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FOR
VOLUME 2

February 7 - 8, 2007

8. U. T. System: Presentation of the Accountability and Performance Report for 2006-2007 and request to accept Report

THE UNIVERSITY OF TEXAS SYSTEM

Accountability and Performance Report

February 2007

Use and Scope

- **Use**
  - Policy decisions: provides reference material, supplements annual statistical handbook
    - Compacts
    - Strategic planning
    - Presidential and campus evaluations
  - Special reports: learning outcomes; graduation rates; research and tech transfer trends; development benchmarking; HR data
  - Influence on state and national policy
- **Scope**
  - 72 measures for all academic institutions
  - 52 measures for all health institutions
  - 15 measures for the U. T. System as a whole
  - 5-year longitudinal trends
  - Institutional peer comparisons

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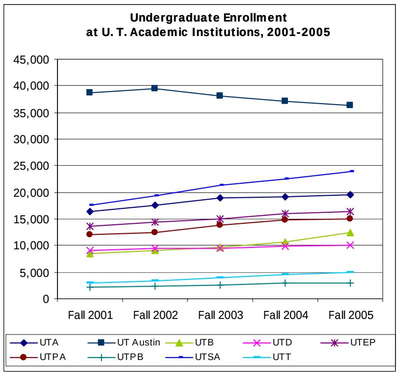
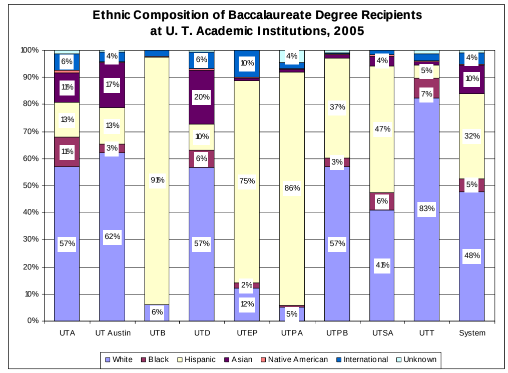
8. U. T. System: Presentation of the Accountability and Performance Report for 2006-2007 and request to accept Report (cont.)

Student Access, Success, and Outcomes

Growth: Enrollment and Degrees





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Student Access, Success, and Outcomes

Affordability

Average Net Academic Cost and Average Percent Discount for Full-Time Undergradute Students with Need-Based Grant Aid in 2005-06

	Average in-state total academic cost	Percent receiving need-based grant aid	Average need-based grant aid	Average net academic cost	Average percent discount
Arlington	$5,910	37.0%	$4,229	$1,681	71.6%
Austin	7,288	46.8	5,890	1,398	80.8
Dallas	6,838	30.3	4,208	2,630	61.5
El Paso	4,984	47.4	4,984	0	100.0
Pan American	3,605	65.5	3,605	0	100.0
Permian Basin	4,282	36.3	2,327	1,955	54.3
San Antonio	6,016	47.0	3,868	2,148	64.3
Tyler	4,671	42.0	4,160	511	89.1
System Average	$6,027	46.0%	$4,691	$3,461	79.3%

Source: Common Data Set information submitted by individual institutions for 2005-06.

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8. U. T. System: Presentation of the Accountability and Performance Report for 2006-2007 and request to accept Report (cont.)

Student Access, Success, and Outcomes

Outcomes: Using Multiple Measures

- **Graduation rates**
- **Student experience: National Survey of Student Engagement (NSSE) survey**
- **Student learning outcomes: Collegiate Learning Assessment (CLA) results**
- **Licensure exam pass rates**
- **Medical student satisfaction**
- **Postgraduation employment or study**

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Student Access, Success, and Outcomes

Outcomes: Graduation Rates

Undergraduates Graduating in Four Years or Less from the Same U. T. Academic Institution, Total

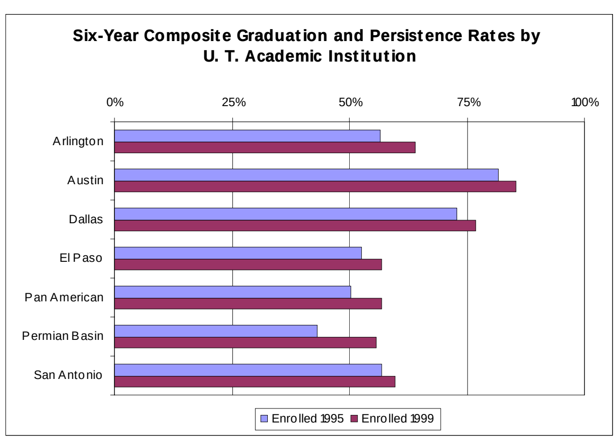
Enrolled Fall	1997	2001
Arlington	12.7%	14.5%
Austin	36.5	46.4
Dallas	31.7	30.7
El Paso	2.5	3.9
Pan American	6.2	9.6
Permian Basin	15.2	21.8
San Antonio	6.3	6.8
Tyler	--	16.9

Source: TX Higher Ed. Coordinating Board

Undergraduates Graduating in Six Years or Less from the Same U. T. Academic Institution, Total

Enrolled Fall	1995	1999
Arlington	30.6%	39.5%
Austin	69.9	74.8
Dallas	55.2	56.6
El Paso	25.1	29.4
Pan American	22.9	30.0
Permian Basin	24.0	35.1
San Antonio	26.6	29.7
Tyler	--	54.7

Source: TX Higher Ed. Coordinating Board



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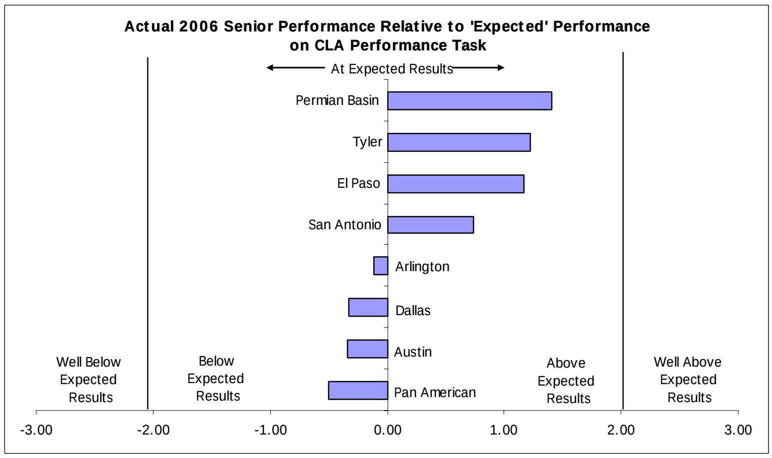
8. U. T. System: Presentation of the Accountability and Performance Report for 2006-2007 and request to accept Report (cont.)

Student Access, Success, and Outcomes

Outcomes: Collegiate Learning Assessment



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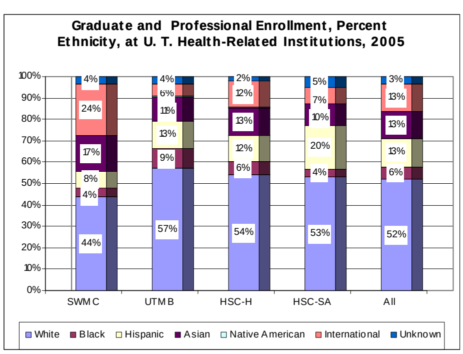
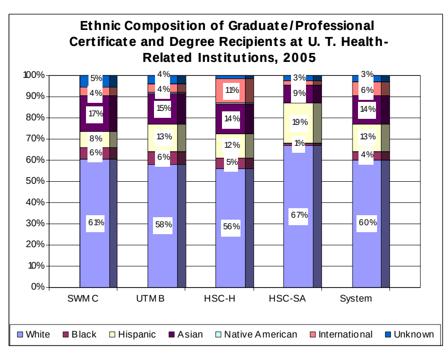
Student Access, Success, and Outcomes

Health-Related Institution Enrollments and Degree Recipients





9,059 graduate/professional students enrolled in 2005

1,948 graduate/professional degrees awarded in 2005

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Student Access, Success, and Outcomes

Health-Related Institutions: Student Diversity

- **National ranking – diversity of degree recipients**
  - Biology master's degrees to Hispanic students
    - 4th – UT HSC-Houston
  - Medical degrees to Hispanic students
    - 2nd – UT HSC-San Antonio
    - 4th – UT Medical Branch
    - 5th – UT HSC-Houston
    - 7th – UT Southwestern Medical Center
  - Medical degrees to all minority students
    - 7th – UT Southwestern Medical Center
  - Biology doctoral degrees to Hispanic students
    - 5th – UT HSC-Houston
  - Dental doctoral degrees to Hispanics
    - 2nd – UT HSC-San Antonio
    - 6th – UT HSC-Houston

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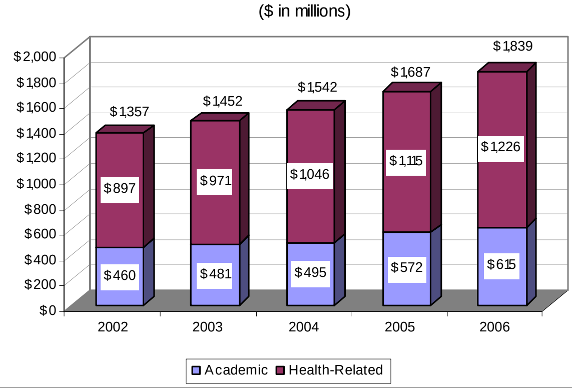
Teaching, Research, Health Care Excellence

Research Funding Trends

Total Research Expenditures by U. T. System Institutions 2002-2006
($ in millions)



- Total research expenditures exceeded $1.8 billion in FY 2006
- 36% increase between 2002 and 2006

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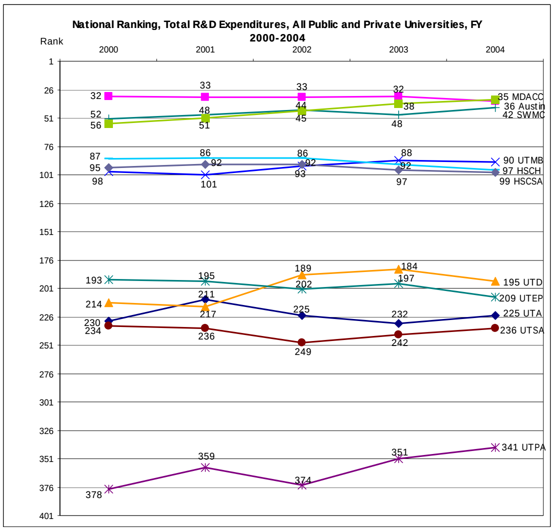
8. U. T. System: Presentation of the Accountability and Performance Report for 2006-2007 and request to accept Report (cont.)

Teaching, Research, Health Care Excellence

Research Funding Trends



UT System institutions continue to rank among top universities in the country in terms of R&D expenditures (of 601 total)

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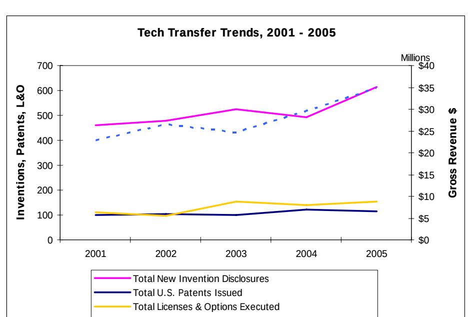
Teaching, Research, Health Care Excellence

Technology Transfer Trends

	2001	2002	2003	2004	2005
Total New Invention Disclosures	459	480	525	494	613
Total U.S. Patents Issued	100	103	99	120	114
Total Licenses & Options Executed	109	97	153	141	154
Total Gross Revenue Received from Intellectual Property	$22,907,414	$26,555,136	$24,627,622	$29,671,135	$34,871,167



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Teaching, Research, Health Care Excellence

Growth: Health Care

State-Owned Hospital Admissions by U. T. Health-Related Institution Faculty

	FY 01	FY 02	FY 03	FY 04	FY 05
UTMB	32,927	35,099	37,190	40,452	42,294
MDACC	18,604	18,781	19,430	20,608	20,728
HC-T	3,554	3,805	3,765	3,369	2,901
HCPC*	5,700	6,135	5,906	5,718	5,507
UTSouthwestern**	n/a	n/a	n/a	n/a	7,832
Total Health-Related Institutions	**60,785**	**63,820**	**66,291**	**70,147**	**79,262**

* Harris County Psychiatric Center

** UT Southwestern admission data is for January 2005 to August 2005.

Source: U. T. Health-Related Institutions and Annual U. T. System Hospital Report

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Collaborations

Examples

- **Educational Collaborations**
  - UTPA, UTEP, UTHSCSA – Hispanic Pharmacy Center of Excellence
  - UTSWMC, UTA, UTD – Joint Program in Biomedical Engineering
- **Research Collaborations**
  - UTA, UT Austin, UTB, UTPA, UTD, UTSWMC, Rice – Strategic Partnership for Research in Nanotechnology
  - UTHSCH, UTMDACC, Memorial Hermann – Center for Clinical and Translational Sciences
- **K-12 Collaborations**
  - UTSA, Alamo CC District, S.A. Area School District – Academy for Teacher Excellence
  - UTHCT, Tyler ISD – Summer Internships
- **Business/Community Collaborations**
  - UTEP, Upper Rio Grande Workforce Board – Labor Cluster Studies
  - UTMB, Texas Tech HSC AHEC, UTHSCSA, TX Nurses Assoc. – Nurse Friendly

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8. U. T. System: Presentation of the Accountability and Performance Report for 2006-2007 and request to accept Report (cont.)

Collaborations with and Service to Communities

UT TeleCampus Distance Education Trends

Number of Course Registrations through the UT TeleCampus

	2001-02	2005-06	% Change 01-02 to 05-06
Academic			
Arlington	2,449	3,664	49.6%
Austin	148	42	-71.6
Brownsville/TSC	512	1,383	170.1
Dallas	614	304	-50.5
El Paso	256	1,633	537.9
Pan American	281	452	60.9
Permian Basin	801	2,188	173.2
San Antonio	76	317	317.1
Tyler	483	628	30.0
Total Academic Institutions	**5,620**	**10,611**	**88.8%**
Health-Related			
SWMC-Dallas*	0	75	167.9%
UTMB-Galveston	21	28	33.3
HSC-San Antonio	35	53	51.4
HSC-Houston	0	56	NA
Total Health-Related Institutions	**56**	**212**	**278.6%**
Total U. T. System	**5,676**	**10,823**	**90.7%**

* % Change for SWMC-Dallas course registrations was calculated from the 2002-03 year (28).

Source: UT TeleCampus

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Efficiency and Productivity

Research Expenditures and Research Space

Research Space at U. T. Academic Institutions

	FY 2006 Research Expenditures per Research E&G Sq. Ft	FY 2005 Research Expenditures per Research E&G Sq. Ft
Arlington	$153	$143
Austin	293	275
Brownsville/TSC	723	1,099
Dallas	258	254
El Paso	256	224
Pan American	132	119
Permian Basin	225	91
San Antonio	247	213
Tyler	323	177

Source: THECB Space Projection Model based on institution self-reports

Research Space at U. T. Health-Related Institutions

	FY 2006 Research Expenditures per Research E&G Sq. Ft	FY 2005 Research Expenditures per Research E&G Sq. Ft
SWMC	$497	$514
UTMB	$321	$332
HSC-H	$514	$440
HSC-SA	$274	$271
MDACC	$660	$589
HC-T	$235	$288

Source: THECB Space Projection Model based on institution self-reported data

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Institutional Profiles

Customized Analysis by Campus

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

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Institutional Profiles

Peer Comparisons: UT Southwestern

Table V-38

Southwestern Medical School
Peer Institution Comparisons

Institution/Medical School	Total Dollar Amount NIH Grants Awarded FY2005+	Total Dollar Amount Research Grant Expenditures FY2004*	Number of House-staff 2005*	Number of M.D. Degrees Conferred 2005*	Faculty per Medical Student Ratio 2005*	National Academy of Sciences Members 2006 ^	Licensing Income 2004 ^^	Top Universities in Biomedical Research 1997 – 2001 Study of Research Impact Science Watch ^^^
Southwestern	$170,541,372	$198,234,810	1,267	204	1.48	16	$11,541,081	Top 10 ranking in 4 of 6 fields
Baylor College of Medicine	256,809,346	253,156,656	1,261	172	2.29	3	6,758,000	Top 10 ranking in 1 of 6 fields
University of California–Los Angeles	303,795,874	415,325,593	1,970	171	2.86	30 For entire University	Not Disaggregated from System **	Top 10 ranking in 0 of 6 fields
University of California–San Diego	238,030,687	230,109,745	690	107	1.61	65 For entire University	Not Disaggregated from System **	Top 10 ranking in 4 of 6 fields
University of California–San Francisco	398,155,640	442,127,903	1,161	163	2.62	31	Not Disaggregated from System **	Top 10 ranking in 5 of 6 fields
University of Michigan	265,022,135	201,217,916	966	167	1.46	21 For entire University	10,633,528 for entire University	Top 10 ranking in 2 of 6 fields
University Of North Carolina–Chapel Hill	217,440,740	146,201,325	794	153	1.72	11 For entire University	3,818,314 for entire University	Top 10 ranking in 0 of 6 fields
University of Washington –Seattle	308,792,765	449,160,428	1,137	172	2.02	42 For entire University	22,808,483 for entire University ***	Top 10 ranking in 2 of 6 fields

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8. U. T. System: Presentation of the Accountability and Performance Report for 2006-2007 and request to accept Report (cont.)

Using Accountability

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

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THE UNIVERSITY OF TEXAS SYSTEM

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

www.utsystem.edu/osm/accountability

8. U. T. System: Report on restructuring the tuition process for the Bill Archer Center, Washington, D.C., and adoption of an extension program fee

THE ARCHER CENTER
THE UNIVERSITY OF TEXAS SYSTEM IN WASHINGTON, D.C.

Introduction

In 2000, the Archer Center was established by The University of Texas System (U. T. System), in conjunction with Former U.S. Representative Bill Archer, as a way to bring highly motivated and accomplished students to Washington, D.C. to participate in varied internships and take part in classes focusing on policy, economics, and persuasion. Archer Fellows intern with organizations such as the United Nations Information Centre, the U.S. Department of State, many offices within the White House and on Capitol Hill, with federal agencies, and with non-profit organizations. The selection process is rigorous and affords the opportunity to bring only the best representatives from throughout Texas.

The Archer Center is a self-supporting program based within the Office of Federal Relations for U. T. System. It is unique among academic and student opportunities because it strives to support and enable students from all campuses within U. T. System to take advantage of opportunities in Washington, D.C. The program is partially funded by an endowment managed by The University of Texas Foundation that generates about $140,000 annually. For the last two years, endowment revenue has been supplemented by federal grants that essentially doubled the program's funding. These grants terminate in the coming months leaving a shortfall of $138,000 going forward from the 2006-2007 academic year budget of $278,000.

To remedy this situation, the program has restructured its budget for the coming academic year to reduce overall costs by $21,000 to $257,000. In addition, the Archer Center will begin to access the program fee paid by the students who participate in the internship experience. Presently, tuition and fees paid by Archer students remain with the local campus. For 2005-2006, the 45 participating students paid just over $144,000 in tuition and fees to their home campuses for the semester credit hours they received through the Archer Program. Beginning in 2007-2008, the Archer Program will charge a flat $3000 extension program fee, most appropriate for a program that is offered entirely off-campus. Access to these funds, allowed under the Regents' "Visiting U. T. System Students Program" rule (Regents' *Rules and Regulations*, Series 50701), would allow for the maintenance of the Archer Center and its support services, and the opportunity to provide some financial support to students with limited means. The U. T. System Office of General Counsel found that the Visiting U. T. System Students Program does apply to courses offered at the Archer Center.

The Archer Program courses are University of Texas at Dallas (U. T. Dallas) approved courses and the Office of Undergraduate Education at U. T. Dallas coordinates faculty hiring and manages course evaluations for the Archer Program. Thus, U. T. Dallas will be designated as the "host institution" under the Visiting U. T. System Students Program. Students accepted into the Archer Program from any U. T. System institution would register for Archer Program courses at their home institution and the home institution would forward the extension program fee collected from participating students to the U. T. Dallas campus where they would be allocated to the Archer Program. The details of the program are included in the following section.

Visiting U. T. System Students Program

The Visiting U. T. System Students Program is designed to allow upper-level and graduate or professional students enrolled in a U. T. System institution to take courses or engage in research at another institution within U. T. System during a regular semester or summer session. Each campus must appoint an individual designated to coordinate the visiting student program at both the home and host institution. Every campus has the responsibility to determine the academic qualifications necessary for their students to participate in the visiting program, but the Archer Center has set the following minimum requirements: upper-division status, minimum 3.0 GPA, previous work or internship experience, completion of government course requirements, and 24 semester credit hours in residence. In addition, the local Archer Coordinator works closely with the Archer Center staff in selecting those students chosen for the internship experience.

Enrollment in The Archer Program

For continuity of financial aid, visiting students are enrolled at their home institutions, with grades for any course taken at the cooperating host institution reported to the home institution. At the time the student registers, the home institution identifies the course title/number under which the visitation credit is to be recorded. Each course should be offered with a home institution Professor of Record during each long semester and enrollment limited to those students who are selected to participate in the Archer Program. After each semester, U. T. Dallas will forward the students' grades to the coordinator at the home institution (per Regents' *Rules*, Series 50701). These grades are then posted to the students' academic records on the Archer courses listed in the home institution's course inventory. This provides greater consistency and understanding across U. T. System institutions and replaces a system wherein the specific courses used to award class credit varied from campus to campus.

To maintain consistency and to assure the integrity of student financial aid requirements, the extension program fee associated with enrollment at the host institution is to be paid to the home institution. The host institution must provide the home institution with the amount of the fee to be charged and the home institution will transfer the amount collected to the host institution (per Regents' *Rules*, Series 50701). To apply the Visiting U. T. System Students Program to the Archer Center, the Archer Program must specify a charge that is consistently applied to all participants, regardless of their home institution. U. T. Dallas, the host institution for the Archer Program, proposes to set the charge for the 12 semester credit hours taken through the Archer Center at $3,000 as an extension program fee. Each home institution would collect and forward $3,000 for each Archer Center student enrolled at the institution to U. T. Dallas. Using the 45 participating students for 2005-2006 as an example, these charges would yield revenue in the amount of $135,000.

While each home institution reserves the right to collect additional mandatory fees from students participating in the Archer Program, both UT Arlington and UT Dallas have chosen to waive any additional fees for Archer students during their semester in Washington as Archer Fellows, per Regents' *Rules*, Series 40401.

The fees collected by U. T. Dallas would first be used to pay the salaries of those teaching the courses at the Archer Center. The remaining funds would be transferred to the Archer Center where they could be used for program support.

Financial Aid

For those students currently receiving financial aid, it is imperative that they still be fully eligible for that aid, particularly for those campuses where tuition is lower than the extension program fee. U. T. Dallas, as the host institution, proposes to sign consortium agreements with each U. T. System institution allowing a student to apply for financial aid at their home institution which would acknowledge the cost of the Archer Program through U. T. Dallas and adjust the financial aid it awards accordingly.

Estimated Financial Impact to Institutions and Students

The implementation of this arrangement will have a financial impact to the home institutions and students due to the change in program cost. This impact will vary for each home institution and will depend on the number of students participating from each campus, the amount of tuition the students currently pay for a 12 semester credit hour course load, and whether the home institution chooses to waive its mandatory fees for Archer students.

At a standard rate of $3,000, Arlington, Austin, and Dallas students would pay comparable or less in program fees than they currently pay for a similar credit load at their home institution (see Table 1). Students at the other campuses would pay more than the cost of an equivalent course at their home institution (tuition and fees for 12 semester credit hours). The concern is that these increased costs, paired with the other expenses a student incurs in living in Washington for a semester (approximately $6,000 for room and board, transportation, and sundry other costs) may reduce the likelihood that students from some campuses take part in the program. Many of the students in the program receive financial aid in the form of scholarships and grants, of which many cover the cost of tuition and fees. Of the 23 participants in Fall 2006, 12 had over 70 percent of their total costs (tuition, fees, housing, transportation, meals, and entertainment) covered by scholarships and grants. Over half of the participants received enough aid to cover 100 percent of their fixed costs (tuition, fees, and housing).

The Archer Center proposes an equalization strategy to assist students who will pay more for the 12 semester credit hours at the Archer Center than they pay for a comparable course load on their home campus. Those students whose home campus tuition and fees for 12 semester credit hours are less than the $3,000 charged for Archer Program participation would be eligible for a subsidy from the program. This subsidy would amount to not more than the difference between the Archer Program cost and the cost for a comparable number of hours at the home institution, and would be awarded to the student by the Archer Center after the extension program fee is paid to the home institution and collected by the Center.

Evaluation

U. T. Dallas currently provides course evaluation for Archer Center classes. Each semester students complete the course evaluation forms used by all students to rate their satisfaction with classes and instructors. In addition, the Director of the Collegium V Honors Program travels to Washington each semester to speak directly with students and faculty about course content and instruction as well as students' overall satisfaction with the program. An annual report is submitted to the Archer Board.

Archer Program Participation Agreement

As there are a number of substantive changes put forth in this proposal it is our recommendation that the Archer Center, U. T. Dallas, and the remaining U. T. System campuses enter into an agreement that addresses the issues of enrollment, financial aid, extension program fee collection, subsidies, and grade reporting, as well as any other related issues. By entering into an agreement that addresses each of these issues simultaneously, the Archer Center can move forward with consistent administration of the program across each campus, thereby reducing the administrative burden and further ensuring equity for all students involved.

Summary

It seems a simple premise that program fees generated from students for an academic program actually be designated to the program that serves them. Allowing the Archer Center control over the roughly $130,000-$150,000 students pay annually for the internship experience would allow the Center to cover its operating expenses. This revenue would allow the program to maintain the current level of programming while actively seeking additional endowment support to improve, expand, and better support the students it serves, the goal of every academic program in U. T. System. The Visiting U. T. System Students Program and the cooperation of U. T. Dallas provide a straightforward and equitable approach to bolstering the prospects of a program important to the future of many young Texans and the enhanced presence of the U. T. System in our nation’s capital.

Table 1: Financial Analysis

Based on Student Counts from Academic Year 2005-2006

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8	Column 9
UT System Institution	**Home Tuition for 12 Semester Credit Hours**	**Home Mandatory Fees for 12 Semester Credit Hours***	**Total Home Cost for 12 Semester Credit Hours**	**Proposed Archer Costs for 12 Semester Credit Hours**	**Cost Impact for Home Institution***	**Cost Impact for Students***	**Number of Archer Fellows by Campus 2005-2006**	**Potential Archer Revenue**
Arlington:	$2,001	N/A	$2,001	$3,000	< $2,001 >	< $ 999 >	4	$12,000
Austin:	$3,071	$744	$3,815	$3,000	$ 815	$0	19	$57,000
Brownsville:	$1,296	$545	$1,841	$3,000	< $1,296 >	< $1,704 >	1	$3,000
Dallas:	$2,132	N/A	$2,132	$3,000	< $2,132 >	< $ 868 >	10	$30,000
El Paso:	$1,656	$494	$2,150	$3,000	< $1,656 >	< $1,344 >	1	$3,000
Pan American:	$1,392	$340	$1,732	$3,000	< $1,392 >	< $1,608 >	3	$9,000
Permian Basin:	$1,416	$403	$1,819	$3,000	< $1,416 >	< $1,584 >	1	$3,000
San Antonio:	$1,707	$925	$2,632	$3,000	< $1,707 >	< $1,293 >	3	$9,000
Tyler:	$1,500	$458	$1,958	$3,000	< $1,500 >	< $1,500 >	3	$9,000
Total							45	$135,000

Note 1: UT Austin offers flat-rate tuition, so the institution would forward $3,000 from the total charged for 12 SCH to the Archer Center (includes mandatory fees).

* UT Dallas and UT Arlington have already agreed to waive mandatory fees. These figures assume the other campuses will continue to charge and retain the full amount of available mandatory fees.

Fall 2006 Admissions Requirements
Freshman and Transfer

Table 1: Freshman Admission Requirements, Fall 2006*

	High School Rank	SAT Score	ACT Score	SAT/ACT Required
UTA	Top Quarter	Guaranteed Admission		Yes
	Second Quarter	1050	22	
	Third Quarter	1150	25	
	Fourth Quarter	Individual Review		
UT Austin	Top 10%	Guaranteed Admission		Yes
	Non-top 10%	Holistic Review		
UTB	Open Door Admission Policy			No
UTD	Top 10%	Guaranteed Admission		Yes
	Non-top 10%	Holistic Review		
UTEP	Top 50%	Guaranteed Admission		Yes
	Bottom 50%	920	20	
UTPA	Top 10%	Guaranteed Admission		Yes
	Non-top 10%	710	15	
UTPB	Top Quarter	Guaranteed Admission		Only if below top 10%
	Second Quarter	830	18	
	Third Quarter	920	19	
	Fourth Quarter	1100	24	
UTSA	Top 10%	Guaranteed Admission		Yes
	Top Quarter	830	17	
	Second Quarter	870	18	
	Third Quarter	920	19	
	Fourth Quarter	970	20	
UTT	Top 10%	Guaranteed Admission		Yes
	Top Quarter	950	20	
	Second Quarter	1000	21	
	Third Quarter	1050	22	
	Fourth Quarter	1100	23	

* Prior to March 2005, the SAT only included the verbal and math scores. As of March 2005, the SAT score now includes a writing score. Some institutions will revise the SAT standard required for admission in Fall 2007 to include the writing portion in the total SAT score, while others will only require that the writing score be reported.

Source: The University of Texas System academic institution websites

Fall 2006 Admissions Requirements
Freshman and Transfer

Table 2: Transfer Admission Requirements

Institution	Transfer Requirements
UTA	Less than 30 transferable SCH: * Must meet the freshman admissions requirements, including SAT/ACT scores (see Table 1) * Minimum 2.25 GPA on all previous college work * Students with at least a 2.00 but less than 2.25 GPA are considered on a space available basis 30 or more transferable SCH: * Transfers with a 2.25 overall GPA are, generally, admissible to the university * Students with at least a 2.00 but less than 2.25 GPA are considered on a space available basis
UT Austin	* Graduation from high school or earned GED * Must have at least 24 transferable SCH (30 SCH after Summer 2007) * Holistic review
UTB	Submission of official transcripts
UTD	Freshman or sophomore applicants: * Must meet the freshman admissions requirements, including SAT/ACT scores (see Table 1) * Freshmen must have at least a 3.00 GPA; Sophomores must have at least a 2.50 GPA Junior and senior applicants * Automatically admitted if GPA is 2.50 or better
UTEP	Less than 12 SCH completed: * Must meet the freshman admissions requirements, including SAT/ACT scores (see Table 1) * Minimum 2.00 GPA on all previous college work 12 or more SCH completed * Minimum 2.00 GPA on all previous college work
UTPA	Less than 30 SCH completed: * Must meet the freshman admissions requirements, including SAT/ACT scores (see Table 1) * Minimum 2.00 GPA on all previous college work 30 or more SCH completed * Minimum 2.00 GPA on all previous college work
UTPB	Less than 24 SCH completed: * Must meet the freshman admissions requirements, including SAT/ACT scores (see Table 1) 24 or more transferable SCH * Minimum 2.00 GPA on all previous college work * Be eligible to reenroll in the colleges previously attended * Possible provisional admission for students that do not meet the minimum GPA requirement
UTSA	Less than 30 SCH completed: * Must meet the freshman admissions requirements, including SAT/ACT scores (see Table 1) * Minimum 2.00 GPA on all previous college work * Be eligible to return to all previous institutions attended 30 or more transferable SCH * Minimum 2.00 GPA on all previous college work * Be eligible to return to all previous institutions attended
UTT	Less than 30 SCH completed: * Must meet the freshman admissions requirements, including SAT/ACT scores (see Table 1) 30 or more transferable SCH from a regionally accredited institution * Minimum 2.00 GPA on all previous college work

Source: The University of Texas System academic institution websites

1. U. T. System: 2007 Office of Facilities Planning and Construction Strategic Initiatives

THE UNIVERSITY OF TEXAS SYSTEM

2007 OFPC Strategic Initiatives

February 7, 2007

Office of Facilities Planning and Construction

1. U. T. System: 2007 Office of Facilities Planning and Construction Strategic Initiatives

The University of Texas System
Capital Improvement Program (CIP)

- **2005 CIP for UT System: $4.1B**
- **2006 CIP increased 61%: $6.6B**
- **Current CIP consists of 190 projects**
- **Active Projects Increased from $3.0B to $4.0B during 2006**
- **Current Active Projects: 101 / Staff deployed: - 16%**
- **Recent PUF/TRB Project starts pacing completions**

2

The University of Texas System
Capital Improvement Program (CIP)
Present External Environment – *2006 Davis Langdon Construction Industry Market Report:*

- **Regionalized 2005 escalation has become pervasive**
- **Conditions not expected to abate over the next year**
- **Escalation in 2007 expected in the 8-10% range except Gulf Coast where 12-15% expected**

- **New construction activity remains high in Texas**
- **Competition impacted in highly constrained trades**
- **Regional increases in labor and material prices continuing**

- **Significant budget pressures with bidders selective**
- **Bid overages continue to occur**
- **Increased competition for experienced professional staff**

3

OFPC Strategic Initiatives

February 2007 Board of Regents FPCC Presentation

1. **Existing systems for approving and managing The University of Texas System Capital Improvement Program are:**
   - **Comprehensive**
   - **Functioning effectively**
2. **Improvements are however needed for volatile, high-risk environments:**
   - **Significant growth in CIP**
   - **Greater project complexity**
   - **Market volume / escalation**
3. **Information Item – Further evaluative and alignment discussions with Institution and System staff required**
4. **Board of Regents' approvals will be needed for some issues**

3

OFPC Strategic Initiatives

February 2007 Board of Regents FPCC Presentation

Targeted Initiatives: *3 major categories*

I. **Capital Improvement Program Accountability**

II. **Capital Improvement Program Performance**

III. **OFPC Organization**

4

Capital Improvement Program Accountability

February 2007 Board of Regents FPCC Presentation

I. **Capital Improvement Program Accountability**

- ***Enhanced, evaluative project review <u>prior</u> to Board of Regents' approvals***

5

Capital Improvement Program Accountability

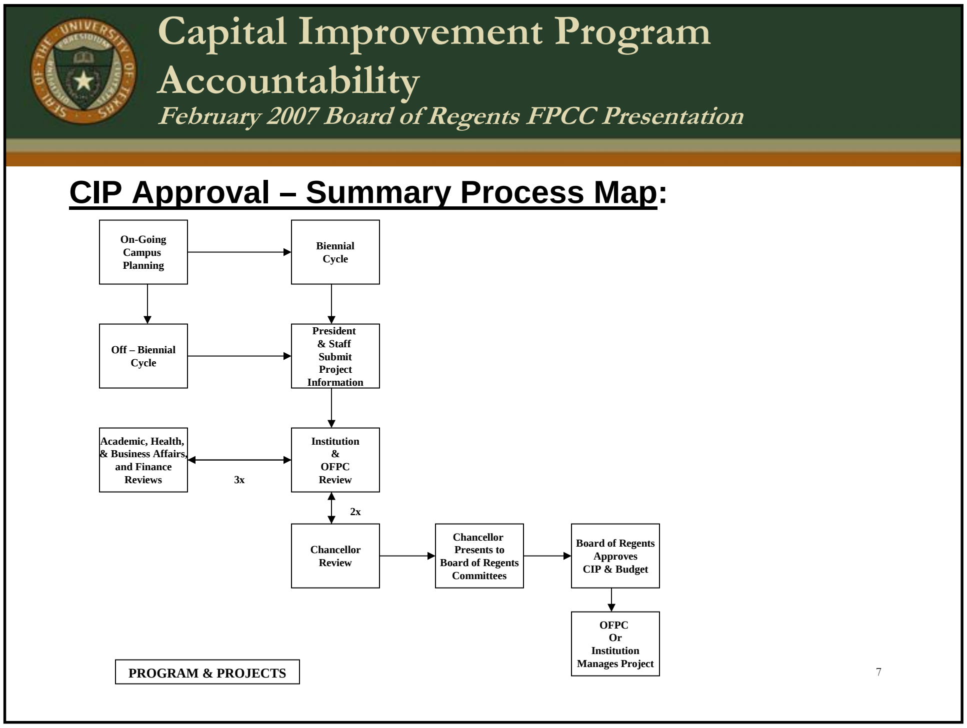
February 2007 Board of Regents FPCC Presentation

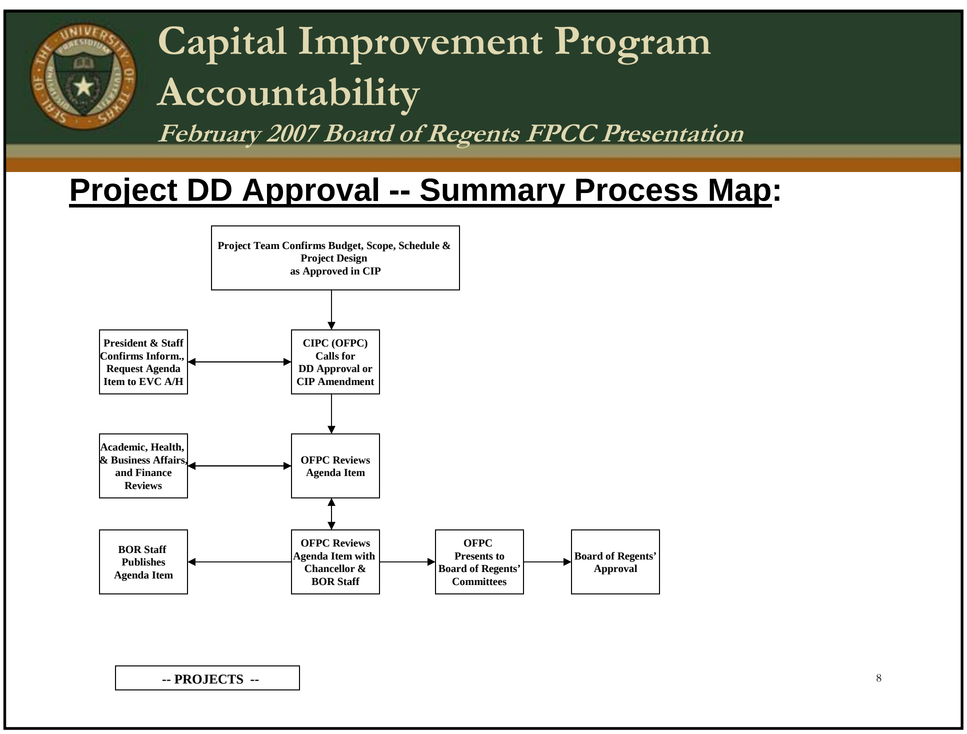
Major Board of Regents' Approval Points for CIP:

- ***CIP Inclusion***
- ***Design Development (DD) Approval***

6

1. U. T. System: 2007 Office of Facilities Planning and Construction Strategic Initiatives (cont.)



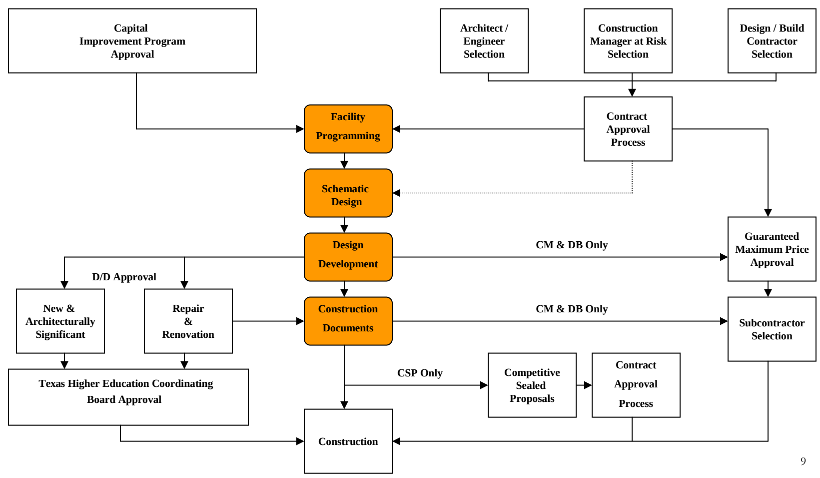


1. U. T. System: 2007 Office of Facilities Planning and Construction Strategic Initiatives (cont.)

Capital Improvement Program Accountability

February 2007 Board of Regents FPCC Presentation

Project Approvals & Phases **A/E & Contractor Selection**



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Capital Improvement Program Accountability

February 2007 Board of Regents FPCC Presentation

Recommendation:

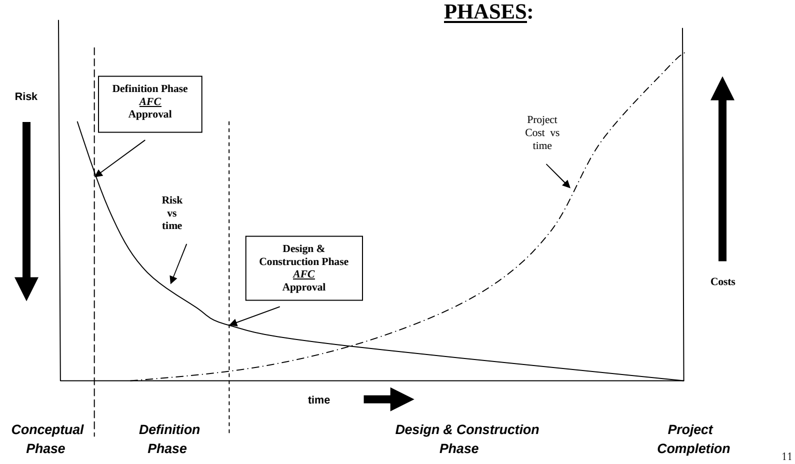
- Institutions & System define project requirements *earlier & more thoroughly* -- prior to adding to CIP (Front End Loading)
- *Enhanced & accountable* OFPC support – *earlier*
- That a point of *project definition* be clearly identified, emphasized, and institutionalized:
  - *Increased Program Transparency*
  - *Strategic Program Alignment*
  - *Complete Understanding of the Project - earlier*

10

Capital Improvement Program Accountability

February 2007 Board of Regents FPCC Presentation

3 PROJECT PHASES:



11

Capital Improvement Program Accountability

February 2007 Board of Regents FPCC Presentation

Conceptual Phase

- **Institutional Planning w/Support from OFPC**
- **Identification of Funds**
- **Outlines the Parameters of the Project**
- **Facility Programmatic / Business Drivers**
- **Initial Cost / Schedule / Studies / Funding**
- **Determination Made to Seek Inclusion in CIP**

- ***Final Activity is Definition Phase AFC - Preparation by Institution /OFPC***

12

Capital Improvement Program Accountability

February 2007 Board of Regents FPCC Presentation

***Definition Phase AFC (authorization for commitment)*:**

- **Work Planned during Definition Phase**
- **Project Description**
- **Facility Programmatic / Business Drivers**
- **Initial Cost / Schedule / Funding**
- **Budget / Schedule / Planned Studies w/ milestones**
- **Special Issues: funding / donor / zoning / environmental**
- **Project Contracting Plan**

---partial list---

- **Project Manager's Charter**

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Capital Improvement Program Accountability

February 2007 Board of Regents FPCC Presentation

- **Project Manager's Charter:**
  - **One-Page Document / Best Practice / PM Accountability**
  - **Describes:**
    - **The Project**
    - **Responsibilities**
    - **Direct / Support Functions**
    - **Client Representative**
    - **Authorities & Limitations**
  - **Prepared By: Project Manager**
  - **Approved By: Supervisor…AVCFPC; Institution/System Management**

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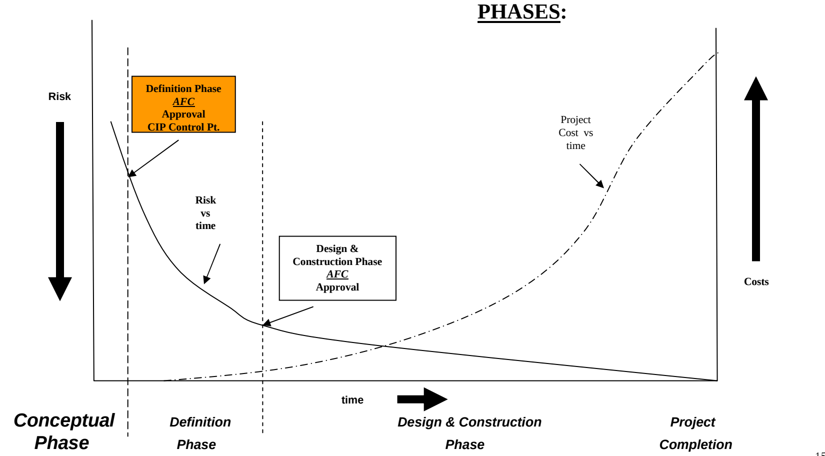
Capital Improvement Program Accountability

February 2007 Board of Regents FPCC Presentation

3 PROJECT PHASES:



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Capital Improvement Program Accountability

February 2007 Board of Regents FPCC Presentation

***Definition Phase*: Produces a *Project Plan* against which the Design & Construction Phase is implemented:**

- Project Manager's Charter *for Design & Construction Phase*
- Work Scope Description / Design basis
- Work Breakdown Structure / Control Estimate & Schedule
- Contracting Plan / Labor Requirements / Availability
- Funding Plan / Special Issues
- Facility Programmatic / Business Drivers

---partial list---

- Final Activity is ***Design & Construction Phase AFC***

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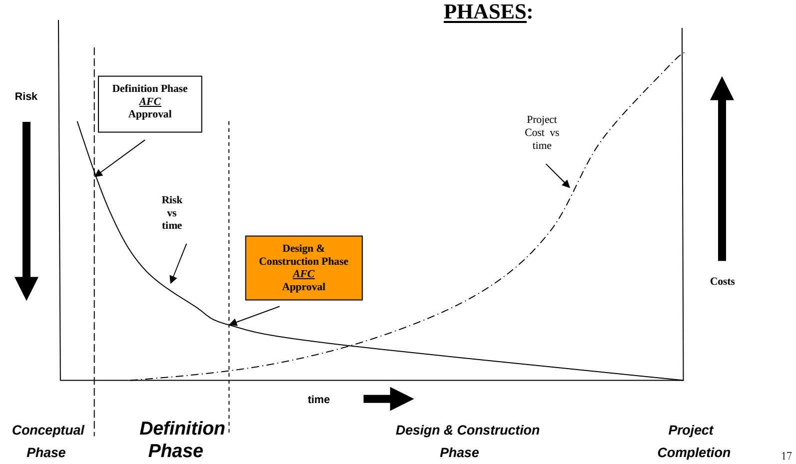
Capital Improvement Program Accountability

February 2007 Board of Regents FPCC Committee

3 PROJECT PHASES:



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Capital Improvement Program Accountability

February 2007 Board of Regents FPCC Presentation

Present Process:

- Complete Project Definition can lag traditional A/E design processes – issue more volatile in high-risk environments
- More risk of late scope development / impacts
- Increased risk for post-approval augmentations

Enhanced Process:

- Earlier & more complete project vetting
- Increased accountability for performance:
  Institution & OFPC
- Increased Program Transparency
- Strategic Program Alignment
- Complete understanding of the project - earlier

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Capital Improvement Program Performance

February 2007 Board of Regents FPCC Presentation

II. *Capital Improvement Program Performance*

- **Formalized Scope Change Management Process**
- **Increased Cost Estimating Precision – Risk**
- **Enhanced Project Control / Reporting Systems**
- **Focused, Concise Project Management Training**

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Capital Improvement Program Performance

February 2007 Board of Regents FPCC Presentation

- **Scope Change Management Process:**
  - A Single Page / Best Practice
  - Purpose: Document & Obtain Approvals for Scope Additions and Deletions w/Estimated Total Costs in Excess of $25,000 (*approval level varies by cost impact)*
    - Explanation of Change
    - Alternatives Considered
    - Justification: User benefit, safety, schedule improvement, reduction in operating costs, regulatory requirements,…
    - Documents / Areas Affected /Schedule & Budget Impact
  - Approvals: Institution / PM…AVCFPCC/System Management

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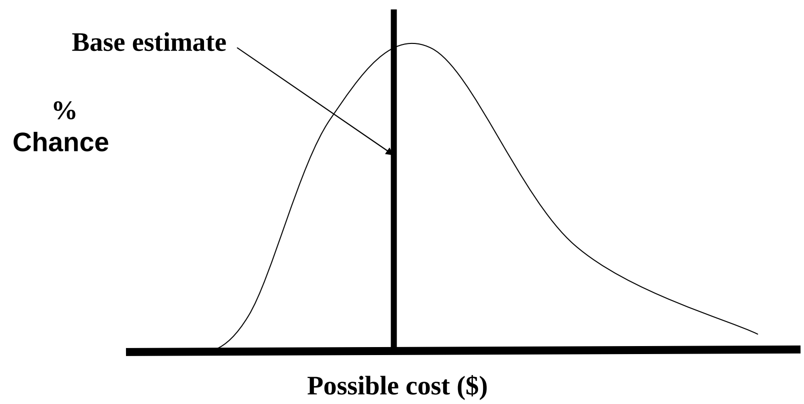
Capital Improvement Program Performance

February 2007 Board of Regents FPCC Presentation

***Estimate Precision*:**



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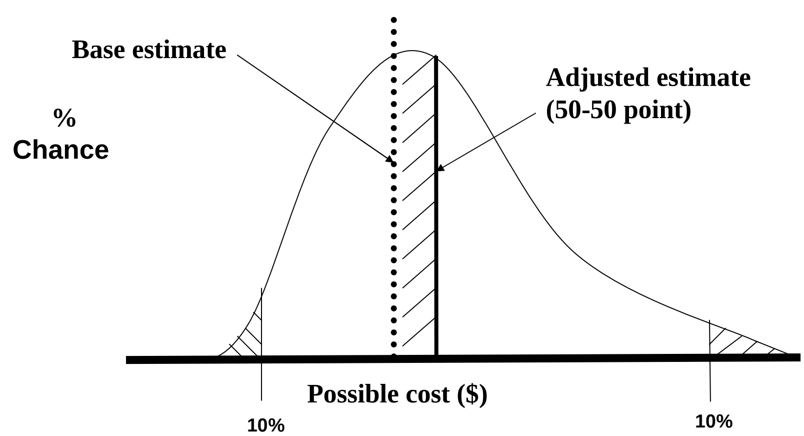
Capital Improvement Program Performance

February 2007 Board of Regents FPCC Presentation



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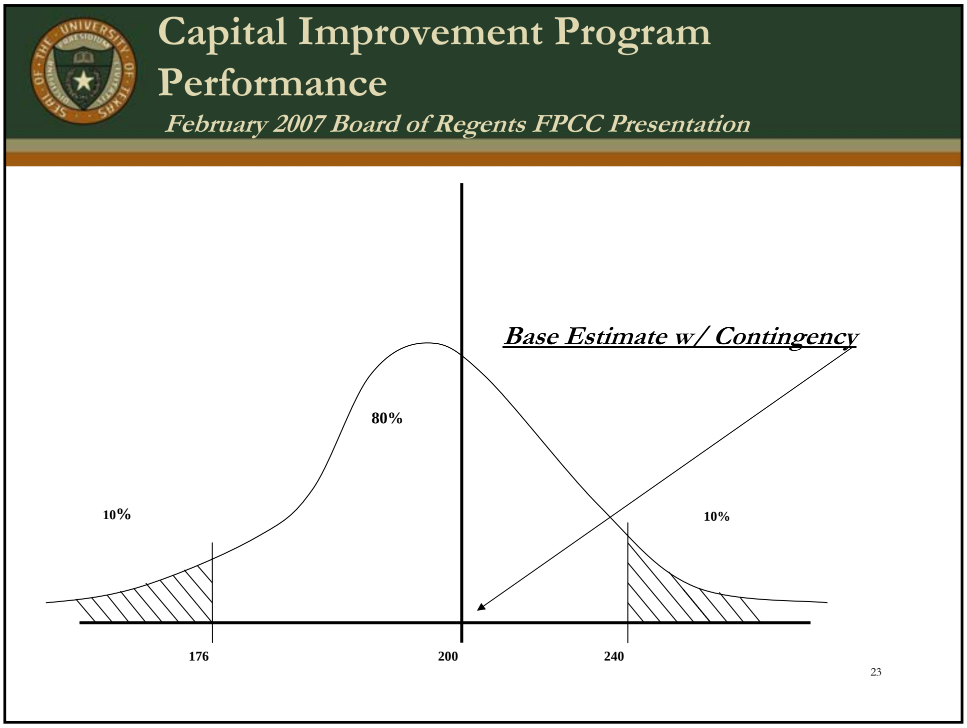
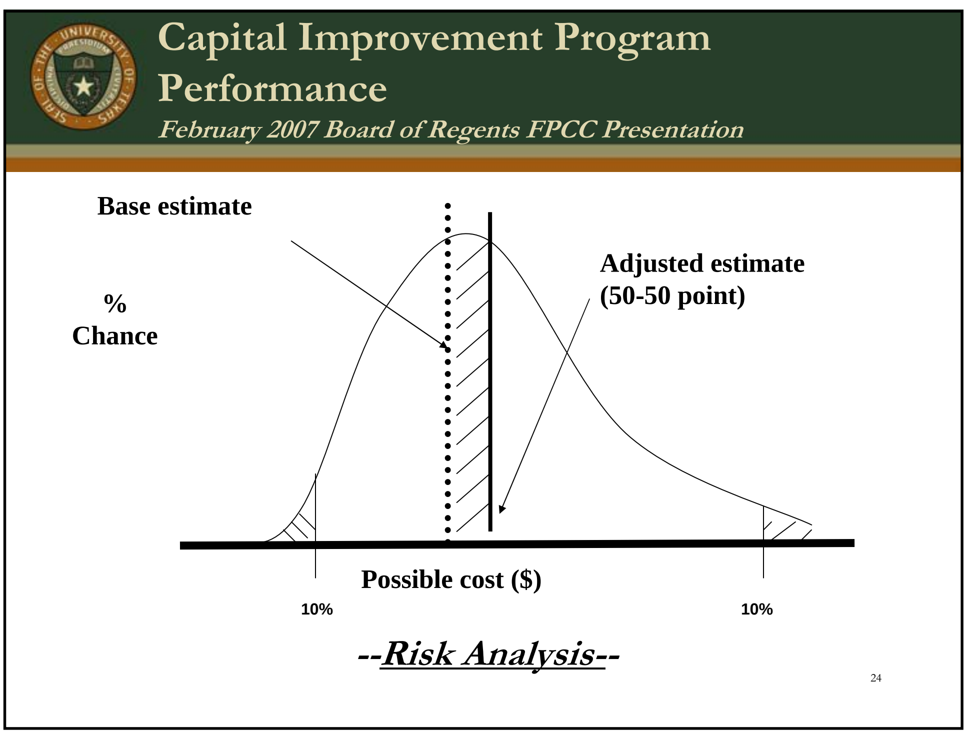
1. U. T. System: 2007 Office of Facilities Planning and Construction Strategic Initiatives (cont.)





1. U. T. System: 2007 Office of Facilities Planning and Construction Strategic Initiatives (cont.)

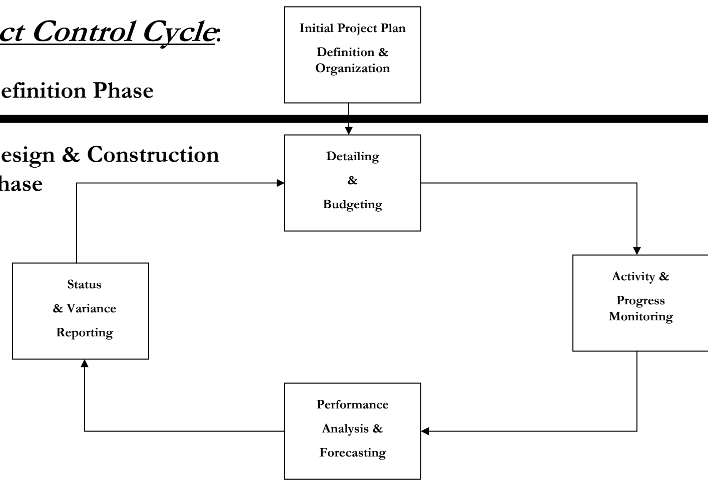
Capital Improvement Program Performance

February 2007 Board of Regents FPCC Presentation

***Project Control Cycle*:**

Definition Phase

Design & Construction Phase



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Capital Improvement Program Performance

February 2007 Board of Regents FPCC Presentation

- ***Project Management Training*:**
  - **Focused**
  - **Concise**
  - **Internally Reinforced**
  - **Continuously Improved - Externally**

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1. U. T. System: 2007 Office of Facilities Planning and Construction Strategic Initiatives (cont.)

OFPC Organization

February 2007 Board of Regents FPCC Presentation

- ***OFPC Organization*:**
  - ***Realignment***
    - ***Centralized Program Management***
    - ***Decentralized Project Management***
    - ***Outsourced Augmentation Model***
    - ***Rotation***
  - ***Retention / Recruitment Model, Career Ladders, Compensation Strategies, Incentives***

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7. U. T. Southwestern Medical Center – Dallas: Presentation on approaches to research facilities

UT HEALTH INSTITUTIONS

New Construction Commitments
2006

Total	**$800 million**
PUF	$220 million (27%)
TRBs	$259 million (32%)
Other	$321 million (41%)

UT HEALTH INSTITUTIONS

New Construction Commitments
2000-01

Total	**$525 million**
PUF	$205 million (39%)
TRBs	$165 million (31%)
Other	$155 million (30%)

UT HEALTH INSTITUTIONS

Growth
FY 2000 → FY 2006

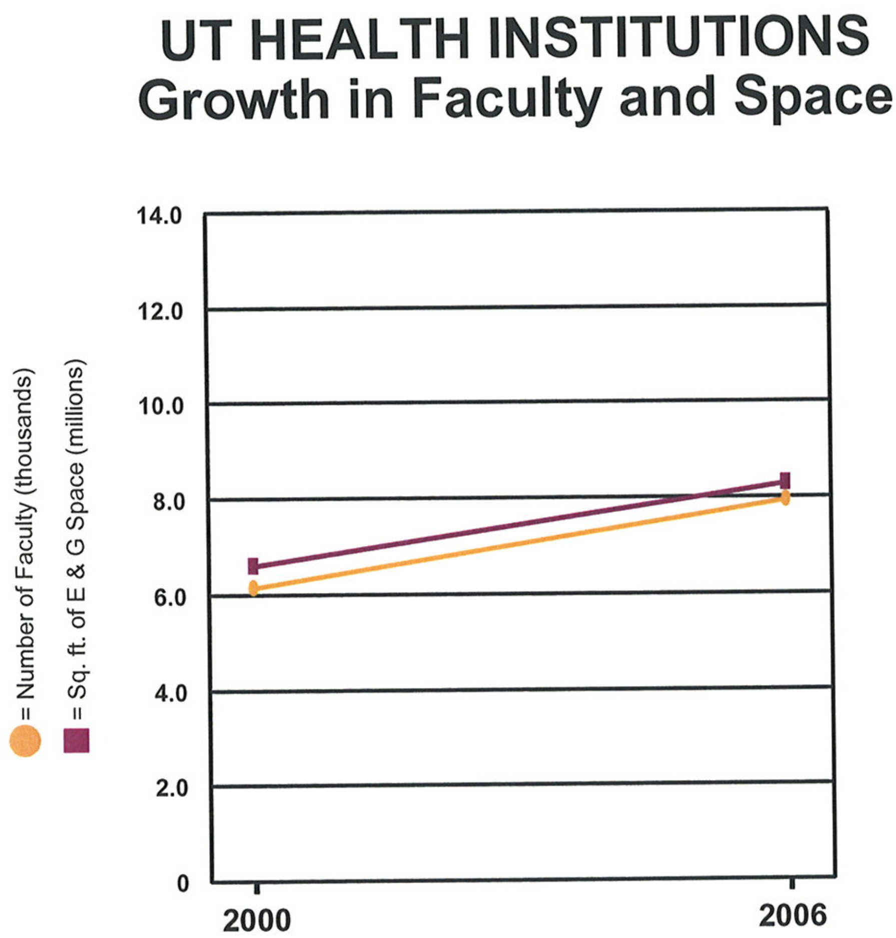
	FY 2000	FY 2006	Difference	%
Total Number of Faculty	6,143	7,946	1,803	+29%
Total E&G Space (sq. ft.)	6.6m	8.3m	1.7m	+26%
Calculated Total Space Deficit (sq. ft.)	1.8m	3.7m	1.9m	+106%
Calculated Research Space Deficit (sq. ft.)	1.2m (67% of total deficit)	2.6m (70% of total deficit)	1.4m	+117%
Total Research Expenditures	$676m	$1,226m	+$550m	+81%
Federal Research Expenditures	$397m (59% of total)	$724m (59% of total)	+$327m	+82%
Total State Appropriations	$764m	$905m	+$141m	+18%
Total Philanthropic Gifts	$265m	$330m	+$65m	+25%
New TRB Commitments for Construction	$165m (2001)	$259m	+$94m	+57%
New PUF Commitments for Construction	$205m	$220m	+$15m	+7%

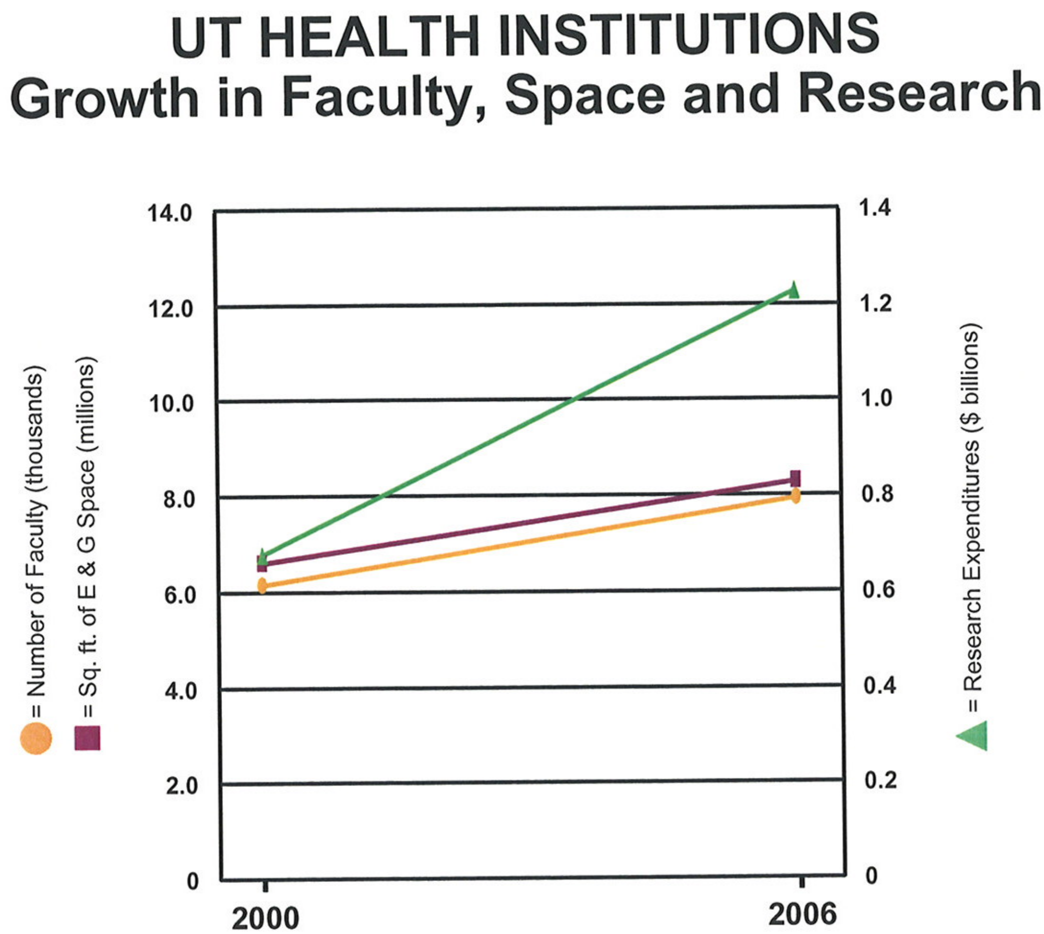
UT HEALTH INSTITUTIONS

Ratios Between Number of Faculty, Space, Research Dollars, and State Appropriations

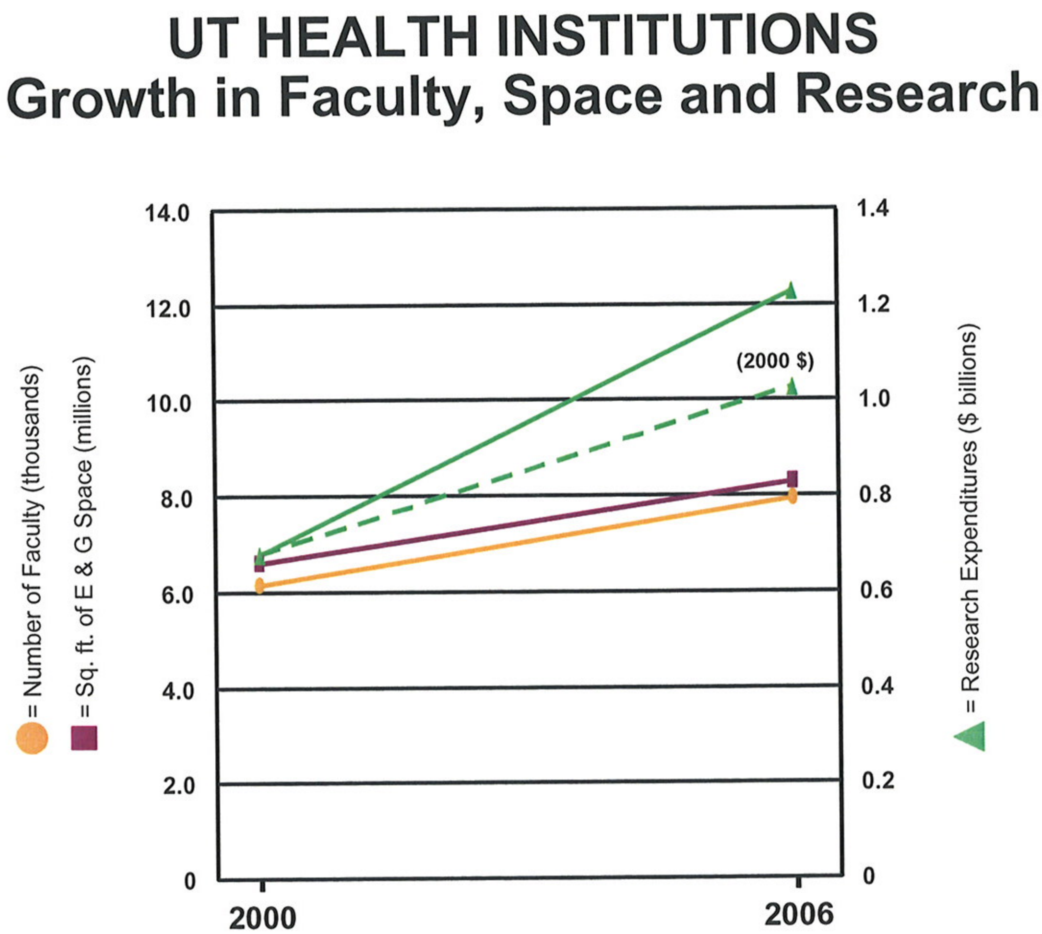
	FY 2000	FY 2006	
Total Number of Faculty	6,143	7,946	(+29%)
Total E&G Space	6.6 million sq. ft.	8.3 million sq. ft.	(+26%)
Total Research Expenditures	$676 million	$1,226 million ($1,027 million in 2000 $)	(+81%) (+52%)
Total State Appropriations	$764 million	$905 million ($758 million in 2000 $)	(+18%) (N.S.)

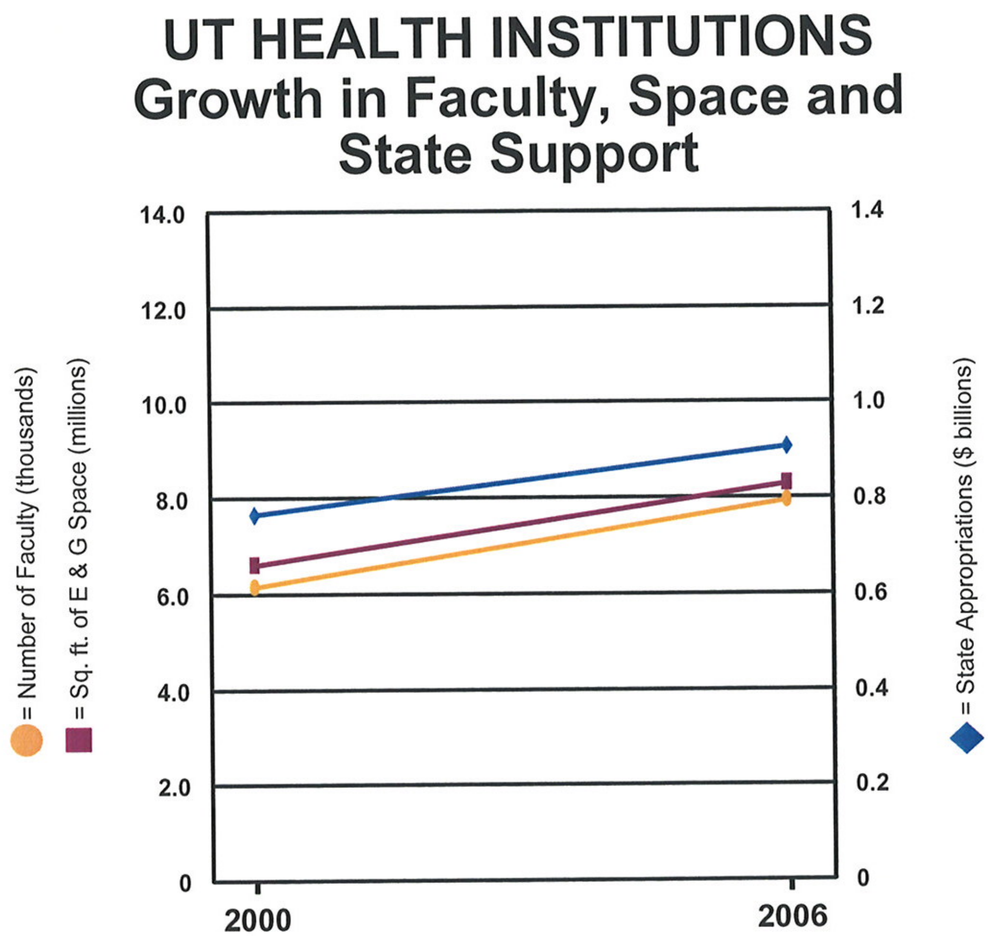
E&G Space/Faculty	1,074 sq. ft./faculty	1,045 sq. ft./faculty	(N.S.)
Research $/Faculty	$111,000/faculty	$155,000/faculty ($130,000 in 2000 $)	(+40%) (+17%)
State $/Faculty	$125,000/faculty	$115,000/faculty ($96,000 in 2000 $)	(-8%) (-23%)
Research $/State $	$0.88	$1.35	(+53%)
Research $/E&G Space	$102/sq. ft.	$148/sq. ft. ($124 in 2000 $)	(+45%) (+22%)
State $/E&G Space	$116/sq. ft.	$109 sq. ft. ($91 in 2000 $)	(-6%) (-22%)


UT HEALTH INSTITUTIONS
Growth in Faculty and Space
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0
2000
2006
= Number of Faculty (thousands)
= Sq. ft. of E & G Space (millions)


UT HEALTH INSTITUTIONS
Growth in Faculty, Space and Research
= Number of Faculty (thousands)
= Sq. ft. of E & G Space (millions)
= Research Expenditures ($ billions)
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0
1.4
1.2
1.0
0.8
0.6
0.4
0.2
0
2000
2006

7. U. T. Southwestern Medical Center – Dallas: Presentation on approaches to research facilities (cont.)




UT HEALTH INSTITUTIONS
Growth in Faculty, Space and State Support
14.0
12.0
10.0
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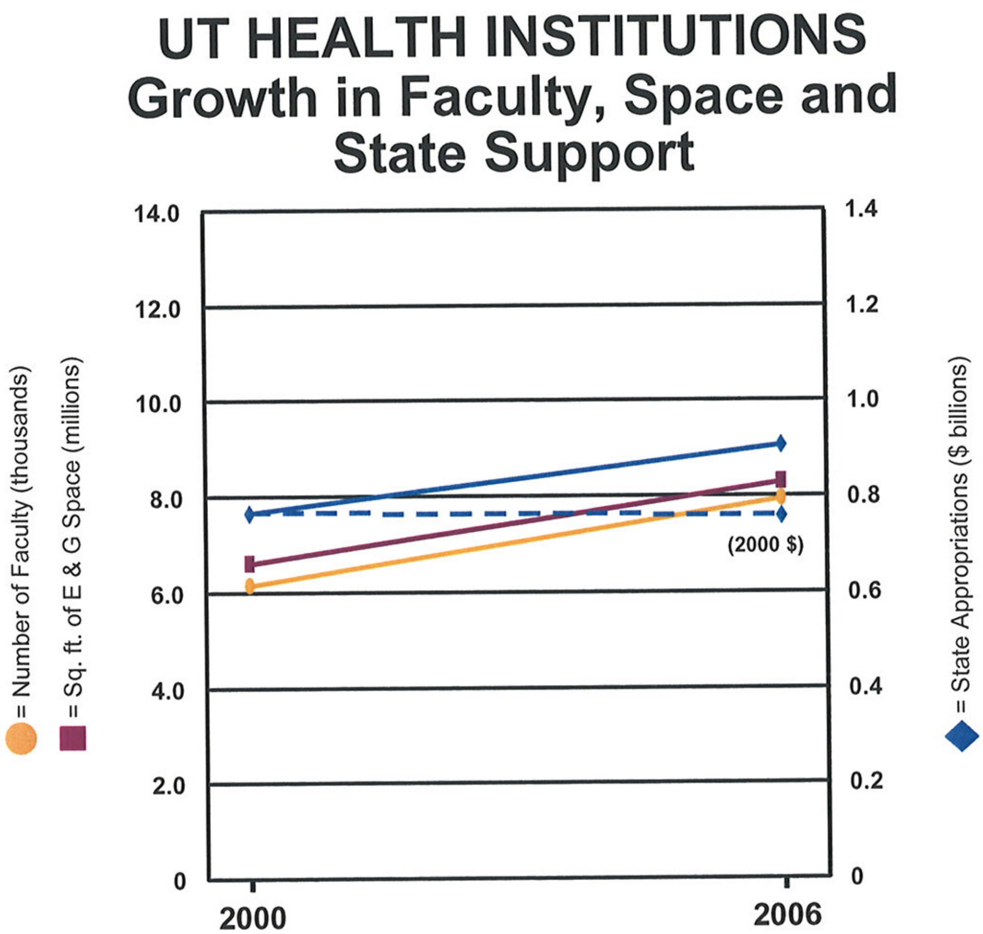
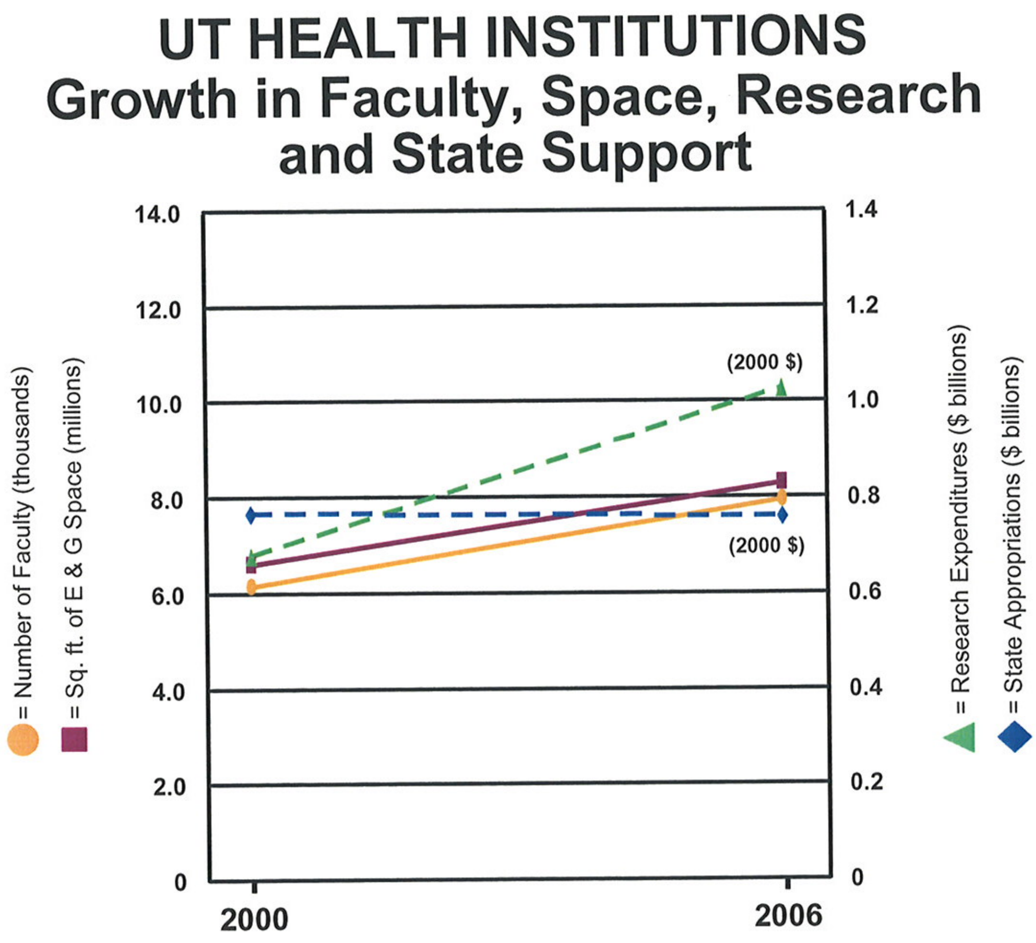
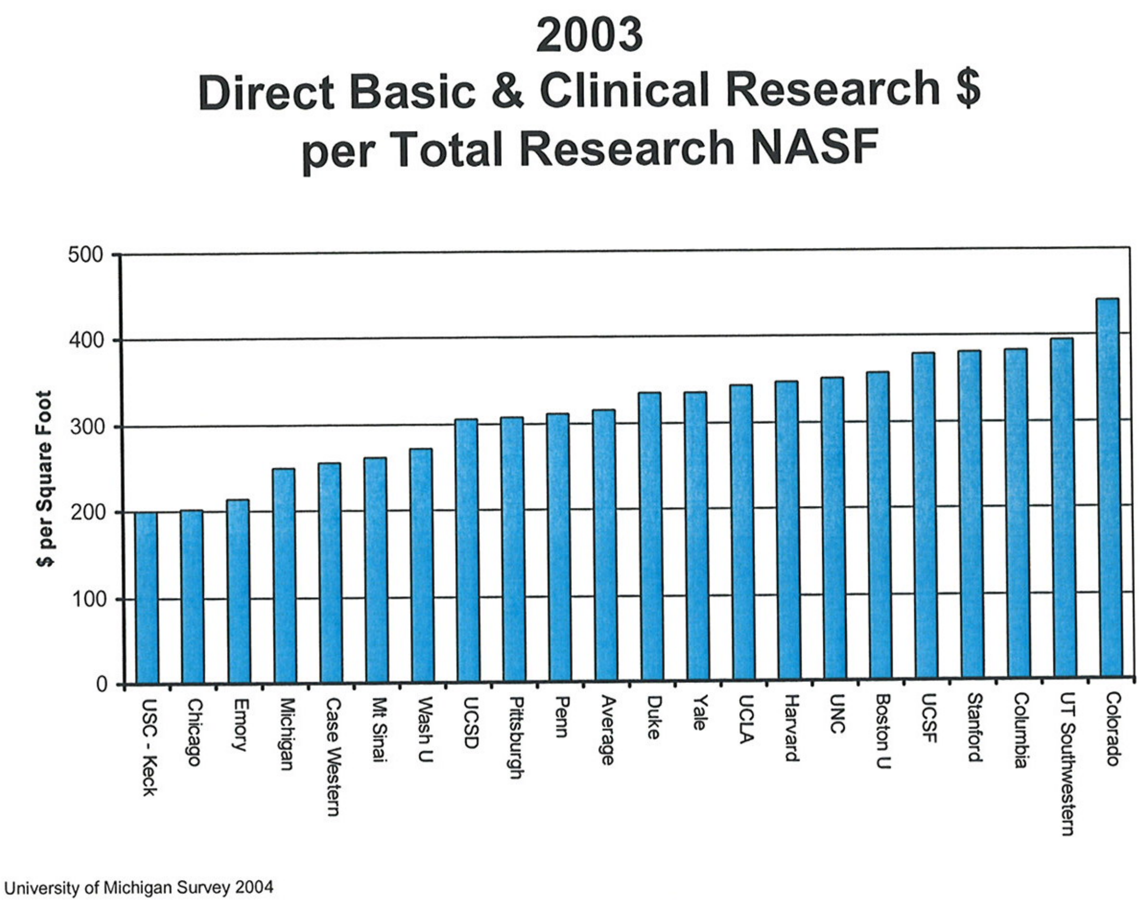
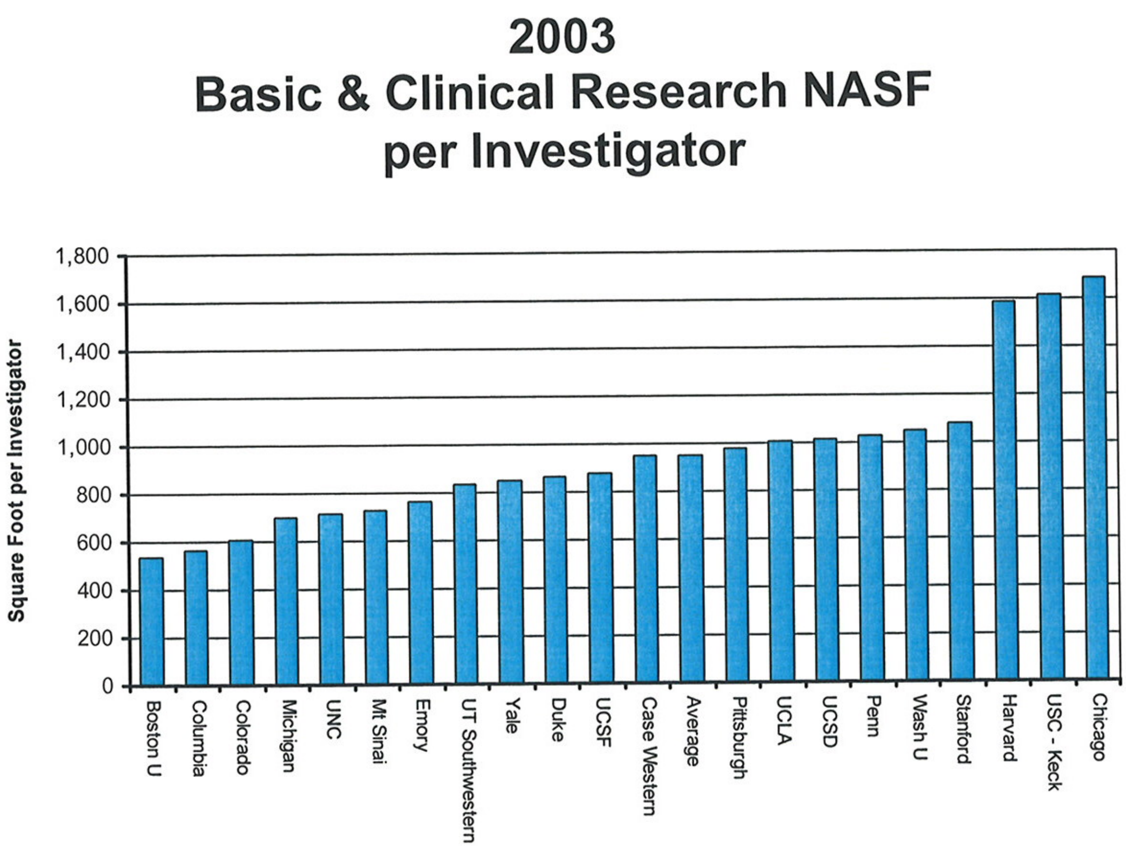
6.0
4.0
2.0
0
1.4
1.2
1.0
0.8
0.6
0.4
0.2
0
2000
2006
= Number of Faculty (thousands)
= Sq. ft. of E & G Space (millions)
= State Appropriations ($ billions)



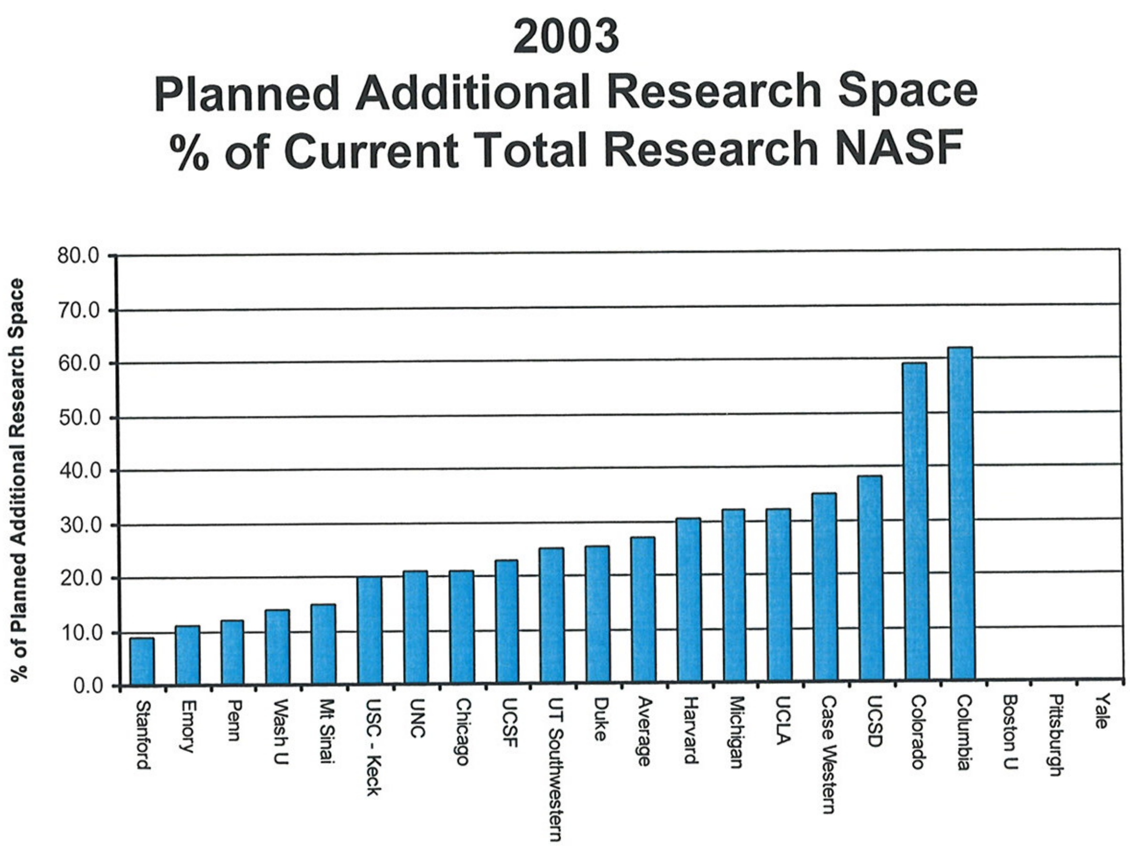
UT HEALTH INSTITUTIONS
Growth in Faculty, Space and State Support
= Number of Faculty (thousands)
= Sq. ft. of E & G Space (millions)
= State Appropriations ($ billions)
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0
1.4
1.2
1.0
0.8
0.6
0.4
0.2
0
(2000 $)
2000
2006


UT HEALTH INSTITUTIONS
Growth in Faculty, Space, Research and State Support
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0
1.4
1.2
1.0
0.8
0.6
0.4
0.2
0
(2000 $)
(2000 $)
2000
2006
= Number of Faculty (thousands)
= Sq. ft. of E & G Space (millions)
= Research Expenditures ($ billions)
= State Appropriations ($ billions)


2003
Direct Basic & Clinical Research $
per Total Research NASF
$ per Square Foot
500
400
300
200
100
0
USC - Keck
Chicago
Emory
Michigan
Case Western
Mt Sinai
Wash U
UCSD
Pittsburgh
Penn
Average
Duke
Yale
UCLA
Harvard
UNC
Boston U
UCSF
Stanford
Columbia
UT Southwestern
Colorado
University of Michigan Survey 2004



University of Michigan Survey 2004



University of Michigan Survey 2004

INVESTMENTS IN NEWLY RECRUITED RESEARCH FACULTY

Example of Investment Potential

UT Southwestern's "Scholars Program" was established with private funds, with the goal of recruiting the best possible new Assistant Professors to the faculty. Newly-recruited Assistant Professors were promised $250,000/year for 4 years ($1 million total start-up package, including salary and fringes). Over the first 5 years of the program, 5 scholars were competitively selected and recruited each year; thus, each "class" of Scholars received $1,250,000 annually for 4 years ($5 million total investment per class of 5 individuals). By the fifth year of the program the first five classes (each with 5 scholars) had received the following external federal and private grants to support their work:

	Total Institutional Start-Up Funding	Total External Grants Awarded To-Date
Class V	$1,250,000 over 1 year	$1,100,000 in first year
Class IV	$2,500,000 over 2 years	$3,000,000 in first 2 years
Class III	$3,750,000 over 3 years	$6,300,000 in first 3 years
Class II	$5,000,000 over 4 years	$6,900,000 in first 4 years
Class I	$5,000,000 over 4 years	$11,600,000 in first 5 years
Total	**$17,500,000**	**$28,900,000**

Average annual research support for each individual scholar (direct costs only) was as follows:

	Year Post-Recruitment	Annual Institutional Research Support	Annual Amount of External Grants
Class V	1	$250,000	$60,000
Class IV	2	$250,000	$160,000
Class III	3	$250,000	$260,000
Class II	4	$250,000	$280,000
Class I	5	0	$380,000

Results such as this require both start-up funds and space in which the new faculty can work.

2. U. T. System: Report on the Analysis of Financial Condition for Fiscal Year 2006

2006 Analysis of Financial Condition

February 2007

The University of Texas System
2006 Analysis of Financial Condition
Foreword

The Analysis of Financial Condition (AFC) was performed from the Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets. Since debt is reported at the System level and not on the individual institutions' books, debt was allocated to the appropriate institution, as provided by the Office of Finance.

The ratios presented in this report are ratios commonly used by bond rating agencies, public accounting firms and consulting firms. In this version of the AFC, UT System goes one step beyond the individual use of ratios to a systematic method of combining selected ratios into one composite score to help analyze the overall financial health of each institution. The four core ratios used in the computation of a composite score are as follows:

- *Primary Reserve Ratio* – measures the financial strength of the institution by comparing expendable net assets to total expenses (in days). This ratio provides a snapshot of financial strength and flexibility by indicating how long the institution could function by using its expendable reserves without relying on additional net assets generated by operations.
- *Annual Operating Margin Ratio* – indicates whether the institution has balanced annual operating expenses with revenues. Depreciation expense is included, as it is believed that inclusion of depreciation reflects a more complete picture of operating performance as it reflects use of physical assets.
- *Return on Net Assets Ratio* – determines whether the institution is financially better off than in previous years by measuring economic return. As mentioned above, the debt reported at the system level was allocated to each institution in the calculation of this ratio. A temporary decline in this ratio may be appropriate and even warranted if it reflects a strategy to better fulfill the institution's mission. On the other hand, an improving trend in this ratio indicates that the institution is increasing its net assets and is likely to be able to set aside financial resources to strengthen its future financial flexibility.
- *Expendable Resources to Debt Ratio* – determines if an institution has the ability to fund outstanding debt with existing net asset balances should an emergency occur.

The four core ratios are then integrated into a single score using common scales and weighting factors. This measure is known as the Composite Financial Index (CFI). Use of a single score allows a weakness in a particular ratio to be offset by strength in another ratio.

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

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

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

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

Executive Summary

Institutions Rated "Watch"

UT Permian Basin The institution's financial condition was downgraded from "Satisfactory" for 2005 to "Watch" for 2006. The composite financial index (CFI) dropped from 2.4 in 2005 to 1.7 in 2006 largely due to a reduction in the return on net assets and a reduction in the operating results. Both the operating expense coverage ratio and annual operating margin ratio worsened in 2006. The operating expense coverage ratio decreased by 0.3 months to 1.2 months in 2006, which was below the benchmark of 2 months. This ratio declined due to an increase in total operating expenses. The operating deficit grew to $1.8 million for 2006 as compared to a deficit of $1.1 million for 2005. In addition, the institution received gifts of $3.0 million in 2006 for the pre-conceptual design phase of the High-Temperature Teaching and Test Reactor (HT3R), but only $1.1 million of these funds were expended. The remaining $1.9 million will be expended in 2007 with no corresponding revenues to offset these expenses. The expendable resources to debt ratio increased slightly from 0.5x in 2005 to 0.6x in 2006 as a result of a reduction in the amount of debt outstanding; however, this ratio still remained below the median of 0.7x. The debt burden ratio increased from 7.5% in 2005 to 8.0% in 2006, which exceeded the median of 3.8% and was the highest debt burden ratio of any UT institution. The debt burden ratio increased due to an increase in debt service payments. The debt service coverage ratio decreased slightly from 1.3x in 2005 to 1.2x in 2006 and remained below the median of 2.4x. The growth in full-time equivalent student enrollment slowed due to oil industry demand and high wages for oil field workers.

UTMB The institution's financial condition was maintained as "Watch" for 2006. The CFI decreased slightly to 3.2 in 2006 as a result of an increase in the amount of debt outstanding. The operating expense coverage ratio decreased 0.2 months to 1.2 months, which was below the 2 month benchmark, as a result of increased salaries and wages, higher utility rates, an increase in rentals and leases, and repair costs associated with Hurricane *Rita*. The annual operating deficit showed a slight improvement of $932,000 resulting in an overall deficit of $25.5 million for 2006 as compared to a deficit of $26.4 million for 2005. The smaller deficit was largely due to an increase in State appropriations, growth in research related revenue and an increase in professional fees related to the Austin initiative. In 2006, the Navigant Consulting Group assisted UTMB's management in developing a three-year plan to improve operating performance. The first year of the three-year plan will focus on cost reduction measures with the last two years focusing on revenue enhancement initiatives. The expendable resources to debt ratio decreased from 2.7x in 2005 to 2.5x in 2006 largely due to an increase in the amount of debt outstanding. The debt burden ratio increased slightly from 0.8% in 2005 to 1.2% in 2006 and the debt service coverage ratio decreased from 2.5x in 2005 to 1.9x in 2006 as a result of an increase in debt service. Even with the increase in the debt burden ratio in 2006, UTMB had the lowest debt burden ratio of any UT institution.

Institutions Rated "Watch" (Continued)

UTHC-Tyler

The institution's financial condition was upgraded from "Unsatisfactory" for 2005 to "Watch" for 2006. The CFI increased from 1.7 in 2005 to 2.2 in 2006 due to a reduction in the operating deficit and an increase in both unrestricted and expendable net assets. The operating expense coverage ratio increased by 0.2 months to 1.2 months, but still remained below the 2 month benchmark. The improvement in this ratio was attributable to a reduction in operating expenses resulting from cost reduction initiatives implemented in 2006. The annual operating deficit improved by $2.9 million resulting in a deficit of $2.4 million for 2006 as compared to a deficit of $5.3 million for 2005. While operating expenses decreased in 2006, operating revenues also decreased at a slower pace. The reduction in operating revenues was primarily due to a reduction in gifts for operations and decreased sales and services of hospitals. The Navigant Consulting Group helped UTHC-Tyler's management develop a three-year plan to improve operating results. The three-year strategy will focus on cost reductions, affiliations and outreach. The expendable resources to debt ratio increased from 1.4x in 2005 to 1.7x in 2006 primarily due to increases in unrestricted net assets and expendable net assets. The debt burden ratio increased from 1.1% in 2005 to 1.6% in 2006 due to an increase in debt service payments and the reduction in operating expenses mentioned above. The debt service coverage ratio increased from 1.7x in 2005 to 3.2x in 2006 as a result of the improvement in the operating deficit and the exclusion of depreciation expense for this ratio.

Institutions Rated "Satisfactory"

UT Arlington

The CFI decreased from 3.6 in 2005 to 2.9 in 2006 largely due to a decline in operating performance. The operating expense coverage ratio increased by 0.3 months to 3.9 months due to a $15.7 million increase in unrestricted net assets. The annual operating margin decreased $9.5 million largely due to increases in salaries and wages and payroll related costs; increased depreciation expense and utility costs related to the new Chemistry and Physics Research building; higher utility rates; computer programming expenditures for the new student system, continuing education expenditures for education services in the career development program, and architectural/engineering services expense for the campus master plan update; and furniture and equipment purchased for the library storage project and the Chemistry and Physics Research building. The expendable resources to debt ratio changed slightly from 0.8x in 2005 to 0.9x in 2006 due to increases in unrestricted net assets and expendable net assets restricted for capital projects. The debt burden ratio increased from 4.9% in 2005 to 5.1% in 2006 as a result of an increase in debt service payments. The debt service coverage ratio decreased from 3.3x in 2005 to 2.5x in 2006 largely due to the decline in the annual operating margin. Full-time equivalent student enrollment declined slightly due to higher enrollment standards and increased tuition costs.

Institutions Rated "Satisfactory" (Continued)

UT Austin

The CFI decreased from 7.8 in 2005 to 6.9 in 2006 primarily as a result of reductions in the return on net assets ratio and the expendable resources to debt ratio. Although the CFI decreased in 2006, UT Austin had the highest CFI of any UT institution. The operating expense coverage ratio decreased by 0.4 months to 2.8 months due to a decrease in unrestricted net assets coupled with an increase in total operating expenses. Unrestricted net assets decreased due to a shift in capital project financing from unrestricted sources to debt and other restricted sources. The increase in operating expenses was primarily attributable to increased salaries and wages and payroll related costs; higher utilities resulting from increased gas prices, which were directly impacted by Hurricane *Katrina*; increased depreciation expense due to the completion of several major capital projects; increased tuition set-asides; and increased interest expense. The annual operating margin decreased by $14.5 million due to the growth in operating expenses outpacing the growth in operating revenues. While the expendable resources to debt ratio decreased from 4.0x in 2005 to 3.3x in 2006 due to an increase in the amount of debt outstanding, UT Austin had the highest expendable resources to debt ratio of any UT institution. The debt burden ratio decreased slightly from 2.9% in 2005 to 2.8% in 2006 due the increase in total operating expenses. The debt service coverage ratio decreased from 4.6x in 2005 to 4.4x in 2006 due to the reduction in the annual operating margin and an increase in debt service. Full-time equivalent student enrollment increased slightly primarily due to an increase in average course load.

UT Brownsville

The CFI declined significantly from 2.4 in 2005 to 0.6 in 2006 due to the decreased change in net assets as a result of the reduction in the annual operating margin of $8.3 million. The operating expense coverage ratio decreased by 0.4 months to 2.2 months due to an increase in total operating expenses. The annual operating margin declined to a deficit of $5.1 million primarily due to increased salaries and wages and payroll related costs; increased depreciation expense attributable to the new Education and Business Complex (EBC) building; higher utilities resulting from the EBC building and increased utility rates; and increased financial aid disbursements. The expendable resources to debt ratio remained stable at 0.8x. The debt burden ratio increased slightly from 4.2% in 2005 to 4.3% in 2006 as a result of an increase in debt service payments. The debt service coverage ratio fell from 2.6x in 2005 to 0.6x in 2006 due to the decline in the annual operating margin and the increase in debt service payments. Full-time equivalent student enrollment continued its upward trend.

UT Dallas

The CFI decreased from 6.2 in 2005 to 5.3 in 2006 primarily due to a reduction in the annual operating margin and the expendable resources to debt ratio. The operating expense coverage ratio decreased by 0.3 months to 2.6 months due to an increase in total operating expenses. The annual operating margin decreased by $9.8 million largely due an increase in total operating expenses. Operating expenses increased largely as a result of increased salaries and wages and payroll related costs; higher interest expense associated with the increase in debt outstanding; and increases in various expenses related to advertising, electronic library access, property insurance, temporary labor needed for facility improvements, and a one-time expense associated with the cancelled Banner Project. The expendable resources to debt ratio decreased from 2.4x in 2005 to 1.9x in 2006 due to the increase in the amount of debt outstanding. The debt burden ratio increased from 2.7% in 2005 to 3.3% in 2006 as a result of an increase in debt service payments. The debt service coverage ratio decreased from 5.2x in 2005 to 2.5x in 2006 due to the reduction in the annual operating margin, as well as the increase in debt service payments. Full-time equivalent student enrollment increased slightly due to UT Dallas' high standard for admissions.

Institutions Rated "Satisfactory" (Continued)

UT El Paso

The CFI remained relatively stable at 3.6 in 2006. The operating expense coverage ratio increased by 0.2 months to 1.5 months due to an increase in total unrestricted net assets. The annual operating margin remained relatively stable at 1.3% due to consistent growth in both operating revenues and operating expenses. The expendable resources to debt ratio decreased slightly from 1.5x in 2005 to 1.4x in 2006 due to an increase in the amount of debt outstanding. The debt burden ratio decreased from 4.9% in 2005 to 4.1% in 2006 as a result of a reduction in the debt service payments, as well as an increase in operating expenses. The debt service coverage ratio increased from 1.8x in 2005 to 2.0x in 2006 due to the decrease in debt service payments. Full-time equivalent student enrollment continued to trend upward.

UT Pan American

The CFI decreased from 2.2 in 2005 to 1.9 in 2006 primarily due to a reduction in the expendable resources to debt ratio. The operating expense coverage ratio decreased by 0.3 months to 3.0 months as a result of an increase in operating expenses. The increase in operating expenses was largely due to increased salaries and wages and payroll related costs; increased depreciation expense associated with the Oracle conversion and the new Education Complex; increased materials and supplies for the Navigator standard classroom learning system for the GEAR UP program, renovation costs for the Administrative Offices project and furniture installation at Southwick Hall; and other expenses resulting from the two GEAR UP programs active in 2006. The annual operating deficit grew by $1.7 million for a total deficit of $5.7 million due to the increase in operating expenses outpacing the growth in operating revenues. The expendable resources to debt ratio decreased from 1.2x in 2005 to 1.0x in 2006 due to an increase in the amount of debt outstanding. Both the debt burden and the debt service coverage ratios remained unchanged at 4.0% and 1.8x, respectively. The continued growth in full-time equivalent student enrollment resulted from undergraduate students taking increased semester credit hour loads to ensure timely graduation, as well as a required minimum ACT score instituted by UT Pan American.

UT San Antonio

The CFI remained relatively stable at 3.6 in 2006 largely as a result of the strong operating performance. The operating expense coverage ratio increased by 0.6 months to 4.2 months due to an increase in unrestricted net assets primarily attributable to increased State appropriations and net tuition and fees resulting from continued enrollment growth and higher tuition rates. The annual operating margin increased $8.5 million due to the increase in revenues mentioned above, as well as an increase in sponsored program revenue. UT San Antonio had the highest operating expense coverage ratio and annual operating margin ratio of any UT institution. The expendable resources to debt ratio remained unchanged at 0.7x. The debt burden ratio increased from 5.7% in 2005 to 5.9% in 2006 due to an increase in debt service payments. The debt service coverage ratio increased slightly from 2.9x in 2005 to 3.0x in 2006 due to the improvement in the annual operating margin as discussed above. Full-time equivalent student enrollment continued to increase as a result of recruitment and retention efforts, as well as increases in the graduate programs and enrollment caps at other universities, such as UT Austin.

UT Tyler

The CFI was unchanged at 4.0 in 2006. The operating expense coverage ratio increased by 0.3 months to 3.0 months due to an increase in unrestricted net assets. The annual operating deficit improved by $722,000 for a total deficit of $1.8 million for 2006 as compared to a deficit of $2.5 million for 2005. This improvement was attributable to an increase in State appropriations and net tuition and fees primarily resulting from enrollment growth and rate increases. The expendable resources to debt ratio decreased slightly from 1.3x in 2005 to 1.2x in 2006 due to an increase in the amount of debt outstanding. The debt burden ratio increased from 4.4% in 2005 to 5.9% in 2006 as a result of an increase in debt service payments. The debt service coverage ratio increased from 1.6x in 2005 to 1.9x in 2006 primarily due to the reduction in the operating deficit. Full-time equivalent student enrollment continued to trend upward.

Institutions Rated "Satisfactory" (Continued)

Southwestern The CFI decreased from 5.6 in 2005 to 4.8 in 2006 largely due to the decline in net operating results, as well as an increase in the amount of debt outstanding. The operating expense coverage ratio decreased by 0.2 months to 3.2 months due to increased operating expenses. The operating expenses increased primarily due to the first full year of expenses for University Hospital, which was acquired on January 1, 2005. The annual operating margin decreased $24.5 million primarily due to the growth in operating expenses outpacing the growth in operating revenues. The expendable resources to debt ratio decreased slightly from 2.3x in 2005 to 2.2x in 2006 as a result of an increase in the amount of debt outstanding. The debt burden ratio increased from 2.7% in 2005 to 3.3% in 2006 due to an increase in debt service payments. The decrease in the debt service coverage ratio from 3.5x in 2005 to 2.3x in 2006 was attributable to the decline in the annual operating margin, as well as the increase in debt service payments.

UTHSC-Houston The CFI decreased from 4.5 in 2005 to 4.0 in 2006 due to a reduced return on net assets ratio. The operating expense coverage ratio increased by 0.1 months to 2.8 months resulting from an increase in unrestricted net assets primarily attributable to increased State appropriations, Gulf States Hemophilia Center's sale of the blood clotting factor, increased tuition and fees resulting from enrollment increases at both the Medical and Dental Schools, and additional revenue generated from new student apartments and the UT Professional Building and Parking Garage. The annual operating margin increased $10.2 million primarily due to the factors previously mentioned, as well as increases in sponsored program revenue, investment income and gifts for operations. The expendable resources to debt ratio remained unchanged at 1.7x due to a reduction in expendable net assets, which was partially offset by a decrease in the amount of debt outstanding. The debt burden ratio increased from 2.2% in 2005 to 2.6% in 2006 due to an increase in debt service payments. The debt service coverage ratio increased from 3.3x in 2005 to 3.6x in 2006 due to the improvement in the annual operating margin mentioned above.

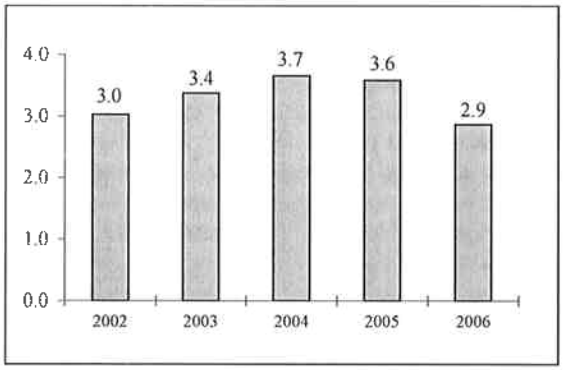
UTHSC-San Antonio The CFI decreased from 5.2 in 2005 to 4.2 in 2006 due to a decreased return on net assets ratio, an increase in the amount of debt outstanding, and a decrease in operating results. The operating expense coverage ratio remained unchanged at 2.7 months as a result of an increase in unrestricted net assets offsetting an increase in total operating expenses. The annual operating deficit declined $8.9 million to a deficit of $9.1 million for 2006 primarily due growth in expenses outpacing the growth in revenues. The expendable resources to debt ratio decreased from 3.2x in 2005 to 3.0x in 2006 as a result of an increase in the amount of debt outstanding. The debt burden ratio remained stable at 2.2% due to increases in both debt service payments and operating expenses. The debt service coverage ratio decreased from 2.6x in 2005 to 1.4x in 2006 resulting from the decline in the annual operating deficit and the increase in debt service payments.

M. D. Anderson The CFI increased from 3.4 in 2005 to 3.8 in 2006 primarily due to an increase in both unrestricted net assets and expendable net assets. The operating expense coverage ratio increased by 0.3 months to 2.9 months primarily due to increases in billable visits, billed procedures, surgery patients and bone marrow transplants. Additionally, the average number of operating beds increased with the full year of operations for the Ambulatory Clinical and Cancer Prevention buildings. The annual operating margin increased $16.4 million due to revenue growth outpacing the growth in expenses. The expendable resources to debt ratio increased slightly from 1.3x in 2005 to 1.5x in 2006 due to an increase in unrestricted net assets and restricted expendable net assets. The debt burden ratio increased from 2.8% in 2005 to 3.2% in 2006, while the debt service coverage ratio decreased slightly from 4.6x in 2005 to 4.5x in 2006. The changes in both of these debt ratios were due to an increase in debt service payments. Even with the decrease in the debt service coverage ratio in 2006, M. D. Anderson had the highest debt service coverage ratio of any UT institution.

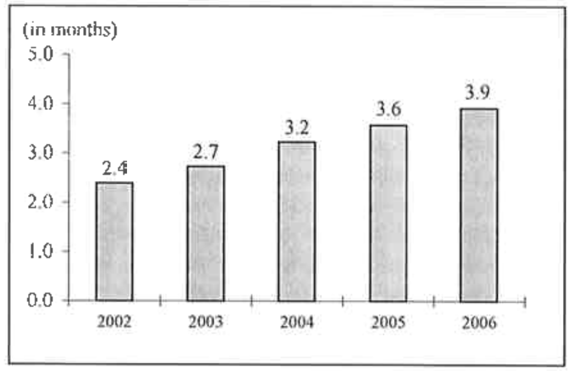
The University of Texas at Arlington
2006 Summary of Financial Condition

Financial Condition: **Satisfactory**

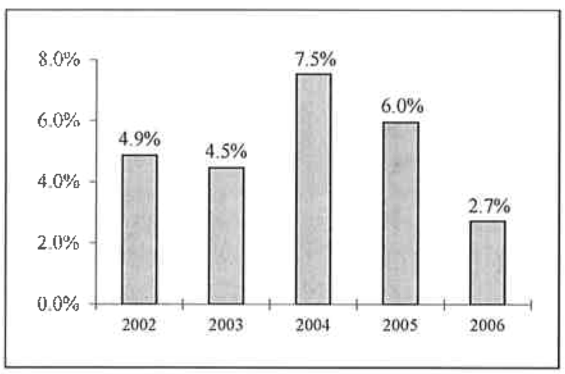
Composite Financial Index



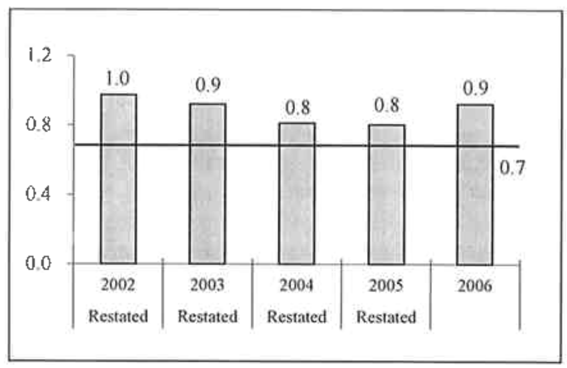
Operating Expense Coverage Ratio



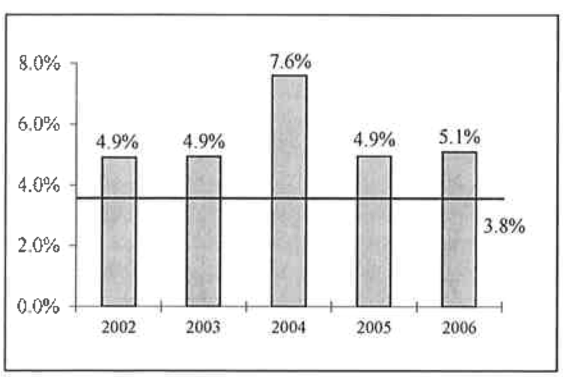
Annual Operating Margin Ratio



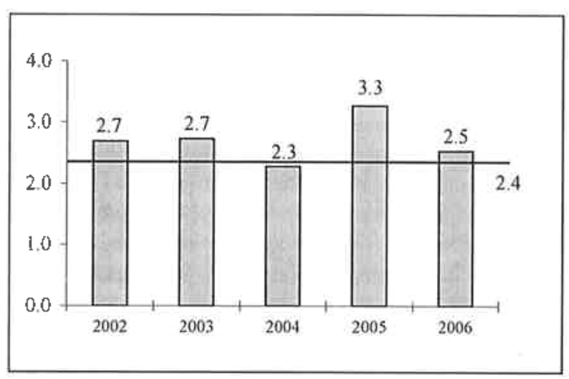
Expendable Resources to Debt Ratio



Debt Burden Ratio

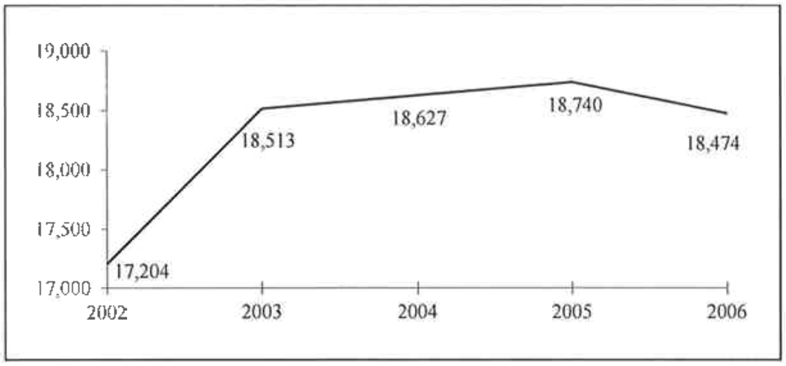


Debt Service Coverage Ratio



The University of Texas at Arlington
2006 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT Arlington's CFI has remained relatively stable over the past five years. The decrease in the CFI in 2006 was largely attributable to the decreased change in net assets as a result of the decline in operating performance as discussed further under the annual operating margin ratio.

Operating Expense Coverage Ratio - UT Arlington's operating expense coverage ratio increased from 3.6 months in 2005 to 3.9 months in 2006 due to a $15.7 million increase in total unrestricted net assets. Total unrestricted net assets increased primarily due to the following: a $7.7 million increase in State appropriations; a $4.9 million increase in net tuition and fees resulting from rate increases; a $2.2 million increase in net auxiliary enterprises due to revenue generated from the new residence hall; and a $2.1 million increase in sales and services of educational activities due to increased revenue in the Continuing Education Program, the TX DOT Training Program and the English Language Institute.

Annual Operating Margin Ratio - UT Arlington's annual operating margin ratio decreased from 6.0% for 2005 to 2.7% for 2006 due to the increase in operating expenses outpacing the increase in operating revenues. Total expenses increased $22.8 million while total revenues increased $13.8 million. The increase in expenses was primarily due to the following: an increase of $7.8 million in salaries and wages and $3.1 million in payroll related costs resulting from the hiring of new faculty to increase research and satisfy college accreditation standards, annual merit increases, higher group insurance premiums, and a one-time faculty cash excellence award program; an increase of $2.4 million in depreciation expense largely due to the Chemistry and Physics Research building which was placed into service in 2006; an increase of $2.2 million in utilities resulting from higher rates for electricity and gas and the additional utility costs of the new Chemistry and Physics Research building; an increase of $1.8 million in professional fees and services due to computer programming expenditures for the new student system, continuing education expenditures for education services in the career development program, and architectural/engineering services expense for the campus master plan update; and an increase of $1.6 million in materials and supplies as a result of furniture and equipment expenditures for the library storage project and the new Chemistry and Physics Research building.

Expendable Resources to Debt Ratio - UT Arlington's expendable resources to debt ratio increased slightly from 0.8x in 2005 to 0.9x in 2006 primarily due to the increase in unrestricted net assets discussed above and an increase in expendable net assets restricted for capital projects.

Debt Burden Ratio - UT Arlington's debt burden ratio increased from 4.9% in 2005 to 5.1% in 2006 as a result of an increase in debt service payments.

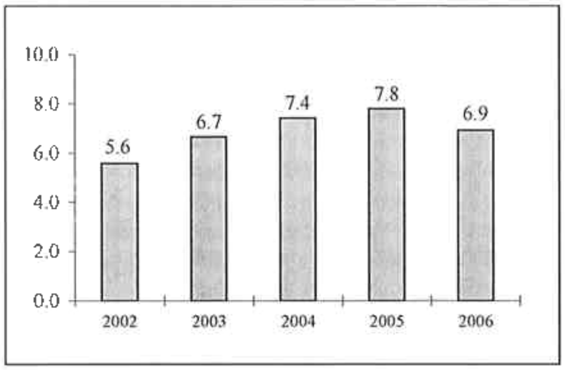
Debt Service Coverage Ratio - UT Arlington's debt service coverage ratio of 2.5x in 2006 was lower than the 2005 ratio of 3.3x largely due to the decline in the annual operating margin mentioned above.

Full-Time Equivalent (FTE) Student Enrollment - UT Arlington's FTE student enrollment experienced a minor drop due to higher enrollment standards and increased tuition costs.

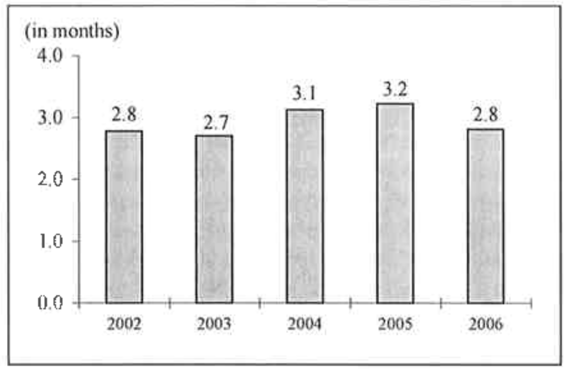
The University of Texas at Austin
2006 Summary of Financial Condition

Financial Condition: **Satisfactory**

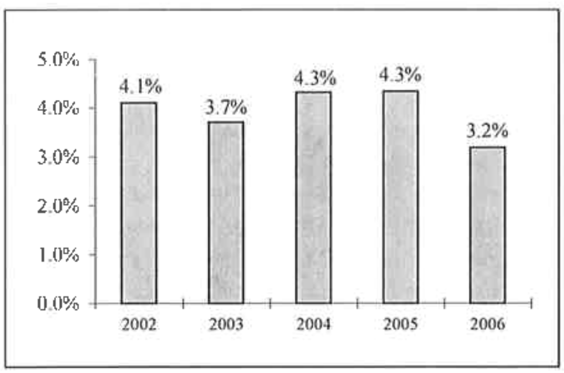
Composite Financial Index



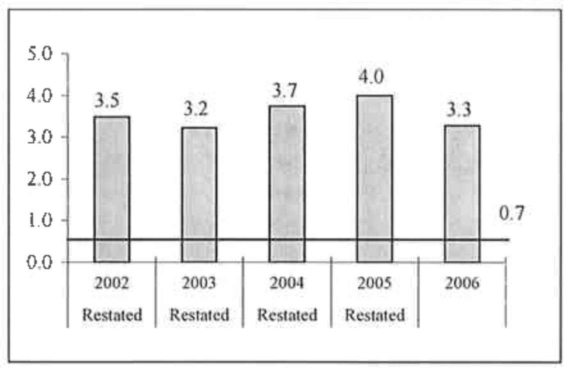
Operating Expense Coverage Ratio



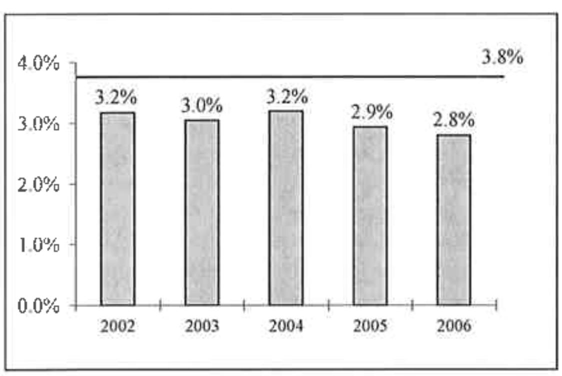
Annual Operating Margin Ratio



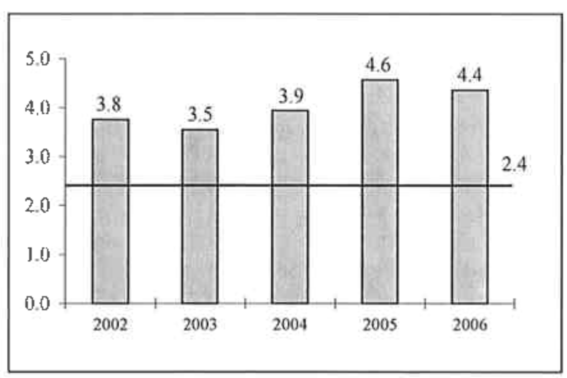
Expendable Resources to Debt Ratio



Debt Burden Ratio

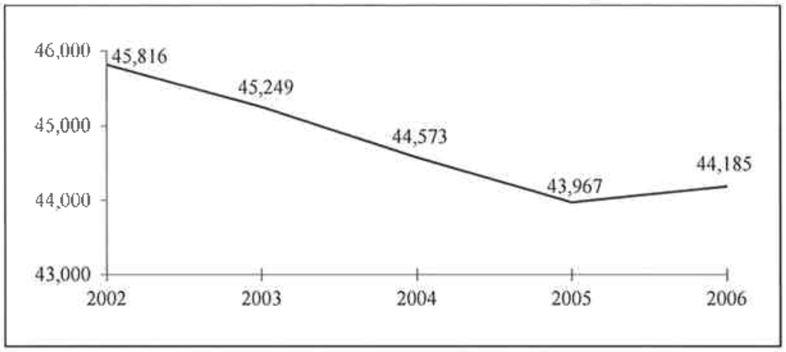


Debt Service Coverage Ratio



The University of Texas at Austin
2006 Summary of Financial Condition

Full-time Equivalent Student Enrollment - Fall



Composite Financial Index (CFI) - UT Austin's CFI has trended upward since 2002 with the exception of 2006. The decline in the CFI in 2006 was related to the reduced return on net assets and reduced expendable resources to debt as a result of increased debt outstanding. The outstanding debt increased in 2006 primarily due to debt issued for the Almetrius Duren Residence Hall, the Biomedical Engineering building, the Research Office Complex, and the Nano Science and Technology building.

Operating Expense Coverage Ratio - UT Austin's operating expense coverage ratio decreased from 3.2 months in 2005 to 2.8 months in 2006 primarily due to a $22 million decrease in unrestricted net assets coupled with an increase of $126.4 million in total operating expenses. Unrestricted net assets decreased due to a shift in capital project financing from unrestricted sources to debt and other restricted sources. The increase in expenses was largely due to the following: a $73.3 million increase in salaries, wages and payroll related costs attributable to annual merit increases, higher group insurance premiums, and the addition of thirty new faculty members; a $21.9 million increase in utilities due to an increase in gas prices which were directly impacted by Hurricane *Katrina;* a $9.5 million increase in depreciation expense primarily attributable to the completion of the Jack Blanton Museum of Art, Gregory Gymnasium Aquatics Complex, Nano Science and Technology building, and the Darrell K. Royal Memorial Stadium Fire and Safety renovation; a $7.4 million increase in scholarships and fellowships due to increased tuition set-asides; and a $7.2 million increase in interest expense related to an increase in the amount of debt outstanding. Total debt service payments only increased $1.5 million, but the mix of debt outstanding shifted to newer debt with a higher percentage of interest to principal payments.

Annual Operating Margin Ratio - UT Austin's annual operating margin ratio decreased from 4.3% in 2005 to 3.2% in 2006. Total operating revenues increased $111.9 million while total operating expenses increased by $126.4 million. The increase in total operating expenses was attributable to the factors noted above. A utility fee was implemented in 2007 to cover the increase in utilities costs. The growth in depreciation, a non-cash transaction, should be offset by related revenues in the near future as several newly constructed buildings begin generating cash inflows.

Expendable Resources to Debt Ratio - UT Austin's expendable resources to debt ratio decreased from 4.0x in 2005 to 3.3x in 2006 due to an increase in the amount of debt outstanding as discussed in the CFI above.

Debt Burden Ratio - UT Austin's debt burden ratio decreased slightly from 2.9% in 2005 to 2.8% in 2006 due to the increase in total operating expenses of $126.4 million discussed above.

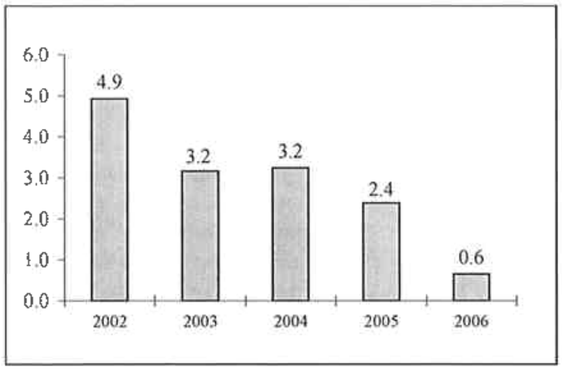
Debt Service Coverage Ratio - UT Austin's debt service coverage ratio decreased from 4.6x in 2005 to 4.4x in 2006 as a result of the reduction in the annual operating margin as previously discussed and an increase in debt service of $1.4 million.

Full-Time Equivalent (FTE) Student Enrollment - UT Austin's FTE student enrollment increased 0.5% which was primarily due to an increase in average course load.

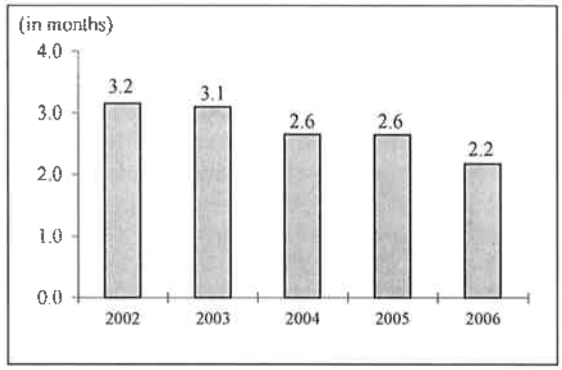
The University of Texas at Brownsville
2006 Summary of Financial Condition

Financial Condition: **Satisfactory**

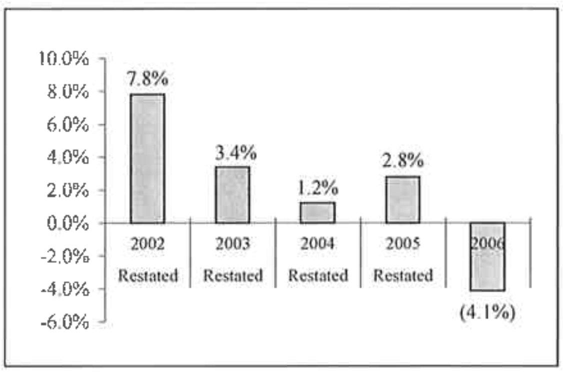
Composite Financial Index



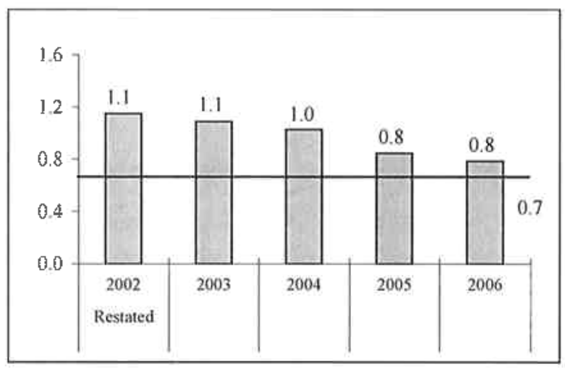
Operating Expense Coverage Ratio



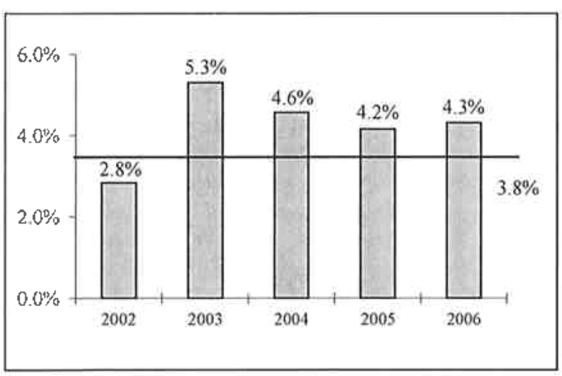
Annual Operating Margin Ratio



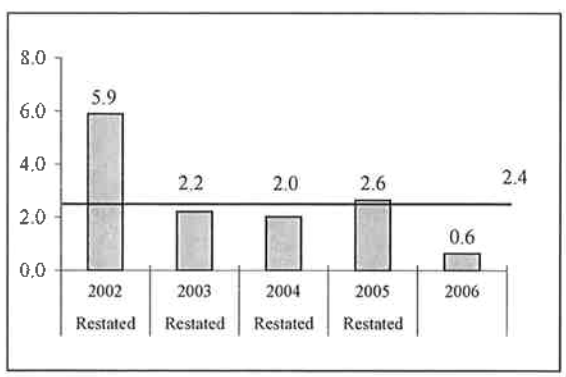
Expendable Resources to Debt Ratio



Debt Burden Ratio

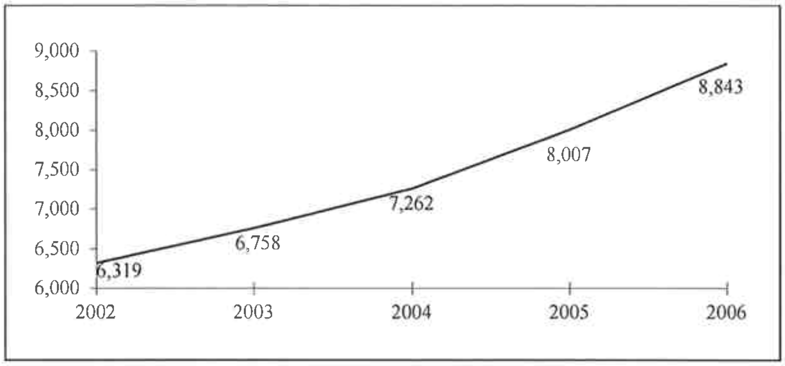


Debt Service Coverage Ratio



The University of Texas at Brownsville
2006 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT Brownsville's CFI has varied significantly from a high of 4.9 in 2002 to a low of 0.6 in 2006. The large decline in the CFI in 2006 was attributable to the decreased change in net assets as a result of the decline in operating performance as discussed further under the annual operating margin ratio.

Operating Expense Coverage Ratio - UT Brownsville's operating expense coverage ratio decreased from 2.6 months in 2005 to 2.2 months in 2006 due to an increase of $15.9 million in total operating expenses. The increase in expenses was primarily attributable to the following: a $6.6 million increase in salaries and wages and a $1.7 million increase in payroll related costs resulting from annual merit increases, higher group insurance premiums, and the addition of 33.5 new faculty lines as a result of enrollment growth; a $1.6 million increase in depreciation attributable to the Education and Business Complex (EBC) building which was placed into service at the end of 2005; a $1.3 million increase in utilities largely due to the new EBC building and an increase in utility rates; and a $1.2 million increase in scholarships and fellowships as a result of an increase in financial aid disbursements through Pell Grant, Texas Grant and Texas Southmost College contract scholarships.

Annual Operating Margin Ratio - UT Brownsville's annual operating margin ratio decreased significantly from 2.8% for 2005 to (4.1%) for 2006. The large decline in the annual operating margin ratio was due to the growth in total operating expenses far outpacing the growth in total operating revenues. Total operating expenses increased due to the factors discussed above.

Expendable Resources to Debt Ratio - UT Brownsville's expendable resources to debt ratio remained stable at 0.8x in 2006 due to decreases in both restricted expendable net assets and unrestricted net assets, which were offset by a decrease in the amount of debt outstanding. The net assets decreased as a result of the decline in the annual operating margin.

Debt Burden Ratio - UT Brownsville's debt burden ratio changed slightly from 4.2% in 2005 to 4.3% in 2006 due to an increase in debt service payments.

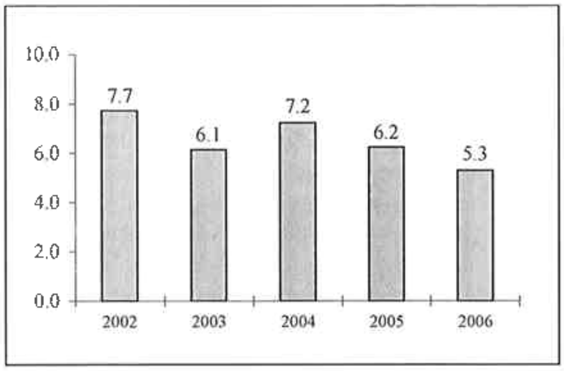
Debt Service Coverage Ratio - UT Brownsville's debt service coverage ratio fell from 2.6x in 2005 to 0.6x in 2006 as a result of the decrease in the annual operating margin mentioned above and the increase in debt service payments.

Full-Time Equivalent (FTE) Student Enrollment - UT Brownsville's FTE student enrollment for the 2006 Fall semester increased 10.4% to 8,843 FTEs. The increase was a result of increased marketing, increased community awareness programs, and an increase in school district initiatives. UT Brownsville expects the student enrollment to continue to increase and expects to meet the projection of 20,000 students by 2010.

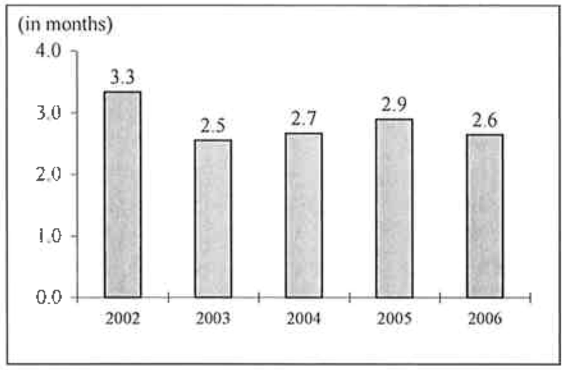
The University of Texas at Dallas
2006 Summary of Financial Condition

Financial Condition: **Satisfactory**

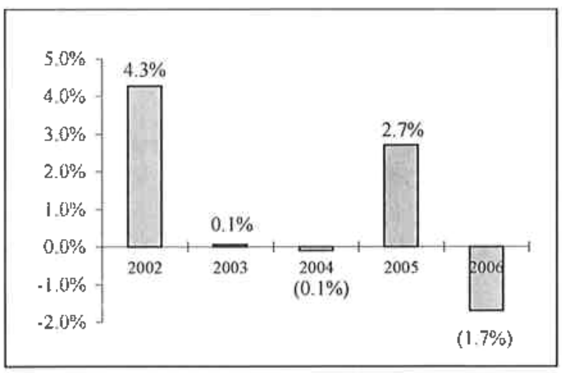
Composite Financial Index



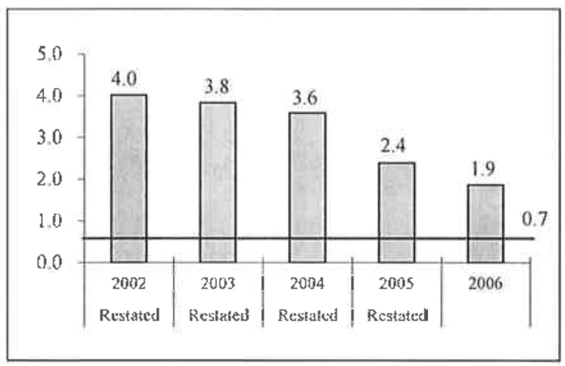
Operating Expense Coverage Ratio



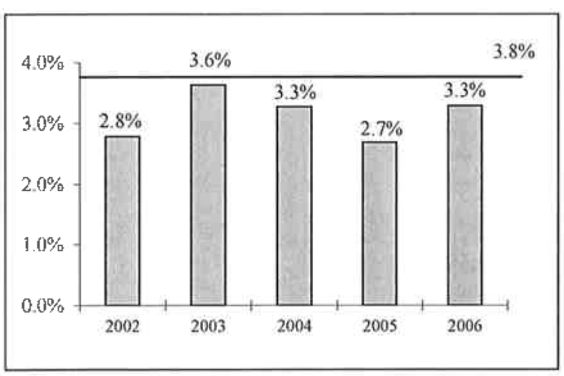
Annual Operating Margin Ratio



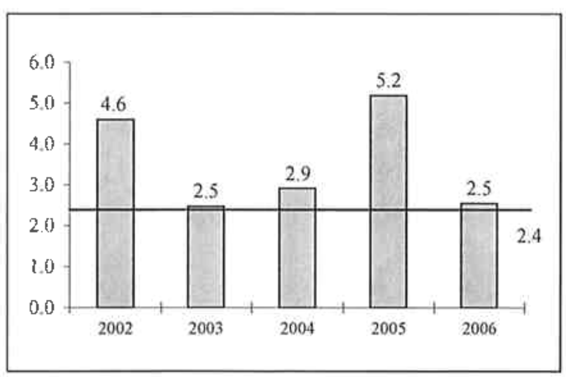
Expendable Resources to Debt Ratio



Debt Burden Ratio

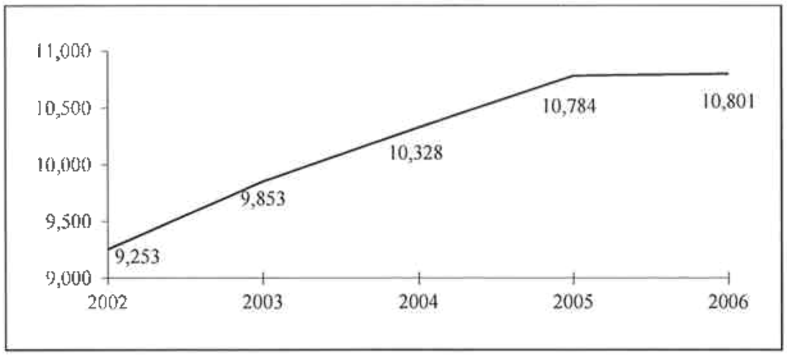


Debt Service Coverage Ratio



The University of Texas at Dallas
2006 Summary of Financial Condition

Full-time Equivalent Student Enrollment - Fall



Composite Financial Index (CFI) - UT Dallas' CFI has varied over the past five years. The decrease in the CFI in 2006 was largely attributable to the decrease in the annual operating margin ratio and decrease in expendable resources to debt ratio, both of which are discussed below.

Operating Expense Coverage Ratio - UT Dallas' operating expense coverage ratio decreased from 2.9 months in 2005 to 2.6 months in 2006 due to an increase of $22.5 million in total operating expenses. The increases in salaries and wages of $13.5 million and payroll related costs of $3.1 million were related to the Emmitt initiative and represent the cost of hiring additional faculty and staff in order to build an infrastructure for increased enrollment, research and development activities necessitated by the Emmitt contract. In addition, the steady enrollment growth in previous years resulted in the hiring of new faculty to reduce the student to faculty ratio. Payroll related costs were also impacted by an increase in group insurance premiums and retirement benefits. Other expenses increased $2.3 million primarily due to the increase in temporary labor necessitated by numerous facility improvement projects, advertising, electronic library access, property insurance, and a $900,000 one-time expense associated with the cancelled Banner Project. Also, interest expense increased $2.2 million due to the increase in outstanding debt for the Founders Renovation and the Natural Science and Engineering Research building (NSERB).

Annual Operating Margin Ratio - UT Dallas' annual operating margin ratio of (1.7%) for 2006 was a substantial decline from the 2005 ratio of 2.7%. The annual operating margin decreased as a result of the increase in total operating expenses noted above. The planned deficit in 2006 was the result of management's decision to utilize accumulated reserves in lieu of increasing student fees in auxiliary and designated funds, satisfy donor requirements in expending previously received gifts and utilize miscellaneous reserves to fund increases in academic programs and the related infrastructure.

Expendable Resources to Debt Ratio - UT Dallas' expendable resources to debt ratio decreased from 2.4x in 2005 to 1.9x in 2006 due to an increase of $36.0 million in the amount of debt outstanding primarily related to debt issued for the NSERB.

Debt Burden Ratio - UT Dallas' debt burden ratio increased from 2.7% in 2005 to 3.3% in 2006 as a result of an increase in debt service payments of $1.9 million.

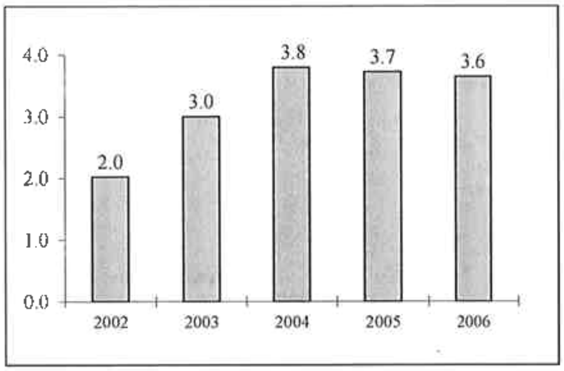
Debt Service Coverage Ratio - UT Dallas' debt service coverage ratio dropped from 5.2x in 2005 to 2.5x in 2006 primarily due to the reduction in the annual operating margin discussed above, as well as the increase in debt service payments.

Full-Time Equivalent (FTE) Student Enrollment - UT Dallas' FTE student enrollment increased slightly. The relatively flat enrollment was mainly due to UT Dallas' high standard for admissions. UT Dallas intends to maintain this high standard, as it is in line with its strategic mission of building a first class research university. It is believed that recent investments in new faculty, research laboratories and development resources will go a long way towards increasing the graduate level enrollment.

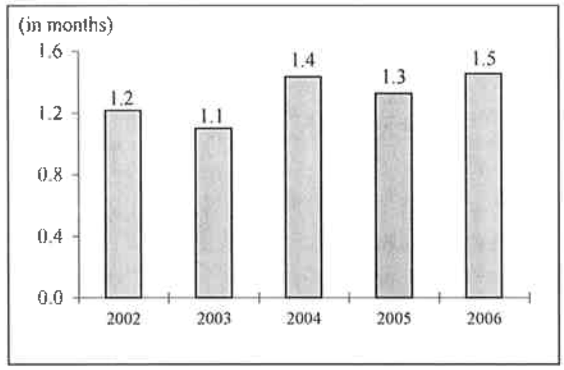
The University of Texas at El Paso
2006 Summary of Financial Condition

Financial Condition: **Satisfactory**

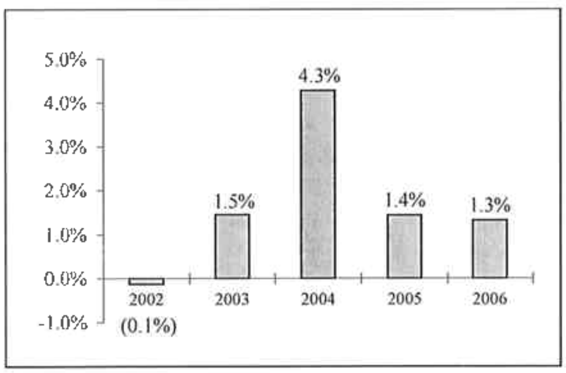
Composite Financial Index



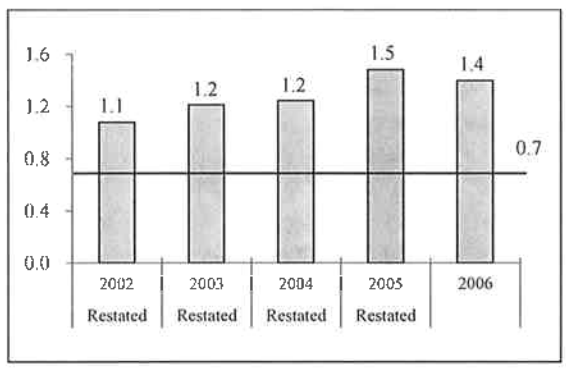
Operating Expense Coverage Ratio



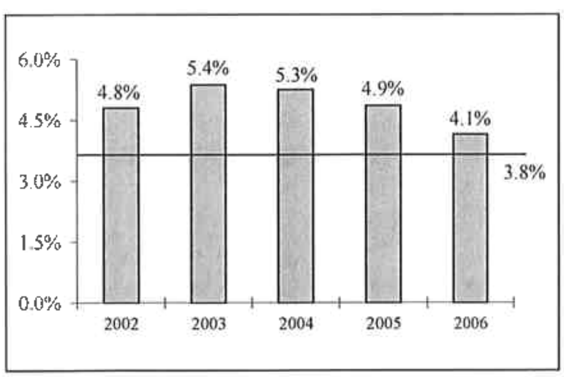
Annual Operating Margin Ratio



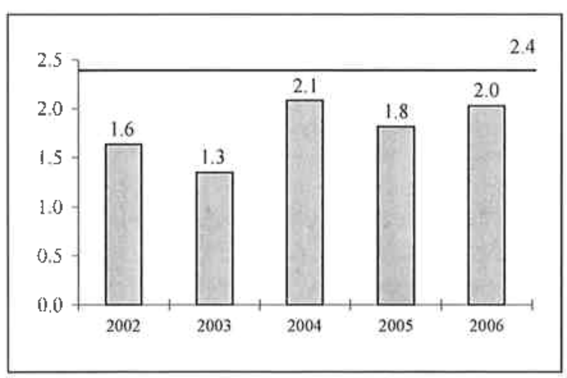
Expendable Resources to Debt Ratio



Debt Burden Ratio

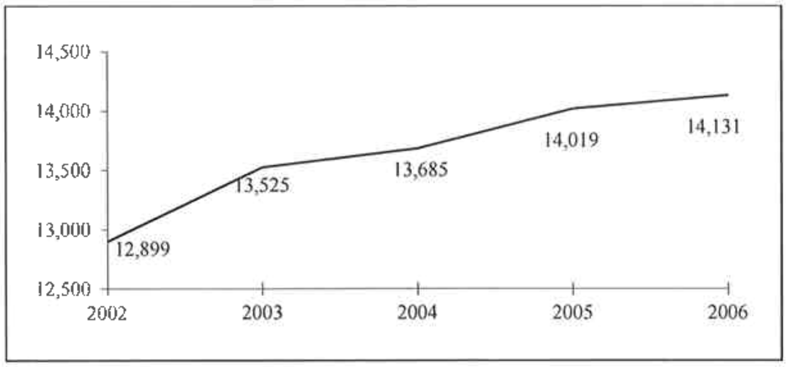


Debt Service Coverage Ratio



The University of Texas at El Paso
2006 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT El Paso's CFI remained relatively stable over the past three years.

Operating Expense Coverage Ratio - UT El Paso's operating expense coverage ratio increased from 1.3 months in 2005 to 1.5 months in 2006 primarily due to a $5.3 million increase in total unrestricted net assets. Total unrestricted net assets increased largely due to a $5.7 million increase in net tuition and fees resulting from enrollment growth and higher rates.

Annual Operating Margin Ratio - UT El Paso's annual operating margin ratio remained relatively stable at 1.3% for 2006, which was a slight decrease from the 2005 ratio of 1.4%. The stability of this ratio was attributable to consistent growth of $22.1 million in both total operating revenues and total operating expenses.

Expendable Resources to Debt Ratio - UT El Paso's expendable resources to debt ratio of 1.4x in 2006 was slightly below the 2005 ratio of 1.5x. The decrease in this ratio was due to the increase in the amount of debt outstanding. The outstanding debt increased in 2006 primarily due to debt issued for the parking garage.

Debt Burden Ratio - UT El Paso's debt burden ratio decreased from 4.9% in 2005 to 4.1% in 2006 as a result of a $713,000 decrease in the debt service payments, as well as growth of $22.1 million in total operating expenses.

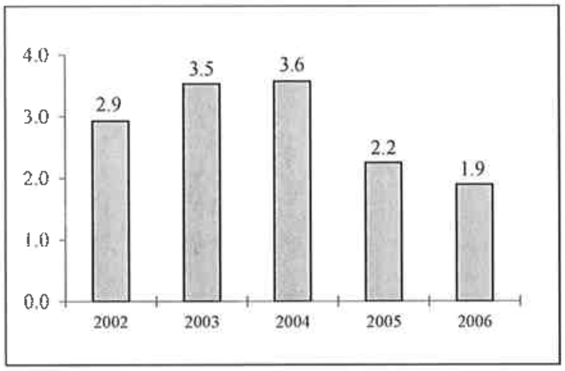
Debt Service Coverage Ratio - UT El Paso's debt service coverage ratio increased from 1.8x in 2005 to 2.0x in 2006 primarily due to the decrease in debt service payments.

Full-Time Equivalent (FTE) Student Enrollment - UT El Paso's FTE student enrollment increased due to an overall enrollment increase of 1.8% in 2006 compared to the previous year.

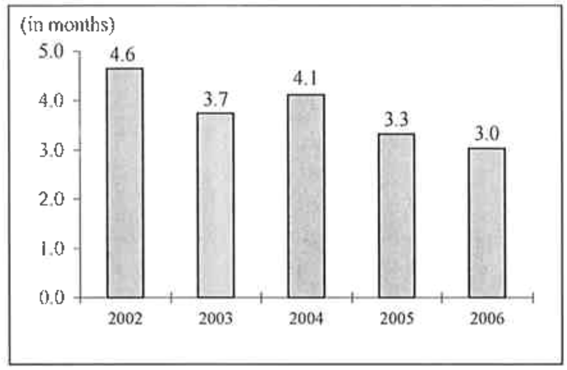
The University of Texas - Pan American
2006 Summary of Financial Condition

Financial Condition: **Satisfactory**

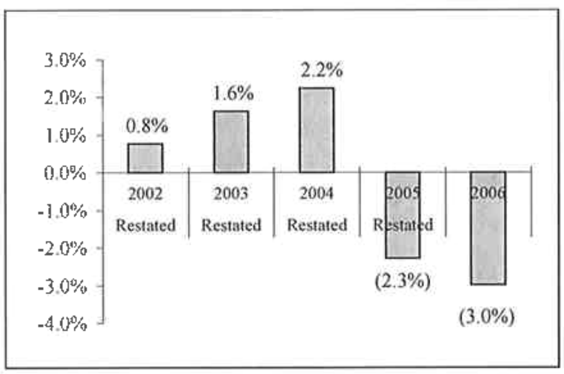
Composite Financial Index



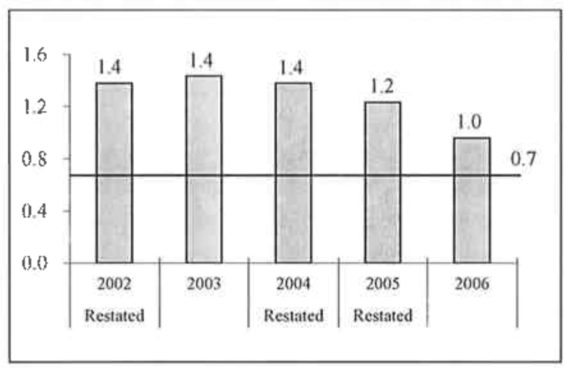
Operating Expense Coverage Ratio



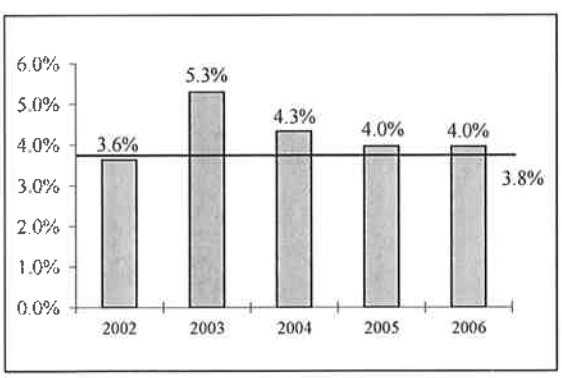
Annual Operating Margin Ratio



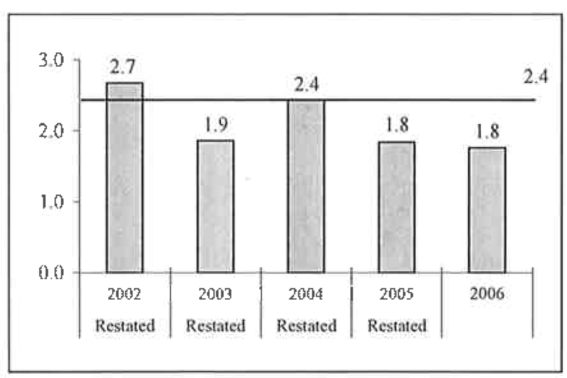
Expendable Resources to Debt Ratio



Debt Burden Ratio

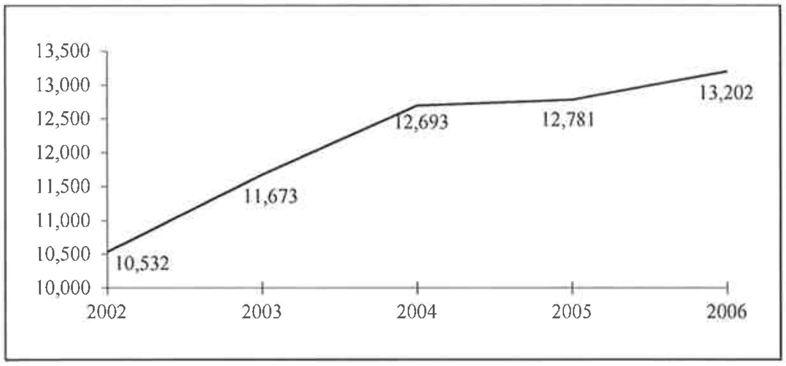


Debt Service Coverage Ratio



The University of Texas - Pan American
2006 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT Pan American's CFI has trended downward over the past three years. In 2006 the CFI declined primarily due to the reduction in the expendable resources to debt ratio discussed below.

Operating Expense Coverage Ratio - UT Pan American's operating expense coverage ratio decreased from 3.3 months in 2005 to 3.0 months in 2006 due an increase of $16.3 million in total operating expenses. Expenses increased largely as a result of the following: an $8.0 million increase in salaries and wages and a $2.4 million increase in payroll related costs; a $3.3 million increase in depreciation expense related to the Oracle conversion which was effective September 1, 2006 and placing the Education Complex in service in 2006; a $1.9 million increase in materials and supplies attributable to the Navigator standard classroom learning system for the GEAR UP program, renovation costs for the Administrative Offices project and furniture installation at Southwick Hall; and a $1.7 million increase in other expenses resulting from two GEAR UP programs active in 2006. The increases in salaries and wages and payroll related costs were due to new faculty to accommodate enrollment growth and faculty workload reduction, new staff positions primarily in the department of information technology as a result of the Oracle conversion, merit increases, the filling of vacant positions, and higher group insurance premiums.

Annual Operating Margin Ratio - UT Pan American's annual operating margin ratio declined from (2.3%) for 2005 to (3.0%) for 2006 due to the increase in total operating expenses discussed above. Although total operating revenues increased $14.7 million in 2006, this increase was not enough to offset the growth in total operating expenses.

Expendable Resources to Debt Ratio - UT Pan American's expendable resources to debt ratio of 1.0x in 2006 was lower than the 2005 ratio of 1.2x. The decline in this ratio was attributable to an increase in the amount of debt outstanding. The outstanding debt increased in 2006 primarily due to debt issued for the Student Housing Phase II project and the Wellness and Recreation Sports Center.

Debt Burden Ratio - UT Pan American's debt burden ratio remained unchanged at 4.0% in 2006 due to consistent growth in both the debt service payments and total operating expenses.

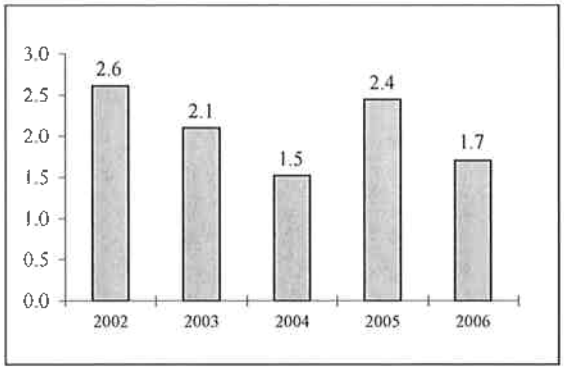
Debt Service Coverage Ratio - UT Pan American's debt service coverage ratio also remained unchanged at 1.8x in 2006 due to consistent growth in debt service payments and total operating revenues.

Full-Time Equivalent (FTE) Student Enrollment - At UT Pan American, the headcount enrollment from Fall 2005 to Fall 2006 increased 1.7%; however, the FTE student enrollment increased 3.23% to 13,202. Student advisement has improved due to a new student advisement process which started in the Fall of 2005. As a result, undergraduate students are taking increased semester credit hour loads to ensure timely graduation. Also, UT Pan American instituted a required minimum ACT score, which is attracting higher caliber students to the university.

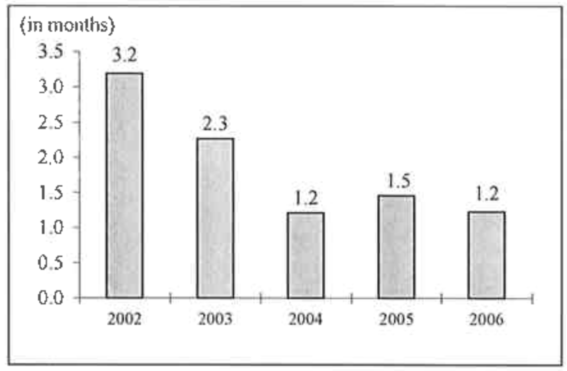
The University of Texas of the Permian Basin
2006 Summary of Financial Condition

Financial Condition: **Watch**

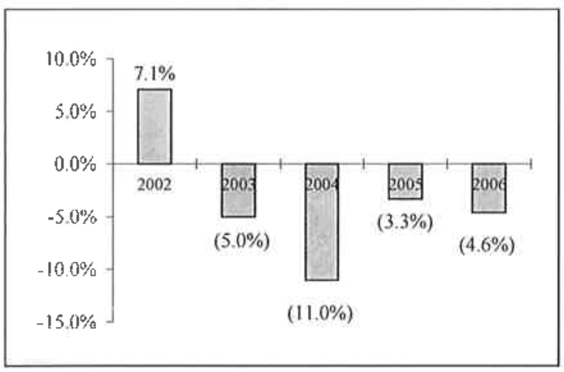
Composite Financial Index



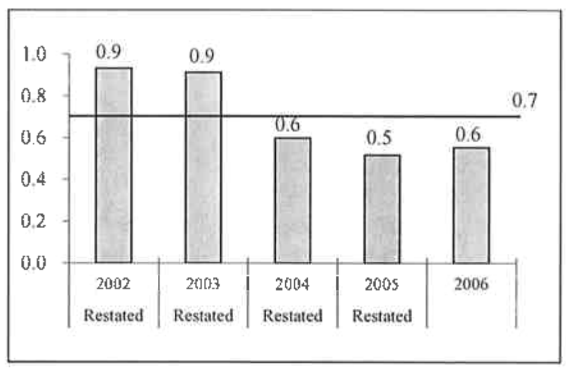
Operating Expense Coverage Ratio



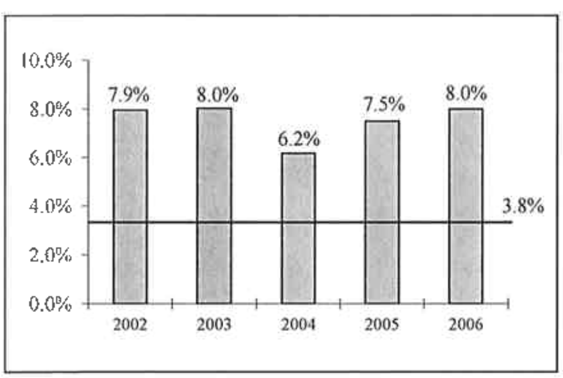
Annual Operating Margin Ratio



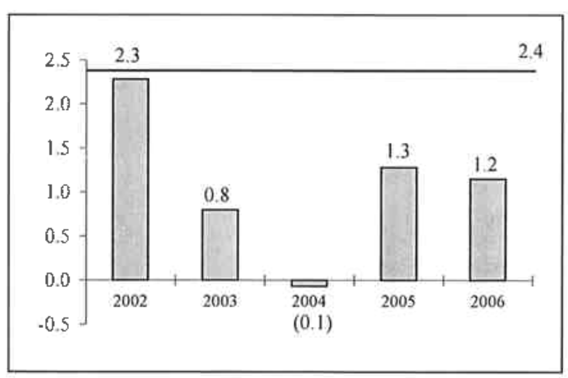
Expendable Resources to Debt Ratio



Debt Burden Ratio

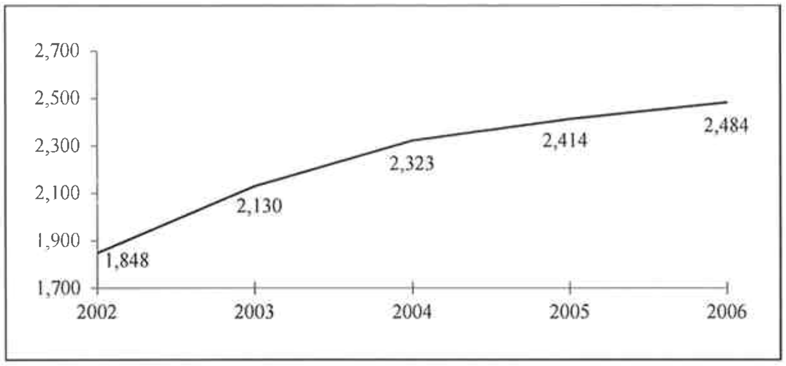


Debt Service Coverage Ratio



The University of Texas of the Permian Basin
2006 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT Permian Basin's CFI has varied over the past five years. The decline in the CFI in 2006 was related to the decrease in the return on net assets ratio and the decrease in the operating margin discussed below.

Operating Expense Coverage Ratio - UT Permian Basin's operating expense coverage ratio decreased from 1.5 months in 2005 to 1.2 months in 2006 due to a $5.8 million increase in total operating expenses. Total operating expenses increased primarily due to the following: a $1.5 million increase in salaries and wages and a $374,000 increase in payroll related costs as a result of hiring additional faculty to accommodate enrollment increases; a $1.3 million increase in professional fees and services attributable to the High-Temperature Teaching and Test Reactor (HT3R) pre-conceptual design phase and expenses related to the Hispanic-Serving Institute grant; an $880,000 increase in depreciation expense due to the addition of the Student housing Phase II and III at the end of 2005 and the completion of the addition to the Mesa building; a $512,000 increase in scholarships and fellowships resulting from increased tuition set-asides.

Annual Operating Margin Ratio - UT Permian Basin's annual operating margin ratio declined from (3.3%) for 2005 to (4.6%) for 2006 due to the growth in total operating expenses of $5.8 million outpacing the growth in total operating revenues of $5.2 million. Total operating expenses increased due to the factors discussed above. In 2006 UT Permian Basin received $3.0 million in gifts for operations for the HT3R, of which only $1.1 million was expended. The remaining $1.9 million will be expended in 2007 without any corresponding revenues.

Expendable Resources to Debt Ratio - UT Permian Basin's expendable resources to debt ratio increased slightly from 0.5x in 2005 to 0.6x in 2006 as a result of a reduction in the amount of debt outstanding.

Debt Burden Ratio - UT Permian Basin's debt burden ratio increased from 7.5% in 2005 to 8.0% in 2006 due to an increase of $592,000 in debt service payments.

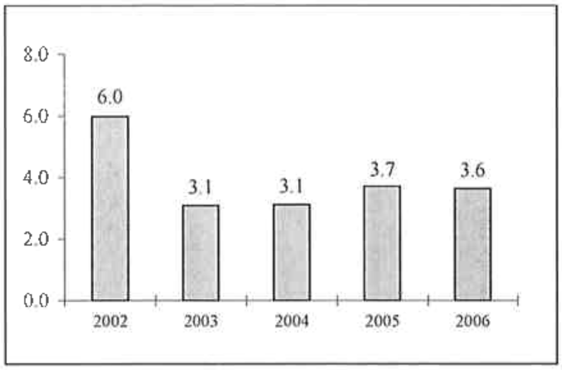
Debt Service Coverage Ratio - UT Permian Basin's debt service coverage ratio of 1.2x in 2006 was slightly lower than the 2005 ratio of 1.3x due to the decreased margin and increase in debt service payments.

Full-Time Equivalent (FTE) Student Enrollment - UT Permian Basin's FTE student enrollment increased from 2,414 in fall 2005 to 2,484 in fall 2006 or an increase of 2.9%. The lower rate of increase reflects the exceptional Permian Basin oil industry demand and high wages for oil field workers.

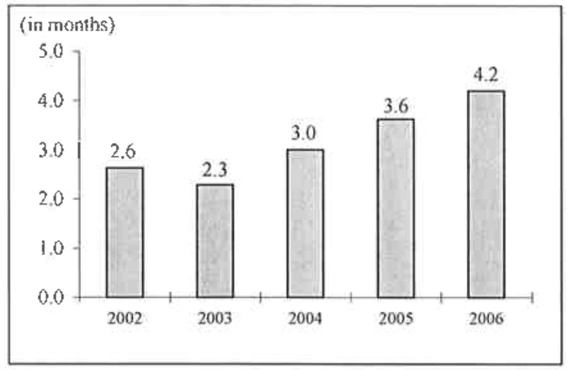
The University of Texas at San Antonio
2006 Summary of Financial Condition

Financial Condition: **Satisfactory**

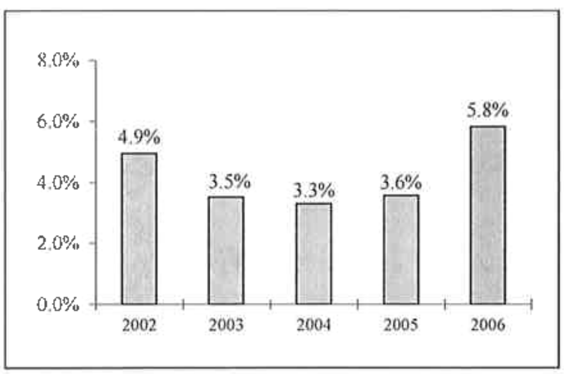
Composite Financial Index



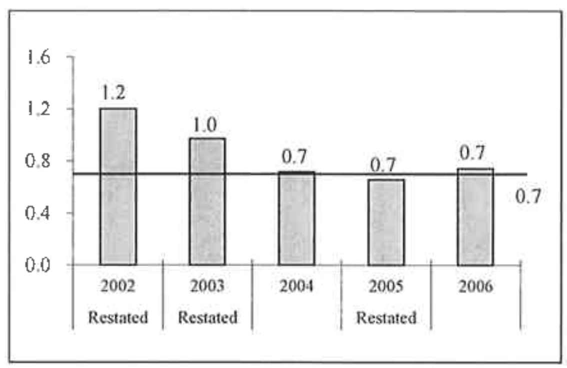
Operating Expense Coverage Ratio



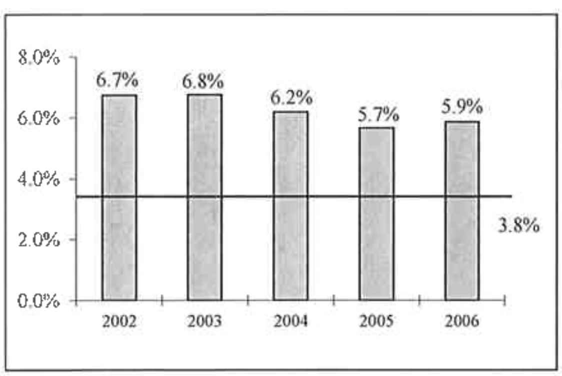
Annual Operating Margin Ratio



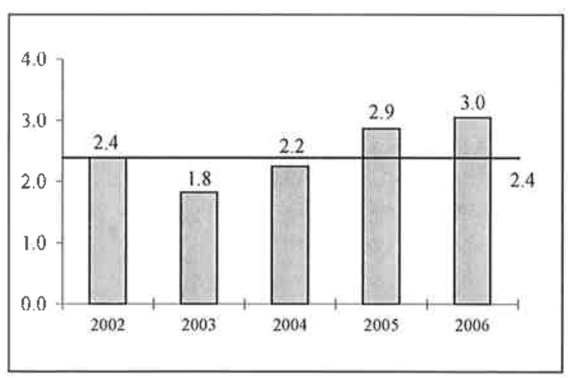
Expendable Resources to Debt Ratio



Debt Burden Ratio

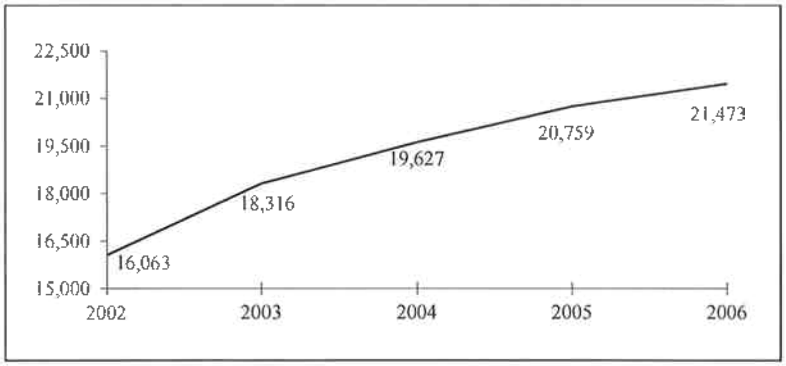


Debt Service Coverage Ratio



The University of Texas at San Antonio
2006 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT San Antonio's CFI remained relatively stable in 2006 largely as a result of the strong operating performance discussed below.

Operating Expense Coverage Ratio - UT San Antonio's operating expense coverage ratio increased from 3.6 months in 2005 to 4.2 months in 2006 due to a $22.5 million increase in total unrestricted net assets. Total unrestricted net assets increased primarily due to a $15.6 million increase in State appropriations as a result of enrollment increases, and a $7.7 million increase in net tuition and fees attributable to enrollment growth and rate increases.

Annual Operating Margin Ratio - UT San Antonio's annual operating margin ratio increased significantly from 3.6% for 2005 to 5.8% for 2006 due to an increase in total operating revenues of $34.7 million as compared to an increase in total operating expenses of $26.2 million. In addition to the revenue increases noted above, sponsored program revenues increased $8.8 million as a result of an increase in the Texas Grant program and other contracts and grants, as well as an increase in indirect cost recoveries. Total expenses primarily increased as a result of the following: a $15.6 million increase in salaries and wages and a $5.4 million increase in payroll related costs attributable to new faculty positions needed to accommodate enrollment growth, merit increases, and higher group insurance premiums; and a $2.7 million increase in utilities due to rate increases and new buildings placed into service such as the Monterrey building, Dining Hall, Tobin Lab, and Biotechnology, Sciences and Engineering building.

Expendable Resources to Debt Ratio - UT San Antonio's expendable resources to debt ratio remained constant at 0.7x primarily due to the increase in unrestricted net assets discussed above, as well as a $16.0 million increase in expendable net assets restricted for capital projects keeping pace with the increase in outstanding debt.

Debt Burden Ratio - UT San Antonio's debt burden ratio of 5.9% in 2006 was slightly higher than the 2005 ratio of 5.7% due to an increase in debt service payments.

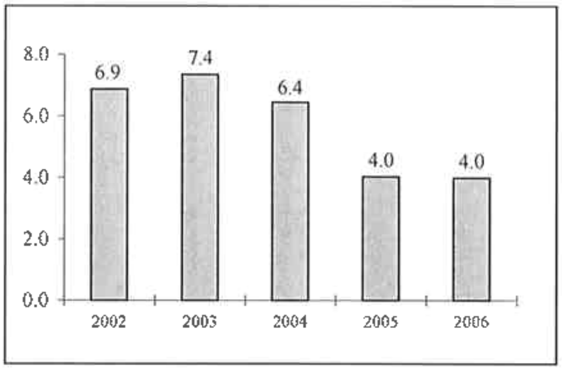
Debt Service Coverage Ratio - UT San Antonio's debt service coverage ratio changed slightly from 2.9x in 2005 to 3.0x in 2006 as a result of the increase in the annual operating margin previously discussed.

Full-Time Equivalent (FTE) Student Enrollment - UT San Antonio's FTE student enrollment continued to increase in 2006. Enrollment increases are attributable to improved recruitment and retention efforts, increases in graduate programs, and enrollment caps at other universities such as UT Austin.

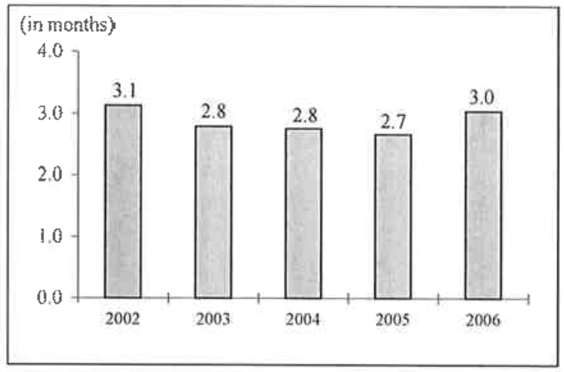
The University of Texas at Tyler
2006 Summary of Financial Condition

Financial Condition: **Satisfactory**

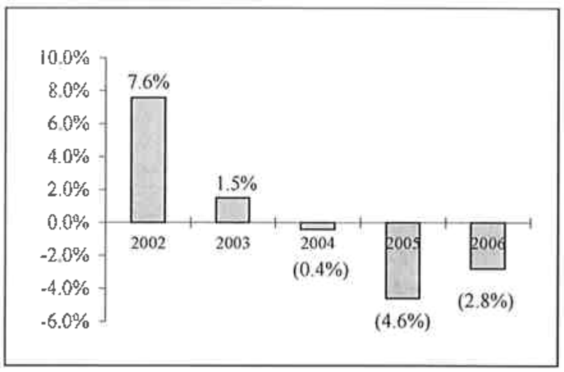
Composite Financial Index



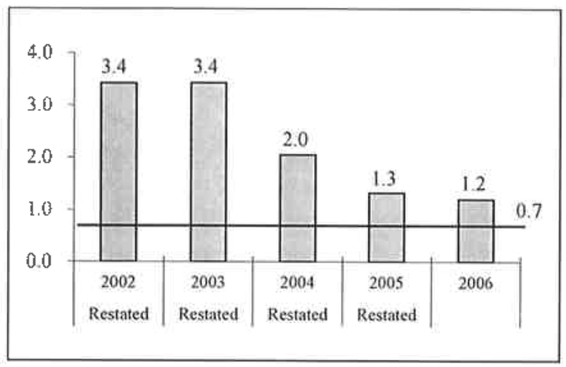
Operating Expense Coverage Ratio



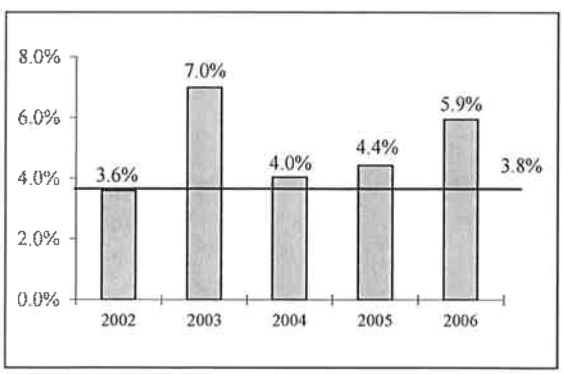
Annual Operating Margin Ratio



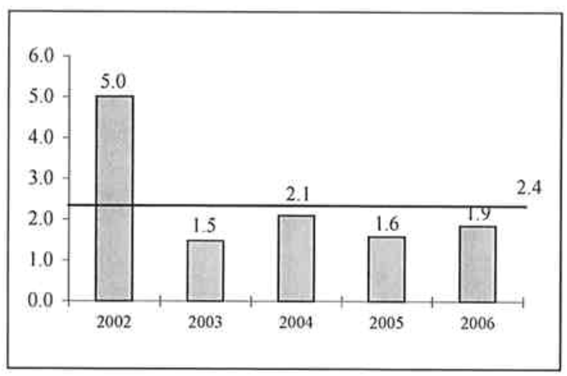
Expendable Resources to Debt Ratio



Debt Burden Ratio

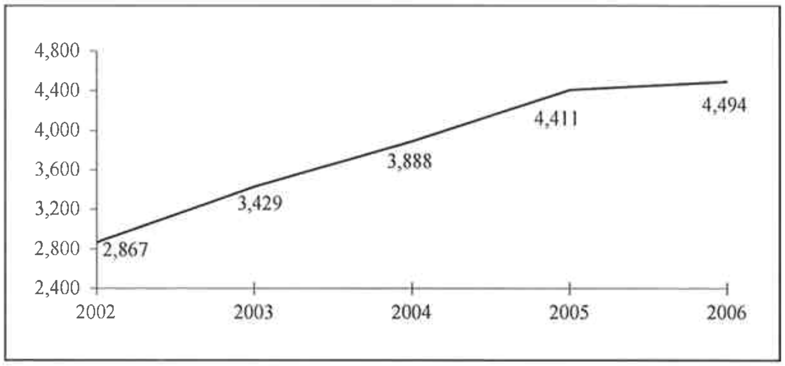


Debt Service Coverage Ratio



The University of Texas at Tyler
2006 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT Tyler's CFI remained stable at 4.0 in 2006.

Operating Expense Coverage Ratio - UT Tyler's operating expense coverage ratio increased from 2.7 months in 2005 to 3.0 months in 2006 as a result of an increase in total unrestricted net assets of $3.9 million. Total unrestricted net assets increased primarily due to a $4.3 million increase in State appropriations and $3.4 million increase in net tuition and fees attributable to enrollment growth and rate increases. State appropriations increased as a result of enrollment growth and increased appropriations for insurance and other staff benefits.

Annual Operating Margin Ratio - UT Tyler's annual operating margin ratio improved from (4.6%) for 2005 to (2.8%) for 2006. The improvement in this ratio was due to the growth in total operating revenues of $9.2 million outpacing the growth in total operating expenses of $8.4 million. Revenues increased as a result of the increase in net tuition and fees and State appropriations discussed above. Expenses increased primarily due to the following: a $3.1 million increase in salaries and wages and a $1.0 million increase in payroll related costs resulting from an increase of 30 full-time equivalents and higher group insurance premiums; a $1.2 million increase in depreciation expense largely due to the completion of the Ornelas Residence Hall, the North Power Plant and the Ratliff Engineering and Sciences Complex; and a $948,000 increase in materials and supplies primarily attributable to the furnishing of the Ratliff Engineering and Sciences Complex and the Ornelas Residence Hall.

Expendable Resources to Debt Ratio - UT Tyler's expendable resources to debt ratio decreased slightly from 1.3x in 2005 to 1.2x in 2006 as a result of an increase in the amount of debt outstanding due to the issuance of debt for the Student Dormitory and Academic Excellence Center and the University Center Renovation and Expansion Phase I.

Debt Burden Ratio - UT Tyler's debt burden ratio increased from 4.4% in 2005 to 5.9% in 2006 due to an increase of $1.3 million in debt service payments.

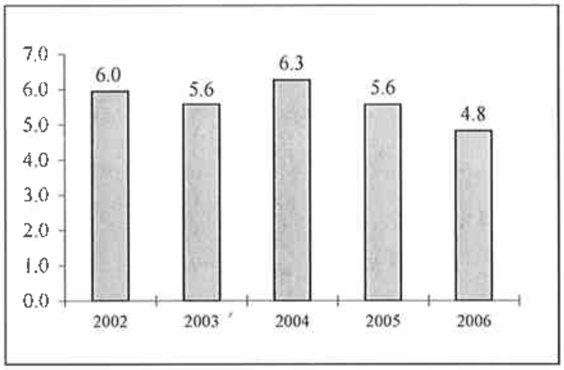
Debt Service Coverage Ratio - UT Tyler's debt service coverage ratio increased from 1.6x in 2005 to 1.9x in 2006 as a result of the improvement in the annual operating margin as noted above, as well as the increase in depreciation expense, which is excluded from operating expenses in the calculation of this ratio.

Full-Time Equivalent (FTE) Student Enrollment - UT Tyler's FTE student enrollment increased slightly from 4,411 to 4,494. For the past six years, UT Tyler has experienced record enrollment figures, and fall 2006 marks the seventh consecutive year.

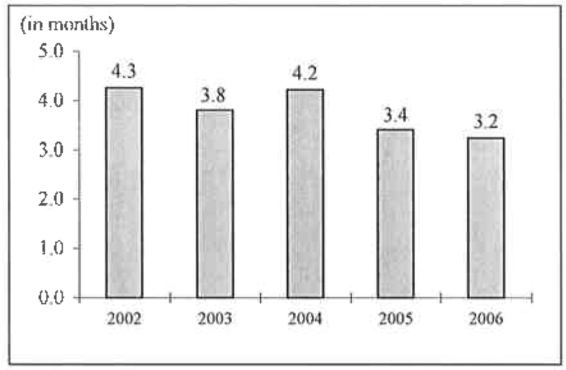
The University of Texas Southwestern Medical Center at Dallas
2006 Summary of Financial Condition

Financial Condition: **Satisfactory**

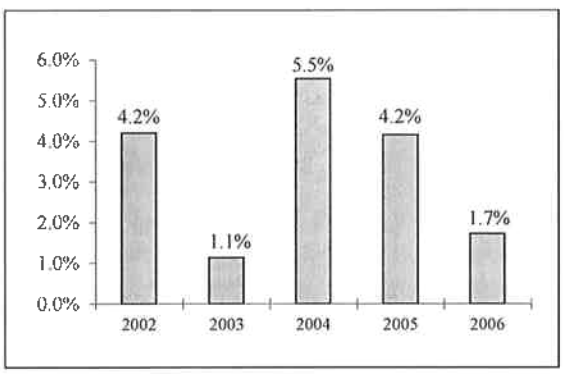
Composite Financial Index



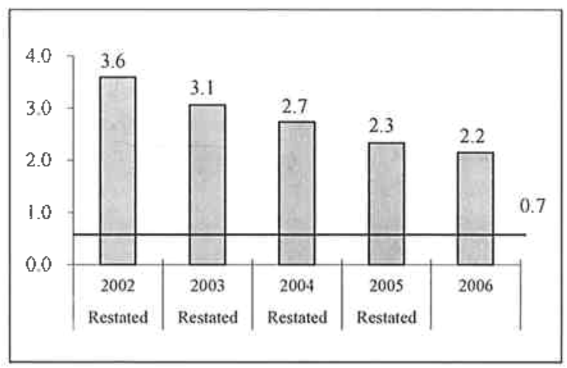
Operating Expense Coverage Ratio



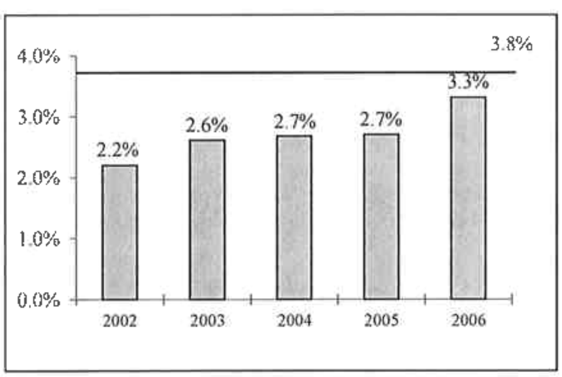
Annual Operating Margin Ratio



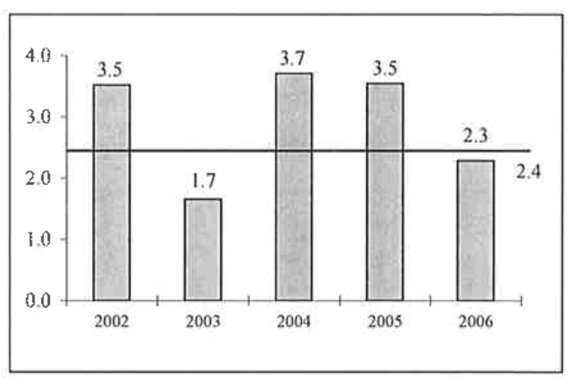
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Southwestern Medical Center at Dallas 2006 Summary of Financial Condition

Composite Financial Index (CFI) - UT Southwestern Medical Center - Dallas' (Southwestern) CFI has decreased over the last two years. The decrease in the CFI was largely attributable to the decline in Southwestern's net operating results and an increase in the amount of debt outstanding, both of which are discussed below.

Operating Expense Coverage Ratio - Southwestern's operating expense coverage ratio decreased slightly from 3.4 months in 2005 to 3.2 months in 2006 primarily as a result of an increase in total operating expenses of $164.8 million. Expenses increased largely due to the first full year of expenses for UT Southwestern Medical Center University Hospital (University Hospital) which was acquired on January 1, 2005. Salaries and wages and payroll related costs also increased due to regularly scheduled pay increases and an increase in full-time equivalent employees (FTEs) to meet growth in patient volumes and medical director staffing at University Hospital. Higher costs for energy, as well as increased usage associated with occupancy of the North Campus IV research building contributed to the increase in utilities. The completion of the North Campus IV research building and the associated expansion of the North Campus Thermal Energy plant caused an increase in depreciation expense. Interest expense increased not only due to the acquisition of University Hospital, but also due to the North Campus IV expansion project, the Outpatient Building and the Laboratory and Research Support Building.

Annual Operating Margin Ratio - Southwestern's annual operating margin ratio decreased from 4.2% for 2005 to 1.7% for 2006 due to growth in total operating expenses of $164.8 million, discussed above, outpacing the growth in total operating revenues of $140.2 million. Revenues increased as a result of the following: sales and services of hospitals increased $99.4 million due to the acquisition of University Hospital; professional fees increased $8.7 million as a result of higher patient volumes and rate increases; State appropriations increased $34.6 million due to enrollment increases, special item funding for the Metroplex Imaging Center and Center for Sickle Cell Treatment and Research, and increased tuition revenue bond debt service funding; local sponsored program revenue increased $20.1 million largely as a result of an increase in contracts with Parkland Hospital; and private sponsored program revenue increased $8.6 million substantially due to support for cardiovascular research from the Reynolds Foundation.

Expendable Resources to Debt Ratio - Southwestern's expendable resources to debt ratio changed slightly from 2.3x in 2005 to 2.2x in 2006 due to an increase in the amount of debt outstanding. The increase in the amount of debt outstanding was primarily related to the North Campus Phase IV, Advanced Imaging, Laboratory Research and Support Building and Outpatient Building projects.

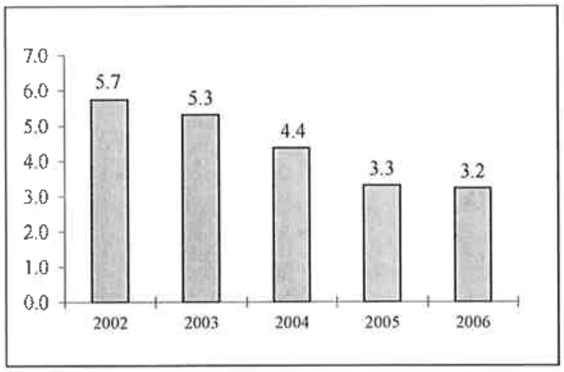
Debt Burden Ratio - Southwestern's debt burden ratio increased from 2.7% in 2005 to 3.3% in 2006. The increase in this ratio was attributable to the increase in debt service payments.

Debt Service Coverage Ratio - Southwestern's debt service coverage ratio decreased from 3.5x in 2005 to 2.3x in 2006 due to the decline in the annual operating margin and increase in debt service payments previously discussed.

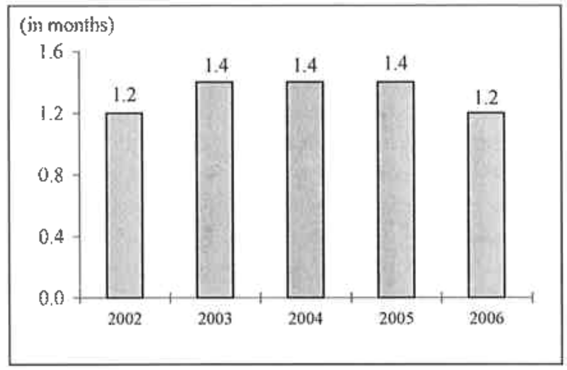
The University of Texas Medical Branch at Galveston
2006 Summary of Financial Condition

Financial Condition: **Watch**

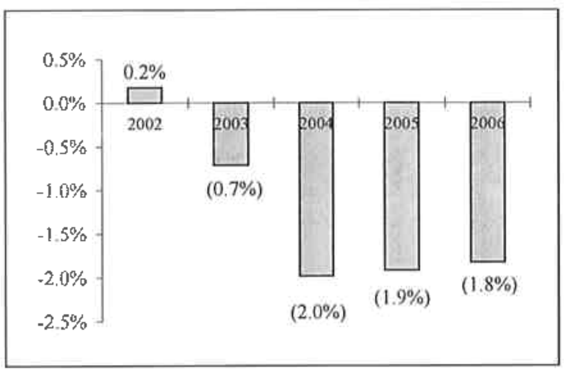
Composite Financial Index



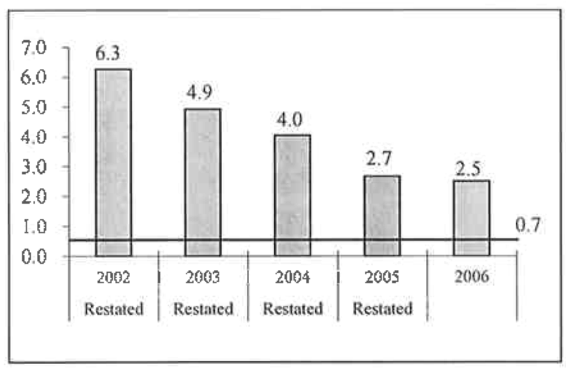
Operating Expense Coverage Ratio



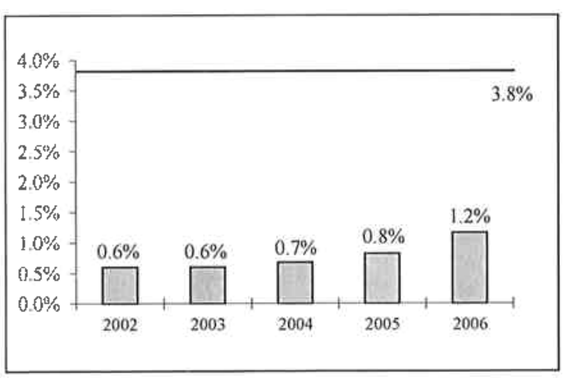
Annual Operating Margin Ratio



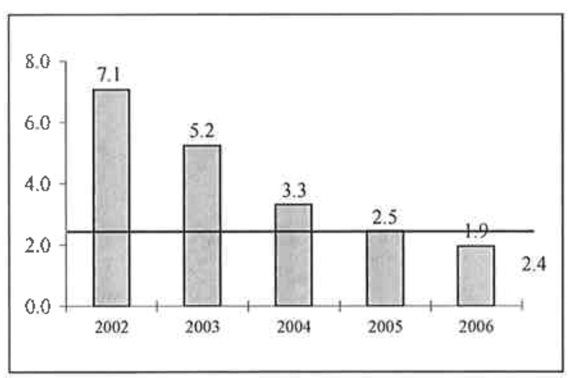
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Medical Branch at Galveston
2006 Summary of Financial Condition

Composite Financial Index (CFI) - UT Medical Branch - Galveston's (UTMB) CFI has trended downward over the past five years. The slight decrease in the CFI from 3.3 in 2005 to 3.2 in 2006 was the result of an increase in the amount of debt outstanding associated with the capital projects discussed in the expendable resources to debt ratio below.

Operating Expense Coverage Ratio - UTMB's operating expense coverage ratio decreased from 1.4 months in 2005 to 1.2 months in 2006 primarily due to a decrease in total unrestricted net assets of $17.9 million and an increase in total operating expenses. The increase in total operating expenses of $16.4 million was largely due to the following: an increase in salaries and wages attributable to annual salary increases; an increase in utilities resulting from higher rates; an increase in rentals and leases primarily due to an increase in leased space for the Austin Initiative, rate increases and new equipment leases; and an increase in repairs and maintenance largely attributable to repair costs associated with Hurricane *Rita,* as well as increased software and hardware maintenance expenses.

Annual Operating Margin Ratio - UTMB's annual operating margin ratio improved slightly from (1.9%) for 2005 to (1.8%) for 2006. As discussed above, UTMB's total operating expenses increased $16.4 million; however, total operating revenues increased $17.4 million thereby causing a small improvement in the annual operating margin. Total operating revenues increased largely due to increased State appropriations, growth in research related revenue, an increase in professional fees resulting from the opening of the OB-GYN and Internal Medicine clinics in July 2005 as part of the Austin Initiative, and revenue received from Seton Hospital in Austin for the services rendered by UTMB personnel. As a result of Hurricane *Rita,* UTMB had its first full evacuation in the institution's 114 year history. More than 700 patients were discharged and evacuated from UTMB hospitals, and all students and non-essential personnel were released in the days leading up to the storm. UTMB provided 1,860 patient care encounters from the local area. UTMB had an enormous challenge to overcome the decline in patient care revenue due to the impact of Hurricane *Rita.* However, the hospital and clinics' financial improvement plan implemented in 2006 was a major factor in offsetting this reduction in revenue.

The Navigant Consulting Group assisted UTMB's management in developing a three-year plan to improve operating performance. The first year of the three-year plan will focus on cost reductions with the last two years focusing on revenue enhancement initiatives. UTMB's management created a Strategic Executive Council to integrate cost-cutting and revenue enhancement strategies, resolve conflicts, allocate resources and provide strategic direction for UTMB. One of the cost-cutting measures implemented was a reduction in force of 351 full-time employees which began on September 9, 2006. In 2007, UTMB expects to have an adjusted operating margin of $10 million.

Expendable Resources to Debt Ratio - UTMB's expendable resources to debt ratio changed slightly from 2.7x in 2005 to 2.5x in 2006. The small decrease in this ratio was largely the result of an increase in the amount of debt outstanding. The increase in the amount of debt outstanding primarily related to the Research Facilities Expansion and the University Plaza Development project.

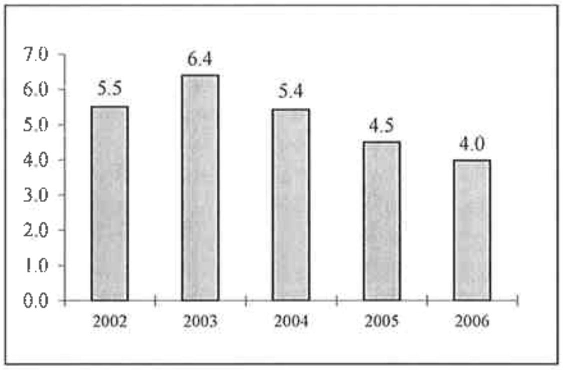
Debt Burden Ratio - UTMB's debt burden ratio increased from 0.8% in 2005 to 1.2% in 2006 due to an increase in debt service to support the projects discussed above. UTMB's debt burden ratio still remains extremely low.

Debt Service Coverage Ratio - UTMB's debt service coverage ratio declined from 2.5x in 2005 to 1.9x in 2006 as a result of the increase in debt service previously discussed.

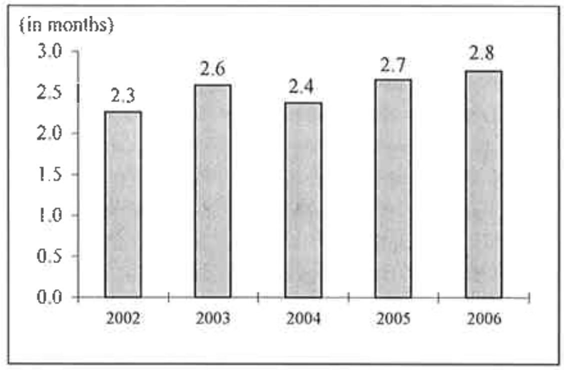
The University of Texas Health Science Center at Houston
2006 Summary of Financial Condition

Financial Condition: **Satisfactory**

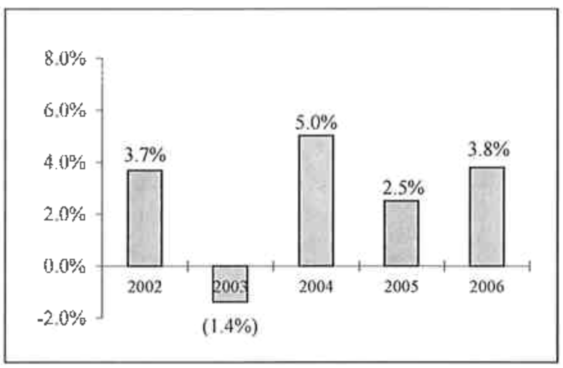
Composite Financial Index



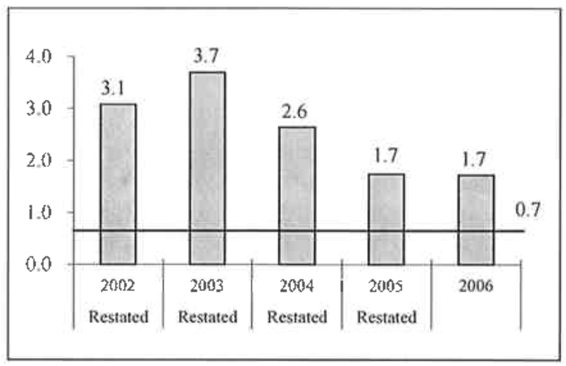
Operating Expense Coverage Ratio



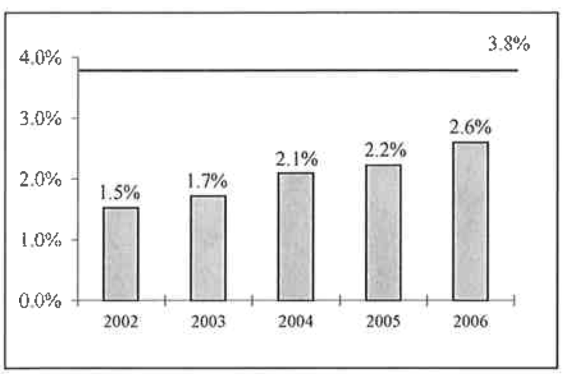
Annual Operating Margin Ratio



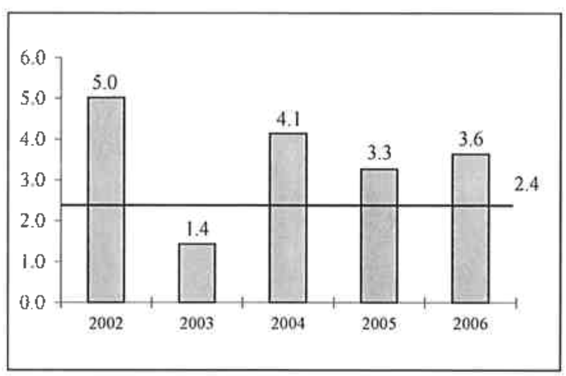
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Health Science Center at Houston
2006 Summary of Financial Condition

Composite Financial Index (CFI) - UT Health Science Center - Houston's (UTHSC-Houston) CFI has trended downward since 2003. The decrease in the CFI from 4.5 in 2005 to 4.0 in 2006 was primarily due to a reduced return on net assets ratio as a result of the completion of the new Institute of Molecular Medicine (IMM) Research building, as well as the increase in debt in the latter part of 2005.

Operating Expense Coverage Ratio - UTHSC-Houston's operating expense coverage ratio increased slightly from 2.7 months in 2005 to 2.8 months in 2006 as a result of an increase in total unrestricted net assets of $15.9 million. The increase in total unrestricted net assets was driven by the following: State appropriations increased $7.2 million due to enrollment increases, heart and stroke special item funding, increased graduate medical education costs and increased tuition revenue bond debt service funding for Tropical Storm *Allison* related construction; a $5.4 million increase in net sales and services of educational activities primarily due to Gulf States Hemophilia Center's sale of the blood clotting factor; a $3.6 million increase in net tuition and fees resulting from enrollment increases in the Medical and Dental Schools; and a $2.6 million increase in net auxiliary enterprises revenue generated from the new student apartments and UT Professional Building and parking garage.

Annual Operating Margin Ratio - UTHSC-Houston's annual operating margin ratio increased from 2.5% for 2005 to 3.8% for 2006 due to the growth in total operating revenues of $56.5 million outpacing the growth in total operating expenses of $46.3 million. In addition to the factors mentioned above, total operating revenues increased as a result of the following: an overall increase in sponsored program revenue of $23.8 million largely due to an increase in the practice plan's contracts with Memorial Hermann Hospital and the Harris County Hospital District, an increase in awards from the Texas Education Agency for the Developmental Pediatrics program, and new funding received from the Department of State Health Services; an increase of $3.5 million in investment income (excluding realized gains and losses); and an increase of $3.2 million in gifts for operations related to the IMM Research building and the recruitment of faculty.

Total operating expenses increased primarily due to the following: a $14.1 million increase in salaries and wages and a $2.4 million increase in payroll related costs resulting from merit increases of up to 5%, faculty promotion through rank and the recruitment of faculty whose positions had been budgeted but remained unfilled in the previous year; a $7.6 million increase in depreciation expense attributable to new student apartments which were completed in July 2005, the completion of the IMM Research building and the completion of capital improvements to the Medical School necessitated by Tropical Storm *Allison;* a $5.9 million increase in materials and supplies mostly due to computer replacements and non-capitalized equipment additions; a $4.1 million increase in professional fees and services attributable to additional Pediatric Development - CARS contracts with the Texas Department of Education; a $3.5 million increase in costs of goods sold primarily related to Gulf States Hemophilia Center; a $3.4 million increase in repairs and maintenance resulting from additional operating costs of the UT Professional Building and Garage; and a $3.0 million increase in utilities largely due to the new IMM Research building.

Expendable Resources to Debt Ratio - UTHSC-Houston's expendable resources to debt ratio remained at 1.7x in 2006. The stability of this ratio was due to a reduction in expendable net assets, which was partially offset by a decrease in the amount of debt outstanding as compared to 2005. Expendable net assets restricted for capital projects decreased by $42.4 million as a result of the completion of the capital projects mentioned above.

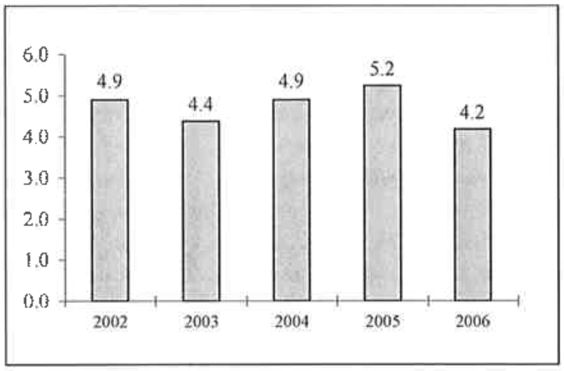
Debt Burden Ratio - UTHSC-Houston's debt burden ratio increased from 2.2% in 2005 to 2.6% in 2006 as a result of an increase in debt service payments of $3.5 million related to the projects discussed above.

Debt Service Coverage Ratio - UTHSC-Houston's debt service coverage ratio increased from 3.3x in 2005 to 3.6x in 2006 due to the improvement in the annual operating margin previously discussed.

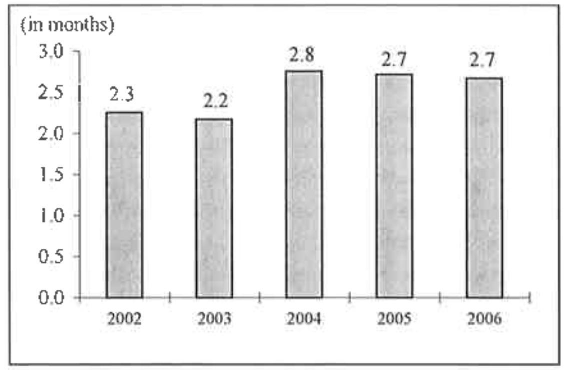
The University of Texas Health Science Center at San Antonio
2006 Summary of Financial Condition

Financial Condition: **Satisfactory**

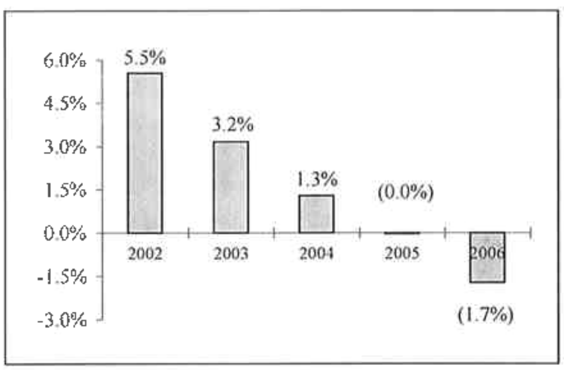
Composite Financial Index



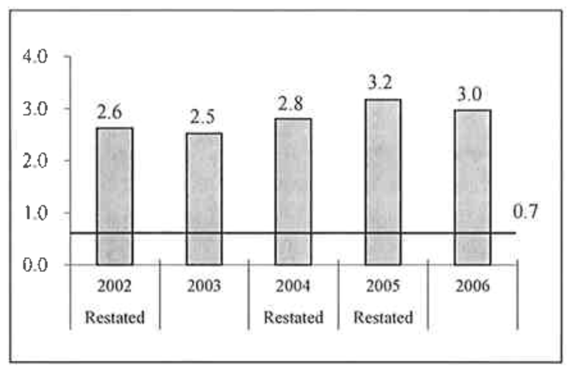
Operating Expense Coverage Ratio



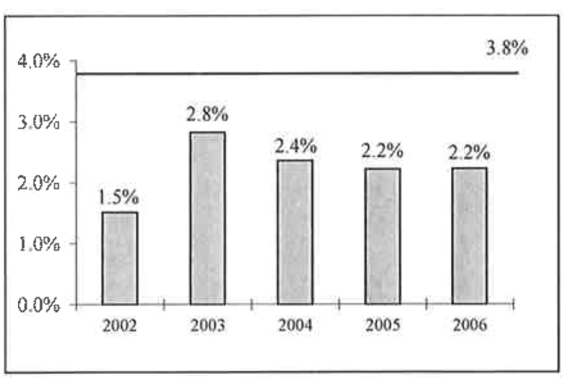
Annual Operating Margin Ratio



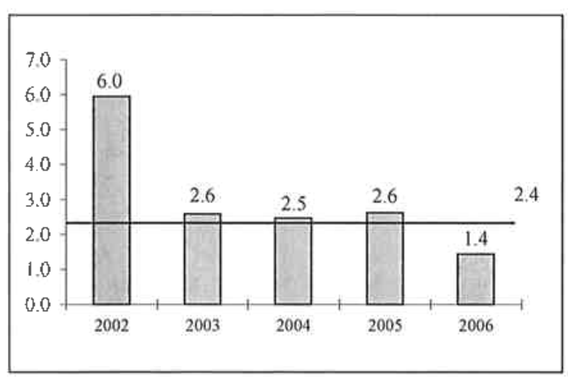
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Health Science Center at San Antonio
2006 Summary of Financial Condition

Composite Financial Index (CFI) - UT Health Science Center - San Antonio's (UTHSC-San Antonio) CFI declined from 5.2 in 2005 to 4.2 in 2006. The decrease in the CFI was due to a decreased return on net assets, increase in the amount of debt outstanding, and decrease in operating results discussed below.

Operating Expense Coverage Ratio - UTHSC-San Antonio's operating expense coverage ratio remained unchanged at 2.7 months in 2006. The stability of this ratio was due to the $6.4 million increase in total unrestricted net assets offsetting the $38.3 million increase in total operating expenses. The increase in total operating expenses was primarily due to the following: a $19.5 million increase in salaries and wages and a $5.0 million increase in payroll related costs attributable to annual salary increases, higher group insurance premiums, and strategic investments of net assets for clinical operations and research initiatives; a $6.5 million increase in utilities largely due to higher rates and increased occupancy at the Children's Cancer Research Institute (CCRI), the Regional Academic Health Center (RAHC) campus in Edinburg, and the Sam and Ann Barshop Institute for Longevity and Aging Studies (Barshop Institute); a $2.0 million increase in depreciation expense due to the RAHC campuses, the Academic and Administration building, and the Barshop Institute, which were placed into service during 2005; and a $1.9 million increase in materials and supplies primarily related to the purchase of non-capitalized furniture and equipment for the CCRI and the RAHC's new research division in Edinburg. In addition, research programs such as CCRI, RAHC, the San Antonio Cancer Institute (SACI), and the San Antonio Life Sciences Institute (SALSI) are experiencing growth and maturity from start-up funding received in prior years. CCRI receives $9.4 million annually in appropriated tobacco endowment distributions and has accumulated $18.3 million of net assets since 2000. RAHC has accumulated $2.6 million from tobacco endowment distributions since 2000, and SALSI has accumulated $2.5 million since 2004. Expenses for these initiatives for which there is no 2006 revenue stream amounted to $1.7 million, while $1.3 million for SACI and other institutional research activities was funded from prior year revenues.

Annual Operating Margin Ratio - UTHSC-San Antonio's annual operating margin ratio declined from breakeven in 2005 to (1.7%) in 2006 as a result of the growth in total operating expenses of $38.3 million exceeding the growth in total operating revenues of $29.3 million. The increase in total operating revenues was driven by the following: an $8.7 million increase in investment income (excluding realized gains and losses); a $7.6 million increase in State appropriations as a result of enrollment growth, increased state paid benefits and $1.5 million for the Laredo Extension campus; a $6.2 million increase in net professional fees due to increased patient volume and continued collection efficiencies; and a $3.6 million increase in net sales and services of educational activities primarily related to services provided by the South Texas Comprehensive Hemophilia Center Pharmacy. Total operating expenses increased due to the factors noted above.

Expendable Resources to Debt Ratio - UTHSC-San Antonio's expendable resources to debt ratio decreased from 3.2x in 2005 to 3.0x in 2006 due to the increase in the amount of debt outstanding. The increase in the debt outstanding primarily related to debt issued for the Medical Arts Research Center, the RAHC Teaching and Learning Lab, and newly approved Tuition Revenue Bonds for the South Texas Research Facility.

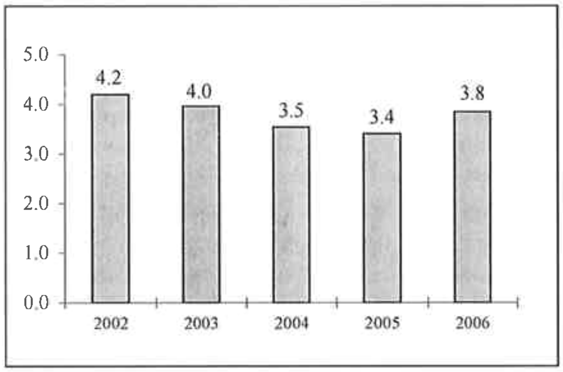
Debt Burden Ratio - UTHSC-San Antonio's debt burden ratio remained at 2.2% in 2006. This ratio remained unchanged with increases in both the debt service payments and the operating expenses as previously discussed.

Debt Service Coverage Ratio - UTHSC-San Antonio's debt service coverage ratio decreased from 2.6x in 2005 to 1.4x in 2006 as a result of the decline in the annual operating margin and the increase in debt service payments due to strategic investments of net assets for clinical operations and research initiatives.

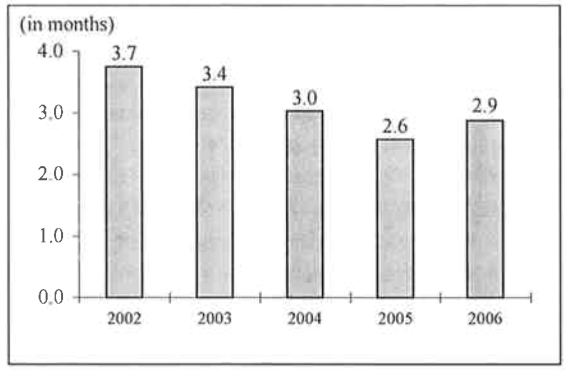
The University of Texas M. D. Anderson Cancer Center
2006 Summary of Financial Condition

Financial Condition: **Satisfactory**

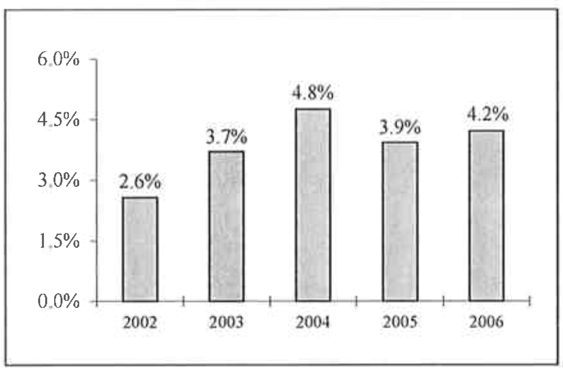
Composite Financial Index



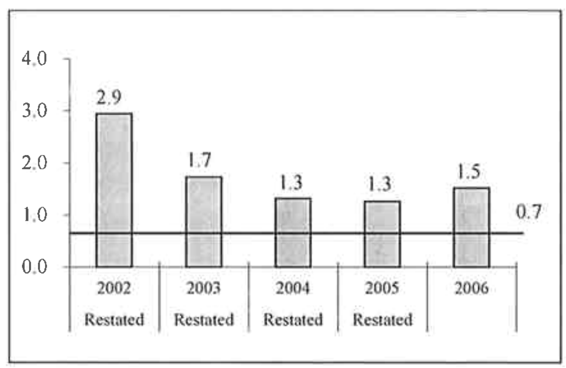
Operating Expense Coverage Ratio



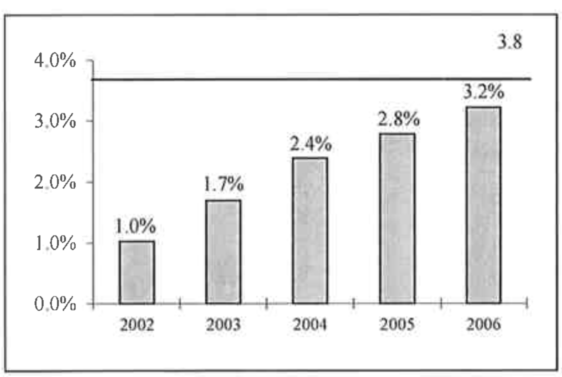
Annual Operating Margin Ratio



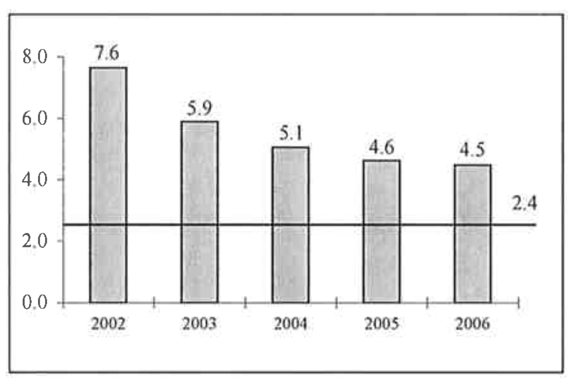
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas M. D. Anderson Cancer Center
2006 Summary of Financial Condition

Composite Financial Index (CFI) - UT M. D. Anderson Cancer Center's (M. D. Anderson) CFI increased from 3.4 in 2005 to 3.8 in 2006 primarily due to an increase in both unrestricted net assets and expendable net assets as discussed below in the operating expense coverage and expendable resources to debt ratios.

Operating Expense Coverage Ratio - M. D. Anderson's operating expense coverage ratio increased from 2.6 months in 2005 to 2.9 months in 2006 due to an increase in total unrestricted net assets of $106 million. The growth in total unrestricted net assets was largely attributable to an increase in net sales and services of hospitals of $197.0 million resulting from increases in billable visits (20.8%), billed procedures (5.2%), surgery patients (6.5%) and bone marrow transplants (11.1%). In addition, with the Ambulatory Clinical Building (ACB) and Cancer Prevention Building (CPB) at their full year of operations after opening in 2005, the hospital experienced a 6.9% increase in average number of operating beds.

Annual Operating Margin Ratio - M. D. Anderson's annual operating margin ratio increased from 3.9% for 2005 to 4.2% for 2006 as a result of the growth in total operating revenues of $249.0 million exceeding the growth in total operating expenses of $232.6 million. In addition to the increase in net sales and services of hospitals mentioned above, the increase in total operating revenues was also driven by the following: an increase of $13.6 million in sponsored programs revenue due to the growth of M. D. Anderson and the continued focus on research; a $12.4 million increase in gifts for operations related to an increase in donor pledges for the South Campus Research Initiative; and a $12.1 million increase in State appropriations as a result of increased patient care activities funding, increased tuition revenue bond debt service funding, increased formula funding, and increased graduate medical education funding.

Total operating expenses increased primarily due to the following: an $81.6 million increase in salaries and wages and a $28.6 million increase in payroll related costs resulting from merit increases of 5.6% for faculty, 5.1% for administrative and 4.3% for classified employees, growth in full-time equivalents and higher group insurance premiums; a $38.4 million increase in depreciation expense attributable to additional software and equipment purchases, as well as the new ACB, CPB, Basic Science Research Building (BSRB) and South Campus II Research buildings; a $30.3 million increase in materials and supplies mainly due to an increase in patient drugs coupled with an increase in medical and laboratory supplies resulting from the increase in sales and services of hospital services; a $19.0 million increase in repairs and maintenance related to additional equipment, building and software repair, and maintenance contracts for the new buildings mentioned above; a $16.5 million increase in utilities primarily due to higher utility rates and an increase in usage associated with a full year of operations for the new buildings; and a $6.9 million increase in interest expense resulting from additional debt issued to support the buildings and equipment purchases.

Expendable Resources to Debt Ratio - M. D. Anderson's expendable resources to debt ratio of 1.5x in 2006 was an increase from the 2005 ratio of 1.3x. The increase in this ratio was largely attributable to the increase in unrestricted net assets, as discussed above, as well as an increase in expendable net assets, particularly those restricted for capital projects. The increase of $95.0 million in expendable net assets restricted for capital projects was primarily due to an increase in funding for the New Faculty Center Tower and the Braeswood Garage.

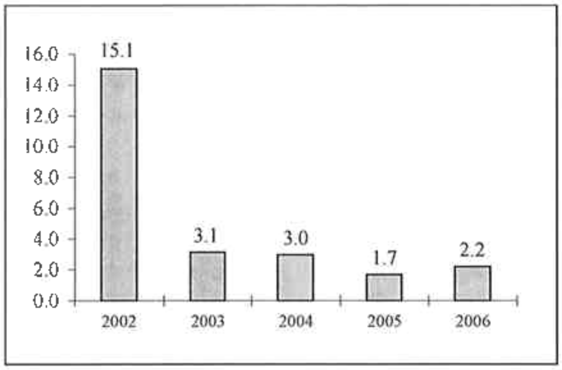
Debt Burden Ratio - M. D. Anderson's debt burden ratio increased from 2.8% in 2005 to 3.2% in 2006 as a result of an increase in debt service payments of $16.1 million.

Debt Service Coverage Ratio - M. D. Anderson's debt service coverage ratio changed slightly from 4.6x in 2005 to 4.5x in 2006. The small decrease in this ratio was attributable to the increase in debt service payments.

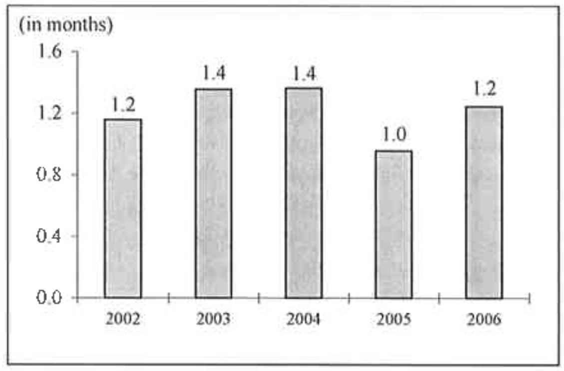
The University of Texas Health Center at Tyler
2006 Summary of Financial Condition

Financial Condition: **Watch**

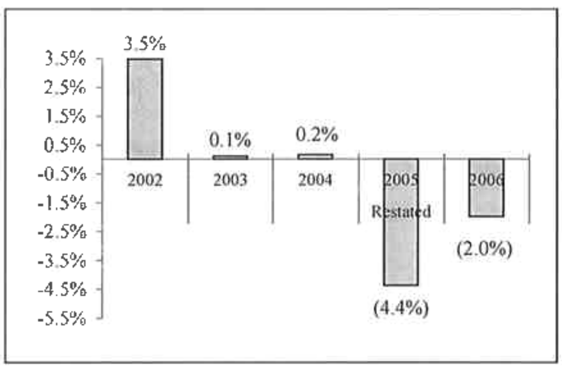
Composite Financial Index



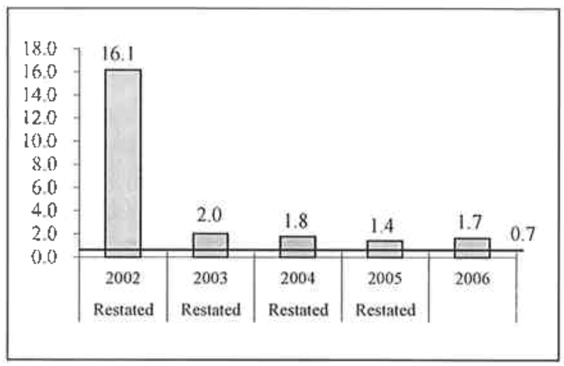
Operating Expense Coverage Ratio



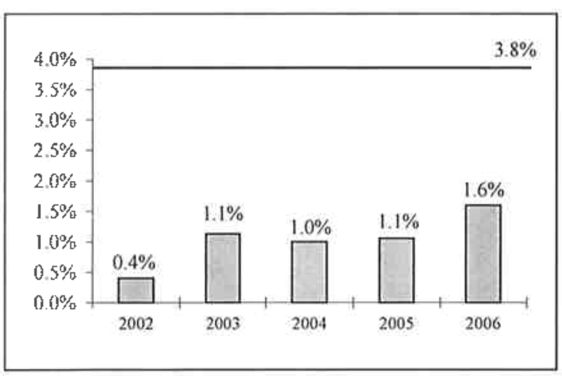
Annual Operating Margin Ratio



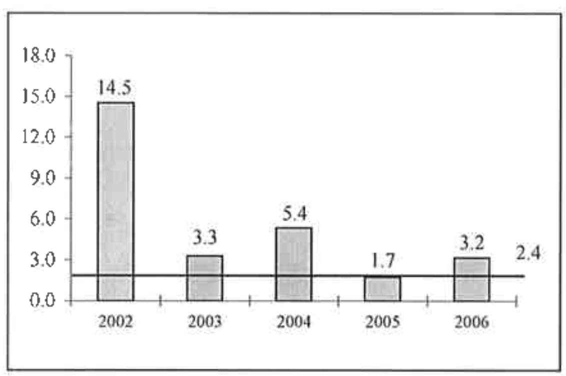
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Health Center at Tyler
2006 Summary of Financial Condition

Composite Financial Index (CFI) - UT Health Center - Tyler's (UTHC-Tyler) CFI improved from 1.7 in 2005 to 2.2 in 2006 due to the reduction in the operating deficit and the increase in both unrestricted and expendable net assets, all of which are discussed in further detail below.

Operating Expense Coverage Ratio - UTHC-Tyler's operating expense coverage ratio increased from 1.0 month in 2005 to 1.2 months in 2006 primarily due to a decrease of $5.0 million in total operating expenses. Total operating expenses decreased as a result of the three-year plan to improve the operating margin discussed below. During 2006, UTHC-Tyler implemented a reduction in force of 120 full-time employees which contributed to a decrease in salaries and wages of $1.9 million and payroll related costs of $367,000. In addition to the reduction in force, the practice plan implemented a new faculty incentive plan in 2006. Under the restructured plan, 70% of clinical faculty salaries are contingent upon physician productivity and practice plan earnings as compared to 20% under the previous plan. Another major cost reduction initiative implemented during 2006 was the indigent control plan. UTHC-Tyler's goal is to reduce indigent visits by 50% from 2005 levels. During the final quarter of 2006, indigent visits had decreased 45%. This represented savings in supplies, contract services and physician compensation. UTHC-Tyler is also aggressively reviewing potential overhead outsourcing opportunities.

Annual Operating Margin Ratio - UTHC-Tyler's annual operating margin ratio improved from (4.4%) for 2005 to (2.0%) for 2006. While total operating revenues decreased $2.0 million, total operating expenses decreased by $5.0 million which resulted in a smaller operating deficit for 2006. The Navigant Consulting Group helped UTHC-Tyler's management develop a three-year plan to improve operating margin. The three-year strategy will focus on cost reductions, affiliations and outreach. The overall decrease in total operating revenues was primarily due to a reduction in gifts for operations and decreased net sales and services of hospitals. In 2005, UTHC-Tyler received a $4.0 million one-time gift for the Center for Healthy Aging. Net sales and services of hospitals decreased as a result of decreases in clinic visits of 6%, inpatient days of 22%, and inpatient surgeries of 18%. The affiliations and outreach portions of the three-year strategy will improve operating revenue in future years. UTHC-Tyler is currently working with Navigant Consulting to solicit potential affiliations with local, state, and national healthcare organizations. In addition to affiliations, UTHC-Tyler is pursuing outreach programs aimed at its growing geriatric population. The Center for Healthy Aging is coordinating these outreach efforts with many community-wide assisted living centers.

The Northeast Texas Consortium (NetNet) is a network of K-12, Community Colleges, Universities, and Health Institutions linked together via a microwave transmission system. This system allows the sharing of classrooms, students, teachers, and professors throughout Northeast Texas to provide higher education to the diverse communities. The financial structure for NetNet rests within UTHC-Tyler's financial statements. Now that the network is complete, the $2 million per year in general appropriations is being completely consumed for operational purposes. An additional $2.1 million in expense is flowing to UTHC-Tyler's operating margin, which is primarily depreciation expense for the system. This amount constituted the majority of UTHC-Tyler's year-end loss. Over the next three years, NetNet will expense over $7.5 million in depreciation expense to UTHC-Tyler, without any revenue to offset these expenses. Efforts are underway to transfer NetNet from UTHC-Tyler to a more appropriate State agency.

Expendable Resources to Debt Ratio - UTHC-Tyler's expendable resources to debt ratio increased slightly from 1.4x in 2005 to 1.7x in 2006 primarily due to an increase in unrestricted net assets of $2.5 million and expendable net assets of $1.1 million. Unrestricted net assets increased due to an increase in State appropriations of $2.8 million. Other expendable net assets increased $1.0 million as a result of increased appreciation on endowments which is reported as expendable net assets.

Debt Burden Ratio - UTHC-Tyler's debt burden ratio increased from 1.1% in 2005 to 1.6% in 2006 due to an increase in debt service payments of $609,000 and the reduction in total operating expenses discussed above.

Debt Service Coverage Ratio - UTHC-Tyler's debt service coverage ratio increased from 1.7x in 2005 to 3.2x in 2006. The increase in this ratio was attributable to the improvement in the annual operating margin as discussed above and the exclusion of depreciation expense of $8.5 million for this ratio.

Appendix A - Definitions of Evaluation Factors

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

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

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

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

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

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

4. **Expendable Resources to Debt Ratio** – This ratio measures an institution's ability to fund outstanding debt with existing net asset balances should an emergency occur. *Moody's Investors Service* (*Moody's*) 2006 A2 median for this ratio is 0.7x.

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

5. **Debt Burden Ratio** – This ratio examines the institution's dependence on borrowed funds as a source of financing and the cost of borrowing relative to overall expenses. *Moody's* 2006 A2 median for this ratio is 3.8%.

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

6. **Debt Service Coverage Ratio** – This ratio measures the actual margin of protection provided to investors by annual operations. *Moody's* excludes actual investment income from its calculation of total operating revenue and instead, uses a normalized investment income of 4.5% of the prior year's ending total cash and investments. This is the calculation used by *Moody's*. Therefore, in order to be consistent with the Office of Finance's calculation of the debt service coverage ratio, we used normalized investment income as defined above for this ratio <u>only</u>. *Moody's* 2006 A2 median for this ratio is 2.4x.

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

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

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

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

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

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

Appendix A - Definitions of Evaluation Factors (Continued)

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

Satisfactory – an institution assigned this assessment exhibits a general history of relatively stable or increasing financial ratios. The CFI remains relatively stable within the trend period. However, the CFI can fluctuate depending upon the underlying factors contributing to the fluctuation with respect to the overall mission of an institution. The CFI must be analyzed in conjunction with the trends in the other ratios analyzed. The operating expense coverage ratio should be at or above a two-month benchmark and should be stable or improving. The annual operating margin ratio could be both positive and negative during the trend period due to nonrecurring items. Some of these items include unexpected reductions in external sources of income, such as state appropriations, gifts and investment income, all of which are unpredictable and subject to economic conditions. The Office of Finance uses the expendable resources to debt ratio, debt burden ratio and debt service coverage ratio, which are the same ratios the bond rating agencies calculate for the System. Trends in these ratios can help determine if an institution has additional debt capacity or has assumed more debt than it can afford to service. In general, an institution's expendable resources to debt and debt service coverage ratios should exceed *Moody's* 2006 A2 medians of 0.7x and 2.4x, respectively, while the debt burden ratio should fall below *Moody's* 2006 A2 median of 3.8%. Full-time equivalent (FTE) student enrollment must be relatively stable or increasing. Isolated financial difficulties in particular areas may be evident, but must not be material enough to threaten the overall financial health of an institution.

Watch – an institution assigned this assessment exhibits a history of relatively unstable or declining financial ratios. The CFI is less stable and/or the fluctuations are not expected given the mission of an institution. The operating expense coverage ratio can be at or above a two-month benchmark, but typically shows a declining trend. Annual operating margin ratio is negative or near break-even during the trend period due to recurring items, material operating difficulties or uncertainties caused by either internal management decisions or external factors. Trends in the expendable resources to debt ratio, debt burden ratio and debt service coverage ratio can help determine if an institution has additional debt capacity or has assumed more debt than it can afford to service. FTE student enrollment can be stable or declining, depending upon competitive alternatives or recruitment and retention efforts. Isolated financial difficulties in particular areas may be evident and can be material enough to threaten the overall financial health of an institution.

Unsatisfactory – an institution assigned this assessment exhibits a history of relatively unstable financial ratios. The CFI is very volatile and does not support the mission of an institution. The operating expense coverage ratio may be below a two-month benchmark and shows a declining trend. The annual operating margin ratio is predominately volatile or negative during the trend period due to material operating difficulties or uncertainties caused by either internal management decisions or external factors. Trends in the expendable resources to debt ratio, debt burden ratio and debt service coverage ratio can help determine if an institution has additional debt capacity or has assumed more debt than it can afford to service. The FTE student enrollment can be stable or declining, depending upon competitive alternatives or recruitment and retention efforts. Widespread financial difficulties in key areas are evident and are material enough to further threaten the overall financial health of an institution. For institutions rated "Unsatisfactory," the Chancellor and the appropriate Executive Vice Chancellors will request the institutions to develop a specific financial plan of action to improve the institution's financial condition. Progress towards the achievement of the plans will be periodically discussed with the Chief Business Officer and President, and representatives from the UT System Offices of Business, Academic and/or Health Affairs, as appropriate.

Appendix B - Calculation of Composite Financial Index
Academic Institutions
As of August 31, 2006

UT Arlington

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.49	/	0.133	=	3.71	x	35.0%	=	1.30
Annual Operating Margin	2.72%	/	1.3%	=	2.09	x	10.0%	=	0.21
Return on Net Assets	5.85%	/	2.0%	=	2.92	x	20.0%	=	0.58
Expendable Resources to Debt	0.92	/	0.417	=	2.21	x	35.0%	=	0.78
							CFI		2.9

UT Austin

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	1.20	/	0.133	=	9.03	x	35.0%	=	3.16
Annual Operating Margin	3.19%	/	1.3%		2.46	x	10.0%	=	0.25
Return on Net Assets	7.74%	/	2.0%	=	3.87	x	20.0%	=	0.77
Expendable Resources to Debt	3.28	/	0.417	=	7.87	x	35.0%	=	2.75
							CFI		6.9

UT Brownsville

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.23	/	0.133	=	1.72	x	35.0%	=	0.60
Annual Operating Margin	-4.12%	/	1.3%	=	-3.17	x	10.0%	=	-0.32
Return on Net Assets	-2.96%	/	2.0%	=	-1.48	x	20.0%	=	-0.30
Expendable Resources to Debt	0.79	/	0.417	=	1.88	x	35.0%	=	0.66
							CFI		0.6

UT Dallas

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	1.15	/	0.133	=	8.66	x	35.0%	=	3.03
Annual Operating Margin	-1.69%	/	1.3%	=	-1.30	x	10.0%	=	-0.13
Return on Net Assets	8.30%	/	2.0%	=	4.15	x	20.0%	=	0.83
Expendable Resources to Debt	1.86	/	0.417	=	4.46	x	35.0%	=	1.56
							CFI		5.3

UT El Paso

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.54	/	0.133	=	4.03	x	35.0%	=	1.41
Annual Operating Margin	1.32%	/	1.3%	=	1.01	x	10.0%	=	0.10
Return on Net Assets	9.59%	/	2.0%	=	4.80	x	20.0%	=	0.96
Expendable Resources to Debt	1.40	/	0.417	=	3.36	x	35.0%	=	1.17
							CFI		3.6

Appendix B - Calculation of Composite Financial Index
Academic Institutions
As of August 31, 2006
(continued)

UT Pan American

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.40	/	0.133	=	2.99	x	35.0%	=	1.05
Annual Operating Margin	-2.98%	/	1.3%	=	-2.29	x	10.0%	=	-0.23
Return on Net Assets	2.77%	/	2.0%	=	1.38	x	20.0%	=	0.28
Expendable Resources to Debt	0.96	/	0.417	=	2.29	x	35.0%	=	0.80
							CFI		1.9

UT Permian Basin

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.46	/	0.133	=	3.47	x	35.0%	=	1.21
Annual Operating Margin	-4.63%	/	1.3%	=	-3.56	x	10.0%	=	-0.36
Return on Net Assets	3.82%	/	2.0%		1.91	x	20.0%	=	0.38
Expendable Resources to Debt	0.55	/	0.417	=	1.33	x	35.0%	=	0.47
							CFI		1.7

UT San Antonio

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.55	/	0.133	=	4.16	x	35.0%	=	1.45
Annual Operating Margin	5.82%	/	1.3%	=	4.47	x	10.0%	=	0.45
Return on Net Assets	11.15%	/	2.0%		5.57	x	20.0%	=	1.11
Expendable Resources to Debt	0.74	/	0.417	=	1.78	x	35.0%	=	0.62
							CFI		3.6

UT Tyler

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.90	/	0.133	=	6.79	x	35.0%	=	2.38
Annual Operating Margin	-2.79%	/	1.3%	=	-2.15	x	10.0%	=	-0.21
Return on Net Assets	8.17%	/	2.0%	=	4.08	x	20.0%	=	0.82
Expendable Resources to Debt	1.20	/	0.417	=	2.87	x	35.0%	=	1.00
							CFI		4.0

Appendix B - Calculation of Composite Financial Index
Health Institutions
As of August 31, 2006

Southwestern

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.86	/	0.133	=	6.48	x	35.0%		2.27
Annual Operating Margin	1.73%	/	1.3%	=	1.33	x	10.0%		0.13
Return on Net Assets	6.14%	/	2.0%	=	3.07	x	20.0%	-	0.61
Expendable Resources to Debt	2.15	/	0.417	=	5.16	x	35.0%	=	1.81
							CFI		4.8

UTMB Galveston

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.26	/	0.133	·	1.95	x	35.0%	=	0.68
Annual Operating Margin	-1.83%	/	1.3%	=	-1.40	x	10.0%		-0.14
Return on Net Assets	5.78%	/	2.0%	=	2.89	x	20.0%	:	0.58
Expendable Resources to Debt	2.51	/	0.417	=	6.02	x	35.0%	=	2.11
							CFI		3.2

UTHSC-Houston

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.49	/	0.133	=	3.71	x	35.0%	=	1.30
Annual Operating Margin	3.79%	/	1.3%	=	2.91	x	10.0%	=	0.29
Return on Net Assets	9.50%	/	2.0%	=	4.75	x	20.0%	=	0.95
Expendable Resources to Debt	1.72	/	0.417	=	4.12	x	35.0%	=	1.44
							CFI		4.0

UTHSC-San Antonio

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.63	/	0.133	=	4.72	x	35.0%	=	1.65
Annual Operating Margin	-1.72%	/	1.3%		-1.32	x	10.0%	=	-0.13
Return on Net Assets	1.66%	/	2.0%	=	0.83	x	20.0%	=	0.17
Expendable Resources to Debt	2.97	/	0.417	=	7.12	x	35.0%	=	2.49
							CFI		4.2

M. D. Anderson

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.47	/	0.133	=	3.53	x	35.0%	=	1.24
Annual Operating Margin	4.21%	/	1.3%	=	3.24	x	10.0%	=	0.32
Return on Net Assets	10.10%	/	2.0%	-	5.05	x	20.0%	=	1.01
Expendable Resources to Debt	1.52	/	0.417		3.65	x	35.0%	=	1.28
							CFI		3.8

UTHC-Tyler

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.26	/	0.133	=	1.94	x	35.0%		0.68
Annual Operating Margin	-1.98%	/	1.3%	=	-1.52	x	10.0%	=	-0.15
Return on Net Assets	2.90%	/	2.0%		1.45	x	20.0%	=	0.29
Expendable Resources to Debt	1.66	/	0.417	=	3.99	x	35.0%	=	1.40
							CFI		2.2

Appendix C - Calculation of Expendable Net Assets
Academic Institutions
As of August 31, 2006
(In Millions)

Institution	Restricted Expendable Net Assets				Total Unrestricted Net Assets	Total Expendable Net Assets
	Capital Projects	Funds Functioning Restricted	Other Expendable	Total		
UT Arlington	$ 9.8	1.9	40.0	51.7	101.3	153.0
UT Austin	116.0	121.8	1,341.1	1,579.0	383.2	1,962.1
UT Brownsville	1.5	-	4.7	6.1	23.2	29.3
UT Dallas	41.8	4.3	172.3	218.3	51.6	269.9
UT El Paso	19.6	5.5	85.0	110.1	32.1	142.2
UT Pan American	6.9	0.9	20.8	28.5	49.4	77.9
UT Permian Basin	0.7	-	13.8	14.5	4.1	18.6
UT San Antonio	27.0	0.7	33.9	61.5	106.5	168.0
UT Tyler	7.2	0.3	35.1	42.7	16.6	59.3

Appendix C - Calculation of Expendable Net Assets
Health Institutions
As of August 31, 2006
(In Millions)

Institution	Restricted Expendable Net Assets: Capital Projects	Restricted Expendable Net Assets: Funds Functioning Restricted	Restricted Expendable Net Assets: Other Expendable	Restricted Expendable Net Assets: Total	Total Unrestricted Net Assets	Total Expendable Net Assets
Southwestern	$ 58.3	22.0	645.8	726.1	331.8	1,057.9
UTMB	12.6	17.4	190.3	220.3	147.9	368.2
UTHSC-Houston	24.0	5.1	143.4	172.4	150.8	323.2
UTHSC-San Antonio	26.8	5.8	185.2	217.8	119.5	337.3
M. D. Anderson	138.8	26.0	342.8	507.6	527.8	1,035.4
UTHC-Tyler	2.1	0.7	16.1	18.9	12.7	31.6

Appendix D - Calculation of Annual Operating Margin
Academic Institutions
As of August 31, 2006
(In Millions)

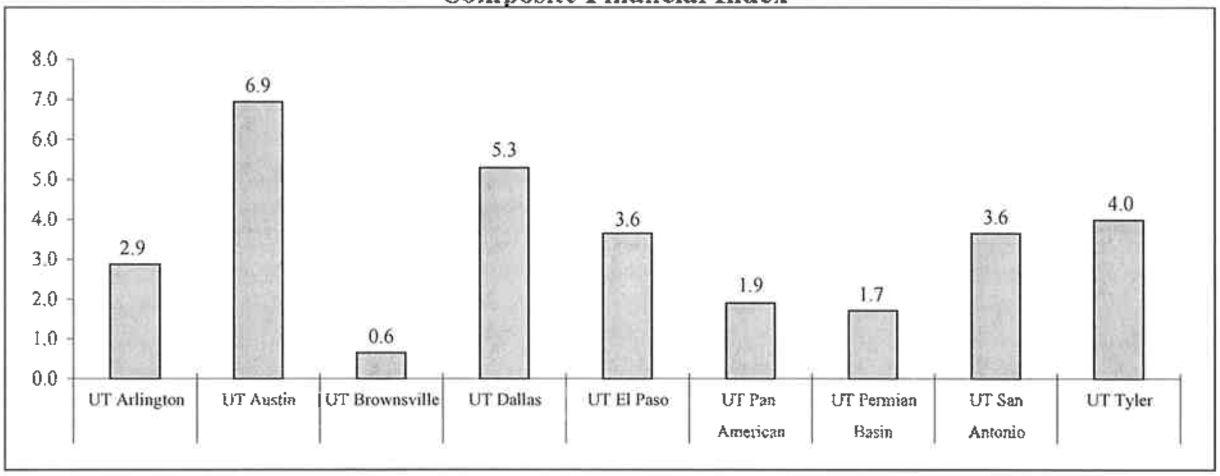
		Less: Nonoperating Items				Other Adjustments						
Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Other Nonop. Revenues	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Realized Gains/ Losses	AUF Transfer	NSERB	Texas Enterprise Fund	HEAF for Op. Exp.	Interest Expense	Annual Operating Margin
UT Arlington	$ 19.8	-	(1.6)	4.7	16.8	-	-	-	-	-	(8.1)	8.7
UT Austin	112.3	1.1	(11.2)	155.0	(32.5)	1.5	112.5	-	-	-	(24.6)	53.9
UT Brownsville	(3.3)	-	-	0.6	(3.9)	0.1	-	-	-	1.0	(2.0)	(5.1)
UT Dallas	15.6	1.1	(1.0)	12.0	3.5	(1.2)	-	1.2	(4.4)	-	(5.4)	(3.9)
UT El Paso	17.4	1.0	(0.1)	8.2	8.4	0.9	-	-	-	-	(4.0)	3.5
UT Pan American	(3.7)	-	(0.2)	3.4	(6.9)	(1.3)	-	-	-	2.4	(2.4)	(5.7)
UT Permian Basin	1.1	-	-	1.1	-	0.1	-	-	-	-	(1.7)	(1.8)
UT San Antonio	32.3	-	(0.2)	4.1	28.4	(0.6)	-	-	-	-	(10.2)	18.8
UT Tyler	4.2	-	-	3.7	0.5	-	-	-	-	-	(2.3)	(1.8)

Appendix D - Calculation of Annual Operating Margin
Health Institutions
As of August 31, 2006
(In Millions)

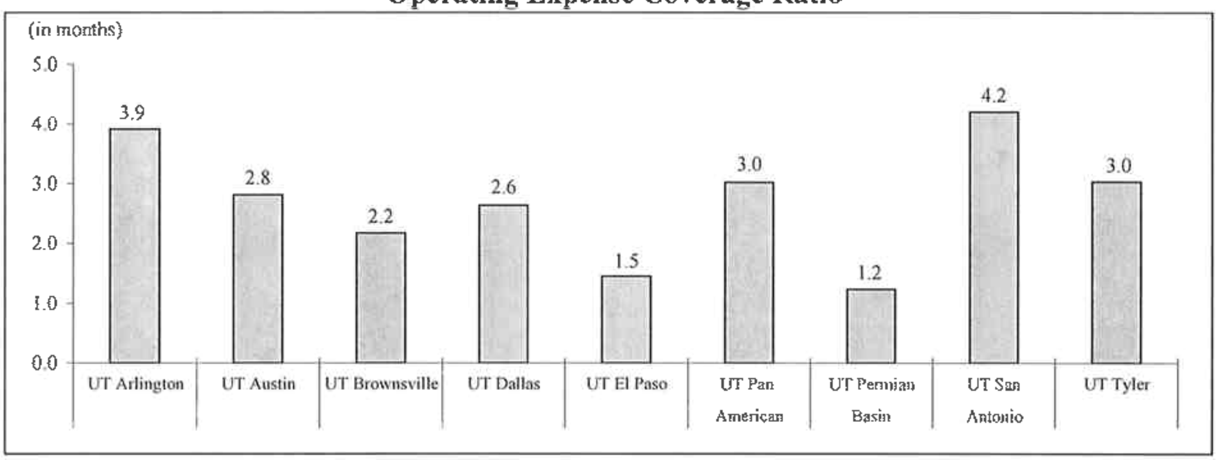
Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items: Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments: Realized Gains/ Losses	RAHC Transfer	Interest Expense	Annual Operating Margin
Southwestern	$ 108.8	0.1	-	(2.0)	64.5	46.2	3.6	-	(21.0)	21.6
UTMB	3.1	0.2	(1.0)	(1.5)	13.0	(7.6)	11.9	-	(5.9)	(25.5)
UTHSC-Houston	46.0	1.2	(0.7)	(0.4)	10.2	35.7	1.6	0.6	(8.8)	25.8
UTHSC-San Antonio	11.9	-	-	(5.1)	22.3	(5.4)	(1.7)	0.6	(6.0)	(9.1)
M. D. Anderson	179.5	0.4	(1.6)	(0.9)	51.0	130.6	4.3	-	(29.4)	96.9
UTHC-Tyler	1.0	-	-	-	2.5	(1.5)	-	-	(0.9)	(2.4)

Appendix E - Academic Institutions' Evaluation Factors
2006 Analysis of Financial Condition

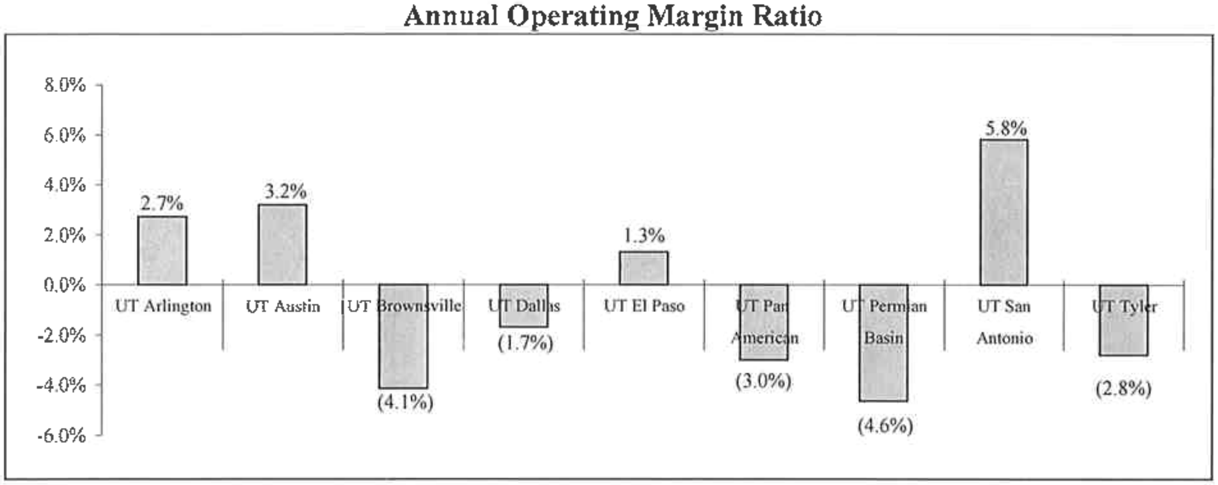
Composite Financial Index



Operating Expense Coverage Ratio

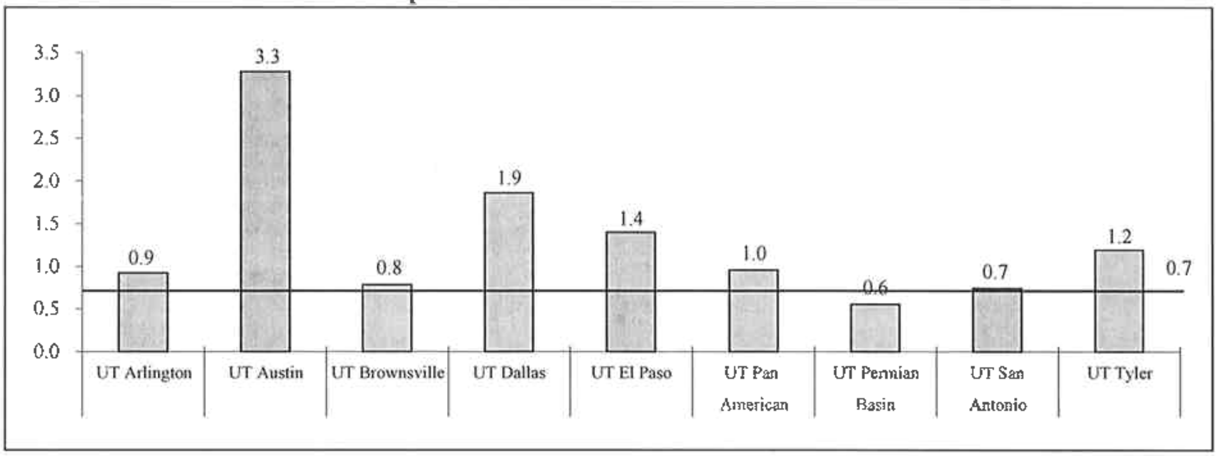


Annual Operating Margin Ratio

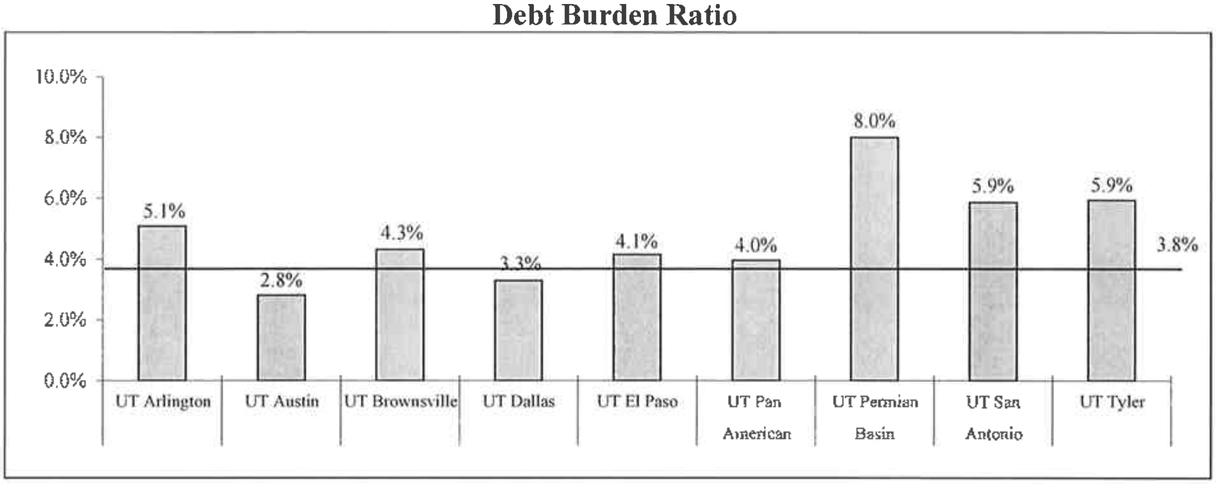


Appendix E - Academic Institutions' Evaluation Factors
2006 Analysis of Financial Condition

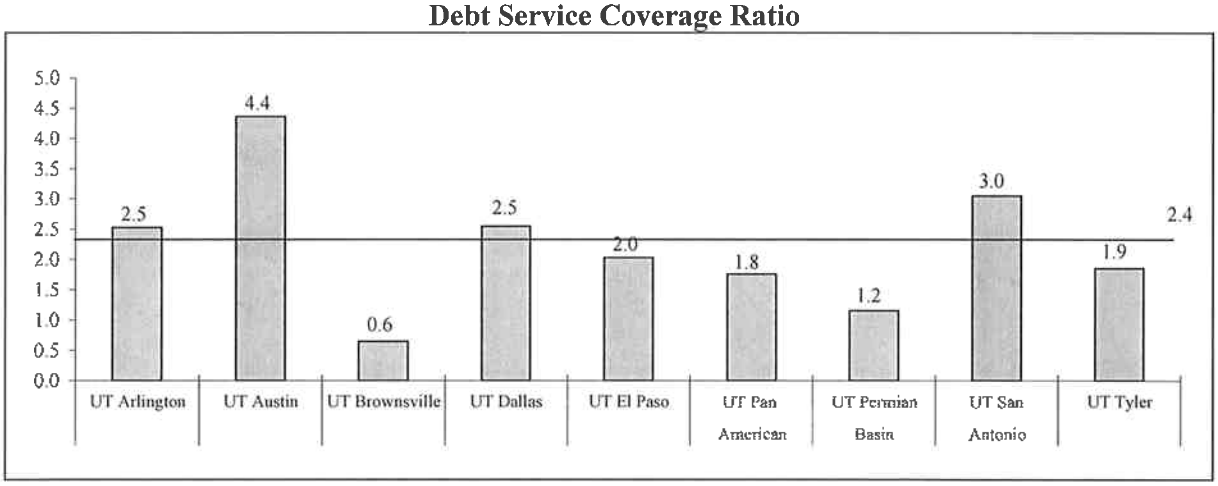
Expendable Resources to Debt Ratio



Debt Burden Ratio

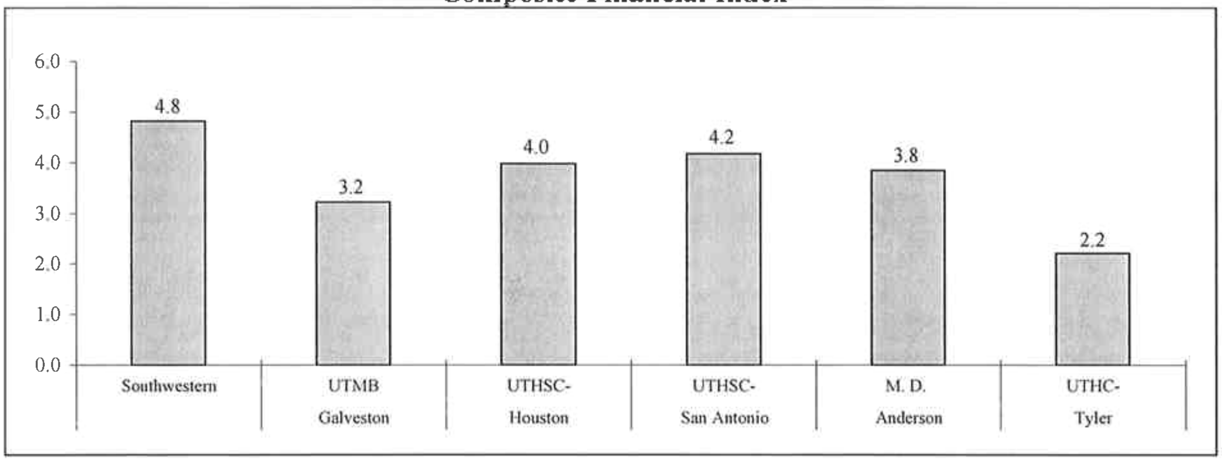


Debt Service Coverage Ratio

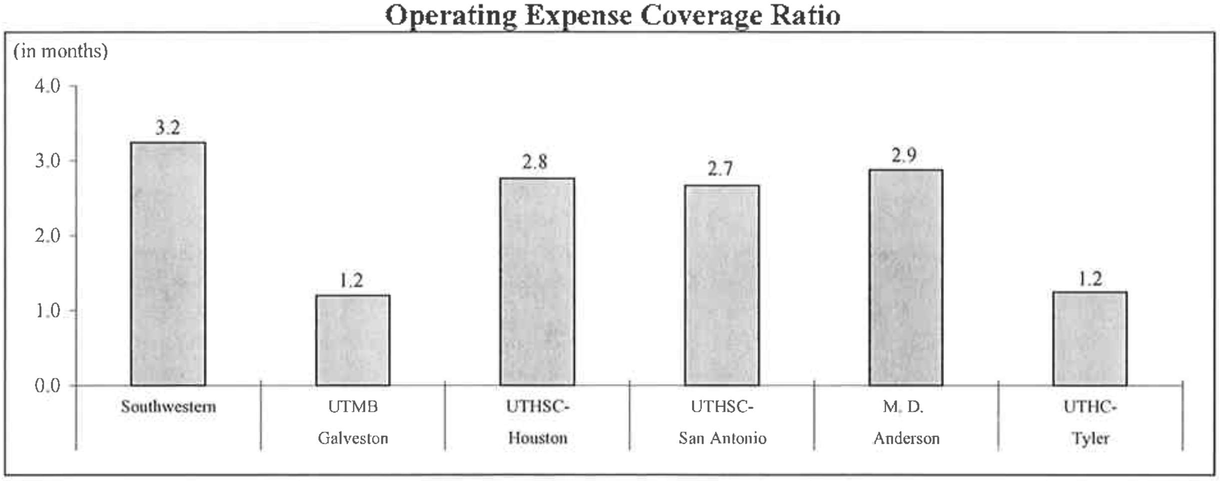


Appendix E - Health Institutions' Evaluation Factors
2006 Analysis of Financial Condition

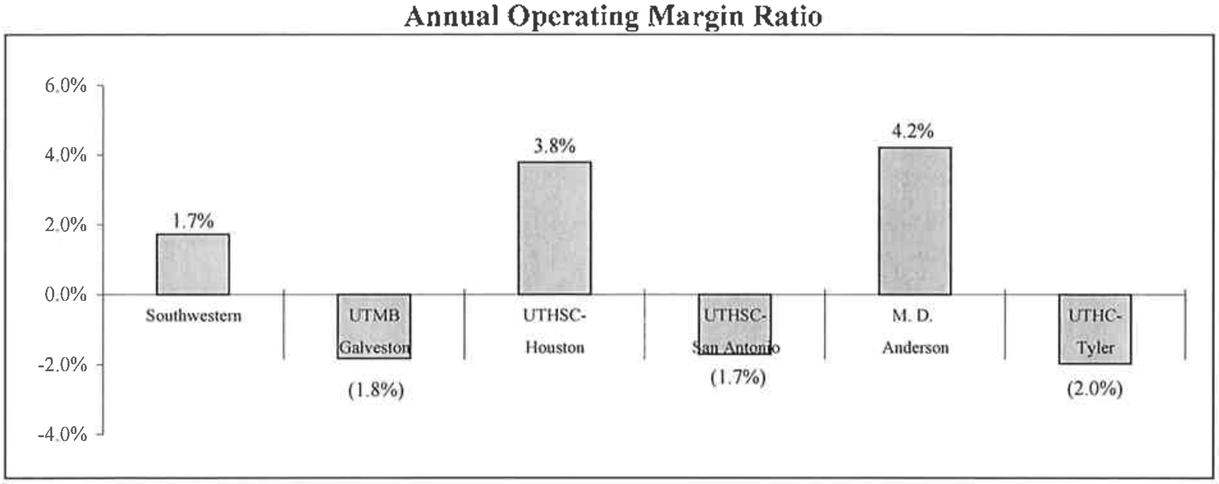
Composite Financial Index



Operating Expense Coverage Ratio

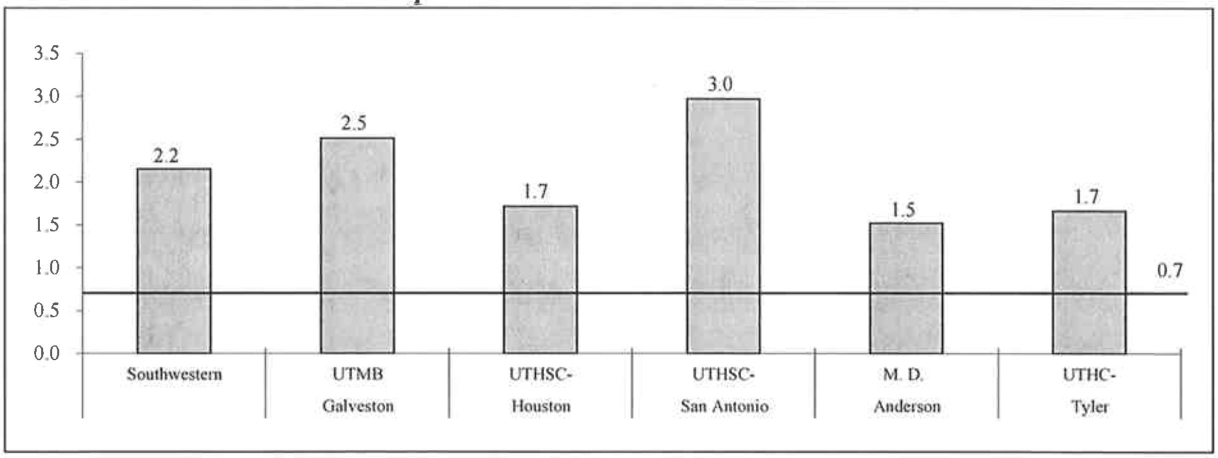


Annual Operating Margin Ratio

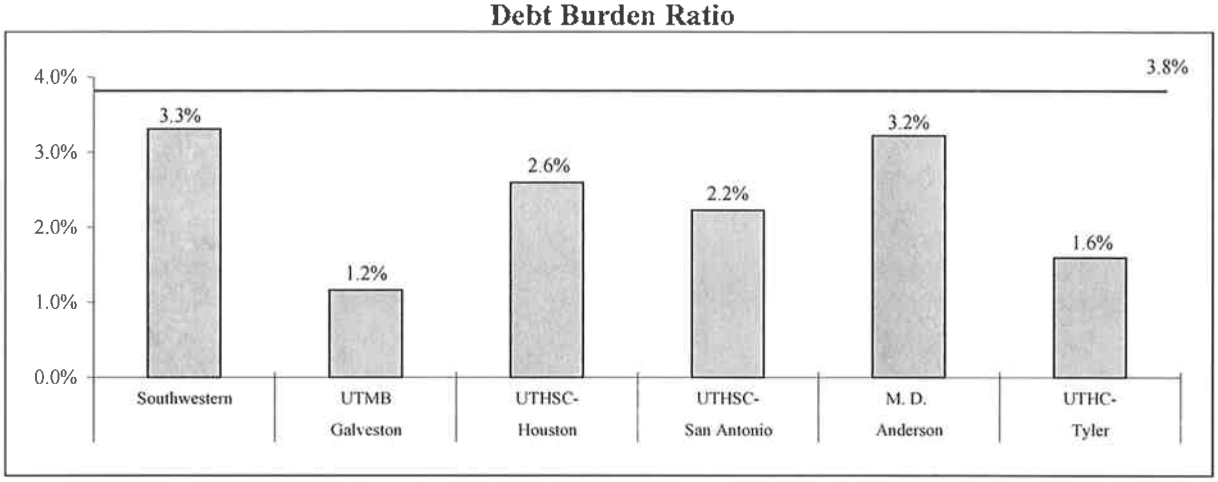


Appendix E - Health Institutions' Evaluation Factors
2006 Analysis of Financial Condition

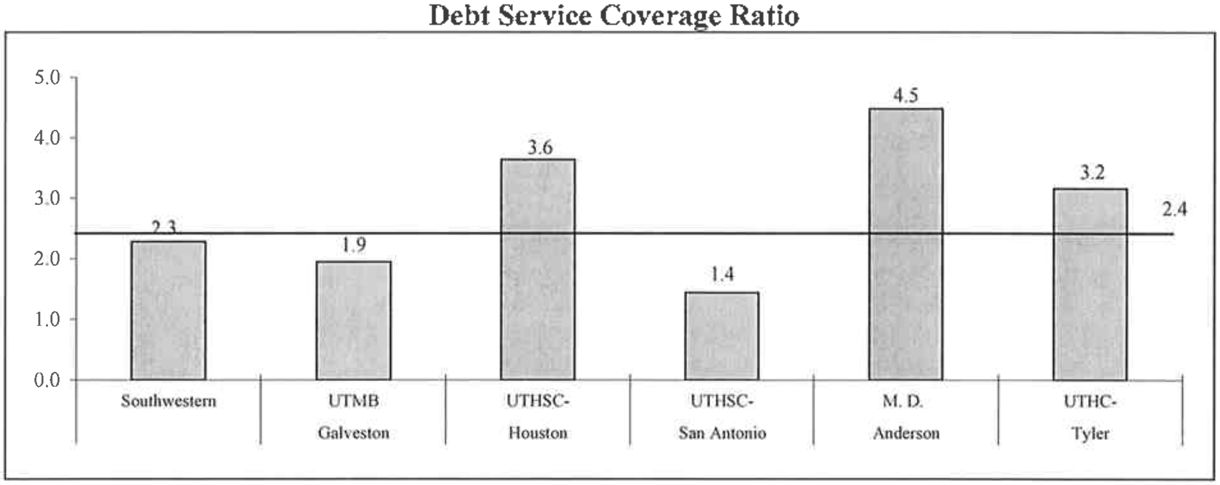
Expendable Resources to Debt Ratio



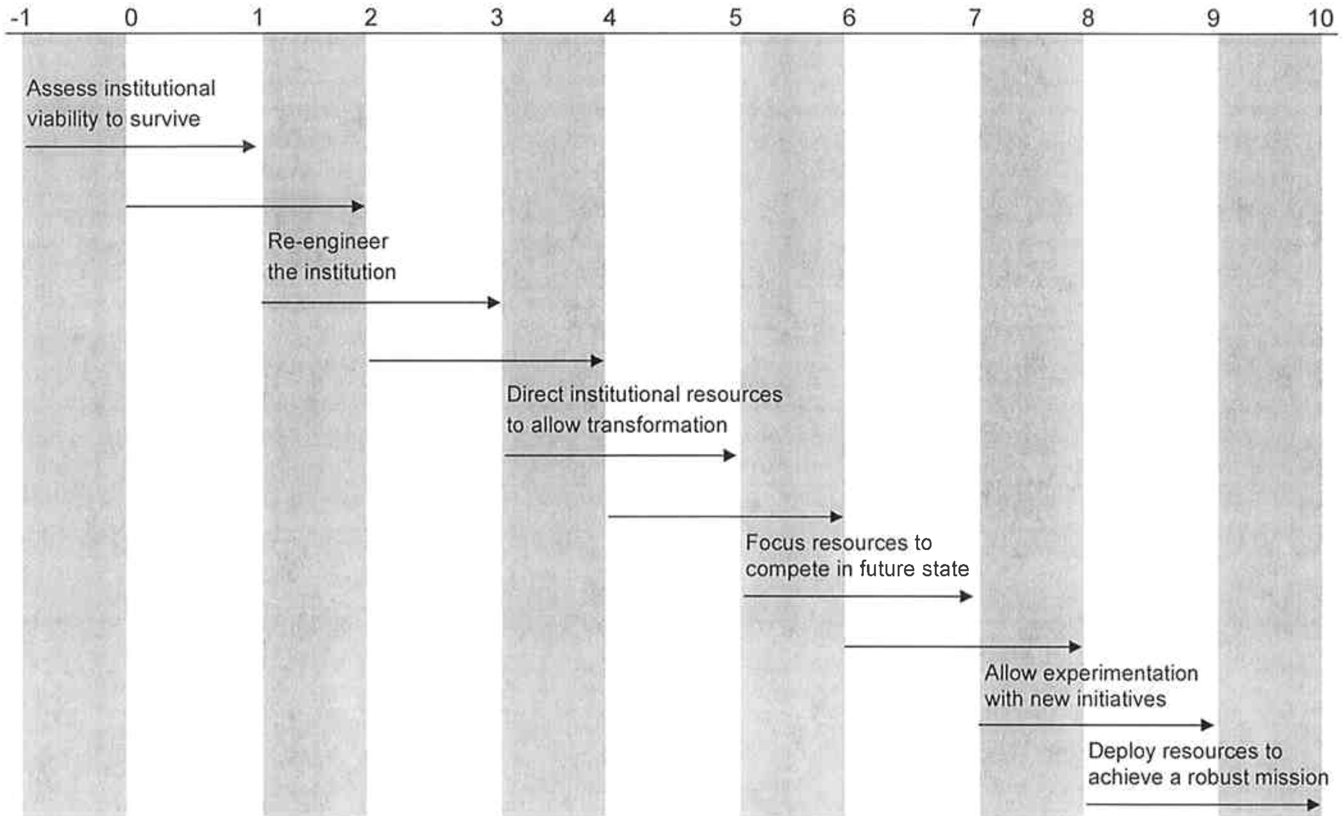
Debt Burden Ratio



Debt Service Coverage Ratio

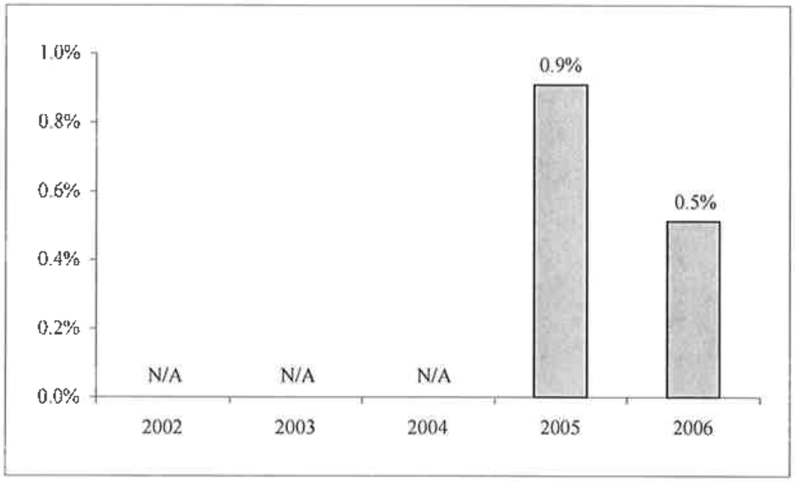


Appendix F - Scale for Charting CFI Performance



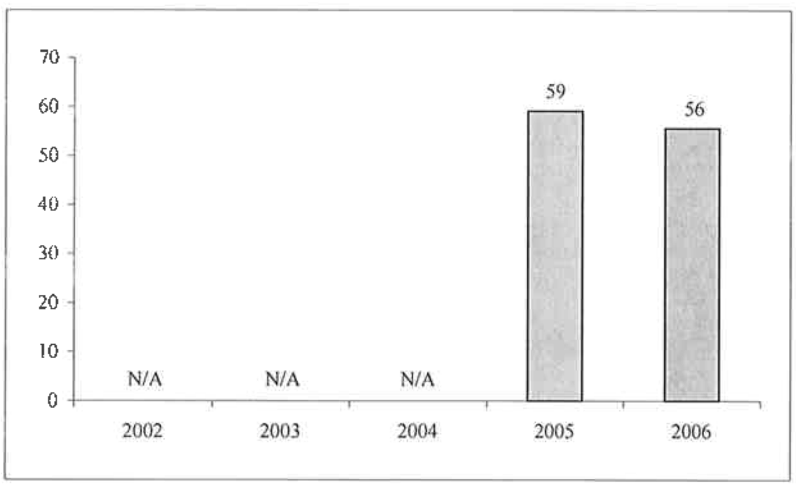
Appendix G - Key Hospital Operating Factors
The University of Texas Southwestern Medical Center at Dallas

Annual Operating Margin Ratio



The hospitals were acquired January 2005; thus, the 2005 data includes only eight months of activity. Net operating revenues for 2006 exceeded budget by $9.1 million. This increase in revenue was offset by increases in salaries, utilities and bad debt expense. Net income for the year was slightly above break-even and met budget.

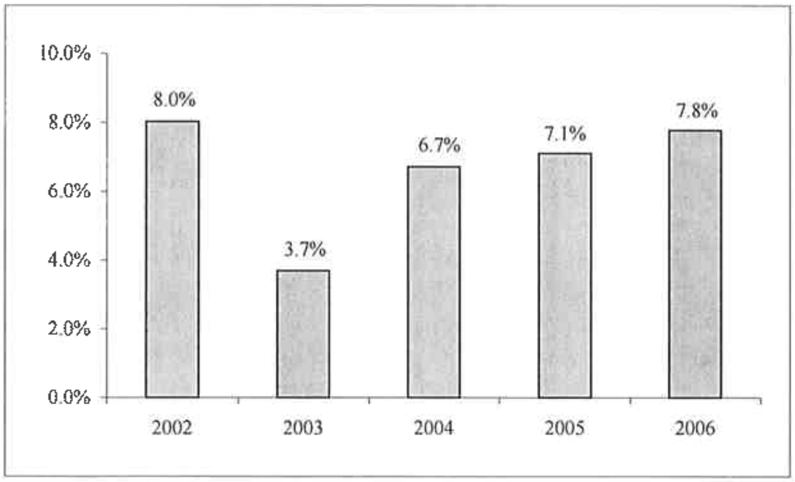
Net Accounts Receivable (in days)



The 5% reduction in the number of days in accounts receivable was a reflection of on-going collection efforts.

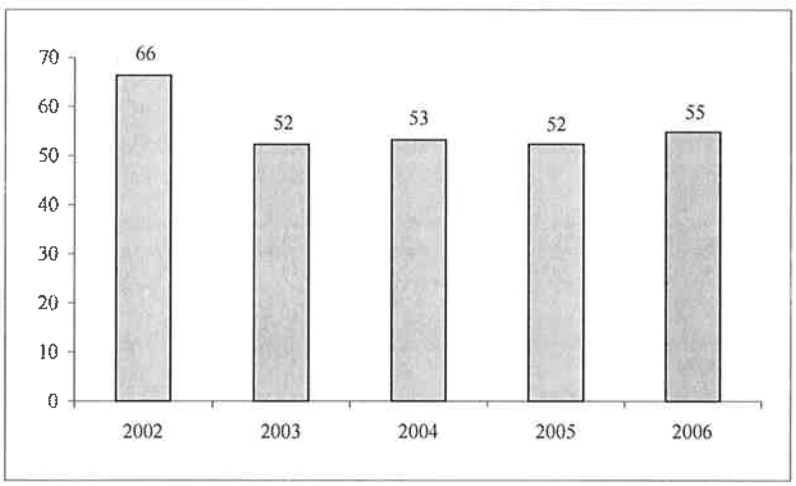
Appendix G - Key MSRDP & NPHC Operating Factors
The University of Texas Southwestern Medical Center at Dallas

Annual Operating Margin Ratio



In 2006 Southwestern received a professional liability insurance (PLI) rebate of $3.4 million that was not received in 2005. The PLI rebate was reported as a reduction to PLI expense in 2006. In addition, operating revenues increased $25.9 million due to growth in net patient revenue of 3.5% and contractual income increased 15.6% as a result of the contract with Parkland Hospital. Operating expenses increased $26.3 million primarily as a result of salary increases and additions to staff. Investment income increased $6.2 million due to higher rates of return and an increase in earnings on the investment in the joint venture with Davita.

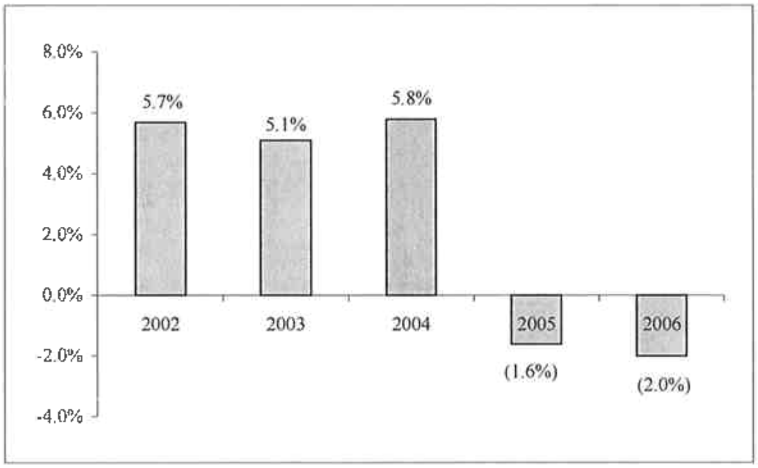
Net Accounts Receivable (in days)



The increase in days in net accounts receivable was attributable to a change in the method of adjusting credit balances in accounts receivable which resulted in an increase in accounts receivable of $3 million.

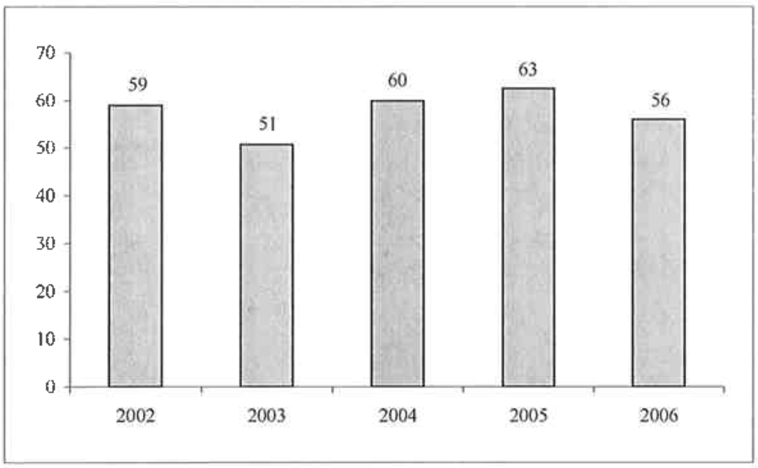
Appendix G - Key Hospital Operating Factors
The University of Texas Medical Branch at Galveston

Annual Operating Margin Ratio



UTMB Hospitals and Clinics operating margin declined by $2.4 million between years. Utility costs, which were $3.5 million higher than in the prior year, were a major contributor to the increased costs. In 2006, Hurricane *Rita* accounted for $13.9 million of the decline in the operating margin. After adjusting for the hurricane, the margin increased by $11.5 million between years. The 2006 annual operating margin ratio, stated on a consistent basis with 2005, would have been 0.2% as compared to (1.6%) in 2005. Much of this increase is due to the financial improvement plan implemented in 2006. The Hospitals and Clinics continue to operate in an environment of high cost inflation with limited revenue growth.

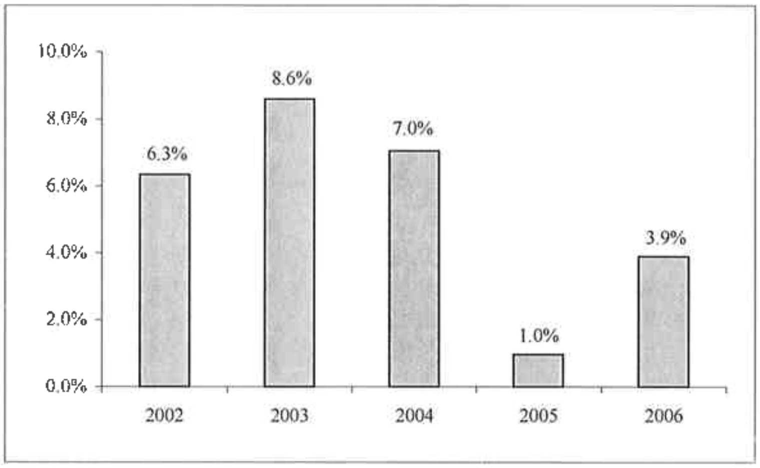
Net Accounts Receivable (in days)



The 2006 days were 56 as compared to 63 in 2005. Much of this decrease was due to improved collection processes. UTMB Hospitals and Clinics is continually implementing strategies to enhance collection efforts and improve the overall quality of outstanding accounts receivable.

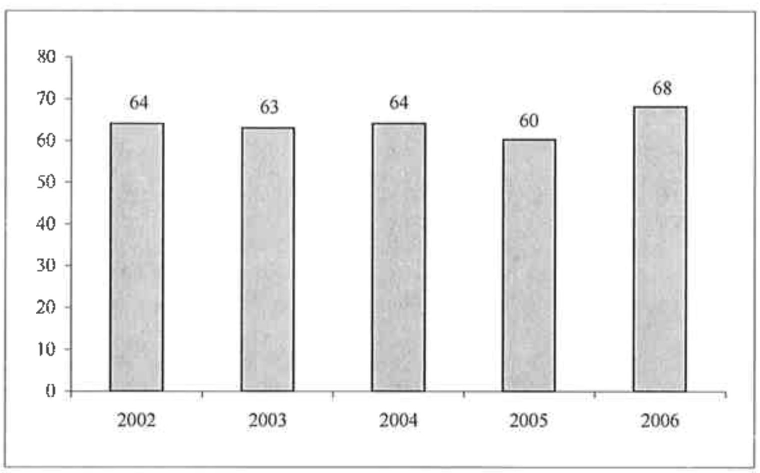
Appendix G - Key MSRDP & NPHC Operating Factors
The University of Texas Medical Branch at Galveston

Annual Operating Margin Ratio



In 2006 UTMB Galveston received a professional liability insurance (PLI) rebate of $4.7 million that was not received in 2005. The PLI rebate was reported as a reduction to PLI expense in 2006. In addition, the establishment of programs in Austin during 2006 generated approximately $900,000 in new margin over 2005. However, the nonprofit healthcare corporation recognized a decline in margin of $1.4 million as a result of declining CHIP enrollments.

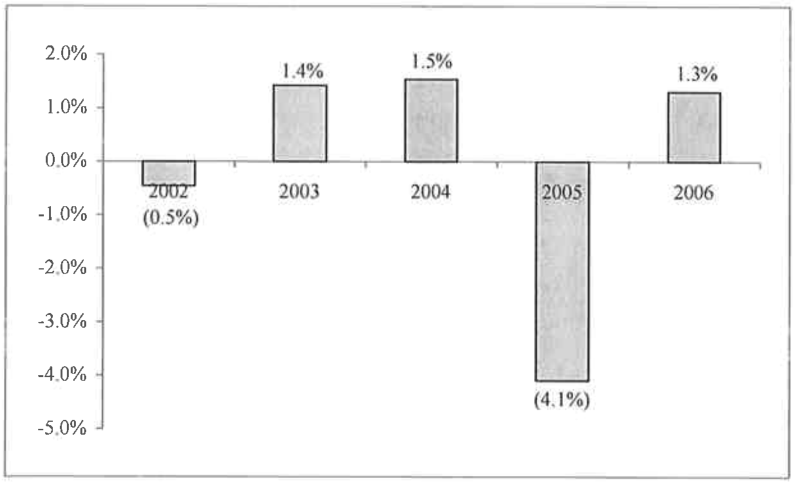
Net Accounts Receivable (in days)



The increase in accounts receivable number of days was a result of the new program expansion in Austin.

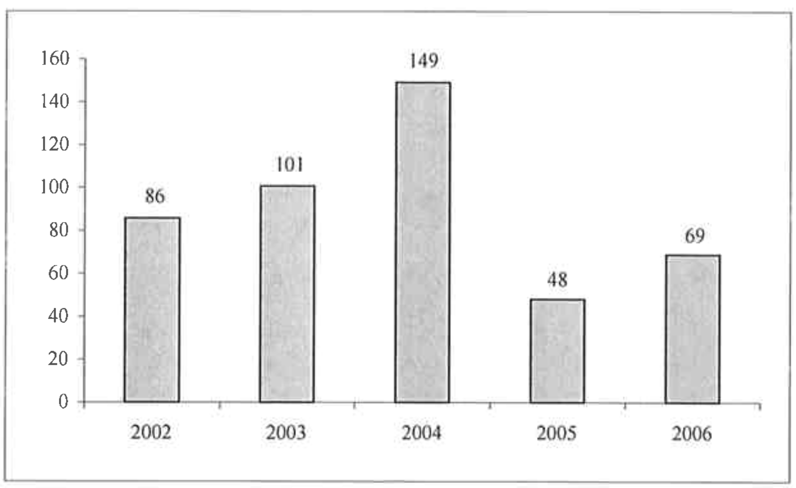
Appendix G - Key Hospital Operating Factors
The University of Texas Health Science Center at Houston

Annual Operating Margin Ratio



The positive change in the annual operating margin ratio primarily resulted from increases in the charge structure and the containment of increasing operating costs.

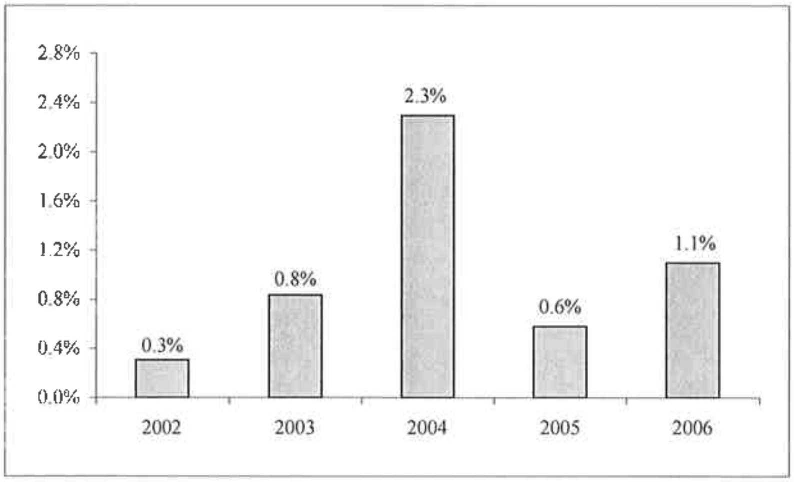
Net Accounts Receivable (in days)



The increase in net accounts receivable days reflects the impact of adjusting to a new billing system and issues related to the implementation of the new system.

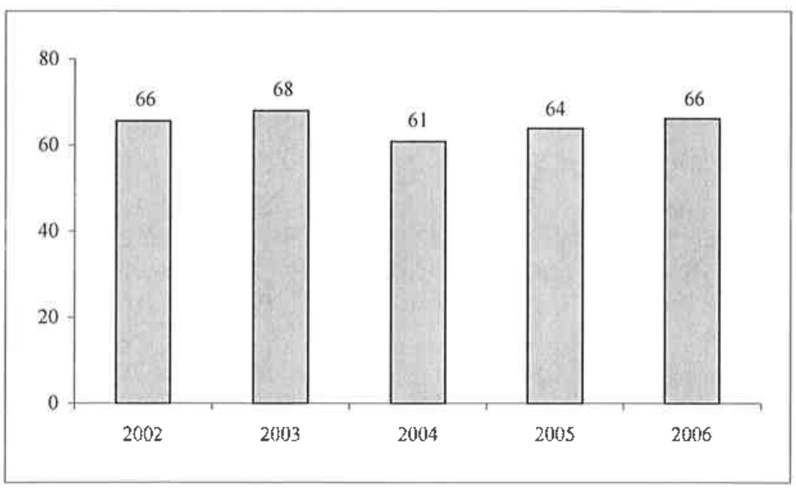
Appendix G - Key MSRDP & NPHC Operating Factors
The University of Texas Health Science Center at Houston

Annual Operating Margin Ratio



In 2006 UTHSC-Houston received a professional liability insurance (PLI) rebate of $3.6 million that was not received in 2005. The PLI rebate was reported as a reduction to PLI expense in 2006. In addition, although professional fee revenue declined approximately 4%, contractual revenues increased about 20%. Of this amount, about 50% was due to Memorial Hermann Hospital contractual income increasing as a result of increased services and improved contractual rates, and the remainder was due to an increase in Harris County Hospital District contractual income. Expenses also increased, though not as much as revenue with the majority of the increase attributable to salaries and wages.

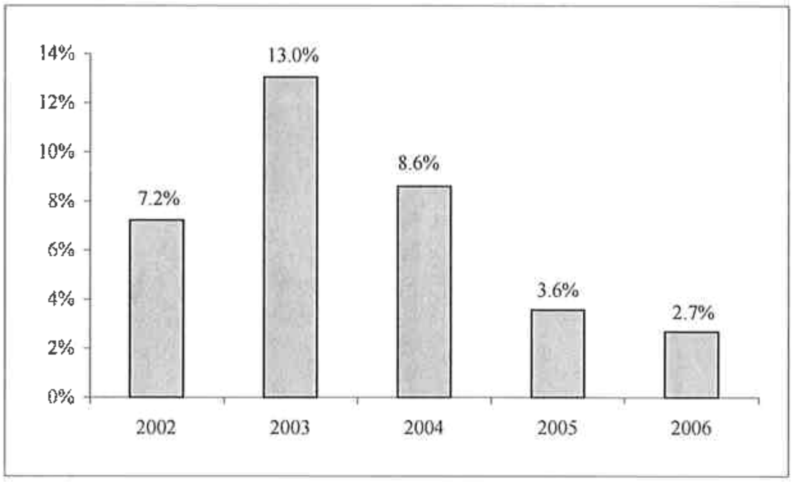
Net Accounts Receivable (in days)



The increase in net accounts receivable days in 2006 as compared to 2005 was due to a reduction in net charges. Net charges decreased approximately $4.2 million in 2006 primarily due to a $4.0 million reserve for refunds that was established at the end of 2006 and the continued decline in the payor mix.

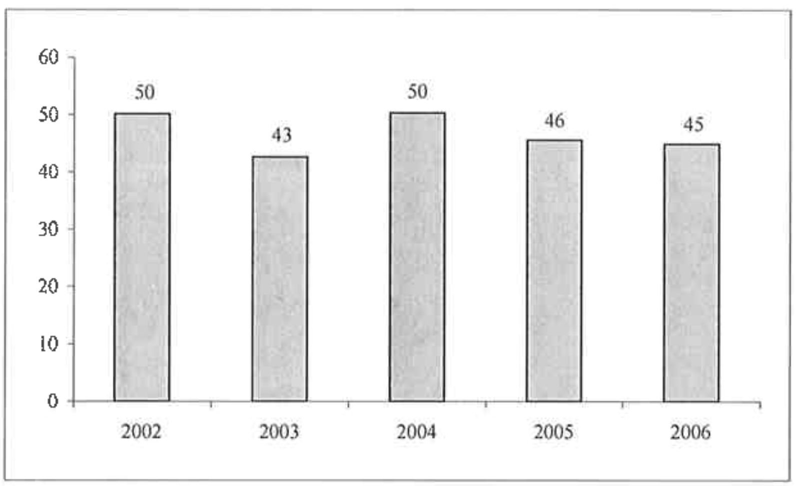
Appendix G - Key MSRDP & NPHC Operating Factors
The University of Texas Health Science Center at San Antonio

Annual Operating Margin Ratio



In 2006 UTHSC-San Antonio received a professional liability insurance (PLI) rebate of $3.1 million that was not received in 2005. The PLI rebate was reported as a reduction to PLI expense in 2006. The decrease in the margin reflects continued reinvestment of incremental revenues towards recruitment efforts of a new dean, new faculty and chairs, addressing faculty compensation issues, the expansion of programs and departments, and fulfilling increased service contract requirements. This investment is anticipated to increase future operations.

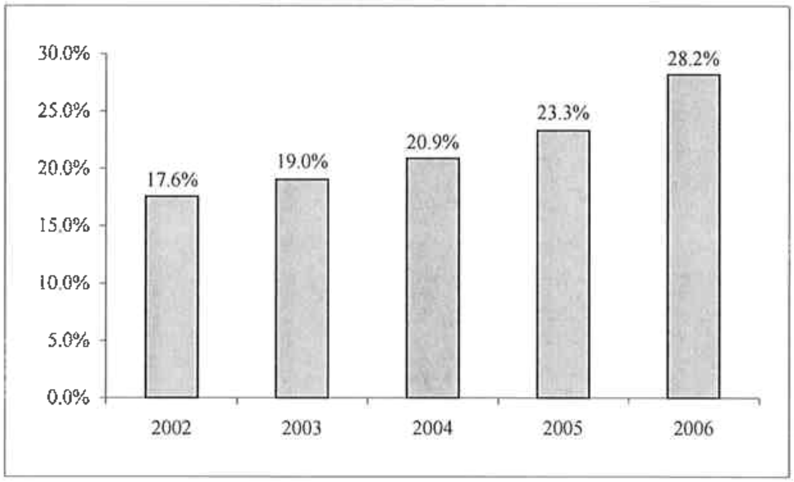
Net Accounts Receivable (in days)



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

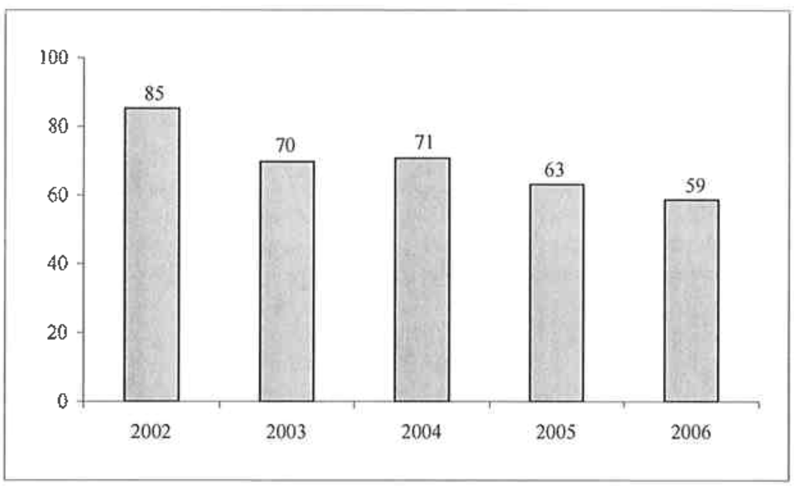
Appendix G - Key Hospital Operating Factors
The University of Texas M. D. Anderson Cancer Center

Annual Operating Margin Ratio



The annual operating margin ratio increased 4.9% from 2005 as a result of continued growth in patient volumes and an overall increase in the number of billable procedures throughout 2006.

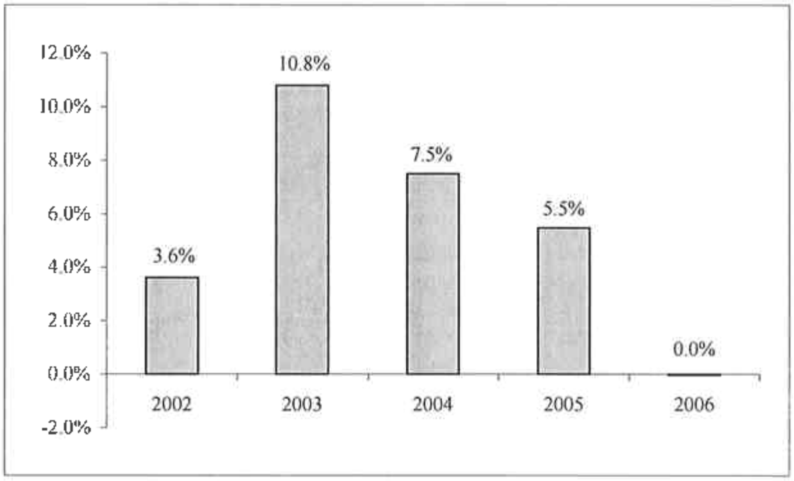
Net Accounts Receivable (in days)



The decrease in the days in accounts receivable was the result of continued improvements in collection practices within patient business services during 2006.

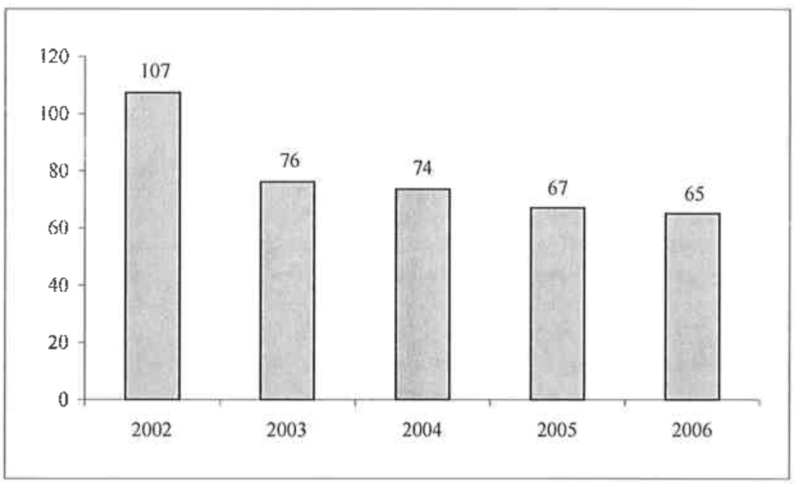
Appendix G - Key MSRDP & NPHC Operating Factors
The University of Texas M. D. Anderson Cancer Center

Annual Operating Margin Ratio



In 2006 M. D. Anderson received a professional liability insurance (PLI) rebate of $2 million that was not received in 2005. The PLI rebate was reported as a reduction to PLI expense in 2006. In spite of the rebate, the annual operating margin ratio decreased from 2005 to 2006 by 5.5%. This decrease was primarily attributable to the impact of Hurricane *Rita*.

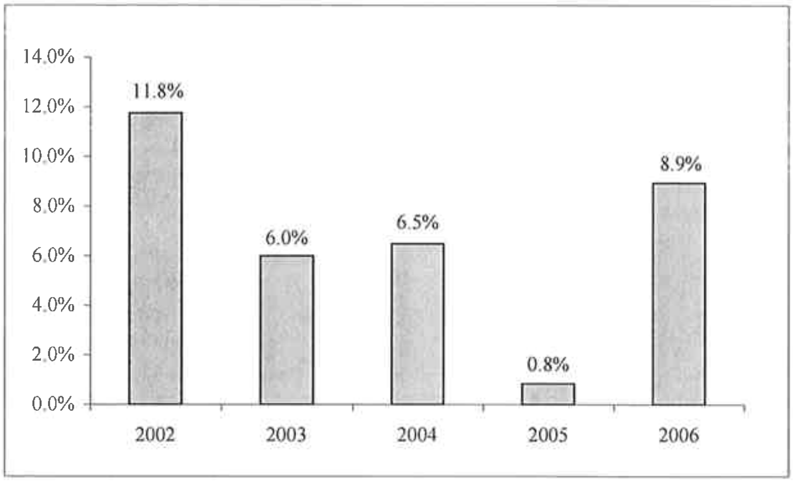
Net Accounts Receivable (in days)



The days in net accounts receivable decreased between 2005 and 2006 from 67 days to 65 days. This improvement is the result of improved business office operations.

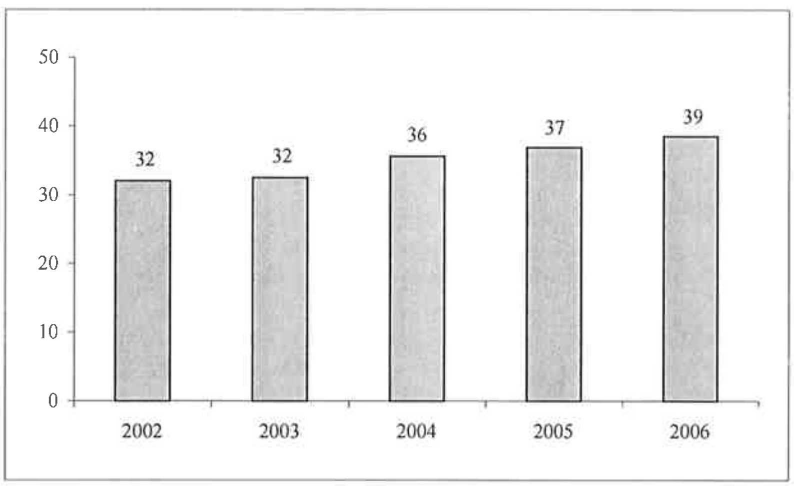
Appendix G - Key Hospital Operating Factors
The University of Texas Health Center at Tyler

Annual Operating Margin Ratio



The annual operating margin ratio increased significantly from 0.8% for 2005 to 8.9% for 2006 as a result of an increase in operating revenues of 3.9% and a decrease in operating expenses of 4.7%. Operating revenues increased primarily due to an increase in general appropriations. The largest reductions in operating expenses occurred in salaries and wages and payroll related costs, as well as professional fees and services.

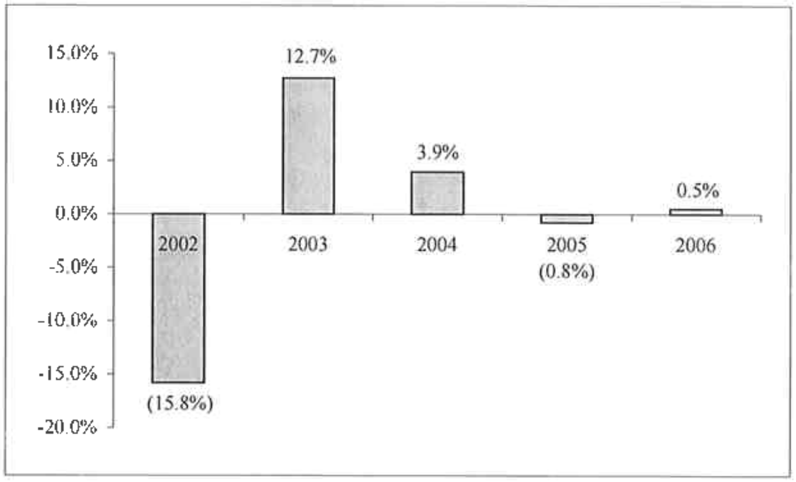
Net Accounts Receivable (in days)



The days in net accounts receivable increased from 37 in 2005 to 39 in 2006. Net account receivable increased 1.6% while net patient charges decreased 2.7% from the prior year.

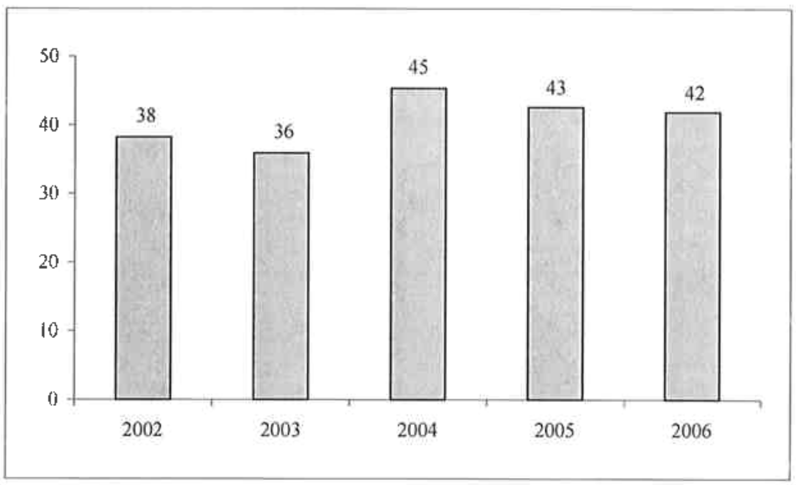
Appendix G - Key MSRDP & NPHC Operating Factors
The University of Texas Health Center at Tyler

Annual Operating Margin Ratio



The annual operating margin ratio improved slightly to a small positive position at year-end. Operating revenues decreased $2.2 million, while operating expenses decreased $2.4 million. The decrease in operating revenues was partially attributable to the cessation of the contract service fee paid by the hospital to the practice plan. Some of the factors contributing to the decrease in operating expenses were vacant faculty positions that were not filled and the professional liability insurance (PLI) rebate of $212,000 received in 2006, which was not received in 2005. The PLI rebate was reported as a reduction to PLI expense in 2006.

Net Accounts Receivable (in days)



Net days in accounts receivable remained relatively consistent between 2005 and 2006. Net accounts receivable and net patient charges were down 7.8% and 6.4%, respectively, from the prior year.

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

THE UNIVERSITY OF TEXAS SYSTEM
OFFICE OF THE CONTROLLER

MONTHLY FINANCIAL REPORT
(unaudited)

DECEMBER 2006

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

THE UNIVERSITY OF TEXAS SYSTEM

MONTHLY FINANCIAL REPORT

(Unaudited)

FOR THE FOUR MONTHS ENDING

DECEMBER 31, 2006

Office of the Controller

January 22, 2007

TABLE OF CONTENTS

The University of Texas System
Monthly Financial Report

Foreword

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

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

UNAUDITED
The University of Texas System
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2006

	December Year-to-Date FY 2007	December Year-to-Date FY 2006	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 438,895,730	$ 392,731,020	$ 46,164,710	11.8%
Sponsored Programs	752,506,704	712,707,975	39,798,729	5.6%
Net Sales and Services of Educational Activities	87,175,325	74,774,622	12,400,703	16.6%
Net Sales and Services of Hospitals	869,790,765	810,729,911	59,060,854	7.3%
Net Professional Fees	262,763,638	250,929,895	11,833,743	4.7%
Net Auxiliary Enterprises	129,779,090	116,154,047	13,625,043	11.7%
Other Operating Revenues	64,239,392	57,308,876	6,930,516	12.1%
Total Operating Revenues	**2,605,150,644**	**2,415,336,346**	**189,814,298**	**7.9%**
Operating Expenses				
Salaries and Wages	1,598,209,494	1,519,865,977	78,343,517	5.2%
Payroll Related Costs	387,157,299	367,530,309	19,626,990	5.3%
Professional Fees and Contracted Services	88,442,479	78,143,277	10,299,202	13.2%
Other Contracted Services	123,129,169	118,590,940	4,538,229	3.8%
Scholarships and Fellowships	208,808,744	188,358,716	20,450,028	10.9%
Travel	32,768,404	30,507,819	2,260,585	7.4%
Materials and Supplies	349,625,179	336,639,282	12,985,897	3.9%
Utilities	80,011,490	89,818,123	(9,806,633)	-10.9%
Telecommunications	22,002,737	22,312,548	(309,811)	-1.4%
Repairs and Maintenance	47,966,083	45,379,784	2,586,299	5.7%
Rentals and Leases	34,371,101	33,957,133	413,968	1.2%
Printing and Reproduction	8,588,597	8,547,503	41,094	0.5%
Bad Debt Expense	315,268	815,286	(500,018)	-61.3%
Claims and Losses	11,948,248	1,862,020	10,086,228	541.7%
Federal Sponsored Programs Pass-Throughs	9,045,216	5,475,932	3,569,284	65.2%
Depreciation and Amortization	196,230,283	186,192,471	10,037,812	5.4%
Other Operating Expenses	128,657,312	122,464,388	6,192,924	5.1%
Total Operating Expenses	**3,327,277,103**	**3,156,461,508**	**170,815,595**	**5.4%**
Operating Loss	(722,126,459)	(741,125,162)	18,998,703	2.6%
Other Nonoperating Adjustments				
State Appropriations	589,483,030	582,294,175	7,188,855	1.2%
Gift Contributions for Operations	88,842,474	76,157,241	12,685,233	16.7%
Net Investment Income	165,094,009	188,279,672	(23,185,663)	-12.3%
Long Term Fund Distribution	64,696,662	60,667,002	4,029,660	6.6%
Interest Expense on Capital Asset Financings	(64,792,067)	(60,601,803)	(4,190,264)	-6.9%
Net Other Nonoperating Adjustments	**843,324,108**	**846,796,287**	**(3,472,179)**	**-0.4%**
Adjusted Income (Loss)	**121,197,649**	**105,671,125**	**15,526,524**	**14.7%**
Adjusted Margin (as a percentage)	**3.4%**	**3.2%**		
Available University Fund Transfer	0	0	0	0.0%
Investment Gains (Losses)	930,701,918	396,507,848	534,194,070	134.7%
Adj. Inc. (Loss) with Investment Gains (Losses)	**$ 1,051,899,567**	**$ 502,178,973**	**$ 549,720,594**	**109.5%**
Adj. Margin % with Investment Gains (Losses)	23.7%	13.5%		

The University of Texas System
Comparison of Adjusted Income (Loss)
For the Four Months Ending December 31, 2006

	December Year-to-Date FY 2007		December Year-to-Date FY 2006	Variance		Fluctuation Percentage
UT System Administration	$ 78,585,578		$ 115,773,452	$ (37,187,874)	(1)	-32.1%
UT Arlington	5,010,850		3,103,575	1,907,275	(2)	61.5%
UT Austin	51,015,988		30,964,771	20,051,217	(3)	64.8%
UT Brownsville	(357,560)		334,619	(692,179)	(4)	-206.9%
UT Dallas	(1,899,172)	(5)	(3,483,603)	1,584,431		45.5%
UT El Paso	933,569		970,734	(37,165)		-3.8%
UT Pan American	(281,041)		657,231	(938,272)	(6)	-142.8%
UT Permian Basin	350,444		(176,244)	526,688	(7)	298.8%
UT San Antonio	13,935,845		10,112,438	3,823,407		37.8%
UT Tyler	1,153,706		1,107,900	45,806		4.1%
UT Southwestern Medical Center - Dallas	(8,166,338)		(3,157,273)	(5,009,065)	(8)	-158.7%
UT Medical Branch - Galveston	(14,309,869)		(20,487,677)	6,177,808	(9)	30.2%
UT Health Science Center - Houston	4,796,135		8,615,767	(3,819,632)		-44.3%
UT Health Science Center - San Antonio	(4,909,315)		(2,907,209)	(2,002,106)	(10)	-68.9%
UT M. D. Anderson Cancer Center	40,267,979		4,225,763	36,042,216	(11)	852.9%
UT Health Center - Tyler	(2,409,150)	(12)	(2,489,786)	80,636		3.2%
Elimination of AUF Transfer	(42,520,000)		(37,493,333)	(5,026,667)		-13.4%
Total Adjusted Income (Loss)	121,197,649		105,671,125	15,526,524		14.7%
Investment Gains (Losses)	930,701,918		396,507,848	534,194,070	(13)	134.7%
Total Adjusted Income (Loss) with Investment Gains (Losses)	**$ 1,051,899,567**		**$ 502,178,973**	**$ 549,720,594**		**109.5%**

THE UNIVERSITY OF TEXAS SYSTEM
EXPLANATION OF VARIANCES ON THE MONTHLY FINANCIAL REPORT
For the Four Months Ending December 31, 2006

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

(1) *UT System Administration* - The $37.2 million (32.1%) decrease in adjusted income over the same period last year was primarily due to decreased net investment income, decreased other operating revenue, decreased sponsored program revenue and increased professional fees and contracted services expense. Other operating revenue decreased as a result of the migration from the fully insured HMO plan to the UT Select self-insured plan due to the premium increases for the HMO plan. Sponsored program revenue decreased due to the Joint Admission Medical Program funding which is received biennially. Professional fees increased as a result of 2006 audit services performed by Deloitte & Touche (D&T) in 2007. For the 2006 audit, System Administration paid D&T's audit fees from the Available University Fund (AUF). For the 2005 audit, each institution paid a pro-rata share of the audit expense.

(2) *UT Arlington* -- The $1.9 million (61.5%) increase in adjusted income over the same period last year was primarily due to an increase in tuition and fees as a result of the new utility fee and new flat rate tuition.

(3) *UT Austin* – The $20.1 million (64.8%) increase in adjusted income over the same period last year was primarily due to an increase in net sales and services of educational activities, net auxiliary enterprises and an increase in the transfer from the AUF. Net sales and services of educational activities increased primarily as a result of growth in the Executive MBA programs. The increase in net auxiliary enterprises is due to increases in Intercollegiate Athletics and application fees and room payments for Housing and Food Services. Intercollegiate Athletics increased as a result of the stadium expansion completed in the summer of 2006 which increased capacity and therefore gate receipts. Housing and Food Services increased due to opening the new Almetrius Duren residence hall and rate increases to accommodate for increasing utilities.

(4) *UT Brownsville* The $692,000 (206.9%) decrease in adjusted income over the same period last year was primarily due to increased faculty, staff, and part-time salaries and wages as a result of annual merit increases, higher group insurance premiums and new faculty due to enrollment growth.

As a result, *UT Brownsville* had a $358,000 year-to-date loss. *UT Brownsville* is anticipating ending the year with a $2.3 million negative margin which represents -1.7% of projected revenues. This forecast includes $5.4 million in non-cash depreciation expense.

(5) *UT Dallas* – The $1.9 million year-to-date loss was the result of management's decision to utilize accumulated reserves in lieu of increasing student fees. The funds are being used to invest in new faculty and Development Office staff and to cover increased costs of facilities. *UT Dallas* is anticipating ending the year with a $5.1 million negative margin which represents -1.9% of projected revenues. This forecast includes $18.5 million in non-cash depreciation expense.

(6) *UT Pan American* – The $938,000 (142.8%) increase in adjusted loss over the same period last year was primarily due to increases in salaries and wages, payroll related costs and depreciation expense. Salaries and wages and payroll related costs increased due to new faculty to accommodate enrollment growth and faculty workload reduction, new staff positions primarily in the department of information technology as a result of the Oracle conversion, merit increases, the filling of vacant positions and higher group insurance premiums. Depreciation expense increased due to placing the Education Complex in service in 2006 and the Oracle conversion which was effective September 1, 2006.

As a result, *UT Pan American* had a $281,000 year-to-date loss. *UT Pan American* is anticipating ending the year with a $5.1 million negative margin which represents -2.2% of projected revenues. This forecast includes $16.6 million in non-cash depreciation expense.

(7) *UT Permian Basin* – The $527,000 (298.8%) increase in adjusted income over the same period last year was primarily due to increased tuition and fees as a result of increased rates and higher enrollment of 2.9% from fall 2005 to fall 2006.

While *UT Permian Basin* is currently reflecting a positive margin of $350,000, management is projecting a year-end loss of approximately $3.1 million which represents -7.2% of projected revenues. This forecast includes $3.3 million in non-cash depreciation expense.

In 2006, *UT Permian Basin* reported $1.9 million of operating gifts for the pre-conceptual design of the High-Temperature Teaching and Test Reactor which have not yet been expended. It is anticipated that the majority of these funds will be expended in 2007.

(8) *UT Southwestern Medical Center at Dallas* – The $5 million (158.7%) decrease in adjusted income over the same period last year was primarily due to a loss of $4.7 million by the hospitals, $2.7 million expenses from prior year gift balances and $1.1 million of non-capital furnishings for the new Outpatient Surgical building.

As a result, *UT Southwestern* had an $8.2 million year-to-date loss. *UT Southwestern* is anticipating ending the year with a $15 million positive margin which represents 1.2% of projected revenues. This forecast includes $64.1 million in non-cash depreciation expense.

(9) *UT Medical Branch – Galveston* – The $6.2 million (30.2%) decrease in adjusted loss was primarily due to an increase in other operating revenues of $4.3 million as a result of the Austin Initiative and a decrease in Correctional Managed Health Care Incurred but not Reported (IBNR) liability of $1.6 million. The increase in the Austin Initiative is the result of contract agreements with Seton Healthcare Network, primarily in their Pediatrics Graduate Medical Education, Internal Medicine and OB-GYN departments.

UTMB had a $14.3 million year-to-date loss and projects a negative margin of $25 million which represents -1.8% of projected revenues. This projection includes $55.7 million in non-cash depreciation expense.

The Navigant Consulting Group helped *UTMB's* management develop a three-year plan to improve operating margin. The first year of the three-year strategy focuses on cost reductions. *UTMB's* management created a Strategic Executive Council which integrates cost-cutting and revenue enhancement strategies, resolves conflicts, allocates resources and provides strategic direction for *UTMB*.

(10) *UT Health Science Center – San Antonio* – The $2 million (68.9%) increase in adjusted loss over the same period last year was primarily due to the Physician Practice Plan's addition of new faculty, recruitment and program expansion efforts and the use of prior year balances in the medical school and research initiatives.

As a result, *UTHSC-SA* had a $4.9 million year-to-date loss. *UTHSC-SA* is anticipating ending the year with a $6.7 million negative margin which represents -1.2% of projected revenues. This projection includes $25 million in non-cash depreciation expense.

(11) *UT M. D. Anderson Cancer Center* – The $36 million (852.9%) increase in adjusted income over the same period last year was primarily due to higher patient volumes related to the temporary closure of *M. D. Anderson* in the first quarter of 2006 because of Hurricane *Rita*.

(12) *UT Health Center – Tyler* – The $2.4 million year-to-date loss was primarily due to decreased net sales and services of hospitals as a result of decreases in admissions (8.5%), clinic visits (10%), Radiology (5%) and inpatient surgeries (31%) and increased bad debt reserves of $2 million. An additional $2 million was reserved for bad debt due to restructuring within the Coding and Business Office. These accounts have not been written-off; however, they have aged to greater than 120 days and must be reserved. A reversal of these reserves is expected over the next 60 days as these amounts are collected. In addition, *UTHC-Tyler* will report approximately $2 million of income from the Centers for Medicare and Medicaid Services in January as a result of high levels of indigent care patients. *UTHC-Tyler* anticipates ending the year with a $2.2 million positive margin, which represents 1.7% of projected revenues. This projection includes $8.8 million in non-cash depreciation expense.

The Navigant Consulting Group helped *UTHC-Tyler's* management develop a three-year plan to improve operating margin. The three-year strategy focuses on cost reductions, affiliations and outreach.

(13) *Investment Gains (Losses)* – The majority of the $534.2 million (134.7%) increase in investment gains relates to the Permanent University Fund of $251 million, the Long Term Fund of $125.8 million and the Permanent Health Fund of $25.4 million.

GLOSSARY OF TERMS

OPERATING REVENUES:

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

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

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

NET SALES AND SERVICES OF HOSPITALS – Revenues (net of discounts, allowances, and bad debt expense) generated from UT health institution's daily patient care, special or other services, as well as revenues from health clinics that are part of a hospital.

NET PROFESSIONAL FEES – Revenues (net of discounts, allowances, and bad debt expense) derived from the fees charged by the professional staffs at UT health institutions as part of the Medical Practice Plans. These revenues are also identified as Practice Plan income. Examples of such fees include doctor's fees for clinic visits, medical and dental procedures, professional opinions, and anatomical procedures, such as analysis of specimens after a surgical procedure, etc.

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

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

OPERATING EXPENSES:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OTHER NONOPERATING ADJUSTMENTS:

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

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

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

NET INVESTMENT INCOME (on the consolidated sheet) Interest and dividend earnings of the Permanent University Fund, Short Term Fund, Intermediate Term Fund, Long Term Fund and Permanent Health Fund less Long Term Fund transfers so as not to overstate investment Income. This line item also includes the Available University Fund surface income, oil and gas royalties, and mineral lease bonus sales.

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

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

ADJUSTED INCOME (LOSS) – 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 UT Austin for Excellence Funding. These transfers are funded by investment earnings from the Permanent University Fund (PUF), which are required by law to be reported in the PUF at System Administration. On the MFR, investment income for System Administration has been reduced for the amount of the System Administration transfer so as not to overstate investment income for System Administration. The AUF transfers are eliminated at the consolidated level to avoid overstating System-wide revenues, as the amounts will be reflected as transfers at year-end.

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

UNAUDITED
The University of Texas System Administration
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2006

	December Year-to-Date FY 2007	December Year-to-Date FY 2006	Variance	Fluctuation Percentage
Operating Revenues				
Sponsored Programs	$ 12,072,376	$ 5,343,910	$6,728,466	125.9%
Net Sales and Services of Educational Activities	7,518,392	7,051,875	466,517	6.6%
Other Operating Revenues	8,132,938	12,667,237	(4,534,299)	-35.8%
Total Operating Revenues	**27,723,706**	**25,063,022**	**2,660,684**	**10.6%**
Operating Expenses				
Salaries and Wages	10,455,760	9,099,541	1,356,219	14.9%
Employee Benefits and Related Costs	2,080,165	1,937,006	143,159	7.4%
Professional Fees and Contracted Services	1,920,251	418,882	1,501,369	358.4%
Other Contracted Services	3,073,384	2,198,894	874,490	39.8%
Scholarships and Fellowships	106,300	160,000	(53,700)	-33.6%
Travel	610,083	587,708	22,375	3.8%
Materials and Supplies	750,670	510,946	239,724	46.9%
Utilities	221,464	5,872	215,592	3,671.5%
Telecommunications	900,901	352,205	548,696	155.8%
Repairs and Maintenance	560,991	326,161	234,830	72.0%
Rentals and Leases	541,605	677,033	(135,428)	-20.0%
Printing and Reproduction	77,465	72,582	4,883	6.7%
Claims and Losses	11,948,248	1,862,020	10,086,228	541.7%
Depreciation and Amortization	2,134,750	1,772,282	362,468	20.5%
Other Operating Expenses	1,112,081	1,475,660	(363,579)	-24.6%
Total Operating Expenses	**36,494,118**	**21,456,792**	**15,037,326**	**70.1%**
Operating Loss	(8,770,412)	3,606,230	(12,376,642)	-343.2%
Other Nonoperating Adjustments				
State Appropriations	305,918	276,663	29,255	10.6%
Gift Contributions for Operations	288,899	212,564	76,335	35.9%
Net Investment Income	91,540,062	116,211,581	(24,671,519)	-21.2%
Long Term Fund Distribution	449,162	1,471,526	(1,022,364)	-69.5%
Interest Expense on Capital Asset Financings	(15,895,162)	(15,903,492)	8,330	0.1%
Net Other Nonoperating Adjustments	**76,688,879**	**102,268,842**	**(25,579,963)**	**-25.0%**
Adjusted Income (Loss)	67,918,467	105,875,072	(37,956,605)	-35.9%
Adjusted Margin (as a percentage)	56.5%	73.9%		
Available University Fund Transfer	10,667,111	9,898,380	768,731	7.8%
Adjusted Income (Loss) with AUF Transfer	78,585,578	115,773,452	(37,187,874)	-32.1%
Adjusted Margin % with AUF Transfer	60.0%	75.6%		
Investment Gains (Losses)	814,028,032	392,841,696	421,186,336	107.2%
Adj. Inc. (Loss) with AUF Transfer & Invest. Gains (Losses)	$ 892,613,610	$ 508,615,148	$ 383,998,462	75.5%
Adj. Margin % with AUF Transfer & Invest. Gains (Losses)	95.5%	94.9%		

UNAUDITED
The University of Texas at Arlington
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2006

	December Year-to-Date FY 2007	December Year-to-Date FY 2006	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 55,161,172	$ 47,190,716	$ 7,970,456	16.9%
Sponsored Programs	17,901,114	16,284,669	1,616,445	9.9%
Net Sales and Services of Educational Activities	3,747,605	2,374,080	1,373,525	57.9%
Net Auxiliary Enterprises	8,151,568	8,872,734	(721,166)	-8.1%
Other Operating Revenues	2,298,184	2,361,815	(63,631)	-2.7%
Total Operating Revenues	**87,259,643**	**77,084,014**	**10,175,629**	**13.2%**
Operating Expenses				
Salaries and Wages	55,496,760	51,601,524	3,895,236	7.5%
Employee Benefits and Related Costs	11,933,637	11,123,761	809,876	7.3%
Professional Fees and Contracted Services	1,606,606	1,472,603	134,003	9.1%
Other Contracted Services	3,129,717	2,516,199	613,518	24.4%
Scholarships and Fellowships	18,401,010	16,380,927	2,020,083	12.3%
Travel	1,232,537	1,108,610	123,927	11.2%
Materials and Supplies	5,698,913	4,804,606	894,307	18.6%
Utilities	3,454,232	3,672,672	(218,440)	-5.9%
Telecommunications	2,480,211	2,083,391	396,820	19.0%
Repairs and Maintenance	1,862,052	2,292,302	(430,250)	-18.8%
Rentals and Leases	769,624	972,940	(203,316)	-20.9%
Printing and Reproduction	678,832	699,506	(20,674)	-3.0%
Depreciation and Amortization	6,787,948	6,696,208	91,740	1.4%
Other Operating Expenses	3,921,454	2,869,681	1,051,773	36.7%
Total Operating Expenses	**117,453,533**	**108,294,930**	**9,158,603**	**8.5%**
Operating Loss	**(30,193,890)**	**(31,210,916)**	**1,017,026**	**3.3%**
Other Nonoperating Adjustments				
State Appropriations	35,148,379	34,386,724	761,655	2.2%
Gift Contributions for Operations	722,151	602,604	119,547	19.8%
Net Investment Income	1,380,991	1,319,394	61,597	4.7%
Long Term Fund Distribution	757,747	701,661	56,086	8.0%
Interest Expense on Capital Asset Financings	(2,804,528)	(2,695,892)	(108,636)	-4.0%
Net Other Nonoperating Adjustments	**35,204,740**	**34,314,491**	**890,249**	**2.6%**
Adjusted Income (Loss)	**5,010,850**	**3,103,575**	**1,907,275**	61.5%
Adjusted Margin (as a percentage)	4.0%	2.7%		
Investment Gains (Losses)	4,382,051	(176,906)	4,558,957	2,577.1%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 9,392,901**	**$ 2,926,669**	**$ 6,466,232**	**220.9%**
Adjusted Margin % with Investment Gains (Losses)	**7.2%**	**2.6%**		

UNAUDITED

The University of Texas at Austin

Comparison of Operating Results and Margin

For the Four Months Ending December 31, 2006

	December Year-to-Date FY 2007	December Year-to-Date FY 2006	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 183,696,415	$ 168,628,702	$ 15,067,713	8.9%
Sponsored Programs	147,944,435	138,023,412	9,921,023	7.2%
Net Sales and Services of Educational Activities	45,181,267	34,481,489	10,699,778	31.0%
Net Auxiliary Enterprises	74,628,845	61,434,111	13,194,734	21.5%
Other Operating Revenues	6,769,884	2,325,691	4,444,193	191.1%
Total Operating Revenues	458,220,846	404,893,405	53,327,441	13.2%
Operating Expenses				
Salaries and Wages	295,432,798	279,999,202	15,433,596	5.5%
Employee Benefits and Related Costs	65,720,691	61,101,383	4,619,308	7.6%
Professional Fees and Contracted Services	7,520,030	6,129,706	1,390,324	22.7%
Other Contracted Services	23,325,976	20,614,863	2,711,113	13.2%
Scholarships and Fellowships	71,556,998	60,487,304	11,069,694	18.3%
Travel	10,904,289	10,505,756	398,533	3.8%
Materials and Supplies	34,365,045	35,081,567	(716,522)	-2.0%
Utilities	21,156,850	26,820,597	(5,663,747)	-21.1%
Telecommunications	4,936,569	5,272,188	(335,619)	-6.4%
Repairs and Maintenance	6,940,967	8,027,706	(1,086,739)	-13.5%
Rentals and Leases	4,867,325	4,993,324	(125,999)	-2.5%
Printing and Reproduction	3,075,033	2,739,033	336,000	12.3%
Federal Sponsored Programs Pass-Thrus	2,113,431	758,852	1,354,579	178.5%
Depreciation and Amortization	39,773,780	36,312,559	3,461,221	9.5%
Other Operating Expenses	29,421,061	21,072,303	8,348,758	39.6%
Total Operating Expenses	621,110,843	579,916,343	41,194,500	7.1%
Operating Loss	(162,889,997)	(175,022,938)	12,132,941	6.9%
Other Nonoperating Adjustments				
State Appropriations	105,628,759	104,377,245	1,251,514	1.2%
Gift Contributions for Operations	30,077,470	29,781,251	296,219	1.0%
Net Investment Income	10,442,098	11,585,825	(1,143,727)	-9.9%
Long Term Fund Distribution	33,616,876	31,450,605	2,166,271	6.9%
Interest Expense on Capital Asset Financings	(8,379,218)	(8,700,550)	321,332	3.7%
Net Other Nonoperating Adjustments	171,385,985	168,494,376	2,891,609	1.7%
Adjusted Income (Loss)	8,495,988	(6,528,562)	15,024,550	230.1%
Adjusted Margin (as a percentage)	1.3%	-1.1%		
Available University Fund Transfer	42,520,000	37,493,333	5,026,667	13.4%
Adjusted Income (Loss) with AUF Transfer	51,015,988	30,964,771	20,051,217	64.8%
Adjusted Margin % with AUF Transfer	7.5%	5.0%		
Investment Gains (Losses)	23,207,115	(39,026)	23,246,141	59,565.8%
Adj. Inc. (Loss) with AUF Transfer & Invest. Gains (Losses)	$ 74,223,103	$ 30,925,745	$ 43,297,358	140.0%
Adj. Margin % with AUF Transfer & Invest. Gains (Losses)	11.2%	5.3%		

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January 22, 2007

UNAUDITED

The University of Texas at Brownsville
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2006

	December Year-to-Date FY 2007	December Year-to-Date FY 2006	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 4,204,062	$ 3,741,291	$ 462,771	12.4%
Sponsored Programs	34,216,834	27,968,266	6,248,568	22.3%
Net Sales and Services of Educational Activities	301,820	290,225	11,595	4.0%
Net Auxiliary Enterprises	381,314	331,642	49,672	15.0%
Other Operating Revenues	3,222	37,679	(34,457)	-91.4%
Total Operating Revenues	**39,107,252**	**32,369,103**	**6,738,149**	**20.8%**
Operating Expenses				
Salaries and Wages	18,230,756	15,797,988	2,432,768	15.4%
Employee Benefits and Related Costs	4,430,391	3,967,023	463,368	11.7%
Professional Fees and Contracted Services	778,653	539,973	238,680	44.2%
Scholarships and Fellowships	17,095,157	13,035,254	4,059,903	31.1%
Travel	333,616	337,220	(3,604)	-1.1%
Materials and Supplies	1,460,229	1,228,426	231,803	18.9%
Utilities	1,302,789	1,268,062	34,727	2.7%
Telecommunications	443,295	585,437	(142,142)	-24.3%
Repairs and Maintenance	334,645	257,732	76,913	29.8%
Rentals and Leases	583,987	456,172	127,815	28.0%
Printing and Reproduction	119,140	111,128	8,012	7.2%
Bad Debt Expense	8,566	7,761	805	10.4%
Federal Sponsored Programs Pass-Thrus	5,977	-	5,977	100.0%
Depreciation and Amortization	1,797,836	1,709,583	88,253	5.2%
Other Operating Expenses	2,010,525	1,851,692	158,833	8.6%
Total Operating Expenses	**48,935,562**	**41,153,451**	**7,782,111**	**18.9%**
Operating Loss	**(9,828,310)**	**(8,784,348)**	**(1,043,962)**	**-11.9%**
Other Nonoperating Adjustments				
State Appropriations	9,530,679	9,223,592	307,087	3.3%
Gift Contributions for Operations	129,136	110,517	18,619	16.8%
Net Investment Income	345,969	365,772	(19,803)	-5.4%
Long Term Fund Distribution	98,250	89,319	8,931	10.0%
Interest Expense on Capital Asset Financings	(633,284)	(670,233)	36,949	5.5%
Net Other Nonoperating Adjustments	**9,470,750**	**9,118,967**	**351,783**	**3.9%**
Adjusted Income (Loss)	**(357,560)**	**334,619**	**(692,179)**	**-206.9%**
Adjusted Margin (as a percentage)	**-0.7%**	**0.8%**		
Investment Gains (Losses)	864,443	(93,938)	958,381	1,020.2%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 506,883**	**$ 240,681**	**$ 266,202**	**110.6%**
Adjusted Margin % with Investment Gains (Losses)	**1.0%**	**0.6%**		

Office of the Controller

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UNAUDITED

The University of Texas at Dallas

Comparison of Operating Results and Margin

For the Four Months Ending December 31, 2006

	December Year-to-Date FY 2007	December Year-to-Date FY 2006	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 40,738,905	$ 36,016,503	$ 4,722,402	13.1%
Sponsored Programs	13,093,818	17,333,396	(4,239,578)	-24.5%
Net Sales and Services of Educational Activities	1,805,594	1,704,615	100,979	5.9%
Net Auxiliary Enterprises	1,974,383	1,934,248	40,135	2.1%
Other Operating Revenues	1,989,020	2,127,235	(138,215)	-6.5%
Total Operating Revenues	**59,601,720**	**59,115,997**	**485,723**	**0.8%**
Operating Expenses				
Salaries and Wages	45,703,508	42,130,466	3,573,042	8.5%
Employee Benefits and Related Costs	9,107,551	8,134,345	973,206	12.0%
Professional Fees and Contracted Services	792,476	1,310,368	(517,892)	-39.5%
Other Contracted Services	2,789,564	3,263,835	(474,271)	-14.5%
Scholarships and Fellowships	15,064,577	16,792,902	(1,728,325)	-10.3%
Travel	938,417	904,435	33,982	3.8%
Materials and Supplies	4,678,076	5,911,372	(1,233,296)	-20.9%
Utilities	2,056,127	2,196,348	(140,221)	-6.4%
Telecommunications	388,278	525,612	(137,334)	-26.1%
Repairs and Maintenance	1,040,929	1,648,431	(607,502)	-36.9%
Rentals and Leases	404,391	177,641	226,750	127.6%
Printing and Reproduction	450,736	385,657	65,079	16.9%
Federal Sponsored Programs Pass-Thrus	23,855	3,803	20,052	527.3%
Depreciation and Amortization	5,651,637	4,836,378	815,259	16.9%
Other Operating Expenses	3,039,120	2,935,283	103,837	3.5%
Total Operating Expenses	**92,129,242**	**91,156,876**	**972,366**	**1.1%**
Operating Loss	**(32,527,522)**	**(32,040,879)**	**(486,643)**	**-1.5%**
Other Nonoperating Adjustments				
State Appropriations	25,241,440	25,092,230	149,210	0.6%
Gift Contributions for Operations	4,180,131	1,670,893	2,509,238	150.2%
Net Investment Income	1,043,004	1,154,801	(111,797)	-9.7%
Long Term Fund Distribution	2,557,291	2,425,142	132,149	5.4%
Interest Expense on Capital Asset Financings	(2,393,516)	(1,785,790)	(607,726)	-34.0%
Net Other Nonoperating Adjustments	**30,628,350**	**28,557,276**	**2,071,074**	**7.3%**
Adjusted Income (Loss)	**(1,899,172)**	**(3,483,603)**	**1,584,431**	**45.5%**
Adjusted Margin (as a percentage)	**-2.1%**	**-3.9%**		
Investment Gains (Losses)	3,466,348	(925,344)	4,391,692	474.6%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 1,567,176**	**$ (4,408,947)**	**$ 5,976,123**	**135.5%**
Adjusted Margin % with Investment Gains (Losses)	**1.6%**	**-5.0%**		

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The University of Texas at El Paso

Comparison of Operating Results and Margin

For the Four Months Ending December 31, 2006

	December Year-to-Date FY 2007	December Year-to-Date FY 2006	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 28,650,456	$ 26,837,085	$ 1,813,371	6.8%
Sponsored Programs	29,116,032	26,178,348	2,937,684	11.2%
Net Sales and Services of Educational Activities	1,249,996	1,210,960	39,036	3.2%
Net Auxiliary Enterprises	11,301,927	10,192,720	1,109,207	10.9%
Other Operating Revenues	5,784	9,572	(3,788)	-39.6%
Total Operating Revenues	**70,324,195**	**64,428,685**	**5,895,510**	**9.2%**
Operating Expenses				
Salaries and Wages	40,839,031	39,167,246	1,671,785	4.3%
Employee Benefits and Related Costs	9,957,587	9,236,372	721,215	7.8%
Professional Fees and Contracted Services	3,432,363	1,926,342	1,506,021	78.2%
Other Contracted Services	4,685,100	4,037,421	647,679	16.0%
Scholarships and Fellowships	20,700,840	19,234,020	1,466,820	7.6%
Travel	1,574,524	1,502,755	71,769	4.8%
Materials and Supplies	7,997,477	7,561,908	435,569	5.8%
Utilities	2,291,086	2,382,167	(91,081)	-3.8%
Telecommunications	150,830	124,879	25,951	20.8%
Repairs and Maintenance	1,263,828	1,667,743	(403,915)	-24.2%
Rentals and Leases	1,317,931	980,011	337,920	34.5%
Printing and Reproduction	192,629	406,161	(213,532)	-52.6%
Federal Sponsored Programs Pass-Thrus	62,499	473,757	(411,258)	-86.8%
Depreciation and Amortization	4,103,267	3,960,008	143,259	3.6%
Other Operating Expenses	1,946,259	1,854,783	91,476	4.9%
Total Operating Expenses	**100,515,251**	**94,515,573**	**5,999,678**	**6.3%**
Operating Loss	**(30,191,056)**	**(30,086,888)**	**(104,168)**	**-0.3%**
Other Nonoperating Adjustments				
State Appropriations	26,573,756	27,361,328	(787,572)	-2.9%
Gift Contributions for Operations	3,056,735	2,275,331	781,404	34.3%
Net Investment Income	1,513,719	1,312,172	201,547	15.4%
Long Term Fund Distribution	1,512,971	1,446,531	66,440	4.6%
Interest Expense on Capital Asset Financings	(1,532,556)	(1,337,740)	(194,816)	-14.6%
Net Other Nonoperating Adjustments	**31,124,625**	**31,057,622**	**67,003**	**0.2%**
Adjusted Income (Loss)	**933,569**	**970,734**	**(37,165)**	**-3.8%**
Adjusted Margin (as a percentage)	**0.9%**	**1.0%**		
Investment Gains (Losses)	1,972,099	(231,031)	2,203,130	953.6%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 2,905,668**	**$ 739,703**	**$ 2,165,965**	**292.8%**
Adjusted Margin % with Investment Gains (Losses)	**2.8%**	**0.8%**		

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The University of Texas-Pan American

Comparison of Operating Results and Margin

For the Four Months Ending December 31, 2006

	December Year-to-Date FY 2007	December Year-to-Date FY 2006	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 22,815,708	$ 19,735,132	$ 3,080,576	15.6%
Sponsored Programs	29,415,930	26,000,354	3,415,576	13.1%
Net Sales and Services of Educational Activities	2,589,877	2,056,035	533,842	26.0%
Net Auxiliary Enterprises	1,376,716	1,250,680	126,036	10.1%
Other Operating Revenues	155,020	183,327	(28,307)	-15.4%
Total Operating Revenues	56,353,251	49,225,528	7,127,723	14.5%
Operating Expenses				
Salaries and Wages	29,221,261	26,911,188	2,310,073	8.6%
Employee Benefits and Related Costs	6,659,195	6,437,251	221,944	3.4%
Professional Fees and Contracted Services	528,609	271,778	256,831	94.5%
Other Contracted Services	2,331,933	912,536	1,419,397	155.5%
Scholarships and Fellowships	25,986,538	23,401,027	2,585,511	11.0%
Travel	878,262	791,532	86,730	11.0%
Materials and Supplies	4,304,227	3,914,196	390,031	10.0%
Utilities	1,760,789	1,614,531	146,258	9.1%
Telecommunications	389,970	245,104	144,866	59.1%
Repairs and Maintenance	860,481	372,608	487,873	130.9%
Rentals and Leases	212,769	245,373	(32,604)	-13.3%
Printing and Reproduction	56,825	206,439	(149,614)	-72.5%
Bad Debt Expense	306,702	408,312	(101,610)	-24.9%
Federal Sponsored Programs Pass-Thrus	72	35,204	(35,132)	-99.8%
Depreciation and Amortization	5,547,356	4,773,537	773,819	16.2%
Other Operating Expenses	1,246,721	1,839,088	(592,367)	-32.2%
Total Operating Expenses	80,291,710	72,379,704	7,912,006	10.9%
Operating Loss	(23,938,459)	(23,154,176)	(784,283)	-3.4%
Other Nonoperating Adjustments				
State Appropriations	23,230,744	23,003,615	227,129	1.0%
Gift Contributions for Operations	845,175	590,072	255,103	43.2%
Net Investment Income	731,739	669,135	62,604	9.4%
Long Term Fund Distribution	358,680	340,823	17,857	5.2%
Interest Expense on Capital Asset Financings	(1,508,920)	(792,238)	(716,682)	-90.5%
Net Other Nonoperating Adjustments	23,657,418	23,811,407	(153,989)	-0.6%
Adjusted Income (Loss)	(281,041)	657,231	(938,272)	-142.8%
Adjusted Margin (as a percentage)	-0.3%	0.9%		
Investment Gains (Losses)	1,488,198	(336,644)	1,824,842	542.1%
Adjusted Income (Loss) with Investment Gains (Losses)	$ 1,207,157	$ 320,587	$ 886,570	276.5%
Adjusted Margin % with Investment Gains (Losses)	1.5%	0.4%		

UNAUDITED

The University of Texas of the Permian Basin
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2006

	December Year-to-Date FY 2007	December Year-to-Date FY 2006	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 4,617,355	$ 4,078,980	$ 538,375	13.2%
Sponsored Programs	2,274,146	1,890,516	383,630	20.3%
Net Sales and Services of Educational Activities	86,182	87,957	(1,775)	-2.0%
Net Auxiliary Enterprises	795,171	767,194	27,977	3.6%
Other Operating Revenues	26,832	16,544	10,288	62.2%
Total Operating Revenues	**7,799,686**	**6,841,191**	**958,495**	**14.0%**
Operating Expenses				
Salaries and Wages	5,546,700	5,289,501	257,199	4.9%
Employee Benefits and Related Costs	1,242,986	1,249,724	(6,738)	-0.5%
Professional Fees and Contracted Services	484,962	275,927	209,035	75.8%
Other Contracted Services	228,500	247,602	(19,102)	-7.7%
Scholarships and Fellowships	2,542,287	2,456,316	85,971	3.5%
Travel	223,614	192,417	31,197	16.2%
Materials and Supplies	561,015	791,363	(230,348)	-29.1%
Utilities	620,968	497,771	123,197	24.7%
Telecommunications	202,905	214,959	(12,054)	-5.6%
Repairs and Maintenance	216,200	154,148	62,052	40.3%
Rentals and Leases	130,079	72,093	57,986	80.4%
Printing and Reproduction	66,995	105,491	(38,496)	-36.5%
Depreciation and Amortization	1,115,912	1,115,912	-	0.0%
Other Operating Expenses	284,047	361,399	(77,352)	-21.4%
Total Operating Expenses	**13,467,170**	**13,024,623**	**442,547**	**3.4%**
Operating Loss	**(5,667,484)**	**(6,183,432)**	**515,948**	**8.3%**
Other Nonoperating Adjustments				
State Appropriations	5,736,172	5,714,140	22,032	0.4%
Gift Contributions for Operations	476,647	570,429	(93,782)	-16.4%
Net Investment Income	144,104	90,070	54,034	60.0%
Long Term Fund Distribution	226,429	215,474	10,955	5.1%
Interest Expense on Capital Asset Financings	(565,424)	(582,925)	17,501	3.0%
Net Other Nonoperating Adjustments	**6,017,928**	**6,007,188**	**10,740**	**0.2%**
Adjusted Income (Loss)	**350,444**	**(176,244)**	**526,688**	**298.8%**
Adjusted Margin (as a percentage)	**2.4%**	**-1.3%**		
Investment Gains (Losses)	202,494	1,852	200,642	10,833.8%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 552,938**	**$ (174,392)**	**$ 727,330**	**417.1%**
Adjusted Margin % with Investment Gains (Losses)	**3.8%**	**-1.3%**		

Office of the Controller

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UNAUDITED
The University of Texas at San Antonio
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2006

	December Year-to-Date FY 2007	December Year-to-Date FY 2006	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 59,332,744	$ 51,960,970	$ 7,371,774	14.2%
Sponsored Programs	26,843,467	26,076,603	766,864	2.9%
Net Sales and Services of Educational Activities	1,455,595	1,422,167	33,428	2.4%
Net Auxiliary Enterprises	4,953,129	5,901,186	(948,057)	-16.1%
Other Operating Revenues	533,500	533,186	314	0.1%
Total Operating Revenues	**93,118,435**	**85,894,112**	**7,224,323**	**8.4%**
Operating Expenses				
Salaries and Wages	50,868,448	46,859,541	4,008,907	8.6%
Employee Benefits and Related Costs	12,301,453	11,201,232	1,100,221	9.8%
Professional Fees and Contracted Services	1,140,957	941,752	199,205	21.2%
Other Contracted Services	1,466,807	705,569	761,238	107.9%
Scholarships and Fellowships	22,595,513	22,374,420	221,093	1.0%
Travel	1,592,644	1,619,155	(26,511)	-1.6%
Materials and Supplies	5,216,100	8,348,328	(3,132,228)	-37.5%
Utilities	3,289,658	2,950,931	338,727	11.5%
Telecommunications	686,224	1,029,457	(343,233)	-33.3%
Repairs and Maintenance	1,893,763	1,443,112	450,651	31.2%
Rentals and Leases	733,177	721,183	11,994	1.7%
Printing and Reproduction	361,896	301,432	60,464	20.1%
Federal Sponsored Programs Pass-Thrus	701,729	784,259	(82,530)	-10.5%
Depreciation and Amortization	7,011,342	6,866,859	144,483	2.1%
Other Operating Expenses	1,936,704	1,759,472	177,232	10.1%
Total Operating Expenses	**111,796,415**	**107,906,702**	**3,889,713**	**3.6%**
Operating Loss	**(18,677,980)**	**(22,012,590)**	**3,334,610**	**15.1%**
Other Nonoperating Adjustments				
State Appropriations	32,524,007	31,938,041	585,966	1.8%
Gift Contributions for Operations	1,272,564	1,523,676	(251,112)	-16.5%
Net Investment Income	2,153,538	1,525,944	627,594	41.1%
Long Term Fund Distribution	638,460	531,323	107,137	20.2%
Interest Expense on Capital Asset Financings	(3,974,744)	(3,393,956)	(580,788)	-17.1%
Net Other Nonoperating Adjustments	**32,613,825**	**32,125,028**	**488,797**	**1.5%**
Adjusted Income (Loss)	**13,935,845**	**10,112,438**	**3,823,407**	**37.8%**
Adjusted Margin (as a percentage)	**10.7%**	**8.3%**		
Investment Gains (Losses)	5,915,672	78,277	5,837,395	7,457.4%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 19,851,517**	**$ 10,190,715**	**$ 9,660,802**	**94.8%**
Adjusted Margin % with Investment Gains (Losses)	**14.6%**	**8.4%**		

UNAUDITED

The University of Texas at Tyler

Comparison of Operating Results and Margin

For the Four Months Ending December 31, 2006

	December Year-to-Date FY 2007	December Year-to-Date FY 2006	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 8,838,076	$ 7,393,368	$ 1,444,708	19.5%
Sponsored Programs	3,747,305	4,433,514	(686,209)	-15.5%
Net Sales and Services of Educational Activities	358,727	375,230	(16,503)	-4.4%
Net Auxiliary Enterprises	1,403,471	1,083,587	319,884	29.5%
Other Operating Revenues	25,491	26,342	(851)	-3.2%
Total Operating Revenues	**14,373,070**	**13,312,041**	**1,061,029**	**8.0%**
Operating Expenses				
Salaries and Wages	9,965,341	9,432,731	532,610	5.6%
Employee Benefits and Related Costs	2,504,783	2,263,395	241,388	10.7%
Professional Fees and Contracted Services	443,212	485,851	(42,639)	-8.8%
Other Contracted Services	1,036,338	728,728	307,610	42.2%
Scholarships and Fellowships	4,128,629	4,069,957	58,672	1.4%
Travel	313,593	314,346	(753)	-0.2%
Materials and Supplies	1,879,805	1,177,180	702,625	59.7%
Utilities	365,496	408,205	(42,709)	-10.5%
Telecommunications	181,814	158,350	23,464	14.8%
Repairs and Maintenance	377,881	510,203	(132,322)	-25.9%
Rentals and Leases	115,014	72,636	42,378	58.3%
Printing and Reproduction	256,925	192,495	64,430	33.5%
Depreciation and Amortization	2,146,412	2,033,664	112,748	5.5%
Other Operating Expenses	447,099	379,235	67,864	17.9%
Total Operating Expenses	**24,162,342**	**22,226,976**	**1,935,366**	**8.7%**
Operating Loss	**(9,789,272)**	**(8,914,935)**	**(874,337)**	**-9.8%**
Other Nonoperating Adjustments				
State Appropriations	10,036,395	9,284,949	751,446	8.1%
Gift Contributions for Operations	629,959	366,252	263,707	72.0%
Net Investment Income	274,581	342,747	(68,166)	-19.9%
Long Term Fund Distribution	835,079	791,473	43,606	5.5%
Interest Expense on Capital Asset Financings	(833,036)	(762,586)	(70,450)	-9.2%
Net Other Nonoperating Adjustments	**10,942,978**	**10,022,835**	**920,143**	**9.2%**
Adjusted Income (Loss)	**1,153,706**	**1,107,900**	**45,806**	**4.1%**
Adjusted Margin (as a percentage)	**4.4%**	**4.6%**		
Investment Gains (Losses)	759,919	(3,736)	763,655	20,440.4%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 1,913,625**	**$ 1,104,164**	**$ 809,461**	**73.3%**
Adjusted Margin % with Investment Gains (Losses)	**7.1%**	**4.6%**		

UNAUDITED

The University of Texas Southwestern Medical Center at Dallas
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2006

	December Year-to-Date FY 2007	December Year-to-Date FY 2006	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 8,697,904	$ 8,232,012	$ 465,892	5.7%
Sponsored Programs	131,854,989	125,851,913	6,003,076	4.8%
Net Sales and Services of Educational Activities	2,112,367	4,342,115	(2,229,748)	-51.4%
Net Sales and Services of Hospitals	92,064,726	91,725,619	339,107	0.4%
Net Professional Fees	86,356,456	78,843,368	7,513,088	9.5%
Net Auxiliary Enterprises	5,814,061	5,889,166	(75,105)	-1.3%
Other Operating Revenues	1,677,175	1,986,813	(309,638)	-15.6%
Total Operating Revenues	**328,577,678**	**316,871,006**	**11,706,672**	**3.7%**
Operating Expenses				
Salaries and Wages	206,984,638	193,111,378	13,873,260	7.2%
Employee Benefits and Related Costs	55,616,723	51,957,692	3,659,031	7.0%
Professional Fees and Contracted Services	3,756,023	4,218,947	(462,924)	-11.0%
Other Contracted Services	23,715,697	24,382,325	(666,628)	-2.7%
Scholarships and Fellowships	6,057,783	5,834,617	223,166	3.8%
Travel	2,740,121	2,629,456	110,665	4.2%
Materials and Supplies	56,898,648	53,527,871	3,370,777	6.3%
Utilities	6,773,954	8,025,001	(1,251,047)	-15.6%
Telecommunications	1,662,558	1,925,179	(262,621)	-13.6%
Repairs and Maintenance	3,697,369	3,474,200	223,169	6.4%
Rentals and Leases	3,692,084	3,907,483	(215,399)	-5.5%
Printing and Reproduction	872,858	908,823	(35,965)	-4.0%
Federal Sponsored Programs Pass-Thrus	116,147	161,730	(45,583)	-28.2%
Depreciation and Amortization	20,254,574	18,984,059	1,270,515	6.7%
Other Operating Expenses	18,479,258	18,633,314	(154,056)	-0.8%
Total Operating Expenses	**411,318,435**	**391,682,075**	**19,636,360**	**5.0%**
Operating Loss	**(82,740,757)**	**(74,811,069)**	**(7,929,688)**	**-10.6%**
Other Nonoperating Adjustments				
State Appropriations	50,973,346	48,405,863	2,567,483	5.3%
Gift Contributions for Operations	7,989,840	8,780,621	(790,781)	-9.0%
Net Investment Income	13,167,248	12,174,659	992,589	8.2%
Long Term Fund Distribution	10,013,404	9,288,079	725,325	7.8%
Interest Expense on Capital Asset Financings	(7,569,419)	(6,995,426)	(573,993)	-8.2%
Net Other Nonoperating Adjustments	**74,574,419**	**71,653,796**	**2,920,623**	**4.1%**
Adjusted Income (Loss)	**(8,166,338)**	**(3,157,273)**	**(5,009,065)**	**-158.7%**
Adjusted Margin (as a percentage)	**-2.0%**	**-0.8%**		
Investment Gains (Losses)	18,243,491	(1,922,346)	20,165,837	1,049.0%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 10,077,153**	**$ (5,079,619)**	**$ 15,156,772**	**298.4%**
Adjusted Margin % with Investment Gains (Losses)	**2.3%**	**-1.3%**		

UNAUDITED

The University of Texas Medical Branch at Galveston

Comparison of Operating Results and Margin

For the Four Months Ending December 31, 2006

	December Year-to-Date FY 2007	December Year-to-Date FY 2006	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 5,657,269	$ 4,470,008	$ 1,187,261	26.6%
Sponsored Programs	68,919,866	70,039,955	(1,120,089)	-1.6%
Net Sales and Services of Hospitals	224,306,424	222,991,436	1,314,988	0.6%
Net Professional Fees	35,722,525	36,997,924	(1,275,399)	-3.4%
Net Auxiliary Enterprises	2,745,507	2,774,566	(29,059)	-1.0%
Other Operating Revenues	11,695,266	7,346,243	4,349,023	59.2%
Total Operating Revenues	349,046,857	344,620,132	4,426,725	1.3%
Operating Expenses				
Salaries and Wages	248,548,663	247,552,588	996,075	0.4%
Employee Benefits and Related Costs	58,255,615	60,246,199	(1,990,584)	-3.3%
Professional Fees and Contracted Services	13,512,481	12,359,160	1,153,321	9.3%
Other Contracted Services	14,098,623	19,962,589	(5,863,966)	-29.4%
Scholarships and Fellowships	2,460,214	2,330,876	129,338	5.5%
Travel	2,133,509	1,975,993	157,516	8.0%
Materials and Supplies	56,155,359	54,419,408	1,735,951	3.2%
Utilities	9,113,073	10,695,497	(1,582,424)	-14.8%
Telecommunications	4,647,266	4,065,307	581,959	14.3%
Repairs and Maintenance	9,781,764	9,331,563	450,201	4.8%
Rentals and Leases	4,849,951	4,425,417	424,534	9.6%
Printing and Reproduction	632,413	584,595	47,818	8.2%
Federal Sponsored Programs Pass-Thrus	4,075,591	1,096,532	2,979,059	271.7%
Depreciation and Amortization	18,178,556	17,827,134	351,422	2.0%
Other Operating Expenses	24,573,775	25,605,476	(1,031,701)	-4.0%
Total Operating Expenses	471,016,853	472,478,334	(1,461,481)	-0.3%
Operating Loss	(121,969,996)	(127,858,202)	5,888,206	4.6%
Other Nonoperating Adjustments				
State Appropriations	96,561,557	96,224,826	336,731	0.3%
Gift Contributions for Operations	2,937,671	2,330,597	607,074	26.0%
Net Investment Income	5,302,494	6,355,330	(1,052,836)	-16.6%
Long Term Fund Distribution	5,554,053	4,415,901	1,138,152	25.8%
Interest Expense on Capital Asset Financings	(2,695,648)	(1,956,129)	(739,519)	-37.8%
Net Other Nonoperating Adjustments	107,660,127	107,370,525	289,602	0.3%
Adjusted Income (Loss)	(14,309,869)	(20,487,677)	6,177,808	30.2%
Adjusted Margin (as a percentage)	-3.1%	-4.5%		
Investment Gains (Losses)	6,449,159	(1,126,548)	7,575,707	672.5%
Adjusted Income (Loss) with Investment Gains (Losses)	$ (7,860,710)	$ (21,614,225)	$ 13,753,515	63.6%
Adjusted Margin % with Investment Gains (Losses)	-1.7%	-4.8%		

UNAUDITED

The University of Texas Health Science Center at Houston
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2006

	December Year-to-Date FY 2007	December Year-to-Date FY 2006	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 8,635,231	$ 6,804,868	$ 1,830,363	26.9%
Sponsored Programs	95,403,182	87,883,004	7,520,178	8.6%
Net Sales and Services of Educational Activities	11,804,470	10,886,530	917,940	8.4%
Net Sales and Services of Hospitals	10,483,143	9,009,899	1,473,244	16.4%
Net Professional Fees	32,636,237	33,676,362	(1,040,125)	-3.1%
Net Auxiliary Enterprises	7,237,937	7,060,829	177,108	2.5%
Other Operating Revenues	10,997,764	10,494,880	502,884	4.8%
Total Operating Revenues	**177,197,964**	**165,816,372**	**11,381,592**	**6.9%**
Operating Expenses				
Salaries and Wages	108,831,658	106,205,892	2,625,766	2.5%
Employee Benefits and Related Costs	24,446,000	23,655,451	790,549	3.3%
Professional Fees and Contracted Services	19,211,112	17,353,334	1,857,778	10.7%
Other Contracted Services	14,012,545	11,976,266	2,036,279	17.0%
Scholarships and Fellowships	931,632	1,250,309	(318,677)	-25.5%
Travel	1,850,860	1,743,214	107,646	6.2%
Materials and Supplies	19,208,172	17,120,289	2,087,883	12.2%
Utilities	5,523,887	3,305,501	2,218,386	67.1%
Telecommunications	747,630	982,988	(235,358)	-23.9%
Repairs and Maintenance	2,238,595	1,499,817	738,778	49.3%
Rentals and Leases	5,279,012	5,612,666	(333,654)	-5.9%
Printing and Reproduction	1,270,684	1,159,004	111,680	9.6%
Bad Debt Expense	-	399,213	(399,213)	-100.0%
Federal Sponsored Programs Pass-Thrus	1,756,214	1,721,779	34,435	2.0%
Depreciation and Amortization	10,348,071	9,157,802	1,190,269	13.0%
Other Operating Expenses	17,248,458	16,637,221	611,237	3.7%
Total Operating Expenses	**232,904,530**	**219,780,746**	**13,123,784**	**6.0%**
Operating Loss	**(55,706,566)**	**(53,964,374)**	**(1,742,192)**	**-3.2%**
Other Nonoperating Adjustments				
State Appropriations	51,264,552	50,653,478	611,074	1.2%
Gift Contributions for Operations	5,142,583	8,630,216	(3,487,633)	-40.4%
Net Investment Income	5,387,805	4,742,841	644,964	13.6%
Long Term Fund Distribution	1,655,985	1,502,444	153,541	10.2%
Interest Expense on Capital Asset Financings	(2,948,224)	(2,948,838)	614	0.0%
Net Other Nonoperating Adjustments	**60,502,701**	**62,580,141**	**(2,077,440)**	**-3.3%**
Adjusted Income (Loss)	**4,796,135**	**8,615,767**	**(3,819,632)**	**-44.3%**
Adjusted Margin (as a percentage)	**2.0%**	**3.7%**		
Investment Gains (Losses)	6,240,000	(1,377,051)	7,617,051	553.1%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 11,036,135**	**$ 7,238,716**	**$ 3,797,419**	**52.5%**
Adjusted Margin % with Investment Gains (Losses)	**4.5%**	**3.1%**		

UNAUDITED

The University of Texas Health Science Center at San Antonio

Comparison of Operating Results and Margin

For the Four Months Ending December 31, 2006

	December Year-to-Date FY 2007	December Year-to-Date FY 2006	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 7,733,333	$ 7,553,097	$ 180,236	2.4%
Sponsored Programs	60,734,257	62,354,864	(1,620,607)	-2.6%
Net Sales and Services of Educational Activities	7,673,836	7,290,619	383,217	5.3%
Net Professional Fees	26,187,446	26,777,847	(590,401)	-2.2%
Net Auxiliary Enterprises	943,063	1,252,929	(309,866)	-24.7%
Other Operating Revenues	9,344,993	9,457,366	(112,373)	-1.2%
Total Operating Revenues	112,616,928	114,686,722	(2,069,794)	-1.8%
Operating Expenses				
Salaries and Wages	95,522,881	92,004,137	3,518,744	3.8%
Employee Benefits and Related Costs	23,812,342	22,584,456	1,227,886	5.4%
Professional Fees and Contracted Services	3,322,010	3,519,521	(197,511)	-5.6%
Other Contracted Services	5,574,179	5,255,634	318,545	6.1%
Scholarships and Fellowships	1,181,266	550,787	630,479	114.5%
Travel	1,319,265	1,585,542	(266,277)	-16.8%
Materials and Supplies	10,345,922	11,243,794	(897,872)	-8.0%
Utilities	4,333,333	3,968,572	364,761	9.2%
Telecommunications	1,911,661	1,784,905	126,756	7.1%
Repairs and Maintenance	1,149,269	797,972	351,297	44.0%
Rentals and Leases	697,355	862,160	(164,805)	-19.1%
Printing and Reproduction	468,734	610,401	(141,667)	-23.2%
Federal Sponsored Programs Pass-Thrus	208,333	175,181	33,152	18.9%
Depreciation and Amortization	8,333,333	7,705,157	628,176	8.2%
Other Operating Expenses	21,251,411	23,440,636	(2,189,225)	-9.3%
Total Operating Expenses	179,431,294	176,088,855	3,342,439	1.9%
Operating Loss	(66,814,366)	(61,402,133)	(5,412,233)	-8.8%
Other Nonoperating Adjustments				
State Appropriations	50,660,997	50,447,681	213,316	0.4%
Gift Contributions for Operations	4,608,715	935,726	3,672,989	392.5%
Net Investment Income	7,178,775	7,723,881	(545,106)	-7.1%
Long Term Fund Distribution	1,524,992	1,385,666	139,326	10.1%
Interest Expense on Capital Asset Financings	(2,068,428)	(1,998,030)	(70,398)	-3.5%
Net Other Nonoperating Adjustments	61,905,051	58,494,924	3,410,127	5.8%
Adjusted Income (Loss)	(4,909,315)	(2,907,209)	(2,002,106)	-68.9%
Adjusted Margin (as a percentage)	-2.8%	-1.7%		
Investment Gains (Losses)	5,047,523	(567,051)	5,614,574	990.1%
Adjusted Income (Loss) with Investment Gains (Losses)	$ 138,208	$ (3,474,260)	$ 3,612,468	104.0%
Adjusted Margin % with Investment Gains (Losses)	0.1%	-2.0%		

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The University of Texas M. D. Anderson Cancer Center
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2006

	December Year-to-Date FY 2007	December Year-to-Date FY 2006	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 117,100	$ 88,288	$ 28,812	32.6%
Sponsored Programs	74,096,980	72,746,876	1,350,104	1.9%
Net Sales and Services of Educational Activities	1,125,940	772,587	353,353	45.7%
Net Sales and Services of Hospitals	530,944,324	473,369,571	57,574,753	12.2%
Net Professional Fees	78,475,175	70,632,540	7,842,635	11.1%
Net Auxiliary Enterprises	8,004,149	7,321,548	682,601	9.3%
Other Operating Revenues	10,075,378	6,805,537	3,269,841	48.0%
Total Operating Revenues	**702,839,046**	**631,736,947**	**71,102,099**	**11.3%**
Operating Expenses				
Salaries and Wages	359,085,422	334,995,496	24,089,926	7.2%
Employee Benefits and Related Costs	94,584,352	87,573,887	7,010,465	8.0%
Professional Fees and Contracted Services	28,435,565	25,471,280	2,964,285	11.6%
Other Contracted Services	21,206,512	19,375,795	1,830,717	9.4%
Travel	5,959,181	4,507,991	1,451,190	32.2%
Materials and Supplies	135,942,659	125,652,634	10,290,025	8.2%
Utilities	16,811,736	21,003,671	(4,191,935)	-20.0%
Telecommunications	2,027,197	2,763,197	(736,000)	-26.6%
Repairs and Maintenance	14,586,714	12,927,168	1,659,546	12.8%
Rentals and Leases	9,657,082	9,294,553	362,529	3.9%
Federal Sponsored Programs Pass-Thrus	(180,197)	134,535	(314,732)	-233.9%
Depreciation and Amortization	60,130,539	59,622,449	508,090	0.9%
Other Operating Expenses	837,025	821,188	15,837	1.9%
Total Operating Expenses	**749,083,787**	**704,143,844**	**44,939,943**	**6.4%**
Operating Loss	**(46,244,741)**	**(72,406,897)**	**26,162,156**	**36.1%**
Other Nonoperating Adjustments				
State Appropriations	53,597,484	52,779,097	818,387	1.6%
Gift Contributions for Operations	26,221,537	17,418,453	8,803,084	50.5%
Net Investment Income	12,616,267	11,732,542	883,725	7.5%
Long Term Fund Distribution	4,765,072	4,489,372	275,700	6.1%
Interest Expense on Capital Asset Financings	(10,687,640)	(9,786,804)	(900,836)	-9.2%
Net Other Nonoperating Adjustments	**86,512,720**	**76,632,660**	**9,880,060**	**12.9%**
Adjusted Income (Loss)	**40,267,979**	**4,225,763**	**36,042,216**	**852.9%**
Adjusted Margin (as a percentage)	**5.0%**	**0.6%**		
Investment Gains (Losses)	38,435,374	10,430,951	28,004,423	268.5%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 78,703,353**	**$ 14,656,714**	**$ 64,046,639**	**437.0%**
Adjusted Margin % with Investment Gains (Losses)	**9.4%**	**2.0%**		

UNAUDITED

The University of Texas Health Center at Tyler
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2006

	December Year-to-Date FY 2007	December Year-to-Date FY 2006	Variance	Fluctuation Percentage
Operating Revenues				
Sponsored Programs	$ 4,871,973	$ 4,298,375	$ 573,598	13.3%
Net Sales and Services of Educational Activities	163,657	428,138	(264,481)	-61.8%
Net Sales and Services of Hospitals	11,992,148	13,633,386	(1,641,238)	-12.0%
Net Professional Fees	3,385,799	4,001,854	(616,055)	-15.4%
Net Auxiliary Enterprises	67,849	86,907	(19,058)	-21.9%
Other Operating Revenues	508,941	929,409	(420,468)	-45.2%
Total Operating Revenues	**20,990,367**	**23,378,069**	**(2,387,702)**	**-10.2%**
Operating Expenses				
Salaries and Wages	17,475,869	19,707,558	(2,231,689)	-11.3%
Employee Benefits and Related Costs	4,503,828	4,861,132	(357,304)	-7.4%
Professional Fees and Contracted Services	1,557,169	1,447,853	109,316	7.6%
Other Contracted Services	2,454,294	2,412,684	41,610	1.7%
Travel	163,889	201,689	(37,800)	-18.7%
Materials and Supplies	4,162,862	5,345,394	(1,182,532)	-22.1%
Utilities	936,048	1,002,725	(66,677)	-6.6%
Telecommunications	245,428	199,390	46,038	23.1%
Repairs and Maintenance	1,160,635	648,918	511,717	78.9%
Rentals and Leases	519,715	486,448	33,267	6.8%
Printing and Reproduction	7,432	64,756	(57,324)	-88.5%
Federal Sponsored Programs Pass-Thrus	161,565	130,300	31,265	24.0%
Depreciation and Amortization	2,914,970	2,818,880	96,090	3.4%
Other Operating Expenses	902,314	927,957	(25,643)	-2.8%
Total Operating Expenses	**37,166,018**	**40,255,684**	**(3,089,666)**	**-7.7%**
Operating Loss	**(16,175,651)**	**(16,877,615)**	**701,964**	**4.2%**
Other Nonoperating Adjustments				
State Appropriations	12,468,845	13,124,703	(655,858)	-5.0%
Gift Contributions for Operations	263,261	358,039	(94,778)	-26.5%
Net Investment Income	1,204,504	1,074,598	129,906	12.1%
Long Term Fund Distribution	132,211	121,663	10,548	8.7%
Interest Expense on Capital Asset Financings	(302,320)	(291,174)	(11,146)	-3.8%
Net Other Nonoperating Adjustments	**13,766,501**	**14,387,829**	**(621,328)**	**-4.3%**
Adjusted Income (Loss)	**(2,409,150)**	**(2,489,786)**	**80,636**	**3.2%**
Adjusted Margin (as a percentage)	**-6.9%**	**-6.5%**		
Investment Gains (Losses)	-	(45,307)	45,307	100.0%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ (2,409,150)**	**$ (2,535,093)**	**$ 125,943**	**5.0%**
Adjusted Margin % with Investment Gains (Losses)	**-6.9%**	**-6.7%**		

7. U. T. System: Report on the Fiscal Year 2006 Annual Financial Report including the report on the U. T. System Financial Statement Audit performed by Deloitte & Touche LLP

Annual Financial Report Highlights Fiscal Year 2006

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

Presented to:
Finance and Planning Committees and
Audit, Compliance, and Management Review
by Randy Wallace

February 7, 2007

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

Objectives

- **Discuss fiscal year 2006 financial highlights of the System's Annual Financial Report (AFR) by examining a three-year trend of changes in line items on:**
  - ***Balance Sheet***
  - ***Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA)***
  - ***Statement of Cash Flows***
- **Identify the factors that contributed to these changes**

Prepared by the Office of the Controller February 2007 2

THE UNIVERSITY of TEXAS SYSTEM
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Required in the Annual Financial Report

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

Prepared by the Office of the Controller February 2007 3

THE UNIVERSITY of TEXAS SYSTEM
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Management Discussion and Analysis

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

Prepared by the Office of the Controller February 2007 4

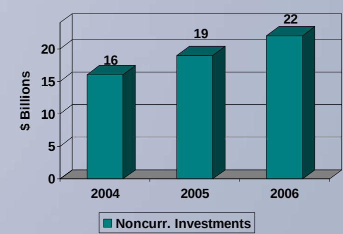
THE UNIVERSITY *of* TEXAS SYSTEM
Nine Universities. Six Health Institutions. Unlimited Possibilities.

Balance Sheet

The University of Texas System

($ in millions)		2004	2005	2006
Assets:				
Current Assets	$	5,297.7	6,010.7	5,783.4
Noncurrent Investments		15,836.9	18,635.8	22,249.7
Other Noncurrent Assets		207.3	211.2	225.8
Capital Assets, net		6,251.0	7,054.7	7,578.2
Total Assets	$	*27,592.9*	*31,912.4*	*35,837.1*
Liabilities:				
Current Liabilities	$	4,329.1	5,046.6	6,291.3
Noncurrent Liabilities		3,399.0	4,000.9	4,770.4
Total Liabilities		*7,728.1*	*9,047.5*	*11,061.7*
Net Assets:				
Invested in Capital Assets Net of Related Debt		3,391.4	3,610.7	3,807.1
Restricted		14,385.3	17,007.2	18,515.6
Unrestricted		2,088.1	2,247.0	2,452.7
Total Net Assets		*19,864.8*	*22,864.9*	*24,775.4*
Liabilities and Net Assets	*$*	*27,592.9*	*31,912.4*	*35,837.1*

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



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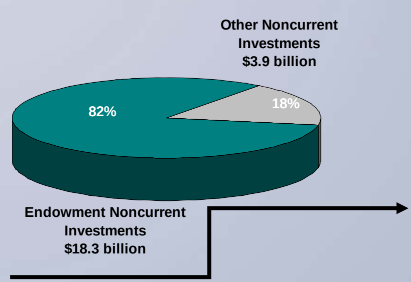
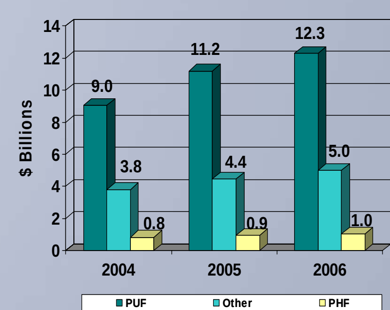
Total Noncurrent Investments

Noncurrent Investments - $22.2 billion



Endowment Investments FY 2004 - 2006



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THE UNIVERSITY *of* TEXAS SYSTEM
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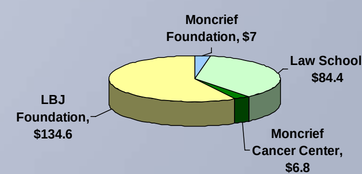
Balance Sheet

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

Foundation Funds Invested with UTIMCO FY 2006
(in millions)



Total Invested: $232.8 million

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Balance Sheet

The University of Texas System				
($ in millions)		**2004**	**2005**	**2006**
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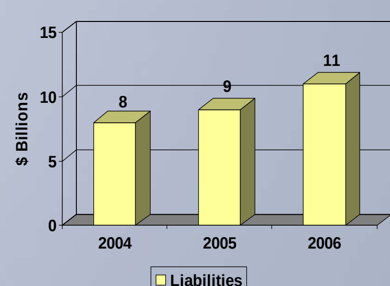

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7. U. T. System: Report on the Fiscal Year 2006 Annual Financial Report including the report on the U. T. System Financial Statement Audit performed by Deloitte & Touche LLP (cont.)

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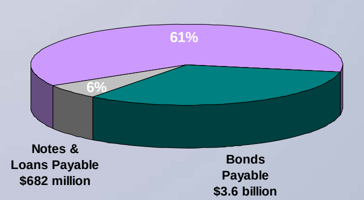
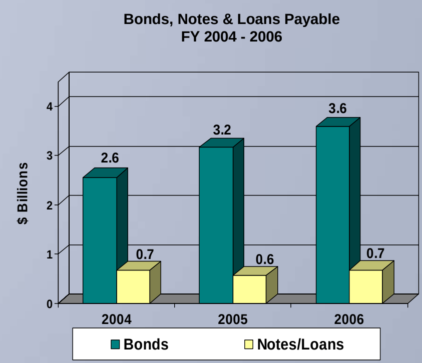
Total Liabilities

Liabilities - $11.1 billion





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THE UNIVERSITY of TEXAS SYSTEM
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Balance Sheet

The University of Texas System				
($ in millions)		**2005**	**2005**	**2006**
Assets:				
Current Assets	$	5,297.7	6,010.7	5,783.4
Noncurrent Investments		15,836.9	18,635.8	22,249.7
Other Noncurrent Assets		207.3	211.2	225.8
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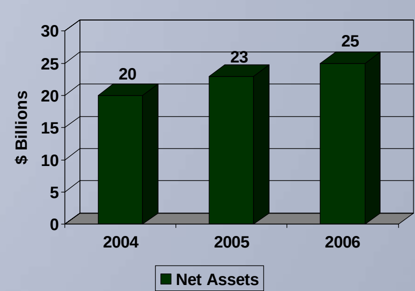

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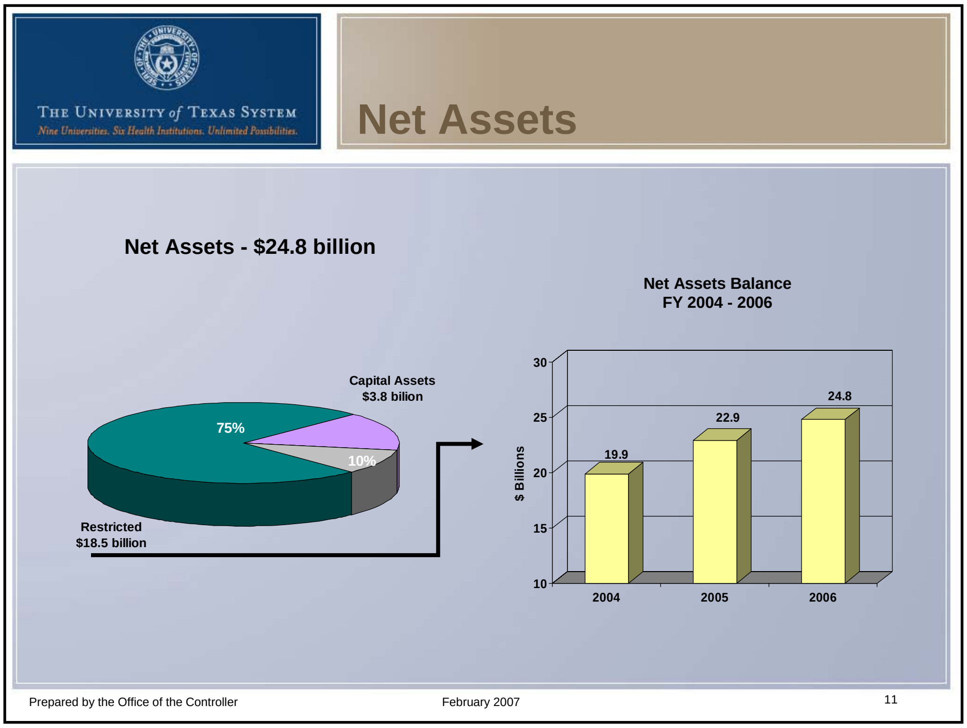

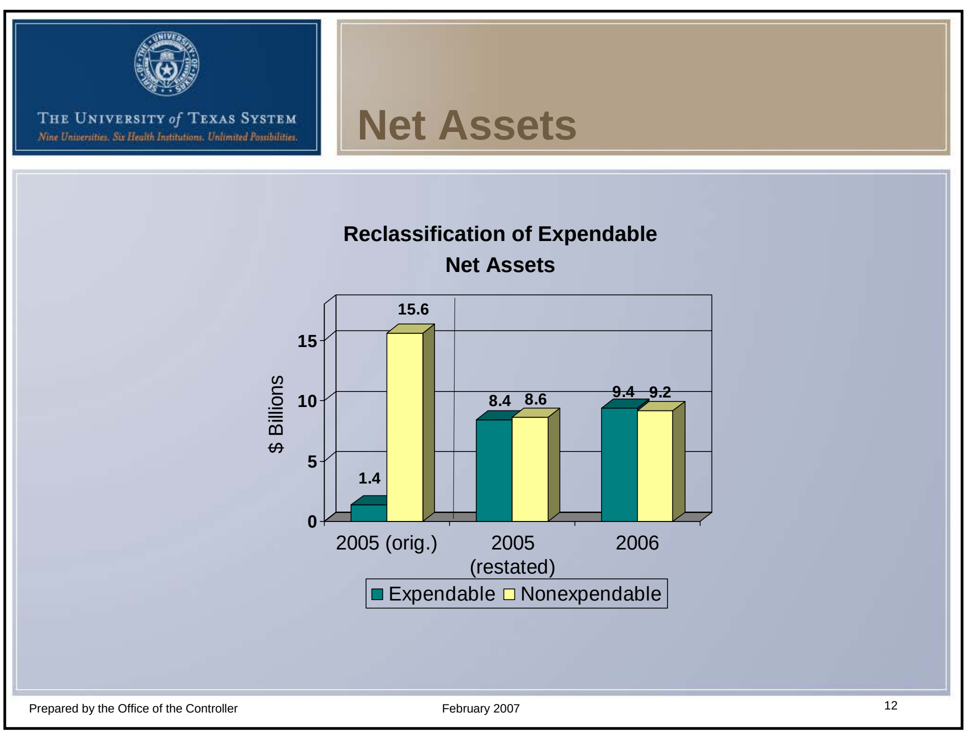

THE UNIVERSITY *of* TEXAS SYSTEM

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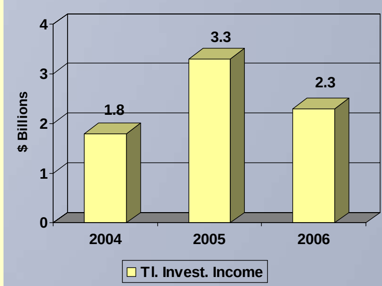
Statement of Revenues, Expenses, and Changes to Net Assets

The University of Texas System

($ in millions)		2004	2005	2006
Operating Revenues	$	5,758.3	6,467.5	7,021.6
Operating Expenses		(7,640.8)	(8,488.1)	(9,221.9)
Operating Loss		***(1,882.5)***	***(2,020.6)***	***(2,200.3)***
State Appropriations		1,578.1	1,557.5	1,735.8
Gift Contributions		179.8	265.8	254.8
Net Investment Income		1,652.7	1,922.3	1,601.9
Net Increase in Fair Val. Investmt.		191.0	1,338.2	703.2
Interest Expense		(90.9)	(135.0)	(170.5)
Other Nonoperating Rev. (Exp.)		3.1	(8.6)	(30.0)
HEAF, Gifts for Endowments & Capital		306.8	226.9	261.2
Transfers and Other		(101.8)	(146.4)	(245.6)
Change in Net Assets		***1,836.3***	***3,000.1***	***1,910.5***
Net Assets, Beginning		18,028.5	19,864.8	22,864.9
Net Assets, Ending	***$***	***19,864.8***	***22,864.9***	***24,775.4***

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



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THE UNIVERSITY *of* TEXAS SYSTEM

Nine Universities. Six Health Institutions. Unlimited Possibilities.

Statement of Revenues, Expenses, and Changes to Net Assets

The University of Texas System

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Net Assets, Beginning		18,028.5	19,864.8	22,864.9
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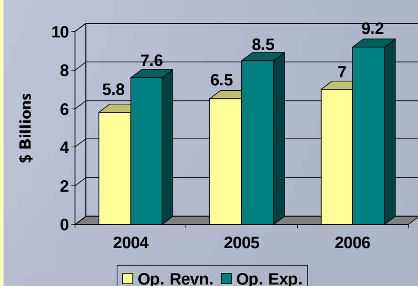

Prepared by the Office of the Controller February 2007 14

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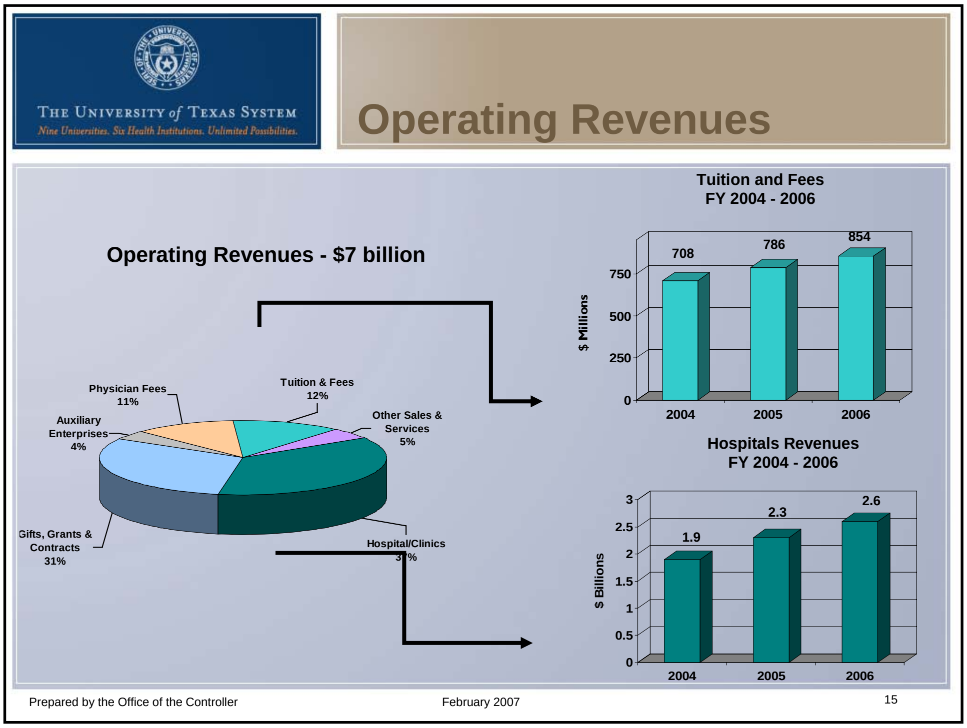

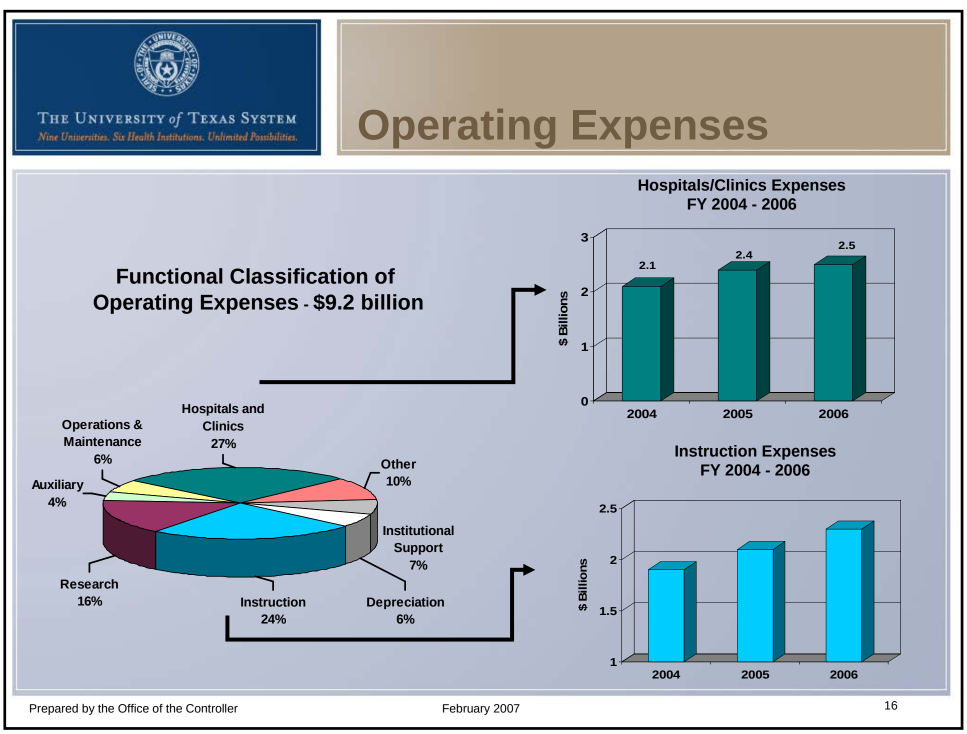

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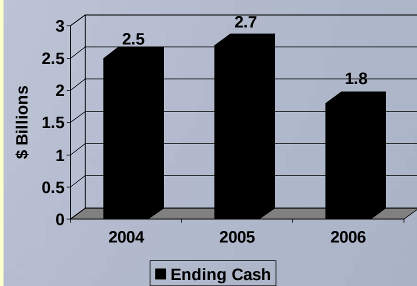
Cash Flows

The University of Texas System

($ in millions)		2004	2005	2006
Cash Flows:				
Cash Received from operations	$	5,928.5	6,601.2	7,227.3
Cash expended for operations		(7,386.5)	(7,994.6)	(8,786.2)
Cash used for operating activities		***(1,458.0)***	***(1,393.4)***	***(1,558.9)***
Cash provided by noncapital financing activities		1,829.0	1,718.1	2,108.2
Cash used in capital & related financing activities		(813.9)	(746.3)	(553.7)
Cash provided by/(used in) investing activities		804.2	704.8	(965.1)
Net inc. (dec.) in cash & cash equivalents		***361.3***	***283.2***	***(969.5)***
Cash & cash equivalents, Beginning of the year		2,098.0	2,459.3	2,742.5
Cash & Cash equivalents, End of the year	***$***	***2,459.3***	***2,742.5***	***1,773.0***

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



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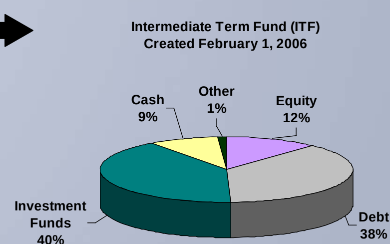
Cash Flow Changes

Dreyfus Money Market Fund

Institutions invested funds previously held in Dreyfus money market funds into a new, longer term fund – Intermediate Term Fund



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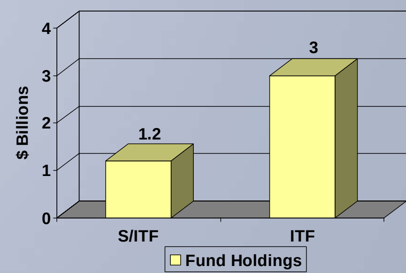
Cash Flow Changes

Comparison of Previous Short/Intermediate Term Fund (S/ITF) to new Intermediate Term Fund (ITF)



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Conclusion

- **Representations were made to Deloitte & Touche, LLP and to the State Auditor by the Chancellor, Controller, and Controller Office staff that the statements were materially correct and there was no known fraud.**
- **Similar representations were made to the Controller by the institution presidents, chief business officers, financial reporting officers and internal auditors.**
- **A Code of Ethics document was signed by the financial reporting officers.**

Deloitte.

2006 Report to the Finance and Planning Committee and the Audit, Compliance, and Management Review Committee

Rodney Lenfant
Deloitte & Touche LLP

Audit.Tax.Consulting.Financial Advisory.

Agenda

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

 1

Audit Status

- We have completed our audit of the consolidated financial statements of The University of Texas System (the "System") for the year ended August 31, 2006, and have rendered our report thereon dated December 4, 2006.
- We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the System is responsible.

 2

Audit Scope

- Our audit scope was outlined in our Client Service Plan dated August 2006 and was not restricted in any manner.
- No significant scope changes resulted from the execution of the Client Service Plan.
- The valuation of alternative investments and classification of net assets were identified during the course of our audit as additional risk areas.
- Our auditing procedures addressed the risks identified in our Client Service Plan and throughout the audit.

 3

Audit Scope (continued)

- We visited every institution in the System, met with the primary operational and financial officers and others, and made inquiries related to the risk of fraud within each institution and any instances of fraud in the current year.
- We performed reviews of the financial statements and related notes thereto for three of the System's institutions in connection with their SACS accreditation process.
- We utilized the services of four HUB subcontractors that exceeded 10% of the external audit effort.
- We utilized approximately 7,700 internal audit hours of direct assistance in connection with this year's audit.

 4

Management Judgments and Accounting Estimates

- Significant accounting estimates reflected in the System's 2006 consolidated financial statements include:
  - Allowances for doubtful accounts and discounts
  - Depreciation expense and accumulated depreciation
  - Fair value of alternative investments
  - Fair value of Permanent University Fund (PUF) lands
  - Liabilities for medical malpractice, workers' compensation and other self-insured risks
  - Medicare and Medicaid settlements
  - Deferred revenue
  - Liabilities to beneficiaries

 5

Audit Adjustments

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

 6

Accounting Policies and Practices

Significant Accounting Policies

- The System's significant accounting policies, as determined by management, are set forth in Note 2 to the System's 2006 financial statements. During the year ended August 31, 2006, there were no significant changes in previously adopted accounting policies or their application.

 7

Accounting Policies and Practices

Alternative Accounting Treatments

- We had no discussions with management regarding alternative accounting treatments related to material transactions or general accounting policies related to the year ended August 31, 2006.

 8

Additional Matters

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

 9

Additional Matters (continued)

Auditors' Responsibility

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

 10

Additional Matters (continued)

Disagreements with Management

- We have not had any disagreements with management related to matters that are material to the System's 2006 consolidated financial statements

Difficulties Encountered in Performing the Audit

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

 11

Additional Matters (continued)

Consultation with Other Accountants

- We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2006.

Major Issues Discussed with Management Prior to Retention

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

 12

Additional Matters (continued)

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

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

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Additional Matters (continued)

Other Material Written Communications with Management

	Date of Communication
Professional services contract	April 1, 2006
Management representation letter	December 4, 2006
Reports to management (including management report letters to each individual institution)	December 4, 2006

Appendix A
Audit Adjustments Recorded

- Restatement (August 31, 2005):
  - Increase restricted expendable net assets and decrease restricted non-expendable net assets by $7.8 billion to reflect the ability to spend appreciation on certain net assets

Appendix A (continued)
Audit Adjustments Recorded

- Year end (August 31, 2006):
  - Decrease student accounts receivable and accounts payable by $10 million to correctly apply payments received prior to year end
  - Increase current portion of student loans and decrease noncurrent student loans by $4 million
  - Reclassify $21 million of depreciation and repair and maintenance expense from nonoperating to operating
  - Reclassify $43 million of construction in progress to the appropriate capital asset line item to reflect completion of construction

 16

Appendix B
Passed Adjustments

- Year end (August 31, 2006):
  - Understated liabilities by $14 million for grants and contracts expenses incurred prior to year end
  - Reclassify $12 million from investments to cash for amounts not yet invested at year end

 17

THE UNIVERSITY OF TEXAS SYSTEM

The Role of Internal Audit in the Annual Financial Audit
Audit, Compliance, and Management Review
Finance and Planning Committees

February 7, 2007

Audit Oversight

The System Audit Office assisted Deloitte & Touche LLP in the completion of the Annual Financial Audit by overseeing the work of the following institutions:

- U. T. Arlington
- U. T. Brownsville
- U. T. Dallas
- U. T. Permian Basin
- U. T. San Antonio
- U. T. Tyler
- U. T. Health Center - Tyler

Audit Oversight

Internal audit departments at these U. T. System institutions provided staff to Deloitte & Touche LLP:

- U. T. Austin
- U. T. M. D. Anderson Cancer Center
- U. T. Medical Branch - Galveston
- U. T. Southwestern Medical Center - Dallas
- U. T. HSC - Houston
- U. T. HSC - San Antonio
- U. T. El Paso
- U. T. Pan American

Prepared by the System Audit Office February 2007 3

Audit Oversight

The System Audit Office provided staff to the external auditors:

- Deloitte & Touche LLP - U. T. System Administration, U. T. Health Center - Tyler, and U. T. Permian Basin
- Ernst & Young LLP - U. T. System investment funds managed by UTIMCO. These audits were used by Deloitte to express an opinion on the System-wide financial statements.

Prepared by the System Audit Office February 2007 4

Role of the System Audit Office

The System Audit Office facilitated the institutional audit departments at the U. T. System-led institutions as follows:

- Obtained audit program from Deloitte & Touche LLP and provided implementation guidance to audit directors
- Assigned System Audit Office liaisons to institutions
- Held weekly conference calls with audit directors, external auditors, and the State Auditor's Office
- Provided staff to two institutions to perform audit procedures
- Conducted final review of working papers and reports

Prepared by the System Audit Office | February 2007 | 5

System Audit Office Assistance

System Audit Office staff assisted with work as follows:

- U. T. Arlington – Dean Metzger
- U. T. Brownsville – Amy Barrett
- U. T. Dallas – Dean Metzger
- U. T. Permian Basin – Eric Polonski, Miles Ragland, Gan Louie
- U. T. San Antonio – Amy Barrett
- U. T. Health Center - Tyler – Kimberly Hagara, Moshmee Kalamkar, Julie Anderson
- U. T. System Administration – Yimei Zhao
- UTIMCO – Catalina Padilla

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Procedures Performed

Procedures performed at the U. T. System-led institutions included:

- Financial personnel interviews
- Assessment of sufficiency of key financial controls
- Agreement of the financial information provided U. T. System to the institutions' records
- Analysis of various financial statement line items
- Testing of manual adjustments and unusual transactions
- Testing of capital assets placed into service

Prepared by the System Audit Office February 2007 7

Additional Procedures for Southern Association of Colleges and Schools

Three institutions issued stand-alone financial statements:

- Internal Audit at U. T. Brownsville, U. T. Arlington, and U. T. Pan American performed additional procedures in preparation for accreditation by the Southern Association of Colleges and Schools (SACS).
- Deloitte & Touche LLP reviewed the audit work and provided an opinion on each of these financial statements.

Prepared by the System Audit Office February 2007 8

Internal Audit Hours for the 2006 Financial Audit

Institution	Internal Audit Hours
System – led	**3056**
D&T – led	**4118**
E&Y – led	**155**
General support	**276**
Total	**7605**

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Results

- The purpose of the procedures was to identify misstated items of $9 million (less for SACS-reporting institutions) and report these exceptions to Deloitte & Touche LLP for disposition.
- Each of the seven U. T. System-led institutions concluded that there were no material unadjusted differences meeting the established threshold for reporting to Deloitte & Touche LLP.

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Opportunities for Value-Added Services

- Individual internal audit reports were issued at each U. T. System-led institution.
- Common findings related to financial reporting emerged at the institutions and provide an opportunity for U. T. System to provide guidance, education, and support in the areas of:
  - Internal controls over financial reporting
  - Timing of revenue recognition
  - Refinement of estimates for allowances and accruals
  - Accounting for construction and fixed assets
  - Consistency of financial reporting

Prepared by the System Audit Office February 2007 11

THE UNIVERSITY OF TEXAS SYSTEM

Consolidated Financial Statements for the Years Ended August 31, 2006 and 2005 (Restated) and Independent Auditors' Report

THE UNIVERSITY OF TEXAS SYSTEM

TABLE OF CONTENTS

Deloitte.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of The University of Texas System (the "System") as of August 31, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1 to the financial statements, the financial statements of the System are intended to present the financial position, and the changes in net assets and cash flows for only that portion of the funds of the State of Texas which are attributable to the transactions of The University of Texas System. They do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2006 or 2005, or the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 3, the financial statements include investments whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the System as of August 31, 2006 and 2005, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 28, the accompanying 2005 consolidated financial statements have been restated.

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

Deloitte & Touche LLP

December 4, 2006

THE UNIVERSITY OF TEXAS SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2006
(Unaudited)

INTRODUCTION

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

The System's fifteen institutions are, collectively, one of the nation's largest educational enterprises. They provide instruction and learning opportunities to almost 186,000 undergraduate, graduate and professional school students from a wide range of social, ethnic, cultural and economic backgrounds. The System is governed by a nine-member Board of Regents appointed by the Governor of Texas and confirmed by the Texas Senate. Three members are appointed every odd-numbered year for six year terms.

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The objective of Management's Discussion and Analysis (MD&A) is to provide an overview of the financial position and activities of the System for the year ended August 31, 2006, with selected comparative information for the years ended August 31, 2005 and 2004. The MD&A was prepared by management and should be read in conjunction with the accompanying financial statements and notes. The emphasis of discussion about these financial statements will focus on the current year data. Unless otherwise indicated, years in this MD&A refer to the fiscal years ended August 31. The System's consolidated financial report includes three primary financial statements: the balance sheet; the statement of revenues, expenses and changes in net assets; and the statement of cash flows. The financial statements were prepared in accordance with Governmental Accounting Standards Board (GASB) pronouncements.

FINANCIAL HIGHLIGHTS

- In the fall of 2005, the System's enrollment increased 1.7% to 185,816 students. Although small, this growth rate exceeded the statewide trend where, overall, enrollments increased by less than one percent over this period. The System's academic institutions enroll 34.3% of the State's public college students, and the System's health-related institutions enroll 70.5% of the students attending the State's public health institutions. Net tuition and fees increased $68 million in 2006, or 8.6%, as a result of tuition and fee increases and a 1.2% increase in student semester credit hours at the academic institutions.

- Net patient care revenues increased $293.3 million in 2006, or 9.5%, as a result of an increase in patient volumes and higher rates.

- In 2003 the State Legislature granted tuition-setting authority to public university governing boards. Tuition rates were adjusted for the first time under this authority in spring 2004. In March 2006 the System's Board of Regents approved additional tuition and fee increases for 2007 and 2008 for the nine academic institutions. The plans approved by the System's Board of Regents include setting aside the statutorily required portion of at least 20% of new tuition revenues for financial aid programs, as well as a variety of ways that students can take advantage of special discounts in tuition rates. The approved plans also include pricing incentives to encourage students to graduate on-time by taking more semester credit hours in each term they are enrolled.

- Net investment income, excluding the change in fair value of investments, totaled $1.6 billion in 2006, which decreased from $1.9 billion in 2005. The net increase in fair value of investments was $703.2 million in 2006, as compared to $1.3 billion in 2005. Both components of investment income represented 20.4% of total revenues and were the largest contributors to the total increase in net assets of $1.9 billion during 2006. Only investment income that is distributed to the institutions and System Administration can be used in support of operations. These distributions totaled $551.2 million in 2006 and $517.7 million in 2005.

- Investments in capital asset additions were $1.1 billion in 2006, of which $671.2 million consisted of new projects under construction. Major capital projects completed in 2006 include:

  - The Bioscience Building at UT San Antonio with a project cost of $85.2 million;
  - the Research Expansion Project at UT Health Science Center at Houston with a project cost of $72.9 million;
  - the Jack S. Blanton Museum of Art at UT Austin with a project cost of $52.2 million;
  - the Houston Main Building Replacement Facility at UT M. D. Anderson Cancer Center with a project cost of $52.1 million;
  - the South Campus Research Building at UT M. D. Anderson Cancer Center with a project cost of $44.7 million;
  - and the Chemistry and Physics Building at UT Arlington with a project cost of $40.3 million.

The Balance Sheet

The balance sheet presents the assets, liabilities and net assets of the System as of the end of the year. This is a point-in-time financial presentation of the financial status as of August 31, 2006, with comparative information for the previous years. The balance sheet presents information in current and noncurrent format for both assets and liabilities. The net assets section presents assets less liabilities. Over time, increases or decreases in net assets are one indicator of the improvement or decline of the System's financial health when considered with nonfinancial factors such as enrollment, patient levels and the condition of facilities. A summarized comparison of the System's balance sheets at August 31, 2006, 2005 and 2004 follows:

		2006	2005	2004
Assets:			($ in millions)	
Current assets	$	5,783.4	6,010.7	5,297.7
Noncurrent investments		22,249.7	18,635.8	15,836.9
Other noncurrent assets		225.8	211.2	207.3
Capital assets, net		7,578.2	7,054.7	6,251.0
Total assets		35,837.1	31,912.4	27,592.9
Liabilities:				
Current liabilities		6,291.3	5,046.6	4,329.1
Noncurrent liabilities		4,770.4	4,000.9	3,399.0
Total liabilities		11,061.7	9,047.5	7,728.1
Net assets:				
Invested in capital assets, net of related debt		3,807.1	3,610.7	3,391.4
Restricted		18,515.6	17,007.2	14,385.3
Unrestricted		2,452.7	2,247.0	2,088.1
Net assets		24,775.4	22,864.9	19,864.8
Liabilities and net assets	$	35,837.1	31,912.4	27,592.9

Assets increased $3.9 billion in 2006, primarily due to financial market conditions resulting in gains in the System's investments and capital asset additions. Liabilities increased $2 billion, largely due to increased securities lending activities, as well as debt issuances used to fund construction and renovation of facilities.

Current Assets and Current Liabilities

Current assets consist primarily of cash and cash equivalents; securities lending collateral; various student, patient, gift and investment trades receivables; and student notes receivable. The System's current assets decreased $227.3 million in 2006 with decreases in cash and cash equivalents representing $969.5 million. On November 10, 2005, the Board of Regents revised its investment policies for operating funds and other short and intermediate term funds of the System. As a result of these revisions, the System reduced the amount of highly liquid investments (i.e. cash and cash equivalents) it holds by investing a portion of these funds in the newly-created Intermediate Term Fund (ITF) established on February 1, 2006. The goal of the revised investment policies is to enhance investment returns through more efficient management and investment of funds under control of the Board of Regents while maintaining sufficient system-wide liquidity.

Current liabilities consist primarily of accounts payable and accrued liabilities, investment trades payable, securities lending obligations, deferred revenues, commercial paper notes and the current portion of bonds payable. The System's current liabilities increased $1.2 billion in 2006.

Noncurrent Investments

Noncurrent investments include permanent endowments, funds functioning as endowments, life income funds and other investments. These assets grew by $3.6 billion in 2006 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 $6.4 billion capital improvement program, planned for fiscal years 2006 through 2011, to upgrade its facilities. This capital improvement program is balanced between new construction to deal with space deficiencies and planned growth in patient care and student enrollment. Capital additions totaled $1.1 billion in 2006, of which $671.2 million consisted of new projects under construction. These capital additions were comprised of replacement, renovation, and new construction of academic, research and health care facilities, as well as significant investments in equipment.

Bonds payable relating to financing of current and prior years' construction needs were the largest portion of the System's liabilities and totaled $3.6 billion and $3.2 billion at August 31, 2006 and 2005, respectively. All bonds continue to reflect the highest uninsured "Aaa" and "AAA" credit ratings from the three major bond-rating agencies. During 2006, the System issued par value of $657.3 million of new bonds of which $97.4 million was used to current refund outstanding Permanent University Fund (PUF) bonds and $24.5 million was used to current refund outstanding Revenue Financing System (RFS) bonds. Additionally, $11.1 million of RFS bonds were optionally redeemed.

Notes and loans payable increased due to $100 million of PUF flexible rate notes issued to provide new money. Commercial paper notes outstanding also increased by $14.3 million. These notes are issued periodically to provide interim financing for capital improvements and to finance the acquisition of capital equipment. The System typically refunds a portion of these outstanding notes through the issuance of fixed-rate debt to provide long-term financing for projects financed on an interim basis.

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

Other significant liabilities for the System include securities lending obligations of $2 billion and $1.4 billion for 2006 and 2005, respectively, and payables related to investment trades of $1 billion and $718.6 million for the same two periods.

Net Assets

Net assets represent the residual interest in the System's assets, after liabilities are deducted. Subsequent to the issuance of the 2005 consolidated financial statements, management determined that the appreciation over historical contributions to its endowment funds should have been classified as restricted, expendable net assets rather than restricted, nonexpendable net assets as these funds are not required to be held in perpetuity by external restrictions. Therefore, the 2005 and 2004 consolidated balance sheets were restated to properly reflect this classification for $7 billion in 2005 and $5.6 billion in 2004. This change is considered a restatement; however, it did not result in a change to restricted net assets in total or to total net assets. The following table summarizes the composition of net assets at August 31, 2006, 2005 and 2004:

		2006	(Restated) 2005	(Restated) 2004
Net assets:			($ in millions)	
Invested in capital assets, net of related debt	$	3,807.1	3,610.7	3,391.4
Restricted:				
Nonexpendable		9,159.6	8,596.2	7,447.3
Expendable		9,356.0	8,411.0	6,938.0
Total restricted		18,515.6	17,007.2	14,385.3
Unrestricted		2,452.7	2,247.0	2,088.1
Total net assets	$	24,775.4	22,864.9	19,864.8

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

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 $196.4 million increase in capital assets, net of related debt, in 2006 resulted from additions to capital assets of $1.1 billion offset by an increase in related debt of $532.3 million and an increase in accumulated depreciation of $448.2 million.

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

As of August 31, 2006 and 2005, restricted nonexpendable net assets include $5.9 billion and $5.5 billion respectively, of the PUF corpus, $820 million and $820 million, respectively, of the PHF corpus, and $2.5 billion and $2.3 billion, respectively, of other endowments' corpus. As of August 31, 2006 and 2005, restricted expendable net assets include $5.7 billion and $5.2 billion, respectively, of the PUF appreciation, $167 million and $105.9 million, respectively, of the PHF appreciation, and $1.9 billion and $1.7 billion, respectively, of other endowments' appreciation.

Restricted nonexpendable net assets increased by $563.4 million to $9.2 billion in 2006, resulting from new gifts, and increases in investment income and the valuation of the PUF lands. Restricted expendable net assets of $9.4 billion primarily include appreciation on endowment funds of $7.8 billion, restricted contract and grant and loan funds of $1.2 billion, funds restricted for capital projects of $34.8 million, funds restricted to support cancer treatment and programs that benefit public health of $92.1 million, debt service of $5.8 million, and $212.6 million of funds functioning as endowments.

Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the System's unrestricted net assets have been committed for various future operating budgets related to academic, patient, and research programs and initiatives, as well as capital projects. Unrestricted net assets also include funds functioning as endowments of $178.6 million.

2005 Highlights - Balance Sheet

In 2005 total assets increased $4.3 billion over 2004 primarily due to financial market conditions, which resulted in gains in the System's investments, and capital asset additions. Noncurrent investments increased by $2.8 billion as a result of increases in the fair values of these investments, higher investment income and additional gifts received for endowments. In 2005 System's capital assets, net of related debt, increased $219.3 million due to $803.8 million of additions to capital assets, which were offset by a $584.5 million increase in related debt. Bonds payable increased $618.8 million, and commercial paper notes outstanding decreased $93.9 million. The financial market conditions resulted in a $3 billion increase in net assets in 2005. The net assets were restated in 2005 between restricted, nonexpendable and restricted, expendable as previously discussed in the net assets section.

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, 2006, 2005 and 2004:

		2006	2005	2004
Operating revenues:			($ in millions)	
Net student tuition and fees	$	854.5	786.5	707.7
Grants and contracts		2,136.7	1,974.8	1,905.6
Net patient care revenues		3,368.2	3,074.9	2,599.9
Net auxiliary enterprises		299.9	287.1	244.5
Other		362.3	344.2	300.6
Total operating revenues		7,021.6	6,467.5	5,758.3
Total operating expenses		(9,221.9)	(8,488.1)	(7,640.8)
Operating loss		(2,200.3)	(2,020.6)	(1,882.5)
Nonoperating revenues (expenses):				
State appropriations		1,735.8	1,557.5	1,578.1
Gift contributions for operations		254.8	265.8	179.8
Net investment income excluding the change in fair value of investments		1,601.9	1,922.3	1,652.7
Net increase in fair value of investments		703.2	1,338.2	191.0
Interest expense on capital asset financings		(170.5)	(135.0)	(90.9)
Net other nonoperating revenues (expenses)		(30.0)	(8.6)	3.1
Income before other revenues, expenses, gains or losses		1,894.9	2,919.6	1,631.3
Capital appropriations – Higher Education Assistance Fund (HEAF)		11.4	7.1	7.1
Capital gifts and grants, additions to permanent endowments and extraordinary items		249.8	219.8	299.7
Transfers to other State entities		(245.6)	(146.4)	(101.8)
Change in net assets		1,910.5	3,000.1	1,836.3
Net assets, beginning of the year		22,864.9	19,864.8	18,028.5
Net assets, end of the year	$	24,775.4	22,864.9	19,864.8

Operating Revenues

Student tuition and fees, a primary source of funding for the System's academic programs, are reflected net of associated discounts and allowances. Net student tuition and fees increased $68 million, or 8.6%, as a result of tuition and fee increases and a 1.2% increase in student semester credit hours at the academic institutions. Enrollment at the health institutions increased 2.5% in the fall of 2005.

Grant and contract revenues are primarily from governmental and private sources and are related to research programs that normally provide for the recovery of direct and indirect costs. Other grants and contracts include student financial aid and contracts with affiliated hospitals for clinical activities. These revenues increased $161.9 million in 2006 largely due to increased contractual revenue from affiliated hospitals, and increased federal and state-based financial aid programs.

Patient care revenues are principally generated within the System's hospitals and physicians' practice plans under contractual arrangements with governmental payors and private insurers. Net patient care revenues increased $293.3 million in 2006, as a result of an increase in patient volumes and higher rates. Auxiliary enterprise revenues, which increased $12.8 million, were earned from a host of activities such as athletics, housing and food service, bookstores, parking, student health and other activities.

Operating Expenses

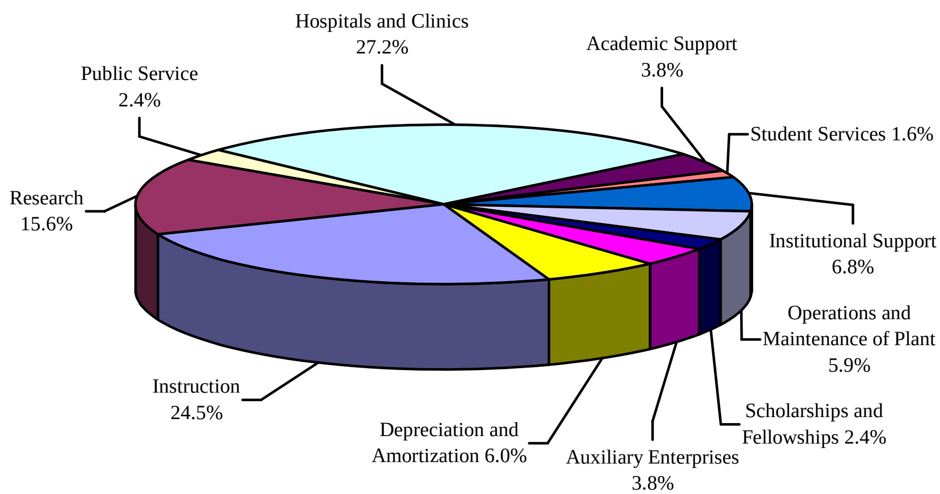
The following data summarizes the composition of operating expenses by programmatic function for the years ended August 31, 2006, 2005 and 2004:

		2006	2005	2004
Functional classification of operating expenses:			($ in millions)	
Instruction	$	2,257.1	2,110.0	1,927.9
Research		1,435.3	1,317.8	1,216.8
Public service		223.4	216.7	211.0
Hospitals and clinics		2,512.9	2,371.8	2,052.7
Academic support		353.5	276.4	258.7
Student services		146.1	133.0	124.0
Institutional support		623.7	580.9	533.3
Operations and maintenance of plant		537.4	467.5	438.4
Scholarships and fellowships		223.1	208.8	203.0
Auxiliary enterprises		351.7	327.4	292.4
Depreciation and amortization		557.7	477.8	382.6
Total operating expenses	$	9,221.9	8,488.1	7,640.8

The operating expenses reflect the System's commitment to promoting instruction, research, patient care, public service and student support. Total operating expenses increased $733.8 million, or 8.6%, in 2006 in response to growing student enrollment, research, and patient care activities. The System's full-time equivalent employees increased 3.2% from 73,329 in 2005 to 75,672 in 2006. Employee-related costs increased due to salary increases and higher medical costs.

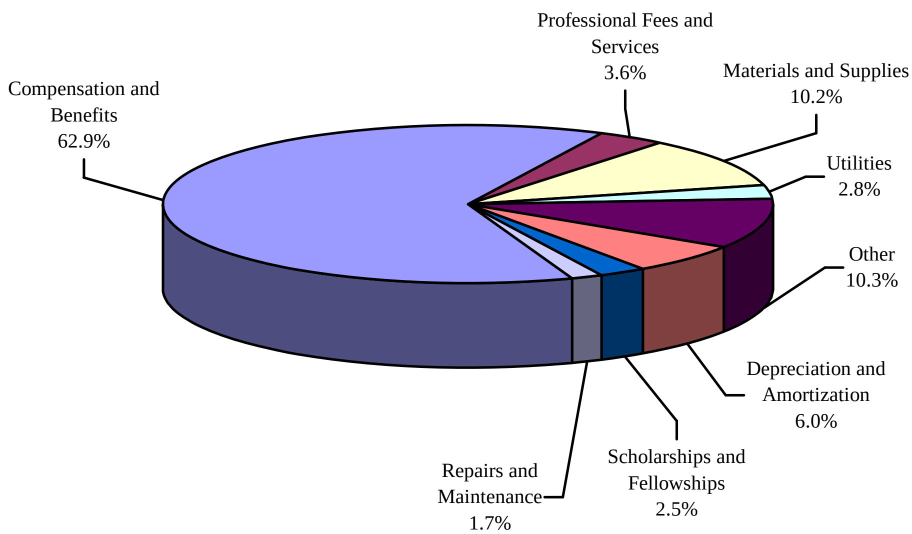
The following is a graphic illustration of operating expenses by their functional classification for the year ended August 31, 2006.

Functional Classification of Operating Expenses ($9,221.9 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, 2006.

Natural Classification of Operating Expenses ($9,221.9 million)



Nonoperating Revenues and Expenses

Certain significant recurring revenues are considered nonoperating, as required by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. State appropriations increased $178.3 million due to the State Legislature funding enrollment growth at system institutions and providing funds to enhance instruction that, in part, made up for reductions in the prior legislative session. Gift contributions for operations of $254.8 million, a decrease of $11 million from 2005, were received from private sources and used to support the educational and health care mission of the institutions. Net investment income excluding the change in the fair value of investments decreased from $1.9 billion in 2005 to $1.6 billion in 2006. While the calculated value of the PUF lands increased $207.8 million in 2006, the fair value of the System's investments decreased $635 million primarily due to less favorable market conditions. The fair value of the PUF lands' interest in oil and gas is based on an estimate of the present value of future royalty cash flows using a 10 percent discount rate. Future royalty cash flow projections from oil and gas are based on the price of oil and gas on the last day of the fiscal year. Interest expense on capital asset financings increased from $135 million in 2005 to $170.5 million in 2006.

Income Before Other Revenues, Expenses, Gains or Losses

Income before other revenues, expenses, gains or losses, is the sum of the operating loss plus nonoperating revenues (expenses). It is an indication of recurring revenues and expenses for the System and does not take into account capital and endowment-related additions and transfers. The income before other revenues, expenses, gains or losses totaled $1.9 billion in 2006, a decrease of $1 billion over 2005. This decrease is largely a result of less net investment income and a smaller increase in fair value of investments, or unrealized gains, as compared to the prior year. The System measures its operating results by considering operating activities, including certain significant recurring nonoperating revenues and expenses. The following table summarizes the System's view of its operating results for 2006, 2005 and 2004:

		2006	2005	2004
Operating results:			($ in millions)	
Operating loss	$	(2,200.3)	(2,020.6)	(1,882.5)
State appropriations		1,735.8	1,557.5	1,578.1
Gift contributions for operations		254.8	265.8	179.8
Net investment income		1,601.9	1,922.3	1,652.7
Interest expense on capital asset financings		(170.5)	(135.0)	(90.9)
Net operating results	$	1,221.7	1,590.0	1,437.2

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

Capital appropriations, capital gifts and grants, additions to permanent endowments, and extraordinary items totaled $261.2 million for the year ended August 31, 2006, an increase of $34.3 million over 2005 primarily due to UT Austin and UTMB Galveston, which received $12.8 million and $5.9 million, respectively, of capital gifts. The System continues its capital campaign efforts to address facilities expansion and renovation and the establishment of endowments for instruction, research and patient care activities. The institutions with large, multi-year fundraising campaigns still underway include: UT Southwestern Medical Center at Dallas ($500 million goal), UT Medical Branch at Galveston ($250 million goal), and UT Health Science Center at San Antonio ($200 million goal).

Extraordinary Items

In late July and early August 2006, the city of El Paso received a tremendous amount of rain, which caused significant water damage to some of UT El Paso's buildings and infrastructure. As a result of the flooding, UT El Paso incurred significant costs related to clean-up and repair from the storms subsequent to year-end. UT El Paso was able to reasonably estimate the receipt of commercial insurance and United States Federal Emergency Management Agency (FEMA) proceeds due to the storm. Due to the infrequency of significant rainfall in the El Paso area, the additional expenses related to the clean-up were recognized as extraordinary losses. For the year ended August 31, 2006, UT El Paso recognized an extraordinary loss of $504,812, net of the estimated insurance recoveries.

Transfers

Transfers to other State agencies include $119.1 million and $113.7 million for 2006 and 2005, respectively, for Available University Funds distributed to Texas A&M University System for its annual one-third participation in the PUF endowment. In accordance with tuition set-asides required by Section 61.539, Section 61.910, Section 61.9660, Section 61.9731, Section 56.095 and Section 56.465 of the Texas Education Code, the institutions transferred tuition revenues of $7.2 million in 2006 and $6 million in 2005 to the Texas Higher Education Coordinating Board.

Change in Net Assets

The change in net assets results from all revenues, expenses, gains, losses, gifts and transfers that occurred during the accounting period. It is an overall indication of the improvement or decline between the prior and current year's balance sheet. Net assets increased $1.9 billion and $3 billion for the years ended August 31, 2006 and August 31, 2005, respectively, primarily due to the increase in net investment income including the change in fair value of investments.

2005 Highlights - Statement of Revenues, Expenses and Changes in Net Assets

In 2005 the System's net tuition and fees increased $78.8 million over 2004 due to increases in tuition and fee rates, as well as continued enrollment growth. Contract and grant revenue from governmental and private sources increased $69.2 million primarily attributable to funding for educational initiatives. Patient care revenues grew by $475 million due to higher patient volumes and rates. The increase in patient care revenues was also driven by UT Southwestern Medical Center at Dallas' acquisition of Zale Lipshy University Hospital and St. Paul University Hospital (now known as the UT Southwestern University Hospitals), which contributed $178.5 million to the overall increase. The growth in student enrollment, research and patient care activities resulted in an increase in total operating expenses of $847.3 million.

Net investment income, excluding the change in the fair value of investments, increased $269.6 million between 2005 and 2004. The fair value of investments increased $1.1 billion largely due to an increase in the calculated value of PUF lands, which increased $599.6 million. The increase in investment income, including the change in the fair value of investments, was the largest contributor to the $3 billion increase in net assets.

The Statement of Cash Flows

The statement of cash flows provides additional information about the System's financial results by reporting the major sources and uses of cash. The statement provides an assessment of the System's financial flexibility and liquidity to meet obligations as they come due and the need for external financing. The following table summarizes cash flows for the years ended August 31, 2006, 2005 and 2004:

		2006	2005	2004
Cash flows:			($ in millions)	
Cash received from operations	$	7,227.3	6,601.2	5,928.5
Cash expended for operations		(8,786.2)	(7,994.6)	(7,386.5)
Net cash used in operating activities		(1,558.9)	(1,393.4)	(1,458.0)
Net cash provided by noncapital financing activities		2,108.2	1,718.1	1,829.0
Net cash used in capital and related financing activities		(553.7)	(746.3)	(813.9)
Net cash (used in)/provided by investing activities		(965.1)	704.8	804.2
Net (decrease)/increase in cash and cash equivalents		(969.5)	283.2	361.3
Cash and cash equivalents, beginning of year		2,742.5	2,459.3	2,098.0
Cash and cash equivalents, end of year	$	1,773.0	2,742.5	2,459.3

State appropriations and gift contributions for operations are significant sources of recurring revenues in support of operating expenses but are required to be classified as noncapital financing activities. Therefore, when considering cash flows related to operating activities, it is important to consider these noncapital financing activities which support operating expenses. The System's cash and cash equivalents decreased $969.5 million during 2006 compared to an increase of $283.2 million in 2005 due to a change in investment policy effective February 1, 2006, as previously discussed in the current assets and current liabilities section.

Economic Outlook

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

The System faces the challenge of funding its healthcare and dental benefits costs for its 90,419 employees and retirees, which costs continue to escalate. These costs include providing postemployment health and dental benefits to eligible employees. The System currently does not record a liability for postemployment benefits. In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the System in fiscal year 2008. GASB Statement No. 45 requires accrual-based measurement, recognition and disclosure of other postemployment benefits expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. This postemployment benefits liability will likely have a significant impact on the System's consolidated financial statements and potentially the benefits offered to its employees and retirees. The System and its actuaries are evaluating the effect that GASB Statement No. 45 will have on the consolidated financial statements.

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED BALANCE SHEETS
AUGUST 31, 2006 AND 2005 (Restated)

ASSETS		2006	2005 As Restated See Note 28
CURRENT ASSETS			
Cash and cash equivalents	$	1,386,868,062	2,136,909,390
Restricted cash and cash equivalents		386,048,681	605,300,842
Balance in State appropriations		72,823,205	52,092,009
Accounts receivable, net:			
Federal (net of allowances of $12,382,180 and $12,204,384, respectively)		171,953,451	152,585,454
Other intergovernmental		27,596,139	32,636,248
Student (net of allowances of $5,724,036 and $6,132,323, respectively)		204,301,280	196,927,087
Patient (net of allowances of $846,295,471 and $719,985,354, respectively)		495,854,744	483,345,625
Interest and dividends		61,102,409	44,280,711
Contributions – current portion (net of allowances of $3,557,628 and $3,980,588, respectively)		55,507,086	65,959,703
Investment trades		447,141,307	312,903,168
Other (net of allowances of $6,446,773 and $2,498,749, respectively)		198,434,415	200,970,778
Due from other agencies		7,176,780	22,171,291
Inventories		68,919,565	71,739,915
Restricted loans and contracts - current portion (net of allowances of $6,407,529 and $4,955,020, respectively)		43,841,438	36,417,536
Securities lending collateral		1,951,568,127	1,420,107,142
Other current assets		204,259,849	176,335,450
Total current assets		5,783,396,538	6,010,682,349
NONCURRENT ASSETS			
Restricted:			
Cash and cash equivalents		45,805	280,212
Investments		19,642,198,671	17,432,258,468
Loans and contracts (net of allowances of $12,208,658 and $11,629,666, respectively)		84,171,437	90,726,810
Contributions receivable (net of allowances of $6,956,810 and $5,467,371, respectively)		113,291,142	95,009,889
Investments		2,607,510,145	1,203,544,637
Other noncurrent assets/held in trust		28,251,924	25,152,030
Capital assets		12,291,575,826	11,319,852,822
Less accumulated depreciation		(4,713,357,523)	(4,265,127,634)
Net capital assets		7,578,218,303	7,054,725,188
Total noncurrent assets		30,053,687,427	25,901,697,234
TOTAL ASSETS	$	35,837,083,965	31,912,379,583

See accompanying notes to consolidated financial statements.

		2006	2005 As Restated See Note 28
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	$	902,609,515	857,218,076
Investment trades payable		1,020,457,037	718,557,708
Incurred but not reported self-insurance claims – current portion		80,336,078	75,111,546
Securities lending obligations		1,951,568,127	1,420,107,142
Due to other agencies		32,720,625	12,887,702
Deferred revenue		827,509,522	740,637,546
Employees' compensable leave – current portion		213,218,659	186,174,856
Notes, loans and leases payable – current portion		659,133,894	544,954,806
Payable from restricted assets		296,425,572	191,343,178
Bonds payable – current portion		159,685,000	155,670,000
Assets held for others		19,495,816	16,197,009
Other current liabilities		128,196,328	127,734,722
Total current liabilities		6,291,356,173	5,046,594,291
NONCURRENT LIABILITIES			
Incurred but not reported self-insurance claims		78,875,389	85,844,849
Employees' compensable leave		146,805,951	150,884,181
Assets held for others		650,828,296	383,107,922
Liability to beneficiaries		17,846,695	18,692,215
Notes, loans and leases payable		25,181,016	28,012,396
Bonds payable		3,435,167,686	3,018,716,352
Due to other agencies		405,970,000	304,625,000
Other noncurrent liabilities		9,682,617	10,976,116
Total noncurrent liabilities		4,770,357,650	4,000,859,031
TOTAL LIABILITIES		11,061,713,823	9,047,453,322
NET ASSETS			
Invested in capital assets, net of related debt		3,807,124,215	3,610,694,832
Restricted:			
Nonexpendable		9,159,639,763	8,596,201,375
Expendable		9,355,977,383	8,411,059,655
Total Restricted		18,515,617,146	17,007,261,030
Unrestricted		2,452,628,781	2,246,970,399
TOTAL NET ASSETS		24,775,370,142	22,864,926,261
TOTAL LIABILITIES AND NET ASSETS	$	35,837,083,965	31,912,379,583

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED AUGUST 31, 2006 AND 2005

OPERATING REVENUES	**2006**	**2005**
Net student tuition and fees		
(net of discounts & allowances of $228,862,360 & $204,551,068, respectively)	$ 854,460,970	786,460,554
Grants and contracts	2,136,746,311	1,974,794,057
Net sales and services of educational activities		
(net of discounts & allowances of $280,660 & $96,630, respectively)	252,493,829	247,278,733
Net patient service revenues		
(net of discounts & allowances of $2,736,196,077 & $2,417,977,048, respectively)	2,574,849,870	2,302,552,035
Net professional fees		
(net of discounts & allowances of $1,975,088,694 & $1,817,697,261, respectively)	793,311,103	772,365,651
Net auxiliary enterprises		
(net of discounts & allowances of $6,466,209 & $7,570,201, respectively)	299,920,655	287,052,106
Other	109,848,420	97,008,405
Total operating revenues	7,021,631,158	6,467,511,541
OPERATING EXPENSES		
Instruction	2,257,108,665	2,110,017,334
Research	1,435,285,596	1,317,751,307
Public service	223,373,359	216,724,397
Hospitals and clinics	2,512,901,960	2,371,851,180
Academic support	353,540,922	276,398,709
Student services	146,053,074	133,023,496
Institutional support	623,715,087	580,866,749
Operations and maintenance of plant	537,415,131	467,531,452
Scholarships and fellowships	223,085,099	208,767,543
Auxiliary enterprises	351,665,417	327,378,075
Depreciation and amortization	557,751,455	477,825,099
Total operating expenses	9,221,895,765	8,488,135,341
Operating loss	(2,200,264,607)	(2,020,623,800)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	1,735,758,424	1,557,538,258
Gift contributions for operations	254,782,172	265,764,609
Net investment income	2,300,939,393	3,256,615,800
Securities lending income	77,234,822	36,196,464
Securities lending expense	(73,039,391)	(32,281,078)
Interest expense on capital asset financings	(170,567,855)	(135,004,773)
Loss on sale of capital assets	(24,730,981)	(11,005,079)
Other	(5,250,501)	2,429,500
Net nonoperating revenues	4,095,126,083	4,940,253,701
Income before other changes in net assets	1,894,861,476	2,919,629,901
OTHER CHANGES IN NET ASSETS		
Capital appropriations – Higher Education Assistance Fund (HEAF)	11,379,426	7,131,692
Capital gifts and grants	147,939,549	125,424,289
Additions to permanent endowments	102,351,214	94,389,392
Extraordinary Items	(504,812)	-
Transfers to other State agencies	(245,582,972)	(145,625,747)
Legislative appropriations lapsed	-	(802,426)
Change in net assets	1,910,443,881	3,000,147,101
NET ASSETS		
Net assets, beginning of year	22,864,926,261	19,864,779,160
Net assets, end of year	$ 24,775,370,142	22,864,926,261

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from tuition and fees	$ 870,624,973	813,451,959
Proceeds from patients and customers	3,353,384,334	2,991,805,950
Proceeds from sponsored programs	2,120,629,186	2,056,362,687
Proceeds from auxiliaries	301,506,418	301,170,581
Proceeds from other revenues	480,105,886	344,357,100
Payments to suppliers	(2,905,981,399)	(2,558,409,877)
Payments to employees	(5,775,388,423)	(5,327,350,588)
Payments for loans provided	(104,676,524)	(93,904,473)
Proceeds from loan programs	101,007,058	94,069,255
Payments for other expenses – acquisition of hospitals	-	(11,878,139)
Payments for other expenses	(127,673)	(3,051,700)
Net cash used in operating activities	(1,558,916,164)	(1,393,377,245)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from State appropriations	1,715,807,482	1,570,814,238
Proceeds from gifts	224,880,902	201,457,591
Proceeds from private gifts for endowment and annuity life purposes	60,374,098	133,435,951
Proceeds from other nonoperating revenues	9,684,674	19,441,017
Receipts for transfers from other agencies	374,168,908	355,633,400
Payments for transfers to other agencies	(272,723,018)	(533,609,326)
Payments for other uses	(4,057,376)	(29,055,396)
Net cash provided by noncapital financing activities	2,108,135,670	1,718,117,475
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of capital debt	1,235,255,403	1,220,641,136
Proceeds from issuance of capital debt for acquisition of hospitals	-	52,000,000
Payments of other costs on debt issuance	(4,138,894)	(8,628,120)
Proceeds from capital appropriations, grants and gifts	156,672,097	138,664,059
Proceeds from sale of capital assets	10,384,360	3,319,438
Payments for additions to capital assets	(1,082,784,169)	(1,219,386,219)
Payments for acquisition of capital assets of hospitals	-	(67,152,642)
Payments of principal on capital related debt	(693,462,322)	(739,414,019)
Payments of interest on capital related debt	(175,619,876)	(126,421,409)
Net cash used in capital and related financing activities	(553,693,401)	(746,377,776)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	30,139,391,473	17,889,983,449
Proceeds from interest and investment income	804,035,851	730,633,425
Payments to acquire investments	(31,908,481,325)	(17,915,787,122)
Net cash (used in) provided by investing activities	(965,054,001)	704,829,752
NET (DECREASE) INCREASE IN CASH	(969,527,896)	283,192,206
Cash and cash equivalents, beginning of year	2,742,490,444	2,459,298,238
Cash and Cash equivalents, end of year	$ 1,772,962,548	2,742,490,444

See accompanying notes to consolidated financial statements

(Continued)

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED AUGUST 31, 2006 AND 2005

RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES	**2006**	**2005**
Operating loss	$ (2,200,264,607)	(2,020,623,800)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	557,751,455	477,825,099
Bad debt expense	232,505,361	187,253,969
Changes in assets and liabilities:		
Accounts receivable	(264,601,096)	(286,074,332)
Inventories	2,820,350	(27,133,826)
Loans and contracts	(3,669,466)	178,331
Other current and noncurrent assets	61,329,637	(5,071,225)
Accounts payable	22,061,652	171,622,087
Deferred revenue	(1,026,704)	89,729,778
Assets held for others	9,769,923	9,380,830
Employees' compensable leave	22,965,573	31,879,348
Other current and noncurrent liabilities	1,441,758	(22,343,504)
Total adjustments	641,348,443	627,246,555
Net cash used in operating activities	$ (1,558,916,164)	(1,393,377,245)
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION		
Net increase in fair value of investments	$ 703,193,671	1,338,188,213
Donated capital assets	34,917,862	14,632,252
Capital assets acquired under capital lease purchases	543,840	2,208,320
Miscellaneous noncash transactions	(15,043,345)	6,028,985

See accompanying notes to consolidated financial statements (Concluded)

1. The Financial Reporting Entity

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

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

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

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

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

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

UT Southwestern Moncrief Cancer Center, 1450 Eighth Avenue, Fort Worth, Texas 76104, is governed by a four-member board appointed by UT Southwestern Medical Center at Dallas. The corporation's fiscal year end is August 31.

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

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

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

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies

BASIS OF ACCOUNTING

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

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

CASH AND CASH EQUIVALENTS

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

BALANCE IN STATE APPROPRIATIONS

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

INVESTMENTS

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

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

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

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

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

- Stocks traded on security exchanges are valued at closing market prices on the valuation date.
- Stocks traded on the over-the-counter (OTC) market are valued at the last reported bid price, except for National Market System OTC stocks, which are valued at their closing market prices.
- Fixed income securities are valued based upon bid quotations obtained from major market makers or security exchanges.

Marketable alternative, U.S. equity, non-U.S. developed equity, emerging market, and fixed income investment funds and certain other investment funds are valued based on the equity method which approximates fair value.

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

The fair value of the PUF Land's interest in oil and gas is based on an estimate of the present value of future royalty cash flows using a 10 percent discount rate. Future royalty cash flow projections from oil and gas are based on the price of oil and gas on August 31, 2006, and estimates of future production from existing wells. The estimate of future production is based on calculated production rates, derived from royalty income, reduced to account for estimated net depletion. Nonproducing proven reserves of oil and gas are not included in the estimate. The PUF lands' surface interests are reported at their appraised value as of January 1, 2006. Other real estate holdings are reported by one of the following methods of valuation: the latest available appraised amount as determined by an independent State certified or other licensed appraiser, or by any other generally accepted industry standard, including tax assessments.

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

CONTRIBUTIONS RECEIVABLE

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

INVENTORIES

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

RESTRICTED ASSETS

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

LOANS AND CONTRACTS

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

SECURITIES LENDING COLLATERAL AND OBLIGATIONS

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

CAPITAL ASSETS

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

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

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

OTHER ASSETS

Included in other current assets are prepaid expenses and lease receivables due within one year. Included in the other noncurrent assets are unamortized bond issuance costs and lease receivables that will be realized beyond one year. Unamortized bond issuance costs are amortized over the life of the related bonds using the straight-line method, which approximates the effective interest method. The unamortized bond issuance costs as of August 31, 2006 and 2005 were $13,481,017 and $13,246,790, respectively.

DEFERRED REVENUE

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

ASSETS HELD FOR OTHERS – CURRENT AND NONCURRENT

Assets held for others represent funds held by the System as custodial or fiscal agent for students, faculty members, foundations, and others. Included in assets held for others as of August 31, 2006 and 2005 is $357,512,161 and $334,156,368, respectively, for the Physician's Referral Service Supplemental Retirement Plan/Retirement Benefit Plan at UT M. D. Anderson Cancer Center. As of August 31, 2006, assets held for others also included $232,774,091 from four foundations that began investing with UTIMCO in fiscal year 2006.

LIABILITY TO BENEFICIARIES

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

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

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

REFUNDING AND DEFEASANCE OF DEBT

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

NET ASSETS

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

Invested in Capital Assets, Net of Related Debt

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

Restricted:

Nonexpendable

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

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

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

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

REVENUES AND EXPENSES
Operating revenues include activities such as student tuition and fees, net of scholarship allowances; sales and services of auxiliary enterprises; most federal, state and local grants and contracts and federal appropriations; and interest on student loans. Operating expenses include salaries and wages, payroll related costs, materials and supplies, depreciation, scholarships and fellowships, and impairment losses and insurance recoveries received in the same year as the associated loss in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

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

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

STATEWIDE INTERFUND TRANSFERS
In accordance with the provisions set forth in Article 7, Section 18 of the Texas Constitution, the System transfers one-third of the annual earnings of the PUF investments and lands to the Texas A&M University System (TAMUS). In addition to the transfer of the current year earnings in 2006 and 2005 of $119,112,418 and $113,724,757, respectively, the System recorded a liability of $428,890,000 and $308,935,000 at August 31, 2006 and 2005, respectively, for future amounts due to TAMUS from the PUF to cover principal and interest on outstanding PUF bonds issued by TAMUS. This liability is reported as current and noncurrent due to other agencies on the balance sheet. Additional details related to the operations of the PUF can be found in Note 4.

In accordance with the provisions set forth in the Texas Education Code, Subchapters C and D and appropriated through a budget execution order authorized by the Legislative Budget Board, the System received transfers of $11,404,072 for research and excellence funding in 2005 from the Texas Comptroller of Public Accounts. No such transfers occurred in 2006 as the 79th Legislature chose to include this funding in State appropriations for 2006.

In accordance with tuition set-asides required by Section 61.539, Section 61.910, Section 61.9660, Section 61.9731, Section 56.095 and Section 56.465 of the Texas Education Code, the institutions transferred tuition revenues of $7,218,410 in 2006 and $5,993,184 in 2005 to the Texas Higher Education Coordinating Board.

In accordance with the provisions set forth in House Bill No. 1, Article III, Special Provisions Relating Only to State Agencies and Higher Education, Section 56, State fiscal relief funds of $38,445,702 were allocated and transferred to the health-related institutions in 2005 only from the Texas Comptroller of Public Accounts.

CHARITY CARE

The System's health-related institutions provide charity care to patients who meet certain criteria under their charity care policies without charge or at amounts less than its established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care charges amounted to approximately $1,125,921,878 and $1,137,579,355 for 2006 and 2005, respectively.

NET PATIENT SERVICE REVENUE

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

Medicare

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

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

Medicaid

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

The System's health-related institutions have also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System's health-related institutions under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. The System's health-related institutions recognized bad debt expense of $229,389,510 and $185,830,375 in 2006 and 2005, respectively.

USE OF ESTIMATES

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

3. Deposits, Investments and Repurchase Agreements

DEPOSITS OF CASH IN BANK

As of August 31, 2006 and 2005, the carrying amount of deposits was $25,519,893 and $24,952,000, respectively, as presented below:

		2006	2005
Cash and cash equivalents per statement of cash flows	$	1,772,962,548	2,742,490,444
Less: Certificates of deposits		4,516,220	3,516,221
Cash in State Treasury		314,212,984	271,256,144
Cash equivalent investments in money market funds		1,418,186,879	2,438,958,419
Other		10,526,572	3,807,660
Deposits of cash in bank	$	25,519,893	24,952,000

Deficit demand account balances of $110,743,865 and $105,974,783 are reported as payables at year end 2006 and 2005, respectively. As of August 31, 2006 and 2005, the total bank balances were $62,304,727 and $60,182,190, respectively.

DEPOSIT RISKS

Custodial Credit Risk

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

As of August 31, 2006 and 2005, UT Southwestern Medical Center at Dallas' blended component units, UT Southwestern Moncrief Cancer Center (Moncrief) and UT Southwestern Health Systems (UTSHS), and UT Health Center at Tyler's blended component unit, East Texas Quality Care Network (ETQCN), held deposits that were exposed to custodial credit risk. Moncrief, UTSHS and ETQCN have no policies regarding these deposits. The bank balances that were exposed to custodial credit risk as of August 31, 2006 and 2005 are as follows:

		2006	2005
Uninsured and uncollateralized	$	1,828,917	1,256,961

INVESTMENT RISKS

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

As of August 31, 2006 and 2005, the investments including securities lending collateral were as follows:

Type of Security		2006 Fair Value	2005 Fair Value
U.S. Government:			
U.S. Treasury Securities	$	647,926,995	1,320,174,876
U.S. Treasury Strips		11,636,249	11,697,173
U.S. Treasury TIPS		1,373,641,306	823,204,846
U.S. Government Agency Obligations		832,589,505	959,825,425
Corporate Obligations		279,773,029	268,100,913
Corporate Asset and Mortgage Backed Securities		206,642,377	84,276,148
Equity		2,017,359,573	2,284,526,284
International Obligations (Government and Corporate)		312,766,085	273,167,002
International Equity		954,143,692	795,036,947
Fixed Income Money Market and Bond Mutual Fund		2,604,409,597	2,197,823,298
Other Commingled Funds		51,420,883	225,446,630
Commercial Paper		661,138,316	82,153,644
PUF Lands		1,723,435,031	1,515,578,395
Other Real Estate		144,164,937	142,051,589
Investment Funds:			
Absolute Return Strategies		3,153,465,948	2,030,527,147
Directional Equity		1,621,043,399	1,403,752,213
Private Markets		1,560,241,470	1,334,628,874
U.S. Equity		1,849,437,530	1,537,683,102
Non-U.S. Developed Equity		609,214,366	614,934,949
Emerging Markets		962,727,801	455,113,650
Fixed Income		354,866,927	-
Miscellaneous (guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)		317,663,800	276,100,000
Total securities		22,249,708,816	18,635,803,105
Securities Lending Collateral Investment Pool		1,951,568,127	1,420,107,142
TOTAL	$	24,201,276,943	20,055,910,247

(A) *Credit Risk* - Article VII, Section 11b of the Texas Constitution authorizes the UT System Board of Regents, subject to procedures and restrictions it establishes, to invest System funds in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all of the assets of the fund rather than a single investment.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The System's investment policies limit investments in U.S. Domestic bonds and non-dollar denominated bond investments to those that are rated investment grade, Baa3 or better by Moody's Investor Services, BBB- or better by Standard & Poor's Corporation, or BBB- or better by Fitch Investors Service at the time of acquisition. This requirement does not apply to investment managers that are authorized by the terms of an investment advisory agreement to invest in below investment grade bonds. Per GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The following tables present each applicable investment type grouped by rating as of August 31, 2006 and 2005:

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

		August 31, 2005					
		MOODY'S		STANDARD & POOR'S		FITCH	
Investment Type		**Fair Value**	**Rating**	**Fair Value**	**Rating**	**Fair Value**	**Rating**
U.S. Government Agency Obligations	$	936,141,667	Aaa	917,393,133	AAA	141,787,960	AAA
		100,688	Aa	100,688	AA	797,501,442	NR
		3,047,045	Unrated	10,459,800	A	-	-
		-	-	54,245	NR	-	-
Corporate Obligations		67,701,223	Aaa	50,980,235	AAA	4,793,240	AAA
		167,549,540	Aa	161,736,620	AA	27,582,518	AA
		104,533,252	A	121,668,593	A	77,392,107	A
		84,547,293	Baa	67,850,306	BBB	69,335,864	BBB
		19,531,489	Ba	21,690,030	BB	15,725,607	BB
		5,907,410	B	3,732,909	B	6,154,546	B
		867,113	Caa	797,413	CCC	258,687,407	NR
		786,126	Ca	28,780,151	NR	-	-
		6,997,814	Unrated	-	-	-	-
Corporate Asset and Mortgage Backed Securities		40,216,995	Aaa	44,036,466	AAA	50,834,012	NR
		2,132,250	Aa	2,132,250	A	-	-
		47,734	A	4,665,295	NR	-	-
		8,437,033	Unrated	-	-	-	-
International Obligations (Government and Corporate)		205,039,175	Aaa	204,558,484	AAA	203,281,808	AAA
		17,141,495	Aa	30,820,059	AA	25,580,257	AA
		4,623,563	A	6,605,678	A	5,050,110	A
		14,288,567	Baa	23,291,842	BBB	22,432,177	BBB
		9,531,525	Ba	1,180,000	BB	1,180,000	BB
		2,568,388	B	6,710,938	NR	15,642,651	NR
		19,974,289	Unrated	-	-	-	-
Repurchase Agreement		669,216,958	Unrated	669,216,958	NR	669,216,958	NR
Fixed Income Money Market and Bond Mutual Fund		16,046,658	Aaa	2,046,660,701	AAA	2,046,660,701	NR
		2,030,614,043	Unrated	-	-	-	-
Miscellaneous		13,754,756	Aaa	13,245,201	AAA	10,684,261	AAA
		2,426,524	Aa	2,639,782	AA	2,943,109	AA
		213,258	A	3,450,000	A	213,258	A
		10,916,323	Baa	10,815,635	BBB	10,808,305	BBB
		41,413,053	Unrated	38,573,302	NR	60,435,752	NR
Commercial Paper		676,165,618	Prime-1	633,382,228	A-1	1,185,000	F-1
		-	-	55,249,923	NR	657,369,815	NR
	$	5,182,478,865		5,182,478,865		5,182,478,865	

(B) *Concentrations of Credit Risk* – The System's investment policy statements contain the limitation that no more than 5% of the market value of domestic fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2006 and 2005, the System did not hold any direct investments in any one issuer that represents five percent or more of total investments.

(C) *Custodial Credit Risk* – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the System's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2006 and 2005, the System did not have any deposits or investments that are exposed to custodial credit risk.

(D) *Interest Rate Risk* – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the System investments is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the System's investments to changes in interest rates. The System has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the System's modified duration by investment type as of August 31, 2006 and 2005:

		August 31, 2006		August 31, 2005	
Investment Type		**Fair Value**	**Modified Duration**	**Fair Value**	**Modified Duration**
Investments in Securities:					
U.S. Government Guaranteed:					
U.S. Treasury Bonds and Notes	$	486,031,661	7.20	1,217,701,377	3.12
U.S. Treasury Strips		11,636,249	5.07	11,697,173	6.07
U.S. Treasury Bills		14,636,846	0.04	20,644,600	0.14
U.S. Treasury Inflation Protected		1,372,489,290	7.89	822,059,343	8.04
U.S. Agency Asset Backed		19,969,831	5.69	20,536,024	5.03
Total U.S. Government Guaranteed		1,904,763,877	7.61	2,092,638,517	5.06
U.S. Government Non-Guaranteed:					
U.S. Agency		71,594,838	1.76	299,103,717	3.11
U.S. Agency Asset Backed		741,024,835	5.32	628,904,150	3.72
Total U.S. Government Non-Guaranteed		812,619,673	5.01	928,007,867	3.52
Total U.S. Government		2,717,383,550	6.83	3,020,646,384	4.59
Corporate Obligations:					
Domestic		486,415,402	3.62	331,785,205	4.76
Commercial Paper		661,138,316	0.07	93,435,178	0.22
Foreign		88,832,942	12.32	51,894,261	5.58
Total Corporate Obligations		1,236,386,660	2.35	477,114,644	4.06
Foreign Government and Provincial Obligations		223,933,143	6.85	241,864,594	7.27
Other Debt Securities		20,138,662	11.36	31,281,515	10.24
Total Debt Securities		4,197,842,015	5.53	3,770,907,137	4.73
Other Investment Funds - Debt		354,866,927	3.72	52,898,924	5.50
Fixed Income Money Market Funds		2,570,152,968	0.27	2,030,614,001	0.08
Total	$	7,122,861,910	3.53	5,854,420,062	3.11
Deposit with Brokers for Derivative Contracts:					
U.S. Government Guaranteed:					
U.S. Treasury Bonds and Notes	$	-		313,655	0.41
U.S. Treasury Bills		147,258,502	0.14	81,515,258	0.21
U.S. Treasury Inflation Protected		1,152,017	0.36	1,145,504	1.33
Total U.S. Government Guaranteed		148,410,519	0.14	82,974,417	0.23
Cash		65,628,880	-	11,618,653	-
Total Deposit with Brokers for Derivative Contracts	$	214,039,399	0.10	94,593,070	0.20

(E) *Investments with Fair Values That Are Highly Sensitive to Interest Rate Changes* – In accordance with the System's investment policy statements, the System may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The System also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped Treasury and Agency securities created from coupon securities. As of August 31, 2006 and 2005, the System's investments included the following investments that are highly sensitive to interest rate changes:

- Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. As of August 31, 2006 and 2005, these securities amounted to $172,275,247 and $164,281,892, respectively.

- Mortgage backed securities which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. As of August 31, 2006 and 2005, these securities amounted to $690,018,485 and $252,654,331, respectively.

- Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. As of August 31, 2006 and 2005 these securities amounted to $110,254,288 and $32,282,621, respectively.

- Step-up notes that grant the issuer the option to call the note on certain specified dates. At each call date, should the issuer not call the note, the coupon rate of the note increases (steps up) by an amount specified at the inception of the note. The call feature embedded within a step-up note causes the fair value of the instrument to be considered highly sensitive to interest rate changes. As of August 31, 2006 and 2005, these securities amounted to $5,920,091 and $12,907,985, respectively.

(F) *Foreign Currency Risk* – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the System's non-U.S. dollar investments. The System's investment policy statement limits investments in non-U.S. denominated bonds to 50% of the System's total fixed income exposure. The following tables summarize the System's non-U.S. dollar investments by asset type as of August 31, 2006 and 2005.

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

Investment Type	2005 Fair Value	Investment Type	2005 Fair Value
Foreign Common Stock:		Purchased Options:	
Australian Dollar	$ 29,810,455	Canadian Dollar	$ 1,934,175
Canadian Dollar	106,652,066	Euro	76,885
Danish Krone	6,181,200	Total Purchased Options	2,011,060
Euro	184,925,515	Private Market Investments:	
Hong Kong Dollar	11,389,477	Euro	126,464,819
Japanese Yen	302,038,040	UK Pound	14,950,672
Norwegian Krone	27,983,077	Total Private Market Investments	141,415,491
Singapore Dollar	16,947,800	Cash and Cash Equivalents:	
South Korean Won	4,635,613	Australian Dollar	187,051
Swedish Krona	12,175,462	Canadian Dollar	9,463,523
Swiss Franc	24,125,038	Danish Krone	48,329
UK Pound	61,957,117	Euro	3,391,764
Total Foreign Common Stock	788,820,860	UK Pound	(13,729)
Foreign Government and Provincial Obligations:		Hong Kong Dollar	28,251
Australian Dollar	1,335,092	Japanese Yen	33,594,682
Canadian Dollar	1,078,839	Mexican New Peso	177
Danish Krone	3,021,168	New Zealand Dollar	8,230
Euro	188,040,046	Norwegian Krone	18,477
New Zealand Dollar	810,244	Polish Zloty	253,353
Polish Zloty	4,402,400	Swiss Franc	163,847
UK Pound	14,806,311	Swedish Krona	42,758
Total Foreign Government and Provincial Obligations	213,494,100	Singapore Dollar	119,254
Corporate Obligations:		Taiwan Dollar	996,584
Euro	22,854,267	Total Cash and Cash Equivalents	48,302,551
UK Pound	4,036,400		
Total Corporate Obligations	26,890,667	Total	$ 1,220,934,729

REPURCHASE AGREEMENTS

The System, by statute, is authorized to enter into repurchase agreements. A repurchase agreement is when a holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate the buyer for this. During the year ended August 31, 2005, the System participated in Repurchase Agreements and earned income of $4,886. At August 31, 2006 and 2005, there were no Repurchase Agreements outstanding.

SECURITIES LENDING

In accordance with the prudent investor investment standards, the System participates in a securities lending program. The System began the program, under a contract with the System’s lending agent, on September 1, 1995. The lending agent is authorized to lend any securities held by the System’s custodian except those securities which the policy guidelines prohibits lending. At August 31, 2006 and 2005, there were a total of $1,957,947,964 and $1,425,933,126, respectively, of securities out on loan to brokers/dealers. This consisted of $1,831,902,043 domestic and $126,045,921 international loans at August 31, 2006 and $1,306,287,139 domestic and $119,645,987 international loans at August 31, 2005. The value of collateral held for these securities consisted of $1,951,568,127 cash and $52,365,762 noncash collateral at August 31, 2006 and $1,420,107,142 cash and $33,560,882 noncash collateral at August 31, 2006. Investments received as collateral for securities lending activities are not recorded as assets because the investments remain under the control of the transferor, except in the event of default.

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

Cash collateral received by the lending agent on behalf of the System is invested and reinvested in a non-commingled pool exclusively for the benefit of the System. The pool is managed in accordance with investment guidelines established by the System and is stated in the security lending contract. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar weighted average maturity of 60 days and an overnight liquidity of 20 percent. On August 31, 2006 and 2005, the System was collateralized 102 percent for securities on loan collateralized by cash. The System's collateral pool investments, rating by NRSRO, and weighted average maturity as of August 31, 2006 and 2005, are shown in the following table:

		August 31, 2006			August 31, 2005		
Description		**Fair Value**	**Rating**	**Weighted Average**	**Fair Value**	**Rating**	**Weighted Average**
Repurchase Agreements	$	710,498,581	No Rating	14	669,216,958	No Rating	1
Commercial Paper		848,689,813	P	26	575,190,511	P	36
Floating Rate Notes		111,381,593	AAA		12,999,360	AAA	
Floating Rate Notes		80,000,000	AA		145,467,529	AA	
Total Floating Rate Notes		191,381,593		69	158,466,889		37
Certificates of Deposit		244,179,640	P	67	21,388,733	P	50
Asset Backed Securities		3,500,000	AAA	11	810,653	AAA	168
Other Receivables/Payables		(46,681,500)	Not Rated	-	(4,966,602)	Not Rated	-
Total Collateral Pool Investment	$	1,951,568,127		31	1,420,107,142		20

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

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

Loans that are collateralized with securities generate income when the borrower pays a "loan premium or fee" for the securities loan. This income is split with the same ratio as the earnings for cash collateral. The collateral pledged to the System by the borrower is custodied by the lending agent or through a third party arrangement. These securities held as collateral are not available to the System for selling or pledging unless the borrower is in default of the loan. On August 31, 2006, the System was collateralized 103 percent for securities on loan which were collateralized by securities. On August 31, 2005, the System was collateralized 106 percent for securities on loan which were collateralized by securities.

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

For non-United States issuers, the collateral should remain at 105 percent of the fair value of the loaned securities at the close of any business day. If it falls below 105 percent, the borrower must deliver additional collateral by the close of the following business day. On August 31, 2006 and 2005, the System was collateralized 105 percent for international loans.

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

At August 31, 2006 and 2005, the System had no credit risk exposure to borrowers because the amounts the System owed to borrowers exceeded the amounts the borrowers owed the System.

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

(A) *Mortgage Derivatives* – Mortgage derivatives are used to manage portfolio duration and to enhance portfolio yield, and, are influenced by changes in interest rates, the current economic climate, and the geographic make-up of underlying mortgage loans. There are varying degrees of risk associated with mortgage derivatives. For example, certain Collateralized Mortgage Obligations (CMOs) such as Planned Amortization Class (PACs) are considered a more conservative lower risk investment. In contrast, principal only and interest only strips are considered higher risk investments. The System's investment in CMOs, which was comprised almost exclusively of the lower risk investment class, was 0.8 percent of total investments with a fair value of $172,275,247 at August 31, 2006 and 0.9 percent of total investments with a fair value of $164,281,892 at August 31, 2005.

(B) *Futures Contracts* – Futures contracts are used to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes. The net liability is included in payables from restricted assets. Futures contracts are marked to market daily; that is, they are valued at the close of business each day, and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss difference is referred to as the daily variation margin, which is settled in cash with the broker each morning for the amount of the previous day's mark to market. The amount that is settled in cash with the broker each morning is the carrying and fair value of the futures contracts. The amount of the net realized loss on the futures contracts was $18,378,163 for the year ended August 31, 2006. The amount of net realized gain was $151,290,329 for the year ended August 31, 2005. The System executes such contracts either on major exchanges or with major international financial institutions and minimizes market and credit risk associated with these contracts through the manager's various trading and credit monitoring techniques.

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

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

The following discloses the notional, carrying and fair values of futures contracts at August 31, 2005.

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

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

The tables below summarize by currency the contractual amounts of the System's foreign exchange contracts at August 31, 2006 and 2005. Foreign currency amounts are translated at exchange rates as of August 31, 2006 and 2005. The "Net Buy" amounts represent the U. S. dollar equivalent of net commitments to purchase foreign currencies and the "Net Sell" amounts represent the U. S. dollar equivalent of net commitments to sell foreign currencies.

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

Currency		Net Buy August 31, 2005	Net Sell August 31, 2005	Unrealized Gains on Foreign Exchange Contracts August 31, 2005	Unrealized Losses on Foreign Exchange Contracts August 31, 2005
Australian Dollar	$	32,248,100	-	210,938	294,971
Canadian Dollar		-	67,973,679	238,939	956,034
Chilean Peso		322,782	-	5,799	-
Chinese Yuan Renminibi		36,525,639	-	579	554,212
Czech Koruna		3,415,364	-	72,108	8,930
Danish Krone		-	1,787,247	6,211	-
Euro Currency		-	95,117,262	5,586,988	1,668,897
Hong Kong Dollar		7,154,726	-	409	1,710
Hungarian Forint		1,625,534	-	73,726	28,166
Indonesian Rupian		692,939	-	49,939	-
Japanese Yen		207,929,539	-	1,214,441	4,635,729
Mexican New Peso		12,950,854	-	289,211	44,314
New Zealand Dollar		-	3,043,946	48,829	44,650
New Taiwan Dollar		32,585,397	-	47,004	1,118,593
Norwegian Krone		-	18,355,749	73,192	105,086
Polish Zloty		509,025	-	562,469	54,334
New Russian Rubel		348,325	-	200	2,174
Singapore Dollar		5,150,417	-	145,742	137,297
Slovak Koruna		726,296	-	86	8,707
South African Comm Rand		8,523,022	-	276,151	17,822
South Korean Won		16,642,283	-	132,659	511,922
Swedish Krona		7,397,589	-	263,418	291,901
Swiss Franc		10,274,812	-	41,294	578,501
UK Pound		266,553,996	-	7,153,807	2,067,942
TOTAL	$	651,576,639	186,277,883	16,494,139	13,131,892

(D) *Written Options* – Written options are used to alter the market (systematic) exposure without trading the underlying cash market securities, and to hedge and control risks so that the actual risk/return profile is more closely aligned with the target risk/return profile. They are included in payables from restricted assets. During the year, call options were written on Treasury Bond and equity index futures. Transactions in call options written during the year ended August 31, 2006 were as follows:

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

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

Transactions in call options written during the year ended August 31, 2005 were as follows:

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

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

(E) *Swaps* – Swaps are used to adjust interest rate and yield curve exposures. During the year, the System entered into interest rate, total return and commodity swap contracts. They are included in other receivables and payables from restricted assets. The following discloses the notional amount, the coupon rate, and the fair values of the outstanding swap contracts as of August 31, 2006:

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

(Continued)

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

The following discloses the notional amount, the coupon rate, and the fair values of the outstanding swap contracts as of August 31, 2005:

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

(Continued)

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

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

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

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

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

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

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

The fair values of these various investment funds as of August 31, 2006 and 2005 were $10,083,099,095 and $7,368,221,333, respectively.

(G) *Securities Sold Short* – The System may sell securities it does not own in anticipation of a decline in the fair value of that security. When the System sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale as collateral for its obligation to deliver the security upon conclusion of the sale. The Deposit with Broker for Securities Sold Short was $11,811,105 as of August 31, 2006. The market value of securities sold short as of August 31, 2006 was $14,913,501. There were no securities sold short during the year ended August 31, 2005. The System must pay dividends or interest on the securities sold short. Until the System covers it shorts sales, it is exposed to market risk to the extent that subsequent market fluctuations may require purchasing securities sold short at prices which may be significantly higher than the market value reflected in the statements of fiduciary net assets.

4. Endowments

Restricted investments include $18,428,254,099 and $16,641,819,213 of endowment funds as of August 31, 2006 and 2005, respectively. The net asset classifications on the balance sheet related to endowment funds as of August 31, 2006 and 2005 are as follows:

Net Asset Classification of Endowments		2006	2005
Restricted, nonexpendable (as restated, see Note 28)	$	9,159,639,763	8,596,201,375
Restricted, expendable (as restated, see Note 28):			
Net Appreciation		7,823,724,551	6,964,408,616
Funds Functioning as Endowments		212,603,907	187,146,777
Unrestricted:			
Funds Functioning as Endowments		178,593,695	166,846,257
Total	$	17,374,561,916	15,914,603,025

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

ENDOWMENTS AND SIMILAR FUNDS – STATE

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

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

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

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

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

ENDOWMENT AND SIMILAR FUNDS - OTHER THAN STATE

Funds subject to restrictions of endowment and trust instruments, requiring that the principal be maintained and that only the income be utilized. Funds may include Endowments, Term Endowments and Funds Functioning as Endowments. Funds Functioning as Endowments consist of amounts that have been internally dedicated by the System for long-term investment purposes. Endowment and Term Endowment holdings may be invested in the LTF, or may be separately invested based upon the following three factors: (1) there are investment restrictions incorporated into the trust or endowment document; (2) the inability to sell the gifted investment asset; or (3) they are holdings being migrated upon liquidation into the LTF. Distributions are based upon the actual income received from the separately invested holdings.

ANNUITY AND LIFE INCOME FUNDS

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

AVAILABLE UNIVERSITY FUND

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

5. Capital Assets

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

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

A summary of changes in the capital assets for the year ended August 31, 2005, is presented below.

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

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

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

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*, requires the disclosure of impairment losses and associated insurance recoveries. The System did not have any impairment losses to report for the years ended August 31, 2006 and 2005.

6. Risk Financing and Related Insurance

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

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

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

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

<u>WORKERS' COMPENSATION INSURANCE</u>
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.*

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

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

<u>COMPREHENSIVE PROPERTY PROTECTION PROGRAM</u>
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 underlying limits ($1-2 million per building and contents) are purchased through the Texas Windstorm Insurance Association and the National Flood Insurance Program on several facilities in the Tier 1 wind zone and other flood prone areas to provide a primary layer of insurance. The self-insurance component of the program participates in losses that exceed the coverage available under these primary policies or in cases where there is no underlying insurance.

The second program covers fire and other perils and includes commercial coverage for claims exceeding a per occurrence deductible of $7.5 million or an annual aggregate deductible of $25 million. The policy covers all UT System buildings and personal property and business income reported by the institutions. The maximum annual reimbursement under this policy is $1 billion per occurrence.

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

DIRECTORS AND OFFICERS/EMPLOYMENT PRACTICES LIABILITY SELF-INSURANCE PLAN

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

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

ROLLING OWNER CONTROLLED INSURANCE PROGRAM

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

INCURRED BUT NOT REPORTED SELF-INSURANCE CLAIMS

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

Changes in the System's claims liabilities for the various self-insurance plans during fiscal years 2006 and 2005 were as follows:

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

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

7. Postemployment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health and life insurance benefits for retired employees, in accordance with State statutes. Many employees may become eligible for the health and life insurance benefits as a retired employee if they meet certain age and service requirements as defined by the State. Currently, there are 14,747 system-wide retired employees who are eligible for these benefits. Similar benefits for active employees are provided through the same self-funded plan and fully-insured plans. The State and the System recognize the cost of providing these benefits to eligible retired employees. The cost of retired employee benefits is recognized when paid. In 2006 the contribution for the self-funded plan by the State and/or the System per full-time employee/retired employee was $330.30 per month for "Subscriber Only," $503.26 per month for "Subscriber and Spouse," $440.96 per month for "Subscriber and Children" and $614.95 per month for "Subscriber and Family." In 2005 the contribution by the State and/or the System per full-time employee/retired employee was $301.83 per month for "Subscriber Only," $459.78 per month for "Subscriber and Spouse," $402.89 per month for "Subscriber and Children" and $561.78 per month for "Subscriber and Family." These contributions paid all of the cost of coverage for the employee/retired employee and a portion of the cost of coverage for enrolled dependents. The employee/retired employee was required to pay a portion of the cost of dependent coverage. For the fiscal year ended August 31, 2006, the cost of providing those benefits for the retired employees was $36,866,625 for the State and $29,231,419 for the System. For the fiscal year ended August 31, 2005, the cost of providing those benefits for the retired employees was $30,799,837 for the State and $26,577,342 for the System. See Note 27 for information on GASB Statement No. 45, which will impact the System's accounting for these postemployment benefits in the future.

8. Summary of Long-Term Liabilities

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

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

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

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

	Restated Balance 09/01/04	Additions	Reductions	Balance 08/31/05	Amounts due within one year
Bonds Payable:					
Permanent University Fund:					
Refunding Bonds Series 1996	$ 139,095,000	-	20,240,000	118,855,000	21,460,000
Bonds Series 1997	22,590,000	-	5,220,000	17,370,000	5,495,000
Refunding Bonds Series 2002A	82,480,000	-	12,100,000	70,380,000	12,730,000
Bonds Series 2002B	188,215,000	-	102,670,000	85,545,000	-
Refunding Bonds Series 2004A	59,920,000	-	-	59,920,000	-
Bonds Series 2004B	396,520,000	-	-	396,520,000	-
Refunding Bonds Series 2005A	-	100,345,000	-	100,345,000	-
Bonds Series 2005B	-	124,625,000	-	124,625,000	-
Revenue Financing System:					
Bonds Series 1995A	11,815,000	-	2,830,000	8,985,000	3,000,000
Bonds Series 1996A	31,035,000	-	3,180,000	27,855,000	3,370,000
Bonds Series 1996B	25,895,000	-	12,855,000	13,040,000	13,040,000
Bonds Series 1998A	4,990,000	-	440,000	4,550,000	460,000
Bonds Series 1998B	70,695,000	-	4,590,000	66,105,000	4,835,000
Bonds Series 1998C	11,000,000	-	1,795,000	9,205,000	1,870,000
Bonds Series 1998D	16,575,000	-	3,890,000	12,685,000	4,045,000
Bonds Series 1999A	20,130,000	-	3,635,000	16,495,000	3,815,000
Bonds Series 1999B	35,725,000	-	6,450,000	29,275,000	6,775,000
Refunding Bonds Series 2001A	45,565,000	-	8,900,000	36,665,000	36,665,000
Bonds Series 2001B	88,190,000	-	6,020,000	82,170,000	6,250,000
Bonds Series 2001C	41,405,000	-	2,795,000	38,610,000	2,910,000
Refunding Bonds Series 2002A	53,500,000	-	320,000	53,180,000	325,000
Refunding Bonds Series 2002B	107,030,000	-	615,000	106,415,000	630,000
Bonds Series 2003A	108,650,000	-	3,560,000	105,090,000	3,740,000
Bonds Series 2003B	471,515,000	-	10,025,000	461,490,000	10,525,000
Refunding Bonds Series 2004A	137,415,000	-	250,000	137,165,000	255,000
Refunding Bonds Series 2004B	300,330,000	-	-	300,330,000	-
Bonds Series 2004C	-	218,610,000	1,760,000	216,850,000	6,725,000
Bonds Series 2004D	-	352,170,000	-	352,170,000	6,750,000
Constitutional Appropriation:					
Bonds Series 1995	3,140,000	-	3,140,000	-	-
Subtotal Bonds Payable – Par Value	2,473,420,000	795,750,000	217,280,000	3,051,890,000	155,670,000
Unamortized Net Premiums	134,871,344	52,328,994	15,265,206	171,935,132	-
Unamortized Net (Losses)	(52,674,685)	(1,372,206)	(4,608,111)	(49,438,780)	-
Total Bonds Payable	2,555,616,659	846,706,788	227,937,095	3,174,386,352	155,670,000

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

The consolidated balance sheets at August 31, 2006 and 2005, do not include $666,289,000 and $902,013,000, respectively, 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 $329,996,928 in fiscal year 2007 to $9,003,750 in fiscal year 2037. The requirements in fiscal year 2007 reflect the Revenue Financing System Refunding Bonds, Series 2001A, which are variable rate demand bonds. Annual debt service requirements for such variable rate bonds are reflected at the System's effective borrowing rate at August 31, 2006, of 3.43 percent on a principal amount of $28,365,000 with an option to tender on seven days notice. The interest rates on fixed rate bonds range from 2.00 percent to 6.00 percent, with the final installment due in 2037. The principal and interest expense for the next five years and beyond are projected below for bonds issued and outstanding:

Fiscal Year	Principal	Interest	Total
2007	$ 159,685,000	170,311,928	329,996,928
2008	141,210,000	163,934,904	305,144,904
2009	149,420,000	157,372,516	306,792,516
2010	156,740,000	150,078,469	306,818,469
2011	130,295,000	142,452,481	272,747,481
2012 – 2016	733,910,000	606,484,794	1,340,394,794
2017 – 2021	699,470,000	417,486,750	1,116,956,750
2022 – 2026	555,175,000	253,447,450	808,622,450
2027 – 2031	397,045,000	139,400,750	536,445,750
2032 – 2036	325,640,000	41,503,650	367,143,650
2037	8,575,000	428,750	9,003,750
Total Requirements	$ 3,457,165,000	2,242,902,442	5,700,067,442

Total interest expense for the years ended August 31, 2006 and 2005 was $180,133,746 and $156,346,866, respectively. Interest expense of $2,159,838 and $16,465,443 associated with financing projects during the construction phase was capitalized during the years ended August 31, 2006 and 2005, respectively. Interest expense was also reduced $7,406,053 and $4,876,650 for the amortization of premiums and deferred losses on refundings for the years ended August 31, 2006 and 2005, respectively. The remaining amounts of $170,567,855 in 2006 and $135,004,773 in 2005 were reported as interest expense.

Notes and loans payable obligations are due in annual installments through 2016. General information related to notes and loans payable at August 31, 2006, which in substance are not bonds, is summarized as follows:

Fiscal Year	Principal	Interest	Total
2007	$ 658,539,099	6,771,874	665,310,973
2008	2,183,712	1,405,022	3,588,734
2009	1,934,374	1,276,453	3,210,827
2010	1,425,000	1,159,056	2,584,056
2011	1,425,000	1,063,970	2,488,970
2012 – 2016	16,340,780	4,186,333	20,527,113
Total Requirements	$ 681,847,965	15,862,708	697,710,673

COMPENSATED ABSENCES

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

9. Bonded Indebtedness

At August 31, 2006 and 2005, the System had outstanding bonds payable of $3,457,165,000 and $3,051,890,000, respectively. All bonds issued by the System are defined as revenue bonds. Segment information requirements are not applicable, due to the bond indentures' lack of specifically identifiable activities and external party imposed separate accounting requirements. General information related to bonds outstanding as of August 31, 2006, is summarized in the following table:

Bond Series	Purpose	Issue Date	Amount Authorized	
Permanent University Fund:				
Bonds Series 1997	To refund $78,000,000 principal amount of Permanent University Fund Variable Rate Notes, Series A, and to provide new money	January 6, 1998	130,000,000	
Refunding Bonds Series 2002A	To refund $108,515,000 principal amount of Permanent University Fund Refunding Bonds, Series 1992A, maturing on July 1 in the years 2003 through 2007, both inclusive, and in the years 2009 and 2013	April 2, 2002	115,000,000	
Bonds Series 2002B	To refund $191,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A	April 2, 2002	205,000,000	
Refunding Bonds Series 2004A	To refund $61,495,000 principal amount of Permanent University Fund Bonds, Series 1997, maturing on July 1 in the years 2009 through 2016, both inclusive	April 6, 2004	500,000,000	[1]
Bonds Series 2004B	To refund $400,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A	April 6, 2004	439,335,000	[1]
Refunding Bonds Series 2005A	To refund $102,670,000 principal amount of Permanent University Fund Bonds, Series 2002B, maturing on July 1 in the years 2012 through 2019, both inclusive	April 5, 2005	375,000,000	[2]
Bonds Series 2005B	To refund $125,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A	July 7, 2005	274,655,000	[2]
Refunding Bonds Series 2006A	To refund $97,395,000 principal amount of Permanent University Fund Refunding Bonds, Series 1996, maturing on July 1 in the years 2007 through 2010, both inclusive	April 4, 2006	300,000,000	[3]
Revenue Financing System:				
Bonds Series 1995A	To refund $34,833,000 of Revenue Financing System Commercial Paper Notes, to refund $4,525,000 of UT Pan American Tuition Revenue Refunding Bonds, Series 1986 and to provide new money of $35,167,000	July 12, 1995	232,000,000	
Bonds Series 1998A	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	February 11, 1998	11,500,000	
Bonds Series 1998B	To refund $109,504,000 principal of Revenue Financing System Commercial Paper Notes, Series A and to pay the cost of issuance	February 11, 1998	115,500,000	
Bonds Series 1998C	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	October 15, 1998	46,680,000	
Bonds Series 1998D	To refund $91,163,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $10,549,000 and pay the cost of issuance	October 15, 1998	111,820,000	
Bonds Series 1999A	To refund $32,723,000 principal of Revenue Financing System Commercial Paper Notes, Series A issued pursuant to Sections 55.1714 and 55.1722 of the Texas Education Code, provide new money of $70,027,000 and pay the cost of issuance	September 21, 1999	102,750,000	

Amount Issued	Interest Rates	Maturity Dates	Source of Revenue For Debt Service
130,000,000	4.75%-5.25%	1999-2018	Available University Fund
105,290,000	3.00%-5.00%	2003-2010	Available University Fund
188,215,000	5.00%-5.38%	2012-2022	Available University Fund
60,665,000	3.00%-5.00%	2004-2016	Available University Fund
396,520,000	4.50%-5.00%	2023-2033	Available University Fund
100,345,000	5.00%-5.25%	2011-2019	Available University Fund
124,625,000	4.25%-5.00%	2018, 2019 and 2035	Available University Fund
96,380,000	4.00%-5.00%	2007-2010	Available University Fund
74,945,000	4.00%-6.00%	1996-2017	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
10,690,000	4.13%-5.00%	1999-2018	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
111,915,000	3.75%-5.25%	1999-2018	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
45,175,000	3.65%-5.00%	2000-2019	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
100,185,000	3.80%-5.13%	2000-2019	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
101,745,000	4.50%-5.75%	2001-2020	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt

(Continued)

Bond Series	Purpose	Issue Date	Amount Authorized	
Revenue Financing System: (continued)				
Bonds Series 1999B	To refund $82,490,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $99,050,000 and pay the cost of issuance	September 21, 1999	193,000,000	
Bonds Series 2001B	To refund $110,070,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $76,000,000 and pay the cost of issuance	October 2, 2001	580,000,000	4
Bonds Series 2001C	To refund $503,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $87,800,000 and pay the cost of issuance.	October 2, 2001	400,390,000	4
Refunding Bonds Series 2002A	To advance refund $54,575,000 principal amount of Revenue Financing System Bonds, Series 1999A maturing from 2010-2016 and 2020 to achieve debt service savings and pay the cost of issuance	September 27, 2002	215,000,000	5
Refunding Bonds Series 2002B	To advance refund $109,240,000 principal amount of Revenue Financing System Bonds, Series 1999B maturing from 2010-2017 and 2020 to achieve debt service savings and pay the cost of issuance	September 27, 2002	160,570,000	5
Bonds Series 2003A	To refund $39,050,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $80,798,250 and pay the cost of issuance	January 23, 2003	635,000,000	6
Bonds Series 2003B	To refund $201,039,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $296,078,000 and pay the cost of issuance	January 23, 2003	522,960,000	6
Refunding Bonds Series 2004A	To refund $143,155,000 principal amount of portions of Revenue Financing System Bonds, Series 1995A, 1996A, 1998A, 1998C, 1999A and 2001C, and pay the cost of issuance	March 9, 2004	496,000,000	7
Refunding Bonds Series 2004B	To refund $310,460,000 principal amount of portions of Revenue Financing System Bonds, Series 1996B, 1998B, 1998D, 1999B and 2001B, and pay the cost of issuance	March 9, 2004	358,085,000	7
Bonds Series 2004C	To refund $147,012,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $88,800,000 and pay the cost of issuance	November 4, 2004	650,000,000	8
Bonds Series 2004D	To refund $201,512,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $172,544,000 and pay the cost of issuance	November 4, 2004	431,390,000	8
Bond Series 2006A	To refund $24,485,000 principal amount of Revenue Financing System Bonds, Series 1996A, and pay the cost of issuance	May 17, 2006	600,000,000	9
Bond Series 2006B	To refund $413,161,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $147,764,140 and pay the cost of issuance	May 10, 2006	579,685,000	9

Amount Issued	Interest Rates	Maturity Dates	Source of Revenue For Debt Service
180,830,000	4.50%-5.75%	2001-2020	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
179,610,000	3.25%-5.38%	2003-2022	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
84,590,000	4.00%-5.38%	2003-2022	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
54,430,000	2.00%-5.25%	2003-2020	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
108,855,000	2.00%-5.25%	2003-2020	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
112,040,000	3.00%-5.38%	2004-2023	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
481,060,000	2.00%-5.38%	2004-2033	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
137,915,000	2.00%-5.25%	2004-2018	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
300,330,000	4.50%-5.25%	2007-2019	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
218,610,000	4.00%-5.25%	2005-2023	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
352,170,000	3.00%-5.25%	2006-2034	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
20,315,000	4.00%-4.50%	2007-2015	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
540,570,000	4.00%-5.00%	2007-2037	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt

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

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

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

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

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

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

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

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

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

General information related to bonds outstanding retired in 2006 is summarized as follows:

- 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

- 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.

DEMAND BONDS

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

- Revenue Financing System Refunding Bonds, Series 2001A
  Purpose: To refund $38,500,000 of Revenue Financing System Refunding Bonds, Series 1991A and $42,030,000 of Revenue Financing System Refunding Bonds, Series 1991B, and pay costs of issuance.
  Issue Date: May 17, 2001
  Authorized: $85,000,000 Issued: $81,665,000
  Interest Rates: Variable Maturity Date: 2013
  Interest Rate Terms: Interest rates are established by the respective dealer/remarketing agent based on prevailing market conditions.
  Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

EARLY EXTINGUISHMENTS IN FISCAL YEAR 2006

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

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

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

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

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

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

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

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

EARLY EXTINGUISHMENTS IN FISCAL YEAR 2005

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

- Net proceeds from the bonds (including a premium of $42,871,322) were $611,561,027 – after the payment of $2,090,295 in underwriting fees. Of the net proceeds, $261,344,000 was deposited into a construction fund and $343,486 was used to pay cost of issuance. The remaining $349,873,540 was deposited with the paying agent to provide for all future debt service payments on the refunded notes.
- The refunded debt was paid off and the liability for these obligations has been removed from the consolidated balance sheet.
- An accounting loss of $1,349,540 resulted from the transaction as the reacquisition price of $349,873,540 exceeded the net carrying amount of $348,524,000.
- No economic gain resulted from this transaction.

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

- Net proceeds from the refunding series (including a premium of $8,292,607) were $108,251,928 – after the payment of $385,679 in underwriting fees. The net proceeds were used to pay cost of issuance of $103,248 and purchase $108,148,679 of eligible defeasance securities. These securities were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded bonds.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- The advance refunding resulted in gross debt service savings through 2019 of $14,572,017.
- An accounting loss of $1,372,206 resulted from the transaction as the reacquisition price of $108,148,679 exceeded the net carrying amount of $106,776,476.
- An economic gain from the transaction resulted in a net present value savings of $6,431,715 between the old and new debt service payments.

Permanent University Fund Bonds, Series 2005B were issued July 7, 2005, to current refund $125,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A and to pay the costs of issuance related thereof.

- Net proceeds from the refunding series (including a premium of $1,165,066) were $125,124,129 – after the payment of $665,937 in underwriting fees. The net proceeds along with a contribution of $1,874,625 were used to pay cost of issuance of $123,073 and purchase $126,875,023 of eligible defeasance securities. These securities and $658 in residual proceeds were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded notes.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- An accounting loss of $680,181 resulted from the transaction as the reacquisition price of $126,875,681 exceeded the net carrying amount of $126,195,500.
- No economic gain resulted from this transaction.

On August 1, 2005, $8,900,000 of outstanding Revenue Financing System Refunding Bonds, Series 2001A were optionally redeemed. The liability for these obligations has been removed from the consolidated balance sheet. No accounting gain or loss resulted from the transaction.

<u>SWAP AGREEMENTS</u>

Forward Floating-to-Fixed Interest Rate Swaps:

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

Terms: Pursuant to the terms of the Swap Agreements, the UT System Board of Regents has agreed to pay interest on a notional amount of $80,530,000 at a fixed rate of 4.633% per annum, with such obligation commencing on August 15, 2001. In consideration of receiving the payments from the UT System Board of Regents, Morgan and Goldman have agreed to pay to the UT System Board of Regents a variable rate equal to 67% of the one-month London Interbank Offered Rate ("LIBOR"). The Morgan Swap Agreement is for 60% of the notional amount and the Goldman Swap Agreement is for 40% of the notional amount. The Series 2001A Bonds are scheduled to mature and the Swap Agreements are scheduled to terminate on August 15, 2013. As of August 31, 2006, there was $28,365,000 of the Series 2001A Bonds outstanding and the notional amount of the Swap Agreements was $27,930,000. As of August 31, 2005, there was $36,665,000 of the Series 2001A Bonds outstanding and the notional amount of the Swap Agreements was $36,115,000.

Fair Value: Because interest rates have declined since the execution of the Swap Agreements, the Swap Agreements had a negative fair value of $1,135,523 as of August 31, 2006 and a negative fair value of $2,303,815 as of August 31, 2005. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

Basis and Termination Risk: The Swap Agreements expose the UT System Board of Regents to basis risk as the variable rate received under the Swap Agreements does not perfectly match the variable rate paid on the Series 2001A Bonds. Each Swap Agreement may be terminated if the respective counterparty does not maintain a credit rating of at least Aa3 by Moody's Investors Service ("Moody's") or AA- by Standard & Poor's Corporation ("S&P"). As of August 31, 2006, 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/AAA. As of August 31, 2005, the swap providers' respective ratings by Moody's/S&P are as follows: J.P. Morgan Chase Bank, Aa2/AA- and Goldman Sachs Mitsui Marine Derivative Products, L.P., Aaa/AA+. The Swap Agreements may also be terminated by Morgan or Goldman, respectively, if the UT System Board of Regents does not maintain a credit rating of at least Aa3 by Moody's or AA- by S&P.

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

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

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

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

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

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

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

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

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

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

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

10. Note Indebtedness

General information related to notes and loans payable at August 31, 2006, which in substance are not bonds, is summarized as follows:

- Note or loan payable issue name: Permanent University Fund Flexible Rate Notes, Series A
  Purpose: To provide new money
  Issue Date: December 6, 2005
  Authorized Amount: Aggregate principal amount not to exceed $400 million
  Source of revenue for debt service: Available University Fund
  Terms: Interest payable in periodic installments not to exceed 270 days at a flexible rate

- Note or loan payable issue name: Revenue Financing System (RFS) Commercial Paper Notes, Series A
  Purpose: To provide new money
  Issue Date: September 1, 2005 through August 31, 2006
  Authorized Amount: Aggregate principal amount not to exceed $750 million
  Source of revenue for debt service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
  Terms: Interest payable in periodic installments not to exceed 270 days at a variable rate

- Note or loan payable issue name: Revenue Financing System (RFS) Taxable Commercial Paper Notes, Series B
  Purpose: To provide new money
  Issue Date: September 1, 2005 through August 31, 2006
  Authorized Amount: Aggregate principal amount not to exceed $50 million
  Source of revenue for debt service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
  Terms: Interest payable in periodic installments not to exceed 270 days at a variable rate

Other Notes Payable includes:

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

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

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

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

- Note or loan payable issue name: Charitable Lead Trust
  Purpose: Fine Arts Foundation (a blended component unit) purchase of the Suida Manning Art Collection
  Component Unit: UT Austin's Blended Component Unit
  Issue Date: January 4, 1999
  Authorized Amount: $10,713,200
  Source of revenue for debt service: Gift
  Terms: January 4, 1999 through April 17, 2016

- Note or loan payable issue name: Memorial Hermann Hospital System
  Purpose: Reimburse Memorial Hermann Hospital System for equipment purchased and operating funds advanced in association with the transfer of clinics from Memorial Hermann Hospital System to UT Physicians
  Component Unit: UT Health Science Center at Houston's Blended Component Unit
  Issue Date: July 10, 2000
  Authorized Amount: $7,000,000
  Source of revenue for debt service: Debt and interest to be forgiven upon attainment of specified performance goals.
  Terms: July 2000 through June 2012

- Note or loan payable issue name: Premier Purchasing Partners L.P.
  Purpose: To purchase an ownership stake in this limited partnership
  Institution: UT Southwestern Medical Center at Dallas
  Issue Date: September 1, 2005
  Authorized Amount: $369,190
  Source of revenue for debt service: Rebates earned
  Terms: Payment time as well as payment amount is dependent on calculation of rebates which is based on the purchasing volume of the medical center.

General information related to notes and loans payable retired in 2006 is summarized as follows:

- Note or loan payable issue name: J. P. Morgan Leasing, Inc.
  Purpose: To purchase the PET/CT Discovery ST
  Component Unit: UT Southwestern Medical Center at Dallas' Blended Component Unit
  Issue Date: August 22, 2003
  Authorized Amount: $2,200,000
  Source of revenue for debt service: Operations
  Terms: September 22, 2003 through August 22, 2008

11. Capital Leases

Certain leases to finance the purchase of property are capitalized at the present value of future minimum lease payments. The original capitalized cost of all such property under capital lease as of August 31, 2006 and 2005, is as follows:

Assets Under Capital Lease		2006	2005
Furniture and Equipment	$	418,094	1,786,623
Less: Accumulated Depreciation		(86,673)	(553,866)
Museums and Art Collections		4,152,652	3,984,375
Total	$	4,484,073	5,217,132

Capital lease obligations are due in annual installments through 2011. The following is a schedule of the future minimum lease payments for leased property and the present value of the net minimum lease payments at August 31, 2006.

Fiscal Year		Principal	Interest	Total
2007	$	594,795	140,953	735,748
2008		543,147	85,781	628,928
2009		490,940	58,348	549,288
2010		453,063	34,885	487,948
2011		385,000	15,000	400,000
Total Minimum Lease Payments		2,466,945	334,967	2,801,912
			Less: Interest	(334,967)
Present Value of Net Minimum Lease Payments				2,466,945

12. Short-Term Debt

The System had RFS Commercial Paper Notes, Series A, and RFS Taxable Commercial Paper Notes, Series B outstanding at August 31, 2006 and 2005. In addition, the System had PUF Flexible Rate Notes, Series A outstanding at August 31, 2006 only. The notes are issued to provide interim financing for capital improvements and to finance equipment purchases. While the interest is payable on these notes in periodic installments not to exceed 270 days, they are generally intended to be refinanced with long-term debt. Information pertaining to the balances and activity of these notes is reflected in Note 8.

13. Net Assets (As Restated – See Note 28)

The System's net assets at August 31, 2006 and 2005, were comprised of the following:

	2006	2005
Invested in capital assets, net of related debt	$ 3,807,124,215	3,610,694,832
Restricted		
Nonexpendable (as restated, see Note 28)	9,159,639,763	8,596,201,375
Expendable (as restated, see Note 28)	9,355,977,383	8,411,059,655
Total restricted	18,515,617,146	17,007,261,030
Unrestricted net assets:		
Unrestricted		
Reserved		
Encumbrances	234,596,154	229,475,394
Accounts receivable (less deferred revenue portion)	642,620,188	436,287,812
Inventories	72,929,165	64,152,450
Self-insurance plans	229,914,222	208,798,054
Higher Education Assistance Fund (HEAF)	3,827,277	2,932,702
Other specific purposes:		
Advanced Research/Advanced Technology Programs	5,571,876	5,196,261
Deposits	3,895,754	3,923,382
Prepaid expenses	66,109,328	64,503,689
Deferred charges	4,947,100	13,135,148
Imprest funds	1,174,393	1,198,918
Travel advances	179,200	179,388
Unreserved		
Allocated		
Funds functioning as endowment-unrestricted	178,593,695	166,846,257
Provision for 2007 & 2006 operating budgets	66,008,898	87,761,181
Capital projects	158,048,157	235,489,576
Debt service	69,239,565	71,000,047
Start-up/matching	36,148,291	30,299,492
Utilities reserve	15,552,795	27,083,088
Research enhancement and support	70,613,761	38,497,079
Market adjustments	6,743,994	907,624
Student fees	60,873,883	45,569,158
Texas Tomorrow Fund shortfall	7,913,053	5,781,603
Instructional program support	74,633,620	54,547,422
Dean and chair recruitment packages	19,245,731	13,186,182
Self-supporting enterprises	82,917,753	71,672,628
Patient care support	84,852,844	88,389,843
Practice plan minimum operating reserve of 90 days	172,493,247	226,056,173
Unallocated	82,984,837	54,099,848
Total unrestricted	2,452,628,781	2,246,970,399
Total net assets	$ 24,775,370,142	22,864,926,261

As of August 31, 2006 and 2005, restricted nonexpendable net assets include $5,889,253,513 and $5,455,915,288, respectively, of the Permanent University Fund corpus, and $819,999,983 and $820,000,391, respectively, of the Permanent Health Fund corpus. These funds are restricted by enabling legislation. As of August 31, 2006 and 2005, restricted expendable net assets include $5,748,416,503 and $5,196,675,609, respectively, of the Permanent University Fund appreciation, and $167,028,260 and $105,897,260, respectively, of the Permanent Health Fund appreciation. These funds are also restricted by enabling legislation.

Unrestricted net assets, detailed in the table above, are not subject to externally imposed stipulations. Unrestricted net assets may be designated for special purposes by actions of the Texas Legislature, internal management, and the UT System Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic programs, patient care, research programs and initiatives, and capital programs.

14. Matrix of Operating Expenses Reported by Function

For the year ended August 31, 2006, the following table represents operating expenses for both natural and functional classifications for the System:

Operating Expenses		Instruction	Research	Hospitals and Clinics	Public Service	Academic Support
Cost of Goods Sold	$	20,308,503	228	59,888,534	225,673	-
Salaries and Wages		1,505,162,710	794,893,142	1,174,337,122	119,517,650	196,558,547
Payroll Related Costs		373,348,307	178,971,174	307,340,484	26,721,895	45,348,900
Professional Fees and Services		32,986,882	60,370,983	123,239,645	12,143,242	15,920,833
Scholarships and Fellowships		10,848,720	17,753,485	151,403	1,957,099	1,350,704
Travel		27,102,879	31,932,738	7,376,454	3,903,081	6,219,216
Materials and Supplies		92,699,684	156,340,113	505,702,922	20,438,880	35,958,422
Utilities		1,484,824	1,049,661	5,896,464	859,203	104,413
Communications		18,528,402	7,249,978	12,571,167	1,782,717	11,506,805
Repairs and Maintenance		8,091,298	10,865,343	42,535,661	811,388	4,943,184
Rentals and Leases		14,919,227	6,695,692	20,756,228	3,592,087	3,927,077
Printing and Reproduction		6,330,925	3,541,526	1,112,735	3,561,163	2,893,669
Depreciation and Amortization		-	-	-	-	-
Bad Debt Expense		183,809	15,605	38,823	4,185	15,901
Claims and Losses		-	-	16,821	-	-
Other Operating Expenses		142,864,849	159,013,470	251,937,497	26,716,385	28,793,251
Federal Sponsored Program Pass-through Expense		2,247,646	6,538,073	-	1,138,711	-
State Sponsored Program Pass-through Expense		-	54,385	-	-	-
Total Operating Expenses	$	2,257,108,665	1,435,285,596	2,512,901,960	223,373,359	353,540,922

Student Services	Institutional Support	Operations and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total Expenses
71,985	628,147	225	-	19,069,465	-	100,192,760
84,267,322	488,317,711	142,784,600	24,288,960	126,820,591	-	4,656,948,355
19,461,696	121,627,096	34,905,827	3,475,896	29,142,147	-	1,140,343,422
2,035,636	52,479,261	17,648,700	387,089	16,667,710	-	333,879,981
3,188,134	643,847	200	188,343,957	5,893,585	-	230,131,134
2,493,189	12,093,092	938,416	623,466	14,467,925	-	107,150,456
10,215,419	38,189,818	52,325,920	824,976	32,041,701	-	944,737,855
641,185	(14,379,541)	226,562,482	(14)	29,197,888	-	251,416,565
1,562,029	(2,466,546)	1,532,741	(215,141)	4,036,854	-	56,089,006
2,812,357	14,537,963	64,942,234	34,219	11,678,763	-	161,252,410
3,387,347	16,952,846	19,781,812	58,657	5,959,113	-	96,030,086
2,600,349	(3,749,353)	156,768	74,049	4,947,556	-	21,469,387
-	-	-	-	-	557,751,455	557,751,455
2,800,937	59,318	-	(7,077)	4,350	-	3,115,851
-	20,845,186	-	-	-	-	20,862,007
10,515,489	(122,063,758)	(24,164,794)	5,004,102	51,737,769	-	530,354,260
-	-	-	191,960	-	-	10,116,390
-	-	-	-	-	-	54,385
146,053,074	623,715,087	537,415,131	223,085,099	351,665,417	557,751,455	9,221,895,765

For the year ended August 31, 2005, the following table represents operating expenses for both natural and functional classifications for the System:

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

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

15. Commitments and Contingent Liabilities

On August 31, 2006, various lawsuits and claims involving the System were pending. After conferring with legal counsel concerning pending litigation and claims, the System's management believes that the outcome of pending litigation should not have a material adverse effect on the financial statements of the System.

The System continues to implement its $6.4 billion capital improvement program, planned for fiscal years 2006 through 2011, to upgrade facilities. Contracts have been entered into for the construction and renovation of various facilities. These projects are in various stages of completion.

The System receives grants and other forms of reimbursement from various federal and state agencies. These activities are subject to audit by agents of the funding authority, the purpose of which is to ensure compliance with conditions precedent to providing such funds. The System believes that the liability, if any, for reimbursement which may arise as the result of audits, would not be material.

The System has invested in certain private market investment funds. These agreements commit the System to future capital contributions amounting to $1,652,553,433 as of August 31, 2006 and $1,138,399,396 as of August 31, 2005.

16. Operating Lease Obligations

The System has entered into various operating leases for buildings, equipment and land. Rental expenses for operating leases were $61,192,684 in 2006 and $62,590,794 in 2005. Future minimum lease rental payments under noncancelable operating leases having an initial term in excess of one year as of August 31, 2006, were as follows:

Fiscal Year		Lease Payments
2007	$	44,813,176
2008		35,894,391
2009		29,055,890
2010		23,648,409
2011		16,120,147
2012 – 2016		13,242,361
2017 – 2021		1,722,133
2022 – 2026		1,523,340
2027 – 2031		1,434,840
Total Minimum Future Payments	$	167,454,687

The System has also leased buildings, equipment and land to outside parities under various operating leases. The cost, carrying value and accumulated depreciation of these leased assets as of August 31, 2006 and 2005 were as follows:

Assets Leased		2006	2005
Buildings:			
Cost	$	73,120,057	73,163,436
Less: Accumulated Depreciation		(16,258,144)	(13,611,541)
Carrying Value of Buildings		56,861,913	59,551,895
Land		2,902,826	2,900,073
Total Carrying Value	$	59,764,739	62,451,968

Minimum future lease rental income under noncancelable operating leases as of August 31, 2006, was as follows:

Fiscal Year		Lease Income
2007	$	18,819,237
2008		16,176,745
2009		13,964,059
2010		11,660,590
2011		14,111,090
Total	$	74,731,721

17. Employees' Retirement Plans

TEACHER RETIREMENT SYSTEM (TRS)

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

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

TRS contribution rates for both employers and employees are not actuarially determined but are legally established by the State Legislature. Contributions by employees are 6.4 percent of gross earnings. Depending upon the source of funding for the employee's compensation, the State or the System contributes a percentage of participant salaries totaling 6 percent of annual compensation. The System's contributions to TRS for the years ended August 31, 2006, 2005 and 2004, were $117,951,564, $104,801,254 and $95,929,434, respectively, which equaled the amounts of the required contributions for those years.

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

OPTIONAL RETIREMENT PROGRAM (ORP)

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

EMPLOYEES RETIREMENT SYSTEM (ERS)

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

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

The funding policy requires monthly contributions by both the State and employees. For the biennium beginning September 1, 2005, the required contribution for both the State and employees is 6 percent of pay.

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

THE UNIVERSITY OF TEXAS SYSTEM GOVERNMENTAL RETIREMENT ARRANGEMENT (UTGRA)

The University of Texas System Governmental Retirement Arrangement (UTGRA) is a defined contribution pension plan established by the System to provide certain participants in the ORP that portion of their benefits that would otherwise be payable under the ORP except for the $44,000 limit on contributions imposed by Section 415 of the Internal Revenue Code (IRC). At August 31, 2006 and 2005, there were 643 and 658 plan members, respectively. Persons employed by the System prior to September 1, 1996 whose compensation exceeds the limit set by IRC Section 401(a)(17) and whose ORP contribution is limited by the $44,000 cap under IRC Section 415(c), defer 6.65 percent of their excess compensation while the System contributes between 6 percent and 8.5 percent depending upon the institution and the date of employment. The System contributed $3,873,180 for the year ended August 31, 2006 and $3,571,070 for the year ended August 31, 2005. Plan provisions are established and may be amended at any time by the UT System Board of Regents.

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

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

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

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

18. Deferred Compensation

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

The System administers the UTSaver Deferred Compensation Program (DCP), created in accordance with IRC Section 457(b). All employees are eligible to participate. Deductions, purchased investments and earnings attributed to the UTSaver DCP are the property of the System subject only to the claims of the System's general creditors. Participants' rights under the plan are equal to those of the general creditors of the System in an amount equal to the fair market value of the UTSaver DCP account for each participant. The System has no liability under the UTSaver DCP and it is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.

In addition, some employees contribute to a deferred compensation plan administered by the State, through ERS. The State's 457 plan complies with the IRC Section 457. This State plan is referred to as the Texa$aver Deferred Compensation Plan and is only available to employees who were contributing prior to the establishment of the UTSaver DCP. Deductions, purchased investments and earnings attributed to the 457 plan are the property of the State subject only to the claims of the State's general creditors. Participants' rights under the plan are equal to those of the general creditors of the State in an amount equal to the fair value of the 457 account for each participant. The State has no liability under the 457 plan and it is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.

The System also administers the UTSaver Tax-Sheltered Annuity Program (TSA), created in accordance with IRC Section 403(b). All employees are eligible to participate. The UTSaver TSA is a private plan, and the deductions, purchased investments and earnings attributed to each employee's 403(b) plan are held by vendors chosen by the employee. The vendors may be insurance companies, banks or approved non-bank trustees such as mutual fund companies. The assets of this plan do not belong to the System or the State. Therefore, neither the System nor the State has a liability related to this plan.

19. Subsequent Events

UT Medical Branch at Galveston implemented a reduction in force starting September 9, 2006. There will be no special severance package provided to the terminated employees.

On November 30, 2006, the System entered into bond purchase agreements to issue $896,465,000 of RFS Bonds, Series 2006C-F to refund certain outstanding RFS bonds and to refinance a portion of the outstanding RFS Commercial Paper Notes, Series A. The Series 2006C-F Bonds are expected to close on January 4, 2007.

20. Related Parties

Through the normal course of operations, the System both receives funds from and provides funds to other State agencies in support of sponsored research programs. Funds received and provided during the year ended August 31, 2006, related to pass-through grants were $172,753,523 and $10,170,775, respectively. Funds received and provided during the year ended August 31, 2005, related to pass-through grants were $162,687,654 and $7,019,795, respectively.

Other related-party transactions identified in the financial statements include Due From/To Other State Agencies, State Appropriations, Capital Appropriations and Transfers From/To Other State Agencies.

21. Stewardship, Compliance and Accountability

The System had no significant violations of bond or note covenants. Per State law, the System cannot spend amounts in excess of appropriations granted by the Texas Legislature. There are no deficits reported in net assets.

22. Disaggregation of Other Receivable Balances

Net other receivables at August 31, 2006 and 2005 are detailed by type as follows:

Net Other Receivables		2006	2005
Receivables related to investments	$	62,560,206	55,839,413
Receivables related to healthcare		51,402,349	46,498,278
Receivables related to gifts, grants and sponsored programs		41,382,113	42,873,217
Receivables related to external parties/other companies		11,401,427	14,803,817
Receivables related to auxiliary enterprises		8,004,617	8,335,941
Receivables related to facilities/construction projects		2,213,121	7,247,733
Receivables related to payroll		5,825,098	4,398,123
Receivables related to patents		3,937,023	3,351,230
Receivables related to hospital acquisition		-	2,903,564
Receivables related to travel		891,569	1,221,747
Receivables related to loan funds and financial aid		1,659,301	1,008,560
Receivables related to agency funds		2,329,910	869,159
Receivables related to other various activities		6,827,681	11,619,996
Total	$	198,434,415	200,970,778

23. Funds Held in Trust by Others

The balances, or transactions, of funds held in trust by others on behalf of the System, including Charitable Lead Trusts, are not reflected in the financial statements. As of August 31, 2006 and 2005, there were 935 and 886 such funds for the benefit of the System, respectively. Based upon the most recent available information, the assets of these funds are reported by the trustees at values totaling $1,242,362,111 at August 31, 2006 and $1,118,445,340 at August 31, 2005.

24. Joint Ventures

UT Southwestern Medical Center at Dallas (UTSWMC) is a participating member of DaVita. DaVita is a joint venture entered into by UTSWMC and GAMBRO to provide a combined initiative to provide care for dialysis patients. UTSWMC's equity interest in DaVita at August 31, 2006 and 2005 was $4,141,979 and $968,416, respectively, or 49%. Separate financial statements for DaVita may be obtained at DaVita Inc., 601 Hawaii Street, El Segundo, California 90245, or www.davita.com.

UT Health Science Center at Houston's blended component unit, UT Physicians, is a participating member of Physician's Dialysis of Houston. Physician's Dialysis of Houston is a joint venture entered into by UT Physicians and DaVita, Inc. UT Physician's equity interest in Physician's Dialysis of Houston at August 31, 2006 and 2005 was $432,176 and $41,732, respectively, or 60%. Separate financial statements for Physician's Dialysis of Houston may be obtained at Physician's Dialysis of Houston, Attention: Marie Sinfield, 1423 Pacific Avenue, Tacoma, Washington 98402.

UT Health Science Center at Houston's blended component unit, UT Physicians, is a participating member of UT Imaging. UT Imaging is a Limited Liability Partnership entered into by UT Physicians, Outpatient Imaging Affiliates, LLC, and Memorial Hermann Hospital System. UT Physician's equity interest in UT Imaging at August 31, 2006 and 2005 was $102,629 and $667,000, respectively, or 56.7% and 66.7%. Separate financial statements for UT Imaging may be obtained at Outpatient Imaging Affiliates, LLC, Attention: Laura Cottingham, 840 Crescent Center Drive, Suite 200, Franklin, Tennessee 37067.

UTMDA is a participating member of the Texas Medical Center Hospital Laundry Cooperative Association (the Association). The Association was established on April 30, 1971, for the purpose of acquiring, owning, and operating a laundry system on a cooperative basis solely for the benefit of members of the Association. Net earnings of the Association may be refunded to the members on a patronage basis or retained by the Association as equity allocated to the members. UTMDA's equity interest in the Association at August 31, 2006 and 2005 was $477,423 and $770,000, respectively, or 40%. Separate financial statements for the Association may be obtained at 1601 Braeswood Boulevard, Houston, Texas 77030.

UTMDA is a participating member of the Texas Medical Center Central Heating and Cooling Services Cooperative Association (TECO). TECO was incorporated on October 2, 1975, for the purpose of operating a central heating and cooling services facility on a cooperative basis solely for the benefit of eligible institutions. On June 1, 2003, TECO transferred substantially all of its assets and operations to TECO Corporation and TECO Corporation assumed the liabilities and obligations of TECO. TECO still renders services to member and non-member patrons at cost. Savings or margins are refunded to the member and non-member patrons on a patronage basis in the form of cash or equity by TECO. UTMDA's equity interest in TECO at August 31, 2006 and 2005 was $16,271,110 and $10,163,000, respectively, or 39%. Separate financial statements for TECO may be obtained at Thermal Energy Corporation 1615 Braeswood Boulevard, Houston, Texas 77030.

UTMDA is a participating member of P.E.T. Net Houston, LLC (PETNet). PETNet is a joint venture entered into by UTMDA and P.E.T. Pharmaceuticals, Inc. to lease and operate a facility located on UTMDA's campus to produce positron radiopharmaceuticals and isotopes. Construction of the facility commenced in 2003. UTMDA's equity interest in PETNet at August 31, 2006 and 2005 was $2,556,398 and $1,687,000, respectively, or 49%. Separate financial statements for PETNet may be obtained at Siemens Medical Solutions USA, Inc., 51 Valley Stream Parkway, Malvern, Pennsylvania 19355.

UTMDA entered into a limited partnership agreement on December 19, 2002 with PTC-Houston Management, L.P. and PTC-Houston Investors, LLC to create The Proton Therapy Center-Houston LTD., L.L.P. (PTC Partnership). PTC Partnership was established to develop and operate a proton therapy facility, which will provide cancer treatment to patients utilizing proton therapy technology. Under the Staffing and Operations Agreement between UTMDA and PTC Partnership, UTMDA shall be the exclusive supplier of all technical and operational services to support PTC Partnership operations, and for which, UTMDA will be reimbursed on a monthly basis. Under a separate agreement, the Professional Services Agreement, UTMDA shall provide services of physicians, medical physicists and medical dosimetrists to PTC Partnership, for which, UTMDA shall bill patients and retain all professional fees associated with such services. The initial capital contribution of UTMDA will be determined by the general partner in order to fund the obtaining of licenses for intellectual property deemed necessary to operate the facility, and costs directly related thereto, unless otherwise agreed to in writing by UTMDA. As of August 31, 2006, the general partner had not required UTMDA to make any payments related to the initial capital contribution. However, at the time the contract was executed, the value of the intellectual property was estimated to be $3,000,000, which equates to an approximate 8.95% interest. The investment has not been recorded on the balance sheet of the UTMDA.

UTMDA entered into a limited liability company agreement on December 19, 2002 to form PTC-Houston Investors, L.L.C (Investors). Investors was established to invest in and be a limited partner in the PTC Partnership. Investors entered into a ground lease with UTMDA on December 19, 2002 to lease approximately four acres on UTMDA's property for an initial term of sixty years. UTMDA's initial capital contribution of $2,500,000 to Investors was provided through the ground lease. UTMDA's equity interest in Investors at August 31, 2006 and 2005 was $2,500,000 or approximately 8.2%. Separate financial statements for PTC may be obtained at 1840 Old Spanish Trail, Houston, Texas 77030.

UTMDA entered into a limited partnership agreement on January 10, 1990, with Premier Purchasing Partners, L.P. (Premier). The principal business of Premier is to operate and manage healthcare-related programs and investments for the benefit of its partners including UTMDA and to otherwise assist the partners in providing superior healthcare services in their communities. Premier negotiates and executes reduced cost purchase contracts between its partners and vendors of healthcare products and services by leveraging the aggregated demand of its partners and to operate group purchasing and other programs to increase both individual participant and aggregate purchasing volumes. As of August 31, 2006 and 2005, UTMDA's investment in Premier was $3,913,260 and $2,534,000, respectively, or 1.41%. Separate financial statements for Premier may be obtained at Premier, Inc., 12225 El Camino Real, San Diego, California 92130 or www.premierinc.com.

25. Termination Benefits

In 2006, UT Health Center at Tyler implemented a reduction in force. The benefits package provided to the 69 terminated employees consisted of normal benefits and salaries with no special benefits or severance packages offered.

26. Extraordinary Items

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

27. New Accounting Pronouncements

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the System in fiscal year 2008. GASB Statement No. 45 requires accrual-based measurement, recognition and disclosure of other postemployment benefits (OPEB) expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. For the System, this will result in increased expenses and a related liability which will likely be significant. The System and its actuaries are evaluating the effect that GASB Statement No. 45 will have on the consolidated financial statements.

28. Restatement

Subsequent to the issuance of the System's 2005 consolidated financial statements, the System's management determined that it had improperly classified $6,964,408,616 of appreciation on endowments as restricted, nonexpendable net assets. This amount should have been classified as restricted, expendable net assets as these funds are not required to be held in perpetuity by external restrictions. The 2005 consolidated balance sheet has been restated from the amounts previously reported to properly reflect this reclassification.

		As previously reported	As restated
Restricted, nonexpendable net assets	$	15,560,609,991	8,596,201,375
Restricted, expendable net assets		1,446,651,039	8,411,059,655
Total Restricted Net Assets	$	17,007,261,030	17,007,261,030

5. U. T. System: Report on System-wide Institutional Compliance Activities

The University of Texas System
Institutional Compliance Program
1st Quarter Report Summary
Fiscal Year 2007

The University of Texas System Institutional Compliance Program (Program) was established in 1998 to ensure that the entire U. T. System, including its 15 institutions, operates in compliance with all applicable laws, policies, and regulations governing higher education institutions. The responsibilities for the Program are outlined in the *Action Plan to Ensure Institutional Compliance* (*Action Plan*) approved by the Board of Regents in 1998 and updated in 2003. The *Action Plan* provides that the System-wide Compliance Officer is responsible for "apprising the Chancellor and the Board of Regents of the compliance programs and activities at System Administration and at each of the institutions". The *Action Plan* also provides that the Compliance Officers at System Administration and at each institution are responsible and will be held accountable for a risk-based process that builds compliance consciousness into daily business processes, monitors the effectiveness of those processes and communicates instances of non-compliance to appropriate administrative officers for corrective, restorative and/or disciplinary action.

As outlined in the *Action Plan*, the System-wide Compliance Officer since 2000, Mr. Charles G. Chaffin, provides support to the institutional compliance officers by:

- Identifying emerging issues
- Facilitating best practice identification
- Providing training and support to each institution on those practices
- Working with institutions on reported instances of non-compliance
- Reporting System-wide compliance activities
- Coordinating System-wide compliance efforts (e.g. negotiating System-wide contracts)
- Advancing the discipline of compliance in higher education/healthcare

System-Wide Program Activity

During the 1st quarter of FY 2007, System-wide program efforts included:

- Performing an institutional compliance program peer review follow-up at U. T. Southwestern Medical Center - Dallas
- Launching the *Action Plan to Enhance Information Security* – led by Mr. Lewis Watkins, the new Chief Information Security Officer who reports to the System-wide Compliance Officer
- Refining the quarterly institutional compliance program reporting format
- Revising the *Incident Reporting Policy and Procedures*
- Developing the System-wide Executive Compliance Committee Charter for ratification
- Developing a high-risk area compliance design audit program for medical billing
- Supporting the creation of policy development assessment tools for BPM 76 - *Guidance on Effort Reporting Policies*
- Participating in meetings of the High-Risk Working groups: EH&S, medical billing, and research
- Identifying and highlighting emerging compliance issues through "In the News" email publication
- Promoting the U. T. System Compliance Program at a national level

As the System-wide Compliance Officer is responsible for apprising the Chancellor and the Board of Regents on the status and activities of the Program, the following is an overall assessment of the Program:

The U. T. System has compliance programs in place, including active compliance officers and established executive compliance committees, at each institution and System Administration. These programs include appropriate general compliance training taught to each new employee and continuing employee at least every two years. Using the *Model Standards of Conduct Guide* developed by the System-wide Compliance Office, each institution has developed its own guide to use as a basis for its compliance training. In addition, each institution has developed the following:

- Campus newsletters,
- Confidential reporting mechanisms,
- Risk assessments which identified key issues to be monitored and mitigated, and
- Training and monitoring plans at most of the institutions in a majority of the high-risk areas.

Opportunities for enhancement of monitoring plans exist in many areas, including research, clinical research billing and information technology (IT) security. Still other opportunities exist to improve compliance officer-driven assurance activities, such as certifications, inspections, audits, and peer reviews. Additionally, a key opportunity for improvement exists in ensuring that each institutional Executive Compliance Committee (ECC):

(1) Prioritizes and monitors the high-risk areas,
(2) Ascertains that risk assessments have been conducted for all high-risk areas,
(3) Ensures that monitoring plans exist for all high-risk areas and are reviewed for robustness, and
(4) Ensures reports include the appropriate level of information.

Institutional Program Activity[1]

Per the *Action Plan*, the compliance officers at System Administration and each institution are charged with the following responsibilities:

- Actively engage an institutional ECC that meets at least quarterly.
- Provide campus-wide compliance training and promote compliance awareness,
- Perform annual compliance risk assessments,
- Assist in specialized training for high-risk compliance areas,
- Continuously monitor and inspect the institution's high-risk compliance activities,
- Manage the institution's confidential reporting mechanisms (hotline, etc.), and
- Report compliance activities and significant compliance issues to executive management, the System-wide Compliance Officer, and the Board of Regents.

The following is a summary of the progress that the institutions have made in implementing these elements:

Compliance Committees:
Each institution has an ECC that meets quarterly to oversee the institutional compliance program. Quarterly meetings were held at each institution, and U. T. Austin and the U. T. Health Science Center -

[1] Details regarding activities at the institutional level are published in the *Institutional Compliance Program Quarterly Report for Q1 FY 2007*.

Houston held meetings monthly. During FY 2007, the System Compliance Office will focus its attention on ensuring that each ECC improves in the four areas identified above.

Training and Awareness:
General compliance training is conducted using a variety of formats including online, classroom, and written materials. Employees are typically scheduled to receive general compliance training during orientation with refreshers on an annual or bi-annual basis. Compliance Officers have been effective at ensuring that General Compliance training and Codes of Conduct guides are delivered to the appropriate personnel in a timely manner.

Risk Assessment:
Many ECCs review identified risks and approve the identification of "institutionally significant" compliance risks – risks that, if realized, would have a significant impact on the ability to achieve the goals and objectives of the institution.

Most institutions have identified between eight and 15 institutionally significant areas of high-risk, with multiple high-risk exposures within those areas. Common risk areas of focus during Q1 of FY 2007 included Asset Management, Clinical Billing, Endowments, Environmental Health & Safety, Human Resources, Information Resources/Security, Intercollegiate Athletics, Research, and Privacy (HIPAA, FERPA, Gramm-Leach-Bliley)

Specialized Training:
During the quarter the institutions conducted specialized training in many of the areas identified as high risk, including: IT Security, Social Security Number (SSN) Confidentiality, Human Subjects Research, Laboratory Safety, Student Financial Aid, Animal Research, Medical Billing/Coding, NCAA, Hazardous Waste, Case Management, Research Administration, Technology Transfer, Post-award Administration, Sponsored Programs, Human Resources, Endowment/Development, Fire Inspection/Protection, Risk Management, Purchasing, Payroll, Patient Privacy, Medical Residents, and Records Management. Time & Effort training was developed by U. T. Medical Branch - Galveston and shared with the other institutions.

Monitoring:
Designated responsible parties verified that monitoring activities are being appropriately performed for many of the high-risk areas. Numerous internal and external inspections and reviews were conducted on many of the risk items in Q1 FY2007. Identified instances of non-compliance typically resulted in corrective action being taken and monitoring plans being revised, when appropriate. New policies and procedures are being developed for BPM 76 - *Guidance on Effort Reporting Policies* at most institutions. The institutions will emphasize compliance office monitoring in the second quarter.

Confidential Reporting:
Each institution has a confidential reporting mechanism with standardized review, resolution, and reporting procedures.

Reporting:
Reporting was an area of emphasis this quarter. The System-wide Compliance Office developed a standardized reporting format that was utilized by all programs to report to the institutional ECC, the System-wide Compliance Officer and the Board of Regents.

Institutional Organizational Matters:
U. T. Austin has hired a new Compliance Officer who is scheduled to begin March 1, and U. T. San Antonio has hired a new compliance staff member. U. T. Arlington, U. T. Health Science Center - Houston, and U. T. Health Center - Tyler are in the process of hiring compliance staff members.

Institutional Action Plan Activities:
Many of the Annual Action Plan deliverables established by each institution for FY 2007 are underway and focused on activities including: SSN confidentiality, IT security, enhancement of general compliance and specialized training, updating compliance risk assessments to include new risks, revisions to the Standards of Conduct Guide and Management Responsibilities Handbook, publishing compliance newsletters, conducting and/or facilitating inspections/audits/peer reviews, driving certification processes, Enterprise Risk Management, facilitating control self assessments, Macromedia Breeze implementations, hiring compliance staff and updating compliance websites.

Compliance Program Assessment

During the first quarter, the Office of the Board of Regents distributed an *Invitation For Offers* to qualified firms to perform an independent assessment of the effectiveness and structure for the System-wide Compliance Program and the institutional compliance programs. Responses have been received and will be evaluated over the next several weeks. The timing of the reviews and scope of work will be determined after the firm is selected.

1. U. T. System: U. T. Service and Civic Participation

THE UNIVERSITY *of* TEXAS SYSTEM

Nine Universities. Six Health Institutions. Unlimited Possibilities.

★★★ THE PRESIDENT'S VOLUNTEER SERVICE AWARD

"The increase in civic engagement on college campuses bodes well for America's ability to overcome a wide variety of social challenges. Given the choice, more and more college students are opting to be good citizens, rather than spectators. Our faculty, staff and administrators play a major role, too, in linking campus vitality to community health and well-being."

... Chancellor Mark G. Yudof

Welcome!

Welcome to the Service & Civic Participation home page for the University of Texas! We hope you will participate in this national effort to record the volunteer service you are performing or may choose to perform.

UT Service & Civic Participation is part of the President's Council on Service & Civic Participation and promotes our proud tradition of volunteer service. The Council has created the President's Volunteer Service Awards as a way to thank and honor Americans who engage in volunteer service and, doing so, inspire others to volunteer their time and energy. The service awards recognize and honor those who set a standard of service to others. More about the national program and awards is found at http://presidentialserviceawards.gov.

You can participate, whether you volunteer regularly now or may wish to do so. It doesn't matter where you are in the UT world -- at one of the nine academic campuses, at one of the six health institutions, or at System administration offices in Austin, Midland, Washington, D.C., or elsewhere.

All are called to this program — students, faculty, staff and administration. Each of us is part of both our individual campus community and the community where we live.

Regardless of where you are, the time and service you now give can be recorded in a private on-line journal of your volunteer time and experiences.

Click on your institution's logo below to register your Record of Service:

1. U. T. System: U. T. Service and Civic Participation (cont.)

The University of Texas at Arlington
Click here to register as a volunteer with this campus.
If you are already registered LOGIN HERE

The University of Texas at Austin
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If you are already registered LOGIN HERE

The University of Texas at Brownsville
Click here to register as a volunteer with this campus.
If you are already registered LOGIN HERE

The University of Texas at Dallas
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If you are already registered LOGIN HERE

The University of Texas at El Paso
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The University of Texas at Pan American
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The University of Texas of the Permian Basin
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The University of Texas at San Antonio
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1. U. T. System: U. T. Service and Civic Participation (cont.)

The University of Texas at Tyler
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The University of Texas Southwestern Medical Center
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The University of Texas Medical Branch at Galveston
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The University of Texas Health Science Center at Houston
Click here to register as a volunteer with this campus.
If you are already registered LOGIN HERE

The University of Texas Health Science Center at San Antonio
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If you are already registered LOGIN HERE

The University of Texas M. D. Anderson Cancer Center
Click here to register as a volunteer with this campus.
If you are already registered LOGIN HERE

The University of Texas Health Center at Tyler

The University of Texas System Administration

1. U. T. System: U. T. Service and Civic Participation (cont.)

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This site is operated by and hosted by the President's Volunteer Service Award

http://www.presidentialserviceawards.gov/s/ut/

2. U. T. System Board of Regents: Report on the National Survey of Student Engagement (NSSE)

THE UNIVERSITY OF TEXAS SYSTEM

National Survey of Student Engagement 2006 Results

February 2007

Key Points

- Benchmarking gives us continuing, consistent sources of national comparisons to gauge U. T. System progress.
- Research shows that the core benchmarks are strongly correlated with student success.
- U. T. System institutions tend to meet, but in some cases lag, the national NSSE average on specific benchmarks.
- Where significant differences occur, institutions can look at individual components of a benchmark to identify areas of improvement.

February 2007

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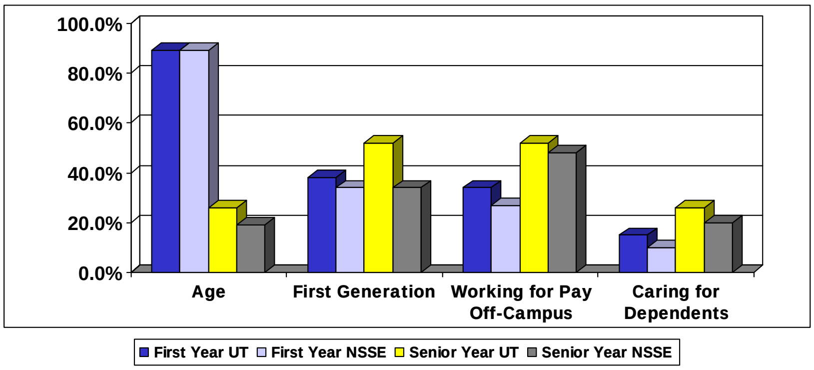
2. U. T. System Board of Regents: Report on the
National Survey of Student Engagement (NSSE) (cont.)

Student Characteristics 2006
U. T. System Students versus the National Sample



Age: First Year % less than 24 years old, Senior Year % 30 years or older,
First Generation: Either Parent-Some high school or high school graduates only
Working for Pay Off-Campus: 11 or more hours per week
Caring for Dependents: Caring for spouse, parents or children 11 or more hours per week
Source: National Survey of Student Engagement: Institutional Report 2006

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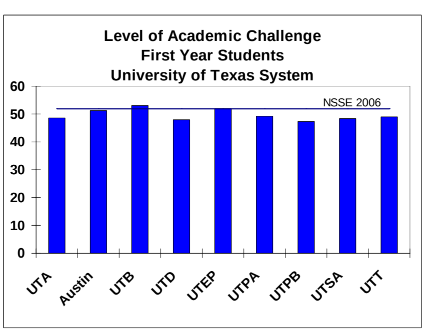
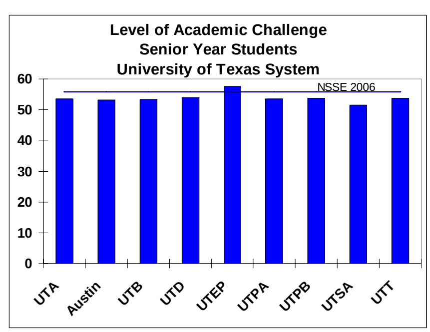
February 2007

Level of Academic Challenge (LAC)





Source: National Survey of Student Engagement: Institutional Report 2006

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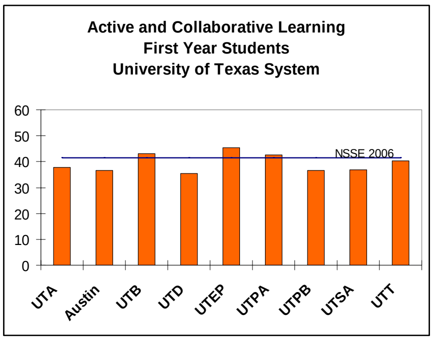
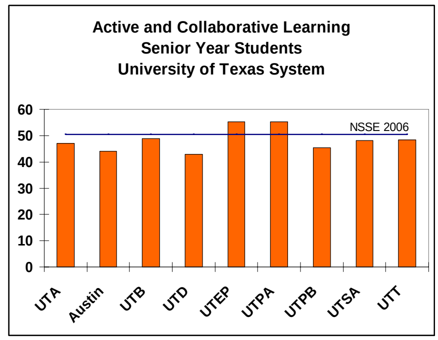
February 2007

2. U. T. System Board of Regents: Report on the National Survey of Student Engagement (NSSE) (cont.)

Active and Collaborative Learning (ACL)





Source: National Survey of Student Engagement: Institutional Report 2006

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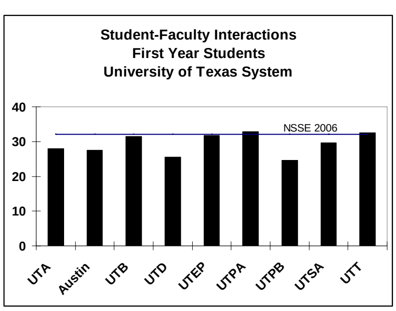
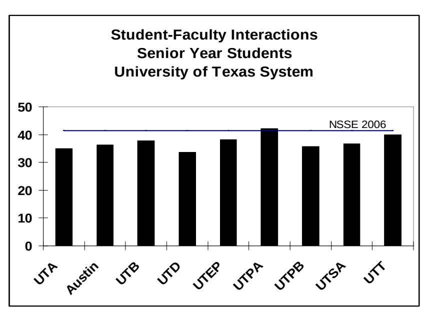
Student-Faculty Interaction (SFI)





Source: National Survey of Student Engagement: Institutional Report 2006

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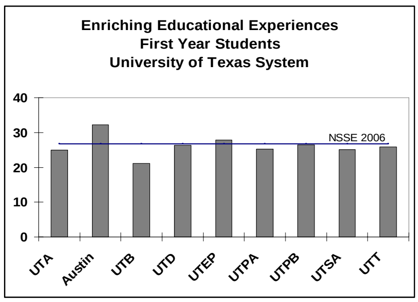
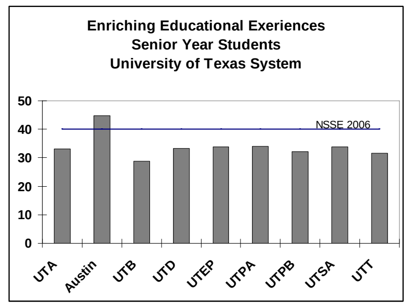
2. U. T. System Board of Regents: Report on the National Survey of Student Engagement (NSSE) (cont.)

Enriching Educational Experiences (EEE)





Source: National Survey of Student Engagement: Institutional Report 2006

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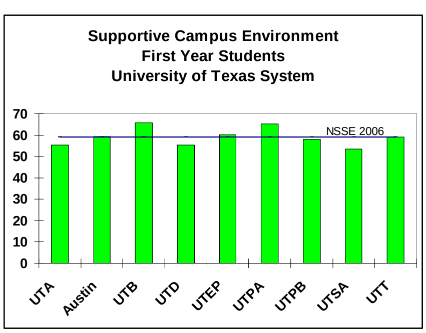
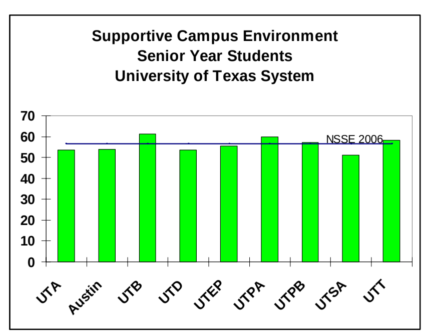
Supportive Campus Environment (SCE)





Source: National Survey of Student Engagement: Institutional Report 2006

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