Financial Statements

The University of Texas System

Short Intermediate Term Fund

Years ended August 31, 2004 and 2003

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Contents

Management's Discussion and Analysis 1

Report of Independent Auditors.....4

Audited Financial Statements

Statements of Fiduciary Net Assets 5
Statements of Changes in Fiduciary Net Assets 6
Notes to the Financial Statements.....7
Supplemental Schedules 10

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Our discussion and analysis of The University of Texas System Short Intermediate Term Fund's (Fund) financial performance provides an overview of its activities for the fiscal year ended August 31, 2004. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the Fund's financial statements and notes. The Fund is an internal UT System mutual fund for the pooled investment of UT System institutional operating funds with an investment horizon of greater than one year. The Texas Constitution and various state statutes designate The University of Texas System Board of Regents (UT Board) as the fiduciary for the management of certain public endowment and operating funds. The UT Board has entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

The purpose of the MD&A is to provide an objective and easily readable analysis of the Fund's financial statements based upon currently known facts, decisions or conditions.

Financial Highlights

- The Fund's fiduciary net assets were $1,178.0 million at August 31, 2004 compared to $1,435.3 million at August 31, 2003.

- Investment income totaled $33.2 million for the year ended August 31, 2004, compared to $25.9 million for the year ended August 31, 2003.

- The Fund posted a net investment return of 2.49% for the fiscal year ended August 31, 2004, compared to a net investment return of 1.64% for the prior fiscal year.

Use of Financial Statements and Notes

The Fund financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). Two financial statements are required by the GASB: the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets.

The notes to the financial statements contain supplemental information that is essential for the fair presentation of the financial statements.

Statement of Fiduciary Net Assets

The Statement of Fiduciary Net Assets presents assets, liabilities, and net assets of the Fund as of the end of the fiscal year. This statement, along with all of the Fund's financial statements, is prepared using the accrual basis of accounting, whereby Fund investment income is recognized when earned and Fund expenses are recognized when incurred.

The Fund emphasizes moderate liquidity and safety of principal through investment in high grade fixed income and floating rate obligations. The Fund's investments are diversified among eligible asset classes and issuers (excluding the U.S. Government) as defined in the Fund's investment policy. The Fund carries an AAA_f credit rating and a bond volatility risk rating of S_2 from Standard & Poor's Inc (S&P). AAA is the highest quality rating issued by S&P. An S_2 rating indicates low to moderate market risk exposure.

The Fund's investment policy mitigates interest rate risk by limiting its portfolio duration to a range of 0.5 years to 4 years. Duration estimates the impact small changes in interest rates will have on the value of the portfolio. At August 31, 2004, the option adjusted duration of the portfolio was 1.15 years. Simplistically, if there is a 1.00% increase (decrease) in yields, the value of the portfolio would (decrease) increase by 1.15%.

The following summarizes the Statements of Fiduciary Net Assets (in millions):

	2004	2003	Amount of Increase (Decrease)	Percent Change
Assets				
Investments, at Fair Value	$1,383.3	$1,633.2	$ (249.9)	(15)%
Other Assets	129.7	6.3	123.4	1959
Total Assets	1,513.0	1,639.5	(126.5)	(8)
Liabilities	335.0	204.2	130.8	64
Net Assets Held in Trust	$1,178.0	$1,435.3	$ (257.3)	(18)%

Statement of Changes in Fiduciary Net Assets

Changes in fiduciary net assets as presented on the Statement of Changes in Fiduciary Net Assets are based on activity of the Fund. The purpose of this statement is to present additions to the Fund resulting from net investment income and participant contributions and to present deductions from the Fund resulting from participant distributions.

The net increase in fair value of investments of the Fund was $3.9 million during the year compared to a decrease of $27.1 million for the year ended August 31, 2003. Investment expenses totaled $0.6 million and $0.7 million for the years ended August 31, 2004 and 2003, respectively.

The net decrease in fiduciary net assets was $257.3 million and $0.6 million, respectively, for the years ended August 31, 2004 and 2003.

Distributions to participants totaled $28.6 million and $52.3 million for the years ended August 31, 2004 and 2003, respectively. Fund income is either reinvested or distributed to the participating institutions monthly at their election.

The Fund's primary investment objective is to provide both (1) income and (2) capital appreciation when consistent with income generation, reasonable preservation of capital and the maintenance of adequate Fund liquidity.

The following summarizes the Statements Changes in Fiduciary Net Assets (in millions):

	2004	2003	Amount of Increase (Decrease)	Percent Change
Investment Income	$ 33.2	$ 25.9	$ 7.3	28%
Less Investment Expenses	(0.7)	(0.7)	-	-
Net Investment Income	32.5	25.2	7.3	29
Participant Contributions	224.7	351.5	(126.8)	(36)
Total Additions	257.2	376.7	(119.5)	(32)
Participant Withdrawals	485.9	325.0	160.9	50
Participant Distributions	28.6	52.3	(23.7)	(45)
Total Deductions	514.5	377.3	137.2	36
Change in Fiduciary Net Assets	(257.3)	(0.6)	(256.7)	(42883)
Net Assets Held in Trust, Beginning of Period	1,435.3	1,435.9	(0.6)	-
Net Assets Held in Trust, End of Period	$1,178.0	$1,435.3	$ (257.3)	(18)%

Contacting UTIMCO

The above financial highlights are designed to provide a general overview of the Fund's investment results and insight into the following financial statements. Additional information may be found on our website and inquiries may be directed to UTIMCO via www.utimco.org.

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Report of Independent Auditors

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

We have audited the accompanying financial statements of The University of Texas System Short Intermediate Term Fund (the "Fund") as of and for the years ended August 31, 2004 and 2003, as listed in the table of contents. 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. 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. 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.

As discussed in Note 1, the financial statements present only The University of Texas System Short Intermediate Term Fund and do not purport to, and do not, present fairly the fiduciary net assets of The University of Texas Investment Management Company nor The University of Texas System as of August 31, 2004 and 2003 and the changes in its fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of The University of Texas System Short Intermediate Term Fund as of August 31, 2004 and 2003, the changes in its fiduciary net assets for the years then ended, in conformity with accounting principles generally accepted in the United States.

Management's discussion and analysis on pages 1 through 3 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements of The University of Texas System Short Intermediate Term Fund. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules as of and for the years ended August 31, 2004 and 2003 have been subjected to the audit procedures applied in the audits of the financial statements and, in our opinion, based on our audits, are fairly stated in relation to the financial statements taken as a whole.

Ernst + Young LLP

October 22, 2004

Statements of Fiduciary Net Assets
August 31, 2004 and 2003
(Dollars in thousands, except per unit amounts)

	2004	2003
Assets		
Investments, at Fair Value:		
Cash and Cash Equivalents	$ 615,006	$ 566,960
U.S. Treasury Securities	101,472	376,642
U.S. Agency Bonds	449,975	452,071
U.S. Agency Mortgage Backed Bonds	216,836	217,732
Mortgage Backed Collateralized Mortgage Obligation	-	19,775
Total Investments	1,383,289	1,633,180
Receivables:		
Investment Securities Sold	126,603	-
Accrued Income Receivable	3,073	6,353
Total Assets	1,512,965	1,639,533
Liabilities		
Investment Securities Purchased	332,929	201,386
Income Distributions Payable to Participants	2,029	2,814
Other Payables and Accrued Expenses	6	6
Total Liabilities	334,964	204,206
Net Assets Held for Trust (118,671,708 and 144,736,640 units, respectively)	$ 1,178,001	$ 1,435,327
Net Asset Value Held for Trust Per Unit	$ 9.927	$ 9.917

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

Statements of Changes in Fiduciary Net Assets
Years Ended August 31, 2004 and 2003
(in thousands)

	2004	2003
Additions		
Investment Income		
Net Increase (Decrease) in Fair Value of Investments	$ 3,938	$ (27,129)
Interest	28,576	52,263
Commitment Fees	655	741
Total Investment Income	33,169	25,875
Less Investment Expenses		
UTIMCO Management Fee	539	603
Custodial Fees and Expenses	73	74
Other Expenses	35	36
Total Investment Expenses	647	713
Net Investment Income	32,522	25,162
Participant Contributions	224,677	351,580
Total Additions	257,199	376,742
Deductions		
Participant Withdrawals	485,941	325,000
Participant Distributions	28,584	52,291
Total Deductions	514,525	377,291
Change in Fiduciary Net Assets	(257,326)	(549)
Net Assets Held in Trust, Beginning of Period	1,435,327	1,435,876
Net Assets Held in Trust, End of Period	$ 1,178,001	$ 1,435,327

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

Note 1 – Organization and Basis of Presentation

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 (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 S_2 from Standard & Poor's, Inc. (S&P). AAA is the highest credit quality rating issued by S&P. An S_2 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 activities of the Fund are accounted for as a fiduciary fund. The financial statements of the Fund use an economic resources measurement focus and the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of cash flows. The fund is subject to the pronouncements of the Governmental Accounting Standards Board (GASB).

The annual combined financial statements of UT 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 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 effective duration of any eligible investment should not exceed ten 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.

(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 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.

(J) Cash and Cash Equivalents – Cash and cash equivalents consist of money market funds, and are an integral part of the Fund's investment strategy and activities.

(K) Reclassifications – Certain items in the 2003 financial statements and related notes have been reclassified to conform with 2004 classification.

Note 3 – Note Purchase 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 $750 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.

Subsequent to August 31, 2004, an amendment was made to this note purchase commitment. This amendment is effective October 1, 2004, and changes the commitment of the Fund if the Fund declines below $800 million and is expected to remain below this amount for thirty days, to $300 million. This amendment supersedes all other terms related to reducing the commitment amount.

During 2001, the Fund entered into an additional commitment in connection with the Board of Regents of The University of Texas System Revenue Financing System Refunding Bonds, Series 2001A. As of August 31, 2004, the Fund is committed to a maximum bond purchase commitment of $45.6 million in the event of a failed remarketing of the Series 2001A bonds. The commitment amount as of August 31, 2003, was $58.1 million. The amount of commitment is expected to decrease annually based on amortization of the Series 2001A bonds.

During 2004, the Fund entered into an additional commitment in connection with the Board of Regents of The University of Texas System Revenue Financing System Taxable Commercial Paper Notes, Series B that commits the Fund to purchase up to $50 million in the event of a failed remarketing of these notes.

The commitment fees earned by the Fund were $654,798 and $741,438, respectively, for the years ended August 31, 2004 and 2003.

Note 4 – Investment Risk

The Fund's investments have been categorized as defined by the GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchasing Agreements) and Reverse Repurchase Agreements, to give an indication of the level of credit risk assumed by the Fund at August 31, 2004. Investments in U.S. Treasury Securities, U.S. Agency Bonds, Mortgage Backed Collateralized Mortgage Obligations and Investments classified as cash and cash equivalents have been categorized as category 1, as investments that are insured or registered investments held by the Fund or its agent in the Fund's name.

Note 5 – Fees and Expenses

The Fund is assessed an investment management fee by The University of Texas Investment Management Company. For the years ended August 31, 2004 and 2003, the fee was $539,348 and $603,402, respectively.

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

Schedule of Investments

August 31, 2004
(In thousands)

Description	Coupon	Maturity	Par Value	Value $	Value %	Cost $	Cost %
Cash and Cash Equivalents							
Dreyfus Institutional Pfd Money Market			$ 615,006	$ 615,006	44.46%	$ 615,006	44.33%
U.S. Treasury Securities							
U.S. Treasury Notes	3.38%	11/18/2008	27,500	27,786	2.01%	28,080	2.03%
U.S. Treasury Notes	3.38%	12/15/2008	73,000	73,686	5.33%	74,922	5.40%
Total U.S. Treasury Securities			100,500	101,472	7.34%	103,002	7.43%
U.S. Agency Bonds							
Federal Nat'l Mtg Association Debs	1.88%	12/15/2004	100,000	100,032	7.23%	100,383	7.24%
Federal Home Loan Mortgage Corp Debs	1.88%	1/15/2005	100,000	100,005	7.23%	100,344	7.23%
Federal Farm Credit Bks Cons Med Term Notes	2.13%	8/15/2005	250,000	249,938	18.07%	252,323	18.19%
Total U.S. Agency Bonds			450,000	449,975	32.53%	453,050	32.66%
U.S. Agency Mortgage Backed Bonds							
Fannie Mae Pool	7.00%	9/1/2014	9,343	9,943	0.72%	9,901	0.71%
Commitment to Purchase FHLMC Gold	5.50%	10/1/2018	122,200	126,076	9.11%	125,942	9.08%
Commitment to Purchase FHLMC Gold SFM	5.50%	10/1/2033	79,850	80,817	5.84%	80,324	5.79%
Total U.S. Agency Mortgage Backed Bonds			211,393	216,836	15.67%	216,167	15.58%
Total Investment in Securities			$ 1,376,899	$ 1,383,289	100.00%	$ 1,387,225	100.00%

Ratios and Supplemental Data	2004	2003
Ratio of Expenses to Average Net Assets	0.05%	0.05%
Ratio of Net Investment Income Distributed to Average Net Assets	2.30%	3.44%