



THE UNIVERSITY OF TEXAS SYSTEM
Office of the Controller

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November 20, 2003

Mark G. Yudof
Chancellor
The University of Texas System
Austin, Texas

Dear Chancellor Yudof:

Submitted herein are the combined primary financial statements of The University of Texas System for the fiscal year ended August 31, 2003. Also presented are the primary financial statements of System Administration and the component institutions of The University of Texas System for the same period.

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

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

Respectfully Submitted,

Approved:

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

/s/ Randy Wallace
Assistant Vice Chancellor -
Controller and Chief Budget Officer

DLF/ts

Enclosure

THE UNIVERSITY OF TEXAS SYSTEM
BOARD OF REGENTS
As of August 31, 2003

Officers

Charles Miller, Chairman
Rita C. Clements, Vice-Chairman
Woody L. Hunt, Vice-Chairman
A. W. "Dub" Riter, Jr., Vice-Chairman
Francie A. Frederick, Counsel and Secretary

Members

Term Expires When Successor is Named

A. W. "Dub" Riter, Jr.

Tyler

Terms Expire February 1, 2005

Robert A. Estrada
Woody L. Hunt
Charles Miller

Dallas
El Paso
Houston

Terms Expire February 1, 2007

Rita C. Clements
Judith L. Craven, M.D.
Cyndi Taylor Krier

Dallas
Houston
San Antonio

Terms Expire February 1, 2009

H. Scott Caven, Jr.
James Richard Huffines

Houston
Austin

**THE UNIVERSITY OF TEXAS SYSTEM
SENIOR ADMINISTRATIVE OFFICIALS**

As of August 31, 2003

Mark G. Yudof, Chancellor

James C. Guckian, M.D., Acting Executive Vice Chancellor for Health Affairs

Kerry L. Kennedy, Executive Vice Chancellor for Business Affairs

Teresa A. Sullivan, Executive Vice Chancellor for Academic Affairs

Cullen M. Godfrey, Vice Chancellor and General Counsel

E. Ashley Smith, Vice Chancellor for Governmental Relations and Policy

Shirley Bird Perry, Vice Chancellor for Development and External Relations

William H. Shute, Vice Chancellor for Federal Relations

John De La Garza, Jr., Vice Chancellor for Community Relations

Tonya Moten Brown, Vice Chancellor for Administration

Michael D. McKinney, Vice Chancellor for Health Affairs

Edwin R. Sharpe, Vice Chancellor for Educational System Alignment

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

THE UNIVERSITY OF TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2003

INTRODUCTION

The University of Texas System (the System) was established by the Texas Constitution of 1876. In 1881, Austin was designated the site of the main academic campus and Galveston as the location of the medical branch. The University of Texas at Austin opened in 1883, and eight years later, the John Sealy Hospital in Galveston (now a part of the System's Medical Branch at Galveston) established a program for university-trained medical professionals. In addition to the original academic campus located in Austin, the System now includes eight additional academic campuses in Arlington, Dallas, El Paso, Odessa, San Antonio, Tyler, Brownsville and Edinburg. Health institutions for medical education and research have expanded beyond the original Galveston medical campus to include M. D. Anderson Cancer Center, Southwestern Medical Center at Dallas, Health Science Centers at Houston and San Antonio and the Health Center at Tyler. The System's fifteen component institutions have become one of the nation's premier educational enterprises. Many of the System's programs in natural science, engineering, business, medicine, law, liberal arts and humanities rank among the very best in the country.

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The System presents its financial statements for the year ended August 31, 2003, with data for the year ended August 31, 2002, provided for comparative purposes. The emphasis of discussion about these financial statements will focus on the primary university's current year data. The System's combined financial report includes three financial statements: the Balance Sheet; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. The financial statements were prepared in accordance with Governmental Accounting Standards Board (GASB) principles. This discussion and analysis of the System's financial statements provides an overview of the financial activities for the year. It has been prepared by management and should be read in conjunction with the accompanying financial statements and notes.

FINANCIAL HIGHLIGHTS

- In fall 2003, the System's enrollment increased 5.2% to 171,734 students. This increase was due in part to the state's strong demographics combined with the weak labor market. The System's academic institutions enroll 36% of the state's public college students, and the System's health institutions enroll 74% of the state's public college medical and dental students. Increased enrollment and higher fees resulted in increased tuition and fees and other student-related revenues and expenses. Additionally, net patient care revenues increased \$201.5 million in 2003, as a result of an increase in patient volumes and higher rates.
- Texas is experiencing budget difficulties common to other states. In January 2003, state agencies and institutions of higher education were asked to submit plans for 2003 general revenue reductions to offset the state's anticipated general revenue deficit. As a result, state appropriations were \$29.7 million lower than in 2002.
- The year ended August 31, 2003, was a year in which investment returns shifted from negative returns in the first half of the year to strongly positive returns in the second half of the year. Decisions to reallocate capital during the spring and summer months away from defensive assets towards more economically sensitive instruments allowed the System to benefit from the upswing in the financial markets. Net investment income totaled \$354.9 million in 2003, which was a marked

improvement from the 2002 net investment loss of \$16.2 million. In addition, the net increase in fair value of investments for 2003 was \$1.2 billion, as compared to a net decrease of \$479.8 million in 2002. The improvements in the financial markets were the largest contributor to the increase in net assets of \$1.5 billion during 2003.

- Investments in capital asset additions were approximately \$1.4 billion in 2003, including construction in progress that was completed during the year.

CONDENSED FINANCIAL INFORMATION

The Balance Sheet

The System's net assets are the difference between its assets and liabilities. Over time, increases or decreases in net assets are one indicator of the improvement or decline of the System's financial health when considered with nonfinancial factors such as enrollment, patient levels and the condition of facilities. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. A summarized comparison of the System's balance sheet at August 31, 2003 and 2002 follows:

(\$ in millions)	2003	Restated ¹ 2002
Assets:		
Current Assets	\$ 3,826.5	3,356.6
Noncurrent Investments	14,807.1	13,422.2
Other Noncurrent Assets	246.1	273.1
Capital Assets, net	5,682.8	4,965.5
Total Assets	24,562.5	22,017.4
 Liabilities:		
Current Liabilities	3,201.0	2,739.8
Noncurrent Liabilities	2,742.5	2,202.7
Total Liabilities	5,943.5	4,942.5
 Net Assets:		
Invested in Capital Assets, Net of Related Debt	3,310.7	3,031.6
Restricted	12,570.1	11,467.5
Unrestricted	2,738.2	2,575.8
Net Assets	18,619.0	17,074.9
Liabilities and Net Assets	\$ 24,562.5	22,017.4

¹Certain prior year amounts were restated to conform with current year presentations.

Assets increased approximately \$2.5 billion since 2002, primarily due to improved financial market conditions resulting in gains in the System's investments, and also due to capital asset increases in 2003. Liabilities increased \$1 billion, due largely to debt issuances needed to fund construction and renovation of facilities. The System continues to build upon its strong financial foundation, which reflects the prudent utilization of financial resources, including cost controls, management of endowments, and adherence to a long-range capital plan for the maintenance and replacement of facilities.

Current Assets and Current Liabilities

Current assets consist primarily of cash and cash equivalents, securities lending collateral, various student, patient and gift receivables and student notes receivable. Current liabilities consist primarily of accounts payable and accrued liabilities, securities lending obligations, deferred revenues, commercial paper notes and the current portion of bonds payable. The System's current ratio (current assets to current liabilities) of 1.2 times reflects adequate liquidity and sufficient short-term ability to meet its upcoming obligations.

Noncurrent Investments

Noncurrent investments include permanent endowments, funds functioning as endowments, life income funds and other investments. These assets experienced a \$1.4 billion increase in 2003 due to increases in fair value of investments, increased investment income and gifts received to establish new endowment funds.

Capital Assets and Related Debt Activities

The development and renewal of its capital assets is one of the critical factors in continuing the System's high quality academic, medical and research programs, as well as meeting the demands for student housing. The System continues to implement its \$4.6 billion capital improvement program, planned for fiscal years 2004 through 2009, to upgrade its facilities and address fire and life safety needs. The capital improvement program is balanced between new construction to address space deficiencies and planned growth in patient care and student enrollment. Capital additions totaled approximately \$1.4 billion in 2003, including construction in progress that was completed during the year. These capital additions were comprised of replacement, renovation, and new construction of academic, research and health care facilities, as well as significant investments in equipment.

Bonds payable relating to financing of current and prior years' construction needs totaled approximately \$2.3 billion and \$1.8 billion at August 31, 2003 and 2002, respectively. All long-term bonds continue to reflect the highest uninsured "Aaa" and "AAA" credit ratings from the three major bond-rating agencies.

Net Assets

Net assets represent the residual interest in the System's assets, after liabilities are deducted. The following table summarizes the composition of net assets at August 31, 2003 and 2002:

(\$ in millions)	2003	Restated 2002
Net Assets:		
Invested in Capital Assets,		
Net of Related Debt	\$ 3,310.7	3,031.6
Restricted:		
Nonexpendable	11,150.0	10,044.0
Expendable	1,420.1	1,423.5
Unrestricted	2,738.2	2,575.8
Total Net Assets	\$ 18,619.0	17,074.9

Net assets invested in capital assets, net of related debt, represents the System's capital assets net of accumulated depreciation and outstanding debt obligations attributable to the acquisition, construction or improvement of those assets. The \$279.1 million increase in capital assets, net of related debt, since August 31, 2002, resulted from the additions to capital assets during 2003.

Restricted nonexpendable net assets primarily include the System's permanent endowment funds and are subject to externally imposed restrictions governing their use. These net assets increased \$1.1 billion to \$11.1 billion in 2003, resulting from increases in the fair value of investments, increases in investment

income and new gifts. Restricted expendable net assets include \$209.9 million of funds functioning as endowments, which was an increase of \$8.8 million from 2002.

Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the System's unrestricted net assets have been committed for various future operating budgets related to academic, patient, and research programs and initiatives, as well as capital projects. In addition, unrestricted net assets include Permanent Health Fund Endowments of \$745 million established in 1999 from tobacco-related litigation funds received from the State Legislature. The corpus of these funds is restricted by statute to remain intact and the earnings from the funds are required to be utilized for public health activities such as medical research, health education and treatment programs. Unrestricted net assets also include funds functioning as endowments of \$74.5 million.

The Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the System's results of operations. The following table summarizes the System's revenues, expenses and changes in net assets for the years ending August 31, 2003 and 2002:

(\$ in millions)	2003	Restated 2002
Operating Revenues:		
Net Student Tuition and Fees	\$ 593.0	510.2
Sponsored Programs	1,778.1	1,651.8
Net Patient Care Revenues	2,325.1	2,123.6
Net Auxiliary Enterprises	243.6	222.9
Other	264.6	276.9
Total Operating Revenues	<u>5,204.4</u>	<u>4,785.4</u>
Total Operating Expenses	<u>(7,187.7)</u>	<u>(6,789.1)</u>
Operating Loss	<u>(1,983.3)</u>	<u>(2,003.7)</u>
Nonoperating Revenues (Expenses):		
State Appropriations	1,592.8	1,622.5
Gift Contributions	193.9	224.7
Net Investment Income (Loss)	354.9	(16.2)
Net Increase (Decrease) in Fair Value of Investments	1,243.4	(479.8)
Interest Expense	(89.7)	(92.3)
Net Other Nonoperating Revenues	6.0	15.2
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	<u>1,318.0</u>	<u>(729.6)</u>
Capital Gift Contributions and Additions to Permanent Endowments	292.9	163.0
Extraordinary Items	36.5	(13.6)
Transfers From (To) Other State Entities	(103.3)	(98.1)
Change in Net Assets	<u>1,544.1</u>	<u>(678.3)</u>
Net Assets, Beginning of the Year	17,119.6	21,397.0
Restatements	(44.7)	(3,643.8)
Restated Net Assets, Beginning of the Year	<u>17,074.9</u>	<u>17,753.2</u>
Net Assets, End of the Year	<u>\$ 18,619.0</u>	<u>17,074.9</u>

Operating Revenues

Student tuition and fees, a primary source of funding for the System's academic programs, are reflected net of associated discounts and allowances. Net student tuition and fees increased \$82.8 million, or 16.2%, as a result of tuition and fee increases and a 6.2% increase in student semester credit hours at the academic institutions from approximately 3.7 million in 2002 to 3.9 million in 2003. Enrollment at the health institutions increased 3%. In addition to the state's strong demographics, a weak labor market contributed to student retention and caused individuals to return to education for retraining. Recruitment efforts also continue to contribute to enrollment growth at many academic institutions in response to the state's Uniform Recruitment and Retention Act and the "Closing the Gaps" initiative by the Texas Higher Education Coordinating Board.

Sponsored program revenues are primarily from governmental and private sources and are related to research programs that normally provide for the recovery of direct and indirect costs. Other sponsored programs include student financial aid and contracts with affiliated hospitals for clinical activities. These revenues increased \$126.3 million in 2003 due largely to higher participation by the academic institutions in the TEXAS Grant Program, a state-based financial aid program, and increases in the Pell Grant Program, a federal program. In addition, several of the health institutions favorably renegotiated their facilities and administrative cost recoveries (indirect cost recoveries) rate with the federal government. As a result of these higher rates, the institutions realized additional sponsored program revenues.

Patient care revenues are principally generated within the System's hospitals and physicians' practice plans under contractual arrangements with governmental payors and private insurers. Net patient care revenues increased \$201.5 million in 2003, as a result of an increase in patient volumes and higher rates. Auxiliary enterprise revenues were earned from a host of activities such as athletics, housing and food service, bookstores, parking and traffic, student health and other activities.

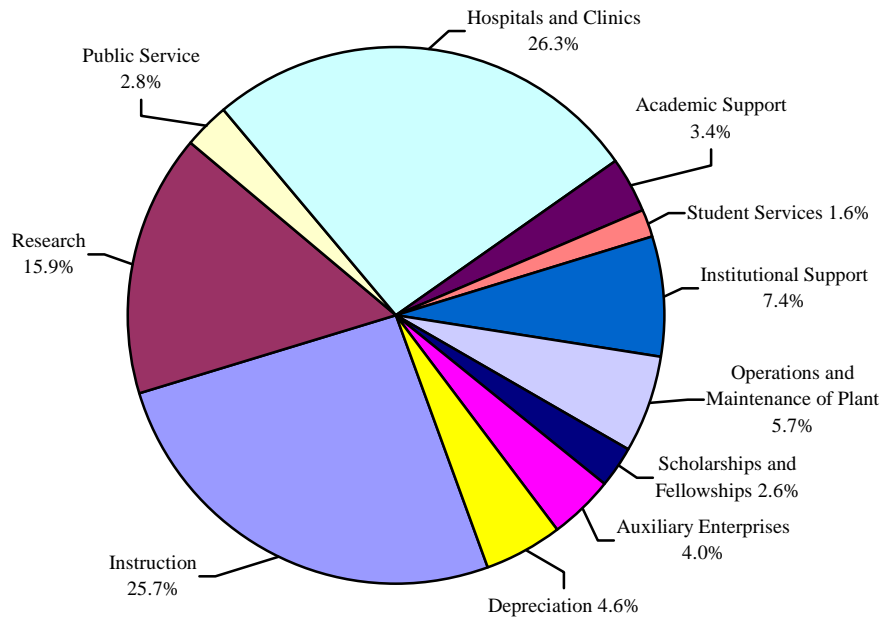
Operating Expenses

The following data summarizes the composition of operating expenses by programmatic function for the years ending August 31, 2003 and 2002:

(\$ in millions)	2003	Restated 2002
Functional Classification of Operating Expenses:		
Instruction	\$ 1,848.4	1,725.6
Research	1,141.1	1,069.7
Public Service	199.3	186.9
Hospitals and Clinics	1,894.8	1,784.6
Academic Support	247.2	254.5
Student Services	113.4	103.9
Institutional Support	529.7	575.7
Operations and Maintenance of Plant	407.3	377.1
Scholarships and Fellowships	184.0	141.3
Auxiliary Enterprises	289.2	267.0
Depreciation and Amortization	333.4	302.8
Total Operating Expenses	\$ 7,187.8	6,789.1

The following is a graphic illustration of operating expenses by their functional classification for the year ending August 31, 2003.

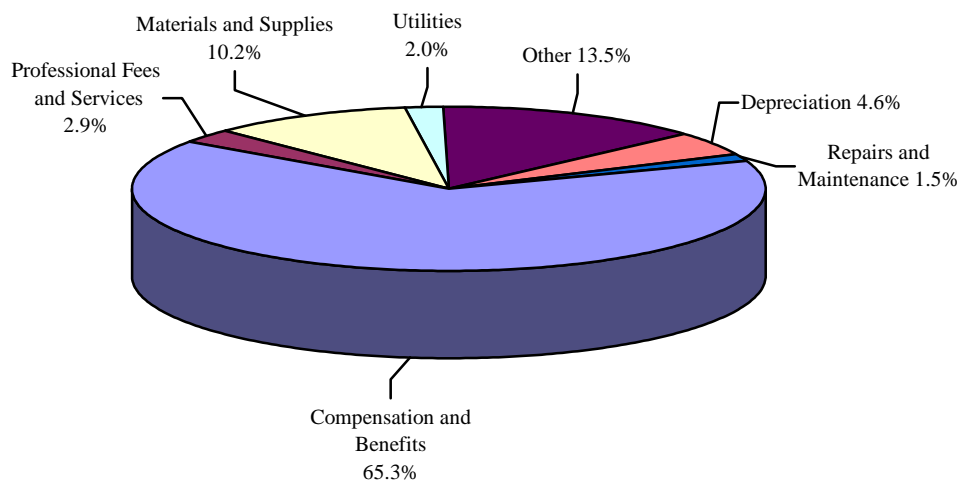
Functional Classification of Operating Expenses (\$7,187.8 million)



The above functional presentation of operating expenses reflects the System’s commitments in promoting instruction, research, patient care, public service and student support. Total operating expenses increased \$398.7 million in 2003 in response to growing student enrollment, research, and patient care activities. The System’s full-time equivalent employees increased 1.8% from 65,689 in 2002 to 66,845 in 2003. Employee related costs increased due to salary increases and higher medical insurance premium costs.

In addition to programmatic (functional) classification of operating expenses, the following graph also illustrates the System’s operating expenses by natural classification for the year ending August 31, 2003.

Natural Classification of Operating Expenses (\$7,187.8 million)



Nonoperating Revenues and Expenses

Significant recurring revenues are considered nonoperating, as required by GASB Statement No. 35. State appropriations decreased \$29.7 million primarily due to reductions in general revenue mandated by the State Legislature. Gift contributions for operations of \$193.9 million, a decrease of \$30.8 million, were received from private sources and used to further research and support student education. Net investment income, including realized gains and losses, increased from (\$16.2) million in 2002 to \$354.9 million in 2003. After the market low on March 11, 2003, investment returns improved due to the improving financial market. Interest expense on capital asset financings was relatively stable at \$89.7 million in 2003.

Income (Loss) Before Other Revenues, Expenses, Gains or Losses

Income (Loss) Before Other Revenues, Expenses, Gains or Losses, is the sum of the Operating Loss plus Nonoperating Revenues (Expenses). It is an indication of recurring revenues and expenses for the System and does not take into account capital and endowment related additions, extraordinary items and transfers. The Income Before Other Revenues, Expenses, Gains or Losses totaled \$1.3 billion in 2003, an increase of \$2 billion over 2002 levels. This gain is a result of marking investments to their fair values. The System measures its operating results by considering operating activities, including certain significant recurring nonoperating revenues and expenses. The following table summarizes the System's view of its operating results for 2003 and 2002:

(\$ in millions)	2003	Restated 2002
Operating Results:		
Operating Loss	\$ (1,983.3)	(2,003.7)
State Appropriations	1,592.8	1,622.5
Gift Contributions for Operations	193.9	224.7
Net Investment Income (Loss)	354.9	(16.2)
Interest Expense on Debt Financings	(89.7)	(92.3)
Net Operating Results	\$ 68.6	(265.0)

Capital Gift Contributions and Additions to Permanent Endowments

Capital gifts and additions to permanent endowments totaled \$292.9 million for the period ended August 31, 2003, an increase of \$129.9 million over 2002, and resulted primarily from capital campaign efforts to address facilities expansion and renovation and the establishment of endowments for instruction, research and patient care activities. The institutions with large, multi-year fund-raising campaigns underway include: U. T. Austin with \$1.4 billion, U. T. Southwestern Medical Center at Dallas with \$450 million and U. T. Health Science Center at Houston with \$200 million.

Extraordinary Items

Extraordinary items result from unusual and infrequent events. Net extraordinary revenues totaling \$36.5 million were realized during fiscal year 2003 as a result of the Health Science Center at Houston's continued reimbursement of costs associated with debris removal, emergency protective measures and replacement supplies relating to property and equipment damage sustained during Tropical Storm Allison in June 2001. Since Allison, receipts have been realized from commercial insurance coverage and from the Federal Emergency Management Agency (FEMA). Additional insurance and FEMA proceeds are anticipated; however, the amount and timing of such receipts cannot reasonably be predicted due to on-going settlement negotiations and numerous variables that preclude estimation.

Transfers and Other

Transfers to and from other state agencies include \$121 million in Available University Funds distributed to Texas A&M University System for their annual one-third participation in the Permanent University

Fund endowment. Additionally, \$17.9 million was received from the state for new legislative initiatives promoting advancements in research and academic excellence.

Change in Net Assets

The change in net assets results from all revenues, expenses, gains, losses, gifts and transfers that occurred during the accounting period. It is an overall indication of the improvement or decline of the System's financial health that relates to the change in net asset information between the prior and current year's balance sheet. Net assets increased \$1.5 billion for the year ending August 31, 2003, primarily due to net investment income and net increases in the fair value of investments totaling \$1.6 billion.

The Statement of Cash Flows

The Statement of Cash Flows provides additional information about the System's financial results by reporting the major sources and uses of cash. The statement provides an assessment of the System's financial flexibility and liquidity to meet obligations as they come due and the need for external financing. The following table summarizes cash flows for the years ending August 31, 2003 and 2002:

(\$ in millions)	2003	Restated 2002
Cash Flows:		
Cash received from operations	\$ 5,510.2	4,836.7
Cash expended for operations	(6,913.0)	(6,479.2)
Net cash used in operating activities	(1,402.8)	(1,642.5)
Net cash provided by noncapital financing activities	1,734.6	1,840.7
Net cash used in capital and related financing activities	(560.0)	(348.8)
Net cash provided by investing activities	727.2	561.5
Net increase in cash and cash equivalents	499.0	410.9
Cash and cash equivalents, beginning of the year	1,571.9	1,161.2
Restatements to beginning cash and cash equivalents		0.1
Cash and cash equivalents, end of the year	\$ 2,070.9	1,572.2

Net cash used in operating activities should be viewed in conjunction with net cash provided by noncapital financing activities. State appropriations and gift contributions for operations are significant sources of recurring revenues in support of operating expenses, but are required to be classified as noncapital financing activities under GASB Statement No. 35. Therefore, when considering cash flows related to operating activities, it is important to consider these noncapital financing activities which support operating expenses. Net cash flow provided by these two activities amounted to \$331.8 million. Net cash used in capital and related financing activities totaled \$560 million and reflected the System's commitments to expand and renovate facilities and make significant investments in equipment. Net cash provided by investing activities of \$727.2 million reflected receipts from sales and maturities of investments compared to purchases of investments. The unrealized gains from the increase in fair value of investments is considered a noncash transaction for valuation purposes only, and does not affect cash flows from investing activities. The System's cash and cash equivalents increased \$499 million during 2003 due to positive flow of funds provided by noncapital financing and investing activities.

Economic Outlook

In January 2003 state agencies and institutions of higher education were instructed to prepare budgets for the 2004-2005 biennium that would incorporate 12.5% cuts in funding from 2002-2003 levels. While the final general revenue appropriation reductions were much less severe than anticipated, the System has implemented and will continue to implement cost-cutting measures while preserving the ability to deliver mission-critical activities.

Although state appropriations were reduced, the State Legislature delegated to governing boards the authority to set tuition. This allowed university presidents, in broad consultation with their campuses, to recommend flexible rates of tuition to the Board of Regents as a means to achieve many strategic goals. The goals that will be significantly enhanced by this legislation include assuring quality of instruction, recruiting and retaining high-quality faculty, reducing student/faculty ratios, improving graduation rates, making better use of facilities, improving academic programs, ensuring financial assistance to those in need, and attracting additional research funding. The System undertook an unprecedented effort to involve students, faculty, and many other constituencies in the development of recommendations for new tuition rates. Additionally, the Chancellor appointed a Commission on Tuition to review the tuition setting plans of each institution and to advise the Chancellor on recommendations that were made to the Board of Regents in November 2003.

On November 18, 2003, the Board of Regents approved proposals from the institutions for tuition increases in the spring semester 2004 and in the next academic year, which begins in fall 2004. The approval for fall 2004 will become effective January 23, 2004 allowing time to receive final input from the general public, legislators and other policymakers. For the spring, the increases at seven of the nine academic institutions range from four percent to fifteen percent compared to rates for the fall of 2003 (for resident undergraduates taking twelve semester credit hours). Two of the institutions did not request increases for the spring. For the fall of 2004, the increases range from eight percent to twenty nine percent, again compared to rates for the fall of 2003. None of the six health institutions requested increases for the spring semester. For the fall 2004, increases for the health institutions will be no greater than the authorized amounts prior to the passage of the tuition deregulation bill. The Board of Regents approved plans that include setting aside at least twenty percent of new tuition revenues for financial aid programs as well as a variety of ways that students can take advantage of special discounts in tuition rates. The System institutions remain some of the best values in higher education in the nation, even with the new tuition proposals. *U.S. News & World Report* and the *Kiplinger* newsletter have cited U. T. Austin as a "best value" based on its relatively low cost and the quality of its programs. U. T. Austin tuition currently ranks slightly above the University of North Carolina at Chapel Hill, but well below all of its other peer institutions across the country. The other U. T. institutions tuition rates are consistently below most of their peer institutions.

The 78th Texas Legislature also passed a bill allowing general academic universities to retain 100 percent of the indirect cost reimbursements on research grants. In the past, Texas law permitted 50 percent of an academic university's indirect cost reimbursements to be deducted from the institution's state general revenue appropriations, while health institutions were allowed to retain 100 percent of indirect cost reimbursements. These indirect cost reimbursements can be reinvested in the research enterprise to further the System's research efforts beginning in 2004.

On September 30, 2003, the National Institute of Allergy and Infectious Diseases (NIAID) announced that the U. T. Medical Branch at Galveston was awarded the National Biocontainment Laboratory (NBL) contract. The NBL is a \$180 million project to construct a national biosafety level 4 laboratory. This research facility will become a key component of the nation's biodefense effort. UTMB Galveston's NBL is one of two NBLs and nine Regional Biocontainment Laboratories (RBLs) funded by NIAID. The work performed at this site will focus on developing therapies, vaccines and diagnostic tests for microbes that might be used by bioterrorists, as well as naturally occurring emerging infectious diseases such as SARS and the West Nile virus. UTMB Galveston will own and operate the NBL, while NIAID will

oversee the projects conducted at the NBL. This is just one example of a noteworthy accomplishment of one of the System's institutions.

Private gift contributions are an important supplement to the System's support from the state, revenues from students and patients. Private support has been a significant factor in the growth of academic, research, and patient care units. Economic pressures affecting donors may also affect the future level of support afforded the System from corporate and individual giving.

The System will continue to employ its long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate the System's operations from temporary market volatility.

The System is well positioned to maintain its solid financial foundation and continue its service to students, patients, the research community, citizens of Texas and the nation. Future successes are largely dependent upon cost containment; the ability to recruit and retain the highest quality students, faculty and staff; the capacity to create and sustain physical environments conducive to learning; and ongoing financial and political support from the State Legislature, as well as from the public and private sectors.

UNAUDITED

THE UNIVERSITY OF TEXAS SYSTEM
EXHIBIT A - COMBINED BALANCE SHEET
As of August 31, 2003

	Current Year Totals		Restated Prior Year Totals	
	Primary University	Component Unit	Primary University	Component Unit
ASSETS				
Current Assets:				
Cash & Cash Equivalents (Notes 1 & 2)	\$ 1,776,663,690	12,729,569	1,349,764,608	14,155,339
Restricted Cash & Cash Equivalents (Notes 1 & 2)	294,006,781	28,850	222,398,602	93,355
Balance in State Appropriations	48,902,446		83,526,788	
Securities Lending Collateral (Notes 1 & 2)	247,392,402		202,552,782	
Accounts Receivable, Net:				
Federal Receivables (net of allowances of \$0)	147,657,832		136,012,347	
Other Intergovernmental Rec. (net of allowances of \$46,044)	17,239,891		16,460,434	
Student Receivables (net of allowances of \$6,634,822)	147,752,919		132,316,654	
Patient Receivables (net of allowances of \$557,360,431)	364,438,082	1,109,494	405,032,713	884,501
Interest and Dividends	115,758,734	1,601	104,186,545	13,041
Contributions Receivable (net of allowances of \$2,631,086)	45,969,939	1,607,220	61,332,752	442,664
Other Receivables (net of allowances of \$16,137,262)	307,947,984	624,692	348,043,816	5,088,537
Due From Other Funds	116,017,133		107,878,453	
Due From Other Agencies	3,615,300		6,559,270	
Inventories	39,924,923		41,794,631	
Loans and Contracts (net of allowances of \$2,355,490)	42,114,283		39,821,827	
Other Current Assets	111,104,777	337,221	98,880,100	190,795
Total Current Assets	<u>3,826,507,116</u>	<u>16,438,647</u>	<u>3,356,562,322</u>	<u>20,868,232</u>
Non-Current Assets:				
Restricted:				
Cash & Cash Equivalents (Notes 1 & 2)	187,437		81,198	
Investments (Note 2)	12,556,872,579	36,203,864	11,465,923,591	31,136,647
Loans, Contracts and Other (net of allowances of \$12,039,175)	75,969,284		80,191,536	
Funds Held by Sealy & Smith Foundation	51,364,721		51,477,517	
Contributions Receivable (net of allowances of \$3,196,350)	103,133,849		130,962,310	
Investments (Note 2)	2,250,203,446		1,956,236,384	
Other Non-Current Assets	15,498,004	408,203	10,387,530	330,150
Capital Assets (Note 4)	9,014,688,009	25,909,333	8,040,025,934	22,448,944
Less Accumulated Depreciation	(3,331,876,171)	(7,511,523)	(3,074,476,731)	(6,011,454)
Total Non-Current Assets	<u>20,736,041,158</u>	<u>55,009,877</u>	<u>18,660,809,269</u>	<u>47,904,287</u>
TOTAL ASSETS	\$ 24,562,548,274	71,448,524	22,017,371,591	68,772,519
LIABILITIES				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	\$ 709,298,890	885,600	486,889,334	5,384,386
Federal Payables	57,974,188		22,886,813	
Other Intergovernmental Payables	399,381		597,621	
Self-Insurance Claims IBNR (Note 5)	151,741,949		161,813,541	
Securities Lending Obligations (Note 2)	247,392,402		202,552,782	
Due to Other Funds	116,017,133		107,878,453	
Due to Other Agencies	6,576,593		7,616,276	
Deferred Revenue	609,000,738	2,777	557,441,583	2,872
Employees' Compensable Leave-Curr Portion (Note 10)	24,583,704	146,570	22,147,062	127,947
Notes, Loans & Leases Payable-Curr Portion (Notes 8, 9 & 10)	521,069,868	434,311	499,052,453	25,231
Payable From Restricted Assets-Current Portion	568,987,534		539,746,906	
Revenue Bonds Payable-Current Portion (Notes 7 & 10)	97,835,000		81,000,000	
HEAF Bonds Payable-Current Portion (Notes 7 & 10)	2,995,000		2,860,000	
Funds Held for Others	11,880,806		20,504,956	
Other Current Liabilities	75,259,957	1,209	26,823,462	11,593
Total Current Liabilities	<u>3,201,013,143</u>	<u>1,470,467</u>	<u>2,739,811,242</u>	<u>5,552,029</u>
Non-Current Liabilities:				
Employees' Compensable Leave (Note 10)	235,809,492	115,163	207,846,907	100,378
Assets Held for Others	312,884,185		282,523,909	
Notes, Loans and Leases Payable (Notes 8, 9 & 10)	28,179,175	1,809,016	24,539,016	1,860
Revenue Bonds Payable (Notes 7 & 10)	2,161,495,000		1,680,600,000	
HEAF Bonds Payable (Notes 7 & 10)	3,140,000		6,135,000	
Other Non-Current Liabilities	1,019,664	179,767	990,317	152,760
Total Non-Current Liabilities	<u>2,742,527,516</u>	<u>2,103,946</u>	<u>2,202,635,149</u>	<u>254,998</u>
TOTAL LIABILITIES	5,943,540,659	3,574,413	4,942,446,391	5,807,027
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	3,310,704,646	16,154,483	3,031,590,225	16,410,399
Restricted for:				
Nonexpendable				
Permanent University Fund Endowment (Note 3)	8,231,079,481		7,539,176,009	
True and Term Endowments, and Annuities (Note 3)	2,918,916,510		2,504,872,491	
Expendable				
Capital Projects	125,522,374	219,864	142,368,184	507,546
Debt Service	6,102,912		4,459,204	
Funds Functioning as Endowment - Restricted	209,874,182		201,070,279	
Other Expendable	1,078,633,275	34,892,353	1,075,590,441	30,499,838
Unrestricted (Note 11)	2,738,174,235	16,607,411	2,575,798,367	15,547,709
TOTAL NET ASSETS	18,619,007,615	67,874,111	17,074,925,200	62,965,492
TOTAL LIABILITIES AND NET ASSETS	\$ 24,562,548,274	71,448,524	22,017,371,591	68,772,519

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

UNAUDITED

THE UNIVERSITY OF TEXAS SYSTEM
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended August 31, 2003

	Current Year Totals		Restated Prior Year Totals	
	Primary University	Component Units	Primary University	Component Units
Operating Revenues:				
Student Tuition and Fees	\$ 727,399,126		626,507,146	
Discounts and Allowances	(134,388,596)		(116,291,135)	
Federal Sponsored Programs	1,098,371,277		989,611,259	
Federal Sponsored Programs Pass-Through from Other St. Agencies	35,690,229		26,516,878	
State Sponsored Programs	73,012,286	18,491,917	72,785,658	28,173,812
State Sponsored Programs Pass-Through from Other St. Agencies	85,731,336		97,582,551	
Local Sponsored Programs	232,403,500		210,426,499	
Private Sponsored Programs	252,901,878	1,124,533	254,871,102	865,885
Sales and Services of Educational Activities	172,228,325		164,067,597	
Discounts and Allowances	(331,248)		(366,475)	
Sales and Services of Hospitals	3,288,944,886	28,461,130	2,767,166,147	26,734,799
Discounts and Allowances (none)	(1,619,564,801)	(18,325,184)	(1,231,258,672)	(17,407,339)
Professional Fees	2,065,141,170		1,867,560,773	
Discounts and Allowances (none)	(1,409,416,474)		(1,279,871,889)	
Auxiliary Enterprises	249,770,053		228,672,112	
Discounts and Allowances	(6,183,426)		(5,779,567)	
Other Operating Revenues	92,708,334	739,706	113,190,412	485,162
Total Operating Revenues	<u>5,204,417,855</u>	<u>30,492,102</u>	<u>4,785,390,396</u>	<u>38,852,319</u>
Operating Expenses: (Note 12 for Natural Classification of Expenses)				
Instruction	1,848,432,811		1,725,627,756	
Research	1,141,080,742		1,069,663,150	
Public Service	199,278,287		186,926,545	
Hospitals and Clinics	1,894,748,085	28,641,447	1,784,560,412	37,017,029
Academic Support	247,225,954		254,505,084	
Student Services	113,441,627		103,881,944	
Institutional Support	529,726,646		575,742,214	
Operations and Maintenance of Plant	407,257,477	261,922	377,096,915	241,997
Scholarships and Fellowships	184,003,072		141,258,722	
Auxiliary Enterprises	289,146,928		267,036,321	
Depreciation and Amortization	333,414,734	2,381,096	302,753,906	2,490,883
Total Operating Expenses	<u>7,187,756,363</u>	<u>31,284,465</u>	<u>6,789,052,969</u>	<u>39,749,909</u>
Operating Loss	<u>(1,983,338,508)</u>	<u>(792,363)</u>	<u>(2,003,662,573)</u>	<u>(897,590)</u>
Nonoperating Revenues (Expenses):				
State Appropriations	1,585,646,151		1,615,398,320	
HEAF Appropriations	7,131,692		7,131,692	
Gift Contributions for Operations	193,936,439		224,658,788	920,678
Net Investment Income	354,884,884	162,284	(16,237,524)	211,704
Net Increase (Decrease) in Fair Value of Investments	1,243,364,408	4,286,587	(479,795,049)	(4,231,136)
Interest Expense on Capital Asset Financings	(89,697,527)	(14,037)	(92,302,748)	(3,137)
Gain/(Loss) on Sale of Capital Assets	(18,407,295)	77,875	(14,567,913)	
Other Nonoperating Revenues	95,680,827	47,936	86,485,749	101,390
Other Nonoperating Expenses	(71,234,490)	(19,565)	(56,689,044)	
Net Nonoperating Revenues (Expenses)	<u>3,301,305,089</u>	<u>4,541,080</u>	<u>1,274,082,271</u>	<u>(3,000,501)</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	1,317,966,581	3,748,717	(729,580,302)	(3,898,091)
Gifts and Sponsored Programs for Capital Acquisitions	70,916,346	1,159,902	75,304,625	2,500,000
Additions to Permanent Endowments	221,972,663		87,678,590	
Extraordinary Items (Note 18)	36,512,522		(13,634,457)	
Transfers to/from Other State Agencies	(103,144,423)		(98,095,514)	
Legislative Appropriations Lapsed	(141,274)			
Change in Net Assets	<u>1,544,082,415</u>	<u>4,908,619</u>	<u>(678,327,058)</u>	<u>(1,398,091)</u>
Beginning Net Assets - As Previously Reported	17,119,586,112	32,598,503	21,397,004,622	29,346,466
Restatements (Note 13)	(44,660,912)	30,366,989	(3,643,752,364)	35,017,117
Beginning Net Assets - As Restated	<u>17,074,925,200</u>	<u>62,965,492</u>	<u>17,753,252,258</u>	<u>64,363,583</u>
Ending Net Assets	<u>\$ 18,619,007,615</u>	<u>67,874,111</u>	<u>17,074,925,200</u>	<u>62,965,492</u>

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

UNAUDITED

THE UNIVERSITY OF TEXAS SYSTEM
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2003

	Current Year Totals		Restated Prior Year Totals	
	Primary University	Component Units	Primary University	Component Units
Cash Flows from Operating Activities:				
Proceeds Received from Students	\$ 612,946,628		555,950,548	
Proceeds Received from Patients and Customers	2,384,402,478	36,142,371	2,081,944,823	34,608,537
Proceeds for Sponsored Programs	1,810,195,710		1,636,291,682	
Auxiliary Enterprise Charges	247,288,692		214,881,445	
Proceeds from Other Revenues	375,949,541	789,698	278,092,391	1,053,443
Payments to Suppliers	(2,163,220,066)	(29,640,706)	(2,067,480,748)	(28,935,157)
Payments to Employees	(4,656,949,314)	(5,663,210)	(4,314,854,935)	(5,289,864)
Loans Issued to Students	(81,138,650)		(73,710,823)	
Collections of Loans to Students	79,397,781		69,554,788	
Payments for Other Expenses	(11,676,611)		(23,194,091)	
Net Cash Provided (Used) by Operating Activities	<u>(1,402,803,811)</u>	<u>1,628,153</u>	<u>(1,642,524,920)</u>	<u>1,436,959</u>
Cash Flows from Noncapital Financing Activities:				
Proceeds from State Appropriations	1,627,260,911		1,607,574,616	
Operating Gifts	229,062,919		224,521,186	1,241,105
Private Gifts for Endowment and Annuity Life Purposes	172,465,762		87,241,939	
Other Nonoperating Revenues	108,318,675	47,936	71,625,586	99,949
Payments/Receipts for Transfers to/from Other Agencies	(337,513,743)		(56,973,208)	
Payments for Other Uses	(64,985,814)		(93,252,323)	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>1,734,608,710</u>	<u>47,936</u>	<u>1,840,737,796</u>	<u>1,341,054</u>
Cash Flows from Capital and Related Financing Activities:				
Proceeds from Issuance of Capital Debt	1,099,220,658	1,803,328	1,051,376,836	
Payments of Other Costs on Debt Issuance	(17,567,242)		(3,167,097)	
Capital Grants and Gifts	62,718,713		23,787,200	4,178,643
Proceeds from Sale of Capital Assets	340,266	220,000	562,810	
Purchase of Capital Assets	(1,070,954,389)	(4,511,449)	(746,229,799)	(1,646,802)
Principal Paid on Capital Related Debt	(545,040,439)	(27,091)	(591,424,009)	(36,531)
Interest Paid on Capital Related Debt	(88,791,892)	(14,037)	(83,674,841)	(3,137)
Net Cash Provided (Used) by Related Financing Activities	<u>(560,074,325)</u>	<u>(2,529,249)</u>	<u>(348,768,900)</u>	<u>2,492,173</u>
Cash Flows from Investing Activities:				
Proceeds from Sales and Maturities of Investments	12,724,026,697	15,380	15,576,563,723	500,000
Proceeds from Interest and Investment Income	465,094,154	84,346	186,393,440	198,663
Purchases of Investments	(12,461,895,931)	(736,841)	(15,201,432,606)	(15,380)
Net Cash Provided (Used) by Investing Activities	<u>727,224,920</u>	<u>(637,115)</u>	<u>561,524,557</u>	<u>683,283</u>
Net Increase (Decrease) in Cash	498,955,494	(1,490,275)	410,968,533	5,953,469
Cash & Cash Equivalents - Beginning of the Year	1,571,902,414	14,248,694	1,161,175,875	8,327,479
Restatements to Beginning Cash and Cash Equivalents			100,000	(32,254)
Cash & Cash Equivalents - End of the Year	<u>\$ 2,070,857,908</u>	<u>12,758,419</u>	<u>1,572,244,408</u>	<u>14,248,694</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:				
Operating Loss	\$ (1,983,338,508)	(792,363)	(2,003,662,573)	(897,590)
Adjustments to Reconcile Operating Loss to Net Cash:				
Depreciation and Amortization Expense	333,414,734	2,381,096	302,753,906	2,490,883
Loss on Asset Disposition		27,911		11,729
Bad Debt Expense	905,532			
Changes in Assets and Liabilities:				
Accounts Receivable, net	80,730,769	4,568,988	(235,282,973)	(3,264,351)
Inventory	1,869,708		(3,007,781)	
Loans and Contracts	1,032,773		(923,544)	
Other Assets	(356,383)	(14,538)	(3,611,176)	(66,087)
Accounts Payable	44,947,472	(4,577,432)	101,978,606	3,219,297
Deferred Revenue	53,791,315	(95)	196,895,497	(1,161)
Deposits Held for Others	(14,903,691)	(13,384)	(23,696,340)	3,000
Compensated Absences & Notes Payable	30,399,227	33,408	26,197,378	42,919
Other Liabilities	48,703,241	14,562	(165,920)	(101,680)
Total Adjustments	<u>580,534,697</u>	<u>2,420,516</u>	<u>361,137,653</u>	<u>2,334,549</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (1,402,803,811)</u>	<u>1,628,153</u>	<u>(1,642,524,920)</u>	<u>1,436,959</u>
Noncash Transactions				
Net Increase (Decrease) in Fair Value of Investments	1,243,364,408	4,286,587	(479,795,049)	(4,231,136)
Donated Capital Assets	8,877,516		13,352,775	
Capital Assets Acquired Under Capital Lease Purchases	638,318		85,917	
Miscellaneous Noncash Transactions	594,659	77,875	456,149	

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS
For the Year Ended August 31, 2003
(Unaudited)

GENERAL INTRODUCTION

The financial records of The University of Texas System (the System), an agency of the State of Texas, reflect compliance with applicable State statutes and Governmental Accounting Standards Board (GASB) regulations.

The significant accounting policies followed by the System in maintaining accounts and in the preparation of the combined financial statements are in accordance with the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements. As an agency of the State of Texas, the System was required to adopt GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and GASB Statement No. 35, (GASB 35), *Basic Financial Statements – Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures*. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the System's assets, liabilities and net assets, revenues, expenses and changes in net assets, and cash flows, and replaces the fund group perspective that was previously required.

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

1. Summary of Significant Accounting Policies

BASIS OF ACCOUNTING

The combined financial statements of the System have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. The System reports as a Business Type Activity, as defined by GASB 35. Business Type Activities are those that are financed in whole or in part by fees charged to external parties for goods or services. GASB 35 requires that the statements of net assets, revenues, expenses and changes in net assets, and cash flows be reported on a consolidated basis.

Revenues associated with the few class days of the fall semester occurring prior to August 31, 2003, are considered immaterial and reported as deferred revenues.

CASH AND CASH EQUIVALENTS

Short-term, highly liquid investments with maturities of three months or less at the time of purchase are generally considered cash and cash equivalents. It is the policy of the System to exclude items that meet this definition if they are part of an investment pool which has an investment horizon of one year or greater. Therefore, highly liquid investments that are part of the Short/Intermediate Term Fund and the Long Term Fund are not considered cash and cash equivalents. Cash held in the State treasury for the Permanent University Fund (PUF), the Permanent Health Fund (PHF) and the Available University Fund (AUF) are considered cash and cash equivalents. Other highly liquid investments of these major funds invested with custodians are not considered cash and cash equivalents according to the investment policies of the System.

SECURITIES LENDING COLLATERAL

The collateral secured for securities lent are reported as an asset on the balance sheet. The costs of securities lending transactions are reported as expenses in the Statement of Revenues, Expenses and Changes in Net Assets. See Note 2 for details regarding the securities lending program.

ACCOUNTS RECEIVABLE – OTHER

This line item consists primarily of trade receivables for investments sold reported by System Administration. Additionally, for component institutions within the System, this line item consist of receivables from private sponsored programs and receivables from private health care entities.

RESTRICTED ASSETS

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

CAPITAL ASSETS

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The System follows the State's capitalization policy generally with a cost equal to or greater than \$1,000 or \$5,000 for equipment items, \$100,000 for buildings, building improvements and improvements other than buildings, and \$500,000 for infrastructure items, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements that increase the value by at least twenty-five percent or extend the useful life by at least twenty-five percent of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Outlays for construction in progress are capitalized as incurred. Interest expense related to construction is capitalized net of interest income earned on the resources reserved for this purpose.

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

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

NET ASSETS

GASB 35 also establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following four net asset categories:

Invested in Capital Assets, Net of Related Debt

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

Restricted-Nonexpendable

Net assets subject to externally imposed stipulations that they be maintained permanently by the System. Such assets include the System's permanent endowment funds.

Restricted-Expendable

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

Unrestricted

Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for special purposes by action of management or the U. T. System Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital programs (See Note 11 for details on Unrestricted Net Assets).

OPERATING AND NONOPERATING REVENUES

Operating revenues include activities such as student tuition and fees, net of scholarship allowances; sales and services of auxiliary enterprises; most Federal, State and Local grants and contracts and Federal appropriations; and interest on student loans. As defined by GASB Statement No. 34, all operating revenues are considered program revenues since they are charges for services provided and program-specific operating grants and contributions.

Nonoperating revenues include activities such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as State appropriations and investment income. As defined by GASB Statement No. 34, nonoperating revenues are comprised of general revenues and program-specific capital grants and contributions.

SCHOLARSHIP ALLOWANCES AND STUDENT AID

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid (student loans, funds provided to students as awarded by third parties and Federal Direct Lending) is accounted for as third party payments (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expense or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the

portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on an entity-wide basis by allocating cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

STATEWIDE INTERFUND TRANSFERS

In accordance with provisions set forth in Article 7, Section 18 of the Texas Constitution, the System transfers one-third of the annual earnings of the Permanent University Fund (PUF) investments and lands to the Texas A&M University System. Additional details related to the operations of the PUF can be found in note three.

In accordance with the provisions set forth in House Bill 1839, Subchapter D and appropriated in SB 1, 77th Legislature, Regular Session, Article IX, Section 10.18, the System received transfers for research and excellence funding from the Texas Comptroller of Public Accounts.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with current year presentations.

2. Deposits, Investments and Repurchase Agreements

DEPOSITS OF CASH IN BANK

The carrying amount of \$(71,311,521) Cash in Bank (including restricted assets) is presented below.

The bank balance of the System has been classified according to the following risk categories.

- Category 1:** Insured or collateralized with securities held by the governmental entity or by its agent in the name of the governmental entity
- Category 2:** Collateralized with securities held by the pledging financial institution’s trust department or agent in the governmental entity’s name
- Category 3:** Uncollateralized (which would include any deposits collateralized with securities held by the pledging financial institutions or by its trust department or agent but not in the governmental entity’s name)

Deposits for the Reporting Entity are:

	Carrying Amount	Bank Balance	Category		
			1	2	3
Primary University Discretely Presented	\$ (78,915,238)	48,912,593	48,912,593	-	-
Component Units	7,603,717	2,484,848	2,113,836	-	371,012
Reporting Entity	\$ (71,311,521)	51,397,441	51,026,429	-	371,012

Deposits of Cash in Bank	Primary University	Component Units	Reporting Entity
Cash in Bank			
Demand Deposits	\$ (82,487,616)	7,603,717	(74,883,899)
Time Deposits	3,572,378	-	3,572,378
Total Deposits Carrying Amounts	\$ (78,915,238)	7,603,717	(71,311,521)

AUTHORIZED INVESTMENTS

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

INVESTMENTS

Investments include State and Other-than-State permanent endowments, funds functioning as endowments, life income funds and other investments. Permanent endowments are those funds received from the State or from donors with the stipulation that the corpus remain intact and invested in perpetuity to produce income which is to be expended for specified purposes. Funds functioning as endowments consist of amounts (restricted gifts or unrestricted funds) that have been internally dedicated by the System for long-term investment purposes. Programs supported by the endowments include scholarships, fellowships, professorships, research efforts and other important programmatic activities.

Investments of the System, except for PUF lands, are managed by the University of Texas Investment Management Company (UTIMCO), a private investment corporation that provides services entirely to the System. The System's investments are valued at fair value. The audited annual financial reports of the funds managed by UTIMCO disclose the valuation of these assets. The PUF lands' mineral interests are valued in accordance with Financial Accounting Standards Board Statement No. 69 – *Disclosures about Oil and Gas Producing Activities*, by calculating the future net cash flows and applying a ten percent discount rate per year. The PUF lands' surface interests are reported at their appraised value as of January 1, 2003. Other real estate holdings are reported by one of the following methods of valuation: the latest available appraised amount as determined by an independent state certified or other licensed appraiser, or by any other generally accepted industry standard, including tax assessments.

To comply with the reporting requirements of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, the System's investments are categorized in the tabulation titled "Investment Categories" to give an indication of credit risk assumed by the System at fiscal year-end.

Credit risk is the risk that another party to a deposit or investment transaction will not fulfill its obligations. This is not to be confused with market risk, which is the risk that the market value of an investment, collateral protecting a deposit or securities underlying a repurchase agreement, will decline. Market risk is not depicted in this note.

The following categories of credit risk are included:

- Category 1:** Investments that are insured or registered or for which the governmental entity or its agent in the governmental entity's name holds the securities
- Category 2:** Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the governmental entity's name
- Category 3:** Uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the governmental entity's name

Investments-Primary University

Type of Security	Category			Fair Value
	1	2	3	
U.S. Government & Agency Obligations	\$ 1,500,095,798	-	-	1,500,095,798
U.S. Government Agency Mortgage Obligations	802,726,933	-	-	802,726,933
Collateralized Mortgage Obligations	22,362,380	-	-	22,362,380
Corporate Obligations	373,774,897	-	-	373,774,897
Foreign Obligations	233,243,180	-	-	233,243,180
Political Subdivision Obligations	16,155,405	-	-	16,155,405
Commercial Paper	900,000	-	-	900,000
Corporate Stock	1,845,759,443	-	-	1,845,759,443
Foreign Stock	360,777,169	-	-	360,777,169
TOTAL	\$ 5,155,795,205	-	-	

Uncategorized Investments:

Mutual Funds	4,826,655,939
Money Market Cash Equivalents	1,866,187,763
Mineral Interests	13,516,954
Real Estate and Mortgages	1,130,309,123
Private Placement for Venture Capital	1,205,681,762
Other Investments	2,229,838,800
Securities Lending-Short-term Collateral	247,392,402
Investments Held by Broker/Dealers Under Securities Lending Agreements:	
U.S. Government and Agency Obligations	102,989,041
U.S. Government Agency Mortgage Obligations	4
Corporate Obligations	41,876,275
Foreign Obligations	22,161,669
Corporate Stock	54,016,005
Foreign Stock	24,235,248
TOTAL INVESTMENTS & CASH EQUIVALENT INVESTMENTS	\$ 16,920,656,190

Investments consist of the following:

Non-current, Restricted Investments	\$ 12,556,872,579
Non-current Investments	2,250,203,446
Securities Lending Collateral	247,392,402
Money Market Cash Equivalents	1,866,187,763
TOTAL INVESTMENTS & CASH EQUIVALENT INVESTMENTS	\$ 16,920,656,190

Investments – Discretely Presented Component Units**Uncategorized Investments:**

	Fair Value
Other Investments	\$ 36,203,864
Money Market Cash Equivalents	5,153,952
TOTAL INVESTMENTS & CASH EQUIVALENT INVESTMENTS	41,357,816

Investments consist of the following:

Non-current, Restricted Investments	36,203,864
Money Market Cash Equivalents	5,153,952
TOTAL INVESTMENTS & CASH EQUIVALENT INVESTMENTS	\$ 41,357,816

REPURCHASE AGREEMENTS

The System, by statute, is authorized to enter into repurchase agreements. A repurchase agreement is when a holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate the buyer for this. During the year ended August 31, 2003, the System participated in Repurchase Agreements. The System earned income of \$24,859. At August 31, 2003, there were no Repurchase Agreements outstanding.

REVERSE REPURCHASE AGREEMENTS

The System, by statute, is authorized to enter into reverse repurchase agreements. A reverse repurchase agreement is a transaction in which a broker-dealer or financial institution transfers cash to the System and the System transfers securities to the broker-dealer and promises to repay the cash plus interest in exchange for the same or similar securities. Credit risk exposure for the university arises when a broker-dealer does not return the securities or their value at the conclusion of the reverse repurchase agreement. There were no significant violations of legal or contractual provisions during the year.

SECURITIES LENDING

In accordance with the prudent investor investment standards, the System participates in a securities lending program. The System began the program, under a contract with the System’s lending agent, on September 1, 1995. The lending agent is authorized to lend any securities held by the System’s custodian except those securities which the policy guidelines prohibits lending. There was a total of \$245,278,242 of securities out on loan to brokers/dealers at August 31, 2003. This consisted of \$199,764,005 domestic and \$45,519,288 international loans. These securities on loan are presented as unclassified in the preceding schedule of custodial credit risk.

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

Cash collateral received by the lending agent on behalf of the System is invested and reinvested in a non-commingled pool exclusively for the benefit of the System. The pool is managed in accordance with investment guidelines established by the System and is stated in the security lending contract. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar weighted average maturity of 60 days and an overnight liquidity of 20 percent. On August 31, 2003, the System was collateralized 103 percent for securities on loan collateralized by cash.

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

Loans that are collateralized with securities generate income when the borrower pays a “loan premium or fee” for the securities loan. This income is split with the same ratio as the earnings for cash collateral. The collateral pledged to the System by the borrower is custodied by the lending agent or through a third party arrangement. These securities held as collateral are not available to the System for selling or pledging unless the borrower is in default of the loan. On August 31, 2003, the System was collateralized 107 percent for securities on loan collateralized by securities.

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

For non-United States issuers, the collateral should remain at 105 percent of the market value of the loaned securities at the close of any business day. If it falls below 105 percent, the borrower must deliver additional collateral by the close of the following business day. On August 31, 2003, the System was collateralized 106 percent for international loans.

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

At year-end the System had no credit risk exposure to borrowers because the amounts the System owed to borrowers exceeded the amounts the borrowers owed the System.

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

DERIVATIVE INVESTING

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

(A) *Mortgage Derivatives* – Mortgage derivatives are influenced by changes in interest rates, the current economic climate, and the geographic make-up of underlying mortgage loans. There are varying degrees of risk associated with mortgage derivatives. For example, certain Collateralized Mortgage Obligations (CMOs) such as Planned Amortization Class (PACs) are considered a more conservative lower risk investment. In contrast, principal only and interest only strips are considered higher risk investments. The System’s investment in CMOs at August 31, 2003, which was comprised exclusively of the lower risk investment class, was 1.3 percent of total investments with a market value of \$189,329,327.

(B) *Futures Contracts* – Futures contracts are used to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes. Futures contracts are marked to market daily; that is, they are valued at the close of business each day, and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss difference is referred to as the daily variation margin, which is settled in cash with the broker each morning for the amount of the previous day’s mark to market. The amount that is settled in cash with the broker each morning is the carrying and fair value of the futures contracts. The amount of the net realized gain on the futures contracts was \$104,554,616 for the year ended August 31, 2003. The System executes such contracts either on major exchanges or with major international financial institutions and minimizes market and credit risk associated with these contracts through the manager’s various trading and credit monitoring techniques.

The following discloses the notional, carrying and fair values of futures contracts at August 31, 2003 and their average carrying and fair values for the year ended August 31, 2003.

	Notional Value at August 31, 2003		Carrying and Fair Value at August 31, 2003		Average Carrying and Fair Value for the Year Ended August 31, 2003	
	Long	Short	Assets	Liabilities	Assets	Liabilities
Domestic Equity Futures	\$ 676,331,050	46,869,100	4,413,350	116,100	3,012,570	2,734,614
International Equity Futures	46,259,051	113,759,854	761,470	754,910	738,468	777,244
Commodity Futures	150,791,562	-	-	155,937	1,380,624	1,228,182
Domestic Fixed Income Futures	200,998,344	246,548,500	287,966	251,813	511,363	517,293
International Fixed Income Futures	240,642,828	66,169,031	605,313	253,419	593,032	559,688

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

The table below summarizes by currency the contractual amounts of the System’s foreign exchange contracts at August 31, 2003. Foreign currency amounts are translated at exchange rates as of August 31, 2003. The “Net Buy” amounts represent the U. S. dollar equivalent of net commitments to purchase foreign currencies and the “Net Sell” amounts represent the U. S. dollar equivalent of net commitments to sell foreign currencies.

Currency	Net Buy	Net Sell	Unrealized Gains on Foreign Exchange Contracts	Unrealized Losses on Foreign Exchange Contracts
Australian Dollar	\$ 41,491,330		487,443	1,579,296
Canadian Dollar	-	68,482,039	880,522	805,086
Danish Krone	3,922,862	-	4,583	218,058
Euro Currency	79,253,838	-	2,015,358	1,405,058
Hong Kong Dollar	261,499	363,291	328	72,444
Japanese Yen	194,582,326	-	3,251,767	1,752,745
Mexican New Peso	-	-	60,830	-
New Zealand Dollar	127,638	1,073,812	579,084	115,008
Norwegian Krone	-	6,127,971	4,043,795	190,688
Polish Zloty	2,209,397	-	55,215	148,195
Singapore Dollar	25,503,278	-	700,068	70,468
Swedish Krona	54,722,899	-	2,701,459	2,530,342
Swiss Franc	-	53,727,448	4,186,867	2,974,370
UK Pound	44,717,105	-	890,337	1,738,418
TOTAL	\$ 446,792,172	129,774,561	19,857,656	13,600,176

(D) *Written Options* – There were no options outstanding as of August 31, 2003.

(E) *Other* – The System has investments in index funds, included in the investment category of corporate stocks and mutual funds, which are authorized to use derivatives. The trustee of the index funds may invest a portion of the funds in stock index futures contracts for the purpose of acting as a temporary substitute for investment in common stocks. The market value of these index funds as of August 31, 2003 was \$2,514,475,187. Of this amount, index funds with a market value of \$1,650,980,316 had investments in derivative instruments as of August 31, 2003.

The System also has investments in commingled and other funds, included in the investment category of mutual funds, which are authorized to use derivatives. The market value of these funds as of August 31, 2003, was \$2,870,620,207. Of this amount, commingled funds with a market value of \$2,612,122,097 were able to invest in derivative instruments.

3. Endowments

Distributions that are reinvested in endowments become permanent additions to the principal of the endowments; therefore, there is no amount of net appreciation on investments of donor-restricted endowments available for authorization of expenditures. This provision is outlined in the endowment agreements with donors.

The System's endowments are used to support operations, which require the simultaneous achievement of two contradictory objectives of generating a predictable stream of annual revenue at a rate at least equal to the average rate of inflation for current needs and to increase the purchasing power of the funds (after annual distributions) at a rate at least equal to the average rate of inflation for future periods.

ENDOWMENTS AND SIMILAR FUNDS – STATE

These endowments are comprised of: the Permanent University Fund (PUF) and the Permanent Health Fund for Higher Education (PHF).

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

The U. T. System Board of Regents manages certain permanent funds for health-related institutions of higher education as more fully described in Chapter 63 of the Texas Higher Education Code. Certain funds created by this statute were transferred to the U. T. System Board of Regents on August 30, 1999, to be managed and invested in the same manner as the U. T. System Board of Regents manages and invests other endowment funds. The PHF as defined in the statute is classified as Endowment and Similar Funds – State. These endowments provide support for programs that benefit medical research, health education or treatment at health-related institutions. The U. T. System Board of Regents determines the amount of distributions to support the programs based on the PHF's investment policy. The investment policy provides that the annual payout will be adjusted by the average consumer price index of the prior 36 months including August 31, subject to a maximum distribution of 5.5 percent of this fund's average market value and a minimum distribution of 3.5 percent of this fund's average market value.

The University of Texas System General Endowment Fund (Fund), created March 1, 2001, is a pooled fund established for the collective investment of long-term funds under the control and management of the U. T. System Board of Regents. The Fund is organized as a mutual fund and has two participants, the PHF and The University of Texas System Long Term Fund (LTF). The PHF and LTF initially purchased units of the Fund on March 1, 2001, in exchange for the contribution of their investment assets. The Fund provides for greater diversification of investments than would be possible if each account were managed separately.

ENDOWMENT AND SIMILAR FUNDS - OTHER THAN STATE

Funds subject to restrictions of endowment and trust instruments, requiring that principal be maintained and that only the income be utilized. Funds may include Endowments, Term Endowments and Funds Functioning as Endowments.

ANNUITY AND LIFE INCOME FUNDS

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

AVAILABLE UNIVERSITY FUND

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

4. Capital Assets

A summary of changes in the capital assets for the year ended August 31, 2003, is presented below.

	Balance 09/01/02	Adjustments	Reclassifications	Additions	Deletions	Balance 08/31/03
Primary University						
Non-depreciable Assets:						
Land & Land Improvements	\$ 211,662,892	1,543,568	26,132	5,477,534	-	218,710,126
Construction in Progress	868,294,065	7,151,545	(242,299,766)	820,004,337	(277,167,469)	1,175,982,712
Other Capital Assets	605,670,905	3,300,099	(3,288)	29,576,461	(6,961,611)	631,582,566
Total Non-depreciable Assets	1,685,627,862	11,995,212	(242,276,922)	855,058,332	(284,129,080)	2,026,275,404
Depreciable Assets:						
Buildings & Building						
Improvements	4,367,116,617	6,030,424	172,730,815	282,491,975	(8,833,483)	4,819,536,348
Infrastructure	145,133,297	(4,291,877)	(2,943,217)	4,605,867	(2,745,132)	139,758,938
Facilities and Other						
Improvements	251,561,389	3,913,151	69,468,076	20,048,434	(69,419)	344,921,631
Furniture and Equipment	1,588,914,397	(62,426,227)	664,826	188,848,349	(81,550,988)	1,634,450,357
Vehicles, Boats and Aircraft	42,639,858	(29,271)	(348,778)	3,229,400	(3,217,891)	42,273,318
Other Capital Assets	1,252,039	-	3,017,960	3,202,014	-	7,472,013
Total Depreciable Assets at						
Historical Cost	6,396,617,597	(56,803,800)	242,589,682	502,426,039	(96,416,913)	6,988,412,605
Less Accumulated Depreciation for:						
Buildings & Building						
Improvements	(1,938,708,036)	24,820,589	-	(158,937,319)	6,737,877	(2,066,086,889)
Infrastructure	(76,845,855)	423,221	-	(4,285,993)	3,395,195	(77,313,432)
Facilities and Other						
Improvements	(115,037,732)	(4,862,020)	-	(12,803,458)	(1,504,718)	(134,207,928)
Furniture and Equipment	(961,245,059)	27,139,720	-	(152,537,023)	65,193,028	(1,021,449,334)
Vehicles, Boats and Aircraft	(29,767,377)	(16,841)	-	(3,215,447)	2,114,053	(30,885,612)
Other Capital Assets	(377,341)	-	-	(1,555,635)	-	(1,932,976)
Total Accumulated						
Depreciation	(3,121,981,400)	47,504,669	-	(333,334,875)	75,935,435	(3,331,876,171)
Depreciable Assets, net	3,274,636,197	(9,299,131)	242,589,682	169,091,164	(20,481,478)	3,656,536,434
Primary University Capital						
Assets, net	\$ 4,960,264,059	2,696,081	312,760	1,024,149,496	(304,610,558)	5,682,811,838
Component Units						
Non-depreciable Assets:						
Land & Land Improvements	\$ 53,932	-	-	-	-	53,932
Construction in Progress	28,810	-	-	4,071,478	(1,002,703)	3,097,585
Total Non-depreciable Assets	82,742	-	-	4,071,478	(1,002,703)	3,151,517
Depreciable Assets:						
Buildings & Building						
Improvements	12,001,977	-	-	224,401	(15,750)	12,210,628
Furniture and Equipment	9,453,797	-	-	621,862	(1,022,616)	9,053,043
Vehicles, Boats and Aircraft	41,315	-	-	-	-	41,315
Other Capital Assets	869,113	-	-	596,410	(12,693)	1,452,830
Total Depreciable Assets at						
Historical Cost	22,366,202	-	-	1,442,673	(1,051,059)	22,757,816
Less Accumulated Depreciation for:						
Buildings & Building						
Improvements	(1,286,187)	-	-	(480,710)	3,238	(1,763,659)
Furniture and Equipment	(4,348,297)	-	-	(1,719,799)	876,812	(5,191,284)
Vehicles, Boats and Aircraft	(24,954)	-	-	(10,329)	-	(35,283)
Other Capital Assets	(352,016)	-	-	(170,258)	977	(521,297)
Total Accumulated						
Depreciation	(6,011,454)	-	-	(2,381,096)	881,027	(7,511,523)
Depreciable Assets, net	16,354,748	-	-	(938,423)	(170,032)	15,246,293
Component Units Capital						
Assets, net	\$ 16,437,490	-	-	3,133,055	(1,172,735)	18,397,810

5. Risk Financing and Related Insurance

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

EMPLOYEE AND RETIREE INSURANCE BENEFITS

The U. T. System Employee Group Insurance program provides health, dental, vision, life insurance, long term disability, short term disability, long term care and flexible spending account coverage to all benefits-eligible employees and retirees of the System and its fifteen component institutions. These insurance benefits are provided through both self-funded and fully-insured arrangements. A portion of an individual's group health insurance premium is paid by the state as specified in the General Appropriations Act. The System's Office of Employee Group Insurance (EGI) is responsible for the overall administration of the insurance plans. EGI was established by Chapter 1601 (formerly Article 3.50-3) of the *Texas Insurance Code* and complies with state laws and statutes pertinent to employee benefits for the System.

UNEMPLOYMENT COMPENSATION INSURANCE

The current General Appropriations Act requires System to reimburse the Texas Workforce Commission (TWC) for 50% of the unemployment benefits paid to former employees that were paid from appropriated funds. The System reimburses the TWC 100% of the unemployment benefits paid to former employees that were paid from local funds.

WORKERS' COMPENSATION INSURANCE

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

PROFESSIONAL MEDICAL LIABILITY BENEFIT PLAN

The coverage provided under The Professional Medical Liability Benefit Plan (Plan) is on an occurrence basis; thus, a participant is covered by the Plan for all claims and lawsuits relating to events that occurred while enrolled in the Plan, including those filed after the participant has left the System's employment or training. The Plan covers all of the System staff physicians, residents, fellows, and medical students who have been enrolled. The limits and liability of the plan include an annual policy aggregate of \$30,000,000, an annual aggregate of \$1,500,000 for each staff physician (\$500,000 per claim), an annual aggregate of \$300,000 for each resident or fellow (\$100,000 per claim) and a \$75,000 annual aggregate for each medical student (\$25,000 per claim). Liability is limited to \$2,000,000 per incident, regardless of the number of claimants or physicians involved in an incident. As of September 1, 2003, the limits of liability are prescribed by law as \$100,000 per claim per physician.

COMPREHENSIVE PROPERTY PROTECTION PROGRAM

The property protection plan consists of two programs. The first provides coverage for Named Windstorms and catastrophic flood losses up to \$50 million. Insurance policies providing relatively low limits (\$1-2 million per building and contents) are purchased through the Texas Windstorm Insurance Association and the National Flood Insurance Program on several facilities in the Tier 1 wind zone and/or Flood Zone A to provide a primary layer of insurance. The self-insurance component of the program participates in losses that exceed the coverage available under these primary policies or in cases where there is no underlying insurance.

The second program covers fire and other perils and includes commercial reinsurance for claims exceeding a per occurrence deductible of \$7.5 million or an annual aggregate deductible of \$25 million. The policy covers \$12.2 billion in building and content values and \$3.3 billion in business income. The maximum annual reimbursement under this policy is \$500 million per occurrence.

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

DIRECTORS & OFFICERS/EMPLOYMENT PRACTICES LIABILITY SELF-INSURANCE PLAN

In fiscal year 2003, the System implemented a permanent Directors & Officers Liability (D&O) and Employment Practices Liability Self-insurance Plan. The plan provides coverage for claims arising from actual or alleged wrongful

acts performed by the plan beneficiaries. The plan also provides coverage for employment practices liability (EPL) claims, such as wrongful termination, failure to promote and wrongful discipline.

Coverage applies to individual board members, employees, faculty, etc., as well as to the System itself. The limit of liability is a \$10 million annual aggregate (Coverages A, B and C combined), except for \$5 million annual aggregate sublimit for Coverage C. There is no deductible for Coverage A (individuals), a \$100,000 deductible per director or officer with a \$300,000 maximum deductible per loss for Coverage B. The deductible for Coverage C is \$300,000. In fiscal year 2003 the U. T. System Board of Regents allocated \$3.7 million from the Available University Fund and component institutions paid \$810,000 in premiums to begin the plan. In future years, the component institutions will continue to pay premiums to fund loss reserves for the plan.

ROLLING OWNER CONTROLLED INSURANCE PROGRAM

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

INCURRED BUT NOT REPORTED (IBNR)

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

Changes in the System's claims liabilities for the various self-insurance plans were as follows:

Plan	IBNR Liability 09/01/02	Current Year Claims and Changes in Estimates	Claims Payments	IBNR Liability 08/31/03
Employee Health and Dental	\$ 54,550,000	233,409,176	(256,609,176)	31,350,000
Workers' Compensation	21,732,000	5,167,106	(6,745,106)	20,154,000
Medical Professional Liability	84,607,321	22,077,831	(13,479,227)	93,205,925
Property Protection	-	502,756	(3,964)	498,792
Directors & Officers/EPL	-	2,704,053	-	2,704,053
ROCIP I, II & III	924,220	4,350,575	(1,445,616)	3,829,179
TOTAL	\$ 161,813,541	268,211,497	(278,283,089)	151,741,949

6. Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the state provided certain health and life insurance benefits for retired employees, in accordance with state statutes. Substantially all of the employees may become eligible for the health and life insurance benefits if they reach normal retirement age while working for the state. Currently there are 11,964 system-wide retirees who are eligible for these benefits. Similar benefits for active employees are provided through self-funded plans and fully-insured plans. Depending upon the status of the employee at the time of retirement, the state or the System recognizes the cost of providing these benefits by expensing the annual insurance premiums. For the fiscal year ended August 31, 2003, the monthly contribution by the State or the System per full-time employee/retiree ranged from \$253.22 to \$619.32 depending upon the plan and level of coverage selected. This contribution paid all of the "employee/retiree only" premiums and a portion of the premiums for those employees/retirees selecting dependent coverage. The employee/retiree was required to pay a portion of the cost of dependent coverage. For the fiscal year ended August 31, 2003, the cost of providing those benefits for the retirees was \$23,396,972 for the state and \$27,411,160 for the System.

7. Bonded Indebtedness

At August 31, 2003, the System had outstanding bonds payable of \$2,265,465,000. All bonds issued by the System are defined as revenue bonds. Segment information requirements are not applicable, due to the bond indentures' lack of specifically identifiable activities and external party imposed separate accounting requirements. General information related to bonds outstanding is summarized below:

- Permanent University Fund Refunding Bonds, Series 1996
 - Purpose: To refund \$246,185,000 principal amount of Permanent University Fund Refunding Bonds, Series 1988, 1991 and 1992B, maturing on July 1 in the years 1999 - 2013.
 - Issue Date: March 7, 1996
 - Authorized: \$280,000,000 Issued: \$263,945,000
 - Interest Rates: 4.00–6.00% Maturity Dates: 1996 – 2013
 - Source of Revenue for Debt Service: Available University Fund
- Permanent University Fund Bonds, Series 1997
 - Purpose: To refund \$78,000,000 principal amount of Permanent University Fund Variable Rate Notes, Series A, and to provide new money.
 - Issue Date: January 6, 1998
 - Authorized: \$130,000,000 Issued: \$130,000,000 –All authorized amounts have been issued.
 - Interest Rates: 4.75–5.25% Maturity Dates: 1999 – 2018
 - Source of Revenue for Debt Service: Available University Fund
- Permanent University Fund Refunding Bonds, Series 2002A
 - Purpose: To refund \$108,515,000 principal amount of Permanent University Fund Refunding Bonds, Series 1992A, maturing on July 1 in the years 2003 through 2007, both inclusive, and in the years 2009 and 2013.
 - Issue Date: April 2, 2002
 - Authorized: \$115,000,000 Issued: \$105,290,000
 - Interest Rates: 3.00–5.00% Maturity Dates: 2003 – 2010
 - Source of Revenue for Debt Service: Available University Fund
- Permanent University Fund Bonds, Series 2002B
 - Purpose: To refund \$191,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A.
 - Issue Date: April 2, 2002
 - Authorized: \$205,000,000 Issued: \$188,215,000
 - Interest Rates: 5.00–5.38% Maturity Dates: 2012 – 2022
 - Source of Revenue for Debt Service: Available University Fund
- Revenue Financing System Bonds, Series 1995A
 - Purpose: To refund \$34,833,000 of Revenue Financing System Commercial Paper Notes, to refund \$4,525,000 of U. T. Pan American Tuition Revenue Refunding Bonds, Series 1986 and to provide new money of \$35,167,000.
 - Issue Date: July 12, 1995
 - Authorized: \$232,000,000 Issued: \$74,945,000
 - Interest Rates: 4.00–6.00% Maturity Dates: 1996 – 2017
 - Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
- Revenue Financing System Bonds, Series 1996A
 - Purpose: To provide new money.
 - Issue Date: February 29, 1996
 - Authorized: \$78,125,000 Issued: \$72,600,000
 - Interest Rates: 4.70–6.00% Maturity Dates: 1997 – 2016

Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

- Revenue Financing System Bonds, Series 1996B
 - Purpose: To refund a \$18,355,000 portion of the Revenue Financing System Refunding Bonds, Series 1991A, to refund a \$20,035,000 portion of the Revenue Financing System Refunding Bonds, Series 1991B, to refund \$106,855,000 of Revenue Financing System Commercial Paper Notes, Series A and to provide new money of \$88,400,000.
 - Issue Date: February 29, 1996
 - Interest Rates: 4.70–6.00% Maturity Dates: 1997 – 2016
 - Authorized: \$271,875,000 Issued: \$232,135,000
 - Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
- Revenue Financing System Bonds, Series 1998A
 - Purpose: To refund \$10,455,000 principal of Revenue Financing System Commercial Paper Notes, Series A issued pursuant to Section 55.1714 of the Texas Education Code.
 - Issue Date: February 11, 1998
 - Authorized: \$11,500,000 Issued: \$10,690,000
 - Interest Rates: 4.13–5.00% Maturity Dates: 1999 – 2018
 - Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
- Revenue Financing System Bonds, Series 1998B
 - Purpose: To refund \$109,504,000 principal of Revenue Financing System Commercial Paper Notes, Series A and to pay the cost of issuance.
 - Issue Date: February 11, 1998
 - Authorized: \$115,500,000 Issued: \$111,915,000
 - Interest Rates: 3.75–5.25% Maturity Dates: 1999 – 2018
 - Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
- Revenue Financing System Bonds, Series 1998C
 - Purpose: To refund \$22,441,000 principal of Revenue Financing System Commercial Paper Notes, Series A issued pursuant to Sections 55.1714 and 55.1722 of the Texas Education Code, provide new money of \$21,584,000 and pay the cost of issuance.
 - Issue Date: October 15, 1998
 - Authorized: \$46,680,000 Issued: \$45,175,000
 - Interest Rates: 3.65–5.00% Maturity Dates: 2000 – 2019
 - Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
- Revenue Financing System Bonds, Series 1998D
 - Purpose: To refund \$91,163,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$10,549,000 and pay the cost of issuance.
 - Issue Date: October 15, 1998
 - Authorized: \$111,820,000 Issued: \$100,185,000
 - Interest Rates: 3.80–5.13% Maturity Dates: 2000 – 2019

Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

- Revenue Financing System Bonds, Series 1999A
Purpose: To refund \$32,723,000 principal of Revenue Financing System Commercial Paper Notes, Series A issued pursuant to Sections 55.1714 and 55.1722 of the Texas Education Code, provide new money of \$70,027,000 and pay the cost of issuance.
Issue Date: September 21, 1999
Authorized: \$102,750,000 Issued: \$101,745,000
Interest Rates: 4.50–5.75% Maturity Dates: 2001 – 2020
Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
- Revenue Financing System Bonds, Series 1999B
Purpose: To refund \$82,490,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$99,050,000 and pay the cost of issuance.
Issue Date: September 21, 1999
Authorized: \$193,000,000 Issued: \$180,830,000
Interest Rates: 4.50–5.75% Maturity Dates: 2001 – 2020
Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
- Revenue Financing System Refunding Bonds, Series 2001A
Purpose: To refund \$38,500,000 of Revenue Financing System Refunding Bonds, Series 1991A and \$42,030,000 of Revenue Financing System Refunding Bonds, Series 1991B, and pay costs of issuance.
Issue Date: May 17, 2001
Authorized: \$85,000,000 Issued: \$81,665,000
Interest Rates: Variable Maturity Date: 2013
Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
- Revenue Financing System Bonds, Series 2001B
Purpose: To refund \$110,070,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$76,000,000 and pay the cost of issuance.
Issue Date: October 2, 2001
Authorized: \$580,000,000* Issued: \$179,610,000
Interest Rates: 3.25–5.38% Maturity Dates: 2003 – 2022
Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
- Revenue Financing System Bonds, Series 2001C
Purpose: To refund \$503,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$87,800,000 and pay the cost of issuance.
Issue Date: October 2, 2001
Authorized: \$400,390,000* Issued: \$84,590,000
Interest Rates: 4.00–5.38% Maturity Dates: 2003 – 2022
Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the

revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

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

- Revenue Financing System Refunding Bonds, Series 2002A

Purpose: To advance refund \$54,575,000 principal amount of Revenue Financing System Bonds, Series 1999A maturing from 2010-2016 and 2020 to achieve debt service savings and pay the cost of issuance.

Issue Date: September 27, 2002

Authorized: \$215,000,000** Issued: \$54,430,000

Interest Rates: 2.00–5.25% Maturity Dates: 2003 – 2020

Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

- Revenue Financing System Refunding Bonds, Series 2002B

Purpose: To advance refund \$109,240,000 principal amount of Revenue Financing System Bonds, Series 1999B maturing from 2010-2017 and 2020 to achieve debt service savings and pay the cost of issuance.

Issue Date: September 27, 2002

Authorized: \$160,570,000** Issued: \$108,855,000

Interest Rates: 2.00–5.25% Maturity Dates: 2003 – 2020

Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

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

- Revenue Financing System Bonds, Series 2003A

Purpose: To refund \$39,050,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$80,798,250 and pay the cost of issuance.

Issue Date: January 23, 2003

Authorized: \$635,000,000*** Issued: \$112,040,000

Interest Rates: 3.00–5.38% Maturity Dates: 2004 – 2023

Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

- Revenue Financing System Bonds, Series 2003B

Purpose: To refund \$201,039,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$296,078,000 and pay the cost of issuance.

Issue Date: January 23, 2003

Authorized: \$522,960,000*** Issued: \$481,060,000

Interest Rates: 2.00–5.38% Maturity Dates: 2004 – 2033

Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

***The Revenue Financing System Bonds, Series 2003A & B were authorized pursuant to an aggregate issuance and delivery of up to \$635 million in multiple installments starting November 13, 2002 and ending November 30, 2003. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments. There are no planned additional issuances of bonds pursuant to this authority.

- Constitutional Appropriation Bonds (The University of Texas - Pan American), Series 1995
Purpose: To provide new money.
Issue Date: January 10, 1996
Authorized: \$26,000,000 Issued: \$26,000,000–All authorized amounts have been issued.
Interest Rates: 4.00–6.00 Maturity Dates: 1996 – 2005
Source of Revenue for Debt Service: Pledged Revenues consist of up to 50% of the money allocated annually to the Board for The University of Texas - Pan American from the total amount appropriated annually by Article VII, Section 17 of the Texas Constitution and Chapter 62, Texas Education Code, out of the first money coming into the State Treasury not otherwise appropriated by the Texas Constitution, during a ten-year period starting with fiscal year that began September 1, 1995 and ending with the fiscal year that ends on August 31, 2005.

EARLY EXTINGUISHMENT

Revenue Financing System Refunding Bonds, Series 2002A were issued September 27, 2002, to advance refund \$54,575,000 principal amount of Revenue Financing System Bonds, Series 1999A, maturing on August 15 in the years 2010 through 2016 and 2020, and to pay the costs of issuance related thereof.

- Net proceeds from the refunding series (including a premium of \$6,257,359) were \$60,548,261 – after the payment of \$232,101 in underwriting fees. The net proceeds were used to pay cost of issuance of \$61,279 and purchase \$60,393,973 of United States Government securities. This security, and \$6 in residual proceeds were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded bonds. The remaining net proceeds of \$93,003 were applied to debt service on the Revenue Financing System Refunding Bonds, Series 2002A.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the Combined Balance Sheet.
- The advance refunding resulted in gross debt service savings through 2020 of \$6,876,756.
- No accounting gain or loss resulted from the transaction as no difference existed between the amount paid to extinguish the refunded debt (\$54,575,000 called at par) and the net carrying amount of the debt of \$54,575,000.
- An economic gain from the transaction resulted in a net present value savings of \$3,461,878 between the old and new debt service payments.

Revenue Financing System Refunding Bonds, Series 2002B were issued September 27, 2002, to advance refund \$109,240,000 principal amount of Revenue Financing System Bonds, Series 1999B, maturing on August 15 in the years 2010 through 2017 and 2020, and to pay the costs of issuance related thereof.

- Net proceeds from the refunding series (including a premium of \$12,483,892) were \$121,060,723 – after the payment of \$464,285 in underwriting fees. The net proceeds were used to pay cost of issuance of \$124,764 and purchase \$120,749,837 of United States Government securities. This security, and \$6 in residual proceeds were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded bonds. The remaining net proceeds of \$186,116 were applied to debt service on the Revenue Financing System Refunding Bonds, Series 2002B.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the Combined Balance Sheet.
- The advance refunding resulted in gross debt service savings through 2020 of \$13,443,702.
- No accounting gain or loss resulted from the transaction as no difference existed between the amount paid to extinguish the refunded debt (\$109,240,000 called at par) and the net carrying amount of the debt of \$109,240,000.
- An economic gain from the transaction resulted in a net present value savings of \$6,757,295 between the old and new debt service payments.

On August 1, 2003, \$12,000,000 of outstanding Revenue Financing System Refunding Bonds, Series 2001A were optionally redeemed. The liability for these obligations has been removed from the Combined Balance Sheet. No accounting gain or loss resulted from the transaction.

BOND ENHANCEMENT AGREEMENTS

Forward Floating-to-Fixed Interest Rate Swaps:

Objective of the interest rate swap: In June 1999, the System executed forward-starting, floating-to-fixed rate interest rate swap agreements (“Swap Agreements”) with Morgan Guaranty Trust Company of New York, now J.P. Morgan Chase Bank (“Morgan”), and Goldman Sachs Mitsui Marine Derivative Products, L.P. (“Goldman”). The Swap Agreements were used to create a synthetic fixed-rate refunding of \$80,530,000 of the Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1991A and 1991B (“Refunded Bonds”) on their optional redemption date of August 15, 2001 to achieve debt service savings. On May 17, 2001, the U. T. System Board of Regents issued its Revenue Financing System Refunding Bonds, Series 2001A, in the form of variable rate demand bonds. The Swap Agreements effectively change the U. T. System Board of Regent’s interest rate on the Series 2001A Bonds, subject to some basis risk discussed below, to a fixed rate of 4.633%. The difference between the swap rate and the rates on the Refunded Bonds called August 15, 2001, resulted in estimated present value debt service savings of approximately \$5.6 million.

Terms: Pursuant to the terms of the Swap Agreements, the U. T. System Board of Regents has agreed to pay interest on a notional amount of \$80,530,000 at a fixed rate of 4.633% per annum, with such obligation commencing on August 15, 2001. In consideration of receiving the payments from the U. T. System Board of Regents, Morgan and Goldman have agreed to pay to the U. T. System Board of Regents a variable rate equal to 67% of the one-month London Interbank Offered Rate (“LIBOR”). The Morgan Swap Agreement is for 60% of the notional amount and the Goldman Swap Agreement is for 40% of the notional amount. The Series 2001A Bonds are scheduled to mature and the Swap Agreements are scheduled to terminate on August 15, 2013. As of August 31, 2003, there was \$58,065,000 of the Series 2001A Bonds outstanding and the notional amount of the Swap Agreements was \$57,250,000.

Fair Value: Because interest rates have declined since the execution of the Swap Agreements, the Swap Agreements have a negative fair value of \$4,512,802 as of August 31, 2003. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

Basis and Termination Risk: The Swap Agreements expose the U. T. System Board of Regents to basis risk as the variable rate received under the Swap Agreements does not perfectly match the variable rate paid on the Series 2001A Bonds. Each Swap Agreement may be terminated if the respective counterparty does not maintain a credit rating of at least Aa3 by Moody’s Investors Service (“Moody’s”) or AA- by Standard & Poor’s Corporation (“S&P”). As of August 31, 2003, the swap providers’ respective ratings by Moody’s/S&P are as follows: J.P. Morgan Chase Bank, Aa3/AA- and Goldman Sachs Mitsui Marine Derivative Products, L.P., Aaa/AA+. The Swap Agreements may also be terminated by Morgan or Goldman, respectively, if the U. T. System Board of Regents does not maintain a credit rating of at least Aa3 by Moody’s or AA- by S&P.

8. Note Indebtedness

General information related to notes and loans payable at August 31, 2003, which in substance are not bonds, is summarized as follows:

- Note or loan payable issue name: Permanent University Fund Flexible Rate Notes, Series A
Purpose: To provide new money
Issue Dates: July 17, 2002, December 4, 2002, August 19, 2003
Authorized Amount: Aggregate principal amount not to exceed \$400 million
Source of revenue for debt service: Available University Fund
Terms: Interest payable in periodic installments not to exceed 270 days at a flexible rate
- Note or loan payable issue name: Revenue Financing System (RFS) Commercial Paper Notes, Series A
Purpose: To provide new money
Issue Date: September 1, 2002 through August 31, 2003
Authorized Amount: Aggregate principal amount not to exceed \$750 million
Source of revenue for debt service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
Terms: Interest payable in periodic installments not to exceed 270 days at a variable rate

Other Notes Payable includes:

- Note or loan payable issue name: University Hospital
Purpose: Reimburse University Hospital for clinical practice expenses under terms of a mediator-negotiated contractual settlement
Institution: U. T. Health Science Center - San Antonio
Issue Date: April 1, 2001
Amount: \$2,862,717
Source of revenue for debt service: Patient service revenue from MSRDP Designated funds collected by University Physicians Group, Inc.
Terms: January 1, 2002 through January 1, 2009. Interest is computed at five percent (5%) annually.
- Note or loan payable issue name: Benjamin R. Beall, II
Purpose: To purchase Mineola Medical and Surgical Clinic
Institution: U. T. Health Center - Tyler
Issue Date: September 1, 1999
Authorized Amount: \$425,000
Source of revenue for debt service: Patient Income
Terms: September 1, 1999 through September 1, 2003
- Note or loan payable issue name: LaSalle National Bank
Purpose: To purchase Oracle software site license
Institution: U. T. El Paso
Issue Date: September 1, 2002
Authorized Amount: \$580,641
Source of revenue for debt service: Designated funds
Terms: September 1, 2002 through September 1, 2006
- Note or loan payable issue name: Sealy & Smith Foundation, Inc.
Purpose: To finance leasehold improvements to the Primary Care Pavilion
Institution: U. T. Medical Branch - Galveston
Issue Date: January 1, 1997
Authorized Amount: \$12,484,642
Source of revenue for debt service: Patient income
Terms: January 1, 1997 through December 31, 2006
- Note or loan payable issue name: Academic Capital Government Finance, Inc.
Purpose: To purchase PeopleSoft
Institution: U. T. Medical Branch - Galveston
Issue Date: December 20, 2000
Authorized Amount: \$5,720,708
Source of revenue for debt service: Patient income
Terms: February 28, 2001 through September 1, 2004
- Note or loan payable issue name: Charitable Remainder Trust
Purpose: Fine Arts Foundation (a blended component unit) purchase of the Suida Manning Art Collection
Institution: U. T. Austin
Issue Date: January 4, 1999
Authorized Amount: \$12,000,000
Source of revenue for debt service: Gift
Terms: January 4, 1999 through April 17, 2016

- Note or loan payable issue name: Charitable Lead Trust
 Purpose: Fine Arts Foundation (a blended component unit) purchase of the Suida Manning Art Collection
 Component Unit: U. T. Austin's Blended Component Unit
 Issue Date: January 4, 1999
 Authorized Amount: \$10,713,200
 Source of revenue for debt service: Gift
 Terms: January 4, 1999 through April 17, 2016
- Note or loan payable issue name: J. P. Morgan Leasing, Inc.
 Purpose: To purchase the PET/CT Discovery ST
 Component Unit: U. T. Southwestern Medical Center – Dallas' Component Unit
 Issue Date: August 22, 2003
 Authorized Amount: \$2,200,000
 Source of revenue for debt service: Operations
 Terms: September 22, 2003 through August 22, 2008

9. Capital Leases

Certain leases to finance the purchase of property are capitalized at the present value of future minimum lease payments. The original capitalized cost of all such property under capital lease as of August 31, 2003, is as follows:

Assets Under Capital Lease	Original Capitalized Cost		
	Primary University	Component Units	Total
Furniture and Equipment	\$ 3,237,278	100,756	3,338,034
Less: Accumulated Depreciation	(1,347,988)	(43,181)	(1,391,169)
Vehicles	96,148	-	96,148
Less: Accumulated Depreciation	(19,916)	-	(19,916)
Museums & Art Collections	169,833	-	169,833
Total	\$ 2,135,355	57,575	2,192,930

Capital lease obligations are due in annual installments through 2006. The following is a schedule of the future minimum lease payments for leased property and the present value of the net minimum lease payments at August 31, 2003.

Fiscal Year	Primary University	Component Units	Total
2004	\$ 880,903	22,900	903,803
2005	556,356	22,900	579,256
2006	155,288	-	155,288
Total Minimum Lease Payments	1,592,547	45,800	1,638,347
Less: Interest	(118,697)	(2,473)	(121,170)
Present Value of Net Minimum Lease Payments	\$ 1,473,850	43,327	1,517,177

10. Summary of Long-Term Liabilities

Long-term liability activity for the year ended August 31, 2003, is summarized as follows:

Primary University	Balance 09/01/02 (restated)	Additions	Reductions	Balance 08/31/03	Amounts due within one year
Bonds Payable:					
Permanent University Fund:					
Refunding Bonds Series 1996	\$ 215,000,000	-	18,360,000	196,640,000	19,280,000
Bonds Series 1997	113,285,000	-	4,715,000	108,570,000	4,960,000
Refunding Bonds Series 2002A	105,290,000	-	11,240,000	94,050,000	11,570,000
Bonds Series 2002B	188,215,000	-	-	188,215,000	-
Revenue Financing System:					
Bonds Series 1995A	57,835,000	-	3,260,000	54,575,000	2,670,000
Bonds Series 1996A	58,370,000	-	2,850,000	55,520,000	3,020,000
Bonds Series 1996B	187,065,000	-	13,515,000	173,550,000	14,195,000
Bonds Series 1998A	9,220,000	-	405,000	8,815,000	420,000
Bonds Series 1998B	96,790,000	-	4,215,000	92,575,000	4,405,000
Bonds Series 1998C	40,540,000	-	1,660,000	38,880,000	1,725,000
Bonds Series 1998D	90,265,000	-	3,575,000	86,690,000	3,715,000
Bonds Series 1999A	95,590,000	-	57,870,000	37,720,000	3,460,000
Bonds Series 1999B	169,870,000	-	115,105,000	54,765,000	6,145,000
Refunding Bonds Series 2001A	70,065,000	-	12,000,000	58,065,000	-
Bonds Series 2001B	179,610,000	-	5,460,000	174,150,000	5,730,000
Bonds Series 2001C	84,590,000	-	2,585,000	82,005,000	2,690,000
Refunding Bonds Series 2002A	-	54,430,000	620,000	53,810,000	310,000
Refunding Bonds Series 2002B	-	108,855,000	1,220,000	107,635,000	605,000
Bonds Series 2003A	-	112,040,000	-	112,040,000	3,390,000
Bonds Series 2003B	-	481,060,000	-	481,060,000	9,545,000
Constitutional Appropriation:					
Bonds Series 1995	8,995,000	-	2,860,000	6,135,000	2,995,000
Total Bonds Payable	1,770,595,000	756,385,000	261,515,000	2,265,465,000	100,830,000
Notes and Loans Payable:					
Permanent University Fund					
Flexible Rate Notes, Series A	175,000,000	125,000,000	-	300,000,000	300,000,000
Revenue Financing System					
Commercial Paper Notes, Series A	323,007,000	173,051,000	279,772,000	216,286,000	216,286,000
Other Notes and Loans	24,081,141	10,493,695	3,085,643	31,489,193	3,961,756
Total Notes and Loans Payable	522,088,141	308,544,695	282,857,643	547,775,193	520,247,756
Leases Payable:					
Lease Obligations	1,505,652	638,318	670,120	1,473,850	822,112
Total Notes, Loans and Leases Payable	523,593,793	309,183,013	283,527,763	549,249,043	521,069,868
Employee Compensable Leave	229,993,969	31,534,731	1,135,504	260,393,196	24,583,704
Total Bonds, Notes, Loans, Leases, and Compensable Leave Payables for Primary University	\$ 2,524,182,762	1,097,102,744	546,178,267	3,075,107,239	646,483,572

Component Units	<u>Balance 09/01/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 08/31/03</u>	<u>Amounts due within one year</u>
<u>Notes and Loans Payable:</u>					
Other Notes and Loans	\$ -	2,200,000	-	2,200,000	413,186
Total Notes and Loans Payable	-	2,200,000	-	2,200,000	413,186
<u>Leases Payable:</u>					
Lease Obligations	27,091	43,327	27,091	43,327	21,125
Total Notes, Loans and Leases Payable	27,091	2,243,327	27,091	2,243,327	434,311
Employee Compensable Leave	228,325	401,274	376,866	261,733	146,570
Total Notes, Loans, Leases, and Compensable Leave Payables for Component Units	\$ 255,416	2,653,601	403,957	2,505,060	580,881

The Combined Balance Sheet at August 31, 2003, does not include \$359,561,000 of revenue bonds payable, which were fully defeased in prior fiscal years. Direct obligations of the United States of America, including obligations unconditionally guaranteed by the United States of America, in amounts, maturities, and bearing interest at rates sufficient to provide funds to pay in full principal, redemption premium, if any, and interest to maturity or redemption on the defeased bonds, are being held by escrow agents.

PROJECTED BOND DEBT SERVICE REQUIREMENTS

Bond obligations are due in annual installments varying from \$27,109,604 in fiscal year 2033 to \$226,973,826 in fiscal year 2013. The requirements in fiscal year 2013 reflect the Revenue Financing System Refunding Bonds, Series 2001A, which are currently variable rate bonds. As required by GASB Statement No. 38, annual debt service requirements for such variable rate bonds are reflected at the System's effective borrowing rate at August 31, 2003, of 0.85 percent on a principal amount of \$58,065,000 with interest only until final maturity in 2013. The interest on the variable rate bonds and notes will fluctuate based upon current market conditions. The interest rates on fixed rate bonds range from 2.00 percent to 6.00 percent, with the final installment due in 2033. The principal and interest expense for the next five years and beyond are projected below for bonds issued:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 100,830,000	112,043,978	212,873,978
2005	103,700,000	107,036,390	210,736,390
2006	105,275,000	101,582,272	206,857,272
2007	108,820,000	96,010,523	204,830,523
2008	113,705,000	90,606,789	204,311,789
2009 – 2013	625,560,000	368,239,855	993,799,855
2014 – 2018	548,225,000	224,298,154	772,523,154
2019 – 2023	349,420,000	97,971,502	447,391,502
2024 - 2028	92,345,000	43,460,700	135,805,700
2029 – 2033	117,585,000	18,212,500	135,797,500
Total Requirements	\$ 2,265,465,000	1,259,462,663	3,524,927,663

Notes and loans payable obligations are due in annual installments through 2018. General information related to notes and loans payable at August 31, 2003, which in substance are not bonds, is summarized as follows:

Fiscal Year	Primary University		Component Units		Total
	Principal	Interest	Principal	Interest	
2004	\$ 520,247,756	3,340,228	413,186	83,487	524,084,657
2005	4,065,280	1,508,147	426,177	71,572	6,071,176
2006	3,019,025	1,314,058	439,578	35,969	4,808,630
2007	1,949,141	1,195,791	453,401	22,147	3,620,480
2008	1,673,579	1,180,668	467,658	7,890	3,329,795
2009-2013	4,250,000	4,862,282	-	-	9,112,282
2014-2018	12,570,412	2,341,695	-	-	14,912,107
Total	\$ <u>547,775,193</u>	<u>15,742,869</u>	<u>2,200,000</u>	<u>221,065</u>	<u>565,939,127</u>

COMPENSATED ABSENCES

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

11. Unrestricted Net Assets

Unrestricted net assets, detailed in the table below, are not subject to externally imposed stipulations. Unrestricted net assets may be designated for special purposes by actions of the Texas Legislature, internal management, and the U. T. System Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic programs, patient care, research programs and initiatives, and capital programs. The earnings from the investments of the Permanent Health Fund endowment, which can only be used for certain tobacco related research and education, are restricted to this use by the Texas Legislature. Therefore, these funds are considered unrestricted since the System is considered a component of the state of Texas, and the legislature could redirect the use of these funds.

	<u>Primary University</u>	<u>Component Units</u>
Unrestricted Net Assets:		
Unrestricted		
Reserved		
Encumbrances	\$ 255,987,735	-
State Appropriations to be Lapsed	(29,753)	-
Accounts Receivable (less deferred revenue portion)	465,222,809	3,322,231
Inventories	40,037,473	-
Self-Insurance Plans	151,741,949	-
Higher Education Assistance Fund (HEAF)	7,304,428	-
Permanent Health Fund Endowments	744,961,139	-
Other Specific Purposes:		
Advanced Research/Advanced Technology Programs	9,656,934	-
Notes Receivable	2,048,424	-
Deposits	4,843,170	-
Prepaid Expenses	38,658,423	194,381
Deferred Charges	6,831,991	-
Imprest Funds	1,017,274	750
Travel Advances	358,044	-
Unreserved		
Allocated:		
Provision for FY 2004 Operating Budgets	40,766,274	-
Provision for Capital Projects	258,677,426	6,500,988
Provision for Service Departments Operating Funds	47,570,027	-
Provision for Auxiliary Enterprises Operating Funds	12,239,813	-
Unallocated	575,756,672	6,589,061
Funds Functioning as Endowment-Unrestricted	74,523,983	-
Total Unrestricted Net Assets	<u>\$ 2,738,174,235</u>	<u>16,607,411</u>

12. Matrix of Operating Expenses Reported by Function

For the year ended August 31, 2003, the following table represents operating expenses for both natural and functional classifications for the primary university:

Operating Expenses	Instruction	Research	Hospitals and Clinics	Public Service	Academic Support
Cost of Good Sold	\$ (51,132)	-	58,844,075	29,353	975
Salaries and Wages	1,248,576,215	626,503,739	907,082,570	100,168,088	144,439,622
Payroll Related Costs	340,917,497	146,996,506	249,181,575	23,048,801	34,190,567
Professional Fees and Services	26,140,888	28,722,701	38,563,359	11,363,397	8,501,101
Scholarships and Fellowships	9,461,909	9,992,031	51,404	3,833,077	800,922
Travel	20,191,049	23,007,094	6,822,504	3,007,300	3,578,397
Materials and Supplies	78,578,061	152,248,245	332,982,108	23,106,588	24,247,418
Utilities	2,661,172	244,583	10,295,058	739,872	86,957
Communications	16,314,678	7,497,174	7,682,242	3,110,559	6,233,833
Repairs and Maintenance	7,134,281	8,641,924	30,881,478	1,153,067	3,205,599
Rentals and Leases	9,214,141	5,975,622	19,677,202	3,318,757	2,941,715
Printing and Reproduction	7,721,282	4,636,212	4,454,119	3,027,775	2,707,714
Depreciation and Amortization	-	-	-	-	-
Bad Debt Expense	(15,921)	-	(151)	-	107,836
Claims and Losses	268	-	-	-	-
Other Operating Expenses	80,279,637	124,463,436	228,230,542	22,433,371	16,183,298
Federal Sponsored Prog. Pass-through Expense	1,308,786	2,046,506	-	938,282	-
State Sponsored Prog. Pass-through Expense	-	104,969	-	-	-
Total Operating Expenses	\$ 1,848,432,811	1,141,080,742	1,894,748,085	199,278,287	247,225,954

<u>Student Services</u>	<u>Institutional Support</u>	<u>Operations and Maintenance of Plant</u>	<u>Scholarships and Fellowships</u>	<u>Auxiliary Enterprises</u>	<u>Depreciation and Amortization</u>	<u>Total Expenses</u>
55,492	601,511	-	-	13,924,493	-	73,404,767
64,930,577	386,521,298	123,117,489	16,853,815	105,017,093	-	3,723,210,506
15,967,433	97,095,792	34,222,649	2,837,579	25,144,664	-	969,603,063
3,233,890	48,260,607	8,994,445	398,662	34,020,570	-	208,199,620
2,705,831	1,002,105	-	161,852,502	4,952,794	-	194,652,575
1,496,000	7,893,785	458,314	470,504	10,341,492	-	77,266,439
7,654,201	42,730,687	39,052,926	644,768	33,827,193	-	735,072,195
395,492	(20,505,467)	129,902,188	30	17,363,513	-	141,183,398
1,463,153	1,944,424	1,293,424	18,594	3,728,410	-	49,286,491
1,505,081	10,867,626	33,616,030	76,423	8,207,208	-	105,288,717
1,667,885	7,962,885	17,908,361	17,825	5,021,629	-	73,706,022
2,621,327	(1,566,129)	208,592	68,896	5,866,054	-	29,745,841
-	-	-	-	-	333,414,734	333,414,734
894,178	(62,895)	-	(17,211)	(304)	-	905,532
-	(33,328,693)	-	-	-	-	(33,328,425)
8,851,087	(19,690,890)	18,483,059	777,571	21,732,119	-	501,743,231
-	-	-	3,114	-	-	4,296,688
-	-	-	-	-	-	104,969
<u>113,441,627</u>	<u>529,726,646</u>	<u>407,257,477</u>	<u>184,003,072</u>	<u>289,146,928</u>	<u>333,414,734</u>	<u>7,187,756,363</u>

13. Restatement of Net Assets

Balances as of September 1, 2002, were restated as follows:

	<u>Primary University</u>	<u>Component Units</u>
Capital Assets (net)	\$ 3,130,493	-
Blended Component Unit/Affiliated Organization	(28,082,712)	-
Audit Adjustments	(7,917,968)	-
Sponsored Programs	(7,084,985)	-
Accounts Receivable	(4,718,238)	-
Moncrief Component Unit		30,427,518
Other Miscellaneous Adjustments	12,498	(60,529)
Total Restatements	<u>\$ (44,660,912)</u>	<u>30,366,989</u>

Capital Assets (net): The restatement is the result of three types of adjustments: the implementation of the standard capitalization thresholds established by the State Comptroller of Public Accounts, \$(67,122,029); adjustments to accumulated depreciation, \$48,265,421; and corrections to previously reported values of capital assets, \$21,987,101.

Blended Component Unit/Affiliated Organizations: Restatement recognizes the addition and removal of certain organizations as blended components from the university's net assets as a result of a re-evaluation of GASB 14 criteria performed in preparation for the implementation of GASB 39 in fiscal year 2004.

Audit Adjustment: Restatements to U.T.M.D. Anderson's FY 2002 financial statements as a result of an audit conducted by Deloitte and Touche, LLP. The audit resulted in an unqualified opinion.

Sponsored Programs: Restatement of funds that were reported in net assets in FY 2002 that were deemed to be unearned, or which were subsequently refunded to grantors.

Accounts Receivable: Balances were restated to more accurately reflect collectible amounts.

Moncrief Component Unit: Net assets were restated to include the Moncrief Foundation in accordance with SFAS 136.

Other Miscellaneous Adjustments: Restatements due to miscellaneous corrections.

14. Contingent Liabilities

PENDING LAWSUITS AND CLAIMS

On August 31, 2003, various lawsuits and claims involving the System were pending. None of these suits has the potential to exceed the materiality level of \$10 million established by the State Auditor.

The ultimate liability with respect to litigation and other claims asserted against the System cannot be reasonably estimated at this time. Such liability is not likely to have a material effect on the System accounts to the extent not provided for by insurance or otherwise.

PARTNERSHIPS

The System has invested in certain limited partnerships. The partnership agreements commit the System to possible future capital contributions amounting to \$857,066,326 as of August 31, 2003.

15. Operating Lease Obligations

Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2003, were as follows:

Fiscal Year	Minimum Future Lease Rental Payments		
	Primary University	Component Units	Total
2004	\$ 28,225,175	160,824	28,385,999
2005	25,747,518	160,824	25,908,342
2006	21,493,427	160,824	21,654,251
2007	17,492,320	160,824	17,653,144
2008	12,803,224	160,824	12,964,048
2009-2013	19,596,736	804,116	20,400,852
Total Minimum Future Payments	\$ 125,358,400	1,608,236	126,966,636

16. Employees' Retirement Plans

TEACHER RETIREMENT SYSTEM (TRS)

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

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

TRS contribution rates for both employers and employees are not actuarially determined but are legally established by the State Legislature. Depending upon the source of funding for the employee's compensation, the state or the System contributes a percentage of participant salaries totaling 6 percent of annual compensation. Contributions by employees are 6.4 percent of gross earnings.

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

OPTIONAL RETIREMENT PROGRAM (ORP)

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

EMPLOYEES RETIREMENT SYSTEM (ERS)

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

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

The funding policy requires monthly contributions by both the state and employees. For the biennium beginning September 1, 2001, the required contribution for both the state and employees is 6 percent of pay.

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

THE UNIVERSITY OF TEXAS SYSTEM GOVERNMENTAL RETIREMENT ARRANGEMENT (UTGRA)

The University of Texas System Governmental Retirement Arrangement (UTGRA) is a defined contribution pension plan established by the System to provide certain participants in the ORP that portion of their benefits that would otherwise be payable under the ORP except for the \$40,000 limit on contributions imposed by Section 415 of the Internal Revenue Code (IRC). At August 31, 2003, there were 651 plan members. Persons employed by the System prior to September 1, 1996 whose compensation exceeds the limit set by IRC Section 401(a)(17) and whose ORP contribution is limited by the \$40,000 cap under IRC Section 415(c), defer 6.65 percent of their excess compensation while the System contributes either 6 percent or 8.5 percent depending upon date of employment. Plan provisions are established and may be amended at any time by the U. T. System Board of Regents.

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

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

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

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

17. Deferred Compensation

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

The state's 457 plan complies with the IRC Sec. 457. Deductions, purchased investments, and earnings attributed to the 457 plan are the property of the state subject only to the claims of the state's general creditors. Participants' rights under the plan are equal to those of the general creditors of the state in an amount equal to the fair market value of the 457 account for each participant. The state has no liability under the 457 plan and it is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.

18. Extraordinary Items

Net extraordinary revenues totaling \$36.5 million were realized during fiscal year 2003 as a result of the Health Science center at Houston's continued reimbursement of costs associated with debris removal, emergency protective measures and replacement supplies relating to property and equipment damage sustained during Tropical Storm Allison in June 2001. Since Allison, receipts have been realized from commercial insurance coverage and from the United States Federal Emergency Management Agency (FEMA). Additional insurance and FEMA proceeds are anticipated; however, the amount and timing of such receipts cannot reasonably be predicted due to on-going settlement negotiations and numerous variables that preclude estimation.

19. Subsequent Events

U. T. System Administration - On September 5, 2003, the System issued \$53,000,000 in Revenue Financing System Commercial Paper Notes, Series A to finance the costs of campus improvements.

U. T. Health Science Center at Houston - UTHSC-Houston (Borrower) has entered into an \$8.5 million LoanStar agreement with the State Energy Conservation Office, SECO (Lender). The loans were signed by the Chief Financial Officer on April 18, 2003. The loans will be used for lab ventilation system upgrades in the Medical School. The anticipated completion time is 18 months. The repayment period is approximately nine years. The loans shall be disbursed in installments no more frequently than monthly, following presentation by Borrower to Lender of requests for reimbursement to pay the costs of goods purchased and services performed. Borrower promises to pay Lender the principal sum of the loans (\$8.5 million) or such lesser amount as shall equal the aggregate amount disbursed to Borrower by Lender together with interest on the unpaid principal computed from the date of each disbursement until the date repaid at the rate of three percent interest per annum. Interest rates may be adjusted. The \$8.5 million of LoanStar notes are not currently reflected on UTHSC-Houston's balance sheet or on SECO's balance sheet as the amounts do not become payable until reimbursement is sought.

20. Related Parties

There are three foundations that are nonprofit organizations with the sole purpose of supporting various activities of the System. The foundations solicit donations and act as coordinators of gifts made by other parties. The foundations remitted restricted gifts of \$12,582,830 and unrestricted gifts of \$509,190 to the System during the year ended August 31, 2003.

Certain ex-students associations provided services on behalf of the System for which the System paid \$381,050 during the 2003 fiscal year. These services included maintaining records on the students who had graduated from the universities within the System. In addition to the amount paid, office space and utilities were provided to the associations by the System.

21. Stewardship, Compliance and Accountability

The System had no significant violations of bond or note covenants. Per state law, the System cannot spend amounts in excess of appropriations granted by the Texas Legislature. There are no deficits reported in net assets. Further required disclosures are discussed in other notes to the financial statements.

22. The Financial Reporting Entity

Blended Component Units

U. T. Southwestern Health Systems, Inc., 1301 Elmbrook, Dallas, Texas 75390, is governed by a three-member board appointed by U. T. Southwestern Medical Center. Although it is legally separate from the university, U. T. Southwestern Health Systems, Inc. is reported as if it were part of U. T. Southwestern Medical Center because its primary purpose is to perform services as an integral part of the institution. The corporation's fiscal year end is August 31, 2003.

The National Pediatric Infectious Diseases Foundation, 4712 Wildwood Drive, Dallas, Texas 75209, is governed by a three-member board appointed by U. T. Southwestern Medical Center. The Foundation supports educational, clinical and scientific activities and programs in the area of infectious diseases in infants and children. Although it is legally separate from the university, the National Pediatric Infectious Diseases Foundation is reported as if it were part of

U. T. Southwestern Medical Center because it provides grants to the University and its board is appointed by the University. The Foundation's fiscal year end is August 31, 2003.

U.T.M.B. Healthcare Systems, Inc., 301 University Boulevard, Galveston, Texas 77555, is governed by an eight-member board appointed by U. T. Medical Branch at Galveston. Although it is legally separate from the university, U.T.M.B. Healthcare Systems, Inc. is reported as if it were part of U. T. Medical Branch at Galveston because its primary purpose is to perform services as an integral part of the institution. The corporation's fiscal year end is August 31, 2003.

University Care Plus, Inc., P. O. Box 20627, Houston, Texas 77225, is governed by a three-member board appointed by U. T. Health Science Center at Houston. Although it is legally separate from the university, University Care Plus, Inc. is reported as if it were part of U. T. Health Science Center at Houston because its primary purpose is to perform services as an integral part of the institution. The corporation's fiscal year end is August 31, 2003.

University Physicians Group, Inc., 7410 John Smith Drive, Suite 10, San Antonio, Texas 78229, is governed by a ten-member board appointed by U. T. Health Science Center at San Antonio. Although it is legally separate from the university, University Physicians Group, Inc. is reported as if it were part of the U. T. Health Science Center at San Antonio because its primary purpose is to perform services as an integral part of the institution. The corporation's fiscal year end is August 31, 2003.

M. D. Anderson Physician's Network, Inc., 7505 South Main, Suite 500, Houston, Texas 77030, is governed by a four-member board appointed by U. T. M. D. Anderson Cancer Center. Although it is legally separate from the university, M. D. Anderson Physician's Network, Inc. is reported as if it were part of U. T. M. D. Anderson Cancer Center because its primary purpose is to perform services as an integral part of the institution. The corporation's fiscal year end is August 31, 2003.

East Texas Quality Care Network, Inc., P. O. Box 6053, Tyler, Texas 75711-6053, is governed by a three-member board appointed by U. T. Health Center at Tyler. Although it is legally separate from the university, East Texas Quality Care Network, Inc. is reported as if it were part of U. T. Health Center at Tyler because its primary purpose is to perform services as an integral part of the institution. The corporation's fiscal year end is August 31, 2003.

University of Texas Investment Management Company (UTIMCO), 221 West 6th Street, Suite 1700, Austin, Texas 78701, is governed by a nine-member board appointed by the U. T. System Board of Regents. Although it is legally separate from the entity, UTIMCO is reported as if it were part of U. T. System Administration because it provides services entirely to the entity. The corporation's fiscal year end is August 31, 2003.

Law Publications, Inc., 727 East Dean Keeton, Austin, Texas 78705, is governed by a three-member board appointed by U. T. Austin. Although it is legally separate from the university, Law Publications, Inc. is reported as if it were part of U. T. Austin because it provides services almost entirely to the university. The Law Publications, Inc. fiscal year end is August 31, 2003.

Continuing Legal Education, Inc., 727 East Dean Keeton, Austin, Texas 78705, is governed by a three-member board appointed by U. T. Austin. Although it is legally separate from the university, Continuing Legal Education, Inc. is reported as if it were part of U. T. Austin because it provides services almost entirely to the university. The Continuing Legal Education, Inc. fiscal year end is August 31, 2003.

The University of Texas Fine Arts Foundation, the University of Texas at Austin, Main Building, P. O. Box T, Austin, Texas 78713 is governed by a three-member board appointed by U. T. Austin. Although it is legally separate from the university, the University of Texas Fine Arts Foundation is reported as if it were a part of U. T. Austin because the benefits of the Foundation's fine art acquisitions accrue to the university. The Foundation's fiscal year end is December 31, 2002.

Discrete Component Units

The component units column in the combined financial statements includes the financial data of the M. D. Anderson Cancer Center Services Corporation (Services), the Texas Universities Health Plan, Inc. (TUHP), and the Moncrief Cancer Center (Moncrief).

The president of U. T. M. D. Anderson Cancer Center (Cancer Center) appoints the governing body of Services. Services' mission is to benefit the Cancer Center by providing, directly or indirectly, assistance and benefit, financial or

otherwise, through whatever means are determined by the Board of Directors, including, but not limited to, making distributions or providing services to the Cancer Center. In accomplishment of such purposes, the corporation will emphasize clinical, educational, and scientific aspects of cancer care throughout the United States and in foreign countries. The Services fiscal year end is August 31, 2003.

The address of Services is: 811 Dallas Avenue
Houston, Texas 77002

The governing body of TUHP is appointed by the System. TUHP is a nonprofit corporation organized and administered solely for the purpose of aiding, assisting, supporting, and acting on behalf of the System in the performance of its essential governmental function of providing higher education by securing a certificate of authority and operating a health maintenance organization. The TUHP fiscal year end was December 31, 2002.

The address of TUHP is: 701 Brazos Street, Suite 500
Austin, Texas 78701

U. T. Southwestern Moncrief Cancer Center is a nonprofit corporation governed by a three-member board appointed by the President of the U. T. Southwestern Medical Center. Moncrief exists for charitable, educational and scientific purposes, and provides radiation oncology treatment services at three facilities. Moncrief's fiscal year end is August 31, 2003.

The address of Moncrief is: 1450 Eighth Avenue
Fort Worth, Texas 76104

Complete financial statements may be obtained by contacting Services', TUHP's or Moncrief's administrative offices.

23. Funds Held in Trust by Others

The balances, or transactions, of funds held in trust by others on behalf of the System, including Charitable Lead Trusts, are not reflected in the financial statements. As of August 31, 2003, there were 835 such funds for the benefit of the System. Based upon the most recent available information, the assets of these funds are reported by the trustees at values totaling approximately \$970,721,520.

UNAUDITED

THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION
EXHIBIT A - BALANCE SHEET
As of August 31, 2003

	Current Year Totals		Restated Prior Year Totals	
	Primary University	Component Unit	Primary University	Component Unit
ASSETS				
Current Assets:				
Cash & Cash Equivalents	\$ 749,489,636	1,896,050	641,031,147	2,012,382
Restricted Cash & Cash Equivalents	9,068,608		7,630,925	
Securities Lending Collateral	247,392,402		202,552,782	
Accounts Receivable, Net:				
Interest and Dividends	109,167,192	1,601	95,415,759	13,041
Other Receivables (net of allowances of \$0)	168,550,409	121,754	161,369,030	4,837,896
Due From Other Funds	63,168,307		38,643,822	
Due From Other Components	41,316,826		35,618,427	
Other Current Assets	343,133	33,199	346,980	45,524
Total Current Assets	1,388,496,513	2,052,604	1,182,608,872	6,908,843
Non-Current Assets:				
Restricted:				
Cash & Cash Equivalents	107,437		81,198	
Investments	11,767,416,994	250,000	10,658,089,755	265,380
Investments	2,356,544,992		2,171,031,412	
Capital Assets	2,788,577,522	120,283	2,270,341,453	176,756
Less Accumulated Depreciation	(23,790,949)	(68,577)	(22,506,545)	(72,270)
Total Non-Current Assets	16,888,855,996	301,706	15,077,037,273	369,866
TOTAL ASSETS	\$ 18,277,352,509	2,354,310	16,259,646,145	7,278,709
LIABILITIES				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	\$ 239,555,872	15,483	40,938,763	4,387,987
Self-Insurance Claims IBNR	151,741,949		161,813,541	
Securities Lending Obligations	247,392,402		202,552,782	
Due to Other Funds	63,168,307		38,643,822	
Due to Other Components	581,575,741		473,340,153	
Due to Other Agencies	6,544,475		6,548,229	
Deferred Revenue	2,613		2,500,000	
Employees' Compensable Leave-Current Portion	711,874		245,433	
Notes, Loans and Leases Payable-Current Portion	516,286,000		498,007,000	
Payable From Restricted Assets-Current Portion	513,877,132		487,083,668	
Revenue Bonds Payable-Current Portion	97,835,000		81,000,000	
Other Current Liabilities	164,000		164,000	
Total Current Liabilities	2,418,855,365	15,483	1,992,837,391	4,387,987
Non-Current Liabilities:				
Employees' Compensable Leave	2,118,252		2,179,139	
Assets Held for Others	1,209,870,927		1,346,322,295	
Revenue Bonds Payable	2,161,495,000		1,680,600,000	
Total Non-Current Liabilities	3,373,484,179		3,029,101,434	
TOTAL LIABILITIES	5,792,339,544	15,483	5,021,938,825	4,387,987
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	(9,447,549)	51,706	(8,945,299)	104,486
Restricted for:				
Nonexpendable				
Permanent University Fund Endowment	8,231,079,481		7,539,176,009	
True and Term Endowments, and Annuities	12,251,595		11,217,361	
True and Term Endowments Held for Components	3,126,243,819		2,700,025,354	
Expendable				
Capital Projects	440,762		6,580,119	
Debt Service	6,102,912		4,459,204	
Funds Functioning as Endowment - Restricted	35		12	
Other Expendable	2,741,068		656,675	
Unrestricted	1,115,600,842	2,287,121	984,537,885	2,786,236
TOTAL NET ASSETS	12,485,012,965	2,338,827	11,237,707,320	2,890,722
TOTAL LIABILITIES AND NET ASSETS	\$ 18,277,352,509	2,354,310	16,259,646,145	7,278,709

UNAUDITED

THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended August 31, 2003

	Current Year Totals		Restated Prior Year Totals	
	Primary University	Component Unit	Primary University	Component Unit
Operating Revenues:				
State Sponsored Programs	\$	18,491,917	4,000,000	28,173,812
Private Sponsored Programs		1,812,000		
Sales and Services of Educational Activities		6,114,654	2,459,036	
Discounts and Allowances (none)				
Other Operating Revenues		32,143,377	(3,756,372)	
Total Operating Revenues		<u>40,070,031</u>	<u>2,702,664</u>	<u>28,173,812</u>
Operating Expenses:				
Hospitals and Clinics				28,237,645
Institutional Support		47,328,622	39,139,936	
Depreciation and Amortization		<u>1,500,349</u>	<u>1,587,391</u>	<u>30,065</u>
Total Operating Expenses		<u>48,828,971</u>	<u>40,727,327</u>	<u>28,267,710</u>
Operating Loss		<u>(8,758,940)</u>	<u>(38,024,663)</u>	<u>(93,898)</u>
Nonoperating Revenues (Expenses):				
State Appropriations		8,288,165	8,464,162	
Gift Contributions for Operations		1,160,003	445,088	
Net Investment Income		158,756,726	(221,471,430)	58,180
Net Increase (Decrease) in Fair Value of Investments		1,254,851,739	(454,955,088)	
Interest Expense on Capital Asset Financings		(87,527,873)	(89,918,208)	
Gain/(Loss) on Sale of Capital Assets		(99,554)		
Other Nonoperating Revenues		45,312,790	22,218,163	1,441
Other Nonoperating Expenses		<u>(21,997,601)</u>	<u>(11,742,005)</u>	
Net Nonoperating Revenues (Expenses)		<u>1,358,744,395</u>	<u>(746,959,318)</u>	<u>59,621</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers		1,349,985,455	(784,983,981)	(34,277)
Additions to Permanent Endowments		222,092,663	87,678,590	
Reclass from / (to) Other Components		(127,393,191)	26,116,065	
Proceeds of Bonds Payable Invested in Plant of Components		512,328,219	430,801,825	
Transfers Between Components & System-Debt Service-Mandatory		173,553,303	137,517,659	
Transfers Between Components & System Admin. - Non mandatory		(762,253,456)	(824,113,878)	
Transfers to/from Other State Agencies		(121,007,348)	(112,811,212)	
Change in Net Assets		<u>1,247,305,645</u>	<u>(1,039,794,932)</u>	<u>(34,277)</u>
Beginning Net Assets - As Previously Reported		11,238,194,563	12,302,685,916	2,924,999
Restatements		<u>(487,243)</u>	<u>(25,183,664)</u>	
Beginning Net Assets - As Restated		<u>11,237,707,320</u>	<u>12,277,502,252</u>	<u>2,924,999</u>
Ending Net Assets	\$	<u>12,485,012,965</u>	<u>11,237,707,320</u>	<u>2,890,722</u>

UNAUDITED

THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2003

	Current Year Totals		Restated Prior Year Totals	
	Primary University	Component Unit	Primary University	Component Unit
Cash Flows from Operating Activities:				
Proceeds Received from Patients and Customers	\$	22,719,499		24,303,068
Proceeds for Sponsored Programs		1,812,000		4,000,000
Proceeds from Other Revenues		40,995,257		(829,833)
Payments to Suppliers		(39,618,097)		(24,346,544)
Payments to Employees		(23,981,989)		(961,995)
Payments for Other Expenses		(492)		
Net Cash Provided (Used) by Operating Activities		<u>(20,793,321)</u>		<u>(5,285,053)</u>
Cash Flows from Noncapital Financing Activities:				
Proceeds from State Appropriations		8,288,165		8,626,284
Operating Gifts		1,160,003		443,163
Private Gifts for Endowment and Annuity Life Purposes		172,585,762		87,241,939
Other Nonoperating Revenues		608,435		1,219,912
Other Nonoperating Transfers To/From System		(690,316,400)		(640,529,085)
Payments for Other Uses		(4,430,359)		(6,697,404)
Net Cash Provided (Used) by Noncapital Financing Activities		<u>(512,104,394)</u>		<u>(549,695,191)</u>
Cash Flows from Capital and Related Financing Activities:				
Proceeds from Issuance of Capital Debt		1,099,220,658		1,051,022,799
Proceeds for Capital Debt Transferred from System (non-man)		(593,546,970)		(376,846,680)
Payments of Other Costs on Debt Issuance		(17,567,242)		(3,167,097)
Purchase of Capital Assets		(6,157,388)		(7,690,402)
Principal Paid on Capital Related Debt		(538,427,000)		(588,728,000)
Mandatory Transfers to System for Capital Related Debt		173,553,303		137,517,659
Interest Paid on Capital Related Debt		(86,615,087)		(81,312,789)
Net Cash Provided (Used) by Related Financing Activities		<u>30,460,274</u>		<u>130,795,490</u>
Cash Flows from Investing Activities:				
Proceeds from Sales and Maturities of Investments		12,571,113,786		15,438,070,709
Proceeds from Interest and Investment Income		342,570,763		30,543
Purchases of Investments		(12,301,324,697)		(14,898,450,291)
Net Cash Provided (Used) by Investing Activities		<u>612,359,852</u>		<u>716,526,718</u>
Net Increase (Decrease) in Cash		109,922,411		(116,332)
Cash & Cash Equivalents - Beginning of the Year		<u>648,743,270</u>		<u>2,012,382</u>
Cash & Cash Equivalents - End of the Year	\$	<u><u>758,665,681</u></u>		<u><u>648,743,270</u></u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:				
Operating Loss	\$	(8,758,940)		(582,438)
Adjustments to Reconcile Operating Loss to Net Cash:				
Depreciation and Amortization Expense		1,500,349		24,872
Loss on Asset Disposition				27,911
Changes in Assets and Liabilities:				
Accounts Receivable, net		1,266,065		4,716,142
Other Assets				23,765
Accounts Payable		(10,978,619)		(4,354,160)
Due to System (from Components)		(5,698,399)		(7,616,937)
Deferred Revenue		(2,497,387)		1,225,282
Deposits Held for Others		3,968,056		(62,303)
Compensated Absences & Notes Payable		405,554		175,482
Other Liabilities				(18,347)
Total Adjustments		<u>(12,034,381)</u>		<u>420,183</u>
Net Cash Provided (Used) by Operating Activities:	\$	<u><u>(20,793,321)</u></u>		<u><u>(5,285,053)</u></u>
Noncash Transactions				
Net Increase (Decrease) in Fair Value of Investments		1,254,851,739		(454,955,088)

UNAUDITED

THE UNIVERSITY OF TEXAS AT ARLINGTON
EXHIBIT A - BALANCE SHEET
As of August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
ASSETS		
Current Assets:		
Cash & Cash Equivalents	\$ 83,377,940	63,410,541
Restricted Cash & Cash Equivalents	3,015,824	5,876,565
Balance in State Appropriations	2,293,662	11,201,487
Accounts Receivable, Net:		
Federal Receivables (net of allowances of \$0)	2,822,650	3,270,489
Other Intergovernmental Rec. (net of allowances of \$0)	1,218,881	4,047,154
Student Receivables (net of allowances of \$644,361)	23,659,368	20,495,393
Contributions Receivable (net of allowances of \$6,976)	132,554	322,714
Other Receivables (net of allowances of \$0)	89,553	144,476
Due From System Administration	28,007,316	9,344,308
Due From Other Agencies	1,059,463	1,799,928
Inventories	325,796	270,933
Loans and Contracts (net of allowances of \$93,765)	3,259,724	2,754,613
Other Current Assets	12,091,610	10,101,189
Total Current Assets	161,354,341	133,039,790
Non-Current Assets:		
Restricted:		
Investments	541,794	1,463,960
Loans, Contracts and Other (net of allowances of \$10,418)	362,192	319,025
Funds Held by System Administration	34,854,512	28,924,462
Contributions Receivable (net of allowances of \$7,807)	148,333	
Investments	15,761,393	15,138,151
Capital Assets	438,563,044	395,677,333
Less Accumulated Depreciation	(125,281,700)	(118,084,611)
Total Non-Current Assets	364,949,568	323,438,320
TOTAL ASSETS	\$ 526,303,909	456,478,110
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 13,990,585	13,117,462
Due to System Administration	1,794,060	1,538,906
Deferred Revenue	63,496,807	54,615,610
Employees' Compensable Leave-Current Portion	504,099	471,452
Payable From Restricted Assets-Current Portion	1,162,285	1,633,421
Other Current Liabilities	680,472	587,429
Total Current Liabilities	81,628,308	71,964,280
Non-Current Liabilities:		
Employees' Compensable Leave	3,764,934	3,488,071
Assets Held for Others	1,767,140	792,240
Other Non-Current Liabilities	455,971	439,943
Total Non-Current Liabilities	5,988,045	4,720,254
TOTAL LIABILITIES	87,616,353	76,684,534
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	313,281,344	277,592,722
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	32,508,138	26,771,833
Expendable		
Capital Projects	18,931,018	6,558,332
Funds Functioning as Endowment - Restricted	2,346,374	2,152,629
Other Expendable	16,752,728	21,921,752
Unrestricted	54,867,954	44,796,308
TOTAL NET ASSETS	438,687,556	379,793,576
TOTAL LIABILITIES AND NET ASSETS	\$ 526,303,909	456,478,110

UNAUDITED

THE UNIVERSITY OF TEXAS AT ARLINGTON

EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Operating Revenues:		
Student Tuition and Fees	\$ 99,073,079	79,554,454
Discounts and Allowances	(17,243,469)	(12,082,756)
Federal Sponsored Programs	25,088,455	20,964,986
Federal Sponsored Programs Pass-Through from Other St. Agencies	3,001,978	3,982,213
State Sponsored Programs	2,895,530	1,603,977
State Sponsored Programs Pass-Through from Other St. Agencies	5,079,407	5,343,629
Local Sponsored Programs	1,391,572	866,398
Private Sponsored Programs	890,861	3,073,319
Sales and Services of Educational Activities	5,570,468	4,285,793
Discounts and Allowances (none)		
Auxiliary Enterprises	15,704,590	13,490,873
Discounts and Allowances (none)		
Other Operating Revenues	5,024,084	4,815,665
Total Operating Revenues	146,476,555	125,898,551
Operating Expenses:		
Instruction	85,387,967	78,565,735
Research	19,226,359	16,671,832
Public Service	10,126,370	10,748,830
Academic Support	20,355,018	20,599,092
Student Services	13,668,617	11,054,757
Institutional Support	21,525,229	22,014,643
Operations and Maintenance of Plant	17,756,274	19,451,734
Scholarships and Fellowships	10,891,333	7,468,441
Auxiliary Enterprises	24,412,419	22,358,558
Depreciation and Amortization	9,587,269	8,264,438
Total Operating Expenses	232,936,855	217,198,060
Operating Loss	(86,460,300)	(91,299,509)
Nonoperating Revenues (Expenses):		
State Appropriations	95,979,038	100,366,595
Gift Contributions for Operations	1,334,117	1,895,707
Net Investment Income	2,169,845	2,803,441
Net Increase (Decrease) in Fair Value of Investments	1,852,698	(3,611,598)
Gain/(Loss) on Sale of Capital Assets	(626,897)	(1,078,674)
Other Nonoperating Revenues	457,729	5,460,754
Other Nonoperating Expenses	(2,188,615)	(2,456,338)
Net Nonoperating Revenues (Expenses)	98,977,915	103,379,887
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	12,517,615	12,080,378
Gifts and Sponsored Programs for Capital Acquisitions	367,292	949,534
Additions to Permanent Endowments	2,400,609	492,292
Reclass from / (to) Other Components	(41,026,666)	1,500,014
Transfers Between Components & System-Debt Service-Mandatory	(11,339,899)	(10,645,247)
Transfers Between Components & System Admin. - Non mandatory	90,656,550	26,259,256
Transfers to/from Other State Agencies	5,318,479	4,610,687
Change in Net Assets	58,893,980	35,246,914
Beginning Net Assets - As Previously Reported	379,793,576	491,708,231
Restatements		(147,161,569)
Beginning Net Assets - As Restated	379,793,576	344,546,662
Ending Net Assets	\$ 438,687,556	379,793,576

UNAUDITED

THE UNIVERSITY OF TEXAS AT ARLINGTON
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Cash Flows from Operating Activities:		
Proceeds Received from Students	\$ 85,207,516	77,332,764
Proceeds for Sponsored Programs	43,087,362	34,527,471
Auxiliary Enterprise Charges	18,060,388	13,502,078
Proceeds from Other Revenues	9,692,911	6,733,547
Payments to Suppliers	(62,803,835)	(61,795,625)
Payments to Employees	(159,773,495)	(146,756,717)
Loans Issued to Students	(2,704,779)	(2,692,245)
Collections of Loans to Students	1,870,191	2,620,055
Net Cash Provided (Used) by Operating Activities	<u>(67,363,741)</u>	<u>(76,528,672)</u>
Cash Flows from Noncapital Financing Activities:		
Proceeds from State Appropriations	104,886,863	96,730,249
Operating Gifts	1,375,944	1,751,102
Private Gifts for Endowment and Annuity Life Purposes	2,400,609	492,292
Other Nonoperating Revenues	408,524	5,410,478
Other Nonoperating Transfers To/From System	6,120,604	5,610,481
Payments for Other Uses	(2,882,619)	(2,456,338)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>112,309,925</u>	<u>107,538,264</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds for Capital Debt Transferred from System (non-man)	30,052,904	20,833,444
Capital Grants and Gifts	255,877	
Purchase of Capital Assets	(45,316,326)	(31,832,160)
Mandatory Transfers to System for Capital Related Debt	(11,339,899)	(10,645,247)
Net Cash Provided (Used) by Related Financing Activities	<u>(26,347,444)</u>	<u>(21,643,963)</u>
Cash Flows from Investing Activities:		
Proceeds from Interest and Investment Income	1,129,385	1,484,005
Proceeds from Interest and Investment Income Held by System	1,156,961	1,208,640
Purchases of Investments Held by System	(3,778,428)	(1,017,263)
Net Cash Provided (Used) by Investing Activities	<u>(1,492,082)</u>	<u>1,675,382</u>
Net Increase (Decrease) in Cash	17,106,658	11,041,011
Cash & Cash Equivalents - Beginning of the Year	69,287,106	58,246,095
Cash & Cash Equivalents - End of the Year	<u>\$ 86,393,764</u>	<u>69,287,106</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:		
Operating Loss	\$ (86,460,300)	(91,299,509)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	9,587,269	8,264,438
Bad Debt Expense	143,031	
Changes in Assets and Liabilities:		
Accounts Receivable, net	167,060	(20,489,387)
Inventory	(54,863)	33,832
Loans and Contracts	(691,309)	217,923
Other Assets	740,465	(1,307,254)
Accounts Payable	(23,855)	(1,747,187)
Due to System	255,154	292,727
Deferred Revenue	9,575,201	30,080,338
Deposits Held for Others	(1,020,175)	(1,776,984)
Compensated Absences & Notes Payable	309,510	214,167
Other Liabilities	109,071	988,224
Total Adjustments	<u>19,096,559</u>	<u>14,770,837</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (67,363,741)</u>	<u>(76,528,672)</u>
Noncash Transactions		
Net Increase (Decrease) in Fair Value of Investments	1,852,698	(3,611,598)
Donated Capital Assets	111,415	

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THE UNIVERSITY OF TEXAS AT AUSTIN
EXHIBIT A - BALANCE SHEET
As of August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
ASSETS		
Current Assets:		
Cash & Cash Equivalents	\$ 418,623,479	275,037,693
Restricted Cash & Cash Equivalents	161,625,862	80,339,165
Balance in State Appropriations	5,442,811	11,413,895
Funds Held by System Administration - Current	(326,246)	(341,994)
Accounts Receivable, Net:		
Federal Receivables (net of allowances of \$0)	36,251,007	53,455,609
Student Receivables (net of allowances of \$1,871,495)	76,606,616	71,744,974
Interest and Dividends	3,911,542	4,606,796
Contributions Receivable (net of allowances of \$533,913)	10,111,119	11,473,936
Other Receivables (net of allowances of \$820,158)	19,109,024	16,306,205
Due From Other Funds		8,086,410
Due From System Administration	113,708,780	82,642,468
Due From Other Agencies	443,604	1,640,183
Inventories	8,462,592	9,510,488
Loans and Contracts (net of allowances of \$0)	9,822,783	7,465,752
Other Current Assets	37,507,771	34,049,684
Total Current Assets	<u>901,300,744</u>	<u>667,431,264</u>
Non-Current Assets:		
Restricted:		
Cash & Cash Equivalents		
Investments	31,682,995	80,489,109
Loans, Contracts and Other (net of allowances of \$7,108,729)	43,742,743	46,553,907
Funds Held by System Administration	1,661,747,765	1,371,079,344
Contributions Receivable (net of allowances of \$841,005)	15,926,760	31,096,334
Investments	71,790,182	179,789,494
Other Non-Current Assets		
Capital Assets	2,492,091,092	2,359,355,435
Less Accumulated Depreciation	(1,066,339,460)	(1,005,093,074)
Total Non-Current Assets	<u>3,250,642,077</u>	<u>3,063,270,549</u>
TOTAL ASSETS	\$ <u>4,151,942,821</u>	<u>3,730,701,813</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 50,737,475	45,179,690
Due to Other Funds		8,086,410
Due to System Administration	9,065,009	7,950,511
Deferred Revenue	270,943,529	263,815,316
Employees' Compensable Leave-Current Portion	3,197,718	2,705,615
Notes, Loans and Leases Payable-Current Portion	896,563	176,457
Payable From Restricted Assets-Current Portion	14,615,977	13,960,050
Funds Held for Others	1,290,813	1,234,125
Other Current Liabilities	11,846,395	8,477,744
Total Current Liabilities	<u>362,593,479</u>	<u>351,585,918</u>
Non-Current Liabilities:		
Employees' Compensable Leave	30,063,706	28,226,238
Assets Held for Others	9,195,113	8,868,171
Notes, Loans and Leases Payable	20,343,682	21,559,630
Total Non-Current Liabilities	<u>59,602,501</u>	<u>58,654,039</u>
TOTAL LIABILITIES	<u>422,195,980</u>	<u>410,239,957</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	1,403,220,574	1,331,292,149
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	1,574,829,182	1,286,160,665
Expendable		
Capital Projects	113,697,528	66,881,137
Funds Functioning as Endowment - Restricted	65,619,562	66,288,206
Other Expendable	263,043,701	268,028,651
Unrestricted	309,336,294	301,811,048
TOTAL NET ASSETS	<u>3,729,746,841</u>	<u>3,320,461,856</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>4,151,942,821</u>	<u>3,730,701,813</u>

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THE UNIVERSITY OF TEXAS AT AUSTIN
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Operating Revenues:		
Student Tuition and Fees	\$ 306,241,690	266,504,816
Discounts and Allowances	(47,305,781)	(38,106,949)
Federal Sponsored Programs	265,034,189	252,843,750
Federal Sponsored Programs Pass-Through from Other St. Agencies	9,586,854	10,433,019
State Sponsored Programs	25,555,486	22,314,763
State Sponsored Programs Pass-Through from Other St. Agencies	15,309,799	22,859,720
Local Sponsored Programs	2,790,969	3,245,117
Private Sponsored Programs	51,001,277	44,927,304
Sales and Services of Educational Activities	89,281,221	72,274,384
Discounts and Allowances	(288,240)	(293,750)
Auxiliary Enterprises	137,257,640	127,529,464
Discounts and Allowances	(5,692,958)	(5,260,177)
Other Operating Revenues	2,911,691	3,570,830
Total Operating Revenues	851,683,837	782,842,291
Operating Expenses:		
Instruction	416,336,999	370,276,461
Research	303,255,633	297,312,235
Public Service	33,053,275	32,677,582
Academic Support	91,157,163	104,342,481
Student Services	36,283,002	33,439,662
Institutional Support	76,159,238	67,390,484
Operations and Maintenance of Plant	106,407,515	99,764,284
Scholarships and Fellowships	62,500,849	56,547,522
Auxiliary Enterprises	151,195,395	144,407,298
Depreciation and Amortization	79,967,533	78,959,256
Total Operating Expenses	1,356,316,602	1,285,117,265
Operating Loss	(504,632,765)	(502,274,974)
Nonoperating Revenues (Expenses):		
State Appropriations	286,447,699	290,753,034
Gift Contributions for Operations	73,550,685	78,534,499
Net Investment Income	52,333,214	53,517,907
Net Increase (Decrease) in Fair Value of Investments	89,974,761	(168,359,627)
Interest Expense on Capital Asset Financings	(1,637,104)	(1,658,252)
Gain/(Loss) on Sale of Capital Assets	(2,284,535)	(8,169,077)
Other Nonoperating Revenues	1,148,543	14,022,916
Other Nonoperating Expenses	(9,769,352)	(7,667,638)
Net Nonoperating Revenues (Expenses)	489,763,911	250,973,762
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	(14,868,854)	(251,301,212)
Gifts and Sponsored Programs for Capital Acquisitions	4,476,405	12,079,927
Additions to Permanent Endowments	190,813,290	52,143,071
Reclass from / (to) Other Components	27,769,736	(41,925,857)
Transfers Between Components & System-Debt Service-Mandatory	(39,851,309)	(39,516,455)
Transfers Between Components & System Admin. - Non mandatory	240,945,717	250,994,121
Change in Net Assets	409,284,985	(17,526,405)
Beginning Net Assets - As Previously Reported	3,351,890,377	4,478,038,432
Restatements	(31,428,521)	(1,140,050,171)
Beginning Net Assets - As Restated	3,320,461,856	3,337,988,261
Ending Net Assets	\$ 3,729,746,841	3,320,461,856

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THE UNIVERSITY OF TEXAS AT AUSTIN
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Cash Flows from Operating Activities:		
Proceeds Received from Students	\$ 259,313,217	237,887,087
Proceeds for Sponsored Programs	385,492,572	351,952,859
Auxiliary Enterprise Charges	130,794,591	114,344,611
Proceeds from Other Revenues	94,089,304	98,623,071
Payments to Suppliers	(359,210,726)	(372,503,970)
Payments to Employees	(908,317,491)	(837,092,769)
Loans Issued to Students	(36,309,539)	(28,921,821)
Collections of Loans to Students	35,781,282	28,050,270
Payments for Other Expenses	1,294,451	1,269,880
Net Cash Provided (Used) by Operating Activities	<u>(397,072,339)</u>	<u>(406,390,782)</u>
Cash Flows from Noncapital Financing Activities:		
Proceeds from State Appropriations	292,418,783	289,020,029
Operating Gifts	90,083,076	79,749,026
Private Gifts for Endowment and Annuity Life Purposes	190,813,290	52,143,071
Other Nonoperating Revenues	6,737,241	13,262,164
Other Nonoperating Transfers To/From System	163,127,599	151,531,428
Payments for Other Uses	(9,769,352)	(14,178,463)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>733,410,637</u>	<u>571,527,255</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds from Issuance of Capital Debt		354,037
Proceeds for Capital Debt Transferred from System (non-man)	73,977,919	30,520,430
Purchase of Capital Assets	(152,540,074)	(120,311,542)
Principal Paid on Capital Related Debt	(495,842)	(180,366)
Mandatory Transfers to System for Capital Related Debt	(39,851,309)	(39,516,455)
Interest Paid on Capital Related Debt	(1,637,104)	(1,658,252)
Net Cash Provided (Used) by Related Financing Activities	<u>(120,546,410)</u>	<u>(130,792,148)</u>
Cash Flows from Investing Activities:		
Proceeds from Sales and Maturities of Investments	152,912,911	100,578,795
Proceeds from Sales and Maturities of Investments Held by System		224,401,245
Proceeds from Interest and Investment Income	51,951,642	7,113,586
Proceeds from Interest and Investment Income Held by System	1,032,935	52,753,426
Purchases of Investments	(54,000,000)	(300,000,000)
Purchases of Investments Held by System	(142,801,145)	
Net Cash Provided (Used) by Investing Activities	<u>9,096,343</u>	<u>84,847,052</u>
Net Increase (Decrease) in Cash	224,888,231	119,191,377
Cash & Cash Equivalents - Beginning of the Year	355,034,864	235,843,487
Cash & Cash Equivalents - End of the Year	<u>\$ 579,923,095</u>	<u>355,034,864</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:		
Operating Loss	\$ (504,632,765)	(502,274,974)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	79,967,533	78,959,256
Bad Debt Expense	462,174	
Changes in Assets and Liabilities:		
Accounts Receivable, net	9,540,141	(68,442,386)
Due From System		(2,979,025)
Inventory	1,047,896	1,084,347
Loans and Contracts	(8,041)	(249,743)
Other Assets	1,196,579	81,065
Accounts Payable	3,669,635	1,865,109
Due to System	1,114,498	1,923,753
Deferred Revenue	7,128,213	86,220,981
Deposits Held for Others	(2,486,943)	(4,332,029)
Compensated Absences & Notes Payable	2,329,571	2,628,685
Other Liabilities	3,599,170	(875,821)
Total Adjustments	<u>107,560,426</u>	<u>95,884,192</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (397,072,339)</u>	<u>(406,390,782)</u>
Noncash Transactions		
Net Increase (Decrease) in Fair Value of Investments	89,974,761	(168,359,627)
Donated Capital Assets	4,476,405	11,704,947

UNAUDITED

THE UNIVERSITY OF TEXAS AT BROWNSVILLE
 EXHIBIT A - BALANCE SHEET
 As of August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
ASSETS		
Current Assets:		
Cash & Cash Equivalents	\$ 21,505,926	24,247,941
Restricted Cash & Cash Equivalents	4,702,316	1,258,734
Balance in State Appropriations	6,635,856	6,162,617
Accounts Receivable, Net:		
Federal Receivables (net of allowances of \$0)	3,197,443	2,155,160
Other Intergovernmental Rec. (net of allowances of \$46,044)	360,547	1,086,922
Student Receivables (net of allowances of \$621,536)	2,767,498	3,105,564
Interest and Dividends	21,341	
Other Receivables (net of allowances of \$61,257)	1,150,657	1,463,079
Due From Other Funds	10,878,319	11,314,098
Due From System Administration	23,490,549	4,398,385
Due From Other Agencies	400	100
Inventories	33,266	48,709
Loans and Contracts (net of allowances of \$29,411)	1,250,165	882,505
Other Current Assets	1,150,407	1,556,896
Total Current Assets	<u>77,144,690</u>	<u>57,680,710</u>
Non-Current Assets:		
Restricted:		
Cash & Cash Equivalents	80,000	
Loans, Contracts and Other (net of allowances of \$215,681)	367,447	334,473
Funds Held by System Administration	3,903,532	3,064,866
Investments	3,462,854	
Capital Assets	63,182,358	57,764,311
Less Accumulated Depreciation	<u>(10,863,382)</u>	<u>(7,872,045)</u>
Total Non-Current Assets	<u>60,132,809</u>	<u>53,291,605</u>
TOTAL ASSETS	<u>\$ 137,277,499</u>	<u>110,972,315</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 13,660,927	10,414,551
Federal Payables	16,963	14,309
Due to Other Funds	10,878,319	11,314,098
Due to System Administration	489,353	413,254
Deferred Revenue	3,441,566	2,943,519
Employees' Compensable Leave-Current Portion	91,952	108,840
Payable From Restricted Assets-Current Portion	409,786	139,501
Funds Held for Others	567,747	629,240
Total Current Liabilities	<u>29,556,613</u>	<u>25,977,312</u>
Non-Current Liabilities:		
Employees' Compensable Leave	1,597,106	1,348,810
Total Non-Current Liabilities	<u>1,597,106</u>	<u>1,348,810</u>
TOTAL LIABILITIES	<u>31,153,719</u>	<u>27,326,122</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	52,318,976	49,892,266
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	3,983,532	3,064,866
Expendable		
Capital Projects	22,194,291	4,695,299
Other Expendable	3,666,745	3,480,396
Unrestricted	23,960,236	22,513,366
TOTAL NET ASSETS	<u>106,123,780</u>	<u>83,646,193</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 137,277,499</u>	<u>110,972,315</u>

UNAUDITED

THE UNIVERSITY OF TEXAS AT BROWNSVILLE
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Operating Revenues:		
Student Tuition and Fees	\$ 7,324,791	7,215,982
Discounts and Allowances	(3,467,980)	(3,530,431)
Federal Sponsored Programs	24,156,009	22,884,275
Federal Sponsored Programs Pass-Through from Other St. Agencies	694,896	401,054
State Sponsored Programs	1,339,098	2,699,632
State Sponsored Programs Pass-Through from Other St. Agencies	1,708,792	1,326,069
Local Sponsored Programs	31,109,058	31,250,565
Private Sponsored Programs	440,027	745,762
Sales and Services of Educational Activities	5,011,114	5,618,670
Discounts and Allowances (none)		
Auxiliary Enterprises	2,380,070	1,981,566
Discounts and Allowances (none)		
Other Operating Revenues	11,934	20,512
Total Operating Revenues	70,707,809	70,613,656
Operating Expenses:		
Instruction	29,895,536	29,908,926
Research	1,297,299	1,066,455
Public Service	3,219,225	3,875,438
Academic Support	8,565,152	7,175,663
Student Services	6,351,775	5,845,507
Institutional Support	9,358,052	9,227,658
Operations and Maintenance of Plant	7,466,678	5,922,620
Scholarships and Fellowships	19,200,319	16,103,548
Auxiliary Enterprises	3,206,880	2,620,799
Depreciation and Amortization	3,017,770	2,617,326
Total Operating Expenses	91,578,686	84,363,940
Operating Loss	(20,870,877)	(13,750,284)
Nonoperating Revenues (Expenses):		
State Appropriations	24,648,119	20,951,595
HEAF Appropriations	1,050,580	1,050,580
Gift Contributions for Operations	221,489	619,645
Net Investment Income	141,573	353,139
Net Increase (Decrease) in Fair Value of Investments	215,728	(272,275)
Other Nonoperating Revenues	107,764	115,776
Other Nonoperating Expenses	(2,061,959)	(1,896,394)
Net Nonoperating Revenues (Expenses)	24,323,294	20,922,066
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	3,452,417	7,171,782
Gifts and Sponsored Programs for Capital Acquisitions	88,800	254,785
Additions to Permanent Endowments	655,813	2,420,838
Reclass from / (to) Other Components	21,510,000	(19,999,500)
Transfers Between Components & System-Debt Service-Mandatory	(3,912,145)	(1,976,054)
Transfers Between Components & System Admin. - Non mandatory	648,257	26,998,791
Transfers to/from Other State Agencies	34,445	28,654
Change in Net Assets	22,477,587	14,899,296
Beginning Net Assets - As Previously Reported	84,113,701	82,249,881
Restatements	(467,508)	(13,502,984)
Beginning Net Assets - As Restated	83,646,193	68,746,897
Ending Net Assets	\$ 106,123,780	83,646,193

UNAUDITED

THE UNIVERSITY OF TEXAS AT BROWNSVILLE
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Cash Flows from Operating Activities:		
Proceeds Received from Students	\$ 4,479,105	4,242,230
Proceeds for Sponsored Programs	59,492,750	61,047,934
Auxiliary Enterprise Charges	2,604,816	1,988,634
Proceeds from Other Revenues	5,369,954	4,911,916
Payments to Suppliers	(34,033,646)	(32,916,239)
Payments to Employees	(51,831,027)	(47,434,715)
Loans Issued to Students	(892,866)	(351,443)
Collections of Loans to Students	130,150	(432,498)
Payments for Other Expenses	(61,493)	(895,044)
Net Cash Provided (Used) by Operating Activities	<u>(14,742,257)</u>	<u>(9,839,225)</u>
Cash Flows from Noncapital Financing Activities:		
Proceeds from State Appropriations	25,225,460	20,865,141
Operating Gifts	221,489	619,645
Private Gifts for Endowment and Annuity Life Purposes	655,813	2,420,838
Other Nonoperating Revenues	107,764	115,776
Other Nonoperating Transfers To/From System	212,288	129,946
Payments for Other Uses	(2,061,959)	(1,867,740)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>24,360,855</u>	<u>22,283,606</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds for Capital Debt Transferred from System (non-man)	2,885,363	2,728,893
Capital Grants and Gifts		254,785
Purchase of Capital Assets	(3,847,576)	(3,237,060)
Mandatory Transfers to System for Capital Related Debt	(3,912,145)	(1,976,054)
Net Cash Provided (Used) by Related Financing Activities	<u>(4,874,358)</u>	<u>(2,229,436)</u>
Cash Flows from Investing Activities:		
Proceeds from Interest and Investment Income	34,333	351,064
Proceeds from Interest and Investment Income Held by System	88,786	(1,014)
Purchases of Investments Held by System	(4,085,792)	(2,410,335)
Net Cash Provided (Used) by Investing Activities	<u>(3,962,673)</u>	<u>(2,060,285)</u>
Net Increase (Decrease) in Cash	781,567	8,154,660
Cash & Cash Equivalents - Beginning of the Year	25,506,675	17,352,015
Cash & Cash Equivalents - End of the Year	<u>\$ 26,288,242</u>	<u>25,506,675</u>
Reconciliation of Net Operating Revenues (Expenses) to		
Net Cash Provided (Used) by Operating Activities:		
Operating Loss	\$ (20,870,877)	(13,750,284)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	3,017,770	2,617,326
Bad Debt Expense	181,041	
Changes in Assets and Liabilities:		
Accounts Receivable, net	334,580	2,202,617
Inventory	15,443	6,727
Loans and Contracts	(581,675)	(737,744)
Other Assets	(300)	(100)
Accounts Payable	2,011,211	981,951
Due to System	76,099	87,375
Deferred Revenue	498,047	539,081
Deposits Held for Others	344,996	(2,059,584)
Compensated Absences & Notes Payable	231,408	273,410
Total Adjustments	<u>6,128,620</u>	<u>3,911,059</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (14,742,257)</u>	<u>(9,839,225)</u>
Noncash Transactions		
Net Increase (Decrease) in Fair Value of Investments	215,728	(272,275)
Donated Capital Assets	88,800	

UNAUDITED

THE UNIVERSITY OF TEXAS AT DALLAS
 EXHIBIT A - BALANCE SHEET
 As of August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
ASSETS		
Current Assets:		
Cash & Cash Equivalents	\$ 14,770,471	33,288,821
Restricted Cash & Cash Equivalents	4,443,238	10,847,702
Balance in State Appropriations	1,675,285	5,616,038
Accounts Receivable, Net:		
Federal Receivables (net of allowances of \$0)	2,914,005	4,757,375
Other Intergovernmental Rec. (net of allowances of \$0)	36,447	35,042
Student Receivables (net of allowances of \$521,581)	5,724,087	4,585,943
Interest and Dividends	122,783	167,217
Contributions Receivable (net of allowances of \$875,068)	995,259	1,647,082
Other Receivables (net of allowances of \$489,198)	2,098,993	2,630,037
Due From Other Funds	34,900,473	1,160,871
Due From System Administration	19,452,741	32,282,906
Due From Other Agencies	140,485	391,769
Inventories	459,346	364,752
Loans and Contracts (net of allowances of \$90,783)	2,467,059	2,633,656
Other Current Assets	19,038,723	13,523,331
Total Current Assets	<u>109,239,395</u>	<u>113,932,542</u>
Non-Current Assets:		
Restricted:		
Investments		11,101,991
Loans, Contracts and Other (net of allowances of \$1,194,703)	519,520	340,770
Funds Held by System Administration	181,753,351	171,652,751
Contributions Receivable (net of allowances of \$375,987)	922,821	468,033
Investments	63,308,634	29,388,129
Capital Assets	314,276,464	274,675,941
Less Accumulated Depreciation	<u>(103,919,693)</u>	<u>(97,180,637)</u>
Total Non-Current Assets	<u>456,861,097</u>	<u>390,446,978</u>
TOTAL ASSETS	<u>\$ 566,100,492</u>	<u>504,379,520</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 10,779,723	10,134,815
Due to Other Funds	34,900,473	1,160,871
Due to System Administration	1,003,244	858,727
Due to Other Agencies		69,047
Deferred Revenue	45,823,752	37,037,204
Employees' Compensable Leave-Current Portion	222,594	215,864
Notes, Loans and Leases Payable-Current Portion	354,337	27,963
Payable From Restricted Assets-Current Portion	38,623	245,416
Funds Held for Others	420,194	128,775
Other Current Liabilities	190,830	174,798
Total Current Liabilities	<u>93,733,770</u>	<u>50,053,480</u>
Non-Current Liabilities:		
Employees' Compensable Leave	2,669,200	2,299,471
Notes, Loans and Leases Payable	369,898	57,954
Total Non-Current Liabilities	<u>3,039,098</u>	<u>2,357,425</u>
TOTAL LIABILITIES	<u>96,772,868</u>	<u>52,410,905</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	209,632,536	177,409,387
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	176,244,569	166,544,948
Expendable		
Capital Projects	735,983	13,147,530
Funds Functioning as Endowment - Restricted	5,448,282	5,047,303
Other Expendable	39,738,001	45,492,082
Unrestricted	37,528,253	44,327,365
TOTAL NET ASSETS	<u>469,327,624</u>	<u>451,968,615</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 566,100,492</u>	<u>504,379,520</u>

UNAUDITED

THE UNIVERSITY OF TEXAS AT DALLAS

EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Operating Revenues:		
Student Tuition and Fees	\$ 70,919,523	61,791,720
Discounts and Allowances	(11,682,170)	(11,461,574)
Federal Sponsored Programs	18,272,614	14,820,718
Federal Sponsored Programs Pass-Through from Other St. Agencies	1,698,764	1,205,747
State Sponsored Programs	453,767	874,610
State Sponsored Programs Pass-Through from Other St. Agencies	2,475,562	4,266,447
Local Sponsored Programs	334,476	433,144
Private Sponsored Programs	2,327,061	3,811,034
Sales and Services of Educational Activities	4,218,283	4,246,549
Discounts and Allowances	(24,110)	
Auxiliary Enterprises	4,586,580	4,280,807
Discounts and Allowances (none)		
Other Operating Revenues	1,835,803	3,430,343
Total Operating Revenues	95,416,153	87,699,545
Operating Expenses:		
Instruction	67,781,172	62,277,449
Research	26,419,446	22,592,170
Public Service	4,465,393	4,835,127
Academic Support	12,993,798	15,876,161
Student Services	5,839,670	4,810,838
Institutional Support	14,439,466	14,360,702
Operations and Maintenance of Plant	12,090,539	11,806,987
Scholarships and Fellowships	11,667,006	5,342,385
Auxiliary Enterprises	9,368,716	8,063,159
Depreciation and Amortization	9,600,682	7,320,212
Total Operating Expenses	174,665,888	157,285,190
Operating Loss	(79,249,735)	(69,585,645)
Nonoperating Revenues (Expenses):		
State Appropriations	61,558,326	62,134,628
Gift Contributions for Operations	5,467,361	3,823,405
Net Investment Income	5,734,806	5,606,863
Net Increase (Decrease) in Fair Value of Investments	6,448,476	(15,139,592)
Gain/(Loss) on Sale of Capital Assets	(2,531,294)	(1,219,409)
Other Nonoperating Revenues	240,411	7,542,522
Other Nonoperating Expenses	(722,075)	(3,124,111)
Net Nonoperating Revenues (Expenses)	76,196,011	59,624,306
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	(3,053,724)	(9,961,339)
Gifts and Sponsored Programs for Capital Acquisitions	41,397	
Additions to Permanent Endowments	1,009,500	89,678
Reclass from / (to) Other Components	12,886,013	7,109,131
Transfers Between Components & System-Debt Service-Mandatory	(5,989,656)	(4,285,674)
Transfers Between Components & System Admin. - Non mandatory	6,552,891	41,434,940
Transfers to/from Other State Agencies	5,912,588	4,142,288
Change in Net Assets	17,359,009	38,529,024
Beginning Net Assets - As Previously Reported	455,771,961	532,436,594
Restatements	(3,803,346)	(118,997,003)
Beginning Net Assets - As Restated	451,968,615	413,439,591
Ending Net Assets	\$ 469,327,624	451,968,615

UNAUDITED

THE UNIVERSITY OF TEXAS AT DALLAS
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Cash Flows from Operating Activities:		
Proceeds Received from Students	\$ 61,681,173	59,303,130
Proceeds for Sponsored Programs	30,292,696	22,666,704
Auxiliary Enterprise Charges	5,134,567	4,475,990
Proceeds from Other Revenues	6,361,121	7,060,376
Payments to Suppliers	(51,635,573)	(45,127,054)
Payments to Employees	(117,619,756)	(105,981,766)
Loans Issued to Students	(7,270,965)	(5,579,025)
Collections of Loans to Students	7,067,711	5,857,692
Payments for Other Expenses	(1,151,868)	(3,865,520)
Net Cash Provided (Used) by Operating Activities	<u>(67,140,894)</u>	<u>(61,189,473)</u>
Cash Flows from Noncapital Financing Activities:		
Proceeds from State Appropriations	65,499,079	60,750,582
Operating Gifts	5,705,793	4,463,342
Private Gifts for Endowment and Annuity Life Purposes	1,009,500	89,678
Other Nonoperating Revenues	151,092	4,146,953
Other Nonoperating Transfers To/From System	9,900,331	3,634,037
Payments for Other Uses	1,922,994	(1,318,918)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>84,188,789</u>	<u>71,765,674</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds for Capital Debt Transferred from System (non-man)	28,292,741	41,485,525
Purchase of Capital Assets	(43,570,981)	(45,731,717)
Mandatory Transfers to System for Capital Related Debt	(5,989,656)	(4,285,674)
Net Cash Provided (Used) by Related Financing Activities	<u>(21,267,896)</u>	<u>(8,531,866)</u>
Cash Flows from Investing Activities:		
Proceeds from Interest and Investment Income	189,790	996,986
Proceeds from Interest and Investment Income Held by System	5,578,035	4,581,488
Purchases of Investments Held by System	(26,470,638)	(1,545,953)
Net Cash Provided (Used) by Investing Activities	<u>(20,702,813)</u>	<u>4,032,521</u>
Net Increase (Decrease) in Cash	(24,922,814)	6,076,856
Restatements to Beginning Cash and Cash Equivalents		
Cash & Cash Equivalents - End of the Year	\$ <u>19,213,709</u>	<u>44,136,523</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:		
Operating Loss	\$ (79,249,735)	(69,585,645)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	9,600,682	7,320,212
Bad Debt Expense	89,845	
Changes in Assets and Liabilities:		
Accounts Receivable, net	1,234,865	(7,532,508)
Inventory	(94,594)	64,627
Loans and Contracts	(101,998)	286,679
Other Assets	251,284	(391,769)
Accounts Payable	(256,710)	(2,897,870)
Due to System	144,517	155,625
Deferred Revenue	6,072,432	16,548,702
Deposits Held for Others	(5,223,973)	(5,166,013)
Compensated Absences & Notes Payable	376,459	260,660
Other Liabilities	16,032	(252,173)
Total Adjustments	<u>12,108,841</u>	<u>8,396,172</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (67,140,894)</u>	<u>(61,189,473)</u>
Noncash Transactions		
Net Increase (Decrease) in Fair Value of Investments	6,448,476	(15,139,592)
Capital Assets Acquired Under Capital Lease Purchases	638,318	85,917

UNAUDITED

THE UNIVERSITY OF TEXAS AT EL PASO
 EXHIBIT A - BALANCE SHEET
 As of August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
ASSETS		
Current Assets:		
Cash & Cash Equivalents	\$ 28,989,799	29,775,175
Restricted Cash & Cash Equivalents	3,836,852	2,487,614
Balance in State Appropriations	287,474	842,436
Accounts Receivable, Net:		
Federal Receivables (net of allowances of \$0)	5,388,483	3,235,348
Student Receivables (net of allowances of \$1,851,807)	6,092,341	5,603,082
Interest and Dividends	27,138	43,795
Contributions Receivable (net of allowances of \$51,106)	301,998	1,251,072
Other Receivables (net of allowances of \$188,396)	5,775,282	5,322,810
Due From System Administration	22,964,680	9,359,906
Due From Other Agencies	570,840	1,690,853
Inventories	2,269,597	2,300,184
Loans and Contracts (net of allowances of \$0)	2,360,421	2,163,879
Other Current Assets	15,979,635	14,599,589
Total Current Assets	94,844,540	78,675,743
Non-Current Assets:		
Restricted:		
Investments	1,748,663	1,360,169
Loans, Contracts and Other (net of allowances of \$1,580,917)	3,754,229	3,602,231
Funds Held by System Administration	84,295,574	77,160,524
Funds Held by System - Permanent Health Fund	22,712,225	21,288,100
Contributions Receivable (net of allowances of \$142,000)	3,288,547	1,768,682
Investments	12,243,986	12,391,038
Other Non-Current Assets	1,093,688	890,527
Capital Assets	299,225,196	284,889,183
Less Accumulated Depreciation	(95,153,438)	(88,208,829)
Total Non-Current Assets	333,208,670	315,141,625
TOTAL ASSETS	\$ 428,053,210	393,817,368
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 7,045,743	7,727,236
Due to System Administration	1,539,141	1,303,963
Due to Other Agencies		93,275
Deferred Revenue	34,373,733	25,658,304
Employees' Compensable Leave-Current Portion	445,288	440,172
Notes, Loans and Leases Payable-Current Portion	107,598	
Payable From Restricted Assets-Current Portion	2,933,754	4,146,602
Funds Held for Others	1,037,771	977,423
Other Current Liabilities	102,763	373,537
Total Current Liabilities	47,585,791	40,720,512
Non-Current Liabilities:		
Employees' Compensable Leave	3,283,160	2,986,040
Notes, Loans and Leases Payable	354,727	
Other Non-Current Liabilities	385,394	400,654
Total Non-Current Liabilities	4,023,281	3,386,694
TOTAL LIABILITIES	51,609,072	44,107,206
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	204,071,758	196,680,354
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	80,064,164	73,452,931
Expendable		
Capital Projects	22,046,993	9,381,961
Funds Functioning as Endowment - Restricted	3,747,051	3,504,683
Other Expendable	23,226,519	23,432,975
Unrestricted	43,287,653	43,257,258
TOTAL NET ASSETS	376,444,138	349,710,162
TOTAL LIABILITIES AND NET ASSETS	\$ 428,053,210	393,817,368

UNAUDITED

THE UNIVERSITY OF TEXAS AT EL PASO
 EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Operating Revenues:		
Student Tuition and Fees	\$ 51,474,765	45,342,845
Discounts and Allowances	(11,599,491)	(8,931,616)
Federal Sponsored Programs	53,501,276	48,476,747
Federal Sponsored Programs Pass-Through from Other St. Agencies	2,325,315	2,177,884
State Sponsored Programs	1,824,893	1,562,258
State Sponsored Programs Pass-Through from Other St. Agencies	7,198,234	5,249,600
Local Sponsored Programs	1,005,883	781,525
Private Sponsored Programs	2,855,208	6,092,158
Sales and Services of Educational Activities	3,285,612	3,544,572
Discounts and Allowances (none)		
Auxiliary Enterprises	23,388,508	18,273,764
Discounts and Allowances (none)		
Other Operating Revenues	703,186	365,923
Total Operating Revenues	135,963,389	122,935,660
Operating Expenses:		
Instruction	65,328,141	63,515,439
Research	25,644,741	22,119,200
Public Service	8,989,100	10,718,080
Academic Support	9,013,338	8,808,547
Student Services	9,264,413	8,954,840
Institutional Support	20,757,090	19,079,817
Operations and Maintenance of Plant	17,552,287	18,805,208
Scholarships and Fellowships	21,468,811	18,307,628
Auxiliary Enterprises	31,407,260	27,017,490
Depreciation and Amortization	8,357,963	11,742,435
Total Operating Expenses	217,783,144	209,068,684
Operating Loss	(81,819,755)	(86,133,024)
Nonoperating Revenues (Expenses):		
State Appropriations	71,893,724	72,862,337
Gift Contributions for Operations	5,670,126	5,476,806
Net Investment Income	3,848,797	3,908,245
Net Increase (Decrease) in Fair Value of Investments	6,534,154	(12,358,675)
Gain/(Loss) on Sale of Capital Assets	(245,003)	
Other Nonoperating Revenues		5,145,643
Other Nonoperating Expenses	326,747	(453,881)
Net Nonoperating Revenues (Expenses)	88,028,545	74,580,475
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	6,208,790	(11,552,549)
Gifts and Sponsored Programs for Capital Acquisitions	2,063,368	1,647,828
Additions to Permanent Endowments	1,514,417	1,984,975
Reclass from / (to) Other Components	9,188,353	(26,579,456)
Capital Asset Purchases		
Transfers Between Components & System-Debt Service-Mandatory	(10,686,587)	(9,300,879)
Transfers Between Components & System Admin. - Non mandatory	14,849,388	51,589,907
Transfers to/from Other State Agencies	3,596,247	3,890,951
Transfers Between Funds		
Change in Net Assets	26,733,976	11,680,777
Beginning Net Assets - As Previously Reported	362,990,427	451,201,508
Restatements	(13,280,265)	(113,172,123)
Beginning Net Assets - As Restated	349,710,162	338,029,385
Ending Net Assets	\$ 376,444,138	349,710,162

Note: The amounts reported as Restricted Research expenses do not adhere to the Texas Education Coordinating Board's definition of restricted research. The amount not meeting the definition is \$4.1 million.

UNAUDITED

THE UNIVERSITY OF TEXAS AT EL PASO
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Cash Flows from Operating Activities:		
Proceeds Received from Students	\$ 41,800,278	40,782,745
Proceeds for Sponsored Programs	74,211,084	64,757,762
Auxiliary Enterprise Charges	23,065,292	17,978,030
Proceeds from Other Revenues	1,768,417	1,938,074
Payments to Suppliers	(79,920,070)	(74,484,292)
Payments to Employees	(130,065,060)	(123,036,609)
Loans Issued to Students	(5,238,568)	(6,931,847)
Collections of Loans to Students	4,598,545	4,386,047
Net Cash Provided (Used) by Operating Activities	<u>(69,780,082)</u>	<u>(74,610,090)</u>
Cash Flows from Noncapital Financing Activities:		
Proceeds from State Appropriations	72,448,686	72,515,752
Operating Gifts	6,099,335	6,373,113
Private Gifts for Endowment and Annuity Life Purposes	1,514,417	1,984,975
Other Nonoperating Revenues		5,145,643
Other Nonoperating Transfers To/From System	5,775,749	6,170,286
Payments for Other Uses	233,472	(7,344,419)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>86,071,659</u>	<u>84,845,350</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds for Capital Debt Transferred from System (non-man)	8,387,929	20,594,385
Capital Grants and Gifts	1,102,829	
Purchase of Capital Assets	(15,996,413)	(21,972,461)
Mandatory Transfers to System for Capital Related Debt	(10,686,587)	(9,300,879)
Net Cash Provided (Used) by Related Financing Activities	<u>(17,192,242)</u>	<u>(10,678,955)</u>
Cash Flows from Investing Activities:		
Proceeds from Interest and Investment Income	460,710	791,512
Proceeds from Interest and Investment Income Held by System	3,270,280	3,183,297
Purchases of Investments Held by System	(2,266,463)	(2,597,466)
Net Cash Provided (Used) by Investing Activities	<u>1,464,527</u>	<u>1,377,343</u>
Net Increase (Decrease) in Cash	563,862	933,648
Cash & Cash Equivalents - Beginning of the Year	32,262,789	31,329,141
Cash & Cash Equivalents - End of the Year	<u>\$ 32,826,651</u>	<u>32,262,789</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:		
Operating Loss	\$ (81,819,755)	(86,133,024)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	8,357,963	11,742,435
Changes in Assets and Liabilities:		
Accounts Receivable, net	(3,094,866)	(5,734,894)
Inventory	30,587	(228,505)
Loans and Contracts	(348,540)	(2,359,947)
Other Assets	866,851	(2,135,096)
Accounts Payable	(1,419,433)	(127,745)
Due to System	235,178	266,520
Deferred Revenue	8,715,429	11,671,281
Deposits Held for Others	(1,319,698)	(1,916,280)
Compensated Absences & Notes Payable	302,236	345,165
Other Liabilities	(286,034)	
Total Adjustments	<u>12,039,673</u>	<u>11,522,934</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (69,780,082)</u>	<u>(74,610,090)</u>
Noncash Transactions		
Net Increase (Decrease) in Fair Value of Investments	6,534,154	(12,358,675)
Donated Capital Assets	10,540	1,647,828

UNAUDITED

THE UNIVERSITY OF TEXAS - PAN AMERICAN
 EXHIBIT A - BALANCE SHEET
 As of August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
ASSETS		
Current Assets:		
Cash & Cash Equivalents	\$ 11,381,362	17,381,767
Restricted Cash & Cash Equivalents	2,403,432	2,251,732
Balance in State Appropriations	5,196,874	8,072,574
Accounts Receivable, Net:		
Federal Receivables (net of allowances of \$0)	2,742,625	2,853,224
Student Receivables (net of allowances of \$265,785)	17,224,564	13,731,117
Interest and Dividends	93,534	149,239
Contributions Receivable (net of allowances of \$0)	51,327	76,763
Other Receivables (net of allowances of \$69,579)	2,067,138	2,301,086
Due From Other Funds	170,873	22,488
Due From System Administration	9,658,123	4,211,368
Due From Other Agencies	176,415	124,089
Inventories	2,678,872	2,371,512
Loans and Contracts (net of allowances of \$1,079,060)	658,471	622,953
Total Current Assets	54,503,610	54,169,912
Non-Current Assets:		
Restricted:		
Cash & Cash Equivalents		
Investments	1,778,243	1,772,813
Loans, Contracts and Other (net of allowances of \$979,688)	6,346,203	6,178,565
Funds Held by System Administration	20,556,153	18,888,311
Contributions Receivable (net of allowances of \$1,283)	75,722	84,899
Investments	44,281,673	41,079,729
Capital Assets	238,612,522	222,212,868
Less Accumulated Depreciation	(100,574,474)	(94,099,101)
Total Non-Current Assets	211,076,042	196,118,084
TOTAL ASSETS	\$ 265,579,652	250,287,996
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 8,524,095	9,096,655
Federal Payables	827,028	1,001,889
Due to Other Funds	170,873	22,488
Due to System Administration	902,061	751,171
Due to Other Agencies	32,118	781,527
Deferred Revenue	21,679,938	18,080,459
Employees' Compensable Leave-Current Portion	171,048	181,377
Payable From Restricted Assets-Current Portion	166,656	199,861
HEAF Bonds Payable-Current Portion	2,995,000	2,860,000
Other Current Liabilities	432,583	356,116
Total Current Liabilities	35,901,400	33,331,543
Non-Current Liabilities:		
Employees' Compensable Leave	2,101,958	1,890,841
Assets Held for Others	362,231	409,869
HEAF Bonds Payable	3,140,000	6,135,000
Total Non-Current Liabilities	5,604,189	8,435,710
TOTAL LIABILITIES	41,505,589	41,767,253
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	131,903,048	119,118,767
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	13,226,566	12,050,748
Expendable		
Capital Projects	9,301,763	3,245,689
Funds Functioning as Endowment - Restricted	7,329,587	6,837,563
Other Expendable	13,113,495	12,425,088
Unrestricted	49,199,604	54,842,888
TOTAL NET ASSETS	224,074,063	208,520,743
TOTAL LIABILITIES AND NET ASSETS	\$ 265,579,652	250,287,996

UNAUDITED

THE UNIVERSITY OF TEXAS - PAN AMERICAN
 EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Operating Revenues:		
Student Tuition and Fees	\$ 39,733,416	36,032,863
Discounts and Allowances	(13,385,617)	(15,654,080)
Federal Sponsored Programs	40,100,993	34,844,387
Federal Sponsored Programs Pass-Through from Other St. Agencies	1,231,040	1,351,737
State Sponsored Programs	800,753	752,927
State Sponsored Programs Pass-Through from Other St. Agencies	13,807,031	9,907,077
Local Sponsored Programs	22,170	7,870
Private Sponsored Programs	737,226	1,177,831
Sales and Services of Educational Activities	5,963,722	4,986,666
Discounts and Allowances	(18,898)	(72,725)
Auxiliary Enterprises	7,514,594	6,543,506
Discounts and Allowances	(2,663)	(22,255)
Other Operating Revenues	1,173,838	1,029,551
Total Operating Revenues	97,677,605	80,885,355
Operating Expenses:		
Instruction	56,298,911	50,393,884
Research	2,855,266	2,340,342
Public Service	7,716,049	8,506,669
Academic Support	8,150,115	7,636,020
Student Services	11,468,324	10,287,619
Institutional Support	12,650,850	12,682,804
Operations and Maintenance of Plant	9,819,983	9,858,104
Scholarships and Fellowships	27,974,007	18,770,866
Auxiliary Enterprises	11,655,885	10,801,496
Depreciation and Amortization	6,686,949	7,299,596
Total Operating Expenses	155,276,339	138,577,400
Operating Loss	(57,598,734)	(57,692,045)
Nonoperating Revenues (Expenses):		
State Appropriations	58,020,020	56,541,886
HEAF Appropriations	6,081,112	6,081,112
Gift Contributions for Operations	1,269,350	609,854
Net Investment Income	1,955,764	2,602,042
Net Increase (Decrease) in Fair Value of Investments	928,729	(3,117,451)
Interest Expense on Capital Asset Financings	(532,550)	(726,288)
Gain/(Loss) on Sale of Capital Assets	(88,362)	1,672
Other Nonoperating Revenues	71,643	4,034,420
Other Nonoperating Expenses	50,709	(4,307,228)
Net Nonoperating Revenues (Expenses)	67,756,415	61,720,019
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	10,157,681	4,027,974
Gifts and Sponsored Programs for Capital Acquisitions	627,531	69,798
Additions to Permanent Endowments	353,900	22,760
Reclass from / (to) Other Components	(11,925,000)	(1,630,000)
Transfers Between Components & System-Debt Service-Mandatory	(6,882,205)	(4,461,533)
Transfers Between Components & System Admin. - Non mandatory	23,102,411	8,547,077
Transfers to/from Other State Agencies	119,002	98,993
Change in Net Assets	15,553,320	6,675,069
Beginning Net Assets - As Previously Reported	209,083,734	308,930,000
Restatements	(562,991)	(107,084,326)
Beginning Net Assets - As Restated	208,520,743	201,845,674
Ending Net Assets	\$ 224,074,063	208,520,743

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THE UNIVERSITY OF TEXAS - PAN AMERICAN
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Cash Flows from Operating Activities:		
Proceeds Received from Students	\$ 25,776,720	22,232,152
Proceeds for Sponsored Programs	56,668,772	46,793,325
Auxiliary Enterprise Charges	8,320,127	5,961,969
Proceeds from Other Revenues	7,178,909	5,369,073
Payments to Suppliers	(61,752,246)	(48,590,737)
Payments to Employees	(85,977,610)	(78,577,090)
Loans Issued to Students	(8,363,310)	(6,676,037)
Collections of Loans to Students	6,959,449	5,659,457
Payments for Other Expenses		31,599
Net Cash Provided (Used) by Operating Activities	<u>(51,189,189)</u>	<u>(47,796,289)</u>
Cash Flows from Noncapital Financing Activities:		
Proceeds from State Appropriations	66,976,832	64,268,512
Operating Gifts	1,303,963	871,325
Private Gifts for Endowment and Annuity Life Purposes	353,900	22,760
Other Nonoperating Revenues	312,584	4,027,958
Other Nonoperating Transfers To/From System	1,098,825	577,937
Payments for Other Uses	(705,580)	(3,458,480)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>69,340,524</u>	<u>66,310,012</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds for Capital Debt Transferred from System (non-man)	4,850,940	2,326,981
Purchase of Capital Assets	(16,533,949)	(8,233,950)
Principal Paid on Capital Related Debt	(2,860,000)	(2,735,000)
Mandatory Transfers to System for Capital Related Debt	(6,882,205)	(4,461,533)
Interest Paid on Capital Related Debt	(539,701)	(703,800)
Net Cash Provided (Used) by Related Financing Activities	<u>(21,964,915)</u>	<u>(13,807,302)</u>
Cash Flows from Investing Activities:		
Proceeds from Sales and Maturities of Investments Held by System		2,535,448
Proceeds from Interest and Investment Income	180,028	284,234
Proceeds from Interest and Investment Income Held by System	1,731,334	2,376,836
Purchases of Investments	(311)	(34)
Purchases of Investments Held by System	(3,946,176)	
Net Cash Provided (Used) by Investing Activities	<u>(2,035,125)</u>	<u>5,196,484</u>
Net Increase (Decrease) in Cash	(5,848,705)	9,902,905
Cash & Cash Equivalents - Beginning of the Year	19,633,499	9,730,594
Cash & Cash Equivalents - End of the Year	<u>\$ 13,784,794</u>	<u>19,633,499</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:		
Operating Loss	\$ (57,598,734)	(57,692,045)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	6,686,949	7,299,596
Bad Debt Expense	(176,766)	
Changes in Assets and Liabilities:		
Accounts Receivable, net	(3,315,939)	(15,508,334)
Inventory	(307,360)	(418,034)
Loans and Contracts	(26,390)	372,863
Other Assets	(52,326)	(52,340)
Accounts Payable	(385,489)	2,187,449
Due to System	150,890	169,361
Deferred Revenue	3,599,479	15,005,664
Deposits Held for Others	(47,638)	57,773
Compensated Absences & Notes Payable	200,788	237,020
Other Liabilities	83,347	544,738
Total Adjustments	<u>6,409,545</u>	<u>9,895,756</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (51,189,189)</u>	<u>(47,796,289)</u>
Noncash Transactions		
Net Increase (Decrease) in Fair Value of Investments	928,729	(3,117,451)
Donated Capital Assets	627,531	
Miscellaneous Noncash Transactions		93,322

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THE UNIVERSITY OF TEXAS OF THE PERMIAN BASIN
EXHIBIT A - BALANCE SHEET
As of August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
ASSETS		
Current Assets:		
Cash & Cash Equivalents	\$ 7,037,777	7,061,405
Restricted Cash & Cash Equivalents	1,969,665	1,944,807
Balance in State Appropriations	1,087,481	1,227,139
Accounts Receivable, Net:		
Federal Receivables (net of allowances of \$0)	104,535	244,908
Other Intergovernmental Rec. (net of allowances of \$0)		112,514
Contributions Receivable (net of allowances of \$18,416)	184,163	123,175
Other Receivables (net of allowances of \$0)	250,474	274,995
Due From System Administration	2,746,174	1,943,781
Due From Other Agencies	250,000	
Inventories	122,924	126,114
Loans and Contracts (net of allowances of \$0)	235,608	128,070
Other Current Assets	2,046,879	2,049,717
Total Current Assets	16,035,680	15,236,625
Non-Current Assets:		
Restricted:		
Investments	565,618	553,778
Funds Held by System Administration	10,582,253	9,652,556
Contributions Receivable (net of allowances of \$11,747)	117,466	163,473
Investments	1,432,201	1,372,669
Capital Assets	69,625,186	66,131,923
Less Accumulated Depreciation	(30,762,657)	(28,782,695)
Total Non-Current Assets	51,560,067	49,091,704
TOTAL ASSETS	\$ 67,595,747	64,328,329
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 1,385,213	1,552,009
Due to System Administration	168,474	145,192
Deferred Revenue	3,067,218	2,425,317
Employees' Compensable Leave-Current Portion	8,075	20,785
Payable From Restricted Assets-Current Portion	116,567	94,091
Funds Held for Others	280,150	264,727
Total Current Liabilities	5,025,697	4,502,121
Non-Current Liabilities:		
Employees' Compensable Leave	386,753	341,262
Total Non-Current Liabilities	386,753	341,262
TOTAL LIABILITIES	5,412,450	4,843,383
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	38,862,529	37,349,228
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	11,147,871	10,184,646
Expendable		
Capital Projects	2,404,918	592,721
Other Expendable	4,257,011	4,678,533
Unrestricted	5,510,968	6,679,818
TOTAL NET ASSETS	62,183,297	59,484,946
TOTAL LIABILITIES AND NET ASSETS	\$ 67,595,747	64,328,329

UNAUDITED

THE UNIVERSITY OF TEXAS OF THE PERMIAN BASIN
 EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Operating Revenues:		
Student Tuition and Fees	\$ 7,421,927	6,443,974
Discounts and Allowances	(2,294,210)	(1,680,358)
Federal Sponsored Programs	3,611,436	3,280,456
Federal Sponsored Programs Pass-Through from Other St. Agencies	191,403	53,462
State Sponsored Programs	244,140	242,518
State Sponsored Programs Pass-Through from Other St. Agencies	469,024	553,816
Local Sponsored Programs	104,176	94,141
Private Sponsored Programs	79,808	49,755
Sales and Services of Educational Activities	318,152	275,045
Discounts and Allowances (none)		
Auxiliary Enterprises	369,444	255,742
Discounts and Allowances (none)		
Other Operating Revenues	80,369	45,861
Total Operating Revenues	10,595,669	9,614,412
Operating Expenses:		
Instruction	8,897,607	7,604,097
Research	1,086,170	922,292
Public Service	1,360,010	1,548,259
Academic Support	3,087,880	2,624,810
Student Services	1,194,629	1,142,939
Institutional Support	3,189,259	2,957,544
Operations and Maintenance of Plant	3,565,394	3,085,871
Scholarships and Fellowships	2,192,271	1,775,490
Auxiliary Enterprises	1,731,055	1,346,537
Depreciation and Amortization	2,076,393	1,286,028
Total Operating Expenses	28,380,668	24,293,867
Operating Loss	(17,784,999)	(14,679,455)
Nonoperating Revenues (Expenses):		
State Appropriations	15,704,733	15,967,280
Gift Contributions for Operations	551,866	487,040
Net Investment Income	335,220	428,548
Net Increase (Decrease) in Fair Value of Investments	701,236	(1,434,212)
Gain/(Loss) on Sale of Capital Assets		49,796
Other Nonoperating Revenues	105,527	167,201
Other Nonoperating Expenses	47,441	(193,950)
Net Nonoperating Revenues (Expenses)	17,446,023	15,471,703
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	(338,976)	792,248
Gifts and Sponsored Programs for Capital Acquisitions	5,000	50,000
Additions to Permanent Endowments	155,180	76,566
Reclass from / (to) Other Components	(6,119,606)	1,734,525
Transfers Between Components & System-Debt Service-Mandatory	(2,164,986)	(1,855,657)
Transfers Between Components & System Admin. - Non mandatory	10,911,739	1,414,965
Transfers to/from Other State Agencies	250,000	
Change in Net Assets	2,698,351	2,212,647
Beginning Net Assets - As Previously Reported	59,497,308	96,425,288
Restatements	(12,362)	(39,152,989)
Beginning Net Assets - As Restated	59,484,946	57,272,299
Ending Net Assets	\$ 62,183,297	59,484,946

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THE UNIVERSITY OF TEXAS OF THE PERMIAN BASIN
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Cash Flows from Operating Activities:		
Proceeds Received from Students	\$ 5,562,589	5,382,307
Proceeds for Sponsored Programs	4,702,240	4,083,902
Auxiliary Enterprise Charges	576,890	557,996
Proceeds from Other Revenues	441,520	
Payments to Suppliers	(10,484,028)	(8,646,170)
Payments to Employees	(15,801,478)	(14,111,449)
Loans Issued to Students	(537,145)	(268,162)
Collections of Loans to Students	424,127	197,630
Payments for Other Expenses		(527,780)
Net Cash Provided (Used) by Operating Activities	<u>(15,115,285)</u>	<u>(13,331,726)</u>
Cash Flows from Noncapital Financing Activities:		
Proceeds from State Appropriations	15,844,391	15,481,119
Operating Gifts	536,885	822,444
Private Gifts for Endowment and Annuity Life Purposes	155,180	76,566
Other Nonoperating Revenues	105,527	167,201
Other Nonoperating Transfers To/From System	626,760	357,931
Payments for Other Uses	47,441	(193,950)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>17,316,184</u>	<u>16,711,311</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds for Capital Debt Transferred from System (non-man)	3,353,663	3,061,742
Capital Grants and Gifts		50,000
Proceeds from Sale of Capital Assets		49,796
Purchase of Capital Assets	(3,683,050)	(3,686,846)
Mandatory Transfers to System for Capital Related Debt	(2,164,986)	(1,855,657)
Net Cash Provided (Used) by Related Financing Activities	<u>(2,494,373)</u>	<u>(2,380,965)</u>
Cash Flows from Investing Activities:		
Proceeds from Interest and Investment Income	121,629	156,659
Proceeds from Interest and Investment Income Held by System	472,908	272,245
Purchases of Investments		(5,459)
Purchases of Investments Held by System	(299,833)	(126,293)
Net Cash Provided (Used) by Investing Activities	<u>294,704</u>	<u>297,152</u>
Net Increase (Decrease) in Cash	1,230	1,295,772
Cash & Cash Equivalents - Beginning of the Year	9,006,212	7,710,440
Cash & Cash Equivalents - End of the Year	<u>\$ 9,007,442</u>	<u>9,006,212</u>
Reconciliation of Net Operating Revenues (Expenses) to		
Net Cash Provided (Used) by Operating Activities:		
Operating Loss	\$ (17,784,999)	(14,679,455)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	2,076,393	1,286,028
Changes in Assets and Liabilities:		
Accounts Receivable, net	277,408	23,087
Inventory	3,190	(15,685)
Loans and Contracts	(107,538)	22,899
Other Assets	(250,000)	
Accounts Payable	(45,964)	112,748
Due to System	23,282	34,529
Deferred Revenue	641,901	343,646
Deposits Held for Others	18,261	(484,720)
Compensated Absences & Notes Payable	32,781	25,197
Total Adjustments	<u>2,669,714</u>	<u>1,347,729</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (15,115,285)</u>	<u>(13,331,726)</u>
Noncash Transactions		
Net Increase (Decrease) in Fair Value of Investments	701,236	(1,434,212)
Donated Capital Assets	5,000	

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THE UNIVERSITY OF TEXAS AT SAN ANTONIO
EXHIBIT A - BALANCE SHEET
As of August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
ASSETS		
Current Assets:		
Cash & Cash Equivalents	\$ 34,551,217	33,734,125
Restricted Cash & Cash Equivalents	5,057,113	6,527,027
Balance in State Appropriations	3,480,111	1,967,872
Accounts Receivable, Net:		
Federal Receivables (net of allowances of \$0)	14,967,797	8,872,774
Student Receivables (net of allowances of \$322,000)	10,604,515	7,794,980
Interest and Dividends	80,758	130,328
Contributions Receivable (net of allowances of \$56,187)	593,839	557,333
Other Receivables (net of allowances of \$30,600)	1,905,788	2,703,355
Due From Other Funds	19,313,932	12,247,937
Due From System Administration	74,428,025	76,709,634
Due From Other Agencies	752,575	456,403
Inventories	920,995	903,210
Loans and Contracts (net of allowances of \$521,475)	5,270,061	5,918,031
Other Current Assets	11,766,089	7,684,297
Total Current Assets	<u>183,692,815</u>	<u>166,207,306</u>
Non-Current Assets:		
Restricted:		
Loans, Contracts and Other (net of allowances \$174,739)	2,247,054	2,246,284
Funds Held by System Administration	25,474,675	22,188,908
Contributions Receivable (net of allowances \$175,453)	1,854,669	382,043
Investments	41,640,297	40,921,794
Capital Assets	394,621,973	353,362,952
Less Accumulated Depreciation	<u>(103,624,435)</u>	<u>(95,821,549)</u>
Total Non-Current Assets	<u>362,214,233</u>	<u>323,280,432</u>
TOTAL ASSETS	<u>\$ 545,907,048</u>	<u>489,487,738</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 14,894,333	11,049,771
Due to Other Funds	19,313,932	12,247,937
Due to System Administration	1,247,190	1,018,998
Due to Other Agencies		35,497
Deferred Revenue	52,777,608	38,254,976
Employees' Compensable Leave-Current Portion	468,112	329,678
Payable From Restricted Assets-Current Portion	1,494,597	3,326,372
Funds Held for Others	3,578,949	4,868,725
Other Current Liabilities	704,770	632,130
Total Current Liabilities	<u>94,479,491</u>	<u>71,764,084</u>
Non-Current Liabilities:		
Employees' Compensable Leave	3,498,944	3,145,250
Total Non-Current Liabilities	<u>3,498,944</u>	<u>3,145,250</u>
TOTAL LIABILITIES	<u>97,978,435</u>	<u>74,909,334</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	290,997,538	257,541,403
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	23,660,134	20,533,720
Expendable		
Capital Projects	70,441,554	74,765,781
Funds Functioning as Endowment - Restricted	404,321	311,231
Other Expendable	22,266,745	21,695,232
Unrestricted	<u>40,158,321</u>	<u>39,731,037</u>
TOTAL NET ASSETS	<u>447,928,613</u>	<u>414,578,404</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 545,907,048</u>	<u>489,487,738</u>

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THE UNIVERSITY OF TEXAS AT SAN ANTONIO

EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Operating Revenues:		
Student Tuition and Fees	\$ 82,642,787	68,918,900
Discounts and Allowances	(20,223,607)	(17,672,312)
Federal Sponsored Programs	42,385,802	29,995,315
Federal Sponsored Programs Pass-Through from Other St. Agencies	789,485	627,662
State Sponsored Programs	1,915,418	2,748,885
State Sponsored Programs Pass-Through from Other St. Agencies	6,850,725	4,377,071
Local Sponsored Programs	539,674	546,491
Private Sponsored Programs	1,317,308	1,543,584
Sales and Services of Educational Activities	4,466,574	3,727,502
Discounts and Allowances (none)		
Auxiliary Enterprises	5,341,759	4,469,031
Discounts and Allowances (none)		
Other Operating Revenues	1,528,955	1,529,543
Total Operating Revenues	127,554,880	100,811,672
Operating Expenses:		
Instruction	69,368,240	62,084,171
Research	11,520,298	8,543,036
Public Service	16,855,255	15,294,637
Academic Support	15,129,779	13,026,887
Student Services	14,781,539	13,655,383
Institutional Support	22,926,370	20,510,158
Operations and Maintenance of Plant	19,407,797	14,340,169
Scholarships and Fellowships	16,375,506	8,607,150
Auxiliary Enterprises	8,316,524	7,176,871
Depreciation and Amortization	11,020,609	13,790,092
Total Operating Expenses	205,701,917	177,028,554
Operating Loss	(78,147,037)	(76,216,882)
Nonoperating Revenues (Expenses):		
State Appropriations	79,352,241	80,438,218
Gift Contributions for Operations	4,584,346	3,801,241
Net Investment Income	3,037,466	2,930,104
Net Increase (Decrease) in Fair Value of Investments	886,603	(2,999,727)
Gain/(Loss) on Sale of Capital Assets	(1,691,086)	(837,637)
Other Nonoperating Revenues	405,591	502,127
Other Nonoperating Expenses	(485,141)	171,835
Net Nonoperating Revenues (Expenses)	86,090,020	84,006,161
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	7,942,983	7,789,279
Gifts and Sponsored Programs for Capital Acquisitions	39,938	16,778
Additions to Permanent Endowments	1,342,421	1,274,026
Reclass from / (to) Other Components	4,861,144	(20,700,344)
Transfers Between Components & System-Debt Service-Mandatory	(13,091,510)	(11,616,906)
Transfers Between Components & System Admin. - Non mandatory	29,866,719	101,861,095
Transfers to/from Other State Agencies	2,388,514	1,694,125
Change in Net Assets	33,350,209	80,318,053
Beginning Net Assets - As Previously Reported	433,553,625	456,002,684
Restatements	(18,975,221)	(121,742,333)
Beginning Net Assets - As Restated	414,578,404	334,260,351
Ending Net Assets	\$ 447,928,613	414,578,404

UNAUDITED

THE UNIVERSITY OF TEXAS AT SAN ANTONIO
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Cash Flows from Operating Activities:		
Proceeds Received from Students	\$ 68,689,415	57,621,660
Proceeds for Sponsored Programs	53,083,456	37,570,438
Auxiliary Enterprise Charges	5,899,803	4,319,977
Proceeds from Other Revenues	4,836,348	8,217,708
Payments to Suppliers	(64,266,256)	(47,966,152)
Payments to Employees	(130,228,785)	(115,017,503)
Loans Issued to Students	(12,743,302)	(12,804,313)
Collections of Loans to Students	13,273,524	12,215,721
Payments for Other Expenses	(4,081,792)	
Net Cash Provided (Used) by Operating Activities	<u>(65,537,589)</u>	<u>(55,842,464)</u>
Cash Flows from Noncapital Financing Activities:		
Proceeds from State Appropriations	77,840,002	81,548,725
Operating Gifts	3,075,214	3,523,065
Private Gifts for Endowment and Annuity Life Purposes	1,342,421	1,274,026
Other Nonoperating Transfers To/From System	3,232,627	756,910
Payments for Other Uses	(520,638)	1,901,457
Net Cash Provided (Used) by Noncapital Financing Activities	<u>84,969,626</u>	<u>89,004,183</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds for Capital Debt Transferred from System (non-man)	36,164,110	29,362,306
Purchase of Capital Assets	(43,082,704)	(39,374,158)
Mandatory Transfers to System for Capital Related Debt	(13,091,510)	(11,616,906)
Net Cash Provided (Used) by Related Financing Activities	<u>(20,010,104)</u>	<u>(21,628,758)</u>
Cash Flows from Investing Activities:		
Proceeds from Interest and Investment Income	592,966	1,005,270
Proceeds from Interest and Investment Income Held by System	2,449,946	1,801,655
Purchases of Investments Held by System	(3,117,667)	(17,843,612)
Net Cash Provided (Used) by Investing Activities	<u>(74,755)</u>	<u>(15,036,687)</u>
Net Increase (Decrease) in Cash	(652,822)	(3,503,726)
Cash & Cash Equivalents - Beginning of the Year	40,261,152	43,764,878
Cash & Cash Equivalents - End of the Year	\$ <u>39,608,330</u>	<u>40,261,152</u>
Reconciliation of Net Operating Revenues (Expenses) to		
Net Cash Provided (Used) by Operating Activities:		
Operating Loss	\$ (78,147,037)	(76,216,882)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	11,020,609	13,790,092
Bad Debt Expense	(6,436)	
Changes in Assets and Liabilities:		
Accounts Receivable, net	(8,100,555)	(11,382,424)
Inventory	(17,785)	(63,268)
Loans and Contracts	647,200	(237,891)
Other Assets	(296,172)	(454,728)
Accounts Payable	(626,810)	1,474,066
Due to System	228,192	245,432
Deferred Revenue	14,522,632	13,691,252
Deposits Held for Others	(5,326,195)	2,953,538
Compensated Absences & Notes Payable	492,128	358,349
Other Liabilities	72,640	
Total Adjustments	<u>12,609,448</u>	<u>20,374,418</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (65,537,589)</u>	<u>(55,842,464)</u>
Noncash Transactions		
Net Increase (Decrease) in Fair Value of Investments	886,603	(2,999,727)
Donated Capital Assets	39,938	

UNAUDITED

THE UNIVERSITY OF TEXAS AT TYLER
EXHIBIT A - BALANCE SHEET
As of August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
ASSETS		
Current Assets:		
Cash & Cash Equivalents	\$ 18,848,358	18,800,711
Restricted Cash & Cash Equivalents	2,860,814	3,059,338
Balance in State Appropriations	1,511,587	1,909,285
Accounts Receivable, Net:		
Federal Receivables (net of allowances of \$0)	371,181	197,494
Student Receivables (net of allowances of \$214,711)	82,879	44,940
Contributions Receivable (net of allowances of \$15,989)	303,690	3,838,863
Other Receivables (net of allowances of \$0)	182,654	178,187
Due From System Administration	11,087,406	5,374,790
Due From Other Agencies	49,574	254,495
Inventories	5,990	6,347
Loans and Contracts (net of allowances of \$411,285)	327,238	310,191
Other Current Assets	1,062,073	1,027,469
Total Current Assets	36,693,444	35,002,110
Non-Current Assets:		
Restricted:		
Funds Held by System Administration	40,348,902	37,431,706
Contributions Receivable (net of allowances of \$42,111)	799,865	641,631
Investments	385,279	378,631
Capital Assets	92,901,304	76,688,551
Less Accumulated Depreciation	(30,911,371)	(28,467,162)
Total Non-Current Assets	103,523,979	86,673,357
TOTAL ASSETS	\$ 140,217,423	121,675,467
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 3,062,063	2,240,616
Due to System Administration	296,223	256,852
Due to Other Agencies		6,136
Deferred Revenue	5,193,294	4,148,693
Employees' Compensable Leave-Current Portion	39,912	37,325
Payable From Restricted Assets-Current Portion	96,221	48,571
Other Current Liabilities	700	
Total Current Liabilities	8,688,413	6,738,193
Non-Current Liabilities:		
Employees' Compensable Leave	530,994	438,304
Assets Held for Others	357,270	521,297
Other Non-Current Liabilities	122,230	
Total Non-Current Liabilities	1,010,494	959,601
TOTAL LIABILITIES	9,698,907	7,697,794
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	61,989,933	48,221,389
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	40,112,040	37,253,651
Expendable		
Capital Projects	14,203,482	10,361,249
Other Expendable	3,831,659	7,871,378
Unrestricted	10,381,402	10,270,006
TOTAL NET ASSETS	130,518,516	113,977,673
TOTAL LIABILITIES AND NET ASSETS	\$ 140,217,423	121,675,467

UNAUDITED

THE UNIVERSITY OF TEXAS AT TYLER
 EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Operating Revenues:		
Student Tuition and Fees	\$ 11,776,333	9,510,129
Discounts and Allowances	(3,183,466)	(3,478,477)
Federal Sponsored Programs	3,158,476	2,401,553
Federal Sponsored Programs Pass-Through from Other St. Agencies	744,722	784,621
State Sponsored Programs	194,682	604,097
State Sponsored Programs Pass-Through from Other St. Agencies	751,976	361,671
Local Sponsored Programs	8,300	
Private Sponsored Programs	535,031	364,175
Sales and Services of Educational Activities	672,748	840,697
Discounts and Allowances (none)		
Auxiliary Enterprises	1,003,470	587,617
Discounts and Allowances (none)		
Other Operating Revenues	598,224	279,567
Total Operating Revenues	16,260,496	12,255,650
Operating Expenses:		
Instruction	18,289,940	17,243,502
Research	404,872	369,554
Public Service	155,171	192,156
Academic Support	4,538,544	4,344,173
Student Services	2,892,409	2,609,533
Institutional Support	7,001,676	5,743,888
Operations and Maintenance of Plant	2,589,883	2,730,376
Scholarships and Fellowships	3,728,083	1,838,228
Auxiliary Enterprises	1,716,572	1,178,292
Depreciation and Amortization	2,663,218	2,531,778
Total Operating Expenses	43,980,368	38,781,480
Operating Loss	(27,719,872)	(26,525,830)
Nonoperating Revenues (Expenses):		
State Appropriations	25,429,160	25,876,947
Gift Contributions for Operations	911,560	1,858,891
Net Investment Income	1,106,608	1,264,936
Net Increase (Decrease) in Fair Value of Investments	2,567,806	(4,892,390)
Gain/(Loss) on Sale of Capital Assets	(18,669)	
Other Nonoperating Revenues	37,012	176,231
Other Nonoperating Expenses	(3,424,919)	(459,189)
Net Nonoperating Revenues (Expenses)	26,608,558	23,825,426
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	(1,111,314)	(2,700,404)
Gifts and Sponsored Programs for Capital Acquisitions	1,925,855	
Additions to Permanent Endowments	258,821	96,660
Reclass from / (to) Other Components	(8,774,937)	(1,195,228)
Transfers Between Components & System-Debt Service-Mandatory	(2,855,182)	(1,347,239)
Transfers Between Components & System Admin. - Non mandatory	26,853,950	8,353,790
Transfers to/from Other State Agencies	243,650	250,000
Change in Net Assets	16,540,843	3,457,579
Beginning Net Assets - As Previously Reported	113,972,674	142,613,418
Restatements	4,999	(32,093,324)
Beginning Net Assets - As Restated	113,977,673	110,520,094
Ending Net Assets	\$ 130,518,516	113,977,673

UNAUDITED

THE UNIVERSITY OF TEXAS AT TYLER
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Cash Flows from Operating Activities:		
Proceeds Received from Students	\$ 9,517,236	6,257,974
Proceeds for Sponsored Programs	5,432,666	4,558,359
Auxiliary Enterprise Charges	1,085,254	587,617
Proceeds from Other Revenues	1,183,068	2,069,109
Payments to Suppliers	(13,501,893)	(10,628,839)
Payments to Employees	(27,599,814)	(25,085,179)
Loans Issued to Students	(64,265)	(84,838)
Collections of Loans to Students	47,218	55,561
Net Cash Provided (Used) by Operating Activities	<u>(23,900,530)</u>	<u>(22,270,236)</u>
Cash Flows from Noncapital Financing Activities:		
Proceeds from State Appropriations	25,826,858	23,967,662
Operating Gifts	5,347,106	3,205,135
Private Gifts for Endowment and Annuity Life Purposes	258,821	96,660
Other Nonoperating Revenues	2,613,315	176,231
Other Nonoperating Transfers To/From System	1,589,457	1,236,220
Payments for Other Uses	(3,431,055)	(203,053)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>32,204,502</u>	<u>28,478,855</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds for Capital Debt Transferred from System (non-man)	11,018,370	4,139,461
Capital Grants and Gifts	867,248	
Purchase of Capital Assets	(18,238,075)	(6,899,670)
Mandatory Transfers to System for Capital Related Debt	(2,855,182)	(1,347,239)
Net Cash Provided (Used) by Related Financing Activities	<u>(9,207,639)</u>	<u>(4,107,448)</u>
Cash Flows from Investing Activities:		
Proceeds from Interest and Investment Income	315,340	440,915
Proceeds from Interest and Investment Income Held by System	793,488	825,398
Purchases of Investments Held by System	(356,038)	(233,999)
Net Cash Provided (Used) by Investing Activities	<u>752,790</u>	<u>1,032,314</u>
Net Increase (Decrease) in Cash	(150,877)	3,133,485
Cash & Cash Equivalents - Beginning of the Year	21,860,049	18,726,564
Cash & Cash Equivalents - End of the Year	\$ <u>21,709,172</u>	<u>21,860,049</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:		
Operating Loss	\$ (27,719,872)	(26,525,830)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	2,663,218	2,531,778
Changes in Assets and Liabilities:		
Accounts Receivable, net	(216,093)	(55,917)
Inventory	357	(6,347)
Loans and Contracts	(17,047)	70,046
Other Assets	204,921	94,876
Accounts Payable	80,438	327,338
Due to System	39,371	56,244
Deferred Revenue	1,044,601	271,262
Deposits Held for Others	(198,631)	919,068
Compensated Absences & Notes Payable	95,277	47,246
Other Liabilities	122,930	
Total Adjustments	<u>3,819,342</u>	<u>4,255,594</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (23,900,530)</u>	<u>(22,270,236)</u>
Noncash Transactions		
Net Increase (Decrease) in Fair Value of Investments	2,567,806	(4,892,390)

UNAUDITED

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS
 EXHIBIT A - BALANCE SHEET
 As of August 31, 2003

	Current Year Totals		Restated Prior Year Totals	
	Primary University	Component Unit	Primary University	Component Unit
ASSETS				
Current Assets:				
Cash & Cash Equivalents	\$ 45,987,104	5,455,517	16,357,765	6,469,111
Restricted Cash & Cash Equivalents	2,913,966	28,850	32,092,345	93,355
Balance in State Appropriations	4,082,607		4,686,272	
Accounts Receivable, Net:				
Federal Receivables (net of allowances of \$0)	26,767,423		19,219,119	
Other Intergovernmental Rec. (net of allowances of \$0)	2,282,018		2,815,285	
Student Receivables (net of allowances of \$0)	85,975		142,356	
Patient Receivables (net of allowances of \$78,669,700)	26,918,912	1,109,494	31,451,531	884,501
Interest and Dividends	654,244		1,055,826	
Contributions Receivable (net of allowances of \$216,820)	6,287,325	1,607,220	11,476,118	442,664
Other Receivables (net of allowances of \$14,447,566)	22,164,669	483,763	34,081,988	121,603
Due From System Administration	22,105,312		56,805,010	
Due From Other Agencies	36,345		43,437	
Inventories	1,562,796		1,245,506	
Loans and Contracts (net of allowances of \$35,181)	2,058,359		1,612,200	
Other Current Assets	852,624	194,341	527,708	142,573
Total Current Assets	<u>164,759,679</u>	<u>8,879,185</u>	<u>213,612,466</u>	<u>8,153,807</u>
Non-Current Assets:				
Restricted:				
Investments	227,382,477	34,863,503	185,463,481	30,471,365
Loans, Contracts and Other (net of allowances of \$108,944)	6,374,342		7,803,081	
Funds Held by System Administration	469,807,991		434,887,200	
Funds Held by System - Permanent Health Fund	45,424,450		42,576,200	
Contributions Receivable (net of allowances of \$264,200)	7,336,792		11,749,633	
Investments	210,979,785		239,580,202	
Other Non-Current Assets	13,526,782		8,214,335	
Capital Assets	949,177,238	25,326,382	814,922,764	21,812,007
Less Accumulated Depreciation	(274,724,872)	(7,001,735)	(252,590,725)	(5,598,873)
Total Non-Current Assets	<u>1,655,284,985</u>	<u>53,188,150</u>	<u>1,492,606,171</u>	<u>46,684,499</u>
TOTAL ASSETS	\$ <u>1,820,044,664</u>	<u>62,067,335</u>	<u>1,706,218,637</u>	<u>54,838,306</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	\$ 64,071,154	545,451	62,933,016	744,504
Due to System Administration	3,780,294		3,144,288	
Deferred Revenue	9,130,598	2,777	7,949,169	2,872
Employees' Compensable Leave-Current Portion	2,482,841	146,570	2,228,823	127,947
Notes, Loans and Leases Payable-Current Portion		434,311		25,231
Payable From Restricted Assets-Current Portion	6,045,211		6,019,890	
Funds Held for Others	446,579		473,719	
Other Current Liabilities	135,436	1,209	122,384	11,593
Total Current Liabilities	<u>86,092,113</u>	<u>1,130,318</u>	<u>82,871,289</u>	<u>912,147</u>
Non-Current Liabilities:				
Employees' Compensable Leave	28,645,091	115,163	24,727,129	100,378
Notes, Loans and Leases Payable		1,809,016		1,860
Other Non-Current Liabilities				3,000
Total Non-Current Liabilities	<u>28,645,091</u>	<u>1,924,179</u>	<u>24,727,129</u>	<u>105,238</u>
TOTAL LIABILITIES	<u>114,737,204</u>	<u>3,054,497</u>	<u>107,598,418</u>	<u>1,017,385</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	674,452,366	16,081,319	562,332,039	16,186,043
Restricted for:				
Nonexpendable				
True and Term Endowments, and Annuities	444,309,397		402,004,554	
Expendable				
Capital Projects	9,644,800	219,864	52,125,300	507,546
Funds Functioning as Endowment - Restricted	14,462,934		21,179,589	
Other Expendable	274,270,281	34,892,353	264,350,729	30,499,838
Unrestricted	<u>288,167,682</u>	<u>7,819,302</u>	<u>296,628,008</u>	<u>6,627,494</u>
TOTAL NET ASSETS	<u>1,705,307,460</u>	<u>59,012,838</u>	<u>1,598,620,219</u>	<u>53,820,921</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>1,820,044,664</u>	<u>62,067,335</u>	<u>1,706,218,637</u>	<u>54,838,306</u>

UNAUDITED

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS
 EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 For the Year Ended August 31, 2003

	Current Year Totals		Restated Prior Year Totals	
	Primary University	Component Unit	Primary University	Component Unit
Operating Revenues:				
Student Tuition and Fees	\$ 9,316,658		8,293,345	
Discounts and Allowances	(19,477)		(25,200)	
Federal Sponsored Programs	178,083,153		153,596,510	
Federal Sponsored Programs Pass-Through from Other St. Agencies	3,270,435		1,812,690	
State Sponsored Programs	11,222,381		11,021,399	
State Sponsored Programs Pass-Through from Other St. Agencies	2,860,548		6,449,558	
Local Sponsored Programs	94,351,359		86,800,830	
Private Sponsored Programs	48,191,577		54,100,269	
Sales and Services of Educational Activities	12,717,971		22,377,590	
Discounts and Allowances (none)				
Sales and Services of Hospitals		28,461,130		26,734,799
Discounts and Allowances		(18,325,184)		(17,407,339)
Professional Fees	666,479,585		597,610,198	
Discounts and Allowances	(480,272,702)		(425,293,241)	
Auxiliary Enterprises	7,041,909		6,522,525	
Discounts and Allowances (none)				
Other Operating Revenues	12,498,069	239,567	13,865,580	485,162
Total Operating Revenues	<u>565,741,466</u>	<u>10,375,513</u>	<u>537,132,053</u>	<u>9,812,622</u>
Operating Expenses:				
Instruction	319,060,230		296,361,507	
Research	212,660,048		202,380,426	
Public Service	64,305,106		53,836,913	
Hospitals and Clinics		8,364,402		7,760,670
Academic Support	20,217,146		18,714,848	
Student Services	2,229,743		2,296,147	
Institutional Support	44,837,170		45,378,841	
Operations and Maintenance of Plant	43,577,618	261,922	42,998,791	241,997
Scholarships and Fellowships	1,476,090		1,350,796	
Auxiliary Enterprises	7,990,754		6,420,008	
Depreciation and Amortization	30,075,529	2,255,324	27,567,758	2,420,860
Total Operating Expenses	<u>746,429,434</u>	<u>10,881,648</u>	<u>697,306,035</u>	<u>10,423,527</u>
Operating Loss	<u>(180,687,968)</u>	<u>(506,135)</u>	<u>(160,173,982)</u>	<u>(610,905)</u>
Nonoperating Revenues (Expenses):				
State Appropriations	109,863,108		109,682,525	
Gift Contributions for Operations	30,385,581		32,316,057	920,678
Net Investment Income	39,395,423	53,803	45,118,716	93,756
Net Increase (Decrease) in Fair Value of Investments	30,806,888	4,392,138	(69,369,037)	(4,231,136)
Interest Expense on Capital Asset Financings		(14,037)		(3,137)
Gain/(Loss) on Sale of Capital Assets	(3,325,597)	77,875	(1,710,111)	
Other Nonoperating Revenues	9,580,771	47,936	4,251,396	99,949
Other Nonoperating Expenses	(6,506,021)	(19,565)	(5,332,669)	
Net Nonoperating Revenues (Expenses)	<u>210,200,153</u>	<u>4,538,150</u>	<u>114,956,877</u>	<u>(3,119,890)</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	29,512,185	4,032,015	(45,217,105)	(3,730,795)
Gifts and Sponsored Programs for Capital Acquisitions	2,982,939	1,159,902	9,472,891	
Additions to Permanent Endowments	3,456,103		5,607,729	
Reclass from / (to) Other Components	3,683,732		34,134,475	
Transfers Between Components & System-Debt Service-Mandatory	(19,634,702)		(15,506,484)	
Transfers Between Components & System Admin. - Non mandatory	86,686,984		46,362,629	
Change in Net Assets	<u>106,687,241</u>	<u>5,191,917</u>	<u>34,854,135</u>	<u>(3,730,795)</u>
Beginning Net Assets - As Previously Reported	1,599,673,018	23,393,403	1,859,518,022	22,893,062
Restatements	(1,052,799)	30,427,518	(295,751,938)	34,658,654
Beginning Net Assets - As Restated	<u>1,598,620,219</u>	<u>53,820,921</u>	<u>1,563,766,084</u>	<u>57,551,716</u>
Ending Net Assets	<u>\$ 1,705,307,460</u>	<u>59,012,838</u>	<u>1,598,620,219</u>	<u>53,820,921</u>

UNAUDITED

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS
 EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS
 For the Year Ended August 31, 2003

	Current Year Totals		Restated Prior Year Totals	
	Primary University	Component Unit	Primary University	Component Unit
Cash Flows from Operating Activities:				
Proceeds Received from Students	\$ 10,313,919		9,140,432	
Proceeds Received from Patients and Customers	190,739,502	9,910,953	186,978,559	9,379,055
Proceeds for Sponsored Programs	343,013,045		291,573,020	
Auxiliary Enterprise Charges	6,868,969		6,890,939	
Proceeds from Other Revenues	19,798,888	317,311	35,826,597	722,901
Payments to Suppliers	(203,480,603)	(3,963,350)	(208,334,677)	(3,534,859)
Payments to Employees	(506,898,327)	(4,917,990)	(451,720,155)	(4,327,869)
Loans Issued to Students	(1,657,423)		(1,793,036)	
Collections of Loans to Students	2,474,452		1,881,824	
Net Cash Provided (Used) by Operating Activities	<u>(138,827,578)</u>	<u>1,346,924</u>	<u>(129,556,497)</u>	<u>2,239,228</u>
Cash Flows from Noncapital Financing Activities:				
Proceeds from State Appropriations	110,466,773		107,455,004	
Operating Gifts	37,283,180		38,170,966	1,241,105
Private Gifts for Endowment and Annuity Life Purposes	3,456,103		5,607,729	
Other Nonoperating Revenues	8,810,481	47,936	4,047,269	99,949
Other Nonoperating Transfers To/From System	14,269,205		12,882,177	
Payments for Other Uses	(6,506,021)		(5,332,669)	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>167,779,721</u>	<u>47,936</u>	<u>162,830,476</u>	<u>1,341,054</u>
Cash Flows from Capital and Related Financing Activities:				
Proceeds from Issuance of Capital Debt		1,803,328		
Proceeds for Capital Debt Transferred from System (non-man)	110,607,216		37,321,985	
Payments of Other Costs on Debt Issuance				
Capital Grants and Gifts	5,492,968		1,554,218	1,678,643
Proceeds from Sale of Capital Assets		220,000		
Purchase of Capital Assets	(144,587,090)	(4,508,962)	(85,041,027)	(1,629,932)
Principal Paid on Capital Related Debt		(27,091)		(26,911)
Mandatory Transfers to System for Capital Related Debt	(19,634,702)		(15,506,484)	
Interest Paid on Capital Related Debt		(14,037)		(3,137)
Net Cash Provided (Used) by Related Financing Activities	<u>(48,121,608)</u>	<u>(2,526,762)</u>	<u>(61,671,308)</u>	<u>18,663</u>
Cash Flows from Investing Activities:				
Proceeds from Interest and Investment Income	17,900,072	53,803	17,518,233	93,756
Proceeds from Interest and Investment Income Held by System	26,635,008		27,737,938	
Purchases of Investments	(4,124,171)		(2,976,822)	
Purchases of Investments Held by System	(20,790,484)		(23,547,771)	
Net Cash Provided (Used) by Investing Activities	<u>19,620,425</u>	<u>53,803</u>	<u>18,731,578</u>	<u>93,756</u>
Net Increase (Decrease) in Cash	450,960	(1,078,099)	(9,665,751)	3,692,701
Cash & Cash Equivalents - Beginning of the Year	48,450,110	6,562,466	58,115,861	2,902,019
Restatements to Beginning Cash and Cash Equivalents				(32,254)
Cash & Cash Equivalents - End of the Year	<u>\$ 48,901,070</u>	<u>5,484,367</u>	<u>48,450,110</u>	<u>6,562,466</u>
Reconciliation of Net Operating Revenues (Expenses) to				
Net Cash Provided (Used) by Operating Activities:				
Operating Loss	\$ (180,687,968)	(506,135)	(160,173,982)	(610,905)
Adjustments to Reconcile Operating Loss to Net Cash:				
Depreciation and Amortization Expense	30,075,529	2,255,324	27,567,758	2,420,860
Bad Debt Expense	78,096			
Changes in Assets and Liabilities:				
Accounts Receivable, net	9,110,653	(147,154)	(6,707,937)	287,495
Inventory	(317,290)		43,719	
Loans and Contracts	904,484		157,686	
Other Assets	(5,305,355)	(51,768)	153,440	4,187
Accounts Payable	1,663,862	(223,272)	7,082,028	92,833
Due to System	636,006		565,881	
Deferred Revenue	1,181,429	(95)	156,268	(1,161)
Deposits Held for Others	(352,056)	(13,384)	1,000	3,000
Compensated Absences & Notes Payable	4,171,980	33,408	2,090,015	42,919
Other Liabilities	13,052		(492,373)	
Total Adjustments	<u>41,860,390</u>	<u>1,853,059</u>	<u>30,617,485</u>	<u>2,850,133</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (138,827,578)</u>	<u>1,346,924</u>	<u>(129,556,497)</u>	<u>2,239,228</u>
Noncash Transactions				
Net Increase (Decrease) in Fair Value of Investments	30,806,888	4,392,138	(69,369,037)	(4,231,136)
Donated Capital Assets	416,734			
Miscellaneous Noncash Transactions	770,290	77,875	177,855	

UNAUDITED

THE UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON
 EXHIBIT A - BALANCE SHEET
 As of August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
ASSETS		
Current Assets:		
Cash & Cash Equivalents	\$ 141,197,761	97,247,021
Restricted Cash & Cash Equivalents	45,300,346	48,998,501
Balance in State Appropriations	2,727,813	705,241
Accounts Receivable, Net:		
Federal Receivables (net of allowances of \$0)	13,533,419	12,084,610
Other Intergovernmental Rec. (net of allowances of \$0)	3,878,600	1,912,382
Student Receivables (net of allowances of \$57,060)	3,396,726	3,992,448
Patient Receivables (net of allowances of \$127,489,689)	70,823,206	80,400,340
Interest and Dividends	216,755	322,826
Contributions Receivable (net of allowances of \$88,865)	588,780	266,207
Other Receivables (net of allowances of \$0)	3,293,156	18,526,636
Due From Other Funds	578,356	610,535
Due From System Administration	26,802,172	5,240,114
Inventories	9,503,415	10,302,988
Loans and Contracts (net of allowances of \$0)	453,798	830,525
Other Current Assets	4,854,784	4,544,548
Total Current Assets	<u>327,149,087</u>	<u>285,984,922</u>
Non-Current Assets:		
Restricted:		
Investments	18,780,199	24,351,565
Loans, Contracts and Other (net of allowances of \$473,429)	6,354,215	6,476,092
Funds Held by System Administration	237,622,052	215,504,417
Funds Held by System - Permanent Health Fund	22,712,225	21,288,100
Funds Held by Sealy & Smith Foundation	51,364,721	51,477,517
Contributions Receivable (net of allowances of \$0)	1,382,122	960,306
Investments	57,119,196	53,100,450
Other Non-Current Assets	643,523	734,198
Capital Assets	925,509,027	877,209,216
Less Accumulated Depreciation	(512,141,515)	(484,630,430)
Total Non-Current Assets	<u>809,345,765</u>	<u>766,471,431</u>
TOTAL ASSETS	<u>\$ 1,136,494,852</u>	<u>1,052,456,353</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 86,524,056	77,379,219
Other Intergovernmental Payables	362,307	593,787
Due to Other Funds	578,356	610,535
Due to System Administration	7,343,109	6,597,936
Deferred Revenue	27,846,695	27,169,927
Employees' Compensable Leave-Current Portion	6,783,767	5,419,589
Notes, Loans and Leases Payable-Current Portion	2,580,141	
Payable From Restricted Assets-Current Portion	4,680,888	3,707,213
Funds Held for Others	3,770,850	11,446,267
Total Current Liabilities	<u>140,470,169</u>	<u>132,924,473</u>
Non-Current Liabilities:		
Employees' Compensable Leave	45,399,050	44,451,874
Notes, Loans and Leases Payable	5,034,665	
Other Non-Current Liabilities	47,994	39,325
Total Non-Current Liabilities	<u>50,481,709</u>	<u>44,491,199</u>
TOTAL LIABILITIES	<u>190,951,878</u>	<u>177,415,672</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	413,367,512	392,578,786
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	268,014,218	248,574,342
Expendable		
Capital Projects	10,014,166	7,498,946
Funds Functioning as Endowment - Restricted	12,307,060	10,280,687
Other Expendable	72,960,220	61,158,451
Unrestricted	168,879,798	154,949,469
TOTAL NET ASSETS	<u>945,542,974</u>	<u>875,040,681</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,136,494,852</u>	<u>1,052,456,353</u>

UNAUDITED

THE UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Operating Revenues:		
Student Tuition and Fees	\$ 9,457,661	8,950,396
Discounts and Allowances	(1,536,228)	(1,349,442)
Federal Sponsored Programs	94,436,003	79,965,548
Federal Sponsored Programs Pass-Through from Other St. Agencies	1,606,846	2,040,792
State Sponsored Programs	17,747,702	14,065,332
State Sponsored Programs Pass-Through from Other St. Agencies	22,416,609	25,308,566
Local Sponsored Programs	1,598,454	1,297,606
Private Sponsored Programs	45,325,260	46,867,898
Sales and Services of Educational Activities	1,322,292	1,123,254
Discounts and Allowances (none)		
Sales and Services of Hospitals	1,402,350,674	1,210,546,954
Discounts and Allowances (none)	(759,146,723)	(581,423,522)
Professional Fees	317,006,008	301,995,749
Discounts and Allowances	(222,789,892)	(210,008,467)
Auxiliary Enterprises	7,261,280	7,045,683
Discounts and Allowances (none)		
Other Operating Revenues	19,279,167	26,175,823
Total Operating Revenues	<u>956,335,113</u>	<u>932,602,170</u>
Operating Expenses:		
Instruction	211,038,823	221,340,600
Research	99,273,036	87,280,055
Public Service	8,075,883	7,457,476
Hospitals and Clinics	801,730,271	786,245,723
Academic Support	12,581,430	12,536,305
Student Services	3,992,655	3,863,699
Institutional Support	55,620,635	46,610,744
Operations and Maintenance of Plant	27,551,427	27,003,323
Scholarships and Fellowships	2,257,840	2,177,728
Auxiliary Enterprises	5,637,831	5,944,399
Depreciation and Amortization	47,454,832	48,051,013
Total Operating Expenses	<u>1,275,214,663</u>	<u>1,248,511,065</u>
Operating Loss	<u>(318,879,550)</u>	<u>(315,908,895)</u>
Nonoperating Revenues (Expenses):		
State Appropriations	284,362,123	292,688,697
Gift Contributions for Operations	3,858,977	3,807,125
Net Investment Income	16,819,485	17,549,028
Net Increase (Decrease) in Fair Value of Investments	13,993,932	(34,236,857)
Gain/(Loss) on Sale of Capital Assets	(4,493,380)	(4,543,564)
Other Nonoperating Revenues	4,737,858	3,102,526
Other Nonoperating Expenses	(4,053,869)	(2,814,417)
Net Nonoperating Revenues (Expenses)	<u>315,225,126</u>	<u>275,552,538</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	(3,654,424)	(40,356,357)
Gifts and Sponsored Programs for Capital Acquisitions	27,521,164	15,195,388
Additions to Permanent Endowments	5,785,724	8,173,258
Reclass from / (to) Other Components	(23,740,817)	(5,207,165)
Transfers Between Components & System-Debt Service-Mandatory	(7,613,390)	(7,486,652)
Transfers Between Components & System Admin. - Non mandatory	72,204,036	26,220,697
Change in Net Assets	<u>70,502,293</u>	<u>(3,460,831)</u>
Beginning Net Assets - As Previously Reported	890,694,882	1,484,582,904
Restatements	(15,654,201)	(606,081,392)
Beginning Net Assets - As Restated	<u>875,040,681</u>	<u>878,501,512</u>
Ending Net Assets	<u>\$ 945,542,974</u>	<u>875,040,681</u>

UNAUDITED

THE UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Cash Flows from Operating Activities:		
Proceeds Received from Students	\$ 10,985,454	8,395,749
Proceeds Received from Patients and Customers	762,260,564	724,563,652
Proceeds for Sponsored Programs	184,453,398	166,506,138
Auxiliary Enterprise Charges	7,266,107	7,045,683
Proceeds from Other Revenues	22,083,316	24,329,724
Payments to Suppliers	(385,999,052)	(421,344,337)
Payments to Employees	(826,194,391)	(791,549,514)
Loans Issued to Students	(1,465,026)	(1,266,884)
Collections of Loans to Students	1,963,630	1,462,067
Payments for Other Expenses	(7,675,417)	(13,693,683)
Net Cash Provided (Used) by Operating Activities	<u>(232,321,417)</u>	<u>(295,551,405)</u>
Cash Flows from Noncapital Financing Activities:		
Proceeds from State Appropriations	282,339,551	295,431,335
Operating Gifts	3,386,332	4,467,043
Private Gifts for Endowment and Annuity Life Purposes	5,785,724	8,173,258
Other Nonoperating Revenues	3,698,437	3,102,526
Other Nonoperating Transfers To/From System	7,613,735	6,979,054
Payments for Other Uses	(3,935,755)	(3,295,086)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>298,888,024</u>	<u>314,858,130</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds for Capital Debt Transferred from System (non-man)	19,298,780	12,571,644
Capital Grants and Gifts	20,396,227	22,787,125
Proceeds from Sale of Capital Assets	294,696	513,014
Purchase of Capital Assets	(65,305,561)	(45,797,753)
Principal Paid on Capital Related Debt	(2,416,564)	
Mandatory Transfers to System for Capital Related Debt	(7,613,390)	(7,486,652)
Net Cash Provided (Used) by Related Financing Activities	<u>(35,345,812)</u>	<u>(17,412,622)</u>
Cash Flows from Investing Activities:		
Proceeds from Interest and Investment Income	10,069,697	10,773,810
Proceeds from Interest and Investment Income Held by System	6,844,505	7,363,438
Purchases of Investments	(477,289)	
Purchases of Investments Held by System	(7,405,123)	(12,572,274)
Net Cash Provided (Used) by Investing Activities	<u>9,031,790</u>	<u>5,564,974</u>
Net Increase (Decrease) in Cash	40,252,585	7,459,077
Cash & Cash Equivalents - Beginning of the Year	146,245,522	138,786,445
Cash & Cash Equivalents - End of the Year	<u>\$ 186,498,107</u>	<u>146,245,522</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:		
Operating Loss	\$ (318,879,550)	(315,908,895)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	47,454,832	48,051,013
Bad Debt Expense	149,645	
Changes in Assets and Liabilities:		
Accounts Receivable, net	24,167,171	(2,329,303)
Inventory	799,573	(1,854,924)
Loans and Contracts	363,905	200,065
Other Assets	1,950,797	122,868
Accounts Payable	11,695,342	(17,988,048)
Due to System	745,173	1,608,473
Deferred Revenue	4,897,325	2,490,158
Deposits Held for Others	(7,985,653)	(14,957,495)
Compensated Absences & Notes Payable	2,311,354	5,102,950
Other Liabilities	8,669	(88,267)
Total Adjustments	<u>86,558,133</u>	<u>20,357,490</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (232,321,417)</u>	<u>(295,551,405)</u>
Noncash Transactions		
Net Increase (Decrease) in Fair Value of Investments	13,993,932	(34,236,857)
Miscellaneous Noncash Transactions	(230,301)	184,972

UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT HOUSTON
 EXHIBIT A - BALANCE SHEET
 As of August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
ASSETS		
Current Assets:		
Cash & Cash Equivalents	\$ 49,855,529	30,763,067
Restricted Cash & Cash Equivalents	15,387,022	7,870,210
Balance in State Appropriations	1,720,803	8,780,474
Accounts Receivable, Net:		
Federal Receivables (net of allowances of \$0)	7,643,279	6,468,273
Other Intergovernmental Rec. (net of allowances of \$0)	4,845,144	2,246,688
Student Receivables (net of allowances of \$264,486)	1,425,858	1,075,857
Patient Receivables (net of allowances of \$5,005,062)	23,259,539	20,205,717
Interest and Dividends	221,096	356,806
Contributions Receivable (net of allowances of \$213,472)	10,460,463	8,457,834
Other Receivables (net of allowances of \$13,822)	20,263,308	19,828,280
Due From Other Funds	4,000,000	4,000,000
Due From System Administration	48,632,487	45,222,596
Due From Other Agencies	135,599	88,181
Inventories	1,027,034	1,194,630
Loans and Contracts (net of allowances of \$0)	10,977,742	11,317,809
Other Current Assets	330,455	241,412
Total Current Assets	<u>200,185,358</u>	<u>168,117,834</u>
Non-Current Assets:		
Restricted:		
Investments	36,190,732	38,739,274
Funds Held by System Administration	76,426,418	66,638,813
Funds Held by System - Permanent Health Fund	22,712,225	21,288,100
Contributions Receivable (net of allowances of \$447,500)	21,927,151	25,502,604
Investments	77,827,128	73,311,519
Other Non-Current Assets	31,667	31,667
Capital Assets	411,682,978	369,547,088
Less Accumulated Depreciation	(202,950,102)	(193,686,419)
Total Non-Current Assets	<u>443,848,197</u>	<u>401,372,646</u>
TOTAL ASSETS	\$ <u>644,033,555</u>	<u>569,490,480</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 16,672,166	19,457,354
Due to Other Funds	4,000,000	4,000,000
Due to System Administration	2,933,692	2,533,640
Due to Other Agencies		82,565
Deferred Revenue	9,866,360	9,493,738
Employees' Compensable Leave-Current Portion	2,961,394	2,159,574
Notes, Loans and Leases Payable-Current Portion	99,834	117,289
Payable From Restricted Assets-Current Portion	2,728,604	2,974,004
Other Current Liabilities	139,283	187,459
Total Current Liabilities	<u>39,401,333</u>	<u>41,005,623</u>
Non-Current Liabilities:		
Employees' Compensable Leave	20,920,813	18,023,363
Assets Held for Others	530,011	267,494
Notes, Loans and Leases Payable	158,570	258,403
Total Non-Current Liabilities	<u>21,609,394</u>	<u>18,549,260</u>
TOTAL LIABILITIES	<u>61,010,727</u>	<u>59,554,883</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	208,474,472	175,484,977
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	31,884,249	27,931,229
Expendable		
Capital Projects	92,320,657	81,314,226
Funds Functioning as Endowment - Restricted	30,007,166	25,171,521
Other Expendable	72,101,373	75,178,561
Unrestricted	<u>148,234,911</u>	<u>124,855,083</u>
TOTAL NET ASSETS	<u>583,022,828</u>	<u>509,935,597</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>644,033,555</u>	<u>569,490,480</u>

UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT HOUSTON
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Operating Revenues:		
Student Tuition and Fees	\$ 13,728,766	13,091,302
Discounts and Allowances	(83,433)	(69,115)
Federal Sponsored Programs	119,562,477	109,360,950
Federal Sponsored Programs Pass-Through from Other St. Agencies	15,720,633	7,091,486
State Sponsored Programs	5,082,510	7,281,145
State Sponsored Programs Pass-Through from Other St. Agencies	4,264,967	5,673,130
Local Sponsored Programs	60,054,713	49,616,829
Private Sponsored Programs	23,936,894	25,425,311
Sales and Services of Educational Activities	19,499,839	18,932,995
Discounts and Allowances (none)		
Sales and Services of Hospitals	65,442,813	33,300,036
Discounts and Allowances	(30,292,352)	
Professional Fees	316,317,764	303,617,681
Discounts and Allowances	(223,159,019)	(213,444,523)
Auxiliary Enterprises	13,339,872	13,537,394
Discounts and Allowances (none)		
Other Operating Revenues	8,389,684	8,965,155
Total Operating Revenues	<u>411,806,128</u>	<u>382,379,776</u>
Operating Expenses:		
Instruction	224,179,029	209,091,743
Research	115,870,536	106,265,513
Public Service	18,225,566	19,902,241
Hospitals and Clinics	74,988,156	74,139,552
Academic Support	21,367,045	19,298,907
Student Services	3,181,513	3,871,107
Institutional Support	58,362,886	57,648,703
Operations and Maintenance of Plant	22,993,223	21,084,622
Scholarships and Fellowships	3,317,388	2,647,361
Auxiliary Enterprises	11,623,563	10,828,918
Depreciation and Amortization	18,944,339	17,382,230
Total Operating Expenses	<u>573,053,244</u>	<u>542,160,897</u>
Operating Loss	<u>(161,247,116)</u>	<u>(159,781,121)</u>
Nonoperating Revenues (Expenses):		
State Appropriations	145,596,984	147,648,069
Gift Contributions for Operations	6,946,266	22,287,964
Net Investment Income	8,553,353	9,973,457
Net Increase (Decrease) in Fair Value of Investments	6,206,637	(9,354,306)
Gain/(Loss) on Sale of Capital Assets	305,404	
Other Nonoperating Revenues	4,812,632	15,570,827
Other Nonoperating Expenses	(8,692,524)	(11,475,426)
Net Nonoperating Revenues (Expenses)	<u>163,728,752</u>	<u>174,650,585</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	2,481,636	14,869,464
Gifts and Sponsored Programs for Capital Acquisitions	9,404,302	28,835,948
Additions to Permanent Endowments	1,435,807	2,303,944
Extraordinary Items	36,512,522	(13,634,457)
Reclass from / (to) Other Components	(23,795,549)	29,040,375
Transfers Between Components & System-Debt Service-Mandatory	(9,821,709)	(8,246,119)
Transfers Between Components & System Admin. - Non mandatory	56,981,743	37,985,273
Legislative Appropriations Lapsed	(111,521)	
Change in Net Assets	<u>73,087,231</u>	<u>91,154,428</u>
Beginning Net Assets - As Previously Reported	470,683,535	607,135,211
Restatements	39,252,062	(188,354,042)
Beginning Net Assets - As Restated	<u>509,935,597</u>	<u>418,781,169</u>
Ending Net Assets	<u>\$ 583,022,828</u>	<u>509,935,597</u>

UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT HOUSTON

EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS

For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Cash Flows from Operating Activities:		
Proceeds Received from Students	\$ 14,223,509	14,025,890
Proceeds Received from Patients and Customers	125,255,384	122,290,370
Proceeds for Sponsored Programs	223,999,184	203,304,176
Auxiliary Enterprise Charges	13,353,944	13,539,794
Proceeds from Other Revenues	28,827,965	18,932,995
Payments to Suppliers	(159,705,093)	(151,882,561)
Payments to Employees	(394,063,039)	(378,369,309)
Loans Issued to Students	(3,663,027)	(3,014,899)
Collections of Loans to Students	3,893,381	3,443,683
Payments for Other Expenses		(5,486,929)
Net Cash Provided (Used) by Operating Activities	<u>(147,877,792)</u>	<u>(163,216,790)</u>
Cash Flows from Noncapital Financing Activities:		
Proceeds from State Appropriations	152,545,134	140,820,089
Operating Gifts	19,054,294	11,772,083
Private Gifts for Endowment and Annuity Life Purposes	1,435,807	2,303,944
Other Nonoperating Revenues	55,594,479	25,031,375
Other Nonoperating Transfers To/From System	3,224,914	1,691,289
Payments for Other Uses	(21,188,864)	(40,724,021)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>210,665,764</u>	<u>140,894,759</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds for Capital Debt Transferred from System (non-man)	26,586,697	25,011,104
Capital Grants and Gifts	(2,784,887)	7,154,471
Purchase of Capital Assets	(51,723,106)	(33,445,468)
Principal Paid on Capital Related Debt	(117,288)	765,968
Mandatory Transfers to System for Capital Related Debt	(9,821,709)	(8,246,119)
Net Cash Provided (Used) by Related Financing Activities	<u>(37,860,293)</u>	<u>(8,760,044)</u>
Cash Flows from Investing Activities:		
Proceeds from Sales and Maturities of Investments Held by System		(4,173,186)
Proceeds from Interest and Investment Income	135,710	1,262,456
Proceeds from Interest and Investment Income Held by System	8,518,045	8,835,263
Purchases of Investments Held by System	(6,972,160)	(8,600,980)
Net Cash Provided (Used) by Investing Activities	<u>1,681,595</u>	<u>(2,676,447)</u>
Net Increase (Decrease) in Cash	26,609,274	(33,758,522)
Cash & Cash Equivalents - Beginning of the Year	38,633,277	72,391,799
Cash & Cash Equivalents - End of the Year	<u>\$ 65,242,551</u>	<u>38,633,277</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:		
Operating Loss	\$ (161,247,116)	(159,781,121)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	18,944,339	17,382,230
Bad Debt Expense	5,800	
Changes in Assets and Liabilities:		
Accounts Receivable, net	(7,612,313)	(19,214,948)
Inventory	167,596	12,614
Loans and Contracts	334,267	491,397
Other Assets	(47,418)	90,318
Accounts Payable	(2,728,252)	(6,654,523)
Due to System	400,052	350,954
Deferred Revenue	80,685	2,083,458
Deposits Held for Others	173,474	12,331
Compensated Absences & Notes Payable	3,699,270	2,003,143
Other Liabilities	(48,176)	7,357
Total Adjustments	<u>13,369,324</u>	<u>(3,435,669)</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (147,877,792)</u>	<u>(163,216,790)</u>
Noncash Transactions		
Net Increase (Decrease) in Fair Value of Investments	6,206,637	(9,354,306)
Donated Capital Assets	1,653,985	
Miscellaneous Noncash Transactions	(117,288)	

UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT SAN ANTONIO
 EXHIBIT A - BALANCE SHEET
 As of August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
ASSETS		
Current Assets:		
Cash & Cash Equivalents	\$ 36,046,374	27,599,645
Restricted Cash & Cash Equivalents	3,636,033	2,086,773
Balance in State Appropriations	9,846,865	16,230,204
Accounts Receivable, Net:		
Federal Receivables (net of allowances of \$0)	22,054,223	16,286,815
Other Intergovernmental Rec. (net of allowances of \$0)	4,356,940	4,057,387
Student Receivables (net of allowances of \$0)	82,492	
Patient Receivables (net of allowances of \$26,221,343)	17,865,759	8,367,688
Interest and Dividends	463,456	417,976
Contributions Receivable (net of allowances of \$0)	2,754,863	3,763,500
Other Receivables (net of allowances of \$0)	12,096,306	12,854,210
Due From Other Funds	6,000	6,000
Due From System Administration	44,641,075	57,034,931
Inventories	1,565,007	1,252,329
Loans and Contracts (net of allowances of \$94,530)	2,972,854	3,181,643
Other Current Assets	477,756	845,972
Total Current Assets	<u>158,866,003</u>	<u>153,985,073</u>
Non-Current Assets:		
Restricted:		
Investments	53,441,862	52,073,187
Loans, Contracts and Other (net of allowances of \$191,923)	5,901,339	6,337,108
Funds Held by System Administration	65,921,565	57,514,476
Funds Held by System - Permanent Health Fund	181,697,800	170,304,800
Contributions Receivable (net of allowances of \$0)	6,978,494	7,823,285
Investments	82,744,244	85,014,555
Other Non-Current Assets	8,714	
Capital Assets	451,815,384	407,407,694
Less Accumulated Depreciation	(209,287,775)	(194,052,201)
Total Non-Current Assets	<u>639,221,627</u>	<u>592,422,904</u>
TOTAL ASSETS	\$ <u>798,087,630</u>	<u>746,407,977</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 23,829,379	21,128,630
Due to Other Funds	6,000	6,000
Due to System Administration	2,515,080	2,231,539
Deferred Revenue	10,856,892	11,974,052
Employees' Compensable Leave-Current Portion	3,341,242	3,492,092
Notes, Loans and Leases Payable-Current Portion	651,895	636,156
Payable From Restricted Assets-Current Portion	11,811,320	9,613,289
Funds Held for Others	487,753	481,955
Other Current Liabilities		35,912
Total Current Liabilities	<u>53,499,561</u>	<u>49,599,625</u>
Non-Current Liabilities:		
Employees' Compensable Leave	17,842,524	14,601,648
Notes, Loans and Leases Payable	1,917,633	2,569,528
Total Non-Current Liabilities	<u>19,760,157</u>	<u>17,171,176</u>
TOTAL LIABILITIES	<u>73,259,718</u>	<u>66,770,801</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	242,206,231	212,712,737
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	58,997,497	51,514,984
Expendable		
Capital Projects	37,556,763	50,259,018
Funds Functioning as Endowment - Restricted	3,990,569	3,405,754
Other Expendable	94,792,333	93,517,149
Unrestricted	<u>287,284,519</u>	<u>268,227,534</u>
TOTAL NET ASSETS	<u>724,827,912</u>	<u>679,637,176</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>798,087,630</u>	<u>746,407,977</u>

UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT SAN ANTONIO
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Operating Revenues:		
Student Tuition and Fees	\$ 18,149,177	14,726,674
Discounts and Allowances	(2,283,260)	(2,241,165)
Federal Sponsored Programs	100,342,072	95,511,145
Federal Sponsored Programs Pass-Through from Other St. Agencies	1,406,975	1,437,515
State Sponsored Programs	2,502,494	3,011,338
State Sponsored Programs Pass-Through from Other St. Agencies	2,258,328	3,490,265
Local Sponsored Programs	34,950,075	33,119,724
Private Sponsored Programs	20,877,611	19,950,357
Sales and Services of Educational Activities	6,384,148	3,200,079
Discounts and Allowances (none)		
Professional Fees	207,751,254	194,218,568
Discounts and Allowances	(131,699,155)	(132,834,120)
Auxiliary Enterprises	2,257,114	1,723,440
Discounts and Allowances (none)		
Other Operating Revenues	29,336,558	36,997,853
Total Operating Revenues	<u>292,233,391</u>	<u>272,311,673</u>
Operating Expenses:		
Instruction	188,780,648	187,225,294
Research	94,097,906	88,949,435
Public Service	21,425,383	16,147,244
Hospitals and Clinics	57,264,512	49,279,574
Academic Support	20,069,546	19,521,190
Student Services	2,293,338	2,049,913
Institutional Support	22,943,428	24,548,195
Operations and Maintenance of Plant	20,310,162	19,208,062
Scholarships and Fellowships	919,895	149,283
Auxiliary Enterprises	2,284,713	2,315,788
Depreciation and Amortization	18,436,026	14,575,952
Total Operating Expenses	<u>448,825,557</u>	<u>423,969,930</u>
Operating Loss	<u>(156,592,166)</u>	<u>(151,658,257)</u>
Nonoperating Revenues (Expenses):		
State Appropriations	133,172,157	141,033,187
Gift Contributions for Operations	13,553,549	10,250,451
Net Investment Income	18,052,747	19,010,246
Net Increase (Decrease) in Fair Value of Investments	16,145,932	(30,522,162)
Gain/(Loss) on Sale of Capital Assets	(1,653,059)	(1,177,782)
Other Nonoperating Revenues	38,068	371,051
Other Nonoperating Expenses	(1,287,264)	1,280,251
Net Nonoperating Revenues (Expenses)	<u>178,022,130</u>	<u>140,245,242</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	21,429,964	(11,413,015)
Gifts and Sponsored Programs for Capital Acquisitions	2,308,180	6,729,250
Additions to Permanent Endowments	3,526,086	3,407,877
Reclass from / (to) Other Components	10,333,098	40,742,996
Transfers Between Components & System-Debt Service-Mandatory	(12,690,281)	(6,412,857)
Transfers Between Components & System Admin. - Non mandatory	20,313,442	43,713,583
Legislative Appropriations Lapsed	(29,753)	
Change in Net Assets	<u>45,190,736</u>	<u>76,767,834</u>
Beginning Net Assets - As Previously Reported	675,219,119	841,767,022
Restatements	4,418,057	(238,897,680)
Beginning Net Assets - As Restated	<u>679,637,176</u>	<u>602,869,342</u>
Ending Net Assets	<u>\$ 724,827,912</u>	<u>679,637,176</u>

UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT SAN ANTONIO
 EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS
 For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Cash Flows from Operating Activities:		
Proceeds Received from Students	\$ 15,338,351	13,224,342
Proceeds Received from Patients and Customers	66,554,028	64,521,718
Proceeds for Sponsored Programs	156,742,418	155,969,640
Auxiliary Enterprise Charges	2,257,043	1,786,848
Proceeds from Other Revenues	35,664,159	35,081,948
Payments to Suppliers	(126,092,886)	(116,587,006)
Payments to Employees	(297,367,482)	(291,111,557)
Loans Issued to Students	(228,435)	(3,343,982)
Collections of Loans to Students	914,121	4,157,279
Payments for Other Expenses	(26,614)	(26,614)
Net Cash Provided (Used) by Operating Activities	<u>(146,218,683)</u>	<u>(136,327,384)</u>
Cash Flows from Noncapital Financing Activities:		
Proceeds from State Appropriations	139,525,743	141,736,337
Operating Gifts	15,406,977	11,986,214
Private Gifts for Endowment and Annuity Life Purposes	3,526,086	3,407,877
Other Nonoperating Revenues	38,068	1,974,800
Other Nonoperating Transfers To/From System	8,440,142	8,074,934
Payments for Other Uses	(1,287,264)	(1,862,315)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>165,649,752</u>	<u>165,317,847</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds for Capital Debt Transferred from System (non-man)	34,211,754	40,239,183
Capital Grants and Gifts	861,155	6,733,383
Purchase of Capital Assets	(46,824,799)	(49,905,020)
Principal Paid on Capital Related Debt	(636,156)	(546,611)
Mandatory Transfers to System for Capital Related Debt	(12,690,281)	(6,412,857)
Net Cash Provided (Used) by Related Financing Activities	<u>(25,078,327)</u>	<u>(9,891,922)</u>
Cash Flows from Investing Activities:		
Proceeds from Interest and Investment Income	721,402	22,168
Proceeds from Interest and Investment Income Held by System	17,674,366	19,009,632
Purchases of Investments Held by System	(2,752,521)	(38,577,763)
Net Cash Provided (Used) by Investing Activities	<u>15,643,247</u>	<u>(19,545,963)</u>
Net Increase (Decrease) in Cash	9,995,989	(447,422)
Cash & Cash Equivalents - Beginning of the Year	29,686,418	30,133,840
Cash & Cash Equivalents - End of the Year	<u>\$ 39,682,407</u>	<u>29,686,418</u>
Reconciliation of Net Operating Revenues (Expenses) to		
Net Cash Provided (Used) by Operating Activities:		
Operating Loss	\$ (156,592,166)	(151,658,257)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	18,436,026	14,575,952
Bad Debt Expense	(20,898)	(20,898)
Changes in Assets and Liabilities:		
Accounts Receivable, net	(14,889,620)	(1,744,342)
Inventory	(312,678)	(15,442)
Loans and Contracts	665,455	824,514
Other Assets	(8,714)	12,181
Accounts Payable	3,909,403	(251,360)
Due to System	283,541	434,023
Deferred Revenue	(1,117,160)	722,992
Deposits Held for Others	374,014	(621,754)
Compensated Absences & Notes Payable	3,090,026	1,516,977
Other Liabilities	(35,912)	(122,868)
Total Adjustments	<u>10,373,483</u>	<u>15,330,873</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (146,218,683)</u>	<u>(136,327,384)</u>
Noncash Transactions		
Net Increase (Decrease) in Fair Value of Investments	16,145,932	(30,522,162)
Donated Capital Assets	1,447,025	(1,447,025)

UNAUDITED

THE UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER
 EXHIBIT A - BALANCE SHEET
 As of August 31, 2003

	Current Year Totals		Restated Prior Year Totals	
	Primary University	Component Unit	Primary University	Component Unit
ASSETS				
Current Assets:				
Cash & Cash Equivalents	\$ 104,149,329	5,378,002	29,367,586	5,673,846
Restricted Cash & Cash Equivalents	25,206,484		5,675,265	
Balance in State Appropriations	2,801,911		4,031,281	
Accounts Receivable, Net:				
Federal Receivables (net of allowances of \$0)	8,200,998		2,586,848	
Patient Receivables (net of allowances of \$284,956,199)	219,674,455		258,942,567	
Interest and Dividends	778,895		1,519,977	
Contributions Receivable (net of allowances of \$554,274)	13,204,559		18,028,426	
Other Receivables (net of allowances of \$16,686)	48,151,390	19,175	65,847,802	129,038
Due From Other Funds	40,327,342		37,918,449	
Due From System Administration	121,695,077		80,478,851	
Due From Other Agencies			69,832	
Inventories	8,313,562		9,661,012	
Other Current Assets	3,497,642	109,681	7,780,500	2,698
Total Current Assets	<u>596,001,644</u>	<u>5,506,858</u>	<u>521,908,396</u>	<u>5,805,582</u>
Non-Current Assets:				
Restricted:				
Investments	417,343,002	1,090,361	410,375,711	399,902
Funds Held by System Administration	207,120,284		180,343,259	
Funds Held by System - Permanent Health Fund	90,848,900		85,152,400	
Contributions Receivable (net of allowances of \$887,257)	42,375,107		50,321,387	
Investments	389,318,445		336,747,329	
Other Non-Current Assets	193,630	408,203	327,803	330,150
Capital Assets	1,708,990,032	462,668	1,333,504,709	460,181
Less Accumulated Depreciation	(388,544,962)	(441,211)	(315,710,434)	(340,311)
Total Non-Current Assets	<u>2,467,644,438</u>	<u>1,520,021</u>	<u>2,081,062,164</u>	<u>849,922</u>
TOTAL ASSETS	\$ <u>3,063,646,082</u>	<u>7,026,879</u>	<u>2,602,970,560</u>	<u>6,655,504</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	\$ 142,649,455	324,666	146,186,958	251,895
Federal Payables	57,130,197		21,870,615	
Other Intergovernmental Payables	37,074		3,834	
Due to Other Funds	40,327,342		37,918,449	
Due to System Administration	7,391,580		6,120,801	
Deferred Revenue	50,029,772		51,365,677	
Employees' Compensable Leave-Current Portion	2,548,768		3,559,185	
Payable From Restricted Assets-Current Portion	7,940,588		6,128,513	
Other Current Liabilities	60,847,494		15,697,014	
Total Current Liabilities	<u>368,902,270</u>	<u>324,666</u>	<u>288,851,046</u>	<u>251,895</u>
Non-Current Liabilities:				
Employees' Compensable Leave	69,583,604		56,545,363	
Assets Held for Others	278,394,695		253,351,261	
Other Non-Current Liabilities	8,075	179,767	110,395	149,760
Total Non-Current Liabilities	<u>347,986,374</u>	<u>179,767</u>	<u>310,007,019</u>	<u>149,760</u>
TOTAL LIABILITIES	<u>716,888,644</u>	<u>504,433</u>	<u>598,858,065</u>	<u>401,655</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	1,320,445,070	21,458	1,017,794,275	119,870
Restricted for:				
Nonexpendable				
True and Term Endowments, and Annuities	141,629,223		122,272,764	
Expendable				
Capital Projects	122,515,776		109,655,528	
Funds Functioning as Endowment - Restricted	64,110,338		56,794,596	
Other Expendable	169,459,411		167,903,583	
Unrestricted	528,597,620	6,500,988	529,691,749	6,133,979
TOTAL NET ASSETS	<u>2,346,757,438</u>	<u>6,522,446</u>	<u>2,004,112,495</u>	<u>6,253,849</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>3,063,646,082</u>	<u>7,026,879</u>	<u>2,602,970,560</u>	<u>6,655,504</u>

UNAUDITED

THE UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER
EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended August 31, 2003

	Current Year Totals		Restated Prior Year Totals	
	Primary University	Component Unit	Primary University	Component Unit
Operating Revenues:				
Student Tuition and Fees	\$ 138,553		129,746	
Discounts and Allowances	(80,407)		(7,660)	
Federal Sponsored Programs	126,665,951		117,270,715	
Federal Sponsored Programs Pass-Through from Other St. Agencies	2,881,748		2,418,607	
State Sponsored Programs Pass-Through from Other St. Agencies	(118,928)		1,909,133	
Private Sponsored Programs	51,072,920	1,124,533	45,165,608	865,885
Sales and Services of Educational Activities	4,050,095		13,314,489	
Discounts and Allowances (none)				
Sales and Services of Hospitals	1,675,474,400		1,391,905,282	
Discounts and Allowances	(737,190,790)		(569,767,696)	
Professional Fees	521,100,687		435,684,585	
Discounts and Allowances	(327,215,457)		(275,121,494)	
Auxiliary Enterprises	21,072,981		21,063,943	
Discounts and Allowances (none)				
Other Operating Revenues	6,144,607		7,970,025	
Total Operating Revenues	<u>1,343,996,360</u>	<u>1,124,533</u>	<u>1,191,935,283</u>	<u>865,885</u>
Operating Expenses:				
Instruction	77,119,683		63,578,349	
Research	233,414,434		214,351,869	
Public Service	1,209,125		1,185,893	
Hospitals and Clinics	879,311,600	727,423	796,646,755	1,018,714
Institutional Support	132,828,514		175,358,105	
Operations and Maintenance of Plant	91,000,092		74,978,466	
Scholarships and Fellowships	33,674		172,296	
Auxiliary Enterprises	17,890,030		15,924,354	
Depreciation and Amortization	78,569,595	100,900	56,322,167	39,958
Total Operating Expenses	<u>1,511,376,747</u>	<u>828,323</u>	<u>1,398,518,254</u>	<u>1,058,672</u>
Operating Loss	<u>(167,380,387)</u>	<u>296,210</u>	<u>(206,582,971)</u>	<u>(192,787)</u>
Nonoperating Revenues (Expenses):				
State Appropriations	148,758,986		151,675,838	
Gift Contributions for Operations	44,101,110		57,663,658	
Net Investment Income	34,105,758	77,938	36,204,818	59,768
Net Increase (Decrease) in Fair Value of Investments	18,143,194	(105,551)	(40,462,789)	
Gain/(Loss) on Sale of Capital Assets	(894,904)		5,166,227	
Other Nonoperating Revenues	27,699,629		4,684,975	
Other Nonoperating Expenses	(10,328,302)		(6,035,393)	
Net Nonoperating Revenues (Expenses)	<u>261,585,471</u>	<u>(27,613)</u>	<u>208,897,334</u>	<u>59,768</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	94,205,084	268,597	2,314,363	(133,019)
Gifts and Sponsored Programs for Capital Acquisitions	19,064,032			2,500,000
Additions to Permanent Endowments	8,652,259		9,131,408	
Reclass from / (to) Other Components	167,495,205		18,833,206	
Transfers Between Components & System-Debt Service-Mandatory	(25,694,051)		(14,417,469)	
Transfers Between Components & System Admin. - Non mandatory	78,922,414		138,568,029	
Change in Net Assets	<u>342,644,943</u>	<u>268,597</u>	<u>154,429,537</u>	<u>2,366,981</u>
Beginning Net Assets - As Previously Reported	2,007,131,366	6,314,378	2,245,453,581	3,528,405
Restatements	(3,018,871)	(60,529)	(395,770,623)	358,463
Beginning Net Assets - As Restated	<u>2,004,112,495</u>	<u>6,253,849</u>	<u>1,849,682,958</u>	<u>3,886,868</u>
Ending Net Assets	<u>\$ 2,346,757,438</u>	<u>6,522,446</u>	<u>2,004,112,495</u>	<u>6,253,849</u>

UNAUDITED

THE UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2003

	Current Year Totals		Restated Prior Year Totals	
	Primary University	Component Unit	Primary University	Component Unit
Cash Flows from Operating Activities:				
Proceeds Received from Students	\$ 58,146		122,086	
Proceeds Received from Patients and Customers	1,171,436,952	3,511,919	920,741,729	926,414
Proceeds for Sponsored Programs	175,870,431		181,253,324	
Auxiliary Enterprise Charges	21,094,203		21,053,449	
Proceeds from Other Revenues	93,262,439	(27,613)	25,432,592	330,542
Payments to Suppliers	(476,959,374)	(3,040,822)	(447,843,540)	(1,053,754)
Payments to Employees	(906,877,096)		(816,494,326)	
Loans Issued to Students			17,709	
Net Cash Provided (Used) by Operating Activities	77,885,701	443,484	(115,716,977)	203,202
Cash Flows from Noncapital Financing Activities:				
Proceeds from State Appropriations	149,988,356		150,478,797	
Operating Gifts	38,603,546		55,493,191	
Private Gifts for Endowment and Annuity Life Purposes	8,652,259		9,131,408	
Other Nonoperating Revenues	28,207,869		4,684,975	
Other Nonoperating Transfers To/From System	6,067,000		5,633,139	
Payments for Other Uses	(10,328,302)		(6,035,393)	
Net Cash Provided (Used) by Noncapital Financing Activities	221,190,728		219,386,117	
Cash Flows from Capital and Related Financing Activities:				
Proceeds for Capital Debt Transferred from System (non-man)	198,697,966		103,479,235	
Capital Grants and Gifts	36,527,296		(14,746,782)	2,500,000
Proceeds from Sale of Capital Assets	37,959			
Purchase of Capital Assets	(400,790,600)	(2,487)	(226,727,066)	16,660
Mandatory Transfers to System for Capital Related Debt	(25,694,051)		(14,417,469)	
Net Cash Provided (Used) by Related Financing Activities	(191,221,430)	(2,487)	(152,412,082)	2,516,660
Cash Flows from Investing Activities:				
Proceeds from Sales and Maturities of Investments			37,914,219	
Proceeds from Sales and Maturities of Investments Held by System	75,222,969		25,034,771	
Proceeds from Interest and Investment Income	38,720,687		(32,713,758)	59,768
Proceeds from Interest and Investment Income Held by System	21,606,014		35,572,795	
Purchases of Investments	(101,969,463)	(736,841)		
Purchases of Investments Held by System	(47,122,244)		(12,973,655)	
Net Cash Provided (Used) by Investing Activities	(13,542,037)	(736,841)	52,834,372	59,768
Net Increase (Decrease) in Cash	94,312,962	(295,844)	4,091,430	2,779,630
Cash & Cash Equivalents - Beginning of the Year	35,042,851	5,673,846	30,851,421	2,894,216
Restatements to Beginning Cash and Cash Equivalents			100,000	
Cash & Cash Equivalents - End of the Year	\$ 129,355,813	5,378,002	35,042,851	5,673,846
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:				
Operating Loss	\$ (167,380,387)	296,210	(206,582,971)	(192,787)
Adjustments to Reconcile Operating Loss to Net Cash:				
Depreciation and Amortization Expense	78,569,595	100,900	56,322,167	39,958
Changes in Assets and Liabilities:				
Accounts Receivable, net	69,169,801		(73,108,679)	330,542
Inventory	1,347,450		(1,378,191)	
Loans and Contracts			17,709	
Other Assets	204,005	13,465	328,502	(81,973)
Accounts Payable	34,357,869		72,817,252	109,271
Due to System	1,270,779		1,314,848	
Deferred Revenue	(1,012,253)		15,845,132	
Deposits Held for Others	4,282,858		7,992,114	
Compensated Absences & Notes Payable	12,027,824		10,836,992	
Other Liabilities	45,048,160	32,909	(121,852)	(1,809)
Total Adjustments	245,266,088	147,274	90,865,994	395,989
Net Cash Provided (Used) by Operating Activities:	\$ 77,885,701	443,484	(115,716,977)	203,202
Noncash Transactions				
Net Increase (Decrease) in Fair Value of Investments	18,143,194	(105,551)	(40,462,789)	
Miscellaneous Noncash Transactions	171,958			

UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH CENTER AT TYLER
 EXHIBIT A - BALANCE SHEET
 As of August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
ASSETS		
Current Assets:		
Cash & Cash Equivalents	\$ 10,851,628	4,660,198
Restricted Cash & Cash Equivalents	2,579,206	3,451,899
Balance in State Appropriations	111,306	679,973
Accounts Receivable, Net:		
Federal Receivables (net of allowances of \$0)	698,764	324,301
Other Intergovernmental Rec. (net of allowances of \$0)	261,314	147,060
Patient Receivables (net of allowances of \$35,018,438)	5,896,211	5,664,870
Contributions Receivable (net of allowances of \$0)		49,729
Other Receivables (net of allowances of \$0)	799,181	4,211,640
Due From Other Funds		163,299
Due From System Administration	12,155,825	2,291,106
Inventories	2,673,731	2,235,917
Other Current Assets	105,196	808
Total Current Assets	36,132,362	23,880,800
Non-Current Assets:		
Restricted:		
Investments		88,798
Funds Held by System Administration	6,155,039	5,435,754
Funds Held by System - Permanent Health Fund	22,712,225	21,288,100
Investments	8,956,359	5,000,000
Other Non-Current Assets		189,000
Capital Assets	114,304,115	102,473,720
Less Accumulated Depreciation	(53,005,386)	(47,690,274)
Total Non-Current Assets	99,122,352	86,785,098
TOTAL ASSETS	\$ 135,254,714	110,665,898
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 11,916,651	8,352,589
Due to Other Funds		163,299
Due to System Administration	848,315	752,649
Deferred Revenue	470,363	9,622
Employees' Compensable Leave-Current Portion	605,020	531,258
Notes, Loans and Leases Payable-Current Portion	93,500	87,588
Payable From Restricted Assets-Current Portion	869,325	426,444
Other Current Liabilities	15,231	14,939
Total Current Liabilities	14,818,405	10,338,388
Non-Current Liabilities:		
Employees' Compensable Leave	3,403,403	3,154,104
Notes, Loans and Leases Payable		93,501
Total Non-Current Liabilities	3,403,403	3,247,605
TOTAL LIABILITIES	18,221,808	13,585,993
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	61,298,729	54,783,446
Restricted for:		
Nonexpendable		
True and Term Endowments, and Annuities	6,054,136	5,339,249
Expendable		
Capital Projects	11,168,925	1,196,154
Funds Functioning as Endowment - Restricted	100,903	96,505
Other Expendable	2,411,985	3,799,206
Unrestricted	35,998,228	31,865,345
TOTAL NET ASSETS	117,032,906	97,079,905
TOTAL LIABILITIES AND NET ASSETS	\$ 135,254,714	110,665,898

UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH CENTER AT TYLER
 EXHIBIT B - COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Operating Revenues:		
Federal Sponsored Programs	\$ 3,972,371	3,394,204
Federal Sponsored Programs Pass-Through from Other St. Agencies	648,525	118,617
State Sponsored Programs	1,233,432	2,777
State Sponsored Programs Pass-Through from Other St. Agencies	399,262	506,799
Local Sponsored Programs	4,142,621	2,366,259
Private Sponsored Programs	1,501,809	1,576,737
Sales and Services of Educational Activities	3,351,432	2,860,276
Discounts and Allowances (none)		
Sales and Services of Hospitals	145,676,999	131,413,875
Discounts and Allowances	(92,934,936)	(80,067,454)
Professional Fees	36,485,872	34,433,992
Discounts and Allowances	(24,280,249)	(23,170,044)
Auxiliary Enterprises	1,250,242	1,366,757
Discounts and Allowances	(487,805)	(497,135)
Other Operating Revenues	1,090,701	1,968,306
Total Operating Revenues	<u>82,050,276</u>	<u>76,273,966</u>
Operating Expenses:		
Instruction	6,674,349	6,160,599
Research	8,257,000	7,918,964
Hospitals and Clinics	81,453,546	78,248,808
Institutional Support	9,840,074	7,173,745
Operations and Maintenance of Plant	5,168,605	6,058,298
Auxiliary Enterprises	709,331	632,354
Depreciation and Amortization	5,455,678	3,456,234
Total Operating Expenses	<u>117,558,583</u>	<u>109,649,002</u>
Operating Loss	<u>(35,508,307)</u>	<u>(33,375,036)</u>
Nonoperating Revenues (Expenses):		
State Appropriations	36,571,568	38,313,322
Gift Contributions for Operations	370,053	781,357
Net Investment Income	2,968,227	2,816,084
Net Increase (Decrease) in Fair Value of Investments	1,644,979	(3,470,307)
Gain/(Loss) on Sale of Capital Assets	(760,359)	(1,049,354)
Other Nonoperating Revenues	924,859	(880,779)
Other Nonoperating Expenses	(141,953)	(183,117)
Net Nonoperating Revenues (Expenses)	<u>41,577,374</u>	<u>36,327,206</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	6,069,067	2,952,170
Gifts and Sponsored Programs for Capital Acquisitions	143	2,498
Additions to Permanent Endowments	307,001	131,300
Reclass from / (to) Other Components	12,145,056	(8,595,408)
Transfers Between Components & System-Debt Service-Mandatory	(1,325,688)	(442,433)
Transfers Between Components & System Admin. - Non mandatory	2,757,422	13,809,750
Change in Net Assets	<u>19,953,001</u>	<u>7,857,877</u>
Beginning Net Assets - As Previously Reported	96,672,605	149,978,232
Restatements	407,300	(60,756,204)
Beginning Net Assets - As Restated	<u>97,079,905</u>	<u>89,222,028</u>
Ending Net Assets	<u>\$ 117,032,906</u>	<u>97,079,905</u>

UNAUDITED

THE UNIVERSITY OF TEXAS HEALTH CENTER AT TYLER
EXHIBIT C - COMBINED STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2003

	Current Year Totals	Restated Prior Year Totals
	Primary University	Primary University
Cash Flows from Operating Activities:		
Proceeds Received from Patients and Customers	\$ 68,156,048	62,848,795
Proceeds for Sponsored Programs	11,841,636	5,726,630
Auxiliary Enterprise Charges	906,698	847,830
Proceeds from Other Revenues	4,395,965	4,395,494
Payments to Suppliers	(33,756,688)	(30,658,824)
Payments to Employees	(74,352,474)	(72,231,782)
Net Cash Provided (Used) by Operating Activities	<u>(22,808,815)</u>	<u>(29,071,857)</u>
Cash Flows from Noncapital Financing Activities:		
Proceeds from State Appropriations	37,140,235	37,878,999
Operating Gifts	419,782	810,329
Private Gifts for Endowment and Annuity Life Purposes	307,001	131,300
Other Nonoperating Revenues	924,859	(887,675)
Other Nonoperating Transfers To/From System	215,792	88,316
Payments for Other Uses	(141,953)	(185,531)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>38,865,716</u>	<u>37,835,738</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds for Capital Debt Transferred from System (non-man)	4,809,372	4,720,182
Proceeds from Sale of Capital Assets	7,611	
Purchase of Capital Assets	(12,756,700)	(16,343,500)
Principal Paid on Capital Related Debt	(87,589)	
Mandatory Transfers to System for Capital Related Debt	(1,325,688)	(442,433)
Net Cash Provided (Used) by Related Financing Activities	<u>(9,352,994)</u>	<u>(12,065,751)</u>
Cash Flows from Investing Activities:		
Proceeds from Interest and Investment Income Held by System	2,980,822	2,820,981
Purchases of Investments Held by System	(4,365,992)	(5,139,336)
Net Cash Provided (Used) by Investing Activities	<u>(1,385,170)</u>	<u>(2,318,355)</u>
Net Increase (Decrease) in Cash	5,318,737	(5,620,225)
Cash & Cash Equivalents - Beginning of the Year	8,112,097	13,732,322
Cash & Cash Equivalents - End of the Year	\$ <u>13,430,834</u>	<u>8,112,097</u>
Reconciliation of Net Operating Revenues (Expenses) to		
Net Cash Provided (Used) by Operating Activities:		
Operating Loss	\$ (35,508,307)	(33,375,036)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	5,455,678	3,456,234
Changes in Assets and Liabilities:		
Accounts Receivable, net	2,692,411	(1,583,117)
Inventory	(437,814)	(273,251)
Other Assets	189,000	(153,139)
Accounts Payable	4,024,845	6,798,905
Due to System	95,666	230,629
Deferred Revenue	460,741	
Deposits Held for Others	(104,388)	(4,255,002)
Compensated Absences & Notes Payable	323,061	81,920
Other Liabilities	292	
Total Adjustments	<u>12,699,492</u>	<u>4,303,179</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (22,808,815)</u>	<u>(29,071,857)</u>
Noncash Transactions		
Net Increase (Decrease) in Fair Value of Investments	1,644,979	(3,470,307)
Donated Capital Assets	143	