2004 Analysis of Financial Condition

February 2005

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The University of Texas System
2004 Analysis of Financial Condition

Foreword

Due to the implementation of Governmental Accounting Standards Board (GASB) 34/35 in 2002, the basis of accounting and presentation of the financial statements changed, making comparable information unavailable for periods prior to 2002. As a result, the 2004 Analysis of Financial Condition presents only three years of trends.

The analysis was performed from the Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets. Since the debt is reported at the System level and not on the individual institutions' books, debt was allocated to the appropriate institution, as provided by the Office of Finance. The ratios presented in this report are ratios commonly used by bond rating agencies, public accounting firms and consulting firms. In order to be more consistent with information provided to the legislature, the Primary Reserve Ratio was replaced with the Operating Expense Coverage Ratio. The following are the ratios analyzed:

- *Operating Expense Coverage Ratio* – measures an institution's ability to cover future operating expenses with available year-end balances (in months). Although the Texas State Comptroller required the Permanent Health Fund (PHF) to be reported as unrestricted, UT System considers the PHF to be nonexpendable. Therefore, the PHF was excluded from expendable net assets for UT El Paso and the six UT health institutions.
- *Annual Operating Margin Ratio* – indicates whether the institution has balanced annual operating expenses with revenues. Depreciation expense is included, as it is believed that inclusion of depreciation reflects a more complete picture of operating performance as it reflects use of physical assets.
- *Return on Net Assets Ratio* – determines whether the institution is financially better off than in previous years by measuring economic return. As mentioned above, the debt reported at the system level was allocated to each institution in the calculation of this ratio. A temporary decline in this ratio may be appropriate and even warranted if it reflects a strategy to better fulfill the institution's mission. On the other hand, an improving trend in this ratio indicates that the institution is increasing its net assets and is likely to be able to set aside financial resources to strengthen its future financial flexibility.
- *Expendable Resources to Total Net Assets* – measures the amount of an institution's total net assets that are expendable. The PHF was excluded from expendable net assets, and total net assets were adjusted for the debt allocated to each institution.
- *Debt Burden Ratio* – examines the institution's dependence on borrowed funds as a source of financing and the cost of borrowing relative to overall expenses.
- *Debt Service Coverage Ratio* – measures the actual margin of protection provided to investors by annual operations. *Moody's Investors Service* excludes actual investment income from its calculation of total operating revenue and instead, uses a normalized investment income of 4.5% of the prior year's ending total cash and investments. This calculation is used by the Office of Finance, and in order to be consistent with their calculation of the debt service coverage ratio, normalized investment income was used as defined above for this ratio only.
- *Full-time Equivalent (FTE) Student Enrollment* – calculates total semester credit hours taken by students during the fall semester, divided by factors of 15 for undergraduate students, 12 for graduate and special professional students, and 9 for doctoral students to arrive at the FTE students represented by the course hours taken.

These ratios only deal with the financial aspects of the institution and must be considered with key performance indicators in academics, infrastructure, and student and faculty satisfaction to understand a more complete measure of total institutional strength.

This report is meant to be a broad annual financial evaluation that rates the institutions as either "Satisfactory," "Watch" or "Unsatisfactory" based upon the factors analyzed. (See Appendix A – Definitions of Evaluation Factors). For institutions rated "Unsatisfactory," the Chancellor and the appropriate Executive Vice Chancellors will request the institutions to develop a specific financial plan of action to improve the institution's financial condition. Progress towards the achievement of the plans will be periodically discussed with the Chief Business Officer and President, and representatives from the U. T. System Offices of Business, Academic and/or Health Affairs, as appropriate.

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Executive Summary

Institutions Rated "Watch"

UT Permian Basin The institution's financial condition was downgraded from "Satisfactory" to "Watch" in 2004. Both the operating expense coverage ratio and annual operating margin ratio have continued on a downward trend since 2002. The operating expense coverage ratio dropped by 1.2 months to 1.1 months in 2004, which is below the 2 month benchmark. This ratio decreased due to a decrease in unrestricted net assets of $2.3 million, as well as an increase in operating expenses of $4.3 million. While it was management's intent to spend down balances and make investments in the infrastructure to keep pace with the increased student enrollment, UT Permian Basin now has the lowest operating expense coverage ratio of the System. UT Permian Basin is also transforming itself from a returning adult student commuter campus to a more traditional, residential undergraduate campus. The institution anticipates improvements in the operating expense coverage ratio in future years. The operating deficit of $4.8 million was a $3.4 million decline from the 2003 operating deficit, resulting in an annual operating margin ratio of negative 16.4%, also the lowest in the System. The operating deficit was due to the infrastructure investments mentioned above. However, the return on net assets ratio increased from 3.4% in 2003 to 15.7% in 2004 due to an increase in the amount of bond proceeds transferred to UT Permian Basin, as well as an increase in the gifts for permanent endowments. The expendable resources to total net assets ratio remained relatively stable at 26.4%. The debt burden ratio decreased from 8.0% in 2003 to 6.2% in 2004, while the debt service coverage ratio decreased from 0.8x in 2003 to negative 0.6x in 2004, as a result of the increased operating expenses noted above. Full-time equivalent student enrollment continued to grow due to increased recruiting and retention efforts.

UTMB Galveston The institution's financial condition was maintained as "Watch" for 2004. The operating expense coverage ratio remained unchanged at 1.4 months, which is below the 2 month benchmark. The operating deficit of $24.0 million was a $14.7 million decline from the operating deficit in 2003 and resulted in an annual operating margin ratio of negative 1.9%. UTMB Galveston was adversely impacted by an $8.9 million reduction in state appropriations and a $10.0 million reduction in the Indigent Care Fund. The return on net assets decreased from 7.8% in 2003 to 5.2% in 2004 primarily due to the larger operating deficit discussed above. The expendable resources to total net assets ratio decreased slightly from 26.8% in 2003 to 26.0% in 2004 due to an increase in total net assets resulting from the increase in the fair market value of investments. The debt burden ratio increased slightly from 0.6% in 2003 to 0.7% in 2004 due to an increase in debt. The debt service coverage ratio decreased from 5.2x in 2003 to 3.2x in 2004 as a result of the larger operating deficit, as well as the increase in debt.

UTHSC-Houston The institution's financial condition was maintained as "Watch" for 2004. The operating expense coverage ratio decreased by 0.5 months to 2.1 months due to a decrease in unrestricted net assets primarily attributable to expenses related to Tropical Storm Allison exceeding the proceeds received in 2004. However, the operating margin increased $40.5 million primarily due to a large gift pledge received in 2004, as well an increase in operating revenues generated by the practice plan. The return on net assets ratio increased from 13.7% in 2003 to 16.3% in 2004 largely due to the significant improvement in the operating margin mentioned above, as well as an increase in the amount of bond proceeds transferred to UTHSC-Houston for capital projects. The expendable resources to total net assets ratio decreased from 62.1% in 2003 to 53.7% in 2004 due to the increase in total net assets discussed previously. The debt burden ratio increased from 1.7% in 2003 to 2.1% in 2004 due to an increase in debt service, and the debt service coverage ratio increased from 1.4x in 2003 to 4.5x in 2004 due to the improvement in the operating margin.

Institutions Rated "Watch" (Continued)

UTHC-Tyler The institution's financial condition was maintained as "Watch" for 2004. The operating expense coverage ratio increased by 0.1 months to 1.5 months but is still below the 2 month benchmark. The operating margin increased by $1.9 million largely due to the North East Texas Initiative (NETI) funding being available for current operations, rather than for capital expenditures and a large gift received in 2004. The return on net assets ratio decreased from 19.6% in 2003 to 6.8% in 2004 due to the increased use of debt to purchase assets rather than leasing the assets. The expendable resources to total net assets ratio decreased from 23.4% in 2003 to 22.3% in 2004 primarily due to a decrease in expendable net assets restricted for capital projects. The debt burden ratio decreased slightly from 1.1% in 2003 to 1.0% in 2004 due to an increase in operating expenses. The debt service coverage ratio increased from 3.3x in 2003 to 6.5x in 2004 as a result of the improvement in the operating margin discussed above.

Institutions Rated "Satisfactory"

UT Arlington The operating expense coverage ratio increased by 0.4 months to 3.2 months and the operating margin increased $4.8 million due to increased tuition and fee revenue. The return on net assets ratio decreased from 16.2% in 2003 to 13.5% in 2004 due to an increase in debt outstanding and proceeds received for capital projects. The expendable resources to total net assets ratio increased from 26.8% in 2003 to 30.2% in 2004 as a result of an increase in expendable net assets restricted for capital projects, as well as the increase in unrestricted net assets noted above. The debt burden ratio increased from 5.0% in 2003 to 7.7% in 2004 due to the early repayment of $5 million in debt as well as aggressive housing construction. The debt service coverage ratio decreased from 2.7x in 2003 to 2.2x in 2004 due to the increase in debt service. Full-time equivalent student enrollment continued to grow as a result of new and on-going academic programs, as well as the availability of on-campus housing.

UT Austin The operating expense coverage ratio increased by 0.5 months to 3.2 months due to an increase in unrestricted net assets of $59.1 million (19.1%). The operating margin increased $18.3 million largely due to increases in net tuition, sales and services of educational activities, and investment income, which were partially offset by an increase in operating expenses. The return on net assets ratio decreased from 12.6% in 2003 to 10.2% in 2004 primarily due to a decrease in gifts for permanent endowments. The expendable resources to total net assets ratio decreased from 22.3% in 2003 to 20.5% in 2004 due to an increase in endowment net assets, which are almost entirely nonexpendable. The debt burden ratio increased slightly from 3.0% in 2003 to 3.2% in 2004 due to an increase in debt service. The debt service coverage ratio also increased from 3.5x in 2003 to 4.0x in 2004 due to the improvement in the operating margin. Full-time equivalent student enrollment continued to decrease due to efforts to reduce enrollment.

Institutions Rated “Satisfactory” (Continued)

UT Brownsville The operating expense coverage ratio decreased 0.4 months to 2.7 months due to an increase in operating expenses resulting from the continued enrollment growth. The operating margin decreased by $1.8 million due to a reduction in state appropriations and the increase in operating expenses mentioned above. The return on net assets ratio dropped from 36.4% in 2003 to negative 0.1% in 2004 due to the issuance of the remainder of the debt appropriated for the Business and Education Complex. The expendable resources to total net assets ratio decreased from 59.4% in 2003 to 48.3% in 2004 due to a decrease in expendable net assets restricted for capital projects. The debt burden ratio decreased from 5.3% in 2003 to 4.6% for 2004 as a result of a reduction in debt service, as well as increased operating expenses and interest expense. The debt service coverage ratio also decreased from 2.1x in 2003 to 1.9x in 2004 due to the increased operating expenses previously mentioned. Full-time equivalent student enrollment continued an upward trend with student headcount reaching an all-time high.

UT Dallas The operating expense coverage ratio increased by 0.2 months to 2.7 months due to an increase in unrestricted net assets related to the reclassification of three quasi endowments from restricted to unrestricted. The operating margin decreased by $1.3 million largely due to the elimination of the appropriation for the University Research Fund in 2004. The return on net assets ratio increased from 4.7% in 2003 to 14.5% in 2004 primarily due to Texas Enterprise Funds received in 2004, increased gifts for capital acquisitions and an increase in the fair market value of investments. The expendable resources to total net assets ratio increased from 19.6% in 2003 to 24.5% in 2004 primarily due to funding received for the Natural Science and Engineering Research building, as well as funds reserved for other new buildings, renovations and infrastructure improvements. The debt burden ratio decreased from 3.6% in 2003 to 3.3% in 2004 due to both an increase in operating expenses and a decrease in debt service. The debt service coverage ratio increased from 2.5x in 2003 to 2.8x in 2004 due to an increase in depreciation expense and the decrease in debt service. Full-time equivalent student enrollment continued to grow in accordance with U. T. Dallas’ mission.

UT El Paso The operating expense coverage ratio increased by 0.3 months to 1.4 months due to an increase in unrestricted net assets driven by enrollment and tuition rate increases, as well as a reduction in operating expense resulting from cost savings measures and a decrease in interest expense. The operating margin increased by $6.3 million due to the reduction in operating expenses previously discussed along with increases in gifts and investment income. The return on net assets ratio decreased from 11.6% in 2003 to 7.5% in 2004 primarily due to an increase in debt. The expendable resources to total net assets ratio decreased from 22.5% in 2003 to 17.5% in 2004 due to a decrease in expendable net assets restricted for capital projects. The debt burden ratio decreased slightly from 5.4% in 2003 to 5.3% in 2004 due to a reduction in debt service. The debt service coverage ratio increased from 1.3x in 2003 to 2.1x in 2004 due to the reduction in debt service and the increase in the operating margin discussed above. Full-time equivalent student enrollment continued to trend upward.

Institutions Rated "Satisfactory" (Continued)

UT Pan American The operating expense coverage ratio increased by 0.4 months to 4.1 months due to an increase in unrestricted net assets related to the reclassification of a quasi endowment from restricted to unrestricted. The operating margin decreased by $0.2 million primarily due to increased interest expense. The return on net assets ratio decreased from 11.1% in 2003 to 9.6% in 2004 largely due to a reduction in the amount of bond proceeds transferred from U.T. System Administration. The expendable resources to total net assets ratio decreased from 43.5% in 2003 to 41.9% in 2004 due to an increase in total net assets primarily resulting from capital asset purchases. The debt burden ratio decreased from 5.3% in 2003 to 4.3% in 2004, and the debt service coverage ratio increased from 1.8x in 2003 to 2.4x in 2004. The changes in both debt ratios were the result of a decrease in debt service. Full-time equivalent student enrollment continued to grow as a result of recruitment efforts in support of *Closing the Gaps by 2015*, as well as increased demand for higher education in the rapidly growing surrounding community.

UT San Antonio The operating expense coverage ratio increased by 0.7 months to 3.0 months primarily due to continued enrollment growth and designated tuition rate increases. The operating margin increased $5.8 million due to revenue growth outpacing growth in expenses. The return on net assets ratio decreased from 5.1% in 2003 to 4.4% in 2004 primarily due to an increase in debt outstanding. The expendable resources to total net assets decreased from 39.4% in 2003 to 29.6% in 2004 due to the increase in debt outstanding and an increase in capital assets. The debt burden ratio decreased from 6.7% in 2003 to 6.4% in 2004 due to an increase in operating expenses. The debt service coverage ratio increased from 1.8x in 2003 to 2.3x in 2004 due to the increase in the operating margin as mentioned above. Full-time equivalent student enrollment continued to increase as a result of recruitment and retention efforts, as well as increases in the Graduate programs and enrollment caps at U. T. Austin.

UT Tyler The operating expense coverage ratio increased by 0.2 months to 3.0 months largely due to an increase in unrestricted net assets related to increased tuition and fees. The operating margin decreased $0.9 million as a result of an increase in interest expense, as well as the elimination of the appropriation for the University Research Fund in 2004. The return on net assets ratio decreased from 25.2% in 2003 to 22.8% in 2004 primarily due to an increase in debt outstanding. The expendable resources to total net assets ratio increased from 22.5% in 2003 to 30.0% in 2004 due to an increase in expendable net assets restricted for capital projects. The debt burden ratio decreased from 7.0% in 2003 to 4.0% in 2004, while the debt service coverage ratio increased from 1.5x in 2003 to 2.5x in 2004. The changes in both of the debt ratios were primarily due to a decrease in debt service. Full-time equivalent student enrollment continued to trend upward as a result of recruitment and retention efforts.

Institutions Rated "Satisfactory" (Continued)

Southwestern

The operating expense coverage ratio increased by 0.4 months to 4.3 months largely due to growth in unrestricted net assets resulting from revenue growth. The operating margin increased $48.5 million primarily due to increases in net professional fees, contractual revenues, indirect cost recoveries and gifts for operations. The return on net assets ratio improved from 5.1% in 2003 to 10.0% in 2004 due to the increase in unrestricted net assets mentioned above, as well as increases in investments in capital assets and endowments and annuities. The expendable resources to total net assets ratio decreased from 36.1% in 2003 to 35.5% in 2004 due to the increase in nonexpendable endowments and annuities and investments in capital assets. The debt burden ratio changed slightly from 2.6% in 2003 to 2.7% in 2004 due to an increase in debt service. The debt service coverage ratio increased from 1.7x in 2003 to 4.0x in 2004 due to the growth in the operating margin discussed previously.

UTHSC-San Antonio

The operating expense coverage ratio increased by 0.6 months to 3.4 months due to an increase in unrestricted net assets resulting from increases in practice plan operations, the sale of Ilex stock, Children's Cancer Research Institute, indirect cost recoveries and state funds. The operating margin decreased $12.2 million primarily due to an increase in practice plan expenses in the Department of Surgery. The return on net assets ratio increased from 3.9% in 2003 to 7.6% in 2004 due to the growth in unrestricted net assets mentioned above. The expendable resources to total net assets ratio decreased from 37.0% in 2003 to 32.8% in 2004 due to expenditures that have occurred related to several large capital projects. The debt burden ratio decreased from 2.8% in 2003 to 2.3% in 2004 as a result of a reduction in debt service. The debt service coverage ratio decreased slightly from 2.6x in 2003 to 2.4x in 2004 due the reduction in the operating margin discussed previously.

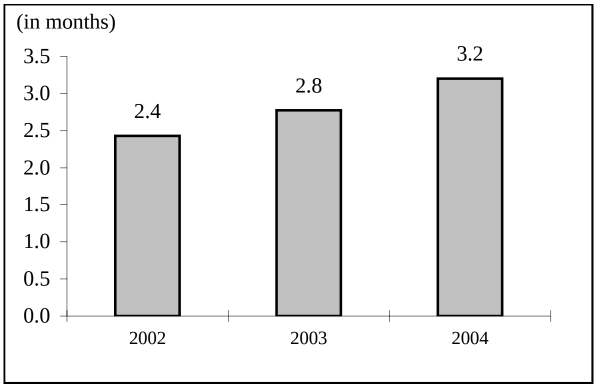
M. D. Anderson

The operating expense coverage ratio decreased by 0.3 months to 3.1 months due to increased operating expenses to support increased patient volumes. The operating margin increased $5.7 million due to revenue growth outpacing the growth in expenses. The return on net assets ratio decreased from 9.6% in 2003 to 4.0% in 2004 due to a greater increase in debt outstanding in 2003 as compared to 2004. The expendable resources to total net assets ratio decreased from 40.1% in 2003 to 33.8% in 2004 due to several large construction projects nearing completion resulting in a decrease in the amount of expendable net assets restricted for capital projects. The debt burden ratio increased from 1.7% in 2003 to 2.3% in 2004, while the debt service coverage ratio decreased from 5.9x in 2003 to 4.7x in 2004. The changes in both debt ratio were due to an increase in debt service.

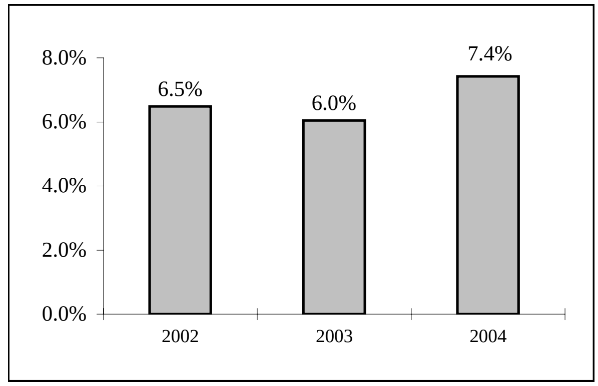
The University of Texas at Arlington
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

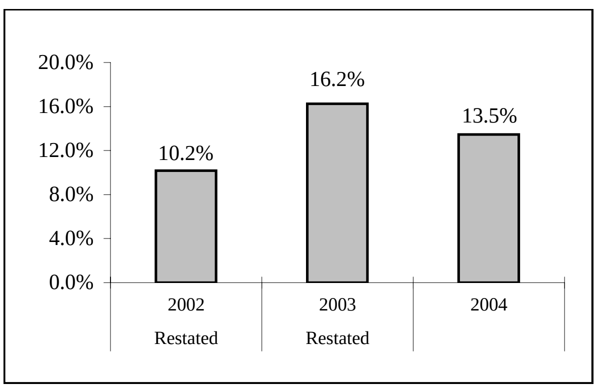
Operating Expense Coverage Ratio



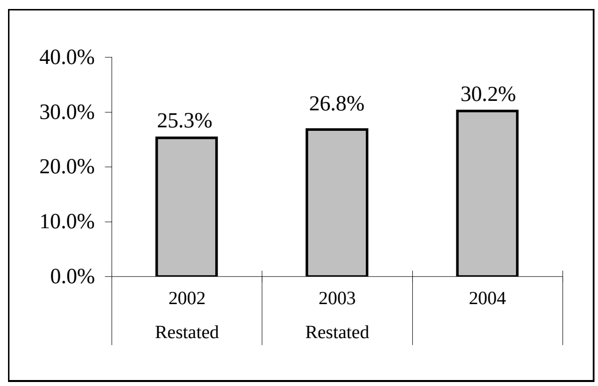
Annual Operating Margin Ratio



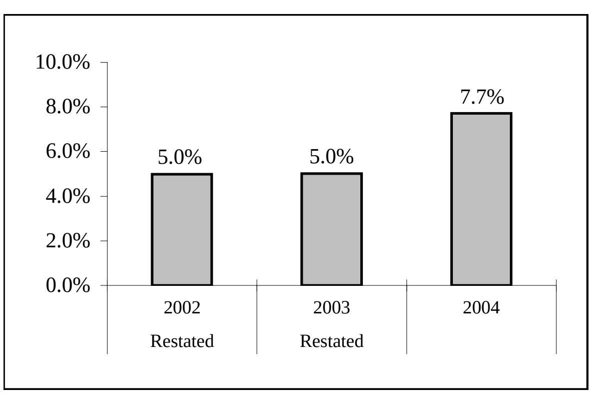
Return on Net Assets Ratio



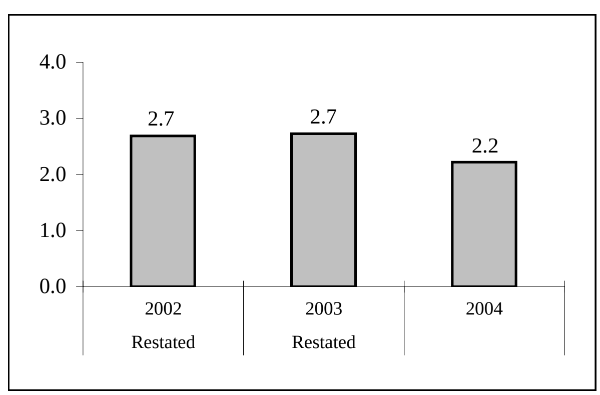
Expendable Resources to Total Net Assets Ratio



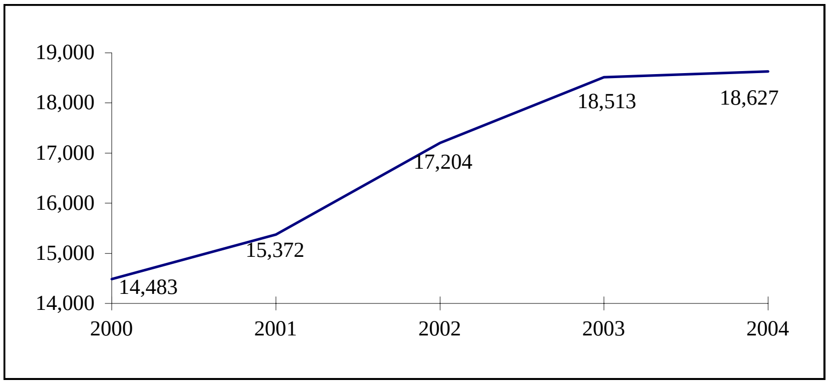
Debt Burden Ratio



Debt Service Coverage Ratio



Full-time Equivalent Student Enrollment - Fall



Operating Expense Coverage Ratio - UT Arlington's operating expense coverage ratio increased from 2.8 months in 2003 to 3.2 months in 2004 due to a $12 million increase in unrestricted net assets. Net tuition and fees increased $15.5 million due to tuition increases implemented in 2004, which contributed to the increase in unrestricted net assets.

Annual Operating Margin Ratio - UT Arlington's annual operating margin ratio increased from 6% for 2003 to 7.4% for 2004 primarily due to the increase in tuition and fee revenue.

Return on Net Assets Ratio - UT Arlington's return on net assets ratio decreased from 16.2% in 2003 to 13.5% in 2004 due to an increase in debt outstanding and proceeds received for capital projects.

Expendable Resources to Total Net Assets Ratio - UT Arlington's expendable resources to total net assets ratio increased from 26.8% in 2003 to 30.2% in 2004 due to an increase in expendable net assets restricted for capital projects and unrestricted net assets. The increase in expendable net assets restricted for capital projects was attributable to the following major capital projects: the Chemistry and Physics Building, the Silverstone Apartments, Meadow Run Apartments and the University Village Apartments.

Debt Burden Ratio - UT Arlington's debt burden ratio increased from 5% to 7.7% due to a decision to pay $5 million in debt early, as well as aggressive housing construction.

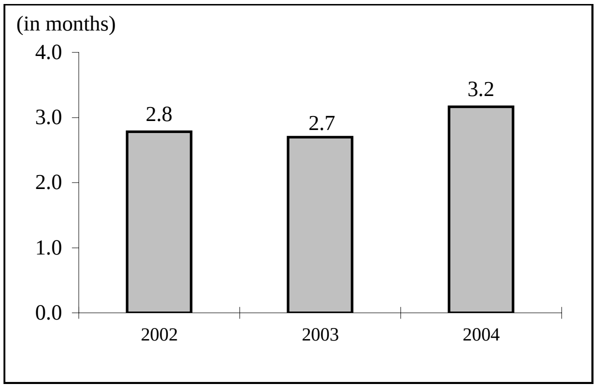
Debt Service Coverage Ratio - UT Arlington's debt service coverage ratio decreased from 2.7x in 2003 to 2.2x in 2004 due to an increase in debt service payments resulting from the construction mentioned above.

Full-Time Equivalent (FTE) Student Enrollment - Full-time equivalent student enrollment continued to grow as a result of new and on-going academic programs and the availability of on-campus housing.

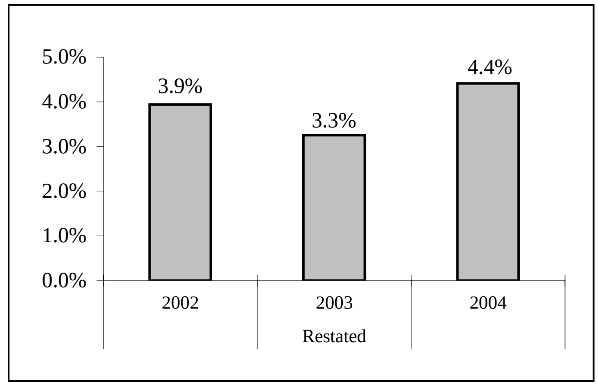
The University of Texas at Austin
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

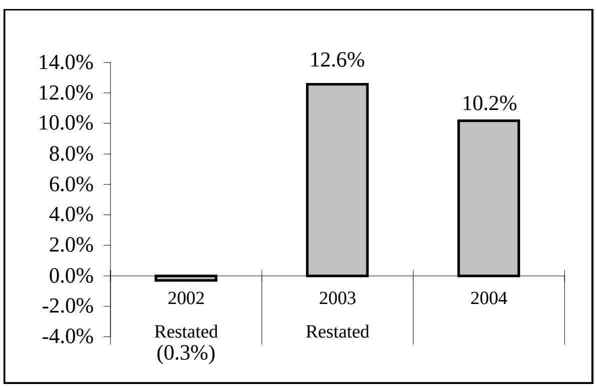
Operating Expense Coverage Ratio



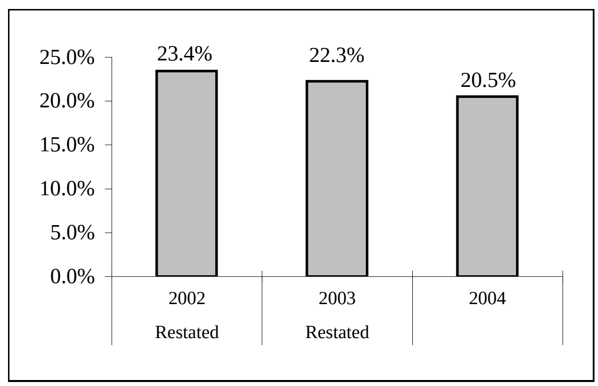
Annual Operating Margin Ratio



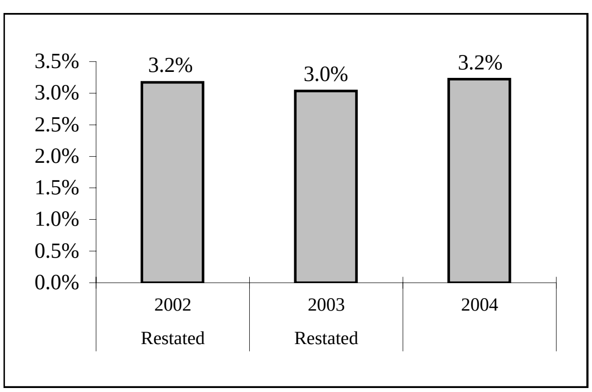
Return on Net Assets Ratio



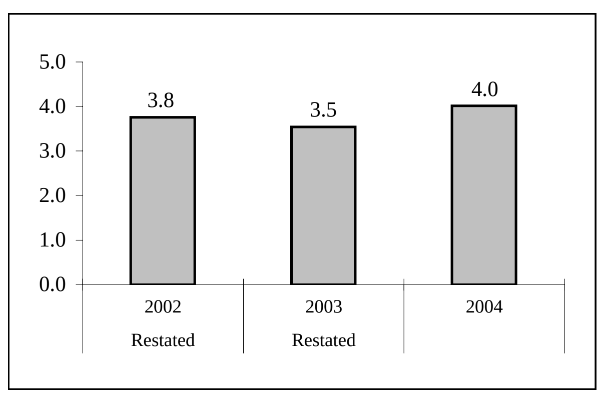
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio

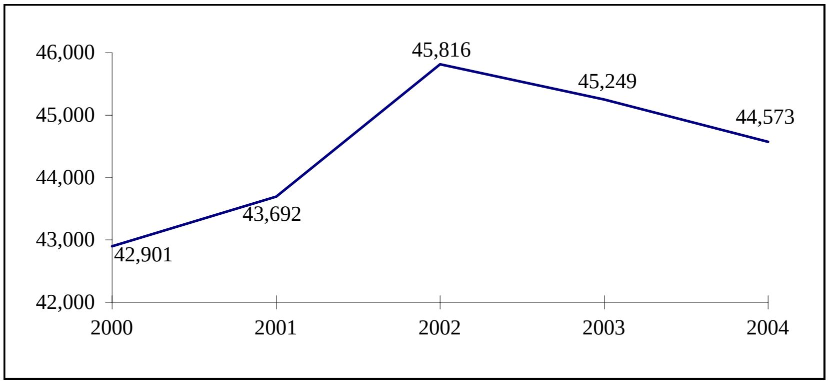


Debt Service Coverage Ratio



The University of Texas at Austin
2004 Summary of Financial Condition

Full-time Equivalent Student Enrollment - Fall



Operating Expense Coverage Ratio - UT Austin's operating expense coverage ratio increased from 2.7 months in 2003 to 3.2 months in 2004 due to an increase in unrestricted net assets of $59.1 million (19.1%). The increase in unrestricted net assets was due to the following factors: (1) a $26.2 million increase in Unexpended Plant funds primarily due to an increase in unrestricted sources used for capital projects; (2) a $16.9 million increase in Designated funds driven by an increase in tuition and fee revenue; and (3) a $10.2 million increase in Endowments related to a reclassification of prior year quasi endowments of $6 million from restricted to unrestricted coupled with an increase in investment income on unrestricted funds.

Annual Operating Margin Ratio - UT Austin's annual operating margin ratio increased to 4.4% in 2004 as compared to 3.3% in 2003. This increase can be attributed to income increasing at a higher rate (6.1%) than operating expenses (1.5%). Specifically, an $18 million increase in net tuition, an $18 million increase in sales and services of educational activities, and an increase in investment income were only partially offset by an increase of $20.6 million in operating expenses.

Return on Net Assets Ratio - UT Austin's return on net assets ratio declined from 12.6% in 2003 to 10.2% in 2004. The change in total net assets decreased due to a $68.6 million decrease in additions to permanent endowments partially offset by an increase in revenue from tuition, sales and services of educational activities and investment income. Additions to permanent endowments decreased due to a large gift given by John A. Jackson in 2003 with no comparable gift received in 2004.

Expendable Resources to Total Net Assets Ratio - UT Austin's expendable portion of total net assets decreased from 22.3% to 20.5% because endowment net assets increased as a percent of total net assets. Endowment net assets are almost entirely nonexpendable. Endowment net assets increased primarily due to new gifts received and increases in the fair value of investments.

Debt Burden Ratio - UT Austin's debt burden ratio increased slightly from 3.0% in 2003 to 3.2% in 2004 due to a $3.0 million (or 7.5%) increase in debt service in 2004.

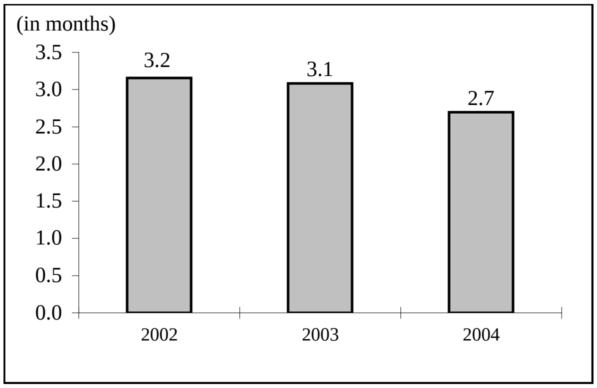
Debt Service Coverage Ratio - UT Austin's debt service coverage ratio increased from 3.5x in 2003 to 4.0x in 2004 due to an increase in the annual operating margin, as discussed above.

Full-Time Equivalent (FTE) Student Enrollment - UT Austin's FTE student enrollment declined modestly from 45,249 to 44,573, consistent with the change from fall 2002 to fall 2003. Efforts have been made to reduce enrollment in order to maintain the quality of education provided.

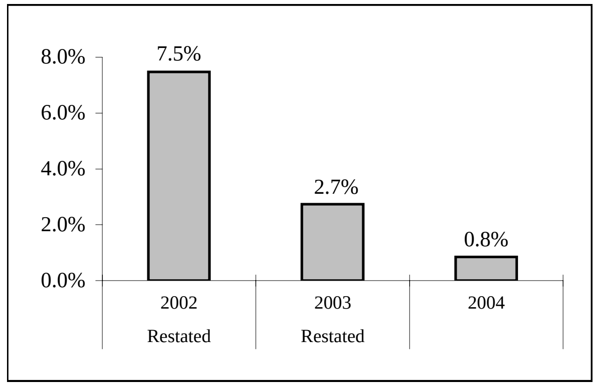
The University of Texas at Brownsville
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

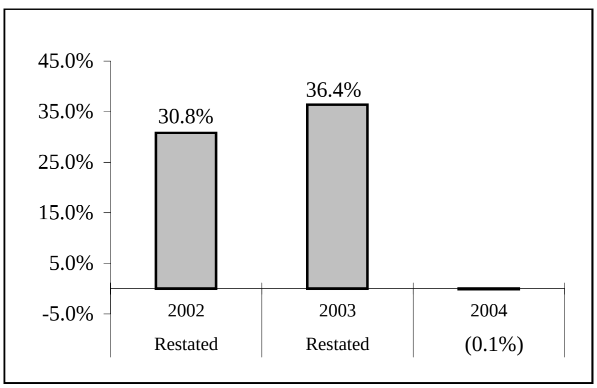
Operating Expense Coverage Ratio



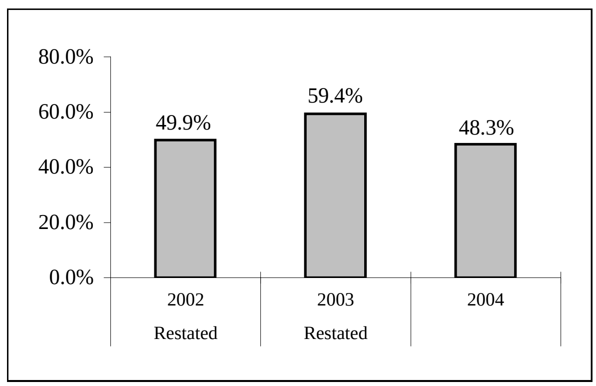
Annual Operating Margin Ratio



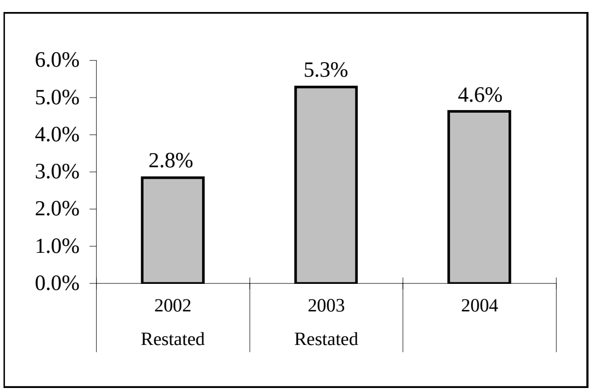
Return on Net Assets Ratio



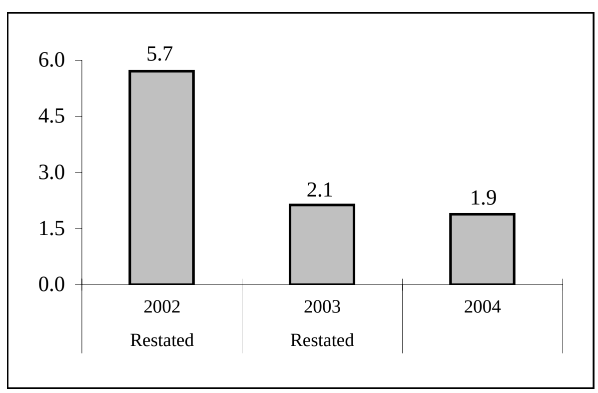
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio

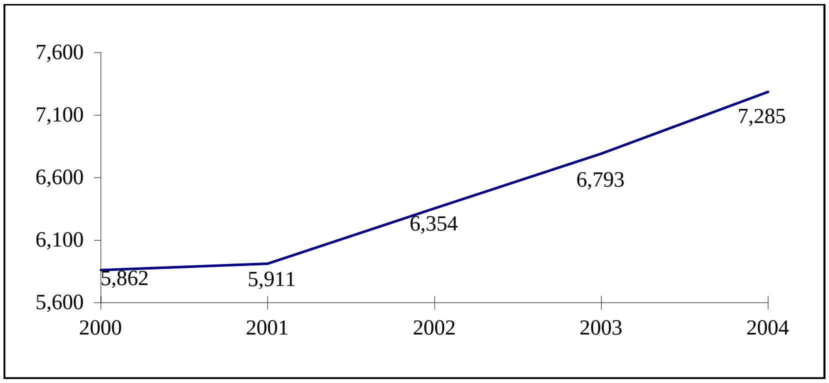


Debt Service Coverage Ratio



The University of Texas at Brownsville
2004 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Operating Expense Coverage Ratio - UT Brownsville's operating expense coverage ratio decreased from 3.1 months in 2003 to 2.7 months in 2004 as a result of an increase in operating expenses. In order to accommodate a continuously growing student population, management made a strategic decision to expend fund balance on faculty overloads and non capital equipment expenses necessary to improve the technological support of academic programs, to support newly approved academic programs, and to improve services in the enrollment management areas. In addition, scholarships and fellowships expense increased $4.6 million due to the increase in student enrollment and students eligible for federally funded grants.

Annual Operating Margin Ratio - UT Brownsville's annual operating margin ratio decreased from 2.7% in 2003 to 0.8% in 2004 primarily due to the increase in total operating expenses discussed above and reductions in state appropriations of $1 million.

Return on Net Assets Ratio - UT Brownsville's return on net assets ratio decreased from 36.4% in 2003 to (0.1%) in 2004 due to the issuance of the remainder of the debt appropriated for the Business and Education Complex (BEC), which will be completed in 2005.

Expendable Resources to Total Net Assets Ratio - UT Brownsville's expendable resources to total net assets ratio decreased from 59.4% in 2003 to 48.3% in 2004 primarily due to an $8.4 million decrease in expendable net assets restricted for capital projects. The amount restricted for capital projects decreased due to expenditures that have occurred related to the BEC.

Debt Burden Ratio - UT Brownsville's debt burden ratio decreased from 5.3% for 2003 to 4.6% for 2004 due to a reduction in debt service and an increase in both operating expenses and interest expense.

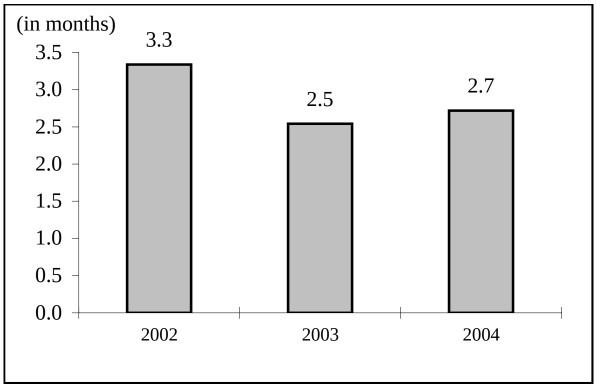
Debt Service Coverage Ratio - UT Brownsville's debt service coverage ratio decreased slightly from 2.1x in 2003 to 1.9x in 2004 due to an increase in operating expenses previously discussed.

Full-Time Equivalent (FTE) Student Enrollment - In 2004 UT Brownsville's FTE student enrollment continued to increase by 492 FTEs. The fall 2004 student headcount was the highest in UT Brownsville's short history. This trend is predicted to increase at a higher pace, and total student population is expected to be 20,000 students by the year 2010.

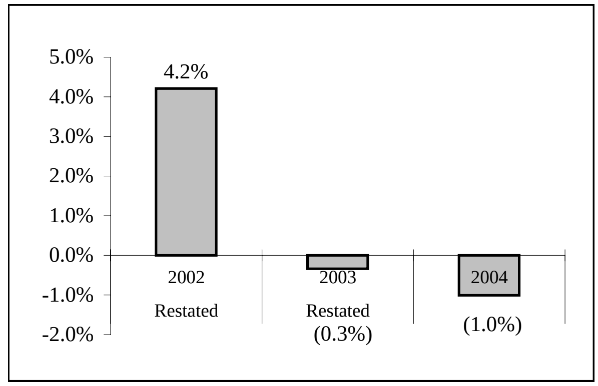
The University of Texas at Dallas
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

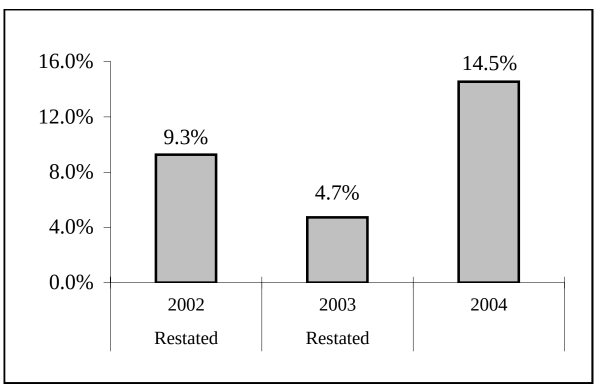
Operating Expense Coverage Ratio



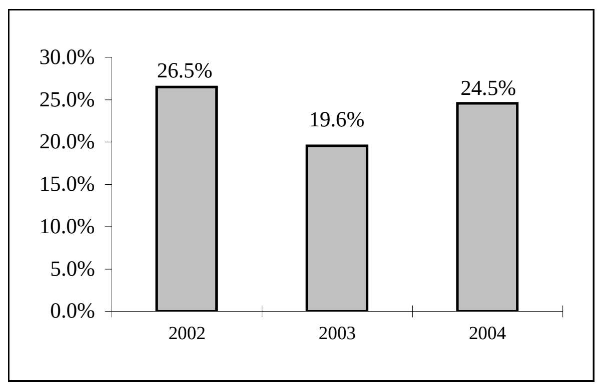
Annual Operating Margin Ratio



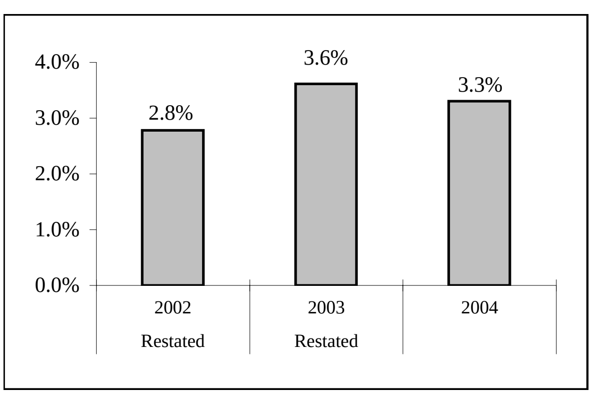
Return on Net Assets Ratio



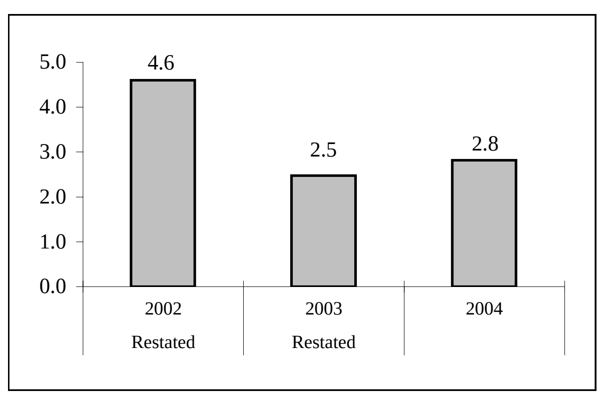
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio

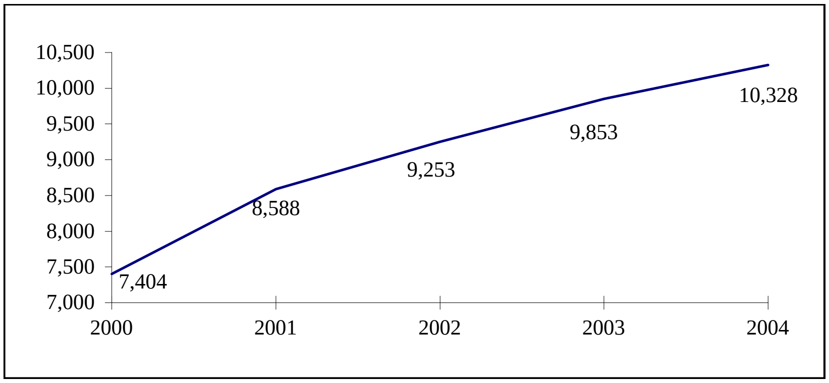


Debt Service Coverage Ratio



The University of Texas at Dallas
2004 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Operating Expense Coverage Ratio - UT Dallas' operating expense coverage ratio increased slightly from 2.5 months in 2003 to 2.7 months in 2004 due to a $4.5 million increase in unrestricted net assets. The primary factor contributing to the increase in unrestricted net assets was the reclassification of three quasi endowments from restricted, as they were reported in prior years, to unrestricted. This discrepancy was discovered during a UT System Administration initiated review of endowment data reported on the Annual Financial Report as compared to UTIMCO's records.

Annual Operating Margin Ratio - UT Dallas' annual operating margin ratio declined from (0.3%) in 2003 to (1.0%) in 2004 primarily due to the loss of $5.9 million in excellence funding (University Research Fund). The appropriation for the University Research Fund was eliminated in 2004, but has been restored for 2005.

Return on Net Assets Ratio - UT Dallas' return on net assets ratio increased significantly from 4.7% in 2003 to 14.5% in 2004. The substantial improvement in this ratio is due to the receipt of $21.5 million in funding from the Texas Enterprise Fund, an increase of $5.2 million in gifts for capital acquisitions due to a major gift received for the acquisition of the Center for Brain Health building and a $4.8 million increase in the fair value of investments. The ratio also increased as a result of the increase in nonmandatory transfers from UT System Administration of PUF bond proceeds for the construction of the Natural Science and Engineering Research building.

Expendable Resources to Total Net Assets Ratio - UT Dallas' expendable resources to total net assets ratio increased from 19.6% in 2003 to 24.5% in 2004 primarily due to the funding received for the Natural Science and Engineering Research building, as well as funds reserved for new buildings, renovations and other infrastructure improvements.

Debt Burden Ratio - UT Dallas' debt burden ratio decreased slightly from 3.6% in 2003 to 3.3% in 2004 due to a 4.4% increase in total operating expenses, as well as a decrease in debt service.

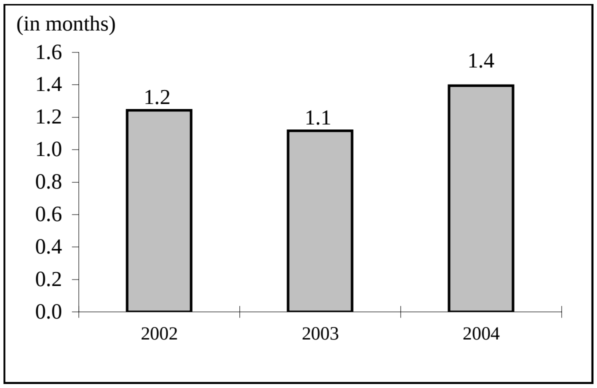
Debt Service Coverage Ratio - UT Dallas' debt service coverage ratio increased slightly from 2.5x to 2.8x due to an increase in depreciation expense of $2.2 million, which is excluded from the operating expenses for purposes of this ratio, and due to a decrease in debt service as noted above.

Full-Time Equivalent (FTE) Student Enrollment - The FTE student enrollment continues to increase in accordance with UT Dallas' mission to keep attracting high quality students and increasing graduation rates.

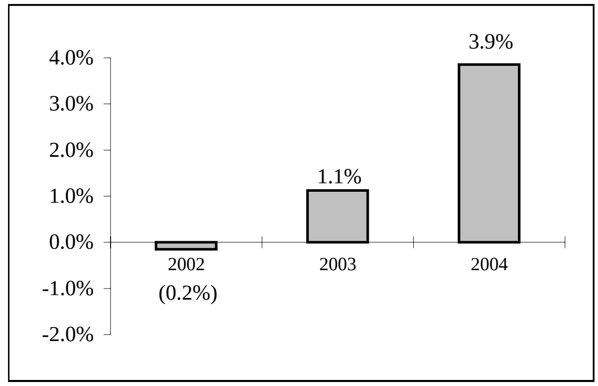
The University of Texas at El Paso
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

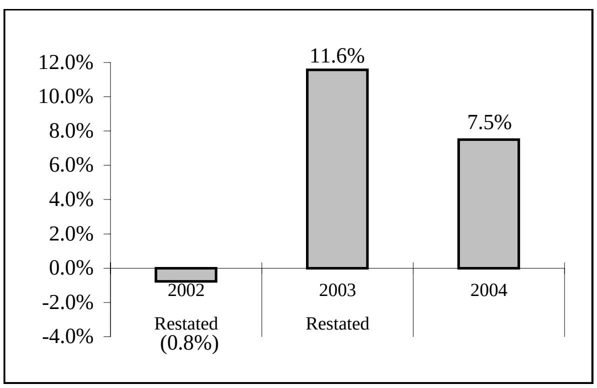
Operating Expense Coverage Ratio



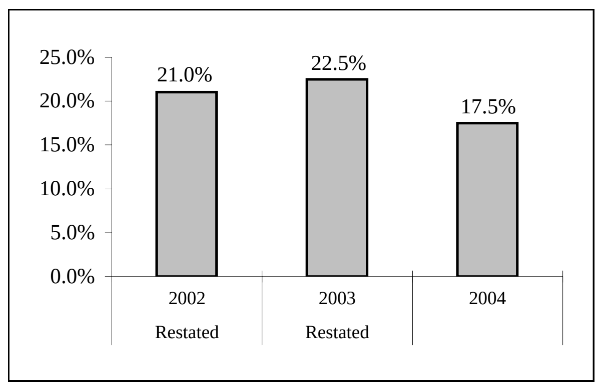
Annual Operating Margin Ratio



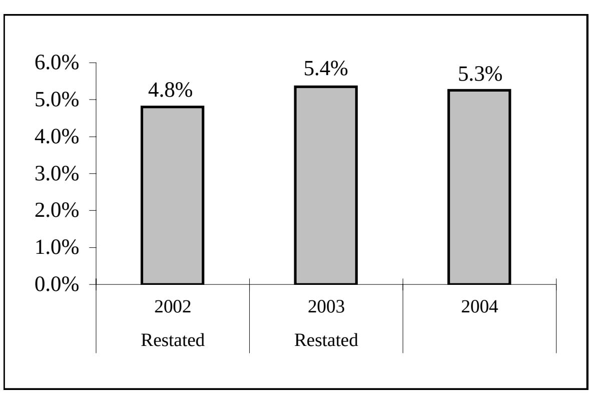
Return on Net Assets Ratio



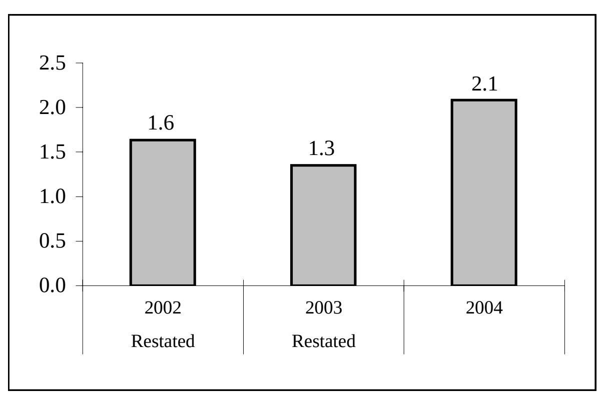
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio

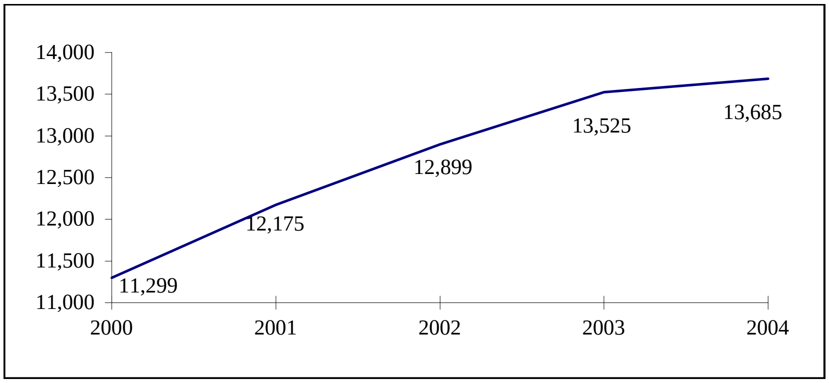


Debt Service Coverage Ratio



The University of Texas at El Paso
2004 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Operating Expense Coverage Ratio - UT El Paso's operating expense coverage ratio increased from 1.1 months in 2003 to 1.4 months in 2004 primarily due to a $5 million increase in unrestricted net assets driven by enrollment and designated tuition rate increases; cost savings measures, including reductions in force, that contributed to a decrease in operating expenses; and a decrease in interest expense for capital asset financing.

Annual Operating Margin Ratio - UT El Paso's annual operating margin ratio increased from 1.1% in 2003 to 3.9% in 2004. This improvement was primarily driven by the factors mentioned above in the operating expense coverage ratio, as well as increases in gifts for operations of 8.6% and investment income (excluding realized gains and losses) increases of 70.9%.

Return on Net Assets Ratio - UT El Paso's return on net assets ratio decreased from 11.6% in 2003 to 7.5% in 2004. The decrease in this ratio was primarily attributable to an increase in debt related to the Bio-Sciences Building construction project.

Expendable Resources to Total Net Assets Ratio - UT El Paso's expendable resources to total net assets ratio decreased from 22.5% in 2003 to 17.5% in 2004 as a result of a decrease in expendable net assets. Plant fund net assets restricted for capital projects decreased by $14.1 million due to expenditures that have occurred related to the Bio-Sciences facility, the Engineering/Science Complex, and the Academic Services building.

Debt Burden Ratio - UT El Paso's debt burden ratio decreased slightly from 5.4% in 2003 to 5.3% in 2004. The decrease was attributable to a decrease of $336,000 in debt service transfer requirements.

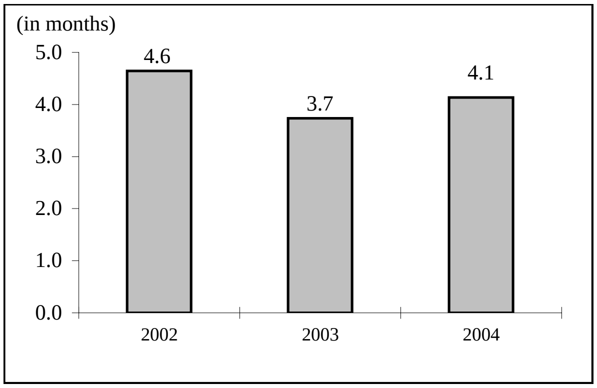
Debt Service Coverage Ratio - UT El Paso's debt service coverage ratio increased from 1.3x in 2003 to 2.1x in 2004 primarily due to the increase in the annual operating margin and the reduction in debt service transfers.

Full-Time Equivalent (FTE) Student Enrollment - Total enrollment increased 2% and FTE student enrollment increased 1.2% in 2004. UT El Paso's enrollment trends are consistent with trends experienced by other public universities. UT El Paso continues to evaluate and enhance programs that were established to ensure that the *Closing the Gaps by 2015* enrollment targets are met.

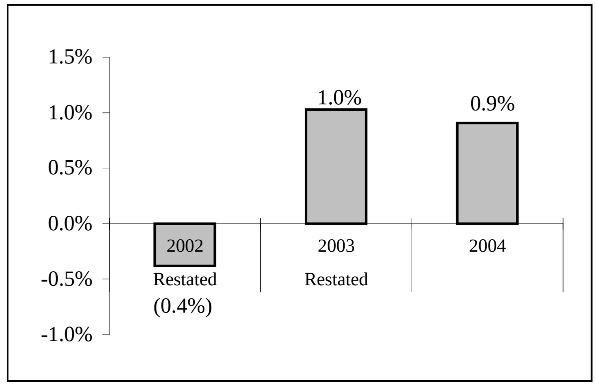
The University of Texas - Pan American
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

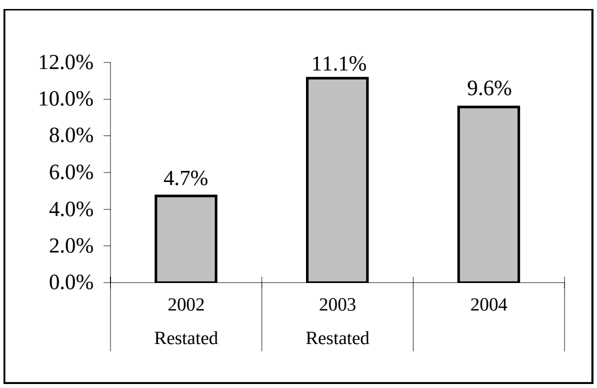
Operating Expense Coverage Ratio



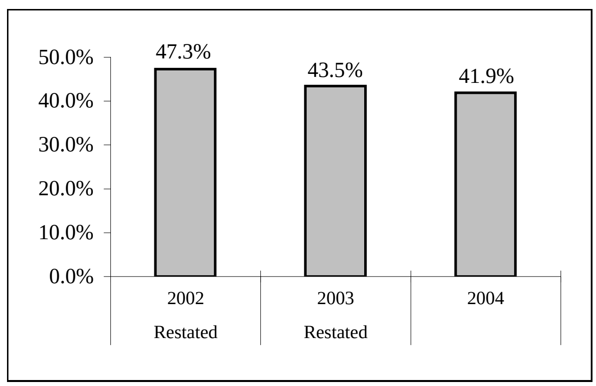
Annual Operating Margin Ratio



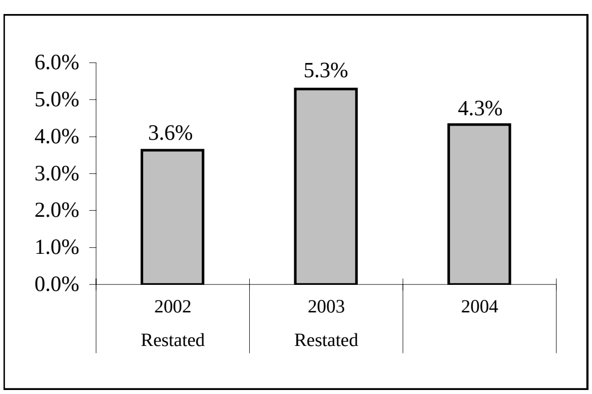
Return on Net Assets Ratio



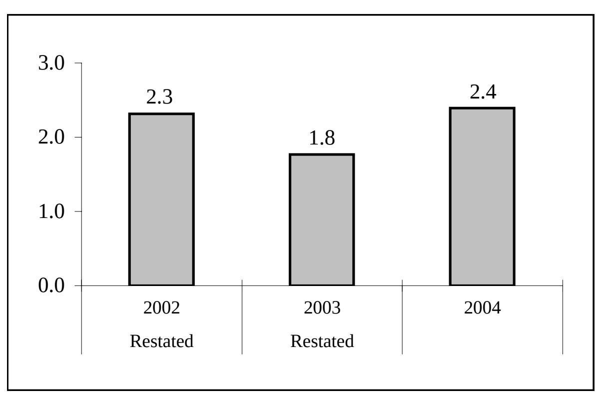
Expendable Resources to Total Net Assets Ratio



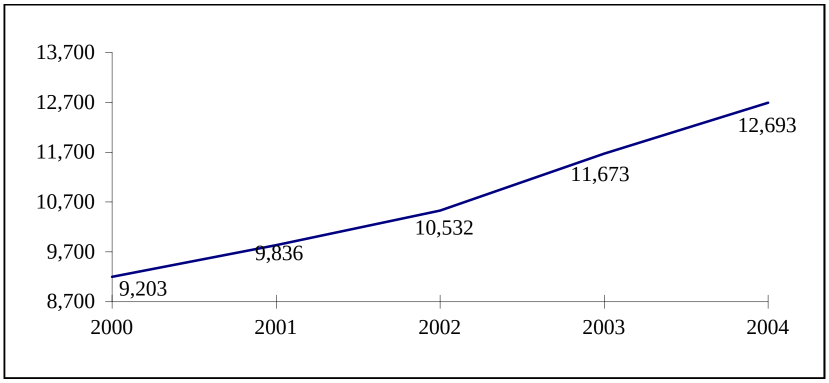
Debt Burden Ratio



Debt Service Coverage Ratio



Full-time Equivalent
Student Enrollment - Fall



Operating Expense Coverage Ratio - UT Pan American's operating expense coverage ratio increased from 3.7 months in 2003 to 4.1 months in 2004 due to an increase in unrestricted net assets of $6.6 million. The primary factor contributing to the increase in unrestricted net assets was the reclassification of the E&G Excellence Fund quasi endowments from restricted, as it had been reported in prior years, to unrestricted. This discrepancy was discovered during a UT System Administration initiated review of endowment data reported on the Annual Financial Report as compared to UTIMCO's records.

Annual Operating Margin Ratio - UT Pan American's annual operating margin ratio decreased slightly from 1% for 2003 to 0.9% for 2004. The slight decline in the margin was largely a result of the increase in interest expense.

Return on Net Assets Ratio - UT Pan American's return on net assets ratio was 9.6% for 2004, which was a decrease from the 2003 ratio of 11.1%. The decrease in the return on net assets ratio was primarily due to a reduction in bond proceeds transferred from UT System Administration.

Expendable Resources to Total Net Assets Ratio - UT Pan American's expendable resources to total net assets ratio decreased from 43.5% in 2003 to 41.9% in 2004. Total net assets increased largely as a result of capital asset purchases, such as the Oracle Software System, resulting in a slight reduction in expendable resources to total net assets ratio.

Debt Burden Ratio - UT Pan American's debt burden ratio of 4.3% for 2004 was a decrease from the 2003 ratio of 5.3%. The decrease in this ratio from the previous year was attributable to a reduction in transfers for debt service.

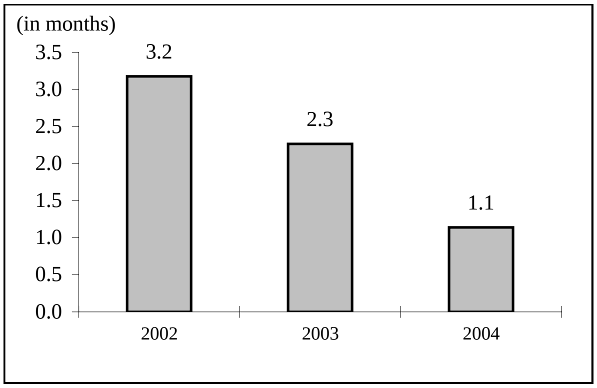
Debt Service Coverage Ratio - UT Pan American's debt service coverage ratio increased from 1.8x in 2003 to 2.4x in 2004. The improvement over the previous year reflects the reduction in transfers for debt service.

Full-Time Equivalent (FTE) Student Enrollment - FTE student enrollment has increased by an average of 8.4% per year over the last four years. Fall 2004 FTE enrollment is 8.7% greater than that of the previous fall semester. This trend is partly attributed to recruiting efforts in support of the THECB's *Closing the Gaps by 2015* plan. An increased demand for higher education in the rapidly growing surrounding area has also contributed to this trend.

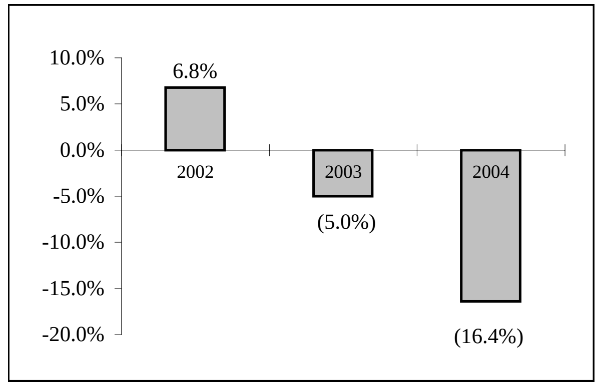
The University of Texas of the Permian Basin
2004 Summary of Financial Condition

Financial Condition: **Watch**

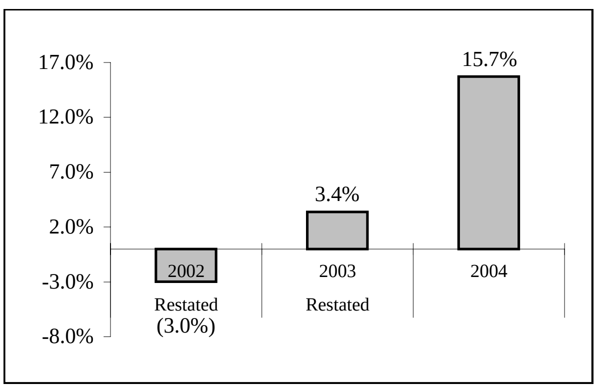
Operating Expense Coverage Ratio



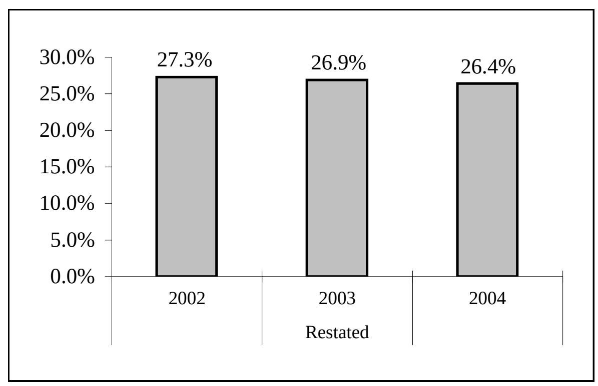
Annual Operating Margin Ratio



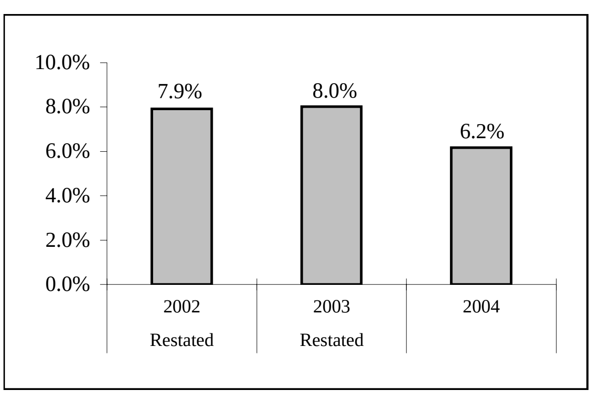
Return on Net Assets Ratio



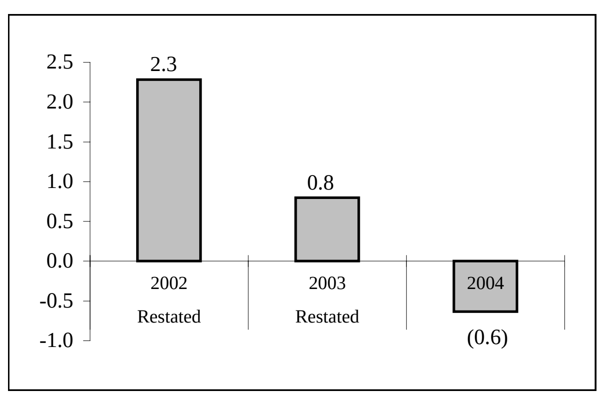
Expendable Resources to Total Net Assets Ratio



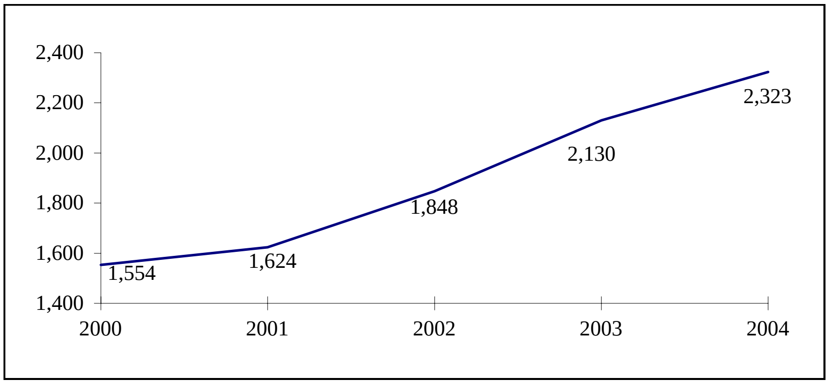
Debt Burden Ratio



Debt Service Coverage Ratio



Full-time Equivalent
Student Enrollment - Fall



Operating Expense Coverage Ratio - UT Permian Basin's operating expense coverage ratio decreased from 2.3 months in 2003 to 1.1 months in 2004 primarily due to a $2.3 million decrease in unrestricted net assets, as well as a $4.3 million increase in operating expenses. UT Permian Basin continued to make infrastructure investments to accommodate increased student enrollment. UT Permian Basin is also transforming itself from a returning adult student commuter campus to a more traditional, residential undergraduate campus. Management intentionally spent down balances (reserves) to invest primarily in the infrastructure necessary to accommodate additional students. The campus anticipates improvements in the ratio in future years.

Annual Operating Margin Ratio - UT Permian Basin's annual operating margin ratio declined significantly from (5%) for 2003 to (16.4%) for 2004. The planned reduction in reserve balances and the planned infrastructure investments led to the decrease in this ratio.

Return on Net Assets Ratio - UT Permian Basin's return on net assets ratio improved from 3.4% in 2003 to 15.7% in 2004 largely due to a $7.5 million increase in the amount of bond proceeds transferred to UT Permian Basin in 2004, as well as a $1.4 million increase in gifts for permanent endowments. UT Permian Basin added to its outstanding debt to continue a major renovation project for the original campus buildings and to construct student housing.

Expendable Resources to Total Net Assets Ratio - UT Permian Basin's expendable resources to total net assets ratio remained relatively stable at 26.4%.

Debt Burden Ratio - UT Permian Basin's debt burden ratio decreased from 8% in 2003 to 6.2% in 2004 primarily due to increased operating expenses related to growth, as discussed above.

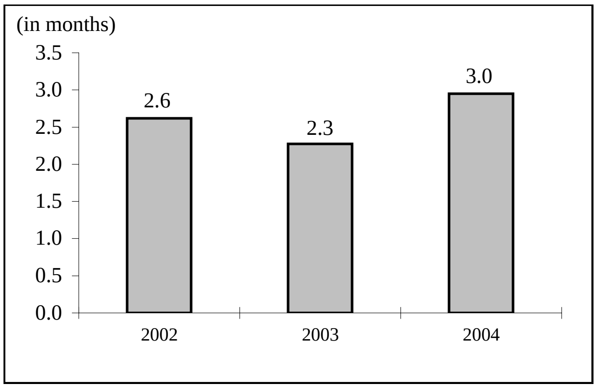
Debt Service Coverage Ratio - UT Permian Basin's debt service coverage ratio decreased from 0.8x in 2003 to (0.6x) in 2004 as a result of the reduction in the annual operating margin discussed above.

Full-Time Equivalent (FTE) Student Enrollment - UT Permian Basin continues its active pursuit of the goals of transformation and growth in the student body. These goals have resulted in increased recruiting and retention efforts which continue to be successful.

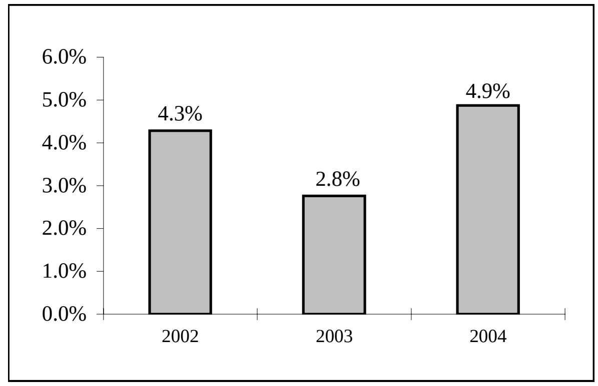
The University of Texas at San Antonio
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

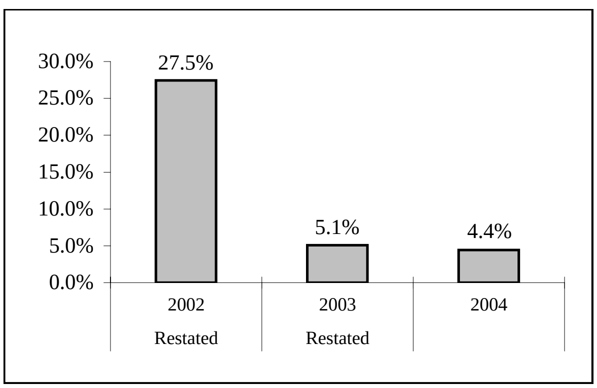
Operating Expense Coverage Ratio



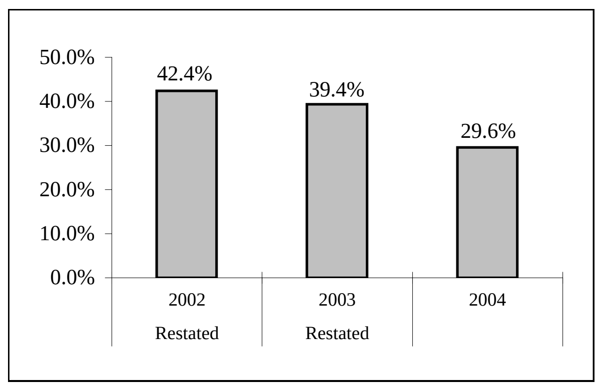
Annual Operating Margin Ratio



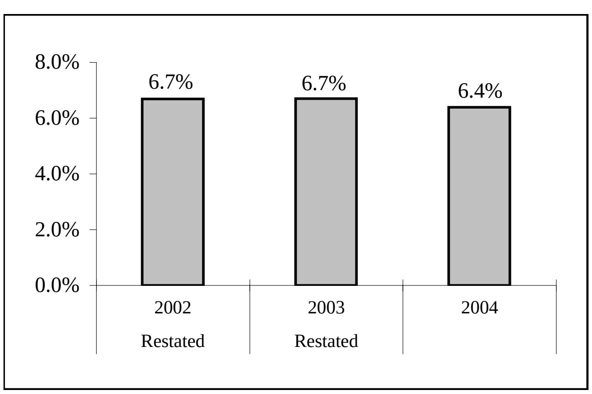
Return on Net Assets Ratio



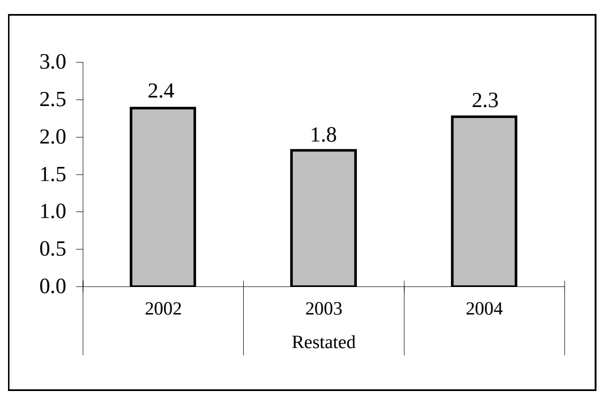
Expendable Resources to Total Net Assets Ratio



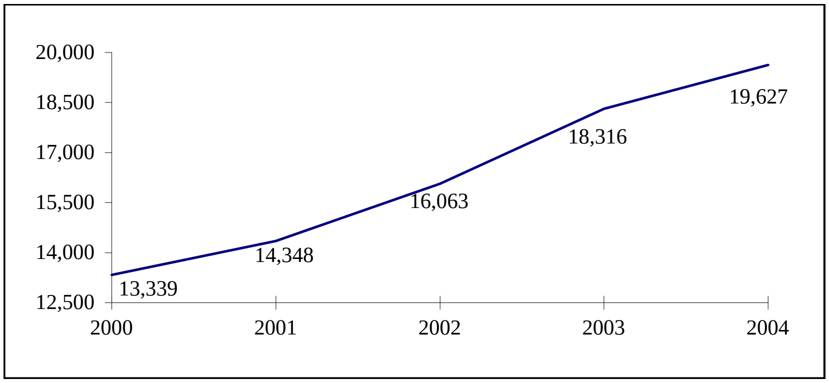
Debt Burden Ratio



Debt Service Coverage Ratio



Full-time Equivalent Student Enrollment - Fall



Operating Expense Coverage Ratio - UT San Antonio's operating expense coverage ratio increased from 2.3 months in 2003 to 3.0 months in 2004. This is attributable to a continued increase in enrollment and an increase in the Designated tuition rate from fall to spring. Also, the increase in operating expenses was only 9.3% in 2004 compared to a 16.2% increase in 2003.

Annual Operating Margin Ratio - UT San Antonio's annual operating margin ratio of 4.9% in 2004 increased significantly over the 2.8% ratio in 2003. Operating revenues increased $28.9 million, while operating expenses increased only $19.1 million. The increase in operating revenues is attributable to a 12.3% increase in enrollment and a 24.5% increase in the Designated tuition in the spring.

Return on Net Assets Ratio - UT San Antonio's return on net assets ratio of 4.4% in 2004 decreased slightly from 5.1% in 2003. The decrease is primarily attributable to an increase in debt. Although there was an increase in the proceeds received from UT System Administration for capital projects, the overall debt continued to increase.

Expendable Resources to Total Net Assets Ratio - UT San Antonio's expendable resources to total net assets ratio decreased from 39.4% in 2003 to 29.6% in 2004. The decrease is attributable to an increase in capital assets of 29.5% and an increase in debt of 12.7%. During 2004, the Main Building, Student Housing, Physical Plant Facility and Downtown Campus Phase III addition were completed. Additionally, work continued on the Bioscience building and commenced on the Student Housing Dining Hall, Academic Garage Building and East Campus Parking and Infrastructure.

Debt Burden Ratio - UT San Antonio's debt burden ration declined slightly to 6.4% in 2004 compared to 6.7% in 2003. With the debt service transfers only increasing by $356,000 in 2004 and the operating expenses increasing by $19.1 million, the debt burden ratio decreased.

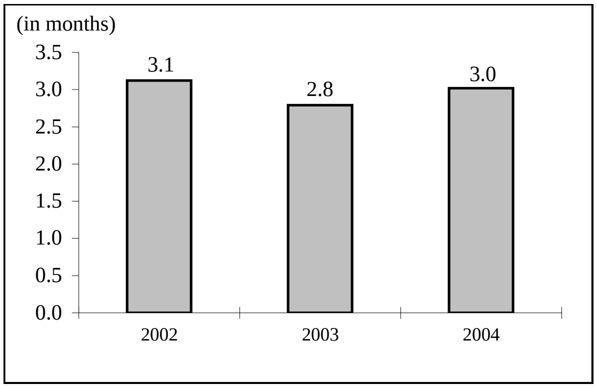
Debt Service Coverage Ratio - UT San Antonio's debt service coverage ratio increased from 1.8x in 2003 to 2.3x in 2004. Although there was a 2.7% increase in the debt service from 2003, the annual operating margin increased in 2004 as discussed above.

Full-Time Equivalent (FTE) Student Enrollment - UT San Antonio's FTE student enrollment continues to increase in 2004. Recruitment and retention efforts continue to increase enrollment. Enrollment increases are also attributable to the increases in the Graduate Programs and enrollment caps at UT Austin.

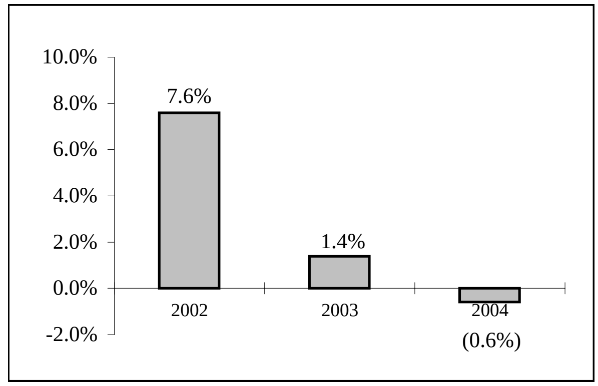
The University of Texas at Tyler
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

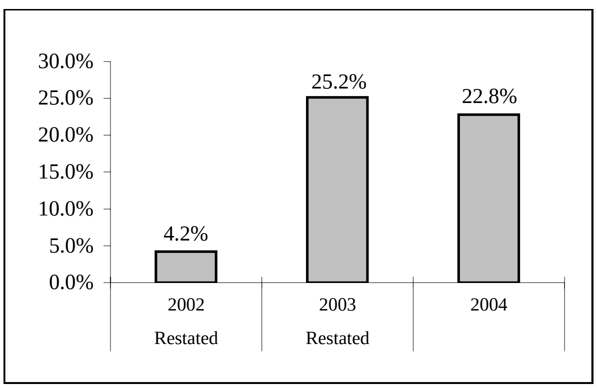
Operating Expense Coverage Ratio



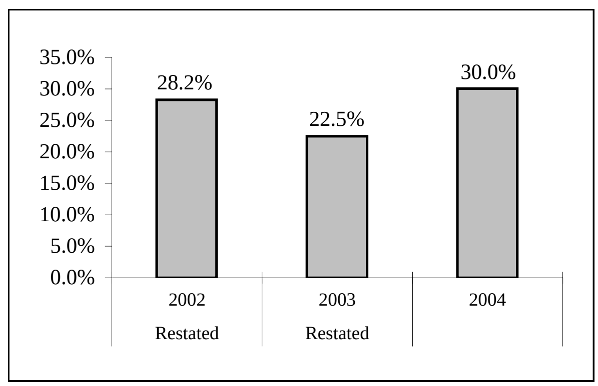
Annual Operating Margin Ratio



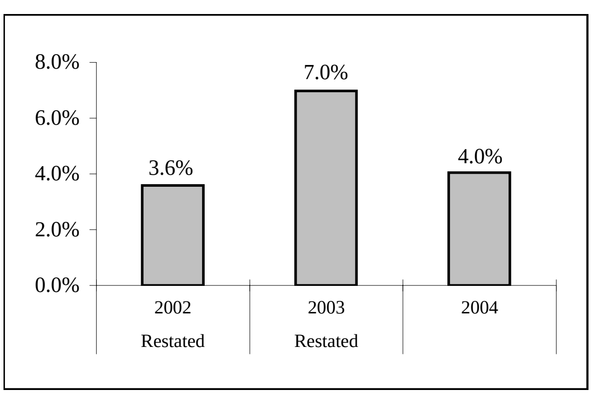
Return on Net Assets Ratio



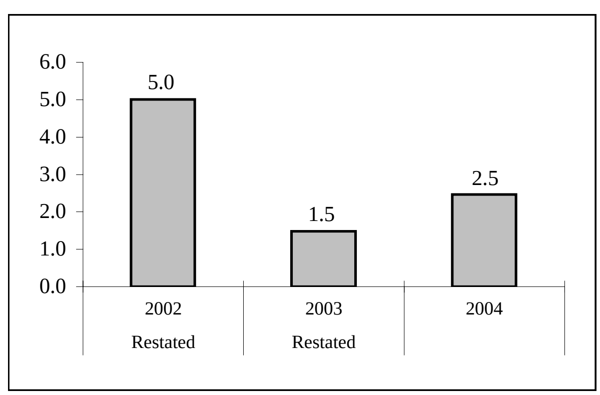
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio

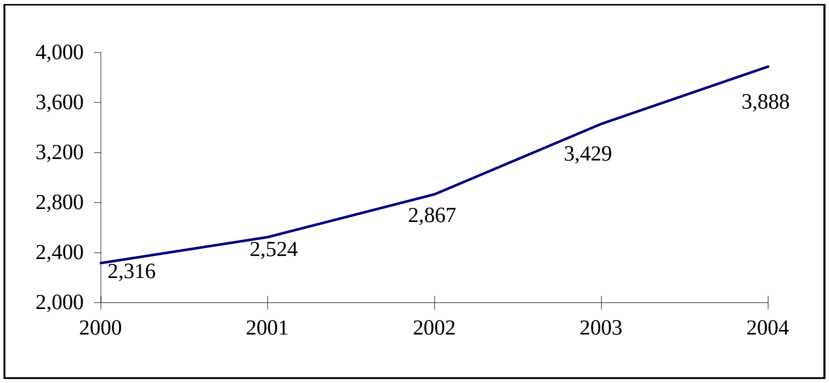


Debt Service Coverage Ratio



The University of Texas at Tyler
2004 Summary of Financial Condition

Full-time Equivalent
Student Enrollment - Fall



Operating Expense Coverage Ratio - UT Tyler's operating expense coverage ratio increased from 2.8 months in 2003 to 3.0 months in 2004 due to an increase in unrestricted net assets. The major factor for this rise was a $2.9 million increase in tuition and fees (net of tuition discounting). Enrollment growth contributed to the increase in tuition and fees.

Annual Operating Margin Ratio - UT Tyler's annual operating margin ratio decreased from 1.4% in 2003 to (0.6%) in 2004 due to an increase in interest expense of $0.6 million and the loss of $0.3 million in excellence funding (University Research Fund). The appropriation for the University Research Fund was eliminated in 2004, but has been restored for 2005.

Return on Net Assets Ratio - UT Tyler's return on net assets ratio declined from 25.2% in 2003 to 22.8% in 2004 due to an increase in debt acquired for construction of the Engineering, Science and Technology Building, the Student Dormitory and Excellence Center, and the Patriot Village Apartments.

Expendable Resources to Total Net Assets Ratio - UT Tyler's expendable resources to total net assets ratio increased from 22.5% in 2003 to 30.0% in 2004 due to an increase in expendable capital projects mentioned above of $15.7 million.

Debt Burden Ratio - UT Tyler's debt burden ratio decreased from 7.0% in 2003 to 4.0% in 2004 due to a decrease of $1 million in debt service transfers.

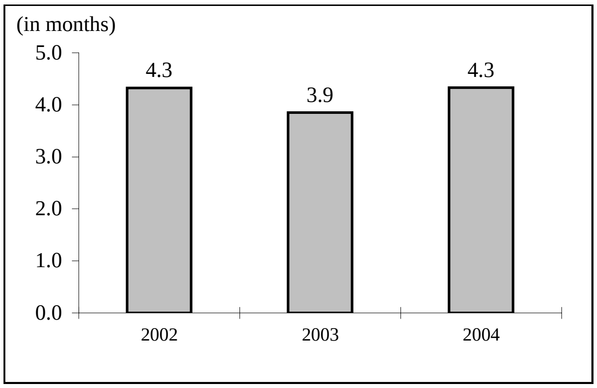
Debt Service Coverage Ratio - UT Tyler's debt service coverage ratio increased from 1.5x in 2003 to 2.5x in 2004 due to a larger decrease in debt service transfers as compared to the decrease in the operating margin.

Full-Time Equivalent (FTE) Student Enrollment - UT Tyler's FTE student enrollment gains continued due to recruitment and retention efforts.

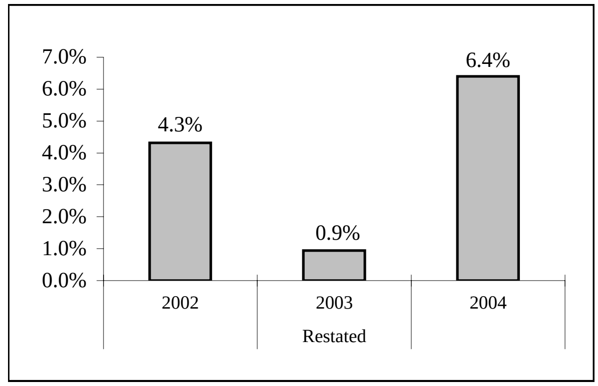
The University of Texas Southwestern Medical Center at Dallas
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

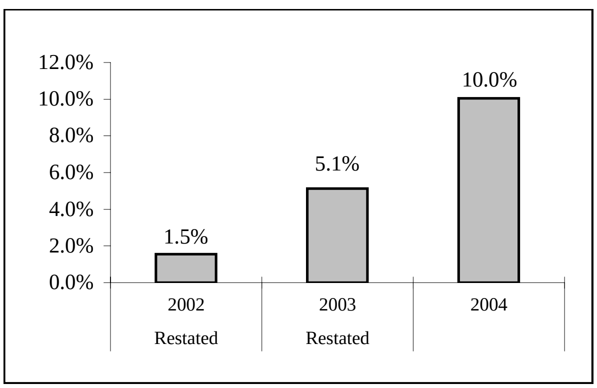
Operating Expense Coverage Ratio



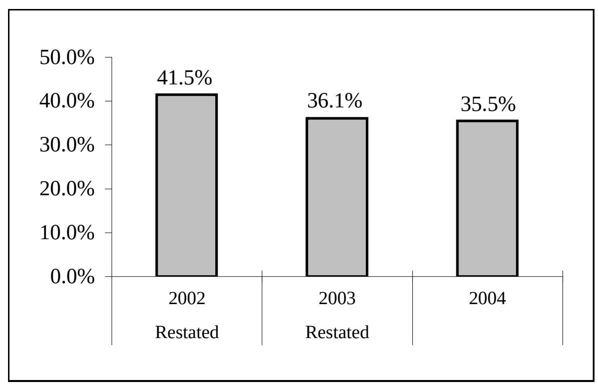
Annual Operating Margin Ratio



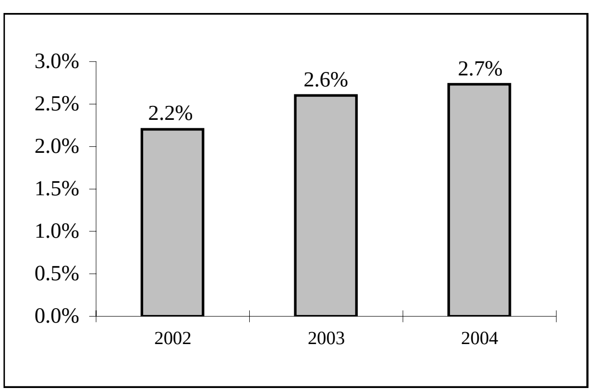
Return on Net Assets Ratio



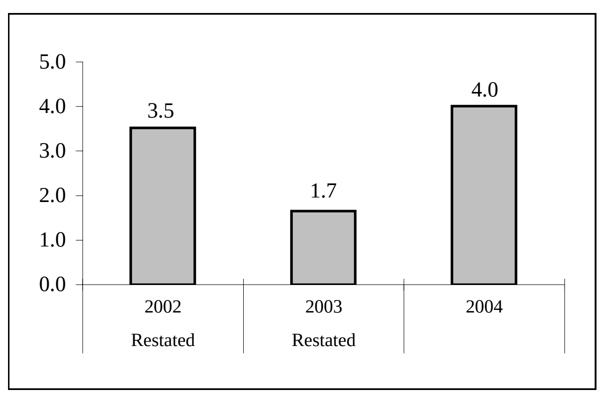
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Southwestern Medical Center at Dallas
2004 Summary of Financial Condition

Operating Expense Coverage Ratio - UT Southwestern Medical Center - Dallas' (Southwestern) operating expense coverage ratio improved from 3.9 months in 2003 to 4.3 months in 2004 as unrestricted net assets increased 20.9% while operating expenses increased only 7.7%. The substantial increase in unrestricted net assets is primarily the result of revenue growth. Practice plan operating revenues increased 13.7% primarily from higher net patient revenue and contractual income from affiliated hospitals. The increase in net patient revenue is substantially attributable to patient volume. Indirect cost recovery earned on sponsored programs increased 12.8% as a result of double-digit growth in research expenditures. Other factors that contributed significantly to the increase in unrestricted net assets include an increase in gift contributions for operations of 29.0%, and the reversal of a reserve established in 2003 for uncollectible receivables for services provided to St. Paul University Hospital, Zale Lipshy University Hospital and University Medical Center. The hospital receivables will be collected with the acquisition transaction in 2005.

Annual Operating Margin Ratio - Southwestern's annual operating margin ratio increased substantially from 0.9% in 2003 to 6.4% in 2004. The principal factors contributing to this improvement are the revenue increases discussed in the operating expense coverage ratio, as well as an increase in investment income.

Return on Net Assets Ratio - Southwestern's return on net assets improved from 5.1% in 2003 to 10.0% in 2004. In addition to the increase in unrestricted net assets discussed in the operating expense coverage ratio, this performance measure was impacted by increases in investments in capital assets net of related debt and investments in endowments and annuities. The total increase in investments in capital assets was $116.6 million and associated capital debt increased $79.4 million. This increase is substantially attributable to expenditures of $98.3 million on the North Campus IV project, including the fourth research building and expansion of the Rogers Magnetic Resonance Imaging Building. The growth in endowments and annuities was largely attributable to an increase in gifts of $22.1 million and an increase in market value of $8.8 million.

Expendable Resources to Total Net Assets Ratio - Southwestern's expendable resources to total net assets ratio decreased slightly from 36.1% in 2003 to 35.5% in 2004. The slight deterioration in this ratio is primarily a result of the increase in the ending value of nonexpendable endowments and annuities and investments in capital assets as discussed in the return on net assets ratio.

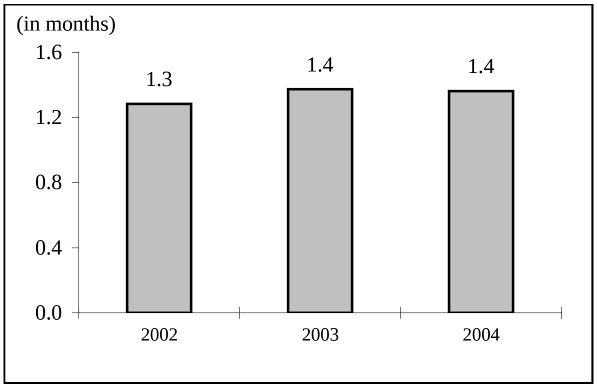
Debt Burden Ratio - Southwestern's debt burden ratio remained relatively unchanged at 2.7% in 2004. The slight increase is a result of a $2.6 million increase in debt service payments.

Debt Service Coverage Ratio - Southwestern's debt service coverage ratio increased from 1.7x to 4.0x due to growth in the annual operating margin discussed previously.

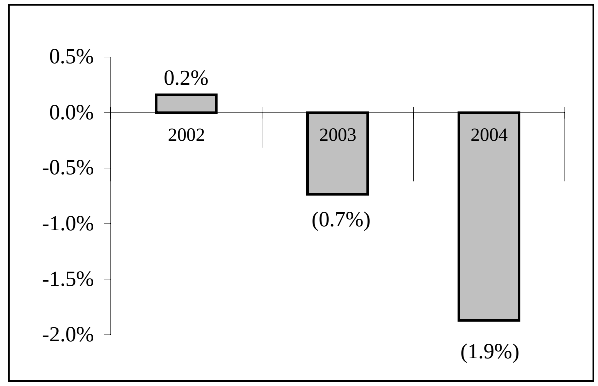
The University of Texas Medical Branch at Galveston
2004 Summary of Financial Condition

Financial Condition: **Watch**

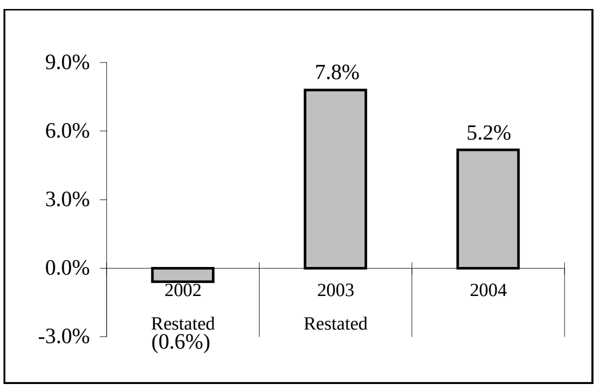
Operating Expense Coverage Ratio



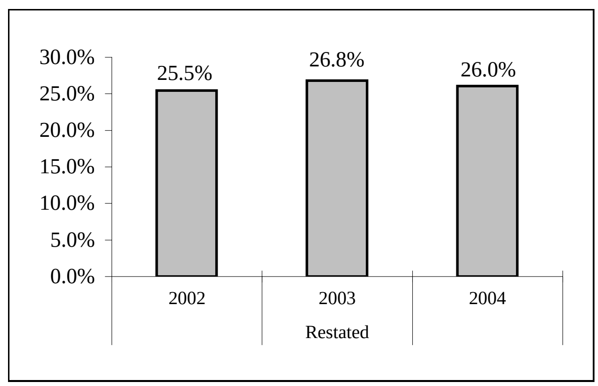
Annual Operating Margin Ratio



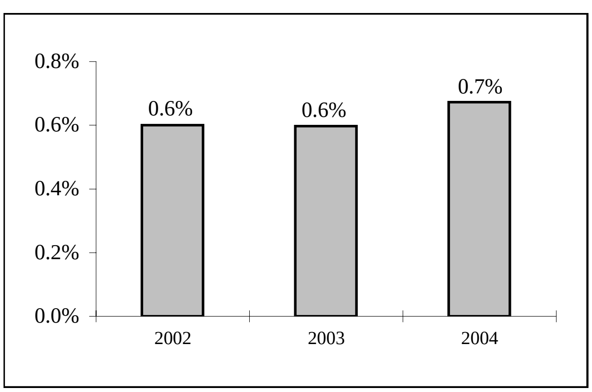
Return on Net Assets Ratio



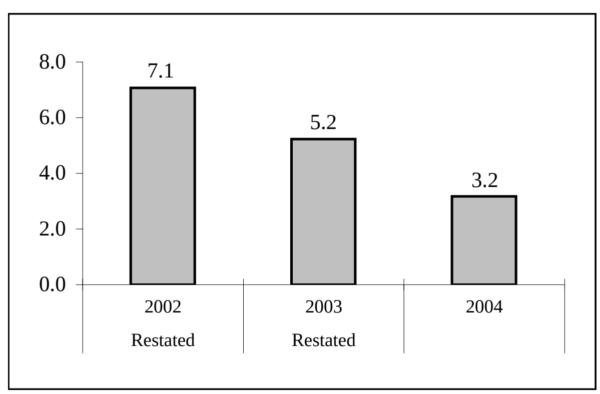
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Medical Branch at Galveston
2004 Summary of Financial Condition

Operating Expense Coverage Ratio - UT Medical Branch - Galveston's (UTMB Galveston) operating expense coverage ratio was unchanged between years at 1.4 months. Unrestricted net assets increased between years by 1.7%; however, that increase was offset by a 2.5% increase in operating expenses. The growth in expenses was largely due to an 8.3% increase in patient volumes and inflation, offset by cost reductions and efficiency gains during the year. UTMB Galveston continues to be significantly impacted by the effects of healthcare inflation, which is outpacing general market inflation.

Annual Operating Margin Ratio - UTMB Galveston's annual operating margin ratio decreased from (0.7%) in 2003 to (1.9%) in 2004. Operating revenues increased by 2.6% or $25.1 million, largely due to patient care volume increases, patient care revenue enhancement initiatives, and growth in research related revenue. However, UTMB Galveston's operating margin was adversely impacted by an $8.9 million reduction in state appropriations and a $10.0 million reduction in the Indigent Care Fund between years. Additionally, operating expenses increased 2.5% or $32.4 million, largely due to patient care volume increases and the impact of inflation discussed above. After adjusting for patient care volume increases and the impact of inflation, expenses have actually been reduced in 2004 through a combination of efficiency gains, reductions in discretionary spending, and process and other improvements. Also in 2004, UTMB planned for an $8.6 million expenditure of fund balances, reducing margins between years. The fund balance spending was necessary to provide transition funding as financial improvement plans were being implemented in response to state revenue reductions, and to comply with donor's intentions on restricted gifts.

The annual operating margin ratio includes depreciation expense (a non-cash expense) and excludes gifts for capital acquisition (primarily from the Sealy Smith Foundation for which UTMB Galveston is the sole beneficiary). After adjusting for these items, UTMB Galveston's cash flow available for capital in 2004 was $35.9 million.

Return on Net Assets Ratio - UTMB Galveston's return on net assets ratio declined from 7.8% in 2003 to 5.2% in 2004. The decrease in return on net assets ratio between years was mostly due to a reduction in operating margin of $14.7 million discussed above and a reduction in gifts for capital acquisitions of $15.1 million, offset by increases in fair market value of investments of $13.5 million and endowment additions of $9.5 million. The reduction in gifts for capital acquisitions was largely due to timing.

Expendable Resources to Total Net Assets Ratio - UTMB Galveston's expendable resources to total net assets ratio decreased slightly from 26.8% in 2003 to 26.0% in 2004. Although expendable resources increased by 2.7% between the years, total net assets increased by 6.4%, resulting in a reduction in the expendable resources to total net assets ratio. The fair market value increase in endowments largely contributed to the growth in total net assets exceeding the growth in expendable net assets.

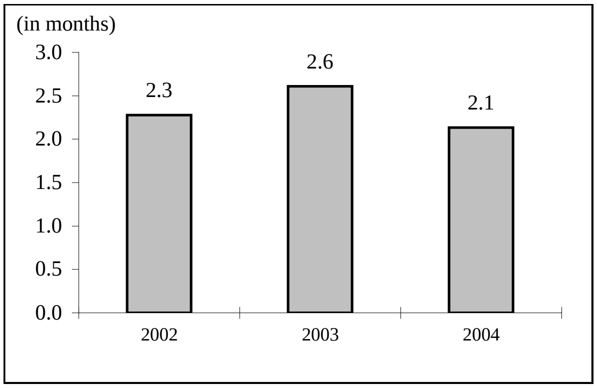
Debt Burden Ratio - UTMB Galveston's debt burden ratio increased slightly from 0.6% in 2003 to 0.7% in 2004 as a result of increased debt between the years to support UTMB Galveston's approved facility expansion plan. UTMB Galveston's debt burden ratio remains extremely low.

Debt Service Coverage Ratio - UTMB Galveston's debt service coverage ratio decreased from 5.2x in 2003 to 3.2x in 2004 as a result of the decline in the annual operating margin ratio and increase in debt discussed above.

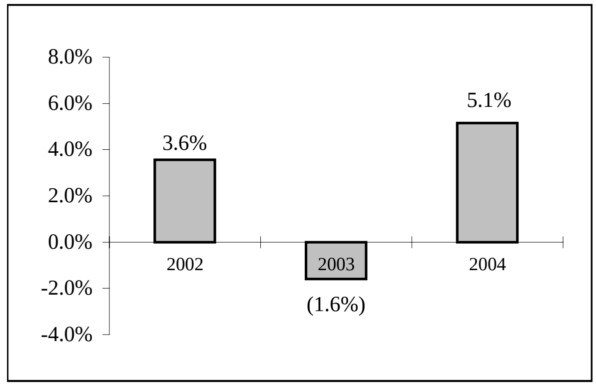
The University of Texas Health Science Center at Houston
2004 Summary of Financial Condition

Financial Condition: **Watch**

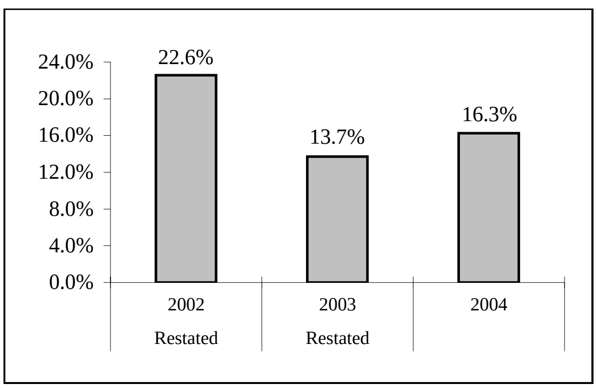
Operating Expense Coverage Ratio



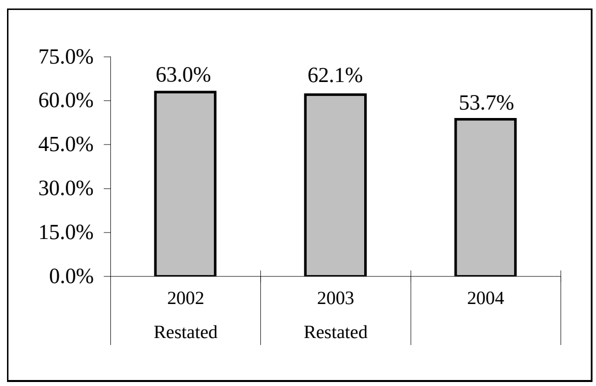
Annual Operating Margin Ratio



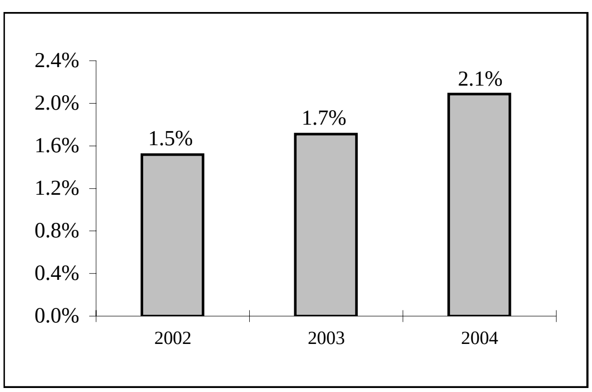
Return on Net Assets Ratio



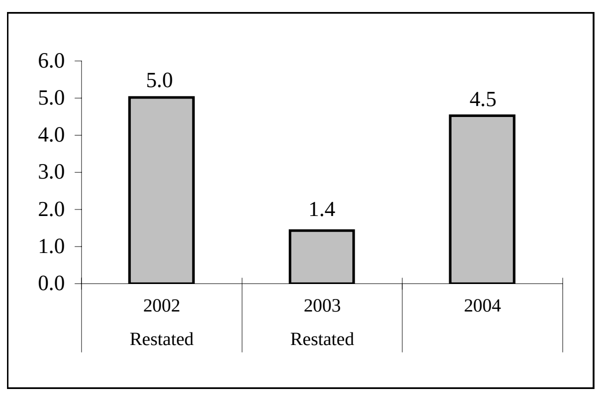
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Health Science Center at Houston
2004 Summary of Financial Condition

Operating Expense Coverage Ratio - UT Health Science Center - Houston's (UTHSC-Houston) operating expense coverage ratio decreased from 2.6 months in 2003 to 2.1 months in 2004. While operating expenses remained essentially unchanged from 2003, total unrestricted net assets decreased by $20 million. In 2003 the receipt of commercial insurance and FEMA proceeds related to Tropical Storm Allison substantially exceeded the expenses. However, the reverse occurred in 2004 as UTHSC-Houston expended the proceeds on recovery efforts.

Annual Operating Margin Ratio - UTHSC-Houston's annual operating margin ratio increased significantly from (1.6%) in 2003 to 5.1% in 2004. Operating revenues increased $48.3 million, while operating expenses increased only $1 million. Net professional fees increased $6.7 million due to a higher fee schedule implemented in September 2003, as well as an increase in faculty productivity and slightly improved collection efforts. Local sponsored programs increased $9.8 million as a result of increases in contractual income from Memorial Hermann Hospital, Harris County Hospital District and UT M. D. Anderson Cancer Center. Gift pledges of $25.2 million for operations of the Institute of Molecular Medicine also contributed to the increase in the annual operating margin.

Return on Net Assets Ratio - UTHSC-Houston's return on net assets ratio of 16.3% for 2004 was higher than the 2003 ratio of 13.7%. UTHSC-Houston's net assets increased largely due to the significant improvement in the annual operating margin as discussed above. Another large contributing factor to the growth in net assets was the $24 million increase in nonmandatory transfers from UT System Administration of bond proceeds for capital projects.

Expendable Resources to Total Net Assets Ratio - UTHSC-Houston's expendable resources to total net assets ratio decreased from 62.1% in 2003 to 53.7% in 2004 as a result of the $103 million increase in total net assets as discussed in the return on net assets ratio.

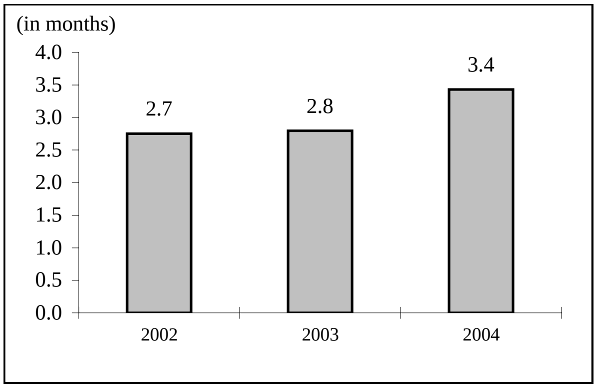
Debt Burden Ratio - UTHSC-Houston's debt burden ratio increased from 1.7% in 2003 to 2.1% in 2004. The increase in this ratio is attributable to the $2.2 million increase in debt service transfers. A full year of debt service was incurred for the Nursing and Student Community Center Building.

Debt Service Coverage Ratio - UTHSC-Houston's debt service coverage ratio of 4.5x in 2004 was a substantial increase from the 2003 ratio of 1.4x. The increase in this ratio is attributable to the significant improvement in the annual operating margin discussed previously.

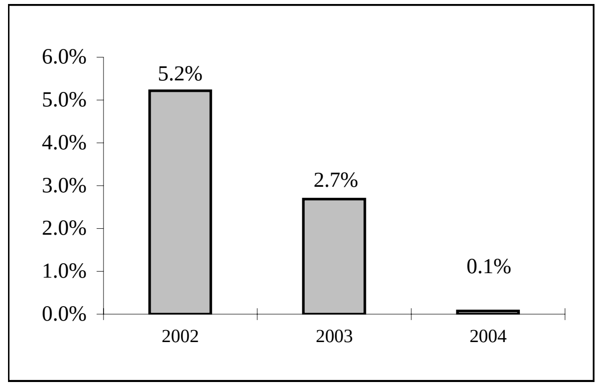
The University of Texas Health Science Center at San Antonio
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

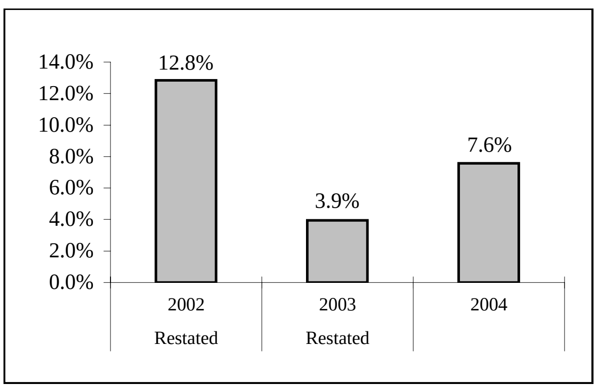
Operating Expense Coverage Ratio



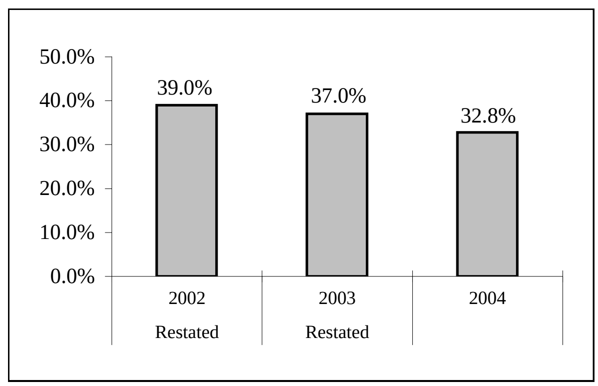
Annual Operating Margin Ratio



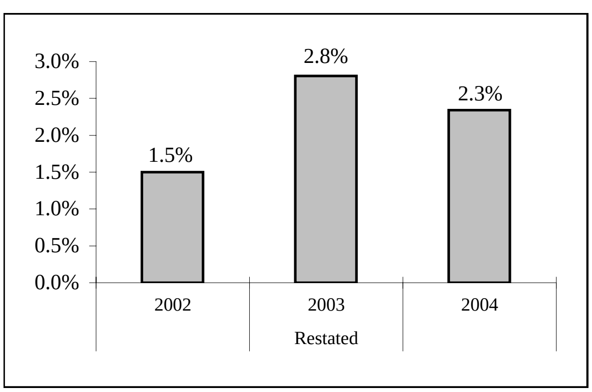
Return on Net Assets Ratio



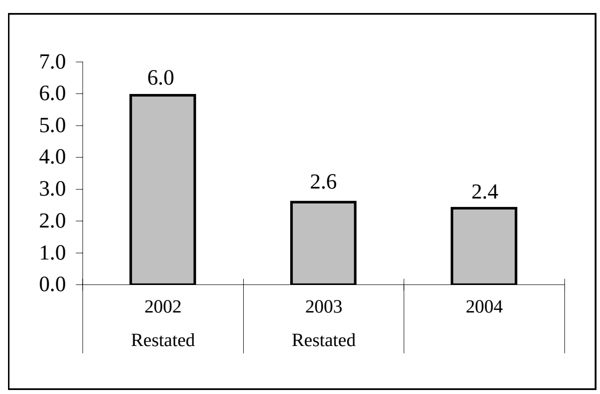
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Health Science Center at San Antonio
2004 Summary of Financial Condition

Operating Expense Coverage Ratio - UT Health Science Center - San Antonio's (UTHSC-San Antonio) operating expense coverage ratio improved from 2.8 months in 2003 to 3.4 months in 2004 as a result of a $27.5 million or 26% increase in unrestricted net assets. Total unrestricted net asset increases are largely due to increases in practice plan operations of $8.9 million, the sale of Ilex stock of $3.4 million, Children's Cancer Research Institute of $1.8 million, indirect cost recoveries of $1.0 million and state funds of $2.4 million. State funds include carryforward funds of approximately $4.5 million for the Regional Academic Health Center (RAHC), which will be expended in 2005.

Annual Operating Margin Ratio - UTHSC-San Antonio's annual operating margin ratio dropped from 2.7% in 2003 to 0.1% in 2004. The decrease in annual operating margin ratio was due to revenues remaining relatively flat, while operating expenses increased $9.8 million or 2.2% and interest expense increased $2.7 million. An increase in practice plan expenses of $9.5 million accounted for most of the increase in operating expenses of which a significant portion of this increase pertained to the Department of Surgery. The increase in expenses in the Department of Surgery related to the recruitment of a chairman and the hiring of faculty in Neurosurgery and Plastic Surgery, as well as the expansion of Urology from a division to a department status.

Return on Net Assets Ratio - UTHSC-San Antonio's return on net assets ratio improved from 3.9% in 2003 to 7.6% in 2004. The improvement can primarily be attributed to the 26% growth in total unrestricted net assets of $27.5 million, as discussed above in the operating expense coverage ratio.

Expendable Resources to Total Net Assets Ratio - UTHSC-San Antonio's expendable resources to total net assets ratio decreased from 37% in 2003 to 32.8% in 2004 primarily due to expenditures that have occurred related to the Children's Cancer Research Institute (North Campus), Sam and Ann Barshop Institute for Longevity and Aging (Texas Research Park Campus), Student Services Building (Central Campus) and the RAHC Medical Research Building in Edinburg.

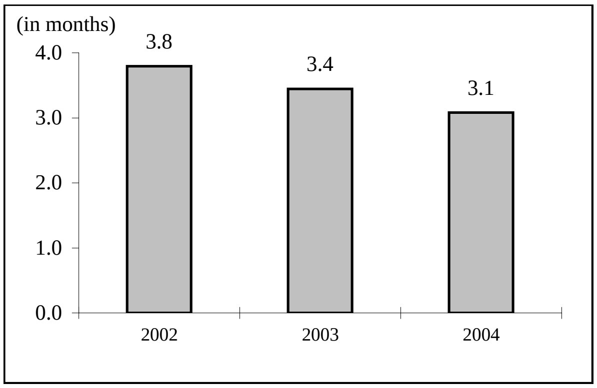
Debt Burden Ratio - UTHSC-San Antonio's debt burden ratio decreased from 2.8% in 2003 to 2.3% in 2004. Debt service transfers to UT System Administration dropped from $12.7 million in 2003 to $10.9 million in 2004.

Debt Service Coverage Ratio - UTHSC-San Antonio's debt service coverage ratio reflected a slight decrease from 2.6x in 2003 to 2.4x in 2004 due to the decline in the annual operating margin as discussed above.

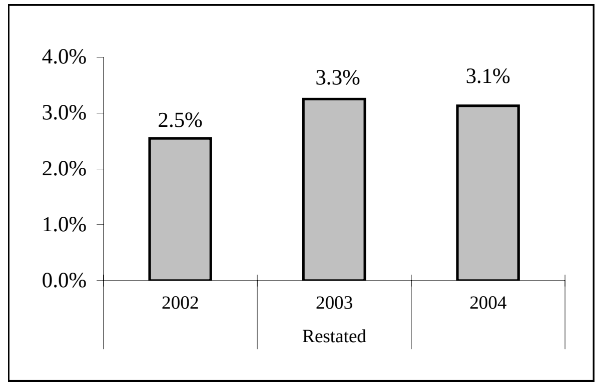
The University of Texas M. D. Anderson Cancer Center
2004 Summary of Financial Condition

Financial Condition: **Satisfactory**

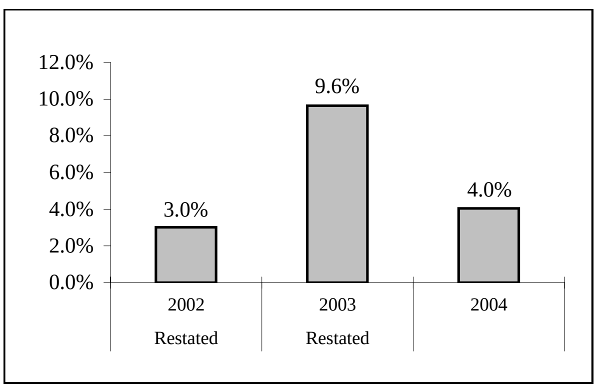
Operating Expense Coverage Ratio



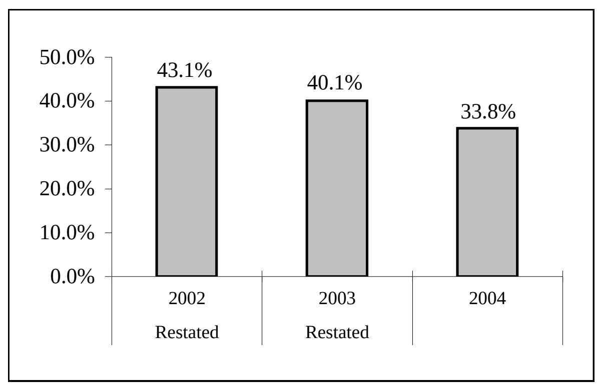
Annual Operating Margin Ratio



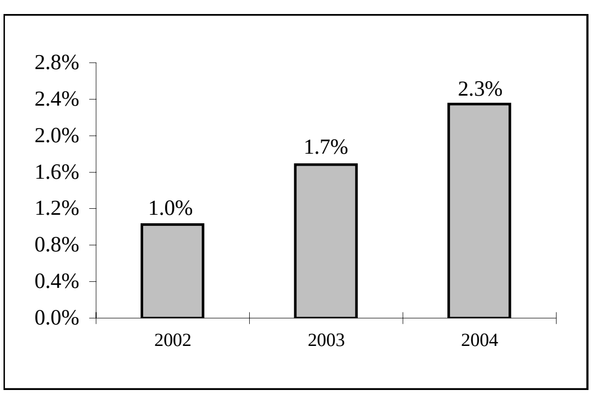
Return on Net Assets Ratio



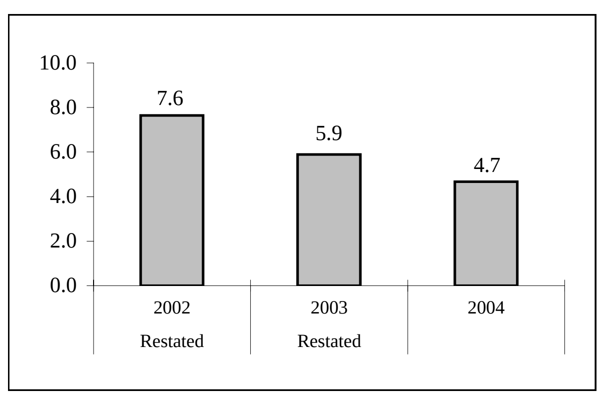
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas M. D. Anderson Cancer Center
2004 Summary of Financial Condition

Operating Expense Coverage Ratio - UT M. D. Anderson Cancer Center's (M. D. Anderson) operating expense coverage ratio decreased from 3.4 months in 2003 to 3.1 months in 2004. Increased operating expenses to support increased patient volumes caused the minor decrease in this ratio. The greatest increases in operating expenses occurred in materials and supplies and salaries and wages. These increases are directly attributable to an overall increase of approximately 17% in hospital and clinics related activities.

Annual Operating Margin Ratio - M. D. Anderson's annual operating margin ratio was 3.1% for 2004, which was a slight decrease from the 2003 ratio of 3.3%. While the annual operating margin increased $5.7 million, the margin ratio decreased due to revenue growth outpacing the growth in margin.

Return on Net Assets Ratio - M. D. Anderson's return on net assets ratio dropped from 9.6% in 2003 to 4% in 2004. The decrease was primarily due to the level of construction. During 2003 M. D. Anderson's debt outstanding increased approximately $210 million due to construction of the Ambulatory Clinic Building and Cancer Prevention Building, which was significantly more than the increase in debt during 2004.

Expendable Resources to Total Net Assets Ratio - M. D. Anderson's expendable resources to total net assets ratio was 33.8% for 2004 which was a decrease from the ratio for 2003 of 40.1%. Due to several large construction projects coming to the end of their building cycle, the amount of expendable net assets reserved for capital purposes decreased by $45.2 million in 2004.

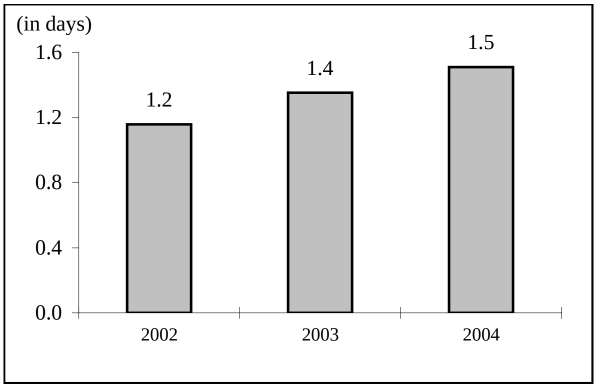
Debt Burden Ratio - M. D. Anderson's debt burden ratio increased from 1.7% in 2003 to 2.3% in 2004 due to an increase in debt service of $15.7 million. While debt has increased due to several large construction projects, M. D. Anderson continues to have positive operating results driven by patient care related activities. The additional buildings supported by the debt are expected to allow for continued positive operating results to support the increased debt.

Debt Service Coverage Ratio - M. D. Anderson's debt service coverage ratio declined from 5.9x in 2003 to 4.7x in 2004 primarily due to the increase in debt service. M. D. Anderson continues to be able to cover its debt service requirements related to providing a greater level of patient care during a period of continued growth.

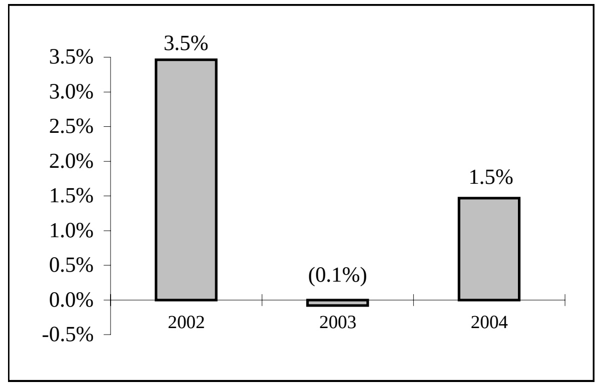
The University of Texas Health Center at Tyler
2004 Summary of Financial Condition

Financial Condition: **Watch**

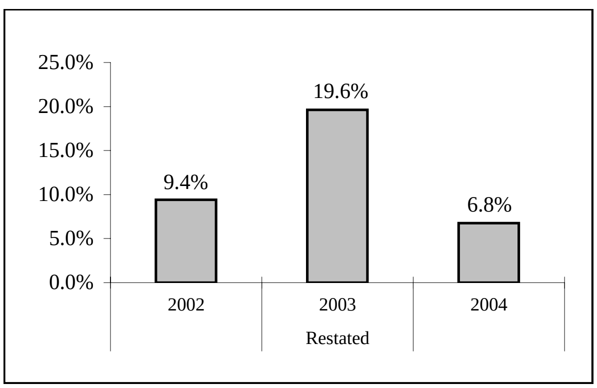
Operating Expense Coverage Ratio



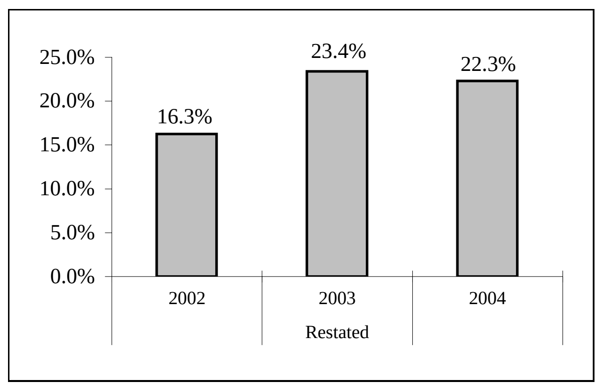
Annual Operating Margin Ratio



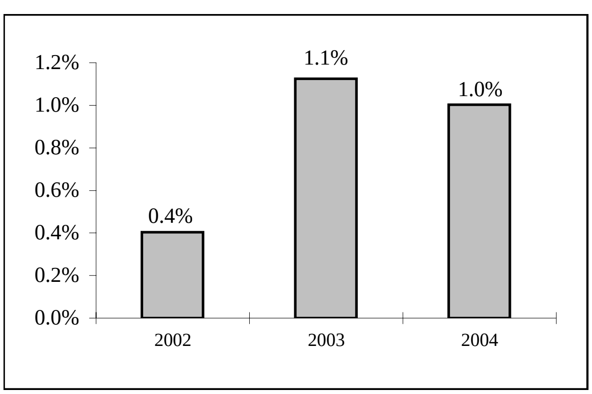
Return on Net Assets Ratio



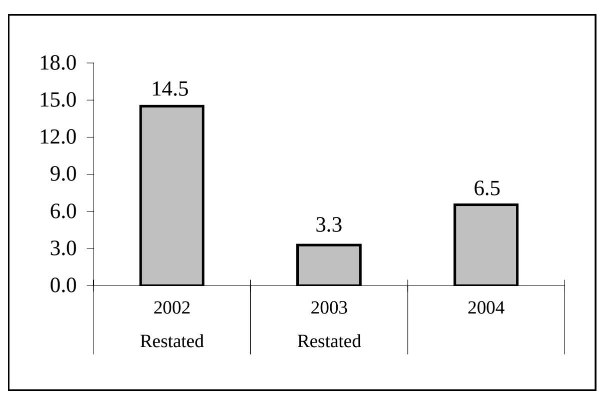
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Health Center at Tyler
2004 Summary of Financial Condition

Operating Expense Coverage Ratio - UT Health Center - Tyler's (UTHC-Tyler) operating expense coverage ratio remained relatively stable at 1.5 months. Unrestricted net assets increased $2.1 million, while operating expenses increased by $4.7 million.

Annual Operating Margin Ratio - UTHC-Tyler's annual operating margin ratio increased significantly from (0.1%) in 2003 to 1.5% in 2004 largely due to the North East Texas Initiative (NETI) funding available for current operations in 2004, rather than restricted for capital expenditures as it was in 2002 and 2003. Additionally, UTHC-Tyler's gifts for operations increased $1.7 million or 450.2% primarily due to a large gift from the Emaline Chamblee Estate.

Return on Net Assets Ratio - UTHC-Tyler's return on net assets ratio declined from 19.6% in 2003 to 6.8% in 2004 as a result of the increased use of debt to purchase assets rather than leasing the assets. By purchasing assets, UTHC-Tyler has increased total net assets. However, the increase in net assets did not keep pace with the increase in debt.

Expendable Resources to Total Net Assets Ratio - UTHC-Tyler's expendable resources to total net assets ratio decreased slightly from 23.4% in 2003 to 22.3% in 2004 primarily due to the $5.4 million decrease in expendable net assets reserved for capital projects.

Debt Burden Ratio - UTHC-Tyler's debt burden ratio decreased slightly from 1.1% in 2003 to 1% in 2004 due to the $4.7 million (4%) increase in total operating expenses.

Debt Service Coverage Ratio - UTHC-Tyler's debt service coverage ratio increased from 3.3x in 2003 to 6.5x in 2004 due to the increase in the annual operating margin discussed above, as well as relatively stable debt service costs.

Appendix A - Definitions of Evaluation Factors

1. **Operating Expense Coverage Ratio** – This ratio measures an institution's ability to cover future operating expenses with available year-end balances. This ratio is expressed in number of months coverage. Although the Texas State Comptroller required the Permanent Health Fund (PHF) to be reported as unrestricted, U.T. System considers the PHF to be nonexpendable. Therefore, the PHF was subtracted from unrestricted net assets for U.T. El Paso and the six U.T. health-related institutions.

$$\textbf{Formula} = \left(\frac{\text{Total Unrestricted Net Assets – Permanent Health Fund}}{\text{Total Operating Expenses + Interest Expense on Debt}} \right) * 12$$

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

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

3. **Return on Net Assets Ratio –** This ratio determines whether the institution is financially better off than in previous years by measuring total economic return. An improving trend indicates that the institution is increasing its net assets and is likely to be able to set aside financial resources to strengthen its future financial flexibility.

$$\textbf{Formula} = \frac{\text{Change in Net Assets (Adjusted for Change in Debt not on Institution's Books)}}{\text{Beginning Restated Net Assets – Debt not on Institution's Books}}$$

4. **Expendable Resources to Total Net Assets Ratio** – This ratio measures the amount of an institution's total net assets that are expendable.

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

5. **Debt Burden Ratio –** This ratio examines the institution's dependence on borrowed funds as a source of financing and the cost of borrowing relative to overall expenses.

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

6. **Debt Service Coverage Ratio** – This ratio measures the actual margin of protection provided to investors by annual operations. *Moody's Investors Service* excludes actual investment income from its calculation of total operating revenue and instead, uses a normalized investment income of 4.5% of the prior year's ending total cash and investments. This is the calculation used by the Office of Finance. Therefore, in order to be consistent with the Office of Finance's calculation of the debt service coverage ratio, we used normalized investment income as defined above for this ratio only.

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

7. **Full-Time Equivalent (FTE) Student Enrollment** - Total semester credit hours taken by students during the fall semester, divided by factors of 15 for undergraduate students, 12 for graduate and special professional students, and 9 for doctoral students to arrive at the full-time equivalent (FTE) students represented by the course hours taken.

Appendix A - Definitions of Evaluation Factors (Continued)

The categories, which are utilized to indicate the assessment of an institution's financial condition, are "Satisfactory," "Watch" and "Unsatisfactory." In most cases the rating is based upon the trends of the financial ratios unless isolated financial difficulties in particular areas are material enough to threaten the overall financial results.

Satisfactory – an institution assigned this assessment exhibits a general history of relatively stable or increasing financial ratios. The operating expense coverage ratio should be at or above a two-month benchmark and should be stable or improving. The annual operating margin ratio could be both positive and negative during the trend period due to nonrecurring items. Some of these items include unexpected reductions in external sources of income, such as state appropriations, gifts and investment income, all of which are unpredictable and subject to economic conditions. The return on net assets ratio may vary widely due to single-year events, such as a substantial gift or changes in investment performance. The causes of the swings in this ratio should not threaten the overall financial stability of the institution, and the ratio should not be negative. The expendable resources to total net assets ratio should generally increase or remain stable over time. The Office of Finance uses the debt burden ratio and debt service coverage ratio, which are the same ratios the bond rating agencies calculate for the System. Trends in these ratios can help determine if an institution has assumed more debt than it can afford to service. Full-time equivalent (FTE) student enrollment must be relatively stable or increasing. Isolated financial difficulties in particular areas may be evident, but must not be material enough to threaten overall financial results.

Watch – an institution assigned this assessment exhibits a history of relatively unstable or declining financial ratios. The operating expense coverage ratio can be at or above a two-month benchmark, but typically shows a declining trend. Annual operating margin ratio is negative or near break-even during the trend period due to recurring items, material operating difficulties or uncertainties caused by either internal management decisions or external factors. The return on net assets ratio may vary widely due to single-year events, such as a substantial gift or changes in investment performance. Low expendable net assets in relation to operating size may signal a weak financial condition. The expendable resources to total net assets ratio could be decreasing or could be temporarily inflated for capital projects. Trends in the debt burden ratio and debt service coverage ratios can help determine if an institution has assumed more debt than it can afford to service. FTE student enrollment can be stable or declining, depending upon competitive alternatives or recruitment and retention efforts. Isolated financial difficulties in particular areas may be evident and can be material enough to threaten overall financial results.

Unsatisfactory – an institution assigned this assessment exhibits a history of relatively unstable financial ratios. The operating expense coverage ratio may be below a two-month benchmark and shows a declining trend. The annual operating margin ratio is predominately volatile or negative during the trend period due to material operating difficulties or uncertainties caused by either internal management decisions or external factors. The causes of the fluctuations in the return on net assets ratio are considered a threat to the overall financial stability of the institution and recur during the trend period. This ratio may also be negative in one or more of the years analyzed. The expendable resources to total net assets ratio could be decreasing or could be temporarily inflated for capital projects. Trends in the debt burden ratio and debt service coverage ratios can help determine if an institution has assumed more debt than it can afford to service. The FTE student enrollment can be stable or declining, depending upon competitive alternatives or recruitment and retention efforts. Widespread financial difficulties in key areas are evident and are material enough to further threaten overall financial results. Generally a business plan exists to address corrective actions of improving the financial condition.

Appendix B - Calculation of Expendable Net Assets
Academic Institutions
As of August 31, 2004
(In Millions)

Institution	Restricted Expendable Net Assets: Capital Projects	Restricted Expendable Net Assets: Funds Functioning Restricted	Restricted Expendable Net Assets: Other Expendable	Restricted Expendable Net Assets: Total	Total Unrestricted Net Assets	Less: PHF*	Total Expendable Net Assets
Arlington	$ 32.2	1.5	18.3	52.0	66.8	-	118.9
Austin	42.6	103.1	244.5	390.2	368.5	-	758.7
Brownsville	13.8	-	4.3	18.1	22.4	-	40.5
Dallas	16.9	3.5	58.4	78.8	42.0	-	120.8
El Paso	7.9	4.5	19.2	31.7	50.5	(24.8)	57.3
Pan American	12.2	0.7	14.6	27.6	55.8	-	83.3
Permian Basin	6.0	-	5.0	11.0	3.2	-	14.2
San Antonio	22.1	0.5	25.4	48.0	57.0	-	104.9
Tyler	30.0	0.3	4.0	34.3	12.6	-	46.9

*Although the Texas State Comptroller required the Permanent Health Fund (PHF) to be reported as unrestricted, UT System considers the PHF to be nonexpendable. Therefore, the PHF is subtracted from expendable net assets.

Appendix B - Calculation of Expendable Net Assets
Health Institutions
As of August 31, 2004
(In Millions)

Institution	Restricted Expendable Net Assets: Capital Projects	Restricted Expendable Net Assets: Funds Functioning Restricted	Restricted Expendable Net Assets: Other Expendable	Restricted Expendable Net Assets: Total	Total Unrestricted Net Assets	Less: PHF*	Total Expendable Net Assets
Southwestern	$ 26.1	18.2	248.7	293.1	343.2	(49.7)	586.7
UTMB Galveston	37.7	13.6	46.5	97.8	173.6	(24.8)	246.5
UTHSC-Houston	104.3	4.4	110.9	219.5	128.1	(24.8)	322.8
UTHSC-San Antonio	10.3	4.3	79.5	94.1	331.7	(198.6)	227.2
M. D. Anderson	77.3	20.8	146.9	245.1	552.3	(99.3)	698.1
UTHC-Tyler	5.8	0.6	5.6	12.0	40.3	(24.8)	27.4

*Although the Texas State Comptroller required the Permanent Health Fund (PHF) to be reported as unrestricted, UT System considers the PHF to be nonexpendable. Therefore, the PHF is subtracted from expendable net assets.

Appendix C - Calculation of Annual Operating Margin
Academic Institutions
As of August 31, 2004
(In Millions)

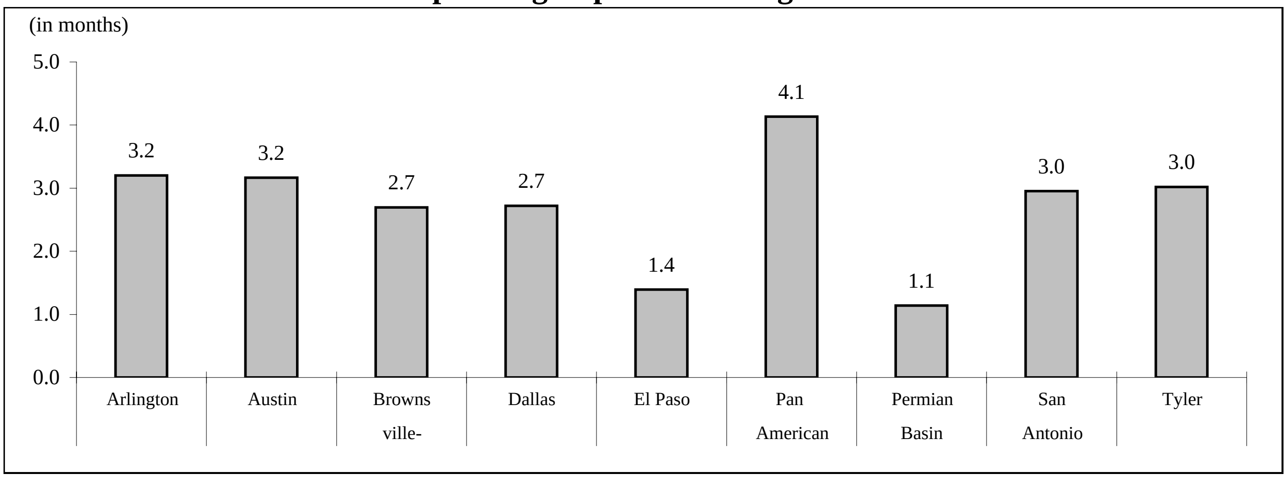
Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items: Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments: Realized Gains/ Losses	AUF Transfer	Texas Enterprise Fund	Interest Expense	Annual Operating Margin
Arlington	$ 28.7	0.3	(0.6)	(0.4)	3.2	26.2	-	-	-	(6.1)	20.1
Austin	121.2	8.4	(4.5)	(2.3)	146.5	(26.9)	(0.4)	109.4	-	(18.3)	64.5
Brownsville	3.5	-	-	-	0.5	3.0	0.1	-	-	(2.0)	0.8
Dallas	31.4	0.7	(0.5)	(0.9)	11.3	20.7	-	-	(19.5)	(3.1)	(1.8)
El Paso	21.6	-	-	(0.1)	9.5	12.2	-	-	-	(3.3)	8.8
Pan American	7.5	0.2	(0.1)	(0.3)	2.2	5.5	-	-	-	(4.1)	1.5
Permian Basin	(2.6)	-	-	-	1.0	(3.6)	-	-	-	(1.2)	(4.8)
San Antonio	18.8	-	(2.2)	-	2.3	18.7	-	-	-	(6.8)	11.9
Tyler	4.2	-	-	-	3.7	0.9	-	-	-	(1.2)	(0.3)

Appendix C - Calculation of Annual Operating Margin
Health Institutions
As of August 31, 2004
(In Millions)

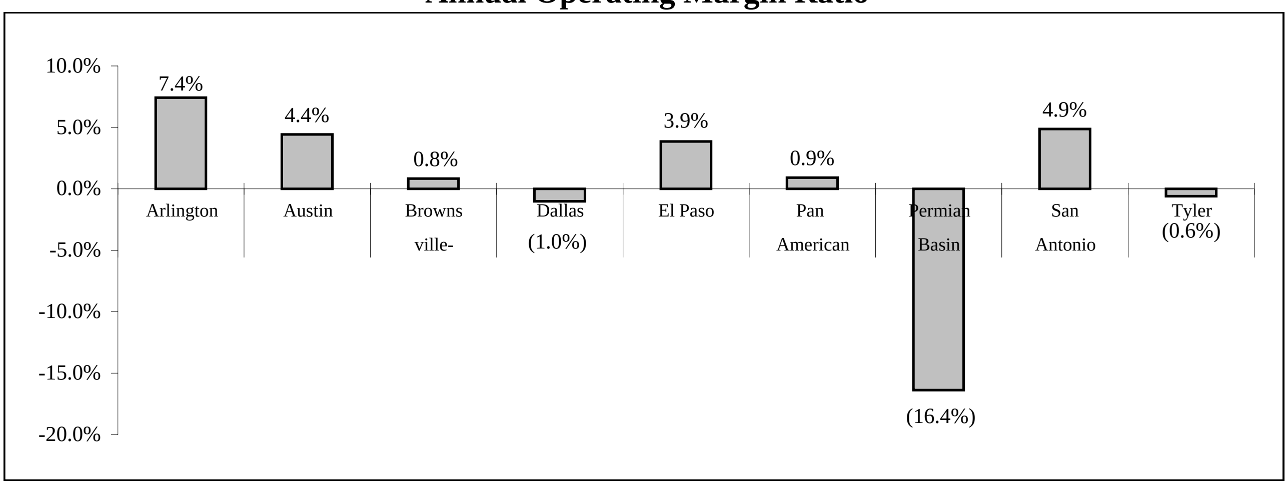
Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items: Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments: Realized Gains/ Losses	RAHC Transfer	Texas Enterprise Fund & FEMA	Interest Expense	Annual Operating Margin
Southwestern	$ 114.4	2.9	(0.8)	(2.7)	50.4	64.6	(0.9)	-	-	(9.8)	55.7
UTMB Galveston	3.8	0.5	(2.4)	(0.7)	27.5	(21.0)	0.3	-	-	(2.8)	(24.0)
UTHSC-Houston	49.7	0.5	(2.5)	(1.9)	11.4	42.1	(1.9)	1.5	(7.8)	(6.2)	31.5
UTHSC-San Antonio	30.5	-	-	(0.6)	33.2	(2.2)	0.0	5.0	4.5	(6.9)	0.3
M. D. Anderson	130.7	26.7	(0.8)	(8.8)	30.0	83.6	6.0	-	-	(20.6)	57.0
UTHC-Tyler	4.0	0.2	-	(1.2)	2.8	2.2	-	-	-	(0.4)	1.8

Appendix D - Academic Institutions' Evaluation Factors
2004 Analysis of Financial Condition

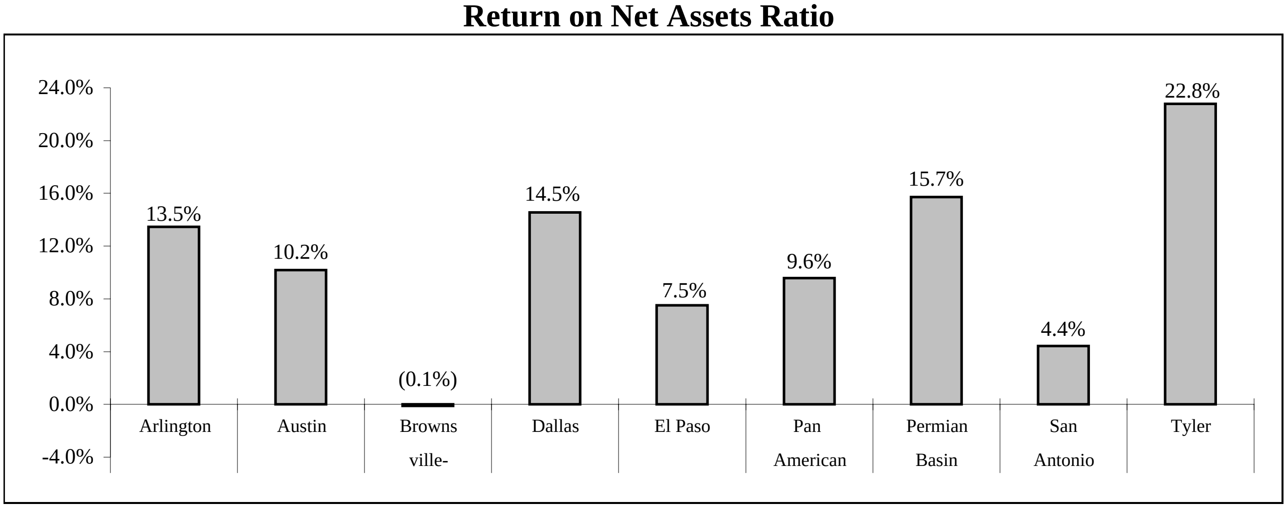
Operating Expense Coverage Ratio



Annual Operating Margin Ratio

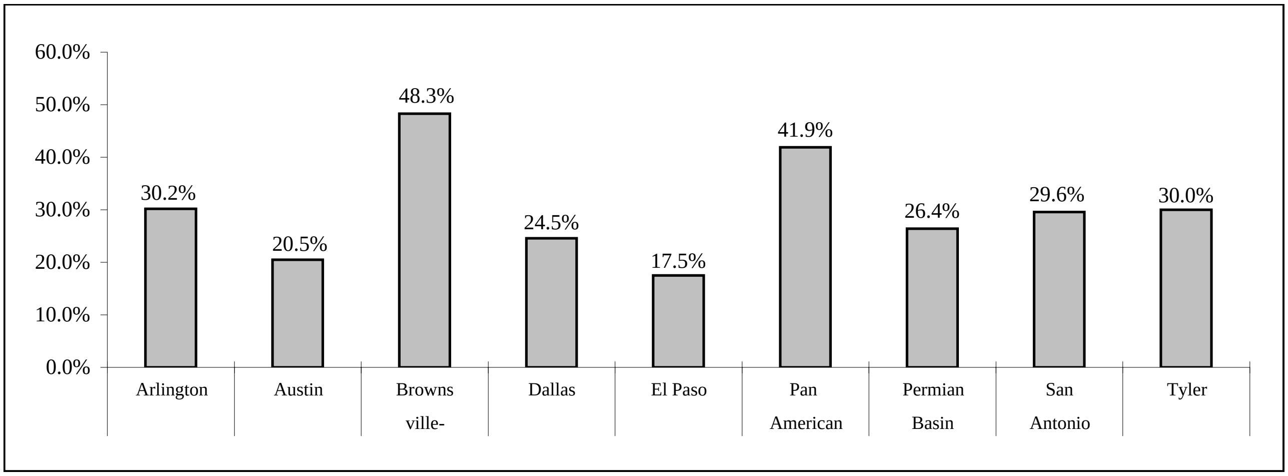


Return on Net Assets Ratio

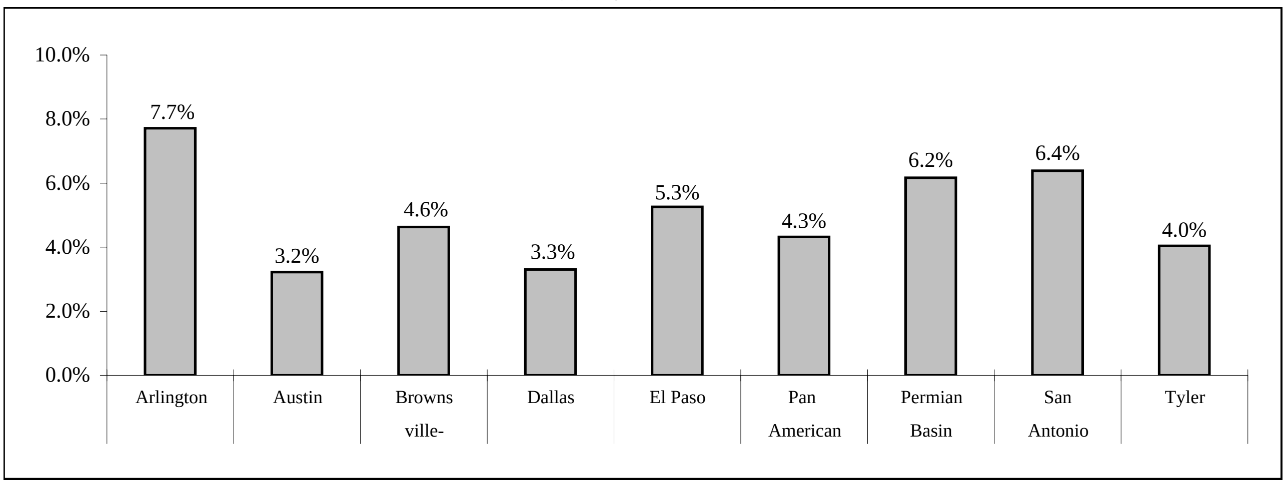


Appendix D - Academic Institutions' Evaluation Factors
2004 Analysis of Financial Condition

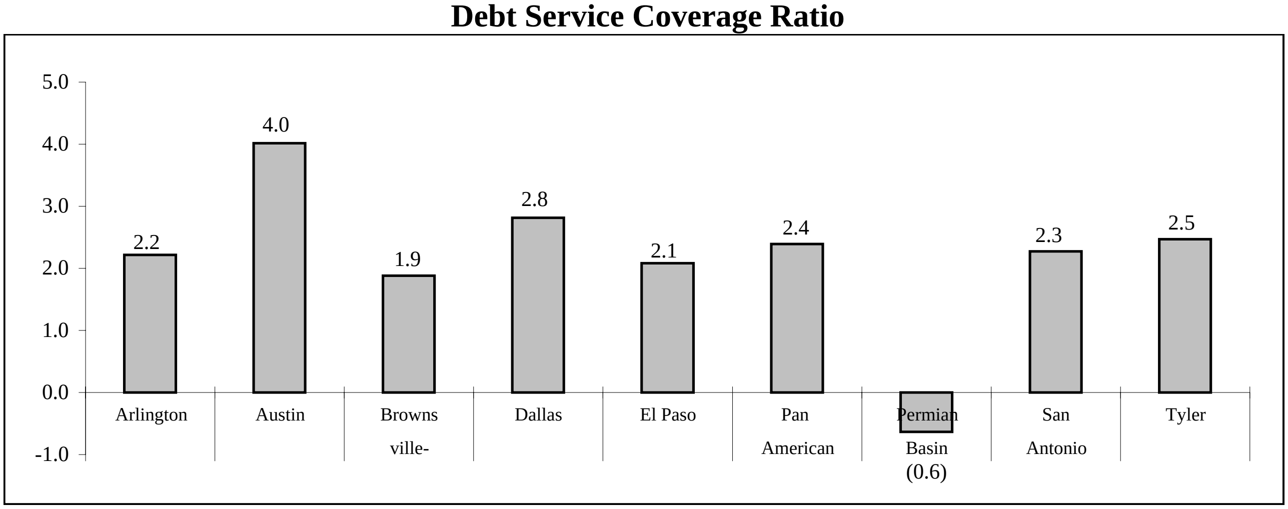
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio

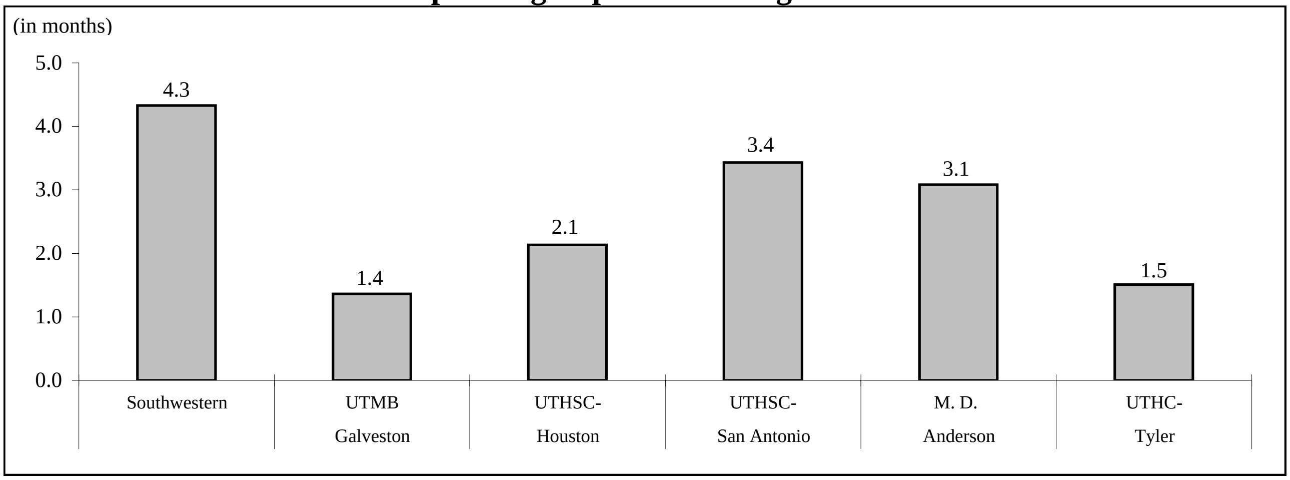


Debt Service Coverage Ratio

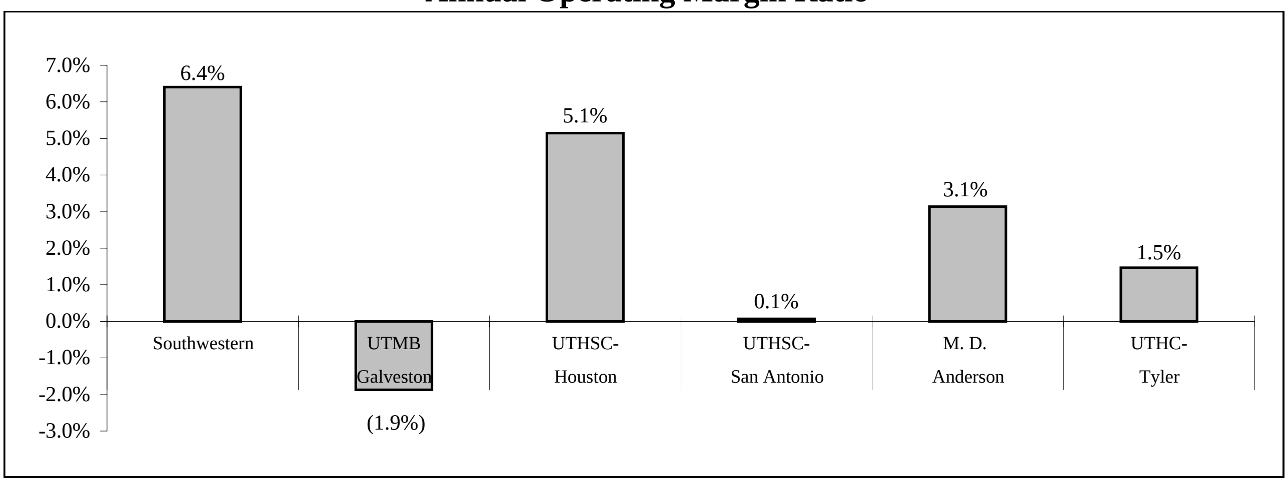


Appendix D - Health Institutions' Evaluation Factors
2004 Analysis of Financial Condition

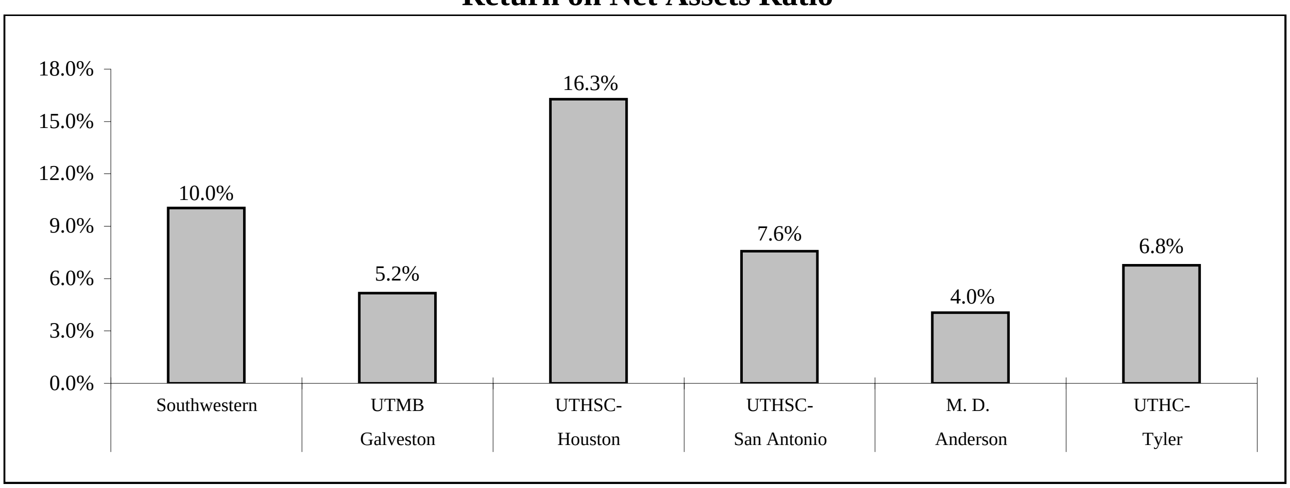
Operating Expense Coverage Ratio



Annual Operating Margin Ratio

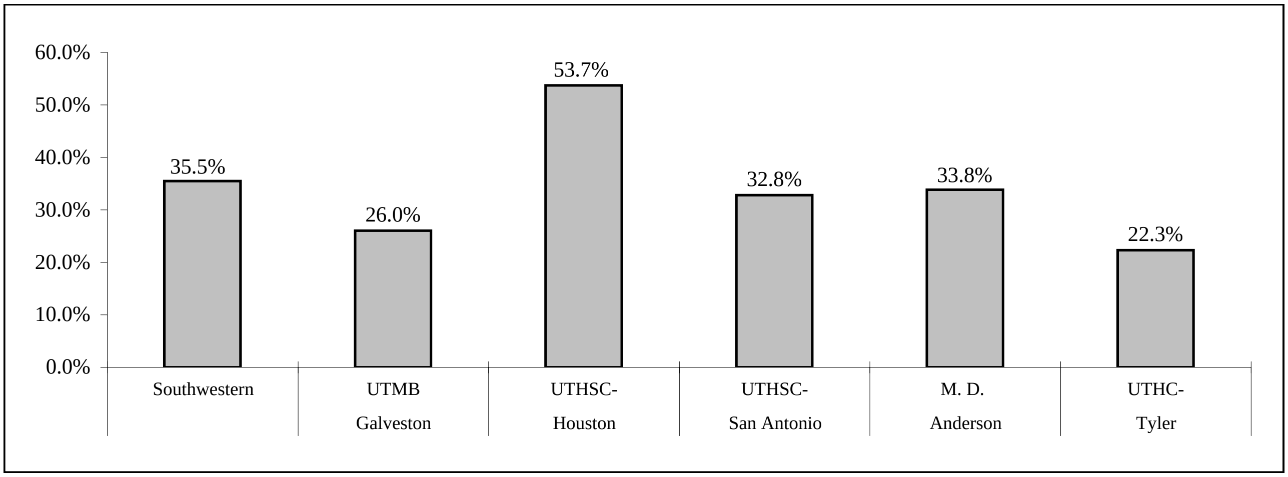


Return on Net Assets Ratio

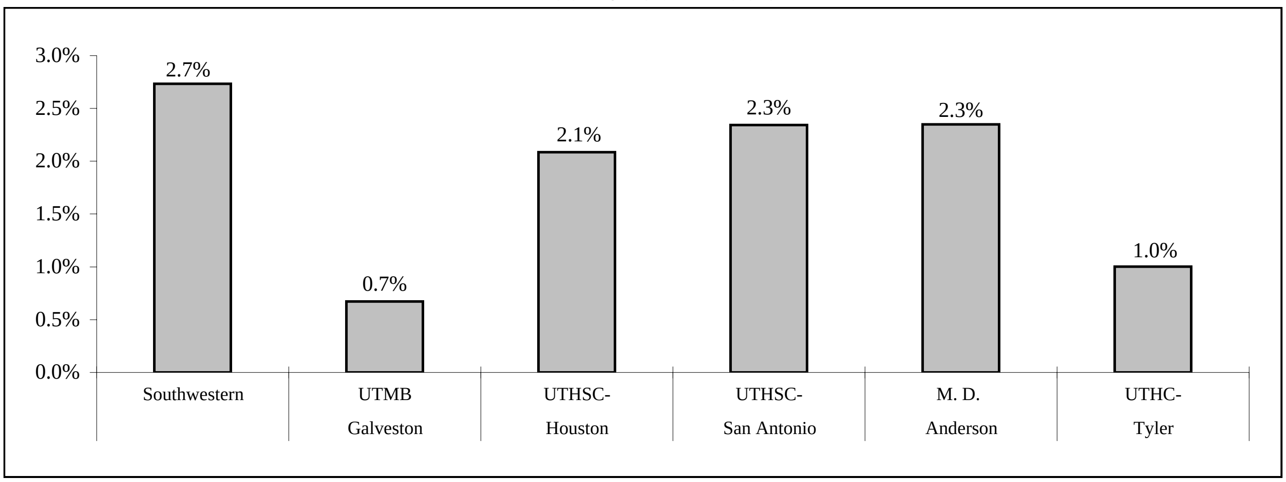


Appendix D - Health Institutions' Evaluation Factors
2004 Analysis of Financial Condition

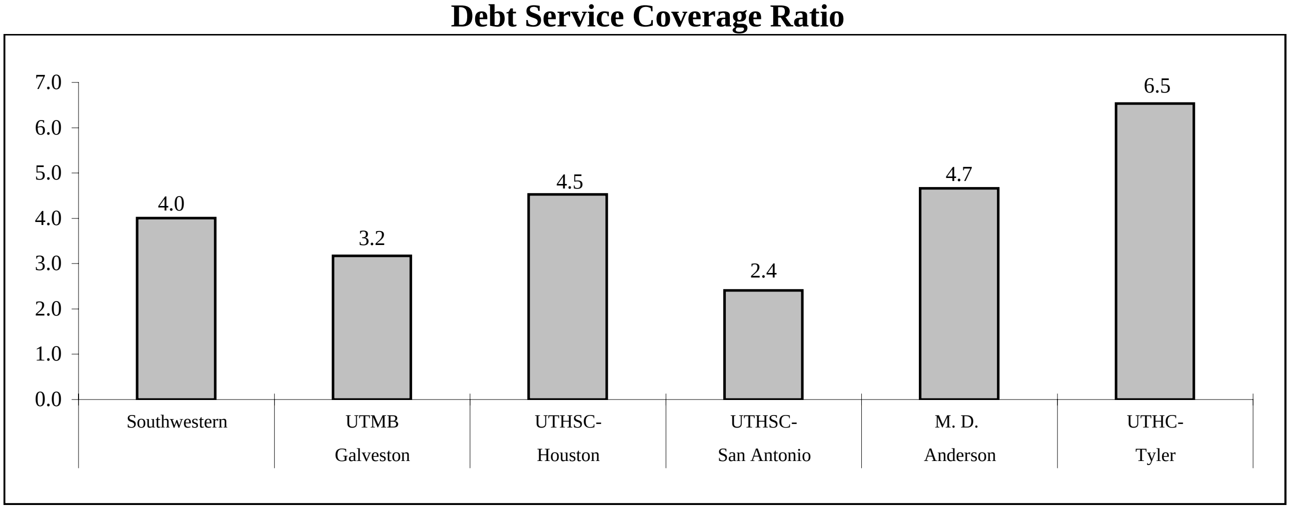
Expendable Resources to Total Net Assets Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



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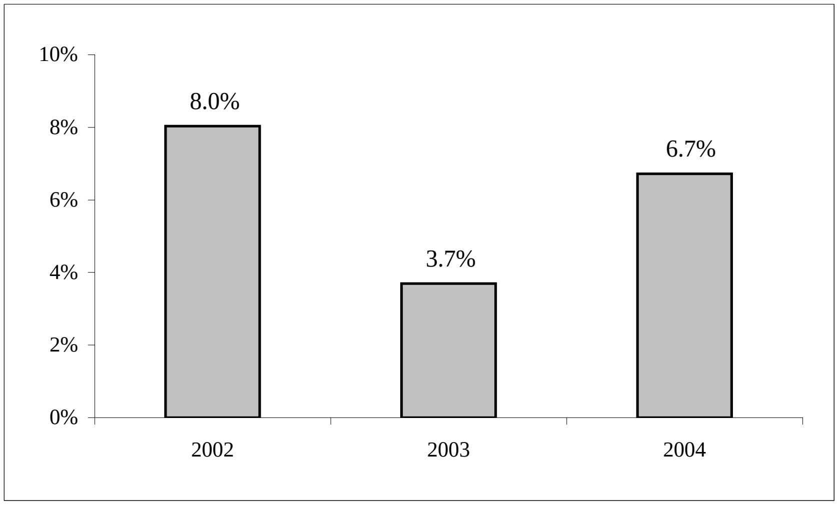
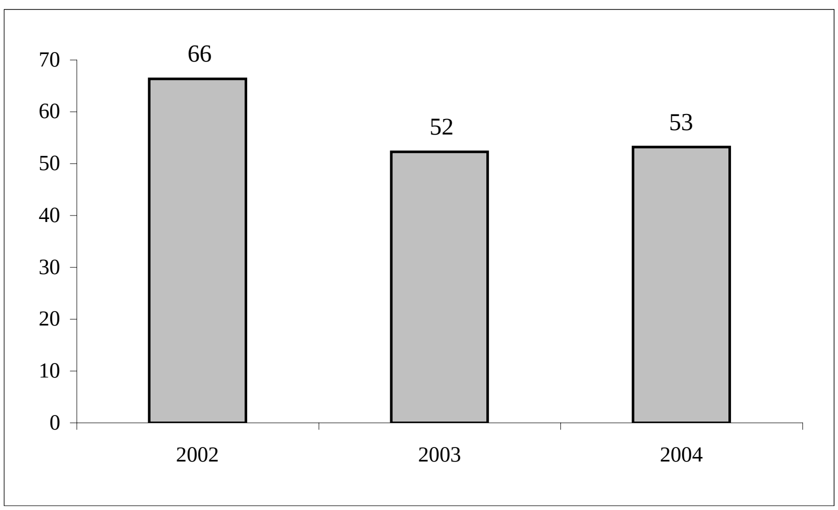
Appendix E - Key MSRDP & NPHC Operating Factors
The University of Texas Southwestern Medical Center at Dallas

Annual Operating Margin Ratio



MSRDP operating revenue increased by 13.7%. Approximately half of the increase was due to higher net patient revenue, of which 79% was a result of growth in patient volume and 21% was a result of increases in fee schedules. The remaining increase was substantially due to higher contractual revenue from affiliated hospitals. Expenses increased by 9.9% predominantly due to the opening of the Radiation Oncology Center, the Clinical Transformation Initiative project, personnel added to handle patient volume, and increased drug costs.

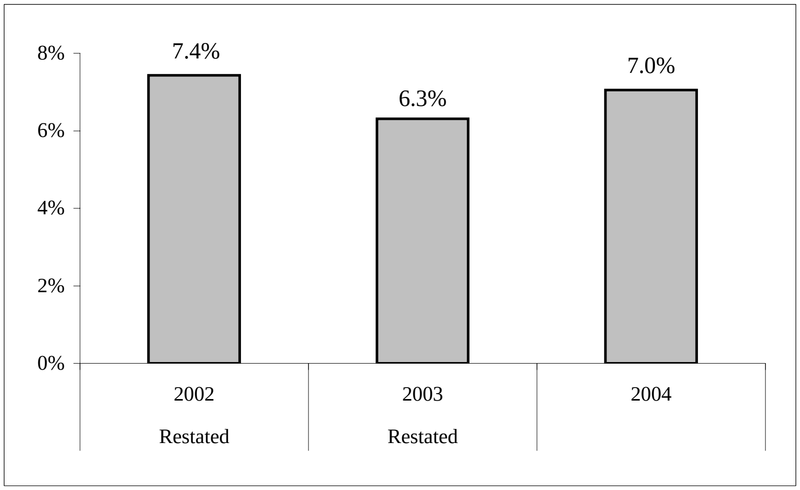
Net Accounts Receivable (in days)



Net accounts receivable (in days) remained relatively stable between 2003 and 2004.

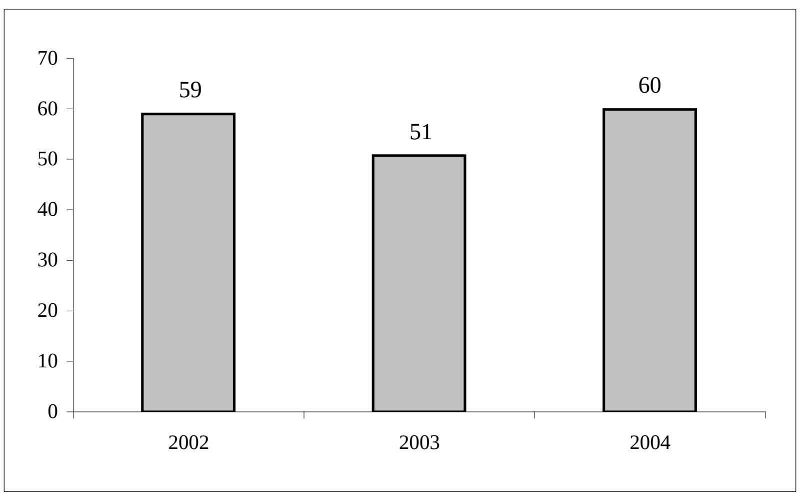
Appendix E - Key Hospital Operating Factors
The University of Texas Medical Branch at Galveston

Annual Operating Margin Ratio



UTMB Hospital and Clinics margin increased $6.2 million between years, favorably impacting the annual operating margin ratio. Total revenues increased by 5.5%, offset by increases in total expenses of 4.7%. Total patient volumes increased by 8.3%. Revenue increases did not keep pace with patient volumes due to state imposed reductions in State Appropriations, Medicaid reimbursement and the Indigent Care Fund, and increases in unsponsored patients. Through cost reduction efforts, expense increases were well below increases in patient volumes, despite the impact of healthcare inflation, which is outpacing general market inflation.

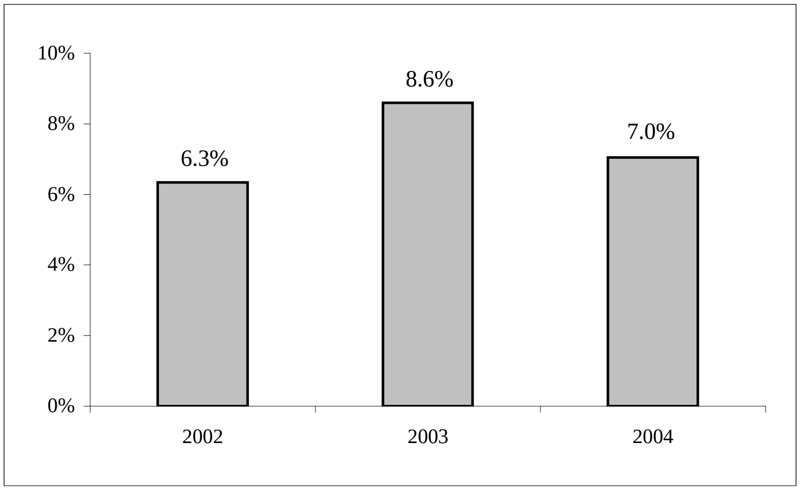
Net Accounts Receivable (in days)



Days in net accounts receivable increased as a result of the following factors: 1) the HIPPA compliant billing transition in October 2003; 2) a change in Medicaid intermediaries, which has resulted in a temporary claims backlog that should be resolved by December 2004; and 3) temporary delays in Respiratory Therapy billings due to changes in the Respiratory Therapy charge capture process and review.

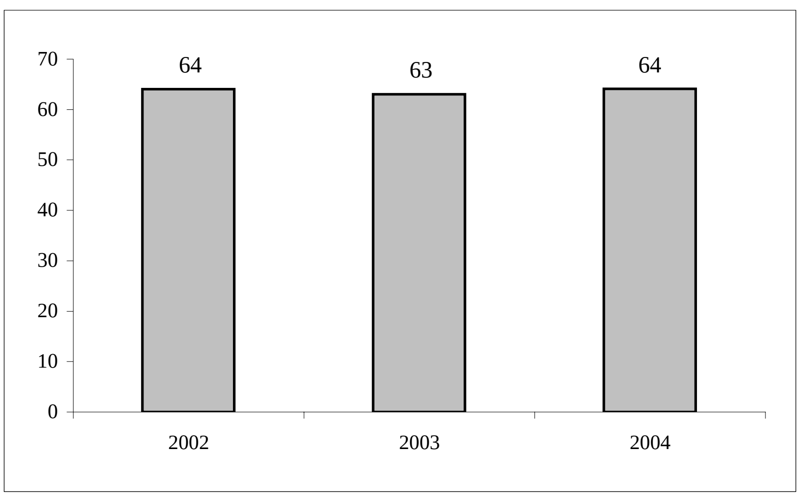
Appendix E - Key MSRDP & NPHC Operating Factors
The University of Texas Medical Branch at Galveston

Annual Operating Margin Ratio



The decline in the annual operating margin ratio between years is due to a decrease in operating margin of $3.2 million. A reduction of $1.8 million in malpractice premium rebates received between the years contributed to the decrease in the margin. Also, growth in Faculty Group Practice faculty salaries and benefits outpaced revenue growth. Faculty Group Practice revenue grew by 4% between years, despite imposed reductions in Medicare and Medicaid reimbursement.

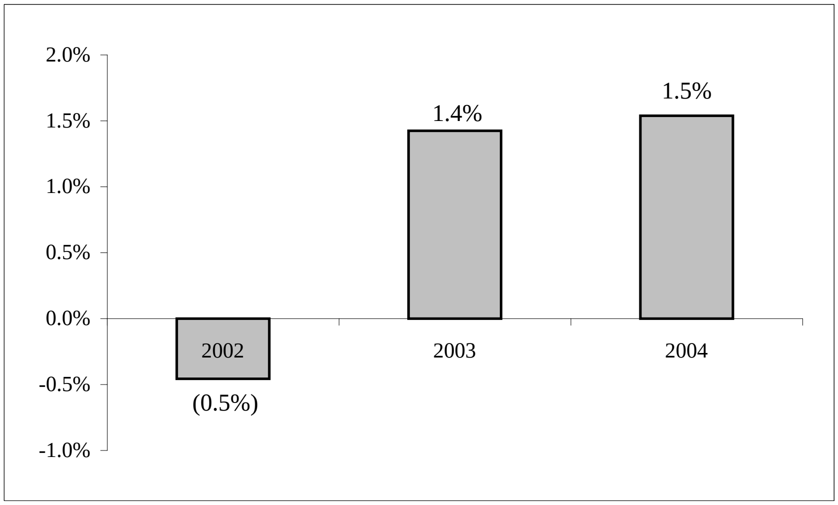
Net Accounts Receivable (in days)



Days in net accounts receivable is a measure, expressed in a number of days, of how quickly the charges generated by UTMB Faculty Group Practice physicians are being converted into cash. Each area that impacts billing can cause this number to rise or fall. The increase between years is largely due to a change in Medicaid intermediaries, which has resulted in a temporary backlog in claims.

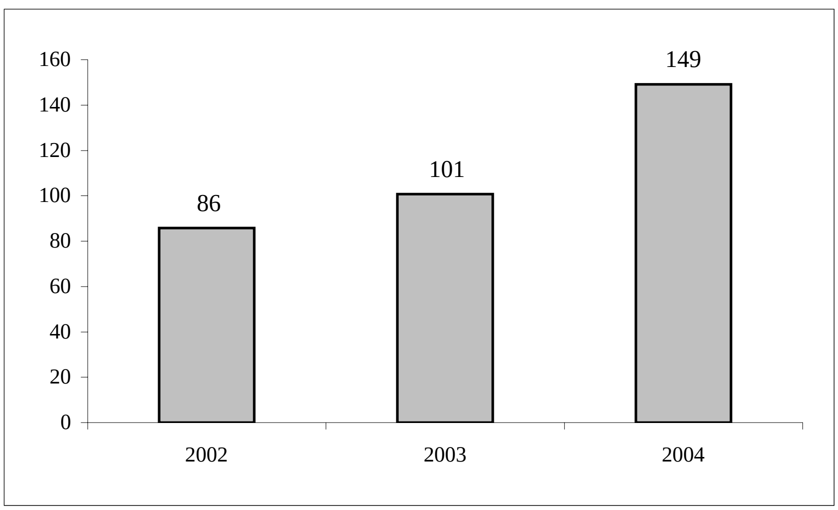
Appendix E - Key Hospital Operating Factors
The University of Texas Health Science Center at Houston

Annual Operating Margin Ratio



The annual operating margin ratio remained relatively stable due to a reduction in both operating revenues and operating expenses. An agreement with the local mental health authority to reduce the number of funded beds with a corresponding closure of a treatment unit reduced both revenues and expenses in 2004.

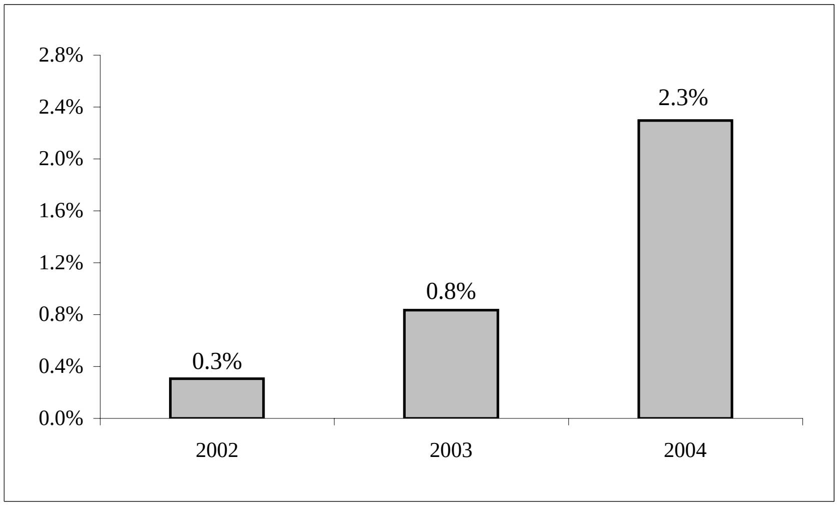
Net Accounts Receivable (in days)



Non-performance of the billing and collection vendor contributed to the increase in days in net accounts receivable. A Request for Proposal was released in January 2004 and a final contract was awarded to a new vendor in September 2004. The "go live" date will be in April or May of 2005.

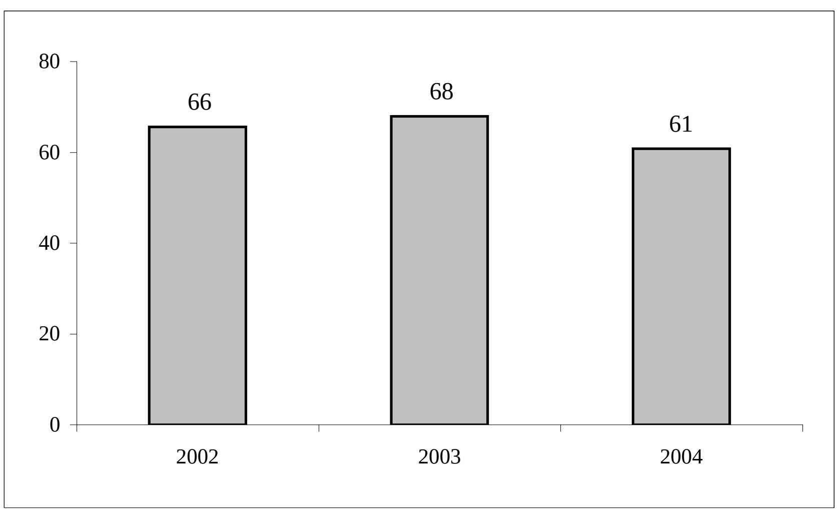
Appendix E - Key MSRDP & NPHC Operating Factors
The University of Texas Health Science Center at Houston

Annual Operating Margin Ratio



During 2004, professional fee revenue increased over 7% and contractual revenues increased 16.6%. Professional fee revenue increased due to a higher fee schedule implemented in September 2003, as well as an increase in faculty productivity and slightly improved collection efforts. Contractual revenues increased due to higher contractual rates and increased services provided by UTHSC-Houston's faculty. Total operating expenses increased only 8% due to increased financial monitoring and the implementation of some cost-cutting measures. Practice plan (MSRDP) expenses were curtailed primarily in professional fees and services, excluding the increase due to the billing and collection contract entered into with Per-Se on February 9, 2004. Nonprofit healthcare corporation (NPHC) expenses also decreased by about 8% primarily due to a reduction in the number of FTEs.

Net Accounts Receivable (in days)



Due to a slight refinement of the method used for accounts receivable valuation, the 2004 net accounts receivable value decreased slightly (4%) compared to the 2003 net accounts receivable value despite higher levels of gross charges in accounts receivable. In addition, collections in 2004 increased 7% due to expected growth and a slight improvement in the billing/collecting efforts. The result was a decrease in the net accounts receivable days.

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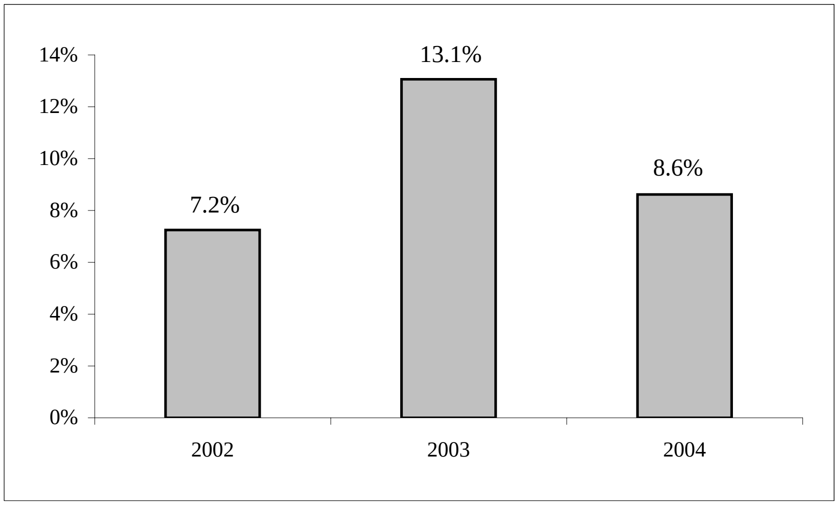
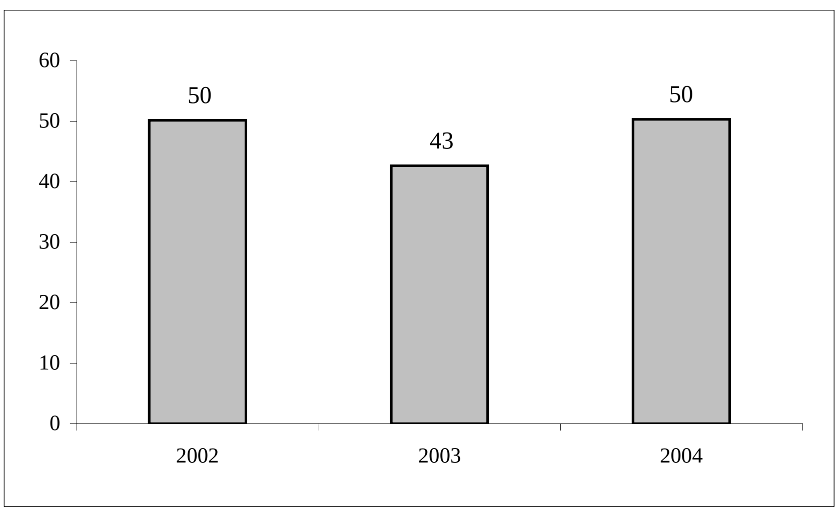
Appendix E - Key MSRDP & NPHC Operating Factors
The University of Texas Health Science Center at San Antonio

Annual Operating Margin Ratio



The decrease in the annual operating margin ratio can be attributed primarily to the $9.5 million increase in operating expenses. Most of the increase in expenses occurred in the Department of Surgery related to the recruitment of a chairman, the hiring of faculty in Neurosurgery and Plastic Surgery and the expansion of Urology from a division to a department status. In addition, the professional liability rebate, which is recorded as a negative expense, decreased in 2004. The professional liability rebate was $9.1 million in 2003, which was almost twice the amount of the rebate received in 2004 of $4.8 million.

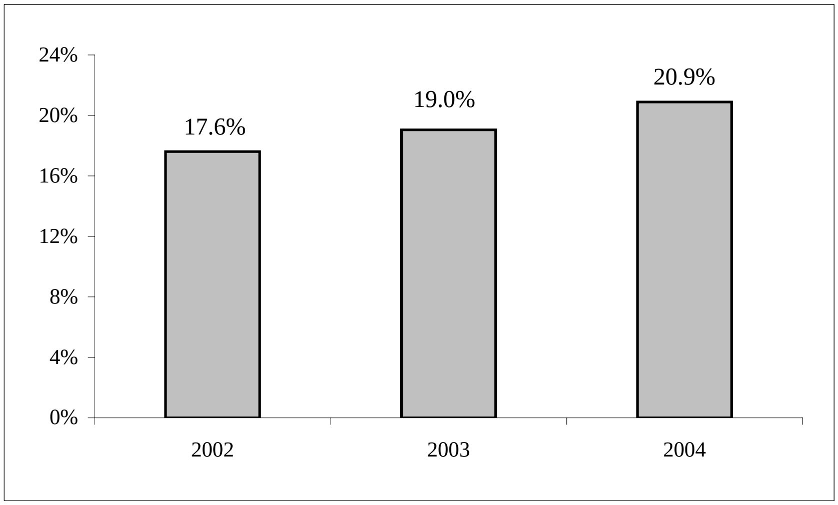
Net Accounts Receivable (in days)



The increase in the days in accounts receivable was due to the new Medicaid carrier's (TMHP) difficulties processing claims, providing adequate electronic explanation of denials, and processing appeals. As of the end of 2004, there was a 12 to 14 week turnaround time before TMHP would process an appeal. Medicaid and self-pay financial classes were the primary drivers of the increase in the days in accounts receivable.

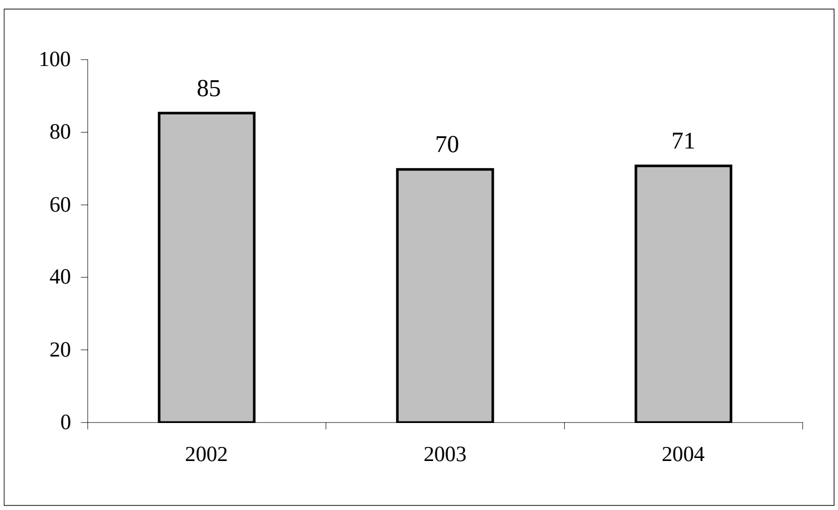
Appendix E - Key Hospital Operating Factors
The University of Texas M. D. Anderson Cancer Center

Annual Operating Margin Ratio



The increase in the annual operating margin ratio from 19% in 2003 to 20.9% in 2004 was a result of the continued growth in patient volumes and the overall increase in the number of billable procedures during 2004.

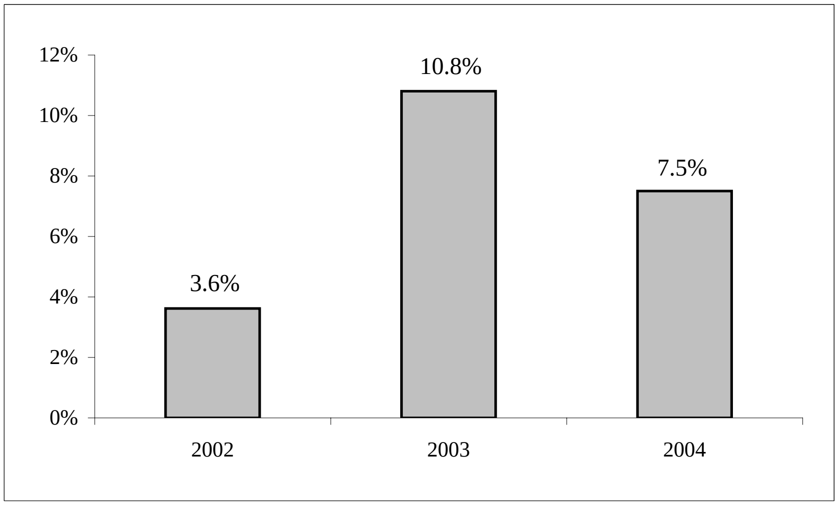
Net Accounts Receivable (in days)



The number of days in net accounts receivable continues to be stable and is expected to remain consistent in future periods.

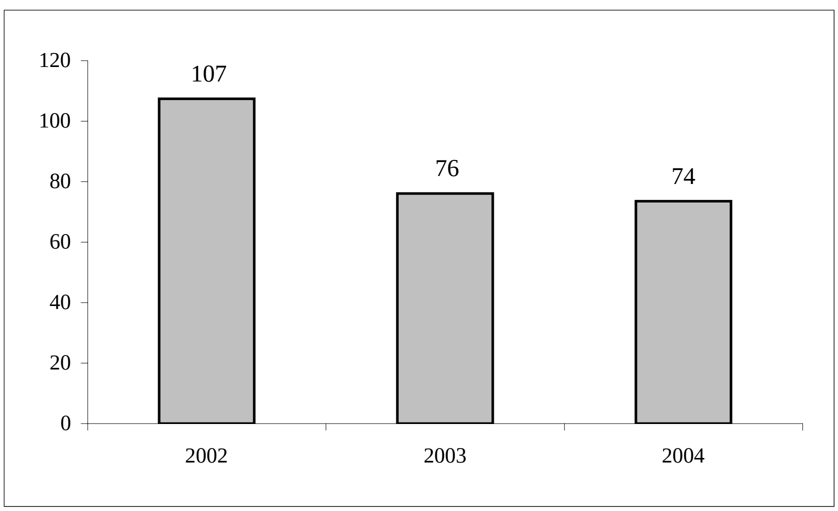
Appendix E - Key MSRDP & NPHC Operating Factors
The University of Texas M. D. Anderson Cancer Center

Annual Operating Margin Ratio



The decrease in the annual operating margin ratio from 10.8% in 2003 to 7.5% in 2004 is attributable to higher personnel costs to accommodate the growth in patient volumes and activities.

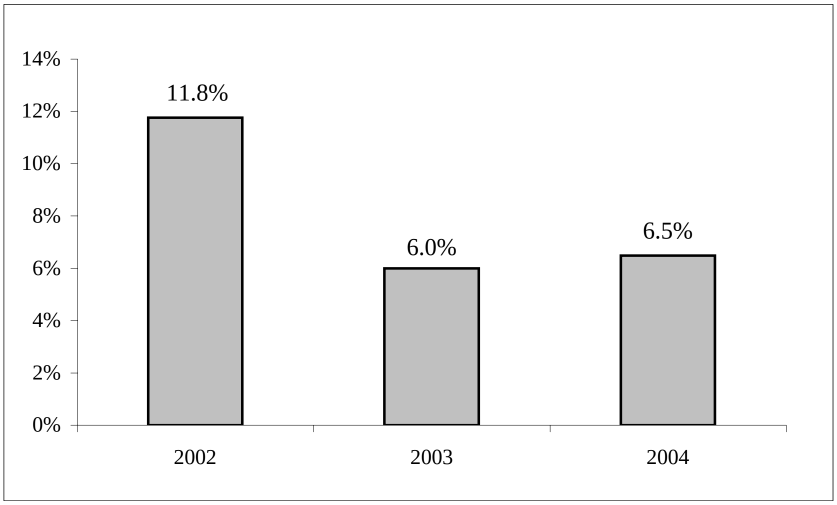
Net Accounts Receivable (in days)



The number of days in net accounts receivable decreased between 2003 and 2004 from 76 days to 74 days. This improvement continues due to improved operations in the Patient Business Services Department with record collections and improved managed care contracts.

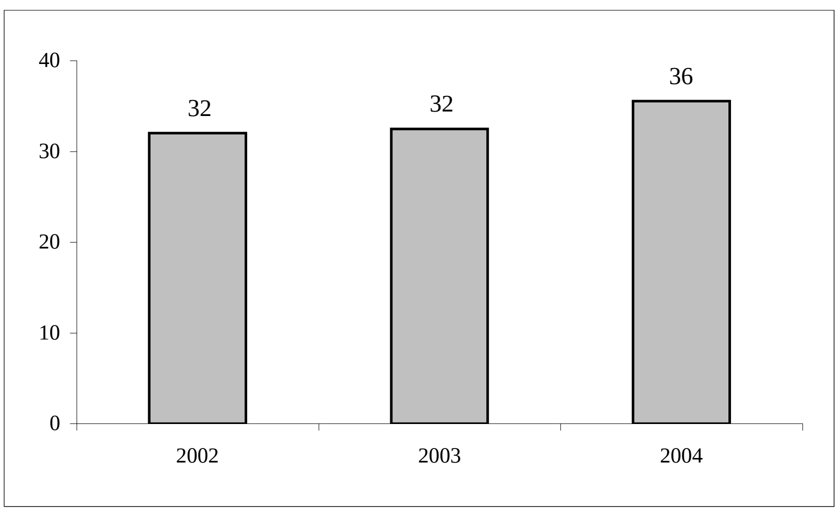
Appendix E - Key Hospital Operating Factors
The University of Texas Health Center at Tyler

Annual Operating Margin Ratio



The annual operating margin ratio improved slightly from 2003. Operating revenues were up 0.3% due to rate increases, which were in effect for the entire year. Expenses were down 0.2% due to a decrease in contract labor usage as a result of new nursing hires and better management of agency temporaries and a decrease in leases and rentals. Leases and rentals decreased due to the purchasing of the assets at lower interest rates to replace leased assets at higher interest rates.

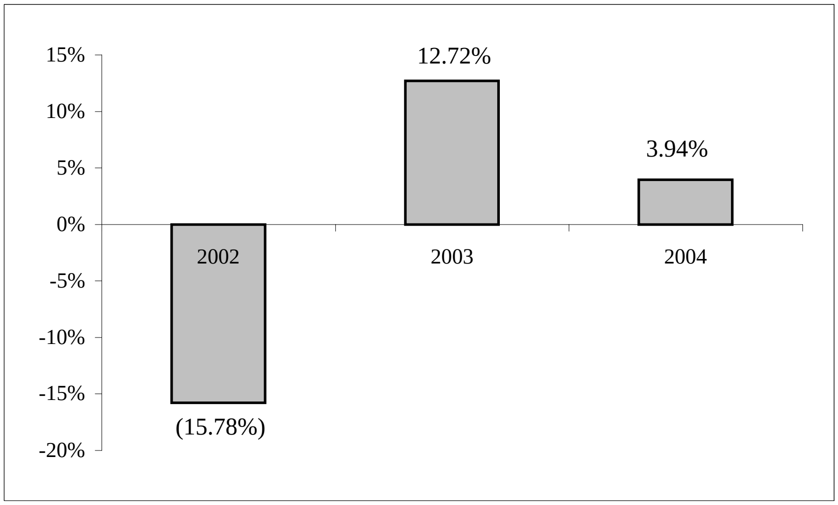
Net Accounts Receivable (in days)



Accounts receivable days increased primarily due to the conversion to a new patient information system in March 2004. Now that the substantial part of the learning curve is complete on the new system, accounts receivable days are expected to decrease to previous levels.

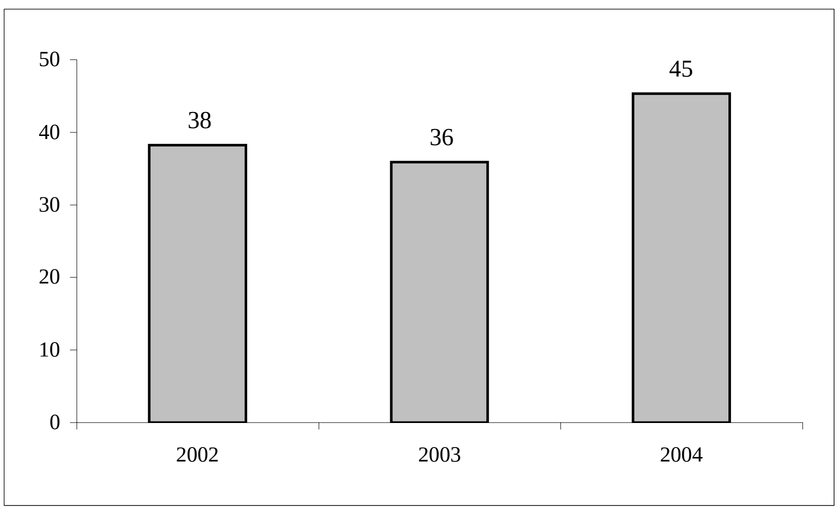
Appendix E - Key MSRDP & NPHC Operating Factors
The University of Texas Health Center at Tyler

Annual Operating Margin Ratio



The annual operating margin ratio decreased from 12.7% in 2003 to 3.9% in 2004. While operating revenues increased 11.5% due to $1.8 million received for professional services provided to the hospital by MSRDP staff, expenses increased 22.7%. Salaries expense increased 12.8% due to market forces, and contract services increased 143% due to the outsourcing of Anesthesiology and Cardiovascular Surgery and consultants for information systems. In addition, the malpractice insurance rebate decreased $584,418 from 2003.

Net Accounts Receivable (in days)



Accounts receivable days increased primarily due to the conversion to a new patient information system in March 2004. Now that the substantial part of the learning curve is complete on the new system, accounts receivable days are expected to decrease to previous levels.