

2005 Analysis of Financial Condition

February 2006



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The University of Texas System

2005 Analysis of Financial Condition

Foreword

The analysis was performed from the Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets. Since 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 the ratios analyzed by the Office of Finance, the Expendable Resources to Total Net Assets Ratio was replaced with the Expendable Resources to Debt 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).
- *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 Debt Ratio* – determines if an institution has the ability to fund outstanding debt with existing net asset balances should an emergency occur.
- *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 UT System Offices of Business, Academic and/or Health Affairs, as appropriate.

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Executive Summary

Institutions Rated Other Than “Satisfactory”

UTHC-Tyler

The institution's financial condition was downgraded from “Watch” for 2004 to “Unsatisfactory” for 2005. The operating expense coverage ratio decreased by 0.4 months to 1.0 month, which was below the 2 month benchmark. The decrease in this ratio was attributable to a decrease in unrestricted net assets and an increase in operating expenses. The operating margin declined by \$4.9 million resulting in a deficit of \$4.7 million. The operating deficit was primarily a result of a reduction in operating revenues and an increase in operating expenses. The expenses increased due to an increase in contracted services and repairs and maintenance expenses. The return on net assets ratio decreased significantly from 8.9% in 2004 to 2.4% in 2005 due to an increase in the amount of debt outstanding. The expendable resources to debt ratio decreased from 1.7x in 2004 to 1.2x in 2005 primarily due to decreases in unrestricted net assets and expendable net assets restricted for capital projects. The increase in debt outstanding also contributed to the decline in this ratio. The debt burden ratio increased slightly from 1.0% in 2004 to 1.1% in 2005 due to an increase in debt service payments. The debt service coverage ratio decreased from 5.4x in 2004 to 1.7x in 2005 as a result of both the operating deficit and the increase in debt service payments.

UTMB Galveston

The institution's financial condition was maintained as “Watch” for 2005. The operating expense coverage ratio remained unchanged at 1.4 months, which is below the 2 month benchmark. The annual operating margin ratio changed slightly from negative 2.0% for 2004 to a negative 1.9% for 2005. Medicaid reimbursement rates decreased and payment increases from Medicare, commercial insurance and other payors were nominal. UTMB Galveston continued to face severe inflationary pressures on nursing and other patient care provider salaries as a result of national shortages of these positions. The return on net assets increased from 4.3% in 2004 to 5.4% in 2005 primarily due to an increase in gifts and sponsored programs for capital acquisitions, an increase in funding related to capital and bond proceeds from UT System Administration and the receipt of State fiscal relief funds (Section 56 funds). The expendable resources to debt ratio decreased from 2.9x in 2004 to 1.8x in 2005 largely due to an increase in the amount of debt outstanding. The debt burden ratio increased slightly from 0.7% in 2004 to 0.8% in 2005 and the debt service coverage ratio decreased from 3.3x in 2004 to 2.5x in 2005 as a result of an increase in debt service.

Institutions Rated “Satisfactory”

UT Arlington	<p>The operating expense coverage ratio increased by 0.4 months to 3.6 months due to a \$16.9 million increase in unrestricted net assets. The annual operating margin decreased \$2.5 million largely due to increases in salaries and wages, expenditures related to research awards, rental and maintenance expenses, expenditures for the Executive MBA and Continuing Education programs, depreciation expense for library books, and the implementation of a new student system. The return on net assets ratio increased from 10.2% in 2004 to 12.8% in 2005 due to a reduction in the amount of debt outstanding. The expendable resources to debt ratio remained unchanged at 0.7x in 2005. The debt burden ratio decreased from 7.6% in 2004 to 4.9% in 2005 due to the early repayment of \$5 million in debt in 2004 resulting in lower debt service payments in 2005, as well as an increase in operating expenses. The debt service coverage ratio increased from 2.3x in 2004 to 3.3x in 2005 due to the decrease in debt service payments. Full-time equivalent student enrollment continued to grow as a result of new and on-going academic programs, additional availability of on-campus housing and students displaced by Hurricane Katrina.</p>
UT Austin	<p>The operating expense coverage ratio increased by 0.1 months to 3.2 months due to an increase in unrestricted net assets of \$38.3 million. The annual operating margin ratio remained unchanged at 4.3% for 2005 due to consistent growth in both revenues and expenses. The return on net assets ratio decreased from 12.2% in 2004 to 11.0% in 2005 primarily due to an increase in the amount of debt outstanding. The expendable resources to debt ratio changed slightly from 1.9x in 2004 to 1.8x in 2005 due to an increase in the amount of debt outstanding. The debt burden ratio decreased from 3.2% in 2004 to 2.9% in 2005 due an increase in operating expenses and interest expense. The debt service coverage ratio increased from 3.9x in 2004 to 4.6x in 2005 largely due to an increase in the normalized investment income used in this calculation. Full-time equivalent student enrollment continued to decrease due to efforts to reduce enrollment.</p>
UT Brownsville	<p>The operating expense coverage ratio remained at 2.6 months due to an increase in both unrestricted net assets and operating expenses. The annual operating margin improved by \$2.1 million primarily due to an increase in State appropriations. The return on net assets ratio decreased from 12.3% in 2004 to 6.9% in 2005 due to a decrease in the amount of debt outstanding for the Business and Education Complex in the previous year. The expendable resources to debt ratio decreased from 1.0x in 2004 to 0.8x in 2005 due to a reduction in expendable net assets restricted for capital projects. The debt burden ratio decreased from 4.6% in 2004 to 4.2% in 2005 as a result of increased operating expenses and interest expense. The debt service coverage ratio increased from 1.7x in 2004 to 2.4x in 2005 due to the improvement in the annual operating margin discussed above. Full-time equivalent student enrollment continued an upward trend with student headcount reaching an all-time high.</p>
UT Dallas	<p>The operating expense coverage ratio increased by 0.2 months to 2.9 months due to an increase in unrestricted net assets. The annual operating margin increased by \$6.1 million largely due the distribution from the University Research Fund (URF), as well as an increase in net investment income. The return on net assets ratio decreased from 12.7% in 2004 to 7.9% in 2005 as a result of an increase in the amount of debt outstanding. The expendable resources to debt ratio decreased from 2.0x in 2004 to 1.4x in 2005 also due to the increase in the amount of debt outstanding. The debt burden ratio decreased from 3.3% in 2004 to 2.7% in 2005 due to increases in both operating expenses and interest expense. The debt service coverage ratio increased from 2.9x in 2004 to 5.2x in 2005 due to the improvement in the annual operating margin. Full-time equivalent student enrollment continued to grow in accordance with UT Dallas’ mission.</p>

Institutions Rated “Satisfactory” (Continued)

UT El Paso	The operating expense coverage ratio decreased by 0.1 months to 1.3 months due to an increase in operating expenses. The annual operating margin decreased by \$6.2 million due to the increase in operating expenses. The return on net assets ratio decreased from 13.0% in 2004 to 11.5% in 2005 primarily due to a decrease in the amount of debt outstanding in the previous year. The expendable resources to debt ratio remained unchanged at 0.8x largely due to increases in both expendable net assets and the amount of debt outstanding. The debt burden ratio decreased from 5.3% in 2004 to 4.9% in 2005 due to the increase in operating expenses. The debt service coverage ratio also decreased from 2.1x in 2004 to 1.8x in 2005 due to the reduction in the annual operating margin discussed above. Full-time equivalent student enrollment continued to trend upward.
UT Pan American	The operating expense coverage ratio decreased by 0.8 months to 3.3 months due to a reduction in unrestricted net assets and an increase in operating expenses. The annual operating margin decreased by \$9.5 million primarily due to the increase in operating expenses outpacing the growth in operating revenues. The return on net assets ratio decreased from 7.8% in 2004 to 3.2% in 2005 largely due to decreases in both unrestricted net assets and expendable net assets restricted for capital projects. The expendable resources to debt ratio decreased from 1.3x in 2004 to 1.1x in 2005 due to decreases in unrestricted net assets and expendable net assets restricted for capital projects as previously mentioned. The debt burden ratio decreased from 4.3% in 2004 to 4.0% in 2005 due to the increase in operating expenses and interest expense. The debt service coverage ratio decreased from 2.3x in 2004 to 1.4x in 2005 due to the reduction in the annual operating margin discussed above. The growth in full-time equivalent student enrollment increased slightly in Fall 2005 partially as a result of a required minimum ACT score instituted by UT Pan American.
UT Permian Basin	The institution’s financial condition was upgraded from “Watch” for 2004 to “Satisfactory” for 2005. Both the operating expense coverage ratio and annual operating margin ratio improved in 2005. The operating expense coverage ratio increased by 0.3 months to 1.5 months in 2005. This ratio improved due to an increase in unrestricted net assets primarily driven by increased enrollment and tuition rates. The operating deficit of \$1.1 million was a \$2.3 million improvement from the 2004 operating deficit. This improvement was attributable to increases in enrollment and tuition rates, State appropriations, and gifts for operations, as well as the receipt of a distribution from the University Research Fund. The return on net assets ratio increased from 4.4% in 2004 to 9.1% in 2005 due to an increase in the amount of debt outstanding in the previous year. The expendable resources to debt ratio decreased from 0.5x in 2004 to 0.3x in 2005 as a result of a decrease in expendable net assets restricted for capital projects. The debt burden ratio increased from 6.2% in 2004 to 7.5% in 2005 due to an increase in debt service payments. The debt service coverage ratio increased from (0.1x) in 2004 to 1.3x in 2005 as a result of the improvement in the annual operating margin. Full-time equivalent student enrollment continued to grow due to planned recruiting and retention efforts.

Institutions Rated “Satisfactory” (Continued)

UT San Antonio	<p>The operating expense coverage ratio increased by 0.6 months to 3.6 months due to an increase in unrestricted net assets primarily attributable to continued enrollment growth and higher tuition rates, as well as revenue generated from new student housing and meal plans. The annual operating margin increased \$2.1 million due to increase in revenues mentioned above. The return on net assets ratio increased from 9.8% in 2004 to 16.6% in 2005 primarily due to an increase in the amount of bond proceeds received from UT System Administration. The expendable resources to debt ratio decreased slightly from 0.7x in 2004 to 0.6x in 2005 due to an increase in the amount of debt outstanding. The debt burden ratio decreased from 6.2% in 2004 to 5.7% in 2005 due to an increase in operating expenses. The debt service coverage ratio increased from 2.2x in 2004 to 2.9x in 2005 due to the improvement in the annual operating margin as discussed 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 UT Austin.</p>
UT Tyler	<p>The operating expense coverage ratio decreased by 0.1 months to 2.7 months due to an increase in both operating expenses and interest expense. The annual operating deficit increased by \$2.3 million for a total deficit of \$2.5 million for 2005. The increase in the deficit was attributable to the increase in expenses mentioned above. The return on net assets ratio decreased from 12.9% in 2004 to 6.9% in 2005 primarily due to a reduction in the amount of bond proceeds received from UT System Administration. The expendable resources to debt ratio decreased from 1.4x in 2004 to 0.6x in 2005 due to a decrease in expendable net assets restricted for capital projects. The debt burden ratio increased from 4.0% in 2004 to 4.4% in 2005 as a result of an increase in debt service payments. The debt service coverage ratio decreased from 2.1x in 2004 to 1.6x in 2005 due to the increase in the operating deficit and the increase in debt service payments. Full-time equivalent student enrollment continued to trend upward as a result of recruitment and retention efforts.</p>
Southwestern	<p>The operating expense coverage ratio decreased by 0.8 months to 3.4 months due to increased operating expenses and interest expense primarily resulting from the acquisition of Zale Lipshy University Hospital and St. Paul University Hospital. The annual operating margin decreased \$2.5 million primarily due to the increase in operating expenses discussed above. The return on net assets ratio changed slightly from 10.0% in 2004 to 9.9% in 2005. The expendable resources to debt ratio decreased from 2.1x in 2004 to 1.7x in 2005 due to an increase in the amount of debt outstanding. The debt burden ratio remained unchanged at 2.7%. The debt service coverage ratio decreased from 3.7x in 2004 to 3.5x in 2005 due to the decline in the annual operating margin discussed previously, as well as an increase in debt service payments.</p>
UTHSC-Houston	<p>The institution's financial condition was upgraded from “Watch” for 2004 to “Satisfactory” for 2005. The operating expense coverage ratio increased by 0.3 months to 2.7 months due to an increase in unrestricted net assets primarily attributable to additional revenue generated from the UT Professional Building and Garage purchased in 2005, the receipt of proceeds from the United States Federal Emergency Management Agency (FEMA) and the receipt of State fiscal relief funds. The annual operating margin decreased \$14.9 million primarily due to an increase in operating expenses and interest expense. The return on net assets ratio increased from 12.2% in 2004 to 14.0% in 2005 largely due to an increase in gifts for operations and an increase in additions to permanent endowments. The expendable resources to debt ratio decreased from 2.5x in 2004 to 1.6x in 2005 due to a decrease in expendable net assets restricted for capital projects and an increase in the amount of debt outstanding. The debt burden ratio increased slightly from 2.1% in 2004 to 2.2% in 2005 due to an increase in debt service payments. The debt service coverage ratio decreased from 4.1x in 2004 to 3.3x in 2005 due to the decrease in the annual operating margin mentioned above.</p>

Institutions Rated “Satisfactory” (Continued)

**UTHSC-
San Antonio**

The operating expense coverage ratio decreased by 0.1 months to 2.7 months due to an increase in operating expenses, including depreciation and interest expense. The annual operating margin decreased \$6.2 million primarily due growth in expenses outpacing the growth in revenues. The return on net assets ratio decreased from 10.1% in 2004 to 9.4% in 2005 due to an increase in the amount of debt outstanding. The expendable resources to debt ratio remained stable at 2.6x in 2005. The debt burden ratio decreased from 2.4% in 2004 to 2.2% in 2005 as a result of the increase in expenses as discussed above. The debt service coverage ratio increased slightly from 2.5x in 2004 to 2.6x in 2005.

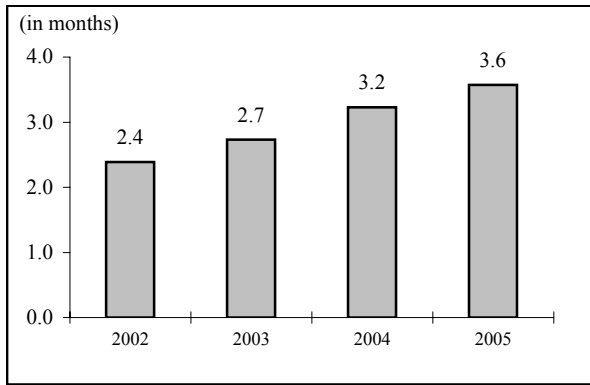
M. D. Anderson

The operating expense coverage ratio decreased by 0.4 months to 2.6 months due to a reduction in unrestricted net assets and an increase in operating expenses to support increased patient volumes. The annual operating margin decreased \$5.9 million due to expense growth outpacing the growth in revenues. The return on net assets ratio increased from 9.0% in 2004 to 10.0% in 2005 due to a smaller increase in the amount of debt outstanding in 2005 as compared to the increase in 2004. The expendable resources to debt ratio decreased slightly from 1.2x in 2004 to 1.1x in 2005 due to the decrease in unrestricted net assets and increase in the debt outstanding. The debt burden ratio increased from 2.4% in 2004 to 2.8% in 2005, while the debt service coverage ratio decreased from 5.1x in 2004 to 4.6x in 2005. The changes in both debt ratios were due to an increase in debt service payments. In addition, the decline in the annual operating margin contributed to the decrease in the debt service coverage ratio.

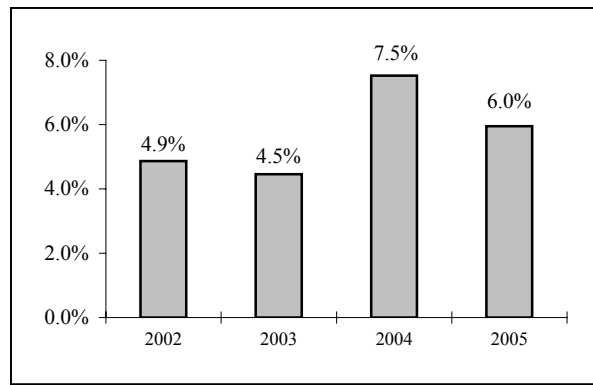
**The University of Texas at Arlington
2005 Summary of Financial Condition**

Financial Condition: **Satisfactory**

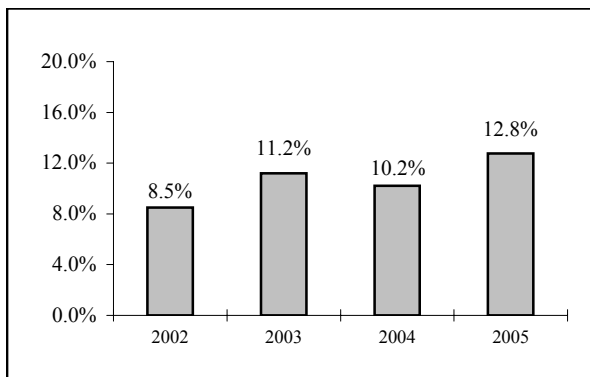
Operating Expense Coverage Ratio



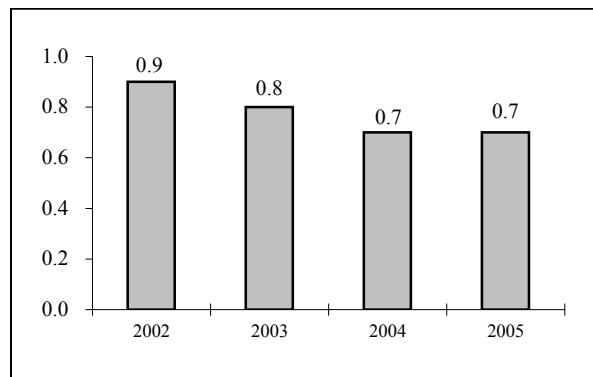
Annual Operating Margin Ratio



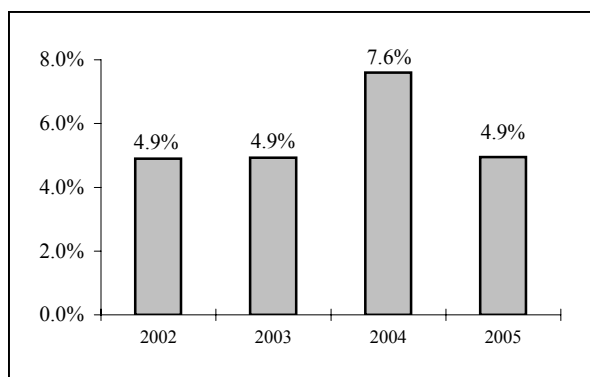
Return on Net Assets Ratio



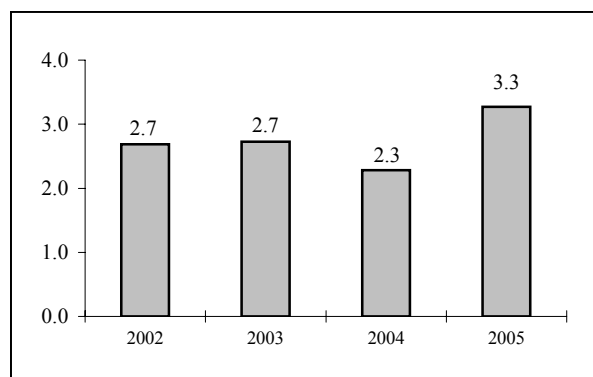
Expendable Resources to Debt Ratio



Debt Burden Ratio

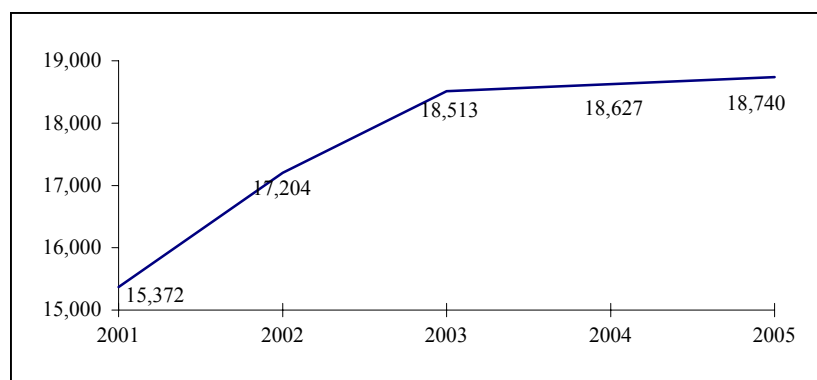


Debt Service Coverage Ratio



The University of Texas at Arlington 2005 Summary of Financial Condition

Full-time Equivalent Student Enrollment - Fall



Operating Expense Coverage Ratio - UT Arlington's operating expense coverage ratio increased from 3.2 months in 2004 to 3.6 months in 2005 due to a \$16.9 million increase in total unrestricted net assets. Total unrestricted net assets increased due to the following: net tuition and fees increased \$7.6 million due to enrollment and rate increases; a distribution from the University Research Fund of \$3.5 million, which was restored in 2005; net auxiliary enterprises increased \$3.2 million due to revenue generated from new apartments and residence halls; other operating revenues increased \$2.0 million as a result of increases in credit card fees, billing and collection fees and rental income; and sales and services of educational activities increased \$1.2 million due to an increase in the Executive MBA (EMBA) program revenue.

Annual Operating Margin Ratio - UT Arlington's annual operating margin ratio decreased from 7.5% for 2004 to 6.0% for 2005 primarily due to the increase in operating expenses outpacing the increase in operating revenues. Total operating expenses increased \$32.1 while total operating revenues increased \$26.2 million. Operating expenses increased primarily due to the following: an increase in salaries and wages resulting from the hiring of new faculty to accommodate enrollment increases; an increase in awards for research as well as increased expenditures for equipment; an increase in rental expenses and maintenance on the new Office of Information Technology building in Fort Worth; the implementation of a new student system; increased expenditures for the EMBA and Continuing Education programs; and an increase in the depreciation of library books which were previously considered nondepreciable.

Return on Net Assets Ratio - UT Arlington's return on net assets ratio increased to 12.8% in 2005 from 10.2% in 2004 primarily due to a reduction in the amount of debt outstanding as a result of the early repayment of \$5 million in debt in 2004 for the Clay Gould Field improvements.

Expendable Resources to Debt Ratio - UT Arlington's expendable resources to debt ratio remained unchanged at 0.7x in 2005. The reduction in the amount of debt outstanding was offset by a decrease in expendable resources for capital projects due to the completion of the University Village West Apartments and \$26.1 million expended in 2005 on the Chemistry and Physics building.

Debt Burden Ratio - UT Arlington's debt burden ratio decreased significantly from 7.6% in 2004 to 4.9% in 2005 as a result of the early repayment of \$5 million in debt in 2004 and the increase in operating expenses discussed above.

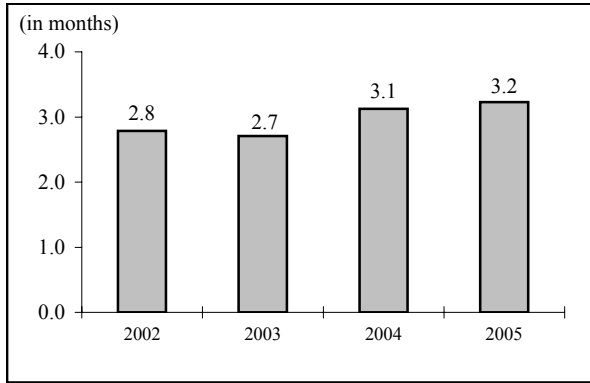
Debt Service Coverage Ratio - UT Arlington's debt service coverage ratio of 3.3x in 2005 was higher than the 2004 ratio of 2.3x due to the decrease in debt service payments resulting from the early repayment of debt as noted above.

Full-Time Equivalent (FTE) Student Enrollment - UT Arlington's FTE student enrollment continued to grow as a result of new and on-going academic programs, additional availability of on-campus housing and students displaced by the Hurricane Katrina disaster.

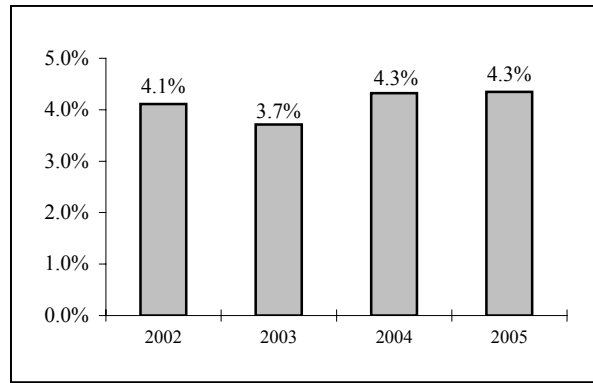
**The University of Texas at Austin
2005 Summary of Financial Condition**

Financial Condition: **Satisfactory**

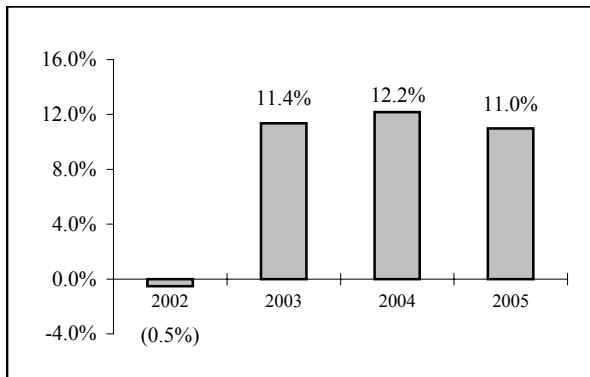
Operating Expense Coverage Ratio



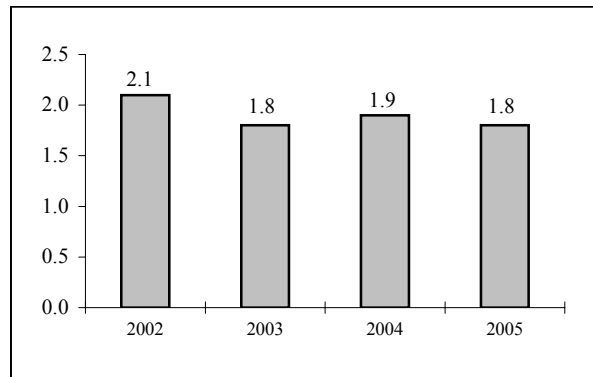
Annual Operating Margin Ratio



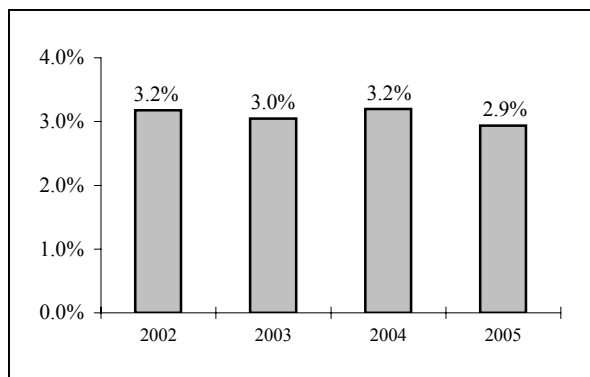
Return on Net Assets Ratio



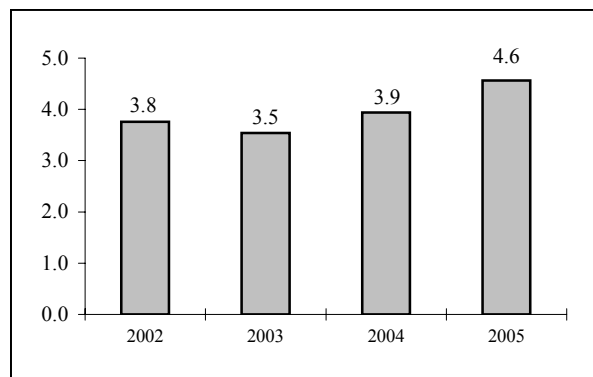
Expendable Resources to Debt Ratio



Debt Burden Ratio

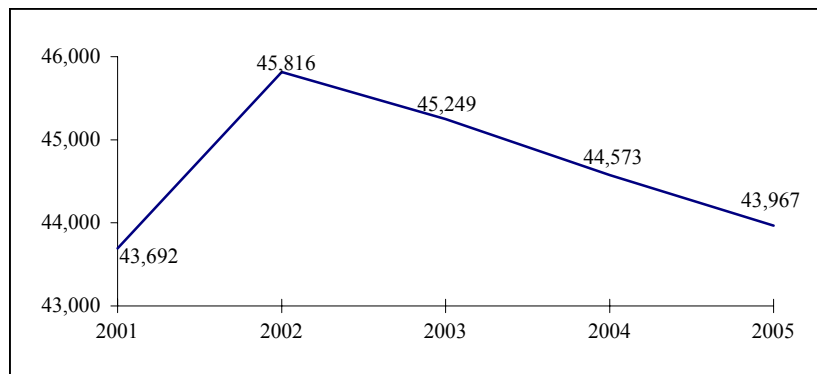


Debt Service Coverage Ratio



The University of Texas at Austin 2005 Summary of Financial Condition

Full-time Equivalent Student Enrollment - Fall



Operating Expense Coverage Ratio - UT Austin's operating expense coverage ratio increased slightly from 3.1 months in 2004 to 3.2 months in 2005 due to an increase in unrestricted net assets of \$38.3 million. The increase in unrestricted net assets was largely due to the following: an increase in net tuition and fees of \$20.9 million; and an increase in sales and services of educational activities of \$19.3 million due to an increase from the Texas Education Agency to fund expenses related to growth and expansion of the University Charter School, an increase in intellectual property income and an increase in income for the Houston Executive MBA program, Texas Evening MBA program and the Texas Executive MBA program.

Annual Operating Margin Ratio - UT Austin's annual operating margin ratio remained unchanged at 4.3% for 2005. The stability of this ratio is attributable to consistent growth in both revenues and expenses.

Return on Net Assets Ratio - UT Austin's return on net assets ratio decreased from 12.2% in 2004 to 11.0% in 2005 primarily due to an increase in the amount of debt outstanding. Outstanding debt increased in 2005 primarily due to bonds issued for the Jack Blanton Museum and the renovation of the Benedict, Mezes and Batts buildings.

Expendable Resources to Debt Ratio - UT Austin's expendable resources to debt ratio of 1.8x in 2005 was slightly lower than the 2004 ratio of 1.9x. This slight decrease is due to the increase in debt outstanding discussed above.

Debt Burden Ratio - UT Austin's debt burden ratio decreased from 3.2% in 2004 to 2.9% in 2005 due to a relatively small decrease in debt service of \$636,000 compared to an increase in operating expenses and interest expense of \$99.0 million.

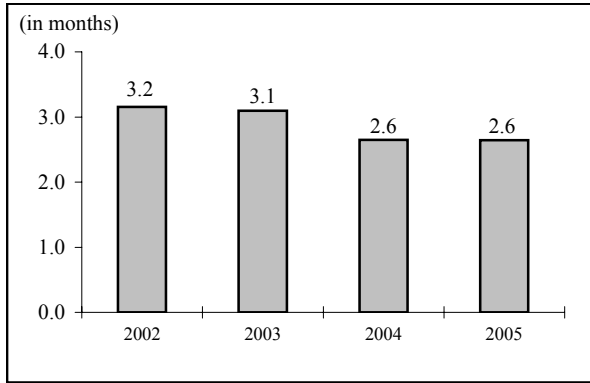
Debt Service Coverage Ratio - UT Austin's debt service coverage ratio increased from 3.9x in 2004 to 4.6x in 2005 largely due to an increase in normalized investment income used in this calculation. Normalized investment income increased due to a large gift from the Jackson Endowment Fund received in 2004.

Full-Time Equivalent (FTE) Student Enrollment - UT Austin's FTE student enrollment declined 1% from 44,573 in Fall 2004 to 43,967 in Fall 2005 consistent with the 1% decrease in enrollment from both Fall 2002 to Fall 2003 and from Fall 2003 to Fall 2004. Efforts have been made to reduce enrollment in order to maintain the quality of education provided.

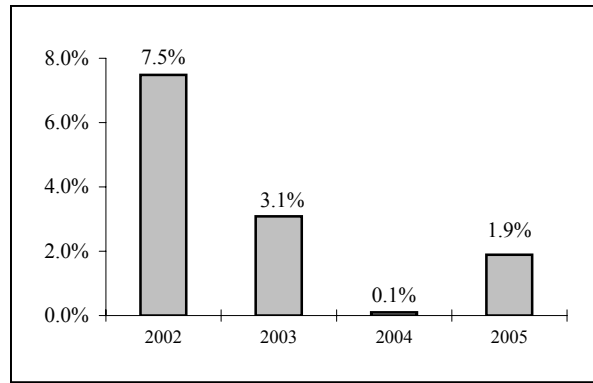
**The University of Texas at Brownsville
2005 Summary of Financial Condition**

Financial Condition: **Satisfactory**

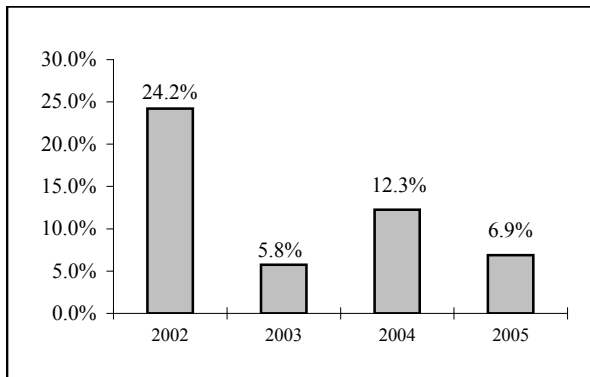
Operating Expense Coverage Ratio



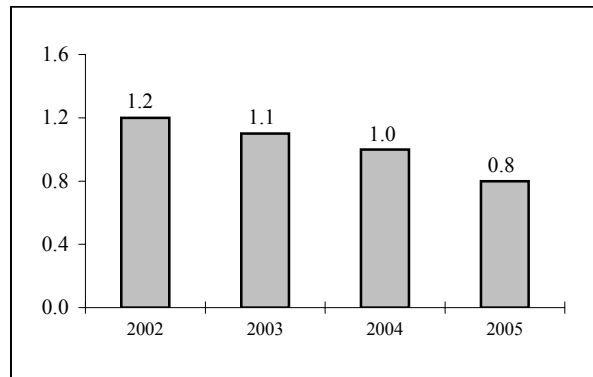
Annual Operating Margin Ratio



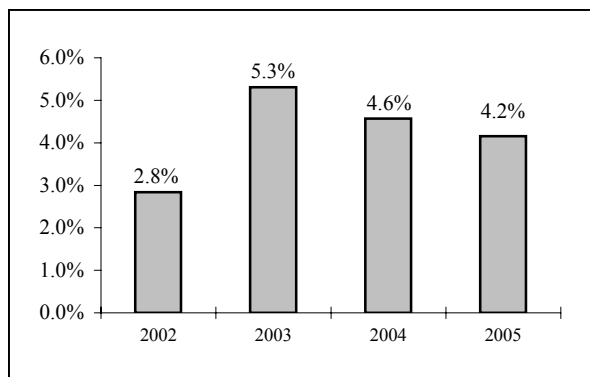
Return on Net Assets Ratio



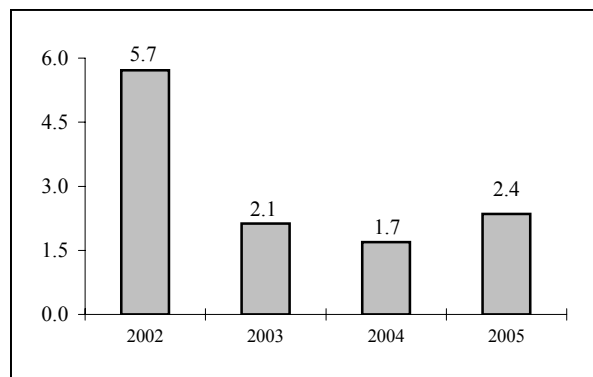
Expendable Resources to Debt Ratio



Debt Burden Ratio

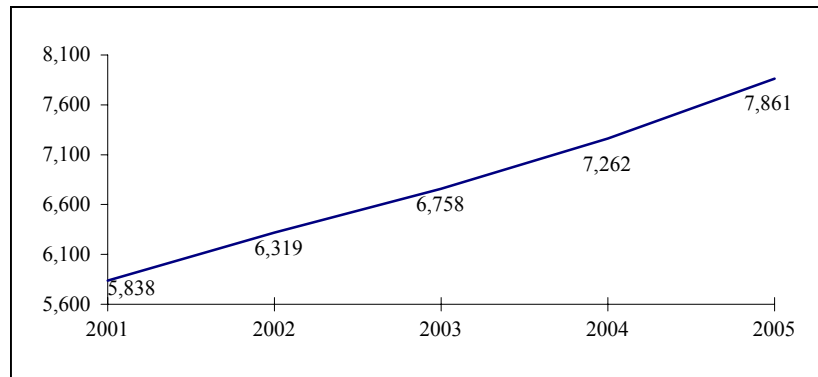


Debt Service Coverage Ratio



The University of Texas at Brownsville 2005 Summary of Financial Condition

Full-time Equivalent Student Enrollment - Fall



Operating Expense Coverage Ratio - UT Brownsville's operating expense coverage ratio remained stable at 2.6 months in 2005. Although UT Brownsville's unrestricted net assets increased by \$2.5 million, total operating expenses and interest expense increased as well. Operating expenses increased primarily due to: increased salaries and wages resulting from the hiring of new faculty to accommodate enrollment increases; increased scholarship expenses due to the increase in enrollment and students eligible for grants; and additional expenses related to the new Business and Education Complex (BEC), including interest expense, which was placed into service in 2005. Additionally, operating expenses increased as a result of several new grants received in 2005.

Annual Operating Margin Ratio - UT Brownsville's annual operating margin ratio improved from 0.1% for 2004 to 1.9% for 2005 primarily due to an increase in State appropriations of \$3 million.

Return on Net Assets Ratio - UT Brownsville's return on net assets ratio decreased from 12.3% in 2004 to 6.9% in 2005 due to a \$6.1 million decrease in the amount of debt outstanding for the BEC in the previous year.

Expendable Resources to Debt Ratio - UT Brownsville's expendable resources to debt ratio decreased from 1.0x in 2004 to 0.8x in 2005 due to a reduction in expendable net assets restricted for capital projects. The amount restricted for capital projects decreased as a result of the completion of the BEC.

Debt Burden Ratio - UT Brownsville's debt burden ratio decreased from 4.6% in 2004 to 4.2% in 2005 due to an increase in both operating expenses and interest expense as previously discussed.

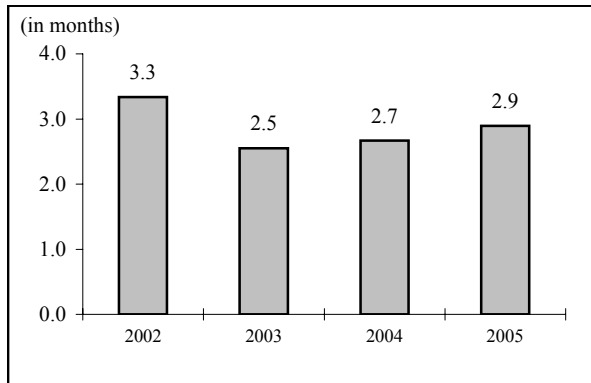
Debt Service Coverage Ratio - UT Brownsville's debt service coverage ratio increased from 1.7x in 2004 to 2.4x in 2005 as a result of the increase in the annual operating margin as mentioned above.

Full-Time Equivalent (FTE) Student Enrollment - UT Brownsville's FTE student enrollment increased from 7,262 for Fall 2004 to 7,861 for Fall 2005. The Fall 2005 student headcount was the highest in UT Brownsville's history. This trend is predicted to continue at the same pace, and total student population is expected to be 20,000 by the year 2010.

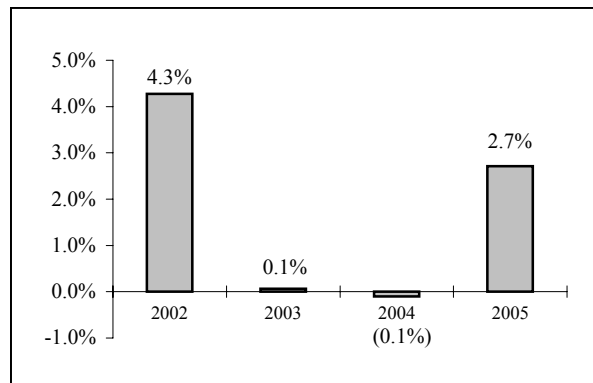
The University of Texas at Dallas
2005 Summary of Financial Condition

Financial Condition: **Satisfactory**

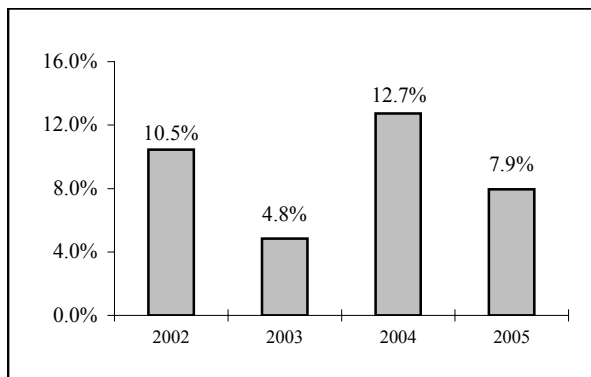
Operating Expense Coverage Ratio



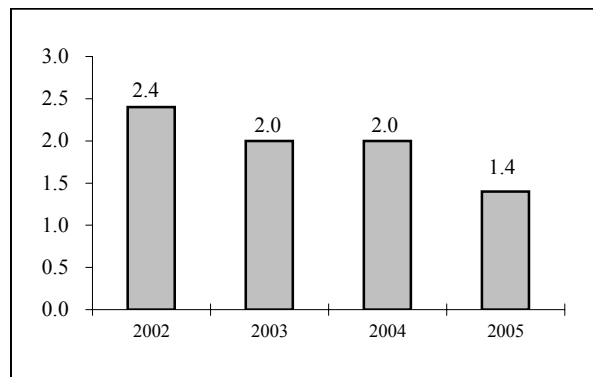
Annual Operating Margin Ratio



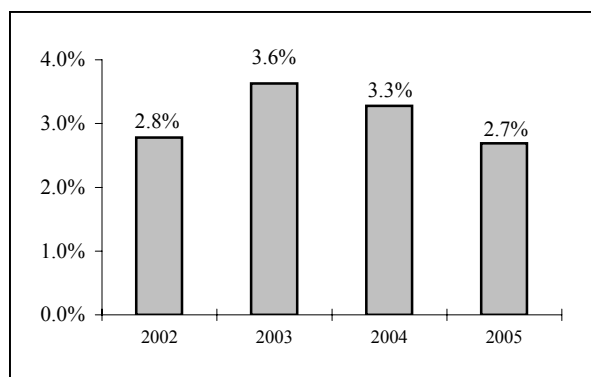
Return on Net Assets Ratio



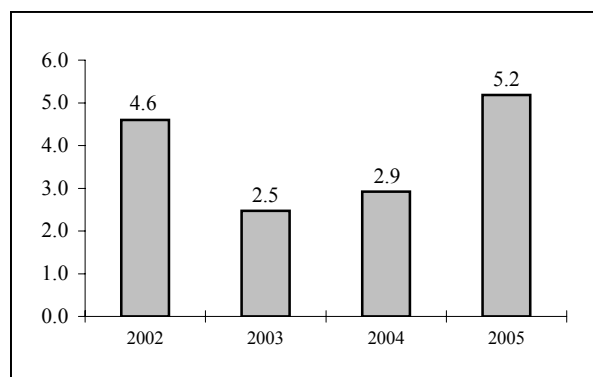
Expendable Resources to Debt Ratio



Debt Burden Ratio

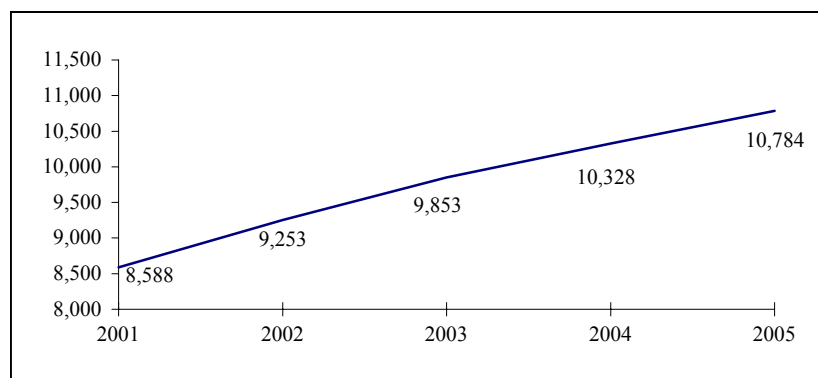


Debt Service Coverage Ratio



The University of Texas at Dallas 2005 Summary of Financial Condition

Full-time Equivalent Student Enrollment - Fall



Operating Expense Coverage Ratio - UT Dallas' operating expense coverage ratio increased slightly from 2.7 months in 2004 to 2.9 months in 2005 due to a \$9.1 million increase in unrestricted net assets. Total unrestricted net assets increased as a result of \$3.5 million from the settlement of a suit and \$700,000 from insurance proceeds for repair expenses which were incurred in the previous fiscal year. In addition, the unrestricted net asset balance increased due to a \$2.5 million reclassification of unrestricted Excellence in Education funding which was previously reported in restricted net assets.

Annual Operating Margin Ratio - UT Dallas' annual operating margin ratio improved significantly from (0.1%) for 2004 to 2.7% for 2005. The improvement in the annual operating margin was due to the distribution from the University Research Fund (URF) as well as a \$1.2 million increase in net investment income.

Return on Net Assets Ratio - UT Dallas' return on net assets ratio decreased from 12.7% in 2004 to 7.9% in 2005 as a result of an increase of \$50.2 million in the amount of debt outstanding related to the Natural Science and Engineering Research Building (NSERB).

Expendable Resources to Debt Ratio - UT Dallas' expendable resources to debt ratio of 1.4x in 2005 was lower than the ratio in 2004 of 2.0x. The decline in this ratio can also be attributed to the increase in the amount of debt outstanding.

Debt Burden Ratio - UT Dallas' debt burden ratio decreased from 3.3% in 2004 to 2.7% in 2005 due to an increase in both total operating expenses and interest expense related to NSERB. Operating expenses increased \$21.8 million primarily due to: an increase in salaries and wages resulting from the hiring of new teaching faculty to accommodate enrollment increases and research faculty and associated supporting expenses for the Texas Enterprise Fund (TEF) grant; an increase in research expenses as a result of the TEF; and an increase in the depreciation expense of library books which were previously considered nondepreciable.

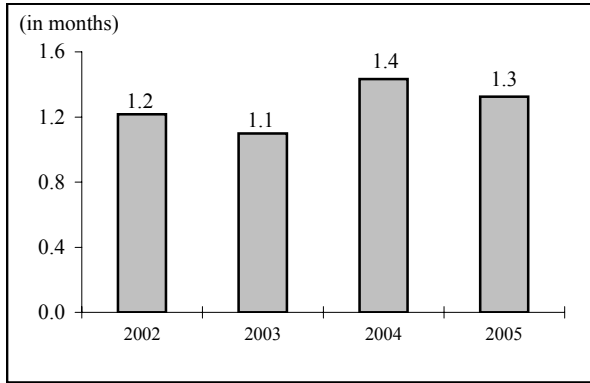
Debt Service Coverage Ratio - UT Dallas' debt service coverage ratio increased from 2.9x in 2004 to 5.2x in 2005 as a result of the improvement in the annual operating margin as discussed above.

Full-Time Equivalent (FTE) Student Enrollment - In accordance with its mission to grow the student body while maintaining a high quality of education, UT Dallas' FTE student enrollment increased by 4.4% to 10,784. The majority of the increase occurred in the schools of Arts and Humanities, School of Management and Social Sciences.

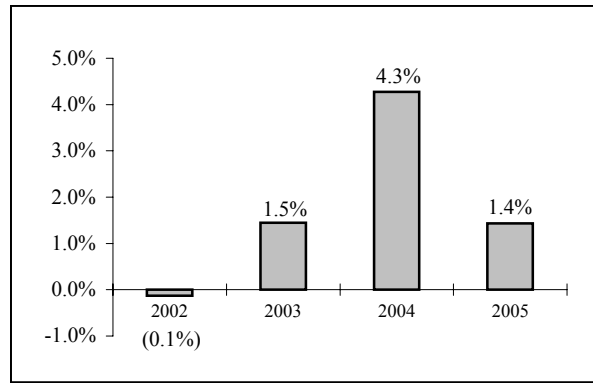
**The University of Texas at El Paso
2005 Summary of Financial Condition**

Financial Condition: **Satisfactory**

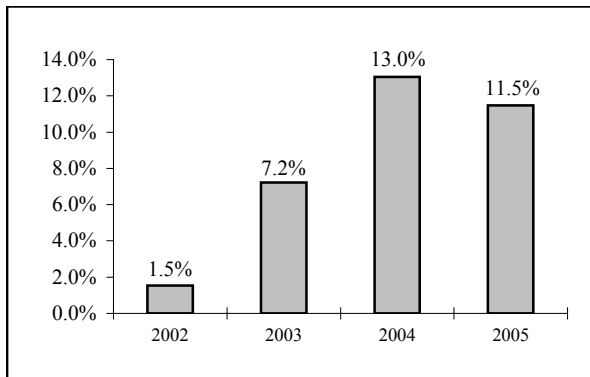
Operating Expense Coverage Ratio



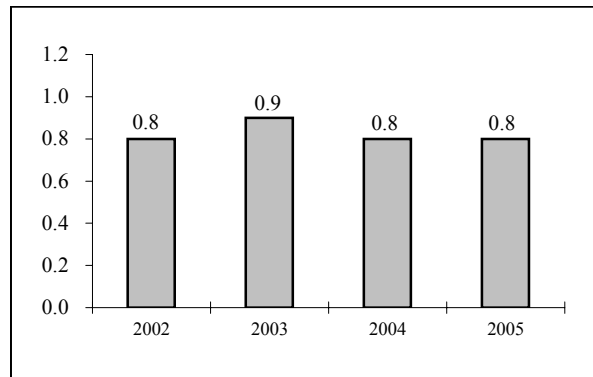
Annual Operating Margin Ratio



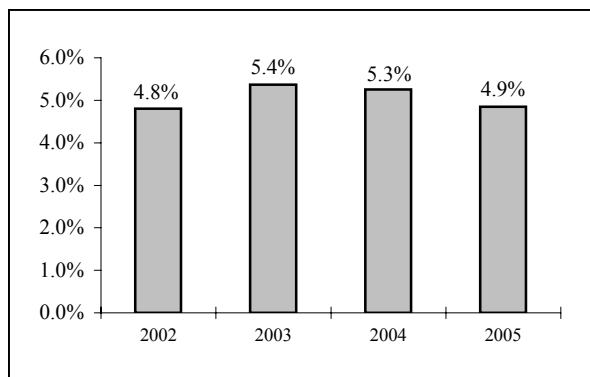
Return on Net Assets Ratio



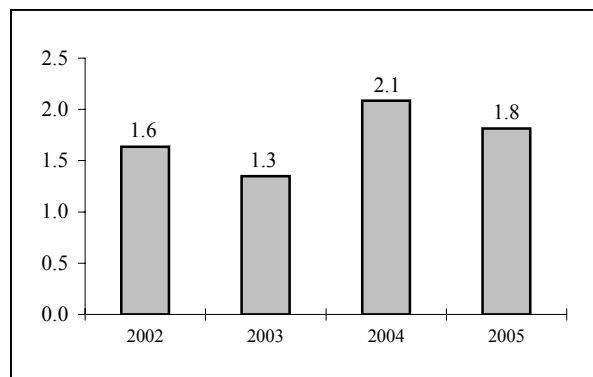
Expendable Resources to Debt Ratio



Debt Burden Ratio

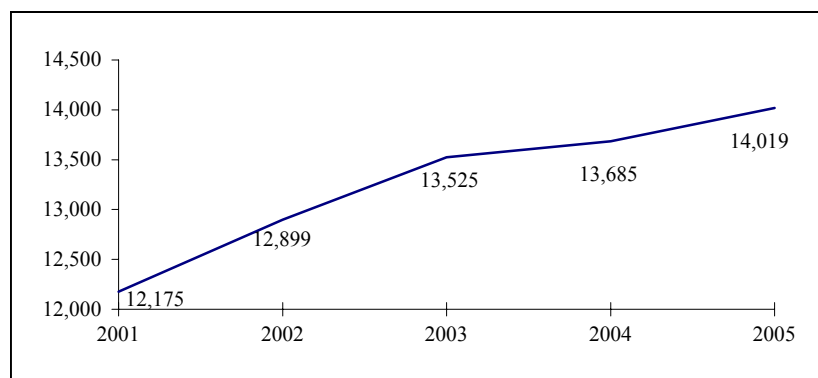


Debt Service Coverage Ratio



The University of Texas at El Paso 2005 Summary of Financial Condition

Full-time Equivalent Student Enrollment - Fall



Operating Expense Coverage Ratio - UT El Paso's operating expense coverage ratio decreased slightly from 1.4 months in 2004 to 1.3 months in 2005 due to an increase of \$23.1 million in total operating expenses. Expenses increased primarily as a result of increases in salaries and wages and related payroll benefits resulting from the hiring of new faculty to accommodate enrollment increases along with merit increases awarded, and also due to a significant increase in depreciation from the prior year. The increase in depreciation was related to library books, which were considered nondepreciable in previous years. Additionally, new start-up faculty equipment purchases and campus-wide computer replacement costs contributed to higher expenses.

Annual Operating Margin Ratio - UT El Paso's annual operating margin ratio decreased from 4.3% for 2004 to 1.4% for 2005 due to the increase in operating expenses of \$23.1 million, as discussed above, outpacing the increase in operating revenues of \$15.3 million.

Return on Net Assets Ratio - UT El Paso's return on net assets ratio of 11.5% in 2005 was lower than the ratio in 2004 of 13.0% due to a \$4.7 million decrease in the amount of debt outstanding primarily related to the Larry K. Durham project in the previous year.

Expendable Resources to Debt Ratio - UT El Paso's expendable resources to debt ratio remained stable at 0.8x in 2005 due to increases in expendable net assets and the amount of debt outstanding.

Debt Burden Ratio - UT El Paso's debt burden ratio of 4.9% in 2005 was lower than the ratio in 2004 of 5.3%. The decrease was attributable to the increase in operating expenses as previously discussed.

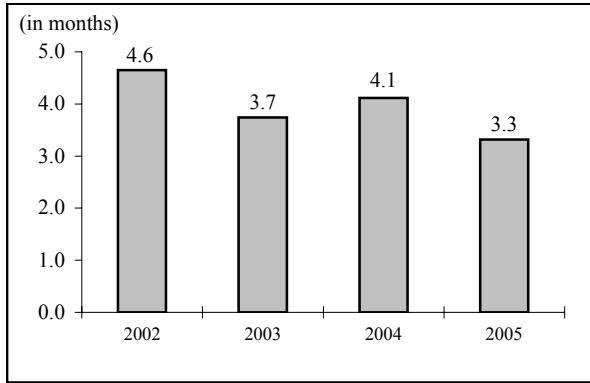
Debt Service Coverage Ratio - UT El Paso's debt service coverage ratio decreased from 2.1x in 2004 to 1.8x in 2005 as a result of the reduction in the annual operating margin.

Full-Time Equivalent (FTE) Student Enrollment - UT El Paso's FTE student enrollment increased 2.4% between Fall 2004 and Fall 2005. UT El Paso's enrollment trends are consistent with trends experienced in prior years and by other public universities. UT El Paso continues to evaluate and enhance programs that were established to ensure that enrollment increases steadily and the needs of the community are met.

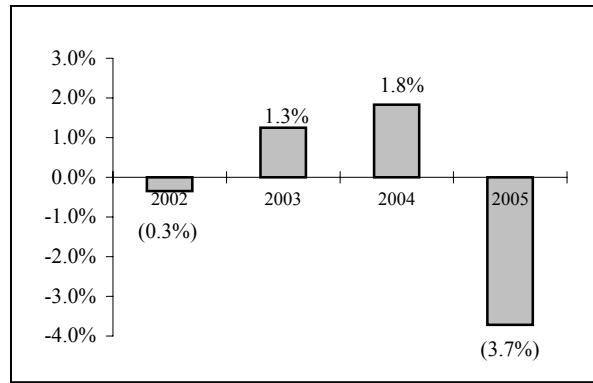
The University of Texas - Pan American
2005 Summary of Financial Condition

Financial Condition: **Satisfactory**

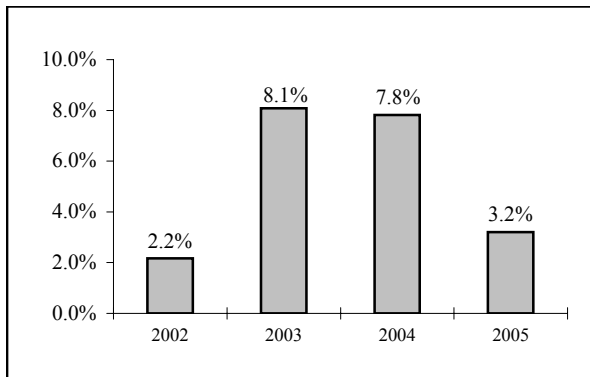
Operating Expense Coverage Ratio



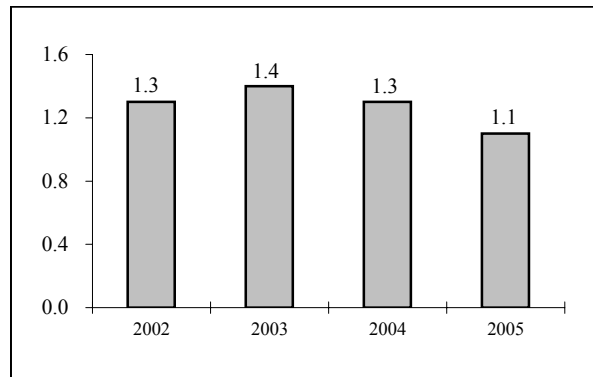
Annual Operating Margin Ratio



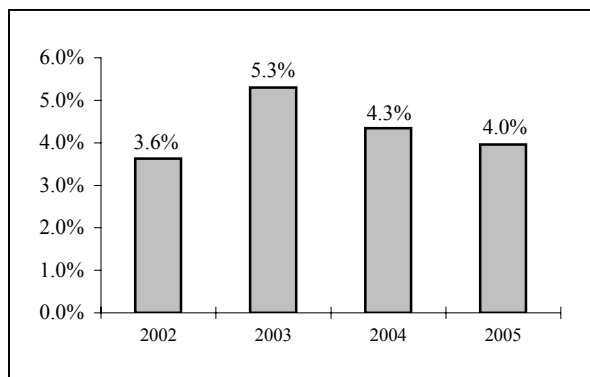
Return on Net Assets Ratio



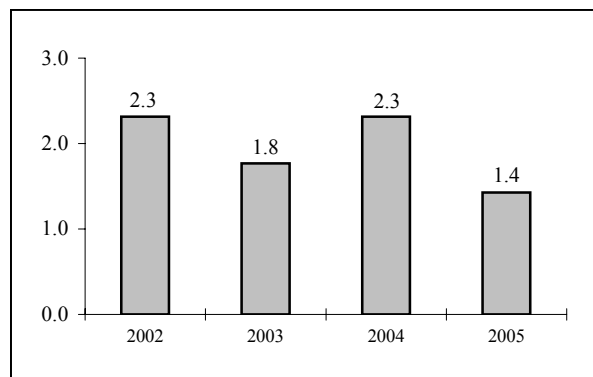
Expendable Resources to Debt Ratio



Debt Burden Ratio

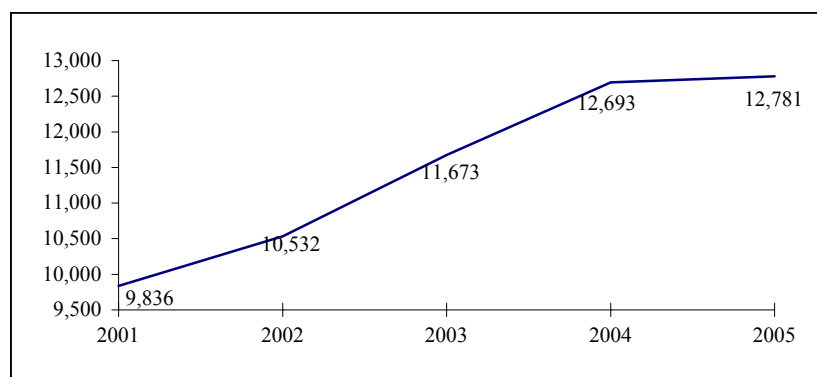


Debt Service Coverage Ratio



The University of Texas - Pan American 2005 Summary of Financial Condition

Full-time Equivalent Student Enrollment - Fall



Operating Expense Coverage Ratio - UT Pan American's operating expense coverage ratio decreased from 4.1 months in 2004 to 3.3 months in 2005 due to a reduction in unrestricted net assets of \$5.9 million and an increase in operating expenses of \$17.1 million. Operating expenses increased due to the following: the hiring of additional faculty and staff to accommodate increased student enrollment which resulted in higher salaries and wages expenses; the receipt of over twenty new research awards which contributed to an increase in research expenses; an increase in Texas Grants and in the number of students qualifying for grants which resulted in an increase in scholarship expenses; an increase in the depreciation expense of library books which were previously considered nondepreciable; and an increase in purchases for information technology related to the Oracle project implemented in 2004. The overall increase in operating expenses contributed to the reduction in unrestricted net assets.

Annual Operating Margin Ratio - UT Pan American's annual operating margin ratio declined significantly from 1.8% for 2004 to (3.7%) for 2005 due to the increase in operating expenses of \$17.1 million outpacing the increase in operating revenues of \$8 million. Total operating revenues increased primarily due an increase in tuition and fee revenue resulting from increased enrollment and rates, as well as an increase in funds received for the Texas Grants Program. However, these increases were offset by the increase in total operating expenses as discussed above in the operating expense coverage ratio.

Return on Net Assets Ratio - UT Pan American's return on net assets ratio decreased from 7.8% in 2004 to 3.2% in 2005 largely due to the reduction in unrestricted net assets discussed above and a decrease in expendable net assets for capital projects. Expendable net assets decreased \$8.9 million due to the approval of the Wellness and Recreation Sports Center, Student Housing Phase II and Social and Behavioral Science building for which the debt was not yet issued.

Expendable Resources to Debt Ratio - UT Pan American's expendable resources to debt ratio decreased slightly from 1.3x in 2004 to 1.1x in 2005 due to the decreases in expendable net assets restricted for capital projects and unrestricted net assets discussed previously.

Debt Burden Ratio - UT Pan American's debt burden ratio of 4.0% in 2005 was slightly lower than the 2004 ratio of 4.3% due to the increase in total operating expenses and increase in interest expense.

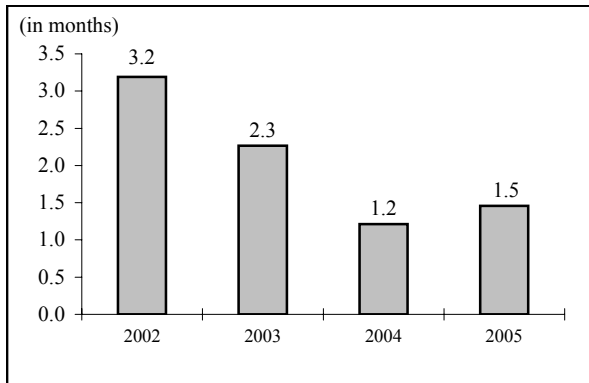
Debt Service Coverage Ratio - UT Pan American's debt service coverage ratio decreased from 2.3x in 2004 to 1.4x in 2005 due to the reduction in the annual operating margin as discussed above.

Full-Time Equivalent (FTE) Student Enrollment - UT Pan American's FTE student enrollment of 12,781 for Fall 2005 was a slight increase from Fall 2004 of 0.7%. UT Pan American instituted a required minimum ACT score. As a result, approximately 400 new freshmen who did not meet the new admission requirement were not accepted.

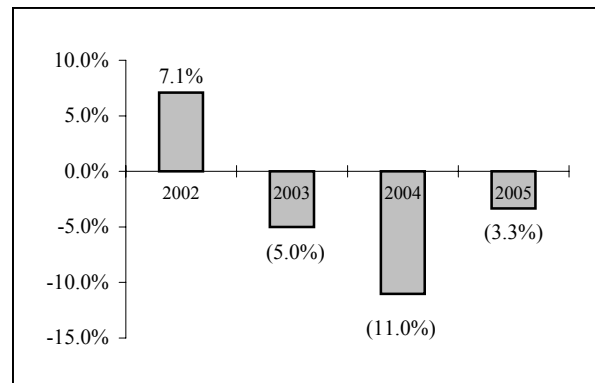
**The University of Texas of the Permian Basin
2005 Summary of Financial Condition**

Financial Condition: **Satisfactory**

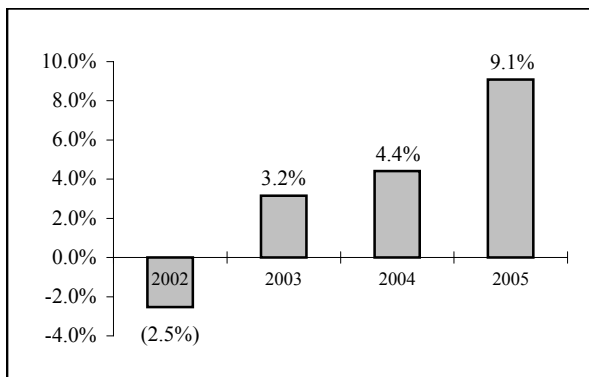
Operating Expense Coverage Ratio



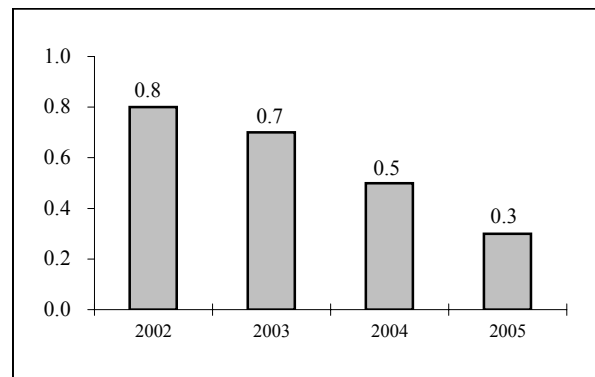
Annual Operating Margin Ratio



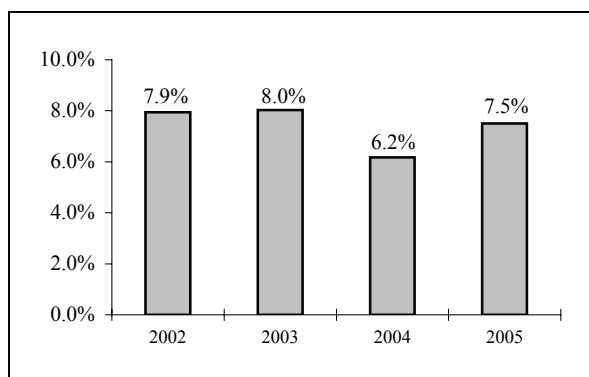
Return on Net Assets Ratio



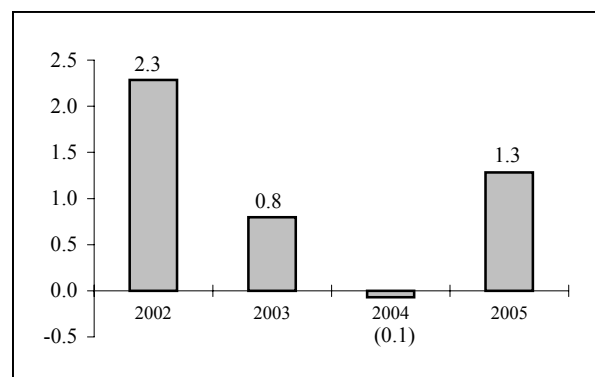
Expendable Resources to Debt Ratio



Debt Burden Ratio

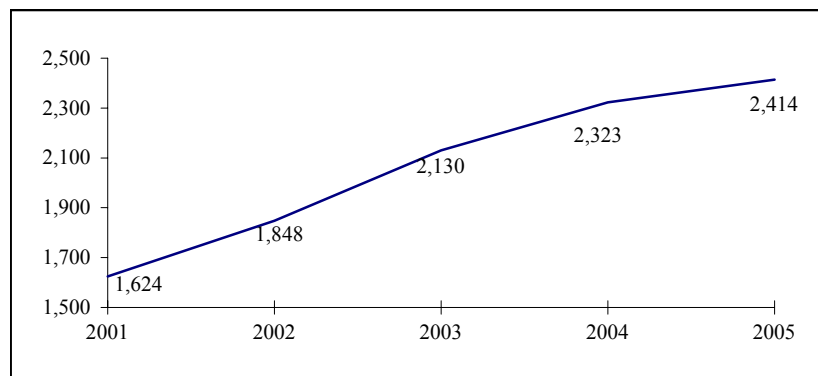


Debt Service Coverage Ratio



The University of Texas of the Permian Basin 2005 Summary of Financial Condition

Full-time Equivalent Student Enrollment - Fall



Operating Expense Coverage Ratio - UT Permian Basin's operating expense coverage ratio increased from 1.2 months in 2004 to 1.5 months in 2005 due to an increase of \$760,000 in unrestricted net assets primarily driven by increased enrollment and tuition rates.

Annual Operating Margin Ratio - UT Permian Basin's annual operating margin ratio improved from (11.0%) for 2004 to (3.3%) for 2005. UT Permian Basin's operating revenues increased by \$2.6 million while operating expenses decreased by \$137,000. Enrollment and tuition rate increases contributed \$1.1 million to the increase in operating revenues. State appropriations and gifts for operations also increased by \$273,000 and \$317,000, respectively. Additionally, UT Permian Basin received a distribution from the University Research Fund of \$250,000 which was restored in 2005. All of these factors contributed to the improvement in the annual operating margin ratio. Although the annual operating margin ratio improved significantly, UT Permian Basin still ended 2005 with a deficit.

Return on Net Assets Ratio - UT Permian Basin's return on net assets ratio increased from 4.4% in 2004 to 9.1% in 2005 due to a \$13.8 million increase in the amount of debt outstanding in the previous year related to the Student Housing Phase II and Phase III and the Mesa building.

Expendable Resources to Debt Ratio - UT Permian Basin's expendable resources to debt ratio of 0.3x in 2005 was lower than the 2004 ratio of 0.5x. The decrease in this ratio was attributable to a \$3.4 million decrease in expendable net assets restricted for capital projects due to the completion of the Student Housing Phase II and Phase III.

Debt Burden Ratio - UT Permian Basin's debt burden ratio increased from 6.2% in 2004 to 7.5% in 2005 primarily due to an increase of \$445,000 in debt service payments.

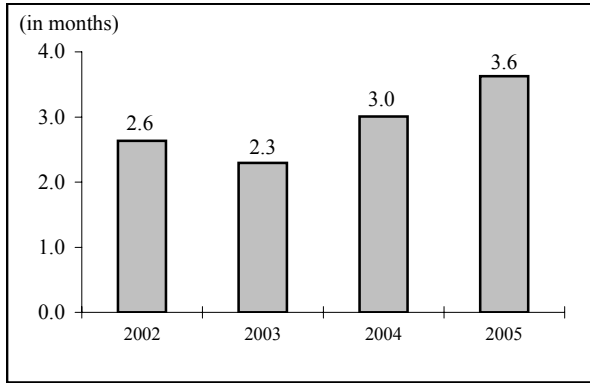
Debt Service Coverage Ratio - UT Permian Basin's debt service coverage ratio increased from (0.1x) in 2004 to 1.3x in 2005 as a result of the improvement in the annual operating margin as discussed above.

Full-Time Equivalent (FTE) Student Enrollment - UT Permian Basin's FTE student enrollment increased due to planned recruiting and retention efforts. UT Permian Basin is actively pursuing development and transformation of the student body into one of a traditional campus.

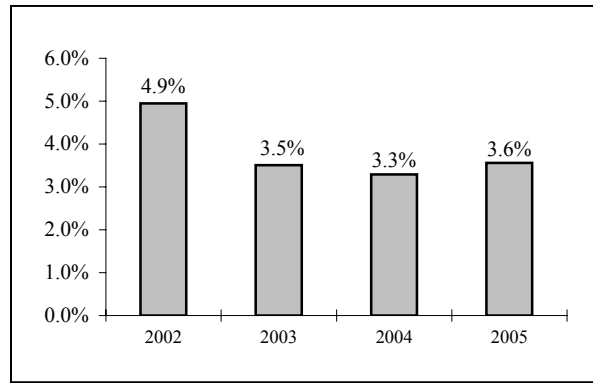
The University of Texas at San Antonio
2005 Summary of Financial Condition

Financial Condition: **Satisfactory**

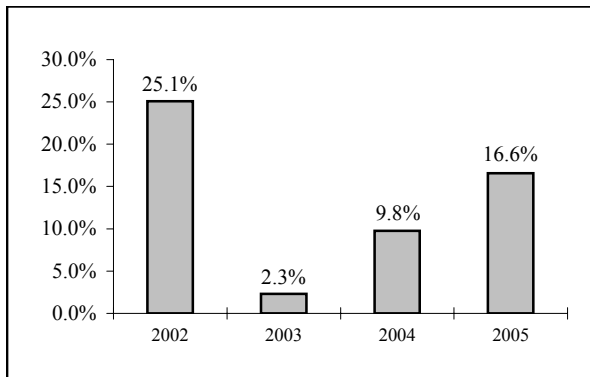
Operating Expense Coverage Ratio



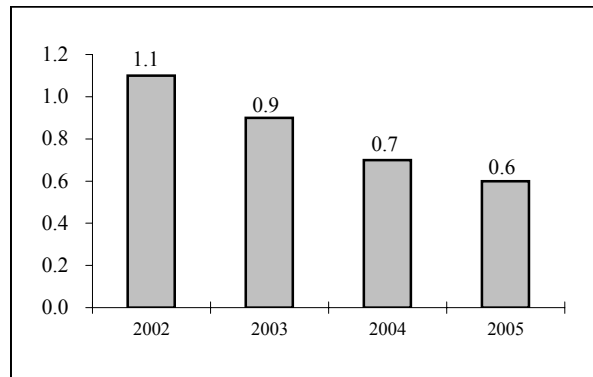
Annual Operating Margin Ratio



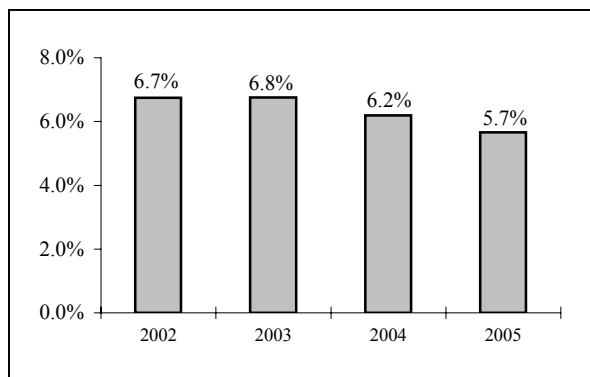
Return on Net Assets Ratio



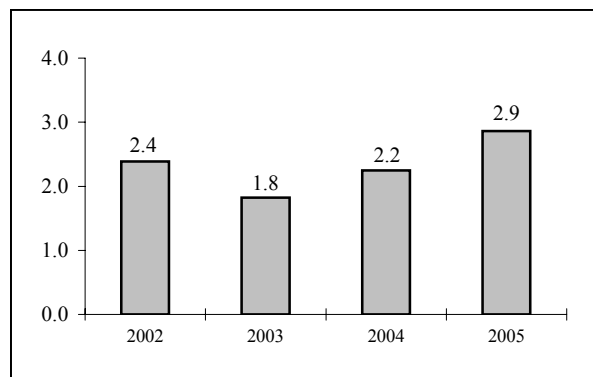
Expendable Resources to Debt Ratio



Debt Burden Ratio

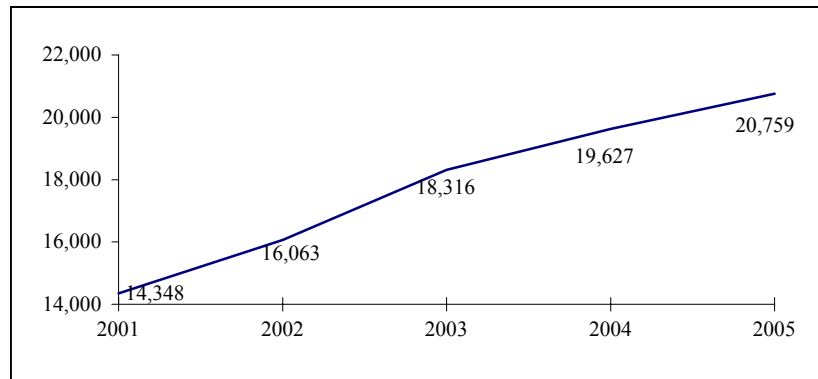


Debt Service Coverage Ratio



The University of Texas at San Antonio 2005 Summary of Financial Condition

Full-time Equivalent Student Enrollment - Fall



Operating Expense Coverage Ratio - UT San Antonio's operating expense coverage ratio increased from 3.0 months in 2004 to 3.6 months in 2005 due to a \$24.0 million increase in total unrestricted net assets. A portion of the increase in unrestricted net assets was attributable to increased tuition and fees of \$18.4 million resulting from higher rates as well as enrollment growth of approximately 6.0%. Revenue generated from new student housing and new meal plans also contributed to the increase.

Annual Operating Margin Ratio - UT San Antonio's annual operating margin ratio increased from 3.3% for 2004 to 3.6% for 2005. The revenue increases mentioned above contributed to the improvement in the annual operating margin ratio. In addition, State appropriations and gifts for operations each increased by \$1.3 million compared to 2004.

Return on Net Assets Ratio - UT San Antonio's return on net assets ratio of 16.6% in 2005 was significantly higher than the 2004 ratio of 9.8% primarily due to an increase in the amount of bond proceeds received from UT System Administration for the Biotechnology Science and Engineering building, Student Housing Expansion Phase I, Academic Building Phase III, Business Technology Center Renovation, and the Academic Building Parking Garage.

Expendable Resources to Debt Ratio - UT San Antonio's expendable resources to debt ratio decreased slightly from 0.7x in 2004 to 0.6x in 2005 due to an increase in the amount of debt outstanding for the Student Housing Expansion Phase I and the Academic Building Parking Garage and the purchase of the Business Technology Center.

Debt Burden Ratio - UT San Antonio's debt burden ratio decreased from 6.2% in 2004 to 5.7% in 2005 as a result of increased operating expenses. Salaries and wages and related payroll costs increased due to merit increases and the hiring of new faculty to accommodate the continued enrollment growth. Expenses also increased as a result of upgrades in the student labs and classrooms as well as costs associated with the wireless network. The Student Housing Expansion Phase I Dining Hall and the Academic Building Parking Garage were also placed into service in 2005 which created additional operating expenses and depreciation expense.

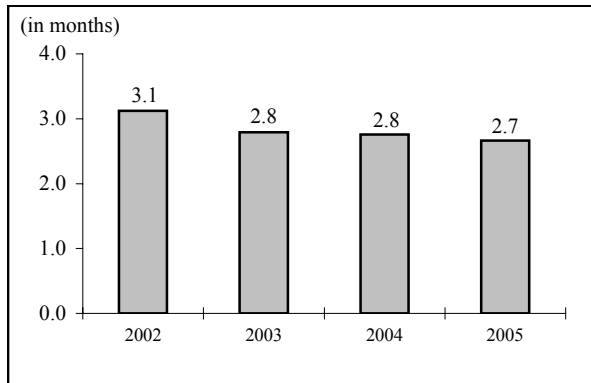
Debt Service Coverage Ratio - UT San Antonio's debt service coverage ratio increased from 2.2x in 2004 to 2.9x in 2005 due to the improvement in the annual operating margin ratio as discussed above.

Full-Time Equivalent (FTE) Student Enrollment - UT San Antonio's FTE student enrollment continued to increase in 2005. Enrollment increases are attributable to improved recruitment and retention efforts, increases in Graduate Programs, and enrollment caps at other universities such as UT Austin.

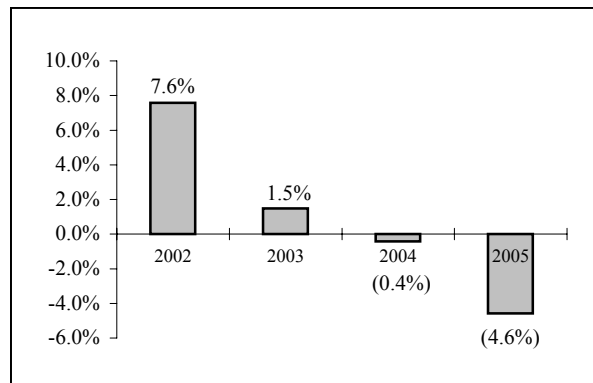
The University of Texas at Tyler
2005 Summary of Financial Condition

Financial Condition: **Satisfactory**

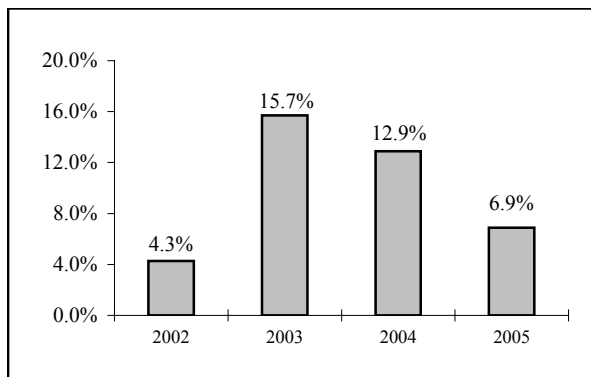
Operating Expense Coverage Ratio



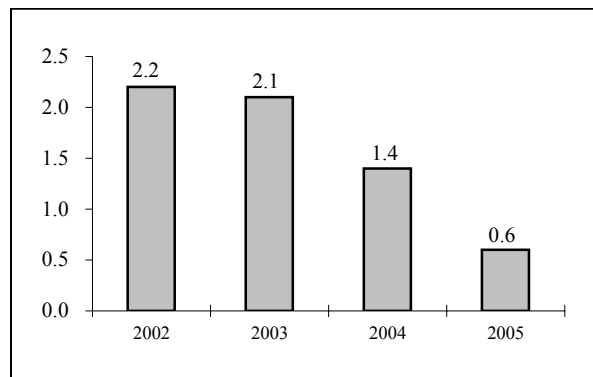
Annual Operating Margin Ratio



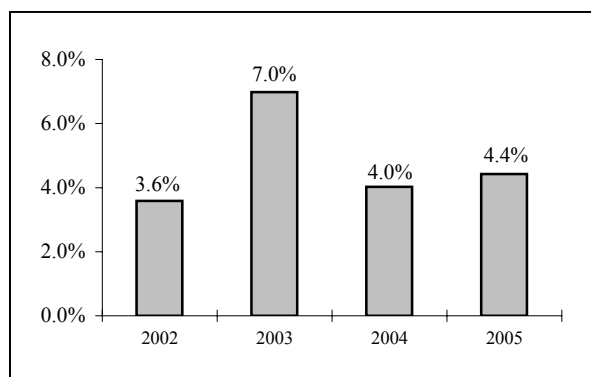
Return on Net Assets Ratio



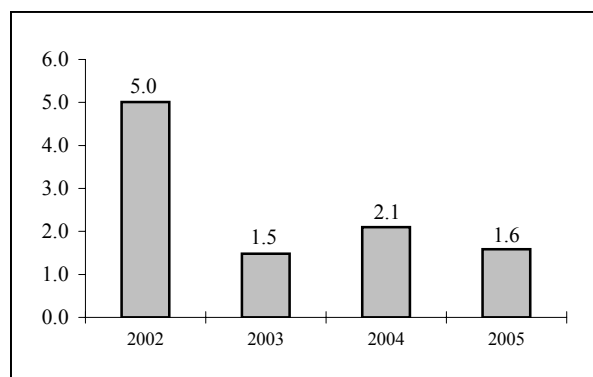
Expendable Resources to Debt Ratio



Debt Burden Ratio

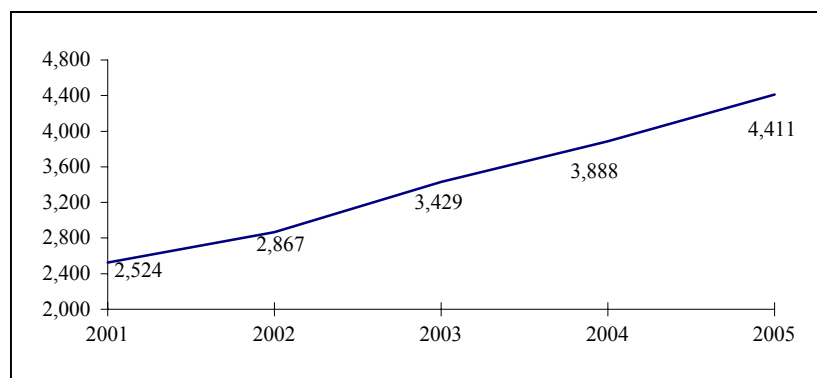


Debt Service Coverage Ratio



The University of Texas at Tyler 2005 Summary of Financial Condition

Full-time Equivalent Student Enrollment - Fall



Operating Expense Coverage Ratio - UT Tyler's operating expense coverage ratio decreased slightly from 2.8 months in 2004 to 2.7 months in 2005 due to increased operating expenses and interest expense. Operating expenses increased largely as a result of higher salaries and wages and payroll related costs attributable to merit increases. Additionally, depreciation expense and interest expense increased due to three new capital projects placed into service in 2005: Patriot Village Apartments; the soccer field; and the baseball and softball fields. UT Tyler planned to draw upon prior year net assets to transform from a two-year upper level commuter campus to a full four-year comprehensive university. Expansion is essential in all areas, including additional faculty, leasing of temporary classrooms, construction of new facilities, expanded student services, and creation of athletic programs and facilities.

Annual Operating Margin Ratio - UT Tyler's annual operating margin ratio dropped significantly from (0.4%) for 2004 to (4.6%) for 2005, which was attributable to the increase in operating expenses as mentioned above.

Return on Net Assets Ratio - UT Tyler's return on net assets ratio decreased from 12.9% in 2004 to 6.9% in 2005 due to a reduction in the amount of bond proceeds received from UT System Administration because of the completion of several major capital projects in 2005 as noted in the operating expense coverage ratio.

Expendable Resources to Debt Ratio - UT Tyler's expendable resources to debt ratio decreased from 1.4x in 2004 to 0.6x in 2005 due to a reduction in the amount of net assets expendable for capital projects as well as an increase in the amount of debt outstanding.

Debt Burden Ratio - UT Tyler's debt burden ratio increased from 4.0% in 2004 to 4.4% in 2005. The increase in this ratio was attributable to an increase in debt service payments for the completed projects discussed above.

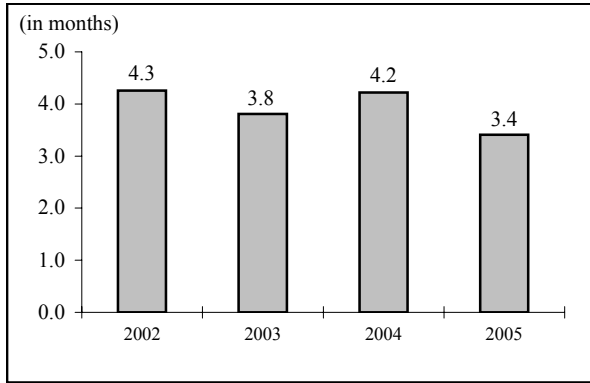
Debt Service Coverage Ratio - UT Tyler's debt service coverage ratio decreased from 2.1x in 2004 to 1.6x in 2005 as a result of the decrease in the annual operating margin ratio and the increase in debt service payments as previously discussed.

Full-Time Equivalent (FTE) Student Enrollment - UT Tyler's FTE student enrollment increased to 4,411 for the Fall 2005 semester, up from 3,888 for the Fall 2004 semester. Successful recruitment efforts contributed greatly to a student increase of almost 30% from the Dallas/Ft. Worth and Houston areas.

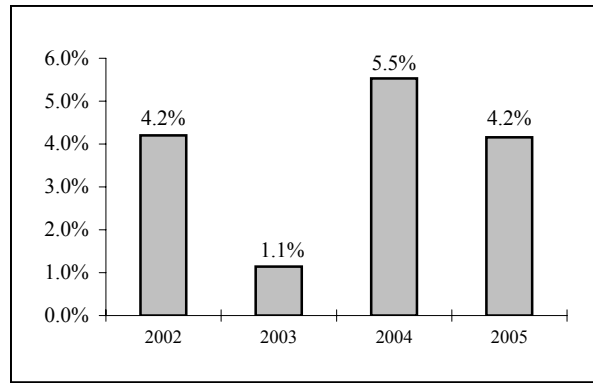
The University of Texas Southwestern Medical Center at Dallas
2005 Summary of Financial Condition

Financial Condition: **Satisfactory**

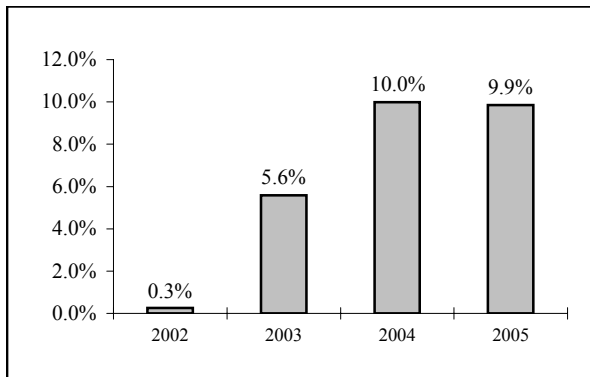
Operating Expense Coverage Ratio



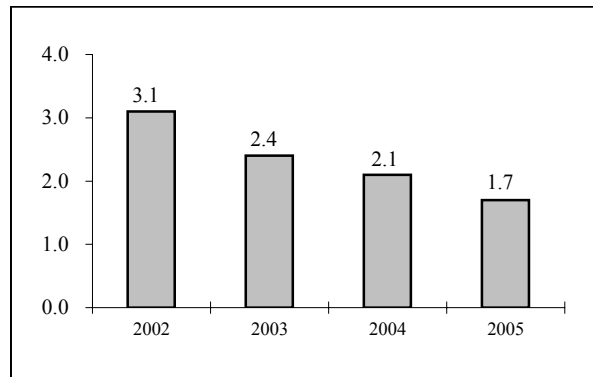
Annual Operating Margin Ratio



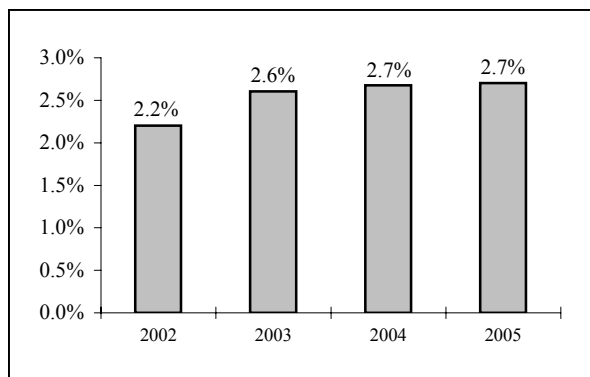
Return on Net Assets Ratio



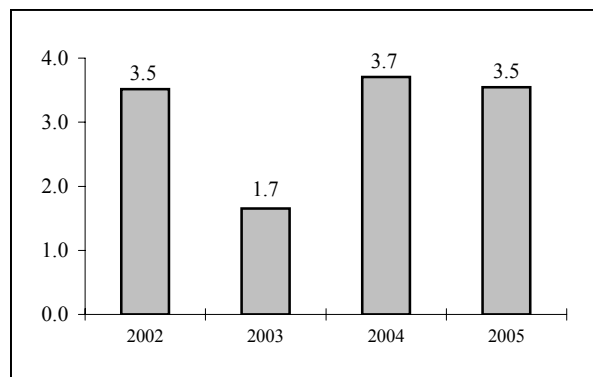
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Southwestern Medical Center at Dallas

2005 Summary of Financial Condition

Operating Expense Coverage Ratio - UT Southwestern Medical Center - Dallas' (Southwestern's) operating expense coverage ratio decreased from 4.2 months in 2004 to 3.4 months in 2005 due to increased operating expenses and interest expense primarily resulting from the acquisition of Zale Lipshy University Hospital (Zale) and St. Paul University Hospital (St. Paul) effective January 1, 2005. Salaries and wages and related payroll costs increased not only due to the acquisition of Zale and St. Paul and regularly scheduled pay increases, but also due to the hiring of additional staff to meet growing patient volumes primarily in the departments of Pediatrics, Radiation Oncology, Pathology, Internal Medicine, Anesthesiology, Dermatology and Radiology. Noncapital expenditures also increased to furnish the North Campus IV research building.

Annual Operating Margin Ratio - Southwestern's annual operating margin ratio decreased from 5.5% for 2004 to 4.2% for 2005 primarily due to the increase in operating expenses discussed above and an increase in revenues, the denominator in this ratio. Sales and Services of Hospitals increased due to the acquisition of Zale and St. Paul. Professional Fees increased due to higher patient volumes primarily in the departments of Obstetrics/Gynecology, Anesthesiology, Internal Medicine, Pathology, and Radiology. Rate increases and increased contractual revenue from affiliated hospitals also contributed to the higher net professional fees and local sponsored programs revenue, respectively.

Return on Net Assets Ratio - Southwestern's return on net assets ratio changed slightly from 10.0% in 2004 to 9.9% in 2005. Although the change in net assets was \$47.1 million greater in 2005 as compared to 2004, the amount of debt outstanding increased \$106.7 million; therefore, the ratio remained relatively stable. The increase in the amount of debt outstanding is primarily related to the North Campus Phase IV and Ambulatory Surgical Center construction projects, the acquisition of the hospitals, and equipment purchases for the hospitals.

Expendable Resources to Debt Ratio - Southwestern's expendable resources to debt ratio decreased from 2.1x in 2004 to 1.7x in 2005 as a result of the increase in the amount of debt outstanding as noted above.

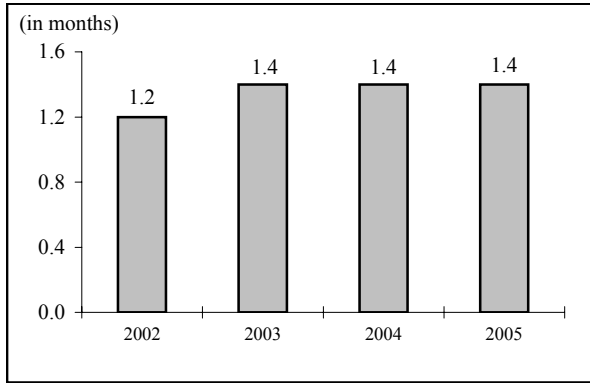
Debt Burden Ratio - Southwestern's debt burden ratio remained unchanged at 2.7% in 2005. The increase in debt service payments was offset by the increase in expenses.

Debt Service Coverage Ratio - Southwestern's debt service coverage ratio decreased from 3.7x in 2004 to 3.5x in 2005 due to the decline in the annual operating margin and increase in debt service payments previously discussed.

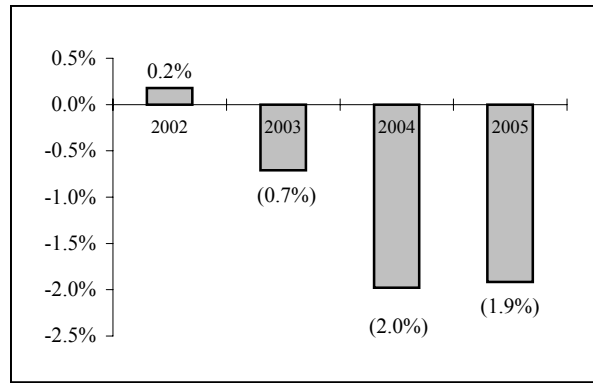
**The University of Texas Medical Branch at Galveston
2005 Summary of Financial Condition**

Financial Condition: **Watch**

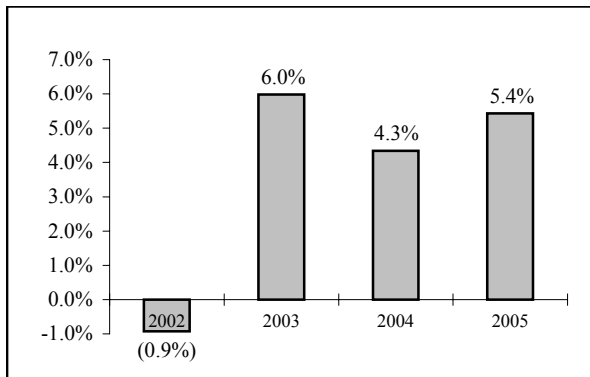
Operating Expense Coverage Ratio



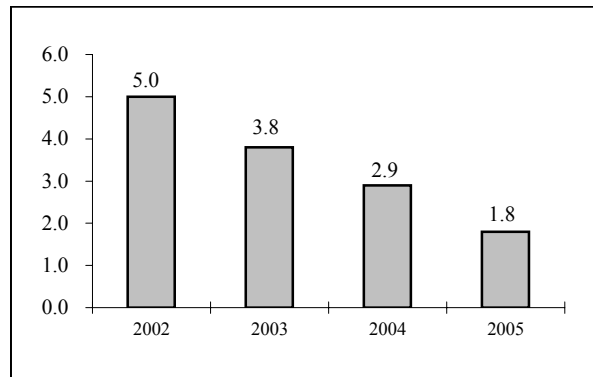
Annual Operating Margin Ratio



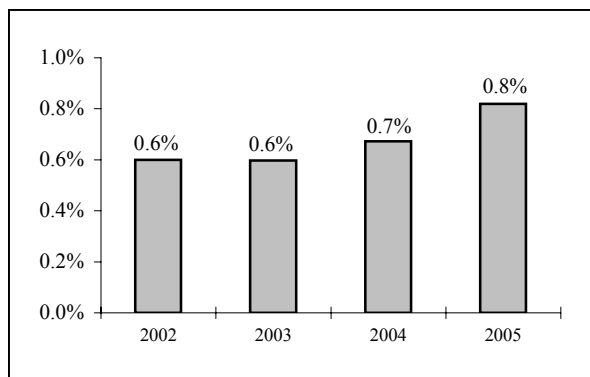
Return on Net Assets Ratio



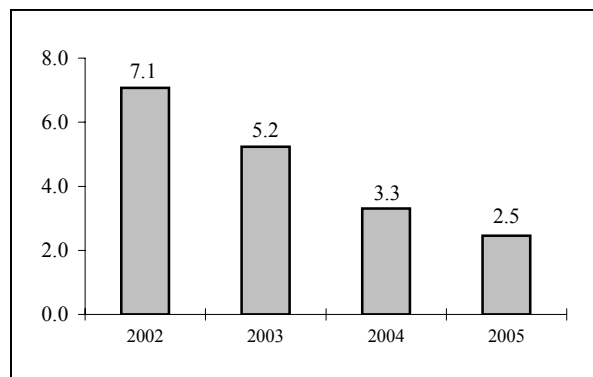
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Medical Branch at Galveston

2005 Summary of Financial Condition

Operating Expense Coverage Ratio - UT Medical Branch - Galveston's (UTMB Galveston) operating expense coverage ratio remained at 1.4 months in 2005. Unrestricted net assets increased between the years by 12.3%; however, that increase was offset by a 7.1% increase in operating expenses. The growth in expenses was largely due to a 5% increase in patient volumes, increase in consulting fees related to system upgrades and process improvement activities, a receipt of professional liability insurance rebate in 2004 that did not occur in 2005, increases in free world expenses mainly due to 3,870 additional lives in the TDCJ population and increase in emergency visits and related ambulance transport costs, increase in salaries and benefits due to annual salary administration and increases to employer health insurance rates, and inflation. UTMB Galveston is committed to enhancing financial performance and is in the continual process of implementing revenue enhancements, cost reduction, and growth strategies.

Annual Operating Margin Ratio - UTMB Galveston's annual operating margin ratio changed only slightly from (2.0%) for 2004 to (1.9%) for 2005. Revenues increased by 7.2% or \$93.1 million largely due to patient care volume increases, growth in research related revenue, and the recognition of \$30.4 million in supplemental funding for the Correctional Health Care Program. UTMB Galveston received a reduction in Medicaid reimbursement rates and nominal payment increases from Medicare, commercial and other payors. UTMB Galveston has been facing severe inflationary pressures on nursing and other patient care provider salaries due to national shortages of these positions. Operating expenses, including interest expense, increased by 7.2% or \$94.1 million largely due to the increases discussed above.

The annual operating margin ratio includes depreciation expense (a non-cash expense) and excludes gifts for capital acquisition (primarily from the Sealy and Smith Foundation for which UTMB Galveston is the sole beneficiary). After adjusting for these items, UTMB Galveston's cash flow available for capital in 2005 was \$39.7 million.

Return on Net Assets Ratio - UTMB Galveston's return on net assets ratio increased from 4.3% in 2004 to 5.4% in 2005. The change in net assets was \$42.1 million greater in 2005 as compared to 2004 primarily due to an increase in gifts and sponsored programs for capital acquisitions of \$11.4 million, an increase in transactions related to capital and debt with UT System Administration of \$30.8 million, and the receipt of State fiscal relief funds (Section 56 funds).

Expendable Resources to Debt Ratio - UTMB Galveston's expendable resources to debt ratio decreased from 2.9x in 2004 to 1.8x in 2005 largely as a result of an increase of \$51.4 million in the amount of debt outstanding. The increase in the amount of debt outstanding primarily related to the Galveston National Laboratory, the Research Facilities Expansion, the University Plaza Development project and the Daycare Center.

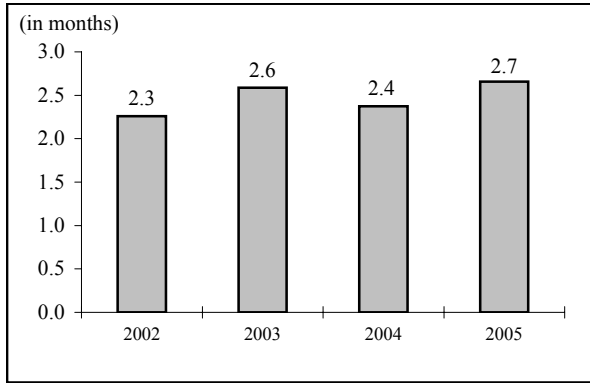
Debt Burden Ratio - UTMB Galveston's debt burden ratio of 0.8% in 2005 was slightly higher than the 2004 ratio of 0.7%. The slight increase in this ratio was attributable to increased debt service between the years to support the projects discussed above. UTMB Galveston's debt burden ratio still remains extremely low.

Debt Service Coverage Ratio - UTMB Galveston's debt service coverage ratio decreased from 3.3x in 2004 to 2.5x in 2005 as a result of the increase in debt service discussed above.

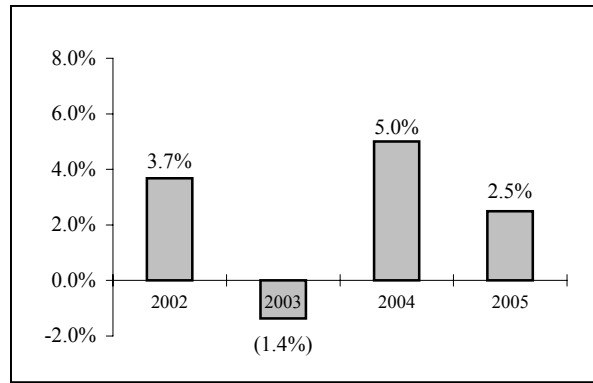
**The University of Texas Health Science Center at Houston
2005 Summary of Financial Condition**

Financial Condition: **Satisfactory**

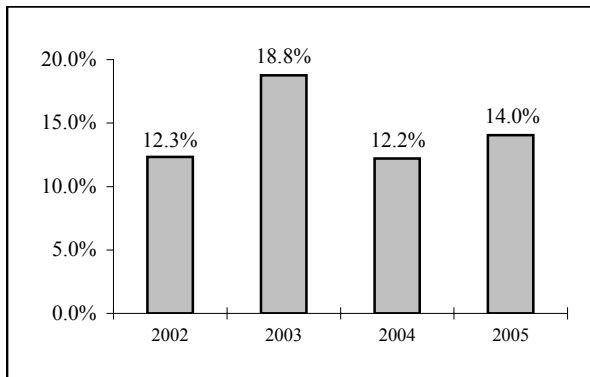
Operating Expense Coverage Ratio



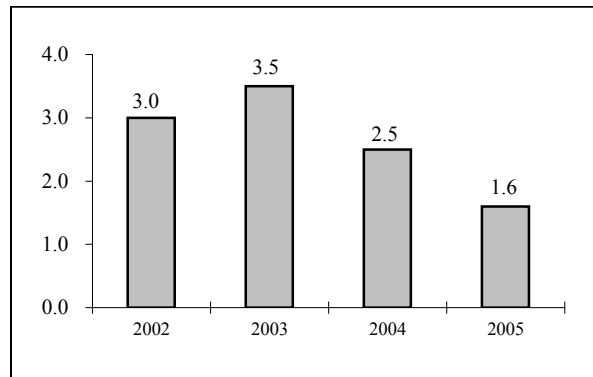
Annual Operating Margin Ratio



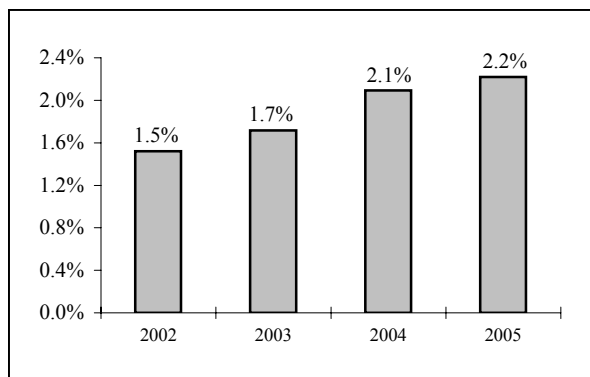
Return on Net Assets Ratio



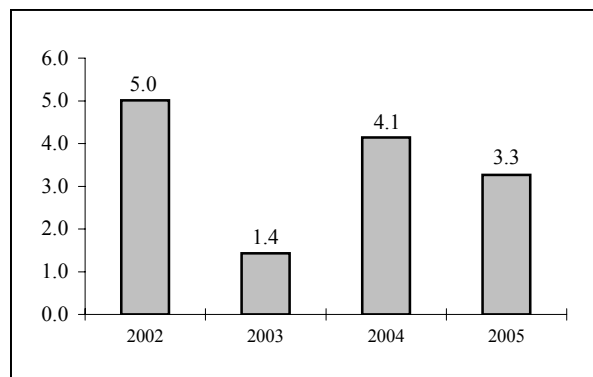
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Health Science Center at Houston

2005 Summary of Financial Condition

Operating Expense Coverage Ratio - UT Health Science Center - Houston's (UTHSC-Houston) operating expense coverage ratio increased from 2.4x in 2004 to 2.7x in 2005 due to a \$20.9 million increase in total unrestricted net assets. The increase in unrestricted net assets was largely driven by the following factors: a \$7.5 million increase in net auxiliary enterprises revenue generated from the UT Professional Building and Garage purchased in 2005; the receipt of \$5.1 million from the United States Federal Emergency Management Agency (FEMA) for Houston's continued reimbursement of costs associated with Tropical Storm Allison in June 2001; and the receipt of \$6.3 million in State fiscal relief funds transferred from the Texas State Comptroller.

Annual Operating Margin Ratio - UTHSC-Houston's annual operating margin ratio decreased from 5.0% for 2004 to 2.5% for 2005 due to an overall decrease in operating revenues and an increase in operating expenses. UTHSC-Houston's operating revenues, excluding the \$6.3 million transfer of State fiscal relief funds, decreased by \$4.4 million (1.0%) while operating expenses increased \$25.7 million (4.5%). Although the purchase of the UT Professional Building and Garage generated additional revenues, it also resulted in additional expenses, such as costs for professional management, cleaning, utilities and depreciation expense. Utilities and depreciation expense also increased as a result of the addition of the Nursing School building. Interest expense increased \$5.3 million due to the acquisition of the UT Professional Building and Garage and the construction of new student apartments.

Return on Net Assets Ratio - UTHSC-Houston's return on net assets ratio increased from 12.2% in 2004 to 14.0% in 2005. The increase in this ratio was primarily attributable to an increase in gifts for operations of \$12.8 million, an increase in additions to permanent endowments of \$10.3 million and an increase in debt. Private gifts primarily in support of the Institute for Molecular Medicine contributed to the increase in gifts for operations. Permanent Endowments increased due to the receipt of \$11.5 million in new quasi and true instructional endowments and \$800,000 in new scholarship endowments. The amount of debt outstanding increased due to the Research Expansion Project, the purchase of the UT Professional Building and Garage, the repair of the Medical School Building Phase I and the expansion of student housing.

Expendable Resources to Debt Ratio - UTHSC-Houston's expendable resources to debt ratio decreased from 2.5x in 2004 to 1.6x in 2005. The amount of expendable net assets restricted for capital projects decreased \$36.3 million due to the purchase of the UT Professional Building and Garage and the completion of student housing. Additionally, the amount of debt outstanding increased as discussed above.

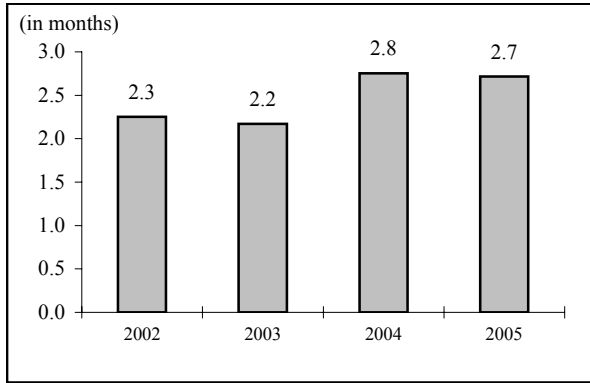
Debt Burden Ratio - UTHSC-Houston's debt burden ratio changed slightly from 2.1% in 2004 to 2.2% in 2005 due to a \$1.4 million increase in debt service payments related to the projects discussed above.

Debt Service Coverage Ratio - UTHSC-Houston's debt service coverage ratio decreased from 4.1x in 2004 to 3.3x in 2005 as a result of the decrease in the annual operating margin previously discussed.

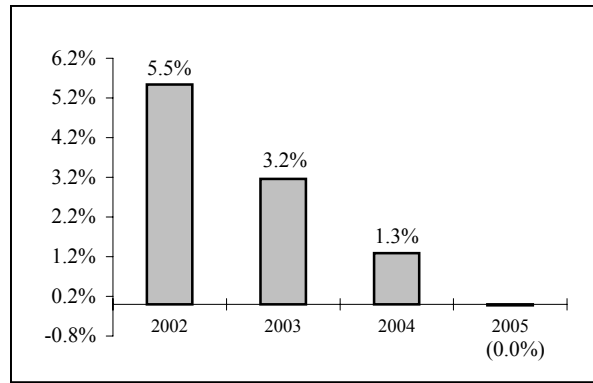
**The University of Texas Health Science Center at San Antonio
2005 Summary of Financial Condition**

Financial Condition: **Satisfactory**

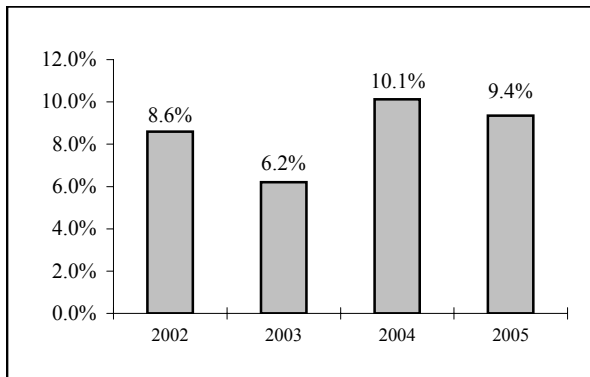
Operating Expense Coverage Ratio



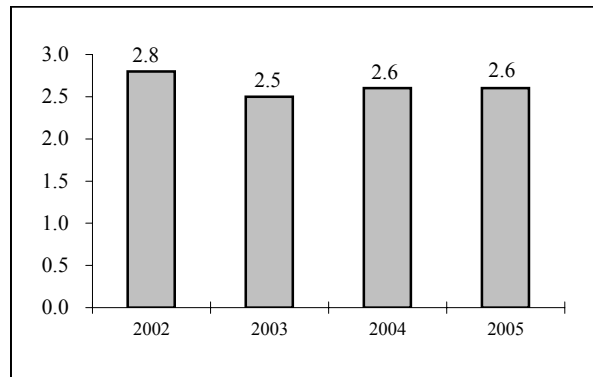
Annual Operating Margin Ratio



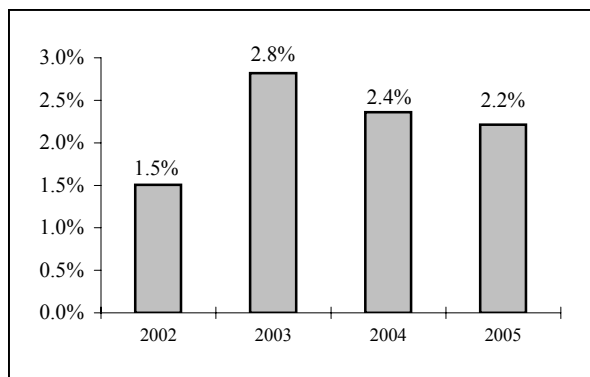
Return on Net Assets Ratio



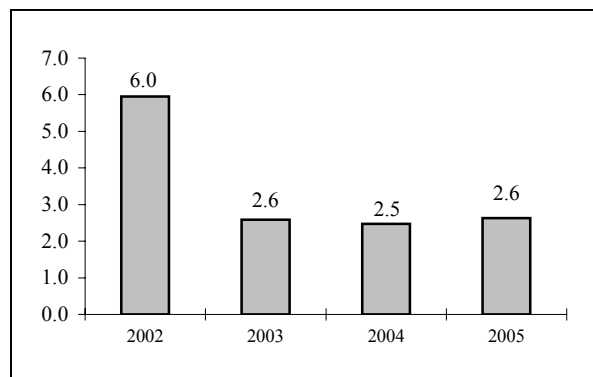
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Health Science Center at San Antonio

2005 Summary of Financial Condition

Operating Expense Coverage Ratio - UT Health Science Center - San Antonio's (UTHSC-San Antonio) operating expense coverage ratio decreased slightly from 2.8x in 2004 to 2.7x in 2005 as a result of an increase in operating expenses, including depreciation and interest expense, of \$37.1 million. Operating expenses increased due to additional expenses associated with the South Texas programs which include the South Texas Border Initiative, the Regional Academic Health Center (RAHC) and the Laredo campus. Approximately \$3.4 million of the funding received from the State in 2004 for these programs was not expended. UTHSC-San Antonio spent these funds in 2005 with no corresponding revenue, as the related revenue was recognized in 2004. Investments within the physician practice plan, including recruitment efforts, faculty compensation, and department/program expansion, as well as growth among research initiatives also contributed to the increase in operating expenses. Depreciation expense increased due to the Sam and Ann Barshop Center for Longevity and the Academic and Administration building which were placed in service in 2005. Interest expense increased due to the debt associated with the RAHC Teaching/Learning Lab and the Academic and Administration building.

Annual Operating Margin Ratio - UTHSC-San Antonio's annual operating margin ratio decreased from 1.3% for 2004 to breakeven for 2005 due to the growth in expenses of \$37.1 million outpacing the growth in revenues of \$31.0 million. Expenses increased due to the factors discussed above. The increase in revenues was primarily due to the following: the receipt of \$7.2 million in State fiscal relief funds transferred from the Texas State Comptroller; a \$6.5 million increase in Federal sponsored programs; a \$4.9 million increase in net tuition and fees as a result of higher rates; a \$4.6 million increase in professional fees attributable to increased productivity and higher rates; and a \$3.0 million increase in gifts for operations.

Return on Net Assets Ratio - UTHSC-San Antonio's return on net assets ratio of 9.4% in 2005 was lower than the 2004 ratio of 10.1%. The decrease in this ratio was due to a \$9.0 million increase in the amount of debt outstanding related to the RAHC Teaching/Learning Lab in Harlingen and the Academic and Administration building located on the main campus.

Expendable Resources to Debt Ratio - UTHSC-San Antonio's expendable resources to debt ratio remained unchanged at 2.6x in 2005 with increases in expendable net assets and the debt outstanding noted above. UTHSC-San Antonio continues to retain excess debt capacity.

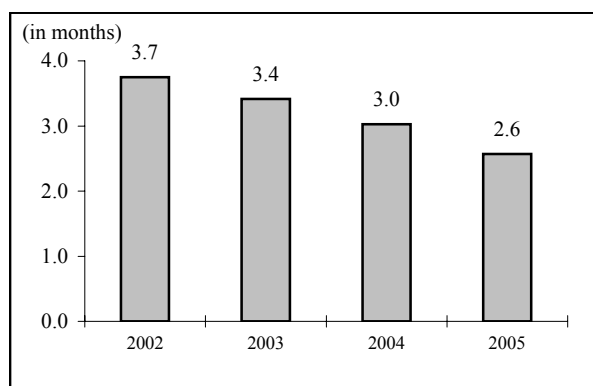
Debt Burden Ratio - UTHSC-San Antonio's debt burden ratio decreased slightly from 2.4% in 2004 to 2.2% in 2005 as a result of the increase in expenses previously discussed.

Debt Service Coverage Ratio - UTHSC-San Antonio's debt service coverage ratio increased slightly from 2.5x in 2004 to 2.6x in 2005 primarily due to the exclusion of depreciation expense for this ratio, but continues its ability to soundly cover current debt service requirements from current operating revenue streams.

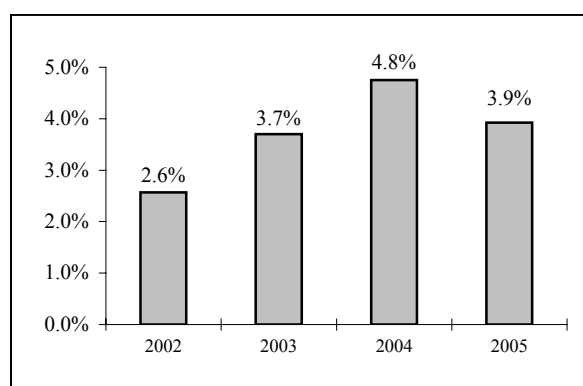
The University of Texas M. D. Anderson Cancer Center
2005 Summary of Financial Condition

Financial Condition: **Satisfactory**

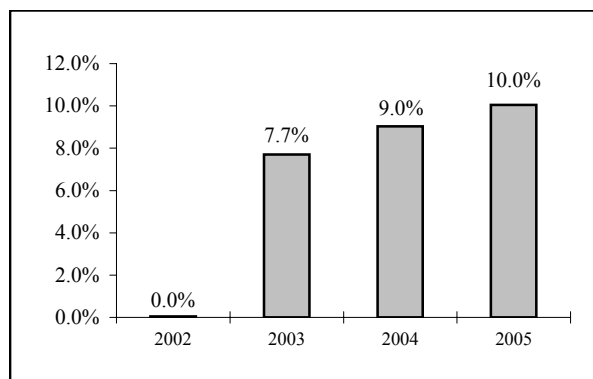
Operating Expense Coverage Ratio



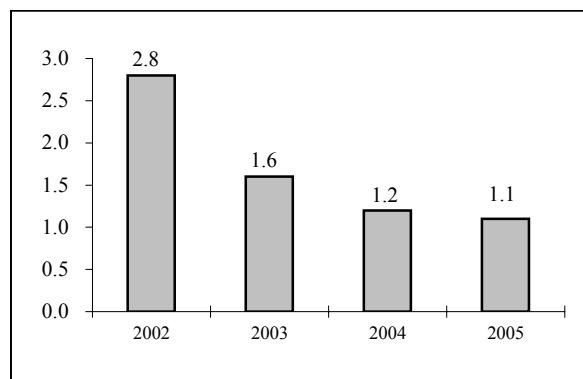
Annual Operating Margin Ratio



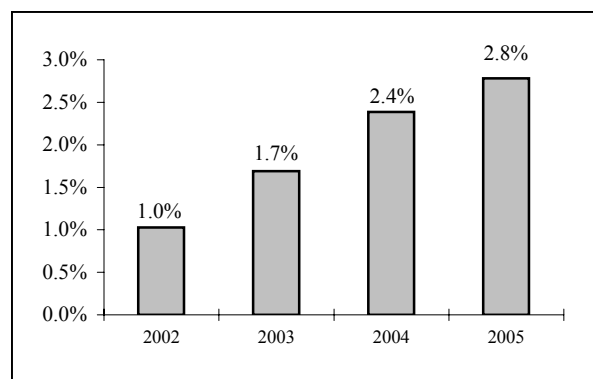
Return on Net Assets Ratio



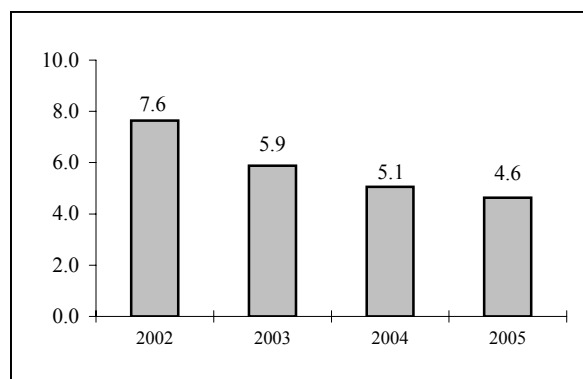
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas M. D. Anderson Cancer Center

2005 Summary of Financial Condition

Operating Expense Coverage Ratio - UT M. D. Anderson Cancer Center's (M. D. Anderson) operating expense coverage ratio decreased from 3.0 months in 2004 to 2.6 months in 2005 due to a reduction in unrestricted net assets of \$15.2 million and an increase in operating expenses of \$222.5 million. The reduction in unrestricted net assets was attributable to transfers to unexpended plant funds for the construction of the South Campus Research Building 2. Operating expenses increased primarily due to the following: an increase of \$113.1 million in salaries and wages and payroll related costs resulting from the hiring of new staff, as well as merit increases and increased rates for group insurance; a \$34.7 million increase in depreciation expense due to the recognition of a full year of depreciation expense on capital assets placed into service in 2004, as well as depreciation expense for the Ambulatory Clinical Building, the Cancer Prevention Building, the Basic Science Research Building, and the South Campus Research Building 2 and all of the related equipment which were placed into service in 2005; an increase of \$31.8 million in materials and supplies to support increased hospital and clinic activities; a \$13.9 million increase in utilities largely due to the opening of the new buildings mentioned above, as well as utility rate changes; and a \$12.7 million increase in professional fees and services related to data management, computer services, and other professional and medical services. Interest expense also increased \$15.1 million due to additional debt issued for infrastructure improvements and equipment purchases.

Annual Operating Margin Ratio - M. D. Anderson's annual operating margin ratio decreased from 4.8% for 2004 to 3.9% for 2005 due to expense growth outpacing the growth in revenues during a year of major facilities expansion. While expenses, including interest expense, increased \$237.6 million, revenues increased \$231.6 million. The increase in revenues was primarily attributable to a \$188.5 million increase in net sales and services of hospitals due to an increase in volumes in hospital and clinic activities, and a \$20.1 million increase in net professional fees due to increased charges, patient volumes and activity levels. Gifts for operations also increased \$18.5 million due to a bequest received from the Mary Hicks estate for \$2.8 million, a \$5.0 million pledge from Helen and Robert Keberg for research, and two additional research pledges totaling \$4.0 million from Mrs. Charles Dauphin and Mr. Charif Souki. These pledges, along with a general increase in donor gifts under \$100,000 accounts for the increase in operating gifts. Additionally, M. D. Anderson received \$5.6 million in State fiscal relief funds from the Texas State Comptroller. The increase in expenses is discussed above.

Return on Net Assets Ratio - M. D. Anderson's return on net assets ratio improved from 9.0% in 2004 to 10.0% in 2005 due to a smaller increase in the amount of debt outstanding in 2005 as compared to the increase in 2004.

Expendable Resources to Debt Ratio - M. D. Anderson's expendable resources to debt ratio decreased slightly from 1.2x in 2004 to 1.1x in 2005 due to the decrease in unrestricted net assets and increase in debt outstanding discussed above.

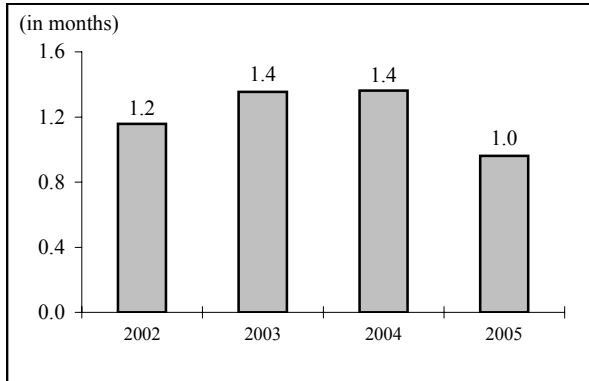
Debt Burden Ratio - M. D. Anderson's debt burden ratio improved from 2.4% in 2004 to 2.8% in 2005 due to an increase of \$13.4 million in debt service payments.

Debt Service Coverage Ratio - M. D. Anderson's debt service coverage ratio decreased from 5.1x in 2004 to 4.6x in 2005 as a result of the decrease in the annual operating margin and the increase in debt service payments mentioned above.

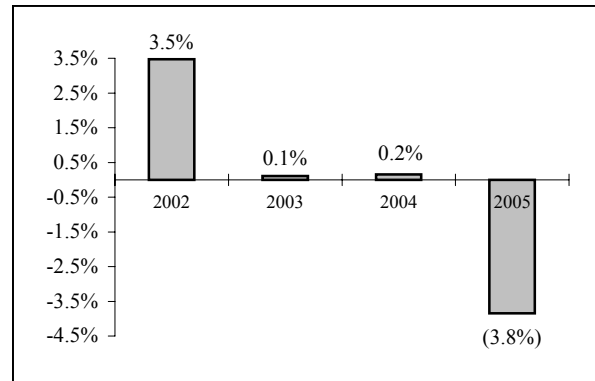
The University of Texas Health Center at Tyler 2005 Summary of Financial Condition

Financial Condition: **Unsatisfactory**

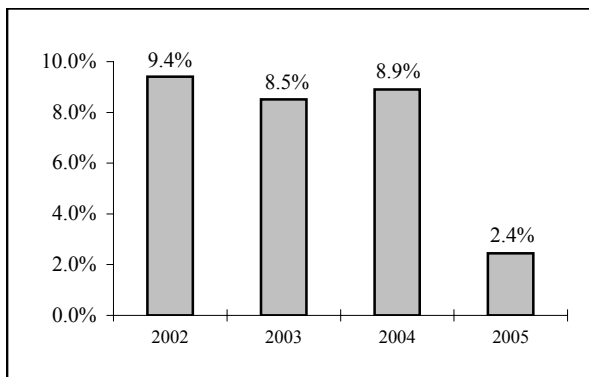
Operating Expense Coverage Ratio



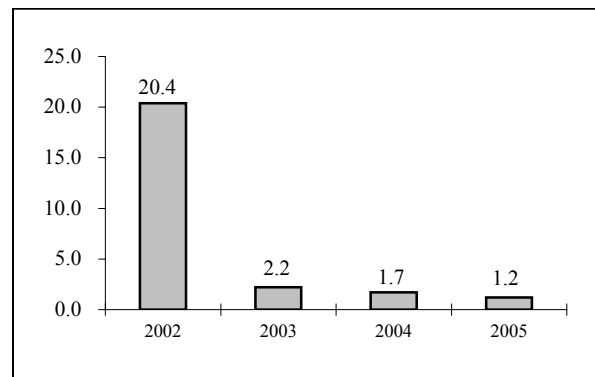
Annual Operating Margin Ratio



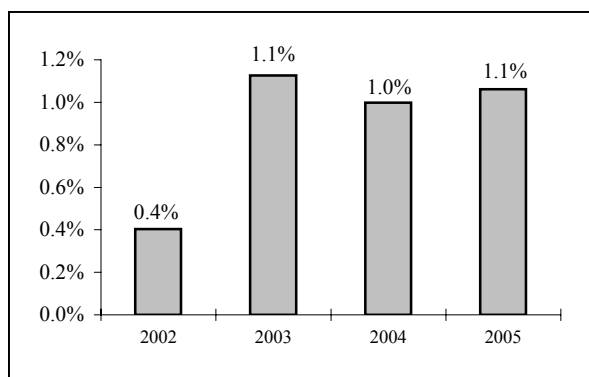
Return on Net Assets Ratio



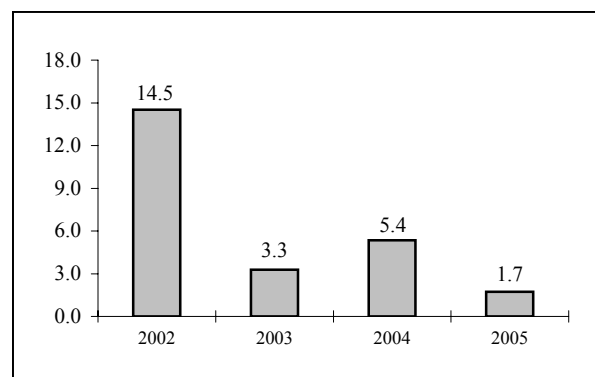
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas Health Center at Tyler

2005 Summary of Financial Condition

Operating Expense Coverage Ratio - UT Health Center - Tyler's (UTHC-Tyler) operating expense coverage ratio decreased from 1.4 months in 2004 to 1.0 month in 2005 due to a \$3.8 million decrease in total unrestricted net assets and a \$3.5 million increase in operating expenses. Net sales and services of hospitals decreased \$3.5 million as a result of decreases in admissions, inpatient days and inpatient surgeries. These decreases are due to more aggressive marketing and capital investments by other local hospitals, as well as the age of UTHC-Tyler's facilities as compared to the newer hospitals in Tyler. Net professional fees also decreased \$1.9 million. As with the hospital, a decrease in surgical and inpatient volumes contributed to this loss. These reductions in revenue contributed to the decrease in total unrestricted net assets. Operating expense increases are discussed below.

Annual Operating Margin Ratio - UTHC-Tyler's annual operating margin ratio declined significantly from 0.2% for 2004 to (3.8%) for 2005 as a result of the reduction in revenues of \$1.4 million and an increase in expenses of \$3.5 million. In addition to the decreases in revenues discussed above, UTHC-Tyler's State appropriations decreased \$2.8 million. However, some of the decrease in revenues was partially offset by an increase in gifts for operations of \$3.1 million, primarily for the Center for Healthy Aging and a new program for the Institute for Lung Injury, and the receipt of \$1.6 million in State fiscal relief funds transferred from the Texas State Comptroller. UTHC-Tyler's expenses increased due to an increase in contracted services and repairs and maintenance expenses. Depreciation expense also increased due to the following major capital projects that were completed and placed into service in 2005: the Biomedical Research Wing, the Ambulatory Care Center Phase II, the ACC parking lot and the PeopleSoft 8.8 upgrade.

Return on Net Assets Ratio - UTHC-Tyler's return on net assets ratio dropped from 8.9% in 2004 to 2.4% in 2005 due to the increase in the amount of debt outstanding related to the Ambulatory Care Center - Phase II. Additionally, UTHC Tyler had a smaller increase in net assets as compared to 2004 as a result of the decline in the annual operating margin as discussed above.

Expendable Resources to Debt Ratio - UTHC-Tyler's expendable resources to debt ratio decreased from 1.7x in 2004 to 1.2x in 2005 as a result of the decrease in unrestricted net assets discussed above and a decrease in expendable net assets for capital projects. The reduction in expendable net assets was attributable to the completion of the major capital projects listed above. Also contributing to the decline in this ratio was the increase in the amount of debt outstanding.

Debt Burden Ratio - UTHC-Tyler's debt burden ratio increased slightly from 1.0% in 2004 to 1.1% in 2005. The small increase in this ratio was due to the \$115,000 increase in debt service payments.

Debt Service Coverage Ratio - UTHC-Tyler's debt service coverage ratio decreased from 5.4x in 2004 to 1.7x in 2005 as a result of both the decrease in the annual operating margin and the increase in debt service payments previously discussed.

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.

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

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

$$\text{Formula} = \frac{\text{Op. Rev.} + \text{Approp.} + \text{Op. Gifts} + \text{Inv. Inc.} + \text{Transfer} + \text{Transfer} + \text{RAHC} + \text{AUF} + \text{Texas} + \text{URF/} + \text{Ent. Fund} + \text{Funding} + \text{Transfer} - \text{Operating Exp.} - \text{Interest Exp.}}{\text{Op. Rev.} + \text{Approp.} + \text{Op. Gifts} + \text{Inv. Inc.} + \text{RAHC Trans.} + \text{AUF Trans.} + \text{Texas Ent. Fund} + \text{URF/Excellence} + \text{Sec. 56 Trans.}}$$

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.

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

4. **Expendable Resources to Debt Ratio** – This ratio measures an institution’s ability to fund outstanding debt with existing net asset balances should an emergency occur.

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

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.

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

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 Moody’s Investors Service. 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.

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

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 Office of Finance uses the expendable resources to debt ratio, 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. Trends in the expendable resources to debt ratio, debt burden ratio and debt service coverage ratio 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. Trends in the expendable resources to debt ratio, debt burden ratio and debt service coverage ratio 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, 2005
(In Millions)

Institution	Restricted Expendable Net Assets				Total Unrestricted Net Assets	Total Expendable Net Assets
	Capital Projects	Funds Functioning Restricted	Other Expendable	Total		
Arlington	\$ 2.8	1.8	20.5	25.1	85.5	110.7
Austin	25.4	103.0	262.0	390.4	405.3	795.7
Brownsville	3.1	-	4.1	7.2	24.7	31.9
Dallas	47.8	4.0	50.0	101.8	51.1	152.9
El Paso	10.1	5.2	22.3	37.6	26.8	64.4
Pan American	3.3	0.8	13.5	17.7	49.6	67.3
Permian Basin	2.6	-	4.9	7.5	4.2	11.7
San Antonio	11.0	0.6	27.1	38.8	84.0	122.7
Tyler	10.9	0.3	3.8	15.0	12.7	27.7

Appendix B - Calculation of Expendable Net Assets
Health Institutions
As of August 31, 2005
(In Millions)

Institution	Restricted Expendable Net Assets				Total Unrestricted Net Assets	Total Expendable Net Assets
	Capital Projects	Funds Functioning Restricted	Other Expendable	Total		
Southwestern	\$ 40.5	20.7	326.2	387.4	302.2	689.6
UTMB Galveston	8.1	16.7	49.1	73.8	165.8	239.6
UTHSC-Houston	66.4	4.8	93.5	164.7	136.8	301.5
UTHSC-San Antonio	23.4	5.0	114.1	142.5	113.1	255.6
M. D. Anderson	43.8	23.6	193.0	260.5	421.8	682.3
UTHC-Tyler	2.0	0.7	9.8	12.6	10.2	22.7

Appendix C - Calculation of Annual Operating Margin
Academic Institutions
As of August 31, 2005
(In Millions)

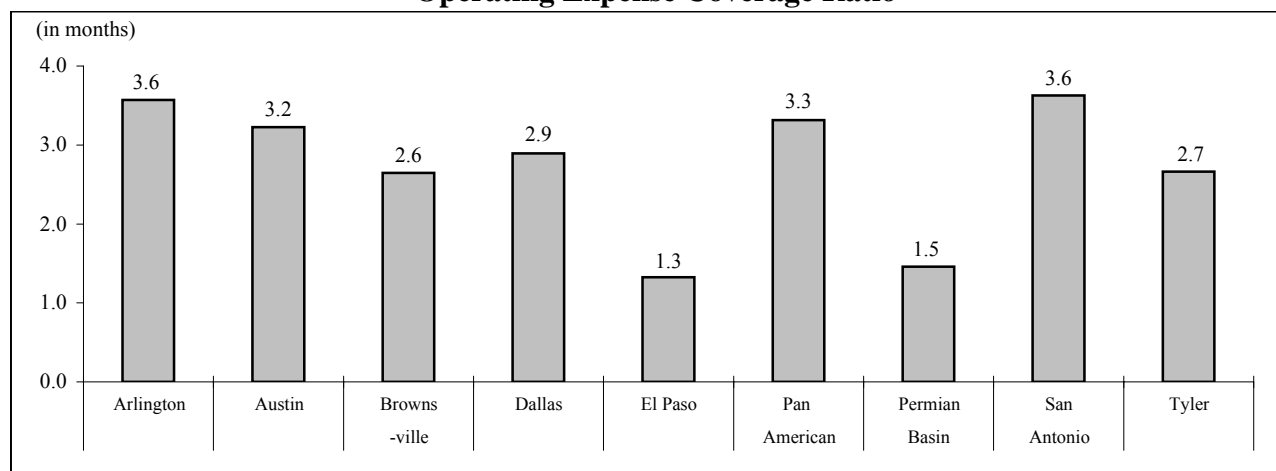
Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items				Margin From SRECNA	Other Adjustments					Annual Operating Margin
		Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.		Realized Gains/ Losses	AUF Transfer	University Research/ Excellence Funding	Texas Enterprise Fund	Interest Expense	
Arlington	\$ 26.7	-	-	(0.1)	5.3	21.5	-	-	3.5	-	(6.8)	18.2
Austin	239.0	-	(0.1)	(2.9)	262.7	(20.7)	0.1	106.3	-	-	(17.0)	68.5
Brownsville	4.8	-	-	-	0.7	4.1	0.1	-	0.1	-	(2.0)	2.2
Dallas	17.1	-	-	(1.1)	18.2	0.1	-	-	3.3	5.6	(3.1)	5.9
El Paso	19.0	-	-	(0.6)	15.3	4.3	-	-	2.5	-	(3.2)	3.5
Pan American	(0.8)	-	-	(0.2)	3.2	(3.8)	-	-	0.1	-	(2.8)	(6.4)
Permian Basin	1.7	-	-	-	1.5	0.2	-	-	0.3	-	(1.5)	(1.1)
San Antonio	22.8	-	-	2.0	4.1	16.7	-	-	1.3	-	(7.8)	10.2
Tyler	4.9	-	-	-	6.1	(1.2)	-	-	0.3	-	(1.5)	(2.5)

Appendix C - Calculation of Annual Operating Margin
Health Institutions
As of August 31, 2005
(In Millions)

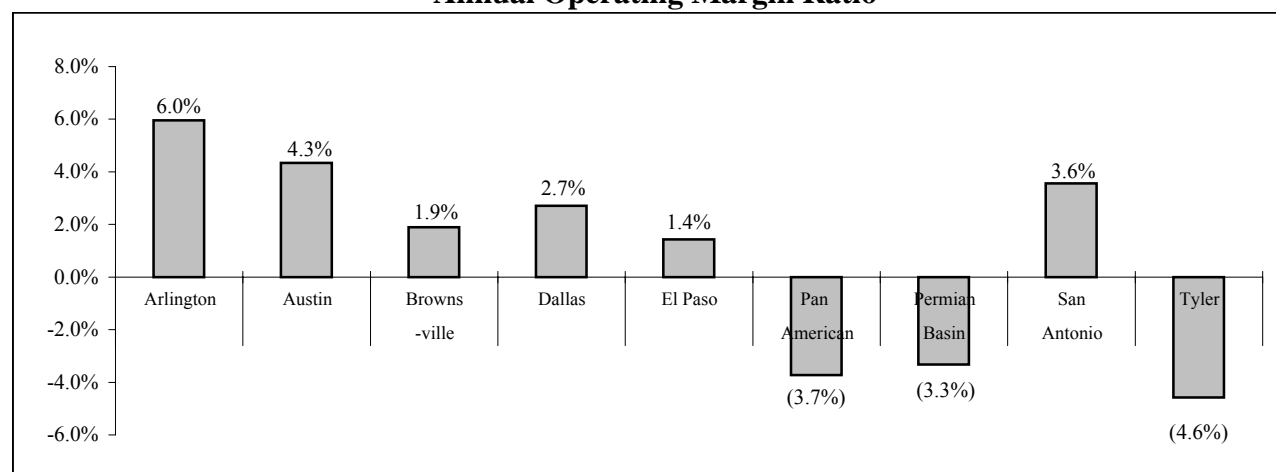
Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items				Margin From SRECNA	Other Adjustments					Annual Operating Margin
		Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.		Realized Gains/ Losses	Section 56 Transfer	RAHC Transfer	Texas Enterprise Fund & FEMA	Interest Expense	
Southwestern	\$ 139.7	0.3	-	(2.0)	76.3	65.0	9.7	4.5	-	-	(13.7)	46.1
UTMB Galveston	0.3	0.8	(1.8)	(2.9)	39.4	(35.2)	1.1	13.2	-	-	(3.3)	(26.4)
UTHSC-Houston	39.8	-	(0.7)	(0.6)	14.1	26.9	2.7	6.3	1.5	(8.5)	(7.9)	15.6
UTHSC-San Antonio	26.4	-	-	(0.4)	36.7	(9.9)	1.9	7.2	5.0	4.5	(5.0)	(0.1)
M. D. Anderson	158.1	8.5	(1.3)	(1.4)	48.7	103.7	6.4	5.6	-	-	(22.4)	80.6
UTHC-Tyler	(1.8)	-	-	-	4.5	(6.2)	-	1.6	-	-	-	(4.7)

Appendix D - Academic Institutions' Evaluation Factors 2005 Analysis of Financial Condition

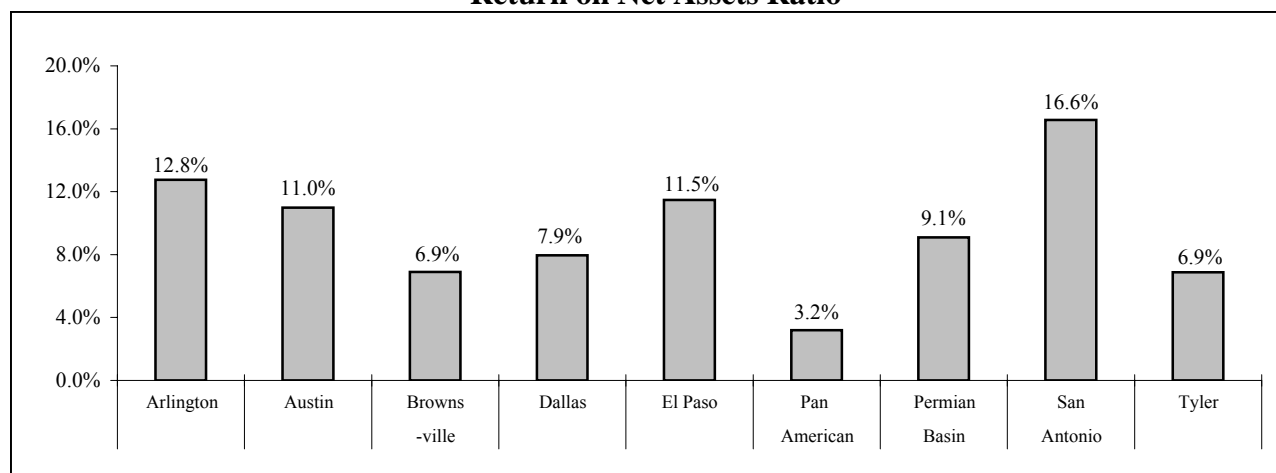
Operating Expense Coverage Ratio



Annual Operating Margin Ratio

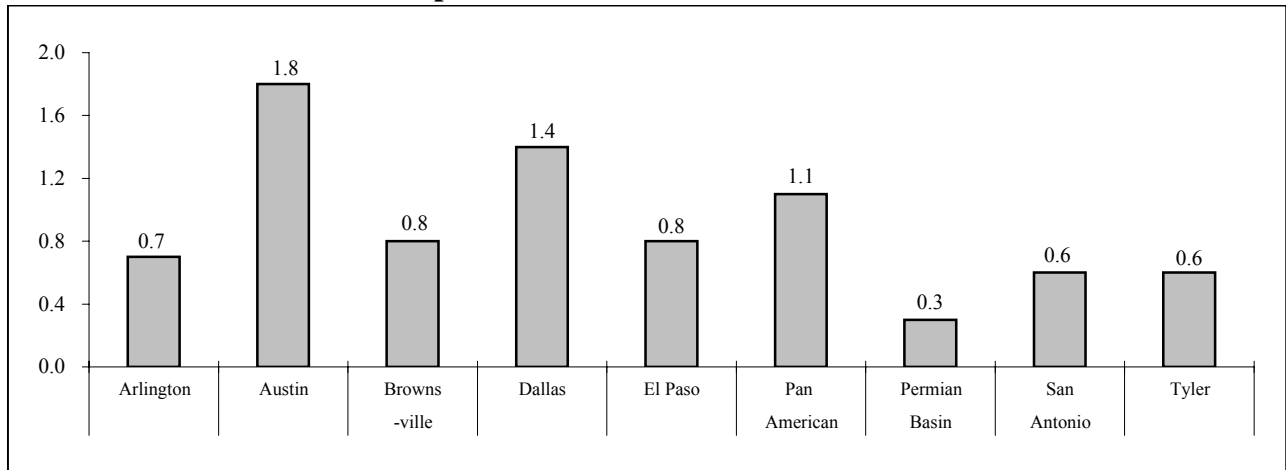


Return on Net Assets Ratio

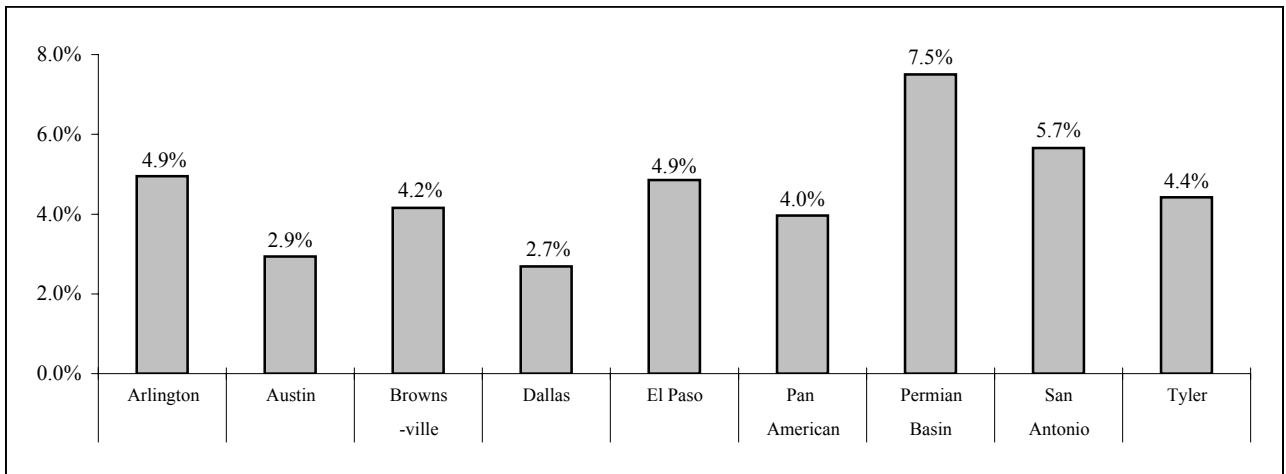


Appendix D - Academic Institutions' Evaluation Factors 2005 Analysis of Financial Condition

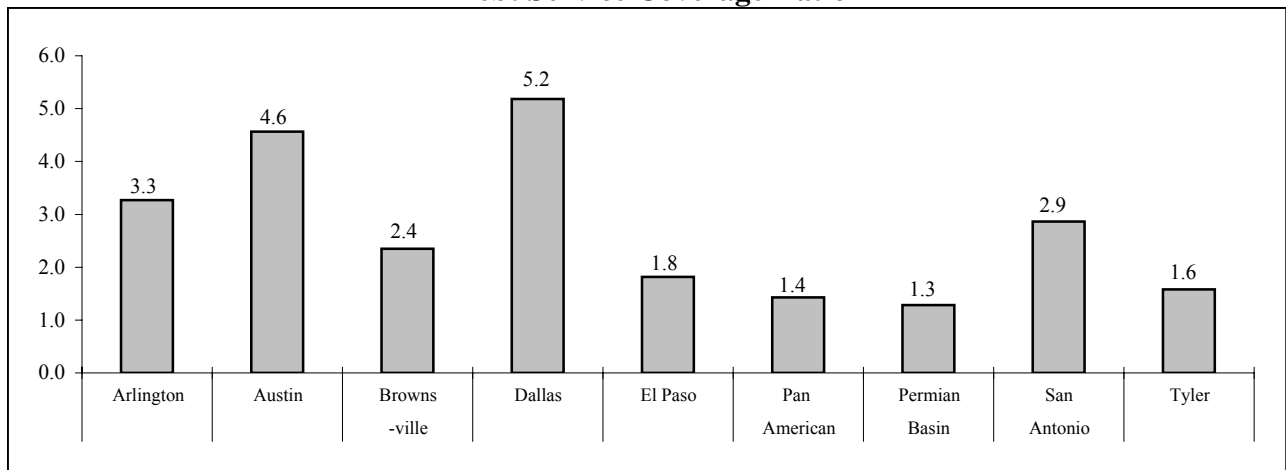
Expendable Resources to Debt Ratio



Debt Burden Ratio

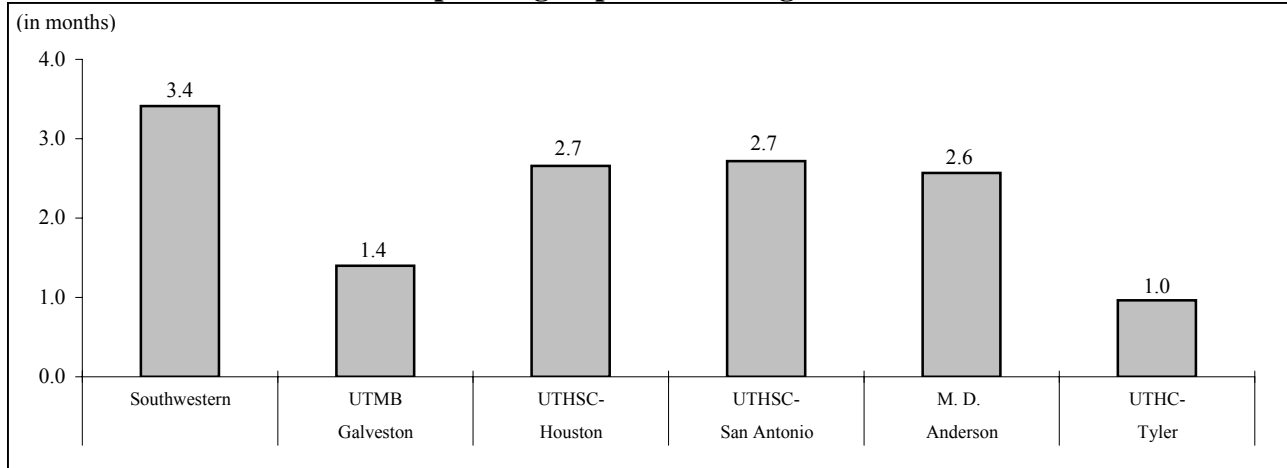


Debt Service Coverage Ratio

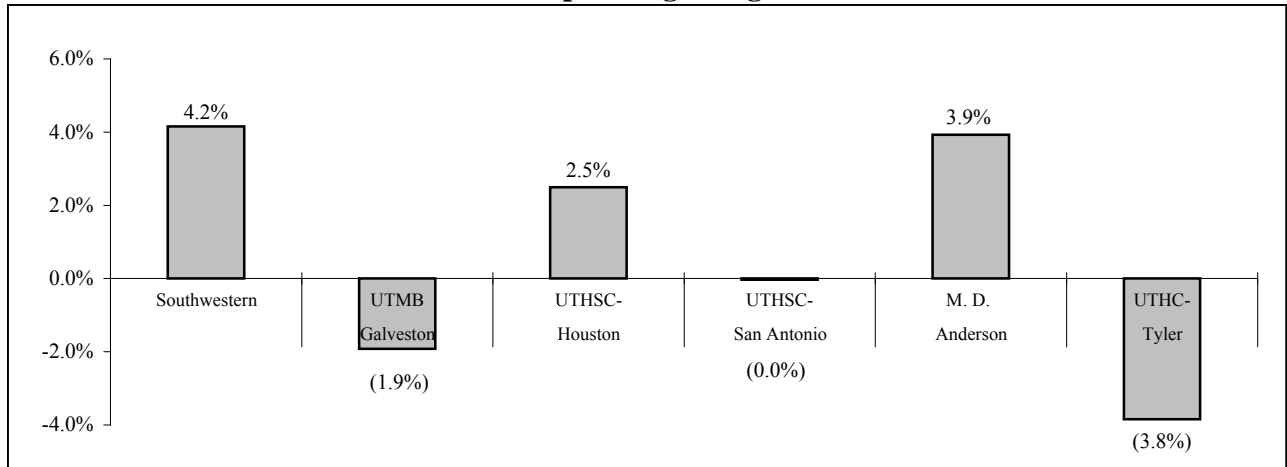


Appendix D - Health Institutions' Evaluation Factors 2005 Analysis of Financial Condition

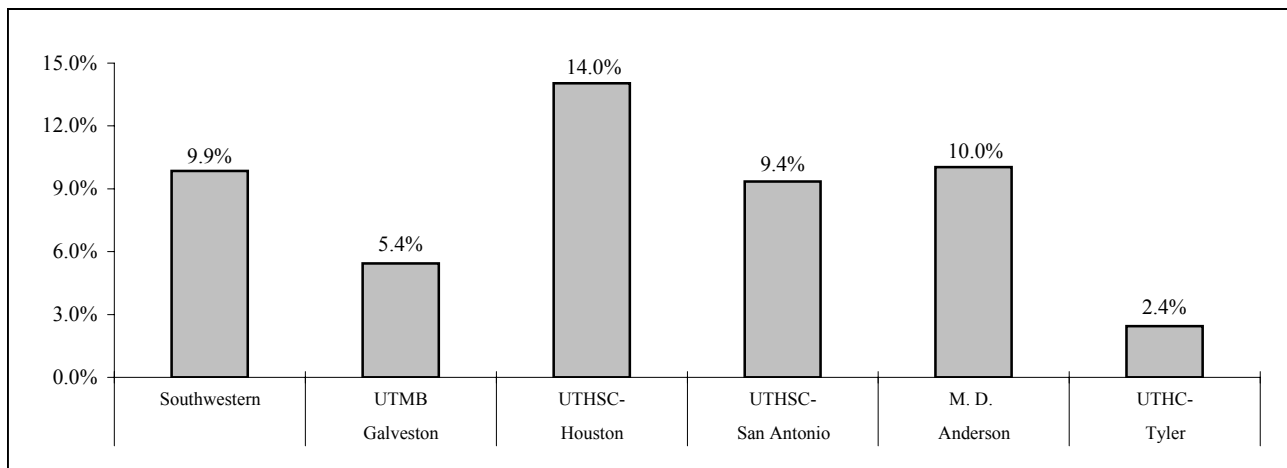
Operating Expense Coverage Ratio



Annual Operating Margin Ratio

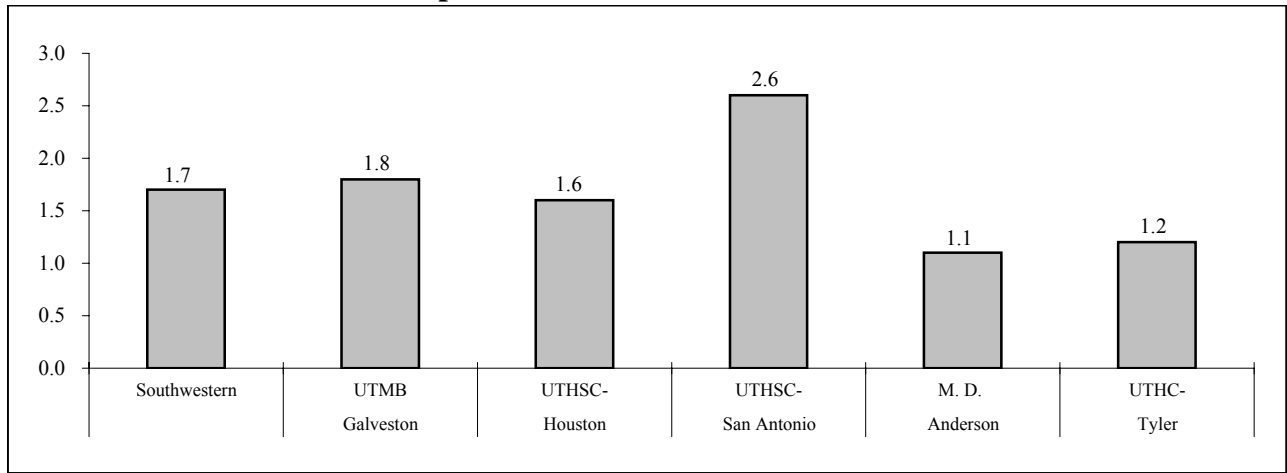


Return on Net Assets Ratio

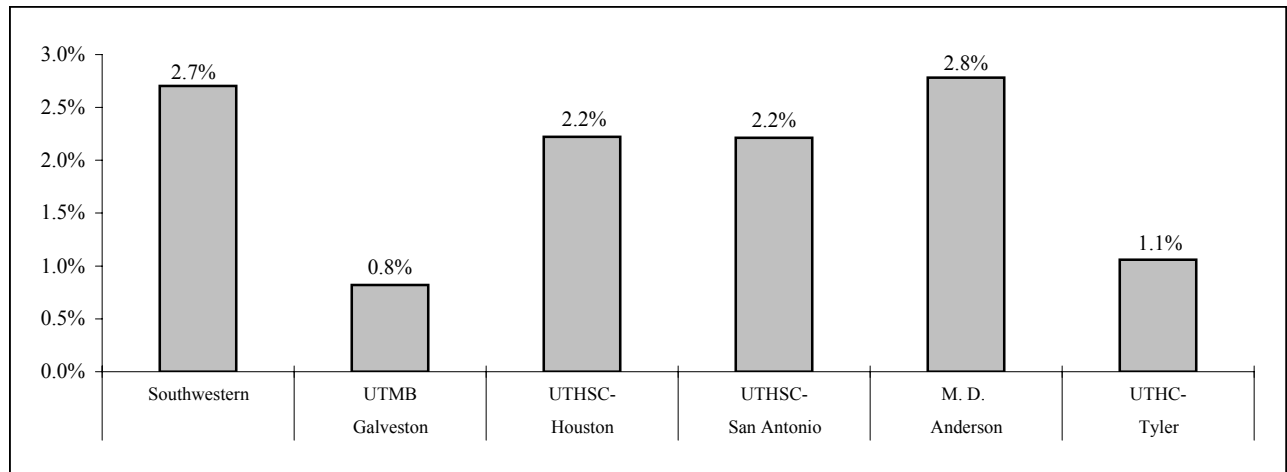


Appendix D - Health Institutions' Evaluation Factors 2005 Analysis of Financial Condition

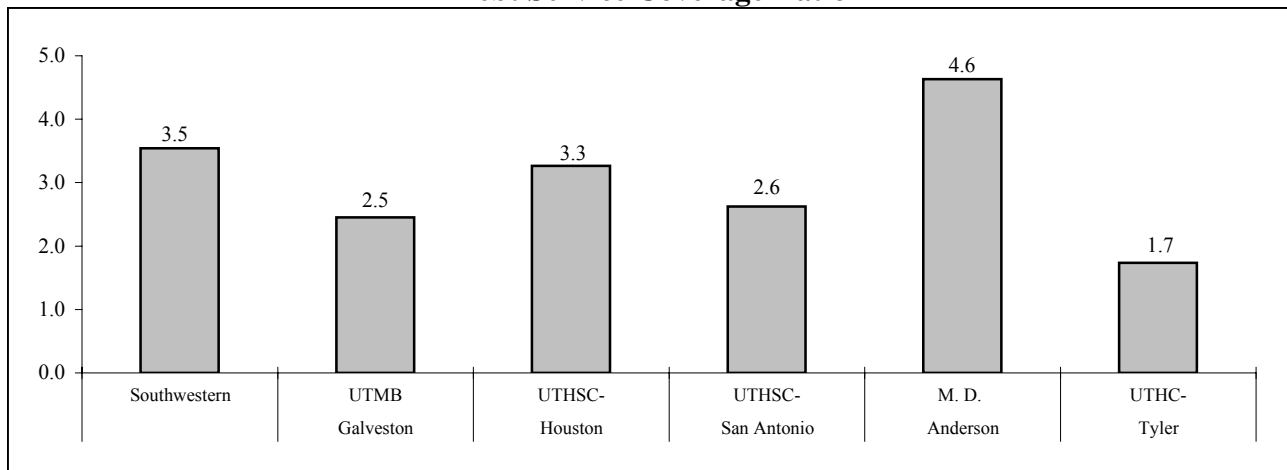
Expendable Resources to Debt Ratio



Debt Burden Ratio

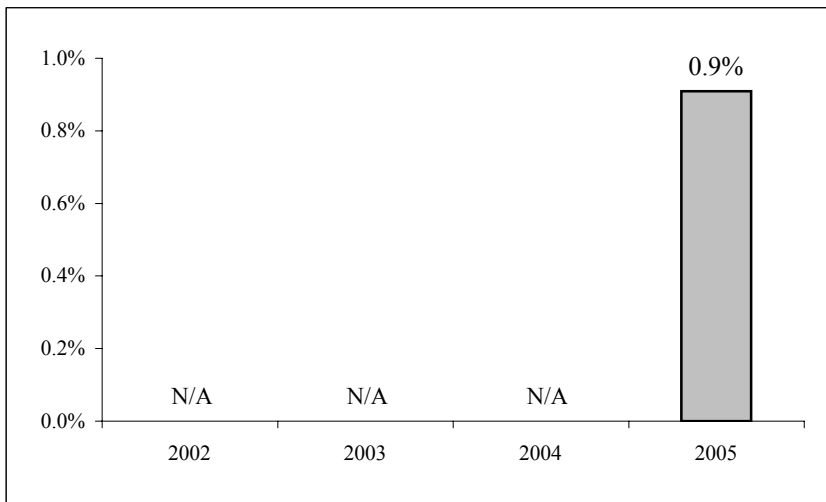


Debt Service Coverage Ratio



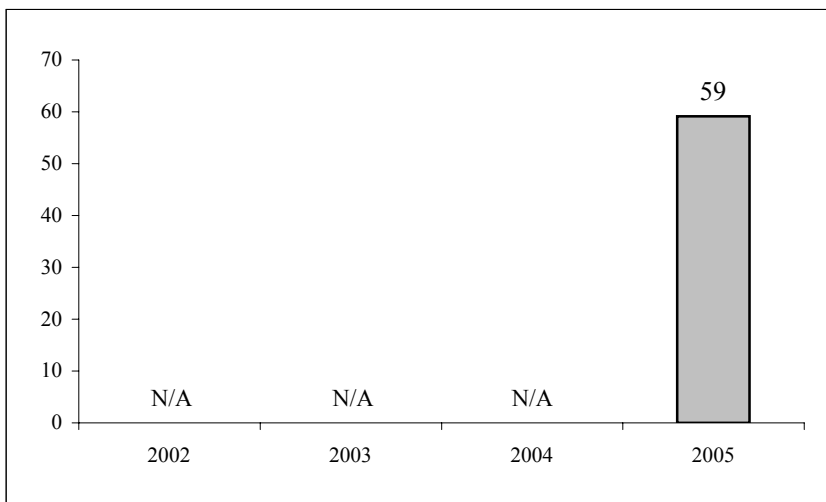
Appendix E - Key Hospital Operating Factors
The University of Texas Southwestern Medical Center at Dallas

Annual Operating Margin Ratio



The operating margin for the two hospitals acquired January 1, 2005 was \$1.7 million. This was \$1.0 million less than budget due to a one-time write-off of non-capital equipment acquired in the acquisition of \$1.6 million.

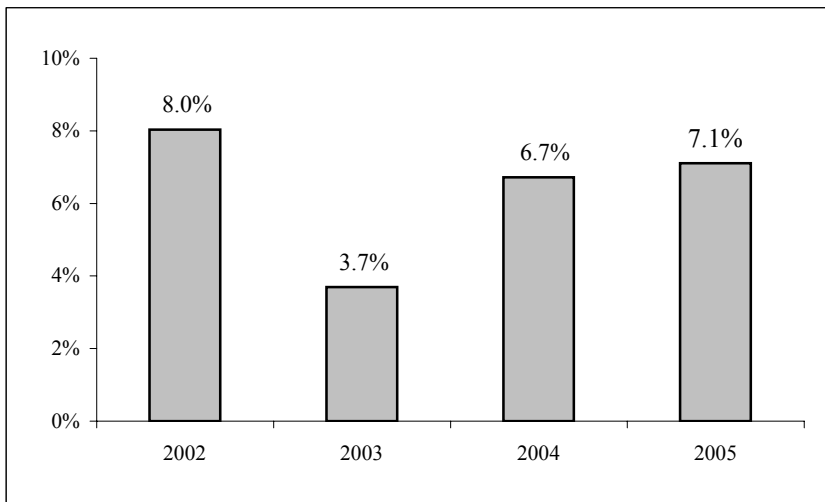
Net Accounts Receivable (in days)



Fifty-nine days in receivables is regarded as reasonable for the current payor mix of the hospitals.

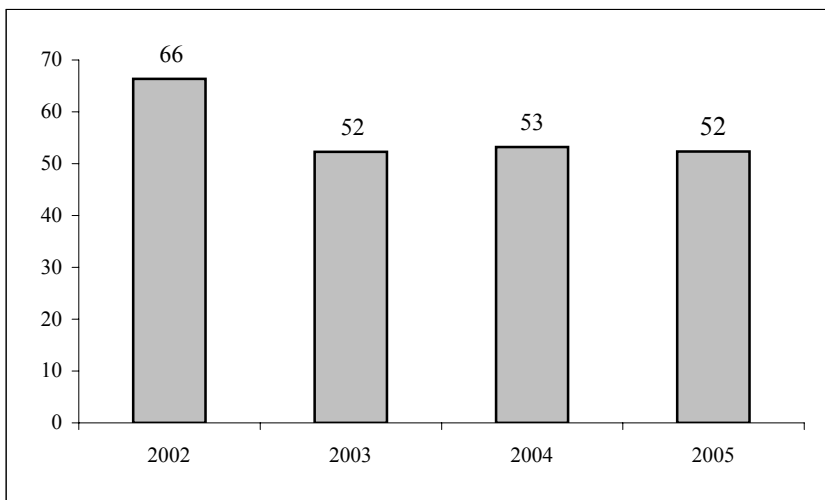
Appendix E - Key MSRDP & NPHC Operating Factors
The University of Texas Southwestern Medical Center at Dallas

Annual Operating Margin Ratio



The growth in the MSRDP operating revenues of 12.7% exceeded a 12.2% increase in operating expenses. Net professional fees increased 16.0% primarily as a result of higher patient volumes with the most substantial increases in Obstetrics/Gynecology, Pathology, Radiology, Anesthesiology, and Internal Medicine. Contractual revenue from affiliated hospitals also increased 6.5%. Professional liability insurance (PLI) expense increased due to a \$5.5 million rebate in 2004, which was not received in 2005. The PLI rebate was reported as a reduction to PLI expense in 2004.

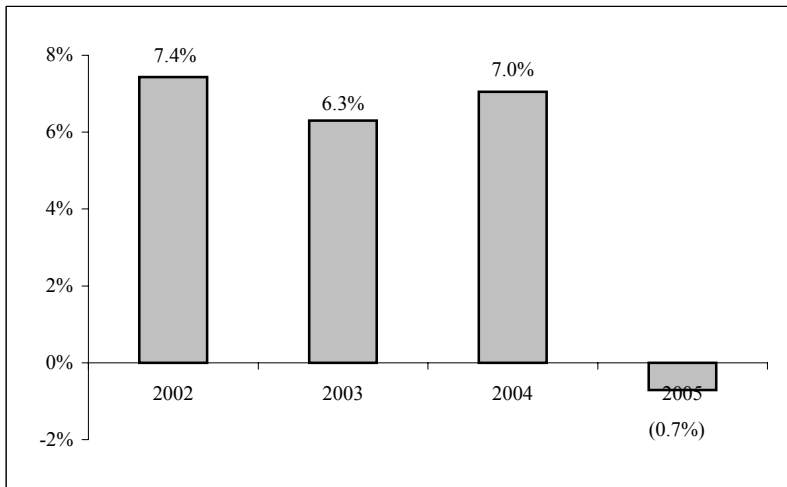
Net Accounts Receivable (in days)



Net accounts receivable (in days) remained relatively stable between 2004 and 2005.

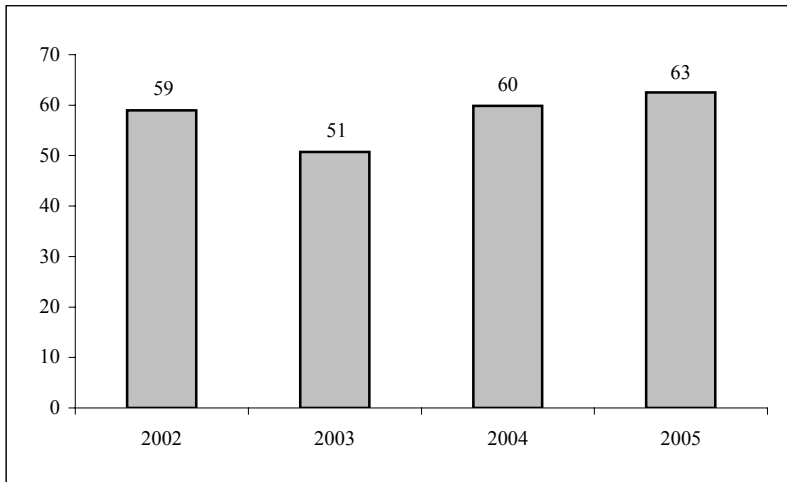
Appendix E - Key Hospital Operating Factors The University of Texas Medical Branch at Galveston

Annual Operating Margin Ratio



UTMB Galveston's hospitals and clinics annual operating margin declined by \$45 million between years. Changes in accounting practices at UTMB Galveston in 2005 resulted in an additional \$42 million of intercompany expenses being charged to the hospitals and clinics. After adjusting for this accounting change, margins declined by \$3 million between years, and the 2005 annual operating margin ratio, stated on a consistent basis with 2004, would have been 6.1% versus (0.7%), as reported. The hospitals and clinics continue to operate in a challenging environment where revenue increases, particularly in government sponsored programs (Medicare, Medicaid, general revenue), fall well short of healthcare expense inflation. UTMB Galveston's hospitals and clinics are committed to enhancing financial performance and are in a continual process of implementing revenue enhancement, cost reduction and growth strategies.

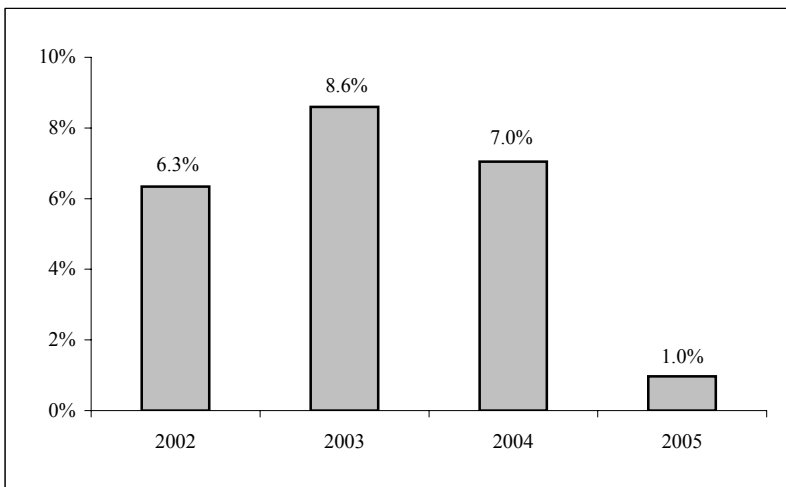
Net Accounts Receivable (in days)



In 2005 receivables with credit balances were excluded from net accounts receivable, which increased the days in net accounts receivable. When adjusted for this accounting change between years and stating days on a consistent basis with 2004, the 2005 days would have been 59 versus 63 as reported, for a decline of 1 day between years. UTMB Galveston's hospitals and clinics are continually implementing strategies to enhance collection efforts and improve the overall quality of outstanding accounts receivable.

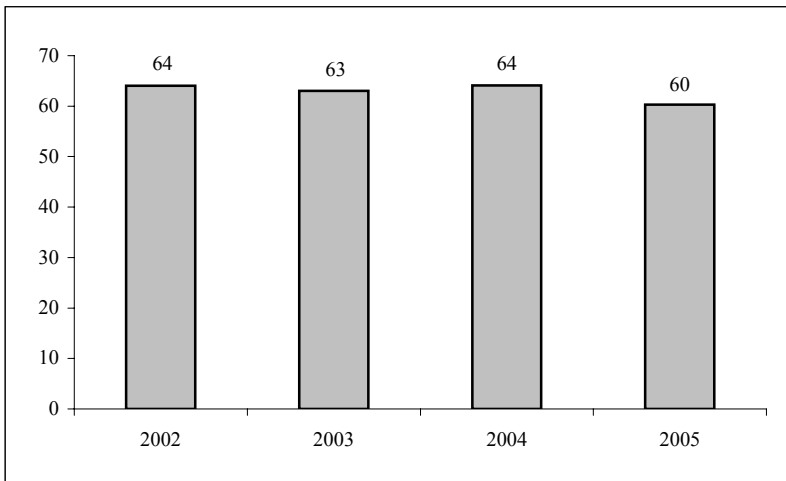
Appendix E - Key MSRDP & NPHC Operating Factors The University of Texas Medical Branch at Galveston

Annual Operating Margin Ratio



In 2004 UTMB Galveston received a professional liability insurance (PLI) rebate in the amount of \$8.7 million that was not received in 2005. The PLI rebate was reported as a reduction to PLI expense in 2004. Also, beginning in 2005, operating revenue was assessed a 5% charge to cover institutional support expenses. These two factors are the primary contributors to the change in the practice plan (MSRDP) portion of the ratio. For the nonprofit healthcare corporation, there was a \$2.8 million decline as the result of a decrease in the CHIP membership due to eligibility changes enacted by the State Legislature.

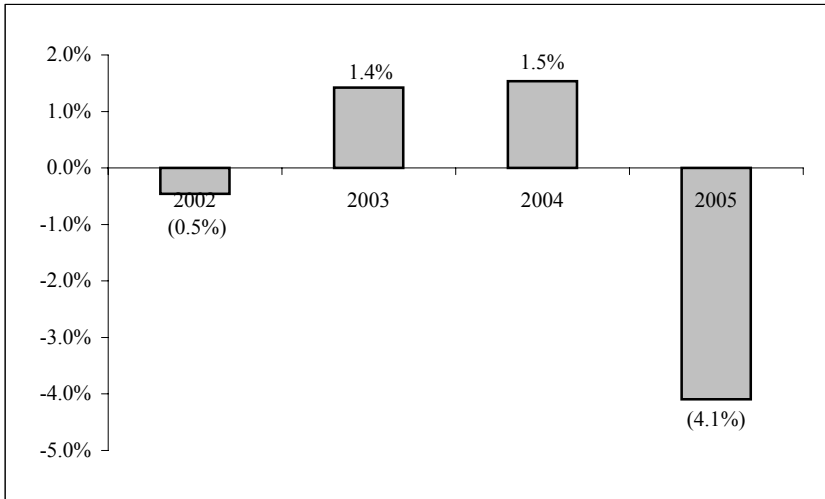
Net Accounts Receivable (in days)



Gross charges for the year increased 5% and collections increased 9%. Although there was an increase in the gross accounts receivable, the proportion increase in net charges was greater, partly due to improved collections in contracted care, TDCJ and patients.

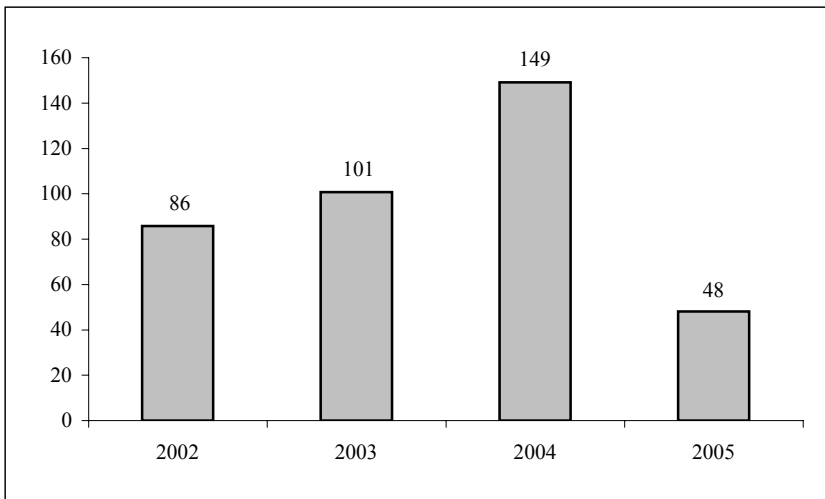
Appendix E - Key Hospital Operating Factors
The University of Texas Health Science Center at Houston

Annual Operating Margin Ratio



Harris County Psychiatric Center (HCPC) re-valued its accounts receivable in 2005 as very little bad debt was written off in 2004. As a result a \$2.1 million prior period adjustment was processed in 2005 which restated the accounts receivable to the net realizable value. This adjustment resulted in a substantial decrease in the annual operating margin.

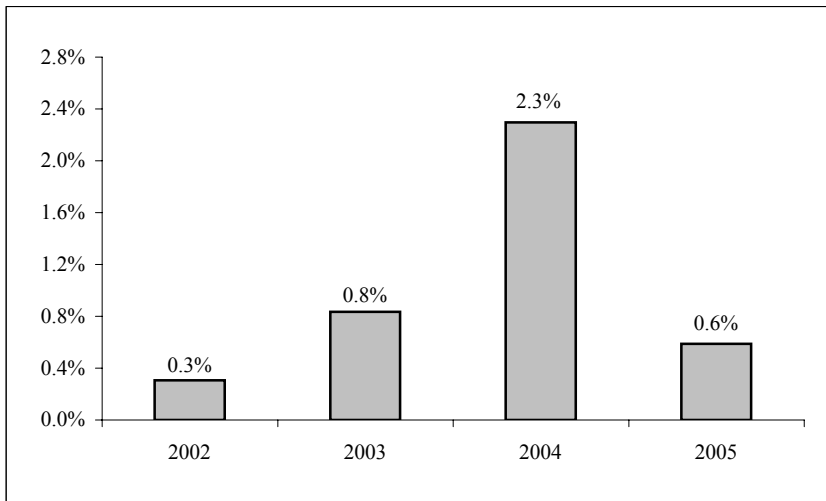
Net Accounts Receivable (in days)



As a result of the prior period adjustment discussed above, the net days in accounts receivable decreased significantly.

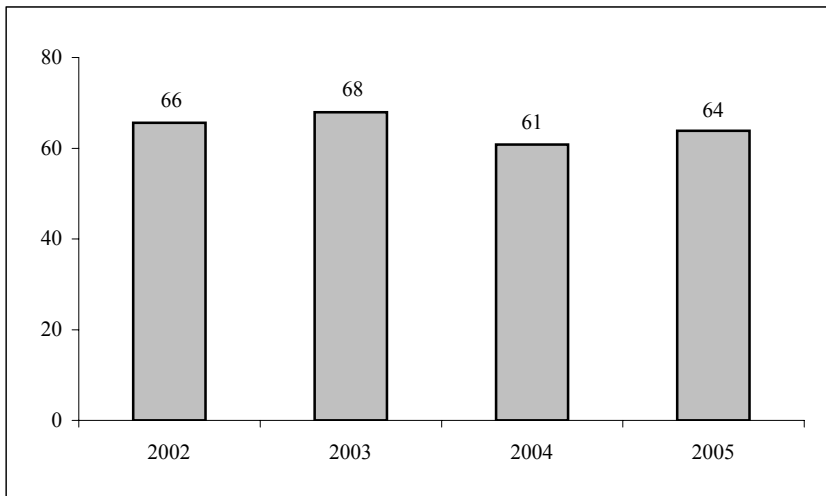
Appendix E - Key MSRD & NPHC Operating Factors
The University of Texas Health Science Center at Houston

Annual Operating Margin Ratio



Professional fee revenue increased over 7% due to an increase in physician productivity and improved collection efforts. Contractual revenue increased almost 7% largely due to an increase in the Harris County Hospital District contractual income. The increase in operating revenues was offset by a greater increase in operating expenses. Faculty salaries increased due to a slightly higher number of faculty FTEs, as well as merit increases, market adjustments and promotions. Professional liability insurance (PLI) increased significantly due to a \$4.3 million PLI rebate received in 2004, which was not received in 2005. The PLI rebate was reported as a reduction to PLI expense in 2004.

Net Accounts Receivable (in days)

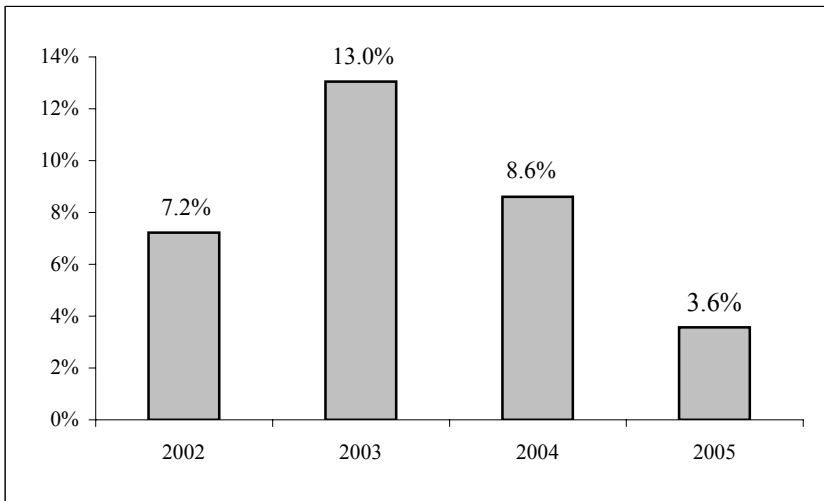


The 2005 accounts receivable value increased by \$3.7 million mainly due to the accrual for unbilled charges. This increase in net accounts receivable was partially offset by a \$1.7 million estimated reserve (liability) for refunds. In addition, the 2005 net charges increased almost 8% due to expected growth and a slight improvement in the billing and collection efforts. The result was a 5.1% increase in the net accounts receivable days.

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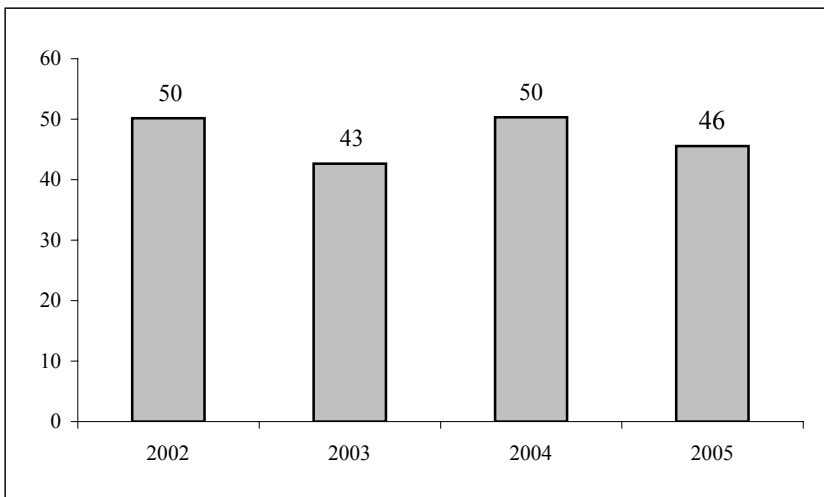
Appendix E - Key MSRDP & NPHC Operating Factors
The University of Texas Health Science Center at San Antonio

Annual Operating Margin Ratio



In 2004 UTHSC-San Antonio received a professional liability insurance (PLI) rebate in the amount of \$5.6 million that was not received in 2005. The PLI rebate was reported as a reduction to PLI expense in 2004. UTHSC-San Antonio has positioned itself to invest incremental growth from the past several years into the physician practice plan. This investment is anticipated to increase future operations and includes recruitment efforts for new faculty and chairs, addressing faculty compensation issues, the expansion of programs and departments, and fulfilling increased service contract requirements.

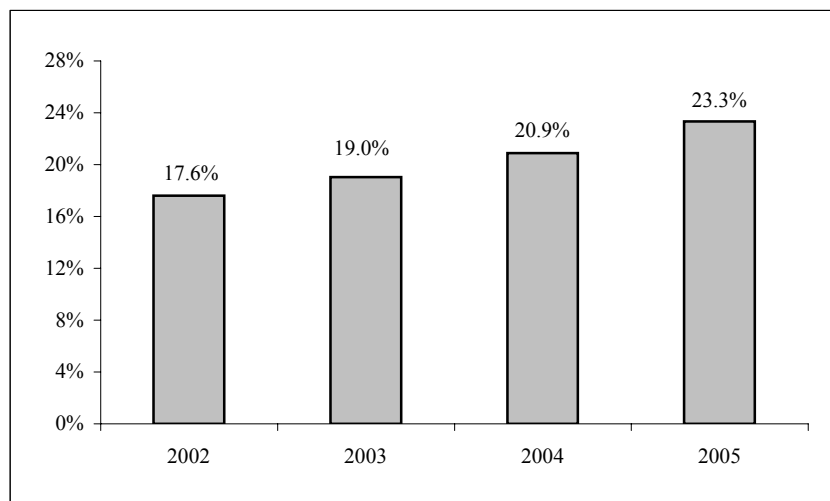
Net Accounts Receivable (in days)



The billing function within UTHSC-San Antonio's nonprofit healthcare corporation, University Physicians Group, continues to improve collection efforts and efficiencies. Improved front-end processes with new electronic eligibility capabilities provides better funding verification of all patient encounters. Also, better utilization of a claims scrubbing software resulted in lower denial rates and faster payments. Additionally, delinquent collections increased due to changes among collection agency vendors.

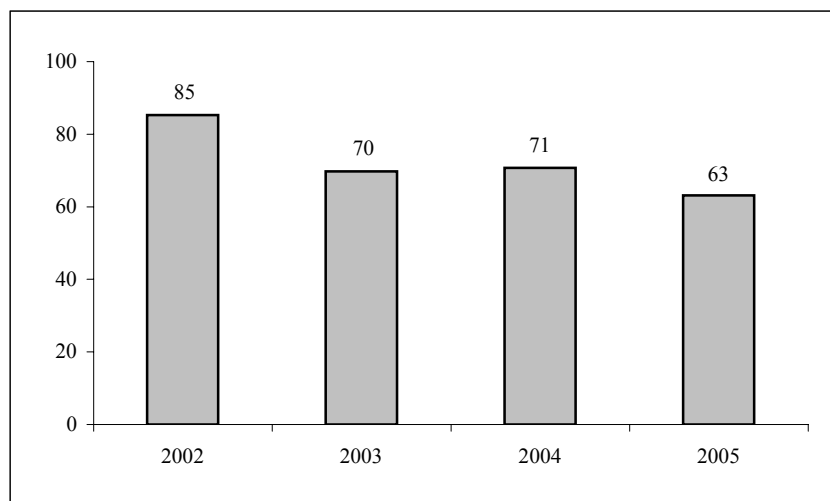
Appendix E - Key Hospital Operating Factors
The University of Texas M. D. Anderson Cancer Center

Annual Operating Margin Ratio



The increase in the annual operating margin ratio of 2.4% from the prior year was the result of continued growth in patient volumes and the overall increase in the number of billable procedures throughout 2005.

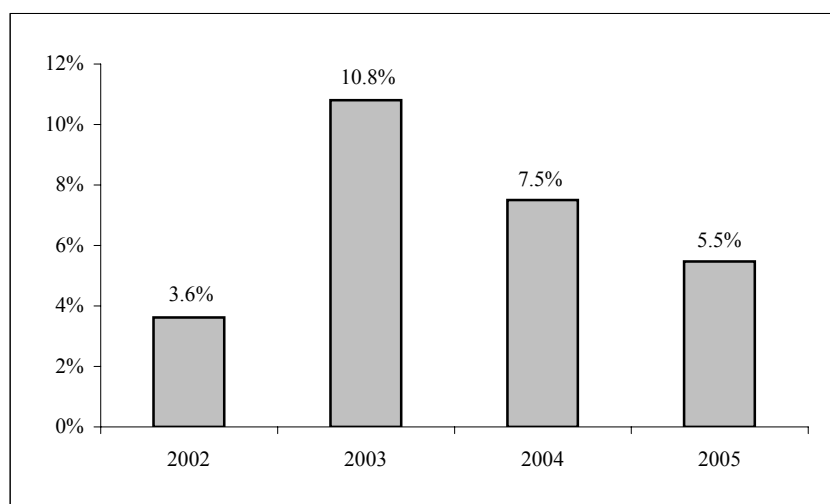
Net Accounts Receivable (in days)



The decrease in days in net accounts receivable was the result of continued improvements in collection practices within patient business services during 2005.

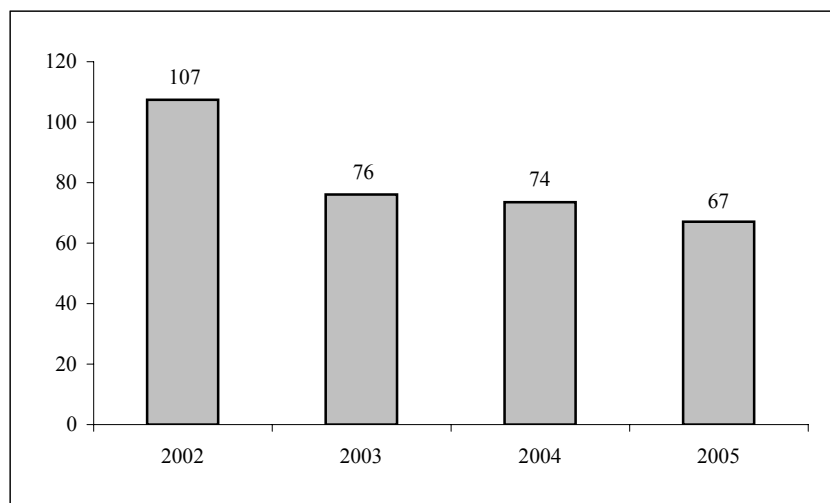
Appendix E - Key MSRDP & NPHC Operating Factors
The University of Texas M. D. Anderson Cancer Center

Annual Operating Margin Ratio



The annual operating margin ratio decreased 2% from 2004 to 2005 due to higher personnel costs resulting from growth in patient volumes and activities and increased professional liability insurance (PLI). PLI increased due to a \$3.4 million PLI rebate received in 2004, which was not received in 2005. The PLI rebate was reported as a reduction to PLI expense in 2004.

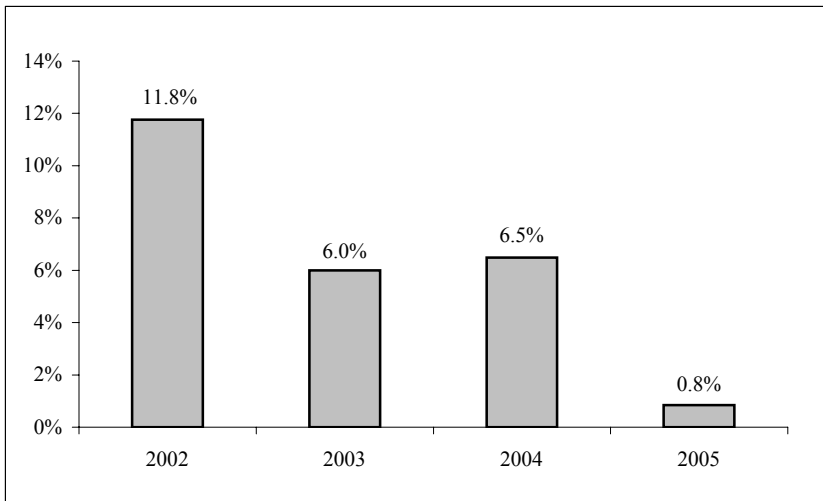
Net Accounts Receivable (in days)



Due to the continued efforts in the business office for the last three years, days in net accounts receivable decreased between 2004 and 2005 from 74 days to 67 days.

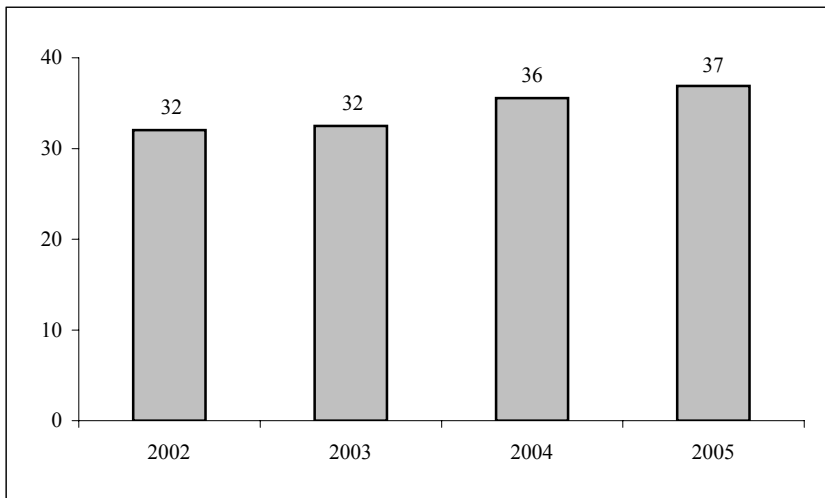
Appendix E - Key Hospital Operating Factors The University of Texas Health Center at Tyler

Annual Operating Margin Ratio



The annual operating margin ratio decreased from 6.5% for 2004 to 0.8% for 2005 as a result of a greater decline in revenues as compared to the reduction in expenses. Revenues were down 8% from 2004. The principle reason for this decrease was a reduction in inpatient volumes. Expenses were down 2.4%. The decrease in inpatient volumes resulted in a reduction in supplies expense.

Net Accounts Receivable (in days)

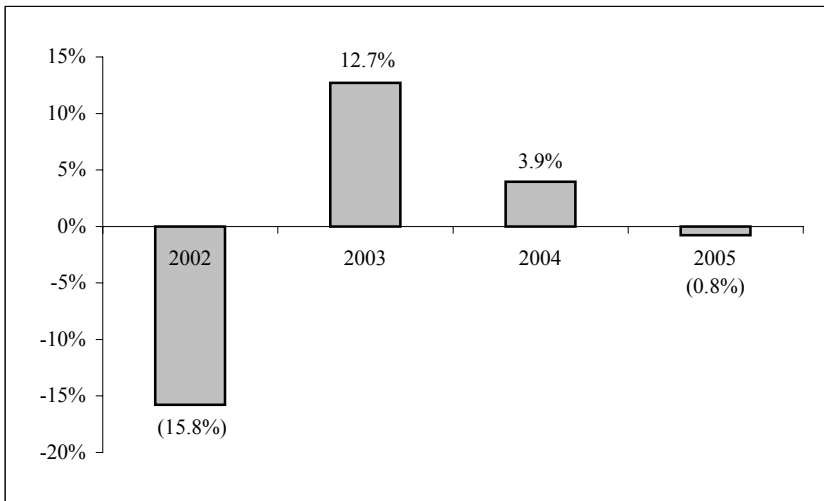


The days in net accounts receivable remained relatively consistent between 2004 and 2005.

Appendix E - Key MSRDP & NPHC Operating Factors

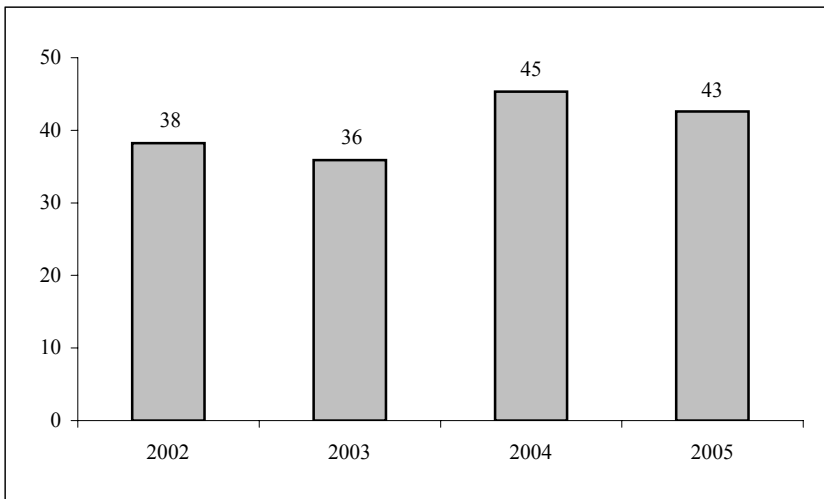
The University of Texas Health Center at Tyler

Annual Operating Margin Ratio



The annual operating margin ratio decreased from 3.9% for 2004 to (0.8%) for 2005. Revenues remained relatively flat between 2004 and 2005. Expenses were higher for contracted services, supplies and professional liability insurance (PLI), while salaries decreased. The contracted services expense increased due to the outsourcing of anesthesiology, cardiovascular, and thoracic surgery services. PLI increased due to a \$547,000 PLI rebate received in 2004, which was not received in 2005. The PLI rebate was reported as a reduction to PLI expense in 2004.

Net Accounts Receivable (in days)



Improved collection percentages and an improved bad debt reserve contributed to the reduction in the number of days in net accounts receivable.