

## INDEPENDENT AUDITORS' REPORT

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

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

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


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

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

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

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

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



December 4, 2006

**THE UNIVERSITY OF TEXAS SYSTEM**  
**BOARD OF REGENTS**  
**As of August 31, 2006**

**Officers**

James R. Huffines, Chairman  
Rita C. Clements, Vice Chairman  
Cyndi Taylor Krier, Vice Chairman  
Francie A. Frederick, Counsel and Secretary

**Members**

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*Term scheduled to expire February 1, 2005\**

Robert A. Estrada

Fort Worth

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*Terms scheduled to expire February 1, 2007\**

Rita C. Clements  
Judith L. Craven, M.D.  
Cyndi Taylor Krier  
Brian J. Haley (Student Regent)

Dallas  
Houston  
San Antonio  
Denton

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*Terms scheduled to expire February 1, 2009\**

John W. Barnhill, Jr.  
H. Scott Caven, Jr.  
James R. Huffines

Brenham  
Houston  
Austin

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*Terms scheduled to expire February 1, 2011\**

Robert B. Rowling  
Colleen McHugh

Dallas  
Corpus Christi

\*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, 2006

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Mark G. Yudof, Chancellor

Geri H. Malandra, Interim Executive Vice Chancellor for Academic Affairs

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

Scott C. Kelley, Executive Vice Chancellor for Business Affairs

Robert E. Barnhill, Vice Chancellor for Research and Technology Transfer

Tonya Moten Brown, Vice Chancellor for Administration

Barry D. Burgdorf, Vice Chancellor and General Counsel

Barry McBee, Vice Chancellor for Governmental Relations

Randa S. Safady, Vice Chancellor for External Relations

William H. Shute, Vice Chancellor for Federal Relations

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

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**THE UNIVERSITY OF TEXAS SYSTEM**  
**Management's Discussion and Analysis**  
For the Year Ended August 31, 2006  
(Unaudited)

**INTRODUCTION**

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

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

**OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS**

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

**FINANCIAL HIGHLIGHTS**

- In the fall of 2005, the System's enrollment increased 1.7% to 185,816 students. Although small, this growth rate exceeded the statewide trend where, overall, enrollments increased by less than one percent over this period. The System's academic institutions enroll 34.3% of the State's public college students, and the System's health-related institutions enroll 70.5% of the students attending the State's public health institutions. Net tuition and fees increased \$68 million in 2006, or 8.6%, as a result of tuition and fee increases and a 1.2% increase in student semester credit hours at the academic institutions.
- Net patient care revenues increased \$293.3 million in 2006, or 9.5%, as a result of an increase in patient volumes and higher rates.
- In 2003 the State Legislature granted tuition-setting authority to public university governing boards. Tuition rates were adjusted for the first time under this authority in spring 2004. In March 2006 the System's Board of Regents approved additional tuition and fee increases for 2007 and 2008 for the nine academic institutions. The plans approved by the System's Board of Regents include setting aside the statutorily required portion of at least 20% of new tuition revenues for financial aid programs, as well as a variety of ways that students can take advantage of special discounts in tuition rates. The approved plans also include pricing incentives to encourage students to graduate on-time by taking more semester credit hours in each term they are enrolled.

- Net investment income, excluding the change in fair value of investments, totaled \$1.6 billion in 2006, which decreased from \$1.9 billion in 2005. The net increase in fair value of investments was \$703.2 million in 2006, as compared to \$1.3 billion in 2005. Both components of investment income represented 20.4% of total revenues and were the largest contributors to the total increase in net assets of \$1.9 billion during 2006. Only investment income that is distributed to the institutions and System Administration can be used in support of operations. These distributions totaled \$551.2 million in 2006 and \$517.7 million in 2005.
- Investments in capital asset additions were \$1.1 billion in 2006, of which \$671.2 million consisted of new projects under construction. Major capital projects completed in 2006 include:
  - ❖ The Bioscience Building at UT San Antonio with a project cost of \$85.2 million;
  - ❖ the Research Expansion Project at UT Health Science Center at Houston with a project cost of \$72.9 million;
  - ❖ the Jack S. Blanton Museum of Art at UT Austin with a project cost of \$52.2 million;
  - ❖ the Houston Main Building Replacement Facility at UT M. D. Anderson Cancer Center with a project cost of \$52.1 million;
  - ❖ the South Campus Research Building at UT M. D. Anderson Cancer Center with a project cost of \$44.7 million;
  - ❖ and the Chemistry and Physics Building at UT Arlington with a project cost of \$40.3 million.

### **The Balance Sheet**

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

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

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

### Current Assets and Current Liabilities

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

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

### Noncurrent Investments

Noncurrent investments include permanent endowments, funds functioning as endowments, life income funds and other investments. These assets grew by \$3.6 billion in 2006 due to increases in fair value of investments, increased investment income and gifts received to establish new endowment funds.

### Capital Assets and Related Debt Activities

The development and renewal of its capital assets is one of the critical factors in continuing the System's quality academic, health and research programs. The System continues to implement its \$6.4 billion capital improvement program, planned for fiscal years 2006 through 2011, to upgrade its facilities. This capital improvement program is balanced between new construction to deal with space deficiencies and planned growth in patient care and student enrollment. Capital additions totaled \$1.1 billion in 2006, of which \$671.2 million consisted of new projects under construction. These capital additions were comprised of replacement, renovation, and new construction of academic, research and health care facilities, as well as significant investments in equipment.

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

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

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

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

## Net Assets

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

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

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

Net assets invested in capital assets, net of related debt represents the System's capital assets, net of accumulated depreciation and outstanding debt obligations attributable to the acquisition, construction or improvement of those assets. The \$196.4 million increase in capital assets, net of related debt, in 2006 resulted from additions to capital assets of \$1.1 billion offset by an increase in related debt of \$532.3 million and an increase in accumulated depreciation of \$448.2 million.

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

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

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

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

#### 2005 Highlights - Balance Sheet

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



### **The Statement of Revenues, Expenses and Changes in Net Assets**

The statement of revenues, expenses and changes in net assets details the changes in total net assets as presented on the balance sheet. The statement presents both operating and nonoperating revenues and expenses for the System. The following table summarizes the System's revenues, expenses and changes in net assets for the years ended August 31, 2006, 2005 and 2004:

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

### **Operating Revenues**

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

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

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

### Operating Expenses

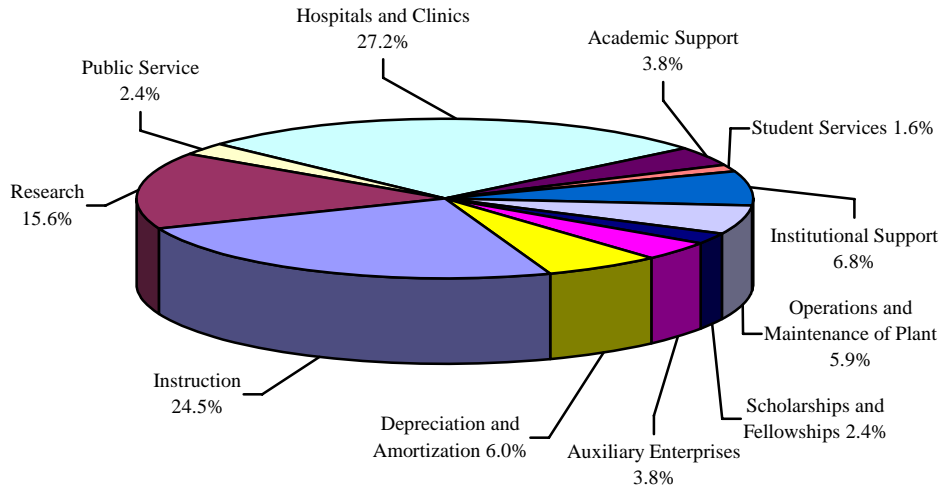
The following data summarizes the composition of operating expenses by programmatic function for the years ended August 31, 2006, 2005 and 2004:

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

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

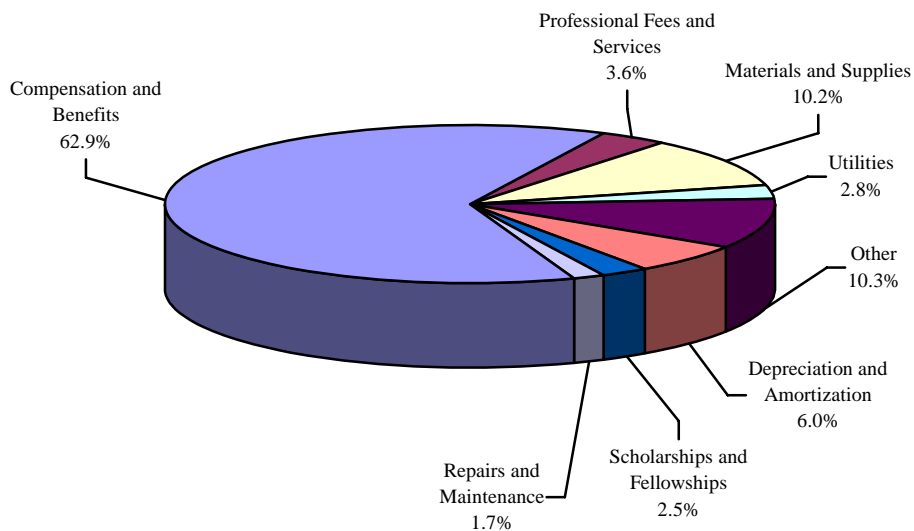
The following is a graphic illustration of operating expenses by their functional classification for the year ended August 31, 2006.

**Functional Classification of Operating Expenses (\$9,221.9 million)**



In addition to programmatic (functional) classification of operating expenses, the following graph also illustrates the System's operating expenses by natural classification for the year ended August 31, 2006.

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



Nonoperating Revenues and Expenses

Certain significant recurring revenues are considered nonoperating, as required by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*. State appropriations increased \$178.3 million due to the State Legislature funding enrollment growth at system institutions and providing funds to enhance instruction that, in part, made up for reductions in the prior legislative session. Gift contributions for operations of \$254.8 million, a decrease of \$11 million from 2005, were received

from private sources and used to support the educational and health care mission of the institutions. Net investment income excluding the change in the fair value of investments decreased from \$1.9 billion in 2005 to \$1.6 billion in 2006. While the calculated value of the PUF lands increased \$207.8 million in 2006, the fair value of the System's investments decreased \$635 million primarily due to less favorable market conditions. The fair value of the PUF lands' interest in oil and gas is based on an estimate of the present value of future royalty cash flows using a 10 percent discount rate. Future royalty cash flow projections from oil and gas are based on the price of oil and gas on the last day of the fiscal year. Interest expense on capital asset financings increased from \$135 million in 2005 to \$170.5 million in 2006.

#### Income Before Other Revenues, Expenses, Gains or Losses

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

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

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

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

#### Extraordinary Items

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

#### Transfers

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

### Change in Net Assets

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

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

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

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

### The Statement of Cash Flows

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

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

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

## **Economic Outlook**

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

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

## AUDITED

THE UNIVERSITY OF TEXAS SYSTEM  
EXHIBIT A - CONSOLIDATED BALANCE SHEET  
As of August 31, 2006

	Current Year Totals	Restated Prior Year Totals
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents (Notes 2 & 3)	\$ 1,386,868,062	2,136,909,390
Restricted Cash & Cash Equivalents (Notes 2 & 3)	386,048,681	605,300,842
Balance in State Appropriations	72,823,205	52,092,009
Securities Lending Collateral (Notes 2 & 3)	1,951,568,127	1,420,107,142
Accounts Receivable, Net:		
Federal (allowances of \$12,382,180 '06 & \$12,204,384 in '05)	171,953,451	152,585,454
Other Intergov. (allowances of \$0 in '06 & \$0 in '05)	27,596,139	32,636,248
Student (allowances of \$5,724,036 in '06 & \$6,132,323 in '05)	204,301,280	196,927,087
Patient (allow. of \$846,295,471 in '06 & \$719,985,354 in '05)	495,854,744	483,345,625
Interest and Dividends	61,102,409	44,280,711
Contributions (allow. of \$3,557,628 in '06 & \$3,980,588 in '05)	55,507,086	65,959,703
Investment Trades	447,141,307	312,903,168
Other (allow. of \$6,446,773 in '06 & \$2,498,749 in '05) (Note 22)	198,434,415	200,970,778
Due From Other Funds	89,211,509	94,312,870
Due From Other Agencies	7,176,780	22,171,291
Inventories	68,919,565	71,739,915
Loans & Contracts (allow. of \$6,407,529 in '06 & \$4,955,020 in '05)	43,841,438	36,417,536
Other Current Assets (Note 2)	115,048,340	82,022,580
Total Current Assets	<u>5,783,396,538</u>	<u>6,010,682,349</u>
Noncurrent Assets:		
Restricted:		
Cash & Cash Equivalents (Notes 2 & 3)	45,805	280,212
Investments (Notes 2 & 3)	19,642,198,671	17,432,258,468
Loans & Contracts(allow. of \$12,208,658 in '06 & \$11,629,666 in '05)	84,171,437	90,726,810
Contributions Rec. (allow. of \$6,956,810 in '06 & \$5,467,371 in '05)	113,291,142	95,009,889
Investments (Notes 2 & 3)	2,607,510,145	1,203,544,637
Other Noncurrent Assets/Held in Trust (Note 2)	28,251,924	25,152,030
Capital Assets (Note 5)	12,291,575,826	11,319,852,822
Less Accumulated Depreciation (Note 5)	<u>(4,713,357,523)</u>	<u>(4,265,127,634)</u>
Total Noncurrent Assets	<u>30,053,687,427</u>	<u>25,901,697,234</u>
<b>TOTAL ASSETS</b>	<u>\$ 35,837,083,965</u>	<u>31,912,379,583</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 858,557,615	788,950,073
Federal Payables	44,038,577	68,220,847
Other Intergovernmental Payables	13,323	47,156
Investment Trades Payable	1,020,457,037	718,557,708
Incurred But Not Reported Self-Insurance Claims (Note 6)	80,336,078	75,111,546
Securities Lending Obligations (Notes 2 & 3)	1,951,568,127	1,420,107,142
Due to Other Funds	89,211,509	94,312,870
Due to Other Agencies	32,720,625	12,887,702
Deferred Revenue	827,509,522	740,637,546
Employees' Compensable Leave (Note 8)	213,218,659	186,174,856
Notes, Loans & Leases Payable (Notes 8, 10 & 11)	659,133,894	544,954,806
Payable From Restricted Assets	296,425,572	191,343,178
Revenue Bonds Payable (Notes 8 & 9)	159,685,000	155,670,000
Assets Held for Others	19,495,816	16,197,009
Other Current Liabilities	38,984,819	33,421,852
Total Current Liabilities	<u>6,291,356,173</u>	<u>5,046,594,291</u>
Noncurrent Liabilities:		
Incurred But Not Reported Self-Insurance Claims (Note 6)	78,875,389	85,844,849
Employees' Compensable Leave (Note 8)	146,805,951	150,884,181
Assets Held for Others (Note 2)	650,828,296	383,107,922
Liability to Beneficiaries (Note 2)	17,846,695	18,692,215
Notes, Loans and Leases Payable (Notes 8, 10 & 11)	25,181,016	28,012,396
Revenue Bonds Payable (Notes 8 & 9)	3,435,167,686	3,018,716,352
Other Noncurrent Liabilities/Due to Texas A&M University	415,652,617	315,601,116
Total Noncurrent Liabilities	<u>4,770,357,650</u>	<u>4,000,859,031</u>
<b>TOTAL LIABILITIES</b>	<u>11,061,713,823</u>	<u>9,047,453,322</u>
<b>NET ASSETS (Note 13)</b>		
Invested in Capital Assets, Net of Related Debt	3,807,124,215	3,610,694,832
Restricted for:		
Nonexpendable		
Permanent University Fund Endowment (Notes 4 & 28)	5,889,253,513	5,455,915,288
Perm. Health, True & Term Endowments, & Annuities (Notes 4 & 28)	3,270,386,250	3,140,286,087
Expendable		
Capital Projects	22,393,335	39,538,940
Debt Service	5,809,770	5,240,603
Funds Functioning as Endowment - Restricted	212,603,907	187,146,777
Other Expendable (Note 28)	9,115,170,371	8,179,133,335
Unrestricted	2,452,628,781	2,246,970,399
<b>TOTAL NET ASSETS</b>	<u>24,775,370,142</u>	<u>22,864,926,261</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 35,837,083,965</u>	<u>31,912,379,583</u>

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

## AUDITED

THE UNIVERSITY OF TEXAS SYSTEM  
EXHIBIT B - CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 1,083,323,330	991,011,622
Discounts and Allowances	(228,862,360)	(204,551,068)
Federal Sponsored Programs	1,320,196,744	1,257,343,797
Federal Sponsored Programs Pass-Through from Other St. Agencies	58,632,450	60,603,772
State Sponsored Programs	66,257,240	40,976,213
State Sponsored Programs Pass-Through from Other St. Agencies	114,121,073	102,083,882
Local Sponsored Programs	323,030,328	281,674,796
Private Sponsored Programs	254,508,476	232,111,597
Sales and Services of Educational Activities	252,774,489	247,375,363
Discounts and Allowances	(280,660)	(96,630)
Sales and Services of Hospitals	5,311,045,947	4,720,529,083
Discounts and Allowances	(2,736,196,077)	(2,417,977,048)
Professional Fees	2,768,399,797	2,590,062,912
Discounts and Allowances	(1,975,088,694)	(1,817,697,261)
Auxiliary Enterprises	306,386,864	294,622,307
Discounts and Allowances	(6,466,209)	(7,570,201)
Other Operating Revenues	109,848,420	97,008,405
Total Operating Revenues	<u>7,021,631,158</u>	<u>6,467,511,541</u>
<b>Operating Expenses: (Note 14 for Natural Classification of Expenses)</b>		
Instruction	2,257,108,665	2,110,017,334
Research	1,435,285,596	1,317,751,307
Public Service	223,373,359	216,724,397
Hospitals and Clinics	2,512,901,960	2,371,851,180
Academic Support	353,540,922	276,398,709
Student Services	146,053,074	133,023,496
Institutional Support	623,715,087	580,866,749
Operations and Maintenance of Plant	537,415,131	467,531,452
Scholarships and Fellowships	223,085,099	208,767,543
Auxiliary Enterprises	351,665,417	327,378,075
Depreciation and Amortization	557,751,455	477,825,099
Total Operating Expenses	<u>9,221,895,765</u>	<u>8,488,135,341</u>
Operating Loss	<u>(2,200,264,607)</u>	<u>(2,020,623,800)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	1,735,758,424	1,557,538,258
Gift Contributions for Operations	254,782,172	265,764,609
Net Investment Income	1,601,941,153	1,922,342,973
Net Increase (Decrease) in Fair Value of Investments	703,193,671	1,338,188,213
Interest and Other Expenses on Capital Asset Financings	(170,567,855)	(135,004,773)
Gain/(Loss) on Sale of Capital Assets	(24,730,981)	(11,005,079)
Other Nonoperating Revenues	2,139,252	15,474,789
Other Nonoperating Expenses	(7,389,753)	(13,045,289)
Net Nonoperating Revenues (Expenses)	<u>4,095,126,083</u>	<u>4,940,253,701</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	1,894,861,476	2,919,629,901
Capital Appropriations - HEAF	11,379,426	7,131,692
Gifts and Sponsored Programs for Capital Acquisitions	147,939,549	125,424,289
Additions to Permanent Endowments	102,351,214	94,389,392
Extraordinary Items (Note 26)	(504,812)	
Transfers From Other State Agencies	147,095,046	463,563,579
Transfers to Other State Agencies	(392,678,018)	(609,189,326)
Legislative Appropriations Lapsed		(802,426)
Change in Net Assets	<u>1,910,443,881</u>	<u>3,000,147,101</u>
Beginning Net Assets - As Previously Reported	22,864,926,261	20,393,722,194
Restatements		(528,943,034)
Beginning Net Assets - As Restated	<u>22,864,926,261</u>	<u>19,864,779,160</u>
<b>Ending Net Assets</b>	<u>\$ 24,775,370,142</u>	<u>22,864,926,261</u>

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



AUDITED

THE UNIVERSITY OF TEXAS SYSTEM  
EXHIBIT C - CONSOLIDATED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 870,624,973	813,451,959
Proceeds from Patients and Customers	3,353,384,334	2,991,805,950
Proceeds from Sponsored Programs	2,120,629,186	2,056,362,687
Proceeds from Auxiliaries	301,506,418	301,170,581
Proceeds from Other Revenues	480,105,886	344,357,100
Payments to Suppliers	(2,905,981,399)	(2,570,288,016)
Payments to Employees	(5,775,388,423)	(5,327,350,588)
Payments for Loans Provided	(104,676,524)	(93,904,473)
Proceeds from Loan Programs	101,007,058	94,069,255
Payments for Other Expenses	(127,673)	(3,051,700)
Net Cash Provided (Used) by Operating Activities	<u>(1,558,916,164)</u>	<u>(1,393,377,245)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	1,715,807,482	1,570,814,238
Proceeds from Operating Gifts	224,880,902	201,457,591
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	60,374,098	133,435,951
Proceeds from Other Nonoperating Revenues	9,684,674	19,441,017
Payments/Receipts for Transfers to/from Other Agencies	101,445,890	(177,975,926)
Payments for Other Uses	(4,057,376)	(29,055,396)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>2,108,135,670</u>	<u>1,718,117,475</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Issuance of Capital Debt	1,235,255,403	1,272,641,136
Payments of Other Costs on Debt Issuance	(4,138,894)	(8,628,120)
Proceeds from Capital Appropriations, Grants and Gifts	156,672,097	138,664,059
Proceeds from Sale of Capital Assets	10,384,360	3,319,438
Payments for Additions to Capital Assets	(1,082,784,169)	(1,286,538,861)
Payments of Principal on Capital Related Debt	(693,462,322)	(739,414,019)
Payments of Interest on Capital Related Debt	(175,619,876)	(126,421,409)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(553,693,401)</u>	<u>(746,377,776)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Sales of Investments	30,139,391,473	17,889,983,449
Proceeds from Interest and Investment Income	804,035,851	730,633,425
Payments to Acquire Investments	(31,908,481,325)	(17,915,787,122)
Net Cash Provided (Used) by Investing Activities	<u>(965,054,001)</u>	<u>704,829,752</u>
<b>Net Increase (Decrease) in Cash</b>	(969,527,896)	283,192,206
Cash & Cash Equivalents - Beginning of the Year	2,742,490,444	2,459,298,238
<b>Cash &amp; Cash Equivalents - End of the Year (Note 2)</b>	<u>\$ 1,772,962,548</u>	<u>2,742,490,444</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to</b>		
<b>Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (2,200,264,607)	(2,020,623,800)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	557,751,455	477,825,099
Bad Debt Expense	232,505,361	187,253,969
Changes in Assets and Liabilities:		
Receivables	(264,601,096)	(286,074,332)
Inventories	2,820,350	(27,133,826)
Loans and Contracts	(3,669,466)	178,331
Other Assets	61,329,637	(5,071,225)
Payables	22,061,652	171,622,087
Deferred Income	(1,026,704)	89,729,778
Deposits Held for Others	9,769,923	9,380,830
Compensated Absence Liability	22,965,573	31,879,348
Other Liabilities	1,441,758	(22,343,504)
Total Adjustments	<u>641,348,443</u>	<u>627,246,555</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (1,558,916,164)</u>	<u>(1,393,377,245)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	703,193,671	1,338,188,213
Donated Capital Assets	34,917,862	14,632,252
Capital Assets Acquired Under Capital Lease Purchases	543,840	2,208,320
Miscellaneous Noncash Transactions	(15,043,345)	6,028,985

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, 2006**  
**(Audited)**

**1. The Financial Reporting Entity**

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

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

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

*Blended Component Units*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **2. Summary of Significant Accounting Policies**

### **BASIS OF ACCOUNTING**

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

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

### **CASH AND CASH EQUIVALENTS**

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

### **BALANCE IN STATE APPROPRIATIONS**

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

### **INVESTMENTS**

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

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

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

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

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

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

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

The audited financial statements of the funds managed by UTIMCO may be found on UTIMCO's website and inquiries may be directed to UTIMCO via [www.utimco.org](http://www.utimco.org).

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

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

#### CONTRIBUTIONS RECEIVABLE

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

#### INVENTORIES

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

#### RESTRICTED ASSETS

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

#### LOANS AND CONTRACTS

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

#### SECURITIES LENDING COLLATERAL AND OBLIGATIONS

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

### CAPITAL ASSETS

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

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

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

### OTHER ASSETS

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

### DEFERRED REVENUE

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

### ASSETS HELD FOR OTHERS – CURRENT AND NONCURRENT

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

### LIABILITY TO BENEFICIARIES

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

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

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

### REFUNDING AND DEFEASANCE OF DEBT

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

## NET ASSETS

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

### *Invested in Capital Assets, Net of Related Debt*

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

### *Restricted:*

#### *Nonexpendable*

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

#### *Expendable*

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

### *Unrestricted*

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

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

## REVENUES AND EXPENSES

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

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

## SCHOLARSHIP ALLOWANCES AND STUDENT AID

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

### STATEWIDE INTERFUND TRANSFERS

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

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

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

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

### CHARITY CARE

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

### NET PATIENT SERVICE REVENUE

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

#### *Medicare*

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

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

#### *Medicaid*

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

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

#### USE OF ESTIMATES

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

### **3. Deposits, Investments and Repurchase Agreements**

#### DEPOSITS OF CASH IN BANK

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

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

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

#### DEPOSIT RISKS

##### *Custodial Credit Risk*

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

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

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



## INVESTMENT RISKS

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

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

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

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

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The System's investment policies limit investments in U.S. Domestic bonds and non-dollar denominated bond investments to those that are rated investment grade, Baa3 or better by Moody's Investor Services, BBB- or better by Standard & Poor's Corporation, or BBB- or better by Fitch Investors Service at the time of acquisition. This requirement does not apply to investment managers that are authorized by the terms of an investment advisory agreement to invest in below

investment grade bonds. Per GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The following tables present each applicable investment type grouped by rating as of August 31, 2006 and 2005:

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

August 31, 2005

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

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

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

investments. As of August 31, 2006 and 2005, the System did not have any deposits or investments that are exposed to custodial credit risk.

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

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

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

- Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. As of August 31, 2006 and 2005, these securities amounted to \$172,275,247 and \$164,281,892, respectively.
- Mortgage backed securities which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. As of August 31, 2006 and 2005, these securities amounted to \$690,018,485 and \$252,654,331, respectively.
- Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. As of August 31, 2006 and 2005 these securities amounted to \$110,254,288 and \$32,282,621, respectively.
- Step-up notes that grant the issuer the option to call the note on certain specified dates. At each call date, should the issuer not call the note, the coupon rate of the note increases (steps up) by an amount specified at the inception of the note. The call feature embedded within a step-up note causes the fair value of the instrument to be considered highly sensitive to interest rate changes. As of August 31, 2006 and 2005, these securities amounted to \$5,920,091 and \$12,907,985, respectively.

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

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

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

### REPURCHASE AGREEMENTS

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

### SECURITIES LENDING

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

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

Cash collateral received by the lending agent on behalf of the System is invested and reinvested in a non-commingled pool exclusively for the benefit of the System. The pool is managed in accordance with investment guidelines established by the System and is stated in the security lending contract. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar weighted average

maturity of 60 days and an overnight liquidity of 20 percent. On August 31, 2006 and 2005, the System was collateralized 102 percent for securities on loan collateralized by cash. The System's collateral pool investments, rating by NRSRO, and weighted average maturity as of August 31, 2006 and 2005, are shown in the following table:

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

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

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

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

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

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

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

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



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

#### DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

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

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

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

	Number of Contracts	Premiums Received
Call Options Outstanding at August 31, 2005	2,266,225	\$ 7,718,819
Options Written	3,652,768	15,295,696
Options Expired	(771,465)	(8,598,325)
Options Exercised	(2,800)	(468,994)
Options Terminated in Closing Purchase Transactions	(38,628)	(1,193,438)
Call Options Outstanding at August 31, 2006	<u>5,106,100</u>	<u>\$ 12,753,758</u>
	Number of Contracts	Premiums Received
Put Options Outstanding at August 31, 2005	1,892,678	\$ 533,294
Options Written	5,176,054	21,127,493
Options Expired	(476,302)	(1,942,170)
Options Exercised	(365,518)	(890,244)
Options Terminated in Closing Purchase Transactions	(364,147)	(8,478,559)
Put Options Outstanding at August 31, 2006	<u>5,862,765</u>	<u>\$ 10,349,814</u>

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

	<u>Number of Contracts</u>	<u>Premiums Received</u>
Call Options Outstanding at August 31, 2004	75	\$ 40,735
Options Written	2,269,036	8,713,070
Options Expired	(2,811)	(994,251)
Options Exercised	(75)	(40,735)
Call Options Outstanding at August 31, 2005	<u>2,266,225</u>	<u>\$ 7,718,819</u>
	<u>Number of Contracts</u>	<u>Premiums Received</u>
Put Options Outstanding at August 31, 2004	-	\$ -
Options Written	2,148,969	2,269,780
Options Expired	(255,901)	(1,624,556)
Options Exercised	(390)	(111,930)
Put Options Outstanding at August 31, 2005	<u>1,892,678</u>	<u>\$ 533,294</u>

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

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

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

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

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



(Continued)

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

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

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

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

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

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

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

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

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

#### 4. Endowments

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

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

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

#### ENDOWMENTS AND SIMILAR FUNDS – STATE

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

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

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

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

The General Endowment Fund (GEF), created March 1, 2001, is a pooled fund established for the collective investment of long-term funds under the control and management of the UT System Board of Regents. The GEF is organized as a

mutual fund and has two participants, the PHF and the Long Term Fund (LTF). The PHF and LTF initially purchased units of the GEF on March 1, 2001, in exchange for the contribution of their investment assets. The GEF provides for greater diversification of investments than would be possible if each account were managed separately. As provided in the LTF investment policy, distributions from the LTF are determined in the same manner as the PHF described above.

#### ENDOWMENT AND SIMILAR FUNDS - OTHER THAN STATE

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

#### ANNUITY AND LIFE INCOME FUNDS

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

#### AVAILABLE UNIVERSITY FUND

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

## 5. Capital Assets

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

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

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

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

Reclassifications Interagency Transfers - In	Reclassifications Interagency Transfers - Out	Additions	Deletions	Balance 08/31/06
653,400	(653,400)	35,720,242	(1,725,054)	284,302,557
-	-	671,185,909	-	870,148,110
-	-	5,934,579	(172,022)	202,856,865
<u>653,400</u>	<u>(653,400)</u>	<u>712,840,730</u>	<u>(1,897,076)</u>	<u>1,357,307,532</u>
7,915,431	(7,791,600)	117,504,688	(3,323,882)	7,610,553,921
-	-	6,695,966	-	177,396,342
-	-	4,988,390	(285,514)	382,313,220
3,285,032	(744,782)	238,241,909	(142,769,875)	2,189,906,859
85,995	-	4,812,596	(2,263,364)	48,132,822
<u>2,962,749</u>	<u>(2,962,749)</u>	<u>37,934,800</u>	<u>(2,377,989)</u>	<u>525,965,130</u>
<u>14,249,207</u>	<u>(11,499,131)</u>	<u>410,178,349</u>	<u>(151,020,624)</u>	<u>10,934,268,294</u>
-	-	(274,722,622)	1,474,411	(2,723,455,699)
-	-	(8,650,254)	-	(93,204,725)
-	-	(14,564,282)	-	(152,478,082)
(2,442,455)	195,002	(230,964,021)	104,691,617	(1,354,526,238)
-	-	(3,754,440)	2,108,657	(35,696,434)
-	-	(23,965,766)	2,364,264	(353,996,345)
<u>(2,442,455)</u>	<u>195,002</u>	<u>(556,621,385)</u>	<u>110,638,949</u>	<u>(4,713,357,523)</u>
<u>11,806,752</u>	<u>(11,304,129)</u>	<u>(146,443,036)</u>	<u>(40,381,675)</u>	<u>6,220,910,771</u>
<u>12,460,152</u>	<u>(11,957,529)</u>	<u>566,397,694</u>	<u>(42,278,751)</u>	<u>7,578,218,303</u>
Reclassifications Interagency Transfers - In	Reclassifications Interagency Transfers - Out	Additions	Deletions	Balance 08/31/05
-	-	18,914,320	(778,454)	250,285,276
-	-	844,276,742	(3,750)	1,028,068,222
-	-	13,687,777	(6,668,796)	197,094,828
-	-	876,878,839	(7,451,000)	1,475,448,326
-	-	169,122,926	(17,560,270)	6,796,384,300
-	-	2,435,906	-	161,960,076
-	-	9,226,488	-	346,622,458
868,317	(1,168,721)	230,309,058	(82,769,393)	2,005,812,262
18,661	-	4,470,279	(2,384,424)	45,497,595
-	-	19,450,349	(4,904,452)	488,127,805
<u>886,978</u>	<u>(1,168,721)</u>	<u>435,015,006</u>	<u>(107,618,539)</u>	<u>9,844,404,496</u>
-	-	(221,559,151)	13,528,816	(2,449,293,537)
-	-	(4,868,891)	-	(84,554,471)
-	-	(12,096,323)	-	(137,913,800)
(489,433)	824,381	(207,866,882)	69,040,796	(1,226,191,359)
-	-	(3,392,997)	2,300,482	(33,991,599)
-	-	(27,052,960)	4,183,071	(333,182,868)
<u>(489,433)</u>	<u>824,381</u>	<u>(476,837,204)</u>	<u>89,053,165</u>	<u>(4,265,127,634)</u>
<u>397,545</u>	<u>(344,340)</u>	<u>(41,822,198)</u>	<u>(18,565,374)</u>	<u>5,579,276,862</u>
<u>397,545</u>	<u>(344,340)</u>	<u>835,056,641</u>	<u>(26,016,374)</u>	<u>7,054,725,188</u>

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

## **6. Risk Financing and Related Insurance**

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

### EMPLOYEE AND RETIREE INSURANCE BENEFITS

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 statutes pertinent to employee benefits for the System.

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

### UNEMPLOYMENT COMPENSATION INSURANCE

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.

### WORKERS' COMPENSATION INSURANCE

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

### PROFESSIONAL MEDICAL LIABILITY BENEFIT PLAN

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

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

### COMPREHENSIVE PROPERTY PROTECTION PROGRAM

The property protection plan consists of two programs. The first provides coverage for physical damage resulting from Named Windstorms and catastrophic flood losses up to \$50 million. Insurance policies providing underlying limits

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

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

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

#### DIRECTORS AND OFFICERS/EMPLOYMENT PRACTICES LIABILITY SELF-INSURANCE PLAN

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

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

#### ROLLING OWNER CONTROLLED INSURANCE PROGRAM

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

#### INCURRED BUT NOT REPORTED SELF-INSURANCE CLAIMS

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

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

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



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

## 7. Postemployment Health Care and Life Insurance Benefits

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

## 8. Summary of Long-Term Liabilities

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

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

Notes and Loans Payable:

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

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

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

Notes and Loans Payable:

Permanent University Fund					
Flexible Rate Notes, Series A	-	125,000,000	125,000,000	-	-
Revenue Financing System					
Commercial Paper Notes, Series A	634,966,000	287,118,000	391,362,000	530,722,000	530,722,000
Taxable Commercial Paper Notes, Series B	-	10,342,000	-	10,342,000	10,342,000
Other Notes and Loans	<u>31,987,816</u>	<u>1,878,282</u>	<u>4,916,811</u>	<u>28,949,287</u>	<u>2,910,580</u>
Total Notes and Loans Payable	<u>666,953,816</u>	<u>424,338,282</u>	<u>521,278,811</u>	<u>570,013,287</u>	<u>543,974,580</u>

Leases Payable:

Lease Obligations	<u>1,376,943</u>	<u>2,432,180</u>	<u>855,208</u>	<u>2,953,915</u>	<u>980,226</u>
Total Notes, Loans and Leases Payable	<u>668,330,759</u>	<u>426,770,462</u>	<u>522,134,019</u>	<u>572,967,202</u>	<u>544,954,806</u>
Employee Compensable Leave	<u>305,179,689</u>	<u>112,313,587</u>	<u>80,434,239</u>	<u>337,059,037</u>	<u>186,174,856</u>
Total Bonds, Notes, Loans, Leases, and Compensable Leave Payable	<u>\$ 3,529,127,107</u>	<u>1,385,790,837</u>	<u>830,505,353</u>	<u>4,084,412,591</u>	<u>886,799,662</u>

The consolidated balance sheets at August 31, 2006 and 2005, do not include \$666,289,000 and \$902,013,000, respectively, of revenue bonds payable, which were fully defeased in prior fiscal years. Direct obligations of the United States of America, including obligations unconditionally guaranteed by the United States of America, in amounts, maturities, and bearing interest at rates sufficient to provide funds to pay in full principal, redemption premium, if any, and interest to maturity or redemption on the defeased bonds, are being held by escrow agents.

PROJECTED BOND DEBT SERVICE REQUIREMENTS

Bond obligations are due in annual installments varying from \$329,996,928 in fiscal year 2007 to \$9,003,750 in fiscal year 2037. The requirements in fiscal year 2007 reflect the Revenue Financing System Refunding Bonds, Series 2001A, which are variable rate demand bonds. Annual debt service requirements for such variable rate bonds are reflected at the System's effective borrowing rate at August 31, 2006, of 3.43 percent on a principal amount of \$28,365,000 with an option to tender on seven days notice. The interest rates on fixed rate bonds range from 2.00 percent to 6.00 percent, with the final installment due in 2037. The principal and interest expense for the next five years and beyond are projected below for bonds issued and outstanding:

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

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

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

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

#### COMPENSATED ABSENCES

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

## 9. Bonded Indebtedness

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

<b>Bond Series</b>	<b>Purpose</b>	<b>Issue Date</b>	<b>Amount Authorized</b>
Permanent University Fund:			
Bonds Series 1997	To refund \$78,000,000 principal amount of Permanent University Fund Variable Rate Notes, Series A, and to provide new money	January 6, 1998	130,000,000
Refunding Bonds Series 2002A	To refund \$108,515,000 principal amount of Permanent University Fund Refunding Bonds, Series 1992A, maturing on July 1 in the years 2003 through 2007, both inclusive, and in the years 2009 and 2013	April 2, 2002	115,000,000
Bonds Series 2002B	To refund \$191,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A	April 2, 2002	205,000,000
Refunding Bonds Series 2004A	To refund \$61,495,000 principal amount of Permanent University Fund Bonds, Series 1997, maturing on July 1 in the years 2009 through 2016, both inclusive	April 6, 2004	500,000,000 <sup>1</sup>
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 <sup>1</sup>
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 <sup>2</sup>
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 <sup>2</sup>
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 <sup>3</sup>
Revenue Financing System:			
Bonds Series 1995A	To refund \$34,833,000 of Revenue Financing System Commercial Paper Notes, to refund \$4,525,000 of UT Pan American Tuition Revenue Refunding Bonds, Series 1986 and to provide new money of \$35,167,000	July 12, 1995	232,000,000
Bonds Series 1998A	To refund \$10,455,000 principal of Revenue Financing System Commercial Paper Notes, Series A issued pursuant to Section 55.1714 of the Texas Education Code	February 11, 1998	11,500,000
Bonds Series 1998B	To refund \$109,504,000 principal of Revenue Financing System Commercial Paper Notes, Series A and to pay the cost of issuance	February 11, 1998	115,500,000
Bonds Series 1998C	To refund \$22,441,000 principal of Revenue Financing System Commercial Paper Notes, Series A issued pursuant to Sections 55.1714 and 55.1722 of the Texas Education Code, provide new money of \$21,584,000 and pay the cost of issuance	October 15, 1998	46,680,000
Bonds Series 1998D	To refund \$91,163,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$10,549,000 and pay the cost of issuance	October 15, 1998	111,820,000
Bonds Series 1999A	To refund \$32,723,000 principal of Revenue Financing System Commercial Paper Notes, Series A issued pursuant to Sections 55.1714 and 55.1722 of the Texas Education Code, provide new money of \$70,027,000 and pay the cost of issuance	September 21, 1999	102,750,000

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



(Continued)

<u>Bond Series</u>	<u>Purpose</u>	<u>Issue Date</u>	<u>Amount Authorized</u>
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 <sup>4</sup>
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 <sup>4</sup>
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 <sup>5</sup>
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 <sup>5</sup>
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 <sup>6</sup>
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 <sup>6</sup>
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 <sup>7</sup>
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 <sup>7</sup>
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 <sup>8</sup>
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 <sup>8</sup>
Bond Series 2006A	To refund \$24,485,000 principal amount of Revenue Financing System Bonds, Series 1996A, and pay the cost of issuance	May 17, 2006	600,000,000 <sup>9</sup>
Bond Series 2006B	To refund \$413,161,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$147,764,140 and pay the cost of issuance	May 10, 2006	579,685,000 <sup>9</sup>



<sup>1</sup>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.

<sup>2</sup>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.

<sup>3</sup>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.

<sup>4</sup>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.

<sup>5</sup>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.

<sup>6</sup>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.

<sup>7</sup>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.

<sup>8</sup>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.

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

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

- Permanent University Fund Refunding Bonds, Series 1996
  - Purpose: To refund \$246,185,000 principal amount of Permanent University Fund Refunding Bonds, Series 1988, 1991 and 1992B, maturing on July 1 in the years 1999 - 2013.
  - Issue Date: March 7, 1996
  - Authorized: \$280,000,000 Issued: \$263,945,000
  - Interest Rates: 4.00–6.00% Maturity Dates: 1996 – 2013
  - Source of Revenue for Debt Service: Available University Fund
- Revenue Financing System Bonds, Series 1996A
  - Purpose: To provide new money.
  - Issue Date: February 29, 1996
  - Authorized: \$78,125,000 Issued: \$72,600,000
  - Interest Rates: 4.70–6.00% Maturity Dates: 1997 – 2016
  - Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

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

#### DEMAND BONDS

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

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

#### EARLY EXTINGUISHMENTS IN FISCAL YEAR 2006

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

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

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

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

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

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

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

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

#### EARLY EXTINGUISHMENTS IN FISCAL YEAR 2005

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

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

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

- Net proceeds from the refunding series (including a premium of \$8,292,607) were \$108,251,928 – after the payment of \$385,679 in underwriting fees. The net proceeds were used to pay cost of issuance of \$103,248 and purchase \$108,148,679 of eligible defeasance securities. These securities were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded bonds.

- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- The advance refunding resulted in gross debt service savings through 2019 of \$14,572,017.
- An accounting loss of \$1,372,206 resulted from the transaction as the reacquisition price of \$108,148,679 exceeded the net carrying amount of \$106,776,476.
- An economic gain from the transaction resulted in a net present value savings of \$6,431,715 between the old and new debt service payments.

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

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

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

#### SWAP AGREEMENTS

Forward Floating-to-Fixed Interest Rate Swaps:

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

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

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

*Basis and Termination Risk:* The Swap Agreements expose the UT System Board of Regents to basis risk as the variable rate received under the Swap Agreements does not perfectly match the variable rate paid on the Series 2001A Bonds. Each Swap Agreement may be terminated if the respective counterparty does not maintain a credit rating of at

least Aa3 by Moody's Investors Service ("Moody's") or AA- by Standard & Poor's Corporation ("S&P"). As of August 31, 2006, the swap providers' respective ratings by Moody's/S&P are as follows: J.P. Morgan Chase Bank, Aa2/AA- and Goldman Sachs Mitsui Marine Derivative Products, L.P., Aaa/AAA. As of August 31, 2005, the swap providers' respective ratings by Moody's/S&P are as follows: J.P. Morgan Chase Bank, Aa2/AA- and Goldman Sachs Mitsui Marine Derivative Products, L.P., Aaa/AA+. The Swap Agreements may also be terminated by Morgan or Goldman, respectively, if the UT System Board of Regents does not maintain a credit rating of at least Aa3 by Moody's or AA- by S&P.

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

<sup>1</sup>Reflects planned amortization of RFS Bonds, Series 2001A to be optionally redeemed in the fiscal years reflected.

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

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

#### Basis Swaps:

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

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

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

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

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

<sup>1</sup>Reflects scheduled principal and interest payments of RFS Bonds, Series 2006B.

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

## 10. Note Indebtedness

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

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



- Note or loan payable issue name: Revenue Financing System (RFS) Commercial Paper Notes, Series A  
 Purpose: To provide new money  
 Issue Date: September 1, 2005 through August 31, 2006  
 Authorized Amount: Aggregate principal amount not to exceed \$750 million  
 Source of revenue for debt service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.  
 Terms: Interest payable in periodic installments not to exceed 270 days at a variable rate
- Note or loan payable issue name: Revenue Financing System (RFS) Taxable Commercial Paper Notes, Series B  
 Purpose: To provide new money  
 Issue Date: September 1, 2005 through August 31, 2006  
 Authorized Amount: Aggregate principal amount not to exceed \$50 million  
 Source of revenue for debt service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.  
 Terms: Interest payable in periodic installments not to exceed 270 days at a variable rate

Other Notes Payable includes:

- Note or loan payable issue name: University Hospital  
 Purpose: Reimburse University Hospital for clinical practice expenses under terms of a mediator-negotiated contractual settlement  
 Institution: UT Health Science Center at San Antonio  
 Issue Date: April 1, 2001  
 Authorized Amount: \$2,862,717  
 Source of revenue for debt service: Patient service revenue from MSRDP Designated funds collected by University Physicians Group  
 Terms: January 1, 2002 through January 1, 2009. Interest is computed at five percent (5%) annually.
- Note or loan payable issue name: Frost Bank  
 Purpose: Remodel/renovation-UPG Administrative Service Building  
 Institution: UT Health Science Center at San Antonio  
 Issue Date: January 31, 2004  
 Authorized Amount: \$1,334,799  
 Source of revenue for debt service: Patient service revenue from MSRDP Designated funds collected by University Physicians Group  
 Terms: January 31, 2004 through November 7, 2008
- Note or loan payable issue name: LaSalle National Bank  
 Purpose: To purchase Oracle software site license  
 Institution: UT El Paso  
 Issue Date: September 1, 2002  
 Authorized Amount: \$580,641  
 Source of revenue for debt service: Designated funds  
 Terms: September 1, 2002 through September 1, 2006
- Note or loan payable issue name: Charitable Remainder Trust  
 Purpose: Fine Arts Foundation (a blended component unit) purchase of the Suida Manning Art Collection  
 Component Unit: UT Austin's Blended Component Unit  
 Issue Date: January 4, 1999  
 Authorized Amount: \$12,000,000  
 Source of revenue for debt service: Gift  
 Terms: January 4, 1999 through April 17, 2016

- Note or loan payable issue name: Charitable Lead Trust  
 Purpose: Fine Arts Foundation (a blended component unit) purchase of the Suida Manning Art Collection  
 Component Unit: UT Austin's Blended Component Unit  
 Issue Date: January 4, 1999  
 Authorized Amount: \$10,713,200  
 Source of revenue for debt service: Gift  
 Terms: January 4, 1999 through April 17, 2016
- Note or loan payable issue name: Memorial Hermann Hospital System  
 Purpose: Reimburse Memorial Hermann Hospital System for equipment purchased and operating funds advanced in association with the transfer of clinics from Memorial Hermann Hospital System to UT Physicians  
 Component Unit: UT Health Science Center at Houston's Blended Component Unit  
 Issue Date: July 10, 2000  
 Authorized Amount: \$7,000,000  
 Source of revenue for debt service: Debt and interest to be forgiven upon attainment of specified performance goals.  
 Terms: July 2000 through June 2012
- Note or loan payable issue name: Premier Purchasing Partners L.P.  
 Purpose: To purchase an ownership stake in this limited partnership  
 Institution: UT Southwestern Medical Center at Dallas  
 Issue Date: September 1, 2005  
 Authorized Amount: \$369,190  
 Source of revenue for debt service: Rebates earned  
 Terms: Payment time as well as payment amount is dependent on calculation of rebates which is based on the purchasing volume of the medical center.

General information related to notes and loans payable retired in 2006 is summarized as follows:

- Note or loan payable issue name: J. P. Morgan Leasing, Inc.  
 Purpose: To purchase the PET/CT Discovery ST  
 Component Unit: UT Southwestern Medical Center at Dallas' Blended Component Unit  
 Issue Date: August 22, 2003  
 Authorized Amount: \$2,200,000  
 Source of revenue for debt service: Operations  
 Terms: September 22, 2003 through August 22, 2008

## 11. Capital Leases

Certain leases to finance the purchase of property are capitalized at the present value of future minimum lease payments. The original capitalized cost of all such property under capital lease as of August 31, 2006 and 2005, is as follows:

<u>Assets Under Capital Lease</u>	<u>2006</u>	<u>2005</u>
Furniture and Equipment	\$ 418,094	1,786,623
Less: Accumulated Depreciation	(86,673)	(553,866)
Museums and Art Collections	4,152,652	3,984,375
Total	<u>\$ 4,484,073</u>	<u>5,217,132</u>

Capital lease obligations are due in annual installments through 2011. The following is a schedule of the future minimum lease payments for leased property and the present value of the net minimum lease payments at August 31, 2006.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 594,795	140,953	735,748
2008	543,147	85,781	628,928
2009	490,940	58,348	549,288
2010	453,063	34,885	487,948
2011	385,000	15,000	400,000
Total Minimum Lease Payments	<u>2,466,945</u>	<u>334,967</u>	2,801,912
		Less: Interest	<u>(334,967)</u>
	Present Value of Net Minimum Lease Payments		<u>2,466,945</u>

## 12. Short-Term Debt

The System had RFS Commercial Paper Notes, Series A, and RFS Taxable Commercial Paper Notes, Series B outstanding at August 31, 2006 and 2005. In addition, the System had PUF Flexible Rate Notes, Series A outstanding at August 31, 2006 only. The notes are issued to provide interim financing for capital improvements and to finance equipment purchases. While the interest is payable on these notes in periodic installments not to exceed 270 days, they are generally intended to be refinanced with long-term debt. Information pertaining to the balances and activity of these notes is reflected in Note 8.

### 13. Net Assets (As Restated – See Note 28)

The System's net assets at August 31, 2006 and 2005, were comprised of the following:

	<u>2006</u>	<u>2005</u>
Invested in capital assets, net of related debt	\$ 3,807,124,215	3,610,694,832
Restricted		
Nonexpendable (as restated, see Note 28)	9,159,639,763	8,596,201,375
Expendable (as restated, see Note 28)	<u>9,355,977,383</u>	<u>8,411,059,655</u>
Total restricted	<u>18,515,617,146</u>	<u>17,007,261,030</u>
Unrestricted net assets:		
Unrestricted		
Reserved		
Encumbrances	234,596,154	229,475,394
Accounts receivable (less deferred revenue portion)	642,620,188	436,287,812
Inventories	72,929,165	64,152,450
Self-insurance plans	229,914,222	208,798,054
Higher Education Assistance Fund (HEAF)	3,827,277	2,932,702
Other specific purposes:		
Advanced Research/Advanced Technology Programs	5,571,876	5,196,261
Deposits	3,895,754	3,923,382
Prepaid expenses	66,109,328	64,503,689
Deferred charges	4,947,100	13,135,148
Imprest funds	1,174,393	1,198,918
Travel advances	179,200	179,388
Unreserved		
Allocated		
Funds functioning as endowment-unrestricted	178,593,695	166,846,257
Provision for 2007 & 2006 operating budgets	66,008,898	87,761,181
Capital projects	158,048,157	235,489,576
Debt service	69,239,565	71,000,047
Start-up/matching	36,148,291	30,299,492
Utilities reserve	15,552,795	27,083,088
Research enhancement and support	70,613,761	38,497,079
Market adjustments	6,743,994	907,624
Student fees	60,873,883	45,569,158
Texas Tomorrow Fund shortfall	7,913,053	5,781,603
Instructional program support	74,633,620	54,547,422
Dean and chair recruitment packages	19,245,731	13,186,182
Self-supporting enterprises	82,917,753	71,672,628
Patient care support	84,852,844	88,389,843
Practice plan minimum operating reserve of 90 days	172,493,247	226,056,173
Unallocated	<u>82,984,837</u>	<u>54,099,848</u>
Total unrestricted	<u>2,452,628,781</u>	<u>2,246,970,399</u>
Total net assets	<u>\$ 24,775,370,142</u>	<u>22,864,926,261</u>

As of August 31, 2006 and 2005, restricted nonexpendable net assets include \$5,889,253,513 and \$5,455,915,288, respectively, of the Permanent University Fund corpus, and \$819,999,983 and \$820,000,391, respectively, of the Permanent Health Fund corpus. These funds are restricted by enabling legislation. As of August 31, 2006 and 2005, restricted expendable net assets include \$5,748,416,503 and \$5,196,675,609, respectively, of the Permanent University Fund appreciation, and \$167,028,260 and \$105,897,260, respectively, of the Permanent Health Fund appreciation. These funds are also restricted by enabling legislation.

Unrestricted net assets, detailed in the table above, are not subject to externally imposed stipulations. Unrestricted net assets may be designated for special purposes by actions of the Texas Legislature, internal management, and the UT System Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic programs, patient care, research programs and initiatives, and capital programs.

#### 14. Matrix of Operating Expenses Reported by Function

For the year ended August 31, 2006, the following table represents operating expenses for both natural and functional classifications for the System:

Operating Expenses	Instruction	Research	Hospitals and Clinics	Public Service	Academic Support
Cost of Goods Sold	\$ 20,308,503	228	59,888,534	225,673	-
Salaries and Wages	1,505,162,710	794,893,142	1,174,337,122	119,517,650	196,558,547
Payroll Related Costs	373,348,307	178,971,174	307,340,484	26,721,895	45,348,900
Professional Fees and Services	32,986,882	60,370,983	123,239,645	12,143,242	15,920,833
Scholarships and Fellowships	10,848,720	17,753,485	151,403	1,957,099	1,350,704
Travel	27,102,879	31,932,738	7,376,454	3,903,081	6,219,216
Materials and Supplies	92,699,684	156,340,113	505,702,922	20,438,880	35,958,422
Utilities	1,484,824	1,049,661	5,896,464	859,203	104,413
Communications	18,528,402	7,249,978	12,571,167	1,782,717	11,506,805
Repairs and Maintenance	8,091,298	10,865,343	42,535,661	811,388	4,943,184
Rentals and Leases	14,919,227	6,695,692	20,756,228	3,592,087	3,927,077
Printing and Reproduction	6,330,925	3,541,526	1,112,735	3,561,163	2,893,669
Depreciation and Amortization	-	-	-	-	-
Bad Debt Expense	183,809	15,605	38,823	4,185	15,901
Claims and Losses	-	-	16,821	-	-
Other Operating Expenses	142,864,849	159,013,470	251,937,497	26,716,385	28,793,251
Federal Sponsored Program Pass-through Expense	2,247,646	6,538,073	-	1,138,711	-
State Sponsored Program Pass-through Expense	-	54,385	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 2,257,108,665</b>	<b>1,435,285,596</b>	<b>2,512,901,960</b>	<b>223,373,359</b>	<b>353,540,922</b>

<u>Student Services</u>	<u>Institutional Support</u>	<u>Operations and Maintenance of Plant</u>	<u>Scholarships and Fellowships</u>	<u>Auxiliary Enterprises</u>	<u>Depreciation and Amortization</u>	<u>Total Expenses</u>
71,985	628,147	225	-	19,069,465	-	100,192,760
84,267,322	488,317,711	142,784,600	24,288,960	126,820,591	-	4,656,948,355
19,461,696	121,627,096	34,905,827	3,475,896	29,142,147	-	1,140,343,422
2,035,636	52,479,261	17,648,700	387,089	16,667,710	-	333,879,981
3,188,134	643,847	200	188,343,957	5,893,585	-	230,131,134
2,493,189	12,093,092	938,416	623,466	14,467,925	-	107,150,456
10,215,419	38,189,818	52,325,920	824,976	32,041,701	-	944,737,855
641,185	(14,379,541)	226,562,482	(14)	29,197,888	-	251,416,565
1,562,029	(2,466,546)	1,532,741	(215,141)	4,036,854	-	56,089,006
2,812,357	14,537,963	64,942,234	34,219	11,678,763	-	161,252,410
3,387,347	16,952,846	19,781,812	58,657	5,959,113	-	96,030,086
2,600,349	(3,749,353)	156,768	74,049	4,947,556	-	21,469,387
-	-	-	-	-	557,751,455	557,751,455
2,800,937	59,318	-	(7,077)	4,350	-	3,115,851
-	20,845,186	-	-	-	-	20,862,007
10,515,489	(122,063,758)	(24,164,794)	5,004,102	51,737,769	-	530,354,260
-	-	-	191,960	-	-	10,116,390
-	-	-	-	-	-	54,385
<u>146,053,074</u>	<u>623,715,087</u>	<u>537,415,131</u>	<u>223,085,099</u>	<u>351,665,417</u>	<u>557,751,455</u>	<u>9,221,895,765</u>

For the year ended August 31, 2005, the following table represents operating expenses for both natural and functional classifications for the System:

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

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



## 15. Commitments and Contingent Liabilities

On August 31, 2006, various lawsuits and claims involving the System were pending. After conferring with legal counsel concerning pending litigation and claims, the System's management believes that the outcome of pending litigation should not have a material adverse effect on the financial statements of the System.

The System continues to implement its \$6.4 billion capital improvement program, planned for fiscal years 2006 through 2011, to upgrade facilities. Contracts have been entered into for the construction and renovation of various facilities. These projects are in various stages of completion.

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

The System has invested in certain private market investment funds. These agreements commit the System to future capital contributions amounting to \$1,652,553,433 as of August 31, 2006 and \$1,138,399,396 as of August 31, 2005.

## 16. Operating Lease Obligations

The System has entered into various operating leases for buildings, equipment and land. Rental expenses for operating leases were \$61,192,684 in 2006 and \$62,590,794 in 2005. Future minimum lease rental payments under noncancelable operating leases having an initial term in excess of one year as of August 31, 2006, were as follows:

Fiscal Year	Lease Payments
2007	\$ 44,813,176
2008	35,894,391
2009	29,055,890
2010	23,648,409
2011	16,120,147
2012 – 2016	13,242,361
2017 – 2021	1,722,133
2022 – 2026	1,523,340
2027 – 2031	1,434,840
Total Minimum Future Payments	\$ <u>167,454,687</u>

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, 2006 and 2005 were as follows:

Assets Leased	2006	2005
Buildings:		
Cost	\$ 73,120,057	73,163,436
Less: Accumulated Depreciation	<u>(16,258,144)</u>	<u>(13,611,541)</u>
Carrying Value of Buildings	56,861,913	59,551,895
Land	<u>2,902,826</u>	<u>2,900,073</u>
Total Carrying Value	\$ <u>59,764,739</u>	<u>62,451,968</u>

Minimum future lease rental income under noncancelable operating leases as of August 31, 2006, was as follows:

<u>Fiscal Year</u>	<u>Lease Income</u>
2007	\$ 18,819,237
2008	16,176,745
2009	13,964,059
2010	11,660,590
2011	14,111,090
Total	\$ <u>74,731,721</u>

## 17. Employees' Retirement Plans

### TEACHER RETIREMENT SYSTEM (TRS)

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

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

TRS contribution rates for both employers and employees are not actuarially determined but are legally established by the State Legislature. Contributions by employees are 6.4 percent of gross earnings. Depending upon the source of funding for the employee's compensation, the State or the System contributes a percentage of participant salaries totaling 6 percent of annual compensation. The System's contributions to TRS for the years ended August 31, 2006, 2005 and 2004, were \$117,951,564, \$104,801,254 and \$95,929,434, respectively, which equaled the amounts of the required contributions for those years.

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

### OPTIONAL RETIREMENT PROGRAM (ORP)

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

### EMPLOYEES RETIREMENT SYSTEM (ERS)

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

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

The funding policy requires monthly contributions by both the State and employees. For the biennium beginning September 1, 2005, the required contribution for both the State and employees is 6 percent of pay.

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

#### THE UNIVERSITY OF TEXAS SYSTEM GOVERNMENTAL RETIREMENT ARRANGEMENT (UTGRA)

The University of Texas System Governmental Retirement Arrangement (UTGRA) is a defined contribution pension plan established by the System to provide certain participants in the ORP that portion of their benefits that would otherwise be payable under the ORP except for the \$44,000 limit on contributions imposed by Section 415 of the Internal Revenue Code (IRC). At August 31, 2006 and 2005, there were 643 and 658 plan members, respectively. Persons employed by the System prior to September 1, 1996 whose compensation exceeds the limit set by IRC Section 401(a)(17) and whose ORP contribution is limited by the \$44,000 cap under IRC Section 415(c), defer 6.65 percent of their excess compensation while the System contributes between 6 percent and 8.5 percent depending upon the institution and the date of employment. The System contributed \$3,873,180 for the year ended August 31, 2006 and \$3,571,070 for the year ended August 31, 2005. Plan provisions are established and may be amended at any time by the UT System Board of Regents.

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

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

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

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

## **18. Deferred Compensation**

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

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

In addition, some employees contribute to a deferred compensation plan administered by the State, through ERS. The State's 457 plan complies with the IRC Section 457. This State plan is referred to as the Texa\$aver Deferred Compensation Plan and is only available to employees who were contributing prior to the establishment of the UTSaver DCP. Deductions, purchased investments and earnings attributed to the 457 plan are the property of the State subject only to the claims of the State's general creditors. Participants' rights under the plan are equal to those of the general creditors of the State in an amount equal to the fair value of the 457 account for each participant. The State has no liability under the 457 plan and it is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.

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

## 19. Subsequent Events

UT Medical Branch at Galveston implemented a reduction in force starting September 9, 2006. There will be no special severance package provided to the terminated employees.

On November 30, 2006, the System entered into bond purchase agreements to issue \$896,465,000 of RFS Bonds, Series 2006C-F to refund certain outstanding RFS bonds and to refinance a portion of the outstanding RFS Commercial Paper Notes, Series A. The Series 2006C-F Bonds are expected to close on January 4, 2007.

## 20. Related Parties

Through the normal course of operations, the System both receives funds from and provides funds to other State agencies in support of sponsored research programs. Funds received and provided during the year ended August 31, 2006, related to pass-through grants were \$172,753,523 and \$10,170,775, respectively. Funds received and provided during the year ended August 31, 2005, related to pass-through grants were \$162,687,654 and \$7,019,795, respectively.

Other related-party transactions identified in the financial statements include Due From/To Other State Agencies, State Appropriations, Capital Appropriations and Transfers From/To Other State Agencies.

## 21. Stewardship, Compliance and Accountability

The System had no significant violations of bond or note covenants. Per State law, the System cannot spend amounts in excess of appropriations granted by the Texas Legislature. There are no deficits reported in net assets.

## 22. Disaggregation of Other Receivable Balances

Net other receivables at August 31, 2006 and 2005 are detailed by type as follows:

<u>Net Other Receivables</u>	<u>2006</u>	<u>2005</u>
Receivables related to investments	\$ 62,560,206	55,839,413
Receivables related to healthcare	51,402,349	46,498,278
Receivables related to gifts, grants and sponsored programs	41,382,113	42,873,217
Receivables related to external parties/other companies	11,401,427	14,803,817
Receivables related to auxiliary enterprises	8,004,617	8,335,941
Receivables related to facilities/construction projects	2,213,121	7,247,733
Receivables related to payroll	5,825,098	4,398,123
Receivables related to patents	3,937,023	3,351,230
Receivables related to hospital acquisition	-	2,903,564
Receivables related to travel	891,569	1,221,747
Receivables related to loan funds and financial aid	1,659,301	1,008,560
Receivables related to agency funds	2,329,910	869,159
Receivables related to other various activities	6,827,681	11,619,996
Total	\$ <u>198,434,415</u>	<u>200,970,778</u>

## 23. Funds Held in Trust by Others

The balances, or transactions, of funds held in trust by others on behalf of the System, including Charitable Lead Trusts, are not reflected in the financial statements. As of August 31, 2006 and 2005, there were 935 and 886 such funds for the benefit of the System, respectively. Based upon the most recent available information, the assets of these funds are reported by the trustees at values totaling \$1,242,362,111 at August 31, 2006 and \$1,118,445,340 at August 31, 2005.

## 24. Joint Ventures

UT Southwestern Medical Center at Dallas (UTSWMC) is a participating member of DaVita. DaVita is a joint venture entered into by UTSWMC and GAMBRO to provide a combined initiative to provide care for dialysis patients. UTSWMC's equity interest in DaVita at August 31, 2006 and 2005 was \$4,141,979 and \$968,416, respectively, or 49%. Separate financial statements for DaVita may be obtained at DaVita Inc., 601 Hawaii Street, El Segundo, California 90245 or [www.davita.com](http://www.davita.com).

UT Health Science Center at Houston's blended component unit, UT Physicians, is a participating member of Physician's Dialysis of Houston. Physician's Dialysis of Houston is a joint venture entered into by UT Physicians and DaVita, Inc. UT Physician's equity interest in Physician's Dialysis of Houston at August 31, 2006 and 2005 was \$432,176 and \$41,732, respectively, or 60%. Separate financial statements for Physician's Dialysis of Houston may be obtained at Physician's Dialysis of Houston, Attention: Marie Sinfield, 1423 Pacific Avenue, Tacoma, Washington 98402.

UT Health Science Center at Houston's blended component unit, UT Physicians, is a participating member of UT Imaging. UT Imaging is a Limited Liability Partnership entered into by UT Physicians, Outpatient Imaging Affiliates, LLC, and Memorial Hermann Hospital System. UT Physician's equity interest in UT Imaging at August 31, 2006 and 2005 was \$102,629 and \$667,000, respectively, or 56.7% and 66.7%. Separate financial statements for UT Imaging may be obtained at Outpatient Imaging Affiliates, LLC, Attention: Laura Cottingham, 840 Crescent Center Drive, Suite 200, Franklin, Tennessee 37067.

UTMDA is a participating member of the Texas Medical Center Hospital Laundry Cooperative Association (the Association). The Association was established on April 30, 1971, for the purpose of acquiring, owning, and operating a laundry system on a cooperative basis solely for the benefit of members of the Association. Net earnings of the Association may be refunded to the members on a patronage basis or retained by the Association as equity allocated to the members. UTMDA's equity interest in the Association at August 31, 2006 and 2005 was \$477,423 and \$770,000, respectively, or 40%. Separate financial statements for the Association may be obtained at 1601 Braeswood Boulevard, Houston, Texas 77030.

UTMDA is a participating member of the Texas Medical Center Central Heating and Cooling Services Cooperative Association (TECO). TECO was incorporated on October 2, 1975, for the purpose of operating a central heating and cooling services facility on a cooperative basis solely for the benefit of eligible institutions. On June 1, 2003, TECO transferred substantially all of its assets and operations to TECO Corporation and TECO Corporation assumed the liabilities and obligations of TECO. TECO still renders services to member and non-member patrons at cost. Savings or margins are refunded to the member and non-member patrons on a patronage basis in the form of cash or equity by TECO. UTMDA's equity interest in TECO at August 31, 2006 and 2005 was \$16,271,110 and \$10,163,000, respectively, or 39%. Separate financial statements for TECO may be obtained at Thermal Energy Corporation 1615 Braeswood Boulevard, Houston, Texas 77030.

UTMDA is a participating member of P.E.T. Net Houston, LLC (PETNet). PETNet is a joint venture entered into by UTMDA and P.E.T. Pharmaceuticals, Inc. to lease and operate a facility located on UTMDA's campus to produce positron radiopharmaceuticals and isotopes. Construction of the facility commenced in 2003. UTMDA's equity interest in PETNet at August 31, 2006 and 2005 was \$2,556,398 and \$1,687,000, respectively, or 49%. Separate financial statements for PETNet may be obtained at Siemens Medical Solutions USA, Inc., 51 Valley Stream Parkway, Malvern, Pennsylvania 19355.

UTMDA entered into a limited partnership agreement on December 19, 2002 with PTC-Houston Management, L.P. and PTC-Houston Investors, LLC to create The Proton Therapy Center-Houston LTD., L.L.P. (PTC Partnership). PTC Partnership was established to develop and operate a proton therapy facility, which will provide cancer treatment to patients utilizing proton therapy technology. Under the Staffing and Operations Agreement between UTMDA and PTC Partnership, UTMDA shall be the exclusive supplier of all technical and operational services to support PTC Partnership operations, and for which, UTMDA will be reimbursed on a monthly basis. Under a separate agreement, the Professional Services Agreement, UTMDA shall provide services of physicians, medical physicists and medical dosimetrists to PTC Partnership, for which, UTMDA shall bill patients and retain all professional fees associated with such services. The initial capital contribution of UTMDA will be determined by the general partner in order to fund the obtaining of licenses for intellectual property deemed necessary to operate the facility, and costs directly related thereto, unless otherwise agreed to in writing by UTMDA. As of August 31, 2006, the general partner had not required UTMDA to make any payments related to the initial capital contribution. However, at the time the contract was

executed, the value of the intellectual property was estimated to be \$3,000,000, which equates to an approximate 8.95% interest. The investment has not been recorded on the balance sheet of the UTMDA.

UTMDA entered into a limited liability company agreement on December 19, 2002 to form PTC-Houston Investors, L.L.C (Investors). Investors was established to invest in and be a limited partner in the PTC Partnership. Investors entered into a ground lease with UTMDA on December 19, 2002 to lease approximately four acres on UTMDA's property for an initial term of sixty years. UTMDA's initial capital contribution of \$2,500,000 to Investors was provided through the ground lease. UTMDA's equity interest in Investors at August 31, 2006 and 2005 was \$2,500,000 or approximately 8.2%. Separate financial statements for PTC may be obtained at 1840 Old Spanish Trail, Houston, Texas 77030.

UTMDA entered into a limited partnership agreement on January 10, 1990, with Premier Purchasing Partners, L.P. (Premier). The principal business of Premier is to operate and manage healthcare-related programs and investments for the benefit of its partners including UTMDA and to otherwise assist the partners in providing superior healthcare services in their communities. Premier negotiates and executes reduced cost purchase contracts between its partners and vendors of healthcare products and services by leveraging the aggregated demand of its partners and to operate group purchasing and other programs to increase both individual participant and aggregate purchasing volumes. As of August 31, 2006 and 2005, UTMDA's investment in Premier was \$3,913,260 and \$2,534,000, respectively, or 1.41%. Separate financial statements for Premier may be obtained at Premier, Inc., 12225 El Camino Real, San Diego, California 92130 or [www.premierinc.com](http://www.premierinc.com).

## 25. Termination Benefits

In 2006, UT Health Center at Tyler implemented a reduction in force. The benefits package provided to the 69 terminated employees consisted of normal benefits and salaries with no special benefits or severance packages offered.

## 26. Extraordinary Items

In late July and early August 2006, the city of El Paso received a tremendous amount of rain, which caused significant water damage to some of UT El Paso's buildings and infrastructure. As a result of the flooding, UT El Paso incurred significant costs related to clean-up and repair from the storms subsequent to year-end. UT El Paso was able to reasonably estimate the receipt of commercial insurance and United States Federal Emergency Management Agency (FEMA) proceeds due to the storm. Due to the infrequency of significant rainfall in the El Paso area, the additional expenses related to the clean-up were recognized as extraordinary losses. None of the damage caused impairment of UT El Paso's assets. For the year ended August 31, 2006, UT El Paso recognized an extraordinary loss of \$504,812, net of the estimated insurance recoveries.

## 27. New Accounting Pronouncements

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the System in fiscal year 2008. GASB Statement No. 45 requires accrual-based measurement, recognition and disclosure of other postemployment benefits (OPEB) expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. For the System, this will result in increased expenses and a related liability which will likely be significant. The System and its actuaries are evaluating the effect that GASB Statement No. 45 will have on the consolidated financial statements.

## 28. Restatement

Subsequent to the issuance of the System's 2005 consolidated financial statements, the System's management determined that it had improperly classified \$6,964,408,616 of appreciation on endowments as restricted, nonexpendable net assets. This amount should have been classified as restricted, expendable net assets as these funds are not required to be held in perpetuity by external restrictions. The 2005 consolidated balance sheet has been restated from the amounts previously reported to properly reflect this reclassification.

	<u>As Previously Reported</u>	<u>As Restated</u>
Restricted, nonexpendable net assets	\$ 15,560,609,991	8,596,201,375
Restricted, expendable net assets	1,446,651,039	8,411,059,655
Total Restricted Net Assets	<u>\$ 17,007,261,030</u>	<u>17,007,261,030</u>

## UNAUDITED

THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION  
 EXHIBIT A - BALANCE SHEET  
 As of August 31, 2006

	Current Year Totals	Restated Prior Year Totals
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 701,649,544	563,127,195
Restricted Cash & Cash Equivalents	122,435,074	23,446,846
Balance in State Appropriations	4,050,600	
Securities Lending Collateral	1,951,568,127	1,420,107,142
Accounts Receivable, Net:		
Federal (allowances of \$0 in '06 & \$0 in '05)	7,002,676	19,096
Interest and Dividends	49,351,350	36,361,793
Investment Trades	447,141,307	312,903,168
Other (allowances of \$0 in '06 & \$0 in '05)	62,913,794	55,451,734
Due From Other Funds	31,986,880	32,009,769
Due From Other Institutions	50,635,178	45,581,692
Due From Other Agencies	612,715	16,368,336
Other Current Assets	3,844,622	4,009,595
Total Current Assets	<u>3,433,191,867</u>	<u>2,509,386,366</u>
Noncurrent Assets:		
Restricted:		
Cash & Cash Equivalents	45,805	280,212
Investments	18,456,115,452	16,610,553,408
Investments	3,332,055,572	1,387,749,345
Other Noncurrent Assets	15,765,200	14,113,261
Capital Assets	4,296,409,917	3,745,551,642
Less Accumulated Depreciation	(31,058,124)	(27,769,743)
Total Noncurrent Assets	<u>26,069,333,822</u>	<u>21,730,478,125</u>
<b>TOTAL ASSETS</b>	<u>\$ 29,502,525,689</u>	<u>24,239,864,491</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 75,569,668	39,963,594
Investment Trades Payable	1,020,457,037	718,557,708
Incurred But Not Reported Self-Insurance Claims	80,336,078	75,111,546
Securities Lending Obligations	1,951,568,127	1,420,107,142
Due to Other Funds	31,986,880	32,009,769
Due to Other Institutions	543,038,092	391,786,691
Due to Other Agencies	32,699,724	12,882,035
Deferred Revenue	4,471,518	2,765,834
Employees' Compensable Leave	1,880,893	1,622,466
Notes, Loans and Leases Payable	655,386,000	541,064,000
Payable From Restricted Assets	227,386,999	120,356,095
Revenue Bonds Payable	159,685,000	155,670,000
Other Current Liabilities		58,114
Total Current Liabilities	<u>4,784,466,016</u>	<u>3,511,954,994</u>
Noncurrent Liabilities:		
Incurred But Not Reported Self-Insurance Claims	78,875,389	85,844,849
Employees' Compensable Leave	1,801,812	1,700,912
Assets Held for Others	2,961,123,127	1,044,522,450
Liability to Beneficiaries-Held for Institutions	17,846,693	18,692,215
Revenue Bonds Payable	3,435,167,686	3,018,716,352
Other Noncurrent Liabilities/Due to Texas A&M University	406,947,150	305,341,916
Total Noncurrent Liabilities	<u>6,901,761,857</u>	<u>4,474,818,694</u>
<b>TOTAL LIABILITIES</b>	<u>11,686,227,873</u>	<u>7,986,773,688</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	40,628,737	23,383,258
Restricted for:		
Nonexpendable		
Permanent University Fund Endowment	5,889,253,513	5,455,915,288
Perm. Health, True & Term Endowments, & Annuities	379,052,639	377,386,181
Perm. Health, True & Term Endow. Held for Institutions	3,266,779,144	3,045,067,156
Expendable		
Capital Projects	8,241,209	10,337,778
Debt Service	5,809,770	5,240,603
Funds Functioning as Endowment - Restricted	12	16
Other Expendable	7,832,305,813	6,982,612,724
Unrestricted	394,226,979	353,147,799
<b>TOTAL NET ASSETS</b>	<u>17,816,297,816</u>	<u>16,253,090,803</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 29,502,525,689</u>	<u>24,239,864,491</u>

UNAUDITED

THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION  
 EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Operating Revenues:</b>		
Federal Sponsored Programs	\$ 7,418,699	48,115
Federal Sponsored Programs Pass-Through from Other St. Agencies	7,744,701	7,334,402
State Sponsored Programs	3,316,355	
State Sponsored Programs Pass-Through from Other St. Agencies		1,185,089
Private Sponsored Programs	266,267	2,347,250
Sales and Services of Educational Activities	9,402,489	13,579,656
Other Operating Revenues	13,096,394	15,201,593
<b>Total Operating Revenues</b>	<b>41,244,905</b>	<b>39,696,105</b>
<b>Operating Expenses:</b>		
Instruction	7,938,768	8,784,672
Institutional Support	67,071,538	57,587,550
Depreciation and Amortization	5,316,845	3,972,908
<b>Total Operating Expenses</b>	<b>80,327,151</b>	<b>70,345,130</b>
<b>Operating Loss</b>	<b>(39,082,246)</b>	<b>(30,649,025)</b>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	6,156,064	6,071,989
Gift Contributions for Operations	878,514	829,517
Net Investment Income	1,215,089,358	1,583,124,648
Net Increase (Decrease) in Fair Value of Investments	644,344,573	1,337,238,828
Interest and Other Expenses on Capital Asset Financings	(175,514,345)	(126,439,578)
Gain/(Loss) on Sale of Capital Assets	(549,864)	(822,823)
Other Nonoperating Revenues	207	
Other Nonoperating Expenses	(163,528)	(338,416)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>1,690,240,979</b>	<b>2,799,664,165</b>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	1,651,158,733	2,769,015,140
Gifts and Sponsored Programs for Capital Acquisitions	(15,000,000)	15,150,000
Additions to Permanent Endowments	97,881,585	87,096,992
Reclass from / (to) Other Institutions	62,062,596	76,550,146
Proceeds of Bonds Payable Invested in Plant of Institutions	538,307,840	527,709,387
Transfers Between Institutions & System-Debt Service-Mandatory	268,758,806	221,357,877
Transfers Between Institutions & System Admin. - Nonmandatory	(806,501,211)	(876,481,145)
Transfers From Other State Agencies	8,568,831	325,672
Transfers to Other State Agencies	(242,030,167)	(189,304,757)
<b>Change in Net Assets</b>	<b>1,563,207,013</b>	<b>2,631,419,312</b>
Beginning Net Assets - As Previously Reported	16,253,090,803	13,822,001,609
Restatements		(200,330,118)
<b>Beginning Net Assets - As Restated</b>	<b>16,253,090,803</b>	<b>13,621,671,491</b>
<b>Ending Net Assets</b>	<b>\$ 17,816,297,816</b>	<b>16,253,090,803</b>



## UNAUDITED

THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION  
 EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
 For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Sponsored Programs	\$ 12,518,063	10,422,465
Proceeds from Other Revenues	28,961,449	32,068,084
Payments to Suppliers	(41,649,425)	(37,895,501)
Payments to Employees	(32,169,276)	(27,921,826)
Net Cash Provided (Used) by Operating Activities	<u>(32,339,189)</u>	<u>(23,326,778)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	2,105,464	6,071,989
Proceeds from Operating Gifts	878,514	829,517
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	55,904,469	126,143,551
Proceeds from Other Nonoperating Revenues	230,056	
Payments/Receipts for Transfers to/from System or Oth. Agencies	1,580,522,702	(382,911,587)
Payments for Other Uses	(25,000)	(145,200)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>1,639,616,205</u>	<u>(250,011,730)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Issuance of Capital Debt	1,234,964,213	1,270,538,994
Proceeds from Capital Debt Transferred to Institutions	(581,579,148)	(744,087,103)
Payments of Other Costs on Debt Issuance	(4,138,894)	(8,628,120)
Proceeds from Capital Appropriations, Grants and Gifts		150,000
Proceeds from Sale of Capital Assets	401,511	1,050
Payments for Additions to Capital Assets	(8,809,633)	(3,955,987)
Payments of Principal on Capital Related Debt	(689,653,000)	(730,502,000)
Mandatory Transfers to System for Capital Related Debt	268,758,806	221,357,877
Payments of Interest on Capital Related Debt	(174,071,044)	(124,343,686)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>45,872,811</u>	<u>(119,468,975)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Sales of Investments	29,809,999,864	17,609,053,684
Proceeds from Interest and Investment Income	572,516,756	447,207,689
Payments to Acquire Investments	(31,798,390,277)	(17,667,113,576)
Net Cash Provided (Used) by Investing Activities	<u>(1,415,873,657)</u>	<u>389,147,797</u>
<b>Net Increase (Decrease) in Cash</b>	237,276,170	(3,659,686)
Cash & Cash Equivalents - Beginning of the Year	586,854,253	590,513,939
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 824,130,423</u>	<u>586,854,253</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (39,082,246)	(30,649,025)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	5,316,845	3,972,908
Changes in Assets and Liabilities:		
Receivables	(6,309,200)	(751,543)
Other Assets	(500,284)	(754,631)
Payables	5,683,644	2,113,126
Due to System	(5,053,486)	(1,862,378)
Deferred Income	1,705,684	(1,377,880)
Deposits Held for Others	5,338,407	6,294,286
Compensated Absence Liability	359,327	304,329
Other Liabilities	202,120	(615,970)
Total Adjustments	<u>6,743,057</u>	<u>7,322,247</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (32,339,189)</u>	<u>(23,326,778)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	644,344,573	1,337,238,828
Miscellaneous Noncash Transactions	728,559	986,845

## UNAUDITED

THE UNIVERSITY OF TEXAS AT ARLINGTON  
EXHIBIT A - BALANCE SHEET  
As of August 31, 2006

	Current Year Totals	Restated Prior Year Totals
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 42,922,051	120,381,895
Restricted Cash & Cash Equivalents	10,160,580	7,358,255
Balance in State Appropriations	5,627,135	8,655,166
Accounts Receivable, Net:		
Federal (allowances of \$0 in '06 & \$0 in '05)	5,043,991	2,843,846
Other Intergov. (allowances of \$0 in '06 & \$0 in '05)	509,270	1,100,575
Student (allowances of \$799,700 in '06 & \$645,481 in '05)	26,380,900	26,631,627
Interest and Dividends	258,430	410,642
Contributions (allowances of \$5,360 in '06 & \$6,366 in '05)	26,673	120,945
Other (allowances of \$26,033 in '06 & \$0 in '05)	1,955,288	518,381
Due From System Administration	16,753,869	17,049,470
Due From Other Agencies	273,358	1,196,565
Inventories	389,801	305,369
Loans & Contracts (allow. of \$38,848 in '06 & \$16,162 in '05)	841,963	550,489
Other Current Assets	264,027	14,592,591
Total Current Assets	<u>111,407,336</u>	<u>201,715,816</u>
Noncurrent Assets:		
Restricted:		
Investments	2,872,616	979,877
Loans & Contracts (allow. of \$116,123 in '06 & \$70,882 in '05)	2,518,437	2,414,272
Funds Held by System Administration	50,865,918	45,744,614
Contributions Rec. (allowances of \$776 in '06 & \$12,337 in '05)	26,644	234,406
Investments	106,988,505	15,318,429
Capital Assets	542,748,535	526,533,951
Less Accumulated Depreciation	(188,396,308)	(171,711,041)
Total Noncurrent Assets	<u>517,624,347</u>	<u>419,514,508</u>
<b>TOTAL ASSETS</b>	<u>\$ 629,031,683</u>	<u>621,230,324</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 19,414,286	25,647,645
Due to System Administration	1,838,852	1,654,656
Deferred Revenue	63,265,078	74,256,134
Employees' Compensable Leave-Current Portion	3,287,716	2,859,925
Payable From Restricted Assets	2,053,454	2,863,173
Other Current Liabilities	192,230	413,759
Total Current Liabilities	<u>90,051,616</u>	<u>107,695,292</u>
Noncurrent Liabilities:		
Employees' Compensable Leave	2,337,820	2,474,091
Assets Held for Others	2,025,655	2,646,989
Liability to Beneficiaries-Held by System	45,419	45,466
Other Noncurrent Liabilities	851,393	940,406
Total Noncurrent Liabilities	<u>5,260,287</u>	<u>6,106,952</u>
<b>TOTAL LIABILITIES</b>	<u>95,311,903</u>	<u>113,802,244</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	354,352,227	354,822,910
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	26,364,723	24,264,726
Expendable		
Capital Projects	9,768,205	2,830,683
Funds Functioning as Endowment - Restricted	1,935,677	1,769,660
Other Expendable	40,003,241	38,190,385
Unrestricted	101,295,707	85,549,716
<b>TOTAL NET ASSETS</b>	<u>533,719,780</u>	<u>507,428,080</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 629,031,683</u>	<u>621,230,324</u>

## UNAUDITED

THE UNIVERSITY OF TEXAS AT ARLINGTON  
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 137,903,243	132,835,806
Discounts and Allowances	(22,615,186)	(22,429,532)
Federal Sponsored Programs	40,448,152	38,263,910
Federal Sponsored Programs Pass-Through from Other St. Agencies	1,441,313	1,647,587
State Sponsored Programs	1,124,239	2,254,342
State Sponsored Programs Pass-Through from Other St. Agencies	4,953,369	5,108,063
Local Sponsored Programs	179,700	47,431
Private Sponsored Programs	1,967,800	5,473,940
Sales and Services of Educational Activities	9,200,374	7,061,321
Discounts and Allowances (none)		
Auxiliary Enterprises	24,040,015	21,823,478
Discounts and Allowances (none)		
Other Operating Revenues	8,116,507	6,841,997
<b>Total Operating Revenues</b>	<b>206,759,526</b>	<b>198,928,343</b>
<b>Operating Expenses:</b>		
Instruction	99,587,093	96,474,037
Research	26,544,313	23,368,940
Public Service	12,225,445	10,601,510
Academic Support	28,731,240	23,800,610
Student Services	20,087,217	19,661,752
Institutional Support	23,678,634	26,385,538
Operations and Maintenance of Plant	25,306,298	21,808,358
Scholarships and Fellowships	12,697,230	9,567,011
Auxiliary Enterprises	33,195,548	31,263,587
Depreciation and Amortization	20,088,625	17,683,325
<b>Total Operating Expenses</b>	<b>302,141,643</b>	<b>280,614,668</b>
<b>Operating Loss</b>	<b>(95,382,117)</b>	<b>(81,686,325)</b>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	102,698,859	94,977,377
Gift Contributions for Operations	2,278,181	3,155,133
Net Investment Income	7,184,370	5,038,376
Net Increase (Decrease) in Fair Value of Investments	4,653,899	5,276,515
Gain/(Loss) on Sale of Capital Assets	(1,597,369)	(56,747)
Other Nonoperating Revenues		78,594
<b>Net Nonoperating Revenues (Expenses)</b>	<b>115,217,940</b>	<b>108,469,248</b>
<b>Income/(Loss) Before Other Rev., Exp., Gains/(Losses) &amp; Transfers</b>	<b>19,835,823</b>	<b>26,782,923</b>
Gifts and Sponsored Programs for Capital Acquisitions	99,253	92,644
Additions to Permanent Endowments	1,265,737	998,937
Reclass from / (to) Other Institutions	(542,871)	(27,536,905)
Transfers Between Institutions & System-Debt Service-Mandatory	(15,126,326)	(13,749,360)
Transfers Between Institutions & System Admin. - Nonmandatory	30,173,028	46,720,473
Transfers From Other State Agencies		3,528,401
Transfers to Other State Agencies	(9,412,944)	(809,383)
<b>Change in Net Assets</b>	<b>26,291,700</b>	<b>36,027,730</b>
<b>Beginning Net Assets - As Previously Reported</b>	<b>507,428,080</b>	<b>518,895,229</b>
Restatements		(47,494,879)
<b>Beginning Net Assets - As Restated</b>	<b>507,428,080</b>	<b>471,400,350</b>
<b>Ending Net Assets</b>	<b>\$ 533,719,780</b>	<b>507,428,080</b>

## UNAUDITED

THE UNIVERSITY OF TEXAS AT ARLINGTON  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 112,928,353	111,729,476
Proceeds from Sponsored Programs	50,396,212	51,840,941
Proceeds from Auxiliaries	13,711,023	23,220,228
Proceeds from Other Revenues	30,203,521	12,775,907
Payments to Suppliers	(93,162,955)	(83,712,331)
Payments to Employees	(189,998,115)	(173,503,753)
Payments for Loans Provided	(2,824,262)	(1,932,133)
Proceeds from Loan Programs	2,179,589	2,246,350
Net Cash Provided (Used) by Operating Activities	<u>(76,566,634)</u>	<u>(57,335,315)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	105,726,890	88,211,428
Proceeds from Operating Gifts	2,570,879	3,009,940
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	1,265,737	998,937
Proceeds from Other Nonoperating Revenues		237,120
Payments/Receipts for Transfers to/from System or Oth. Agencies	(868,803)	2,813,326
Net Cash Provided (Used) by Noncapital Financing Activities	<u>108,694,703</u>	<u>95,270,751</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Capital Debt Transferred from System (nonmandatory)	29,828,973	45,950,127
Proceeds from Capital Appropriations, Grants and Gifts	11,123	10,593
Payments for Additions to Capital Assets	(34,832,625)	(52,867,500)
Mandatory Transfers to System for Capital Related Debt	(15,126,326)	(13,749,360)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(20,118,855)</u>	<u>(20,656,140)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Interest and Investment Income	3,070,555	2,212,989
Proceeds from Interest and Investment Income Held by System	4,292,932	2,546,243
Payments to Acquire Investments Held by System	(94,030,220)	(1,768,625)
Net Cash Provided (Used) by Investing Activities	<u>(86,666,733)</u>	<u>2,990,607</u>
<b>Net Increase (Decrease) in Cash</b>	(74,657,519)	20,269,903
Cash & Cash Equivalents - Beginning of the Year	127,740,150	107,470,247
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 53,082,631</u>	<u>127,740,150</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (95,382,117)	(81,686,325)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	20,088,625	17,683,325
Bad Debt Expense	249,034	157,150
Changes in Assets and Liabilities:		
Receivables	(1,871,813)	(701,730)
Inventories	(84,432)	24,412
Loans and Contracts	(644,673)	314,217
Other Assets	14,328,564	(1,510,231)
Payables	(1,777,064)	3,175,291
Due to System	184,196	102,828
Deferred Income	(10,991,056)	3,846,821
Deposits Held for Others	(646,876)	703,196
Compensated Absence Liability	291,520	534,272
Other Liabilities	(310,542)	21,459
Total Adjustments	<u>18,815,483</u>	<u>24,351,010</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (76,566,634)</u>	<u>(57,335,315)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	4,653,899	5,276,515
Donated Capital Assets	97,466	90,835
Miscellaneous Noncash Transactions	(8,448,766)	(158,527)

UNAUDITED

THE UNIVERSITY OF TEXAS AT AUSTIN  
 EXHIBIT A - BALANCE SHEET  
 As of August 31, 2006

	Current Year Totals	Restated Prior Year Totals
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash & Cash Equivalents	\$ 120,171,901	562,554,090
Restricted Cash & Cash Equivalents	35,840,450	210,716,073
Balance in State Appropriations	1,876,946	2,203,278
Funds Held by System Administration - Current	48,153	270,520
<b>Accounts Receivable, Net:</b>		
Federal (allowances of \$0 in '06 & \$0 in '05)	50,854,952	42,943,032
Other Intergov. (allowances of \$0 in '06 & \$0 in '05)	8,679,750	8,838,385
Student (allowances of \$675,936 in '06 & \$353,494 in '05)	107,330,331	96,595,996
Interest and Dividends	5,220,676	4,969,827
Contributions (allowances of \$389,363 in '06 & \$227,511 in '05)	8,365,964	5,606,109
Other (allowances of \$352,732 in '06 & \$406,036 in '05)	12,630,210	13,863,192
Due From Other Funds	1,084,386	4,769,271
Due From System Administration	174,106,157	85,213,372
Due From Other Agencies	789,840	1,398,443
Inventories	7,413,224	7,704,954
Loans & Contracts (allow. of \$0 in '06 & \$0 in '05)	11,494,340	10,862,000
Other Current Assets	45,945,384	46,387,813
<b>Total Current Assets</b>	<u>591,852,664</u>	<u>1,104,896,355</u>
<b>Noncurrent Assets:</b>		
<b>Restricted:</b>		
Investments	190,624,386	15,000
Loans & Contracts (allow. of \$7,544,018 in '06 & \$7,330,373 in '05)	50,630,481	49,695,125
Funds Held by System Administration	2,485,564,851	2,276,138,147
Contributions Rec. (allowances of \$159,780 in '06 & \$253,500 in '05)	8,365,465	6,246,493
Investments	475,260,883	
Other Noncurrent Assets	1,346,226	1,320,867
Capital Assets	3,033,946,798	2,782,243,835
Less Accumulated Depreciation	(1,425,630,018)	(1,350,257,098)
<b>Total Noncurrent Assets</b>	<u>4,820,109,072</u>	<u>3,765,402,369</u>
<b>TOTAL ASSETS</b>	<u>\$ 5,411,961,736</u>	<u>4,870,298,724</u>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable and Accrued Liabilities	\$ 101,713,635	68,127,394
Due to Other Funds	1,084,386	4,769,271
Due to System Administration	10,965,438	9,871,366
Deferred Revenue	384,926,051	349,131,426
Employees' Compensable Leave-Current Portion	21,956,943	19,080,784
Notes, Loans and Leases Payable	1,585,196	1,870,551
Payable From Restricted Assets	18,249,012	17,931,878
Funds Held for Others		1,320,867
Other Current Liabilities	1,847,930	1,771,146
<b>Total Current Liabilities</b>	<u>542,328,591</u>	<u>473,874,683</u>
<b>Noncurrent Liabilities:</b>		
Employees' Compensable Leave	19,357,116	18,993,633
Assets Held for Others	18,034,189	13,773,813
Liability to Beneficiaries-Held by System	11,650,247	12,071,390
Notes, Loans and Leases Payable	20,850,780	21,338,403
<b>Total Noncurrent Liabilities</b>	<u>69,892,332</u>	<u>66,177,239</u>
<b>TOTAL LIABILITIES</b>	<u>612,220,923</u>	<u>540,051,922</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	1,585,880,804	1,408,777,783
<b>Restricted for:</b>		
<b>Nonexpendable</b>		
True and Term Endowments, and Annuities	1,251,713,800	1,201,911,423
<b>Expendable</b>		
Capital Projects	116,005,469	25,366,071
Funds Functioning as Endowment - Restricted	121,847,996	102,987,358
Other Expendable	1,341,141,258	1,185,863,583
Unrestricted	383,151,486	405,340,584
<b>TOTAL NET ASSETS</b>	<u>4,799,740,813</u>	<u>4,330,246,802</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 5,411,961,736</u>	<u>4,870,298,724</u>

UNAUDITED

THE UNIVERSITY OF TEXAS AT AUSTIN  
 EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 417,010,627	383,659,873
Discounts and Allowances	(80,989,004)	(73,913,003)
Federal Sponsored Programs	305,197,840	286,484,995
Federal Sponsored Programs Pass-Through from Other St. Agencies	23,524,330	18,354,460
State Sponsored Programs	24,022,310	4,189,724
State Sponsored Programs Pass-Through from Other St. Agencies	22,602,688	35,592,335
Local Sponsored Programs	2,524,194	1,873,499
Private Sponsored Programs	60,606,681	62,060,919
Sales and Services of Educational Activities	129,643,724	127,083,331
Discounts and Allowances	(18,579)	(51,130)
Auxiliary Enterprises	149,206,055	147,325,368
Discounts and Allowances	(6,344,502)	(7,072,028)
Other Operating Revenues	3,452,730	2,304,912
Total Operating Revenues	<u>1,050,439,094</u>	<u>987,893,255</u>
<b>Operating Expenses:</b>		
Instruction	485,374,351	441,773,879
Research	344,991,191	343,499,577
Public Service	47,469,078	47,041,181
Academic Support	107,487,941	101,798,935
Student Services	43,716,450	39,652,129
Institutional Support	89,336,136	78,749,965
Operations and Maintenance of Plant	137,496,901	108,626,735
Scholarships and Fellowships	75,635,212	68,706,282
Auxiliary Enterprises	167,226,675	159,167,933
Depreciation and Amortization	108,937,676	99,457,626
Total Operating Expenses	<u>1,607,671,611</u>	<u>1,488,474,242</u>
Operating Loss	<u>(557,232,517)</u>	<u>(500,580,987)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	300,676,150	288,728,350
Gift Contributions for Operations	88,037,573	77,369,387
Net Investment Income	137,554,645	115,583,793
Net Increase (Decrease) in Fair Value of Investments	154,971,544	262,745,964
Interest Expense on Capital Asset Financings	(1,548,832)	(1,846,643)
Gain/(Loss) on Sale of Capital Assets	(11,249,908)	(2,886,959)
Other Nonoperating Revenues	1,139,554	
Other Nonoperating Expenses	(29,737)	(104,756)
Net Nonoperating Revenues (Expenses)	<u>669,550,989</u>	<u>739,589,136</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	112,318,472	239,008,149
Gifts and Sponsored Programs for Capital Acquisitions	35,450,903	14,804,077
Additions to Permanent Endowments	43,800,932	33,201,086
Reclass from / (to) Other Institutions	(70,232,157)	(7,064,193)
Transfers Between Institutions & System-Debt Service-Mandatory	(43,609,855)	(42,205,848)
Transfers Between Institutions & System Admin. - Nonmandatory	392,131,715	192,844,990
Transfers From Other State Agencies	3,400,251	28,573
Transfers to Other State Agencies	(3,766,250)	(2,920,008)
Change in Net Assets	<u>469,494,011</u>	<u>427,696,826</u>
Beginning Net Assets - As Previously Reported	4,330,246,802	4,074,435,934
Restatements		(171,885,958)
Beginning Net Assets - As Restated	<u>4,330,246,802</u>	<u>3,902,549,976</u>
<b>Ending Net Assets</b>	<u>\$ 4,799,740,813</u>	<u>4,330,246,802</u>



UNAUDITED

THE UNIVERSITY OF TEXAS AT AUSTIN  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 346,048,011	322,398,609
Proceeds from Sponsored Programs	433,443,084	408,635,156
Proceeds from Auxiliaries	154,437,049	153,041,712
Proceeds from Other Revenues	136,429,310	119,742,041
Payments to Suppliers	(444,307,033)	(437,629,183)
Payments to Employees	(1,036,560,650)	(959,115,102)
Payments for Loans Provided	(44,238,244)	(38,996,907)
Proceeds from Loan Programs	42,456,902	37,739,033
Payments for Other Expenses		23,284
Net Cash Provided (Used) by Operating Activities	<u>(412,291,571)</u>	<u>(394,161,357)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	301,002,482	291,870,288
Proceeds from Operating Gifts	83,158,746	78,072,285
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	43,800,932	33,201,086
Proceeds from Other Nonoperating Revenues	1,139,554	(28,573)
Payments/Receipts for Transfers to/from System or Oth. Agencies	108,567,032	102,488,837
Payments for Other Uses	(29,737)	(128,040)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>537,639,009</u>	<u>505,475,883</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Capital Debt Transferred from System (nonmandatory)	120,146,123	60,899,901
Proceeds from Capital Appropriations, Grants and Gifts	9,408,049	3,653,225
Proceeds from Sale of Capital Assets	272,058	71,529
Payments for Additions to Capital Assets	(246,590,053)	(163,998,369)
Payments of Principal on Capital Related Debt	(1,163,161)	(501,971)
Mandatory Transfers to System for Capital Related Debt	(43,609,855)	(42,205,848)
Payments of Interest on Capital Related Debt	(1,548,832)	(1,846,643)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(163,085,671)</u>	<u>(143,928,176)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Interest and Investment Income	137,913,027	119,358,533
Proceeds from Interest and Investment Income Held by System	2,670,456	5,309,028
Payments to Acquire Investments Held by System	(720,325,429)	(38,325,445)
Net Cash Provided (Used) by Investing Activities	<u>(579,741,946)</u>	<u>86,342,116</u>
<b>Net Increase (Decrease) in Cash</b>	(617,480,179)	53,728,466
Cash & Cash Equivalents - Beginning of the Year	773,540,683	719,812,217
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 156,060,504</u>	<u>773,540,683</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (557,232,517)	(500,580,987)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	108,937,676	99,457,626
Bad Debt Expense	213,646	15,354
Changes in Assets and Liabilities:		
Receivables	(16,656,355)	(1,102,596)
Inventories	291,730	(107,139)
Loans and Contracts	(1,781,342)	(1,257,874)
Other Assets	442,429	(1,754,950)
Payables	13,382,961	(6,323,370)
Due to System	1,094,072	483,058
Deferred Income	35,794,625	27,026,833
Deposits Held for Others		23,284
Compensated Absence Liability	3,239,642	1,269,172
Other Liabilities	(18,138)	(11,309,768)
Total Adjustments	<u>144,940,946</u>	<u>106,419,630</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (412,291,571)</u>	<u>(394,161,357)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	154,971,544	262,745,964
Donated Capital Assets	26,042,854	11,150,852
Capital Assets Acquired Under Capital Lease Purchases	390,183	2,208,320
Miscellaneous Noncash Transactions	(8,098,649)	2,594,324

## UNAUDITED

THE UNIVERSITY OF TEXAS AT BROWNSVILLE  
 EXHIBIT A - BALANCE SHEET  
 As of August 31, 2006

	Current Year Totals	Restated Prior Year Totals
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 19,435,364	14,356,885
Restricted Cash & Cash Equivalents		113,972
Balance in State Appropriations	6,214,468	3,767,779
Accounts Receivable, Net:		
Federal (allowances of \$3,835 in '06 & \$4,384 in '05)	4,279,445	8,757,205
Other Intergov. (allowances of \$0 in '06 & \$0 in '05)	572,738	627,243
Student (allowances of \$161,120 in '06 & \$1,492,000 in '05)	3,149,806	2,145,992
Interest and Dividends	83,541	21,998
Other (allowances of \$191,144 in '06 & \$94,264 in '05)	3,041,634	2,531,830
Due From Other Funds	7,634,073	13,984,840
Due From System Administration	1,467,394	5,110,515
Due From Other Agencies	2,371	159,990
Loans & Contracts (allowances of \$151,869 in '06 & \$14,968 in '05)	1,389,791	1,050,449
Other Current Assets	9,173,689	16,678,122
Total Current Assets	<u>56,444,314</u>	<u>69,306,820</u>
Noncurrent Assets:		
Restricted:		
Investments	4,474,413	7,239,369
Loans & Contracts (allow. of \$0 in '06 & \$424,427 in '05)		210,682
Funds Held by System Administration	6,372,656	5,598,634
Investments	13,024,850	13,164,937
Capital Assets	96,362,509	91,829,449
Less Accumulated Depreciation	(22,726,687)	(17,624,593)
Total Noncurrent Assets	<u>97,507,741</u>	<u>100,418,478</u>
TOTAL ASSETS	<u>\$ 153,952,055</u>	<u>169,725,298</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 20,853,906	20,192,629
Federal Payables	39,355	32,552
Due to Other Funds	7,634,073	13,984,840
Due to System Administration	610,612	522,077
Due to Other Agencies	20,901	5,667
Deferred Revenue	6,217,581	14,393,121
Employees' Compensable Leave-Current Portion	796,589	1,118,163
Payable From Restricted Assets	417,957	561,062
Funds Held for Others	8,419,542	6,579,305
Total Current Liabilities	<u>45,010,516</u>	<u>57,389,416</u>
Noncurrent Liabilities:		
Employees' Compensable Leave	1,273,003	878,556
Total Noncurrent Liabilities	<u>1,273,003</u>	<u>878,556</u>
TOTAL LIABILITIES	<u>46,283,519</u>	<u>58,267,972</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	73,635,822	74,204,856
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	4,743,839	4,342,818
Expendable		
Capital Projects	1,466,648	3,083,315
Other Expendable	4,671,715	5,135,876
Unrestricted	23,150,512	24,690,461
TOTAL NET ASSETS	<u>107,668,536</u>	<u>111,457,326</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 153,952,055</u>	<u>169,725,298</u>



UNAUDITED

THE UNIVERSITY OF TEXAS AT BROWNSVILLE  
 EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 14,116,298	11,141,770
Discounts and Allowances	(2,667,900)	(1,868,528)
Federal Sponsored Programs	32,083,358	32,217,484
Federal Sponsored Programs Pass-Through from Other St. Agencies	790,412	841,144
State Sponsored Programs	985,312	723,664
State Sponsored Programs Pass-Through from Other St. Agencies	1,998,022	1,535,876
Local Sponsored Programs	43,256,916	39,417,074
Private Sponsored Programs	569,476	289,105
Sales and Services of Educational Activities	947,091	1,149,611
Discounts and Allowances (none)		
Auxiliary Enterprises	887,161	919,304
Discounts and Allowances	(121,707)	(94,074)
Other Operating Revenues	233,963	31,007
Total Operating Revenues	<u>93,078,402</u>	<u>86,303,437</u>
<b>Operating Expenses:</b>		
Instruction	36,101,599	32,114,595
Research	4,377,163	3,697,000
Public Service	4,732,773	4,143,570
Academic Support	10,971,853	8,686,087
Student Services	7,551,395	8,012,928
Institutional Support	11,230,225	10,252,324
Operations and Maintenance of Plant	10,671,978	8,230,517
Scholarships and Fellowships	29,431,631	27,292,534
Auxiliary Enterprises	5,628,872	4,080,491
Depreciation and Amortization	5,128,750	3,501,673
Total Operating Expenses	<u>125,826,239</u>	<u>110,011,719</u>
Operating Loss	<u>(32,747,837)</u>	<u>(23,708,282)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	27,523,441	26,647,284
Gift Contributions for Operations	49,327	132,125
Net Investment Income	1,310,362	998,811
Net Increase (Decrease) in Fair Value of Investments	614,399	717,365
Gain/(Loss) on Sale of Capital Assets	(5,170)	(22,057)
Other Nonoperating Revenues	24,892	
Other Nonoperating Expenses	(24,892)	
Net Nonoperating Revenues (Expenses)	<u>29,492,359</u>	<u>28,473,528</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	(3,255,478)	4,765,246
Capital Appropriations - HEAF	2,791,194	1,050,580
Gifts and Sponsored Programs for Capital Acquisitions	98,876	73,659
Additions to Permanent Endowments	500,694	461,823
Transfers Between Institutions & System-Debt Service-Mandatory	(4,242,713)	(3,521,447)
Transfers Between Institutions & System Admin. - Nonmandatory	318,637	1,016,362
Transfers From Other State Agencies		145,365
Change in Net Assets	<u>(3,788,790)</u>	<u>3,991,588</u>
Beginning Net Assets - As Previously Reported	111,457,326	109,170,582
Restatements		(1,704,844)
Beginning Net Assets - As Restated	<u>111,457,326</u>	<u>107,465,738</u>
<b>Ending Net Assets</b>	<u>\$ 107,668,536</u>	<u>111,457,326</u>

## UNAUDITED

THE UNIVERSITY OF TEXAS AT BROWNSVILLE  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 11,075,444	10,707,038
Proceeds from Sponsored Programs	75,461,718	81,740,784
Proceeds from Auxiliaries	628,544	1,098,785
Proceeds from Other Revenues	10,234,808	
Payments to Suppliers	(52,544,292)	(46,802,945)
Payments to Employees	(65,462,167)	(57,087,221)
Payments for Loans Provided	(3,775,335)	(2,966,101)
Proceeds from Loan Programs	3,568,546	2,980,257
Payments for Other Expenses		(7,496,228)
Net Cash Provided (Used) by Operating Activities	<u>(20,812,734)</u>	<u>(17,825,631)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	25,857,006	26,527,794
Proceeds from Operating Gifts	49,327	132,125
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	500,694	461,823
Proceeds from Other Nonoperating Revenues	40,126	
Payments/Receipts for Transfers to/from System or Oth. Agencies	65,312	197,768
Payments for Other Uses	(24,892)	5,667
Net Cash Provided (Used) by Noncapital Financing Activities	<u>26,487,573</u>	<u>27,325,177</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Capital Debt Transferred from System (nonmandatory)	3,919,283	10,378,927
Proceeds from Capital Appropriations, Grants and Gifts	2,010,940	1,779,575
Payments for Additions to Capital Assets	(6,369,244)	(14,162,316)
Mandatory Transfers to System for Capital Related Debt	(4,242,713)	(3,521,447)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(4,681,734)</u>	<u>(5,525,261)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Sales of Investments Held by System	2,745,420	
Proceeds from Interest and Investment Income	1,023,898	537,822
Proceeds from Interest and Investment Income Held by System	202,084	451,606
Payments to Acquire Investments Held by System		(13,014,883)
Net Cash Provided (Used) by Investing Activities	<u>3,971,402</u>	<u>(12,025,455)</u>
<b>Net Increase (Decrease) in Cash</b>	4,964,507	(8,051,170)
Cash & Cash Equivalents - Beginning of the Year	14,470,857	22,522,027
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 19,435,364</u>	<u>14,470,857</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (32,747,837)	(23,708,282)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	5,128,750	3,501,673
Bad Debt Expense	101,413	210,765
Changes in Assets and Liabilities:		
Receivables	3,152,982	(1,993,534)
Loans and Contracts	(206,789)	14,156
Other Assets	7,504,433	(9,935,865)
Payables	2,428,209	2,185,303
Due to System	88,535	45,291
Deferred Income	(8,175,540)	10,195,584
Deposits Held for Others	1,840,237	1,480,757
Compensated Absence Liability	72,873	178,521
Total Adjustments	<u>11,935,103</u>	<u>5,882,651</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (20,812,734)</u>	<u>(17,825,631)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	614,399	717,365
Donated Capital Assets	98,876	73,659
Miscellaneous Noncash Transactions		5,930

## UNAUDITED

THE UNIVERSITY OF TEXAS AT DALLAS  
 EXHIBIT A - BALANCE SHEET  
 As of August 31, 2006

	Current Year Totals	Restated Prior Year Totals
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 24,200,192	15,729,977
Restricted Cash & Cash Equivalents	6,125,846	9,943,660
Balance in State Appropriations	1,523,407	630,697
Accounts Receivable, Net:		
Federal (allowances of \$0 in '06 & \$0 in '05)	4,420,181	3,251,030
Other Intergov. (allowances of \$0 in '06 & \$0 in '05)	59,435	151,849
Student (allowances of \$1,176,103 in '06 & \$746,407 in '05)	4,842,217	5,418,192
Interest and Dividends	503	255,971
Contributions (allowances of \$105,310 in '06 & \$287,441 in '05)	2,000,887	1,628,831
Other (allowances of \$185,920 in '06 & \$147,985 in '05)	2,717,955	3,090,329
Due From Other Funds	12,704,146	13,178,673
Due From System Administration	61,219,601	67,174,155
Inventories	442,796	422,142
Loans & Contracts (allow. of \$1,611,542 in '06 & \$1,412,000 in '05)	3,022,070	3,244,568
Other Current Assets	2,776,613	11,435,577
Total Current Assets	<u>126,055,849</u>	<u>135,555,651</u>
Noncurrent Assets:		
Restricted:		
Investments	29,161,006	19,950,398
Loans & Contracts (allow. of \$303,931 in '06 & \$235,652 in '05)	628,518	562,163
Funds Held by System Administration	236,111,340	222,434,202
Contributions Rec. (allow. of \$48,497 in '06 & \$67,462 in '05)	921,445	382,282
Investments	68,513,391	68,529,870
Capital Assets	461,758,851	384,659,924
Less Accumulated Depreciation	(156,385,646)	(144,234,398)
Total Noncurrent Assets	<u>640,708,905</u>	<u>552,284,441</u>
TOTAL ASSETS	<u>\$ 766,764,754</u>	<u>687,840,092</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 21,466,915	15,818,770
Due to Other Funds	12,704,146	13,178,673
Due to System Administration	1,079,915	967,289
Deferred Revenue	38,329,391	42,263,677
Employees' Compensable Leave-Current Portion	2,096,052	2,098,766
Notes, Loans and Leases Payable		88,238
Payable From Restricted Assets	63,081	257,525
Funds Held for Others	874,367	899,109
Other Current Liabilities	595,600	685,925
Total Current Liabilities	<u>77,209,467</u>	<u>76,257,972</u>
Noncurrent Liabilities:		
Employees' Compensable Leave	2,107,580	1,649,030
Notes, Loans and Leases Payable		50,584
Total Noncurrent Liabilities	<u>2,107,580</u>	<u>1,699,614</u>
TOTAL LIABILITIES	<u>79,317,047</u>	<u>77,957,586</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	305,373,205	240,286,704
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	112,151,733	108,978,252
Expendable		
Capital Projects	41,756,165	47,751,975
Funds Functioning as Endowment - Restricted	4,300,976	4,017,904
Other Expendable	172,279,217	157,747,303
Unrestricted	51,586,411	51,100,368
TOTAL NET ASSETS	<u>687,447,707</u>	<u>609,882,506</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 766,764,754</u>	<u>687,840,092</u>

UNAUDITED

THE UNIVERSITY OF TEXAS AT DALLAS  
 EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 109,461,297	97,897,266
Discounts and Allowances	(30,034,740)	(24,846,179)
Federal Sponsored Programs	25,135,010	25,723,799
Federal Sponsored Programs Pass-Through from Other St. Agencies	1,566,152	1,655,636
State Sponsored Programs	478,993	276,241
State Sponsored Programs Pass-Through from Other St. Agencies	15,628,948	5,965,991
Local Sponsored Programs	598,429	696,253
Private Sponsored Programs	4,345,027	4,254,251
Sales and Services of Educational Activities	6,198,223	5,391,588
Discounts and Allowances	(262,081)	(45,500)
Auxiliary Enterprises	5,351,565	5,879,939
Discounts and Allowances (none)		
Other Operating Revenues	4,097,786	7,530,113
<b>Total Operating Revenues</b>	<b>142,564,609</b>	<b>130,379,398</b>
<b>Operating Expenses:</b>		
Instruction	85,763,870	76,757,838
Research	36,013,378	34,104,476
Public Service	6,964,437	5,719,669
Academic Support	17,876,640	17,715,048
Student Services	8,705,110	7,430,530
Institutional Support	21,171,474	16,335,949
Operations and Maintenance of Plant	13,991,759	12,847,495
Scholarships and Fellowships	11,335,773	11,217,541
Auxiliary Enterprises	12,642,912	11,586,622
Depreciation and Amortization	14,509,134	14,953,031
<b>Total Operating Expenses</b>	<b>228,974,487</b>	<b>208,668,199</b>
<b>Operating Loss</b>	<b>(86,409,878)</b>	<b>(78,288,801)</b>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	72,371,748	64,087,651
Gift Contributions for Operations	6,264,864	4,484,689
Net Investment Income	11,228,906	9,794,646
Net Increase (Decrease) in Fair Value of Investments	12,040,417	18,198,402
Gain/(Loss) on Sale of Capital Assets	(999,693)	(1,142,191)
Other Nonoperating Revenues	1,096,030	667,713
<b>Net Nonoperating Revenues (Expenses)</b>	<b>102,002,272</b>	<b>96,090,910</b>
<b>Income/(Loss) Before Other Rev., Exp., Gains/(Losses) &amp; Transfers</b>	<b>15,592,394</b>	<b>17,802,109</b>
Gifts and Sponsored Programs for Capital Acquisitions	9,159,847	2,917,275
Additions to Permanent Endowments	2,399,542	7,410,811
Reclass from / (to) Other Institutions	34,363,940	43,198,298
Transfers Between Institutions & System-Debt Service-Mandatory	(7,335,459)	(5,397,730)
Transfers Between Institutions & System Admin. - Nonmandatory	23,939,193	18,224,904
Transfers From Other State Agencies		3,439,886
Transfers to Other State Agencies	(554,256)	(487,286)
<b>Change in Net Assets</b>	<b>77,565,201</b>	<b>87,108,267</b>
<b>Beginning Net Assets - As Previously Reported</b>	<b>609,882,506</b>	<b>539,902,314</b>
Restatements		(17,128,075)
<b>Beginning Net Assets - As Restated</b>	<b>609,882,506</b>	<b>522,774,239</b>
<b>Ending Net Assets</b>	<b>\$ 687,447,707</b>	<b>609,882,506</b>

## UNAUDITED

THE UNIVERSITY OF TEXAS AT DALLAS  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 78,480,762	76,197,866
Proceeds from Sponsored Programs	45,652,079	35,102,358
Proceeds from Auxiliaries	4,279,255	6,784,279
Proceeds from Other Revenues	18,543,731	13,505,594
Payments to Suppliers	(62,101,406)	(59,270,111)
Payments to Employees	(149,806,587)	(133,247,301)
Payments for Loans Provided	(6,956,865)	(6,267,932)
Proceeds from Loan Programs	6,829,038	6,005,044
Payments for Other Expenses	10,726,549	10,726,549
Net Cash Provided (Used) by Operating Activities	<u>(65,079,993)</u>	<u>(50,463,654)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	71,479,038	64,225,481
Proceeds from Operating Gifts	6,202,667	4,672,876
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	2,399,542	7,410,811
Proceeds from Other Nonoperating Revenues	829,837	829,837
Payments/Receipts for Transfers to/from System or Oth. Agencies	(476,500)	2,876,931
Payments for Other Uses	(12,585,546)	(12,585,546)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>79,604,747</u>	<u>67,430,390</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Capital Debt Transferred from System (nonmandatory)	64,645,541	28,366,703
Proceeds from Capital Appropriations, Grants and Gifts	8,310,825	2,096,828
Proceeds from Sale of Capital Assets	7,938	94,739
Payments for Additions to Capital Assets	(75,550,290)	(40,160,283)
Payments of Principal on Capital Related Debt	(138,822)	(248,380)
Mandatory Transfers to System for Capital Related Debt	(7,335,459)	(5,397,730)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(10,060,267)</u>	<u>(15,248,123)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Interest and Investment Income	855,431	481,897
Proceeds from Interest and Investment Income Held by System	10,163,333	9,169,372
Payments to Acquire Investments Held by System	(10,830,850)	(10,446,414)
Net Cash Provided (Used) by Investing Activities	<u>187,914</u>	<u>(795,145)</u>
<b>Net Increase (Decrease) in Cash</b>	4,652,401	923,468
Cash & Cash Equivalents - Beginning of the Year	25,673,637	24,750,169
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 30,326,038</u>	<u>25,673,637</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (86,409,878)	(78,288,801)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	14,509,134	14,953,031
Bad Debt Expense	373,975	137,999
Changes in Assets and Liabilities:		
Receivables	(218,393)	(1,988,332)
Inventories	(20,654)	2,763
Loans and Contracts	(127,827)	(262,888)
Other Assets	8,658,964	10,959,208
Payables	1,635,577	538,368
Due to System	112,626	136,541
Deferred Income	(3,934,286)	2,215,930
Deposits Held for Others	(24,742)	363,808
Compensated Absence Liability	455,836	382,085
Other Liabilities	(90,325)	386,634
Total Adjustments	<u>21,329,885</u>	<u>27,825,147</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (65,079,993)</u>	<u>(50,463,654)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	12,040,417	18,198,402
Donated Capital Assets	820,447	820,447
Miscellaneous Noncash Transactions	1,096,030	120,163

UNAUDITED

THE UNIVERSITY OF TEXAS AT EL PASO  
 EXHIBIT A - BALANCE SHEET  
 As of August 31, 2006

	Current Year Totals	Restated Prior Year Totals
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 32,934,789	32,581,467
Restricted Cash & Cash Equivalents	7,009,742	7,473,675
Balance in State Appropriations	270,813	86,978
Accounts Receivable, Net:		
Federal (allowances of \$0 in '06 & \$0 in '05)	4,664,082	4,607,674
Student (allow. of \$1,225,209 in '06 & \$1,115,673 in '05)	9,968,806	9,491,328
Interest and Dividends	248,319	92,249
Contributions (allowances of \$87,012 in '06 & \$106,741 in '05)	4,414,599	812,450
Other (allowances of \$150,627 in '06 & \$383,792 in '05)	7,639,082	7,852,609
Due From System Administration	23,773,656	6,971,012
Due From Other Agencies	184,976	1,313,230
Inventories	2,843,028	2,807,332
Loans & Contracts (allow. of \$0 in '06 & \$0 in '05)	5,072,551	4,572,773
Other Current Assets	11,004,773	22,113,883
Total Current Assets	<u>110,029,216</u>	<u>100,776,660</u>
Noncurrent Assets:		
Restricted:		
Investments	5,995,707	4,035,318
Loans & Contracts (allow. of \$1,861,566 in '06 & \$1,595,328 in '05)	1,768,396	2,137,608
Funds Held by System Administration	114,324,406	106,579,046
Funds Held by System - Permanent Health Fund	30,092,325	28,228,575
Contributions Rec. (allowances of \$57,797 in '06 & \$94,962 in '05)	2,181,991	538,119
Investments	30,662,898	20,948,917
Other Noncurrent Assets		1,655,350
Capital Assets	379,987,381	343,535,074
Less Accumulated Depreciation	<u>(143,840,852)</u>	<u>(132,988,922)</u>
Total Noncurrent Assets	<u>421,172,252</u>	<u>374,669,085</u>
TOTAL ASSETS	<u>\$ 531,201,468</u>	<u>475,445,745</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 16,587,164	12,626,805
Due to System Administration	1,480,166	1,288,967
Deferred Revenue	41,481,172	48,251,145
Employees' Compensable Leave-Current Portion	2,461,617	2,230,407
Notes, Loans and Leases Payable	202,041	173,021
Payable From Restricted Assets	3,680,173	2,778,921
Funds Held for Others	1,516,990	1,161,136
Other Current Liabilities	291,607	83,500
Total Current Liabilities	<u>67,700,930</u>	<u>68,593,902</u>
Noncurrent Liabilities:		
Employees' Compensable Leave	2,025,554	1,853,571
Liability to Beneficiaries-Held by System	694,081	715,980
Notes, Loans and Leases Payable	69,881	271,922
Other Noncurrent Liabilities	364,164	499,495
Total Noncurrent Liabilities	<u>3,153,680</u>	<u>3,340,968</u>
TOTAL LIABILITIES	<u>70,854,610</u>	<u>71,934,870</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	236,146,529	210,546,152
Restricted for:		
Nonexpendable		
Perm. Health, True & Term Endowments, & Annuities	81,989,095	80,125,042
Expendable		
Capital Projects	19,564,315	10,066,851
Funds Functioning as Endowment - Restricted	5,505,408	5,168,687
Other Expendable	85,032,979	70,797,064
Unrestricted	32,108,532	26,807,079
TOTAL NET ASSETS	<u>460,346,858</u>	<u>403,510,875</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 531,201,468</u>	<u>475,445,745</u>

UNAUDITED

THE UNIVERSITY OF TEXAS AT EL PASO  
 EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 80,389,738	73,200,301
Discounts and Allowances	(16,730,336)	(15,279,281)
Federal Sponsored Programs	60,213,912	58,183,177
Federal Sponsored Programs Pass-Through from Other St. Agencies	2,398,064	1,461,278
State Sponsored Programs	1,228,880	1,367,678
State Sponsored Programs Pass-Through from Other St. Agencies	10,780,123	7,629,900
Local Sponsored Programs	1,042,982	1,156,043
Private Sponsored Programs	3,009,790	4,542,131
Sales and Services of Educational Activities	3,621,796	3,085,664
Discounts and Allowances (none)		
Auxiliary Enterprises	27,628,337	23,948,261
Discounts and Allowances (none)		
Other Operating Revenues	317,352	438,165
Total Operating Revenues	<u>173,900,638</u>	<u>159,733,317</u>
<b>Operating Expenses:</b>		
Instruction	78,581,401	72,542,963
Research	33,091,229	29,128,754
Public Service	8,701,312	6,803,976
Academic Support	13,143,716	10,545,172
Student Services	12,344,609	10,654,379
Institutional Support	19,446,280	20,189,148
Operations and Maintenance of Plant	19,895,710	18,948,370
Scholarships and Fellowships	26,091,052	24,212,993
Auxiliary Enterprises	37,884,204	34,955,052
Depreciation and Amortization	11,880,023	11,793,318
Total Operating Expenses	<u>261,059,536</u>	<u>239,774,125</u>
Operating Loss	<u>(87,158,898)</u>	<u>(80,040,808)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	78,906,009	70,303,363
Gift Contributions for Operations	7,466,212	6,742,467
Net Investment Income	9,205,113	7,334,640
Net Increase (Decrease) in Fair Value of Investments	8,181,837	15,341,011
Gain/(Loss) on Sale of Capital Assets	(64,429)	(604,243)
Other Nonoperating Revenues	1,027,310	
Other Nonoperating Expenses	(161,533)	(89,242)
Net Nonoperating Revenues (Expenses)	<u>104,560,519</u>	<u>99,027,996</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	17,401,621	18,987,188
Gifts and Sponsored Programs for Capital Acquisitions	5,908,999	5,100,577
Additions to Permanent Endowments	933,494	1,693,787
Extraordinary Items	(504,812)	
Reclass from / (to) Other Institutions	34,700,023	(20,865,009)
Transfers Between Institutions & System-Debt Service-Mandatory	(9,898,191)	(10,611,120)
Transfers Between Institutions & System Admin. - Nonmandatory	8,993,857	38,840,894
Transfers From Other State Agencies	93,258	2,450,940
Transfers to Other State Agencies	(792,266)	(717,153)
Change in Net Assets	<u>56,835,983</u>	<u>34,880,104</u>
Beginning Net Assets - As Previously Reported	403,510,875	401,081,665
Restatements		(32,450,894)
Beginning Net Assets - As Restated	<u>403,510,875</u>	<u>368,630,771</u>
<b>Ending Net Assets</b>	<u>\$ 460,346,858</u>	<u>403,510,875</u>



## UNAUDITED

THE UNIVERSITY OF TEXAS AT EL PASO  
 EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
 For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 66,335,423	60,095,977
Proceeds from Sponsored Programs	69,073,415	72,093,301
Proceeds from Auxiliaries	28,578,392	24,646,147
Proceeds from Other Revenues	15,544,420	
Payments to Suppliers	(97,731,139)	(88,958,122)
Payments to Employees	(149,128,869)	(136,925,256)
Payments for Loans Provided	(8,930,901)	(8,361,736)
Proceeds from Loan Programs	8,800,335	7,953,988
Payments for Other Expenses		(2,646,680)
Net Cash Provided (Used) by Operating Activities	<u>(67,458,924)</u>	<u>(72,102,381)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	78,722,174	70,521,851
Proceeds from Operating Gifts	2,016,468	7,766,439
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	933,494	1,693,787
Proceeds from Other Nonoperating Revenues	1,027,310	
Payments/Receipts for Transfers to/from System or Oth. Agencies	(981,373)	1,437,337
Payments for Other Uses	(504,812)	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>81,213,261</u>	<u>81,419,414</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Issuance of Capital Debt		223,860
Proceeds from Capital Debt Transferred from System (nonmandatory)	27,065,108	18,953,514
Proceeds from Capital Appropriations, Grants and Gifts	7,605,879	6,766,670
Payments for Additions to Capital Assets	(34,405,459)	(24,936,880)
Payments of Principal on Capital Related Debt	(173,021)	(133,644)
Mandatory Transfers to System for Capital Related Debt	(9,898,191)	(10,611,120)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(9,805,684)</u>	<u>(9,737,600)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Interest and Investment Income	939,657	855,319
Proceeds from Interest and Investment Income Held by System	8,102,722	6,325,994
Payments to Acquire Investments Held by System	(13,101,643)	(2,479,681)
Net Cash Provided (Used) by Investing Activities	<u>(4,059,264)</u>	<u>4,701,632</u>
<b>Net Increase (Decrease) in Cash</b>	(110,611)	4,281,065
Cash & Cash Equivalents - Beginning of the Year	40,055,142	35,774,077
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 39,944,531</u>	<u>40,055,142</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to</b>		
<b>Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (87,158,898)	(80,040,808)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	11,880,023	11,793,318
Changes in Assets and Liabilities:		
Receivables	807,895	(2,771,314)
Inventories	(35,696)	(401,992)
Loans and Contracts	(130,566)	(407,748)
Other Assets	11,164,460	(5,350,540)
Payables	1,760,809	2,100,515
Due to System	191,199	6,092
Deferred Income	(6,769,973)	2,901,309
Deposits Held for Others	355,854	(182,268)
Compensated Absence Liability	403,193	392,814
Other Liabilities	72,776	(141,759)
Total Adjustments	<u>19,699,974</u>	<u>7,938,427</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (67,458,924)</u>	<u>(72,102,381)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	8,181,837	15,341,011
Donated Capital Assets	106,843	808,459



## UNAUDITED

THE UNIVERSITY OF TEXAS - PAN AMERICAN  
EXHIBIT A - BALANCE SHEET  
As of August 31, 2006

	Current Year Totals	Restated Prior Year Totals
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 3,788,375	4,468,691
Restricted Cash & Cash Equivalents	6,429,518	6,128,921
Balance in State Appropriations	4,566,685	3,466,912
Accounts Receivable, Net:		
Federal (allowances of \$0 in '06 & \$0 in '05)	3,129,470	2,612,116
Student (allowances of \$587,582 '06 & \$476,467 in '05)	17,163,393	22,299,992
Interest and Dividends	167,074	152,056
Contributions (allowances of \$76 in '06 & \$480 in '05)	7,294	7,709
Other (allowances of \$76,858 in '06 & \$35,606 in '05)	3,486,520	4,169,093
Due From Other Funds	6,379	174,637
Due From System Administration	9,895,480	4,812,510
Due From Other Agencies	132,830	271,168
Inventories	175,661	750,868
Loans & Contracts (allow. of \$3,020,362 in '06 & \$1,918,404 in '05)	4,032,572	858,941
Total Current Assets	<u>52,981,251</u>	<u>50,173,614</u>
Noncurrent Assets:		
Restricted:		
Investments	1,715,491	1,872,428
Loans & Contracts (allow. of \$755,760 in 06 & \$610,367 in '05)	2,460,173	6,719,329
Funds Held by System Administration	27,814,013	25,695,820
Contributions Rec. (allowances of \$321 in '06 & \$39,771 in '05)	32,079	39,771
Investments	47,128,454	45,612,272
Capital Assets	311,291,007	275,939,632
Less Accumulated Depreciation	(141,124,447)	(127,238,362)
Total Noncurrent Assets	<u>249,316,770</u>	<u>228,640,890</u>
TOTAL ASSETS	<u>\$ 302,298,021</u>	<u>278,814,504</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 13,432,244	11,996,510
Federal Payables	1,371,493	794,620
Due to Other Funds	6,379	174,637
Due to System Administration	1,015,978	916,346
Deferred Revenue	21,682,407	28,284,440
Employees' Compensable Leave-Current Portion	721,783	1,622,842
Payable From Restricted Assets	158,392	118,003
Other Current Liabilities	731,774	617,757
Total Current Liabilities	<u>39,120,450</u>	<u>44,525,155</u>
Noncurrent Liabilities:		
Employees' Compensable Leave	2,530,275	1,275,090
Assets Held for Others	921,692	416,455
Total Noncurrent Liabilities	<u>3,451,967</u>	<u>1,691,545</u>
TOTAL LIABILITIES	<u>42,572,417</u>	<u>46,216,700</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	170,166,560	148,701,270
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	11,647,897	11,123,569
Expendable		
Capital Projects	6,859,621	3,315,646
Funds Functioning as Endowment - Restricted	881,246	828,062
Other Expendable	20,772,690	19,029,788
Unrestricted	49,397,590	49,599,469
TOTAL NET ASSETS	<u>259,725,604</u>	<u>232,597,804</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 302,298,021</u>	<u>278,814,504</u>

## UNAUDITED

THE UNIVERSITY OF TEXAS - PAN AMERICAN  
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 59,417,868	53,305,845
Discounts and Allowances	(22,609,967)	(21,551,120)
Federal Sponsored Programs	45,500,017	42,103,685
Federal Sponsored Programs Pass-Through from Other St. Agencies	2,244,030	1,703,069
State Sponsored Programs	252,692	87,822
State Sponsored Programs Pass-Through from Other St. Agencies	17,564,511	15,623,894
Local Sponsored Programs	3,000	
Private Sponsored Programs	3,018,257	1,384,176
Sales and Services of Educational Activities	6,168,103	5,318,658
Discounts and Allowances (none)		
Auxiliary Enterprises	4,325,219	8,793,273
Discounts and Allowances (none)		
Other Operating Revenues	1,570,475	1,733,787
Total Operating Revenues	<u>117,454,205</u>	<u>108,503,089</u>
<b>Operating Expenses:</b>		
Instruction	71,840,322	63,952,588
Research	5,332,421	5,069,234
Public Service	7,700,219	6,936,054
Academic Support	12,095,906	10,108,715
Student Services	14,168,120	12,904,711
Institutional Support	15,723,421	14,160,790
Operations and Maintenance of Plant	12,164,148	11,774,410
Scholarships and Fellowships	29,310,696	28,059,629
Auxiliary Enterprises	10,865,719	12,614,475
Depreciation and Amortization	14,320,610	10,988,322
Total Operating Expenses	<u>193,521,582</u>	<u>176,568,928</u>
Operating Loss	<u>(76,067,377)</u>	<u>(68,065,839)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	65,781,954	60,255,363
Gift Contributions for Operations	1,405,630	1,480,210
Net Investment Income	1,941,874	2,677,219
Net Increase (Decrease) in Fair Value of Investments	3,417,712	3,196,076
Interest Expense on Capital Asset Financings		(180,550)
Gain/(Loss) on Sale of Capital Assets	(228,559)	(207,379)
Other Nonoperating Revenues	44,628	
Other Nonoperating Expenses	(23,190)	
Net Nonoperating Revenues (Expenses)	<u>72,340,049</u>	<u>67,220,939</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	(3,727,328)	(844,900)
Capital Appropriations - HEAF	8,588,232	6,081,112
Gifts and Sponsored Programs for Capital Acquisitions	275,190	478,860
Additions to Permanent Endowments	432,727	90,922
Reclass from / (to) Other Institutions	31,080,000	(44,930,000)
Transfers Between Institutions & System-Debt Service-Mandatory	(6,585,535)	(6,001,609)
Transfers Between Institutions & System Admin. - Nonmandatory	(2,933,360)	47,665,302
Transfers From Other State Agencies		138,136
Transfers to Other State Agencies	(2,126)	(3,362)
Change in Net Assets	<u>27,127,800</u>	<u>2,674,461</u>
Beginning Net Assets - As Previously Reported	232,597,804	246,493,391
Restatements		(16,570,048)
Beginning Net Assets - As Restated	<u>232,597,804</u>	<u>229,923,343</u>
<b>Ending Net Assets</b>	<u>\$ 259,725,604</u>	<u>232,597,804</u>

## UNAUDITED

THE UNIVERSITY OF TEXAS - PAN AMERICAN  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 37,562,193	32,042,016
Proceeds from Sponsored Programs	65,713,358	64,533,894
Proceeds from Auxiliaries	4,848,936	6,435,742
Proceeds from Other Revenues	8,790,151	5,440,111
Payments to Suppliers	(68,898,446)	(59,196,986)
Payments to Employees	(107,853,245)	(103,091,450)
Payments for Loans Provided	(9,739,776)	(8,347,486)
Proceeds from Loan Programs	9,600,364	7,968,546
Net Cash Provided (Used) by Operating Activities	<u>(59,976,465)</u>	<u>(54,215,613)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	64,682,181	57,072,683
Proceeds from Operating Gifts	1,413,737	1,488,525
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	432,727	90,922
Proceeds from Other Nonoperating Revenues	67,818	
Payments/Receipts for Transfers to/from System or Oth. Agencies	374,744	499,146
Payments for Other Uses	(23,190)	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>66,948,017</u>	<u>59,151,276</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Capital Debt Transferred from System (nonmandatory)	22,688,213	12,437,640
Proceeds from Capital Appropriations, Grants and Gifts	8,588,232	9,617,064
Payments for Additions to Capital Assets	(33,907,898)	(23,547,589)
Payments of Principal on Capital Related Debt		(3,140,000)
Mandatory Transfers to System for Capital Related Debt	(6,585,535)	(6,001,609)
Payments of Interest on Capital Related Debt		(188,400)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(9,216,988)</u>	<u>(10,822,894)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Sales of Investments	2,411,021	
Proceeds from Interest and Investment Income	185,947	409,382
Proceeds from Interest and Investment Income Held by System	7,644,529	6,399,188
Payments to Acquire Investments Held by System	(8,375,780)	(1,862,911)
Net Cash Provided (Used) by Investing Activities	<u>1,865,717</u>	<u>4,945,659</u>
<b>Net Increase (Decrease) in Cash</b>	(379,719)	(941,572)
Cash & Cash Equivalents - Beginning of the Year	10,597,612	11,539,184
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 10,217,893</u>	<u>10,597,612</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to</b>		
<b>Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (76,067,377)	(68,065,839)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	14,320,610	10,988,322
Bad Debt Expense	1,224,937	251,501
Changes in Assets and Liabilities:		
Receivables	5,443,212	(4,080,193)
Inventories	575,207	1,946,284
Loans and Contracts	(139,412)	(378,940)
Payables	195,379	502,430
Due to System	99,632	91,674
Deferred Income	(6,602,033)	4,362,592
Deposits Held for Others	505,237	(180,823)
Compensated Absence Liability	354,126	245,951
Other Liabilities	114,017	101,428
Total Adjustments	<u>16,090,912</u>	<u>13,850,226</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (59,976,465)</u>	<u>(54,215,613)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	3,417,712	3,196,076
Donated Capital Assets	275,190	186,076
Miscellaneous Noncash Transactions	(23,190)	6,793

## UNAUDITED

THE UNIVERSITY OF TEXAS OF THE PERMIAN BASIN  
 EXHIBIT A - BALANCE SHEET  
 As of August 31, 2006

	Current Year Totals	Restated Prior Year Totals
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 6,525,510	7,716,026
Restricted Cash & Cash Equivalents	3,730,296	365,168
Balance in State Appropriations	83,642	564,821
Accounts Receivable, Net:		
Federal (allowances of \$0 in '06 & \$0 in '05)	197,514	1,608,067
Student (allowances of \$0 in '06 & \$0 in '05)	457,489	437,527
Contributions (allowances of \$21,215 in '06 & \$11,175 in '05)	190,937	174,251
Other (allowances of \$0 in '06 & \$0 in '05)	446,613	329,193
Due From System Administration	1,696,780	4,064,977
Due From Other Agencies		268,078
Inventories	135,358	120,563
Loans & Contracts (allowances of \$239,707 in '06 & \$275,378 in '05)	480,857	451,480
Other Current Assets	1,680,551	2,452,060
<b>Total Current Assets</b>	<b>15,625,547</b>	<b>18,552,211</b>
Noncurrent Assets:		
Restricted:		
Investments	606,011	590,132
Funds Held by System Administration	16,746,878	15,429,666
Contributions Rec. (allowances of \$61,099 in '06 & \$18,217 in '05)	549,891	164,003
Investments	3,880,958	1,581,116
Capital Assets	95,404,414	92,426,581
Less Accumulated Depreciation	(39,781,133)	(36,607,035)
<b>Total Noncurrent Assets</b>	<b>77,407,019</b>	<b>73,584,463</b>
<b>TOTAL ASSETS</b>	<b>\$ 93,032,566</b>	<b>92,136,674</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 2,160,200	2,575,290
Due to System Administration	201,011	176,470
Deferred Revenue	4,930,679	4,887,564
Employees' Compensable Leave-Current Portion	378,670	352,189
Payable From Restricted Assets	176,192	112,641
Funds Held for Others	395,425	200,734
Other Current Liabilities	178,479	155,087
<b>Total Current Liabilities</b>	<b>8,420,656</b>	<b>8,459,975</b>
Noncurrent Liabilities:		
Employees' Compensable Leave	88,339	118,201
<b>Total Noncurrent Liabilities</b>	<b>88,339</b>	<b>118,201</b>
<b>TOTAL LIABILITIES</b>	<b>8,508,995</b>	<b>8,578,176</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	55,623,281	55,819,546
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	10,266,433	9,891,790
Expendable		
Capital Projects	691,349	2,596,923
Other Expendable	13,800,833	11,056,229
Unrestricted	4,141,675	4,194,010
<b>TOTAL NET ASSETS</b>	<b>84,523,571</b>	<b>83,558,498</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 93,032,566</b>	<b>92,136,674</b>

## UNAUDITED

THE UNIVERSITY OF TEXAS OF THE PERMIAN BASIN  
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 12,236,939	11,027,500
Discounts and Allowances	(3,482,351)	(2,965,628)
Federal Sponsored Programs	4,998,476	4,328,470
Federal Sponsored Programs Pass-Through from Other St. Agencies	127,191	145,276
State Sponsored Programs	103,543	106,684
State Sponsored Programs Pass-Through from Other St. Agencies	399,152	693,213
Local Sponsored Programs	8,333	16,363
Private Sponsored Programs	34,852	36,178
Sales and Services of Educational Activities	392,183	498,111
Discounts and Allowances (none)		
Auxiliary Enterprises	1,659,892	884,443
Discounts and Allowances (none)		
Other Operating Revenues	292,447	316,133
<b>Total Operating Revenues</b>	<b>16,770,657</b>	<b>15,086,743</b>
<b>Operating Expenses:</b>		
Instruction	11,157,749	9,837,999
Research	2,282,425	1,587,620
Public Service	1,294,629	1,311,472
Academic Support	5,480,102	4,370,260
Student Services	1,321,652	1,369,324
Institutional Support	3,567,139	3,070,927
Operations and Maintenance of Plant	3,838,718	3,111,869
Scholarships and Fellowships	3,886,596	3,512,180
Auxiliary Enterprises	2,453,289	2,398,331
Depreciation and Amortization	3,347,735	2,467,499
<b>Total Operating Expenses</b>	<b>38,630,034</b>	<b>33,037,481</b>
<b>Operating Loss</b>	<b>(21,859,377)</b>	<b>(17,950,738)</b>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	17,043,186	15,890,717
Gift Contributions for Operations	3,669,757	1,310,374
Net Investment Income	1,187,933	912,607
Net Increase (Decrease) in Fair Value of Investments	1,111,102	1,513,246
Gain/(Loss) on Sale of Capital Assets	(20,257)	(2,496)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>22,991,721</b>	<b>19,624,448</b>
<b>Income/(Loss) Before Other Rev., Exp., Gains/(Losses) &amp; Transfers</b>	<b>1,132,344</b>	<b>1,673,710</b>
Gifts and Sponsored Programs for Capital Acquisitions	767,470	396,050
Additions to Permanent Endowments	277,752	482,225
Reclass from / (to) Other Institutions	(4,823,472)	5,256,720
Transfers Between Institutions & System-Debt Service-Mandatory	(2,918,586)	(2,326,923)
Transfers Between Institutions & System Admin. - Nonmandatory	6,589,541	2,079,090
Transfers From Other State Agencies		250,000
Transfers to Other State Agencies	(59,976)	
<b>Change in Net Assets</b>	<b>965,073</b>	<b>7,810,872</b>
Beginning Net Assets - As Previously Reported	83,558,498	77,768,039
Restatements		(2,020,413)
<b>Beginning Net Assets - As Restated</b>	<b>83,558,498</b>	<b>75,747,626</b>
<b>Ending Net Assets</b>	<b>\$ 84,523,571</b>	<b>83,558,498</b>

## UNAUDITED

THE UNIVERSITY OF TEXAS OF THE PERMIAN BASIN  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 8,709,073	8,436,491
Proceeds from Sponsored Programs	7,356,140	3,938,815
Proceeds from Auxiliaries	1,729,968	962,382
Proceeds from Other Revenues	1,549,432	766,699
Payments to Suppliers	(14,729,321)	(12,093,242)
Payments to Employees	(20,372,554)	(18,576,185)
Payments for Loans Provided	(1,163,142)	(2,397,264)
Proceeds from Loan Programs	1,133,765	2,028,495
Net Cash Provided (Used) by Operating Activities	<u>(15,786,639)</u>	<u>(16,933,809)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	17,524,365	16,665,072
Proceeds from Operating Gifts	3,267,183	1,294,307
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	277,752	482,225
Payments/Receipts for Transfers to/from System or Oth. Agencies	(15,681)	285,132
Net Cash Provided (Used) by Noncapital Financing Activities	<u>21,053,619</u>	<u>18,726,736</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Capital Debt Transferred from System (nonmandatory)	4,140,180	11,379,020
Payments for Additions to Capital Assets	(2,929,855)	(10,540,488)
Mandatory Transfers to System for Capital Related Debt	(2,918,586)	(2,326,923)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(1,708,261)</u>	<u>(1,488,391)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Interest and Investment Income	596,785	335,282
Proceeds from Interest and Investment Income Held by System	540,939	864,035
Payments to Acquire Investments Held by System	(2,521,831)	(863,018)
Net Cash Provided (Used) by Investing Activities	<u>(1,384,107)</u>	<u>336,299</u>
<b>Net Increase (Decrease) in Cash</b>	2,174,612	640,835
Cash & Cash Equivalents - Beginning of the Year	8,081,194	7,440,359
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 10,255,806</u>	<u>8,081,194</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (21,859,377)	(17,950,738)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	3,347,735	2,467,499
Bad Debt Expense		251
Changes in Assets and Liabilities:		
Receivables	1,541,249	(1,806,181)
Inventories	(14,795)	(1,410)
Loans and Contracts	(29,377)	(368,769)
Other Assets	771,509	39,788
Payables	174,059	(63,769)
Due to System	24,541	12,262
Deferred Income	43,115	891,041
Deposits Held for Others	194,691	(127,422)
Compensated Absence Liability	(3,381)	(46,779)
Other Liabilities	23,392	20,418
Total Adjustments	<u>6,072,738</u>	<u>1,016,929</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (15,786,639)</u>	<u>(16,933,809)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	1,111,102	1,513,246
Donated Capital Assets	767,470	396,050

## UNAUDITED

THE UNIVERSITY OF TEXAS AT SAN ANTONIO  
EXHIBIT A - BALANCE SHEET  
As of August 31, 2006

	Current Year Totals	Restated Prior Year Totals
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 73,513,297	85,315,023
Restricted Cash & Cash Equivalents	6,218,461	8,817,518
Balance in State Appropriations	3,328,604	2,154,048
Funds Held by System Administration - Current	981	
Accounts Receivable, Net:		
Federal (allowances of \$0 in '06 & \$0 in '05)	6,735,089	6,339,730
Student (allow. of \$310,000 in '06 & \$386,000 in '05)	15,042,937	15,587,006
Interest and Dividends	235,201	125,720
Contributions (allowances of \$5,321 in '06 & \$13,926 in '05)	821,542	714,743
Other (allowances of \$79,928 in '06 & \$41,052 in '05)	3,369,324	2,856,586
Due From Other Funds	14,421,655	13,993,046
Due From System Administration	42,578,748	36,786,205
Due From Other Agencies	639,786	829,521
Inventories	988,616	918,690
Loans & Contracts (allow. of \$523,941 in '06 & \$453,274 in '05)	9,236,285	8,300,405
Other Current Assets	783,470	16,663,217
Total Current Assets	<u>177,913,996</u>	<u>199,401,458</u>
Noncurrent Assets:		
Restricted:		
Investments	4,000,000	2,000,000
Loans & Contracts (allow. of \$152,119 in '06 & \$148,280 in '05)	2,077,448	2,207,672
Funds Held by System Administration	44,821,446	36,762,195
Contributions Rec. (allow. of \$5,647 in '06 & \$16,467 in '05)	871,868	845,095
Investments	91,109,298	41,668,456
Other Noncurrent Assets	20,621	
Capital Assets	617,957,340	573,663,218
Less Accumulated Depreciation	<u>(173,906,762)</u>	<u>(154,886,853)</u>
Total Noncurrent Assets	<u>586,951,259</u>	<u>502,259,783</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>764,865,255</u></b>	<b><u>701,661,241</u></b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 24,553,721	27,382,542
Due to Other Funds	14,421,655	13,993,046
Due to System Administration	1,788,892	1,524,070
Deferred Revenue	75,595,935	80,662,036
Employees' Compensable Leave-Current Portion	3,504,903	2,843,147
Payable From Restricted Assets	2,290,476	1,849,026
Funds Held for Others	4,288,242	3,663,562
Other Current Liabilities	1,020,644	971,886
Total Current Liabilities	<u>127,464,468</u>	<u>132,889,315</u>
Noncurrent Liabilities:		
Employees' Compensable Leave	2,092,715	2,209,063
Liability to Beneficiaries-Held by System	133,256	137,650
Other Noncurrent Liabilities	20,621	
Total Noncurrent Liabilities	<u>2,246,592</u>	<u>2,346,713</u>
<b>TOTAL LIABILITIES</b>	<b><u>129,711,060</u></b>	<b><u>135,236,028</u></b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	444,050,578	418,776,365
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	23,076,565	17,435,810
Expendable		
Capital Projects	26,980,873	11,048,286
Funds Functioning as Endowment - Restricted	665,068	604,620
Other Expendable	33,875,167	34,603,543
Unrestricted	106,505,944	83,956,589
<b>TOTAL NET ASSETS</b>	<b><u>635,154,195</u></b>	<b><u>566,425,213</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>764,865,255</u></b>	<b><u>701,661,241</u></b>



## UNAUDITED

THE UNIVERSITY OF TEXAS AT SAN ANTONIO  
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 155,069,878	141,401,742
Discounts and Allowances	(36,445,292)	(30,449,653)
Federal Sponsored Programs	58,524,386	52,794,585
Federal Sponsored Programs Pass-Through from Other St. Agencies	1,930,214	1,305,375
State Sponsored Programs	2,387,362	2,274,948
State Sponsored Programs Pass-Through from Other St. Agencies	8,557,772	6,055,672
Local Sponsored Programs	437,461	453,006
Private Sponsored Programs	1,400,120	1,592,477
Sales and Services of Educational Activities	6,045,982	6,004,374
Discounts and Allowances (none)		
Auxiliary Enterprises	14,234,457	13,598,361
Discounts and Allowances (none)		
Other Operating Revenues	3,229,591	1,909,572
Total Operating Revenues	<u>215,371,931</u>	<u>196,940,459</u>
<b>Operating Expenses:</b>		
Instruction	91,524,606	87,547,509
Research	24,086,411	18,322,683
Public Service	15,495,072	15,202,765
Academic Support	21,660,051	18,567,959
Student Services	22,396,373	19,251,482
Institutional Support	33,223,644	29,081,280
Operations and Maintenance of Plant	28,448,615	24,061,982
Scholarships and Fellowships	20,544,226	22,932,211
Auxiliary Enterprises	15,831,054	13,450,864
Depreciation and Amortization	20,600,576	21,573,455
Total Operating Expenses	<u>293,810,628</u>	<u>269,992,190</u>
Operating Loss	<u>(78,438,697)</u>	<u>(73,051,731)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	97,128,561	81,485,519
Gift Contributions for Operations	3,538,913	3,716,024
Net Investment Income	6,139,705	4,576,934
Net Increase (Decrease) in Fair Value of Investments	4,116,397	4,053,402
Gain/(Loss) on Sale of Capital Assets	(177,235)	2,029,859
Other Nonoperating Revenues	8,209	36,188
Other Nonoperating Expenses	(38,456)	(2,465)
Net Nonoperating Revenues (Expenses)	<u>110,716,094</u>	<u>95,895,461</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	32,277,397	22,843,730
Gifts and Sponsored Programs for Capital Acquisitions	561,333	52,247
Additions to Permanent Endowments	4,946,253	1,938,474
Reclass from / (to) Other Institutions	19,785,763	(53,539,085)
Transfers Between Institutions & System-Debt Service-Mandatory	(16,620,496)	(14,423,228)
Transfers Between Institutions & System Admin. - Nonmandatory	28,615,263	129,960,404
Transfers From Other State Agencies	103,785	1,548,415
Transfers to Other State Agencies	(940,316)	(1,194,541)
Change in Net Assets	<u>68,728,982</u>	<u>87,186,416</u>
Beginning Net Assets - As Previously Reported	566,425,213	502,056,107
Restatements		(22,817,310)
Beginning Net Assets - As Restated	<u>566,425,213</u>	<u>479,238,797</u>
<b>Ending Net Assets</b>	<u>\$ 635,154,195</u>	<u>566,425,213</u>



## UNAUDITED

THE UNIVERSITY OF TEXAS AT SAN ANTONIO  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 124,198,204	113,279,301
Proceeds from Sponsored Programs	63,411,536	69,103,978
Proceeds from Auxiliaries	13,070,390	13,518,166
Proceeds from Other Revenues	25,969,318	8,444,794
Payments to Suppliers	(86,809,465)	(82,989,130)
Payments to Employees	(181,893,839)	(160,958,496)
Payments for Loans Provided	(18,545,426)	(16,761,363)
Proceeds from Loan Programs	17,296,095	15,702,067
Net Cash Provided (Used) by Operating Activities	<u>(43,303,187)</u>	<u>(40,660,683)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	95,954,005	84,668,383
Proceeds from Operating Gifts	3,405,341	4,024,443
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	4,946,253	1,938,474
Proceeds from Other Nonoperating Revenues		(211,720)
Payments/Receipts for Transfers to/from System or Oth. Agencies	(864,945)	431,856
Payments for Other Uses		(2,465)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>103,440,654</u>	<u>90,848,971</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Capital Debt Transferred from System (nonmandatory)	42,530,388	82,671,171
Proceeds from Sale of Capital Assets	14,501	10,802
Payments for Additions to Capital Assets	(51,133,531)	(90,703,634)
Mandatory Transfers to System for Capital Related Debt	(16,620,496)	(14,423,228)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(25,209,138)</u>	<u>(22,444,889)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Interest and Investment Income	2,414,740	3,011,265
Proceeds from Interest and Investment Income Held by System	3,640,825	1,553,501
Payments to Acquire Investments Held by System	(55,383,696)	(3,147,874)
Net Cash Provided (Used) by Investing Activities	<u>(49,328,131)</u>	<u>1,416,892</u>
<b>Net Increase (Decrease) in Cash</b>	(14,399,802)	29,160,291
Cash & Cash Equivalents - Beginning of the Year	94,132,541	64,972,250
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 79,732,739</u>	<u>94,132,541</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (78,438,697)	(73,051,731)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	20,600,576	21,573,455
Bad Debt Expense	451,938	446,373
Changes in Assets and Liabilities:		
Receivables	(182,556)	2,714,368
Inventories	(69,926)	(28,820)
Loans and Contracts	(1,249,331)	(1,059,296)
Other Assets	15,859,126	832,018
Payables	3,314,506	2,460,609
Due to System	264,822	161,937
Deferred Income	(5,066,101)	4,463,669
Deposits Held for Others	597,669	254,028
Compensated Absence Liability	545,408	527,216
Other Liabilities	69,379	45,491
Total Adjustments	<u>35,135,510</u>	<u>32,391,048</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (43,303,187)</u>	<u>(40,660,683)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	4,116,397	4,053,402
Donated Capital Assets	561,333	52,247
Miscellaneous Noncash Transactions	59,037	2,387,106

## UNAUDITED

THE UNIVERSITY OF TEXAS AT TYLER  
EXHIBIT A - BALANCE SHEET  
As of August 31, 2006

	Current Year Totals	Restated Prior Year Totals
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 11,032,772	24,781,430
Restricted Cash & Cash Equivalents	3,730,291	2,519,434
Balance in State Appropriations	440	
Accounts Receivable, Net:		
Federal (allowances of \$0 in '06 & \$0 in '05)	477,783	463,875
Other Intergov. (allowances of \$0 in '06 & \$0 in '05)		20,939
Student (allowances of \$460,847 in '06 & \$318,480 in '05)	164,819	163,112
Interest and Dividends	84,351	1,163
Contributions (allowances of \$3,600 in '06 & \$10,225 in '05)	69,196	194,209
Other (allowances of \$0 in '06 & \$0 in '05)	345,542	418,312
Due From System Administration	8,723,882	15,581,117
Due From Other Agencies	222,661	291,449
Inventories		26,945
Loans & Contracts (allow. of \$484,476 in '06 & \$433,315 in '05)	189,352	226,007
Other Current Assets	296,464	2,475,697
<b>Total Current Assets</b>	<b>25,337,553</b>	<b>47,163,689</b>
Noncurrent Assets:		
Restricted:		
Funds Held by System Administration	56,448,252	51,857,815
Contributions Rec. (allowances of \$24,100 in '06 & \$24,875 in '05)	458,609	472,103
Investments	20,661,823	404,045
Other Noncurrent Assets	58,546	27,173
Capital Assets	163,118,401	143,739,924
Less Accumulated Depreciation	(47,087,785)	(41,711,080)
<b>Total Noncurrent Assets</b>	<b>193,657,846</b>	<b>154,789,980</b>
<b>TOTAL ASSETS</b>	<b>\$ 218,995,399</b>	<b>201,953,669</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 8,521,988	10,054,151
Due to System Administration	384,100	313,443
Deferred Revenue	8,664,430	8,601,572
Employees' Compensable Leave-Current Portion	518,699	417,293
Payable From Restricted Assets	170,990	119,407
Funds Held for Others	863,682	835,954
Other Current Liabilities		39,624
<b>Total Current Liabilities</b>	<b>19,123,889</b>	<b>20,381,444</b>
Noncurrent Liabilities:		
Employees' Compensable Leave	292,259	359,346
Other Noncurrent Liabilities	334,062	185,699
<b>Total Noncurrent Liabilities</b>	<b>626,321</b>	<b>545,045</b>
<b>TOTAL LIABILITIES</b>	<b>19,750,210</b>	<b>20,926,489</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	116,030,616	102,028,844
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	23,875,420	22,737,072
Expendable		
Capital Projects	7,239,855	10,939,829
Funds Functioning as Endowment - Restricted	337,106	316,761
Other Expendable	35,145,975	32,307,220
Unrestricted	16,616,217	12,697,454
<b>TOTAL NET ASSETS</b>	<b>199,245,189</b>	<b>181,027,180</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 218,995,399</b>	<b>201,953,669</b>

UNAUDITED

THE UNIVERSITY OF TEXAS AT TYLER  
 EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 23,205,008	19,576,407
Discounts and Allowances	(5,505,340)	(5,253,476)
Federal Sponsored Programs	5,171,248	4,927,407
Federal Sponsored Programs Pass-Through from Other St. Agencies	911,238	388,335
State Sponsored Programs	232,852	154,555
State Sponsored Programs Pass-Through from Other St. Agencies	826,528	1,437,029
Local Sponsored Programs		8,125
Private Sponsored Programs	585,011	498,113
Sales and Services of Educational Activities	1,243,116	577,655
Discounts and Allowances (none)		
Auxiliary Enterprises	2,686,905	2,103,777
Discounts and Allowances (none)		
Other Operating Revenues	171,311	284,388
Total Operating Revenues	<u>29,527,877</u>	<u>24,702,315</u>
<b>Operating Expenses:</b>		
Instruction	22,326,791	20,397,681
Research	1,137,523	956,622
Public Service	909,228	349,353
Academic Support	5,920,118	4,823,718
Student Services	4,027,031	3,984,696
Institutional Support	9,196,798	7,544,070
Operations and Maintenance of Plant	4,660,620	3,841,794
Scholarships and Fellowships	5,114,554	5,279,321
Auxiliary Enterprises	3,983,197	3,622,336
Depreciation and Amortization	6,100,993	4,868,148
Total Operating Expenses	<u>63,376,853</u>	<u>55,667,739</u>
Operating Loss	<u>(33,848,976)</u>	<u>(30,965,424)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	29,911,035	25,599,445
Gift Contributions for Operations	918,119	853,580
Net Investment Income	3,522,720	3,304,303
Net Increase (Decrease) in Fair Value of Investments	3,749,673	6,104,921
Gain/(Loss) on Sale of Capital Assets	(12,791)	6,076
Net Nonoperating Revenues (Expenses)	<u>38,088,756</u>	<u>35,868,325</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	4,239,780	4,902,901
Gifts and Sponsored Programs for Capital Acquisitions	445,564	2,340,616
Additions to Permanent Endowments	338,937	477,617
Reclass from / (to) Other Institutions	14,753,707	(490,031)
Transfers Between Institutions & System-Debt Service-Mandatory	(3,596,763)	(2,295,667)
Transfers Between Institutions & System Admin. - Nonmandatory	2,103,917	13,910,031
Transfers From Other State Agencies	22,878	268,661
Transfers to Other State Agencies	(90,011)	(76,311)
Change in Net Assets	<u>18,218,009</u>	<u>19,037,817</u>
Beginning Net Assets - As Previously Reported	181,027,180	165,424,088
Restatements		(3,434,725)
Beginning Net Assets - As Restated	<u>181,027,180</u>	<u>161,989,363</u>
<b>Ending Net Assets</b>	<u>\$ 199,245,189</u>	<u>181,027,180</u>

UNAUDITED

THE UNIVERSITY OF TEXAS AT TYLER  
 EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
 For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 17,069,495	15,881,461
Proceeds from Sponsored Programs	7,542,985	7,412,251
Proceeds from Auxiliaries	3,363,281	2,352,174
Proceeds from Other Revenues	4,044,051	227,300
Payments to Suppliers	(19,669,491)	(18,066,467)
Payments to Employees	(36,466,539)	(32,259,091)
Payments for Loans Provided	(186,022)	(168,063)
Proceeds from Loan Programs	171,515	201,366
Net Cash Provided (Used) by Operating Activities	<u>(24,130,725)</u>	<u>(24,419,069)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	29,910,595	26,881,930
Proceeds from Operating Gifts	927,190	862,869
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	338,937	477,617
Proceeds from Other Nonoperating Revenues		(18,661)
Payments/Receipts for Transfers to/from System or Oth. Agencies	(47,019)	227,454
Net Cash Provided (Used) by Noncapital Financing Activities	<u>31,129,703</u>	<u>28,431,209</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Capital Debt Transferred from System (nonmandatory)	23,703,047	27,160,870
Proceeds from Capital Appropriations, Grants and Gifts	575,000	4,731,465
Payments for Additions to Capital Assets	(22,527,873)	(30,704,444)
Mandatory Transfers to System for Capital Related Debt	(3,596,763)	(2,295,667)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(1,846,589)</u>	<u>(1,107,776)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Interest and Investment Income	910,753	629,122
Proceeds from Interest and Investment Income Held by System	2,497,599	2,646,539
Payments to Acquire Investments Held by System	(21,098,542)	(609,746)
Net Cash Provided (Used) by Investing Activities	<u>(17,690,190)</u>	<u>2,665,915</u>
<b>Net Increase (Decrease) in Cash</b>	<b>(12,537,801)</b>	<b>5,570,279</b>
Cash & Cash Equivalents - Beginning of the Year	27,300,864	21,730,585
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<b>\$ 14,763,063</b>	<b>27,300,864</b>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (33,848,976)	(30,965,424)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	6,100,993	4,868,148
Bad Debt Expense	53,294	24,622
Changes in Assets and Liabilities:		
Receivables	144,750	(304,631)
Inventories	26,945	(10,169)
Loans and Contracts	(14,507)	33,303
Other Assets	2,147,860	(851,765)
Payables	954,615	333,585
Due to System	70,657	24,481
Deferred Income	62,858	1,896,112
Deposits Held for Others	27,728	360,753
Compensated Absence Liability	34,319	101,514
Other Liabilities	108,739	70,402
Total Adjustments	<u>9,718,251</u>	<u>6,546,355</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (24,130,725)</u>	<u>(24,419,069)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	3,749,673	6,104,921
Miscellaneous Noncash Transactions	22,878	24,737

## UNAUDITED

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS  
EXHIBIT A - BALANCE SHEET  
As of August 31, 2006

	Current Year Totals	Restated Prior Year Totals
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 76,394,534	119,420,132
Restricted Cash & Cash Equivalents	53,817,765	24,224,149
Balance in State Appropriations	21,088,817	1,289,058
Accounts Receivable, Net:		
Federal (allowances of \$0 in '06 & \$0 in '05)	26,469,814	23,836,434
Other Intergov. (allowances of \$0 in '06 & \$0 in '05)	1,880,026	3,060,807
Student (allowances of \$0 in '06 & \$0 in '05)	24,025	53,688
Patient (allowances of \$218,495,902 in '06 & \$184,977,008 in '05)	80,936,888	79,364,742
Interest and Dividends	1,582,395	1,018,486
Contributions (allowances of \$444,732 in '06 & \$465,232 in '05)	9,575,232	15,931,647
Other (allowances of \$437,644 in '06 & \$0 in '05)	25,424,436	28,901,749
Due From System Administration	68,638,135	36,301,879
Due From Other Agencies	13,549	13,549
Inventories	9,860,500	10,302,772
Loans & Contracts (allowances of \$53,218 in '06 & \$43,326 in '05)	2,016,270	2,224,960
Other Current Assets	3,711,200	3,076,399
Total Current Assets	<u>381,433,586</u>	<u>349,020,451</u>
Noncurrent Assets:		
Restricted:		
Investments	263,320,303	270,483,788
Loans & Contracts (allow. of \$156,618 in '06 & \$106,007 in '05)	5,933,844	5,443,899
Funds Held by System Administration	699,447,888	631,719,995
Funds Held by System - Permanent Health Fund	60,184,650	56,457,150
Contributions Rec. (allow. of \$272,091 in '06 & \$260,317 in '05)	10,791,101	9,264,118
Investments	267,509,792	185,281,732
Other Noncurrent Assets		4,500
Capital Assets	1,388,758,753	1,288,136,018
Less Accumulated Depreciation	(398,034,623)	(351,652,933)
Total Noncurrent Assets	<u>2,297,911,708</u>	<u>2,095,138,267</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>2,679,345,294</u></b>	<b><u>2,444,158,718</u></b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 127,937,726	98,462,764
Due to System Administration	5,878,961	5,278,233
Deferred Revenue	7,345,782	7,804,671
Employees' Compensable Leave-Current Portion	26,988,517	24,381,027
Notes, Loans and Leases Payable	287,571	439,579
Payable From Restricted Assets	8,580,492	11,860,406
Funds Held for Others	685,464	472,851
Other Current Liabilities	118,434	109,901
Total Current Liabilities	<u>177,822,947</u>	<u>148,809,432</u>
Noncurrent Liabilities:		
Employees' Compensable Leave	22,081,514	19,156,521
Liability to Beneficiaries-Held by System	22,562	33,294
Notes, Loans and Leases Payable	117,269	921,058
Other Noncurrent Liabilities	436,872	1,371,313
Total Noncurrent Liabilities	<u>22,658,217</u>	<u>21,482,186</u>
<b>TOTAL LIABILITIES</b>	<b><u>200,481,164</u></b>	<b><u>170,291,618</u></b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	990,570,473	936,483,085
Restricted for:		
Nonexpendable		
Perm. Health, True & Term Endowments, & Annuities	430,428,383	402,589,029
Expendable		
Capital Projects	58,286,517	40,534,672
Funds Functioning as Endowment - Restricted	22,021,929	20,691,770
Other Expendable	645,789,274	571,383,982
Unrestricted	331,767,554	302,184,562
<b>TOTAL NET ASSETS</b>	<b><u>2,478,864,130</u></b>	<b><u>2,273,867,100</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>2,679,345,294</u></b>	<b><u>2,444,158,718</u></b>

## UNAUDITED

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS  
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 14,753,216	13,151,103
Discounts and Allowances	(2,342,153)	(2,193,569)
Federal Sponsored Programs	197,212,427	205,200,241
Federal Sponsored Programs Pass-Through from Other St. Agencies	4,872,985	3,700,956
State Sponsored Programs	3,417,750	5,631,680
State Sponsored Programs Pass-Through from Other St. Agencies	1,165,832	865,562
Local Sponsored Programs	136,490,505	116,370,503
Private Sponsored Programs	63,042,068	54,464,061
Sales and Services of Educational Activities	6,554,818	13,677,519
Discounts and Allowances (none)		
Sales and Services of Hospitals	830,661,079	513,063,853
Discounts and Allowances	(541,193,533)	(323,012,980)
Professional Fees	923,221,146	850,657,526
Discounts and Allowances	(675,381,812)	(611,512,784)
Auxiliary Enterprises	17,212,670	16,197,578
Discounts and Allowances (none)		
Other Operating Revenues	14,318,505	20,142,176
Total Operating Revenues	<u>994,005,503</u>	<u>876,403,425</u>
<b>Operating Expenses:</b>		
Instruction	390,137,557	361,939,902
Research	257,392,902	247,784,008
Public Service	61,207,775	72,260,661
Hospitals and Clinics	293,264,938	185,863,528
Academic Support	23,234,032	18,810,437
Student Services	2,656,583	2,514,692
Institutional Support	49,090,724	47,308,670
Operations and Maintenance of Plant	56,869,663	50,491,547
Scholarships and Fellowships	441,665	454,797
Auxiliary Enterprises	15,305,206	14,021,597
Depreciation and Amortization	56,952,177	47,565,931
Total Operating Expenses	<u>1,206,553,222</u>	<u>1,049,015,770</u>
Operating Loss	<u>(212,547,719)</u>	<u>(172,612,345)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	147,434,076	108,296,550
Gift Contributions for Operations	42,930,007	61,661,393
Net Investment Income	68,351,975	67,661,378
Net Increase (Decrease) in Fair Value of Investments	64,482,417	76,338,841
Gain/(Loss) on Sale of Capital Assets	(2,023,917)	(1,955,519)
Other Nonoperating Revenues	135,905	335,902
Net Nonoperating Revenues (Expenses)	<u>321,310,463</u>	<u>312,338,545</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	108,762,744	139,726,200
Gifts and Sponsored Programs for Capital Acquisitions	4,853,385	7,337,203
Additions to Permanent Endowments	15,903,506	8,458,121
Reclass from / (to) Other Institutions	71,414,088	(18,021,117)
Transfers Between Institutions & System-Debt Service-Mandatory	(40,610,339)	(28,715,043)
Transfers Between Institutions & System Admin. - Nonmandatory	44,603,796	161,400,362
Transfers From Other State Agencies	171,200	4,503,301
Transfers to Other State Agencies	(101,350)	(103,928)
Change in Net Assets	<u>204,997,030</u>	<u>274,585,099</u>
Beginning Net Assets - As Previously Reported	2,273,867,100	1,939,582,066
Restatements		59,699,935
Beginning Net Assets - As Restated	<u>2,273,867,100</u>	<u>1,999,282,001</u>
<b>Ending Net Assets</b>	<u>\$ 2,478,864,130</u>	<u>2,273,867,100</u>



## UNAUDITED

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 12,582,529	11,793,597
Proceeds from Patients and Customers	536,478,095	381,398,615
Proceeds from Sponsored Programs	404,923,856	410,155,505
Proceeds from Auxiliaries	17,654,328	15,945,246
Proceeds from Other Revenues	23,946,210	47,278,353
Payments to Suppliers	(362,093,710)	(318,964,511)
Payments to Employees	(759,583,199)	(654,332,137)
Payments for Loans Provided	(2,147,284)	(1,997,977)
Proceeds from Loan Programs	1,798,937	1,978,745
Net Cash Provided (Used) by Operating Activities	<u>(126,440,238)</u>	<u>(106,744,564)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	127,634,317	109,731,581
Proceeds from Operating Gifts	41,273,080	52,462,051
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	15,903,506	8,458,121
Proceeds from Other Nonoperating Revenues	18,696	227,333
Payments/Receipts for Transfers to/from System or Oth. Agencies	(526,768)	6,852,212
Net Cash Provided (Used) by Noncapital Financing Activities	<u>184,302,831</u>	<u>177,731,298</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Issuance of Capital Debt	291,190	
Proceeds from Capital Debt Transferred from System (nonmandatory)	84,644,197	119,455,426
Proceeds from Capital Appropriations, Grants and Gifts	9,483,992	608,257
Proceeds from Sale of Capital Assets	9,464,785	2,002,162
Payments for Additions to Capital Assets	(117,791,332)	(183,027,365)
Payments of Principal on Capital Related Debt	(1,400,644)	(518,499)
Mandatory Transfers to System for Capital Related Debt	(40,610,339)	(28,715,043)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(55,918,151)</u>	<u>(90,195,062)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Sales of Investments	62,025,866	
Proceeds from Interest and Investment Income	35,131,008	59,355,513
Proceeds from Interest and Investment Income Held by System	32,068,421	9,051,326
Payments to Acquire Investments	(9,913,188)	(15,211,720)
Payments to Acquire Investments Held by System	(134,688,531)	(19,779,773)
Net Cash Provided (Used) by Investing Activities	<u>(15,376,424)</u>	<u>33,415,346</u>
<b>Net Increase (Decrease) in Cash</b>	(13,431,982)	14,207,018
Cash & Cash Equivalents - Beginning of the Year	143,644,281	129,437,263
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 130,212,299</u>	<u>143,644,281</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (212,547,719)	(172,612,345)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	56,952,177	47,565,931
Bad Debt Expense	67,092	131,469
Changes in Assets and Liabilities:		
Receivables	2,737,247	(21,370,852)
Inventories	442,272	(8,667,319)
Loans and Contracts	(348,347)	(5,683)
Other Assets	(630,301)	11,055,181
Payables	21,926,314	27,089,143
Due to System	600,728	1,443,478
Deferred Income	(458,889)	(48,448)
Deposits Held for Others	212,613	(28,758)
Compensated Absence Liability	5,532,483	8,440,181
Other Liabilities	(925,908)	263,458
Total Adjustments	<u>86,107,481</u>	<u>65,867,781</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (126,440,238)</u>	<u>(106,744,564)</u>
Noncash Transactions		
Net Increase (Decrease) in Fair Value of Investments	64,482,417	76,338,841
Donated Capital Assets	179,101	130,412
Capital Assets Acquired Under Capital Lease Purchases	153,657	
Miscellaneous Noncash Transactions	288,409	1,772,520

## UNAUDITED

THE UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON  
EXHIBIT A - BALANCE SHEET  
As of August 31, 2006

	Current Year Totals	Restated Prior Year Totals
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 49,610,048	127,520,086
Restricted Cash & Cash Equivalents	14,168,716	21,666,735
Balance in State Appropriations	(3,419,873)	532,751
Accounts Receivable, Net:		
Federal (allowances of \$12,378,345 in '06 & \$12,200,000 in '05)	15,927,874	18,552,722
Other Intergov. (allowances of \$0 in '06 & \$0 in '05)	3,419,572	2,799,440
Student (allowances of \$105,309 in '06 & \$125,598 in '05)	4,367,101	3,883,245
Patient (allow. of \$109,350,637 in '06 & \$99,350,776 in '05)	87,756,816	91,253,358
Interest and Dividends	745,780	48,644
Contributions (allowances of \$146,689 in '06 & \$228,416 in '05)	1,591,322	2,376,984
Other (allowances of \$0 in '06 & \$0 in '05)	10,289,374	15,475,491
Due From System Administration	24,217,125	21,429,965
Inventories	9,564,100	10,044,797
Loans & Contracts (allowances of \$0 in '06 & \$0 in '05)	676,390	706,778
Other Current Assets	7,568,373	7,239,211
Total Current Assets	<u>226,482,718</u>	<u>323,530,207</u>
Noncurrent Assets:		
Restricted:		
Investments	44,694,105	75,413,573
Loans & Contracts (allow. of \$529,363 in '06 & \$529,362 in '05)	6,457,180	6,089,175
Funds Held by System Administration	407,960,503	317,842,803
Funds Held by System - Permanent Health Fund	30,092,325	28,228,575
Contributions Rec. (allowances of \$0 in '06 & \$0 in '05)	1,195,767	1,989,272
Investments	148,459,915	106,998,553
Other Noncurrent Assets	412,251	2,000
Capital Assets	1,173,068,479	1,082,654,150
Less Accumulated Depreciation	(643,963,908)	(600,769,381)
Total Noncurrent Assets	<u>1,168,376,617</u>	<u>1,018,448,720</u>
TOTAL ASSETS	<u>\$ 1,394,859,335</u>	<u>1,341,978,927</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 114,224,302	120,890,164
Other Intergovernmental Payables		21,800
Due to System Administration	8,484,627	7,981,451
Deferred Revenue	41,944,845	49,710,929
Employees' Compensable Leave-Current Portion	45,988,027	33,602,934
Payable From Restricted Assets	8,437,064	8,155,103
Funds Held for Others	2,075,400	690,044
Total Current Liabilities	<u>221,154,265</u>	<u>221,052,425</u>
Noncurrent Liabilities:		
Employees' Compensable Leave	13,384,226	26,402,306
Liability to Beneficiaries-Held by System	2,737,354	2,911,887
Other Noncurrent Liabilities	35,122	53,729
Total Noncurrent Liabilities	<u>16,156,702</u>	<u>29,367,922</u>
TOTAL LIABILITIES	<u>237,310,967</u>	<u>250,420,347</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	529,104,571	481,884,769
Restricted for:		
Nonexpendable		
Perm. Health, True & Term Endowments, & Annuities	260,199,165	247,462,088
Expendable		
Capital Projects	12,613,280	8,083,556
Funds Functioning as Endowment - Restricted	17,446,997	16,700,561
Other Expendable	190,270,860	171,627,358
Unrestricted	147,913,495	165,800,248
TOTAL NET ASSETS	<u>1,157,548,368</u>	<u>1,091,558,580</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,394,859,335</u>	<u>1,341,978,927</u>



UNAUDITED

THE UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON  
 EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 14,281,238	13,446,671
Discounts and Allowances	(2,317,852)	(1,956,870)
Federal Sponsored Programs	120,699,429	118,995,156
Federal Sponsored Programs Pass-Through from Other St. Agencies	2,914,171	2,702,121
State Sponsored Programs	23,999,857	20,129,089
State Sponsored Programs Pass-Through from Other St. Agencies	11,299,426	11,389,986
Local Sponsored Programs	2,432,848	1,822,126
Private Sponsored Programs	55,211,343	44,553,630
Sales and Services of Educational Activities	2,922,629	1,919,148
Discounts and Allowances (none)		
Sales and Services of Hospitals	1,557,871,797	1,597,914,058
Discounts and Allowances	(871,179,413)	(887,700,007)
Professional Fees	372,964,040	360,611,364
Discounts and Allowances	(257,727,782)	(253,782,374)
Auxiliary Enterprises	8,979,852	8,956,080
Discounts and Allowances (none)		
Other Operating Revenues	21,168,152	15,694,022
Total Operating Revenues	<u>1,063,519,735</u>	<u>1,054,694,200</u>
<b>Operating Expenses:</b>		
Instruction	292,929,596	278,859,662
Research	118,577,871	106,728,706
Public Service	3,435,555	2,328,361
Hospitals and Clinics	871,691,962	880,896,755
Academic Support	11,961,971	10,942,597
Student Services	2,501,676	1,240,155
Institutional Support	27,059,665	33,157,039
Operations and Maintenance of Plant	18,451,754	24,860,807
Scholarships and Fellowships	3,066,785	2,273,941
Auxiliary Enterprises	11,152,528	8,704,083
Depreciation and Amortization	53,481,403	50,451,389
Total Operating Expenses	<u>1,414,310,766</u>	<u>1,400,443,495</u>
Operating Loss	<u>(350,791,031)</u>	<u>(345,749,295)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	289,780,393	269,683,780
Gift Contributions for Operations	9,143,423	11,720,040
Net Investment Income	44,228,681	29,124,327
Net Increase (Decrease) in Fair Value of Investments	13,007,858	39,367,147
Gain/(Loss) on Sale of Capital Assets	(1,497,562)	(2,877,191)
Other Nonoperating Revenues	230,277	799,545
Other Nonoperating Expenses	(1,045,179)	(1,771,874)
Net Nonoperating Revenues (Expenses)	<u>353,847,891</u>	<u>346,045,774</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	3,056,860	296,479
Gifts and Sponsored Programs for Capital Acquisitions	41,120,817	23,897,256
Additions to Permanent Endowments	10,020,769	3,382,723
Reclass from / (to) Other Institutions	14,040,818	(17,988,625)
Transfers Between Institutions & System-Debt Service-Mandatory	(16,469,597)	(11,478,104)
Transfers Between Institutions & System Admin. - Nonmandatory	14,399,610	89,413,541
Transfers From Other State Agencies	47,220,513	226,513,927
Transfers to Other State Agencies	(47,400,002)	(213,404,991)
Change in Net Assets	<u>65,989,788</u>	<u>100,632,206</u>
Beginning Net Assets - As Previously Reported	1,091,558,580	1,006,135,423
Restatements		(15,209,049)
Beginning Net Assets - As Restated	<u>1,091,558,580</u>	<u>990,926,374</u>
<b>Ending Net Assets</b>	<u>\$ 1,157,548,368</u>	<u>1,091,558,580</u>

UNAUDITED

THE UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 12,488,507	10,729,450
Proceeds from Patients and Customers	802,692,396	802,368,739
Proceeds from Sponsored Programs	212,817,190	195,930,860
Proceeds from Auxiliaries	9,046,866	8,958,280
Proceeds from Other Revenues	30,966,405	10,501,855
Payments to Suppliers	(449,850,728)	(442,779,113)
Payments to Employees	(913,886,005)	(890,712,015)
Payments for Loans Provided	(1,652,017)	(1,494,147)
Proceeds from Loan Programs	1,314,400	1,297,109
Payments for Other Expenses	(337,516)	(337,516)
Net Cash Provided (Used) by Operating Activities	<u>(296,062,986)</u>	<u>(305,536,498)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	293,733,017	272,755,487
Proceeds from Operating Gifts	10,696,244	8,243,655
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	10,020,769	3,382,723
Proceeds from Other Nonoperating Revenues	769,181	1,596,858
Payments/Receipts for Transfers to/from System or Oth. Agencies	(165,169)	15,984,387
Payments for Other Uses	(942,518)	(1,771,874)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>314,111,524</u>	<u>300,191,236</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Capital Debt Transferred from System (nonmandatory)	25,798,206	77,064,693
Proceeds from Capital Appropriations, Grants and Gifts	30,493,329	25,200,139
Proceeds from Sale of Capital Assets	35,330	207,208
Payments for Additions to Capital Assets	(96,796,131)	(115,380,130)
Payments of Principal on Capital Related Debt	(1,198,257)	(1,198,257)
Mandatory Transfers to System for Capital Related Debt	(16,469,597)	(11,478,104)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(56,938,863)</u>	<u>(25,584,451)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Sales of Investments	57,579,096	1,136,053
Proceeds from Interest and Investment Income	16,092,744	2,463,067
Proceeds from Interest and Investment Income Held by System	27,105,010	25,586,904
Payments to Acquire Investments Held by System	(147,294,582)	(5,500,984)
Net Cash Provided (Used) by Investing Activities	<u>(46,517,732)</u>	<u>23,685,040</u>
<b>Net Increase (Decrease) in Cash</b>	(85,408,057)	(7,244,673)
Cash & Cash Equivalents - Beginning of the Year	149,186,821	156,431,494
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 63,778,764</u>	<u>149,186,821</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (350,791,031)	(345,749,295)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	53,481,403	50,451,389
Bad Debt Expense	191,230	(3,995)
Changes in Assets and Liabilities:		
Receivables	6,196,971	(15,677,705)
Inventories	480,697	760,251
Loans and Contracts	(337,617)	(197,038)
Other Assets	(739,413)	(1,287,034)
Payables	(3,449,486)	12,484,072
Due to System	503,176	630,066
Deferred Income	400,110	(1,066,382)
Deposits Held for Others	1,385,356	(337,516)
Compensated Absence Liability	(632,987)	2,630,584
Other Liabilities	(2,751,395)	(8,173,895)
Total Adjustments	<u>54,728,045</u>	<u>40,212,797</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (296,062,986)</u>	<u>(305,536,498)</u>
Noncash Transactions		
Net Increase (Decrease) in Fair Value of Investments	13,007,858	39,367,147
Donated Capital Assets	5,914,722	(797,313)
Miscellaneous Noncash Transactions	(538,904)	(797,313)

## UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT HOUSTON  
 EXHIBIT A - BALANCE SHEET  
 As of August 31, 2006

	Current Year Totals	Restated Prior Year Totals
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 43,514,905	77,504,708
Restricted Cash & Cash Equivalents	9,544,101	21,897,273
Balance in State Appropriations	1,784,362	3,725,428
Accounts Receivable, Net:		
Federal (allowances of \$0 in '06 & \$0 in '05)	1,564,354	2,578,071
Other Intergov. (allowances of \$0 in '06 & \$0 in '05)	10,205,285	14,215,405
Student (allowances of \$222,230 in '06 & \$472,723 in '05)	8,669,171	7,716,069
Patient (allow. of \$144,370,480 in '06 & \$79,853,508 in '05)	24,379,484	25,346,600
Interest and Dividends	615,478	359,116
Contributions (allow. of \$224,489 in '06 & \$354,922 in '05)	9,317,167	17,391,184
Other (allowances of \$3,517,130 in '06 & \$1,147,941 in '05)	16,293,321	15,127,688
Due From System Administration	9,668,115	27,815,293
Due From Other Agencies	4,300,940	
Inventories	1,373,712	1,375,028
Loans & Contracts (allow. of \$176,662 in '06 & \$263,052 in '05)	3,727,143	902,922
Other Current Assets	272,413	24,606
Total Current Assets	<u>145,229,951</u>	<u>215,979,391</u>
Noncurrent Assets:		
Restricted:		
Investments	54,406,063	40,996,535
Loans & Contracts (allowances of \$322,242 in '06 & \$330,574	6,797,020	10,352,159
Funds Held by System Administration	127,055,407	112,841,523
Funds Held by System - Permanent Health Fund	30,092,325	28,228,575
Contributions Rec. (allow. of \$816,844 in '06 & \$688,016 in '05)	33,902,168	33,712,800
Investments	132,516,555	93,261,983
Other Noncurrent Assets	792,353	548,551
Capital Assets	688,249,740	603,871,496
Less Accumulated Depreciation	(219,225,802)	(196,686,654)
Total Noncurrent Assets	<u>854,585,829</u>	<u>727,126,968</u>
<b>TOTAL ASSETS</b>	<u>\$ 999,815,780</u>	<u>943,106,359</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 29,011,219	38,905,877
Due to System Administration	3,118,371	2,836,157
Deferred Revenue	29,269,058	26,273,590
Employees' Compensable Leave-Current Portion	15,317,995	15,204,382
Notes, Loans and Leases Payable	988,851	652,678
Payable From Restricted Assets	2,810,041	1,985,378
Other Current Liabilities	6,865,402	2,137,395
Total Current Liabilities	<u>87,380,937</u>	<u>87,995,457</u>
Noncurrent Liabilities:		
Employees' Compensable Leave	12,740,513	11,946,300
Assets Held for Others	1,526,625	1,546,133
Notes, Loans and Leases Payable	2,875,000	3,477,851
Other Noncurrent Liabilities	6,102,326	6,958,558
Total Noncurrent Liabilities	<u>23,244,464</u>	<u>23,928,842</u>
<b>TOTAL LIABILITIES</b>	<u>110,625,401</u>	<u>111,924,299</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	462,054,935	399,301,043
Restricted for:		
Nonexpendable		
Perm. Health, True & Term Endowments, & Annuities	103,915,255	96,678,732
Expendable		
Capital Projects	23,983,464	66,413,023
Funds Functioning as Endowment - Restricted	5,108,808	4,775,047
Other Expendable	143,356,120	127,196,735
Unrestricted	150,771,797	136,817,480
<b>TOTAL NET ASSETS</b>	<u>889,190,379</u>	<u>831,182,060</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 999,815,780</u>	<u>943,106,359</u>

UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT HOUSTON  
 EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 21,721,272	17,536,138
Discounts and Allowances	(1,306,669)	(711,886)
Federal Sponsored Programs	129,728,408	125,592,452
Federal Sponsored Programs Pass-Through from Other St. Agencies	8,824,698	15,191,896
State Sponsored Programs	3,103,927	2,262,629
State Sponsored Programs Pass-Through from Other St. Agencies	15,143,012	7,188,561
Local Sponsored Programs	86,015,370	73,044,712
Private Sponsored Programs	21,465,308	17,166,060
Sales and Services of Educational Activities	41,875,489	36,455,410
Discounts and Allowances (none)		
Sales and Services of Hospitals	77,332,179	54,695,031
Discounts and Allowances	(50,083,081)	(27,651,345)
Professional Fees	490,048,498	472,729,806
Discounts and Allowances	(386,199,446)	(365,639,395)
Auxiliary Enterprises	23,267,044	20,689,997
Discounts and Allowances (none)		
Other Operating Revenues	9,266,621	6,659,221
Total Operating Revenues	<u>490,202,630</u>	<u>455,209,287</u>
<b>Operating Expenses:</b>		
Instruction	263,972,589	258,987,746
Research	137,996,201	120,223,612
Public Service	17,143,307	17,136,575
Hospitals and Clinics	65,075,580	64,797,568
Academic Support	23,463,114	22,398,524
Student Services	4,089,834	3,958,109
Institutional Support	68,618,481	59,806,253
Operations and Maintenance of Plant	20,413,873	16,908,420
Scholarships and Fellowships	3,460,815	3,412,551
Auxiliary Enterprises	14,888,263	13,793,354
Depreciation and Amortization	27,473,406	19,864,784
Total Operating Expenses	<u>646,595,463</u>	<u>601,287,496</u>
Operating Loss	<u>(156,392,833)</u>	<u>(146,078,209)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	151,960,434	138,459,057
Gift Contributions for Operations	21,078,134	17,921,758
Net Investment Income	19,024,746	16,646,293
Net Increase (Decrease) in Fair Value of Investments	10,157,494	14,138,950
Gain/(Loss) on Sale of Capital Assets	(379,454)	(569,905)
Other Nonoperating Revenues	1,234,947	
Other Nonoperating Expenses	(732,949)	(4,370,928)
Net Nonoperating Revenues (Expenses)	<u>202,343,352</u>	<u>182,225,225</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	45,950,519	36,147,016
Gifts and Sponsored Programs for Capital Acquisitions	7,642,347	2,369,500
Additions to Permanent Endowments	6,398,255	13,363,329
Reclass from / (to) Other Institutions	4,220,509	66,634,377
Transfers Between Institutions & System-Debt Service-Mandatory	(16,918,997)	(13,451,242)
Transfers Between Institutions & System Admin. - Nonmandatory	10,857,886	25,943,381
Transfers From Other State Agencies		6,256,133
Transfers to Other State Agencies	(142,200)	(134,099)
Change in Net Assets	<u>58,008,319</u>	<u>137,128,395</u>
Beginning Net Assets - As Previously Reported	831,182,060	686,041,253
Restatements		8,012,412
Beginning Net Assets - As Restated	<u>831,182,060</u>	<u>694,053,665</u>
<b>Ending Net Assets</b>	<u>\$ 889,190,379</u>	<u>831,182,060</u>

## UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT HOUSTON  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 19,987,936	17,092,937
Proceeds from Patients and Customers	132,065,266	121,835,199
Proceeds from Sponsored Programs	266,115,167	250,584,310
Proceeds from Auxiliaries	23,235,694	20,932,223
Proceeds from Other Revenues	53,448,291	46,912,989
Payments to Suppliers	(212,038,949)	(189,708,753)
Payments to Employees	(406,352,676)	(389,454,929)
Payments for Loans Provided	(2,894,954)	(3,614,954)
Proceeds from Loan Programs	3,625,872	3,980,882
Net Cash Provided (Used) by Operating Activities	<u>(122,808,353)</u>	<u>(121,440,096)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	153,901,500	138,477,682
Proceeds from Operating Gifts	13,061,419	8,186,638
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	6,398,255	13,363,329
Proceeds from Other Nonoperating Revenues	1,234,947	8,122,996
Payments/Receipts for Transfers to/from System or Oth. Agencies	744,508	7,965,848
Payments for Other Uses	(896,331)	(13,113,919)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>174,444,298</u>	<u>163,002,574</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Issuance of Capital Debt		1,878,282
Proceeds from Capital Debt Transferred from System (nonmandatory)	32,462,130	130,477,781
Proceeds from Capital Appropriations, Grants and Gifts	23,543,711	14,315,137
Proceeds from Sale of Capital Assets	25,535	127,259
Payments for Additions to Capital Assets	(96,908,087)	(151,468,394)
Payments of Principal on Capital Related Debt	(266,678)	(2,538,153)
Mandatory Transfers to System for Capital Related Debt	(16,918,997)	(13,451,242)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(58,062,386)</u>	<u>(20,659,330)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Sales of Investments	715,394	380,329
Proceeds from Interest and Investment Income	16,198	24,957
Proceeds from Interest and Investment Income Held by System	18,651,508	16,471,822
Payments to Acquire Investments Held by System	(59,299,634)	(16,515,369)
Net Cash Provided (Used) by Investing Activities	<u>(39,916,534)</u>	<u>361,739</u>
<b>Net Increase (Decrease) in Cash</b>	(46,342,975)	21,264,887
Cash & Cash Equivalents - Beginning of the Year	99,401,981	78,137,094
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 53,059,006</u>	<u>99,401,981</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (156,392,833)	(146,078,209)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	27,473,406	19,864,784
Bad Debt Expense		1,194
Changes in Assets and Liabilities:		
Receivables	(1,696,325)	(19,258,258)
Inventories	1,316	553,636
Loans and Contracts	730,918	365,928
Other Assets	(491,609)	(176,001)
Payables	(634,383)	2,444,857
Due to System	282,214	(2,411,292)
Deferred Income	3,158,850	18,095,163
Deposits Held for Others	(19,508)	701,959
Compensated Absence Liability	907,826	1,318,297
Other Liabilities	3,871,775	3,137,846
Total Adjustments	<u>33,584,480</u>	<u>24,638,113</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (122,808,353)</u>	<u>(121,440,096)</u>
Noncash Transactions		
Net Increase (Decrease) in Fair Value of Investments	10,157,494	14,138,950
Miscellaneous Noncash Transactions	(22,587)	3,240

## UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT SAN ANTONIO  
EXHIBIT A - BALANCE SHEET  
As of August 31, 2006

	Current Year Totals	Restated Prior Year Totals
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 34,422,449	12,428,280
Restricted Cash & Cash Equivalents	40,964,202	44,587,520
Balance in State Appropriations	20,668,125	22,260,784
Accounts Receivable, Net:		
Federal (allowances of \$0 in '06 & \$0 in '05)	10,993,449	13,173,905
Other Intergov. (allowances of \$0 in '06 & \$0 in '05)	2,052,571	1,512,795
Student (allowances of \$0 in '06 & \$0 in '05)	6,740,285	6,503,313
Patient (allowances of \$46,999,641 in '06 & \$49,585,819 in '05)	10,043,943	9,618,867
Interest and Dividends	548,850	463,046
Contributions (allowances of \$0 in '06 & \$0 in '05)	659,942	2,342,985
Other (allowances of \$0 in '06 & \$0 in '05)	16,845,971	4,942,131
Due From Other Funds	4,390,769	5,706,888
Due From System Administration	38,607,292	32,393,059
Due From Other Agencies		58,242
Inventories	1,425,448	1,281,002
Loans & Contracts (allowances of \$106,904 in '06 & \$125,141 in '05)	1,661,854	2,465,764
Other Current Assets	197,321	7,400,297
Total Current Assets	<u>190,222,471</u>	<u>167,138,878</u>
Noncurrent Assets:		
Restricted:		
Investments	64,682,138	64,412,898
Loans & Contracts (allow. of \$466,918 in '06 & \$248,414 in '05)	4,899,940	4,894,726
Funds Held by System Administration	107,112,256	95,264,991
Funds Held by System - Permanent Health Fund	240,738,600	225,828,600
Contributions Rec. (allowances of \$0 in '06 & \$0 in '05)	2,603,842	3,403,013
Investments	87,683,802	96,424,324
Other Noncurrent Assets	7,140,430	5,353,018
Capital Assets	533,720,727	521,578,572
Less Accumulated Depreciation	(260,726,938)	(244,202,158)
Total Noncurrent Assets	<u>787,854,797</u>	<u>772,957,984</u>
<b>TOTAL ASSETS</b>	<u>\$ 978,077,268</u>	<u>940,096,862</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 28,850,165	21,114,006
Due to Other Funds	4,390,769	5,706,888
Due to System Administration	2,862,960	2,560,282
Deferred Revenue	25,700,362	25,922,215
Employees' Compensable Leave-Current Portion	14,910,306	15,458,970
Notes, Loans and Leases Payable	684,235	666,739
Payable From Restricted Assets	13,834,721	11,569,036
Funds Held for Others	376,704	373,447
Other Current Liabilities	525,718	908,488
Total Current Liabilities	<u>92,135,940</u>	<u>84,280,071</u>
Noncurrent Liabilities:		
Employees' Compensable Leave	15,632,416	12,146,334
Liability to Beneficiaries-Held by System	540,715	416,552
Notes, Loans and Leases Payable	1,268,086	1,952,578
Total Noncurrent Liabilities	<u>17,441,217</u>	<u>14,515,464</u>
<b>TOTAL LIABILITIES</b>	<u>109,577,157</u>	<u>98,795,535</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	272,993,789	277,376,414
Restricted for:		
Nonexpendable		
Perm. Health, True & Term Endowments, & Annuities	258,172,992	251,126,966
Expendable		
Capital Projects	26,848,744	23,420,540
Funds Functioning as Endowment - Restricted	5,788,021	4,960,201
Other Expendable	185,192,757	171,325,364
Unrestricted	119,503,808	113,091,842
<b>TOTAL NET ASSETS</b>	<u>868,500,111</u>	<u>841,301,327</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 978,077,268</u>	<u>940,096,862</u>



## UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT SAN ANTONIO  
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 23,438,000	22,644,393
Discounts and Allowances	(1,815,570)	(1,132,343)
Federal Sponsored Programs	110,380,973	110,474,268
Federal Sponsored Programs Pass-Through from Other St. Agencies	1,552,425	2,026,211
State Sponsored Programs	1,559,101	1,468,493
State Sponsored Programs Pass-Through from Other St. Agencies	1,565,683	997,396
Local Sponsored Programs	46,082,649	40,947,517
Private Sponsored Programs	25,923,762	14,154,919
Sales and Services of Educational Activities	25,802,263	22,184,250
Discounts and Allowances (none)		
Professional Fees	252,653,805	236,581,614
Discounts and Allowances	(172,320,263)	(162,405,774)
Auxiliary Enterprises	3,758,786	3,227,241
Discounts and Allowances (none)		
Other Operating Revenues	28,657,388	23,421,521
Total Operating Revenues	<u>347,239,002</u>	<u>314,589,706</u>
<b>Operating Expenses:</b>		
Instruction	235,156,807	218,356,895
Research	108,494,091	106,219,725
Public Service	23,002,814	20,256,093
Hospitals and Clinics	42,917,262	39,463,034
Academic Support	26,567,591	23,830,647
Student Services	2,487,024	2,388,609
Institutional Support	36,735,671	34,058,526
Operations and Maintenance of Plant	27,859,756	23,239,498
Scholarships and Fellowships	1,717,298	1,627,428
Auxiliary Enterprises	3,553,687	3,777,404
Depreciation and Amortization	23,115,470	21,065,854
Total Operating Expenses	<u>531,607,471</u>	<u>494,283,713</u>
Operating Loss	<u>(184,368,469)</u>	<u>(179,694,007)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	150,788,189	131,566,244
Gift Contributions for Operations	2,807,179	17,922,203
Net Investment Income	25,420,551	20,306,304
Net Increase (Decrease) in Fair Value of Investments	22,335,171	36,697,957
Gain/(Loss) on Sale of Capital Assets	(5,073,358)	(412,541)
Net Nonoperating Revenues (Expenses)	<u>196,277,732</u>	<u>206,080,167</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	11,909,263	26,386,160
Gifts and Sponsored Programs for Capital Acquisitions	2,151,172	3,991,343
Additions to Permanent Endowments	5,320,873	5,973,004
Reclass from / (to) Other Institutions	(66,156,462)	12,345,180
Transfers Between Institutions & System-Debt Service-Mandatory	(11,928,806)	(11,009,261)
Transfers Between Institutions & System Admin. - Nonmandatory	86,168,326	28,626,525
Transfers From Other State Agencies		7,241,724
Transfers to Other State Agencies	(265,582)	(275,483)
Legislative Appropriations Lapsed		(802,426)
Change in Net Assets	<u>27,198,784</u>	<u>72,476,766</u>
Beginning Net Assets - As Previously Reported	841,301,327	771,817,775
Restatements		(2,993,214)
Beginning Net Assets - As Restated	<u>841,301,327</u>	<u>768,824,561</u>
<b>Ending Net Assets</b>	<u>\$ 868,500,111</u>	<u>841,301,327</u>

## UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT SAN ANTONIO  
 EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
 For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 22,840,335	22,880,933
Proceeds from Patients and Customers	79,908,466	73,022,984
Proceeds from Sponsored Programs	174,578,042	168,714,471
Proceeds from Auxiliaries	3,773,649	3,210,214
Proceeds from Other Revenues	59,289,521	43,365,276
Payments to Suppliers	(127,138,111)	(128,210,179)
Payments to Employees	(370,564,381)	(346,024,526)
Payments for Loans Provided	(1,622,296)	(598,410)
Proceeds from Loan Programs	2,231,700	3,987,373
Net Cash Provided (Used) by Operating Activities	<u>(156,703,075)</u>	<u>(159,651,864)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	152,380,848	141,647,515
Proceeds from Operating Gifts	5,289,393	19,641,891
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	5,320,873	5,973,004
Proceeds from Other Nonoperating Revenues		121,829
Payments/Receipts for Transfers to/from System or Oth. Agencies	101,623	16,501,059
Net Cash Provided (Used) by Noncapital Financing Activities	<u>163,092,737</u>	<u>183,885,298</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Capital Debt Transferred from System (nonmandatory)	13,365,339	23,601,514
Proceeds from Capital Appropriations, Grants and Gifts	2,073,452	2,271,954
Proceeds from Sale of Capital Assets	2,927	734,259
Payments for Additions to Capital Assets	(20,541,147)	(31,174,992)
Payments of Principal on Capital Related Debt	(666,996)	(633,115)
Mandatory Transfers to System for Capital Related Debt	(11,928,806)	(11,009,261)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(17,695,231)</u>	<u>(16,209,641)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Sales of Investments Held by System	4,049,188	
Proceeds from Interest and Investment Income		1,100
Proceeds from Interest and Investment Income Held by System	25,627,232	20,257,302
Payments to Acquire Investments Held by System		(18,749,269)
Net Cash Provided (Used) by Investing Activities	<u>29,676,420</u>	<u>1,509,133</u>
<b>Net Increase (Decrease) in Cash</b>	18,370,851	9,532,926
Cash & Cash Equivalents - Beginning of the Year	57,015,800	47,482,874
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 75,386,651</u>	<u>57,015,800</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (184,368,469)	(179,694,007)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	23,115,470	21,065,854
Bad Debt Expense	189,292	50,911
Changes in Assets and Liabilities:		
Receivables	(11,663,187)	(2,955,557)
Inventories	(144,446)	342,743
Loans and Contracts	609,404	3,388,963
Other Assets	5,415,564	(642,535)
Payables	7,504,567	(5,483,982)
Due to System	302,678	169,882
Deferred Income	(221,853)	407,075
Deposits Held for Others	3,257	55,546
Compensated Absence Liability	2,937,418	3,903,600
Other Liabilities	(382,770)	(260,357)
Total Adjustments	<u>27,665,394</u>	<u>20,042,143</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (156,703,075)</u>	<u>(159,651,864)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	22,335,171	36,697,957
Donated Capital Assets	873,941	923,168
Miscellaneous Noncash Transactions	(106,162)	(856,088)



## AUDITED

THE UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER  
 EXHIBIT A - BALANCE SHEET  
 As of August 31, 2006

	Current Year Totals	Restated Prior Year Totals
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 25,156,470	258,754,929
Restricted Cash & Cash Equivalents	56,636,378	206,072,290
Balance in State Appropriations	2,768,332	2,369,264
Accounts Receivable, Net:		
Federal (allowances of \$0 in '06 & \$0 in '05)	28,937,397	19,379,842
Patient (allow. of \$299,151,246 in '06 & \$284,358,259 in '05)	286,608,805	271,609,538
Interest and Dividends	1,960,461	
Contributions (allow. of \$2,124,461 in '06 & \$2,268,153 in '05)	18,229,396	18,657,656
Other (allowances of \$1,428,757 in '06 & \$242,073 in '05)	30,226,154	38,191,470
Due From System Administration	58,899,842	26,118,114
Due From Other Agencies	3,754	2,720
Inventories	32,154,352	33,556,738
Other Current Assets	27,190,856	24,467,901
Total Current Assets	<u>568,772,197</u>	<u>899,180,462</u>
Noncurrent Assets:		
Restricted:		
Investments	519,530,981	333,715,743
Funds Held by System Administration	339,507,282	311,356,809
Funds Held by System - Permanent Health Fund	120,369,300	112,914,300
Contributions Rec. (allow. of \$5,509,858 in '06 & \$3,991,447 in '05)	51,390,272	37,235,432
Investments	473,174,323	132,279,609
Other Noncurrent Assets	2,229,167	2,127,310
Capital Assets	2,597,945,697	2,424,594,238
Less Accumulated Depreciation	(753,602,732)	(604,405,332)
Total Noncurrent Assets	<u>3,350,544,290</u>	<u>2,749,818,109</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>3,919,316,487</u></b>	<b><u>3,648,998,571</u></b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 136,397,910	157,505,341
Federal Payables	42,627,729	67,393,675
Other Intergovernmental Payables	13,323	25,356
Due to System Administration	10,096,162	8,847,322
Deferred Revenue	76,422,467	76,667,142
Employees' Compensable Leave-Current Portion	69,592,946	60,993,334
Payable From Restricted Assets	7,256,737	10,006,805
Other Current Liabilities	26,617,001	25,469,270
Total Current Liabilities	<u>369,024,275</u>	<u>406,908,245</u>
Noncurrent Liabilities:		
Employees' Compensable Leave	48,530,816	47,923,334
Assets Held for Others	358,317,882	334,834,711
Liability to Beneficiaries-Held by System	989,225	1,054,803
Other Noncurrent Liabilities	500,000	250,000
Total Noncurrent Liabilities	<u>408,337,923</u>	<u>384,062,848</u>
<b>TOTAL LIABILITIES</b>	<b><u>777,362,198</u></b>	<b><u>790,971,093</u></b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	1,844,342,965	1,820,188,906
Restricted for:		
Nonexpendable		
Perm. Health, True & Term Endowments, & Annuities	262,163,383	253,865,606
Expendable		
Capital Projects	138,778,921	43,816,175
Funds Functioning as Endowment - Restricted	26,040,574	23,646,321
Other Expendable	342,828,965	294,678,918
Unrestricted	527,799,481	421,831,552
<b>TOTAL NET ASSETS</b>	<b><u>3,141,954,289</u></b>	<b><u>2,858,027,478</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>3,919,316,487</u></b>	<b><u>3,648,998,571</u></b>

## AUDITED

THE UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER  
 EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 318,708	186,807
Discounts and Allowances (none)		
Federal Sponsored Programs	170,269,890	146,440,335
Federal Sponsored Programs Pass-Through from Other St. Agencies	12,699,492	16,552,675
State Sponsored Programs Pass-Through from Other St. Agencies	524,382	8,737
Private Sponsored Programs	42,785,998	49,724,773
Sales and Services of Educational Activities	1,596,989	1,374,958
Discounts and Allowances (none)		
Sales and Services of Hospitals	2,677,283,043	2,388,543,150
Discounts and Allowances	(1,152,434,470)	(1,060,720,517)
Professional Fees	689,216,875	628,207,891
Discounts and Allowances	(453,700,875)	(394,335,902)
Auxiliary Enterprises	22,876,625	19,325,115
Discounts and Allowances (none)		
Other Operating Revenues	18,917,298	10,803,876
Total Operating Revenues	<u>2,030,353,955</u>	<u>1,806,111,898</u>
<b>Operating Expenses:</b>		
Instruction	76,639,856	73,309,908
Research	341,540,289	283,123,862
Public Service	13,091,715	6,633,157
Hospitals and Clinics	1,194,110,713	1,149,309,045
Academic Support	44,946,647	
Institutional Support	157,209,973	150,246,984
Operations and Maintenance of Plant	151,162,143	132,674,964
Scholarships and Fellowships	351,566	219,124
Auxiliary Enterprises	16,506,213	12,775,334
Depreciation and Amortization	178,867,347	140,450,569
Total Operating Expenses	<u>2,174,426,462</u>	<u>1,948,742,947</u>
Operating Loss	<u>(144,072,507)</u>	<u>(142,631,049)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	158,529,119	140,770,734
Gift Contributions for Operations	63,677,735	51,316,366
Net Investment Income	52,437,590	54,291,838
Net Increase (Decrease) in Fair Value of Investments	51,004,929	48,690,143
Interest Expense on Capital Asset Financings		(42,680)
Gain/(Loss) on Sale of Capital Assets	(851,392)	(1,442,980)
Other Nonoperating Revenues	387,904	8,503,253
Other Nonoperating Expenses	(1,610,896)	(1,314,019)
Net Nonoperating Revenues (Expenses)	<u>323,574,989</u>	<u>300,772,655</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	179,502,482	158,141,606
Gifts and Sponsored Programs for Capital Acquisitions	54,404,327	45,642,720
Additions to Permanent Endowments	7,986,796	12,307,695
Reclass from / (to) Other Institutions	(45,987,399)	(816,718)
Transfers Between Institutions & System-Debt Service-Mandatory	(70,942,401)	(54,826,477)
Transfers Between Institutions & System Admin. - Nonmandatory	158,569,248	76,258,437
Transfers From Other State Agencies	81,639,914	173,505,837
Transfers to Other State Agencies	(81,246,156)	(167,921,599)
Change in Net Assets	<u>283,926,811</u>	<u>242,291,501</u>
Beginning Net Assets - As Previously Reported	2,858,027,478	2,617,676,494
Restatements		(1,940,517)
Beginning Net Assets - As Restated	<u>2,858,027,478</u>	<u>2,615,735,977</u>
<b>Ending Net Assets</b>	<u>\$ 3,141,954,289</u>	<u>2,858,027,478</u>

## AUDITED

THE UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 318,708	186,807
Proceeds from Patients and Customers	1,745,155,491	1,553,994,461
Proceeds from Sponsored Programs	214,233,150	211,439,748
Proceeds from Auxiliaries	22,892,515	19,309,352
Proceeds from Other Revenues	29,427,081	
Payments to Suppliers	(730,012,338)	(625,206,295)
Payments to Employees	(1,280,757,566)	(1,167,713,390)
Payments for Other Expenses		(3,239,472)
Net Cash Provided (Used) by Operating Activities	<u>1,257,041</u>	<u>(11,228,789)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	158,130,051	140,905,989
Proceeds from Operating Gifts	49,786,063	6,103,669
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	7,986,796	12,307,695
Proceeds from Other Nonoperating Revenues	387,904	8,563,998
Payments/Receipts for Transfers to/from System or Oth. Agencies	(681,236)	7,414,478
Payments for Other Uses	(1,610,896)	(1,314,019)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>213,998,682</u>	<u>173,981,810</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Capital Debt Transferred from System (nonmandatory)	80,911,128	78,589,099
Proceeds from Capital Appropriations, Grants and Gifts	54,567,565	66,682,937
Proceeds from Sale of Capital Assets	145,233	29,258
Payments for Additions to Capital Assets	(225,519,832)	(336,339,063)
Mandatory Transfers to System for Capital Related Debt	(70,942,401)	(54,826,477)
Payments of Interest on Capital Related Debt		(42,680)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(160,838,307)</u>	<u>(245,906,926)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Sales of Investments	206,660,232	279,413,383
Proceeds from Sales of Investments Held by System	(582,187,395)	47,558,054
Proceeds from Interest and Investment Income	31,707,622	93,366,556
Proceeds from Interest and Investment Income Held by System	42,151,087	95
Payments to Acquire Investments	(100,177,860)	(233,461,826)
Payments to Acquire Investments Held by System	(35,605,473)	(64,206,362)
Net Cash Provided (Used) by Investing Activities	<u>(437,451,787)</u>	<u>122,669,900</u>
<b>Net Increase (Decrease) in Cash</b>	(383,034,371)	39,515,995
Cash & Cash Equivalents - Beginning of the Year	464,827,219	425,311,224
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 81,792,848</u>	<u>464,827,219</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (144,072,507)	(142,631,049)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	178,867,347	140,450,569
Changes in Assets and Liabilities:		
Receivables	(16,808,313)	(27,973,590)
Inventories	1,402,386	(22,106,348)
Other Assets	(2,824,812)	(6,014,346)
Payables	(27,081,142)	24,517,834
Due to System	1,248,840	932,709
Deferred Income	(79,583)	15,442,189
Compensated Absence Liability	9,207,094	12,042,134
Other Liabilities	1,397,731	(5,888,891)
Total Adjustments	<u>145,329,548</u>	<u>131,402,260</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ 1,257,041</u>	<u>(11,228,789)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	51,004,929	48,690,143
Miscellaneous Noncash Transactions		(60,745)

## UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH CENTER AT TYLER  
EXHIBIT A - BALANCE SHEET  
As of August 31, 2006

	Current Year Totals	Restated Prior Year Totals
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 10,851,996	4,293,793
Restricted Cash & Cash Equivalents	9,237,261	9,969,353
Balance in State Appropriations	2,390,702	385,045
Accounts Receivable, Net:		
Federal (allowances of \$0 in '06 & \$0 in '05)	1,255,380	1,618,809
Other Intergov. (allowances of \$0 in '06 & \$0 in '05)	217,492	308,810
Patient (allow. of \$27,927,565 in '06 & \$21,859,984 in '05)	6,128,808	6,152,520
Contributions (allowances of \$0 in '06 & \$0 in '05)	236,935	
Other (allowances of \$0 in '06 & \$0 in '05)	809,197	500,988
Due From System Administration	2,792,016	4,965,052
Inventories	2,152,969	2,122,715
Other Current Assets	338,584	1,048,861
Total Current Assets	<u>36,411,340</u>	<u>31,365,946</u>
Noncurrent Assets:		
Restricted:		
Funds Held by System Administration	9,176,639	8,617,321
Funds Held by System - Permanent Health Fund	30,092,325	28,228,575
Contributions Rec. (allowances of \$0 in '06 & \$0 in '05)		482,982
Investments		8,953,678
Other Noncurrent Assets	487,130	
Capital Assets	145,765,355	140,350,776
Less Accumulated Depreciation	<u>(69,193,022)</u>	<u>(62,883,360)</u>
Total Noncurrent Assets	<u>116,328,427</u>	<u>123,749,972</u>
TOTAL ASSETS	<u>\$ 152,739,767</u>	<u>155,115,918</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 7,118,701	11,711,808
Due to System Administration	829,133	843,564
Deferred Revenue	1,661,281	1,553,913
Employees' Compensable Leave-Current Portion	2,817,003	2,288,227
Payable From Restricted Assets	859,791	818,719
Total Current Liabilities	<u>13,285,909</u>	<u>17,216,231</u>
Noncurrent Liabilities:		
Employees' Compensable Leave	529,993	1,797,893
Liability to Beneficiaries-Held by System	60,913	305,080
Other Noncurrent Liabilities	60,907	
Total Noncurrent Liabilities	<u>651,813</u>	<u>2,102,973</u>
TOTAL LIABILITIES	<u>13,937,722</u>	<u>19,319,204</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	76,572,333	77,467,416
Restricted for:		
Nonexpendable		
Perm. Health, True & Term Endowments, & Annuities	30,624,928	30,366,983
Expendable		
Capital Projects	2,097,789	2,034,865
Funds Functioning as Endowment - Restricted	724,089	679,809
Other Expendable	16,091,313	15,086,455
Unrestricted	<u>12,691,593</u>	<u>10,161,186</u>
TOTAL NET ASSETS	<u>138,802,045</u>	<u>135,796,714</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 152,739,767</u>	<u>155,115,918</u>

## UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH CENTER AT TYLER  
 EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Operating Revenues:</b>		
Federal Sponsored Programs	\$ 7,214,519	5,565,718
Federal Sponsored Programs Pass-Through from Other St. Agencies	2,591,217	1,363,728
State Sponsored Programs	44,067	48,664
State Sponsored Programs Pass-Through from Other St. Agencies	1,111,625	990,763
Local Sponsored Programs	3,957,941	5,822,144
Private Sponsored Programs	2,058,716	1,351,614
Sales and Services of Educational Activities	1,159,220	2,014,109
Discounts and Allowances (none)		
Sales and Services of Hospitals	167,897,849	166,312,991
Discounts and Allowances	(121,305,580)	(118,892,199)
Professional Fees	40,295,433	41,274,711
Discounts and Allowances	(29,758,516)	(30,021,032)
Auxiliary Enterprises	272,281	950,092
Discounts and Allowances		(404,099)
Other Operating Revenues	1,283,393	965,356
Total Operating Revenues	<u>76,822,165</u>	<u>77,342,560</u>
<b>Operating Expenses:</b>		
Instruction	8,075,710	8,563,645
Research	10,928,371	9,706,865
Hospitals and Clinics	77,623,505	83,303,250
Institutional Support	9,696,777	10,201,170
Operations and Maintenance of Plant	6,183,195	6,104,686
Auxiliary Enterprises	548,050	1,166,612
Depreciation and Amortization	8,456,640	7,668,576
Total Operating Expenses	<u>121,512,248</u>	<u>126,714,804</u>
Operating Loss	<u>(44,690,083)</u>	<u>(49,372,244)</u>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	39,069,206	34,714,835
Gift Contributions for Operations	638,604	5,149,343
Net Investment Income	3,446,989	3,267,893
Net Increase (Decrease) in Fair Value of Investments	2,520,969	4,477,708
Gain/(Loss) on Sale of Capital Assets	(23)	(37,983)
Net Nonoperating Revenues (Expenses)	<u>45,675,745</u>	<u>47,571,796</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	985,662	(1,800,448)
Gifts and Sponsored Programs for Capital Acquisitions	66	780,262
Additions to Permanent Endowments	182,200	141,314
Reclass from / (to) Other Institutions	1,821,596	4,087,060
Transfers Between Institutions & System-Debt Service-Mandatory	(1,954,742)	(1,344,816)
Transfers Between Institutions & System Admin. - Nonmandatory	1,970,549	3,576,450
Transfers From Other State Agencies	5,874,416	33,418,608
Transfers to Other State Agencies	(5,874,416)	(31,836,425)
Change in Net Assets	<u>3,005,331</u>	<u>7,022,005</u>
Beginning Net Assets - As Previously Reported	135,796,714	131,089,203
Restatements		(2,314,494)
Beginning Net Assets - As Restated	<u>135,796,714</u>	<u>128,774,709</u>
<b>Ending Net Assets</b>	<u>\$ 138,802,045</u>	<u>135,796,714</u>

UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH CENTER AT TYLER  
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2006

	Current Year Totals	Prior Year Totals
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Patients and Customers	\$ 57,084,620	59,185,952
Proceeds from Sponsored Programs	17,393,191	14,713,850
Proceeds from Auxiliaries	256,528	755,651
Proceeds from Other Revenues	2,758,187	3,328,097
Payments to Suppliers	(43,244,590)	(44,779,930)
Payments to Employees	(74,532,755)	(76,427,910)
Payments for Other Expenses	(127,673)	(81,637)
Net Cash Provided (Used) by Operating Activities	<u>(40,412,492)</u>	<u>(43,305,927)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	37,063,549	34,579,085
Proceeds from Operating Gifts	884,651	4,666,361
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	182,200	141,314
Payments/Receipts for Transfers to/from System or Oth. Agencies	25,291	2,051,397
Net Cash Provided (Used) by Noncapital Financing Activities	<u>38,155,691</u>	<u>41,438,157</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Capital Debt Transferred from System (nonmandatory)	5,939,182	10,750,519
Proceeds from Capital Appropriations, Grants and Gifts		780,215
Proceeds from Sale of Capital Assets	14,542	41,172
Payments for Additions to Capital Assets	(8,171,179)	(13,571,429)
Mandatory Transfers to System for Capital Related Debt	(1,954,742)	(1,344,816)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(4,172,197)</u>	<u>(3,344,339)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Interest and Investment Income	660,730	382,932
Proceeds from Interest and Investment Income Held by System	2,542,800	2,876,039
Payments to Acquire Investments Held by System	9,051,579	(64,126)
Net Cash Provided (Used) by Investing Activities	<u>12,255,109</u>	<u>3,194,845</u>
<b>Net Increase (Decrease) in Cash</b>	5,826,111	(2,017,264)
Cash & Cash Equivalents - Beginning of the Year	14,263,146	16,280,410
<b>Cash &amp; Cash Equivalents - End of the Year</b>	<u>\$ 20,089,257</u>	<u>14,263,146</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to</b>		
<b>Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (44,690,083)	(49,372,244)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	8,456,640	7,668,576
Changes in Assets and Liabilities:		
Receivables	170,250	(222,309)
Inventories	(30,254)	559,282
Other Assets	223,147	320,478
Payables	(3,956,912)	(2,426,708)
Due to System	(14,431)	33,371
Deferred Income	107,368	478,170
Compensated Absence Liability	(739,124)	(344,543)
Other Liabilities	60,907	
Total Adjustments	<u>4,277,591</u>	<u>6,066,317</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (40,412,492)</u>	<u>(43,305,927)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	2,520,969	4,477,708
Donated Capital Assets	66	47