit met with representatives from the SAO in December to determine the frequency and purpose of the communications required by the contract. That meeting resulted in an agreement that Deloitte & Touche would provide notification to the SAO regarding formal entrance and exit conferences and meetings with the ACMR committee of the Board of Regents. Additionally, Deloitte & Touche will alert the SAO regarding significant issues discovered in the audit process on a periodic (i.e., monthly, bi-monthly or as needed basis) in order to allow the SAO the opportunity to participate in meetings regarding those issues.

Our next steps are to finalize our audit plan and communicate that plan to our liaisons at each institution. We will work with them to identify mutually acceptable specific dates for interim and final fieldwork, and discuss any issues identified during our work. As issues arise, we will continue to keep the ACMR committee apprised.

Recent Developments

The Governmental Accounting Standards Board (GASB) promulgates accounting and financial reporting rules for governmental organizations, including colleges and universities. The GASB has issued the following standards:

Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*

This Statement establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit concentrations of credit risk), interest rate risk, and foreign currency risk. The national rating agencies' ratings of the securities held will be an additional required disclosure. This Statement also establishes and modifies disclosure requirements for deposit risks, including custodial credit risk and foreign currency risk. Though no accounting changes will be required for implementation of this standard, governments will be required to expend considerable effort to ensure that all information now required to be included in the notes to the financial statements is available. The provisions of this Statement are effective for financial statements for the fiscal year ending August 31, 2005.

Statement No. 42, *Accounting and Financial Reporting of Capital Assets and for Insurance Recoveries*

This statement requires governments to report the effects of capital assets impairment in their financial statements when they occur rather than as a part of ongoing depreciation expense. A capital asset is considered impaired if a significant, unexpected decline in the service utility of an asset is evident and the event is outside the normal life cycle of the asset. Utility is defined as the asset's capacity to provide service. Indicators of impairment include: physical damage or obsolescence, change in legal/environmental factors, technological development, change in manner or duration of use, or change in demand for use. The guidance also enhances comparability of financial statements by requiring all governments to account for insurance recoveries in the same manner. This statement will become effective for the System in the fiscal year ending August 31, 2006.

Statement No. 44, *Economic Condition Reporting: The Statistical Section – an Amendment of NCGA Statement 1*

This Statement establishes and modifies requirements related to the supplementary information presented in a statistical section. A statistical section includes information in the following categories: Financial Trends, Revenue Capacity, Debt Capacity, Demographic and Economic, and Operations. This statement will become effective for the System in fiscal year ending August 31, 2006, if the System incorporates a statistical section into its annual financial report.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*

This Statement establishes standards of accounting and financial reporting for postemployment health care and other benefits (OPEB) if provided separately from a pension plan. It requires systematic, accrual-basis measurement and recognition of OPEB cost over a period that approximates employees' years of service. It also requires employers to provide information about actuarial accrued liabilities associated with OPEB's and to what extent progress is being made in funding the plan. The standard anticipates that an actuarial valuation would be required at least once every two years in order to properly record the liability. Significant disclosures regarding the assumptions used in calculating the liability are also required. This statement will become effective for the System in fiscal year ending August 31, 2008.

Statement No. 46, *Net Assets Restricted by Enabling Legislation*

The purpose of Statement 46 is to help governments determine when net assets have been restricted to a particular use by the passage of enabling legislation and to specify how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation. This standard is intended to alleviate difficulties in identifying enabling legislation restrictions by clarifying that "legally enforceable" means that an external party—such as citizens, public interest groups, or the judiciary—can compel a government to use resources only for the purposes stipulated by the enabling legislation. Statement 46 is effective for periods beginning after June 15, 2005.

The GASB has also issued an exposure draft of a proposed standard, *Accounting for Termination Benefits.* The proposed standard would require more timely recognition of the expense related to benefits provided to terminated employees outside of a post-employment benefit plan. The comment period on this proposed standard is open until March 2005.

Audit Plan by Institution

The University of Texas System Component	Partner(s)	Manager(s)	Subcontractor	Internal Audit	Assess Controls	IT Work
UT Administration	Lenfant, G Scott	Petty, Strain	Wiener Strickler	Financial	Yes	Yes
UT Arlington	Samra	Petty		Financial	No	(2)
UT Austin	Lenfant, G Scott	Petty, Strain	Wiener Strickler	IT & Financial	Yes	Yes
UT Brownsville	Samra	Strain		Financial	No	(2)
UT Dallas	Samra	Petty		Financial	No	No(1)
UT El Paso	Samra	Petty		Financial	No	(2)
UT Pan American	Samra	Strain		Financial	No	No(1)
UT Permian Basin	Samra	Strain		Financial	No	(2)
UT San Antonio	Samra	Strain		Financial	No	(2)
UT Tyler	Samra	Strain		Financial	No	(2)
UT Southwestern Medical Dallas	Keiser	T. Guidry	Fernandez & Company	IT & Financial	Yes	Yes
UT Medical Branch Galveston	Keiser	B Scott	McConnell & Jones	IT & Financial	Yes	Yes
UT Health Science Center Houston	Lenfant	Robinson	Mir, Fox & Rodriguez	IT & Financial	Yes	Yes
UT Health Science Center San Antonio	Lenfant	Robinson	McConnell & Jones	IT & Financial	Yes	Yes
UT M.D. Anderson Cancer Center	Lenfant	B Scott	Mir, Fox & Rodriguez	IT & Financial	Yes	Yes
UT Health Center at Tyler	Samra	B Scott		Financial	No	No(1)

(1)This institution does not use the DEFINE system.

(2)This institution uses the DEFINE system. Testing on the DEFINE system will be done at UT-Austin.

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3. U. T. System: Report on the 2004 State Auditor's Office financial statement audits of U. T. System institutions

REPORT

The State Auditor's Office is conducting a statewide financial audit on the state's Comprehensive Annual Financial Report (CAFR) for the year ended August 31, 2004. The office is required to express an opinion on major funds in addition to the overall opinion on the state's CAFR. One of those major funds is an enterprise fund that reflects the operations and balances of all Texas public universities.

Mr. Kelton Green, Managing Senior Auditor, State Auditor's Office, will provide an update on the statewide financial audit conducted for the year ended August 31, 2004. The update will highlight and discuss any issues noted at the U. T. System institutions that were part of that audit.

The State Auditor selected the following institutions for work to be performed in this financial audit:

The University of Texas System Administration
The University of Texas at Arlington
The University of Texas at Austin
The University of Texas M. D. Anderson Cancer Center
The University of Texas Southwestern Medical Center at Dallas
The University of Texas Medical Branch at Galveston

4. U. T. System: Report on System-wide Internal Audit Activity (Red, Yellow, Green Report)

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, will report on System-wide audit activity (Red, Yellow, Green Report), including progress toward audit plan completion, for the first quarter of Fiscal Year 2005.

The first quarter activity report on the Status of Outstanding Significant Recommendations is set forth on Pages 32.1 - 32.4. Additionally, a list of other audit reports issued by the System-wide audit program and the State Auditor's Office follows on Page 33.

There are two types of audit findings/recommendations: reportable and significant. A "reportable" audit finding/recommendation should be included in an audit report if it is material to the operation, financial reporting, or legal compliance of the audited activity, and the corrective action has not been fully implemented. "Significant" audit findings/recommendations are reportable audit findings/recommendations that are deemed significant at the institutional level by each U. T. institutional internal audit committee or designee.

Significant audit findings/recommendations are submitted to and tracked by the System Audit Office. Quarterly, the chief business officers are asked for the status of implementation; the internal audit directors verify implementation. A summary report is provided to the Audit, Compliance, and Management Review Committee of the U. T. Board of Regents. Additionally, the Committee members receive quarterly a detailed summary of new significant recommendations.

THE UNIVERSITY OF TEXAS SYSTEM
Status of Outstanding Significant Recommendations

			4th Quarter		1st Quarter				Ranking Significance
Report Date	Institution	Audit	Ranking	# of Significant Findings	Ranking	# of Significant Findings	Targeted Implementation Date	Overall Progress Towards Completion (Note 1)	Material to Institution's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")
1998-07	UTHSC-H	Federal Contracts & Grants Review		1		1	3/31/2005	Satisfactory	C
2000-04	UTHSC-H	Medical Service Research & Development Plan Summary of Operations Review		1		1	1/31/2005	Satisfactory	C
2001-04	UTPA	Internet Security		1		0	12/31/2004	Completed	O
2001-08	UTMDACC	Lotus Notes Environment		2		2	4/1/2005	Satisfactory	O
2001-10	UTMDACC	Disaster Recovery/Business Continuity Planning		1		1	7/31/2005	Satisfactory	O
2001-11	UTT	Information Technology General Security Review		1		1	3/1/2005	Satisfactory	O
2002-04	UTB	General Controls Audit of Information Technology		1		1	2/28/2005	Satisfactory	O
2002-05	UTA	Network Support Audit		1		1	4/30/2005	Satisfactory	O
2002-05	UTSYS ADM	Office of Information Resources Follow-up		1		1	1/31/2005	Satisfactory	O
2002-07	UTHSC-H	Healthcare Billing Compliance Review		1		1	2/15/2005	Satisfactory	F, C
2002-08	UTHSC-SA	Institutional Compliance Program		2		2	2/28/2005	Satisfactory	C
2002-08	UTSYS ADM	Travel and Entertainment Expenditures		1		1	2/28/2005	Satisfactory	O, C
2002-10	UTSYS ADM	UTHC-Tyler Clinical Trials		1		1	2/1/2005	Satisfactory	O, F
2002-11	UTMDACC	Temporary Personnel		1		1	2/28/2005	Satisfactory	O
2003-03	UTPA	General Controls		5		3	2/28/2005	Satisfactory	O
2003-05	UTMB Galveston	Delivery of Operating Room Services		2		2	2/28/2005	Satisfactory	O
2003-06	UT Austin	University Data Center		1		1	12/31/2004	Satisfactory	O
2003-06	UTA	Internal Audit Office Peer Review		1		1	1/31/2005	Satisfactory	C,O
2003-06	UTD	General Controls		1		1	1/31/2005	Satisfactory	C,O
2003-07	UTMDACC	Payroll Operations		1		0	6/1/2004	Completed	O
2003-08	UTMB Galveston	Pharmacy Costs of Goods Sold Review		1		1	12/31/2004	Satisfactory	O, F
2003-08	UTMB Galveston	School of Medicine Office of Student Affairs		1		1	12/31/2004	Satisfactory	C, O
2003-08	UTPA	Center for International Programs		1		0	9/30/2004	Completed	F, C
2003-09	UTB	Lab Safety		2		0	9/30/2004	Completed	O
2003-09	UTHC-T	Medical Services, Research and Development Plan AFR		1		1	12/31/2004	Satisfactory	O, F

Information Received from Internal Audit Directors and Chief Business Officers
Consolidated by: System Audit Office
January 2005

32.2

THE UNIVERSITY OF TEXAS SYSTEM
Status of Outstanding Significant Recommendations

			4th Quarter		1st Quarter				Ranking Significance
Report Date	**Institution**	**Audit**	**Ranking**	**# of Significant Findings**	**Ranking**	**# of Significant Findings**	**Targeted Implementation Date**	**Overall Progress Towards Completion (Note 1)**	**Material to Institution's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")**
2003-09	UTHSC-H	Quality Assessment of The Office of Auditing and Advisory Services		8		4	2/23/2005	Satisfactory	C, O
2003-09	UTSYS ADM	System Available Balances		1		1	2/28/2005	Satisfactory	F
2003-11	UT Austin	Harry Ransom Humanities Research Center		1		0	9/30/2004	Completed	F
2003-11	UTMDACC	Pharmacy Charge Capture		1		1	5/1/2005	Satisfactory	O
2003-11	UTSA	Research Development		1		1	2/28/2005	Satisfactory	O
2003-12	UTD	Lab and Biological Safety		1		1	3/31/2005	Satisfactory	C, O
2003-12	UTPB	AFR FYE 8/31/03		1		0	9/30/2004	Completed	F
2004-01	UTEP	Information Technology - General Controls Review		2		1	3/1/2005	Satisfactory	O
2004-01	UTMDACC	PeopleSoft Payroll		1		1	8/31/2005	Satisfactory	O
2004-01	UTMDACC	2003 Mainframe Disaster Recovery Test		1		1	12/31/2004	Satisfactory	O
2004-01	UTSA	Lab Safety		2		1	1/1/2005	Satisfactory	C, O
2004-02	UT Austin	Compliance Inspection: Account Reconciliation and Segregation of Duties		3		1	2/28/2005	Satisfactory	C
2004-02	UTHC-T	Inventories Audit FY 2003		1		1	1/31/2005	Satisfactory	F, O
2004-02	UTHSC-SA	MSRDP Front-End Billing		3		3	8/31/2005	Satisfactory	O
2004-02	UTMB Galveston	Compliance Inspection: Account Reconciliation and Segregation of Duties		2		2	3/31/2005	Satisfactory	F, O
2004-02	UTMDACC	Compliance Inspection: Account Reconciliation and Segregation of Duties		1		0	9/1/2004	Completed	F, C
2004-03	UT Austin	Information Security Management		2		2	8/31/2005	Satisfactory	C, O
2004-03	UTB	Contracts and Grants		1		1	2/28/2005	Satisfactory	C, O
2004-03	UTPA	Accounts Receivable and Allowance for Bad Debts		2		2	2/28/2005	Satisfactory	C
2004-03	UTSA	Information Technology Organization and Planning Controls		2		2	4/30/2005	Satisfactory	F, O
2004-04	UTHC-T	Capital Assets FYE 8/31/03		2		2	8/31/2005	Unsatisfactory (1) Satisfactory (1)	C, O
2004-04	UTHC-T	Discretionary Funds		2		2	8/31/2005	Satisfactory	F, O
2004-05	UTA	Office of Research - Grants/Contracts		1		1	12/31/2004	Satisfactory	C
2004-05	UTD	Time and Effort Reporting		1		0	12/31/2004	Completed	C

Information Received from Internal Audit Directors and Chief Business Officers
Consolidated by: System Audit Office
January 2005

THE UNIVERSITY OF TEXAS SYSTEM
Status of Outstanding Significant Recommendations

			4th Quarter		1st Quarter				Ranking Significance
Report Date	**Institution**	**Audit**	**Ranking**	**# of Significant Findings**	**Ranking**	**# of Significant Findings**	**Targeted Implementation Date**	**Overall Progress Towards Completion (Note 1)**	**Material to Institution's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")**
2004-06	UTB	Financial and Applications Controls Audit of the Financial Aid Office		1		1	5/31/2005	Satisfactory	C, O
2004-06	UTHSC-SA	Cash and Investments				1	1/31/2005	Satisfactory	O
2004-06	UTHC-T	Surgical Services		3		1	12/31/2004	Satisfactory	F, C, O
2004-07	UTEP	Facility Services		1		1	3/31/2005	Satisfactory	O
2004-07	UT Southwestern	Construction Management		1		0	11/4/2004	Completed	C, O
2004-07	UTMB Galveston	Basic and Clinical Research Management (BACRM) & Contracts and Grants (C & G)		8		6	8/31/2005	Unsatisfactory (1) Satisfactory (5)	F, C, O
2004-08	UT Austin	Texas Box Office/Paciolan Ticketing System				1	12/31/2004	Satisfactory	O
2004-08	UTD	Equal Employment Opportunity				0	3/1/2005	Completed	C
2004-09	UTPB	Lab Safety				5	8/31/2005	-	C
2004-09	UTSA	Research Compliance - Time and Effort Reporting				1	8/31/2005	Satisfactory	C
2004-09	UTSA	Year End Financial Review for FY 2003				3	5/31/2005	Satisfactory	F
2004-09	UTMB Galveston	Agreed Upon Procedures on Financial Statement Fund Balance				4	2/28/2005	-	F, O
2004-09	UTMB Galveston	Endowment Compliance Program of the Office of University Advancement ("OUA")				3	4/30/2005	Satisfactory	C, O
2004-09	UTHC-T	Cash and Cash Equivalents				1	2/28/2005	-	C, O
2004-09	UTHC-T	Other Receivables				1	2/28/2005	Satisfactory	C. O
2004-10	UTB	Physical Plant				3	4/30/2005	Satisfactory	C. O
2004-10	UTSA	Physical Security Initiative				0	11/30/2004	Completed	O
		Totals		90		89			

32.3

Information Received from Internal Audit Directors and Chief Business Officers
Consolidated by: System Audit Office
January 2005

32.4

THE UNIVERSITY OF TEXAS SYSTEM
Status of Outstanding Significant Recommendations

			4th Quarter		1st Quarter				Ranking Significance
Report Date	**Institution**	**Audit**	**Ranking**	**# of Significant Findings**	**Ranking**	**# of Significant Findings**	**Targeted Implementation Date**	**Overall Progress Towards Completion (Note 1)**	**Material to Institution's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")**
STATE AUDITOR'S OFFICE AUDITS									
2002-05	UTMDACC	Statewide Single Audit report for Year Ended August 31, 2001		1		1	12/31/2004	Satisfactory	n/a
2002-09	UTB	A Financial Review		1		1	2/28/2005	Satisfactory	n/a
2002-11	UTMB	Security Over Electronic Protected Health Information at Selected Texas Academic Medical Institutions		1		1	4/20/2005	Satisfactory	n/a
2002-11	UTMDACC	Security Over Electronic Protected Health Information at Selected Texas Academic Medical Institutions		3		3	8/31/2005	Satisfactory	n/a
2003-02	UT Austin	Statewide Audit FYE 8/31/02		1		0	8/31/2005	Completed	n/a
2004-02	UTSA	Financial Review		3		3	5/30/2005	Satisfactory	n/a
2004-06	UT Austin	Protection of Research Data at Higher Education Institutions		3		3	12/31/2005	Satisfactory	n/a
2004-06	UT Southwestern	Protection of Research Data at Higher Education Institutions		3		3	12/31/2005	Satisfactory	n/a
2004-06	UTHSC-SA	Protection of Research Data at Higher Education Institutions		3		3	4/30/2005	Satisfactory	n/a
2004-06	UTSYS ADM	Protection of Research Data at Higher Education Institutions		3		3	4/30/2005	Satisfactory	n/a
2004-10	UTHSC-H	Cash Controls				9	2/1/2005	Satisfactory	n/a
		Totals		22		30			

n/a - State Auditor's Office recommendations are significant by definition.

Color Legend:

- Any audit with institutionally significant findings. Not necessarily a failure - just an area that needs high level attention. Corrective action will be taken subsequent to the quarter in which the finding was reported.
- Significant progress has been made during the quarter the significant finding was reported.
- A red audit becomes a yellow when significant progress has been made.
- All issues were appropriately resolved during the quarter the significant finding was reported.
- All issues have been appropriately resolved.

Note:

Completed - The institutional Internal Audit Director deems the significant issues have been appropriately addressed and resolved.

Satisfactory - The institutional Internal Audit Director believes that the significant issues are in the process of being addressed in a timely and appropriate fashion.

Unsatisfactory - The institutional Internal Audit Director does not feel that the significant issues are being addressed in a timely and appropriate fashion.

*** OTHER U. T. SYSTEM AUDITS COMPLETED - 9/2004 through 11/2004**

Month Received by System	Institution	Audit
2004-09	UT El Paso	Endowments
2004-09	UT El Paso	Environmental Health and Lab Safety
2004-09	UT El Paso	Follow-up: Scholarships
2004-09	UT El Paso	Office of International Programs
2004-09	UTMB - Galveston	Department of Neurology Change of Management Review
2004-09	UTHSC San Antonio	Cash and Investments
2004-09	UTHSC San Antonio	Endowments
2004-09	UTHSC San Antonio	Follow-up: Willed Body Program
2004-09	UTHSC San Antonio	School of Nursing Internal Control Review
2004-09	UTHC Tyler	Health Information Management Departmental Audit
2004-09	UT System Admin	UT Dallas Management Review
2004-09	UT System Admin	WTO - Geology Foundation Jackson Estate Trust Minerals
2004-09	UT System Admin	WTO - Apache
2004-10	UT Dallas	Financial Aid
2004-10	UT Dallas	Health Information Portability and Accountability Act ("HIPAA")
2004-10	UT Dallas	Joint Admission Medical Program ("JAMP")
2004-10	UT Dallas	Texas Administrative Code ("TAC") 202 (Information Security Compliance)
2004-10	UT El Paso	Information Security Office
2004-10	UT Pan American	Compliance Inspection - Grants & Contracts
2004-10	UT Pan American	Dean's Office - College of Health Science and Human Services
2004-10	UT Pan American	Joint Admission Medical Program ("JAMP")
2004-10	UT Permian Basin	Texas Administrative Code ("TAC") 202 (Information Security Compliance)
2004-10	UT Tyler	Office of the Provost and the Vice President for Academic Affairs
2004-10	UT Southwestern	Clinical Practice Plan Charge Edits Monitoring
2004-10	UTMB - Galveston	Physical Security Initiative
2004-10	UTHSC Houston	Endowments
2004-10	MDACC	Endowments
2004-10	MDACC	Health Information Portability and Accountability Act ("HIPAA")
2004-10	MDACC	Indigent Patient Charge Capture
2004-10	MDACC	Institutional Review Board - Human Subjects
2004-10	MDACC	Internal Controls
2004-10	UTHC Tyler	Accounts Payable
2004-10	UTHC Tyler	Endowments
2004-10	UTHC Tyler	Health Information Portability and Accountability Act ("HIPAA")
2004-10	UTHC Tyler	Patient Accounts Receivable and Allowance for Doubtful Accounts
2004-10	UT System Admin	EVC for Business Affairs Change in Management
2004-10	UT System Admin	UTPA NCAA Agreed-Upon Procedures FYE 8/31/03
2004-11	UT Arlington	Biology Department Review
2004-11	UT Arlington	Honors College Departmental Review
2004-11	UT Arlington	School of Architecture Departmental Review
2004-11	UT Austin	Executive Education and Ford Career Center McCombs School of Business
2004-11	UT Austin	Retail Cash - Project Summary
2004-11	UT Austin	Retail Cash - University Duplicating Services
2004-11	UT Brownsville	IT Vulnerability Follow-Up
2004-11	UT Brownsville	Joint Admission Medical Program ("JAMP")
2004-11	UT Brownsville	Compliance Program for Misconduct in Science and Research
2004-11	UT Brownsville	Office of the President M & O Expenditures
2004-11	UT Brownsville	Physical Plant
2004-11	UT Brownsville	School of Education Change in Management Audit
2004-11	UT Dallas	Server Management Compliance
2004-11	UT Dallas	University Events and Travels - Student Affairs
2004-11	UT Permian Basin	Auxiliary and Service Contracts
2004-11	UT Permian Basin	Joint Admission Medical Program ("JAMP")
2004-11	UT San Antonio	Change in Management Departmental Reviews
2004-11	UT San Antonio	Scholarship Management
2004-11	UT Southwestern	Clinical Data Repository
2004-11	UT Southwestern	Performance Measures
2004-11	UT Southwestern	Web Access Vulnerability Testing
2004-11	UTHSC San Antonio	Library - Internal Controls Review
2004-11	UTHSC San Antonio	Procurement
2004-11	UTHSC San Antonio	IT Vulnerability Follow-Up
2004-11	UT System Admin	Security Controls for the STARS Risk Management System
2004-11	UT System Admin	UTEP NCAA Agreed-Upon Procedures FYE 8/31/03

*** STATE AUDITOR'S OFFICE AUDITS COMPLETED - 9/2004 through 11/2004**

Report Issuance Date	Institution	Audit
2004-10	UTHSC Houston	Cash Controls

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FOR
FINANCE AND PLANNING COMMITTEE

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

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

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

RECOMMENDATION

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

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

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

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

REPORT

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

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

THE UNIVERSITY OF TEXAS System

Monthly Financial Report

(Unaudited)

System Office:

The University of Texas System Administration

Academic Institutions:

The University of Texas at Arlington

The University of Texas at Austin

The University of Texas at Brownsville

The University of Texas at Dallas

The University of Texas at El Paso

The University of Texas – Pan American

The University of Texas of the Permian Basin

The University of Texas at San Antonio

The University of Texas at Tyler

Health Institutions:

The University of Texas Southwestern Medical Center at Dallas

The University of Texas Medical Branch at Galveston

The University of Texas Health Science Center at Houston

The University of Texas Health Science Center at San Antonio

The University of Texas M.D. Anderson Cancer Center

The University of Texas Health Center at Tyler

December 2004

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THE UNIVERSITY OF TEXAS SYSTEM

MONTHLY FINANCIAL REPORT

(Unaudited)

FOR THE FOUR MONTHS ENDING

DECEMBER 31, 2004

TABLE OF CONTENTS

The University of Texas System
Monthly Financial Report

Foreword

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

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

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

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

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

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

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

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

(1) *U. T. System Administration* – The $67.2 million (252.4%) increase in adjusted income over the same period last year was primarily due to an increase in net investment income due to improved financial market conditions and a mineral rights lease sale. Due to the elevated price of oil, the lease sale netted a higher than normal sale bonus.

(2) *U. T. Arlington* – The $4 million (144.5%) increase in adjusted income over the same period last year was primarily due to an increase in designated tuition rates. Designated tuition increased from $46 per semester credit hour in the fall of 2003 to $73 per semester credit hour in the fall of 2004.

(3) *U. T. Brownsville* – The $1.2 million (541.7%) increase in adjusted income over the same period last year was primarily due to increases in the Texas Southmost College contract.

(4) *U. T. Permian Basin* – The $552,000 year-to-date net loss was primarily due to additional faculty hired to accommodate the increased student enrollment. This loss represents 1.6% of budgeted revenues. *UT Permian Basin* is anticipating ending the year with a $1.7 million negative margin.

(5) *U. T. San Antonio* - The $5.1 million (102.7%) increase in adjusted income over the same period last year was primarily due to increased tuition and fees and increased net auxiliary enterprise revenue. Tuition and fees increased due to a 6% increase in enrollment as well as an increase in tuition and fees of 17%. The net auxiliary enterprise revenue increase is due to the new student housing and meal plans for 2005.

(6) *U. T. Tyler* – The $734,000 year-to-date net loss was primarily due to increased salaries and wages as well as increases in depreciation expense and interest expense related to three new capital projects. This loss represents 1.4% of budgeted revenues. *U. T. Tyler* is anticipating ending the year with a $1.7 million negative margin.

(7) *U. T. Southwestern Medical Center – Dallas* – The $4.3 million (63.9%) decrease in adjusted income over the same period last year was primarily due to a prior year correction of indirect cost revenue and a decrease in gift contributions. The adjustment to prior year overhead had a negative impact on the December year-to-date margin of $1.8 million. The reduction of gift contributions of $3.4 million was due to a large donation in 2004 for the clinical transformation initiative project that did not recur.

(8) *U. T. Medical Branch – Galveston* – The $9.8 million (88.6%) increase in adjusted loss over the same period last year was primarily due to *UTMB Galveston's* Correctional Managed Health Care (CMHC) operations. *UTMB Galveston* has experienced multiple years of CMHC funding decreases despite increasing inmate populations, aging of the inmate population, increased incidences of inmate chronic diseases and other inflationary expense factors. *UTMB Galveston* has implemented significant cost and operational improvements in CMHC over the last several years, but is now facing a situation where CMHC is not adequately funded. Cost and operational improvement opportunities are becoming limited. *UTMB Galveston* is pursuing funding increases for CMHC and is implementing additional cost saving measures. CMHC represents approximately one-fourth of *UTMB Galveston's* budget.

UTMB Galveston's net loss of $20.9 million represents 1.7% of budgeted revenues. *UTMB Galveston's* management is projecting a negative margin of $19.5 million for 2005. This projected loss includes $49.5 million in noncash depreciation expense; therefore, cash flow from operations is projected to be a positive $30 million. Additionally, the $19.5 million loss does not include nonoperating revenue for capital gifts from the Sealy and Smith Foundation of $20.7 million. *UTMB Galveston* is the sole beneficiary of the Sealy and Smith Foundation, and these gifts are integral to *UTMB Galveston's* financial success. *UTMB Galveston* will continue to have narrow margins as over 80% of clinical revenues are generated from government payors whose rate increases are not keeping pace with inflation. *UTMB Galveston* will continue to modify revenue enhancement and cost reduction plans as necessary to achieve financial goals for 2005.

(9) *U. T. Health Science Center – Houston* – The $3.8 million (79%) decrease in adjusted income over the same period last year was primarily due to increases in rentals and leases as well as increased contracted services. While the John Freeman building is being demolished and the new facility is being constructed, personnel who were displaced are being housed in rental space, which contributes to the increased rental expense in 2005. Other contracted services increased due to additional management fees and cleaning costs for the Hermann Professional building and increased expenses related to new software to track resident activity.

(10) *U. T. Health Science Center – San Antonio* – The $2.5 million (76.7%) increase in adjusted income over the same period last year was primarily due to increased professional fees of $2.5 million and increased gift contributions of $3 million. Gifts include $1.6 million for the Research Imaging Center, $750,000 for the San Antonio Cancer Institute and $450,000 for Center of Excellence in Cardiology.

(11) *U. T. M. D. Anderson Cancer Center* – The $15.9 million (234.9%) increase in adjusted income over the same period last year was primarily due to increased investment income of $7.4 million due to improved financial market conditions and an increase in gifts of $5.7 million.

(12) *Investment Gains (Losses)* – The $27.5 million (2.5%) improvement in investment gains over the same period last year was due to improved financial market conditions. The majority of the year-to-date gains relate to the Permanent University Fund (PUF) for $727.6 million, the Long Term Fund (LTF) for $314.6 million and the Permanent Health Fund (PHF) for $74.6 million.

GLOSSARY OF TERMS

<u>OPERATING REVENUES</u>:

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

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

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

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

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

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

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

<u>OPERATING EXPENSES</u>:

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

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

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

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

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

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

MATERIALS AND SUPPLIES – Payments for consumable items. Includes, but is <u>not</u> 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 <u>not</u> limited to repair and maintenance to copy machines, furnishings, equipment – including medical and laboratory equipment, office equipment and aircraft.

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

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

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

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

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

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

DEPRECIATION AND AMORTIZATION – Estimated depreciation and amortization expense.

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

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

OTHER NONOPERATING ADJUSTMENTS:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REPORT

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

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

System Office:

The University of Texas System Administration

Academic Components:

The University of Texas at Arlington

The University of Texas at Austin

The University of Texas at Brownsville

The University of Texas at Dallas

The University of Texas at El Paso

The University of Texas – Pan American

The University of Texas of the Permian Basin

The University of Texas at San Antonio

The University of Texas at Tyler

Health Components:

The University of Texas Southwestern Medical Center at Dallas

The University of Texas Medical Branch at Galveston

The University of Texas Health Science Center at Houston

The University of Texas Health Science Center at San Antonio

The University of Texas M.D. Anderson Cancer Center

The University of Texas Health Center at Tyler

2004 Annual Report

The University of Texas System

Primary Financial Statements

Including Management's Discussion and Analysis

UNAUDITED

THE UNIVERSITY OF TEXAS SYSTEM
SENIOR ADMINISTRATIVE OFFICIALS
As of August 31, 2004

****

Mark G. Yudof, Chancellor

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

Scott C. Kelley, Executive Vice Chancellor for Business Affairs

Teresa A. Sullivan, Executive Vice Chancellor for Academic Affairs

Cullen M. Godfrey, Vice Chancellor and General Counsel

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

Randa Safady, Vice Chancellor for External Relations

William H. Shute, Vice Chancellor for Federal Relations

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

Tonya Moten Brown, Vice Chancellor for Administration

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

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

INTRODUCTION

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

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

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

FINANCIAL HIGHLIGHTS

- In the fall of 2003, the System's enrollment increased 4.8% to 177,676 students. This increase was due in part to the state's demographics combined with the current labor market. The System's academic institutions enroll 34.0% of the state's public college students, and the System's health institutions enroll 75.2% of the state's public college medical and dental professional students. Net tuition and fees increased $82.1 million in 2004, or 13.8%, as a result of tuition and fee increases and a 4.3% increase in student semester credit hours at the academic institutions. Additionally, net patient care revenues increased $265.4 million in 2004, as a result of an increase in patient volumes and higher rates.

- While state appropriations have been reduced in the last couple of years, the State Legislature delegated to governing boards the authority to set tuition. This allowed university presidents, in broad consultation with their campuses, to recommend flexible rates of tuition to the Board of Regents as a means to achieve many strategic goals. The Board of Regents approved plans that include setting aside at least 20.0% of new tuition revenues for financial aid programs as well as a variety of ways that students can take advantage of special discounts in tuition rates. The System institutions remain some of the best values in higher education in the nation, even with the increases in tuition. The most recent ratings released by *U.S. News & World Report* cited U. T. Austin as a "best value" based on its relatively low cost and the quality of its programs. *The Times of London* has also ranked U. T. Austin as one of the best universities in the world.

- Net investment income totaled $1.6 billion in 2004, which was a significant increase from the 2003 net investment income of $354.9 million. The net increase in fair value of investments was $147.6 million in 2004, as compared to $1.2 billion in 2003. The increase in investment income was the largest contributor to the increase in net assets of $1.8 billion during 2004.

- Investments in capital asset additions were $1.3 billion in 2004, of which $913.3 million consisted of new projects under construction.

The Balance Sheet

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

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

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

Current Assets and Current Liabilities

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

Noncurrent Investments

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

Capital Assets and Related Debt Activities

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

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

Net Assets

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

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

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

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

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

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

The Statement of Revenues, Expenses and Changes in Net Assets

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

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

Operating Revenues

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

Sponsored program revenues are primarily from governmental and private sources and are related to research programs that normally provide for the recovery of direct and indirect costs. Other sponsored programs include student financial aid and contracts with affiliated hospitals for clinical activities. These revenues increased $138.7 million in 2004 due largely to funding from the Texas Enterprise Fund for the Natural Science and Engineering Research building at U. T. Dallas; funding for education initiatives, such as *Reading First* and the new U. T. Austin charter elementary school; increased contractual revenue from affiliated entities; and increased federal and state-based financial aid programs.

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

Operating Expenses

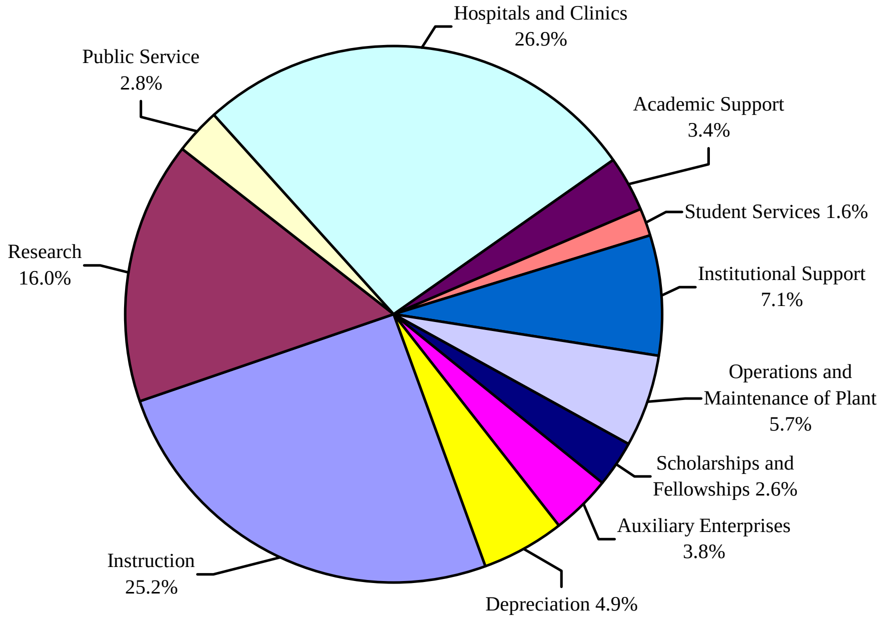
The following data summarizes the composition of operating expenses by programmatic function for the years ended August 31, 2004 and 2003:

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

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

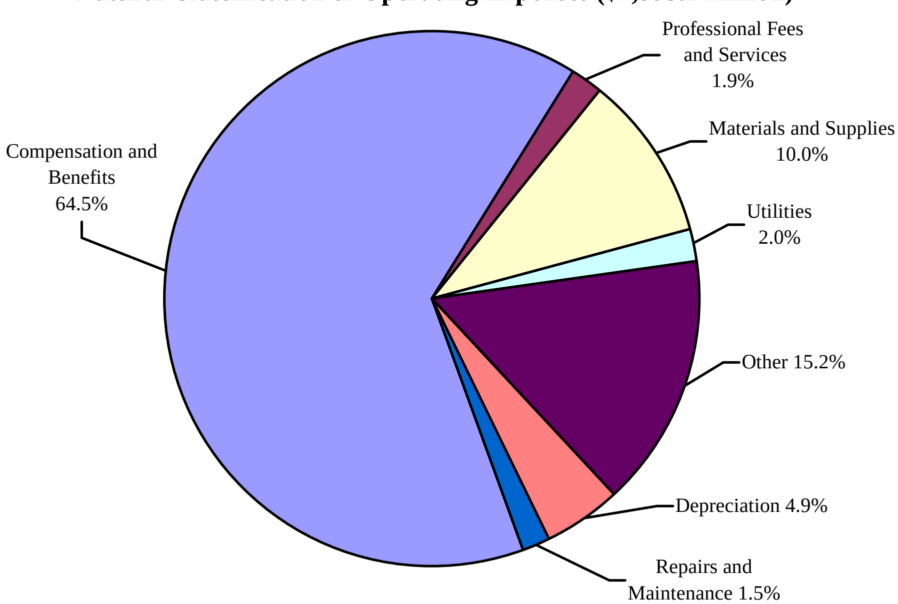
The following is a graphic illustration of operating expenses by their functional classification for the year ended August 31, 2004.

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



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

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



<u>Nonoperating Revenues and Expenses</u>

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

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

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

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

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

Capital Gift Contributions and Additions to Permanent Endowments

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

Extraordinary Items

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

Transfers and Other

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

Change in Net Assets

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

The Statement of Cash Flows

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

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

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

Economic Outlook

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

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

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

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

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

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

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

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

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

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

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

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

GENERAL INTRODUCTION

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

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

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

1. Summary of Significant Accounting Policies

BASIS OF ACCOUNTING

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

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

CASH AND CASH EQUIVALENTS

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

SECURITIES LENDING COLLATERAL

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

RESTRICTED ASSETS

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

CAPITAL ASSETS

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

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

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

NET ASSETS

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

Invested in Capital Assets, Net of Related Debt

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

Restricted-Nonexpendable

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

Restricted-Expendable

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

Unrestricted

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

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

OPERATING AND NONOPERATING REVENUES

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

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

SCHOLARSHIP ALLOWANCES AND STUDENT AID

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

STATEWIDE INTERFUND TRANSFERS

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

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

RECLASSIFICATIONS

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

2. Deposits, Investments and Repurchase Agreements

DEPOSITS OF CASH IN BANK

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

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

Category 1: Insured or collateralized with securities held by the governmental entity or by its agent in the name of the governmental entity

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the governmental entity's name

Category 3: Uncollateralized (which would include any deposits collateralized with securities held by the pledging financial institutions or by its trust department or agent but not in the governmental entity's name)

Deposits for the Reporting Entity are:

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

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

AUTHORIZED INVESTMENTS

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

INVESTMENTS

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

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

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

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

The following categories of credit risk are included:

Category 1: Investments that are insured or registered or for which the governmental entity or its agent in the governmental entity's name holds the securities

Category 2: Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the governmental entity's name

Category 3: Uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the governmental entity's name

Investments-Primary University

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

		Fair Value
Uncategorized Investments:		
Mutual Funds		3,585,906,124
Money Market Cash Equivalents		2,243,209,535
Mineral Interests		98,092,624
Real Estate and Mortgages		1,025,752,072
Private Placement for Venture Capital		1,180,237,416
Other Investments		4,190,233,508
Securities Lending-Short-term Collateral		1,060,976,669
Investments Held by Broker/Dealers Under Securities Lending Agreements:		
U.S. Government and Agency Obligations		607,538,928
Corporate Obligations		27,489,525
Corporate Stock		51,276,142
Foreign Stock		65,959,106
Mutual Funds		293,356,819
TOTAL INVESTMENTS & CASH EQUIVALENT INVESTMENTS	$	19,008,093,295
Investments consist of the following:		
Noncurrent, Restricted Investments	$	13,600,488,054
Noncurrent, Unrestricted Investments		2,103,419,037
Securities Lending Collateral		1,060,976,669
Money Market Cash Equivalents		2,243,209,535
TOTAL INVESTMENTS & CASH EQUIVALENT INVESTMENTS	$	19,008,093,295

Investments – Discretely Presented Component Units

		Fair Value
Uncategorized Investments:		
Other Investments	$	36,801,074
Money Market Cash Equivalents		3,159,289
TOTAL INVESTMENTS & CASH EQUIVALENT INVESTMENTS		39,960,363
Investments consist of the following:		
Noncurrent, Restricted Investments		36,801,074
Money Market Cash Equivalents		3,159,289
TOTAL INVESTMENTS & CASH EQUIVALENT INVESTMENTS	$	39,960,363

REPURCHASE AGREEMENTS

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

REVERSE REPURCHASE AGREEMENTS

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

SECURITIES LENDING

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

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

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

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

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

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

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

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

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

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

DERIVATIVE INVESTING

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Endowments

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

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

ENDOWMENTS AND SIMILAR FUNDS – STATE
These endowments are comprised of: the Permanent University Fund (PUF) and the Permanent Health Fund for Higher Education (PHF).

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

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

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

ENDOWMENT AND SIMILAR FUNDS - OTHER THAN STATE
Funds subject to restrictions of endowment and trust instruments, requiring that principal be maintained and that only the income be utilized. Funds may include Endowments, Term Endowments and Funds Functioning as Endowments.

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

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

4. Capital Assets

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

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

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

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

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

5. Risk Financing and Related Insurance

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

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

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

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

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

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

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

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

DIRECTORS & OFFICERS/EMPLOYMENT PRACTICES LIABILITY SELF-INSURANCE PLAN
The Directors & Officers Liability (D&O) and Employment Practices Liability Self-insurance Plan provides coverage for claims arising from actual or alleged wrongful acts performed by the plan beneficiaries. The plan also provides

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

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

ROLLING OWNER CONTROLLED INSURANCE PROGRAM

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

INCURRED BUT NOT REPORTED (IBNR)

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

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

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

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

6. Post-Retirement Health Care and Life Insurance Benefits

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

7. Bonded Indebtedness

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

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

- Permanent University Fund Bonds, Series 1997
  Purpose: To refund $78,000,000 principal amount of Permanent University Fund Variable Rate Notes, Series A, and to provide new money.
  Issue Date: January 6, 1998
  Authorized: $130,000,000 Issued: $130,000,000 –All authorized amounts have been issued.
  Interest Rates: 4.75–5.25% Maturity Dates: 1999 – 2018
  Source of Revenue for Debt Service: Available University Fund

- Permanent University Fund Refunding Bonds, Series 2002A
  Purpose: To refund $108,515,000 principal amount of Permanent University Fund Refunding Bonds, Series 1992A, maturing on July 1 in the years 2003 through 2007, both inclusive, and in the years 2009 and 2013.
  Issue Date: April 2, 2002
  Authorized: $115,000,000 Issued: $105,290,000
  Interest Rates: 3.00–5.00% Maturity Dates: 2003 – 2010
  Source of Revenue for Debt Service: Available University Fund

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

- Permanent University Fund Refunding Bonds, Series 2004A

  Purpose: To refund $61,495,000 principal amount of Permanent University Fund Bonds, Series 1997, maturing on July 1 in the years 2009 through 2016, both inclusive.
  Issue Date: April 6, 2004
  Authorized: $500,000,000[1] Issued: $60,665,000
  Interest Rates: 3.00–5.00% Maturity Dates: 2004 – 2016
  Source of Revenue for Debt Service: Available University Fund

- Permanent University Fund Bonds, Series 2004B

  Purpose: To refund $400,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A.
  Issue Date: April 6, 2004
  Authorized: $439,335,000[1] Issued: $396,520,000
  Interest Rates: 4.50–5.00% Maturity Dates: 2023 – 2033
  Source of Revenue for Debt Service: Available University Fund

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

- Revenue Financing System Bonds, Series 1995A

  Purpose: To refund $34,833,000 of Revenue Financing System Commercial Paper Notes, to refund $4,525,000 of U. T. Pan American Tuition Revenue Refunding Bonds, Series 1986 and to provide new money of $35,167,000.
  Issue Date: July 12, 1995
  Authorized: $232,000,000 Issued: $74,945,000
  Interest Rates: 4.00–6.00% Maturity Dates: 1996 – 2017
  Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

- Revenue Financing System Bonds, Series 1996A

  Purpose: To provide new money.
  Issue Date: February 29, 1996
  Authorized: $78,125,000 Issued: $72,600,000
  Interest Rates: 4.70–6.00% Maturity Dates: 1997 – 2016
  Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

- Revenue Financing System Bonds, Series 1996B

  Purpose: To refund a $18,355,000 portion of the Revenue Financing System Refunding Bonds, Series 1991A, to refund a $20,035,000 portion of the Revenue Financing System Refunding Bonds, Series 1991B, to refund $106,855,000 of Revenue Financing System Commercial Paper Notes, Series A and to provide new money of $88,400,000.
  Issue Date: February 29, 1996
  Interest Rates: 4.70–6.00% Maturity Dates: 1997 – 2016
  Authorized: $271,875,000 Issued: $232,135,000
  Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

- Revenue Financing System Bonds, Series 1998A

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

- Revenue Financing System Bonds, Series 1998B

  Purpose: To refund $109,504,000 principal of Revenue Financing System Commercial Paper Notes, Series A and to pay the cost of issuance.
  Issue Date: February 11, 1998
  Authorized: $115,500,000 Issued: $111,915,000
  Interest Rates: 3.75–5.25% Maturity Dates: 1999 – 2018
  Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

- Revenue Financing System Bonds, Series 1998C

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

- Revenue Financing System Bonds, Series 1998D

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

- Revenue Financing System Bonds, Series 1999A

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

- Revenue Financing System Bonds, Series 1999B

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

  Issue Date: September 21, 1999

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

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

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

- Revenue Financing System Refunding Bonds, Series 2001A

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

  Issue Date: May 17, 2001

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

  Interest Rates: Variable Maturity Date: 2013

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

- Revenue Financing System Bonds, Series 2001B

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

  Issue Date: October 2, 2001

  Authorized: $580,000,000[2] Issued: $179,610,000

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

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

- Revenue Financing System Bonds, Series 2001C

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

  Issue Date: October 2, 2001

  Authorized: $400,390,000[2] Issued: $84,590,000

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

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

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

- Revenue Financing System Refunding Bonds, Series 2002A

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

  Issue Date: September 27, 2002

  Authorized: $215,000,000[3] Issued: $54,430,000

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

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

- Revenue Financing System Refunding Bonds, Series 2002B

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

  Issue Date: September 27, 2002

  Authorized: $160,570,000[3] Issued: $108,855,000

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

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

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

- Revenue Financing System Bonds, Series 2003A

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

  Issue Date: January 23, 2003

  Authorized: $635,000,000[4] Issued: $112,040,000

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

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

- Revenue Financing System Bonds, Series 2003B

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

  Issue Date: January 23, 2003

  Authorized: $522,960,000[4] Issued: $481,060,000

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

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

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

- Revenue Financing System Refunding Bonds, Series 2004A
  Purpose: To refund $143,155,000 principal amount of portions of Revenue Financing System Bonds, Series 1995A, 1996A, 1998A, 1998C, 1999A and 2001C, and pay cost of issuance.
  Issue Date: March 9, 2004
  Authorized: $496,000,000[5] Issued: $137,915,000
  Interest Rates: 2.00–5.25% Maturity Dates: 2004 – 2018
  Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

- Revenue Financing System Refunding Bonds, Series 2004B
  Purpose: To refund $310,460,000 principal amount of portions of Revenue Financing System Bonds, Series 1996B, 1998B, 1998D, 1999B and 2001B, and pay cost of issuance.
  Issue Date: March 9, 2004
  Authorized: $358,085,000[5] Issued: $300,330,000
  Interest Rates: 4.50–5.25% Maturity Dates: 2007 – 2019
  Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

  [5]The Revenue Financing System Bonds, Series 2004A & B were authorized pursuant to an aggregate issuance and delivery of up to $496 million in multiple installments starting November 13, 2003 and ending November 1, 2004. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments. There are no planned additional issuances of bonds pursuant to this authority.

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

<u>EARLY EXTINGUISHMENT</u>

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

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

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

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

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

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

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

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

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

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

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

BOND ENHANCEMENT AGREEMENTS

Forward Floating-to-Fixed Interest Rate Swaps:

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

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

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

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

8. Note Indebtedness

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

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

Other Notes Payable includes:

- Note or loan payable issue name: University Hospital
  Purpose: Reimburse University Hospital for clinical practice expenses under terms of a mediator-negotiated contractual settlement
  Institution: U. T. Health Science Center - San Antonio
  Issue Date: April 1, 2001
  Amount: $2,862,717
  Source of revenue for debt service: Patient service revenue from MSRDP Designated funds collected by University Physicians Group, Inc.
  Terms: January 1, 2002 through January 1, 2009. Interest is computed at five percent (5%) annually.

- Note or loan payable issue name: Frost Bank
  Purpose: Remodel/renovation-UPG Administrative Service Building
  Issue Date: January 31, 2004
  Authorized Amount: $1,334,799
  Source of revenue for debt service: Patient service revenue from MSRDP Designated funds collected by University Physicians Group, Inc.
  Terms: January 31, 2004 through November 7, 2008

- Note or loan payable issue name: LaSalle National Bank
  Purpose: To purchase Oracle software site license
  Institution: U. T. El Paso
  Issue Date: September 1, 2002
  Authorized Amount: $580,641
  Source of revenue for debt service: Designated funds
  Terms: September 1, 2002 through September 1, 2006

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

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

- Note or loan payable issue name: Charitable Lead Trust
  Purpose: Fine Arts Foundation (a blended component unit) purchase of the Suida Manning Art Collection
  Component Unit: U. T. Austin's Blended Component Unit
  Issue Date: January 4, 1999
  Authorized Amount: $10,713,200
  Source of revenue for debt service: Gift
  Terms: January 4, 1999 through April 17, 2016

- Note or loan payable issue name: J. P. Morgan Leasing, Inc.
  Purpose: To purchase the PET/CT Discovery ST
  Component Unit: U. T. Southwestern Medical Center – Dallas' Component Unit
  Issue Date: August 22, 2003
  Authorized Amount: $2,200,000
  Source of revenue for debt service: Operations
  Terms: September 22, 2003 through August 22, 2008

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

- Note or loan payable issue name: Permanent University Fund Flexible Rate Notes, Series A
  Purpose: To provide new money
  Issue Date: March 4, 2004
  Authorized Amount: Aggregate principal amount not to exceed $400 million
  Source of revenue for debt service: Available University Fund
  Terms: Interest payable in periodic installments not to exceed 270 days at a flexible rate

- Note or loan payable issue name: Sealy & Smith Foundation, Inc.
  Purpose: To finance leasehold improvements to the Primary Care Pavilion
  Institution: U. T. Medical Branch - Galveston
  Issue Date: January 1, 1997
  Authorized Amount: $12,484,642
  Source of revenue for debt service: Patient income
  Terms: January 1, 1997 through December 31, 2006

- Note or loan payable issue name: Benjamin R. Beall, II
  Purpose: To purchase Mineola Medical and Surgical Clinic
  Institution: U. T. Health Center - Tyler
  Issue Date: September 1, 1999
  Authorized Amount: $425,000
  Source of revenue for debt service: Patient Income
  Terms: September 1, 1999 through September 1, 2003

9. Capital Leases

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

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

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

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

10. Short-Term Debt

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

11. Summary of Long-Term Liabilities

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

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

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

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

PROJECTED BOND DEBT SERVICE REQUIREMENTS

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

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

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

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

COMPENSATED ABSENCES

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

12. Unrestricted Net Assets

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

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

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13. Matrix of Operating Expenses Reported by Function

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

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

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

14. Restatement of Net Assets

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

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

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

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

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

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

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

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

15. Contingent Liabilities

PENDING LAWSUITS AND CLAIMS

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

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

PARTNERSHIPS

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

16. Operating Lease Obligations

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

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

17. Employees' Retirement Plans

TEACHER RETIREMENT SYSTEM (TRS)

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

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

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

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

OPTIONAL RETIREMENT PROGRAM (ORP)

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

EMPLOYEES RETIREMENT SYSTEM (ERS)

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

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

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

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

THE UNIVERSITY OF TEXAS SYSTEM GOVERNMENTAL RETIREMENT ARRANGEMENT (UTGRA)

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

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

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

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

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

18. Deferred Compensation

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

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

19. Extraordinary Items

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

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

20. Subsequent Events

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

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

21. Related Parties

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

22. Stewardship, Compliance and Accountability

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

23. The Financial Reporting Entity

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

Blended Component Units

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

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

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

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

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

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

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

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

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

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

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

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

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

Discrete Component Units

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

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

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

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

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

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

24. Disaggregation of Other Receivable Balances

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

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

25. Funds Held in Trust by Others

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

UNAUDITED

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

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

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

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

UNAUDITED

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

		Current Year Totals		Prior Year Totals	
		Primary University	Component Unit	Primary University	Component Unit
Cash Flows from Operating Activities:					
Proceeds from Patients and Customers	$		16,691		22,719,499
Proceeds from Sponsored Programs		7,560,537		1,812,000	
Proceeds from Other Revenues		3,271,673	110,092	40,995,257	500,000
Payments to Suppliers		(36,960,737)	(371,124)	(39,618,097)	(22,636,534)
Payments to Employees		(23,851,713)	(322,843)	(23,981,989)	(745,220)
Payments for Other Expenses				(492)	
Net Cash Provided (Used) by Operating Activities		(49,980,240)	(567,184)	(20,793,321)	(162,255)
Cash Flows from Noncapital Financing Activities:					
Return of Capital Contributions			(1,168,117)		
Proceeds from State Appropriations		6,057,411		8,288,165	
Proceeds from Operating Gifts		1,141,315		1,160,003	
Proceeds from Private Gifts for Endowment and Annuity Life Purposes		196,060,452		172,585,762	
Proceeds from Other Nonoperating Revenues		3,562,877		608,435	
Payments/Receipts for Transfers to/from System or Oth. Agencies		(609,222,267)		(690,316,400)	
Payments for Other Uses		(3,919,939)	(425,230)	(4,430,359)	
Net Cash Provided (Used) by Noncapital Financing Activities		(406,320,151)	(1,593,347)	(512,104,394)	
Cash Flows from Capital and Related Financing Activities:					
Proceeds from Issuance of Capital Debt		1,523,999,984		1,099,220,658	
Proceeds from Capital Debt Transferred to Institutions		(736,998,531)		(593,546,970)	
Payments of Other Costs on Debt Issuance		(49,787,095)		(17,567,242)	
Proceeds from Sale of Capital Assets		30,504	2,505		
Payments for Additions to Capital Assets		(3,552,731)		(6,157,388)	
Payments of Principal on Capital Related Debt		(1,123,844,000)		(538,427,000)	
Mandatory Transfers to System for Capital Related Debt		200,563,416		173,553,303	
Payments of Interest on Capital Related Debt		(86,958,919)		(86,615,087)	
Net Cash Provided (Used) by Capital & Related Financing Activities		(276,547,372)	2,505	30,460,274	
Cash Flows from Investing Activities:					
Proceeds from Sales of Investments		18,229,701,669	250,000	12,571,113,786	15,380
Proceeds from Interest and Investment Income		329,329,997	11,976	342,570,763	30,543
Payments to Acquire Investments		(17,994,335,645)		(12,301,324,697)	
Net Cash Provided (Used) by Investing Activities		564,696,021	261,976	612,359,852	45,923
Net Increase (Decrease) in Cash		(168,151,742)	(1,896,050)	109,922,411	(116,332)
Cash & Cash Equivalents - Beginning of the Year		758,665,681	1,896,050	648,743,270	2,012,382
Cash & Cash Equivalents - End of the Year	$	590,513,939		758,665,681	1,896,050
Reconciliation of Net Operating Revenues (Expenses) to					
Net Cash Provided (Used) by Operating Activities:					
Operating Loss	$	(55,394,710)	(744,580)	(8,758,940)	(582,438)
Adjustments to Reconcile Operating Loss to Net Cash:					
Depreciation and Amortization Expense		1,607,386	10,382	1,500,349	24,872
Loss on Asset Disposition			28,744		27,911
Bad Debt Expense					
Op. Income & Cash Flow Categories Classification Differences					
Changes in Assets and Liabilities:					
(Increase) Decrease in Receivables		249,456	117,989	1,266,065	4,716,142
(Increase) Decrease in Other Assets		(5,143,472)	35,764		23,765
Increase (Decrease) in Payables		8,372,079	(15,483)	(10,978,619)	(4,354,160)
Increase (Decrease) in Due to System		(2,402,488)		(5,698,399)	
Increase (Decrease) in Deferred Income		(2,108)		(2,497,387)	
Increase (Decrease) in Deposits Held for Others		1,317,694		3,968,056	
Increase (Decrease) in Compensated Absence Liability		188,923		405,554	
Increase (Decrease) in Other Liabilities		1,227,000			(18,347)
Total Adjustments		5,414,470	177,396	(12,034,381)	420,183
Net Cash Provided (Used) by Operating Activities:	$	(49,980,240)	(567,184)	(20,793,321)	(162,255)
Noncash Transactions					
Net Increase (Decrease) in Fair Value of Investments		122,533,786		1,254,851,739	
Miscellaneous Noncash Transactions		(30,504)		-	

UNAUDITED

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

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

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

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

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

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

UNAUDITED

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

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

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

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

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

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

UNAUDITED

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

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

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

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

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

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

UNAUDITED

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

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

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

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

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

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

UNAUDITED

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

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

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

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

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

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

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

UNAUDITED

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

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

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

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

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

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

UNAUDITED

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

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

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

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

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

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

UNAUDITED

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

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

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

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

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

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

UNAUDITED

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

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

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

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

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

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

UNAUDITED

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

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

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

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

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

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

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

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

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

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

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

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

UNAUDITED

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

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

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

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

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

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

UNAUDITED

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

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

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

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

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

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

UNAUDITED

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

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

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

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

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

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

UNAUDITED

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

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

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

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

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

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

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

REPORT

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

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

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

2004 Analysis of Financial Condition

February 2005

The University of Texas System
2004 Analysis of Financial Condition
Foreword

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

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

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

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

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

Executive Summary

Institutions Rated "Watch"

UT Permian Basin

The institution's financial condition was downgraded from "Satisfactory" to "Watch" in 2004. Both the operating expense coverage ratio and annual operating margin ratio have continued on a downward trend since 2002. The operating expense coverage ratio dropped by 1.2 months to 1.1 months in 2004, which is below the 2 month benchmark. This ratio decreased due to a decrease in unrestricted net assets of $2.3 million, as well as an increase in operating expenses of $4.3 million. While it was management's intent to spend down balances and make investments in the infrastructure to keep pace with the increased student enrollment, UT Permian Basin now has the lowest operating expense coverage ratio of the System. UT Permian Basin is also transforming itself from a returning adult student commuter campus to a more traditional, residential undergraduate campus. The institution anticipates improvements in the operating expense coverage ratio in future years. The operating deficit of $4.8 million was a $3.4 million decline from the 2003 operating deficit, resulting in an annual operating margin ratio of negative 16.4%, also the lowest in the System. The operating deficit was due to the infrastructure investments mentioned above. However, the return on net assets ratio increased from 3.4% in 2003 to 15.7% in 2004 due to an increase in the amount of bond proceeds transferred to UT Permian Basin, as well as an increase in the gifts for permanent endowments. The expendable resources to total net assets ratio remained relatively stable at 26.4%. The debt burden ratio decreased from 8.0% in 2003 to 6.2% in 2004, while the debt service coverage ratio decreased from 0.8x in 2003 to negative 0.6x in 2004, as a result of the increased operating expenses noted above. Full-time equivalent student enrollment continued to grow due to increased recruiting and retention efforts.

UTMB Galveston

The institution's financial condition was maintained as "Watch" for 2004. The operating expense coverage ratio remained unchanged at 1.4 months, which is below the 2 month benchmark. The operating deficit of $24.0 million was a $14.7 million decline from the operating deficit in 2003 and resulted in an annual operating margin ratio of negative 1.9%. UTMB Galveston was adversely impacted by an $8.9 million reduction in state appropriations and a $10.0 million reduction in the Indigent Care Fund. The return on net assets decreased from 7.8% in 2003 to 5.2% in 2004 primarily due to the larger operating deficit discussed above. The expendable resources to total net assets ratio decreased slightly from 26.8% in 2003 to 26.0% in 2004 due to an increase in total net assets resulting from the increase in the fair market value of investments. The debt burden ratio increased slightly from 0.6% in 2003 to 0.7% in 2004 due to an increase in debt. The debt service coverage ratio decreased from 5.2x in 2003 to 3.2x in 2004 as a result of the larger operating deficit, as well as the increase in debt.

UTHSC-Houston

The institution's financial condition was maintained as "Watch" for 2004. The operating expense coverage ratio decreased by 0.5 months to 2.1 months due to a decrease in unrestricted net assets primarily attributable to expenses related to Tropical Storm Allison exceeding the proceeds received in 2004. However, the operating margin increased $40.5 million primarily due to a large gift pledge received in 2004, as well an increase in operating revenues generated by the practice plan. The return on net assets ratio increased from 13.7% in 2003 to 16.3% in 2004 largely due to the significant improvement in the operating margin mentioned above, as well as an increase in the amount of bond proceeds transferred to UTHSC-Houston for capital projects. The expendable resources to total net assets ratio decreased from 62.1% in 2003 to 53.7% in 2004 due to the increase in total net assets discussed previously. The debt burden ratio increased from 1.7% in 2003 to 2.1% in 2004 due to an increase in debt service, and the debt service coverage ratio increased from 1.4x in 2003 to 4.5x in 2004 due to the improvement in the operating margin.

Institutions Rated "Watch" (Continued)

UTHC-Tyler

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

Institutions Rated "Satisfactory"

UT Arlington

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

UT Austin

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

Institutions Rated "Satisfactory" (Continued)

UT Brownsville

The operating expense coverage ratio decreased 0.4 months to 2.7 months due to an increase in operating expenses resulting from the continued enrollment growth. The operating margin decreased by $1.8 million due to a reduction in state appropriations and the increase in operating expenses mentioned above. The return on net assets ratio dropped from 36.4% in 2003 to negative 0.1% in 2004 due to the issuance of the remainder of the debt appropriated for the Business and Education Complex. The expendable resources to total net assets ratio decreased from 59.4% in 2003 to 48.3% in 2004 due to a decrease in expendable net assets restricted for capital projects. The debt burden ratio decreased from 5.3% in 2003 to 4.6% for 2004 as a result of a reduction in debt service, as well as increased operating expenses and interest expense. The debt service coverage ratio also decreased from 2.1x in 2003 to 1.9x in 2004 due to the increased operating expenses previously mentioned. Full-time equivalent student enrollment continued an upward trend with student headcount reaching an all-time high.

UT Dallas

The operating expense coverage ratio increased by 0.2 months to 2.7 months due to an increase in unrestricted net assets related to the reclassification of three quasi endowments from restricted to unrestricted. The operating margin decreased by $1.3 million largely due to the elimination of the appropriation for the University Research Fund in 2004. The return on net assets ratio increased from 4.7% in 2003 to 14.5% in 2004 primarily due to Texas Enterprise Funds received in 2004, increased gifts for capital acquisitions and an increase in the fair market value of investments. The expendable resources to total net assets ratio increased from 19.6% in 2003 to 24.5% in 2004 primarily due to funding received for the Natural Science and Engineering Research building, as well as funds reserved for other new buildings, renovations and infrastructure improvements. The debt burden ratio decreased from 3.6% in 2003 to 3.3% in 2004 due to both an increase in operating expenses and a decrease in debt service. The debt service coverage ratio increased from 2.5x in 2003 to 2.8x in 2004 due to an increase in depreciation expense and the decrease in debt service. Full-time equivalent student enrollment continued to grow in accordance with U. T. Dallas' mission.

UT El Paso

The operating expense coverage ratio increased by 0.3 months to 1.4 months due to an increase in unrestricted net assets driven by enrollment and tuition rate increases, as well as a reduction in operating expense resulting from cost savings measures and a decrease in interest expense. The operating margin increased by $6.3 million due to the reduction in operating expenses previously discussed along with increases in gifts and investment income. The return on net assets ratio decreased from 11.6% in 2003 to 7.5% in 2004 primarily due to an increase in debt. The expendable resources to total net assets ratio decreased from 22.5% in 2003 to 17.5% in 2004 due to a decrease in expendable net assets restricted for capital projects. The debt burden ratio decreased slightly from 5.4% in 2003 to 5.3% in 2004 due to a reduction in debt service. The debt service coverage ratio increased from 1.3x in 2003 to 2.1x in 2004 due to the reduction in debt service and the increase in the operating margin discussed above. Full-time equivalent student enrollment continued to trend upward.

Institutions Rated "Satisfactory" (Continued)

UT Pan American

The operating expense coverage ratio increased by 0.4 months to 4.1 months due to an increase in unrestricted net assets related to the reclassification of a quasi endowment from restricted to unrestricted. The operating margin decreased by $0.2 million primarily due to increased interest expense. The return on net assets ratio decreased from 11.1% in 2003 to 9.6% in 2004 largely due to a reduction in the amount of bond proceeds transferred from U.T. System Administration. The expendable resources to total net assets ratio decreased from 43.5% in 2003 to 41.9% in 2004 due to an increase in total net assets primarily resulting from capital asset purchases. The debt burden ratio decreased from 5.3% in 2003 to 4.3% in 2004, and the debt service coverage ratio increased from 1.8x in 2003 to 2.4x in 2004. The changes in both debt ratios were the result of a decrease in debt service. Full-time equivalent student enrollment continued to grow as a result of recruitment efforts in support of *Closing the Gaps by 2015*, as well as increased demand for higher education in the rapidly growing surrounding community.

UT San Antonio

The operating expense coverage ratio increased by 0.7 months to 3.0 months primarily due to continued enrollment growth and designated tuition rate increases. The operating margin increased $5.8 million due to revenue growth outpacing growth in expenses. The return on net assets ratio decreased from 5.1% in 2003 to 4.4% in 2004 primarily due to an increase in debt outstanding. The expendable resources to total net assets decreased from 39.4% in 2003 to 29.6% in 2004 due to the increase in debt outstanding and an increase in capital assets. The debt burden ratio decreased from 6.7% in 2003 to 6.4% in 2004 due to an increase in operating expenses. The debt service coverage ratio increased from 1.8x in 2003 to 2.3x in 2004 due to the increase in the operating margin as mentioned above. Full-time equivalent student enrollment continued to increase as a result of recruitment and retention efforts, as well as increases in the Graduate programs and enrollment caps at U. T. Austin.

UT Tyler

The operating expense coverage ratio increased by 0.2 months to 3.0 months largely due to an increase in unrestricted net assets related to increased tuition and fees. The operating margin decreased $0.9 million as a result of an increase in interest expense, as well as the elimination of the appropriation for the University Research Fund in 2004. The return on net assets ratio decreased from 25.2% in 2003 to 22.8% in 2004 primarily due to an increase in debt outstanding. The expendable resources to total net assets ratio increased from 22.5% in 2003 to 30.0% in 2004 due to an increase in expendable net assets restricted for capital projects. The debt burden ratio decreased from 7.0% in 2003 to 4.0% in 2004, while the debt service coverage ratio increased from 1.5x in 2003 to 2.5x in 2004. The changes in both of the debt ratios were primarily due to a decrease in debt service. Full-time equivalent student enrollment continued to trend upward as a result of recruitment and retention efforts.

Institutions Rated "Satisfactory" (Continued)

Southwestern

The operating expense coverage ratio increased by 0.4 months to 4.3 months largely due to growth in unrestricted net assets resulting from revenue growth. The operating margin increased $48.5 million primarily due to increases in net professional fees, contractual revenues, indirect cost recoveries and gifts for operations. The return on net assets ratio improved from 5.1% in 2003 to 10.0% in 2004 due to the increase in unrestricted net assets mentioned above, as well as increases in investments in capital assets and endowments and annuities. The expendable resources to total net assets ratio decreased from 36.1% in 2003 to 35.5% in 2004 due to the increase in nonexpendable endowments and annuities and investments in capital assets. The debt burden ratio changed slightly from 2.6% in 2003 to 2.7% in 2004 due to an increase in debt service. The debt service coverage ratio increased from 1.7x in 2003 to 4.0x in 2004 due to the growth in the operating margin discussed previously.

UTHSC-San Antonio

The operating expense coverage ratio increased by 0.6 months to 3.4 months due to an increase in unrestricted net assets resulting from increases in practice plan operations, the sale of Ilex stock, Children's Cancer Research Institute, indirect cost recoveries and state funds. The operating margin decreased $12.2 million primarily due to an increase in practice plan expenses in the Department of Surgery. The return on net assets ratio increased from 3.9% in 2003 to 7.6% in 2004 due to the growth in unrestricted net assets mentioned above. The expendable resources to total net assets ratio decreased from 37.0% in 2003 to 32.8% in 2004 due to expenditures that have occurred related to several large capital projects. The debt burden ratio decreased from 2.8% in 2003 to 2.3% in 2004 as a result of a reduction in debt service. The debt service coverage ratio decreased slightly from 2.6x in 2003 to 2.4x in 2004 due the reduction in the operating margin discussed previously.

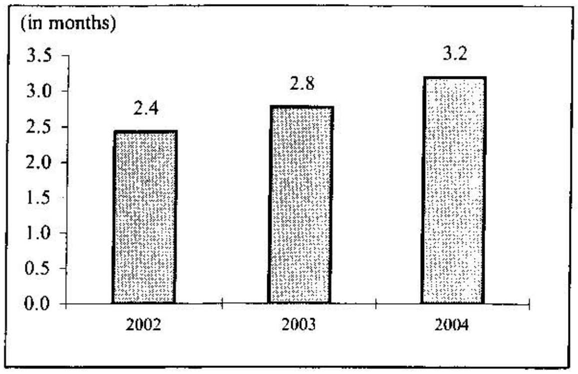
M. D. Anderson

The operating expense coverage ratio decreased by 0.3 months to 3.1 months due to increased operating expenses to support increased patient volumes. The operating margin increased $5.7 million due to revenue growth outpacing the growth in expenses. The return on net assets ratio decreased from 9.6% in 2003 to 4.0% in 2004 due to a greater increase in debt outstanding in 2003 as compared to 2004. The expendable resources to total net assets ratio decreased from 40.1% in 2003 to 33.8% in 2004 due to several large construction projects nearing completion resulting in a decrease in the amount of expendable net assets restricted for capital projects. The debt burden ratio increased from 1.7% in 2003 to 2.3% in 2004, while the debt service coverage ratio decreased from 5.9x in 2003 to 4.7x in 2004. The changes in both debt ratio were due to an increase in debt service.

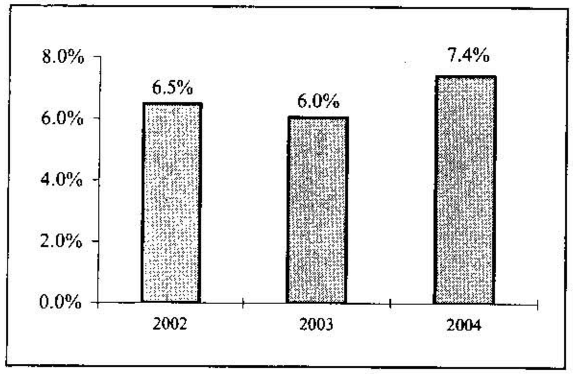
The University of Texas at Arlington
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

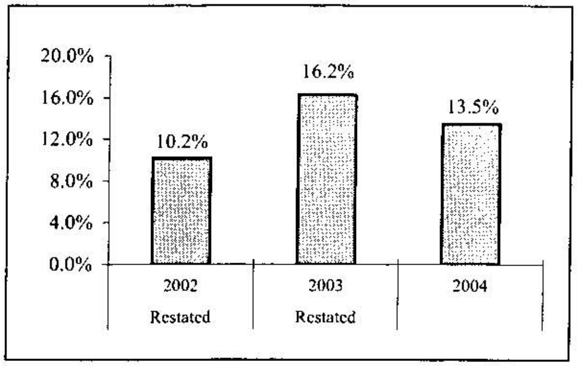
Operating Expense Coverage Ratio



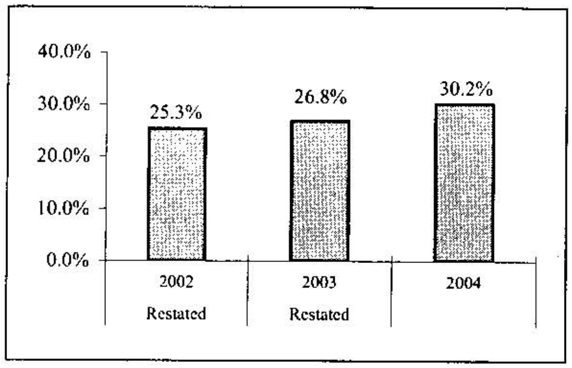
Annual Operating Margin Ratio



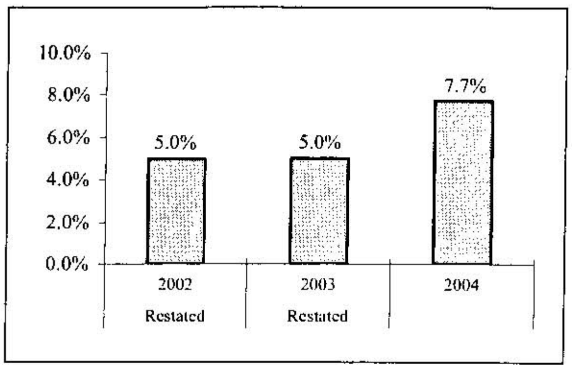
Return on Net Assets Ratio



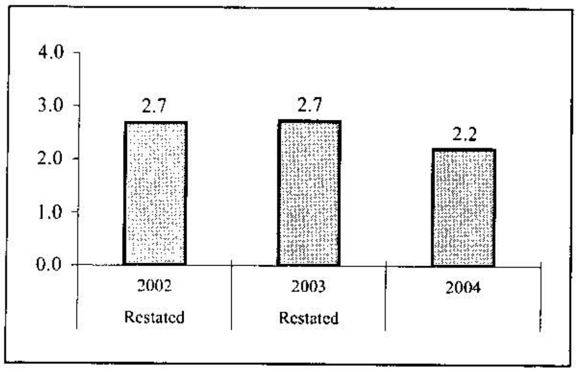
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio

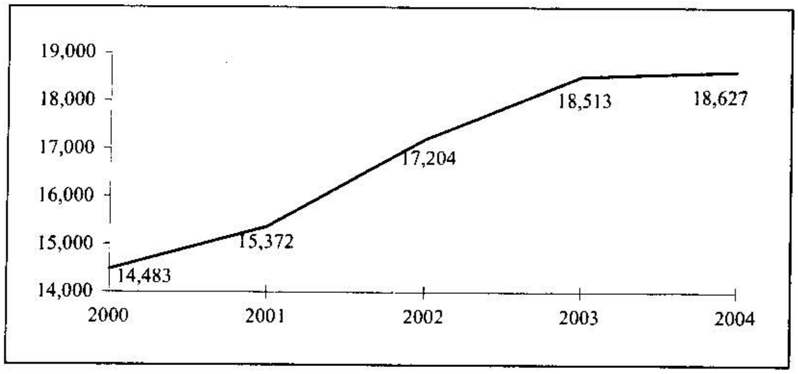


Debt Service Coverage Ratio



The University of Texas at Arlington
2004 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



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

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

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

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

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

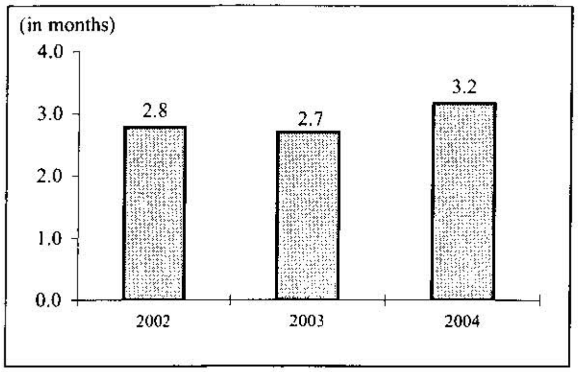
Debt Service Coverage Ratio - UT Arlington's debt service coverage ratio decreased from 2.7x in 2003 to 2.2x in 2004 due to an increase in debt service payments resulting from the construction mentioned above.

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

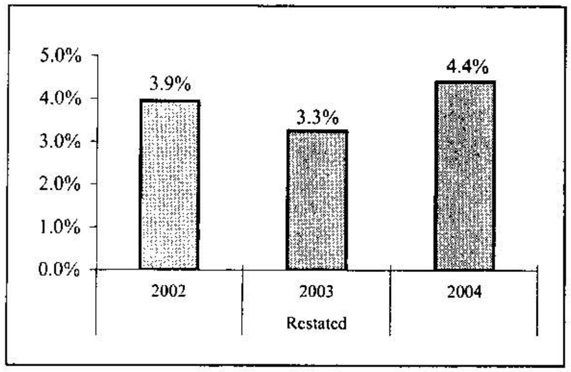
The University of Texas at Austin
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

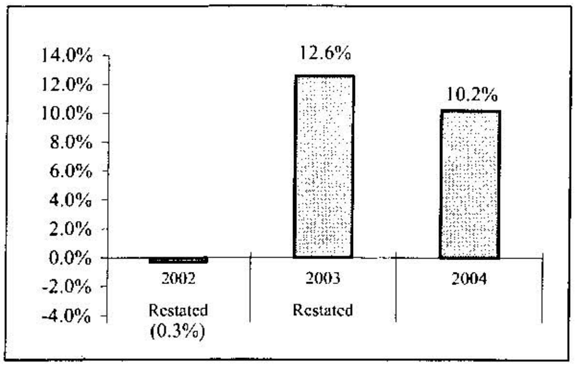
Operating Expense Coverage Ratio



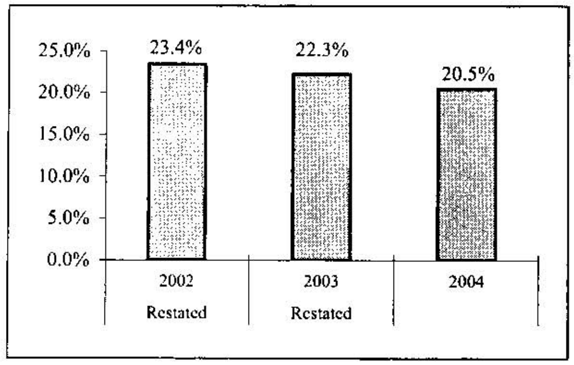
Annual Operating Margin Ratio



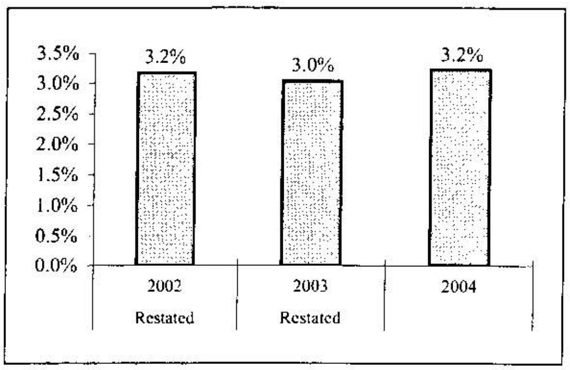
Return on Net Assets Ratio



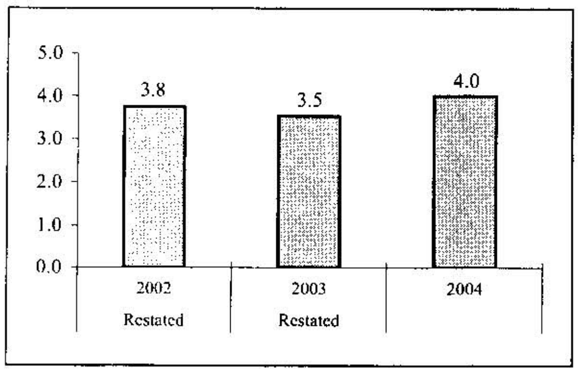
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio

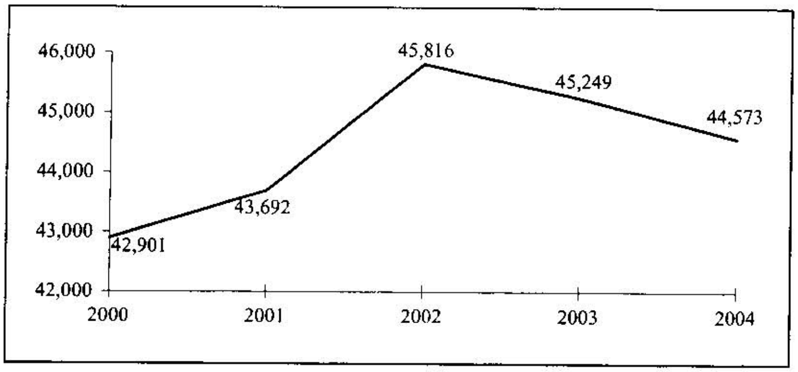


Debt Service Coverage Ratio



The University of Texas at Austin
2004 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



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

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

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

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

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

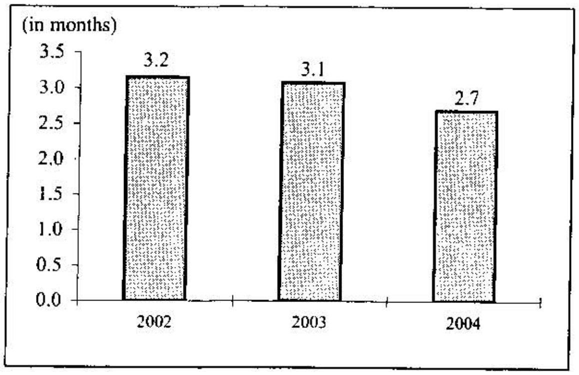
Debt Service Coverage Ratio - UT Austin's debt service coverage ratio increased from 3.5x in 2003 to 4.0x in 2004 due to an increase in the annual operating margin, as discussed above.

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

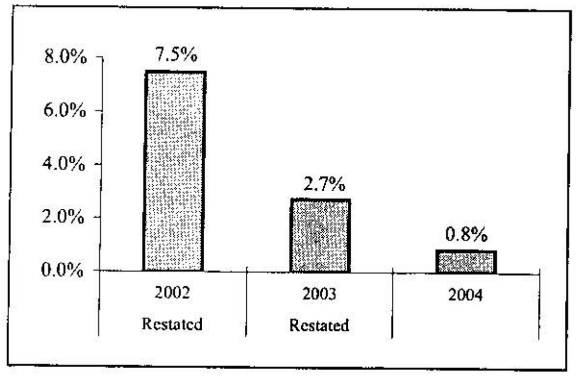
The University of Texas at Brownsville
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

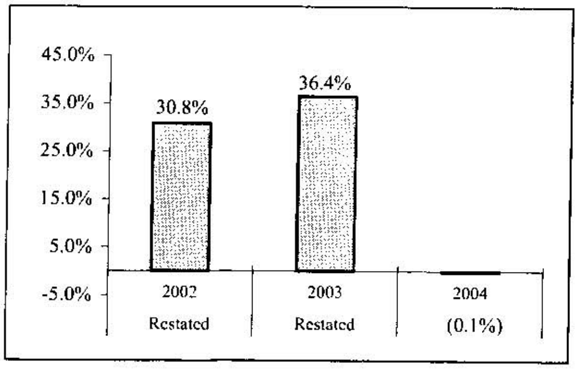
Operating Expense Coverage Ratio



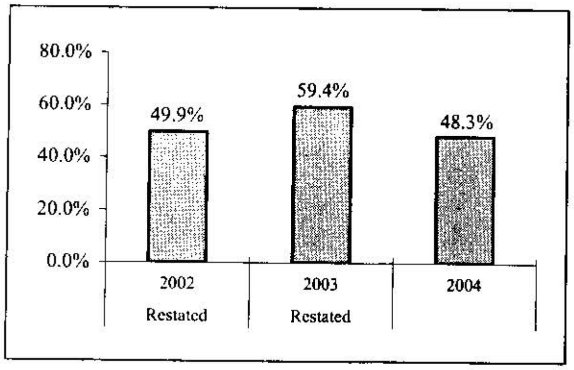
Annual Operating Margin Ratio



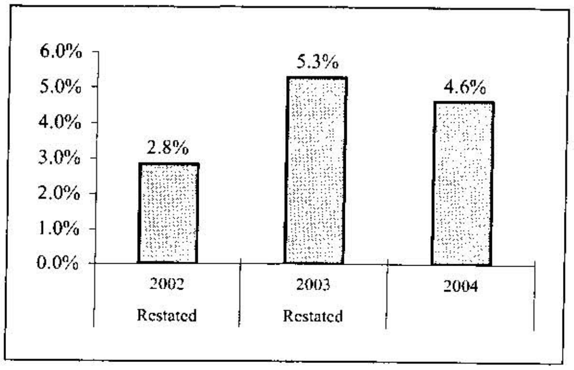
Return on Net Assets Ratio



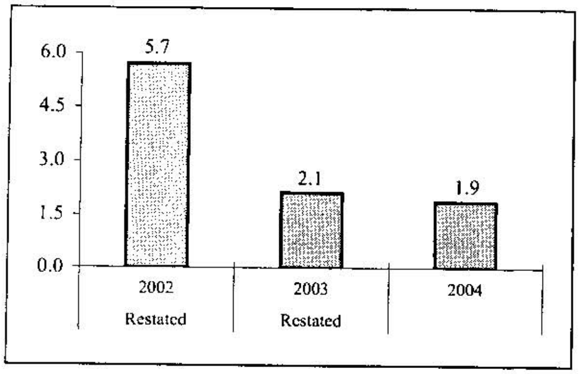
Expendable Resources to Total Net Assets Ratio



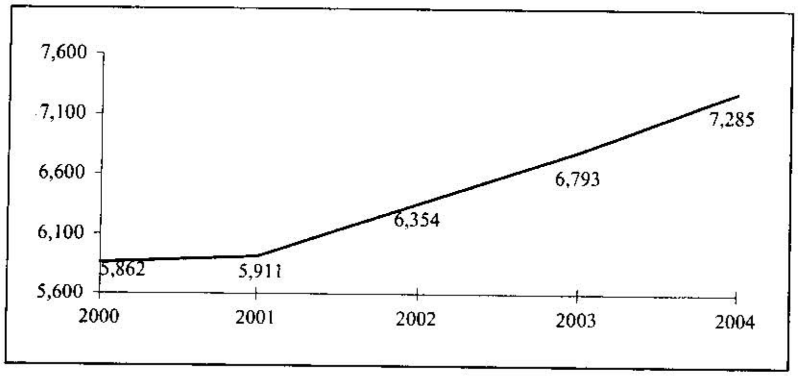
Debt Burden Ratio



Debt Service Coverage Ratio



Full-time Equivalent Student Enrollment - Fall



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

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

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

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

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

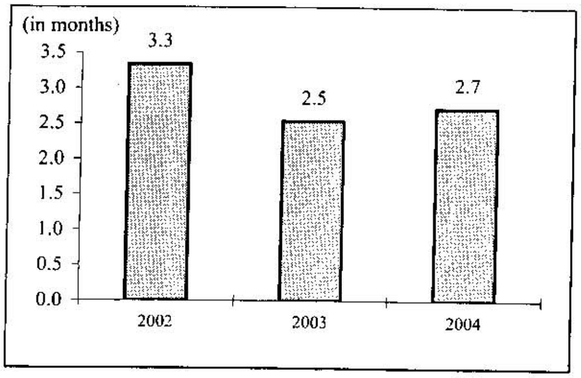
Debt Service Coverage Ratio - UT Brownsville's debt service coverage ratio decreased slightly from 2.1x in 2003 to 1.9x in 2004 due to an increase in operating expenses previously discussed.

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

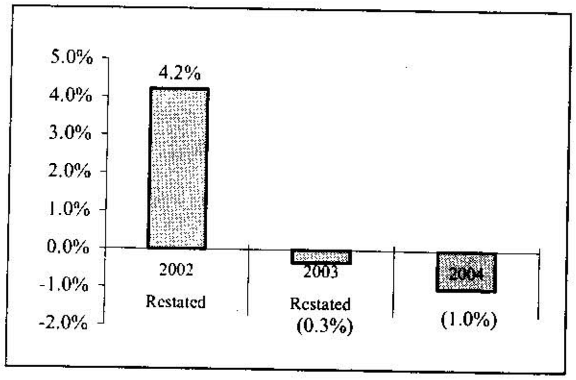
The University of Texas at Dallas
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

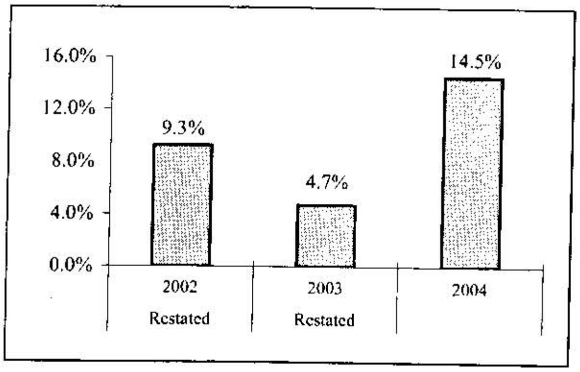
Operating Expense Coverage Ratio



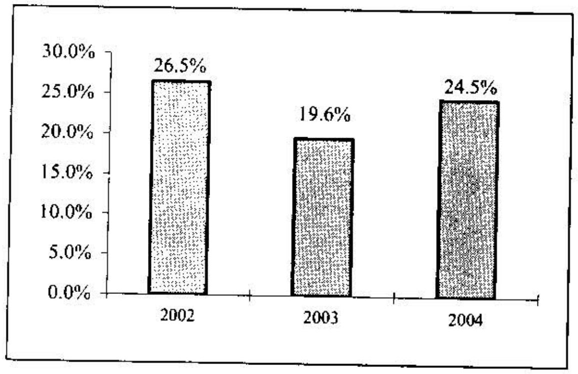
Annual Operating Margin Ratio



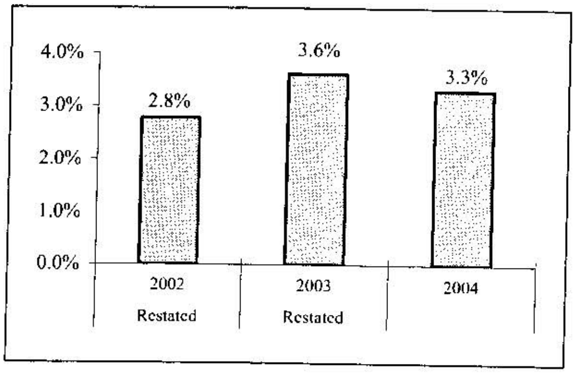
Return on Net Assets Ratio



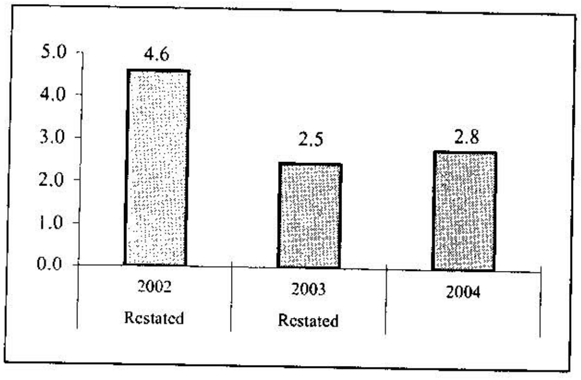
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio

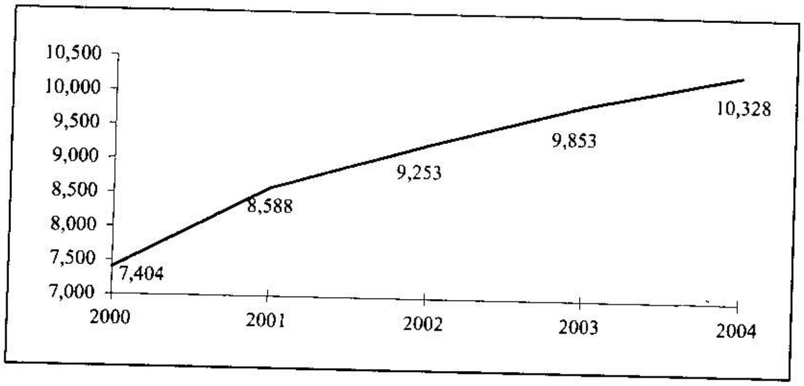


Debt Service Coverage Ratio



The University of Texas at Dallas
2004 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



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

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

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

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

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

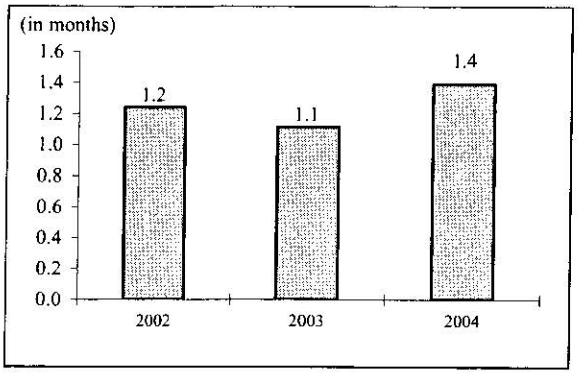
Debt Service Coverage Ratio - UT Dallas' debt service coverage ratio increased slightly from 2.5x to 2.8x due to an increase in depreciation expense of $2.2 million, which is excluded from the operating expenses for purposes of this ratio, and due to a decrease in debt service as noted above.

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

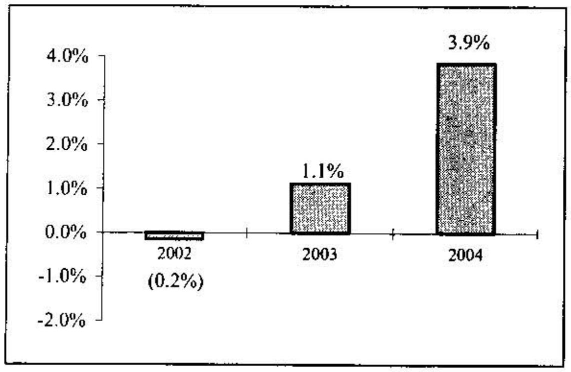
The University of Texas at El Paso
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

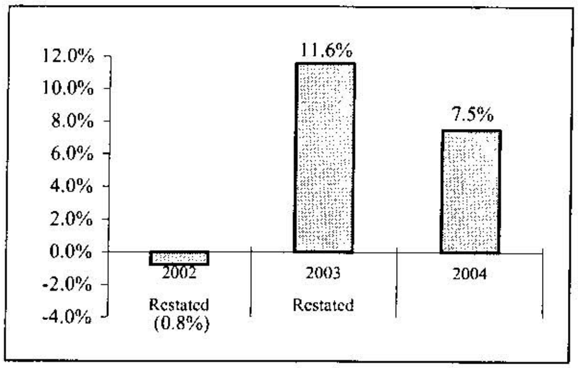
Operating Expense Coverage Ratio



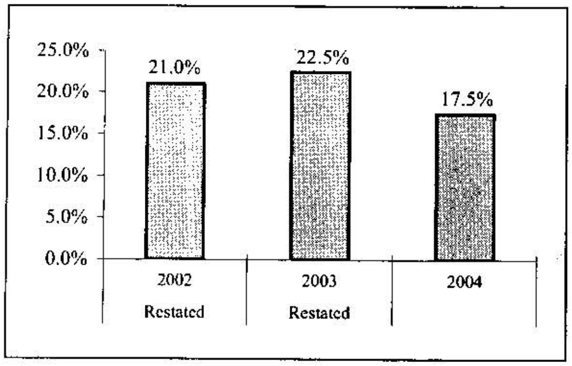
Annual Operating Margin Ratio



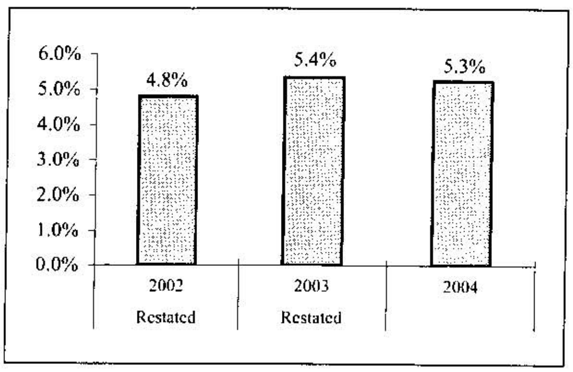
Return on Net Assets Ratio



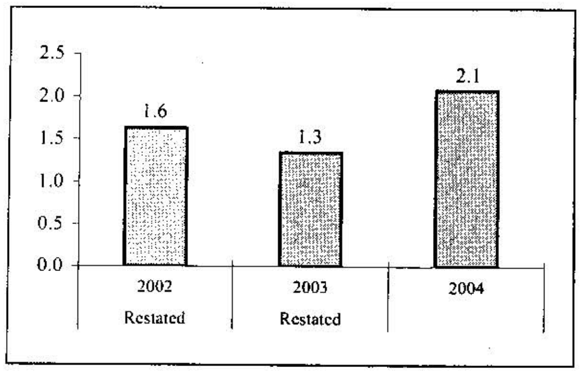
Expendable Resources to Total Net Assets Ratio



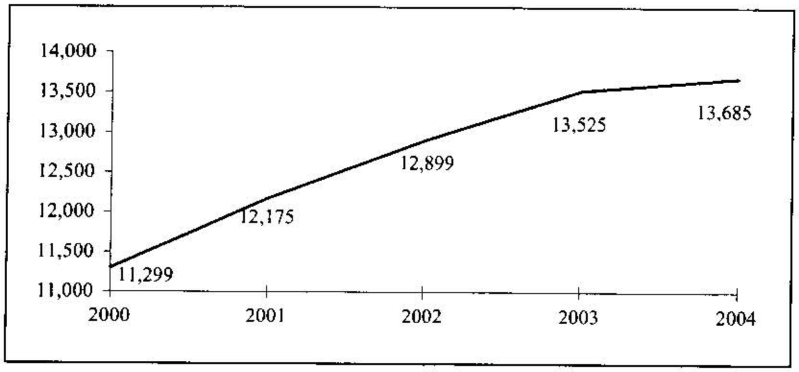
Debt Burden Ratio



Debt Service Coverage Ratio



Full-time Equivalent Student Enrollment - Fall



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

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

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

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

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

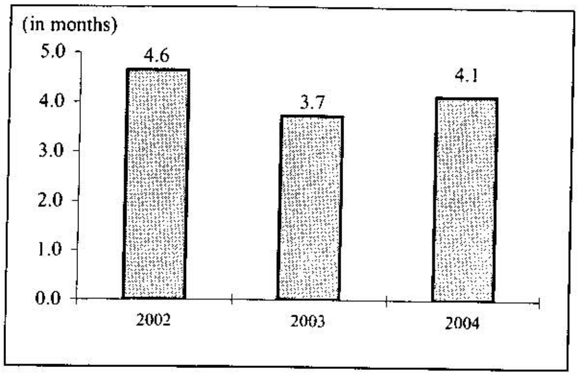
Debt Service Coverage Ratio - UT El Paso's debt service coverage ratio increased from 1.3x in 2003 to 2.1x in 2004 primarily due to the increase in the annual operating margin and the reduction in debt service transfers.

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

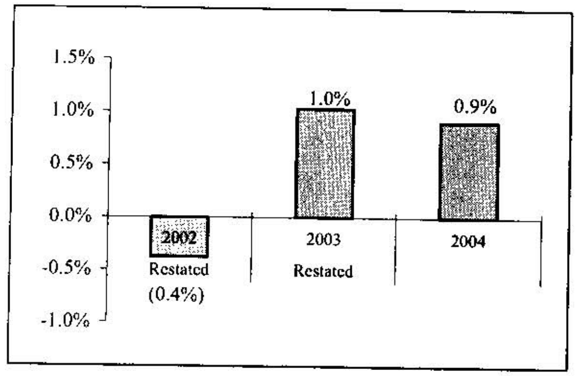
The University of Texas - Pan American
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

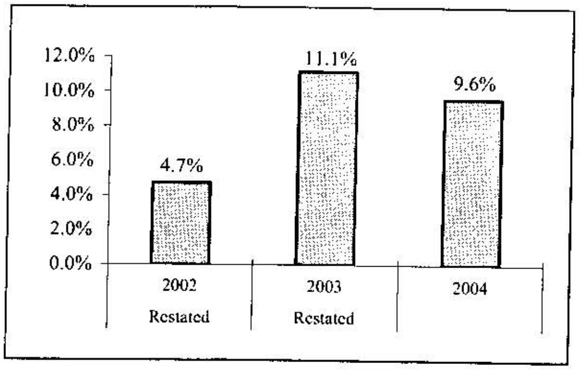
Operating Expense Coverage Ratio



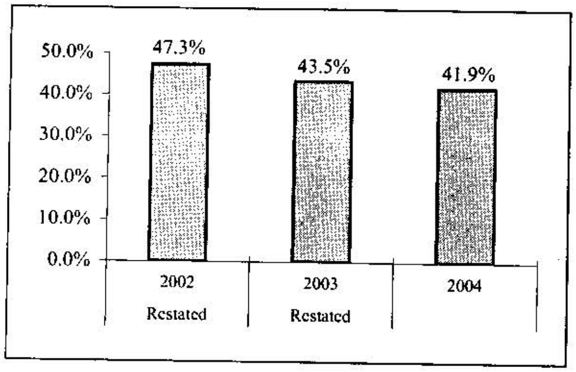
Annual Operating Margin Ratio



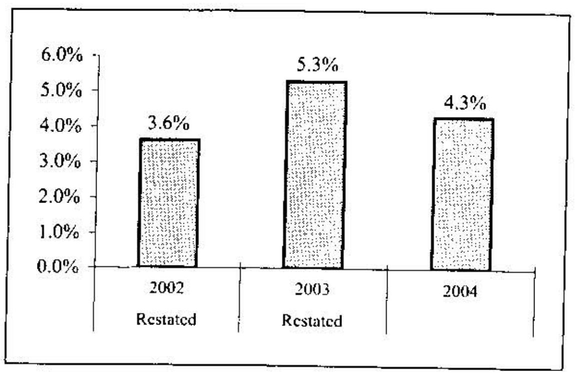
Return on Net Assets Ratio



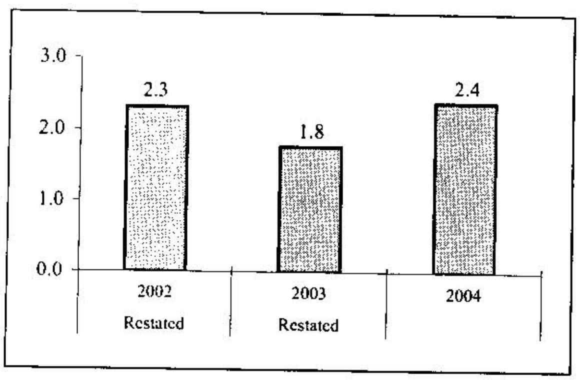
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio

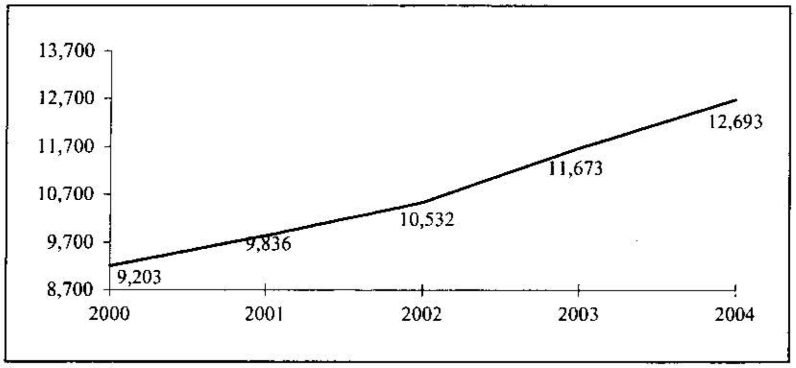


Debt Service Coverage Ratio



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

Full-time Equivalent
Student Enrollment - Fall



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

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

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

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

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

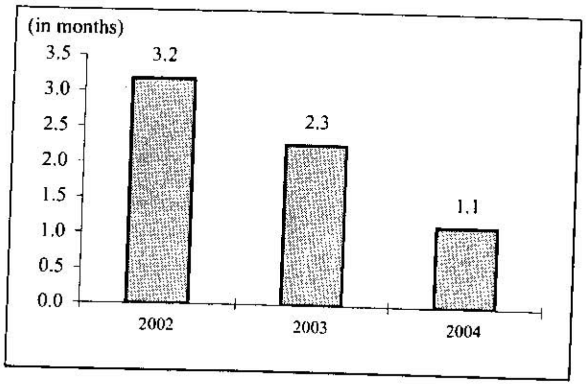
Debt Service Coverage Ratio - UT Pan American's debt service coverage ratio increased from 1.8x in 2003 to 2.4x in 2004. The improvement over the previous year reflects the reduction in transfers for debt service.

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

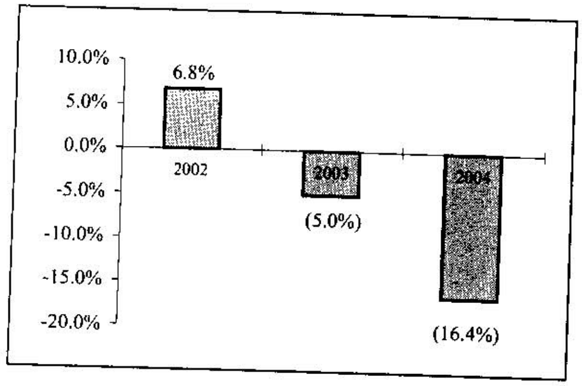
The University of Texas of the Permian Basin
2004 Summary of Financial Condition

Financial Condition: **Watch**

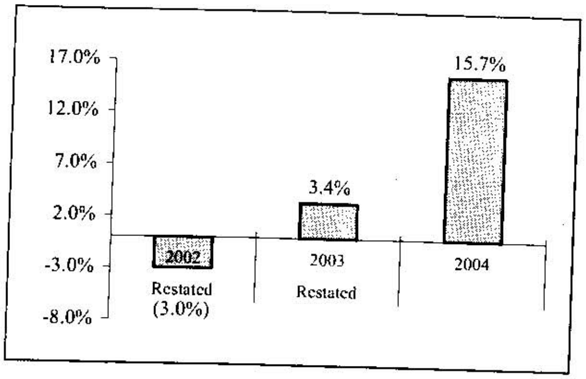
Operating Expense Coverage Ratio



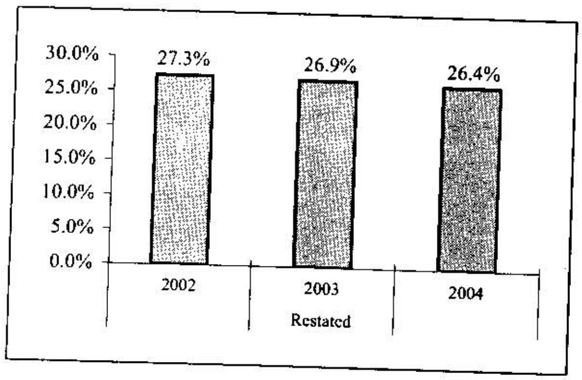
Annual Operating Margin Ratio



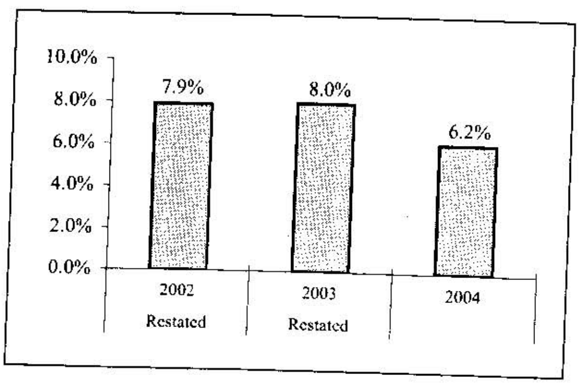
Return on Net Assets Ratio



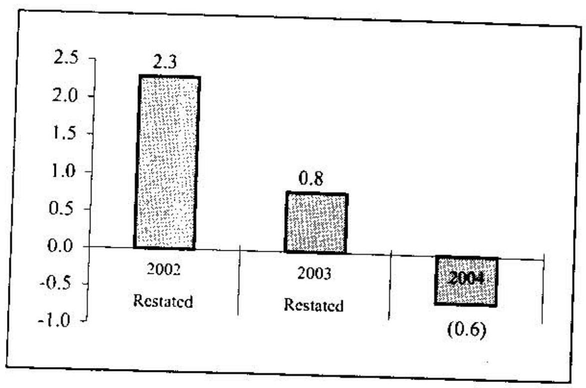
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio

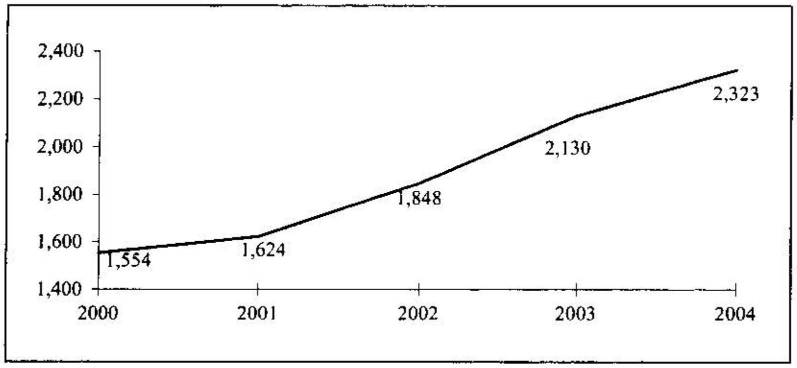


Debt Service Coverage Ratio



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

Full-time Equivalent
Student Enrollment - Fall



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

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

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

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

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

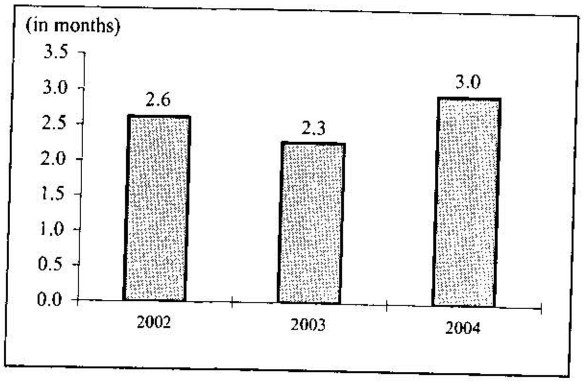
Debt Service Coverage Ratio - UT Permian Basin's debt service coverage ratio decreased from 0.8x in 2003 to (0.6x) in 2004 as a result of the reduction in the annual operating margin discussed above.

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

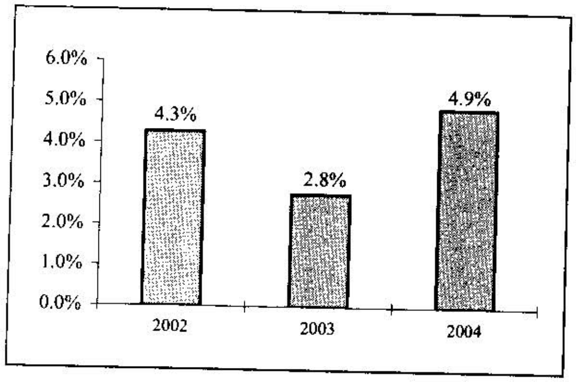
The University of Texas at San Antonio
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

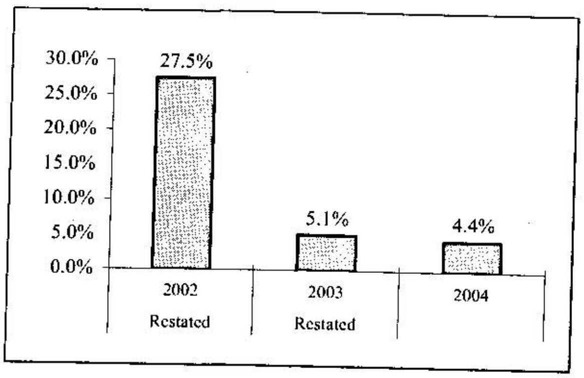
Operating Expense Coverage Ratio



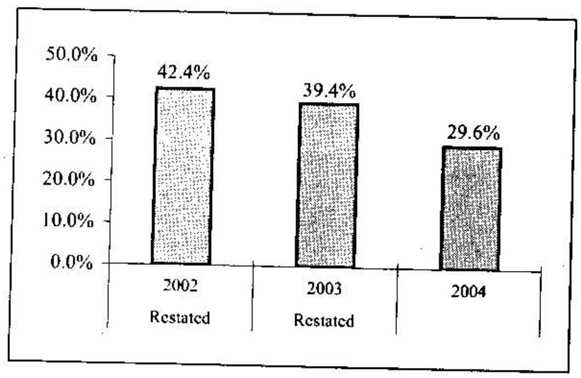
Annual Operating Margin Ratio



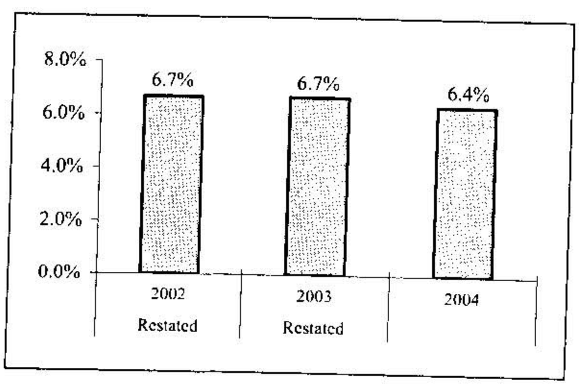
Return on Net Assets Ratio



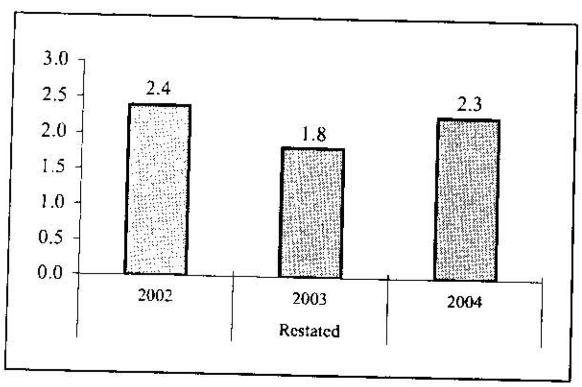
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio

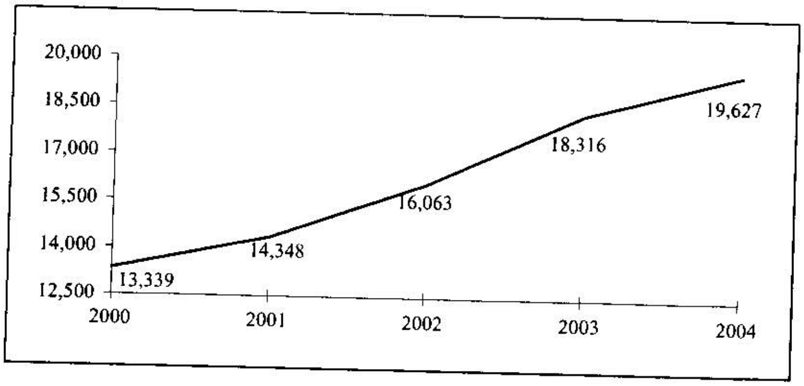


Debt Service Coverage Ratio



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

Full-time Equivalent
Student Enrollment - Fall



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

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

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

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

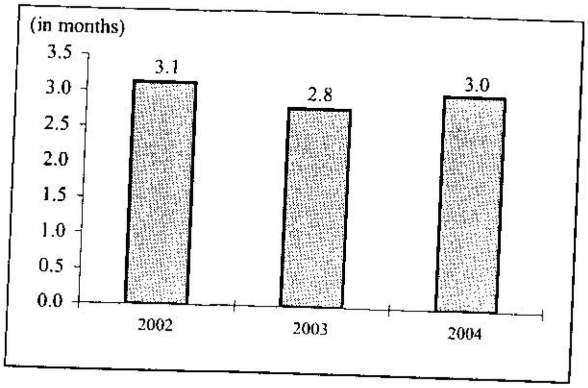
Debt Burden Ratio - UT San Antonio's debt burden ration declined slightly to 6.4% in 2004 compared to 6.7% in 2003. With the debt service transfers only increasing by $356,000 in 2004 and the operating expenses increasing by $19.1 million, the debt burden ratio decreased.

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

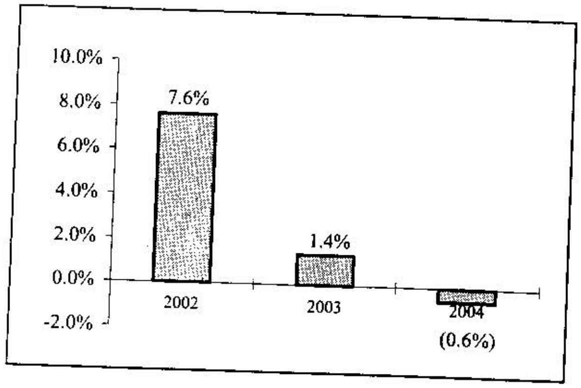
Full-Time Equivalent (FTE) Student Enrollment - UT San Antonio's FTE student enrollment continues to increase in 2004. Recruitment and retention efforts continue to increase enrollment. Enrollment increases are also attributable to the increases in the Graduate Programs and enrollment caps at UT Austin.

Financial Condition: **Satisfactory**

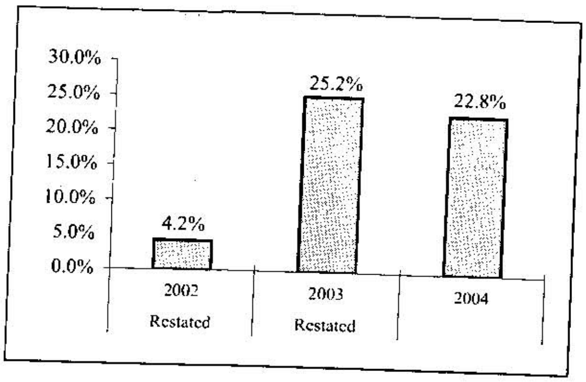
Operating Expense Coverage Ratio



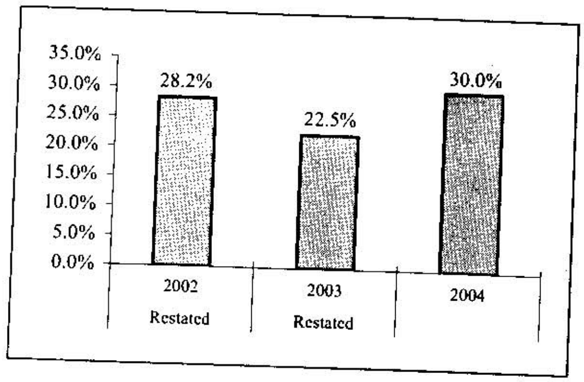
Annual Operating Margin Ratio



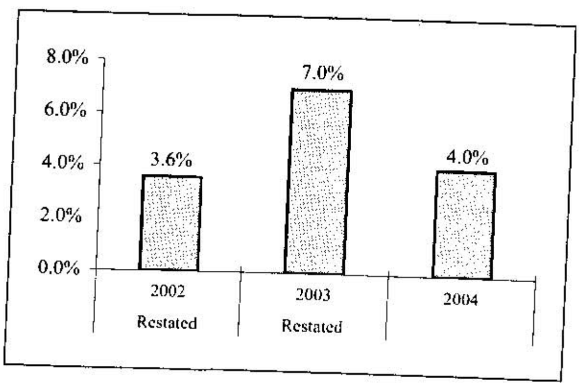
Return on Net Assets Ratio



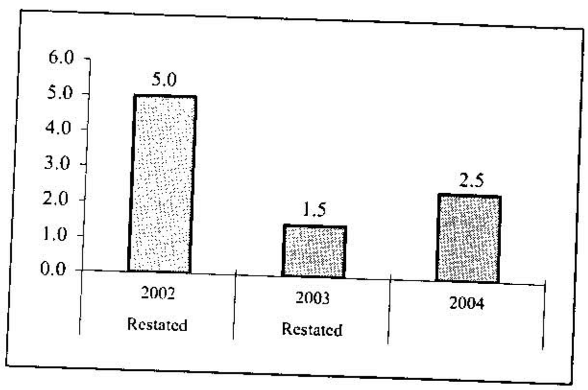
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio

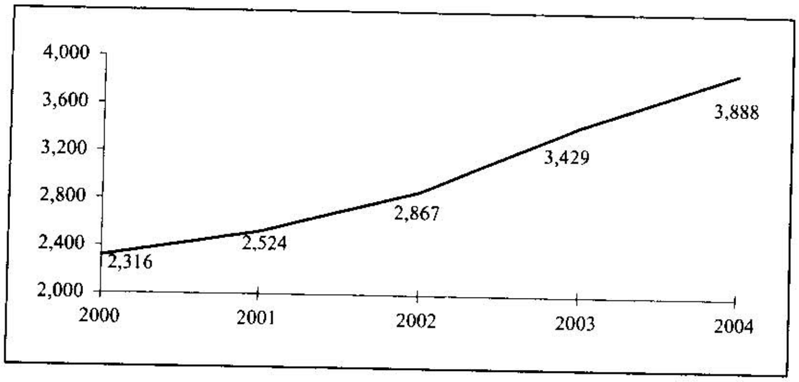


Debt Service Coverage Ratio



The University of Texas at Tyler
2004 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



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

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

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

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

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

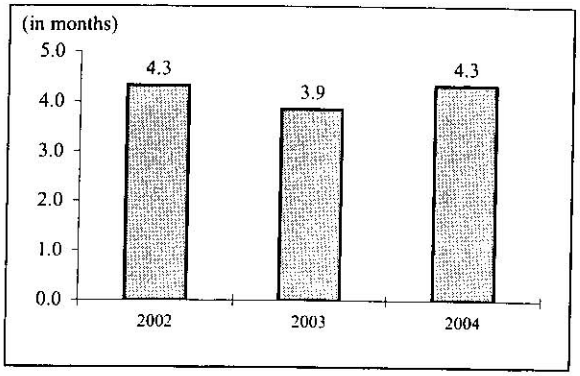
Debt Service Coverage Ratio - UT Tyler's debt service coverage ratio increased from 1.5x in 2003 to 2.5x in 2004 due to a larger decrease in debt service transfers as compared to the decrease in the operating margin.

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

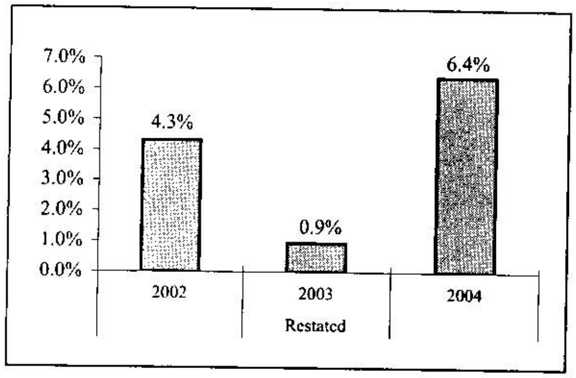
The University of Texas Southwestern Medical Center at Dallas
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

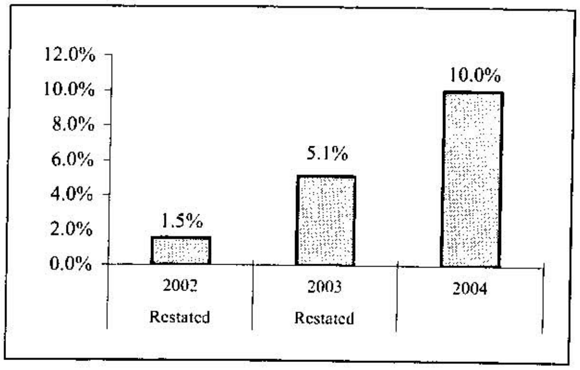
Operating Expense Coverage Ratio



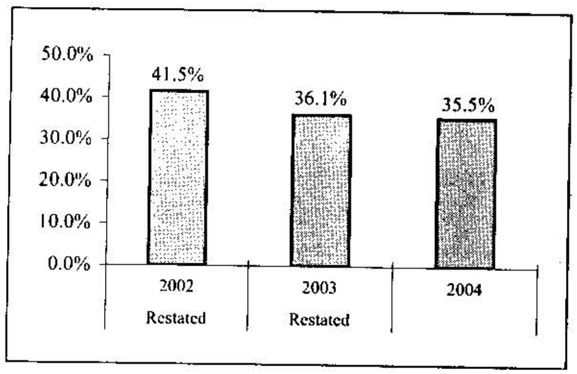
Annual Operating Margin Ratio



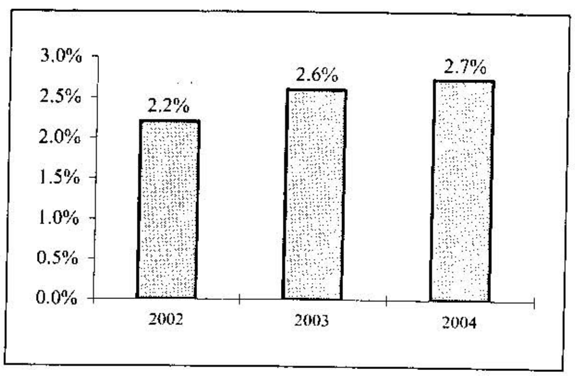
Return on Net Assets Ratio



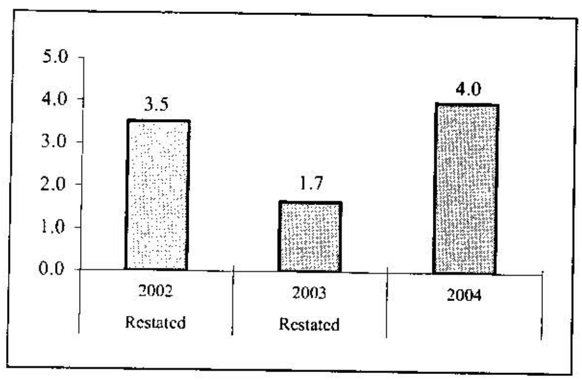
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



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

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

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

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

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

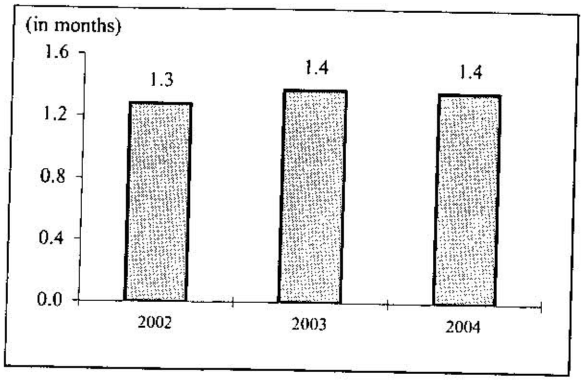
Debt Burden Ratio - Southwestern's debt burden ratio remained relatively unchanged at 2.7% in 2004. The slight increase is a result of a $2.6 million increase in debt service payments.

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

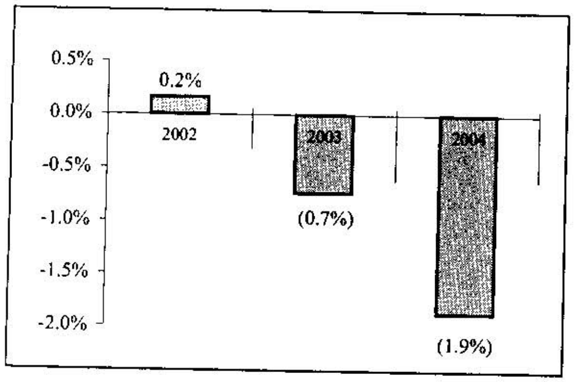
The University of Texas Medical Branch at Galveston
2004 Summary of Financial Condition

Financial Condition: **Watch**

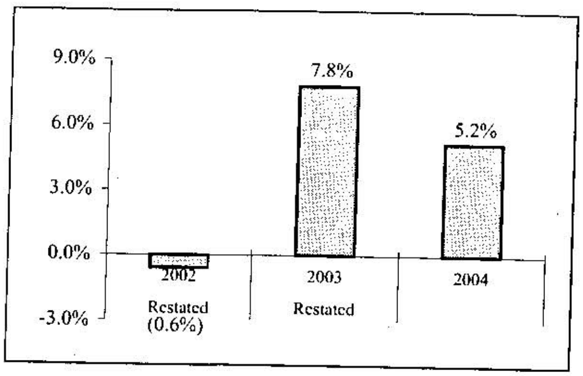
Operating Expense Coverage Ratio



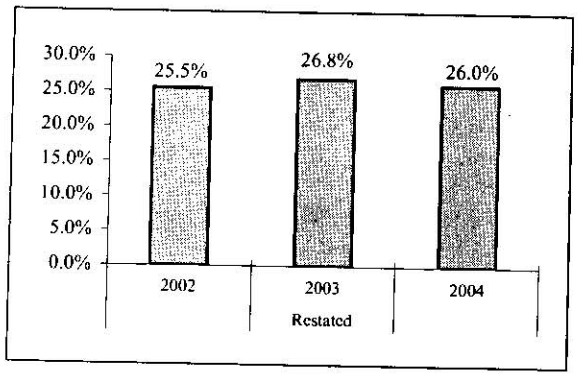
Annual Operating Margin Ratio



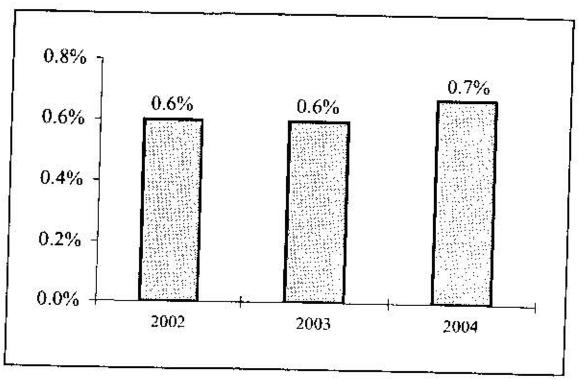
Return on Net Assets Ratio



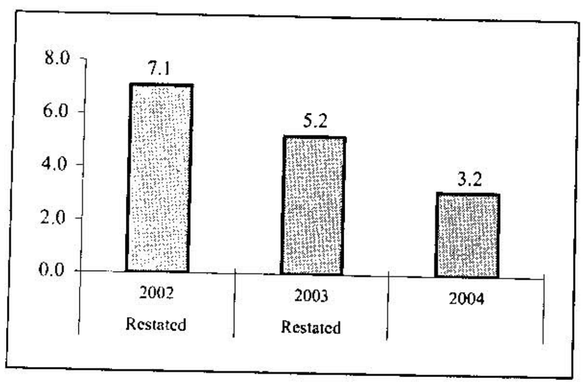
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



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

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

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

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

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

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

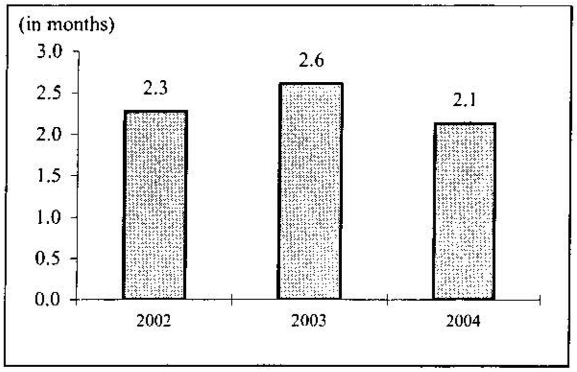
Debt Burden Ratio - UTMB Galveston's debt burden ratio increased slightly from 0.6% in 2003 to 0.7% in 2004 as a result of increased debt between the years to support UTMB Galveston's approved facility expansion plan. UTMB Galveston's debt burden ratio remains extremely low.

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

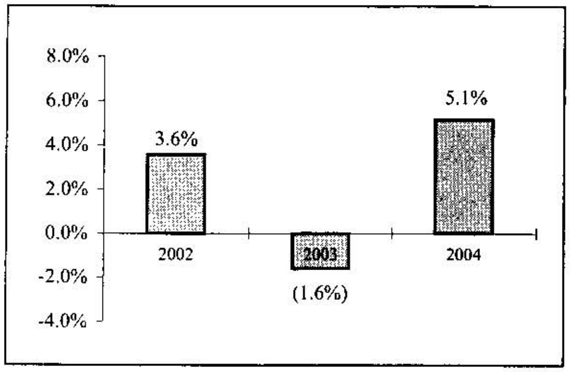
The University of Texas Health Science Center at Houston
2004 Summary of Financial Condition

Financial Condition: **Watch**

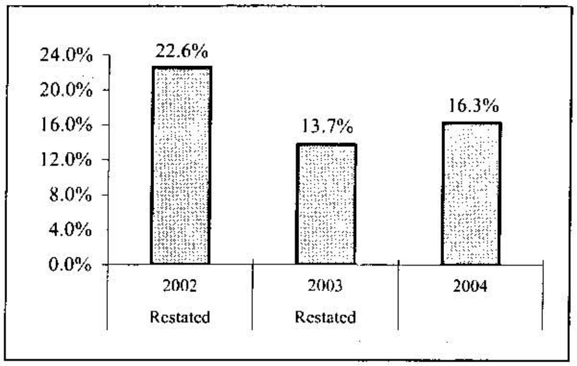
Operating Expense Coverage Ratio



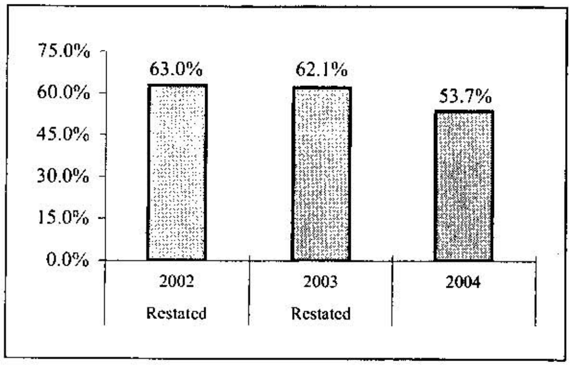
Annual Operating Margin Ratio



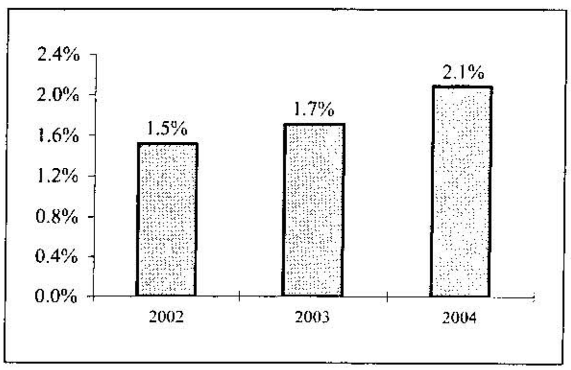
Return on Net Assets Ratio



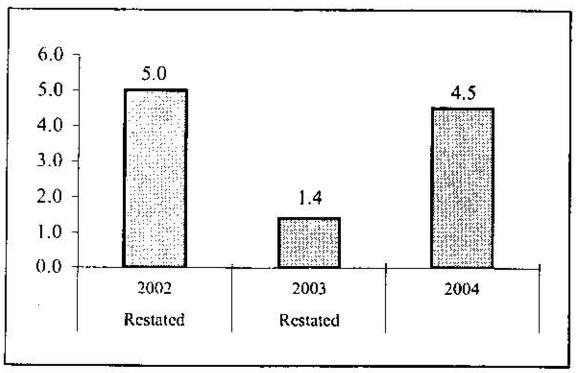
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



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

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

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

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

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

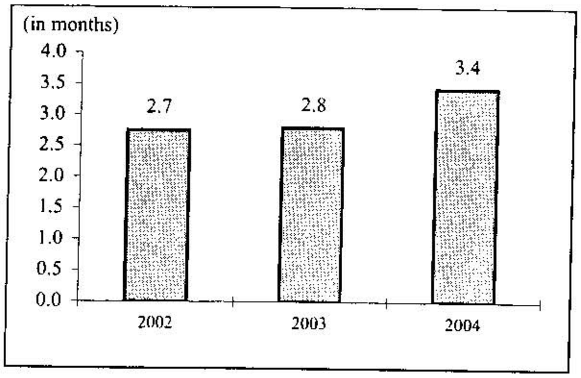
Debt Burden Ratio - UTHSC-Houston's debt burden ratio increased from 1.7% in 2003 to 2.1% in 2004. The increase in this ratio is attributable to the $2.2 million increase in debt service transfers. A full year of debt service was incurred for the Nursing and Student Community Center Building.

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

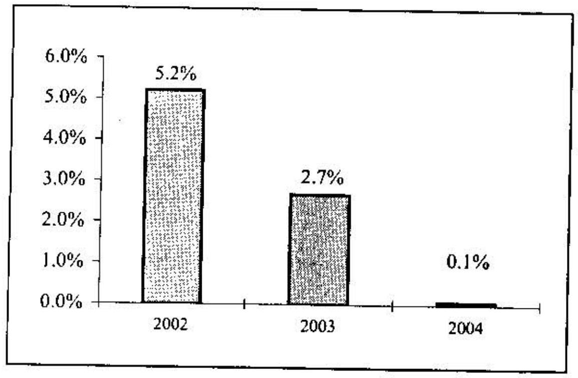
The University of Texas Health Science Center at San Antonio
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

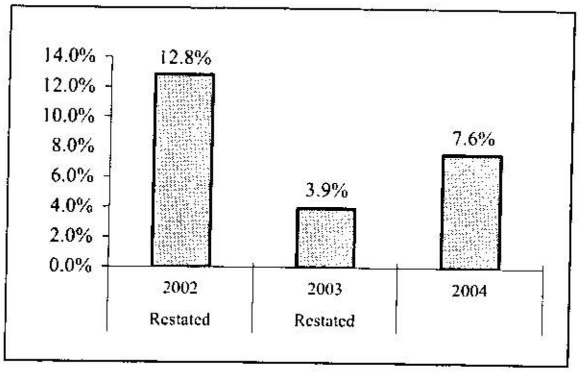
Operating Expense Coverage Ratio



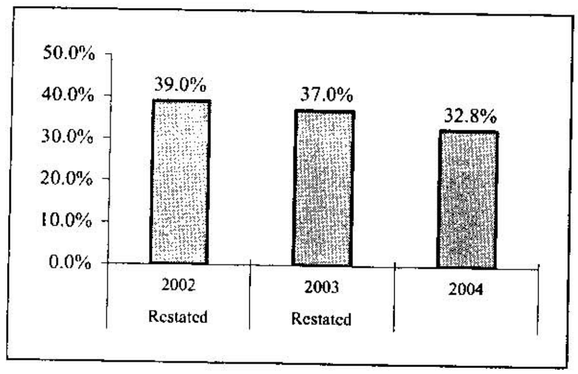
Annual Operating Margin Ratio



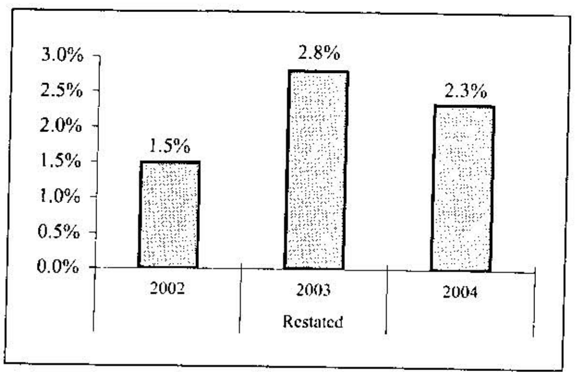
Return on Net Assets Ratio



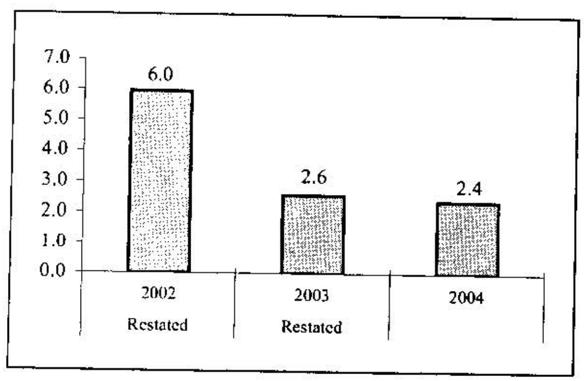
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



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

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

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

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

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

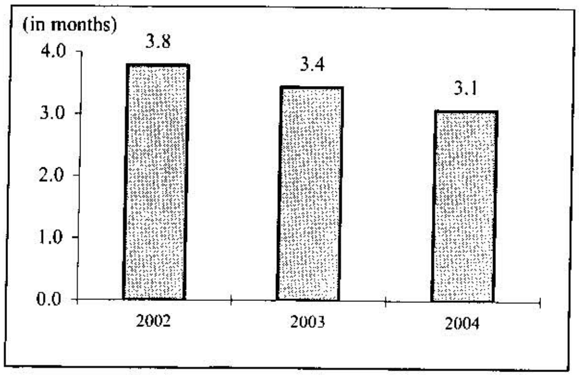
Debt Burden Ratio - UTHSC-San Antonio's debt burden ratio decreased from 2.8% in 2003 to 2.3% in 2004. Debt service transfers to UT System Administration dropped from $12.7 million in 2003 to $10.9 million in 2004.

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

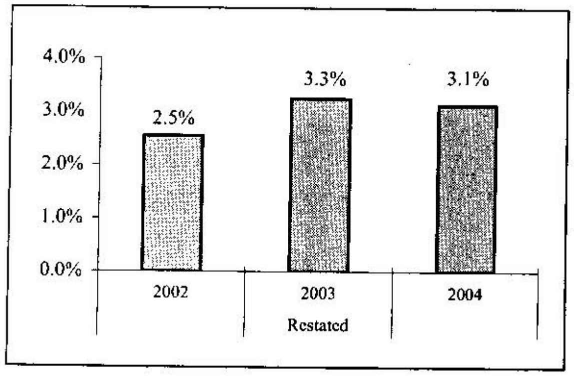
The University of Texas M. D. Anderson Cancer Center
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

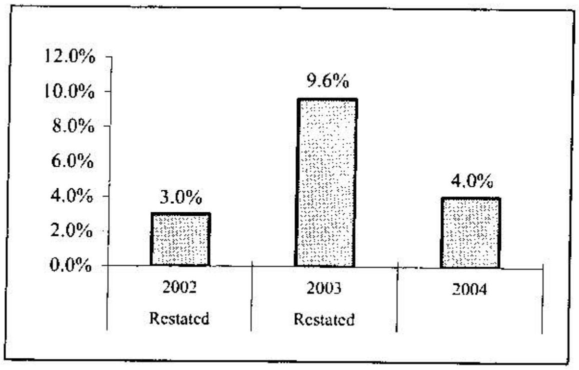
Operating Expense Coverage Ratio



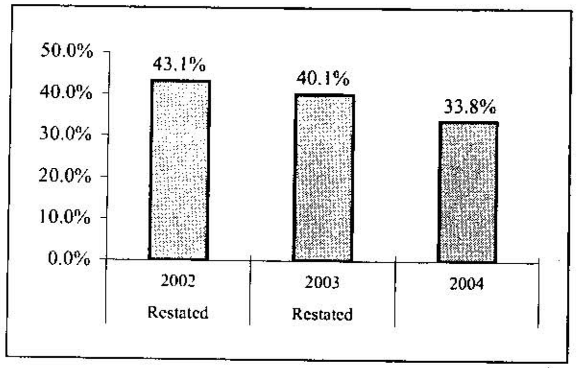
Annual Operating Margin Ratio



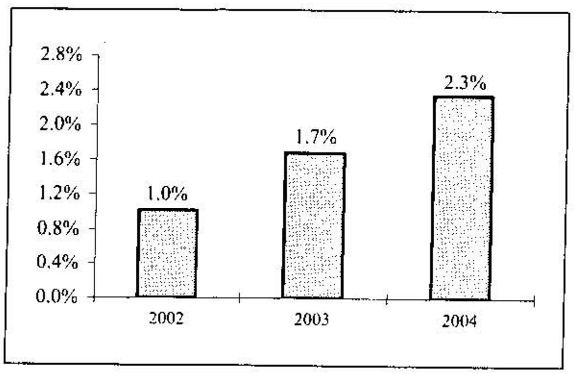
Return on Net Assets Ratio



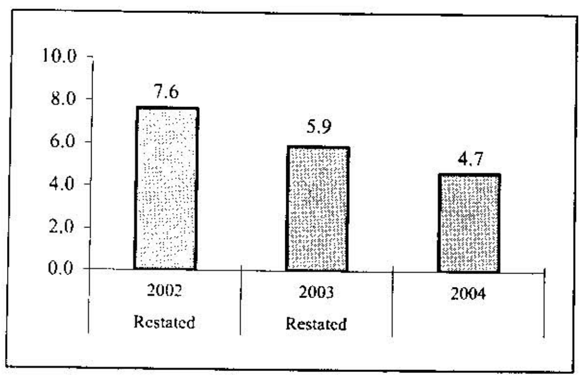
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



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

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

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

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

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

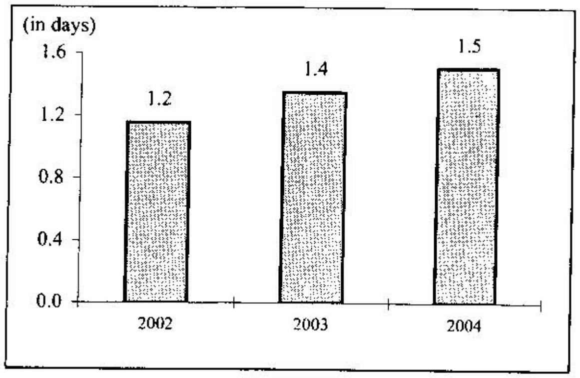
Debt Burden Ratio - M. D. Anderson's debt burden ratio increased from 1.7% in 2003 to 2.3% in 2004 due to an increase in debt service of $15.7 million. While debt has increased due to several large construction projects, M. D. Anderson continues to have positive operating results driven by patient care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

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

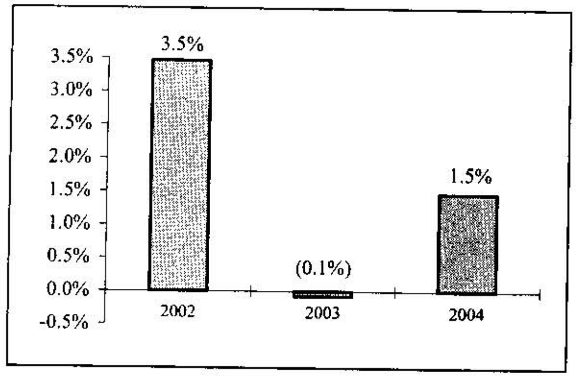
The University of Texas Health Center at Tyler
2004 Summary of Financial Condition

Financial Condition: **Watch**

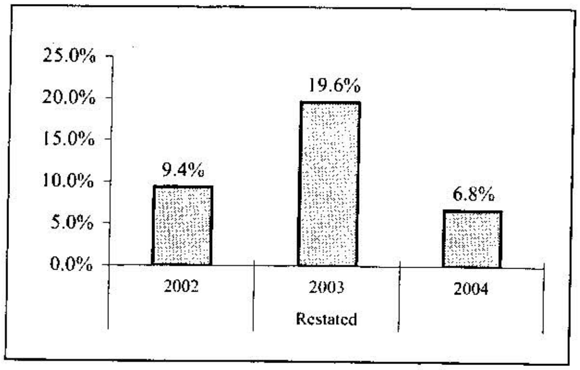
Operating Expense Coverage Ratio



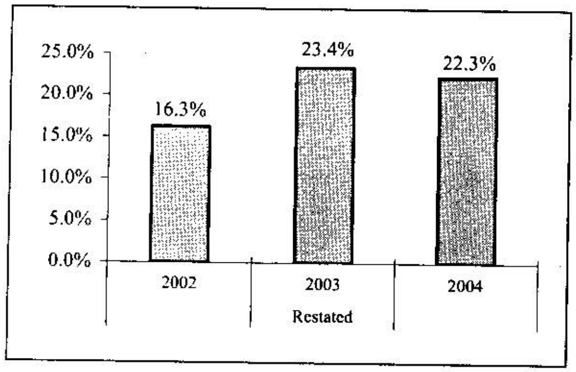
Annual Operating Margin Ratio



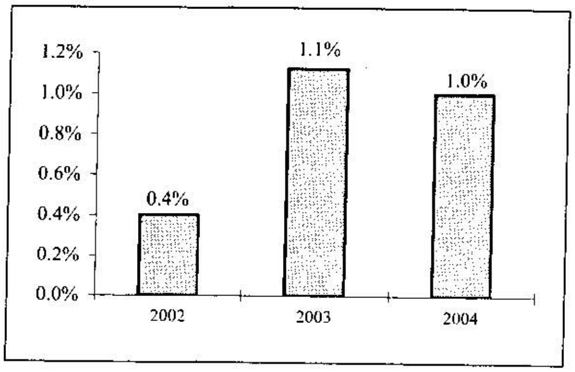
Return on Net Assets Ratio



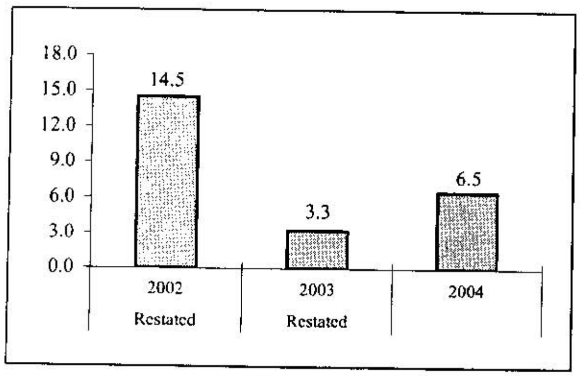
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



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

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

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

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

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

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

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

Appendix A - Definitions of Evaluation Factors

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

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

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

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

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

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

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

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

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

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

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

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

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

Appendix A - Definitions of Evaluation Factors (Continued)

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

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

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

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

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

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

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

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

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

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

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

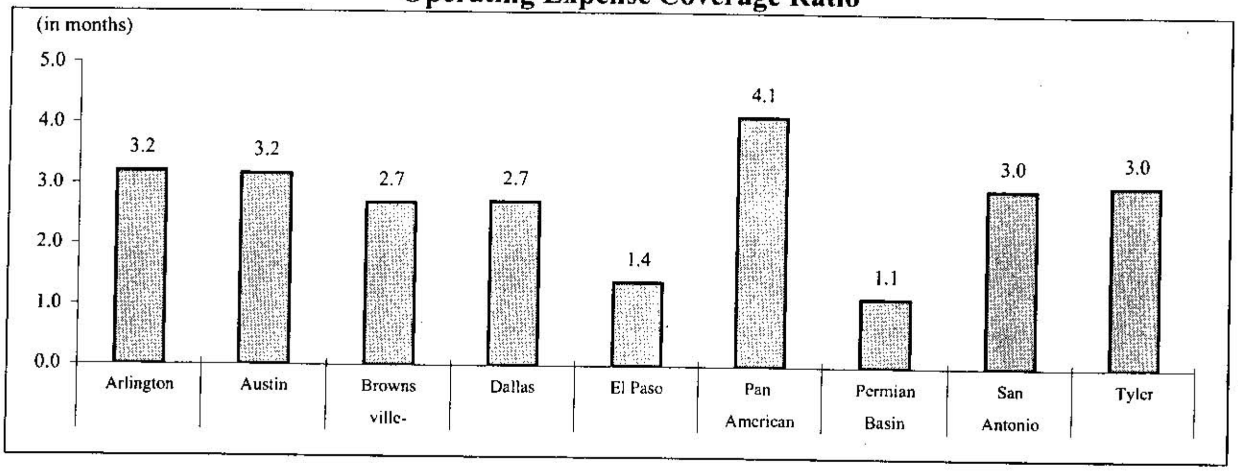
Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items – Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/(Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments – Realized Gains/Losses	AUF Transfer	Texas Enterprise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

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

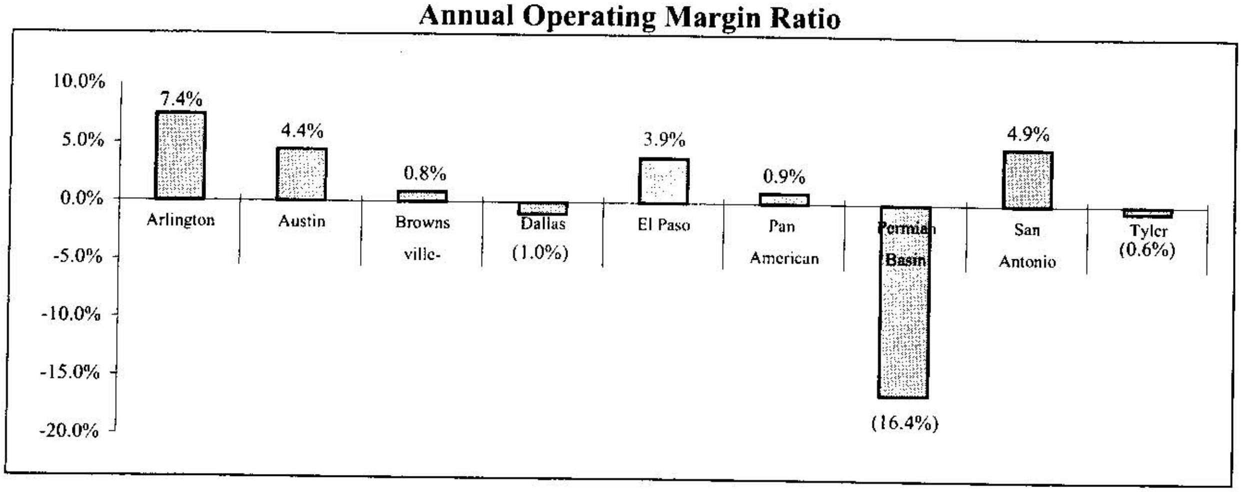
Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items — Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments — Realized Gains/ Losses	RAHC Transfer	Texas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

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

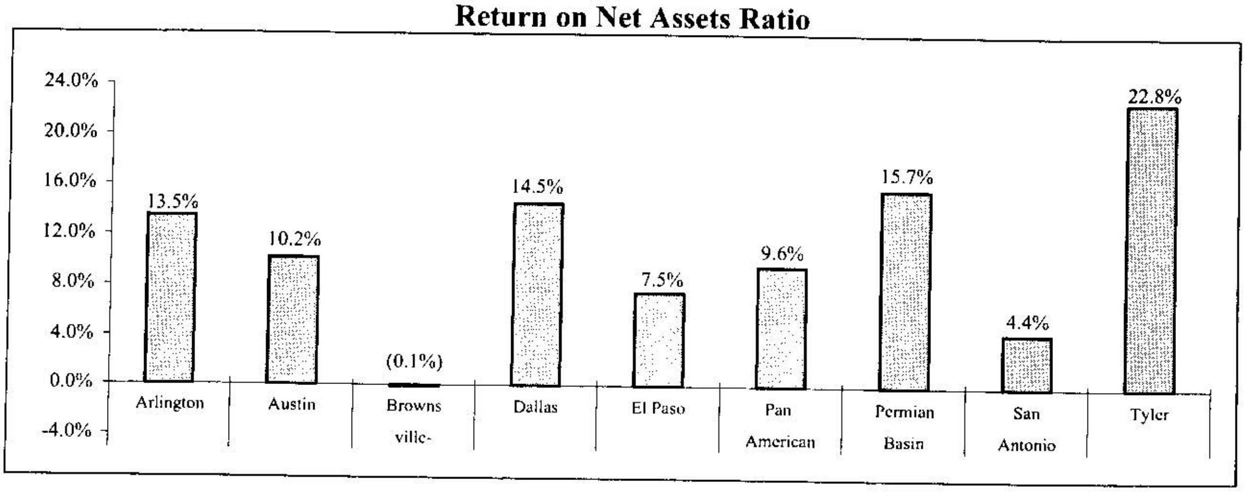
Operating Expense Coverage Ratio



Annual Operating Margin Ratio

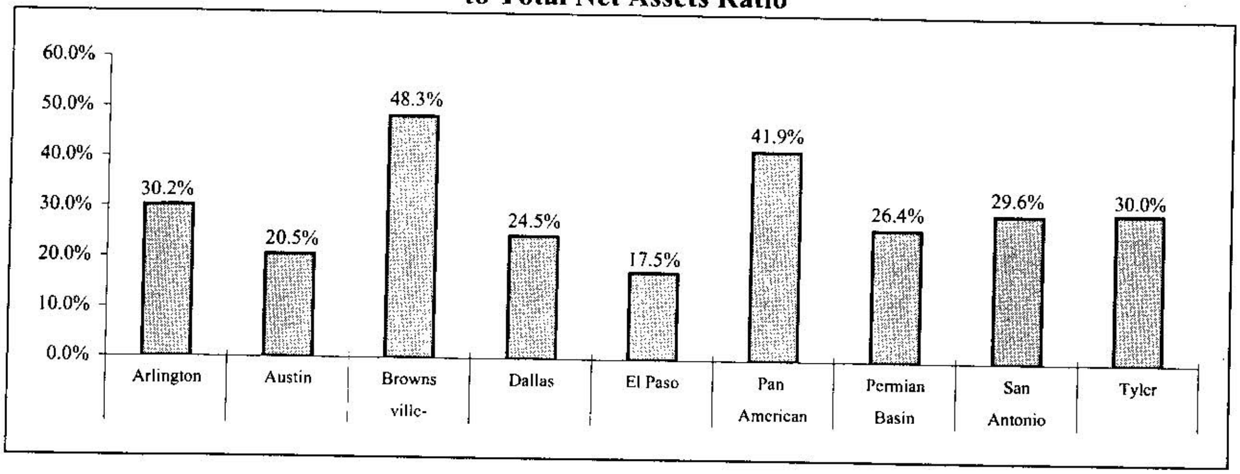


Return on Net Assets Ratio

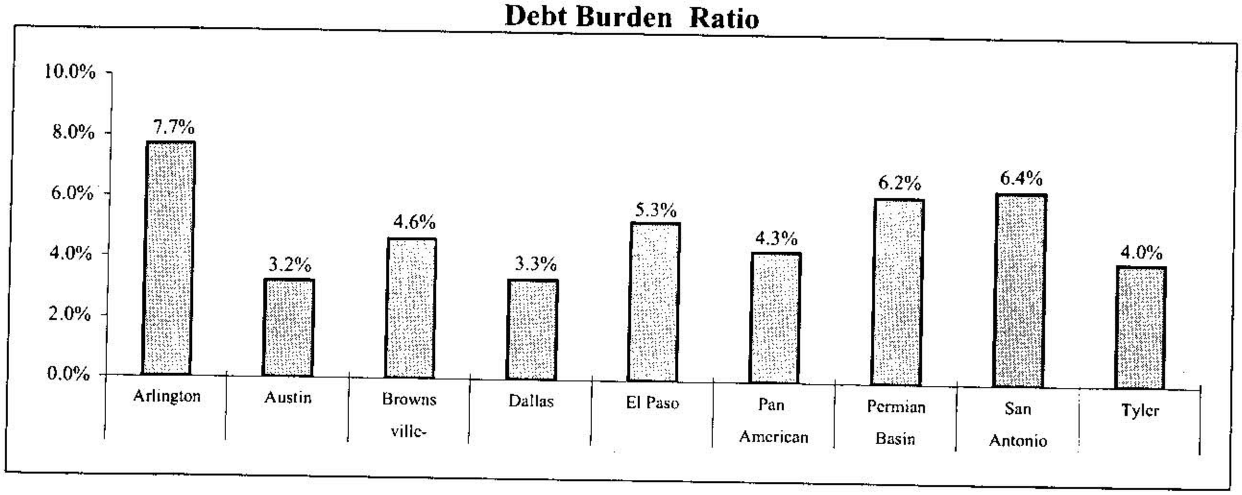


Appendix D - Academic Institutions' Evaluation Factors
2004 Analysis of Financial Condition

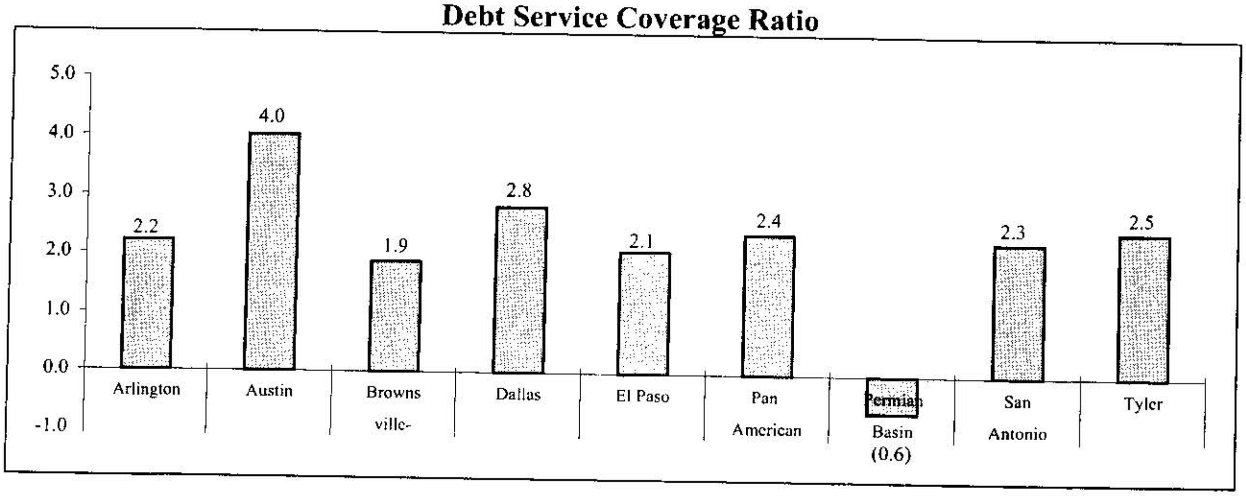
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio

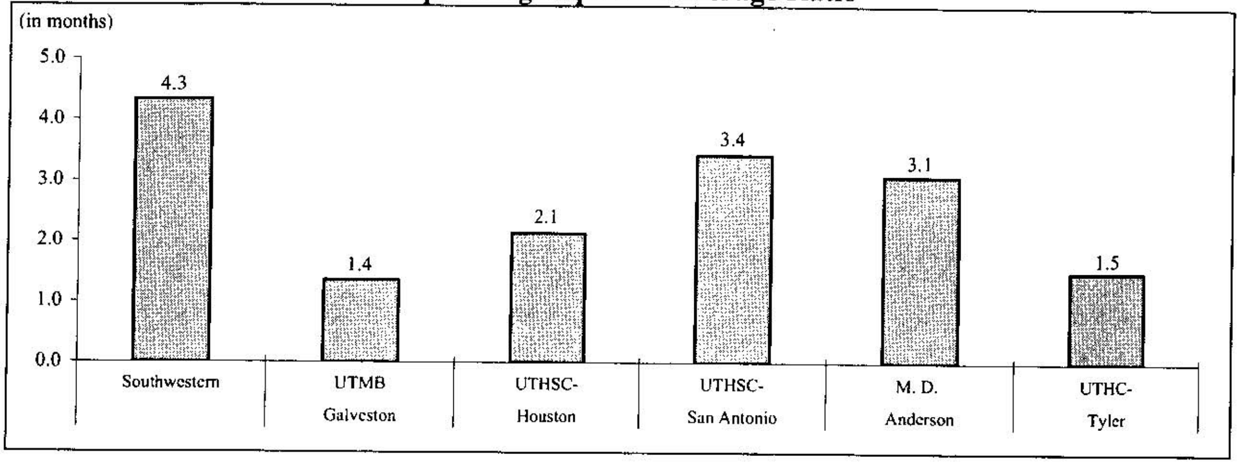


Debt Service Coverage Ratio

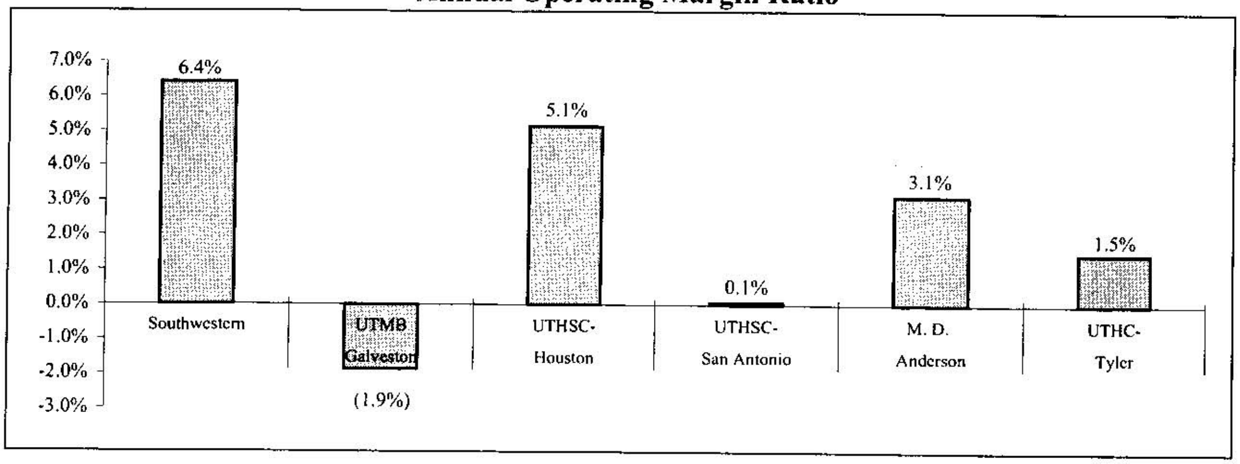


Appendix D - Health Institutions' Evaluation Factors
2004 Analysis of Financial Condition

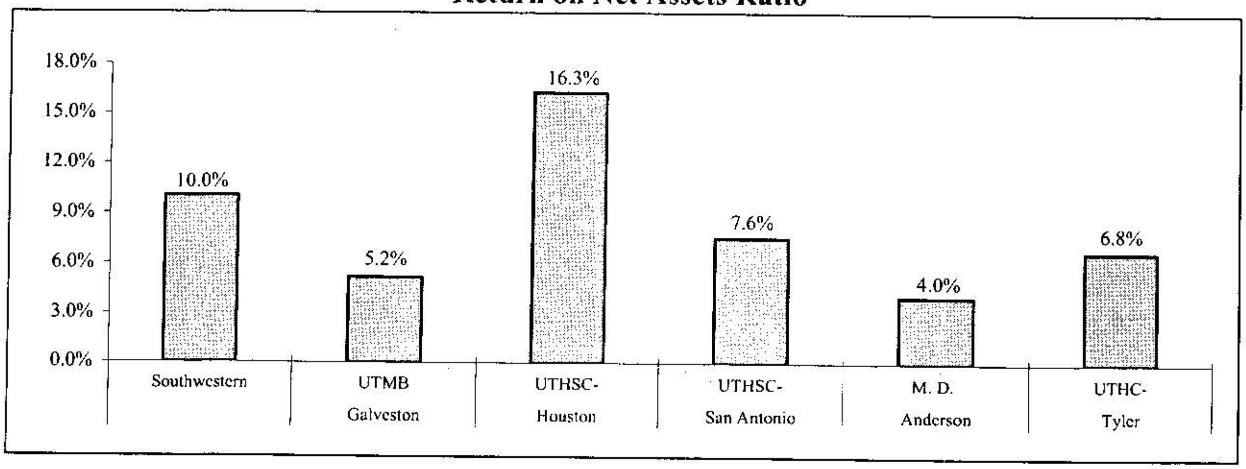
Operating Expense Coverage Ratio



Annual Operating Margin Ratio

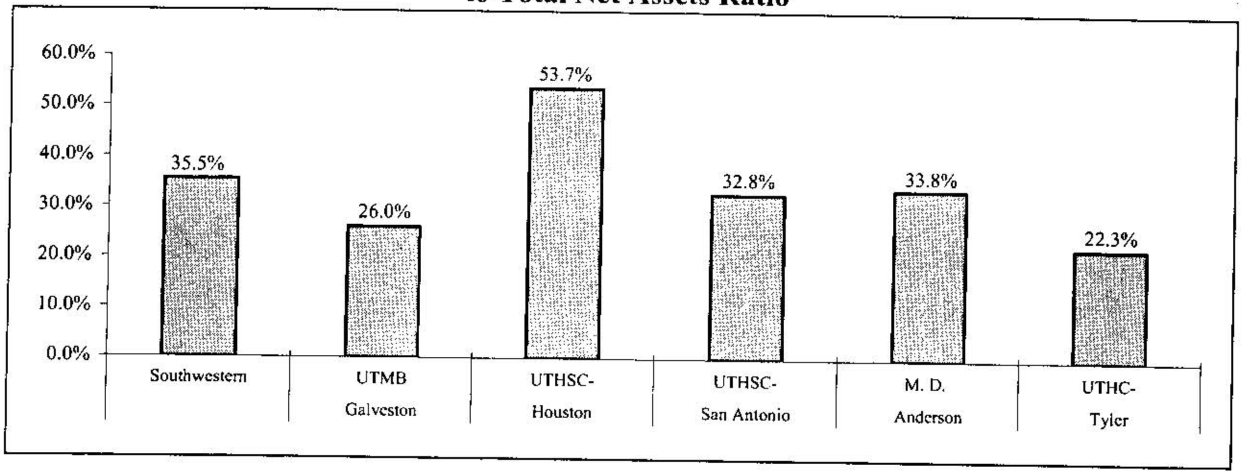


Return on Net Assets Ratio

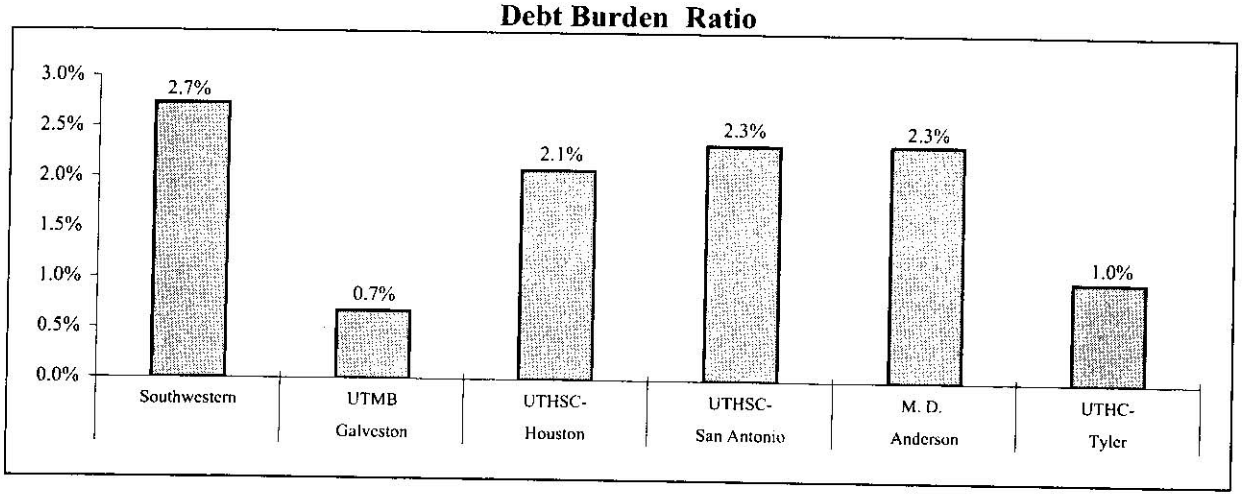


Appendix D - Health Institutions' Evaluation Factors
2004 Analysis of Financial Condition

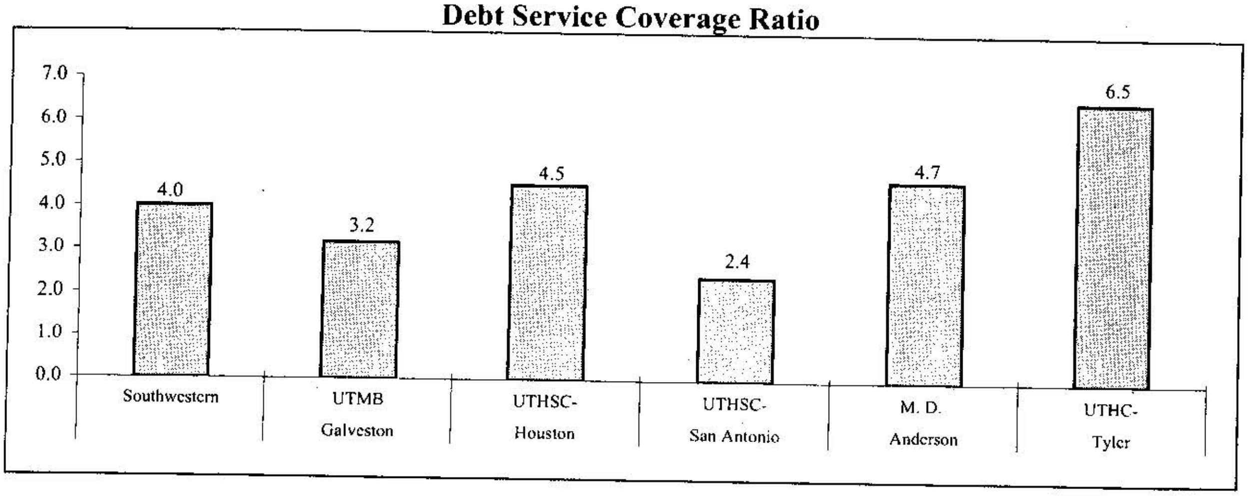
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio

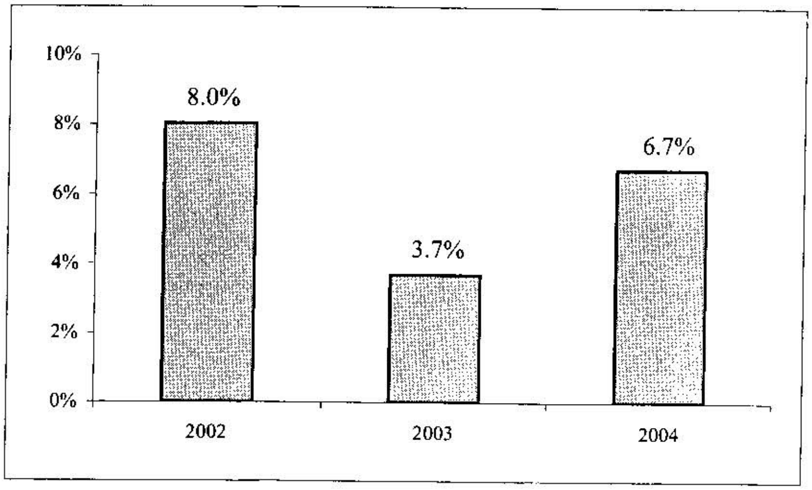


Debt Service Coverage Ratio



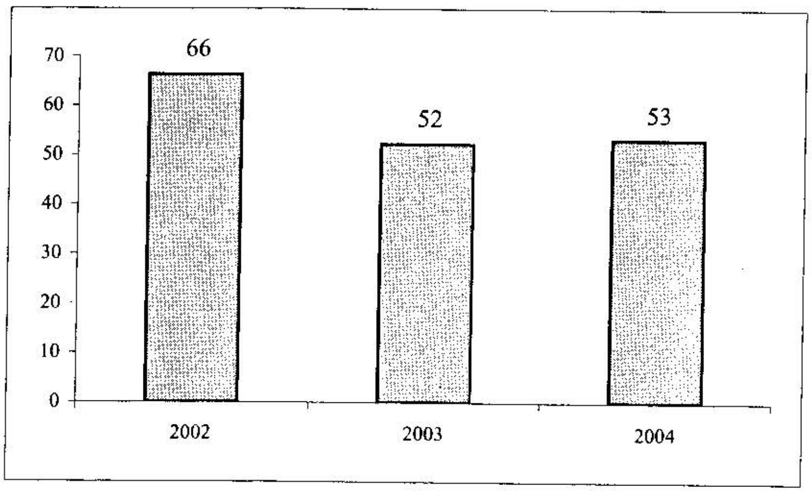
Appendix E - Key MSRDP & NPHC Operating Factors
The University of Texas Southwestern Medical Center at Dallas

Annual Operating Margin Ratio



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

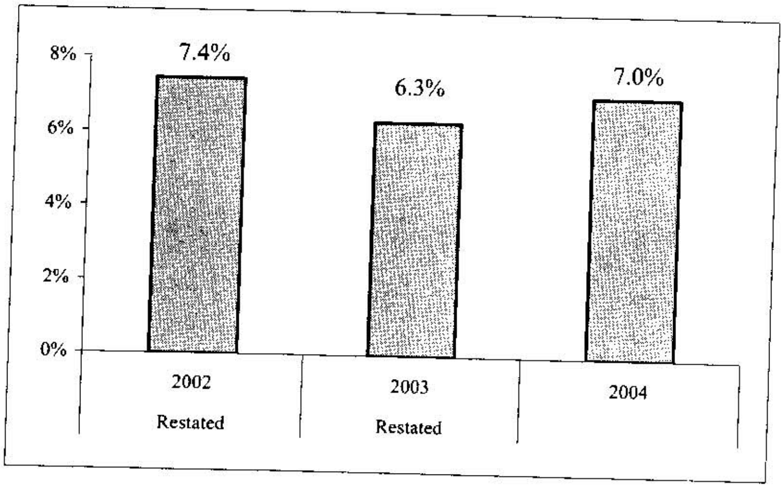
Net Accounts Receivable (in days)



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

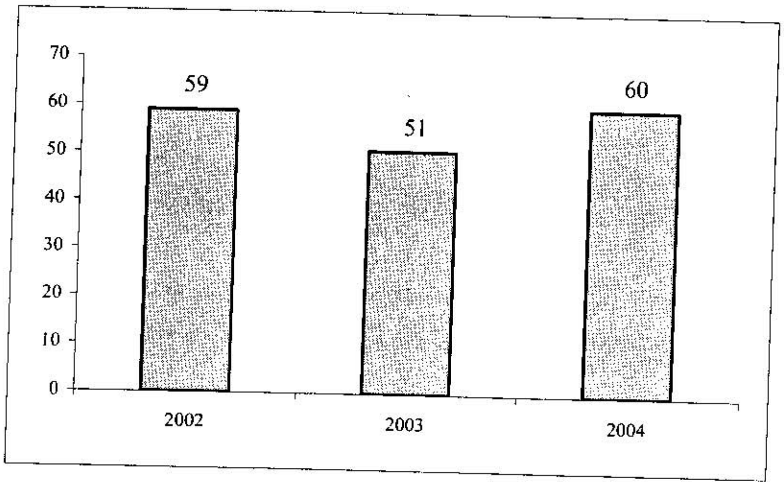
Appendix E - Key Hospital Operating Factors
The University of Texas Medical Branch at Galveston

Annual Operating Margin Ratio



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

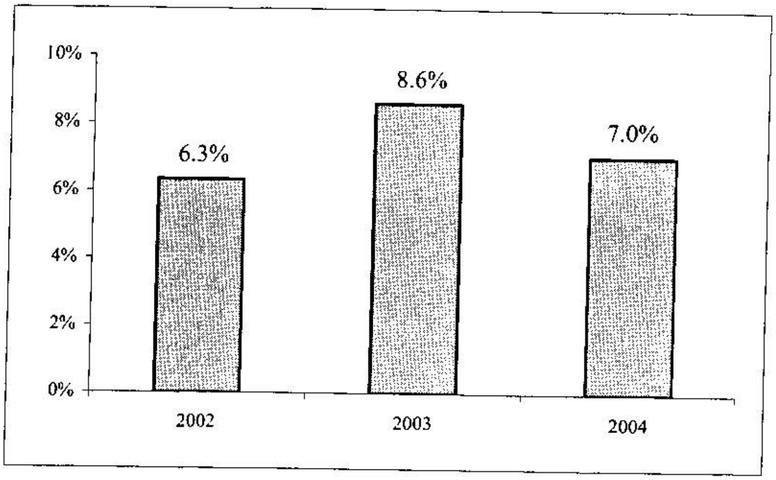
Net Accounts Receivable (in days)



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

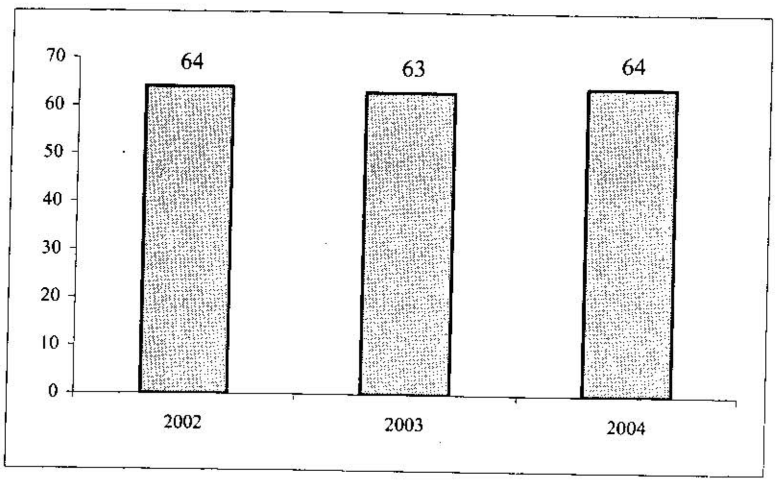
Appendix E - Key MSRDP & NPHC Operating Factors
The University of Texas Medical Branch at Galveston

Annual Operating Margin Ratio



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

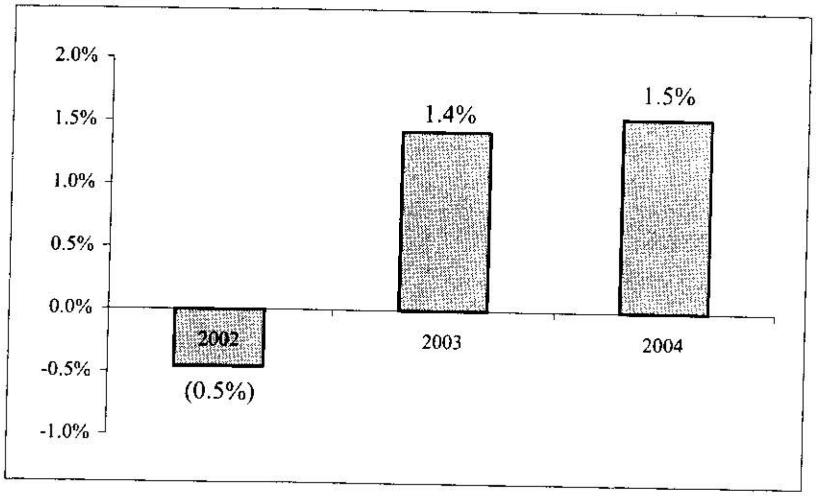
Net Accounts Receivable (in days)



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

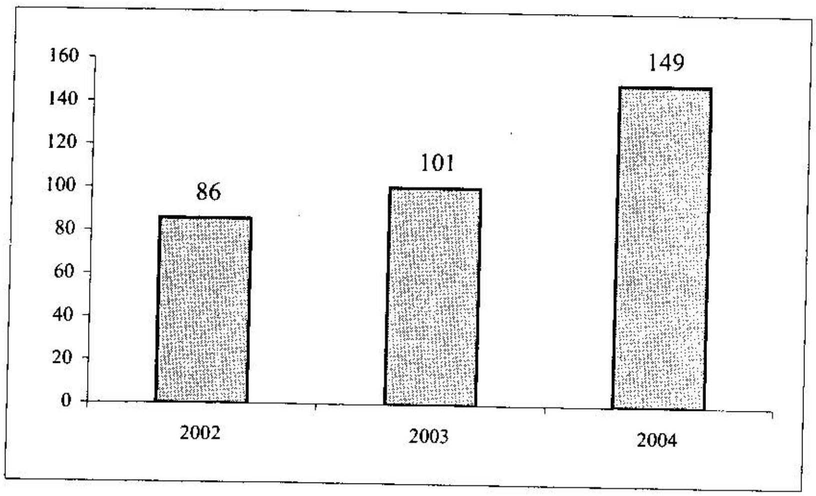
Appendix E - Key Hospital Operating Factors
The University of Texas Health Science Center at Houston

Annual Operating Margin Ratio



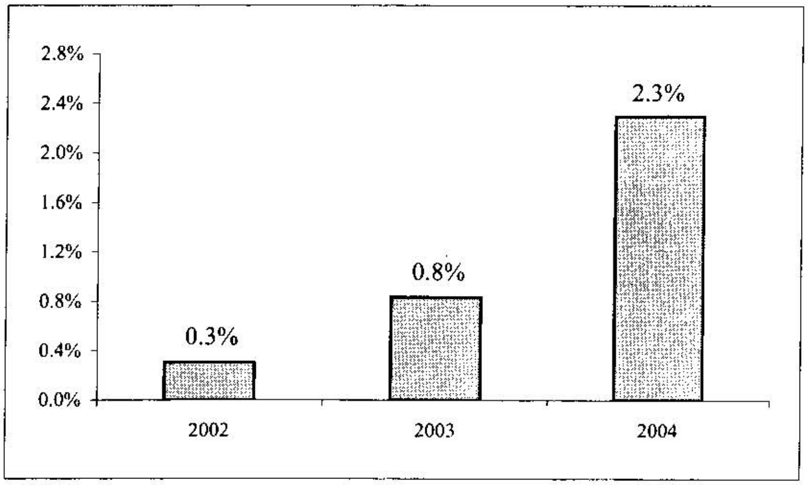
The annual operating margin ratio remained relatively stable due to a reduction in both operating revenues and operating expenses. An agreement with the local mental health authority to reduce the number of funded beds with a corresponding closure of a treatment unit reduced both revenues and expenses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

Net Accounts Receivable (in days)



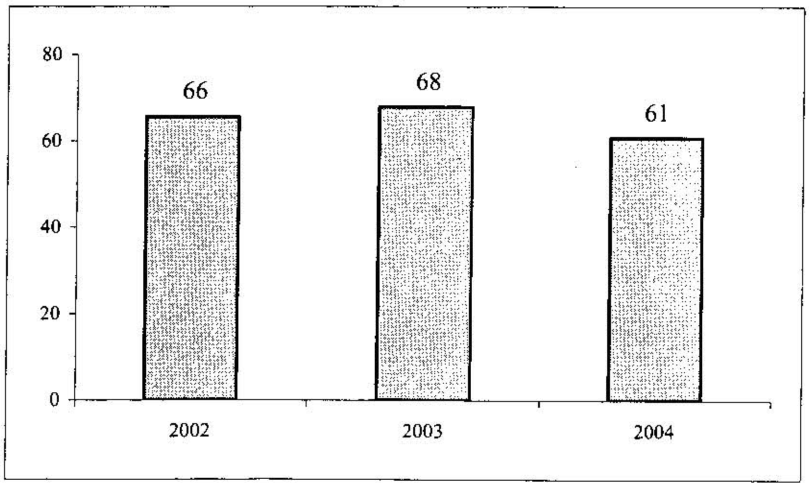
Non-performance of the billing and collection vendor contributed to the increase in days in net accounts receivable. A Request for Proposal was released in January 2004 and a final contract was awarded to a new vendor in September 2004. The "go live" date will be in April or May of 2005.

Annual Operating Margin Ratio



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

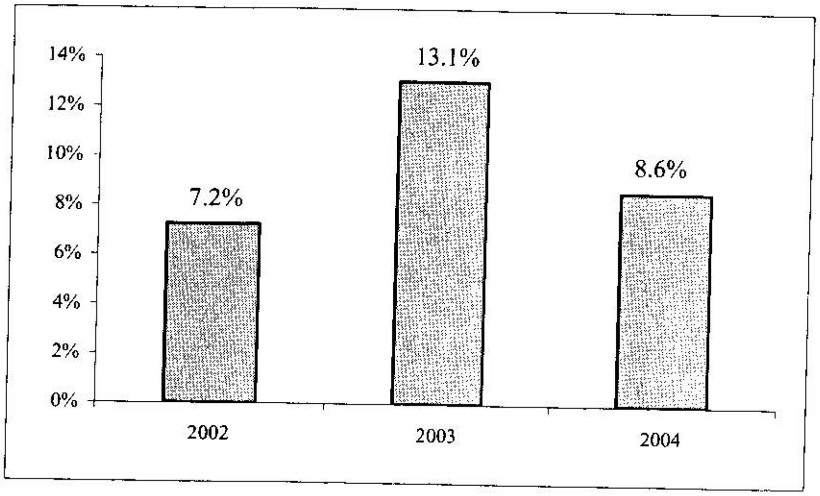
Net Accounts Receivable (in days)



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

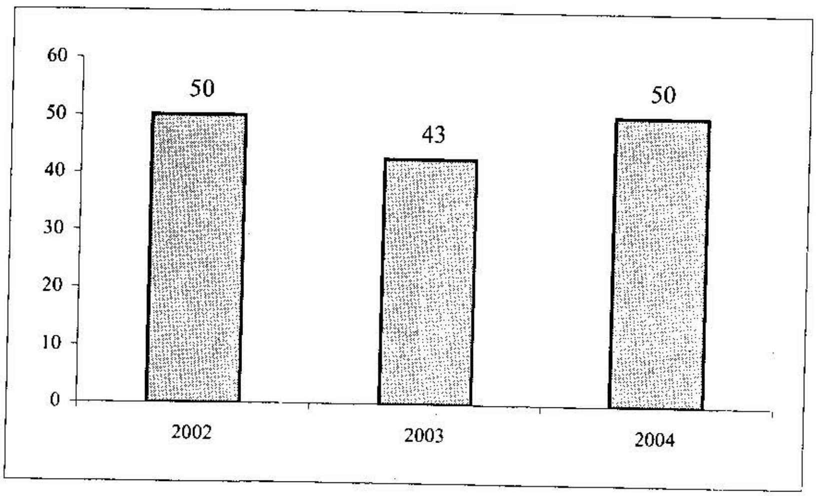
Appendix E - Key MSRDP & NPHC Operating Factors
The University of Texas Health Science Center at San Antonio

Annual Operating Margin Ratio



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

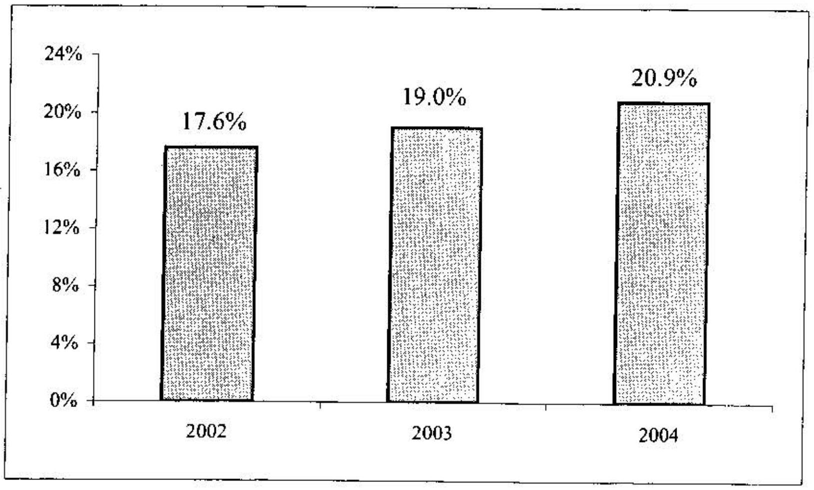
Net Accounts Receivable (in days)



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

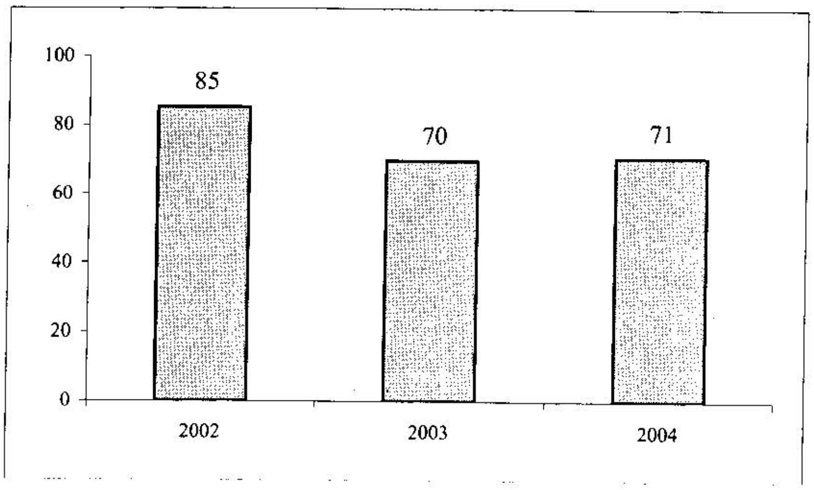
Appendix E - Key Hospital Operating Factors
The University of Texas M. D. Anderson Cancer Center

Annual Operating Margin Ratio



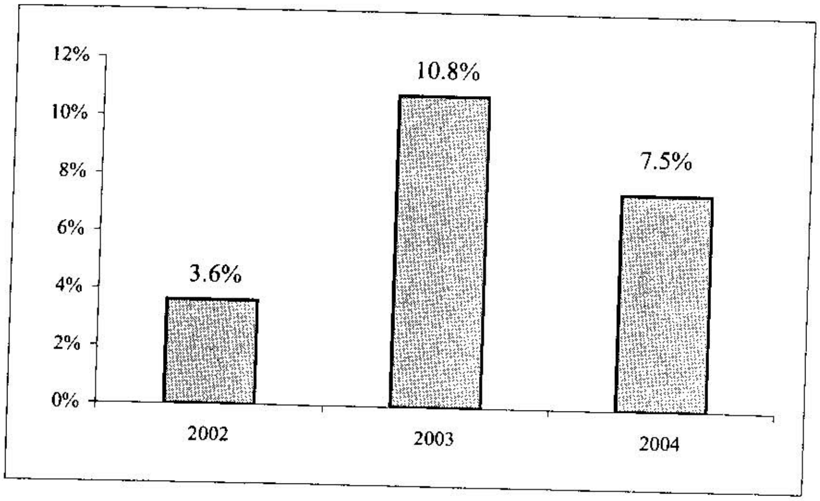
The increase in the annual operating margin ratio from 19% in 2003 to 20.9% in 2004 was a result of the continued growth in patient volumes and the overall increase in the number of billable procedures during 2004.

Net Accounts Receivable (in days)



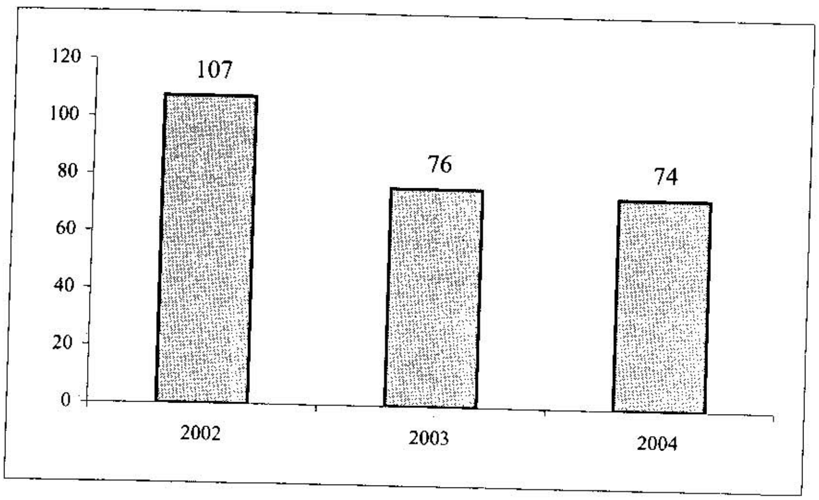
The number of days in net accounts receivable continues to be stable and is expected to remain consistent in future periods.

Annual Operating Margin Ratio



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

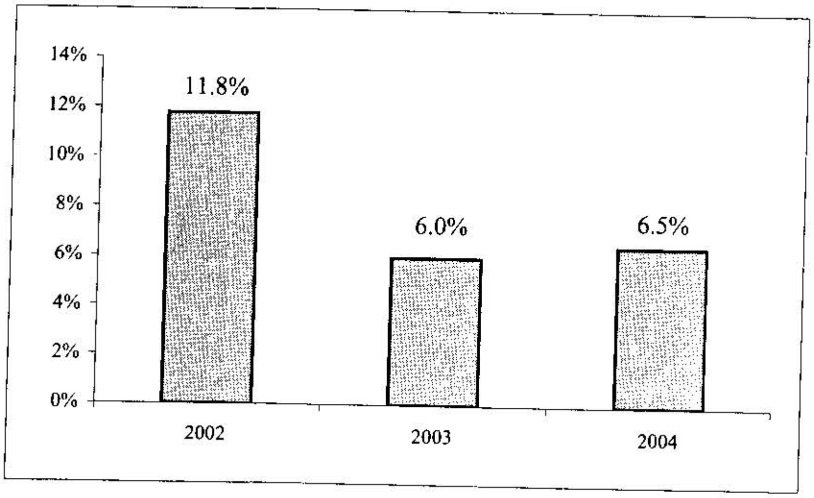
Net Accounts Receivable (in days)



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

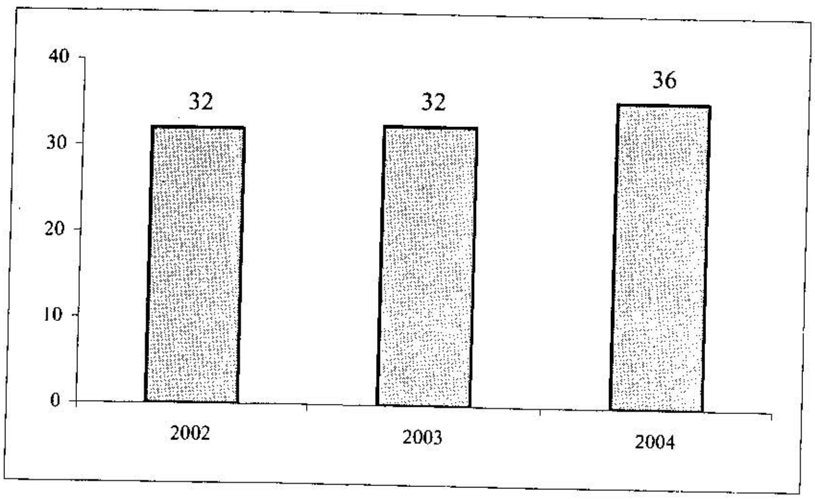
Appendix E - Key Hospital Operating Factors
The University of Texas Health Center at Tyler

Annual Operating Margin Ratio



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

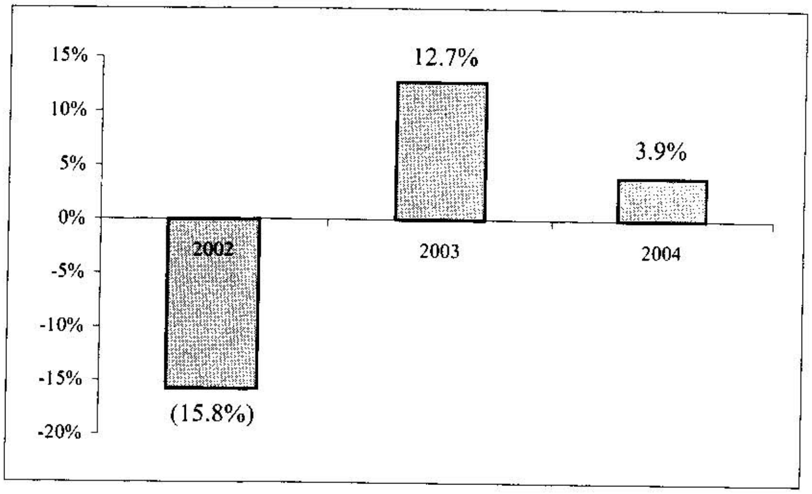
Net Accounts Receivable (in days)



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

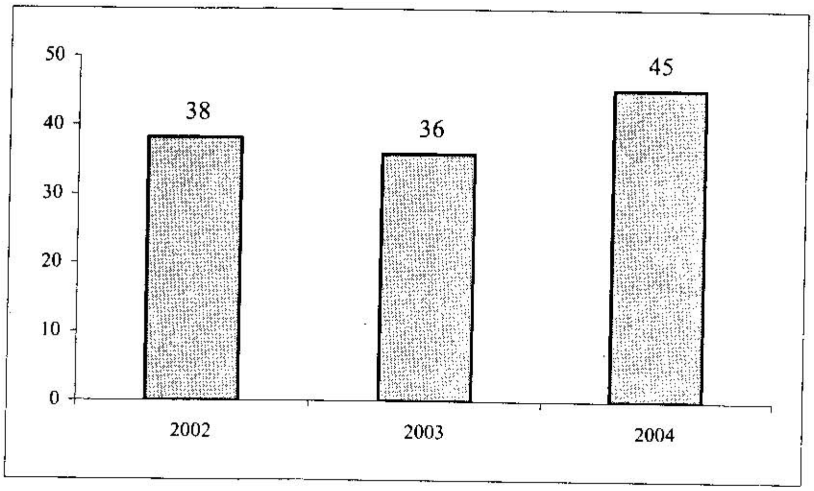
Appendix E - Key MSRDP & NPHC Operating Factors
The University of Texas Health Center at Tyler

Annual Operating Margin Ratio



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

Net Accounts Receivable (in days)



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

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

RECOMMENDATION

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

a. approve an additional aggregate amount of $23,400,000 of Revenue Financing System Equipment Financing for Fiscal Year 2005 as allocated to those U. T. System institutions set out on Page 39; and

b. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that

- parity debt shall be issued to pay the cost of equipment including costs incurred prior to the issuance of such parity debt;
- sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System;
- the institutions and U. T. System Administration, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt parity debt in the aggregate amount of $23,400,000 for the purchase of equipment; and
- this resolution satisfies the official intent requirements set forth in Section 1.150-2 of the *Code of Federal Regulations*, that evidences the Board's intention to reimburse project expenditures with bond proceeds.

BACKGROUND INFORMATION

In 1994, the U. T. Board of Regents approved the use of Revenue Financing System debt for equipment purchases in accordance with the Guidelines Governing Administration of the Revenue Financing System. Equipment financing is used for the purchase of equipment in lieu of more costly vendor financing. The Guidelines specify that the equipment to be financed must have a useful life of at least three years. The debt is amortized twice a year with full amortization not to exceed 10 years.

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

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

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

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

Total	$23,400,000

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

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

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

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

REPORT

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

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

PUF Debt Capacity Base Case Assumptions

- PUF Distribution equals 4.75% of the average PUF net asset value for the trailing 12 quarters, unless restricted by Constitutional purchasing power requirements.

- U. T. Austin Excellence Funds equal 45% of the income available to U. T. System.

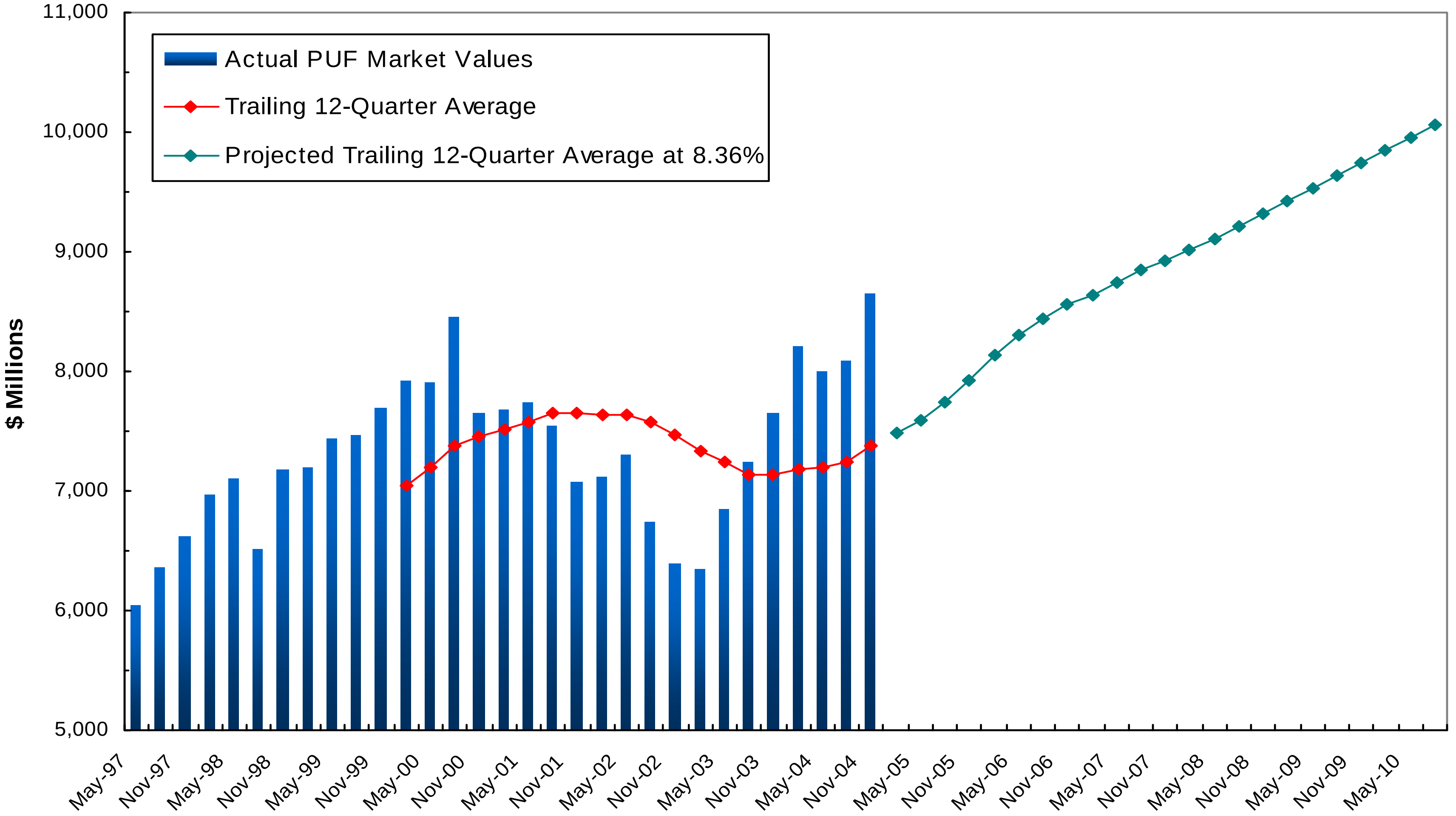
- Includes all PUF projects approved through November 2004.

- Forecasted PUF distribution amounts provided by UTIMCO based on long-term expected average annual rate of return of 8.36% starting from the PUF market value as of November 30, 2004.

- Annual LERR appropriations of $30 million are projected to continue from FY 2006 through FY 2010, along with an additional $10 million LERR appropriation to U. T. Dallas projected in FY 2006 associated with Project Emmitt.

- New PUF debt service structured as 20-year, tax-exempt debt with level debt service.

Projected Trailing 12-Quarter PUF Market Value Average

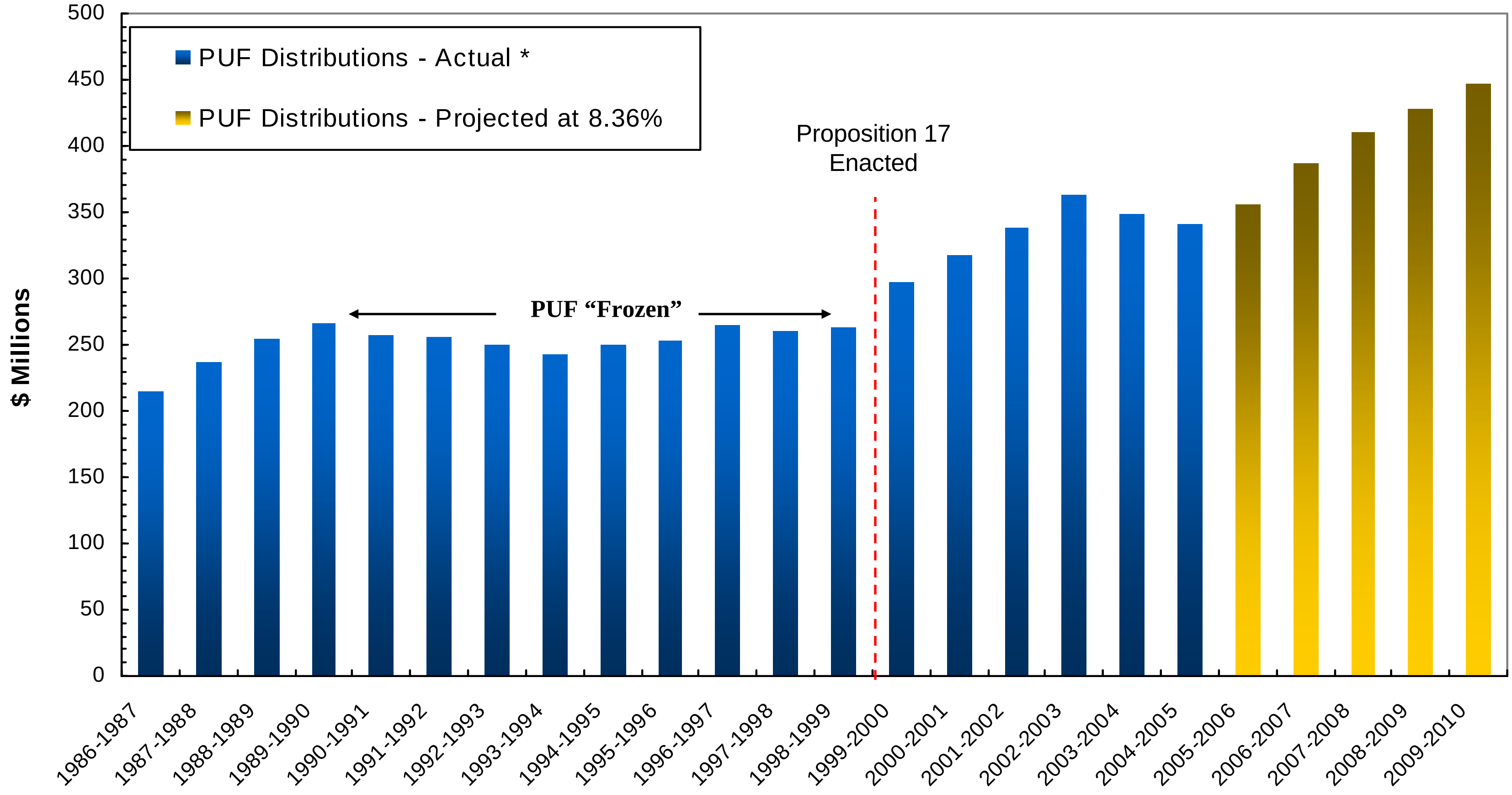


Prepared by the Office of Finance

Figure A

December 10, 2004

Permanent University Fund Distributions



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

PUF Debt Capacity-Base Case at 8.36%

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

Figure C

PUF Debt Capacity Sensitivities at 8.36%

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

Figure D

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

REPORT

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

The University of Texas System

Revenue Financing System
Debt Capacity Update

Finance and Planning Committee Meeting

February 9, 2005

Revenue Financing System

- The Revenue Financing System (RFS) is a cost-effective debt program secured by a System-wide pledge of all legally available revenues for debt issued on behalf of all 15 institutions and System Administration.

- RFS debt is currently rated Aaa, AAA, and AAA by Moody's, Standard & Poor's, and Fitch, respectively.

- As of December 31, 2004, there was $2.47 billion of RFS debt outstanding, including $639 million of Tuition Revenue Bond (TRB) debt.

Revenue Financing System (continued)

- The Master Resolution establishing the Revenue Financing System requires that before any parity debt is issued, the Board of Regents (Board) makes a determination that

  - the Board will have sufficient “Pledged Revenues” to meet all financial obligations relating to the Revenue Financing System, and;

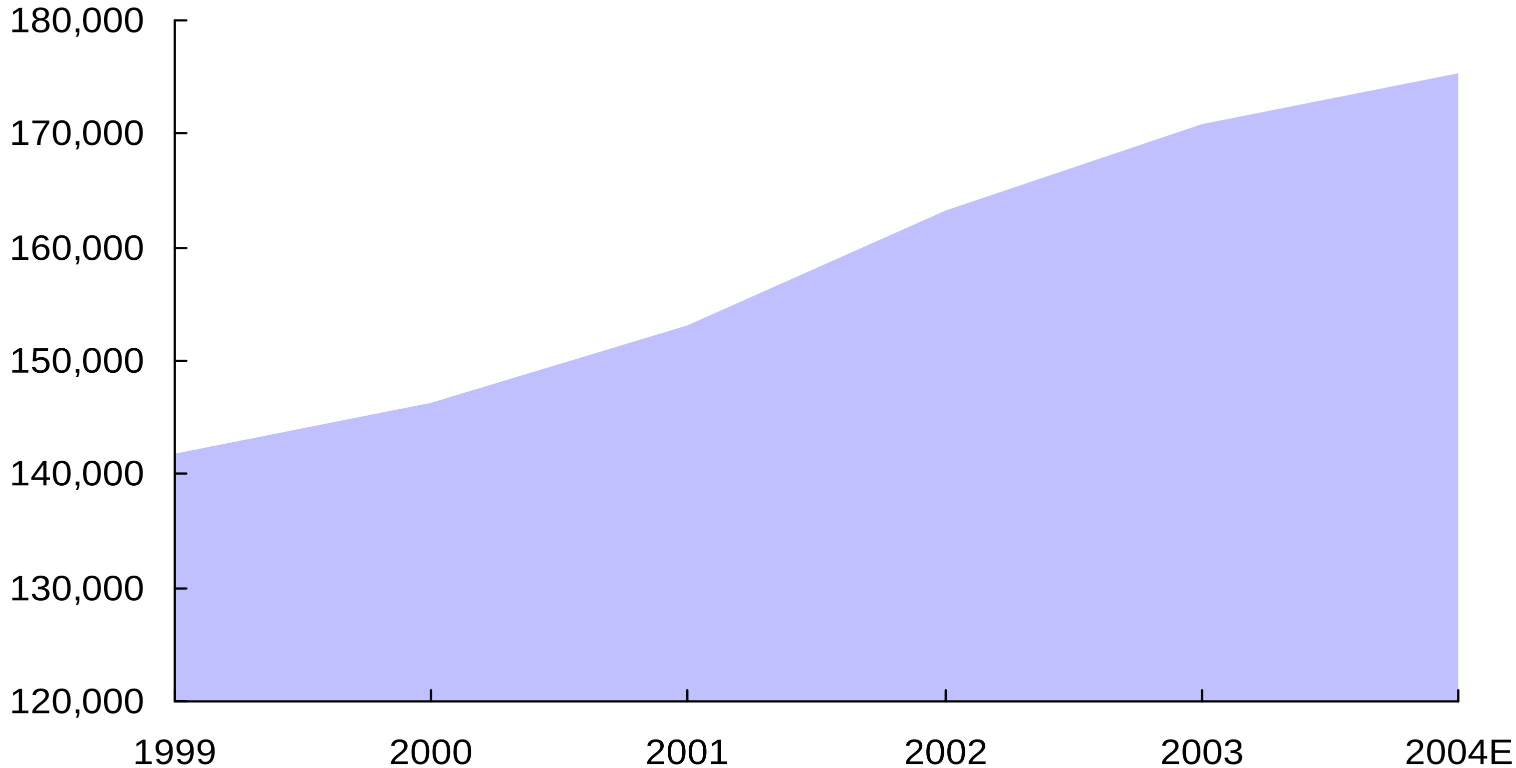
  - the Members on whose behalf the debt is issued possess the financial capacity to satisfy their direct obligations.

41.4

U. T. System Credit Strengths and Risks

Strength # 1: Strong Student Demand

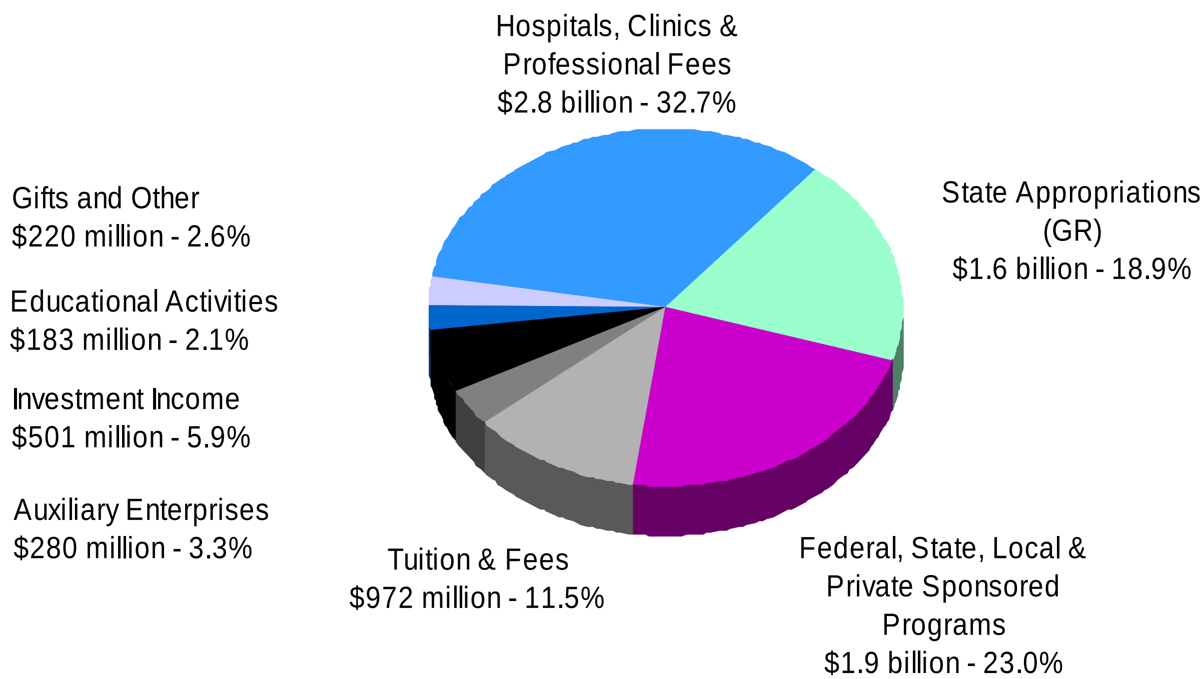
Total U. T. System Fall Enrollment



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

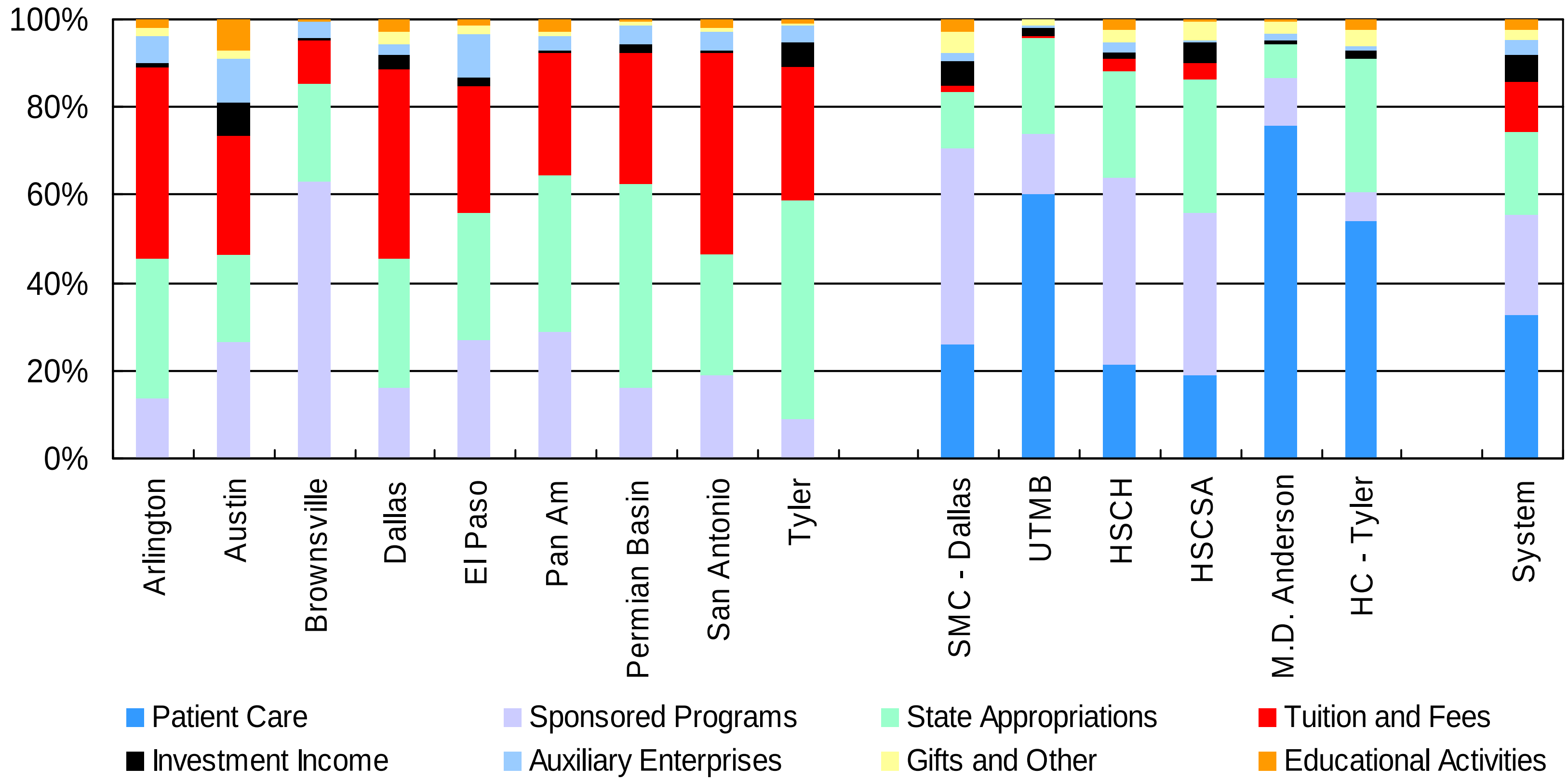
Strength # 2: Diversified Revenue Stream

Contribution to Revenues (Fiscal Year 2005 Budget)

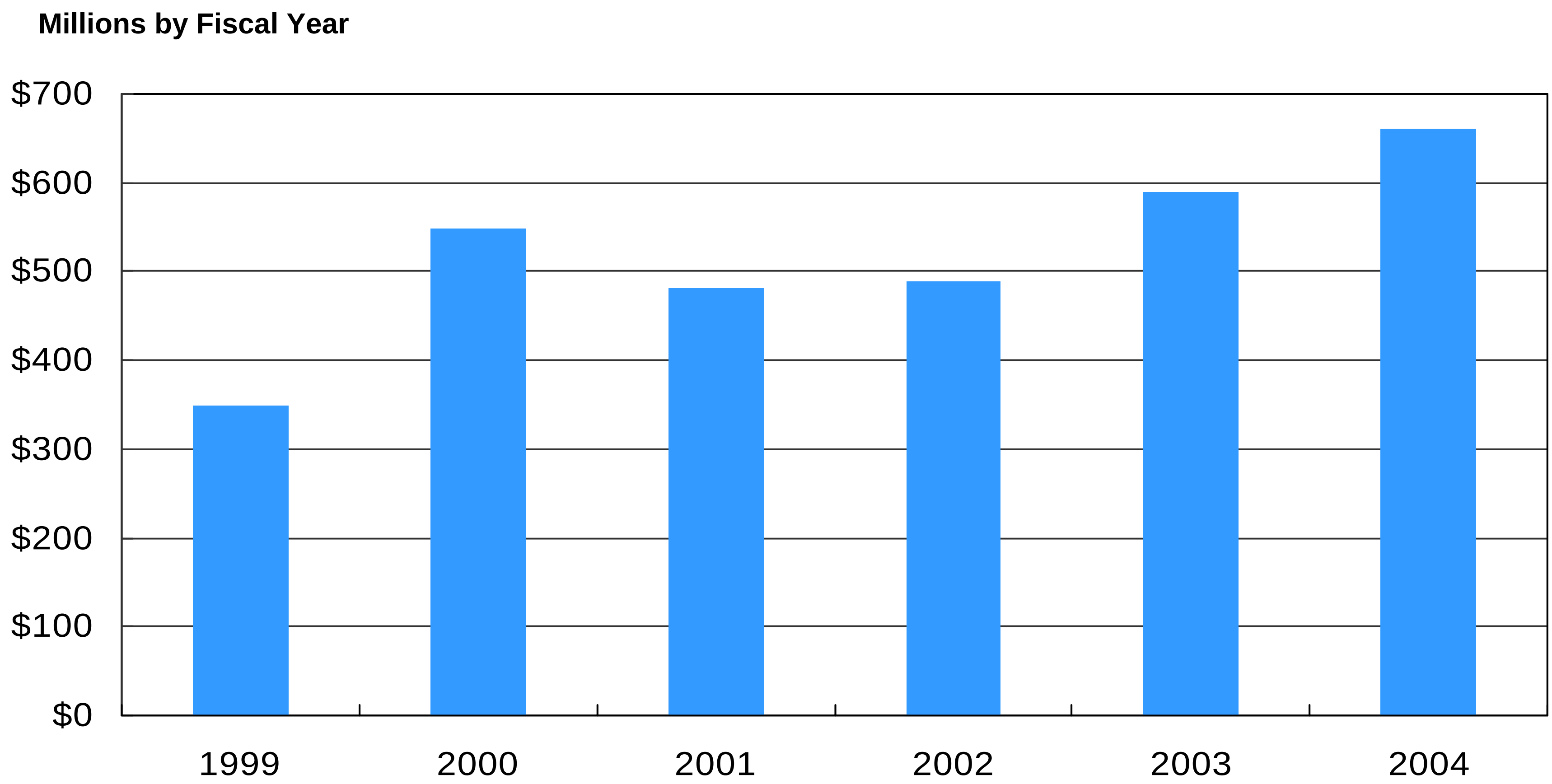


Revenue Diversity Varies by Institution

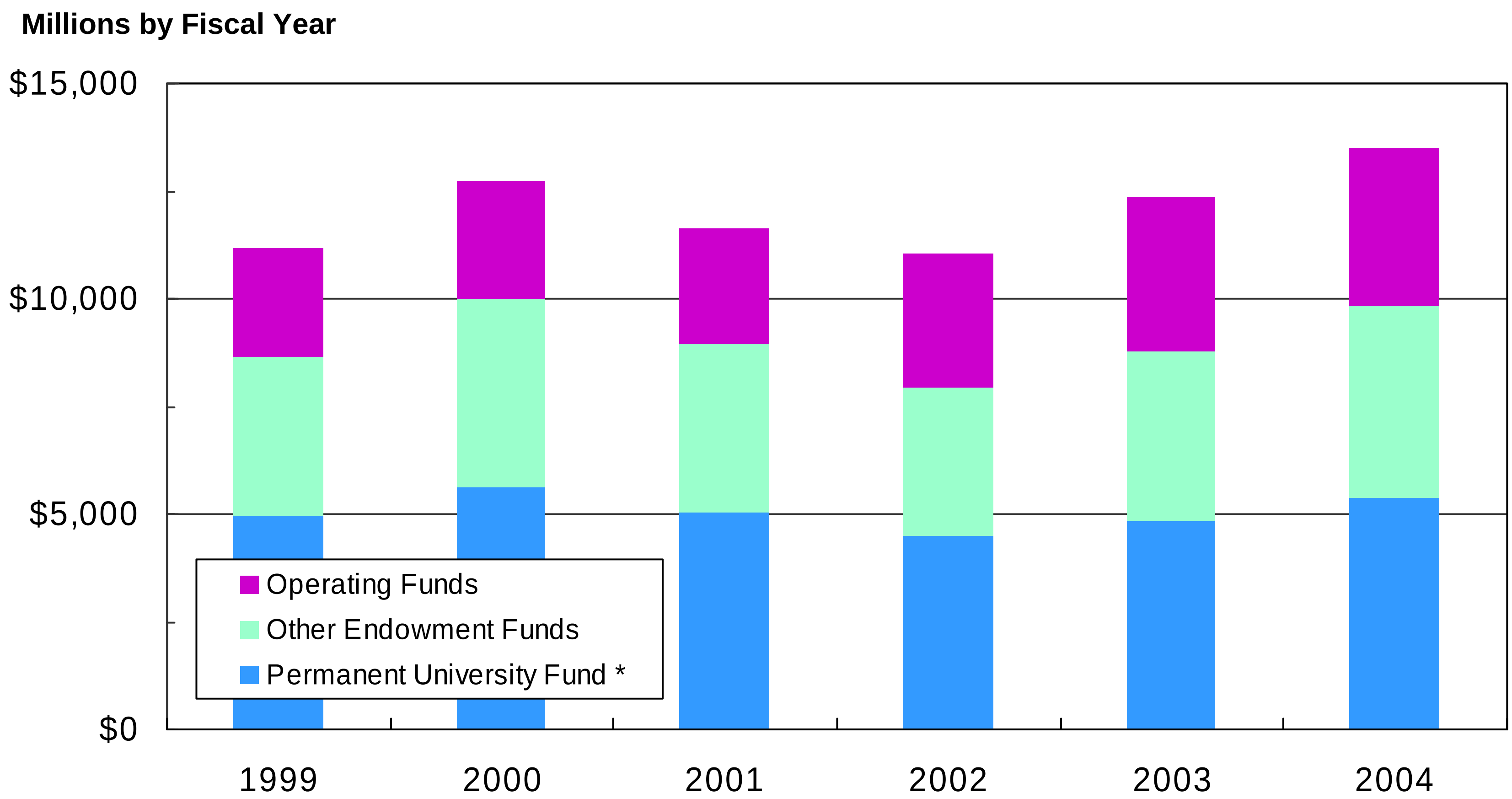
Comparison of Revenue Sources (Fiscal Year 2005 Budget)



Strength # 3: Strong Private Sector Support



Strength # 4: Strong Financial Resource Base

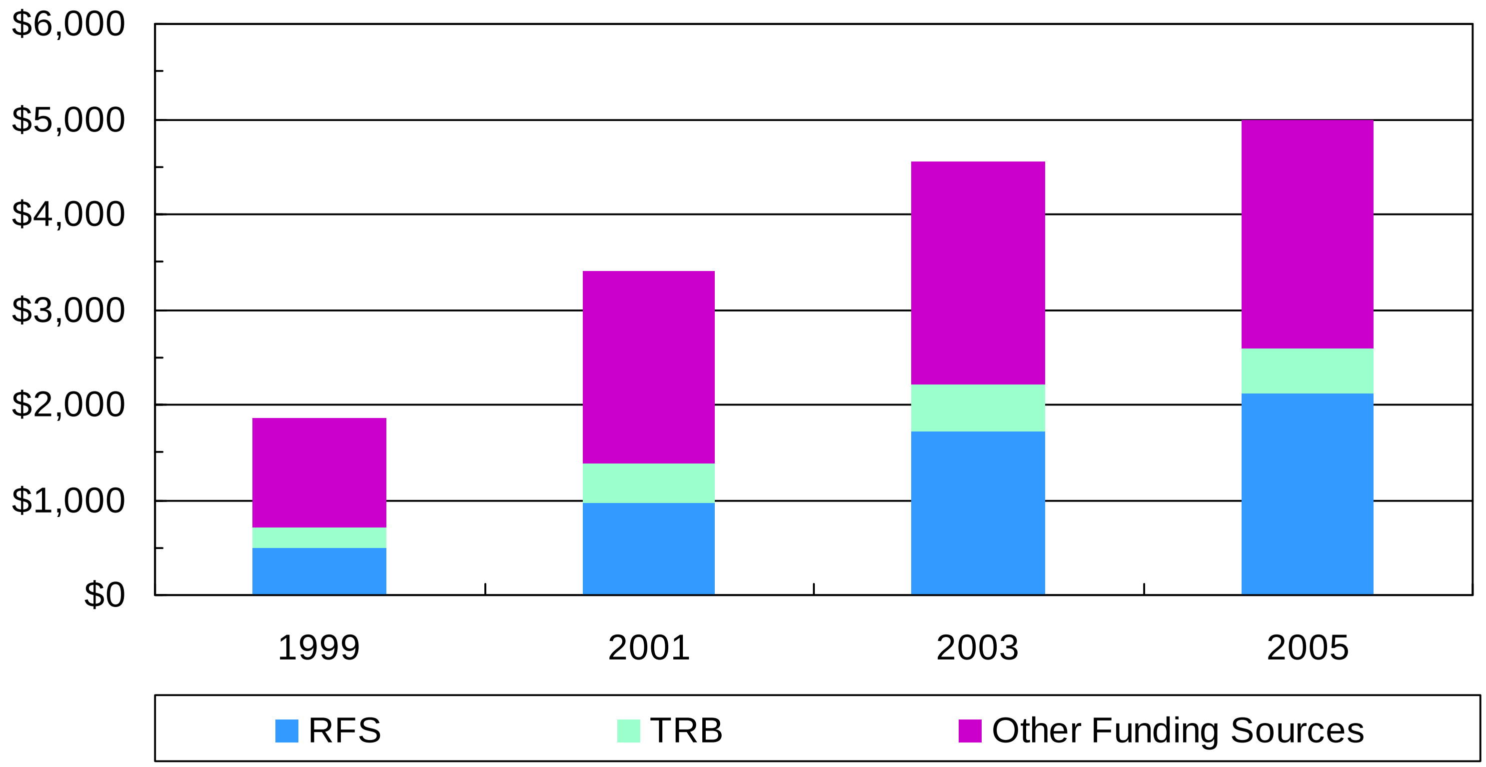


* Represents U. T. System’s two-thirds share of the PUF.

Risk # 1: Large and Growing Capital Program

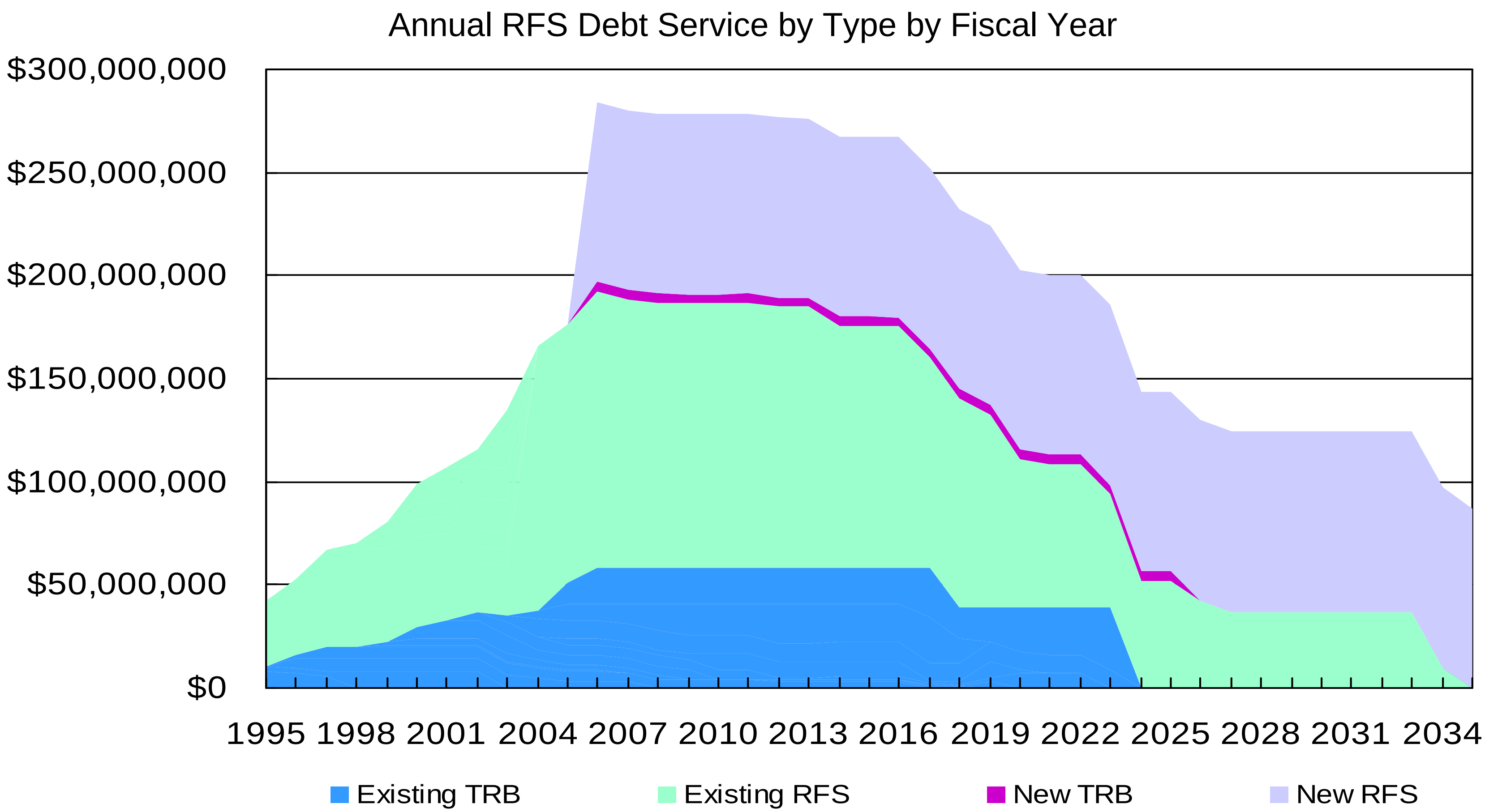
U. T. System Six-Year Capital Improvement Program by Funding Source

Millions by Fiscal Year



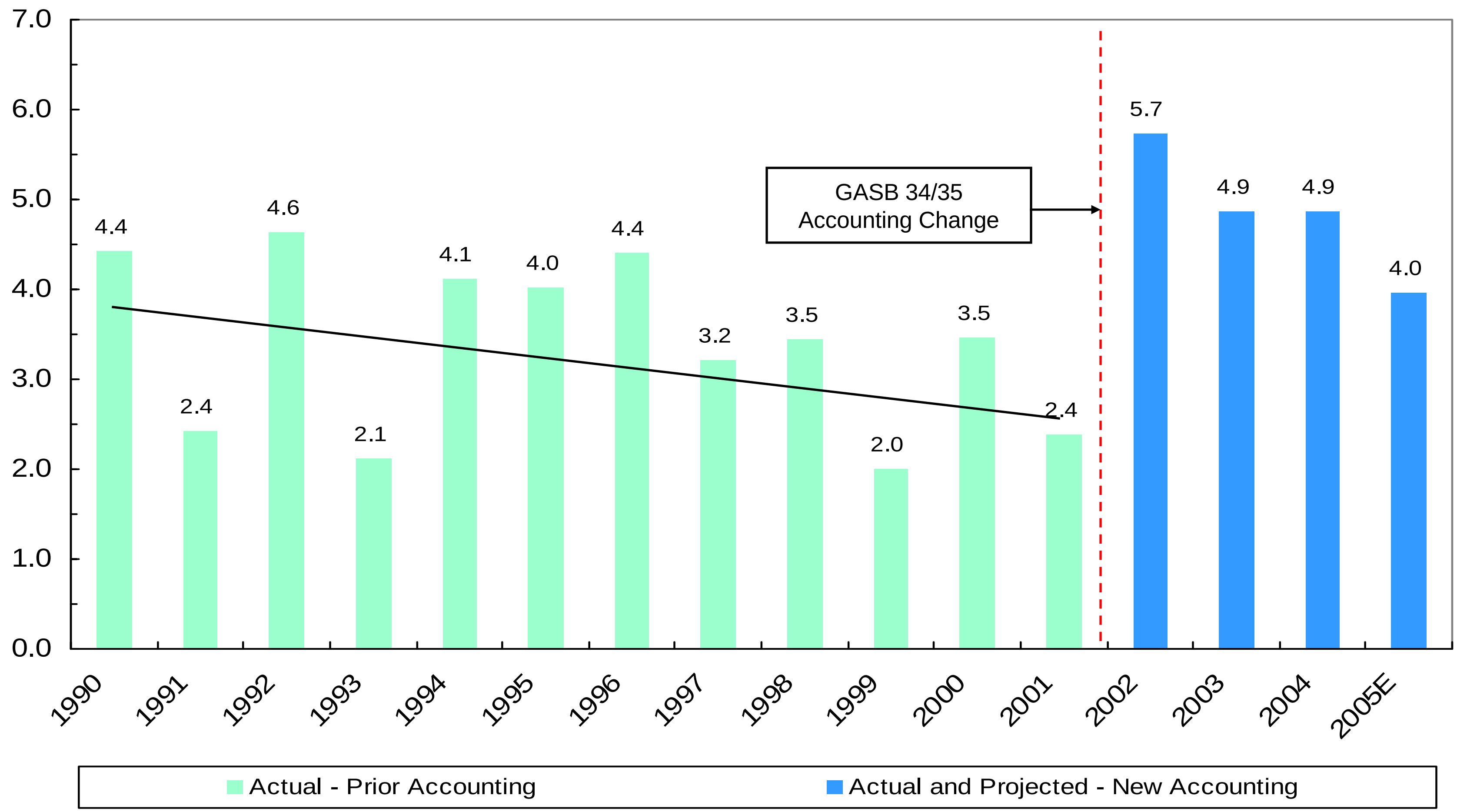
41.10

Risk # 2: Growing Debt Usage



41.11

Risk # 3: Declining Debt Service Coverage



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

Steps Taken to Mitigate Negative Credit Trends

- The Office of Finance has taken advantage of lower interest rates to refund $698 million of relatively high-cost RFS debt since 2001, thereby reducing future debt service by $33.5 million (present value).

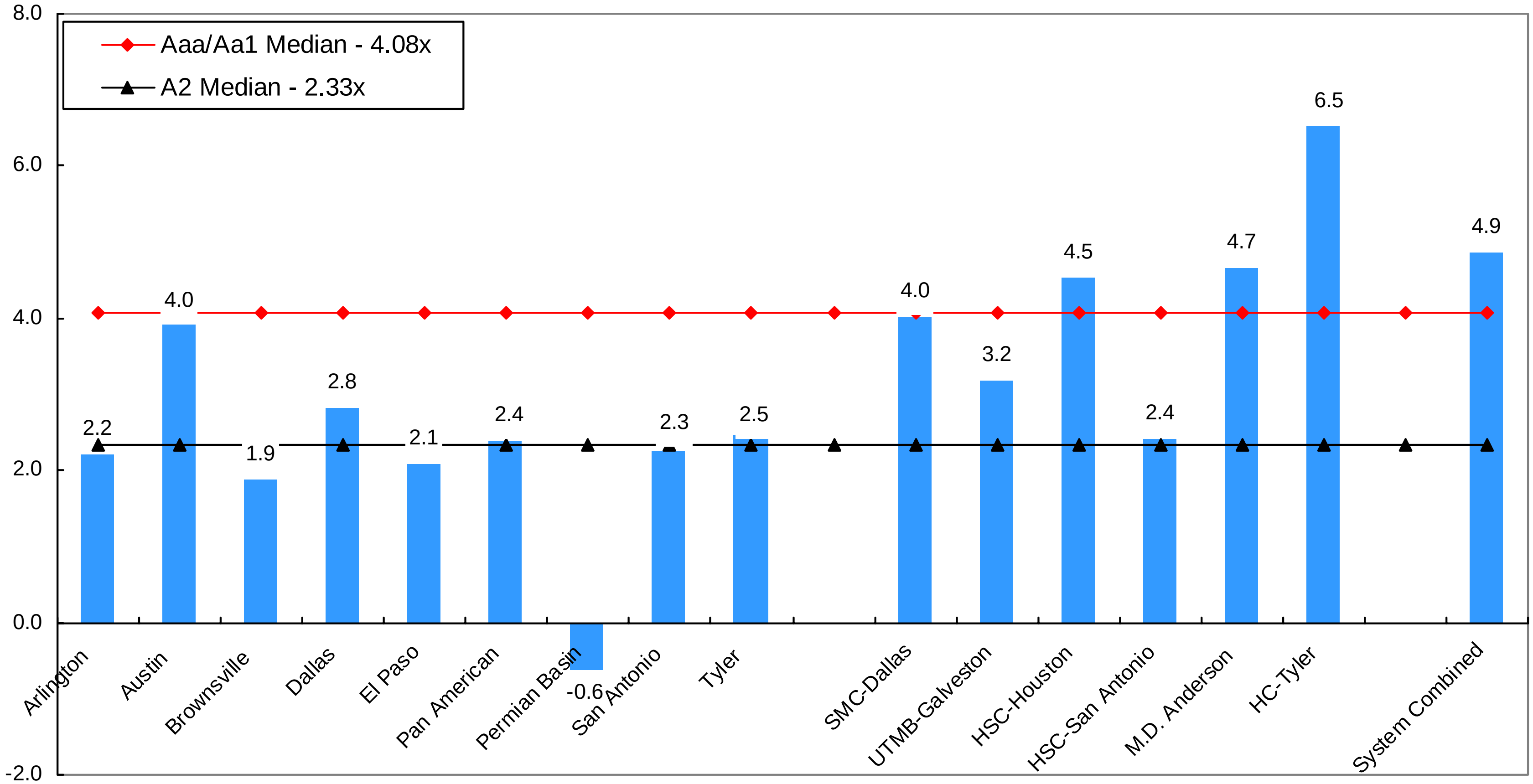
- Internal credit standards were toughened in FY 2002, making it slightly more difficult for U. T. System institutions to access RFS debt.

- The Office of Finance has improved asset/liability matching by extending the average maturity of its debt and making greater use of lower-cost variable rate debt.

Credit Statistics

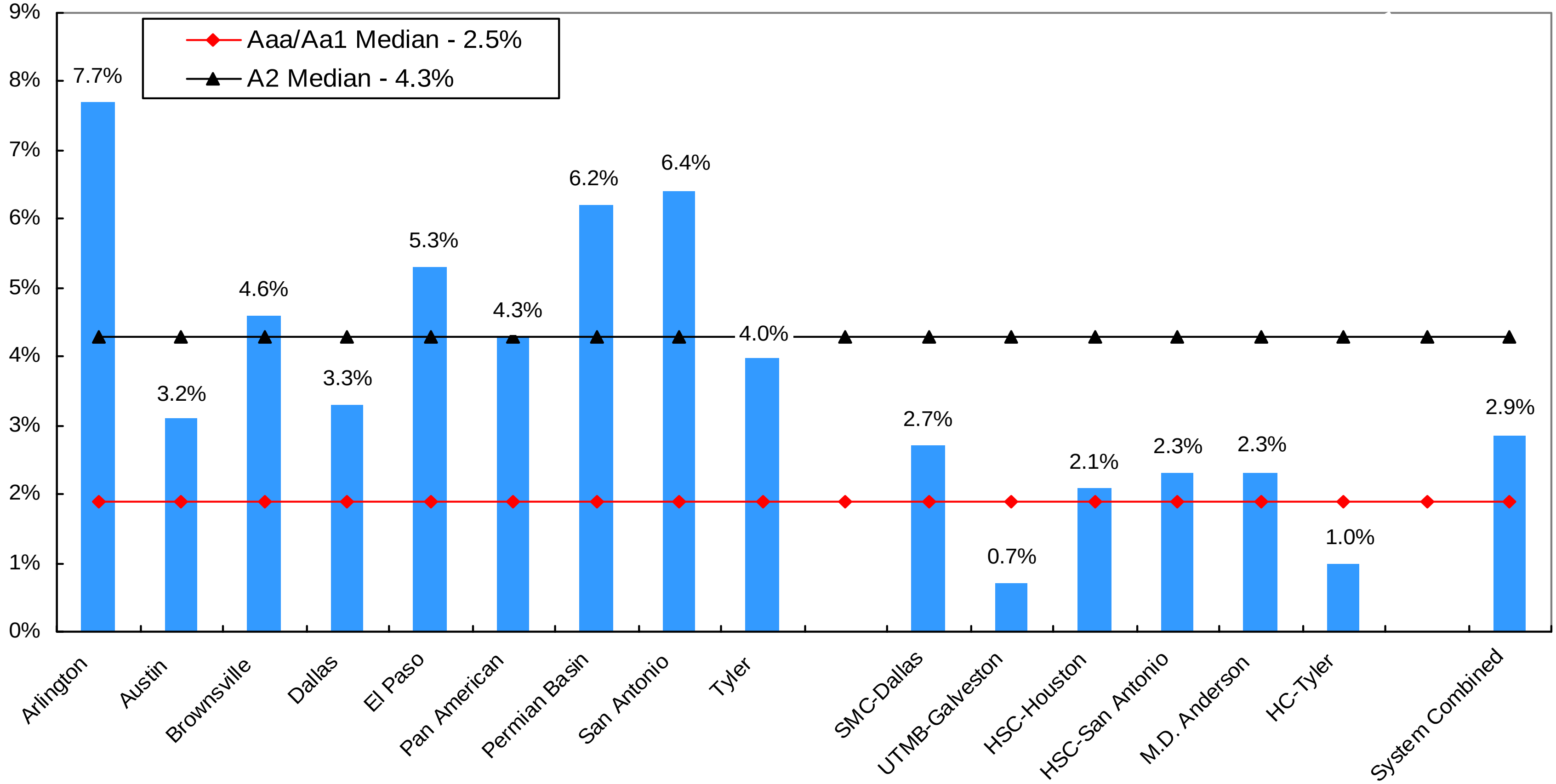
Actual Debt Service Coverage - FY 2004

Actual Debt Service Coverage = <u>Operating Surplus + Depreciation + Interest Expense</u>
Total Principal and Interest Payments



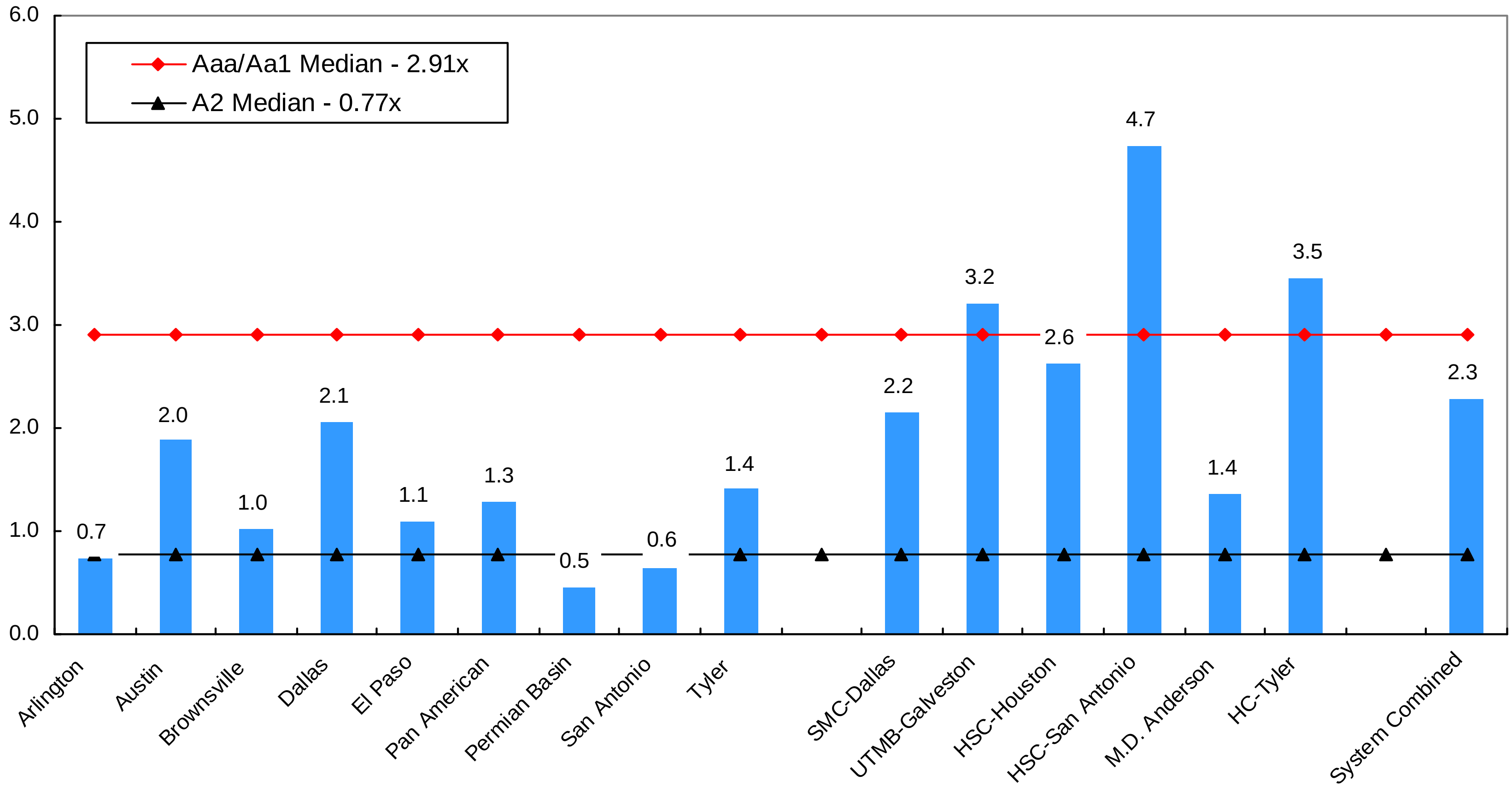
Actual Debt Service to Operations (Debt Burden) - FY 2004

Actual Debt Service to Operations = Annual Debt Service / Total Operating Expenses



Expendable Financial Resources to Debt - FY 2004

Expendable Financial Resources to Debt = Unrestricted Net Assets + Restricted Expendable Net Assets / Direct Debt



Proposed Credit Standards

- The Office of Finance proposes that RFS debt capacity be based on an institution's six-year forecast meeting or exceeding at least two of the three following credit ratios as calculated by Moody's:

  1. A minimum Actual Debt Service Coverage ratio of 1.80 times;
  2. A maximum Actual Debt Service to Operations (Debt Burden) of 5.0%;
  3. A minimum Expendable Financial Resources to Debt ratio of 1.0 times.

- Moody's and the Office of Finance believe that debt capacity is a strategic concept and cannot be determined by formulas and ratios alone. However, these standards will serve as the foundation for determining access to RFS debt.

Proposed Credit Standards, Cont.

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

Observations

- The U. T. System is a strong credit and has additional RFS debt capacity; however, based on current trends, the U. T. System is steadily using up its RFS debt capacity at the Aaa/AAA credit level.

  - The current $4.98 billion CIP has more than doubled in size since 2000.
  - The Office of Finance expects to issue almost $1 billion of <u>new</u> revenue debt over the next 24 months.
  - Annual RFS debt service is projected to increase from approximately $100 million in FY 2000 to approximately $250 million in FY 2005.
  - The institutions have identified an additional $5.2 billion of capital projects on the “futures list”.

- Large capital needs and low interest rates continue to make RFS debt an attractive source of funding.

Observations, cont.

- The System's credit deterioration has been caused primarily by greater utilization of RFS debt, including TRBs, rather than a general decline in operating performance.

- As a minimum standard, the RFS Master Resolution only requires the Board to certify that an institution can meet its debt service obligations. It does not require that it be met at an Aaa/AAA standard.

- The Office of Finance's internal credit standards are set at a very low investment grade level.

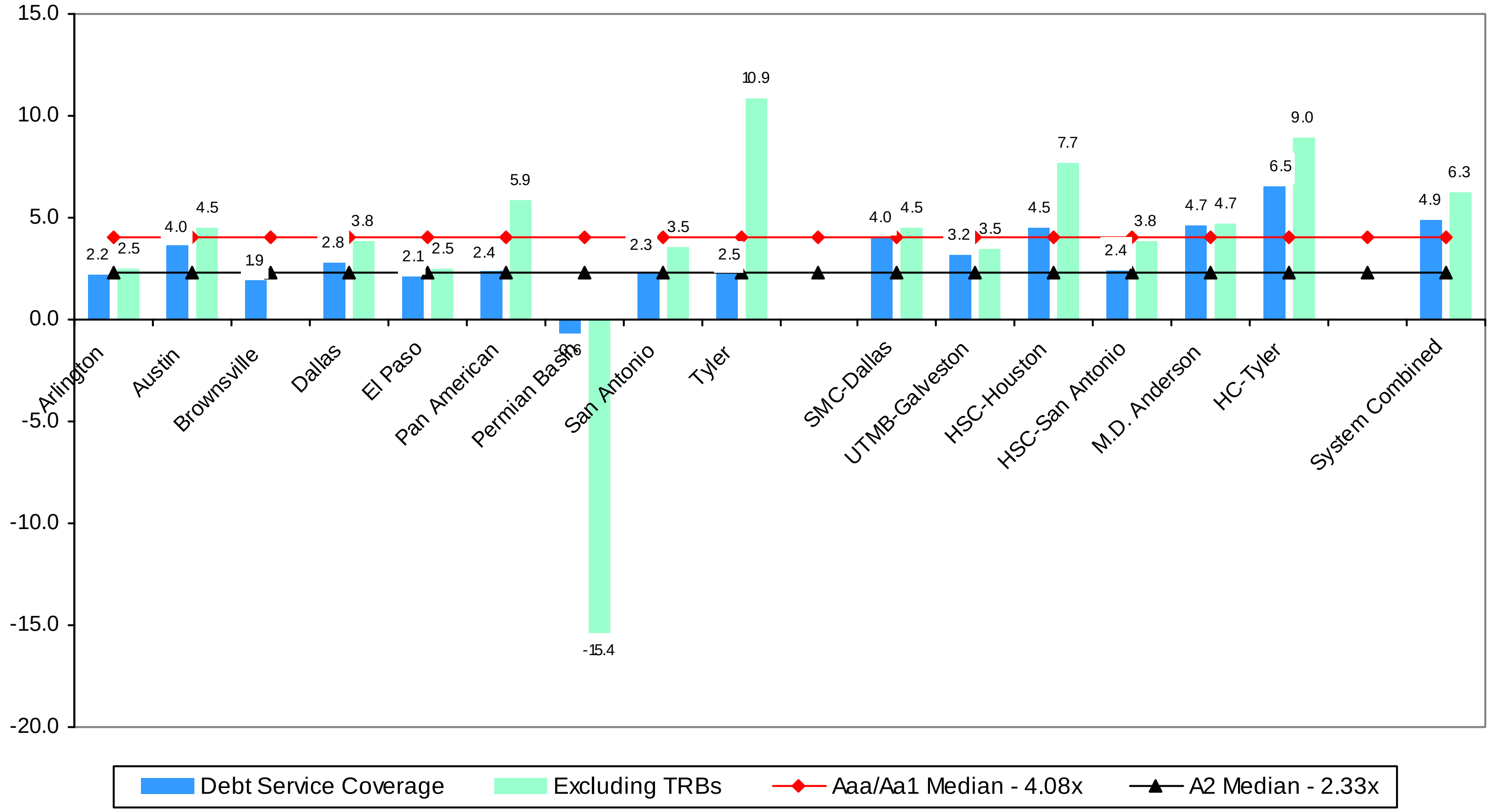
- Nevertheless, most institutions have little or no RFS debt capacity. Those with no debt capacity can still access RFS debt to fund TRB projects and strong revenue-generating projects (on a case-by-case basis).

Appendix

Credit Ratios with and without Tuition Revenue Bonds

Actual Debt Service Coverage - FY 2004

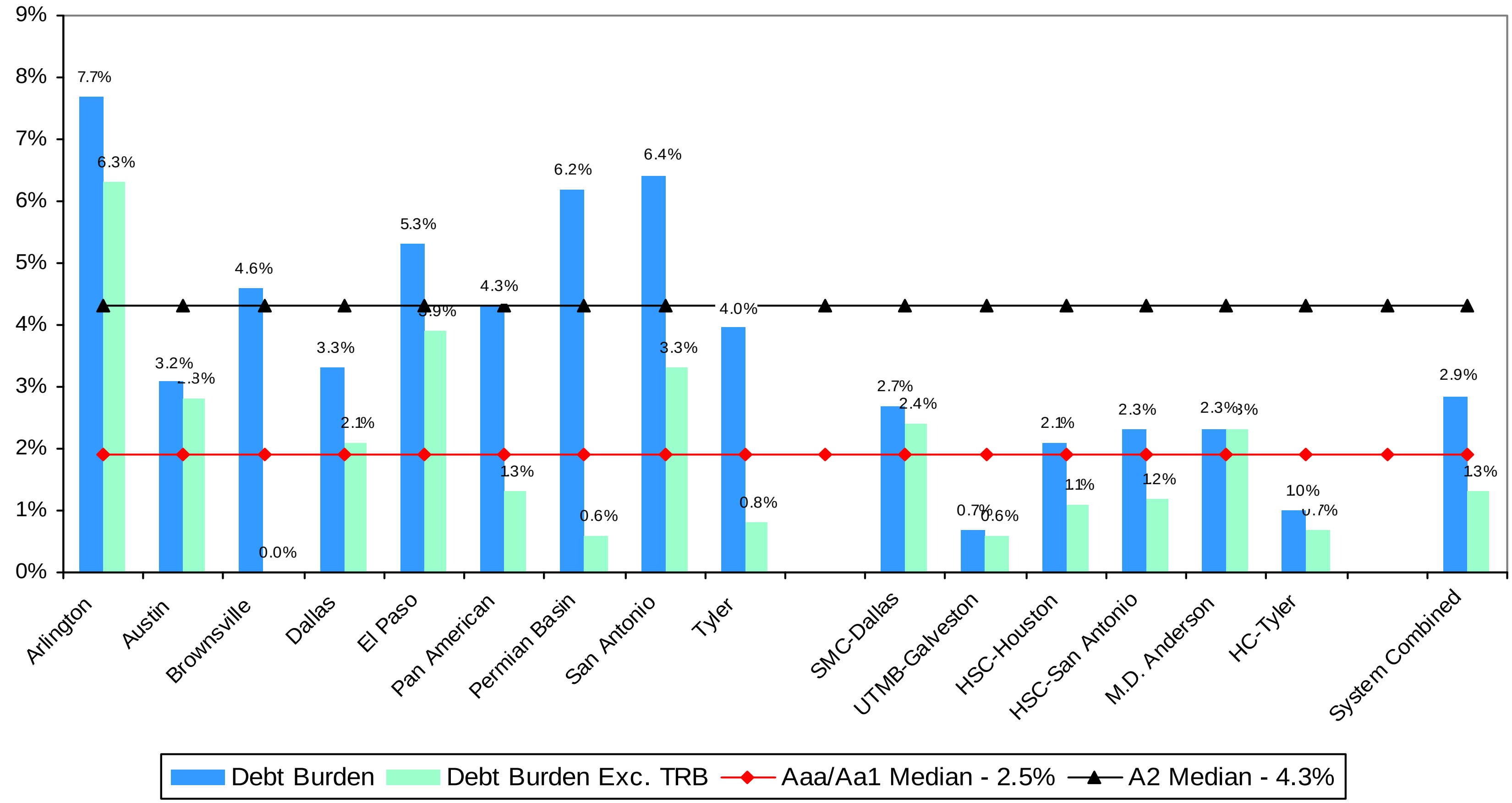
Actual Debt Service Coverage = Operating Surplus + Depreciation + Interest Expense / Total Principal and Interest Payments



41.23

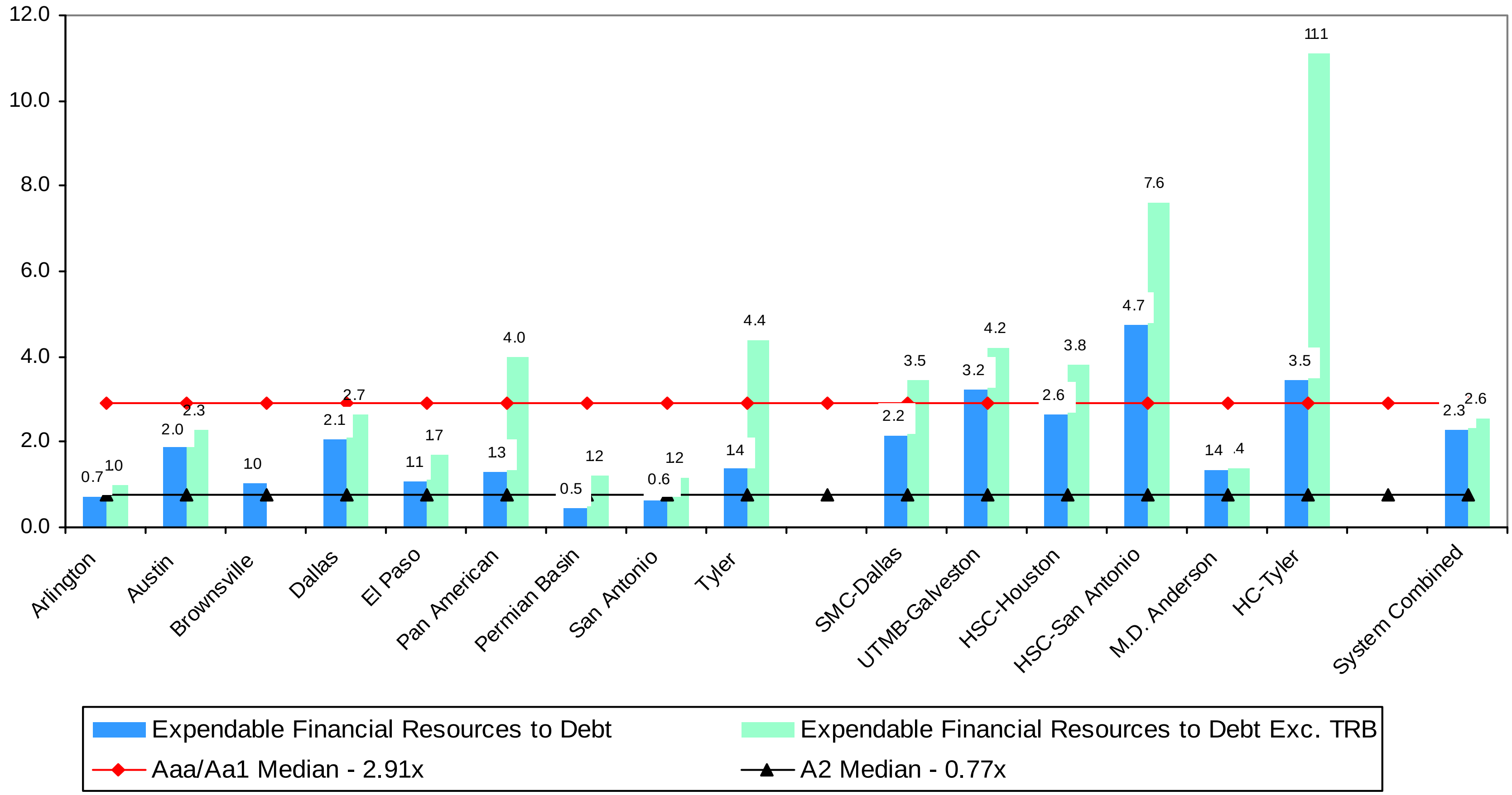
Actual Debt Service to Operations (Debt Burden) - FY 2004

Actual Debt Service to Operations = Annual Debt Service / Total Operating Expenses



Expendable Financial Resources to Debt - FY 2004

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



41.25

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

REPORTS

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

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

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

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

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

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

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

I. PERMANENT UNIVERSITY FUND (1)

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

($ millions)

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

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

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

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

I. PERMANENT UNIVERSITY FUND (continued)

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

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

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

II. GENERAL ENDOWMENT FUND (1) (2)

a.) Summary Investment Report at November 30, 2004

($ millions)

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

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

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

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

II. GENERAL ENDOWMENT FUND (continued)

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

($ millions)

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

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

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

II. GENERAL ENDOWMENT FUND (continued)

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

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

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

III. SHORT INTERMEDIATE TERM FUND (1)

Summary Investment Report at November 30, 2004

($ millions)

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

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

IV. SEPARATELY INVESTED ASSETS

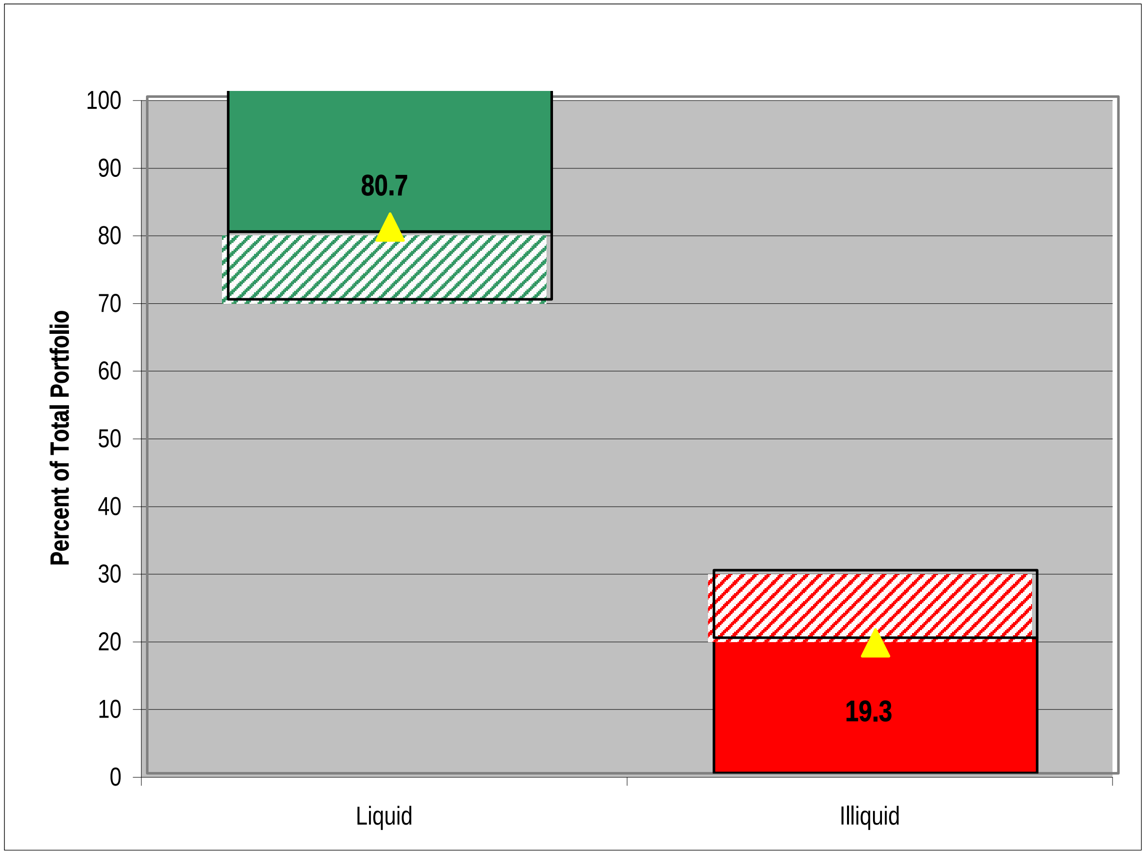
Summary Investment Report at November 30, 2004

($ thousands)

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

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

PUF and GEF Combined Liquidity Profile
November 30, 2004



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

U.T. System Board of Regents
Report on Investments

Quarter Ending
November 30, 2004

ENNISKNUPP

As of November 30, 2004

CHANGE IN MARKET VALUE
($ in millions)

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

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

RETURN SUMMARY
ENDING 11/30/04[1]

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

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

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[1] Rates of return greater than one year are annualized. UTIMCO reports its performance data net of all costs.

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

As of November 30, 2004

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

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

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

As of November 30, 2004

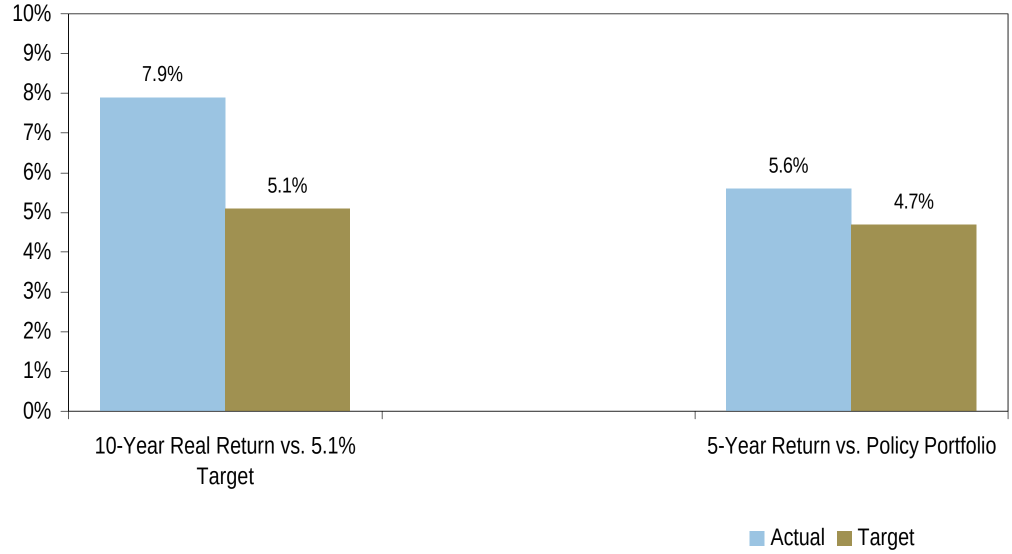
GEF POLICY COMPLIANCE
ASSET ALLOCATION AS OF 11/30/04
($ in millions)

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

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

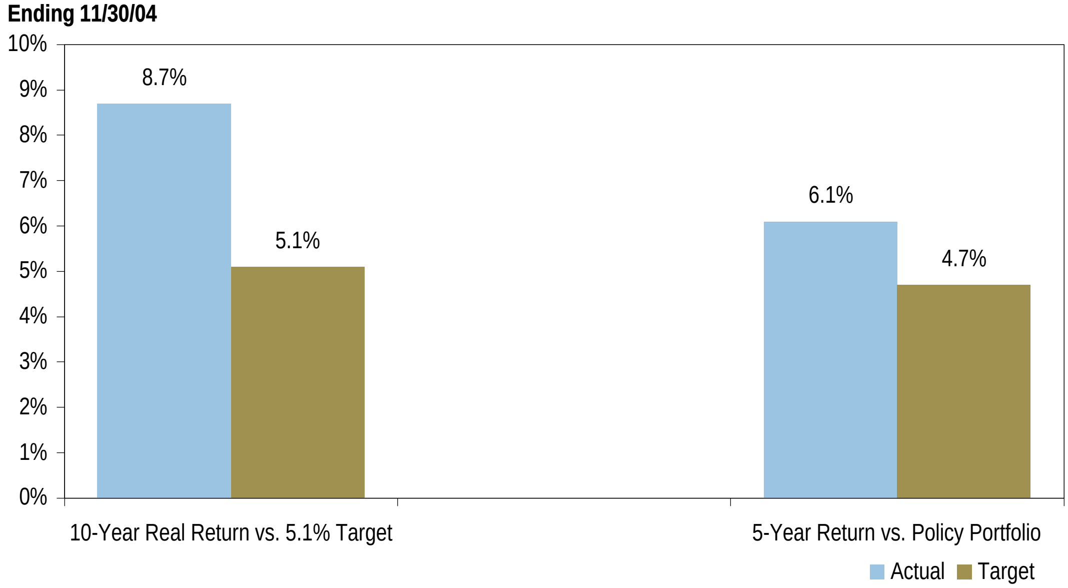
As of November 30, 2004

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



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

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



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

As of November 30, 2004

Permanent University Fund
RETURN SUMMARY
ENDING 11/30/04

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

- The Permanent University Fund outperformed the Endowment Performance Benchmark by 1.6 percentage points in the fiscal quarter ending November 30, 2004. US equities, equity hedge funds, absolute return hedge funds, private capital, and fixed income all added value during the quarter, while global ex US equities and commodities were detractors.

- Over the one-year period, the Permanent University Fund added 0.2 percentage points of value over its benchmark. Asset class results were mixed, with absolute return hedge funds and fixed income adding substantial value, and US equities, global ex US equities, and private capital detracting from overall performance.

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

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

As of November 30, 2004

General Endowment Fund
RETURN SUMMARY
ENDING 11/30/04

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

- The General Endowment Fund outperformed the Endowment Performance Benchmark by 1.8 percentage points in the fiscal quarter ending November 30, 2004. US equities, equity hedge funds, absolute return hedge funds, private capital, and fixed income all added value during the quarter, while global ex US equities and commodities were detractors.

- Over the one-year period, the General Endowment Fund added 0.2 percentage points of value over its benchmark. Asset class results were mixed, with absolute return hedge funds and fixed income adding substantial value, and US equities, global ex US equities, and private capital detracting from overall performance.

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

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

As of November 30, 2004

Operating Funds

RETURN SUMMARY
ENDING 11/30/04

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

- The Short Term Fund approximated the performance of the benchmark during the periods shown above.

- The Short Intermediate Term Fund outperformed the Index during the fiscal quarter and trailing one-year period. Longer term performance is below-benchmark

- The BGI U.S. Debt Index approximated the performance of the benchmark during the periods shown above. Participants investing in the BGI U.S. Debt Index liquidated their positions during April of 2004.

- The BGI Equity Index Fund approximated the performance of its benchmark during the periods shown above.

[1] Returns for this benchmark from inception through July 31, 2004 have been supplied by UTIMCO. The composition of the benchmark is understood as including six government bond components obtained from Bloomberg in a weighted average composite. Beginning August 1, 2004 returns are those of the Merrill Lynch 1-3 Year Treasury Index.

THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION
DOCKET NO. 120

January 28, 2005

TO MEMBERS OF THE FINANCE AND PLANNING COMMITTEE:

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

The Docket for The University of Texas System Administration and the Dockets recommended by the presidents concerned and prepared by the institutions listed below are submitted for approval as appropriate at the meeting of the U. T. Board of Regents on February 10, 2005. The Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and the Interim Vice Chancellor and General Counsel, and I concur in these recommendations.

Mark G. Yudof

Mark G. Yudof
Chancellor

xc: Other Members of the Board

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U. T. SYSTEM ADMINISTRATION

CONTRACTS

The following contract has been awarded, has been administratively approved by the Executive Vice Chancellor for Business Affairs and is recommended for approval by the U. T. Board of Regents.

GENERAL CONTRACTS

FUNDS GOING OUT

1. Agency: Student Resources, a division of Mega Life Insurance Company, St. Petersburg, Florida

   Funds: Approximately $13,000,000 annually, based upon September 1, 2003 enrollment and using proposed September 1, 2005 rates

   Period: September 1, 2005 through August 31, 2008

   Description: Student Resources, a division of Mega Life Insurance Company, St. Petersburg, Florida, will provide the U. T. System fully insured Student Health Insurance for benefits eligible students, fellows/visiting scholars, and their dependents. The vendor was selected from six respondents following a competitive bid process:

   - Academic Health Plans, on behalf of Nationwide Life Insurance Company, Colleyville, Texas;
   - Academic Health Plans, on behalf of UniCare Life and Health Insurance Company, Colleyville, Texas;
   - Associated Insurance Plans International Incorporated, on behalf of UniCare Life and Health Insurance Company, Prospect Heights, Illinois;
   - The Chickering Group, a wholly owned independent subsidiary of Aetna, Cambridge, Maine;
   - Macori, Incorporated, on behalf of UniCare Life and Health Insurance Plans, Spring, Texas; and
   - Student Resources, a division of Mega Life and Health Insurance Company, St. Petersburg, Florida.

REAL ESTATE REPORT

THE UNIVERSITY OF TEXAS SYSTEM
REAL ESTATE ASSETS

Managed by U. T. System Real Estate Office

Summary Report at November 30, 2004

FUND TYPE

	Current Purpose Restricted			Endowment & Similar Funds			Annuity & Life Income Funds			TOTAL		
	Book		Market	Book		Market	Book		Market	Book		Market
Land & Buildings:												
Ending Value 8/31/04	$ 5,355,012		$ 23,148,538	$ 24,744,921		$ 203,234,154	$ 673,644		$ 598,515	$ 30,773,578		$ 226,981,207
Increase or Decrease	(1,249,378)		(845,208)	82,623,681		359,713	-		-	81,374,304		(485,495)
Ending Value 11/3/004	$ 4,105,635		$ 22,303,330	$ 107,368,602		$ 203,593,867	$ 673,644		$ 598,515	$ 112,147,882		$ 226,495,712
Other Real Estate:												
Ending Value 8/31/04	$ 131,255		$ 131,255	$ 329,376		$ 329,376	$ -		$ -	$ 460,631		$ 460,631
Increase or Decrease	(950)		(950)	(8,482)		(8,482)	-		-	(9,432)		(9,432)
Ending Value 11/30/04	$ 130,305		$ 130,305	$ 320,894		$ 320,894	$ -		$ -	$ 451,199		$ 451,199

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

Details of individual assets by account furnished on request.

OTHER FISCAL ITEMS

SETTLEMENT OF INSURANCE POLICIES

The following insurance settlement summary has been approved by the Executive Vice Chancellor for Business Affairs and is recommended for approval by the U. T. Board of Regents.

1.	Insured:	The University of Texas at Arlington
	Insurer:	The University of Texas System Comprehensive Property Protection Plan
	Location:	U. T. Arlington Central Utility Plant
	Type of Loss:	On October 24, 2003, U. T. Arlington experienced a major fire at its Central Utility Plant. The fire began when a contractor cutting metal at the site created a spark that ignited fumes produced by an adhesive.
	Net Amount Claimed:	U. T. System's property claim adjuster investigated the loss and determined the insured value of the loss to be $2,031,900. At the time of the loss, this building was insured under the self-insurance portion of the U. T. System Comprehensive Property Protection Plan (CPPP). The Office of Risk Management, the Controller, the Executive Vice Chancellor for Business Affairs, and the Chief Business Officer at U. T. Arlington recommend the claim be settled for $1,781,900. This represents the total insured loss amount of $2,031,900 less the applicable institutional deductible of $250,000. Since it appears the fire was ignited as a result of contractor negligence, U. T. System has initiated a liability claim against the General Contractor on this project. The Office of Risk Management will work in conjunction with the Office of General Counsel and U. T. Arlington to maximize recovery to both the CPPP Fund and U. T. Arlington for expenses associated with this loss.

U. T. ARLINGTON

AMENDMENTS TO THE 2004-05 BUDGET

APPOINTMENTS AND PROMOTIONS

The following Requests for Budget Change (RBC) have been administratively approved by the Executive Vice Chancellor for Academic Affairs and are recommended for approval by the U. T. Board of Regents:

	Description	Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
COLLEGE OF ENGINEERING						
Electrical Engineering						
1.	Ronald L. Carter (T)					300
From:	Professor		100	09	92,840	
To:	Professor and	9/1-5/31	100	09	92,840	
	Associate Chair	9/1-5/31	SUPLT	09	3,600	
2.	Kai S. Yeung (T)					318
From:	Professor and Associate Chair		100	09	78,600	
To:	Professor	9/1-5/31	100	09	78,600	
Mechanical and Aerospace Engineering						
3.	Wen S. Chan (T)					323
From:	Professor and		100	09	90,000	
	Acting Chair		SUPLT	09	7,500	
			SUPLT	09	4,000	
To:	Professor	9/16-5/31	100	09	90,000	
		9/16-5/31	SUPLT	09	4,000	

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

Description	Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
COLLEGE OF ENGINEERING (Continued)					
Mechanical and Aerospace Engineering					
Professor and Chair					
4. J. Craig Dutton (T)	9/1-5/31	100	09	158,000	328
	9/16-5/31	SUPLT	8.5	7,083	
	9/16-5/31	SUPLT	8.5	4,722	
5. Roger D. Goolsby (T)					330
From: Professor		100	09	84,227	
To: Professor and Acting Chair, Material Science and Engineering	9/1-5/31	100	09	84,227	
	9/1-1/15	SUPLT	4.5	3,750	
Computer Science and Engineering					
Associate Professor					
6. Gautam Das (T)	9/1-5/31	100	09	110,000	327
COLLEGE OF LIBERAL ARTS					
Linguistics and Teaching English as a Second Language					
7. Jerold A. Edmondson (T)					324
From: Professor		100	09	66,222	
To: Professor and Acting Chair	9/1-5/31	100	09	66,222	
	9/1-1/15	SUPLT	4.5	3,000	
Modern Languages					
Associate Professor					
8. Christopher B. Conway (T)	9/1-5/31	100	09	55,000	326

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

Description		Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
COLLEGE OF SCIENCE						
Chemistry						
9.	Dennis S. Marynick (T)					347
From:	Professor and		100	09	83,830	
	Associate Chair		SUPLT	09	2,500	
To:	Professor	9/1-5/31	100	09	83,830	
	Supplement recognition as Jenkins Garrett Professorship	9/1-5/31	SUPLT	09	2,500	
10.	Martin Pomerantz (T)					348
From:	Professor		100	09	86,800	
To:	Professor and Associate Chair	9/1-5/31	100	09	86,800	
Physics						
11.	John L. Fry (T)					468
From:	Professor and		100	09	91,853	
	Chairperson		SUPLT	09	7,000	
To:	Professor	11/1-5/31	100	09	91,853	
Professor and Chairperson (T)						
12.	Jim L. Horwitz	10/1-5/31	100	09	109,667	419
		10/1-5/31	SUPLT	09	7,000	
SCHOOL OF NURSING						
13.	Josie L. O’Quinn (T)					316
From:	Associate Professor		100	09	66,350	
To:	Associate Clinical Professor	9/1-5/31	60	09	67,850	

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

Description	Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
SCHOOL OF URBAN AND PUBLIC AFFAIRS					
OFFICE OF THE DEAN					
14. Rod Hissong (T)					310
From: Associate Dean and		100	09	65,397	
Associate Professor		SUPLT	12	9,000	
To: Acting Dean and	9/1-5/31	100	09	65,397	
Associate Professor	9/1-8/31	SUPLT	12	9,000	
	9/1-12/31	SUPLT	04	15,000	
SCHOOL OF SOCIAL WORK					
Office of the Dean					
15. Donald K. Granvold (T)					307
From: Associate Dean and		100	12	106,080	
Professor		0	09	67,003	
To: Professor	9/1-5/31	100	09	67,003	

TRANSFERS OF FUNDS

Description	$ Amount	RBC #
PROVOST & VICE PRESIDENT FOR ACADEMIC AFFAIRS		
ENGINEERING		
16. Amount of Transfer:	2,037,185	351

From: Engineering-Instructional Reserve Unallocated

To: Provost-Indirect Cost M&O

Transfer of unallocated faculty salary balances in College of Engineering to Provost startup reserve account to provide for equipment and laboratory expenditures for new faculty.

OTHER FISCAL ITEMS

EMPLOYMENT AGREEMENTS

The following agreement has been awarded, has been approved by the Executive Vice Chancellor for Academic Affairs, and is recommended for approval by the U. T. Board of Regents. Such employment under this agreement is subject to the Constitution and Bylaws of the National Collegiate Athletic Association, any intercollegiate athletic conference of which The University of Texas at Arlington is a member, and the *Rules and Regulations* of the Board of Regents of The University of Texas System and the policies of The University of Texas at Arlington. The violation of the provisions of such constitution, bylaws, rules or regulations shall be grounds for suspension without pay or dismissal.

1. Item: Head Volleyball Coach

   Funds: $44,000 annually

   Period: January 1, 2005 through December 31, 2007

   Description: Agreement for employment of Head Volleyball Coach, Diane Seymour, for the above designated period following the standard coach's employment contract prepared by the Office of General Counsel.

U. T. AUSTIN

GIFTS

The following gift has been received, has been administratively approved by the President or his delegate, and is recommended for approval by the U. T. Board of Regents:

1.	Donor Name:	Rowling Foundation
	College/School/ Department:	Intercollegiate Athletics
	Purpose:	Payment on a $5 million pledge
	Asset Type:	Cash
	Value:	$1,000,000

CONTRACTS

The following contracts have been administratively approved by the President or his delegate and the Executive Vice Chancellor for Academic Affairs and are recommended for approval by the U. T. Board of Regents:

GENERAL CONTRACTS

FUNDS GOING OUT

1. Agency — Capital Metropolitan Transportation Authority
   Funds: — $5,487,000
   Period: — September 1, 2005 through August 31, 2006
   Description: — Amend the current agreement, whereby Capital Metro provides shuttle bus service for U. T. Austin for an additional year, extending the contract term.

FUNDS COMING IN

2. Agency: — U.S. Government, Department of Veterans Affairs
   Funds: — $2,971,927
   Period: — January 1, 2005 through December 31, 2014
   Description — Lease agreement in which University leases 9,366 square feet; Suites 1 and 2 of the MCC Building, J.J. Pickle Research Center, 3925 West Braker Lane, Austin, Texas 78759, to the U.S. Department of Veterans Affairs for the term of 10 years for use as office space and a magnetic imaging research center.

CONTRACTS WITH AN AGENCY OF A FOREIGN GOVERNMENT

FUNDS COMING IN

3. Agency: — Turku School of Economics and Business Administration, Turku, Finland
   Funds: — $78,660
   Period: — April 3, 2005 through April 9, 2005
   Description — U. T. Austin to provide a week-long executive program entitled “Competing and Leadership in a Changing Business Environment" to Turku School of Economics and Business Administration, on the campus of U. T. Austin.

AMENDMENTS TO THE 2004-05 BUDGET

APPOINTMENTS AND PROMOTIONS

The following Requests for Budget Change (RBC) have been administratively approved by the Executive Vice Chancellor for Academic Affairs and are recommended for approval by the U. T. Board of Regents:

	Description	Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
RED McCOMBS SCHOOL OF BUSINESS						
Management Science & Information Systems						
1.	Cynthia M. Beath					267
From:	Professor (T)	9/1-5/31	100	09	120,200	
To:	Professor Emeritus	9/1-5/31				
Management						
2.	Victor L. Arnold (T)					268
From :	Kleberg-King Ranch Centennial Professorship	9/1-5/31	100	09	118,000	
To :	Professor Emeritus	9/1-5/31				
COLLEGE OF LIBERAL ARTS						
History						
The Raymond Dickson, Alton C. Allen and Dillon Anderson Centennial Professorship and Professor						
3.	Henry W. Brands (T)	1/16-5/31	100	09	150,000	412
Philosophy						
Professor						
4.	Jonathan Dancy (T)	1/16-5/31	100	09	160,000	282

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

Description		Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
COLLEGE OF NATURAL SCIENCES						
Astronomy						
5.	Donald E. Winget (T)					280
From:	Professor		100	09	84,500	
To:	Harlan J. Smith Centennial Professorship In Astronomy and Professor	9/1-5/31	100	09	84,500	
		9/1-5/31	SUPLT	09	8,750	
Mathematics						
Professor Emeritus						
6.	Peter W. M. John	9/1-5/31				284
Neurobiology						
Karl Folkers Chair in Interdisciplinary Biomedical Research and Professor						
7.	Daniel Johnston (T)	9/1-5/31	100	09	265,000	286
		9/1-5/31	SUPLT	09	10,000	

TRANSFERS OF FUNDS

Description		$ Amount	RBC #
PLANT FUNDS			
Physical Plant – MHD - HHD			
8.	Amount of Transfer:	614,000	363
From:	Auxiliary Enterprise Funds Housing and Food Services Division Office		
To:	Moore Hall and Hill Hall Dormitory Exterior Egress Improvements		

Funding for exterior egress improvements at Moore Hall (MHD) and Hill Hall (HHD) Dormitories.

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

TRANSFERS OF FUNDS (CONTINUED)

Description	$ Amount	RBC #
PLANT FUNDS (Continued)		
Physical Plant - Kinsolving		
9. Amount of Transfer:	1,826,000	364
From: Housing and Food Services General Repair And Replacement Reserve Account		
To: Kinsolving Dormitory – Second Floor Improvements		
Funding for second floor improvements in Kinsolving Dormitory.		
Physical Plant – Academic Space		
10. Amount of Transfer:	3,500,000	365
From: Designated Funds – VPBA Research Enhancement Allotment		
To: Academic Space Improvements Allocation		
To provide funding for Fiscal Year 2004-05 Academic Space Improvement Allocation to the Physical Plant.		
Physical Plant – Texas Union Building		
11. Amount of Transfer:	500,000	484
From: Texas Union – Reserve for Renewal and Replacement Allocation		
To: Texas Union Building – Ballroom Ceiling All Expenses		
Funding for repair of the Texas Ballroom ceiling in the Texas Union Building.		

OTHER FISCAL ITEMS

PURCHASE ORDER

The following purchase order has been administratively approved by the President, or his delegate, and is recommended for approval by the U. T. Board of Regents:

1. Agency: GTE Southwest Incorporated dba Verizon

   Funds: $1,457,460

   Title/Description: Acquisition of optical fiber network equipment for use on the statewide Lonestar Education and Research Network (LEARN) backbone. LEARN is part of an overall plan to connect Texas universities to the National Tera Grid. The vendor was selected from ten respondents following a competitive bid process:

   - Alcatel USA, Plano, Texas;
   - Celion Networks, Richardson, Texas;
   - Ciena Corporation, Linthicum, Maryland;
   - Fujitsu Networks, Richardson, Texas;
   - GTE Southwest Inc. (DBA Verizon), Bryan, Texas;
   - Infinera Corporation, Sunnyvale, California;
   - Movaz Networks, Norcross, Georgia;
   - Nortel Networks, Austin, Texas;
   - Sorrento Networks, San Diego, California; and
   - XTERA Communications, Allen, Texas.

OTHER MATTERS

APPROVAL OF DUAL POSITIONS OF HONOR, TRUST, OR PROFIT

The following item has been approved by the Executive Vice Chancellor for Academic Affairs in accordance with the Regents' *Rules and Regulations*, Series 30103 and is submitted for approval by the U. T. Board of Regents. It has been determined that the holding of this office or position is of benefit to the State of Texas and The University of Texas and there is no conflict between holding the position and the appointment of Mr. Self with The University of Texas at Austin. By approval of this item, the Board is also asked to find that holding this position is of benefit to the State of Texas and The University of Texas and there is no conflict between the position and the University appointment.

1.	Name:	Mr. Floyd G. Self, Jr.
	Title:	Director, U. T. Austin Purchasing Office
	Position:	Member, Texas Council on Purchasing from People with Disabilities
	Period:	November 24, 2004 through January 31, 2009
	Compensation:	None
	Description:	Governor Rick Perry appointed Mr. Self to serve on the Texas Council on Purchasing from People with Disabilities. The Council's major functions include approving community rehabilitation programs for participation in a set aside purchasing program called the State Use Program, setting fair market prices of products and services offered for sale through this program, and contracting with a central nonprofit agency to carry out the day-to-day functions of the program.

U. T. DALLAS

AMENDMENTS TO THE 2004-05 BUDGET

APPOINTMENTS AND PROMOTIONS

The following Requests for Budget Change (RBC) have been administratively approved by the Executive Vice Chancellor for Academic Affairs and are recommended for approval by the U. T. Board of Regents:

			Full-time Salary		
Description	Effective Date	% Time	No. Mos.	Rate $	RBC #
SCHOOL OF ARTS AND HUMANITIES					
Arts & Aesthetic Studies					
Margaret McDermott Distinguished Chair and Professor					
1. Richard R. Brettell (T)	9/1-5/31	100	09	73,000	233
Computer Animation					
Associate Professor					
2. Midori K. Deleon (T)	9/1-5/31	100	09	80,000	231
Media Studies					
Ashbel Smith Professor					
3. Mihai Nadin (T)	9/1-5/31	100	09	130,000	467
SCHOOL OF MANAGEMENT					
Accounting					
Ashbel Smith Professor					
4. Ashiq Ali (T)	9/1-5/31	100	09	180,000	422

OTHER FISCAL ITEMS

EMPLOYMENT AGREEMENTS

The following agreement has been awarded, has been approved by the Executive Vice Chancellor for Academic Affairs, and is recommended for approval by the U. T. Board of Regents. Such employment under these agreements is subject to the Constitution and Bylaws of the National Collegiate Athletic Association, any intercollegiate athletic conference of which The University of Texas at Dallas is a member, and the *Rules and Regulations* of the Board of Regents of The University of Texas System and the policies of The University of Texas at Dallas. The violation of the provisions of such constitution, bylaws, rules, or regulations shall be grounds for suspension without pay or dismissal.

1. Item: Head Men and Women's Tennis Coach

   Funds: $24,000 annually

   Period: November 1, 2004 through August 31, 2005

   Description: Agreement for employment of Head Tennis Coach, Bryan Whitt, for the above designated period following the standard coach's employment contract prepared by the Office of General Counsel.

U. T. EL PASO

GIFTS

The following gift has been received, has been administratively approved by the President or her delegate, and is recommended for approval by the U. T. Board of Regents:

1. Donor Name: Mr. Larry K. Durham - Durham Family Foundation
   College/School/
   Department: Intercollegiate Athletics
   Purpose: Athletic Facility Construction Gift Fund
   Asset Type: Cash
   Value: $1,000,000

AMENDMENTS TO THE 2004-05 BUDGET

APPOINTMENTS AND PROMOTIONS

The following Requests for Budget Change (RBC) have been administratively approved by the Executive Vice Chancellor for Academic Affairs and are recommended for approval by the U. T. Board of Regents:

	Description	Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
COLLEGE OF EDUCATION						
Educational Leadership and Foundations						
Professor and Chair						
1.	William J. Johnston (T)	9/1-5/31	100	09	75,000	443
		9/1-5/31	SUPLT	09	2,000	
2.	Sandra R. Hurley (T)					452
From:	Associate Professor and	9/1-5/31	50	09	56,484	
	and College of Education -					
	Associate Dean	9/1-10/15	50	12	70,116	
To:	Vice President for					
	Academic Affairs -					
	Associate Vice President	10/16-5/31	100	12	80,000	
	and Associate Professor	10/16-5/31	WOS	09	56,484	
COLLEGE OF ENGINEERING						
Computer Science						
3.	David G. Novick (T)					453
From:	Professor, Southwestern		100	09	110,974	
	Bell Professorship in the		SUPLT	09	2,000	
	College of Engineering,					
	and Chair					
To:	Vice President for					
	Academic Affairs -					
	Associate Vice President,	9/1-5/31	100	12	150,632	
	Professor, Southwestern					
	Bell Professorship in	9/1-5/31	WOS	09	110,974	
	College of Engineering					

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

Description		Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
COLLEGE OF HEALTH SCIENCES						
School of Nursing						
Professor						
4.	Thomas C. Olson (T)	9/1-5/31	100	09	80,000	448
COLLEGE OF LIBERAL ARTS						
Languages and Linguistics						
Professor and Chair						
5.	Kirsten F. Nigro (T)	9/1-5/31	100	09	86,500	445
		9/1-5/31	SUPLT	09	2,000	
Political Science						
6.	William G. Weaver (T)					446
From:	Political Science - Associate Professor and		66.67	09	58,948	
	Center for Law and Border Studies - Associate Professor		33.33	09	58,948	
To:	Political Science – Chair	9/1-5/31	66.67	09	58,948	
	and Political Science - Associate Professor and	9/1-5/31	33.33	09	58,948	
	Center for Law and Border Studies – Associate Professor	9/1-5/31	SUPLT	09	2,000	
Social Work						
7.	Kip Coggins (T)					447
From:	Associate Professor		100	09	52,750	
To:	Director (ad interim) and	9/1-5/31	100	09	52,750	
	Associate Professor	9/1-5/31	SUPLT	09	2,000	

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

Description		Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
COLLEGE OF SCIENCE						
Geological Science						
8.	Diane I. Doser (T)					449
From:	Geological Sciences - Professor and Environmental Science and Engineering - Professor		100	09	80,887	
To:	Geological Sciences - Chair		100	09	80,887	
	and Geological Sciences - Professor and Environmental Science and Engineering – Professor	9/1-5/31	SUPLT	09	2,000	
9.	Kate C. Miller (T)					450
From:	Chair and		100	09	81,200	
	Professor		SUPLT	09	2,000	
To:	College of Sciences - Associate Dean and	9/1-5/31	50	12	108,267	
	College of Sciences - Associate Dean and	9/1-5/31	50	09	81,200	
	and Geological Sciences - Professor	9/1-5/31	SUPLT	12	2,000	

AMENDMENTS TO THE 2003-04 BUDGET

APPOINTMENTS AND PROMOTIONS

Description	Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
COLLEGE OF HEALTH SCIENCES					
Office of the Dean					
Dean and Professor – Health Promotions					
1. Leslie O. Schulz (T)	8/1-8/31	100	12	143,000	160
		0		102,062	
COLLEGE OF SCIENCE					
Office of the Dean					
Interim Dean and Professor - Chemistry					
2. Michael P. Eastman (T)	8/16-8/31	100	12	138,000	168
		0		98,493	
INFORMATION RESOURCES AND PLANNING					
3. Stephen Riter (T)					176
From: Vice President for Academic Affairs – Vice President and	9/1-8/31	100	12	149,968	
Electrical Engineering - Professor	9/1-5/31	0	09	101,112	
To: Vice President for Information Resources and Planning - Vice President and	8/1-8/31	100	12	149,968	
Electrical Engineering - Professor	9/1-5/31	0	09	101,112	

U. T. PAN AMERICAN

AMENDMENTS TO THE 2004-2005 BUDGET

APPOINTMENTS AND PROMOTIONS

The following Requests for Budget Change (RBC) have been administratively approved by the Executive Vice Chancellor for Academic Affairs and are recommended for approval by the U. T. Board of Regents:

	Description	Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
COLLEGE OF HEALTH SCIENCES AND HUMAN SERVICES						
Department of Occupational Therapy						
1.	Angela Scoggins (T)					477
From:	Associate Professor		100	09	61,427	
To:	Associate Professor	09/1-05/31	100	09	61,427	
	Interim Chair		SUPLT	09	2,000	
COLLEGE OF SCIENCE AND ENGINEERING						
School of Engineering						
2.	Edwin LeMaster (T)					478
From:	Associate Dean and Professor		100	09	113,027	
To:	Interim Dean and Professor	09/1-05/31	100	09	119,027	
3.	Miguel Angel Gonzalez (T)					479
From:	Associate Professor		100	09	68,681	
To:	Associate Professor					
	Interim Associate Dean	09/1-05/31	100	09	98,500	

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

Description	Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
COLLEGE OF SOCIAL AND BEHAVORIAL SCIENCES					
Department of Masters of Public Administration Program					
Associate Professor, Director/Chair					
4. Espiridion Borrego (T)	09/1-05/31	100	09	65,500	476
		SUPLT	09	2,000	

U. T. SAN ANTONIO

CONTRACTS

The following contract has been administratively approved by the President or his delegate and the Executive Vice Chancellor for Academic Affairs and is recommended for approval by the U. T. Board of Regents:

GENERAL CONTRACTS

FUNDS COMING IN

1.	Agency:	Texas Department of Transportation
	Funds:	$2,000,000 subject to increase to $5,000,000
	Period:	February 10, 2005 through February 10, 2007
	Description:	Texas Department of Transportation agrees to reimburse U. T. San Antonio - Center for Archaeological Research for General Archaeological Services.

AMENDMENTS TO THE 2004-05 BUDGET

APPOINTMENTS AND PROMOTIONS

The following Request for Budget Change (RBC) has been administratively approved by the Executive Vice Chancellor for Academic Affairs and is recommended for approval by the U. T. Board of Regents:

Description	Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
VICE PRESIDENT FOR RESEARCH GRADUATE STUDIES					
1. Joseph Stafford (T)					244
From: Vice Provost Research Development,	9/1-8/31	100	12	175,100	
and Professor, Counseling, Educational Psychology, Adult & Higher Education Department of College of Education & Human Development	9/1-5/31	0	09	78,000	
To: Vice President for Research and Graduate	9/1-8/31	100	12	175,100	
Studies and Professor, Counseling, Educational Psychology, Adult & Higher Education Department of College of Education & Human Development	9/1-5/31	0	09	78,000	

OTHER FISCAL ITEMS

EMPLOYMENT AGREEMENTS

The following agreements have been awarded, have been approved by the Executive Vice Chancellor for Academic Affairs, and are recommended for approval by the U. T. Board of Regents. Such employment under these agreements is subject to the Constitution and Bylaws of the National Collegiate Athletic Association, any intercollegiate athletic conference of which The University of Texas at San Antonio is a member, and the *Rules and Regulations* of the Board of Regents of The University of Texas System and the policies of The University of Texas at San Antonio. The violation of the provisions of such constitution, bylaws, rules, or regulations shall be grounds for suspension without pay or dismissal.

1. Item: Head Men’s Basketball Coach

   Funds: $8,612 monthly

   Period: September 1, 2004 through March 31, 2007

   Description: Agreement for employment of Head Basketball Coach, Tim Carter, for the above designated period following the standard coach's employment contract prepared by the Office of General Counsel.

2. Item: Head Men’s and Women’s Cross Country Coach

   Funds: $2,528 monthly

   Period: September 1, 2004 through June 30, 2005

   Description: Agreement for employment of Head Men’s and Women’s Cross Country Coach, Rose Monday, for the above designated period following the standard coach's employment contract prepared by the Office of General Counsel.

U. T. TYLER

GIFTS

The following gifts have been received, have been administratively approved by the President or his delegate, and are recommended for approval by the U. T. Board of Regents:

1. Donor Name: Anonymous
   College/School/
   Department: Institution
   Purpose: First Residence Hall
   Asset Type: Common Stock
   Value: $3,000,011

2. Donor Name: Anonymous
   College/School/
   Department: Art Department
   Purpose: Fine Arts Building
   Asset Type: Common Stock
   Value: $1,000,003

AMENDMENTS TO THE 2004-05 BUDGET

APPOINTMENTS AND PROMOTIONS

The following Requests for Budget Change (RBC) have been administratively approved by the Executive Vice Chancellor for Academic Affairs and are recommended for approval by the U. T. Board of Regents:

	Description	Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
COLLEGE OF ARTS & SCIENCES						
Department of Literature and Languages						
1.	Victor Scherb (T)					490
From:	Professor, Chair	91/-5/31	100	09	58,143	
To:	Professor, Chair	9/1-5/31	100	09	58,143	
	Jack and Dorothy Fay White Fellowship for Teaching Excellence	9/1-5/31	SUPLT	09	2,500	
COLLEGE OF EDUCATION & PSYCHOLOGY						
Department of Special Education						
2.	Brenda Gilliam (T)					491
From:	Associate Professor, Chair	91/-5/31	100	09	56,672	
To:	Jack and Dorothy Fay White Fellowship for Teaching Excellence	9/1-5/31	100	09	56,672	
	Associate Professor, Chair	9/1-5/31	SUPLT	09	2,500	

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED

Description		Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
DEPARTMENT OF BUSINESS ADMINISTRATION						
Management						
3.	C. Ray Gullett (T)					496
From:	Professor		100	09	83,618	
To:	Professor Emeritus	9/1-8/31				
COLLEGE OF ARTS AND SCIENCES						
Journalism						
4.	Kenneth R. Casstevens (T)					517
From:	Associate Professor		100	09	58,786	
To:	Associate Professor Emertius	9/1-8/31				
COLLEGE OF EDUCATION AND PSYCHOLOGY						
Counselor Education						
5.	Shirley M. Jones (T)					518
From:	Associate Professor		100	09	48,902	
To:	Associate Professor Emertius	9/1-8/31				

U. T. SOUTHWESTERN MEDICAL CENTER - DALLAS

GIFTS

The following gifts have been received, have been administratively approved by the President or his delegate, and are recommended for approval by the U. T. Board of Regents:

1. Donor Name: Children's Medical Center of Dallas
   College/School/ Department: Pediatrics
   Purpose: To support the Clinical Quality Improvements at Children's Medical Center of Dallas
   Asset Type: Cash
   Value: $500,000

2. Donor Name: The Cain Foundation
   College/School/ Department: Institution
   Purpose: To support the establishment of a Comprehensive Center in Mobility Research
   Asset Type: Cash
   Value: $500,000

3. Donor Name: GE Medical Systems
   College/School/ Department: Internal Medicine
   Purpose: To support Gulf War Syndrome research
   Asset Type: Cash
   Value: $500,000

4. Donor Name: Eli Lilly and Company
   College/School/ Department: Pharmacology
   Purpose: To support the Alliance for Cellular Signaling
   Asset Type: Cash
   Value: $625,000

CONTRACTS

The following contract has been administratively approved by the President or his delegate and the Executive Vice Chancellor for Health Affairs and is recommended for approval by the U. T. Board of Regents:

GENERAL CONTRACTS

FUNDS GOING OUT

1. Agency: Allied Waste Industries, Inc. (DBA Trinity Waste Services)

   Funds: Approximately $1,268,897

   Period: February 10, 2005 with annual extensions through August 31, 2009

   Description: Allied Waste Industries, Inc., (DBA Trinity Waste Services) agrees to provide trash hauling and disposal services on the campus. The vendor was selected from five respondents to a Request for Proposal issued October 2004 following a competitive bid process:

   - Allied Waste Industries, Inc., Hutchins, Texas;
   - Champion Waste Services, Ltd., Dallas, Texas;
   - IESI TX Corp., Balch Springs, Texas; and
   - Republic Waste Services of Texas, Ltd. (DBA Duncan Disposal), Hutchins, Texas; and
   - Waste Management of Texas, Inc., Lewisville, Texas.

AMENDMENTS TO THE 2004-05 BUDGET

APPOINTMENTS AND PROMOTIONS

The following Requests for Budget Change (RBC) have been administratively approved by the Executive Vice Chancellor for Health Affairs and are recommended for approval by the U. T. Board of Regents:

Description	Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
SOUTHWESTERN MEDICAL SCHOOL					
Center for Biostatistics and Clinical Science					
1. Milton Packer (T)	9/1-8/31	100	12	300,000	254
Director, Professor of Internal Medicine and the Gayle and Paul Stoffel Distinguished Chair in Cardiology					
Microbiology					
2. Michael V. Norgard (T)					255
From: Professor, Chairman and the B. B. Owen Distinguished Chair in Molecular Research		100	12	228,000	
To: Professor, Chairman and the B. B. Owen Distinguished Chair in Molecular Research	9/1-8/31	100	12	250,000	
Neurology					
Associate Professor					
3. Steven Vernino (T)	9/1-8/31	100	12	164,000	257

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

Description		Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
SOUTHWESTERN MEDICAL SCHOOL (Continued)						
Obstetrics and Gynecology						
4.	Kenneth J. Leveno (T)					258
From:	Professor, Gillette Professorship in Obstetrics and Gynecology		100	12	260,000	
To:	Professor, Jack A. Pritchard, M.D. Chair in Obstetrics and Gynecology	9/1-8/31	100	12	260,000	
Psychiatry						
5.	David W. Self (T)					259
From:	Associate Professor, Lydia Bryant Test Professorship in Psychiatric Research		100	12	119,300	
To:	Associate Professor, Wesley Gilliland Professorship in Biomedical Research	9/1-8/31	100	12	119,300	
6.	Madhukar H. Trivedi (T)					260
From:	Professor		100	12	206,400	
To:	Professor, Lydia Bryant Test Professorship in Psychiatric Research	9/1-8/31	100	12	206,400	

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

Description		Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
SOUTHWESTERN MEDICAL SCHOOL (Continued)						
Cancer Immunobiology Center						
7.	Ellen S. Vitetta (T)					273
From:	Professor, Director and the Scheryle Simmons Patigian Distinguished Chair in Cancer Immunobiology		100	12	228,000	
To:	Professor, Director and the Scheryle Simmons Patigian Distinguished Chair in Cancer Immunobiology	9/1-8/31	100	12	260,000	
Internal Medicine						
8.	Daniel J. Garry (T)					274
From:	Associate Professor, Gail Griffiths Hill Chair in Cardiology		100	12	167,600	
To:	Associate Professor, Gail Griffiths Hill Chair in Cardiology	9/1-8/31	100	12	195,000	
Simmons Comprehensive Cancer Center						
Professor, Director, Associate Dean for Oncology Programs and the Lisa K. Simmons Distinguished Chair in Comprehensive Oncology						
9.	James Knox Van Arsdale Willson, Jr. (T)	9/22-8/31	100	12	385,000	342

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

Description	Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
SOUTHWESTERN MEDICAL SCHOOL (Continued)					
Pediatrics					
Professor					
10. Julio Perez-Fontan (T)	9/1-8/31	100	12	300,000	378
Radiation Oncology					
Associate Professor					
11. Michael D. Story (T)	9/1-8/31	100	12	120,000	379
Professor					
12. David J. Chen (T)	10/11-8/31	100	12	190,000	376

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

Description		Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
SOUTHWESTERN MEDICAL SCHOOL (Continued)						
Pharmacology						
13.	Alfred G. Gilman (T)					377
From:	Professor, Chairman, Interim Dean of Southwestern Medical School, Raymond and Ellen Willie Distinguished Chair in Molecular Neuro-pharmacology in Honor of Harold B. Crasilneck, Ph.D. Regental Professor and the Atticus James Gill, M.D. Chair in Medical Science		100	12	445,000	
To:	Professor, Chairman, Interim Dean of Southwestern Medical School, Raymond and Ellen Willie Distinguished Chair in Molecular Neuro-pharmacology in Honor of Harold B. Crasilneck, Ph.D. Regental Professor, Atticus James Gill, M.D. Chair in Medical Science and the Tom Craddick Distinguished Chair in Medical Science	8/1-8/31	100	12	445,000	
Internal Medicine						
14.	Ralph V. Shohet (T)					433
From:	Professor		100	12	131,300	
To:	Professor	11/1-8/31	100	12	175,000	

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

Description		Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
SOUTHWESTERN MEDICAL SCHOOL (Continued)						
Neurology						
15.	Stephen C. Cannon (T)					474
From:	Professor, Chairman and the Lois C. A. and Darwin E. Smith Distinguished Chair in Neurological Mobility Research		100	12	314,000	
To:	Professor, Chairman and the Linda and Mitch Hart Distinguished Chair in Neurology	12/1-8/31	100	12	314,000	
16.	Michael K. Racke (T)					475
From:	Professor		100	12	156,500	
To:	Professor, Lois C. A. and Darwin E. Smith Distinguished Chair in Neurological Mobility Research	12/1-8/31	100	12	156,500	
INSTITUTIONAL SUPPORT						
Office of the President						
17.	Charles B. Mullins (T)					543
From:	Professor		100	12	350,000	
To:	Professor Emeritus, Ashbel Smith Professorship	2/1-8/31	100	12		

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

TRANSFERS OF FUNDS

Description		$ Amount	RBC #
U. T. SOUTHWESTERN MEDICAL CENTER – HOSPITALS			
Patient Care Activities			
18.	Amount of Transfer:	180,364,347	481
From:	Estimated Educational and General Income		
	Income from Patients	178,153,184	
	Interest on Time Deposits	40,269	
	Miscellaneous Income	2,170,894	
To:	Patient Care Activities	154,745,254	
	Institutional Support	237,348	
	Staff Benefits	14,876,102	
	Purchased Utilities	2,166,760	
	All Other Physical Plant Operations	6,098,215	
	Debt Service	2,240,668	

This request for budget change reflects the increase in revenue and expenditures in the E&G budget due to the acquisition of St. Paul University Medical Center and Zale Lipshy University Hospital by U. T. Southwestern Medical Center at Dallas effective January 1, 2005.

U. T. SOUTHWESTERN MEDICAL CENTER – AUXILIARY ENTERPRISES			
Auxiliary Enterprises - Hospitals			
19.	Amount of Transfer:	4,370,943	492
From:	Estimated Income	4,370,943	
To:	Budgeted Expenses	3,787,768	
	Excess of Estimated Income Over Budgeted Expenses	583,175	

This request for budget change reflects the increase in budgeted revenue and expenditures due to the acquisition of St. Paul University Medical Center and Zale Lipshy University Hospital by U. T. Southwestern Medical Center at Dallas effective January 1, 2005. Auxiliary Enterprises includes Outpatient Pharmacies, Cafeteria/Catering Services, and Gift Shops.

U. T. MEDICAL BRANCH - GALVESTON

CONTRACTS

The following contracts have been administratively approved by the President or his delegate and the Executive Vice Chancellor for Health Affairs, and are recommended for approval by the U. T. Board of Regents:

GENERAL CONTRACTS

FUNDS COMING IN

1. Agency: Driscoll Children's Hospital
   Funds: $37,108,577
   Period: September 1, 2004 through August 31, 2009
   Description: U. T. Medical Branch – Galveston will provide or arrange to provide for anesthesia and pediatric critical care services at Driscoll Children's Hospital in Corpus Christi, Texas.

2. Agency: Texas Department of State Health Services
   Funds: $1,331,355
   Period: September 1, 2004 through August 31, 2005
   Description: U. T. Medical Branch – Galveston will provide or assure the provision of prenatal, preventive, and primary child health, dysplasia, and dental services (for children and adolescents) for Title V eligible individuals.

3. Agency: Texas Department of State Health Services
   Funds: $1,711,600
   Period: September 1, 2004 through August 31, 2005
   Description: U. T. Medical Branch – Galveston will provide family planning services to Title XX eligible individuals.

4. Agency: Texas Department of State Health Services
   Funds: $1,351,148
   Period: September 1, 2004 through August 31, 2005
   Description: U. T. Medical Branch – Galveston will continue to promote the reduction of injuries occurring from exposures to poisons and toxic substance through public and professional education and help reduce medical costs incurred by State of Texas residents by providing treatment recommendations.

CONTRACTS (CONTINUED)

GENERAL CONTRACTS (CONTINUED)

FUNDS GOING OUT

5. | Contractor: | R. L. H. Construction, Incorporated |
|---|---|
| Amount: | $3,000,000 |
| Source of Funds: | Institutional Project Funds |
| Date of Contract: | November 1, 2004 |
| Estimated Completion Date: | October 31, 2006 |
| Project Title: | Job Order Contracting Services |
| Description: | R. L. H. Construction, Incorporated will furnish all of the materials and perform all of the work shown on the drawings and described in the specifications associated with any Statement of Work provided by U. T. Medical Branch – Galveston for a Job Order under this agreement. The vendor was selected from nine bidders following a competitive bid process: |

- General Contractor Services, Inc., Houston, Texas;
- Jamail Construction Company, Houston, Texas;
- Moorhouse Construction Company, Houston, Texas;
- R. L. H. Construction Incorporated, Galveston, Texas;
- Rosecrans Corporation, Houston, Texas;
- South Coast Construction Company, Houston, Texas;
- Southern Accent Systems, Houston, Texas;
- Trevino Group, Inc., Houston, Texas; and
- Vaughn Construction Company, Houston, Texas.

AMENDMENTS TO THE 2004-05 BUDGET

APPOINTMENTS AND PROMOTIONS

The following Requests for Budget Change (RBC) have been administratively approved by the Executive Vice Chancellor for Health Affairs and are recommended for approval by the U. T. Board of Regents:

Description		Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
SCHOOL OF MEDICINE						
Office of the Dean of Medicine; Internal Medicine; Microbiology						
1.	Stanley M. Lemon (T)					221
From:	Dean of Medicine; Professor		100	12	410,352	
To:	Dean of Medicine; John Sealy Distinguished University Chair in Human Infections and Immunity, Professor	10/1-8/31	100	12	410,352	
Internal Medicine						
Daisy Emory Allen Distinguished Chair in Geriatric Medicine and Associate Professor						
2.	Elena Volpi (T)	9/1-8/31	100	12	150,000	346
SCHOOL OF MEDICINE; SCHOOL OF ALLIED HEALTH						
Internal Medicine; Physician Assistant Studies						
3.	Richard R. Rahr (T)					352
From:	Clinical Specialist; Professor and Chair		100	12	95,139	
To:	Clinical Specialist; The Dibrell Family Professorship in the Art of Medicine, Professor and Chair	9/1-8/31	100	12	95,139	

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

Description		Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
SCHOOL OF MEDICINE (Continued)						
Internal Medicine						
4.	Yochai Birnbaum (T)					341
From:	Professor		100	12	238,000	
To:	Edward D. and Sally M. Futch Professorship in Cardiology, Professor	10/1-8/31	100	12	238,000	
Psychiatry & Behavioral Sciences; Pharmacology; Center for Addiction Research						
5.	Kathryn A. Cunningham (T)					226
From:	Professor; Director		100	12	189,680	
To:	Professor; Chauncey Leake Distinguished Professorship in Pharmacology; Director	9/1-8/31	100	12	189,680	
Psychiatry & Behavioral Sciences						
6.	Michael O'Boyle (T)					343
From:	Professor		100	12	175,230	
To:	Harry K. Davis Professorship In Psychiatry and Professor	10/1-8/31	100	12	175,230	

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

	Description	Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
SCHOOL OF MEDICINE (Continued)						
Otolaryngology						
7.	Byron J. Bailey					339
From:	Professor (T)		100	12	296,000	
To:	Professor and Chair Emeritus	9/1-8/31	0	0	0	
Surgery; Orthopaedics and Rehabilitation						
8.	Haring J. Nauta (T)					366
From:	Physician; Professor		100	12	350,000	
To:	Samuel R. Snodgrass, M.D. Professorship in Neurosurgery; Physician; Professor	10/1-8/31	100	12	350,000	

OTHER MATTERS

APPROVAL OF DUAL POSITIONS OF HONOR, TRUST, OR PROFIT

The following item has been approved by the Executive Vice Chancellor for Health Affairs in accordance with the Regents' *Rules and Regulations*, Series 30103 and is submitted for approval by the U. T. Board of Regents. It has been determined that the holding of this office or position is of benefit to the State of Texas and The University of Texas and there is no conflict between holding this position and the appointment of Jean L. Freeman, Ph.D., with The University of Texas Medical Branch at Galveston. By approval of this item, the Board is also asked to find that holding this position is of benefit to the State of Texas and The University of Texas and there is no conflict between the position and the University appointment.

1. Name: Jean L. Freeman, Ph.D.
   Title: Professor, Internal Medicine, Geriatrics
   Position: Appointment to the Aging and Disability Services Council
   Period: November 22, 2004 through February 1, 2005
   Compensation: None
   Description: Governor Rick Perry has appointed Dr. Freeman to the Aging and Disability Services Council. The Council is composed of nine members who study and make recommendations regarding the management and operation of the Texas Department of Aging and Disability Services, including policies and procedures and rules governing the delivery of services as well as rights and duties of persons who are served or regulated by the Texas Department of Aging and Disability Services.

U. T. HEALTH SCIENCE CENTER - HOUSTON

AMENDMENTS TO THE 2004-05 BUDGET

APPOINTMENTS AND PROMOTIONS

The following Requests for Budget Change (RBC) have been administratively approved by the Executive Vice Chancellor for Health Affairs and are recommended for approval by the U. T. Board of Regents:

				Full-time Salary		
	Description	Effective Date	% Time	No. Mos.	Rate $	RBC #
HEALTH SCIENCE CENTER-GENERAL						
Office of the President						
1.	Gilbert A. Castro (T)					292
From:	Vice President, Academic Administration		100	12	191,000	
To:	Vice President for Inter-Institutional Relations	9/1-8/31	100	12	210,000	
INSTITUTE OF MOLECULAR MEDICINE						
Institute of Molecular Medicine						
2.	Irma Gigli (T)					305
From:	Professor, Walter and Mary Mischer Professorship		100	12	221,776	
			SUPLT	12	28,224	
To:	Professor, Walter and Mary Mischer Professorship and Hans J. Muller-Eberhard, M.D., Ph.D. Chair in Immunology	9/1-8/31	100	12	250,000	
SCHOOL OF PUBLIC HEALTH						
Health & Human Spirit Program						
Director of the Center for Health, Humanities & the Human Spirit and Professor						
3.	Thomas Cole (T)	9/1-8/31	100	12	155,000	322
		9/1-8/31	SUPLT	12	40,000	

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

	Description	Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
SCHOOL OF NURSING						
General Instruction						
4.	Christine A. Brosnan (T)					442
From:	Associate Professor; and Associate Professor-Management and Policy Sciences-School of Public Health		100	12	71,313	
To:	Interim Assistant Dean,	11/1-8/31	49	12	71,313	
	Chair, and Associate Professor; Management and Policy Sciences-	11/1-8/31	51	12	71,313	
	School of Public Health	11/1-8/31	SUPLT	12	5,000	
MEDICAL SCHOOL						
Anesthesiology						
5.	Bruce Butler (T)					295
From:	Professor; and		51	12	78,540	
	Professor, Environmental Sciences-School of Public		49	12	75,460	
	Health		SUPLT	12	11,000	
To:	Professor; and Professor, Environmental Sciences-School of Public Health	9/1-8/31	51	12	83,640	
	Assistant Vice President, Research and Technology-Research Technology	9/1-8/31	49	12	79,233	
	Management	9/1-8/31	SUPLT	12	11,000	

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

Description		Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
MEDICAL SCHOOL (Continued)						
Anesthesiology (Continued)						
6.	Robert D. Warters (T)					297
From:	Associate Professor and Vice		100	12	125,000	
	Chairman		SUPLT	12	25,000	
To:	Professor and Vice	9/1-8/31	100	12	145,000	
	Chairman	9/1-8/31	SUPLT	12	50,000	
Medical School – Dean						
7.	Stanley G. Schultz (T)					489
From:	Dean and Professor,					
	Fondren Chair in		100	12	250,000	
	Cellular Signing		SUPLT	12	57,000	
To:	Dean, Professor Fondren					
	Chair in Cellular Signaling					
	and H. Wayne Hightower					
	Distinguished	12/14-8/31	100	12	250,000	
	Professorship in the	12/14-8/31	SUPLT	12	57,000	
	Medical Sciences	12/14-8/31	SUPLT	12	12,500	
Infectious Diseases						
8.	Barbara E. Murray (T)					516
From:	Professor, and Professor-		100	12	184,999	
	HCHD-Infectious Diseases		SUPLT	12	20,000	
To:	Professor and Director					
	Infectious Diseases and					
	J. Ralph Meadows					
	Professorship in Internal	9/1-8/31	100	12	184,999	
	Medicine	9/1-8/31	SUPLT	12	20,000	

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

Description		Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
DENTAL SCHOOL						
Restorative Dentistry and Biomaterials						
9.	Arthur H. Jeske (T)					439
From:	Professor		100	12	103,414	
To:	Professor and Chairman	11/16-8/31	100	12	103,414	
		11/16-8/31	SUPLT	12	25,000	

U. T. HEALTH SCIENCE CENTER - SAN ANTONIO

GIFTS

The following gift has been received, has been administratively approved by the President or his delegate, and is recommended for approval by the U. T. Board of Regents:

1. | | |
|---|---|
| Donor Name: | Ruth McLean Bowers |
| College/School/ Department: | Research Imaging Center |
| Purpose: | To support the possibility of constructing a new cyclotron wing, as an extension of the McDermott Clinical Science Building, to be used by the Research Imaging Center team and radiochemistry production laboratories. Additional funds in the amount of $600,000 have been pledged by Mrs. Bowers. |
| Asset Type: | Cash |
| Value: | $1,000,000 |

AMENDMENTS TO THE 2004-05 BUDGET

APPOINTMENTS AND PROMOTIONS

The following Requests for Budget Change (RBC) have been administratively approved as required by the Executive Vice Chancellor for Health Affairs and are recommended for approval by the U. T. Board of Regents:

		Effective	%	Full-time Salary		
	Description	Date	Time	No. Mos.	Rate $	RBC #
GRADUATE SCHOOL OF BIOMEDICAL SCIENCES						
Cellular and Structural Biology						
1.	Brian Alan Herman (T)					455
From:	Professor and Chairman	9/1-9/30	100	12	212,096	
To:	Vice President for Research Office of the Vice President for Research	10/1-8/31	100	12	280,000	
SCHOOL OF MEDICINE						
Distinguished Chair in Health Policy and Professor of Medicine						
2.	John P. Howe, III, M.D. (T) To continue leave of absence through 8/31/2005	9/1-8/31	0	12	WOS	207
Surgery						
Dr. Witten B. Russ Professor and Chairman						
3.	Stephen M. Cohn (T)	9/1-8/31	100	12	500,000	472

AMENDMENTS TO THE 2003-04 BUDGET

APPOINTMENTS AND PROMOTIONS

The following Request for Budget Change (RBC) has been administratively approved as required by the Executive Vice Chancellor for Health Affairs and is recommended for approval by the U. T. Board of Regents:

Description	Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
SCHOOL OF MEDICINE					
Surgery					
Dr. Witten B. Russ Professor and Chairman					
1. Stephen M. Cohn (T)	8/15-8/31	100	12	500,000	208

U. T. M. D. ANDERSON CANCER CENTER

GIFTS

The following gift has been received, has been administratively approved by the President or his delegate, and is recommended for approval by the U. T. Board of Regents:

1. | | |
|---|---|
| Donor Name: | The Commonwealth Foundation for Cancer Research |
| College/School/ Department: | Institution |
| Purpose: | Cancer Research |
| Asset Type: | Cash |
| Value: | $1,250,000 |

AMENDMENTS TO THE 2004-05 BUDGET

APPOINTMENTS AND PROMOTIONS

The following Requests for Budget Change (RBC) have been administratively approved as required by the Executive Vice Chancellor for Health Affairs and are recommended for approval by the U. T. Board of Regents:

Description	Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
U. T. M. D. ANDERSON CANCER CENTER - MEDICAL STAFF					
Anesthesiology					
Chair, Professor					
1. David L. Brown (T)	9/1-8/31	100	12	400,000	177
Lymphoma/Myeloma					
Associate Professor					
2. Qing Yi (T)	9/1-8/31	100	12	110,000	179
Melanoma Medical Oncology					
3. Patrick Hwu (T)					180
From: Chair, Professor		100	12	286,200	
To: Chair, Professor and Robert R. Herring Distinguished Professorship	9/1-8/31	100	12	286,200	
Lymphoma/Myeloma					
4. Jorge Romaguera (T)					182
From: Associate Professor		100	12	194,503	
To: Professor	9/1-8/31	100	12	210,503	

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

Description		Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
U. T. M. D. ANDERSON CANCER CENTER - MEDICAL STAFF (Continued)						
Anesthesiology						
5.	James Arens (T)					183
From:	Chair, Professor and Doctor R. Lee Clark Professorship		100	12	442,335	
To:	Professor and Doctor R. Lee Clark Professorship	9/1-8/31	100	12	442,335	
Anesthesiology						
Associate Professor						
6.	Howard Gutstein					184
From:	Associate Professor		100	12	248,951	
To:	Associate Professor (T)	9/1-8/31	100	12	248,951	
Gynecologic Oncology						
7.	David Gershenson (T)					185
From:	Chair, Professor and Ann Rife Cox Chair in Gynecology		100	12	472,357	
To:	Chair, Professor and J. Taylor Wharton, M.D., Distinguished Chair	9/1-8/31	100	12472,357		

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

Description		Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
U. T. M. D. ANDERSON CANCER CENTER - MEDICAL STAFF (Continued)						
Urology						
8.	Christopher Wood					186
From:	Assistant Professor		100	12	244,051	
To:	Associate Professor (T)	9/1-8/31	100	12	254,051	
Imaging Physics						
9.	Edward Jackson (T)					188
From:	Associate Professor		100	12	183,167	
To:	Professor	9/1-8/31	100	12	199,167	
Clinical Cancer Prevention						
10.	Scott M. Lippman (T)					190
From:	Chair, Professor and Anderson Clinical Faculty Chair for Cancer Treatment and Research		100	12	305,400	
To:	Chair, Professor and Ellen F. Knisely Distinguished Chair in Colon Cancer Research	9/1-8/31	100	12	305,400	

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

Description		Effective Date	% Time	Full-time Salary No. Mos.	Rate $	RBC #
U. T. M. D. ANDERSON CANCER CENTER - MEDICAL STAFF (Continued)						
Anesthesiology						
11.	Thomas Feeley (T)					200
From:	Division Head, Professor and Helen Shafer Fly Distinguished Professorship of Anesthesiology		100	12436,589		
To:	Patient Care Position Pool, Anesthesiology and Critical Care Division Head, Special Assistant to the Chief Operating Office (ad interim), Professor and Helen Shafer Fly Distinguished Professorship of Anesthesiology	9/1-8/31	100	12	436,589	
		9/1-8/31	SUPLT	12	10,000	
Pulmonary Medicine						
12.	Burton F. Dickey					251
From:	Chair, Professor		100	12259,963		
To:	Chair, Professor (T)	9/1-8/31	100	12	259,963	

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

Description		Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
U. T. M. D. ANDERSON CANCER CENTER - MEDICAL STAFF (Continued)						
Epidemiology						
13.	Margaret R. Spitz (T)					252
From:	Chair, Professor and Olga Keith Wiess Chair for Cancer Research		100	12	288,412	
To:	Chair, Professor and Olga Keith Wiess Distinguished University Chair for Cancer Research	9/1-8/31	100	12	288,412	
Translational Research, VP Office						
14.	Robert C. Bast, Jr. (T)					253
From:	Vice President, Translational Research, Professor and Harry Carothers and Olga Wiess Chair for Cancer Research		100	12	339,200	
To:	Vice President, Translational Research, Professor and Harry Carothers Wiess Distinguished University Chair for Cancer Research	9/1-8/31	100	12	339,200	

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

Description		Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
U. T. M. D. ANDERSON CANCER CENTER - MEDICAL STAFF (Continued)						
Endocrine Neoplasia and Hormone Disorder						
15.	Steven I. Sherman (T)					256
From:	Chair (ad interim), Associate Professor		100	12	186,430	
			SUPLT	12	14,000	
To:	Chair, Associate Professor	10/1-8/3	100	12	225,000	
Anesthesiology						
16.	David Brown (T)					421
From:	Chair, Professor		100	12	400,000	
To:	Anesthesiology and Pain Medicine Chair, Professor and Edward Rotan Distinguished Professorship	9/1-8/3	100	12	400,000	
Head and Neck Surgery						
17.	Ehab Y. Hanna (T)					425
From:	Professor		100	12	336,000	
To:	Professor, Clinical Medical Director	11/1-8/31	100	12	336,000	
		11/1-8/31	SUPLT	12	10,000	

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

Description		Effective Date	% Time	Full-time Salary No. Mos.	Full-time Salary Rate $	RBC #
U. T. M. D. ANDERSON CANCER CENTER - MEDICAL STAFF (Continued)						
Patient Care Position Pool, Critical Care and Surgical Oncology						
18.	Barry W. Feig (T)					426
From:	Associate Professor		100	12276,837		
			SUPLT	12	2,500	
			SUPLT	12	33,980	
To:	Patient Care Position Pool and Surgical Oncology Associate Professor	11/1-8/31	100	12	276,837	
		11/1-8/31	SUPLT	12	2,500	
Radiation Physics – Patient Care						
19.	Radhe Mohan (T)					427
From:	Chair, Professor and Bessie McGoldrick Professorship in Clinical Cancer Research		100	12	292,356	
To:	Chair, Professor and Larry and Pat McNeil Chair in Radiation Oncology	9/1-8/31	100	12295,356		
Radiation Oncology						
20.	Kie-Kan Ang (T)					432
From:	Professor and Gilbert H. Fletcher Memorial Chair		100	12	425,934	
To:	Professor and Gilbert H. Fletcher Memorial Distinguished Chair	10/19-8/31	100	12425,934		

AMENDMENTS TO THE 2004-05 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

			Full-time Salary		
Description	Effective Date	% Time	No. Mos.	Rate $	RBC #
U. T. M. D. ANDERSON CANCER CENTER - RESEARCH					
Cancer Biology					
Professor and Lockton Distinguished Chair					
21. Craig Logsdon (T)	10/1-8/31	100	12	185,000	420
Biostatistics					
Professor					
22. Valen Johnson (T)	9/1-8/31	100	12	183,000	161
Immunology					
Associate Professor					
23. Chen Dong (T)	9/1-8/31	100	12	110,000178	
Molecular Therapeutics					
24. Gordon B. Mills(T)					192
From: Chair, Professor and Olga Keith and Harry Carothers Wiess Chair for Cancer Research		100	12	267,388	
To: Chair, Professor and Ann Rife Cox Chair in Gynecology	9/1-8/31	100	12267,388		
Experimental Therapeutics					
25. Elizabeth A. Grimm (T)					199
From: Professor		100	12	186,375	
To: Professor and Frances King Black Memorial Professorship for Cancer Research	9/1-8/31	100	12189,375		

OTHER MATTERS

APPROVAL OF DUAL POSITIONS OF HONOR, TRUST, OR PROFIT

The following items have been approved by the Executive Vice Chancellor for Health Affairs in accordance with the Regents' *Rules and Regulations*, Series 30103 and are submitted for approval by the U. T. Board of Regents. It has been determined that the holding of these positions is of benefit to the State of Texas and The University of Texas and there is no conflict between holding these positions and the appointments of Mr. Leach and Dr. Foxhall with The University of Texas M. D. Anderson Cancer Center. By approval of these items, the Board is also asked to find that holding these positions is of benefit to the State of Texas and The University of Texas and there is no conflict between the positions and the University appointments.

1. Name: Leon J. Leach
   Title: Executive Vice President
   Position: Appointment to the Health and Human Services Council
   Period: November 9, 2004 to February 1, 2007
   Compensation: Travel costs are reimbursed in accordance with current per diem rates.
   Description: On November 9, 2004, Governor Rick Perry appointed Mr. Leon J. Leach to the Health and Human Services Council. The council was created to assist in developing policies and rules for the Health and Human Services Commission, as well as to make recommendations regarding management and operation of the Commission.

2. Name: Lewis E. Foxhall, M.D.
   Title: Associate Vice President, Health Policy
   Position: Appointment to the State Health Services Council
   Period: November 24, 2004 to February 1, 2009
   Compensation: None
   Description: On November 24, 2004, Governor Rick Perry appointed Dr. Lewis Foxhall to the State Health Services Council. The council promotes optimal health for individuals and communities while providing effective health, mental health, and substance abuse services to Texans.

U. T. HEALTH CENTER - TYLER

CONTRACTS

The following contract has been administratively approved by the President or his delegate and the Executive Vice Chancellor of Health Affairs, and is recommended for approval by the U. T. Board of Regents:

GENERAL CONTRACTS

FUNDS GOING OUT

1. Agency: C Construction Company, Inc.
   Funds: $1,433,337
   Period: Agreement made November 14, 2004 and shall be completed within one hundred and eighty days (180) calendar days after the commencement date
   Description: C Construction Company, Inc. shall furnish all of the materials and perform all of the work shown on the drawings and described in the specifications entitled Emergency Care Center Expansion and Renovation. The vendor was selected from four respondents to a Request for Proposal following a competitive bid process:

   - Dave Reeves, Mesquite, Texas;
   - C Construction, Tyler, Texas;
   - HGR Construction, Tyler, Texas; and
   - RPR Construction, Tyler, Texas.

TABLE OF CONTENTS
FOR
ACADEMIC AFFAIRS COMMITTEE

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

1. U. T. System: Reports from institutional presidents

REPORT

The academic presidents will report briefly on new developments taking place at each campus. These oral reports may include any areas such as new research grants, significant collaborations with external agencies, or any other topic deemed to be important by the academic president. This is a quarterly update to the Academic Affairs Committee of the U. T. Board of Regents.

2. U. T. System: Report on FY 2004 post-tenure review

REPORT

Executive Vice Chancellor Sullivan will report on the Fiscal Year 2004 post-tenure review using the attachment on Pages 43.1 - 43.2.

U. T. System Academic Institutions
2003-2004 Post-Tenure Review Report

During Fiscal Year 2004, 320 tenured faculty members at the nine academic institutions were subject to post-tenure review. Of the 320 faculty members subject to review, 317 (or 99%) were evaluated as Performing Well and 3 (or 1%) received an Unsatisfactory evaluation.

The following summary tables provide additional details of the post-tenure review results for academic year 2003-2004.

Summary Post-Tenure Review Results

	Total Subject to Review	Total Performing Well	Total Additional Support or Marginal	Total Unsatisfactory
U. T. Arlington	47	47	0	0
U. T. Austin	131	129	0	2
U. T. Brownsville	16	15	0	1
U. T. Dallas	25	25	0	0
U. T. El Paso	32	32	0	0
U. T. Pan American	15	15	0	0
U. T. Permian Basin	2	2	0	0
U. T. San Antonio	34	34	0	0
U. T. Tyler	15	15	0	0
Total	317	314	0	3

Post-Tenure Review Results by Gender

	Subject to Review		Performing Well		Needs Additional Support or Marginal		Unsatisfactory	
	Male	Female	Male	Female	Male	Female	Male	Female
U. T. Arlington	38	9	38	9	0	0	0	0
U. T. Austin	98	33	96	33	0	0	2	0
U. T. Brownsville	11	5	11	4	0	0	0	1
U. T. Dallas	20	5	20	5	0	0	0	0
U. T. El Paso	26	6	26	6	0	0	0	0
U. T. Pan American	12	3	12	3	0	0	0	0
U. T. Permian Basin	1	1	1	1	0	0	0	0
U. T. San Antonio	24	10	24	10	0	0	0	0
U. T. Tyler	11	4	11	4	0	0	0	0
Total	241	76	239	75	0	0	2	1

Post-Tenure Review Results by Ethnicity

	Total Subject to Review					Performing Well				
	White	Black	Hispanic	Asian	Other	White	Black	Hispanic	Asian	Other
U. T. Arlington	41	0	1	4	1	41	0	1	4	1
U. T. Austin	117	2	8	4	0	115	2	8	4	0
U. T. Brownsville	10	1	5	0	0	10	1	4	0	0
U. T. Dallas	20	1	0	4	0	20	1	0	4	0
U. T. El Paso	24	0	5	2	1	24	0	5	2	1
U. T. Pan American	11	0	4	0	0	11	0	4	0	0
U. T. Permian Basin	2	0	0	0	0	2	0	0	0	0
U. T. San Antonio	28	0	4	2	0	28	0	4	2	0
U. T. Tyler	14	0	0	0	1	14	0	0	0	1
Total	267	4	27	16	3	265	4	26	16	3

	Needs Additional Support or Marginal					Unsatisfactory				
	White	Black	Hispanic	Asian	Other	White	Black	Hispanic	Asian	Other
U. T. Arlington	0	0	0	0	0	0	0	0	0	0
U. T. Austin	0	0	0	0	0	2	0	0	0	0
U. T. Brownsville	0	0	0	0	0	0	0	1	0	0
U. T. Dallas	0	0	0	0	0	0	0	0	0	0
U. T. El Paso	0	0	0	0	0	0	0	0	0	0
U. T. Pan American	0	0	0	0	0	0	0	0	0	0
U. T. Permian Basin	0	0	0	0	0	0	0	0	0	0
U. T. San Antonio	0	0	0	0	0	0	0	0	0	0
U. T. Tyler	0	0	0	0	0	0	0	0	0	0
Total	0	0	0	0	0	2	0	1	0	0

PRESENT STATUS OF EACH UNSATISFACTORY PERFORMANCE:

U. T. Austin: (1 Professor, 1 Assoc. Professor). The two faculty members with an unsatisfactory review have established a professional development plan as a result of the review process.
U. T. Brownsville: (1 Instructor). The faculty member with an unsatisfactory review has established a professional development plan as a result of the review process.

Office of Academic Affairs 1/6/2005

3. **<u>U. T. Austin: Elementary Charter School Permanent Facility - Amendment of the FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to include project</u>**

<u>RECOMMENDATION</u>

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Faulkner that the U. T. Board of Regents amend the FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to include the Elementary Charter School Permanent Facility project at The University of Texas at Austin at a preliminary project cost of $4,500,000 with funding from Gifts.

Architecturally or Historically Significant:	Yes ☐ No ☒	
Project Delivery Method:	Construction Manager at Risk	
Substantial Completion Date:	July 2007	
Total Project Cost:	<u>Source</u> Gifts	<u>Proposed</u> $4,500,000

<u>BACKGROUND INFORMATION</u>

U. T. Austin requests approval to include the project to provide a permanent structure on the Elementary Charter School property at 2200 East Sixth Street, Austin, Texas. The facility will house administrative and shared use functions including office space, a multipurpose room (cafeteria/assembly), a kitchen, a library, a gymnasium, and storage area.

The University of Texas Elementary Charter School opened in August 2003 in modular buildings to provide prekindergarten, kindergarten, and first grade classrooms, as well as common use and administrative support space. Additional modular facilities were installed in 2004 to provide second grade classrooms, a library, and special education space. Plans are currently under way to provide additional modular space for third grade classrooms.

This proposed off-cycle project has been approved by U. T. System staff and meets the criteria for inclusion in the Capital Improvement Program.

4. U. T. Dallas: Authorization to establish Master of Science and Doctor of Philosophy degree programs in Materials Science and Engineering

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs and President Jenifer that authorization be granted to establish a Master of Science degree and a Doctor of Philosophy degree in Materials Science and Engineering at The University of Texas at Dallas; to submit the proposal to the Texas Higher Education Coordinating Board for review and appropriate action; and to authorize the Executive Vice Chancellor for Academic Affairs to certify on behalf of the U. T. Board of Regents that relevant Coordinating Board criteria for approval by the Commissioner of Higher Education have been met. In addition, the Coordinating Board will be asked to change the U. T. Dallas Table of Programs to reflect authorization for the proposed degree programs.

Upon approval by the Coordinating Board, the next appropriate catalog published at U. T. Dallas will be amended to reflect this action.

BACKGROUND INFORMATION

Program Description

The interdisciplinary Materials Science and Engineering programs at U. T. Dallas will emphasize teaching and research in the following areas: 1) nanostructured materials; 2) electronic, optical, and magnetic materials; 3) biomimetic materials; 4) polymeric materials; 5) micro electro mechanical systems; 6) organic electronics; and 7) advanced processing and characterization of modern materials. The proposed degree programs will be administered by the Erik Jonsson School of Engineering and Computer Science and will utilize faculty, proven courses, and facilities of both the Jonsson School and the School of Natural Sciences and Mathematics. The proposed model is similar to the Materials Science program at U. T. Austin and, like that program, the proposed degree programs will draw upon current centers of excellence in biology, chemistry, electrical engineering, nanoscience, and physics. Graduates of the program are expected to go into the workforce to create new jobs, promote economic development, and use science and technology to improve society. A minimum of 60 semester credit hours beyond the master's will be required for the proposed Ph.D. degree. The proposed M.S. degree will require 33 semester credit hours and will be available to students who do not complete the Ph.D., but who have completed specified coursework to qualify for the master's degree. Implementation of the degrees is anticipated during the 2005-2006 academic year.

Program Quality

The Erik Jonsson School of Engineering and Computer Science currently offers interdisciplinary Ph.D.s in Computer Engineering and in Telecommunications Engineering. In addition, the school offers Ph.D. degrees in Computer Science, Software Engineering, and Electrical Engineering. The School of Natural Sciences and Mathematics offers Ph.D. degrees in Biology with a major in Molecular and Cell Biology, Chemistry, Geosciences, Mathematical Sciences with a major in Applied Mathematics, Mathematical Sciences with a major in Statistics, and Physics. A total of 20 current faculty members will participate as affiliated faculty in the delivery of the proposed new graduate programs. Three new full-time equivalent faculty members are projected to be added during years two and three. Fourteen new, organized courses will be added and phased into the offerings over the first five years.

Materials Science and Engineering is a significant part of the growth of graduate scientific research at U. T. Dallas. In August 2003, the State of Texas committed $50 million in State of Texas Economic Development funds for U. T. Dallas as part of a government-university-industry project to place the next Texas Instruments manufacturing plant in Richardson, Texas. This proposal to offer M.S. and Ph.D. degrees in Materials Science and Engineering is part of this economic development plan, and the graduates of the Materials Science and Engineering program are expected to play a key role in the economic competitiveness of not only the Texas Instruments facility, but also in the Dallas/Fort Worth region in the State of Texas and the nation. These programs strategically fit with existing centers of excellence in biology, chemistry, electrical engineering, nanoscience, and physics at U. T. Dallas. In particular, the field of Materials Science and Engineering has been encouraged in recent reports from important external experts such as the Washington Advisory Group.

Cost

Estimated expenditures for the first five years of the proposed programs are $1,520,925. This includes new costs of $990,125 for faculty salaries, $270,816 for administration, $194,988 for clerical staff, and $64,996 for supplies and materials.

5. U. T. Pan American: Authorization to purchase the real property and improvements located at 2402 South U.S. Highway 281, Edinburg, Hidalgo County, Texas

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Cárdenas that authorization be granted by the U. T. Board of Regents, on behalf of U. T. Pan American, as set forth on Page 47.

a. purchase the real property and improvements located at 2402 South U.S. Highway 281, Edinburg, Hidalgo County, Texas, at a price not to exceed the fair market value as determined by independent appraisals, plus all due diligence expenses, closing costs, and other costs and expenses to complete the acquisition of the property as deemed necessary or advisable by the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate;

b. submit the acquisition to the Texas Higher Education Coordinating Board for approval, if necessary; and

c. authorize the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate to execute all documents, instruments, and other agreements, and take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendations.

BACKGROUND INFORMATION

The subject property, consisting of approximately 0.69 acres with a 3,721 square foot former McDonald's restaurant and 25 paved parking spaces, is adjacent to the U. T. Pan American Annex, a 70,000 square foot facility on the south side of the City of Edinburg, Texas that houses varied programs, computerized testing rooms, and the institution's high school to university services function.

U. T. Pan American wishes to purchase the real property and improvements as the site and facility to house a U. T. Pan American Go Center, an initiative of the Texas Higher Education Coordinating Board, to assist high school students through the process of applying for admission to an institution of higher education.

The transaction will be a bargain sale, with McDonald's Corporation making a gift of a portion of the purchase price. The remaining portion will be funded with Unexpended Physical Plant Reserves. Additionally, McDonald's Corporation will give U. T. Pan American a credit at closing of a portion of the purchase price as a donation to the Go Center.

The terms and conditions of the purchase are as reflected in the summary of the transaction below:

Transaction Summary

Institution:	U. T. Pan American
Type of Transaction:	Purchase (bargain sale)
Property:	0.69-acre tract of land and improvements (currently vacant)
Address:	2402 South U.S. Highway 281, Edinburg, Hidalgo County, Texas
Seller:	McDonald’s Corporation
Purchase Price:	$100,000
Appraised Value:	$240,000 (Joe W. Patterson, MAI, April 5, 2004) $260,477 (Hidalgo County Appraisal District, 2004)
Source of Funds:	Unexpended Physical Plant Reserves held for future planned capital projects
Closing:	On or about May 1, 2005
Use of Property:	Establishment of a U. T. Pan American Go Center, a college recruiting center. The property will be restricted to prohibit use as a restaurant for the first 20 years.

6. U. T. Tyler: Discussion of compact priorities

REPORT

President Mabry and Executive Vice Chancellor Sullivan will lead a discussion about compact priorities for The University of Texas at Tyler as set out in the compact on Pages 49.1 - 49.23. Dr. Mabry's PowerPoint presentation is on Pages 49.24 - 49.28.

BACKGROUND INFORMATION

The U. T. System Institution Compacts were sent to the Board of Regents in early September 2004. The compact process was first introduced by Chancellor Yudof at the December 2002 meeting of the Board. The compacts have been integrated into the accountability and strategic framework for the U. T. System.

The compacts are written agreements, between the Chancellor and the presidents of each of the academic and health institutions, that summarize the institution's major goals and priorities, strategic directions, and specific tactics to achieve its goals.

These compacts reflect the unique goals and character of each institution, highlighting action plans, progress, and outcomes. Faculty, staff, and students helped to create these compacts, so that a shared plan and vision resulted. The U. T. System Administration's commitment of resources and time to support each institution's initiatives is included in every compact.

Covering the fiscal years ending 2005 and 2006, the compacts were completed in Summer 2004. They will be updated annually; updates for the second year of the cycle will be completed in August 2005.

To enhance understanding of the compacts, compact priorities for each institution will be discussed at Board meetings in the coming year.

The University of Texas at Tyler

Compact with The University of Texas System
2004-05

I. Introduction: Institution Mission and Goals

A. Mission and Scope: The University of Texas at Tyler is a comprehensive, quality university with a selective admissions policy that serves high-ability undergraduate and graduate students in 90 academic programs.[1, 2] Its programs are offered through a full range of academic colleges: arts and sciences, business and technology, education and psychology, engineering and computer science, and nursing and health sciences. The University has strong regional coverage by also operating two satellite campuses in Longview and Palestine. UT Tyler has a top-flight reputation for being the best academic institution in East Texas and an emerging reputation as one of the best institutions in the State and the West. *U. S. News and World Report* ranked UT Tyler among the three best masters-level, public universities in Texas (tied for first) and among the top 22 in the western United States.[3]

B. Students and Faculty: UT Tyler's students are among the best in the State. Our average ACT and SAT target scores for incoming freshmen are 23 and 1100, respectively.

C. In spite of our high standards, UT Tyler's rate of growth in FTE students has led all Texas universities over the past two years—17% and 19%, for a total of 36%. We currently have just under 5,000 students from 182 Texas counties, 26 states and 23 foreign nations. Importantly, more than 25 percent of our students are graduate students (at the master's level). We have 192 faculty members from a range of the best private and public graduate institutions in America (such as Harvard, Chicago, UNC-Chapel Hill and UT Austin) and 239 dedicated and well-trained administrative and classified staff to support our educators.

D. Goals: UT Tyler seeks to complete its legislatively mandated transformation from an upper-division university to a full four-year university with substantial graduate programs. The University will maintain and enhance its already superb academic reputation and work to become larger, stronger, and more research-oriented so that the institution will be recognized, without hesitation, as the premier university in its region and a major university in the UT System, with significant impact on the State and nation. UT Tyler's specific goals are to:

1. Increase enrollment to 7,000 high-ability students in the next eight years (sooner if capacity could be added more rapidly), while maintaining high admission standards. This growth will enable the University to help meet the State's Closing the Gaps objectives, raise (currently low) university participation rates and standards of living in East Texas, and increase the educational efficiency and cost effectiveness of the University.

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[1] UT Tyler's enrollment of 4,760 would be much larger except for (1) severe legislative restrictions on lower division enrollment that ended just two years ago, (2) a shortage of facilities and faculty that required turning away students this last fall even after adding two temporary classroom facilities, and (3) its decision to admit only high-ability students from the upper half of their high school graduating classes.

[2] UT Tyler's entering freshman students are among the best in Texas, with test score credentials exceeding those of all public universities except UT Austin, Texas A&M and UT Dallas (i.e., UT Tyler's freshman credentials are above those of U of Houston, Texas Tech, UT Arlington and so on).

[3] UT Tyler was tied for first with Texas State University and Texas A&M University at Corpus Christi among Texas' public, master's level universities. UT Tyler was ranked among master's level universities in the Western United States in the second tier—listed alphabetically through ranks 8 through 22—with the first 7 positions in the first tier held by private universities. UT Tyler was ranked ahead of all other UT System master's level universities (San Antonio, Permian Basin and Brownsville) and ahead of other Texas universities in the same category such as Stephen F. Austin.

2. Increase faculty research and creative productivity, especially, external research funding. This increase in research will add value to society and the Texas economy, provide another revenue stream for the University, and add to the reputation of the University.

3. Play a significantly larger role in the economic development of East Texas. Tyler is known as the rose capital of the world. In addition, it is often referred to as the "capital of East Texas." Our university is in the right place—and is coming of age at the right time—to help develop this region of 1.3 million people and thereby boost the health and future of the entire state of Texas.

II. Major Ongoing Priorities and Initiatives

A. Enrollment Growth: Recruiting and Retention: Enrollment growth at UT Tyler is of critical importance in order to meet the State's need to increase access, enrollment and success in Closing the Gaps; meet the region's need for increased participation by East Texans in university programs to the state's average (their university participation rate is the lowest of any region in the State); and meet the University's need to lower average unit cost, provide a wider range of student services, reduce the number of faculty course preparations, provide more time for individual faculty research, and create a critical mass of faculty available for research and significant professional service.

a. Priority: Highest priority

b. Overall Objective: Increase enrollment to 7,000 *high-ability* students within the next eight years (sooner if we could build faster)

Recruiting Objectives	Fall '04	Fall '05	Fall '06
Number:	5,270	5,638	6,107
ACT mean	23	23	23
SAT mean	1070	1100	1100
Retention Objectives:	**Fall '04**	**Fall '05**	**Fall '06**
Freshmen[4]	60%	64%	67%
Transfers[5]	73%	74%	75%
Graduation Objectives:	**2004**	**2005**	**2006**
Number of degrees	925	1,025	1,125
6-Year Freshman Grad Rate[6]	39%	40%	41%
4-Year Transfer Grad Rate[7]	65%	65%	65%

[4] Retention rate for first-time, full-time, degree-seeking freshmen students after one year (students who entered in fall '03.

[5] Retention rate for full-time, degree-seeking transfer students after one academic year (students who transferred in fall '03).

[6] Six-year freshmen graduation rate is the percentage of first-time, full-time, degree-seeking freshmen who earn a bachelor's degree at UT Tyler within six academic years (not counting those who transfer elsewhere and receive a degree there).

[7] Four-year transfer graduation rate is the percentage of full-time, degree-seeking transfer students who earn a bachelor's degree within four academic years (not counting those who transfer elsewhere again and receive a degree there).

c. Strategies for recruiting:

i. Add to financial aid budget and recruiting staff. Increase scholarships from new "tuition increase set-aside," increase size and number of top scholarships to attract more of the most highly qualified students; increase recruiting and financial aid staff in order to cast net wider to Houston and Dallas and also speed up acceptance decisions and financial aid processing; and add recruiter in engineering (given decentralized, focused recruiting success in nursing);

ii. Add on-campus health clinic (constantly requested by parents and students).

iii. Complete necessary buildings and conversions, renovations and additions.
   - Engineering, science and technology building to create needed space for engineers and science faculty and labs (& vacate space IT needs).
   - Art studio addition—art program is maxed out and has a waiting list.
   - Conversion/renovation of science building (as nurses and scientists move out) to house College of Education and Psychology, which must move out of the student center.
   - Renovation of student center (as education college moves out) to make space for dining hall/food service plus normal student center space [this renovation project was designated a "critical need" by the LBB two legislative sessions ago (2001)].
   - Addition of larger classrooms to Longview University Center, where nursing applicants are turned away.
   - Addition of classrooms, or build new facility or acquire larger facility in Palestine where space has become a limiting factor.
   - Addition of classroom/conference annex to new student dorm to get five more classrooms, plus home for new continuing education, plus conference capability (giving better financials on the dorm).

iv. Add student dining facility or significant food court.

v. Add new academic programs, including civil engineering (bachelors and masters), construction management and environmental science.

vi. Add community service office and boost student engagement off campus, too.

vii. Add student success institute or camps for rising juniors and for minority groups and for any students who want an intense few weeks of brushing up on writing, math and science.

viii. Add significant student housing, including new apartment complex for fall '04, new full residence hall for fall '05, and three new honors houses for '06.

ix. "Roll out" new honors program for fall '06.

x. Add to marketing campaign, both general image and targeted mail.

xi. Complete athletic venues—must be done now because of entry into NCAA and American Southwest Conference, including soccer field for fall '04 and baseball/softball park for fall '05.

d. Strategies for retention:

i. Make retention part of performance evaluation goals of deans.

ii. Create centralized freshman academic advising office.

iii. Add supplemental instruction program for most difficult (gatekeeper) courses.

iv. Begin substantial tutoring program modeled after successful tutoring programs for athletes.

v. Add new academic programs.

vi. Add honors program.

vii. Provide training for faculty teaching freshmen and ask deans to counsel/assist gatekeeper faculty when needed.
viii. Expand student work-study program.
ix. Complete the needed capital construction items listed under recruiting above.
   - Add on-campus health clinic.
   - Complete buildings and renovations/additions.
   - Add dining service.
   - Add student housing—apartments, dorm and honors houses.
   - Add dining facility or significant food court.
   - Add athletic venues—soccer field and baseball/softball park.
   - Add required new parking lots.

e. Resources required:

i. Operating budget. UT Tyler's operating budget must increase substantially to handle double-digit annual growth rates. We are, and will continue to be, challenged to find operating funds for student growth, for operating new buildings, for starting up new student services and for starting up significant new academic programs (like civil engineering, construction management and environmental science) *all at the same time*. Generally, we are forced simply to cannibalize growth funds from other programs in order to fund constant new start-up programs and services (which, of course, delays the attainment of full excellence in the cannibalized programs), except for engineering where the State has helped us with a special line item to get that college going. Some sample new operating costs (that will continue into future years) include (but are not limited to) the following:

Beginning in '05 budget

• Academic advising center	$250,000	
• Financial aid, including new set-aside	$250,000	
• Financial aid staff increase	$ 40,000	
• Civil engineering start-up	$160,000	
• Engineering recruiter, dedicated	$ 60,000	
• Recruiter/advisors, LUC & Palestine	$ 50,000	
• Health clinic operations start-up	$125,000	
• Marketing increase	$100,000	

Beginning in '06 Budget

• Dining service/food court	$100,000	(operating subsidy)
• Limited honors program begins	$250,000	
• Civil Engineering ramp-up	$200,000	
• Construction Management start-up	$160,000	
• Environmental Science start-up	$160,000	
• Marketing increase	$100,000	

ii. Capital or Other One-Time Expenditures – University Funds

• Health Clinic temporary space	$180,000
• Health clinic space	(none) UTHCT on Campus
• Student card swipe system	$ 200,000
• Parking lots (2)	$1,600,000
• Performance Soccer field	$ 800,000
• Baseball/softball park	$1,300,000 (+2.4 mil private)

iii. Capital Projects requiring either TRB or PUF funds

• Complete engineering and science bldg	$14 mil (TRB)

- Art studio addition/renovation $ 2 mil (TRB or PUF)
- Renovate science bldg for Education $ 6 mil (TRB or PUF)
- Renovate student center $ 7 mil (TRB)
  [LBB rated "critical need"]
- Classroom addition Palestine $ 6 mil (TRB)
- Classroom addition Longview $ 5 mil (TRB)
- Cowan Cntr Expansion for Music/Thea $ 1 mil (TRB or PUF)
- Physical Plant Expansion/Renovation $ 1 mil (TRB or PUF)
- Changeover current engineer bldg for IT $ 1 mil (TRB or PUF)
- Academic excellence center $ 2.5 mil (PUF)

  This is an unfunded part of our residence hall project that is ready for bid now. The academic center that should go with it is a bid alternate. This center would add two large and three small classrooms for us to use during the mornings and midday time slots weekly, but also would serve as home to a new continuing education center for year-round programs on the weekends and throughout the week during summers.
- State-of-the-Art General Classroom Bldg $30 mil (TRB or PUF)

  This building can be put off until the next TRB cycle if (and only if) the smaller one-to-six million renovations/conversions/expansions are funded along the way.

f. Progress Measures: We will measure progress by meeting our target recruiting, retention and total enrollment numbers listed in this section. In addition, we will measure student and faculty satisfaction (NSSE/FSSE) with the University and name recognition and image with the public to see if both are increasing.

g. Major Obstacles:

i. First, a major obstacle is <u>getting the resources for capital improvements on time</u>. For example, even after adding a temporary building, our art enrollment is at its maximum and there is a waiting list. Nursing enrollment in Longview is at its maximum, given the sizes of classrooms there. Many classes on our main campus, such as history, could be taught in larger sections of 50 to 90, but only smaller classrooms are available.

ii. Second, <u>getting capital projects funded in the proper order matters a great deal</u>, too. For example, we must convert/renovate the old science building to become the home of the education college immediately after the engineering and science faculties move to their new building in the fall of '05. Education must move out of the student center quickly because that is where we plan to build our dining hall and other food services that will support the new dorm being built right next to the student center, as well as the student center. All of that must happen quickly and in a certain order, if not all at the same time. If funding is not available or our timing is off, we will lose one or two years of increased enrollment.

iii. Another major obstacle will be <u>finding general university funds to handle a number of smaller renovations and significant one-time campus/student infrastructure investments</u> in such things as NCAA and intramural athletic fields and venues. We are experiencing explosive growth, but we are not yet a large university that generates a cash flow that can support building parking lots, building first-time athletic fields, renovating existing buildings to create larger classrooms from two smaller ones and/or create faculty offices from small classrooms for the great influx of faculty and staff, and adding more ITV technology to more of our existing classrooms. Altogether, these costs add up and make it impossible for us also to handle many capital projects listed immediately above that one might expect a mature university to budget from regular cash flow. For example, we have not listed the full costs of moving our entire information technology staff and machines out of our student affairs area to the small building that our engineering college is leaving. We also have not added the costs of renovating our two lakes that, we are told, will be "silted in" and ruined as a result of the massive amounts of construction going on close by. The upper lake is already affected—it now is only knee deep. The cost of dredging and rehabilitation will be hundreds of thousands for each lake.

iv. A significant obstacle to attaining our retention goal is <u>the need to change the culture of an institution in which many faculty members are used to teaching students already filtered</u> by junior colleges. This change will take time.

v. Another obstacle to retaining our students will be to <u>change the concept that students in Texas must go to UT Austin, or another football-playing private university, to get an excellent education or have a great collegiate experience</u>. Many students use UT Tyler as a "souped up" lower division institution and tell us at the beginning that they plan to transfer to Austin, A&M, SMU, or Baylor their junior year.

B. <u>Academic Program Excellence and Recognition</u>: UT Tyler's vision statement calls for the University to be increasingly recognized nationally for its high quality education in the professions and in the humanities, arts and sciences. For example, the University's business college has already won accreditation from the most difficult and highly prized business school accrediting body, AACSB---The International Association for Management Education. Our Nursing program is nationally accredited and our three engineering programs (mechanical, electrical and the engineering master's program) were accredited by ABET in 2002. In addition, we seek external recognition by independent ranking organizations, such as U. S. News and World Report, and we seek to be held in high regard by our current students, alumni and employers.

a. Priority: High priority

b. Objective: Assure high-quality undergraduate and graduate programs at UT Tyler, improving those that need improvement and enhancing the visibility of those that are already successful. Seek to be known across Texas and the nation for our top-notch academic programs. Seek high satisfaction ratings by students, graduates, employers, and other institutions where our graduates enroll for advanced study.

c. Strategies for Enhancing Excellence in Baccalaureate Programs:

i. College of Education will initiate process for NCATE Accreditation.
ii. Design and launch Honors Program (in two to three stages, based on funding availability).
iii. Provide incentives for and training in the use of Blackboard and other technology by almost all professors in their courses.
iv. Develop a hiring process and culture to select the best possible faculty from around the nation.
v. Reduce the average number of annual course preparations per faculty member.
vi. Increase average research output of faculty members—refereed journal articles, professional books and dollars of external research support.
vii. Develop a process (such as a university-wide committee) to help focus and strengthen our tenure and promotion process.

d. Strategies for Enhancing Excellence in Graduate Programs — Master's:

i. Add *office of graduate studies and sponsored programs* with the directive to review and monitor graduate program quality and vitality/viability and also to develop systems and resources to support and promote research, including funded research.
ii. Require a brief and focused peer review of all graduate programs over the next four years.
iii. Collaborate with UTHCT to obtain approval for a joint MS in Environmental Health, Health Professional, Occupational and Environment Science as part of the joint UT Tyler/UTHCT *Institute of Biotechnical and Health Science*.
iv. Develop and Implement plans for Centers of Excellence in Signal Detection and Identification (College of Engineering and Computer Science), Hispanic Business Development (College of Business and Technology), Rural Healthcare Outreach (joint project of College of Business and College of Nursing), Math and Science Math Education (joint project of the College of Education and Arts and Sciences) and Healthcare Human Resource Development.

e. Strategies for Enhancing Excellence in Graduate Programs — Doctoral:

v. Obtain planning authority for Ph. D. in Human Resource Development and begin adding nationally known faculty members for this program, at least one in each of the next two years.
vi. Initiate "Cooperative Ph.D." arrangements for Programs in Nursing Science, Educational Leadership, and Clinical Exercise Physiology.
vii. In the case of each such doctoral program, set up an advisory panel of three to four nationally known leaders in the field to meet with U. T. Tyler faculty annually to help focus these programs and keep them on the leading edge.

f. Strategies for Program Development at UT Tyler's Longview University Center:

viii. Publicize and aggressively market undergraduate programs in Nursing, Business and Education,
ix. Initiate new programs: BS in Early Childhood, Health Professions, Human Resource Development, and BAAS.
x. Emphasize MS in Human Resource Development, Special Education and Educational Leadership.

g. Strategies for Program Development at UT Tyler's Palestine Campus:

xi. Publicize and aggressively market undergraduate programs in Nursing, Business and Education.
xii. Initiate new programs: BS in Early Childhood, Health Professions, Human Resource Development, and BAAS.
xiii. Emphasize MS in Human Resource Development, Special Education and Educational Leadership.

h. Strategies for Library Resource / Support Enhancement:

xiv. Fund and Staff Library for additional access and availability for students and faculty.
xv. Fund and staff electronic library needs for Longview and Palestine Campuses.

i. Resources Required:

xvi. Sources include state appropriations, tuition and fee increases, gifts and grants.
xvii. Particular amounts needed in the next two years that are of note:

- Office of grad studies and sponsored research $175,000
- Ph.D. in Human Resource Development $250,000
- Ph.D. (Cooperative) in Nursing $250,000
- Accreditation expenses $150,000

- Library staff additions, other than above $100,000
- Longview and Palestine enhanced offerings $ 50,000
- Facility/building additions were discussed earlier

j. Progress Measures: We will gauge success by determining whether we receive, or are making progress toward, NCATE accreditation in education and whether our student, alumni, faculty and employer satisfaction surveys give us a "thumbs up." In addition, we will evaluate whether program advisory panels and outside peer review teams give our graduate programs good marks. Further, we will evaluate whether new faculty hires bring the average level of research and teaching capability up. In addition, where appropriate, we will weigh success by whether there is a growing demand for certain programs, particularly at our satellite campuses. We will also look at assessment results and hard data such as pass rates on professional exams and GRE scores of our students.

k. Major Obstacles:

xviii. Availability of operating funds, especially state appropriations in the case of UT Tyler, relative to our explosive growth in student numbers and our need to expand program offerings.

xix. Availability of capital funds to add new space, and convert and renovate existing space.

xx. Ability to add quality new faculty rapidly and take on new programs.

xxi. Identifying, equipping, funding and rewarding program champions.

C. <u>Increased Faculty Research and Creative Productivity</u>: Research in one's academic discipline is simply part of what university faculty members do and a required part of the job that tenure track faculty members hold. This is so because research provides a number of important benefits, including keeping the faculty member abreast of recent developments and on the cutting edge of knowledge, adding to the store of knowledge, and equipping faculty members with the knowledge and tools to give students the most current and best education possible. Another major benefit is that both basic and applied research can be of such value that it provides another revenue stream from federal and foundation grants that helps support a highly competent university faculty available to work with students and serve as a resource helping to attract businesses that add to the economic development of the region. At UT Tyler, a better balance of teaching and scholarly work is essential to achieve our goals of attracting high-ability students, providing the very best academic programs, providing another revenue stream to support faculty and strengthening the impact of the University on the development of East Texas.

a. Priority: High

b. Research and Creative Contributions Objectives:

	FY 04	FY 05	FY 06
Percent of Faculty w/Research or Creative Output	60%	70%	80%
Percent Increase in Number of Refereed Journal Articles Accepted	5%	10%	10%
Numbers of Sponsored Research Proposals Submitted to Qualified Sources			

Number of grants received			
Sponsored Research Dollars Received			
Percent Increase in Research Dollars	5%	10%	15%

c. Strategies for Supporting and Increase Research and Creative Output:

i. Critically review and administer selection criteria for new faculty.
ii. Re-examine and assure alignment of promotion/ tenure/post tenure guidelines with University objectives.
iii. Monitor and adjust faculty teaching loads downward, especially the number of different course preparations per year.
iv. Develop Office of Graduate Studies and Sponsored Research.
v. Return the bulk of indirect costs to the researcher.
vi. Strengthen faculty summer research programs at UT Tyler.
vii. Increasingly implement partial release time for research.
viii. Create and implement a research-related faculty renewal program to redevelop human capital.
ix. Recognize "non-sponsored" research and creative activity.
x. Encourage collaborations with researchers at UTHCT.

d. Resources Required:

	FY 04	FY 05	FY 06
University Research Grants	$ 50,000	$ 75,000	$100,000
Summer Research Grants	25,000	40,000	55,000
Office of Sponsored Research	136,000	170,000	170,000
Faculty Development Programs	20,000	40,000	160,000

e. Progress Measures: We will measure ourselves against the items listed in the objectives section above and compare ourselves to peer institutions.

f. Major Obstacles:

i. Creating a new culture that recognizes a balance between quality teaching and research.
ii. Identifying research and creative product role models.
iii. Using both teaching and research criteria effectively and fairly during transformation of culture.

D. <u>Design and Implement the "UT Tyler Tradition," a Unique Core Curriculum</u>: The University will research, design and deliver the *UT Tyler Curriculum*, an integrated, multidisciplinary lower division core curriculum, in such a distinctive way that it draws students to UT Tyler as their destination campus.

a. Priority – High

b. Objectives:

	Fall 04	Fall 05	Fall 06
Satisfaction Level of Freshman (NSSE)- Percent in top two categories	60%	65%	70%
Satisfaction Level of Focus Groups-			

Percent in top two categories	60%	65%	70%
Satisfaction Level of Participating Faculty Percent in top two categories	70%	75%	80%

c. **Strategies for Developing the UT Tyler Tradition:**
   i. Reach consensus with faculty on their firm commitment to this concept and how the UT Tyler Tradition can transform undergraduate education at the University and boost student satisfaction to unheard of heights.
   ii. Design a very special curriculum that might, for example, emphasize the study of "great ideas" and the inclusion of them during the study of other subjects. Such ideas might include the rule of law, incentives matter, value of diversity, scientific method and critical thinking, law of diminishing marginal returns (or increasing costs), power of ideas, fairness, religion, comparative advantage and the absence of zero-sum games, importance of friction and gravity, etc.
   iii. Create integrating structure similar to the leadership of a university college that defines and emphasizes the importance of a fully engaged lower division education.

d. **Progress Measures:** We will use the objectives stated above and also complete a study of best practices by January '05 and make decision to implement this unique lower division program for fall '06.

e. **Resources Required:**	Fall 04	Fall 05	Fall 06
Office of Lower Division Programs (includes ½-Time director, M&O, Stipends)	30,000	140,000	150,000

f. **Progress Measures:** Success measures will include
   i. Getting faculty consensus for the first "go" decision.
   ii. Some possible outcomes might require approval of System and THECB.
   iii. Complete study of best practices and then design of curriculum and its special attributes.
   iv. Implementation.
   v. Assess student satisfaction by survey and NSSE.

g. **Major Obstacles:**
   i. Obtaining university-wide consensus on something special.
   ii. Obtaining THECB approval if needed.
   iii. Motivating faculty to see this as key building block for being the institution of higher learning that really matters.

E. <u>Superior Campus Life, Student Engagement and Community Service</u>: UT Tyler continues to move in the direction of being a "destination campus"—a university of choice that students seek first over other universities. We believe such a position is the result of top academic programs and a superior overall "student life" opportunity. A superior student life exists when students feel safe and welcome, have a real sense of belonging, and are actively engaged in several activities out of a wide range of available activities they deem to be meaningful, educational and/or fun. We hit a homerun when an activity is all three, which is often the case when students (esp., engineers) help build homes for Habitat for Humanity.

a. **Priority – High**
b. **Objective:** Our objective is to increase the amount and quality of student life on and off campus in order to increase student satisfaction. That student life—which includes all

aspects of living, eating, working and playing together on campus—helps students jell into a cohesive unit and increases their level of satisfaction. Active student engagement, both on and off campus, increases satisfaction markedly, causing everything about their education to proceed more easily and successfully—including learning. Specifically, better student life and more active engagement should raise satisfaction scores on NSSE and other surveys of our graduates as well as current students. That greater engagement and ensuing higher satisfaction will, ultimately, increase retention and make recruiting that much easier. Another objective of more student engagement, particularly through off-campus activities, is to increase the visibility of our students in the community and increase community satisfaction with them and the University. Other measurable objectives would include a goal of housing 15 percent of our student body on campus and having 25 percent eat at least one meal on campus daily.

c. Strategies for Quality of Campus Life, Student Engagement and Community Service:

i. Reclaim and redevelop the University Center to be a true student center with a full array of student amenities and available activities.
ii. Expand dining service or student food court.
iii. Develop a significant array of student housing, including a freshman-oriented residence hall, apartments, and honors houses.
iv. Expand concept of cohorts of freshman students in "learning communities."
v. Begin developing a full program of community service opportunities to engage students beyond the classroom and, also, develop sets of opportunities to assist faculty in using community service as a direct learning tool. Will be at least 50 percent completed in the next two years.
vi. Field full complement of NCAA Division III sports teams in competition with other universities in the American Southwest Conference.
vii. Expand intramural sports.
viii. Create special traditions around matriculation, graduation and so on.
ix. Plan and allow a Greek system groups to develop.

d. Resources Required:

i. Resources needed for reclaiming the student center, adding student housing and developing food service have already been included under the first item concerning recruiting and retention. Millions will need to be invested.
ii. Up to $85,000 for very capable, full-time person dedicated to creating and monitoring community service opportunities and ensuring a much higher level of student engagement for UT Tyler. The person could, for a year or two, share a secretary in student affairs.

e. Progress Measures:

i. Monitor number (and variety of types) of beds added to student housing to determine how close we are coming to our target of having a minimum of 15% of the student body live on campus. We do not wish to exceed 20%.
ii. Monitor progress of adding dining facilities and food services to determine how close we are coming to our minimum target of having 25% of the student body eat at least one meal on campus each day.
iii. Determine if attendance at sporting events is rising annually and/or if student satisfaction with sports is increasing on surveys.
iv. Determine whether the number of student service projects completed is higher each year.
v. Determine whether the number of students participating in community service projects increases annually.

vi. Determine whether the number of faculty assigning community service projects as part of the learning process increases annually. (Student accountants can do unofficial audits for non-profits, for example, and reduce their audit costs by getting paperwork in order and ready).
vii. Track whether the number of fraternity and sorority participants increases annually.
viii. Determine whether the number of honors program and "learning communities" participants increases annually and whether their level of satisfaction is increasing.
ix. Higher NSSE student satisfaction scores.
x. Higher alumni satisfaction with the University.

f. Major Obstacles: There are no major obstacles, other than funding, to getting the student center renovated, adding food services, getting student housing built and hiring a professional to coordinate and promote community service. With these things done the to quality of campus life, student engagement and community service will skyrocket upward.

III. Future Initiatives of Higher Strategic Importance

A. Collaboration with UT Health Center at Tyler: UT Tyler and UT Health Center at Tyler mutually support and commit to the formation of a strategic educational alliance that will establish the premier teaching and research centers for health sciences in the East Texas Region.

a. Priority: High and Urgent

b. Objectives for Collaboration:

i. Establish a joint ***Institute for Biotechnology and Health Science*** sponsored by both UT Tyler and UT Health Center at Tyler by Fall 04. The ***Institute*** would serve as an umbrella organization for joint or cooperative research projects, outreach efforts, degree programs and economic development projects. Collaborative projects under the ***Institute*** umbrella would also, at times, involve other universities, health centers, corporations, agencies and governments in larger research, job promotion, and economic development ventures benefiting East Texas, the State and nation. Initially, UT Tyler and UTHCT will pool limited funds in order to make "seed money" grants for new research projects by faculty from both institutions. Both will also make faculty and administrative appointments to the ***Institute*** as needed on a full- or part-time basis.

ii. UT Tyler fully supports UTHCT's efforts to obtain degree-granting authority and that institution's desire to develop a graduate school in allied health or other medical science as a complement to our College of Nursing and Health Sciences. We believe we can work together on future graduate and undergraduate health-related degree programs and that, over time, a natural division of labor or differential health program focus will present itself to the two institutions. There is no need to define those differences in advance. We both wish to be able to work in some parts of the health field at both the graduate and undergraduate levels.

iii. In the immediate future, UT Tyler and UTHCT seek System and THECB approval for an integrated structure for both UT Tyler and UTHCT to award cooperative graduate degrees in biomedical, biotechnology and allied health sciences by Fall 05, with the express intent that UTHCT would have degree granting authority. In particular, together we wish to obtain System and THECB approval to offer a joint MS degree in Environmental and Occupational Health.

c. Strategies: UT Tyler and UTHCT will work to increase and strengthen their collaboration in several ways.

i. The two institutions already share a police department and printing services, and UT Tyler pledges to enlarge upon that foundation.
ii. The two institutions will work together to secure approval for doctoral-level degrees at UT Tyler, which will create greater opportunities for the two institutions to collaborate on higher-level research and outreach projects that would attract larger amounts of federal and other external funding. UT Tyler has already said to the THECB that its requested Ph.D. program in Human Resource Development would have a significant, and perhaps primary, emphasis on the development of human resources in the health care field.
iii. Define and implement our joint appointments criteria and procedures.
iv. UT Tyler would coordinate with and use the existing UTHCT Office of Sponsored Research in order not to duplicate their existing expertise.
v. Likewise, UTHCT desires that UT Tyler provide academic administrative support services such as admissions, financial aid, registrar records and such functions as on-line registration for courses.
vi. Coordinate, when appropriate, approaches to UT System, Texas Legislature, State and federal agencies for approvals and resources.

d. Resources Needed:

i. UT Tyler is prepared to put $250,000 in the ***Institute*** and UTHCT is prepared to provide that level of funding or more. These funds, totaling over $500,000 will be the basis for providing "seed" grants from the joint ***Institute of Biotechnology and Health Science*** to researchers who can advance the Institute's research agenda and whose work shows promise for attracting additional federal funding.
ii. UT Tyler also will make its new Braithwaite Chair in Biochemistry available for joint appointment and part-time attachment to the ***Institute.***
iii. Other faculty support will be identified, such as filling a slot with a jointly appointed biostatistician.
iv. We ask for support of $1 mil from UT System to help get this joint ***Institute*** off the ground.
v. We also request UT System to help involve the governor's office in providing funds for a major research and outreach initiative in rural healthcare delivery, using East Texas as a test case. UT Tyler's colleges of business and nursing are already engaged in the beginning of such an effort with a federal grant of $350,000.

e. Progress Measures: We will measure the objectives listed above. In particular, the level of collaboration between the two institutions—use of common administrative functions, number of joint faculty appointments, and joint external research dollars attracted. Research grants should rise significantly.

f. Obstacles:

i. UT Tyler is growing explosively and is still developing its "core business" as a university, that devoting sufficient staff time to enhancing our collaborative success is difficult and will require a patient approach. On the other hand, the potential benefits are so great that the opportunity must not be missed.
ii. There are still some faculty and staff feelings of competition that will have to be overcome in some quarters. The two presidents are very committed to overcoming or overriding any such remaining issues, however, and they should not be a problem in the long run.

B. <u>Acquiring Land for the Campus</u>: UT Tyler's current campus has approximately 160 buildable acres, which means that some 40 acres of our total of 200 are under lakes or are part of significant drainage ways or wetlands. The current campus simply is not large enough to accommodate a comprehensive university, especially if one of its important features is to be its park-like beauty, as opposed to clearing the land and building high in the air as in an urban setting. At the same time, forested land across the street from the University's main entrance is available in the form of two small, contiguous tracts of about 8 and 30 acres. Together, these parcels would give the University options to put coming research centers, necessary student parking, academic buildings, athletic venues and/or retirement centers.

We believe that this is the best time to buy this remaining unimproved land near the University. This land definitely will be needed in five to ten years, yet in months, or a year or two, UT Tyler will be "landlocked." The University will be surrounded by housing and other developments too expensive for us to buy. We need to avoid that problem today. There is little downside to acquiring this land, especially since it is rapidly increasing in value and could be sold for its value, if necessary.

a. **Priority: High and Urgent**

b. **Objectives for Land Acquisition:**
   i. Own and control approximately 40 acres of forested land across the road from the main UT Tyler front entrance on Old Omen Road.
   ii. Use to alleviate parking congestion on the main campus and plan to develop over time for research centers, academic buildings, student housing, or athletic venues.
   iii. Try to buy as soon as possible.

c. **Strategies for Property Acquisition:**
   i. Receive UT System approval to buy or gain control of identified properties using third party financing.
   ii. Identify funds for this purpose, University reserves or PUF funds or a gift at some future date.

d. **Progress Measures:** Buy or not, or gain control, within the next six months.

e. **Major Obstacles:**
   i. Getting some folks at UT System to see UT Tyler's future and committing to our long-term needs.
   ii. Locating funds, or finding someone to hold the property on behalf of UT Tyler.

IV. Other Critical Issues Related to Institutional Priorities

A. <u>Impact of Initiatives:</u> UT Tyler is in transition—or, better stated—rapid transformation. Change that is positive, constructive and very dynamic is occurring at all levels of The University. The initiatives described in Sections II and III portray actions designed to move UT Tyler even faster and farther toward being a great, comprehensive university and certainly the premier institution of higher education in East Texas. A better mental picture comes from seeing UT Tyler at the center of a base area with a 100-mile radius. Looking east and west, this circle includes part of Dallas and goes beyond Shreveport, Louisiana. That same circle goes south to Huntsville, almost to Houston, and reaches north to the southern counties of Oklahoma. UT Tyler is located extremely well to thrive in (relatively neglected) East Texas and, in turn, to cause East Texas to thrive—we are at the epicenter of underserved higher education needs in this region. <u>Our real success will be measured and known as the participation rate in four-year university programs by college-age East Texans increases to the state average or above</u>. Assuring that success, and taking advantage of it, UT Tyler will also capture a large number of the more than 10,000 students from this region who currently participate in a quality university degree program, but who until just two years ago had to leave the region to do so. UT Tyler will make a huge difference in the life and well being of East Texans.

1. Enrollment Management – Besides advancing standards of living in East Texas, enrollment growth will also mean a real impact has been made in Closing The Gaps objectives and intent. Relative to our enrollment in 2000, the University will double its FTE enrollment by the end of this decade. We could do more and grow faster, but we are not sure how to build the infrastructure needed at a faster rate, given the state's financial and political realities. A critical issue for us to be successful lies in increasing retention. While faculty members who teach students need to find ways to assist students in understanding the demands of getting a real university education, students need to find the motivation to learn and the desire to achieve. That desire can be reflected in making the simple decision to turn assignments in, or not. Often, the issue with freshmen is not whether they can do the work. Rather, it is whether they will do the work. We are continuing to wrestle with all parts of the retention issue, including student life, supplemental instruction, tutoring, on-campus housing, on-campus jobs, and more.

2. Diversity – Special attention is being given at all levels and locations of UT Tyler to the need for diversity. We need to be aware of making diversity gains throughout the University, including our faculty and staff along with our students. We are making significant gains in Hispanic enrollment. We are making smaller gains in African-American enrollment. As we grow and build critical masses of minority students in each group, and as we drive the university participation rate upward, our diversity statistics will move upward, too.

3. Community and Institutional Relations – Our community and regional relationships are very strong. They are cheering us on and putting up major private dollars to assist us—far, far more than other regions with similar economic ability. Our rapid growth can do nothing but further cement good relationships between UT Tyler and the everyday citizens, civic and political leaders, and industry people in East Texas. We have kept our noses to the grindstone and have remained focused on building our core educational business to be the best. We are now beginning to look toward public service and service learning as a way to improve student retention. Becoming more educationally and professionally engaged in the community by way of service will have the added benefit of allowing the University to create a greater and more immediate impact on the region. That greater impact and visibility will further enhance our reputation and push our community relationship to even further heights. Alumni relationships are a critical area for development. We have 19,000 alumni who are just becoming organized and receiving important communication about their university.

Service learning is increasingly seen as a part of the educational experience at UT Tyler. This, coupled with community service activities of faculty and staff, indicates a significant impact on the area and the university's constituents.

4. Finances. Our initiatives are intended to move us even higher in terms of the quality education our students receive—more degree programs, better degree programs, higher-level degree programs, more students and more prepared students, greater levels of research. The high-level university we plan to be is not one that can exist on a shoestring. The kind of quality we are producing, and intend to improve upon, will require some proper level of financial support. We cannot hire faculty members in specialized disciplines with training from Harvard and North Carolina and UT Austin and Penn for low salaries. Nor can we supply the best technology for students to use—several of our buildings now support wireless laptops—on a shoestring. Consequently, there will be pressure for UT Tyler to raise tuition if the State cannot continue to support us at a reasonable level. We wish to note, however, that the State has been very good to higher education and particularly good to UT Tyler, so we have few complaints. We especially appreciated the opportunity created by deregulation of tuition. Our modest increases for spring and fall have begun to have a very positive impact. Given our explosive growth of 36% over the biennium, we simply could not sustain our access to courses and our quality without some increase in tuition.

Finally, doing more with less has been the mode of operation here at UT Tyler.

The addition of residences and food service creates new auxiliary enterprise income, although these operations are not making money at this point. (We may choose not to make money on such enterprises, even if it were possible at a later date, but now the option is there.) Close monitoring of budgets, watching salaries and overhead, and keeping faculty teaching loads (and administrator loads) too high is the norm. Development activities for major projects have been essential to capital projects and now must begin to shift toward developing program and faculty support.

5. Facilities – Our plan to double enrollment will definitely require more physical facilities and the renovation/conversion of existing facilities to other uses, like turning our small classrooms into offices. We have lots of classrooms that hold 35, but they are not very useful when we have lots of classes of 50 to 70. The typical classroom at UT Tyler for the future, even when we move beyond our current goal of 7,000 towards 15 to 20 thousand students, should hold about 70 students. That size classroom would be both educationally and financially sound. We have no special initiative that requires a particular research building, for example, but we must grow to our breakeven or mass of 7,000 students. That growth will require completing the engineering, science and technology building for $14 million, plus $29 million in conversions, renovations and add-ons to our existing buildings, plus one classroom building at about $30 million to get the job done. We need the $14 million and the $29 million projects "yesterday." If we do not get the renovation projects as a group, then we will need the classroom building "yesterday."

6. Other infrastructure issues – First, we have a looming $1.5 to $2 million required purchase of a new student database software program. Apparently, the *Poise* software we use will not handle an institution any larger than we are now. It was written for junior college and small college applications. We tax their capability to program it for our uses, and our programmers constantly have to work patches around its limitations. Second, we are working hard to keep our main campus library, plus those at Longview and Palestine, growing and in step with new electronic requirements. Rebalancing acquisitions to digital versus physical resources is important and a lifesaver at the same time.

B. Unexpected Opportunities or Crises: The Coordinating Board's attitude toward UT Tyler constitutes a crisis. Critical to the future of UT Tyler is an understanding by the Coordinating Board that UT Tyler as a high quality, very effective, comprehensive university situated in the unofficial capital of East Texas, Tyler. We are already considered the best higher education institution in the East Texas Region. If the THECB chooses to arbitrarily categorize UT Tyler as a lower level university—in the scheme it is currently developing to stratify universities—and block UT Tyler from offering doctoral degrees, it will diminish the potential for UT Tyler to assist the economic development of East Texas. That restraint on our ability to do our job would, once again, be a blow to East Texas and continue the discrimination against this region that has existed for so long and produced the lowest university participation rate by the citizens of any region in Texas.

SFA simply cannot properly serve East Texas. SFA is too far south and is better suited to continue to be the close-by, non-urban alternative for the people of Houston. TAMU-Commerce has always (and rightly, we think) behaved as a Dallas-oriented institution, again a non-urban alternative to UT Dallas and Arlington and others. UT Tyler is situated in the center of East Texas—in the city that is often called the capital of East Texas—and has significant satellite campuses in Longview and Palestine. UT Tyler is the nerve center for higher education in East Texas, the cultural center for East Texas with 40,000 people visiting our Cowan Fine and Performing Arts Center annually, and we are the quality institution of higher education for East Texas. UT Tyler simply must be allowed to add doctoral programs as needed in the region (e.g., nursing) or as needed to take advantage of certain areas of expertise built up over time (e.g., human resource development). To be effective over time for our region, we must be allowed to add doctoral programs.

C. Faculty Hires: The attached table has been designed to address the questions posed.

1. Total number of faculty searches anticipated related to UT Tyler tuition plans.
For Fall '04, 33 searches are to be completed. Of these, 19 (58%) are replacements. Of the remainder, 11 (33%) are related to accommodating anticipated new growth, and 3 (9%) are linked to new program development.

2. Schedule of searches/hires – number planned by academic year.
Please see table following for the schedule of hires. Hires for 05/06 and 06/07 are very tentative at this time. One faculty member was hired in spring O3/04 with spring tuition increase. We expect to hire 33 in 04/05 and 15 in 05/06 and 6 that we know about in 06/07.

3. Schedule of searches/hires – disciplines in which we plan to hire.
Please see table.

4. Schedule of searches/hires – link hires to UT Tyler priorities.
Please see table and note legend.

Faculty Hires

	03/04	04/05	05/06	06/07
College of Arts and Sciences				
Art (Asst)		(1) GC	(1)GC	
English (Lect)		(1) R		
Biology (Lect)		(1) GC	(1) GC	
Political Science (Asst)		(1) GC		
English (Asst)			(1) GC	
History (Asst)		(1) R		
Chemistry (Asst)		(1) R		
Spanish (Asst)		(1) NP		
Religious Studies (Asst)			(1) NP	
Environ. Studies (Asst)			(2) NP	
Biology (Asst)				(1) GC
Math (Asst)		(1) R	(1) R	
Music (Asst)				(1) GC
History (Asst)				(1) GC
Econ (Asst)			(1) GC	(1) GC
Physics (Asst)				(1) GC
College of Business and Technology				
Bus Law (Lect)		(1) GC		
Accounting (Lect)		(1) GC/R	(1) GC	
HR Management (Asst)		(1) R		
Operations Management (Asst)		(1) R		
Management (Asst)		(1) R		
Human Resource Development (Asst)		(1) R		
Human Resource Development (Prof)		(1) NP	(1) NP	
Technology (Asst)			(1) R	(1) R
Construction Management (Asst)			(1) NP	
College of Education and Psychology				
Curriculum and Inst. (Asst)		(1) R		
Math Education (Asst)		(1) R		
Curriculum and Inst. (Chair)		(1) R		
School Counseling (Asst)		(1) R		
Clinical Psychology (Asst)		(1) R		
Psychology (Chair)		(1) GC		
Superintendent Prog (Asst)		(1) R		
Educ. Leadership (Asst)		(1) GC		
Early Childhood (Asst)		(1) R		
Roosth Chair (Prof)		1 (R)		
College of Engineering and Computer Science				
Mechanical Engineering (Asst)		(1) GC/R		
Computer Science (Asst)	(1) R			
Civil Engineering (Prof)		(1) NP		
Computer Science (Asst)			1 (GC)	
College of Nursing and Allied Health Sciences				
Biostatistician		(1) NP		
Sr. Lecturer		(3) GC		
Health Professions		(1) GC		
Nursing (Prof)		(1) NP	(1) NP	
Clinical Exercise Physiology			(1) GC	

Reason for Hire Legend

Tuition Plan (TP)	access to courses by current students
Growth Capacity (GC)	deal with anticipated growth
New Program (NP)	new program starting up
Replacement (R)	

V. UT System and State Priorities Not Addressed Elsewhere:

We believe UT Tyler's priorities are completely aligned with both State and UT System priorities and have noted this elsewhere in our compact. In particular, UT Tyler's first priority is to increase enrollment to 7,000 while completing its transformation into a full-fledged, comprehensive four-year university. That doubling of original enrollment is closely aligned with State and System priorities to increase access and enrollment under Closing the Gaps.

Our second major initiative, to enhance excellence in our academic programs, and the third, to increase research productivity—especially externally funded research—are aligned with State and System goals to increase externally funded research in Texas, benefiting the State and also benefiting the University by diversifying our revenue stream.

One of our major priorities is to increase collaboration with the UT Health Center at Tyler. We intend to develop a joint research institute, work to offer a joint degree program in Environmental and Occupational Health, and support their effort to offer degree programs on their own as soon as possible. We believe this effort is fully aligned with UT System's priorities.

VI. Compact Development Process

UT Tyler's *Compact* development process began with the development of compacts between the interim provost and academic deans and the directors of library services, the Longview University Center and the Palestine Campus. In addition, the President's Cabinet Presidents Council, Academic Council and Faculty Senate all were included in the development and feedback process on multiple occasions. Separate meetings were held with key leaders, such as the president of the Faculty Senate. In addition, members of the Development Board for Tyler and development councils for the Longview and Palestine campuses were given drafts of the document to review. Student Government leaders and community leaders will be included in the coming stages of completion of the Compact. They will receive copies of this submission and will be given opportunities to let us know what we need to add, delete, change or just tweak.

VII. UT System Contributions

A. System support for TRB and PUF funds—

Complete engineering building plus finish series of conversions/renovation
Desperate for final push to get all that needs to be done—not just for desirable growth—
but to complete the transformation of UT Tyler into a four-year university. Several needed renovations are coming to a head at the same time, as a chain reaction.

1. **Complete the Engineering and Science building**
   Without these funds, one of the two engineering/science buildings in this set will be "skinned" but not completed inside and useless to us. We need the science labs and the engineering space right away.

2. **Convert/renovate/expand buildings for new uses and old**
   a. **Science Building**: renovate/add classrooms for Education College
   College home
   Science bldg will be available for the college of education and psychology, currently located in our student center, when last of science faculty members go to their new building with

engineering. Classrooms have to be added, and most existing classrooms and small labs will be converted to offices.

b. **Student Center**: add dining facility and renovate for true student center
Student center housed the College of Education and Psychology on the second floor and mostly the book store on the first floor. When education leaves, need to renovate for student services and student meeting rooms, auditorium and add major food service area or general dining hall to support general population and which is planned also as dining support for new dorm planned to open in Fall '05 next door.

c. **Art studio addition**: to replace temporary/mobile art addition
Art program is maxed out, have waiting list, have faithfully used temporary modular building, some fire & safety issues

d. **Current engineering bldg**: prepare it for our IT operation after engineers go
This converted strip shopping center will be the new home of the University's information technology computers and some other important "back office" operations when the engineers leave. Our IT folks are right in the middle prime space we need for admissions, financial aid and other student functions that need to be together for "one-stop shopping.

e. **Cowan Center**: add music room /storage/small student theater

f. **Physical Plant**: add space (doubling size of university) and up to code

g. **Palestine Campus**: renovate medical building/build new building
Limited space is limiting growth and adding new programs. City is very receptive to providing land or other support and Sen. Staples is working to get local support to cut costs.

h. **Longview University Center**: add classroom building or addition
Classroom sizes, again, are limiting our nursing program there and the number of classrooms is woefully inadequate to add new education college programs or to begin to add lower division classes using Kilgore College.

3. **Approval and (hopefully) funding to help buy last land across from campus**

B. System support for UT Tyler and UTHCT collaboration

- Start-Up funds for joint ***Institute of Biotechnology and Health Science***
- Assistance with State funding sources, such as Governor's Enterprise Funds

C. Academic Program Development

- CRITICAL Support for *planning authority* from Coordinating Board for doctoral programs and, specifically, the Ph.D. in Human Resource Development
- Support for *planning authority* for jointly offered MS – Environmental and Occupational Health with UTHCT

D. Software and Library Assistance

- As noted in IV. A. 6 (page 17), we ask for System help regarding purchase or sharing of software to replace our Poise student system, which is nearing its limits and shortly will no longer support our growth.
- Our rate of growth in size and breadth of programs requires more rapid growth of the library than is normal. We could use assistance here, interms of funding or other means.

VIII. Appendices

Budget Overview

The University of Texas at Tyler
Operating Budget
Fiscal Year Ending August 31, 2004

		FY 2003 Adjusted Budget	FY 2004 Operating Budget	Budget Increases (Decreases) From 2003 to 2004 Amount	Percent
Operating Revenues:					
Tuition and Fees	$	9,610,764	11,539,383	1,928,619	20.1%
Federal Sponsored Programs		2,627,259	3,824,100	1,196,841	45.6%
State Sponsored Programs		284,307	284,294	(13)	0.0%
Local and Private Sponsored Programs		312,951	507,727	194,776	62.2%
Net Sales and Services of Educational Activities		972,093	782,320	(189,773)	-19.5%
Net Sales and Services of Hospital and Clinics		-	-	-	-
Net Professional Fees		-	-	-	-
Net Auxiliary Enterprises		641,550	767,763	126,213	19.7%
Other Operating Revenues		1,000	-	(1,000)	-100.0%
Total Operating Revenues		14,449,924	17,705,587	3,255,663	22.5%
Operating Expenses:					
Instruction		16,475,141	16,033,538	(441,603)	-2.7%
Academic Support		4,507,807	4,050,744	(457,063)	-10.1%
Research		195,480	195,480	-	0.0%
Public Service		30,000	148,325	118,325	394.4%
Hospitals and Clinics		-	-	-	-
Institutional Support		9,397,593	10,223,881	826,288	8.8%
Student Services		2,593,614	2,501,169	(92,445)	-3.6%
Operations and Maintenance of Plant		2,357,784	2,678,704	320,920	13.6%
Scholarships and Fellowships		4,369,048	6,783,440	2,414,392	55.3%
Auxiliary Enterprises		1,244,830	2,045,606	800,776	64.3%
Total Operating Expenses		41,171,297	44,660,887	3,489,590	8.5%
Operating Surplus/Deficit		(26,721,373)	(26,955,300)	(233,927)	0.9%
Nonoperating Revenues (Expenses):					
State Appropriations & HEAF		27,407,681	26,151,258	(1,256,423)	-4.6%
Gifts in Support of Operations		213,302	170,708	(42,594)	-20.0%
Net Investment Income		2,716,272	2,630,463	(85,809)	-3.2%
Other Non-Operating Revenue		-	-	-	-
Other Non-Operating (Expenses)		-	-	-	-
Net Non-Operating Revenue/(Expenses)		30,337,255	28,952,429	(1,384,826)	-4.6%
Transfers and Other:					
Transfers From Endowments		-	-	-	-
Transfers (To) Endowments		-	-	-	-
AUF Transfers Received		-	-	-	-
AUF Transfers (Made)		-	-	-	-
Transfers From (To) Unexpended Plant		-	-	-	-
Transfers for Debt Service		(3,532,619)	(1,865,777)	1,666,842	-47.2%
Other Additions and Transfers		1,555,679	1,271,228	(284,451)	-18.3%
Other Deductions and Transfers		(1,555,679)	(1,271,228)	284,451	-18.3%
Total Transfers and Other		(3,532,619)	(1,865,777)	1,666,842	-47.2%
Surplus/(Deficit)	$	83,263	131,352	48,089	57.8%
Total Revenues	$	44,787,179	46,658,016	1,870,837	4.2%
Total Expenses and Debt Service Transfers		(44,703,916)	(46,526,664)	(1,822,748)	4.1%
Surplus (Deficit)	$	83,263	131,352	48,089	

Statistical Profile

Tyler					
	1999	2000	2001	2002	2003
Undergraduate headcount	2,803	2,892	3,004	3,409	
Graduate and professional Headcount	587	700	728	845	
Total enrollment	3,390	3,592	3,732	4,254	4,769
	year of matriculation				
	1998	1999	2000		
1st year persistence	59.6%	68.1%	60.0%		
	year of matriculation				
	1995	1996	1997	1998	
4-year graduation rate				26.3%	
	1999	2000	2001	2002	
Baccalaureate degrees granted	737	731	702	684	
Master's degrees granted	165	140	163	121	
Faculty fall headcount	274	257	285	302	
Staff fall headcount					
Classified	312	196	213	225	231
Non-classified	58	164	172	221	293
	99	00	01	02	03
FTE student/FTE faculty ratio	11 to 1	11 to 1	12 to 1	12 to 1	13 to 1
Federal research expenditures	1999	2000	2001	2002	2003
	$22,519	$63,307	$66,827	$67,617	$174,362
Revenue/FTE student	$10	$14	$13	$13	$12
Endowment total value	$39,490,000				$40,349,000

49.24

THE UNIVERSITY OF TEXAS AT TYLER

Compact Presentation

Rodney Mabry, PhD
January 26, 2005

Who We Are

THE UNIVERSITY OF TEXAS AT TYLER

49.25

- Mission and Scope
- Students and Faculty
- Growth and Success

Major Compact Goals

49.26

- Increase Enrollment
- Increase Research
- Larger Role in Economic Development of East Texas

Comments

THE UNIVERSITY OF TEXAS AT TYLER

- Aligned Closely with Strategic Plan
- Monitoring Accomplishments
- Extensive Consultation Process

49.27

49.28

THE UNIVERSITY OF TEXAS AT TYLER

Quality Right Where You Are

7. U. T. Tyler: Recommended appointment of Dr. James H. Stewart, Jr., as President Emeritus

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs and President Mabry that authorization be granted to appoint Dr. James H. Stewart, Jr., as President Emeritus at The University of Texas at Tyler. Approval of this recommendation is being requested in accordance with the Regents' *Rules and Regulations*, Series 20301, relating to honorary titles.

BACKGROUND INFORMATION

Dr. James H. Stewart, Jr., served as President of U. T. Tyler and its predecessors, Tyler State College and Texas Eastern University, from 1972-1981. He earned bachelor's, master's, and doctoral degrees from the University of North Texas and served 45 years in higher education and public education before retiring in 1999.

Dr. Stewart became president of Tyler State College on September 1, 1972, and, as the first employee, began the challenging task of developing the only public degree-granting institution of higher education in the 14-county East Texas Planning Region. Upon assuming the presidency, Dr. Stewart set out to accomplish two major goals: to establish a higher education program based upon the principle of academic excellence, and to build a functional, efficient, and aesthetically-pleasing campus and physical plant.

During his presidency, Dr. Stewart led the University through four major construction contracts totaling more than $21 million on the current 200-acre site.

Enrollment increased under his leadership from 176 in Spring 1973 to 1,900 in Spring 1981. The first commencement ceremony was held in May 1974 to honor nine graduating students, and 183 students graduated in May 1981, the same semester that Dr. Stewart announced his retirement.

At the time he retired, U. T. Tyler had over 250 employees, state appropriations of $5,696,263, student enrollment over 1,900, and a range of 48 bachelor's degrees and 14 master's degrees. The University was accredited by the Southern Association of Colleges and Schools and the Texas Education Agency; specific programs were accredited by the National Accrediting Agency for Clinical Laboratory Sciences and the Texas Board of Nurse Examiners.

President Stewart successfully addressed the challenges of a founding president and met his initial goals by creating efficient and beautiful physical facilities and by leading Tyler State College, Texas Eastern University, and U. T. Tyler to a high level of academic excellence.

He and his wife, Colleen, remain active supporters of U. T. Tyler.

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FOR
HEALTH AFFAIRS COMMITTEE

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

Rita C. Clements, Chairman
H. Scott Caven, Jr.
Judith L. Craven, M.D.
Cyndi Taylor Krier
Robert B. Rowling

1. <u>U. T. System: Reports from institutional presidents on new developments at campuses</u>

<u>REPORT</u>

The health presidents will report briefly on the progress of a new major development at each campus. These oral reports may include areas such as new research grants, significant collaborations with external agencies, or other topics deemed to be important by a president.

2. <u>U. T. System: Recommended appointment of Charles B. Mullins, M.D., as Executive Vice Chancellor for Health Affairs Emeritus</u>

<u>RECOMMENDATION</u>

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs that authorization be granted to appoint Charles B. Mullins, M.D., as Executive Vice Chancellor for Health Affairs Emeritus at The University of Texas System Administration. Approval of this recommendation is being requested in accordance with the Regents' *Rules and Regulations*, Series 20301, relating to honorary titles.

<u>BACKGROUND INFORMATION</u>

Dr. Mullins obtained his bachelor's degree from North Texas State University and a medical degree in 1958 from The University of Texas Southwestern Medical School. From 1959 to 1962 he was a flight surgeon in the United States Air Force. Dr. Mullins performed his residency in internal medicine and fellowship in cardiology at Parkland Memorial Hospital in Dallas, and in 1966 began his academic career at U. T. Southwestern Medical School, rising to the rank of Professor of Medicine. From 1977-1979 he was Associate Dean for Clinical Affairs and Director of Medical Affairs at Parkland Memorial Hospital, and from 1979-1981, he was Chief Executive Officer of Parkland Hospital and the Dallas County Hospital District.

On September 1, 1981, Dr. Mullins was named Executive Vice Chancellor for Health Affairs of The University of Texas System and served in this capacity until August 31, 2001. On January 31, 2005, Dr. Mullins retired from U. T. Southwestern Medical Center - Dallas as Professor of Medicine, culminating a distinguished medical career as a researcher, teacher, cardiologist, and administrator. Upon his retirement, Dr. Mullins was appointed Professor Emeritus of Internal Medicine. Approval of President Wildenthal's recommendation that Dr. Mullins be appointed Ashbel Smith Professor Emeritus is included on Page Docket 38. (See Item 1 on Page 34 of the Finance and Planning Committee related to approval of the Docket.)

Dr. Mullins is author or coauthor of more than 100 publications, including research publications, reviews, editorials, books, and abstracts. He is a fellow of the American College of Physicians, American Heart Association Council on Clinical Cardiology, and American College of Cardiology. Dr. Mullins is a distinguished alumnus of the University of North Texas. He was a trustee of the Baylor College of Dentistry and Chairman of the Board of Governors of the American College of Cardiology. He has been a member of a variety of gubernatorial and legislative committees on medical issues and is a member of 14 professional societies and organizations.

3. <u>U. T. System: Report on FY 2004 post-tenure review</u>

<u>REPORT</u>

Executive Vice Chancellor Shine will report on the Fiscal Year 2004 post-tenure review using the attachment on Pages 52.1 - 52.2.

U. T. System Health Institutions
2003-2004 Post-Tenure Review Report

During Fiscal Year 2004, 179 tenured faculty members at the five health institutions with tenured faculty were subject to post-tenure review. Of the 179 faculty members subject to review, 174 (or 97.2 %) were evaluated as Performing Well; 4 (or 2.2%) received Needs Additional Support or Marginal evaluations; and 1 (or 0.56%) received an Unsatisfactory evaluation.

The following summary tables provide additional details of the post-tenure review results for academic year 2003-2004.

Summary Post-Tenure Review Results

	Total Subject to Review	Total Performing Well	Total Additional Support or Marginal	Total Unsatisfactory
UT SWMC-Dallas	26	26	0	0
UTMB-Galveston	35	34	0	1
UT HSC-Houston	41	37	4	0
UT HSC-San Antonio	37	37	0	0
UT MDACC	40	39	0	0
Total	179	174	4	1
		97.2%	2.2%	0.56%

Post-Tenure Review Results by Gender

	Subject to Review		Performing Well		Needs Additional Support or Marginal		Unsatisfactory	
	Male	Female	Male	Female	Male	Female	Male	Female
UT SWMC-Dallas	25	1	25	1	0	0	0	0
UTMB-Galveston	31	4	30	4	0	0	1	0
UT HSC-Houston	26	15	24	13	2	2	0	0
UT HSC-San Antonio	31	6	31	6	0	0	0	0
UT MDACC	27	13	27	13	0	0	0	0
Total	140	39	137	37	2	2	1	0

Office of Heath Affairs 1/6/2005

Post-Tenure Review Results by Ethnicity

	Total Subject to Review					Performing Well				
	White	Black	Hispanic	Asian	Other	White	Black	Hispanic	Asian	Other
UT SWMC-Dallas	26	0	0	0	0	26	0	0	0	0
UTMB-Galveston	26	1	4	4	0	25	1	4	4	0
UT HSC-Houston	37	0	0	4	0	34	0	0	3	0
UT HSC-San Antonio	28	0	2	5	2	28	0	2	5	2
UT MDACC	35	0	0	5	0	35	0	0	5	0
Total	152	1	6	18	2	148	1	6	17	2

	Needs Additional Support or Marginal					Unsatisfactory				
	White	Black	Hispanic	Asian	Other	White	Black	Hispanic	Asian	Other
UT SWMC-Dallas	0	0	0	0	0	0	0	0	0	0
UTMB-Galveston	0	0	0	0	0	1	0	0	0	0
UT HSC-Houston	3	0	0	1	0	0	0	0	0	0
UT HSC-San Antonio	0	0	0	0	0	0	0	0	0	0
UT MDACC	0	0	0	0	0	0	0	0	0	0
Total	3	0	0	1	0	1	0	0	0	0

PRESENT STATUS OF EACH UNSATISFACTORY PERFORMANCE:

U. T. Medical Branch: **(1 Assoc. Professor).** The faculty member with the unsatisfactory review had received a “marginal review” in 2001. Following this re-review, the faculty member was reappointed to a nontenured position.

Office of Heath Affairs 1/6/2005

4. U. T. System: Report on the Chancellor's Health Fellows

REPORT

The Chancellor has approved an initiative proposed by the Executive Vice Chancellor for Health Affairs. This initiative, known as the Chancellor's Health Fellows, is intended to encourage faculty participation, bring added value, and enhance collaborations.

After consultation with the presidents, Dr. Shine was authorized to appoint up to four Fellows during a one-year period, which began April 1, 2004. Each Fellow will be awarded a $25,000 academic enhancement fund, which can be used for appropriate research and educational purposes. Salary support will not be provided. In subsequent years, a simple application process in well-defined areas may be instituted. Fellows will be faculty members, selected for their expertise, who are willing to facilitate System-wide efforts to enhance achievements in selected areas.

This year, Fellows have been appointed in the areas of

a. Medical Education: L. Maximilian Buja, M.D., Executive Vice President for Academic Affairs at The University of Texas Health Science Center at Houston, serves as the first Chancellor's Health Fellow for one year beginning April 1, 2004. Among his responsibilities is the organization of a University of Texas System Symposium on Innovations in Medical Education held in October 2004. This event focused on medical student undergraduate education with an emphasis on experiences with inter-disciplinary education involving other members of the health-care professions. The goal of this conference was to bring together faculty and staff from the six health institutions who have a special interest and involvement in medical education so that information and ideas could be exchanged and the mission of medical education advanced throughout the U. T. System.

b. Quality of Care and Patient Safety: Sharon Martin, M.Ed., MT.(AFCP)SC, Vice President for Quality Management at The University of Texas M. D. Anderson Cancer Center, is the appointed chair for this important issue. The purpose of this fellowship is to create a multidisciplinary program focused on intensive care unit (ICU) quality initiatives that will enhance patient safety, utilization of resources, and health-care provider satisfaction. In addition, the fellowship will facilitate collaboration among participating institutions to improve practices through shared knowledge. The ultimate goal is to create an infrastructure for an enduring program of collaborative quality improvement among University of Texas health-care ICU personnel, including the establishment of a website to facilitate knowledge sharing.

c. Science: Allan Brasier, M.D., Leon Bromberg, M.D., Professor in Internal Medicine; Senior Scientist at the Sealy Center for Molecular Science; and Associate Director at the Proteomics Center at The University of Texas Medical Branch at Galveston, will lead the first U. T. System Science Symposium on Molecular Medicine on February 21-22, 2005. The goal of this symposium is to bring together active scientists in the selected field from both the health and academic campuses to facilitate collaborations and to highlight Texas science.

d. A fourth Fellow will be appointed later in this fiscal year.

5. <u>U. T. Southwestern Medical Center - Dallas: Discussion of compact priorities</u>

<u>REPORT</u>

President Wildenthal and Executive Vice Chancellor Shine will lead a discussion about compact priorities for U. T. Southwestern Medical Center - Dallas as set out in the compact on Pages 54.1 - 54.17.

<u>BACKGROUND INFORMATION</u>

The U. T. System Institution Compacts were sent to the Board of Regents in early September 2004. The compact process was first introduced by Chancellor Yudof at the December 2002 meeting of the Board. The compacts have been integrated into the accountability and strategic framework for the U. T. System.

The compacts are written agreements, between the Chancellor and the presidents of each of the academic and health institutions, that summarize the institution's major goals and priorities, strategic directions, and specific tactics to achieve its goals.

These compacts reflect the unique goals and character of each institution, highlighting action plans, progress, and outcomes. Faculty, staff, and students helped to create these compacts, so that a shared plan and vision resulted. The U. T. System Administration's commitment of resources and time to support each institution's initiatives is included in every compact.

Covering the fiscal years ending 2005 and 2006, the compacts were completed in Summer 2004. They will be updated annually; updates for the second year of the cycle will be completed in August 2005.

To enhance understanding of the compacts, compact priorities for each institution will be discussed at Board meetings in the coming year.

The University of Texas Southwestern Medical Center at Dallas

Compact with the University of Texas System
2004-05 and 2005-06

I. Introduction: Mission and Goals

The University of Texas Southwestern Medical Center at Dallas is a component institution of The University of Texas System and is committed to pursuing high standards of achievement in instruction, research, and clinical activities. Since its inception in 1943, UT Southwestern has evolved as one of the leading biomedical institutions in the country and its programs are designed and implemented with the intent to sustain this progress in the future.

As an academic health science center, the central mission of the institution is to educate health professionals whose lifelong career objectives will be to provide the best possible care, apply the most appropriate treatment modalities, and continue to seek information fundamental to the treatment and prevention of disease. Within an environment of interdisciplinary activity and academic freedom at UT Southwestern, students receive training from faculty scholars who have in-depth expertise in the many specialties of health care and the biomedical sciences. Faculty members also apply their research and clinical skills to generate new knowledge in the fight against disease while serving the people of Texas to the best of their ability. Research findings are made available directly to students and indirectly to the general public as practicing professionals adopt new treatment modalities. The focus of the faculty, students, and administration at The University of Texas Southwestern Medical Center at Dallas will remain on providing exemplary educational programs, creating new knowledge, delivering quality medical care, maintaining the highest ethical standards, advancing the scientific basis of medical practice, and demonstrating concern and compassion for all people. Every aspect of the university's operation will be conducted in as cost-effective a manner as possible.

The institution consists of the Southwestern Medical School, the Southwestern Graduate School of Biomedical Sciences, and the Southwestern Allied Health Sciences School and offers degrees and programs with subject matter limited to health-related fields.

The central purpose of The University of Texas Southwestern Medical Center at Dallas is to produce physicians who will be inspired to maintain lifelong medical scholarship and who will apply the knowledge gained in a responsible and humanistic manner to the care of patients. The Southwestern Medical School has assumed responsibility for the continuum of medical education. The institution offers instructional programs not only in undergraduate medical education leading to the M.D. degree, but also graduate training in the form of residency positions and fellowships as well as continuing education for practicing physicians and medical scientists. An important focus of the educational effort is training primary care physicians and preparing doctors who will practice in underserved areas of Texas. Another instructional role of Southwestern Medical School faculty is that of fully preparing those medical students who seek a career in academic medicine or research, including providing the opportunity to earn both the M.D. and Ph.D. degrees simultaneously.

The Southwestern Graduate School of Biomedical Sciences provides well qualified individuals seeking an M.A., M.S., or Ph.D. degree with the opportunity and the encouragement to investigate rigorously and be creative in solving significant problems in the biological, physical, and behavioral sciences. In addition to acquiring information in their area of research expertise, graduate students are encouraged to develop and test new ideas in the classroom and to communicate their ideas to others within the research-oriented medical community. Although enrolled in a specific program, the students are not restricted to courses in their major field of study. Exposure to a wide variety of academic disciplines is necessary to prepare each individual for the rapidly changing emphasis in the biomedical sciences. Therefore, graduate students at UT Southwestern gain a wide perspective of contemporary biomedical science through interdisciplinary courses, seminars and informal discussions involving scholastic interaction with students and faculty from other educational programs within the University.

The educational programs of the Southwestern Allied Health Sciences School have been established to educate individuals at the baccalaureate and master's degree levels for those professions which support the health care delivery team concept. The School offers baccalaureate degree programs in several fields, post-baccalaureate courses of study, certificate programs, and master's degree programs in allied health science fields of study. As an integral part of UT Southwestern Medical Center, the School works cooperatively in education, research, and service contexts. It prepares allied health professionals of the highest quality and competency to help meet health care needs of the people of Texas. Through research and scholarly pursuits related to health care, it advances scientific knowledge and practices of the allied health profession. It offers consultation, technical assistance, and professional services to meet education and health care needs of the community. In addition, it contributes to the continued growth and development of allied health professions, including reduction of barriers to career advancement through pathways to graduate or post-graduate education. The School views its community obligations as being important and therefore works actively to publicize career opportunities and respond in an appropriate manner to the requirements of health care institutions, agencies, and service providers in the area.

II. Major Ongoing Priorities and Initiatives

A. Short Term Priorities and Initiatives

1. Consolidate the operations of Zale Lipshy University Hospital and St. Paul University Hospital into the patient care mission of the university

Priority: Very High Priority – Essential to the future of the physician referral practice

Objectives: Ensure the future growth and excellence of the clinical referral practice through stabilization of the primary hospitals that serve our private patients. In order to provide a full spectrum of patients for our clinical, education and research missions, a financially strong, well-managed hospital is required. The clinical practice must have access to privately insured patients to ensure an adequate stream of income to support the whole practice. Undergraduate and graduate training is enhanced by the opportunity to assist in the treatment of patients seen in such facilities at an earlier stage of disease. To resolve these challenges, the objective will be to fully integrate outpatient and inpatient services by UT Southwestern assuming responsibility for the operation and governance of Zale Lipshy University Hospital and St. Paul University Hospital.

Strategies: The following sequential strategies are planned: (1) Enter into contracts to provide management oversight assistance to the hospitals. This step is already in place, and improvements are evident. (2) Obtain experienced management for the hospitals in key positions. (3) Enter into contracts for consulting assistance in the key financial and operating processes. (4) Consolidate the information technology and telecommunications functions of the university and hospitals. The project is already taking place under contracts with the hospitals. Due to the contractual nature of the relationship, the consolidation is not as efficient or streamlined as is desirable. The Information Resources Department of the university has included the needs of the hospitals in its strategic plan due to the contract obligations. (5) Enter into a financial consolidation with the hospitals in a form which best meets the future needs of the university. This step is currently under study during the development of the Compact. The analysis and final decision on the future relationship of the university with the two hospitals includes consultation with physicians, administrators, UT System administration, and ultimately, with the Board of Regents. A full merger of the hospitals within the university should be considered as an optimal means to provide the most financially and functionally attractive, long-term solution to the challenges faced by the clinical practice and the hospitals.

Resources: For full success, the university needs to assume full responsibility for managing and governing the hospitals. A plan to acquire the assets and retire the liabilities of the hospital corporations should be developed. Based on an assessment of fair market value of real estate and equipment, the primary source of funding is expected to be the sale of bonds through the UT System revenue financing system, with the bonds to be retired from hospital revenues in future years. Combining the hospitals within the university umbrella is sure to stimulate more philanthropic support as the financial questions associated with the hospitals' future viability are resolved. With the financial strength of UT Southwestern and the support of UT System, capital investment options will be open to the hospitals to help maintain the facilities and provide the advanced equipment necessary to the hospitals' futures.

Progress Measures: A major indicator will be the financial performance of the hospitals. As the benefits of consolidation take hold, the hospitals should return to a strong, positive financial condition. Likewise, the practice plan should excel from improved hospital financial strength. Such improvements will require several years to be fully realized and will be impacted by the level of capital investment available. Over time, the consolidated hospitals should become reorganized in noticeable magazines, such as *US News and World Report.*

Major Obstacles: No major obstacles are known at this time. Analysis of regulatory issues, contingent financial obligations, legal issues, and accreditation issues remain to be completed. The primary challenge going forward will be the availability of capital for new investment as described later in the Compact.

2. **Develop financial resources, both internal and external, to support clinical and research expansion**

Priority: High priority – Expansion and enhancement of UT Southwestern's programs will require substantial new investment in buildings and equipment. The full range of sources, including PUF bonds, RFS bonds, Tuition Revenue Bonds, and institutional, gift, and grant funds, as well as private sector finance, will be needed.

Objectives: Provide funding for additional clinical and research space in a financially sound manner, as space is needed. As new and enhanced programs are developed and additional faculty members are recruited, both new and renovated space will be required for expanded work. Specialized medical equipment in the clinical departments and research equipment not funded by sponsors will require significant resources. Campus infrastructure support for these activities will also require additional funding. With a growth rate of 8% to 10% in both clinical and research activity, significant new resources will be required from external sources.

Strategies: (1) Successfully complete the university's $500,000,000 capital campaign. Begun in 2002, the campaign is designed to provide an opportunity for the community to participate in the growth of the institution. Funds have been raised in support of both research and clinical programs. (2) Use debt capacity of the growing UT Southwestern enterprise in compliance with UT System guidelines and prudent management. Over the past fifteen years, RFS bonds and notes have been used in combination with other resources to expand the Aston Center, finance four new buildings forming the north campus, purchase new land and buildings, and finance clinical equipment. The use of enterprise accounting to better judge clinical business performance and the use of projection models in the new financial planning office will provide better information to assist in producing the financial modeling necessary to support bond financing proposals. (3) Obtain assistance from the Board of Regents in allocations of Permanent University Fund Bond proceeds. PUF bonds have been a major contributor to new building projects, primarily in support of research expansion. In each of the four north campus buildings, PUF bonds have been of vital importance in helping persuade philanthropists to provide private gifts. (4) Achieve continued state support through the Tuition Revenue Bond program. Two buildings on the north campus have received direct support through this program. Participation in capital expansion with TRB financing provides a meaningful, public statement by the legislative and executive branches of state government in support of the growth and improvement of UT Southwestern's programs. Under guidelines regulating the financial support of federally sponsored research, the interest on debt and depreciation of original cost is recoverable. This provides a reliable source of funds to pay back debts incurred in the financing of research buildings. All three bond programs are included in the submission of proposals to recover financing costs on federally sponsored projects. (5) Construction grant opportunities will be used wherever possible when grantors offer programs to assist in capital formation. (6) In some cases, private sector finance may provide facility expansion opportunities. Through the use of ground leases on university property and operating leases in privately owned buildings, space requirements may be accommodated without the use of university capital funds. Presently, the university is seeking proposals for the development of a facility for biotechnology start-up companies interested in the licensing of university-owned intellectual property. (7) Allocation methodologies will be employed on an annual basis during the budget process to supply capital funds from unrestricted sources. A capital planning and source tracking system is to be developed for a multi-year internal plan for capital investment. A financial planning office has been created under the Office of Business Affairs to support this effort.

Resources: Internal financial support for each of the strategies will be provided through the annual budget.

Progress Measures: Achievement of this goal will be measured by the success in bringing forward capital projects in a timely manner, as the need for space and equipment requires. Research expenditures per square foot of research space are measured to time the need for new research space. Clinical enterprise accounting measures are being developed to measure the utility of clinical and hospital space to judge both efficiency and expansion requirements. Using a measure of work performed (Relative Value Units) and charges per square foot of clinical space will assist in determining the timing of the need for expansion. The formal capital campaign, semi-annual Capital Improvements Plan of the Board of Regents, and sessions of the Texas Legislature offer opportunities to achieve measurable support from external sources. Provision of necessary space should be followed by measurable increases in research grants and clinical revenues.

Major Obstacles: Due to its success and reputation, the university has no major internal obstacles to overcome in justifying access to a diversified set of funding sources. However, competing external demands on State and UT System resources may tax the ability of the university to secure this source of funding. Unlike many universities, funding at UT Southwestern is needed primarily to enable the faculty to serve the research and clinical missions of the institution, rather than to serve enrollment growth.

3. Implement the processes necessary to achieve the goals of the clinical transformation project

Priority: High priority – Achieving excellence in all aspects of the delivery of clinical care and service to our patients is a top priority. We are initially focusing on our ambulatory practice, where we perceive the greatest room for improvement, but ultimately plan to encompass our entire clinical practice.

Objectives: Our goal is to transform the practice into a cohesive, patient-oriented program that will combine the highest quality of patient care from medical and technological perspectives with the highest quality of customer service. The changes are not aimed at making marginal incremental improvements, but rather at producing a fundamental transformation of the quality of service of our patients' experiences. We believe that improvements in the service culture of UT Southwestern is an essential aspect of medical student and resident education.

Strategies: Several strategies are planned. We have begun a number of improvements in our practice infrastructure including support services (telephones, registration, scheduling and business processes), electronic medical records, practice metrics, and employee development and training. We are restructuring middle-management to empower a cadre of well-trained clinic medical directors and managers, who will have responsibilities to the entire practice as well as to their departments or divisions. Undergirding the "transformation" must be a transformation of our institutional "culture" toward a patient-centered focus.

Resources: Donors have already pledged support of over $40,000,000 toward a goal of $100,000,000 for this multi-year initiative. Ongoing costs of operations resulting from new initiatives will be included in the annual budget funded from the practice plan; it is anticipated that practice income growth plus philanthropic endowments will more than cover the recurring costs. Infrastructure elements that are in design or reorganization and that are deemed necessary to achieve our objectives include: (1) electronic medical records; (2) support services (telephones, registration, scheduling and business processes); (3) practice metrics (development of the clinical data warehouse); and (4) employee development and training.

Progress Measures: Patient satisfaction surveys are used to measure satisfaction and identify problem areas. Practice metrics are in development to measure wait times for visits, tests and procedures, provider bumped appointment rates, clinic visit times, telecommunications performance, clinical volume and productivity, and financial indicators.

Major Obstacles: The following obstacles will need to be overcome to achieve the objectives of the initiative:

a. The complexity of moving our clinical operations toward "best practice" models
b. The magnitude of the process of re-engineering, implementation and "roll out" of the electronic medical record across a predominantly subspecialty medical practice

c. Changing the "culture" and behavior of clinical leaders, providers and staff into a service-oriented model

4. Add new infrastructure support in information technology with reliable, secure systems that meet the needs of students, faculty, staff, and patients, including Electronic Medical Records

Priority: High priority – Today, information technology – the ability to communicate and transmit data in real time anywhere, anytime – is an indispensable part of the delivery of services in research, education and clinical care. Any assault on the security of communication networks can endanger the institution's intellectual property, private patient information, student records, and financial records. Providing much higher levels of security is essential while the university provides greater data processing capacity and capabilities.

Objectives: The objectives are to: (1) identify the areas of instability of the current telecom suppliers and minimize reliance on leased fiber optic pathways to critical systems; (2) create a multi-homed (dual) Internet connection for mission critical Internet services; (3) implement redundant and high-availability electrical distribution and network hardware; and (4) implement higher levels of monitoring, oversight, and remediation for departmental computing resources.

Strategies: The following strategies have been identified: (1) Create a redundant gigabit backbone connecting the university and the major hospital affiliates; (2) Create network security zones allowing segregation of low, medium and high risk computing facilities; (3) Continue to examine internal and external networks and computing facilities for security vulnerabilities; (4) Maintain disaster recovery plans for major computing and telecommunications facilities serving the university, Zale Lipshy University Hospital, and St. Paul University Hospital. We would also continue the expansion and regular rehearsal of disaster recovery/business continuity plans and examine the feasibility of reducing our reliance on our hot site (Chicago) by moving to co-located facilities; and (5) Participate in the LEARN organization seeking to construct a high speed Texas network capable of participating in national GRID computing initiatives. Until LEARN is proven reliable, the university will maintain commercial connections to the commodity Internet and Internet 2.

Resources: Significant investment in skilled staff to accomplish the tasks resulting from the strategies will be required. Funding will be needed for hardware, software, renovation, and systems development to achieve the objectives. Although a detailed budget has not yet been developed, an annual investment of at least $3,000,000 allocated from internal sources will be required.

Progress Measures: Progress measures are as follows: the completion and successful test of the university's redundant gigabit backbone, the reduction in the number of university facilities outfitted with low-speed wiring and network equipment, the maintenance of an acceptable level of computing and network risks, the successful test of the university's disaster recovery/business continuity plans, and the completion of the LEARN network and commercial quality Service Level Agreements.

Major Obstacles: The many diverse challenges to overcome have a strong influence on the rate of accomplishment. Increased security needs will require Information Resources and university administration to become more involved in direct oversight of departmental computing initiatives. This represents a significant cultural and operational shift for UT Southwestern. For the hospitals and university clinics, all projects must ensure there will be no impact on patient care.

B. Long Term Priorities and Initiatives

1. Develop the resources necessary to insure the long-term financial health of the university without suffering significant negative impacts from the unpredictable and sometimes sub-optimal growth of state support

Priority: High priority – UT Southwestern's growth rates in clinical and research activity historically exceed the growth of state support. To maintain these growth rates over the long term will require supplemental support from both internally generated and external sources.

Objectives: It is essential that we provide sufficient financial support to allow for the continued enhancement and growth of the research and clinical missions. One specific objective is to obtain full funding of the cost of indigent care services at Parkland Memorial Hospital. Rapid growth of the demand for services and the reluctance of county, state and Parkland officials to increase support for indigent care have placed severe financial challenges on Parkland and compromised its ability to pay for the full range of physician services necessary for one of the nation's largest public teaching hospitals. UT Southwestern is the sole provider of physician services at Parkland. In order to continue our growth trend in research and clinical care, increased support will be necessary from philanthropic and federal sources, as well as appropriate increases from state and local government.

Strategies: To achieve this goal, the university will need to maintain a strong and responsible financial condition as a first requirement. Whether from debt markets, external supporters, or state or UT System resources, a strong reputation for financial stewardship is necessary to maintain the confidence of those who finance our growth. Bringing this message forth along with our needs and opportunities will be a vital part of our responsibility to support the growth of the institution. A second strategy will be to educate the local community further of our close relationship with and mutual dependence on Parkland Memorial Hospital and the essential requirement for Parkland to have adequate financial support to serve the health care needs of local citizens most in need and to invest in the centers of excellence, while Parkland and UT Southwestern together offer the metroplex area. A third strategy will be to work with representatives of state government and UT System colleagues to define state funding allocations to health institutions based on excellence and achievement. Today, only a minimal amount of formula funding is based on these factors. A fourth strategy will be to continue adding to the supply of private funds available to the university.

Resources: Strong leadership in vital areas of public relations, financial and operational management, and fund raising are required to achieve these objectives. Active support by the Board of Regents, UT System officials, private citizens, and local and state elected officials, along with our representatives in Washington, D.C., will be necessary to obtain the funding necessary to meet our needs.

Progress Measures: Progress can be measured by changes in amounts and methods of finance in state support, improvements to the Parkland Memorial Hospital contract terms, new federal funding, and private support beyond the current campaign. The opening of new relationships for grant support will also provide evidence of success in this initiative.

Major Obstacles: The many demands on state funding for education and indigent care, including the projected rapid growth in K-12 and undergraduate enrollment, will compete with our objectives. There is always a danger that competing public needs, along with the reluctance of elected governmental entities, including the Dallas County Commissioners Court, to raise taxes, will result in inadequate support of essential services.

2. **Provide the campus infrastructure necessary to allow for continual growth in the research and clinical missions consistent with the past growth rate of 8% to 10% per year**

   Priority: High Priority – Growth cannot continue without the basic administrative and technological support necessary. Likewise, new facilities will be needed as demand expands.

   Objectives: Provide administrative leadership, trained staff, secure and reliable systems, facilities, and equipment to meet the needs of faculty and students as growth opportunities are presented.

   Strategies: The strategies to meet this initiative are: (1) Develop succession plans to all key administrative positions; (2) Create a central training office to oversee and support staff training programs across the campus; (3) Explore and develop new performance-based compensation plans for employees at all levels; (4) Establish a formal process for the evaluation and recommendation of replacement administrative systems; and (5) Construct new buildings to house new programs along with the equipment necessary for faculty success.

   Resources: A combination of internal sources institutionally derived from central sources and cost recovery charges to departments will be used along with external sources from UT System, state, and private funds. The ability to access PUF funds, tuition revenue bonds, and other state support will be required as the limited internal sources cannot provide the magnitude of funds necessary to accommodate the growth rate of the campus.

   Progress Measures: Telecommunications, network, and administrative system capacity will need to grow, in order to meet the growth needs of the university. Maintaining adequate human capital to support growth can be measured by tracking unfilled positions and comparing salary levels to the local market conditions. Building capacity can be measured by the amount of new square footage added to the university.

   Major Obstacles: Access to funding for major capital projects and operating funds to maintain market competitive rates for administrative positions are the two major challenges facing this initiative.

3. **Develop the clinical practice capabilities necessary to achieve a level of excellence recognized nationally to place the university among the top academic medical centers for both inpatient and outpatient services.**

   Priority: High Priority – In order to continue our success in the growth of the practice, the recruitment of top physicians, and the attraction of outstanding undergraduate students, residents and fellows, the reputation of the practice will need to continue to improve.

Objectives: Seek to attain a national and international reputation for excellence in the practice of medicine, with our centers of clinical excellence being recognized as equal to the premier medical centers in the country.

Strategies: The following strategies are in the planning or active development stages to achieve this objective: (1) Development of the Electronic Medical Record in both the inpatient and outpatient environments; (2) Expansion of the Clinical Data Repository for the inclusion of patient results originating at affiliated institutions; (3) Further the development of a heart disease center including programs in genetics leading to gene therapy and transplant; (4) Development of a comprehensive organ transplant program to include bone marrow, liver, kidney, pancreas, heart, and lung; (5) Development of a major program in restorative services, such as bone and joint, physical medicine, and plastic surgery; and (6) Enhance clinical neuroscience programs.

Resources: Additional faculty with expertise in understaffed disciplines, a new ambulatory surgical center, expanded inpatient facilities, and a local and national marketing program to inform the public and professionals of the excellence of the clinical programs will be required.

Progress Measures: Metrics to track the progress of this initiative will include new patients in each of the programs, the number of operations conducted, RVU's and revenue generated by the programs; the scientific impact of the enhanced clinical programs will be measured by numbers of peer-reviewed grants and by the frequency of citations of published papers.

Major Obstacles: Challenges to overcome will be the perception of the university in some quarters as having a limited focus on clinical care and clinical research; the present lack of convenient, consolidated clinical facilities of sufficient scale and scope; the increase in national competition for top faculty; and the availability of funds to launch new programs and maintain them.

4. **Continue to develop new research programs of excellence while improving existent programs so as to further advance the university's position as a leading institution of biomedical research.**

Priority: High Priority – In order to continue to grow as a leading institution of biomedical research, the university will need to continue to expand its areas of research strength while critically selecting new areas in which to develop strong research programs.

Objectives: Seek to develop programs of excellence in clinical research and new areas of basic research while continuing to expand and improve existing programs of excellence.

Strategies: The following programs are in development: (1) Development of an active program in clinical cancer research; (2) Establishment of a Center for Biostatistics and Clinical Science that will provide a home for the development of programs in biostatistics and epidemiology while providing an infrastructure for the development and training of clinical researchers; (3) Development of a program in advanced neuroimaging to allow translation of knowledge in molecular and cellular neuroscience to clinical research in cognitive neuroscience and neurological disease; (4) Development of programs in stem cell biology that focus on an understanding of the basic biology of stem cells and "stemness", while developing translational programs that explore the application of stem cell biology to the treatment of human disease; and (5) Expand research programs that are presently strong including cell and molecular biology, genetics, structural biology, basic neuroscience, basic cancer research, chemical biology, and developmental biology.

Resources: Additional faculty will need to be recruited in all of these areas. Funds will be required to provide the start-up costs as well as recurring support for these faculty and programs. The biomedical research facilities planned to open in 2005 and 2006 will provide the needed research space, but additional space will be required later in the decade.

Progress Measures: Metrics to track the progress in this initiative will include the growth in research expenditures, total grant dollars awarded, grant dollars awarded by the National Institutes of Health, frequency of citations of published papers, and faculty elected to the National Academy of Sciences.

Major Obstacles: Challenges to overcome will be the recruitment of a Cancer Center Director, recruitment of key faculty leaders in biostatistics, epidemiology, stem cell biology and neuroimaging, and the development of the proper paradigm for training clinical investigators. Funds will have to be raised to support expensive programs in cancer and stem cell biology, as well as to purchase equipment for neuroimaging.

5. **Develop interdisciplinary and inter-institutional collaborations with UT Arlington, UT Dallas, and other universities to share and expand knowledge, services and operational efficiencies**

Priority: High priority – Sharing of knowledge and capabilities is a UT Southwestern, UT System and state goal.

Objectives: Maximize the potential of each institution in its various missions through the exchange of knowledge and the combination of resources to gain efficiencies in operations and increased scale in both academic and administrative services.

Strategies: Strategies will include the following: (1) Formation of an internal task force charged with identifying academic resources with common purpose from target institutions, organizing and participating in the exchange of ideas with target institutions, and recommending candidate projects in specialty fields, such as functional MRI, neuroscience, computational biology, bioengineering and medical chemistry; (2) Obtaining funding specific to candidate projects; and (3) Seeking approval of academic programs for undergraduate and graduate students which leverage two or more institutions' educational and research capabilities. In addition, it will be necessary to work closely with community leaders, elected and appointed officials, and hospital administrators, both on-campus and off-campus.

Resources: Availability of faculty leaders to devote the time and effort to these programs will be needed. Seed funding of projects will be needed from external sources, such as philanthropy and special state and federal grants and contracts, as well as on-going support from local, state, and federal sources.

Progress Measures: Measures will include: (1) the number of successful new collaborations; (2) the number of institutions participating; (3) grants and contracts awarded; (4) cost savings achieved; (5) new degree programs; and (6) increases in external funding.

Major Obstacles: The availability of start-up resources to invest in faculty collaborations will be a challenge for the future.

III. Future Initiatives of High Strategic Importance

Position the university and our region as a desirable site for high-tech start-ups and relocations

Objectives: Create a biotech center adjacent to the university to allow start-up companies who license our technology to stay in Texas.

Strategies: Seek private capital to develop land under contract to the university as a biotech park. Provide research core services on a cost recovery basis which encourage relocations and new companies to locate within the park.

Resources: Funds are being invested to purchase land for a biotech park. New facility construction will be required. Centralized core services available to university researchers will be priced to serve the needs of biotech tenants with limited on-site investment.

Progress Measures: Completion of a contract with a private developer experienced in biotech tenant recruitment and facility construction and management; leasing of space to biotech tenants.

IV. Other Critical Issues Related to Institutional Priorities

A. Impact of Initiatives

Enrollment Management: Not applicable

Diversity of Faculty and Staff: Not applicable

Community and Institutional Relations: The growth in scale and reputation of the clinical program and consolidation of the hospitals will further raise the profile of the university as world-class academic medical center serving the outpatient and inpatient needs of the region with outstanding services. This changes the public perception of the medical school as an institution only serving the needs of indigent patients and conducting research. Competitive strains could develop between the university and other physicians and hospitals serving the metroplex. Education of the public along with the marketing strategies identified will be needed.

Finances: This has been covered in the initiatives.

Facilities: This has been covered in the initiatives.

Other infrastructure issues: None

B. Unexpected Opportunities or Crises: Not applicable

V. System and State Priorities

Increasing Student Access and Success: Consolidating the operations of Zale Lipshy University Hospital and St. Paul Hospital into the patient care mission of the university (Section II.A.1) may provide opportunities to accommodate additional students in several of our academic programs that require sites and faculty for clinical training. Research expansion (Section II.A.2) provides opportunities to increase enrollment in our biomedical science graduate programs. Interdisciplinary and inter-institutional collaborations with UT Arlington, UT Dallas and other institutions (Section II.B.5) will provide opportunities to develop new graduate programs as these collaborations yield new areas of research and training. In such an environment, enrollment can increase and Texas students have the opportunity for the most promising scientific education.

Collaborations among UT System institutions, particularly academic health institution collaborations: Covered in Section II.

Increasing External Research Funding: A mark of success at UT Southwestern, external research funding has increased annually at an average rate of approximately 8% per year for the past ten years, well in excess of the national average for institutions of our size.

VI. Compact Development Process

The administration through the Office of Business Affairs and the Office of Academic Planning began the development of the Compact by reviewing both the Presidential Work Plan and the university's Six Year Plan. The Six Year Plan is a faculty and administration collaborative document which is revised every two years. The most recent revision is now in its final draft. From these documents, a group of senior administrators compiled a list of various projects, initiatives and ideas that could be used for the short-term and long-term priorities and initiatives section. The details for each priority and initiative were drawn heavily from the Presidential Work Plan and the Six Year Plan, but additional details and information included suggestions by other officials of the university who have expertise in specialized areas. The first draft of the plan will continue a review process to include faculty and student leadership. When the final plan is submitted, the process will have included a broad section of faculty, represented by the Six Year Plan, senior administration, and student leadership.

VII. System Contributions

- PUF and TRB support (Health Affairs; Governmental Relations)
- Funding for clinical and research faculty (Health Affairs; Governmental Relations)
- State and federal resources (Governmental Relations; Federal Relations)
- Assist in the acquisition of Zale Lipshy University Hospital and St. Paul University Hospital in a timely manner (OFPC; Health Affairs; Business Affairs; OGC)

VIII. Appendices

A. Budget Summary

The University of Texas Southwestern Medical Center at Dallas
Operating Budget
Fiscal Year Ending August 31, 2004

		FY 2003 Adjusted Budget	FY 2004 Operating Budget	Budget Increases (Decreases) From 2003 to 2004 Amount	Percent
Operating Revenues:					
Tuition and Fees	$	8,697,512	9,049,296	351,784	4.0%
Federal Sponsored Programs		161,121,610	186,308,678	25,187,068	15.6%
State Sponsored Programs		14,076,788	13,365,014	(711,774)	-5.1%
Local and Private Sponsored Programs		155,790,656	173,829,194	18,038,538	11.6%
Net Sales and Services of Educational Activities		13,585,596	14,735,222	1,149,626	8.5%
Net Sales and Services of Hospital and Clinics		-	-	-	-
Net Professional Fees		187,218,176	207,478,828	20,260,652	10.8%
Net Auxiliary Enterprises		10,731,625	12,346,945	1,615,320	15.1%
Other Operating Revenues		18,035,329	26,018,692	7,983,363	44.3%
Total Operating Revenues		569,257,292	643,131,869	73,874,577	13.0%
Operating Expenses:					
Instruction		325,183,939	363,993,006	38,809,067	11.9%
Academic Support		20,651,792	21,935,690	1,283,898	6.2%
Research		218,728,080	255,096,655	36,368,575	16.6%
Public Service		58,794,478	67,964,554	9,170,076	15.6%
Hospitals and Clinics		-	-	-	-
Institutional Support		47,766,687	51,293,592	3,526,905	7.4%
Student Services		2,071,806	2,095,912	24,106	1.2%
Operations and Maintenance of Plant		46,246,769	44,464,218	(1,782,551)	-3.9%
Scholarships and Fellowships		1,651,477	1,741,036	89,559	5.4%
Auxiliary Enterprises		11,307,419	12,216,879	909,460	8.0%
Total Operating Expenses		732,402,447	820,801,542	88,399,095	12.1%
Operating Surplus/Deficit		(163,145,155)	(177,669,673)	(14,524,518)	8.9%
Nonoperating Revenues (Expenses):					
State Appropriations & HEAF		115,594,537	116,432,322	837,785	0.7%
Gifts in Support of Operations		22,130,108	24,662,500	2,532,392	11.4%
Net Investment Income		39,626,699	46,699,942	7,073,243	17.8%
Other Non-Operating Revenue		-	-	-	-
Other Non-Operating (Expenses)		-	-	-	-
Net Non-Operating Revenue/(Expenses)		177,351,344	187,794,764	10,443,420	5.9%
Transfers and Other:					
Transfers From Endowments		-	-	-	-
Transfers (To) Endowments		-	-	-	-
AUF Transfers Received		-	-	-	-
AUF Transfers (Made)		-	-	-	-
Transfers From (To) Unexpended Plant		-	-	-	-
Transfers for Debt Service		(19,379,884)	(23,957,213)	(4,577,329)	23.6%
Other Additions and Transfers		722,934	1,952,416	1,229,482	170.1%
Other Deductions and Transfers		-	(769,975)	(769,975)	-
Total Transfers and Other		(18,656,950)	(22,774,772)	(4,117,822)	22.1%
Surplus/(Deficit)	$	(4,450,761)	(12,649,681)	(8,198,920)	184.2%
Total Revenues	$	746,608,636	830,926,633	84,317,997	11.3%
Total Expenses and Debt Service Transfers		(751,782,331)	(844,758,755)	(92,976,424)	12.4%
Surplus (Deficit)	$	(5,173,695)	(13,832,122)	(8,658,427)	

	FY 2004 Budget
Revenue	
General Revenue	117,584,122
Local Income	61,080,927
Medical Services Research and Development	299,789,630
Faculty Supplement Plan	1,494,113
All Other Designated	71,450,534
Restricted - Grants and Contracts	265,830,000
Auxiliary	13,697,307
Total Revenue	830,926,633
Expenditures	
Faculty Salaries	216,963,466
Staff Salaries	215,135,945
Fringe Benefits	99,543,430
Maintenance and Operations	226,084,588
Professional Liability Insurance	5,903,447
Travel	8,756,524
Official Functions	131,350
Utilities	13,570,538
Scholarships	1,741,036
Library Books	1,100,000
Debt Service	23,957,213
Capital Expense	31,871,218
Total Expenditures	844,758,755
Surplus / (Deficit) - Funded from Prior Year Funds	(13,832,122)

B. Statistical Profile

SWMC					
	1999	2000	2001	2002	2003
Fall UG headcount enrollment					
Allied Health	246	239	215	169	
Biomedical Sciences	12	2	6	24	
Fall grad/professional headcount enrollment					
Allied Health	63	65	100	134	
Biomedical Sciences	411	375	420	472	
Medical School	807	824	813	838	
Total enrollment	1,281	1,264	1,333	1,444	1,749
	year of matriculation				
	1999	2000	2001	2002	
Undergrad degrees awarded					
Allied Health certificates	4	5	9	5	
Allied Health baccalaureate awards	148	103	106	104	
Grad/Professional degrees					
Biomedical Science	78	73	65	63	
Medical	194	184	203	201	
Allied Health	0	29	33	32	
Total	272	286	301	296	
	1999				2003
Accredited GME resident programs	66				78
Residents in GME accredited programs	959				1,149
	1999	2000	2001	2002	2003
Federal research expenditures	$99,994,840	$109,165,343	$131,820,109	$155,257,992	$177,133,099
	1999	2000	2001	2002	2003
Faculty fall headcount	1,586	1,566	1,573	1,536	
Classified staff	3,199	3,223	3,353	3,686	3,855
Non-Classified staff	121	124	127	142	164
	99	00	01	02	03
Hospital admissions					
Hospital days	370,942	379,770	399,136	445,820	
Clinic visits	1,752,510	1,528,751	1,755,500	2,064,987	
Unsponsored charity care	$194,564,381	$211,953,613	$234,938,900	$256,968,945	
Endowment total value	$593,224,000				$656,221,000

C. Institution-Specific Information

UT Southwestern is ranked 16th in the country for Medical Schools – Research and 30th for Medical Schools – Primary Care by *U.S. News and World Report*.
There are also the following honors among its faculty:

- Four recipients of the Nobel Prize
- Fifteen members of the National Academy of Sciences
- Twelve members of the American Academy of Arts and Sciences
- Fifteen members of the Institute of Medicine

From a survey of federally funded universities in *Science Watch*, UT Southwestern earned a Top 10 ranking in 4 out of 6 major fields. Among peer institutions, only Harvard and UC San Francisco received a better overall ranking, based on their criteria. However, UT Southwestern confers more medical degrees and provides much more indigent care than our peer institutions.

In self-conducted patient satisfaction surveys, UT Southwestern received a 91.86% satisfaction rating in 2002, where 94% were satisfied with the physicians alone.

D. Links to Web Resources

The University of Texas Southwestern Medical Center at Dallas (http://www.utsouthwestern.edu)
The University of Texas System (http://www.utsystem.edu)
National Institute of Health (http://www.nih.gov)
Association of American Medical Colleges (http://www.aamc.org)
U.S. News and World Report Magazine (http://www.usnews.com)
Science Watch (http://www.sciencewatch.com)

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FOR
FACILITIES PLANNING AND CONSTRUCTION COMMITTEE

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Austin, Texas
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Austin, Texas

John W. Barnhill, Jr., Chairman
H. Scott Caven, Jr.
Rita C. Clements
Robert A. Estrada
Woody L. Hunt

	Committee Meeting	Board Meeting	Page
7. **U. T. San Antonio: Recreation and Athletic Facilities - Amendment of the FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to decrease total project cost; authorization of institutional management; appropriation of funds and authorization of expenditure; and resolution regarding parity debt**	*3:10 p.m.* **Action** *Mr. Sanders*	**Action**	**60**
8. **U. T. Austin: Honorific naming of the field laboratory building at the Stengl "Lost Pines" Biological Station in Bastrop, Texas, as the Lorraine F. Wyer Residential Laboratory**	*3:13 p.m.* **Action** *Mr. Sanders*	**Action**	**62**
9. **U. T. Permian Basin: Honorific Naming of the Falcon's Nest housing as The A. C. and Melba Bassett Falcon's Nest**	*3:17 p.m.* **Action** *Dr. Watts*	**Action**	**63**
10. **U. T. M. D. Anderson Cancer Center: Authorization to rename the George E. Foreman Child and Adolescent inpatient unit at the Albert B. and Margaret M. Alkek Hospital as The Children's Cancer Hospital at The University of Texas M. D. Anderson Cancer Center**	*3:22 p.m.* **Action** *Dr. Mendelsohn*	**Action**	**64**
11. **U. T. Health Science Center - Houston: Honorific Naming of the Building to House the Brown Foundation Institute of Molecular Medicine for the Prevention of Human Diseases as the Fayez S. Sarofim Research Building**	*3:25 p.m.* **Action** *Dr. Willerson*	**Action**	**65**
Adjourn	*3:30 p.m.*		

1. U. T. System: Consideration of designation of the U. T. Austin Elementary Charter School Permanent Facility project as architecturally or historically significant

RECOMMENDATION

It is recommended that the Committee review the following project scheduled for architectural selection for possible designation as architecturally or historically significant pursuant to the Regents' *Rules and Regulations*, Series 80302:

U. T. Austin
Elementary Charter School Permanent Facility
Proposed Project Cost: $4,500,000
Anticipated Delivery Method: Construction Manager at Risk
Request Direct Appointment of Architect

2. U. T. Arlington: Deferred Maintenance/Capital Renewal Projects - Amendment of the FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to increase total project cost; approve transfer of funds; and reduce total project cost for the Brick Repairs - Pickard Hall and College of Business Administration

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Spaniolo that the U. T. Board of Regents approve the recommendations for the Deferred Maintenance/Capital Renewal Projects at The University of Texas at Arlington as follows:

Project Number:	301-168		
Architecturally or Historically Significant:	Yes ☐ No ☒		
Institutionally Managed:	Yes ☒ No ☐		
Project Delivery Method:	Competitive Sealed Proposals		
Substantial Completion Date:	August 2006		
Total Project Cost: Deferred Maintenance/Capital Renewal Projects	Source Permanent University Fund Bond Proceeds	Current $2,119,134	Proposed $2,229,976
Total Project Cost: Brick Repairs – Pickard Hall and COBA	Source Permanent University Fund Bond Proceeds	Current $8,057,599	Proposed $7,946,757

a. amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to increase the total project cost by $110,842

b. approve the transfer of Permanent University Fund Bond Proceeds in the amount of $110,842 from the Brick Repairs - Pickard Hall and College of Business Administration (COBA) project; and

c. reduce the total project cost for the Brick Repairs - Pickard Hall and COBA.

BACKGROUND INFORMATION

Previous Board Actions

Deferred Maintenance/Capital Renewal Projects: On May 8, 2003, the project was included in the CIP with a preliminary project cost of $1,405,354 with funding from Permanent University Fund (PUF) Bond Proceeds. On February 4, 2004, the total project cost was increased to $2,119,134 with funding from the PUF.

Brick Repairs - Pickard Hall and COBA: On February 10, 2000, the project was included in the CIP with a preliminary project cost of $12,500,000 with funding from the PUF. On September 14, 2000, the Chancellor approved the design development and increasing the Total Project Cost to $13,068,800 with additional funding of $568,800 from Tuition Revenue Bond Proceeds. On May 8, 2002, the total project cost was reduced to $9,462,953. On May 8, 2003, the total project cost was reduced to $8,057,599.

Project Description

U. T. Arlington is requesting the transfer of the remaining $110,842 of PUF from the Brick Repairs - Pickard Hall and COBA project that has been completed to the Deferred Maintenance/Capital Renewal Projects. The additional funds will be used to address additional fire and life safety issues.

The Deferred Maintenance/Capital Renewal Projects address exterior masonry repairs to University Hall, chiller replacements at the Automation and Robotics Research Institute (ARRI) (Fort Worth Riverbend Campus), and elevator renewals and replacements.

3. U. T. Austin: Biomedical Engineering Building - Removal of Student Health Center Building

REPORT

Mr. Sidney J. Sanders, Assistant Vice Chancellor for Facilities Planning and Construction, will report that a portion of the site preparation for the Biomedical Engineering Building project at U. T. Austin involves the demolition of the former Student Health Center building. The building does not have a historical designation and no formal approvals for demolition are required.

4. U. T. Brownsville: Campus Master Plan Update

Dr. Juliet V. García, President of The University of Texas at Brownsville, and Mr. Sidney J. Sanders, Associate Vice Chancellor, Office of Facilities Planning and Construction, with the assistance of campus planning consultant, 3DI, will present a video illustrating the highlights of the 2005 Campus Master Plan for U. T. Brownsville and Texas Southmost College. The presentation will show the potential build-out capacity of the campus over a planning horizon of 15 to 20 years. The presentation will also include recent and projected trends in enrollment.

REPORT

U. T. Brownsville and Texas Southmost College have experienced substantial growth in enrollment over the last several years. The proposed Campus Master Plan will outline the potential future development of the campus to accommodate growth in enrollment. This will include architectural guidelines, vehicular and pedestrian circulation, opportunities for redevelopment and expansion as well as redefined functional zoning of the campus. The original Campus Master Plan was prepared in 1985 and revised in 1990, 1995, and 2000.

The previous master plan delineated a 321-acre campus. The campus has now grown to 382 acres with the acquisition of a portion of the Fort Brown Peninsula and the former Amigoland Mall.

The goal of this Campus Master Plan is to guide the development and placement of buildings, streets, infrastructure, and landscaping to support the mission and expected growth at U. T. Brownsville.

5. U. T. Dallas: Center for BrainHealth - Amendment of the FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to increase total project cost and approval to revise funding sources

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Jenifer that the U. T. Board of Regents approve the recommendations for the Center for BrainHealth project at The University of Texas at Dallas as follows:

Project Number:	302-193		
Architecturally or Historically Significant:	Yes ☐ No ☒		
Project Delivery Method:	Competitive Sealed Proposals		
Substantial Completion Date:	January 2007		
Total Project Cost:	Source	Current	Proposed
	Gifts	$5,000,000	$ 6,000,000
	Revenue Financing System Bond Proceeds		$ 4,000,000
	Permanent University Fund Bond Proceeds		$ 1,000,000
			$11,000,000

a. amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to increase the total project cost; and

b. revise the funding sources.

BACKGROUND INFORMATION

Previous Board Action

On November 13, 2003, the project was included in the CIP with a preliminary project cost of $5,000,000 with funding from Gifts.

Project Description

U. T. Dallas received a $5,000,000 gift from a private donor to support the acquisition of a building to house the Center for BrainHealth. The purchase of the building in the amount of $3,200,000 was completed in July 2004. The remaining funding of $1,800,000 from Gifts will be used for renovation.

Additionally, the total project cost will be increased from $5,000,000 to $11,000,000. The renovation work to the building, which contains 45,500 gross square feet, will provide office and laboratory space for 50 research projects and remediation of environmental issues. The Center, which conducts innovative research and provides clinical services for a variety of brain disorders including brain injury, Alzheimer's disease, and stroke, will provide clinical interventions and long-term follow-up care.

The additional funding of $1,000,000 from Permanent University Fund Bond Proceeds (Library, Equipment, Repair and Rehabilitation) is associated with Project Emmitt, a $3 billion, five-year program for research, development, and manufacturing. As part of the program, the Erik Jonsson School of Engineering and Computer Sciences is forming a new department that will focus on the engineering aspects of the biological sciences. The Center for BrainHealth will facilitate interactions with members of the engineering faculty.

6. U. T. El Paso: Biosciences Facility - Amendment of the FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to increase total project cost; approval to revise funding source; and appropriation of funds and authorization of expenditure

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Natalicio that the U. T. Board of Regents approve the recommendations for the Biosciences Facility project at The University of Texas at El Paso as follows:

Project Number: 201-114

Architecturally or Historically Significant: Yes ☐ No ☒

Project Delivery Method: Construction Manager at Risk

Substantial Completion Date: April 2006

Total Project Cost:

Source	Current	Proposed
Tuition Revenue Bond Proceeds	$12,750,000	$12,750,000
Permanent University Fund Bond Proceeds	$ 8,500,000	$ 8,500,000
Revenue Financing System Bond Proceeds	$ 5,750,000	$ 5,750,000
National Institutes of Health Grant		$ 3,500,000
	$27,000,000	$30,500,000

a. amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to increase the total project cost;

b. revise the funding source; and

c. appropriate funds and authorize expenditure of funds.

BACKGROUND INFORMATION

Previous Board Actions

On November 8, 2001, the project was included in the CIP with a preliminary project cost of $19,250,000 with funding of $12,750,000 from Tuition Revenue Bond Proceeds and $6,500,000 from Permanent University Fund Bond Proceeds. On May 8, 2002, the Board approved increasing to the total project cost to $25,000,000 with additional funding of $5,750,000 from Revenue Financing System Bond Proceeds. On August 8, 2002, the Board approved design development plans. On May 8, 2003, the Board approved increasing the total project cost to $27,000,000 with additional funding of $2,000,000 from Permanent University Fund Bond Proceeds.

Project Description

U. T. El Paso requests approval to include the funding of $3,500,000 from the National Institutes of Health for completion of additional research space in areas of the building that were scheduled to be shelled. The facility is a new, five-story building of approximately 84,000 gross square feet and includes site development and extension of site utilities. The project showcases the research activities of the Department of Biological Sciences and provides state-of-the-art space dedicated to laboratories, animal facilities that include a vivarium and aquatic facility, a biosafety level 3 laboratory, support facilities and offices, and offices for the Border Biomedical Research Institute.

7. U. T. San Antonio: Recreation and Athletic Facilities - Amendment of the FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to decrease total project cost; authorization of institutional management; appropriation of funds and authorization of expenditure; and resolution regarding parity debt

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Romo that the U. T. Board of Regents approve the recommendations for the Recreation and Athletic Facilities project at The University of Texas at San Antonio as follows:

Project Number:	401-210
Architecturally or Historically Significant:	Yes ☐ No ☒
Institutionally Managed:	Yes ☒ No ☐
Project Delivery Method:	Competitive Sealed Proposals
Substantial Completion Date:	August 2006

Total Project Cost:	Source	Current	Proposed
	Revenue Financing System Bond Proceeds	$12,000,000	$1,900,000
	Gifts	$ 3,000,000	
	Unexpended Plant Funds	$ 1,500,000	
	Grants	$ 1,500,000	
		$18,000,000	

a. amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to decrease the total project cost;

b. authorize U. T. San Antonio to manage the total project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts;

c. appropriate and authorize expenditure of funds; and

d. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that

- parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;

- sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System; and

- U. T. San Antonio, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its 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 $1,900,000.

BACKGROUND INFORMATION

Debt Service

The $1,900,000 debt service in Revenue Financing System debt will be repaid from net operating revenues of recreation sports. Total annual debt service on the project is estimated at $158,991. Overall debt service coverage for recreation sports is expected to average 1.59 times from FY 2005 through 2010.

Previous Board Actions

On May 13, 2004, the project was included in the Capital Improvement Program (CIP) with a preliminary project cost of $18,000,000 with funding of $12,000,000 from Revenue Financing System Bond Proceeds, $3,000,000 from Gifts, $1,500,000 from Unexpended Plant Funds, and $1,500,000 from Grants.

Project Description

U. T. San Antonio is requesting institutional management of a reduced project scope to construct three additional intramural fields and support facilities to include utilities, lighting, accessible pedestrian walkways, and landscaping. The balance of the project will be added as a new project in the future.

U. T. San Antonio Facilities Management personnel have the experience and capability to manage all aspects of the work.

8. U. T. Austin: Honorific naming of the field laboratory building at the Stengl "Lost Pines" Biological Station in Bastrop, Texas, as the Lorraine F. Wyer Residential Laboratory

RECOMMENDATION

The Chancellor concurs in the recommendation of the Vice Chancellor for External Relations, the Executive Vice Chancellor for Business Affairs, and President Faulkner that the U. T. Board of Regents approve the naming of the field laboratory building at the Stengl "Lost Pines" Biological Station in Bastrop, Texas, as the Lorraine F. Wyer Residential Laboratory.

BACKGROUND INFORMATION

The U. T. Austin College of Natural Sciences operates a biological field station in Bastrop, Texas. In 1992, Dr. Lorraine I. "Casey" Stengl, a physician and U. T. Austin graduate, donated the land for the 208-acre Stengl "Lost Pines" Biological Station. Dr. Stengl more recently donated $300,000 for the construction of new facilities at the biological station. The funds were used to build a 1,300 square foot greenhouse and an approximately 1,500 square foot custom field laboratory building that provides teaching and research space, as well as overnight accommodations for biological sciences students and researchers. Dr. Stengl also contributed $100,000 to an endowment, named the Stengl-Wyer Endowment, to support the field station. Dr. Stengl is committed to the success of the field station and would like the new field laboratory building to be dedicated in honor of her longtime friend, Ms. Lorraine F. Wyer.

The field laboratory building includes a multipurpose room that is large enough to accommodate a classroom setting or generic research space and is connected via a breezeway to bedrooms, a bath, and laundry facilities. The field laboratory building opened on October 1, 2004.

Dr. Stengl has a long-standing history of friendship, involvement, and philanthropy with U. T. Austin. She earned a Bachelor of Science (Secondary School Education) and a Bachelor of Arts (Chemistry) from U. T. Austin in 1939. She has created three endowments that benefit the College of Natural Sciences. In addition to the Stengl-Wyer Endowment, she established the Lorraine I. Stengl Endowment Fund and the Zoology Scholarship Endowment for Excellence. She has also contributed to other endowments at U. T. Austin. Dr. Stengl is a member of the Chancellor's Council, the Littlefield Society, and the Texas Leadership Society. She was inducted into the College of Natural Sciences Hall of Honor in 1996. Her gifts to U. T. Austin total more than $1.8 million.

Ms. Wyer has a deep interest in the biological field station and has worked with Dr. Stengl over the last 10 years to ensure that the Bastrop property would become the functional laboratory area that it is today. Her broad occupational history includes work as an accountant, emergency medical technician, home builder, and family farmer. She also is cofounder of the Senior Ladies Golf Association of Texas.

The proposed naming of the field laboratory building at the Stengl “Lost Pines” Biological Station in Bastrop, Texas, to recognize the distinguished service of Dr. Lorraine F. Wyer is consistent with the Regents' *Rules and Regulations*, Section 80307, relating to honorific namings of facilities.

9. U. T. Permian Basin: Honorific Naming of the Falcon's Nest housing as The A. C. and Melba Bassett Falcon's Nest

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Vice Chancellor for External Relations, and President Watts that the U. T. Board of Regents approve the naming of the Falcon's Nest at U. T. Permian Basin as The A. C. and Melba Bassett Falcon's Nest.

BACKGROUND INFORMATION

The Falcon's Nest was the first apartment-style student housing complex constructed on the U. T. Permian Basin campus. The three-section complex was built in 1996 by The Bassett Construction Company. U. T. Permian Basin would like to recognize the contributions of Mr. A. C. "Johnny" and Melba Bassett by naming the complex as The A. C. and Melba Bassett Falcon's Nest.

Mr. Johnny Bassett was responsible for spearheading an affordable housing project in Odessa after World War II. He made it possible for hundreds of families to realize the dream of owning their own homes. He and his partners built seven houses a week to meet the demand and helped to spur the growth of Odessa in the late 1940s. He built and operated four Best Western motels in Texas and was organizing director of over 20 corporations in Odessa including the American Bank of Commerce and Home Savings & Loan Association. He supported and helped establish The College Fund of Ector County Scholarship Foundation. Mr. Bassett's family is in the process of establishing a $220,000 endowed scholarship in the names of A. C. "Johnny" and Melba Bassett at U. T. Permian Basin with proceeds from The College Fund of Ector County Scholarship Foundation.

The proposed naming of the Falcon's Nest housing at U. T. Permian Basin to recognize the distinguished service of Mr. A. C. "Johnny" and Melba Bassett is consistent with the Regents' *Rules and Regulations*, Section 80307, relating to honorific namings of facilities.

10. U. T. M. D. Anderson Cancer Center: Authorization to rename pediatric services at the institution as The Children's Cancer Hospital at The University of Texas M. D. Anderson Cancer Center

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs and President Mendelsohn that the Board authorize U. T. M. D. Anderson Cancer Center to rename pediatric services at the institution as The Children's Cancer Hospital at The University of Texas M. D. Anderson Cancer Center.

BACKGROUND INFORMATION

U. T. M. D. Anderson Cancer Center has long been recognized for its superior cancer treatment and research. However, market research conducted by outside experts identifies a perception among consumers that U. T. M. D. Anderson Cancer Center is designed primarily for adult cancer treatment.

No other pediatric oncology inpatient care facility in Texas offers children access to the quality and depth of pediatric oncological expertise as does U. T. M. D. Anderson Cancer Center. To meet its mission to provide the best cancer care possible to patients of all ages, U. T. M. D. Anderson Cancer Center has determined it should designate its pediatric services as The Children's Cancer Hospital at The University of Texas M. D. Anderson Cancer Center, a designation that communicates to the world that U. T. M. D. Anderson Cancer Center has a specific pediatric inpatient facility and serves to better inform families of their choices in pediatric cancer care and of the specific resources focused on caring for children with cancer.

At U. T. M. D. Anderson Cancer Center, children are hospitalized in the 26-bed George E. Foreman Child and Adolescent inpatient unit located on the 9th floor of the Albert B. and Margaret M. Alkek Hospital. The unit is self-contained and includes two nurse stations; a pharmacy; nutrition support; educational, vocational, and therapeutic counseling rooms; a large indoor playground; a library; and a facility for parents/families that includes a kitchen and laundry room. It is staffed continuously by pediatric oncologists, nurses, fellows, residents, interns, and child life staff. Children requiring intensive care are treated in the Level II Pediatric Intensive Care Unit (ICU) located on the 7th floor of the Alkek Hospital. Three pediatric intensivists manage a four-bed pediatric ICU. Pediatric specialists from U. T. Health Science Center - Houston consult for and treat children whose conditions also include cardiac, pulmonary, kidney, and infectious disease problems.

All ambulatory care is provided in the Robin Bush Child and Adolescent Clinic located on the 7th floor of the R. Lee Clark Clinic Building. The new clinic is composed of 10 exam rooms, a treatment room, a 10-bed Pediatric Ambulatory Treatment Center for chemotherapies and other infusions, and a 50-seat waiting room.

The naming of pediatric services in this way will not require a separate billing number, a separate license or a separate administrative structure. The Children's Cancer Hospital at The University of Texas M. D. Anderson Cancer Center will use the same pathology/laboratory, diagnostic, nutrition and pharmacy services at U. T. M. D. Anderson Cancer Center as well as the same patient business services, informatics and facilities support. However, such a designation will convey to the public that a complete pediatric cancer center exists within the institution.

11. U. T. Health Science Center - Houston: Honorific Naming of the Building to House the Brown Foundation Institute of Molecular Medicine for the Prevention of Human Diseases as the Fayez S. Sarofim Research Building

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Vice Chancellor for External Relations, and President Willerson that the U. T. Board of Regents approve the naming of the building to house the Brown Foundation Institute of Molecular Medicine for the Prevention of Human Diseases as the Fayez S. Sarofim Research Building.

BACKGROUND INFORMATION

Mr. Fayez S. Sarofim has been a longtime supporter of U. T. Health Science Center - Houston. He recently pledged $25 million over 10 years to the institution for the New Frontiers Campaign. The first payment of $2.5 million was accepted by the U. T. Board of Regents at the May 2004 meeting. The gift was made anonymously but the donor has agreed to the request that his name be disclosed for this recommendation.

Mr. Sarofim is Chairman and President of Fayez Sarofim & Company, an investment firm he founded. After completing a B.A. in food technology at the University of California at Berkeley in 1948 and an M.B.A. at Harvard in 1951, he worked as a pension fund advisor at Anderson Clayton before launching his company in 1958. He now manages $37 billion in investments for clients such as Ford Motor Co., Rice University, University of Houston, and the Museum of Fine Arts. He also manages five Dreyfus Mutual Funds.

Mr. Sarofim serves on the boards of Kinder Morgan, Unitrin Inc., and Argonaut Group, Inc., and is a limited partner in the Houston Texans pro football team and Brera Capital Partners. In 1997, he was inducted into the Texas Business Hall of Fame.

Mr. Sarofim's community involvement is extensive. He serves as a trustee of the Sarofim Foundation, The Greentree Fund, the Edward P. and Raye G. White Charitable Trust, the Texas Heart Institute, and Memorial Sloan-Kettering Cancer Center. He is also involved with the Houston Ballet Foundation, The Rockefeller University Council, the Houston Symphony Society, and the Artisan Network.

Mr. Sarofim's previous gifts to U. T. Health Science Center - Houston total $13,200, including $10,000 for internal medicine. He has also given $190,000 to the Hermann Eye Fund to endow the Fayez Sarofim Distinguished Professorship in Ophthalmology.

The terms of the gift state that the funds shall be used to help develop a stem cell research center in the Institute of Molecular Medicine, including the recruitment and retention of a scientific leader for the center and their research operations. All stem cell research will be in accordance with applicable federal guidelines.

The proposed naming of the building that will house the Brown Foundation Institute of Molecular Medicine for the Prevention of Human Diseases to recognize the generous gift from Mr. Sarofim is consistent with the Regents' *Rules and Regulations*, Series 80307, relating to honorific namings of facilities and institutional guidelines.

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FOR
STUDENT, FACULTY, AND STAFF CAMPUS LIFE COMMITTEE

Committee Meeting: 2/10/2005
Austin, Texas

Judith L. Craven, M.D., Chairman
John W. Barnhill, Jr.
Rita C. Clements
Robert A. Estrada
Woody L. Hunt
Ms. Sandee Goertzen, Chair, Employee Advisory Council
Dr. James Bartlett, Chair, Faculty Advisory Council
Mr. Josh Warren, Chair, Student Advisory Council

U. T. System: Discussion and review regarding tuition and fees consultation processes

PURPOSE

Executive Vice Chancellor Sullivan will lead a discussion on the consultation processes used to develop proposed tuition and fee plans. Dr. Sullivan will be joined by Dr. Rosalie Ambrosino, Vice President for Student Affairs, U. T. San Antonio; Dr. James Bartlett, Chair of the Faculty Advisory Council; and Mr. Josh Warren, Chair of the Student Advisory Council. Proposed tuition and fee plans will be submitted to the Board of Regents for review and approval on March 10, 2005.

BACKGROUND INFORMATION

Chancellor Yudof requires each U. T. institution to engage in a consultation process with students, faculty, and administrative staff in the development and formulation of tuition and fee proposals and recommendations. On November 18, 2003, the Board reviewed and approved proposed tuition and fee plans from the institutions effective January 23, 2004.