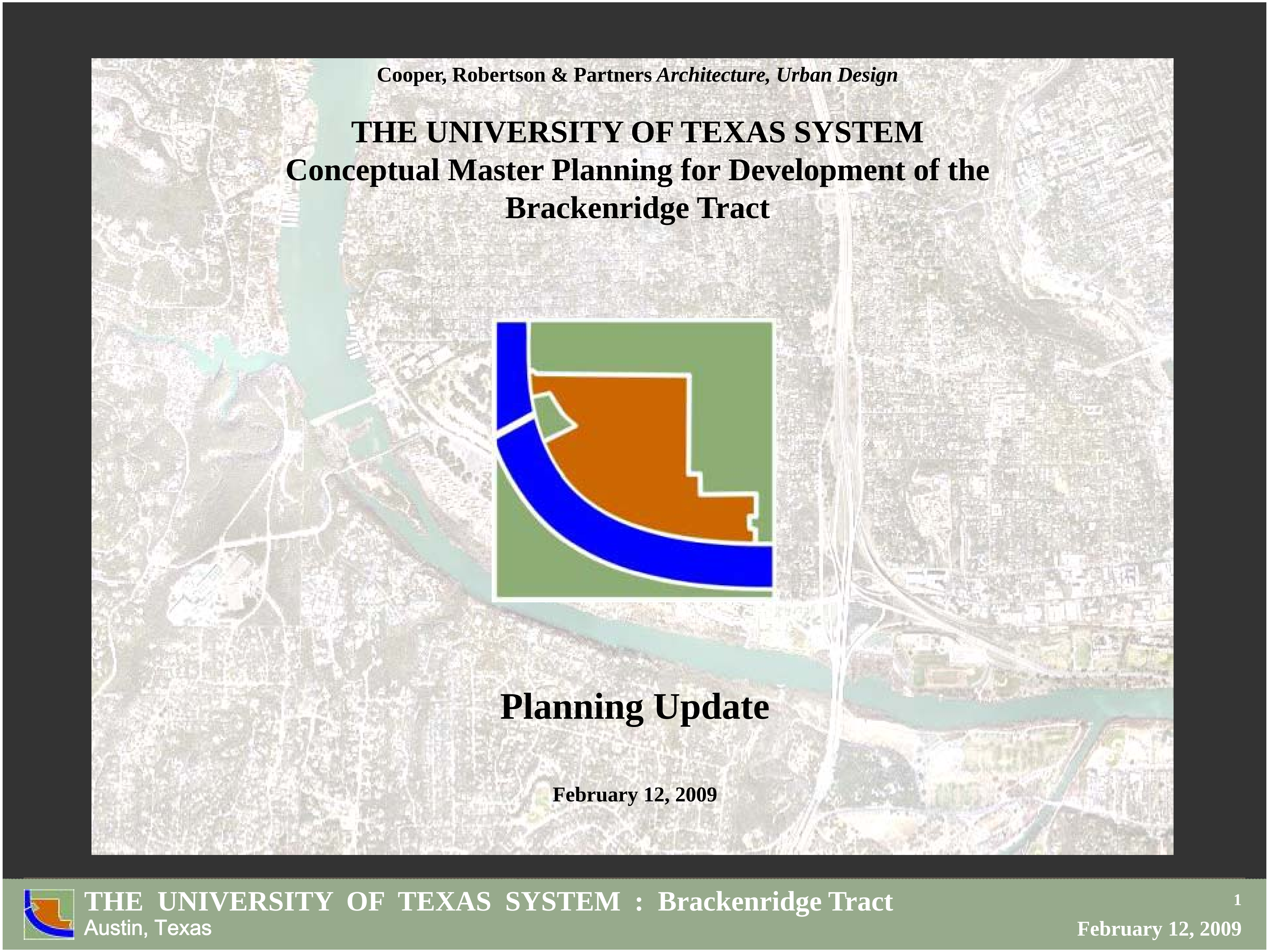
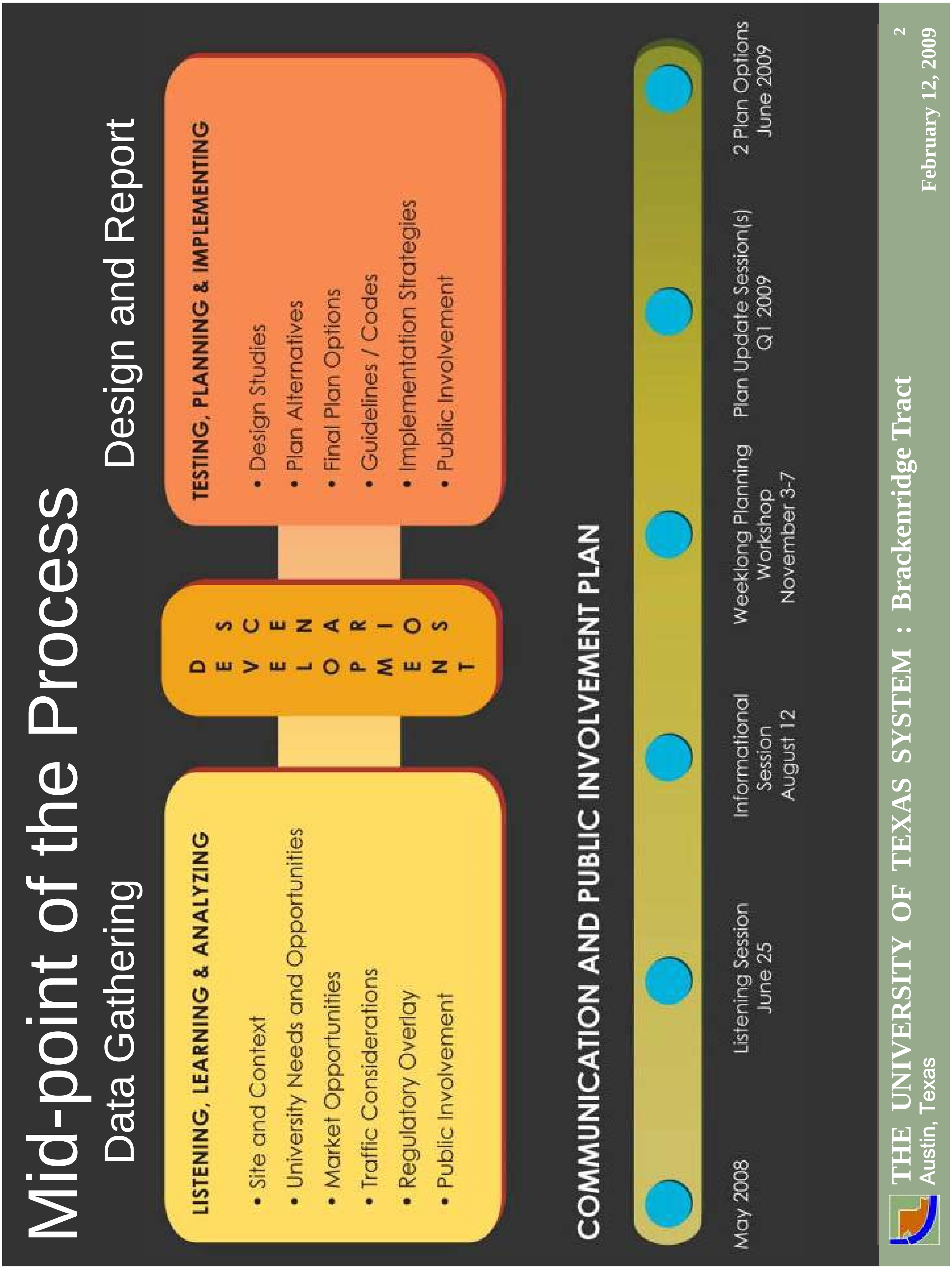
TABLE OF CONTENTS
FOR
VOLUME 2
February 11-12, 2009

2. U. T. System Board of Regents: Presentation by Cooper, Robertson & Partners, L. L. P., regarding the status of work on the master planning project for the Brackenridge Tract



2. U. T. System Board of Regents: Presentation by Cooper, Robertson & Partners, L. L. P., regarding the status of work on the master planning project for the Brackenridge Tract (cont.)



Public Involvement Process

THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract

Austin, Texas

February 12, 2009

3

Listening Session - June 25, 2008

We heard great Passion for…

- The importance of West Austin's neighborhood character
- The need to address existing traffic issues
- The need for recreation and open space – Golf Course, WAYA
- The importance of graduate housing – for both The University of Texas at Austin and the neighborhood
- The importance of the Brackenridge Field Laboratory – to The University of Texas educational mission
- The recognition of the Tract's environmental assets – Lady Bird Lake, heritage trees, natural areas
- The importance of sustainable development – clean air and water, reduced "heat island" effect, capacity of social infrastructure (schools), and physical infrastructure (utilities)

Information Session - August 12, 2008

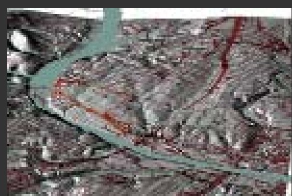
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

February 12, 2009 5

PRESENTATION OVERVIEW

Summary of Core Community Values

Inventory of Existing Conditions: Regulatory

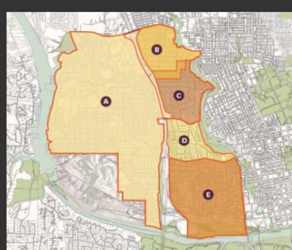


Inventory of Existing Conditions: Traffic

Site Mapping

Inventory of Environmental Conditions

West Austin Neighborhoods



Next Steps

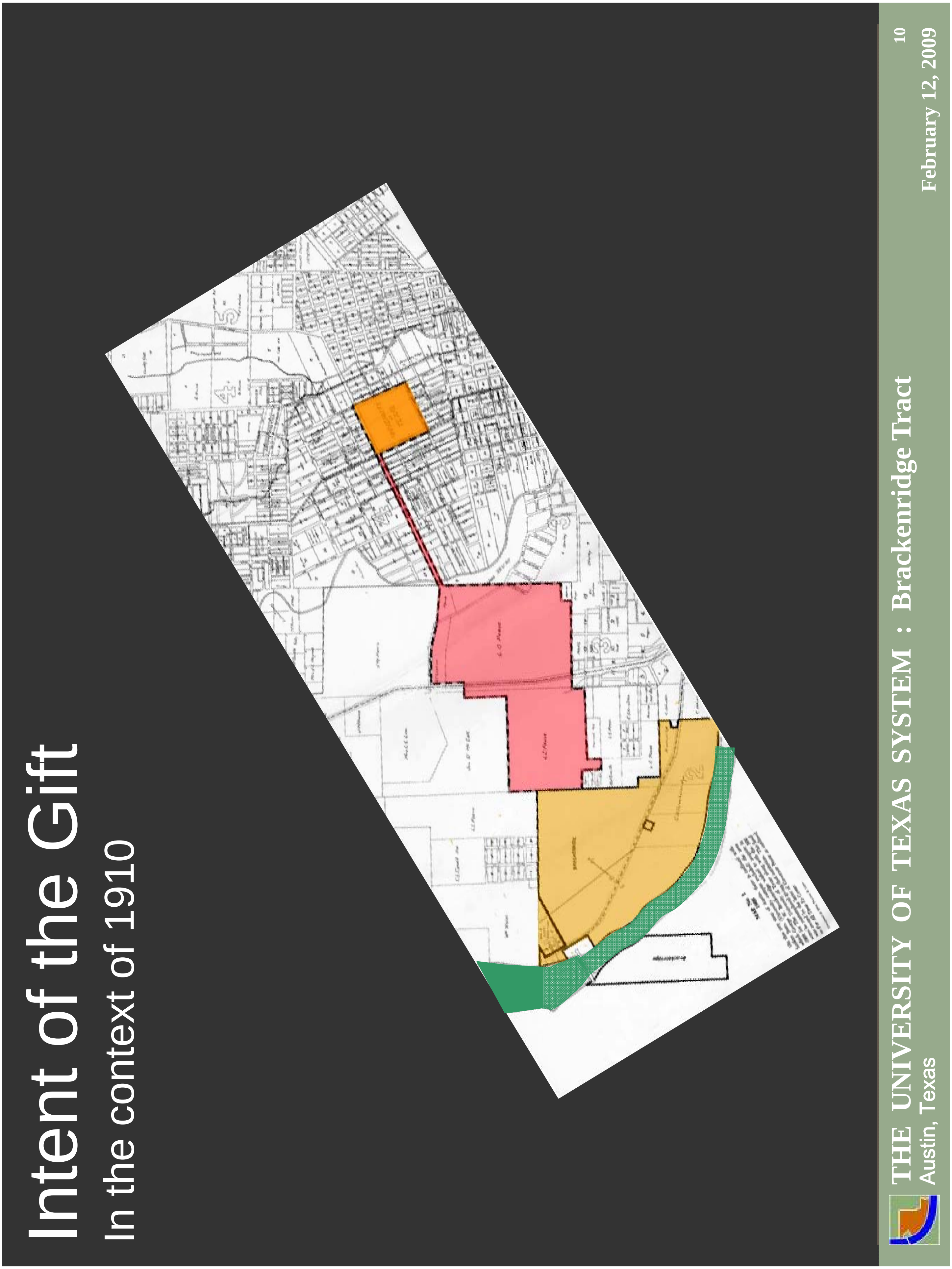
Weeklong Workshop – Nov. 3-7, 2008

time	Monday November 3 design	Monday meeting	Monday public	Tuesday November 4 Election Day design	Tuesday meeting	Tuesday public	Wednesday November 5 design	Wednesday meeting	Wednesday public	Thursday November 6 design	Thursday meeting	Thursday public	Friday November 7 design	Friday meeting	Friday public
7:30-8:00						Gallery Hours Colorado Room			Gallery Hours Colorado Room			Gallery Hours Colorado Room			Gallery Hours Colorado Room
8:00-9:00	set-up studio			team meeting			team meeting			team meeting			refine framework diagrams + matrix		
9:00-10:00	team meeting			framework diagrams	scheduled meeting		Public Work Session I, Hancock Building			refine frame-work diagrams + renderings	scheduled meeting				
10:00-11:00											scheduled meeting				
11:00-12:00	presentation prep.	scheduled meeting			scheduled meeting	Gallery Hours Colorado Room						Gallery Hours Colorado Room			
12:00-1:00	working lunch			working lunch			working lunch			working lunch			working lunch		
1:00-2:00	presentation prep. / framework diagrams	meeting		facilitator briefing	meeting		presentation prep. + refine frame-work diag.	meeting (when necessary)		refine frame-work diagrams + begin matrix	meeting (when necessary)		presentation prep.	scheduled meeting	
2:00-3:00		scheduled meeting		framework diagrams	scheduled meeting										
3:00-4:00		meeting (when necessary)			meeting (when necessary)			scheduled meeting						meeting (when necessary)	
4:00-5:00			Gallery Hours Colorado Room						Gallery Hours Colorado Room						
5:00-6:00	dinner					Gallery Hours Colorado Room	dinner					Gallery Hours Colorado Room	dinner		
6:00-7:00	Kick-off Presentation, Hancock Building			team review			Public Work Session II, Hancock Building			team review			Closing Presentation, Hancock Building		
7:00-8:00										dinner					
8:00-9:00				team dinner - out						refine design					
9:00-10:00	debriefing						debriefing						pack + clean-up studio		

design	meetings	public	team meetings

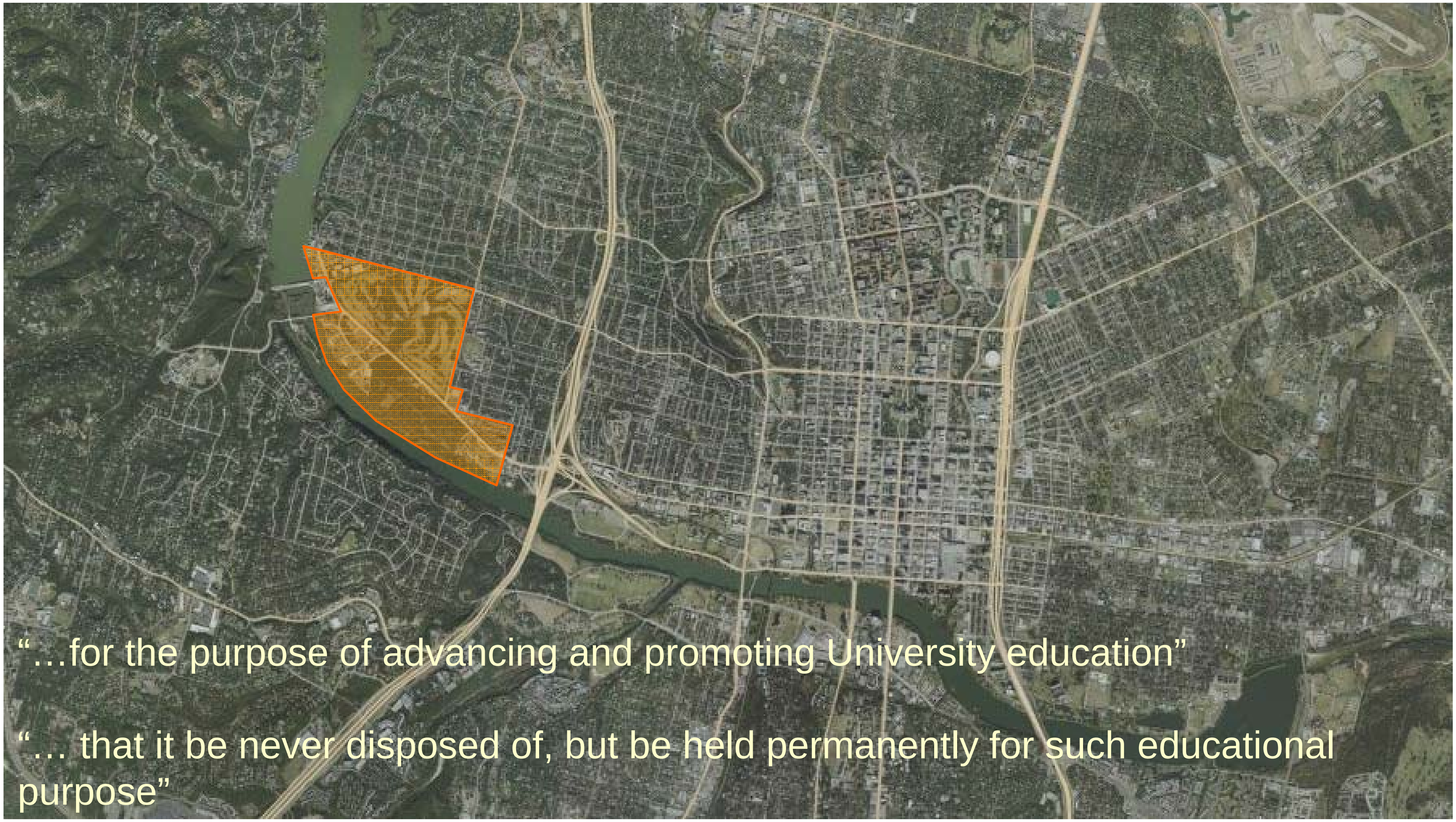

Kick-off Presentation
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas
8
February 12, 2009

The Brackenridge Tract & UT Legacy


Intent of the Gift
In the context of 1910
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas
10
February 12, 2009

Intent of the Gift

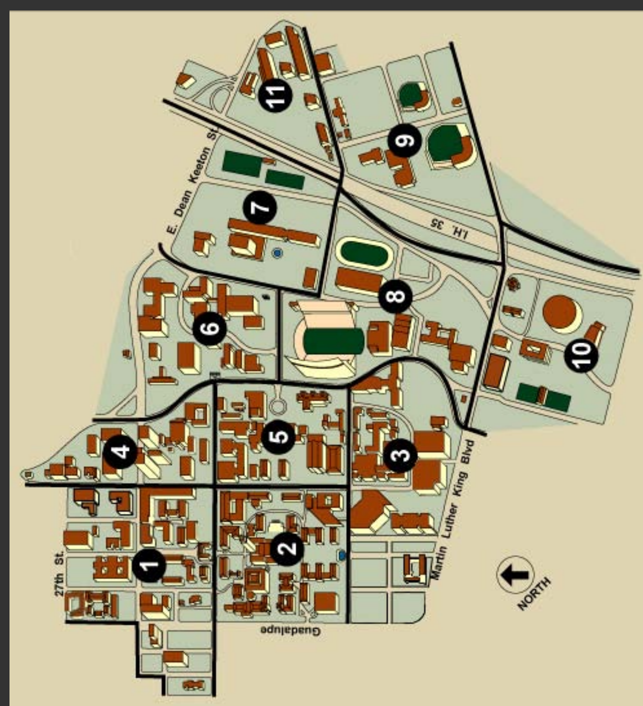
The Brackenridge Tract in the Context of 2008 and Onward



THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

11
February 12, 2009

UT Collaborative Planning



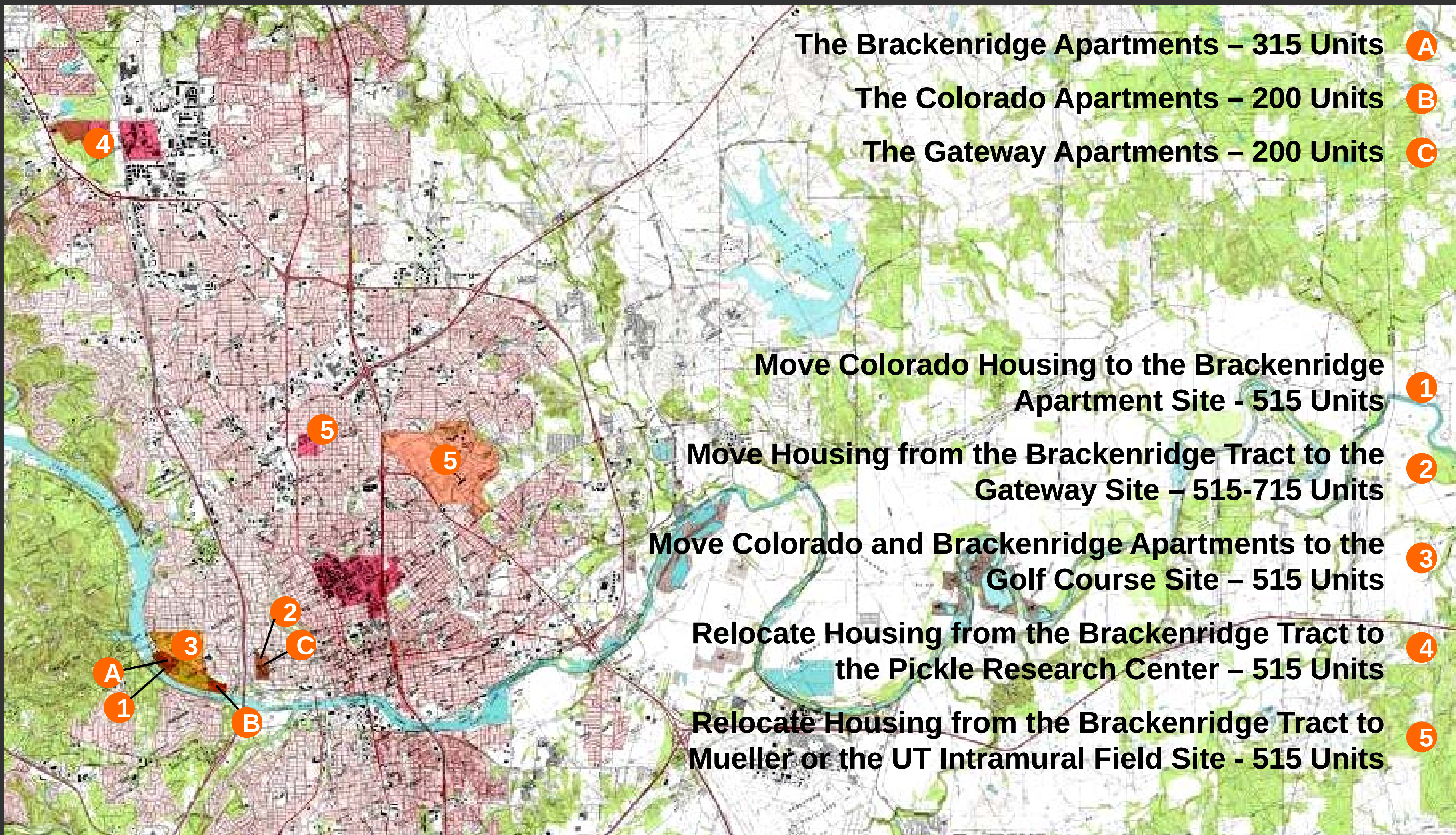
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

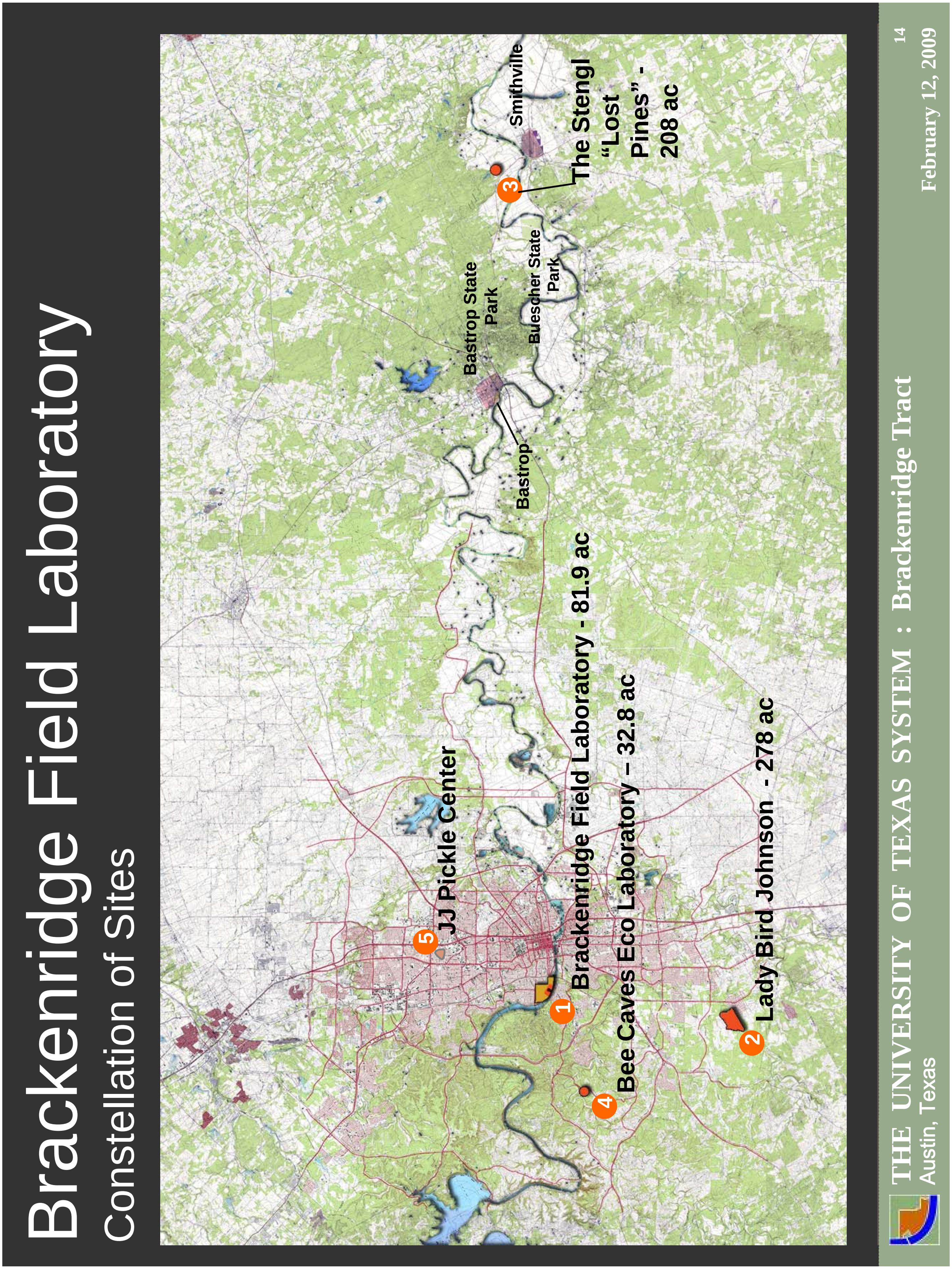
February 12, 2009

12

Graduate Student Housing

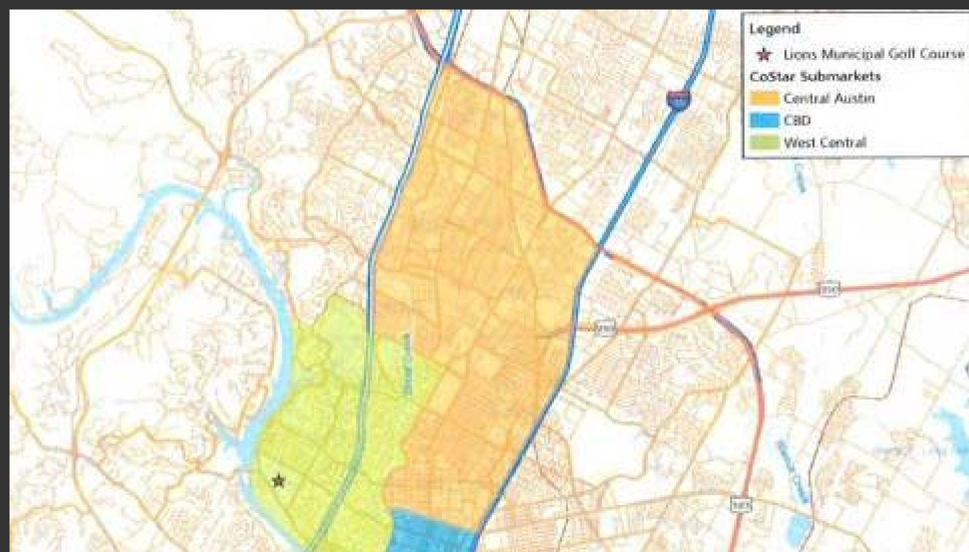
Current Locations and Possible Relocation Scenarios




Brackenridge Field Laboratory
Constellation of Sites
Smithville
The Stengl "Lost Pines" - 208 ac
3
Bastrop State Park
Buescher State Park
Bastrop
Brackenridge Field Laboratory - 81.9 ac
Bee Caves Eco Laboratory – 32.8 ac
Lady Bird Johnson - 278 ac
JJ Pickle Center
1
2
4
5
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas
February 12, 2009
14

Market Study &

University-Related Developments



Commercial and Residential Developments
on University-owned Land

University Park at MIT

Cambridge, MA

Use	Quantity
Retail	89,000 SF
Residential	647 units
Office/R&D	1.4M SF
Hotel	210 rooms
Parking	2,650 spaces

PROJECT BACKGROUND

- 27 Acre, 2.3 million sf mixed-use corporate campus
- Five phase $650 million project
- Forest City selected from 38 developer respondents
- Structured as 75 year ground lease

DEVELOPMENT PROGRAM

- Ten buildings, 1.3 acre Public Green
- Four residential buildings with 674 rental units
- 210 room Le Meridien hotel
- 89,000 sf of restaurants and retail
- Structured parking for 2,650 cars

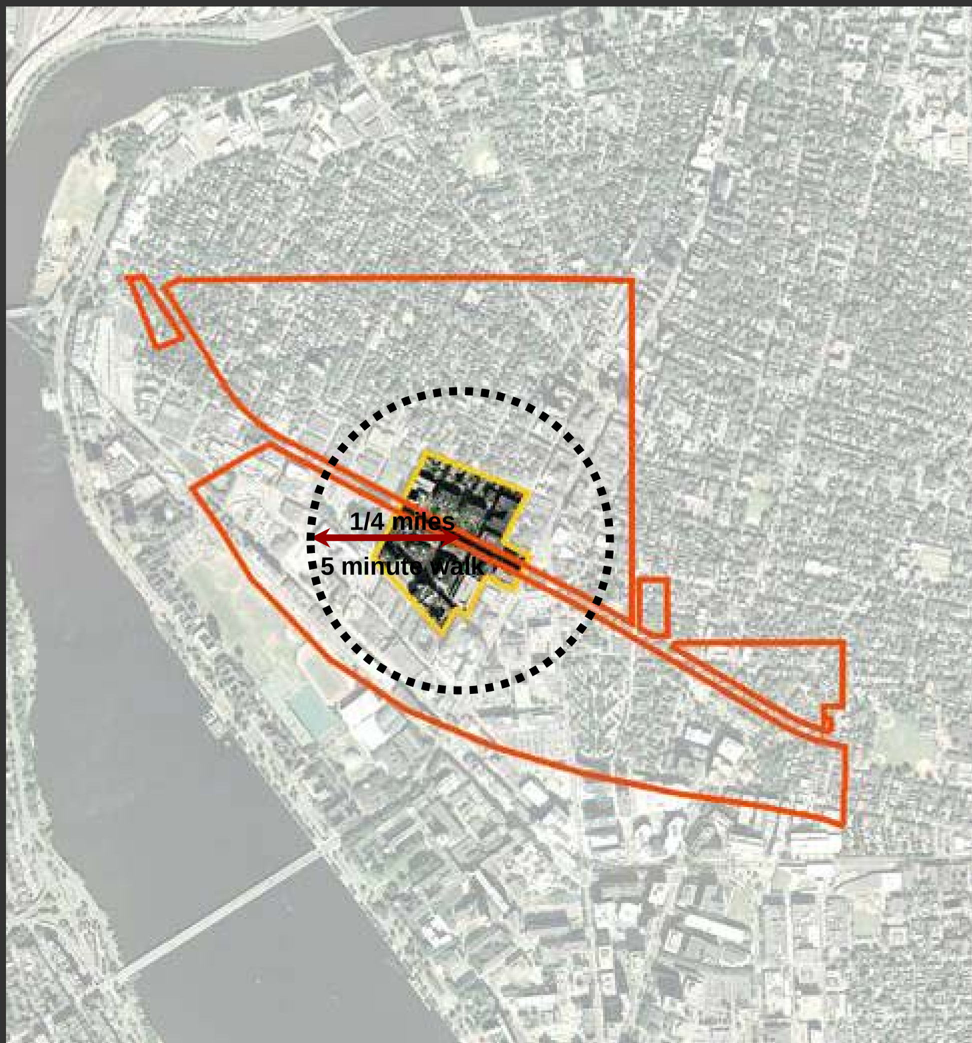
DEVELOPMENT STRUCTURE

- MIT retains ownership; Forest City developed and operates
- At lease termination, MIT will own
- Special zoning district in exchange for infrastructure contribution
- Planning and approvals process took four years

2. U. T. System Board of Regents: Presentation by Cooper, Robertson & Partners, L. L. P., regarding the status of work on the master planning project for the Brackenridge Tract (cont.)

University Park at MIT

Cambridge, MA



Campus Development

- Site: 27 acres
- Open space: 1.3 acres
- Retail: 89,000 sq ft
- Office: 1,400,000 sq ft
- Hotel: 210 rooms
- Community amenities: a system of parks, fitness centers

University Park at MIT

Cambridge, MA

THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

February 12, 2009 19

Penn Square at UPENN

Walnut Street Project Expansion, Philadelphia, PA

Georgia Tech – Technology Square

Atlanta, GA

http://www.flickr.com/photos/bevandsuits/2384507969/sizes/l/

THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract

Austin, Texas

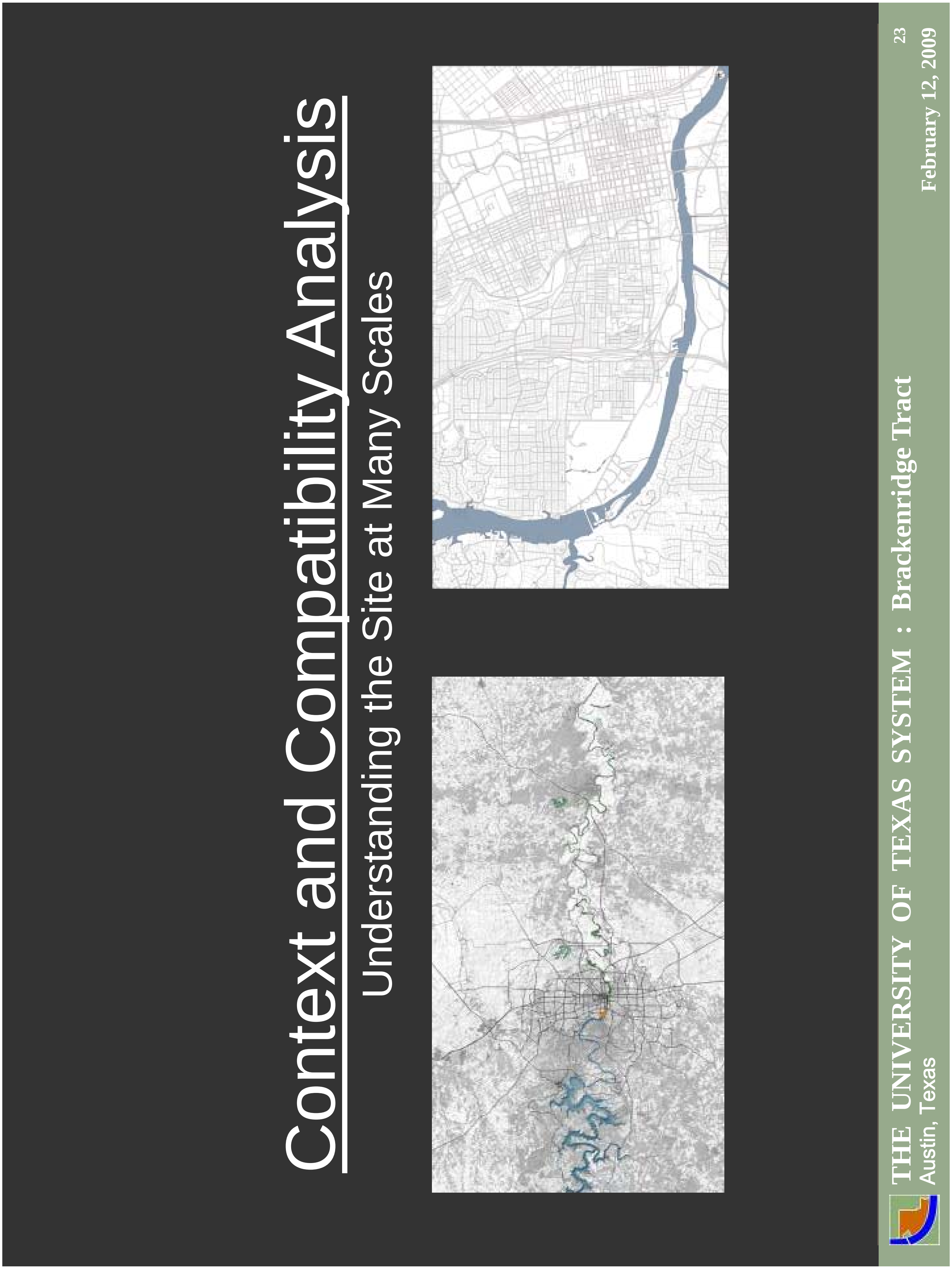
21

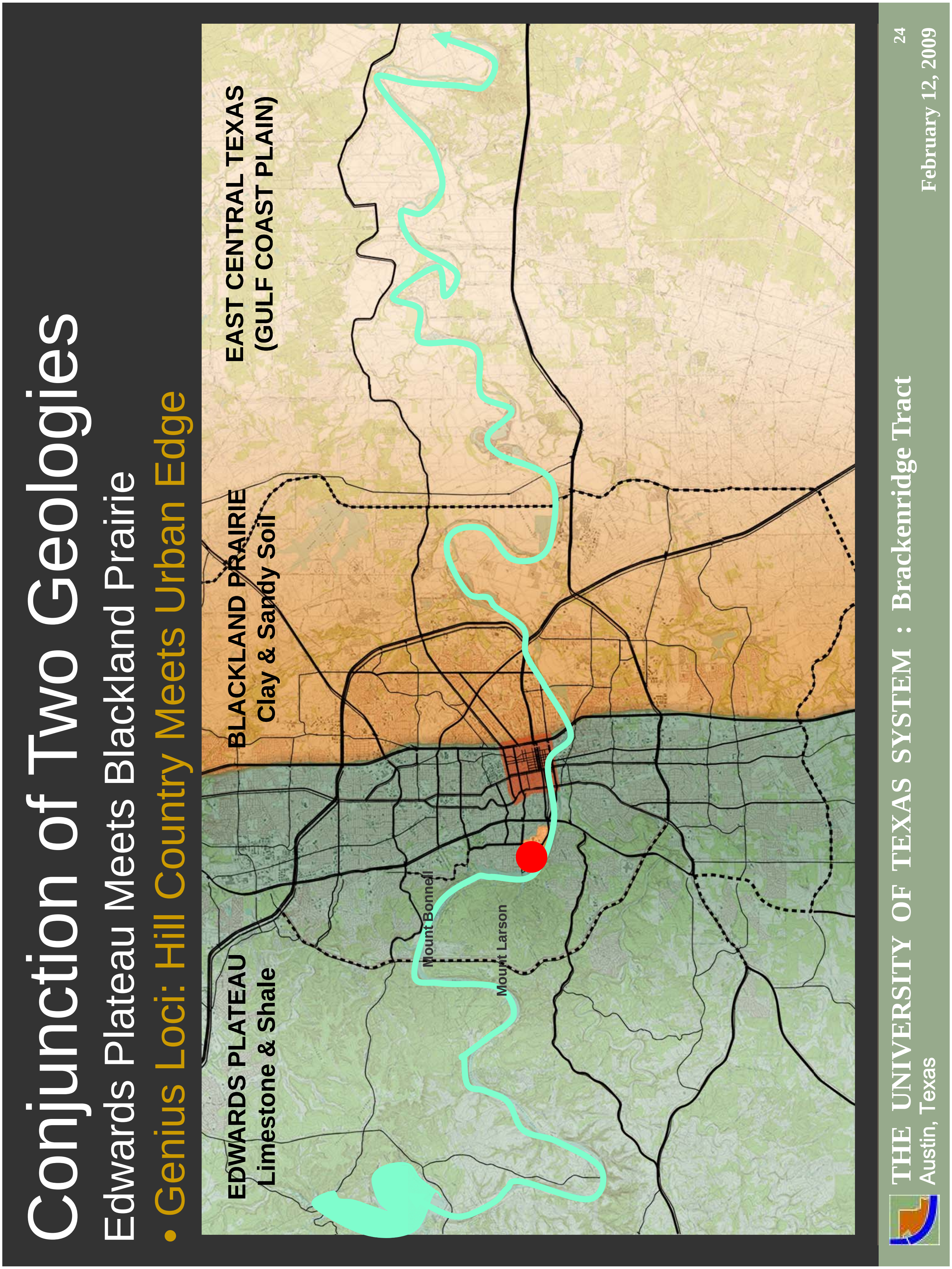
February 12, 2009

Lessons Learned from University Development Case Studies

- Community Involvement Results in Better Projects
- Long-term Development Vision & Plan
- Longer Investment Horizon Fosters Higher Quality, Less Susceptible to Immediate Real Estate Trends
- Overall Use Mix is Crucial (Academic, Office, R & D, Residential, Retail, Lodging, Civic, Open Space)
- Residential Uses are Typically Rental
- Great Design and Placemaking Create Value

2. U. T. System Board of Regents: Presentation by Cooper, Robertson & Partners, L. L. P., regarding the status of work on the master planning project for the Brackenridge Tract (cont.)

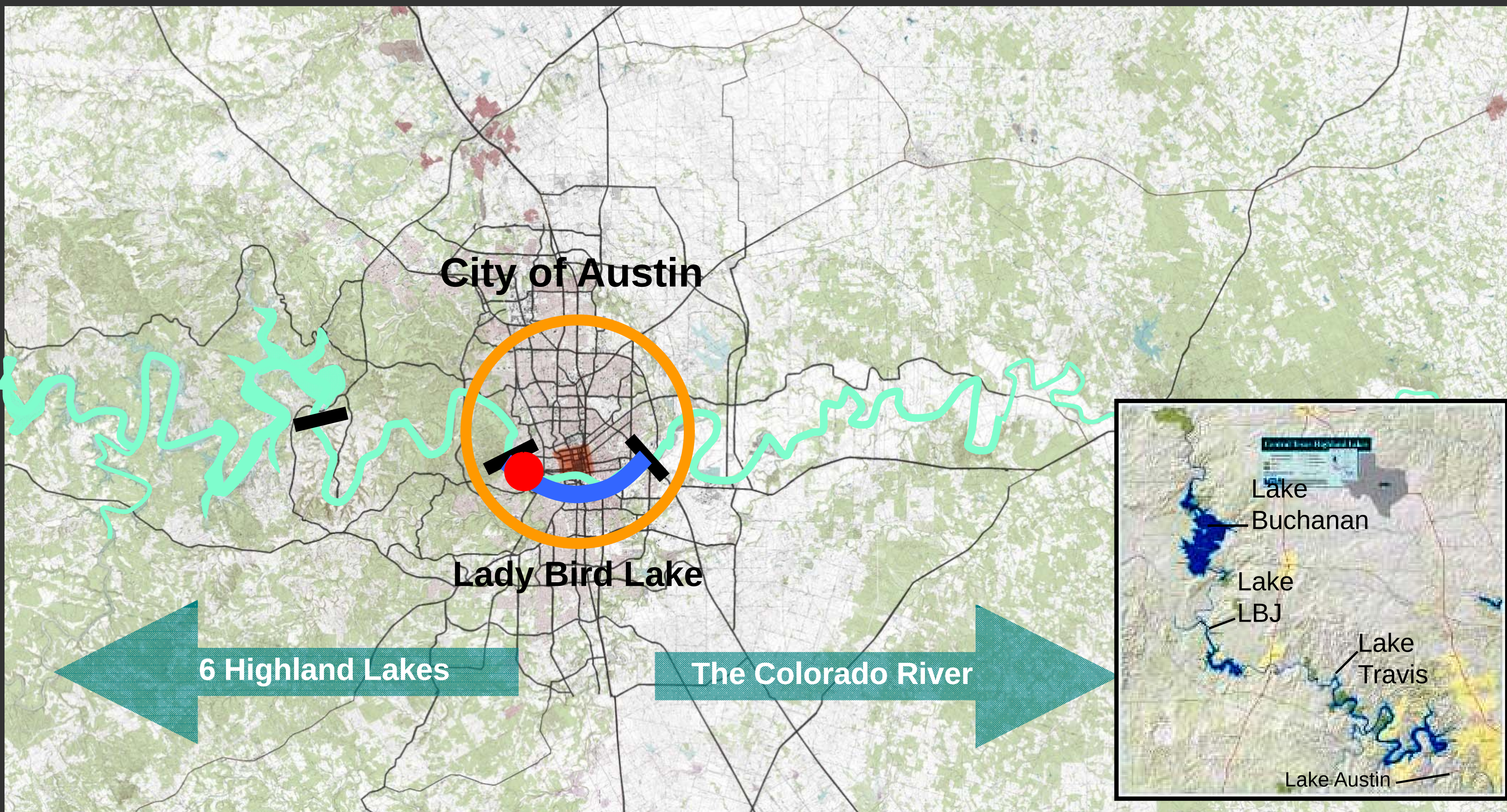



Conjunction of Two Geologies
Edwards Plateau Meets Blackland Prairie
• Genius Loci: Hill Country Meets Urban Edge
EDWARDS PLATEAU
Limestone & Shale
BLACKLAND PRAIRIE
Clay & Sandy Soil
EAST CENTRAL TEXAS
(GULF COAST PLAIN)
Mount Bonnell
Mount Larson
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas
24
February 12, 2009

Lakes Transform the River

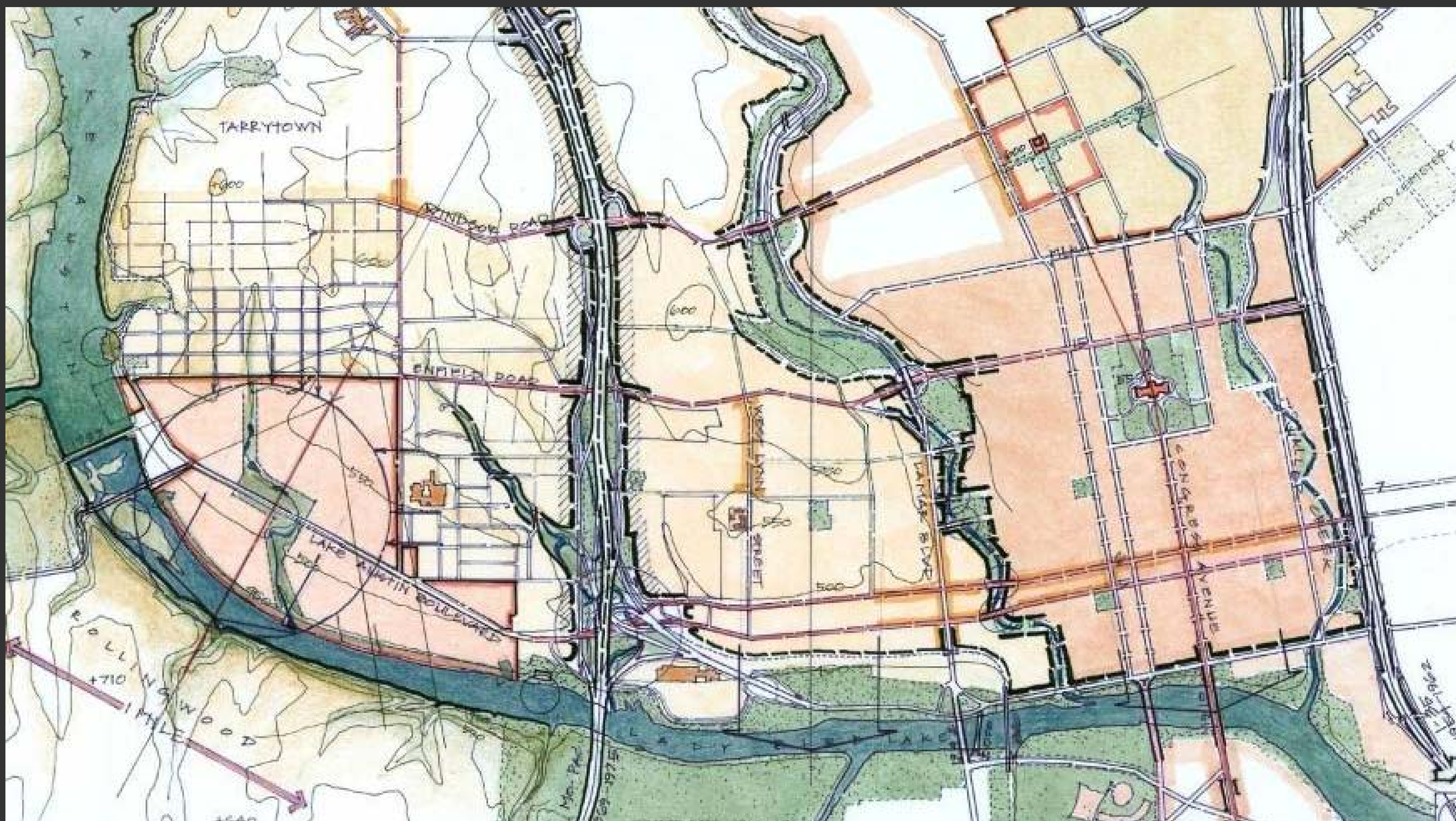
6 Highland Lakes, An Urban lake, The River Returning

- Lady Bird Lake as Austin's "Central Park"



5 Plan Elements

Lake Front, Creek as Seam, Shift In Grid, Spine Road, "Places" – Boat Town and Deep Eddy

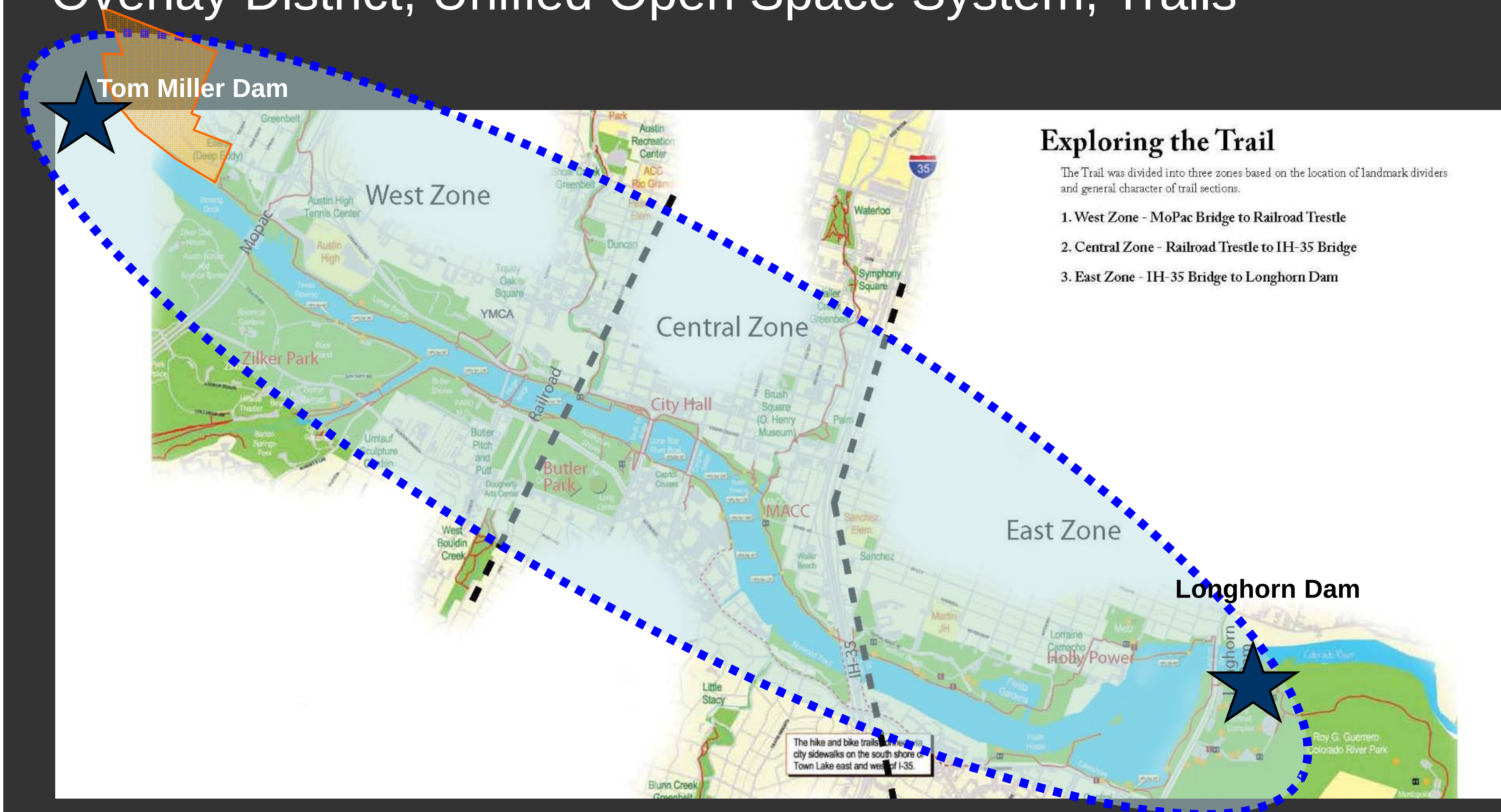


THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

26
February 12, 2009

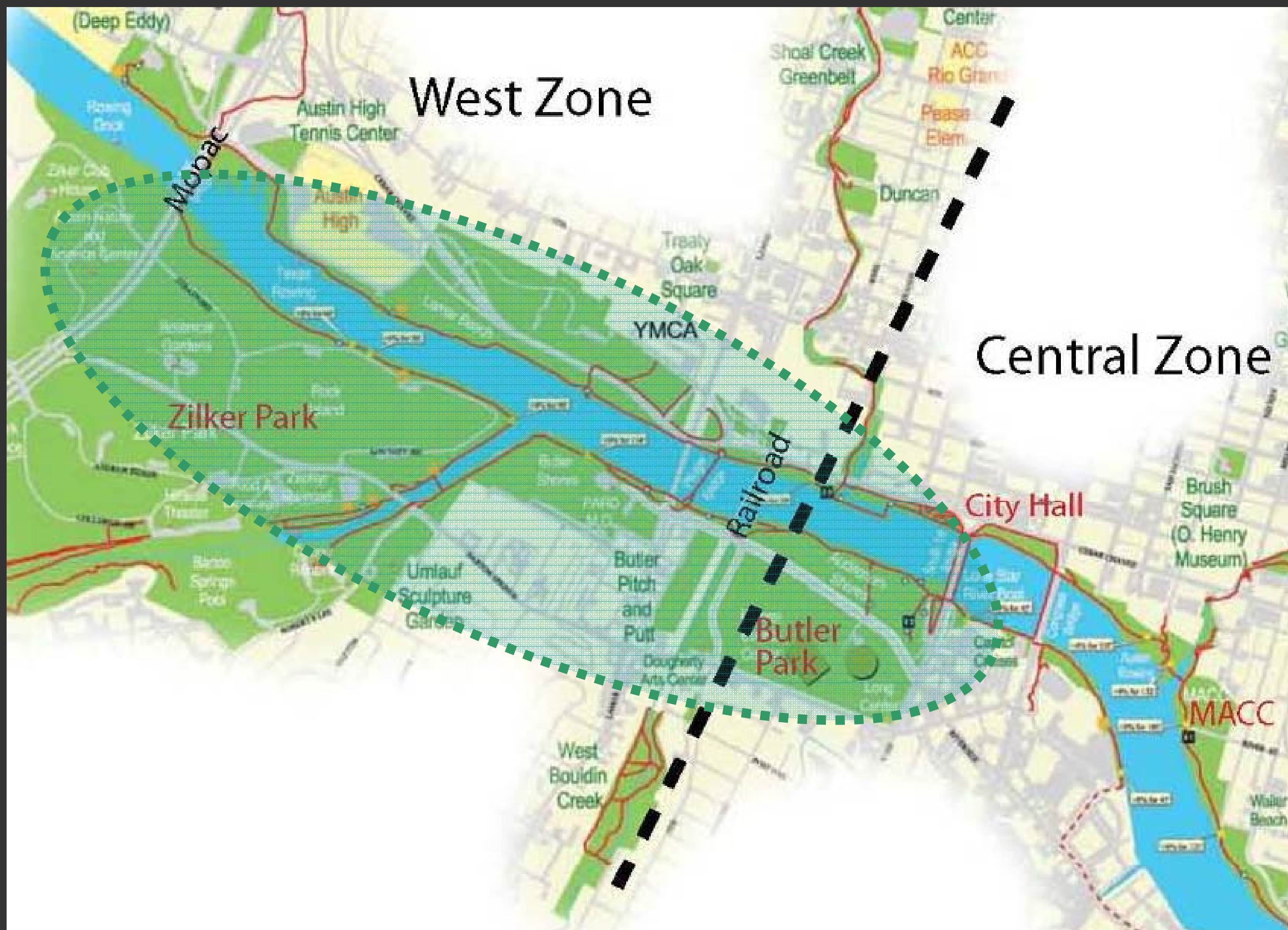
Austin's Waterfront

- Town Lake Vision Plan by the Trail Foundation - Town Lake Overlay District, Unified Open Space System, Trails



Austin's Central Park

- From Mopac to Congress



Central Park
New York

THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

29
February 12, 2009

Millennium Park

Chicago

THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract

Austin, Texas

February 12, 2009

30

Zilker Park, Town Lake Park, Auditorium Shores

Austin

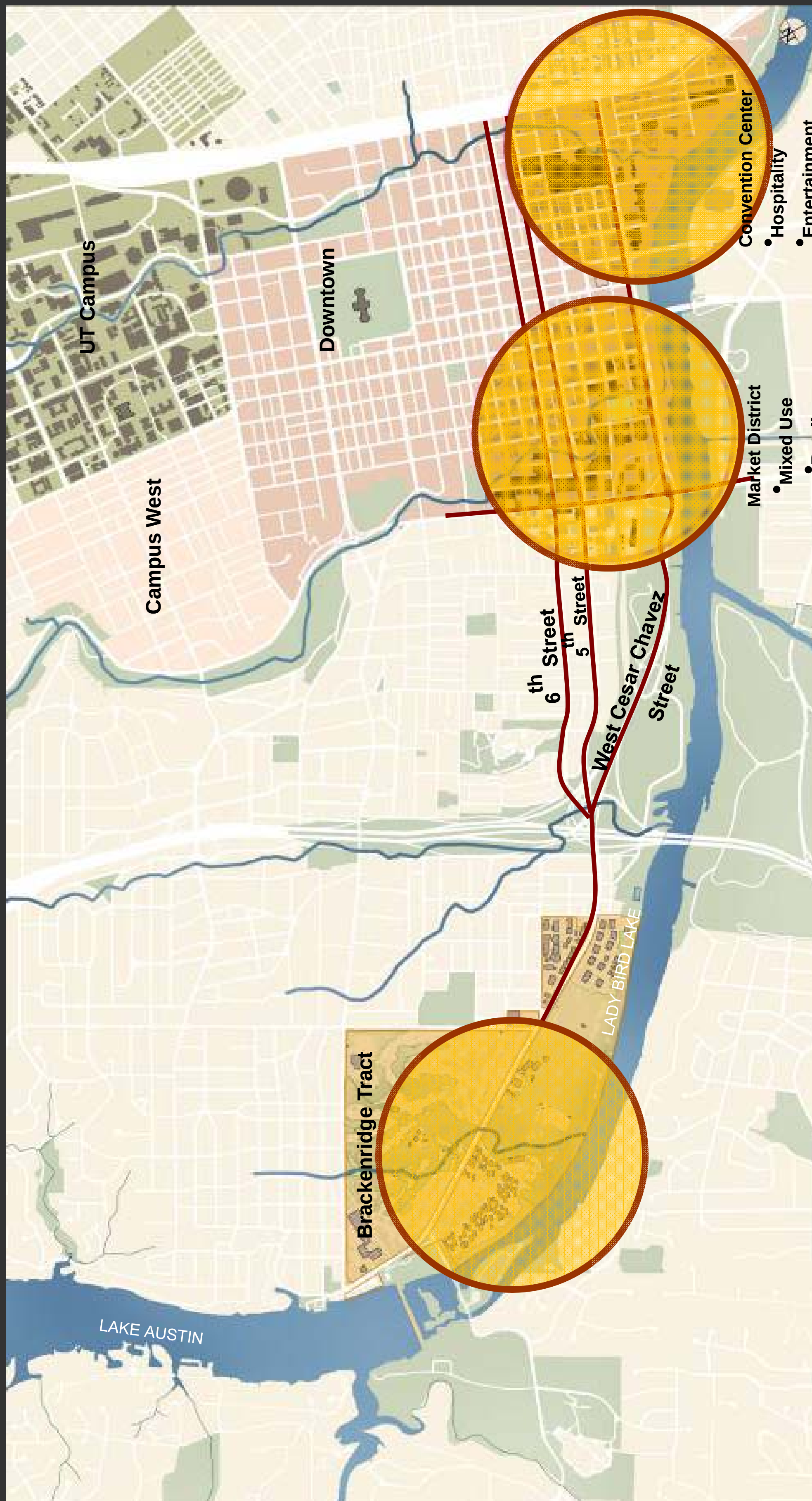
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

February 12, 2009

31

Shaping the Lake Front

Strengthen Downtown, Infill West End, Tract Potential as Western Node



THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

32

February 12, 2009

2. U. T. System Board of Regents: Presentation by Cooper, Robertson & Partners, L. L. P., regarding the status of work on the master planning project for the Brackenridge Tract (cont.)

Site Dimensions

River, Walkability, Proximity

THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract

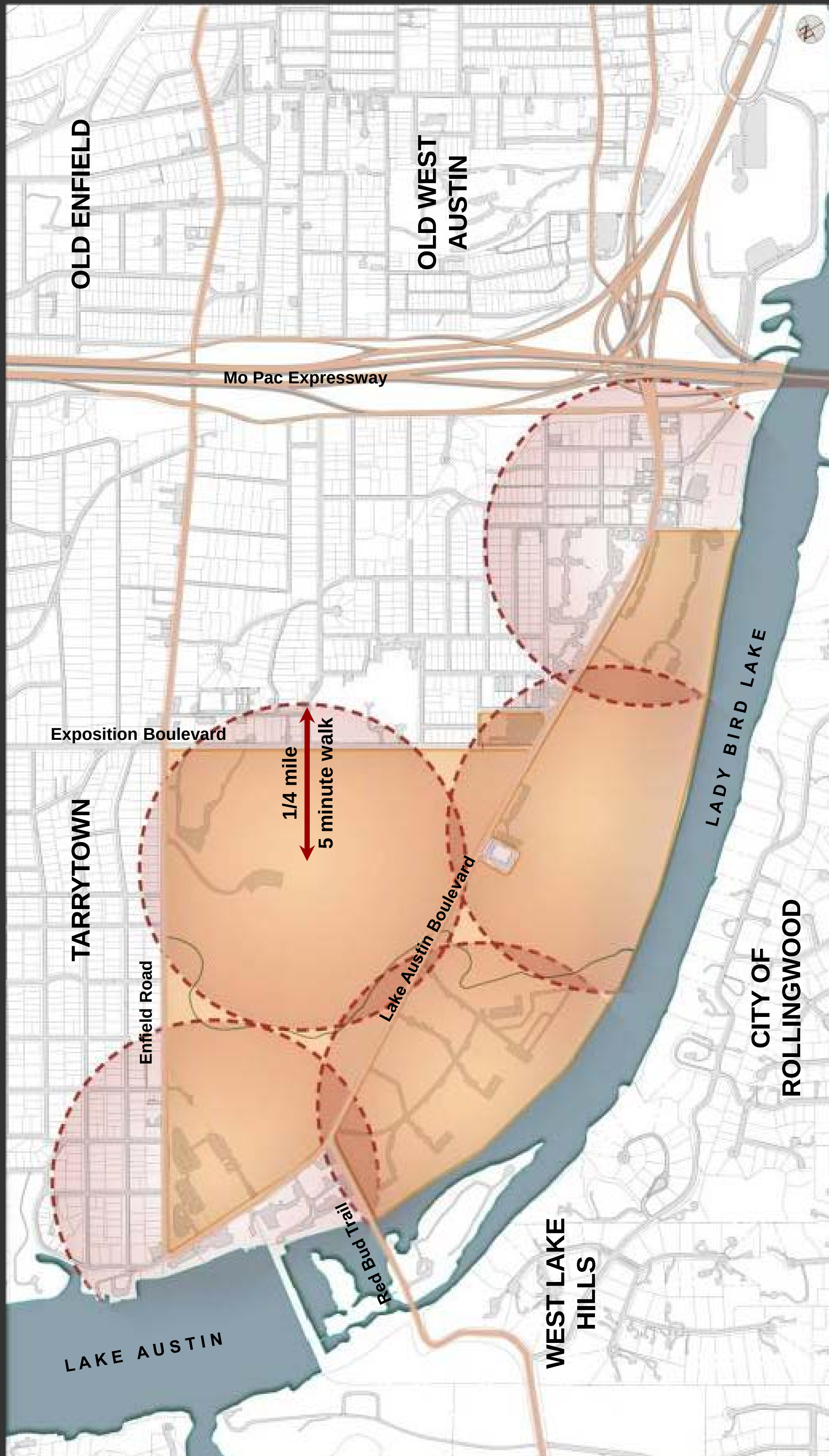
Austin, Texas

33

February 12, 2009

Pedestrian Sheds

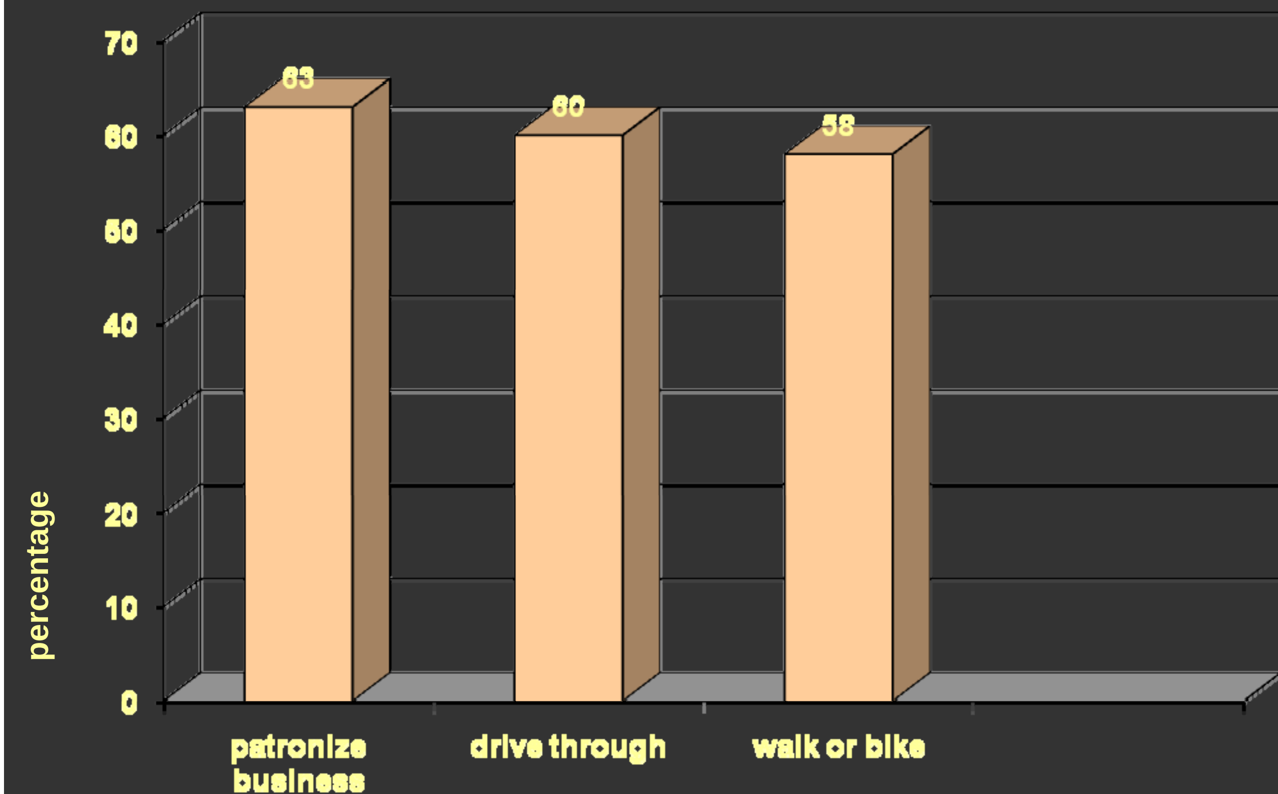
Neighborhood Walking Scale



THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas
February 12, 2009
34

Survey Results

- If you use the Brackenridge Tract today, how do you use it?

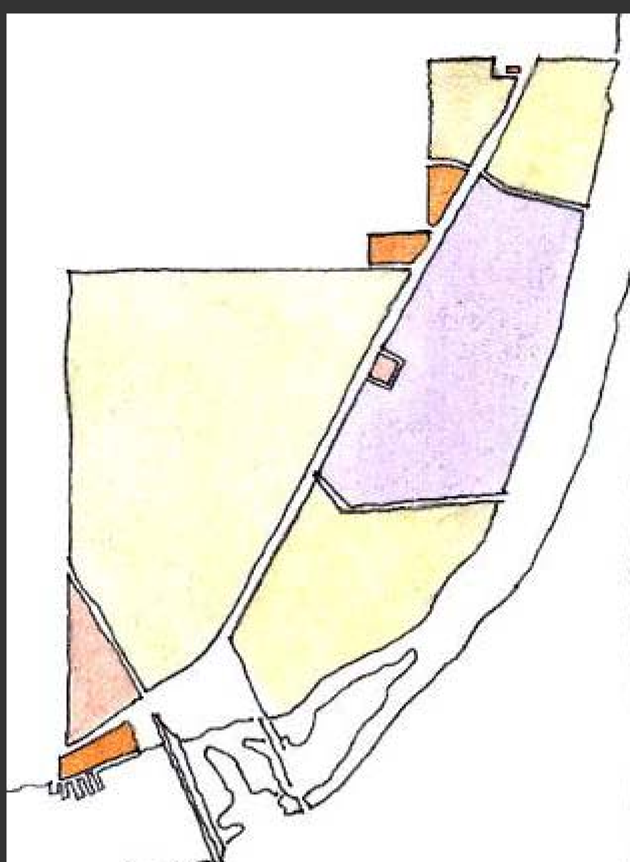


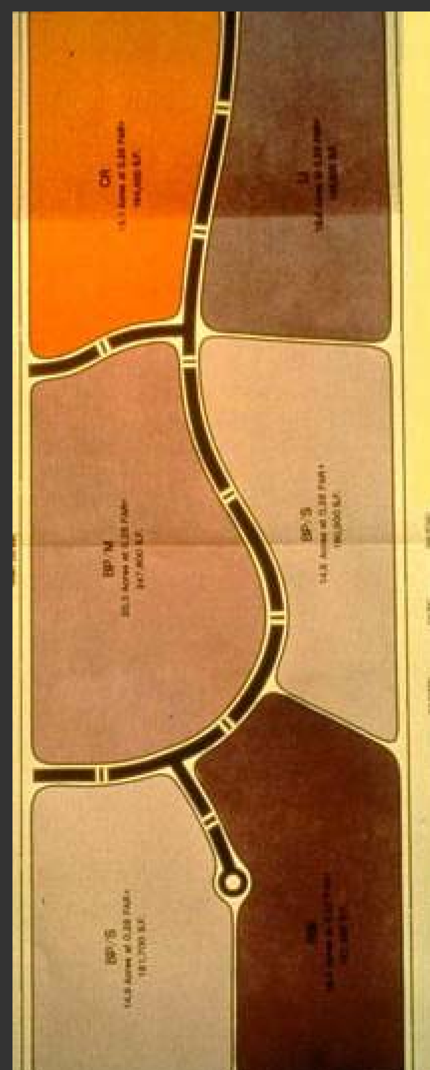
Super Blocks

THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

36
February 12, 2009

Large Grain vs. Fine Grain





THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

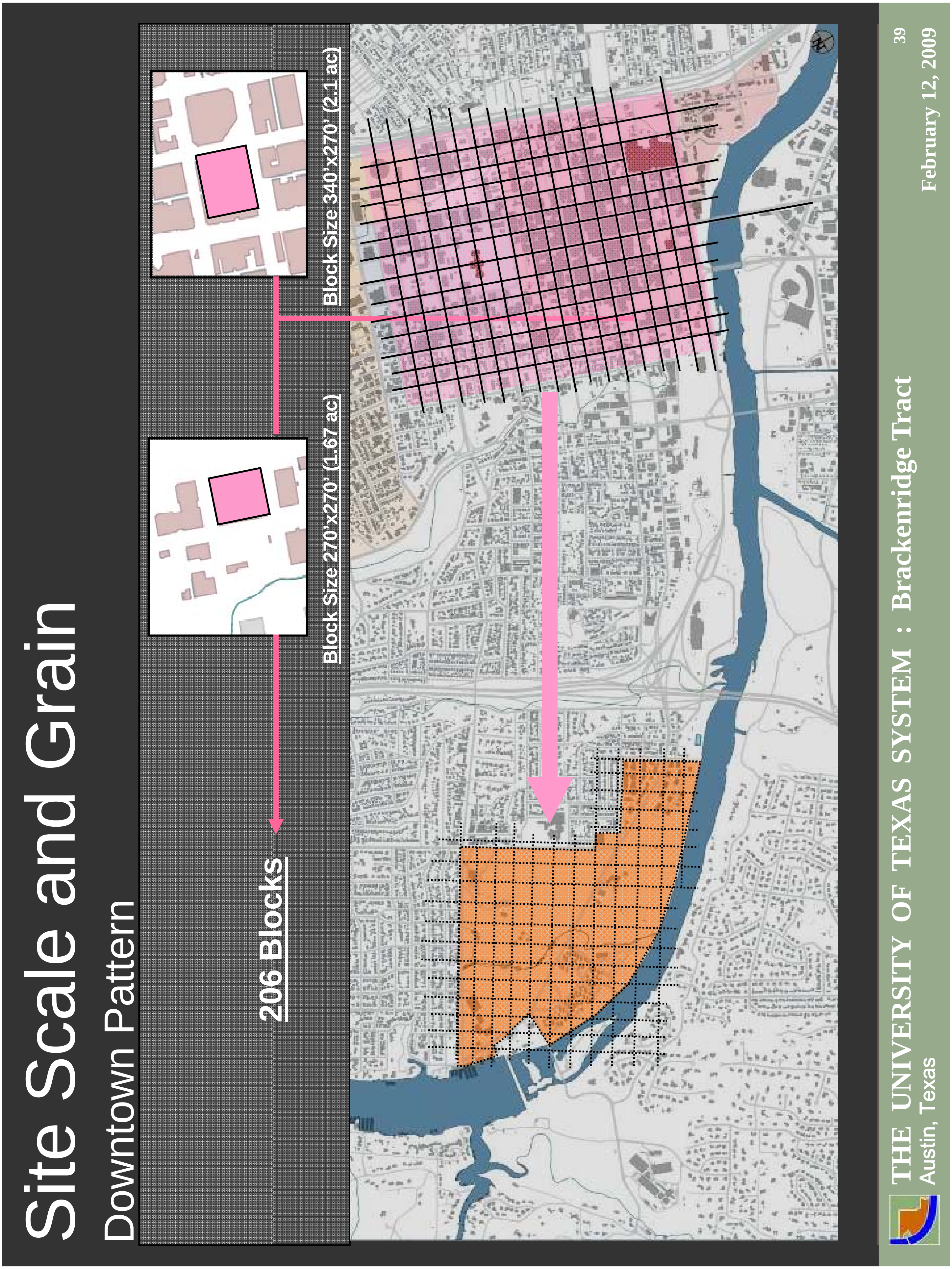
February 12, 2009

37

Auto-Oriented vs. Pedestrian-Friendly

THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

38
February 12, 2009


Site Scale and Grain
Downtown Pattern
206 Blocks
Block Size 340'x270' (2.1 ac)
Block Size 270'x270' (1.67 ac)
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas
39
February 12, 2009

Mueller

Infill Mixed-Use Projects, Austin, Texas

Mixed-Use Town Center

- Site: 711 acres
- Open space: 140 acres
- Residential: 4,600 units
- Housing types: yard houses, row-houses, live/work, mixed-use and apartment
- Non-Residential: 4,200,000 sq.ft.
  - Retail: 700,000 sq.ft.
  - Town Center: 42 acres
  - Medical Plaza: 88,000 sq.ft.
- Community amenities:
  - 5 miles of hike and bike paths

Mueller

Infill Mixed-Use Projects, Austin, Texas

THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

February 12, 2009

41

Addison Circle

Addison, Texas

Mixed-Use Town Center

- Site: 80 acres
- Open space: 10 acres
- Residential: approx. 4,800 units
- Retail / Commercial: 6,000,000 sq.ft.
- Community amenities: 3 performance venues, water garden and inter-active fountains, fields for active recreation and walking trails.

Addison Circle

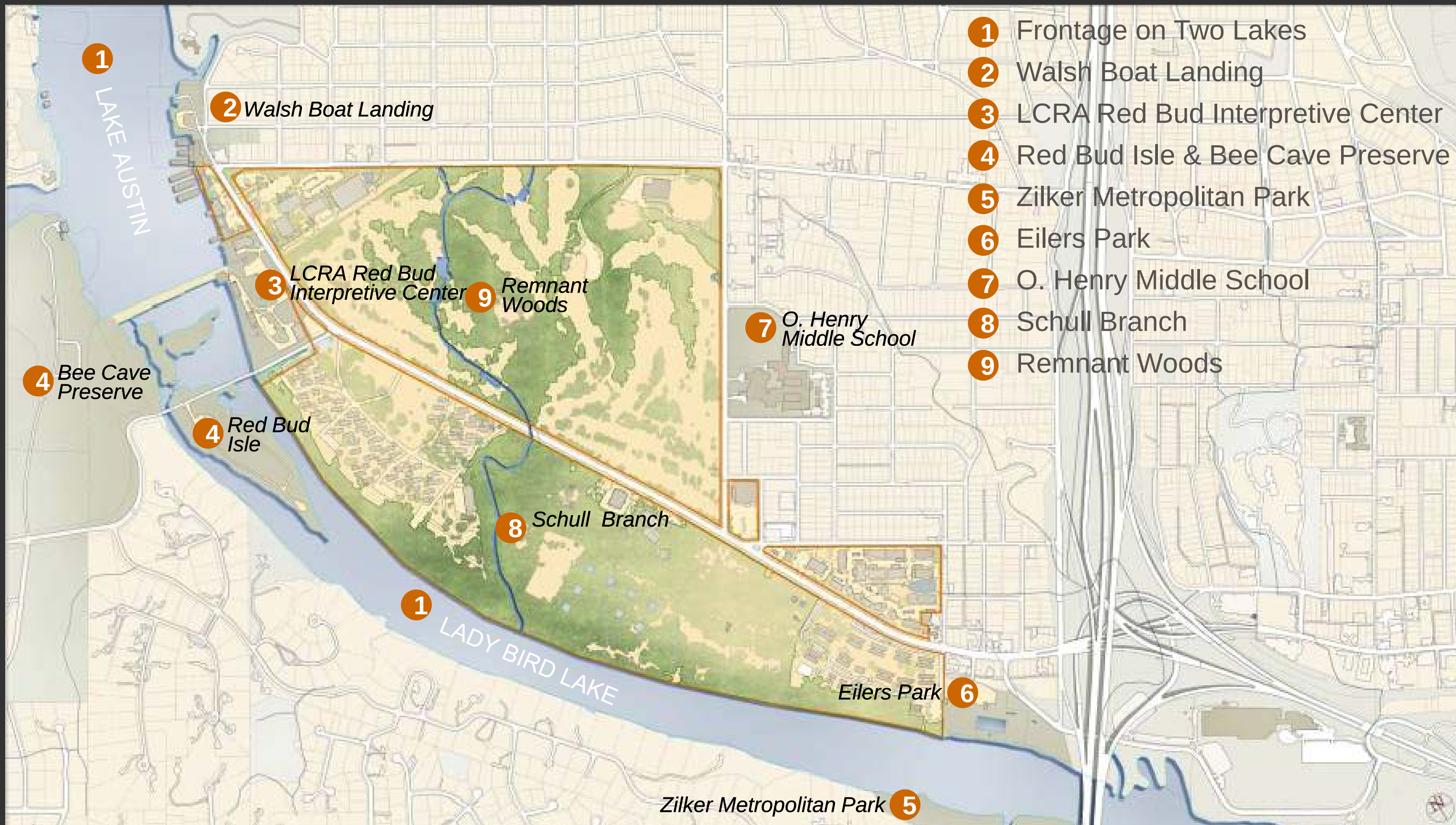
Addison, Texas

THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

43
February 12, 2009

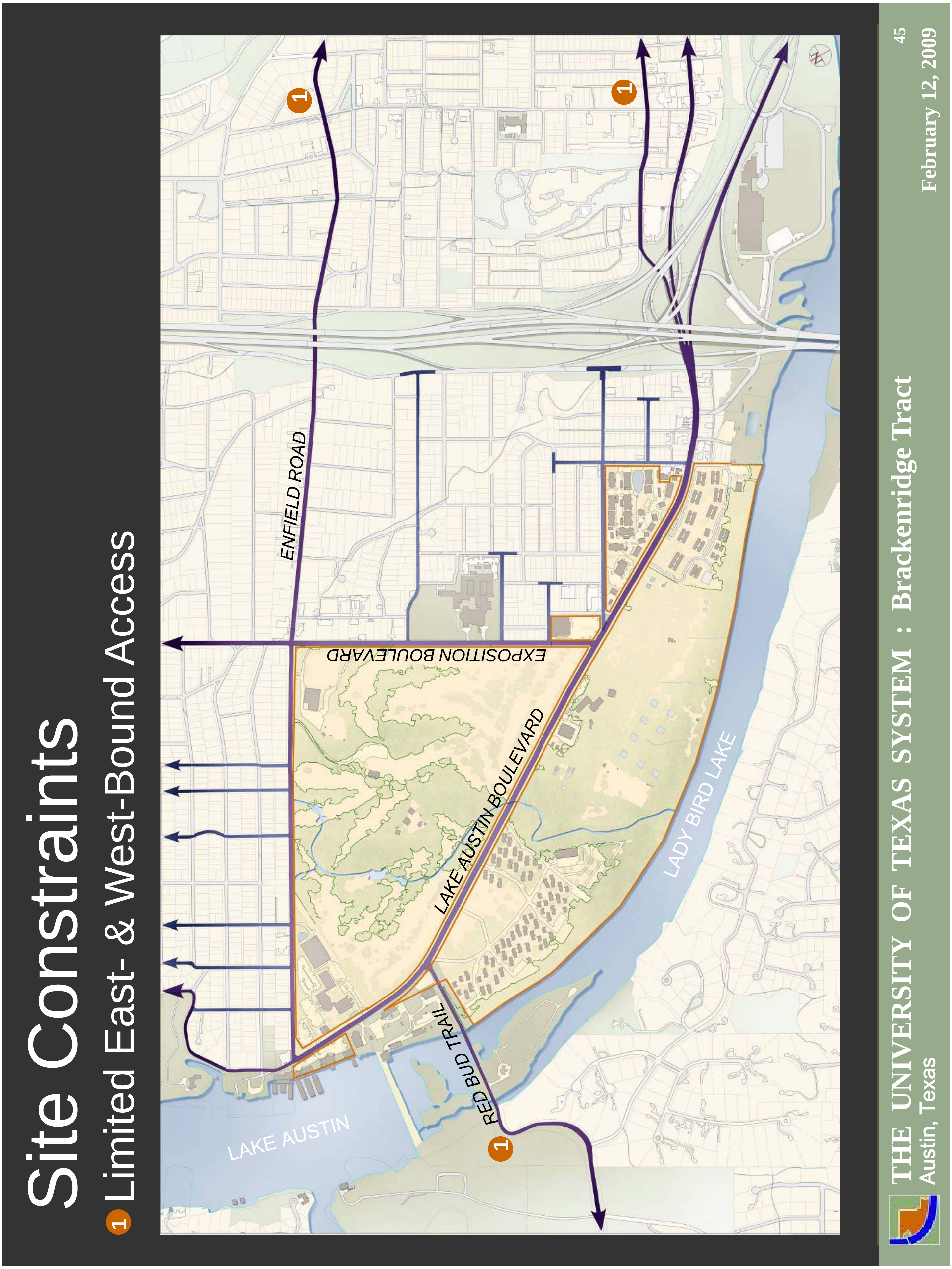
Site Assets

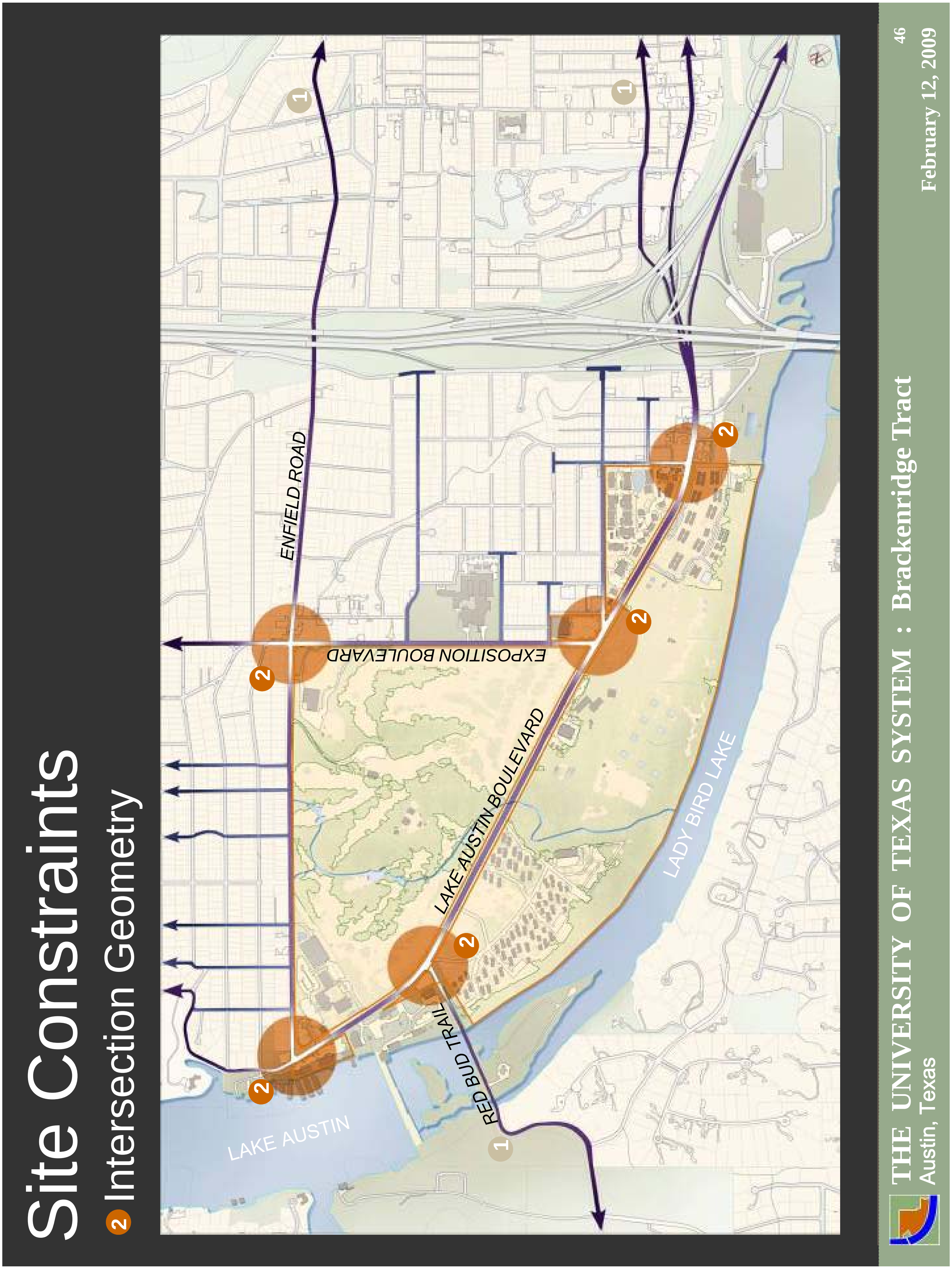
Summary



THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

February 12, 2009


Site Constraints
1 Limited East- & West-Bound Access
ENFIELD ROAD
EXPOSITION BOULEVARD
LAKE AUSTIN BOULEVARD
LADY BIRD LAKE
RED BUD TRAIL
LAKE AUSTIN
1
1
1
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas
45
February 12, 2009


Site Constraints
2 Intersection Geometry
ENFIELD ROAD
EXPOSITION BOULEVARD
LAKE AUSTIN BOULEVARD
RED BUD TRAIL
LADY BIRD LAKE
LAKE AUSTIN
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas
46
February 12, 2009


Site Constraints
2 Great Waterfront Assets Not Accessible
ENFIELD ROAD
1
EXPOSITION BOULEVARD
LAKE AUSTIN BOULEVARD
2
LADY BIRD LAKE
RED BUD TRAIL
LAKE AUSTIN
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas
47
February 12, 2009

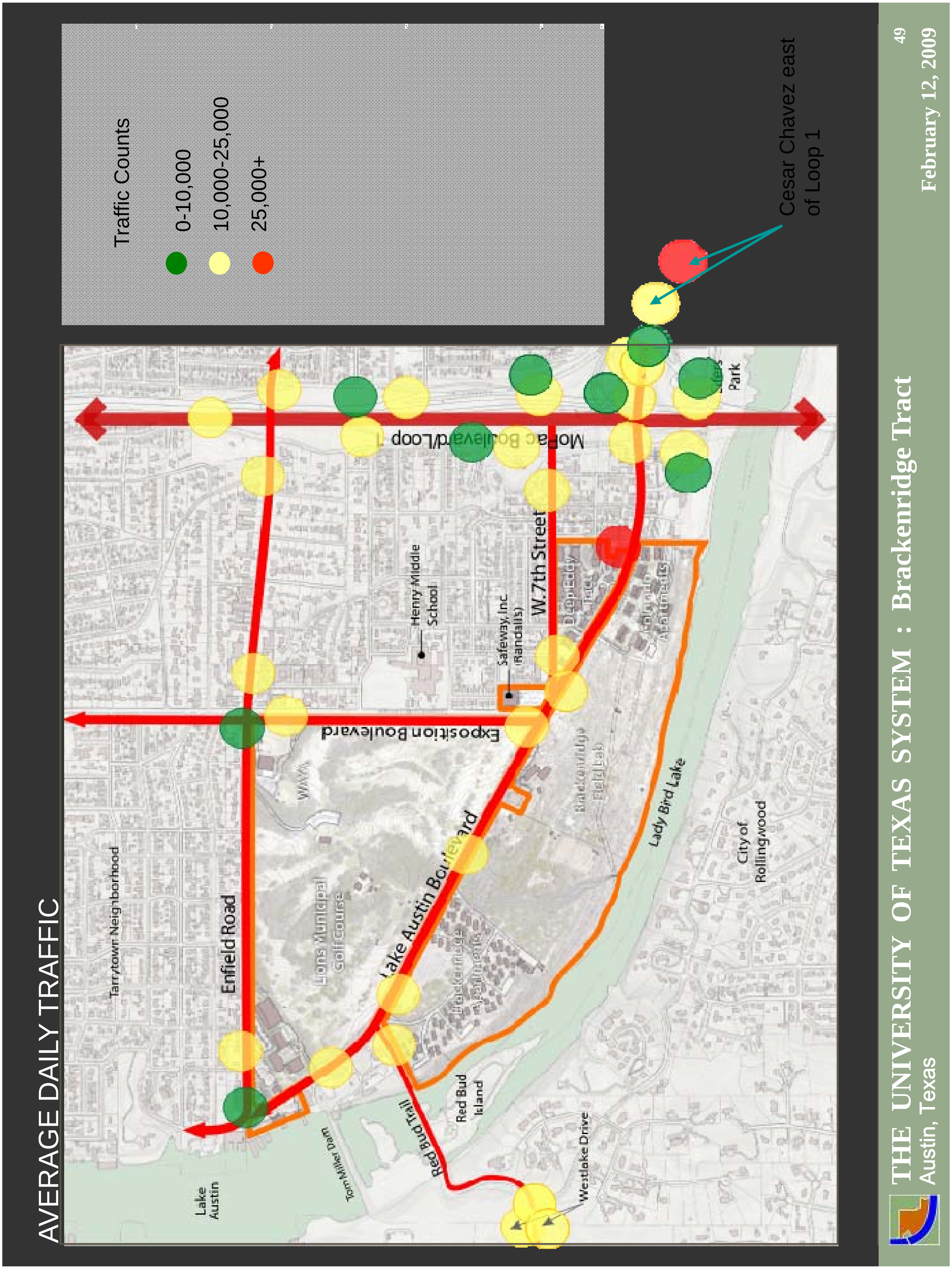
Transportation Strategies

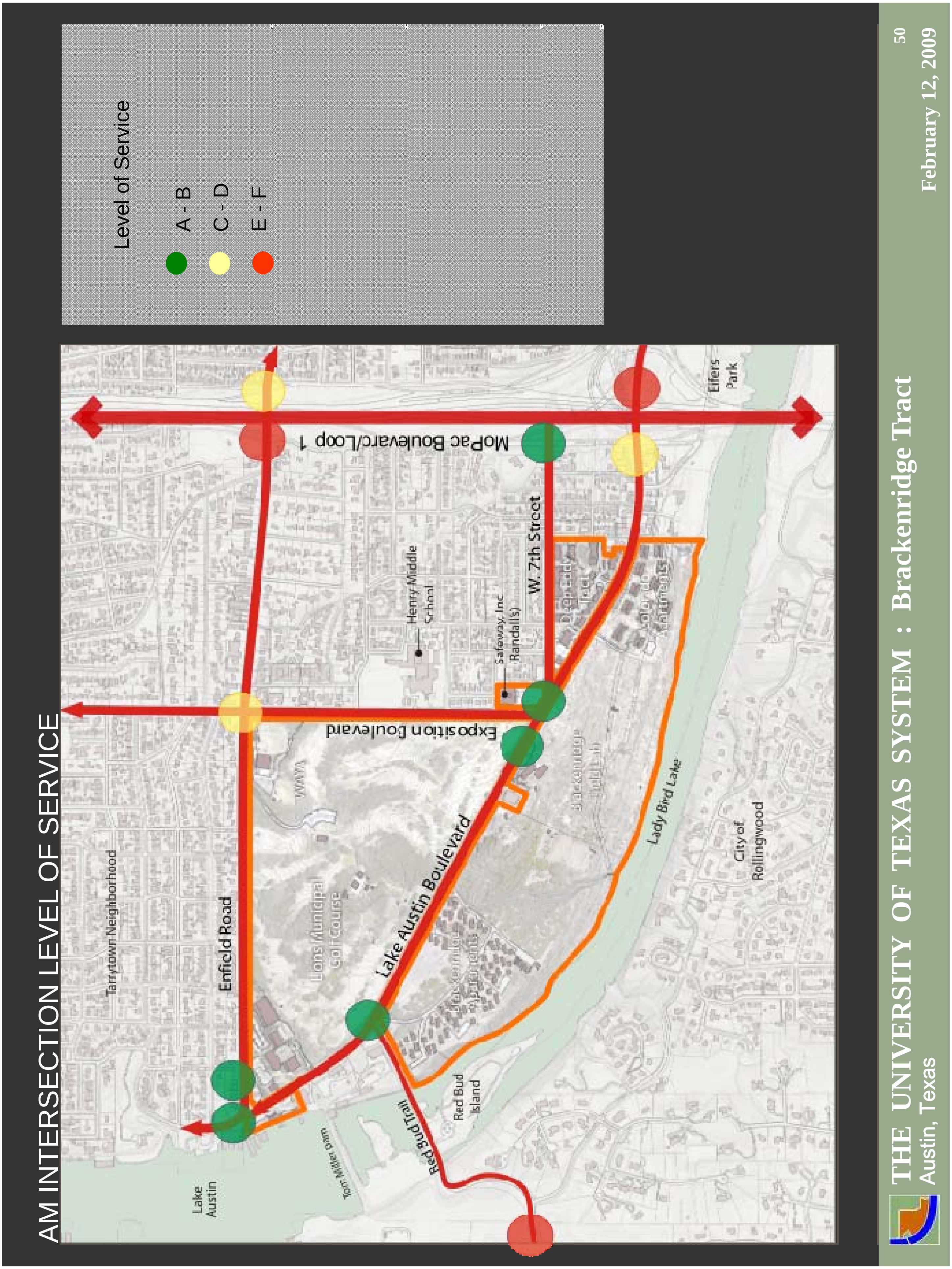
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

February 12, 2009

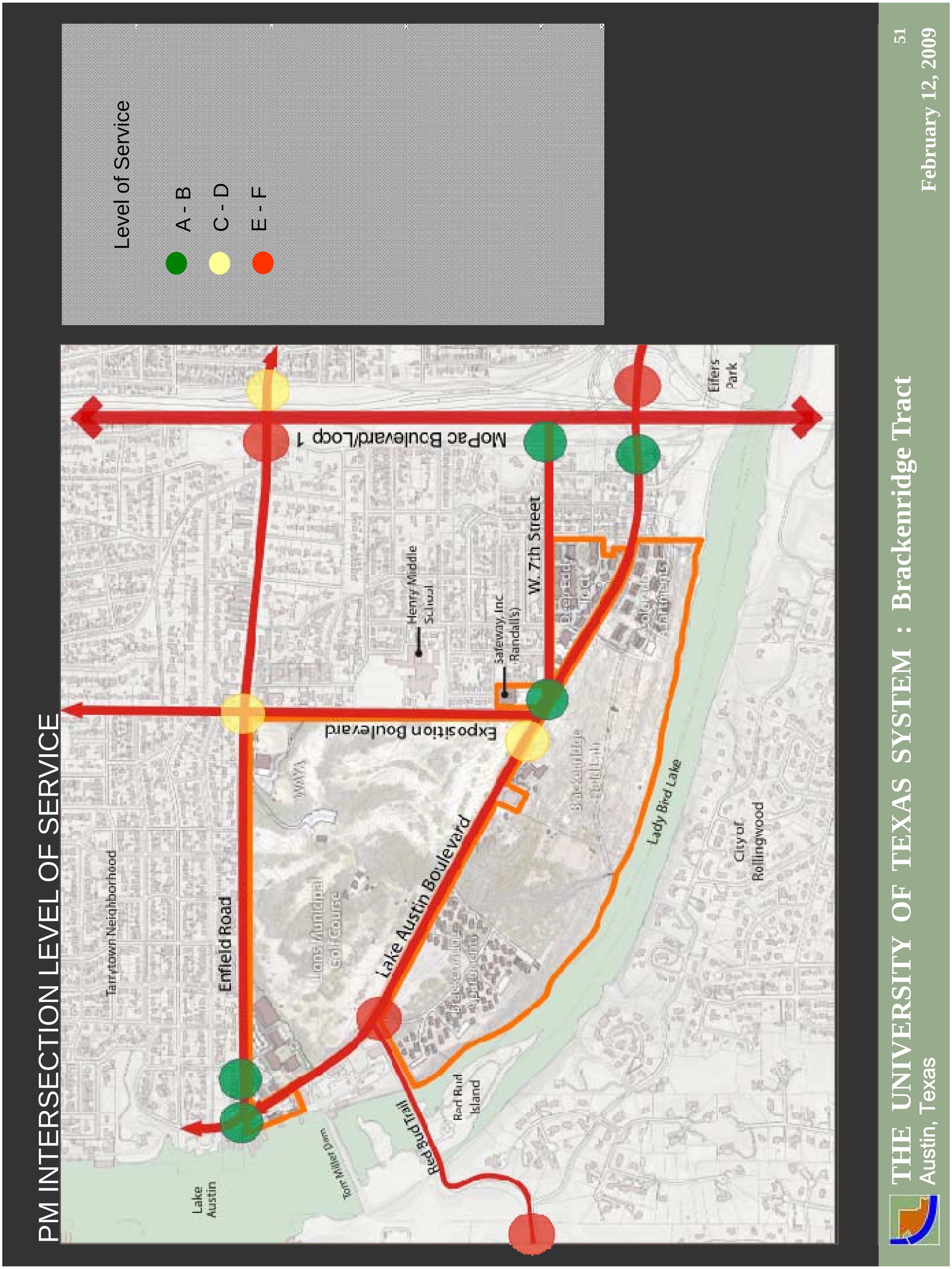
48

2. U. T. System Board of Regents: Presentation by Cooper, Robertson & Partners, L. L. P., regarding the status of work on the master planning project for the Brackenridge Tract (cont.)

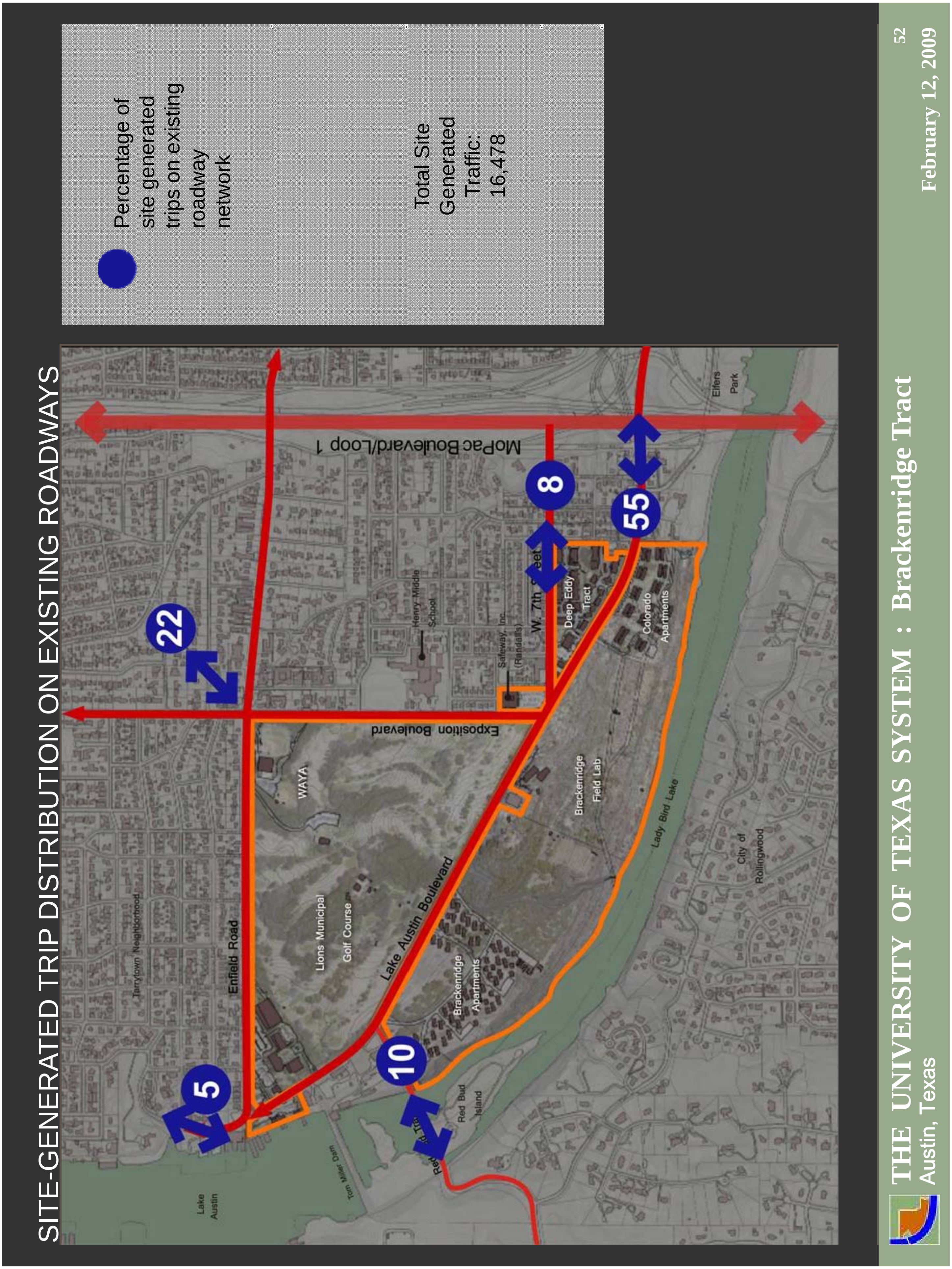



AM INTERSECTION LEVEL OF SERVICE
Level of Service
A - B
C - D
E - F
MoPac Boulevard/Loop 1
W. 7th Street
Exposition Boulevard
Enfield Road
Lake Austin Boulevard
Red Bud Trail
Lady Bird Lake
Tarrytown Neighborhood
Lions Municipal Golf Course
Henry Middle School
Safeway, Inc (Randall's)
Red Bud Island
Lake Austin
Tom Miller Dam
City of Rollingwood
Eilers Park
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas
50
February 12, 2009

2. U. T. System Board of Regents: Presentation by Cooper, Robertson & Partners, L. L. P., regarding the status of work on the master planning project for the Brackenridge Tract (cont.)



2. U. T. System Board of Regents: Presentation by Cooper, Robertson & Partners, L. L. P., regarding the status of work on the master planning project for the Brackenridge Tract (cont.)



STRATEGIES TO IMPROVE OPERATIONAL EFFICIENCY

- Improve access and capacity to Bee Cave Road
- Explore future transit options
- Examine "smart road" signalization/flow management

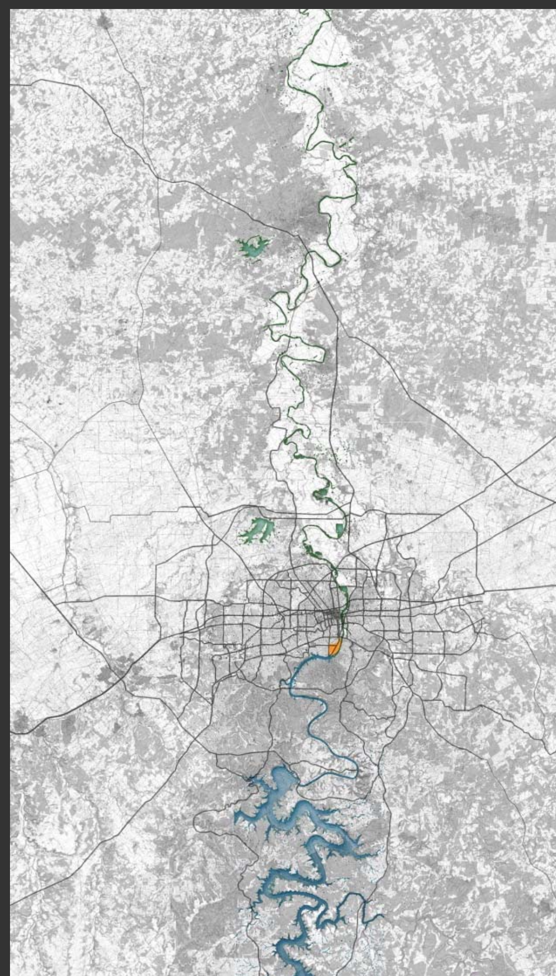
OPTIONS TO IMPROVE EXISTING ROADWAY NETWORK

- Existing regional network providing access - Cesar Chavez St., 5th Street, 6th Street, Lake Austin Blvd.
  - Explore operational and capacity improvements

OPTIONS TO IMPROVE EXISTING ROADWAY NETWORK

- Lake Austin Boulevard
  - Redirect traffic, separate through and local traffic
- Enfield Road
  - Redirect traffic
- Red Bud Trail
  - Explore connection to Enfield Road and improve Lake Austin Boulevard connection

Ecological and Environmental Strategy



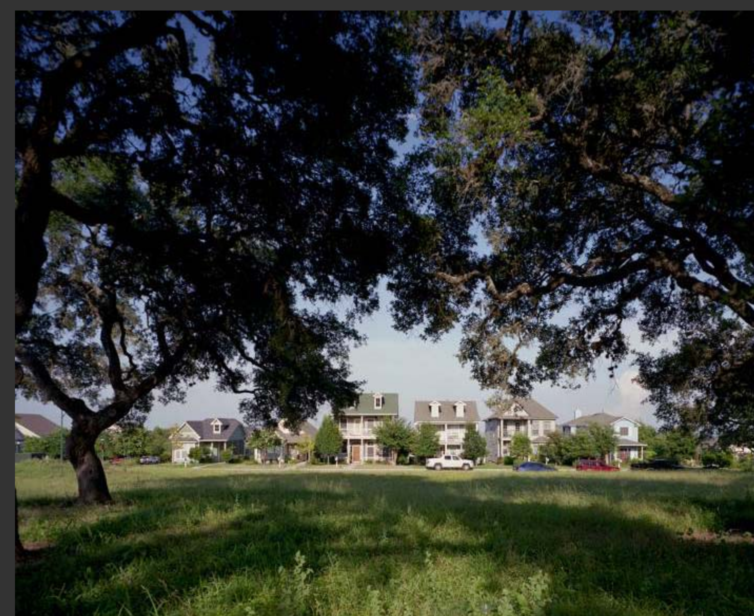
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

56
February 12, 2009

Ecological and Environmental Strategy

STRATEGIES

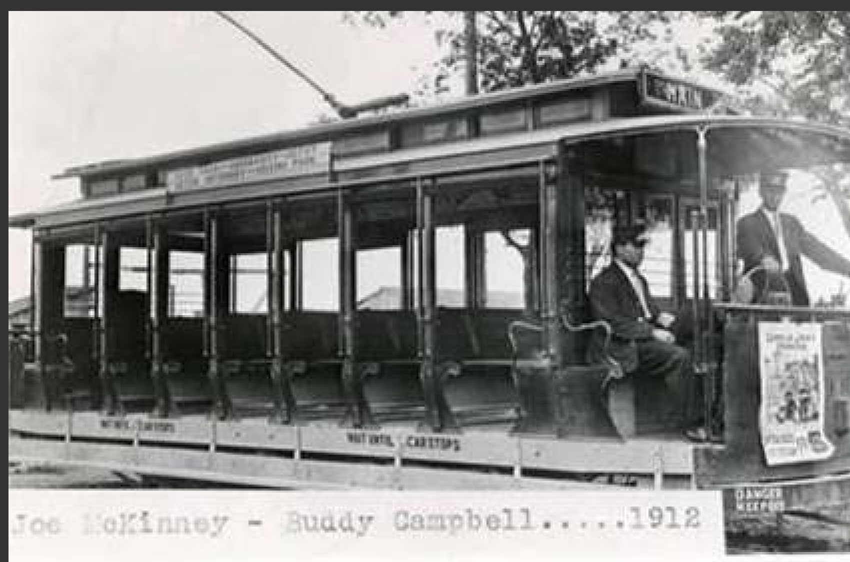
- Site Design
- Landscape Design
- Building Design
- Water Use
- Public Health and Welfare
- Construction and Maintenance Practices



Ecological and Environmental Strategy

SITE DESIGN

- Preserve and repair site soils
- Preserve site topography
- Promote alternative forms of transportation
- Execute a carbon neutral site program



Ecological and Environmental Strategy

LANDSCAPE DESIGN

- Use site appropriate and non-invasive plant material
- Use drought tolerant plants to minimize need for irrigation
- Use locally grown plant material

Ecological and Environmental Strategy

WATER USE

- Manage water on site, reduce quantity of storm water
- Cleanse water on site, improve quality of storm water
- Protect the riparian edge of water bodies

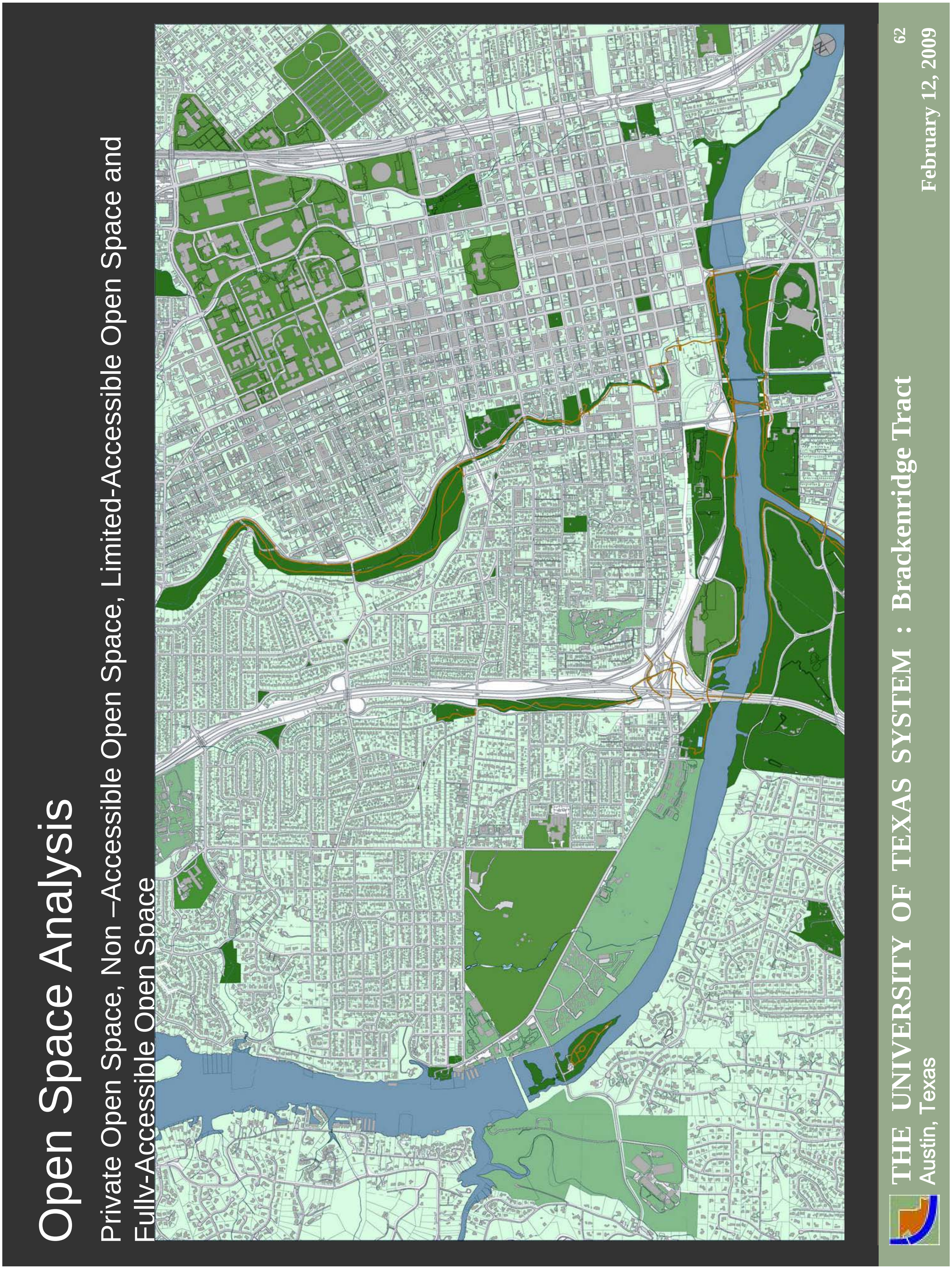
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

60
February 12, 2009

Ecological and Environmental Strategy

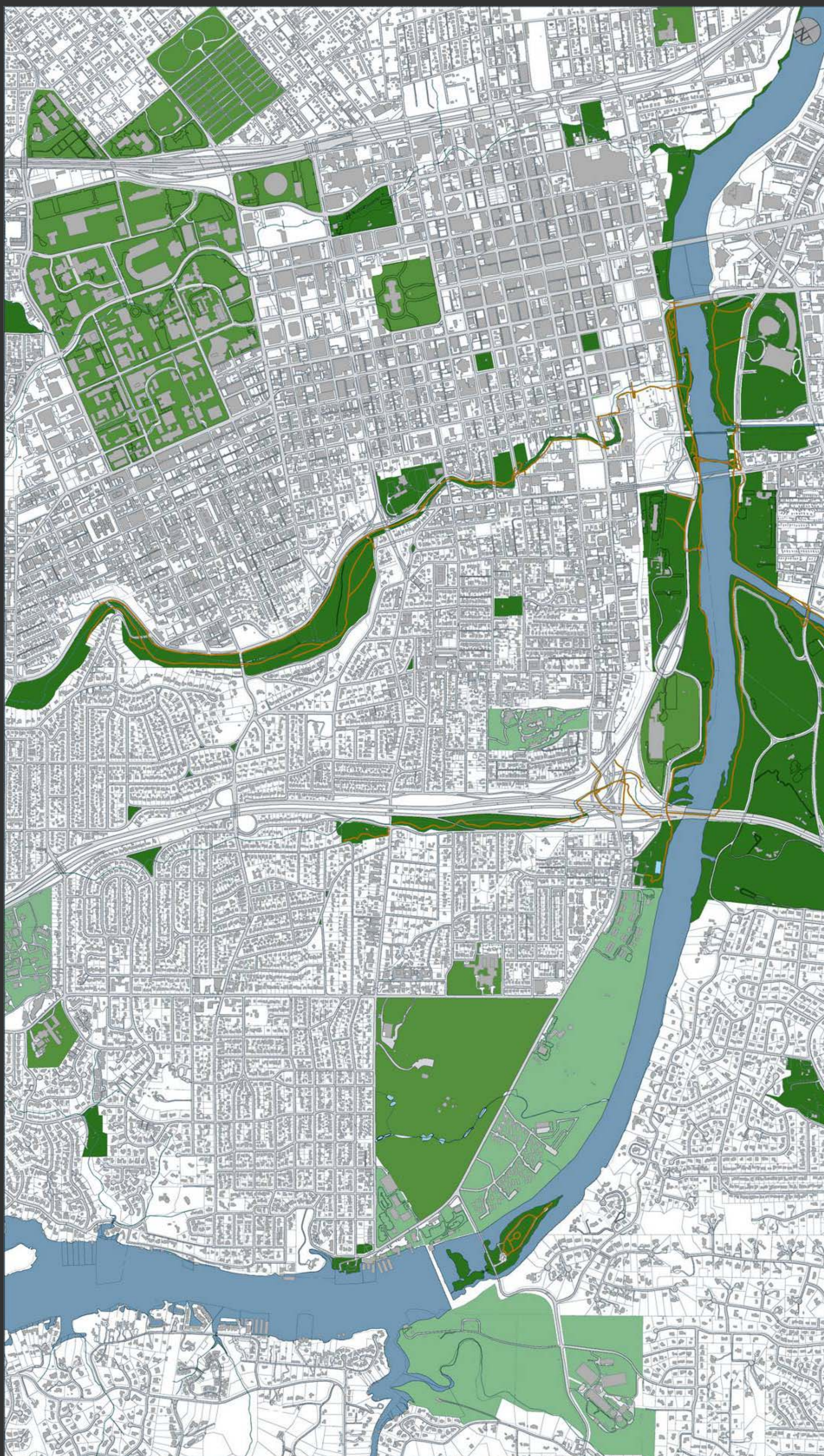
PUBLIC HEALTH AND WELFARE

- Provide open space for social interaction and mental rehabilitation
- Provide opportunities for various types of physical activity
- Connect the site to neighboring areas, services and trails
- Create a sense of enclosure, within the fabric of the neighborhood
- Create a walkable street network


Open Space Analysis
Private Open Space, Non –Accessible Open Space, Limited-Accessible Open Space and Fully-Accessible Open Space
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas
62
February 12, 2009

Open Space Analysis

Non –Accessible Open Space, Limited-Accessible Open Space and Fully-Accessible Open Space



THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract

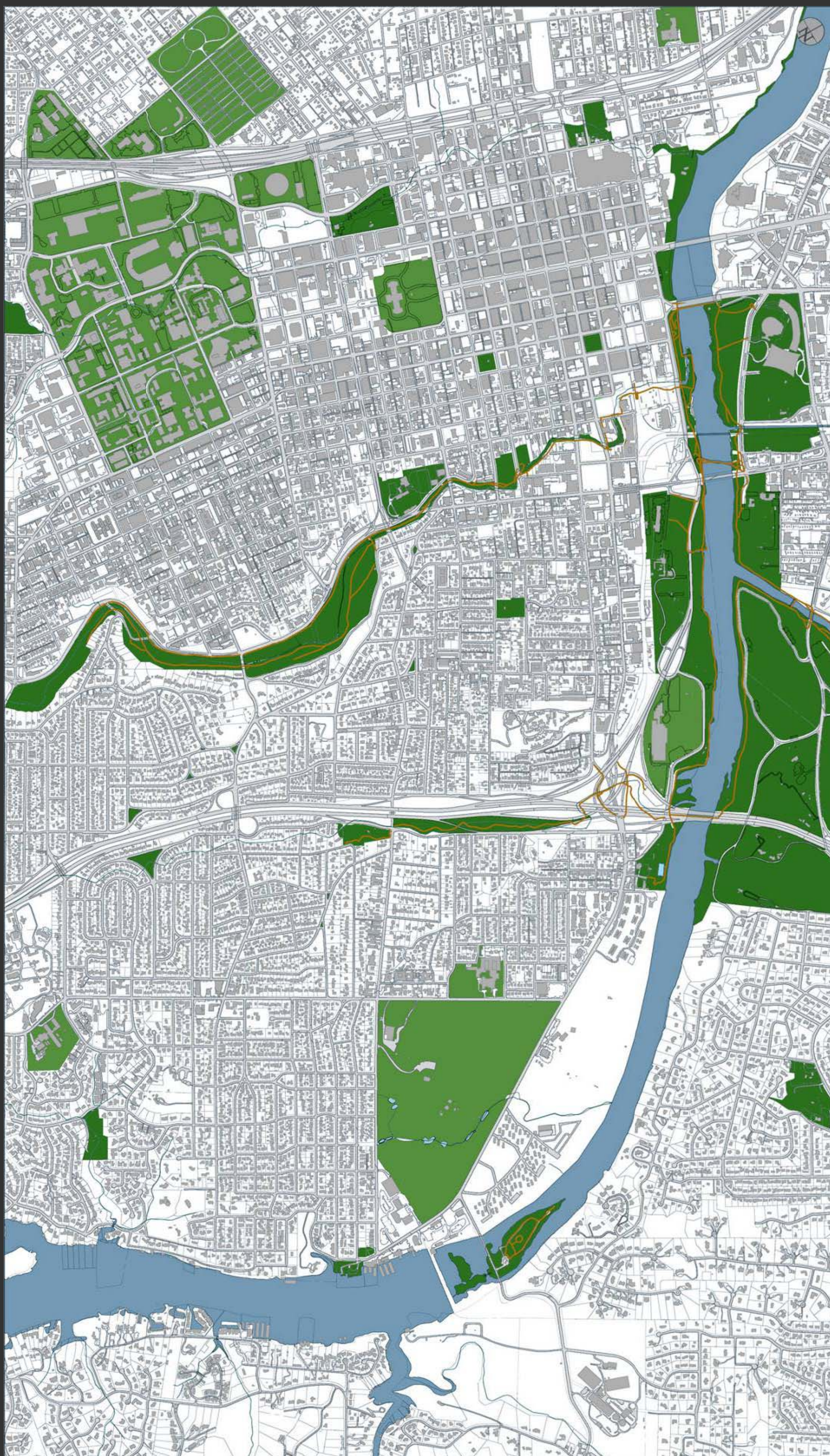
Austin, Texas

February 12, 2009

63

Open Space Analysis

Limited-Accessible Open Space and Fully-Accessible Open Space

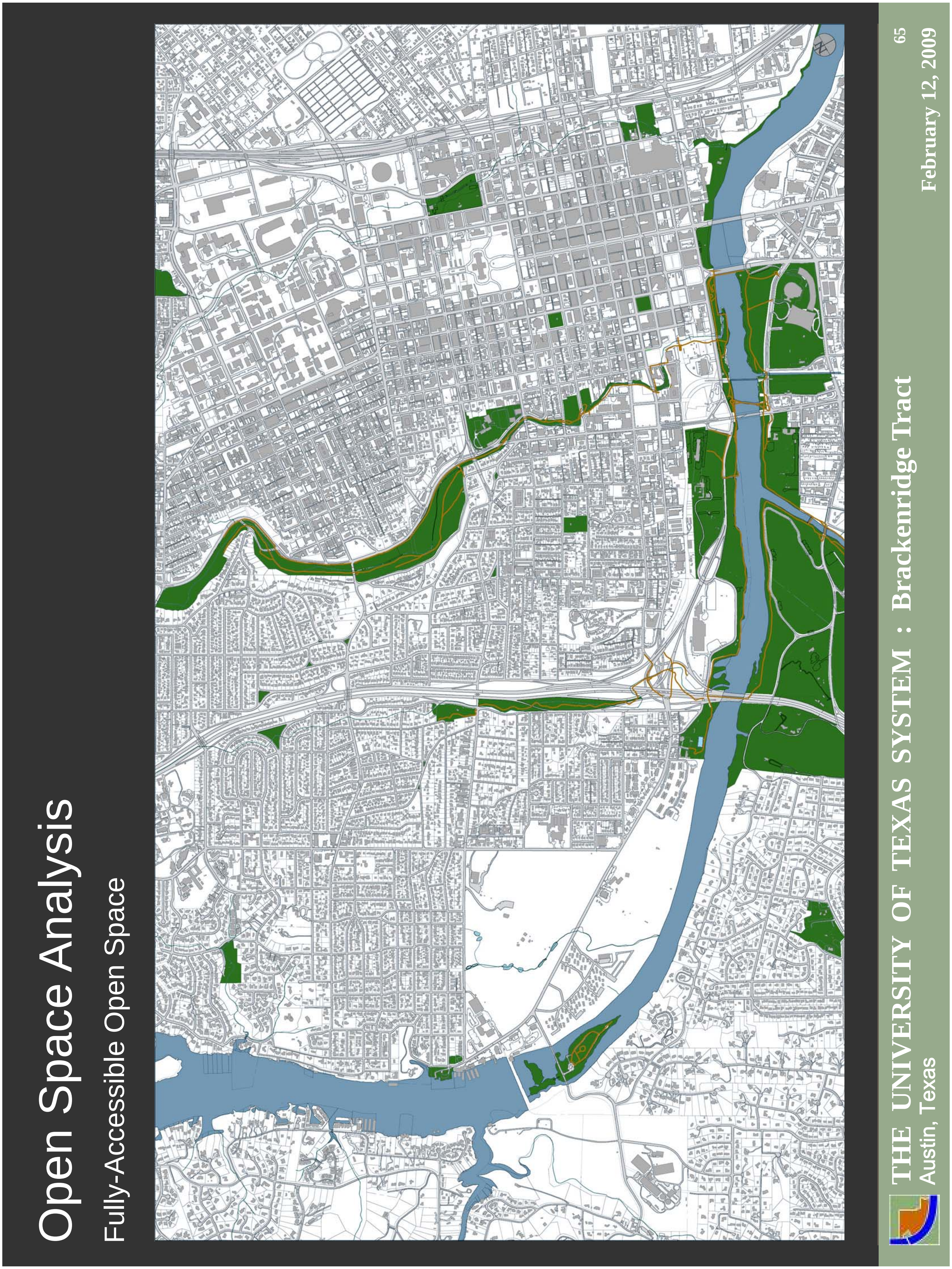


THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract

Austin, Texas

64

February 12, 2009


Open Space Analysis
Fully-Accessible Open Space
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas
65
February 12, 2009

Draft Design Principles

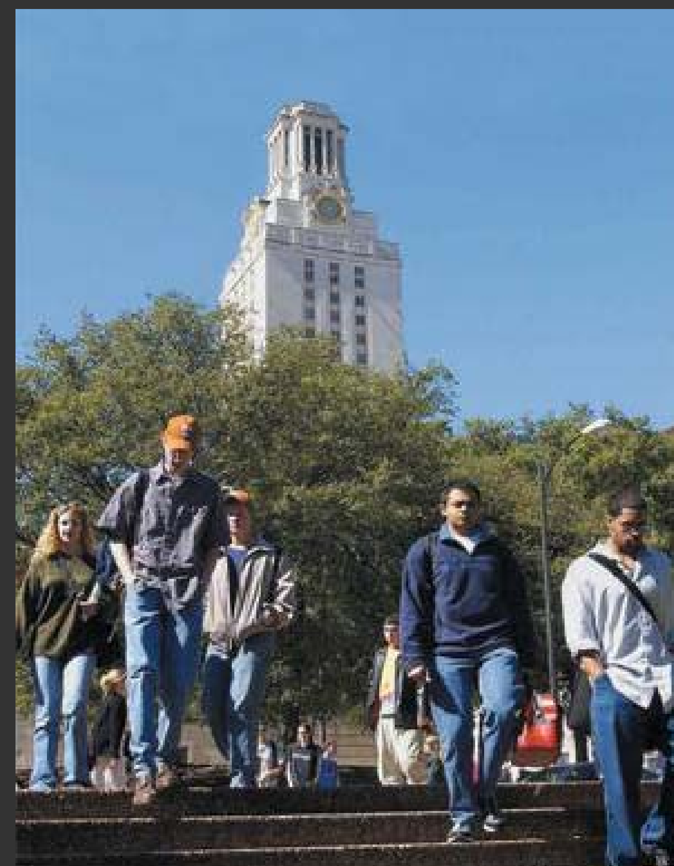
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

February 12, 2009

66

Legacy

Honor the intent of Colonel Brackenridge's gift that the land be used "in trust for the University of Texas" at Austin for the "purpose of advancing and promoting University education" and preserve opportunities for future University uses on the Tract.



Context & Compatibility

Recognize and respond to the Tract's context within the City of Austin as a part of the City's waterfront and to the context of the West Austin neighborhood by respecting the character of its edges with appropriate land uses, building scale, landscape, and traffic mitigation.

Place Making & Public Realm

Conceive the Tract as a distinct and integrated whole, greater than the sum of its parts, organized as a collection of walkable neighborhoods with an integrated system of streets, trails, and freely accessible, usable open space, collectively known as the public realm.

THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

69
February 12, 2009

Compact Development

Employ compact development strategies that maximize open space, embody a hierarchy of experiences, and encourage mixed-use, pedestrian friendly and vibrant areas that will characterize the Tract within the region, the city, and the vicinity.

Ecology & Environment

Celebrate the lakefront and other significant natural features of the Tract, such as its creek and mature trees, by organizing a larger open space system about these elements, while embracing the best methods and practices to ensure their preservation and to support the regional ecology.

Transportation & Connectivity

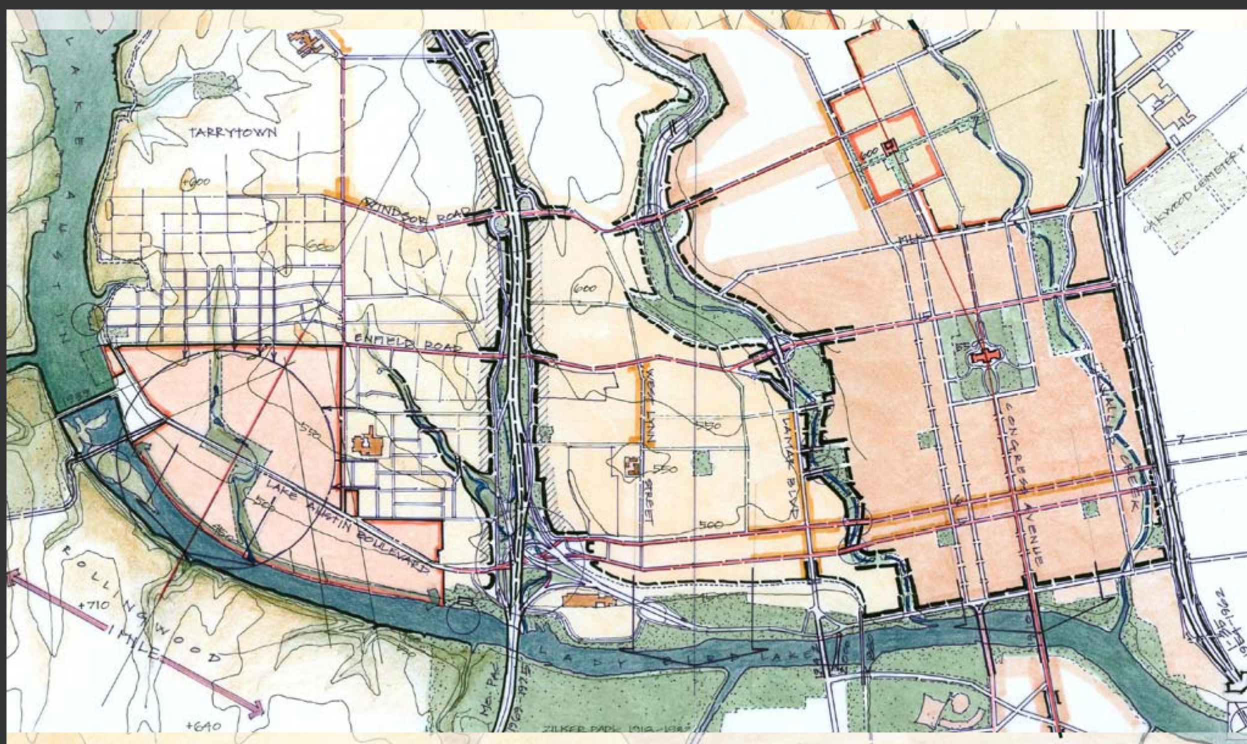
Recognize that transportation solutions are achieved at a city-wide scale, but design to minimize neighborhood traffic impacts by providing additional connections that reduce the dependence upon Enfield Road and Exposition, by mixing uses to capture otherwise off-site trips, and by planning for future transit options. Incorporate a hike and bike system that is interconnected to upland pathways.

Sustainability

Plan the future of the Tract based on a holistic approach to sustainability which considers social and economic, as well as natural, systems and resources, building upon the strengths of the past and what exists today, while preserving options for future generations.

Feasibility, Flexibility & Economic Viability

Develop an economically feasible plan that can be phased over time, be flexible to changing markets and conditions, and generate income from the Tract, using sound planning principles, to support the educational mission of the University while contributing positively to the community.

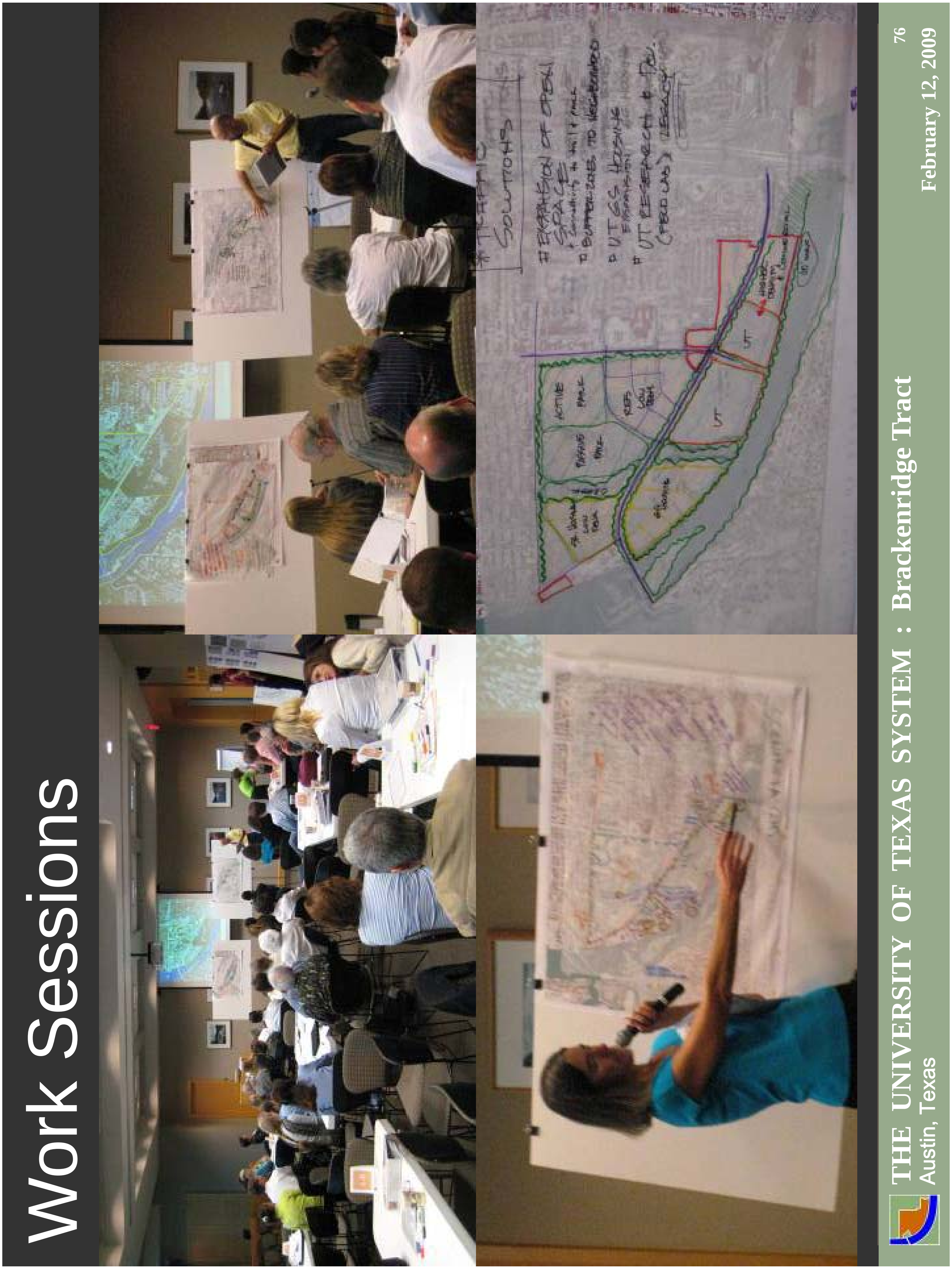


Work Sessions - November 5, 2008

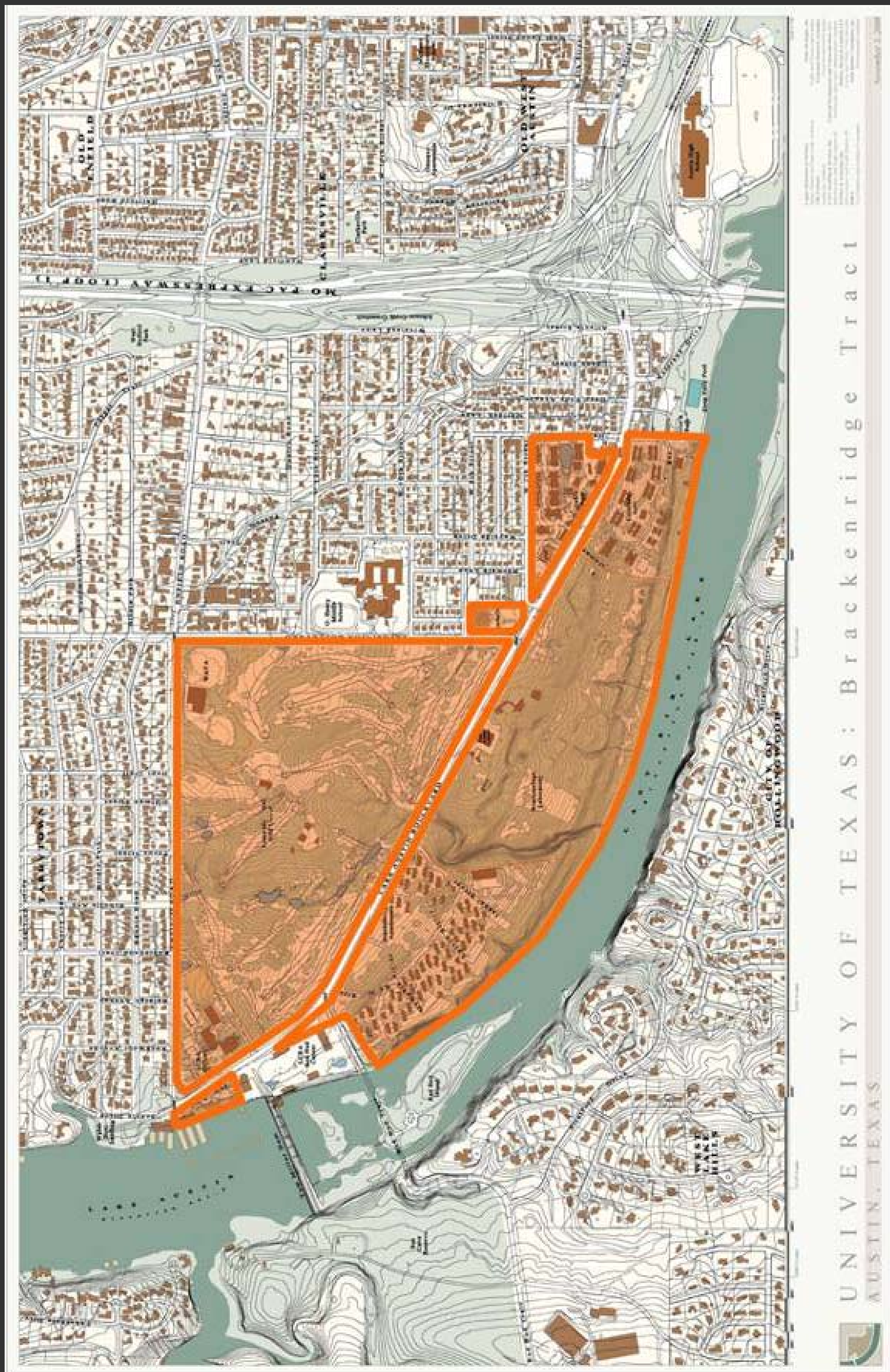
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

February 12, 2009

75


Work Sessions
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas
76
February 12, 2009

Scenario 1 - "Everything stays."

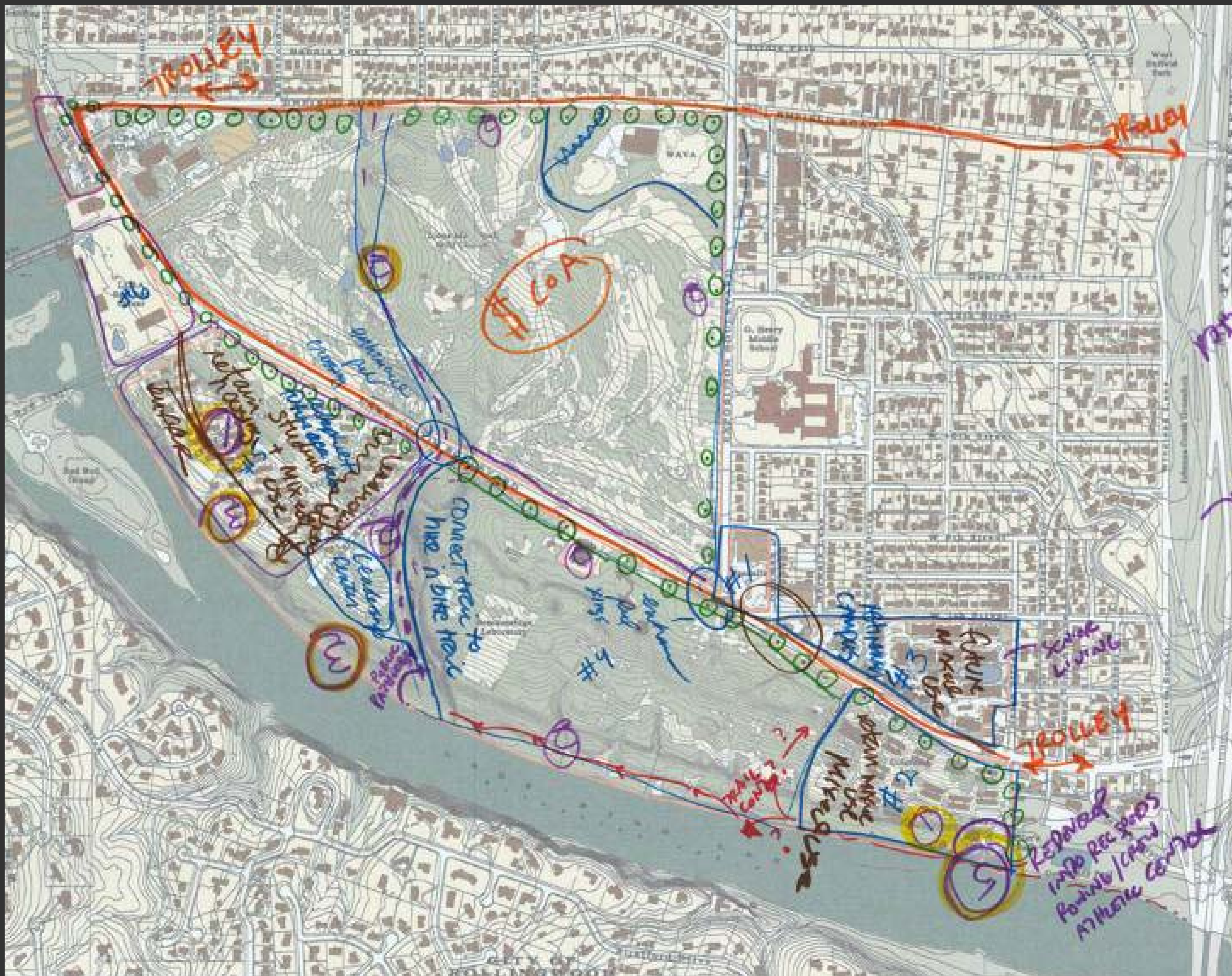


THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

February 12, 2009

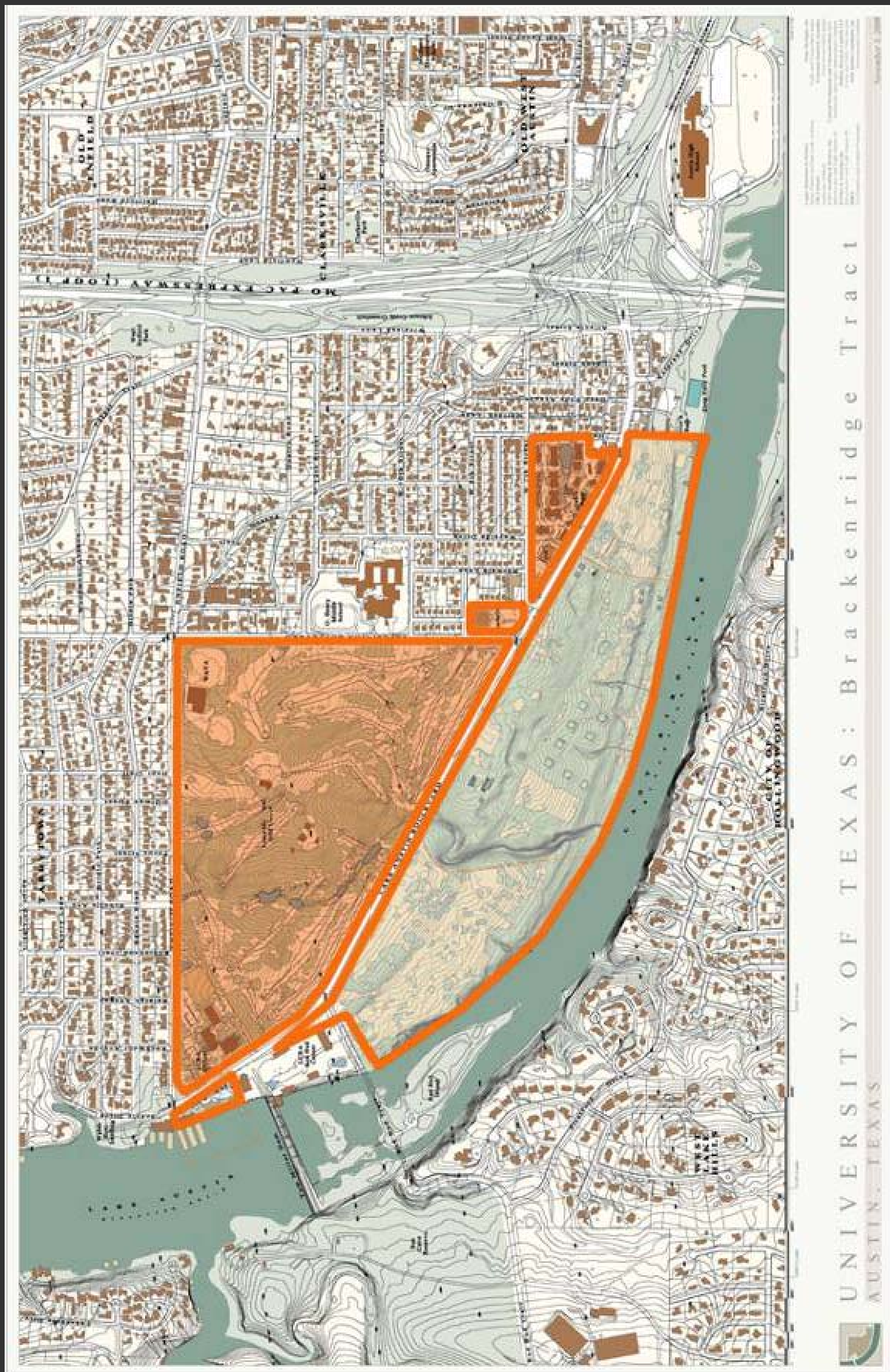
77

Scenario 1



- Compact mixed-use development
- Extension of Town Lake Trail and upland connections as appropriate
- Transit alternatives
- Recognize that UT should have economic benefit if MUNY were to remain

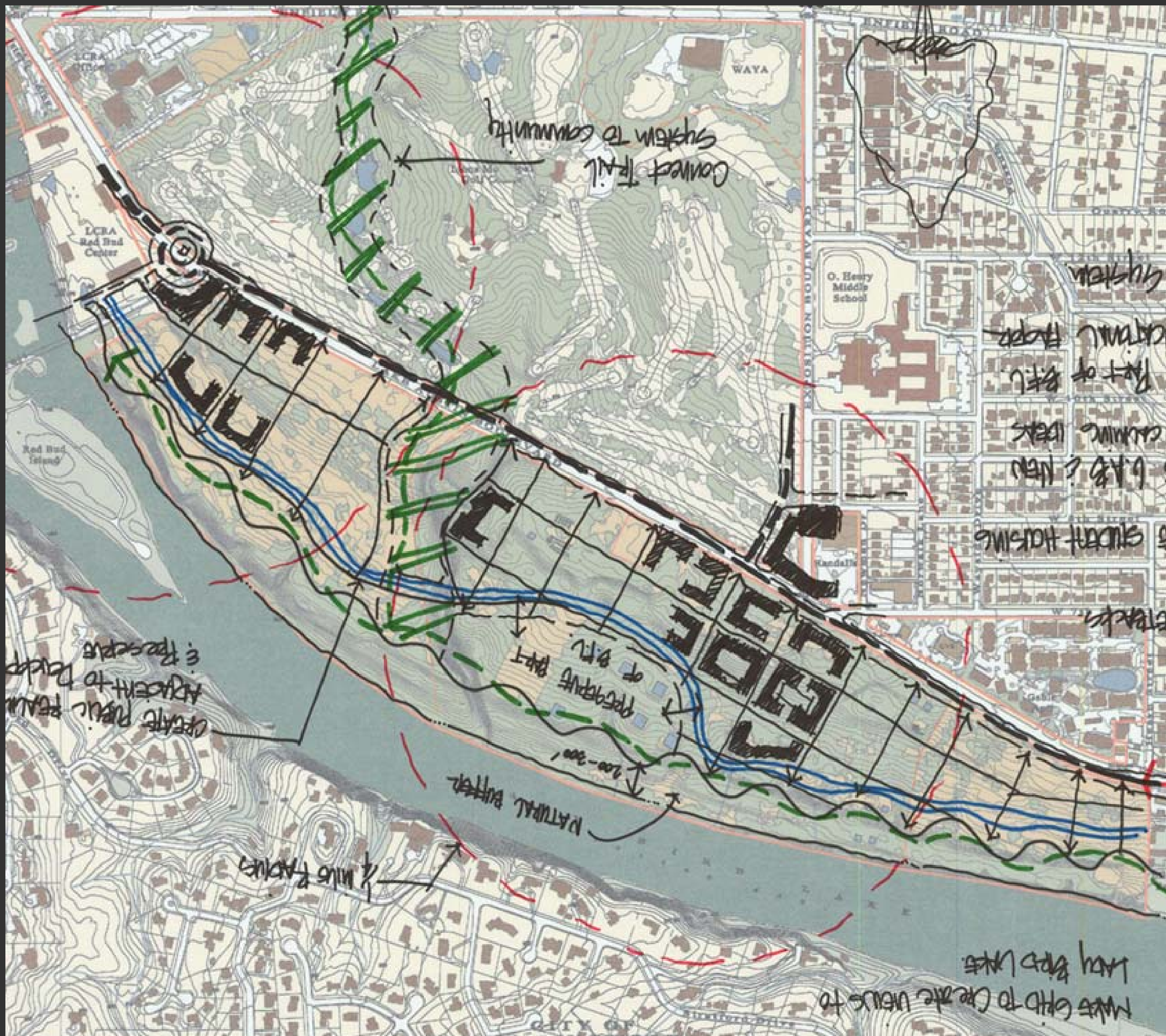
Scenario 2 - "Everything north of Lake Austin Boulevard stays."



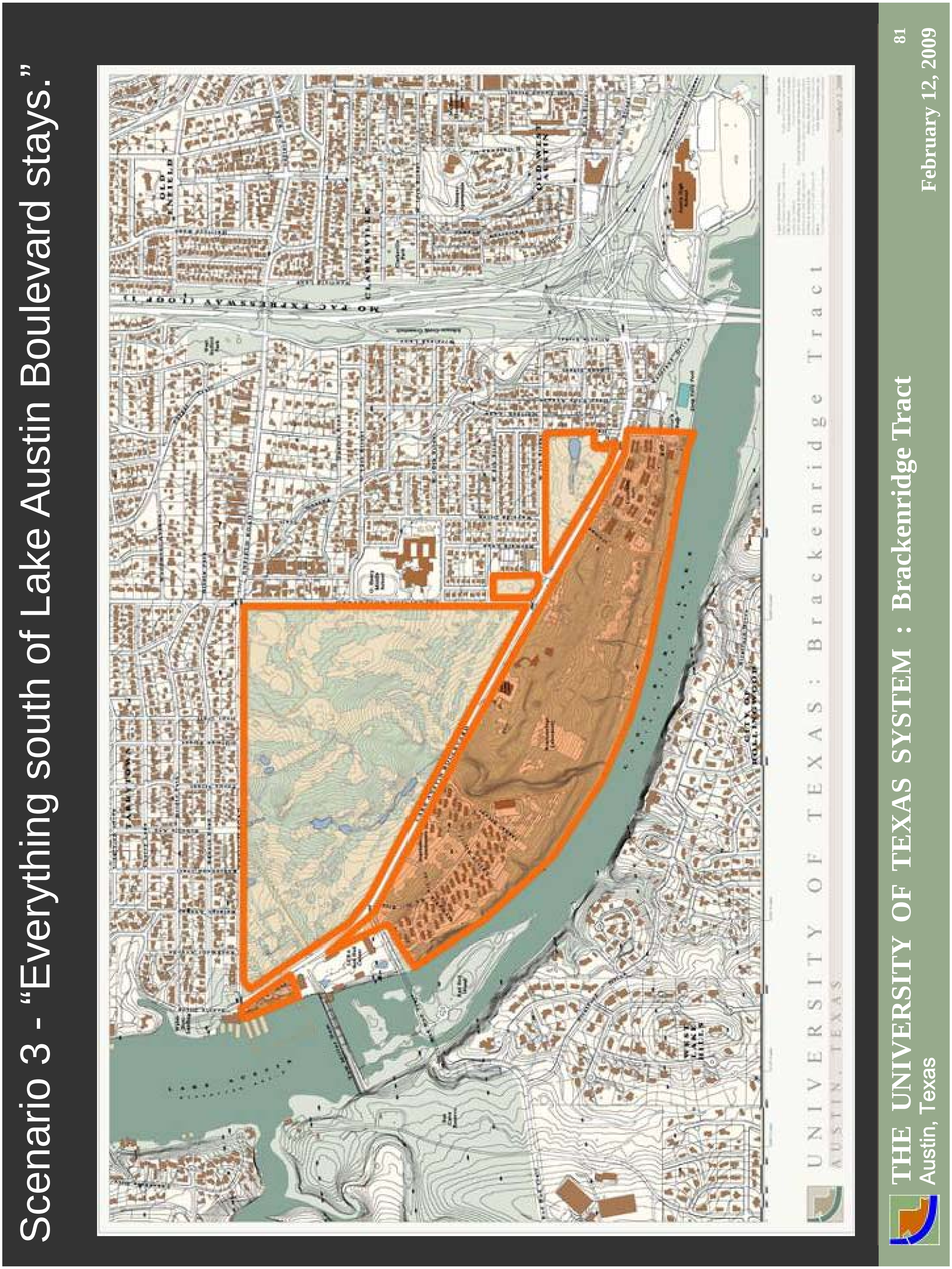
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

February 12, 2009 79

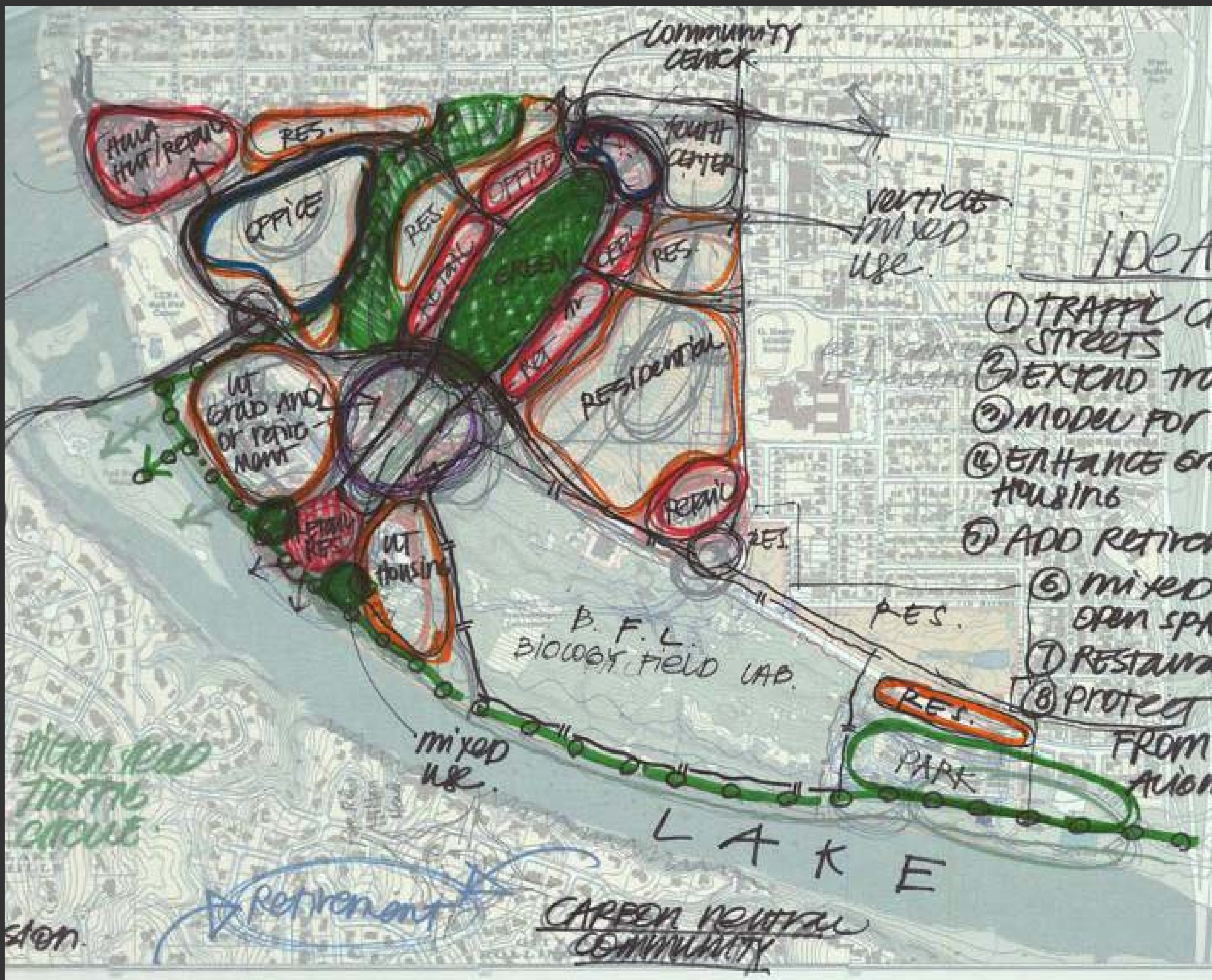
Scenario 2



- UT legacy (smaller BFL, housing)
- Compact, walkable, mixed-use, flexible grid
- View corridors to Lady Bird Lake
- Setback trail to preserve Lake edge
- Street intersection improvements


Scenario 3 - “Everything south of Lake Austin Boulevard stays.”
UNIVERSITY OF TEXAS : Brackenridge Tract
AUSTIN, TEXAS
MO PAC EXPRESSWAY (LOOP 1)
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas
81
February 12, 2009

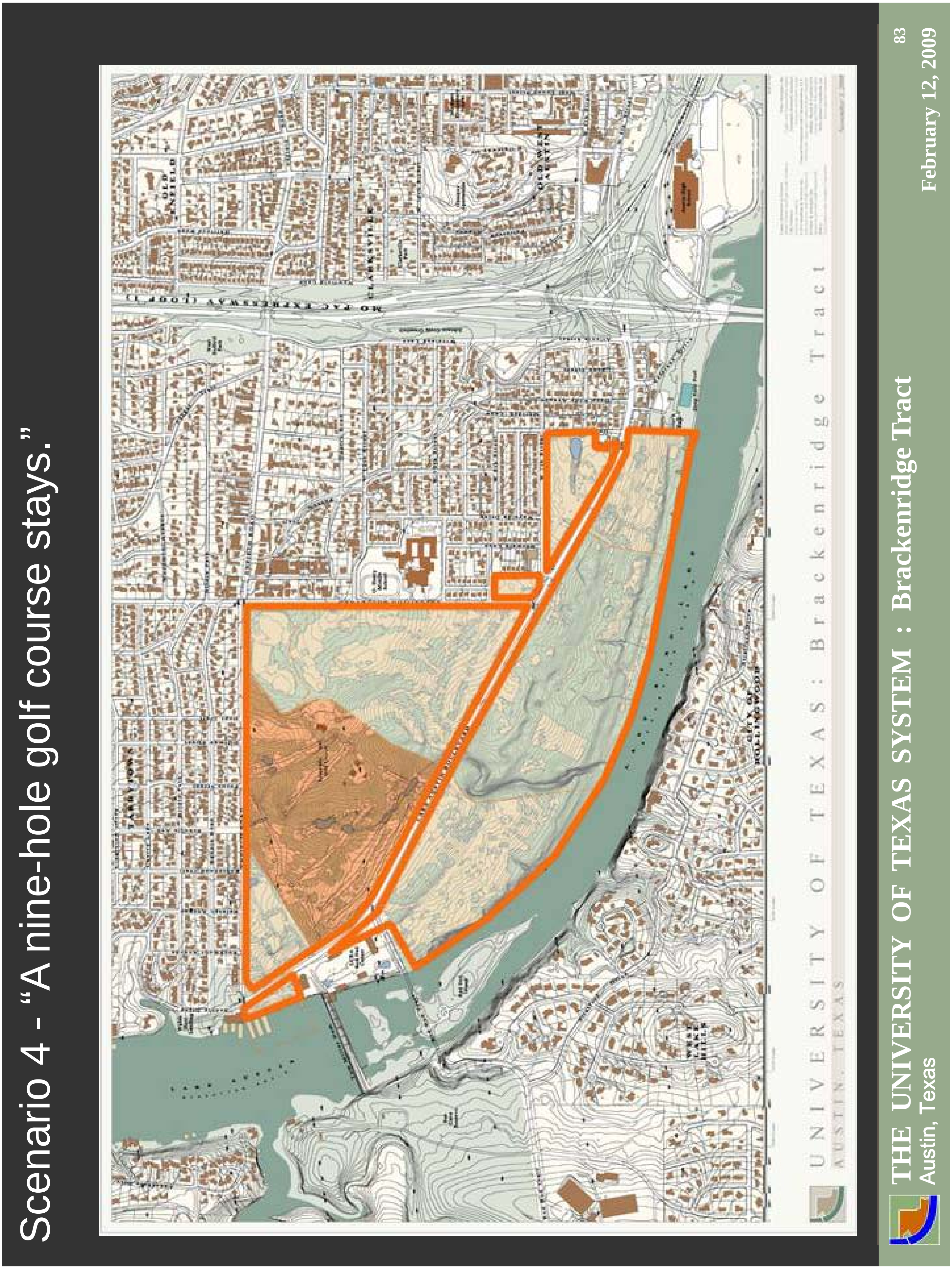
Scenario 3



- Use of open space as a place making strategy
- Development forms open space and funds open space
- Great Streets Program
- Extension of trail system
- Model for sustainability
- Protect neighborhood with compatible uses and traffic measures

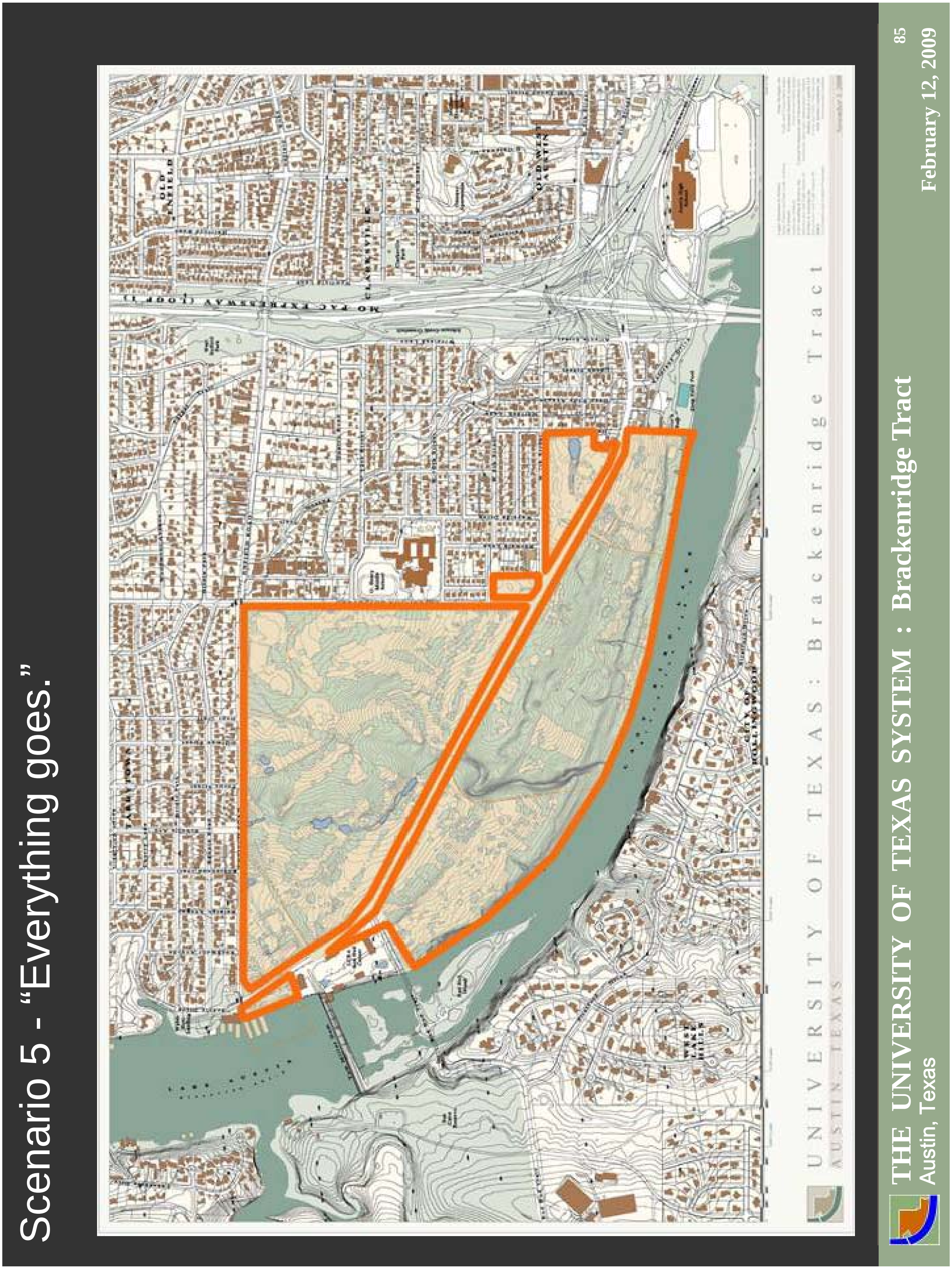
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

82
February 12, 2009


Scenario 4 - "A nine-hole golf course stays."
MO PAC EXPRESSWAY (LOOP 1)
OLD ENFIELD
CLARKSVILLE
OLD WEST AUSTIN
TARRYTOWN
CITY OF ROLLINGWOOD
WEST LAKE HILLS
UNIVERSITY OF TEXAS : Brackenridge Tract
AUSTIN, TEXAS
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas
February 12, 2009
83

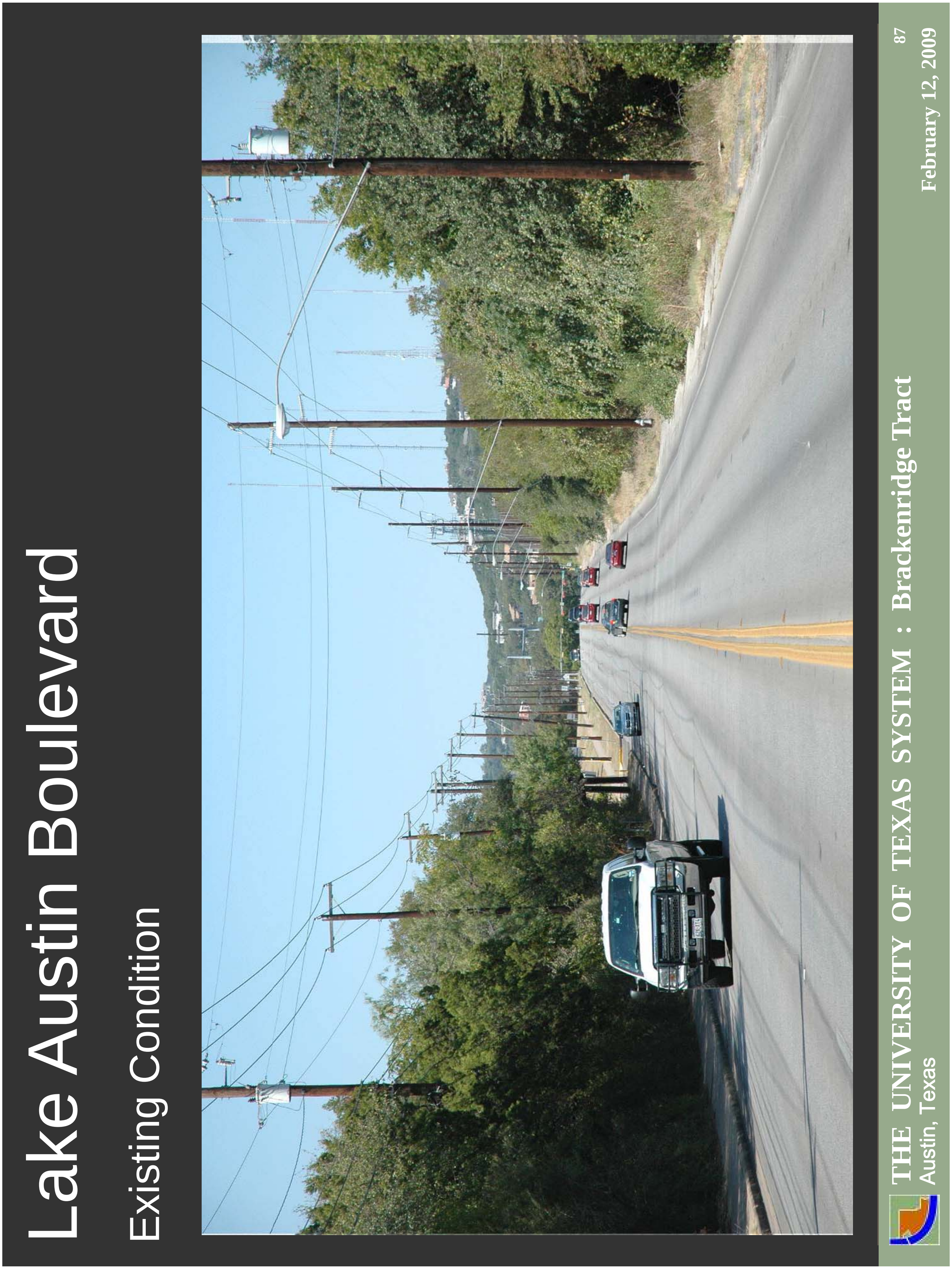
Scenario 4

- Tract as Austin's Central Park
- Extend Hike & Bike
- Lake Austin Boulevard as Scenic Drive
- Question: What economic drivers fund these improvements?


Scenario 5 - “Everything goes.”
UNIVERSITY OF TEXAS : Brackenridge Tract
AUSTIN, TEXAS
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas
85
February 12, 2009

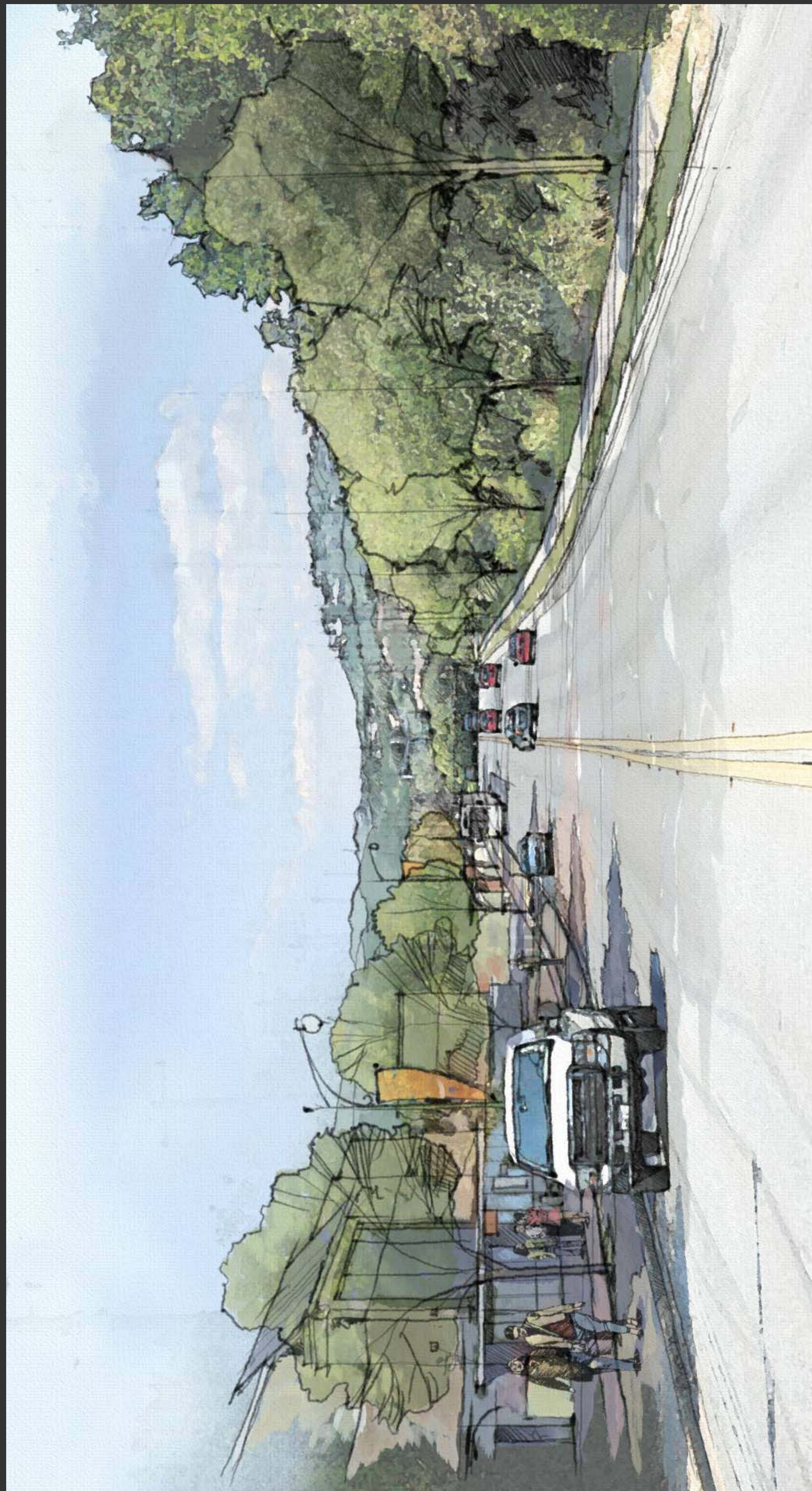
Scenario 5

- Collection of walkable neighborhoods
- Freely useable open space
- Range of uses
- Interconnected trail systems
- UT uses remain


Lake Austin Boulevard
Existing Condition
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas
87
February 12, 2009

Lake Austin Boulevard

Development along south side



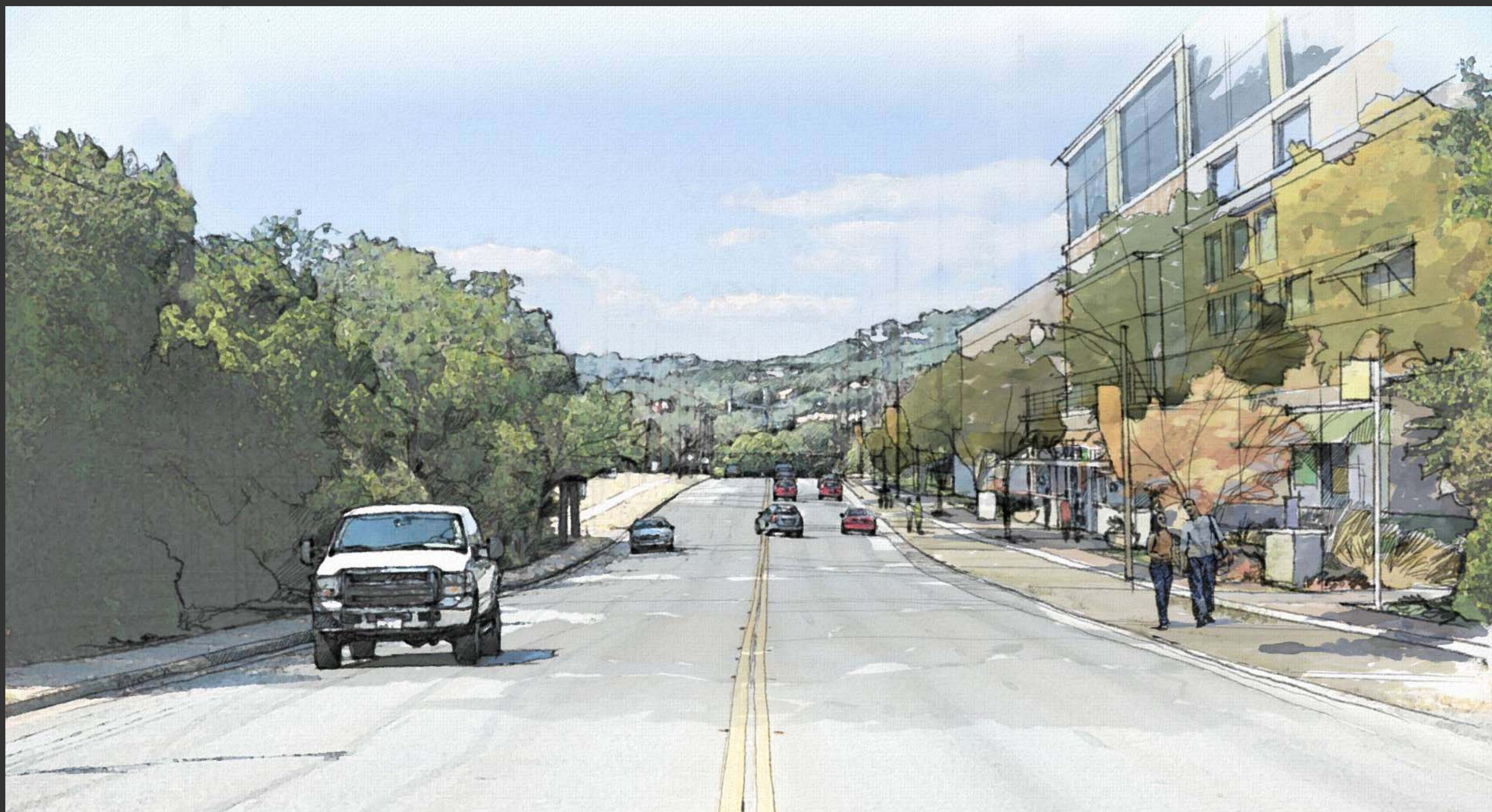
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

February 12, 2009

88

Lake Austin Boulevard

Development along north side



THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

89
February 12, 2009

Lake Austin Boulevard

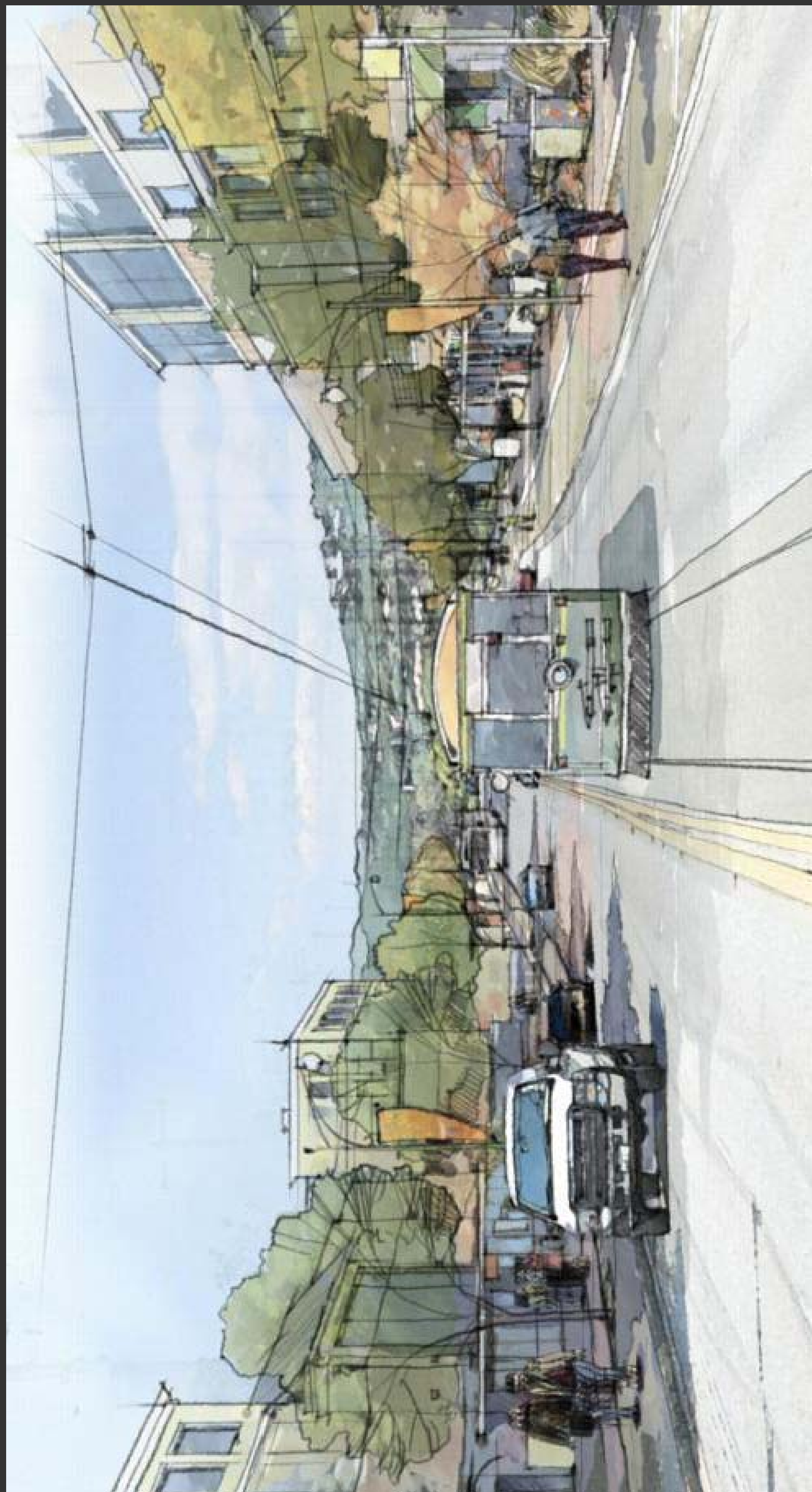
Development on both sides

THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

90
February 12, 2009

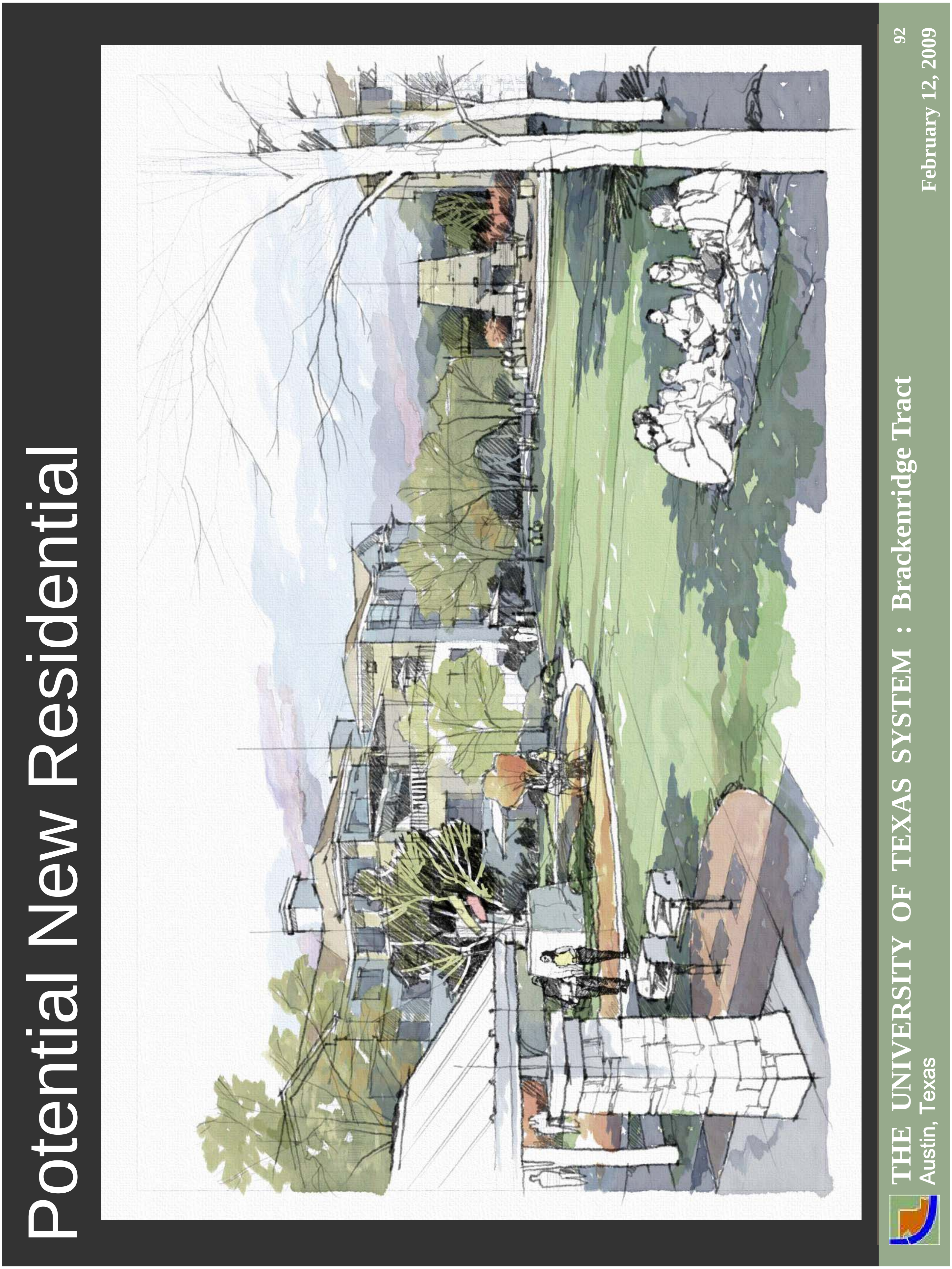
Lake Austin Boulevard

Development on both sides with transit

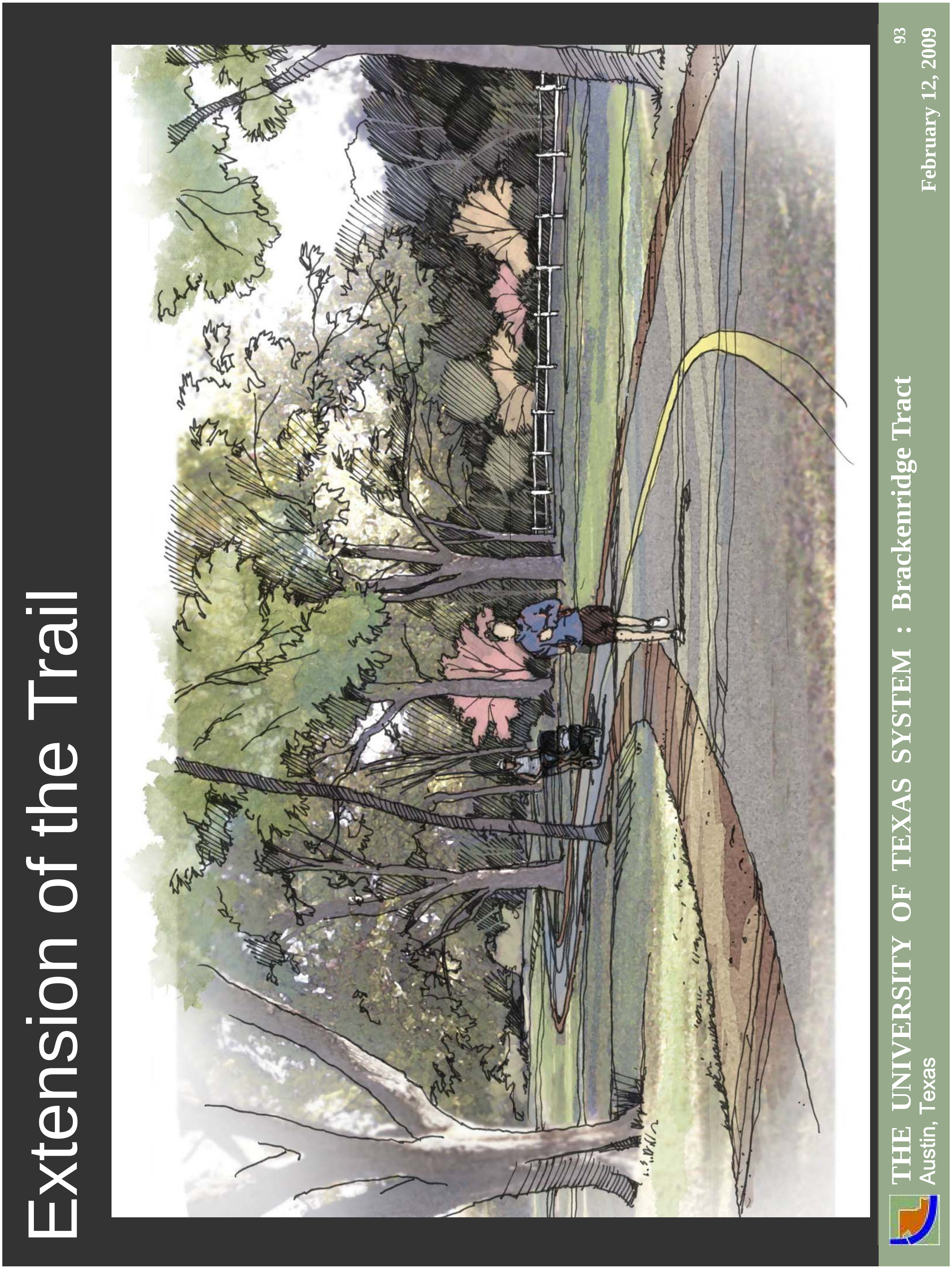


THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas

91
February 12, 2009


Potential New Residential
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas
92
February 12, 2009

2. U. T. System Board of Regents: Presentation by Cooper, Robertson & Partners, L. L. P., regarding the status of work on the master planning project for the Brackenridge Tract (cont.)



Post – Workshop Efforts

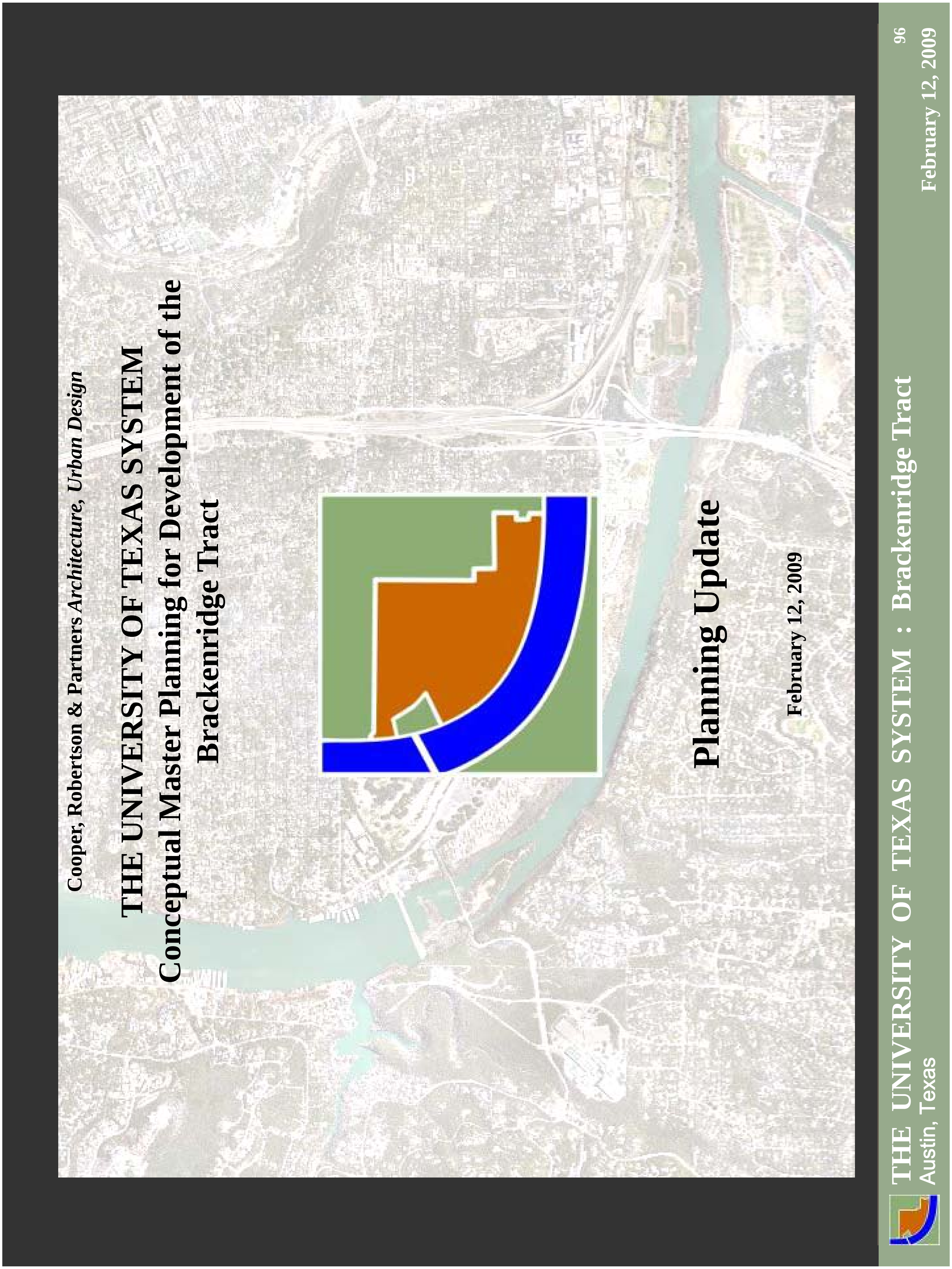
Complete Analysis Phase

1. Collaborative Planning Studies: Site and Plan Alternatives
    - Graduate Student Housing
    - Brackenridge Field Laboratory
2. Market Program
    - Near and Long-term Uses
    - Market Creation Strategies
    - Conceptual Development Options
    - Program Site Design Criteria
3. Traffic/ Transportation
    - Complete Data Analysis
    - Regional and City-wide Alternatives
    - Local Network Studies
4. Cost Estimating/Economic Analysis
    - Relocation and replacement costs for alternative studies
    - Potential major site and infrastructure costs
5. Documentation of Analysis Phase

Current Efforts

Conceptual plans

1. Identify potential planning concept directions
2. Develop draft framework alternatives
3. Test frameworks and evaluate for consistency with Draft Design Principles
4. Select Preferred Directions for further study
5. Public Follow-up Session (Spring 2009)
6. Develop Final Plans, Guidelines, Implementation Strategies
7. Document Conceptual Development Plans
8. Presentation and Evaluation of Final Plans (June 2009)


Cooper, Robertson & Partners *Architecture, Urban Design*
THE UNIVERSITY OF TEXAS SYSTEM
Conceptual Master Planning for Development of the Brackenridge Tract
Planning Update
February 12, 2009
THE UNIVERSITY OF TEXAS SYSTEM : Brackenridge Tract
Austin, Texas
96
February 12, 2009

U. T. System Development Assessment FY2008

THE UNIVERSITY of TEXAS SYSTEM

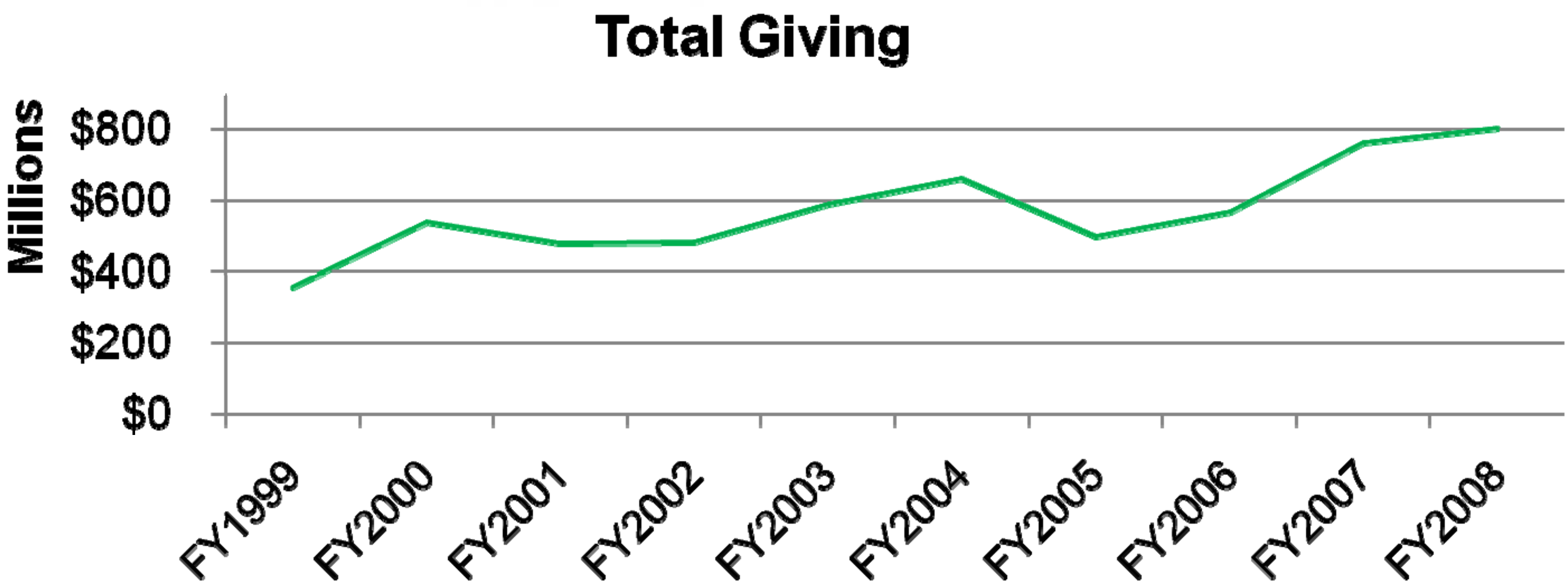
Nine Universities. Six Health Institutions. Unlimited Possibilities.

Board of Regents' Meeting

February 2009

The University of Texas System
Nine Universities. Six Health Institutions. Unlimited Possibilities.

Record-Breaking Year for U. T. Institutions $801.4M



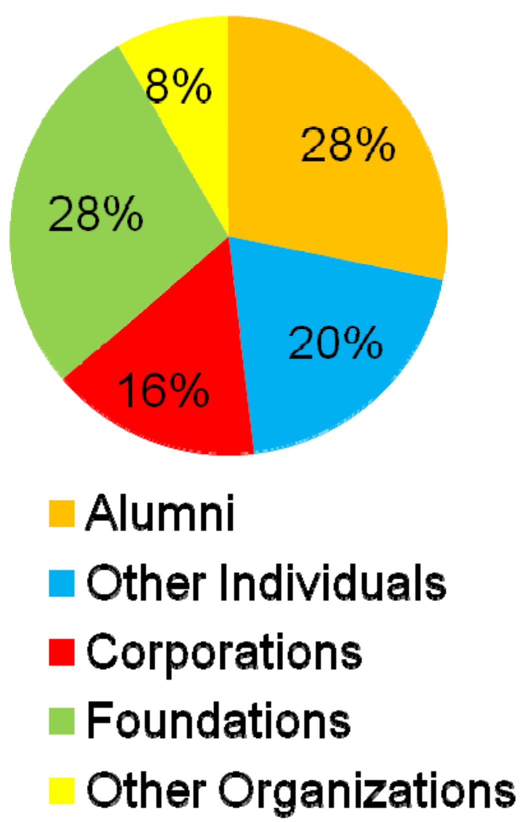
- Represents the second consecutive record-breaking year for philanthropy.
- Total giving is trending upward for the past 10 years.
- Over the past five years, philanthropy has generated $3.3 billion.
- U. T. System institutions received 2.8% of the $29 billion given nationally to higher education in FY2008.

2

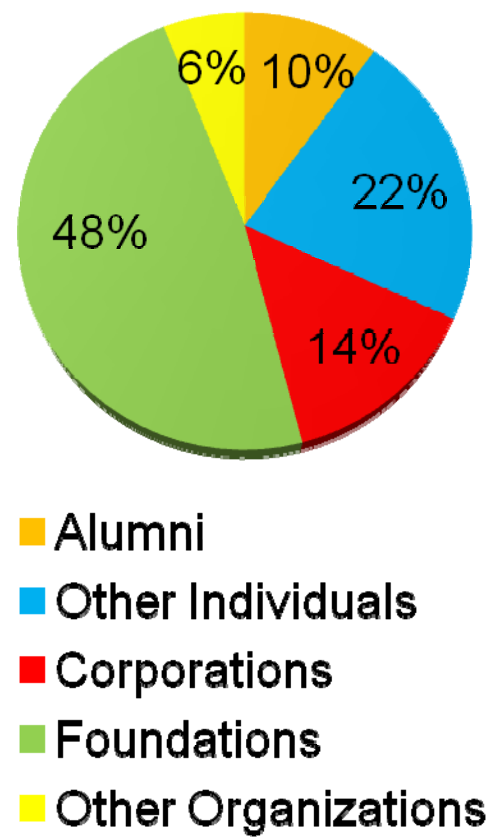
THE UNIVERSITY of TEXAS SYSTEM
Nine Universities. Six Health Institutions. Unlimited Possibilities.

Sources of Giving

All Higher Education



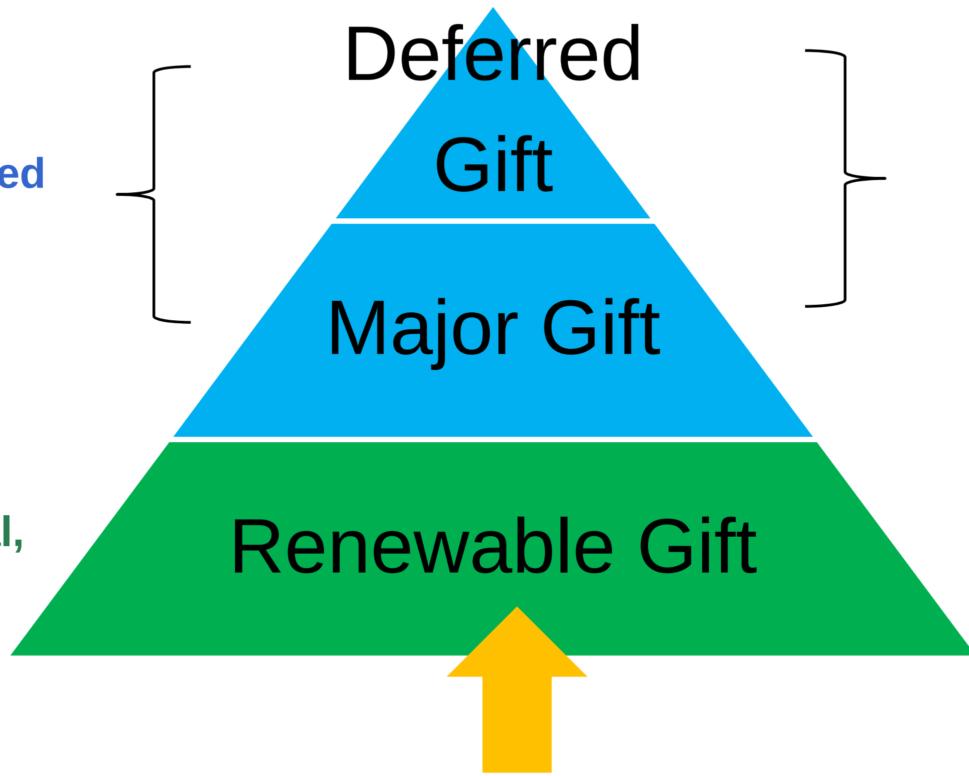
U. T. System Institutions



3

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

Balanced Fund-Raising Model



Amount Raised

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

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

Methods of Solicitation

Personal visits

- **Direct mail**
- **Phone programs**
- **Special events**

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

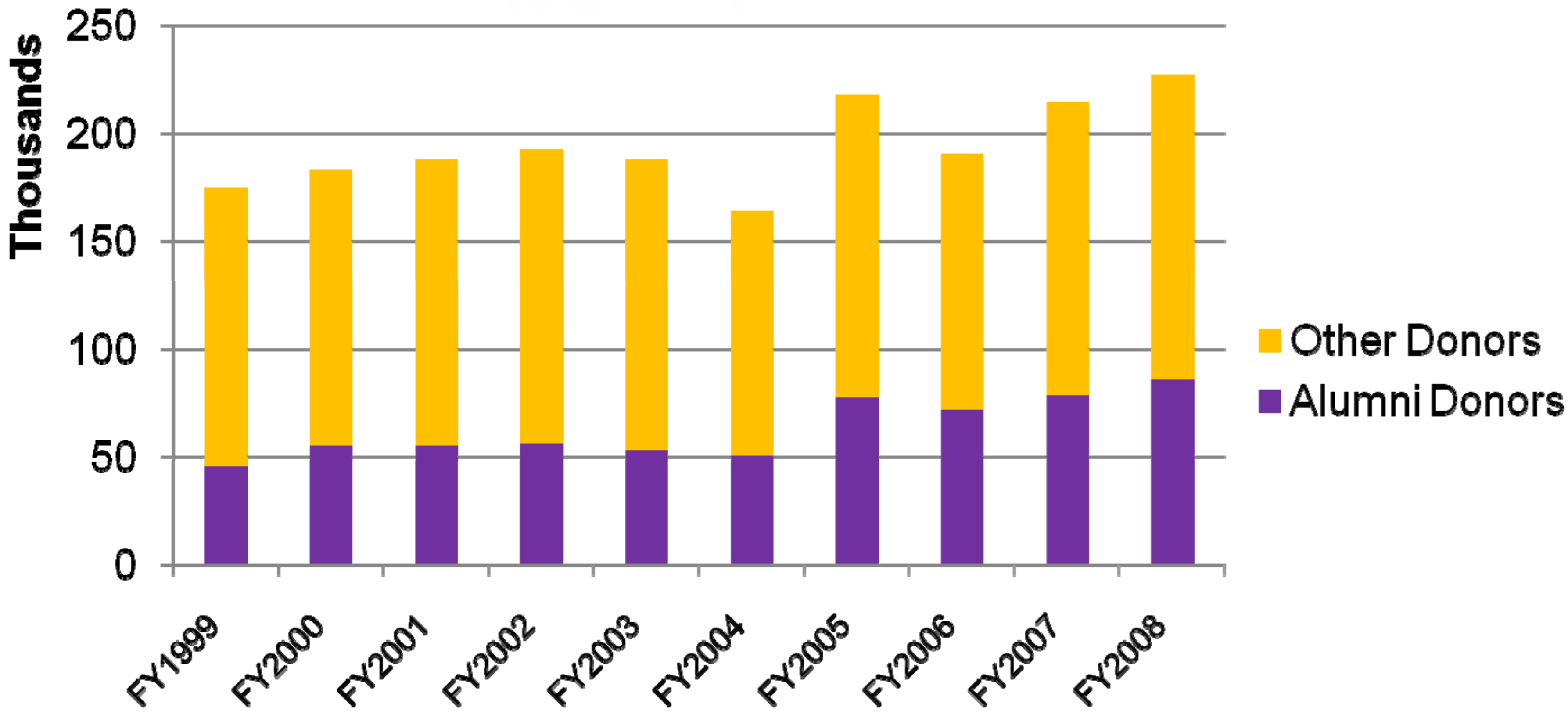
- A balanced program is desirable for sustainable philanthropic growth.
- Campaigns typically focus on major and planned gifts in a balanced program.

4

THE UNIVERSITY *of* TEXAS SYSTEM

Nine Universities. Six Health Institutions. Unlimited Possibilities.

Performance Indicator: Number of Donors



- A record number of donors (226,535) this year shows a growing donor base.
- Increasing the base of support is important for future philanthropy.
- Number of alumni donors accounted for 38% of all donors to the U. T. System in FY2008.
- Many others - parents, individuals, corporations, and foundations support U. T. System.

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

Performance Indicator: Alumni Participation and Alumni Giving

FY2008	Alumni Participation	Alumni giving as a % of Total Giving
UT Arlington	3.3%	10.7%
UT Austin	13.8%	24.0%
UT Brownsville	1.8%	3.3%
UT at Dallas	7.7%	2.7%
UT El Paso	5.1%	15.8%
UT Pan American	13.8%	6.0%
UT Permian Basin	5.8%	1.4%
UT San Antonio	5.7%	11.7%
UT Tyler	0.3%	0.3%
UTSWMC Dallas	8.0%	1.2%
UTMB	9.0%	5.3%
UTHSC – Houston	2.0%	5.0%
UTHSC – San Antonio	1.7%	0.3%
UTMDACC	N/A	N/A
UTHSC – Tyler	N/A	N/A

Improvement in Alumni Giving from FY2007

At or Above National Average for Classification

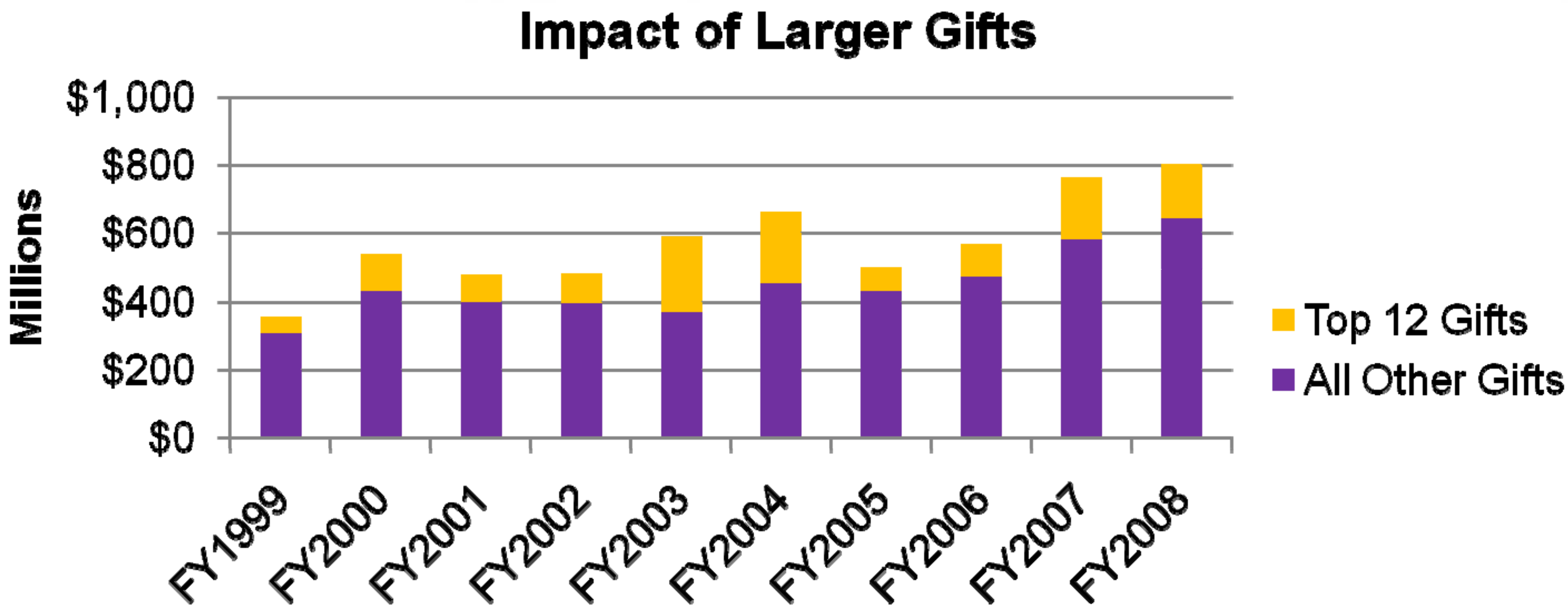
Carnegie Classification- Academic
AAMC Classification - Health

Below National Average for Classification

6

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

Performance Indicator: Large Gifts Make a Difference

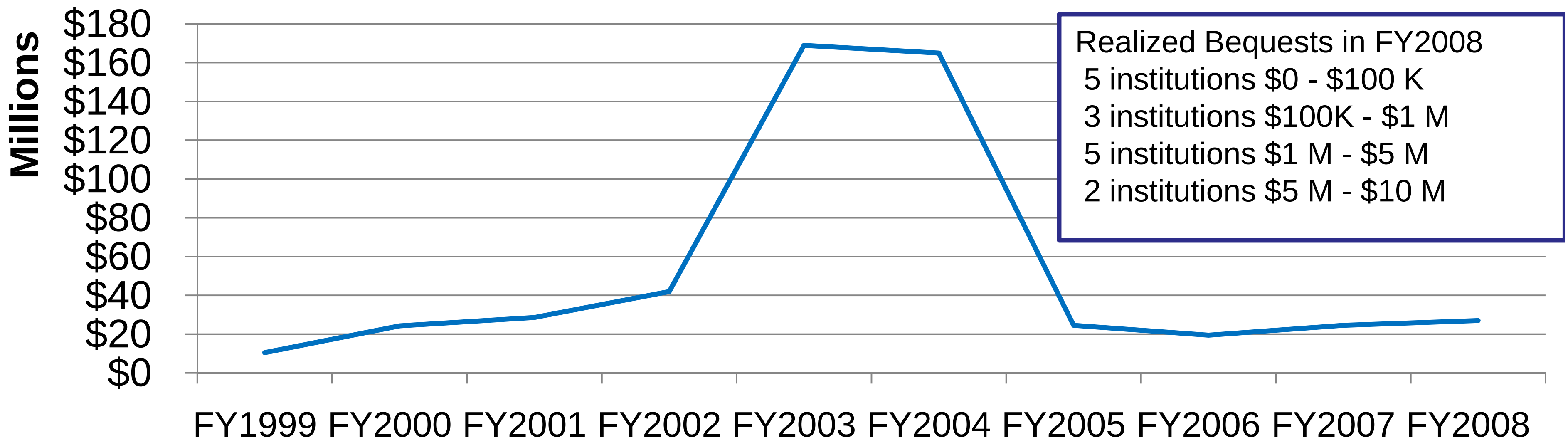


- Of the more than 226,535 gifts made last year to U. T. institutions, the top 12 gifts (3 largest gifts from individuals, foundations, corporations, and bequests) equaled 20% of Total Giving.
- The national five-year average for the top 12 gifts as a % of total giving from public research and public master institutions is 32.4% and 47.8% respectively.
- U. T. institutions received 53 gifts of $1 million+ in FY2008.

7

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

Performance Indicator: Realized Bequests



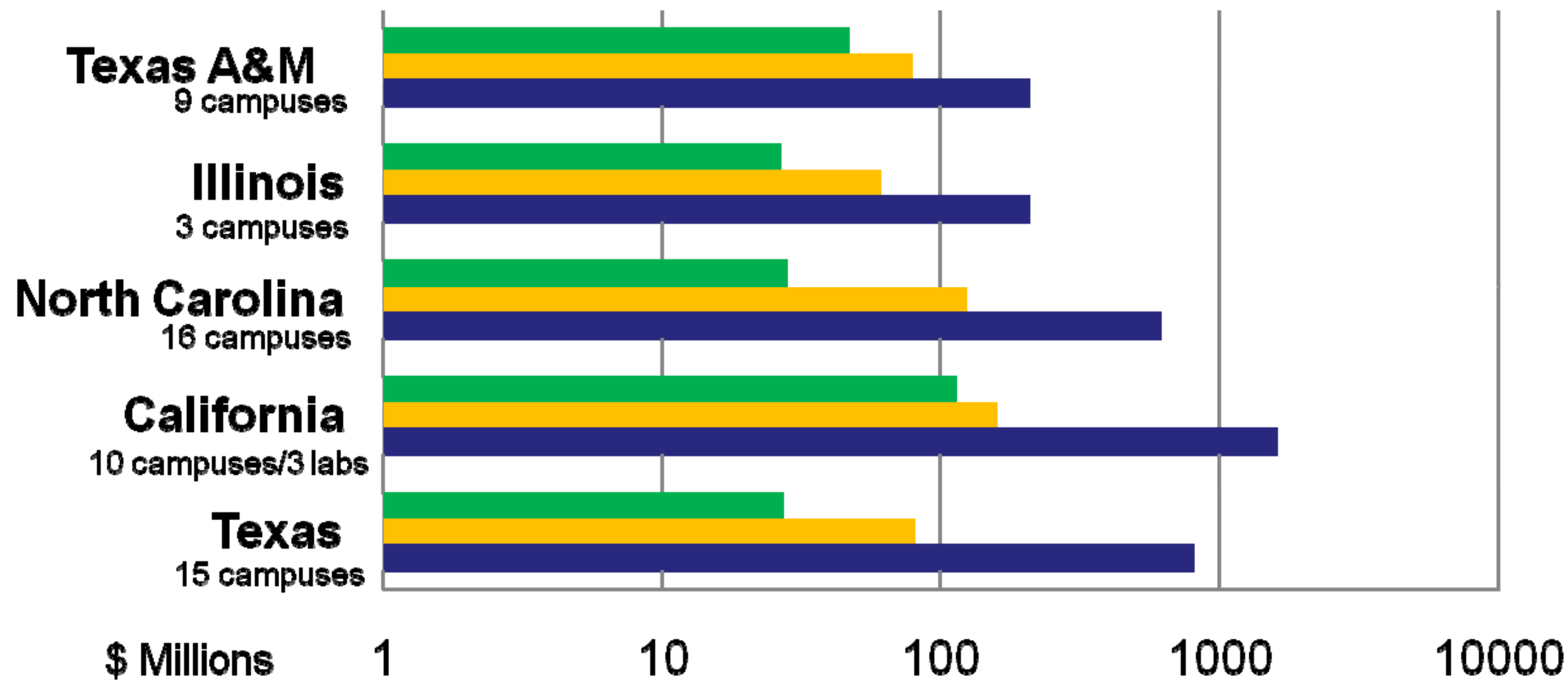
- Nationally for the past 20 years, realized bequests have averaged 18-25% of giving by individuals. In FY 2007 realized bequests represented 20% of personal giving.

- Realized bequests among U. T. System institutions represented 10.9% of giving by individuals in FY2008.

8

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

System Comparisons



	Texas	California	North Carolina	Illinois	Texas A&M
Realized Bequests	$27.0	$112.2	$27.9	$26.4	$46.4
Alumni Giving	$79.7	$156.6	$122.8	$60.4	$77.9
Total Giving	$801.4	$1,587.2	$610.1	$207.0	$206.4

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

Academic Institution Comparisons

Institutions	Total Giving (in millions)	Total Giving as a % of E&G Expenditures	Five Year Total Giving Avg. as a % of Peers' Five Year Total Giving Avg.
Arlington	$6.3	2.0%	16%
Austin	$282.9	17.1%	85%
Brownsville	$1.5	1.0%	27%
Dallas	$19.4	7.3%	55%
El Paso	$21.2	8.4%	57%
Pan American	$3.2	1.7%	45%
Permian Basin	$6.7	26.4%	58%
San Antonio	$11.2	3.4%	45%
Tyler	$7.8	10.7%	53%

Green shading indicates performance at or above Carnegie Classification for FY2008

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

Health Institution Comparisons

Institutions		Total Giving (in millions)	Total Giving as a % of E&G Expenditures	Five Year Total Giving Avg. as a % of Peers' Total Giving Avg.
UTMDACC	TH	$105.1	9.2%	96.6%
UTHSC - Tyler	JP	$2.2	6.0%	80.0%
UTHSC - Houston	JP	$33.6	4.4%	55.7%
UTHSC - San Antonio	MS	$119.8	13.4%	109.9%
UTMB	JP	$33.8	6.3%	72.0%
UTSWMC – Dallas	JP	$145.3	18.4%	129.0%

Green shade indicates performance above Carnegie Classification for FY 2008 and Association of American Medical Colleges Classification.
(Classification – Teaching Hospital, Medical School, Joint Program)

11

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

Philanthropic Observations

- **Programs**
  - Balanced fund-raising programs receiving renewable, major, and deferred gifts sustain philanthropic growth.
  - Deferred Giving and Gift Planning are valuable parts of a successful program.
  - Important to build a solid infrastructure that provides ongoing training.
- **Personnel**
  - Nationally, talent pool is thin in major gift and planned giving officers, and senior management.
  - Continuity of development staff important for improved donor relationships.
  - Good leadership makes a difference.

12

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

Current Economic Impact on Philanthropy

- The number of donors is likely to remain flat.
- Donors will seek more creative gift plans. Therefore gift planners who understand various gift vehicles will be required to assist donors.
- Important to tell your story effectively.
- More work required to secure gifts.
- Important to stay the course.

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

System Support for Institutional Fund Raising

- **Development Leadership and Training**
  - Training and Skill Building
    - Training Institute with curriculum to respond to institutional advancement needs.
    - Training for staff, deans, volunteers, and boards.
    - Specific prospect strategy with Presidents and Chief Development Officers.
    - Planned Giving (Gift Planning) training.
    - Organizing renewable giving and alumni programs.

14

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

System Support (cont.)

- Organization and Personnel
  - Campaign/ balanced fund-raising structure and strategy.
  - Customized assessments and recommendations for fund-raising programs and personnel.
  - Identify and vet CDO and senior level candidates.
  - Programs to attract qualified professionals through internships and boot camps for careers in development.
  - Encourage Systemwide retention opportunities and career paths.

15

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

System Support (cont.)

- **Strength in Numbers Grants**
  - Investments to strengthen development programs
    - Prospect research, alumni database, development professionals.

16

U. T. System Consolidated Annual Financial Report (AFR) Audit

Fiscal Year Ended August 31, 2008

Mr. Charles Chaffin
Chief Audit Executive
U. T. System Audit Office

The University of Texas System
Nine Universities. Six Health Institutions. Unlimited Possibilities.

U. T. System Board of Regents
Audit, Compliance, and Management Review Committee
February 2009

The University of Texas System
Nine Universities. Six Health Institutions. Unlimited Possibilities.

Background

- The internal audit of the FY 2008 U. T. System Consolidated AFR was performed for the benefit of management and as requested by the U. T. System Board of Regents as a result of their decision not to continue the independent financial statement audit of U. T. System by an external auditing firm.
- The internal audit was coordinated and directed by the U. T. System Audit Office.

1

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

Audit Objectives

- To determine whether the U. T. System Consolidated AFR and related footnotes for the fiscal year ended August 31, 2008, including the Balance Sheet, Statement of Revenue, Expenses & Changes in Net Assets, and Statement of Cash Flows, are accurately presented in all material respects.
- To determine whether each institution's financial information included in the consolidated AFR is materially accurate.

2

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

Audit Scope

- The scope of our work was determined as a result of a risk assessment and with reliance on the audit work performed at each institution and the U. T. System Administration, for which individual audit reports were issued.
- Key controls over financial reporting, including information technology controls and the financial certification process, were tested.

3

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

Audit Scope (continued)

- The U. T. M. D. Anderson Cancer Center AFR and the UTIMCO funds and corporation were audited by independent external auditors.
- Due to the disruption caused by Hurricane Ike, a review, instead of an audit, was conducted of the U. T. Medical Branch at Galveston AFR by the institution's internal audit.
- The remaining institutional and U. T. System Administration AFRs were audited by internal audit at the institutions and U. T. System Administration with a materiality level based upon the size of the institution.

4

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

Institutional AFR Audit Overall Results - Health

- Management has not established monitoring plans, including periodic inspections during the fiscal year, to ensure all departments have appropriate segregation of duties and are reconciling their accounts on a timely basis.
- There are insufficient information technology general controls over the feeder systems, which are used to populate the main financial system.

5

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

Institutional AFR Audit Overall Results - Academic

- Accounts not reconciled in a complete and timely manner.
- Inadequate monitoring by management throughout the fiscal year to ensure appropriate segregation of duties and timely reconciliation of accounts.
- Inconsistent procedures related to the level of personnel that complete the financial sub-certifications.
- Inaccurate/outdated listing of budget authorities used for financial sub-certification process.
- Inadequate segregation of duties among select users of the *DEFINE accounting system who have the ability to create and approve transactions.

6

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

Consolidated AFR Audit Results

- The U. T. System Consolidated AFR and related footnotes accurately presents, in all material respects, the financial position, results of operations and changes in net assets, and cash flows at August 31, 2008 and for the year then ended.
- No internal control deficiencies that were material or significant in nature were identified.

7

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

Audit Recommendation - Segregation of Duties & Reconciliation of Accounts

- There is a wide divergence in the practice of segregation of duties and reconciliation of accounts and in the application of account reconciliation risk mitigation strategies among the U. T. institutions.
  - **Recommendation:** Revise UTS 142.1, *Policy on the Annual Financial Report* to address the inconsistencies found in the institutions' practice and application of segregation of duties and reconciliation of accounts.

8

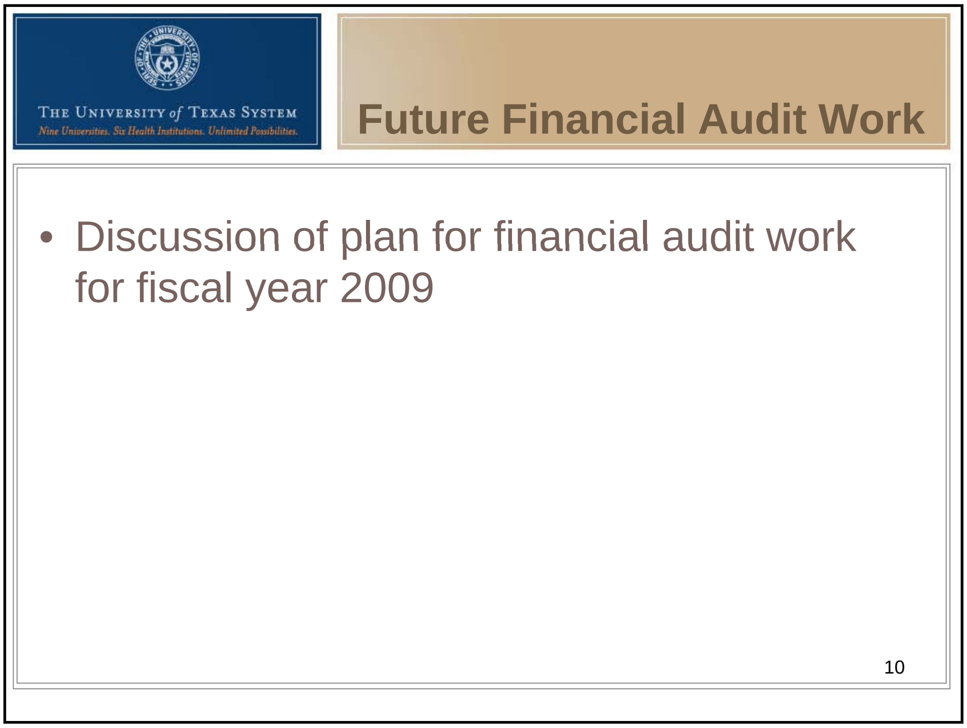
THE UNIVERSITY *of* TEXAS SYSTEM
Nine Universities. Six Health Institutions. Unlimited Possibilities.

Audit Recommendation – Access Control

- A select group of employees at U. T. institutions using the *DEFINE accounting system were identified to have high level access rights to the accounting system, which could allow the approval of fraudulent transactions without record of changes made to original documents by a person other than the creator.
  - **Recommendation:** Work with UT Austin to correct this segregation of duties issue.

9

6. U. T. System: Report on the U. T. System Consolidated Annual Financial Report Audit performed by institutional and System Administration Internal Audit (cont.)



Annual Financial Report Highlights Fiscal Year 2008

Randy Wallace
February 2009

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

Board of Regents' Meeting
Finance and Planning Committee

The University of Texas System
Nine Universities. Six Health Institutions. Unlimited Possibilities.

Objectives

- **Discuss Fiscal Year 2008 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**

The University of Texas System
Nine Universities. Six Health Institutions. Unlimited Possibilities.

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***

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

Financial Position FY 2008

- **Balance sheet still strong:**
  - Assets approaching $40 billion
  - Net Assets over $27 billion
  - Operating results declined
  - Cash position remained the same
- **The MD&A must provide an objective overview**
- **This year's financial position of the System declined as a result of the year's operations due to:**
  - Decreases in Investment Income
  - The recording of Other Post Employment Benefits (OPEB)

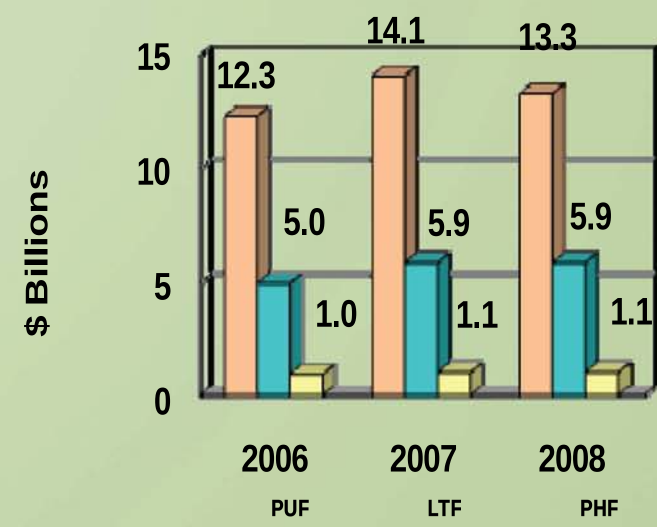
THE UNIVERSITY of TEXAS SYSTEM
Nine Universities. Six Health Institutions. Unlimited Possibilities.

Balance Sheet

The University of Texas System

($ in millions)		**2006**	**2007**	**2008**
Assets:				
Current Assets	$	5,783.4	6,205.6	5,260.7
Noncurrent Investments		22,249.7	25,865.3	25,127.9
Other Noncurrent Assets		225.8	226.8	281.9
Capital Assets, net		7,578.2	8,321.0	9,300.1
Total Assets	**$**	***35,837.1***	***40,618.7***	***39,970.6***
Liabilities:				
Current Liabilities	$	6,291.3	7,135.8	7,405.7
Noncurrent Liabilities		4,770.4	5,133.3	4,947.3
Total Liabilities		***11,061.7***	***12,269.1***	***12,353.0***
Net Assets:				
Invested in Capital Assets Net of Related Debt		3,807.1	4,061.5	4,492.6
Restricted		18,515.6	21,165.6	20,377.6
Unrestricted		2,452.7	3,122.5	2,747.4
Total Net Assets		***24,775.4***	***28,349.6***	***27,617.6***
Liabilities and Net Assets	**$**	***35,837.1***	***40,618.7***	***39,970.6***

Endowment Investments
FY 2006 - 2008



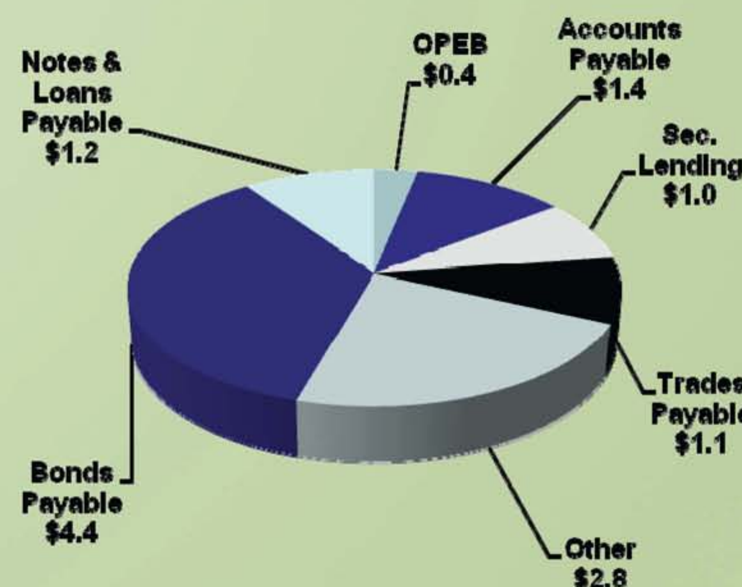
THE UNIVERSITY of TEXAS SYSTEM
Nine Universities. Six Health Institutions. Unlimited Possibilities.

Balance Sheet *(cont.)*

The University of Texas System

($ in millions)		2006	2007	2008
Assets:				
Current Assets	$	5,783.4	6,205.6	5,260.7
Noncurrent Investments		22,249.7	25,865.3	25,127.9
Other Noncurrent Assets		225.8	226.8	281.9
Capital Assets, net		7,578.2	8,321.0	9,300.1
Total Assets	$	***35,837.1***	***40,618.7***	***39,970.6***
Liabilities:				
Current Liabilities	$	6,291.3	7,135.8	7,405.7
Noncurrent Liabilities		4,770.4	5,133.3	4,947.3
Total Liabilities		***11,061.7***	***12,269.1***	***12,353.0***
Net Assets:				
Invested in Capital Assets Net of Related Debt		3,807.1	4,061.5	4,492.6
Restricted		18,515.6	21,165.6	20,377.6
Unrestricted		2,452.7	3,122.5	2,747.4
Total Net Assets		***24,775.4***	***28,349.6***	***27,617.6***
Liabilities and Net Assets	$	***35,837.1***	***40,618.7***	***39,970.6***

Liabilities - $12.3 billion
(in billions)

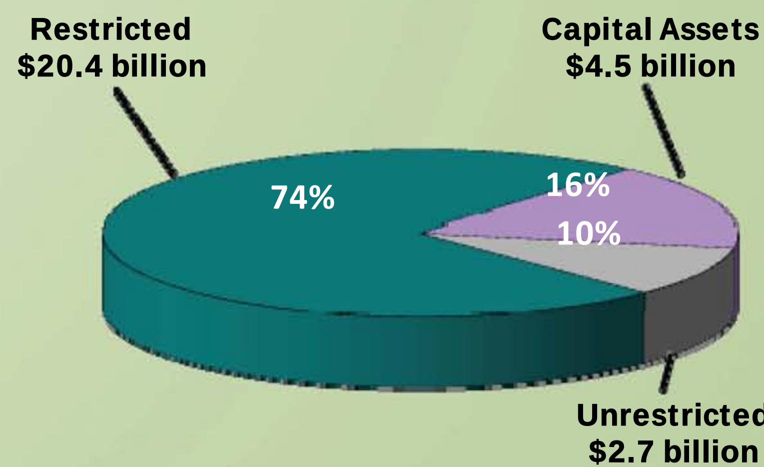


THE UNIVERSITY of TEXAS SYSTEM
Nine Universities. Six Health Institutions. Unlimited Possibilities.

Balance Sheet *(cont.)*

The University of Texas System				
($ in millions)		**2006**	**2007**	**2008**
Assets:				
Current Assets	$	5,783.4	6,205.6	5,260.7
Noncurrent Investments		22,249.7	25,865.3	25,127.9
Other Noncurrent Assets		225.8	226.8	281.9
Capital Assets, net		7,578.2	8,321.0	9,300.1
Total Assets	**$**	***35,837.1***	***40,618.7***	***39,970.6***
Liabilities:				
Current Liabilities	$	6,291.3	7,135.8	7,405.7
Noncurrent Liabilities		4,770.4	5,133.3	4,947.3
Total Liabilities		***11,061.7***	***12,269.1***	***12,353.0***
Net Assets:				
Invested in Capital Assets Net of Related Debt		3,807.1	4,061.5	4,492.6
Restricted		18,515.6	21,165.6	20,377.6
Unrestricted		2,452.7	3,122.5	2,747.4
Total Net Assets		***24,775.4***	***28,349.6***	***27,617.6***
Liabilities and Net Assets	**$**	***35,837.1***	***40,618.7***	***39,970.6***

Net Assets - $27.6 billion



THE UNIVERSITY of TEXAS SYSTEM

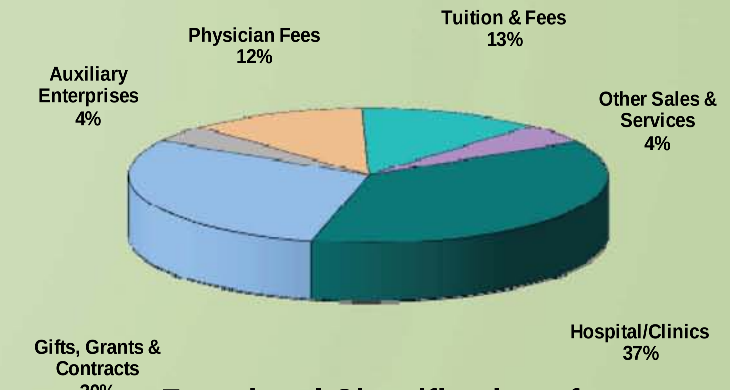
Nine Universities. Six Health Institutions. Unlimited Possibilities.

Statement of Revenues, Expenses, and Changes in Net Assets

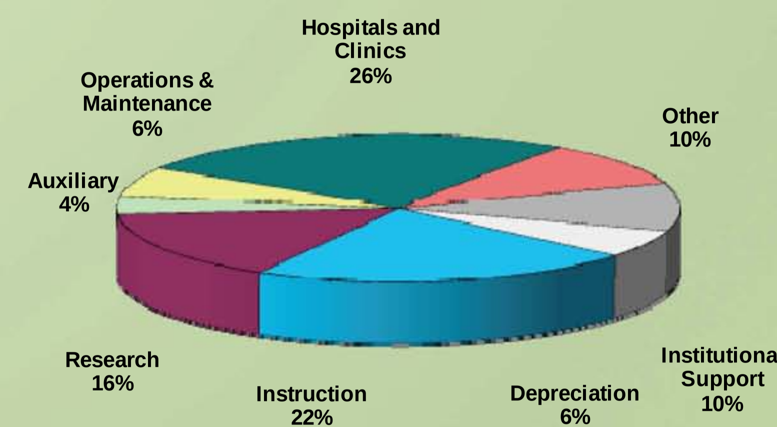
The University of Texas System

($ in millions)		2006	2007	2008
Operating Revenues	$	7,021.6	7,773.9	8,163.3
Operating Expenses		(9,221.9)	(9,779.3)	(11,015.7)
Operating Loss		***(2,200.3)***	***(2,005.4)***	***(2,852.4)***
State Appropriations		1,735.8	1,760.7	1,956.7
Gift Contributions		254.8	284.5	368.8
Net Investment Income		1,601.9	1,833.7	1,648.3
Net Incr./Dec. in Fair Val. Investmt.		703.2	1,628.8	(1,880.6)
Interest Expense		(170.5)	(158.0)	(161.7)
Other Nonop. Rev. (Exp.)		(30.0)	(3.4)	(28.9)
Income (Loss) Before Other Rev. Exp. Gains/(Losses) & Transfers		**1,894.9**	***3,340.9***	**(949.8)**
HEAF/Gifts for Endow.& Capital		261.2	353.9	355.8
Transfers and Other		(245.6)	(120.6)	(138.0)
Change in Net Assets		***1,910.5***	***3,574.2***	***732.0***
Net Assets, Beginning		22,864.9	24,775.4	28,349.6
Net Assets, Ending	***$***	***24,775.4***	***28,349.6***	***27,617.6***

Operating Revenues - $8.2 billion



Functional Classification of Operating Expenses - $11.0 billion



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

Other Postemployment Benefits (OPEB)

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*
  - Became effective for System in 2008
  - Requires the System to measure and disclose the estimated cost of providing medical and dental coverage to its employees and its retirees now and in the future
  - The unfunded actuarial accrued liability was $5 billion as of August 31, 2008
  - The System is allowed to accrue liability and bring it onto books over a 30-year period so the reduction to income does not occur all in one year
  - In 2008, the System recorded net OPEB expense and liability of $422.7 million which resulted in a direct reduction of $422.7 million in Net Assets

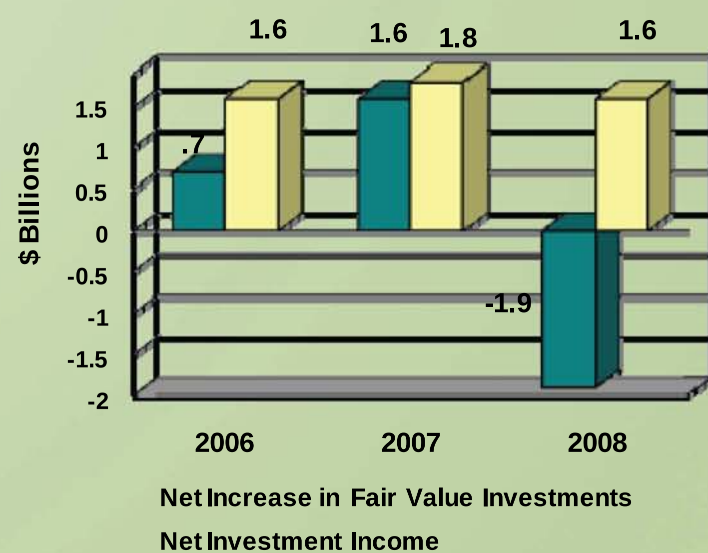
The University of Texas System
Nine Universities. Six Health Institutions. Unlimited Possibilities.

Statement of Revenues, Expenses, and Changes in Net Assets (cont.)

The University of Texas System

($ in millions)		2006	2007	2008
Operating Revenues	$	7,021.6	7,773.9	8,163.3
Operating Expenses		(9,221.9)	(9,779.3)	(11,015.7)
Operating Loss		***(2,200.3)***	***(2,005.4)***	***(2,852.4)***
State Appropriations		1,735.8	1,760.7	1,956.7
Gift Contributions		254.8	284.5	368.8
Net Investment Income		1,601.9	1,833.7	1,648.3
Net Incr./Dec. in Fair Val. Investmt.		703.2	1,628.8	(1,880.6)
Interest Expense		(170.5)	(158.0)	(161.7)
Other Nonop. Rev. (Exp.)		(30.0)	(3.4)	(28.9)
Income (Loss) Before Other Rev. Exp. Gains/(Losses) & Transfers		**1,894.9**	***3,340.9***	**(949.8)**
HEAF/Gifts for Endow.& Capital		261.2	353.9	355.8
Transfers and Other		(245.6)	(120.6)	(138.0)
Change in Net Assets		***1,910.5***	***3,574.2***	***732.0***
Net Assets, Beginning		22,864.9	24,775.4	28,349.6
Net Assets, Ending	***$***	***24,775.4***	***28,349.6***	***27,617.6***

Investment Income
FY 2006 - 2008



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

PUF Lands

- Fair Value of PUF Lands is based on a third party reserve study of proved reserves
- Probable and possible reserves of oil and gas are not included in FV estimate
- PUF Lands' surface interests reported at appraised value
- Other real estate holdings are reported by:
  - Latest available appraised amount by State certified or licensed appraiser, or
  - Any other generally accepted industry standard

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

Statement of Revenues, Expenses, and Changes in Net Assets

Operating Results
FY 2006 - 2008

		2006	**2007**	**2008**
			($ in millions)	
Income (loss) before other revenue, expenses gains/(losses) & transfers	$	1,894.9	3,340.9	(949.8)
Add back nonoperating items:				
Change in fair value of investments		(703.2)	(1,628.8)	1,880.6
Loss on sale of capital assets		24.7	12.3	25.3
Other nonoperating		5.3	(8.9)	3.6
Deduct realized gains on investments		(893.3)	(1,026.9)	(695.5)
Net operating results	$	328.4	688.6	264.2

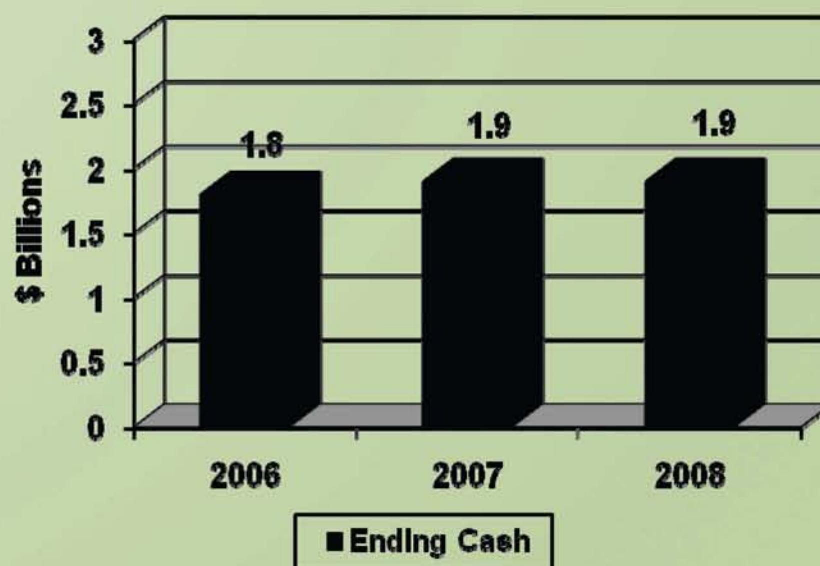
THE UNIVERSITY of TEXAS SYSTEM
Nine Universities. Six Health Institutions. Unlimited Possibilities.

Cash Flows

The University of Texas System

($ in millions)		**2006**	**2007**	**2008**
Cash Flows:				
Cash received from operations	$	7,227.3	7,855.8	8,237.9
Cash expended for operations		(8,786.2)	(9,235.5)	(9,940.5)
Cash used for operating activities		***(1,558.9)***	***(1,379.7)***	***(1,702.6)***
Cash provided by noncapital financing activities		2,108.2	2,137.3	2,067.3
Cash used in capital & related financing activities		(553.7)	(833.6)	(758.0)
Cash provided by/(used in) investing activities		(965.1)	184.6	456.0
Net increase (decrease) in cash & cash equivalents		***(969.5)***	***108.6***	***62.7***
Cash & cash equivalents, Beginning of the year		2,742.5	1,773.0	1,881.6
Cash & Cash equivalents, End of the year	***$***	***1,773.0***	***1,881.6***	***1,944.3***

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



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

Looking Forward to FY 2009

- The System has been negatively impacted by extremely volatile financial markets
- The System continues to maintain its "triple A" rating
- Hurricane Ike has negatively impacted U. T. Medical Branch - Galveston
- OPEB will continue to place a strain on net assets

14

The University of Texas System
Nine Universities. Six Health Institutions. Unlimited Possibilities.

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

November 20, 2008

Dr. Kenneth I. Shine
Chancellor *ad interim*
and Executive Vice Chancellor for Health Affairs
The University of Texas System
Austin, Texas

Dear Dr. Shine:

Submitted herein are the combined primary financial statements of The University of Texas System for the fiscal year ended August 31, 2008. Also presented are the primary financial statements of System Administration and the institutions of The University of Texas System for the same period.

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

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

Respectfully Submitted,

Debbie L. Frederick

Debbie L. Frederick, CPA
Financial Reports and
Investment Accounting Manager

Approved:

Randy Wallace
Associate Vice Chancellor -
Controller and Chief Budget Officer

DLF/kad

Enclosure

THE UNIVERSITY OF TEXAS SYSTEM
BOARD OF REGENTS
As of August 31, 2008

Officers

H. Scott Caven, Jr., Chairman
James R. Huffines, Vice Chairman
Robert B. Rowling, Vice Chairman
Francie A. Frederick, General Counsel to the Board of Regents

Members

*Terms scheduled to expire February 1, 2009**	
John W. Barnhill, Jr.	Brenham
H. Scott Caven, Jr.	Houston
James R. Huffines	Austin
*Terms scheduled to expire February 1, 2011**	
Janiece Longoria	Houston
Colleen McHugh	Corpus Christi
Robert B. Rowling	Dallas
*Terms scheduled to expire February 1, 2013**	
James D. Dannenbaum	Houston
Paul Foster	El Paso
Printice L. Gary	Dallas
*Term scheduled to expire May 31, 2009**	
Benjamin L. Dower (Student Regent)	University of Texas at Dallas

*Each Regent's term expires when a successor has been appointed, qualified, and taken the oath of office. The Student Regent serves a one-year term.

THE UNIVERSITY OF TEXAS SYSTEM
SENIOR ADMINISTRATIVE OFFICIALS
As of August 31, 2008

****

Kenneth I. Shine, M.D., Chancellor *ad interim* and Executive Vice Chancellor for Health Affairs

Scott C. Kelley, Executive Vice Chancellor for Business Affairs

David B. Prior, Executive Vice Chancellor for Academic Affairs

Tonya Moten Brown, Vice Chancellor for Administration

Barry D. Burgdorf, Vice Chancellor and General Counsel

Geri H. Malandra, Vice Chancellor for Strategic Management

Barry McBee, Vice Chancellor for Governmental Relations

Keith McDowell, Vice Chancellor for Research and Technology Transfer

Randa S. Safady, Vice Chancellor for External Relations

William H. Shute, Vice Chancellor for Federal Relations

Bruce E. Zimmerman, Chief Executive Officer and Chief Investment Officer-UTIMCO

Cathy Iberg, President & Deputy CIO & Managing Director of Marketable Investments-UTIMCO

****

THE UNIVERSITY OF TEXAS SYSTEM
Management's Discussion and Analysis
For the Year Ended August 31, 2008
(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, and Health Science Centers at Houston, San Antonio and Tyler.

The System's fifteen institutions are, collectively, one of the nation's largest educational enterprises. They provide instruction and learning opportunities to over 194,000 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, 2008, with selected comparative information for the years ended August 31, 2007 and 2006. 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 2007, the System's enrollment increased 1.7% to 194,199 students. Although small, the System's growth rate is greater than the statewide trend for public universities and health institutions where, overall, enrollments increased 1.3%. The System's academic institutions enroll 39.1% of the State's public college students, and the System's health-related institutions enroll 69% of the students attending the State's public health institutions. Net tuition and fees increased $55.7 million in 2008, or 5.8%, as a result of tuition and fee increases and a 0.8% increase in student semester credit hours at the academic institutions.

- In March 2006, the System's Board of Regents approved additional tuition and fee increases for 2007 and 2008 for the nine academic institutions. The plans approved by the System's Board of Regents include setting aside the statutorily required portion of at least 20% of new tuition revenues for financial aid programs, as well as a variety of ways that students can take advantage of special discounts in tuition rates. The approved plans also include pricing incentives to encourage students to graduate on time by taking more semester credit hours in each term they are enrolled. On December 6, 2007, the Board of Regents adopted a resolution to limit tuition and fee increases to a maximum of 4.95%, or $150 per semester, whichever is greater, for each of academic years 2008-2009 and 2009-2010.

- Net patient care revenues increased $223.4 million in 2008, or 5.9%, as a result of an increase in patient volumes and higher rates.

- Net investment income, excluding the change in fair value of investments, totaled $1.6 billion in 2008, which decreased from $1.8 billion in 2007. The net decrease in fair value of investments was $1.9 billion in 2008, as compared to a $1.6 billion increase in 2007. These unrealized losses were the largest contributor to the total decrease in net assets of $732 million during 2008.

- Investments in capital asset additions were $1.7 billion in 2008, of which $1.1 billion consisted of new projects under construction. Major capital projects completed in 2008 include:

  - The Galveston National Laboratory at UTMB Galveston, $136.6 million;
  - the AT&T Executive Education & Conference Center at UT Austin, $116 million;
  - the Faculty Center, Phase II at UT M.D. Anderson, $108.4 million;
  - the Replacement Research Facility at UT Health Science Center at Houston, $68.4 million;
  - the Biomedical Engineering Building at UT Austin, $55 million;
  - the Basic Research and Education Building at UT M. D. Anderson, $40.6 million;
  - and the Maverick Activities Center at UT Arlington, $31.5 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, 2008, 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, 2008, 2007 and 2006 follows:

		2008	2007	2006
Assets:			($ in millions)	
Current assets	$	5,260.7	6,205.6	5,783.4
Noncurrent investments		25,127.9	25,865.3	22,249.7
Other noncurrent assets		281.9	226.8	225.8
Capital assets, net		9,300.1	8,321.0	7,578.2
Total assets		39,970.6	40,618.7	35,837.1
Liabilities:				
Current liabilities		7,405.7	7,135.8	6,291.3
Noncurrent liabilities		4,947.3	5,133.3	4,770.4
Total liabilities		12,353.0	12,269.1	11,061.7
Net assets:				
Invested in capital assets, net of related debt		4,492.6	4,061.5	3,807.1
Restricted		20,377.6	21,165.6	18,515.6
Unrestricted		2,747.4	3,122.5	2,452.7
Net assets		27,617.6	28,349.6	24,775.4
Liabilities and net assets	$	39,970.6	40,618.7	35,837.1

Assets decreased $648.1 million in 2008, primarily due to financial market conditions resulting in significant unrealized losses in the System's investments. Liabilities increased $83.9 million, due to new debt issuances used to fund construction and renovation of facilities offset by a decrease in payables for investment securities purchased at the end of the fiscal year.

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 $944.9 million in 2008. Collateral for securities out on loan under the securities lending program account for $582.1 million of the decrease.

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 $269.9 million in 2008.

Noncurrent Investments
Noncurrent investments include permanent endowments, funds functioning as endowments, life income funds and other investments. These assets decreased by $737.4 million in 2008 due to decreases in the fair value of investments.

Capital Assets and Liabilities

Capital Assets
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 $8.8 billion capital improvement program, 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 $1.7 billion in 2008, of which $1.1 billion 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 and Notes Payable
Bonds payable relating to financing of current and prior years' construction needs were the largest portion of the System's liabilities and totaled $4.4 billion and $3.9 billion at August 31, 2008 and 2007, respectively. All bonds continue to reflect the highest uninsured "Aaa" and "AAA" credit ratings from the three major bond-rating agencies. During 2008, the System issued par value of $1.0 billion of new bonds of which $461.9 million was used to current refund Revenue Financing System (RFS) commercial paper notes and $34.7 million was used to current refund outstanding RFS bonds. Additionally, $3.8 million of RFS bonds were optionally redeemed and $318.9 million of RFS bonds were advance refunded and legally defeased.

Notes and loans payable increased due in part to a $300 million increase in outstanding Permanent University Fund (PUF) flexible rate notes. RFS commercial paper notes outstanding increased by $43.5 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 long-term debt to provide permanent 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 $984.3 million and $1.6 billion for 2008 and 2007, respectively, and payables related to investment trades of $1.1 billion and $1.8 billion for the same two periods.

Other Postemployment Benefits Liability
Due to the implementation of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension*s (OPEB) in 2008, the System reported $422.7 million for the net OPEB obligation liability. GASB 45 requires accrual-based measurement and recognition of OPEB expenses, such as retiree medical and dental costs, over the employees' years of service, along with the related liability. Pursuant to GASB 45, the System has accrued the liability and is recognizing it over a 30 year period so that the

increase in the liabilities does not occur all in one year. The System is not required to fund the OPEB liability; instead, the difference between the OPEB cost and the System's contributions to the plan will increase the unfunded actuarial accrued liability. For the year ending August 31, 2008, the System's annual required contribution and annual OPEB cost were $522.6 million. Because the net OPEB obligation at the beginning of the fiscal year is zero, the annual OPEB cost is equal to the annual required contribution in the year of implementation. Employer contributions for 2008 were $99.9 million, resulting in a net OPEB obligation of $422.7 million. The System's total unfunded actuarial accrued liability was $5 billion as of August 31, 2008. For additional information concerning the OPEB liability, see Note 7 to the consolidated financial statements.

Net Assets

Net assets represent the residual interest in the System's assets after liabilities are deducted. The following table summarizes the composition of net assets at August 31, 2008, 2007 and 2006:

		2008	2007	2006
Net assets:			($ in millions)	
Invested in capital assets, net of related debt	$	4,492.6	4,061.5	3,807.1
Restricted:				
Nonexpendable		10,186.3	9,772.9	9,159.6
Expendable		10,191.3	11,392.7	9,356.0
Total restricted		20,377.6	21,165.6	18,515.6
Unrestricted		2,747.4	3,122.5	2,452.7
Total net assets	$	27,617.6	28,349.6	24,775.4

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 $431.1 million increase in capital assets, net of related debt, in 2008 resulted from a net change in capital assets of $1.6 billion offset by an increase in related debt of $544.9 million and an increase in accumulated depreciation of $575.9 million. As stated previously under Financial Highlights, net assets decreased by $732 million in 2008.

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, 2008 and 2007, restricted nonexpendable net assets include $6.6 billion and $6.4 billion, respectively, of the PUF corpus, $820 million for both years of the PHF corpus, and $2.8 billion and $2.6 billion, respectively, of other endowments' corpus. As of August 31, 2008 and 2007, restricted expendable net assets include $6.1 billion and $6.9 billion, respectively, of the PUF appreciation, $205.7 million and $280.1 million, respectively, of the PHF appreciation, and $2.1 billion and $2.4 billion, respectively, of other endowments' appreciation.

PUF appreciation consists of the market value of all investments in excess of the corpus, which is made up of all oil and gas revenue and future reserves. Although appreciation related to the PUF is included in the restricted, expendable line item, it should be noted that the Texas Constitution provides that the UT System Board of Regents shall determine the amount of distributions to the Available University Fund (AUF), in an amount not to exceed 7% of the average net fair value of investment assets, except as necessary to pay debt service on PUF bonds and notes. Additionally, the UT System Board of Regents must determine 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 the Texas Constitution as discussed further in Note 4 to the consolidated financial statements.

Restricted nonexpendable net assets increased by $413.4 million to $10.2 billion in 2008, resulting from new gifts and the increase in the corpus of the PUF. Restricted expendable net assets of $10.2 billion primarily include appreciation on endowment funds of $8.4 billion, restricted contract and grant and loan funds of $1.4 billion, funds restricted to support cancer treatment and programs that benefit public health of $102.7 million, debt service of $11.2 million, and $232.8 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 $287.2 million.

2007 Highlights - Balance Sheet

In 2007 total assets increased $4.8 billion over 2006 primarily due to financial market conditions, which resulted in gains in the System's investments, and capital asset additions. Noncurrent investments increased by $3.6 billion as a result of increases in the fair values of these investments, higher investment income and additional gifts received for endowments. In 2007 System's capital assets, net of related debt, increased $254.3 million due to a net change in capital assets of $1.3 billion, which was offset by a $483.3 million increase in related debt and an increase in accumulated depreciation of $514 million. Bonds payable increased $330 million, and commercial paper notes outstanding increased $165.6 million. The financial market conditions resulted in a $3.6 billion increase in net assets in 2007.

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, 2008, 2007 and 2006:

	2008	2007	2006
Operating revenues:		($ in millions)	
Net student tuition and fees	$ 1,024.0	968.3	854.5
Grants and contracts	2,408.8	2,246.6	2,136.7
Net patient care revenues	3,999.3	3,775.9	3,368.2
Net auxiliary enterprises	342.1	327.4	299.9
Other	389.1	455.7	362.3
Total operating revenues	8,163.3	7,773.9	7,021.6
Total operating expenses	(11,015.7)	(9,779.3)	(9,221.9)
Operating loss	(2,852.4)	(2,005.4)	(2,200.3)
Nonoperating revenues (expenses):			
State appropriations	1,956.7	1,760.7	1,735.8
Gift contributions for operations	368.8	284.5	254.8
Net investment income excluding the change in fair value of investments	1,648.3	1,833.7	1,601.9
Net increase in fair value of investments	(1,880.6)	1,628.8	703.2
Interest expense on capital asset financings	(161.7)	(158.0)	(170.5)
Net other nonoperating revenues (expenses)	(28.9)	(3.4)	(30.0)
Income before other revenues, expenses, gains or losses	(949.8)	3,340.9	1,894.9
Capital appropriations – Higher Education Assistance Fund (HEAF)	17.1	11.4	11.4
Capital gifts and grants, additions to permanent endowments and extraordinary items	338.7	342.5	249.8
Net Transfers to other State entities	(138.0)	(120.6)	(245.6)
Change in net assets	(732.0)	3,574.2	1,910.5
Net assets, beginning of the year	28,349.6	24,775.4	22,864.9
Net assets, end of the year	$ 27,617.6	28,349.6	24,775.4

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 $55.7 million, or 5.8%, as a result of tuition and fee increases and a 0.8% increase in student semester credit hours at the academic institutions. Enrollment at the health institutions increased 2.8% in the fall of 2007.

Grant and contract revenues are primarily from governmental and private sources and are related to research programs that normally provide for the recovery of direct and indirect costs. Governmental grants include grants from the federal government such as the National Institutes of Health (NIH). Other grants and contracts include student financial aid and contracts with affiliated hospitals for clinical activities. These revenues increased $162.2 million in 2008 largely due to an increase in federal awards and an increase in contracts with nongovernmental entities. The competition for federal grant awards remains steep; however, continued investments in research infrastructure have well-positioned the System's institutions to compete for these federal funds and other funding opportunities.

Patient care revenues are principally generated within the System's hospitals and physicians' practice plans under contractual arrangements with governmental payors and private insurers. These revenues are reported net of unreimbursed charges for financially or medically indigent patients, which are considered unsponsored charity care. Net patient care revenues increased $223.4 million in 2008, as a result of an increase in patient volumes and higher rates. As currently reported, the System's health-related institutions calculate the amount of unsponsored charity care on the basis of what is "charged" for those services. Auxiliary enterprise revenues, which increased $14.7 million, were earned from a host of activities such as athletics, housing and food service, bookstores, parking, student health and other activities.

Operating Expenses

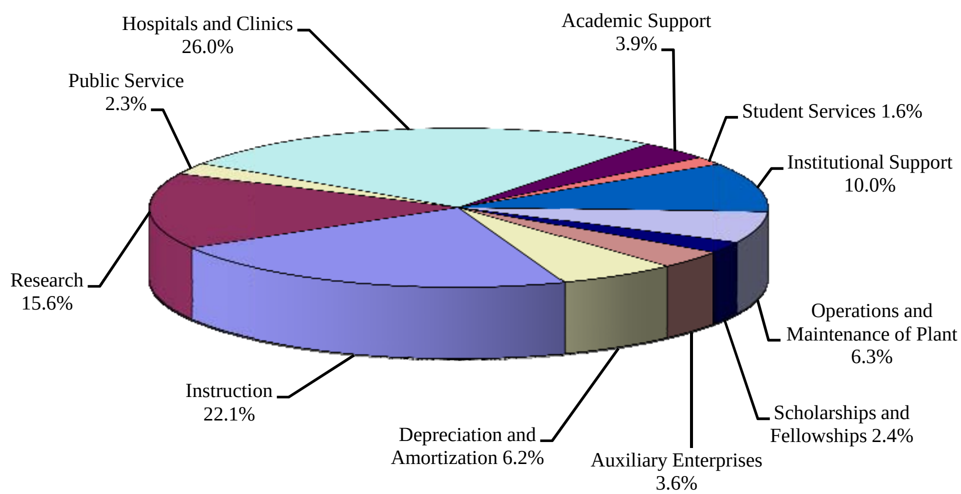
The following data summarizes the composition of operating expenses by programmatic function for the years ended August 31, 2008, 2007 and 2006:

	2008	2007	2006
Functional classification of operating expenses:		($ in millions)	
Instruction	$ 2,430.5	2,384.3	2,257.1
Research	1,714.6	1,542.9	1,435.3
Public service	257.9	222.1	223.4
Hospitals and clinics	2,866.5	2,635.2	2,512.9
Academic support	423.8	390.4	353.5
Student services	177.6	157.4	146.1
Institutional support	1,103.3	634.6	623.7
Operations and maintenance of plant	699.2	554.6	537.4
Scholarships and fellowships	260.6	257.3	223.1
Auxiliary enterprises	401.9	373.6	351.7
Depreciation and amortization	679.8	626.9	557.7
Total operating expenses	$ 11,015.7	9,779.3	9,221.9

The operating expenses reflect the System's commitment to promoting instruction, research, patient care, public service and student support. Total operating expenses increased $1.2 billion, or 12.6%, in 2008 in response to growing student enrollment, research, and patient care activities. The System's full-time equivalent employees increased 4.6% from 76,940 in 2007 to 80,467 in 2008. Employee-related costs increased due to salary increases and higher medical costs. Additionally, due to the implementation of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension*s (OPEB) in 2008, the System reported $422.7 million of net OPEB obligation expense which is included in the Institutional Support functional classification in the table above.

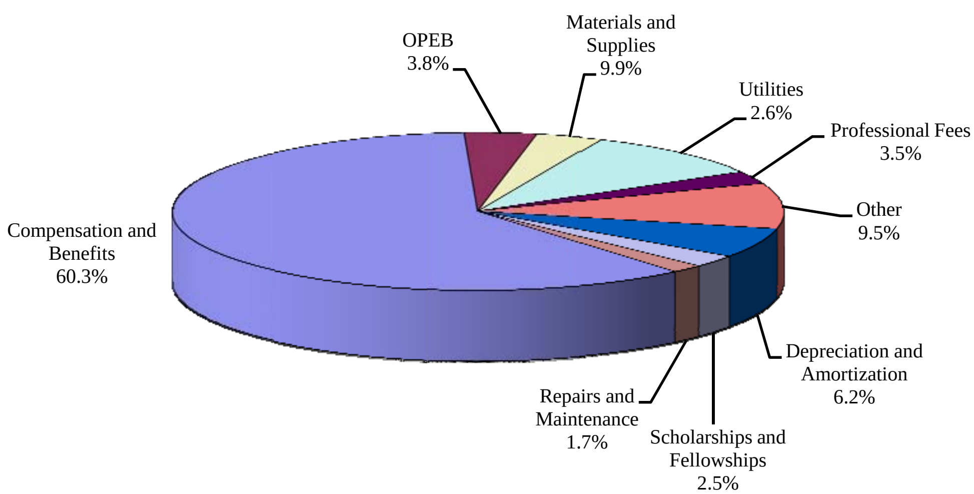
The following is a graphic illustration of operating expenses by their functional classification for the year ended August 31, 2008.

Functional Classification of Operating Expenses ($11,015.7 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, 2008.

Natural Classification of Operating Expenses ($11,015.7 million)



<u>Nonoperating Revenues and Expenses</u>

Certain significant recurring revenues are considered nonoperating, as required by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. State appropriations increased $196 million, or 11.1%. Gift contributions for operations of $368.8 million, an increase of $84.3 million from 2007, 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 $185.4 million from $1.8 billion in 2007 to $1.6 billion in 2008. The change in the fair value of the System's investments decreased $1.9 billion due to unfavorable market conditions. In 2007, the change in the fair value of investments was an increase of $1.6 billion. Included in the $1.9 billion decrease is a $310.1 million decrease in the value of the PUF lands. The fair value of the PUF Land's interest in oil and gas is based on a third party reserve study of proved reserves. The present value of the royalty cash flows is calculated by applying a 10 percent discount rate to future expected production volumes of oil and gas based on the price of oil and gas on August 31, 2008. Probable and possible reserves of oil and gas are not included in the fair value estimate. Finally, interest expense on capital asset financings increased from $158 million in 2007 to $161.7 million in 2008.

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 loss before other revenues, expenses, gains or losses totaled $949.8 million in 2008, a decrease of $4.3 billion over 2007. This decrease was largely a result of the significant decrease in the fair value of investments and the OPEB expense. 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 2008, 2007 and 2006:

		2008	2007	2006
Operating results:			($ in millions)	
Income (loss) before other revenue, expenses gains/(losses) & transfers	$	(949.8)	3,340.9	1,894.9
Add back nonoperating items:				
Change in fair value of investments		1,880.6	(1,628.8)	(703.2)
Loss on sale of capital assets		25.3	12.3	24.7
Other nonoperating		3.6	(8.9)	5.3
Deduct realized gains on investments		(695.5)	(1,026.9)	(893.3)
Net operating results	$	264.2	688.6	328.4

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 $355.8 million for the year ended August 31, 2008, a slight increase of $1.9 million over 2007. The System continues its fundraising efforts to address facilities expansion and renovation, and the establishment of endowments for instruction, research and patient care activities.

Extraordinary Items

In late July and early August 2006, the city of El Paso received a tremendous amount of rain, which caused significant water damage to some of UT El Paso's buildings and infrastructure. As a result of the flooding, UT El Paso incurred significant costs related to clean-up and repair from the flooding subsequent to year-end. Due to the infrequency of significant rainfall in the El Paso area, the expenses of $505 thousand related to the clean-up, net of the estimated insurance recoveries, were recognized as extraordinary losses for the year ended August 31, 2006. Insurance proceeds net of additional expenses of $321 thousand were recognized as extraordinary income for the year-ended August 31, 2007. Final insurance proceeds, net of additional expenses, of $724 thousand were recognized as extraordinary income for the year ended August 31, 2008. None of the damage caused impairment of UT El Paso's assets.

Transfers

Transfers to other State agencies include $149.6 million and $133.6 million for 2008 and 2007, respectively, for the AUF distributed to Texas A&M University System for its annual one-third participation in the PUF endowment. In accordance with tuition set-asides required by Section 61.539, Section 61.910, Section 61.9660, Section 61.9731, Section 56.095 and Section 56.465 of the Texas Education Code, the institutions transferred tuition revenues of $11.4 million in 2008 and $9.3 million in 2007 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 decreased by $732 million in 2008 as compared to an increase of $3.6 billion in 2007, primarily due to changes in the fair value of investments.

2007 Highlights - Statement of Revenues, Expenses and Changes in Net Assets

In 2007 the System's net tuition and fees increased $113.8 million over 2006 due to increases in tuition and fee rates, as well as continued increases in semester credit hours. Contract and grant revenue from governmental and private sources increased $109.9 million primarily attributable to increased contractual revenue from affiliated hospitals and increased federal and state-based financial aid programs. Net patient care revenues grew by $407.7 million due to higher patient volumes and rates, as well at the Texas Physician Upper Payment Limit (UPL) supplemental payments, which contributed $170.6 million of the increase. The UPL had the largest impact in 2007 as retroactive reimbursements from May 2004 through August 2007 were reported. The growth in student enrollment, research and patient care activities resulted in an increase in total operating expenses of $557.4 million.

Net investment income, excluding the change in the fair value of investments, increased $231.8 million between 2007 and 2006. The fair value of investments increased $925.6 million, primarily as a result of favorable market conditions, as well as a $198.8 million increase in the value of the PUF lands. Both of these components of investment income were the largest contributors to the $3.6 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, 2008, 2007 and 2006:

		2008	2007	2006
Cash flows:			($ in millions)	
Cash received from operations	$	8,237.9	7,855.8	7,227.3
Cash expended for operations		(9,940.5)	(9,235.5)	(8,786.2)
Net cash used in operating activities		(1,702.6)	(1,379.7)	(1,558.9)
Net cash provided by noncapital financing activities		2,067.3	2,137.3	2,108.2
Net cash used in capital and related financing activities		(758.0)	(833.6)	(553.7)
Net cash (used in)/provided by investing activities		456.0	184.6	(965.1)
Net (decrease)/increase in cash and cash equivalents		62.7	108.6	(969.5)
Cash and cash equivalents, beginning of year		1,881.6	1,773.0	2,742.5
Cash and cash equivalents, end of year	$	1,944.3	1,881.6	1,773.0

State appropriations and gift contributions for operations are significant sources of recurring revenues in support of operating expenses but are required to be classified as noncapital financing activities. Therefore, when considering cash flows related to operating activities, it is important to consider these noncapital financing activities which support operating expenses. The System's cash and cash equivalents increased $62.7 million during 2008 compared to an increase of $108.6 million in 2007.

Economic Outlook

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. The achievement of the System's mission is dependent upon the ability to attract and support dedicated students from many cultures; acquire and retain the highest quality diverse faculty; recruit and appropriately recognize exemplary administrators and staff members; create and sustain physical environments that enhance and complement educational goals; and encourage ongoing public and private sector support of higher education. Philanthropic donations from the private sector provide valuable support for endowed faculty positions, student fellowships and scholarships, special facilities, enhancement of academic programs, and many other needs.

In recent months, and particularly after August 31, 2008, the System has experienced substantial declines in equity, fixed income and commodities markets in which it invests directly, and indirectly, through its investments in various hedge funds, private investments and public markets. The financial results of the System have been negatively impacted by these market conditions, resulting in an 18% decline in value of its endowment funds for the two-month period August 31 to October 31, 2008. However, management continues to regard the System as being relatively well-positioned to maintain its solid financial foundation and continue its service to students, patients, the research community, citizens of Texas and the nation.

On September 13, 2008 Hurricane *Ike* made landfall at Galveston, Texas resulting in temporary closures of UT Health Science Center at Houston and UT M. D. Anderson Cancer Center and closure of a significant portion of UT Medical Branch at Galveston. The loss of patient care revenue caused by Hurricane *Ike* at UT Medical Branch at Galveston is expected to have a negative impact on the System's overall net patient care revenues in 2009. Physical structures at UT Health Science Center at Houston and UT M. D. Anderson Cancer Center sustained property damage of up to $10 million. UT Medical Branch at Galveston sustained significant physical damage and loss of patient care activity. Costs for protecting and restoring facilities, replacement of infrastructure and equipment, and evacuation and relocation, together with loss of revenue, may exceed $700 million based upon preliminary estimates. UT Medical Branch at Galveston has resumed operations for all of research and education, and a portion of the clinical activity. Clinical activity restoration to pre-hurricane levels will take an extended period of time due to the extent and nature of damages to related facilities. Hurricane *Ike* will result in a permanent impairment of capital assets for UT Medical Branch at Galveston. As a result of the financial losses stemming from Hurricane *Ike,* on November 12, 2008, the UT System Board of Regents found that a financial exigency existed at UT Medical Branch at Galveston and instructed the System to work with the university to implement a reduction in force of approximately 3,800 full-time equivalent positions. Most of the affected employees will be carried on the payroll until mid-January of 2009, while others will be carried for longer periods ranging to the end of the fiscal year. The university employs more than 12,000 people who have been on the payroll since Hurricane *Ike* struck Galveston. With UT Medical Branch at Galveston's hospital largely shut down, UT Medical Branch at Galveston's expenses were exceeding revenues by $40 million a month prior to the reduction in force. If left unchecked, the institution's reserves would have been exhausted within a few months.

The System continues to face the challenge of funding its healthcare and dental benefits costs for its 97,083 employees and retirees, as the costs continue to escalate. The unfunded actuarial accrued liability for these costs was $5 billion as of August 31, 2008. Presently, the amount that the System contributes to the plan each year is equal to the cost of providing the benefits incurred during the year. The System will continue to recognize a portion of this liability over the next 29 years.

UNAUDITED

THE UNIVERSITY OF TEXAS SYSTEM
EXHIBIT A - CONSOLIDATED BALANCE SHEET
As of August 31, 2008

		Current Year Totals	Prior Year Totals
ASSETS			
Current Assets:			
Cash & Cash Equivalents (Notes 2 & 3)	$	1,709,424,467.45	1,539,820,918.33
Restricted Cash & Cash Equivalents (Notes 2 & 3)		234,744,165.12	341,051,751.61
Balance in State Appropriations		105,838,008.41	65,966,505.11
Securities Lending Collateral (Notes 2 & 3)		984,342,778.76	1,566,422,752.18
Accounts Receivable, Net:			
Federal (allow. $8,161,257.33 '08; $13,208,744.61 '07		233,277,022.51	195,234,685.17
Other Intergov. (allow. $1,863,226.94 '08; & $14.82 '07)		34,341,128.41	31,507,259.31
Student (allow. $10,854,172.09 '08; & $7,386,035.89 '07		210,476,081.12	194,125,752.25
Patient (allow. $1,084,236,899.69 '08; & $946,938,246.13 '07		624,222,806.56	556,652,953.65
Interest and Dividends		44,300,940.94	61,798,054.79
Contributions (allow. $3,100,795.56 '08; & $5,297,183.56 '07		45,217,004.41	45,891,114.42
Investment Trades		224,650,596.69	760,703,637.15
Other (allow. $3,713,562.30 '08; & $7,398,630.74 '07) (Note 22		393,010,057.78	480,492,101.45
Due From Other Funds		148,316,801.59	113,086,972.16
Due From Other Agencies		8,887,748.96	5,045,809.25
Inventories		69,817,640.76	66,890,316.26
Loans & Contracts (allow. $7,011,494.19 '08; & $6,791,050.93 '07)		42,506,699.96	43,296,890.74
Other Current Assets (Note 2)		147,291,036.62	137,602,422.05
Total Current Assets		5,260,664,986.05	6,205,589,895.88
Noncurrent Assets:			
Restricted:			
Cash & Cash Equivalents (Notes 2 & 3)		181,240.08	764,179.45
Investments (Notes 2 & 3)		21,834,829,399.71	22,598,520,370.99
Loans & Contracts (allow. $13,211,521.63 '08; & $12,605,703.22 '07		94,875,572.96	88,078,220.42
Contributions Rec. (allow. $9,792,568.16 '08; & $8,525,525.88 '07		152,141,097.58	105,465,161.35
Investments (Notes 2 & 3)		3,293,071,830.68	3,266,769,880.20
Other Noncurrent Assets/Held in Trust (Note 2)		34,736,433.66	32,559,585.85
Capital Assets (Note 5)		15,103,446,570.56	13,548,368,009.18
Less Accumulated Depreciation (Note 5)		(5,803,304,363.27)	(5,227,367,475.30)
Total Noncurrent Assets		34,709,977,781.96	34,413,157,932.14
TOTAL ASSETS	$	39,970,642,768.01	40,618,747,828.02
LIABILITIES			
Current Liabilities:			
Accounts Payable and Accrued Liabilities	$	1,093,730,509.95	1,005,399,153.87
Federal Payables		28,654,889.62	48,731,927.19
Other Intergovernmental Payables		23,274.81	11,169.82
Investment Trades Payable		1,060,391,364.50	1,790,172,228.01
Incurred But Not Reported Self-Insurance Claims (Note 6)		81,060,666.02	79,468,897.78
Securities Lending Obligations (Notes 2 & 3)		984,342,778.76	1,566,422,752.18
Due to Other Funds		148,316,801.59	113,086,972.16
Due to Other Agencies		10,714,570.19	9,688,953.32
Interfund Payable		15,614,351.23	24,213,277.47
Deferred Revenue		945,647,756.93	884,904,898.22
Employees' Compensable Leave (Note 8)		270,920,183.46	243,534,820.07
Notes, Loans & Leases Payable (Notes 8, 10 & 11)		1,171,012,242.52	825,886,589.98
Payable From Restricted Assets		318,912,143.47	300,237,217.93
Revenue Bonds Payable (Notes 8 & 9)		1,209,148,486.94	179,065,650.00
Assets Held for Others		16,017,310.14	16,261,351.60
Other Current Liabilities		51,197,141.50	48,753,955.99
Total Current Liabilities		7,405,704,471.63	7,135,839,815.59
Noncurrent Liabilities:			
Incurred But Not Reported Self-Insurance Claims (Note 6)		35,071,830.98	38,879,279.22
Employees' Compensable Leave (Note 8)		139,642,110.98	141,545,024.14
Assets Held for Others (Note 2)		720,032,249.05	762,448,290.33
Liability to Beneficiaries (Note 2)		17,682,639.54	17,812,532.65
Notes, Loans and Leases Payable (Notes 8, 10 & 11)		33,972,141.34	34,588,199.16
Revenue Bonds Payable (Notes 8 & 9)		3,198,905,141.11	3,745,749,301.25
Interfund Payable		372,403,605.55	388,051,028.69
Net Other Postemployment Benefits Obligation		422,678,024.00	-
Other Noncurrent Liabilities		6,971,000.38	4,245,252.30
Total Noncurrent Liabilities		4,947,358,742.93	5,133,318,907.74
TOTAL LIABILITIES		12,353,063,214.56	12,269,158,723.33
NET ASSETS (Note 13)			
Invested in Capital Assets, Net of Related Debt		4,492,553,460.55	4,061,462,639.30
Restricted for:			
Nonexpendable			
Permanent University Fund Endowment (Note 4)		6,569,214,663.45	6,375,985,758.29
Permanent Health & True Endowments & Annuities (Note 4)		3,617,095,787.28	3,396,992,395.26
Expendable			
Capital Projects		(18,981,050.03)	46,302,767.30
Debt Service		11,201,992.53	8,393,813.69
Funds Functioning as Endowment - Restricted		232,809,744.69	229,033,003.49
Other Expendable		9,966,296,583.47	11,108,949,215.99
Unrestricted		2,747,388,371.51	3,122,469,511.37
TOTAL NET ASSETS		27,617,579,553.45	28,349,589,104.69
TOTAL LIABILITIES AND NET ASSETS	$	39,970,642,768.01	40,618,747,828.02

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

UNAUDITED

THE UNIVERSITY OF TEXAS SYSTEM
EXHIBIT B - CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended August 31, 2008

	Current Year Totals	Prior Year Totals
Operating Revenues:		
Student Tuition and Fees	$ 1,290,956,405.78	1,210,079,465.65
Discounts and Allowances	(266,947,393.25)	(241,783,307.73)
Federal Sponsored Programs	1,435,979,853.44	1,327,738,164.26
Federal Sponsored Programs Pass-Through from Other St. Agencies	73,280,115.29	78,026,753.68
State Sponsored Programs	51,245,135.29	76,644,400.98
State Sponsored Programs Pass-Through from Other St. Agencies	136,728,315.89	105,326,214.06
Local Sponsored Programs	354,223,394.32	352,670,204.84
Private Sponsored Programs	357,309,952.98	306,153,068.80
Sales and Services of Educational Activities	294,038,262.20	308,817,311.02
Discounts and Allowances	(329,409.59)	(343,915.72)
Sales and Services of Hospitals	6,185,544,921.60	5,737,391,729.87
Discounts and Allowances	(3,168,916,890.41)	(2,973,832,279.49)
Professional Fees	3,130,651,432.89	2,929,659,774.35
Discounts and Allowances	(2,147,973,437.12)	(1,917,248,492.19)
Auxiliary Enterprises	350,927,147.60	336,169,214.85
Discounts and Allowances	(8,862,927.63)	(8,747,512.80)
Other Operating Revenues	95,464,193.97	147,186,504.60
Total Operating Revenues	8,163,319,073.25	7,773,907,299.03
Operating Expenses: (Note 14 for Natural Classification of Expenses)		
Instruction	2,430,472,650.51	2,384,322,673.71
Research	1,714,567,798.90	1,542,919,586.48
Public Service	257,962,967.93	222,109,072.45
Hospitals and Clinics	2,866,499,533.42	2,635,148,711.54
Academic Support	423,834,915.38	390,408,831.11
Student Services	177,553,196.03	157,349,992.80
Institutional Support	1,103,317,056.88	634,649,263.32
Operations and Maintenance of Plant	699,150,701.69	554,597,691.52
Scholarships and Fellowships	260,578,341.59	257,277,072.37
Auxiliary Enterprises	401,932,014.24	373,633,744.75
Depreciation and Amortization	679,831,345.96	626,913,137.63
Total Operating Expenses	11,015,700,522.53	9,779,329,777.68
Operating Loss	(2,852,381,449.28)	(2,005,422,478.65)
Nonoperating Revenues (Expenses):		
State Appropriations	1,956,650,090.63	1,760,723,325.78
Gift Contributions for Operations	368,785,870.42	284,498,241.85
Net Investment Income	1,648,348,287.87	1,833,672,691.02
Net Increase (Decrease) in Fair Value of Investments	(1,880,621,534.64)	1,628,788,481.88
Interest and Other Expenses on Capital Asset Financings	(161,687,051.86)	(157,987,164.51)
Gain/(Loss) on Sale of Capital Assets	(25,281,736.66)	(12,254,039.82)
Other Nonoperating Revenues	1,173,985.02	9,434,240.85
Other Nonoperating Expenses	(4,746,888.70)	(559,454.01)
Net Nonoperating Revenues (Expenses)	1,902,621,022.08	5,346,316,323.04
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	(949,760,427.20)	3,340,893,844.39
Capital Appropriations - HEAF	17,069,138.00	11,379,426.00
Gifts and Sponsored Programs for Capital Acquisitions	194,447,231.32	178,289,409.73
Additions to Permanent Endowments	143,565,575.06	163,901,285.00
Extraordinary Items (Note 26)	723,793.70	320,938.40
Transfers From Other State Agencies	249,512,368.32	206,332,052.28
Transfers to Other State Agencies	(387,558,569.14)	(326,897,777.43)
Legislative Appropriations Lapsed	(8,661.30)	(193.98)
Change in Net Assets	(732,009,551.24)	3,574,218,984.39
Beginning Net Assets	28,349,589,104.69	24,775,370,120.30
Ending Net Assets	$ 27,617,579,553.45	28,349,589,104.69

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

UNAUDITED

THE UNIVERSITY OF TEXAS SYSTEM
EXHIBIT C - CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2008

		Current Year Totals	Prior Year Totals
Cash Flows from Operating Activities:			
Proceeds from Tuition and Fees	$	1,013,056,182.93	979,653,428.48
Proceeds from Patients and Customers		3,930,896,780.88	3,719,289,028.98
Proceeds from Sponsored Programs		2,442,486,617.61	2,311,440,258.95
Proceeds from Auxiliaries		370,259,100.78	335,258,943.35
Proceeds from Other Revenues		391,878,335.55	415,143,386.85
Payments to Suppliers		(3,215,652,416.29)	(2,991,672,883.03)
Payments to Employees		(6,621,128,389.98)	(6,143,580,392.84)
Payments for Loans Provided		(98,072,388.77)	(100,238,697.76)
Proceeds from Loan Programs		89,312,859.11	95,057,296.51
Payments for Other Expenses		(5,618,790.30)	(75,470.14)
Net Cash Provided (Used) by Operating Activities		(1,702,582,108.48)	(1,379,725,100.65)
Cash Flows from Noncapital Financing Activities:			
Proceeds from State Appropriations		1,918,133,272.28	1,767,783,770.95
Proceeds from Operating Gifts		323,347,222.56	299,805,650.86
Proceeds from Private Gifts for Endowment and Annuity Life Purposes		176,847,884.14	383,126,450.24
Proceeds from Other Nonoperating Revenues		12,304,386.79	21,103,925.78
Payments/Receipts for Transfers to/from Other Agencies		(357,865,958.07)	(331,737,301.83)
Payments for Other Uses		(5,421,720.76)	(2,728,199.64)
Net Cash Provided (Used) by Noncapital Financing Activities		2,067,345,086.94	2,137,354,296.36
Cash Flows from Capital and Related Financing Activities:			
Proceeds from Issuance of Capital Debt		2,004,394,842.26	2,166,693,971.48
Payments of Other Costs on Debt Issuance		(30,367,486.65)	(59,781,448.91)
Proceeds from Capital Appropriations, Grants and Gifts		132,468,001.04	139,891,440.23
Proceeds from Sale of Capital Assets		1,042,353.08	5,249,846.42
Payments for Additions to Capital Assets		(1,563,028,987.53)	(1,333,045,478.61)
Payments of Principal on Capital Related Debt		(1,142,479,450.14)	(1,588,195,562.73)
Payments of Interest on Capital Related Debt		(160,045,891.42)	(164,395,820.44)
Net Cash Provided (Used) by Capital & Related Financing Activities		(758,016,619.36)	(833,583,052.56)
Cash Flows from Investing Activities:			
Proceeds from Sales of Investments		29,760,191,204.23	28,102,687,825.81
Proceeds from Interest and Investment Income		1,104,268,462.66	948,799,823.83
Payments to Acquire Investments		(30,408,493,002.73)	(28,866,859,488.73)
Net Cash Provided (Used) by Investing Activities		455,966,664.16	184,628,160.91
Net Increase (Decrease) in Cash		62,713,023.26	108,674,304.06
Cash & Cash Equivalents - Beginning of the Year		1,881,636,849.39	1,772,962,545.33
Cash & Cash Equivalents - End of the Year (Note 2)	$	1,944,349,872.65	1,881,636,849.39
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:			
Operating Loss	$	(2,852,381,449.28)	(2,005,422,478.65)
Adjustments to Reconcile Operating Loss to Net Cash:			
Depreciation and Amortization Expense		679,831,345.96	626,913,137.63
Bad Debt Expense		240,457,655.72	219,728,923.29
Changes in Assets and Liabilities:			
Receivables		(382,108,336.82)	(293,949,201.63)
Inventories		(2,927,324.50)	2,029,246.82
Loans and Contracts		(8,759,529.66)	(5,194,950.25)
Other Assets		(14,450,880.77)	(15,548,457.58)
Payables		540,107,242.86	1,854,959.92
Deferred Income		64,358,898.00	55,080,468.21
Deposits Held for Others		2,491,382.45	(4,351,606.29)
Compensated Absence Liability		25,482,450.23	25,055,228.57
Other Liabilities		5,316,437.33	14,079,629.31
Total Adjustments		1,149,799,340.80	625,697,378.00
Net Cash Provided (Used) by Operating Activities:	$	(1,702,582,108.48)	(1,379,725,100.65)
Noncash Transactions			
Net Increase (Decrease) in Fair Value of Investments		(1,880,621,534.64)	1,628,788,481.86
Donated Capital Assets		72,489,801.18	38,805,220.62
Capital Assets Acquired Under Capital Lease Purchases		3,479,707.92	755,624.47
Miscellaneous Noncash Transactions		(23,911,526.29)	(16,285,254.29)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended August 31, 2008
(Unaudited)

1. The Financial Reporting Entity

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

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

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

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

UT Southwestern Health Systems, 1301 Elmbrook, Dallas, Texas 75390, is governed by a three-member board appointed by the University of Texas (UT) Southwestern Medical Center at Dallas. The corporation is blended rather than discretely presented because it provides services entirely or almost entirely to 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 is blended rather than discretely presented because it has substantively the same governing board as UT Southwestern Medical Center at Dallas. The foundation's fiscal year end is August 31.

UT Southwestern Moncrief Cancer Center, 1701 River Run, Suite 500, Fort Worth, Texas 76107, is governed by a five-member board appointed by the president of UT Southwestern Medical Center at Dallas. The corporation is blended rather than discretely presented because it has substantively the same governing board as 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 is blended rather than discretely presented because it provides services entirely or almost entirely to 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 is blended rather than discretely presented because it provides services entirely or almost entirely to UT Health Science Center at Houston. The corporation's fiscal year end is August 31.

UT Medicine, 6126 Wurzbach Road, San Antonio, Texas 78238, is governed by a twenty-five member board appointed by UT Health Science Center at San Antonio. The corporation is blended rather than discretely presented because it provides services entirely or almost entirely to 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 is blended rather than discretely presented because it provides services entirely or almost entirely to 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 is blended rather than discretely presented because it provides services entirely or almost entirely to UT M. D. Anderson Cancer Center. 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 Science Center at Tyler. The corporation is blended rather than discretely presented because it has substantively the same governing board as UT Health Science 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 is blended rather than discretely presented because it provides services entirely or almost entirely to UT System. The corporation's fiscal year end is August 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 FT Interactive Data and other major fixed income pricing services, external broker quotes and internal pricing matrices.

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

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

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

- Long and short stock positions traded on security exchanges are valued at closing market prices on the valuation date.
- Long and short stock positions traded on the over-the-counter (OTC) market are valued at the last reported bid price, except for National Market System OTC stocks, which are valued at their closing market prices.
- Fixed income securities are valued based upon bid quotations obtained from major market makers or security exchanges.
- Investments in registered U.S. mutual funds are being valued at their respective net asset value per share amounts.

Hedge funds, developed country equity, emerging market and fixed income investment funds and certain other investment funds are fair valued by management based on net asset value information provided by the investment manager, as well as other relevant factors as indicated above.

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 a third party reserve study of proved reserves. The present value of the royalty cash flows is calculated by applying a 10 percent discount rate to future expected production volumes of oil and gas based on the price of oil and gas on August 31, 2008. Probable and possible reserves of oil and gas are not included in the fair value estimate. The PUF lands' surface interests are reported at their appraised value as of January 1, 2008. 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, 2008 and 2007 were $10,269,396.90 and $10,087,124.12, respectively.

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

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

The System has defined significance as 5% of net assets. As of August 31, 2008, none of the System's potential component units meet the criteria for inclusion in the System's financial statements. See Note 23, Affiliated Organizations, for more information.

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

ASSETS HELD FOR OTHERS – CURRENT AND NONCURRENT
Assets held for others represent funds held by the System as custodial or fiscal agent for students, faculty members, foundations, and others. Included in assets held for others as of August 31, 2008 and 2007 is $355,715,727.12 and $403,243,053.56, respectively, for the Physician's Referral Service Supplemental Retirement Plan/Retirement Benefit Plan at UT M. D. Anderson Cancer Center. As of August 31, 2008 and 2007, assets held for others also included $343,141,959.48 and $345,965,925.13, respectively, from foundations that invest their assets with UTIMCO.

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

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

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

REFUNDING AND DEFEASANCE OF DEBT

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

NET ASSETS

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

Invested in Capital Assets, Net of Related Debt

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

Restricted:

Nonexpendable

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

Expendable

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

Unrestricted

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

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

REVENUES AND EXPENSES

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

Nonoperating revenues include activities such as gifts and contributions, insurance recoveries received in years subsequent to the associated loss, State appropriations, investment income and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting,* GASB Statement No. 34, and GASB Statement

No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Nonoperating expenses include activities such as interest expense on capital asset financings, and other expenses that are defined as nonoperating expenses by GASB Statement Nos. 9, 34 and 42.

SCHOLARSHIP ALLOWANCES AND STUDENT AID

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

STATEWIDE INTERFUND TRANSFERS AND INTERFUND PAYABLES

In accordance with the provisions set forth in Article 7, Section 18 of the Texas Constitution, the System transfers one-third of the annual earnings of the PUF investments and lands to the Texas A&M University System (TAMUS). In addition to the transfer of the current year earnings in 2008 and 2007 of $149,647,588.00 and $133,561,868.00, respectively, the System recorded a liability of $382,630,000.00 and $405,970,000.00 at August 31, 2008 and 2007, respectively, for future amounts due to TAMUS from the PUF to cover principal and interest on outstanding PUF bonds issued by TAMUS. This liability is reported as current and noncurrent interfund payable on the balance sheet. Additional details related to the operations of the PUF can be found in Note 4. Also included in interfund payables as of August 31, 2008 and 2007 is $5,387,956.78 and $6,294,306.16, respectively, related to the Loan Star program that is administered by the Texas Governor's Office.

In accordance with tuition set-asides required by Section 61.539, Section 61.910, Section 61.9660, Section 61.9731, Section 56.095 and Section 56.465 of the Texas Education Code, the institutions transferred tuition revenues of $11,433,338.76 in 2008 and $9,313,216.59 in 2007 to the Texas Higher Education Coordinating Board.

CHARITY CARE

The System's health-related institutions provide charity care to patients who meet certain criteria under their charity care policies without charge or at amounts less than its established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care charges amounted to approximately $1,418,092,516.01 and $1,016,978,970.27 for 2008 and 2007, 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 $236,517,926.93 and $217,413,541.49 in 2008 and 2007, 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, 2008 and 2007, the carrying amount of deposits was $37,532,934.34 and $30,005,246.24, respectively, as presented below:

		2008	2007
Cash and cash equivalents per statement of cash flows	$	1,944,349,872.65	1,881,636,849.39
Less: Cash in State Treasury		370,627,046.53	339,962,901.32
Cash equivalent investments		1,530,336,415.83	1,503,046,193.53
Other		5,853,475.95	8,622,509.23
Deposits of cash in bank	$	37,532,934.34	30,005,245.31

Deficit demand account balances of $128,736,591.43 and $120,066,080.07 are reported as payables at year end 2008 and 2007, respectively. As of August 31, 2008 and 2007, the total bank balances were $35,688,822.58 and $46,577,806.24, 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, 2008 and 2007, UT Southwestern Medical Center at Dallas' blended component units, UT Southwestern Moncrief Cancer Center (Moncrief) and UT Southwestern Health Systems (UTSHS), and UT Health Science 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, 2008 and 2007 are as follows:

		2008	2007
Uninsured and uncollateralized	$	672,395.26	696,041.31

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, 2008 and 2007, the investments including securities lending collateral were as follows:

Type of Security		2008 Fair Value	2007 Fair Value
U.S. Government:			
U.S. Treasury Securities	$	227,219,157.04	455,874,679.44
U.S. Treasury Strips		11,628,251.28	11,295,312.88
U.S. Treasury TIPS		548,857,318.46	946,118,436.40
U.S. Government Agency Obligations		784,041,728.67	1,445,076,491.48
Corporate Obligations		555,422,976.46	307,911,864.92
Corporate Asset and Mortgage Backed Securities		293,772,129.23	255,765,191.26
Equity		1,545,928,260.09	2,201,034,722.98
International Obligations (Government and Corporate)		797,058,860.94	341,919,436.19
International Equity		994,037,906.86	994,266,786.03
Repurchase Agreements		-	8,500,000.00
Fixed Income Money Market and Bond Mutual Fund		2,165,540,607.78	3,313,956,706.09
Other Commingled Funds		16,335,174.89	86,737,367.88
International Other Commingled Funds		104,795,981.20	22,961,520.22
Commercial Paper		46,659,743.91	176,198,635.62
PUF Lands		1,612,154,491.00	1,922,204,827.00
Other Real Estate		274,450,354.91	222,360,374.26
Investment Funds:			
U.S. Equity		1,642,645,291.30	1,668,034,623.79
Non-U.S. Developed Equity		749,431,461.46	909,210,357.23
Emerging Markets		1,843,414,920.39	1,538,063,097.01
Fixed Income		659,223,944.12	459,776,754.11
Alternative Investments:			
Hedge Funds		6,666,186,480.18	6,108,317,411.33
Limited Partnerships (Private Market)		3,312,400,444.86	2,181,579,566.38
Miscellaneous (guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)		276,695,745.36	288,126,088.69
Total securities		25,127,901,230.39	25,865,290,251.19
Securities Lending Collateral Investment Pool		984,342,778.76	1,566,422,752.18
TOTAL	$	26,112,244,009.15	27,431,713,003.37

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

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). During the year, the System's investment policies were amended to remove requirements and limitations regarding investment ratings. The amendments became effective March 1, 2008. Prior to that date the amendments, the policies limited investments in U.S. Domestic bonds and non-dollar denominated bond investments to those that were 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. These requirements did not apply to investment managers that were authorized by the terms of an investment advisory agreement to invest in below investment grade bonds. Per GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following tables present each applicable investment type grouped by rating as of August 31, 2008 and 2007:

		August 31, 2008					
		MOODY'S		**STANDARD & POOR'S**		**FITCH**	
Investment Type		**Fair Value**	**Rating**	**Fair Value**	**Rating**	**Fair Value**	**Rating**
U.S. Government Agency Obligations	$	682,407,910.27	Aaa	682,381,449.27	AAA	2,063,672.76	AAA
		-	-	26,461.00	NR	680,344,237.51	NR
Corporate Obligations		27,569,806.06	Aaa	27,388,468.85	AAA	9,689,335.46	AAA
		168,596,600.49	Aa	145,343,382.23	AA	139,227,051.96	AA
		225,122,104.78	A	260,336,915.41	A	240,393,027.50	A
		118,406,734.62	Baa	103,372,177.65	BBB	78,740,914.08	BBB
		7,448,700.37	Ba	3,051,263.25	BB	2,345,983.91	BB
		4,109,014.69	B	7,632,803.53	B	3,807,514.69	B
		6,554,018.20	Unrated	597,540.00	CCC	81,518,721.36	NR
		-	-	7,999,998.04	NR	-	-
Corporate Asset and Mortgage Backed Securities		172,751,357.96	Aaa	219,591,916.97	AAA	200,257.26	AAA
		3,345,094.60	Aa	5,488,809.17	AA	264,821,186.51	NR
		3,567,779.77	A	4,547,764.90	A	-	-
		499,951.57	Baa	195,322.16	BBB	-	-
		82,166,684.19	Unrated	499,951.57	BB	-	-
		-	-	34,697,679.00	NR	-	-
International Obligations (Government and Corporate)		337,013,237.38	Aaa	320,365,169.78	AAA	269,456,532.88	AAA
		230,705,884.81	Aa	136,679,188.78	AA	120,279,745.28	AA
		108,916,558.73	A	140,398,273.84	A	118,644,591.29	A
		68,025,531.97	Baa	70,329,662.50	BBB	44,947,250.00	BBB
		25,466,708.71	Ba	148,923,843.13	NR	8,902,995.53	BB
		46,568,216.43	Unrated	-	-	254,465,023.05	NR
Fixed Income Money Market and Bond Mutual Fund		1,999,232,705.58	Aaa	1,998,820,952.87	AAA	2,127,962,350.92	NR
		52,984,924.83	Aa	66,042,832.38	Aa	-	-
		75,744,720.51	Unrated	63,098,565.67	Unrated	-	-
Miscellaneous		3,240,746.33	Aaa	4,653,122.33	AAA	2,698,190.00	AAA
		643,701,126.20	Aa	642,090,834.35	AA	3,794,956.53	AA
		2,064,779.15	A	2,100,000.00	A	937,594.60	A
		4,847,248.80	Baa	6,078,358.80	BBB	2,701,115.15	BBB
		21,281,279.12	Ba	13,911,291.57	BB	681,589,745.62	NR
		3,533,334.93	B	3,533,334.93	B	-	-
		10,953,087.37	Unrated	19,354,659.92	NR	-	-
Commercial Paper		47,178,187.34	Prime-1	36,026,347.66	A	44,472,041.91	NR
		-	-	8,445,694.25	NR	-	-
	$	5,184,004,035.76		5,184,004,035.76		5,184,004,035.76	

		August 31, 2007					
		MOODY'S		STANDARD & POOR'S		FITCH	
Investment Type		**Fair Value**	**Rating**	**Fair Value**	**Rating**	**Fair Value**	**Rating**
U.S. Government Agency Obligations	$	1,422,561,851.29	Aaa	1,426,233,759.42	AAA	21,446,624.68	AAA
		199,876.00	Aa	199,876.00	AA	1,404,987,010.74	NR
		3,671,908.13	Unrated	-	-	-	-
Corporate Obligations		12,000,694.88	Aaa	10,916,099.20	AAA	2,565,234.98	AAA
		78,555,926.12	Aa	78,027,991.18	AA	70,345,069.77	AA
		82,560,040.06	A	107,105,518.63	A	85,796,702.97	A
		65,218,026.37	Baa	70,473,746.82	BBB	50,475,869.78	BBB
		21,026,847.23	Ba	16,974,946.50	BB	18,631,366.99	BB
		10,254,283.22	B	11,592,304.07	B	6,890,706.25	B
		3,845,287.50	Caa	2,420,721.00	CCC	62,806,376.66	NR
		24,050,222.02	Unrated	-	-	-	-
Corporate Asset and Mortgage Backed Securities		218,888,318.28	Aaa	247,476,006.40	AAA	4,782,789.65	AAA
		2,878,237.00	Aa	6,526,814.32	A	250,982,401.61	NR
		2,160,901.37	A	1,762,370.54	BB	-	-
		1,679,231.98	Ba	-	-	-	-
		28,670,826.68	Unrated	-	-	-	-
International Obligations (Government and Corporate)		214,436,601.20	Aaa	208,715,603.36	AAA	196,206,756.66	AAA
		39,370,830.09	Aa	24,027,239.09	AA	44,368,922.22	AA
		27,250,529.72	A	66,321,702.87	A	26,925,654.71	A
		22,089,806.51	Baa	42,603,290.87	BBB	16,632,495.45	BBB
		3,037,237.50	Ba	251,600.00	B	251,600.00	B
		251,600.00	B	-	-	57,534,007.15	NR
		35,482,831.17	Unrated	-	-	-	-
Repurchase Agreements		8,500,000.00	Unrated	8,500,000.00	AAA	8,500,000.00	NR
Fixed Income Money Market and Bond Mutual Fund		62,407,986.00	Aa	3,197,682,026.43	AAA	3,319,493,338.35	NR
		3,257,085,352.35	Unrated	77,209,017.41	Aa	-	-
		-	-	44,602,294.51	Unrated	-	-
Miscellaneous		5,325,906.98	Aaa	92,742,284.00	AAA	5,754,210.20	AAA
		23,059,012.55	Aa	104,051,692.68	AA	2,163,744.25	AA
		1,387,473.65	Baa	265,040,230.00	A	520,455.00	A
		466,751,194.13	Unrated	1,387,473.65	BBB	738,825.65	BBB
		-	-	13,713,705.93	BB	487,346,352.21	NR
		-	-	18,834,406.05	B	-	-
		-	-	753,795.00	NR	-	-
Commercial Paper		67,556,775.88	Prime-1	38,645,081.72	AAA	176,198,635.62	NR
		110,129,535.69	NR	11,457,785.69	A-1	-	-
		-	-	126,095,768.21	P	-	-
	$	6,322,345,151.55		6,322,345,151.55		6,322,345,151.55	

(B) *Concentrations of Credit Risk* – The System's investment policy statements contain the limitation that no more than five percent of the market value of domestic fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2008 and 2007, the System did not hold any direct investments in any one issuer of corporate or municipal bonds that were five percent or more of the market value of the System's domestic fixed income investments.

(C) *Custodial Credit Risk* – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the System's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2008 and 2007, 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, 2008 and 2007:

	August 31, 2008		August 31, 2007	
Investment Type	**Fair Value**	**Modified Duration**	**Fair Value**	**Modified Duration**
Investments in Securities:				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	$ 134,106,582.32	5.23	296,311,887.10	7.20
U.S. Treasury Strips	11,628,251.28	3.09	11,295,312.88	4.05
U.S. Treasury Bills	30,468,097.57	0.07	22,684,686.54	0.04
U.S. Treasury Inflation Protected	548,857,318.46	8.56	946,118,436.40	8.73
U.S. Agency Asset Backed	103,821,520.40	4.00	18,642,856.06	6.82
Total U.S. Government Guaranteed	828,881,770.03	7.06	1,295,053,178.98	8.16
U.S. Government Non-Guaranteed:				
U.S. Agency	7,954,246.70	3.34	70,907,544.57	1.38
U.S. Agency Asset Backed	674,453,663.57	5.93	1,355,526,090.85	5.03
Total U.S. Government Non-Guaranteed	682,407,910.27	5.90	1,426,433,635.42	4.85
Total U.S. Government	1,511,289,680.30	6.54	2,721,486,814.40	6.43
Corporate Obligations:				
Domestic	820,444,420.23	5.03	553,276,517.28	3.86
Commercial Paper	44,472,041.91	0.10	176,198,635.62	0.13
Foreign	282,362,933.36	5.09	107,567,450.74	6.88
Total Corporate Obligations	1,147,279,395.50	4.86	837,042,603.64	3.46
Foreign Government and Provincial Obligations	543,446,613.04	7.76	234,351,985.45	5.45
Other Debt Securities	19,484,249.41	9.77	10,390,282.88	10.16
Total Debt Securities	562,930,862.45	7.83	244,742,268.33	5.65
Other Investment Funds - Debt	672,282,850.90	5.70	459,776,754.11	3.73
Fixed Income Money Market Funds	1,980,165,732.23	0.08	3,240,094,802.06	0.11
Repurchase Agreements	-	-	8,500,000.00	-
Certificates of Deposit	4,199,572.50	0.78	25,602,755.32	0.94
Total	$ 5,878,148,093.88	4.06	7,537,245,997.86	3.16
Deposit with Brokers for Derivative Contracts:				
U.S. Government Guaranteed:				
U.S. Treasury Bills	$ 62,644,477.15	0.17	136,878,105.80	0.14
Total U.S. Government Guaranteed	62,644,477.15	0.17	136,878,105.80	0.14
Cash	53,151,758.07	0.06	6,371,967.22	-
Total Deposit with Brokers for Derivative Contracts	$ 115,796,235.22	0.12	143,250,073.02	0.13

(E) *Investments with Fair Values That Are Highly Sensitive to Interest Rate Changes* – The System may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The System also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped Treasury and Agency securities created from coupon securities. No percentage of holdings limitations are specified in the investment policy statements regarding these types of securities. As of August 31, 2008 and 2007, 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, 2008 and 2007, these securities amounted to $423,215,911 and $392,563,747, 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, 2008 and 2007, these securities amounted to $565,400,074 and $1,146,918,202, 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, 2008 and 2007 these securities amounted to $96,581,251 and $93,567,699, 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, 2008 and 2007, these securities amounted to $440,868 and $8,513,212, 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 policies statements were amended during the year to remove limitations on investments in non-U.S. denominated bonds. The amendments became effective March 1, 2008. Prior to the amendments, the policies statements limited 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, 2008 and 2007.

Investment Type		2008 Fair Value
Domestic Common Stock:		
British Pound	$	536,852
Foreign Common Stock:		
Australian Dollar		37,872,043
British Pound		149,920,115
Canadian Dollar		101,967,569
Danish Krone		2,636,227
Euro		127,014,800
Hong Kong Dollar		101,439,154
Japanese Yen		211,550,047
Norwegian Krone		13,764,519
Philippines Peso		2,292,627
Singapore Dollar		28,595,194
Swedish Krona		11,647,204
Swiss Franc		9,476,760
Thai Baht		3,597,644
Total Foreign Common Stock		801,773,903
Other Equity Securities		
Canadian Dollar		122
Foreign Government and Provincial Obligations:		
Australian Dollar		29,610,593
Brazilian Real		16,563,713
British Pound		45,764,242
Canadian Dollar		27,227,839
Euro		147,184,376
Indian Rupee		8,902,996
Japanese Yen		143,778,512
Mexican Peso		18,992,941
Malaysian Ringgit		24,977,558
New Zealand Dollar		14,775,856
Polish Zloty		26,369,172
Swedish Krona		9,616,565
Singapore Dollar		7,951,855
South African Rand		16,155,149
Total Foreign Government and Provincial Obligations		537,871,367

Investment Type		2008 Fair Value
Corporate Obligations:		
Australian Dollar	$	13,599,833
British Pound		9,668,453
Canadian Dollar		5,647,049
Danish Krone		25,358,660
Euro		93,897,636
Hong Kong Dollar		1,542,481
Iceland Krona		7,299,906
Japanese Yen		11,024,775
Total Corporate Obligations		168,038,793
Other –Debt Securities		
Hong Kong Dollar		4,424,221
Purchased Options:		
Euro		218,795
Private Investments:		
British Pound		2,629,694
Euro		362,457,861
Total Private Investments		365,087,555
Cash and Cash Equivalents:		
Australian Dollar		895,189
British Pound		1,932,213
Canadian Dollar		2,052,521
Danish Krone		437,224
Euro		2,560,658
Hong Kong Dollar		1,071,298
Hungarian Forint		1,110
Japanese Yen		2,318,009
Mexican Peso		16,315
New Zealand Dollar		53,896
Norwegian Kroner		13,700
Polish Zloty		4,279
Singapore Dollar		383,478
Swedish Krona		5,583
Swiss Franc		662,665
Taiwan Dollar		1,038,788
Total Cash and Cash Equivalents		13,446,926
Total	$	1,891,398,534

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

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

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, 2008 and 2007, there were a total of $968,988,576 and $1,737,430,786, respectively, of securities out on loan to brokers/dealers. This consisted of $877,846,702 domestic and $91,141,874 international loans at August 31, 2008 and $1,623,727,557 domestic and $113,703,229 international loans at August 31, 2007. The value of collateral held for these securities consisted of $984,342,779 cash and $20,696,795 noncash collateral at August 31, 2008 and $1,566,422,752 cash and $210,212,031 noncash collateral at August 31, 2007. 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. The System was collateralized 104 percent on August 31, 2008 and 102 percent on August 31, 2007 for securities on loan collateralized by cash. The System's collateral pool investments, rating by NRSRO, and weighted average maturity as of August 31, 2008 and 2007, are shown in the following table:

		August 31, 2008			August 31, 2007		
Description		**Fair Value**	**Rating**	**Weighted Average**	**Fair Value**	**Rating**	**Weighted Average**
Repurchase Agreements	$	446,772,351	No Rating	2	509,478,566	No Rating	4
Commercial Paper		415,169,754	P	23	429,576,458	P	38
Floating Rate Notes		25,007,001	AAA		112,806,968	AAA	
Floating Rate Notes		74,765,984	AA		320,812,034	AA	
Total Floating Rate Notes		99,772,985		9	433,619,002		13
Fixed Rate Notes		8,299,888	AAA	13	4,994,336	AAA	105
Certificates of Deposit		22,401,024	P	36	-		
Asset Backed Securities		-			191,395,928	AAA	
Asset Backed Securities		-			2,000,000	P	
Total Asset Backed Securities		-			193,395,928		32
Other Receivables/Payables		(8,073,223)	Not Rated		(4,641,538)	Not Rated	-
Total Collateral Pool Investment	$	984,342,779		13	1,566,422,752		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, 2008 and 2007, the System was collateralized 104 percent and 102 percent, respectively, 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. The System was collateralized 108 percent for international loans on August 31, 2008 and 105 percent for international loans on August 31, 2007.

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, 2008 and 2007, 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 years ended August 31, 2008 and 2007.

DERIVATIVE FINANCIAL INSTRUMENTS

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

(A) *Mortgage Derivatives* – Mortgage derivatives are used to manage portfolio duration and to enhance portfolio yield and are influenced by changes in interest rates, the current economic climate and the geographic make-up of underlying mortgage loans. There are varying degrees of risk associated with mortgage derivatives. For example, certain Collateralized Mortgage Obligations (CMOs) such as Planned Amortization Class (PACs) are considered a more conservative lower risk investment. In contrast, principal only and interest only strips are considered higher risk investments. The System's investment in CMOs, which was comprised almost exclusively of the lower risk investment class, was 1.7 percent of total investments with a fair value of $423,215,911 at August 31, 2008 and 1.5 percent of total investments with a fair value of $392,563,747 at August 31, 2007.

(B) *Futures Contracts* – Futures contracts are used to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes. The net liability is included in payables from restricted assets. Futures contracts are marked to market daily; that is, they are valued at the close of business each day and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss difference is referred to as the daily variation margin, which is settled in cash with the broker each morning for the amount of the previous day's mark to market. The amount that is settled in cash with the broker each morning is the carrying and fair value of the futures contracts. The amount of the net realized gain on the futures contracts was $3,963,663 for the year ended August 31, 2008. The amount of the net realized gain on the futures contracts was $37,121,227 for the year ended August 31, 2007. 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, 2008.

		Notional Value at August 31, 2008		Carrying and Fair Value at August 31, 2008	
		Long	Short	Assets	Liabilities
Domestic Equity Futures	$	979,265,100	534,947,700	3,687,300	11,834,250
International Equity Futures		315,906,843	-	5,597,213	-
Commodity Futures		332,140,695	-	-	-
Domestic Fixed Income Futures		55,239,750	2,656,500	4,312	193,596
International Fixed Income Futures		629,167,914	269,076,520	261,322	206,910
Totals	$	2,311,720,302	806,680,720	9,550,147	12,234,756

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

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

(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, 2008 and 2007. Foreign currency amounts are translated at exchange rates as of August 31, 2008 and 2007. 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, 2008	Net Sell August 31, 2008	Unrealized Gains on Foreign Exchange Contracts August 31, 2008	Unrealized Losses on Foreign Exchange Contracts August 31, 2008
Australian Dollar	$	-	12,316,209	356,995	18,488
Brazilian Real		8,224,016	-	1,190,018	1,199,958
British Pound		-	37,938,144	4,766,853	1,667,732
Canadian Dollar		10,141,299	-	-	72,780
Chilean Peso		448,824	-	-	40,745
Chinese Yuan Renminibi		22,485,417	-	330,696	928,099
Danish Krone		-	23,024,540	1,010,831	1,755
Euro		384,332,182	-	13,802	17,968,419
Hong Kong Dollar		-	77,606	-	32
Hungarian Forint		3,260	-	-	61
Indian Rupee		538,111	-	6,343	450,813
Japanese Yen		92,532,460	-	2,155,132	976,080
Malaysian Ringgit		11,893,718	-	48,344	1,243,528
Mexican Peso		2,298,760	-	95,665	9,216
New Zealand Dollar		26,583	-	25	29
Norwegian Krone		1,006,900	-	-	34,454
Philippines Peso		2,434,127	-	61	89,679
Polish Zloty		-	2,661,649	98,985	56,967
Russian Rouble		703,090	-	29,504	56,985
Saudi Arabian Riyal		2,325,874	-	-	38,127
Singapore Dollar		7,024,931	-	-	127,606
South African Rand		1,558,406	-	107,496	2,901
South Korean Won		8,321,890	-	5,764	653,151
Swedish Krona		5,110,740	-	6,565	333,760
Swiss Franc		-	19,314,179	951,589	-
Taiwan Dollar		3,477,767	-	70,027	281,266
Turkish Lira		6,526,650	-	202,363	-
TOTAL	$	571,415,005	95,332,327	11,447,058	26,252,631

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

(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 Note, commodity, domestic and international equity index, and exchange traded funds. Transactions in call options written during the year ended August 31, 2008 were as follows:

	Number of Contracts		Premiums Received
Call Options Outstanding at August 31, 2007	972,770	$	7,949,552
Options Written	482,864		16,488,809
Options Expired	(1,220,606)		(4,506,301)
Options Exercised	-		-
Options Terminated in Closing Purchase Transactions	(152,983)		(9,305,512)
Call Options Outstanding at August 31, 2008	82,045	$	10,626,548

	Number of Contracts		Premiums Received
Put Options Outstanding at August 31, 2007	459,653	$	313,405
Options Written	530,995		10,043,387
Options Expired	(821,503)		(3,553,165)
Options Exercised	-		-
Options Terminated in Closing Purchase Transactions	(129,535)		(5,242,108)
Put Options Outstanding at August 31, 2008	39,610	$	1,561,519

Transactions in call options written during the year ended August 31, 2007 were as follows:

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

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

(E) *Swaps* – Swaps are used to adjust interest rate and yield curve exposures. During the year, the System entered into interest rate, equity, inflation, credit default, and commodity swap contracts. They are included in other receivables and payables from restricted assets. The following discloses the notional amount (presented in local currency), the coupon rate and the fair values of the outstanding swap contracts as of August 31, 2008:

				Fair Value at August 31, 2008	
Currency	Coupon	Notional Value	Maturity Date	Assets	Liabilities
Interest Rate:					
Australian Dollar	6.403%	26,900,000	6/15/2010	-	$ 472,392
	6.421%	24,000,000	6/15/2015	861,366	-
	6.542%	7,500,000	6/15/2017	83,633	-
	6.544%	9,900,000	1/15/2010	-	83,744
	7.254%	12,600,000	6/16/2011	92,839	-
	7.254%	9,300,000	6/15/2013	142,192	-
	7.403%	63,500,000	6/15/2010	-	92,559
	7.440%	5,800,000	9/15/2009	5,956	-
	7.544%	118,100,000	3/15/2010	790,790	-
	7.544%	7,700,000	3/15/2012	144,698	-
	7.754%	25,200,000	6/15/2010	216,849	-
Brazilian Real	10.115%	500,000	1/02/2012	-	27,236
	10.575%	8,200,000	1/02/2012	-	369,540
	10.684%	3,000,000	1/02/2012	-	129,674
	12.414%	2,000,000	1/04/2010	-	17,113
	12.544%	6,700,000	1/02/2012	-	89,864
	14.765%	400,000	1/02/2012	4,268	-
Canadian Dollar	4.254%	18,200,000	12/20/2013	-	555,038
	4.544%	2,300,000	9/20/2011	-	85,619
	5.421%	3,100,000	6/15/2015	242,084	-
Euro	3.754%	55,000,000	6/18/2013	-	3,466,995
	4.408%	2,500,000	12/15/2011	-	112,411
	4.411%	9,100,000	9/19/2012	-	452,519
	4.415%	45,200,000	9/17/2013	-	1,982,316
	4.419%	700,000	12/15/2014	-	32,869
	4.435%	9,900,000	6/18/2015	432,160	-
	4.440%	63,200,000	9/19/2009	-	1,666,572
	4.541%	38,800,000	3/18/2014	-	248,904
	4.542%	6,500,000	3/18/2016	54,966	-
	4.544%	9,600,000	3/19/2010	-	113,569
	5.404%	6,900,000	9/17/2010	26,590	-
	5.435%	300,000	3/18/2019	11,608	-
	5.506%	8,500,000	9/17/2038	-	643,609
	5.508%	14,700,000	3/18/2039	-	1,168,192
	6.482%	1,200,000	3/15/2032	149,277	-
	6.491%	7,300,000	6/18/2034	-	1,320,017
Japanese Yen	0.923% (A)	20,650,000,000	9/10/2009	190,669,213	-
	1.344%	2,560,000,000	12/17/2010	-	110,713
	1.398%	600,000,000	3/18/2009	-	2,008
	1.541%	14,290,000,000	6/17/2013	1,369,141	-
	1.984%	1,730,000,000	9/27/2016	-	656,875
	2.254%	200,000,000	6/20/2036	36,455	-
	2.434%	5,630,000,000	12/17/2017	-	1,670,169
	2.549%	110,000,000	6/20/2036	-	33,795
	3.498%	780,000,000	6/20/2036	-	1,003,261
Mexican Peso	8.334%	7,400,000	2/14/2017	-	22,505
U.S. Dollar	2.696% (A)	175,000,000	9/10/2009	-	176,048,300
	4.401%	38,400,000	12/17/2009	326,064	-
	4.403%	154,700,000	6/17/2010	777,352	-
	4.405%	86,400,000	12/17/2010	-	371,601
	4.407%	6,500,000	6/17/2011	18,281	-
	4.416%	97,100,000	12/17/2013	-	630,287
	5.423%	20,800,000	12/17/2015	-	790,023
	5.423%	21,700,000	12/18/2015	4,787	-
	5.434%	194,564,000	12/17/2018	-	6,826,667

(A) These items represent a single swap and, therefore, could not be settled independently.

(Continued)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2008 Assets	Liabilities
Interest Rate:					
U.S. Dollar	5.452%	27,000,000	12/17/2023	193,587	-
	5.465%	1,500,000	6/20/2027	50,959	-
	5.471%	1,600,000	12/17/2028	-	36,195
	5.507%	72,500,000	12/17/2038	-	1,636,360
	5.539%	5,000,000	5/21/2009	106,800	-
British Pound	3.555%	7,500,000	12/17/2037	-	68,316
	4.254%	900,000	6/12/2036	22,446	-
	4.496%	11,800,000	12/15/2035	148,846	-
	4.542%	61,700,000	9/15/2017	303,739	-
	4.549%	900,000	12/15/2035	-	64,280
	5.322%	3,400,000	9/14/2009	32,726	-
	5.399%	11,400,000	6/15/2009	80,602	-
	5.402%	200,000	3/19/2010	-	3,805
	5.402%	29,700,000	3/20/2010	566,918	-
	5.404%	3,900,000	9/15/2010	-	78,117
	5.415%	15,000,000	9/17/2013	-	299,605
	5.422%	27,600,000	9/15/2015	-	680,961
	5.431%	400,000	3/20/2018	-	9,063
	5.508%	1,100,000	3/18/2039	-	127,189
	5.543%	1,000,000	9/17/2018	-	65,370
	5.555%	200,000	12/15/2036	-	57,423
				197,967,192	204,423,640
Commodity					
U.S. Dollar	DJAIG	145,440,128	10/05/2008	-	4,229,004
	DJAIG	54,306,118	10/28/2008	-	3,984,146
	DJAIG	138,314,597	11/26/2008	-	2,759,807
	DJAIG	47,472,998	1/05/2009	-	1,759,844
				-	12,732,801
Credit Default					
Euro	0.235%	200,000	6/20/2012	-	280
	0.254%	200,000	6/20/2012	-	298
	0.294%	200,000	6/20/2012	-	346
	0.365%	200,000	6/20/2012	-	436
	0.394%	100,000	6/20/2012	-	233
	0.454%	5,200,000	9/20/2012	194,286	-
	0.464%	4,000,000	9/20/2012	109,146	-
	0.474%	6,600,000	9/20/2012	494,111	-
	0.494%	4,000,000	9/20/2012	65,964	-
	0.534%	500,000	9/20/2010	2,265	-
	0.614%	100,000	5/20/2012	-	233
	0.741%	7,900,000	12/20/2012	330,984	-
	0.854%	7,600,000	12/20/2016	504,559	-
	1.484%	700,000	3/20/2013	12,405	-
	1.654%	1,000,000	3/20/2013	25,654	-
	1.754%	15,900,000	6/20/2018	-	1,396,921
	2.941%	800,000	6/20/2013	-	68,476
U. S. Dollar	0.054%	800,000	9/20/2009	427	-
	0.073%	4,100,000	9/20/2008	91	-
	0.085%	3,270,000	12/13/2049	-	132,114
	0.089%	300,000	6/20/2012	1,609	-
	0.114%	300,000	6/20/2010	6,088	-
	0.115%	1,400,000	5/25/2046	-	461,838
	0.124%	200,000	6/20/2012	1,761	-
	0.135%	300,000	3/20/2015	3,814	-
	0.144%	800,000	3/20/2011	1,414	-
	0.164%	200,000	3/20/2011	808	-
	0.164%	300,000	12/20/2011	3,862	-
	0.164%	1,100,000	6/20/2012	121,104	-
	0.165%	300,000	3/20/2011	7,821	-
	0.165%	200,000	12/20/2013	23,609	-
	0.174%	2,100,000	6/20/2010	344,479	-
	0.184%	800,000	3/20/2012	4,422	-
	0.214%	200,000	6/20/2011	5,425	-
	0.214%	900,000	9/20/2011	4,881	-
	0.214%	-	6/20/2012	-	36

(Continued)				Fair Value at August 31, 2008	
Currency	Coupon	Notional Value	Maturity Date	Assets	Liabilities
Credit Default:					
U.S. Dollar	0.214%	500,000	12/20/2016	9,240	-
	0.224%	800,000	9/20/2009	251	-
	0.224%	200,000	9/20/2011	6,353	-
	0.233%	600,000	6/20/2009	7,174	-
	0.234%	200,000	3/20/2012	7,208	-
	0.239%	200,000	6/20/2009	1,175	-
	0.244%	200,000	3/20/2011	4,135	-
	0.274%	8,600,000	3/20/2013	-	28,943
	0.294%	500,000	6/20/2011	9,164	-
	0.314%	300,000	12/20/2011	8,883	-
	0.324%	500,000	6/20/2010	4,178	-
	0.324%	400,000	12/20/2012	1,562	-
	0.344%	500,000	12/20/2016	55,532	-
	0.354%	700,000	9/20/2011	2,962	-
	0.354%	700,000	6/20/2012	30,535	-
	0.394%	500,000	6/20/2010	2,663	-
	0.395%	800,000	9/20/2011	107,162	-
	0.434%	300,000	12/20/2012	4,337	-
	0.435%	5,700,000	3/20/2013	22,259	-
	0.441%	300,000	6/20/2014	11,493	-
	0.453%	2,000,000	1/20/2009	-	240
	0.454%	1,000,000	9/20/2014	723	-
	0.454%	1,000,000	6/20/2017	5,134	-
	0.455%	1,100,000	6/20/2012	-	4,367
	0.464%	600,000	9/20/2011	48,616	-
	0.464%	600,000	3/20/2012	46,196	-
	0.464%	1,000,000	12/20/2013	10,665	-
	0.464%	300,000	12/20/2016	19,529	-
	0.465%	17,700,000	3/20/2013	92,518	-
	0.474%	100,000	6/20/2011	2,527	-
	0.474%	4,200,000	3/20/2013	22,879	-
	0.493%	1,500,000	2/20/2009	-	979
	0.514%	500,000	6/20/2011	12,864	-
	0.514%	800,000	3/20/2018	1,521	-
	0.514%	2,000,000	6/20/2018	52,172	-
	0.524%	500,000	6/20/2012	-	3,210
	0.529%	300,000	12/20/2012	4,721	-
	0.534%	500,000	9/20/2010	-	1,423
	0.553%	5,600,000	12/20/2008	10,341	-
	0.554%	600,000	9/20/2011	47,048	-
	0.574%	700,000	12/20/2017	27,261	-
	0.594%	1,000,000	9/20/2014	2,281	-
	0.594%	1,000,000	9/20/2016	2,418	-
	0.614%	100,000	5/20/2012	1,171	-
	0.633%	600,000	12/20/2008	693	-
	0.641%	25,100,000	12/20/2012	847,974	-
	0.642%	200,000	6/20/2017	7,152	-
	0.643%	1,000,000	3/20/2018	6,283	-
	0.654%	9,600,000	12/20/2016	570,390	-
	0.664%	400,000	9/20/2012	-	37,988
	0.674%	1,400,000	1/20/2017	-	65,025
	0.684%	600,000	12/20/2012	15,518	-
	0.708%	2,000,000	12/20/2012	22,972	-
	0.714%	200,000	9/20/2012	-	2,520
	0.724%	200,000	9/20/2012	-	2,520
	0.724%	12,500,000	12/20/2012	150,172	-
	0.741%	400,000	6/20/2012	-	62,844
	0.741%	300,000	9/20/2012	-	28,071
	0.744%	700,000	3/20/2018	7,710	-
	0.754%	1,000,000	12/20/2013	18,495	-
	0.754%	1,000,000	9/20/2017	-	28,629
	0.754%	1,300,000	12/20/2017	-	21,844
	0.758%	2,100,000	12/20/2012	28,555	-
	0.774%	800,000	3/20/2012	-	6,963
	0.815%	5,000,000	3/20/2018	-	51,923
	0.824%	200,000	5/20/2012	-	14,599
	0.824%	2,000,000	3/20/2018	36,244	-
	0.843%	5,200,000	12/20/2017	217,015	-
	0.844%	200,000	6/20/2012	-	4,132

(Continued)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2008 Assets	Liabilities
Credit Default:					
U. S. Dollar	0.844%	500,000	6/20/2013	12,858	-
	0.854%	600,000	12/20/2009	-	1,164
	0.862%	1,800,000	11/20/2016	2,993	-
	0.924%	1,000,000	6/20/2013	-	4,307
	0.944%	700,000	9/20/2014	28,715	-
	0.944%	1,000,000	6/20/2016	-	19,781
	0.944%	3,000,000	6/20/2018	158,198	-
	0.954%	1,000,000	12/20/2015	-	10,920
	0.954%	1,000,000	9/20/2017	-	10,080
	0.974%	200,000	9/20/2013	-	538
	0.984%	500,000	6/20/2013	-	389
	0.984%	600,000	9/20/2013	-	1,374
	0.994%	1,000,000	9/20/2015	-	20,919
	1.034%	2,000,000	3/20/2013	-	3,083
	1.034%	1,300,000	9/20/2018	19,128	-
	1.044%	1,000,000	6/20/2013	15,762	-
	1.054%	2,000,000	3/20/2013	-	21,450
	1.064%	1,000,000	3/20/2018	-	26,337
	1.094%	1,000,000	6/20/2018	10,655	-
	1.124%	1,000,000	6/20/2017	69,696	-
	1.135%	500,000	9/20/2013	13,184	-
	1.143%	1,200,000	6/20/2018	25,275	-
	1.144%	1,000,000	9/20/2018	68,868	-
	1.164%	2,000,000	3/20/2013	16,152	-
	1.174%	1,000,000	6/20/2013	-	4,902
	1.184%	1,900,000	9/20/2013	1,761	-
	1.254%	1,000,000	3/20/2013	-	19,410
	1.254%	1,700,000	6/20/2013	12,973	-
	1.284%	1,000,000	6/20/2013	-	9,859
	1.294%	700,000	6/20/2011	6,325	-
	1.306%	2,100,000	6/20/2018	46,597	-
	1.323%	1,500,000	12/20/2008	4,035	-
	1.324%	1,000,000	3/20/2017	23,553	-
	1.333%	2,200,000	12/20/2008	6,033	-
	1.341%	900,000	6/20/2013	-	9,684
	1.353%	700,000	12/20/2008	1,976	-
	1.374%	600,000	6/20/2013	-	5,073
	1.374%	100,000	6/20/2018	-	29
	1.384%	2,000,000	3/20/2017	-	57,612
	1.415%	500,000	9/20/2013	-	593
	1.434%	1,000,000	6/20/2018	67,727	-
	1.441%	100,000	6/20/2012	10,440	-
	1.441%	100,000	6/20/2013	-	980
	1.454%	3,000,000	6/20/2013	22,112	-
	1.474%	500,000	12/20/2016	4,560	-
	1.474%	500,000	6/20/2018	-	3,900
	1.524%	200,000	6/20/2013	-	861
	1.534%	1,000,000	9/20/2016	-	27,814
	1.534%	1,000,000	6/20/2018	9,488	-
	1.541%	1,700,000	6/20/2013	41,894	-
	1.543%	8,600,000	6/20/2018	-	118,716
	1.544%	4,000,000	6/20/2010	-	119,391
	1.544%	1,000,000	12/20/2013	101,439	-
	1.544%	400,000	6/20/2018	-	9,121
	1.554%	47,300,000	6/20/2013	-	399,413
	1.574%	3,300,000	3/20/2013	-	109,910
	1.574%	2,700,000	9/20/2013	7,114	-
	1.624%	1,000,000	6/20/2012	96,382	-
	1.664%	3,100,000	3/20/2018	46,462	-
	1.683%	1,700,000	4/20/2009	14,437	-
	1.713%	900,000	4/20/2009	7,794	-
	1.784%	300,000	12/20/2012	-	8,919
	1.834%	1,000,000	9/20/2018	18,955	-
	1.839%	1,900,000	12/20/2008	1,598	-
	1.843%	800,000	9/20/2018	16,895	-
	1.854%	300,000	9/20/2018	5,254	-
	1.884%	1,000,000	12/20/2015	30,613	-
	1.913%	200,000	4/20/2009	2,344	-
	1.924%	1,000,000	3/20/2017	60,414	-
	1.954%	1,300,000	3/20/2013	-	80,474

(Continued)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2008 Assets	Liabilities
Credit Default:					
U. S. Dollar	2.084%	1,000,000	6/20/2018	13,530	-
	2.141%	300,000	9/20/2013	-	6,384
	2.154%	1,000,000	6/20/2018	8,666	-
	2.174%	1,000,000	8/20/2013	15,077	-
	2.741%	400,000	9/20/2013	-	430
	2.754%	4,653,000	6/20/2012	438,502	-
	2.934%	300,000	6/20/2015	-	5,596
	3.053%	700,000	3/20/2009	-	8,491
	3.054%	400,000	9/20/2012	-	141,879
	3.153%	1,300,000	6/20/2009	-	25,049
	3.239%	1,500,000	12/20/2008	-	5,262
	3.739%	400,000	3/20/2009	-	2,911
	3.841%	300,000	9/20/2012	-	76,317
	3.854%	100,000	9/20/2012	-	25,305
	4.339%	200,000	3/20/2009	-	560
	4.854%	300,000	9/20/2012	94,161	-
	5.239%	1,800,000	9/20/2008	-	13,893
	5.441%	900,000	9/20/2012	-	271,256
	5.454%	900,000	9/20/2012	-	270,236
	6.854%	100,000	6/20/2012	-	26,454
	7.411%	300,000	9/20/2012	-	79,533
British Pound	0.214%	100,000	6/20/2012	1,109	-
	0.235%	200,000	6/20/2012	6,075	-
	0.254%	200,000	6/20/2012	23,040	-
	0.294%	200,000	6/20/2012	6,530	-
	0.344%	200,000	6/20/2012	-	11,504
	0.365%	200,000	6/20/2012	2,598	-
	0.394%	100,000	6/20/2012	1,171	-
	0.674%	930,000	9/20/2014	-	5,389
				6,628,131	4,510,883
Equity	Developed	85,448,620	1/15/2009	-	2,515,276
	Developed	103,141,465	3/16/2009	-	10,849,907
				-	13,365,183
Inflation:					
Euro	1.944%	200,000	3/15/2012	-	7,893
	1.944%	1,500,000	4/10/2012	-	63,211
	1.948%	1,700,000	3/15/2012	-	68,362
	1.954%	700,000	3/28/2012	-	28,479
	1.954%	100,000	3/30/2012	-	4,128
	1.954%	500,000	3/30/2012	-	20,642
	1.955%	200,000	3/28/2012	-	8,137
	1.964%	100,000	4/05/2012	-	4,175
	1.964%	600,000	3/30/2012	-	25,245
	1.965%	500,000	3/15/2012	-	17,589
	1.984%	600,000	4/30/2012	-	25,431
	1.984%	200,000	4/30/2012	-	8,476
	1.988%	800,000	12/15/2011	-	26,130
	2.024%	400,000	10/15/2011	-	8,953
	2.028%	700,000	10/15/2011	-	15,668
	2.044%	3,300,000	2/21/2011	-	55,100
	2.084%	1,300,000	6/15/2012	-	48,162
	2.084%	4,200,000	6/15/2012	-	155,601
	2.094%	900,000	10/15/2011	-	15,744
	2.095%	1,600,000	10/15/2011	-	27,989
	2.103%	2,000,000	10/15/2010	-	17,925
	2.140%	1,000,000	10/15/2010	-	8,963
	2.144%	200,000	10/15/2010	-	1,155
	2.146%	500,000	10/15/2010	-	2,888
	2.274%	200,000	10/15/2016	-	3,164
	2.275%	700,000	10/15/2016	-	11,076
	2.353%	600,000	10/15/2016	-	9,080
	2.354%	400,000	10/15/2016	-	6,191
	2.354%	700,000	10/15/2016	-	11,076

(Continued)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2008 Assets	Liabilities
Inflation:					
British Pound	3.183%	1,000,000	12/19/2017	-	103,547
	3.184%	400,000	12/19/2017	-	41,419
	3.254%	300,000	12/14/2017	-	26,580
	3.254%	400,000	12/14/2017	-	35,440
	3.444%	300,000	9/10/2027	-	49,917
	3.444%	100,000	9/10/2027	-	16,639
				-	980,175
Total				$ 204,595,323	236,012,682

The following discloses the notional amount (presented in local currency), the coupon rate, and the fair values of the outstanding swap contracts as of August 31, 2007:

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

(Continued)

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

(A) These items represent a single swap and, therefore, could not be settled independently.

(Continued)

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

(Continued)

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

(Continued)

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

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

Hedge fund pools are invested in private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios. The hedge fund pools have committed $303,188,933 of future funding to various hedge fund investments as of August 31, 2008.

Certain of the hedge fund pools' investments are held through limited liability companies (LLCs), of which UTIMCO is the sole managing member. These investments are managed by an external investment manager under a management agreement between the LLC and the external manager. The external manager employs an investment strategy utilizing leveraged commodity futures and options. As of August 31, 2008, the fair value of these investments included $49,988,235 of cash and cash equivalents, options on commodity futures with a fair value of $21,917, net of liabilities for margin in the amount of $1,232,497 related to the outstanding futures contracts.

Private investment pools are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments, domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk and investment manager risk. Certain of these investments are held through LLCs, of which UTIMCO is the sole managing member. The System had committed $2,909,146,371 and $2,045,612,860 of future funding to various private investments as of August 31, 2008 and 2007, respectively.

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

Hedge funds, private investment 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 System's general partners and investment managers are not registered with the Securities and Exchange Commission or other domestic or international regulators, 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, 2008 and 2007 were $14,873,302,542 and $12,864,981,809, respectively.

(G) *Securities Sold Short* – The System may sell securities it does not own in anticipation of a decline in the fair value of that security or as means to adjust the duration of certain fixed income portfolios. When the System sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale and provide collateral for its obligation to deliver the security upon conclusion of the sale. As of August 31, 2008 the Fund had no securities sold short. The market value of securities sold short as of August 31, 2007 was $35,097,262. As of August 31, 2007 there was no Deposit with Broker for Securities Sold Short. The System must pay dividends or interest on the securities sold short. Until the System covers it short 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 $20,278,420,441.31 and $21,142,156,439.85 of endowment funds as of August 31, 2008 and 2007, respectively. The net asset classifications on the balance sheet related to endowment funds as of August 31, 2008 and 2007 are as follows:

Net Asset Classification of Endowments		2008	2007
Restricted, nonexpendable	$	10,137,228,780.58	9,772,978,153.55
Restricted, expendable:			
Net Appreciation on True Endowments		8,413,687,826.43	9,610,308,608.63
Funds Functioning as Endowments		232,809,744.69	229,033,003.49
Term Endowments		33,133,396.32	33,906,075.49
Unrestricted:			
Funds Functioning as Endowments		287,221,797.88	209,547,190.39
Total	$	19,104,081,545.90	19,855,773,031.55

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

ENDOWMENTS AND SIMILAR FUNDS – STATE

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

The PUF was established by the Texas Constitution of 1876 through the appropriation of land grants. Amendments to the Constitution, approved by voters in 1999, were related to the investment of the PUF and the distributions from the PUF to the Available University Fund (AUF). The Constitution, as amended, is summarized as follows: (i) The UT System Board of Regents is held to a "prudent investor" rather than a "prudent person" standard; (ii) distributions to the AUF are made from the total return on all PUF investment assets; (iii) the UT System Board of Regents determines the amount of distributions to the AUF, which may not exceed an amount equal to 7% of the average net fair value of investment assets, except as necessary to pay debt service on PUF bonds and notes; (iv) the UT System Board of Regents determines the amount of distributions to the AUF in a manner intended to provide the AUF with a stable and predictable stream of annual distributions and to maintain, over time, the purchasing power of PUF investments and annual distributions to the AUF; and (v) the expenses of managing PUF land and investments are paid by the PUF.

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

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

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

ENDOWMENT AND SIMILAR FUNDS - OTHER THAN STATE

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

ANNUITY AND LIFE INCOME FUNDS

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

AVAILABLE UNIVERSITY FUND

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

5. Capital Assets

A summary of changes in the capital assets for the year ended August 31, 2008, is presented below.

	Balance 09/01/07	Adjustments	Reclassifications Completed CIP
Nondepreciable Assets:			
Land and Land Improvements	$ 347,756,952.04	(550.47)	953,704.75
Construction in Progress (CIP)	1,010,482,158.81	(2,392,736.45)	(967,762,977.40)
Other Capital Assets	210,976,516.07	(47,355.98)	30,308.00
Total Nondepreciable Assets	1,569,215,626.92	(2,440,642.90)	(966,778,964.65)
Depreciable Assets:			
Buildings and Building Improvements	8,287,855,055.41	(871,434.98)	847,878,143.26
Infrastructure	205,070,015.15	-	10,699,462.02
Facilities and Other Improvements	484,381,742.59	838,366.62	51,609,774.92
Furniture and Equipment	2,398,349,237.74	(172,792.00)	53,113,406.49
Vehicles, Boats and Aircraft	51,077,792.64	(10,092.90)	-
Other Capital Assets (including Library Books)	552,418,538.73	(35,311.19)	3,478,177.96
Total Depreciable Assets at Historical Cost	11,979,152,382.26	(251,264.45)	966,778,964.65
Less Accumulated Depreciation for:			
Buildings and Building Improvements	(3,046,802,905.80)	-	-
Infrastructure	(98,882,745.29)	-	-
Facilities and Other Improvements	(169,664,082.53)	-	-
Furniture and Equipment	(1,496,768,861.81)	(12,023,969.20)	-
Vehicles, Boats and Aircraft	(37,072,738.36)	(93,698.98)	-
Other Capital Assets (including Library Books)	(378,176,141.51)	-	-
Total Accumulated Depreciation	(5,227,367,475.30)	(12,117,668.18)	-
Depreciable Assets, net	6,751,784,906.96	(12,368,932.63)	966,778,964.65
Capital Assets, net	$ 8,321,000,533.88	(14,809,575.53)	-

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

	Balance 09/01/06	Adjustments	Reclassifications Completed CIP
Nondepreciable Assets:			
Land and Land Improvements	$ 284,302,558.06	-	1,481,026.29
Construction in Progress (CIP)	870,148,112.99	(2,423,741.63)	(817,101,766.34)
Other Capital Assets	202,856,868.42	-	-
Total Nondepreciable Assets	1,357,307,539.47	(2,423,741.63)	(815,620,740.05)
Depreciable Assets:			
Buildings and Building Improvements	7,610,553,922.84	11,697,381.14	593,587,577.77
Infrastructure	177,396,343.15	(650,000.00)	28,153,170.43
Facilities and Other Improvements	382,313,219.60	(11,171,212.63)	111,972,836.41
Furniture and Equipment	2,189,906,859.60	7,546.40	70,616,324.30
Vehicles, Boats and Aircraft	48,132,814.39	(25,767.00)	-
Other Capital Assets (including Library Books)	525,965,132.14	-	11,290,831.14
Total Depreciable Assets at Historical Cost	10,934,268,291.72	(142,052.09)	815,620,740.05
Less Accumulated Depreciation for:			
Buildings and Building Improvements	(2,723,455,710.61)	-	-
Infrastructure	(93,204,725.32)	-	-
Facilities and Other Improvements	(152,478,082.79)	-	-
Furniture and Equipment	(1,354,526,238.67)	(116,972.00)	-
Vehicles, Boats and Aircraft	(35,696,429.39)	116,972.00	-
Other Capital Assets (including Library Books)	(353,996,344.51)	-	-
Total Accumulated Depreciation	(4,713,357,531.29)	-	-
Depreciable Assets, net	6,220,910,760.43	(142,052.09)	815,620,740.05
Capital Assets, net	$ 7,578,218,299.90	(2,565,793.72)	-

Reclassifications Interagency Transfers - In	Reclassifications Interagency Transfers - Out	Additions	Deletions	Balance 08/31/08
-	-	71,986,659.45	-	420,696,765.77
-	-	1,126,089,576.98	(176,698.52)	1,166,239,323.42
-	-	6,496,579.47	(9,186,576.26)	208,269,471.30
-	-	1,204,572,815.90	(9,363,274.78)	1,795,205,560.49
584,240.75	(584,240.75)	151,205,745.51	(11,918,296.41)	9,274,149,212.79
-	-	215,832.37	-	215,985,309.54
-	-	4,587,346.92	(6,917,716.27)	534,499,514.78
1,364,276.00	(1,430,693.00)	312,195,726.53	(107,281,058.91)	2,656,138,102.85
95,456.25	(23,263.25)	11,498,994.04	(3,256,303.23)	59,382,583.55
2,509,251.07	(2,509,251.07)	19,115,258.85	(6,890,377.79)	568,086,286.56
4,553,224.07	(4,547,448.07)	498,818,904.22	(136,263,752.61)	13,308,241,010.07
-	-	(349,613,263.69)	9,438,442.67	(3,386,977,726.82)
-	-	(6,803,939.26)	0.54	(105,686,684.01)
-	-	(19,325,049.50)	5,762,903.29	(183,226,228.74)
(1,186,319.60)	1,004,535.66	(269,778,197.26)	91,375,572.89	(1,687,377,239.32)
(49,131.37)	23,263.25	(4,857,094.74)	3,122,542.68	(38,926,857.52)
-	-	(29,453,801.51)	6,520,316.16	(401,109,626.86)
(1,235,450.97)	1,027,798.91	(679,831,345.96)	116,219,778.23	(5,803,304,363.27)
3,317,773.10	(3,519,649.16)	(181,012,441.74)	(20,043,974.38)	7,504,936,646.80
3,317,773.10	(3,519,649.16)	1,023,560,374.16	(29,407,249.16)	9,300,142,207.29

Reclassifications Interagency Transfers - In	Reclassifications Interagency Transfers - Out	Additions	Deletions	Balance 08/31/07
-	-	64,208,363.62	(2,234,995.93)	347,756,952.04
-	-	959,859,553.79	-	1,010,482,158.81
-	-	8,547,684.52	(428,036.87)	210,976,516.07
-	-	1,032,615,601.93	(2,663,032.80)	1,569,215,626.92
-	-	75,103,273.70	(3,087,100.04)	8,287,855,055.41
-	-	170,501.57	-	205,070,015.15
-	-	1,266,899.21	-	484,381,742.59
1,112,488.94	(1,413,891.38)	259,390,355.19	(121,270,445.31)	2,398,349,237.74
54,422.00	(88,495.70)	5,565,600.66	(2,560,781.71)	51,077,792.64
2,414,525.26	(2,414,525.26)	19,228,926.57	(4,066,351.12)	552,418,538.73
3,581,436.20	(3,916,912.34)	360,725,556.90	(130,984,678.18)	11,979,152,382.26
-	-	(324,711,677.20)	1,364,482.01	(3,046,802,905.80)
-	-	(5,678,019.97)	-	(98,882,745.29)
-	-	(17,185,999.74)	-	(169,664,082.53)
(831,365.92)	886,410.10	(247,484,840.20)	105,304,144.88	(1,496,768,861.81)
(40,381.00)	88,495.70	(3,887,387.65)	2,345,991.98	(37,072,738.36)
-	-	(27,965,212.87)	3,785,415.87	(378,176,141.51)
(871,746.92)	974,905.80	(626,913,137.63)	112,800,034.74	(5,227,367,475.30)
2,709,689.28	(2,942,006.54)	(266,187,580.73)	(18,184,643.44)	6,751,784,906.96
2,709,689.28	(2,942,006.54)	766,428,021.20	(20,847,676.24)	8,321,000,533.88

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 year ended August 31, 2008 or August 31, 2007.

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 reported $7,379,055.35 and $7,811,222.79 of Medicare Part D payments from the federal government in 2008 and 2007, respectively.

<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). Other coverage is available for medical student externships outside of Texas and for approved international activities.

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

<u>COMPREHENSIVE PROPERTY PROTECTION PROGRAM</u>

The Comprehensive Property Protection Plan (CPPP) was renewed in April of 2008 and is a combination of self-insurance and commercial coverage and provides Fire and All Other Perils (Fire and AOP), as well as coverage for Named Windstorm and Flood (Wind and Flood). All coverage is subject to the terms, exclusions, limits and conditions of the Insurance Policy. The Fire and AOP program provides a $1,000,000,000 per occurrence limit for most perils, with sub-limits that do apply. Deductibles for Fire and AOP are $5,000,000 per occurrence with a $15,000,000 annual aggregate limit. Wind and Flood is also included; however, the deductible for Named Windstorm is $50,000,000 per occurrence and some flood is sub-limited.

In addition, underlying policies are purchased on certain flood and wind exposed properties. These policies provide relatively low limits ($1-4 million per building/contents for wind and $500,000 maximum building/contents for flood) and are purchased through the Texas Windstorm Insurance Association (TWIA) and the National Flood Insurance Program (NFIP) for facilities in Tier 1 seacoast territories and for properties located in various flood zones. The self-insurance component of the program participates in losses resulting from physical damage that exceeds the coverage available under these primary policies and the institution's deductible.

To fund the self-insurance portion of the Wind and Flood program, the institutions make annual contributions to the loss reserve funds in addition to paying insurance premiums.

DIRECTORS AND OFFICERS/EMPLOYMENT PRACTICES LIABILITY SELF-INSURANCE PLAN

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

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

ROLLING OWNER CONTROLLED INSURANCE PROGRAM

The Rolling Owner Controlled Insurance Program (ROCIP) was established for the centralized purchase of construction contractor insurance on various capital projects. This program provides workers' compensation and general liability insurance for all contractors enrolled on projects participating in the program. The insurance carries a $250,000 per claim and a $375,000 per occurrence basket deductible, which is paid through the program's self-insurance fund.

INCURRED BUT NOT REPORTED SELF-INSURANCE CLAIMS

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

Since the responsibility for processing all claims for employee health and dental benefits has been fully delegated to a third party, the IBNR claims liability for those benefits does not include a provision for unallocated loss adjustment expenses (ULAE). However, it does include a provision of 5% of the projected incurred but unpaid claims for the administrative expenses associated with processing those claims. The IBNR claims liability for the workers' compensation, professional medical liability, directors and officers/employment practices liability, and rolling owner controlled self-insurance plans includes a related accrual for allocated loss adjustment expenses (ALAE), which are the administrative expenses associated with the ultimate settlement of those claims. They do not include a provision for ULAE.

Changes in the System's claims liabilities for the various self-insurance plans during fiscal years 2008 and 2007 were as follows:

Fiscal Year 2008 Plan		IBNR Liability 09/01/07	Current Year Claims and Changes in Estimates	Claims Payments	IBNR Liability 08/31/08
Employee Health and Dental	$	58,200,000.00	610,521,347.97	(603,821,347.97)	64,900,000.00
Workers' Compensation		13,296,000.00	1,530,939.71	(4,618,939.71)	10,208,000.00
Medical Professional Liability		35,678,697.00	(1,132,043.77)	(4,678,669.23)	29,867,984.00
Property Protection – Fire & AOP		967,000.00	441,231.07	(558,231.07)	850,000.00
Property Protection – Wind & Flood		-	150,000.00	-	150,000.00
Directors and Officers/EPL		3,069,532.00	341,257.00	-	3,410,789.00
ROCIP I, II, III, IV and V		7,136,948.00	1,668,017.76	(2,059,241.76)	6,745,724.00
TOTAL	$	118,348,177.00	613,520,749.74	(615,736,429.74)	116,132,497.00

Fiscal Year 2007 Plan		IBNR Liability 09/01/06	Current Year Claims and Changes in Estimates	Claims Payments	IBNR Liability 08/31/07
Employee Health and Dental	$	49,400,000.00	508,055,100.79	(499,255,100.79)	58,200,000.00
Workers' Compensation		15,901,000.00	2,001,248.00	(4,606,248.00)	13,296,000.00
Medical Professional Liability		82,298,019.00	(41,693,002.00)	(4,926,320.00)	35,678,697.00
Property Protection		1,736,416.00	(1,263,005.05)	493,589.05	967,000.00
Directors and Officers/EPL		3,369,378.00	(299,846.00)	-	3,069,532.00
ROCIP I, II, III and IV		6,506,654.00	2,273,608.76	(1,643,314.76)	7,136,948.00
TOTAL	$	159,211,467.00	469,074,104.50	(509,937,394.50)	118,348,177.00

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 (OPEB), in accordance with State statutes. Employees become eligible for the health and life insurance benefits as a retired employee if they meet certain age and service requirements as defined by the State. Similar benefits are provided for active employees through the same self-funded plan. The program did not include fully-insured health maintenance organizations (HMOs) during 2008. For the years ended August 31, 2008 and 2007, the contributions for the self-funded plan by the State per full-time retired employee are shown in the following table. The retiree contributes any premium over and above the State contributions.

Level of Coverage		**2008**		**2007**
Retiree Only	$	369.12	$	348.35
Retiree/Spouse		562.54		530.82
Retiree/Children		492.87		465.09
Retiree/Family		687.44		648.65

The monthly contribution per full-time retiree participating in the HMOs ranged from $339.21 to $746.06 in 2007 depending upon the region and level of coverage selected.

The number of system-wide retired employees who were eligible for these benefits, as well as the cost of providing the benefits for the years ended August 31, 2008 and 2007 are provided in the following table.

		2008	**2007**
Number of Retirees		16,616	15,905
Cost to the State	$	42,162,628.43	44,547,595.22
Cost to the System	$	39,695,647.04	29,165,140.97

PLAN DESCRIPTION AND FUNDING POLICY

OPEB are provided to the System's retirees under the UT System Employee Group Insurance Program (EGIP). The EGIP is a single-employer defined benefit OPEB plan. The authority under which the obligations of the plan members and the System are established and may be amended is Chapter 1601, *Texas Insurance Code*.

The System and member contribution rates are determined annually by the System based on the recommendations of the OEB staff and consulting actuary. The contribution rates are determined based on the benefit and administrative costs expected to be incurred and (i) the funds appropriated and (ii) the funding policy established by the Texas Legislature in connection with benefits provided through the EGIP. The System revises benefits when necessary to match expected benefit and administrative costs with available revenue. The plan is operated on a pay as you go basis.

Because the OPEB plan described herein is not administered through a trust as defined under Paragraph No. 4 of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 43 accounting is not required for this plan.

2008 ANNUAL OPEB COST, EMPLOYER CONTRIBUTIONS AND NET OPEB OBLIGATION

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
ARC	**Interest on Net OPEB Obligation**	**Adjustment to the ARC**	**Annual OPEB Cost {(1) + (2) - (3)}**	**Employer Contributions**	**Increase (Decrease) in Net OPEB Obligation {(4) - (5)}**	**Net OPEB Obligation at Beginning of Year**	**Net OPEB Obligation at End of Year {(6) + (7)}**
$522,570,019.00	-	-	522,570,019.00	99,891,995.00	422,678,024.00	-	422,678,024.00

THREE-YEAR HISTORY OF ANNUAL OPEB COST AND NET OPEB OBLIGATION

Since 2008 is the initial year of application of GASB Statement No. 45, no preceding year information is shown.

(1)	(2)	(3)	(4)	(5)
Fiscal Year Ending	**Annual OPEB Cost**	**Employer Contributions**	**Percentage of Annual OPEB Cost Contributed {(3)/(2)}**	**Net OPEB Obligation at End of Year**
August 31, 2008	$522,570,019.00	99,891,995.00	19.1%	422,678,024.00

The OPEB Expense (Cost) reflected on the Statement of Revenues, Expenses and Changes in Net Assets is net of the Employer Contributions as these costs are reflected as a portion of Payroll Related Costs expense.

SCHEDULE OF FUNDING PROGRESS OF THE PLAN AS OF DECEMBER 31, 2007

The Schedule of Funding Progress presents information as of the current valuation date and the two preceding valuation dates. Since this is the initial year of application of GASB Statement No. 45, no preceding year information is shown.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Actuarial Valuation Date	**Actuarial Value of Assets**	**Actuarial Accrued Liability**	**Unfunded Actuarial Accrued Liability (UAAL) {(3) - (2)}**	**Funded Ratio {(2)/(3)}**	**Annual Covered Payroll**	**Ratio of UAAL to Covered Payroll {(4)/(6)}**
December 31, 2007	$-	5,014.216,756.00	5,014,216,756.00	0.0%	4,312,906,627.00	116.3%

ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The Schedule of Funding Progress shown above presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

GASB Statement No. 45 calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. In addition, the projection of benefits for financial reporting purposes *does not* explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Actuarial calculations reflect a long-term perspective. In addition, consistent with that perspective, actuarial methods and assumptions used in developing the figures in this report include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities.

The information presented herein was determined as part of the actuarial valuation using the actuarial methods and assumptions summarized below.

Summary of Actuarial Methods and Assumptions	
Actuarial cost method	Entry Age Normal (Level percent of pay)
Asset valuation method	Market
Actuarial assumptions:	
Annual investment return assumption (discount rate)[1]	7.00%
Projected annual salary increases[1]	5.25% to 8.50%
Weighted-average at valuation date[1]	7.01%
Annual Healthcare Trend Rates[1]	8.00% in FYE 2009
	Declining to 6.00% in FYE 2014
Amortization method	Level percent
Amortization period	30 year open period

[1]Includes inflation assumption of 4.00%

SIGNIFICANT FACTORS AFFECTING THE COMPARABILITY OF AMOUNTS REPORTED

Because this is the first actuarial valuation for the plan, there are no such factors to be identified at this time.

DISCLOSURE IN YEAR OF TRANSITION

The System implemented GASB Statement No. 45 on a prospective basis during 2008. Therefore, the OPEB liability at transition was $0.

8. Summary of Long-Term Liabilities

Long-term liability activity for the year ended August 31, 2008, is summarized as follows:

	Balance 09/01/07	Additions	Reductions	Balance 08/31/08	Amounts due within one year
Bonds Payable:					
Permanent University Fund:					
Bonds Series 1997	6,090,000.00	-	6,090,000.00	-	-
Refunding Bonds Series 2002A	44,280,000.00	-	14,040,000.00	30,240,000.00	14,740,000.00
Refunding Bonds Series 2004A	59,920,000.00	-	-	59,920,000.00	6,275,000.00
Bonds Series 2004B	223,535,000.00	-	-	223,535,000.00	-
Refunding Bonds Series 2005A	100,345,000.00	-	-	100,345,000.00	-
Bonds Series 2005B	72,720,000.00	-	-	72,720,000.00	-
Refunding Bonds Series 2006A	73,915,000.00	-	23,515,000.00	50,400,000.00	24,635,000.00
Refunding Bonds Series 2006B	284,065,000.00	-	-	284,065,000.00	-
Bonds Series 2006C	97,755,000.00	-	-	97,755,000.00	-
Revenue Financing System:					
Bonds Series 1998B	56,185,000.00	-	40,070,000.00	16,115,000.00	-
Bonds Series 1998D	4,425,000.00	-	4,425,000.00	-	-
Bonds Series 1999A	8,665,000.00	-	4,215,000.00	4,450,000.00	4,450,000.00
Bonds Series 1999B	15,385,000.00	-	7,485,000.00	7,900,000.00	7,900,000.00
Refunding Bonds Series 2001A	23,765,000.00	-	3,800,000.00	19,965,000.00	19,965,000.00
Bonds Series 2001B	29,630,000.00	-	6,890,000.00	22,740,000.00	7,255,000.00
Bonds Series 2001C	13,875,000.00	-	3,205,000.00	10,670,000.00	3,385,000.00
Refunding Bonds Series 2002A	52,525,000.00	-	340,000.00	52,185,000.00	350,000.00
Refunding Bonds Series 2002B	105,140,000.00	-	660,000.00	104,480,000.00	680,000.00
Bonds Series 2003A	33,130,000.00	-	4,125,000.00	29,005,000.00	4,245,000.00
Bonds Series 2003B	246,480,000.00	-	180,560,000.00	65,920,000.00	11,895,000.00
Refunding Bonds Series 2004A	135,175,000.00	-	5,505,000.00	129,670,000.00	7,895,000.00
Refunding Bonds Series 2004B	288,770,000.00	-	11,565,000.00	277,205,000.00	21,880,000.00
Bonds Series 2004C	108,350,000.00	-	7,350,000.00	101,000,000.00	7,710,000.00
Bonds Series 2004D	228,730,000.00	-	159,460,000.00	69,270,000.00	10,055,000.00
Bond Series 2006A	18,105,000.00	-	2,240,000.00	15,865,000.00	2,335,000.00
Bonds Series 2006B	534,105,000.00	-	11,035,000.00	523,070,000.00	13,735,000.00
Refunding Bonds Series 2006C	175,115,000.00	-	375,000.00	174,740,000.00	395,000.00
Refunding Bonds Series 2006D	340,350,000.00	-	260,000.00	340,090,000.00	270,000.00
Bonds Series 2006E	55,985,000.00	-	2,055,000.00	53,930,000.00	2,145,000.00
Bonds Series 2006F	318,525,000.00	-	3,520,000.00	315,005,000.00	6,140,000.00
Refunding Bonds Series 2007B	-	345,460,000.00	7,700,000.00	337,760,000.00	337,760,000.00
Bonds Series 2008B	-	685,485,000.00	-	685,485,000.00	685,485,000.00
Subtotal Bonds Payable – Par	3,755,040,000.00	1,030,945,000.00	510,485,000.00	4,275,500,000.00	1,201,580,000.00
Unamortized Net Premiums	201,477,346.58	-	13,364.315.03	188,113.031.55	11,895,492.49
Unamortized Net (Losses)	(31,702,395.33)	(23,857,008.17)	-	(55,559,403.50)	(4,327,005.55)
Total Bonds Payable	3,924,814,951.25	1,007,087,991.83	523,849,315.03	4,408,053,628.05	1,209,148,486.94

Notes & Loans Payable:					
Permanent University Fund					
Flexible Rate Notes, Series A	100,000,000.00	300,000,000.00	-	400,000,000.00	400,000,000.00
Revenue Financing System					
Commercial Paper Notes, Series A	694,631,000.00	596,846,000.00	541,477,000.00	750,000,000.00	750,000,000.00
Taxable Commercial Paper Notes, Series B	26,313,000.00	75,658,000.00	87,571,000.00	14,400,000.00	14,400,000.00
Other Notes and Loans	36,706,883.33	-	1,881,948.97	34,824,934.36	4,537,207.96
Subtotal Notes & Loans Payable – Par	857,650,883.33	972,504,000.00	630,929,948.97	1,199,224,934.36	1,168,937,207.96
Unamortized Net Premiums	166,304.35	540,001.00	19,664.06	686,641.29	686,641.29
Total Notes and Loans Payable	857,817,187.68	973,044,001.00	630,949,613.03	1,199,911,575.65	1,169,623,849.25
Leases Payable:					
Lease Obligations	2,657,601.46	3,479,707.92	1,064,501.17	5,072,808.21	1,388,393.27
Total Notes, Loans and Leases Payable	860,474,789.14	976,523,708.92	632,014,114.20	1,204,984,383.86	1,171,012,242.52
Employee Compensable Leave	385,079,844.21	128,448,240.47	102,965,790.24	410,562,294.44	270,920,183.46
Incurred But Not Reported Self-Insurance Claims	118,348,177.00	613,520,749.74	615,736,429.74	116,132,497.00	81,060,666.02
Total Bonds, Notes, Loans, Leases, and Compensable Leave Payable	$ 5,288,717,761.60	2,725,580,690.96	1,874,565,649.21	6,139,732,803.35	2,732,141,578.94

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

	Balance 09/01/06	Additions	Reductions	Balance 08/31/07	Amounts due within one year
Bonds Payable:					
Permanent University Fund:					
Bonds Series 1997	11,875,000.00	-	5,785,000.00	6,090,000.00	6,090,000.00
Refunding Bonds Series 2002A	57,650,000.00	-	13,370,000.00	44,280,000.00	14,040,000.00
Bonds Series 2002B	85,545,000.00	-	85,545,000.00	-	-
Refunding Bonds Series 2004A	59,920,000.00	-	-	59,920,000.00	-
Bonds Series 2004B	396,520,000.00	-	172,985,000.00	223,535,000.00	-
Refunding Bonds Series 2005A	100,345,000.00	-	-	100,345,000.00	-
Bonds Series 2005B	124,625,000.00	-	51,905,000.00	72,720,000.00	-
Refunding Bonds Series 2006A	96,380,000.00	-	22,465,000.00	73,915,000.00	23,515,000.00
Refunding Bonds Series 2006B	-	284,065,000.00	-	284,065,000.00	-
Bonds Series 2006C	-	97,755,000.00	-	97,755,000.00	-
Revenue Financing System:					
Bonds Series 1995A	3,180,000.00	-	3,180,000.00	-	-
Bonds Series 1998A	4,090,000.00	-	4,090,000.00	-	-
Bonds Series 1998B	61,270,000.00	-	5,085,000.00	56,185,000.00	5,355,000.00
Bonds Series 1998C	7,335,000.00	-	7,335,000.00	-	-
Bonds Series 1998D	8,640,000.00	-	4,215,000.00	4,425,000.00	4,425,000.00
Bonds Series 1999A	12,680,000.00	-	4,015,000.00	8,665,000.00	4,215,000.00
Bonds Series 1999B	22,500,000.00	-	7,115,000.00	15,385,000.00	7,485,000.00
Refunding Bonds Series 2001A	28,365,000.00	-	4,600,000.00	23,765,000.00	23,765,000.00
Bonds Series 2001B	75,920,000.00	-	46,290,000.00	29,630,000.00	6,890,000.00
Bonds Series 2001C	35,700,000.00	-	21,825,000.00	13,875,000.00	3,205,000.00
Refunding Bonds Series 2002A	52,855,000.00	-	330,000.00	52,525,000.00	340,000.00
Refunding Bonds Series 2002B	105,785,000.00	-	645,000.00	105,140,000.00	660,000.00
Bonds Series 2003A	101,350,000.00	-	68,220,000.00	33,130,000.00	4,125,000.00
Bonds Series 2003B	450,965,000.00	-	204,485,000.00	246,480,000.00	11,545,000.00
Refunding Bonds Series 2004A	136,910,000.00	-	1,735,000.00	135,175,000.00	5,505,000.00
Refunding Bonds Series 2004B	300,330,000.00	-	11,560,000.00	288,770,000.00	11,565,000.00
Bonds Series 2004C	210,125,000.00	-	101,775,000.00	108,350,000.00	7,350,000.00
Bonds Series 2004D	345,420,000.00	-	116,690,000.00	228,730,000.00	9,600,000.00
Bond Series 2006A	20,315,000.00	-	2,210,000.00	18,105,000.00	2,240,000.00
Bonds Series 2006B	540,570,000.00	-	6,465,000.00	534,105,000.00	11,035,000.00
Refunding Bonds Series 2006C	-	175,115,000.00	-	175,115,000.00	375,000.00
Refunding Bonds Series 2006D	-	346,840,000.00	6,490,000.00	340,350,000.00	260,000.00
Bonds Series 2006E	-	55,985,000.00	-	55,985,000.00	2,055,000.00
Bonds Series 2006F	-	318,525,000.00	-	318,525,000.00	3,520,000.00
Subtotal Bonds Payable – Par	3,457,165,000.00	1,278,285,000.00	980,410,000.00	3,755,040,000.00	169,160,000.00
Unamortized Net Premiums	181,598,419.49	105,292,458.00	85,413,530.91	201,477,346.58	13,832,112.00
Unamortized Net (Losses)	(43,910,734.46)	23,555,427.66	11,347,088.53	(31,702,395.33)	(3,926,462.00)
Total Bonds Payable	3,594,852,685.03	1,407,132,885.66	1,077,170,619.44	3,924,814,951.25	179,065,650.00

Notes & Loans Payable:					
Permanent University Fund					
Flexible Rate Notes, Series A	100,000,000.00	100,000,000.00	100,000,000.00	100,000,000.00	100,000,000.00
Revenue Financing System					
Commercial Paper Notes, Series A	540,454,000.00	654,902,000.00	500,725,000.00	694,631,000.00	694,631,000.00
Taxable Commercial Paper Notes, Series B	14,932,000.00	16,800,000.00	5,419,000.00	26,313,000.00	26,313,000.00
Other Notes and Loans	26,461,964.57	11,297,312.26	1,052,393.50	36,706,883.33	3,753,063.00
Subtotal Notes & Loans Payable – Par	681,847,964.57	782,999,312.26	607,196,393.50	857,650,883.33	824,697,062.14
Unamortized Net Premiums	-	170,000.00	3,695.65	166,304.35	166,304.35
Total Notes and Loans Payable	681,847,964.57	783,169,312.26	607,200,089.15	857,817,187.68	824,863,366.49
Leases Payable:					
Lease Obligations	2,466,945.00	779,825.69	589,169.23	2,657,601.46	1,023,223.49
Total Notes, Loans and Leases Payable	684,314,909.57	783,949,137.95	607,789,258.38	860,474,789.14	825,886,589.98
Employee Compensable Leave	360,024,615.64	122,994,777.97	97,939,549.40	385,079,844.21	243,534,820.07
Total Bonds, Notes, Loans, Leases, and Compensable Leave Payable	$ 4,639,192,210.24	2,314,076,801.58	1,782,899,427.22	5,170,369,584.60	1,248,487,060.05

The consolidated balance sheets at August 31, 2008 and 2007 do not include $1,734,212,000 and $1,482,379,000, respectively, of revenue bonds payable, which were fully defeased in prior fiscal years. Direct obligations of the United States of America and noncallable obligations of an agency or instrumentality of the United States of America, including obligations unconditionally guaranteed by the United States of America, rated not less than AAA or its equivalent, in amounts, maturities, and bearing interest at rates sufficient to provide funds to pay in full principal, redemption premium, if any, and interest to maturity or redemption on the defeased bonds, are being held by escrow agents.

PROJECTED BOND DEBT SERVICE REQUIREMENTS

Bond obligations are due in annual installments varying from $1,361,541,619.96 in fiscal year 2009 to $9,817,775 in fiscal year 2038. The debt service requirements in fiscal year 2009 reflect the entire outstanding balance of Revenue Financing System Refunding Bonds, Series 2001A, Revenue Financing System Refunding Bonds, Series 2007B, and Revenue Financing System Bonds, Series 2008B, which are variable rate demand bonds supported by internal liquidity, with an option to tender on seven days notice. These bonds have final maturity dates of August 15, 2013, August 15, 2034, and August 15, 2039, respectively. 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
2009	$ 1,201,580,000.00	159,961,619.96	1,361,541,619.96
2010	166,065,000.00	151,968,588.76	318,033,588.76
2011	141,535,000.00	143,919,476.26	285,454,476.26
2012	141,790,000.00	136,775,951.26	278,565,951.26
2013	148,965,000.00	129,587,588.76	278,552,588.76
2014 – 2018	797,870,000.00	530,456,169.30	1,328,326,169.30
2019 – 2023	706,150,000.00	335,366,461.30	1,041,516,461.30
2024 – 2028	406,615,000.00	192,149,912.52	598,764,912.52
2029 – 2033	350,465,000.00	102,528,925.00	452,993,925.00
2034 – 2038	214,465,000.00	21,290,900.00	235,755,900.00
Total Requirements	$ 4,275,500,000.00	1,904,005,593.12	6,179,505,593.12

Total interest expense for the years ended August 31, 2008 and 2007 was $208,115,806.78 and $195,653,310.69, respectively. Interest expense of $39,756,814.50 and $32,667,610.70 associated with financing projects during the construction phase was capitalized during the years ended August 31, 2008 and 2007, respectively. Interest expense was also adjusted $6,671,940.42 and $4,998,535.48 for the amortization of premiums, issuance costs, and deferred losses on refundings for the years ended August 31, 2008 and 2007, respectively. The remaining amounts of $161,687,051.86 in 2008 and $157,987,164.51 in 2007 were reported as interest expense.

Notes and loans payable obligations are due in annual installments through 2018. General information related to notes and loans payable at August 31, 2008, which in substance are not bonds, is summarized as follows:

Fiscal Year	Principal	Interest	Total
2009	$ 1,168,937,207.96	8,158,342.07	1,177,095,550.03
2010	2,479,610.74	1,575,731.66	4,055,342.40
2011	2,524,679.95	1,435,576.45	3,960,256.40
2012	2,570,783.83	1,294,872.57	3,865,656.40
2013	2,045,650.68	1,150,900.31	3,196,550.99
2014 – 2018	20,667,001.20	2,917,648.31	23,584,649.51
Total Requirements	$ 1,199,224,934.36	16,533,071.37	1,215,758,005.73

EMPLOYEES' COMPENSABLE LEAVE

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

9. Bonded Indebtedness

At August 31, 2008 and 2007, the System had outstanding bonds payable of $4,275,500,000 and $3,755,040,000, 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, 2008, is summarized in the following table:

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

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

(Continued)

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

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

(Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

DEMAND BONDS

Revenue Financing System Refunding Bonds, Series 2001A, Revenue Financing System Refunding Bonds, Series 2007B, and Revenue Financing System Bonds, Series 2008B are variable rate demand bonds with an option to tender on seven days notice. 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. The Revenue Financing System Refunding Bonds, Series 2007B and the corresponding swap agreements extend to August 15, 2034. The Revenue Financing System Bonds, Series 2008B and the corresponding swap agreements extend to August 15, 2039. 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.

- Revenue Financing System Refunding Bonds, Series 2007B
  Purpose: To refund $169,015,000 of Revenue Financing System Bonds, Series 2003B and $149,860,000 of Revenue Financing System Bonds, Series 2004D, and pay costs of issuance.
  Issue Date: December 20, 2007
  Authorized: $675,000,000 Issued: $345,460,000
  Interest Rates: Variable Maturity Date: 2034
  Interest Rate Terms: Interest rates are established by the respective dealer/remarketing agents 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.

- Revenue Financing System Bonds, Series 2008B
  Purpose: To refund $461,922,000 of Revenue Financing System Commercial Paper Notes, Series A and $34,715,000 of Revenue Financing System Bonds, Series 1998B, provide $182,590,000 of new money to finance the costs of campus improvements, and pay costs of issuance.
  Issue Date: March 18, 2008
  Authorized: $950,000,000 Issued: $685,485,000
  Interest Rates: Variable Maturity Date: 2039
  Interest Rate Terms: Interest rates are established by the respective dealer/remarketing agents 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 2008

Revenue Financing System Refunding Bonds, Series 2007B were issued December 20, 2007 to advance refund $169,015,000 principal amount of Revenue Financing System Bonds, Series 2003B, maturing on August 15 in the years 2028 and 2033, to advance refund $149,860,000 principal amount of Revenue Financing System Bonds, Series 2004D, maturing on August 15 in the years 2022 through 2027, 2029 and 2034, and to pay the costs of issuance related thereof.

- Net proceeds from the refunding series were $345,071,194.28 – after the payment of $388,805.72 in underwriting fees. The net proceeds were used to pay cost of issuance of $365,807.00, purchase $344,705,038.72 of eligible defeasance securities, and deposit $348.56 with the escrow agent. These securities were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded bonds.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- The advance refunding resulted in gross debt service savings through 2034 of $49,438,773.86.
- An accounting loss of $25,830,038.72 resulted from the transaction as the reacquisition price of $344,705,038.72 exceeded the net carrying amount of $318,875,000.00 par value.
- An economic gain from the transaction resulted in a net present value savings of $30,192,495.47 between the old and new debt service payments.

Revenue Financing System Bonds, Series 2008B were issued March 18, 2008 to current refund $34,715,000 principal amount of Revenue Financing System Bonds, Series 1998B, maturing on August 15 in the years 2012 through 2016, to current refund $461,922,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, to provide $182,590,000 of new money to finance the costs of campus improvements, and to pay the costs of issuance related thereof.

- Net proceeds related to the refunding were $684,649,149.38 – after the payment of $835,850.62 in underwriting fees. The net proceeds were used to pay cost of issuance of $431,839.25, deposit $34,858,199.38 with the escrow agent and purchase $465,472,715.98 of eligible defeasance securities. An additional $110.65 was retained by the escrow agent. The funds deposited with the escrow agent were used to optionally redeem the refunded bonds on March 18, 2008 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 $1,873,273.89.

- An accounting loss of $4,365,296.45 resulted from the transaction as the reacquisition price of $500,330,915.36 exceeded the net carrying amount of $496,637,000 par value, $(467,796.65) of unamortized discounts, and $(203,584.44) of unamortized bond issuance costs.
- An economic gain from the transaction resulted in a net present value savings of $1,582,898.96 between the old and new debt service payments.

On August 1, 2008, $3,800,000.00 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 2007

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

- Net proceeds from the refunding series (including a premium of $41,960,948.25) were $325,015,884.57 – after the payment of $1,010,063.68 in underwriting fees. The net proceeds were used to pay cost of issuance of $204,793.71 and purchase $324,811,090.86 of eligible defeasance securities. These securities were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded bonds.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- The advance refunding resulted in gross debt service savings through 2035 of $34,315,074.83.
- An accounting loss of $11,237,439.59 resulted from the transaction as the reacquisition price of $324,811,090.86 exceeded the net carrying amount of $310,435,000 par value, $5,675,029.56 of unamortized premiums, and $(2,536,378.29) of unamortized bond issuance costs.
- An economic gain from the transaction resulted in a net present value savings of $17,293,990.04 between the old and new debt service payments.

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

- Net proceeds from the refunding series (including a premium of $3,110,232.70) were $100,514,246.98 – after the payment of $350,985.72 in underwriting fees. The net proceeds were used to pay cost of issuance of $71,247.73 and purchase $100,442,999.25 of eligible defeasance securities. These securities were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded notes.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- An accounting loss of $365,999.25 resulted from the transaction as the reacquisition price of $100,442,999.25 exceeded the net carrying amount of $100,000,000 par value and $77,000 of unamortized premiums.

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

- Net proceeds from the refunding series (including a premium of $18,881,661.15) were $193,339,609.89 – after the payment of $657,051.56 in underwriting fees. The net proceeds were used to pay cost of issuance of $105,230.42, purchase $193,234,374.00 of eligible defeasance securities, and deposit $5.47 with the escrow agent. These securities were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded bonds.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- The advance refunding resulted in gross debt service savings through 2023 of $13,246,486.92.
- An accounting gain of $8,882,845.39 resulted from the transaction as the net carrying amount of $177,835,000 par value, $25,635,222.88 of unamortized premiums, and $(1,353,003.49) of unamortized bond issuance costs, exceeded the reacquisition price of $193,234,374.00.
- An economic gain from the transaction resulted in a net present value savings of $8,983,540.92 between the old and new debt service payments.

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

- Net proceeds from the refunding series (including a premium of $24,201,106.45) were $369,761,849.87 – after the payment of $1,279,256.58 in underwriting fees. The net proceeds were used to pay cost of issuance of $202,157.55, purchase $369,559,686.00 of eligible defeasance securities, and deposit $6.32 with the escrow agent. These securities were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded bonds.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- The advance refunding resulted in gross debt service savings through 2026 of $15,939,914.92.
- An accounting gain of $10,594,573.02 resulted from the transaction as the net carrying amount of $340,735,000 par value, $42,760,023.23 of unamortized premiums, and $(3,340,764.21) of unamortized bond issuance costs, exceeded the reacquisition price of $369,559,686.00.
- An economic gain from the transaction resulted in a net present value savings of $11,356,654.52 between the old and new debt service payments.

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

- Net proceeds from the refunding series (including a premium of $3,000,928.90) were $58,784,118.53 – after the payment of $201,810.37 in underwriting fees. The net proceeds were used to pay cost of issuance of $34,149.73, purchase $58,749,524.62 of eligible defeasance securities, and deposit $444.18 with the escrow agent. These securities were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded notes.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- An accounting loss of $449,524.62 resulted from the transaction as the reacquisition price of $58,749,524.62 exceeded the net carrying amount of $58,300,000 par value.

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

- Net proceeds from the refunding series (including a premium of $14,137,580.55) were $331,496,078.13 – after the payment of $1,166,502.42 in underwriting fees. The net proceeds were used to pay cost of issuance of $184,142.32 and purchase $331,311,935.81 of eligible defeasance securities. These securities were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded notes.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- An accounting loss of $1,124,935.81 resulted from the transaction as the reacquisition price of $331,311,935.81 exceeded the net carrying amount of $330,187,000 par value.

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

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

- The defeased debt is considered legally defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- An accounting loss of $49,344.49 resulted from the transaction as the reacquisition price of $3,568,895.00 exceeded the net carrying amount of $3,605,000 par value, $(45,026.98) of unamortized issuance costs, and $(40,422.51) of unamortized discounts.

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

- The defeased debt is considered legally defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- An accounting loss of $73,775.18 resulted from the transaction as the reacquisition price of $5,399,152 exceeded the net carrying amount of $5,390,000 par value, and $(64,623.18) of unamortized issuance costs.

SWAP AGREEMENTS

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 ("2001A 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 2001A 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 2001A 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 2001A Swap Agreements, the UT System Board of Regents has agreed to pay interest on a notional amount of $80,530,000 at a fixed rate of 4.633% per annum, with such obligation commencing on August 15, 2001. In consideration of receiving the payments from the UT System Board of Regents, Morgan and Goldman agreed to pay to the UT System Board of Regents a variable rate equal to 67% of the one-month London Interbank Offered Rate ("LIBOR"). The Morgan 2001A Swap Agreement was for 60% of the notional amount and the Goldman 2001A Swap Agreement was for 40% of the notional amount. On February 6, 2007, the Goldman 2001A Swap Agreement was ended and the Morgan 2001A Swap Agreement was increased to 100% of the notional amount. The Series 2001A Bonds are scheduled to mature and the Morgan 2001A Swap Agreement is scheduled to terminate on August 15, 2013. As of August 31, 2008, there was $19,965,000 of the Series 2001A Bonds outstanding and the notional amount of the Morgan 2001A Swap Agreement was $19,715,000. As of August 31, 2007, there was $23,765,000.00 of the Series 2001A Bonds outstanding and the notional amount of the Morgan 2001A Swap Agreement was $23,445,000.00.

Fair Value: Because interest rates have declined since the execution of the 2001A Swap Agreements, the 2001A Swap Agreements had a negative fair value of $1,230,518.00 as of August 31, 2008 and a negative fair value of $969,803.83 as of August 31, 2007. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

Basis and Termination Risk: The Morgan 2001A Swap Agreement exposes the UT System Board of Regents to basis risk as the variable rate received under the Morgan 2001A Swap Agreement does not perfectly match the variable rate paid on the Series 2001A Bonds. The Morgan 2001A Swap Agreement may be terminated if Morgan does not maintain a credit rating of at least Aa3 by Moody's Investors Service ("Moody's") or AA- by Standard & Poor's Corporation ("S&P"). As of August 31, 2008, Morgan's ratings by Moody's/S&P were Aaa/AA. The Morgan 2001A Swap Agreement may also be terminated by Morgan if the UT System Board of Regents does not maintain a credit rating of at least Aa3 by Moody's or AA- by S&P. As of August 31, 2008, the UT System Board of Regents Revenue Financing System obligations were rated Aaa by Moody's and AAA by S&P.

Objective of the interest rate swap: On December 4, 2007, the System executed floating-to-fixed rate interest rate swap agreements ("2007B Swap Agreements") with J.P. Morgan Chase Bank ("Morgan"), and UBS AG ("UBS"). On December 20, 2007, the UT System Board of Regents issued its Revenue Financing System Refunding Bonds, Series 2007B, in the form of variable rate demand bonds for the purpose of refunding portions of the outstanding Revenue Financing System Bonds, Series 2003B and Revenue Financing System Bonds, Series 2004D ("Series 2007B Refunded Bonds"). The 2007B Swap Agreements effectively change the UT System Board of Regents' interest rate on the Series 2007B Bonds to a fixed rate of 3.805%. The difference between the swap rate and the rates on the Series 2007B Refunded Bonds resulted in estimated present value debt service savings of approximately $30.2 million.

Terms: Pursuant to the terms of the 2007B Swap Agreements, the UT System Board of Regents has agreed to pay interest on a notional amount of $345,460,000.00 at a fixed rate of 3.805% per annum, with such obligation commencing on December 20, 2007. In consideration of receiving the payments from the UT System Board of Regents, Morgan and UBS agreed to pay to the UT System Board of Regents a variable rate based on the SIFMA Municipal Swap Index. The Morgan 2007B Swap Agreement was for 50% of the notional amount and the UBS 2007B Swap Agreement was for 50% of the notional amount. The 2007B Swap Agreements are scheduled to terminate on August 1, 2034.

Fair Value: The 2007B Swap Agreements had a negative fair value of $7,314,729.00 as of August 31, 2008. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

Termination Risk: The 2007B Swap Agreements expose the UT System Board of Regents to termination risk. Each 2007B Swap Agreement may be terminated if the respective counterparty does not maintain a credit rating of at least Baa2 by Moody's Investors Service ("Moody's") or BBB by Standard & Poor's Corporation ("S&P"). As of August 31, 2008, the swap providers' respective ratings by Moody's/S&P are as follows: Morgan, Aaa/AA and UBS, Aa2/AA-. The 2007B Swap Agreements may also be terminated by Morgan or UBS, 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, 2008, the UT System Board of Regents Revenue Financing System obligations were rated Aaa by Moody's and AAA by S&P.

Objective of the interest rate swap: In March 2007, the System executed forward-starting, floating-to-fixed rate interest rate swap agreements ("2008B Initial Swap Agreements") with J.P. Morgan Chase Bank ("Morgan"), and Morgan Stanley Capital Services, Inc. ("MSCS") to hedge interest rate risk on Revenue Financing System Bonds expected to be issued in February 2008. In February 2008, the System executed an additional floating-to-fixed rate interest rate swap agreement ("2008B Additional Swap Agreement", together with the 2008B Initial Swap Agreements, the "2008B Swap Agreements") with Morgan to hedge the remainder of the Revenue Financing System Bonds expected to be issued. On March 18, 2008, the UT System Board of Regents issued its Revenue Financing System Bonds, Series 2008B, in the form of variable rate demand bonds for the purpose of refunding portions of the outstanding Revenue Financing System Bonds, Series 1998B ("Series 2008B Refunded Bonds"), refinancing a portion of the Board's tax-exempt commercial paper notes and financing the costs of campus improvements. The 2008B Swap Agreements effectively change the UT System Board of Regents' interest rate on the Series 2008B Bonds to a fixed rate of 3.743%. The difference between the swap rate and the rates on the Series 2008B Refunded Bonds resulted in estimated present value debt service savings of approximately $1.6 million.

Terms: Pursuant to the terms of the amended 2008B Initial Swap Agreements, the UT System Board of Regents has agreed to pay interest on a notional amount of $310,000,000 at a fixed rate of 3.90% per annum, with such obligation commencing on March 18, 2008. The Morgan 2008B Initial Swap Agreement was for a notional amount of $155,000,000 and the MSCS Swap Agreement was for a notional amount of $155,000,000. Pursuant to the terms of the 2008B Additional Swap Agreement, the UT System Board of Regents has agreed to pay interest on a notional amount of $375,485,000 at a fixed rate of 3.614% per annum, with such obligation commencing on March 18, 2008. In consideration of receiving the payments from the UT System Board of Regents, Morgan and MSCS agreed to pay to the UT System Board of Regents a variable rate based on the SIFMA Municipal Swap Index. The 2008B Initial Swap Agreements are scheduled to terminate on August 1, 2036 and the 2008B Additional Swap Agreement is scheduled to terminate on August 1, 2039.

Fair Value: The 2008B Swap Agreements had a negative fair value of $13,489,375 as of August 31, 2008 and the 2008B Initial Swap Agreements had a positive fair value of $6,760,124 as of August 31, 2007. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

Termination Risk: The 2008B Swap Agreements expose the UT System Board of Regents to termination risk. Each 2008B Swap Agreement may be terminated if the respective counterparty does not maintain a credit rating of at least Baa2 by Moody's Investors Service ("Moody's") or BBB by Standard & Poor's Corporation ("S&P"). As of August 31, 2008, the swap providers' respective ratings by Moody's/S&P are as follows: Morgan, Aaa/AA and MSCS, A1/A+. The 2008B Swap Agreements may also be terminated by Morgan or MSCS, respectively, if the UT System Board of Regents Revenue Financing System obligations are not rated at least Baa2 by Moody's or BBB by S&P. As of August 31, 2008, the UT System Board of Regents Revenue Financing System obligations were rated Aaa by Moody's and AAA by S&P.

The following table reflects the scheduled payments on the swap agreements which differ from the presentation in the projected bond debt service requirements table for the related demand bonds. The debt service requirements reflect the entire outstanding balance of the demand bonds in 2009 because the bonds are supported by internal liquidity.

As of August 31, 2008

	Associated Variable Rate Bonds		Pay-Fixed Receive-Variable Interest Rate	
Fiscal Year	**Principal[1]**	**Interest[2]**	**Swaps[3]**	**Total**
2009	$ 16,380,000.00	16,862,149.00	20,271,632.44	53,513,781.44
2010	22,035,000.00	16,595,780.25	19,918,397.02	58,549,177.27
2011	22,990,000.00	16,234,558.00	19,455,199.58	58,679,757.58
2012	28,870,000.00	15,857,912.25	18,971,011.69	63,698,923.94
2013	30,080,000.00	15,379,460.50	18,395,072.64	63,854,533.14
2014	27,400,000.00	14,881,202.25	17,794,729.45	60,075,931.70
2015	28,435,000.00	14,420,625.50	17,281,565.40	60,137,190.90
2016	29,505,000.00	13,942,654.00	16,748,467.30	60,196,121.30
2017	20,380,000.00	13,446,707.00	16,194,861.90	50,021,568.90
2018	21,135,000.00	13,105,069.25	15,807,709.85	50,047,779.10
2019	21,935,000.00	12,750,779.50	15,405,838.80	50,091,618.30
2020	20,615,000.00	12,383,088.00	14,988,498.10	47,986,586.10
2021	21,375,000.00	12,037,812.00	14,598,253.90	48,011,065.90
2022	39,500,000.00	11,679,810.25	14,193,364.05	65,373,174.30
2023	41,005,000.00	11,052,852.25	13,432,663.65	65,490,515.90
2024	42,345,000.00	10,401,975.50	12,642,802.60	65,389,778.10
2025	49,620,000.00	9,730,076.00	11,826,498.10	71,176,574.10
2026	42,370,000.00	8,949,085.75	10,867,566.75	62,186,652.50
2027	51,325,000.00	8,273,162.50	10,051,415.40	69,649,577.90
2028	53,275,000.00	7,463,218.00	9,059,644.50	69,797,862.50
2029	49,655,000.00	6,622,511.50	8,030,960.60	64,308,472.10
2030	50,985,000.00	5,845,272.75	7,063,031.35	63,893,304.10
2031	52,930,000.00	5,047,975.75	6,067,728.95	64,045,704.70
2032	54,985,000.00	4,220,259.25	5,034,086.05	64,239,345.30
2033	57,085,000.00	3,360,425.50	3,959,893.60	64,405,319.10
2034	31,720,000.00	2,467,778.50	2,844,210.20	37,031,988.70
2035	25,005,000.00	1,948,158.00	2,226,102.30	29,179,260.30
2036	25,955,000.00	1,525,573.50	1,739,699.40	29,220,272.90
2037	27,045,000.00	1,086,934.00	1,140,948.10	29,272,882.10
2038	28,030,000.00	629,873.50	661,169.80	29,321,043.30
2039	9,240,000.00	156,166.50	163,917.60	9,560,084.10

[1]Reflects scheduled principal and interest payments of Revenue Financing System Refunding Bonds, Series 2001A, Revenue Financing System Refunding Bonds, Series 2007B, Revenue Financing System Bonds, Series 2008B to be optionally or mandatorily redeemed in the fiscal years reflected.

[2]As required by GASB Statement No. 38, annual debt service requirements are computed using the System's interest rates in effect on August 31, 2008 on its Series 2001A Bonds, Series 2007B Bonds, and Series 2008B Bonds.

[3]Reflects net payments on pay-fixed, receive-variable interest rate swaps based on interest rates in effect at August 31, 2008, applied on the respective notional amounts of the swaps through their respective termination dates.

As of August 31, 2007

Fiscal Year		Associated Variable Rate Bonds Principal[1]	Associated Variable Rate Bonds Interest[2]	Pay-Fixed Receive-Variable Interest Rate Swaps[3]	Total
2008	$	3,800,000.00	936,341.00	204,783.00	4,941,124.00
2009		4,000,000.00	786,621.00	172,203.00	4,958,824.00
2010		4,300,000.00	629,021.00	137,483.00	5,066,504.00
2011		4,600,000.00	459,601.00	100,361.00	5,159,962.00
2012		3,400,000.00	278,361.00	60,749.00	3,739,110.00
2013		3,665,000.00	144,401.00	31,357.00	3,840,758.00

[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 3.94% on a par amount of $23,765,000.

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

10. Note Indebtedness

General information related to notes and loans payable at August 31, 2008, 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: September 1, 2007 through August 31, 2008
  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 and Taxable Commercial Paper Notes, Series B
  Purpose: To provide new money
  Issue Date: September 1, 2007 through August 31, 2008
  Authorized Amount: Aggregate principal amount not to exceed $1.25 billion
  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 UT Medicine
  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-UT Medicine 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 UT Medicine
Terms: January 31, 2004 through November 7, 2008

- Note or loan payable issue name: Fine Arts Foundation
  Purpose: UT Austin's purchase of the Suida Manning Art Collection from the Fine Arts Foundation
  Component Unit: UT Austin
  Issue Date: January 4, 1999
  Authorized Amount: $22,713,200
  Source of revenue for debt service: Gift
  Terms: January 4, 1999 through April 17, 2016

- Note or loan payable issue name: Memorial Hermann Hospital System
  Purpose: Reimburse Memorial Hermann Hospital System for equipment purchased and operating funds advanced in association with the transfer of clinics from Memorial Hermann Hospital System to UT Physicians
  Component Unit: UT Health Science Center at Houston's Blended Component Unit
  Issue Date: July 10, 2000
  Authorized Amount: $7,000,000
  Source of revenue for debt service: Debt and interest to be forgiven upon attainment of specified performance goals.
  Terms: July 2000 through June 2012

- Note or loan payable issue name: Premier Purchasing Partners L.P.
  Purpose: To purchase an ownership stake in this limited partnership
  Institution: UT Southwestern Medical Center at Dallas
  Issue Date: September 1, 2005
  Authorized Amount: $369,190
  Source of revenue for debt service: Rebates earned
  Terms: Payment time as well as payment amount is dependent on calculation of rebates which is based on the purchasing volume of the medical center.

- Note or loan payable issue name: City of Shavano Park Health Facilities Development Corporation
  Purpose: Purchase EPIC Patient and Sales Tracking Software Package
  Institution: UT Health Science Center at San Antonio
  Issue Date: December 1, 2006
  Authorized Amount: $9,000,000
  Source of revenue for debt service: Patient service from MSRDP Designated Funds collected by UT Medicine San Antonio
  Terms: February 1, 2007 through January 1, 2018. Interest is computed at 4.13% annually.

- Note or loan payable issue name: City of Shavano Park Health Facilities Development Corporation
  Purpose: Purchase EPIC Patient and Sales Tracking Software Package
  Institution: UT Health Science Center at San Antonio
  Issue Date: January 1, 2007
  Authorized Amount: $3,000,000
  Source of revenue for debt service: Patient service from MSRDP Designated Funds collected by UT Medicine San Antonio
  Terms: February 1, 2007 through January 1, 2018. Interest is computed at 4.15% annually.

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, 2008 and 2007 is as follows:

Assets Under Capital Lease		2008	2007
Furniture and Equipment	$	3,307,758.28	468,009.57
Less: Accumulated Depreciation		(210,896.52)	(156,354.17)
Museums and Art Collections		2,615,000.00	2,742,807.81
Total	$	5,711,861.76	3,054,463.21

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, 2008.

Fiscal Year		Principal	Interest	Total
2009	$	1,388,393.27	137,635.35	1,526,028.62
2010		1,141,065.66	91,382.93	1,232,448.59
2011		812,580.92	58,202.00	870,782.92
2012		249,999.88	32,291.68	282,291.56
2013		249,999.88	27,291.68	277,291.56
2014 – 2018		1,230,768.64	61,458.42	1,292,227.06
Total Minimum Lease Payments		5,072,808.25	408,262.06	5,481,070.31
			Less: Interest	(408,262.06)
Present Value of Net Minimum Lease Payments				5,072,808.25

12. Short-Term Debt

The System had RFS Commercial Paper Notes, Series A, RFS Taxable Commercial Paper Notes, Series B, and PUF Flexible Rate Notes, Series A, outstanding at August 31, 2008 and 2007. The notes are issued to provide interim financing for capital improvements and to finance equipment purchases. While the interest is payable on these notes in periodic installments not to exceed 270 days, they are generally intended to be refinanced with long-term debt. Information pertaining to the balances and activity of these notes is reflected in Note 8.

13. Net Assets

The System's net assets at August 31, 2008 and 2007 were comprised of the following:

	2008	2007
Invested in capital assets, net of related debt	$ 4,492,553,460.55	4,061,462,639.30
Restricted		
Nonexpendable	10,186,310,450.73	9,772,978,153.55
Expendable	10,191,327,270.66	11,392,678,800.47
Total restricted	20,377,637,721.39	21,165,656,954.02
Unrestricted net assets:		
Unrestricted		
Reserved		
Encumbrances	277,102,137.98	419,529,657.72
Accounts receivable (less deferred revenue portion)	806,286,354.38	697,592,239.41
Inventories	69,803,894.76	66,875,850.26
Self-insurance plans	306,051,531.80	313,753,697.35
Higher Education Assistance Fund (HEAF)	6,348,354.76	4,559,962.52
Other specific purposes:		
Advanced Research/Advanced Technology Programs	10,391,632.35	3,563,553.31
Notes Receivable	82,585.47	0
Deposits	3,559,288.61	2,536,581.21
Prepaid expenses	85,929,804.09	73,346,592.91
Deferred charges	12,698,210.12	6,349,565.20
Imprest funds	1,040,831.93	1,015,148.73
Travel advances	348,990.97	273,657.76
Unreserved		
Allocated		
Funds functioning as endowment-unrestricted	287,221,797.88	209,547,190.05
Provision for 2008 & 2007 operating budgets	45,615,407.93	86,049,659.00
Capital projects	203,901,358.00	59,332,768.50
Debt service	137,265,649.92	120,685,313.08
Start-up/matching	25,646,498.03	28,991,302.52
Utilities reserve	31,680,829.01	18,552,999.10
Research enhancement and support	96,607,787.16	81,334,210.40
Market adjustments	50,123,116.24	38,197,875.91
Student fees	58,039,339.36	65,425,236.36
Texas Tomorrow Fund shortfall	8,317,762.51	8,985,495.41
Instructional program support	119,731,028.95	104,719,916.48
Dean, chair and faculty recruitment packages	15,394,918.37	40,320,281.54
Self-supporting enterprises	83,186,764.47	107,654,382.65
Patient care support	101,076,807.94	118,398,693.00
Practice plan minimum operating reserve of 90 days	262,766,577.50	338,386,086.03
Uncompensated Patient Care	1,253,806.56	4,656,248.50
Unallocated	(360,084,695.54)	101,835,346.46
Total unrestricted	2,747,388,371.51	3,122,469,511.37
Total net assets	$ 27,617,579,553.45	28,349,589,104.69

As of August 31, 2008 and 2007, restricted nonexpendable net assets include $6,569,214,663.45 and $6,375,985,758.29, respectively, of the Permanent University Fund corpus, and $820,000,000.00 for both years of the Permanent Health Fund corpus. As of August 31, 2008 and 2007, restricted expendable net assets include $6,110,212,422.58 and $6,927,947,062.32, respectively, of the Permanent University Fund appreciation, and $205,693,080.91 and $280,055,767.72, respectively, of the Permanent Health Fund appreciation.

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, 2008, 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	$	20,465,064.68	1,847.76	70,719,317.54	(352,335.46)	8.81
Salaries and Wages		1,668,586,013.97	926,133,200.09	1,380,698,954.59	136,854,858.60	233,145,803.70
Payroll Related Costs		410,114,525.27	215,134,027.36	364,739,245.48	30,621,660.95	55,497,945.26
Professional Fees and Services		51,070,540.73	94,369,133.58	122,562,582.45	15,701,499.91	16,167,114.22
Scholarships and Fellowships		8,712,671.98	25,929,576.04	136,508.95	2,135,133.73	1,521,777.34
Travel		31,041,327.12	37,328,720.71	12,070,756.91	4,871,241.19	8,114,538.37
Materials and Supplies		102,211,117.67	177,194,379.87	570,891,105.86	22,023,851.46	37,815,720.07
Utilities		4,605,884.43	2,361,369.31	6,914,831.98	798,440.62	144,600.73
Communications		23,132,050.01	7,583,408.74	12,835,012.41	2,099,647.52	25,059,960.57
Repairs and Maintenance		6,992,960.21	13,411,616.71	50,024,027.98	1,739,733.97	5,736,015.67
Rentals and Leases		14,360,086.58	7,893,827.59	35,068,322.90	3,455,422.38	4,766,364.88
Printing and Reproduction		6,553,227.99	3,741,422.00	2,231,682.55	3,019,220.45	3,373,786.40
Depreciation and Amortization		-	-	-	-	
Bad Debt Expense		6,359.50	(7,493.07)	-	(5,879.88)	(49,637.69)
Claims and Losses		-	-	-	-	-
Increase in Net OPEB Obligation		-	-	-	-	-
Other Operating Expenses		81,714,269.00	197,474,713.74	237,607,183.82	33,966,611.95	32,540,917.05
Federal Sponsored Pass-through to State Agencies		906,551.37	5,876,687.79	-	1,033,860.54	-
State Sponsored Pass-through to State Agencies		-	141,360.68	-	-	-
Total Operating Expenses	$	2,430,472,650.51	1,714,567,798.90	2,866,499,533.42	257,962,967.93	423,834,915.38

Student Services	Institutional Support	Operations and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total Expenses
89,523.07	806,850.52	29,637.00	-	4,590,997.79	-	96,350,911.71
100,092,544.41	520,507,956.08	195,737,001.27	28,280,516.96	143,001,471.35	-	5,333,038,321.02
23,923,814.51	125,924,567.58	49,519,640.14	4,831,241.14	32,721,433.05	-	1,313,028,100.74
2,907,449.50	33,789,692.62	33,933,432.17	499,950.50	12,067,502.86	-	383,068,898.54
5,443,023.95	1,909,417.07	3,084.15	221,980,610.27	8,272,507.18	-	276,044,310.66
3,636,536.50	13,148,026.22	1,783,523.67	695,680.88	17,307,601.83	-	129,997,953.40
12,186,610.03	44,059,724.47	70,042,446.03	1,107,721.38	53,522,179.45	-	1,091,054,856.29
919,943.03	(16,379,505.81)	255,271,188.65	838.85	29,835,153.38	-	284,472,745.17
2,210,871.81	(21,635,577.25)	2,851,714.17	162,682.53	4,958,623.33	-	59,258,393.84
2,840,592.24	22,155,042.12	69,391,958.43	114,957.99	14,082,617.14	-	186,489,522.46
3,458,240.05	9,377,450.95	22,918,855.30	76,147.52	8,263,253.67	-	109,637,971.82
2,701,909.87	(5,842,551.33)	227,233.42	85,951.74	4,773,185.06	-	20,865,068.15
-	-	-	-	-	679,831,345.96	679,831,345.96
2,752,368.90	666,248.01	-	277,530.15	300,232.87	-	3,939,728.79
-	11,837,862.80	-	-	-	-	11,837,862.80
-	422,678,024.00	-	-	-	-	422,678,024.00
14,389,768.16	(59,578,702.34)	(2,559,012.71)	2,353,836.68	68,235,255.28	-	606,144,840.63
-	(107,468.83)	-	110,675.00	-	-	7,820,305.87
-	-	-	-	-	-	141,360.68
177,553,196.03	1,103,317,056.88	699,150,701.69	260,578,341.59	401,932,014.24	679,831,345.96	11,015,700,522.53

For the year ended August 31, 2007, the following table represents operating expenses for both natural and functional classifications for the System:

Operating Expenses		Instruction	Research	Hospitals and Clinics	Public Service	Academic Support
Cost of Goods Sold	$	20,365,243.75	3,976.40	67,477,793.39	711,502.58	691.02
Salaries and Wages		1,597,471,446.65	841,629,225.60	1,244,187,158.13	116,682,597.77	220,527,736.57
Payroll Related Costs		376,881,656.06	191,557,438.48	324,756,353.00	26,503,983.51	51,450,385.70
Professional Fees and Services		32,014,656.55	65,896,905.83	123,970,723.10	13,210,981.06	15,257,090.97
Scholarships and Fellowships		6,308,740.80	20,069,080.86	137,667.19	1,863,670.40	1,251,799.05
Travel		28,012,780.92	33,442,485.69	9,719,609.26	5,164,707.31	7,408,875.70
Materials and Supplies		95,983,656.94	164,292,133.51	548,448,633.48	18,321,541.74	35,119,315.51
Utilities		10,584,293.14	1,611,449.42	6,156,149.31	939,188.50	118,275.17
Communications		18,002,929.02	6,808,399.99	12,576,724.90	1,941,185.14	12,779,252.99
Repairs and Maintenance		8,335,005.54	9,374,825.42	44,087,657.52	1,233,894.35	5,677,548.93
Rentals and Leases		13,268,218.56	7,246,199.22	29,217,412.12	3,422,386.17	4,772,729.61
Printing and Reproduction		6,019,121.51	3,920,531.07	1,426,774.19	3,086,402.50	3,025,625.05
Depreciation and Amortization		-	-	-	-	-
Bad Debt Expense		5,388.66	3,299.00	-	3,274.07	69,187.03
Claims and Losses		-	-	-	-	-
Other Operating Expenses		169,708,416.32	187,034,131.84	222,986,055.95	27,840,217.68	32,950,317.81
Federal Sponsored Pass-through to State Agencies		1,368,934.84	9,927,519.22	-	1,183,539.67	-
State Sponsored Pass-through to State Agencies		(7,815.55)	101,984.93	-	-	-
Total Operating Expenses	$	2,384,322,673.71	1,542,919,586.48	2,635,148,711.54	222,109,072.45	390,408,831.11

Student Services	Institutional Support	Operations and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total Expenses
84,938.92	1,608,766.77	53,048.53	-	10,223,879.49	-	100,529,840.85
91,953,318.95	483,477,804.79	177,753,331.29	28,763,791.57	132,714,286.17	-	4,935,160,697.49
21,022,282.90	142,127,822.44	42,058,152.45	4,943,113.18	30,831,355.53	-	1,212,132,543.25
2,348,938.50	41,850,313.00	27,039,045.38	461,865.45	18,880,708.02	-	340,931,227.86
3,595,772.44	413,693.28	1,708.59	219,295,120.63	7,713,770.24	-	260,651,023.48
2,878,157.30	11,142,036.23	1,593,147.81	650,189.33	14,817,634.70	-	114,829,624.25
11,263,849.39	32,553,278.87	51,981,474.55	740,341.62	43,442,029.94	-	1,002,146,255.55
801,893.91	(23,499,305.76)	212,972,296.17	364.06	27,279,641.61	-	236,964,245.53
1,681,282.58	(6,437,487.37)	2,181,014.95	14,669.21	4,634,950.84	-	54,182,922.25
3,172,150.09	19,163,063.58	49,652,617.39	51,164.83	11,897,707.01	-	152,645,634.66
3,496,382.23	8,483,672.92	21,150,288.34	52,955.73	8,548,164.22	-	99,658,409.12
2,432,918.63	(4,125,336.21)	283,370.77	76,623.42	4,725,991.49	-	20,872,022.42
-	-	-	-	-	626,913,137.63	626,913,137.63
1,835,595.26	384,318.87	-	8,697.27	5,622.13	-	2,315,382.29
-	10,104,830.07	-	-	-	-	10,104,830.07
10,782,511.70	(82,598,208.16)	(32,121,804.70)	2,138,954.06	57,918,003.36	-	596,638,595.86
-	-	-	79,222.01	-	-	12,559,215.74
-	-	-	-	-	-	94,169.38
157,349,992.80	634,649,263.32	554,597,691.52	257,277,072.37	373,633,744.75	626,913,137.63	9,779,329,777.68

15. Commitments and Contingent Liabilities

On August 31, 2008, 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 $8.8 billion capital improvement program, planned for fiscal years 2008 through 2013, to upgrade facilities. Contracts have been entered into for the construction and renovation of various facilities. These projects are in various stages of completion.

The System receives grants and other forms of reimbursement from various federal and state agencies. These activities are subject to audit by agents of the funding authority, the purpose of which is to ensure compliance with conditions precedent to providing such funds. The System believes that the liability, if any, for reimbursement which may arise as the result of audits, would not be material.

The System has invested in certain hedge funds. These agreements commit the System to future funding amounting to $303,188,933.00 as of August 31, 2008.

The System has invested in certain private investment funds. These agreements commit the System to future capital contributions amounting to $2,909,326,821.00 as of August 31, 2008 and $2,045,612,860.00 as of August 31, 2007.

16. Operating Lease Obligations

The System has entered into various operating leases for buildings, equipment and land. Rental expenses for operating leases were $69,109,421.84 in 2008 and $62,544,551 in 2007. Future minimum lease rental payments under noncancelable operating leases having an initial term in excess of one year as of August 31, 2008, were as follows:

Fiscal Year		Lease Payments
2009	$	47,152,855.10
2010		37,864,131.48
2011		29,137,567.57
2012		19,071,632.24
2013		15,216,792.61
2014 – 2018		19,508,494.16
2019 – 2023		1,331,841.66
2024 – 2028		1,345,333.74
2029 – 2033		917,000.43
2034 – 2038		312,375.45
Total Minimum Future Payments	$	171,858,024.44

The System has also leased buildings, equipment and land to outside parties under various operating leases. The cost, carrying value and accumulated depreciation of these leased assets as of August 31, 2008 and 2007 were as follows:

Assets Leased		2008	2007
Buildings:			
Cost	$	88,478,489.50	75,683,614.95
Less: Accumulated Depreciation		(21,333,685.62)	(18,534,859.03)
Carrying Value of Buildings		67,144,803.88	57,148,755.92
Land		3,338,447.79	3,251,386.10
Total Carrying Value	$	70,483,251.67	60,400,142.02

Minimum future lease rental income under noncancelable operating leases as of August 31, 2008, was as follows:

Fiscal Year		Lease Income
2009	$	23,042,134.44
2010		20,796,019.19
2011		19,770,710.66
2012		9,458,129.08
2013		8,865,111.79
2014 – 2018		7,011,196.26
2019 – 2023		2,746,470.09
2024 – 2028		46,406.63
2029 – 2033		40,045.45
2034 – 2038		82,299.55
Total	$	91,858,523.14

17. Employees' Retirement Plans

TEACHER RETIREMENT SYSTEM (TRS)

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

All System personnel employed in a position on a half time or greater basis for at least 4½ months or more are eligible for membership in the TRS retirement plan. However, students employed in positions that require student status as a condition of employment do not participate. Members with at least five years of service at age 65 or any combination of age plus years of service, which equals 80 (members who began TRS participation on or after September 1, 2007 must be age 60), have a vested right to unreduced retirement benefits. Members are fully vested after five years of service and are entitled to any reduced benefits for which the eligibility requirements have been met prior to meeting the eligibility requirements for unreduced benefits.

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 6.58 percent of annual compensation. The System's contributions to TRS for the years ended August 31, 2008, 2007 and 2006, were $149,218,315.67, $124,742,870.22 and $117,951,564.00, respectively, which equaled the amounts of the required contributions for those years.

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

OPTIONAL RETIREMENT PROGRAM (ORP)

The State has also established an optional retirement program for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS and is available to certain eligible employees. The ORP provides for the purchase of annuity contracts and mutual funds. Participants are vested in the employer contributions after one year and one day of service. 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. Since these are individual annuity contracts, the State and the System have no additional or unfunded liability for this program. The contributions made by participants and the System for the fiscal years ended August 31, 2008, 2007 and 2006, respectively, are provided in the following table.

		2008	2007	2006
Participant Contributions	$	112,917,966.00	106,444,299.00	100,983,865.09
System Contributions		135,439,626.00	125,152,891.00	117,610,604.47
Total	$	248,357,592.00	231,597,190.00	218,594,469.56

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 $46,000 limit on contributions imposed by Section 415 of the Internal Revenue Code (IRC). At August 31, 2008 and 2007, there were 714 and 653 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 $46,000 cap under IRC Section 415(c), defer 6.65 percent of their excess compensation while the System contributes between 6.58 percent and 8.5 percent depending upon the institution and the date of employment. The System contributed $4,002,425.67 for the year ended August 31, 2008 and $4,031,748.21 for the year ended August 31, 2007. Plan provisions are established and may be amended at any time by the UT System Board of Regents.

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

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

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

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

18. Voluntary Retirement Plans

DEFERRED COMPENSATION-457(b)

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

The System administers the UTSaver Deferred Compensation Program (DCP), created in accordance with IRC Section 457(b). All employees are eligible to participate. Deductions, purchased investments and earnings attributed to the UTSaver DCP are the property of the System subject only to the claims of the System's general creditors. Participants' rights under the plan are equal to those of the general creditors of the System in an amount equal to the fair market value of the UTSaver DCP account for each participant. The System has no liability under the UTSaver DCP and it is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.

TAX-SHELTERED ANNUITY-403(b)
The System also administers the UTSaver Tax-Sheltered Annuity Program (TSA), created in accordance with IRC Section 403(b). All employees are eligible to participate. The UTSaver TSA is a private plan, and the deductions, purchased investments and earnings attributed to each employee's 403(b) plan are held by vendors chosen by the employee. The vendors may be insurance companies, banks or approved non-bank trustees such as mutual fund companies. The assets of this plan do not belong to the System or the State. Therefore, neither the System nor the State has a liability related to this plan.

19. Subsequent Events

Subsequent to August 31, 2008, the U.S. and international financial markets experienced significant volatility. This resulted in substantial declines in equity, fixed income and commodities markets in which the System invests directly, and indirectly, through its investments in various hedge funds, private investments and public markets. The financial results of the System are impacted by market volatility and therefore the System was negatively impacted as a result of these market conditions.

On September 13, 2008 Hurricane *Ike* made landfall at Galveston, Texas resulting in temporary closures of UT Health Science Center at Houston and UT M. D. Anderson Cancer Center and closure of a significant portion of UT Medical Branch at Galveston for an undetermined period of time. Physical structures at UT Health Science Center at Houston and UT M. D. Anderson Cancer Center sustained property damage of up to $10 million. UT Medical Branch at Galveston sustained significant physical damage and loss of patient care activity. Costs for protecting and restoring facilities, replacement of infrastructure and equipment, and evacuation and relocation, together with loss of revenue, may exceed $700 million based upon preliminary estimates. UT Medical Branch at Galveston is implementing restored operations for all of research and education, and a portion of the clinical activity. Clinical activity restoration will take an extended period of time due to the extent and nature of damages to related facilities. The System maintains property insurance coverage through its comprehensive property protection plan as discussed in Note 6. Losses (including business interruption) due to named windstorms are covered up to $100 million under a commercial insurance policy subject to a $50 million deductible. Underlying National Flood Insurance Program and Texas Windstorm Insurance Association policies provide up to $10 million in additional insurance recovery. Preliminary estimates for loss of revenue resulting from the Hurricane approximate $300 million. Institutions are submitting claims to the United States Federal Emergency Management Agency (FEMA) for unfunded losses caused by Hurricane *Ike*; however, at this time, management is unable to estimate the total amount of FEMA proceeds that will ultimately be received. Hurricane *Ike* will result in a permanent impairment of capital assets for UT Medical Branch at Galveston. It is unknown at this time if UT Health Science Center at Houston and UT M. D. Anderson Cancer Center will have permanent impairment of capital assets.

As a result of the financial losses stemming from Hurricane *Ike*, on November 12, 2008, the UT System Board of Regents found that a financial exigency existed at UT Medical Branch at Galveston and instructed the System to work with the university to implement a reduction in force of approximately 3,800 full-time equivalent positions. The university employs more than 12,000 people who have been on the payroll since Hurricane *Ike* struck Galveston. With UT Medical Branch at Galveston's hospital largely shut down, UT Medical Branch at Galveston's expenses have exceeded revenues by $40 million a month and reserves will be exhausted shortly. The affected employees will be carried on the payroll until mid-January of 2009.

On October 30, 2008, the UT System Board of Regents issued $400,905,000.00 in PUF Bonds, Series 2008A to refund $400,000,000.00 of outstanding PUF Flexible Rate Notes, Series A. In anticipation of this planned issuance, the System executed pay-fixed, receive-variable interest rate swaps with Morgan Stanley Capital Services Inc. and Royal Bank of Canada on September 10, 2008 and September 11, 2008, respectively, with each swap having an effective date of November 3, 2008.

On November 5, 2008, the UT System Board of Regents issued $238,576,000.00 in RFS Commercial Paper Notes, Series A to finance a variety of capital projects at various UT System institutions. After this issuance, the System had $988,576,000.00 of RFS Commercial Paper Notes, Series A outstanding.

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, 2008, related to pass-through grants were $210,008,431.18 and $7,961,666.55, respectively. Funds received and provided during the year ended August 31, 2007, related to pass-through grants were $183,352,967.64 and $12,653,385.12, 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, 2008 and 2007 are detailed by type as follows:

Net Other Receivables		2008	2007
Receivables related to investments	$	246,555,467.54	348,418,645.92
Receivables related to healthcare		48,227,022.94	39,047,179.36
Receivables related to gifts, grants and sponsored programs		41,996,551.58	38,607,803.64
Receivables related to external parties/other companies		17,815,515.87	24,371,548.23
Receivables related to auxiliary enterprises		10,382,481.45	7,077,599.08
Receivables related to facilities/construction projects		525.00	-
Receivables related to payroll		4,012,481.36	6,019,554.02
Receivables related to patents		1,269,500.13	1,821,736.56
Receivables related to travel		1,074,574.21	1,000,689.80
Receivables related to loan funds and financial aid		1,906,866.26	1,947,924.63
Receivables related to agency funds		978,679.79	1,728,437.59
Receivables related to other various activities		18,790,391.50	10,450,982.62
Total	$	393,010,057.63	480,492,101.45

23. Affiliated Organizations

The balances, or transactions, of funds held by others on behalf of the System are not reflected in the financial statements. Based upon the most recent available information, the net assets of these funds are reported by the organizations at values totaling $2,029,678,141.00 at August 31, 2008 and $1,770,212,547.00 at August 31, 2007. See Note 2, Summary of Significant Accounting Policies, Assets Held by Affiliated Organizations for more information.

24. Joint Ventures

UT Southwestern Health Systems (UTSHS), a blended component unit of UT Southwestern Medical Center at Dallas (UTSWMC), is a participating member of UT Southwestern DVA Healthcare, LLP (DVA). DVA is a joint venture between UTSHS and Davita Inc. to provide care for dialysis patients in the Dallas-Fort Worth area. UTSHS's equity interest in DVA at August 31, 2008 and 2007 was $3,557,345.17 and $4,209,227.73, 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, 2008 and 2007 was $893,221.03 and $935,587.08, respectively, or 35.6%. 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, 2008 and 2007 was $67,045.55 and $127,468.91, respectively, or 60.2% and 56.7%, respectively. 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.

UT Health Science Center at Houston's blended component unit, UT Physicians, is a participating member of TMC Holding Company, L.L.C. (TMC Holding). TMC Holding is a Limited Liability Corporation entered into by UT Physicians, Baylor College of Medicine and Memorial Hermann/USP Surgery Centers III, L.L.P. UT Physicians' equity interest in TMC Holding at August 31, 2008 was $287,100.00, or 14.5%. Separate financial statements for TMC Holding Company, L.L.C. may be obtained by contacting Dave Whalen, 9401 Southwest Freeway, Suite 1132, Houston, Texas 77074.

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, 2008 and 2007 was $840,978.00 and $619,456.00, 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, 2008 and 2007 was $20,746,269.00 and $21,075,510.00, 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, 2008 and 2007 was $4,299,683.00 and $2,808,419.00, 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, 2008, 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 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, 2008 and 2007 was $2,500,000.00, 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, 2008 and 2007, UTMDA's investment in Premier was $4,032,000.00 and $4,080,000.00, respectively, or 1.44% and 1.45%, respectively. 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 2008, UT Health Science Center at Tyler implemented a reduction in force effective March and April 2008. The benefits package provided to the 43 terminated employees consisted of normal benefits and salaries with no special benefits or severance packages offered.

Healthcare continuation under the Consolidated Omnibus Budget Reconciliation Act (COBRA) is provided for both voluntary and involuntary terminations. The COBRA members are eligible to remain in the group benefits program for 18 months or 29 months, if disabled. Dependents are eligible to remain in the program for 36 months. COBRA benefits for the System for the year ended August 31, 2008 are provided below:

		2008
Number of Participants[1]		1,203
Premium Revenue	$	4,557,929.47
2% Administrative Fee Revenue[2]		89,500.49
Total Revenue for COBRA		4,647,429.96
Less Claims Paid		(8,362,497.46)
Cost to State	$	3,715,067.50

[1]The participants above are for the self-insured program.
[2]The 2 percent administrative fee is not retained by the System but is passed to the carrier.

There were no other nonroutine, widespread voluntary or involuntary termination arrangements that involved a substantial number of individual employees or group of employees meeting the criteria for liability recognition.

26. Extraordinary Items

In late July and early August 2006, the city of El Paso received a tremendous amount of rain, which caused significant water damage to some of UT El Paso's buildings and infrastructure. As a result of the flooding, UT El Paso incurred significant costs related to clean-up and repair from the flooding subsequent to year-end. Due to the infrequency of significant rainfall in the El Paso area, the expenses of $504,812 related to the clean-up, net of the estimated insurance recoveries, were recognized as extraordinary losses for the year ended August 31, 2006. Insurance proceeds net of additional expenses of $320,938 were recognized as extraordinary income for the year-ended August 31, 2007. Final insurance proceeds of $736,153.70 were received in 2008, along with $12,360.00 of remaining expenses and the resulting $723,793.70 was recognized as extraordinary income for the year ended August 31, 2008. None of the damage caused impairment of UT El Paso's assets.

27. Disclosure of Assumed Responsibility

On December 17, 2007, The University of Texas Health Science Center at San Antonio assumed responsibility for the operation of the Cancer Therapy and Research Center (CTRC), a 501(c)(3) non-profit corporation. In the merger of the two entities, University of Texas Health Science Center at San Antonio acquired possession of the real and personal property of CTRC, paying off the long-term real estate indebtedness of CTRC at a cost of $13,836,725.92. The payment will be financed with the issuance of RFS debt. Net property and equipment acquired in the combination is valued at $65,981,760.46 as of December 17, 2007. Approximately 350 to 400 CTRC employees engaged in the direct delivery and administration of cancer related research and patient care were converted to University of Texas Health Science Center at San Antonio employees effective December 17, 2007.

In the combination of the two entities, the CTRC Board of Directors also agreed to make a three-year, $24 million gift of cash to University of Texas Health Science Center at San Antonio. The purpose of the gift is to help fund CTRC operations for the next three years.

The CTRC Board of Directors remains in existence and maintains custody of the CTRC Foundation endowment, valued at $71,271,844 as of September 30, 2007. The board manages these assets for the sole purpose of supporting the operations and mission of CTRC.

28. Upcoming Accounting Pronouncements

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective in fiscal year 2009, addresses accounting and financial reporting standards for pollution and hazardous materials contamination remediation obligations, i.e., obligations to address the current or potential detrimental effects of existing pollution and contamination by participating in remediation activities such as site assessments and cleanups. These obligations will generally require the recognition and reporting of remediation liabilities and, in certain instances, will result in recognition and reporting of capital asset transactions at the time those assets are acquired. Based on preliminary questionnaires sent by the Texas State Comptroller's Office, implementation of this statement is not expected to have a significant impact on the System's net assets.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective in fiscal year 2010, addresses accounting and financial reporting standards for intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This Statement requires that all intangible assets not specifically excluded to be classified as capital assets. Implementation of this statement is not expected to have a significant impact on the System's net assets as the System is already applying Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.*

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, was early implemented prior to fiscal year 2008. Statement No. 52 requires endowments to report land and other real estate investments at fair value. Since the System previously reported its endowment real estate investments at fair value, the implementation of GASB Statement No. 52 had no effect on the System's net assets.

2008 Analysis of Financial Condition

February 2009

The University of Texas System
2008 Analysis of Financial Condition

Foreword

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

The ratios presented in this report are ratios commonly used by bond rating agencies, public accounting firms and consulting firms. In addition to using individual ratios a Composite Financial Index (CFI) is calculated using four commonly used ratios to form a composite score to help analyze the overall financial health of each institution. Use of a single score allows a weakness in a particular ratio to be offset by strength in another ratio. The four core ratios that make up the CFI are as follows:

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

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

- *Operating Expense Coverage Ratio* – measures an institution's ability to cover future operating expenses with available year-end balances (in months).
- *Debt Burden Ratio* – examines the institution's dependence on borrowed funds as a source of financing and the cost of borrowing relative to overall expenses.
- *Debt Service Coverage Ratio* – measures the actual margin of protection provided to investors by annual operations. *Moody's Investors Service* excludes actual investment income from its calculation of total operating revenue and instead, uses a normalized investment income of 4.5% of the prior year's ending total cash and investments. This calculation is used by the Office of Finance, and in order to be consistent with their calculation of the debt service coverage ratio, normalized investment income was used as defined above for this ratio <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. By policy, institutions rated "Unsatisfactory" are not permitted to invest in the Intermediate Term Fund. 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

Institution Rated "Unsatisfactory"

UTMB

The institution's financial condition was downgraded to "Unsatisfactory" for 2008. The composite financial index (CFI) dropped from 5.1 in 2007 to 1.6 in 2008, the lowest of all the health institutions, primarily due to the decrease in the fair value of investments and the decline in operating performance. The operating expense coverage ratio decreased by 0.5 months to 0.9 months in 2008, which was significantly below the benchmark of 2 months and also the lowest coverage of all the health institutions. The decrease in this ratio was attributable to both a decrease in total unrestricted net assets and an increase in total operating expenses. The increase in total operating expenses was attributable to the rising cost of healthcare inflation. The increase in the operating expenses, along with the decrease in the fair value of investments allocated to designated funds contributed to the reduction in total unrestricted net assets. The annual operating margin decreased by $53.8 million to a deficit of $50.3 million or (3.3%) for 2008, the lowest of all UT institutions. The Hospitals and Clinics experienced a significant decline in volume and a shift in payor mix in 2008. Patient volumes were down by 2.2% and Medicare volume was down by 9.9%. Additionally, the case mix index of patients dropped, impacting revenue. Due to the shortage of patient care providers, UTMB incurred unprecedented levels of expensive temporary agency and overtime in order to meet required patient staffing levels. The Hospitals and Clinics continued to operate in a challenging environment where revenue increases, particularly in government sponsored programs, fall short of healthcare expense inflation. Additionally, UTMB recognized $29.3 million less revenue for the Texas Physician Upper Payment Limit (UPL) in 2008. The expendable resources to debt ratio decreased from 3.3 in 2007 to 2.0 in 2008 due to the decrease in total unrestricted net assets, a reduction in restricted expendable net assets attributable to the decrease in appreciation on permanent endowments, and an increase in the amount of debt outstanding. The debt burden ratio decreased from 1.9% in 2007 to 0.8% in 2008 as a result of a decrease in debt service payments caused by the early pay down of equipment debt in 2007. The debt service coverage ratio decreased from 2.3 in 2007 to 1.5 in 2008, the lowest of all the health institutions, due to the reduction in operating performance.

Institutions Rated "Satisfactory"

UT Arlington

The CFI increased from 3.5 in 2007 to 4.2 in 2008 primarily due to a net increase in the fair value of investments as a result of recording the present value of natural gas revenues. The operating expense coverage ratio increased by 0.8 months to 5.4 months due to an increase in unrestricted net assets. The increase in unrestricted net assets was also primarily due to the recording of $38.5 million for the present value of future natural gas revenues. UT Arlington, which is approximately one mile above the Barnett Shale, leased its mineral rights to Carrizo Oil & Gas, Inc. (Carrizo) for the development and exploration of this natural gas resource. Natural gas production is expected to begin in December 2008, and the royalties over the next 10 years are estimated between $50 million and $100 million. UT Arlington had the highest operating expense coverage ratio of all the UT institutions. The annual operating margin decreased $0.4 million to $9.3 million for 2008 primarily due to the growth in operating expenses outpacing the growth in operating revenues. Total operating expenses increased primarily due to increases in salaries and wages and payroll related costs, depreciation expense, utilities and scholarships and fellowships. The increase in total operating revenues was attributable to increases in State appropriations, sponsored program revenue, and net tuition and fees. The expendable resources to debt ratio increased slightly from 1.0 in 2007 to 1.1 in 2008 due to the increase in unrestricted net assets, as well as an increase in expendable net assets restricted for capital projects. The debt burden ratio increased from 4.9% in 2007 to 6.7% in 2008 as a result of an increase in debt service payments. The debt service coverage ratio decreased from 2.4 in 2007 to 1.9 in 2008 due to the reduction in the annual operating margin and the increase in debt service payments. Full-time equivalent student enrollment increased due to recruiting and advertising efforts.

UT Austin

The CFI decreased from 7.6 in 2007 to 6.0 in 2008 primarily as a result of a decrease in the fair value of investments. Although the CFI decreased, UT Austin still had the highest CFI of all the UT institutions. The operating expense coverage ratio decreased by 0.1 months to 2.9 months due to an increase in total operating expenses. Total operating expenses increased due to increases in salaries and wages and payroll related costs, materials and supplies, repairs and maintenance, utilities, professional fees and services, and travel. The annual operating margin increased $62.7 million to $111.8 million for 2008. The primary driving forces behind the increase in the annual operating margin were increases in the Available University Fund transfer, investment income, and gifts for operations. The decrease in the expendable resources to debt ratio from 2.9 in 2007 to 2.5 in 2008 was attributable to a decrease in restricted expendable net assets and an increase in the amount of debt outstanding. The decrease in restricted expendable net assets was primarily due to the decrease in the appreciation on the permanent endowment funds resulting from the unfavorable market conditions. In spite of the decrease, UT Austin had the highest expendable resources to debt ratio of all the UT institutions. The debt burden ratio increased from 2.7% in 2007 to 4.0% in 2008 due to the increase in total operating expenses. Although the debt burden ratio increased, UT Austin had the lowest debt burden of all the academic institutions. The debt service coverage ratio declined from 4.9 in 2007 to 4.0 in 2008 as a result of the improvement in the operating performance. UT Austin had the highest debt service coverage ratio of all the academic institutions. Full-time equivalent student enrollment decreased by 0.6%.

UT Brownsville

The CFI increased from 1.7 in 2007 to 2.1 in 2008 as a result of an increase in restricted expendable net assets for capital projects. The operating expense coverage ratio remained stable at 2.2 months due to an increase in total unrestricted net assets offset by an increase in total operating expenses. The increase in total unrestricted net assets was primarily attributable to an increase in State appropriations. Total operating expenses increased due to increases in salaries and wages and payroll related costs, scholarships and fellowships, repairs and maintenance, and utilities. Although the annual operating margin improved by $0.9 million, UT Brownsville still incurred a loss of $0.5 million for 2008. During 2008, UT Brownsville introduced new Satisfactory Academic Progress (SAP) standards which resulted in lower enrollments for the year and less revenues than were originally budgeted. The expendable resources to debt ratio increased slightly from 0.9 in 2007 to 1.0 in 2008 due to increases in total unrestricted net assets and restricted expendable net assets. The debt burden ratio increased from 4.2% in 2007 to 6.9% in 2008, and the debt service coverage ratio decreased from 1.5 in 2007 to 1.0 in 2008. UT Brownsville had the lowest debt service coverage of all the UT institutions. The changes in these two ratios were a result of an increase in debt service payments in 2008. Full-time equivalent student enrollment decreased due to the new SAP standards.

Institutions Rated "Satisfactory" (Continued)

UT Dallas

The CFI decreased from 6.1 in 2007 to 5.3 in 2008 primarily due to an increase in the amount of debt outstanding. The operating expense coverage ratio increased by 0.1 months to 3.1 months as a result of an increase in total unrestricted net assets, which was partially offset by an increase in total operating expenses. The increase in total unrestricted net assets was attributable to an increase in State appropriations. Total operating expenses increased due to increases in salaries and wages and payroll related costs, other operating expenses, materials and supplies, utilities, and depreciation expense. The annual operating margin increased $12.8 million to $12.4 million for 2008 due to the growth in total operating revenues exceeding the growth in total operating expenses. The increase in total operating revenues was mostly attributable to the increase in State appropriations and an increase in gifts for operations. The expendable resources to debt ratio decreased from 2.1 in 2007 to 1.7 in 2008 as a result of the increase in the amount of debt outstanding. The debt burden ratio increased from 4.5% in 2007 to 5.6% in 2008 primarily due to an increase in debt service payments. The debt service coverage ratio increased from 2.7 in 2007 to 3.0 in 2008 due to the improvement in operating performance. Full-time equivalent student enrollment increased as a result of efforts undertaken by UT Dallas to increase enrollment, such as recruiting a Vice President for Admissions and investing in improved communication and outreach initiatives. Additionally, the Gateways to Excellence in Math & Science (GEMS) program was started in 2008, which focuses on improving student learning and retention.

UT El Paso

The CFI decreased from 4.1 in 2007 to 3.1 in 2008 primarily as a result of a decrease in the fair value of investments. The operating expense coverage ratio decreased by 0.1 months to 1.8 months due to an increase in total operating expenses. The increase in total operating expenses was attributable to an increase in salaries and wages and payroll related costs and an increase in materials and supplies. The annual operating margin increased by $2.6 million to $9.3 million for 2008 as a result of total operating revenues growing at a faster pace than total operating expenses. The majority of the increase in total operating revenues was attributable to an increase in State appropriations. The expendable resources to debt ratio decreased from 1.5 in 2007 to 1.3 in 2008 due to a decrease in restricted expendable net assets attributable to the decrease in the appreciation on the permanent endowments caused by the unfavorable market conditions. The debt burden ratio increased from 4.2% in 2007 to 7.0% in 2008, and the debt service coverage ratio decreased from 2.3 in 2007 to 1.7 in 2008. The changes in these two ratios were both due to an increase in debt service payments. Full-time equivalent student enrollment increased as a result of an overall enrollment increase of 1.6%.

UT Pan American

The CFI decreased from 1.9 in 2007 to 1.6 in 2008 primarily due to a decrease in the fair value of investments. UT Pan American had the lowest CFI of all the academic institutions. The operating expense coverage ratio decreased by 0.1 months to 3.1 months as a result of an increase in total operating expenses. The increase in total operating expenses was attributable to increases in salaries and wages and payroll related costs, interest expense, utilities, and scholarships and fellowships. The annual operating deficit decreased by $3.9 million to a deficit of $4.0 million for 2008. The reduction in the operating deficit was attributable to an increase in State appropriations. Despite the reduction in the operating deficit, UT Pan American had the lowest operating margin ratio of all the academic institutions. The expendable resources to debt ratio remained unchanged at 0.9. The debt burden ratio increased from 4.6% in 2007 to 6.4% in 2008 due to an increase in the debt service payments. The increase in debt service payments also caused the debt service coverage ratio to decrease from 1.5 in 2007 to 1.4 in 2008. The continued growth in full-time equivalent student enrollment resulted from undergraduate students taking increased semester credit hour loads to ensure timely graduation.

Institutions Rated "Satisfactory" (Continued)

UT Permian Basin

The institution's financial condition was upgraded from "Watch" for 2007 to "Satisfactory" for 2008. The CFI increased significantly from 2.0 in 2007 to 5.5 in 2008. This large increase in the CFI was a result of improved operating performance, as well as increases in both unrestricted net assets and restricted expendable net assets. The operating expense coverage ratio increased by 0.2 months to 0.9 months due to the increase in unrestricted net assets. The increase in unrestricted net assets was attributable to an increase in net tuition and fees resulting from an increase in the designated tuition rate. In spite of the increase in the operating expense coverage, UT Permian Basin had the lowest operating expense coverage of all the academic institutions. The annual operating margin improved $11.1 million increasing from a deficit of $0.9 million for 2007 to a positive margin of $10.2 million for 2008. The improvement in operating performance was due to the increase in net tuition and fees and an increase in State appropriations. UT Permian Basin had the highest operating margin ratio of all the UT institutions. The expendable resources to debt ratio increased from 0.5 in 2007 to 0.6 in 2008 as a result of increases in unrestricted net assets and restricted expendable net assets for capital projects. Despite the increase, UT Permian Basin had the lowest expendable resources to debt ratio, along with UT San Antonio, of all the UT institutions. The debt burden ratio increased substantially from 8.3% in 2007 to 28.1% in 2008 due to an increase in debt service payments. UT Permian Basin had the highest debt burden ratio of any UT institution. The debt service coverage ratio increased from 0.8 in 2007 to 1.3 in 2008. The increase in this ratio was attributable to the significant improvement in the operating performance. Full-time equivalent student enrollment increased due to successful recruiting and retention efforts.

UT San Antonio

The CFI decreased from 4.4 in 2007 to 3.5 in 2008 primarily as a result of the decrease in the fair value of investments and an increase in the amount of debt outstanding. The operating expense coverage ratio increased by 0.1 months to 5.1 months in 2008 due to an increase in total unrestricted net assets. There were delays in implementing several key strategic initiatives related to research, faculty hiring and start-up costs, data warehousing, and planned capital renovation and equipment replacement. Also, an increase in semester credit hours generated additional tuition and fees. The annual operating margin decreased by $1.2 million to $28.3 million for 2008 as the growth in total operating expenses outpaced the growth in total operating revenues. Total operating expenses increased primarily due to increases in salaries, wages and benefits costs; materials and supplies; professional fees and services; interest expense; purchased utilities; and depreciation expense. In addition to increases in State appropriations and net tuition and fees, total operating revenues also increased as a result of increased sponsored program revenue, additional revenue generated from auxiliary enterprises, and an increase in gifts for operations. The expendable resources to debt ratio decreased from 0.7 in 2007 to 0.6 in 2008 due to an increase in the amount of debt outstanding. UT San Antonio had the lowest expendable resources to debt ratio, along with UT Permian Basin, of all the UT institutions. The debt burden ratio increased from 6.6% in 2007 to 8.5% in 2008 due to an increase in debt service payments. The debt service coverage ratio decreased from 3.1 in 2007 to 2.4 in 2008 as a result of both the reduction in operating performance and the increase in debt service payments. Full-time equivalent student enrollment continued the upward trend as students increased their average courseload.

Institutions Rated "Satisfactory" (Continued)

UT Tyler The CFI decreased from 4.7 in 2007 to 4.1 in 2008 due to an increase in the amount of debt outstanding. The operating expense coverage ratio remained unchanged at 3.7 months in 2008. The stability of this ratio was attributable to an increase in total unrestricted net assets offset by an increase in total operating expenses. The increase in total unrestricted net assets was driven by an increase in State appropriations. Total operating expenses increased primarily due to increases in salaries and wages and payroll related costs, materials and supplies, repairs and maintenance, depreciation expense, and utilities. The annual operating margin improved by $2.9 million resulting in a positive annual operating margin of $2.5 million for 2008. The improvement in operating performance was due to the growth in total operating revenues surpassing the growth in total operating expenses. In addition to the increase in State appropriations, total operating revenues increased due to increases in sponsored program revenue, net tuition and fees, gifts for operations, and net investment income. The expendable resources to debt ratio decreased from 1.3 in 2007 to 1.1 in 2008 as a result of an increase in the amount of debt outstanding. The debt burden ratio increased from 6.0% in 2007 to 11.5% in 2008, and the debt service coverage ratio decreased from 2.2 in 2007 to 1.4 in 2008. The changes in both of these ratios were attributable to an increase in the debt service payments in 2008. Full-time equivalent student enrollment decreased due to unfavorable economic conditions.

Southwestern The CFI decreased from 6.6 in 2007 to 4.8 in 2008 primarily due to the decrease in the fair value of investments and an increase in the amount of debt outstanding. Although the CFI decreased, Southwestern still had the highest CFI of all the health institutions. The operating expense coverage ratio decreased by 0.3 months to 3.9 months in 2008 as a result of an increase in total operating expenses. The increase in total operating expenses was due to increases in salaries and wages and payroll related costs, materials and supplies, professional fees and services, other operating expenses, depreciation expense, and utilities. The annual operating margin decreased by $11.9 million to $85.8 million for 2008. Total operating revenues increased primarily due to increases in net sales and services of hospitals, State appropriations and gifts for operations. However, these increases in revenues were not enough to offset the increases in total operating expenses. Additionally, Southwestern recognized $66.1 million less revenue for the UPL in 2008. The expendable resources to debt ratio decreased from 2.6 in 2007 to 2.2 in 2008 as a result of an increase in the amount of debt outstanding. Despite the decrease, Southwestern had the highest expendable resources to debt ratio, along with UTHSC-Houston, of all the health institutions. The debt burden ratio increased from 4.0% in 2007 to 4.2% in 2008 due to an increase in debt service payments. Southwestern had the highest debt burden ratio of all the health institutions. The decrease in the debt service coverage ratio from 3.6 in 2007 to 3.0 in 2008 was attributable to the reduction in operating performance and the increase in debt service payments.

UTHSC-Houston The CFI decreased from 5.1 in 2007 to 4.2 in 2008 due to the decrease in the fair value of investments and a decline in the operating performance. The operating expense coverage ratio increased by 0.4 months to 4.0 months in 2008 due to an increase in unrestricted net assets related to the reallocation of other funding sources from the restricted to unrestricted category in the 2008 annual financial report. UTHSC-Houston had the highest operating expense coverage ratio of all the health institutions. The annual operating margin decreased by $5.8 million to $20.3 million for 2008. Although total operating revenues increased primarily due to increases in State appropriations and gifts for operations, these increases were not enough to offset the increase in total operating expenses. In addition, $24.6 million less UPL revenue was recognized in 2008. Total operating expenses increased due to increases in salaries and wages, professional fees and services, depreciation expense, and utilities. The expendable resources to debt ratio increased slightly from 2.1 in 2007 to 2.2 in 2008. UTHSC-Houston had the highest expendable resources to debt ratio, along with Southwestern, of all the health institutions. This small increase was mostly attributable to the increase in unrestricted net assets and a reduction in the amount of debt outstanding. The debt burden ratio increased from 2.6% in 2007 to 3.1% in 2008 as a result of an increase in debt services payments. The decrease in the debt service coverage ratio from 3.5 in 2007 to 3.0 in 2008 was caused by the reduction in operating performance and the increase in debt service payments.

Institutions Rated "Satisfactory" (Continued)

UTHSC-San Antonio

The CFI decreased from 6.1 in 2007 to 4.3 in 2008 primarily due to the planned investment of prior year net assets in clinical research initiatives, the acquisition of the Cancer Therapy and Research Center (CTRC) and the decrease in the fair value of investments. The operating expense coverage ratio decreased by 0.3 months to 2.7 months in 2008 as a result of increased operating expenses. On December 17, 2007, UTHSC-San Antonio assumed responsibility for the operation of CTRC, a 501(c)(3) non-profit corporation. From the merger of the two entities, UTHSC-San Antonio acquired possession of the real and personal property of CTRC, all outstanding debt, and 345 CTRC employees engaged in the direct delivery and administration of cancer related research and patient care. As a result of this merger, UTHSC-San Antonio experienced an overall increase in operating expenses. Salaries and wages and payroll related costs also increased due to cost of living and market salary adjustments, and recruitment and retention efforts associated with clinical and research initiatives. The annual operating margin decreased by $30 million resulting in a small deficit of $1.9 million for 2008. The driving force behind this loss was a $2.2 million loss for CTRC, including depreciation expense of $3.4 million. Although sponsored program revenue and State appropriations increased, these increases were not enough to offset the growth in operating expenses. In addition, $12.7 million less UPL revenue was recognized in 2008. The expendable resources to debt ratio decreased from 2.5 in 2007 to 2.0 in 2008 due to a decrease in restricted expendable net assets related to the decline in appreciation on permanent endowments and a reduction in net assets restricted for capital projects. The debt burden ratio increased from 2.1% in 2007 to 2.7% in 2008 as a result of an increase in debt service payments. The decrease in the debt service coverage ratio from 4.2 in 2007 to 1.6 in 2008 was attributable to the planned decline in operating performance and the increase in debt service payments.

M. D. Anderson

The CFI decreased from 4.9 in 2007 to 3.8 in 2008 due to the decrease in the fair value of investments and an increase in the amount of debt outstanding. The operating expense coverage ratio decreased by 0.5 months to 3.1 months in 2008. The decline in this ratio was attributable to a decrease in total unrestricted net assets caused by an increase in debt service payments and an increase in total operating expenses. The increase in total operating expenses was primarily due to increases in salaries and wages and payroll related costs, materials and supplies, depreciation expense, repairs and maintenance, professional fees and services, utilities, and rentals and leases. The annual operating margin increased by $22.5 million to $200.2 million for 2008 as a result of the growth in total operating revenues exceeding the growth in total operating expenses. The increase in total operating revenues was mostly due to increases in sales and services of hospitals, gifts for operations, sponsored programs, other operating revenues and State appropriations. These increases in revenues were partially offset by a reduction in net professional fees, which was primarily the result of $14.1 million less UPL revenue recognized in 2008. M.D. Anderson had the highest operating margin ratio of all the health institutions. The expendable resources to debt ratio decreased from 1.8 in 2007 to 1.6 in 2008 due to an increase in the amount of debt outstanding. The debt burden ratio increased slightly between 2007 and 2008 from 3.3% to 3.4%, and the debt service coverage ratio decreased slightly between 2007 and 2008 from 5.2 to 5.1. In spite of the decrease in the debt service coverage ratio, M.D. Anderson had the highest debt service coverage ratio of all the UT institutions. The changes in these two ratios were caused by an increase in debt service payments.

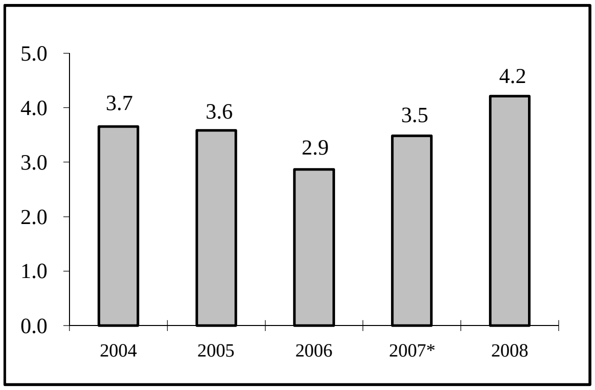
UTHSC-Tyler

The CFI decreased from 4.8 in 2007 to 2.5 in 2008 due to a decline in operating performance and a decrease in the fair value of investments. The operating expense coverage ratio remained unchanged at 2.6 months. The stability of this ratio was attributable to a small decrease in total unrestricted net assets resulting from an increase in debt service payments, and a small increase in total operating expenses due to an increase in interest expense. The annual operating margin decreased by $6.9 million to $0.4 million due to $4.6 million less UPL revenue recognized in 2008. In addition, total operating revenues decreased due to decreases in sales and services of hospitals and sponsored programs. The expendable resources to debt ratio decreased from 2.3 in 2007 to 2.1 in 2008 due to a decrease in restricted expendable net assets resulting from a decrease in the appreciation on the permanent endowments and the decrease in total unrestricted net assets. The debt burden ratio increased from 2.0% in 2007 to 3.8% in 2008 as a result of the increase in debt service payments. The debt service coverage ratio decreased from 6.1 in 2007 to 1.9 in 2008 due to the decline in operating performance and the increase in debt service payments.

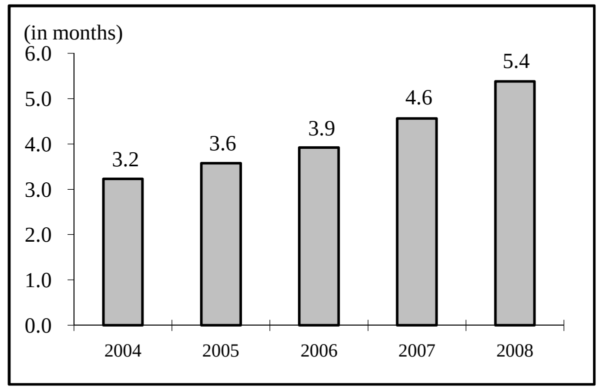
The University of Texas at Arlington
2008 Summary of Financial Condition

Financial Condition: **Satisfactory**

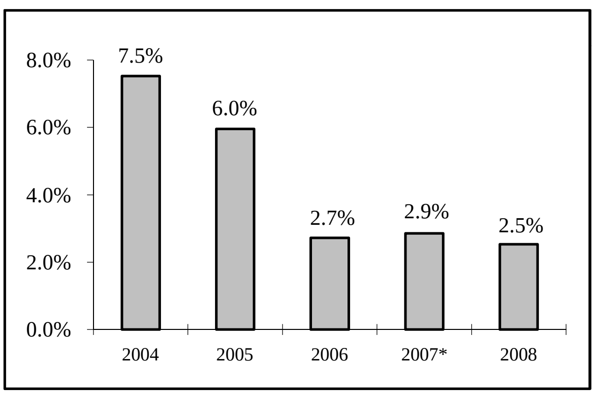
Composite Financial Index



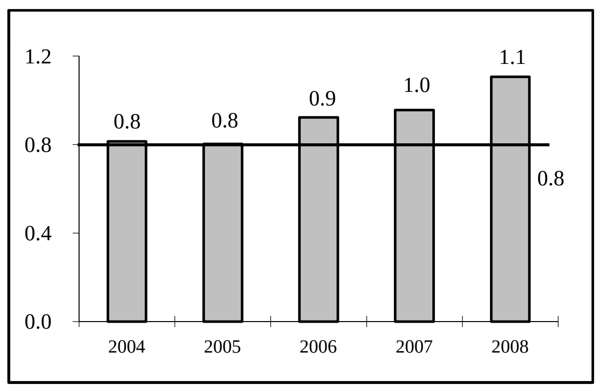
Operating Expense Coverage Ratio



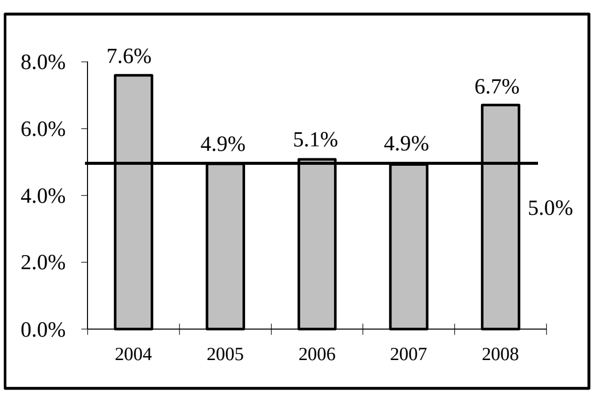
Annual Operating Margin Ratio



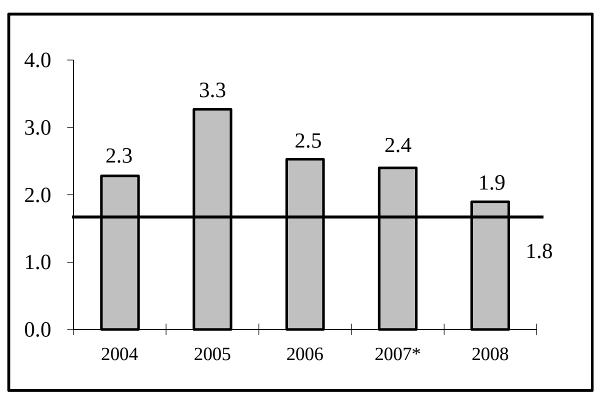
Expendable Resources to Debt Ratio



Debt Burden Ratio



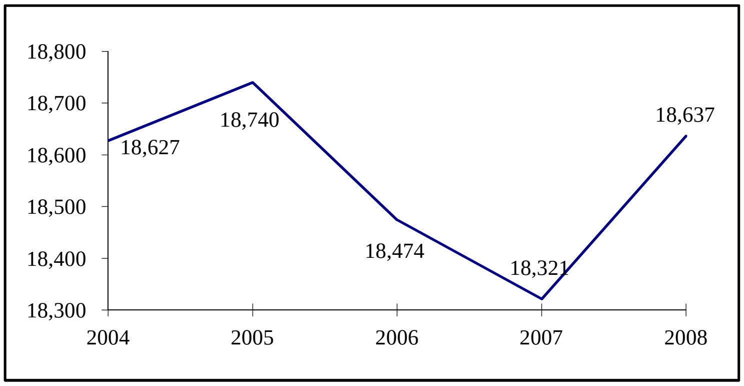
Debt Service Coverage Ratio



*Restated from prior year report.

The University of Texas at Arlington
2008 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT Arlington's CFI increased from 3.5 in 2007 to 4.2 in 2008 primarily due to a net increase in the fair value of investments of $29.2 million, or a change of $14.2 million from the prior year, as a result of recording the present value of natural gas revenues as discussed in further detail in the operating expense coverage ratio below.

Operating Expense Coverage Ratio - UT Arlington's operating expense coverage ratio increased from 4.6 months in 2007 to 5.4 months in 2008 due to a $34.2 million increase in total unrestricted net assets. Total unrestricted net assets increased in 2008 primarily due to the recording of $38.5 million for the present value of future natural gas revenues. UT Arlington is located approximately one mile above the Barnett Shale. In 2007, UT Arlington leased its mineral rights to Carrizo Oil & Gas, Inc. (Carrizo) for the development and exploration of this natural gas resource. In May 2008, Carrizo completed drilling six wells at the Southdale Site located at the southeast corner of the campus. It is estimated that Carrizo will begin the production of natural gas in December 2008. The royalties over the next 10 years are estimated between $50 million and $100 million.

Annual Operating Margin Ratio - UT Arlington's annual operating margin ratio decreased from 2.9% for 2007 to 2.5% for 2008 due to the increase in operating expenses (including interest expense) of $26.1 million outpacing the increase in operating revenues of $25.7 million. The increase in total operating expenses was primarily attributable to: a $15.6 million increase in salaries and payroll related costs resulting from merit increases and the addition of new faculty; a $5.2 million increase in depreciation expense primarily due to the Maverick Activities Center and the Civil Engineering Laboratory Building which were placed into service in 2008, additions to existing buildings and additions to equipment including Nanofab equipment; a $2.1 million increase in utilities attributable to increased usage associated with the new buildings placed into service, as well as higher utility rates; and a $1.2 million increase in scholarships and fellowships due to the GUF Scholarship, STEM Doctoral Research Assistant Program and the undergraduate tuition set-aside. Total operating revenues increased primarily as a result of: a $9.6 million increase in State appropriations; a $7.5 million increase in sponsored program revenue resulting from the hiring of research faculty in an effort to achieve the status of a nationally recognized research institution; and a $6.6 million increase in net tuition and fees due to a 10% increase in tuition and flat fee rates for a semester credit hour load of 14 or more hours.

Expendable Resources to Debt Ratio - UT Arlington's expendable resources to debt ratio increased slightly from 1.0 in 2007 to 1.1 in 2008 primarily due to the increase in unrestricted net assets previously discussed, as well as an increase in expendable net assets restricted for capital projects.

Debt Burden Ratio - UT Arlington's debt burden ratio increased significantly from 4.9% in 2007 to 6.7% in 2008 as a result of a $7.5 million increase in debt service payments in 2008 for the Engineering Research Complex.

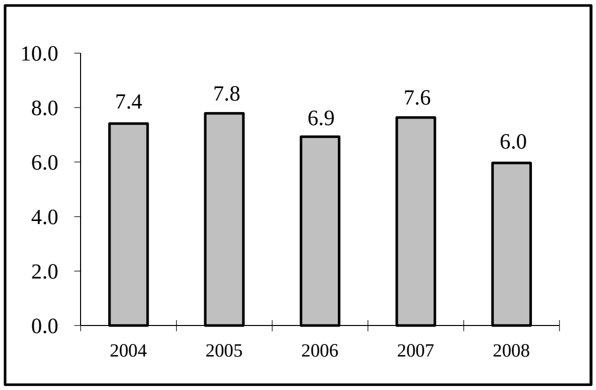
Debt Service Coverage Ratio - UT Arlington's debt service coverage ratio decreased from 2.4 in 2007 to 1.9 in 2008 due to the reduction in the operating margin and the increase in debt service payments discussed above.

Full-Time Equivalent (FTE) Student Enrollment - UT Arlington's FTE student enrollment increased due to recruiting and advertising efforts to increase enrollment. Graduate semester credit hours decreased slightly, while undergraduate and doctoral semester credit hours increased.

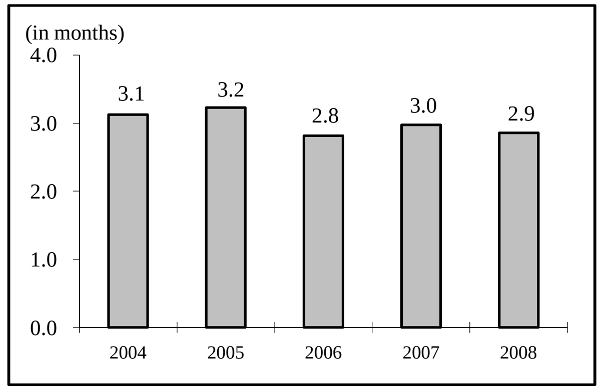
The University of Texas at Austin
2008 Summary of Financial Condition

Financial Condition: **Satisfactory**

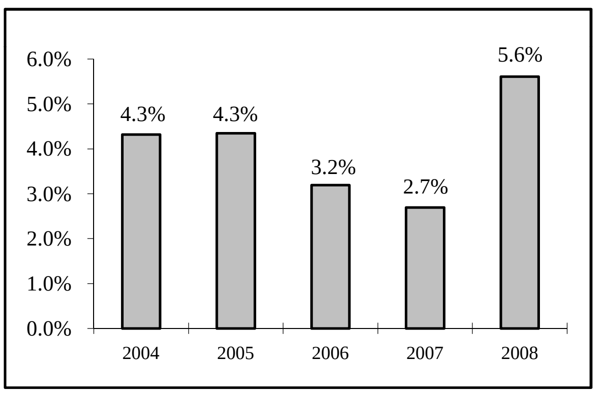
Composite Financial Index



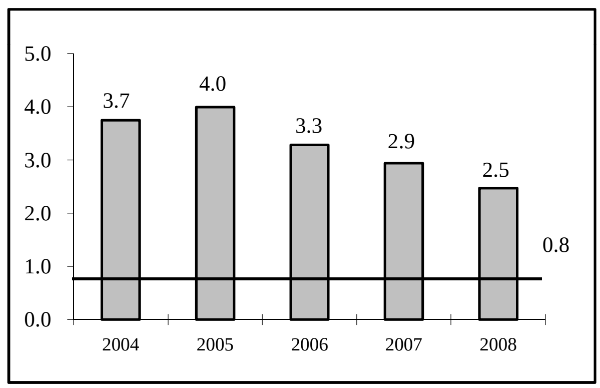
Operating Expense Coverage Ratio



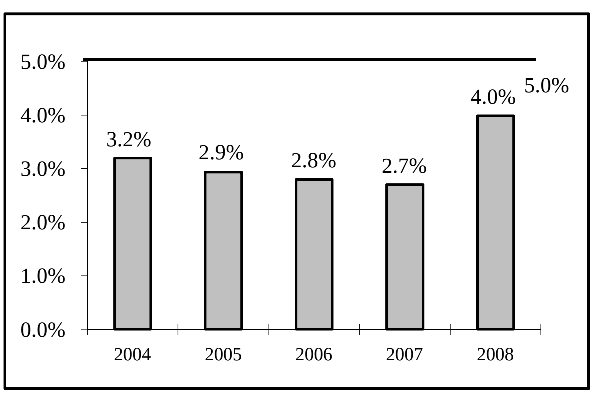
Annual Operating Margin Ratio



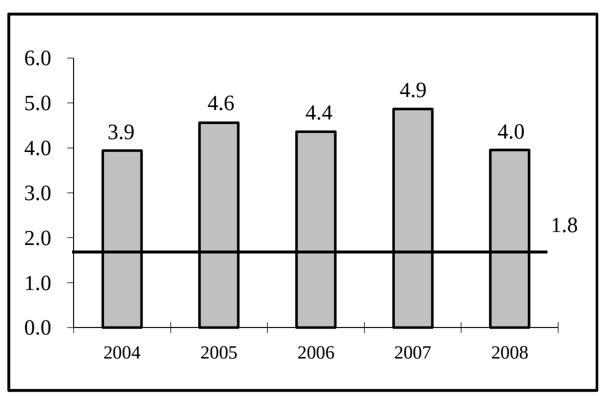
Expendable Resources to Debt Ratio



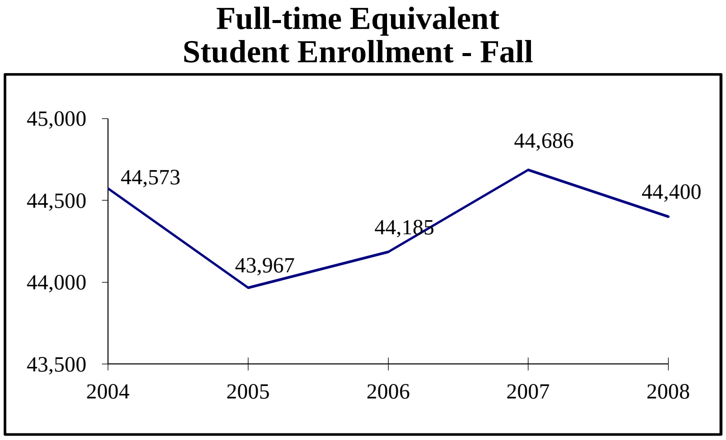
Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas at Austin
2008 Summary of Financial Condition



Composite Financial Index (CFI) - UT Austin's CFI decreased from 7.6 in 2007 to 6.0 in 2008 primarily due to a decrease in the return on net assets ratio which was driven by a $263.1 million decrease in the fair value of investments in 2008 as compared to an increase in the fair value of investments of $363.5 million in 2007 for a total reduction between years of $626.6 million.

Operating Expense Coverage Ratio - UT Austin's operating expense coverage ratio decreased slightly from 3.0 months in 2007 to 2.9 months in 2008 due to an increase in operating expenses (including interest expense) of $106.6 million. The increase in operating expenses was primarily due to: a $54.0 million increase in salaries and payroll related costs attributable to merit increases and the addition of new faculty members; an $18.2 million increase in materials and supplies due to an increase in computer equipment, furniture, and nonconsumable office supplies; a $14.3 million increase in repairs and maintenance due to increased computer software, the chilling station refrigerant retrofit/modernization project, telecommunications installation, and the replacement of the scoring and video systems at the Frank Erwin Center; a $13.1 million increase in utilities primarily due to an increase in the usage of chilled water and increased natural gas rates; a $5.6 million increase in professional fees and services resulting from increased legal fees related to trademark infringement and various legal issues, the new Anabolic Steroid Testing Program for UIL schools, architectural/engineering services paid to Vanderweil Facility Advisors for facilities assessment services, coaching services for the Achieving the Dream project, and lecturer's fees paid by the School of Law; and a $5.0 million increase in travel primarily attributable to additional athletic team travel, travel related to the recruiting of faculty members and graduate students, and an increase in foreign travel by UT Austin scientists and researchers.

Annual Operating Margin Ratio - UT Austin's annual operating margin ratio increased significantly from 2.7% for 2007 to 5.6% for 2008. This is attributable to the growth in operating revenues exceeding the growth in operating expenses. The primary driving forces behind the increase in operating margin were as follows: a $27.3 million increase in the transfer from the Available University Fund; a $21.2 million increase in investment income (excluding gain/loss on sale of assets) primarily attributable to a $12.3 increase in realized gains on the long term fund, a $5.7 million increase in patent proceeds, and a $2.3 million increase in interest earned on short term investments; and a $13.8 million increase in gifts for operations primarily due to a pledged gift for music and fine arts from Dr. Ernest C. Butler.

Expendable Resources to Debt Ratio - UT Austin's expendable resources to debt ratio decreased from 2.9 in 2007 to 2.5 in 2008. The decline in this ratio was attributable to a decrease in restricted expendable net assets and an increase in the amount of debt outstanding. The decrease in restricted expendable net assets was largely due to the decrease in the appreciation on the permanent endowment funds resulting from the unfavorable market conditions. The amount of debt outstanding increased related to the Experimental Science Building-Vivarium, utility infrastructure and the chilling station.

Debt Burden Ratio - UT Austin's debt burden ratio increased from 2.7% in 2007 to 4.0% in 2008 due to the increase in operating expenses previously discussed.

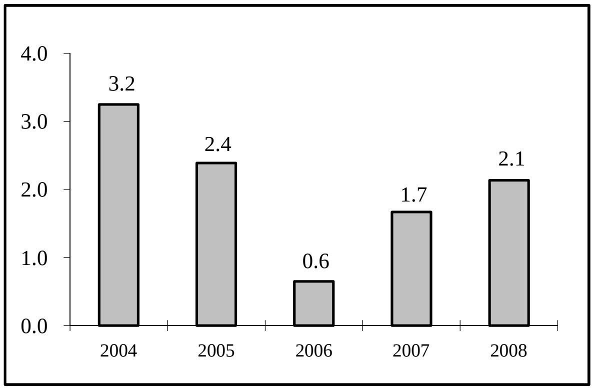
Debt Service Coverage Ratio - UT Austin's debt service coverage ratio declined from 4.9 in 2007 to 4.0 in 2008 as a result of the improvement in the operating performance as discussed in the annual operating margin ratio above.

Full-Time Equivalent (FTE) Student Enrollment - UT Austin's FTE student enrollment decreased overall by 0.6% primarily due to decreases in doctoral enrollment (2.0%), Doctor of Pharmacy (3.4%), and Law School (1.6%).

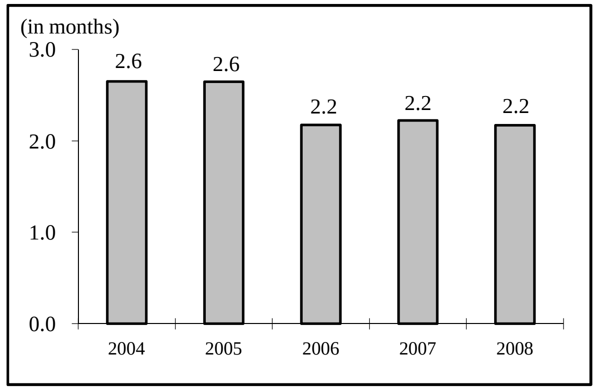
The University of Texas at Brownsville
2008 Summary of Financial Condition

Financial Condition: **Satisfactory**

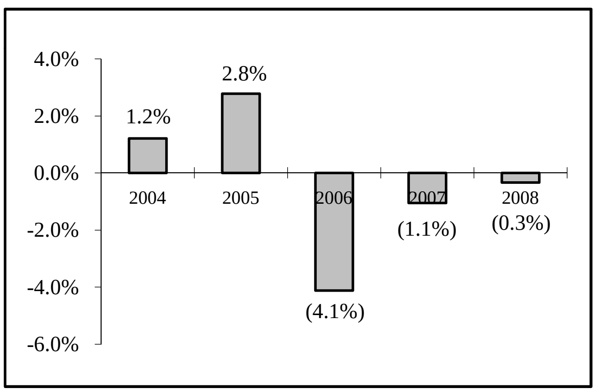
Composite Financial Index



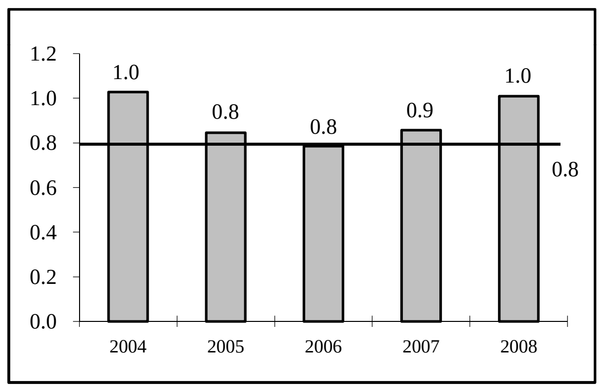
Operating Expense Coverage Ratio



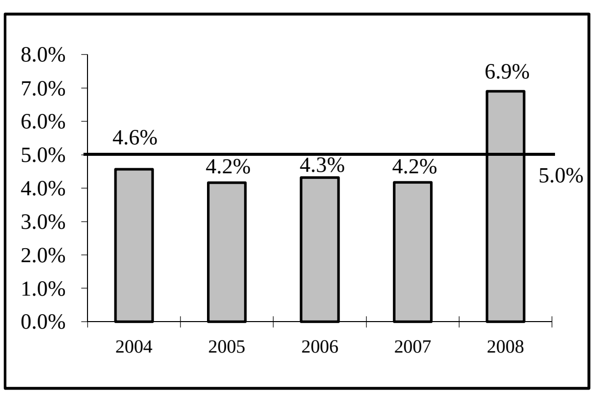
Annual Operating Margin Ratio



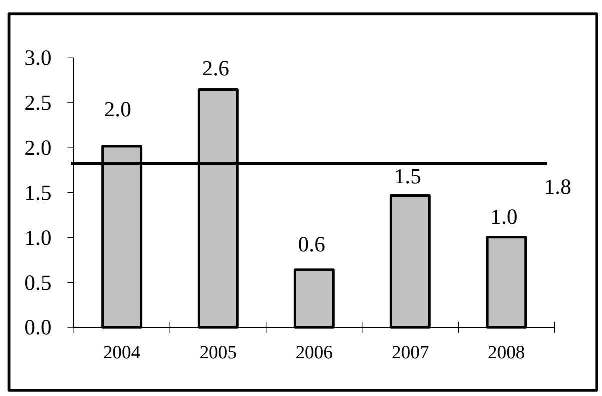
Expendable Resources to Debt Ratio



Debt Burden Ratio

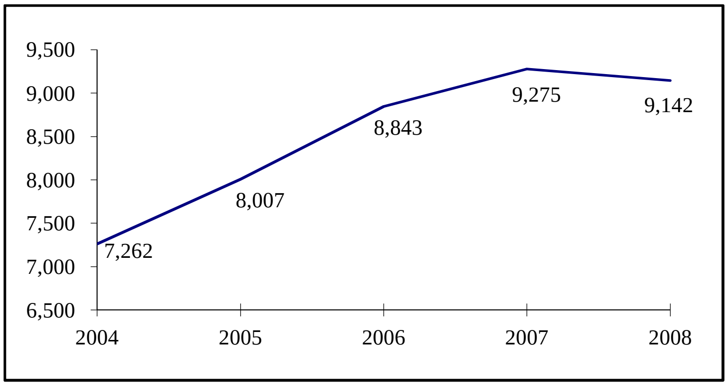


Debt Service Coverage Ratio



The University of Texas at Brownsville
2008 Summary of Financial Condition

Full-time Equivalent Student Enrollment - Fall



Composite Financial Index (CFI) - UT Brownsville's CFI increased from 1.7 in 2007 to 2.1 in 2008 as a result of an increase in restricted expendable net assets for capital projects for the Science and Technology Learning Center currently under construction.

Operating Expense Coverage Ratio - UT Brownsville's operating expense coverage ratio remained unchanged at 2.2 months in 2008 due to an increase in total unrestricted net assets offset by an increase in total operating expenses. Total unrestricted net assets increased $1.4 million primarily as a result of a $6.7 million increase in State appropriations due to increased formula funding and increased funding for tuition revenue bonds. The increase in total operating expenses is discussed below.

Annual Operating Margin Ratio - UT Brownsville's annual operating margin ratio improved from (1.1%) for 2007 to (0.3%) for 2008. During 2008, UT Brownsville introduced new Satisfactory Academic Progress (SAP) standards which resulted in lower enrollments for the year and less revenues than were originally budgeted. As a result, UT Brownsville took necessary steps to reduce total operating expenses to lessen the negative impact caused by SAP in 2008. The reduction in the operating deficit was attributable to the growth in total operating revenues of $11.8 million exceeding the growth in total operating expenses (including interest expense) of $10.9 million. In addition to the increase in State appropriations mentioned above, operating revenues increased as a result of the following: a $2.4 million increase in net tuition and fees due to rate increases; and a $2.2 million increase in sponsored program revenue mainly related to increases in the contract with Texas Southmost College (TSC). The increase in total operating expenses was largely attributable to the following: a $4.7 million increase in salaries and wages and a $1.5 million increase in payroll related costs resulting from merit increases and new faculty positions to address enrollment growth; a $2.7 million increase in scholarships and fellowships primarily due to an increase in financial aid disbursements through Federal and State grants and TSC contract scholarships; a $0.5 million increase in repairs and maintenance as a result of building renovations and repairs; and a $0.5 million increase in utilities due to increases in utility rates and usage. Despite the improvement in the operating margin, UT Brownsville incurred a loss of $0.5 million in 2008.

Expendable Resources to Debt Ratio - UT Brownsville's expendable resources to debt ratio changed slightly from 0.9 in 2007 to 1.0 in 2008 due to increases in unrestricted net assets, as discussed above, and restricted expendable net assets. Restricted expendable net assets increased for the Science and Technology Learning Center currently under construction.

Debt Burden Ratio - UT Brownsville's debt burden ratio increased significantly from 4.2% in 2007 to 6.9% in 2008 due to an increase of $3.5 million in debt service payments related to the Science and Technology Learning Center.

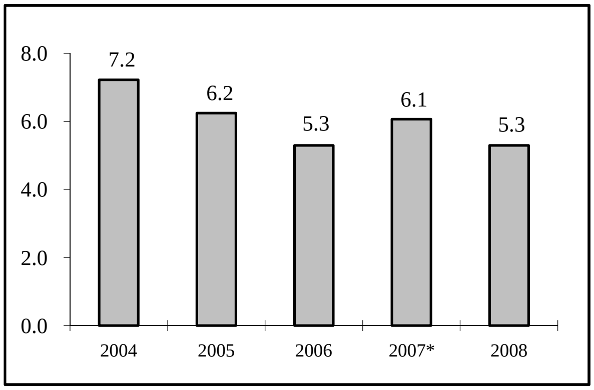
Debt Service Coverage Ratio - UT Brownsville's debt service coverage ratio decreased from 1.5 in 2007 to 1.0 in 2008 due to the increase in the debt service payments mentioned above.

Full-Time Equivalent (FTE) Student Enrollment - UT Brownsville's FTE student enrollment decreased for the fall of 2008 to 9,142 or 1.4% as a result of the new SAP standards. In addition, the criteria for most of the financial aid available to students was revised to align with the new SAP standards, and as a result, the changes impacted enrollment. UT Brownsville projects the enrollment to increase for the 2009 fall semester as a result of increased retention efforts and ongoing SAP awareness on campus.

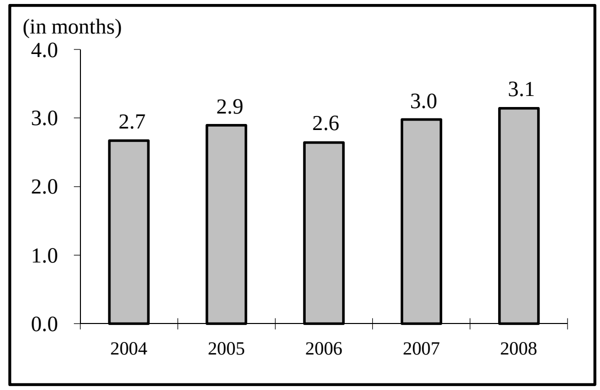
The University of Texas at Dallas
2008 Summary of Financial Condition

Financial Condition: **Satisfactory**

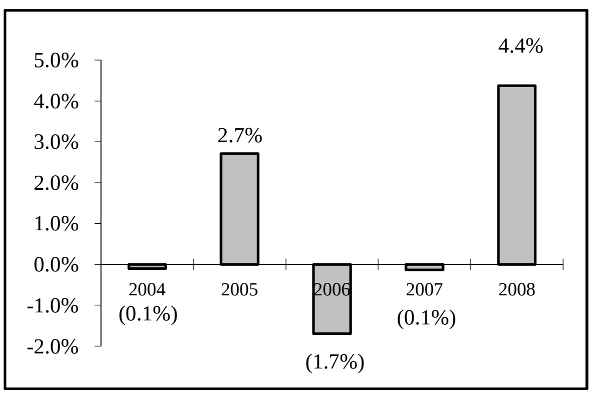
Composite Financial Index



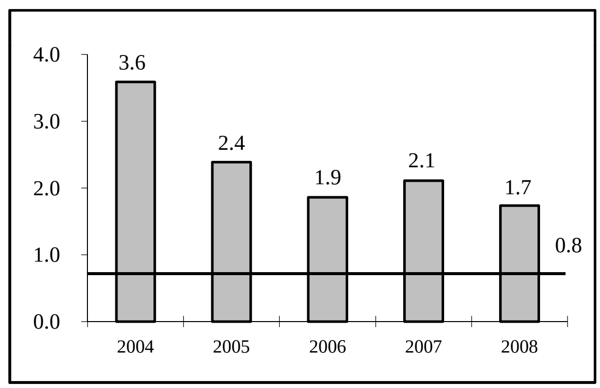
Operating Expense Coverage Ratio



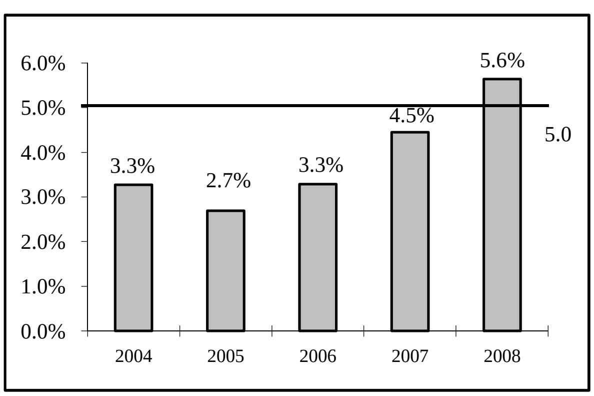
Annual Operating Margin Ratio



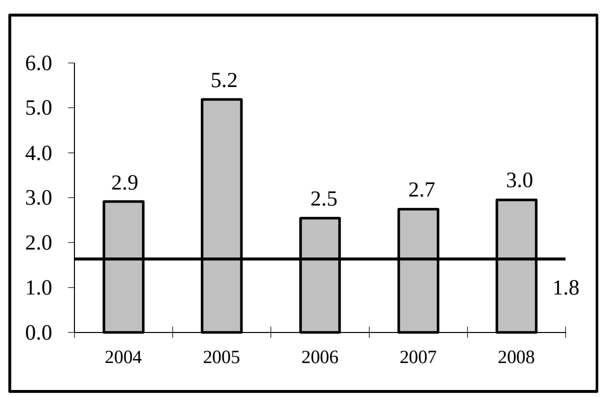
Expendable Resources to Debt Ratio



Debt Burden Ratio



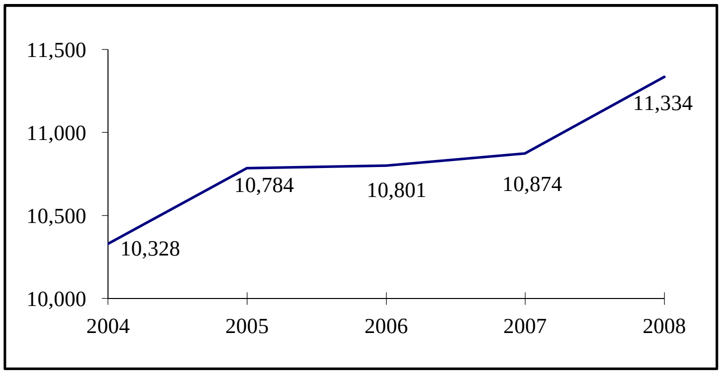
Debt Service Coverage Ratio



*Restated from prior year report.

The University of Texas at Dallas
2008 Summary of Financial Condition

Full-time Equivalent Student Enrollment - Fall



Composite Financial Index (CFI) - UT Dallas' CFI decreased from 6.1 in 2007 to 5.3 in 2008 primarily due to a reduction in the return on net assets ratio and a reduction in the expendable resources to debt ratio caused by an increase in the amount of debt outstanding, which is discussed in further detail below.

Operating Expense Coverage Ratio - UT Dallas' operating expense coverage ratio increased slightly from 3.0 months in 2007 to 3.1 months in 2008 due to a $9.2 million increase in total unrestricted net assets, which was partially offset by a $22.0 million increase in total operating expenses (including interest expense). The increase in total unrestricted net assets was attributable to an $11.4 million increase in State appropriations as a result of increased formula funding and increased funding for tuition revenue bonds. Total operating expenses increased primarily due to the following: a $9.0 million increase in salaries and wages and a $2.7 million increase in payroll related costs attributable to annual merit increases and higher health insurance costs; a $2.8 million increase in other operating expenses resulting from moving expenses related to the Natural Science and Engineering Research Laboratory (NSERL), additional library subscription costs, the campus shuttle program, funding free Dallas Area Rapid Transit passes for students, faculty and staff, and increased postage costs for enrollment initiatives; a $1.9 million increase in materials and supplies primarily related to outfitting of the laboratories provided by NSERL and the Brain Health Buildings; a $1.8 million increase in utilities as a result of increased utility rates and increased usage due to the NSERL, the Center for Brain Health and the Service Compound which were all placed into service during the prior fiscal year; and a $1.4 million increase in depreciation expense also attributable to the new buildings placed into service during the prior fiscal year, thus resulting in the first full year of depreciation expense in 2008.

Annual Operating Margin Ratio - UT Dallas' annual operating margin ratio increased significantly from (0.1%) for 2007 to 4.4% for 2008. The improvement in operating performance was attributable to the growth in total operating revenues exceeding the growth in total operating expenses by $12.8 million. In addition to the increase in State appropriations discussed above, the increase in total operating revenues was also due a $3.5 million increase in gifts for operations.

Expendable Resources to Debt Ratio - UT Dallas' expendable resources to debt ratio decreased from 2.1 in 2007 to 1.7 in 2008 as a result of a $43.7 million increase in the amount of debt outstanding related to the vivarium and expansion space and the Student Housing Living Learning Center.

Debt Burden Ratio - UT Dallas' debt burden ratio increased from 4.5% in 2007 to 5.6% in 2008 primarily due to an increase in debt service payments of $4.4 million for the vivarium and expansion space and the Student Housing Living Learning Center.

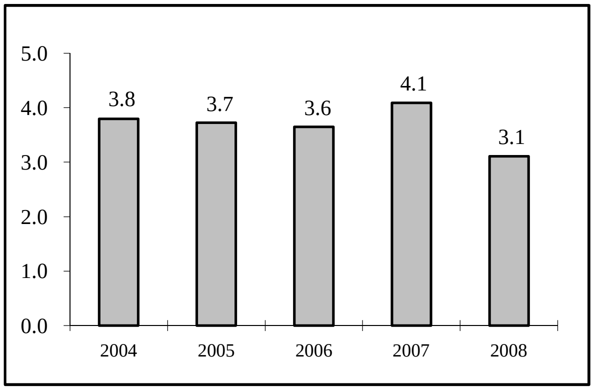
Debt Service Coverage Ratio - UT Dallas' debt service coverage ratio of 3.0 in 2008 was higher than the 2007 ratio of 2.7. The increase in this ratio resulted from the improvement in the operating performance previously discussed.

Full-Time Equivalent (FTE) Student Enrollment - UT Dallas' FTE student enrollment increased by 460 between the fall of 2007 and the fall of 2008. Total enrollment continues to rise in accordance with UT Dallas' strategic plan of increasing enrollment by 5,000. UT Dallas has undertaken a multi-pronged approach to increase enrollment, such as recruiting a Vice President for Admissions and investing in improved communication and outreach initiatives. This process is further enhanced by the Gateways to Excellence in Math & Science (GEMS) program which was started in 2008. GEMS is part of UT Dallas' SACS accredited Quality Enhancement Plan (QEP) which focuses on improving student learning and retention.

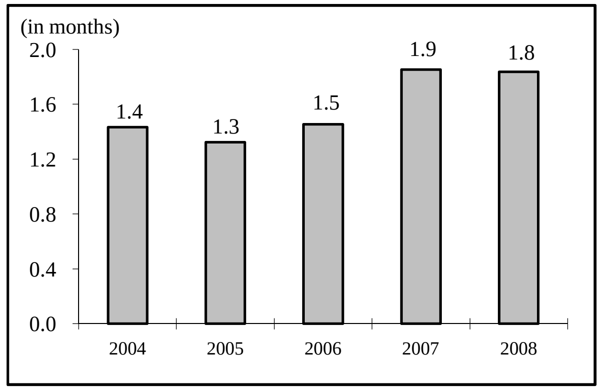
The University of Texas at El Paso
2008 Summary of Financial Condition

Financial Condition: **Satisfactory**

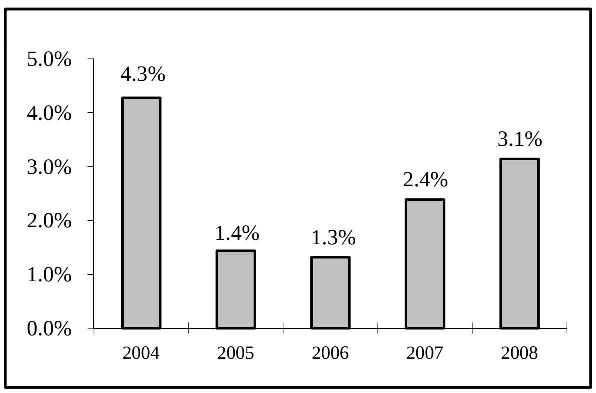
Composite Financial Index



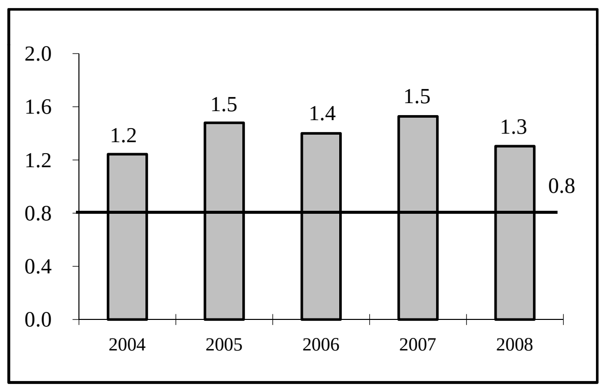
Operating Expense Coverage Ratio



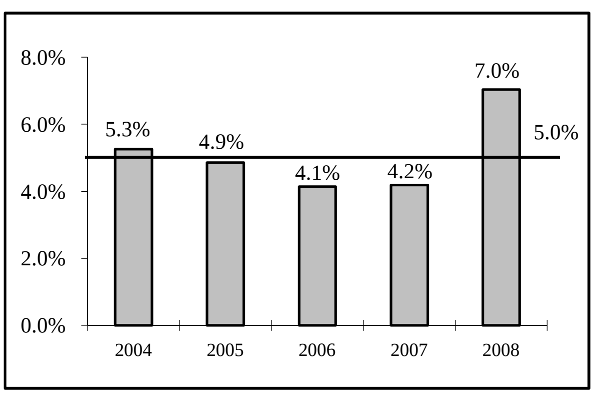
Annual Operating Margin Ratio



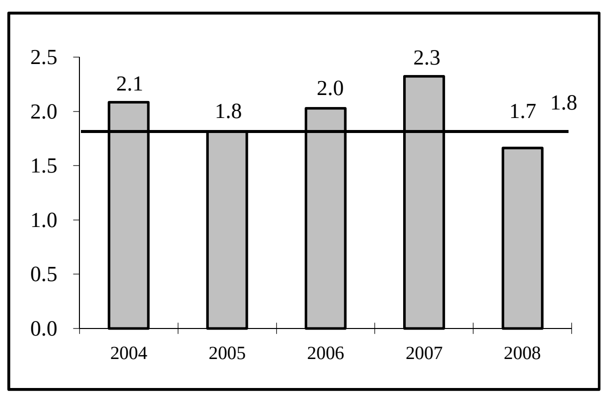
Expendable Resources to Debt Ratio



Debt Burden Ratio

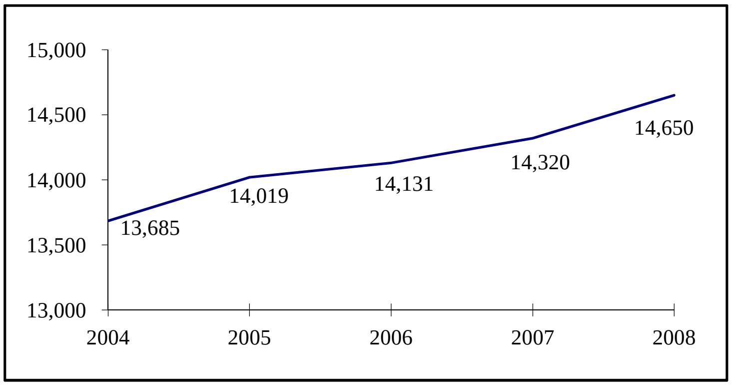


Debt Service Coverage Ratio



The University of Texas at El Paso
2008 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT El Paso's CFI decreased from 4.1 in 2007 to 3.1 in 2008 primarily as a result of the reduction in the return on net assets ratio, which was driven by the decrease in the fair value of investments of $14.7 million.

Operating Expense Coverage Ratio - UT El Paso's operating expense coverage ratio decreased slightly from 1.9 months in 2007 to 1.8 months in 2008 primarily due to a $10.8 million increase in total operating expenses (including interest expense). The increase in total operating expenses was attributable to the following: an $8.0 million increase in salaries and wages and a $1.9 million increase in payroll related costs as a result of annual merit increases, new positions and increased health insurance premiums; and a $3.0 million increase in materials and supplies primarily due to library expenses and non-capitalizable expenses in plant funds.

Annual Operating Margin Ratio - UT El Paso's annual operating margin ratio improved from 2.4% for 2007 to 3.1% for 2008 as the growth in total operating revenues exceeded the growth in total operating expenses. The majority of the increase in total operating revenues was attributable to an $11.5 million increase in State appropriations resulting from increases in formula funding, Research Development Funds and funding for tuition revenue bond retirement.

Expendable Resources to Debt Ratio - UT El Paso's expendable resources to debt ratio decreased from 1.5 in 2007 to 1.3 in 2008 as a result of a decrease in restricted expendable net assets attributable to the decrease in appreciation on permanent endowments caused by the unfavorable market conditions. UT El Paso's restricted expendable net assets for capital projects also decreased due to the completion of capital projects.

Debt Burden Ratio - UT El Paso's debt burden ratio increased significantly from 4.2% in 2007 to 7.0% in 2008 due to a $7.6 million increase in debt service payments primarily related to the new Engineering/Physical Sciences Core Facility.

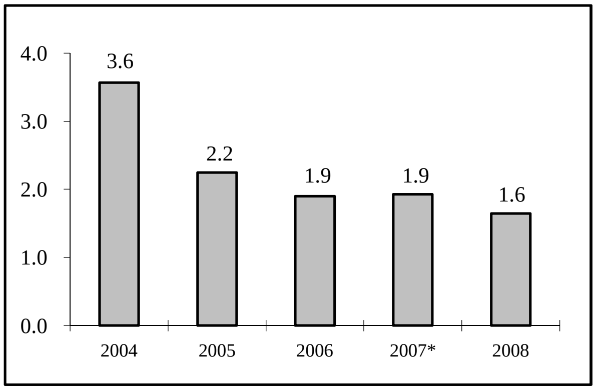
Debt Service Coverage Ratio - UT El Paso's debt service coverage ratio decreased from 2.3 in 2007 to 1.7 in 2008 as a result of the increase in debt service payments mentioned above.

Full-Time Equivalent (FTE) Student Enrollment - UT El Paso's FTE student enrollment increased due to an overall enrollment increase of 1.6% as compared to the previous year.

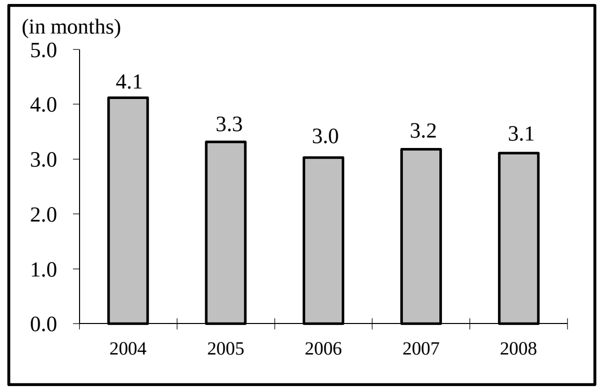
The University of Texas - Pan American
2008 Summary of Financial Condition

Financial Condition: **Satisfactory**

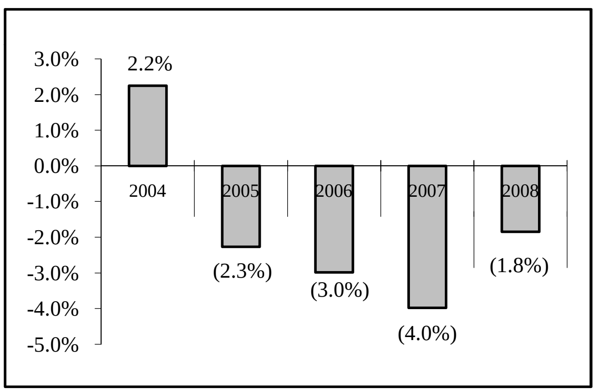
Composite Financial Index



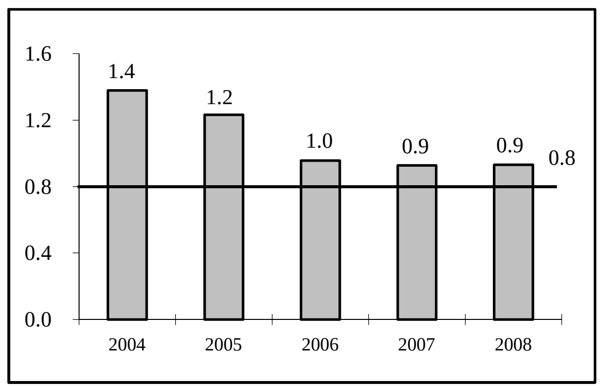
Operating Expense Coverage Ratio



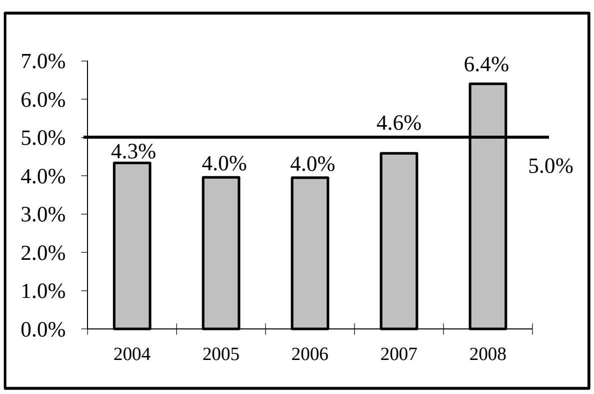
Annual Operating Margin Ratio



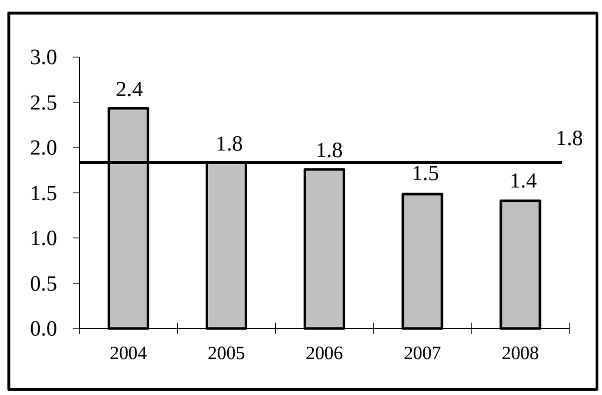
Expendable Resources to Debt Ratio



Debt Burden Ratio



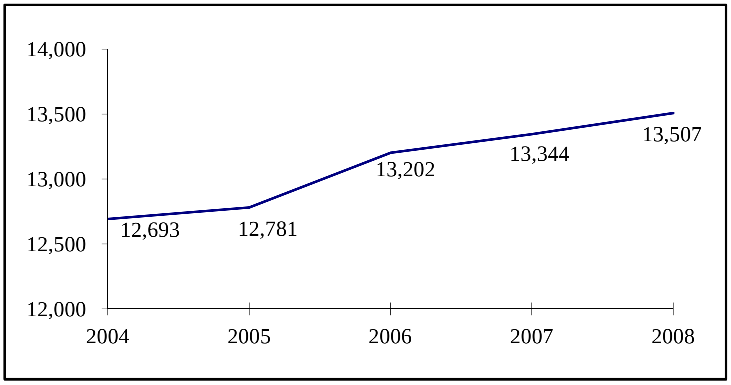
Debt Service Coverage Ratio



*Restated from prior year report.

The University of Texas - Pan American
2008 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT Pan American's CFI decreased from 1.9 in 2007 to 1.6 in 2008. The reduction in the CFI was mostly due to a reduction in the return on net assets ratio which was driven by the net decrease in the fair value of investments of $5.0 million.

Operating Expense Coverage Ratio - UT Pan American's operating expense coverage ratio decreased slightly from 3.2 months to 3.1 months primarily due to a $14.2 million increase in total operating expenses (including interest expense). The increase in total operating expenses was largely attributable to the following: a $7.3 million increase in salaries and wages and a $1.7 million increase in payroll related costs as a result of a 3% merit increase for faculty and staff, additional staff needed for the implementation of the Oracle ORP system, and increased health insurance premiums and retirement contributions; a $1.7 million increase in interest expense; a $1.5 million increase in utilities due to increased rates and construction-related costs; and a $1.4 million increase in scholarships and fellowships mainly attributable to an increase in the Texas Grants Program and increases in the amounts awarded for Texas Public Education Grants and Pell Grants.

Annual Operating Margin Ratio - UT Pan American's annual operating margin ratio improved from (4.0%) for 2007 to (1.8%) for 2008. The reduction in the operating deficit was primarily due to a $7.0 million increase in State appropriations as a result of increases in formula funding and Research Development Funds. Despite the improvement in the operating margin, UT Pan American incurred a loss of $4 million in 2008.

Expendable Resources to Debt Ratio - UT Pan American's expendable resources to debt ratio remained unchanged at 0.9 in 2008. The restricted expendable net assets decreased $2.9 million due to a reduction in the appreciation on permanent endowments and a decrease in net assets restricted for capital projects. The decrease in restricted expendable net assets was partially offset by an increase in total unrestricted net assets of $2.4 million caused by the reduction in the operating deficit. The amount of debt outstanding also decreased $0.9 million.

Debt Burden Ratio - UT Pan American's debt burden ratio was 6.4% in 2008, which was a substantial increase from the 2007 ratio of 4.6%. The increase in this ratio was caused by an increase in debt service payments of $4.0 million primarily related to Student Housing Phase II and the Wellness and Recreation Sports Complex.

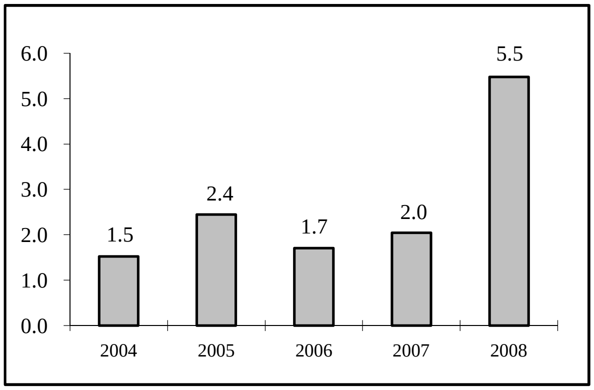
Debt Service Coverage Ratio - UT Pan American's debt service coverage ratio decreased slightly from 1.5 in 2007 to 1.4 in 2008 as a result of the increase in debt service payments mentioned above.

Full-Time Equivalent (FTE) Student Enrollment - At UT Pan American, the headcount enrollment from Fall 2007 to Fall 2008 increased 0.6%; however, the FTE student enrollment increased 1.2% to 13,507. Student advisement improved due to a new student advisement process which started in the Fall of 2005. As a result, undergraduate students are taking increased semester credit hour loads to ensure timely graduation. Also, UT Pan American instituted a required minimum ACT score which is attracting higher caliber students to the university.

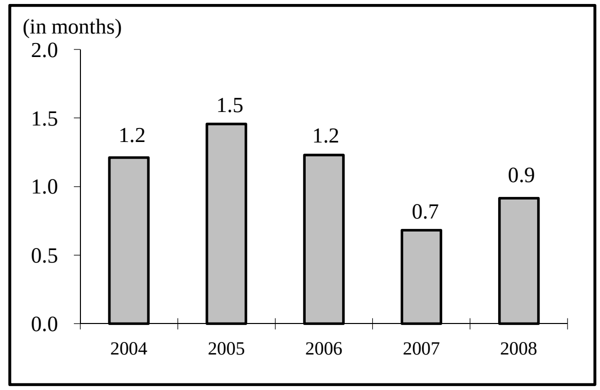
The University of Texas of the Permian Basin
2008 Summary of Financial Condition

Financial Condition: **Satisfactory**

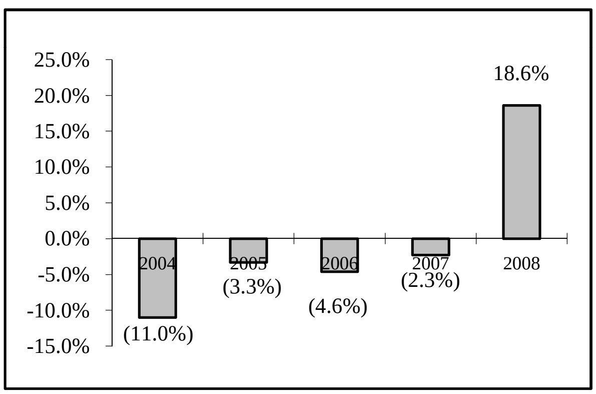
Composite Financial Index



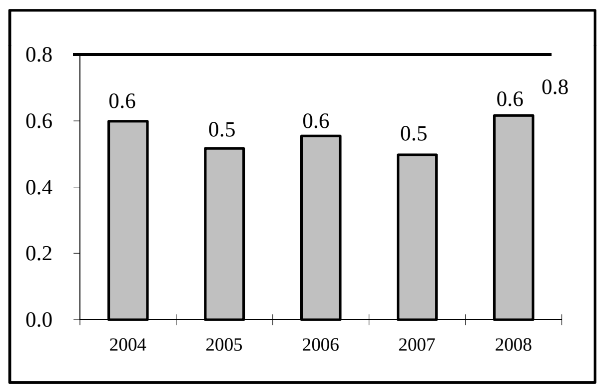
Operating Expense Coverage Ratio



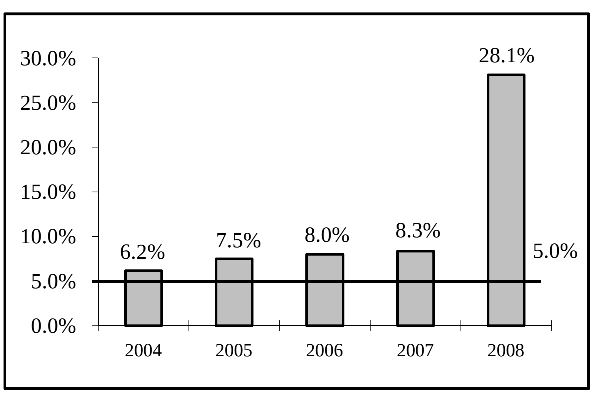
Annual Operating Margin Ratio



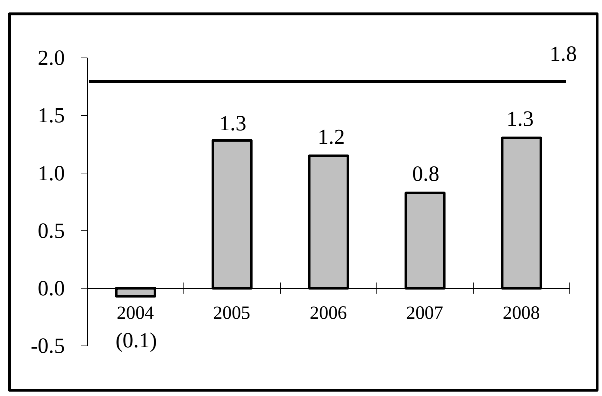
Expendable Resources to Debt Ratio



Debt Burden Ratio

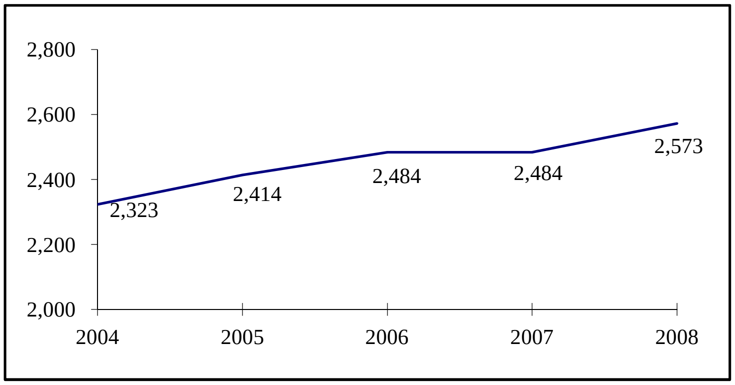


Debt Service Coverage Ratio



The University of Texas of the Permian Basin
2008 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - UT Permian Basin's CFI increased substantially from 2.0 in 2007 to 5.5 in 2008. The large increase in the CFI was a result of an improvement in the operating performance and increases in both unrestricted net assets and restricted expendable net assets, all of which are discussed in further detail below.

Operating Expense Coverage Ratio - UT Permian Basin's operating expense coverage ratio increased from 0.7 months in 2007 to 0.9 months in 2008 primarily due to an increase in total unrestricted net assets of $1.2 million. The increase in total unrestricted nets assets was attributable to a $2.2 million increase in net tuition and fees as a result of an increase in the designated tuition rate.

A*nnual Operating Margin Ratio* - UT Permian Basin's annual operating margin ratio improved dramatically from (2.3%) for 2007 to 18.6% for 2008. The growth in total operating revenues of $17.1 million far exceeded the growth in total operating expenses (including interest expense) of $6.1 million. In addition to the increase in net tuition and fees mentioned above, State appropriations increased $14.9 million as a result of increased formula funding, $4.5 million of special item funding for instruction and $8.6 million of funding for tuition revenue bonds for the Science and Technology Complex and the Wagner Noel Performing Arts Center.

Expendable Resources to Debt Ratio -UT Permian Basin's expendable resources to debt ratio increased slightly from 0.5 in 2007 to 0.6 in 2008. The increase in this ratio was primarily due to the increase in total unrestricted net assets, as previously discussed, and an increase in restricted expendable net assets for capital projects related to the Science and Technology Complex.

Debt Burden Ratio - UT Permian Basin's debt burden ratio increased significantly from 8.3% in 2007 to 28.1% in 2008. The large increase in this ratio was attributable to an increase in debt service payments of $8.6 million related to the Science and Technology Complex and the Wagner Noel Performing Arts Center.

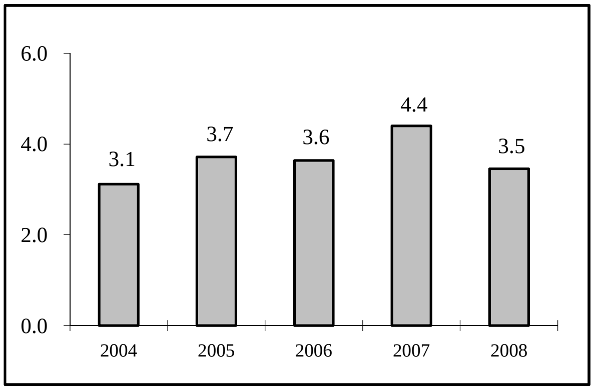
Debt Service Coverage Ratio - UT Permian Basin's debt service coverage ratio increased from 0.8 in 2007 to 1.3 in 2008 due to the significant improvement in operating performance discussed in the annual operating margin ratio.

Full-Time Equivalent (FTE) Student Enrollment - UT Permian Basin's FTE student enrollment increased due to successful efforts in recruiting and retention.

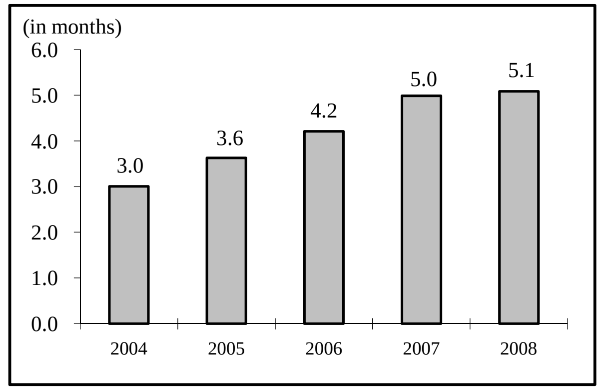
The University of Texas at San Antonio
2008 Summary of Financial Condition

Financial Condition: **Satisfactory**

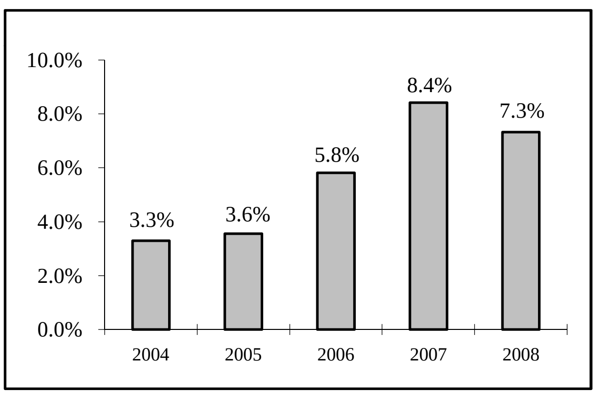
Composite Financial Index



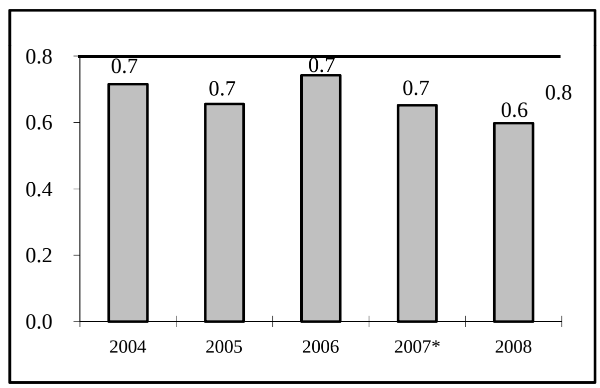
Operating Expense Coverage Ratio



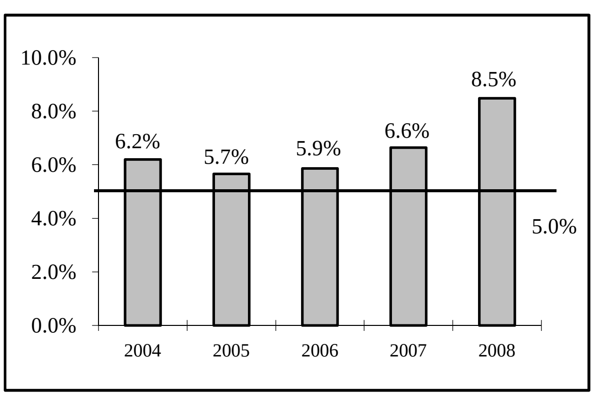
Annual Operating Margin Ratio



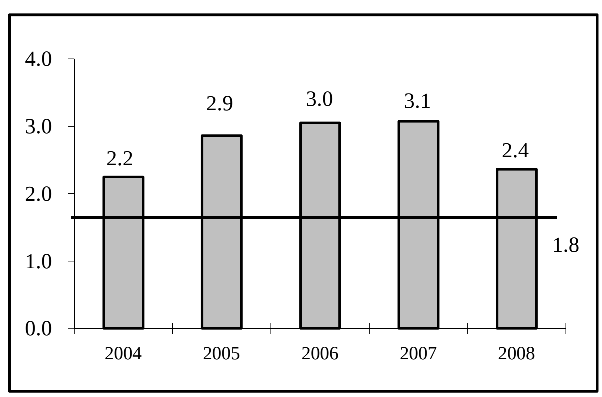
Expendable Resources to Debt Ratio



Debt Burden Ratio



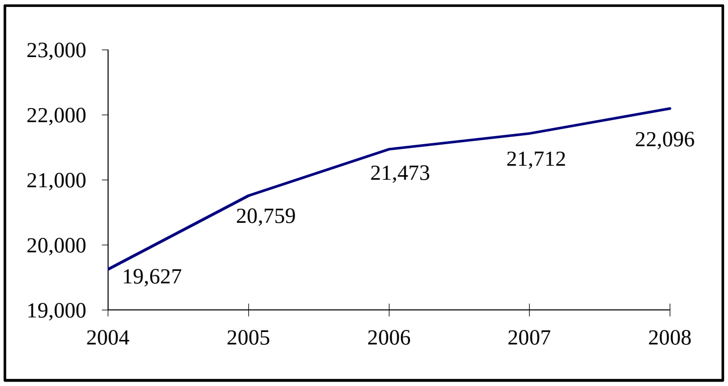
Debt Service Coverage Ratio



*Restated from prior year report.

The University of Texas at San Antonio
2008 Summary of Financial Condition

Full-time Equivalent Student Enrollment - Fall



Composite Financial Index (CFI) - UT San Antonio's CFI decreased from 4.4 in 2007 to 3.5 in 2008. The decrease in the CFI was driven by a reduction in the return on net assets ratio. The return on net assets ratio decreased primarily as a result of the decrease in the fair value of investments of $13.6 million and a $69.2 million increase in the amount of debt outstanding.

Operating Expense Coverage Ratio - UT San Antonio's operating expense coverage ratio increased slightly from 5.0 months in 2007 to 5.1 months in 2008 primarily due to an $18.2 million increase in total unrestricted net assets. There were delays in implementing several key strategic initiatives related to research, faculty hiring and start-up costs, data warehousing, and planned capital renovation and equipment replacement. Also, an increase in semester credit hours generated $4.6 million of additional tuition and fees.

Annual Operating Margin Ratio - UT San Antonio's annual operating margin ratio decreased from 8.4% for 2007 to 7.3% for 2008 as the increase in total operating expenses (including interest expense) of $36.7 million outpaced the growth in total operating revenues of $35.5 million. The increase in total operating expenses was primarily due to: a $16.5 million increase in salaries, wages and benefits costs for faculty and staff to accommodate enrollment growth, as well as equity and merit increases; a $4.7 million increase in materials and supplies; a $3.5 million increase in professional fees and services related to consulting services and a change in food service vendors that resulted in new expenses; a $3.5 million increase in interest expense due to additional debt service for the Engineering Building Phase II, Laurel Village and the University Center Expansion Phase II; a $2.5 million increase in purchased utilities; and a $2.3 million increase in depreciation expense due to the completion of the Thermal Energy Plant substation. In addition to the increase in tuition and fees, the increase in total operating revenues was largely attributable to: a $16.6 million increase in State appropriations as a result of increased formula funding, increased funding for employee benefits, special item funding and funding for tuition revenue bond retirement; a $6.9 million increase in Texas Grant pass-through funding; a $2.8 million increase in auxiliary enterprises due to the opening of Laurel Village student housing; and a $2.0 million increase in gifts for operations from the AT&T Foundation, the Liu Family Foundation and various gifts for the Real Estate Finance and Development Program.

Expendable Resources to Debt Ratio - UT San Antonio's expendable resources to debt ratio decreased slightly from 0.7 in 2007 to 0.6 in 2008. The decrease in this ratio was the result of a $69.2 million increase in debt outstanding associated with the Engineering Building Phase II, Laurel Village and the University Center Expansion.

Debt Burden Ratio - UT San Antonio's debt burden ratio increased from 6.6% in 2007 to 8.5% in 2008 due to an $8.5 million increase in debt service payments for the projects previously listed.

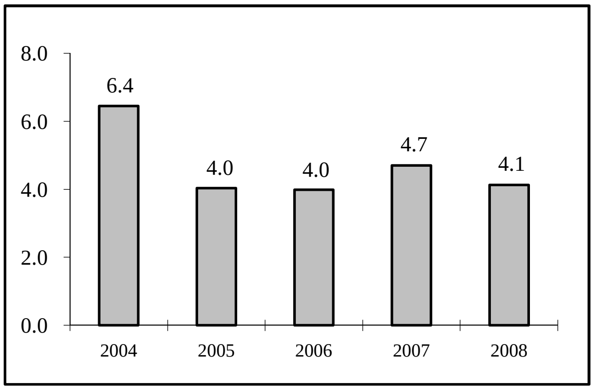
Debt Service Coverage Ratio - UT San Antonio's debt service coverage ratio decreased from 3.1 in 2007 to 2.4 in 2008 as a result of both the reduction in operating performance and the increase in debt service mentioned above.

Full-Time Equivalent (FTE) Student Enrollment - Although UT San Antonio's student headcount increased by only 0.5% from the prior fall, the number of FTE students increased by 1.8% as students increased their average courseload during Fall 2008 over Fall 2007. This is a positive trend in that UT San Antonio is enrolling a more traditional student body, with over 70% taking a full-time load. Semester credit hour production increased by 1% over the previous fall.

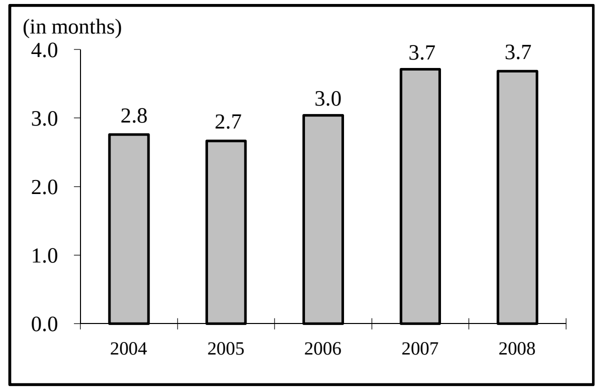
The University of Texas at Tyler
2008 Summary of Financial Condition

Financial Condition: **Satisfactory**

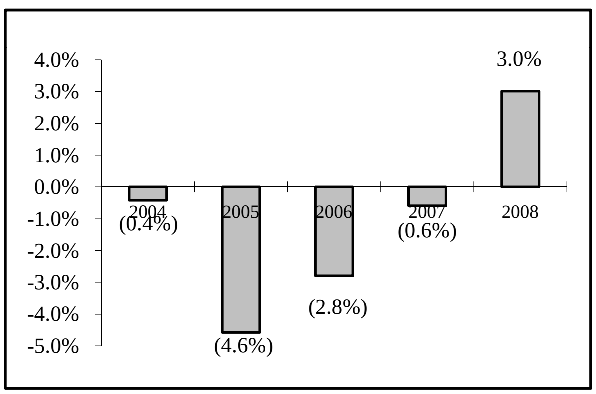
Composite Financial Index



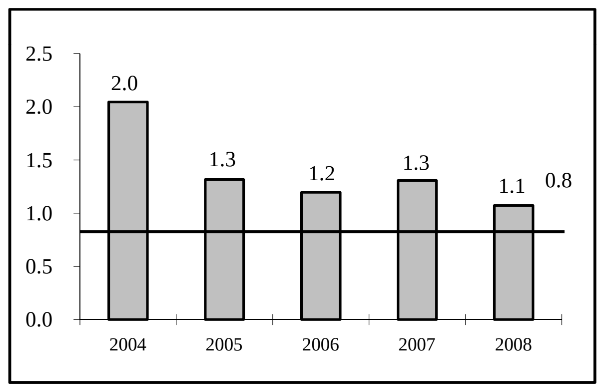
Operating Expense Coverage Ratio



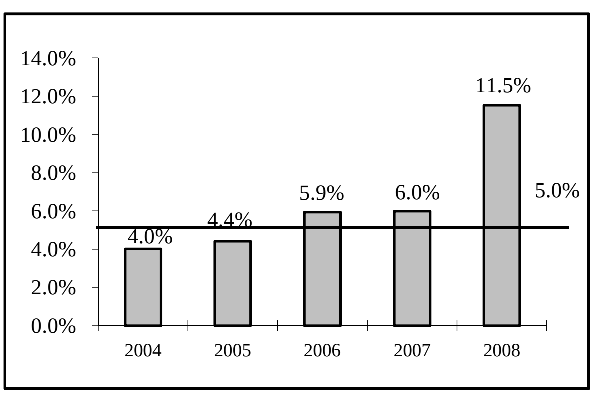
Annual Operating Margin Ratio



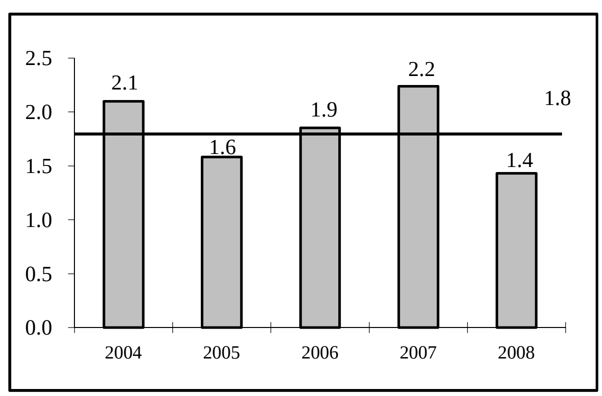
Expendable Resources to Debt Ratio



Debt Burden Ratio

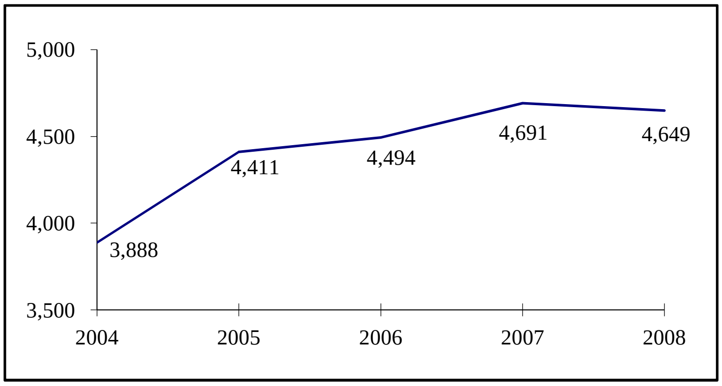


Debt Service Coverage Ratio



The University of Texas at Tyler
2008 Summary of Financial Condition

Full-time Equivalent Student Enrollment - Fall



Composite Financial Index (CFI) - UT Tyler's CFI decreased from 4.7 in 2007 to 4.1 in 2008. The decline in the CFI was attributable to a reduction in the return on net assets ratio caused by a $17.0 million increase in the amount of debt outstanding discussed in more detail below.

Operating Expense Coverage Ratio - UT Tyler's operating expense coverage ratio remained unchanged at 3.7 months in 2008. The stability of this ratio was primarily due to a $2.4 million increase in total unrestricted net assets offset by an increase in total operating expenses (including interest expense) of $8.2 million. The increase in total unrestricted net assets was attributable to a $5.9 million increase in State appropriations as a result of increased formula funding and funding for tuition revenue bond retirement. The increase in total operating expenses was primarily due to the following: a $2.7 million increase in salaries and wages and payroll related costs resulting from new faculty and staff positions, merit increases and related increases in staff benefits; a $1.5 million increase in materials and supplies attributable to the furnishings for the North Engineering Building; a $0.9 million increase in repairs and maintenance due to painting and repairs at the Patriot Village apartments, construction expenses not capitalized, and increased road maintenance; a $0.9 million increase in depreciation expense resulting from the Irwin Concession Building which was placed into service at the end of 2007, and the Ratliff Engineering North Building and the Ornelas Activity Center Building which were placed into service in 2008; and a $0.5 million increase in utilities due to an increase in utility rates and increased consumption related to the buildings recently placed into service.

Annual Operating Margin Ratio - UT Tyler's annual operating margin ratio improved significantly from (0.6%) for 2007 to 3.0% for 2008. The improvement in the operating performance was due to the growth in total operating revenues of $11.1 million surpassing the growth in total operating expenses. In addition to the increase in State appropriations as discussed above, total operating revenues increased as a result of the following: a $1.9 million increase in sponsored program revenue largely attributable to increases in the TxAIRE Grant, the COSMOS Grant, and the TSTEM Grant; a $1.8 million increase in net tuition and fees due to increases in both headcount and semester credit hours; a $0.6 million increase in gifts for operations primarily due to the receipt of a gift for the Palestine Campus development; and a $0.5 million increase in net investment income.

Expendable Resources to Debt Ratio - UT Tyler's expendable resources to debt ratio decreased from 1.3 in 2007 to 1.1 in 2008 due to a $17.0 million increase in the amount of debt outstanding related to the Engineering and Sciences Building.

Debt Burden Ratio - UT Tyler's debt burden ratio increased from 6.0% in 2007 to 11.5% in 2008. The substantial increase in this ratio was attributable to a $4.6 million increase in debt service payments primarily for the Engineering and Sciences Building.

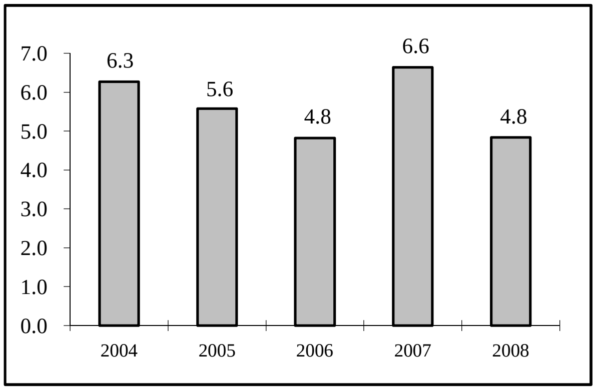
Debt Service Coverage Ratio - UT Tyler's debt service coverage ratio decreased from 2.2 in 2007 to 1.4 in 2008. The decrease in this ratio was also a result of the increase in debt service payments mentioned above.

Full-Time Equivalent (FTE) Student Enrollment - UT Tyler's FTE student enrollment decreased from 4,691 in the fall of 2007 to 4,649 in the fall of 2008 due to unfavorable economic conditions.

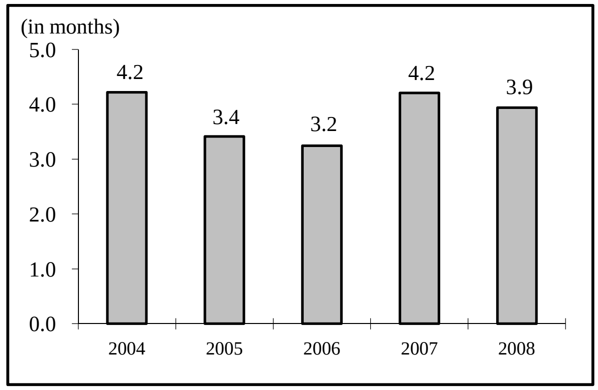
The University of Texas Southwestern Medical Center at Dallas
2008 Summary of Financial Condition

Financial Condition: **Satisfactory**

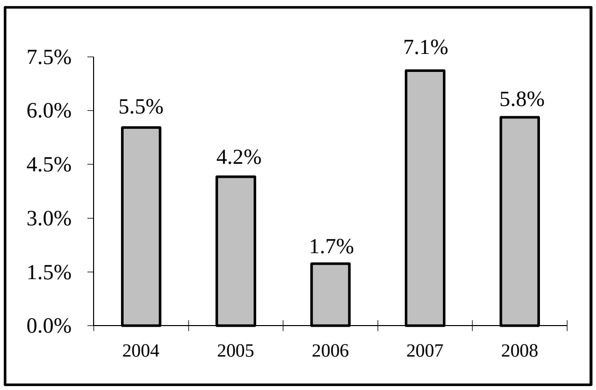
Composite Financial Index



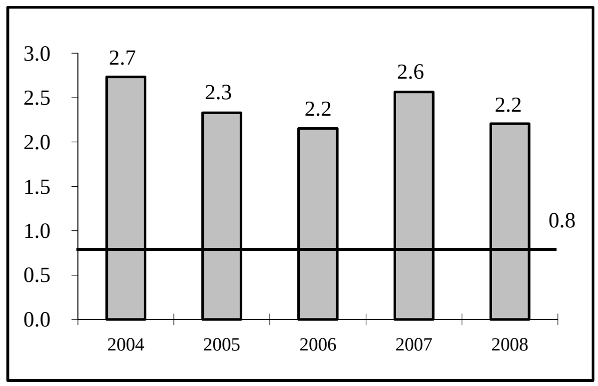
Operating Expense Coverage Ratio



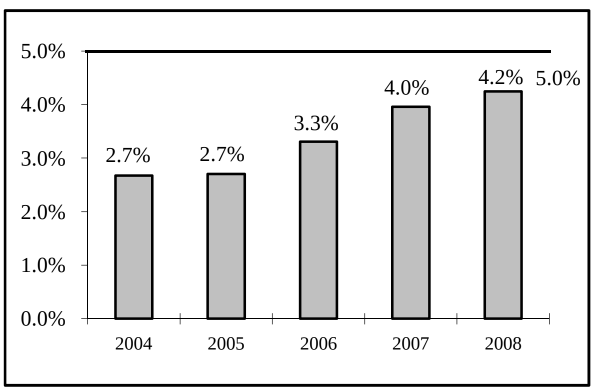
Annual Operating Margin Ratio



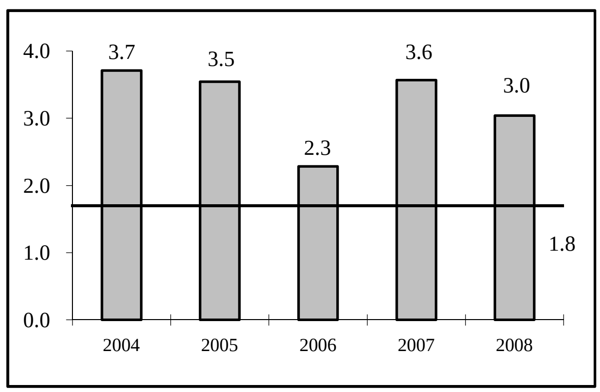
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Southwestern Medical Center at Dallas
2008 Summary of Financial Condition

Composite Financial Index (CFI) - UT Southwestern Medical Center - Dallas' (Southwestern) CFI decreased from 6.6 in 2007 to 4.8 in 2008 primarily due to a reduction in the return on net assets ratio. The decrease in the return on net assets ratio was driven by the net decrease in the fair value of investments of $86.4 million in 2008, which was a change from the prior of ($220.4) million, and an increase in the amount of debt outstanding, which is discussed below.

Operating Expense Coverage Ratio - Southwestern's operating expense coverage ratio decreased from 4.2 months in 2007 to 3.9 months in 2008 due to a $114.0 million increase in total operating expenses (including interest expense). The increase in total operating expenses was primarily attributable to the following: a $59.5 million increase in salaries and wages and a $15.7 million increase in payroll related costs due to salary increases to address competitive salary issues, annual merit increases and new faculty positions to support new and expanding clinical programs and new research programs; an $18.3 million increase in materials and supplies related to increases in the purchases of laboratory and medical supplies, furnishings, equipment, computer equipment, software and licenses under the capitalization threshold, and transplant import grafts, chemicals and gases; a $7.5 million increase in professional fees and services primarily due to volume and price increases for the Pathology Lab and professional fees; a $5.2 million increase in other operating expenses mostly attributable to contract labor for hospital operations due to turnover and the addition of new programs, as well as increased costs for service and maintenance contracts; a $4.3 million increase in depreciation expense due to a full year of depreciation expense for the Outpatient Building and Garage which was placed into service in 2007, the Hazardous Waste Handling Facility, Mammography Coach Garage and Paul M. Bass Center, which were all placed into service in 2008 and additional medical equipment purchased in 2008; and a $3.9 million increase in utilities resulting from new buildings placed into service and rate increases.

Annual Operating Margin Ratio - Southwestern's annual operating margin ratio decreased from 7.1% for 2007 to 5.8% for 2008 as the growth in total operating expenses exceeded the growth in total operating revenues by $11.9 million. The increase in total operating expenses is detailed above. Total operating revenues increased $102.1 million primarily due to the following: a $38.3 million increases in net sales and services of hospitals attributable to an increase in adjusted patient days and an increase in outpatient revenue resulting from continued growth in volume at the Outpatient Building; a $35.1 million increase in State appropriations as a result of increased formula funding, special item funding and an increase in State paid staff benefits; and a $34.9 million increase in gifts for operations primarily due to a $27.8 million gift for the University Medical Center, a $5 million gift from the COAM Company for cancer research and a $5 million gift from the Harold and Annette Simmons Comprehensive Center for Research and Treatment in Brain & Neurological Disorders. Additionally, Southwestern recognized $66.1 million less revenue for the Texas Physician Upper Payment Limit (UPL) in 2008 as compared to 2007.

Expendable Resources to Debt Ratio - Southwestern's expendable resources to debt ratio decreased from 2.6 in 2007 to 2.2 in 2008. The increase in this ratio was the result of an $82.4 million increase in the amount of debt outstanding for North Campus Phase V and Exchange Park.

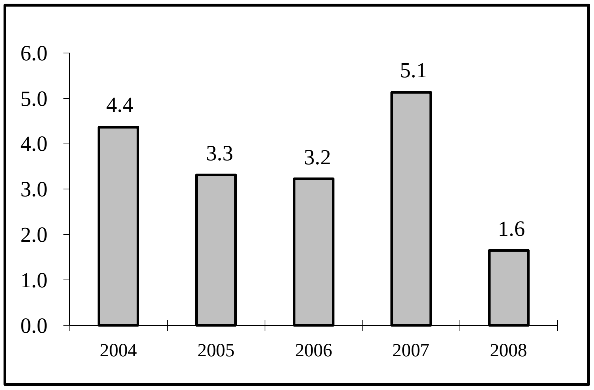
Debt Burden Ratio - Southwestern's debt burden ratio increased from 4.0% in 2007 to 4.2% in 2008 due to an $8.5 million increase in debt service payments. This increase in debt service was primarily related to debt for the North Campus, Outpatient Building, Hazardous Waste Handling Facility, Mammography Coach Garage, Paul M. Bass Center, and hospital facilities and equipment.

Debt Service Coverage Ratio - Southwestern's debt service coverage ratio decreased from 3.6 in 2007 to 3.0 in 2008. The decrease in this ratio was caused by both the reduction in the operating performance, as discussed in the annual operating margin ratio, and the increase in debt service payments previously discussed.

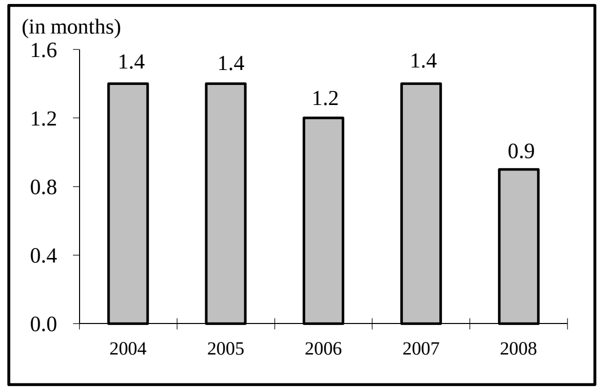
The University of Texas Medical Branch at Galveston
2008 Summary of Financial Condition

Financial Condition: **Unsatisfactory**

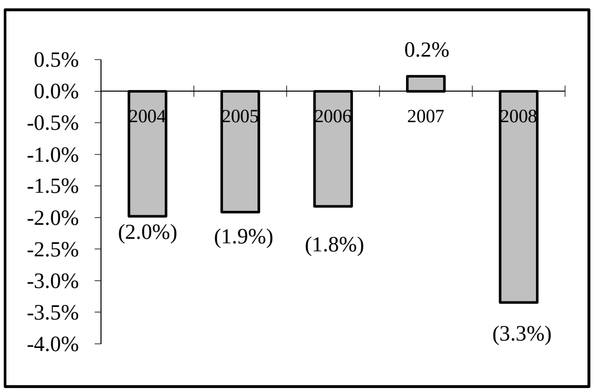
Composite Financial Index



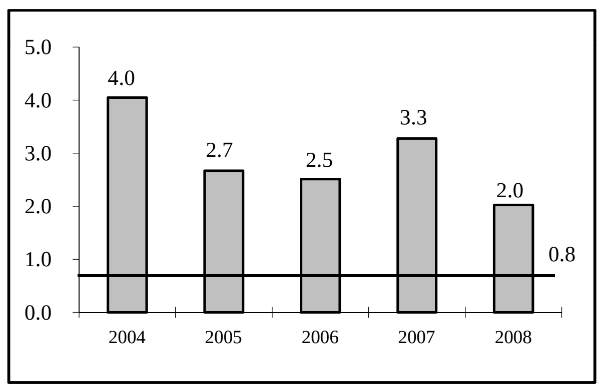
Operating Expense Coverage Ratio



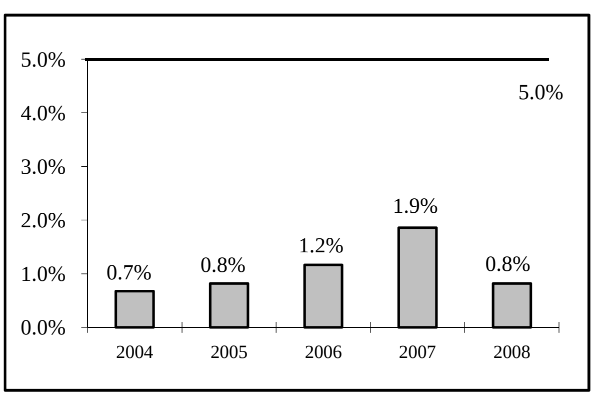
Annual Operating Margin Ratio



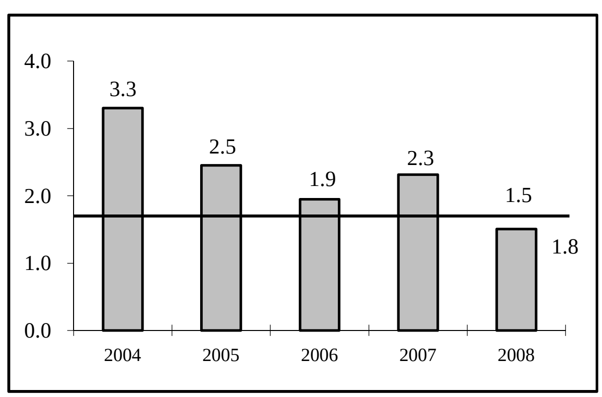
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Medical Branch at Galveston
2008 Summary of Financial Condition

Composite Financial Index (CFI) - UT Medical Branch - Galveston's (UTMB) CFI dropped from 5.1 in 2007 to 1.6 in 2008. The large decrease in the CFI was primarily due to the total net decrease in the fair value of investments of $49.8 million, which represented a change from the prior year of ($111.4) million, the decrease in the expendable resources to debt ratio discussed below and the decline in operating performance also discussed below.

Operating Expense Coverage Ratio - UTMB's operating expense coverage ratio decreased from 1.4 months in 2007 to 0.9 months in 2008 due to both a $51.5 million decrease in total unrestricted net assets and a $116.4 million increase in total operating expenses (including interest expense). The increase in total operating expenses was primarily due to the following: an $80.3 million increase in salaries and wages and payroll related costs as a result of merit increases to maintain competitive salaries and to support recruitment and retention efforts, overtime costs, and agency costs for clinical professionals; a $9.9 million increase in utilities attributable to a long-term utility contract that expired causing higher electric rates; a $7.2 million increase in materials and supplies mostly due to the rising cost of healthcare supplies and increased volume of non-capitalized equipment purchases; a $7.0 million increase in depreciation expense resulting from the continued implementation of the Electronic Medical Record (EMR) system and the completion of several major capital projects, such as the Galveston National Laboratory and the Research Facilities Expansion, which were placed into service in 2008; a $3.7 million increase in rentals and leases primarily due to increases in equipment and office building space lease agreements; a $3.0 million increase in scholarships and fellowships mostly attributable to additional endowment money received for new scholarships in 2008 and increased tuition requiring higher scholarship awards; a $2.9 million increase in cost of goods sold resulting mainly from a mandated Hepatitis B vaccination program in the Texas Department of Criminal Justice contract; and a $2.6 million increase in repairs and maintenance primarily due to new maintenance agreements, inflation on existing maintenance agreements and a new hospital aesthetics initiative. The increases in various operating expenses, along with the net decrease in the fair value of investments allocated to designated funds of $13.4 million, contributed to the reduction in total unrestricted net assets.

Annual Operating Margin Ratio - UTMB's annual operating margin ratio declined significantly from 0.2% for 2007 to (3.3%) for 2008 as the growth in total operating expenses (discussed above) exceeded the growth in total operating revenues by $53.8 million. The Hospitals and Clinics experienced a significant decline in volume and a shift in payor mix in 2008. Patient volumes were down by 2.2% and Medicare volume was down by 9.9%. Additionally, the case mix index of patients dropped, impacting revenue. Due to the shortage of patient care providers, UTMB incurred unprecedented levels of expensive temporary agency and overtime in order to meet required patient staffing levels. The Hospitals and Clinics continued to operate in a challenging environment where revenue increases, particularly in government sponsored programs, fall short of healthcare expense inflation. As a result of these factors, UTMB experienced a $50.3 million loss, which includes $14.9 million related to Correctional Managed Care. Additionally, UTMB recognized $29.3 million less revenue for the Texas Physician Upper Payment Limit (UPL) in 2008 as compared to 2007.

UTMB sustained significant physical damage and loss of patient care activity as a result of Hurricane *Ike*, which made landfall in Galveston on September 13, 2008. The costs for protecting and restoring the facilities, replacement of infrastructure and equipment, and evacuation and relocation, together with the loss of revenue, is estimated to exceed $700 million. UTMB is implementing restored operations for all of research and education, and a portion of the clinical activity. Clinical activity restoration will take an extended period of time due to the extent and nature of damages to related facilities. The damage caused by Hurricane *Ike* will result in a permanent impairment of capital assets for UTMB. As a result of the financial losses stemming from Hurricane *Ike*, on November 12, 2008, the UT System Board of Regents found that a financial exigency existed at UTMB and instructed the System to work with UTMB to implement a reduction in force of approximately 3,800 employees. Most affected employees will be carried on the payroll until mid-January of 2009, while others will be carried for longer periods ranging to the end of the fiscal year.

Expendable Resources to Debt Ratio - UTMB's expendable resources to debt ratio decreased from 3.3 in 2007 to 2.0 in 2008. The decline in this ratio was a result of the decrease in total unrestricted net assets mentioned above, as well as a reduction in expendable net assets attributable to the decrease in appreciation of permanent endowment funds. Also contributing to the decrease in this ratio was a $46.4 million increase in the amount of debt outstanding related to Galveston National Laboratory, Victory Lakes, and equipment.

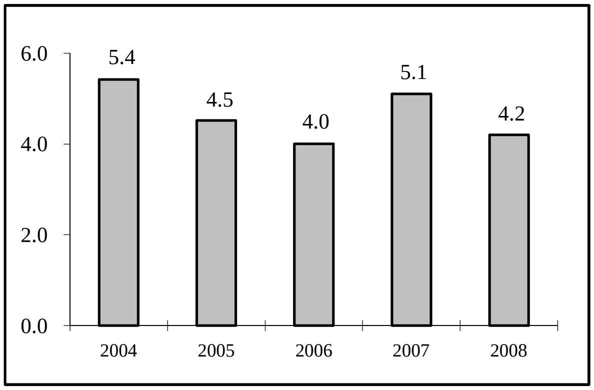
Debt Burden Ratio - UTMB's debt burden ratio decreased from 1.9% in 2007 to 0.8% in 2008 due to a $13.9 million decrease in debt service payments and the increase in total operating expenses previously discussed. The decrease in debt service payments was caused by the early pay down of equipment debt in 2007 that was scheduled for payment in 2008.

Debt Service Coverage Ratio - UTMB's debt service coverage ratio decreased from 2.3 in 2007 to 1.5 in 2008 which was attributable to the reduction in operating performance as discussed in the annual operating margin ratio.

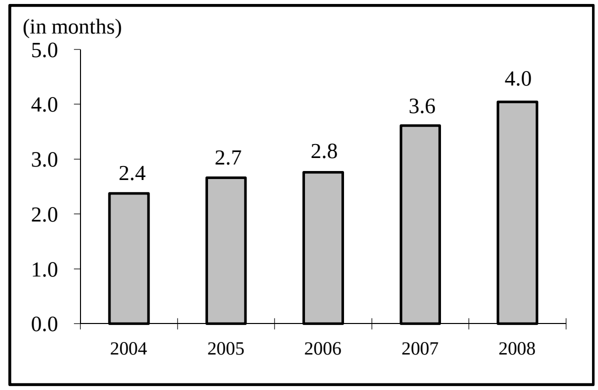
The University of Texas Health Science Center at Houston
2008 Summary of Financial Condition

Financial Condition: **Satisfactory**

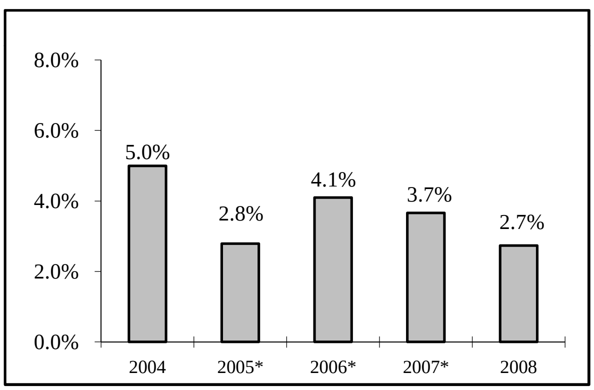
Composite Financial Index



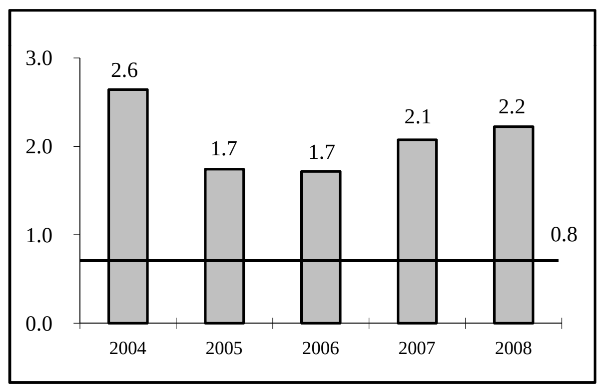
Operating Expense Coverage Ratio



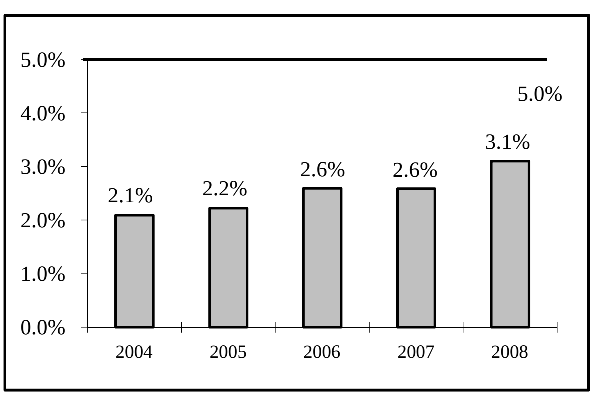
Annual Operating Margin Ratio



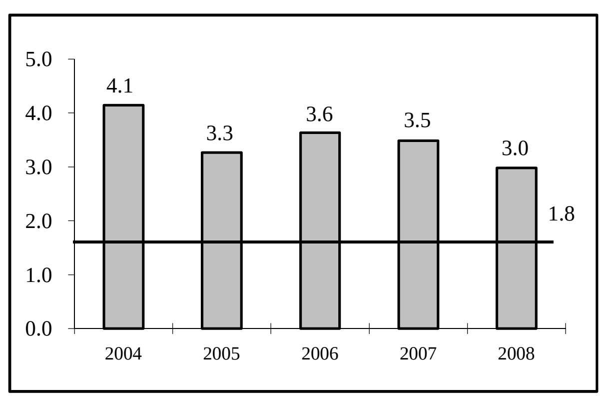
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



*Restated from prior year report.

The University of Texas Health Science Center at Houston
2008 Summary of Financial Condition

Composite Financial Index (CFI) - UT Health Science Center - Houston's (UTHSC-Houston) CFI decreased from 5.1 in 2007 to 4.2 in 2008 primarily due to a decline in the return on net assets ratio. The decrease in the return on net assets ratio was driven by the net decrease in the fair value of investments of $24.6 million, which was a ($57.2) million change from the prior year, as well as the decline in operating performance as discussed in more detail below.

Operating Expense Coverage Ratio - UTHSC-Houston's operating expense coverage ratio increased from 3.6 months in 2007 to 4.0 months in 2008 due to an increase in total unrestricted net assets of $37.1 million. The increase in total unrestricted net assets was primarily related to an increase of $34.4 million in unrestricted net assets for capital projects. This represents a reallocation of other funding sources from the restricted to the unrestricted category in the 2008 annual financial report.

Annual Operating Margin Ratio - UTHSC-Houston's annual operating margin ratio decreased from 3.7% for 2007 to 2.7% for 2008. Although total operating revenues increased by $31.5 million, total operating expenses grew by $37.3 million causing a decline in operating performance. The increase in total operating expenses was primarily due to the following: a $24.3 million increase in salaries and wages resulting from annual merit increases and successful recruitment for positions which were vacant for a portion of 2007; a $9.8 million increase in professional fees and services attributable to additional staffing costs and billing costs associated with expanded contractual services at Memorial Hermann Hospital, LBJ Hospital and other pediatric care contracts; a $4.8 million increase in depreciation expense due to the Replacement Research Facility which was placed into service in September 2007; and a $2.5 million increase in utilities which reflects a full year of operation of the new Replacement Research Facility and increases in utility rates. The increase in total operating revenues was primarily due to the following: a $20.2 million increase in State appropriations as a result of increased formula funding, $4.5 million in special item funding, and increased funding for tuition revenue bond retirement; and a $7.5 million increase in gifts for operations due to several significant gifts dedicated for the Institute for Molecular Medicine (IMM), the new Dental School Building and the Children's Neurosciences Program. Additionally, UTHSC-Houston recognized $24.6 million less revenue for the Texas Physician Upper Payment Limit (UPL) in 2008 as compared to 2007.

Expendable Resources to Debt Ratio - UTHSC-Houston's expendable resources to debt ratio increased slightly from 2.1 in 2007 to 2.2 in 2008. The slight increase in this ratio was mostly attributable to the increase in total unrestricted net assets previously mentioned, as well as a $5.3 million reduction in the amount of debt outstanding.

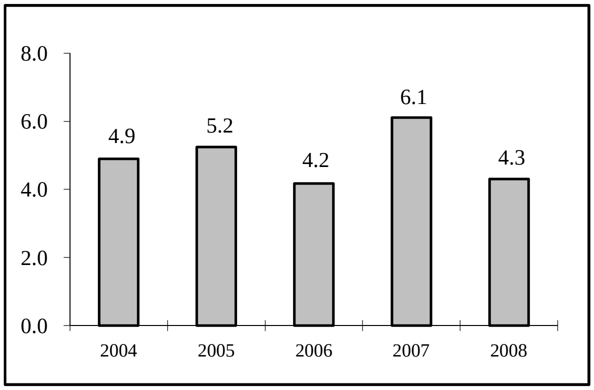
Debt Burden Ratio - UTHSC-Houston's debt burden ratio increased from 2.6% in 2007 to 3.1% in 2008 as a result of a $4.6 million increase in tuition revenue bond debt service payments related to the Replacement Research Facility.

Debt Service Coverage Ratio - UTHSC-Houston's debt service coverage ratio decreased from 3.5 in 2007 to 3.0 in 2008. The decline in this ratio was caused by both the reduction in operating performance, as discussed in the annual operating margin ratio, and the increase in debt service payments mentioned above.

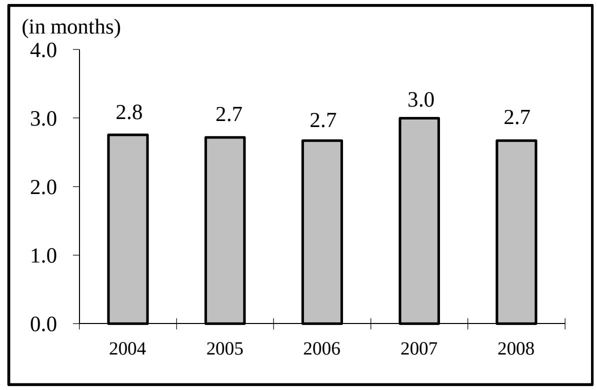
The University of Texas Health Science Center at San Antonio
2008 Summary of Financial Condition

Financial Condition: **Satisfactory**

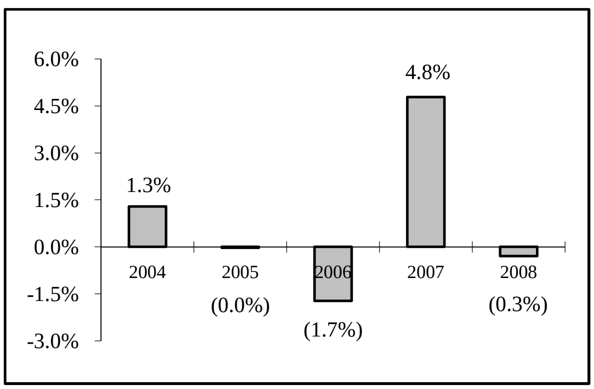
Composite Financial Index



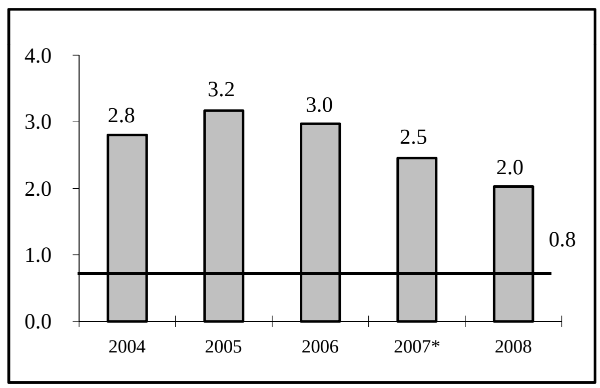
Operating Expense Coverage Ratio



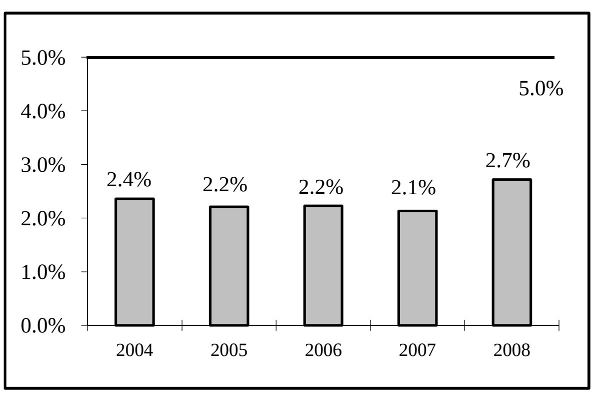
Annual Operating Margin Ratio



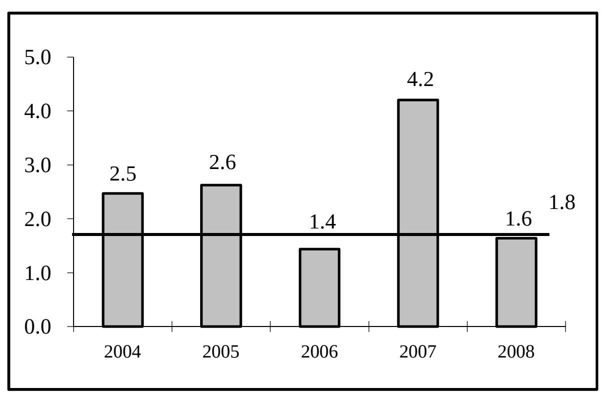
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



*Restated from prior year report.

The University of Texas Health Science Center at San Antonio
2008 Summary of Financial Condition

Composite Financial Index (CFI) - UT Health Science Center - San Antonio's (UTHSC-San Antonio) CFI decreased from 6.1 in 2007 to 4.3 in 2008. The decrease in the CFI was primarily driven by the planned investment of prior year net assets in clinical and research initiatives, the acquisition of the Cancer Therapy and Research Center (CTRC), discussed in further detail below, and the net decrease in the fair value of investments of $40.3, which was an ($89.9) million change from the prior year.

Operating Expense Coverage Ratio - UTHSC-San Antonio's operating expense coverage ratio decreased from 3.0 months in 2007 to 2.7 months in 2008 due to an $84.1 million increase in total operating expenses (including interest expense). On December 17, 2007, UTHSC-San Antonio assumed responsibility for the operation of CTRC, a 501(c)(3) non-profit corporation. From the merger of the two entities, UTHSC-San Antonio acquired possession of the real and personal property of CTRC, all outstanding debt, and 345 CTRC employees engaged in the direct delivery and administration of cancer related research and patient care. As a result of this merger, UTHSC-San Antonio experienced an overall increase in operating expenses. Salaries and wages and payroll related costs also increased due to cost of living and market salary adjustments, and recruitment and retention efforts associated with clinical and research initiatives.

Annual Operating Margin Ratio - UTHSC-San Antonio's annual operating margin ratio decreased significantly from 4.8% for 2007 to (0.3%) for 2008 due to the growth in total operating expenses of $84.1 million, discussed above, outpacing the growth in total operating revenues of $54.2 million. Total operating revenues increased as a result of the following: a $45.3 million increase in sponsored programs mostly attributable to an increase in federal activities and grants acquired with the merger with CTRC; and an $18.1 million increase in State appropriations resulting from increased formula funding, funding for the Regional Academic Health Center (RAHC) and the Laredo Campus Extension, funding for tuition revenue bond retirement, and increased funding for employee benefits. In addition, UTHSC-San Antonio recognized $12.7 million less revenue for the Texas Physician Upper Payment Limit (UPL) in 2008 as compared to 2007. As a result of these factors, UTHSC-San Antonio incurred a loss of $1.9 million for 2008. The driving force behind this loss was a $2.2 million loss for CTRC, including depreciation expense of $3.4 million. UTHSC-San Antonio continues to reinvest incremental revenues from prior years towards recruitment efforts of new faculty and chairs, addressing faculty compensation issues, fulfilling increases in service contract requirements, and the expansion of programs and departments. The investments made in 2008 included sizeable start-up costs associated with the new ambulatory clinic scheduled for opening in 2009. These investments are anticipated to increase future operations.

Expendable Resources to Debt Ratio - UTHSC-San Antonio's expendable resources to debt ratio decreased from 2.5 in 2007 to 2.0 in 2008. The decline in this ratio was attributable to the $54.6 million decrease in restricted expendable net assets related to the appreciation decline on permanent endowments and a reduction in net assets restricted for capital projects.

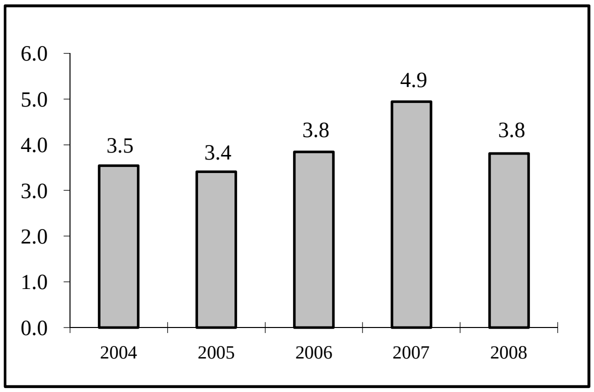
Debt Burden Ratio - UTHSC-San Antonio's debt burden ratio increased from 2.1% in 2007 to 2.7% in 2008. The increase in this ratio was caused by a $5.5 million increase in debt service payments related to the Medical Arts Research Center and the debt associated with the CTRC merger.

Debt Service Coverage Ratio - UTHSC-San Antonio's debt service coverage ratio decreased substantially from 4.2 in 2007 to 1.6 in 2008 as a result of the planned decline in operating performance, discussed in the annual operating margin ratio section, and the increase in debt service payments mentioned above.

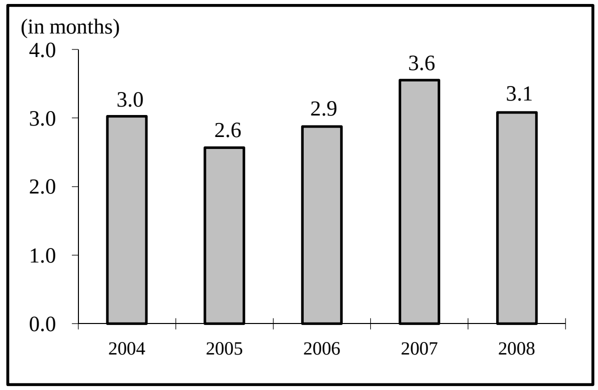
The University of Texas M. D. Anderson Cancer Center
2008 Summary of Financial Condition

Financial Condition: **Satisfactory**

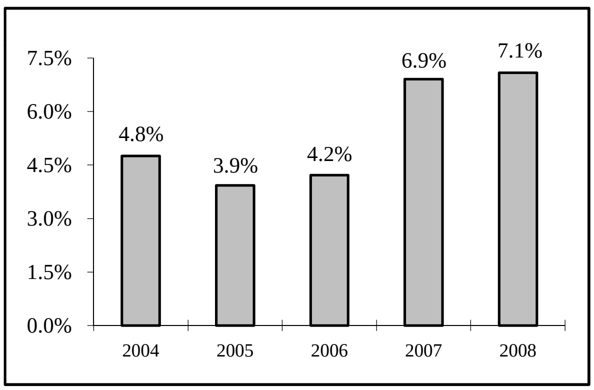
Composite Financial Index



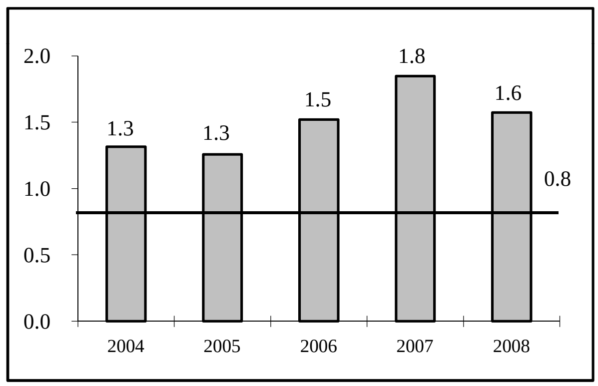
Operating Expense Coverage Ratio



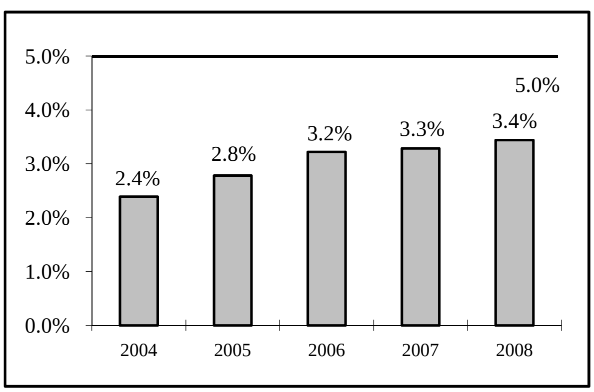
Annual Operating Margin Ratio



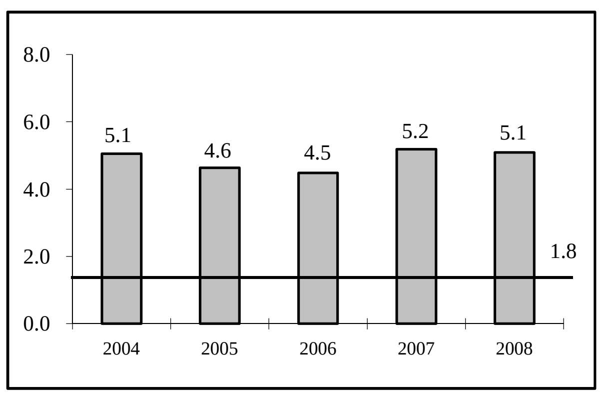
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas M. D. Anderson Cancer Center
2008 Summary of Financial Condition

Composite Financial Index (CFI) - UT M. D. Anderson Cancer Center's (M. D. Anderson) CFI decreased from 4.9 in 2007 to 3.8 in 2008 primarily due to a reduction in the return on net assets ratio. The decrease in the return on net assets ratio was largely driven by the net decrease in the fair value of investments of $65.3 million, which was a change of ($172.7) million from the prior year, and an increase in the amount of debt outstanding as discussed below.

Operating Expense Coverage Ratio - M. D. Anderson's operating expense coverage ratio decreased from 3.6 months in 2007 to 3.1 months in 2008 due to a decrease in total unrestricted net assets of $35.2 million and an increase in total operating expenses (including interest expense) of $228.3 million. The decrease in total unrestricted net assets was primarily attributable to an increase in debt service payments of $11.5 million related to the Center for Targeted Therapy, the Alkek Expansion and equipment, and an increase in capital projects funded with unrestricted net assets. The increase in total operating expenses was due to the following: a $114.0 million increase in salaries and wages and a $32.9 million increase in payroll related costs resulting from merit increases, growth in full-time equivalents and higher group insurance premiums; a $20.3 million increase in materials and supplies attributable to an increase in patient medications and medical supplies as a result of an increase in sales and services of hospitals; an $18.8 million increase in depreciation expense due to equipment purchases, software development, the completion of several building renovation projects and the Pickens Tower and the Basic Research and Education Building, which were placed into service in 2008; a $16.3 million increase in repairs and maintenance related to the increased volume of buildings and equipment placed into service, as well as additional service contracts; a $14.6 million increase in professional fees and services as a result of increased contracted services in the areas of facility maintenance/management, information technology, and office and hospital administration resulting from structural and clinical operation expansion; a $6.8 million increase in utilities due to an increase in utility rates and the additional square footage of the buildings placed into service in 2008; and a $3.4 million increase in rentals and leases attributable to an increase in the amount of office space leased and higher rates for lease space renewals.

Annual Operating Margin Ratio - M. D. Anderson's annual operating margin ratio increased from 6.9% in 2007 to 7.1% in 2008. The growth in total operating revenues of $250.8 million continued to outpace the growth in total operating expenses (including interest expense) of $228.3 million. The increase in total operating revenues was primarily due to the following: a $175.3 million increase in sales and services of hospitals resulting from increases in billed procedures, surgery hours and billable visits; a $39.8 million increase in gifts for operations largely due to a $26 million gift received from the Duncan Family Foundation, a $12 million gift received from David Koch and a $5 million gift from the Kennedy family; a $20.6 million increase in sponsored programs related to the growth of M. D. Anderson and a concerted focus on research; a $9.3 million increase in other operating revenues attributable to a lease payment received from Sprint in connection with the Radio Frequency Bandwidth lease with UTHSC-Houston and Sprint, increased management fees from the Proton Therapy Center and New Mexico Presbyterian Healthcare Services, increased sales at the Science Park Veterinary Facility and higher sales of children's art projects; and a $7.8 million increase in State appropriations. These increases were partially offset by a reduction in net professional fees of $5.4 million. M. D. Anderson recognized $14.1 million less revenue for the Texas Physician Upper Payment Limit (UPL) in 2008 as compared to 2007, which contributed to the decrease in net professional fees.

Expendable Resources to Debt Ratio - M. D. Anderson's expendable resources to debt ratio decreased from 1.8 in 2007 to 1.6 in 2008 due to an increase of $180.8 million in the amount of debt outstanding. The increase in the outstanding debt was related to the Center for Targeted Therapy, the Alkek Expansion and equipment.

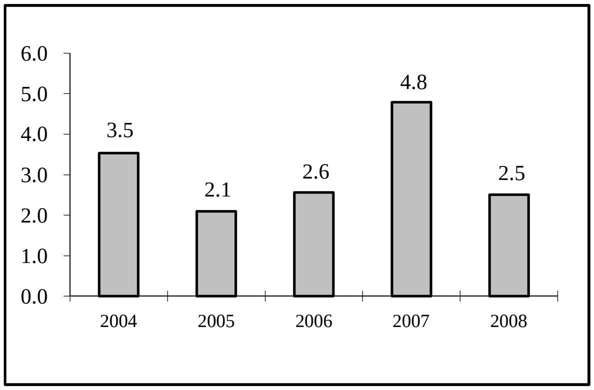
Debt Burden Ratio - M. D. Anderson's debt burden ratio changed slightly from 3.3% in 2007 to 3.4% in 2008 as a result of the increase in debt service payments previously mentioned.

Debt Service Coverage Ratio - M. D. Anderson's debt service coverage ratio decreased slightly from 5.2 in 2007 to 5.1 in 2008 also due to the increase in debt service payments.

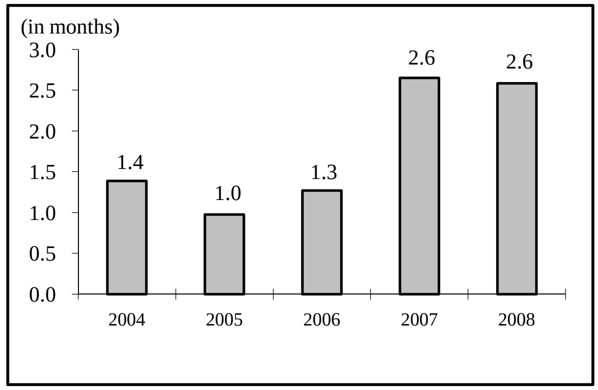
The University of Texas Health Science Center at Tyler
2008 Summary of Financial Condition

Financial Condition: **Satisfactory**

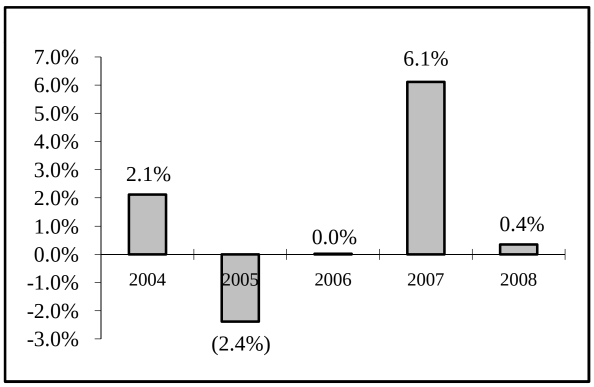
Composite Financial Index



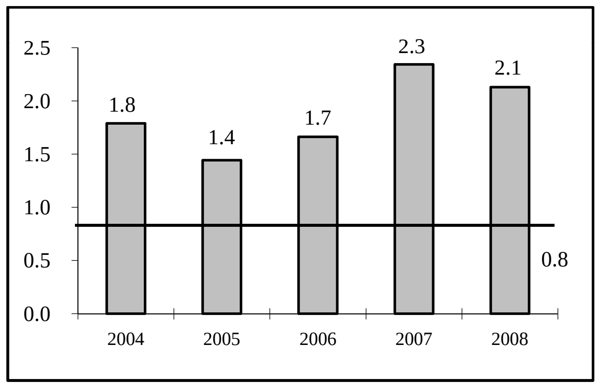
Operating Expense Coverage Ratio



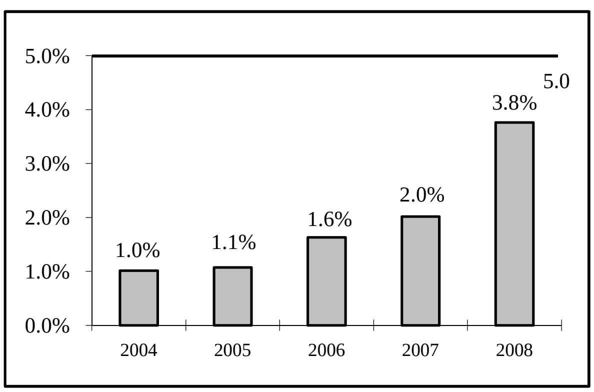
Annual Operating Margin Ratio



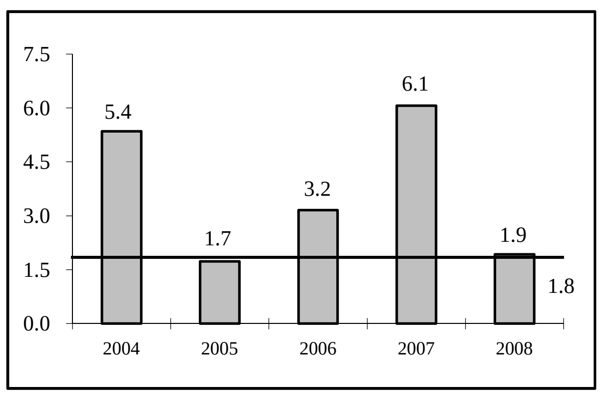
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Health Science Center at Tyler
2008 Summary of Financial Condition

Composite Financial Index (CFI) - UT Health Science Center - Tyler's (UTHSC-Tyler) CFI decreased from 4.8 in 2007 to 2.5 in 2008 primarily due to a decrease in the annual operating margin ratio, as discussed in further detail below, and a decrease in the return on net assets ratio. In addition to the decline in operating performance, the net decrease in the fair value of investments of $4.1 million, which was a change of ($9.1) million from the prior year, contributed to the decrease in the return on net assets ratio.

Operating Expense Coverage Ratio - UTHSC-Tyler's operating expense coverage ratio remained unchanged at 2.6 months in 2008. The stability of this ratio was attributable to a relatively small decrease in total unrestricted net assets of $0.5 million and a relatively small increase in total operating expenses (including interest expense) of $0.4 million. The decrease in total unrestricted net assets was related to an increase in debt service payments of $2 million associated with the Biomedical Research Wing addition and equipment debt. The increase in total operating expenses was due to an increase in interest expense of $0.8 million also associated with the Biomedical Research Wing addition and equipment debt.

Annual Operating Margin Ratio - UTHSC-Tyler's annual operating margin ratio decreased substantially from 6.1% for 2007 to 0.4% for 2008 as a result of a $6.5 million decrease in total operating revenues and a $0.4 million increase in total operating expenses, as discussed above. UTHSC-Tyler recognized $4.6 million less revenue for the Texas Physician Upper Payment Limit (UPL) in 2008 as compared to 2007, which was the primary cause of the $4.8 million decrease in net professional fees. Other factors contributing to the decrease in total operating revenues were as follows: a $2.3 million decrease in sales and services of hospitals resulting from reduced inpatient admissions; and a $1.7 million decrease in sponsored programs due to several grants which were completed at the end of 2007. These decreases were partially offset by an increase in State appropriations of $1.3 million, an increase in gifts for operations of $0.5 million due to gifts received from the Samples Family Trust and the Cain Foundation, and an increase in net investment income (excluding realized gains) of $0.4 million. As a result of the decreased inpatient admissions, UTHSC-Tyler reduced its staff by 99 employees in 2008.

Expendable Resources to Debt Ratio - UTHSC-Tyler's expendable resources to debt ratio decreased from 2.3 in 2007 to 2.1 in 2008 primarily due to a decrease in restricted expendable net assets. The decrease in restricted expendable net assets resulted from a decrease in the appreciation on the permanent endowments caused by the unfavorable market conditions. The decrease in total unrestricted net assets noted above also contributed to the reduction in this ratio.

Debt Burden Ratio - UTHSC-Tyler's debt burden ratio increased from 2.0% in 2007 to 3.8% in 2008. The sizeable increase in this ratio was a result of the increase in debt service payments previously discussed.

Debt Service Coverage Ratio -UTHSC-Tyler's debt service coverage ratio decreased from 6.1 in 2007 to 1.9 in 2008 due to the decline in operating performance, discussed in the annual operating margin ratio, and the increase in debt service payments.

Appendix A - Definitions of Evaluation Factors

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

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

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

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

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

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

4. **Expendable Resources to Debt Ratio** – This ratio measures an institution's ability to fund outstanding debt with existing net asset balances should an emergency occur. Debt capacity thresholds are provided by the Office of Finance and are based on formulas used by Moody's Investors Service. An institution's debt capacity is largely determined by its ability to meet at least two of three minimum standards for debt service coverage, debt burden, and expendable resources to debt. The minimum expendable resources to debt ratio is 0.8 times.

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

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. Debt capacity thresholds are provided by the Office of Finance and are based on formulas used by Moody's Investors Service. An institution's debt capacity is largely determined by its ability to meet at least two of three minimum standards for debt service coverage, debt burden, and expendable resources to debt. The maximum debt burden ratio is 5.0%.

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

Appendix A - Definitions of Evaluation Factors (Continued)

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. 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>. Debt capacity thresholds are provided by the Office of Finance and are based on formulas used by Moody's Investors Service. An institution's debt capacity is largely determined by its ability to meet at least two of three minimum standards for debt service coverage, debt burden, and expendable resources to debt. The minimum debt service coverage ratio is 1.8 times.

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

7. **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 the Office of Finance's standards of 0.8 times and 1.8 times, respectively, while the debt burden ratio should fall below the Office of Finance's standard of 5.0%. 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, 2008

UT Arlington

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.65	/	0.133	=	4.89	x	35.0%	=	1.71
Annual Operating Margin	2.53%	/	1.3%	=	1.95	x	10.0%	=	0.19
Return on Net Assets	13.80%	/	2.0%	=	6.90	x	20.0%	=	1.38
Expendable Resources to Debt	1.11	/	0.417	=	2.65	x	35.0%	=	0.93
							CFI		4.2

UT Austin

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	1.22	/	0.133	=	9.17	x	35.0%	=	3.21
Annual Operating Margin	5.61%	/	1.3%	=	4.32	x	10.0%	=	0.43
Return on Net Assets	2.55%	/	2.0%	=	1.27	x	20.0%	=	0.25
Expendable Resources to Debt	2.47	/	0.417	=	5.92	x	35.0%	=	2.07
							CFI		6.0

UT Brownsville

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.32	/	0.133	=	2.39	x	35.0%	=	0.84
Annual Operating Margin	-0.33%	/	1.3%	=	-0.25	x	10.0%	=	-0.03
Return on Net Assets	4.76%	/	2.0%	=	2.38	x	20.0%	=	0.48
Expendable Resources to Debt	1.01	/	0.417	=	2.42	x	35.0%	=	0.85
							CFI		2.1

UT Dallas

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	1.23	/	0.133	=	9.22	x	35.0%	=	3.23
Annual Operating Margin	4.37%	/	1.3%	=	3.36	x	10.0%	=	0.34
Return on Net Assets	2.70%	/	2.0%	=	1.35	x	20.0%	=	0.27
Expendable Resources to Debt	1.74	/	0.417	=	4.17	x	35.0%	=	1.46
							CFI		5.3

UT El Paso

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.53	/	0.133	=	4.02	x	35.0%	=	1.41
Annual Operating Margin	3.14%	/	1.3%	=	2.42	x	10.0%	=	0.24
Return on Net Assets	3.67%	/	2.0%	=	1.83	x	20.0%	=	0.37
Expendable Resources to Debt	1.30	/	0.417	=	3.13	x	35.0%	=	1.09
							CFI		3.1

Appendix B - Calculation of Composite Financial Index
Academic Institutions
As of August 31, 2008
(continued)

UT Pan American

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.38	/	0.133	=	2.82	x	35.0%	=	0.99
Annual Operating Margin	-1.84%	/	1.3%	=	-1.42	x	10.0%	=	-0.14
Return on Net Assets	0.20%	/	2.0%	=	0.10	x	20.0%	=	0.02
Expendable Resources to Debt	0.93	/	0.417	=	2.23	x	35.0%	=	0.78
							CFI		1.6

UT Permian Basin

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.63	/	0.133	=	4.71	x	35.0%	=	1.65
Annual Operating Margin	18.59%	/	1.3%	=	14.30	x	10.0%	=	1.43
Return on Net Assets	18.84%	/	2.0%	=	9.42	x	20.0%	=	1.88
Expendable Resources to Debt	0.62	/	0.417	=	1.48	x	35.0%	=	0.52
							CFI		5.5

UT San Antonio

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.59	/	0.133	=	4.43	x	35.0%	=	1.55
Annual Operating Margin	7.32%	/	1.3%	=	5.63	x	10.0%	=	0.56
Return on Net Assets	8.41%	/	2.0%	=	4.21	x	20.0%	=	0.84
Expendable Resources to Debt	0.60	/	0.417	=	1.43	x	35.0%	=	0.50
							CFI		3.5

UT Tyler

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.93	/	0.133	=	6.98	x	35.0%	=	2.44
Annual Operating Margin	3.01%	/	1.3%	=	2.32	x	10.0%	=	0.23
Return on Net Assets	5.53%	/	2.0%	=	2.76	x	20.0%	=	0.55
Expendable Resources to Debt	1.07	/	0.417	=	2.57	x	35.0%	=	0.90
							CFI		4.1

Appendix B - Calculation of Composite Financial Index
Health Institutions
As of August 31, 2008

Southwestern

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.91	/	0.133	=	6.83	x	35.0%	=	2.39
Annual Operating Margin	5.81%	/	1.3%	=	4.47	x	10.0%	=	0.45
Return on Net Assets	1.48%	/	2.0%	=	0.74	x	20.0%	=	0.15
Expendable Resources to Debt	2.21	/	0.417	=	5.29	x	35.0%	=	1.85
							CFI		4.8

UTMB

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.23	/	0.133	=	1.73	x	35.0%	=	0.61
Annual Operating Margin	-3.35%	/	1.3%	=	-2.57	x	10.0%	=	-0.26
Return on Net Assets	-4.02%	/	2.0%	=	-2.01	x	20.0%	=	-0.40
Expendable Resources to Debt	2.02	/	0.417	=	4.85	x	35.0%	=	1.70
							CFI		1.6

UTHSC-Houston

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.59	/	0.133	=	4.45	x	35.0%	=	1.56
Annual Operating Margin	2.73%	/	1.3%	=	2.10	x	10.0%	=	0.21
Return on Net Assets	5.69%	/	2.0%	=	2.84	x	20.0%	=	0.57
Expendable Resources to Debt	2.22	/	0.417	=	5.33	x	35.0%	=	1.87
							CFI		4.2

UTHSC-San Antonio

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.65	/	0.133	=	4.88	x	35.0%	=	1.71
Annual Operating Margin	-0.30%	/	1.3%	=	-0.23	x	10.0%	=	-0.02
Return on Net Assets	9.18%	/	2.0%	=	4.59	x	20.0%	=	0.92
Expendable Resources to Debt	2.03	/	0.417	=	4.86	x	35.0%	=	1.70
							CFI		4.3

M. D. Anderson

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.53	/	0.133	=	3.98	x	35.0%	=	1.39
Annual Operating Margin	7.09%	/	1.3%	=	5.45	x	10.0%	=	0.55
Return on Net Assets	5.50%	/	2.0%	=	2.75	x	20.0%	=	0.55
Expendable Resources to Debt	1.57	/	0.417	=	3.77	x	35.0%	=	1.32
							CFI		3.8

UTHSC-Tyler

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.38	/	0.133	=	2.89	x	35.0%	=	1.01
Annual Operating Margin	0.35%	/	1.3%	=	0.27	x	10.0%	=	0.03
Return on Net Assets	-3.15%	/	2.0%	=	-1.58	x	20.0%	=	-0.32
Expendable Resources to Debt	2.13	/	0.417	=	5.11	x	35.0%	=	1.79
							CFI		2.5

Appendix C - Calculation of Expendable Net Assets
Academic Institutions
As of August 31, 2008
(In Millions)

Institution	Restricted Expendable Net Assets: Capital Projects	Restricted Expendable Net Assets: Funds Functioning Restricted	Restricted Expendable Net Assets: Other Expendable	Restricted Expendable Net Assets: Total	Total Unrestricted Net Assets	Total Expendable Net Assets
UT Arlington	$ 25.5	2.2	44.7	72.3	160.0	232.3
UT Austin	115.7	124.4	1,607.8	1,847.9	448.2	2,296.1
UT Brownsville	14.3	-	5.8	20.1	26.5	46.6
UT Dallas	82.7	4.6	175.5	262.7	71.3	334.0
UT El Paso	6.1	5.8	97.7	109.7	44.0	153.7
UT Pan American	0.3	1.2	24.1	25.6	57.0	82.7
UT Permian Basin	11.1	-	13.4	24.5	3.4	27.9
UT San Antonio	19.2	0.7	39.3	59.2	151.7	210.9
UT Tyler	11.4	0.6	37.6	49.7	24.5	74.2

Appendix C - Calculation of Expendable Net Assets
Health Institutions
As of August 31, 2008
(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	$ 49.8	25.2	731.7	806.7	456.5	1,263.3
UTMB	22.9	21.4	201.4	245.7	112.8	358.5
UTHSC-Houston	18.6	9.5	156.2	184.4	244.0	428.4
UTHSC-San Antonio	63.7	6.5	203.6	273.8	142.8	416.6
M. D. Anderson	306.4	29.9	377.6	713.9	673.7	1,387.6
UTHSC-Tyler	1.7	0.8	17.3	19.8	24.2	44.0

Appendix D - Calculation of Annual Operating Margin
Academic Institutions
As of August 31, 2008
(In Millions)

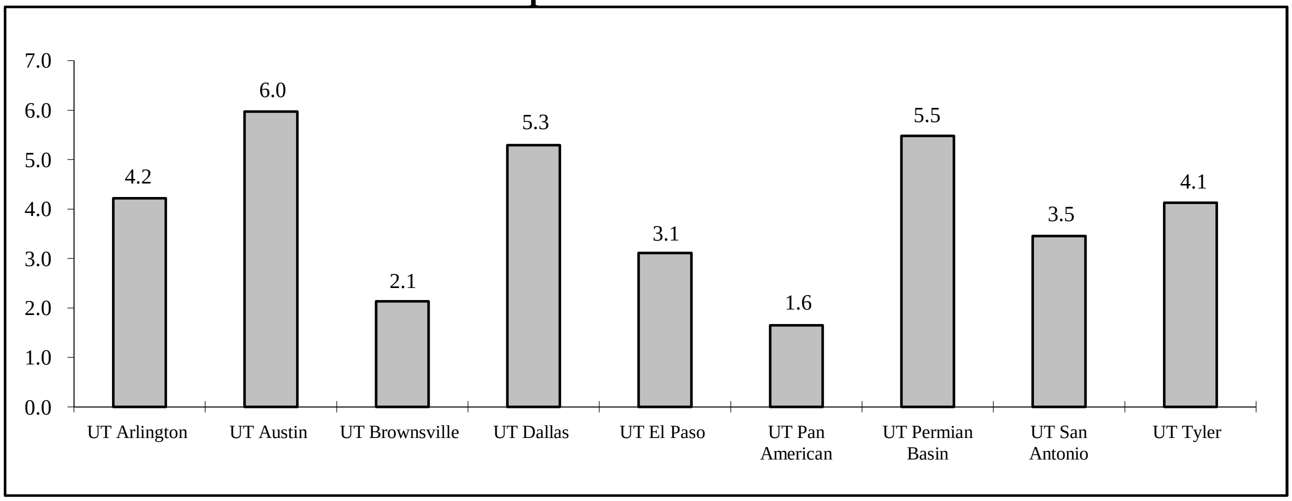
Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items: Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments: Minus: Realized Gains/ Losses	Plus: AUF Transfer	Plus: NSERB	Plus: Texas Enterprise Fund	Plus: HEAF for Op. Exp.	Plus: Interest Expense	Annual Operating Margin
UT Arlington	$ 40.6	-	(3.3)	(0.7)	29.2	15.2	-	-	-	-	-	(6.0)	9.3
UT Austin	(210.7)	2.2	(1.2)	(14.4)	(263.1)	65.7	83.2	154.9	-	-	-	(25.5)	111.8
UT Brownsville	(0.3)	-	-	-	(0.4)	0.1	0.2	-	-	-	1.3	(1.7)	(0.5)
UT Dallas	(23.0)	-	-	(1.2)	(27.2)	5.4	2.8	-	6.5	9.8	-	(6.5)	12.4
UT El Paso	(0.4)	-	-	-	(14.7)	14.4	1.0	-	-	-	-	(4.1)	9.3
UT Pan American	(5.0)	-	-	-	(5.0)	(0.1)	0.8	-	-	-	1.8	(5.0)	(4.0)
UT Permian Basin	9.3	-	-	-	(1.9)	11.3	0.2	-	-	-	-	(0.9)	10.2
UT San Antonio	27.4	-	-	(0.2)	(13.6)	41.2	3.5	-	-	-	-	(9.4)	28.3
UT Tyler	(1.8)	-	-	-	(6.1)	4.2	-	-	-	-	-	(1.7)	2.5

Appendix D - Calculation of Annual Operating Margin
Health Institutions
As of August 31, 2008
(In Millions)

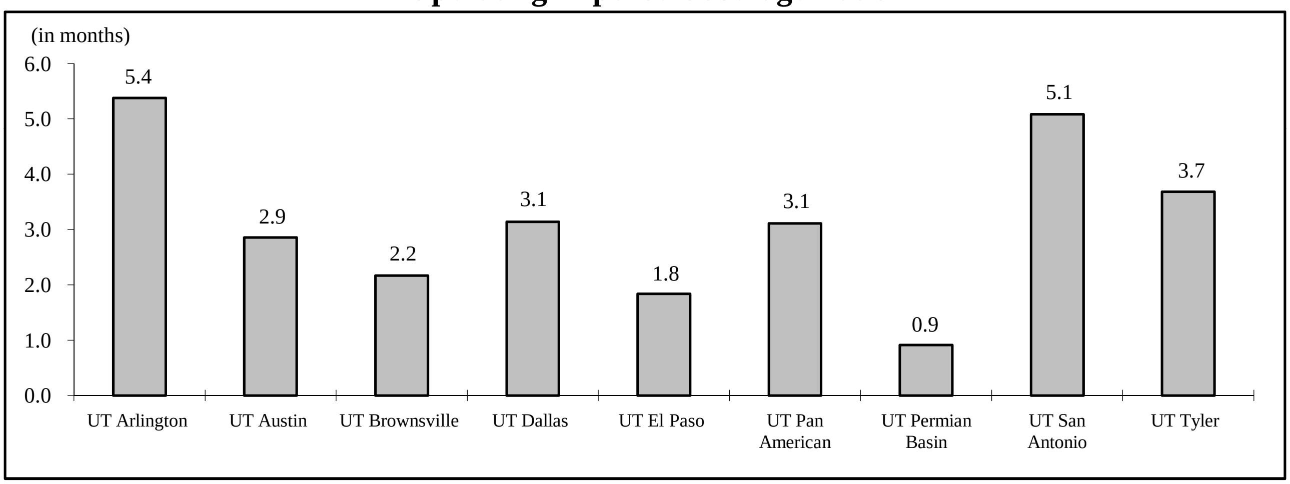
Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments Minus: Realized Gains/ Losses	Plus: Exclude NETnet Depr. Exp.	Plus: RAHC Transfer	Plus: CTRC Acquisition Payment	Plus: Interest Expense	Annual Operating Margin
Southwestern	$ 19.6	-	-	(1.4)	(86.4)	107.4	1.9	-	-	-	(19.6)	85.8
UTMB	(93.7)	1.1	(1.1)	(1.8)	(49.8)	(42.1)	3.5	-	-	-	(4.7)	(50.3)
UTHSC-Houston	1.2	(0.9)	(0.8)	(1.7)	(24.6)	29.2	1.3	-	0.6	-	(8.2)	20.3
UTHSC-San Antonio	(49.8)	-	-	(0.4)	(40.3)	(9.1)	3.2	-	0.6	13.8	(4.0)	(1.9)
M. D. Anderson	154.2	-	-	(3.6)	(65.3)	223.1	0.3	-	-	-	(22.6)	200.2
UTHSC-Tyler	(4.3)	-	-	-	(4.1)	(0.2)	-	2.4	-	-	(1.5)	0.4

Appendix E - Academic Institutions' Evaluation Factors
2008 Analysis of Financial Condition

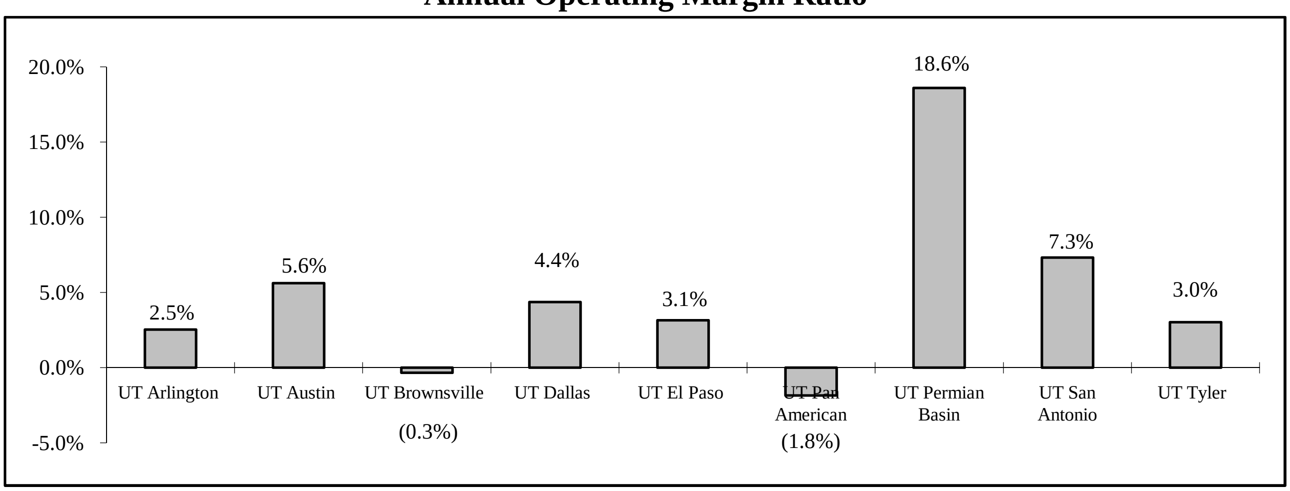
Composite Financial Index



Operating Expense Coverage Ratio

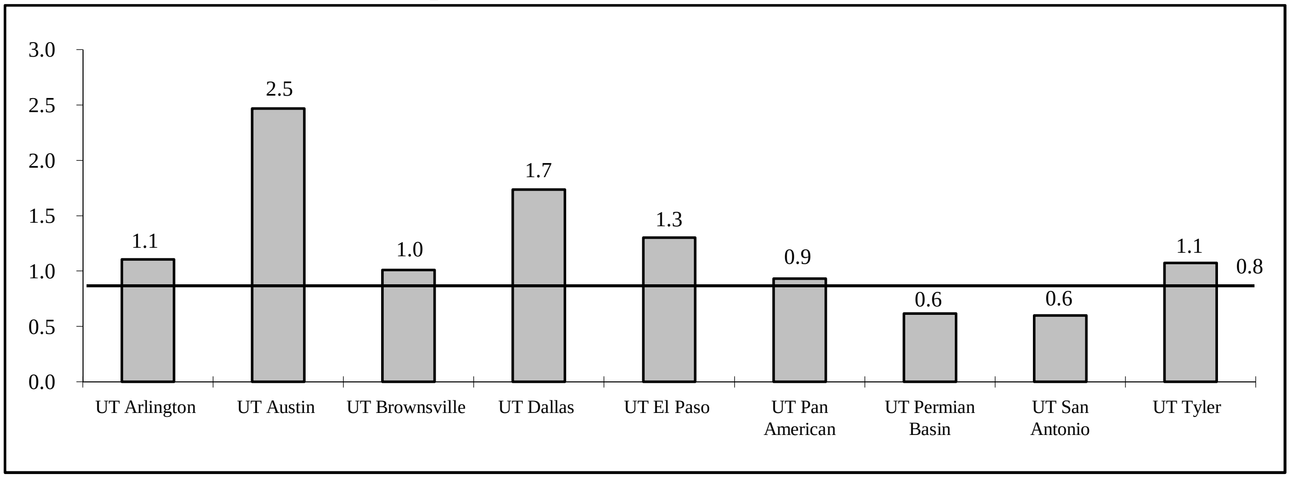


Annual Operating Margin Ratio

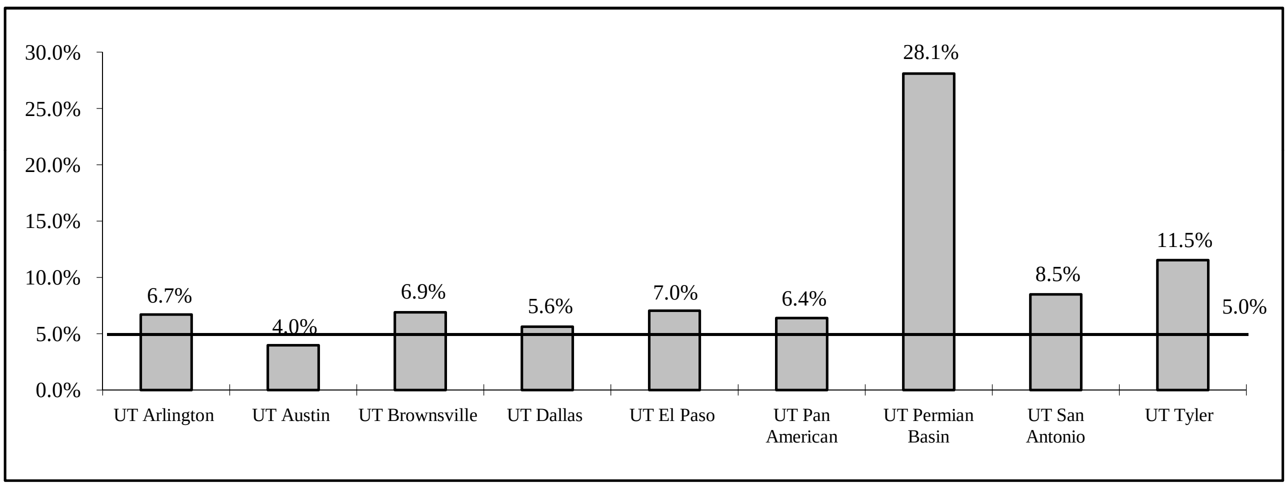


Appendix E - Academic Institutions' Evaluation Factors
2008 Analysis of Financial Condition

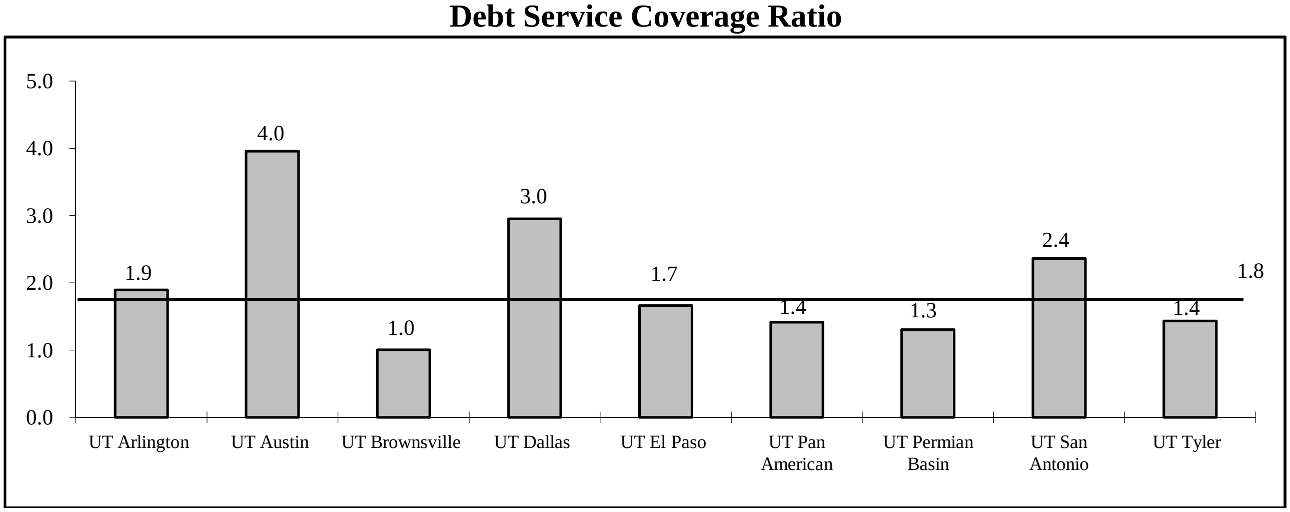
Expendable Resources to Debt Ratio



Debt Burden Ratio

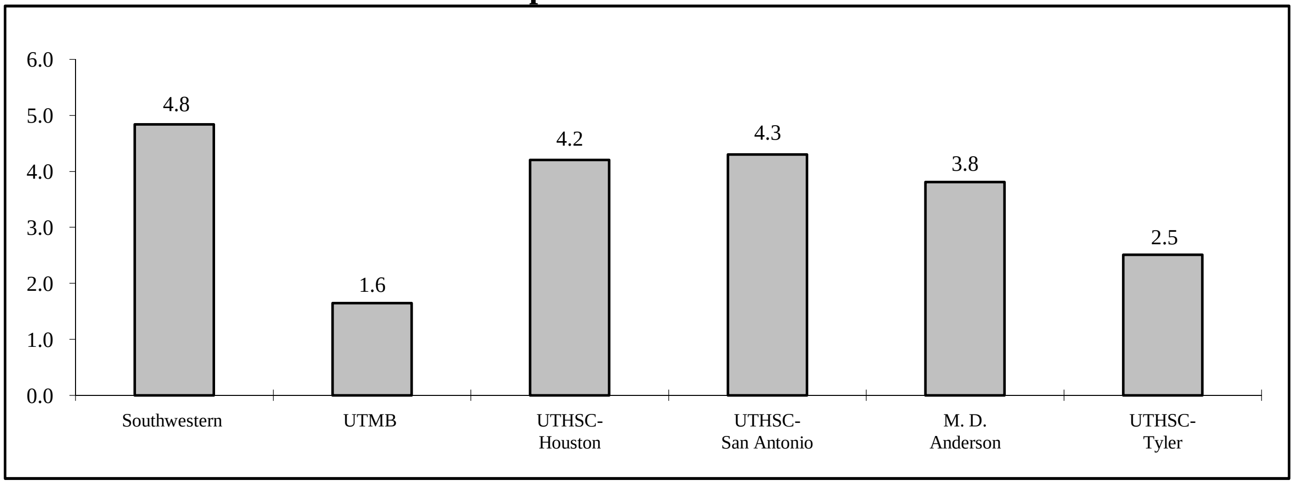


Debt Service Coverage Ratio

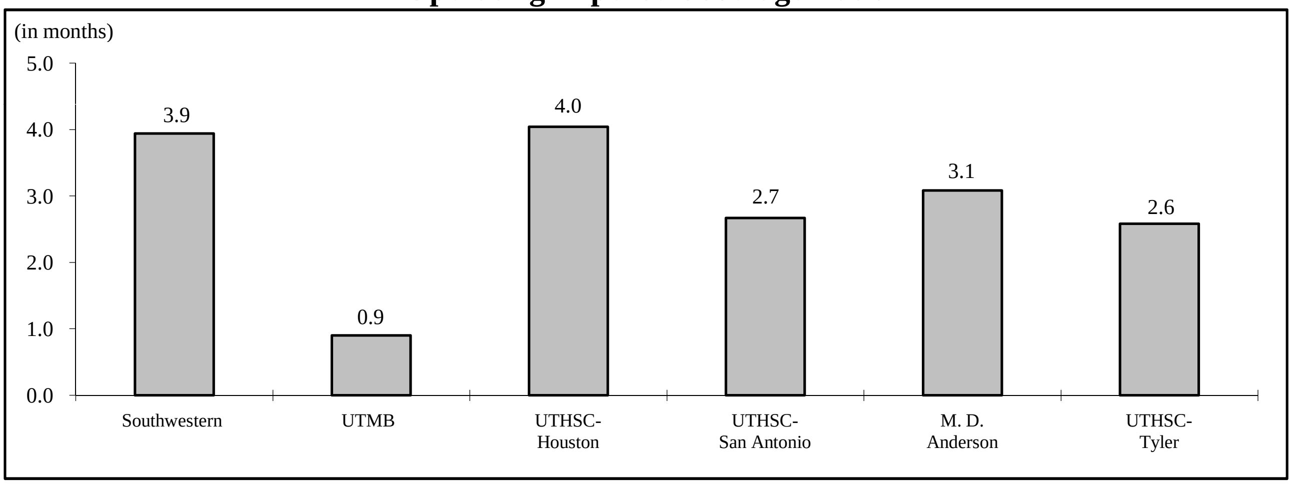


Appendix E - Health Institutions' Evaluation Factors
2008 Analysis of Financial Condition

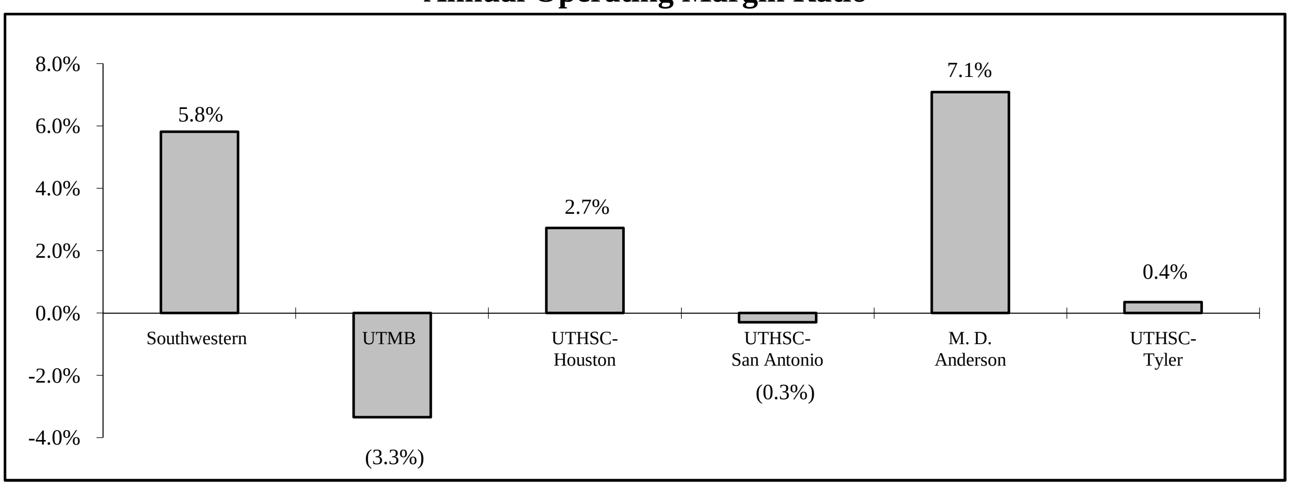
Composite Financial Index



Operating Expense Coverage Ratio

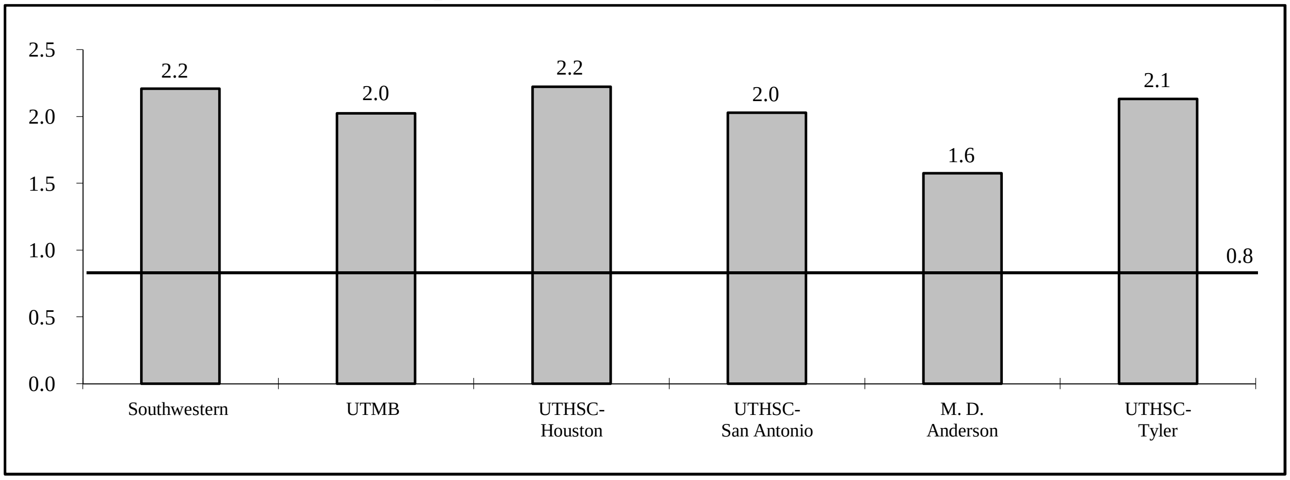


Annual Operating Margin Ratio

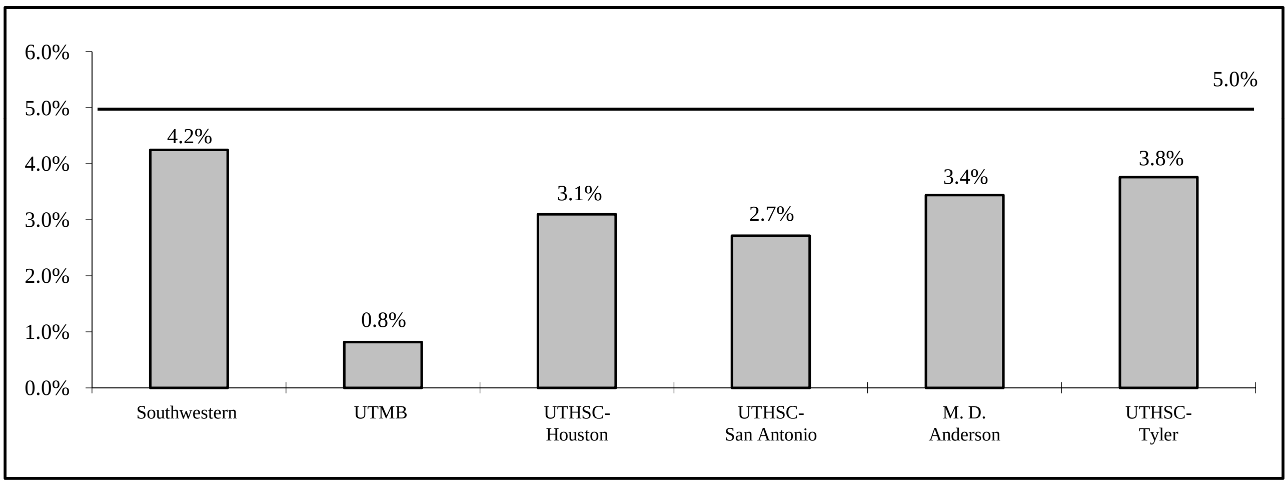


Appendix E - Health Institutions' Evaluation Factors
2008 Analysis of Financial Condition

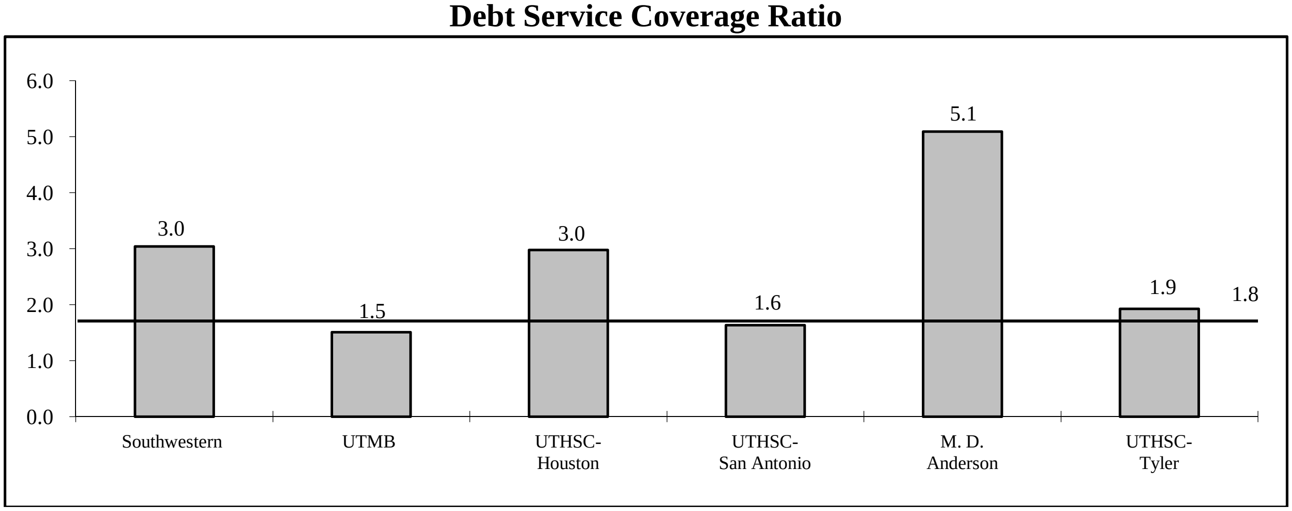
Expendable Resources to Debt Ratio



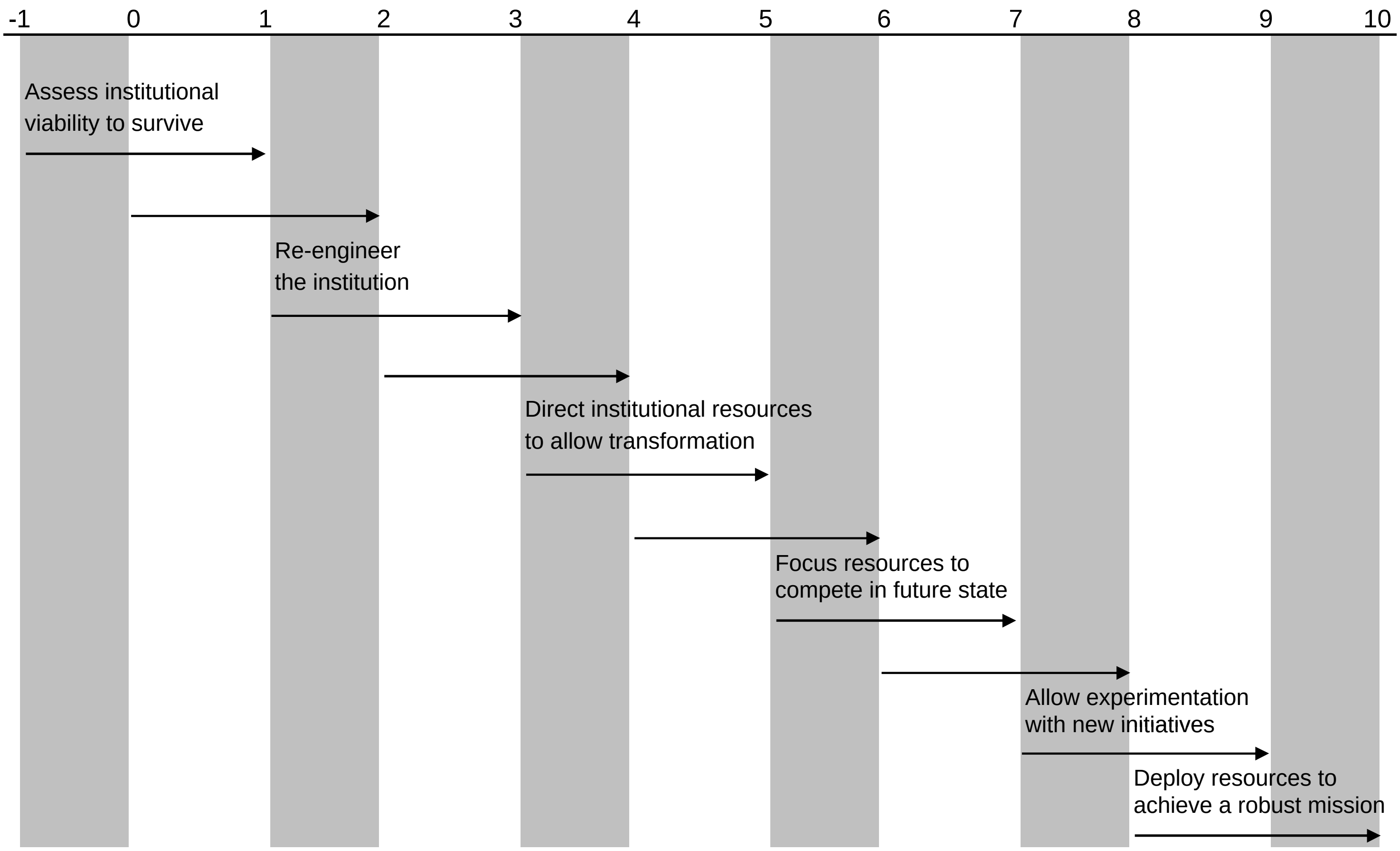
Debt Burden Ratio



Debt Service Coverage Ratio

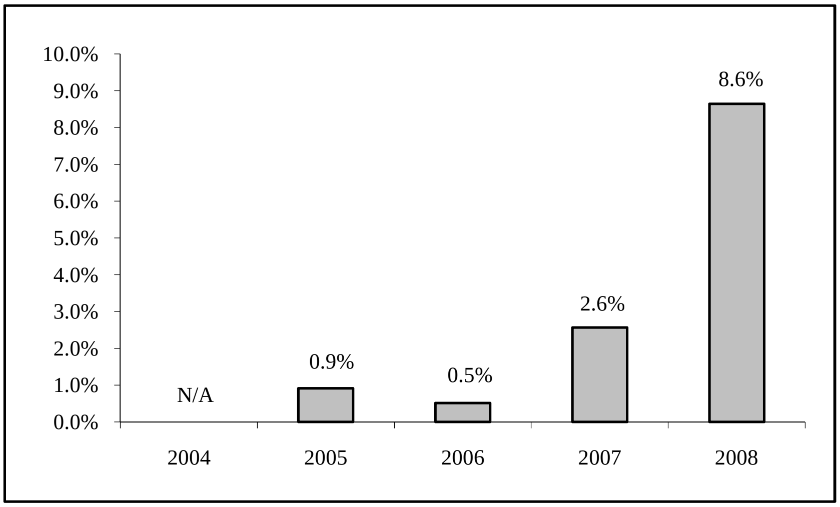


Appendix F - Scale for Charting CFI Performance



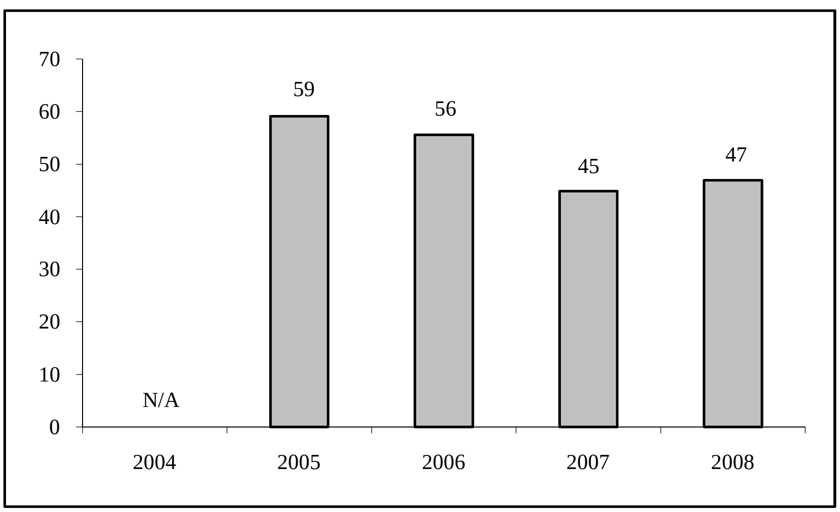
Appendix G - Key Hospital Operating Factors
The University of Texas Southwestern Medical Center at Dallas

Annual Operating Margin Ratio



The annual operating margin ratio increased from 2.6% for 2007 to 8.6% for 2008 due to an increase in inpatient revenue of $82.6 million, or 12.3%, and an increase in patient days of 9,507 or 8.4%. In addition, admissions increased by 3.6%, which has an increasing effect on inpatient ancillary charges. Outpatient revenue increased by $30.4 million or 15.2%. Outpatient surgical cases increased by 11,818 or an increase of 20.4%. A significant portion of these increases resulted from 2008 being the first full year of operations at the Outpatient Building. Emergency room visits increased by 1,386 or 4.4%. Also contributing to the improvement in operating performance was a $27.8 million gift for operations received from University Medical Center, Inc.

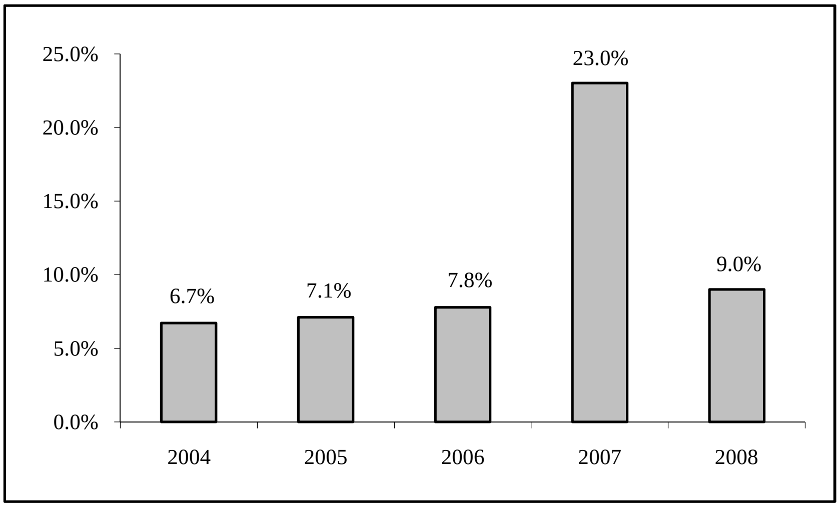
Net Accounts Receivable (in days)



The increase in net accounts receivable days was due to overall volume increases in inpatient services (12.3%) and outpatient services (15.2%).

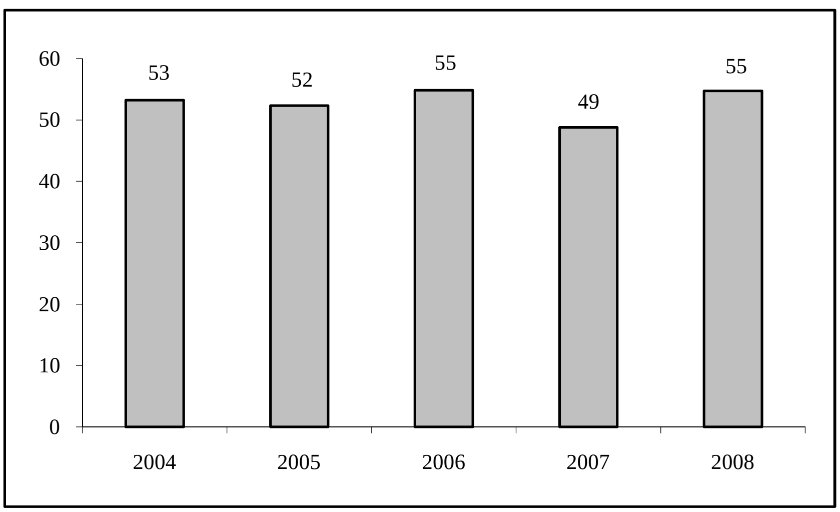
Appendix G - Key MSRDP & NPHC Operating Factors
The University of Texas Southwestern Medical Center at Dallas

Annual Operating Margin Ratio



The annual operating margin ratio decreased from 23.0% for 2007 to 9.0% for 2008 primarily due to a decrease in revenue recorded for the Texas Physician Upper Payment Limit (UPL) reimbursements. In 2007, retroactive adjustments from May 2004 through August 2007 of $75.8 million were reported. Current reimbursements were reported in 2008 of $9.7 million, which was $66.1 million less than the amount of UPL recorded in the prior year. Southwestern received a professional liability insurance (PLI) rebate in 2008 of $7 million, which was $2 million more than the PLI rebate received in 2007.

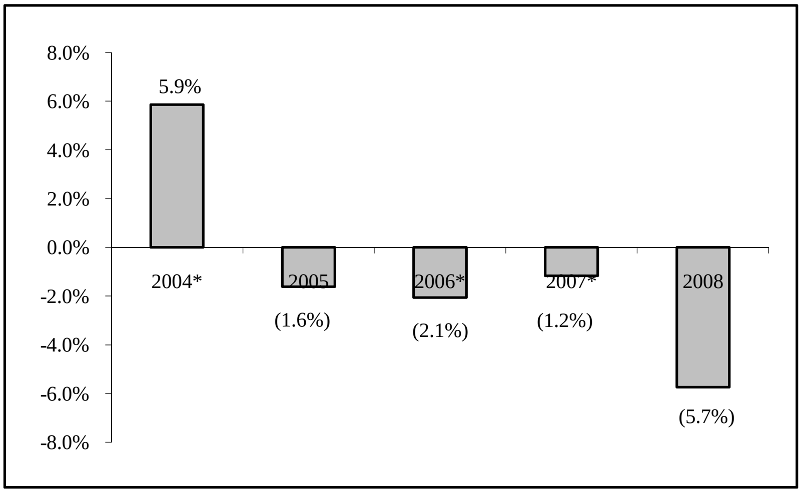
Net Accounts Receivable (in days)



The increase in net accounts receivable days from 49 to 55 was due to the decrease in net revenue caused by the reduction in the amount of UPL revenue recorded in 2008. The increase in net accounts receivable (in days) was due to the recognition of $75.8 million in UPL revenue in 2007, as compared to only $9.7 million recognized in 2008 as discussed above. Excluding the UPL revenue, the net accounts receivable would have been approximately 62 days in 2007.

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

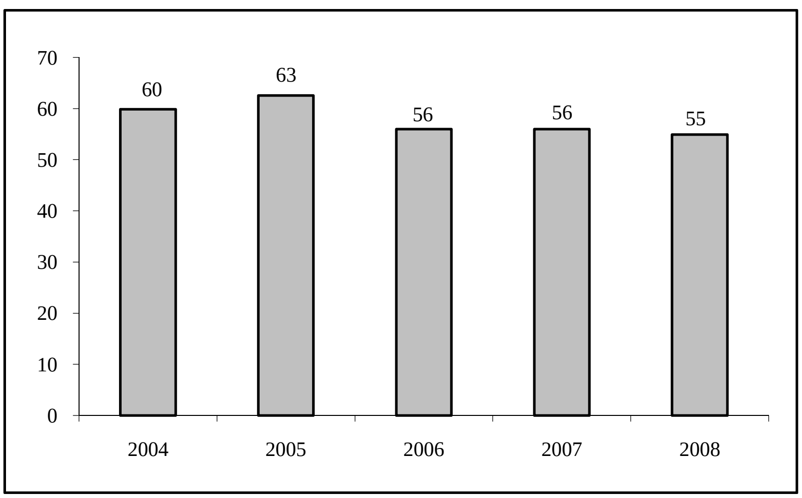
Annual Operating Margin Ratio



*Restated from prior year report.

UTMB Hospitals and Clinics' operating margin decreased by 4.5% between years. In 2007, the Hospitals and Clinics received a one-time payment for Hurricane *Rita* losses incurred in 2006 of $9.8 million. After adjusting for the Hurricane *Rita* relief and the hurricane loss in 2006, the 2008 margin declined by 2.9% between years. The annual operating margin ratios after the above adjustments would have been (5.7%) for 2008, (2.8%) for 2007 and (0.5%) for 2006. The Hospitals and Clinics experienced a significant decline and shift in patient volumes in 2008. Overall, patient volumes were down by 2.2% and Medicare volume (one of UTMB's better payors) was down by 9.9%. Additionally, the case mix index of patients dropped, impacting revenue. Due to the shortage of patient care providers, UTMB incurred unprecedented levels of expensive temporary agency and overtime in order to meet required patient staffing levels. The Hospitals and Clinics continued to operate in a challenging environment where revenue increases, particularly in government sponsored programs, fall short of healthcare expense inflation.

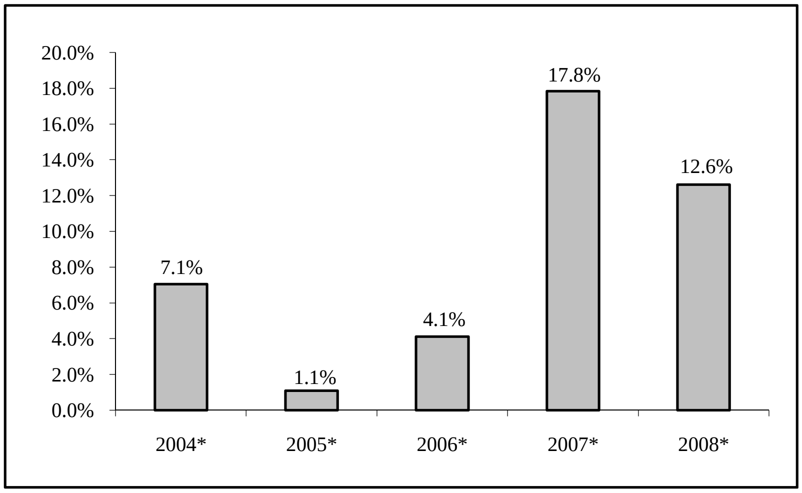
Net Accounts Receivable (in days)



The net accounts receivable days decreased by one day in 2008. UTMB Hospitals and Clinics were able to maintain the improvements in collection processes started in 2006. UTMB Hospitals and Clinics continually strive to implement strategies to enhance collection efforts and improve the overall quality of outstanding accounts receivable.

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

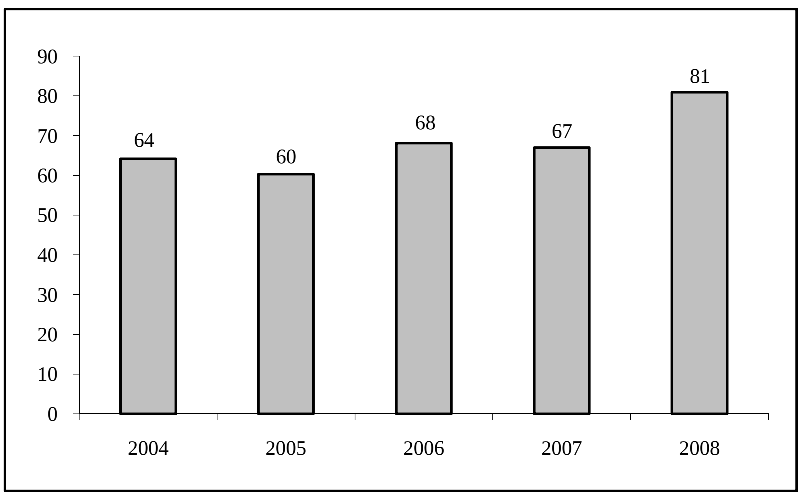
Annual Operating Margin Ratio



The decrease in the annual operating margin ratio from 17.8% for 2007 to 12.6% for 2008 was mainly due to revenue of $35 million recorded for the Texas Physician Upper Payment Limit (UPL) in 2007 as compared to only $5.7 million recorded in 2008. UPL had the largest impact in 2007 as retroactive adjustments from May 2004 through August 2007 were reported. UTMB also received a professional liability insurance (PLI) rebate of $9.7 million in 2008, which was $2.9 million more than the PLI rebate received in 2007.

*Restated from prior year report.

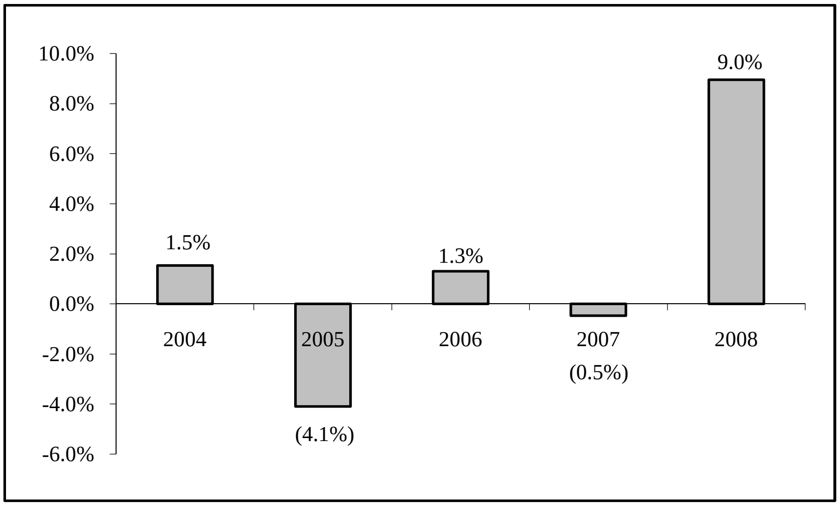
Net Accounts Receivable (in days)



Net accounts receivable was high compared to prior years mainly because of the transition from traditional Medicaid to Medicaid Health Maintenance Organizations (HMOs). Traditional Medicaid paid weekly, thus keeping the accounts receivable at lower levels and maintaining a lower days of revenue outstanding (DRO). Medicaid HMOs paid monthly, which kept accounts receivable on the books longer, thus increasing the DRO. Medicaid and Medicaid HMOs represent thirty percent of the payor mix.

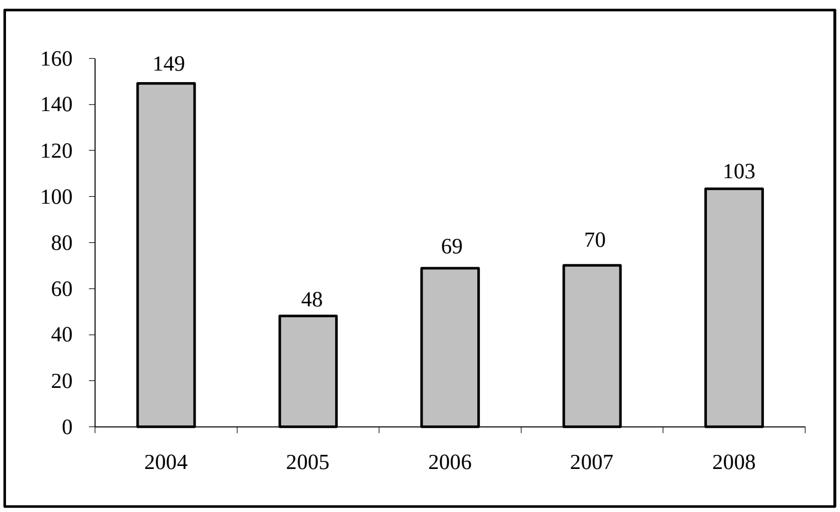
Appendix G - Key Hospital Operating Factors
The University of Texas Health Science Center at Houston

Annual Operating Margin Ratio



A $3.5 million annual increase in the Mental Health and Mental Retardation (MHMR) state transfer contributed to the increase in the annual operating margin ratio from (0.5%) for 2007 to 9.0% for 2008. Additionally, Medicare denied psychiatric billing charges for a portion of 2007. This was reversed late in 2007, and 2008 reflected a full year of Medicare revenues. Improved billing procedures also contributed to the positive variance.

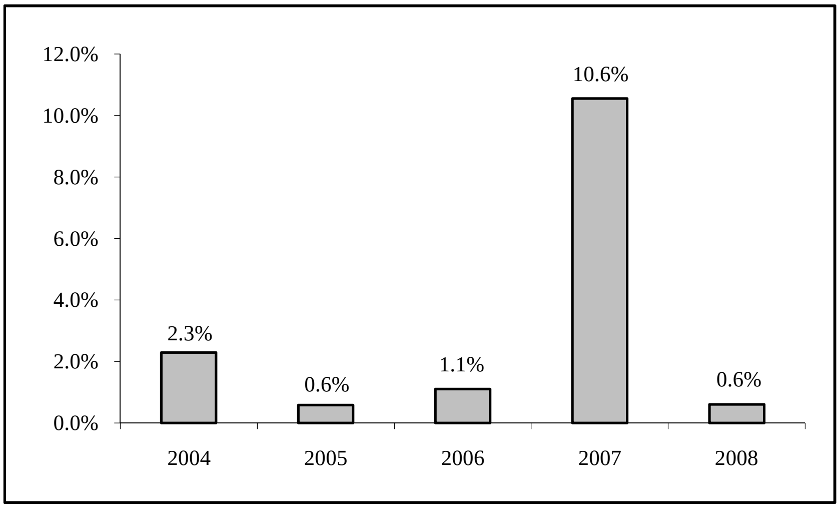
Net Accounts Receivable (in days)



Net accounts receivable (in days) rose from 70 days in 2007 to 103 days in 2008 due to delays in payment remittance by a significant provider. UTHSC-Houston is continuing to work with the provider in an attempt to improve the timeliness of their payments.

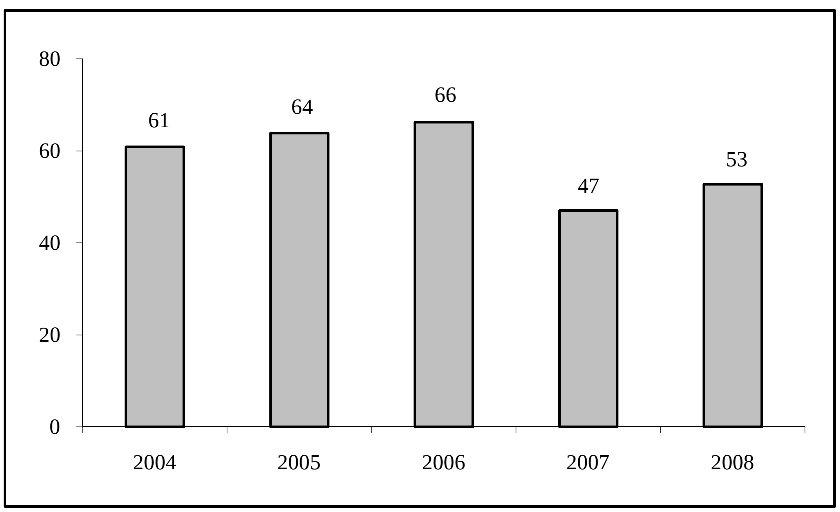
Appendix G - Key MSRDP & NPHC Operating Factors
The University of Texas Health Science Center at Houston

Annual Operating Margin Ratio



The significant decrease in the annual operating margin ratio from 10.6% for 2007 to 0.6% for 2008 was due to the revenue recorded in 2007 for the Texas Physician Upper Payment Limit (UPL) of $25.9 million as compared to the amount recognized in 2008 of $1.3 million. The UPL had the largest impact in 2007 as retroactive adjustments from May 2004 through August 2007 were reported. UTHSC-Houston also received a professional liability insurance (PLI) rebate of $4 million in 2008, which was $0.9 million more than the PLI rebate received in 2007.

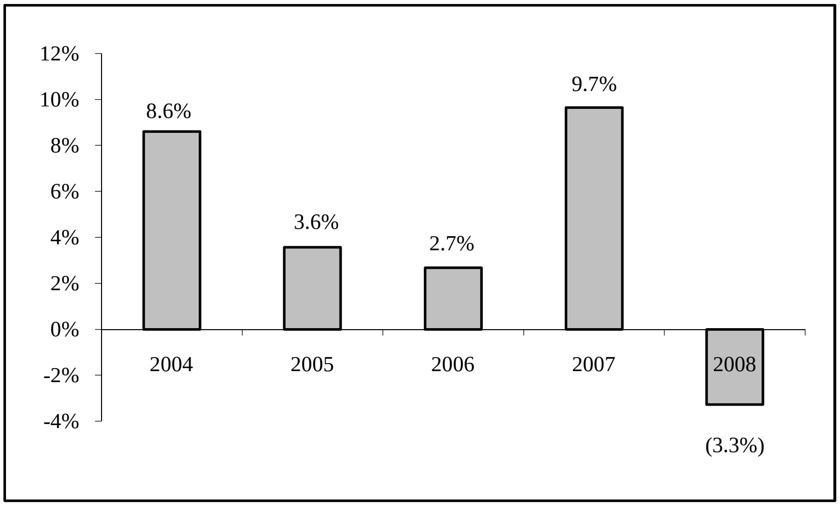
Net Accounts Receivable (in days)



The increase in net accounts receivable (in days) was due to the recognition of $25.9 million in UPL revenue in 2007, as compared to only $1.3 million recognized in 2008 as discussed above. Excluding the UPL revenue, the net accounts receivable would have been approximately 59 days in 2007. In addition, the net accounts receivable valuation increased due to a slightly improved net collection rate during 2008 and a highly conservative valuation of the net accounts receivable at August 31, 2007.

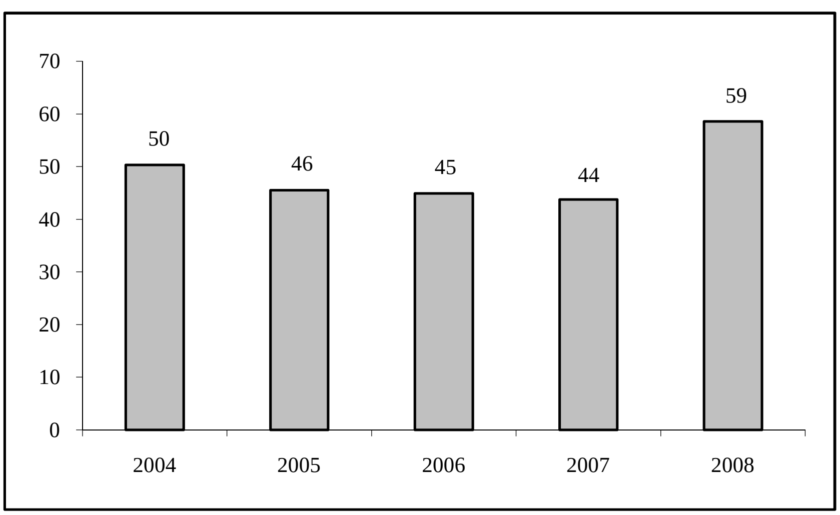
Appendix G - Key MSRDP & NPHC Operating Factors
The University of Texas Health Science Center at San Antonio

Annual Operating Margin Ratio



The decrease in the annual operating margin ratio was attributable to the Texas Physician Upper Payment Limit (UPL) and planned investments. UTHSC-San Antonio recorded revenue of $14.8 million for (UPL) in 2007 to retroactively defray costs associated with providing uncompensated health care between 2004 and 2007, as compared to only $2.1 million recorded for UPL revenue in 2008. Although UTHSC-San Antonio received a professional liability insurance (PLI) rebate of $6.2 million in 2008, which was $1.6 million higher than the prior year, UTHSC-San Antonio continues to reinvest incremental revenues from prior years towards recruitment efforts of new faculty and chairs, addressing faculty compensation issues, fulfilling increases in service contract requirements, and the expansion of programs and departments. The investments made in 2008 included sizeable start-up costs associated with the new ambulatory clinic scheduled for opening in 2009. These investments are anticipated to increase future operations.

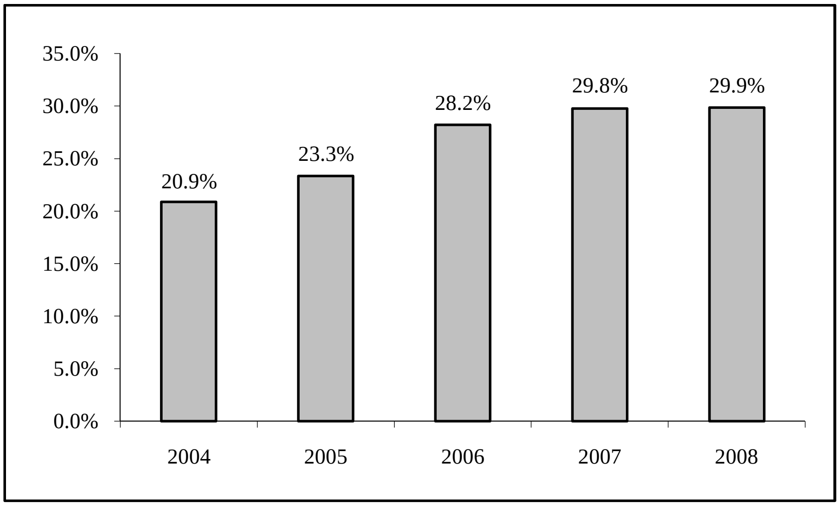
Net Accounts Receivable (in days)



The billing function within UTHSC-San Antonio's nonprofit healthcare corporation, UT Medicine-San Antonio, has maintained collection efforts and efficiencies through electronic front-end verification processes and claims software resulting in low denial rates and steady payments. The increase in days outstanding of net receivables was attributable to billing and collection delays promulgated by UTHSC-San Antonio's merger with the Cancer Therapy and Research Center (CTRC) in December 2007. Efforts are underway to assess outstanding claims and improve billing and collection practices within CTRC.

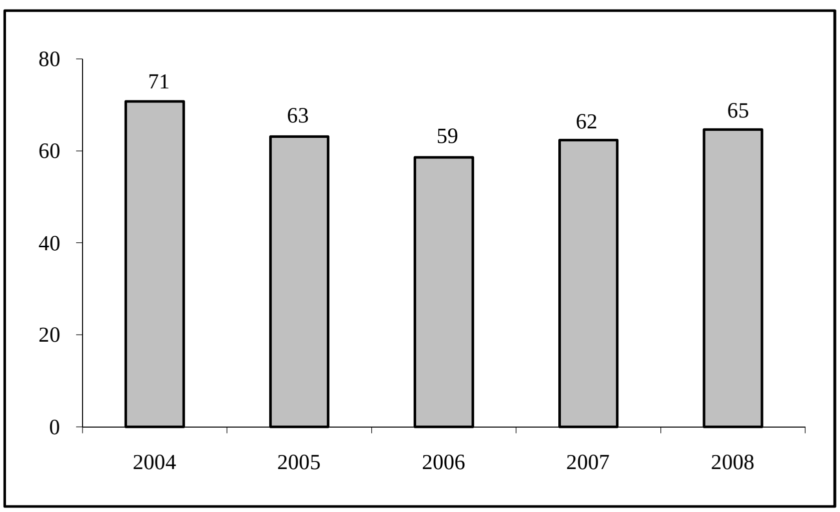
Appendix G - Key Hospital Operating Factors
The University of Texas M. D. Anderson Cancer Center

Annual Operating Margin Ratio



The slight increase in the annual operating margin ratio from the prior year represents an overall increasing trend in both operating revenues and operating expenses which are growing at comparable rates.

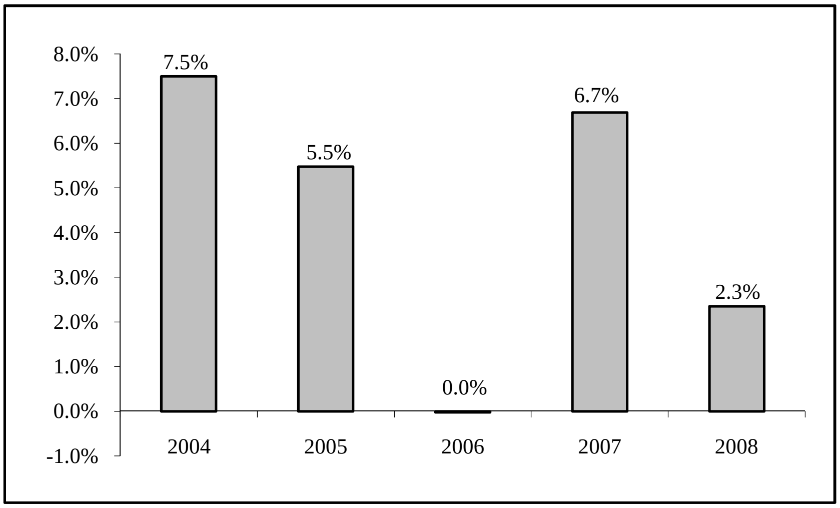
Net Accounts Receivable (in days)



The increase in net accounts receivable days for 2008 was attributable to new Medicare billing regulations regarding research modifiers effective January 2008 and the conversion to the Medicare Administrative Contractor (MAC) system at Trailblazer in June 2008.

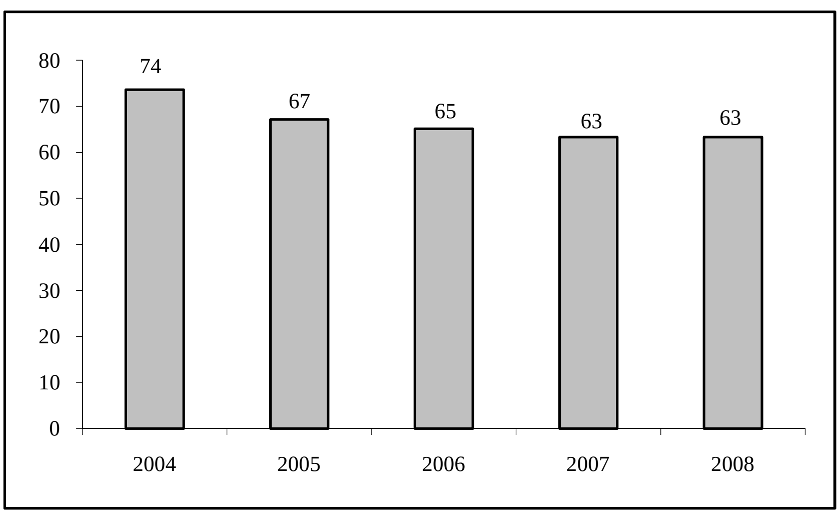
Appendix G - Key MSRDP & NPHC Operating Factors
The University of Texas M. D. Anderson Cancer Center

Annual Operating Margin Ratio



The decrease in the annual operating margin ratio from 6.7% for 2007 to 2.3% for 2008 was due to the revenue recorded for the Texas Physician Upper Payment Limit (UPL) in 2007 of $14.1 million, which included retroactive adjustments from May 2004 through August 2007. No UPL revenue was recorded in 2008. M. D. Anderson received a professional liability (PLI) rebate in 2008 of $5.1 million, which was $1.9 million more than the PLI rebate received in 2007.

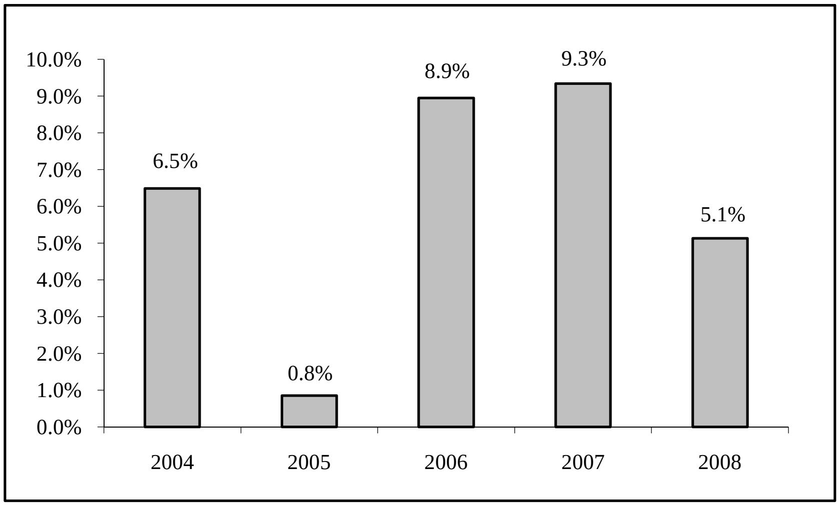
Net Accounts Receivable (in days)



The number of days in net accounts receivable remained constant at 63 days due to the continued efforts in the business office and record collections.

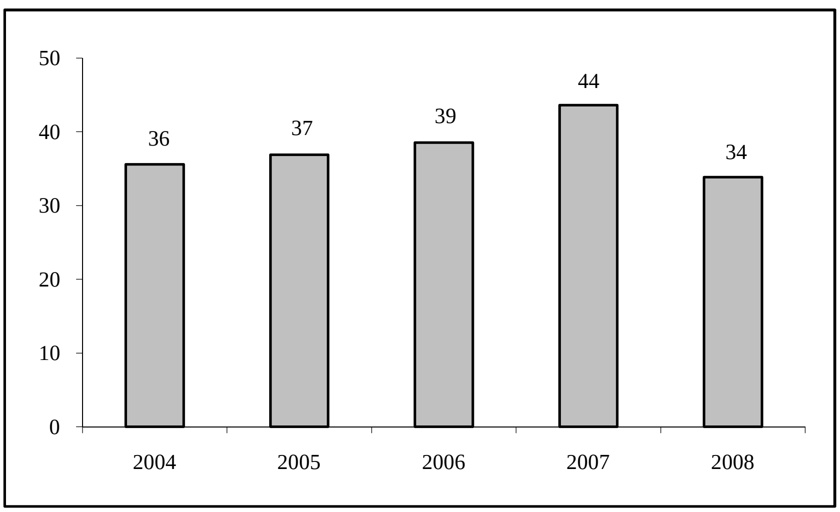
Appendix G - Key Hospital Operating Factors
The University of Texas Health Science Center at Tyler

Annual Operating Margin Ratio



The annual operating margin ratio decreased from 9.3% for 2007 to 5.1% for 2008 as a result of a 9% decrease in hospital admissions and a $2.2 million increase in overhead charges to the hospital.

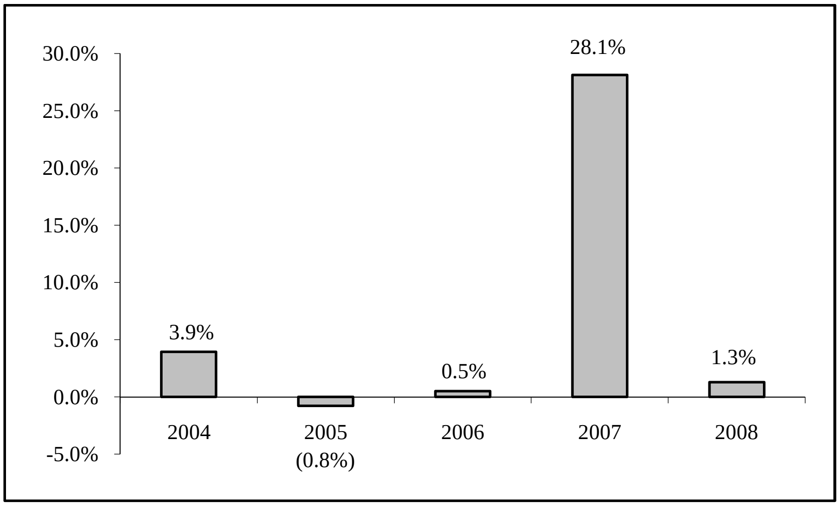
Net Accounts Receivable (in days)



Due to better collection efforts, net cash increased by $2 million from 2007 to 2008, although total gross revenues declined. As a result, the days in net accounts receivable decreased from 44 days to 34 days.

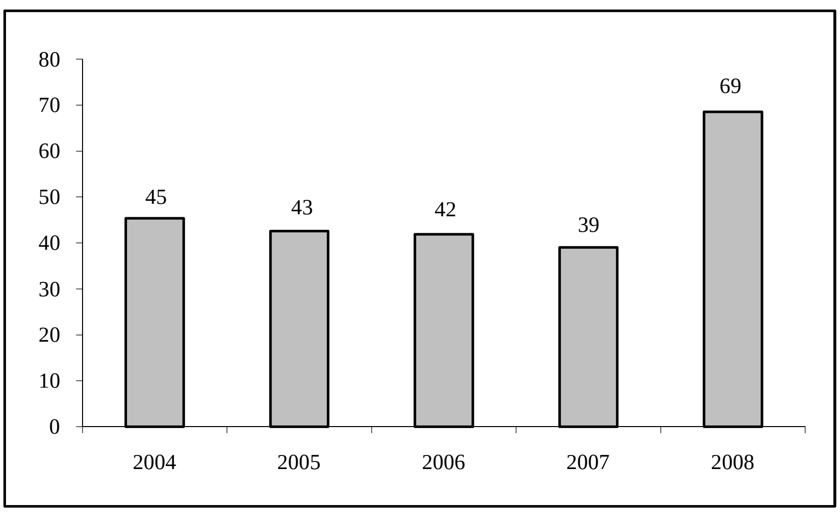
Appendix G - Key MSRDP & NPHC Operating Factors
The University of Texas Health Science Center at Tyler

Annual Operating Margin Ratio



The annual operating margin ratio decreased from 28.1% for 2007 to 1.3% for 2008 primarily due to the $4.6 million decrease in revenue recorded for the Texas Physician Upper Payment Limit (UPL) in 2008 as compared to 2007. UPL had the largest impact in 2007 as retroactive adjustments from May 2004 through August 2007 were reported. UTHSC-Tyler received a professional liability insurance (PLI) rebate of $0.3 million in 2008, which was comparable to the amount received in 2007.

Net Accounts Receivable (in days)



Due to the slow issuance of Medicare and Medicaid provider numbers to new faculty, physician revenue associated with these individuals must be reserved as bad debt. Once provider numbers are issued, the bad debt reserves will be reversed.

4. 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 2008

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, 2008

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, 2008

	December Year-to-Date FY 2009	December Year-to-Date FY 2008	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 497,239,826	$ 458,661,500	$ 38,578,326	8.4%
Sponsored Programs	883,551,807	782,655,804	100,896,003	12.9%
Net Sales and Services of Educational Activities	117,837,317	96,444,971	21,392,346	22.2%
Net Sales and Services of Hospitals	955,629,835	947,560,486	8,069,349	0.9%
Net Professional Fees	313,369,418	308,007,546	5,361,872	1.7%
Net Auxiliary Enterprises	148,604,769	132,828,210	15,776,559	11.9%
Other Operating Revenues	49,560,718	38,459,160	11,101,558	28.9%
Total Operating Revenues	**2,965,793,690**	**2,764,617,677**	**201,176,013**	**7.3%**
Operating Expenses				
Salaries and Wages	1,864,419,734	1,715,147,453	149,272,281	8.7%
Payroll Related Costs	444,762,357	418,832,419	25,929,938	6.2%
Professional Fees and Contracted Services	156,571,167	91,773,687	64,797,480	70.6%
Other Contracted Services	155,101,250	133,885,545	21,215,705	15.8%
Scholarships and Fellowships	254,859,926	215,512,437	39,347,489	18.3%
Travel	40,070,941	37,557,168	2,513,773	6.7%
Materials and Supplies	374,681,606	365,143,962	9,537,644	2.6%
Utilities	97,352,164	89,453,181	7,898,983	8.8%
Telecommunications	36,249,665	31,585,851	4,663,814	14.8%
Repairs and Maintenance	66,316,690	57,793,558	8,523,132	14.7%
Rentals and Leases	38,507,907	38,723,099	(215,192)	-0.6%
Printing and Reproduction	9,654,342	8,666,705	987,637	11.4%
Bad Debt Expense	120,430	18,393	102,037	554.8%
Claims and Losses	1,140,518	15,755,534	(14,615,016)	-92.8%
Federal Sponsored Programs Pass-Throughs	5,970,479	9,422,129	(3,451,650)	-36.6%
Depreciation and Amortization	246,514,500	225,892,369	20,622,131	9.1%
Other Operating Expenses	145,891,250	121,411,572	24,479,678	20.2%
Total Operating Expenses	**3,938,184,926**	**3,576,575,062**	**361,609,864**	**10.1%**
Operating Loss	**(972,391,236)**	**(811,957,385)**	**(160,433,851)**	**-19.8%**
Other Nonoperating Adjustments				
State Appropriations	654,980,863	653,042,953	1,937,910	0.3%
Gift Contributions for Operations	107,766,593	119,842,682	(12,076,089)	-10.1%
Net Investment Income	231,979,768	270,234,132	(38,254,364)	-14.2%
Interest Expense on Capital Asset Financings	(69,486,364)	(55,376,496)	(14,109,868)	-25.5%
Net Other Nonoperating Adjustments	**925,240,860**	**987,743,271**	**(62,502,411)**	**-6.3%**
Adjusted Income (Loss) including Depreciation	**(47,150,376)**	**175,785,886**	**(222,936,262)**	**-126.8%**
Adjusted Margin (as a percentage) including Depreciation	**-1.2%**	**4.6%**		
Investment Gains (Losses)	(4,713,901,116)	680,874,588	(5,394,775,704)	-792.3%
Adj. Inc. (Loss) with Investment Gains (Losses)	**$ (4,761,051,492)**	**$ 856,660,474**	**$ (5,617,711,966)**	**-655.8%**
Adj. Margin % with Investment Gains (Losses)	**632.0%**	**19.1%**		
Adjusted Income (Loss) with Investment Gains (Losses) excluding Depreciation	**(4,514,536,992)**	**1,082,552,843**	**(5,597,089,835)**	**-517.0%**
Adjusted Margin (as a percentage) with Investment Gains (Losses) excluding Depreciation	**599.2%**	**24.1%**		

The University of Texas System
Comparison of Adjusted Income (Loss)
For the Four Months Ending December 31, 2008

	Including Depreciation and Amortization Expense			
	December Year-to-Date FY 2009	December Year-to-Date FY 2008	Variance	Fluctuation Percentage
UT System Administration	$ 62,601,099	$ 77,144,983	$ (14,543,884) (1)	-18.9%
UT Arlington	8,211,330	12,143,145	(3,931,815)	-32.4%
UT Austin	50,882,493	49,947,974	934,519	1.9%
UT Brownsville	246,874	215,020	31,854	14.8%
UT Dallas	1,939,485	493,057	1,446,428 (2)	293.4%
UT El Paso	1,938,673	2,011,923	(73,250)	-3.6%
UT Pan American	(931,057)	1,804,560	(2,735,617) (3)	-151.6%
UT Permian Basin	4,214,672	4,085,161	129,511	3.2%
UT San Antonio	5,864,047	14,008,927	(8,144,880) (4)	-58.1%
UT Tyler	2,161,328	2,873,079	(711,751)	-24.8%
UT Southwestern Medical Center - Dallas	(5,983,950)	14,699,157	(20,683,107) (5)	-140.7%
UT Medical Branch - Galveston	(131,963,302)	(9,605,377)	(122,357,925) (6)	-1,273.8%
UT Health Science Center - Houston	4,587,764	8,295,913	(3,708,149)	-44.7%
UT Health Science Center - San Antonio	(5,692,832)	3,869,396	(9,562,228) (7)	-247.1%
UT M. D. Anderson Cancer Center	9,719,792	44,360,112	(34,640,320) (8)	-78.1%
UT Health Science Center - Tyler	498,208	(2,694,477)	3,192,685 (9)	118.5%
Elimination of AUF Transfer	(55,445,000)	(47,866,667)	(7,578,333)	-15.8%
Total Adjusted Income (Loss)	(47,150,376)	175,785,886	(222,936,262)	-126.8%
Investment Gains (Losses)	(4,713,901,116)	680,874,588	(5,394,775,704) (10)	-792.3%
Total Adjusted Income (Loss) with Investment Gains (Losses) Including Depreciation and Amortization	**$ (4,761,051,492)**	**$ 856,660,474**	**$ (5,617,711,966)**	**-655.8%**

	Excluding Depreciation and Amortization Expense			
	December Year-to-Date FY 2009	December Year-to-Date FY 2008	Variance	Fluctuation Percentage
UT System Administration	$ 64,707,010	$ 79,252,105	$ (14,545,095)	-18.4%
UT Arlington	16,975,016	20,890,990	(3,915,974)	-18.7%
UT Austin	102,106,687	95,779,344	6,327,343	6.6%
UT Brownsville	2,251,690	2,096,955	154,735	7.4%
UT Dallas	9,175,006	7,336,908	1,838,098	25.1%
UT El Paso	7,203,880	7,060,602	143,278	2.0%
UT Pan American	3,283,331	6,853,510	(3,570,179)	-52.1%
UT Permian Basin	5,742,859	5,302,164	440,695	8.3%
UT San Antonio	16,633,964	22,781,365	(6,147,401)	-27.0%
UT Tyler	4,885,432	5,454,652	(569,220)	-10.4%
UT Southwestern Medical Center - Dallas	19,121,759	37,543,296	(18,421,537)	-49.1%
UT Medical Branch - Galveston	(106,199,098)	11,063,479	(117,262,577)	-1,059.9%
UT Health Science Center - Houston	17,560,212	20,893,380	(3,333,168)	-16.0%
UT Health Science Center - San Antonio	4,807,168	12,613,179	(7,806,011)	-61.9%
UT M. D. Anderson Cancer Center	83,534,733	114,251,532	(30,716,799)	-26.9%
UT Health Science Center - Tyler	3,019,475	371,461	2,648,014	712.9%
Elimination of AUF Transfer	(55,445,000)	(47,866,667)	(7,578,333)	-15.8%
Total Adjusted Income (Loss)	199,364,124	401,678,255	(202,314,131)	-50.4%
Investment Gains (Losses)	(4,713,901,116)	680,874,588	(5,394,775,704)	-792.3%
Total Adjusted Income (Loss) with Investment Gains (Losses) Excluding Depreciation and Amortization	**$ (4,514,536,992)**	**$ 1,082,552,843**	**$ (5,597,089,835)**	**-517.0%**

THE UNIVERSITY OF TEXAS SYSTEM
EXPLANATION OF VARIANCES ON THE MONTHLY FINANCIAL REPORT
For the Four Months Ending December 31, 2008

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 $14.5 million (18.9%) decrease in adjusted income over the same period last year was primarily due to decreased net investment income resulting from unfavorable market conditions. Excluding depreciation expense, *UT System Administration's* adjusted income was $64.7 million or 59.1%.

(2) *UT Dallas* - The $1.4 million (293.4%) increase in adjusted income over the same period last year was primarily attributable to a $2 million gift from Packard Humanities Institute for the Texas Schools Project. Excluding depreciation expense, *UT Dallas'* adjusted income was $9.2 million or 8.4%.

(3) *UT Pan American* – The $2.7 million (151.6%) decrease in adjusted income over the same period last year was primarily due to an increase in salaries and wages and payroll related costs. These expenses increased as a result of merit increases and a rate increase of employer costs for eligible employees under the Optional Retirement Program that began in 2009. As a result, *UT Pan American* experienced a $931,000 year-to-date loss. Excluding depreciation expense, *UT Pan American's* adjusted income was $3.3 million or 2.8%. *UT Pan American* projects a year-end loss of $1.5 million which represents -0.6% of projected revenues. This forecast includes $12.6 million of depreciation expense.

(4) *UT San Antonio* - The $8.1 million (58.1%) decrease in adjusted income over the same period last year was primarily due to an increase in salaries and wages and payroll related costs, materials and supplies, and interest expense. Salaries and wages increased due to merit increases and the hiring of several executive positions that were vacant last fall. Materials and supplies increased due to noncapital costs associated with the University Center Phase III and the Library Expansion. Interest expense increased due to the increase in capital projects. Excluding depreciation expense, *UT San Antonio's* adjusted income was $16.6 million or 10.7%.

Although *UT San Antonio* reported year-to-date income of $5.9 million, the institution projects a year-end loss of $191,000, which includes $32.3 million of depreciation expense. This projected loss is primarily due to the implementation of strategic initiatives. The use of prior year balances was anticipated and approved in the 2009 budget.

(5) *UT Southwestern Medical Center at Dallas* – The $20.7 million (140.7%) decrease in adjusted income over the same period last year was primarily due to a $29.3 million increase in salaries and wages and payroll related costs and an $11.5 million decrease in gift contributions for operations. Salaries and wages and payroll related costs increased due to a 6.5% increase in full-time equivalents (FTEs) and an increase in merit pay. The decrease in gift contributions was attributable to the current economic downturn. As a result, *Southwestern* experienced a $6 million year-to-date loss. Excluding depreciation expense, *Southwestern's* adjusted income was $19.1 million or 3.9%. *Southwestern* projects year-end income of approximately $23.9 million which represents 1.6% of projected revenues. This forecast includes $75.9 million of depreciation expense.

(6) *UT Medical Branch - Galveston* – The $122.4 million (1,273.8%) increase in adjusted loss over the same period last year was primarily due to the business disruption in revenue generating activities and expenses related to Hurricane *Ike*. Operating revenues decreased $60.8 million and operating expenses increased $64.6 million. Patient care revenue decreased $77.3 million, with decreases in admissions of 67.6%, patient days of 77.2%, and clinic visits of 35.5% as compared to last year. Sponsored programs increased due to the receipt of $38.9 million from the Federal Emergency Management Agency which was offset by decreased activity on grant projects as a result of Hurricane *Ike* and a reduction in the School of Medicine contract with the John Sealy Hospital. Expenses related to the recovery from Hurricane *Ike* totaled $79 million. As a result, *UTMB* experienced a $132 million year-to-date loss. Excluding depreciation expense, *UTMB's* adjusted loss was $106.2 million or -24.6%. *UTMB* projects a year-end loss of approximately $146.5 million, which represents -10.9% of projected revenues. This forecast includes $77.8 million of depreciation expense. The projection includes the impact of the reduction in force but does not yet include the impact of the impairment of capital assets as a result of Hurricane *Ike.*

(7) *UT Health Science Center – San Antonio* – The $9.6 million (247.1%) decrease in adjusted income over the same period last year was primarily attributable to gift contributions for operations, investment income and interest expense. *UTHSC-San Antonio* received a $10 million gift from the Cancer Therapy and Research Center (CTRC) Foundation in December 2007 to support CTRC operations, but will receive the 2009 gift in two installments in January and

April. Investment income decreased due to unfavorable market conditions. Interest expense increased primarily as a result of debt service on the Medical Arts and Research Center (MARC) and CTRC.

UTHSC-San Antonio incurred a year-to-date loss of $5.7 million primarily due to higher expenses at *UTHSC-San Antonio's* nonprofit healthcare corporation (UT Medicine). *UTHSC-San Antonio* anticipates that the physician practice plan will negotiate additional contract revenues with its affiliates to support the higher expenses incurred by UT Medicine. Excluding depreciation expense, *UTHSC-San Antonio's* adjusted income was $4.8 million or 2.2%. *UTHSC-San Antonio* projects a year-end loss of approximately $8.5 million, which represents -1.3% of projected revenues and includes $31.5 million of depreciation expense. This projected loss is primarily due to the preparation for the opening of the MARC in the summer of 2009. The use of prior year balances was anticipated and approved in the 2009 budget.

(8) UT M. D. Anderson Cancer Center – The $34.6 million (78.1%) decrease in adjusted income over the same period last year was primarily attributable to the business disruption in revenue generating activities related to Hurricane *Ike* and a $51.7 million increase in salaries, wages, and payroll related costs due to salary increases and additional FTEs. There was also a $13.2 million decrease in gift contributions for operations due to a one-time gift of $12 million received in 2008. Hurricane *Ike* caused the temporary closure of *M. D. Anderson* beginning on September 12. All areas of *M. D. Anderson* were completely reopened by September 17. Excluding depreciation expense, *M. D. Anderson's* adjusted income was $83.5 million or 9%.

(9) UT Health Science Center – Tyler – The $3.2 million (118.5%) increase in adjusted income over the same period last year was primarily attributable to a $5.3 million increase in net sales and services of hospitals as a result of an increase in patients from *UTMB's* Correctional Managed Care Agreement due to Hurricane *Ike*. Excluding depreciation expense, *UTHSC-Tyler's* adjusted income was $3 million or 7.3%.

(10) *Investment Gains (Losses)* - The majority of the $5.4 billion (792.3%) decrease in investment gains relates to the Permanent University Fund of $2.9 billion, the Long Term Fund of $1.4 billion, and the Permanent Health Fund of $263.2 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 nonprofit 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, Short Term Fund, Intermediate Term Fund and Long 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. This line item also includes the Available University Fund surface income, oil and gas royalties, and mineral lease bonus sales.

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

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

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

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

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

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

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

UNAUDITED

The University of Texas System Administration
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2008

	December Year-to-Date FY 2009	December Year-to-Date FY 2008	Variance	Fluctuation Percentage
Operating Revenues				
Sponsored Programs	$ 3,645,736	$ 9,756,470	$ (6,110,734)	-62.6%
Net Sales and Services of Educational Activities	15,067,838	4,699,784	10,368,054	220.6%
Other Operating Revenues	(373,420)	(3,657,540)	3,284,120	89.8%
Total Operating Revenues	**18,340,154**	**10,798,714**	**7,541,440**	**69.8%**
Operating Expenses				
Salaries and Wages	12,542,575	13,014,725	(472,150)	-3.6%
Employee Benefits and Related Costs	2,594,443	2,555,353	39,090	1.5%
Professional Fees and Contracted Services	2,003,376	223,844	1,779,532	795.0%
Other Contracted Services	3,578,455	6,652,861	(3,074,406)	-46.2%
Scholarships and Fellowships	420,700	400,900	19,800	4.9%
Travel	715,637	603,686	111,951	18.5%
Materials and Supplies	1,064,410	1,233,862	(169,452)	-13.7%
Utilities	67,484	119,729	(52,245)	-43.6%
Telecommunications	3,145,323	350,624	2,794,699	797.1%
Repairs and Maintenance	421,891	244,147	177,744	72.8%
Rentals and Leases	261,732	2,660,574	(2,398,842)	-90.2%
Printing and Reproduction	71,748	98,304	(26,556)	-27.0%
Claims and Losses	1,140,518	15,755,534	(14,615,016)	-92.8%
Depreciation and Amortization	2,105,911	2,107,122	(1,211)	-0.1%
Other Operating Expenses	2,116,680	1,512,465	604,215	39.9%
Total Operating Expenses	**32,250,883**	**47,533,730**	**(15,282,847)**	**-32.2%**
Operating Loss	**(13,910,729)**	**(36,735,016)**	**22,824,287**	**62.1%**
Other Nonoperating Adjustments				
State Appropriations	307,343	307,343	-	0.0%
Gift Contributions for Operations	442,682	260,023	182,659	70.2%
Net Investment Income	78,762,646	116,368,000	(37,605,354)	-32.3%
Interest Expense on Capital Asset Financings	(14,613,310)	(14,468,850)	(144,460)	-1.0%
Net Other Nonoperating Adjustments	**64,899,361**	**102,466,516**	**(37,567,155)**	**-36.7%**
Adjusted Income (Loss) including Depreciation	**50,988,632**	**65,731,500**	**(14,742,868)**	**-22.4%**
Adjusted Margin (as a percentage) including Depreciation	**52.1%**	**51.5%**		
Available University Fund Transfer	11,612,467	11,413,483	198,984	1.7%
Adjusted Income (Loss) with AUF Transfer	**62,601,099**	**77,144,983**	**(14,543,884)**	**-18.9%**
Adjusted Margin % with AUF Transfer	**57.2%**	**55.4%**		
Investment Gains (Losses)	(3,978,680,720)	565,557,144	(4,544,237,864)	-803.5%
Adj. Inc. (Loss) with AUF Transfer & Invest. Gains (Losses)	**$ (3,916,079,621)**	**$ 642,702,127**	**$ (4,558,781,748)**	**-709.3%**
Adj. Margin % with AUF Transfer & Invest. Gains (Losses)	**101.2%**	**91.2%**		
Adjusted Income (Loss) with AUF Transfer excluding Depreciation	**64,707,010**	**79,252,105**	**(14,545,095)**	**-18.4%**
Adjusted Margin (as a percentage) with AUF Transfer excluding Depreciation	**59.1%**	**57.0%**		

UNAUDITED

The University of Texas at Arlington
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2008

	December Year-to-Date FY 2009	December Year-to-Date FY 2008	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 61,457,927	$ 56,850,213	$ 4,607,714	8.1%
Sponsored Programs	23,407,088	20,305,362	3,101,726	15.3%
Net Sales and Services of Educational Activities	5,343,036	4,213,887	1,129,149	26.8%
Net Auxiliary Enterprises	12,298,123	11,585,549	712,574	6.2%
Other Operating Revenues	2,486,828	1,952,822	534,006	27.3%
Total Operating Revenues	**104,993,002**	**94,907,833**	**10,085,169**	**10.6%**
Operating Expenses				
Salaries and Wages	65,238,084	60,154,219	5,083,865	8.5%
Employee Benefits and Related Costs	13,896,742	12,986,935	909,807	7.0%
Professional Fees and Contracted Services	1,105,563	1,126,876	(21,313)	-1.9%
Other Contracted Services	3,673,834	3,255,157	418,677	12.9%
Scholarships and Fellowships	18,601,434	15,494,811	3,106,623	20.0%
Travel	1,781,585	1,451,247	330,338	22.8%
Materials and Supplies	6,904,744	5,871,148	1,033,596	17.6%
Utilities	3,816,231	4,158,010	(341,779)	-8.2%
Telecommunications	1,982,581	1,705,537	277,044	16.2%
Repairs and Maintenance	2,640,693	2,285,935	354,758	15.5%
Rentals and Leases	991,123	975,781	15,342	1.6%
Printing and Reproduction	796,736	741,890	54,846	7.4%
Federal Sponsored Programs Pass-Thrus	609,129	712,356	(103,227)	-14.5%
Depreciation and Amortization	8,763,686	8,747,845	15,841	0.2%
Other Operating Expenses	4,152,823	2,245,733	1,907,090	84.9%
Total Operating Expenses	**134,954,988**	**121,913,480**	**13,041,508**	**10.7%**
Operating Loss	**(29,961,986)**	**(27,005,647)**	**(2,956,339)**	**-10.9%**
Other Nonoperating Adjustments				
State Appropriations	37,174,863	36,990,361	184,502	0.5%
Gift Contributions for Operations	780,453	870,411	(89,958)	-10.3%
Net Investment Income	3,295,760	3,272,404	23,356	0.7%
Interest Expense on Capital Asset Financings	(3,077,760)	(1,984,384)	(1,093,376)	-55.1%
Net Other Nonoperating Adjustments	**38,173,316**	**39,148,792**	**(975,476)**	**-2.5%**
Adjusted Income (Loss) including Depreciation	**8,211,330**	**12,143,145**	**(3,931,815)**	**-32.4%**
Adjusted Margin (as a percentage) including Depreciation	**5.6%**	**8.9%**		
Investment Gains (Losses)	(36,332,767)	6,544,768	(42,877,535)	-655.1%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ (28,121,437)**	**$ 18,687,913**	**$ (46,809,350)**	**-250.5%**
Adjusted Margin % with Investment Gains (Losses)	**-25.6%**	**13.1%**		
Adjusted Income (Loss) excluding Depreciation	**16,975,016**	**20,890,990**	**(3,915,974)**	**-18.7%**
Adjusted Margin (as a percentage) excluding Depreciation	**11.6%**	**15.4%**		

UNAUDITED

The University of Texas at Austin
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2008

	December Year-to-Date FY 2009	December Year-to-Date FY 2008	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 201,105,319	$ 188,421,271	$ 12,684,048	6.7%
Sponsored Programs	158,212,002	153,313,054	4,898,948	3.2%
Net Sales and Services of Educational Activities	53,686,506	52,442,653	1,243,853	2.4%
Net Auxiliary Enterprises	87,368,595	73,408,553	13,960,042	19.0%
Other Operating Revenues	1,542,766	845,896	696,870	82.4%
Total Operating Revenues	**501,915,188**	**468,431,427**	**33,483,761**	**7.1%**
Operating Expenses				
Salaries and Wages	328,685,456	304,953,567	23,731,889	7.8%
Employee Benefits and Related Costs	73,912,859	67,862,128	6,050,731	8.9%
Professional Fees and Contracted Services	8,277,315	7,574,439	702,876	9.3%
Other Contracted Services	22,911,011	21,716,011	1,195,000	5.5%
Scholarships and Fellowships	77,873,065	74,025,956	3,847,109	5.2%
Travel	14,507,131	12,828,025	1,679,106	13.1%
Materials and Supplies	41,347,645	35,443,634	5,904,011	16.7%
Utilities	26,139,071	22,846,452	3,292,619	14.4%
Telecommunications	15,085,839	13,765,562	1,320,277	9.6%
Repairs and Maintenance	12,947,609	9,649,028	3,298,581	34.2%
Rentals and Leases	6,489,706	5,409,356	1,080,350	20.0%
Printing and Reproduction	3,567,178	3,056,070	511,108	16.7%
Federal Sponsored Programs Pass-Thrus	655,414	1,380,374	(724,960)	-52.5%
Depreciation and Amortization	51,224,194	45,831,370	5,392,824	11.8%
Other Operating Expenses	25,484,016	26,042,924	(558,908)	-2.1%
Total Operating Expenses	**709,107,509**	**652,384,896**	**56,722,613**	**8.7%**
Operating Loss	**(207,192,321)**	**(183,953,469)**	**(23,238,852)**	**-12.6%**
Other Nonoperating Adjustments				
State Appropriations	114,119,634	113,747,586	372,048	0.3%
Gift Contributions for Operations	46,551,791	31,047,948	15,503,843	49.9%
Net Investment Income	55,222,005	49,753,124	5,468,881	11.0%
Interest Expense on Capital Asset Financings	(13,263,616)	(8,513,882)	(4,749,734)	-55.8%
Net Other Nonoperating Adjustments	**202,629,814**	**186,034,776**	**16,595,038**	**8.9%**
Adjusted Income (Loss) including Depreciation	**(4,562,507)**	**2,081,307**	**(6,643,814)**	**-319.2%**
Adjusted Margin (as a percentage) including Depreciation	**-0.6%**	**0.3%**		
Available University Fund Transfer	55,445,000	47,866,667	7,578,333	15.8%
Adjusted Income (Loss) with AUF Transfer	**50,882,493**	**49,947,974**	**934,519**	**1.9%**
Adjusted Margin % with AUF Transfer	**6.6%**	**7.0%**		
Investment Gains (Losses)	(174,970,570)	24,924,023	(199,894,593)	-802.0%
Adj. Inc. (Loss) with AUF Transfer & Invest. Gains (Losses)	**$ (124,088,077)**	**$ 74,871,997**	**$ (198,960,074)**	**-265.7%**
Adj. Margin % with AUF Transfer & Invest. Gains (Losses)	**-20.7%**	**10.2%**		
Adjusted Income (Loss) with AUF Transfer excluding Depreciation	**102,106,687**	**95,779,344**	**6,327,343**	**6.6%**
Adjusted Margin (as a percentage) with AUF Transfer excluding Depreciation	**13.2%**	**13.5%**		

UNAUDITED

The University of Texas at Brownsville
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2008

	December Year-to-Date FY 2009	December Year-to-Date FY 2008	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 6,273,659	$ 5,866,737	$ 406,922	6.9%
Sponsored Programs	39,529,409	34,434,958	5,094,451	14.8%
Net Sales and Services of Educational Activities	383,873	395,113	(11,240)	-2.8%
Net Auxiliary Enterprises	429,534	852,599	(423,065)	-49.6%
Other Operating Revenues	3,659	21,958	(18,299)	-83.3%
Total Operating Revenues	**46,620,134**	**41,571,365**	**5,048,769**	**12.1%**
Operating Expenses				
Salaries and Wages	21,981,508	20,353,856	1,627,652	8.0%
Employee Benefits and Related Costs	5,217,965	4,757,761	460,204	9.7%
Professional Fees and Contracted Services	716,225	621,742	94,483	15.2%
Scholarships and Fellowships	21,586,856	18,741,790	2,845,066	15.2%
Travel	359,012	358,147	865	0.2%
Materials and Supplies	1,662,615	1,468,650	193,965	13.2%
Utilities	1,176,252	1,164,686	11,566	1.0%
Telecommunications	380,834	590,347	(209,513)	-35.5%
Repairs and Maintenance	355,692	427,455	(71,763)	-16.8%
Rentals and Leases	653,075	590,377	62,698	10.6%
Printing and Reproduction	114,225	119,471	(5,246)	-4.4%
Bad Debt Expense	11,915	14,393	(2,478)	-17.2%
Federal Sponsored Programs Pass-Thrus	1,365	5,118	(3,753)	-73.3%
Depreciation and Amortization	2,004,816	1,881,935	122,881	6.5%
Other Operating Expenses	2,480,088	2,114,533	365,555	17.3%
Total Operating Expenses	**58,702,443**	**53,210,261**	**5,492,182**	**10.3%**
Operating Loss	**(12,082,309)**	**(11,638,896)**	**(443,413)**	**-3.8%**
Other Nonoperating Adjustments				
State Appropriations	12,297,684	11,750,071	547,613	4.7%
Gift Contributions for Operations	200,470	162,853	37,617	23.1%
Net Investment Income	412,805	504,930	(92,125)	-18.2%
Interest Expense on Capital Asset Financings	(581,776)	(563,938)	(17,838)	-3.2%
Net Other Nonoperating Adjustments	**12,329,183**	**11,853,916**	**475,267**	**4.0%**
Adjusted Income (Loss) including Depreciation	**246,874**	**215,020**	**31,854**	**14.8%**
Adjusted Margin (as a percentage) including Depreciation	**0.4%**	**0.4%**		
Investment Gains (Losses)	(5,072,591)	880,732	(5,953,323)	-676.0%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ (4,825,717)**	**$ 1,095,752**	**$ (5,921,469)**	**-540.4%**
Adjusted Margin % with Investment Gains (Losses)	**-8.9%**	**2.0%**		
Adjusted Income (Loss) excluding Depreciation	**2,251,690**	**2,096,955**	**154,735**	**7.4%**
Adjusted Margin (as a percentage) excluding Depreciation	**3.8%**	**3.9%**		

UNAUDITED

The University of Texas at Dallas
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2008

	December Year-to-Date FY 2009	December Year-to-Date FY 2008	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 49,931,416	$ 42,921,652	$ 7,009,764	16.3%
Sponsored Programs	16,054,237	15,301,372	752,865	4.9%
Net Sales and Services of Educational Activities	2,276,186	2,107,100	169,086	8.0%
Net Auxiliary Enterprises	1,889,176	1,542,411	346,765	22.5%
Other Operating Revenues	1,495,761	1,289,761	206,000	16.0%
Total Operating Revenues	**71,646,776**	**63,162,296**	**8,484,480**	**13.4%**
Operating Expenses				
Salaries and Wages	53,153,134	49,047,750	4,105,384	8.4%
Employee Benefits and Related Costs	10,498,232	9,854,891	643,341	6.5%
Professional Fees and Contracted Services	1,673,810	857,771	816,039	95.1%
Other Contracted Services	3,419,168	3,630,222	(211,054)	-5.8%
Scholarships and Fellowships	13,312,426	12,131,581	1,180,845	9.7%
Travel	1,191,728	1,053,937	137,791	13.1%
Materials and Supplies	5,218,790	5,384,131	(165,341)	-3.1%
Utilities	2,278,215	1,856,179	422,036	22.7%
Telecommunications	464,311	447,447	16,864	3.8%
Repairs and Maintenance	1,395,417	1,438,462	(43,045)	-3.0%
Rentals and Leases	652,476	449,092	203,384	45.3%
Printing and Reproduction	473,509	449,748	23,761	5.3%
Federal Sponsored Programs Pass-Thrus	61,180	81,644	(20,464)	-25.1%
Depreciation and Amortization	7,235,521	6,843,851	391,670	5.7%
Other Operating Expenses	3,978,879	3,600,355	378,524	10.5%
Total Operating Expenses	**105,006,796**	**97,127,061**	**7,879,735**	**8.1%**
Operating Loss	**(33,360,020)**	**(33,964,765)**	**604,745**	**1.8%**
Other Nonoperating Adjustments				
State Appropriations	30,049,518	30,867,586	(818,068)	-2.7%
Gift Contributions for Operations	3,867,357	1,369,431	2,497,926	182.4%
Net Investment Income	4,306,914	4,383,106	(76,192)	-1.7%
Interest Expense on Capital Asset Financings	(2,924,284)	(2,162,301)	(761,983)	-35.2%
Net Other Nonoperating Adjustments	**35,299,505**	**34,457,822**	**841,683**	**2.4%**
Adjusted Income (Loss) including Depreciation	**1,939,485**	**493,057**	**1,446,428**	**293.4%**
Adjusted Margin (as a percentage) including Depreciation	**1.8%**	**0.5%**		
Investment Gains (Losses)	(24,459,475)	3,700,513	(28,159,988)	-761.0%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ (22,519,990)**	**$ 4,193,570**	**$ (26,713,560)**	**-637.0%**
Adjusted Margin % with Investment Gains (Losses)	**-26.4%**	**4.1%**		
Adjusted Income (Loss) excluding Depreciation	**9,175,006**	**7,336,908**	**1,838,098**	**25.1%**
Adjusted Margin (as a percentage) excluding Depreciation	**8.4%**	**7.4%**		

UNAUDITED

The University of Texas at El Paso
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2008

	December Year-to-Date FY 2009	December Year-to-Date FY 2008	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 34,907,412	$ 31,380,148	$ 3,527,264	11.2%
Sponsored Programs	32,016,214	29,809,130	2,207,084	7.4%
Net Sales and Services of Educational Activities	1,090,748	1,274,712	(183,964)	-14.4%
Net Auxiliary Enterprises	8,759,911	9,228,523	(468,612)	-5.1%
Other Operating Revenues	36,613	307,825	(271,212)	-88.1%
Total Operating Revenues	**76,810,898**	**72,000,338**	**4,810,560**	**6.7%**
Operating Expenses				
Salaries and Wages	46,962,633	43,425,775	3,536,858	8.1%
Employee Benefits and Related Costs	11,075,593	10,507,176	568,417	5.4%
Professional Fees and Contracted Services	325,835	336,558	(10,723)	-3.2%
Other Contracted Services	5,781,090	6,540,332	(759,242)	-11.6%
Scholarships and Fellowships	23,695,005	21,697,751	1,997,254	9.2%
Travel	1,868,719	1,914,451	(45,732)	-2.4%
Materials and Supplies	7,453,055	7,212,450	240,605	3.3%
Utilities	2,558,343	2,169,815	388,528	17.9%
Telecommunications	185,939	278,322	(92,383)	-33.2%
Repairs and Maintenance	1,331,000	1,667,352	(336,352)	-20.2%
Rentals and Leases	1,515,323	1,161,513	353,810	30.5%
Printing and Reproduction	401,080	307,687	93,393	30.4%
Federal Sponsored Programs Pass-Thrus	64,213	20,683	43,530	210.5%
Depreciation and Amortization	5,265,207	5,048,679	216,528	4.3%
Other Operating Expenses	2,487,840	2,113,304	374,536	17.7%
Total Operating Expenses	**110,970,875**	**104,401,848**	**6,569,027**	**6.3%**
Operating Loss	**(34,159,977)**	**(32,401,510)**	**(1,758,467)**	**-5.4%**
Other Nonoperating Adjustments				
State Appropriations	30,735,453	30,385,236	350,217	1.2%
Gift Contributions for Operations	3,732,415	2,153,699	1,578,716	73.3%
Net Investment Income	3,241,042	3,232,881	8,161	0.3%
Interest Expense on Capital Asset Financings	(1,610,260)	(1,358,383)	(251,877)	-18.5%
Net Other Nonoperating Adjustments	**36,098,650**	**34,413,433**	**1,685,217**	**4.9%**
Adjusted Income (Loss) including Depreciation	**1,938,673**	**2,011,923**	**(73,250)**	**-3.6%**
Adjusted Margin (as a percentage) including Depreciation	**1.7%**	**1.9%**		
Investment Gains (Losses)	(13,857,957)	2,010,200	(15,868,157)	-789.4%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ (11,919,284)**	**$ 4,022,123**	**$ (15,941,407)**	**-396.3%**
Adjusted Margin % with Investment Gains (Losses)	**-11.8%**	**3.7%**		
Adjusted Income (Loss) excluding Depreciation	**7,203,880**	**7,060,602**	**143,278**	**2.0%**
Adjusted Margin (as a percentage) excluding Depreciation	**6.3%**	**6.6%**		

UNAUDITED

The University of Texas - Pan American
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2008

	December Year-to-Date FY 2009	December Year-to-Date FY 2008	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 29,760,272	$ 26,278,520	$ 3,481,752	13.2%
Sponsored Programs	56,343,868	31,125,984	25,217,884	81.0%
Net Sales and Services of Educational Activities	2,653,100	2,432,168	220,932	9.1%
Net Auxiliary Enterprises	2,456,766	1,684,265	772,501	45.9%
Other Operating Revenues	1,073,652	324,426	749,226	230.9%
Total Operating Revenues	**92,287,658**	**61,845,363**	**30,442,295**	**49.2%**
Operating Expenses				
Salaries and Wages	34,077,955	32,245,537	1,832,418	5.7%
Employee Benefits and Related Costs	8,563,973	7,185,753	1,378,220	19.2%
Professional Fees and Contracted Services	383,873	717,762	(333,889)	-46.5%
Other Contracted Services	1,748,980	2,190,176	(441,196)	-20.1%
Scholarships and Fellowships	58,312,706	28,121,322	30,191,384	107.4%
Travel	1,201,298	1,312,610	(111,312)	-8.5%
Materials and Supplies	4,334,451	4,549,089	(214,638)	-4.7%
Utilities	2,239,414	1,899,930	339,484	17.9%
Telecommunications	440,947	173,292	267,655	154.5%
Repairs and Maintenance	1,230,115	821,548	408,567	49.7%
Rentals and Leases	317,997	235,977	82,020	34.8%
Printing and Reproduction	134,906	79,640	55,266	69.4%
Bad Debt Expense	108,000	4,000	104,000	2,600.0%
Federal Sponsored Programs Pass-Thrus	21,777	28,615	(6,838)	-23.9%
Depreciation and Amortization	4,214,388	5,048,950	(834,562)	-16.5%
Other Operating Expenses	1,343,832	1,419,251	(75,419)	-5.3%
Total Operating Expenses	**118,674,612**	**86,033,452**	**32,641,160**	**37.9%**
Operating Loss	**(26,386,954)**	**(24,188,089)**	**(2,198,865)**	**-9.1%**
Other Nonoperating Adjustments				
State Appropriations	25,609,825	25,964,608	(354,783)	-1.4%
Gift Contributions for Operations	486,252	602,091	(115,839)	-19.2%
Net Investment Income	772,868	1,083,737	(310,869)	-28.7%
Interest Expense on Capital Asset Financings	(1,413,048)	(1,657,787)	244,739	14.8%
Net Other Nonoperating Adjustments	**25,455,897**	**25,992,649**	**(536,752)**	**-2.1%**
Adjusted Income (Loss) including Depreciation	**(931,057)**	**1,804,560**	**(2,735,617)**	**-151.6%**
Adjusted Margin (as a percentage) including Depreciation	**-0.8%**	**2.0%**		
Investment Gains (Losses)	(9,131,036)	1,612,349	(10,743,385)	-666.3%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ (10,062,093)**	**$ 3,416,909**	**$ (13,479,002)**	**-394.5%**
Adjusted Margin % with Investment Gains (Losses)	**-9.1%**	**3.8%**		
Adjusted Income (Loss) excluding Depreciation	**3,283,331**	**6,853,510**	**(3,570,179)**	**-52.1%**
Adjusted Margin (as a percentage) excluding Depreciation	**2.8%**	**7.7%**		

UNAUDITED

The University of Texas of the Permian Basin
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2008

	December Year-to-Date FY 2009	December Year-to-Date FY 2008	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 5,300,447	$ 4,903,168	$ 397,279	8.1%
Sponsored Programs	2,574,798	2,492,620	82,178	3.3%
Net Sales and Services of Educational Activities	121,792	121,578	214	0.2%
Net Auxiliary Enterprises	1,275,216	1,162,994	112,222	9.6%
Other Operating Revenues	24,457	153,839	(129,382)	-84.1%
Total Operating Revenues	**9,296,710**	**8,834,199**	**462,511**	**5.2%**
Operating Expenses				
Salaries and Wages	6,480,230	5,865,412	614,818	10.5%
Employee Benefits and Related Costs	1,341,566	1,322,943	18,623	1.4%
Professional Fees and Contracted Services	332,267	1,465,106	(1,132,839)	-77.3%
Other Contracted Services	452,453	395,600	56,853	14.4%
Scholarships and Fellowships	2,703,806	2,685,899	17,907	0.7%
Travel	214,188	185,444	28,744	15.5%
Materials and Supplies	1,056,801	1,095,455	(38,654)	-3.5%
Utilities	702,355	583,227	119,128	20.4%
Telecommunications	199,847	168,122	31,725	18.9%
Repairs and Maintenance	359,131	274,979	84,152	30.6%
Rentals and Leases	184,910	149,095	35,815	24.0%
Printing and Reproduction	51,759	52,577	(818)	-1.6%
Depreciation and Amortization	1,528,187	1,217,003	311,184	25.6%
Other Operating Expenses	356,566	372,545	(15,979)	-4.3%
Total Operating Expenses	**15,964,066**	**15,833,407**	**130,659**	**0.8%**
Operating Loss	**(6,667,356)**	**(6,999,208)**	**331,852**	**4.7%**
Other Nonoperating Adjustments				
State Appropriations	10,572,123	10,535,316	36,807	0.3%
Gift Contributions for Operations	368,018	488,966	(120,948)	-24.7%
Net Investment Income	615,443	373,505	241,938	64.8%
Interest Expense on Capital Asset Financings	(673,556)	(313,418)	(360,138)	-114.9%
Net Other Nonoperating Adjustments	**10,882,028**	**11,084,369**	**(202,341)**	**-1.8%**
Adjusted Income (Loss) including Depreciation	**4,214,672**	**4,085,161**	**129,511**	**3.2%**
Adjusted Margin (as a percentage) including Depreciation	**20.2%**	**20.2%**		
Investment Gains (Losses)	(1,908,065)	181,181	(2,089,246)	-1,153.1%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 2,306,607**	**$ 4,266,342**	**$ (1,959,735)**	**-45.9%**
Adjusted Margin % with Investment Gains (Losses)	**12.2%**	**20.9%**		
Adjusted Income (Loss) excluding Depreciation	**5,742,859**	**5,302,164**	**440,695**	**8.3%**
Adjusted Margin (as a percentage) excluding Depreciation	**27.5%**	**26.2%**		

UNAUDITED

The University of Texas at San Antonio
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2008

	December Year-to-Date FY 2009	December Year-to-Date FY 2008	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 64,157,033	$ 60,569,040	$ 3,587,993	5.9%
Sponsored Programs	38,718,158	30,586,854	8,131,304	26.6%
Net Sales and Services of Educational Activities	1,357,601	1,652,073	(294,472)	-17.8%
Net Auxiliary Enterprises	7,132,068	5,411,140	1,720,928	31.8%
Other Operating Revenues	568,334	797,308	(228,974)	-28.7%
Total Operating Revenues	**111,933,194**	**99,016,415**	**12,916,779**	**13.0%**
Operating Expenses				
Salaries and Wages	62,387,224	55,213,078	7,174,146	13.0%
Employee Benefits and Related Costs	14,729,802	13,726,100	1,003,702	7.3%
Professional Fees and Contracted Services	1,389,753	1,023,178	366,575	35.8%
Other Contracted Services	4,466,070	2,446,892	2,019,178	82.5%
Scholarships and Fellowships	22,910,109	26,579,339	(3,669,230)	-13.8%
Travel	2,086,245	1,822,806	263,439	14.5%
Materials and Supplies	10,264,035	5,761,973	4,502,062	78.1%
Utilities	4,045,000	4,155,626	(110,626)	-2.7%
Telecommunications	848,349	1,086,033	(237,684)	-21.9%
Repairs and Maintenance	2,523,021	2,076,870	446,151	21.5%
Rentals and Leases	973,520	811,990	161,530	19.9%
Printing and Reproduction	461,027	318,379	142,648	44.8%
Federal Sponsored Programs Pass-Thrus	1,255,317	700,638	554,679	79.2%
Depreciation and Amortization	10,769,917	8,772,438	1,997,479	22.8%
Other Operating Expenses	5,124,189	1,965,048	3,159,141	160.8%
Total Operating Expenses	**144,233,578**	**126,460,388**	**17,773,190**	**14.1%**
Operating Loss	**(32,300,384)**	**(27,443,973)**	**(4,856,411)**	**-17.7%**
Other Nonoperating Adjustments				
State Appropriations	38,270,875	38,486,197	(215,322)	-0.6%
Gift Contributions for Operations	2,494,827	3,451,040	(956,213)	-27.7%
Net Investment Income	2,285,037	2,633,706	(348,669)	-13.2%
Interest Expense on Capital Asset Financings	(4,886,308)	(3,118,043)	(1,768,265)	-56.7%
Net Other Nonoperating Adjustments	**38,164,431**	**41,452,900**	**(3,288,469)**	**-7.9%**
Adjusted Income (Loss) including Depreciation	**5,864,047**	**14,008,927**	**(8,144,880)**	**-58.1%**
Adjusted Margin (as a percentage) including Depreciation	**3.8%**	**9.8%**		
Investment Gains (Losses)	(37,840,027)	5,485,801	(43,325,828)	-789.8%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ (31,975,980)**	**$ 19,494,728**	**$ (51,470,708)**	**-264.0%**
Adjusted Margin % with Investment Gains (Losses)	**-27.3%**	**13.1%**		
Adjusted Income (Loss) excluding Depreciation	**16,633,964**	**22,781,365**	**(6,147,401)**	**-27.0%**
Adjusted Margin (as a percentage) excluding Depreciation	**10.7%**	**15.9%**		

UNAUDITED

The University of Texas at Tyler
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2008

	December Year-to-Date FY 2009	December Year-to-Date FY 2008	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 10,573,080	$ 10,000,668	$ 572,412	5.7%
Sponsored Programs	5,084,178	4,208,937	875,241	20.8%
Net Sales and Services of Educational Activities	840,800	423,693	417,107	98.4%
Net Auxiliary Enterprises	1,319,972	1,478,122	(158,150)	-10.7%
Other Operating Revenues	44,899	25,537	19,362	75.8%
Total Operating Revenues	**17,862,929**	**16,136,957**	**1,725,972**	**10.7%**
Operating Expenses				
Salaries and Wages	12,278,650	10,737,581	1,541,069	14.4%
Employee Benefits and Related Costs	3,012,785	2,742,561	270,224	9.9%
Professional Fees and Contracted Services	286,349	520,621	(234,272)	-45.0%
Other Contracted Services	1,140,682	1,015,673	125,009	12.3%
Scholarships and Fellowships	4,841,361	4,324,124	517,237	12.0%
Travel	488,032	459,276	28,756	6.3%
Materials and Supplies	1,726,711	1,763,780	(37,069)	-2.1%
Utilities	561,551	545,125	16,426	3.0%
Telecommunications	210,579	188,799	21,780	11.5%
Repairs and Maintenance	474,068	484,389	(10,321)	-2.1%
Rentals and Leases	112,528	120,948	(8,420)	-7.0%
Printing and Reproduction	238,165	194,241	43,924	22.6%
Bad Debt Expense	515	-	515	100.0%
Federal Sponsored Programs Pass-Thrus	61,100	-	61,100	100.0%
Depreciation and Amortization	2,724,104	2,581,573	142,531	5.5%
Other Operating Expenses	599,130	533,587	65,543	12.3%
Total Operating Expenses	**28,756,310**	**26,212,278**	**2,544,032**	**9.7%**
Operating Loss	**(10,893,381)**	**(10,075,321)**	**(818,060)**	**-8.1%**
Other Nonoperating Adjustments				
State Appropriations	12,244,115	12,109,252	134,863	1.1%
Gift Contributions for Operations	368,838	205,580	163,258	79.4%
Net Investment Income	1,350,616	1,209,152	141,464	11.7%
Interest Expense on Capital Asset Financings	(908,860)	(575,584)	(333,276)	-57.9%
Net Other Nonoperating Adjustments	**13,054,709**	**12,948,400**	**106,309**	**0.8%**
Adjusted Income (Loss) including Depreciation	**2,161,328**	**2,873,079**	**(711,751)**	**-24.8%**
Adjusted Margin (as a percentage) including Depreciation	**6.8%**	**9.7%**		
Investment Gains (Losses)	(6,786,379)	880,118	(7,666,497)	-871.1%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ (4,625,051)**	**$ 3,753,197**	**$ (8,378,248)**	**-223.2%**
Adjusted Margin % with Investment Gains (Losses)	**-18.5%**	**12.3%**		
Adjusted Income (Loss) excluding Depreciation	**4,885,432**	**5,454,652**	**(569,220)**	**-10.4%**
Adjusted Margin (as a percentage) excludinI Depreciation	**15.4%**	**18.4%**		

UNAUDITED

The University of Texas Southwestern Medical Center at Dallas
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2008

	December Year-to-Date FY 2009	December Year-to-Date FY 2008	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 8,750,189	$ 8,390,503	$ 359,686	4.3%
Sponsored Programs	134,075,496	122,491,254	11,584,242	9.5%
Net Sales and Services of Educational Activities	2,339,448	2,274,391	65,057	2.9%
Net Sales and Services of Hospitals	126,745,898	104,772,322	21,973,576	21.0%
Net Professional Fees	120,494,779	117,042,758	3,452,021	2.9%
Net Auxiliary Enterprises	5,982,736	5,878,396	104,340	1.8%
Other Operating Revenues	2,011,704	2,019,153	(7,449)	-0.4%
Total Operating Revenues	**400,400,250**	**362,868,777**	**37,531,473**	**10.3%**
Operating Expenses				
Salaries and Wages	250,860,324	224,841,981	26,018,343	11.6%
Employee Benefits and Related Costs	64,865,431	61,577,241	3,288,190	5.3%
Professional Fees and Contracted Services	6,982,263	6,738,145	244,118	3.6%
Other Contracted Services	26,350,043	25,849,943	500,100	1.9%
Scholarships and Fellowships	5,423,403	5,612,759	(189,356)	-3.4%
Travel	3,314,527	2,845,784	468,743	16.5%
Materials and Supplies	64,519,278	56,368,708	8,150,570	14.5%
Utilities	11,134,494	10,374,944	759,550	7.3%
Telecommunications	2,112,852	2,027,490	85,362	4.2%
Repairs and Maintenance	5,198,168	4,390,414	807,754	18.4%
Rentals and Leases	2,455,204	3,202,546	(747,342)	-23.3%
Printing and Reproduction	974,909	799,862	175,047	21.9%
Federal Sponsored Programs Pass-Thrus	115,063	107,244	7,819	7.3%
Depreciation and Amortization	25,105,709	22,844,139	2,261,570	9.9%
Other Operating Expenses	19,733,947	15,634,441	4,099,506	26.2%
Total Operating Expenses	**489,145,615**	**443,215,641**	**45,929,974**	**10.4%**
Operating Loss	**(88,745,365)**	**(80,346,864)**	**(8,398,501)**	**-10.5%**
Other Nonoperating Adjustments				
State Appropriations	58,992,243	58,519,092	473,151	0.8%
Gift Contributions for Operations	7,425,438	18,907,889	(11,482,451)	-60.7%
Net Investment Income	23,244,762	24,166,588	(921,826)	-3.8%
Interest Expense on Capital Asset Financings	(6,901,028)	(6,547,548)	(353,480)	-5.4%
Net Other Nonoperating Adjustments	**82,761,415**	**95,046,021**	**(12,284,606)**	**-12.9%**
Adjusted Income (Loss) including Depreciation	**(5,983,950)**	**14,699,157**	**(20,683,107)**	**-140.7%**
Adjusted Margin (as a percentage) including Depreciation	**-1.2%**	**3.2%**		
Investment Gains (Losses)	(131,246,360)	23,088,948	(154,335,308)	-668.4%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ (137,230,310)**	**$ 37,788,105**	**$ (175,018,415)**	**-463.2%**
Adjusted Margin % with Investment Gains (Losses)	**-38.2%**	**7.8%**		
Adjusted Income (Loss) excluding Depreciation	**19,121,759**	**37,543,296**	**(18,421,537)**	**-49.1%**
Adjusted Margin (as a percentage) excluding Depreciation	**3.9%**	**8.1%**		

UNAUDITED

The University of Texas Medical Branch at Galveston
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2008

	December Year-to-Date FY 2009	December Year-to-Date FY 2008	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 5,842,123	$ 5,725,972	$ 116,151	2.0%
Sponsored Programs	101,071,353	83,382,416	17,688,937	21.2%
Net Sales and Services of Educational Activities	441,775	711,089	(269,314)	-37.9%
Net Sales and Services of Hospitals	170,179,671	235,942,512	(65,762,841)	-27.9%
Net Professional Fees	28,731,040	40,251,779	(11,520,739)	-28.6%
Net Auxiliary Enterprises	1,464,771	2,957,795	(1,493,024)	-50.5%
Other Operating Revenues	4,712,704	4,267,989	444,715	10.4%
Total Operating Revenues	**312,443,437**	**373,239,552**	**(60,796,115)**	**-16.3%**
Operating Expenses				
Salaries and Wages	272,522,208	265,305,730	7,216,478	2.7%
Employee Benefits and Related Costs	63,125,571	61,682,122	1,443,449	2.3%
Professional Fees and Contracted Services	61,172,632	7,036,525	54,136,107	769.4%
Other Contracted Services	39,064,156	17,826,128	21,238,028	119.1%
Scholarships and Fellowships	1,849,558	2,715,128	(865,570)	-31.9%
Travel	1,765,154	2,683,167	(918,013)	-34.2%
Materials and Supplies	38,892,705	59,943,492	(21,050,787)	-35.1%
Utilities	9,232,497	10,945,292	(1,712,795)	-15.6%
Telecommunications	4,554,311	4,601,019	(46,708)	-1.0%
Repairs and Maintenance	10,662,259	11,086,405	(424,146)	-3.8%
Rentals and Leases	5,882,645	6,229,720	(347,075)	-5.6%
Printing and Reproduction	356,036	703,785	(347,749)	-49.4%
Federal Sponsored Programs Pass-Thrus	561,590	3,896,153	(3,334,563)	-85.6%
Depreciation and Amortization	25,764,204	20,668,856	5,095,348	24.7%
Other Operating Expenses	26,555,236	22,075,780	4,479,456	20.3%
Total Operating Expenses	**561,960,762**	**497,399,302**	**64,561,460**	**13.0%**
Operating Loss	**(249,517,325)**	**(124,159,750)**	**(125,357,575)**	**-101.0%**
Other Nonoperating Adjustments				
State Appropriations	103,062,583	102,134,610	927,973	0.9%
Gift Contributions for Operations	5,353,729	2,909,947	2,443,782	84.0%
Net Investment Income	11,165,377	11,524,290	(358,913)	-3.1%
Interest Expense on Capital Asset Financings	(2,027,666)	(2,014,474)	(13,192)	-0.7%
Net Other Nonoperating Adjustments	**117,554,023**	**114,554,373**	**2,999,650**	**2.6%**
Adjusted Income (Loss) including Depreciation	**(131,963,302)**	**(9,605,377)**	**(122,357,925)**	**-1,273.8%**
Adjusted Margin (as a percentage) including Depreciation	**-30.5%**	**-2.0%**		
Investment Gains (Losses)	(37,761,472)	6,441,602	(44,203,074)	-686.2%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ (169,724,774)**	**$ (3,163,775)**	**$ (166,560,999)**	**-5,264.6%**
Adjusted Margin % with Investment Gains (Losses)	**-43.0%**	**-0.6%**		
Adjusted Income (Loss) excluding Depreciation	**(106,199,098)**	**11,063,479**	**(117,262,577)**	**-1,059.9%**
Adjusted Margin (as a percentage) excluding Depreciation	**-24.6%**	**2.3%**		

UNAUDITED

The University of Texas Health Science Center at Houston
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2008

	December Year-to-Date FY 2009	December Year-to-Date FY 2008	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 10,386,552	$ 8,854,628	$ 1,531,924	17.3%
Sponsored Programs	108,368,817	96,406,239	11,962,578	12.4%
Net Sales and Services of Educational Activities	11,660,429	11,340,332	320,097	2.8%
Net Sales and Services of Hospitals	11,495,233	10,623,050	872,183	8.2%
Net Professional Fees	38,863,087	36,725,520	2,137,567	5.8%
Net Auxiliary Enterprises	7,293,248	7,159,617	133,631	1.9%
Other Operating Revenues	13,758,106	12,576,350	1,181,756	9.4%
Total Operating Revenues	**201,825,472**	**183,685,736**	**18,139,736**	**9.9%**
Operating Expenses				
Salaries and Wages	127,001,465	115,111,003	11,890,462	10.3%
Employee Benefits and Related Costs	25,911,650	26,851,595	(939,945)	-3.5%
Professional Fees and Contracted Services	27,578,082	20,700,424	6,877,658	33.2%
Other Contracted Services	11,512,575	11,936,148	(423,573)	-3.5%
Scholarships and Fellowships	2,014,769	1,778,902	235,867	13.3%
Travel	2,142,897	1,874,267	268,630	14.3%
Materials and Supplies	17,662,871	20,130,404	(2,467,533)	-12.3%
Utilities	6,614,206	5,700,611	913,595	16.0%
Telecommunications	1,004,551	926,788	77,763	8.4%
Repairs and Maintenance	3,060,273	1,983,303	1,076,970	54.3%
Rentals and Leases	4,239,974	4,358,002	(118,028)	-2.7%
Printing and Reproduction	1,360,318	1,229,244	131,074	10.7%
Federal Sponsored Programs Pass-Thrus	2,153,719	2,492,253	(338,534)	-13.6%
Depreciation and Amortization	12,972,448	12,597,467	374,981	3.0%
Other Operating Expenses	19,583,333	17,224,512	2,358,821	13.7%
Total Operating Expenses	**264,813,131**	**244,894,923**	**19,918,208**	**8.1%**
Operating Loss	**(62,987,659)**	**(61,209,187)**	**(1,778,472)**	**-2.9%**
Other Nonoperating Adjustments				
State Appropriations	55,395,367	55,439,951	(44,584)	-0.1%
Gift Contributions for Operations	5,888,237	7,937,178	(2,048,941)	-25.8%
Net Investment Income	9,284,463	8,857,877	426,586	4.8%
Interest Expense on Capital Asset Financings	(2,992,644)	(2,729,906)	(262,738)	-9.6%
Net Other Nonoperating Adjustments	**67,575,423**	**69,505,100**	**(1,929,677)**	**-2.8%**
Adjusted Income (Loss) including Depreciation	**4,587,764**	**8,295,913**	**(3,708,149)**	**-44.7%**
Adjusted Margin (as a percentage) including Depreciation	**1.7%**	**3.2%**		
Investment Gains (Losses)	(56,486,932)	7,769,298	(64,256,230)	-827.1%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ (51,899,168)**	**$ 16,065,211**	**$ (67,964,379)**	**-423.1%**
Adjusted Margin % with Investment Gains (Losses)	**-24.0%**	**6.1%**		
Adjusted Income (Loss) excluding Depreciation	**17,560,212**	**20,893,380**	**(3,333,168)**	**-16.0%**
Adjusted Margin (as a percentage) excluding Depreciation	**6.4%**	**8.2%**		

UNAUDITED

The University of Texas Health Science Center at San Antonio
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2008

	December Year-to-Date FY 2009	December Year-to-Date FY 2008	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 8,475,875	$ 8,333,333	$ 142,542	1.7%
Sponsored Programs	74,981,317	63,552,495	11,428,822	18.0%
Net Sales and Services of Educational Activities	19,431,169	11,180,571	8,250,598	73.8%
Net Professional Fees	34,140,903	26,259,304	7,881,599	30.0%
Net Auxiliary Enterprises	1,320,907	1,392,030	(71,123)	-5.1%
Other Operating Revenues	5,008,938	4,833,204	175,734	3.6%
Total Operating Revenues	**143,359,109**	**115,550,937**	**27,808,172**	**24.1%**
Operating Expenses				
Salaries and Wages	114,598,737	102,365,374	12,233,363	12.0%
Employee Benefits and Related Costs	28,462,783	25,469,147	2,993,636	11.8%
Professional Fees and Contracted Services	4,795,752	2,929,774	1,865,978	63.7%
Other Contracted Services	5,976,042	5,792,133	183,909	3.2%
Scholarships and Fellowships	1,314,728	1,202,175	112,553	9.4%
Travel	1,788,091	1,667,495	120,596	7.2%
Materials and Supplies	10,898,238	10,494,599	403,639	3.8%
Utilities	5,033,333	4,333,333	700,000	16.2%
Telecommunications	2,298,812	2,239,081	59,731	2.7%
Repairs and Maintenance	1,336,204	839,785	496,419	59.1%
Rentals and Leases	1,205,077	759,701	445,376	58.6%
Printing and Reproduction	606,018	506,815	99,203	19.6%
Federal Sponsored Programs Pass-Thrus	466,667	200,000	266,667	133.3%
Depreciation and Amortization	10,500,000	8,743,783	1,756,217	20.1%
Other Operating Expenses	30,327,420	22,987,711	7,339,709	31.9%
Total Operating Expenses	**219,607,902**	**190,530,906**	**29,076,996**	**15.3%**
Operating Loss	**(76,248,793)**	**(74,979,969)**	**(1,268,824)**	**-1.7%**
Other Nonoperating Adjustments				
State Appropriations	57,228,911	56,702,894	526,017	0.9%
Gift Contributions for Operations	7,413,642	13,188,206	(5,774,564)	-43.8%
Net Investment Income	9,120,812	10,288,588	(1,167,776)	-11.4%
Interest Expense on Capital Asset Financings	(3,207,404)	(1,330,323)	(1,877,081)	-141.1%
Net Other Nonoperating Adjustments	**70,555,961**	**78,849,365**	**(8,293,404)**	**-10.5%**
Adjusted Income (Loss) including Depreciation	**(5,692,832)**	**3,869,396**	**(9,562,228)**	**-247.1%**
Adjusted Margin (as a percentage) including Depreciation	**-2.6%**	**2.0%**		
Investment Gains (Losses)	(38,805,087)	6,164,880	(44,969,967)	-729.5%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ (44,497,919)**	**$ 10,034,276**	**$ (54,532,195)**	**-543.5%**
Adjusted Margin % with Investment Gains (Losses)	**-25.0%**	**5.0%**		
Adjusted Income (Loss) excluding Depreciation	**4,807,168**	**12,613,179**	**(7,806,011)**	**-61.9%**
Adjusted Margin (as a percentage) excluding Depreciation	**2.2%**	**6.4%**		

UNAUDITED

The University of Texas M. D. Anderson Cancer Center
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2008

	December Year-to-Date FY 2009	December Year-to-Date FY 2008	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$ 318,522	$ 165,647	$ 152,875	92.3%
Sponsored Programs	85,386,736	81,510,129	3,876,607	4.8%
Net Sales and Services of Educational Activities	702,700	887,542	(184,842)	-20.8%
Net Sales and Services of Hospitals	630,319,846	584,649,089	45,670,757	7.8%
Net Professional Fees	87,020,935	84,134,988	2,885,947	3.4%
Net Auxiliary Enterprises	9,547,191	9,033,734	513,457	5.7%
Other Operating Revenues	16,832,530	12,246,151	4,586,379	37.5%
Total Operating Revenues	**830,128,460**	**772,627,280**	**57,501,180**	**7.4%**
Operating Expenses				
Salaries and Wages	438,647,363	394,827,650	43,819,713	11.1%
Employee Benefits and Related Costs	112,763,071	104,873,747	7,889,324	7.5%
Professional Fees and Contracted Services	36,976,098	38,663,284	(1,687,186)	-4.4%
Other Contracted Services	21,214,465	21,740,211	(525,746)	-2.4%
Travel	6,503,350	6,357,754	145,596	2.3%
Materials and Supplies	155,927,829	144,648,114	11,279,715	7.8%
Utilities	20,761,489	17,555,658	3,205,831	18.3%
Telecommunications	2,903,700	2,719,594	184,106	6.8%
Repairs and Maintenance	21,000,933	18,990,718	2,010,215	10.6%
Rentals and Leases	12,273,025	11,307,419	965,606	8.5%
Federal Sponsored Programs Pass-Thrus	(81,178)	(252,100)	170,922	67.8%
Depreciation and Amortization	73,814,941	69,891,420	3,923,521	5.6%
Other Operating Expenses	955,599	837,288	118,311	14.1%
Total Operating Expenses	**903,660,685**	**832,160,757**	**71,499,928**	**8.6%**
Operating Loss	**(73,532,225)**	**(59,533,477)**	**(13,998,748)**	**-23.5%**
Other Nonoperating Adjustments				
State Appropriations	55,147,178	56,036,743	(889,565)	-1.6%
Gift Contributions for Operations	22,320,703	35,563,036	(13,242,333)	-37.2%
Net Investment Income	15,951,700	19,822,822	(3,871,122)	-19.5%
Interest Expense on Capital Asset Financings	(10,167,564)	(7,529,012)	(2,638,552)	-35.0%
Net Other Nonoperating Adjustments	**83,252,017**	**103,893,589**	**(20,641,572)**	**-19.9%**
Adjusted Income (Loss) including Depreciation	**9,719,792**	**44,360,112**	**(34,640,320)**	**-78.1%**
Adjusted Margin (as a percentage) including Depreciation	**1.1%**	**5.0%**		
Investment Gains (Losses)	(160,304,063)	25,390,690	(185,694,753)	-731.3%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ (150,584,271)**	**$ 69,750,802**	**$ (220,335,073)**	**-315.9%**
Adjusted Margin % with Investment Gains (Losses)	**-19.7%**	**7.7%**		
Adjusted Income (Loss) excluding Depreciation	**83,534,733**	**114,251,532**	**(30,716,799)**	**-26.9%**
Adjusted Margin (as a percentage) excluding Depreciation	**9.0%**	**12.9%**		

UNAUDITED

The University of Texas Health Science Center at Tyler
Comparison of Operating Results and Margin
For the Four Months Ending December 31, 2008

	December Year-to-Date FY 2009	December Year-to-Date FY 2008	Variance	Fluctuation Percentage
Operating Revenues				
Sponsored Programs	$ 4,082,400.00	$ 3,978,530.00	$ 103,870	2.6%
Net Sales and Services of Educational Activities	440,316	288,285	152,031	52.7%
Net Sales and Services of Hospitals	16,889,187	11,573,513	5,315,674	45.9%
Net Professional Fees	4,118,674	3,593,197	525,477	14.6%
Net Auxiliary Enterprises	66,555	52,482	14,073	26.8%
Other Operating Revenues	333,187	454,481	(121,294)	-26.7%
Total Operating Revenues	**25,930,319**	**19,940,488**	**5,989,831**	**30.0%**
Operating Expenses				
Salaries and Wages	17,002,188	17,684,215	(682,027)	-3.9%
Employee Benefits and Related Costs	4,789,891	4,876,966	(87,075)	-1.8%
Professional Fees and Contracted Services	2,571,974	1,237,638	1,334,336	107.8%
Other Contracted Services	3,812,226	2,898,058	914,168	31.5%
Travel	143,347	139,072	4,275	3.1%
Materials and Supplies	5,747,428	3,774,473	1,972,955	52.3%
Utilities	992,229	1,044,564	(52,335)	-5.0%
Telecommunications	430,890	317,794	113,096	35.6%
Repairs and Maintenance	1,380,216	1,132,768	247,448	21.8%
Rentals and Leases	299,592	301,008	(1,416)	-0.5%
Printing and Reproduction	46,728	8,992	37,736	419.7%
Federal Sponsored Programs Pass-Thrus	25,123	49,151	(24,028)	-48.9%
Depreciation and Amortization	2,521,267	3,065,938	(544,671)	-17.8%
Other Operating Expenses	611,672	732,095	(120,423)	-16.4%
Total Operating Expenses	**40,374,771**	**37,262,732**	**3,112,039**	**8.4%**
Operating Loss	**(14,444,452)**	**(17,322,244)**	**2,877,792**	**16.6%**
Other Nonoperating Adjustments				
State Appropriations	13,773,148	13,066,107	707,041	5.4%
Gift Contributions for Operations	71,741	724,384	(652,643)	-90.1%
Net Investment Income	1,335,051	1,345,939	(10,888)	-0.8%
Interest Expense on Capital Asset Financings	(237,280)	(508,663)	271,383	53.4%
Net Other Nonoperating Adjustments	**14,942,660**	**14,627,767**	**314,893**	**2.2%**
Adjusted Income (Loss) including Depreciation	**498,208**	**(2,694,477)**	**3,192,685**	**118.5%**
Adjusted Margin (as a percentage) including Depreciation	**1.2%**	**-7.7%**		
Investment Gains (Losses)	(257,615)	242,341	(499,956)	-206.3%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 240,593**	**$ (2,452,136)**	**$ 2,692,729**	**109.8%**
Adjusted Margin % with Investment Gains (Losses)	**0.6%**	**-6.9%**		
Adjusted Income (Loss) excluding Depreciation	**3,019,475**	**371,461**	**2,648,014**	**712.9%**
Adjusted Margin (as a percentage) excluding Depreciation	**7.3%**	**1.1%**		

THE UNIVERSITY OF TEXAS SYSTEM POLICY ON SUSTAINABILITY PRACTICES

The Board of Regents ("Board") of The University of Texas System ("System") is committed to stewardship of the environment and promoting the principals of energy efficiency and sustainability. System's commitment to energy savings goals, reductions in carbon emissions and sustainable design is evident in existing practices. System will continue to implement well-thought-out initiatives that increase efficiencies, reduce emissions, and promote sustainability practices that contribute meaningfully to the environment, while still achieving excellence in higher education. System's decisions and actions regarding sustainability practices will be guided by its mission statement and reflective of budgetary constraints and legal, regulatory and programmatic requirements, while continuing to further the missions of the institutions comprising System ("Institutions").

The following initiatives are intended to provide scope, direction, and expectations underlying System's Policy on Sustainability Practices and to identify best practices to facilitate compliance with this policy.

I. ADMINISTRATION

The Board has delegated authority to the Chancellor for promulgating policy promoting sustainable practices. The Chancellor has delegated (a) authority to the Executive Vice Chancellor for Business Affairs to implement System policy regarding sustainability; and (b) each Institutional President to further define and implement measures for sustainable practices at their respective Institutions, all within budgetary constraints and legal, regulatory and programmatic requirements.

The Executive Vice Chancellor for Business Affairs, in consultation with the Presidents of the Institutions, shall form a Sustainability Steering Committee to further define measures for sustainability practices, to ensure implementation, to establish near and longer term procedures and mechanisms, and to review and make recommendations to the Chancellor regarding the sustainability policy on an ongoing basis with the goal of integrating informed and evolving practices for sustainability. System will provide means for the ongoing participation of students, faculty, and administrators in further development of the Policy on Sustainability Practices.

II. INSTITUTIONAL POLICY

Each Institution will develop a policy on sustainability in the Institution's master plan and operations and maintenance practices and within budgetary constraints and legal, regulatory and programmatic requirements on or before June 30, 2009.

III. ENERGY AND WATER EFFICIENCY PRACTICES

Each Institution will update Energy Management Plans to reflect energy consumption reduction goals as of FY 2011 over the baseline levels established by the Energy Utility Task Force ("EUTF") in 2001. The institutions will report quarterly progress to their energy Management Plans by means of Governor's Executive Order RP-49.

Any new capital or major renovation project will apply, as a minimum, the energy efficiency design and construction principles of ASHRAE 90.1 as established by the State Energy Conservation Office. The Institution planning and design process will include consideration of life cycle cost along with other factors in the project planning and design process, recognizing the importance of long-term operations, maintenance, total cost of ownership of System facilities, budgetary constraints, and programmatic requirements. A measurement and verification plan will be prepared prior to the completion of construction of a new building or major renovation, directed toward establishing an energy service consumption baseline during the first 12 months of occupancy. Subsequent energy consumption audits every three years will document 20% variances to the baseline levels. Institutions will require rainwater and gray water harvesting systems for non-potable use for new buildings where practical and within program budgets.

IV. **ALTERNATIVE ENERGY PRACTICES**

With a goal of reducing System's non-renewable energy consumption, each Institution will evaluate alternative energy designs for new major capital projects.

V. **CLIMATE PROTECTION PRACTICES**

With an overall goal of reducing greenhouse gas ("GHG") emissions while maintaining enrollment accessibility for every eligible student, enhancing research, promoting community service and operating campus facilities more efficiently, Institutions will pursue the goal of reducing GHG emissions.

VI. **SUSTAINABLE TRANSPORTATION PRACTICES**

To the extent practical, each Institution will encourage and develop sustainable transportation practices such as carpooling, use of public transportation, use of fuel-efficient or alternative fuel fleet vehicles, flex schedules, and telecommuting.

VII. **WASTE AND RECYCLING MANAGEMENT**

Each Institution will record and monitor annual waste and recycling quantities, and implement procedures to reduce campus waste and increase campus recycling each year. A goal to increase recycling each year should be established.

VIII. **ENVIRONMENTALLY PREFERABLE PURCHASING PRACTICES**

Institutions will encourage suppliers to demonstrate environmental stewardship. Within the parameters of reasonable business justification and applicable laws and regulations, each Institution will (a) utilize its purchasing power to advance the development of sustainable technologies, (b) evaluate the total cost of ownership, including purchase prices, operating costs, maintenance, collection, recycling, and disposal, and (c) encourage environmentally preferable practices, when selecting suppliers.

IX. HIGH PERFORMANCE BUILDINGS

Each Institution will strive to achieve a high performance building comparable to a US Green Building Council Leadership in Energy & Environment ("LEED®") Certified rating or higher whenever possible, excluding laboratory and acute care and patient care facilities, within the constraints of program needs and budget parameters. System recognizes and commends the early leadership and accomplishments of LEED® as a green building certification program; however that certification currently comes with a significant cost in documentation. Therefore, System strives for a high performance building standard comparable to LEED® for new major capital projects. Money for certification documentation is better spent obtaining more energy efficient building systems.

Further study will be conducted before similar sustainable design policies for laboratory and acute care and/or patient care facilities are adopted.

X. SUSTAINABILITY AWARENESS AND TRAINING

Each Institution will incorporate its policy on sustainability into applicable existing training programs.

XI. CURRICULA INTEGRATION

The Institutions will strive for excellence in sustainability education by integrating sustainability concepts into curricula, increasing faculty and student awareness of sustainability issues; and producing graduates who will carry the mission of sustainability into the state, the nation, and the world.

XII. ENDOWMENT TRANSPARENCY

The University of Texas Investment Management Company shall disclose to the public information required to be disclosed pursuant to Section 552.0225 of the Texas Government Code regarding "Right of Access to Investment Information" (private investment information) and the Texas Public Information Act.

XIII. STUDENT INVOLVEMENT

System will support student participation in sustainability decision making, including the Sustainability Steering Committee. Each Institution will integrate sustainability concepts into curricula and support student volunteer programs to increase environmental awareness.

XIV. COMMUNITY OUTREACH

Institutions will share with outside communities the knowledge generated from sustainability research, education and practices with the goal of promoting a global culture of sustainability.

XV. ANNUAL PLAN AND REPORTS

An annual plan and report shall be completed by each Institution detailing the impact of the Institution's sustainability efforts. The Sustainability Steering Committee will maintain responsibility for determining the format and data to be submitted in the annual reports, and the form of the annual reports.

UK UNIVERSITY OF KENTUCKY

Issues, Ideas and Ideologies

Creating a More Efficient Campus

By: Lee T. Todd, Jr., President
Revised, April 2007

The Top 20 Business Plan calls for UK to fund 40 percent of the cost of implementation.

At its December 2005 meeting, the University of Kentucky Board of Trustees approved the Top 20 Business Plan. It provides the financial framework for our efforts to become a Top 20 public research university by 2020. The Plan establishes goals for undergraduate and graduate education, faculty recognition, research, and statewide engagement. And it indicates how much achieving these goals will cost.

As the Plan was being developed, I stressed the importance of generating a substantial portion of the necessary funds from internal resources. As a result, the Business Plan calls for UK to fund 40 percent of the cost of implementation. We will raise more money from more donors than ever before. We will continue to set new records for research dollars earned.

Enrollment at UK has grown from 23,852 students in 2000 to 27,240 students in fall 2006 – a 14 percent increase.

In addition, we will continue our efforts to be an effective and efficient campus. This work will build on the substantial savings we have generated since I became president in July 2001. I knew then that a $1.5 billion organization could yield savings through more strategic decisions and better processes. But our work quickly became motivated by necessity as much as by vision. The weak economy of the early years of this decade resulted in a series of reductions in state funding between 2001 and 2005. The cumulative effect was a $71.9 million cut in the funds we would have received from the state. The efficiencies we have produced helped shield us from the worst effects of this dramatic decline.

We will continue to work harder and smarter as we implement the Business Plan. In this white paper, I describe many of the strategies we have used to save money and invest in our campus. It provides clear evidence that we are a worthy investment and that state support for the Business Plan will be used effectively.

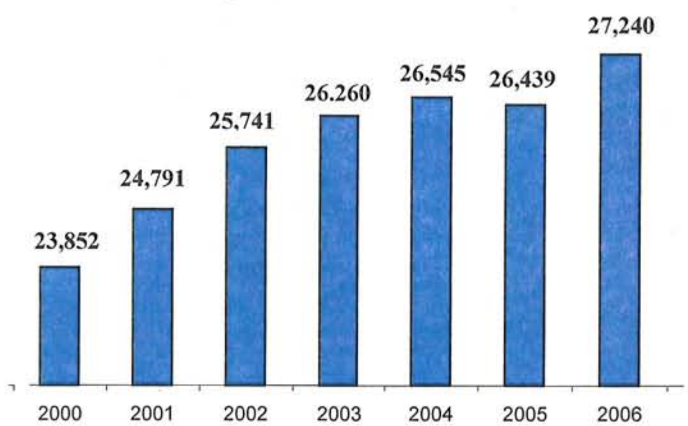
Serving More Students

One of our goals was to increase enrollment while maintaining quality.

Enrollment at UK has grown from 23,852 students in 2000 to 27,240 students in fall 2006 – a 14 percent increase. In fall 2000, 2,928 first-year students enrolled at UK. In fall 2006, UK had 4,192 entering freshmen, a 43 percent increase.

Despite the enrollment increases, the quality of our student body remains very high. Thirty-four percent of our first year students had a high school GPA of 3.8 or higher. There also are 354 Governor's Scholars and Governor School for the Arts participants and 122 valedictorians in the first-year class.

Serving More Students



Between 2001 and 2005, the number of Kentucky's public high school graduates was flat. UK's enrollment of Kentucky high school students increased seven percent.

UK redirected over $65 million over the last five years. The funds sustained the University in lean economic times and more recently have been combined with state appropriations increases to make initial investments in implementing the Top 20 Business Plan.

Also worth noting is that between 2001 and 2005, the number of Kentucky's public high school graduates was flat. UK's enrollment of Kentucky high school students increased seven percent. During that same time, the number of public high school graduates from Kentucky's Appalachian region dropped two percent; UK's enrollment from these counties increased five percent.

UK's graduation rate is higher today than it was five years ago. In 2000, the percentage of UK students graduating within six years was 55.5 percent. In 2005, it was 59.8 percent - the highest of any public university in Kentucky.

Goals for 2020

The Top 20 Business Plan establishes specific goals:

- Increase enrollment by 7,000 students – to 34,000;
- Increase what is already the state's highest graduation rate by 12 percentage points – to 72 percent;
- Increase the number of faculty by 625 – to more than 2,500;
- Increase research expenditures by $470 million – to $768 million; and
- Increase engagement in Kentucky's schools, farms, businesses, and communities.

UK'S EFFICIENCY EFFORTS SO FAR – with a combination of cost savings and cost avoidance initiatives, UK redirected over $65 million during the last five years. The funds sustained the University in lean economic times and more recently have been combined with state appropriations increases to make initial investments in implementing the Top 20 Business Plan.

FY 2002-03	$14.6
FY 2003-04	$22.5
FY 2004-05	$17.3
FY 2005-06	$ 6.2
FY 2006-07 (so far)	$ 4.8
TOTAL	**$65.4**

UK will provide 40 percent of the funds needed to implement the Top 20 Business Plan by building on efficiency, research, clinical, and fund-raising efforts of the last five years.

UK Response – Annual Savings

We are saving $16 million annually from restructuring our administrative organization, eliminating a college, merging several academic departments, and redirecting money from other sources.

We are saving $3 million annually by making some areas – such as the Center for Advanced Manufacturing, Parking, Development, and Environmental Health and Safety -- more reliant on external revenues, significantly reducing or totally eliminating their general fund appropriation.

We are saving $2 million annually by moving the university to the Provost Model, integrating Medical Center operations with the rest of campus, and eliminating areas of duplicated effort -- five offices were closed while 29 others were merged.

We are saving $1.1 million annually by implementing a desktop computer standardization plan.

We are saving $1 million annually by developing a new management program for hospital and clinic pharmaceutical purchases.

We will save $500,000 annually by re-bidding our coal purchases.

We are saving $400,000 annually by eliminating five middle-management positions in the Agricultural Cooperative Extension Service.

We will save $115,000 annually by outsourcing the warehousing and fulfillment functions for the University Press.

UK Response – Other Savings

UK has saved money over the last five years and built the foundation for future savings:

We saved $9.5 million over five years by shifting a substantial share of our fringe benefit burden to self-supporting programs.

Over the last four years, the cost of the university's health benefits increased an average of 6.7 percent per year compared to the national average of 9.9 percent.

We have invested in the University's future through a multi-year plan to replace the university's current administrative systems with an integrated information technology solution to improve business and service processes.

We saved $4 million in principal and interest payments by refinancing our agency bonds.

We saved $3.6 million by outsourcing our office supply contract.

We saved $3.2 million by increasing the use of procurement cards for university purchases.

We saved $2 million by changing the method we use to calculate our Worker's Compensation liability.

We saved $377,000 by closing the Computer Store.

We saved $66,000 by combining the University key shops and anticipate saving another **$40,000** when consolidation is complete.

We saved hundreds of thousands of dollars through improvements to campus operations, such as re-engineering our work order process, project estimating, and waste collection and disposal systems; eliminating supervision layers; implementing central energy management and preventive maintenance systems; purchasing labor and cost-saving equipment; and instituting productivity standards for maintenance crews.

We slowed the increasing cost of health insurance with a combination of administrative and health literacy initiatives. Over the last five years, the cost of the university's health benefits increased an average of 6.7 percent per year compared to the national average of 9.9 percent. Without these efforts, we would have paid an additional $10.2 million in health care costs over the past four years. Included in these savings is over $4.1 million annually on prescription drugs by educating our employees on the availability and appropriateness of generic medications.

We saved money and eliminated positions when we reorganized our Teaching and Learning Center and merged the offices of Admissions and Registrar.

We created a travel management services program, allowing the university to become more efficient and flexible in procuring university-related airline tickets. The program helped UK purchase the lowest available airfare 94 percent of the time.

We cut costs by smart use of technology. For example, we rely almost exclusively on a web-based system for equipment and space inventory, and our research units use the Internet for over 90 percent of their internal communications and document processing.

UK Response – Efficient Management

Not all of our changes translate into financial savings. Some of the programs we implemented help us run the campus in a more efficient manner.

We have invested in the University's future with a multi-year plan to replace the university's current administrative systems with an integrated information technology solution to improve business and service processes.

With more students on campus, the ability to have greater control of classroom space was crucial. We transferred the management of all classroom space to the Registrar's Office, streamlining the management of classroom space. The move has given UK tremendous scheduling flexibility and much more efficient use of space.

We also invested in our professional programs through a differential tuition plan that provides additional flexibility for deans to run their colleges. Any additional tuition increase – above and beyond the rate paid by our graduate students – was returned to the colleges so they could pursue needed projects.

Overall, nearly $307 million was spent on research and development at UK in FY 2005. Our strong delegation in Washington, D.C. supported UK with over $20.7 million in direct federal appropriations in FY 2005.

Last year's fundraising efforts yielded $132,213,766, bringing the overall capital campaign to $958,068,358 toward UK's $1 billion dollar goal. Prospects are excellent for another banner year in 2007.

UK Response – Research

We are encouraging our faculty and staff to be even more aggressive in applying for and earning external research and development dollars. Their success reflects the university's vision, their individual talents, and the importance of their research. In 2001, our faculty and staff earned $86 million in federal research expenditures. UK reported a record $143 million in federal research expenditures for FY 2005 -- a 66 percent increase.

Overall, nearly $307 million was spent on research and development at UK in FY 2005.

Our strong delegation in Washington, D.C. supported UK with over $20.7 million in direct federal appropriations in FY 2005.

We recovered $6.9 million over four years by renegotiating the rate the federal government pays to offset the costs of federally funded research by University of Kentucky faculty and staff.

UK Response – Fundraising

The university's endowment has grown substantially since 1998, when the state started contributing funds as part of the Bucks for Brains program. At that time, our endowment was valued at $219 million. Today it is over $662 million. In addition, UK HealthCare's quasi-endowment is $159 million.

The matching funds program has allowed UK to add 82 endowed chairs and 182 endowed professorships.

UK Research Subcontracts Going to Other Kentucky Universities

Institution	Total Since 1997
Eastern Kentucky University	$ 2,287,170
Kentucky State University	$ 593,742
Morehead State University	$ 1,993,224
Murray State University	$ 3,670,987
Northern Kentucky University	$ 1,341,885
University of Louisville	$16,301,941
Western Kentucky University	$ 4,043,725
Total	**$30,232,674**

Donors are encouraged by the matching funds available from Bucks for Brains. Last year's fundraising efforts yielded $132,213,766, bringing the overall capital campaign to $958,068,358 toward UK's $1 billion dollar goal. Prospects are excellent for another banner year in 2007.

UK Response – Collaborations

Since 2001, UK has been much more aggressive in building partnerships with Kentucky's other postsecondary institutions. These efforts leverage existing resources for greater impact.

We will avoid $569,000 in costs over four years by joining with other Kentucky public institutions to purchase teaching technologies statewide.

UK cutting edge core research facilities are essential for our faculty, but are also used by other researchers. All state university faculty working in collaboration with UK faculty may use the facilities.

UK continues collaborative research with other Kentucky institutions. Since 1997, UK faculty have utilized over $30.2 million in research funds shared with colleagues across Kentucky.

In FY 2006, over 6,700 books and other items from UK libraries were borrowed by other Kentucky public universities.

The Future

The Top 20 Business Plan calls for the University of Kentucky to continue our aggressive efforts toward greater efficiency. We intend to re-allocate an additional $2 million every year. These funds, combined with support from the state and our donors, will allow us to keep tuition as low as possible while investing in ways that help us make progress toward Top 20 status. Our commitment to better processes and practices is a responsible and effective approach to managing the University of Kentucky and building a Top 20 university.

DECEMBER 2005

The University of Kentucky Top 20 Business Plan

In 1997, the people of Kentucky established a Compact with their University of Kentucky...

...in return for investing the resources necessary to make UK a Top 20 public research university by 2020, the people of Kentucky would receive the benefits that come from it: an institution defined by academic excellence, world-class research, and vigorous engagement in communities across Kentucky. The Compact represents a commitment to progress because building a Top 20 research university is essential to any effort to make every Kentucky community stronger and the life of every Kentuckian better in a knowledge economy.

TOP 20 UNIVERSITIES go hand-in-hand with more educated, healthier, and financially secure populations. Average household incomes are higher in states with Top 20 universities. Unemployment rates are lower and fewer public dollars are spent on health care. These states also have healthier children and fewer people living in poverty.

Average household incomes are higher in states with Top 20 universities. Unemployment rates are lower and fewer public dollars are spent on health care.

UK has developed a Top 20 Business Plan that puts the Compact in financial terms. It describes the character of a Top 20 institution and the resources it will take to build it. The Plan uses nine measures in four domains to create a composite score [see table].

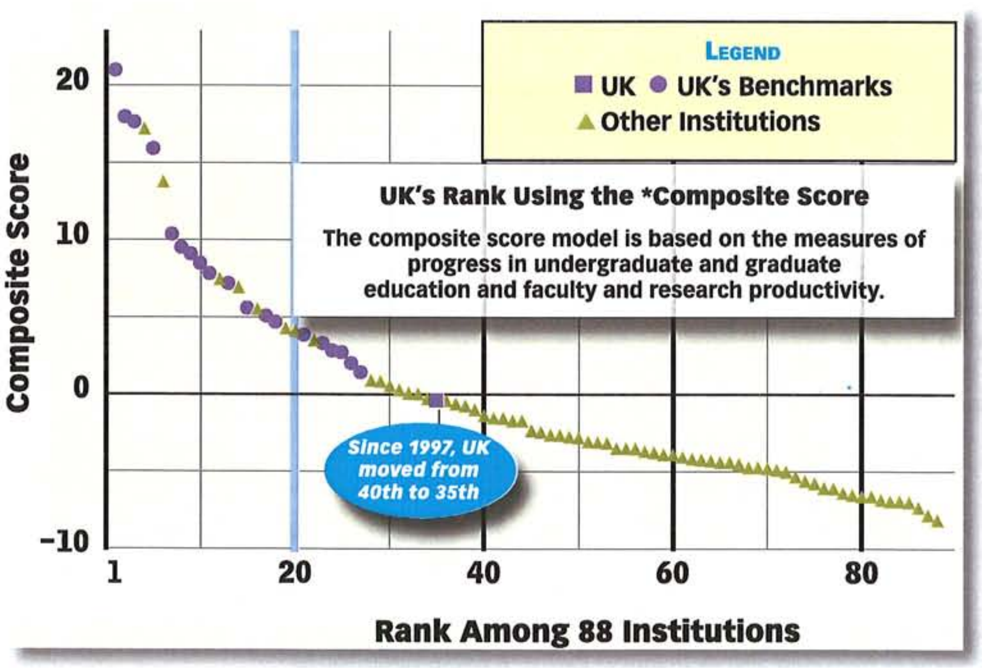
COMPOSITE SCORE*	
DOMAINS	**MEASURES OF PROGRESS**
Undergraduate Education	**1** ACT/SAT **2** Student/Faculty Ratio **3** Six-year Graduation Rate
Graduate Education	**4** Doctorates Granted **5** Postdoctoral Appointments
Faculty Recognition	**6** Citations **7** Awards
Research	**8** Federal Expenditures **9** Non-Federal Expenditures

UK used the composite scores to determine its relative position among 88 public research-extensive universities in the United States [see chart below]. This analysis provides a valuable perspective on the quality of the effort since 1997, and the challenge of catching the current Top 20 institutions, as they continue to make progress. Since the 1997 Postsecondary Education Improvement Act, UK has moved from 40th to 35th.

And, UK will increase the impact it has on Kentuckians through outreach and engagement initiatives.

CALCULATING SUCCESS

The Business Plan calculates the investments needed to make progress. **UK needs investments in students**—more dollars to continue to recruit, retain and graduate a top-quality, diverse student body and give them a world-class education and the academic support they need to be successful. **UK needs investments in people**—more faculty dedicated to teaching more students and doing more research and public service that attack the persistent health and economic problems of the Commonwealth. **UK needs investments in research and classroom buildings,** including UK's top capital priority, Phase II of the Biological/Pharmaceutical Complex. **UK needs more flexibility to pursue capital projects**—the opportunity to issue debt for the University hospital, residence halls, cafeterias, and other auxiliaries with sufficient revenue streams.



OVER THE NEXT 14 YEARS, UK WILL:

- Increase enrollment by 7,000 students—to 34,000;
- Increase the graduation rate by 12 percentage points—to 72 percent;
- Increase the number of faculty by 625—to over 2,500;
- Increase research expenditures by $470 million—to $768 million; and
- Increase engagement in Kentucky's schools, farms, businesses, and communities.

UK will be even more active in every part of Kentucky in ways that serve the needs of Kentucky's citizens and the communities where they live, work, and raise their families.

UK WILL DO ITS SHARE

Success will require more investments from every fund source. UK will increase substantially its endowment, private fundraising, research expenditures, and internal cost savings. From these and other sources UK will provide 40 percent ($438 million) of the needed investments. Tuition and state appropriations will fund the remaining need.

KENTUCKY MUST DO ITS SHARE

The members of the Kentucky General Assembly and the Governor understand the importance to Kentucky of UK's Top 20 mandate. Even as they worked through a very difficult budget in 2005, these policymakers invested over $18 million of new State General Funds in UK. **That was an important statement of their commitment to the Top 20 Compact.** UK asks that the state make the same kind of moderate, but consistent investment over the next 14 years.

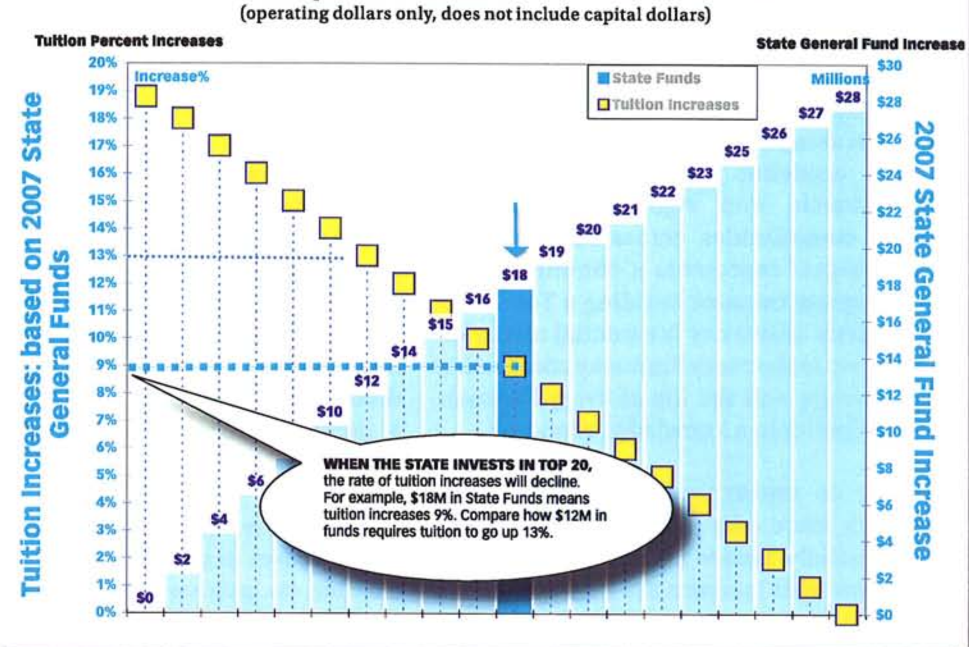
UK CAN BECOME a Top 20 university nationally recognized for the excellence of its teaching and research. But UK also will become nationally recognized because its work makes every Kentucky community stronger and the life of every Kentuckian better.

A Scenario for Success

The UK Business Plan calculates the additional resources needed each year for UK to become a Top 20 institution by 2020, as defined by excellence in undergraduate and graduate education, faculty and research. There is a substantial gap between UK's current budget and needed resources. UK will do its share by filling much of the gap internally. The state and UK must determine the optimal combination of state appropriations and tuition revenue to fund this gap in 2007 and beyond. For example, if the state increases appropriations by $17.7 million (5.8%), then UK would only need to increase the tuition rate by nine percent, funding a $34.3 million gap. The $17.7 million increase in state appropriations is only $4 million higher than CPE's recommendation.

A look at the relationship: Increasing 2007 state dollars and the impact on student tuition increases.

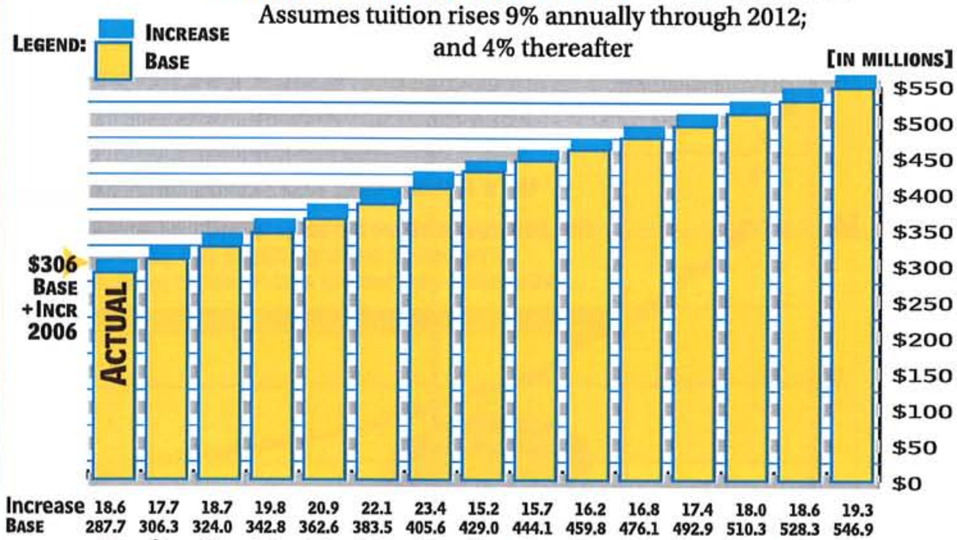
(operating dollars only, does not include capital dollars)



Consistent, moderate investment in UK is needed to build a Top 20 university. Committing an average increase of $19M to the base budget over the next 14 years will provide the necessary resources.

Needed State Appropriations: Base+Increases

Assumes tuition rises 9% annually through 2012; and 4% thereafter



YEAR	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Increase	18.6	17.7	18.7	19.8	20.9	22.1	23.4	15.2	15.7	16.2	16.8	17.4	18.0	18.6	19.3
BASE	287.7	306.3	324.0	342.8	362.6	383.5	405.6	429.0	444.1	459.8	476.1	492.9	510.3	528.3	546.9