

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

**Financial Statements
(Unaudited)**

Fiscal Year Ended August 31, 2008

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, 2008

	CURRENT YEAR		PRIOR YEAR	
	TOTALS		TOTALS	
	Primary University		Primary University	
ASSETS				
Current Assets:				
Cash & Cash Equivalents	\$	91,795,959		98,841,338
Restricted Cash & Cash Equivalents		20,260,854		35,410,297
Balance in State Appropriations		24,096,001		15,723,276
Federal Receivables (net of allowances of \$0.00)		30,122,196		29,898,831
Other Intergovernmental Rec. (net of allowances of \$0.00)		2,371,605		1,769,249
Patient Receivables (net of allowances of \$326,546,594.81 in '08)		97,838,970		84,527,185
Interest and Dividends		1,866,219		2,057,417
Contributions Receivable (net of allowances of \$253,229.77 in '08)		5,726,277		4,988,355
Other Receivables (net of allowances of \$224,102.99 in '08)		30,514,754		23,095,815
Due From System Administration		57,700,461		27,940,824
Due From Other Institutions*		319,625		0
Inventories		12,249,241		10,625,021
Loans and Contracts (net of allowances of \$29,161.74 in '08)		1,395,947		1,718,017
Other Current Assets		9,247,246		5,105,826
Total Current Assets		385,505,354		341,701,451
Non-Current Assets:				
Restricted:				
Investments		371,430,325		321,894,054
Loans, Contracts and Other (net of allowances of \$156,440.11 in '08)		7,480,913		6,546,225
Funds Held by System Administration		762,235,904		796,059,613
Funds Held by System - Permanent Health Fund		62,542,250		67,076,550
Contributions Receivable (net of allowances of \$162,582.66 in '08)		3,533,964		9,446,623
Investments		372,570,036		372,885,114
Capital Assets		1,643,083,326		1,491,612,388
Less Accumulated Depreciation		(512,132,065)		(447,653,148)
Total Non-Current Assets		2,710,744,652		2,617,877,420
TOTAL ASSETS \$		3,096,250,007		2,959,578,871
LIABILITIES				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	\$	128,735,566		117,727,639
Due to System Administration		6,861,487		6,318,959
Deferred Revenue		18,537,807		22,071,001
Employees' Compensable Leave-Current Portion		30,286,717		28,494,174
Notes, Loans and Leases Payable-Current Portion		238,704		236,029
Payable From Restricted Assets-Current Portion		17,802,665		11,669,513
Assets Held for Others		788,101		692,816
Other Current Liabilities		117,152		112,902
Total Current Liabilities		203,368,198		187,323,033
Non-Current Liabilities:				
Employees' Compensable Leave		28,923,202		25,987,994
Liability to Beneficiary-Held by System		5,578		7,584
Notes, Loans and Leases Payable		36,813		78,378
Other Non-Current Liabilities		3,062,744		1,167,892
Total Non-Current Liabilities		32,028,337		27,261,849
TOTAL LIABILITIES		235,396,536		214,584,882
Invested in Capital Assets, Net of Related Debt		1,130,872,882		1,043,841,972
Restricted for:				
Nonexpendable				
Perm. Health, True & Term Endowments, & Annuities		466,723,794		445,113,005
Expendable				
Capital Projects		49,811,061		23,785,907
Funds Functioning as Endowment - Restricted		25,242,182		25,240,853
Other Expendable		731,689,060		759,576,636
Unrestricted		456,514,492		447,435,616
TOTAL NET ASSETS		2,860,853,471		2,744,993,989
TOTAL LIABILITIES AND NET ASSETS \$		3,096,250,007		2,959,578,871

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS
EXHIBIT B - STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended August 31, 2008

	CURRENT YEAR	PRIOR YEAR
	TOTALS	TOTALS
	Primary	Primary
	University	University
OPERATING REVENUES:		
Student Tuition and Fees	\$ 16,878,522	16,270,249
Discounts and Allowances	(2,929,343)	(2,898,418)
Federal Sponsored Programs	204,255,730	192,360,289
Federal Sponsored Programs Pass-Through from Other St. Agencies	3,093,279	4,670,739
State Sponsored Programs	1,888,612	1,688,504
State Sponsored Programs Pass-Through from Other St. Agencies	1,928,257	802,615
Local Sponsored Programs	110,463,754	148,182,587
Private Sponsored Programs	64,839,185	57,478,485
Sales and Services of Educational Activities	7,726,302	3,079,354
Discounts and Allowances		
Sales and Services of Hospitals	984,473,424	871,489,452
Discounts and Allowances	(644,368,471)	(569,723,499)
Professional Fees	1,110,775,683	1,084,002,377
Discounts and Allowances	(754,281,755)	(730,957,422)
Auxiliary Enterprises	16,795,312	17,446,514
Discounts and Allowances		
Other Operating Revenues	13,585,103	13,743,458
Total Operating Revenues	<u>1,135,123,593</u>	<u>1,107,635,282</u>
OPERATING EXPENSES:		
Instruction	447,529,315	431,872,612
Research	296,582,734	269,261,780
Public Service	67,278,415	49,813,872
Hospitals and Clinics	328,509,818	293,705,076
Academic Support	23,354,806	21,409,630
Student Services	3,825,587	3,835,391
Institutional Support	49,409,360	54,448,444
Operations and Maintenance of Plant	71,166,149	51,858,008
Scholarships and Fellowships	512,341	524,924
Auxiliary Enterprises	14,018,423	14,940,495
Depreciation and Amortization	68,532,417	64,186,894
Total Operating Expenses	<u>1,370,719,365</u>	<u>1,255,857,127</u>
Operating Income (Loss)	<u>(235,595,772)</u>	<u>(148,221,845)</u>
NONOPERATING REVENUES (EXPENSES):		
State Appropriations	187,427,174	152,322,146
Gift Contributions for Operations	82,879,657	47,982,405
Net Investment Income	72,688,886	66,929,701
Net Increase (Decrease) in Fair Value of Investments	(86,388,207)	134,032,582
Gain/(Loss) on Sale of Capital Assets	(1,443,275)	(2,676,109)
Other Nonoperating Revenues	45,313	912,361
Net Nonoperating Revenues (Expenses)	<u>255,209,548</u>	<u>399,503,087</u>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers:	19,613,776	251,281,242
Gifts and Sponsored Programs for Capital Acquisitions	8,603,735	13,606,550
Additions to Permanent Endowments	6,751,826	10,450,556
Reclass from / (to) Other Institutions	76,660,493	(159,652,005)
Transfers Between Institutions & System, Debt Service - Mandatory	(59,021,627)	(50,514,302)
Transfers Between Institutions & System Admin. - Non mandatory	63,357,819	201,284,176
Transfers to Other State Agencies*	(106,542)	(326,360)
Change in Net Assets	<u>115,859,482</u>	<u>266,129,858</u>
Beginning Net Assets - As Previously Reported	2,744,993,989	2,478,864,131
Restatements		
Beginning Net Assets - As Restated	<u>2,744,993,989</u>	<u>2,478,864,131</u>
Ending Net Assets	<u>\$ 2,860,853,471</u>	<u>2,744,993,989</u>

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS
EXHIBIT C - STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2008

	Current Year Totals	Prior Year Totals
	Primary University	Primary University
Cash Flows from Operating Activities:		
Proceeds from Tuition and Fees	\$ 14,344,923	13,378,983
Proceeds from Patients and Customers	682,638,748	651,781,851
Proceeds from Sponsored Programs	376,378,004	411,502,392
Proceeds from Auxiliaries	16,788,562	17,421,970
Proceeds from Other Revenues	22,578,647	19,291,771
Payments to Suppliers	(402,840,675)	(377,459,210)
Payments to Employees	(885,490,200)	(810,343,580)
Payments for Loans Provided	(1,793,109)	(1,798,220)
Proceeds from Loan Programs	936,072	1,214,385
Net Cash Provided (Used) by Operating Activities	<u>(176,459,029)</u>	<u>(75,009,657)</u>
Cash Flows from Noncapital Financing Activities:		
Proceeds from State Appropriations	179,054,450	157,687,687
Proceeds from Operating Gifts	88,054,393	53,913,759
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	6,751,826	10,450,556
Payments/Receipts for Transfers to/from System or Oth. Agencies	(3,364,724)	1,888,379
Net Cash Provided by Noncapital Financing Activities	<u>270,495,945</u>	<u>223,940,382</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds from Capital Debt Transferred from System (nonmandatory)	113,959,519	80,540,587
Proceeds from Capital Appropriations, Grants and Gifts	6,425,668	16,369,579
Proceeds from Sale of Capital Assets	131,447	215,768
Payments for Additions to Capital Assets	(153,434,118)	(126,325,880)
Payments of Principal on Capital Related Debt	(38,890)	(90,432)
Mandatory Transfers to System for Capital Related Debt	(59,021,627)	(50,514,302)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(91,978,001)</u>	<u>(79,804,680)</u>
Cash Flows from Investing Activities:		
Proceeds from Sales of Investments Held by System	815,021	0
Proceeds from Interest and Investment Income	34,382,916	35,289,482
Proceeds from Interest and Investment Income Held by System	39,048,766	34,303,181
Payments to Acquire Investments	0	(482,893)
Payments to Acquire Investments Held by System	(98,500,440)	(134,196,478)
Net Cash Provided (Used) by Investing Activities	<u>(24,253,737)</u>	<u>(65,086,707)</u>
Net Increase (Decrease) in Cash	(22,194,822)	4,039,338
Cash and Cash Equivalents - Beginning of the Year	134,251,635	130,212,297
Restatements to Beginning Cash and Cash Equivalents		
Cash and Cash Equivalents - End of the Year	\$ 112,056,813	134,251,635
Reconciliation of Net Operating Revenues (Expenses) to		
Net Cash Provided (used) by Operating Activities:		
Operating Loss	\$ (235,595,772)	(148,221,845)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	68,532,417	64,186,894
Bad Debt Expense	244,419	283,256
Op. Income & Cash Flow Categories Classification Differences		
Changes in Assets and Liabilities:		
Accounts Receivable	(20,783,185)	(9,780,207)
Inventories	(1,624,220)	(764,521)
Loans and Contracts	(857,038)	(597,383)
Other Current and Noncurrent Assets	(4,141,420)	(1,394,624)
Accounts Payable	14,054,297	(51,419)
Due to System	542,528	439,998
Deferred Revenue	(3,533,194)	14,725,220
Assets Held for Others	95,284	7,353
Employees' Compensable Leave	4,727,752	5,412,136
Other Current and Noncurrent Liabilities	1,879,102	745,488
Total Adjustments	<u>59,136,743</u>	<u>73,212,189</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (176,459,029)</u>	<u>(75,009,657)</u>
Non Cash Transactions		
Net Increase (Decrease) in Fair Value of Investments	(86,388,207)	134,032,582
Donated Capital Assets	533,534	365,898
Capital Assets Acquired Under Capital Lease Purchases	0	0
Miscellaneous Noncash Transactions	(1,397,962)	(1,984,750)

SUPPLEMENTAL SCHEDULES

UNAUDITED
 SCHEDULE C-1A
 THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS
 Schedule of Hospital Revenues - Designated Current Funds
 For the Year Ended August 31, 2008

	Current Year Total	Prior Year Total
	<u> </u>	<u> </u>
Gross Patient Services		
Inpatient	\$ 754,067,825	\$ 671,507,919
Outpatient	230,405,599	199,981,533
	<u> </u>	<u> </u>
Total Gross Patient Services	984,473,424	871,489,452
 Adjustments to Patient Services		
Un-sponsored Charity Care:		
Charity Services	13,621,583	10,985,581
Medicaid Contractual Allowance	43,728,651	37,683,204
	<u> </u>	<u> </u>
Total Un-sponsored Charity Care	57,350,234	48,668,785
Medicare Contractual Allowance	262,941,161	224,429,291
Other Contractual Allowances	278,402,241	255,408,250
Bad Debt / Allowance for Uncollectible Accounts	45,674,835	41,217,174
	<u> </u>	<u> </u>
Total Adjustments	644,368,471	569,723,500
 Net Patient Services	340,104,953	301,765,952
 Other Revenues		
Auxiliary Enterprises	3,396,285	4,138,189
Gifts	29,149,184	3,963,173
Investment Income	9,181	243,668
Gain/Loss on Sale of Capital Asset		(95,690)
Unrealized Gain/(Loss)	(42,263)	898,950
Other Miscellaneous Hospital Income	1,414,670	1,543,070
	<u> </u>	<u> </u>
Total Other Revenue	33,927,058	10,691,360
 Total Hospital Revenues	\$ <u>374,032,010</u>	\$ <u>312,457,312</u>

UNAUDITED
 THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS
 SCHEDULE C-2A
 STATEMENT OF HOSPITAL EXPENDITURES
 For The Year Ended August 31, 2008

	Current Year Total	Prior Year Total
Operating Expenses		
Salaries and Wages	\$ 129,652,179	\$ 115,909,640
Payroll Related Costs	27,850,724	24,950,145
Cost of Goods Sold	479,795	753,994
Professional Fees and Services	7,755,981	17,490,207
Travel	1,053,503	159,530
Materials and Supplies	95,868,778	85,238,378
Utilities	5,881,554	5,076,359
Telecommunications	1,288,365	1,259,637
Repairs and Maintenance	2,941,897	2,764,687
Rentals and Leases	4,128,902	4,100,324
Printing and Reproduction	864,803	124,131
Depreciation	11,104,544	10,218,138
Interest Expense	20,224	85,792
Other	59,915,726	40,860,800
Total Operating Expenses	<u>348,806,975</u>	<u>308,991,762</u>
Non-operating Expenses and Transfers		
Transfers In	(2,120,225)	-
Transfers Out	4,040,111	3,386,316
Debit Service Transfers	<u>2,120,225</u>	<u>-</u>
Total Non-operating and Transfers	<u>4,040,111</u>	<u>3,386,316</u>
Total Expenses and Transfers	<u>\$ 352,847,086</u>	<u>\$ 312,378,078</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, 2008

	CURRENT YEAR TOTALS	PRIOR YEAR TOTALS
Operating Revenues:		
Gross Patient Charges	\$ 1,107,876,486	\$ 1,081,299,241
Less: Discounts and Allowances		
Un-sponsored Charity Care		
Charity Care	(220,076,703)	(226,237,385)
Contractual Allowances - Medicaid	(138,711,839)	(130,346,853)
Total Un-sponsored Charity Care	(358,788,542)	(356,584,238)
Contractual Allowances	(350,375,932)	(329,900,841)
Other Unreimbursed Medical Charges	(33,591,723)	(27,968,627)
Bad Debt Expense	(10,804,621)	(15,717,241)
Total Discounts and Allowances	(753,560,818)	(730,170,947)
Net Patient Revenues	354,315,668	351,128,294
Contractual Revenues	104,982,582	144,128,680
Other Operating Revenues	4,641,238	3,899,167
Total Operating Revenues	453,939,488	499,156,141
Operating Expenses:		
Faculty Salaries	152,083,645	132,731,929
Staff Salaries	110,046,477	93,510,923
Fringe Benefits	84,824,471	72,803,196
Maintenance and Operations	76,115,958	83,217,370
Professional Liability Insurance	(4,392,789)	(990,087)
Travel	3,456,853	3,128,126
Official Functions	828,236	684,924
Total Operating Expenses	422,962,851	385,086,381
Operating Income (Loss)	40,976,637	114,069,760
Nonoperating Revenues (Expenses):		
Investment Income	3,595,352	3,733,337
Other Nonoperating Revenues	(212,190)	46,020
Net Nonoperating Revenues (Expenses)	3,383,162	3,779,357
Income (Loss) Before Other Revenues, Expenses, Gains or Losses:	44,359,799	117,849,117
Transfers In (itemized if significant)		
Miscellaneous	36,137	
Transfer within a fund group		195,114
Transfer to/from Auxiliary Funds		1,084,575
Transfer to/from Plant Funds	3,952,303	5,573,676
Transfer to/from Non-Govt Restricted Funds		167,313
Transfer Internal Finance System - Principal	1,087,559	1,041,743
Transfer Internal Finance System - Interest Charge	175,969	222,118
Transfer between fund groups - Internal Fin principal	571,971	538,902
Transfer between fund groups - Internal Fin interest	715,428	748,497
Transfers Out (itemized if significant)		
Balance Sheet transactions between funds		(53,215)
Miscellaneous		(2,102,196)
Transfer within a fund group	(3,233,921)	
Transfer to/from General Funds	(98,000)	(1,387,479)
Transfer to/from Auxiliary Funds	(1,323,319)	(1,123,528)
Transfer to/from Non-Govt Restricted Funds	(320,214)	(3,795,686)
Transfer to/from Plant Funds	(7,695,011)	(8,049,765)
Transfers of overhead earned	(2,905,522)	(3,377,668)
Debt Service Principal	(7,240,145)	(6,259,565)
Debt Service Interest	(2,495,891)	(2,049,238)
Capital Outlay	(4,134,818)	(1,982,058)
Change in Net Assets	21,452,325	97,240,657
Beginning Net Assets	261,051,194	163,810,537
Ending Net Assets (See Note)	\$ 282,503,519	\$ 261,051,194
Note: Ending Net Assets was composed of the following:		
Unrestricted:		
Reserved		
Encumbrances	\$ 10,440,517	\$ 9,161,830
Accounts Receivable (less deferred revenue portion)	53,138,355	55,896,953
Inventories	373,143	268,825
Unreserved		
Allocated		
Provision for Capital Projects	7,517,332	7,695,558
Practice Plan Minimum Operating Reserve of 90 days	164,722,846	154,531,727
Unallocated	46,311,326	33,497,301
Total Net Assets	\$ 282,503,519	\$ 261,051,194

*Includes the operations of the nonprofit healthcare corporation.

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS
 Schedule D-B: Allied Health Faculty Services Plan - Summary of Operations
 For the Twelve Months Ending August 31, 2008

	CURRENT YEAR TOTALS	PRIOR YEAR TOTALS
Operating Revenues:		
Gross Patient Charges	\$ 2,899,196	\$ 2,703,136
Less: Discounts and Allowances		
Un-sponsored Charity Care		
Charity Care	(8,934)	(12,010)
Total Un-sponsored Charity Care	(8,934)	(12,010)
Contractual Allowances	(638,179)	(636,848)
Other Unreimbursed Medical Charges	(53,836)	(30,807)
Bad Debt Expense	(19,989)	(106,810)
Total Discounts and Allowances	(720,938)	(786,475)
Net Patient Revenues	2,178,259	1,916,661
Contractual Revenues	327,843	302,008
Other Operating Revenues	45,409	26,402
Total Operating Revenues	2,551,511	2,245,071
Operating Expenses:		
Faculty Salaries	157,339	251,884
Staff Salaries	223,593	246,178
Fringe Benefits	306,884	252,537
Maintenance and Operations	747,934	529,847
Professional Liability Insurance	8,285	8,194
Travel	32,273	32,562
Official Functions	9,972	8,739
Total Operating Expenses	1,486,260	1,329,941
Operating Income (Loss)	1,065,231	915,130
Nonoperating Revenues (Expenses):		
Investment Income	18,012	9,000
Net Nonoperating Revenues (Expenses)	18,012	9,000
Income (Loss) Before Other Revenues, Expenses, Gains or Losses:	1,083,243	924,130
Transfers In (Itemized if significant)	5,000	3
Transfers Out (Itemized if significant)	(223,836)	(177,726)
Capital Outlay	(35,100)	
Change in Net Assets	828,307	746,407
Beginning Net Assets	4,337,267	3,590,860
Ending Net Assets (See Note)	\$ 5,165,574	\$ 4,337,267

Note: Ending Net Assets was composed of the following:

Unrestricted:		
Reserved		
Encumbrances	\$ 73,549	\$ 68,277
Accounts Receivable (less deferred revenue portion)	946,857	630,077
Unreserved		
Allocated:		
Practice Plan Minimum Operating Reserve of 90 days	688,650	584,006
Unallocated	3,456,518	3,054,907
Total Net Assets	\$ 5,165,574	\$ 4,337,267

UNAUDITED

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended August 31, 2008

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.

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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, 2008.

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, 2008.

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, 2008.

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, 2008 and 2007 are \$4,832,502.41 and \$4,507,591.93 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.

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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 1,081 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, 2008, the monthly contribution by the State or the University per full-time employee/retiree ranged from \$369.12 to \$721.42 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, 2008 and 2007, the costs of providing those benefits for the retired employees are

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\$3,999,970.84 for the State and \$1,508,872.07 for the University and \$3,586,805.18 for the State and \$1,353,017.40 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, 2008, UT Southwestern held deposits that have no exposure to custodial credit risk.

6. OPERATING LEASE OBLIGATIONS

The University has entered into various operating leases for buildings, equipment and land. Rental expenses for operating leases are \$8,260,143.99 and \$8,287,516.00 in fiscal years 2008 and 2007 respectively. Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2008, were as follows:

<u>Fiscal Year</u>	<u>Lease Payments</u>
2009	\$ 4,433,355.44
2010	3,318,874.23
2011	2,418,892.78
2012	1,165,359.16
2013	898,775.12
2014 – 2018	256,992.06
2019 – 2023	269,841.66
2024 – 2028	283,333.74
2029 – 2033	297,500.43
2034 - 2038	312,375.45
Total Minimum Future Payments	\$ <u>13,655,300.07</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, 2008 and 2007 were as follows:

<u>Assets Leased</u>	<u>2008</u>	<u>2007</u>
<u>Buildings:</u>		
Cost	\$ 38,816,277.26	33,939,563.34
Less: Accumulated Depreciation	7,987,146.09	6,321,739.26
Carrying Value	<u>30,829,131.17</u>	<u>27,617,824.08</u>
<u>Equipment:</u>		
Cost		
Less: Accumulated Depreciation		
Carrying Value		
Land	53,931.62	53,931.62
Total	\$ <u>30,883,062.79</u>	<u>27,671,755.70</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, 2008 and 2007 is as follows:

Assets Under Capital Lease	2008	2007
Furniture and Equipment	\$ 194,233.82	194,234.00
Less: Accumulated	(70,139.98)	(48,559.00)
Museums and Art Collections	0	0
Total	\$ 124,093.84	145,675.00

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, 2008.

Fiscal Year	Principal	Interest	Total
2009	41,565.19	3,972.41	45,537.60
2010	36,813.21	1,134.79	37,948.00
2011	0	0	0
2012	0	0	0
2013	0	0	0
2014 – 2018	0	0	0
2019 – 2023	0	0	0
2024 – 2028	0	0	0
2029 – 2033	0	0	0
2034 – 2038	0	0	0
Total Minimum Lease Payments	78,378.40	5,107.20	83,485.60
		Less: Interest	(5,107.20)
Present Value of Net Minimum Lease Payments			78,378.40

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			Ending Balance	Current Portion
	Beginning Balance	Additions	Reductions		
Lease obligations	117,268.81		38,890.41	78,378.40	41,565.19
Notes payable	197,139.00			197,139.00	197,139.00
Total leases and notes payable	314,407.81	0.00	38,890.41	275,517.40	238,704.19
Other liabilities:					
Compensated absences	54,482,167.58	4,727,752.11		59,209,919.69	30,286,717.27
Total other liabilities	54,482,167.58	4,727,752.11	0.00	59,209,919.69	30,286,717.27
Total long-term liabilities	54,796,575.39	4,727,752.11	38,890.41	59,485,437.09	30,525,421.46

General information related to notes and loans payable at August 31, 2008, which in substance are not bonds is summarized as follows:

Fiscal Year	Principal	Interest	Total
2009	197,139.00	10,113.00	207,252.00
2010			
2011			
2012			
2013			
2014-2018			
2019-2023			
2024-2028			
2029-2033			
2034-2038			
Total	197,139.00	10,113.00	207,252.00

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, 2008 and 2007 was \$3,557,345.17 and \$4,209,227.73 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.

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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	\$ 205,716.42	24,125,351.90	494,406.53		15,192,524.47	40,017,999.32
A/R (less deferred revenue)	57,697.50	114,381,065.68	383.87			114,439,147.05
Inventories		12,033,071.20	216,169.35			12,249,240.55
Other Specific Purposes:						
ARP/ATP	1,448,106.46					1,448,106.46
Deposits			115,526.39			115,526.39
Prepaid Expenses	51,624.32	8,353,119.55	544,616.42			8,949,360.29
Imprest Funds (from Schedule A-1)	30,650.00		81,620.00			112,270.00
Travel Advances		17,359.85	15,102.17			32,462.02
Unreserved						
Allocated:						
Funds Functioning as Endowment - Unrestricted				25,526,112.81		25,526,112.81
Provision for FY2008 Operating Budgets						-
Provision for Capital Projects					8,244,266.50	18,181,051.12
Debt Service		9,936,784.62	1,785,666.00			56,449,638.00
Practice Plan Operating Reserve of 90 days		54,663,972.00				162,233,248.55
Practice Plan Operating Reserve of 90 days		162,233,248.55				162,233,248.55
Unallocated	7,157,875.93		9,602,453.92			16,760,329.85
Total Unrestricted Net Assets (Exhibit A)	\$ 8,951,670.63	385,743,973.35	12,855,944.65	25,526,112.81	23,436,790.97	456,514,492.41

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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	\$ 37,429,171.04					8,998,570.00		46,427,741.04
Construction in Progress	49,791,829.62		(17,705,573.44)			67,700,696.37	(176,698.52)	99,610,254.03
Other Capital Assets	2,607,447.95		30,308.00			187,334.85	(300.00)	2,824,790.80
Total Non-depreciable Assets	89,828,448.61	0.00	(17,675,265.44)	0.00	0.00	76,886,601.22	(176,998.52)	148,862,785.87
Depreciable Assets:								
Buildings & Building Improvements	1,031,754,698.38		14,405,355.65			41,011,971.35	(1,312,723.78)	1,085,859,301.60
Infrastructure	25,524,077.67							25,524,077.67
Facilities and Other Improvements	12,428,812.75		94,024.51			932,608.21		13,455,445.47
Furniture and Equipment	321,131,392.33		3,175,885.28		(23,263.25)	37,959,809.06	(3,567,772.05)	358,699,314.62
Vehicles, Boats and Aircraft	3,120,594.03					274,816.70	(112,941.01)	3,259,206.47
Other Capital Assets	7,824,364.51					33,353.34	(434,523.40)	7,423,194.45
Total Depreciable Assets at Historical Cost	1,401,783,939.67	0.00	17,675,265.44	0.00	(23,263.25)	80,212,558.66	(5,427,960.24)	1,494,220,540.28
Less accumulated depreciation for:								
Buildings and Building Improvements	(273,401,735.76)					(35,601,039.13)	544,896.13	(308,457,878.76)
Infrastructure	(5,531,554.72)					(787,466.05)		(6,319,020.78)
Facilities and Other Improvements	(2,638,612.64)					(813,294.68)		(3,451,907.32)
Furniture and Equipment	(158,797,319.83)					(30,545,136.91)	3,104,764.37	(186,237,692.37)
Vehicles, Boats and Aircraft	(2,232,171.77)				23,263.25	(239,636.72)	102,787.27	(2,345,757.97)
Other Capital Assets	(5,051,753.25)					(545,843.45)	277,788.49	(5,319,808.21)
Total accumulated depreciation	(447,653,147.97)	0.00	0.00	0.00	23,263.25	(68,532,416.95)	4,030,236.26	(512,132,065.41)
Depreciable Assets, net	954,130,791.70	0.00	17,675,265.44	0.00	0.00	11,680,141.71	(1,397,723.98)	982,088,474.87
Capital Assets, net	\$ 1,043,959,240.31	0.00	0.00	0.00	0.00	88,566,742.93	(1,574,722.50)	1,130,951,260.74

THE UNIVERSITY OF TEXAS SYSTEM
BOARD OF REGENTS
As of August 31, 2008

Officers

H. Scott Caven, Jr., Chairman
 James R. Huffines, Vice Chairman
 Robert B. Rowling, Vice Chairman
 Francie A. Frederick, General Counsel

Members

*Terms scheduled to expire February 1, 2009**

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

*Terms scheduled to expire February 1, 2011**

Janiece Longoria	Houston
Colleen McHugh	Corpus Christi
Robert B. Rowling	Dallas

*Terms scheduled to expire February 1, 2013**

James D. Dannenbaum	Houston
Paul Foster	El Paso
Printice L. Gary	Dallas

*Term scheduled to expire May 31, 2009**

Benjamin L. Dower (Student Regent)	University of Texas at Dallas
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*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, 2008

Kenneth I. Shine, M.D., Chancellor *ad interim* and Executive Vice Chancellor for Health Affairs

Scott C. Kelley, Executive Vice Chancellor for Business Affairs

David B. Prior, Executive Vice Chancellor for Academic 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, Chief Executive Officer and Chief Investment Officer-UTIMCO

Cathy Iberg, President & Deputy CIO & Managing Director of Marketable Investments-UTIMCO

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER
SENIOR ADMINISTRATIVE OFFICERS

As of August 31, 2008

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
