

**The University of Texas  
Southwestern Medical Center at Dallas**

**Financial Statements  
(Unaudited)**

**Fiscal Year Ended August 31, 2007**

**THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT  
DALLAS**

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## **PRIMARY STATEMENTS**

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS  
EXHIBIT A - BALANCE SHEET  
As of August 31, 2007

	Current Year Totals	Prior Year Totals
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash & Cash Equivalents	\$ 98,841,338	\$ 76,394,534
Restricted Cash & Cash Equivalents	35,410,297	53,817,765
Balance in State Appropriations	15,723,276	21,088,817
Accounts Receivable, Net:		
Federal Receivables (allowances of \$0 in '07 & \$0 in '06)	29,898,830	26,469,814
Other Intergovernmental Rec. (allowances of \$0 in '07 & \$0 in '06)	1,769,249	1,880,026
Student Receivables (allowances of \$0 in '07 & \$0 in '06)	-	24,025
Patient Receivables (allowances of \$297,682,008 in '07 & \$218,495,902 in '06)	84,527,184	80,936,888
Interest and Dividends	2,057,417	1,582,395
Contributions Receivable (allowances of \$434,175 in '07 & \$444,732 in '06)	4,988,355	9,575,232
Other Receivables (allowances of \$321,150 in '07 & 437,644 in '06)	23,095,815	25,424,436
Due From System Administration	27,940,824	68,638,135
Due From Other Agencies	-	13,549
Inventories	10,625,020	9,860,500
Loans and Contracts (allowances of \$38,775 in '07 & \$53,218 in '06)	1,718,017	2,016,270
Other Current Assets	5,105,827	3,711,200
<b>Total Current Assets</b>	<b>341,701,449</b>	<b>381,433,586</b>
<b>Non-Current Assets:</b>		
<b>Restricted:</b>		
Investments	321,894,055	263,320,303
Loans, Contracts and Other (allowances of \$147,747 in '07 & \$156,618 in '06)	6,546,225	5,933,844
Funds Held by System Administration	796,069,613	699,447,888
Funds Held by System - Permanent Health Fund	67,076,550	60,184,650
Contributions Receivable (allowances of \$277,053 in '07 & \$272,091 in '06)	9,446,623	10,791,101
Investments	372,885,115	267,509,792
Capital Assets	1,491,612,390	1,388,758,753
Less Accumulated Depreciation	(447,653,148)	-398,034,623
<b>Total Non-Current Assets</b>	<b>2,617,877,423</b>	<b>2,297,911,708</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,959,578,872</b>	<b>\$ 2,679,345,294</b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable and Accrued Liabilities	\$ 117,727,640	\$ 127,937,726
Due to System Administration	6,318,959	5,878,961
Deferred Revenue	22,071,000	7,345,782
Employees' Compensable Leave-Current Portion	28,494,174	26,988,517
Notes, Loans and Leases Payable-Current Portion	236,029	287,571
Payable From Restricted Assets-Current Portion	11,669,513	8,580,492
Funds Held for Others	692,816	685,464
Other Current Liabilities	112,902	118,434
<b>Total Current Liabilities</b>	<b>187,323,033</b>	<b>177,822,947</b>
<b>Non-Current Liabilities:</b>		
Employees' Compensable Leave	25,987,994	22,081,514
Liability to Beneficiary-Held by System	7,585	22,562
Notes, Loans and Leases Payable	78,378	117,269
Other Non-Current Liabilities	1,187,892	436,872
<b>Total Non-Current Liabilities</b>	<b>27,261,849</b>	<b>22,658,217</b>
<b>TOTAL LIABILITIES</b>	<b>214,584,882</b>	<b>200,481,164</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	1,043,841,974	990,570,473
Restricted for:		
<b>Nonexpendable</b>		
Perm. Health, True & Term Endowments, & Annuities	445,113,004	430,428,383
<b>Expendable</b>		
Capital Projects	23,785,907	58,286,517
Funds Functioning as Endowment - Restricted	25,240,853	22,021,929
Other Expendable	759,576,637	645,789,274
Unrestricted	447,435,615	331,767,554
<b>TOTAL NET ASSETS</b>	<b>2,744,993,990</b>	<b>2,478,864,130</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,959,578,872</b>	<b>\$ 2,679,345,294</b>

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS  
EXHIBIT B - STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
As of August 31, 2007

	Current Year Totals	Prior Year Totals
<b>OPERATING REVENUES:</b>		
Student Tuition and Fees	\$ 16,270,249	\$ 14,753,216
Discounts and Allowances	(2,898,418)	(2,342,153)
Federal Sponsored Programs	192,360,289	197,212,427
Federal Sponsored Programs Pass-Through from Other St. Agencies	4,670,738	4,872,985
State Sponsored Programs	1,688,504	3,417,750
State Sponsored Programs Pass-Through from Other St. Agencies	802,615	1,165,832
Local Sponsored Programs	148,182,588	136,490,505
Private Sponsored Programs	57,478,485	63,042,068
Sales and Services of Educational Activities	3,079,355	6,554,818
Discounts and Allowances	-	-
Sales and Services of Hospitals	871,489,452	830,661,079
Discounts and Allowances	(569,723,499)	(541,193,533)
Professional Fees	1,084,002,377	923,221,146
Discounts and Allowances	(730,957,422)	(675,381,812)
Auxiliary Enterprises	17,446,513	17,212,670
Discounts and Allowances	-	-
Other Operating Revenues	13,743,460	14,318,505
Total Operating Revenues	<u>1,107,635,286</u>	<u>994,005,503</u>
<b>OPERATING EXPENSES:</b>		
Instruction	431,872,613	390,137,557
Research	269,261,782	257,392,902
Public Service	49,813,872	61,207,775
Hospitals and Clinics	293,705,078	293,264,938
Academic Support	21,409,628	23,234,032
Student Services	3,835,388	2,656,583
Institutional Support	54,448,444	49,090,724
Operations and Maintenance of Plant	51,858,009	56,869,663
Scholarships and Fellowships	524,925	441,665
Auxiliary Enterprises	14,940,495	15,305,206
Depreciation and Amortization	64,186,894	56,952,177
Total Operating Expenses	<u>1,255,857,128</u>	<u>1,206,553,222</u>
Operating Income (Loss)	<u>(148,221,842)</u>	<u>(212,547,719)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
State Appropriations	152,322,146	147,434,076
Gift Contributions for Operations	47,982,405	42,930,007
Net Investment Income	66,929,702	68,351,975
Net Increase (Decrease) in Fair Value of Investments	134,032,583	64,482,417
Gain/(Loss) on Sale of Capital Assets	(2,676,109)	(2,023,917)
Other Nonoperating Revenues	912,361	135,905
Net Nonoperating Revenues (Expenses)	<u>399,503,088</u>	<u>321,310,463</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers:	251,281,246	108,762,744
Gifts and Sponsored Programs for Capital Acquisitions	13,606,550	4,853,385
Additions to Permanent Endowments	10,450,556	15,903,506
Reclass from / (to) Other Institutions	(159,652,005)	71,414,088
Transfers Between Institutions & System, Debt Service - Mandatory	(50,514,302)	(40,610,339)
Transfers Between Institutions & System Admin. - Nonmandatory	201,284,175	44,603,796
Transfers From Other State Agencies	-	171,200
Transfers to Other State Agencies	(326,360)	(101,350)
Change in Net Assets	<u>266,129,860</u>	<u>204,997,030</u>
Beginning Net Assets - As Previously Reported	2,478,864,130	2,273,867,100
Restatements	-	-
Beginning Net Assets - As Restated	<u>2,478,864,130</u>	<u>2,273,867,100</u>
Ending Net Assets	<u>\$ 2,744,993,990</u>	<u>\$ 2,478,864,130</u>

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS  
 EXHIBIT C - STATEMENT OF CASH FLOWS  
 As of August 31, 2007

	Current Year Totals	Prior Year Totals
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 13,378,983	\$ 12,582,529
Proceeds from Patients and Customers	651,781,852	536,478,095
Proceeds from Sponsored Programs	411,502,396	404,923,856
Proceeds from Auxiliaries	17,421,970	17,654,328
Proceeds from Other Revenues	19,291,771	23,946,210
Payments to Suppliers	(377,459,212)	(362,093,710)
Payments to Employees	(810,343,560)	(759,583,199)
Payments for Loans Provided	(1,798,221)	(2,147,264)
Proceeds from Loan Programs	1,214,386	1,798,937
Net Cash Provided (Used) by Operating Activities	<u>(75,009,655)</u>	<u>(126,440,238)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from State Appropriations	157,687,687	127,634,317
Proceeds from Operating Gifts	53,913,760	41,273,080
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	10,450,556	15,903,506
Proceeds from Other Nonoperating Revenues	-	18,696
Payments/Receipts for Transfers to/from System or Oth. Agencies	1,888,379	(526,768)
Net Cash Provided by Noncapital Financing Activities	<u>223,940,382</u>	<u>184,302,831</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Issuance of Capital Debt	-	291,190
Proceeds from Capital Debt Transferred from System (nonmandatory)	80,540,586	84,644,197
Proceeds from Capital Appropriations, Grants and Gifts	16,369,579	9,483,992
Proceeds from Sale of Capital Assets	215,768	9,464,785
Payments for Additions to Capital Assets	(126,325,882)	(117,791,332)
Payments of Principal on Capital Related Debt	(90,433)	(1,400,644)
Mandatory Transfers to System for Capital Related Debt	(50,514,302)	(40,610,339)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(79,804,684)</u>	<u>(55,918,151)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Sales of Investments	-	62,025,866
Proceeds from Interest and Investment Income	35,289,482	35,131,008
Proceeds from Interest and Investment Income Held by System	34,303,182	32,068,421
Payments to Acquire Investments	(482,893)	(9,913,188)
Payments to Acquire Investments Held by System	(134,196,478)	(134,688,531)
Net Cash Provided (Used) by Investing Activities	<u>(65,086,707)</u>	<u>(15,376,424)</u>
<b>Net Increase (Decrease) in Cash</b>	<b>4,039,336</b>	<b>(13,431,982)</b>
Cash and Cash Equivalents - Beginning of the Year	130,212,299	143,644,281
Cash and Cash Equivalents - End of the Year	<u>\$ 134,251,635</u>	<u>\$ 130,212,299</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (used) by Operating Activities:</b>		
Operating Loss	\$ (148,221,842)	(212,547,719)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	64,186,894	56,952,177
Bad Debt Expense	283,256	67,092
Op. Income & Cash Flow Categories Classification Differences		
Changes in Assets and Liabilities:		
Receivables	(9,780,204)	2,737,247
Inventories	(764,520)	442,272
Loans and Contracts	(597,384)	(348,347)
Other Assets	(1,394,627)	(630,301)
Payables	(51,421)	21,826,314
Due to System	439,998	600,728
Deferred Income	14,725,219	(458,889)
Deposits Held for Others	7,351	212,613
Compensated Absence Liability	5,412,137	5,532,483
Other Liabilities	745,488	(925,908)
Total Adjustments	<u>73,212,187</u>	<u>86,107,481</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (75,009,655)</u>	<u>(126,440,238)</u>
<b>Non Cash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	134,032,583	64,482,417
Donated Capital Assets	365,898	179,101
Capital Assets Acquired Under Capital Lease Purchases	-	153,657
Miscellaneous Noncash Transactions	(1,984,750)	288,409

## **SUPPLEMENTAL SCHEDULES**

UNAUDITED

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS  
 SCHEDULE A-1: CASH AND CASH EQUIVALENTS AND INVESTMENTS  
 As of August 31, 2007

	CURRENT ASSETS		NON-CURRENT ASSETS		Prior Year Totals
	Unrestricted	Restricted	Unrestricted	Restricted	
<b>Primary University:</b>					
<b>Cash and Cash Equivalents</b>					
Cash on Hand	\$ 214,352	21,240	-	-	182,072
Petty Cash					
Cash in Transit					
Subtotal Cash on Hand	<u>214,352</u>	<u>21,240</u>	<u>-</u>	<u>-</u>	<u>182,072</u>
Cash in Bank					
Demand Accounts	(5,275,043)	(10,812,185)	-	-	(11,228,889)
Subtotal Cash in Bank	<u>(5,275,043)</u>	<u>(10,812,185)</u>	<u>-</u>	<u>-</u>	<u>(11,228,889)</u>
Cash in State Treasury					
Permanent Health Fund (Funds 0810 - 0817, 0822)	3,052,497	1,035,200	-	-	1,170,120
Local Revenue Fund 0252	3,052,497	1,035,200	-	-	8,368,167
Subtotal Cash in State Treasury	<u>3,052,497</u>	<u>1,035,200</u>	<u>-</u>	<u>-</u>	<u>9,558,287</u>
Cash Equivalent Investments (Intent)					
Money Market Funds (STF)	100,841,123	45,166,042	-	-	130,879,825
Subtotal Cash Equivalent Investments	<u>100,841,123</u>	<u>45,166,042</u>	<u>-</u>	<u>-</u>	<u>130,879,825</u>
Reimbursements due from State Treasury	8,409				821,004
<b>Total Cash and Cash Equivalents (Exhibit A)</b>	<b>\$ 98,841,338</b>	<b>35,410,297</b>	<b>-</b>	<b>-</b>	<b>130,212,299</b>
<b>Primary University:</b>					
<b>Investments</b>					
Funds Held by System Administration (GEF)					
Pooled Operating Funds (Held by System - STF)	360,228,602	863,146,163	863,146,163	759,632,538	
Other Investments	12,656,513	250,417,631	610,646,233	460,518,253	
		71,476,424	84,132,937	70,311,842	
<b>Total Investments (Exhibit A)</b>	<b>\$ 372,885,115</b>	<b>1,165,040,218</b>	<b>1,557,925,333</b>	<b>1,290,462,633</b>	



THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS  
 SCHEDULE C-1A  
 STATEMENT OF HOSPITAL REVENUES  
 For The Year Ended August 31, 2007

	Current Year Totals	Prior Year Totals
Gross Patient Services		
In-patient	\$ 671,507,919	\$ 644,127,616
Out-patient	199,981,533	168,657,213
Gross Sales and Services of Hospitals	<u>871,489,452</u>	<u>812,784,829</u>
Adjustments to Patient Services		
Charity Care	(48,668,785)	(11,324,924)
Contractual Allowances	(479,837,541)	(489,230,995)
Provision for Bad Debts	(41,217,174)	(29,131,686)
Total Discounts and Allowances	<u>(569,723,500)</u>	<u>(529,687,605)</u>
Net Sales and Services of Hospitals	<u>301,765,952</u>	<u>283,097,224</u>
Other Operating Revenues		
Auxiliary Enterprises	4,138,189	4,598,805
Rent Income	-	-
Other	1,543,070	1,388,208
Total Other Operating Revenues	<u>5,681,259</u>	<u>5,987,013</u>
Total Hospital Operating Revenues	<u>307,447,211</u>	<u>289,084,237</u>
Non-Operating Revenues		
Investment Income	243,668	1,141
Gifts	3,963,173	6,403,280
Gain/Loss on Sale of Capital Assets	(95,690)	-
Unrealized Gain	898,950	-
Total Non-Operating Revenues	<u>5,010,101</u>	<u>6,404,421</u>
Total Hospital Revenues	<u>\$ 312,457,312</u>	<u>\$ 295,488,658</u>

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS  
 SCHEDULE C-2A  
 STATEMENT OF HOSPITAL EXPENDITURES  
 FOR THE YEAR ENDED AUGUST 31, 2007

	Current Year Totals	Prior Year Totals
Operating Expenses		
Salaries and Wages	\$ 115,909,640	\$ 109,640,093
Payroll Related Costs	24,950,145	23,733,541
Cost of Goods Sold	753,994	845,172
Professional Fees and Services	17,490,207	15,031,374
Travel	159,530	164,792
Materials and Supplies	85,238,378	79,123,798
Utilities	5,076,359	3,799,829
Telecommunications	1,259,637	622,177
Repairs and Maintenance	2,764,687	3,047,645
Rentals and Leases	4,100,324	4,704,422
Printing and Reproduction	124,131	172,859
Depreciation	10,218,138	7,722,332
Interest Expense	85,792	5,515
Other	40,860,800	43,725,038
Total Operating Expenses	<u>308,991,762</u>	<u>292,338,587</u>
Non-operating Expenses and Transfers		
Transfers In	-	-15,182,007
Transfers Out	3,386,316	15,283,572
Total Non-operating and Transfers	<u>3,386,316</u>	<u>101,565</u>
Total Expenses and Transfers	<u>\$ 312,378,078</u>	<u>\$ 292,440,152</u>

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS  
 Schedule D-6: Medical Services, Research and Development Plan - Summary of Operations  
 For the Twelve Months Ending August 31, 2007

	Current Year	Prior Year
	<u>Totals</u>	<u>Totals</u>
<b>Operating Revenues:</b>		
Gross Patient Charges	\$ 1,081,299,241	\$ 921,078,618
Less:		
Un-sponsored Charitable Care	(356,584,238)	(371,325,155)
Contractual Adjustments	(329,900,841)	(265,945,451)
Other Unreimbursed Medical Costs	(27,958,627)	(22,195,853)
Bad Debt Expense	<u>(15,717,241)</u>	<u>(15,179,535)</u>
Net Patient Revenues	351,128,294	246,432,624
Contractual Revenues	144,126,680	129,697,175
Other Operating Revenues	<u>3,899,167</u>	<u>3,457,777</u>
<b>Total Operating Revenues</b>	<u>499,156,141</u>	<u>379,587,576</u>
<b>Operating Expenses:</b>		
Faculty Salaries	132,731,929	122,620,981
Staff Salaries	93,510,923	92,649,704
Fringe Benefits	72,803,196	70,231,901
Maintenance and Operations	83,217,370	64,419,354
Professional Liability Insurance	(990,087)	481,215
Travel	3,128,126	2,962,423
Official Functions	<u>684,924</u>	<u>692,667</u>
<b>Total Operating Expenses</b>	<u>385,086,381</u>	<u>354,058,245</u>
<b>Operating Income (Loss)</b>	<u>114,069,760</u>	<u>25,529,331</u>
<b>Nonoperating Revenues (Expenses):</b>		
Investment Income	3,733,337	7,016,212
Net Increase (Decrease) of Fair Value of Investments	<u>46,020</u>	<u>-</u>
<b>Net Nonoperating Revenues (Expenses)</b>	<u>3,779,357</u>	<u>7,016,212</u>
<b>Income (Loss) Before Other Revenues, Expenses, Gains or Losses:</b>	117,849,117	32,545,543
Transfers In:		
Balance Sheet Transactions Between Funds	-	51,166
Miscellaneous	-	237,025
Transfer to/from Auxiliary Funds	1,084,575	980,000
Transfer to/from General Funds	-	2,895,537
Transfer to/from Non-Govt Restricted Funds	167,313	1,311,262
Transfer to/from Plant Funds	5,573,676	897,412
Transfer within a fund group	195,114	775,400
Transfer Internal Finance System - Principal	1,041,743	1,003,992
Transfer Internal Finance System - Interest Charge	222,118	259,472
Transfer RFS Financing	-	3,253,938
Transfer between fund groups - Internal Fin principal	538,902	507,745
Transfer between fund groups - Inter Fin interest	748,497	779,654
Transfers Out:		
Balance Sheet Transactions Between Funds	(53,215)	-
Miscellaneous	(2,102,196)	(903,000)
Transfer to/from General Funds	(1,387,479)	-
Transfer to/from Auxiliary Funds	(1,123,528)	(1,302,729)
Transfer to/from Non-Govt Restricted Funds	(3,795,686)	(157,039)
Transfer to/from Plant Funds	(8,049,765)	(2,184,021)
Transfers of overhead earned	(3,377,668)	(2,476,264)
Transfer within a fund group	-	(3,059,569)
Transfer to Endowments-Prior year gifts and other sources	-	(386,079)
Debt Service (Principal)	(6,259,665)	(8,063,460)
Debt Service (Interest)	(2,049,238)	(2,470,214)
Capital Outlay	<u>(1,982,058)</u>	<u>(2,636,874)</u>
<b>Change in MSRDP Net Assets</b>	97,240,657	21,858,897
Beginning Net Assets - As Previously Reported	163,810,537	141,951,640
Restatements		
Beginning Net Assets - As Restated	<u>163,810,537</u>	<u>141,951,640</u>
<b>Ending Net Assets (See NOTE)</b>	<u>\$ 261,051,194</u>	<u>\$ 163,810,537</u>

NOTE: Ending Net Assets was composed of the following:

Unrestricted:

Reserved

Encumbrances	\$ 9,161,830	\$ 7,977,181
Accounts Receivable (less deferred revenue portion)	55,895,953	37,012,746
Inventories	268,825	471,626

Unreserved

Allocated

Provision for Capital Projects	7,695,558	4,497,781
Practice Plan Minimum Operating Reserve of 90 days	154,531,727	113,551,203

Unallocated

	<u>33,497,301</u>	<u>-</u>
<b>Total Net Assets</b>	<u>\$ 261,051,194</u>	<u>\$ 163,810,537</u>

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS  
 Schedule D-6: Allied Health Faculty Services Plan - Summary of Operations  
 For the Twelve Months Ending August 31, 2007

	Current Year	Prior Year
	<u>Totals</u>	<u>Totals</u>
<b>Operating Revenues:</b>		
Gross Patient Charges	\$ 2,703,136	\$ 2,142,528
Less:		
Un-sponsored Charity Care	(12,010)	(16,162)
Contractual Adjustments	(636,848)	(681,363)
Other Unreimbursed Medical Costs	(30,807)	(9,853)
Bad Debt Expense	<u>(106,810)</u>	<u>(28,440)</u>
Net Patient Revenues	1,916,661	1,406,710
Contractual Revenues	302,008	272,167
Other Operating Revenues	<u>26,402</u>	<u>26,130</u>
<b>Total Operating Revenues</b>	<u>2,245,071</u>	<u>1,705,007</u>
<b>Operating Expenses:</b>		
Faculty Salaries	251,884	335,658
Staff Salaries	246,177	248,185
Fringe Benefits	252,537	324,355
Maintenance and Operations	529,846	612,521
Professional Liability Insurance	8,194	7,279
Travel	32,562	33,833
Official Functions	<u>8,739</u>	<u>2,894</u>
<b>Total Operating Expenses</b>	<u>1,329,939</u>	<u>1,564,725</u>
<b>Operating Income (Loss)</b>	<u>915,132</u>	<u>140,282</u>
<b>Nonoperating Revenues (Expenses):</b>		
Investment Income	<u>9,000</u>	<u>7,500</u>
<b>Net Nonoperating Revenues (Expenses)</b>	<u>9,000</u>	<u>7,500</u>
<b>Income (Loss) Before Other Revenues, Expenses, Gains or Losses:</b>	924,132	147,782
Transfers In:		
Miscellaneous Transfers	3	355,657
Transfers Out:		
Miscellaneous Transfers	<u>(177,726)</u>	<u>(226,840)</u>
<b>Change in Net Assets</b>	<u>746,409</u>	<u>276,599</u>
Beginning Net Assets - As Previously Reported	3,590,860	3,314,261
Restatements		
Net Assets - September 1, 2004 - As Restated	<u>3,590,860</u>	<u>3,314,261</u>
<b>Ending Net Assets (See NOTE)</b>	<u>\$ 4,337,269</u>	<u>\$ 3,590,860</u>

NOTE: Ending Net Assets was composed of the following:

Unrestricted:		
Reserved		
Encumbrances	\$ 68,277	\$ 37,654
Accounts Receivable (less deferred revenue portion)	630,077	401,200
Unreserved		
Allocated:		
Practice Plan Minimum Operating Reserve of 90 days	584,007	570,550
Unallocated	<u>3,054,908</u>	<u>2,581,456</u>
<b>Total Net Assets</b>	<u>\$ 4,337,269</u>	<u>\$ 3,590,860</u>

## UNAUDITED

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended August 31, 2007

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of The University of Texas Southwestern Medical Center at Dallas have been prepared on the accrual basis of accounting, and in accordance with the requirements established by the Texas State Comptroller of Public Accounts. The University reports as a Business Type Activity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 35. Business Type Activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

Investments in marketable securities are carried at fair value, as established by the major securities markets. Realized and unrealized gains and losses are reported as net increase (decrease) in fair value of investments. For purposes of the statement of cash flows, the University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Capital assets are stated at acquisition cost or fair value at the date of gift. Depreciation of physical plant and equipment is calculated on a straight-line basis over the estimated useful lives (three to fifty years) of the respective assets.

Agreements with third-party payors provide for payments for patient service revenue at amounts different from established rates. A summary of the payment arrangements with major third-party providers follows:

*Medicare*

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are reimbursed under a prospective reimbursement methodology. Also, additional reimbursement is received for graduate medical education, disproportionate share, bad debts and other reimbursable costs, as defined, under a variety of payment methodologies.

*Medicaid*

Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective reimbursement methodology. Certain outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement cost methodology. Cost reimbursable items are paid at an interim tentative rate, with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediary. In addition, certain Medicaid program beneficiaries are enrolled with managed care organizations. The basis for payment for these Medicaid beneficiaries includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The University receives pledges and bequests of financial support from corporations, foundations and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements, including time requirements, have been met. In the absence of such promise, revenue is recognized when the gift is received. Endowment pledges do not meet eligibility requirements, as defined by GASB Statement No. 33, and are not recorded as assets until the related gift is received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on these amounts are computed using interest rates applicable to the years in which the promises are made, commensurate with expected future payments. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts. The determination includes such factors as prior collection history and type of gift.

Deferred revenue consists primarily of amounts received in advance such as student tuition and fees related to future fiscal years. Deferred revenue also includes amounts received from grant and contract sponsors which have not yet been earned under the terms of the agreement.

## UNAUDITED

The University's policy for defining operating activities as reported on the statement of revenues, expenses, and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, gifts and investment income.

## 2. THE FINANCIAL REPORTING ENTITY

### Blended Component Units

U. T. Southwestern Health Systems, Inc., 1301 Elmbrook, Dallas, Texas 75390, is governed by a three-member board appointed by U. T. Southwestern Medical Center. Although it is legally separate from the University, U. T. Southwestern Health Systems, Inc. is reported as if it were part of U. T. Southwestern Medical Center because its primary purpose is to perform services as an integral part of the institution. The corporation's fiscal year end is August 31, 2007.

The National Pediatric Infectious Diseases Foundation, 4712 Wildwood Drive, Dallas, Texas 75209, is governed by a three-member board appointed by U. T. Southwestern Medical Center. The Foundation supports educational, clinical and scientific activities and programs in the area of infectious diseases in infants and children. Although it is legally separate from the University, the National Pediatric Infectious Diseases Foundation is reported as if it were part of U.T. Southwestern Medical Center because it provides grants to the University and its board is appointed by the University. The Foundation's fiscal year end is August 31, 2007.

U. T. Southwestern Moncrief Cancer Center, 1701 River Run, Suite 500, Fort Worth, Texas 76107, is a nonprofit corporation governed by a five-member board appointed by the President of U. T. Southwestern Medical Center. The Center specializes in providing counseling and support resources to cancer patients and their families within Tarrant County and surrounding areas. The Center's fiscal year end is August 31, 2007.

## 3. EMPLOYEES' RETIREMENT PROGRAMS

### Teacher Retirement System (TRS)

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

All University personnel employed in a position on a half time or greater basis for at least 4½ months are eligible for membership in the TRS retirement plan. Members with at least five years of service at age 65 or any combination of age plus years of service, which equals 80, have a vested right to retirement benefits. Additionally, reduced benefits are available at age 55 with at least 5 years of service or at any age below 50 with 30 years of service. Members are fully vested after five years of service and are entitled to any benefits for which the eligibility requirements have been met.

TRS contribution rates for both employers and employees are not actuarially determined but are legally established by the State Legislature. Contributions by employees are 6.4 percent of gross earnings. Depending upon the source of funding for the employee's compensation, the State or the University contributes a percentage of participant salaries totaling 6.0 percent of annual compensation. The University's contributions to TRS for the years ended August 31, 2007 and 2006 are \$4,507,592 and \$3,657,878 respectively, which equaled the amount of the required contributions for the year.

TRS does not separately account for each of its component government agencies since the Retirement System itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. Further information regarding actuarial assumptions and conclusions, together with audited financial statements are included in the Retirement System's annual financial report, which may be found on the TRS website at [www.trs.state.tx.us](http://www.trs.state.tx.us).

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Optional Retirement Program (ORP)

The State has also established an optional retirement program for institutions of higher education. Participation in the ORP is in lieu of participation in the Teacher Retirement System. The ORP provides for the purchase of annuity contracts and mutual funds. Participants are vested in the employer contributions after one year and one day of service. The contributory percentages of participant salaries currently provided by the State and each participant are 6.0 percent and 6.65 percent, respectively. Depending upon the source of funding for the employee's compensation, the University may be required to make the employer contributions in lieu of the State. Additionally, the State or the University must make additional contributions above 6.0 percent depending upon the employee's date of hire. Since these are individual annuity contracts, the State and the University have no additional or unfunded liability for this program.

Employees Retirement System (ERS)

No employees at the University participate in the Employees Retirement System of Texas. The Board of Trustees of the Employees Retirement System of Texas is the administrator of the ERS, which is considered to be a single employer defined benefit pension plan. ERS covers the eligible System employees who are not covered by the Teacher Retirement System or the Optional Retirement Program. Benefits vest after five years of credited service. Employees may retire at age 60 with five years of service or any combination of age plus years of service which equals 80.

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

The University of Texas System Governmental Retirement Arrangement (UTGRA)

The University of Texas System Governmental Retirement Arrangement (UTGRA) is a defined contribution pension plan established by the System to provide certain participants in the ORP that portion of their benefits that would otherwise be payable under the ORP except for the \$44,000 limit on contributions imposed by Section 415 of the Internal Revenue Code (IRC). Persons employed by the University prior to September 1, 1996, whose compensation exceeds the limit set by IRC Section 401(a)(17) and whose ORP contribution is limited by the \$44,000 cap under IRC Section 415(c), defer 6.65 percent of their excess compensation while the University contributes between 6 percent and 8.5 percent depending upon the date of employment. Plan provisions are established and may be amended at any time by the Board of Regents.

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

**4. POST-EMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS**

In addition to providing pension benefits, the University provided certain health and life insurance benefits for retired employees, in accordance with State statutes. Many employees may become eligible for the health and life insurance benefits as a retired employee if they meet certain age and service requirements as defined by the State. Currently there are 1,054 retired employees who are eligible for these benefits. Similar benefits for active employees are provided through the same self-funded plan and fully-insured plans. The State and the University recognize the cost of providing these benefits to eligible retired employees. The cost of retired employee benefits is recognized when paid. For the fiscal year ended August 31, 2007, the monthly contribution by the State or the University per full-time employee/retiree ranged from \$348 to \$732 depending upon the plan and level of coverage selected. These contributions paid all of the cost of coverage for the employee/retired employee and a portion of the cost of coverage for enrolled dependents. The employee/retired employee is required to pay a portion of the cost of dependent coverage. For the fiscal years ended August 31, 2007 and 2006, the costs of providing those benefits for the retired employees are

## UNAUDITED

\$3,586,805 for the State and \$1,353,017 for the University and \$3,093,721 for the State and \$1,173,480 for the University respectively.

**5. DEPOSITS OF CASH IN BANKS****DEPOSIT RISKS***Custodial Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the University will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

As of August 31, 2007 blended component units, UT Southwestern Moncrief Cancer Center (Moncrief) and UT Southwestern Health Systems (UTSHS) held deposits that were exposed to custodial credit risk. Moncrief and UTSHS have no policies regarding these deposits. The bank balances that were exposed to custodial credit risk as of August 31, 2007 and 2006 are \$362,831 and \$1,532,924 respectively.

**6. OPERATING LEASE OBLIGATIONS**

The University has entered into various operating leases for buildings, equipment and land. Rental expenses for operating leases are \$8,287,516 and \$7,158,486 in fiscal years 2007 and 2006 respectively. Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2007, were as follows:

<u>Fiscal Year</u>	<u>Lease Payments</u>
2008	\$ 6,054,905
2009	7,061,767
2010	6,526,626
2011	5,000,890
2012	3,167,862
2013 – 2017	2,477,641
2018 – 2022	352,347
2023 – 2027	449,694
2028 – 2032	573,936
2033 – 2037	732,504
Total Minimum Future Payments	\$ <u>32,398,172</u>

The University has also leased buildings and land to outside parties under various operating leases. The cost, carrying value and accumulated depreciation of these leased assets as of August 31, 2007 and 2006 were as follows:

<u>Assets Leased</u>	<u>2007</u>	<u>2006</u>
<b><u>Buildings:</u></b>		
Cost	\$ 33,939,563	30,355,912
Less: Accumulated Depreciation	<u>6,321,739</u>	<u>5,066,347</u>
Carrying Value	27,617,824	25,289,565
<b><u>Equipment:</u></b>		
Cost		
Less: Accumulated Depreciation		
Carrying Value		
Land	53,931.62	53,932.00
Total	\$ <u>27,671,756</u>	<u>25,343,497</u>



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**7. CAPITAL LEASE OBLIGATIONS**

Certain leases to finance the purchase of property are capitalized at the present value of future minimum lease payments. The original capitalized cost of all such property under capital lease as of August 31, 2007 and 2006 is as follows:

Assets Under Capital Lease	2007	2006
Furniture and Equipment	\$ 194,234	194,234
Less: Accumulated	(48,559)	(26,977)
Museums and Art Collections	0	0
Total	\$ 145,675	167,257

Capital lease obligations are due in annual installments through 2010. The following is a schedule of the future minimum lease payments for leased property and the present value of the net minimum lease payments at August 31, 2007.

Fiscal Year	Principal	Interest	Total
2008	\$ 38,891	6,647	45,538
2009	41,565	3,972	45,537
2010	36,813	1,135	37,948
2011	0	0	0
2012	0	0	0
2013 – 2017	0	0	0
2018 – 2022	0	0	0
2023 – 2027	0	0	0
2028 – 2032	0	0	0
2033 – 2037	0	0	0
Total Minimum Lease Payments	117,269	11,754	129,023
		Less: Interest	(11,754)
Present Value of Net Minimum Lease Payments			117,269

**8. NOTE INDEBTEDNESS**

Other Notes Payable for the U.T. Southwestern Medical Center at Dallas includes:

Note payable issue name:	Premier Purchasing Partners L.P.
Purpose:	To purchase an ownership stake in this limited partnership
Issue date:	September 1, 2005
Authorized amount:	\$369,190
Source of revenue for debt service:	Rebates earned
Terms:	Payment time as well as payment amount is dependant on calculation of rebates which are based on the purchasing volume of the medical center.

**9. SUMMARY OF LONG-TERM LIABILITIES**

	Primary Institution				Current Portion
	Beginning Balance	Additions	Reductions	Ending Balance	
Lease obligations	153,657		36,388	117,269	38,890
Notes payable	251,183		54,044	197,139	197,139
Total leases and notes payable	404,840	0	90,432	314,408	236,029
Other liabilities:					
Compensated absences	49,070,031	5,408,192		54,478,223	28,492,111
Total other liabilities	49,070,031	5,408,192	0	54,478,223	28,492,111
Total long-term liabilities	49,474,871	5,408,192	90,432	54,792,631	28,728,140

General information related to notes and loans payable at August 31, 2007, which in substance are not bonds is summarized as follows:

Fiscal Year	Principal	Interest	Total
2008	197,139	10,113	207,252
2009			
2010			
2011			
2012			
2013-2017			
2018-2022			
2023-2027			
2028-2032			
2033-2037			
Total	197,139	10,113	207,252

**10. JOINT VENTURES**

UT Southwestern Health Systems (UTSHS), a blended component unit UT Southwestern Medical Center at Dallas (UTSWMC), is a participating member of UT Southwestern DVA Healthcare, LLP (DVA). DVA is a joint venture between UTSHS and Davita Inc. to provide care for dialysis patients in the Dallas-Fort Worth area. UTSHS's equity interest in DVA at August 31, 2007 and 2006 was \$4,209,228 and \$4,141,979 respectively, or 49%. Separate financial statements for DaVita may be obtained at DaVita Inc., 601 Hawaii Street, El Segundo, CA 90245 or [www.davita.com](http://www.davita.com).

## 11. UNRESTRICTED NET ASSETS

	Primary University					
	Educational and General	Designated	Auxiliary Enterprises	Endowment & Similar Funds	Unexpended Plant	Primary University
Unrestricted Net Assets:						
Unrestricted						
Reserved						
Encumbrances	\$ 4,266,763	20,253,114	666,426		12,521,393	37,707,696
A/R (less deferred revenue)	561,446	102,720,810	359			103,282,615
Inventories		10,389,848	235,172			10,625,020
Other Specific Purposes:						
ARP/ATP	160,180					160,180
Deposits			111,276			111,276
Prepaid Expenses	270,763	4,241,300	336,137			4,848,200
Imprest Funds (from Schedule A-1)	30,625		9,050			39,675
Travel Advances		17,283	12,910			30,193
Unreserved						
Allocated:						
Funds Functioning as Endowment - Unrestricted				26,599,077		26,599,077
Provision for FY2008 Operating Budgets	2,555,463					2,555,463
Provision for Capital Projects		8,995,421	50,297		9,590,275	18,635,993
Debt Service		48,470,484	1,775,876			50,246,360
Practice Plan Operating Reserve of 90 days		183,555,303				183,555,303
Unallocated	1,931,234		7,143,206			9,074,440
Total Unrestricted Net Assets (Exhibit A)	\$ 9,776,474	378,643,563	10,340,709	26,599,077	22,111,668	447,471,491

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12. CAPITAL ASSET DISCLOSURE

	Beginning Balance	Adjustments	Completed CIP	Primary University			Deletions	Ending Balance
				Inter-Agency Trans-In	Inter-Agency Trans-Out	Additions		
Non-depreciable Assets:								
Land & Land Improvements	\$ 32,532,978					4,896,193		37,429,171
Construction in Progress	72,330,104		(68,329,241)			45,790,968		49,791,831
Other Capital Assets	2,233,349					784,396	(410,296)	2,607,449
Total Non-depreciable Assets	107,096,431	0	(68,329,241)	0	0	51,471,557	(410,296)	89,828,451
Depreciable Assets:								
Buildings & Building Improvements	945,482,261		64,693,013			23,224,133	(1,644,707)	1,031,754,700
Infrastructure	25,524,078							25,524,078
Facilities and Other Improvements	11,390,933		550,159			487,721		12,428,813
Furniture and Equipment	288,462,972		3,086,069		(530,850)	45,084,483	(14,971,284)	321,131,390
Vehicles, Boats and Aircraft	2,998,284			21,148		244,840	(143,678)	3,120,594
Other Capital Assets	7,803,794					22,151	(1,581)	7,824,364
Total Depreciable Assets at Historical Cost	1,281,662,322	0	68,329,241	21,148	(530,850)	69,063,328	(16,761,250)	1,401,783,939
Less accumulated depreciation for:								
Buildings and Building Improvements	(240,441,632)					(33,477,522)	517,418	(273,401,736)
Infrastructure	(4,744,089)					(787,466)		(5,531,555)
Facilities and Other Improvements	(1,883,817)					(754,796)		(2,638,613)
Furniture and Equipment	(144,376,399)				309,848	(28,347,759)	13,616,992	(158,797,318)
Vehicles, Boats and Aircraft	(2,112,767)			(21,148)		(241,937)	143,678	(2,232,174)
Other Capital Assets	(4,475,919)					(577,414)	1,581	(5,051,752)
Total accumulated depreciation	(398,034,623)	0	0	(21,148)	309,848	(64,186,894)	14,279,669	(447,653,148)
Depreciable Assets, net	883,627,699	0	68,329,241	0	(221,002)	4,876,434	(2,481,581)	954,130,791
Capital Assets, net	\$ 990,724,130	0	0	0	(221,002)	56,347,991	(2,891,877)	1,043,959,242

**THE UNIVERSITY OF TEXAS SYSTEM**  
**BOARD OF REGENTS**  
**As of August 31, 2007**

**Officers**

James R. Huffines, Chairman  
Rita C. Clements, Vice Chairman  
Cyndi Taylor Krier, Vice Chairman  
H. Scott Caven, Jr., Vice Chairman  
Francie A. Frederick, General Counsel

**Members**

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*Term scheduled to expire February 1, 2005\**

Robert A. Estrada	Fort Worth
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*Terms scheduled to expire February 1, 2007\**

Rita C. Clements	Dallas
Judith L. Craven, M.D.	Houston
Cyndi Taylor Krier	San Antonio

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*Term scheduled to expire February 1, 2008\**

Randal Matthew Camarillo (Student Regent)	Fort Worth
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*Terms scheduled to expire February 1, 2009\**

John W. Barnhill, Jr.	Brenham
H. Scott Caven, Jr.	Houston
James R. Huffines	Austin

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*Terms scheduled to expire February 1, 2011\**

Robert B. Rowling	Dallas
Colleen McHugh	Corpus Christi

\*Each Regent's term expires when a successor has been appointed, qualified, and taken the oath of office. The Student Regent serves a one-year term.

**THE UNIVERSITY OF TEXAS SYSTEM  
SENIOR ADMINISTRATIVE OFFICIALS**  
As of August 31, 2007

\*\*\*\*\*

Mark G. Yudof, Chancellor

Scott C. Kelley, Executive Vice Chancellor for Business Affairs

David B. Prior, Executive Vice Chancellor for Academic Affairs

Kenneth I. Shine, M.D., Executive Vice Chancellor for Health Affairs

Tonya Moten Brown, Vice Chancellor for Administration

Barry D. Burgdorf, Vice Chancellor and General Counsel

Geri H. Malandra, Vice Chancellor for Strategic Management

Barry McBee, Vice Chancellor for Governmental Relations

Keith McDowell, Vice Chancellor for Research and Technology Transfer

Randa S. Safady, Vice Chancellor for External Relations

William H. Shute, Vice Chancellor for Federal Relations

Bruce E. Zimmerman, President, Chief Executive Officer & Chief Investment Officer – UTIMCO

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**THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER**  
**SENIOR ADMINISTRATIVE OFFICERS**

As of August 31, 2007

\*\*\*\*\*

Kern Wildenthal, M.D., Ph.D., President

Alfred Gilman, M.D., Ph.D., Executive Vice President for Academic Affairs and Provost

Willis Maddrey, M.D., Executive Vice President for Clinical Affairs

John McConnell, M.D., Executive Vice President for Health System Affairs

John Roan, Executive Vice President for Business Affairs

Cynthia Bassel, Vice President for External Relations

William Behrendt, Ph.D., Vice President for Human Resources

Bruce Fairbanks, Vice President for Health System Financial Affairs

Leah Hurley, Vice President for Legal Affairs

Kirk Kirksey, Vice President for Information Resources

Bruce A. Meyer, M.D., MBA Vice President for Medical Affairs

Sharon Riley, Vice President for University Hospitals

John Rutherford, Vice President for Clinical Operations

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