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Committee Meeting: 2/7/2007

Robert B. Rowling, Chairman
John W. Barnhill, Jr.
H. Scott Caven, Jr.
Cyndi Taylor Krier
Colleen McHugh

Board Meeting: 2/8/2007
Austin, Texas

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A. CONVENE MEETING OF FINANCE AND PLANNING COMMITTEE	1:00 p.m. Chairman Rowling		
1. U. T. System: Discussion and appropriate action related to approval of <i>Docket No. 129</i>	1:00 p.m. Discussion Dr. Kelley	Action	116
2. U. T. System: Report on the Analysis of Financial Condition for Fiscal Year 2006	1:10 p.m. Report Mr. Wallace	Not on Agenda	116
3. U. T. System: Key Financial Indicators Report and Monthly Financial Report	1:25 p.m. Report Dr. Kelley	Not on Agenda	117
4. U. T. System Board of Regents: Adoption of Seventeenth Supplemental Resolution authorizing Revenue Financing System Bonds in an amount not to exceed \$500,000,000; authorization to complete all related transactions; and resolution regarding parity debt	1:40 p.m. Action Mr. Aldridge	Action	126
5. U. T. System: Approval of additional aggregate amount of \$18,160,000 of Revenue Financing System Equipment Financing for Fiscal Year 2007 and resolution regarding parity debt	1:45 p.m. Action Mr. Aldridge	Action	128
6. U. T. System Board of Regents: Investment Reports for the fiscal quarter ended November 30, 2006, and The University of Texas Investment Management Company (UTIMCO) Performance Summary Report	1:50 p.m. Report Ms. Iberg	Report	131

	Committee Meeting	Board Meeting	Page
B. CONVENE JOINT MEETING WITH AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW COMMITTEE	<i>2:00 p.m.</i> <i>Chairman Rowling</i>		
7. U. T. System: Report on the Fiscal Year 2006 Annual Financial Report including the report on the U. T. System Financial Statement Audit performed by Deloitte & Touche LLP	<i>2:00 p.m.</i> Report <i>Mr. Wallace</i> <i>Mr. Lenfant,</i> <i>Deloitte & Touche</i> <i>Mr. Chaffin</i> <i>Ms. Barrett</i> <i>2:20 p.m.</i>	Not on Agenda	137
Adjourn			

- A. CONVENE MEETING OF FINANCE AND PLANNING COMMITTEE
1. **U. T. System: Discussion and appropriate action related to approval of Docket No. 129**

RECOMMENDATION

It is recommended that *Docket No. 129*, beginning on Page Docket - 1, be approved. The Docket is printed on green paper following the Docket tab at the back of the Supplemental Materials (Volume 2) of the Agenda Book.

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

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

The Analysis of Financial Condition is a broad annual financial evaluation that rates U. T. System institutions based on the factors analyzed as either "Satisfactory," "Watch," or "Unsatisfactory." The Report on the Analysis of Financial Condition for Fiscal Year 2006 is set forth on Pages 47 - 109 of the Supplemental Materials (Volume 2) of the Agenda Book.

An Executive Summary of the report can be found on Pages 49 - 53 of the Supplemental Materials (Volume 2) of the Agenda Book. One institution's rating has been downgraded to "Watch" from "Satisfactory," one institution's rating remains at "Watch," and the rating of one institution has been upgraded from "Unsatisfactory" to "Watch."

REPORT

Financial analysis is performed from each institution's Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets. The ratios presented in this report are ratios commonly used by bond rating agencies, public accounting firms, and consulting firms. The following ratios were analyzed: Composite Financial Index, Operating Expense Coverage, Annual Operating Margin, Expendable Resources to Debt, Debt Burden, Debt Service Coverage, and Full-time Equivalent Student Enrollment (academic institutions only).

The Analysis of Financial Condition has been prepared since 1995 to track financial ratios to determine if the financial condition of the institutions is improving or declining. This analysis compares trends for Fiscal Year 2002 through Fiscal Year 2006.

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

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will discuss the Key Financial Indicators Report, as set forth on Pages 118 - 125 that follow, and the December Monthly Financial Report (MFR), as set forth on Pages 110 - 135 of the Supplemental Materials (Volume 2) of the Agenda Book. The reports represent the consolidated and individual operating results of the U. T. System institutions.

REPORT

The Key Financial Indicators Report compares the System-wide results of operations, key revenues and expenses, reserves, and key financial ratios in a graphical presentation from 2003 through December 2006. Ratios requiring balance sheet data are provided for Fiscal Year 2002 through Fiscal Year 2006.

The MFR is provided as support for the Key Financial Indicators. The MFR includes the detailed numbers behind the System-wide graphs as well as detail for each individual institution as of December 2006.

THE UNIVERSITY OF TEXAS SYSTEM



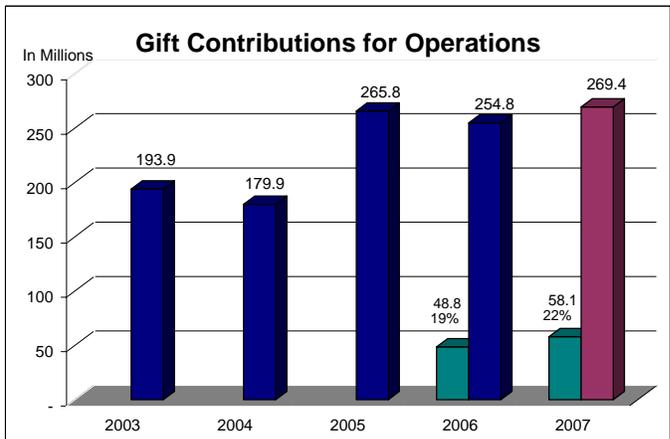
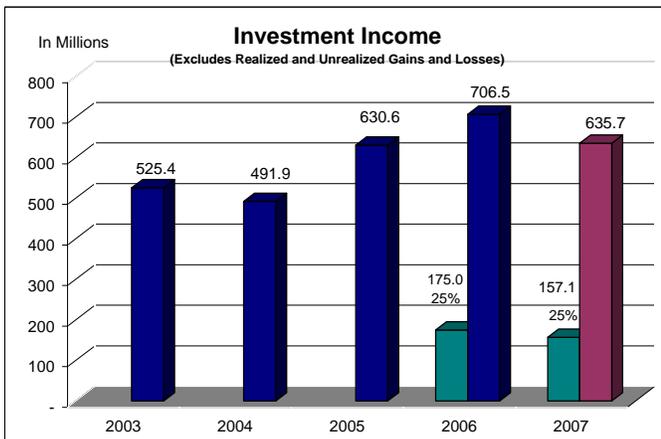
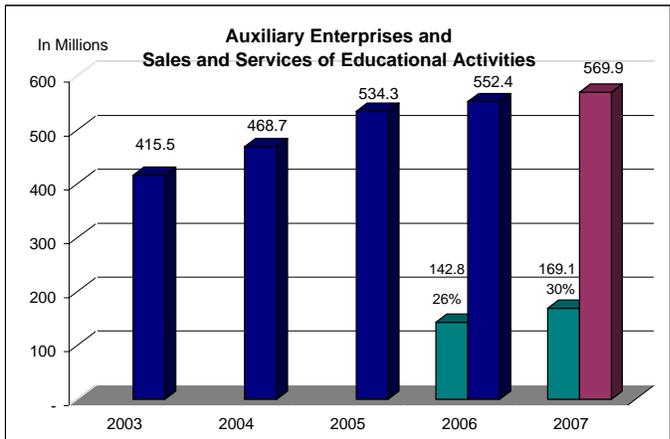
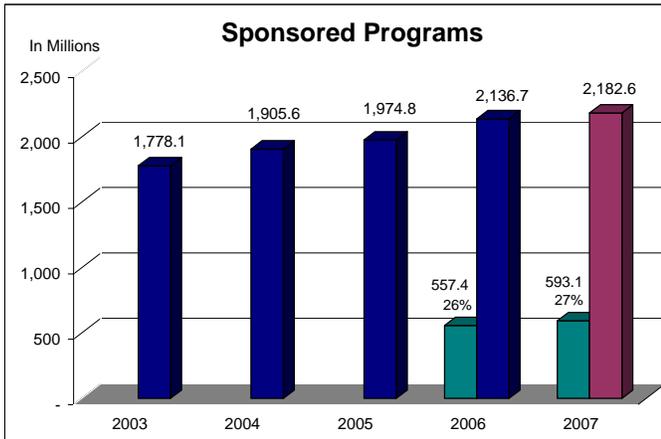
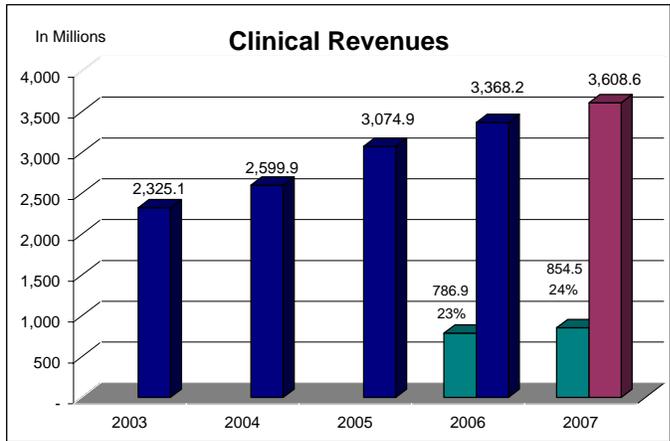
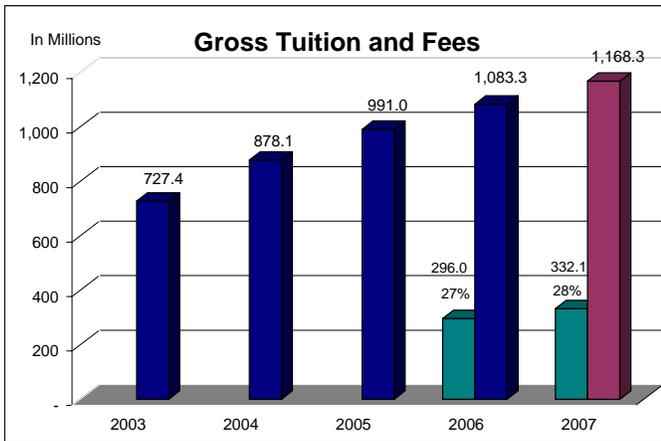
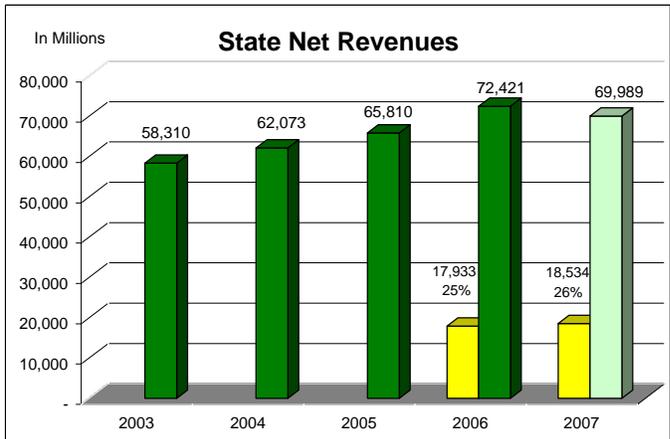
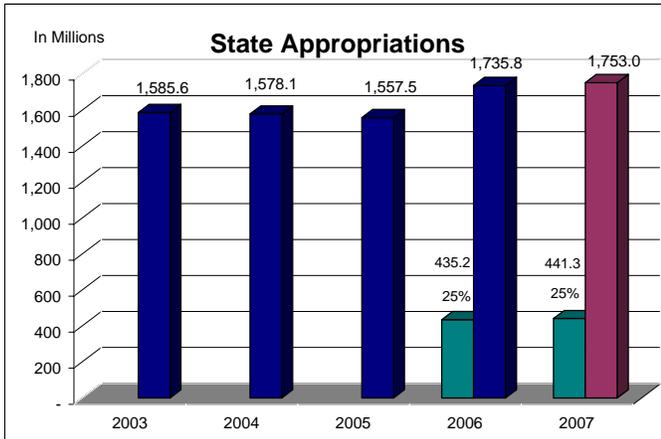
QUARTERLY KEY FINANCIAL INDICATORS REPORT

1ST QUARTER FY 2007

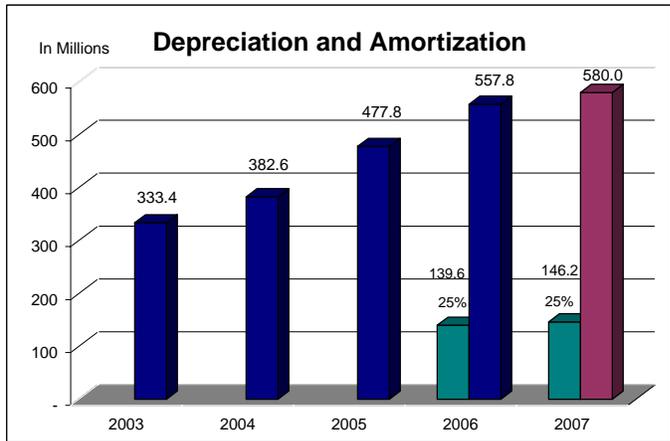
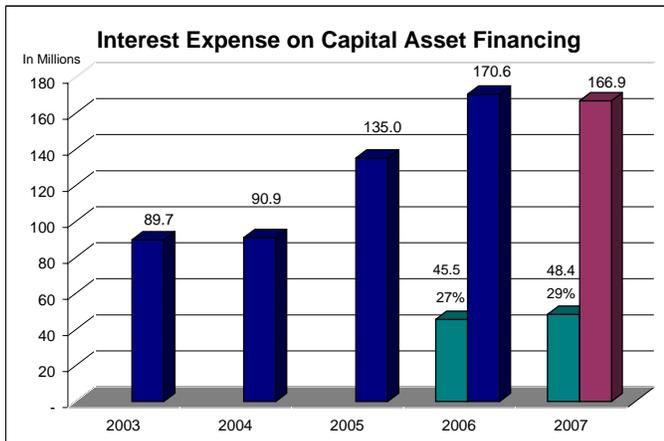
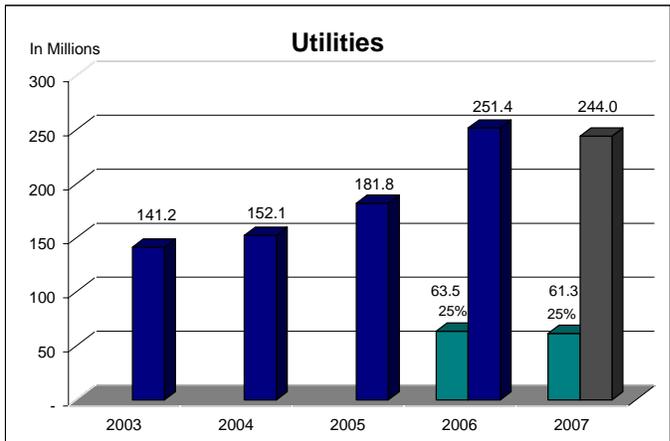
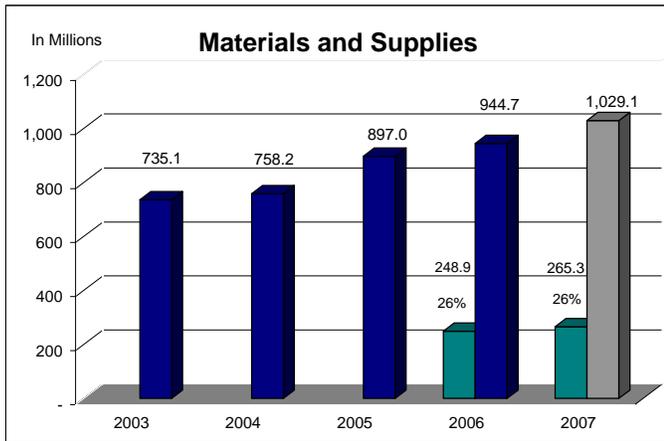
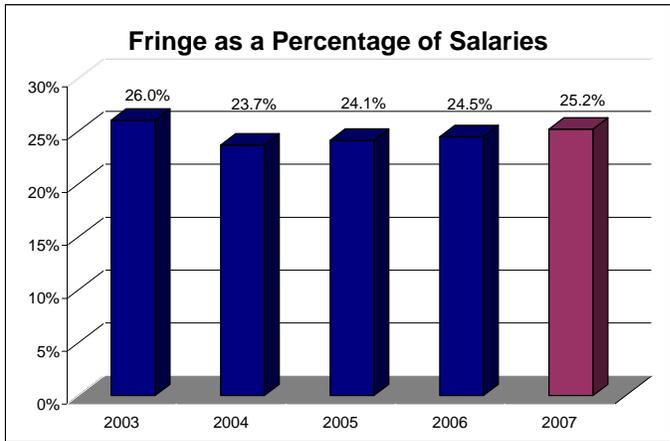
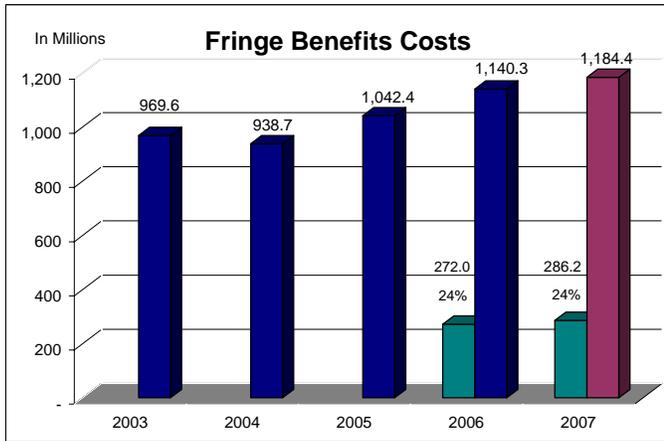
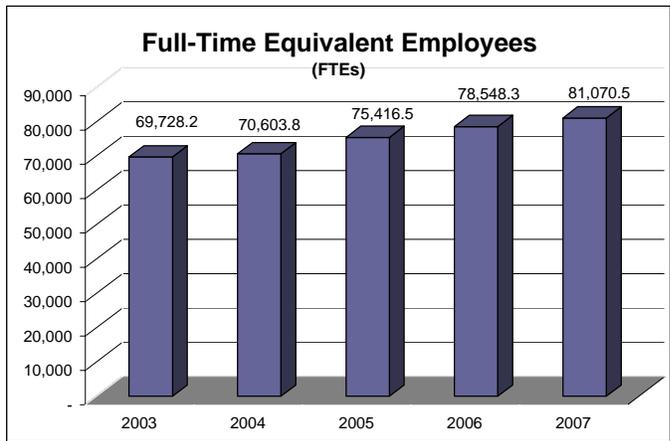
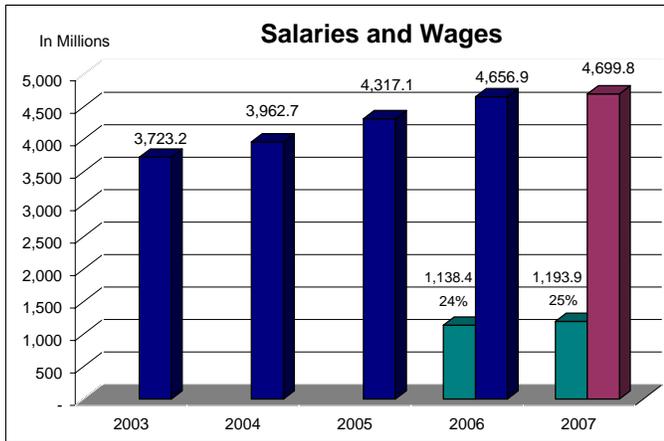
KEY

	Actual 2002 through 2006 amounts (SOURCE: Annual Financial Reports Fiscal Years 2002, 2003, 2004, 2005 and 2006)
	2007 Budget amounts (SOURCE: Operating Budget Summary 2007)
	Projected 2007 amounts (trend based on the average change of the previous four years of data)
	Monthly Financial Report Year to Date amounts for November 2005 and November 2006
	Annual State Net Revenue Collections for 2002, 2003, 2004, 2005 and 2006 (SOURCE: Texas Revenue History by Source 1978-2005, State Comptroller's Office)
	Year to Date State Net Revenue Collections for November 2005 and November 2006 (SOURCE: State Comptroller's Office)
	Estimated State Revenue Collections for 2007 (SOURCE: Revenue Estimate for the 79th Legislature 3rd Called Session, April 2006, State Comptroller's Office)
	2002, 2003, 2004, 2005 and 2006 Annual Average of FTEs, 1st Quarter 2007 FTEs (SOURCE: State Auditor's Office Quarterly FTE Report)
	Year to Date margin for December 2006 (SOURCE: Monthly Financial Report for December 2006)
	Projected 2007 (SOURCE: Monthly Financial Report Year- End Projections collected December 2006)
	Year to Date margin for December 2005 (SOURCE: Monthly Financial Report for December 2006)
	Target Normalized Rates
	Aaa/Aa1 Median (SOURCE: Moody's)
	A2 Median (SOURCE: Moody's)
	Fair Facilities Condition Index (5% - 10%)
	Good Facilities Condition Index (Exceeds 10%)

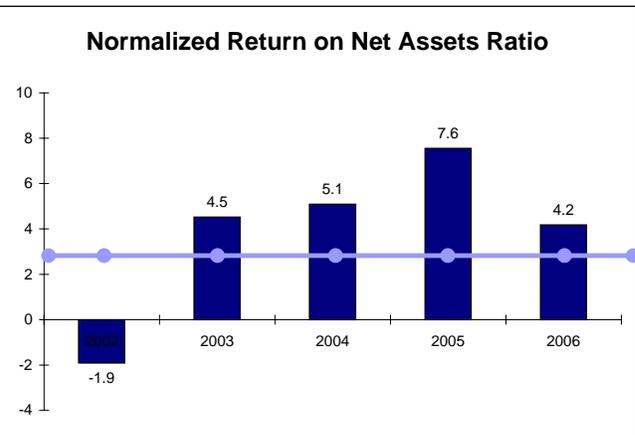
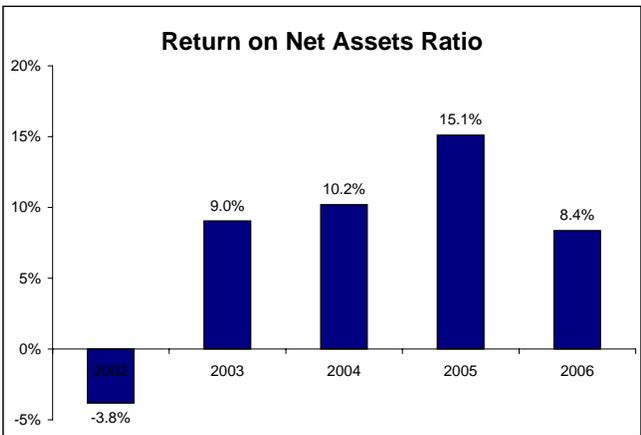
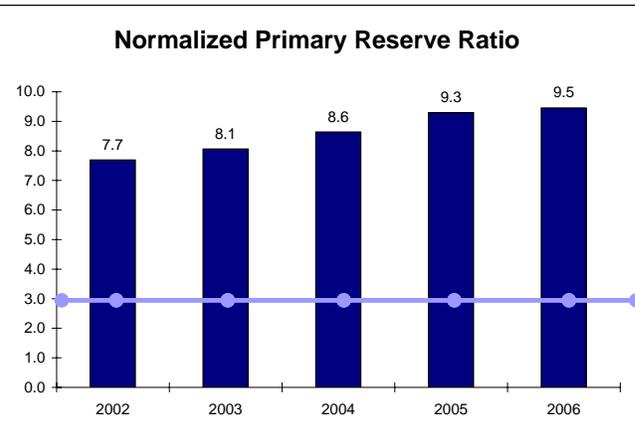
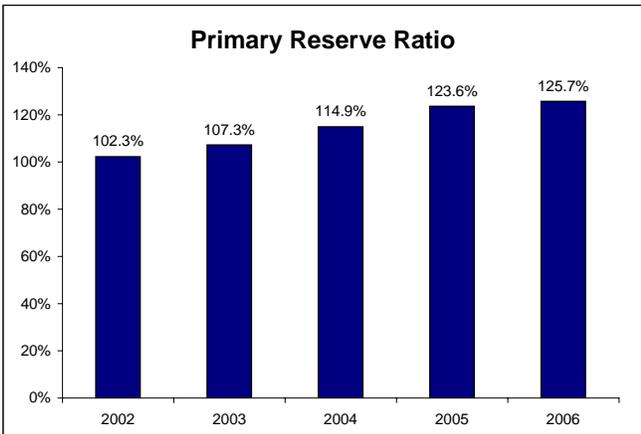
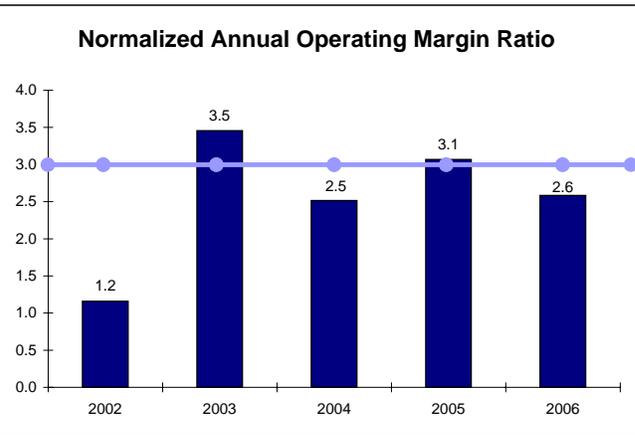
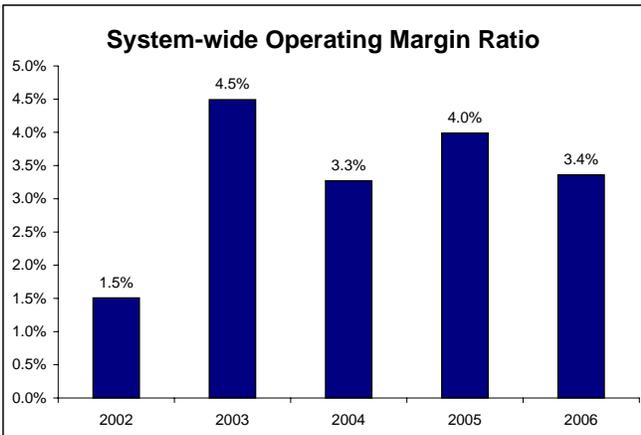
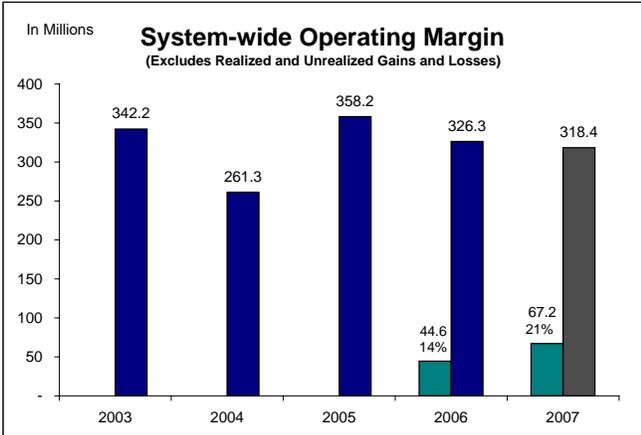
KEY INDICATORS OF REVENUES
ACTUAL 2003 THROUGH 2006
PROJECTED 2007
YEAR TO DATE 2006 AND 2007 FROM NOVEMBER MONTHLY FINANCIAL REPORT



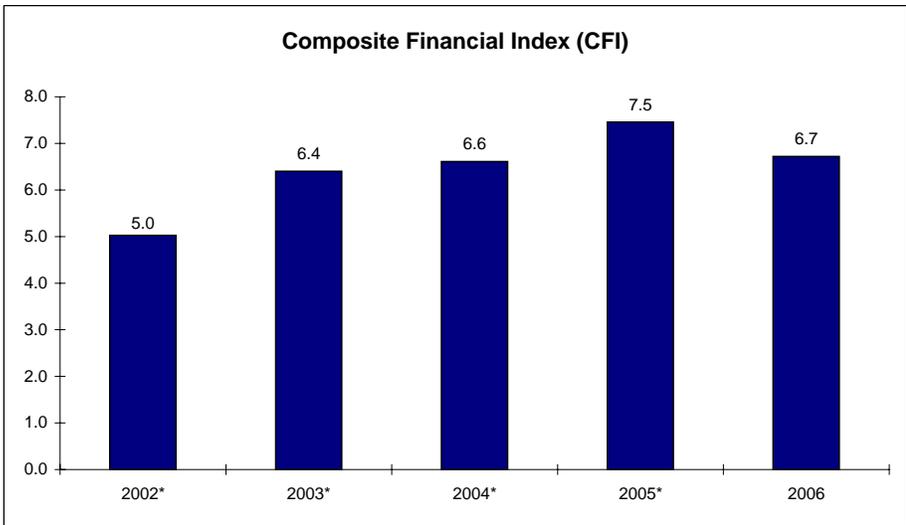
KEY INDICATORS OF EXPENSES
ACTUAL 2003 THROUGH 2006
PROJECTED 2007
YEAR TO DATE 2006 AND 2007 FROM NOVEMBER MONTHLY FINANCIAL REPORT



KEY INDICATORS OF RESERVES
ACTUAL 2002 THROUGH 2006
PROJECTED 2007
YEAR TO DATE 2006 AND 2007 FROM NOVEMBER MONTHLY FINANCIAL REPORT

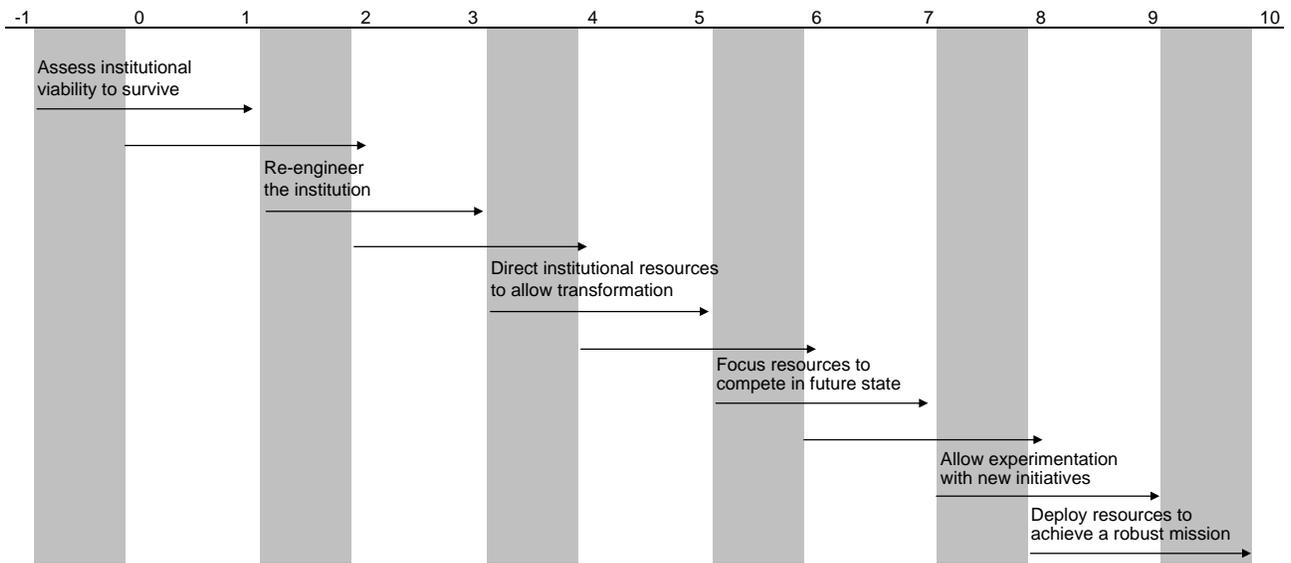


KEY INDICATORS OF FINANCIAL HEALTH 2002 THROUGH 2006

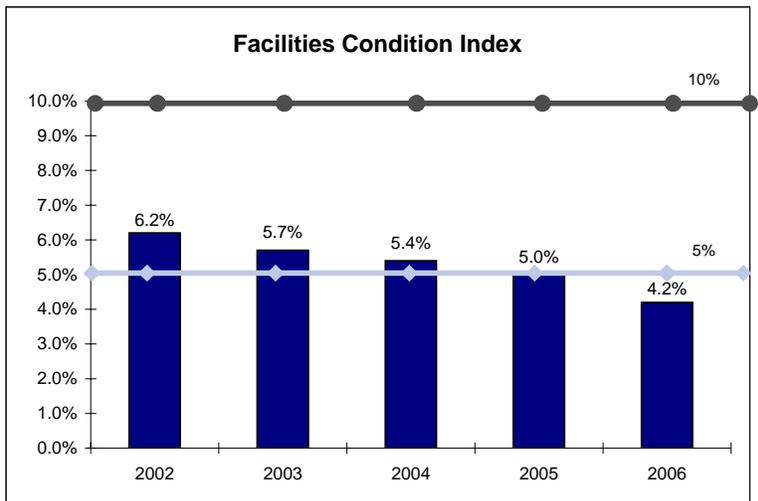
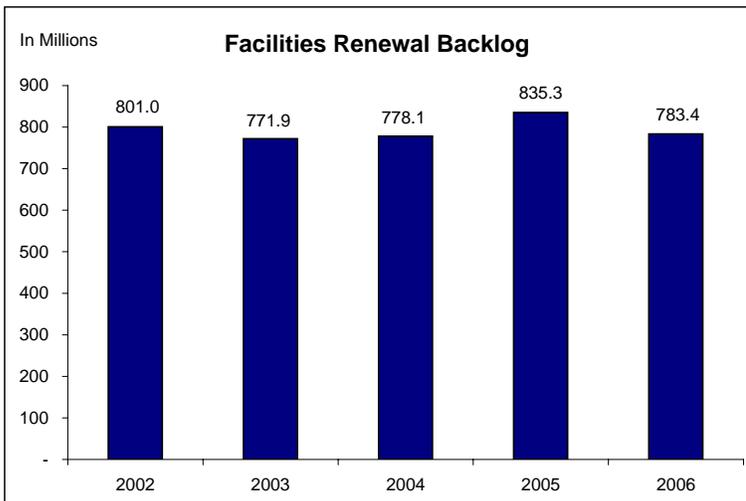
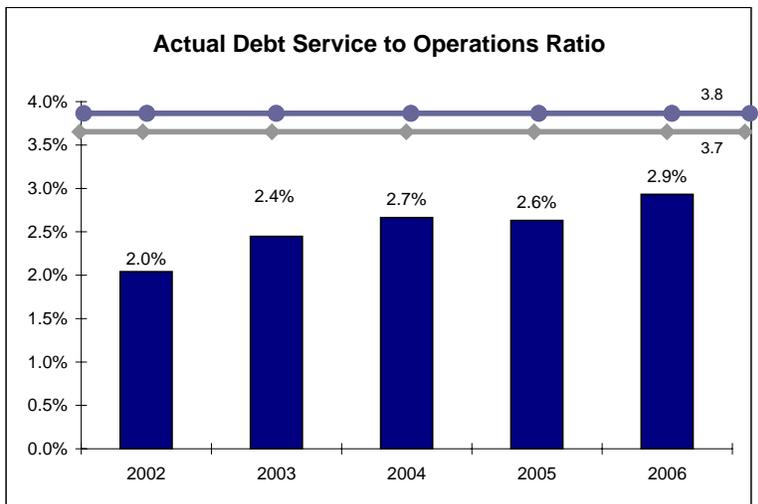
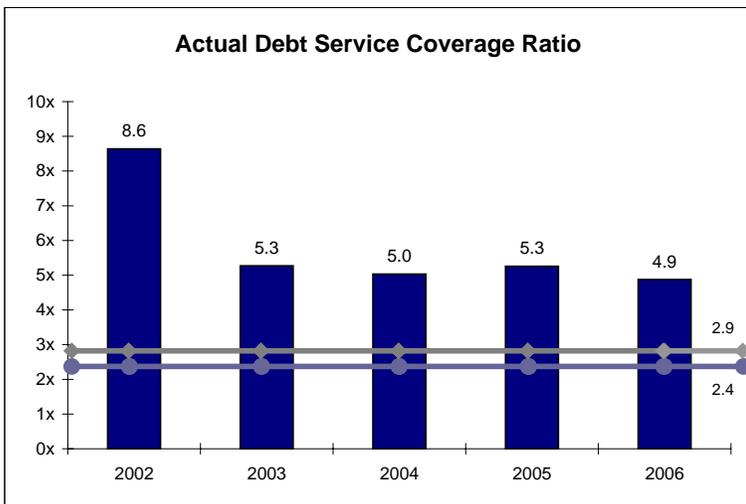
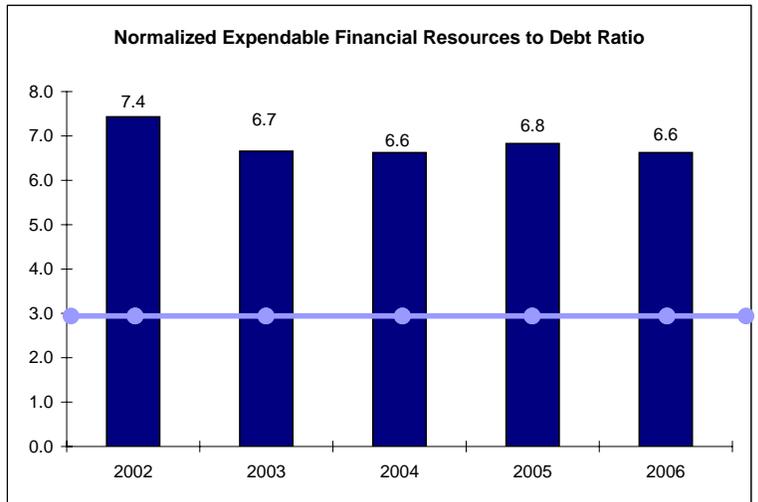
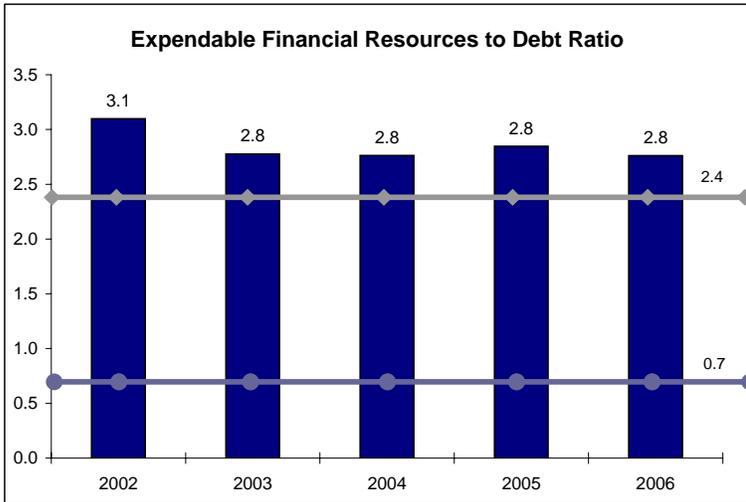


*Restated to reflect appreciation on endowments as restricted expendable net assets as a result of the 2006 external audit

Scale for Charting CFI Performance



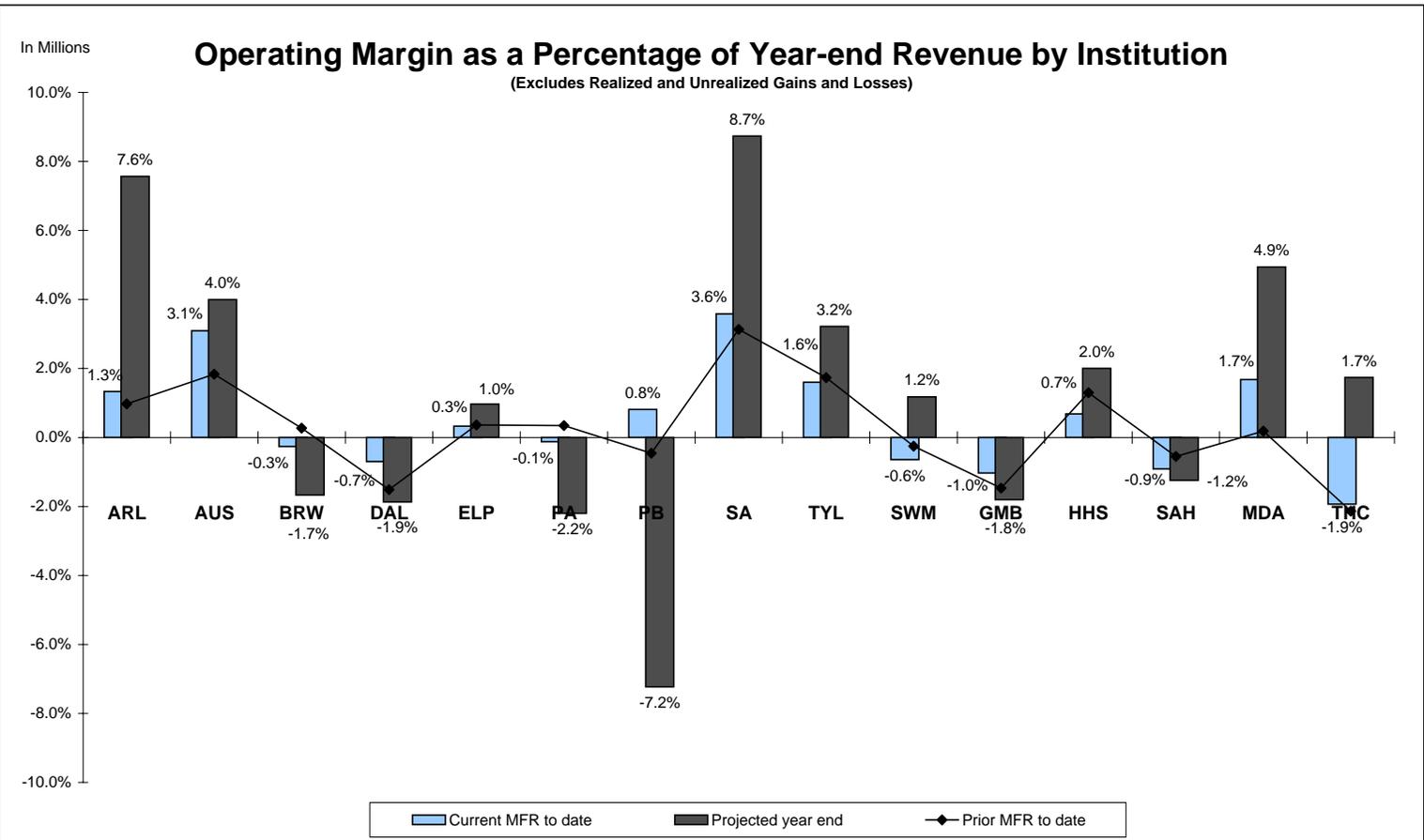
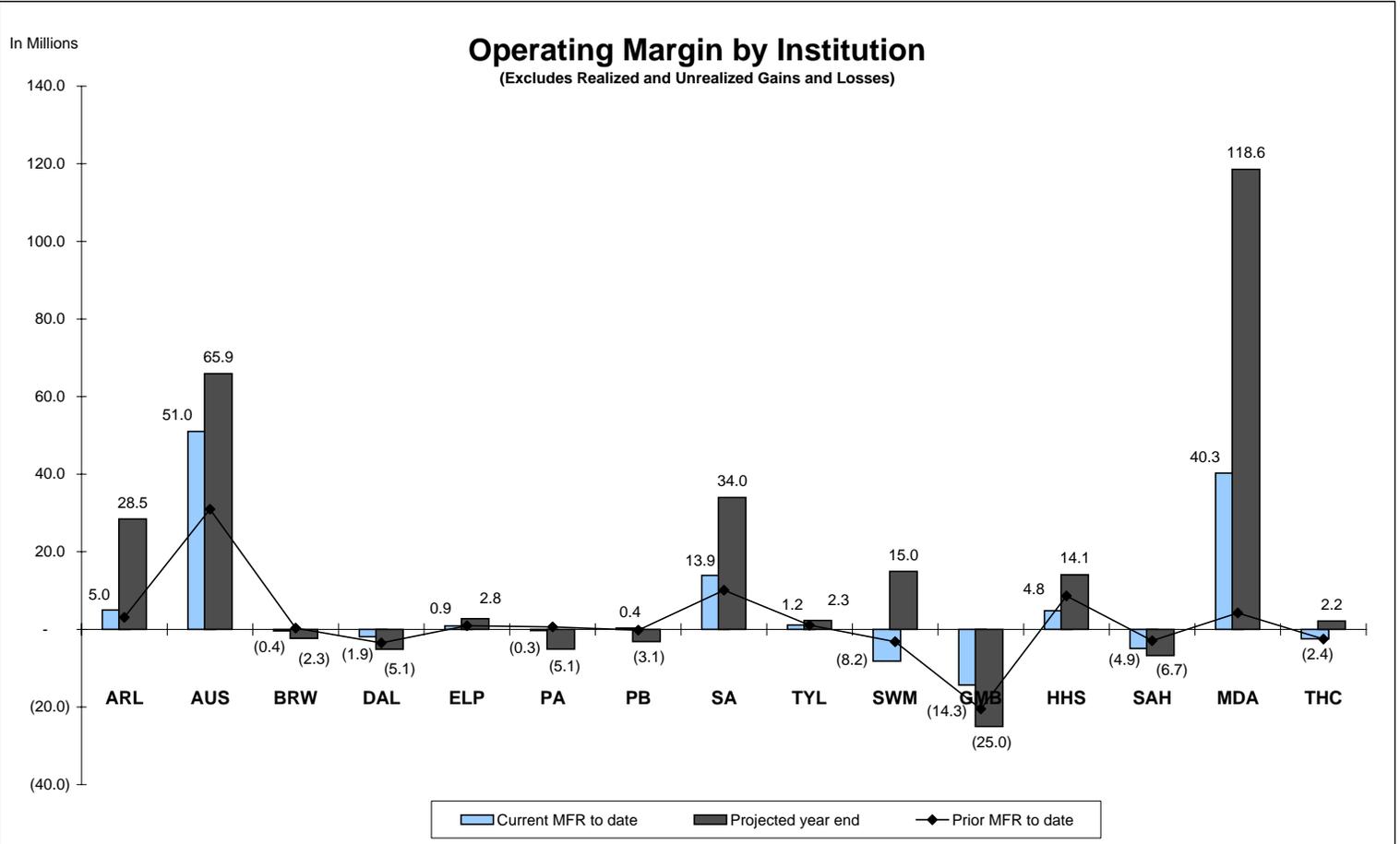
KEY INDICATORS OF CAPITAL NEEDS AND CAPACITY 2002 THROUGH 2006



KEY INDICATORS OF RESERVES

YEAR TO DATE 2006 AND 2007 FROM DECEMBER MONTHLY FINANCIAL REPORT

PROJECTED 2007 YEAR-END MARGIN



4. **U. T. System Board of Regents: Adoption of Seventeenth Supplemental Resolution authorizing Revenue Financing System Bonds in an amount not to exceed \$500,000,000; authorization to complete all related transactions; and resolution regarding parity debt**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents

- a. adopt the Seventeenth Supplemental Resolution to the Master Resolution, substantially in the standard form approved by the Board of Regents on November 13, 2003, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Revenue Financing System Bonds in one or more installments in an aggregate principal amount not to exceed \$500,000,000 with a final maturity not to exceed the Year 2040 for the purpose of refunding a portion of the outstanding Revenue Financing System Commercial Paper Notes, Series A; to provide new money to fund construction and acquisition costs of projects in the Capital Improvement Program (CIP); to current or advance refund certain outstanding Revenue Financing System Bonds to produce present value debt service savings; and to pay the costs of issuance and any original issue discount;
- b. authorize issuance of the Bonds and the execution of corresponding interest rate swap transactions consistent with the U. T. System Interest Rate Swap Policy; and
- c. authorize appropriate officers and employees of the U. T. System as set forth in the Seventeenth Supplemental Resolution to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents, within the limitations and procedures specified therein, make certain covenants and agreements in connection therewith; and resolve other matters incident and related to the issuance, sale, security, and delivery of such Bonds.

The Chancellor also concurs with the recommendation of the Executive Vice Chancellor for Business Affairs that, in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System adopted by the U. T. System Board of Regents on February 14, 1991, amended on October 8, 1993, and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative as required by Section 5 of the Master Resolution, the U. T. System Board of Regents resolve that

- a. sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the

Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the Board relating to the Financing System; and

- b. the institutions, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt.

BACKGROUND INFORMATION

On February 14, 1991, the U. T. System Board of Regents adopted a Master Resolution establishing the Revenue Financing System (RFS) to create a cost-effective, System-wide financing structure for institutions of the U. T. System. Since that time, the Board has adopted 16 supplemental resolutions to provide debt financing for projects that have received the requisite U. T. System Board of Regents and Texas Higher Education Coordinating Board approvals.

The Sixteenth Supplemental Resolution was adopted by the Board on August 10, 2006, and amended on November 16, 2006, authorizing up to \$900 million of bonds to be issued during FY 2007. This authority was exhausted through the issuance of \$896.5 million RFS Bonds, Series 2006C,D,E&F on January 4, 2007, which produced debt service savings of \$20.3 million for the U. T. System. Additional authority is now being requested through the Seventeenth Supplemental Resolution for the remainder of FY 2007.

Adoption of the Seventeenth Supplemental Resolution (Resolution) would authorize the refunding of certain outstanding RFS Bonds provided that an advance refunding exceed a minimum 3% present value debt service savings threshold. An advance refunding involves issuing bonds to refund outstanding bonds in advance of the call date. Refunding bonds are issued at lower interest rates thereby producing debt service savings. Adoption of this Resolution will provide the flexibility to select the particular bonds to be refunded depending on market conditions at the time of pricing. The particular bonds to be refunded will be called for redemption on the first practical optional redemption date for each series of refunded bonds occurring after the delivery of the refunding bonds.

The Resolution authorizes refunding a portion of the outstanding Revenue Financing System Commercial Paper Notes, Series A, refunding certain outstanding RFS Bonds for savings, and new money to fund construction and acquisition costs of projects in the CIP. Generally, commercial paper debt is issued to fund projects during the construction phase and the debt is not amortized. Once construction is complete, the commercial paper is refunded with bonds. Depending on the level of interest rates at the time of pricing, outstanding commercial paper and new money for construction may be financed with long-term debt.

The Resolution provides authority to execute interest rate swap agreements. The determination to utilize an interest rate swap agreement will be made based on market conditions at the time of pricing and will be in accordance with the U. T. System Interest Rate Swap Policy approved by the Board on February 13, 2003, using standard International Swaps and Derivatives Association, Inc. (ISDA) documentation. The Chairman of the Board of Regents and the Chairman of the Board's Finance and Planning Committee will be informed of any proposed transactions to be undertaken pursuant to the Resolution.

In addition, the Resolution authorizes remarketing, tender, auction and broker-dealer agreements customarily utilized in connection with the types of variable rate instruments authorized.

The proposed Seventeenth Supplemental Resolution has been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

Note: The Seventeenth Supplemental Resolution and forms of auction agreement and broker-dealer agreement are in substantially the same form as the Thirteenth through Sixteenth Supplemental Resolutions and forms of auction agreement and broker-dealer agreement previously approved by the Board on November 13, 2003, for use as standard agreements. These documents have not been included as part of the Agenda materials, but are available upon request.

5. **U. T. System: Approval of additional aggregate amount of \$18,160,000 of Revenue Financing System Equipment Financing for Fiscal Year 2007 and resolution regarding parity debt**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents

- a. approve an additional aggregate amount of \$18,160,000 of Revenue Financing System Equipment Financing for Fiscal Year 2007 as allocated to those U. T. System institutions set out on Page 130; and
- b. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the cost of equipment including costs incurred prior to the issuance of such parity debt;

- sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. System Board of Regents relating to the Financing System;
- the institutions and U. T. System Administration, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount of \$18,160,000 for the purchase of equipment; and
- this resolution satisfies the official intent requirements set forth in Section 1.150-2 of the *Code of Federal Regulations* that evidences the Board's intention to reimburse project expenditures with bond proceeds.

BACKGROUND INFORMATION

On April 14, 1994, the U. T. System Board of Regents approved the use of Revenue Financing System debt for equipment purchases in accordance with the Guidelines Governing Administration of the Revenue Financing System. Equipment financing is used for the purchase of equipment in lieu of more costly vendor financing. The Guidelines specify that the equipment to be financed must have a useful life of at least three years. The debt is amortized twice a year with full amortization not to exceed 10 years.

On August 10, 2006, the U. T. System Board of Regents approved \$108,000,000 for equipment financing in Fiscal Year 2007. This Agenda Item requests approval of an additional aggregate amount of \$18,160,000 for equipment financing.

Further details on the equipment to be financed and debt coverage ratios for individual institutions may be found on Page 130.

APPROVAL OF U. T. SYSTEM EQUIPMENT FINANCING
FY 2007 (February)

Institution	\$ Amount of Request	Description of Equipment Purchases	DSC*
U. T. Brownsville	\$710,000	Surveillance equipment, police equipment, plant equipment, telephone system upgrade, vehicle purchase	0.5x
U. T. El Paso	150,000	Technology infrastructure, vehicle replacement	2.3x
U. T. Pan American	3,050,000	Technology infrastructure, vehicle replacement	1.4x
U. T. San Antonio	250,000	Scientific & lab equipment, recreation equipment, vehicle purchase, surveillance equipment	3.1x
U. T. Health Science Center - Houston	1,600,000	Technology infrastructure	3.6x
U. T. Medical Branch - Galveston	10,000,000	Clinical and information technology equipment	1.9x
U. T. Health Center - Tyler	2,400,000	Clinical and laboratory equipment	3.2x

Total	\$18,160,000
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* Debt Service Coverage ("DSC") based on actual results for FY06.

6. **U. T. System Board of Regents: Investment Reports for the fiscal quarter ended November 30, 2006, and The University of Texas Investment Management Company (UTIMCO) Performance Summary Report**

REPORT

The Investment Reports for the fiscal quarter ended November 30, 2006, are set forth on Pages 132 - 136.

Item I on Page 132 reports activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the quarter was 4.42% versus its composite benchmark return of 5.24%. The PUF's net asset value increased by \$446.8 million since the beginning of the quarter to \$10,760.2 million. This change in net asset value includes increases due to contributions from PUF land receipts and net investment return, and the first payment of the annual distribution to the Available University Fund (AUF) for \$100.2 million.

Item II on Page 133 reports activity for the General Endowment Fund (GEF) investments. The GEF's net investment return for the quarter was 4.54% versus its composite benchmark return of 5.24%. The GEF's net asset value increased during the quarter to \$5,819.9 million.

Item III on Page 134 reports activity for the Intermediate Term Fund (ITF). The ITF's net investment return for the quarter was 4.53% versus its composite benchmark return of 4.92%. The net asset value has increased to \$3,234.7 million due to net contributions and net investment return, net of distributions of \$23.7 million.

Item IV on Page 135 presents book and market value of cash, debt, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of institutional operating funds held in the Dreyfus money market fund, decreased by \$217.0 million to \$1,291.9 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: \$39.5 million versus \$43.5 million at the beginning of the period; equities: \$79.7 million versus \$73.7 million at the beginning of the period; and other investments: \$.1 million versus \$2.2 million at the beginning of the period.

The November 30, 2006, UTIMCO Performance Summary Report is attached on Page 136.

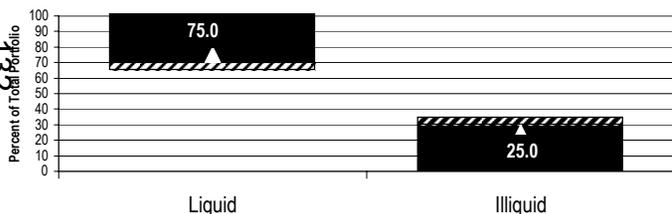
I. PERMANENT UNIVERSITY FUND Investment Reports for Periods Ended November 30, 2006

Prepared in accordance with Texas Education Code Sec. 51.0032

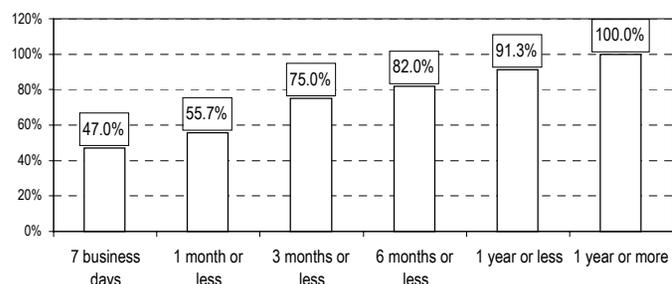
Summary of Capital Flows

(\$ millions)	Fiscal Year Ended	Quarter Ended	Fiscal Year Ended
	August 31, 2006	November 30, 2006	August 31, 2007
Beginning Net Assets	\$ 9,426.7	\$ 10,313.4	\$ 10,313.4
PUF Lands Receipts	214.9	89.2	89.2
Investment Return	1,111.7	473.5	473.5
Expenses	(82.6)	(15.7)	(15.7)
Distributions to AUF	(357.3)	(100.2)	(100.2)
Ending Net Assets	\$ 10,313.4	\$ 10,760.2	\$ 10,760.2

PUF Liquidity Policy Profile As of November 30, 2006

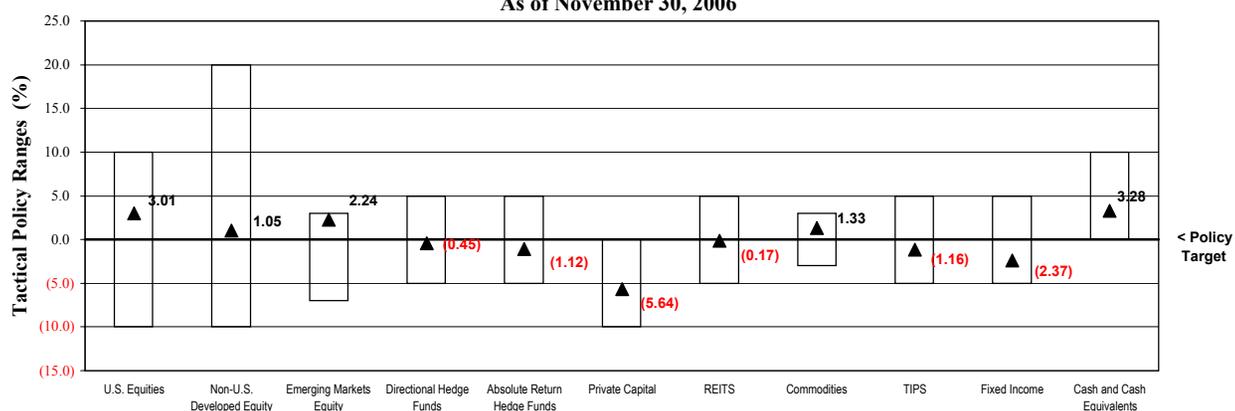


PUF Detailed Liquidity Profile as of November 30, 2006



	November 30, 2006		Three Months to Date				
	Portfolio Exposure	Policy Target	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
Cash and Cash Equivalents	3.28%	0.00%	1.32%	1.27%	-0.15%	0.00%	-0.15%
U.S. Equities	23.01%	20.00%	5.04%	8.22%	-0.04%	-0.63%	-0.67%
Non-U.S. Developed Equity	11.05%	10.00%	4.45%	7.16%	-0.01%	-0.27%	-0.28%
Emerging Markets Equity	9.24%	7.00%	12.20%	13.47%	0.12%	-0.09%	0.03%
Directional Hedge Funds	9.55%	10.00%	4.45%	2.95%	0.00%	0.15%	0.15%
Absolute Return Hedge Funds	13.88%	15.00%	3.82%	2.95%	0.02%	0.13%	0.15%
REITS	4.83%	5.00%	13.79%	13.62%	-0.02%	0.00%	-0.02%
Commodities	4.33%	3.00%	-8.28%	-4.35%	-0.24%	-0.12%	-0.36%
TIPS	3.84%	5.00%	1.42%	1.23%	0.04%	0.01%	0.05%
Fixed Income	7.63%	10.00%	2.97%	2.72%	0.05%	0.02%	0.07%
Total Marketable Securities	90.64%	85.00%	4.59%	5.76%	-0.23%	-0.80%	-1.03%
Private Capital	9.36%	15.00%	2.81%	2.30%	0.13%	0.08%	0.21%
Total	100.00%	100.00%	4.42%	5.24%	-0.10%	-0.72%	-0.82%

Deviations From Policy Targets Within Tactical Policy Ranges As of November 30, 2006



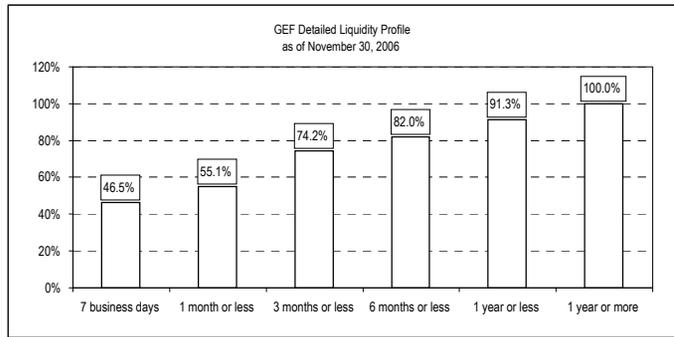
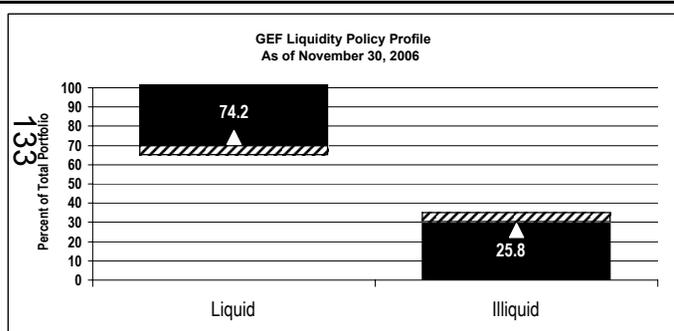
II. GENERAL ENDOWMENT FUND

Investment Reports for Periods Ended November 30, 2006

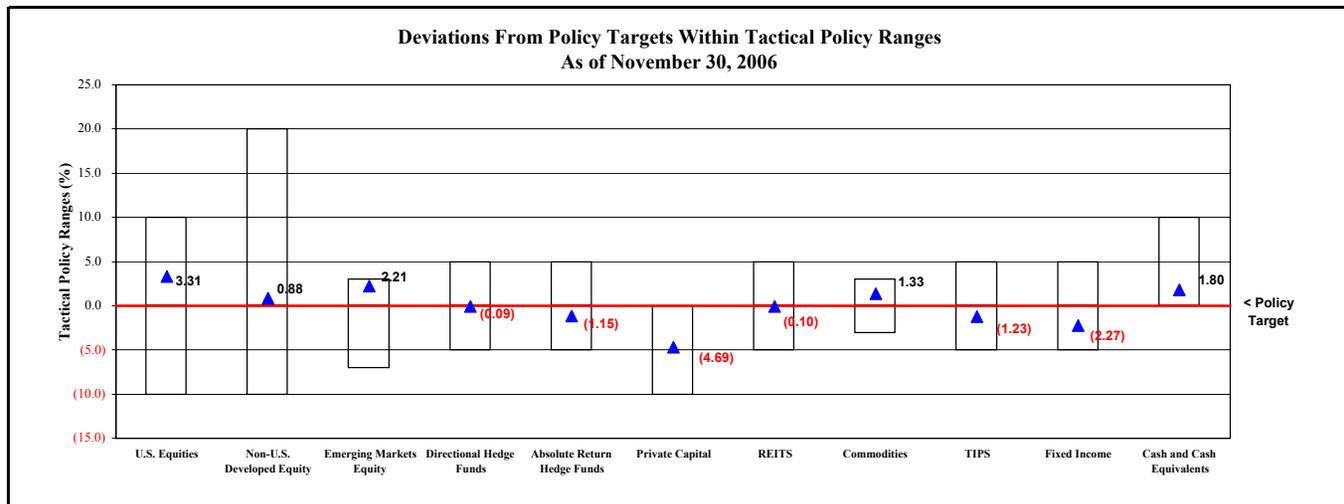
Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows

(\$ millions)	Quarter Ended		
	Fiscal Year Ended August 31, 2006	November 30, 2006	Fiscal Year Ended August 31, 2007
Beginning Net Assets	\$ 4,926.8	\$ 5,427.8	\$ 5,427.8
Contributions	273.9	193.1	193.1
Withdrawals	(108.0)	(0.3)	(0.3)
Distributions	(220.0)	(59.1)	(59.1)
Investment Return	593.3	264.8	264.8
Expenses	(38.2)	(6.4)	(6.4)
Ending Net Assets	\$ 5,427.8	\$ 5,819.9	\$ 5,819.9



	November 30, 2006		Three Months to Date				
	Portfolio Exposure	Policy Target	Returns		Value Added		
			Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
Cash and Cash Equivalents	1.80%	0.00%	1.32%	1.27%	-0.13%	0.00%	-0.13%
U.S. Equities	23.31%	20.00%	5.14%	8.22%	-0.02%	-0.61%	-0.63%
Non-U.S. Developed Equity	10.88%	10.00%	4.52%	7.16%	-0.02%	-0.26%	-0.28%
Emerging Markets Equity	9.21%	7.00%	12.27%	13.47%	0.12%	-0.08%	0.04%
Directional Hedge Funds	9.91%	10.00%	4.46%	2.95%	0.00%	0.15%	0.15%
Absolute Return Hedge Funds	13.85%	15.00%	3.82%	2.95%	0.01%	0.13%	0.14%
REITS	4.90%	5.00%	13.85%	13.62%	-0.03%	0.01%	-0.02%
Commodities	4.33%	3.00%	-8.20%	-4.35%	-0.22%	-0.12%	-0.34%
TIPS	3.77%	5.00%	1.40%	1.23%	0.04%	0.01%	0.05%
Fixed Income	7.73%	10.00%	2.99%	2.72%	0.05%	0.03%	0.08%
Total Marketable Securities	89.69%	85.00%	4.69%	5.76%	-0.20%	-0.74%	-0.94%
Private Capital	10.31%	15.00%	3.30%	2.30%	0.09%	0.15%	0.24%
Total	100.00%	100.00%	4.54%	5.24%	-0.11%	-0.59%	-0.70%



III. INTERMEDIATE TERM FUND Investment Reports for Periods Ended November 30, 2006

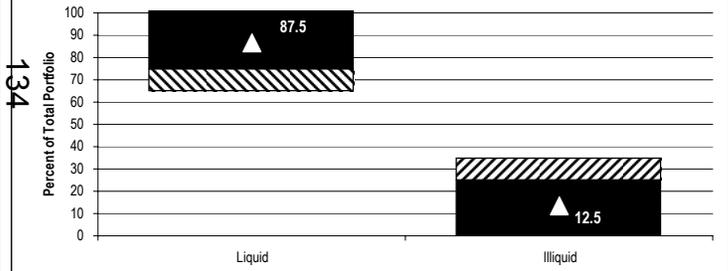
Prepared in accordance with *Texas Education Code Sec. 51.0032*

Summary of Capital Flows

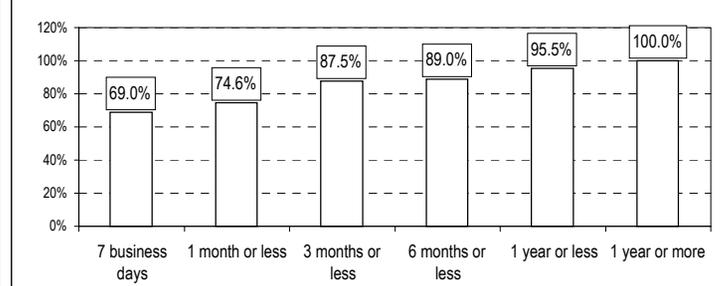
(\$ millions)	Fiscal Year Ended	Quarter Ended	Fiscal Year Ended
	August 31, 2006	November 30, 2006	August 31, 2007
Beginning Net Assets	\$ -	\$ 3,048.8	\$ 3,048.8
Contributions	3,112.3	117.0	117.0
Withdrawals	(111.2)	(48.9)	(48.9)
Distributions	(52.7)	(23.7)	(23.7)
Investment Return	115.4	149.4	149.4
Expenses	(15.0)	(7.9)	(7.9)
Ending Net Assets	\$ 3,048.8	\$ 3,234.7	\$ 3,234.7

	November 30, 2006		Three Months to Date				
	Portfolio Exposure	Policy Target	Returns	Value Added			
			Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
Cash and Cash Equivalents	0.62%	0.00%	1.32%	1.27%	-0.04%	0.00%	-0.04%
U.S. Equities	15.39%	15.00%	6.48%	8.22%	0.00%	-0.26%	-0.26%
Non-U.S. Developed Equity	4.96%	5.00%	5.24%	7.16%	0.00%	-0.09%	-0.09%
Emerging Markets Equity	4.85%	5.00%	12.72%	13.47%	-0.02%	-0.04%	-0.06%
Directional Hedge Funds	10.72%	12.50%	4.46%	2.95%	0.01%	0.19%	0.20%
Absolute Return Hedge Funds	13.85%	12.50%	3.61%	2.95%	-0.02%	0.08%	0.06%
REITS	10.11%	10.00%	12.14%	13.62%	0.02%	-0.14%	-0.12%
Commodities	4.70%	5.00%	-7.71%	-4.35%	0.00%	-0.17%	-0.17%
TIPS	9.86%	10.00%	1.51%	1.23%	0.00%	0.03%	0.03%
Fixed Income	24.94%	25.00%	3.04%	2.72%	-0.02%	0.08%	0.06%
Total	100.00%	100.00%	4.53%	4.92%	-0.07%	-0.32%	-0.39%

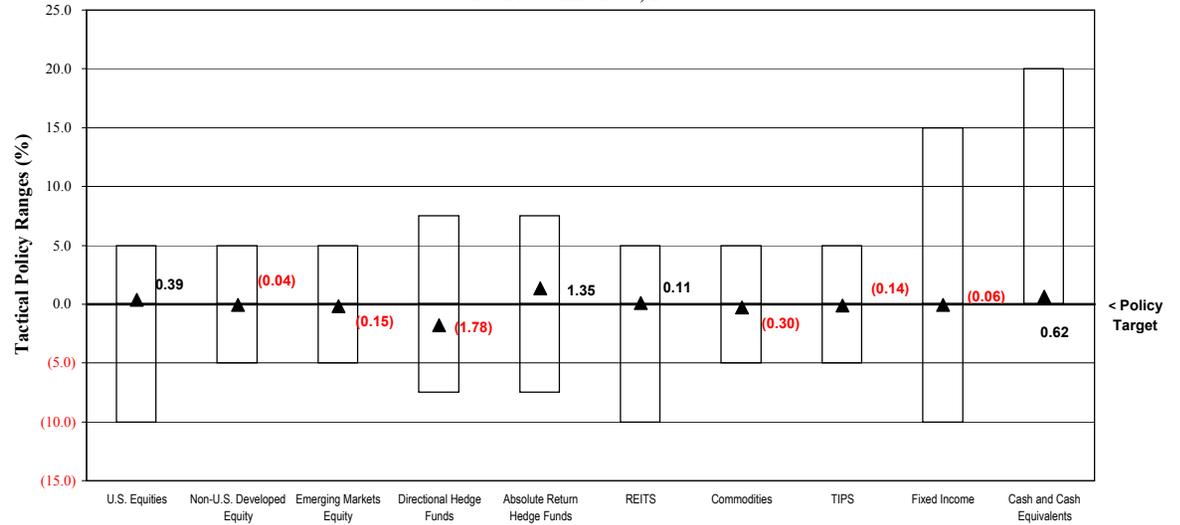
ITF Liquidity Policy Profile
As of November 30, 2006



ITF Detailed Liquidity Profile
as of November 30, 2006



Deviations From Policy Targets Within Tactical Policy Ranges
As of November 30, 2006



IV. SEPARATELY INVESTED ASSETS
Summary Investment Report at November 30, 2006
 Report prepared in accordance with *Texas Education Code Sec. 51.0032*

	(\$ thousands)															
	FUND TYPE															
	CURRENT PURPOSE				ENDOWMENT &		ANNUITY & LIFE		AGENCY FUNDS		TOTAL EXCLUDING		OPERATING FUNDS		TOTAL	
	DESIGNATED		RESTRICTED		SIMILAR FUNDS		INCOME FUNDS		OPERATING FUNDS		(SHORT TERM FUND)		TOTAL			
ASSET TYPES	<u>BOOK</u>	<u>MARKET</u>	<u>BOOK</u>	<u>MARKET</u>	<u>BOOK</u>	<u>MARKET</u>	<u>BOOK</u>	<u>MARKET</u>	<u>BOOK</u>	<u>MARKET</u>	<u>BOOK</u>	<u>MARKET</u>	<u>BOOK</u>	<u>MARKET</u>	<u>BOOK</u>	<u>MARKET</u>
Cash & Equivalents:																
Beginning value 08/31/06	1,633	1,633	2,349	2,349	117,665	117,665	6,919	6,919	98,160	98,160	226,726	226,726	1,282,262	1,282,262	1,508,988	1,508,988
Increase/(Decrease)	50	50	19,394	19,394	(85,991)	(85,991)	535	535	(95,515)	(95,515)	(161,527)	(161,527)	(55,512)	(55,512)	(217,039)	(217,039)
Ending value 11/30/06	1,683	1,683	21,743	21,743	31,674	31,674	7,454	7,454	2,645	2,645	65,199	65,199	1,226,750	1,226,750	1,291,949	1,291,949
Debt Securities:																
Beginning value 08/31/06	-	-	263	215	29,866	29,304	13,946	13,962	-	-	44,075	43,481	-	-	44,075	43,481
Increase/(Decrease)	-	-	-	5	(4,585)	(4,172)	(3)	181	-	-	(4,588)	(3,986)	-	-	(4,588)	(3,986)
Ending value 11/30/06	-	-	263	220	25,281	25,132	13,943	14,143	-	-	39,487	39,495	-	-	39,487	39,495
Equity Securities:																
Beginning value 08/31/06	27	5,057	1,892	1,616	36,078	43,422	18,736	23,612	-	-	56,733	73,707	-	-	56,733	73,707
Increase/(Decrease)	-	3,435	103	184	489	1,638	(679)	780	-	-	(87)	6,037	-	-	(87)	6,037
Ending value 11/30/06	27	8,492	1,995	1,800	36,567	45,060	18,057	24,392	-	-	56,646	79,744	-	-	56,646	79,744
Other:																
Beginning value 08/31/06	-	-	2,091	2,091	2	2	255	105	-	-	2,348	2,198	-	-	2,348	2,198
Increase/(Decrease)	-	-	(2,093)	(2,093)	7	7	12	-	-	-	(2,074)	(2,086)	-	-	(2,074)	(2,086)
Ending value 11/30/06	-	-	(2)	(2)	9	9	267	105	-	-	274	112	-	-	274	112
Total Assets:																
Beginning value 08/31/06	1,660	6,690	6,595	6,271	183,611	190,393	39,856	44,598	98,160	98,160	329,882	346,112	1,282,262	1,282,262	1,612,144	1,628,374
Increase/(Decrease)	50	3,485	17,404	17,490	(90,080)	(88,518)	(135)	1,496	(95,515)	(95,515)	(168,276)	(161,562)	(55,512)	(55,512)	(223,788)	(217,074)
Ending value 11/30/06	1,710	10,175	23,999	23,761	93,531	101,875	39,721	46,094	2,645	2,645	161,606	184,550	1,226,750	1,226,750	1,388,356	1,411,300

Details of individual assets by account furnished upon request.

UTIMCO Performance Summary

November 30, 2006

	Net Asset Value 11/30/2006 (in Millions)	Periods Ended November 30, 2006 (Returns for Periods Longer Than One Year are Annualized)										
		One Month	Fiscal Year To Date	Three Months	Six Months	Calendar Year To Date	One Year	Two Years	Three Years	Four Years	Five Years	Ten Years
ENDOWMENT FUNDS												
Permanent University Fund	\$ 10,760.2	2.49	4.42	4.42	6.89	11.90	13.99	13.40	14.07	15.36	10.88	9.34
General Endowment Fund		2.57	4.54	4.54	7.00	12.11	14.18	13.36	14.02	15.54	11.03	N/A
Permanent Health Fund	1,022.0	2.59	4.57	4.57	7.04	12.15	14.18	13.30	13.95	15.43	10.93	N/A
Long Term Fund	4,798.0	2.59	4.57	4.57	7.04	12.16	14.18	13.31	13.95	15.46	10.96	9.98
Separately Invested Funds	184.5	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Endowment Funds	16,764.7											
OPERATING FUNDS												
Short Term Fund	1,226.7	0.43	1.32	1.32	2.66	4.61	4.98	3.99	3.06	2.58	2.45	3.98
Intermediate Term Fund	3,234.7	2.42	4.53	4.53	7.49	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Operating Funds	4,461.4											
Total Investments	\$ 21,226.1											
BENCHMARKS (1)												
Permanent University Fund: Policy Portfolio		2.27	5.24	5.24	8.14	13.73	15.66	13.60	13.70	13.08	8.99	9.96
General Endowment Fund: Policy Portfolio		2.27	5.24	5.24	8.14	13.73	15.66	13.60	13.70	13.08	8.99	9.71
Short Term Fund: 90 Day Treasury Bills Average Yield		0.43	1.27	1.27	2.54	4.39	4.73	3.84	2.95	2.51	2.37	3.80
Intermediate Term Fund: Policy Portfolio		2.34	4.92	4.92	7.99	N/A	N/A	N/A	N/A	N/A	N/A	N/A
VALUE ADDED (2)												
Permanent University Fund		0.22	(0.82)	(0.82)	(1.25)	(1.83)	(1.68)	(0.20)	0.37	2.29	1.90	(0.62)
General Endowment Fund		0.29	(0.70)	(0.70)	(1.14)	(1.62)	(1.49)	(0.25)	0.32	2.46	2.05	N/A
Permanent Health Fund		0.32	(0.67)	(0.67)	(1.10)	(1.57)	(1.48)	(0.30)	0.24	2.35	1.94	N/A
Long Term Fund		0.32	(0.67)	(0.67)	(1.10)	(1.57)	(1.48)	(0.30)	0.24	2.38	1.98	0.27
Short Term Fund		0.00	0.05	0.05	0.11	0.22	0.25	0.15	0.11	0.08	0.09	0.17
Intermediate Term Fund		0.07	(0.39)	(0.39)	(0.50)	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(1) - Effective May 6, 2004, benchmark returns for the PUF policy portfolio have been restated for prior periods beginning June 1, 1993 through September 30, 2000 and for the GEF/LTF policy portfolio for prior periods beginning June 1, 1993 through September 30, 2001 to correct the following technical errors in benchmark construction and calculation: (a) to reflect actual asset class target allocations which were in place, or the practical implementation of changes to those policy allocations, and (b) to distinguish between PUF and GEF/LTF historical investment objectives and distribution policies by accurately representing actual asset class allocations during those periods.

Benchmark returns for the PUF and GEF/LTF policy portfolios were also restated for all prior periods beginning June 1, 1993 through December 31, 2003 to replace various benchmark returns reported previously for the Private Capital asset class. Specifically, the Wilshire 5000 + 4%, the benchmark used prior to January 1, 2004, was replaced with the Venture Economics Periodic IRR Index, a more appropriate benchmark measure for the actual Private Capital portfolio.

Effective August 10, 2006, benchmark returns for the PUF and GEF policy portfolios were also restated for periods beginning January 1, 2006 through April 30, 2006, and for the ITF policy portfolio for periods beginning February 1, 2006 to April 30, 2006, to replace benchmark returns for the Hedge Fund asset class due to integrity concerns regarding existing benchmarks. Specifically, composites of Standard & Poor's investable hedge fund indices were replaced with the MSCI Investable Hedge Fund Index.

Complete details of the [restatements](#) and previous policy portfolio benchmark history are documented on the UTIMCO website at www.UTIMCO.org or are available upon request.

(2) - Value added is a measure of the difference between actual returns and benchmark or policy portfolio returns for each period shown. Value added is a result of the active management decisions made by UTIMCO staff and external managers.

- B. CONVENE JOINT MEETING WITH AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW COMMITTEE
- 7. **U. T. System: Report on the Fiscal Year 2006 Annual Financial Report including the report on the U. T. System Financial Statement Audit performed by Deloitte & Touche LLP**

REPORT

Mr. Randy Wallace, Associate Vice Chancellor, Controller and Chief Budget Officer, will discuss the Annual Financial Report preparation and compilation process, including certifications and representations made by the institutions. Mr. Wallace's PowerPoint presentation is set forth on Pages 136 - 145 of the Supplemental Materials (Volume 2) of the Agenda Book.

Mr. Rodney Lenfant, Deloitte & Touche LLP, will report on the results of the audit of the U. T. System Financial Statements for Fiscal Year 2006. Mr. Lenfant's PowerPoint presentation is set forth on Pages 146 - 154 of the Supplemental Materials (Volume 2) of the Agenda Book.

Additionally, Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, and Ms. Amy Barrett, Assistant Audit Director, will report on the work performed at U. T. Arlington, U. T. Brownsville, U. T. Dallas, U. T. Permian Basin, U. T. San Antonio, U. T. Tyler, and U. T. Health Center - Tyler for Deloitte & Touche LLP, in support of the U. T. System Financial Statement Audit. The PowerPoint presentation is set forth on Pages 155 - 160 of the Supplemental Materials (Volume 2) of the Agenda Book.

The U. T. System Consolidated Financial Statements for the Years Ended August 31, 2006 and 2005 (Restated) and Independent Auditors' Report as set forth on Pages 161 - 243 of the Supplemental Materials (Volume 2) of the Agenda Book includes the Management's Discussion and Analysis that provides an overview of the financial position and activities of the U. T. System for the year ended August 31, 2006. The U. T. System Management Letter including management's response has not been completed, but the Controller's Office plans to have it available for distribution prior to the Board meeting.

BACKGROUND INFORMATION

The Annual Financial Report is required to be filed with the State Comptroller of Public Accounts annually on November 20 and is prepared in compliance with *Texas Government Code* Section 2101.011 and in accordance with the requirements established by the State Comptroller of Public Accounts.

A Request for Qualifications (RFQ) was distributed by U. T. System staff in June 2004. Two proposals were received. After a review of the proposals and interviews by Audit, Compliance, and Management Review Committee Chairman Estrada, and U. T. System staff, the Board of Regents authorized U. T. System staff to negotiate and enter into an auditing services contract with Deloitte & Touche LLP, on July 16, 2004. The original contract, entered into as of August 30, 2004, was for one year with the option to renew the contract for two additional one-year terms.

On March 28, 2006, the Board of Regents authorized U. T. System staff to negotiate a one-year renewal of the auditing services contract with Deloitte & Touche LLP, to audit the U. T. System Annual Financial Report for the fiscal year ending August 31, 2006, subject to *Texas Government Code* Section 321.020; the General Appropriations Act, 79th Legislature, Article IX, Section 6.34; and approval by the State Auditor for the delegation of authority to U. T. System to contract with a private auditor.