

**THE UNIVERSITY OF TEXAS SYSTEM  
SHORT INTERMEDIATE TERM FUND**

**FINANCIAL STATEMENTS**

**Years Ended August 31, 2000 and 1999**

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
The University of Texas Investment Management Company  
Austin, Texas

We have audited the accompanying statements of assets and liabilities of The University of Texas System Short Intermediate Term Fund (Fund) as of August 31, 2000 and 1999, including the schedule of investment in securities as of August 31, 2000, and the related statements of operations and changes in net assets for the years ended August 31, 2000 and 1999. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of August 31, 2000 and 1999, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of August 31, 2000 and 1999, and the results of its operations and changes in its net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

October 27, 2000

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Deloitte  
Touche  
Tohmatsu

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**THE UNIVERSITY OF TEXAS SYSTEM  
SHORT INTERMEDIATE TERM FUND**

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**Statements of Assets and Liabilities**

*August 31, 2000 and 1999*

*(in thousands)*

	<u>2000</u>	<u>1999</u>
<b>Assets</b>		
Investment in Securities, at Value (Cost \$1,830,173 and \$1,781,612, respectively)	\$ 1,800,085	\$ 1,755,428
Receivable for Investments Sold	27,204	51,481
Accrued Income Receivable	<u>26,893</u>	<u>22,007</u>
<b>Total Assets</b>	<u>1,854,182</u>	<u>1,828,916</u>
<b>Liabilities</b>		
Income Distributions Payable to Participants	9,781	9,003
Payable for Investments Purchased	-	50,482
Other Payables and Accrued Expenses	<u>39</u>	<u>19</u>
<b>Total Liabilities</b>	<u>9,820</u>	<u>59,504</u>
<b>Net Assets</b>	<u>\$ 1,844,362</u>	<u>\$ 1,769,412</u>
<b>Net Assets Consist Of:</b>		
Participant Contributions	\$ 1,853,565	\$ 1,773,490
Accumulated Undistributed Net Realized Gain on Investments	20,885	22,106
Net Unrealized Depreciation	<u>(30,088)</u>	<u>(26,184)</u>
<b>Net Assets for 187,089,202 and 178,813,160 units, respectively</b>	<u>\$ 1,844,362</u>	<u>\$ 1,769,412</u>
<b>Net Asset Value Per Unit</b>	<u>\$ 9.858</u>	<u>\$ 9.895</u>

***The accompanying notes are an integral part of these financial statements.***

**THE UNIVERSITY OF TEXAS SYSTEM  
SHORT INTERMEDIATE TERM FUND**

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**Statements of Operations and Changes in Net Assets**

*Years Ended August 31, 2000 and 1999*

*(in thousands)*

	<u>2000</u>	<u>1999</u>
<b>Investment Income</b>		
Interest Income	\$ 114,108	\$ 106,441
Commitment Fee	<u>350</u>	<u>350</u>
<b>Total Investment Income</b>	<u>114,458</u>	<u>106,791</u>
<b>Expenses</b>		
Investment Management Fees	386	374
Custodial Fees and Expenses	79	81
Other Expenses	<u>39</u>	<u>45</u>
<b>Total Expenses</b>	<u>504</u>	<u>500</u>
<b>Net Investment Income</b>	<u>113,954</u>	<u>106,291</u>
<b>Realized and Unrealized Gain (Loss) on Investments</b>		
Net Realized Gain (Loss) on Investment Securities	(2,732)	4,350
Change in Net Unrealized Depreciation on Investment Securities	<u>(3,904)</u>	<u>(57,722)</u>
<b>Net Loss on Investments</b>	<u>(6,636)</u>	<u>(53,372)</u>
<b>Net Increase in Net Assets Resulting from Operations</b>	\$ 107,318	\$ 52,919
<b>Net Assets</b>		
Beginning of Period	1,769,412	1,809,574
Participant Contributions (including reinvestments of \$82,310 and \$80,930 for years ended August 31, 2000 and 1999, respectively)	278,936	208,146
Participant Withdrawals	(197,350)	(194,936)
Distributions of Net Investment Income to Participants	<u>(113,954)</u>	<u>(106,291)</u>
End of Period	<u>\$ 1,844,362</u>	<u>\$ 1,769,412</u>
<b>Ratios and Supplemental Data</b>		
Ratio of Expenses to Average Net Assets	0.03%	0.03%
Ratio of Net Investment Income Distributed to Average Net Assets	6.13%	5.81%

***The accompanying notes are an integral part of these financial statements.***

# THE UNIVERSITY OF TEXAS SYSTEM

## SHORT INTERMEDIATE TERM FUND

### Schedule of Investment in Securities

August 31, 2000

(in thousands)

Description	Coupon	Maturity	Par Value	Value	Cost
<b>Short Term Investment Fund</b>					
Dreyfus Instl Pfd Money Market			\$ 205,410	\$ 205,410	\$ 205,410
<b>Mortgage-Backed Securities:</b>					
<b>Mortgage-Backed CMOS</b>					
Government Natl Mtg Assn 95-7	7.500%	11/16/2019	3,888	3,879	3,855
<b>Mortgage-Backed Pass Through</b>					
FHMLC Group #L7-3378	5.500%	11/01/2000	6,704	6,641	6,615
<b>Total Mortgage-Backed Securities</b>			<u>10,592</u>	<u>10,520</u>	<u>10,470</u>
<b>U.S. Treasury Securities</b>					
U.S. Treasury Notes	6.375%	08/15/2002	275,000	275,817	288,892
U.S. Treasury Notes	5.500%	03/31/2003	225,000	221,661	230,090
U.S. Treasury Notes	5.750%	04/30/2003	75,000	74,321	76,467
U.S. Treasury Notes	5.750%	08/15/2003	75,000	74,296	75,872
U.S. Treasury Notes	7.875%	11/15/2004	75,000	79,969	78,190
U.S. Treasury Notes	7.000%	07/15/2006	50,000	52,390	52,090
U.S. Treasury Notes	6.500%	10/15/2006	275,000	281,702	281,266
<b>Total U.S. Treasury Securities</b>			<u>1,050,000</u>	<u>1,060,156</u>	<u>1,082,867</u>
<b>U.S. Agency Bonds</b>					
Federal Natl Mtg Assn Med Term Notes	6.180%	03/15/2001	31,000	30,908	30,420
Federal Natl Mtg Assn Med Term Notes	6.160%	04/03/2001	48,000	47,857	47,329
Federal Natl Mtg Assn Med Term Notes	6.625%	04/18/2001	20,000	19,990	19,881
Federal Natl Mtg Assn Med Term Notes	6.700%	05/06/2002	59,975	59,919	60,497
Federal Natl Mtg Assn Med Term Notes	6.590%	05/16/2002	100,000	99,734	100,705
Federal Home Loan Bank Cons Bonds	6.030%	11/21/2002	20,000	19,691	20,220
Federal Home Loan Bank Cons Bonds	5.500%	01/21/2003	27,000	26,249	26,644
Federal Natl Mtg Assn Med Term Notes	5.750%	04/15/2003	105,000	102,539	106,226
Federal Farm Credit Bks Cons Med Term Notes	5.720%	06/03/2003	50,000	48,895	49,735
Federal Home Loan Bank Cons Bonds	5.765%	06/11/2003	70,000	68,217	69,769
<b>Total U.S. Agency Bonds</b>			<u>530,975</u>	<u>523,999</u>	<u>531,426</u>
<b>Total Investment in Securities</b>			<u>\$1,796,977</u>	<u>\$1,800,085</u>	<u>\$ 1,830,173</u>

The accompanying notes are an integral part of these financial statements.

# THE UNIVERSITY OF TEXAS SYSTEM SHORT INTERMEDIATE TERM FUND

*Notes to Financial Statements*

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## **Note 1 - Organization**

The University of Texas System Short Intermediate Term Fund (Fund) is a short intermediate term pooled investment fund established by The University of Texas Board of Regents for the collective investment of operating funds and other short and intermediate term funds held by The University of Texas System Administration and the fifteen component institutions of The University of Texas System. The Fund carries an AAA<sub>F</sub> credit quality rating and a bond fund volatility rating of S<sub>2</sub> from Standard & Poor's, Inc. (S&P). AAA is the highest credit quality rating issued by S&P. An S<sub>2</sub> rating indicates low to moderate market risk exposure. The day-to-day operational responsibilities of the Fund are delegated to The University of Texas Investment Management Company (UTIMCO), pursuant to an investment management services agreement with the Board of Regents.

The accompanying financial statements follow the form and content of investment company financial statements and related disclosures in accordance with accounting principles generally accepted in the United States of America. The principles followed will differ from the principles applied in governmental and fund accounting. The annual combined financial statements of The University of Texas System are prepared in accordance with Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements and include information related to the Short Intermediate Term Fund. The accompanying financial statements may differ in presentation from governmental accounting principles or the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements.

## **Note 2 - Significant Accounting Policies**

- (A) Investment Policy - The Fund invests in high grade fixed income obligations as provided for in the Fund's Investment Policy statement. Limiting the duration of the Fund to a range of one-half to four years controls interest rate risk. The duration of any eligible investment should not exceed 10 years.
- (B) Security Valuation - Investments are valued on the basis of market valuations provided by Merrill Lynch Securities Pricing Services and various other independent pricing services.
- (C) Investment Income - Interest income is accrued as earned. Premium and discounts on bonds are not amortized.

# THE UNIVERSITY OF TEXAS SYSTEM SHORT INTERMEDIATE TERM FUND

*Notes to Financial Statements (cont.)*

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- (D) Security Transactions - Security transactions are accounted for on a trade date basis. Gains and losses on securities sold are determined on the basis of average cost. A loss is recognized if there is impairment in the value of the security that is determined to be other than temporary.
- (E) Federal Income Taxes - The Fund is not subject to federal income tax.
- (F) Fund Valuation - Valuation of the Fund's units occurs weekly and at month-end. Unit values are determined by dividing the value of the Fund's net assets by the number of units outstanding on the valuation date.
- (G) Distributions to Participants - Accrued net investment income is allocated to participants each valuation period. Income is distributed to participants at the beginning of each month.
- (H) Purchases and Redemption of Units - The value of participating units, upon admission to or withdrawal from the Fund, is based upon the market value of net assets held as of the valuation date. There are no transaction costs incurred by participants to purchase or redeem units.
- (I) Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

## **Note 3 - Note Repurchase Commitment**

The Fund has entered into a note repurchase commitment with The University of Texas System Board of Regent's Revenue Financing System which commits the Fund to acquire up to \$350 million of revenue financing system notes in the event of a failed remarketing of these notes. If the net asset value of the Fund declines below \$1,225 million and is expected to remain below this amount for thirty days, the Fund's commitment will be \$250 million. If the net asset value of the Fund declines below \$875 million and is expected to remain below this amount for thirty days, the Fund's commitment will be \$150 million. The fee earned by the Fund for the years ended August 31, 2000 and 1999 was \$350,000, which is 10 basis points on the purchase commitment amount of \$350 million.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**SHORT INTERMEDIATE TERM FUND**

*Notes to Financial Statements (cont.)*

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**Note 4 - Acquisitions and Dispositions of Investments**

Acquisitions and dispositions (including sales, maturities and prepayments) of securities, other than short-term securities, totaled \$750,160,688 and \$878,226,582, respectively for the year ended August 31, 2000. For the year ended August 31, 1999, acquisitions and dispositions of securities were \$1,130,521,804 and \$299,802,778, respectively.

Net realized losses on investments for the year ended August 31, 2000 were \$2,732,116. Net realized gains on investments for the year ended August 31, 1999 were \$4,349,681. Such transactions were made at current market prices on the dates of the transactions.

**Note 5 - Fees and Expenses**

Custodial fees and expenses are assessed quarterly by the financial institution which holds the Fund's assets. Fees are based on the market value of the Fund and transaction activity in accordance with the contractual agreement with the institution. Additional fees are assessed for performance measurement and on-line communication services per the contractual agreement.

The Fund is assessed an investment management fee by The University of Texas Investment Management Company. For the years ended August 31, 2000 and 1999, the fee was \$385,552 and \$373,554, respectively.

The Fund incurs other fees related to its operations consisting of audit fees, printing and graphic expenses, consultation fees and rating fees.