



**TABLE OF CONTENTS
FOR
VOLUME 2
August 13-14, 2008**

<u>Item #</u>	<u>Board/Committee Meetings</u>	<u>Page</u>	<u>Vol. 1 page reference</u>
MEETING OF THE BOARD			
4.	U. T. System Board of Regents: Presentation on the U. T. System-wide Endowment Compliance program	Report <i>Dr. Safady</i>	1 10
8.	U. T. System: Approval of the nonpersonnel aspects of the operating budgets for the Fiscal Year ending August 31, 2009, & PUF Bond Proceeds allocation for LERR Projects for FY 2009	Action <i>Mr. Wallace</i>	19 45
11.	U. T. System: Report and discussion related to Tier One Universities	Report <i>Dr. Prior</i> <i>Academic Presidents</i>	38 51
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW COMMITTEE			
2.	U. T. System: Report on the System-wide internal audit activity	Report <i>Mr. Chaffin</i>	52 58
4.	U. T. System: Report on the plan for the Fiscal Year 2008 U. T. System Consolidated Annual Financial Report audit	Report <i>Mr. Chaffin</i>	60 64
5.	U. T. System: Report on the System-wide compliance program	Report <i>Mr. Chaffin</i>	63 65
FINANCE AND PLANNING COMMITTEE			
1.	U. T. System: Discussion and appropriate action related to approval of <i>Docket No. 135</i>	Discussion <i>Dr. Kelley</i>	GREEN PAGES 66
3.	U. T. System: Key Financial Indicators Report and Monthly Financial Report	Report <i>Dr. Kelley</i>	67 95
4.	U. T. System: Approval to exceed the full-time equivalent limitation on employees paid from appropriated funds	Action <i>Mr. Wallace</i>	92 104
9.	U. T. System Board of Regents: Adoption of Twentieth Supplemental Resolution authorizing Revenue Financing System Bonds; authorization to complete all related transactions; and resolution regarding parity debt	Action <i>Mr. Aldridge</i>	96 159

<u>Vol. 1 item #</u>		<u>Board/Committee Meetings</u>	<u>Page</u>	<u>Vol. 1 page reference</u>
ACADEMIC AFFAIRS COMMITTEE				
2.	U. T. Arlington: Approval of acceptance of gift of outdoor art	Action <i>President Spaniolo Dr. Prior</i>	106	196
3.	U. T. Austin: Approval of acceptance of gift of outdoor art	Action <i>President Powers Dr. Prior</i>	107	197
HEALTH AFFAIRS COMMITTEE				
7.	U. T. System: Report on the health workforce in Texas	Report <i>Dr. Shine Dr. Ben Raimer, U. T. Medical Branch - Galveston</i>	109	224
CAMPUS LIFE COMMITTEE				
	U. T. System: Annual Meeting with Officers of the U. T. System Faculty Advisory Council	Report <i>Dr. Mansour El-Kikhia Dr. Dora Saavedra Dr. Francis (Sandy) Norman</i>	115 129 137	253

Endowment Compliance Initiative

Vice Chancellor Randa Safady

May 2008



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

Board of Regents'
Meeting

Leading the Way

- Award-winning program implemented in 2001
- Innovative practice for higher education
- U. T. System out front of issues before recent federal and state scrutiny
- Program positions U. T. institutions to be accountable in an area of significant interest to donors and government:
 - Are we spending endowment distributions?
 - Are we spending distributions appropriately?





Mission of the Program

- **Ensure compliance with applicable laws, policies and procedures and endowment agreements**
- **Stewardship of the public trust and of \$6.5 billion of endowed gift funds**

Endowment Market Value (Billions):

FY 2004	\$4.9
FY 2005	\$5.3
FY 2006	\$5.8
FY 2007	\$6.5



Scope of the Program

Fiscal Year	No. of Endowments	Market Value (Billions)
2007	7,774	\$5.4 Held by BOR
	<u>842</u>	<u>\$1.1</u> Held by Others
	8,616	\$6.5 TOTAL
2006	7,338	\$4.7 Held by BOR
	<u>818</u>	<u>\$1.1</u> Held by Others
	8,156	\$5.8 TOTAL

- FY 2007 saw a 6% increase in total number of endowments over previous year and a 12% increase in market value
- For BOR-held endowments, market value increase due to:
 - 22% in new contributions
 - 78% in growth of the fund

4. U. T. System Board of Regents: Presentation on the U. T. System-wide Endowment Compliance Program (cont.)

Endowments as of 8/31/07



Institution	Total Board-Held Endowments	Total Held by External Trustees	% Increase in Total #	Total Market Value	Increase in Market Value Over FY2006	% Increase in Market Value Over FY2006
U. T. Arlington	307	2	7%	\$ 57,698,616	\$6,896,142	14%
U. T. Austin	4,003	369	4%	\$ 3,010,776,879	\$325,958,791	12%
U. T. Brownsville	66	0	20%	\$ 7,326,845	\$954,189	15%
U. T. Dallas	143	1	9%	\$ 265,774,860	\$27,863,521	12%
U. T. El Paso	492	1	3%	\$ 124,455,568	\$12,994,234	12%
U. T. Pan American	85	152	3%	\$ 59,860,735	\$1,172,052	2%
U. T. Permian Basin	92	1	7%	\$ 25,917,442	\$2,563,485	11%
U. T. San Antonio	257	0	13%	\$ 53,765,351	\$9,335,285	21%
U. T. Tyler	180	2	15%	\$ 66,789,361	\$7,528,900	13%
U. T. SWMC - Dallas	443	305	4%	\$ 1,125,959,139	\$153,903,047	16%
U. T. MB - Galveston	602	1	7%	\$ 997,843,663	\$61,257,843	7%
U. T. HSC - Houston	347	4	10%	\$ 155,727,606	\$23,978,670	18%
U. T. HSC - San Antonio	276	1	15%	\$ 137,962,301	\$31,451,835	30%
U. T. MDACC	346	0	5%	\$ 379,608,933	\$42,251,001	13%
U. T. HSC - Tyler	40	0	5%	\$ 10,604,051	\$1,588,817	18%
U. T. System	91	1	11%	\$ 41,501,093	\$4,670,237	13%
Multi-Institution	4	2	0%	\$ 12,144,014	\$1,336,318	12%
Total	7,774	842	6%	\$ 6,533,716,456	\$715,704,368	12%

Endowment Restrictions



•The 7,774 Board of Regents-held endowments as of 8/31/07 are restricted as follows:

#	Purpose	Market Value	Annual Distribution
3,518	Student Support	\$832.1 million	\$30.8 million
2,070	Academic Positions	\$2.1 billion	\$77.3 million
2,186	Program Support/Misc.	<u>\$2.5 billion</u>	<u>\$82.8 million</u>
	Total	\$5.4 billion	\$190.9 million

Endowment Compliance Program Elements

- Risk assessment
- Monitoring plan
- Education and training
- Reporting to donors, Board of Regents,
U. T. institution and U. T. System
leadership



Four Primary Risks Monitored

- Excessive accumulations
- Inappropriate expenditures
- No expenditures
- Unfilled endowed academic positions





Primary Risks Monitored: (1) Excessive Accumulations Findings

- Excessive Accumulations
 - Accumulations of endowment earnings above the standard set by the institution
- Decreased from 25% to 14% over last 4 years
- Of the 2,890 endowments reviewed for FY2007, 14% (391) had accumulations above the respective institution's standard
- Of the 391 identified, 109 (4% of total reviewed) were determined to have no justifiable reason, with accumulations of \$4.4 million averaging 3.9 years
- Referred to Executive Vice Chancellor and President

Primary Risks Monitored: (2) Inappropriate Expenditures Findings

- Inappropriate Expenditures
 - Endowment expenditures outside terms of endowment agreement, as defined by institutional Endowment Compliance Committee
- Decreased from 1.50% to .78% over last 4 years
- In FY2007, 9 institutions identified 22 endowments (< 1%) with \$231,034 in inappropriate expenditures
- To date, all have been resolved

Primary Risks Monitored: (3) No Expenditures Findings

- No Expenditures
 - Endowments from which no funds have been expended during the reporting period
- Remained comparatively constant over last 4 years, but decreased from 20% to 15% since last year
- Of the 2,890 endowments reviewed for FY2007, 15% (433) had no expenditures
- Of the 433 identified, 83 (3% of total reviewed) were determined to have no justifiable reason, with accumulations of \$1.9 million
- Referred to Executive Vice Chancellor and President

Primary Risks Monitored: (4) Unfilled Academic Positions Findings

- Unfilled Academic Positions
 - Endowed academic positions without a holder appointed
- Decreased from 28% to 17% over last 4 years
- Of the 2,161 total academic positions for FY2007, 17% (369) had no holder as of 8/31/07, with accumulations of \$ 26.4 million and an average period unfilled of 32 consecutive months
- Referred to Executive Vice Chancellor and President





Challenges Addressed Since Last Report

- Lack of uniformity in establishing risk, monitoring and reporting criteria
- Lack of baseline data needed to establish U. T. System-wide standards and measure improvement
 - Collaborated with U. T. institutions to establish uniform criteria
 - Required more specific data, including dollar amounts
 - Required each institution to review annually a minimum number of endowments that proportionally represents its total population by type (scholarships, endowed academic positions, etc.)



Implementation Plan for Continuous Improvement

- U. T. System analyzes information and prepares a customized report for each campus
- Training is provided to those responsible for endowment compliance activities
- Each institution has an Endowment Compliance Committee composed of administrators, faculty and staff responsible for endowments

Funding for the Program

- Endowment compliance program costs money
- Board of Regents addressed cost issue by allowing each U. T. institution to take fee of up to .08% of the market value of its endowments
- FY2007 fee distributed 9/1/06 in the amount of \$2.7 million to be used for staffing, operations and reporting related to endowment compliance
- Board of Regents acknowledged endowment growth and the activities related to endowment management and administration with an increased fee beginning FY2008



Program Goals

- Increase minimum number of endowments reviewed
- Develop database
- Improve tracking of progress at institutions
- Further define and refine uniform standards



Conclusions

- Contributions to new and existing endowments continue to increase
- With rebuilding of development operations and multiple capital campaigns on the horizon, this trend should continue
- Because U. T. institutions vary in size, structure, and maturity, the need exists to obtain uniform, quantifiable data related to the management and administration of endowments



Conclusions, cont'd

- With continued emphasis on accountability, we must continue to refine our review and reporting processes
- With additional funding available to support endowment management and administration efforts, we expect compliance to continue in a positive trend



The University of Texas System Fiscal Year 2009 Operating Budget

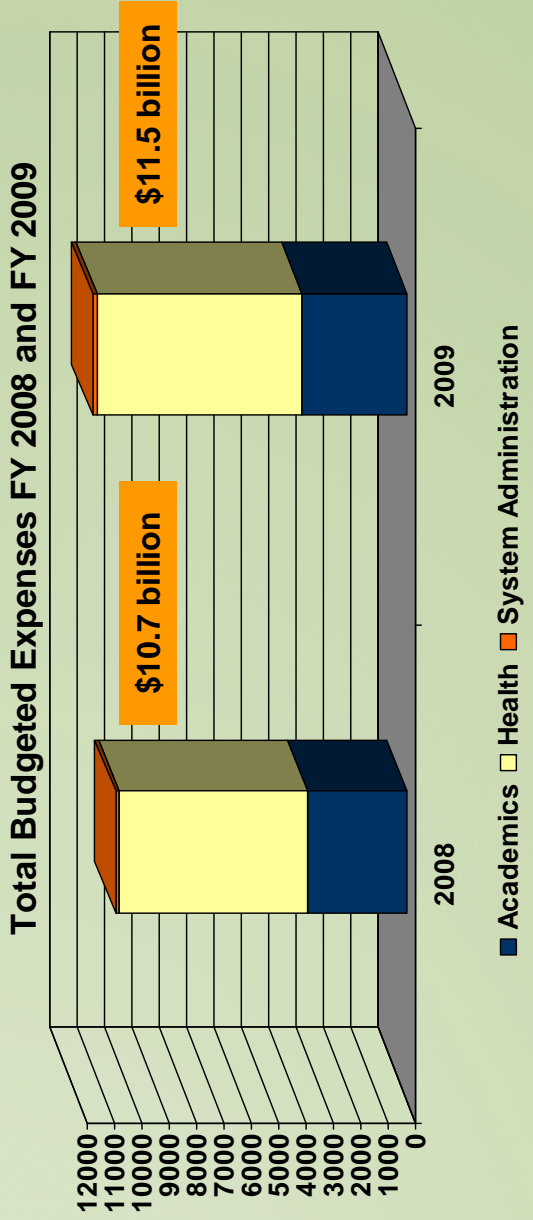
Presented to the
Board of Regents
August 2008



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

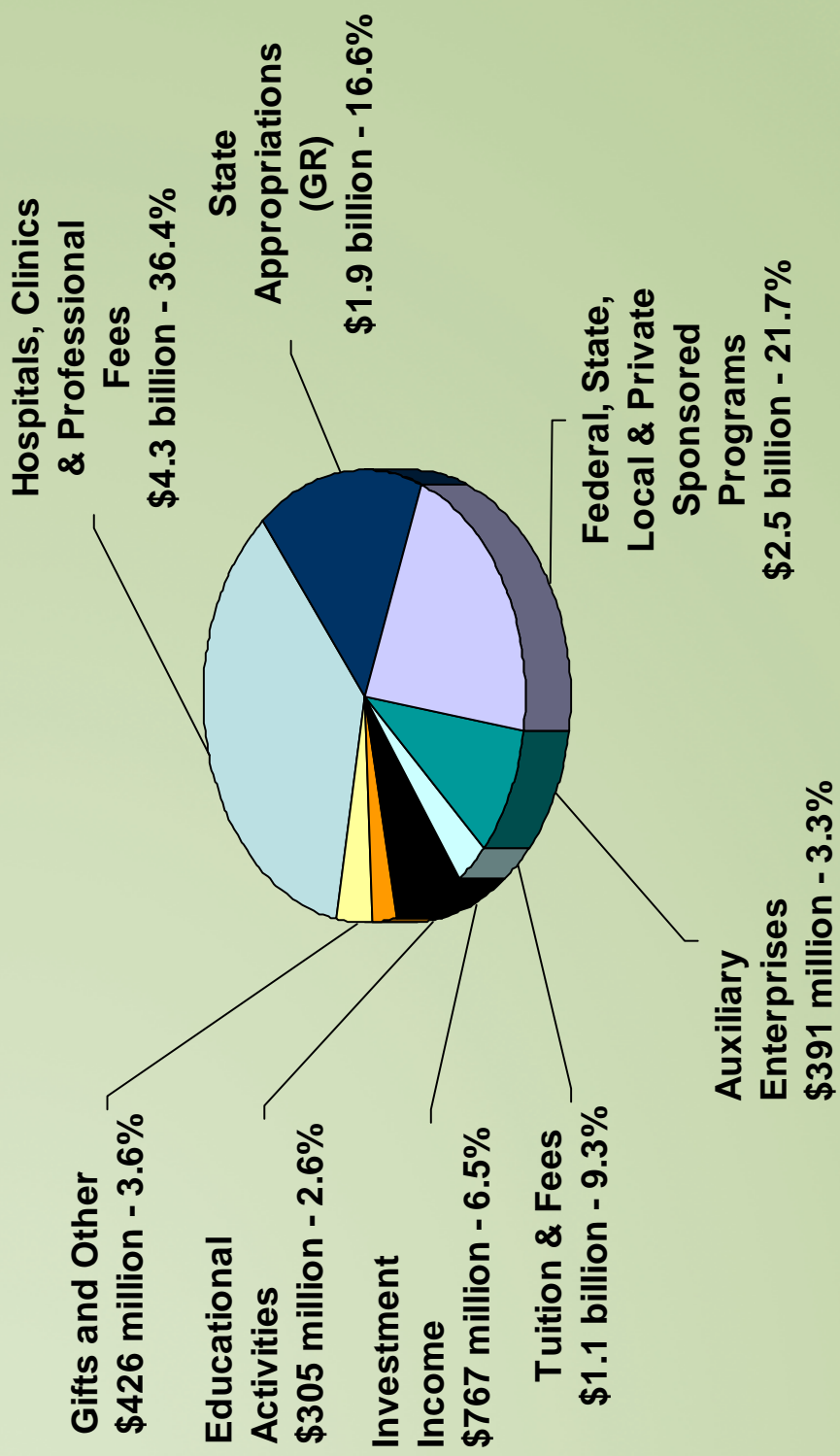


Total Budgeted Expenses



Budgeted Expenses
 FY 2009 - \$11.5 billion
 \$845 million more than FY 2008
 7.9% more than FY 2008

Where the Money Comes From Fiscal Year 2009

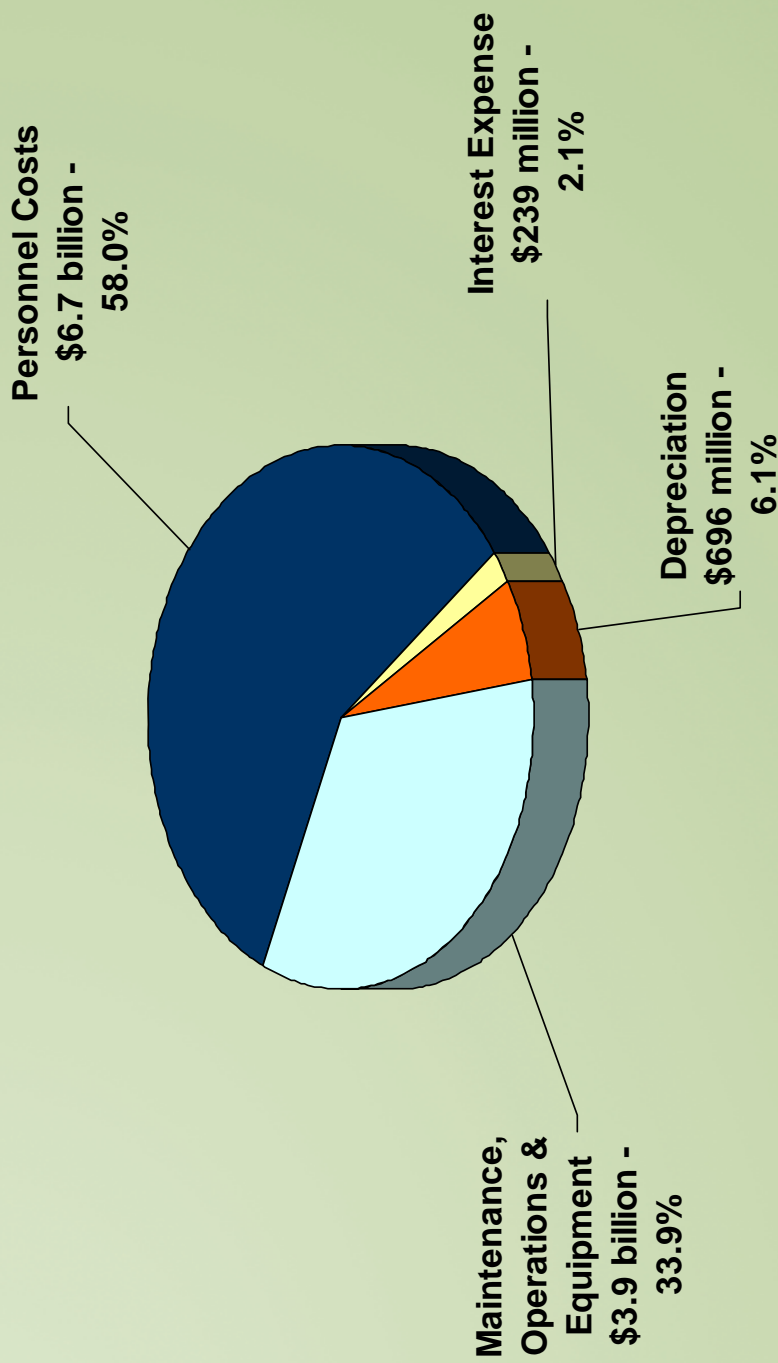


\$11.7 Billion



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

Where the Money Goes Fiscal Year 2009 (By Expense Type)



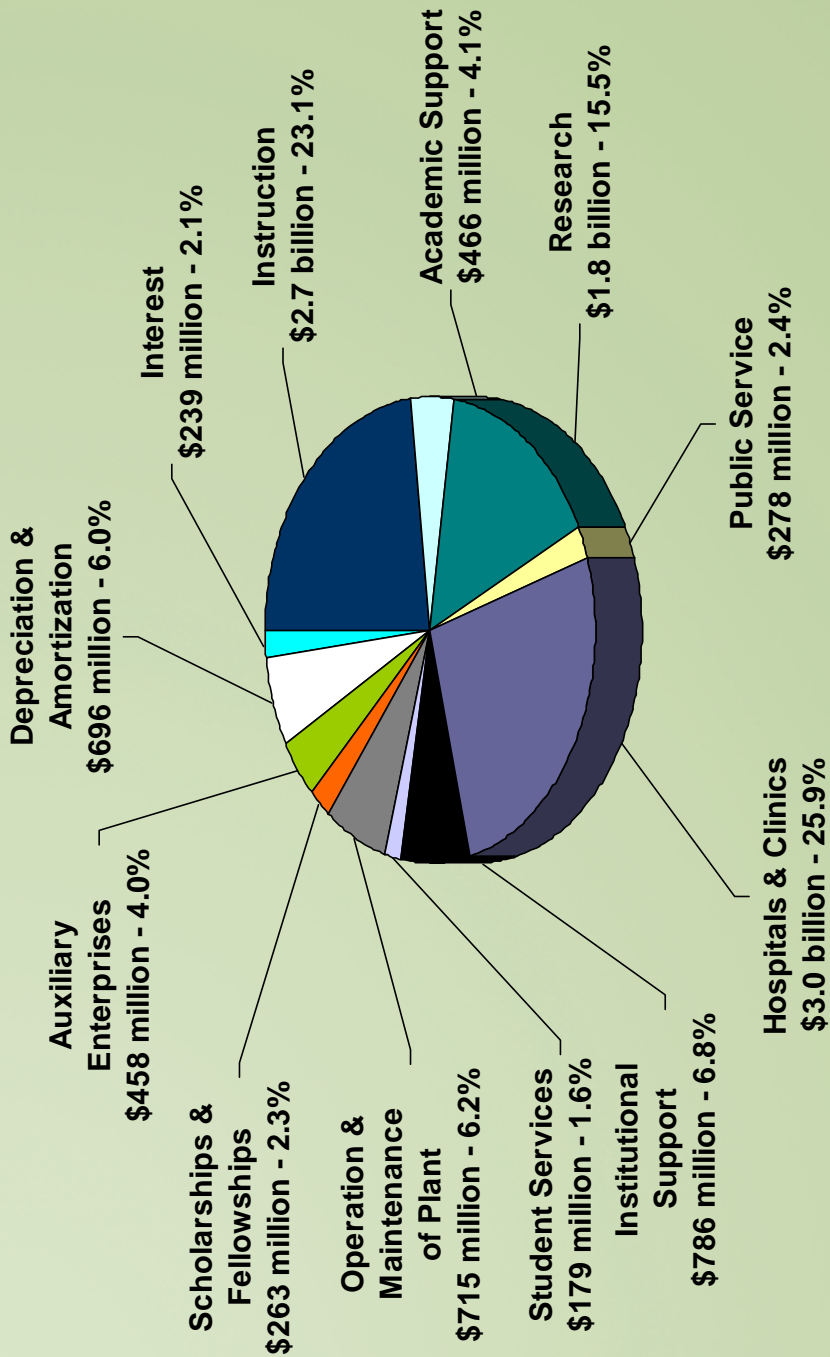
\$11.5 Billion



Where the Money Goes Fiscal Year 2009 (By Function)



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

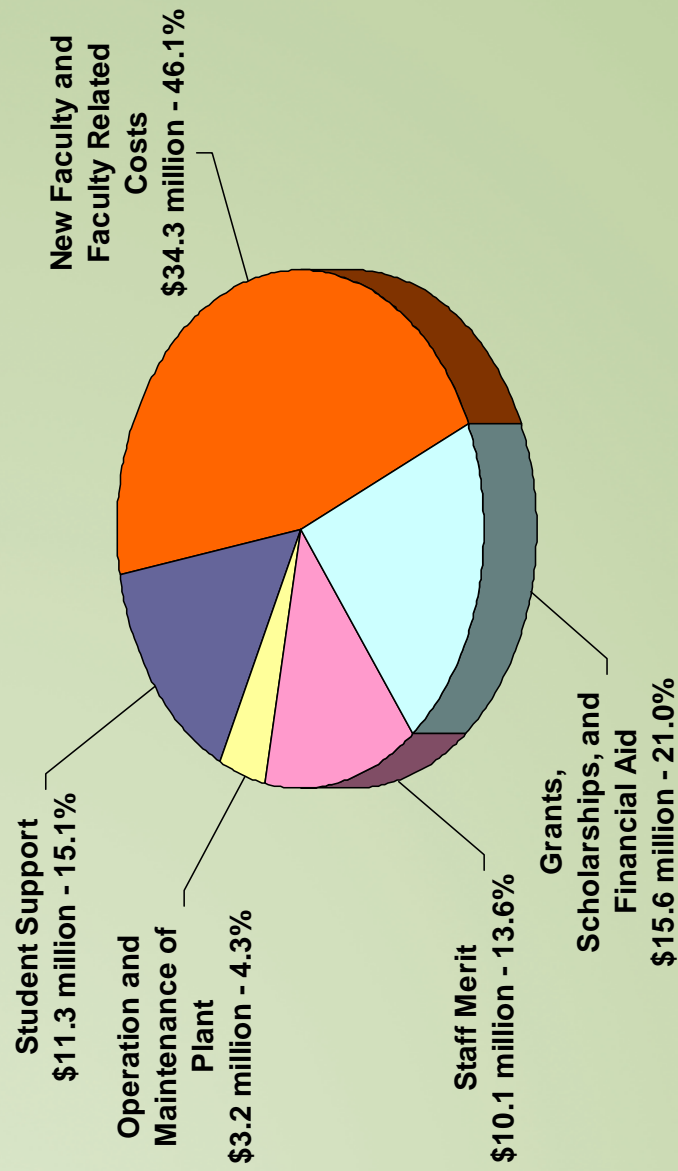


\$11.5 Billion

Use of Flexible Tuition Revenue Increase – Fiscal Year 2009



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



\$74.5 Million Increase



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

Budgeted Expenses Academic Institutions (in millions)

	Fiscal Year 2008	Fiscal Year 2009	Dollar & Percent Change	
U. T. Arlington	\$ 366.0	\$ 385.6	\$ 19.6	5.3%
U. T. Austin	1,851.8	1,983.6	131.8	7.1%
U. T. Brownsville	130.0	138.9	8.9	6.8%
U. T. Dallas	276.3	309.1	32.8	11.9%
U. T. El Paso	280.2	295.0	14.8	5.3%
U. T. Pan American	229.2	235.2	6.0	2.6%
U. T. Permian Basin	44.8	46.2	1.4	3.0%
U. T. San Antonio	377.6	389.2	11.6	3.1%
U. T. Tyler	74.9	81.3	6.4	8.5%
Total Academic	\$3,630.8	\$3,864.1	\$233.3	6.4%

Budgeted Expenses Health Institutions (in millions)

	Fiscal Year 2008	Fiscal Year 2009	Dollar & Percent Increase
U. T. Southwestern Dallas	\$ 1,411.9	\$ 1,485.6	\$73.7 5.2%
U. T. MB Galveston	1,452.5	1,612.0	159.5 11.0%
U. T. HSC Houston	741.3	780.7	39.4 5.3%
U. T. HSC San Antonio	576.2	674.4	98.2 17.0%
U. T. MD Anderson	2,572.6	2,804.3	231.7 9.0%
U. T. HSC Tyler	116.8	118.1	1.3 1.1%
Total Health	\$6,871.3	\$7,475.1	\$603.8 8.8%



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

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



The University of Texas System Administration



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

System Administration Budget Highlights

System Administration – Fiscal Year 2009

- 824.5 Full-time Equivalents (FTEs) in FY 2009 for System Administration.
- Of that total, 566.1 FTEs are in self-supporting departments that support themselves through revenue generated such as Office of Facilities Planning and Construction, Office of Employee Benefits, Workers' Compensation Insurance or receive external grants like the Institute for Public School Initiatives.
- Overall FTEs in Self Supporting departments have increased by 35 FTEs from 531.1 in FY 2008 to 566.1 in FY 2009 due to:
 - **19.45 positions added during 2008 with the majority of the increase due to grant funding received.**
 - **6.0 new positions being added in 2009 in the Offices of Technology and Information Services, Employee Benefits, and Texas Medical and Dental Application Service.**
 - **9.6 funding source changes that increased FTEs with a corresponding decrease in the General Administration Budget.**



System Administration Budget Highlights

General Administration – Fiscal Year 2009

- 258.4 FTEs, of which 3.0 are new positions, to meet strategic initiatives in support of academic institutions; to meet requests for services; and to provide financial oversight.

Controller (1)

Employee Services (1)

Governmental Relations (1)

- FY 2009 General Administration budget increased by \$0.6 million or 1.7% over FY 2008

System Administration Budget Highlights

General Administration Budget	FTEs	Total
FY 2008 Original Budget	260.9	\$35,162,477
FY 2008 Savings on Endowment Related Staffing	(11.1)	(874,859)
FY 2008 Other Staffing	8.2	550,195
FY 2009 Merit Salary, New Staff, and Salary Changes	3.0	1,149,399
UT TeleCampus Funding Source Changes	(2.0)	(467,963)
Other Funding Source Changes	(0.6)	(42,679)
OTIS Assessment	-	142,986
M&O/Travel/Other	-	144,874
Total Adjustments	(2.5)	596,953
Fiscal Year 2009 Budget	258.4	35,759,430
Increase over Fiscal Year 2008 Budget		1.70%



Summary Termination Proceeds

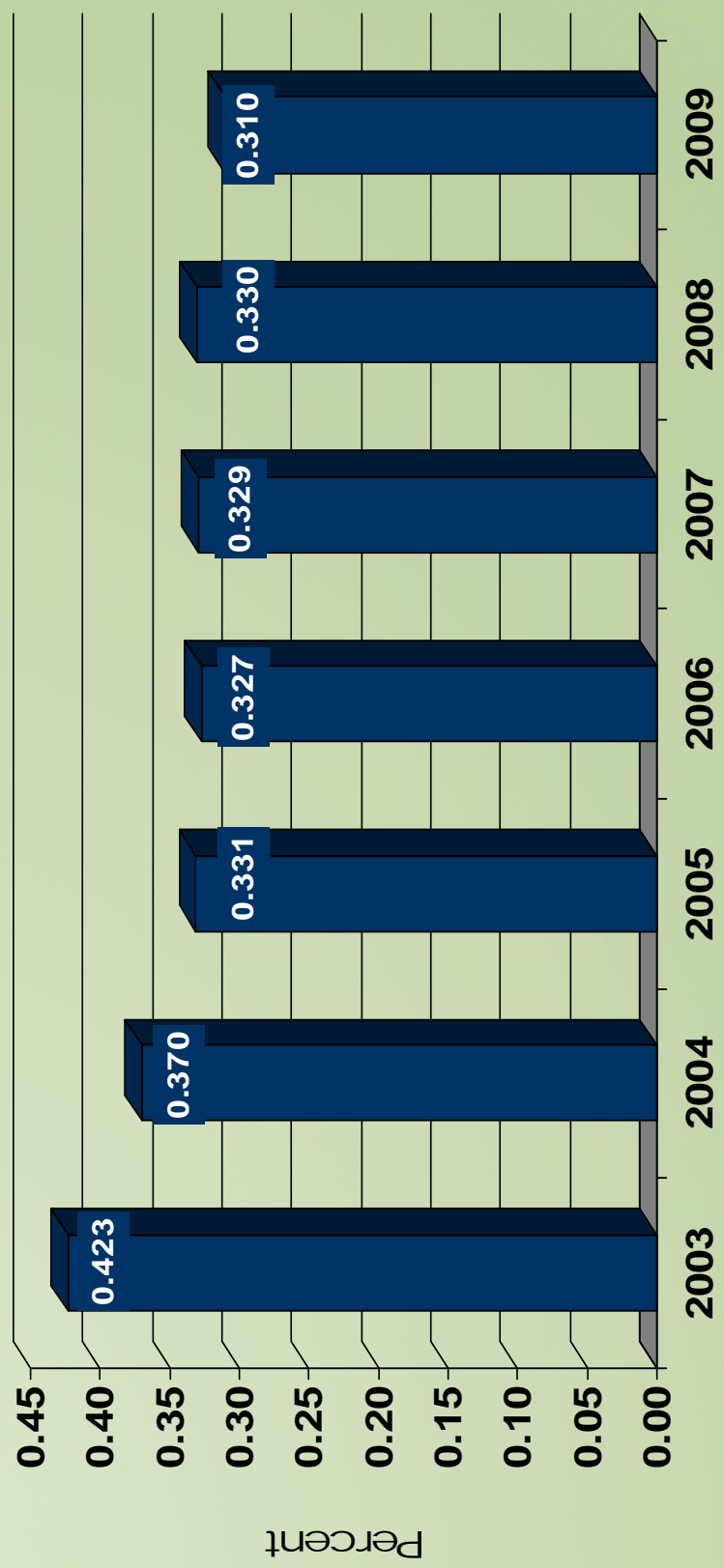


THE UNIVERSITY OF TEXAS SYSTEM
Nine Universities. Six Health Institutions. Unlimited Possibilities.

<u>SUMMARY - USES OF TERMINATION PROCEEDS</u>	<u>FTEs</u>	<u>Budgeted 2009</u>
Enhancing Student Services	1.0	\$ 242,550
Expanding Global Initiatives	1.0	\$ 124,309
Improving Health in Texas	-	\$ 265,500
Improving Productivity and Efficiency	6.0	\$ 581,799
Assuring Integrity, Accountability, and Public Trust	5.4	\$ 680,711
Subtotal	13.4	\$1,894,869
ISA Training return of funds funded at each institution		(\$ 362,500)
TOTAL	13.4	\$1,532,369

Budgeted Expense Comparison

General Administration as a Percentage of the Total Operating Budget





Library, Equipment, Repair and Rehabilitation





Library, Equipment, Repair and Rehabilitation – Fiscal Year 2009

Academic		Health	
U. T. Arlington	\$ 2,136,850	U. T. Southwestern Dallas	\$ 1,975,000
U. T. Austin	4,494,150	U. T. MB Galveston	2,050,000
U. T. Dallas	2,150,000	U. T. HSC Houston	1,975,000
U. T. El Paso	2,170,000	U. T. HSC San Antonio	2,000,000
U. T. Permian Basin	830,000	U. T. MD Anderson	1,975,000
U. T. San Antonio	2,238,000	U. T. Health Center Tyler	1,995,000
U. T. Tyler	811,000		
Total	\$ 14,830,000	Total	\$ 11,970,000
Academic Library Collection	2,700,000	Collaboration Projects	500,000
TOTAL LERR Funded Projects \$30,000,000			



Faculty Science and Technology Acquisition and Retention (STARs) Program





Faculty STARS Fiscal Year 2009

Faculty STARS Program – Academic Institutions	\$10,000,000
Faculty STARS Program – Health Institutions	\$10,000,000

Benefits of Faculty STARS

- Recruit and retain best faculty in the nation
- Develop and strengthen research capacity
- Pending and issued patents
- Encourage future research and excellence
- Collaboration with outside entities

**The University of Texas System
PUF Debt Capacity**

Additional PUF Debt Capacity	\$171.4	\$171.4	\$171.4	\$171.4	\$171.4	\$171.4	\$171.4	\$171.4
Cumulative PUF Debt Capacity	\$171.4	\$342.9	\$514.3	\$685.7	\$857.1	\$1,028.6	\$1,200.0	\$1,200.0

Available University Fund Operating Statement Forecast Data (\$ Millions)	Actual	Projected							
	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FYE 13	FYE 14	FYE 15
PUF Distribution Amount	\$400.7	\$448.9	\$530.9	\$582.2	\$625.7	\$625.0	\$657.2	\$690.8	726.2
Surface & Other Income	14.0	14.3	13.2	13.2	13.2	13.2	13.2	13.2	13.2
Divisible Income	414.7	463.3	544.1	595.3	638.9	638.2	670.3	704.0	739.3
UT System Share (2/3)	276.4	308.8	362.7	396.9	425.9	425.4	446.9	469.3	492.9
AUF Interest Income	11.5	11.0	4.6	9.5	11.2	12.1	12.5	12.2	11.8
Income Available to U.T.	288.0	319.8	367.3	406.4	437.1	437.5	459.4	481.5	504.7
TRANSFERS:									
UT Austin Excellence Funds (45%)	(126.5)	(142.5)	(165.3)	(182.9)	(196.7)	(196.9)	(206.7)	(216.7)	(227.1)
PUF Debt Service *	(91.9)	(97.9)	(129.0)	(184.8)	(179.0)	(199.8)	(219.5)	(239.2)	(258.8)
System Administration	(32.0)	(34.2)	(34.8)	(36.6)	(38.4)	(40.3)	(42.3)	(44.5)	(46.7)
Other **	(23.0)	(38.4)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
Net Surplus/(Deficit)	14.5	6.7	37.1	1.1	22.0	(0.6)	(10.3)	(19.9)	(28.9)
Ending AUF Balance - System	107.2	113.9	151.0	152.0	174.0	173.4	163.1	143.3	114.3
PUF Debt Service Coverage	3.13:1	3.27:1	2.85:1	2.20:1	2.44:1	2.19:1	2.09:1	2.01:1	1.95:1
Unused Constitutional Limit	1,093.0	850.4	544.4	323.8	213.9	168.4	136.3	118.3	115.0

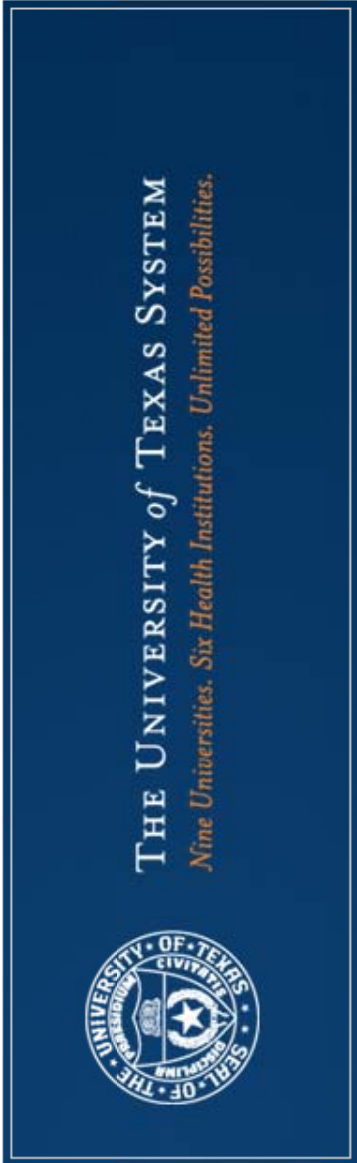
* Includes debt service on outstanding PUF debt and projected debt service on Additional PUF Debt Capacity and \$50 million of annual LERR/STARs funding.

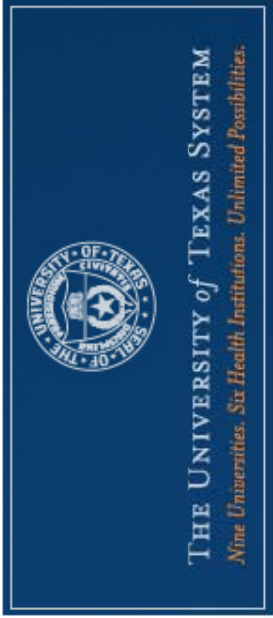
** For FY 2008, represents budgeted \$1.06 million for IT Network Bandwidth/Office of Telecommunication Services, \$10 million for Dell Pediatric Research Institute faculty recruitment, \$11.6 million for Oracle license, \$5.1 million for Brackenridge Tract consultants, \$6 million for U. T. System aircraft replacement, \$3.39 million for Huron reporting system and \$1.25 million for U. T. Austin/Sandia initiative.

Thoughts on Creating More Tier One Universities in Texas

Dr. David Daniel

August 2008





No Widely Accepted Definition for Tier One

Some categories to consider:

- Association of American Universities (AAU)
“The Club” of America’s 60 top research universities
- Research expenditures > \$100M per year
- U.S. News & World Report rankings
Combination of numeric criteria and reputation

Association of American Universities



State	AAU University (Year Admitted to AAU)	State	AAU University (Year Admitted to AAU)
AS	The University of Arizona (1985)	MN	University of Minnesota, Twin Cities (1908)
CA	California Institute of Technology (1934)	MO	University of Missouri-Columbia (1908)
CA	University of California, Irvine (1996)	MO	Washington University in St. Louis (1923)
CA	University of California, Los Angeles (1974)	NB	University of Nebraska-Lincoln (1909)
CA	University of Southern California (1969)	NC	Duke University (1938)
CA	University of California, Davis (1996)	NC	Univ. of N. Carolina at Chapel Hill (1922)
CA	University of California, San Diego (1982)	NJ	Rutgers (1989)
CA	University of California, Berkeley (1900)	NJ	Princeton University (1900)
CA	Stanford University (1900)	NY	University at Buffalo, SUNY (1989)
CA	University of California, Santa Barbara (1995)	NY	Cornell University (1900)
CO	University of Colorado at Boulder (1966)	NY	Stony Brook University-SUNY (2001)
CT	Yale University (1900)	NY	Columbia University (1900)
FL	University of Florida (1985)	NY	New York University (1950)
GA	Emory University (1995)	NY	University of Rochester (1941)
IA	Iowa State University (1958)	NY	Syracuse University (1966)
IA	University of Iowa (1909)	OH	Case Western Reserve University (1969)
IL	Northwestern University (1917)	OH	The Ohio State University (1916)
IL	The University of Chicago (1900)	OR	University of Oregon (1969)
IL	Univ. of Illinois at Urbana-Champaign (1908)	PA	University of Pennsylvania (1900)
IN	Indiana University (1909)	PA	Carnegie Mellon University (1982)
IN	Purdue University (1958)	PA	University of Pittsburgh (1974)
KS	The University of Kansas (1909)	PA	The Pennsylvania State University (1958)
LA	Tulane University (1958)	RI	Brown University (1933)
MA	Brandeis University (1985)	TN	Vanderbilt University (1950)
MA	Harvard University (1900)	TX	The University of Texas at Austin (1929)
MA	Massachusetts Inst. of Technology (1934)	TX	Texas A&M University (2001)
MD	The Johns Hopkins University (1900)	TX	Rice University (1985)
MD	Uni. of Maryland at College Park (1969)	VA	University of Virginia (1904)
MI	University of Michigan (1900)	WA	University of Washington (1950)
MI	Michigan State University (1964)	WI	Univ. of Wisconsin at Madison (1900)

Source: <http://aau.edu>



Why Are Tier One Universities Important?

- Economic impact
 - **Example: Massachusetts Institute of Technology (MIT)**
 - Alumni have founded more than 4,000 companies employing 1.1 million people and generating \$232 billion in sales – roughly equal to the annual economic output of Dallas/Ft. Worth (DFW)!
 - One great, world-class university can have an economic impact on the order of one great city
 - Attract & keep talent, companies, venture capital, etc.
 - Enhance the quality of life for communities and states
 - Imagine ---
 - Boston (and Massachusetts) without MIT and Harvard University
 - The San Francisco Bay area (and California) without Stanford University and U. C. Berkeley
 - Austin (and Texas) without U. T. Austin



How is the Lack of Tier One Universities Hurting Texas Economically?

- Texas has 8% of the U.S. population but only:
 - 5% of federal research and development (-\$2.8B per year)
 - 5% of venture capital investment in 2007 (-\$0.9B per year)
 - **Summary: If Texas had its proportional share of federal research & development (R&D) and venture capital investment, it would gain \$3.7B per year**
- Venture capital accounts for 0.2% of Gross Domestic Product (GDP) but 10% of U.S. jobs and 18% of U.S. business revenue
- In 2007, Austin had more venture capital investment than DFW, Houston, and San Antonio, combined

Sources: Population Data: Population Reference Bureau, 2007 U.S. Population Data Sheet
Federal R&D: 2004 expend., National Sci. Fdn., <http://www.nsf.gov/statistics/nsf07323/tables/tab82.xls>
Venture Capital: pwcmoneytree.com/MTPublic/ns/nav.jsp?page=notice&iden=B
Texas Distribution of VC Data: Mr. Ron Nash's analysis of Dow Jones Venture Source data by area code, 2007



Texas is Losing Talent to Other States

- In Fall, 2006:
 - Texas exported 10,163 high school students to doctoral granting universities in other states
 - Texas attracted 4,358 high school graduates from other states to doctoral-granting Texas universities
 - **Texas had a net brain drain of 5,815 high school students to universities in other states in 2006**
 - The problem is getting worse – the loss increased by 54% from 2000 to 2006
- Example of positive impacts from talent importation: 15% of Rice University’s undergraduates hail from Harris County, but 33% of its alumni live there

Source: Integrated Postsecondary Education Data System (IPEDS) Institutional Characteristics and Enrollment Reports, 2006 and 2000
Info. on Rice University reported in speech by Richard Fisher, Sept. 24, 2007, as reported to him by Malcolm Gillis, former Rice University President

Texas Lags in the Quest for Top Science and Engineering Talent



State	New NAE Members	New NAS Members	Total	Percent of Total
California	25	22	47	34 %
Massachusetts	11	15	26	19%
New York	3	6	9	7%
Texas	2	4	6	4%
All Other States	24	25	49	36%
TOTAL	65	72	137	100%

Results of 2008 Elections for National Academy of Sciences (NAS) and National Academy of Engineering (NAE)⁷



Two Largest Metropolitan Areas of Texas Lag the Nation in Top Research Universities

The Top 10 Most Economically Productive Cities in the U.S.

Rank*	City	Number of AAU Universities	AAU Universities
1	New York City	4	Columbia, NYU, Rutgers, Stony Brook
2	Los Angeles	4	USC, UCLA, Caltech, UC Irvine
3	Chicago	2	Northwestern, Univ. of Chicago
4	Washington, D.C.	2	Johns Hopkins, Univ. of Maryland
5	Dallas-Fort Worth	0	
6	Philadelphia	1	Univ. of Pennsylvania
7	Houston	1	Rice
8	San Francisco	2	Stanford, U.C. Berkeley
9	Boston	3	Brandeis, Harvard, MIT
10	Atlanta	1	Emory
	AVERAGE (Excluding Texas)	2.4	

*Based on economic productivity of metropolitan statistical areas in 2005. Source of productivity rankings: bureau of economic analysis, http://www.bea.gov/newsreleases/regional/gdp_metro/2007/xls/gdp_metro0907.xls



Which Universities are Positioned to Become Tier One Universities?

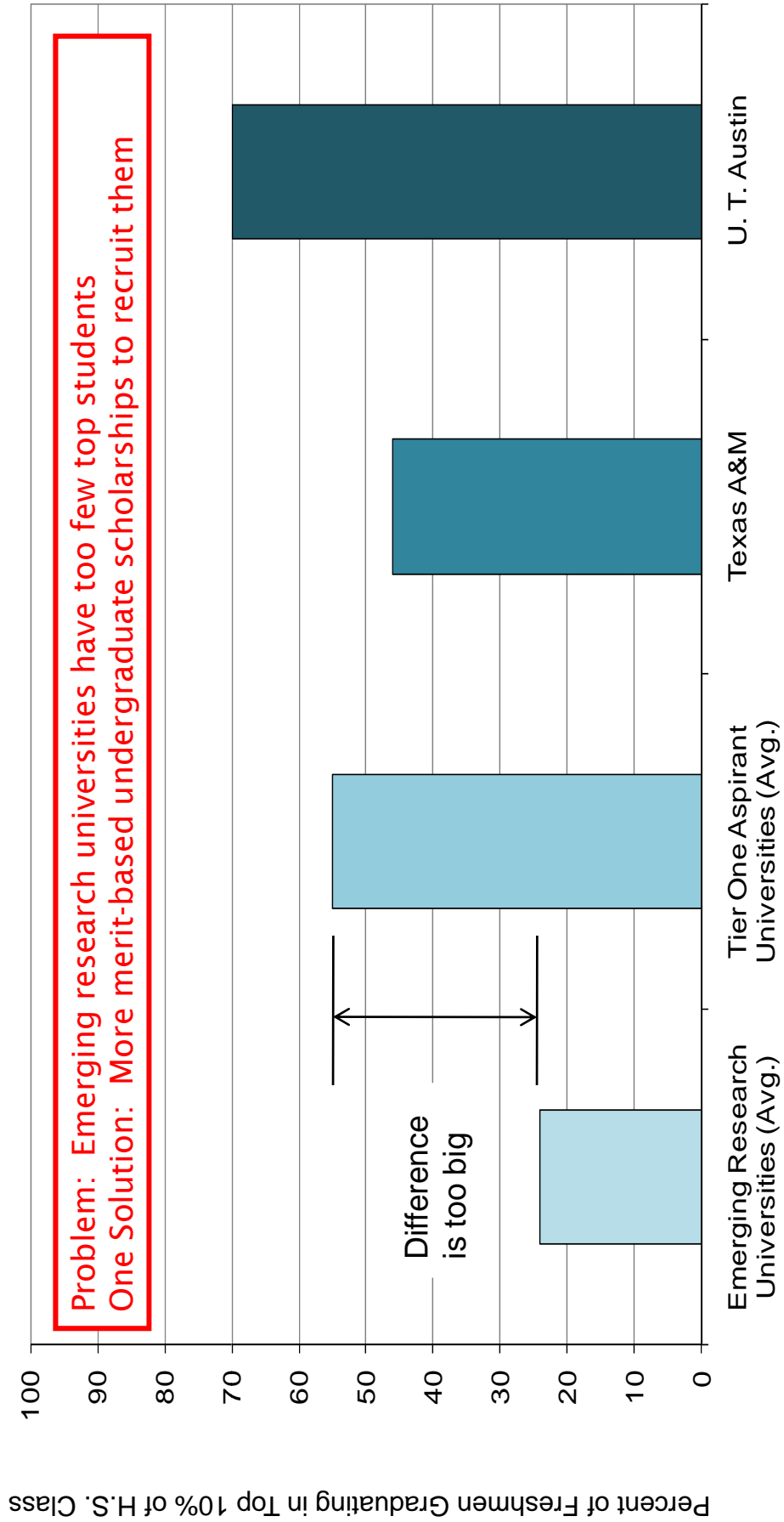
According to the Texas Higher Education Coordinating Board:

Research Universities	Emerging Research Universities
Texas A&M	Texas Tech
U. T. Austin	Univ. of Houston
	Univ. of North Texas
	U. T. Arlington
	U. T. Dallas
	U. T. El Paso
	U. T. San Antonio

The next Tier One university in Texas, if there is one, will almost certainly emerge from one of the emerging research universities



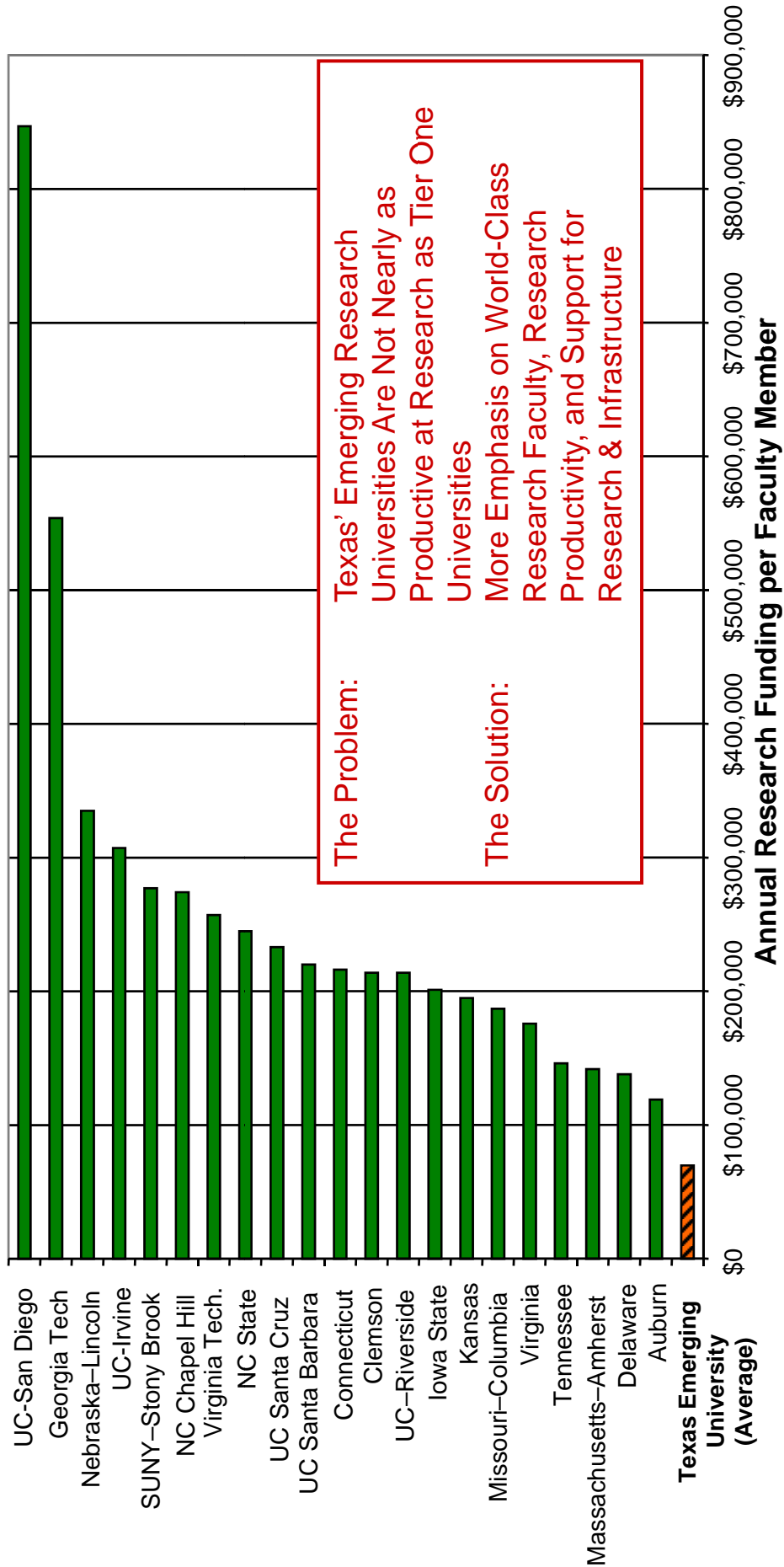
An Example of a Problem that Must Be Addressed to Achieve Tier One: Student Quality



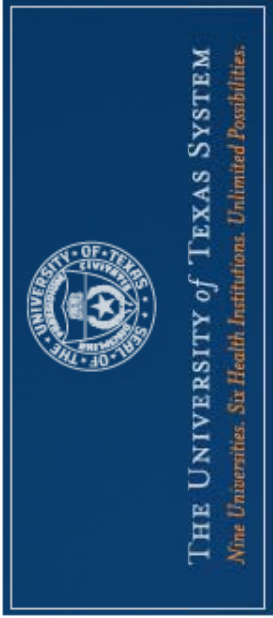
Source: U.S. News & World Report, 2008 Rankings



Research Productivity per Faculty Member



Source: Research funding: National Science Foundation, all research expenditures for 2005-06 academic year
 Number of FTE faculty members: U.S. Department of Education/ IPEDS Enrollment Report and Finance Report for FY2005-06



How Much Will it Cost to Fix the Problem?

- The state alone cannot fix the problem
- Communities and supporters must back their universities
- University leaders must make choices to create a “Tier One Profile” emphasizing research
- \$3,000 per student per year needed to compete
- \$3,000 x 22,300 students = \$70M per average university
- \$70M x 2 to 3 universities = \$140M to \$210M

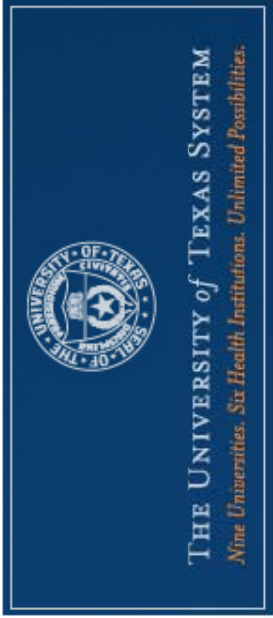
The cost to raise two to three universities to Tier One status is \$140M to \$210M per year

Suggested Approach – Start a Dialogue!

\$140M to \$210M per year incentive program for the emerging research universities:

1. Matching funds for gifts and community support:
 - Student scholarships and fellowships
 - Endowed faculty professorships and chairs
 - Research support (programs, infrastructure)
 - Pipeline programs for at-risk students and critical fields
2. Incentive funds for a Tier One profile:
 - Research funding
 - Exceptional faculty (National Academy members)
 - Research education for undergraduates





Summary

1. Texas needs more Tier One Universities and is paying a price in lost financial opportunity, top talent, and brain drain
2. State funding alone will not be enough to make a Tier One University
3. This proposed program would attract local and national attention
 - Huge incentive that will increase gifts and endowments
 - Fuel private investment in research capacity
 - Stop the brain drain of students leaving the state
 - Bring more top scientists and engineers to Texas
 - Bring more Federal R&D dollars to Texas
 - Bring more venture capital investment to Texas
 - New discoveries would benefit Texans
 - Addresses need for Texans to have access to more top quality national research universities

2. U. T. System: Report on the System-wide internal audit activity



TEXAS TECH UNIVERSITY SYSTEM™

Office of Audit Services

June 17, 2008

Mr. Charles Chaffin
Chief Audit Executive
The University of Texas System Audit Office

Dear Charlie:

We have completed a Quality Assurance Review of The University of Texas (UT) System Audit Office internal audit program. The review was conducted on May 19-22, 2008, and covered the period from the date of the last review to the present, with emphasis on audits conducted and reports issued during Fiscal Year 2007 and to date in Fiscal Year 2008. The objective of the Quality Assurance Review was to provide reasonable assurance that the internal auditing program at The University of Texas System complied with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and *Code of Ethics* as well as additional standards imposed by the Texas Internal Auditing Act. The objective was achieved by means of interviews with selected members of System management, members of the UT Board of Regents' Audit, Compliance, and Management Review Committee (ACMR), members of the System Administration Internal Audit Committee, members of the internal audit staff and management, and UT System institutional audit directors; review of the self-assessment performed by the System Audit Office; review of the quality control processes implemented by the Office; and evaluation of the Office's work products.

In our opinion, The University of Texas System Audit Office internal audit program complied with the standards in all material respects during the period under review.

We appreciate the cooperation and assistance provided to us throughout the course of our review by the members of the System Audit Office and The University of Texas System community.

Sincerely,

A handwritten signature in blue ink, appearing to read "K. F. Turner".

Kimberly F. Turner
Team Leader

Mr. Mark Paganelli
University of Tennessee
Team Member

Ms. Toni Messer
The University of Texas at Dallas
Team Member

Mr. Richard W. "Rick" Gfeller
Arizona System Board of Regents
Team Member

2. U. T. System: Report on the System-wide internal audit activity (cont.)



TEXAS TECH UNIVERSITY SYSTEM™

Office of Audit Services

June 17, 2008

Mr. Charles Chaffin, CPA, CIA
Chief Audit Executive
The University of Texas System

Dear Charlie:

We have completed a Quality Assurance Review of The University of Texas (UT) System Audit Office internal audit program. On behalf of the Quality Assurance Review team, it is a pleasure to transmit our accompanying final report. We hope that the report is useful in your efforts to continually improve what is already an outstanding internal audit program.

One characteristic of a sound professional organization is its interest in continuous improvement. While the primary objective of the Quality Assurance Review was to provide reasonable assurance that the internal auditing program at The University of Texas System complied with standards imposed by the Texas Internal Auditing Act, you expressed an additional interest in considerations that would further enhance your program. In that spirit, we hope the suggestions contained herein serve as a catalyst for continued enhancement and development of the System Audit Office.

Please extend to all involved our appreciation for their hospitality and the many courtesies extended to us during our visit.

Best wishes for continued success.

Sincerely,

A handwritten signature in blue ink, appearing to read "K. J.", written over a horizontal line.

Kimberly F. Turner, CPA
Chief Audit Executive

2008 QUALITY ASSURANCE REVIEW

METHODOLOGY

The Quality Assurance Review objectives were achieved using a methodology developed by The Institute of Internal Auditors (IIA) which included the following:

- Interviews with selected members of System management, members of the Board of Regents' Audit, Compliance, and Management Review Committee (ACMR), members of the System Administration Internal Audit Committee, and members of the internal audit staff and management;
- Review of audit charters, the audit manual, and other organizational materials;
- Review of the Office's risk assessment, annual report, and annual audit plan;
- Review of the self-assessment performed by the System Audit Office under IIA guidelines;
- Review of the quality control processes implemented by the Office to ensure compliance with standards;
- Evaluation of selected internal audit project work papers and reports;
- Review of audit committee agendas and minutes for both the Board of Regents ACMR Committee and the System Administration Internal Audit Committee; and
- Review of the prior Quality Assurance Review reports and responses.

GENERAL OBSERVATIONS

The System Audit Office is generally well-regarded both internally by audit staff members and externally by members of System management and the Board of Regents ACMR Committee. We commend the Chief Audit Executive on the successful achievement of both personal and organizational growth since the last Quality Assurance Review. The fruits of his efforts are obvious and appreciated by all constituencies we visited and have furthered the success of the audit function at The University of Texas System.

The Chief Audit Executive and the System Audit Office are recognized by higher education auditors nationwide as leaders in the field. Many of us use concepts developed by the System Audit Office as models for our own audit shops. Examples of best practices used by the System Audit Office include:

- A mentorship program for staff auditors;
- Training for members of the ACMR and System Administration Internal Audit Committees;
- Plans for teambuilding among the institutional auditors;
- Competency of staff achieved by careful hiring practices, training, experience, and a defined career path within the office;
- Well-documented audit manual and organizational policies that are shared on the Office's website;
- Independence enhanced by facilitating periodic meetings between institutional audit directors and the ACMR;
- Development of a risk assessment model that is used by audit functions around the world;
- Use of automated working papers to facilitate more efficient audit documentation and review; and
- Tracking of significant audit recommendations at both System Administration and the institutions.

Still, as with any audit function, there are opportunities to further strengthen the program, and this report will present our observations to that end.

2008 QUALITY ASSURANCE REVIEW (continued)

OPPORTUNITIES FOR CONTINUED ENHANCEMENT

Risk Assessment

The System Audit Office provides good instructions to the institutional audit directors related to performance and documentation of the risk assessment and resulting annual audit plan. The methodology results in a demonstrated linkage between the risk assessment and the annual audit plan. We recommend that the System Audit Office perform and document its risk assessment and annual planning process of System Administration in a similar fashion, which will result in an improved linkage between key risks and the audit plan.

Management Response

We concur and plan on fully implementing this recommendation for the fiscal year 2009 audit plan.

Implementation Date: August 31, 2008

Performance Metrics

Although there is only an indirect reporting line from the institutional audit functions to the Chief Audit Executive, he is held accountable for the System-wide performance of the audit function. Development and communication of performance metrics would assist in assessing the performance of the System Audit Office and institutional audit functions, as well as providing information beneficial in demonstrating the proficiency of the audit function as a whole in addressing risks System-wide.

Management Response

We concur with the recommendation. Prior to the peer review, we began discussing common performance metrics, such as completion of the audit plan, with our internal audit directors. We have established a multi-institutional committee to develop a set of four or more common metrics. We also plan on soliciting feedback from our Internal Audit Committee members on the type of metrics that would be most useful to them. The metrics will be applicable to all UT System audit functions.

Implementation Date: August 31, 2008

Information Technology Audit Skills

We encourage performance of a System-wide assessment of information technology (IT) risks. Additionally, the System Audit Office should work to more closely connect IT audit resources from all institutions in order to better address the System-wide IT risks identified.

Management Response

The System Audit Office will work with the System-wide Information Security Officer (ISO) to perform a high-level assessment of information technology risks across the System. The results of the risk assessment will be shared with institution ISOs, IT auditors at the institutions and others to ensure that it accurately portrays the IT risks across UT System. Once the risk assessment is complete, the System Audit Office will work with the institutional internal audit departments to identify staff expertise in the high-risk areas.

Implementation Date: August 31, 2008

2008 QUALITY ASSURANCE REVIEW (continued)

System Administration Internal Audit Committee

Although the responsibilities of the System Administration Internal Audit Committee are identified in an addendum to the Committee's charter, some of the areas (e.g., discussion of hotline reports and follow-up of previous audit recommendations) are not addressed in the minutes of meetings. Also, while individuals we interviewed generally agree that the Committee serves as an important mechanism for the System Audit Office to communicate key audit work, risks, and other issues to executive management, some questions were raised concerning the effectiveness of the meetings. We believe surveying Committee members for their suggestions on content and conduct and then implementing recommended modifications would reinvigorate the Committee and enhance communication of audit issues.

Management Response

The System Audit Office will meet with each committee member to discuss ways in which we can improve the effectiveness of the Internal Audit Committee meetings and incorporate these suggestions in the format and content of future Internal Audit Committee meetings.

Implementation Date: June 30, 2008

Enterprise Risk Management

Recent efforts to perform an enterprise risk assessment with executive management were not as successful as hoped. Still, we encourage renewed attempts to garner support for this effort. We identified certain individuals during our interviews that are willing to serve as strong champions for enterprise risk management, which should assist in future efforts.

Management Response

We believe that Enterprise Risk Management (ERM) is a good tool to assess risk and mitigating strategies. We will work with management to determine if there is support for the use of this tool. If so, we will assist as appropriate, in its implementation.

Implementation Date: August 31, 2008

Subject Matter Experts

There is a wide range of experience and expertise in the System Audit Office and the institutional audit offices. We encourage identification of subject matter experts in various audit topics, including information technology, construction, investigations and other areas, to assist institutional and System management and auditors in collaborating on issues, as well as facilitating more effective communication regarding these various topics.

Management Response

We concur with this recommendation. We agree that, across the system, we have an amazing array of talented auditors that can be identified as a go to resource for certain auditable areas such as information technology. Across the system, there has been an informal sharing of information and expertise among institutions based on individual needs. Additionally, we utilize periodic meetings of our Internal Audit Council and our liaison process to provide guidance, direction, and expertise for our auditors throughout the system. We agree that a more formal identification of these subject matter experts should take place in areas such as information technology, construction, investigations, and sponsored research. We will identify the audit subject matter experts from across the system and disseminate this information through multiple

2. U. T. System: Report on the System-wide internal audit activity (cont.)

2008 QUALITY ASSURANCE REVIEW (continued)

channels, which will include the UT System Audit website, the Internal Audit Council, the UT System Audit portal, and ad-hoc electronic communications.

Implementation Date: August 31, 2008

Construction Auditing

Given that there is currently \$6 billion of construction planned or underway throughout the System, we recommend the consideration of additional internal or outsourced audit projects in this area. Additionally, summarized results and any major concerns from these audits should be communicated to the Board of Regents Facilities Planning and Construction Committee, in addition to the ACMR and institutional audit committees.

Management Response

Over the last two years, the System Audit Office has completed three construction audits and is in the process of wrapping up the fourth. Despite our recent work, we concur with the recommendation and will consider outsourcing or co-sourcing audit projects in this mission critical area. Currently, OFPC does employ an outside firm to conduct audit engagements. This is a best practice; however, we have not shared the results of these engagements with the Internal Audit Committee or ACMR. Going forward, we will work with OFPC to provide the Internal Audit Committee and ACMR, when applicable, the results of these engagements.

Implementation Date: August 31, 2009

Identification of Responsibilities and Coordination of Effort

With the System-wide compliance responsibilities being removed from System Audit Office, we recommend the Chief Audit Executive ensure that the transfer of these duties is appropriately communicated and understood by General Counsel, the Compliance Officer, Human Resources, the Executive Vice Chancellors, and any other pertinent individuals. Furthermore, the Chief Audit Executive should work with General Counsel, the Compliance Officer, and Human Resources to develop an understanding of responsibilities with regard to the various types of investigations and reviews which may have previously been conducted solely by the System Audit Office.

Management Response

We concur with the recommendation. Over the past year, the system-wide compliance function has performed compliance inspections of most of our UT institutions. We have reported the results of these inspections to executive management. Additionally, we will share these reports and the complete body of knowledge and information our office has maintained and developed over the years with the new System-wide Compliance Officer. We have provided feedback to management during the selection process of the System-wide Compliance Officer, and we will work with General Counsel, the System-wide and System Administration Compliance Officers, and Human Resources to develop an understanding of responsibilities with regard to the various types of investigations and reviews, which may have previously been conducted solely by the System Audit Office.

Implementation Date: December 31, 2008

2008 QUALITY ASSURANCE REVIEW (continued)

Self-Assessment Comments

The Self-Assessment prepared in anticipation of the Quality Assurance Review was well-done and identified additional opportunities for further strengthening the internal audit program. We endorse those recommendations and encourage their consideration together with the observations in this report.

Management Response

We concur with the recommendation.

2008 QUALITY ASSURANCE REVIEW (continued)

REVIEW TEAM COMPOSITION

Kimberly F. Turner

Ms. Turner, who is a Certified Public Accountant, is the Chief Audit Executive for Texas Tech University System. She manages a staff of fourteen auditors with responsibility for the audit activities at the System, which includes Texas Tech University, Texas Tech University Health Sciences Center, and Angelo State University. She has been an auditor for 17 years, including 14 years as an internal auditor, first with a regional restaurant chain, and then for ten years at Texas Tech. Prior to that, she worked in the audit department of Ernst & Young's Dallas office.

She serves on the boards of several professional and philanthropic organizations, including serving as President of the Association of College & University Auditors (ACUA) during 2006-2007. She also serves as chair of the Supervisory Committee for the Texas Tech Federal Credit Union, as immediate past chair of the Audit and Investment Committee for the City of Lubbock, and is a past president of the South Plains Chapter of the Texas Society of CPAs.

Mark Paganelli

Mr. Paganelli has been the Executive Director for the University of Tennessee's Department of Audit and Consulting Services for the last nine years. He oversees seventeen auditors covering the System's five campuses and two institutes, including the Institute of Agriculture. Prior to joining the University, he supervised the investigative section for the Division of State Audit.

He is currently on the Board of Directors for ACUA and the East Tennessee Chapter of the Institute for Internal Auditors, of which he is a past president. He is a Certified Public Accountant, Certified Internal Auditor, and has an MBA.

Toni Messer

Ms. Messer, who is a Certified Public Accountant and a Certified Internal Auditor, is the Director of Audit and Compliance at The University of Texas at Dallas (UTD). Prior to joining UTD in 1992, she was a supervisor in the Texas State Auditor's Office, primarily performing audits of higher education, including management and financial audits.

Ms. Messer is active in the Dallas Chapter of The Institute of Internal Auditors, currently serving as a member of the Board of Governors and Co-Chair of the Certified Internal Auditor (CIA) Programs Committee. She has also been the Annual Conference Director for ACUA since 2006.


Richard Gfeller

Since 2002, Mr. Gfeller has been the Chief Audit Executive for the Arizona Board of Regents with audit responsibilities for the State's university system. Rick began his career with Coopers & Lybrand Los Angeles. He has 20 years experience in internal audit, and has also held positions in corporate finance, including as CFO. His internal audit experience includes being Internal Audit Manager for Motorola, Inc., Director of Internal Audit for Burlington Industries, Inc., and Assistant Director for Alcatel Worldwide Internal Audit (based in Paris, France) with audit directors in six European countries as his direct reports. He is a past member of The Institute of Internal Auditors' Committee on Quality.

4. U. T. System: Report on the plan for the Fiscal Year 2008 U. T. System Consolidated Annual Financial Report audit

Audit of the U. T. System Consolidated Annual Financial Report (AFR) Fiscal Year Ending August 31, 2008


**Mr. Charles Chaffin, Chief Audit Executive
August 2008**



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

U. T. System Board of Regents Meeting

Audit, Compliance, and Management Review (ACMR) Committee




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

Background

- Until 1989, the State Auditor's Office (SAO) provided audit opinions on each of the U. T. System institution's financial statements.
- After 1989, the SAO provided only an audit opinion only on the State of Texas Combined Annual Financial Report.
- In July 2004, the U. T. System Board of Regents (Board) approved the first external audit of the U. T. System-wide financial statements.
- In 2007, the Board elected to discontinue the external auditor engagement, but expressed confidence in the financial audit work performed by institutional and U. T. System Administration auditors.

2

4. U. T. System: Report on the plan for the Fiscal Year 2008 U. T. System Consolidated Annual Financial Report audit (cont.)




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

Overview

- Internal audit of the FY 2008 financial statements will be coordinated and directed by the U. T. System Audit Office.
- Additional procedures will be performed at U. T. Southwestern as part of Southern Association of Colleges and Schools accreditation reporting requirements.
- Financial statements of the UTIMCO funds and U. T. M. D. Anderson will still be performed by external auditors.
- Individual institution internal audit reports are due January 2008.
- Final report will be made to ACMR in February 2009.

3




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


Importance of the Financial Audit

- The audit provides assurance to internal and external stakeholders that the financial information is accurate.
- Accuracy of the financial information is fundamental in determining how the institution is functioning.
- Financial information is used to determine debt capacity and overall financial strength of the institutions.
- The external audits of the UTIMCO funds and U. T. M. D. Anderson, the internal audits of key financial information at the other U. T. institutions, the SAO's limited audit procedures at selected U. T. institutions, and follow up on prior year findings ensures the reliability and integrity of the U. T. System's financial reporting.

4

4. U. T. System: Report on the plan for the Fiscal Year 2008 U. T. System Consolidated Annual Financial Report audit (cont.)

 <p>THE UNIVERSITY of TEXAS SYSTEM <i>Nine Universities. Six Health Institutions. Unlimited Possibilities.</i></p>	<h2>Audit Objectives and Approach</h2>
<p>Objectives:</p> <ul style="list-style-type: none">• Perform risk-based audits of each U. T. institution, U. T. System Administration, and Consolidated financial statements.• Report individual audit results to institutional executive management and summarized findings to the ACMR Committee. <p>Approach:</p> <ul style="list-style-type: none">• Identify and test key controls over financial reporting, including IT controls and the sub-certification process.• Test higher-risk items, such as patient revenue and receivables.• Review consolidation of institutional financial information to ensure appropriate reporting to the State.• Coordinate with other internal auditors to understand the impact of any potential adjustments to the U. T. System Consolidated Financial Statements.	
5	

 <p>THE UNIVERSITY of TEXAS SYSTEM <i>Nine Universities. Six Health Institutions. Unlimited Possibilities.</i></p>	<h2>Internal Audit Hours</h2>
<ul style="list-style-type: none">• The FY 2008 financial audit work is estimated to constitute approximately 10% or 13,000 hours of the U. T. System-wide annual audit plan resources, which will be significantly less than the time required in prior years.	
6	

5. U. T. System: Report on the System-wide compliance program

The University of Texas System Institutional Compliance Program Report Summary Third Quarter, Fiscal Year 2008

Background

The University of Texas (U. T.) System-wide Institutional Compliance Program (Program) was established in 1998 to ensure that the entire U. T. System, including its 15 institutions, System Administration, and UTIMCO, operates in compliance with all applicable laws, policies, and regulations governing higher education institutions. The responsibilities for the Program are outlined in the *Action Plan to Ensure Institutional Compliance* (Action Plan) approved by the Board of Regents in 1998 and updated in 2003. The Action Plan delegates to the System-wide Compliance Officer the responsibility for apprising the Chancellor and the Board of Regents of the compliance programs and activities at System Administration and at each of the institutions. The System-wide Compliance Officer position is currently held by Mr. Charles G. Chaffin, who has the additional responsibility of serving as the Chief Audit Executive. In an effort to place a concentrated focus on institutional compliance activities, a decision was made to hire a full-time compliance officer to oversee System-wide compliance activities. A search committee has been conducting interviews of the final candidates.

System-wide Program Activity

During the third quarter of fiscal year (FY) 2008, the System-wide program focused its efforts in the following areas:

1. Facilitating the sharing of best practices by coordinating the activities of the Institutional Compliance Advisory Council (ICAC) and standing committees.

The ICAC is a self-governing body comprised of the compliance officer and key compliance staff of each U. T. System institution that meets quarterly. During the third quarter of FY 2008, the ICAC met to review a draft of the revised Institutional Compliance Program Policy (UTS119).

2. Conducting institutional compliance program inspections.

The System-wide Compliance Office is conducting on-site inspections of the compliance programs to evaluate the effectiveness of several key program elements: General Compliance Training, Standards of Conduct Guides, and Hotline Activity Reporting. In addition, inspections include a review of the institution's risk assessment and monitoring processes and reporting practices. Recommendations from these inspections enhance the institution's compliance program.

During the third quarter of FY 2008, inspections were conducted at U. T. Arlington, U. T. Dallas, U. T. Permian Basin, and U. T. Tyler. Overall, the inspections revealed that the institutions have done well in conducting general compliance training, maintaining, and updating a detailed Standards of Conduct Guide, and managing and resolving hotline calls in a timely manner. Identified opportunities for improvement include ensuring that risk management plans are in place for all institutionally significant risks and that

5. U. T. System: Report on the System-wide compliance program (cont.)

responsible party monitoring and compliance office-driven assurance activities are performed regularly.

3. Coordinating the System-wide information security initiative.

The UT-ISAAC risk assessment application passed all reviews and is now moving into production. UT-ISAAC will be used to perform IT risk assessments at institutions that do not currently have a risk assessment tool in use. Enrollment of institutional IT security staff, server administrators, and web application programmers for the SANS online technical training classes is ongoing. In addition, five institutions are participating in demonstration projects that will evaluate the final two products/vendors under consideration for the UT System Configuration Management Software contract. A product/vendor recommendation is expected from the working group before the end of the summer.

4. Other activities during the quarter included:

- Organizing the Sixth Conference for Effective Compliance Systems in Higher Education attended by over 300 professionals representing over 100 institutions of higher education
- Attending executive compliance committee meetings at many of the institutions
- Revising the Institutional Compliance Program Policy (UTS119)
- Developing a heat map of System-wide compliance risks
- Identifying and highlighting emerging compliance issues through *In the News* email publication

Institutional Program Activity¹

The following is a summary of institutional progress in implementing these elements of an effective compliance program, as outlined in the U. T. System Action Plan:

Executive Compliance Committees

Each institution has an Executive Compliance Committee (ECC) that meets at least quarterly to oversee its institutional compliance program. Meetings were held this quarter at each institution, with the exception of U. T. Tyler and M. D. Anderson. Monthly ECC meetings continue at U. T. Austin and U. T. Health Science Center – Houston. During the period, System-wide Compliance Office liaisons attended ECC meetings at U. T. Austin, U. T. Dallas, U. T. San Antonio, U. T. Southwestern Medical Center, U. T. HSC – Houston, and U. T. System Administration in order to support the compliance officers in enhancing the role of the ECC.

Risk Assessments

ECCs review their institution's identified compliance risks and approve the designation of "institutionally significant" compliance risks – risks that, if realized, would have a significant impact on the ability to achieve the goals and objectives of the institution. Most institutions have identified between eight and fifteen institutionally significant areas of high risk, with multiple high-risk exposures contained within those areas. During the quarter, the following high-risk

¹ Details regarding activities at the institutional level are published in the *Institutional Compliance Program 3rd Quarter Status Report for Fiscal Year 2008*.

5. U. T. System: Report on the System-wide compliance program (cont.)

areas were addressed: environmental health and safety, animal care, human subjects, medical billing, research billing, endowments, fiscal/financial, time and effort reporting, cost sharing, information security, conflicts of interest, construction procurement, aircraft use and safety, asset management, export control, hazardous materials, lab safety, fire safety, campus safety, select agents, financial aid, family educational rights and privacy (FERPA), cash handling, human resources, contract management, clinical research, and investments.

Training and Awareness

General compliance training is conducted using a variety of formats including online, classroom, and written materials. Employees are typically scheduled to receive general compliance training during new employee orientation and thereafter, refresher training is provided on either an annual or a biannual basis. All institutions provide a Standards of Conduct guide to new employees, utilizing either an electronic or written delivery method. During the quarter, compliance officers have been effective at ensuring that General Compliance Training and Standards of Conduct guides are delivered to the appropriate personnel in a timely manner.

Specialized Training

During the quarter, institutions conducted specialized training in many areas, including: endowments, research, contracts and grants, confidential information, fair lending practices, human subjects research and ethics, storm water pollution prevention, construction safety, information security, account management, purchasing, conflicts of interest, lab safety, hazardous waste, biosafety, radiation safety, fair labor standards, FERPA, select agents, campus security, risk management, fire safety, cash handling, investment training (public markets, private markets, marketable alternative investments), and investment risk management.

Monitoring Activities

Each compliance high-risk area has designated an individual to act as the responsible party. One of the primary responsibilities of the designated responsible party is to verify the performance of monitoring activities, in accordance with their pre-established risk management plan.

Inspections and reviews were conducted in many of the high-risk areas during the third quarter of FY 2008, including: medical billing, research involving human subjects, animal care, clinical research, cost sharing, time and effort reporting, export controls, conflict of interest, select agents, hazardous chemicals, fire safety, facility safety, lab safety, contracts and grants, account reconciliation, financial controls, asset management, financial aid, HIPAA, FERPA, hospital compliance, endowments, investment due diligence, investment risk management, investment compliance, and information security.

Institutional Organizational Matters

U. T. Health Science Center – Tyler’s interim institutional compliance officer resigned effective May 30, 2008. Mr. Terry Reeves (U. T. Medical Branch - Galveston) has been appointed acting institutional compliance officer until a replacement can be selected.

Institutional Action Plan Activities

At the beginning of each fiscal year, institutional compliance officers prepare an Action Plan, identifying areas in which the compliance office will focus its attention and activities. During the third quarter of FY 2008, action plan activities included the following: conducting investigations, facilitating training, presenting at conferences, consulting with high-risk areas,

5. U. T. System: Report on the System-wide compliance program (cont.)

developing tools for monitoring high-risk areas, updating compliance program/compliance committee charters, developing compliance marketing plans, revising websites, updating compliance guides/manuals, reviewing risk management plans, reviewing monitoring plans, improving completion rates of general compliance training, facilitating risk assessments in high-risk areas, updating standards of conduct guides, developing surveys to evaluate effectiveness of hotlines and compliance programs, performing inspections of high-risk areas, and assisting with enterprise risk management implementations.

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

**THE UNIVERSITY OF TEXAS SYSTEM
OFFICE OF THE CONTROLLER**

MONTHLY FINANCIAL REPORT
(unaudited)

JUNE 2008



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

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

THE UNIVERSITY OF TEXAS SYSTEM
MONTHLY FINANCIAL REPORT
(Unaudited)
FOR THE TEN MONTHS ENDING
JUNE 30, 2008

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

The University of Texas System Monthly Financial Report

Foreword

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

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

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

UNAUDITED

The University of Texas System
 Comparison of Operating Results and Margin
 For the Ten Months Ending June 30, 2008

	June Year-to-Date <u>FY 2008</u>	June Year-to-Date <u>FY 2007</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$ 1,125,286,875	\$ 1,044,420,477	\$ 80,866,398	7.7%
Sponsored Programs	2,032,187,848	1,893,245,771	138,942,077	7.3%
Net Sales and Services of Educational Activities	239,468,514	242,668,617	(3,200,103)	-1.3%
Net Sales and Services of Hospitals	2,468,147,543	2,267,338,533	200,809,010	8.9%
Net Professional Fees	778,405,335	827,316,749	(48,911,414)	-5.9%
Net Auxiliary Enterprises	294,719,539	285,502,880	9,216,659	3.2%
Other Operating Revenues	122,509,306	113,706,150	8,803,156	7.7%
Total Operating Revenues	<u>7,060,724,960</u>	<u>6,674,199,177</u>	<u>386,525,783</u>	<u>5.8%</u>
Operating Expenses				
Salaries and Wages	4,350,299,852	4,032,474,212	317,825,640	7.9%
Payroll Related Costs	1,079,536,838	990,020,544	89,516,294	9.0%
Professional Fees and Contracted Services	253,524,611	225,843,475	27,681,136	12.3%
Other Contracted Services	351,102,882	328,187,982	22,914,900	7.0%
Scholarships and Fellowships	493,880,203	459,084,605	34,795,598	7.6%
Travel	104,332,828	91,876,266	12,456,562	13.6%
Materials and Supplies	956,981,700	897,044,112	59,937,588	6.7%
Utilities	238,386,239	208,753,244	29,632,995	14.2%
Telecommunications	81,927,363	54,333,255	27,594,108	50.8%
Repairs and Maintenance	145,300,883	124,469,462	20,831,421	16.7%
Rentals and Leases	89,255,859	83,454,361	5,801,498	7.0%
Printing and Reproduction	23,277,476	22,743,614	533,862	2.3%
Bad Debt Expense	45,983	1,043,755	(997,772)	-95.6%
Claims and Losses	6,417,234	23,748,264	(17,331,030)	-73.0%
Federal Sponsored Programs Pass-Throughs	24,434,229	22,920,149	1,514,080	6.6%
Depreciation and Amortization	576,202,323	517,011,773	59,190,550	11.4%
Other Operating Expenses	309,779,709	303,396,405	6,383,304	2.1%
Total Operating Expenses	<u>9,084,686,212</u>	<u>8,386,405,478</u>	<u>698,280,734</u>	<u>8.3%</u>
Operating Loss	<u>(2,023,961,252)</u>	<u>(1,712,206,301)</u>	<u>(311,754,951)</u>	<u>-18.2%</u>
Other Nonoperating Adjustments				
State Appropriations	1,621,066,785	1,463,658,673	157,408,112	10.8%
Gift Contributions for Operations	306,138,660	218,856,570	87,282,090	39.9%
Net Investment Income	714,915,465	625,613,139	89,302,326	14.3%
Interest Expense on Capital Asset Financings	(172,763,897)	(135,688,218)	(37,075,679)	-27.3%
Net Other Nonoperating Adjustments	<u>2,469,357,013</u>	<u>2,172,440,164</u>	<u>296,916,849</u>	<u>13.7%</u>
Adjusted Income (Loss) including Depreciation	445,395,761	460,233,863	(14,838,102)	-3.2%
Adjusted Margin (as a percentage) including Depreciation	4.6%	5.1%		
Investment Gains (Losses)	179,884,794	2,418,882,517	(2,238,997,723)	-92.6%
Adj. Inc. (Loss) with Investment Gains (Losses)	\$ 625,280,555	\$ 2,879,116,380	\$ (2,253,835,825)	-78.3%
Adj. Margin % with Investment Gains (Losses)	6.3%	25.3%		
Adjusted Income (Loss) with Investment Gains (Losses) excluding Depreciation	1,201,482,878	3,396,128,153	(2,194,645,275)	-64.6%
Adjusted Margin (as a percentage) with Investment Gains (Losses) excluding Depreciation	12.2%	29.8%		

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

The University of Texas System
Comparison of Adjusted Income (Loss)
For the Ten Months Ending June 30, 2008

	Including Depreciation and Amortization Expense			
	June	June	Variance	Fluctuation Percentage
	Year-to-Date FY 2008	Year-to-Date FY 2007		
UT System Administration	\$ 292,842,826	\$ 232,297,754	\$ 60,545,072 (1)	26.1%
UT Arlington	6,198,531	12,137,812	(5,939,281)	-48.9%
UT Austin	34,919,687	37,221,756	(2,302,069)	-6.2%
UT Brownsville	(140,104) (2)	(1,142,631)	1,002,527	87.7%
UT Dallas	11,658,551	1,420,316	10,238,235 (3)	720.8%
UT El Paso	4,101,676	2,712,869	1,388,807	51.2%
UT Pan American	(290,203) (4)	(4,308,099)	4,017,896	93.3%
UT Permian Basin	9,410,238	(261,143)	9,671,381 (5)	3,703.5%
UT San Antonio	26,715,046	30,995,389	(4,280,343)	-13.8%
UT Tyler	4,023,340	1,934,235	2,089,105 (6)	108.0%
UT Southwestern Medical Center - Dallas	62,665,698	63,069,972	(404,274)	-0.6%
UT Medical Branch - Galveston	(41,456,360)	3,770,895	(45,227,255) (7)	-1,199.4%
UT Health Science Center - Houston	22,032,487	24,206,197	(2,173,710)	-9.0%
UT Health Science Center - San Antonio	(15,918,737)	19,483,861	(35,402,598) (8)	-181.7%
UT M. D. Anderson Cancer Center	147,759,144	136,870,216	10,888,928	8.0%
UT Health Science Center - Tyler	540,608	6,124,464	(5,583,856) (9)	-91.2%
Elimination of AUF Transfer	(119,666,667)	(106,300,000)	(13,366,667)	-12.6%
Total Adjusted Income (Loss)	445,395,761	460,233,863	(14,838,102)	-3.2%
Investment Gains (Losses)	179,884,794	2,418,882,517	(2,238,997,723) (10)	-92.6%
Total Adjusted Income (Loss) with Investment Gains (Losses) Including Depreciation and Amortization	\$ 625,280,555	\$ 2,879,116,380	\$ (2,253,835,825)	-78.3%

	Excluding Depreciation and Amortization Expense			
	June	June	Variance	Fluctuation Percentage
	Year-to-Date FY 2008	Year-to-Date FY 2007		
UT System Administration	\$ 297,365,266	\$ 236,760,317	\$ 60,604,949	25.6%
UT Arlington	24,410,290	29,716,808	(5,306,518)	-17.9%
UT Austin	167,893,674	149,911,575	17,982,099	12.0%
UT Brownsville	4,803,054	3,359,724	1,443,330	43.0%
UT Dallas	28,628,526	17,361,863	11,266,663	64.9%
UT El Paso	16,695,027	14,157,431	2,537,596	17.9%
UT Pan American	12,555,914	9,020,518	3,535,396	39.2%
UT Permian Basin	12,451,905	2,453,580	9,998,325	407.5%
UT San Antonio	48,519,686	51,027,552	(2,507,866)	-4.9%
UT Tyler	10,017,888	7,606,861	2,411,027	31.7%
UT Southwestern Medical Center - Dallas	119,364,942	116,559,050	2,805,892	2.4%
UT Medical Branch - Galveston	14,902,823	48,167,687	(33,264,864)	-69.1%
UT Health Science Center - Houston	49,568,765	51,677,711	(2,108,946)	-4.1%
UT Health Science Center - San Antonio	8,456,263	38,487,912	(30,031,649)	-78.0%
UT M. D. Anderson Cancer Center	319,483,692	295,899,184	23,584,508	8.0%
UT Health Science Center - Tyler	6,147,036	11,377,863	(5,230,827)	-46.0%
Elimination of AUF Transfer	(119,666,667)	(106,300,000)	(13,366,667)	-12.6%
Total Adjusted Income (Loss)	1,021,598,084	977,245,636	44,352,448	4.5%
Investment Gains (Losses)	179,884,794	2,418,882,517	(2,238,997,723)	-92.6%
Total Adjusted Income (Loss) with Investment Gains (Losses) Excluding Depreciation and Amortization	\$ 1,201,482,878	\$ 3,396,128,153	\$ (2,194,645,275)	-64.6%

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

THE UNIVERSITY OF TEXAS SYSTEM EXPLANATION OF VARIANCES ON THE MONTHLY FINANCIAL REPORT For the Ten Months Ending June 30, 2008

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

- (1) UT System Administration - The \$60.5 million (26.1%) increase in adjusted income as compared to the same period last year was primarily due to increased net investment income. Excluding depreciation expense, UT System Administration's adjusted income was \$297.4 million or 73.8%.
- (2) UT Brownsville - The \$140,000 year-to-date loss was primarily attributable to decreased enrollment as a result of new student academic performance standards implemented in the spring of 2008. Excluding depreciation expense, UT Brownsville's adjusted income was \$4.8 million or 3.8%. UT Brownsville projects a year-end loss of approximately \$1.3 million which represents -0.9% of projected revenues. This forecast includes \$5.9 million of depreciation expense.
- (3) UT Dallas - The \$10.2 million (720.8%) increase in adjusted income over the same period last year was primarily due to increased state appropriations including increased formula funding and increased TRBs. Excluding depreciation expense, UT Dallas' adjusted income was \$28.6 million or 10.5%.
- (4) UT Pan American - The \$290,000 year-to-date loss was primarily attributable to an increase in salaries and wages and increased utility costs. Salaries and wages increased as a result of a 3% merit increase for faculty and staff and additional staff needed as a result of the implementation of the Oracle ERP system. Utility costs increased due to a new utility contract with higher rates. UT Pan American anticipates ending the year with a \$6.5 million negative margin which represents -2.6% of projected revenues. This forecast includes \$15.5 million of depreciation expense. Excluding depreciation expense, UT Pan American's adjusted income was \$12.6 million or 6.0%.
- (5) UT Permian Basin - The \$9.7 million (3,703.5%) increase in adjusted income over the same period last year was primarily due to increased state appropriations including increased formula funding and increased TRBs. Excluding depreciation expense, UT Permian Basin's adjusted income was \$12.5 million or 25.3%.
- (6) UT Tyler - The \$2.1 million (108%) increase in adjusted income over the same period last year was primarily due to increased state appropriations including increased formula funding and increased TRBs. Excluding depreciation expense, UT Tyler's adjusted income was \$10 million or 13.5%.
- (7) UT Medical Branch - Galveston - The \$45.2 million (1,199.4%) decrease in adjusted income over the same period last year was primarily due to an increase in operating expenses of \$96.7 million corresponding to the increased patient care activity and growth in research related programs. Market adjustments, overtime, and agency costs for clinical professionals were significant factors contributing to the increase in personnel costs. As a result of these factors, UTMB experienced a \$41.5 million year-to-date loss. Additionally, UTMB recognized \$23.4 million less revenue for the Texas Physician Upper Payment Limit (UPL) in 2008. Excluding depreciation expense, UTMB's adjusted income was \$14.9 million or 1.2%. UTMB projects a year-end loss of approximately \$63 million, which represents -4.2% of projected revenues. This forecast includes \$64.6 million of depreciation expense.
- (8) UT Health Science Center - San Antonio - The \$35.4 million (181.7%) decrease in adjusted income over the same period last year was primarily attributable to the acquisition of the Cancer Therapy and Research Center (CTRC), the Children's Cancer Research Institute (CCRI), increased interest expense and \$9.5 million less UPL revenue in 2008. Due to these factors, UTHSC-San Antonio incurred a year-to-date loss of \$15.9 million. The acquisition of CTRC contributed \$12.1 million of this loss, including depreciation expense, primarily due to billing and collection delays as a result of the merger. CCRI contributed \$2 million of the loss. UTHSC-San Antonio receives annual tobacco distributions on a quarterly basis for CCRI. Unused balances can be accumulated and spent in subsequent years. To date, CCRI has expended \$2 million more than current year distributions that are supported by prior year accumulations. Excluding depreciation expense, UTHSC-San Antonio's adjusted income was \$8.5 million or 1.7%.

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

UTHSC-San Antonio is currently assessing the collectability of approximately \$6 million in outstanding claims at CTRC, which would reduce the loss at CTRC. Since the likelihood of collecting these outstanding claims has not been determined, *UTHSC-San Antonio* has not factored this potential revenue into the projection. *UTHSC-San Antonio* is also working with CTRC to reduce expenses for the remainder of the year.

UTHSC-San Antonio projects a year-end loss of approximately \$14.6 million, which represents -2.3% of projected revenues and includes \$29.7 million of depreciation expense of which \$3.5 million is attributable to CTRC.

(9) *UT Health Science Center – Tyler* – The \$5.6 million (91.2%) decrease in adjusted income over the same period last year was primarily attributable to a 10% decrease in admissions, a 3% decrease in inpatient visits and a net reduction in grant income of \$570,000. As a result of the reduction in patient volume, *UTHSC-Tyler* reduced its staff by 84 employees since November and incurred over \$600,000 in termination vacation payouts. Additionally, *UTHSC-Tyler* recognized \$2.9 million less UPL revenue in 2008. Excluding depreciation expense, *UTHSC-Tyler's* adjusted income was \$6.1 million or 6.6%.

(10) *Investment Gains (Losses)* - The majority of the \$2.2 billion (92.6%) decrease in investment gains relates to the Permanent University Fund of \$1.3 billion, the Long Term Fund of \$611.7 million, and the Permanent Health Fund of \$127.9 million.

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

GLOSSARY OF TERMS

OPERATING REVENUES:

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

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

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

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

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

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

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

OPERATING EXPENSES:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OTHER NONOPERATING ADJUSTMENTS:

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

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

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

NET INVESTMENT INCOME (on the consolidated sheet) – Interest and dividend earnings of the Permanent University Fund, Short Term Fund, Intermediate Term Fund, Long Term Fund and Permanent Health Fund. This line item also includes the Available University Fund surface income, oil and gas royalties, and mineral lease bonus sales.

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

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

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

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

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

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

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

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

UNAUDITED

The University of Texas System Administration Comparison of Operating Results and Margin For the Ten Months Ending June 30, 2008

	June Year-to-Date <u>FY 2008</u>	June Year-to-Date <u>FY 2007</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Sponsored Programs	\$ 20,843,341	\$ 11,902,886	\$ 8,940,455	75.1%
Net Sales and Services of Educational Activities	12,451,573	18,446,321	(5,994,748)	-32.5%
Other Operating Revenues	11,025,940	19,313,145	(8,287,205)	-42.9%
Total Operating Revenues	<u>44,320,854</u>	<u>49,662,352</u>	<u>(5,341,498)</u>	<u>-10.8%</u>
Operating Expenses				
Salaries and Wages	28,990,060	21,836,268	7,153,792	32.8%
Employee Benefits and Related Costs	6,115,189	4,871,032	1,244,157	25.5%
Professional Fees and Contracted Services	2,218,003	3,501,862	(1,283,859)	-36.7%
Other Contracted Services	9,533,879	6,114,089	3,419,790	55.9%
Scholarships and Fellowships	483,000	176,700	306,300	173.3%
Travel	1,656,798	1,587,496	69,302	4.4%
Materials and Supplies	3,826,838	2,301,232	1,525,606	66.3%
Utilities	442,654	612,712	(170,058)	-27.8%
Telecommunications	2,837,939	870,626	1,967,313	226.0%
Repairs and Maintenance	720,589	923,526	(202,937)	-22.0%
Rentals and Leases	709,645	720,044	(10,399)	-1.4%
Printing and Reproduction	246,781	178,423	68,358	38.3%
Claims and Losses	6,417,234	23,748,264	(17,331,030)	-73.0%
Depreciation and Amortization	4,522,440	4,462,563	59,877	1.3%
Other Operating Expenses	3,925,642	2,642,619	1,283,023	48.6%
Total Operating Expenses	<u>72,646,691</u>	<u>74,547,456</u>	<u>(1,900,765)</u>	<u>-2.5%</u>
Operating Loss	<u>(28,325,837)</u>	<u>(24,885,104)</u>	<u>(3,440,733)</u>	<u>-13.8%</u>
Other Nonoperating Adjustments				
State Appropriations	768,357	764,796	3,561	0.5%
Gift Contributions for Operations	813,721	627,892	185,829	29.6%
Net Investment Income	328,503,334	266,578,562	61,924,772	23.2%
Interest Expense on Capital Asset Financings	(37,450,457)	(37,456,170)	5,713	0.0%
Net Other Nonoperating Adjustments	<u>292,634,955</u>	<u>230,515,080</u>	<u>62,119,875</u>	<u>26.9%</u>
Adjusted Income (Loss) including Depreciation	264,309,118	205,629,976	58,679,142	28.5%
Adjusted Margin (as a percentage) including Depreciation	70.6%	64.7%		
Available University Fund Transfer	28,533,708	26,667,778	1,865,930	7.0%
Adjusted Income (Loss) with AUF Transfer	292,842,826	232,297,754	60,545,072	26.1%
Adjusted Margin % with AUF Transfer	72.7%	67.5%		
Investment Gains (Losses)	94,714,496	2,186,872,746	(2,092,158,250)	-95.7%
Adj. Inc. (Loss) with AUF Transfer & Invest. Gains (Losses)	\$ 387,557,322	\$ 2,419,170,500	\$ (2,031,613,178)	-84.0%
Adj. Margin % with AUF Transfer & Invest. Gains (Losses)	77.9%	95.6%		
Adjusted Income (Loss) with AUF Transfer excluding Depreciation	297,365,266	236,760,317	60,604,949	25.6%
Adjusted Margin (as a percentage) with AUF Transfer excluding Depreciation	73.8%	68.8%		

3. U. T. System: Key Financial Indicators Report and Monthly Financial Report (cont.)
UNAUDITED

The University of Texas at Arlington
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2008

	June Year-to-Date FY 2008	June Year-to-Date FY 2007	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$ 140,197,679	\$ 132,486,263	\$ 7,711,416	5.8%
Sponsored Programs	44,196,815	44,178,691	18,124	0.0%
Net Sales and Services of Educational Activities	11,407,015	10,270,068	1,136,947	11.1%
Net Auxiliary Enterprises	20,711,101	20,430,354	280,747	1.4%
Other Operating Revenues	6,235,414	5,548,280	687,134	12.4%
Total Operating Revenues	222,748,024	212,913,656	9,834,368	4.6%
Operating Expenses				
Salaries and Wages	151,263,641	140,635,446	10,628,195	7.6%
Employee Benefits and Related Costs	33,890,537	31,227,645	2,662,892	8.5%
Professional Fees and Contracted Services	3,693,110	4,365,378	(672,268)	-15.4%
Other Contracted Services	7,612,239	7,494,698	117,541	1.6%
Scholarships and Fellowships	38,737,028	33,623,662	5,113,366	15.2%
Travel	4,533,416	3,877,647	655,769	16.9%
Materials and Supplies	17,301,506	16,158,622	1,142,884	7.1%
Utilities	10,461,596	9,521,145	940,451	9.9%
Telecommunications	5,353,086	4,864,779	488,307	10.0%
Repairs and Maintenance	5,967,454	5,089,734	877,720	17.2%
Rentals and Leases	2,513,678	2,181,424	332,254	15.2%
Printing and Reproduction	1,988,481	1,927,818	60,663	3.1%
Federal Sponsored Programs Pass-Thrus	1,930,267	1,836,204	94,063	5.1%
Depreciation and Amortization	18,211,759	17,578,996	632,763	3.6%
Other Operating Expenses	8,358,643	9,177,350	(818,707)	-8.9%
Total Operating Expenses	311,816,441	289,560,548	22,255,893	7.7%
Operating Loss	(89,068,417)	(76,646,892)	(12,421,525)	-16.2%
Other Nonoperating Adjustments				
State Appropriations	92,475,902	84,895,743	7,580,159	8.9%
Gift Contributions for Operations	1,921,130	1,675,128	246,002	14.7%
Net Investment Income	7,732,146	7,405,777	326,369	4.4%
Interest Expense on Capital Asset Financings	(6,862,230)	(5,191,944)	(1,670,286)	-32.2%
Net Other Nonoperating Adjustments	95,266,948	88,784,704	6,482,244	7.3%
Adjusted Income (Loss) including Depreciation	6,198,531	12,137,812	(5,939,281)	-48.9%
Adjusted Margin (as a percentage) including Depreciation	1.9%	4.0%		
Investment Gains (Losses)	7,493,683	11,042,244	(3,548,561)	-32.1%
Adjusted Income (Loss) with Investment Gains (Losses)	\$ 13,692,214	\$ 23,180,056	\$ (9,487,842)	-40.9%
Adjusted Margin % with Investment Gains (Losses)	4.1%	7.3%		
Adjusted Income (Loss) excluding Depreciation	24,410,290	29,716,808	(5,306,518)	-17.9%
Adjusted Margin (as a percentage) excluding Depreciation	7.5%	9.7%		

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

UNAUDITED

The University of Texas at Austin Comparison of Operating Results and Margin For the Ten Months Ending June 30, 2008

	June Year-to-Date <u>FY 2008</u>	June Year-to-Date <u>FY 2007</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$ 444,359,495	\$ 421,256,277	\$ 23,103,218	5.5%
Sponsored Programs	390,102,411	370,463,763	19,638,648	5.3%
Net Sales and Services of Educational Activities	121,693,140	124,732,504	(3,039,364)	-2.4%
Net Auxiliary Enterprises	158,786,859	151,496,550	7,290,309	4.8%
Other Operating Revenues	3,078,922	2,987,960	90,962	3.0%
Total Operating Revenues	<u>1,118,020,827</u>	<u>1,070,937,054</u>	<u>47,083,773</u>	<u>4.4%</u>
Operating Expenses				
Salaries and Wages	755,739,549	729,784,870	25,954,679	3.6%
Employee Benefits and Related Costs	177,922,960	170,569,466	7,353,494	4.3%
Professional Fees and Contracted Services	21,792,799	19,636,373	2,156,426	11.0%
Other Contracted Services	56,112,096	60,984,712	(4,872,616)	-8.0%
Scholarships and Fellowships	172,391,029	165,092,167	7,298,862	4.4%
Travel	34,040,487	29,677,034	4,363,453	14.7%
Materials and Supplies	100,085,662	88,980,365	11,105,297	12.5%
Utilities	60,697,017	54,582,257	6,114,760	11.2%
Telecommunications	30,801,550	11,956,749	18,844,801	157.6%
Repairs and Maintenance	22,519,334	19,654,212	2,865,122	14.6%
Rentals and Leases	11,267,561	12,389,806	(1,122,245)	-9.1%
Printing and Reproduction	8,005,251	7,843,088	162,163	2.1%
Federal Sponsored Programs Pass-Thrus	4,098,899	4,588,077	(489,178)	-10.7%
Depreciation and Amortization	132,973,987	112,689,819	20,284,168	18.0%
Other Operating Expenses	75,255,248	70,561,868	4,693,380	6.7%
Total Operating Expenses	<u>1,663,703,429</u>	<u>1,558,990,863</u>	<u>104,712,566</u>	<u>6.7%</u>
Operating Loss	<u>(545,682,602)</u>	<u>(488,053,809)</u>	<u>(57,628,793)</u>	<u>-11.8%</u>
Other Nonoperating Adjustments				
State Appropriations	274,705,277	255,795,101	18,910,176	7.4%
Gift Contributions for Operations	83,107,398	70,457,423	12,649,975	18.0%
Net Investment Income	134,756,147	116,582,979	18,173,168	15.6%
Interest Expense on Capital Asset Financings	(31,633,200)	(23,859,938)	(7,773,262)	-32.6%
Net Other Nonoperating Adjustments	<u>460,935,622</u>	<u>418,975,565</u>	<u>41,960,057</u>	<u>10.0%</u>
Adjusted Income (Loss) including Depreciation	(84,746,980)	(69,078,244)	(15,668,736)	-22.7%
Adjusted Margin (as a percentage) including Depreciation	-5.3%	-4.6%		
Available University Fund Transfer	119,666,667	106,300,000	13,366,667	12.6%
Adjusted Income (Loss) with AUF Transfer	34,919,687	37,221,756	(2,302,069)	-6.2%
Adjusted Margin % with AUF Transfer	2.0%	2.3%		
Investment Gains (Losses)	29,332,313	55,468,786	(26,136,473)	-47.1%
Adj. Inc. (Loss) with AUF Transfer & Invest. Gains (Losses)	\$ 64,252,000	\$ 92,690,542	\$ (28,438,542)	-30.7%
Adj. Margin % with AUF Transfer & Invest. Gains (Losses)	3.7%	5.5%		
Adjusted Income (Loss) with AUF Transfer excluding Depreciation	167,893,674	149,911,575	17,982,099	12.0%
Adjusted Margin (as a percentage) with AUF Transfer excluding Depreciation	9.7%	9.3%		

3. U. T. System: Key Financial Indicators Report and Monthly Financial Report (cont.)
UNAUDITED

The University of Texas at Brownsville
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2008

	June Year-to-Date FY 2008	June Year-to-Date FY 2007	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$ 12,525,253	\$ 9,942,450	\$ 2,582,803	26.0%
Sponsored Programs	80,617,343	78,605,639	2,011,704	2.6%
Net Sales and Services of Educational Activities	938,152	870,706	67,446	7.7%
Net Auxiliary Enterprises	1,018,533	818,000	200,533	24.5%
Other Operating Revenues	55,936	15,851	40,085	252.9%
Total Operating Revenues	95,155,217	90,252,646	4,902,571	5.4%
Operating Expenses				
Salaries and Wages	50,715,564	46,805,121	3,910,443	8.4%
Employee Benefits and Related Costs	12,330,405	11,385,932	944,473	8.3%
Professional Fees and Contracted Services	1,765,292	1,575,872	189,420	12.0%
Scholarships and Fellowships	37,113,778	34,502,284	2,611,494	7.6%
Travel	997,672	1,015,468	(17,796)	-1.8%
Materials and Supplies	4,263,719	3,472,323	791,396	22.8%
Utilities	3,113,349	2,906,329	207,020	7.1%
Telecommunications	1,486,846	1,332,330	154,516	11.6%
Repairs and Maintenance	980,636	696,417	284,219	40.8%
Rentals and Leases	1,634,782	1,592,238	42,544	2.7%
Printing and Reproduction	284,593	325,106	(40,513)	-12.5%
Bad Debt Expense	35,983	21,415	14,568	68.0%
Federal Sponsored Programs Pass-Thrus	47,101	48,552	(1,451)	-3.0%
Depreciation and Amortization	4,943,158	4,502,355	440,803	9.8%
Other Operating Expenses	5,547,329	5,348,383	198,946	3.7%
Total Operating Expenses	125,260,207	115,530,125	9,730,082	8.4%
Operating Loss	(30,104,990)	(25,277,479)	(4,827,511)	-19.1%
Other Nonoperating Adjustments				
State Appropriations	29,911,758	24,085,024	5,826,734	24.2%
Gift Contributions for Operations	331,597	266,127	65,470	24.6%
Net Investment Income	1,186,501	1,181,386	5,115	0.4%
Interest Expense on Capital Asset Financings	(1,464,970)	(1,397,689)	(67,281)	-4.8%
Net Other Nonoperating Adjustments	29,964,886	24,134,848	5,830,038	24.2%
Adjusted Income (Loss) including Depreciation	(140,104)	(1,142,631)	1,002,527	87.7%
Adjusted Margin (as a percentage) including Depreciation	-0.1%	-1.0%		
Investment Gains (Losses)	655,491	2,375,019	(1,719,528)	-72.4%
Adjusted Income (Loss) with Investment Gains (Losses)	\$ 515,387	\$ 1,232,388	\$ (717,001)	-58.2%
Adjusted Margin % with Investment Gains (Losses)	0.4%	1.0%		
Adjusted Income (Loss) excluding Depreciation	4,803,054	3,359,724	1,443,330	43.0%
Adjusted Margin (as a percentage) excluding Depreciation	3.8%	2.9%		

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

UNAUDITED

The University of Texas at Dallas Comparison of Operating Results and Margin For the Ten Months Ending June 30, 2008

	June Year-to-Date <u>FY 2008</u>	June Year-to-Date <u>FY 2007</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$ 118,642,336	\$ 105,689,014	\$ 12,953,322	12.3%
Sponsored Programs	41,691,663	34,371,300	7,320,363	21.3%
Net Sales and Services of Educational Activities	6,264,096	5,377,908	886,188	16.5%
Net Auxiliary Enterprises	4,549,635	4,431,446	118,189	2.7%
Other Operating Revenues	6,030,590	4,972,301	1,058,289	21.3%
Total Operating Revenues	<u>177,178,320</u>	<u>154,841,969</u>	<u>22,336,351</u>	<u>14.4%</u>
Operating Expenses				
Salaries and Wages	121,838,425	112,537,579	9,300,846	8.3%
Employee Benefits and Related Costs	25,755,486	23,152,813	2,602,673	11.2%
Professional Fees and Contracted Services	2,685,410	2,319,893	365,517	15.8%
Other Contracted Services	8,346,306	6,345,892	2,000,414	31.5%
Scholarships and Fellowships	40,213,317	37,874,747	2,338,570	6.2%
Travel	2,863,180	2,594,594	268,586	10.4%
Materials and Supplies	12,651,109	11,585,564	1,065,545	9.2%
Utilities	6,862,001	6,022,511	839,490	13.9%
Telecommunications	1,146,922	1,109,513	37,409	3.4%
Repairs and Maintenance	3,411,111	2,356,554	1,054,557	44.7%
Rentals and Leases	1,219,485	1,106,115	113,370	10.2%
Printing and Reproduction	1,049,933	1,097,722	(47,789)	-4.4%
Federal Sponsored Programs Pass-Thrus	779,776	136,851	642,925	469.8%
Depreciation and Amortization	16,969,975	15,941,547	1,028,428	6.5%
Other Operating Expenses	8,559,222	7,386,327	1,172,895	15.9%
Total Operating Expenses	<u>254,351,658</u>	<u>231,568,222</u>	<u>22,783,436</u>	<u>9.8%</u>
Operating Loss	<u>(77,173,338)</u>	<u>(76,726,253)</u>	<u>(447,085)</u>	<u>-0.6%</u>
Other Nonoperating Adjustments				
State Appropriations	75,574,619	65,317,466	10,257,153	15.7%
Gift Contributions for Operations	8,813,250	7,609,728	1,203,522	15.8%
Net Investment Income	11,581,460	10,388,286	1,193,174	11.5%
Interest Expense on Capital Asset Financings	(7,137,440)	(5,168,911)	(1,968,529)	-38.1%
Net Other Nonoperating Adjustments	<u>88,831,889</u>	<u>78,146,569</u>	<u>10,685,320</u>	<u>13.7%</u>
Adjusted Income (Loss) including Depreciation	11,658,551	1,420,316	10,238,235	720.8%
Adjusted Margin (as a percentage) including Depreciation	4.3%	0.6%		
Investment Gains (Losses)	968,098	7,253,894	(6,285,796)	-86.7%
Adjusted Income (Loss) with Investment Gains (Losses)	\$ 12,626,649	\$ 8,674,210	\$ 3,952,439	45.6%
Adjusted Margin % with Investment Gains (Losses)	4.6%	3.5%		
Adjusted Income (Loss) excluding Depreciation	28,628,526	17,361,863	11,266,663	64.9%
Adjusted Margin (as a percentage) excluding Depreciation	10.5%	7.3%		

3. U. T. System: Key Financial Indicators Report and Monthly Financial Report (cont.)
UNAUDITED

The University of Texas at El Paso
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2008

	June Year-to-Date FY 2008	June Year-to-Date FY 2007	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$ 78,883,188	\$ 73,264,421	\$ 5,618,767	7.7%
Sponsored Programs	73,004,021	70,335,743	2,668,278	3.8%
Net Sales and Services of Educational Activities	3,394,024	3,546,502	(152,478)	-4.3%
Net Auxiliary Enterprises	18,362,215	23,535,762	(5,173,547)	-22.0%
Other Operating Revenues	322,218	17,812	304,406	1,709.0%
Total Operating Revenues	173,965,666	170,700,240	3,265,426	1.9%
Operating Expenses				
Salaries and Wages	110,963,846	104,705,669	6,258,177	6.0%
Employee Benefits and Related Costs	26,692,564	25,417,709	1,274,855	5.0%
Professional Fees and Contracted Services	843,038	869,035	(25,997)	-3.0%
Other Contracted Services	12,224,959	16,793,837	(4,568,878)	-27.2%
Scholarships and Fellowships	51,872,675	48,795,756	3,076,919	6.3%
Travel	5,241,256	4,494,391	746,865	16.6%
Materials and Supplies	16,953,316	16,800,171	153,145	0.9%
Utilities	6,413,549	6,182,655	230,894	3.7%
Telecommunications	614,891	608,724	6,167	1.0%
Repairs and Maintenance	2,962,889	2,793,098	169,791	6.1%
Rentals and Leases	2,521,329	2,430,566	90,763	3.7%
Printing and Reproduction	763,178	513,725	249,453	48.6%
Federal Sponsored Programs Pass-Thrus	208,768	262,323	(53,555)	-20.4%
Depreciation and Amortization	12,593,351	11,444,562	1,148,789	10.0%
Other Operating Expenses	4,777,113	4,709,264	67,849	1.4%
Total Operating Expenses	255,646,722	246,821,485	8,825,237	3.6%
Operating Loss	(81,681,056)	(76,121,245)	(5,559,811)	-7.3%
Other Nonoperating Adjustments				
State Appropriations	76,346,093	67,108,065	9,238,028	13.8%
Gift Contributions for Operations	5,445,658	6,241,917	(796,259)	-12.8%
Net Investment Income	8,210,121	7,963,966	246,155	3.1%
Interest Expense on Capital Asset Financings	(4,219,140)	(2,479,834)	(1,739,306)	-70.1%
Net Other Nonoperating Adjustments	85,782,732	78,834,114	6,948,618	8.8%
Adjusted Income (Loss) including Depreciation	4,101,676	2,712,869	1,388,807	51.2%
Adjusted Margin (as a percentage) including Depreciation	1.6%	1.1%		
Investment Gains (Losses)	2,412,311	4,919,641	(2,507,330)	-51.0%
Adjusted Income (Loss) with Investment Gains (Losses)	\$ 6,513,987	\$ 7,632,510	\$ (1,118,523)	-14.7%
Adjusted Margin % with Investment Gains (Losses)	2.4%	3.0%		
Adjusted Income (Loss) excluding Depreciation	16,695,027	14,157,431	2,537,596	17.9%
Adjusted Margin (as a percentage) excluding Depreciation	6.3%	5.6%		

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

UNAUDITED

The University of Texas - Pan American Comparison of Operating Results and Margin For the Ten Months Ending June 30, 2008

	June Year-to-Date <u>FY 2008</u>	June Year-to-Date <u>FY 2007</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$ 66,692,210	\$ 57,039,270	\$ 9,652,940	16.9%
Sponsored Programs	65,411,063	64,659,324	751,739	1.2%
Net Sales and Services of Educational Activities	4,517,763	4,687,583	(169,820)	-3.6%
Net Auxiliary Enterprises	3,414,508	2,561,285	853,223	33.3%
Other Operating Revenues	1,911,847	740,246	1,171,601	158.3%
Total Operating Revenues	<u>141,947,391</u>	<u>129,687,708</u>	<u>12,259,683</u>	<u>9.5%</u>
Operating Expenses				
Salaries and Wages	80,755,833	75,402,027	5,353,806	7.1%
Employee Benefits and Related Costs	19,292,507	17,269,880	2,022,627	11.7%
Professional Fees and Contracted Services	1,551,216	1,447,583	103,633	7.2%
Other Contracted Services	4,928,169	4,196,529	731,640	17.4%
Scholarships and Fellowships	60,133,358	56,362,052	3,771,306	6.7%
Travel	3,560,741	2,997,686	563,055	18.8%
Materials and Supplies	9,413,422	10,497,760	(1,084,338)	-10.3%
Utilities	5,830,542	4,233,519	1,597,023	37.7%
Telecommunications	748,925	607,053	141,872	23.4%
Repairs and Maintenance	1,629,888	1,652,426	(22,538)	-1.4%
Rentals and Leases	675,722	614,526	61,196	10.0%
Printing and Reproduction	257,265	274,059	(16,794)	-6.1%
Bad Debt Expense	10,000	1,022,340	(1,012,340)	-99.0%
Federal Sponsored Programs Pass-Thrus	111,344	27,671	83,673	302.4%
Depreciation and Amortization	12,846,117	13,328,617	(482,500)	-3.6%
Other Operating Expenses	3,842,427	4,159,978	(317,551)	-7.6%
Total Operating Expenses	<u>205,587,476</u>	<u>194,093,706</u>	<u>11,493,770</u>	<u>5.9%</u>
Operating Loss	<u>(63,640,085)</u>	<u>(64,405,998)</u>	<u>765,913</u>	<u>1.2%</u>
Other Nonoperating Adjustments				
State Appropriations	62,180,036	58,243,127	3,936,909	6.8%
Gift Contributions for Operations	1,694,648	1,958,865	(264,217)	-13.5%
Net Investment Income	2,944,808	2,619,331	325,477	12.4%
Interest Expense on Capital Asset Financings	(3,469,610)	(2,723,424)	(746,186)	-27.4%
Net Other Nonoperating Adjustments	<u>63,349,882</u>	<u>60,097,899</u>	<u>3,251,983</u>	<u>5.4%</u>
Adjusted Income (Loss) including Depreciation	(290,203)	(4,308,099)	4,017,896	93.3%
Adjusted Margin (as a percentage) including Depreciation	-0.1%	-2.2%		
Investment Gains (Losses)	296,178	3,175,068	(2,878,890)	-90.7%
Adjusted Income (Loss) with Investment Gains (Losses)	\$ 5,975	\$ (1,133,031)	\$ 1,139,006	100.5%
Adjusted Margin % with Investment Gains (Losses)	0.0%	-0.6%		
Adjusted Income (Loss) excluding Depreciation	12,555,914	9,020,518	3,535,396	39.2%
Adjusted Margin (as a percentage) excluding Depreciation	6.0%	4.7%		

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

UNAUDITED

The University of Texas of the Permian Basin Comparison of Operating Results and Margin For the Ten Months Ending June 30, 2008

	June Year-to-Date <u>FY 2008</u>	June Year-to-Date <u>FY 2007</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$ 12,257,919	\$ 11,543,387	\$ 714,532	6.2%
Sponsored Programs	5,695,934	5,285,365	410,569	7.8%
Net Sales and Services of Educational Activities	312,226	225,392	86,834	38.5%
Net Auxiliary Enterprises	2,465,671	1,785,193	680,478	38.1%
Other Operating Revenues	334,534	125,740	208,794	166.1%
Total Operating Revenues	<u>21,066,284</u>	<u>18,965,077</u>	<u>2,101,207</u>	<u>11.1%</u>
Operating Expenses				
Salaries and Wages	14,834,868	13,958,919	875,949	6.3%
Employee Benefits and Related Costs	3,455,684	3,321,243	134,441	4.0%
Professional Fees and Contracted Services	1,875,460	714,919	1,160,541	162.3%
Other Contracted Services	1,422,151	1,027,791	394,360	38.4%
Scholarships and Fellowships	6,714,748	6,355,717	359,031	5.6%
Travel	723,038	664,951	58,087	8.7%
Materials and Supplies	2,249,755	1,643,333	606,422	36.9%
Utilities	1,932,741	1,720,522	212,219	12.3%
Telecommunications	310,425	343,542	(33,117)	-9.6%
Repairs and Maintenance	513,981	619,225	(105,244)	-17.0%
Rentals and Leases	287,368	223,654	63,714	28.5%
Printing and Reproduction	144,071	190,612	(46,541)	-24.4%
Depreciation and Amortization	3,041,667	2,714,723	326,944	12.0%
Other Operating Expenses	730,681	714,078	16,603	2.3%
Total Operating Expenses	<u>38,236,638</u>	<u>34,213,229</u>	<u>4,023,409</u>	<u>11.8%</u>
Operating Loss	<u>(17,170,354)</u>	<u>(15,248,152)</u>	<u>(1,922,202)</u>	<u>-12.6%</u>
Other Nonoperating Adjustments				
State Appropriations	26,338,289	14,340,427	11,997,862	83.7%
Gift Contributions for Operations	858,190	1,091,781	(233,591)	-21.4%
Net Investment Income	892,683	908,522	(15,839)	-1.7%
Interest Expense on Capital Asset Financings	(1,508,570)	(1,353,721)	(154,849)	-11.4%
Net Other Nonoperating Adjustments	<u>26,580,592</u>	<u>14,987,009</u>	<u>11,593,583</u>	<u>77.4%</u>
Adjusted Income (Loss) including Depreciation	9,410,238	(261,143)	9,671,381	3,703.5%
Adjusted Margin (as a percentage) including Depreciation	19.1%	-0.7%		
Investment Gains (Losses)	6,194	368,798	(362,604)	-98.3%
Adjusted Income (Loss) with Investment Gains (Losses)	\$ 9,416,432	\$ 107,655	\$ 9,308,777	8646.9%
Adjusted Margin % with Investment Gains (Losses)	19.2%	0.3%		
Adjusted Income (Loss) excluding Depreciation	12,451,905	2,453,580	9,998,325	407.5%
Adjusted Margin (as a percentage) excluding Depreciation	25.3%	6.9%		

3. U. T. System: Key Financial Indicators Report and Monthly Financial Report (cont.)
UNAUDITED

The University of Texas at San Antonio
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2008

	June Year-to-Date FY 2008	June Year-to-Date FY 2007	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$ 153,680,081	\$ 144,909,494	\$ 8,770,587	6.1%
Sponsored Programs	70,424,973	63,253,529	7,171,444	11.3%
Net Sales and Services of Educational Activities	5,804,045	4,977,653	826,392	16.6%
Net Auxiliary Enterprises	14,898,130	12,562,087	2,336,043	18.6%
Other Operating Revenues	1,573,711	1,620,306	(46,595)	-2.9%
Total Operating Revenues	246,380,940	227,323,069	19,057,871	8.4%
Operating Expenses				
Salaries and Wages	141,470,708	130,056,036	11,414,672	8.8%
Employee Benefits and Related Costs	34,952,806	31,686,444	3,266,362	10.3%
Professional Fees and Contracted Services	3,038,348	2,367,074	671,274	28.4%
Other Contracted Services	5,850,278	3,589,862	2,260,416	63.0%
Scholarships and Fellowships	57,856,656	51,981,356	5,875,300	11.3%
Travel	5,331,180	4,456,613	874,567	19.6%
Materials and Supplies	16,957,469	14,057,274	2,900,195	20.6%
Utilities	9,268,833	7,487,750	1,781,083	23.8%
Telecommunications	2,399,793	2,151,653	248,140	11.5%
Repairs and Maintenance	5,463,587	4,968,977	494,610	10.0%
Rentals and Leases	2,328,357	2,098,257	230,100	11.0%
Printing and Reproduction	881,351	916,626	(35,275)	-3.8%
Federal Sponsored Programs Pass-Thrus	2,792,905	2,213,466	579,439	26.2%
Depreciation and Amortization	21,804,640	20,032,163	1,772,477	8.8%
Other Operating Expenses	6,335,039	4,877,535	1,457,504	29.9%
Total Operating Expenses	316,731,950	282,941,086	33,790,864	11.9%
Operating Loss	(70,351,010)	(55,618,017)	(14,732,993)	-26.5%
Other Nonoperating Adjustments				
State Appropriations	95,260,538	81,777,882	13,482,656	16.5%
Gift Contributions for Operations	5,611,906	3,000,359	2,611,547	87.0%
Net Investment Income	7,776,242	6,703,478	1,072,764	16.0%
Interest Expense on Capital Asset Financings	(11,582,630)	(4,868,313)	(6,714,317)	-137.9%
Net Other Nonoperating Adjustments	97,066,056	86,613,406	10,452,650	12.1%
Adjusted Income (Loss) including Depreciation	26,715,046	30,995,389	(4,280,343)	-13.8%
Adjusted Margin (as a percentage) including Depreciation	7.5%	9.7%		
Investment Gains (Losses)	2,538,509	11,666,160	(9,127,651)	-78.2%
Adjusted Income (Loss) with Investment Gains (Losses)	\$ 29,253,555	\$ 42,661,549	\$ (13,407,994)	-31.4%
Adjusted Margin % with Investment Gains (Losses)	8.2%	12.9%		
Adjusted Income (Loss) excluding Depreciation	48,519,686	51,027,552	(2,507,866)	-4.9%
Adjusted Margin (as a percentage) excluding Depreciation	13.7%	16.0%		

3. U. T. System: Key Financial Indicators Report and Monthly Financial Report (cont.)
UNAUDITED

The University of Texas at Tyler
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2008

	June Year-to-Date FY 2008	June Year-to-Date FY 2007	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$ 25,370,790	\$ 22,582,850	\$ 2,787,940	12.3%
Sponsored Programs	9,471,718	7,829,563	1,642,155	21.0%
Net Sales and Services of Educational Activities	1,029,836	866,619	163,217	18.8%
Net Auxiliary Enterprises	3,211,969	3,310,102	(98,133)	-3.0%
Other Operating Revenues	99,491	46,891	52,600	112.2%
Total Operating Revenues	39,183,804	34,636,025	4,547,779	13.1%
Operating Expenses				
Salaries and Wages	27,870,532	25,908,060	1,962,472	7.6%
Employee Benefits and Related Costs	7,159,556	6,581,749	577,807	8.8%
Professional Fees and Contracted Services	1,004,132	870,933	133,199	15.3%
Other Contracted Services	2,953,636	2,430,455	523,181	21.5%
Scholarships and Fellowships	10,230,494	9,368,537	861,957	9.2%
Travel	1,411,094	1,026,481	384,613	37.5%
Materials and Supplies	5,137,168	3,795,500	1,341,668	35.3%
Utilities	1,732,033	1,276,415	455,618	35.7%
Telecommunications	496,207	449,792	46,415	10.3%
Repairs and Maintenance	1,675,106	760,634	914,472	120.2%
Rentals and Leases	302,185	287,592	14,593	5.1%
Printing and Reproduction	476,539	514,047	(37,508)	-7.3%
Depreciation and Amortization	5,994,548	5,672,626	321,922	5.7%
Other Operating Expenses	1,280,036	1,181,148	98,888	8.4%
Total Operating Expenses	67,723,266	60,123,969	7,599,297	12.6%
Operating Loss	(28,539,462)	(25,487,944)	(3,051,518)	-12.0%
Other Nonoperating Adjustments				
State Appropriations	30,550,571	25,338,156	5,212,415	20.6%
Gift Contributions for Operations	1,279,721	879,422	400,299	45.5%
Net Investment Income	3,293,170	3,009,958	283,212	9.4%
Interest Expense on Capital Asset Financings	(2,560,660)	(1,805,357)	(755,303)	-41.8%
Net Other Nonoperating Adjustments	32,562,802	27,422,179	5,140,623	18.7%
Adjusted Income (Loss) including Depreciation	4,023,340	1,934,235	2,089,105	108.0%
Adjusted Margin (as a percentage) including Depreciation	5.4%	3.0%		
Investment Gains (Losses)	136,777	1,739,477	(1,602,700)	-92.1%
Adjusted Income (Loss) with Investment Gains (Losses)	\$ 4,160,117	\$ 3,673,712	\$ 486,405	13.2%
Adjusted Margin % with Investment Gains (Losses)	5.6%	5.6%		
Adjusted Income (Loss) excluding Depreciation	10,017,888	7,606,861	2,411,027	31.7%
Adjusted Margin (as a percentage) excluding Depreciation	13.5%	11.9%		

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

UNAUDITED

The University of Texas Southwestern Medical Center at Dallas

Comparison of Operating Results and Margin

For the Ten Months Ending June 30, 2008

	June Year-to-Date <u>FY 2008</u>	June Year-to-Date <u>FY 2007</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$ 16,967,097	\$ 16,365,744	\$ 601,353	3.7%
Sponsored Programs	349,562,508	330,220,849	19,341,659	5.9%
Net Sales and Services of Educational Activities	5,626,095	5,671,116	(45,021)	-0.8%
Net Sales and Services of Hospitals	278,446,965	246,851,913	31,595,052	12.8%
Net Professional Fees	264,229,743	290,124,154	(25,894,411)	-8.9%
Net Auxiliary Enterprises	13,828,704	14,167,021	(338,317)	-2.4%
Other Operating Revenues	6,074,546	5,367,544	707,002	13.2%
Total Operating Revenues	<u>934,735,658</u>	<u>908,768,341</u>	<u>25,967,317</u>	<u>2.9%</u>
Operating Expenses				
Salaries and Wages	575,181,810	524,414,119	50,767,691	9.7%
Employee Benefits and Related Costs	156,420,084	142,127,025	14,293,059	10.1%
Professional Fees and Contracted Services	14,333,023	18,460,898	(4,127,875)	-22.4%
Other Contracted Services	64,341,155	56,286,732	8,054,423	14.3%
Scholarships and Fellowships	5,625,039	5,798,512	(173,473)	-3.0%
Travel	8,528,174	7,095,298	1,432,876	20.2%
Materials and Supplies	153,162,417	145,467,715	7,694,702	5.3%
Utilities	26,278,443	23,387,155	2,891,288	12.4%
Telecommunications	6,168,899	5,680,413	488,486	8.6%
Repairs and Maintenance	11,757,031	11,081,963	675,068	6.1%
Rentals and Leases	8,136,520	9,460,323	(1,323,803)	-14.0%
Printing and Reproduction	2,415,801	2,629,770	(213,969)	-8.1%
Federal Sponsored Programs Pass-Thrus	685,902	1,097,966	(412,064)	-37.5%
Depreciation and Amortization	56,699,244	53,489,078	3,210,166	6.0%
Other Operating Expenses	37,487,352	35,190,592	2,296,760	6.5%
Total Operating Expenses	<u>1,127,220,894</u>	<u>1,041,667,559</u>	<u>85,553,335</u>	<u>8.2%</u>
Operating Loss	<u>(192,485,236)</u>	<u>(132,899,218)</u>	<u>(59,586,018)</u>	<u>-44.8%</u>
Other Nonoperating Adjustments				
State Appropriations	148,698,389	124,791,358	23,907,031	19.2%
Gift Contributions for Operations	66,990,514	34,338,779	32,651,735	95.1%
Net Investment Income	57,197,631	53,889,648	3,307,983	6.1%
Interest Expense on Capital Asset Financings	(17,735,600)	(17,050,595)	(685,005)	-4.0%
Net Other Nonoperating Adjustments	<u>255,150,934</u>	<u>195,969,190</u>	<u>59,181,744</u>	<u>30.2%</u>
Adjusted Income (Loss) including Depreciation	62,665,698	63,069,972	(404,274)	-0.6%
Adjusted Margin (as a percentage) including Depreciation	5.2%	5.6%		
Investment Gains (Losses)	1,913,046	35,307,437	(33,394,391)	-94.6%
Adjusted Income (Loss) with Investment Gains (Losses)	\$ 64,578,744	\$ 98,377,409	\$ (33,798,665)	-34.4%
Adjusted Margin % with Investment Gains (Losses)	5.3%	8.5%		
Adjusted Income (Loss) excluding Depreciation	119,364,942	116,559,050	2,805,892	2.4%
Adjusted Margin (as a percentage) excluding Depreciation	9.9%	10.4%		

3. U. T. System: Key Financial Indicators Report and Monthly Financial Report (cont.)
 UNAUDITED

The University of Texas Medical Branch at Galveston
 Comparison of Operating Results and Margin
 For the Ten Months Ending June 30, 2008

	June Year-to-Date <u>FY 2008</u>	June Year-to-Date <u>FY 2007</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$ 14,871,487	\$ 12,787,472	\$ 2,084,015	16.3%
Sponsored Programs	214,356,838	192,221,724	22,135,114	11.5%
Net Sales and Services of Educational Activities	1,603,852	1,678,106	(74,254)	-4.4%
Net Sales and Services of Hospitals	588,120,595	561,841,838	26,278,757	4.7%
Net Professional Fees	111,933,299	118,902,923	(6,969,624)	-5.9%
Net Auxiliary Enterprises	8,930,311	7,576,998	1,353,313	17.9%
Other Operating Revenues	10,305,705	12,977,939	(2,672,234)	-20.6%
Total Operating Revenues	<u>950,122,087</u>	<u>907,987,000</u>	<u>42,135,087</u>	<u>4.6%</u>
Operating Expenses				
Salaries and Wages	672,262,375	621,289,453	50,972,922	8.2%
Employee Benefits and Related Costs	159,620,028	145,309,933	14,310,095	9.8%
Professional Fees and Contracted Services	20,579,970	29,351,331	(8,771,361)	-29.9%
Other Contracted Services	55,724,633	45,636,277	10,088,356	22.1%
Scholarships and Fellowships	6,685,142	4,641,551	2,043,591	44.0%
Travel	7,314,437	5,908,517	1,405,920	23.8%
Materials and Supplies	158,309,059	148,601,720	9,707,339	6.5%
Utilities	31,099,704	23,107,163	7,992,541	34.6%
Telecommunications	12,701,165	11,421,911	1,279,254	11.2%
Repairs and Maintenance	28,519,724	25,659,851	2,859,873	11.1%
Rentals and Leases	14,497,591	11,934,772	2,562,819	21.5%
Printing and Reproduction	2,057,461	1,873,935	183,526	9.8%
Federal Sponsored Programs Pass-Thrus	6,182,949	6,832,222	(649,273)	-9.5%
Depreciation and Amortization	56,359,183	44,396,792	11,962,391	26.9%
Other Operating Expenses	46,330,920	55,542,805	(9,211,885)	-16.6%
Total Operating Expenses	<u>1,278,244,341</u>	<u>1,181,508,233</u>	<u>96,736,108</u>	<u>8.2%</u>
Operating Loss	<u>(328,122,254)</u>	<u>(273,521,233)</u>	<u>(54,601,021)</u>	<u>-20.0%</u>
Other Nonoperating Adjustments				
State Appropriations	254,747,695	246,163,427	8,584,268	3.5%
Gift Contributions for Operations	7,325,946	6,360,863	965,083	15.2%
Net Investment Income	29,159,174	28,567,477	591,697	2.1%
Interest Expense on Capital Asset Financings	(4,566,921)	(3,799,639)	(767,282)	-20.2%
Net Other Nonoperating Adjustments	<u>286,665,894</u>	<u>277,292,128</u>	<u>9,373,766</u>	<u>3.4%</u>
Adjusted Income (Loss) including Depreciation	(41,456,360)	3,770,895	(45,227,255)	-1,199.4%
Adjusted Margin (as a percentage) including Depreciation	-3.3%	0.3%		
Investment Gains (Losses)	774,040	19,066,255	(18,292,215)	-95.9%
Adjusted Income (Loss) with Investment Gains (Losses)	\$ (40,682,320)	\$ 22,837,150	\$ (63,519,470)	-278.1%
Adjusted Margin % with Investment Gains (Losses)	-3.3%	1.9%		
Adjusted Income (Loss) excluding Depreciation	14,902,823	48,167,687	(33,264,864)	-69.1%
Adjusted Margin (as a percentage) excluding Depreciation	1.2%	4.1%		

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

UNAUDITED

The University of Texas Health Science Center at Houston

Comparison of Operating Results and Margin

For the Ten Months Ending June 30, 2008

	June Year-to-Date <u>FY 2008</u>	June Year-to-Date <u>FY 2007</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$ 20,981,333	\$ 18,476,805	\$ 2,504,528	13.6%
Sponsored Programs	252,904,868	239,898,865	13,006,003	5.4%
Net Sales and Services of Educational Activities	28,807,679	27,123,018	1,684,661	6.2%
Net Sales and Services of Hospitals	26,483,800	22,383,446	4,100,354	18.3%
Net Professional Fees	98,750,248	101,470,572	(2,720,324)	-2.7%
Net Auxiliary Enterprises	18,130,779	19,052,503	(921,724)	-4.8%
Other Operating Revenues	30,972,172	26,789,711	4,182,461	15.6%
Total Operating Revenues	<u>477,030,879</u>	<u>455,194,920</u>	<u>21,835,959</u>	<u>4.8%</u>
Operating Expenses				
Salaries and Wages	292,315,064	274,989,303	17,325,761	6.3%
Employee Benefits and Related Costs	68,105,095	61,657,123	6,447,972	10.5%
Professional Fees and Contracted Services	60,023,110	47,214,324	12,808,786	27.1%
Other Contracted Services	31,279,878	35,851,332	(4,571,454)	-12.8%
Scholarships and Fellowships	3,235,271	2,171,518	1,063,753	49.0%
Travel	5,302,207	5,089,098	213,109	4.2%
Materials and Supplies	46,064,275	44,860,662	1,203,613	2.7%
Utilities	14,506,629	12,903,962	1,602,667	12.4%
Telecommunications	2,231,927	2,247,850	(15,923)	-0.7%
Repairs and Maintenance	4,182,895	4,574,856	(391,961)	-8.6%
Rentals and Leases	9,873,386	9,962,785	(89,399)	-0.9%
Printing and Reproduction	3,013,328	3,055,971	(42,643)	-1.4%
Federal Sponsored Programs Pass-Thrus	6,230,633	4,390,536	1,840,097	41.9%
Depreciation and Amortization	27,536,278	27,471,514	64,764	0.2%
Other Operating Expenses	44,829,000	44,328,375	500,625	1.1%
Total Operating Expenses	<u>618,728,976</u>	<u>580,769,209</u>	<u>37,959,767</u>	<u>6.5%</u>
Operating Loss	<u>(141,698,097)</u>	<u>(125,574,289)</u>	<u>(16,123,808)</u>	<u>-12.8%</u>
Other Nonoperating Adjustments				
State Appropriations	138,890,885	126,654,243	12,236,642	9.7%
Gift Contributions for Operations	13,743,769	9,220,774	4,522,995	49.1%
Net Investment Income	19,173,109	19,660,700	(487,591)	-2.5%
Interest Expense on Capital Asset Financings	(8,077,179)	(5,755,231)	(2,321,948)	-40.3%
Net Other Nonoperating Adjustments	<u>163,730,584</u>	<u>149,780,486</u>	<u>13,950,098</u>	<u>9.3%</u>
Adjusted Income (Loss) including Depreciation	22,032,487	24,206,197	(2,173,710)	-9.0%
Adjusted Margin (as a percentage) including Depreciation	3.4%	4.0%		
Investment Gains (Losses)	2,701,038	12,831,231	(10,130,193)	-78.9%
Adjusted Income (Loss) with Investment Gains (Losses)	\$ 24,733,525	\$ 37,037,428	\$ (12,303,903)	-33.2%
Adjusted Margin % with Investment Gains (Losses)	3.8%	5.9%		
Adjusted Income (Loss) excluding Depreciation	49,568,765	51,677,711	(2,108,946)	-4.1%
Adjusted Margin (as a percentage) excluding Depreciation	7.6%	8.5%		

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

UNAUDITED

The University of Texas Health Science Center at San Antonio

Comparison of Operating Results and Margin

For the Ten Months Ending June 30, 2008

	June Year-to-Date <u>FY 2008</u>	June Year-to-Date <u>FY 2007</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$ 19,375,000	\$ 17,666,667	\$ 1,708,333	9.7%
Sponsored Programs	186,299,213	171,499,176	14,800,037	8.6%
Net Sales and Services of Educational Activities	32,961,014	31,491,430	1,469,584	4.7%
Net Professional Fees	71,265,557	77,430,045	(6,164,488)	-8.0%
Net Auxiliary Enterprises	3,297,077	2,821,112	475,965	16.9%
Other Operating Revenues	9,366,641	8,884,559	482,082	5.4%
Total Operating Revenues	<u>322,564,502</u>	<u>309,792,989</u>	<u>12,771,513</u>	<u>4.1%</u>
Operating Expenses				
Salaries and Wages	264,303,243	239,994,382	24,308,861	10.1%
Employee Benefits and Related Costs	64,505,783	58,953,746	5,552,037	9.4%
Professional Fees and Contracted Services	13,187,618	9,045,871	4,141,747	45.8%
Other Contracted Services	25,293,749	17,868,495	7,425,254	41.6%
Scholarships and Fellowships	2,588,668	2,340,046	248,622	10.6%
Travel	4,504,009	4,025,997	478,012	11.9%
Materials and Supplies	29,364,505	27,202,834	2,161,671	7.9%
Utilities	11,645,833	10,833,333	812,500	7.5%
Telecommunications	7,048,286	4,931,395	2,116,891	42.9%
Repairs and Maintenance	2,666,309	2,376,454	289,855	12.2%
Rentals and Leases	2,266,117	1,835,971	430,146	23.4%
Printing and Reproduction	1,581,934	1,382,907	199,027	14.4%
Federal Sponsored Programs Pass-Thrus	500,000	520,833	(20,833)	-4.0%
Depreciation and Amortization	24,375,000	19,004,051	5,370,949	28.3%
Other Operating Expenses	57,938,195	52,949,417	4,988,778	9.4%
Total Operating Expenses	<u>511,769,249</u>	<u>453,265,732</u>	<u>58,503,517</u>	<u>12.9%</u>
Operating Loss	<u>(189,204,747)</u>	<u>(143,472,743)</u>	<u>(45,732,004)</u>	<u>-31.9%</u>
Other Nonoperating Adjustments				
State Appropriations	141,757,235	124,152,492	17,604,743	14.2%
Gift Contributions for Operations	14,052,030	15,466,275	(1,414,245)	-9.1%
Net Investment Income	24,978,205	24,132,369	845,836	3.5%
Interest Expense on Capital Asset Financings	(7,501,460)	(794,532)	(6,706,928)	-844.1%
Net Other Nonoperating Adjustments	<u>173,286,010</u>	<u>162,956,604</u>	<u>10,329,406</u>	<u>6.3%</u>
Adjusted Income (Loss) including Depreciation	(15,918,737)	19,483,861	(35,402,598)	-181.7%
Adjusted Margin (as a percentage) including Depreciation	-3.2%	4.1%		
Investment Gains (Losses)	5,481,251	11,441,723	(5,960,472)	-52.1%
Adjusted Income (Loss) with Investment Gains (Losses)	\$ (10,437,486)	\$ 30,925,584	\$ (41,363,070)	-133.8%
Adjusted Margin % with Investment Gains (Losses)	-2.1%	6.4%		
Adjusted Income (Loss) excluding Depreciation	8,456,263	38,487,912	(30,031,649)	-78.0%
Adjusted Margin (as a percentage) excluding Depreciation	1.7%	8.1%		

3. U. T. System: Key Financial Indicators Report and Monthly Financial Report (cont.)
 UNAUDITED

The University of Texas M. D. Anderson Cancer Center
 Comparison of Operating Results and Margin
 For the Ten Months Ending June 30, 2008

	June Year-to-Date <u>FY 2008</u>	June Year-to-Date <u>FY 2007</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$ 483,007	\$ 410,363	\$ 72,644	17.7%
Sponsored Programs	216,726,011	196,984,025	19,741,986	10.0%
Net Sales and Services of Educational Activities	1,928,322	1,990,451	(62,129)	-3.1%
Net Sales and Services of Hospitals	1,540,696,697	1,399,016,309	141,680,388	10.1%
Net Professional Fees	223,053,647	226,989,394	(3,935,747)	-1.7%
Net Auxiliary Enterprises	22,983,297	20,800,502	2,182,795	10.5%
Other Operating Revenues	34,055,799	22,828,347	11,227,452	49.2%
Total Operating Revenues	<u>2,039,926,780</u>	<u>1,869,019,391</u>	<u>170,907,389</u>	<u>9.1%</u>
Operating Expenses				
Salaries and Wages	1,018,618,069	926,982,728	91,635,341	9.9%
Employee Benefits and Related Costs	271,575,118	244,630,843	26,944,275	11.0%
Professional Fees and Contracted Services	100,325,472	79,414,397	20,911,075	26.3%
Other Contracted Services	59,076,996	57,513,131	1,563,865	2.7%
Travel	17,941,969	16,903,373	1,038,596	6.1%
Materials and Supplies	370,459,468	350,988,266	19,471,202	5.5%
Utilities	45,308,398	41,280,251	4,028,147	9.8%
Telecommunications	6,681,612	5,203,507	1,478,105	28.4%
Repairs and Maintenance	49,667,913	38,657,831	11,010,082	28.5%
Rentals and Leases	30,237,125	25,652,743	4,584,382	17.9%
Federal Sponsored Programs Pass-Thrus	813,748	584,975	228,773	39.1%
Depreciation and Amortization	171,724,548	159,028,968	12,695,580	8.0%
Other Operating Expenses	2,684,897	2,233,793	451,104	20.2%
Total Operating Expenses	<u>2,145,115,333</u>	<u>1,949,074,806</u>	<u>196,040,527</u>	<u>10.1%</u>
Operating Loss	<u>(105,188,553)</u>	<u>(80,055,415)</u>	<u>(25,133,138)</u>	<u>-31.4%</u>
Other Nonoperating Adjustments				
State Appropriations	140,575,528	133,023,363	7,552,165	5.7%
Gift Contributions for Operations	93,079,753	59,185,190	33,894,563	57.3%
Net Investment Income	45,684,026	46,062,692	(378,666)	-0.8%
Interest Expense on Capital Asset Financings	(26,391,610)	(21,345,614)	(5,045,996)	-23.6%
Net Other Nonoperating Adjustments	<u>252,947,697</u>	<u>216,925,631</u>	<u>36,022,066</u>	<u>16.6%</u>
Adjusted Income (Loss) including Depreciation	147,759,144	136,870,216	10,888,928	8.0%
Adjusted Margin (as a percentage) including Depreciation	6.4%	6.5%		
Investment Gains (Losses)	30,157,178	55,354,038	(25,196,860)	-45.5%
Adjusted Income (Loss) with Investment Gains (Losses)	\$ 177,916,322	\$ 192,224,254	\$ (14,307,932)	-7.4%
Adjusted Margin % with Investment Gains (Losses)	7.6%	8.9%		
Adjusted Income (Loss) excluding Depreciation	319,483,692	295,899,184	23,584,508	8.0%
Adjusted Margin (as a percentage) excluding Depreciation	13.8%	14.0%		

3. U. T. System: Key Financial Indicators Report and Monthly Financial Report (cont.)
 UNAUDITED

The University of Texas Health Science Center at Tyler
 Comparison of Operating Results and Margin
 For the Ten Months Ending June 30, 2008

	June Year-to-Date <u>FY 2008</u>	June Year-to-Date <u>FY 2007</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Sponsored Programs	\$ 10,879,128	\$ 11,535,329	\$ (656,201)	-5.7%
Net Sales and Services of Educational Activities	729,682	713,240	16,442	2.3%
Net Sales and Services of Hospitals	34,399,486	37,245,027	(2,845,541)	-7.6%
Net Professional Fees	9,172,841	12,399,661	(3,226,820)	-26.0%
Net Auxiliary Enterprises	130,750	153,965	(23,215)	-15.1%
Other Operating Revenues	1,065,840	1,469,518	(403,678)	-27.5%
Total Operating Revenues	<u>56,377,727</u>	<u>63,516,740</u>	<u>(7,139,013)</u>	<u>-11.2%</u>
Operating Expenses				
Salaries and Wages	43,176,265	43,174,232	2,033	0.0%
Employee Benefits and Related Costs	11,743,036	11,857,961	(114,925)	-1.0%
Professional Fees and Contracted Services	4,608,610	4,687,732	(79,122)	-1.7%
Other Contracted Services	6,402,758	6,054,150	348,608	5.8%
Travel	383,170	461,622	(78,452)	-17.0%
Materials and Supplies	10,782,012	10,630,771	151,241	1.4%
Utilities	2,792,917	2,695,565	97,352	3.6%
Telecommunications	898,890	553,418	345,472	62.4%
Repairs and Maintenance	2,662,436	2,603,704	58,732	2.3%
Rentals and Leases	785,008	963,545	(178,537)	-18.5%
Printing and Reproduction	111,509	19,805	91,704	463.0%
Federal Sponsored Programs Pass-Thrus	51,937	380,473	(328,536)	-86.3%
Depreciation and Amortization	5,606,428	5,253,399	353,029	6.7%
Other Operating Expenses	1,897,965	2,392,873	(494,908)	-20.7%
Total Operating Expenses	<u>91,902,941</u>	<u>91,729,250</u>	<u>173,691</u>	<u>0.2%</u>
Operating Loss	<u>(35,525,214)</u>	<u>(28,212,510)</u>	<u>(7,312,704)</u>	<u>-25.9%</u>
Other Nonoperating Adjustments				
State Appropriations	32,285,613	31,208,003	1,077,610	3.5%
Gift Contributions for Operations	1,069,429	476,047	593,382	124.6%
Net Investment Income	3,313,000	3,290,230	22,770	0.7%
Interest Expense on Capital Asset Financings	(602,220)	(637,306)	35,086	5.5%
Net Other Nonoperating Adjustments	<u>36,065,822</u>	<u>34,336,974</u>	<u>1,728,848</u>	<u>5.0%</u>
Adjusted Income (Loss) including Depreciation	540,608	6,124,464	(5,583,856)	-91.2%
Adjusted Margin (as a percentage) including Depreciation	0.6%	6.2%		
Investment Gains (Losses)	304,191	-	304,191	100.0%
Adjusted Income (Loss) with Investment Gains (Losses)	\$ 844,799	\$ 6,124,464	\$ (5,279,665)	-86.2%
Adjusted Margin % with Investment Gains (Losses)	0.9%	6.2%		
Adjusted Income (Loss) excluding Depreciation	6,147,036	11,377,863	(5,230,827)	-46.0%
Adjusted Margin (as a percentage) excluding Depreciation	6.6%	11.6%		

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

The University of Texas System
Fiscal Year 2009 Request to Exceed Full-time Equivalent Limitations on Appropriated Funds

Function	Faculty FTE Increase	Staff FTE Increase	Total FTE Increase from Appropriated Funds	Increase to Salaries	Source of Funds	Justification
U. T. Arlington						
Instruction	3.00	-	3.00	275,000	Education & General	To achieve goals outlined in the Texas Higher Education Coordinating Board Closing the Gaps relative to participation, success, excellence, and research by teaching more undergraduate and graduates with experienced and professional faculty. This request supports the University's research goals.
Institutional Support	-	3.00	3.00	250,000	Education & General	Added new provost as interim provost returned to Vice President Research and Federal Relations position. Added 2 FTEs to help with Information Technology operations for the new student information system.
Student Services	-	4.00	4.00	260,000	Education & General	Added staff in student success programs, career services, and in counseling services to assure student support and academic success.
TOTAL	3.00	7.00	10.00	785,000		
U. T. Brownsville						
Instruction	116.36	51.92	168.28	10,058,674	Education & General	Necessary for FTEs which are associated and paid with the Texas Southmost College contract. FTEs for this function include faculty, professional, and classified staff in departments providing lower level instruction.
Academic Support	-	7.23	7.23	246,888	Education & General	Necessary for FTEs which are associated and paid with the Texas Southmost College contract. The FTEs for this function include administrative and professional, classified, and support staff for various departments.
Public Service	1.53	3.13	4.66	224,267	Education & General	Necessary for FTEs which are associated and paid with the Texas Southmost College contract. The FTEs for this function include faculty, administration and professional, classified staff, and support staff for various departments.
Institutional Support	-	37.12	37.12	165,192	Education & General	Necessary for FTEs which are associated and paid with the Texas Southmost College contract. The FTEs for this function include administrative and professional, classified staff, and support staff for various departments.
Student Services	-	21.79	21.79	844,857	Education & General	Necessary for FTEs which are associated and paid with the Texas Southmost College contract. The FTEs for this function include administrative and professional, classified staff, and support staff for various departments.

4. U. T. System: Approval to exceed the full-time equivalent limitation on employees paid from appropriated funds (cont.)

The University of Texas System
Fiscal Year 2009 Request to Exceed Full-time Equivalent Limitations on Appropriated Funds

Function	Faculty FTE Increase	Staff FTE Increase	Total FTE Increase from Appropriated Funds	Increase to Salaries	Source of Funds	Justification
U. T. Brownsville (continued)						
Operations and Maintenance	-	4.81	4.81	128,136	Education & General	Necessary for FTEs which are associated and paid with the Texas Southmost College contract. The FTE for this function include classified staff and support staff for various departments.
Scholarships and Fellowships	-	0.93	0.93	24,408	Education & General	Necessary for FTEs which are associated and paid with the Texas Southmost College contract. The FTEs for this function include classified staff and support staff for various departments.
TOTAL	117.89	126.93	244.82	\$11,692,422		
U. T. El Paso						
Instruction	7.00	-	7.00	490,000	Education & General	Additional full-time faculty are needed to meet increased demands resulting from enrollment growth.
Research	8.00	-	8.00	560,000	Education & General	Increase in research faculty to support strategic research initiatives, specifically in the area of desalination.
TOTAL	15.00	-	15.00	\$1,050,000		
U. T. Permian Basin						
Instruction	2.43	-	2.43	156,069	Education & General	Program growth including summer session growth and transitions of faculty from gift/grant start-up funding to permanent E&G funding.
TOTAL	2.43	-	2.43	\$156,069		
U. T. San Antonio						
Instruction	121.00	-	121.00	8,712,000	Education & General	Faculty hiring has increased relative to enrollment as a critical priority to allow sufficient course sections and support research initiatives.
Institutional Support	-	73.00	73.00	3,285,000	Education & General	Staffing levels are increasing to keep up with growth in enrollment and other university missions; public service, research and new facilities.
Public Service	-	8.00	8.00	320,000	Education & General	Staffing levels are increasing to keep up with growth in enrollment and other university missions; public service, research and new facilities.
Research	-	18.00	18.00	898,200	Education & General	Staffing levels are increasing to keep up with growth in enrollment and other university missions; public service, research and new facilities.
Student Services	-	13.00	13.00	390,000	Education & General	Staffing levels are increasing to keep up with growth in enrollment and other university missions; public service, research and new facilities.
Operations and Maintenance	-	26.00	26.00	715,000	Education & General	Staffing levels are increasing to keep up with growth in enrollment and other university missions; public service, research and new facilities.
TOTAL	121.00	138.00	259.00	\$14,320,200		

4. U. T. System: Approval to exceed the full-time equivalent limitation on employees paid from appropriated funds (cont.)

The University of Texas System
Fiscal Year 2009 Request to Exceed Full-time Equivalent Limitations on Appropriated Funds

Function	Faculty FTE Increase	Staff FTE Increase	Total FTE Increase from Appropriated Funds	Increase to Salaries	Source of Funds	Justification
U. T. Tyler						
Instruction	23.80	5.50	29.30	2,802,076	Education & General	To address rapid enrollment growth and to achieve goals enumerated in the access and affordability initiatives by teaching more undergraduates with experienced and professional faculty. Commencement of new doctoral program.
Institutional Support	-	3.40	3.40	336,168	Education & General	To provide an increase in support staff for university advancement and other areas affected by growth. To support quality services to students, faculty, and staff on a campus that has experienced rapid enrollment growth.
Student Support	-	4.80	4.80	371,265	Education & General	To provide increased support to student service activities such as academic advising, registrar, and student development in accordance with the Compact.
Operations and Maintenance	-	3.30	3.30	224,951	Education & General	To provide increased support to grounds maintenance and campus safety that will serve new buildings resulting from rapid physical growth of the university.
TOTAL	23.80	17.00	40.80	\$3,734,460		
U. T. Southwestern Medical Center - Dallas						
Research	3.50	1.30	4.80	500,000	Education & General	To provide the appropriate staff for the new special item, Center for Treatment and Research on Sickle Cell Disease.
Research	50.00	59.00	109.00	9,000,000	Education & General	To provide the appropriate staff for the new special item, Obesity, Diabetes & Metabolism research.
Instruction	382.29	167.78	550.07	26,541,262	Education & General	The requested FTEs represent existing employees excluded from the October 2006 submission of the Legislative Appropriations Request, which forms the basis for this request.
Research	22.79	28.62	51.41	2,480,606	Education & General	The requested FTEs represent existing employees excluded from the October 2006 submission of the Legislative Appropriations Request, which forms the basis for this request.
Operations and Maintenance	-	235.91	235.91	11,382,682	Education & General	The requested FTEs represent existing employees excluded from the October 2006 submission of the Legislative Appropriations Request, which forms the basis for this request.
TOTAL	458.58	492.61	951.19	\$49,904,550		
U. T. Medical Branch - Galveston						
Hospitals and Clinics	45.00	249.70	294.70	15,973,918	Patient Income	Implementation of Clinical Strategic Plan
Instruction	11.00	27.00	38.00	3,464,992	Education & General	Growth in academic programs to include Nursing.
TOTAL	56.00	276.70	332.70	19,438,910		

4. U. T. System: Approval to exceed the full-time equivalent limitation on employees paid from appropriated funds (cont.)

**The University of Texas System
Fiscal Year 2009 Request to Exceed Full-time Equivalent Limitations on Appropriated Funds**

Function	Faculty FTE Increase	Staff FTE Increase	Total FTE Increase from Appropriated Funds	Increase to Salaries	Source of Funds	Justification
U. T. M. D. Anderson Cancer Center						
Instruction	10.40	48.80	59.20	5,298,770	Patient Income	To continue to provide the highest standard of education and training for undergraduates, graduate students, trainees, and professionals.
Research	5.60	128.20	133.80	7,041,623	Patient Income	To continue to provide research programs with support and resources needed to fulfill the research mission of U. T. M. D. Anderson Cancer Center.
Hospitals and Clinics	46.40	1,173.30	1,219.70	68,463,065	Patient Income	To continue to provide U. T. M. D. Anderson Cancer Center's standard of care and service to the increasing number of patients and to improve the capacity to deliver cancer care.
Institutional Support	-	120.40	120.40	7,957,034	Patient Income	To provide infrastructure support to effectively manage resources and information systems needed to support growth in the mission areas of instruction, patient care, and research.
Operations and Maintenance	-	250.50	250.50	9,194,601	Patient Income	To provide support for additional facilities and infrastructure that support growth in instruction, patient care, and research.
TOTAL	62.40	1,721.20	1,783.60	\$97,955,093		
U. T. System Administration						
Institutional Support	-	10.00	10.00	675,000	Education & General	To meet strategic initiatives in support of academic institutions; to meet requests for services from institutions; Board of Regents' initiatives and to provide financial oversight.
TOTAL	-	10.00	10.00	\$675,000		

Expansion of U. T. System Interim Financing Programs

Philip Aldridge, Office of Finance
August 14, 2008



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

Board of Regents'
Finance and
Planning
Committee



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

U. T. System's Use of Interim Financing

- **U. T. System interim financing programs**
 - *\$750 million RFS Tax-Exempt Commercial Paper Program*
 - *\$50 million RFS Taxable Commercial Paper Program*
 - *\$400 million PUF Flexible Rate Note Program*
- **Interim financing programs are used to fund projects during construction, provide permanent equipment financing, and to allow flexibility in terms of timing access to the market**
- **Attractive low interest rates combined with ability to temporarily invest proceeds at higher yields provides benefit for institutions**
- **Growth of the CIP has outpaced expansion of interim financing programs**

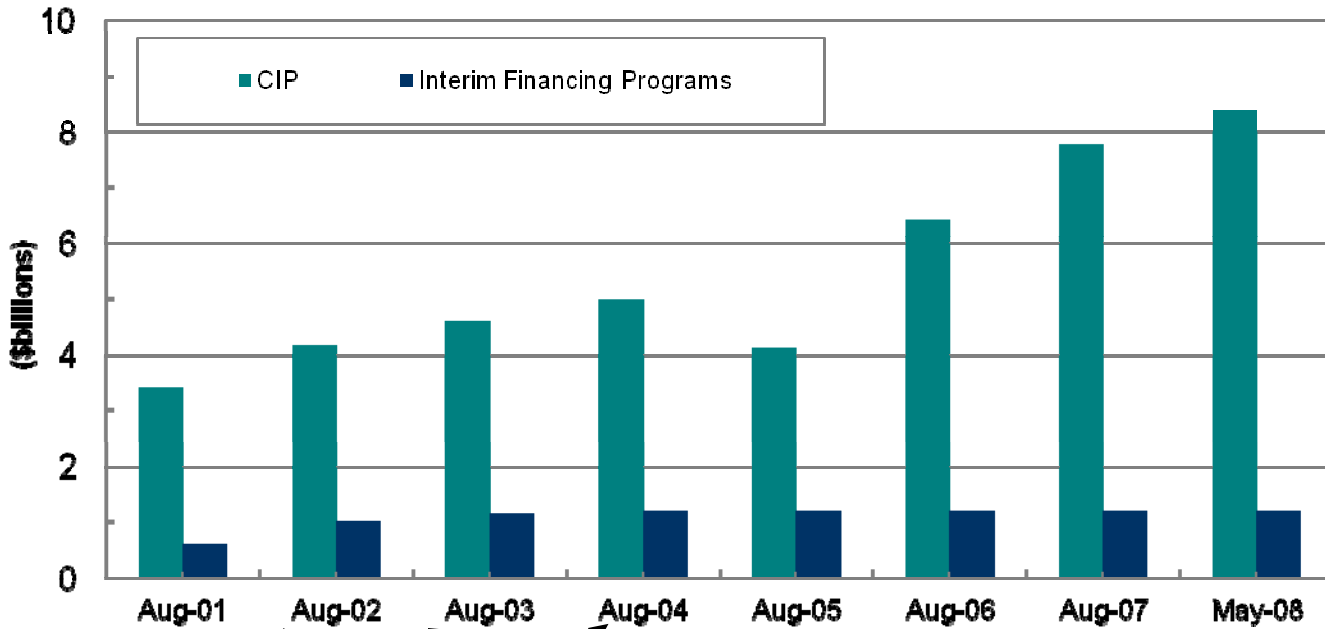
9. U. T. System Board of Regents: Adoption of Twentieth Supplemental Resolution authorizing Revenue Financing System Bonds; authorization to complete all related transactions; and resolution regarding parity debt (cont.)



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

Expanding Interim Financing Capacity

CIP vs. Interim Financing Programs



August 2002:
Tax-Exempt Commercial Paper Program Expanded from \$350 million to \$750 million

November 2002:
PUF Note Program Expanded from \$250 million to \$400 million

May 2004:
Establishment of \$50 million Taxable Commercial Paper Program



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

Maximize Interest Income

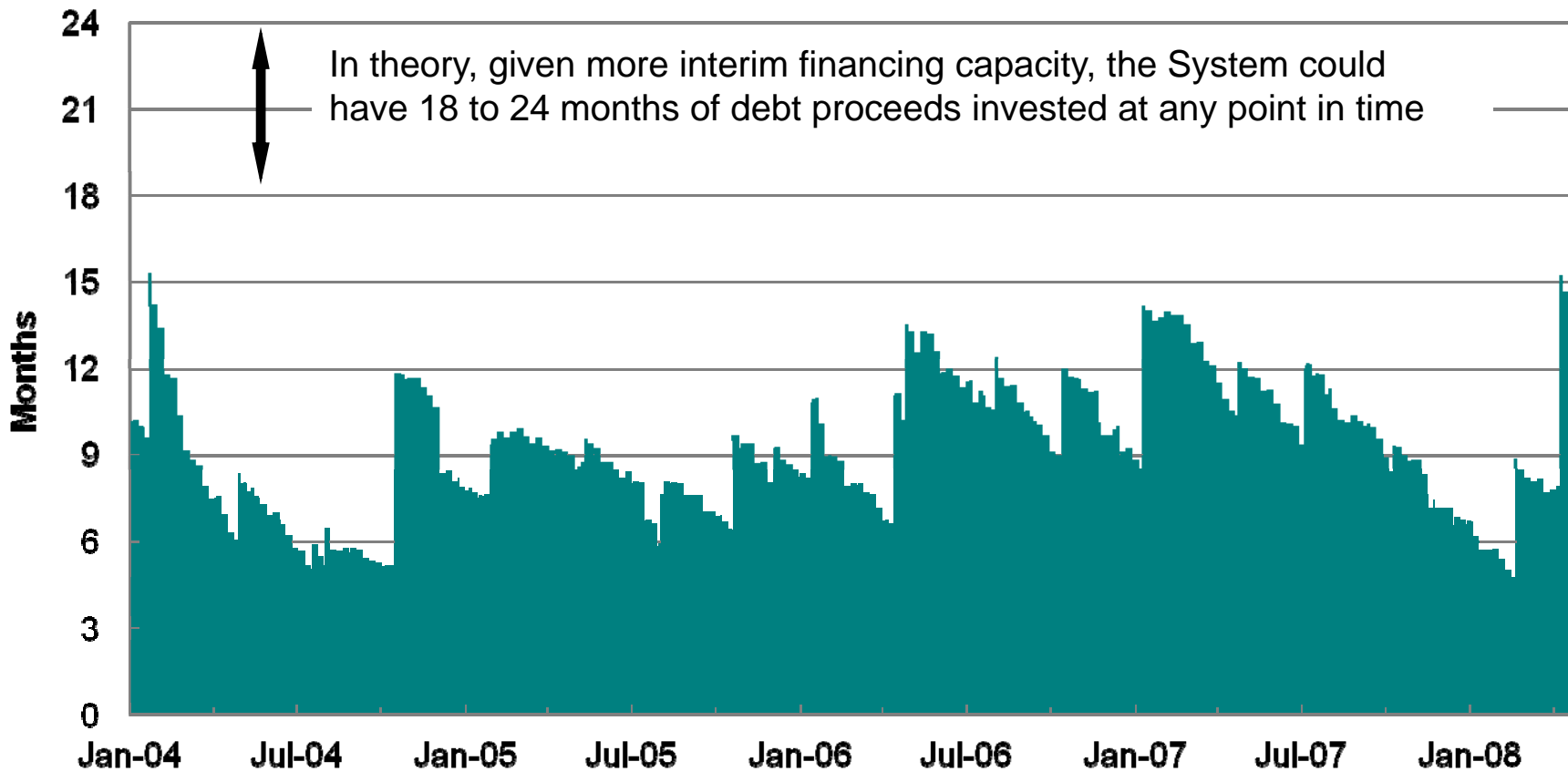
- The Office of Finance strives to issue tax-exempt debt as soon as all approvals are obtained because the cost of debt is less than the interest income that can be earned on the debt proceeds
- The period that an issuer can earn this additional interest income is limited by the IRS to 18-24 months, depending on the assets financed
- The System's \$1.2 billion of interim financing vehicles for commercial paper (\$800 million) and for PUF Flexible Rate Notes (\$400 million) are the primary tools to accommodate this approach
- By expanding the interim financing vehicles, the System could increase its expected net interest income by \$5 – \$10 million per year



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

Number of Months' Expenditures

Debt Proceeds / Trailing 12-Months' Construction Expenditures



100

9. U. T. System Board of Regents: Adoption of Twentieth Supplemental Resolution authorizing Revenue Financing System Bonds; authorization to complete all related transactions; and resolution regarding parity debt (cont.)

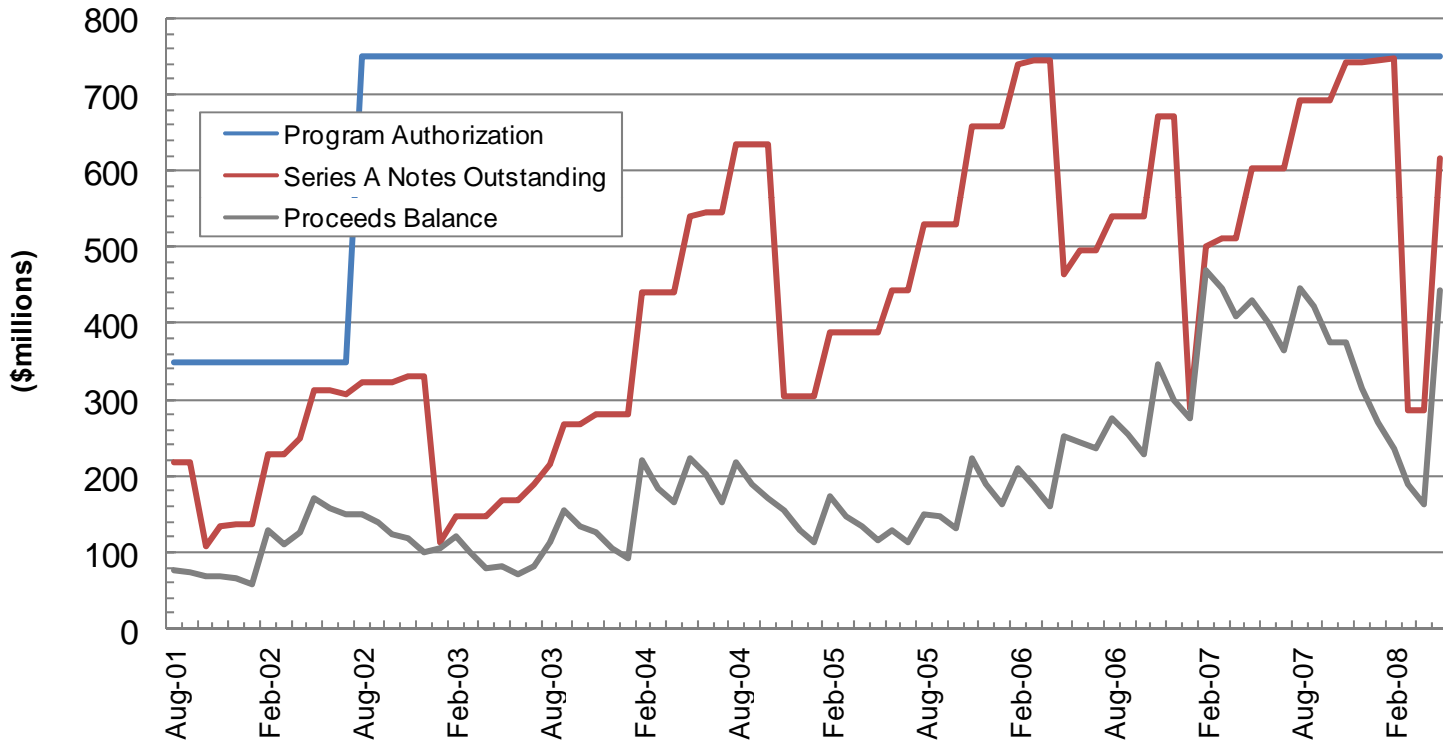


THE UNIVERSITY of TEXAS SYSTEM
Nine Universities. Six Health Institutions. Unlimited Possibilities.

Capacity Reached More Frequently

9. U. T. System Board of Regents: Adoption of Twentieth Supplemental Resolution authorizing Revenue Financing System Bonds; authorization to complete all related transactions; and resolution regarding parity debt (cont.)

RFS Commercial Paper Notes, Series A

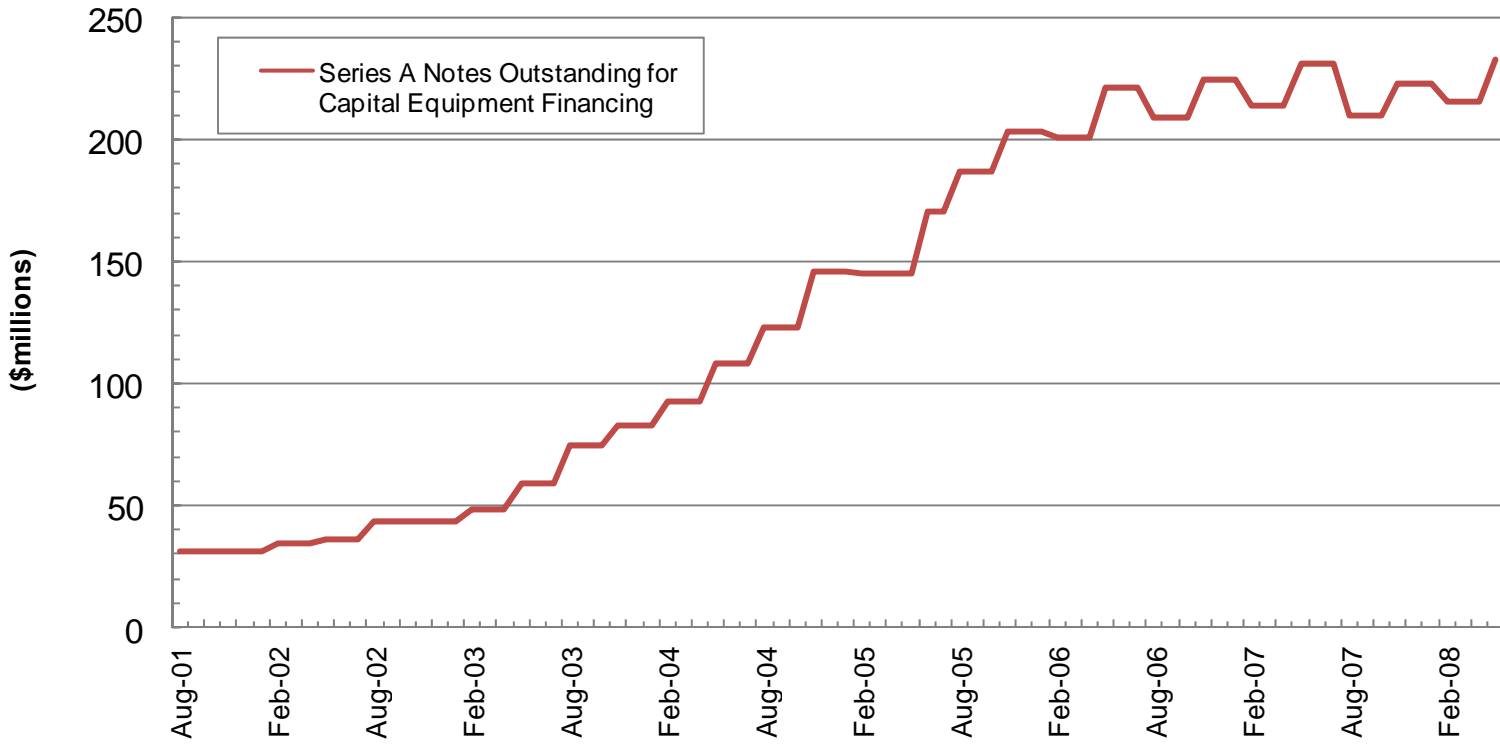




THE UNIVERSITY of TEXAS SYSTEM
Nine Universities. Six Health Institutions. Unlimited Possibilities.

Equipment Financing Uses $\frac{1}{3}$ of RFS CP Capacity

RFS Commercial Paper Notes, Series A



9. U. T. System Board of Regents: Adoption of Twentieth Supplemental Resolution authorizing Revenue Financing System Bonds; authorization to complete all related transactions; and resolution regarding parity debt (cont.)



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

Other Large Higher Education CP Programs

<u>University</u>	<u>Number of Institutions</u>	<u>Program Size *</u>
Harvard University	1	\$2 billion
University of California System	10	\$2 billion **
Yale University	1	\$1 billion
University of Texas System	15	\$800 million
Vanderbilt University	1	\$675 million
Rutgers University	1	\$500 million
Johns Hopkins University	1	\$400 million
UNC-Chapel Hill	1	\$400 million

* Includes both tax-exempt and taxable commercial paper programs

** Proposed

9. U. T. System Board of Regents: Adoption of Twentieth Supplemental Resolution authorizing Revenue Financing System Bonds; authorization to complete all related transactions; and resolution regarding parity debt (cont.)



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

Proposed Changes to Interim Financing Programs

- **Increase RFS commercial paper note program authorization from \$800 million to \$1.25 billion combined taxable and tax-exempt**
 - *Would provide additional \$450 million of interim financing capacity to keep pace with CIP growth in RFS- and TRB-funded projects*
 - *Would provide additional capacity to maximize interest income pending reimbursement of construction expenditures*

- **Replace existing \$400 million PUF flexible rate note program with a \$500 million PUF taxable and tax-exempt commercial paper note program**
 - *Would provide additional \$100 million of interim financing capacity to keep pace with CIP growth and to maximize interest income*
 - *True commercial paper note program is more efficient than flexible rate note program and could accommodate both taxable and tax-exempt issuance*

9. U. T. System Board of Regents: Adoption of Twentieth Supplemental Resolution authorizing Revenue Financing System Bonds; authorization to complete all related transactions; and resolution regarding parity debt (cont.)



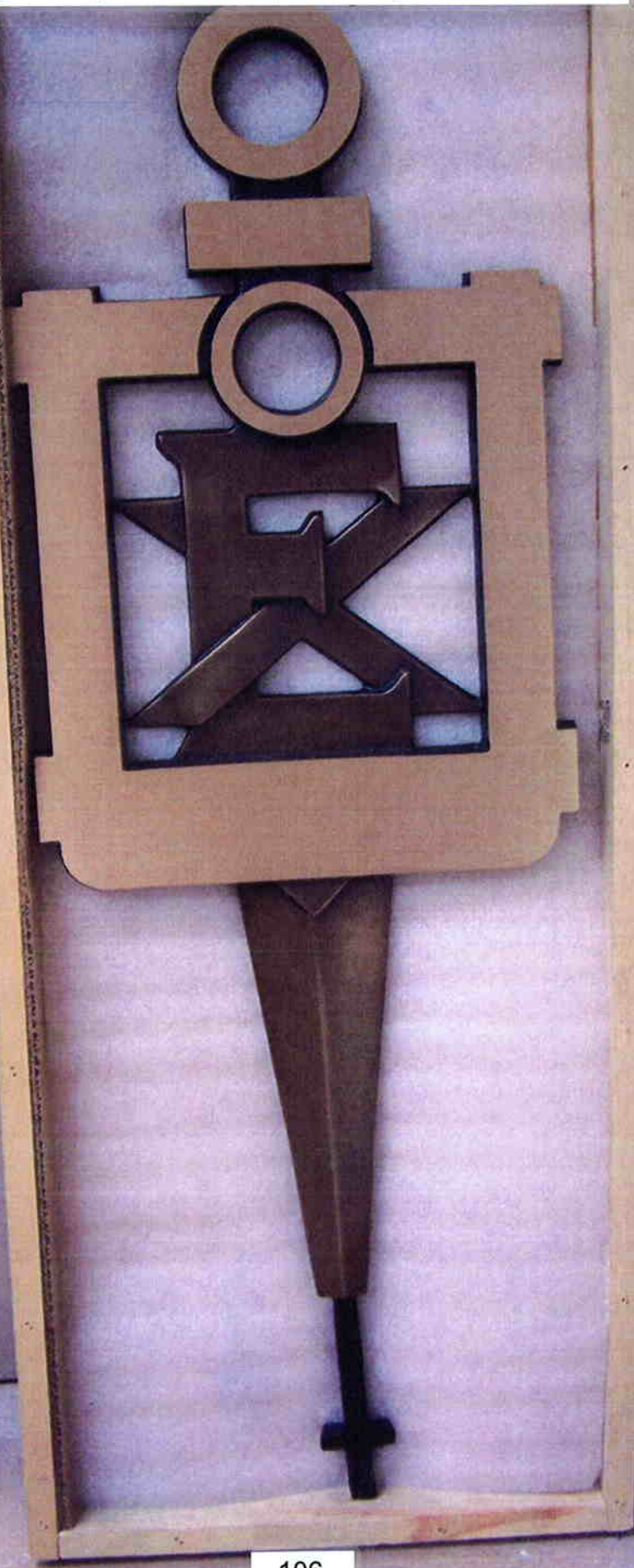
THE UNIVERSITY of TEXAS SYSTEM
Nine Universities. Six Health Institutions. Unlimited Possibilities.

PUF Flexible Rate Note Program

- The Texas Constitution requires that, except for refunding bonds, all PUF bonds and notes be sold by competitive bidding
 - *Existing PUF flexible rate notes are initially sold through competitive bidding and thereafter are remarketed similar to commercial paper notes*

- As opposed to commercial paper notes, each tranche of PUF flexible rate notes requires a separate offering document, separate rating confirmation, separate attorney general approval, and separate CUSIP numbers.
 - *With commercial paper notes, many of these steps can be accomplished on a program basis resulting in greater efficiency and cost savings, while still meeting the Constitutional requirement for competitive bidding.*

2. U. T. Arlington: Approval of acceptance of gift of outdoor art



3. U. T. Austin: Approval of acceptance of gift of outdoor art



3. U. T. Austin: Approval of acceptance of gift of outdoor art (cont.)



The Texas Health Professions Workforce

Dr. Ben Raimer, MA, MD, FAAP

Senior Vice President

Health Policy & Legislative Affairs

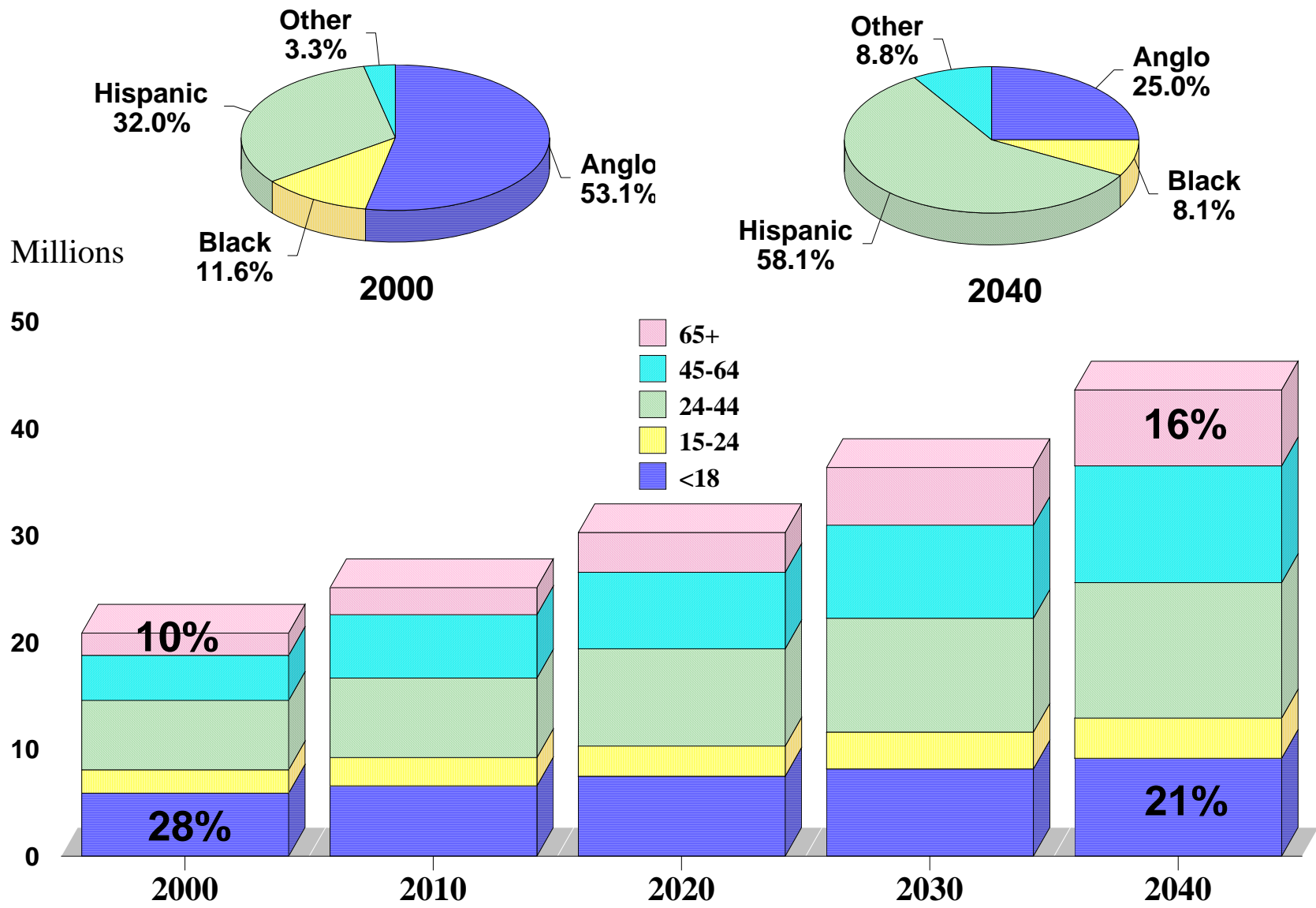
The University of Texas Medical Branch at Galveston

Chair, Texas Statewide Health Coordinating Council

bgraimer@utmb.edu

409-772-5033

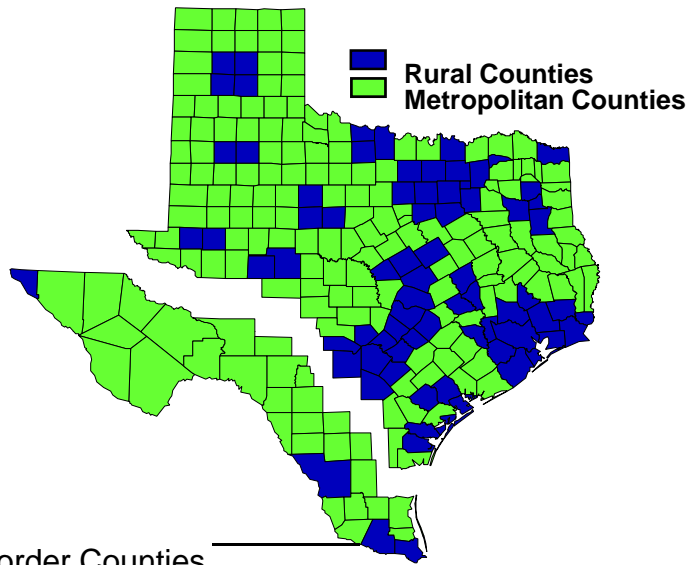
Texas State Demographics



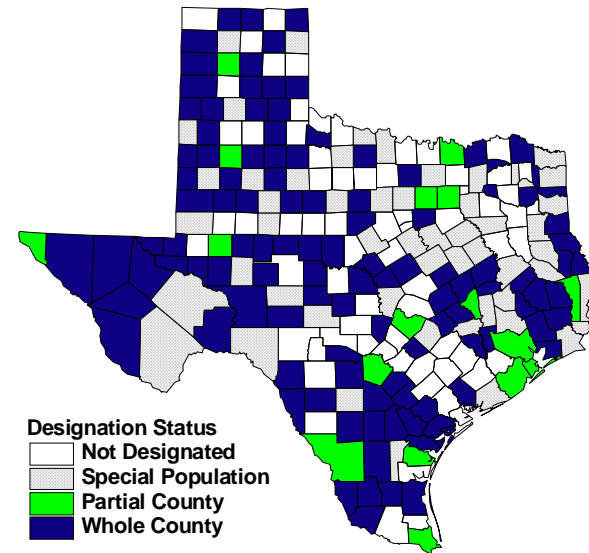
110

Texas Physician Supply and Demand

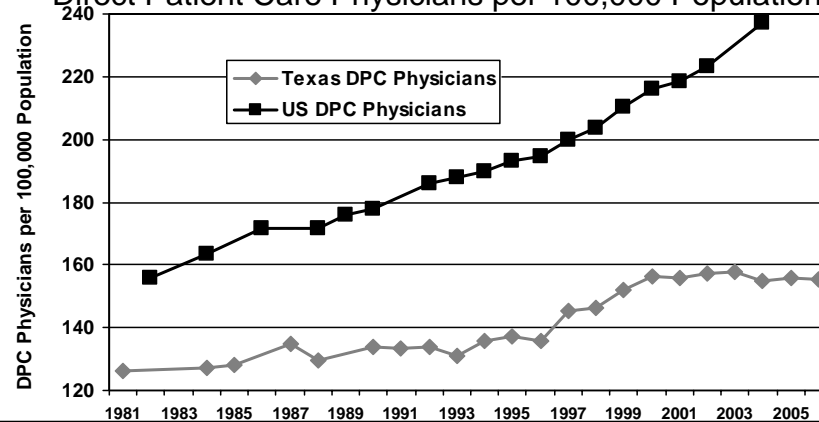
Rural and Metropolitan Counties
Border Counties



Federally Designated Health Professional
Shortage Areas (HPSAs) in Texas
April 1, 2008



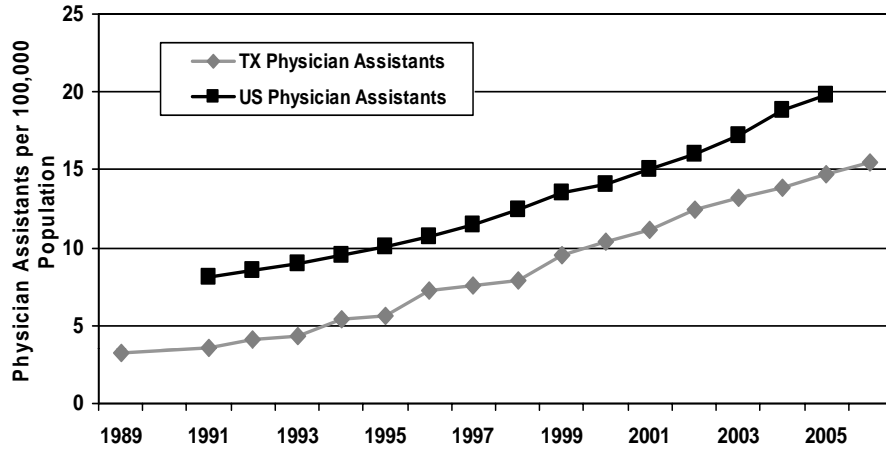
Direct Patient Care Physicians per 100,000 Population



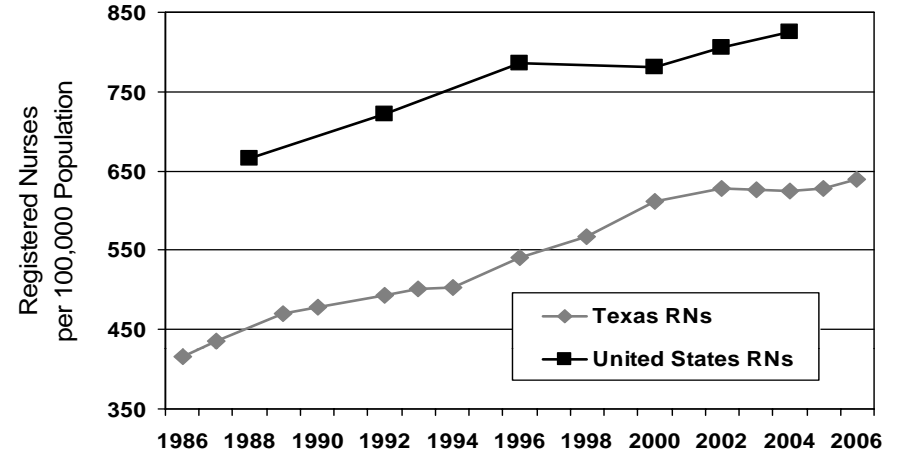
111

Health Professionals Supply and Demand

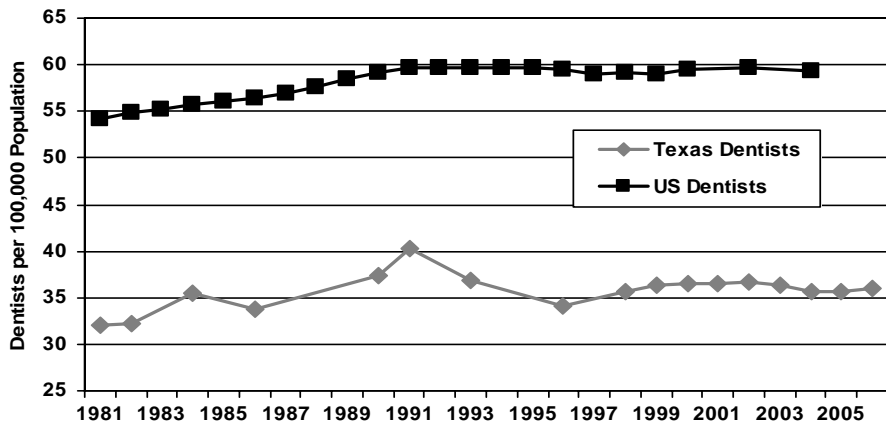
Physician Assistants



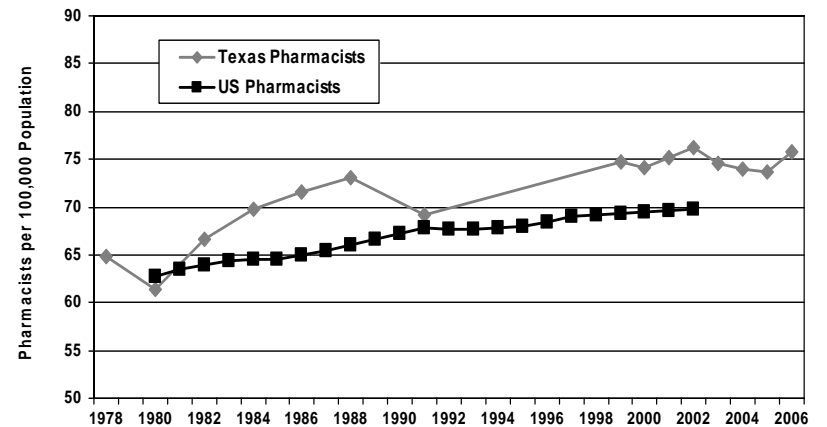
Registered Nurses



Dentists



Pharmacists*



*Border and rural areas currently have inadequate numbers of pharmacists.

Critical Issues Affecting Texas' Health Workforce

Total students enrolled in medical or osteopathic school	5,861
Students graduating from Texas medical schools	1,191
Total number of Graduate Medical Education (GME) slots in Texas	6,111
First-year filled positions	1,481
Physicians who graduated from a Texas medical school and are actively practicing in Texas	58.6%
Physicians who completed GME in Texas and are actively practicing in Texas	56.4%
Physicians who completed medical school <u>and</u> GME in Texas and are actively practicing in Texas	79.5%
Percent of Texas medical school graduates who entered a Family Practice residency (2006)	9.5%

***Texas physician education and retention is outpaced
by state population growth, demand for services, and increased
competition for physicians by other states***

Critical Issues for Health Professions Education

- Faculty shortages
- Faculty workloads
- Faculty salaries
- Clinical training sites
- Student pipeline for entry
- Costs of education

RN Vacancy Rates in Hospitals

2004: 8.6%
 2006: 10.2%

Faculty Vacancy Rates in Professional Nursing Programs

2003: 5.9%
 2007: 7.4%

There is a shortage of ALL HEALTH PROFESSIONS in Texas. Physicians, Registered Nurses, Physical Therapists, Clinical Laboratory Scientists, Occupational Therapists, Pharmacists, Dentists, Audiologists, and other health professionals number LESS per 100,000 population than the national averages.*

Need to develop/expand models for health-professions education that are more efficient and cost-effective (e.g., distance learning)

*Except LVNs

U. T. System Faculty Advisory Council Annual Report

Dr. Mansour O. El-Kikhia, Chair
August 2008



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

Board of Regents'
Meeting
Campus Life
Committee



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

What is the Faculty Advisory Council?

- The University of Texas System Faculty Advisory Council (FAC) is a selected representative advisory group that works with and on behalf of the U. T. System.



THE UNIVERSITY OF TEXAS SYSTEM
More Universities. Stronger Institutions. Unlimited Possibilities.

Mission Statement

- The mission of the FAC is to provide a forum for communicating ideas and information between faculty, the Board of Regents, and the executive officers of U. T. System.



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

Charge to The University of Texas System Faculty Advisory Council

The FAC is charged with:

1. Identifying issues of concern to the faculty, Board of Regents, or well-being of the U. T. System.
2. Responding to issues at the request of the Board of Regents, the Chancellor, U. T. System Administration, and/or FAC membership.
3. Conducting fact-finding, background exploration, exposition, analysis, deliberation on issues, and to develop recommendations and/or action plans.
4. Disseminating information to the Board of Regents, faculty, and administrators of U. T. System institutions.



FAC Membership

- Two representatives plus alternate from each U. T. System institution





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

FAC Activities 2007-2008

- Conversations
- Discussion of Issues
- Development of Resolutions
- Provide Expert Feedback to the Board of Regents and U. T. System Administration



THE UNIVERSITY OF TEXAS SYSTEM
More Universities. Stronger Institutions. Unlimited Possibilities.

Discussions of Issues

- Compensation plans
- Faculty review of campus policies & procedures
- Phased retirement
- Computer & internet security
- Health insurance benefits
- Graduation rates
- Faculty recruitment & retention
- Retention of tenure by part-time faculty
- Leadership Academy
- Accreditation issues
- Effective faculty governance
- Academic policies



Development of Resolutions

- Faculty input in the development of compensation plans on health campuses
- Resolution in support of nine recommendations by the Student Advisory Council
- A non-compete clause resolution for U. T. System health institutions
- Resolution endorsing the U. T. System textbook study group



THE UNIVERSITY OF TEXAS SYSTEM
Mine Universities. Six Health Institutions. Unlimited Possibilities.

FAC's Ongoing and Future Activities

- Increase conversations with Regents and Legislators
- Assist Vice Chancellors in the development of consistent U. T. policies for health and academic campuses
- Respond to reports that involve faculty issues and provide input as needed
- Increase interaction with the Student and Employee Advisory Councils
- Support the appointment of a faculty regent
- Strengthen intercampus cooperation



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

Short-term Concerns

- Develop strategies for efficient institutional growth and related issues
- Develop a unified vision for the future of the U. T. System in national and international education
- Higher education funding
- Faculty training

Short-term Concerns (cont.)

- Commercialization & privatizing higher education initiatives
- Relations with community colleges
- University space deficits
- Student graduation rates
- A serious need for tenure and tenure-track faculty



THE UNIVERSITY OF TEXAS SYSTEM
Mine Universities. Six Health Institutions. Unlimited Possibilities.

Short-term Solutions

- Make use of the pool of faculty knowledge, talent, and expertise to develop long-term strategies to solve critical problems
- To encourage the development of several Tier One institutions and recognize that resources have to be concentrated to be used effectively
- Need a sensible, widely accepted policy for how to accomplish this



THE UNIVERSITY OF TEXAS SYSTEM
Mine Universities. Six Health Institutions. Unlimited Possibilities.

Short-term Solutions (cont.)

- Actively support the two-tier research funding plan
- Pursue legislative discussions of Regional Centers as a start to include San Antonio, El Paso, and Dallas
- Focus on fully funding the formula rather than on funding incentives



Long-term Goals

- Ensure short-term concerns are met
- Encourage the Legislature to work with the Board of Regents on any new university policy changes
- Encourage the Legislature to provide a constructive environment for higher education in Texas
- Provide the U. T. System with formal faculty advice and guidance on different funding models (i.e., The University of California System funding)

Diversity, Quality and Access: The Promise of the U. T. System

Dr. Dora Saavedra

August 2008



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

Board of Regents'
Meeting
Campus Life
Committee



THE UNIVERSITY OF TEXAS SYSTEM
Mine Universities. Six Health Institutions. Unlimited Possibilities.

Goals of Today's Presentation

- Highlight some information from the National Conference of State Legislatures' *Transforming Higher Education: National Imperative—State Responsibility Report (2006)*
- Provide a brief overview of the diverse backgrounds of students across the U. T. System



THE UNIVERSITY OF TEXAS SYSTEM
Mine Universities. Six Health Institutions. Unlimited Possibilities.

Goals of Today's Presentation (cont.)

- To request that the Board of Regents explore their role as stewards of each institution's academic mission to serve an increasingly diverse student population
- To offer our assistance as a U. T. Faculty Advisory Council to identify and improve educational processes, curriculum, and educational opportunities



The National Conference of State Legislatures (NCSL) Report

A Major Project Goal of this Blue Ribbon Commission

- To provide legislators the necessary training, background, and skills to build stronger relationships with statewide higher education policymakers and to become engaged participants and leaders in the long-term planning process
- The full report is available at:
<http://www.ncsl.org/print/educ?BRCReport.pdf>

Report's Conclusions



THE UNIVERSITY OF TEXAS SYSTEM
Mine Universities. Six Health Institutions. Unlimited Possibilities.

- The NCSL Blue Ribbon Commission on Higher Education believes states should reframe to focus on support of higher education as an investment in the future of the state and the nation
- Higher education discussions should be not only about funding levels, but also about how effective & productive higher education is in spending its funds and in meeting state goals

Report's Conclusions (cont.)

- “The commission urges legislators to focus less on specific institutional problems and more on the important role that higher education plays in producing an educated, involved citizenry whose contributions to the state exceed state investment. Set broad goals and allow the institutions to demonstrate that they have met those goals.”



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

Request

- The Board can help promote the benefits of legislation that is broad and not involved in specific problems



- The Faculty Advisory Council is ready to be of service

Thank you!

Impact of SACS Reaffirmation on U. T. System Campuses

Dr. Francis (Sandy) Norman

August 2008



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

Board of Regents'
Meeting
Campus Life
Committee



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

What is SACS?

- *Southern Association of Colleges and Schools (SACS)*
- A consortium of educational institutions across the southeast (and Latin America) who provide their support through annual fees
- SACS accredits its member institutions on a 10-year cycle and requires certain interim reports as well
- For member institutions, SACS is now the agency the U.S. Department of Education (DOE) uses to determine federal funding eligibility
- Because of the federal funds provision, SACS is responsible to the DOE and could be subject to political pressure related to supervision and control of curriculum



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

What SACS is Not

- SACS is not a governmental organization
 - yet is responsible to the federal DOE for affirming our right to give degrees
- It is not a professional organization
 - yet does judge the adequacy of all programs, even those with professional accreditation



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

Why SACs?

- The accreditation process is good for us, we are asked to take a hard look at ourselves and reflect on what we are doing
 - Compliance – we are in good operating shape, have good policies and procedures, good information for students and others, facilities for teaching and research appropriate for our mission
 - Institutional Effectiveness (IE) – we set up plans to assess student outcomes for each degree program and for our general education program, then gather data and react to the results
 - Quality Enhancement Plans (QEP) – we look at some facet of the undergraduate program and propose a plan to enhance its quality then assess the program and react to the findings



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

Difficulties

- The efforts required by the reaccreditation process are very resource intensive
- SACS and the DOE present two additional layers in the hierarchy of bodies assessing our institutional performance
 - The institution, the U. T. System and the Board of Regents, SACS, and the DOE
- Threat of loss of funding for noncompliance
- Threat to the traditional role of faculty vis-à-vis curriculum
- Adverse effect on faculty morale



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

How Much Does It Cost?

- At U. T. Austin there are 330 degree programs with 3 to 5 faculty members involved in the development and implementation of IE plans for each
- We can add 10-15% more for the general education IE plan, bringing us to about 1,600 faculty participants
- How much time? Assuming each of those participants contributes one week per year, we are talking about the investment of about 1,600 faculty weeks at U. T. Austin or about 35 faculty academic years
- To expand across the whole system, we might use a factor of 10 so we have the equivalent of about 350 faculty per year doing nothing but developing and implementing IE plans

Reaccreditation

- Institutional effectiveness is only one part of the reaffirmation process
- There are standards affecting all areas of the institution, some of which are straightforward (students, a governing board, e.g.), and some much more time consuming (IE, development of a QEP, e.g.)



Questions?