THE UNIVERSITY OF TEXAS SYSTEM

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011 AND INDEPENDENT AUDITORS' REPORT

The University of Texas at Arlington ◆ The University of Texas at Austin ◆ The University of Texas at Brownsville ◆ The University of Texas at Dallas ◆ The University of Texas at El Paso ◆ The University of Texas – Pan American ◆ The University of Texas of the Permian Basin ◆ The University of Texas at San Antonio ◆ The University of Texas at Tyler ◆ The University of Texas Southwestern Medical Center ◆ The University of Texas Medical Branch at Galveston ◆ The University of Texas Health Science Center at Houston ◆ The University of Texas Health Science Center at San Antonio ◆ The University of Texas M. D. Anderson Cancer Center ◆ The University of Texas Health Science Center at Tyler ◆ The University of Texas System Administration

THE UNIVERSITY OF TEXAS SYSTEM

TABLE OF CONTENTS

THE UNIVERSITY OF TEXAS SYSTEM
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As of August 31, 2012

Officers

Wm. Eugene "Gene" Powell, Chairman
Paul L. Foster, Vice Chairman
R. Steven "Steve" Hicks, Vice Chairman
James D. Dannenbaum, P.E., Vice Chairman
Francie A. Frederick, General Counsel to the Board of Regents

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*Terms scheduled to expire February 1, 2013**	
James D. Dannenbaum, P.E.	Houston
Paul L. Foster	El Paso
Printice L. Gary	Dallas
*Terms scheduled to expire February 1, 2015**	
R. Steven "Steve" Hicks	Austin
Wm. Eugene "Gene" Powell	San Antonio
Robert L. Stillwell	Houston
*Terms scheduled to expire February 1, 2017**	
Alex M. Cranberg	Austin
Wallace L. Hall, Jr.	Dallas
Brenda Pejovich	Dallas
*Term scheduled to expire May 31, 2013**	
Ashley M. Purgason (Student Regent)	Arlington

*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, 2012

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Francisco G. Cigarroa, M.D., Chancellor

Scott C. Kelley, Executive Vice Chancellor for Business Affairs

Pedro Reyes, Executive Vice Chancellor for Academic Affairs

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

Barry D. Burgdorf, Vice Chancellor and General Counsel

Barry McBee, Vice Chancellor and Chief Governmental Relations Officer

Randa S. Safady, Vice Chancellor for External Relations

William H. Shute, Vice Chancellor for Federal Relations

Amy Shaw Thomas, Vice Chancellor and Counsel for Health Affairs

Sandra K. Woodley, Vice Chancellor for Strategic Initiatives

Bruce E. Zimmerman, Chief Executive Officer and Chief Investment Officer–UTIMCO

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INDEPENDENT AUDITORS' REPORT

To the Members of the Audit, Compliance and
Management Review Committee of the
University of Texas System Board of Regents

We have audited the accompanying consolidated balance sheets of the University of Texas System (the System), as of August 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the System'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. 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 the 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 6, the financial statements include investments valued at approximately $20 billion and $17 billion as of August 31, 2012 and 2011, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values.

In our opinion, the financial statements referred to above previously present fairly, in all material respects, the financial position of the System, as of August 31, 2012 and 2011, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2012 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Other Post-Employment Benefits Schedule of Funding Progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte & Touche LLP

December 20, 2012

THE UNIVERSITY OF TEXAS SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2012
(Unaudited)

INTRODUCTION

The University of Texas System (the System) was established by the Texas Constitution of 1876. In 1881, Austin was designated the site of the main academic campus and Galveston as the location of the medical branch. The University of Texas at Austin opened in 1883, and eight years later, the John Sealy Hospital in Galveston (now a part of The University of Texas Medical Branch at Galveston) established a program for university-trained medical professionals. In addition to the original academic campus located in Austin, the System now includes eight additional academic campuses in Arlington, Brownsville, Dallas, Edinburg, El Paso, Odessa, San Antonio, and Tyler. Health institutions for medical education and research have expanded beyond the original Galveston medical campus to include The University of Texas M. D. Anderson Cancer Center, The University of Texas Southwestern Medical Center, and The University of Texas Health Science Centers at Houston, San Antonio and Tyler.

The System's fifteen institutions are, collectively, one of the nation's largest educational enterprises. They provide instruction and learning opportunities to over 214,000 undergraduate, graduate and professional school students from a wide range of social, ethnic, cultural and economic backgrounds. The System is governed by a nine-member Board of Regents appointed by the Governor of Texas and confirmed by the Texas Senate. Three members are appointed every odd-numbered year for six-year terms. In addition, the Governor appoints a non-voting student Regent for a one-year term.

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The objective of Management's Discussion and Analysis (MD&A) is to provide an overview of the financial position and activities of the System for the year ended August 31, 2012, with selected comparative information for the years ended August 31, 2011 and 2010. The MD&A was prepared by management and should be read in conjunction with the accompanying financial statements and notes. The emphasis of discussion about these financial statements will focus on the current year data. Unless otherwise indicated, years in this MD&A refer to the fiscal years ended August 31. The System's consolidated financial report includes three primary financial statements: the balance sheet; the statement of revenues, expenses and changes in net assets; and the statement of cash flows. The financial statements of the System have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

FINANCIAL HIGHLIGHTS

- On May 3, 2012, the U. T. System Board of Regents took an unprecedented step to minimize resident undergraduate tuition and fee increases for academic years 2012-2013 and 2013-2014 by allocating additional distributions from the Permanent University Fund (PUF) to the Available University Fund (AUF) to effectively eliminate or greatly reduce proposed tuition and fee increases for the next two years. U. T. Austin is the only institution of the System that can constitutionally receive AUF excellence funds; however, the System can pay for certain expenses on behalf of the entire System that will reduce the burden on the individual institutions. The U. T. System Board of Regents feels strongly that resident undergraduate students should not bear the burden of an additional increase in tuition and fees. The institutions have been challenged to reduce costs to offset any increase in resident undergraduate tuition and fees in the future. In the fall of 2011, the System's enrollment increased 1.7% to 214,861 students. The System's academic institutions enroll 37.8% of the State's public college students, and the System's health-related institutions enroll 63.3% of the students attending the State's public health institutions. A 2.4% increase in student semester credit hours at the academic institutions along with limited tuition and fee increases for 2012 contributed to the increase of net tuition and fees of $102.6 million, or 7.9%. The tuition plans approved by the U. T. System Board of Regents include setting aside the statutorily required portion of at least 20% of new tuition revenues for financial aid programs, as well as a variety of ways that students can take advantage of special discounts in tuition rates. The approved plans also include pricing incentives to encourage students to graduate on time by taking more semester credit hours in each term they are enrolled.

- Net patient care revenues, which consists of net sales and services of hospitals and net professional fees, increased $382.1 million in 2012, or 7.7%, as a result of increases in patient volumes and rates.

- As a result of declining market conditions in 2012, net investment income, excluding the change in fair value of investments, decreased $298.0 million, from $2.2 billion in 2011 to $1.9 billion in 2012 (Table 3). The net increase in fair value of investments was $1.6 billion in 2012, as compared to $1.9 billion in 2011, a decrease of $277.8 million. These realized and unrealized gains were the largest contributor to the total increase in net assets of $3.0 billion during 2012.

- Investments in capital asset additions were $1.7 billion in 2012, of which $1.2 billion consisted of new projects under construction. Major capital projects completed in 2012 include:

  - the South Texas Research Facility at U. T. Health Science Center - San Antonio, $139.6 million;
  - the Research Park Complex at U. T. Health Science Center - Houston, $131.7 million;
  - the Wagner Noel Performing Arts Center at U. T. Permian Basin, $76.0 million;
  - the Physical Science/Engineering Core Facility at U. T. El Paso, $75.4 million;
  - the Special Events Center at U. T. Arlington, $66.1 million;
  - the Belo Center for New Media at U. T. Austin, $47.1 million;
  - the High Performance Computing Center at U. T. Austin, $36.2 million;
  - the East Parking Garage at U. T. San Antonio, $35.9 million;
  - the Student Living/Learning Center at U. T. Dallas, $30.7 million;
  - the Administrative Support Building at M. D. Anderson, $26.2 million; and,
  - Renovations to Darrell K Royal Texas Memorial Stadium at U. T. Austin, $20.9 million.

- Bonds payable relating to financing of current and prior years' construction needs were the largest portion of the System's liabilities and increased $160.9 million to $6.8 billion at August 31, 2012. All bonds continue to reflect the highest uninsured "Aaa" and "AAA" credit ratings from the three major bond-rating agencies.

- Other Postemployment Benefits (OPEB) liability increased $497.2 million to $2.3 billion for 2012 related to retiree medical and dental costs. The System's total unfunded actuarial accrued liability was $6.0 billion as of August 31, 2012.

The Balance Sheet

The balance sheet presents the assets and deferred outflows (assets), liabilities and deferred inflows (liabilities) and net assets of the System as of the end of the year. This is a point-in-time financial presentation of the financial status as of August 31, 2012, with comparative information for the previous years. The balance sheet presents information in current and noncurrent format for both assets and liabilities. The net assets section presents assets less liabilities. Over time, increases or decreases in net assets are one indicator of the improvement or decline of the System's financial health when considered with nonfinancial factors such as enrollment, patient levels, and the condition of facilities. A summarized comparison of the System's balance sheets at August 31, 2012, 2011 and 2010 follows:

Table 1

		2012	2011	2010
Assets and Deferred Outflows:			($ in millions)	
Current assets	$	6,181.3	5,546.0	5,539.7
Noncurrent investments		30,646.4	27,833.1	23,263.6
Other noncurrent assets and deferred outflows		630.4	713.4	643.9
Capital/intangible assets, net		12,422.5	11,785.4	11,008.0
Total assets and deferred outflows		49,880.6	45,877.9	40,455.2
Liabilities and Deferred Inflows:				
Current liabilities		6,536.2	6,261.3	5,888.6
Noncurrent liabilities and deferred inflows		9,962.0	9,195.5	7,859.6
Total liabilities and deferred inflows		16,498.2	15,456.8	13,748.2
Net Assets:				
Invested in capital assets, net of related debt		5,265.2	5,029.2	4,630.8
Restricted		24,633.5	22,016.1	19,166.6
Unrestricted		3,483.7	3,375.8	2,909.6
Net assets		33,382.4	30,421.1	26,707.0
Liabilities, deferred inflows and net assets	$	49,880.6	45,877.9	40,455.2

Assets and Deferred Outflows (Table 1)
Assets and deferred outflows increased $4.0 billion, or 8.7%, in 2012 primarily due to a significant increase in the value of the PUF lands, discussed below, as well as new investments in capital assets mentioned above.

Current Assets
Current assets consist primarily of cash and cash equivalents; securities lending collateral; various student, patient, gift and investment trades receivables; and student notes receivable. The System's current assets increased $635.3 million in 2012 primarily as a result of an increase in cash and cash equivalents of $362.2 million and an increase in securities lending collateral of $126.8 million.

Noncurrent Investments
Noncurrent investments include permanent endowments, funds functioning as endowments, annuity and life income funds and other investments including investment derivative instruments. These assets increased $2.8 billion in 2012 primarily due to increases in the fair value of investments and realized gains. Included in permanent endowments is the fair value of investments in the PUF including the PUF lands. The fair value of the PUF lands at August 31, 2012 was $3.5 billion, a $1.8 billion increase from the prior year due to an increase in the value of proved oil and gas reserves as a result of increased production. The PUF also increased due to $970.3 million of PUF lands mineral income earned in 2012 that must be added to the endowment in accordance with the Texas Constitution. The asset positions of investment derivative instruments decreased $253.6 million to $105.8 million in 2012 primarily due to a decrease in purchased options.

Capital Assets
The development and renewal of its capital assets is one of the critical factors in continuing the System's quality academic, health and research programs. The System continues to implement its $6.1 billion capital improvement program to upgrade its facilities and address planned growth in patient care and student enrollment. Capital additions totaled $1.7 billion in 2012, of which $1.2 billion consisted of new projects under construction. These capital additions were comprised of replacement, renovation, and new construction of academic, research and health care facilities, as well as significant investments in equipment.

Computer software is the biggest component of the System's intangible assets. During 2012 and 2011, the System placed $124.4 million and $166.0 million, respectively, of computer software into service.

Other Noncurrent Assets and Deferred Outflows
Other noncurrent assets consist primarily of deferred outflows - fair market value of derivatives, deposit with brokers for derivative contracts, loans and contracts, and contributions receivable. Changes in fair value for effective hedges that are achieved with derivative instruments are to be reported as deferred inflows and deferred outflows in the statement of net assets. Deferred outflows related to hedging derivatives increased $131.8 million to $334.1 million in 2012 with an offsetting hedging derivative liability. This increase was offset by a $117.5 million decrease in deposit with brokers for derivative contracts.

Liabilities and Deferred Inflows (Table 1)
Liabilities and deferred inflows increased $1.0 billion, or 6.7%, primarily due to an increase in the other postemployment benefit liability and new debt issued to fund investment in capital assets. The System's liabilities primarily consist of current liabilities, bonds and notes payable, other postemployment benefits, assets held for others, amounts due to the Texas A&M University System (TAMUS), hedging derivative liabilities, investment derivatives – liability positions, payable to brokers for collateral held, and other liabilities.

Current Liabilities
Current liabilities consist primarily of accounts payable and accrued liabilities, investment trades payable, securities lending obligations, unearned revenues, current portion of employee compensable leave, commercial paper notes, the current portion of bonds payable and the current portion of amounts due to TAMUS. The System's current liabilities increased $274.9 million in 2012 primarily due to increases in investment trades payables and securities lending obligations.

Bonds and Notes Payable

Bonds payable relating to financing of current and prior years' construction needs were the largest portion of the System's liabilities and totaled $6.8 billion and $6.7 billion at August 31, 2012 and 2011, respectively. All bonds continue to reflect the highest uninsured "Aaa" and "AAA" credit ratings from the three major bond-rating agencies. During 2012, the System issued $434.0 million of bonds to current refund $282.8 million of RFS commercial paper notes; to provide $184.1 million of new money to finance the costs of capital projects; to advance refund $54.0 million of RFS bonds; and to pay the cost of issuance. Additionally during 2012, $3.4 million of RFS bonds were optionally redeemed.

Notes and loans payable decreased $28.8 million in 2012. These notes are issued periodically to provide interim financing for capital improvements and to finance the acquisition of capital equipment. The System typically refunds a portion of these outstanding notes through the issuance of long-term debt to provide permanent financing for projects.

For additional information concerning capital assets and related debt activities, see Notes 9, 11, 12 and 13 to the consolidated financial statements.

Other Postemployment Benefits Liability

The System reported an OPEB liability of $2.3 billion for 2012 and $1.8 billion for 2011 related to retiree medical and dental costs. The System is not required to fund the OPEB liability; instead, the difference between the OPEB cost and the System's contributions to the plan will increase the unfunded actuarial accrued liability. For the year ended August 31, 2012, the System's annual OPEB cost was $640.0 million. Employer contributions for 2012 were $142.7 million, resulting in an increase in net OPEB obligation of $497.2 million in 2012. The System's total unfunded actuarial accrued liability was $6.0 billion as of August 31, 2012. For additional information concerning the OPEB liability, see Note 16 to the consolidated financial statements.

Liability to the Texas A&M University System

The System recorded a liability to TAMUS of $757.2 million and $644.4 million at August 31, 2012 and 2011, respectively, for future amounts due to TAMUS from the PUF to cover principal on outstanding PUF bonds and notes issued by TAMUS. This liability is reported as current and noncurrent statewide interfund payable on the balance sheet.

Hedging Derivative Liability, Investment Derivatives – Liability Positions, and Payable to Brokers for Collateral Held

The System recorded a hedging derivative liability with an offsetting deferred outflow of $334.1 million and $202.2 million for 2012 and 2011, respectively. The System also recorded investment derivatives – liability positions of $64.4 million and $274.2 million for 2012 and 2011, respectively. Payables to brokers for collateral held were $42.7 million and $162.5 million for 2012 and 2011, respectively.

Other Liabilities

Other significant liabilities for the System include unearned revenue of $1.2 billion and $1.1 billion for 2012 and 2011, respectively; accounts payable of $767.3 million and $879.2 million for 2012 and 2011, respectively; assets held for others of $808.9 million and $783.3 million for 2012 and 2011, respectively; employee compensable leave of $473.3 million and $453.2 million for 2012 and 2011, respectively; salaries payable of $414.2 million and $403.7 million for 2012 and 2011, respectively; securities lending obligations of $511.4 million and $384.6 million for 2012 and 2011, respectively; and payables related to investment trades of $299.9 million and $101.5 million for the same two periods.

Net Assets (Table 2)

Net assets represent the residual interest in the System's assets after liabilities are deducted. As stated previously under Financial Highlights, net assets increased by $3.0 billion in 2012. The following table summarizes the composition of net assets at August 31, 2012, 2011 and 2010:

Table 2

		2012	2011	2010
Net assets:			($ in millions)	
Invested in capital assets, net of related debt	$	5,265.2	5,029.2	4,630.8
Restricted:				
Nonexpendable		15,128.7	12,233.6	10,987.4
Expendable		9,504.8	9,782.5	8,179.2
Total restricted		24,633.5	22,016.1	19,166.6
Unrestricted		3,483.7	3,375.8	2,909.6
Total net assets	$	33,382.4	30,421.1	26,707.0

Invested in Capital Assets, Net of Related Debt

Net assets invested in capital assets, net of related debt represents the System's capital assets, net of accumulated depreciation and outstanding debt obligations attributable to the acquisition, construction or improvement of those assets. The $236.0 million increase in invested in capital assets, net of related debt, in 2012 resulted primarily from a net increase in gross capital and intangible assets of $1.5 billion offset by a net increase in related debt of capital assets placed in service of $403.8 million and an increase in accumulated depreciation of $901.0 million.

Restricted Net Assets

Restricted net assets primarily include the System's permanent endowment funds subject to externally imposed restrictions governing their use. The System's permanent endowment funds include the PUF, which supports both the System and TAMUS. Per the Texas Constitution, distributions from the PUF must not be less than the amount needed to pay the principal and interest due on PUF bonds and notes. The System's permanent endowment funds also include the Permanent Health Fund Endowments (PHF) established in 1999 from tobacco-related litigation funds received from the Texas State Legislature. A portion of the PHF was established for the benefit of the System's health-related institutions, as well as for the Texas A&M University Health Science Center, the University of North Texas Health Science Center at Fort Worth, the Texas Tech University Health Science Center and Baylor College of Medicine. The corpus of the PHF is restricted by statute to remain intact, and the earnings from the funds are required to be utilized for public health activities such as medical research, health education and treatment programs. The final component of the System's endowment funds includes donor restricted endowments, the income of which is used to fund various endeavors in accordance with the donors' wishes. These funds may be invested in the System's Long Term Fund or they may be separately invested (see Note 8 to the consolidated financial statements for additional information).

Restricted Nonexpendable Net Assets

As of August 31, 2012 and 2011, restricted nonexpendable net assets include $10.9 billion and $8.2 billion, respectively, of the PUF corpus, $820 million for both years of the PHF corpus, and $3.3 billion and $3.2 billion, respectively, of other endowments' corpus. Restricted nonexpendable net assets increased by $2.9 billion to $15.1 billion in 2012, resulting primarily from the increase in the corpus of the PUF.

Restricted Expendable Net Assets

PUF appreciation consists of the market value of all investments in excess of the corpus, including oil and gas reserves. Although appreciation related to the PUF is included in the restricted, expendable line item, it should be noted that the Texas Constitution provides that the U. T. System Board of Regents shall determine the amount of distributions to the AUF, in an amount not to exceed 7% of the average net fair value of investment assets, except as necessary to pay debt service on PUF bonds and notes. Additionally, the U. T. System Board of Regents must determine the amount of distributions to the AUF in a manner intended to provide the AUF with a stable and predictable stream of annual distributions and to maintain, over time, the purchasing power of PUF investments and annual distributions to the AUF. Therefore, although technically the appreciation attributable to the PUF is expendable, the U. T. System Board of Regent's must adhere to the Texas Constitution as discussed further in Note 8 to the consolidated financial statements.

As of August 31, 2012, restricted expendable net assets include $5.3 billion of the PUF appreciation, $156.6 million of PHF appreciation, $1.8 billion of other endowments' appreciation, $286.8 million of restricted funds functioning as endowments, restricted contract and grant and loan funds of $1.6 billion, funds restricted to support cancer treatment and programs that benefit public health of $84.7 million, and bond proceeds for capital projects of $235.4 million.

Unrestricted Net Assets

Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the System's unrestricted net assets have been committed for various future operating budgets related to academic, patient, and research programs and initiatives, as well as capital projects. Unrestricted net assets of $3.5 billion also include funds functioning as endowments of $663.5 million.

2011 Highlights - Balance Sheet

Due to an improvement in the financial market conditions in 2011, as well as strong investment performance at UTIMCO, net investment income, excluding the change in fair value of investments, increased $814.9 million to $2.2 billion. In addition, the net increase in fair value of investments increased $374.8 million to $1.9 billion in 2011. These realized and unrealized gains were the biggest contributor to the total increase in net assets of $3.7 billion during 2011. In addition, the System reported an OPEB liability of $1.8 billion for 2011, an increase of $470.9 million as compared to 2010.

The Statement of Revenues, Expenses and Changes in Net Assets

The statement of revenues, expenses and changes in net assets details the changes in total net assets as presented on the balance sheet. The statement presents both operating and nonoperating revenues and expenses for the System. The following table summarizes the System's revenues, expenses and changes in net assets for the years ended August 31, 2012, 2011 and 2010:

Table 3

	2012	2011	2010
Operating revenues:		($ in millions)	
Net student tuition and fees	$ 1,393.2	1,290.6	1,186.4
Sponsored programs	2,753.8	2,860.9	2,688.1
Net sales and services of hospitals	4,138.2	3,812.1	3,432.8
Net professional fees	1,231.2	1,175.2	1,103.5
Net auxiliary enterprises	439.3	407.7	391.9
Other	498.6	512.8	464.8
Total operating revenues	10,454.3	10,059.3	9,267.5
Total operating expenses	(13,422.9)	(12,921.4)	(12,248.2)
Operating loss	(2,968.6)	(2,862.1)	(2,980.7)
Nonoperating revenues (expenses):			
State appropriations	1,919.0	1,857.3	2,087.5
Nonexchange Sponsored Programs	343.6	394.9	396.7
Gift contributions for operations	331.8	325.5	299.2
Net investment income excluding the change in fair value of investments	1,948.3	2,246.3	1,431.4
Net increase in fair value of investments	1,619.1	1,896.9	1,522.1
Interest expense on capital asset financings	(268.9)	(262.7)	(207.5)
Net other nonoperating revenues (expenses)	(25.7)	(32.8)	(26.6)
Income before other revenues, expenses, gains or losses and transfers	2,898.6	3,563.3	2,522.1
Capital appropriations – Higher Education Assistance Fund (HEAF)	17.4	17.4	17.5
Capital gifts and grants and additions to permanent endowments	379.9	353.0	335.6
Net Transfers to other State entities	(334.6)	(219.6)	(223.9)
Change in net assets	2,961.3	3,714.1	2,651.3
Net assets, beginning of the year	30,421.1	26,707.0	24,055.7
Net assets, end of the year	$ 33,382.4	30,421.1	26,707.0

Operating Revenues **(Table 3)**

Operating revenues totaled $10.5 billion for the fiscal year ended August 31, 2012, an increase of $395.0 million over 2011. The System's primary sources of operating revenues come from net student tuition and fees, sponsored programs, net sales and services of hospitals, net professional fees, and net auxiliary enterprises.

Net Student Tuition and Fees

Student tuition and fees, a primary source of funding for the System's academic programs, representing 13.3% of operating revenues, are reflected net of associated discounts and allowances. Net student tuition and fees increased $102.6 million, or 7.9%, as a result of enrollment increases of 1.7% at the academic institutions and 2.7% at the health institutions in addition to limited tuition and fee increases for 2012.

Sponsored Programs

Sponsored program revenues, representing 26.3% of operating revenues, are primarily from governmental and private sources and are related to research programs that normally provide for the recovery of direct and indirect costs. Governmental sponsored programs include grants from the federal government such as the U.S. Department of Health and Human Services. Other sponsored programs include student financial aid and contracts with affiliated hospitals for clinical activities. These revenues decreased $107.1 million, or -3.7%, in 2012 largely due to the decrease in the American Recovery and Reinvestment Act (ARRA) of 2009 which provided additional sponsored program revenues for colleges and universities in 2011.

Net Patient Care Revenues

Net patient care revenues, which consist of net sales and services of hospitals and net professional fees, are principally generated within the System's hospitals and physicians' practice plans under contractual arrangements with governmental payors and private insurers. These revenues, which represent 51.4% of operating revenues, are reported net of contractual allowances, bad debt expense, and unreimbursed charges for financially or medically indigent patients. Net patient care revenues increased $382.1 million, or 7.7%, in 2012, as a result of increases in patient volumes and rates. The System's health-related institutions provide uncompensated care to patients who meet certain criteria. Uncompensated care includes the unreimbursed costs for the uninsured and the underinsured as well as the unreimbursed costs from government-sponsored health programs. To calculate uncompensated care, charges are converted to costs and providers recognize appropriate patient specific funding and lump sum funding available to offset costs. Uncompensated care costs amounted to $549.7 million and $614.4 million for 2012 and 2011, respectively.

Net Auxiliary Enterprises

Net auxiliary enterprise revenues were earned from a host of activities such as athletics, housing and food service, bookstores, parking, student health and other activities. These revenues increased $31.6 million, or 7.8%, in 2012 primarily due to increased gate receipts for athletic events.

Operating Expenses **(Table 4)**

Operating Expenses totaled $13.4 billion for the fiscal year ended August 31, 2012, an increase of $501.5 million over 2011. The following data summarizes the composition of operating expenses by programmatic function for the years ended August 31, 2012, 2011 and 2010:

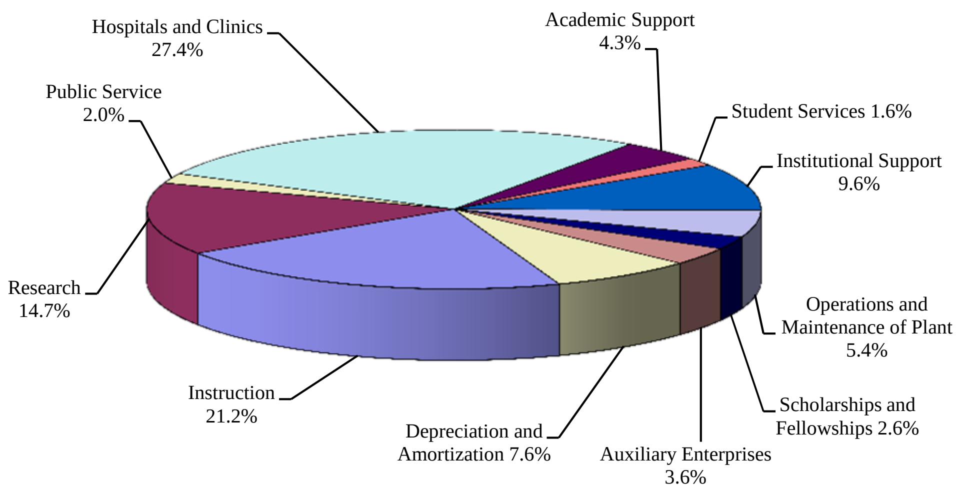
Table 4

		2012	2011	2010
Functional classification of operating expenses:			($ in millions)	
Instruction	$	2,846.0	2,880.8	2,755.2
Research		1,974.2	1,990.3	1,858.8
Public service		267.2	275.6	254.7
Hospitals and clinics		3,677.4	3,315.3	3,148.1
Academic support		575.2	541.1	486.0
Student services		215.0	186.3	180.5
Institutional support		1,287.3	1,221.8	1,237.0
Operations and maintenance of plant		730.2	730.5	728.3
Scholarships and fellowships		353.3	419.6	371.1
Auxiliary enterprises		481.5	457.7	443.1
Depreciation and amortization		1,015.6	902.4	785.4
Total operating expenses	$	13,422.9	12,921.4	12,248.2

The operating expenses reflect the System's commitment to promoting instruction, research, patient care, public service and student support. Total operating expenses increased $501.5 million, or 3.9%, in 2012 in response to growing student enrollment, research, and patient care activities. The System's full-time equivalent employees increased 2.8% from 82,943 in 2011 to 85,283 in 2012. Employee-related costs increased due to salary increases and higher medical costs.

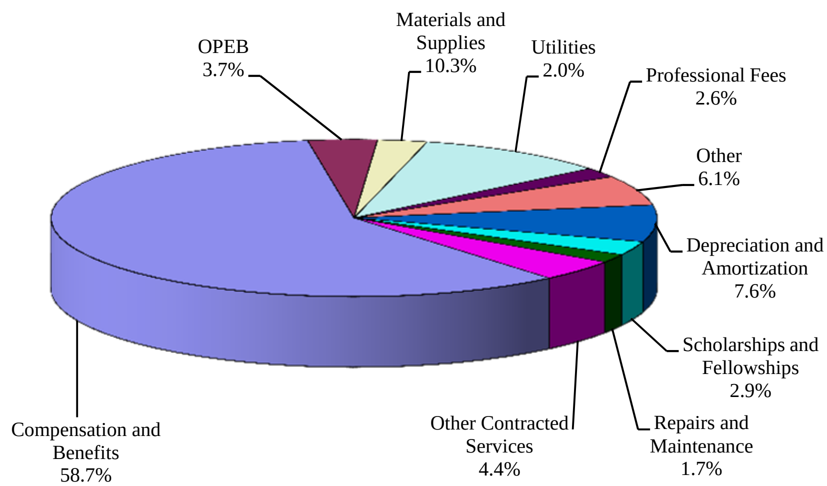
The following is a graphic illustration of operating expenses by their functional classification for the year ended August 31, 2012.

Functional Classification of Operating Expenses ($13.4 billion)



In addition to programmatic (functional) classification of operating expenses, the following graph also illustrates the System's operating expenses by natural classification for the year ended August 31, 2012

Natural Classification of Operating Expenses ($13.4 billion)



Nonoperating Revenues and Expenses (Table 3)
Certain significant recurring revenues are considered nonoperating. The System's primary sources of nonoperating revenues and expenses come from State appropriations, nonexchange sponsored programs, gift contributions for operations, net investment income (loss) excluding the change in fair value of investments, net increase (decrease) in fair value of investments, and interest expense.

State Appropriations
State appropriations remained relatively flat increasing only $61.7 million, or 3.3%. In 2011, a portion of State appropriations was funded with ARRA funds. The portion of State appropriations replaced with ARRA funds were reported as federal nonexchange pass-through revenues. Total appropriations, including appropriations funded with ARRA funds, increased $15.8 million or less than 1%.

Nonexchange Sponsored Programs
Federal nonexchange sponsored programs includes primarily Pell revenues and Build America Bond subsidy revenues. Pell revenues of $306.9 million reflect a decrease of 5.2% as a result of the decrease in Pell grants for the summer session. The System previously issued $1.7 billion of Build America Bonds. The subsidy from the federal government of 35% of the interest payments on Build America Bonds is reported as federal nonexchange sponsored programs and not as a credit to interest expense. During 2012, the System received $29.7 million of Build America Bond subsidy revenues compared to $30.1 million in 2011. State nonexchange pass-throughs consist of the Texas Research Incentive Program of $4.7 million, a decrease of 52.8% from the prior year.

Gift Contributions for Operations
Gift contributions for operations of $331.8 million increased $6.3 million from 2011 in spite of the current economic environment.

Net Investment Income (Loss) Excluding the Change in Fair Value of Investments
Due to declining market conditions, net investment income, excluding the change in the fair value of investments, decreased $298.0 million from $2.2 billion in 2011 to $1.9 billion in 2012. Net investment income includes realized gains of $659.2 million in 2012 compared to $980.2 million in 2011.

Net Increase (Decrease) in Fair Value of Investments
The change in the fair value of the System's investments in 2012 was an increase of $1.6 billion as compared to $1.9 billion in 2011 primarily due to a $1.8 billion increase in the value of the PUF lands. The fair value of the PUF land's interest in oil and gas is based on a third party reserve study of proved reserves. The present value of the royalty cash flows is calculated by applying a 10 percent discount rate to future expected production volumes of oil and gas based on the price of oil and gas on August 31, 2012. Probable and possible reserves of oil and gas are not included in the fair value estimate. The fair value of the PUF lands at August 31, 2012 was $3.5 billion.

Interest Expense
Finally, interest expense on capital asset financings increased slightly by $6.2 million from $262.7 million in 2011 to $268.9 million in 2012 as a result of new debt issuances.

Income (Loss) Before Other Revenue, Expenses, Gains or Losses and Transfers (Table 3)

Income before other revenue, expenses, gains or losses and transfers, is the sum of the operating loss plus nonoperating revenues (expenses). It is an indication of recurring revenues and expenses for the System and does not take into account capital and endowment-related additions and transfers. The income before other revenues, expenses, gains or losses totaled $2.9 billion in 2012, a decrease of $664.7 million over 2011. This decrease was largely a result of a decrease in investment income, including realized gains on investments and change in the fair value of investments. The System measures its operating results by considering operating activities, including certain significant recurring nonoperating revenues and expenses. The following table summarizes the System's view of its operating results for 2012, 2011 and 2010:

Table 5

	2012	2011	2010
Operating results:		($ in millions)	
Income before other revenue, expenses, gains/(losses) & transfers	$ 2,898.6	3,563.3	2,522.1
Remove nonoperating items:			
Net increase in fair value of investments	(1,619.1)	(1,896.9)	(1,522.1)
Loss on sale of capital assets	14.7	41.6	12.6
Other nonoperating (income)/expense	11.0	(8.7)	14.0
Realized gains on investments	(657.4)	(980.2)	(797.4)
Net operating results	$ 647.8	719.1	229.2

Capital Appropriations, Capital Gifts and Grants, and Additions to Permanent Endowments (Table 3)

Capital appropriations, capital gifts and grants and additions to permanent endowments totaled $397.3 million for the year ended August 31, 2012, an increase of $26.9 million over 2011 as a result of new gifts for capital purposes. The System continues its fundraising efforts to address facilities expansion and renovation, and the establishment of endowments for instruction, research and patient care activities.

Net Transfers to Other State Entities (Table 3)

Transfers to and from other State agencies includes $199.8 million and $168.8 million for 2012 and 2011, respectively, for the AUF distribution to TAMUS for its annual one-third participation in distributions from the PUF endowment and PUF land surface income. In accordance with the provisions set forth in Article 7, Section 18 of the Texas Constitution, the System transfers one-third of the distributions from the total return of PUF investments and net income from the surface lands to TAMUS. In addition to the transfer of the current year earnings, the System recorded a liability of $757.2 million and $644.4 million at August 31, 2012 and 2011, respectively, for future amounts due to TAMUS from the PUF to cover principal on outstanding PUF bonds and notes issued by TAMUS. As a result, the change in PUF debt issued by TAMUS is reflected as a transfer to or from other State agencies. In 2012, there was an increase in TAMUS's PUF debt of $112.8 million, while in 2011 there was an increase of $32.5 million.

Change in Net Assets (Table 3)

The change in net assets results from all revenues, expenses, gains, losses, gifts and transfers that occurred during the accounting period. It is an overall indication of the improvement or decline between the prior and current year's balance sheet. Net assets increased by $3.0 billion in 2012 as compared to $3.7 billion in 2011, primarily due to decreased market conditions in 2012. Net investment income, excluding the change in fair value of investments, decreased $298.0 million, from $2.2 billion in 2011 to $1.9 billion in 2012. The net increase in fair value of investments was $1.6 billion in 2012, as compared to $1.9 billion in 2011, a decrease of $277.8 million. These realized and unrealized gains were the largest contributor to the total increase in net assets of $3.0 billion during 2012.

2011 Highlights - Statement of Revenues, Expenses and Changes in Net Assets

In 2011, the System's net tuition and fees increased $104.2 million over 2010 due to continued enrollment growth. Sponsored program revenues increased $172.8 million in 2011 primarily due to increased federal awards and an increase in contracts with nongovernmental entities. Net patient care revenues grew by $451.0 million as a result of increased patient volumes and higher rates. Total operating expenses increased $673.2 million due to the growth in student enrollment, research, and patient care activities. Additionally, the System recorded a net OPEB obligation expense of $470.9 million in 2011.

The improvement in the financial market conditions in 2011 resulted in positive net investment income, excluding the increase in fair value of investments, of $2.2 billion. The net increase in fair value of investments was an additional $1.9 billion in 2011. Both of these components of investment income were the largest contributors to the total increase in net assets of $3.7 billion during 2011.

Economic Outlook

The mission of the System is to provide high-quality educational opportunities for the enhancement of the human resources of Texas, the nation, and the world through intellectual and personal growth. The achievement of the System's mission is dependent upon the ability to attract and support dedicated students from many cultures; acquire and retain the highest quality diverse faculty; recruit and appropriately recognize exemplary administrators and staff members; create and sustain physical environments that enhance and complement educational goals; and encourage ongoing public and private sector support of higher education. Philanthropic donations from the private sector provide valuable support for endowed faculty positions, student fellowships and scholarships, special facilities, enhancement of academic programs, and many other needs. The level of private support underscores the continued confidence among donors in the quality of the System's programs and the importance of its mission. At the same time, public and private support in 2013 will likely continue to reflect the changes in the economy and financial markets, the effect of which is not determinable at this time.

The System will continue to face financial challenges stemming from the State's uncertain financial circumstances primarily driven by the State not fully funding Medicaid and the public school system in the 2012-2013 biennium. Budget maneuvers that helped balance the 2012-2013 biennium budget will need to be addressed in the 2014-2015 biennium budget. On the positive side, the Texas economy continues to fare better than those of many other states and has seen thirty consecutive months of growth in sales tax revenue led by collections from the oil and natural gas related sectors. Given these challenges, it is noteworthy that the System maintains the highest credit ratings of Moody's (Aaa), Standard & Poor's (AAA) and Fitch (AAA). Achieving and maintaining the highest credit ratings provides the System a high degree of flexibility in securing capital funds on the most competitive terms. This flexibility, along with ongoing efforts toward revenue diversification and cost containment, will enable the System to provide the necessary resources to support a consistent level of excellence in service to students, patients, the research community, the State and the nation. Major strengths of the System include a diverse source of revenues, including those from the State of Texas, student tuition and fees, sponsored programs, patient care revenues, self-supporting enterprises and private support. The diversity of revenues is becoming increasingly important with the continuing economic crisis of the country. In past years, student tuition and fee increases have been necessary to address increasing costs exceeding the growth in State appropriations; however, the U. T. System Board of Regents does not believe that resident undergraduate students should bear the burden of additional increases in tuition and fees. The institutions have been challenged to reduce costs to offset any increase in resident undergraduate tuition and fees in the future. The System's appropriations for the 2012-13 biennium were reduced $475.4 million or 14.36 percent compared to the original appropriations for the 2010-11 biennium. However, because of advanced planning and other sources of revenue, the System's academic and health institutions have successfully identified and are pursuing various strategies to manage the reduced state appropriations, including elimination of vacant and filled positions.

As a labor-intensive organization, the System faces competitive pressures related to attracting and retaining faculty and staff. The cost of the System's health benefits for its employees and retirees has increased significantly over the past several years. To address these challenges, the System has successfully taken and will continue to take proactive steps to respond to the challenges of rising costs while protecting the quality of the overall benefit package. The System continues to recognize a portion of the accrued expenses of its healthcare and dental benefits costs for its 106,471 employees and retirees over the next 25 years. The unfunded actuarial accrued liability for these costs was $6.0 billion as of August 31, 2012. Presently, the amount that the System contributes to the plan each year is equal to the cost of providing the benefits incurred during the year. The System's ability to continue this benefit is dependent on continuing to receive support from the State at its current level. Long-term policy issues, such as plan changes, are continuously evaluated and adjusted annually if necessary.

Health care reform will also influence benefits planning. On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law. On March 30, 2010 the Health Care and Education Reconciliation Act of 2010 was signed, amending the PPACA (collectively the "Affordable Care Act"). The Affordable Care Act includes expanded health insurance coverage by providing mandated coverage for health insurance, a substantial expansion of Medicaid eligibility, and additional coverage for the Children's Health Insurance Program. The Affordable Care Act also includes incentives for research, prevention and wellness, changes designed to curb fraud, waste and abuse, and administrative simplification such as electronic medical records. Some provisions of the Affordable Care Act are effective immediately; others will be phased in through 2014. System experts are diligently reviewing and assessing the short and long-term impacts on our health plans and our health system to develop clear strategies and options for the future that will ensure compliance over the coming years of regulatory change. The impact of this legislation is estimated to be significant, but actual cost impact is not yet determinable.

On November 6, 2012, Travis County, Texas voters elected to pass Proposition 1. The proposal called for a 5 cent property tax rate increase to support a new teaching hospital and medical school at U. T. Austin. In addition, the U. T. System Board of Regents allocated $25 million per year to U. T. Austin to support the medical school, along with an additional $5 million of funding per year for the next eight years to recruit medical faculty. The new medical school in Austin will offer improved and increased healthcare to Travis County by bringing more medical professionals to the area as well as job creation and economic growth.

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED BALANCE SHEETS
AUGUST 31, 2012 AND 2011

ASSETS AND DEFERRED OUTFLOWS		2012	2011
CURRENT ASSETS AND DEFERRED OUTFLOWS			
Cash and cash equivalents	$	2,325,376,227	1,963,128,221
Restricted cash and cash equivalents		224,860,149	213,140,223
Balance in State appropriations		242,866,441	215,664,514
Accounts receivable, net:			
Federal (net of allowances of $515,171 and $778,545, respectively)		406,533,944	432,143,693
Other intergovernmental (net of allowances of $909,460 and $33,214, respectively)		57,329,819	46,151,118
Student (net of allowances of $11,436,158 and $10,903,106, respectively)		240,191,976	215,484,671
Patient and healthcare (net of allowances of $246,727,869 and $268,141,901, respectively)		761,745,475	699,714,283
Interest and dividends		56,849,265	53,180,369
Contributions – current portion (net of allowances of $5,597,564 and $4,766,853, respectively)		91,507,209	103,254,382
Investment trades		187,857,301	301,211,895
Other (net of allowances of $5,624,918 and $5,897,623, respectively)		272,144,317	232,845,501
Due from other agencies		28,067,949	31,416,853
Inventories		87,625,414	79,768,184
Restricted loans and contracts - current portion (net of allowances of $7,597,304 and $7,716,829, respectively)		50,370,760	47,472,745
Securities lending collateral		511,400,510	384,553,434
Other current assets		636,573,337	526,863,080
Total current assets and deferred outflows		6,181,300,093	5,545,993,166
NONCURRENT ASSETS AND DEFERRED OUTFLOWS			
Cash and cash equivalents – noncurrent restricted		(90,413,151)	20,664
Restricted investments		26,727,366,475	23,276,589,197
Deposit with brokers for derivative contracts		156,932,929	274,476,455
Loans and contracts (net of allowances of $20,522,419 and $18,861,637, respectively)		73,654,944	76,104,253
Contributions receivable (net of allowances of $3,562,372 and $4,513,326, respectively)		119,364,357	122,002,989
Unrestricted Investments		3,919,022,955	4,556,528,092
Deferred outflows - fair market value of derivatives		334,084,157	202,247,307
Other noncurrent assets		36,768,599	38,452,494
Gross capital/intangible assets		21,168,046,790	19,629,963,201
Less accumulated depreciation		(8,745,490,852)	(7,844,527,482)
Net capital assets		12,422,555,938	11,785,435,719
Total noncurrent assets and deferred outflows		43,699,337,203	40,331,857,170
TOTAL ASSETS AND DEFERRED OUTFLOWS	$	49,880,637,296	45,877,850,336

See accompanying notes to consolidated financial statements

(Continued)

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED BALANCE SHEETS (Continued)
AUGUST 31, 2012 AND 2011

LIABILITIES, DEFERRED INFLOWS AND NET ASSETS		2012	2011
CURRENT LIABILITIES AND DEFERRED INFLOWS			
Accounts payable and accrued liabilities	$	796,648,168	920,757,621
Salaries payable		414,166,000	403,707,941
Investment trades payable		299,903,666	101,529,454
Incurred but not reported self-insurance claims – current portion		93,660,794	90,148,468
Securities lending obligations		511,400,510	384,553,434
Due to other State agencies		15,828,006	16,813,623
Statewide interfund payable		23,606,730	116,231,373
Unearned revenue		1,236,041,009	1,149,501,103
Employees' compensable leave – current portion		317,132,293	300,782,958
Notes, loans and leases payable – current portion		608,976,093	635,704,657
Payable from restricted assets		138,723,444	135,773,404
Bonds payable – current portion		1,576,049,683	1,574,446,439
Assets held for others		32,934,635	33,850,866
Other current liabilities		471,167,112	397,493,708
Total current liabilities and deferred inflows		6,536,238,143	6,261,295,049
NONCURRENT LIABILITIES AND DEFERRED INFLOWS			
Incurred but not reported self-insurance claims		26,011,858	22,339,731
Employees' compensable leave		156,198,712	152,430,143
Assets held for others		775,950,636	749,470,780
Liability to beneficiaries		13,933,251	14,547,274
Net other postemployment benefits obligation		2,263,866,591	1,766,652,036
Notes, loans and leases payable		25,278,967	26,054,330
Bonds payable		5,508,972,901	5,281,810,720
Statewide interfund payable		743,019,387	534,456,923
Hedging derivative liability		334,084,157	202,247,307
Payable to brokers for collateral held		42,705,000	162,500,000
Investment derivatives - liability positions		64,434,007	274,239,540
Other noncurrent liabilities		7,570,056	8,756,070
Total noncurrent liabilities and deferred inflows		9,962,025,523	9,195,504,854
TOTAL LIABILITIES AND DEFERRED INFLOWS		16,498,263,666	15,456,799,903
NET ASSETS			
Invested in capital assets, net of related debt		5,265,135,624	5,029,154,010
Restricted:			
Nonexpendable		15,128,697,354	12,233,569,683
Expendable		9,504,848,844	9,782,538,749
Total Restricted		24,633,546,198	22,016,108,432
Unrestricted		3,483,691,808	3,375,787,991
TOTAL NET ASSETS		33,382,373,630	30,421,050,433
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET ASSETS	$	49,880,637,296	45,877,850,336

See accompanying notes to consolidated financial statements (Concluded)

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED AUGUST 31, 2012 AND 2011

		2012	2011
OPERATING REVENUES			
Net student tuition and fees (net of discounts and allowances of $458,152,638 and $445,152,113, respectively)	$	1,393,213,693	1,290,645,156
Sponsored programs		2,753,785,708	2,860,895,165
Net sales and services of educational activities (net of discounts and allowances of $201,713 and $156,605, respectively)		386,928,225	421,374,891
Net sales and services of hospitals (net of discounts and allowances of $4,912,239,007 and $4,170,615,833, respectively)		4,138,248,794	3,812,092,232
Net professional fees (net of discounts and allowances of $2,857,643,332 and $2,751,250,432, respectively)		1,231,154,265	1,175,167,623
Net auxiliary enterprises (net of discounts and allowances of $13,783,893 and $13,747,245, respectively)		439,336,319	407,726,638
Other		111,641,833	91,379,991
Total operating revenues		10,454,308,837	10,059,281,696
OPERATING EXPENSES			
Instruction		2,846,035,956	2,880,822,999
Research		1,974,216,314	1,990,269,383
Public service		267,238,019	275,579,023
Hospitals and clinics		3,677,408,914	3,315,279,278
Academic support		575,244,587	541,054,042
Student services		214,851,662	186,349,339
Institutional support		1,287,300,008	1,221,806,401
Operations and maintenance of plant		730,197,217	730,462,817
Scholarships and fellowships		353,328,202	419,643,054
Auxiliary enterprises		481,493,082	457,742,999
Depreciation and amortization		1,015,621,870	902,392,156
Total operating expenses		13,422,935,831	12,921,401,491
Operating loss		(2,968,626,994)	(2,862,119,795)
NONOPERATING REVENUES (EXPENSES)			
State appropriations		1,918,989,116	1,857,302,143
Nonexchange sponsored programs		343,564,067	394,902,635
Gift contributions for operations		331,825,864	325,480,500
Net investment income		3,567,399,497	4,143,285,340
Interest expense on capital asset financings		(268,855,685)	(262,697,742)
Loss on sale of capital assets		(14,734,544)	(41,632,313)
Other		(11,011,073)	8,772,639
Net nonoperating revenues		5,867,177,242	6,425,413,202
Income before other changes in net assets		2,898,550,248	3,563,293,407
OTHER CHANGES IN NET ASSETS			
Capital appropriations – Higher Education Assistance Fund (HEAF)		17,368,543	17,368,543
Capital gifts and grants		260,927,665	250,218,172
Additions to permanent endowments		119,071,140	102,748,386
Transfers to other State agencies		(334,581,562)	(219,726,086)
Legislative appropriations lapsed		(12,837)	140,034
Change in net assets		2,961,323,197	3,714,042,456
NET ASSETS			
Net assets, beginning of year		30,421,050,433	26,707,007,977
Net assets, end of year	$	33,382,373,630	30,421,050,433

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from tuition and fees	$ 1,421,171,242	1,343,478,658
Proceeds from patients and customers	5,292,225,722	4,952,471,706
Proceeds from sponsored programs	2,785,573,840	2,729,487,140
Proceeds from auxiliaries	443,804,516	391,588,523
Proceeds from other revenues	497,385,374	541,855,445
Payments to suppliers	(4,172,233,572)	(3,744,920,512)
Payments to employees	(7,842,504,256)	(7,672,292,380)
Payments for loans provided	(108,975,649)	(99,009,485)
Proceeds from loan programs	105,840,158	100,191,936
Net cash used in operating activities	(1,577,712,625)	(1,457,148,969)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from State appropriations	1,893,798,048	1,876,638,361
Proceeds from gifts	346,952,466	351,284,264
Proceeds from private gifts for endowment and annuity life purposes	115,941,850	390,858,388
Proceeds from other nonoperating revenues	5,719,864	9,055,608
Receipts for transfers from other agencies	609,644,230	480,880,041
Payments for transfers to other agencies	(836,825,236)	(1,650,871,623)
Payments for other uses	(5,086,996)	(6,223,227)
Proceeds from nonexchange sponsored programs	336,828,710	408,065,702
Net cash provided by noncapital financing activities	2,466,972,936	1,859,687,514
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of capital debt	912,380,670	833,078,465
Payments of other costs on debt issuance	(8,271,747)	(1,783,614)
Proceeds from capital appropriations, grants and gifts	242,177,962	142,557,117
Proceeds from sale of capital assets	3,986,301	2,156,604
Payments for additions to capital assets	(1,662,435,811)	(1,568,299,340)
Payments of principal on capital related debt	(691,981,073)	(305,610,356)
Payments of interest on capital related debt	(268,981,512)	(262,089,757)
Net cash used in capital and related financing activities	(1,473,125,210)	(1,159,990,881)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	9,921,693,895	10,954,576,649
Proceeds from interest and investment income	1,370,543,815	1,397,184,819
Payments to acquire investments	(10,424,838,694)	(11,980,672,375)
Net cash provided by investing activities	867,399,016	371,089,093
NET INCREASE (DECREASE) IN CASH	283,534,117	(386,363,243)
Cash and cash equivalents, beginning of year	2,176,289,108	2,562,652,351
Cash and Cash equivalents, end of year	$ 2,459,823,225	2,176,289,108

See accompanying notes to consolidated financial statements

(Continued)

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED AUGUST 31, 2012 AND 2011

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		2012	2011
Operating loss	$	(2,968,626,994)	(2,862,119,795)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization expense		1,015,621,870	902,392,156
Bad debt expense		249,415,547	270,760,241
Changes in assets and liabilities:			
Accounts receivable		(333,302,279)	(450,562,304)
Inventories		(7,857,230)	(10,652,566)
Loans and contracts		(3,135,491)	1,182,451
Other current and noncurrent assets		(43,045,905)	1,494,941
Accounts payable and accrued liabilities		(79,802,341)	137,258,108
Unearned revenue		75,935,716	49,910,244
Assets held for others		(8,083,743)	17,483,915
Employees' compensable leave		20,117,903	12,189,759
Other postemployment benefits obligation		497,214,555	470,888,932
Other current and noncurrent liabilities		7,835,767	2,624,949
Total adjustments		1,390,914,369	1,404,970,826
Net cash used in operating activities	$	(1,577,712,625)	(1,457,148,969)
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION			
Net increase in fair value of investments		1,619,142,884	1,896,945,027
Donated capital assets		57,245,141	122,502,567
Capital assets acquired under capital lease purchases		2,266,146	868,775
Miscellaneous noncash transactions		(26,310,743)	(33,111,235)

See accompanying notes to consolidated financial statements (Concluded)

1. The Financial Reporting Entity

The financial records of The University of Texas System (the System), reported as a business-type activity in the State of Texas' Comprehensive Annual Financial Report, reflect compliance with applicable State statutes and Governmental Accounting Standards Board (GASB) pronouncements. The significant accounting policies followed by the System in maintaining accounts and in the preparation of the consolidated financial statements are in accordance with the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements and with generally accepted accounting principles in the United States of America (GAAP).

The consolidated financial statements include The University of Texas System Administration and all institutions of the System. Amounts due between and among institutions, amounts held for institutions by System Administration and other duplications in reporting are eliminated in consolidating the financial statements.

The System is composed of nine academic and six health-related institutions of higher education, as well as the System administrative offices. The fifteen institutions are as follows: The University of Texas at Arlington, The University of Texas at Austin, The University of Texas at Brownsville, The University of Texas at Dallas, The University of Texas at El Paso, The University of Texas–Pan American, The University of Texas of the Permian Basin, The University of Texas at San Antonio, The University of Texas at Tyler, The University of Texas Southwestern Medical Center, The University of Texas Medical Branch at Galveston, The University of Texas Health Science Center at Houston, The University of Texas Health Science Center at San Antonio, The University of Texas M. D. Anderson Cancer Center, and The University of Texas Health Science Center at Tyler. The System is governed by a nine-member Board of Regents appointed by the Governor.

Blended Component Units
The following component units are included in the consolidated financial statements because the System appoints a voting majority of the component units' boards and the System is able to impose its will on the component units. The net assets of the blended component units are insignificant to the System. Blended financial information is available upon request.

U. T. Southwestern Health Systems, 1301 Elmbrook, Dallas, Texas 75390, is governed by a three-member board appointed by the U. T. Southwestern Medical Center. The corporation is blended rather than discretely presented because it provides services entirely or almost entirely to U. T. Southwestern Medical Center. The corporation's fiscal year end is August 31.

U. T. Southwestern Moncrief Cancer Center, 1701 River Run, Suite 500, Fort Worth, Texas 76107, is governed by a five-member board appointed by the president of U. T. Southwestern Medical Center. The corporation is blended rather than discretely presented because it has substantively the same governing board as U. T. Southwestern Medical Center. The corporation's fiscal year end is August 31.

UTMB Healthcare Systems, Inc., 301 University Boulevard, Galveston, Texas 77555, is governed by an eight-member board appointed by U. T. Medical Branch - Galveston. The corporation is blended rather than discretely presented because it provides services entirely or almost entirely to U. T. Medical Branch - Galveston. The corporation's fiscal year end is August 31.

U. T. Physicians, P. O. Box 20627, Houston, Texas 77225, is governed by a five-member board appointed by U. T. Health Science Center - Houston. The corporation is blended rather than discretely presented because it provides services entirely or almost entirely to U. T. Health Science Center - Houston. The corporation's fiscal year end is August 31.

U. T. System Medical Foundation, 6431 Fannin, Suite JJL 310, Houston, Texas 77030, is governed by a three-member board appointed by U. T. Health Science Center - Houston. The foundation is blended rather than discretely presented because it provides services entirely or almost entirely to U. T. Health Science Center - Houston. The foundation's fiscal year end is August 31.

University Physicians Group, 6126 Wurzbach Road, San Antonio, Texas 78238, is governed by a five member board. The Dean of the School of Medicine is the Chairman of the Board and four board members are elected by the MSRDP board. The corporation is blended rather than discretely presented because it provides services entirely or almost entirely to U. T. Health Science Center - San Antonio. The corporation's fiscal year end is August 31.

M. D. Anderson Physician's Network, 7505 South Main, Suite 500, Houston, Texas 77030, is governed by a four-member board appointed by M. D. Anderson. The corporation is blended rather than discretely presented because it provides services entirely or almost entirely to M. D. Anderson. The corporation's fiscal year end is August 31.

M. D. Anderson Services Corporation, 7505 South Main, Suite 500, Houston, Texas 77030, is governed by a seven-member board appointed by the president of M. D. Anderson and the U. T. System Board of Regents. The corporation is blended rather than discretely presented because it provides services entirely or almost entirely to M. D. Anderson. The corporation's fiscal year end is August 31.

East Texas Quality Care Network, Inc., P. O. Box 6053, Tyler, Texas 75711-6053, is governed by a four-member board appointed by U. T. Health Science Center - Tyler. The corporation is blended rather than discretely presented because it has substantively the same governing board as U. T. Health Science Center - Tyler. The corporation's fiscal year end is August 31.

The University of Texas Investment Management Company (UTIMCO), 401 Congress Avenue, Suite 2800, Austin, Texas 78701, is governed by a nine-member board consisting of at least three members of the U. T. System Board of Regents, the Chancellor of the System, three independent directors with substantial background and expertise in investments appointed by the U. T. System Board of Regents, and two members appointed by the Texas A&M System Board of Regents, one of whom must have a substantial background and expertise in investments. The corporation is blended rather than discretely presented because it provides services entirely or almost entirely to the System. The corporation's fiscal year end is August 31.

The University of Texas Fine Arts Foundation, U. T. Austin, Main Building, P. O. Box T, Austin, Texas 78713 is governed by a three-member board appointed by the U. T. Austin. The foundation is blended rather than discretely presented because it provides services entirely or almost entirely to U. T. Austin. The foundation's fiscal year end is December 31.

The University of Texas Communication Foundation, U. T. Austin, P. O. Box 7322, Austin, Texas 78713 is governed by a three-member board appointed by U. T. Austin. The foundation is blended rather than discretely presented because it provides services entirely or almost entirely to U. T. Austin. The foundation's fiscal year end is August 31.

ASSETS HELD BY AFFILIATED ORGANIZATIONS

GASB authoritative guidance provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship to the primary government, the System. This guidance states that a legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government is entitled to, or has the ability to otherwise access a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The System has defined significance as 5% of net assets. As of August 31, 2012, none of the System's potential component units meet the criteria for inclusion in the System's financial statements. Based upon the most recent available information, the combined net assets of these potential component units reported by the organizations total $2,053,236,580 at August 31, 2012 and $1,829,576,344 at August 31, 2011.

2. Related Parties

Through the normal course of operations, the System both receives funds from and provides funds to other State agencies in support of sponsored research programs. Funds received and provided during the year ended August 31, 2012, related to pass-through grants were $349,977,988 and $11,181,251, respectively. Funds received and provided during the year ended August 31, 2011, related to pass-through grants were $431,845,228 and $10,042,816, respectively.

In 1991, Texas Southmost College and U. T. Brownsville entered into a contractual arrangement to maximize resources and bring additional educational opportunities to the communities of the Lower Rio Grande Valley. The primary goal of the partnership, which is operationally managed by the System, was to offer students a seamless educational process by eliminating barriers between two institutions located on the same campus. In November, 2010 the U. T. System Board of Regents found that the current educational partnership between the U. T. System Board of Regents on behalf of U. T. Brownsville and the Texas Southmost College Board of Trustees could no longer be sustained and a notice of termination of the Educational Partnership Agreement was provided. Under the terms of the Agreement, the termination is effective no later than August 31, 2015; however, the parties may work to achieve an earlier effective date.

Other related-party transactions identified in the financial statements include Due From/To Other State Agencies, State Appropriations, Capital Appropriations and Transfers From/To Other State Agencies.

3. Joint Ventures

On August 24, 2011, the U. T. System Board of Regents approved creation of the $10 million fund, the U. T. Horizon Fund, which will support commercialization of intellectual property through the development of startups and maintaining equity in startups throughout the System. Investments will range up to $1 million, depending on the startup. To be considered for funding, startups will have to have secured private-sector money as a co-investment match. That co-investment model gives the System insight into which products and technologies have the most potential in the marketplace. No investments occurred in fiscal year 2011. In August 2012, the System purchased shares of preferred stock for an investment of $100,007.

U. T. Southwestern Health Systems (UTSHS), a blended component unit of U. T. Southwestern Medical Center, is a participating member of U. T. 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, 2012 and 2011 was $4,344,282 and $4,251,214, respectively, or 50% and 49% respectively. Separate financial statements for DaVita may be obtained at DaVita Inc., 601 Hawaii Street, El Segundo, California 90245 or www.davita.com.

U. T. Southwestern Medical Center entered into a limited partnership agreement on June 30, 2006, with Premier Purchasing Partners, L.P. (Premier). The principal business of Premier is to operate and manage healthcare-related programs and investments for the benefit of its partners including U. T. Southwestern Medical Center and to otherwise assist the partners in providing superior healthcare services in their communities. Premier negotiates and executes reduced cost purchase contracts between its partners and vendors of healthcare products and services by leveraging the aggregated demand of its partners and to operate group purchasing and other programs to increase both individual participant and aggregate purchasing volumes. As of August 31, 2012 and 2011, U. T. Southwestern Medical Center's investment in Premier was $596,717 and $494,951, respectively, or .35% and .31%, respectively. Separate financial statements for Premier may be obtained at Premier, Inc., 12225 El Camino Real, San Diego, California 92130 or www.premierinc.com.

U. T. Health Science Center - Houston's blended component unit, U. T. Physicians, is a participating member of Physician's Dialysis of Houston. Physician's Dialysis of Houston is a joint venture entered into by U. T. Physicians and DaVita, Inc. U. T. Physician's equity interest in Physician's Dialysis of Houston at August 31, 2012 and 2011 was $694,954 and $642,145, respectively, or 35.62%. Separate financial statements for Physician's Dialysis of Houston may be obtained at Physician's Dialysis of Houston, Attention: Marie Sinfield, 1423 Pacific Avenue, Tacoma, Washington 98402.

U. T. Health Science Center - Houston's blended component unit, U. T. Physicians, was a participating member of U. T. Imaging. U. T. Imaging was a Limited Liability Partnership entered into by U. T. Physicians, Outpatient Imaging Affiliates, LLC, and Memorial Hermann Hospital System. U. T. Imaging was sold on May 31, 2011. Separate financial statements for U. T. Imaging may be obtained at Outpatient Imaging Affiliates, LLC, Attention: Laura Cottingham, 840 Crescent Center Drive, Suite 200, Franklin, Tennessee 37067.

U. T. Health Science Center - Houston's blended component unit, U. T. Physicians, is a participating member of TMC Holding Company, L.L.C. (TMC Holding). TMC Holding is a Limited Liability Corporation entered into by U. T. Physicians, Baylor College of Medicine and Memorial Hermann/USP Surgery Centers III, L.L.P. U. T. Physicians' equity interest in TMC Holding at August 31, 2012 and 2011 was $144,987 and $248,959 respectively, or 18.1%. Separate financial statements for TMC Holding may be obtained by contacting Vanessa Smith, 3050 Post Oak Blvd, Suite 620, Houston, TX 77056.

U. T. Health Science Center - Houston's blended component unit, U. T. Physicians, is a participating member of Bluesky MOB, L.L.P. Bluesky MOB, L.L.P. is a Limited Liability Partnership of which U. T. Physicians purchased an 18.7% interest in for $380,755 on August 1, 2012. Separate financial statements for Bluesky MOB, L.L.P. may be obtained at Moore, Reichl, & Baker, P.C., c/o Doug Reichl, CPA, 11200 Westheimer Suite 410, Houston, TX, 77042.

U. T. Health Science Center - Houston is a participating member of the Texas Medical Center Central Heating and Cooling Services Cooperative Association (TECO). TECO was incorporated on October 2, 1975, for the purpose of operating a central heating and cooling services facility on a cooperative basis solely for the benefit of eligible institutions. On June 1, 2003, TECO transferred substantially all of its assets and operation to TECO Corporation, and TECO Corporation assumed the liabilities and obligations of TECO. TECO still renders services to member and non-member patrons at cost. Savings or margins are refunded to the member and non-member patrons on a patronage basis in the form of cash or equity by TECO. U. T. Health Science Center - Houston's equity interest in TECO at August 31, 2012 and 2011 was $12,435,855 and $11,706,926 respectively, or 14.6% and 14.9% respectively. Separate financial statements for TECO may be obtained at Thermal Energy Corporation, 1615 Braeswood Boulevard, Houston, Texas 77030 or http://teco.tmc.edu/home/teco_home.php.

M. D. Anderson is a participating member of the Texas Medical Center Hospital Laundry Cooperative Association (the Association). The Association was established on April 30, 1971, for the purpose of acquiring, owning, and operating a laundry system on a cooperative basis solely for the benefit of members of the Association. Net earnings of the Association may be refunded to the members on a patronage basis or retained by the Association as equity allocated to the members. M. D. Anderson's equity interest in the Association at August 31, 2012 and 2011 was $2,472,539 and $1,958,280, respectively, or 40%. Separate financial statements for the Association may be obtained at 1601 Braeswood Boulevard, Houston, Texas 77030 or http://www.texasmedicalcenter.org/root/en/GetToKnow/TMCInstitutions/OtherInstitutions/Laundry/Laundry.

M. D. Anderson is a participating member of the Texas Medical Center Central Heating and Cooling Services Cooperative Association (TECO). TECO was incorporated on October 2, 1975, for the purpose of operating a central heating and cooling services facility on a cooperative basis solely for the benefit of eligible institutions. On June 1, 2003, TECO transferred substantially all of its assets and operations to TECO Corporation, and TECO Corporation assumed the liabilities and obligations of TECO. TECO still renders services to member and non-member patrons at cost. Savings or margins are refunded to the member and non-member patrons on a patronage basis in the form of cash or equity by TECO. M. D. Anderson's equity interest in TECO at August 31, 2012 and 2011 was $32,810,363 and $31,169,629, respectively, or 39.7%. Separate financial statements for TECO may be obtained at Thermal Energy Corporation, 1615 Braeswood Boulevard, Houston, Texas 77030 or http://teco.tmc.edu/home/teco_home.php.

M. D. Anderson is a participating member of P.E.T. Net Houston, LLC (PETNet). PETNet is a joint venture entered into by M. D. Anderson and P.E.T. Pharmaceuticals, Inc. to lease and operate a facility located on M. D. Anderson's campus to produce positron radiopharmaceuticals and isotopes. Construction of the facility commenced in 2003. M. D. Anderson's equity interest in PETNet at August 31, 2012 and 2011 was $3,981,925 and $2,854,822, respectively, or 49%. Separate financial statements for PETNet may be obtained at Siemens Medical Solutions USA, Inc., 51 Valley Stream Parkway, Malvern, Pennsylvania 19355.

M. D. Anderson entered into a limited partnership agreement on December 19, 2002 with PTC-Houston Management, L.P. and PTC-Houston Investors, LLC to create The Proton Therapy Center-Houston LTD., L.L.P. (PTC Partnership). PTC Partnership was established to develop and operate a proton therapy facility, which will provide cancer treatment to patients utilizing proton therapy technology. Under the Staffing and Operations Agreement between M. D. Anderson and PTC Partnership, M. D. Anderson shall be the exclusive supplier of all technical and operational services to support

PTC Partnership operations, and for which, M. D. Anderson will be reimbursed on a monthly basis. Under a separate agreement, the Professional Services Agreement, M. D. Anderson shall provide services of physicians, medical physicists and medical dosimetrists to PTC Partnership, for which, M. D. Anderson shall bill patients and retain all professional fees associated with such services.

M. D. Anderson entered into a limited liability company agreement on December 19, 2002 to form PTC-Houston Investors, L.L.C (Investors). Investors was established to invest in and be a limited partner in the PTC Partnership. Investors entered into a ground lease with M. D. Anderson on December 19, 2002 to lease approximately four acres on M. D. Anderson's property for an initial term of sixty years. M. D. Anderson's initial capital contribution of $2,500,000 to Investors was provided through the ground lease. M. D. Anderson's equity interest in Investors at August 31, 2009 was $2,500,000, or approximately 8.2%.

On March 30, 2010, M. D. Anderson entered into an Agreement and Stipulation among Purchasers of LLC Membership Interests of PTC-Houston Investors, L.L.C. in which PTC Partnership assigned the right to purchase additional shares of Investors to its partners. As part of this agreement, M. D. Anderaon purchased 13.12195 units of interest in Investors for $5,725,942 giving M. D. Anderson a total ownership interest of approximately 51.22%. In addition, all members of Investors further consented to the redemption of M. D. Anderson's total interest in Investors in exchange for the conveyance by Investors to M. D. Anderson of 51.22% of Investors' right, title and interest under PTC Partnership agreement including without limitation, 51.22% of Investors' Capital Contributions and Investors' right to receive distributions and 51.22% of the percentage interests in PTC Partnership owned by Investors, which approximated $15,621,950 as of March 30, 2010.

Following the execution of the foregoing, M. D. Anderson entered into an Amended and Restated Limited Partnership Agreement (Agreement) dated March 30, 2010 between PTC Partnership, Investors, PTC-Houston Management, L.P., and M. D. Anderson. The purposes of PTC Partnership are to assume the lease formerly held by Investors with M. D. Anderson to lease approximately four acres on the M. D. Anderson's property for an initial term of 60 years, develop and/or acquire other proton therapy related business opportunities in the area and engage in any other activities that are reasonably incidental to the foregoing or that are contemplated by the agreement or the related agreements. As part of the agreement, each partner has made or is deemed to have made the Initial Contribution which equaled $15,621,950 for M. D. Anderson or 15.22%. However, M. D. Anderson's only capital contribution to PTC Partnership has been through the ground lease which equals $2,500,000. M. D. Anderson has recorded cash distributions and has adjusted its carrying value based on the operating results of PTC Partnership as required by the Agreement, which does not equal the Initial Contribution. Until the carrying value of the investment equals or exceeds the Initial Contribution value, M. D. Anderson has elected to record the carrying value on the balance sheet. As of August 31, 2012 and 2011, M. D. Anderson's equity interest in PTC Partnership was $0 and $298,000, respectively. M. D. Anderson received cash contributions totaling $6,684,146 and $12,036,584 during the fiscal years ended August 31, 2012 and 2011, respectively. Separate financial statements for PTC Partnership may be obtained at http://www.mdanderson.org/patient-and-cancer-information/proton-therapy-center/index.html.

M. D. Anderson is a participating member in the National Center for Therapeutics Manufacturing (the "NCTM"). M. D. Anderson entered into a Collaboration, Investment and Facility Use Agreement as of May 19, 2010 with Texas A&M University System to collaborate on the design of the NCTM and on grants and proposals relating to cancer therapeutics that could be developed at the NCTM. M. D. Anderson's cost-based interest in NCTM at August 31, 2012 and 2011 was $2,490,000 or approximately 5%. Separate financial statements for NCTM may be obtained at http://www.tamus.edu/iit/nctm/.

M. D. Anderson entered into a limited partnership agreement on January 10, 1990, with Premier Purchasing Partners, L.P. (Premier). The principal business of Premier is to operate and manage healthcare-related programs and investments for the benefit of its partners including M. D. Anderson and to otherwise assist the partners in providing superior healthcare services in their communities. Premier negotiates and executes reduced cost purchase contracts between its partners and vendors of healthcare products and services by leveraging the aggregated demand of its partners and to operate group purchasing and other programs to increase both individual participant and aggregate purchasing volumes. As of August 31, 2012 and 2011, M. D. Anderson's investment in Premier was $4,086,719 and $4,015,224, respectively, or 1.15% and 1.41%, respectively. Separate financial statements for Premier may be obtained at Premier, Inc., 12225 El Camino Real, San Diego, California 92130 or www.premierinc.com.

4. Summary of Significant Accounting Policies

BASIS OF ACCOUNTING

The financial statements of the System have been prepared using the economic resources measurement focus and the accrual basis of accounting. The System reports as a business type activity, as defined by GASB. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. The financial statements of the System have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB. The System does not apply any Financial Accounting Standards Board pronouncements issued after November 30, 1989.

CASH AND CASH EQUIVALENTS

Short-term, highly liquid investments with maturities of three months or less when purchased are generally considered cash and cash equivalents. It is the System's policy to exclude items that meet this definition if they are part of an investment pool, which has an investment horizon of one year or greater. Therefore, highly liquid investments that are part of the Intermediate Term Fund (ITF) and the Long Term Fund (LTF) are not considered cash and cash equivalents. Additionally, Endowments invested in money market accounts are also excluded from Cash and Cash Equivalents as the intent is to invest these funds for more than one year. Cash held in the State treasury for the Permanent University Fund (PUF), the Permanent Health Fund (PHF) and the Available University Fund (AUF) are considered cash and cash equivalents. Other highly liquid investments of these major funds which are held in pooled funds and invested with custodians are not considered cash and cash equivalents according to the investment policies of the System. Restricted cash and cash equivalents include cash held in the state treasury for the PUF and PHF and restricted sources of funds used for construction of capital assets as well as funds held for debt service. The System holds bond proceeds in restricted investments to be disbursed to the institutions to support capital projects on a cost reimbursable basis. Due to the cost reimbursable nature of restricted sources of funds used for construction, restricted cash and cash equivalents are often negative. Also included in restricted cash and cash equivalents are Short Term Fund (STF) holdings held as collateral on interest rate swaps.

BALANCE IN STATE APPROPRIATIONS

This item represents the balance of General Revenue funds at August 31 as calculated in the Texas State Comptroller's General Revenue Reconciliation.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are recorded at fair value. The fair value of derivatives is recorded as either an asset or liability on the balance sheet. The valuation of investment derivatives is discussed in the Investments disclosure below. Financial institutions have calculated the fair value of the interest rate swaps using a forecast of expected discounted future net cash flows.

The System has entered into interest rate swap agreements with various counterparties, all of which are highly rated financial institutions, to manage various risks associated with the System's debt programs. Each of the System's interest rate swaps is a contractual agreement entered into between the System and a counterparty under which each party agrees to exchange periodic fixed or variable payments, based upon a stated notional amount, over the stated life of the agreement. The net differential paid or received is recognized over the life of the agreement as an adjustment to interest expense.

Interest rate swaps determined to be hedging derivatives are designated as cash flow hedges. Hedging derivative assets and hedging derivative liabilities are recorded on the System's balance sheet. Under hedge accounting, for derivatives that are determined to be effective, changes in the fair value of hedging derivatives are considered to be deferred inflows and reported as hedging derivative assets (for hedging derivatives with positive fair values) or deferred outflows and reported as hedging derivative liabilities (for hedging derivatives with negative fair values).

Changes in the fair value of derivatives that are not effective are recorded as net increase (decrease) in the fair value of investments in the statement of revenues, expenses and changes in net assets.

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INVESTMENTS

The majority of the investments of the System, except for PUF lands, are managed by UTIMCO, a private investment corporation that provides services entirely to the System and its related foundations. All investments are reported as noncurrent as these funds have an investment horizon extending beyond one year. Restricted investments include investments restricted by legal or contractual requirements, including those related to donors and constitutional restrictions. The System's investments with readily available fair values are primarily valued on the basis of market valuations provided by independent pricing services.

Fixed income securities held directly by the System are valued based upon prices supplied by FT Interactive Data and other major fixed income pricing services, external broker quotes and internal pricing matrices.

Equity security and publicly traded mutual fund fair values are based on the closing price on the primary exchange on which they are traded (if a closing price is not available, the average of the last reported bid and ask price is used).

Physical commodities, specifically gold, are valued using the composite closing price from Bloomberg for the XAU currency code which represents the standard for one troy ounce of gold.

Private investment funds, which consist of non-regulated investment funds, are fair valued by management. The fair values of these investments are estimated by management using the investment's capital account balance at the closest available reporting date, as communicated by the investment manager, adjusted for contributions and withdrawals subsequent to the latest available reporting date as well as consideration of any other information, which has been provided by the investment manager or other sources. In rare cases the private investments are valued at cost, but only when management believes this is the best approximation of value. As of August 31, 2012 and 2011, investments in private investment funds in the amount of $5,458,247,903 and $4,924,030,425, respectively, have been estimated by management.

Hedge funds, developed country equity, emerging markets equity, natural resources and fixed income investment funds and certain other private placements are fair valued by management based on net asset value information provided by the investment manager, as well as other relevant factors as indicated above. As of August 31, 2012 and 2011, investments in these funds in the amount of $10,878,800,667 and $10,458,293,702, respectively, have been estimated by management.

The audited financial statements of the funds managed by UTIMCO may be found on UTIMCO's website and inquiries may be directed to UTIMCO via www.utimco.org.

The fair value of the PUF land's interest in oil and gas is based on a third party reserve study of proved reserves. The present value of the royalty cash flows is calculated by applying a ten percent discount rate to future expected production volumes of oil and gas based on the price of oil and gas on August 31. Probable and possible reserves of oil and gas are not included in the fair value estimate. The remaining minerals, the trust minerals, because of size, distribution, and limited production histories are valued at three times the previous 12 months' revenue. As a rule of thumb, this measure has been used historically to determine the selling price of these types of properties by willing parties. The PUF lands' surface interests are reported at the price per acre from the American Society of Farm Managers and Rural Appraisers. Other real estate holdings are reported by one of the following methods of valuation: the latest available appraised amount as determined by an independent State certified or other licensed appraiser, or by any other generally accepted industry standard, including tax assessments.

The System is authorized to invest funds, as provided in Section 51.0031 of the Texas Education Code and the Constitution of the State of Texas, under prudent investor investment standards. Such investments include various fixed income and equity type securities. The investments of the System are governed by various investment policies approved by the U. T. System Board of Regents.

CONTRIBUTIONS RECEIVABLE

Current and noncurrent contributions receivable are amounts pledged to the university by donors, net of allowances. Multi-year gift pledges greater than $10,000 must be reported at the discounted present value. At the beginning of each fiscal year, the System re-establishes the scale of discount rates applicable for present valuing new multi-year gift pledges that are received during the new fiscal year. The scale of discount rates are based upon U.S. Treasury Notes and Bonds asked yields as listed in the Wall Street Journal on the first day of the fiscal year. Existing gift pledges are not recalculated since these pledges were previously calculated at historical discount rates.

INVENTORIES
Inventories, consisting primarily of supplies and merchandise for resale, are valued at cost, typically based on the specific identification, weighted average or first-in, first-out methods, which are not in excess of net realizable value.

RESTRICTED ASSETS
Restricted assets include funds restricted by legal or contractual requirements, including those related to sponsored programs, donors, constitutional restrictions, bond covenants, and loan agreements.

LOANS AND CONTRACTS
Current and noncurrent loans and contracts are receivables, net of allowances, related to student loans.

SECURITIES LENDING COLLATERAL AND OBLIGATIONS
The collateral secured for securities lent are reported as an asset on the balance sheet. The obligations for securities lent are reported as a liability on the balance sheet that directly offsets the cash collateral received from brokers or dealers in exchange for securities loaned. The costs of securities lending transactions are reported as expenses in the statement of revenues, expenses and changes in net assets. See Note 6 for details regarding the securities lending program.

CAPITAL ASSETS
Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation in the case of gifts. The System follows the State's capitalization policy with a cost equal to or greater than $5,000 for equipment items, $100,000 for buildings, building improvements and improvements other than buildings, and $500,000 for infrastructure items, and an estimated useful life of greater than one year. Purchases of library books are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Outlays for construction in progress are capitalized as incurred. Interest expense related to construction is capitalized net of interest income earned on the resources reserved for this purpose (see Note 11). The thresholds for software are $100,000 for purchased software and $1,000,000 for internally developed software including Enterprise Resource Planning replacements. The System capitalizes, but does not depreciate works of art and historical treasures that are held for exhibition, education, research and public service. These collections are protected and preserved.

Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets, generally two to fifteen years for equipment items, five years for software, six years for Enterprise Resource Planning replacements, fifteen years for library books, ten to fifty years for buildings and their components and fifteen to forty years for infrastructure elements.

OTHER ASSETS
Included in other current assets are prepaid expenses and lease receivables due within one year. Included in the other noncurrent assets are unamortized bond issuance costs and lease receivables that will be realized beyond one year. Unamortized bond issuance costs are amortized over the life of the related bonds using the straight-line method, which approximates the effective interest method. The unamortized bond issuance costs as of August 31, 2012 and 2011 were $21,676,032 and $21,568,227, respectively.

UNEARNED REVENUE
Unearned revenue represents revenues such as tuition recorded in August for the fall semester and payments received in advance for sponsored programs.

ASSETS HELD FOR OTHERS – CURRENT AND NONCURRENT
Assets held for others represent funds held by the System as custodial or fiscal agent for students, faculty members, foundations, and others. Included in assets held for others as of August 31, 2012 and 2011 is $339,874,792 and $343,084,855, respectively, for the Physician's Referral Service Supplemental Retirement Plan/Retirement Benefit Plan at M. D. Anderson. As of August 31, 2012 and 2011, assets held for others also included $333,294,605 and $334,744,763, respectively, from foundations that invest their assets with UTIMCO.

LIABILITY TO BENEFICIARIES
The System holds numerous irrevocable charitable remainder trusts and a pooled income fund. Together, these assets are reflected in the accompanying consolidated financial statements within restricted investments.

The charitable remainder trusts designate the U. T. System Board of Regents as both trustee and remainder beneficiary. The System is required to pay to the donors (or other donor-designated income beneficiaries) either a fixed amount or the lesser of a fixed percentage of the fair value of the trusts' assets or the trusts' income during the beneficiaries' lives. Trust assets are measured at fair value when received and monthly thereafter. A corresponding liability to beneficiaries is measured at the present value of expected future cash flows to be paid to the beneficiaries based upon the applicable federal rate on the gift date. Upon death of the income beneficiaries, substantially all of the principal balance passes to the System to be used in accordance with the donors' wishes.

The pooled income fund was formed with contributions from several donors. The contributed assets are invested and managed by UTIMCO. Donors (or designated beneficiaries) periodically receive, during their lives, a share of the income earned on the fund proportionate to the value of their contributions to the fund. Upon death of the income beneficiaries, substantially all of the principal balance passes to the System to be used in accordance with the donors' wishes. Contribution revenue is measured at the fair value of the assets received, discounted for a term equal to the life expectancies of the beneficiaries.

<u>REFUNDING AND DEFEASANCE OF DEBT</u>
For debt refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as a deduction from or an addition to the debt liability. The gain or loss is amortized, using the straight line method, over the remaining life of the old debt or the life of the new debt, whichever is shorter, in the statement of revenues, expenses and changes in net assets as a component of interest expense.

<u>NET ASSETS</u>
The System has classified resources into the following three net asset categories:

Invested in Capital Assets, Net of Related Debt
Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted:
Nonexpendable
Net assets subject to externally imposed stipulations that require the amounts be maintained in perpetuity by the System. Such assets include the System's permanent endowment funds.

Expendable
Net assets whose use by the System is subject to externally imposed stipulations that can be fulfilled by actions of the System pursuant to those stipulations or that expire with the passage of time.

Unrestricted
Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for special purposes by action of management or the U. T. System Board of Regents. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital programs (see Note 21 for details on unrestricted net assets).

When an expense is incurred that can be paid using either restricted or unrestricted resources, the System addresses each situation on a case-by-case basis prior to determining the resources to be used to satisfy the obligation. Generally, the System's policy is to first apply the expense towards restricted resources and then towards unrestricted resources.

<u>REVENUES AND EXPENSES</u>
Operating revenues include activities such as student tuition and fees; net sales and services of hospitals; net professional fees; net sales and services of auxiliary enterprises; most federal, state and local grants and contracts. Operating expenses include salaries and wages, payroll related costs, materials and supplies, depreciation, scholarships and fellowships, and impairment losses and insurance recoveries received in the same year as the associated loss. In addition, all changes to incurred but not reported liabilities related to insurance programs are reflected as operating.

Nonoperating revenues include activities such as gifts and contributions, insurance recoveries received in years subsequent to the associated loss, State appropriations, investment income and other revenue sources that are defined as nonoperating revenues by GASB. U. T. System institutions are the named beneficiaries in certain lawsuits, wills, trust, and insurance policies. The System does not recognize these potential refunds, gifts and contributions until realized. Nonoperating expenses include activities such as interest expense on capital asset financings, and other expenses that are defined as nonoperating expenses by GASB.

SCHOLARSHIP ALLOWANCES AND STUDENT AID

Financial aid to students is reported in the financial statements as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid (student loans, funds provided to students as awarded by third parties and Federal Direct Lending) is accounted for as third party payments (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expense or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on an entity-wide basis by allocating cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

STATEWIDE INTERFUND TRANSFERS AND INTERFUND PAYABLES

In accordance with the provisions set forth in Article 7, Section 18 of the Texas Constitution, the System transfers one-third of the annual earnings of the PUF investments and lands to the Texas A&M University System (TAMUS). In addition to the transfer of the current year earnings in 2012 and 2011 of $199,829,438 and $168,798,604, respectively, the System recorded a liability of $757,179,841 and $644,425,000 at August 31, 2012 and 2011, respectively, for future amounts due to TAMUS from the PUF to cover principal on outstanding PUF bonds and notes issued by TAMUS. This liability is reported as current and noncurrent statewide interfund payable on the balance sheet. Additional details related to the operations of the PUF can be found in Note 8. Also included in statewide interfund payables as of August 31, 2012 and 2011 is $9,446,276 and $6,263,297, respectively, related to the revolving loan programs administered by the Texas State Comptroller's Office.

In accordance with tuition set-asides required by Section 61.539, Section 61.910, Section 61.9660, Section 61.9731, Section 56.095 and Section 56.465 of the Texas Education Code, the institutions transferred tuition revenues of $21,909,095 in 2012 and $19,573,731 in 2011 to the Texas Higher Education Coordinating Board.

UNCOMPENSATED CARE AND CHARITY CARE

The System's health-related institutions provide uncompensated care to patients who meet certain criteria. Uncompensated care includes the unreimbursed costs for the uninsured and the underinsured as well as the unreimbursed costs from government-sponsored health programs. To calculate uncompensated care, charges are converted to costs and providers recognize appropriate patient specific funding and lump sum funding available to offset costs. Hospital charges are converted to cost by the application of the Medicare cost to charge ratio, as calculated in the most recent Medicare cost report. Since a standard cost report does not exist for physician charges, a proxy cost to charge ratio was developed through a process involving all Texas public academic medical centers and the State Auditor's Office. Uncompensated care costs amounted to $549,675,121 and $614,360,851 for 2012 and 2011, respectively.

Beginning in FY 2012, the GASB requires health-related institutions to report the cost of providing "charity care." The American Institute of Certified Public Accountants (AICPA) defines charity care as care for which hospitals never expected to be reimbursed. Charity care occurs when a patient applies to the hospital for financial assistance and the hospital waives all or part of its charges, consistent with its internal charity care policy. The cost of charity care is calculated using the uncompensated care calculation methodology discussed above. Charity care costs amounted to $80,738,667 for 2012.

NET PATIENT SERVICE REVENUE

The System's health-related institutions have agreements with third-party payors that provide for payments to these institutions at amounts different from their established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

U. T. Southwestern Medical Center's, U. T. Medical Branch - Galveston's and U. T. Health Science Center - Tyler's 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.

M. D. Anderson's inpatient acute care services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology that is limited by a facility-specific amount per discharge. The final reimbursement also includes a calculation of an incentive or relief payment determined through a comparison of the facilities current year cost to the facility-specific cost per discharge. Certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. Effective August 1, 2000, the Medicare program implemented a prospective payment system for outpatient services. However, as M. D. Anderson is designated as a cancer hospital, the Medicare program provides for a "hold-harmless" payment that is equal to the difference between the prospectively determined amounts and the current year adjusted cost (i.e., the current year adjusted cost is determined through application of a payment to cost ratio, which is derived from a previous Medicare cost report, to the current year actual cost). M. D. Anderson is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by M. D. Anderson and audits thereof by the Medicare fiscal intermediary.

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. The System's health-related institutions are reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the System's health-related institutions and audits thereof by the Medicaid fiscal intermediary.

The System's health-related institutions have also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System's health-related institutions under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. The System's health-related institutions recognized bad debt expense of $246,727,869 and $268,141,902 in 2012 and 2011, respectively. The patient and healthcare accounts receivable allowance amount disclosed on the face of the balance sheet inadvertently included amounts related to contractual allowances in the 2011 report. The 2011 amount has been corrected to include only the allowance for bad debts in the 2012 presentation.

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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. Disaggregation of Other Receivable Balances

Net other receivables at August 31, 2012 and 2011 are detailed by type as follows:

Net Other Receivables		**2012**	**2011**
Receivables related to investments	$	100,412,334	83,415,718
Receivables related to gifts, grants and sponsored programs		77,815,418	76,695,535
Receivables related to external parties/other companies		55,987,428	30,136,058
Receivables related to auxiliary enterprises		10,153,211	9,524,926
Receivables related to payroll		6,124,683	2,811,270
Receivables related to patents		1,602,040	1,661,466
Receivables related to travel		904,249	1,346,502
Receivables related to loan funds and financial aid		1,425,230	1,817,321
Receivables related to agency funds		1,506,470	2,079,266
Receivables related to other various activities		16,213,254	23,357,439
Total	$	272,144,317	232,845,501

6. Deposits, Investments and Repurchase Agreements

DEPOSITS OF CASH IN BANK

As of August 31, 2012 and 2011, the carrying amount of deposits was $264,020,219 and $174,485,498, respectively, as presented below:

		2012	2011
Cash and cash equivalents per statement of cash flows and balance sheet	$	2,459,823,225	2,176,289,108
Less: Cash in State Treasury		661,226,600	591,246,533
Repurchase agreement – Texas Treasury Safekeeping Trust Co.		2,149,988	-
Other cash equivalent investments		1,519,150,667	1,384,162,601
Other		13,275,751	26,394,476
Deposits of cash in bank	$	264,020,219	174,485,498

As of August 31, 2012 and 2011, the total bank balances were $73,533,203 and $51,026,961, respectively.

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 System 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. The System maintains depository relationships with various banking institutions. The System's policy is that all deposits are governed by a bank depository agreement between the System and the respective banking institution. This agreement provides that the System's deposits, to the extent such deposits exceed the maximum insured limit under deposit insurance provided by the Federal Deposit Insurance Corporation, shall at all times be collateralized with government securities.

As of August 31, 2012 and 2011, U. T. Health Science Center - Tyler's blended component unit, East Texas Quality Care Network (ETQCN), held deposits that were exposed to custodial credit risk. ETQCN had no policies regarding these deposits. The bank balances that were exposed to custodial credit risk as of August 31, 2012 and 2011 were uninsured and uncollateralized deposits of $22,232 and $54,334, respectively.

INVESTMENT RISKS

The investment risk disclosure that follows relates to the System's investments. Risks associated with the System's investments in hedge funds, private investments, public market funds, and securities lending transactions are discussed in separate sections of this note. As of August 31, 2012 and 2011, the investments including securities lending collateral were as follows:

Type of Security		2012 Fair Value	2011 Fair Value
U.S. Government:			
U.S. Treasury Securities	$	357,377,883	458,497,183
U.S. Treasury Strips		557,833	709,761
U.S. Treasury TIPS		2,702,930	-
U.S. Government Agency Obligations		249,406,664	312,998,172
Corporate Obligations		454,203,466	386,019,362
Corporate Asset and Mortgage Backed Securities		94,000,116	114,695,921
Equity		1,232,278,212	1,199,093,402
International Obligations (Government and Corporate)		1,918,796,496	1,517,327,425
International Equity		2,060,077,881	2,176,421,767
Fixed Income Money Market and Bond Mutual Fund		2,518,370,293	2,435,623,908
Other Commingled Funds		32,543,199	25,392,150
International Other Commingled Funds		9,501,579	7,990,137
PUF Lands		3,453,914,921	1,696,444,712
Other Real Estate		306,724,484	325,517,724
Physical Commodity		1,153,812,686	1,249,184,678
Investment Derivatives – Asset Positions		105,781,399	359,391,695
Investment Funds:			
U.S. Equity		1,144,486,514	750,142,906
Non-U.S. Developed Equity		835,204,754	943,469,282
Emerging Markets		809,236,403	975,857,688
Fixed Income		23,018,973	19,768,851
Natural Resources		321,593,634	321,861,336
Hedge Funds		7,929,111,861	7,466,962,487
Limited Partnerships (Private Investments)		5,458,247,903	4,924,030,425
Miscellaneous (guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)		175,439,346	165,716,317
Total Securities		30,646,389,430	27,833,117,289
Securities Lending Collateral Investment Pool		511,400,510	384,553,434
TOTAL	$	31,157,789,940	28,217,670,723
Deposit with Brokers for Derivative Contracts, net:			
U.S. Treasury Bonds and Notes	$	783,227	-
U.S. Treasury Bills		670,041	4,801,085
U.S. Treasury Inflation Protected		271,299	-
Foreign Government and Provincial Obligations		74,542,172	57,063,590
Fixed Income Money Market and Mutual Funds		37,961,190	50,111,780
Total Deposit with Brokers for Derivative Contracts, net	$	114,227,929	111,976,455

(A) *Credit Risk* - Article VII, Section 11b of the Texas Constitution authorizes the U. T. System Board of Regents, subject to procedures and restrictions it establishes, to invest System funds in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the U. T. System Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill and caution, would acquire or retain in light of the purposes, terms, distribution requirements and other circumstances of the fund then prevailing, taking into consideration the investment of all of the assets of the fund rather than a single investment.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The System's investment policy does not provide specific requirements and limitations regarding investment ratings. Per GASB authoritative guidance, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. In 2011, some of the U.S. government direct obligations were downgraded and thus U.S. government direct obligations have been added to the credit risk disclosure. The following tables present each applicable investment type grouped by rating as of August 31, 2012 and 2011:

		August 31, 2012					
		MOODY'S		STANDARD & POOR'S		FITCH	
Investment Type		**Fair Value**	**Rating**	**Fair Value**	**Rating**	**Fair Value**	**Rating**
U.S. Government Direct Obligations	$	362,213,550	Aaa	362,363,213	Aa	362,363,213	Aaa
		149,663	NR	-	-	-	-
U.S. Government Agency Obligations		190,109,636	Aaa	190,109,636	AA	189,681,754	AAA
		59,297,028	NR	59,297,028	NR	59,724,910	NR
Corporate Obligations		5,407,187	Aaa	4,445,276	AAA	4,393,536	AAA
		40,473,800	Aa	44,369,252	AA	39,189,347	AA
		193,238,599	A	255,100,842	A	207,394,487	A
		177,673,077	Baa	123,854,388	BBB	97,789,217	BBB
		13,747,741	Ba	8,892,974	BB	8,347,263	BB
		10,014,357	B	5,725,680	B	4,142,025	B
		13,648,705	NR	3,043,029	CCC	92,947,591	NR
		-	-	8,772,025	NR	-	-
Corporate Asset and Mortgage Backed Securities		21,011,775	Aaa	42,387,399	AAA	42,913,113	AAA
		1,247,356	Aa	5,095,932	AA	99,034	AA
		2,682,510	A	12,784,187	A	318,814	A
		2,087,239	Baa	1,845,726	BBB	583,400	BBB
		1,946,215	Ba	1,888,410	BB	580,048	BB
		5,090,449	B	1,965,820	B	1,601,920	B
		15,393,271	Caa	16,385,969	CCC	1,105,579	CCC
		1,697,950	Ca	2,577,154	CC	3,699,559	CC
		42,843,351	NR	1,813,527	D	472,335	D
		-	-	7,255,992	NR	42,626,314	NR
International Obligations (Government and Corporate)		746,599,555	Aaa	244,958,078	AAA	596,673,018	AAA
		305,020,159	Aa	217,016,336	AA	180,340,393	AA
		207,420,877	A	328,032,520	A	451,445,684	A
		426,320,383	Baa	152,636,168	BBB	257,717,624	BBB
		75,462,773	Ba	39,809,992	BB	2,868,027	BB
		5,726,728	B	3,390,636	B	1,092,000	B
		1,551,900	Caa	1,551,900	CCC	503,201,922	NR
		225,236,293	NR	1,005,943,038	NR	-	-
Fixed Income Money Market and Bond Mutual Fund		2,319,115,993	Aaa	2,296,633,848	AAA	22,482,145	AAA
		17,852,269	Aa	40,334,414	Aa	17,852,269	AA
		153,626,582	NR	153,626,582	NR	2,450,260,430	NR
Miscellaneous		3,586,828	Aaa	1,078,864	AAA	3,051,678	AAA
		10,029,839	Aa	14,188,300	AA	8,166,294	AA
		27,315,391	A	25,377,216	A	24,500,514	A
		1,054,234	Baa	984,216	BBB	70,017	BBB
		5,512,304	B	25,361,740	BB	2,435,268	BB
		24,097,836	NR	3,169,536	B	33,372,661	NR
		-	-	1,436,560	NR	-	-
	$	5,715,503,403		5,715,503,403		5,715,503,403	

		August 31, 2011					
		MOODY'S		STANDARD & POOR'S		FITCH	
Investment Type		**Fair Value**	**Rating**	**Fair Value**	**Rating**	**Fair Value**	**Rating**
U.S. Government Direct Obligations	$	463,858,748	Aaa	464,008,029	Aa	463,354,219	Aaa
		149,281	NR	-	-	653,810	Aa
U.S. Government Agency Obligations		257,408,927	Aaa	257,611,369	AA	257,131,264	AAA
		55,589,245	NR	55,386,803	NR	55,866,908	NR
Corporate Obligations		5,851,997	Aaa	4,493,215	AAA	5,443,448	AAA
		52,840,852	Aa	49,031,208	AA	39,100,979	AA
		177,584,113	A	191,285,562	A	162,387,679	A
		122,963,879	Baa	120,575,647	BBB	78,609,545	BBB
		5,279,429	Ba	8,253,964	BB	9,360,219	BB
		6,550,705	B	171,324	B	91,117,492	NR
		14,948,387	NR	3,798,003	CCC	-	-
		-	-	8,410,439	NR	-	-
Corporate Asset and Mortgage Backed Securities		27,606,008	Aaa	57,974,664	AAA	58,410,518	AAA
		1,419,529	Aa	4,011,715	AA	879,365	AA
		1,782,828	A	13,140,861	A	7,959	A
		2,637,876	Baa	1,301,468	BBB	863,421	BB
		1,091,492	Ba	2,285,296	BB	4,585,411	B
		5,872,145	B	541,867	B	3,510,482	CC
		19,802,705	Caa	16,962,965	CCC	608,033	C
		1,648,315	Ca	3,651,500	CC	45,830,732	NR
		52,835,023	NR	1,029,890	D	-	-
		-	-	13,795,695	NR	-	-
International Obligations (Government and Corporate)		723,941,751	Aaa	353,066,861	AAA	567,291,884	AAA
		120,338,076	Aa	72,649,040	AA	140,626,910	AA
		199,498,975	A	249,602,862	A	162,753,392	A
		407,379,978	Baa	57,889,834	BBB	100,042,395	BBB
		28,799,603	Ba	17,315,002	BB	27,902,731	BB
		2,419,529	B	2,419,529	B	1,001,000	CC
		92,013,103	NR	1,001,000	C	574,772,703	NR
		-	-	820,446,887	NR	-	-
Fixed Income Money Market and Bond Mutual Fund		2,262,195,820	Aaa	2,261,887,768	AAA	33,436,360	AAA
		18,031,839	Aa	18,339,891	Aa	18,031,839	AA
		159,202,286	NR	159,202,286	NR	2,387,961,746	NR
Miscellaneous		5,302,014	Aaa	1,027,030	AAA	4,274,774	AAA
		10,396,811	Aa	15,641,941	AA	7,606,947	AA
		24,679,627	A	23,002,342	A	23,132,522	A
		4,430,448	Baa	1,154,270	BBB	63,549	BBB
		20,284,866	NR	3,212,629	BB	1,548,421	BB
		-	-	21,055,554	NR	28,467,553	NR
	$	5,356,636,210		5,356,636,210		5,356,636,210	

(B) *Concentrations of Credit Risk* – The System's investment policy statements for funds managed by UTIMCO contain the limitation that no more than five percent of the market value of fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2012 and 2011, these funds did not hold any direct investments in any one issuer of corporate or municipal bonds that were five percent or more of the market value of the fund's fixed income investments.

(C) *Custodial Credit Risk* – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the System's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2012 and 2011, the System did not have any deposits or investments that are exposed to custodial credit risk.

(D) *Interest Rate Risk* – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the System's investments is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the System's investments to changes in interest rates. The System has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the System's modified duration by investment type as of August 31, 2012 and 2011:

	August 31, 2012		August 31, 2011	
Investment Type	**Fair Value**	**Modified Duration**	**Fair Value**	**Modified Duration**
Investments in Securities:				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	$ 292,323,803	7.81	447,530,679	9.95
U.S. Treasury Strips	557,833	1.73	709,761	2.26
U.S. Treasury Bills	65,054,080	0.54	10,966,504	0.50
U.S. Treasury Inflation Protected	2,702,930	6.48	-	-
U.S. Agency Asset Backed	5,940,385	4.36	8,082,689	4.39
Total U.S. Government Guaranteed	366,579,031	6.45	467,289,633	9.62
U.S. Government Non-Guaranteed:				
U.S. Agency	5,756,248	3.82	32,194,812	1.72
U.S. Agency Asset Backed	237,710,031	2.99	272,720,671	3.17
Total U.S. Government Non-Guaranteed	243,466,279	3.01	304,915,483	3.02
Total U.S. Government	610,045,310	5.07	772,205,116	7.01
Corporate Obligations:				
Domestic	548,203,582	6.33	500,715,283	6.25
Foreign	368,027,324	5.47	353,194,902	5.27
Total Corporate Obligations	916,230,906	5.99	853,910,185	5.84
Foreign Government and Provincial Obligations	1,550,769,172	6.32	1,164,132,523	6.73
Other Debt Securities	47,556,398	12.86	43,583,820	12.36
Total Debt Securities	3,124,601,786	6.08	2,833,831,644	6.63
Other Investment Funds - Debt	23,018,972	6.90	139,491,151	5.82
Convertible Stock	1,021,062	29.03	-	-
Fixed Income Money Market and Mutual Funds	2,452,633,654	0.04	2,271,336,960	0.05
Total	$ 5,601,275,474	3.44	5,244,659,755	3.76
Deposit with Brokers for Derivative Contracts:				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	$ 783,227	19.25	-	-
U.S. Treasury Bills	670,041	0.67	4,801,085	0.36
U.S. Treasury Inflation Protected	271,299	13.78	-	-
Total U.S. Government Guaranteed	1,724,567	11.17	4,801,085	0.36
Foreign Government and Provincial Obligations	74,542,172	5.50	57,063,590	6.91
Fixed Income Money Market and Mutual Funds	37,961,190	0.00	50,111,780	0.00
Total Deposit with Brokers for Derivative Contracts	$ 114,227,929	3.75	111,976,455	3.53

The System has purchased options on ten year constant maturity swaps, with expiries ranging from five to seven years, as insurance against possible future increases in inflation. As of August 31, 2012, these options had a notional value of $11,500,000,000 and a fair value of $16,304,250. As of August 31, 2011 these options had a notional value of $9,500,000,000 and a fair value of $42,571,684. The risk of loss on these options is limited to the premiums paid by the System upon the purchase of the options, which totaled $64,613,751 and $52,013,751 as of August 31, 2012 and 2011, respectively. The System also purchased both puts and swaptions on the Japanese Yen, with expiries ranging from one to two years, as insurance against the possibility of a downturn in the Japanese economy. As of August 31, 2012, these puts and swaptions had a notional value of $6,164,608,749 with a fair value of $5,698,857. As of August 31, 2011, these puts and swaptions had a notional value of $11,469,533,043 with a fair value of $21,528,426. The risk of loss on these options is limited to the premiums paid by the System upon the purchase of the options, which totaled $52,581,063 and $61,870,383 as of August 31, 2012 and 2011, respectively. It is estimated that these options would adjust the 2012 duration of total debt securities of 6.08 downward by approximately 0.27, and the total duration of 3.44 downward by approximately 0.27. It is estimated that these options would adjust the 2011 duration of total debt securities of 6.63 downward by approximately 0.59, and the total duration of 3.76 downward by approximately 0.63. One of the System's external managers also uses options and interest rate and credit default swaps to modify the duration of its portfolio in a cost efficient manner. It is estimated by management that these positions held by the external manager would not significantly adjust the duration as presented above.

(E) *Investments with Fair Values That Are Highly Sensitive to Interest Rate Changes* – The System may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The System also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped treasury and agency securities created from coupon securities. No percentage of holdings limitations are specified in the investment policy statements regarding these types of securities. As of August 31, 2012 and 2011, the System's investments included the following investments that are highly sensitive to interest rate changes:

- Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. As of August 31, 2012 and 2011, these securities amounted to $202,468,063 and $251,934,741, respectively.

- Mortgage backed securities which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. As of August 31, 2012 and 2011, these securities amounted to $141,508,436 and $141,968,285, respectively.

- Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. As of August 31, 2012 and 2011 these securities amounted to $18,065,156 and $26,058,959, respectively.

(F) *Foreign Currency Risk* – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the System's non-U.S. dollar investments. There are no limitations on investments in non-U.S. denominated bonds or common stocks in relation to the System's total fixed income and developed country equity exposures in the System's investment policy statements.

Classification between domestic common stock and foreign common stock is based on the country of domicile of the issuer, not the currency in which the security is traded. The following tables summarize the System's exposure to non-U.S. dollar investments by asset type as of August 31, 2012 and 2011.

Investment Type		2012 Fair Value
Foreign Common Stock:		
Australian Dollar	$	59,431,948
Brazilian Real		163,989,974
British Pound		216,606,686
Canadian Dollar		56,580,472
Chilean Peso		5,107,984
Czech Koruna		2,614,204
Danish Krone		6,961,901
Egyptian Pound		2,004,040
Euro		121,254,509
Hong Kong Dollar		286,835,927
Hungarian Forint		2,062,398
Indian Rupee		32,109,124
Indonesian Rupian		29,116,638
Japanese Yen		76,514,285
Malaysian Ringgit		40,075,107
Mexican Peso		30,854,979
Moroccan Dirham		801,225
Norwegian Kroner		2,208,569
Pakistan Rupee		1,418,403
Peruvian Neuvo Sol		9,609
Philippines Peso		21,422,298
Polish Zloty		12,504,402
Singapore Dollar		33,678,724
South African Rand		42,448,322
South Korean Won		118,007,412
Swedish Krona		29,336,647
Swiss Franc		21,997,505
Taiwan Dollar		73,037,134
Thai Baht		40,146,066
Turkish Lira		23,297,855
United Arab Emirates Dirham		2,280,458
Total Foreign Common Stock		1,554,714,805
Other Equity Securities:		
British Pound		71
Chilean Peso		1,467
Thai Baht		154,725
Total Other Equity Securities		156,263
Foreign Preferred Stock:		
Brazilian Real		60,331,028
South Korean Won		1,214,972
Total Foreign Preferred Stock		61,546,000
Foreign Government & Provincial Obligations:		
Australian Dollar		115,703,072
Brazilian Real		334,247,953
British Pounds		162,072,737
Canadian Dollar		33,844,604
Columbian Peso		7,836,554
Euro		374,826,023
Hong Kong Dollar		1,376,373
Hungarian Forint		29,649,889
Japanese Yen		159,470,990

Investment Type		2012 Fair Value
Foreign Government & Provincial Obligations (cont.):		
Malaysian Ringgit	$	31,460,700
Mexican Peso		103,877,314
New Zealand Dollar		88,541,813
Polish Zloty		80,850,451
Singapore Dollar		6,466,058
South African Rand		40,548,106
South Korean Won		33,170,250
Total Foreign Government & Provincial Obligations		1,603,942,887
Corporate Obligations:		
Australian Dollar		50,146,958
British Pound		52,323,057
Canadian Dollar		4,647,216
Euro		155,418,572
Japanese Yen		7,202,407
New Zealand Dollar		4,000,944
Total Corporate Obligations		273,739,154
Investment Funds - Emerging Markets:		
Brazilian Real		12,333,155
British Pound		94,817,911
Canadian Dollar		1,963,133
Euro		7,374,357
Hong Kong Dollar		2,345,074
Swedish Krona		1,442,573
Taiwan Dollar		138,799
Total Investment Funds - Emerging Markets		120,415,002
Investment Funds - Natural Resources:		
British Pound		5,598,410
Private Investments:		
British Pound		35,313,262
Canadian Dollar		37,756,264
Euro		313,075,534
Total Private Investments		386,145,060
Cash and Cash Equivalents:		
Australian Dollar		2,081,057
Brazilian Real		1,954,675
British Pound		1,174,913
Canadian Dollar		135,543
Chilean Peso		23,330
Czech Koruna		73,570
Danish Krone		29,453
Egyptian Pound		1,438
Euro		4,000,660
Hong Kong Dollar		1,825,537
Hungarian Forint		8,517
Indian Rupee		634,550
Indonesian Rupian		94,057
Israeli Shekel		9,025
Japanese Yen		490,632
Malaysian Ringgit		377,466
Mexican Peso		93,187
Moroccan Dirham		11,783

Investment Type (cont.)		2012 Fair Value
Cash and Cash Equivalents (cont.):		
New Zealand Dollar	$	3,443
Norwegian Kroner		482
Pakistan Rupee		92
Peruvian Nuevo Sol		826
Philippine Peso		17,231
Polish Zloty		193,106
Singapore Dollar		707,017
South African Rand		151,078
South Korean Won		803,894
Swedish Krona		26,757
Swiss Franc		968
Taiwan Dollar		2,219,697
Thailand Baht		94,377
Turkish Lira		212,424
Total Cash and Cash Equivalents		17,450,785
Purchased Options:		
Australian Dollar		8,204,467
Brazilian Real		963,505
Euro		15,918
Japanese Yen		5,698,857
South Korean Won		34,236,986
Total Purchased Options		49,119,733
Written Options:		
Australian Dollar		(4,180,423)
South Korean Won		(16,960,028)
Total Written Options		(21,140,451)
Swaps:		
Australian Dollar		103,875
British Pound		(475,603)
Euro		785
Japanese Yen		(2,457,496)
Mexican Peso		1,554,264
Total Swaps		(1,274,175)

Investment Type		2012 Fair Value
Futures:		
Australian Dollar	$	(138,728)
Brazilian Real		(2,503,860)
British Pound		(111)
Canadian Dollar		(20,722)
Euro		19,712
Japanese Yen		34,793
Total Futures		(2,608,916)
Foreign Exchange Contracts:		
Australian Dollar		(3,604,720)
Brazilian Real		(2,559,535)
British Pound		674,098
Canadian Dollar		165,358
Chilean Peso		857,422
Chinese Yuan Renminbi		(1,507,487)
Colombian Peso		78,381
Danish Krone		31,278
Euro		(3,209,707)
Hong Kong Dollar		(42)
Hungarian Forint		(364)
Indian Rupee		3,658,263
Indonesian Rupian		11
Japanese Yen		(3,551,429)
Malaysian Ringgit		52,729
Mexican Peso		(768,306)
New Zealand Dollar		(660,054)
Norwegian Kroner		10,493
Philippines Peso		50
Polish Zloty		(194,589)
Singapore Dollar		6,310
South African Rand		(24,910)
South Korean Won		1,149,322
Swedish Krona		220,732
Swiss Franc		(1,086,646)
Taiwan Dollar		(872,532)
Thailand Baht		16,328
Turkish Lira		(594,468)
Total Foreign Exchange Contracts		(11,714,014)
Total	$	4,036,090,543

Investment Type	2011 Fair Value
Foreign Common Stock:	
Australian Dollar	$ 79,798,104
Brazilian Real	110,140,655
British Pound	233,577,375
Canadian Dollar	83,595,228
Chilean Peso	5,012,909
Czech Koruna	3,261,077
Danish Krone	5,786,383
Egyptian Pound	2,248,633
Euro	148,391,603
Hong Kong Dollar	250,711,465
Hungarian Forint	2,555,878
Indian Rupee	47,402,902
Indonesian Rupian	24,753,515
Israeli Shekel	144,431
Japanese Yen	90,103,270
Malaysian Ringgit	35,272,422
Mexican Peso	31,365,406
Moroccan Dirham	1,081,895
Norwegian Kroner	5,742,679
Pakistan Rupee	1,083,526
Peruvian Neuvo Sol	60,554
Philippines Peso	7,180,457
Polish Zloty	17,786,568
Russian Ruble	3,183,808
Singapore Dollar	28,824,725
South African Rand	58,502,643
South Korean Won	162,101,964
Swedish Krona	30,669,745
Swiss Franc	29,909,814
Taiwan Dollar	63,501,969
Thai Baht	34,233,294
Turkish Lira	24,012,362
United Arab Emirates Dirham	2,587,742
Total Foreign Common Stock	1,624,585,001
Other Equity Securities:	
Canadian Dollar	248
Malaysian Ringgit	4,716
Total Other Equity Securities	4,964
Foreign Preferred Stock:	
Brazilian Real	73,630,604
South African Rand	38,267
South Korean Won	451,461
Total Foreign Preferred Stock	74,120,332
Foreign Government & Provincial Obligations:	
Australian Dollar	65,674,259
Brazilian Real	333,978,142
British Pounds	113,388,784
Canadian Dollar	38,440,490
Euro	243,314,550
Hong Kong Dollar	1,875,615
Hungarian Forint	17,851,679

Investment Type	2011 Fair Value
Foreign Government & Provincial Obligations (cont.):	
Indonesian Rupian	$ 25,141,022
Japanese Yen	56,992,039
Malaysian Ringgit	34,664,032
Mexican Peso	55,925,267
New Zealand Dollar	58,465,923
Norwegian Kroner	32,140,678
Polish Zloty	42,610,768
Singapore Dollar	22,033,674
South African Rand	31,759,386
South Korean Won	33,440,710
Total Foreign Government & Provincial Obligations	1,207,697,018
Corporate Obligations:	
Australian Dollar	45,616,168
British Pound	34,220,883
Canadian Dollar	7,437,239
Euro	164,898,846
Japanese Yen	8,483,132
Total Corporate Obligations	260,656,268
Convertible Securities:	
Brazilian Real	6,731,911
Investment Funds - Emerging Markets:	
Brazilian Real	11,919,694
Private Investments:	
British Pound	15,875,438
Canadian Dollar	20,355,572
Euro	314,976,802
Total Private Investments	351,207,812
Cash and Cash Equivalents:	
Australian Dollar	3,778,785
Brazilian Real	3,247,786
British Pound	10,689,917
Canadian Dollar	650,749
Chilean Peso	4,141
Czech Koruna	1,081
Danish Krone	1,318
Egyptian Pound	16,032
Euro	5,995,635
Hong Kong Dollar	800,686
Hungarian Forint	840
Indian Rupee	1,310,757
Indonesian Rupian	37,528
Israeli Shekel	11,166
Japanese Yen	30,952
Malaysian Ringgit	728,950
Mexican Peso	88,843
Moroccan Dirham	44,751
New Zealand Dollar	1,268
Norwegian Kroner	502,296
Pakistan Rupee	100
Peruvian Nuevo Sol	20,148
Philippine Peso	66,255

Investment Type (cont.)		2011 Fair Value
Cash and Cash Equivalents (cont.):		
Polish Zloty	$	43,421
Singapore Dollar		7,665
South African Rand		51,707
South Korean Won		429,606
Swedish Krona		3,253
Swiss Franc		39,700
Taiwan Dollar		1,902,648
Thailand Baht		33,842
Turkish Lira		750
Total Cash and Cash Equivalents		30,542,576
Purchased Options:		
Australian Dollar		125,835,514
Euro		7,616,935
Japanese Yen		21,528,417
South Korean Won		100,681,145
Total Purchased Options		255,662,011
Written Options:		
Australian Dollar		(77,045,392)
Euro		(100,498)
South Korean Won		(65,350,572)
Total Written Options		(142,496,462)
Swaps:		
Australian Dollar		(508,050)
British Pound		(583,524)
Brazilian Real		137,087
Canadian Dollar		104,444
Euro		(80,242)
Japanese Yen		86,198
Mexican Peso		2,552,800
Total Swaps		1,708,713

Investment Type		2011 Fair Value
Futures:		
Australian Dollar	$	164,700
British Pound		(595,373)
Canadian Dollar		(138,344)
Euro		295,282
Total Futures		(273,735)
Foreign Exchange Contracts:		
Australian Dollar		665,565
Brazilian Real		461,338
British Pound		149,067
Canadian Dollar		402,474
Chilean Peso		415
Chinese Yuan Renminbi		601,820
Czech Koruna		7,514
Danish Krone		117,815
Euro		(2,330,992)
Hong Kong Dollar		(4,228)
Hungarian Forint		(7,871)
Indian Rupee		579,644
Indonesian Rupian		664,291
Japanese Yen		(18,309,402)
Malaysian Ringgit		40,969
Mexican Peso		543,460
New Zealand Dollar		674,721
Norwegian Kroner		(757,393)
Philippines Peso		79,811
Polish Zloty		(52,283)
Singapore Dollar		102,025
South African Rand		485,752
South Korean Won		1,553,684
Swedish Krona		102,716
Swiss Franc		3,090,170
Taiwan Dollar		(245,055)
Thailand Baht		51,438
Turkish Lira		639,359
Total Foreign Exchange Contracts		(10,693,176)
Total	$	3,671,372,927

(G) *Counterparty (Credit) Risk* **–** The derivative instruments utilized by the System contain varying degrees of off-balance sheet risk whereby changes in the fair values of securities underlying the financial instruments may exceed the amounts recognized in the balance sheet. The System manages these risks on an aggregate basis along with the risks associated with its other investments as part of its overall risk management process.

The System had gross counterparty exposure as follows as of August 31, 2012 and 2011 for options, swaps, and foreign currency exchange contracts:

Options

	Assets	Liabilities	Assets	Liabilities	
	Notional	**Notional**	**Fair Value as of August 31, 2012**	**Fair Value as of August 31, 2012**	**Counterparty Rating**
$	21,239,000,284	3,111,531,532	64,460,478	22,849,926	A
$	21,239,000,284	3,111,531,532	64,460,478	22,849,926	

Swaps

	Assets	Liabilities	Assets	Liabilities	
	Notional	**Notional**	**Fair Value as of August 31, 2012**	**Fair Value as of August 31, 2012**	**Counterparty Rating**
$	315,121,943	458,224,163	6,323,985	3,084,791	A
	29,289,132	2,851,346	2,530,386	2,554,304	AA
$	344,411,075	461,075,509	8,854,371	5,639,095	

Foreign Currency Exchange Contracts

	Assets	Liabilities	Assets	Liabilities	
	Notional	**Notional**	**Fair Value as of August 31, 2012**	**Fair Value as of August 31, 2012**	**Counterparty Rating**
$	908,885,272	1,445,935,866	16,398,923	27,959,144	A
	35,147,253	27,453,755	492,869	646,662	AA
$	944,032,525	1,473,389,621	16,891,792	28,605,806	

Options

	Assets	Liabilities	Assets	Liabilities	
	Notional	Notional	Fair Value as of August 31, 2011	Fair Value as of August 31, 2011	Counterparty Rating
$	15,062,315,441	4,367,926,490	216,191,487	123,923,914	A
	10,307,489,217	808,700,712	82,302,617	35,465,255	AA
$	25,369,804,658	5,176,627,202	298,494,104	159,389,169	

Swaps

	Assets	Liabilities	Assets	Liabilities	
	Notional	Notional	Fair Value as of August 31, 2011	Fair Value as of August 31, 2011	Counterparty Rating
$	250,061,809	974,959,919	5,182,248	70,004,104	A
	83,093,849	12,000,000	3,431,966	207,641	AA
$	333,155,658	986,959,919	8,614,214	70,211,745	

Foreign Currency Exchange Contracts

	Assets	Liabilities	Assets	Liabilities	
	Notional	Notional	Fair Value as of August 31, 2011	Fair Value as of August 31, 2011	Counterparty Rating
$	1,577,233,428	1,347,748,541	16,926,044	10,775,269	A
	534,799,803	445,560,860	5,886,435	22,730,387	AA
$	2,112,033,231	1,793,309,401	22,812,479	33,505,656	

As of August 31, 2012 and 2011, the System also had investments in futures contracts, options on futures contracts and exchange-cleared swaps. Futures contracts, options on futures contracts and exchange-cleared swaps expose the System to minimal counterparty credit risk since they are exchange traded and the exchange's clearinghouse, as counterparty to all exchange traded futures, guarantees the futures against default, and therefore, they are not presented in the previous tables.

Counterparty risk for swaps, options and foreign currency exchange contracts which are traded over-the-counter is mitigated by having master netting arrangements between the System and its counterparties, and by the posting of collateral on a daily basis by the counterparty to the System to cover the System's exposure to a counterparty above the limits set in place in each master netting agreement. Collateral posted by counterparties for net assets is held by the System in one of its accounts at the System's custodian bank. As of August 31, 2012 and 2011, the System held $42,705,000 and $162,500,000, respectively, as collateral related to derivative instruments other than futures, and had on deposit with brokers $77,111,070 and $162,933,590, respectively, as collateral related to derivative instruments other than futures.

SECURITIES LENDING

In accordance with the prudent investor investment standards, the System participates in a securities lending program. The System began the program, under a contract with the System's lending agent, on September 1, 1995. The lending agent is authorized to lend any securities held by the System's custodian except those securities, which the policy guidelines prohibit lending. At August 31, 2012 and 2011, there were a total of $663,606,740 and $376,521,698, respectively, of securities out on loan to brokers/dealers. A combination of cash and qualified non-cash securities are held as collateral against the outstanding securities on loan. The value of cash collateral held for these securities consisted of $511,400,510 at August 31, 2012 and $384,553,434 at August 31, 2011. These amounts are recorded as assets, with an offsetting liability to return the collateral on the consolidated balance sheet. The qualified non-cash securities received as collateral for securities lending activities are not recorded as assets because these securities remain under the control of the transferor, except in the event of default.

In security lending transactions, the System transfers its securities to brokers/dealers for collateral, which may be cash, securities issued or guaranteed by the United States government or its agencies, and irrevocable bank letters of credit, and simultaneously agrees to return the collateral for the same securities in the future.

Cash received as collateral for securities lending activities is invested and reinvested in a non-commingled pool exclusively for the benefit of the System. The pool is managed in accordance with investment guidelines established in the securities lending contract between the System and its securities lending agent. Pool investments are valued at cost which is indicative of fair value. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar weighted average maturity of 60 days and an overnight liquidity of 20 percent. The System was collateralized 104 percent on August 31, 2012 and on August 31, 2011 for securities on loan collateralized by cash. The System's collateral pool investments, rating by NRSRO and weighted average maturity in days as of August 31, 2012 and 2011, are shown in the following table:

		August 31, 2012			August 31, 2011		
Description		Fair Value	Rating	Weighted Average	Fair Value	Rating	Weighted Average
Repurchase Agreements	$	250,295,163	No Rating	4	136,439,215	No Rating	1
Commercial Paper		110,173,628	P	57	134,213,750	P	28
Discount Notes – U.S. Government Agency		8,716,435	P	3	-	-	-
Corporate Obligations		2,506,690	AA	74	6,217,133	AA	51
Discount Notes – International Obligations		5,239,867	P		-	-	
International Obligations		58,718,365	AA		28,615,088	AA	
International Obligations		17,126,980	A		39,688,248	A	
Total International Obligations		81,085,212		42	68,303,336		32
U.S. Treasury Securities		7,110,638	AA	169	-	-	-
Negotiable Certificates of Deposit		51,550,703	P	65	39,333,891	P	33
Other Receivables/Payables		(37,959)	Not Rated	-	46,109	Not Rated	-
Total Collateral Pool Investment	$	511,400,510		30	384,553,434		20

Collateral pool investments are uninsured and are held by the securities lending agent, in its name, on behalf of the System, except for the investments in repurchase agreements, which are held in the securities lending agent's name by a third party custodian not affiliated with the System or the borrower of the associated loaned securities. Therefore, the collateral pool is not exposed to custodial credit risk, because the pool investments are not held by counterparties to the lending transactions or a counterparties' trust department or agent.

Lending income is earned if the returns on those investments exceed the "rebate" paid to borrowers of the securities. The income is then shared with the lending agent based on a contractually negotiated rate split. If the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss of principal, part of the payment to the borrower would come from the System's resources and the lending agent based on the rate split.

Loans that are collateralized with securities generate income when the borrower pays a loan premium or fee for the securities loan. This income is split with the same ratio as the earnings for cash collateral. The collateral pledged to the System by the borrower is custodied by the lending agent or through a third party arrangement. These securities held as collateral are not available to the System for selling or pledging unless the borrower is in default of the loan. On August 31, 2012 and 2011, the System held collateral equal to 102 percent and 106 percent, respectively, of the securities on loan that were collateralized by non-cash securities.

The collateral received must have a fair value of 102 percent of the loaned securities of United States issuers. If the fair value of the collateral held in connection with loans of securities of United States issuers is less than 100 percent at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102 percent of the fair value.

For non-U. S. issuers, the collateral should remain at 105 percent of the fair value of the loaned securities at the close of any business day. If it falls below 105 percent, the borrower must deliver additional collateral by the close of the following business day. The System was collateralized 109 percent for international loans on August 31, 2012 and 106 percent for international loans on August 31, 2011.

In the event of default, where the borrower is unable to return the securities loaned, the System has authorized the lending agent to seize the collateral held. The collateral is then used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities cannot be replaced. If the collateral is insufficient to replace the securities, the lending agent has indemnified the System from any loss due to borrower default.

At August 31, 2012 and 2011, the System had no credit risk exposure to borrowers because the amounts the System owed to borrowers exceeded the amounts the borrowers owed the System.

There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses and no recoveries of prior period losses during the years ended August 31, 2012 and 2011.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative securities are financial instruments whose value is derived, in whole or in part, from the value of any one or more underlying securities or assets, or index of securities or assets, such as stocks, bonds, commodities or currencies. Derivatives cover a broad range of financial instruments, such as forwards, futures, options and swaps.

(A) *Futures Contracts* – Futures contracts are used to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes. The fair value of the asset positions is included in investments, and the fair value of the liability positions is included in investment derivatives-liability positions on the consolidated balance sheet. Futures contracts are marked to market daily; that is, they are valued at the close of business each day and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss difference is referred to as the daily variation margin, which is settled in cash with the broker each morning for the amount of the previous day's mark to market. The amount that is settled in cash with the broker each morning is the carrying and fair value of the futures contracts.

During the years ended August 31, 2012 and 2011, the asset classes that used futures include domestic and foreign equities, domestic and foreign debt, and commodities. The change in fair value of open futures contracts for the year ending August 31, 2012 was an increase of $2,782,180. The change in fair value of open futures contracts for the year ending August 31, 2011 was an increase of $9,953,850 which is included in investment income on the consolidated statement of revenues, expenses and changes in net assets. The System had $79,821,859 and $111,542,866 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2012 and 2011, respectively. Short futures may be used by internal managers and a limited number of external managers of the System to hedge the System's interest rate or currency risk associated with security positions. The amount of the net realized loss on the futures contracts was $39,705,903 for the year ended August 31, 2012. The amount of the net realized gain on the futures contracts was $180,023,777 for the year ended August 31, 2011. The System executes such contracts either on major exchanges or with major international financial institutions and minimizes market and credit risk associated with these contracts through the managers' various trading and credit monitoring techniques.

During the years ended August 31, 2012 and 2011, two of the System's investment managers trading in commodity futures on the London Metals Exchange (LME) closed out various long contract positions with offsetting short contract positions. For contracts traded and closed on the LME, cash settlement does not occur until the expiration date of the contract. The gross notional value of these long and short positions are shown below with the associated pending cash settlement amounts shown as the carrying and fair value as of August 31, 2012 and 2011.

The following discloses the notional, carrying and fair values of futures contracts at August 31, 2012:

		Notional Value at August 31, 2012		Carrying and Fair Value at August 31, 2012	
		Long	Short	Assets	Liabilities
Foreign Equity Futures	$	-	471,721	7,384	-
Commodity Futures		578,133,347	41,349,107	5,152,115	5,130,366
Domestic Fixed Income		19,458,101	3,482,344	66,413	21,563
International Fixed Income Futures		382,954,701	310,411,928	75,549	2,692,752
Totals	$	980,546,149	355,715,100	5,301,461	7,844,681

The following discloses the notional, carrying and fair values of futures contracts at August 31, 2011:

		Notional Value at August 31, 2011		Carrying and Fair Value at August 31, 2011	
		Long	Short	Assets	Liabilities
Domestic Equity Futures	$	1,217,700	-	12,900	-
Foreign Equity Futures		6,690,009	-	173,899	-
Commodity Futures		626,203,709	15,109,386	10,240,826	1,867,864
International Fixed Income Futures		77,831,002	26,778,358	1,397,446	3,357
Totals	$	711,942,420	41,887,744	11,825,071	1,871,221

(B) *Foreign Currency Exchange Contracts* – The System enters into forward foreign currency exchange contracts to hedge against foreign currency exchange rate risks on its non-U.S. dollar denominated investment securities and to facilitate trading strategies primarily as a tool to increase or decrease market exposure to various foreign currencies. When entering into a forward currency contract, the System agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are valued daily and the System's net equity therein, representing unrealized gain or loss on the contracts, as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in investments for the asset positions and investment derivatives-liability positions for the liability positions. These instruments involve market and/or credit risk in excess of the amount recognized in the consolidated balance sheet. Risks arise from the possible inability of counter-parties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

The following tables summarize, by currency, the contractual amounts of the System's foreign exchange contracts at August 31, 2012 and 2011. Foreign currency amounts are translated at exchange rates as of August 31, 2012 and 2011. The "Net Buy" amounts represent the U. S. dollar equivalent of net commitments to purchase foreign currencies and the "Net Sell" amounts represent the U. S. dollar equivalent of net commitments to sell foreign currencies.

Currency	Net Buy August 31, 2012	Net Sell August 31, 2012	Unrealized Gains on Foreign Exchange Contracts August 31, 2012	Unrealized Losses on Foreign Exchange Contracts August 31, 2012
Australian Dollar	$ -	270,578,543	1,964,500	5,569,220
Brazilian Real	13,855,739	-	189,304	2,748,839
British Pound	58,647,703	-	1,952,093	1,277,995
Canadian Dollar	-	796,468	516,827	351,469
Chilean Peso	24,599,254	-	857,422	-
Chinese Yuan Renminbi	28,420	1,466	170,315	1,677,802
Columbian Peso	-	7,610,098	78,381	-
Danish Krone	3,173,778	-	32,282	1,004
Euro	-	207,495,158	1,626,311	4,836,018
Hong Kong Dollar	144,212	-	1	43
Hungarian Forint	77,998	-	8	372
Indian Rupee	-	129,367	5,540,594	1,882,331
Indonesian Rupian	8,007	-	11	-
Japanese Yen	54,250,282	15,819,610	1,101,893	4,653,322
Malaysian Ringgit	17,224,602	-	52,891	162
Mexican Peso	38,329,964	-	210,649	978,955
New Zealand Dollar	-	127,285,452	268,529	928,583
Norwegian Kroner	982,343	-	10,493	-
Philippines Peso	9,147	7,786	338	288
Polish Zloty	-	19,398,944	-	194,589
Singapore Dollar	720,573	-	6,310	-
South African Rand	75,032,498	-	282,128	307,038
South Korean Won	71,147,726	-	1,488,675	339,353
Swedish Krona	19,925,316	-	222,556	1,824
Swiss Franc	-	36,373,809	41,732	1,128,378
Taiwan Dollar	59,355,194	-	261,221	1,133,753
Thailand Baht	1,533,124	-	16,328	-
Turkish Lira	31,178,109	-	-	594,468
TOTAL	$ 470,223,989	685,496,701	16,891,792	28,605,806

The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2012 was a decrease in the amount of $11,714,014, which is included in investment income on the consolidated statement of revenues, expenses and changes in net assets.

Currency		Net Buy August 31, 2011	Net Sell August 31, 2011	Unrealized Gains on Foreign Exchange Contracts August 31, 2011	Unrealized Losses on Foreign Exchange Contracts August 31, 2011
Australian Dollar	$	-	203,312,646	2,218,617	1,553,052
Brazilian Real		-	24,533,958	468,066	6,728
British Pound		12,377,740	1,609,761	701,691	552,624
Canadian Dollar		18,668,867	943,037	569,223	166,749
Czech Koruna		358,535	-	7,514	-
Chilean Peso		21,355	-	415	-
Chinese Yuan Renminbi		41,103,620	-	859,160	257,340
Danish Krone		8,594,129	-	134,014	16,199
Euro		-	181,817,082	969,383	3,300,375
Hong Kong Dollar		-	8,261,673	74	4,302
Hungarian Forint		296,733	-	-	7,871
Indian Rupee		19,876,368	-	603,693	24,049
Indonesian Rupian		9,257,699	-	664,510	219
Japanese Yen		177,236,110	-	5,992,711	24,302,113
Malaysian Ringgit		1,033,850	-	41,643	674
Mexican Peso		9,053,201	5,530,587	1,551,465	1,008,005
New Zealand Dollar		-	86,893,752	988,382	313,661
Norwegian Kroner		-	28,821,840	2,742	760,135
Philippines Peso		665,915	-	283,082	203,271
Polish Zloty		764,597	72,382	581	52,864
Singapore Dollar		1,395,656	-	116,875	14,850
South African Rand		14,942,180	465,045	769,087	283,335
South Korean Won		20,782,839	-	1,602,745	49,061
Swedish Krona		7,754,372	-	122,910	20,194
Swiss Franc		-	45,160,101	3,420,483	330,313
Taiwan Dollar		38,743,194	-	32,609	277,664
Thailand Baht		936,418	-	51,445	7
Turkish Lira		27,191,186	-	639,359	-
TOTAL	$	411,054,564	587,421,864	22,812,479	33,505,655

The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2011 was a decrease in the amount of $10,693,176, which is included in investment income on the consolidated statement of revenues, expenses and changes in net assets.

(C) *Written Options* – Written options are used to alter the market (systematic) exposure without trading the underlying cash market securities, and to hedge and control risks, so that the actual risk/return profile is more closely aligned with the target risk/return profile. The fair value is included on the consolidated balance sheet in investment derivatives-liability positions. During the year, the System wrote call options on commodities and interest rate swaps. The following discloses the contracts outstanding, the expiration date and the fair values of the outstanding written call options contracts as of August 31, 2012 and 2011:

					Fair Value at August 31, 2012	
Type	**Underlying**	**Contracts**	**Expiration Date**		**Assets**	**Liabilities**
Commodity						
	Corn Futures	7	11/23/12	$	-	3,676
					-	20,468
Interest Rate Swaps						
	United States 3 month Libor	6,300,000	10/11/12		-	27,002
	United States 3 month Libor	11,700,000	11/14/12		-	120,059
	United States 3 month Libor	46,100,000	03/18/13		-	1,591,807
					-	1,738,868
				$	-	1,742,544

The change in fair value of open call options for the year ending August 31, 2012, was a decrease in the amount of $1,232,619, which is included in investment income on the consolidated statement of revenues, expenses and changes in net assets. The System recognized gains in the amount of $34,518 on call options written, which are included in investment income on the consolidated statement of revenues, expenses and changes in net assets for the year ended August 31, 2012.

					Fair Value at August 31, 2011	
Type	**Underlying**	**Contracts**	**Expiration Date**		**Assets**	**Liabilities**
Commodity						
	Copper Futures	4	12/7/11	$	-	16,049
	Corn Futures	7	11/23/12		-	4,419
					-	20,468
Other						
	Forward Volatility Agreement	6,300,000	10/11/11		-	19,636
	Forward Volatility Agreement	11,700,000	11/14/11		-	118,689
					-	138,325
				$	-	158,793

The change in fair value of open call options for the year ending August 31, 2011, was an increase in the amount of $32,226, which is included in investment income on the consolidated statement of revenues, expenses and changes in net assets. The System recognized gains in the amount of $368,122 on call options written, which are included in investment income on the consolidated statement of revenues, expenses and changes in net assets for the year ended August 31, 2011.

The System also wrote put options on Treasury note and Euro Bund futures, domestic and international equities and indices, interest rate swaps, currencies, various commodities and other options for the years ended August 31, 2012 and 2011. The following discloses the contracts outstanding, the expiration date and the fair values of the outstanding written put options contracts as of August 31, 2012 and 2011:

				Fair Value at August 31, 2012	
Type	**Underlying**	**Contracts**	**Expiration Date**	**Assets**	**Liabilities**
Interest Rate Swap					
	U.S. 3 month LIBOR	6,300,000	10/11/12	$ -	77
	U.S. 3 month LIBOR	11,700,000	11/14/12	-	671
	U.S. 3 month LIBOR	46,100,000	3/18/13	-	85,697
				-	86,445
Commodity					
	Brent Crude Futures	4	11/12/12	-	39,340
	Corn Futures	50	11/23/12	-	836
	Corn Futures	30	11/22/13	-	66,938
	Copper Futures	8	12/5/12	-	8,656
	Crude Oil Futures	5	11/13/12	-	1,250
	Crude Oil Futures	7	11/17/15	-	40,670
	Natural Gas Futures	23	12/26/12	-	30,360
				-	188,050
Equity					
	Australia S&P/ASX 200 Index	106,750	8/15/13	-	4,095,076
	Australia S&P/ASX 200 Index	245,157	9/20/12	-	85,347
	Korean KOSPI 200 Index	3,915,726,750	6/13/13	-	3,963,393
	Korean KOSPI 200 Index	3,621,169,130	8/8/13	-	12,996,635
				-	21,140,451
Other					
	CPI Urban Consumer Not Seasonally Adjusted	1,300,000	9/29/20	-	1,638
	CPI Urban Consumer Not Seasonally Adjusted	1,400,000	10/13/20	-	3,255
				-	4,893
				$ -	21,419,839

The change in fair value of open put options for the year ending August 31, 2012, was an increase in the amount of $51,106,313, which is included in investment income on the consolidated statement of revenues, expenses and changes in net assets. The System recognized gains in the amount of $176,657,711 on put options written which are included in investment income on the consolidated statement of revenues, expenses and changes in net assets for the year ended August 31, 2012.

Type	Underlying	Contracts	Expiration Date		Fair Value at August 31, 2011 Assets	Liabilities
Interest Rate Swap						
	U.S. 3 month LIBOR	55,500,000	6/18/12	$	-	35,026
	U.S. 3 month LIBOR	8,400,000	7/10/12		-	26
	U.S. 3 month LIBOR	70,100,000	9/24/12		-	73,193
					-	108,245
Commodity						
	Brent Crude Futures	18	11/10/11		-	6,334
	Corn Futures	14	11/23/12		-	27,126
	Crude Oil Futures	4	11/15/11		-	4,170
	Crude Oil Futures	7	11/17/15		-	54,601
					-	92,231
Currency						
	U.S. Dollar vs. Euro	9,200,000	9/27/11		-	100,499
Equity						
	Australia S&P/ASX 200 Index	203,774	6/21/12		-	37,513,207
	Australia S&P/ASX 200 Index	85,725	6/20/13		-	23,059,281
	Australia S&P/ASX 200 Index	106,750	8/15/13		-	16,472,905
	Dow Jones U.S. Real Estate Index	4,628,773	2/21/12		-	6,127,271
	MSCI Emerging Markets Index	4,594,561	2/21/12		-	4,944,232
	Korean KOSPI 200 Index	1,568,360,000	6/13/13		-	24,930,686
	Korean KOSPI 200 Index	3,621,169,129	8/8/13		-	40,419,886
	S&P Metals and Mining ETF	2,984,791	2/21/12		-	5,557,719
					-	159,025,187
Fixed Income						
	Euro-BOBL Futures	57	9/30/11		-	-
	U.S. 10 yr Treasury Note Futures	123	9/23/11		-	52,265
					-	52,265
Other						
	CPI Urban Consumer Not Seasonally Adjusted	1,300,000	9/29/10		-	6,113
	CPI Urban Consumer Not Seasonally Adjusted	1,400,000	10/13/20		-	10,799
					-	16,912
				$	-	159,395,339

The change in fair value of open put options for the year ending August 31, 2011, was a decrease in the amount of $10,173,869, which is included in investment income on the consolidated statement of revenues, expenses and changes in net assets. The System recognized gains in the amount of $5,523,444 on put options written which are included in investment income on the consolidated statement of revenues, expenses and changes in net assets for the year ended August 31, 2011.

(D) *Swaps* – Swaps are used to adjust interest rate and yield curve exposures. During the year, the System entered into interest rate, equity, credit default, currency and commodity swap contracts. The fair value of the asset positions is included in investments, and the fair value of the liability positions is included in investment derivatives-liability positions on the consolidated balance sheet. The following discloses the notional amount (presented in US dollar equivalents), the coupon rate and the fair values of the outstanding swap contracts as of August 31, 2012:

Currency		USD Notional Value	Maturity Date	Fair Value at August 31, 2012 Assets	Liabilities
Interest Rate (Pay-Fixed Receive-Variable):					
Australian Dollar	Receive 3 month Australian Bank Bill Rate Pay 5.000%	$ 1,033,450	06/15/2022	$ 103,875	-
British Pound	Receive 6 month British LIBOR Pay 1.250%	28,590,307	9/21/2014	-	277,868
	Receive 6 month British LIBOR Pay 2.500%	8,259,422	9/21/2013	-	187,418
Japanese Yen	Receive 6 month Yen LIBOR Pay 0.300%	51,468,710	12/19/2014	800	-
	Receive 6 month Yen LIBOR Pay 0.350%	10,600,255	06/20/2014	-	8,868
	Receive 6 month Yen LIBOR Pay 1.000%	1,787,995	03/21/2023	15,061	-
	Receive 6 month Yen LIBOR Pay 2.000%	638,570	12/21/2041	53,591	-
Mexican Peso	Receive Mexican Interbank Rate Pay 5.500%	2,587,508	09/13/2017	36,834	-
	Receive Mexican Interbank Rate Pay 6.590%	2,323,476	12/08/2015	114,878	-
	Receive Mexican Interbank Rate Pay 6.750%	19,628,847	06/08/2016	1,192,211	-
	Receive Mexican Interbank Rate Pay 6.960%	2,331,020	07/27/2020	210,341	-
U.S. Dollar	Receive 3 month US Dollar LIBOR Pay 1.250%	1,100,000	06/20/2016	-	30,556
	Receive 3 month US Dollar LIBOR Pay 2.250%	1,100,000	06/20/2022	-	66,645
		131,449,560		1,727,591	571,355
Interest Rate (Pay-Variable Receive-Fixed):					
Japanese Yen	Receive 0.250% Pay 6 month Yen LIBOR	28,224,776	06/20/2014	31,978	-
		28,224,776		31,978	-

(Continued)				Fair Value at August 31, 2012	
Currency		USD Notional Value	Maturity Date	Assets	Liabilities
Credit Default:					
British Pound	0.670%	1,238,913	09/20/2014	-	10,317
Euro	0.250%	2,142,850	03/20/2016	-	849
	0.250%	6,554,600	06/20/2016	-	8,317
	1.000%	756,300	06/20/2017	9,951	-
U.S. Dollar	0.250%	8,400,000	12/20/2016	-	79,116
	0.250%	6,700,000	06/20/2017	-	237,441
	0.460%	1,000,000	12/20/2013	-	5,294
	0.510%	800,000	03/20/2018	-	13,943
	0.590%	1,000,000	09/20/2014	-	8,358
	0.590%	1,000,000	09/20/2016	-	8,705
	0.700%	800,000	12/20/2018	10,425	-
	0.750%	1,000,000	09/20/2017	-	14,271
	0.820%	1,000,000	03/20/2018	-	829
	0.862%	1,800,000	11/20/2016	99,196	-
	0.900%	1,000,000	06/20/2019	-	15,891
	0.990%	200,000	09/20/2015	-	4,433
	1.000%	1,700,000	09/20/2012	3,860	-
	1.000%	2,300,000	12/20/2012	9,699	-
	1.000%	15,100,000	06/20/2015	367,727	-
	1.000%	21,100,000	12/20/2015	84,523	-
	1.000%	8,700,000	03/20/2016	181,561	-
	1.000%	12,500,000	06/20/2016	239,185	-
	1.000%	5,700,000	09/20/2016	131,566	-
	1.000%	2,800,000	12/20/2016	157,158	-
	1.000%	4,800,000	06/20/2017	-	748,475
	1.000%	100,000	09/20/2017	-	14,946
	1.000%	200,000	06/20/2019	-	4,715
	1.000%	4,000,000	12/20/2020	-	229,109
	1.060%	680,000	03/20/2018	54,896	-
	1.135%	500,000	09/20/2013	-	3,071
	1.160%	2,000,000	03/20/2013	-	13,382
	1.350%	200,000	06/20/2016	-	1,238
	1.350%	400,000	03/20/2018	-	19,141
	1.380%	2,000,000	03/20/2017	-	80,324
	1.400%	700,000	03/20/2021	2,741	-
	1.450%	3,000,000	06/20/2013	-	38,103
	1.530%	500,000	09/20/2016	606	-
	1.540%	400,000	06/20/2018	4,283	-
	1.600%	900,000	03/20/2021	4,099	-
	1.630%	1,500,000	03/20/2021	10,013	-
	1.780%	300,000	06/20/2013	-	4,246
	1.920%	1,000,000	03/20/2017	32,259	-
	1.970%	700,000	03/20/2021	18,552	-
	2.150%	1,600,000	03/20/2021	62,596	-
	2.700%	1,000,000	03/20/2019	-	71,797
	2.800%	400,000	03/20/2021	16,384	-
	2.880%	600,000	12/20/2020	27,816	-
	2.920%	400,000	03/20/2021	19,424	-
	2.930%	300,000	06/20/2015	-	19,784
	2.950%	3,100,000	12/20/2020	157,252	-
	5.000%	700,000	09/20/2015	102,249	-
		137,272,663		1,808,021	1,656,095

(Continued)

Currency		USD Notional Value	Maturity Date		Fair Value at August 31, 2012 Assets	Liabilities
Commodity:						
U.S. Dollar	Uranium	1,030,000	04/30/2013		-	71,730
	S&P GSCI Grains	11,131,491	02/28/2013		-	141,815
		12,161,491			-	213,545
Currency:						
	Japanese Yen	2,554,279	05/15/2014		-	2,550,058
	U.S. Dollar	2,500,000	05/15/2014		2,500,000	-
		5,054,279			2,500,000	2,550,058
Equity:						
U.S. Dollar	MSCI Europe Index	103,137,010	08/14/2013		-	609,042
	MSCI Japan Index	56,756,254	08/08/2013		1,087,698	-
	MSCI Korea Index	26,388,855	05/29/2013		629,579	-
	U.S. Real Estate Index	87,348,102	08/08/2013		-	150,293
	U.S. Real Estate Index	177,999,965	08/20/2013		-	143,279
	S&P 500 Index	126,765,559	08/20/2013		957,293	-
	Taiwan TAIEX Index	18,460,536	09/19/2012		-	218,158
		596,856,281			2,674,570	1,120,772
Total		911,019,050		$	8,742,160	6,111,825

The change in fair value of open swap positions for the year ending August 31, 2012, was an increase in the amount of $880,695, which is included in investment income on the consolidated statement of revenues, expenses and changes in net assets.

The following discloses the notional amount (presented in US dollar equivalents), the coupon rate, and the fair values of the outstanding swap contracts as of August 31, 2011:

Currency		USD Notional Value	Maturity Date	Fair Value at August 31, 2011 Assets	Fair Value at August 31, 2011 Liabilities
Interest Rate (Pay-Fixed Receive-Variable):					
Australian Dollar	Pay 4.750% Receive 3 month Australian Bank Bill Rate	107,095	12/15/2013	$ -	1,126
British Pound	Receive 6 month British LIBOR Pay 2.500%	45,265,350	9/21/2013	-	1,084,037
Japanese Yen	Receive 6 month Yen LIBOR Pay 0.250%	50,869,624	12/21/2013	86,198	-
U.S. Dollar	Receive 3 month US Dollar LIBOR Pay 2.500%	1,100,000	06/15/2016	-	73,017
	Receive 3 month US Dollar LIBOR Pay 3.250%	12,200,000	12/21/2021	-	819,941
	Receive 3 month US Dollar LIBOR Pay 3.500%	16,100,000	06/15/2021	-	1,754,926
		125,642,069		86,198	3,733,047
Interest Rate (Pay-Variable Receive-Fixed):					
Brazilian Real	Receive 11.245% Pay Brazil Interbank Deposit Rate	3,337,111	01/02/2012	-	10,547
	Receive 11.250% Pay Brazil Interbank Deposit Rate	5,414,935	01/02/2012	-	16,808
	Receive 11.360% Pay Brazil Interbank Deposit Rate	10,011,334	01/02/2012	164,442	-
Canadian Dollar	Receive 5.750% Pay 3 month Canada Bankers' Acceptance Rate	1,022,652	12/19/2028	104,444	-
Euro	Receive 2.000% Pay 6 month EURIBOR	51,544,840	9/21/2016	-	415,725
	Receive 3.000% Pay 6 month EURIBOR	6,623,080	9/21/2016	259,347	-
	Receive 3.000% Pay 6 month EURIBOR	14,685,960	9/21/2021	180,722	-
Mexican Peso	Receive 6.590% Pay Mexican Interbank Rate	2,493,624	12/08/2015	128,781	-
	Receive 6.750% Pay Mexican Interbank Rate	27,737,521	06/08/2016	1,637,769	-
	Receive 6.960% Pay Mexican Interbank Rate	5,861,636	07/27/2020	289,785	-
	Receive 7.500% Pay Mexican Interbank Rate	5,796,867	06/02/2021	496,465	-
		134,529,560		3,261,755	443,080

(Continued)

Currency		USD Notional Value	Maturity Date	Fair Value at August 31, 2011 Assets	Liabilities
Credit Default:					
British Pound	0.670%	1,270,035	09/20/2014	-	6,411
Euro	0.250%	2,447,660	03/20/2016	-	23,689
	0.250%	7,486,960	06/20/2016	-	80,897
U.S. Dollar	0.210%	200,000	09/20/2011	-	78
	0.230%	200,000	03/20/2012	-	143
	0.250%	14,900,000	12/20/2015	-	728,942
	0.250%	2,500,000	03/20/2016	-	132,214
	0.250%	8,500,000	09/20/2016	-	516,056
	0.450%	1,000,000	09/20/2014	-	4,418
	0.460%	200,000	09/20/2011	-	160
	0.460%	1,000,000	12/20/2013	-	5,032
	0.510%	800,000	03/20/2018	-	3,539
	0.550%	600,000	09/20/2011	-	618
	0.590%	1,000,000	09/20/2014	822	-
	0.590%	1,000,000	09/20/2016	8,780	-
	0.700%	800,000	12/20/2018	26,436	-
	0.750%	1,000,000	12/20/2013	-	10,165
	0.750%	1,000,000	09/20/2017	-	16,099
	0.770%	800,000	03/20/2012	-	3,315
	0.820%	1,000,000	03/20/2018	6,464	-
	0.862%	1,800,000	11/20/2016	121,242	-
	0.900%	1,000,000	06/20/2019	14,328	-
	0.990%	1,000,000	09/20/2015	-	8,840
	1.000%	21,100,000	12/20/2011	68,117	-
	1.000%	1,700,000	09/20/2012	5,525	-
	1.000%	11,900,000	12/20/2012	-	132,965
	1.000%	15,100,000	06/20/2015	251,351	-
	1.000%	22,000,000	12/20/2015	6,995	78,763
	1.000%	8,700,000	03/20/2016	100,870	-
	1.000%	14,700,000	06/20/2016	112,923	-
	1.000%	8,900,000	09/20/2016	-	126,427
	1.000%	2,400,000	12/20/2016	349,436	-
	1.000%	200,000	06/20/2019	1,005	-
	1.000%	4,000,000	12/20/2020	-	213,502
	1.060%	780,000	03/20/2018	81,761	-
	1.160%	2,000,000	03/20/2013	-	20,696
	1.170%	1,000,000	06/20/2013	-	7,146
	1.350%	500,000	09/20/2013	5,754	-
	1.350%	200,000	06/20/2016	-	3,100
	1.350%	2,000,000	03/20/2017	-	69,226
	1.350%	400,000	03/20/2018	-	16,464
	1.400%	700,000	03/20/2021	2,795	-
	1.450%	3,000,000	06/20/2013	-	51,198
	1.530%	500,000	09/20/2016	10,704	-
	1.540%	800,000	12/20/2013	73,365	-
	1.540%	400,000	06/20/2018	-	944
	1.600%	900,000	03/20/2021	4,891	-
	1.620%	1,000,000	06/20/2012	22,194	-
	1.630%	1,500,000	03/20/2021	11,336	-
	1.743%	900,000	06/20/2013	-	16,754
	1.780%	800,000	06/20/2013	-	15,493
	1.820%	700,000	06/20/2013	-	14,118
	1.920%	1,000,000	03/20/2017	116,247	-
	1.970%	700,000	03/20/2021	12,467	-
	2.150%	1,600,000	03/20/2021	48,229	-
	2.700%	1,000,000	03/20/2019	-	46,203
	2.800%	400,000	03/20/2021	21,524	-
	2.870%	800,000	03/20/2021	22,979	-
	2.880%	600,000	12/20/2020	35,531	-
	2.900%	1,100,000	03/20/2021	33,717	-
	2.920%	400,000	03/20/2021	24,903	-
	2.930%	300,000	06/20/2015	-	13,349
	2.950%	3,800,000	12/20/2020	243,490	-
	5.000%	700,000	09/20/2015	114,439	-
		192,684,655		1,960,620	2,366,964

(Continued)				Fair Value at August 31, 2011	
Currency		USD Notional Value	Maturity Date	Assets	Liabilities
Commodity:					
U.S. Dollar	Uranium	1,135,000	04/30/2012	-	188,490
Equity:					
U.S. Dollar	Global Real Estate Index	69,985,055	02/09/2012	-	7,969,731
	MSCI Canada Index	6,185,979	05/16/2012	136,597	-
	MSCI Europe Index	118,999,257	02/22/2012	-	6,724,384
	MSCI Japan Index	29,999,983	02/08/2012	210,399	-
	MSCI Japan Index	38,000,825	02/22/2012	-	1,521,819
	Oil & Gas	74,952,399	09/26/2011	2,958,645	-
	S&P 400 Index	107,999,486	02/21/2012	-	11,993,997
	S&P 500 Index	275,001,286	08/20/2012	-	23,564,638
	U.S. Real Estate Index	145,000,023	08/20/2012	-	11,705,595
		866,124,293		3,305,641	63,480,164
Total		1,320,115,577		$ 8,614,214	70,211,745

The change in fair value of open swap positions for the year ending August 31, 2011, was a decrease in the amount of $62,843,692, which is included in investment income on the consolidated statement of revenues, expenses and changes in net assets.

(E) *Investment Funds* – The System's investment funds include exchange traded funds, index funds, Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships and corporate structures, which are generally unrated and may be unregulated. These investments are recorded on System's balance sheet at fair value.

The System invests in hedge fund pools which are invested in private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios. The hedge fund pools have committed $122,892,459 and $42,371,530 of future funding to various hedge fund investments as of August 31, 2012 and 2011, respectively.

The System invests in private investments through private investment pools which are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments, domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk and investment manager risk. Certain of these investments are held through LLCs, of which UTIMCO is the sole managing member. The System had committed $3,717,867,684 and $3,086,712,651 of future funding to various private investments as of August 31, 2012 and 2011, respectively.

Public market funds are invested in exchange traded funds, index funds and private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the funds. Some of these investment managers may invest in both long and short securities and may utilize modest leverage in their portfolios. Certain of these investments are held through limited liability companies of which UTIMCO is the sole managing member. There are certain risks associated with these investments, some of which are investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios. Future fundings in the amount of $22,000,000 have been committed to certain public market funds. Due to the differences between international time zones, it may be necessary for the System to provide funding for certain managers in advance of the desired investment date to facilitate trading in the international market by the investment manager. As of August 31, 2012, $25,000,000 had been funded to a manager for investment on the first business day of September. This amount is included in the investment fund fair value as of August 31, 2012.

Hedge funds, private investments and public market funds include investments in private placement vehicles that are subject to risk, which could result in the loss of invested capital. The risks include the following:

- *Key personnel risk* – The success of certain funds is substantially dependent upon key investment managers and the loss of those individuals may adversely impact the fund's performance.
- *Liquidity risk* – Many of the System's investment funds may impose lock-up periods, which would cause the System to incur penalties to redeem its units or prevent the System from redeeming its shares until a certain period of time has elapsed.
- *Limited transparency* – As private placement investment vehicles, these funds may not disclose the holdings of their portfolios.
- *Investment strategy risk* – These funds often employ sophisticated investment strategies and may use leverage, which could result in the loss of invested capital.

Investments in hedge funds, private investments and public market funds are also subject to the investment risks previously discussed under the heading of Investment Risks. Fixed income investments held by these funds would also be subject to credit risk and interest rate risk; moreover, they may invest in securities whose fair values would be sensitive to changes in interest rates.

The fair values of these various investment funds, excluding the publicly traded funds, as of August 31, 2012 and 2011 were $16,337,048,570 and $15,382,351,127, respectively.

7. Derivative Instruments

Derivatives are financial instruments the value of which is derived, in whole or part, from the value of any one or more underlying assets or index of asset values. Derivatives include forwards, futures, options and swaps. Hedging derivative contracts are entered into for the purpose of reducing the overall cost of borrowing long-term capital and to protect the System against the risk of rising interest rates. The hedging derivatives primarily consist of interest rate swap agreements entered into in connection with long-term bonds. The derivative contracts enable the System to issue bonds at a cost less than what the System would have paid to issue conventional fixed-rate debt. Investment derivatives are entered into with the intention of managing transaction or currency exchange risk in purchasing, selling or holding investments. Ineffective hedges are also reported as investment derivatives. The following disclosures summarize the System's derivative activity as reported in the consolidated financial statements.

	Change in Fair Value (FV) 8/31/11 to 8/31/12		Fair Value at 8/31/12		
	Classification	**Amount**	**Classification**	**Amount**	**Notional Amount**
Cash Flow Hedges-Interest Rate Swaps					
Hedging Derivative Liabilities Pay-Fixed Receive-Variable	Def Outflows	$ (131,836,850)	Hedging Derivative Liab	$ (334,084,157)	$ 1,340,650,000
Investment Derivative Assets Pay-Variable Receive-Variable	Net Incr. (Decr.) in FV of Invest	(3,014,001)	Investments	14,508,884	495,195,000
Investment Derivative Liabilities Pay-Fixed Receive-Variable	Net Incr. (Decr.) in FV of Invest	299,514	Invest Deriv - Liab Positions	(160,451)	3,590,000
Investment Derivative Liabilities Pay-Variable Receive-Variable	Net Incr. (Decr.) in FV of Invest	2,793,280	Invest Deriv - Liab Positions	(6,393,543)	394,650,000
Investment Derivatives					
Investment Derivative Assets:					
Swaps:					
Pay-Fixed Receive-Variable		(273,510)		1,727,591	81,799,576
Pay-Variable Receive-Fixed		31,978		31,978	28,224,776
Credit Default		428,547		1,808,021	86,436,300
Currency		2,500,000		2,500,000	2,500,000
Equity		2,674,570		2,674,570	209,910,668
Total Swaps	Net Incr. (Decr.) in FV of Invest	5,361,585	Investments	8,742,160	408,871,320
Futures	Net Incr. (Decr.) in FV of Invest	5,301,461	Other Accounts Receivable	5,301,461	980,546,149
Unrealized Gains on Foreign Forwards	Net Incr. (Decr.) in FV of Invest	16,891,792	Investments	16,891,792	944,032,525
Purchased Options	Net Incr. (Decr.) in FV of Invest	(139,090,183)	Investments	65,638,563	21,250,025,498
Investment Derivative Liabilities:					
Swaps:					
Pay-Fixed Receive-Variable		512,683		(571,355)	49,649,984
Pay-Variable Receive-Fixed		-		-	-
Credit Default		(1,109,198)		(1,656,095)	50,836,363
Commodity		(213,545)		(213,545)	12,161,491
Currency		(2,550,058)		(2,550,058)	2,554,279
Equity		(1,120,772)		(1,120,772)	386,945,613
Total Swaps	Net Incr. (Decr.) in FV of Invest	(4,480,890)	Invest Deriv - Liab Positions	(6,111,825)	502,147,730
Futures	Net Incr. (Decr.) in FV of Invest	(7,844,681)	Current Accounts Payable	(7,844,681)	355,715,100
Unrealized Losses on Foreign Forwards	Net Incr. (Decr.) in FV of Invest	(28,605,806)	Invest Deriv - Liab Positions	(28,605,806)	1,473,389,621
Options Written	Net Incr. (Decr.) in FV of Invest	49,873,694	Invest Deriv - Liab Positions	(23,162,383)	3,140,696,532

	Change in Fair Value (FV) 8/31/10 to 8/31/11		Fair Value at 8/31/11		
	Classification	**Amount**	**Classification**	**Amount**	**Notional Amount**
Cash Flow Hedges-Interest Rate Swaps					
Hedging Derivative Liabilities Pay-Fixed Receive-Variable	Def Outflows	$ 2,918,742	Hedging Derivative Liab	$ (202,247,307)	$ 1,370,965,000
Investment Derivative Assets Pay-Variable Receive-Variable	Net Incr. (Decr.) in FV of Invest	1,821,933	Investments	17,522,885	299,505,000
Investment Derivative Liabilities Pay-Fixed Receive-Variable	Net Incr. (Decr.) in FV of Invest	455,742	Invest Deriv - Liab Positions	(459,965)	6,955,000
Investment Derivative Liabilities Pay-Variable Receive-Variable	Net Incr. (Decr.) in FV of Invest	2,351,873	Invest Deriv - Liab Positions	(8,636,823)	284,065,000
Investment Derivatives					
Investment Derivative Assets:					
Swaps:					
Pay-Fixed Receive-Variable		86,198		86,198	50,869,624
Pay-Variable Receive-Fixed		3,213,280		3,261,755	74,232,674
Credit Default		497,007		1,960,620	96,914,999
Equity		3,305,641		3,305,641	111,138,361
Total Swaps	Net Incr. (Decr.) in FV of Invest	7,102,126	Investments	8,614,214	333,155,658
Futures	Net Incr. (Decr.) in FV of Invest	11,825,071	Investments	11,825,071	711,942,420
Unrealized Gains on Foreign Forwards	Net Incr. (Decr.) in FV of Invest	22,812,478	Investments	22,812,478	2,112,033,231
Purchased Options	Net Incr. (Decr.) in FV of Invest	(20,129,401)	Investments	298,617,048	25,440,169,658
Investment Derivative Liabilities:					
Swaps:					
Pay-Fixed Receive-Variable		(3,733,047)		(3,733,047)	74,772,445
Pay-Variable Receive-Fixed		(443,080)		(443,080)	60,296,886
Credit Default		(2,101,037)		(2,366,964)	95,769,656
Commodity		(188,490)		(188,490)	1,135,000
Equity		(63,480,164)		(63,480,164)	754,985,932
Total Swaps	Net Incr. (Decr.) in FV of Invest	(69,945,818)	Invest Deriv - Liab Positions	(70,211,745)	986,959,919
Futures	Net Incr. (Decr.) in FV of Invest	(1,871,221)	Invest Deriv - Liab Positions	(1,871,221)	41,887,744
Unrealized Losses on Foreign Forwards	Net Incr. (Decr.) in FV of Invest	(33,505,655)	Invest Deriv - Liab Positions	(33,505,655)	1,793,309,401
Options Written	Net Incr. (Decr.) in FV of Invest	(10,141,643)	Invest Deriv - Liab Positions	(159,554,131)	5,286,149,062

See Note 12 for more information on Cash Flow Hedges – Interest Rate Swaps and Note 6 for more information on Investment Derivatives.

8. Endowments

Restricted investments include $24,428,660,911 and $21,825,601,579 of endowment funds, including annuity and life income funds, as of August 31, 2012 and 2011, respectively. The net asset classifications on the balance sheet related to endowment funds, including annuity and life income funds, as of August 31, 2012 and 2011 are as follows:

Net Asset Classification of Endowments		2012	2011
Restricted, nonexpendable	$	15,128,697,354	12,233,569,683
Restricted, expendable:			
Net Appreciation on True Endowments		7,290,161,740	7,685,012,678
Funds Functioning as Endowments		286,767,487	266,853,806
Term Endowments		32,429,517	31,010,510
Unrestricted:			
Funds Functioning as Endowments		663,548,842	689,882,638
Total	$	23,401,604,940	20,906,329,315

In the table above, amounts reported as "Net Appreciation" represent net appreciation on investments of donor or constitutionally restricted endowments that are available for authorization for expenditure by the U. T. System Board of Regents. For donor restricted endowments, pursuant to the Uniform Prudent Management of Institutional Funds Act, as adopted by Texas, the U. T. System Board of Regents may distribute net appreciation, realized and unrealized, in the fair market value of the assets of endowment holdings over the historic dollar value of the gifts, to the extent prudent. The System's policy is to retain all undistributed net realized and unrealized appreciation within the endowment funds. The System's endowment distribution policy is further discussed below.

ENDOWMENTS AND SIMILAR FUNDS – STATE

These endowments are comprised of: the PUF and the PHF. The PUF was established for the benefit of the System and the Texas A&M University System. A portion of the PHF was established for the benefit of the System's health-related institutions, as well as for the Texas A&M University Health Science Center, the University of North Texas Health Science Center at Fort Worth, the Texas Tech University Health Science Center and Baylor College of Medicine.

The PUF was established by Chapter 7, Section 11 of the Texas Constitution of 1876 through the appropriation of land grants. Amendments to the Constitution, approved by voters in 1999, were related to the investment of the PUF and the distributions from the PUF to the AUF. The Constitution, as amended, is summarized as follows: (i) The U. T. System Board of Regents is held to a "prudent investor" rather than a "prudent person" standard; (ii) distributions to the AUF are made from the total return on all PUF investment assets; (iii) the U. T. System Board of Regents determines the amount of distributions to the AUF, which may not exceed an amount equal to 7% of the average net fair value of investment assets, except as necessary to pay debt service on PUF bonds and notes; (iv) the U. T. System Board of Regents determines the amount of distributions to the AUF in a manner intended to provide the AUF with a stable and predictable stream of annual distributions and to maintain, over time, the purchasing power of PUF investments and annual distributions to the AUF; and (v) the expenses of managing PUF land and investments are paid by the PUF.

The U. T. System Board of Regents manages certain permanent funds for health-related institutions of higher education as more fully described in Chapter 63 of the Texas Education Code. Certain funds created by this statute were transferred to the U. T. System Board of Regents on August 30, 1999, to be managed and invested in the same manner as the U. T. System Board of Regents manages and invests other endowment funds. The PHF as defined in the statute is classified as Endowment and Similar Funds – State. These endowments provide support for programs that benefit medical research, health education or treatment at health-related institutions. The U. T. System Board of Regents determines the amount of distributions to support the programs based on the PHF's investment policy.

The PHF investment policy provides that the annual payout will be adjusted by the average consumer price index of the previous twelve quarters. However, if this inflationary increase results in a distribution rate below 3.5%, the UTIMCO Board may recommend an increase in the distribution amount as long as such increase does not result in a distribution rate of more than 5.5%. If the distribution rate exceeds 5.5%, the board may recommend a reduction in the per unit distribution amount. Notwithstanding any of the forgoing provisions, the U. T. System Board of Regents may approve a per unit distribution amount that, in their judgment, would be more appropriate than the rate calculated by the policy provisions.

The General Endowment Fund (GEF), created March 1, 2001, is a pooled fund established for the collective investment of long-term funds under the control and management of the U. T. System Board of Regents. The GEF is organized as a pooled investment and has two participants, the PHF and the LTF. The PHF and LTF initially purchased units of the GEF on March 1, 2001, in exchange for the contribution of their investment assets. The GEF provides for greater diversification of investments than would be possible if each account were managed separately. As provided in the LTF investment policy, distributions from the LTF are determined in the same manner as the PHF described above.

ENDOWMENT AND SIMILAR FUNDS - OTHER THAN STATE

Funds subject to restrictions of endowment and trust instruments, requiring that the principal be maintained and that only the income be utilized. Funds may include Endowments, Term Endowments and Funds Functioning as Endowments. Funds Functioning as Endowments consist of amounts that have been internally dedicated by the System for long-term investment purposes. Funds with external donor restrictions are classified as Funds Functioning as Endowments – Restricted. If no external restriction exists, the funds are classified as Funds Functioning as Endowments – Unrestricted. Endowment and Term Endowment holdings may be invested in the LTF, or may be separately invested based upon the following three factors: (i) there are investment restrictions incorporated into the trust or endowment document; (ii) the inability to sell the gifted investment asset; or (iii) they are holdings being migrated upon liquidation into the LTF. Distributions are based upon the actual income received from the separately invested holdings.

ANNUITY AND LIFE INCOME FUNDS

The Annuity Funds consist of funds donated to an institution on the condition that the institution pay a stipulated amount of the funds to the donor or designated individual for a specified time or until the time of death of the annuitant. The Life Income Funds consist of funds contributed to an institution subject to the requirement that the institution periodically pay the income earned on the assets, less management expenses, to designated beneficiaries.

AVAILABLE UNIVERSITY FUND

The AUF consists of distributions made to it from the total return on the PUF investment assets and surface income from PUF lands. All surface income from the PUF lands (i.e., grazing leases and land easements) is deposited to the AUF. The AUF must be used first to pay debt service on the PUF bonds and notes. After debt service requirements are met, under present Legislative authority, the AUF may be appropriated for the support and maintenance of U. T. Austin and U. T. System Administration.

9. Capital Assets

A summary of changes in the capital assets for the year ended August 31, 2012, is presented below.

		Balance 09/01/11	Adjustments	Reclassifications Completed CIP
Nondepreciable Assets:				
Land and Land Improvements	$	459,641,505	-	11,330,142
Construction in Progress (CIP)		1,269,282,040	(1,734,378)	(1,201,036,408)
Nondepreciable Collections		247,089,850	-	-
Land Use Rights Nonamortizable		3,240,147	-	-
Total Nondepreciable/Nonamortizable Assets		1,979,253,542	(1,734,378)	(1,189,706,266)
Depreciable Assets:				
Buildings and Building Improvements		12,655,387,092	-	1,010,627,174
Infrastructure		277,456,370	-	30,981,620
Facilities and Other Improvements		582,185,433	-	48,103,430
Furniture and Equipment		2,707,083,537	(21,736,451)	30,951,678
Vehicles, Boats and Aircraft		64,381,967	(206,467)	-
Other Depreciable Assets (including Library Books)		645,001,591	(417,280)	1,907,509
Total Depreciable Assets at Historical Cost		16,931,495,990	(22,360,198)	1,122,571,411
Less Accumulated Depreciation for:				
Buildings and Building Improvements		(4,709,058,124)	-	-
Infrastructure		(131,407,689)	-	-
Facilities and Other Improvements		(249,396,289)	-	-
Furniture and Equipment		(1,774,519,704)	-	-
Vehicles, Boats and Aircraft		(45,644,739)	-	-
Other Depreciable Assets (including Library Books)		(457,605,444)	-	-
Total Accumulated Depreciation		(7,367,631,989)	-	-
Depreciable Assets, net		9,563,864,001	(22,360,198)	1,122,571,411
Amortizable Intangible Assets:				
Computer Software		719,213,669	(296,668)	67,134,855
Total Amortizable Intangible Assets		719,213,669	(296,668)	67,134,855
Less Accumulated Amortization for:				
Computer Software		(476,895,493)	-	-
Total Accumulated Amortization		(476,895,493)	-	-
Intangible Capital Assets, net		242,318,176	(296,668)	67,134,855
Capital Assets, net	$	11,785,435,719	(24,391,244)	-

Reclassifications Interagency Transfers - In	Reclassifications Interagency Transfers - Out	Additions	Deletions	Balance 08/31/12
402,560	(402,560)	24,147,105	(721,578)	494,397,174
-	-	1,182,077,832	-	1,248,589,086
-	(2,000)	6,366,962	(4,266,055)	249,188,757
-	-	-	-	3,240,147
402,560	(404,560)	1,212,591,899	(4,987,633)	1,995,415,164
29,411,051	(29,411,051)	96,481,277	(11,165,978)	13,751,329,565
-	-	577,666	-	309,015,656
-	-	67,913,316	(6,584,781)	691,617,398
848,347	(1,033,338)	298,596,324	(98,617,308)	2,916,092,789
18,520	(18,520)	11,269,246	(2,147,882)	73,296,864
1,520,607	(1,520,606)	(41,882,575)	(9,077,856)	595,531,390
31,798,525	(31,983,515)	432,955,254	(127,593,805)	18,336,883,662
(24,120,171)	24,120,171	(587,266,609)	5,779,934	(5,290,544,799)
-	-	(9,012,881)	-	(140,420,570)
-	-	(70,461,275)	6,415,370	(313,442,194)
(532,951)	769,641	(241,249,784)	84,779,182	(1,930,753,616)
(18,520)	18,520	(7,222,898)	2,036,208	(50,831,429)
-	-	17,448,517	8,267,761	(431,889,166)
(24,671,642)	24,908,332	(897,764,930)	107,278,455	(8,157,881,774)
7,126,883	(7,075,183)	(464,809,676)	(20,315,350)	10,179,001,888
525,980	(525,980)	57,247,344	(7,551,236)	835,747,964
525,980	(525,980)	57,247,344	(7,551,236)	835,747,964
(525,980)	525,980	(117,856,940)	7,143,355	(587,609,078)
(525,980)	525,980	(117,856,940)	7,143,355	(587,609,078)
-	-	(60,609,596)	(407,881)	248,138,886
7,529,443	(7,479,743)	687,172,627	(25,710,864)	12,422,555,938

A summary of changes in the capital assets for the year ended August 31, 2011 is presented below.

		Balance 09/01/10	Adjustments	Reclassifications Completed CIP
Nondepreciable Assets:				
Land and Land Improvements	$	443,917,279	-	8,009
Construction in Progress (CIP)		1,898,249,307	(731,935)	(1,754,621,062)
Nondepreciable Collections		238,770,130	(405,811)	-
Land Use Rights Nonamortizable		3,220,340	-	-
Total Nondepreciable/Nonamortizable Assets		2,584,157,056	(1,137,746)	(1,754,613,053)
Depreciable Assets:				
Buildings and Building Improvements		10,791,419,546	-	1,670,703,651
Infrastructure		254,908,377	-	16,667,647
Facilities and Other Improvements		721,399,408	-	13,345,164
Furniture and Equipment		2,493,057,154	(79,841)	7,038,563
Vehicles, Boats and Aircraft		63,715,245	-	-
Other Depreciable Assets (including Library Books)		620,752,627	-	7,643,628
Total Depreciable Assets at Historical Cost		14,945,252,357	(79,841)	1,715,398,653
Less Accumulated Depreciation for:				
Buildings and Building Improvements		(4,202,889,723)	-	-
Infrastructure		(120,613,369)	-	-
Facilities and Other Improvements		(230,752,615)	-	-
Furniture and Equipment		(1,649,295,276)	-	-
Vehicles, Boats and Aircraft		(43,107,673)	-	-
Other Depreciable Assets (including Library Books)		(435,244,795)	-	-
Total Accumulated Depreciation		(6,681,903,451)	-	-
Depreciable Assets, net		8,263,348,906	(79,841)	1,715,398,653
Amortizable Intangible Assets:				
Computer Software		567,041,421	(56,308)	39,214,400
Total Amortizable Intangible Assets		567,041,421	(56,308)	39,214,400
Less Accumulated Amortization for:				
Computer Software		(406,578,273)	-	-
Total Accumulated Amortization		(406,578,273)	-	-
Intangible Capital Assets, net		160,463,148	(56,308)	39,214,400
Capital Assets, net	$	11,007,969,110	(1,273,895)	-

Reclassifications Interagency Transfers - In	Reclassifications Interagency Transfers - Out	Additions	Deletions	Balance 08/31/11
102,557	(102,557)	15,721,142	(4,925)	459,641,505
-	-	1,126,893,685	(507,955)	1,269,282,040
-	-	9,416,755	(691,224)	247,089,850
-	-	19,807	-	3,240,147
102,557	(102,557)	1,152,051,389	(1,204,104)	1,979,253,542
9,023,980	(2,889,204)	503,538,447	(316,409,328)	12,655,387,092
5,648,273	-	232,073	-	277,456,370
1,769,400	-	(154,298,539)	(30,000)	582,185,433
2,164,109	(1,891,752)	325,602,414	(118,807,110)	2,707,083,537
48,069	(79,416)	4,083,761	(3,385,692)	64,381,967
2,763,702	(2,763,702)	24,718,459	(8,113,123)	645,001,591
21,417,533	(7,624,074)	703,876,615	(446,745,253)	16,931,495,990
(8,227,347)	-	(534,258,614)	36,317,560	(4,709,058,124)
(2,479,759)	-	(8,314,561)	-	(131,407,689)
(1,269,481)	-	(17,379,193)	5,000	(249,396,289)
(2,093,283)	1,618,021	(229,090,657)	104,341,491	(1,774,519,704)
(38,115)	65,544	(5,563,956)	2,999,461	(45,644,739)
-	-	(29,618,195)	7,257,546	(457,605,444)
(14,107,985)	1,683,565	(824,225,176)	150,921,058	(7,367,631,989)
7,309,548	(5,940,509)	(120,348,561)	(295,824,195)	9,563,864,001
2,121,000	(2,121,000)	126,741,477	(13,727,321)	719,213,669
2,121,000	(2,121,000)	126,741,477	(13,727,321)	719,213,669
(2,107,222)	2,107,222	(78,166,980)	7,849,760	(476,895,493)
(2,107,222)	2,107,222	(78,166,980)	7,849,760	(476,895,493)
13,778	(13,778)	48,574,497	(5,877,561)	242,318,176
7,425,883	(6,056,844)	1,080,277,325	(302,905,860)	11,785,435,719

The System does not have any Impairment losses to report for the years ended August 31, 2012 and 2011. There were no capital assets that were idle as of August 31, 2012 or 2011.

10. Leases

OPERATING LEASES

The System has entered into various operating leases for buildings, equipment, vehicles and land. Rental expenses for operating leases were $82,784,597 in 2012 and $90,230,542 in 2011. Future minimum lease rental payments under noncancelable operating leases having an initial term in excess of one year as of August 31, 2012, were as follows:

Fiscal Year		Lease Payments
2013	$	61,405,069
2014		46,298,201
2015		31,820,839
2016		21,826,575
2017		17,028,763
2018 – 2022		30,737,231
2023 – 2027		2,720,866
2028 – 2032		2,136,889
2033 – 2037		274,440
2038 – 2042		281,703
Total Minimum Future Payments	$	214,530,576

The System has also leased buildings, land, and other capital assets to outside parties under various operating leases. The cost, carrying value and accumulated depreciation of these leased assets as of August 31, 2012 and 2011 were as follows:

Assets Leased		2012	2011
Buildings:			
Cost	$	84,047,177	100,201,400
Less: Accumulated Depreciation		(27,877,464)	(31,179,684)
Carrying Value of Buildings		56,169,713	69,021,716
Parking Lot:			
Cost		18,324	-
Less: Accumulated Depreciation		(8,534)	-
Carrying Value of Parking Lot		9,790	-
Land		3,314,268	3,308,654
Total Carrying Value	$	59,493,771	72,330,370

There were no contingent rentals for the period ending August 31, 2012. Minimum future lease rental income under noncancelable operating leases as of August 31, 2012, was as follows:

Fiscal Year		Lease Income
2013	$	13,979,151
2014		10,285,904
2015		8,863,260
2016		7,312,214
2017		6,677,547
2018 and beyond		21,730,157
Total	$	68,848,233

CAPITAL LEASES

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, 2012 and 2011 is as follows:

Assets Under Capital Lease		2012	2011
Furniture and Equipment	$	3,248,617	3,261,907
Less: Accumulated Depreciation		(1,834,311)	(1,151,698)
Nondepreciable Collections		6,847,303	4,039,927
Land		883,125	-
Total	$	9,144,734	6,150,136

Capital lease obligations are due in annual installments through 2022. 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, 2012.

Fiscal Year		Principal	Interest	Total
2013	$	1,405,982	133,428	1,539,410
2014		934,940	64,354	999,294
2015		743,079	35,292	778,371
2016		347,375	14,916	362,291
2017		328,519	9,125	337,644
2018 – 2022		744,376	8,333	752,709
Total Minimum Lease Payments		4,504,271	265,448	4,769,719
			Less: Interest	(265,448)
		Present Value of Net Minimum Lease Payments		4,504,271

11. Summary of Long-Term Liabilities

Long-term liability activity for the year ended August 31, 2012 is summarized as follows:

	Balance 09/01/11	Additions	Reductions	Balance 08/31/12	Amounts due within one year
Bonds Payable:					
Permanent University Fund	$ 1,454,230,000	-	23,200,000	1,431,030,000	410,635,000
Revenue Financing System	5,207,680,000	433,985,000	249,905,000	5,391,760,000	1,145,280,000
Subtotal Bonds Payable – Par	6,661,910,000	433,985,000	273,105,000	6,822,790,000	1,555,915,000
Unamortized Net Premiums	247,639,819	89,289,670	25,681,889	311,247,600	30,146,373
Unamortized Net (Losses)	(53,292,660)	10,512,720	6,235,076	(49,015,016)	(10,011,690)
Total Bonds Payable	6,856,257,159	533,787,390	305,021,965	7,085,022,584	1,576,049,683
Notes & Loans Payable:					
Permanent University Fund CP Notes	260,000,000	75,000,000	13,000,000	322,000,000	322,000,000
Revenue Financing System CP Notes	370,152,000	314,106,000	400,954,000	283,304,000	283,304,000
Other Notes and Loans	28,427,670	-	3,980,881	24,446,789	2,266,111
Subtotal Notes & Loans Payable – Par	658,579,670	389,106,000	417,934,881	629,750,789	607,570,111
Unamortized Net Premiums	-	-	-	-	-
Total Notes and Loans Payable	658,579,670	389,106,000	417,934,881	629,750,789	607,570,111
Leases Payable:					
Lease Obligations	3,179,317	2,266,146	941,192	4,504,271	1,405,982
Total Notes, Loans and Leases Payable	661,758,987	391,372,146	418,876,073	634,255,060	608,976,093
Pollution Remediation Obligation	20,000	-	20,000	-	-
Net Other Postemployment Benefits Obligation	1,766,652,036	639,951,778	142,737,223	2,263,866,591	-
Hedging Derivative Liability	202,247,307	131,836,850	-	334,084,157	-
Employee Compensable Leave	453,213,102	187,972,587	167,854,684	473,331,005	317,132,293
Incurred But Not Reported Self-Insurance Claims	112,488,199	802,609,901	795,425,448	119,672,652	93,660,794
Total Bonds, Notes, Loans, Leases, and Compensable Leave Payable	$ 10,052,636,790	2,687,530,652	1,829,935,393	10,910,232,049	2,595,818,863

Long-term liability activity for the year ended August 31, 2011, is summarized as follows:

		Balance 09/01/10	Additions	Reductions	Balance 08/31/11	Amounts due within one year
Bonds Payable:						
Permanent University Fund	$	1,476,380,000	-	22,150,000	1,454,230,000	414,580,000
Revenue Financing System		4,735,495,000	644,095,000	171,910,000	5,207,680,000	1,148,850,000
Subtotal Bonds Payable – Par		6,211,875,000	644,095,000	194,060,000	6,661,910,000	1,563,430,000
Unamortized Net Premiums		264,041,760	4,815,465	21,217,406	247,639,819	21,217,405
Unamortized Net (Losses)		(64,173,105)	10,880,445	-	(53,292,660)	(10,200,966)
Total Bonds Payable		6,411,743,655	659,790,910	215,277,406	6,856,257,159	1,574,446,439
Notes & Loans Payable:						
Permanent University Fund CP Notes		260,000,000	-	-	260,000,000	260,000,000
Revenue Financing System CP Notes		294,574,000	184,168,000	108,590,000	370,152,000	370,152,000
Other Notes and Loans		30,016,781	-	1,589,111	28,427,670	4,594,736
Subtotal Notes & Loans Payable – Par		584,590,781	184,168,000	110,179,111	658,579,670	634,746,736
Unamortized Net Premiums		-	-	-	-	-
Total Notes and Loans Payable		584,590,781	184,168,000	110,179,111	658,579,670	634,746,736
Leases Payable:						
Lease Obligations		3,681,787	868,775	1,371,245	3,179,317	957,921
Total Notes, Loans and Leases Payable		588,272,568	185,036,775	111,550,356	661,758,987	635,704,657
Pollution Remediation Obligation		-	20,000	-	20,000	20,000
Net Other Postemployment Benefits Obligation		1,295,763,104	595,169,372	124,280,440	1,766,652,036	-
Hedging Derivative Liability		205,166,049	-	2,918,742	202,247,307	-
Employee Compensable Leave		441,023,342	175,951,351	163,761,591	453,213,102	300,782,958
Incurred But Not Reported Self-Insurance Claims		117,656,275	729,555,984	734,724,060	112,488,199	90,148,468
Total Bonds, Notes, Loans, Leases, and Compensable Leave Payable	$	9,059,624,993	2,345,524,392	1,352,512,595	10,052,636,790	2,601,102,522

PROJECTED BOND DEBT SERVICE REQUIREMENTS

The principal and interest expense for the next five years and beyond are projected below for bonds issued and outstanding:

Fiscal Year	Principal	Interest	Total
2013	$ 1,555,915,000	268,773,627	1,824,688,627
2014	223,755,000	258,872,325	482,627,325
2015	234,285,000	248,324,653	482,609,653
2016	244,850,000	237,154,539	482,004,539
2017	257,700,000	225,311,588	483,011,588
2018 – 2022	1,313,775,000	940,117,629	2,253,892,629
2023 – 2027	929,035,000	656,107,497	1,585,142,497
2028 – 2032	686,985,000	477,662,636	1,164,647,636
2033 – 2037	760,078,000	273,016,969	1,033,094,969
2038 – 2042	527,747,000	90,652,462	618,399,462
2043 – 2047	88,665,000	10,370,832	99,035,832
Total Requirements	$ 6,822,790,000	3,686,364,757	10,509,154,757

The System's variable rate demand bonds mature at various dates through 2039. Outstanding principal balances on variable rate demand bonds may be classified as non-current liabilities if the issuer has entered into a "take-out agreement" to convert bonds "put" but not resold into some other form of long-term obligation. In the absence of such an agreement, the total outstanding principal balances for these bonds are required to be classified as current liabilities.

Although it is the System's intent to repay its variable rate demand bonds in accordance with the maturities set forth in the bond offering circulars, the System does not have "take-out" agreements in place. Accordingly, the System has classified the total outstanding principal balances on its variable rate demand bonds as current liabilities. The obligations totaled $1,344,315,000 and $1,378,030,000 at August 31, 2012 and 2011, respectively.

Total interest expense for the years ended August 31, 2012 and 2011 was $318,500,251 and $322,144,239, respectively. Interest expense of $35,959,708 and $50,505,287 associated with financing projects during the construction phase was capitalized during the years ended August 31, 2012 and 2011, respectively. Interest expense was also adjusted $13,684,858 and $8,941,210 for the amortization of premiums, issuance costs, and deferred losses on refundings for the years ended August 31, 2012 and 2011, respectively. The remaining amounts of $268,855,685 in 2012 and $262,697,742 in 2011 were reported as interest expense.

Notes and loans payable obligations are due in annual installments through 2018. General information related to notes and loans payable at August 31, 2012, which in substance are not bonds, is summarized as follows:

Fiscal Year	Principal	Interest	Total
2013	$ 607,570,111	1,373,987	608,944,098
2014	1,738,404	1,050,806	2,789,210
2015	1,304,637	1,001,781	2,306,418
2016	17,232,082	946,339	18,178,421
2017	1,418,525	52,761	1,471,286
2018 – 2022	487,030	4,264	491,294
Total Requirements	$ 629,750,789	4,429,938	634,180,727

POLLUTION REMEDIATION OBLIGATION

In May, 2011, U. T. Austin received a request from the Texas Commission for Environmental Quality (TCEQ) for additional information related to the site cleanup under a Voluntary Cleanup Program at the magnesium pits at the Pickle Research Center. The estimated cost was $20,000 based on the expected cash flow technique. The testing and necessary remediation was complete in 2012 and the System is awaiting the "no further action" letter from TCEQ. The pollution remediation obligation was settled for the amount of the liability of $20,000. There were no estimated recoveries reducing the liability or amounts paid.

M. D. Anderson purchased contaminated land in June 2007 with plans to provide a ground lease to the American Cancer Society for a lodging facility for visiting cancer patients with the remaining land to be used for a warehouse with offices and work areas. The land, known as the Almeda property, was previously used by the seller as a solvent storage site and contains solvent contamination. The estimated outlays for the pollution remediation are $350,000 using the expected cash flow technique. The potential for a change in the estimate is unlikely but dependent upon the TCEQ acceptance. These pollution remediation outlays qualify for capitalization and $335,909 and $305,846 were capitalized through August 31, 2012 and 2011 respectively. The purchase price of $4,287,882 and total expected outlays of $350,000 do not exceed the fair market value of the uncontaminated property of $4,737,882, and as such, no pollution remediation liability was established. M. D. Anderson received a $450,000 credit against the purchase price for anticipated environmental remediation costs.

EMPLOYEES' COMPENSABLE LEAVE

Substantially all full-time System employees earn annual leave from eight to twenty-one hours per month depending upon the respective employee's years of State employment. State law permits employees to carry accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours up to 532 for those employees with 35 or more years of State service. Eligible part-time employees' annual leave accrual rate and maximum carryover are proportional to the number of hours appointed to work. Employees with at least six months of continuous State service who terminate their employment are entitled to payment for all accumulated annual leave. Both an expense and a liability are recorded as the benefits accrue to employees. Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is off due to personal or family illness or to the estate of an employee in the event of his/her death. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated sick leave or 336 hours, whichever is less. The System's policy is to recognize the cost of sick leave when paid, and the liability is not shown in the consolidated financial statements since experience indicates the expense for sick leave to be minimal. Eligible part-time employees' sick leave accrual rate is proportional to the number of hours appointed to work. This obligation is usually paid from the same funding source(s) as the employee's salary or wage compensation.

12. Bonded Indebtedness

At August 31, 2012 and 2011, the System had outstanding bonds payable of $6,822,790,000 and $6,661,910,000, respectively. Permanent University Fund bonds are secured by and payable from the System's interest in the Available University Fund, which consists of distributions from the investment income of the Permanent University Fund. Revenue Financing System debt is secured by and payable from Pledged Revenues as defined in the Master Resolution establishing the Revenue Financing System. Pledged Revenues consist of all lawfully available revenues, funds and balances, with certain exceptions, pledged to secure revenue-supported indebtedness issued under the Master Resolution.

Bonded Indebtedness	Interest Rates	Maturity Dates		Outstanding Principal
Permanent University Fund	0.130%-5.262%	2013-2039	$	1,431,030,000
Revenue Financing System	0.130%-6.276%	2013-2046		5,391,760,000

As of August 31, 2012, the following amounts were authorized, but unissued: Permanent University Fund bonds up to a maximum aggregate amount of $500 million and Revenue Financing System bonds up to a maximum aggregate amount of $500 million, each authorized to be issued on or before August 31, 2013. All bonds issued by the System are defined as revenue bonds. Segment information requirements are not applicable, due to the bond indentures' lack of specifically identifiable activities and external party imposed separate accounting requirements. General information related to bonds outstanding as of August 31, 2012, is summarized in the following table.

Bond Series	**Purpose**	**Issue Date**	**Amount Issued**
Permanent University Fund:			
Refunding Bonds Series 2004A	To refund $61,495,000 principal amount of Permanent University Fund Bonds, Series 1997, maturing on July 1 in the years 2009 through 2016, both inclusive	April 6, 2004	$ 60,665,000
Bonds Series 2004B	To refund $400,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A	April 6, 2004	396,520,000
Refunding Bonds Series 2005A	To refund $102,670,000 principal amount of Permanent University Fund Bonds, Series 2002B, maturing on July 1 in the years 2012 through 2019, both inclusive	April 5, 2005	100,345,000
Bonds Series 2005B	To refund $125,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A	July 7, 2005	124,625,000
Refunding Bonds Series 2006B	To refund $85,545,000 principal amount of Permanent University Fund Bonds, Series 2002B, maturing on July 1 in the years 2020 through 2022, both inclusive; to refund $172,985,000 principal amount of Permanent University Fund Bonds, Series 2004B, maturing on July 1 in the years 2023, 2026 and 2028 through 2030, both inclusive; to refund $51,905,000 principal amount of Permanent University Fund Bonds, Series 2005B, maturing on July 1 in the year 2035	January 24, 2007	284,065,000
Bonds Series 2006C	To refund $100,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A	January 24, 2007	97,755,000
Taxable Bonds Series 2009A	To refund $250,000,000 principal amount of Permanent University Taxable Commercial Paper Notes, Series B	September 17, 2009	250,000,000
Revenue Financing System:			
Bonds Series 2001B	To refund $110,070,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $76,000,000 and pay the cost of issuance	October 2, 2001	179,610,000
Bonds Series 2001C	To refund $503,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $87,800,000 and pay the cost of issuance	October 2, 2001	84,590,000
Refunding Bonds Series 2002A	To advance refund $54,575,000 principal amount of Revenue Financing System Bonds, Series 1999A maturing from 2010-2016 and 2020 to achieve debt service savings and pay the cost of issuance	September 27, 2002	54,430,000

(Continued)

Bond Series	Purpose	Issue Date	Amount Issued
Revenue Financing System: (continued)			
Refunding Bonds Series 2002B	To advance refund $109,240,000 principal amount of Revenue Financing System Bonds, Series 1999B maturing from 2010-2017 and 2020 to achieve debt service savings and pay the cost of issuance	September 27, 2002	108,855,000
Bonds Series 2003A	To refund $39,050,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $80,798,250 and pay the cost of issuance	January 23, 2003	112,040,000
Bonds Series 2003B	To refund $201,039,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $296,078,000 and pay the cost of issuance	January 23, 2003	481,060,000
Refunding Bonds Series 2004A	To refund $143,155,000 principal amount of portions of Revenue Financing System Bonds, Series 1995A, 1996A, 1998A, 1998C, 1999A and 2001C, and pay the cost of issuance	March 9, 2004	137,915,000
Refunding Bonds Series 2004B	To refund $310,460,000 principal amount of portions of Revenue Financing System Bonds, Series 1996B, 1998B, 1998D, 1999B and 2001B, and pay the cost of issuance	March 9, 2004	300,330,000
Bonds Series 2004C	To refund $147,012,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $88,800,000 and pay the cost of issuance	November 4, 2004	218,610,000
Bonds Series 2004D	To refund $201,512,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $172,544,000 and pay the cost of issuance	November 4, 2004	352,170,000
Bonds Series 2006A	To refund $24,485,000 principal amount of Revenue Financing System Bonds, Series 1996A, and pay the cost of issuance	May 17, 2006	20,315,000
Bonds Series 2006B	To refund $413,161,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $147,764,140 and pay the cost of issuance	May 10, 2006	540,570,000
Refunding Bonds Series 2006C	To refund $177,835,000 principal amount of portions of Revenue Financing System Bonds, 2001C, 2003A and 2004C and pay the cost of issuance	January 4, 2007	175,115,000
Refunding Bonds Series 2006D	To refund $340,735,000 principal amount of portions of Revenue Financing System Bonds, 2001B, 2003B and 2004D and pay the cost of issuance	January 4, 2007	346,840,000
Bonds Series 2006E	To refund $58,300,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and pay the cost of issuance	January 4, 2007	55,985,000

(Continued)

Bond Series	Purpose	Issue Date	Amount Issued
Revenue Financing System: (continued)			
Bonds Series 2006F	To refund $330,187,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and pay the cost of issuance	January 4, 2007	318,525,000
Bonds Series 2008A	To refund $265,386,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and pay the cost of issuance	January 6, 2009	256,735,000
Taxable Bonds Series 2009B	To refund $96,639,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $230,860,000 and pay the cost of issuance	June 17, 2009	330,545,000
Bonds Series 2009D	To refund $258,995,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, to refund $16,115,000 principal amount of Revenue Financing System Bonds, 1998B and pay the cost of issuance	July 15, 2009	260,005,000
Bonds Series 2010A	To refund $258,392,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $134,369,000 and pay the cost of issuance	March 25, 2010	331,415,000
Refunding Bonds Series 2010B	To refund $393,690,000 principal amount of portions of Revenue Financing System Bonds, 2006B, 2006D and 2006F and pay the cost of issuance	April 14, 2010	385,380,000
Taxable Bonds Series 2010D	To refund $349,415,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $163,441,000 and pay the cost of issuance	June 30, 2010	516,245,000
Taxable Bonds Series 2010C	To provide new money of $600,741,595 and pay the cost of issuance	September 23, 2010	604,310,000
Bonds Series 2010E	To refund $21,328,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $23,080,404 and pay the cost of issuance	September 23, 2010	39,785,000
Refunding Bonds Series 2012A	To refund $53,990,000 principal amount of portions of Revenue Financing System Bonds, 2003A and 2004C, to refund $186,296,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and pay the cost of issuance	March 1, 2012	195,850,000
Bonds Series 2012B	To refund $96,542,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $184,128,000 and pay the cost of issuance	March 21, 2012	238,135,000

DEMAND BONDS

Revenue Financing System Refunding Bonds, Series 2001A, Revenue Financing System Refunding Bonds, Series 2007B, Revenue Financing System Bonds, Series 2008B, and Permanent University Fund Bonds, Series 2008A are variable rate demand bonds with an option to tender on seven days' notice. The System has entered into corresponding interest rate swap agreements to convert the System's interest rate exposure to a fixed rate. The Revenue Financing System Refunding Bonds, Series 2001A and the corresponding swap agreement extend to August 15, 2013. The Revenue Financing System Refunding Bonds, Series 2007B and the corresponding swap agreements extend to August 15, 2034. The Revenue Financing System Bonds, Series 2008B and the corresponding swap agreements extend to August 15, 2039. The Permanent University Fund Bonds, Series 2008A and the corresponding swap agreements extend to July 1, 2038. The U. T. System Board of Regents is obligated to pay the purchase price of demand bonds tendered for purchase and not remarketed by using lawfully available funds. General information related to these demand bonds is summarized in the following table:

Bond Series	Purpose	Issue Date		Amount Issued
Permanent University Fund:				
Bonds Series 2008A	To refund $400,000,000 of Permanent University Fund Flexible Notes, Series A and pay costs of issuance	October 30, 2008	$	400,905,000
Revenue Financing System:				
Bonds Series 2001A	To refund $38,500,000 of Revenue Financing System Refunding Bonds, Series 1991A and $42,030,000 of Revenue Financing System Refunding Bonds, Series 1991B, and pay costs of issuance	May 17, 2001		81,665,000
Bonds Series 2007B	To refund $169,015,000 of Revenue Financing System Bonds, Series 2003B and $149,860,000 of Revenue Financing System Bonds, Series 2004D, and pay costs of issuance	December 20, 2007		345,460,000
Bonds Series 2008B	To refund $461,922,000 of Revenue Financing System Commercial Paper Notes, Series A and $34,715,000 of Revenue Financing System Bonds, Series 1998B, provide $182,590,000 of new money to finance the costs of campus improvements, and pay costs of issuance	March 18, 2008		685,485,000

PLEDGED FUTURE REVENUES

GASB guidance makes a basic distinction between sales of receivables and future revenues, on the one hand, and the pledging receivables or future revenues to repay a borrowing (a collateralized borrowing), on the other. The following table provides the pledged future revenue information for the System's bonds:

		2012	2011
Pledged Revenue Required for Future Principal and Interest on Existing Bonds	$	10,509,154,757	10,314,192,579
Term of Commitment Year Ending 8/31		2046	2046
Percentage of Revenue Pledged		74.3%	71.5%
Current Year Pledged Revenue	$	7,804,126,448	7,371,201,321
Current Year Principal and Interest Paid	$	531,956,792	508,357,619

BUILD AMERICA BONDS

The American Recovery and Reinvestment Act of 2009 authorized the issuance of Build America Bonds (BABs), whereby certain issuers are authorized to issue taxable bonds and receive from the federal government a subsidy equal to 35% of the interest payments on Direct Payment BABs. The System did not issue any BABs during 2012 and issued $604,310,000 of BABs during 2011. The System had $1,695,155,000 and $1,699,030,000 outstanding at August 31, 2012 and 2011, respectively.

EARLY EXTINGUISHMENTS IN FISCAL YEAR 2012

Revenue Financing System Refunding Bonds, Series 2012A were issued March 1, 2012 to current refund $186,296,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, to advance refund $5,470,000 principal amount of Revenue Financing System Bonds, Series 2003A, maturing on August 15, 2014, to advance refund $48,520,000 principal amount of Revenue Financing System Refunding Bonds, Series 2004C, maturing on August 15 in the years 2022 and 2023, and to pay the costs of issuance related thereof.

- Net proceeds from the refunding series (including a premium of $45,602,627 and an issuer equity contribution of $6,016,000) were $246,818,719 – after the payment of $649,907 in underwriting fees. The net proceeds were used to pay costs of issuance of $297,635, purchase $60,194,067 of eligible defeasance securities, deposit $8 with the refunded bonds escrow agent, and deposit $186,327,009 with the refunded notes escrow agent. These funds and securities were deposited in irrevocable trusts with the respective escrow agents to provide for all future debt service payments on the refunded bonds and notes.
- The advance refunding resulted in gross debt service savings through 2023 of $12,030,364.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- An accounting loss of $6,235,076 resulted from the transaction as the reacquisition price of $246,521,076 exceeded the net carrying amount of $240,286,000 par value.
- An economic gain from the transaction resulted in a net present value savings of $9,544,769 between the old and new debt service payments.

Revenue Financing System Bonds, Series 2012B were issued March 23, 2012, to current refund $96,542,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, to provide $184,128,000 of new money to finance the costs of campus improvements, and to pay the costs of issuance related thereof.

- Net proceeds from the refunding series (including a premium of $43,687,043) were $280,894,143 – after the payment of $927,901 in underwriting fees. The net proceeds were used to pay cost of issuance of $211,343, and deposit $96,554,800 with the escrow agent. These funds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded notes.
- An accounting loss of $12,800 resulted from the transaction as the reacquisition price of $96,554,800 exceeded the net carrying amount of $96,542,000 par value.

On August 1, 2012, $3,400,000 of outstanding Revenue Financing System Bonds, Series 2001A were optionally redeemed. The liability for these obligations has been removed from the consolidated balance sheet. No accounting gain or loss resulted from the transaction.

EARLY EXTINGUISHMENTS IN FISCAL YEAR 2011

Revenue Financing System Bonds, Series 2010E were issued September 23, 2010 to current refund $21,328,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, to provide $23,080,404 of new money to finance the costs of campus improvements, and to pay the costs of issuance related thereof.

- Net proceeds from the refunding series (including a premium of $4,815,465) were $44,442,205 – after the payment of $158,261 in underwriting fees. The net proceeds were used to pay cost of issuance of $30,587, and deposit $21,331,214 with the escrow agent. These funds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded notes.
- An accounting loss of $3,214 resulted from the transaction as the reacquisition price of $21,331,214 exceeded the net carrying amount of $21,328,000 par value.

On August 1, 2011, $4,600,000 of outstanding Revenue Financing System Bonds, Series 2001A were optionally redeemed. The liability for these obligations has been removed from the consolidated balance sheet. No accounting gain or loss resulted from the transaction.

CASH FLOW HEDGES – INTEREST RATE SWAPS

The following table outlines the terms of the System's interest rate swap agreements in effect at August 31, 2012:

Interest Rate Swaps - by type	Hedgeable Item	Current Notional	Effective Date	Maturity Date	Terms*	Embedded Options?	Cash Paid or Received	Counterparty Credit Rating (Moody's/S&P)	Weighted Average Maturity As of 8/31/12
Pay Fixed; receive variable	PUF Bonds 2008A	$195,690,000	11/3/2008	7/1/2038	Pay 3.696%; receive SIFMA	No	No	Baa1/A-	19.71 yrs
	PUF Bonds 2008A	195,690,000	11/3/2008	7/1/2038	Pay 3.6575%; receive SIFMA	No	No	Aa3/AA-	19.71 yrs
	RFS Bonds 2001A	3,590,000	8/15/2001	8/15/2013	Pay 4.633%; receive 67% of 1M LIBOR	No	No	Aa3/A+	0.96 yrs
	RFS Bonds 2007B	166,850,000	12/20/2007	8/1/2034	Pay 3.805%; receive SIFMA	No	No	Aa3/A+	15.81 yrs
	RFS Bonds 2007B	166,850,000	12/20/2007	8/1/2034	Pay 3.805%; receive SIFMA	No	No	A2/A	15.81 yrs
	RFS Bonds 2008B	141,725,000	3/18/2008	8/1/2036	Pay 3.900%; receive SIFMA	No	No	Aa3/A+	14.98 yrs
	RFS Bonds 2008B	141,725,000	3/18/2008	8/1/2036	Pay 3.900%; receive SIFMA	No	No	Baa1/A-	14.98 yrs
	RFS Bonds 2008B	332,120,000	3/18/2008	8/1/2039	Pay 3.614%; receive SIFMA	No	No	Aa3/A+	12.84 yrs
Pay variable; receive variable	PUF Bonds 2006B	284,065,000	1/1/2009	7/1/2035	Pay SIFMA; receive 82.04% of 1M LIBOR	No	No	A3/A	14.71 yrs
	PUF Bonds 2008A	195,690,000	11/1/2011	7/1/2038	Pay SIFMA; receive 93.4% of 3M LIBOR	No	No	A2/A+	19.71 yrs
	RFS Bonds 2008B	110,585,000	2/1/2014	8/1/2026	Pay SIFMA; receive 90.0% of 3M LIBOR	Yes	Yes	A2/A+	N/A
	RFS Bonds 2008B	90,270,000	8/1/2009	8/1/2039	Pay SIFMA; receive 102.5% of 3M LIBOR	No	No	Aa3/AA-	25.16 yrs
	RFS Bonds 2008B	92,045,000	8/1/2009	8/1/2030	Pay SIFMA; receive 96% of 3M LIBOR	No	No	Aa3/AA-	16.34 yrs
	RFS Bonds 2008B	117,190,000	8/1/2009	8/1/2035	Pay SIFMA; receive 103% of 3M LIBOR	No	No	Aa3/AA-	21.00 yrs
TOTAL		**$2,234,085,000**							

*London Interbank Offer Rate (LIBOR)
*Securities Industry and Financial Markets Association (SIFMA)

The following table outlines the terms of the System's interest rate swap agreements in effect at August 31, 2011:

Interest Rate Swaps - by type	Hedgeable Item	Current Notional	Effective Date	Maturity Date	Terms*	Embedded Options?	Cash Paid or Received	Counterparty Credit Rating (Moody's/S&P)	Weighted Average Maturity As of 8/31/11
Pay Fixed; receive variable	PUF Bonds 2008A	$198,112,500	11/3/2008	7/1/2038	Pay 3.696%; receive SIFMA	No	No	A2/A	20.23 yrs
	PUF Bonds 2008A	198,112,500	11/3/2008	7/1/2038	Pay 3.6575%; receive SIFMA	No	No	Aa1/AA-	20.23 yrs
	RFS Bonds 2001A	6,955,000	8/15/2001	8/15/2013	Pay 4.633%; receive 67% of 1M LIBOR	No	No	Aa1/AA	0.36 yrs
	RFS Bonds 2007B	167,387,500	12/20/2007	8/1/2034	Pay 3.805%; receive SIFMA	No	No	Aa1/AA	16.61 yrs
	RFS Bonds 2007B	167,387,500	12/20/2007	8/1/2034	Pay 3.805%; receive SIFMA	No	No	Aa3/A+	16.61 yrs
	RFS Bonds 2008B	145,530,000	3/18/2008	8/1/2036	Pay 3.900%; receive SIFMA	No	No	Aa1/AA-	14.58 yrs
	RFS Bonds 2008B	145,530,000	3/18/2008	8/1/2036	Pay 3.900%; receive SIFMA	No	No	A2/A	14.58 yrs
	RFS Bonds 2008B	348,905,000	3/18/2008	8/1/2039	Pay 3.614%; receive SIFMA	No	No	Aa1/AA-	12.21 yrs
Pay variable; receive variable	PUF Bonds 2006B	284,065,000	1/1/2009	7/1/2035	Pay SIFMA; receive 82.04% of 1M LIBOR	No	No	Aa3/A+	15.72 yrs
	RFS Bonds 2008B	90,270,000	8/1/2009	8/1/2039	Pay SIFMA; receive 102.5% of 3M LIBOR	No	No	Aa1/AA-	26.16 yrs
	RFS Bonds 2008B	92,045,000	8/1/2009	8/1/2030	Pay SIFMA; receive 96% of 3M LIBOR	No	No	Aa1/AA-	17.35 yrs
	RFS Bonds 2008B	117,190,000	8/1/2009	8/1/2035	Pay SIFMA; receive 103% of 3M LIBOR	No	No	Aa1/AA-	22.00 yrs
TOTAL		**$1,961,490,000**							

*London Interbank Offer Rate (LIBOR)
*Securities Industry and Financial Markets Association (SIFMA)

The following is the fair market value of the swap agreements in effect at August 31, 2012 based on the zero-coupon method and the classification of change in fair value from the previous fiscal year:

Interest Rate Swaps by type	Hedgeable Item	Current Notional	Accrued Interest (through 8/31/12)	Swap MTM (8/31/12)	Swap MTM net of Accrued Interest	Fair Value as of 8/31/11	Change in Fair Value 8/31/11 - 8/31/12	Change in Fair Value Recorded as
Hedging Derivative Liabilities	PUF Bonds 2008A	$195,690,000	1,162,529	(52,751,355)	(51,588,826)	(28,983,421)	(23,767,934)	Def Outflow
	PUF Bonds 2008A	195,690,000	1,150,181	(50,560,705)	(49,410,524)	(27,372,115)	(23,188,590)	Def Outflow
	RFS Bonds 2007B	166,850,000	509,588	(44,748,281)	(44,238,693)	(27,236,196)	(17,512,085)	Def Outflow
	RFS Bonds 2007B	166,850,000	509,588	(44,469,596)	(43,960,008)	(27,105,814)	(17,363,782)	Def Outflow
	RFS Bonds 2008B	141,725,000	444,072	(36,759,286)	(36,315,214)	(23,949,462)	(12,809,824)	Def Outflow
	RFS Bonds 2008B	141,725,000	444,072	(37,237,478)	(36,793,406)	(24,254,480)	(12,982,998)	Def Outflow
	RFS Bonds 2008B	332,120,000	961,488	(67,557,456)	(66,595,968)	(43,345,819)	(24,211,637)	Def Outflow
		1,340,650,000	5,181,518	(334,084,157)	(328,902,639)	(202,247,307)	(131,836,850)	
Investment Derivatives-Asset Positions	RFS Bonds 2008B	90,270,000	(23,589)	4,354,287	4,330,698	6,242,386	(1,888,099)	Dec. in Fair Value of Inv
	RFS Bonds 2008B	92,045,000	(21,847)	2,574,090	2,552,243	3,074,296	(500,206)	Dec. in Fair Value of Inv
	RFS Bonds 2008B	117,190,000	(30,840)	6,042,567	6,011,727	8,206,203	(2,163,636)	Dec. in Fair Value of Inv
	PUF Bonds 2008A	195,690,000	(93,900)	1,537,940	1,444,040	-	1,537,940	Incr. in Fair Value of Inv
		495,195,000	(170,176)	14,508,884	14,338,708	17,522,885	(3,014,001)	
Investment Derivatives-Liability Positions	RFS Bonds 2001A	3,590,000	7,454	(160,452)	(152,998)	(459,965)	299,513	Incr. in Fair Value of Inv
	PUF Bonds 2006B	284,065,000	(14,128)	(5,729,441)	(5,743,569)	(8,636,823)	2,907,382	Incr. in Fair Value of Inv
	RFS Bonds 2008B	110,585,000	-	(664,102)	(664,102)	-	(a) (114,102)	Dec. in Fair Value of Inv
		398,240,000	(6,674)	(6,553,995)	(6,560,669)	(9,096,788)	3,092,793	
TOTAL		**$2,234,085,000**	**5,004,668**	**(326,129,268)**	**(321,124,600)**	**(193,821,210)**	**(131,758,058)**	

(a) The negative $114,102 included in investment income on the consolidated statement of revenues, expenses and changes in net assets does not agree to the change in fair value of this interest rate swap from August 31, 2011 to August 31, 2012 due to the $550,000 payment received upon executing this swaption.

The following is the fair market value of the swap agreements in effect at August 31, 2011 based on the zero-coupon method and the classification of change in fair value from the previous fiscal year:

Interest Rate Swaps by type	Hedgeable Item	Current Notional	Accrued Interest (through 8/31/11)	Swap MTM (8/31/11)	Swap MTM net of Accrued Interest	Fair Value as of 8/31/10	Change in Fair Value 8/31/10 - 8/31/11	Change in Fair Value Recorded as
Hedging Derivative Liabilities	PUF Bonds 2008A	$198,112,500	1,189,815	(28,983,421)	(27,793,606)	(29,737,018)	753,597	Def Outflow
	PUF Bonds 2008A	198,112,500	1,177,103	(27,372,115)	(26,195,012)	(28,485,992)	1,113,877	Def Outflow
	RFS Bonds 2007B	167,387,500	504,939	(27,236,196)	(26,731,257)	(27,158,630)	(77,566)	Def Outflow
	RFS Bonds 2007B	167,387,500	504,939	(27,105,814)	(26,600,875)	(26,985,993)	(119,821)	Def Outflow
	RFS Bonds 2008B	145,530,000	450,525	(23,949,462)	(23,498,937)	(24,433,430)	483,968	Def Outflow
	RFS Bonds 2008B	145,530,000	450,525	(24,254,480)	(23,803,955)	(24,336,763)	82,283	Def Outflow
	RFS Bonds 2008B	348,905,000	996,969	(43,345,819)	(42,348,850)	(44,028,223)	682,404	Def Outflow
		1,370,965,000	5,274,815	(202,247,307)	(196,972,492)	(205,166,049)	2,918,742	
Investment Derivatives-Asset Positions	RFS Bonds 2008B	90,270,000	(8,566)	6,242,386	6,233,820	5,727,236	515,150	Incr. in Fair Value of Inv
	RFS Bonds 2008B	92,045,000	(7,281)	3,074,296	3,067,015	2,520,338	553,958	Incr. in Fair Value of Inv
	RFS Bonds 2008B	117,190,000	(11,263)	8,206,203	8,194,940	7,453,378	752,825	Incr. in Fair Value of Inv
		299,505,000	(27,110)	17,522,885	17,495,775	15,700,952	1,821,933	
Investment Derivatives-Liability Positions	RFS Bonds 2001A	6,955,000	14,552	(459,965)	(445,413)	(915,707)	455,742	Incr. in Fair Value of Inv
	PUF Bonds 2006B	284,065,000	2,504	(8,636,823)	(8,634,319)	(10,988,696)	2,351,873	Incr. in Fair Value of Inv
		291,020,000	17,056	(9,096,788)	(9,079,732)	(11,904,403)	2,807,615	
TOTAL		**$1,961,490,000**	**5,264,761**	**(193,821,210)**	**(188,556,449)**	**(201,369,500)**	**7,548,290**	

Derivative Instrument Objectives

Interest Rate Swaps - by type	Hedgeable Item	Current Notional	Objective	Effective at 8/31/12?	Evaluation for Effectiveness
Hedging Derivative Liabilities	PUF Bonds 2008A	$195,690,000	Hedge changes in cash flows on Series 2008A bonds	Yes	Consistent Critical Terms
	PUF Bonds 2008A	195,690,000	Hedge changes in cash flows on Series 2008A bonds	Yes	Consistent Critical Terms
	RFS Bonds 2007B	166,850,000	Hedge changes in cash flows on Series 2007B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2007B	166,850,000	Hedge changes in cash flows on Series 2007B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	141,725,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	141,725,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	332,120,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
Investment Derivatives	RFS Bonds 2001A	3,590,000	Hedge changes in cash flows on Series 2001A bonds	No	N/A
	PUF Bonds 2006B	284,065,000	Hedge changes in cash flows on Series 2006B bonds	N/A	N/A
	PUF Bonds 2008A	195,690,000	Hedge changes in cash flows on Series 2008A bonds	No	N/A
	RFS Bonds 2008B	90,270,000	Hedge changes in cash flows on Series 2008B bonds	No	N/A
	RFS Bonds 2008B	92,045,000	Hedge changes in cash flows on Series 2008B bonds	No	N/A
	RFS Bonds 2008B	117,190,000	Hedge changes in cash flows on Series 2008B bonds	No	N/A
	RFS Bonds 2008B	110,585,000	Hedge changes in cash flows on Series 2008B bonds	N/A	N/A
TOTAL		**$2,234,085,000**			

Derivative Instrument Objectives

Interest Rate Swaps - by type	Hedgeable Item	Current Notional	Objective	Effective at 8/31/11?	Evaluation for Effectiveness
Hedging Derivative Liabilities	PUF Bonds 2008A	$198,112,500	Hedge changes in cash flows on Series 2008A bonds	Yes	Consistent Critical Terms
	PUF Bonds 2008A	198,112,500	Hedge changes in cash flows on Series 2008A bonds	Yes	Consistent Critical Terms
	RFS Bonds 2007B	167,387,500	Hedge changes in cash flows on Series 2007B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2007B	167,387,500	Hedge changes in cash flows on Series 2007B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	145,530,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	145,530,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	348,905,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
Investment Derivatives	RFS Bonds 2001A	6,955,000	Hedge changes in cash flows on Series 2001A bonds	No	N/A
	PUF Bonds 2006B	284,065,000	Hedge changes in cash flows on Series 2006B bonds	N/A	N/A
	RFS Bonds 2008B	90,270,000	Hedge changes in cash flows on Series 2008B bonds	No	N/A
	RFS Bonds 2008B	92,045,000	Hedge changes in cash flows on Series 2008B bonds	No	N/A
	RFS Bonds 2008B	117,190,000	Hedge changes in cash flows on Series 2008B bonds	No	N/A
TOTAL		**$1,961,490,000**			

No derivative instruments were reclassified from a hedging derivative instrument to an investment derivative instrument in 2012 or 2011. The fair value of interest rate swaps reported as investment derivatives-asset positions of $14,508,884 and $17,522,885 as of August 31, 2012 and 2011, respectively, is included on the consolidated balance sheet as noncurrent unrestricted investments and in the summary of investments in Note 6. The fair value of interest rate swaps reported as investment derivatives-liability positions of $6,553,995 and $9,096,788 as of August 31, 2012 and 2011, respectively, are included on the consolidated balance sheet as investment derivatives-liability positions. The change in fair value of interest rate swaps reported as investment derivatives included in investment income on the consolidated statement of revenues, expenses and changes in net assets, was an increase in the amount of $78,792 and an increase in the amount of $4,629,548 for the years ending August 31, 2012 and 2011, respectively.

Hedging Derivative Instrument and Investment Derivative Risks

Credit Risk: The System is exposed to credit risk if the counterparty to an interest rate swap fails to meet the terms and obligations of its contracts. Contracts with a positive fair value expose the System to credit risk. The System faces a maximum possible loss equivalent to the amount of the swap contract's fair value, less any collateral held by the System provided by the counterparty. Contracts with a negative fair value do not expose the System to credit risk. All of the counterparties associated with swap contracts with the System are creditworthy financial institutions. Additionally, each of the System's swap counterparties has agreed to provide collateral to the System to the extent the positive fair value exceeds certain threshold amounts. Should a counterparty fail to meet its contractual agreements, or if the System's credit rating falls below investment grade (Baa2 by Moody's or BBB by S&P), the System could be required to pay or receive a substantial termination payment. As of August 31, 2012, the System's credit ratings were Aaa by Moody's and AAA by S&P. The System does not have to post collateral due to changes in fair value of its swap agreements. As of August 31, 2012, the maximum loss due to credit risk is $12,894,668. It is the System's policy to require counterparty collateral posting provisions in its non-exchange-traded derivative instruments. These terms require collateralization of the aggregate fair value of derivative instruments in asset positions, net of the effect of applicable threshold amounts based on each counterparty's credit rating. Collateral posted is in the form of cash, U.S. Treasury or U.S. agency securities held directly by the System or by a third-party custodian approved by the System. The System has not entered into master netting arrangements.

Interest Rate Risk: Interest rate risk involves the risk that the value of the System's interest rate swaps will fluctuate because of changes in interest rates. The value of interest rate swap agreements with a longer weighted average maturity tend to be more sensitive to changing interest rates, and therefore, more volatile than those with shorter maturities.

Basis Risk: The System is exposed to basis risk when the variable rate received under an interest rate swap does not match the variable rate paid on hedged bonds. The interest rate on the System's variable rate bonds is a tax-exempt interest rate based on the System's credit ratings. The variable receipt on the System's interest rate swaps is based on either a tax-exempt index (SIFMA) or a taxable index (LIBOR). Tax-exempt interest rates can change without a corresponding change in taxable interest rates due to factors affecting the tax-exempt market that do not have a similar effect on the taxable market.

Termination Risk: Termination risk is the risk that the swap may be terminated prior to its scheduled maturity date as a result of certain specified events. None of the System's interest rate swaps are subject to automatic early termination. The System is subject to termination risk if the System's credit rating falls below investment grade (Baa2 by Moody's or BBB by S&P), or if the System commits a specified event of default or other specified event of termination. As of August 31, 2012, the System's credit ratings were Aaa by Moody's and AAA by S&P. The System has the right to optionally terminate any of its swaps at any time. At termination, if the fair value of the swap is negative, the System would be liable to pay a termination payment to the appropriate counterparty in the amount of the swap's fair value. If the fair value of the swap is positive at termination, the counterparty would owe a termination payment to the System in the amount of the swap's fair value.

Rollover Risk: Rollover risk is the risk caused by a mismatch between the amortization of a derivative contract and the underlying hedged bonds. The System is not exposed to rollover risk by exactly matching the notional amounts and amortization schedules of its swap contracts with the principal amounts and amortization schedules of the associated hedged bonds.

Market Access Risk: Each swap associated with underlying variable rate debt that is subject to tender at the option of the bondholder is subject to market access risk. In the event the System is unable to remarket its variable rate bonds, the System may choose to refund the variable rate bonds with fixed-rate bonds and optionally terminate the related interest rate swap agreements. Should an early termination event occur, the System could be required to pay or to receive a substantial termination payment. As of August 31, 2012, the System had market risk associated with $1,344,315,000 aggregate notional amount of pay-fixed, receive-variable interest rate swaps used to hedge interest rate risk on variable rate bonds subject to tender. As of August 31, 2012, the System's variable rate bonds carried the highest short term ratings from Moody's and S&P of VMIG1 and A-1+, respectively.

Swap Scheduled Payments

The following tables reflect the scheduled payments on the swap agreements which differ from the presentation in the projected bond debt service requirements table for the related demand bonds. The debt service requirements reflect the entire outstanding balance of the demand bonds in 2013 because the bonds are supported by internal liquidity.

As of August 31, 2012

Fiscal Year		Associated Variable Rate Bonds Principal[1]	Associated Variable Rate Bonds Interest[2]	Pay-Fixed Receive-Variable Interest Rate Swaps[3]	Total
2013	$	35,105,000	1,879,523	48,028,221	85,012,744
2014		32,610,000	1,830,205	46,754,912	81,195,117
2015		33,830,000	1,784,754	45,601,466	81,216,220
2016		35,095,000	1,737,601	44,404,314	81,236,915
2017		26,175,000	1,688,685	43,161,948	71,025,633
2018-2022		156,840,000	7,878,446	201,371,718	366,090,164
2023-2027		265,260,000	6,448,566	165,041,983	436,750,549
2028-2032		307,955,000	4,431,914	113,865,819	426,252,733
2033-2037		339,775,000	2,319,804	59,895,096	401,989,900
2038-2042		111,670,000	165,553	4,210,826	116,046,379

[1]Reflects scheduled principal and interest payments of Revenue Financing System Refunding Bonds, Series 2001A, Revenue Financing System Refunding Bonds, Series 2007B, Revenue Financing System Bonds, Series 2008B, and Permanent University Fund Bonds, Series 2008A to be optionally or mandatorily redeemed in the fiscal years reflected.

[2]Annual debt service requirements are computed using the System's interest rates in effect on August 31, 2012 on its Series 2008A Bonds, Series 2001A Bonds, Series 2007B Bonds, and Series 2008B Bonds.

[3]Reflects net payments on pay-fixed, receive-variable interest rate swaps based on static interest rate environment as of August 31, 2012 and applied on the respective notional amounts of the swaps through their respective termination dates.

As of August 31, 2012

Fiscal Year		Associated Variable Rate Bonds Principal[1]	Associated Variable Rate Bonds Interest[2]	Pay-Variable Receive-Variable Interest Rate Swaps[3]	Total
2013	$	-	419,306	(752,265)	(332,959)
2014		-	419,306	(752,265)	(332,959)
2015		-	419,306	(752,265)	(332,959)
2016		-	419,307	(752,266)	(332,959)
2017		-	419,307	(752,266)	(332,959)
2018-2022		-	2,096,533	(3,761,327)	(1,664,794)
2023-2027		24,605,000	2,096,533	(3,761,327)	22,940,206
2028-2032		112,000,000	1,604,173	(2,940,705)	110,663,468
2033-2037		125,630,000	800,945	(1,483,139)	124,947,806
2038-2042		37,270,000	65,113	(120,324)	37,214,789

[1]Principal and interest requirements on a portion of the outstanding Revenue Financing System Bonds, Series 2008B are reflected in both tables above as a portion of the Series 2008B bonds have associated pay-fixed, receive-variable and pay-variable, receive-variable interest rate swaps that modify the System's interest rate exposure on the related Series 2008B bonds.

[2]Annual debt service requirements are computed using the System's interest rates in effect on August 31, 2012 on its Series 2008B Bonds.

[3]Reflects net payments on pay-fixed, receive-variable interest rate swaps based on static interest rate environment as of August 31, 2012 and applied on the respective notional amounts of the swaps through their respective termination dates.

As of August 31, 2012					
		Associated Fixed Rate Bonds		Pay-Variable Receive-Variable Interest Rate	
Fiscal Year		**Principal[1]**	**Interest[1]**	**Swaps[2]**	**Total**
2013	$	-	14,851,563	(54,263)	14,797,300
2014		-	14,851,563	(54,263)	14,797,300
2015		-	14,851,562	(54,262)	14,797,300
2016		-	14,851,562	(54,262)	14,797,300
2017		-	14,851,562	(54,262)	14,797,300
2018-2022		78,055,000	70,419,862	(256,899)	148,217,963
2023-2027		55,405,000	47,127,413	(171,474)	102,360,939
2028-2032		104,045,000	23,332,837	(84,897)	127,292,940
2033-2037		46,560,000	6,142,238	(22,349)	52,679,889

[1]Reflects scheduled principal and interest payments of Permanent University Fund Bonds, Series 2006B.
[2]Reflects net payments on pay-variable, receive-variable interest rate swaps based on static interest rate environment as of August 31, 2012 and applied on the respective notional amounts of the swaps through its respective termination dates.

As of August 31, 2011

Fiscal Year		Associated Variable Rate Bonds Principal[1]	Associated Variable Rate Bonds Interest[2]	Pay-Fixed Receive-Variable Interest Rate Swaps[3]	Total
2012	$	33,715,000	1,688,772	48,703,442	84,107,214
2013		35,105,000	1,648,698	47,492,106	84,245,804
2014		32,610,000	1,606,998	46,231,228	80,448,226
2015		33,830,000	1,567,548	45,090,826	80,488,374
2016		35,095,000	1,526,622	43,907,206	80,528,828
2017-2021		136,590,000	7,093,760	203,918,864	347,602,624
2022-2026		252,080,000	5,993,497	172,130,363	430,203,860
2027-2031		302,680,000	4,304,203	123,357,940	430,342,143
2032-2036		305,815,000	2,464,558	70,135,577	378,415,135
2037-2041		210,510,000	408,731	11,419,960	222,338,691

[1]Reflects scheduled principal and interest payments of Revenue Financing System Refunding Bonds, Series 2001A, Revenue Financing System Refunding Bonds, Series 2007B, Revenue Financing System Bonds, Series 2008B, and Permanent University Fund Bonds, Series 2008A to be optionally or mandatorily redeemed in the fiscal years reflected.

[2]Annual debt service requirements are computed using the System's interest rates in effect on August 31, 2011 on its Series 2008A Bonds, Series 2001A Bonds, Series 2007B Bonds, and Series 2008B Bonds.

[3]Reflects net payments on pay-fixed, receive-variable interest rate swaps based on static interest rate environment as of August 31, 2011 and applied on the respective notional amounts of the swaps through their respective termination dates.

As of August 31, 2011

Fiscal Year		Associated Variable Rate Bonds Principal[1]	Associated Variable Rate Bonds Interest[2]	Pay-Variable Receive-Variable Interest Rate Swaps[3]	Total
2012	$	-	359,405	(357,921)	1,484
2013		-	359,405	(357,921)	1,484
2014		-	359,405	(357,921)	1,484
2015		-	359,405	(357,921)	1,484
2016		-	359,405	(357,921)	1,484
2017-2021		-	1,797,022	(1,789,604)	7,418
2022-2026		-	1,797,022	(1,789,604)	7,418
2027-2031		113,905,000	1,511,686	(1,542,000)	113,874,686
2032-2036		121,285,000	832,060	(873,474)	121,243,586
2037-2041		64,315,000	132,985	(138,975)	64,309,010

[1]Principal and interest requirements on a portion of the outstanding Revenue Financing System Bonds, Series 2008B are reflected in both tables above as a portion of the Series 2008B bonds have associated pay-fixed, receive-variable and pay-variable, receive-variable interest rate swaps that modify the System's interest rate exposure on the related Series 2008B bonds.

[2]Annual debt service requirements are computed using the System's interest rates in effect on August 31, 2011 on its Series 2008B Bonds.

[3]Reflects net payments on pay-fixed, receive-variable interest rate swaps based on static interest rate environment as of August 31, 2011 and applied on the respective notional amounts of the swaps through their respective termination dates.

As of August 31, 2011

Fiscal Year	Associated Fixed Rate Bonds Principal[1]	Associated Fixed Rate Bonds Interest[1]	Pay-Variable Receive-Variable Interest Rate Swaps[2]	Total
2012	$ -	14,851,563	80,337	14,931,900
2013	-	14,851,563	80,337	14,931,900
2014	-	14,851,563	80,337	14,931,900
2015	-	14,851,562	80,338	14,931,900
2016	-	14,851,562	80,338	14,931,900
2017-2021	50,720,000	73,020,812	394,691	124,135,503
2022-2026	82,740,000	51,471,263	277,272	134,488,535
2027-2031	104,045,000	28,795,200	155,118	132,995,318
2032-2036	46,560,000	8,586,637	46,256	55,192,893

[1]Reflects scheduled principal and interest payments of Permanent University Fund Bonds, Series 2006B.
[2]Reflects net payments on pay-variable, receive-variable interest rate swaps based on static interest rate environment as of August 31, 2011 and applied on the respective notional amounts of the swaps through its respective termination dates.

13. Note Indebtedness

The System had RFS Commercial Paper Notes, Series A and PUF Taxable Commercial Paper Notes, Series B, outstanding at August 31, 2012 and 2011. The notes are issued to provide interim financing for capital improvements and to finance equipment purchases. While the interest is payable on these notes in periodic installments not to exceed 270 days, they are generally intended to be refinanced with long-term debt. Information pertaining to the balances and activity of these notes is reflected in Note 11.

General information related to notes and loans payable at August 31, 2012, which in substance are not bonds, is summarized as follows:

- Note or loan payable issue name: Permanent University Fund Commercial Paper Notes, Series A and Taxable Commercial Paper Notes, Series B
  Purpose: To provide new money
  Issue Date: September 1, 2011 through August 31, 2012
  Authorized Amount: Aggregate principal amount not to exceed $500 million
  Source of revenue for debt service: Available University Fund

- Note or loan payable issue name: Revenue Financing System (RFS) Commercial Paper Notes, Series A and Taxable Commercial Paper Notes, Series B
  Purpose: To provide new money
  Issue Date: September 1, 2011 through August 31, 2012
  Authorized Amount: Aggregate principal amount not to exceed $1.25 billion
  Source of revenue for debt service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the U. T. System Board of Regents for payments on parity debt.
  Terms: Interest payable in periodic installments not to exceed 270 days at a variable rate

Other Notes Payable includes:

- Note or loan payable issue name: Charitable Remainder Trust
  Purpose: Fine Arts Foundation (a blended component unit) purchase of the Suida Manning Art Collection
  Component Unit: U. T. Austin's Blended Component Unit
  Issue Date: January 4, 1999
  Authorized Amount: $12,000,000
  Source of revenue for debt service: Gift
  Terms: January 4, 1999 through April 17, 2016

- Note or loan payable issue name: Charitable Lead Trust
  Purpose: Fine Arts Foundation (a blended component unit) purchase of the Suida Manning Art Collection
  Component Unit: U. T. Austin's Blended Component Unit
  Issue Date: January 4, 1999
  Authorized Amount: $10,713,200
  Source of revenue for debt service: Gift
  Terms: January 4, 1999 through April 17, 2016

- Note or loan payable issue name: City of Shavano Park Health Facilities Development Corporation
  Purpose: Purchase EPIC Patient and Sales Tracking Software Package
  Institution: U. T. Health Science Center - San Antonio
  Issue Date: December 1, 2006
  Authorized Amount: $9,000,000
  Source of revenue for debt service: Patient service from MSRDP Designated Funds collected by U. T. Medicine San Antonio
  Terms: February 1, 2007 through January 1, 2018. Interest is computed at 4.13% annually.

- Note or loan payable issue name: City of Shavano Park Health Facilities Development Corporation
  Purpose: Purchase EPIC Patient and Sales Tracking Software Package
  Institution: U. T. Health Science Center - San Antonio
  Issue Date: January 1, 2007
  Authorized Amount: $3,000,000
  Source of revenue for debt service: Patient service from MSRDP Designated Funds collected by U. T. Medicine San Antonio
  Terms: February 1, 2007 through January 1, 2018. Interest is computed at 4.15% annually.

General information related to notes and loans payable retired in 2012 is summarized as follows:

- Note or loan payable issue name: Memorial Hermann Hospital System
  Purpose: Reimburse Memorial Hermann Hospital System for equipment purchased and operating funds advanced in association with the transfer of clinics from Memorial Hermann Hospital System to U. T. Physicians
  Component Unit: U. T. Health Science Center - Houston's Blended Component Unit
  Issue Date: July 10, 2000
  Authorized Amount: $7,000,000
  Source of revenue for debt service: Debt and interest to be forgiven upon attainment of specified performance goals.
  Terms: July 2000 through June 2012

14. Stewardship, Compliance and Accountability

The System had no significant violations of bond or note covenants. Per State law, the System cannot spend amounts in excess of appropriations granted by the Texas Legislature. There are no deficits reported in net assets.

15. Risk Management and Related Insurance

The System has seven funded self-insurance plans providing coverage in the following areas: employee health and dental, unemployment compensation, workers' compensation, professional medical liability, property protection, directors and officers/employment practices liability, and construction contractor insurance.

EMPLOYEE AND RETIREE INSURANCE BENEFITS

The U. T. System Employee Benefits program provides health insurance, dental insurance, vision insurance, life insurance, accidental death and dismemberment (AD&D), long-term disability, short -term disability, long - term care and flexible spending account coverage to all benefits-eligible employees and retirees of the System and its fifteen institutions. These insurance benefits are provided through both self - funded and fully - insured arrangements. A portion of the System's cost of providing group health and basic life insurance coverage is paid by the State as specified in the General Appropriations Act. The System's Office of Employee Benefits (OEB) is responsible for the overall administration of the insurance plans. OEB was established by Chapter 1601 of the *Texas Insurance Code* and complies with State laws and statues pertinent to employee benefits for the System.

Effective January 1, 2006, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries under Medicare Part D. Medicare Part D provides sponsors of postemployment healthcare plans with a subsidy of up to 28 percent of the amount of eligible prescription drug benefit costs of retirees who are eligible for, but not enrolled in, Medicare Part D, if the sponsor's plan provides a prescription drug benefit that is actuarially equivalent to the Medicare Part D benefit. The System recognized $9,756,576 and $10,046,782 of Medicare Part D payments from the federal government in 2012 and 2011, respectively.

UNEMPLOYMENT COMPENSATION INSURANCE

The General Appropriations Act requires the System to reimburse the Texas Workforce Commission (TWC) for 50% of the unemployment benefits paid to former employees that were paid from general revenue funds. The System reimburses the TWC 100% of the unemployment benefits paid to former employees that were paid from local funds.

WORKERS' COMPENSATION INSURANCE

The University of Texas System Workers' Compensation Insurance (WCI) program provides coverage to all employees of the System and its fifteen institutions. Under the oversight of the System's Office of Risk Management (ORM), the System self-insures and administers the program. The WCI staff is responsible for administering all aspects of the system-wide program, which provides income and medical benefits to all employees who have sustained job-related injuries or occupational diseases. The program's statutory authority is embodied in Chapter 503 of the *Texas Labor Code.*

PROFESSIONAL MEDICAL LIABILITY BENEFIT PLAN

The coverage provided under the Professional Medical Liability Benefit Plan (Plan) is on an occurrence basis; thus, a participant is covered by the Plan for claims and lawsuits relating to events that occurred while enrolled in the Plan, including those filed after the participant has left the System's employment or training. The Plan covers all of the System staff physicians, dentists, residents, fellows, and medical students who have been enrolled. The limits of liability of the Plan include an annual policy aggregate of $30 million, an annual aggregate of $1.5 million for each staff physician ($500,000 per claim), an annual aggregate of $300,000 for each resident or fellow ($100,000 per claim) and a $75,000 annual aggregate for each medical student ($25,000 per claim). Other coverage is available for medical student externships outside of Texas and for approved international activities.

Liability is limited to $2 million per incident, regardless of the number of claimants or physicians involved in an incident. As of September 1, 2003, the limits of liability are prescribed by law as $100,000 per claim per physician. Also effective September 1, 2003, U. T. institutions are covered under the Plan for actions that could have been brought against an individual plan participant. The liability of a U. T. institution is limited by law to $250,000 per claimant and $500,000 per occurrence for bodily injury or death.

COMPREHENSIVE PROPERTY PROTECTION PROGRAM

The Comprehensive Property Protection Plan (CPPP) uses a combination of interim financing and commercial insurance to provide Fire and All Other Perils (Fire and AOP) coverage, as well as coverage for Named Windstorm and Flood (Wind and Flood). All coverage is subject to the terms, exclusions, limits and conditions of the Insurance Policies. The Fire and AOP program provides a $1 billion per occurrence limit for most perils, with sub-limits that do apply. The first $150 million is covered by insurance on a quota share basis with the System retaining twenty-five percent (25%) of the layer for losses associated with the perils of Earthquake and Flood. Deductibles for Fire and AOP are $5 million per occurrence with a $15 million annual aggregate limit. Coverage for Named Windstorm and resulting perils provides a $150 million per occurrence limit also on a twenty-five percent (25%) quota share basis. Deductibles for Wind and

Flood are $100 million per occurrence for U. T. Medical Branch - Galveston (locations in Galveston only) and $50 million per occurrence for U. T. Health Science Center - Houston (locations in Texas Medical Center only) and M. D. Anderson (locations in Texas Medical Center Only). Named Windstorm coverage is provided for other locations with a lower deductible.

In addition, primary policies are purchased on certain flood and wind exposed properties. These policies provide underlying limits (up to $4.4 million per building/contents for wind and $1 million maximum building/contents for flood) and are purchased through the Texas Windstorm Insurance Association (TWIA) and the National Flood Insurance Program (NFIP) for facilities in Tier 1 seacoast territories and for properties located in various flood zones. U. T. Medical Branch - Galveston also purchased a three-year aggregate, campus-specific $50 million Named Windstorm policy with reinstatement of limit protection to reduce the $100 million Wind and Flood deductible for locations in Galveston only. The interim financing component of the program participates in losses resulting from physical damage that exceeds the coverage available under these primary policies and the institution's deductible. The interim financing for the Wind and Flood program is funded by annual contributions made by each institution in addition to the payment of insurance premiums.

DIRECTORS AND OFFICERS/EMPLOYMENT PRACTICES LIABILITY SELF-INSURANCE PLAN

The Directors and Officers Liability (D&O) and Employment Practices Liability (EPL) Self-insurance Plan (the "Plan") provides coverage for claims arising from actual or alleged wrongful acts performed by the plan beneficiaries. The plan also provides coverage for EPL claims, such as wrongful termination, failure to promote, and wrongful discipline. In 2003, the U. T. System Board of Regents allocated $3.7 million from the Available University Fund to establish the D&O/EPL loss reserve fund. Institutions make annual premium contributions to this fund.

Coverage applies to individual board members, employees, faculty, etc., as well as to the System itself. The limit of liability is a $10 million annual aggregate (Coverages A, B and C combined), except for $5 million annual aggregate sublimit for Coverage C. Coverage A applies to non-indemnifiable claims made against individuals and it has no deductible. Coverage B applies to a U. T. institution that is required to indemnify a covered individual with deductibles of $100,000 per individual and $300,000 per occurrence. Coverage C applies to a U. T. institution and related entities with a $300,000 deductible. An excess coverage commercial insurance policy provides $10 million limit of liability in excess of a $5 million aggregate retention which is satisfied by payment of losses under the Plan.

ROLLING OWNER CONTROLLED INSURANCE PROGRAM

The Rolling Owner Controlled Insurance Program (ROCIP) was established for the centralized purchase of construction contractor insurance on various capital projects. This program provides workers' compensation and general liability insurance coverage for all contractors enrolled on projects participating in the program. Each coverage carries a $250,000 per occurrence deductible with a maximum $375,000 per occurrence clash deductible, if both a workers' compensation and general liability claim are triggered by the same occurrence. Deductibles are paid through the program's self-insurance fund.

INCURRED BUT NOT REPORTED SELF-INSURANCE CLAIMS

Insurance claims that were Incurred But Not Reported (IBNR) were actuarially determined for the employee's health and dental, workers' compensation, professional medical liability, directors and officers/employment practices liability, and rolling owner controlled self-insurance plans. IBNR figures for the workers' compensation, professional medical liability, directors and officers/employment practices liability, and rolling owner controlled self-insurance plans include liabilities for unpaid reported claims and are reported on an undiscounted basis. The IBNR liability for the property protection self-insurance plan is not actuarially determined but rather estimated based on unpaid reported claims. Since an annual accrual is recorded for the third quarter TWC billing, no IBNR liability is recorded for Unemployment Compensation Insurance. No settlements exceeded insurance coverage in the past three fiscal years.

Since the responsibility for processing all claims for employee health and dental benefits has been fully delegated to third parties, the IBNR claims liability for those benefits does not include a provision for unallocated loss adjustment expenses (ULAE). However, it does include a provision of 5% of the projected incurred but unpaid claims for the administrative expenses associated with processing those claims. The IBNR claims liability for the workers' compensation, professional medical liability, directors and officers/employment practices liability, and rolling owner controlled self-insurance plans includes a related accrual for allocated loss adjustment expenses (ALAE), which are the claim-specific defense and settlement costs associated with the ultimate settlement of those claims. They do not include a provision for ULAE, which are general administrative expenses associated with claims settlement, but are not specifically attributable to individual claims.

Changes in the System's claims liabilities for the various self-insurance plans during fiscal years 2012 and 2011 were as follows:

Fiscal Year 2012 Plan		IBNR Liability 09/01/11	Current Year Claims and Changes in Estimates	Claims Payments	IBNR Liability 08/31/12
Employee Health and Dental	$	78,600,000	787,012,309	(784,712,309)	80,900,000
Workers' Compensation		7,985,000	5,208,875	(5,179,875)	8,014,000
Professional Medical Liability		16,454,961	4,917,971	(2,733,261)	18,639,671
Property Protection – Fire & AOP		400,543	140,340	(295,553)	245,330
Directors and Officers/EPL		3,307,982	259,507	(256,026)	3,311,463
ROCIP I, II, III, IV and V		5,739,713	5,070,899	(2,248,424)	8,562,188
TOTAL	$	112,488,199	802,609,901	(795,425,448)	119,672,652

		IBNR Liability 09/01/10	Current Year Claims and Changes in Estimates	Claims Payments	IBNR Liability 08/31/11
Employee Health and Dental	$	78,100,000	724,940,159	(724,440,159)	78,600,000
Workers' Compensation		8,388,000	3,865,872	(4,268,872)	7,985,000
Professional Medical Liability		19,409,054	178,505	(3,132,598)	16,454,961
Property Protection – Fire & AOP		82,000	327,530	(8,987)	400,543
Directors and Officers/EPL		4,294,292	(986,310)	-	3,307,982
ROCIP I, II, III, IV and V		7,382,929	1,230,228	(2,873,444)	5,739,713
TOTAL	$	117,656,275	729,555,984	(734,724,060)	112,488,199

16. Postemployment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health and life insurance benefits for retired employees (OPEB), 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. Similar benefits for active employees are provided through the same self-funded plan. For the years ended August 31, 2012 and 2011, the contributions for the self-funded plan by the State per full-time retired employee are shown in the following table. The retiree contributes any premium over and above the State contributions.

Level of Coverage		**2012**		**2011**
Retiree Only	$	462.26	$	440.25
Retiree/Spouse		704.58		671.03
Retiree/Children		617.30		587.90
Retiree/Family		861.07		820.06

The number of systemwide retired employees who were eligible for these benefits, as well as the cost of providing the benefits for the years ended August 31, 2012 and 2011 are provided in the following table.

		2012	**2011**
Number of Retirees		21,188	19,687
Cost to the State	$	56,859,761	54,867,673
Cost to the System		67,758,291	58,052,247

PLAN DESCRIPTION AND FUNDING POLICY

OPEB are provided to the System's retirees under the U. T. System Employee Group Insurance Program (EGIP). The EGIP is a single-employer defined benefit OPEB plan. The authority under which the obligations of the plan members and the System are established and may be amended is Chapter 1601, *Texas Insurance Code*.

The System and member contribution rates are determined annually by the System based on the recommendations of the OEB staff and consulting actuary. The contribution rates are determined based on the benefit and administrative costs expected to be incurred and (i) the funds appropriated and (ii) the funding policy established by the Texas Legislature in connection with benefits provided through the EGIP. The System revises benefits when necessary to match expected benefit and administrative costs with available revenue. The plan is operated on a pay-as-you-go basis.

The OPEB plan described herein is not administered through a trust.

2012 ANNUAL OPEB COST, EMPLOYER CONTRIBUTIONS AND NET OPEB OBLIGATION							
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
ARC	Interest on Net OPEB Obligation	Adjustment to the ARC	Annual OPEB Cost {(1) + (2) - (3)}	Employer Contributions	Increase (Decrease) in Net OPEB Obligation {(4) - (5)}	Net OPEB Obligation at Beginning of Year	Net OPEB Obligation at End of Year {(6) + (7)}
$607,826,687	123,665,643	91,540,552	639,951,778	142,737,223	497,214,555	1,766,652,036	2,263,866,591

THREE-YEAR HISTORY OF ANNUAL OPEB COST AND NET OPEB OBLIGATION

(1)	(2)	(3)	(4)	(5)
Fiscal Year Ending	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed {(3)/(2)}	Net OPEB Obligation at End of Year
August 31, 2010	$571,760,895	117,023,081	20.5%	1,295,763,104
August 31, 2011	595,169,372	124,280,440	20.9%	1,766,652,036
August 31, 2012	639,951,778	142,737,223	22.3%	2,263,866,591

The OPEB expense (cost) reflected on the Statement of Revenues, Expenses and Changes in Net Assets is net of the employer contributions as these costs are reflected as a portion of payroll related costs.

SCHEDULE OF FUNDING PROGRESS OF THE PLAN AS OF DECEMBER 31, 2010

The Schedule of Funding Progress presents information as of the current valuation date and the two preceding valuation dates.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL) {(3) - (2)}	Funded Ratio {(2)/(3)}	Annual Covered Payroll	Ratio of UAAL to Covered Payroll {(4)/(6)}
December 31, 2008	$-	5,102,764,529	5,102,764,529	0.0%	4,820,567,837	105.9%
December 31, 2009	-	5,676,867,734	5,676,867,734	0.0%	5,026,491,379	112.9%
December 31, 2010	-	5,956,797,788	5,956,797,788	0.0%	5,309,413,147	112.2%

The plan benefit obligations as of December 31, 2011, have been determined based on an actuarial roll-forward of the December 31, 2010 valuation results.

ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The Schedule of Funding Progress shown above presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. In addition, the projection of benefits for financial reporting purposes *does not* explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Actuarial calculations reflect a long-term perspective. In addition, consistent with that perspective, actuarial methods and assumptions used in developing the figures include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities.

The information presented herein was determined as part of the actuarial valuation using the actuarial methods and assumptions summarized below.

Summary of Actuarial Methods and Assumptions	
Actuarial cost method	Entry Age Normal (Level percent of pay)
Asset valuation method	Market
Actuarial assumptions:	
Annual investment return assumption (discount rate)[1]	7.00%
Projected annual salary increases[1]	4.75% to 7.75%
Weighted-average at valuation date[1]	6.42%
Annual Healthcare Trend Rates[1]	8.00% in FYE 2012
	Declining to 5.50% in FYE 2018
Amortization method	Level percent
Amortization period	30 year open period

[1]Includes inflation assumption of 3.50%

SIGNIFICANT FACTORS AFFECTING THE COMPARABILITY OF AMOUNTS REPORTED

The following assumptions used in the most recent valuation (as of December 31, 2010) were changed from those used in the prior valuation (as of December 31, 2009):

- the Assumed Per Capita Health Benefit Costs and Assumed Expenses for retirees and dependents have been updated to reflect claims and expense experience in the twelve months following the date as of which the prior valuation's assumptions were determined;
- the Health Benefit Cost Trend has been updated to reflect changes in short-term expectations of the annual rate of increase of the Assumed Per Capita Health Benefit Costs;
- the assumption for General Price Inflation has been updated to reflect the actuary's best expectation of increases in the general price levels over the long-term;
- General Price Inflation is a component of the Salary Increase and the Health Benefit Cost Trend assumptions, and these assumptions were correspondingly adjusted to reflect the change in the General Price Inflation assumption; and
- Demographic assumptions for Retirement Rates, Salary Increases and Inactive Member Mortality were updated since the prior valuation to be consistent with the assumptions used in the actuarial valuation of the TRS retirement plan as of August 31, 2011; these demographic assumptions were based on an experience study and were previously approved by the TRS Board for use in the retirement plan valuation.

The benefit and eligibility provisions used in the most recent valuation were changed from those used in the prior valuation in order to meet the requirements of the Affordable Care Act. These changes became effective September 1, 2011 and are incorporated into this valuation in accordance with GAAP. Through elimination of deductibles, copayments and coinsurance related to certain preventive care services and extension of coverage to age 26 for children, these benefit and eligibility changes will increase plan cost for retirees. The increased plan cost will increase the employer's Annual OPEB Cost and Actuarial Accrued Liability above the levels they would have otherwise been in the absence of these changes to the benefit and eligibility provisions.

Furthermore, the effects of the Affordable Care Act's addition of the new Cadillac Tax under Internal Revenue Code Section 4980I have been included in this valuation. The present value of the estimated Cadillac Taxes in future years will increase the employer's Annual OPEB Cost and Actuarial Accrued Liability above the levels they would have otherwise been in the absence of this change to the law.

17. Pension Plans

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 System participates is a cost-sharing multi-employer defined benefit pension plan 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 System may be required to make contributions in lieu of the State.

All System personnel employed in a position on a half time or greater basis for at least 4½ months or more are eligible for membership in the TRS retirement plan. However, students employed in positions that require student status as a condition of employment do not participate. Members with at least five years of service have a vested right to unreduced retirement benefits at age 65 or provided they have a combination of age plus years of service totaling 80 or more (members who began TRS participation on or after September 1, 2007 must be age 60 to retire under the second option). Members are fully vested after five years of service and are entitled to any reduced benefits for which the eligibility requirements have been met prior to meeting the eligibility requirements for unreduced benefits.

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 System contributes a percentage of participant salaries totaling 6.0 percent of annual compensation for 2012 and 6.644 percent of annual compensation for 2011 and 2010. The System's contributions to TRS for the years ended August 31, 2012, 2011, and 2010, were $162,296,369, $166,431,854, and $161,321,576, respectively, which equaled the amounts of the required contributions for those years.

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.

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 TRS. ORP is available to certain eligible employees who hold faculty positions and other professional positions including but limited to director-level and above, librarians and coaches. 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. Depending upon the source of funding for the employee's compensation, the System may be required to make the employer contributions in lieu of the State. Since these are individual annuity contracts, the State and the System have no additional or unfunded liability for this program. The employee and employer contribution rates are established by the State Legislature each biennium. The State provides an option for a local supplement on top of the state base rate. Each institution within the System can decide to adopt and fund a local supplement each year to provide each ORP employee the maximum employer rate. The chancellor then approves the employer rates each fiscal year. The contributions made by participants (6.65 percent of annual compensation) and the System (6.0 percent state base rate for 2012 and 6.40 percent state base rate for 2011 and 2010 plus any local supplement for a maximum 8.50 percent of annual compensation) for the fiscal years ended August 31, 2012, 2011, and 2010, respectively, are provided in the following table.

		2012	2011	2010
Participant Contributions	$	128,987,249	144,617,852	122,419,133
System Contributions		165,170,074	161,377,272	155,766,626
Total	$	294,157,323	305,995,124	278,185,759

EMPLOYEES RETIREMENT SYSTEM (ERS)

Certain employees at U. T. Medical Branch - Galveston 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 TRS or the ORP. 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 that 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 ERS contribution requirement, calculated using entry age normal actuarial cost method, is established through State statute.

The funding policy requires monthly contributions by both the State and employees. For the year beginning September 1, 2011, the required contribution for the State and the employee is 6.00 and 6.50 percent of pay, respectively. For Law Enforcement and Custodial Officers Supplemental Retirement Fund eligible employees, the employee contribution is an additional 0.50 percent of pay.

Additional information can be obtained from the separately issued ERS *Comprehensive Annual Financial Report* at http://www.ers.state.tx.us/home.aspx.

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 $50,000 limit on contributions imposed by Section 415 of the Internal Revenue Code (IRC). At August 31, 2012 and 2011, there were 737 and 709 plan members, respectively. Persons employed by the System 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 $50,000 cap under IRC Section 415(c), defer 6.65 percent of their excess compensation while the System contributes between 6.58 percent and 8.5 percent depending upon the institution and the date of employment. The System contributed $4,708,680 for the year ended August 31, 2012 and $3,275,713 for the year ended August 31, 2011. The participants contributed $3,683,850 for the year ended August 31, 2012 and $2,562,764 for the year ended August 31, 2011. Plan provisions are established and may be amended at any time by the U. T. System Board of Regents.

Plan assets are valued at fair 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 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.

PHYSICIANS REFERRAL SERVICE SUPPLEMENTAL RETIREMENT PLAN (SRP)/RETIREMENT BENEFIT PLAN (RBP)

M. D. Anderson has established, primarily for the physicians of its Physicians Referral Service, the Physicians Referral Service Supplemental Retirement Plan (SRP)/Retirement Benefit Plan (RBP) of the Anderson Hospital (collectively "the SRP/RBP"). The SRP/RBP is a non-qualified plan described by Section 457(f) of the Internal Revenue Code of 1986, as amended. The SRP/RBP is reported on the accrual basis of accounting. Assets of the SRP/RBP remain subject to the claims of the general creditors of M. D. Anderson.

In general, only physicians hired before July 1, 1986, participate in the SRP. The remainder of eligible employees participates in the RBP. Retirement benefits are available to persons who have reached the normal retirement age (55 for the RBP, 65 for the SRP) with five years of service. Early retirement benefits are available under the SRP. Additional information can be obtained from the separately issued financial statements of the SRP/RBP.

18. Deferred Compensation

DEFERRED COMPENSATION-457(b)

The System employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in the TEX. GOV'T. CODE ANN., Sec. 609.001. The System offers its own deferred compensation plan, created in accordance with Internal Revenue Code Section 457(b). All System employees are eligible to participate in the System's plan, and cannot participate in the plan offered by the state of Texas. All investments, amounts, property, and rights held under the Deferred Compensation Trust Fund are held for the exclusive benefit of participants and beneficiaries at the fair market value of the plan account for each participant in the accounts established by the participants with the System's retirement providers. The System has no liability under the plan.

TAX-SHELTERED ANNUITY-403(b)

The System also administers the UTSaver Tax-Sheltered Annuity Program (TSA), created in accordance with IRC Section 403(b). All employees are eligible to participate. The UTSaver TSA is a private plan, and the deductions, purchased investments and earnings attributed to each employee's 403(b) plan are held by vendors chosen by the employee. The vendors may be insurance companies, banks or approved non-bank trustees such as mutual fund companies. The assets of this plan do not belong to the System or the State. Therefore, neither the System nor the State has a liability related to this plan.

19. Commitments and Contingent Liabilities

On August 31, 2012, various lawsuits and claims involving the System were pending. After conferring with legal counsel concerning pending litigation and claims, the System's management believes that the outcome of pending litigation should not have a material adverse effect on the financial statements of the System.

The System continues to implement its $6.1 billion capital improvement program, planned for fiscal years 2013 through 2018, to upgrade facilities. Contracts have been entered into for the construction and renovation of various facilities. These projects are in various stages of completion.

The System receives grants and other forms of reimbursement from various federal and state agencies. These activities are subject to audit by agents of the funding authority, the purpose of which is to ensure compliance with conditions precedent to providing such funds. The System believes that the liability, if any, for reimbursement which may arise as the result of audits, would not be material.

The System has invested in certain hedge funds. These agreements commit the System to future funding amounting to $122,892,459 as of August 31, 2012 and $42,371,530 as of August 31, 2011.

The System has invested in certain private investment funds. These agreements commit the System to future capital contributions amounting to $3,717,867,684 as of August 31, 2012 and $3,086,712,651 as of August 31, 2011.

The System has invested in certain public market fund private placements. These agreements commit the System to future fundings amounting to $22,000,000 as of August 31, 2012.

Based on the credit support annex agreements with all counterparties, the System does not have to post any collateral for any hedging derivative instruments.

Laws and regulations governing the Medicare and Medicaid programs and certain other third-party programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates of third-party settlements will change by a material amount in the near term. The System's intent is to be in compliance with all applicable laws and regulations, and it is not aware of any significant pending or threatened investigations involving allegations of potential wrongdoing other than the U. T. Southwestern Medical Center settlement agreement below. Compliance with such laws and regulations can be subject to future review and interpretation. Changes in the Medicare and Medicaid programs and a reduction of funding could have an adverse effect on the System.

In 2011 U. T. Health Science Center - San Antonio was awaiting a court decision on its appeal of a judgment against the university. Legal counsel indicated that it was likely that the appeals court would reduce the judgment or order a new trial. Because the amount of the loss could not be considered probable or reasonably estimated in 2011, no liability was accrued for this loss contingency. In December 2011, U. T. Health Science Center - San Antonio received notice that its attempt to appeal was unsuccessful. As ordered by the US District Court, the university paid a total of $556,026 for the plaintiff's settlement and legal costs. Expenses in excess of $300,000 for the case were reimbursed in January 2012 by the U. T. System D&O Self-insurance Plan. No liability remains from this legal action.

The U.S. Department of Health and Human Services Office of Inspector General has been auditing physician supplemental payments for the period May 1, 2004 through September 30, 2007 to determine if the Texas Health and Human Services Commission calculated supplemental payments to the System health institutions in accordance with Federal regulations and the State plan. The audit is underway but a draft report has not yet been issued. As such, no estimate of potential repayments can be made and there has been no accrual recorded.

20. Matrix of Operating Expenses Reported by Function

For the year ended August 31, 2012, the following table represents operating expenses for both natural and functional classifications for the System:

Operating Expenses		Instruction	Research	Public Service	Hospitals and Clinics	Academic Support
Cost of Goods Sold	$	10,660	12,756	1,325,983	86,441,286	15,040
Salaries and Wages		2,037,673,519	1,088,090,410	122,017,181	1,796,196,014	321,756,447
Payroll Related Costs		471,275,823	262,855,123	28,385,009	496,175,214	79,321,326
Professional Fees and Services		29,416,552	81,584,411	17,035,367	130,156,670	16,802,415
Other Contracted Services		56,166,589	151,590,109	29,113,416	133,673,302	28,024,983
Scholarships and Fellowships		11,507,913	32,140,465	3,836,899	-	7,733,574
Travel		30,645,224	42,224,263	5,492,618	10,949,243	9,927,597
Materials and Supplies		80,112,914	197,186,811	23,258,191	857,805,872	39,368,009
Utilities		1,051,203	1,275,497	543,787	6,478,053	310,363
Communications		20,705,119	8,034,152	1,713,079	14,683,290	28,229,390
Repairs and Maintenance		6,401,098	15,469,666	2,562,359	71,194,909	5,992,950
Rentals and Leases		11,573,798	8,470,476	4,688,730	49,070,888	6,370,555
Printing and Reproduction		6,212,250	4,832,153	3,287,589	4,154,907	3,189,232
Depreciation and Amortization		-	-	-	-	-
Bad Debt Expense		-	-	-	-	-
Claims and Losses		-	-	-	-	-
Increase in Net OPEB Obligation		-	-	-	-	-
Other Operating Expenses		79,572,212	75,319,343	22,491,469	20,429,266	28,200,569
Federal Sponsored Pass-through to State Agencies		3,704,212	3,697,162	1,415,015	-	2,137
State Sponsored Pass-through to State Agencies		6,870	1,433,517	71,327	-	-
Total Operating Expenses	$	2,846,035,956	1,974,216,314	267,238,019	3,677,408,914	575,244,587

Student Services	Institutional Support	Operations and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total Expenses
211,867	700,827	263,280	-	3,145,097	-	92,126,796
105,906,502	429,459,324	200,388,087	36,658,995	178,232,083	-	6,316,378,562
25,920,326	91,564,282	55,479,010	5,830,449	39,925,529	-	1,556,732,091
2,819,018	36,680,777	26,518,401	510,778	13,217,797	-	354,742,186
24,561,748	60,545,363	35,822,440	810,054	68,287,619	-	588,595,623
9,041,492	1,325,616	9,922	306,064,443	10,003,235	-	381,663,559
3,342,671	8,123,165	1,183,080	618,834	21,128,170	-	133,634,865
16,630,793	40,493,134	73,400,768	882,483	53,030,847	-	1,382,169,822
27,205	5,661,281	231,021,265	2,576	28,456,030	-	274,827,260
2,484,912	32,095,925	3,887,670	14,270	6,460,098	-	118,307,905
3,332,183	36,263,668	72,920,604	73,014	18,791,960	-	233,002,411
4,924,779	11,949,667	23,869,703	178,219	9,140,972	-	130,237,787
2,364,972	4,595,278	245,582	53,389	4,692,062	-	33,627,414
-	-	-	-	-	1,015,621,870	1,015,621,870
2,686,748	-	(1,000)	-	1,930	-	2,687,678
-	11,426,085	-	-	-	-	11,426,085
-	497,214,555	-	-	-	-	497,214,555
10,596,446	18,350,050	5,188,405	1,630,698	26,979,653	-	288,758,111
-	60,981	-	-	-	-	8,879,507
-	790,030	-	-	-	-	2,301,744
214,851,662	1,287,300,008	730,197,217	353,328,202	481,493,082	1,015,621,870	13,422,935,831

For the year ended August 31, 2011, the following table represents operating expenses for both natural and functional classifications for the System:

Operating Expenses		Instruction	Research	Public Service	Hospitals and Clinics	Academic Support
Cost of Goods Sold	$	20,668,497	28,976	1,927,839	63,376,869	2,037
Salaries and Wages		2,043,000,972	1,085,412,425	125,399,675	1,568,053,037	310,012,676
Payroll Related Costs		468,035,198	264,369,964	29,054,287	435,612,505	73,899,715
Professional Fees and Services		32,945,904	93,231,060	17,837,444	108,457,344	11,834,066
Other Contracted Services		71,683,344	163,362,825	25,949,861	117,605,756	26,354,464
Scholarships and Fellowships		10,596,511	30,024,939	4,523,510	10,401	2,844,408
Travel		30,057,852	40,679,677	5,411,411	10,840,688	8,747,830
Materials and Supplies		89,035,008	200,986,402	26,718,344	726,656,695	36,314,753
Utilities		2,440,080	1,243,304	453,442	8,144,486	136,720
Communications		26,071,362	8,829,015	2,011,866	8,417,197	27,107,320
Repairs and Maintenance		8,087,930	15,157,216	1,808,683	65,855,221	5,926,748
Rentals and Leases		11,204,857	8,392,985	4,452,704	44,845,177	4,955,561
Printing and Reproduction		6,511,864	6,220,302	3,515,793	2,025,392	3,221,226
Depreciation and Amortization		-	-	-	-	-
Bad Debt Expense		190	-	-	-	-
Claims and Losses		-	-	-	-	-
Increase in Net OPEB Obligation		-	-	-	-	-
Other Operating Expenses		56,878,333	68,687,788	25,035,247	155,378,510	29,696,518
Federal Sponsored Pass-through to State Agencies		3,583,161	2,517,497	1,478,917	-	-
State Sponsored Pass-through to State Agencies		21,936	1,125,008	-	-	-
Total Operating Expenses	$	2,880,822,999	1,990,269,383	275,579,023	3,315,279,278	541,054,042

Student Services	Institutional Support	Operations and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total Expenses
79,409	771,562	288,133	-	4,221,614	-	91,364,936
106,486,708	570,129,454	220,689,784	36,040,069	168,337,389	-	6,233,562,189
26,633,976	58,315,874	58,027,879	5,737,908	40,797,559	-	1,460,484,865
2,101,344	99,680,802	28,768,295	423,831	13,900,655	-	409,180,745
5,938,358	56,674,377	35,475,940	571,600	51,397,368	-	555,013,893
7,637,776	7,172,870	22,746	373,676,395	9,608,425	-	446,117,981
3,078,603	8,335,005	1,198,699	542,480	18,100,031	-	126,992,276
11,968,513	41,050,205	63,894,159	915,209	51,079,825	-	1,248,619,113
34,319	(21,811,725)	233,525,580	7,289	29,491,428	-	253,664,923
1,820,008	(6,336,917)	3,179,606	17,226	5,633,665	-	76,750,348
2,274,457	34,923,873	84,160,642	(176,462)	16,697,363	-	234,715,671
3,529,916	13,625,222	27,360,467	144,211	9,837,601	-	128,348,701
2,509,592	(3,857,335)	277,710	40,874	4,754,004	-	25,219,422
-	-	-	-	-	902,392,156	902,392,156
2,618,150	-	-	-	-	-	2,618,340
-	17,093,182	-	-	-	-	17,093,182
-	470,888,932	-	-	-	-	470,888,932
9,638,210	(125,804,722)	(26,406,823)	1,341,869	33,886,072	-	228,331,002
-	-	-	360,555	-	-	7,940,130
-	955,742	-	-	-	-	2,102,686
186,349,339	1,221,806,401	730,462,817	419,643,054	457,742,999	902,392,156	12,921,401,491

21. Net Assets

The System's net assets at August 31, 2012 and 2011 were comprised of the following:

	2012	2011
Invested in capital assets, net of related debt	$ 5,265,135,624	5,029,154,010
Restricted		
Nonexpendable	15,128,697,354	12,233,569,683
Expendable	9,504,848,844	9,782,538,749
Total restricted	24,633,546,198	22,016,108,432
Unrestricted net assets:		
Unrestricted		
Reserved		
Encumbrances	1,157,363,260	1,063,647,315
Accounts receivable (less unearned revenue portion)	903,890,801	884,549,347
Inventories	87,498,896	79,697,217
Self-insurance plans	357,329,337	333,229,454
Higher Education Assistance Fund (HEAF)	12,573,536	12,186,117
Other specific purposes:		
Advanced Research/Advanced Technology Programs	2,363,333	5,111,846
Notes Receivable	-	99,764
Deposits	5,536,983	4,893,506
Prepaid expenses	108,131,427	83,697,414
Deferred charges	12,993,006	13,260,750
Imprest funds	1,248,847	1,236,446
Travel advances	264,746	237,677
Unreserved		
Allocated		
Funds functioning as endowment-unrestricted	663,548,842	689,882,638
Provision for operating budgets	4,457,232	257,020
Capital projects	591,453,341	529,294,207
Debt service	183,393,991	176,940,040
Start-up/matching	36,321,717	54,391,647
Utilities reserve	45,793,408	37,131,834
Research enhancement and support	162,463,989	152,747,151
Market adjustments	43,500,053	47,489,012
Student fees	158,806,417	102,978,066
Texas Tomorrow Fund shortfall	9,461,614	10,686,511
Instructional program support	326,623,667	335,795,201
Dean, chair and faculty recruitment packages	11,515,522	14,454,923
Self-supporting enterprises	83,219,565	218,527,172
Patient care support	273,812,789	212,056,931
Practice plan minimum operating reserve of 90 days	244,980,602	243,600,448
Uncompensated Patient Care	-	1,798,500
Unallocated	(2,004,855,113)	(1,934,090,163)
Total unrestricted	3,483,691,808	3,375,787,991
Total net assets	$ 33,382,373,630	30,421,050,433

As of August 31, 2012 and 2011, restricted nonexpendable net assets include $10,942,330,320 and $8,214,528,602, respectively, of the Permanent University Fund corpus, and $820,000,000 for both years of the Permanent Health Fund corpus. As of August 31, 2012 and 2011, restricted expendable net assets include $5,318,444,523 and $5,603,375,670, respectively, of the Permanent University Fund appreciation, and $156,553,315 and $172,932,131, respectively, of the Permanent Health Fund appreciation.

Unrestricted net assets, detailed in the table above, are not subject to externally imposed stipulations. Unrestricted net assets may be designated for special purposes by actions of the Texas Legislature, internal management, and the U. T. System Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic programs, patient care, research programs and initiatives, and capital programs.

22. Termination Benefits

In 2011, U. T. System Administration contracted with NextJob to provide outplacement services to employees of the System who implemented a reduction in force as a result of the budgets cuts implemented by the State. U. T. System Administration incurred expenses of $247,740 for 398 terminated employees of the System as of August 31, 2012 and $317,570 for 674 terminated employees as of August 31, 2011. While U. T. System Administration contracted with NextJob, the U. T. institutions may incur travel expenses for NextJob if they request NextJob to come to their campus or if the institution requests services that fall outside of the standard service in the contract.

In 2011, U. T. System Administration implemented reductions in force effective May 31, 2011 and August 31, 2011. The benefits package provided to the 61 terminated employees consisted of normal benefits and salaries with no special benefits or severance packages offered.

In 2011, U. T. Arlington implemented a Voluntary Separation Incentive Program for tenured or tenure-track faculty members with an assignment of 100 percent as of May 31, 2011. The benefits package provided to the twenty-seven faculty members consisted of payment of 100% of their 2010-2011 annual salary. U. T. Arlington incurred expenses of $2,232,076 in the Voluntary Separation Incentive Program in 2011.

In 2012 and 2011, U. T. Austin offered early retirement incentives at several points throughout the year. In 2012, the benefits package provided to two of the terminated employees consisted of a one-time $16,000 early exit incentive per employee. The remaining 20 terminated employees were provided packages consisting of one-time early incentives ranging from $60,213 to $405,352. U. T. Austin incurred expenses of $3,980,055 in early exit incentives in 2012. In 2011, the benefits package provided to 39 of the terminated employees consisted of a one-time $16,000 early exit incentive per employee. The remaining 44 terminated employees were provided packages consisting of one-time early incentives ranging from $16,115 to $312,400. U. T. Austin incurred expenses of $6,184,763 in early exit incentives in 2011.

In 2012, U. T. Brownsville issued job termination notices for 89 faculty members related to the end of the partnership between U. T. Brownsville and Texas Southmost College. U. T. Brownsville incurred expenses of $640,000 in early exit incentives in 2012. In 2011, U. T. Brownsville offered early retirement incentives at two points throughout the year. U. T. Brownsville incurred expenses of $993,000 in early exit incentives for the 39 employees in 2011. Also in 2011, U. T. Brownsville implemented an additional reduction in force. The benefits package provided to the 44 involuntarily terminated employees consisted of normal benefits and salaries with no special benefits or severance packages offered.

In 2012, U. T. Pan American offered voluntary retirement incentive packages to 33 employees for a total cost of $824,391. In 2011, U. T. Pan American implemented a reduction in force effective August 31, 2011. The benefits package provided to the 69 terminated employees consisted of a one-time incentive payment that equates to one half of the employee's base salary for voluntarily separating and providing outplacement services to the remainder of the terminated employees. U. T. Pan American incurred expenses of $1,278,903 in early exit incentives in 2011.

In 2012, U. T. San Antonio offered retirement incentive packages to 24 eligible faculty members. The benefits packages offered to the faculty members consisted of a lump-sum payment equal to their nine-month base salary. U. T. San Antonio incurred expenses of $2,320,208 in early exit incentives in 2012. In 2012, U. T. San Antonio also implemented a reduction in force that affected 8 employees. The benefits package provided to the 8 involuntarily terminated employees consisted of normal benefits and salaries with no special benefits or severance packages offered. In 2011, U. T. San Antonio implemented a reduction in force effective August 31, 2011. The benefits package provided to the 8 terminated employees consisted of normal benefits and salaries with no special benefits or severance packages offered.

In 2011, U. T. Southwestern Medical Center implemented a reduction in force effective August 31, 2011. The benefits package provided to the 105 terminated employees consisted of normal benefits and salaries with no special benefits or severance packages offered.

In 2012, U. T. Medical Branch - Galveston implemented reductions in force throughout the year. The benefits package provided to the 160 terminated employees consisted of normal benefits and salaries with no special benefits or severance packages offered. In 2011, U. T. Medical Branch - Galveston implemented a reduction in force effective August 31, 2011. The benefits package provided to the 11 terminated employees consisted of normal benefits and salaries with no special benefits or severance packages offered.

In 2011, U. T. Health Science Center - San Antonio implemented a reduction in force effective August 31, 2011. The benefits package provided to the 67 terminated employees consisted of normal benefits and salaries with no special benefits or severance packages offered.

Healthcare continuation under the Consolidated Omnibus Budget Reconciliation Act (COBRA) is provided for both voluntary and involuntary terminations. COBRA participants are eligible to continue group benefits for 18 to 36 months, depending upon the circumstances leading to loss of coverage. In addition, as part of the American Recovery and Reinvestment Act (ARRA), employees who were involuntarily terminated between September 1, 2008 and May 31, 2010 and their covered dependents may be eligible for reduced COBRA premiums of 35% for up to fifteen months. The final subsidized period, during which federal funds pay the remaining 65% of COBRA premiums for eligible individuals, ended on August 31, 2011. The 65% subsidy will be paid to the former employer by the federal government in the form of a reduction in a payroll tax deposit or a credit on the IRS Form 941. Federal funding received in 2012 and 2011 totaled $232,869 and $1,012,702, respectively, for all insured plans. COBRA benefits for the self-insured plans offered by the System for the years ended August 31, 2012 and 2011 are provided below:

		2012	2011
Total Number of Participants[1]		1,864	3,344
Premium Revenue[2]	$	5,032,026	4,014,055
2% Administrative Fee Revenue[3]		(98,665)	(107,927)
Net Revenue for COBRA Premium		4,933,361	3,906,128
Federal COBRA Subsidy[4]		232,869	1,012,702
Net COBRA Premium & Subsidy		5,166,230	4,918,830
Less Claims Paid		(11,397,831)	(10,146,385)
Cost to State	$	(6,231,601)	(5,227,555)

[1]The participants above are for the self-insured program, which includes 393 and 648 COBRA subsidy participants in 2012 and 2011, respectively.

[2]Premium revenue includes premiums received from COBRA participants not eligible for the Federal subsidy as well as the 35% of premiums paid by the participants that are eligible for the 65% subsidy.

[3]The 2 percent administrative fee is retained by the vendor administering the COBRA benefit and is paid by the participant.

[4]The Federal COBRA subsidy is funding that the System will receive from the federal government under ARRA for the self-insured plans offered. This subsidy does not include that which the System will receive for the fully-insured dental and vision plans.

23. Subsequent Events

On October 2, 2012, the U. T. System Board of Regents issued $75,000,000 in PUF Taxable Commercial Paper Notes, Series B to finance a variety of capital projects and equipment purchases at various U. T. System institutions. Subsequent to this issuance, the System had $397,000,000 of PUF Taxable Commercial Paper Notes, Series B outstanding.

On November 5, 2012, the U. T. System Board of Regents issued $50,316,000 in RFS Commercial Paper Notes, Series A to finance a variety of capital projects and equipment purchases at various U. T. System institutions. Subsequent to this issuance, the System had $291,420,000 of RFS Commercial Paper Notes, Series A outstanding.

24. Upcoming Accounting Pronouncements

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective 2013, addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The System does not anticipate that Statement 60 will have a significant impact on its financial statements.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*, effective 2013, modifies certain requirements for inclusion of component units in the financial reporting entity. The System does not anticipate that Statement 61 will have a significant impact on its financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective 2013, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The System is evaluating the effect that Statement 63 will have on its financial statements.

GASB Statement No. 65, *Items Previously reported as Assets and Liabilities*, effective 2014, reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. The System is evaluating the effect that Statement 65 will have on its financial statements.

GASB Statement No. 66, *Technical Corrections - 2012*, effective 2014, enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance. The System is evaluating the effect that Statement 66 will have on its financial statements.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective 2015, establishes new accounting and financial reporting requirements for institutions that provide their employees with pensions. The System is evaluating the effect that Statement 68 will have on its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

THE UNIVERSITY OF TEXAS SYSTEM
REQUIRED SUPPPLEMENTARY INFORMATION
OTHER POSTEMPLOYEMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS
August 31, 2012

The Schedule of Funding Progress presents information as of the current valuation date and the two preceding valuation dates.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL) {(3) - (2)}	Funded Ratio {(2)/(3)}	Annual Covered Payroll	Ratio of UAAL to Covered Payroll {(4)/(6)}
December 31, 2008	$-	5,102,764,529	5,102,764,529	0.0%	4,820,567,837	105.9%
December 31, 2009	-	5,676,867,734	5,676,867,734	0.0%	5,026,491,379	112.9%
December 31, 2010	-	5,956,797,788	5,956,797,788	0.0%	5,309,413,147	112.2%

The Schedule of Funding Progress shown above presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The plan benefit obligations as of December 31, 2011, have been determined based on an actuarial roll-forward of the December 31, 2010 valuation results.