

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

FINANCIAL STATEMENTS

Years Ended August 31, 2001 and 2000

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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, 2001 and 2000, including the schedule of investment in securities as of August 31, 2001, and the related statements of operations and changes in net assets for the years ended August 31, 2001 and 2000. 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, 2001 and 2000, 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, 2001 and 2000, 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 19, 2001

Deloitte
Touche
Tohmatsu

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

Statements of Assets and Liabilities

August 31, 2001 and 2000

(Dollars in thousands, except per unit amounts)

	<u>2001</u>	<u>2000</u>
Assets		
Investment in Securities, at Value (Cost \$1,688,598 and \$1,830,173, respectively)	\$ 1,694,960	\$ 1,800,085
Receivable for Investments Sold	-	27,204
Accrued Income Receivable	<u>17,150</u>	<u>26,893</u>
Total Assets	<u>1,712,110</u>	<u>1,854,182</u>
Liabilities		
Income Distributions Payable to Participants	7,498	9,781
Other Payables and Accrued Expenses	<u>7</u>	<u>39</u>
Total Liabilities	<u>7,505</u>	<u>9,820</u>
Net Assets	<u>\$ 1,704,605</u>	<u>\$ 1,844,362</u>
Net Assets Consist Of:		
Participant Contributions (Net of withdrawals)	\$ 1,664,791	\$ 1,853,565
Accumulated Undistributed Net Realized Gain on Investments	33,452	20,885
Net Unrealized Appreciation (Depreciation)	<u>6,362</u>	<u>(30,088)</u>
Net Assets for 167,909,159 and 187,089,202 units, respectively	<u>\$ 1,704,605</u>	<u>\$ 1,844,362</u>
Net Asset Value Per Unit	<u>\$ 10.152</u>	<u>\$ 9.858</u>

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

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

Statements of Operations and Changes in Net Assets

Years Ended August 31, 2001 and 2000

(Dollars in thousands)

	<u>2001</u>	<u>2000</u>
Investment Income		
Interest Income	\$ 105,775	\$ 114,108
Commitment Fees	<u>433</u>	<u>350</u>
Total Investment Income	<u>106,208</u>	<u>114,458</u>
Expenses		
Investment Management Fees	349	386
Custodial Fees and Expenses	83	79
Other Expenses	<u>39</u>	<u>39</u>
Total Expenses	<u>471</u>	<u>504</u>
Net Investment Income	<u>105,737</u>	<u>113,954</u>
Realized and Unrealized Gain (Loss) on Investments		
Net Realized Gain (Loss) on Investment Securities	18,540	(2,732)
Change in Net Unrealized Appreciation (Depreciation) on Investment Securities	<u>36,450</u>	<u>(3,904)</u>
Net Gain (Loss) on Investments	<u>54,990</u>	<u>(6,636)</u>
Net Increase in Net Assets Resulting from Operations	\$ 160,727	\$ 107,318
Net Assets		
Beginning of Period	1,844,362	1,769,412
Participant Contributions (including reinvestments of \$75,876 and \$82,310 for years ended August 31, 2001 and 2000, respectively)	134,539	278,936
Participant Withdrawals	(329,286)	(197,350)
Distributions of Net Investment Income to Participants	<u>(105,737)</u>	<u>(113,954)</u>
End of Period	<u>\$ 1,704,605</u>	<u>\$ 1,844,362</u>
Ratios and Supplemental Data		
Ratio of Expenses to Average Net Assets	0.03%	0.03%
Ratio of Net Investment Income Distributed to Average Net Assets	5.71%	6.13%

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, 2001
(Dollars in thousands)

Description	Coupon	Maturity	Par Value	Value	Cost
Short Term Investment Fund					
Dreyfus Institutional Pfd Money Market			\$ 643,993	\$ 643,993	\$ 643,993
U.S. Treasury Securities					
U.S. Treasury Notes	6.375%	08/15/2002	275,000	282,776	288,893
U.S. Treasury Notes	5.500%	03/31/2003	200,000	205,906	204,524
U.S. Treasury Notes	5.750%	04/30/2003	100,000	103,469	102,217
U.S. Treasury Notes	5.750%	08/15/2003	15,000	15,586	15,174
Total U.S. Treasury Securities			<u>590,000</u>	<u>607,737</u>	<u>610,808</u>
U.S. Agency Bonds					
Federal Natl Mtg Assn Med Term Notes	6.700%	05/06/2002	59,975	61,250	60,497
Federal Natl Mtg Assn Med Term Notes	6.590%	05/16/2002	100,000	102,141	100,706
Federal Home Loan Bank Cons Bonds	6.030%	11/21/2002	20,000	20,497	20,220
Federal Home Loan Bank Cons Bonds	5.500%	01/21/2003	27,000	27,569	26,644
Federal Natl Mtg Assn Med Term Notes	5.750%	04/15/2003	105,000	108,150	106,226
Federal Farm Credit Bks Cons Med Term Notes	5.720%	06/03/2003	50,000	51,435	49,735
Federal Home Loan Bank Cons Bonds	5.765%	06/11/2003	70,000	72,188	69,769
Total U.S. Agency Bonds			<u>431,975</u>	<u>443,230</u>	<u>433,797</u>
Total Investment in Securities					
			<u>\$1,665,968</u>	<u>\$1,694,960</u>	<u>\$1,688,598</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

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 System 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_f credit quality rating and a bond fund volatility rating of S₂ from Standard & Poor's, Inc. (S&P). AAA is the highest credit quality rating issued by S&P. An S₂ 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 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.
- (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.

THE UNIVERSITY OF TEXAS SYSTEM SHORT INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

- (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 purchase commitment with the Board of Regents of The University of Texas System Revenue Financing System that 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.

During the year, the Fund entered into an additional commitment in connection with the Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 2001A, committing the Fund to a maximum bond purchase commitment of \$83.2 million in the event of a failed remarketing of the Series 2001A bonds. The amount of commitment is expected to decrease annually based on amortization of the Series 2001A bonds.

The commitment fees earned by the Fund were \$433,353 and \$350,000, respectively, for the years ended August 31, 2001 and 2000.

THE UNIVERSITY OF TEXAS SYSTEM
SHORT INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Note 4 - Acquisitions and Dispositions of Investments

Acquisitions and dispositions (including sales, maturities and prepayments) of securities, other than short-term securities, totaled \$25,750,000 and \$624,447,693, respectively, for the year ended August 31, 2001. For the year ended August 31, 2000, acquisitions and dispositions of securities were \$750,160,688 and \$878,226,582, respectively.

Net realized gains on investments for the year ended August 31, 2001, were \$18,539,597. Net realized losses on investments for the year ended August 31, 2000, were \$2,732,116. 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 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, 2001 and 2000, the fee was \$349,005 and \$385,552, respectively.

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